



■ Price (Euro)	4,38
52 weeks range	4.44 / 3.45

■ Key Data

ISIN	DE000A0XFS0
Bloomberg	DMRE:GR
Reporting standard	IFRS
Market Cap (Euro million)	238
Number of shares (million)	54,3
Free Float	18,5%
Free Float Market Cap (Euro million)	44
CAGR EBT ('17 -'20e)	37,5%

■ Multiples

	2017	2018e	2019e	2020e
Market Cap/ Total revenues	3,2	3,1	2,5	2,0
PE-Ratio	17,2	8,2	9,7	9,8
Dividend Yield	0,0%	0,0%	0,0%	0,0%
Price-to-Book-Ratio	0,83	0,98	0,87	0,81
P/ NAV-ratio	0,89	0,83	0,80	0,75

■ Key Data per share (Euro)

	2017	2018e	2019e	2020e
Earnings per share (EPS)	0,25	0,53	0,45	0,45
Dividend per share (DPS)	0,00	0,00	0,00	0,00
Book Value per Share (BVPS)	5,26	4,45	5,04	5,39
EPRA NAV per share	4,94	5,28	5,50	5,82

■ Financial Data (Euro '000)

	2017	2018e	2019e	2020e
Rental income	73.716	76.752	96.527	121.532
Net revaluation result	48.560	49.736	47.215	46.823
Operating profit (EBIT)	84.671	91.613	102.206	117.547
Net financial result	-57.042	-38.260	-42.245	-45.713
Pre-tax profit (EBT)	27.629	53.353	59.961	71.834
Taxation	-8.197	-957	-1.018	-1.254
Net profit after minorities	13.783	49.419	56.526	68.405
FFO I after tax	11.738	20.158	29.214	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%	13,3%	10,5%	9,2%
Equity ratio (incl. equity minorities)	27,8%	28,6%	34,9%	38,3%

■ Main Shareholders

Wecken & Cie. / Apollo	76,5%
Sigrid Wecken	5,0%

■ Financial calendar

AGM	27 June 2018
2Q 2018 report	16 August 2018
SRC Forum Financials & Real Estate	6 September 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

Operational and financial improvements drive 1Q numbers – FFO more than doubled – Portfolio expansion expected to begin in coming months as takeover offer is completed

On Wednesday, 30 May, the company published the report for the first quarter of 2018. The progress of DEMIRE 2.0, which already became visible with the 2017 results, continued to show operational improvements and a steep growth in some of the firm's numbers. Despite the sale of many non-core assets, rental income only slightly decreased from Euro 18.5m last year to Euro 18.3m. This is due to the strong letting activities in 2017, as well as the letting success of almost 30k sqm in 1Q 2018. EPRA

vacancy came down by another 80 bps, from 9.4% to 8.6%, and like-for-like rental growth in 1Q was at 1.6%. The strong operational performance led to a very high revaluation gain of more than Euro 32m in the first quarter alone. The firm's cost side came down as well with a decrease of general and administrative expenses, from Euro 3.6m to Euro 3.1m, as a re-

sult of lower legal, advisory and audit costs, and a decrease in other operating expenses, from Euro 2.7m to Euro 1.2m, which included a one-off in last year's period. All in all the firm's operating profit on EBIT basis climbed sharply from Euro 9m to more than Euro 42m. Despite a clear reduction of interest expenses by Euro 2.1m Y-o-Y, the financial result increased from Euro -5.5m to Euro -11.7m, as minority interest increased significantly due to the high valuation result. The firms' pretax profit was at Euro 30.5m more than eightfold the amount of last year's Euro 3.7m. Net profit after minorities for the period was at Euro 18.2m compared to Euro 0.1m in last year's period. Due to the effects of decreased financing costs and a lower tax burden, the cash driven FFO result more than doubled, from Euro 2m in 1Q 2017 to Euro 5.2m now.

In terms of the balance sheet, the firm's equity ratio slightly increased, from 27.8% at year-end to 28.8%, while the LTV ratio improved by 200bps from 60.1% to 58.1%. The firm's diluted EPRA NAV per share hiked by 7% since year-end, from Euro 4.94 to Euro 5.29. The firm's cash at hand is at almost Euro 70m as of 1Q 2018, and at more than Euro 92m on a pro forma basis following the capital increase. This gives DEMIRE lots of fire power to increase the portfolio over the coming months. Regarding the takeover offer by Apollo, where the tender period ended on 14 May, about 13% of shares were tendered. The consortium Wecken & CIE. / Apollo now holds 76.52% of the shares, leaving a free float of 18.49%.

Even though there have not been any acquisitions so far, following the completion of the takeover bid we now expect the expansion of the portfolio to begin and some lucrative deals to come within the next months. This will lift earnings and FFO and also further drive shareholder value. For FY 2018 the company gave a guidance for rental income in the range of Euro 71m to 73m and for FFO between Euro 16m to 18m. We still believe these numbers will be higher, as new deals are not yet included in the guidance. Our current estimates remain at almost Euro 77m in regards to rental income and at slightly more than Euro 20m regarding the FFO result for 2018. We confirm our target price of Euro 5.10 as well as our Buy recommendation for the DEMIRE share.

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 28.8% and a LTV of 50.1%. Those ratios still show room for improvement, but DEMIRE is aware of that and already on track to bring the equity ratio up and targets 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.
- 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.
- DEMIRE currently has about 50m Euros of tax-loss carry forwards, which can be used over the next years to drastically lower their tax expenses.
- 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
Sub-segment: Office / Retail / Logistics
Region: Germany
Headquarter: Frankfurt am Main
Foundation: 2006
Employees: (31.12.2016) 80

IR Contact:
 Peer Schlinkmann
 schlinkmann@demire.ag

Management Board of DEMIRE AG:
 Ralf Kind (CEO/CFO)

Supervisory Board of DEMIRE AG:
 Prof. Dr. Hermann Anton Wagner (Chairman)
 Frank Hözlle (Vice Chairman)
 Dr. Thomas Wetzel

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 1.05bn as of 31 March 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 67% of the portfolio in terms of Gross Asset Value is concentrated in offices, 24% 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. 4.8 years with a vacancy rate of 8.6 as of March 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 6.8%. Office properties have a yield of 6.8% as compared to retail at 6.9% and logistics at 6.6%.



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	76.752	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	-32.236	-41.507	-51.043	
Profit/loss from the rental of real estate	23.680	58.570	55.632	60.991	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	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	49.736	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	53.669	50.985	51.104	0,2%
General and administrative expenses	-11.332	-14.505	-15.304	-15.742	-18.796	-21.476	
Other operating expenses	-5.265	-7.367	-7.523	-7.714	-6.841	-8.593	
Earnings before interest and taxes (EBIT)	58.740	83.169	84.671	91.613	102.206	117.547	11,6%
Financial income	2.145	1.153	940	1.130	1.269	1.341	
Finance expenses	-27.873	-39.134	-49.703	-30.147	-37.543	-41.727	
Interest of minority shareholders	0	-5.226	-8.279	-9.243	-5.971	-5.327	
Financial result	-25.728	-43.207	-57.042	-38.260	-42.245	-45.713	
Profit/loss before taxes (EBT)	33.012	39.962	27.629	53.353	59.961	71.834	37,5%
Income taxes	-4.139	-12.313	-8.197	-957	-1.018	-1.254	
Tax rate	13%	31%	30%	2%	2%	2%	
Net profit/loss	28.873	27.649	19.432	52.396	58.943	70.580	
Minorities	-756	-2.979	-5.649	-2.977	-2.417	-2.175	
Net profit/loss after minorities	28.117	24.670	13.783	49.419	56.526	68.405	
FFO I after tax		13.019	11.738	20.158	29.214	36.258	
FFO per share		0,24	0,22	0,22	0,23	0,24	
Number of shares ('000)	49.292	54.247	54.271	92.469	125.318	152.478	
Earnings per share (EPS)	0,71	0,39	0,25	0,53	0,45	0,45	
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%	13,3%	10,5%	9,2%	27,8%
 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	4,45	5,04	5,39	0,8%
EPRA NAV per share (Euro)	4,25	4,60	4,94	5,28	5,50	5,82	5,6%

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:
Rating Chronicle

Company	Date	Rating	share price	former target
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 30 May 2018. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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