

■ **Price (Euro)** **4.27**  
52 weeks range 4.44 / 3.69

■ **Key Data**

ISIN	DE000A0XFSF0
Bloomberg	DMRE:GR
Reporting standard	IFRS
Market Cap (Euro million)	459
Number of shares (million)	107.6
Free Float	11.4%
Free Float Market Cap (Euro million)	53
CAGR EBT ('17 -'20e)	40.9%

■ Multiples	2017	2018e	2019e	2020e
Market Cap/ Total revenues	6.2	6.2	4.8	3.8
<b>PE-Ratio</b>	<b>16.8</b>	<b>5.9</b>	<b>8.8</b>	<b>8.4</b>
Dividend Yield	0.0%	0.0%	0.0%	0.0%
<b>Price-to-Book-Ratio</b>	<b>0.81</b>	<b>0.83</b>	<b>0.76</b>	<b>0.76</b>
<b>P/ NAV-ratio</b>	<b>0.86</b>	<b>0.75</b>	<b>0.70</b>	<b>0.70</b>

■ Key Data per share (Euro)	2017	2018e	2019e	2020e
<b>Earnings per share (EPS)</b>	<b>0.25</b>	<b>0.72</b>	<b>0.49</b>	<b>0.51</b>
Dividend per share (DPS)	0.00	0.00	0.00	0.00
<b>Book Value per Share (BVPS)</b>	<b>5.26</b>	<b>5.15</b>	<b>5.63</b>	<b>5.62</b>
<b>EPRA NAV per share</b>	<b>4.94</b>	<b>5.66</b>	<b>6.14</b>	<b>6.07</b>

■ Financial Data (Euro '000)	2017	2018e	2019e	2020e
<b>Rental income</b>	<b>73,716</b>	<b>73,943</b>	<b>96,527</b>	<b>121,532</b>
Net revaluation result	48,560	98,247	47,215	46,823
<b>Operating profit (EBIT)</b>	<b>84,671</b>	<b>138,222</b>	<b>102,206</b>	<b>117,547</b>
Net financial result	-57,042	-36,220	-37,177	-40,244
<b>Pre-tax profit (EBT)</b>	<b>27,629</b>	<b>102,002</b>	<b>65,029</b>	<b>77,303</b>
Taxation	-8,197	-21,478	-1,018	-1,254
<b>Net profit after minorities</b>	<b>13,783</b>	<b>77,547</b>	<b>61,594</b>	<b>73,874</b>
<b>FFO I after tax</b>	<b>11,738</b>	<b>23,786</b>	<b>30,426</b>	<b>37,673</b>
Shareholders' equity (Euro million)	319	593	733	844
<b>Property portfolio (Euro million)</b>	<b>1,034</b>	<b>1,150</b>	<b>1,649</b>	<b>1,964</b>
<b>RoE (after tax)</b>	<b>4.4%</b>	<b>17.0%</b>	<b>9.3%</b>	<b>9.4%</b>
Equity ratio (incl. equity minorities)	27.8%	36.7%	37.7%	38.3%

■ **Main Shareholders**

Apollo	64.1%
Wecken-Group	24.5%

■ **Financial calendar**

2018 annual report	20 March 2019
1Q 2019 report	15 May 2019

■ **Analysts**

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

E-Mail [scharff@src-research.de](mailto:scharff@src-research.de)  
[mehl@src-research.de](mailto:mehl@src-research.de)

Internet [www.src-research.de](http://www.src-research.de)  
[www.aktienmarkt-international.at](http://www.aktienmarkt-international.at)  
[www.aktienmarkt-international.de](http://www.aktienmarkt-international.de)

### Ingo Hartlief appointed as new CEO effective immediately – Expansion of executive board should push strategic goal to grow portfolio – Euro 5.40 target and Buy rating affirmed

The company announced today the expansion of the firm's Executive Board with the appointment of Mr. Ingo Hartlief, FRICS, as the new CEO. Effective immediately, Mr. Hartlief is appointed until the end of the year 2021. He is very experienced and well-known in the real estate industry, especially in the areas of investment and asset management, transactions, and portfolio management. Thus, we believe he is a very good fit and will benefit the company, as DEMIRE aims to grow the portfolio to about Euro 2bn in the coming years and Mr. Hartlief can contribute to that goal with his experience and broad network. His former positions include Vice CEO & COO of CORPUS SIREO Real Estate, CEO of Swiss Life KVG and Managing Director of Union Investment Real Estate. Mr. Kind, who has acted a sole member of the Executive Board will also remain in the company and will act as CFO from now on.

**We welcome the appointment of Mr. Hartlief and the fact that the company is now being led by two very experienced and knowledgeable managers. The expansion of the management and the release of Mr. Kind from his dual function as CEO/CFO will also allow to free up time and to split the work load and enables the management to more extensively push the company's strategic plan DEMIRE 2.0.**

**We confirm our target price of Euro 5.40, which we have lifted with our last update on 15 November following the firm's strong 9M 2018 result. We stick to our Buy rating.**

## 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

- Future growth of the portfolio heavily relies on further capital increases. The balance sheet is currently at an equity ratio of 32.9% and a LTV of 52.6%. 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  
**Sub-segment:** Office / Retail / Logistics  
**Region:** Germany  
**Headquarter:** Frankfurt am Main  
**Foundation:** 2006  
**Employees:** (30.06.2018) 94

**IR Contact:**  
 Peer Schlinkmann  
 schlinkmann@demire.ag

**Management Board of DEMIRE AG:**

Ingo Hartlief (CEO)  
 Ralf Kind (CFO)

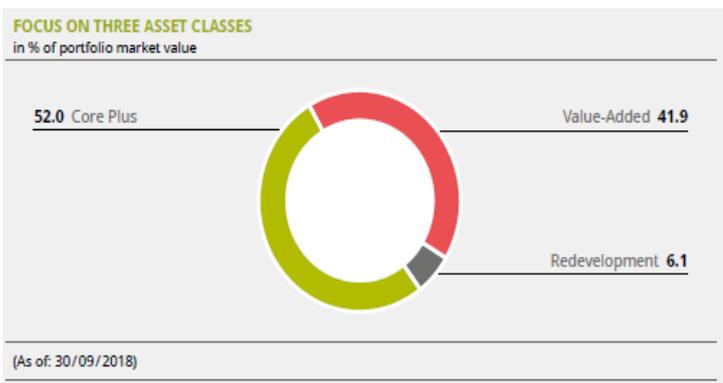
**Supervisory Board of DEMIRE AG:**

Prof. Dr. Alexander Goepfert (Chairman)  
 Frank Hölzle (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 more than Euro 1.1bn as of 30 September 2018. Due to the closing of already in 2016 sold properties, the number of assets held was reduced from 174 to 85 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 68% 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. 4.6 years with a vacancy rate of 7.7% as of September 2018. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 30.5% 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 6.9%.



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
<b>Rental income</b>	<b>33,320</b>	<b>76,371</b>	<b>73,716</b>	<b>73,943</b>	<b>96,527</b>	<b>121,532</b>	<b>18.1%</b>
Income from utility and service charges	10,024	15,746	14,624	15,953	21,305	25,906	
Operating and ancillary costs	-19,664	-33,547	-32,708	-29,799	-41,507	-51,043	
<b>Profit/loss from the rental of real estate</b>	<b>23,680</b>	<b>58,570</b>	<b>55,632</b>	<b>60,097</b>	<b>76,325</b>	<b>96,395</b>	<b>20.1%</b>
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	
<b>Profit/loss from the sale of real estate companies</b>	<b>285</b>	<b>3,961</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Revenues from the sale of real estate	2,300	21,966	28,389	2,348	15,479	3,264	
Expenses relating to the real estate sales	-1,842	-21,003	-27,445	-1,986	-14,946	-3,147	
<b>Profit/loss from the sale of real estate</b>	<b>458</b>	<b>963</b>	<b>944</b>	<b>362</b>	<b>533</b>	<b>117</b>	
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	
<b>Profit/loss from investments accounted for using the equity method</b>	<b>-500</b>	<b>-359</b>	<b>73</b>	<b>0</b>	<b>0</b>	<b>0</b>	
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	-2,986	-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	
<b>Other operating income and other effects</b>	<b>51,414</b>	<b>41,906</b>	<b>50,849</b>	<b>101,408</b>	<b>50,985</b>	<b>51,104</b>	<b>0.2%</b>
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	
<b>Earnings before interest and taxes (EBIT)</b>	<b>58,740</b>	<b>83,169</b>	<b>84,671</b>	<b>138,222</b>	<b>102,206</b>	<b>117,547</b>	<b>11.6%</b>
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	
<b>Financial result</b>	<b>-25,728</b>	<b>-43,207</b>	<b>-57,042</b>	<b>-36,220</b>	<b>-37,177</b>	<b>-40,244</b>	
<b>Profit/loss before taxes (EBT)</b>	<b>33,012</b>	<b>39,962</b>	<b>27,629</b>	<b>102,002</b>	<b>65,029</b>	<b>77,303</b>	<b>40.9%</b>
Income taxes	-4,139	-12,313	-8,197	-21,478	-1,018	-1,254	
Tax rate	13%	31%	30%	21%	2%	2%	
<b>Net profit/loss</b>	<b>28,873</b>	<b>27,649</b>	<b>19,432</b>	<b>80,524</b>	<b>64,011</b>	<b>76,049</b>	
Minorities	-756	-2,979	-5,649	-2,977	-2,417	-2,175	
<b>Net profit/loss after minorities</b>	<b>28,117</b>	<b>24,670</b>	<b>13,783</b>	<b>77,547</b>	<b>61,594</b>	<b>73,874</b>	
<b>FFO I after tax</b>		<b>13,019</b>	<b>11,738</b>	<b>23,786</b>	<b>30,426</b>	<b>37,673</b>	
<b>FFO per share</b>		<b>0.24</b>	<b>0.22</b>	<b>0.22</b>	<b>0.24</b>	<b>0.26</b>	
<b>Number of shares ('000)</b>	<b>49,292</b>	<b>54,247</b>	<b>54,271</b>	<b>107,598</b>	<b>126,528</b>	<b>146,158</b>	
<b>Earnings per share (EPS)</b>	<b>0.71</b>	<b>0.39</b>	<b>0.25</b>	<b>0.72</b>	<b>0.49</b>	<b>0.51</b>	
<b>Dividend per share (DPS)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	
in % of FFO result	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Shareholders' Equity (without minorities)</b>	<b>230,697</b>	<b>271,945</b>	<b>285,417</b>	<b>554,214</b>	<b>712,147</b>	<b>821,476</b>	<b>42.2%</b>
<b>Shareholders' Equity (including minorities)</b>	<b>264,902</b>	<b>308,637</b>	<b>319,101</b>	<b>592,825</b>	<b>732,799</b>	<b>844,477</b>	
<b>EPRA NAV</b>	<b>256,267</b>	<b>300,459</b>	<b>323,572</b>	<b>608,687</b>	<b>776,321</b>	<b>887,634</b>	<b>40.0%</b>
<b>Balance Sheet sum</b>	<b>1,032,945</b>	<b>1,094,006</b>	<b>1,147,116</b>	<b>1,617,035</b>	<b>1,941,367</b>	<b>2,205,318</b>	
<b>Equity Ratio</b>	<b>25.6%</b>	<b>28.2%</b>	<b>27.8%</b>	<b>36.7%</b>	<b>37.7%</b>	<b>38.3%</b>	
<b>RoE (after tax)</b>	<b>17.6%</b>	<b>8.6%</b>	<b>4.4%</b>	<b>17.0%</b>	<b>9.3%</b>	<b>9.4%</b>	<b>28.7%</b>
<b>Property portfolio</b>	<b>915,089</b>	<b>981,274</b>	<b>1,034,100</b>	<b>1,150,214</b>	<b>1,649,215</b>	<b>1,964,120</b>	
<b>Book Value per share (Euro)</b>	<b>4.68</b>	<b>5.01</b>	<b>5.26</b>	<b>5.15</b>	<b>5.63</b>	<b>5.62</b>	<b>2.2%</b>
<b>EPRA NAV per share (Euro)</b>	<b>4.25</b>	<b>4.60</b>	<b>4.94</b>	<b>5.66</b>	<b>6.14</b>	<b>6.07</b>	<b>7.1%</b>

## 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	15 November 2018	Buy	4.30 €	5.40 €
DEMIRE	2 November 2018	Buy	4.18 €	5.10 €
DEMIRE	16 August 2018	Buy	4.17 €	5.10 €
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 19 December 2018. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

Disclaimer © 2018: This equity research report is published by: SRC-Scharff Research und Consulting GmbH, Klingerstr. 23, D-60313 Frankfurt, Germany (short name: SRC Research). All rights reserved.

Although we feel sure that all information in this SRC report originates from carefully selected sources with high credibility, we cannot give any guarantee for accuracy, trueness and completeness. All opinions quoted in this report give the current judgement of the author which is not necessarily the same opinion as SRC-Scharff Research und Consulting GmbH or another staff member. All the opinions and assessment made in this report may be changed without prior notice. Within the scope of German regulative framework the author and SRC-Scharff Research und Consulting GmbH do not assume any liability for this document or its content being used. This report is solely for information purposes and does not constitute a request or an invitation or a recommendation to buy or sell any stock that is mentioned here. Private clients should obtain personal advice at their bank or investment house and should keep in mind that prices and dividends of equities can rise and fall and that nobody can give a guarantee of the future development of equities. The author of this report and the SRC-Scharff Research und Consulting GmbH commit themselves on a unsolicited basis to having no long or short-positions in equities or derivatives related to equities mentioned in this report.

Reproduction, distribution or publishing this report and its content as a whole or in parts is only allowed with approval of SRC management written form. With acceptance of this document you agree with all regulations mentioned here and all general terms and conditions you will find at any time at our website [www.src-research.de](http://www.src-research.de).