

DIC Asset

Buy (unchanged) Target: Euro 20.00 (unchanged)

28 | October | 2020



Price (Euro) 9,57
52 weeks range 17.40 / 6.69

Key Data

ISIN DE000A1X3X4
Bloomberg DIC:GR
Reporting standard IFRS
Market Cap (Euro million) 757
Number of shares (million) 79,1
Free Float 55,9%
Free Float Market Cap (Euro million) 423
CAGR EBIT ('19 -'22e) 12,8%

Multiples	2019	2020e	2021e	2022e
Market Cap / Total revenues	7,4	7,7	7,0	5,9
PE-Ratio	8,5	9,8	9,2	7,1
Dividend Yield	6,9%	6,9%	7,2%	7,4%

Key Data per share (Euro)	2019	2020e	2021e	2022e
Earnings per share (EPS)	1,13	0,97	1,05	1,35
FFO per share	1,32	1,23	1,38	1,42
Dividend per share (DPS)	0,66	0,66	0,69	0,71

Financial Data (Euro '000)	2019	2020e	2021e	2022e
Gross rental income	101.942	98.479	108.626	127.472
Net rental income	87.906	83.889	93.035	108.805
Administrative expenses	-17.876	-20.183	-22.596	-24.822
Personnel expenses	-27.918	-29.731	-30.986	-31.745
Real estate management fees	62.883	84.731	99.919	114.503
Profit on disposal of investment property	40.516	34.986	22.420	30.198
EBIT	111.906	118.710	126.060	160.583
Net financial result	-32.364	-33.698	-38.524	-38.865
EBT	97.863	93.253	99.452	134.469
Taxation	-17.174	-17.174	-17.174	-17.174
Net profit after minorities	80.911	76.427	82.695	117.768

Main Shareholders

Deutsche Immobilien Chancen-Gruppe 34,1%
RAG-Stiftung 10,0%
Ketom AG 5,0%

Financial calendar

2020 annual report February 2021
1Q 2021 report April 2021

Analysts

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Very good first nine months with +6% in FFO, +72% in letting, steep +19% growth in the AuM, additional trading gains, FFO target slightly adjusted upwards, NAVs and balance sheet still stable and healthy

Today, DIC Asset released the 9M 2020 report. The numbers were very good in challenging Covid 19 times and led the management to slightly adjust the full year FFO target upwards, from the former Euro 94m – 96m range to now Euro 95m – Euro 96m, still quite conservative in our view, given the good 9M framework. It might come out a bit higher between Euro 96m and 98m if there are no more significant rent shortfalls due to the Covid 19 topic in the last 2 months of the year.

The first nine months unveiled a very healthy picture, with +6% in FFO to almost Euro 73m, +19% in Assets under Management to Euro 8.7bn, a very decent letting performance despite the lockdown period in Germany in March and April with +72%, from 125k sqm to a rental success 214k sqm, thereof 73% renewals, but also 27% new lettings, speaking a clear language for the superior product quality in these challenging times. The annualized rents behind the letting performance were up 57%, from 18m in 9M 2019 to more than Euro 28m in 9M 2020. The like-for-like rents were up in the Institutional Business by 7%, from Euro 182m to Euro 195m, and down only slightly by 2.7% in the Commercial Portfolio, mainly due to two Karstadt retail shops, from Euro 94m to Euro 91m. The overall Like-for-Like rental picture remained clearly positive with a hike of 3.6%.

The real estate portfolio increased significantly in both units, thanks to vivid acquisition activities with six new properties in a volume of almost Euro 500m. The Commercial Portfolio hiked from Euro 1.8bn in Sept 2019 to almost Euro 2.1bn now. The Institutional Business for third parties even grew faster, from Euro 5.5bn to Euro 6.6bn in the same period. The company strives to bring the total assets number of Euro 8.7bn very soon to the Euro 10bn threshold and we expect this to happen within the first half of 2021. Besides the focus on superior and lucrative office properties the company will also have a closer view on logistics assets in future and started to establish a profound team here. On the trading side, DIC Asset was also successful as the company reported just some days ago the sale of two non-strategic properties in Berlin and Dusseldorf out of his Commercial Portfolio for Euro 108m, about 20% above last market values appraised, generating a sales profit of Euro 34m which is not included in the above mentioned FFO target. All in all, the Commercial Portfolio has already sold Euro 119m this year and over-delivered at the Euro 100m sale target. The Institutional Business also managed to sell Euro 235m on a lucrative basis, which indicates a great success in this pandemic year and the great institutional demand for lucrative yielding assets.

Looking at the EPRA NAV per share it was almost unchanged compared to year-end 2019 despite the dividend payment of 66 Cents per share in July and the capital hike of 8.4m new shares in January. Adjusted EPRA NAV per share including the value of Institutional Business was at Euro 21.56, after Euro 22.26 at year-end 2019. The stand-alone EPRA NAV per share just taking the Commercial Portfolio into consideration (which does certainly not reflect the full value of DIC, at all) is still 75% above the current share price at Euro 17.06, after Euro 17.23 at year-end 2019. The LTV is unchanged at comfortable 48% with a debt maturity of almost 4 years and a low Cost of Debt of 2.0%. No maturities up for refinancing in the remaining year and only undemanding Euro 51m next year with a cash level of about Euro 320m. **The share is massively undervalued and with the good picture offered by the 9M report in terms of cash flow and portfolio growth, there is no need to change our Euro 20.00 target price. A 100% chance.**

DIC Asset AG

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

Management Board of DIC Asset

CEO Sonja Wärtnges
 CIO Johannes von Mutius
 Patrick Weiden
 Christian Bock

Region: Germany
Headquarter: Frankfurt
Foundation: 1998
Employees: 247

Supervisory Board of DIC Asset:

Prof. Dr. Gerhard Schmidt
 Klaus-Jürgen Sontowski
 Prof. Dr. Ulrich Reuter
 Eberhard Vetter
 Dr. Anton Wieggers
 Rene Zahnd

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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 investment 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 pro forma size of more than Euro 2bn at current.

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 September 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 individual mandates. 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. After the company sold the 14% stake in Berlin-based office and retail property investor TLG in the first half of 2019 for Euro 376m, the proceeds were used to buy German Estate Group (GEG) to strengthen the Institutional Business and exploit common synergies. 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, Düsseldorf, 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 2019 the real estate management fees almost doubled from Euro 34m to Euro 66m. And keep in mind, that GEG takeover is only included with 7 months in the 2019 numbers.

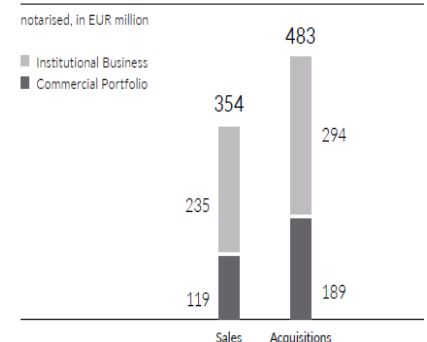
Individual mandates in the institutional business stand for about 45% of the total volume, the Pool funds (DIC Office Balance and GEG Infrastructure etc.) for about 40%. The remaining 15% are club deals.

PORTFOLIO BY SEGMENT

30.09.2020	Commercial Portfolio	Institutional Business	Total
Number of properties	96	93	189
Market value in EUR million*	2,054.1	6,598.0	8,652.1
Rental space in sqm	873,400	1,334,700	2,208,100
30.09.2019	Commercial Portfolio	Institutional Business	Total
Number of properties	96	77	173
Market value in EUR million*	1,800.9	5,513.6	7,314.5
Rental space in sqm	903,400	1,112,200	2,015,600

* Market value as at 31.12. of the previous year, later acquisitions generally considered at cost

TRANSACTIONS IN 2020



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 92 properties and about 1,500 rental contracts for an annual rental income of almost 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 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.
- The GEG takeover was in mid of 2019, which means that the 2019 annual numbers did not show the full capacity of earnings in the institutional business. Furthermore, the Stadthaus Cologne landmark Club Deal with a size of Euro 0.5bn (100,000 sqm, fully rented to the City of Cologne) was only recently closed in 2020 and thus did not show up in the 2019 annual numbers, which would make the hike in volume even more impressive.

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 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 44% 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.

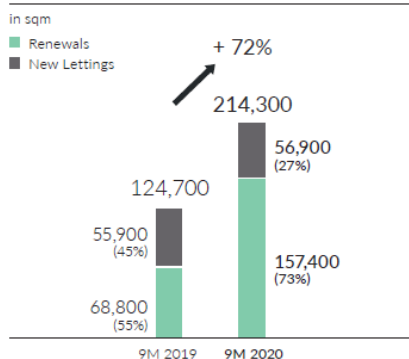
Threats

- 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 and / or retail space. Furthermore, the letting performance for new lettings or prolongations might dwindle.
- The general trend for more working in home office accelerating in pandemic times might have a dampening effect on the general space demand. That is not reflected by the very good 9M picture, in particular a +72% in letting performance, thereof 27% new lettings.
- A general significant increase in interest rate level would dampen institutional demand for real estate and thus might dampen the growth in institutional business.

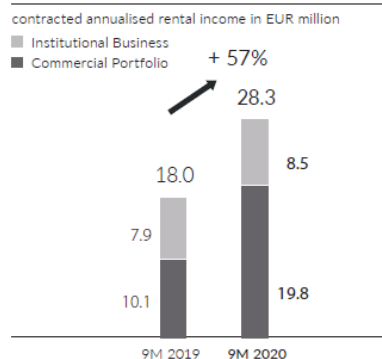
Good letting performance in Commercial Portfolio and the Institutional Business and many renewals with top tier tenants, no sign of a softening space demand

Highly dynamic letting performance

LETTING VOLUME

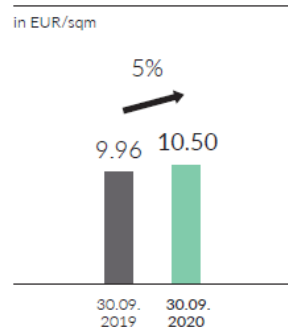


LETTING VOLUME BY SEGMENTS

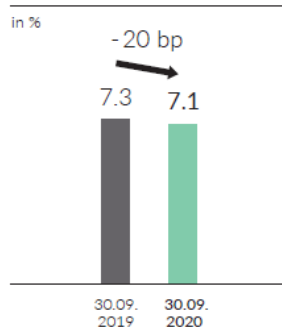


Improving KPIs in the Euro 2.1bn Commercial Portfolio

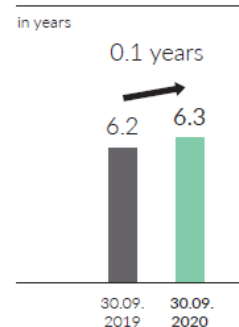
AVERAGE RENT



EPRA VACANCY RATE



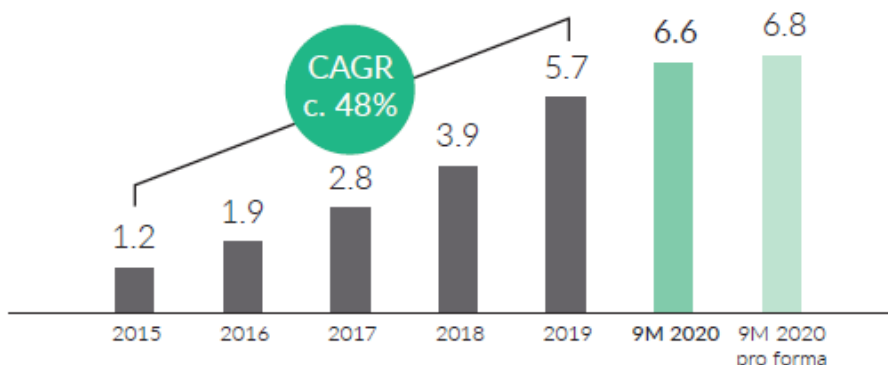
WALT



Institutional Business on a steep growth and another additional equity of over Euro 500m is available to be invested in this line of business which would add another Euro 1bn to the unit

ASSETS UNDER MANAGEMENT

in EUR billion



Source: Company 9M 2020 presentation, 28 October 2020

DIC Asset AG 31/12 IFRS ('000)	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Gross rental income	109.666	100.189	101.942	98.479	108.626	127.472	7,7%
Ground rents	-1.253	-810	-676	-714	-775	-814	
Service charge income on principal basis	21.140	20.438	20.836	21.583	23.417	26.039	
Service charge expenses on principal basis	-22.967	-22.941	-23.565	-24.224	-25.473	-29.145	
Other property-related expenses	-13.517	-12.186	-10.631	-11.235	-12.760	-14.747	
Net rental income	93.069	84.690	87.906	83.889	93.035	108.805	7,4%
Administrative expenses	-12.828	-12.113	-17.876	-20.183	-22.596	-24.822	
Personnel expenses	-19.010	-18.204	-27.918	-29.731	-30.986	-31.745	
Depreciation and amortization	-31.013	-29.577	-34.242	-35.723	-36.430	-37.149	
Real estate management fees	20.818	33.639	62.883	84.731	99.919	114.503	22,1%
Other operating income	754	585	2.616	2.954	2.843	2.549	
Other operating expenses	-705	-730	-1.979	-2.214	-2.144	-1.756	
Net proceeds from disposal of investment property	229.505	86.752	175.973	139.114	85.634	124.563	
Carrying amount of investment property disposed	-204.023	-68.106	-135.457	-104.128	-63.214	-94.365	
Profit on disposal of investment property	25.482	18.646	40.516	34.986	22.420	30.198	
Net operating profit before financing activities (EBIT)	76.567	76.936	111.906	118.710	126.060	160.583	12,8%
Share of the profit or loss of associates	28.996	15.829	18.321	8.241	11.916	12.751	
Interest income	8.701	9.266	10.296	11.486	9.470	10.777	
Interest expenses	-43.787	-46.098	-42.660	-45.184	-47.994	-49.642	
Profit/loss before tax (EBT)	70.477	55.933	97.863	93.253	99.452	134.469	11,2%
Tax	-6.065	-8.320	-17.174	-19.117	-20.885	-27.835	
Net profit	64.412	47.613	80.689	76.079	82.278	117.295	13,3%
Minorities	820	-78	-222	-348	-417	-473	
Net profit after minorities	63.592	47.691	80.911	76.427	82.695	117.768	13,3%
FFO	60,2	68,0	95,0	96,4	109,2	123,5	9,1%
Number of shares ('000)	68.578	69.958	71.713	78.500	79.072	87.247	
Earnings per share	0,93	0,68	1,13	0,97	1,05	1,35	
FFO per share	0,88	0,97	1,32	1,23	1,38	1,42	
Dividend per share	0,44	0,48	0,66	0,66	0,69	0,71	
Shareholders' Equity	828.913	895.921	968.778	1.101.394	1.131.903	1.349.403	11,7%
Balance Sheet sum	2.341.278	2.490.051	2.657.443	2.957.537	3.094.223	3.786.214	
Equity Ratio	35,4%	36,0%	36,5%	37,2%	36,6%	35,6%	

SRC Research

- Der Spezialist für Finanz- und Immobilienaktien -

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Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	29.07.2020	Buy	10,86 €	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 27 October 2020. DIC Asset AG mandated SRC Research for covering the share.

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