

Price (Euro)	4.17
52 weeks range	4.44 / 3.59

Key Data

ISIN	DE000A0XFSF0
Bloomberg	DMRE:GR
Reporting standard	IFRS
Market Cap (Euro million)	305
Number of shares (million)	73.1
Free Float	15.6%
Free Float Market Cap (Euro million)	48
CAGR EBT ('17 -'20e)	40.9%

Multiples	2017	2018e	2019e	2020e
Market Cap/ Total revenues	4.1	4.1	3.2	2.5
PE-Ratio	16.4	4.0	6.5	6.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book-Ratio	0.79	0.75	0.64	0.60
P/ NAV-ratio	0.84	0.63	0.58	0.56

Key Data per share (Euro)	2017	2018e	2019e	2020e
Earnings per share (EPS)	0.25	1.05	0.64	0.62
Dividend per share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	5.26	5.57	6.54	6.92
EPRA NAV per share	4.94	6.61	7.13	7.48

Financial Data (Euro '000)	2017	2018e	2019e	2020e
Rental income	73,716	73,687	96,527	121,532
Net revaluation result	48,560	98,247	47,215	46,823
Operating profit (EBIT)	84,671	138,157	102,206	117,547
Net financial result	-57,042	-36,220	-37,177	-40,244
Pre-tax profit (EBT)	27,629	101,937	65,029	77,303
Taxation	-8,197	-21,478	-1,018	-1,254
Net profit after minorities	13,783	77,482	61,594	73,874
FFO I after tax	11,738	18,675	28,678	36,258
Shareholders' equity (Euro million)	319	424	650	844
Property portfolio (Euro million)	1,034	1,334	1,649	1,964
RoE (after tax)	4.4%	20.9%	11.5%	9.9%
Equity ratio (incl. equity minorities)	27.8%	28.6%	34.9%	38.3%

Main Shareholders

Wecken & Cie. / Apollo	80.7%
Sigrid Wecken	3.7%

Financial calendar

SRC Forum Financials & Real Estate	6 September 2018
3Q 2018 report	15 November 2018

Analysts

Dipl.-Kfm. Stefan Scharff, CREA
Christopher Mehl, MBA

E-Mail scharff@src-research.de
mehl@src-research.de

Internet www.src-research.de
www.aktienmarkt-international.at
www.aktienmarkt-international.de

1H numbers above expectations as high valuation result lifts net profit more than ten-fold – NAV gap expected to narrow after the first transactions are being reported – still Buy and Euro 5.10 TP

Today, the company released the report for 1H 2018 and positively surprised, as most of the numbers were above our expectations. Rental income was at almost Euro 37m, only slightly below last year's period, despite the sale of non-core assets, which was counteracted by a good letting performance of almost 40k sqm in the first six months. Operating expenses related to rental income came down from almost Euro 20m to more than Euro 17m, leading to an overall hike in profit from rental of about 3%. The key factor in the first half was, however, the very high valuation result, which was at already more than Euro 70m (1H 2017: Euro 7m) significantly higher than expected. That increase was partly the result of the continued yield compression, but also by the very good operational improvements by the company within the current portfolio, as the vacancy rate came down from 9.4% at year-end to 7.8% and the firm recorded a like-for-like rental growth of 1.8%. At in our opinion still low level of an average value per sqm of about Euro 1.150, we still see further upside in terms of valuation for the coming quarters and years. The firm's operating profit on EBIT basis rocketed from Euro 24m to more than Euro 84m. The financial result of 1H 2018 was at Euro -22m clearly above last year's -13m. That change was due to a hike in interest of minority shareholders due to the high valuation result and a reduced financial income, as last year's income was coined by valuation gains from call options. Looking at the financial expenses alone, however, a clear reduction from almost Euro -16m to more than Euro -13m becomes visible, as the firm has done a very sound refinancing job. Pretax profit is up almost six-fold from almost Euro 11m to more than Euro 62m, while net profit after minorities is up more than ten-fold from Euro 3.8m to almost Euro 40m. The FFO result sharply increased as well and was at more than Euro 11m up more than 130% from almost Euro 5m.

The firm's equity ratio continued to increase from 27.8% at year-end to 32.5%, while the LTV ratio improved significantly by 760bps from 60.1% to 52.5%. With that improvement the company has come close within reach of its set goal of a LTV of 50%. The firm's diluted EPRA NAV per share hiked by more than 15% since year-end, from Euro 4.94 to Euro 5.69. As can be seen by the very good numbers, the company has already delivered on its DEMIRE 2.0 strategy. The only fly in the ointment is that the firm has not reported any new deals so far this year. We are optimistic, however, that this will happen within the rest of the year as well. The company is currently looking at a deal pipeline of about Euro 350m and has a lot of fire power with the more than Euro 90m cash. As earnings from the new deals will start to contribute later than expected, we slightly lowered our estimates for rental income and FFO, but clearly lifted our profit estimates following the high valuation result.

Since the announcement of the Apollo entry, the share has more or less been trading around € 4.35, which is the Apollo takeover offer price. We believe that once deals are being reported, the share will start to climb and that the high NAV discount of more than 35% will start to close. We confirm our Euro 5.10 target price. Still Buy rating.

SWOT Analysis

Strengths

- The CEO Ralf Kind is highly senior, experienced and well-known in the German real estate sector.
- The transformation of the company has well proceeded since the change in strategy in 2013 and now has a clear focus and targets for the coming years.
- The current portfolio is well diversified between asset classes and regions and therefore has no cluster risks in that regard.

Weaknesses

- Future growth of the portfolio heavily relies on further capital increases. The balance sheet is currently at an equity ratio of 32.5% and a LTV of 52.5%. Those ratios still show room for improvement, but DEMIRE is well on track to bring the equity ratio up and close to its target of an LTV of 50%.
- DEMIRE still lacks reputation in the market, which leads to a discount in their share price. As the firm gains more popularity and awareness with investors we see this current weakness turning into an opportunity to close the current gap to NAV.

Opportunities

- DEMIRE currently follows the strategic plan "DEMIRE 2.0". Thereby the company aims to double the size of the portfolio, reduce their financing costs and make use of economies of scales in the portfolio. The strategic plan sounds very promising and, if accomplished, could lead to lucrative earnings in the midterm future. DEMIRE is on a very good way to deliver on the goals.
- The company's internal property-, asset- and facility management platform should create good economies of scale and reduce costs compared to outside management alternatives
- DEMIRE could reach better financing conditions as they reach a better standing and they grow their portfolio and strengthen their balance sheet. The firm has already significantly lowered its cost of debt to currently 3%, but still has room to improve. A rating upgrade to investment grade, which is targeted by the firm, should significantly help that cause.
- The firm still has a lot of upside potential in their current portfolio due to revaluation gains. There are many objects that are still significantly below the potential value. The company can help realize that potential by improving their portfolio e.g. by reducing vacancy rates and other measures.
- The focus on secondary cities still offer lucrative yields compared to the Top7 locations and good opportunities to find lucrative deals with value add potential that will drive the company's operations and thus the share.

Threats

- The largest tenant in the portfolio, Deutsche Telekom, currently makes up for about 30% of gross rental income, which could lead to a significant reduction in rental income if problems were to arise. However, Deutsche Telekom is a large company with a long history and therefore a good tenant to have. Furthermore, the exposure is split over 28 different lease contracts and over 18 properties with lease maturities spreading until 2025 and a high WALT of more than 5 years.
- The company follows a "manage-to-core" strategy in their Value-Add portfolio and further has some redevelopment objects in their portfolio. Problems regarding the improvements of the objects could lead to higher than expected costs.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period could result in a relatively high increase of interest expenses and might also lead to higher expenses for DEMIRE. We currently do not see any drastic changes in the near future however and the company has also already locked in some long term financing at good rates.

DEMIRE Deutsche Mittelstand Real Estate AG

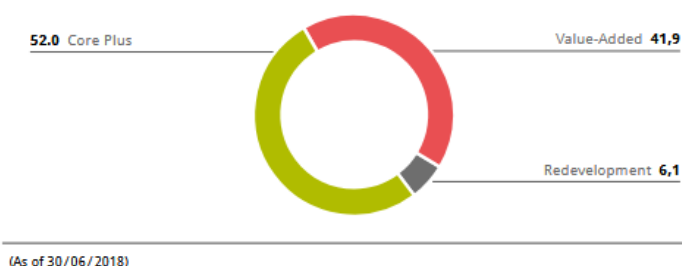
Industry:	Real Estate	Management Board of DEMIRE AG:
Sub-segment:	Office / Retail / Logistics	Ralf Kind (CEO/CFO)
Region:	Germany	
Headquarter:	Frankfurt am Main	
Foundation	2006	
Employees: (31.12.2017)	96	Supervisory Board of DEMIRE AG:
		Prof. Dr. Alexander Goepfert (Chairman)
IR Contact:		Frank Hölzle (Vice Chairman)
Peer Schlinkmann		Dr. Thomas Wetzel
schlinkmann@demire.ag		

DEMIRE Deutsche Mittelstand Real Estate AG acquires and manages high quality commercial real estate properties. The firm was originally founded in April 2006 as MAGNAT Real Estate Opportunities, focusing their business activities on real estate markets in Eastern Europe and the Black Sea region. In 2013 however, the company changed their strategic alignment and further changed their name to DEMIRE Deutsche Mittelstand Real Estate AG. Since then, the focus has been shifted on office, retail and logistics properties in secondary locations across Germany, such as mid-sized cities and bordering areas to metropolitan cities. The company follows a strategy that combines a stable income creating Core+ portfolio (52%) with value-add properties (42%) to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments (6%) due to extensions, refurbishments and selective developments.

The company currently holds a diversified portfolio with a total rental space of about 1,000,000 sqm and a portfolio value of about Euro 1.1bn as of 30 June 2018. Due to the closing of already in 2016 sold properties, the number of assets held was reduced from 174 to 90 commercial properties. The portfolio is diversified within the commercial segment. Currently, about 68% of the portfolio in terms of Gross Asset Value is concentrated in offices, 23% in retail properties, 6% in the logistics segment and about 3% in others. The largest share of the portfolio is located in the state of North Rhine-Westphalia, where almost 19% of the portfolio is held. During 2017, the company further followed its transformation strategy and sold some of the non-core assets from the old portfolio, which will further continue over the next months as currently Euro 12m of properties are held for sale.

The average maturity of rental contracts amounts to c. 4.7 years with a vacancy rate of 7.8 as of June 2018. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 31% share of GMG (Telekom), the remaining tenants from the top 10 list make up for not more than 3% each. This represents a well diversified income structure. Average gross rental yield is at 6.6%. Office properties have a yield of 6.6% as compared to retail at 6.7% and logistics at 6.5%.

FOCUS ON THREE ASSET CLASSES in % of portfolio market value



Since 15 July 2016, DEMIRE is trading in the Prime Standard segment in Frankfurt. That segment requires the highest level of transparency of all segments at the Frankfurt Stock Exchange and even in Europe.

Source: Company Data, SRC Research

DEMIRE Deutsche Mittelstand Real Estate AG 31/12 IFRS ('000)	2015	2016	2017	2018e	2019e	2020e	CAGR '17 - '20e
Rental income	33,320	76,371	73,716	73,687	96,527	121,532	18.1%
Income from utility and service charges	10,024	15,746	14,624	16,475	21,305	25,906	
Operating and ancillary costs	-19,664	-33,547	-32,708	-30,949	-41,507	-51,043	
Profit/loss from the rental of real estate	23,680	58,570	55,632	59,213	76,325	96,395	20.1%
Revenue from the sale of real estate companies	1,792	7,471	0	0	0	0	
Net assets from real estate companies sold	-1,507	-3,510	0	0	0	0	
Profit/loss from the sale of real estate companies	285	3,961	0	0	0	0	
Revenues from the sale of real estate	2,300	21,966	28,389	12,587	5,479	3,264	
Expenses relating to the real estate sales	-1,842	-21,003	-27,445	-12,178	-4,946	-3,147	
Profit/loss from the sale of real estate	458	963	944	409	533	117	
Profits from investments accounted for using the equity method	1,861	0	73	0	0	0	
Losses from investments accounted for using the equity method	-3,830	-359	0	0	0	0	
Unrealised fair value adjustments in equity investments	1,469	0	0	0	0	0	
Profit/loss from investments accounted for using the equity method	-500	-359	73	0	0	0	
Profit/loss from fair value adjustments in investment properties	18,471	38,414	48,560	98,247	47,215	46,823	
Impairment of receivables	-2,846	-2,058	-2,763	-2,214	-2,531	-2,147	
Profits originating from a purchase below market value	33,217	0	0	0	0	0	
Other operating income	2,572	5,550	5,052	6,147	6,301	6,428	
Other operating income and other effects	51,414	41,906	50,849	102,180	50,985	51,104	0.2%
General and administrative expenses	-11,332	-14,505	-15,304	-16,521	-18,796	-21,476	
Other operating expenses	-5,265	-7,367	-7,523	-7,124	-6,841	-8,593	
Earnings before interest and taxes (EBIT)	58,740	83,169	84,671	138,157	102,206	117,547	11.6%
Financial income	2,145	1,153	940	412	1,269	1,341	
Finance expenses	-27,873	-39,134	-49,703	-24,154	-32,475	-36,258	
Interest of minority shareholders	0	-5,226	-8,279	-12,478	-5,971	-5,327	
Financial result	-25,728	-43,207	-57,042	-36,220	-37,177	-40,244	
Profit/loss before taxes (EBT)	33,012	39,962	27,629	101,937	65,029	77,303	40.9%
Income taxes	-4,139	-12,313	-8,197	-21,478	-1,018	-1,254	
Tax rate	13%	31%	30%	21%	2%	2%	
Net profit/loss	28,873	27,649	19,432	80,459	64,011	76,049	
Minorities	-756	-2,979	-5,649	-2,977	-2,417	-2,175	
Net profit/loss after minorities	28,117	24,670	13,783	77,482	61,594	73,874	
FFO I after tax		13,019	11,738	18,675	28,678	36,258	
FFO per share		0.24	0.22	0.25	0.30	0.31	
Number of shares ('000)	49,292	54,247	54,271	73,870	96,581	118,743	
Earnings per share (EPS)	0.71	0.39	0.25	1.05	0.64	0.62	
Dividend per share (DPS)	0.00	0.00	0.00	0.00	0.00	0.00	
in % of FFO result	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shareholders' Equity (without minorities)	230,697	271,945	285,417	411,578	631,489	821,476	42.2%
Shareholders' Equity (including minorities)	264,902	308,637	319,101	423,514	649,802	844,477	
EPRA NAV	256,267	300,459	323,572	488,563	688,635	887,634	40.0%
Balance Sheet sum	1,032,945	1,094,006	1,147,116	1,482,657	1,860,568	2,205,318	
Equity Ratio	25.6%	28.2%	27.8%	28.6%	34.9%	38.3%	
RoE (after tax)	17.6%	8.6%	4.4%	20.9%	11.5%	9.9%	31.1%
Property portfolio	915,089	981,274	1,034,100	1,334,234	1,649,215	1,964,120	
Book Value per share (Euro)	4.68	5.01	5.26	5.57	6.54	6.92	9.6%
EPRA NAV per share (Euro)	4.25	4.60	4.94	6.61	7.13	7.48	14.8%

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

SRC - Scharff Research und Consulting GmbH

Klingerstr. 23

D-60313 Frankfurt am Main

Germany

Fon: +49 (0)69/ 400 313-80

Mail: scharff@src-research.de

Internet: www.src-research.de

Rating chronicle:

Company	Date	Rating	former share price	former target
DEMIRE	1 June 2018	Buy	4.38 €	5.10 €
DEMIRE	3 May 2018	Buy	4.36 €	5.10 €
DEMIRE	27 February 2018	Buy	3.91 €	5.10 €
DEMIRE	1 February 2018	Buy	3.74 €	5.10 €

Please note:

The share price mentioned in this report is from 15 August 2018. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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