DIC Asset

Buy (unchanged) **Target: Euro 22.00** (unchanged)

11 | February | 2021

Price (Euro)	**15,56**			
52 weeks range	17.40 / 6.69			

Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	1.230
Number of shares (million)	79,1
Free Float	47,1%
Free Float Market Cap (Euro million)	579
CAGR EBIT ('19 -'22e)	6,4%

Multiples	**2020**	**2021e**	**2022e**	**2023e**
Market Cap / Total revenues	12,2	11,6	11,4	10,0
PE-Ratio	**17,7**	**14,8**	**14,5**	**13,6**
Dividend Yield	4,5%	4,8%	5,0%	5,1%

Key Data per share (Euro)	**2020**	**2021e**	**2022e**	**2023e**
Earnings per share (EPS)	**0,88**	**1,05**	**1,07**	**1,15**
FFO per share	**1,22**	**1,33**	**1,32**	**1,42**
Dividend per share (DPS)	0,70	0,75	0,78	0,80

Financial Data (Euro '000)	**2020**	**2021e**	**2022e**	**2023e**
Gross rental income	100.695	105.950	108.045	122.670
Net rental income	**82.221**	**87.361**	**90.483**	**102.171**
Administrative expenses	-19.077	-20.596	-24.822	-25.544
Personnel expenses	-30.280	-30.586	-31.745	-33.114
Real estate management fees	79.722	99.960	117.978	130.100
Profit on disposal of investment property	32.000	17.107	19.116	8.890
EBIT	**106.182**	**117.515**	**134.654**	**144.570**
Net financial result	-28.090	-31.858	-34.970	-37.999
EBT	**89.462**	**98.169**	**112.904**	**122.025**
Taxation	-16.350	-12.879	-17.592	-18.661
Net profit after minorities	**70.013**	**85.707**	**95.785**	**103.714**
FFO	**96.524**	**108.039**	**118.115**	**128.895**

Main Shareholders

Deutsche Immobilien Chancen-Gruppe	34,6%
RAG-Stiftung	10,0%
Yannick Patrick Heller	8,3%

Financial calendar

AGM	24 March 2021
1Q 2021 report	6 May 2021
1H 2021 report	11 August 2021
SRC Forum Financials & Real Estate	**8 September 2021**

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Very good 2020 numbers and even slightly ahead of our forecast – steep growth to Euro 15bn assets to come - € 22.00 target affirmed

Yesterday, DIC Asset released the 2020 annual report with very convincing numbers regarding the rental income, the FFO picture, the growth of the Assets under Management as well as the dividend hike. We already expected good numbers to come in our last update four weeks ago, on 15 January. The share price jumped yesterday to over Euro 16.00, coming quite close to the 52 weeks High at Euro 17.40.

The gross rental income in the Commercial Portfolio (own book of Euro 2.0bn) was despite the pandemic very stable at Euro 100.7m (2019: Euro 101.9m). The net rental income was only slightly down to Euro 82.2m and ahead of our Euro 81.0m projection. The third parties business, the Institutional Business, delivered a steep +27% rise in management fees to Euro 80m (2019: Euro 63m) amid a strong expansion, **as Assets under Management rocketed 26% year-on-year from Euro 5.7bn to Euro 7.6bn, almost Euro +2bn in only one year. This impressive growth is even more underlined by the takeover of logistics fund manger RLI Investors in December with AuM of over Euro 700m, which was closed in January.** With this, the current total Assets under Management are between Euro 10.3bn and Euro 10.4bn right now, already above the Euro 10bn threshold. The RLI Investors gives DIC a good footprint in the logistics area and management stated that a new logistics institutional fund with a size of about Euro 350m to Euro 450m is in planning. We expect this product to come in the mid of the year and it is a good chance to talk to GEG clients for cross selling. Or vice versa, as RLI takeover offered 24 investors in their clients base (thereof 17 new) might be interested to invest in some GEG products.

Besides the steep growth we like the highly dynamic letting performance on the total platform for the own book and the third parties. The letting performance was up in a difficult pandemic year by 28% to 270k sqm, thereof 71% lease renewals but also 29% new lettings, a clear statement for the attractive portfolio. Even more impressive is that on a like-for-like basis the rental income was up by almost 2%. The hike was even bigger on the Institutional Business side on a stand-alone basis and could compensate easily for some rent adjustments needed for the three Kaufhof properties. We expect a very stable rental 2021 year in the standing portfolio and the managed assets, as the 2021 lease expiry is on a very low 4% level. Keep in mind that 72% of rental contracts expire in much later years (2025 and later), so there is no pressure on the top-line even in a longer Lockdown stagnation, but only additional income coming from the growth**. After total assets base were up from Euro 7.6bn to Euro 9.6bn**, **the new given mid-term growth target of Euro 15bn is in reach for the next 3 years or say 4 years at maximum. Might sound like a great step from Euro 10bn to Euro 15bn, but about Euro 1.5bn add-on per year at average for the next 3 years seems very realistic to us,** even more the given ability to acquire fund managers like recently done with RLI. Probably not the last deal.

The FFO I was up approx. 2%, from Euro 95.0m in 2019 to Euro 96.5m in 2020, meeting our Euro 96.4m forecast. 51% was from IB and 49% derived from the own book. The 2021 FFO I target of Euro 106m to Euro 110m is realistic for us, we judge about 55% from Institutional Business, after 51% in 2020, as the RLI takeover is worth already Euro 4m for the group's 2021 EBITDA. With an EPRA Net Disposal Value (NDV), which was up +16% from Euro 1.07bn to Euro 1.23bn (Euro 15.31 per share), which stands for the own book, plus the value of IB (Euro 8 to Euro 10 per share), we feel very comfortable with the Euro 22.00 target, which we already gave in January. We confirm our target price and clearly affirm our Buy. The hike in dividend from 66 Cents to 70 Cents also speaks for the share with a 4.5% yield.

DIC Asset AG

Industry: Real Estate
Sub-segment: Commercial property investor
Own book / Institutional Business / Managed Accounts (transaction, asset and property management)

Region: Germany
Headquarter: Frankfurt
Foundation 1998
Employees: 272

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Management Board of DIC Asset
CEO Sonja Wärntges
CIO Johannes von Mutius
Patrick Weiden
Christian Bock

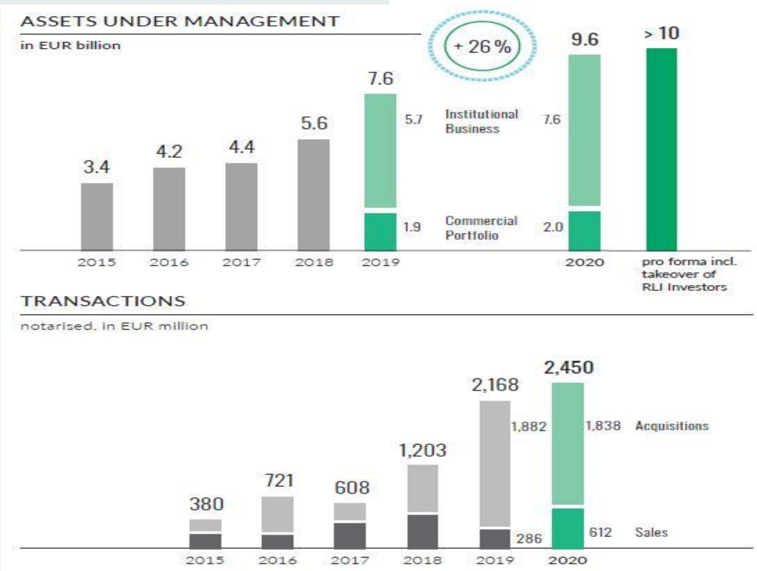
Supervisory Board of DIC Asset:
Prof. Dr. Gerhard Schmidt
Klaus-Jürgen Sontowski
Prof. Dr. Ulrich Reuter
Eberhard Vetter
Michael Zahn
Rene Zahnd

DIC Asset is a strong commercial properties player in the German market with two strong and more or less equally weighted pillars or businesses, which help for a very complementary income and investment structure.

In the Commercial Portfolio DIC Asset does on balance sheet investmenst for their own books , in particular office properties that offer a stable cash income (core / core plus) as well as some value add properties which need more attention to reduce vacancy and increase the intrinsic cash flow in mid-term, in particular by repositioning or revitalization of some assets. This strategy is complemented by an intelligent cycle management to sell some properties at the right time for portfolio optimization and generating additional trading profits. The commercial portfolio has a size of Euro 2bn at present. A new focus will be laid on logistics assets in future.

In the second pillar, the Institutional Business, the company launches diversified real estate funds for many years, as the DIC Office Balance I was initiated in 2010 and DIC Office Balance II in 2014 and DIC Office Balance III in 2015, all with targeted AuM between Euro 300m and Euro 450m. DIC also initiated funds outside the office topic, for instance with the DIC Retail Balance I fund, which came in Sepptember 2017 with a size of about Euro 250m. The institutional business offers a great range of fees for set-up, transactions, asset and property management services for the funds, club deals and and individual mandatess. In addition to a broad income stream from servicing fees there are lucrative equity returns from the co-investment stakes. The assets under management in the Institutional Business steeply increased by almost 50% in 2019, from Euro 3.9bn to Euro 5.7bn and again steeply to Euro 7.6bn in 2020. All activities in the field of fund business (third party mandates) have been bundled under the GEG roof. Both pillars, the Commercial Portfolio and the Institutional Business , are serviced from the group's own asset and property management platform, named DIC Onsite, with branches in Frankfurt, Mannheim, Dusseldorf, Cologne, Hamburg, Munich and Berlin. The institutional business offers a very steady and lucrative income stream of management fees as well as transaction-related fees and performance fees. In 2020 the real estate management fees significantly hiked 27% to Euro 80m. Another milestone was the takeover of Munich based RLI investors in December 2020 (closing January 2021) with over Euro 700m Assets under Management. This helps to sharpen the profile of DIC in the field of logistics investments and helps to cross sell logistics assets to GEG clients and vice versa. With the RLI deal the total assets base grows to above Euro 10bn in 1Q 2021. In 2020, the DIC Office funds stood for about 33% of the total fee volume of Euro 80m, the Pool funds and several separate mandates stood for about 45% of management fees. The remaining 22% came from club deals. The volume of acquisitions was in 2020 very similar to the 2019 level at over Euro 1.8bn, despite Covid-19. The company aims to reach a Euro 15bn asset base in the mid-term. We assume this is very realistic until year-end 2023 or mid 2024.

The FFO I result of 2020 was at high Euro 96.5m, almost 2% higher than the Euro 95.0m result in 2019, despite the challenging pandemic situation. For 2021 DIC Asset forecasts a realistic range of Euro 106m to Euro 110m for the FFO I result, based on the higher asset basis and the additional income of RLI Investors takeover (c. Euro 4m for 2021 EBITDA).



Source: Company Data, SRC Research

SWOT Analysis

Strengths

- The company has a very experienced management team that has a broad network in the industry and a high level of combined knowledge in investments, asset and property management and real estate finance and a year-long and outstanding track record in transactions to foster group's overall earnings with a lucrative deal pipeline.
- The company has its own property management platform (DIC Onsite) operating from 7 German cities in all German core regions for commercial properties, in particular office properties. With DIC Onsite the firm covers the entire value chain for the own properties and third party properties and exploits its platform in a perfect way.
- The commercial portfolio with 91 properties and about 1,500 rental contracts for an annual rental income of about Euro 100m is a very solid base to deliver a steady cash flow. This stable business is complemented by a lucrative Institutional Business to satisfy the growing demand for stable and lucrative yielding assets from different types of institutional investors. DIC Asset serves a long list of first class clients with demanding and often tailor-made products. Thus, the institutional business is a perfect completion for the group's earnings structure with the additional inflow of asset, property management and set up fees as well as lucrative transaction related fees for buying or selling the properties for the funds and other third party mandates. The RLI Investors takeover in December 2020 strengthens the new logistics footprint and offers some decent cross sell potential.
- The diversity of business gives DIC Asset a brighter scope in the market, as the company is offered more than 2,000 properties each year. The huge scope in the market gives a bigger impetus at typical market participants, such as banks, real estate brokers and construction firms.

Weaknesses

- The business model as investor AND property manager is not very common in Germany, but more in other countries. We assume that with a longer history and track record of the own trading platform the company gets a higher visibility for their success story which will also translate into higher prices for the DIC Asset share. With a share price up more than 50% since November in only three and a half months, the market now seems to more appreciate the stable and lucrative growth. In addition, the hike in dividend from 66 Cents to 70 Cents offers a decent yield far above 4%.

Opportunities

- There are synergies at the cost side of institutional business after the GEG takeover of about Euro 3.0m to Euro 3.5m, coming from 2020 on. The RLI Investors takeover also might offer synergies and of course important cross sell potential. More M & A deals might come in mid term to boost the growth of assets base in Institutional Business, in office and / or logistics.
- The firm has a very high transparency level with all new EPRA key indicators in their annual report and publishes the annual and quarterly numbers quite early, which should give further credit and higher appreciation at investors.
- A promotion of the DIC Asset share from the SDax to the higher MDax index in the mid-term would be a pushing impetus for the share price. For the moment, the free float market cap is too low, and with 34% of the shares held by Deutsche Immobilien Chancen Group and 10% by RAG Foundation it is a way to go to bring up free float market cap. The mid-term growth of portfolio to Euro 15bn in the next 3-4 years might still offer the opportunity for MDax.

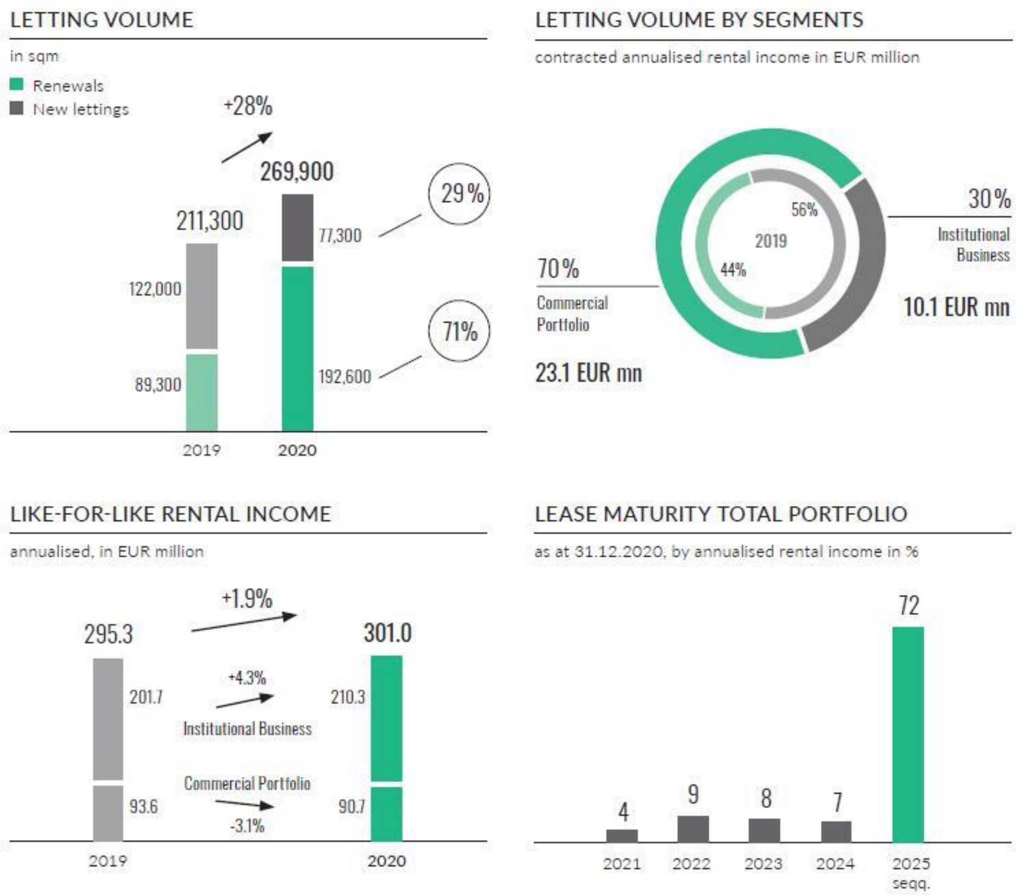
Threats

- A severe economic downturn or shocks like the current Corona pandemic would not impair the P & L so much, as the firm does cost accounting. But the institutional demand for commercial properties could decline with a decelerating demand for office space. Furthermore, the letting performance for new lettings or prolongations might dwindle. The 2020 letting performance and space demand draws another picture, so far.
- The general trend for more working in home office accelerating in pandemic times might have a dampening effect on the general space demand. In general, some new economic research reports show that the "working from home effect" on the space demand is overestimated.

High acquisitions activity in 2H 2020, an excellent letting performance above 2019 in the existing portfolio, rising like-for-like rents, undemanding lease maturity

With our update from 15 January we stated and valued the very strong acquisitions activity of DIC Asset in the second half of last year, in particular in 4Q 2020. The company is running under full steam and managed to deliver acquisitions of above Euro 1.8bn, as in the year before without the Covid-19 issues. The Corona-based reduced guidance of Euro 700m to Euro 1.1bn was pulverized in a spectacular way. The company purchased 16 properties, 4 for the own Commercial Portfolio and 12 for the Institutional Business.

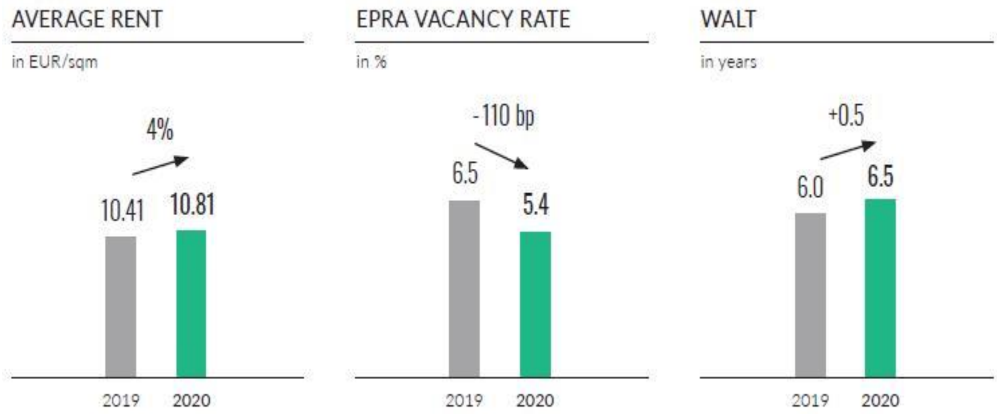
But it is not only the acquisitions and the steeply growing portfolio, in particular in the Institutional Business by almost Euro 2bn in one year, that give a promising basis for fees and rental income in 2021 and the later years. DIC Asset did a good job with the existing portfolio, as the letting performance was lifted from a good 2019 basis despite the challenging circumstances in 2020 by 28%, and thereof even 29% were new lettings, speaking for the superior quality of the assets. The rising like-for-like rents on an overall basis despite the Kaufhof challenge and an undemanding lease maturity (72% expire in 2025 or much later years) also speak for a very stable income base in the following years.



Source: Company FY 2020 presentation, 10 February 2021

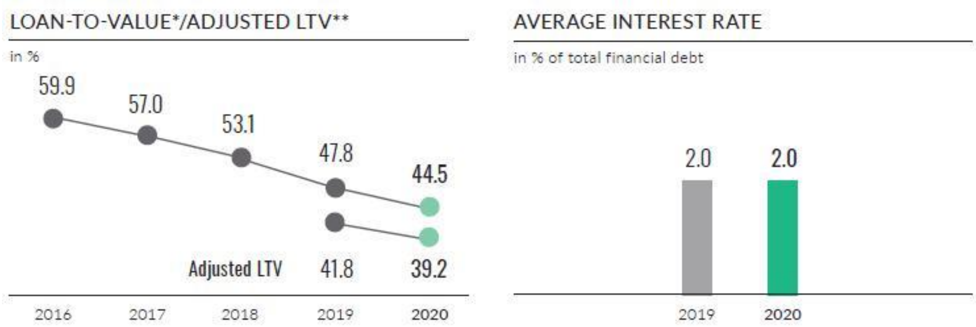
Improving Key Performance Indicators in the Commercial Portfolio in a challenging year 2020 – intrinsic value improvement and smart portfolio additions

The total increase in the size of the own book was quite small in 2020, from Euro 1.9bn to Euro 2.0bn, as the acquisitions and disposals were more or less in the same range of c. Euro 200m. In our view, the intrinsic value instantly improved by the new acquisitions, as for instance fully let SAP tower Eschborn (near Frankfurt) with an 8 years WALT and Hanover ING DiBa office with a WALT of even 9.5 years. Furthermore, keep in mind the Bremen Airbus logistics property, which was purchased in December 2020 and closing was in January 2021, also with a high 9.5 years WALT. These 3 additions stand for very stable rents for about new 27k sqm. All in all, average rent in the Commercial Portfolio was up 4%, EPRA vacancy down more than one percentage point and WALT up from 6.0 years to 6.5 years. A very decent result in a challenging environment.



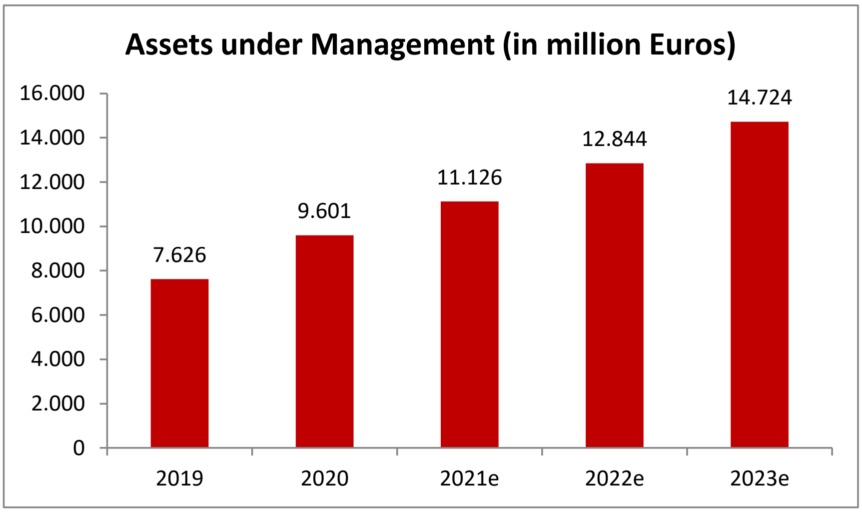
Source: Company FY 2020 presentation, 10 February 2021

Improving balance sheet ratios offer room for further substantial growth
The balance sheet is very healthy and offers some room to significantly grow without a capital hike, at least not necessary in 2021. The equity ratio increased in 2020 from 36.5% to a very decent 40.7%, bolstered by the good operating success and the capital hike from January 2020, a perfect timing before the Corona disaster, by the issue of approx. 6.9m new shares for the price of Euro 16.00, bringing gross proceeds of Euro 110m into pockets. The ongoing optimization of financing terms was another highlight to improve the balance quality, for instance the quite expensive 2014 – 2019 bond (Euro 175m, 4.625%) was replaced by much cheaper promissory notes (Euro 180m, 1.55% average) and 2020 financing expenses came down 14% from Euro 43m to Euro 37m. The LTV came down from 47.8% to 44.5%, on an adjusted basis taking into account the value of Institutional Business it was even down below 40%.



Source: Company FY 2020 presentation, 10 February 2021

DIC Asset AG *31/12 IFRS ('000)*	2018	2019	2020	2021e	2022e	2023e	CAGR '19 - '22e
Gross rental income	100.189	101.942	100.695	105.950	108.045	122.670	2,0%
Ground rents	-810	-676	-510	-775	-814	-1.045	
Service charge income on principal basis	20.438	20.836	22.135	23.788	27.144	30.119	
Service charge expenses on principal basis	-22.941	-23.565	-24.029	-25.157	-29.145	-33.445	
Other property-related expenses	-12.186	-10.631	-16.070	-16.445	-14.747	-16.128	
Net rental income	**84.690**	**87.906**	**82.221**	**87.361**	**90.483**	**102.171**	**1,0%**
Administrative expenses	-12.113	-17.876	-19.077	-20.596	-24.822	-25.544	
Personnel expenses	-18.204	-27.918	-30.280	-30.586	-31.745	-33.114	
Depreciation and amortization	-29.577	-34.242	-38.774	-36.430	-37.149	-38.715	
Real estate management fees	33.639	62.883	79.722	99.960	117.978	130.100	23,3%
Other operating income	585	2.616	2.222	2.843	2.549	2.775	
Other operating expenses	-730	-1.979	-1.852	-2.144	-1.756	-1.993	
Net proceeds from disposal of investment property	86.752	175.973	116.324	124.557	124.563	85.775	
Carrying amount of investment property disposed	-68.106	-135.457	-84.324	-107.450	-105.447	-76.885	
Profit on disposal of investment property	18.646	40.516	32.000	17.107	19.116	8.890	
Net operating profit before financing activities (EBIT)	**76.936**	**111.906**	**106.182**	**117.515**	**134.654**	**144.570**	**6,4%**
Share of the profit or loss of associates	15.829	18.321	11.370	12.512	13.220	15.454	
Interest income	9.266	10.296	8.670	8.144	8.221	7.231	
Interest expenses	-46.098	-42.660	-36.760	-40.002	-43.191	-45.230	
Profit/los before tax (EBT)	**55.933**	**97.863**	**89.462**	**98.169**	**112.904**	**122.025**	**4,9%**
Current income tax expenses	-6.241	-13.803	-14.128	-4.778	-7.145	-8.774	
Deferred tax expenses	-2.079	-3.371	-2.222	-8.101	-10.447	-9.887	
Tax	-8.320	-17.174	-16.350	-12.879	-17.592	-18.661	
Net profit	**47.613**	**80.689**	**73.112**	**85.290**	**95.312**	**103.364**	**5,7%**
Minorities	-78	-222	3.099	-417	-473	-350	
Net profit after minorities	**47.691**	**80.911**	**70.013**	**85.707**	**95.785**	**103.714**	**5,8%**
FFO	**68,0**	**95,0**	**96,5**	**108,0**	**118,1**	**128,9**	**7,5%**
Number of shares ('000)	69.958	71.713	79.421	81.500	89.500	90.500	
Earnings per share	**0,68**	**1,13**	**0,88**	**1,05**	**1,07**	**1,15**	
FFO per share	**0,97**	**1,32**	**1,22**	**1,33**	**1,32**	**1,42**	
Dividend per share	**0,48**	**0,66**	**0,70**	**0,75**	**0,78**	**0,80**	
Shareholders' Equity	**895.921**	**968.778**	**1.108.421**	**1.168.533**	**1.363.193**	**1.417.097**	**12,1%**
Balance Sheet sum	**2.490.051**	**2.657.443**	**2.724.168**	**3.071.101**	**3.588.547**	**3.769.832**	
Equity Ratio	**36,0%**	**36,5%**	**40,7%**	**38,0%**	**38,0%**	**37,6%**	



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Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	15.01.2021	Buy	14,24 €	22,00 €
DIC Asset AG	28.10.2020	Buy	9,57 €	20,00 €
DIC Asset AG	06.07.2020	Buy	12,32 €	20,00 €
DIC Asset AG	30.04.2020	Buy	12,72 €	20,00 €
DIC Asset AG	06.04.2020	Buy	9,02 €	20,00 €
DIC Asset AG	05.03.2020	Buy	17,12 €	23,00 €

Please note:
The share price mentioned in this report is from 10 February 2021. DIC Asset AG mandated SRC Research for covering the share.