

■ **Price (Euro)** **3.91**
52 weeks range 4.38 / 3.35

■ **Key Data**

ISIN	DE000A0XFSF0
Bloomberg	DMRE:GR
Reporting standard	IFRS
Market Cap (Euro million)	212
Number of shares (million)	54.3
Free Float	47.6%
Free Float Market Cap (Euro million)	101
CAGR EBT ('16-'19e)	21.6%

■ Multiples	2016	2017e	2018e	2019e
Market Cap/ Total revenues	2.8	2.8	2.6	2.2
PE-Ratio	10.0	9.3	7.5	8.7
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Price-to-Book-Ratio	0.78	0.74	0.85	0.78
P/ NAV-ratio	0.85	0.80	0.74	0.71

■ Key Data per share (Euro)	2016	2017e	2018e	2019e
Earnings per share (EPS)	0.39	0.42	0.52	0.45
Dividend per share (DPS)	0.00	0.00	0.00	0.00
Book Value per Share (BVPS)	5.01	5.31	4.60	5.04
EPRA NAV per share	4.60	4.90	5.28	5.50

■ Financial Data (Euro '000)	2016	2017e	2018e	2019e
Rental income	76,371	74,941	81,752	96,527
Net revaluation result	38,414	36,258	43,589	47,215
Operating profit (EBIT)	83,169	77,125	89,589	102,206
Net financial result	-43,207	-45,395	-37,382	-42,245
Pre-tax profit (EBT)	39,962	31,730	52,207	59,961
Taxation	-12,313	-4,982	-957	-1,018
Net profit after minorities	24,670	22,935	48,273	56,526
FFO I after tax	13,019	12,217	22,147	29,214
Shareholders' equity (Euro million)	309	329	437	650
Property portfolio (Euro million)	981	1,040	1,334	1,649
RoE (after tax)	8.6%	7.2%	12.6%	10.4%
Equity ratio (incl. equity minorities)	28.2%	27.2%	28.9%	34.9%

■ **Main Shareholders**

Wecken & Cie.	29.9%
Obotritia Capital KGaA	11.9%
M1 Beteiligungs GmbH	5.6%
Sigrid Wecken	5.0%

■ **Financial calendar**

Annual report 2017	26 April 2018
1Q 2018 report	30 May 2018
AGM	27 June 2018
2Q 2018 report	16 August 2018
SRC Forum Financials & Real Estate	6 September 2018

■ **Analysts**

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New strategic investor to fully subscribe 10% equity capital hike and signed cooperation agreement with largest shareholder Wecken & Cie to acquire control of DEMIRE

Yesterday evening, the company released news regarding a planned 10% equity capital hike by the issue of more than 5.4m new shares, with full dividend rights as of 1 January 2018. The capital increase is to be fully subscribed by a new strategic investor, Apollo Managed Funds, who currently already holds 150k shares and had previously entered into an agreement to purchase about 1.1m additional shares. The Funds are advised by the investment manager Apollo Global Management LLC, which manage about USD 249bn. The issue price is set at Euro 4.35 per share – which represents a premium of more than 11% to yesterday's closing price - for gross proceeds of almost Euro 24m. The agreement is still conditional to the clearance of the German Federal Cartel Office. The new strategic investor has furthermore entered into a cooperation agreement with Wecken & Cie., the company's largest shareholder. Together, the two investors will acquire control of the company and accordingly have announced a mandatory tender offer to all shareholder of DEMIRE for a price of Euro 4.35. The company's listing is to be maintained after a successful takeover offer, however. At the same time, Apollo Managed Funds have announced the decision to launch a voluntary takeover offer to acquire the remaining shares of Fair Value REIT-AG, thereby revoking the listing of FVR. The offer price will be equal to the legal minimum price. The shares are to be contributed into DEMIRE in exchange for DEMIRE shares after the takeover is completed.

We see the entry of the new strategic investor as positive for DEMIRE. The engagement will enable the company to further push their strategic program DEMIRE 2.0, as both Apollo Capital Management and Wecken & Cie. seem to be supportive of the strategic goals of the company. With the new capital and strategic support, DEMIRE can grow their portfolio much faster and further optimize their profitability and balance sheet. The proceeds of the capital hike will open up further firepower of about Euro 45m for new transactions. We expect these transactions to be arranged within the next months.

In our opinion, a start of the tender offer period seems to be realistic somewhere between beginning and mid of April. Until the completion of the tender offer, likely around the end of May, we believe the share will more or less remain stagnant around the offer price of Euro 4.35. However, we believe the share will still show free float and trading activity after the tender offer and has more upside to be realized in the next 12 months, as new deals and further progress will continue to drive shareholder value. We therefore confirm our target price of Euro 5.10. We also maintain our Buy recommendation.

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 26.3% and a LTV of 62%. 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%. We expect an equity capital hike in early-mid 2018
- 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

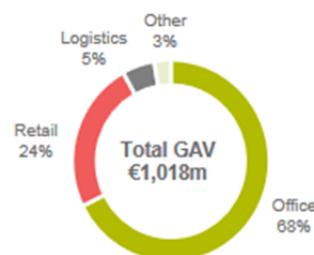
Industry:	Real Estate	Management Board of DEMIRE AG:
Sub-segment:	Office / Retail / Logistics	Ralf Kind (CEO/CFO)
Region:	Germany	
Headquarter:	Frankfurt am Main	
Foundation	2006	
Employees: (31.12.2016)	80	Supervisory Board of DEMIRE AG:
		Prof. Dr. Hermann Anton Wagner (Chairman)
IR Contact:		Frank 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 (53%) with value-add properties (41%) to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments (6%) due to extensions, refurbishments and selective developments.

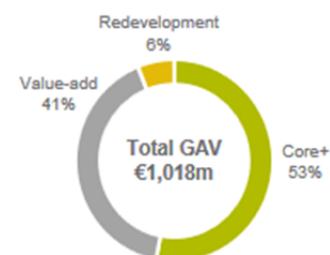
The company currently holds a diversified portfolio with a total rental space of more than 1,000,000sqm and a portfolio value of about Euro 1.0bn as of 30 September 2017. Due to the closing of already in 2016 sold properties, the number of assets held was reduced from 174 to 90 commercial properties. The portfolio is diversified within the commercial segment. Currently, about 68% of the portfolio in terms of Gross Asset Value is concentrated in offices, 24% in retail properties, 5% in the logistics segment and about 3% in others. The largest share of the portfolio is located in the state of Saxony, where more than 31% of the portfolio is held. During the first three quarter of 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 18.5 of properties are held for sale.

The average maturity of rental contracts amounts to c. 4.8 years with a vacancy rate of 9.9% after the most recent sales in 2017. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 30% 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 7.1%. Office properties have a yield of 7.1% as compared to retail at 7.3% and logistics at 6.6%.

Distribution by Asset Class⁽¹⁾



Distribution by Investment Cluster⁽¹⁾



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	2017e	2018e	2019e	2020e	CAGR '16 - '20e
Rental income	33,320	76,371	74,941	81,752	96,527	121,532	16.7%
Income from utility and service charges	10,024	15,746	16,483	17,158	21,305	25,906	
Operating and ancillary costs	-19,664	-33,547	-34,158	-35,971	-41,507	-51,043	
Profit/loss from the rental of real estate	23,680	58,570	57,266	62,939	76,325	96,395	18.1%
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	23,584	13,587	5,479	3,264	
Expenses relating to the real estate sales	-1,842	-21,003	-24,180	-13,183	-4,946	-3,147	
Profit/loss from the sale of real estate	458	963	-596	404	533	117	
Profits from investments accounted for using the equity method	1,861	0	97	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	97	0	0	0	
Profit/loss from fair value adjustments in investment properties	18,471	38,414	36,258	43,589	47,215	46,823	
Impairment of receivables	-2,846	-2,058	-1,863	-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	6,249	6,147	6,301	6,428	
Other operating income and other effects	51,414	41,906	40,644	47,522	50,985	51,104	6.8%
General and administrative expenses	-11,332	-14,505	-14,158	-14,962	-18,796	-21,476	
Other operating expenses	-5,265	-7,367	-6,128	-6,314	-6,841	-8,593	
Earnings before interest and taxes (EBIT)	58,740	83,169	77,125	89,589	102,206	117,547	12.2%
Financial income	2,145	1,153	968	1,130	1,269	1,341	
Finance expenses	-27,873	-39,134	-40,258	-32,258	-37,543	-41,727	
Interest of minority shareholders	0	-5,226	-6,105	-6,254	-5,971	-5,327	
Financial result	-25,728	-43,207	-45,395	-37,382	-42,245	-45,713	
Profit/loss before taxes (EBT)	33,012	39,962	31,730	52,207	59,961	71,834	21.6%
Income taxes	-4,139	-12,313	-4,982	-957	-1,018	-1,254	
Tax rate	13%	31%	16%	2%	2%	2%	
Net profit/loss	28,873	27,649	26,748	51,250	58,943	70,580	
Minorities	-756	-2,979	-3,813	-2,977	-2,417	-2,175	
Net profit/loss after minorities	28,117	24,670	22,935	48,273	56,526	68,405	
FFO I after tax		13,019	12,217	22,147	29,214	36,258	
FFO per share		0.24	0.23	0.24	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	0.42	0.52	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	288,194	424,953	631,489	821,476	44.6%
Shareholders' Equity (including minorities)	264,902	308,637	329,217	437,277	649,802	844,477	
EPRA NAV	256,267	300,459	332,946	488,563	688,635	887,634	43.5%
Balance Sheet sum	1,032,945	1,094,006	1,211,369	1,512,657	1,860,568	2,205,318	
Equity Ratio	25.6%	28.2%	27.2%	28.9%	34.9%	38.3%	
RoE (after tax)	17.6%	8.6%	7.2%	12.6%	10.4%	9.2%	2.1%
Property portfolio	915,089	981,274	1,040,150	1,334,234	1,649,215	1,964,120	
Book Value per share (Euro)	4.68	5.01	5.31	4.60	5.04	5.39	2.4%
EPRA NAV per share (Euro)	4.25	4.60	4.90	5.28	5.50	5.82	8.2%

SRC Research

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Rating chronicle:

Rating Chronicle

Company	Date	Rating	former share price	former target
DEMIRE	1. February 2018	Buy	3.74 €	5.10 €

Please note:

The share price mentioned in this report is from 26 February 2018. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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