

19 | August | 2020

Price (Euro) **4.54**
52 weeks range 5.82 / 3.62

Key Data

ISIN DE000A0XFSF0
Bloomberg DMRE:GR
Reporting standard IFRS
Market Cap (Euro million) 489
Number of shares (million) 107.8
Free Float 11.4%
Free Float Market Cap (Euro million) 55.9
CAGR EBT ('19 -'22e) -6.2%

Multiples	2019	2020e	2021e	2022e
Market Cap/ Total revenues	6.0	5.6	4.7	3.9
PE-Ratio	6.5	26.6	11.4	10.2
Dividend Yield	11.9%	2.6%	3.1%	3.5%
Price-to-Book-Ratio	0.80	0.85	0.85	0.80
P/ NAV-ratio	0.72	0.66	0.73	0.58

Key Data per share (Euro)	2019	2020e	2021e	2022e
Earnings per share (EPS)	0.70	0.17	0.40	0.45
Dividend per share (DPS)	0.54	0.12	0.14	0.16
Book Value per Share (BVPS)	5.69	5.37	5.36	5.67
EPRA NAV per share	6.35	6.88	6.21	7.84

Financial Data (Euro '000)	2019	2020e	2021e	2022e
Rental income	81,799	87,304	105,119	124,006
Net revaluation result	83,022	5,633	43,589	40,355
Operating profit (EBIT)	155,170	52,935	109,538	121,953
Net financial result	-57,315	-27,133	-36,410	-41,236
Pre-tax profit (EBT)	97,855	25,802	73,128	80,717
Taxation	-18,117	-4,961	-16,117	-17,456
Net profit after minorities	75,539	18,666	55,078	61,570
FFO I after tax	34,506	37,566	49,442	56,229
Shareholders' equity (Euro million)	661	621	776	818
Property portfolio (Euro million)	1,488	1,604	1,968	2,215
RoE (after tax)	12.2%	2.9%	7.9%	7.7%
Equity ratio (incl. equity minorities)	39.4%	36.5%	38.1%	35.3%

Main Shareholders

Apollo 64.1%
Wecken-Group 24.5%

Financial calendar

SRC Forum Financials & Real Estate **10 September 2020**
AGM 22 September 2020
9M 2020 report 17 November 2020

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Decent 1H numbers, but slightly below estimates –dividend of 54 cent per share will reduce liquidity and is too high in our opinion – target down to Euro 5.50, Buy affirmed

Today, the company released the report for the first half of 2020 and held a conference call. Rental income hiked by about 15% compared to last year's period, from more than Euro 38m to Euro 44m, driven by new acquisitions and operational progress within the portfolio, leading to a profit from the rental of real estate of Euro 33m, up about 3% from last year's number of Euro 32m. The outstanding rental charges due to Corona for 2Q and 3Q to date amount to Euro 3.4m. The operating profit (EBIT) was at almost Euro 22m, significantly below last year's number of Euro 55m as last year's period included revaluation gains of about Euro 29m, while this year no valuations has been done so far. Adjusted for the revaluation result, last year's EBIT of almost Euro 26m would still have been on top of the 1H 2020 level however. This was due to a loss from the sale of real estate of about Euro 1.8m and increased impairments of receivables of Euro 3.7m, which are mainly related to two retail property tenants. The financial result improved from more than Euro -14m to almost Euro -10m and benefited most of all from the refinancing activities in 2019. The bottom line after minorities stood at Euro 8.3m. The cash-driven FFO hiked by about 6% from Euro 15.9m to Euro 16.9m.

While the results of the first six months were decent given the circumstances and the impacts of the Corona pandemic, the numbers and developments were slightly below our estimates. While we still see further acquisitions in the current fiscal year, we estimated these to be somewhat sooner with a respective earnings contribution in 2020. Also, the company sold some non-strategic assets, which will thus no longer contribute to earnings. Thus, we decided to slightly reduce our estimates for the full-year regarding rental income from Euro 89.2m to now Euro 87.3m and regarding the FFO from Euro 40.1m to Euro 37.6m. The firm's new guidance is for a FFO between Euro 36m to Euro 38m and rental income in a range of Euro 85m to Euro 87m.

The firm also announced, that upon request of its largest shareholder Apollo, a first time dividend payment will be proposed at the AGM on 22 September. While we in general welcome the decision to pay out a dividend earlier than anticipated (2021), we believe that the 54 cent per share (2019 FFO per share: 32 cents) are too high as it will significantly reduce the firm's liquidity, which we expected to rather be invested in further growth to reach the targeted Euro 2bn portfolio size. For the coming years the company plans to also distribute a dividend, however at a more sustainable level. We expect a payout ratio for the coming years in a range of 30% to 40% of FFO.

After slightly taking down our estimates for 2020, which also spills over in the coming years, we also reduce our target price from Euro 5.70 to now Euro 5.50. At an upside of about 21% we confirm our Buy recommendation for the share.

DEMIRE Deutsche Mittelstand Real Estate AG

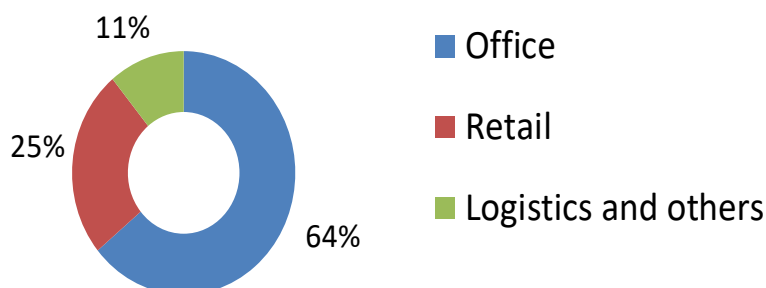
Industry:	Real Estate	Management Board of DEMIRE AG:
Sub-segment:	Office / Retail / Logistics	CEO Ingo Hartlief (FRICS)
Region:	Germany	CFO Tim Brückner
Headquarter:	Frankfurt am Main	
Foundation	2006	
Employees:	41	Supervisory Board of DEMIRE AG:
		Prof. Dr. Alexander Goepfert (Chairman)
IR Contact:		Frank Hölzle (Vice Chairman)
Michael Tegeder, Head of IR and Corporate Finance		Prof. Dr. Kerstin Hennig
tegeder@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 with value-add properties to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments due to extensions, refurbishments and selective developments.

The company holds a diversified portfolio with a total rental space of more than 1,000,000 sqm and a portfolio value of more than Euro 1.5bn as of 1H 2020. The portfolio is diversified within the commercial segment. As of 1H 2020, about 64% of the portfolio in terms of Gross Asset Value is concentrated in offices, 25% in retail properties, and about 11% in the logistics and other segment. The largest share of the portfolio is located in the state of North Rhine-Westphalia, where about 27% of the portfolio is held. In 2019 about Euro 0.36bn of new acquisitions were arranged. Furthermore, about Euro 50m of non-strategic assets were sold, bringing the total transaction volume of 2019 to more than Euro 400m.

The average maturity of rental contracts amounts to c. 4.8 years with a vacancy rate of 8.5% as of 1H 2020. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 16.8% share of GMG (Telekom) and the about 6% share of Karstadt and Imotex, 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 5.9%. Office properties and logistic properties have a yield of 5.7% and 5.5% respectively, as compared to retail at 6.8%.

Asset Class as % of portfolio market value as of 1H 2020



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

SWOT Analysis

Strengths

- The Management 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

- The firm's current free float of the share is at about 11% very low, which limits the tradability and liquidity of the share. The free float should be increased with possible upcoming capital hikes, however.
- 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 "REALize Potential". Thereby the company aims lift the size of the portfolio to more than Euro 2bn, realize potential through asset management, 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. Two big portfolio deals were closed in 2019 and the financing costs and profile was significantly improved following the placement of the benchmark corporate bond in September. Another significant transaction was notarized in December 2019.
- DEMIRE could reach even 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 only 1.78%, but we believe that there is even more room for improvements.
- 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 locations 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 17% 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 multiple different lease contracts and over many properties with long lease maturities and a high WALT.
- Letting and re-letting activities could become more challenging in a severe economic downturn caused by e.g. the Corona virus
- 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, even more in the Corona times, and the company has also already locked in some long term financing at good rates. And keep in mind that new portfolio additions might probably come in the portfolio with lower Cost of Debt as the current group level, bringing down the group's Cost of Debt position.

DEMIRE Deutsche Mittelstand Real Estate AG 31/12 IFRS ('000)	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Rental income	73,716	73,709	81,799	87,304	105,119	124,006	14.9%
Income from utility and service charges	14,624	15,101	19,625	20,080	23,126	27,281	
Operating and ancillary costs	-32,708	-30,310	-35,886	-39,287	-43,309	-49,602	
Profit/loss from the rental of real estate	55,632	58,500	65,538	68,097	84,936	101,685	15.8%
Revenues from the sale of real estate	28,389	1,052	46,130	33,458	1,245	2,574	
Expenses relating to the real estate sales	-27,445	-1,002	-29,327	-35,813	-963	-1,247	
Profit/loss from the sale of real estate	944	50	16,803	-2,355	282	1,327	
Profit/loss from fair value adjustments in investment properties	48,560	93,059	83,022	5,633	43,589	40,355	
Impairment of receivables	-2,763	-1,874	-629	-3,961	-314	-748	
Other operating income	5,052	2,513	4,327	3,748	2,981	3,147	
Other operating income and other effects	50,849	93,698	86,720	5,420	46,256	42,754	-21.0%
General and administrative expenses	-15,304	-19,007	-13,017	-15,749	-17,214	-18,679	
Other operating expenses	-7,523	-6,176	-874	-2,478	-4,722	-5,134	
Earnings before interest and taxes (EBIT)	84,671	127,065	155,170	52,935	109,538	121,953	-7.7%
Financial income	940	480	1,288	1,341	1,413	1,485	
Finance expenses	-49,703	-26,415	-50,860	-23,147	-33,140	-38,682	
Interest of minority shareholders	-8,279	-12,373	-7,743	-5,327	-4,683	-4,039	
Financial result	-57,042	-38,308	-57,315	-27,133	-36,410	-41,236	
Profit/loss before taxes (EBT)	27,629	88,757	97,855	25,802	73,128	80,717	-6.2%
Income taxes	-8,197	-19,704	-18,117	-4,961	-16,117	-17,456	
Tax rate	30%	22%	19%	19%	22%	22%	
Net profit/loss	19,432	69,053	79,738	20,841	57,011	63,261	
Minorities	-5,649	-7,478	-4,199	-2,175	-1,933	-1,691	
Net profit/loss after minorities	13,783	61,575	75,539	18,666	55,078	61,570	
FFO I after tax	11,738	23,359	34,506	37,566	49,442	56,229	17.7%
FFO per share	0.22	0.32	0.32	0.34	0.36	0.41	
Number of shares ('000)	54,271	72,178	107,777	109,214	138,174	138,174	
Earnings per share (EPS)	0.25	0.85	0.70	0.17	0.40	0.45	
Dividend per share (DPS)	0.00	0.00	0.54	0.12	0.14	0.16	
in % of FFO result	0.0%	0.0%	168.7%	34.9%	39.1%	39.3%	
Shareholders' Equity (without minorities)	285,417	537,913	613,351	586,125	740,572	782,798	8.5%
Shareholders' Equity (including minorities)	319,101	582,338	660,782	621,249	775,696	817,922	
EPRA NAV	323,572	595,225	684,131	751,435	857,416	1,083,260	16.6%
Balance Sheet sum	1,147,116	1,378,692	1,677,416	1,702,344	2,034,761	2,314,703	
Equity Ratio	27.8%	42.2%	39.4%	36.5%	38.1%	35.3%	
RoE (after tax)	4.4%	13.7%	12.2%	2.9%	7.9%	7.7%	-14.0%
Property portfolio	1,034,100	1,130,400	1,488,400	1,603,692	1,968,227	2,214,753	
Book Value per share (Euro)	5.26	7.45	5.69	5.37	5.36	5.67	-0.2%
EPRA NAV per share (Euro)	4.94	5.50	6.35	6.88	6.21	7.84	7.3%

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

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Rating chronicle:

Company	Date	Rating	former share price	former target
DEMIRE	19 May 2020	Buy	4.05 €	5.70 €
DEMIRE	9 April 2020	Buy	4.79 €	5.70 €
DEMIRE	20 March 2020	Buy	5.18 €	6.00 €
DEMIRE	10 January 2020	Buy	5.32 €	6.30 €
DEMIRE	14 November 2019	Buy	5.18 €	6.10 €
DEMIRE	4 October 2019	Buy	5.12 €	5.90 €
DEMIRE	24 September 2019	Buy	5.00 €	5.90 €
DEMIRE	14 August 2019	Buy	4.82 €	5.90 €
DEMIRE	15 May 2019	Accumulate	4.95 €	5.60 €
DEMIRE	22 March 2019	Accumulate	4.90 €	5.40 €

Please note:

The share price mentioned in this report is from 18 August 2020. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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