DIC Asset

Buy (unchanged) **Target: Euro 20.00** (unchanged)

29 | July | 2020

Der Spezialist für Finanzaktien

Price (Euro)	**10.86**
52 weeks range	17.40 / 6.69

Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	859
Number of shares (million)	79.1
Free Float	55.9%
Free Float Market Cap (Euro million)	480
CAGR EBIT ('19 -'22e)	12.8%

Multiples	**2019**	**2020e**	**2021e**	**2022e**
Market Cap / Total revenues	8.4	8.9	7.9	6.7
PE-Ratio	**9.6**	**12.7**	**10.4**	**8.0**
Dividend Yield	6.1%	6.1%	6.4%	6.5%

Key Data per share (Euro)	**2019**	**2020e**	**2021e**	**2022e**
Earnings per share (EPS)	**1.13**	**0.86**	**1.05**	**1.35**
FFO per share	**1.32**	**1.22**	**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	96,439	108,626	127,472
Net rental income	**87,906**	**81,849**	**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	27,952	22,420	30,198
EBIT	**111,906**	**109,636**	**126,060**	**160,583**
Net financial result	-32,364	-33,698	-38,524	-38,865
EBT	**97,863**	**84,179**	**99,452**	**134,469**
Taxation	-17,174	-17,174	-17,174	-17,174
Net profit after minorities	**80,911**	**67,353**	**82,695**	**117,768**

Main Shareholders

Deutsche Immobilien Chancen-Gruppe	34.1%
RAG-Stiftung	10.0%
Ketom AG	5.0%

Financial calendar

SRC Forum Financials & Real Estate	**10 September 2020**
9M 2020 report	28 October 2020

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
www.aktienmarkt-deutschland.de

A very good first half of the year with +18% FFO and +55% letting performance, showing that the firm is quite resilient in Corona times. Kaufhof problems mainly solved, new healthy acquisitions will boost the portfolio – FFO target confirmed, and maybe too conservative

Today, DIC Asset released the 1H 2020 report. The numbers were very good in challenging times and led the management to stick to the full year FFO guidance on the same level like in successful 2019 (Euro 94m to Euro 96m), which might be a bit too conservative in the light of the given good results. **DIC delivered a steep +18% hike in FFO, from Euro 43.0m to Euro 50.6m, and keep in mind, that last year's FFO was flattered by Euro 10m dividend payment from the TLG shares.** The FFO per share was at Euro 0.31 in 2Q 2020, just slightly below the 1Q level of Euro 0.34 despite some higher valuation allowances for unpaid rents of about Euro 3m in the months April to June (c. 60% coming from the 3 Kaufhof shops). The company stated that the July rent collection was back to normal pre Corona levels of about 99%. The Kaufhof problems were actively addressed and mainly already solved as Galeria Kaufhof shops in Chemnitz and Leverkusen will continue and signed new rental contracts bringing up WALTs for these two properties from 6.5 years to 13.6 years. Even with a lower monthly rent of Euro 258k instead of Euro 347k, this helps to stabilize the cash flow. The Bremen property where Kaufhof will close in October needs a repositioning with Saturn and Edeka staying in and there are already some new potential tenants interested, as the inner-city location is very attractive. The retail topic is vastly exaggerated in the equity story in our view with regards to the huge DIC NAV discount, as retail is only 15% in the Commercial Portfolio (a big part is food) and even a very low 6% in the Institutional Business.

Coming from FFO to letting, DIC Asset managed an impressive Plus of 55% in the letting performance, lifting the take-up from 81k sqm to 126k sqm, and 70% stem from the second quarter, during the very challenging lockdown times. Another good news is, that the rental levels for the new rentals contracts remarkably went up, +4.9% on average for both segments of business. The top lettings were renewals with public authorities and well-known private firms in the cities of Mannheim, Hamburg, Karlsruhe, Frankfurt and Neu-Isenburg near Frankfurt, speaking a clear language for satisfied clients. There is almost no 2020 lease maturity left and 75% of all leases expire now 2024 or later, which gives a very stable cash income basis.

On the acquisition side, DIC Asset delivered two big deals in June, namely the purchase of two high-quality properties for the commercial portfolio for Euro 116m, lifting the commercial portfolio from Euro 1.9bn to over Euro 2bn after the closing, which is expected in the current third quarter. The combined annual gross rental income amounts to Euro 4.5m, translating into a gross rental yield of about 4.2%. One object is the SAP tower in Eschborn near Frankfurt, which was recently built in 2018 with a WALT of 8 years and the other property is let to ING DiBa in Hannover with a WALT of 9.5 years. The Top 11 tenants in CoP stand for approx. 40% of rental income and have an average 9.3 years WALT. 4 of 11 Top Tenants are public and another 2 firms are DAX firms (Deutsche Börse and SAP).

Looking at EPRA NAV per share, it was even up 1% in the first 6 months, from Euro 17.23 to Euro 17.48. The adjusted EPRA NAV per share including the valuable Institutional business is more or less unchanged, quite high at over Euro 22.00.

DIC stated to expand portfolio also with some more logistics assets to round out the portfolio with this high yielding and stable asset class. With the good 1H results we might expect the FFO for 2020 to come close to Euro 100m, above the guidance. At the moment, no need to change our rating or the Euro 20.00 target.

DIC Asset AG

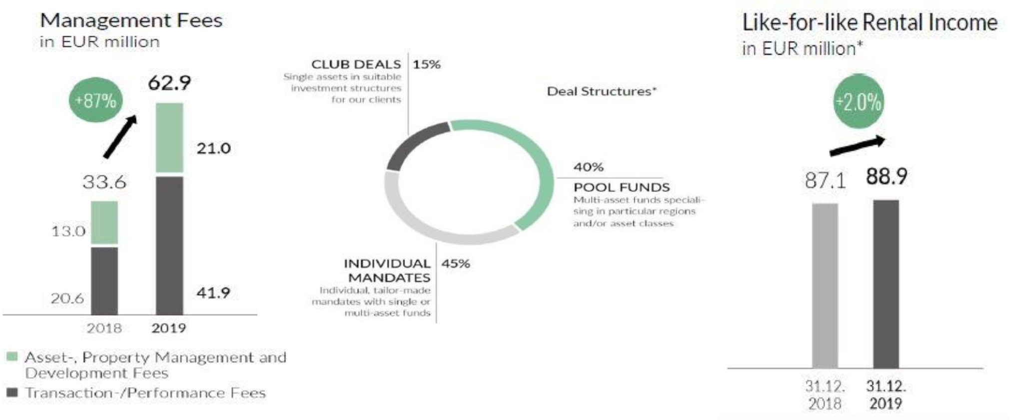
Industry:	Real Estate	**Management Board of DIC Asset**
Sub-segment:	Commercial property investor Institutional Business / Managed Accounts (transaction, asset and property management)	CEO Sonja Wärntges CIO Johannes von Mutius Patrick Weiden Christian Bock
Region:	Germany	**Supervisory Board of DIC Asset:**
Headquarter:	Frankfurt	Prof. Dr. Gerhard Schmidt
Foundation	1998	Klaus-Jürgen Sontowski
Employees:	247	Prof. Dr. Ulrich Reuter
		Eberhard Vetter
IR Contact:		Dr. Anton Wiegers
Peer Schlinkmann, CIRO		Rene Zahnd
P.Schlinkmann@dic-asset.de		

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 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 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 managment 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 strenghten 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, 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 2019 the real estate mangement 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.



Source: Company Data, SRC Research

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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.

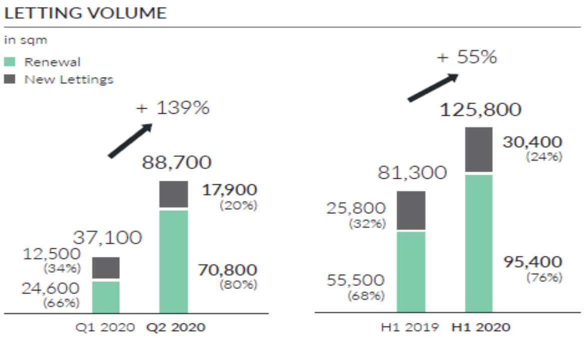
Threats

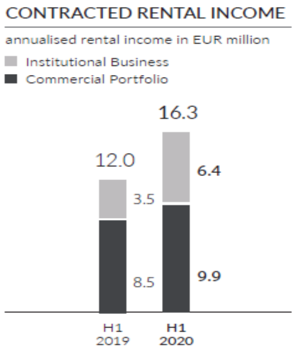
- A severe economic downturn or shocks like the current Corona pandemic would not impair the P & L so much, as the firm does cost accounting. But the institutional demand for commercial properties could decline with a decelerating demand for office and / or retail space. Furthermore, the letting performance for new lettings or prolongations might dwindle.
- The general trend for more working in home office (accelerating in pandemic times of Corona) and more co-working space might have a dampening effect on the general demand for office space.
- 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 (with 2Q even better than 1Q) and many renewals with top tier tenants, in addition to that a very comfortable lease maturity profile and higher sqm rents

ASSET- AND PROPERTY MANAGEMENT PERFORMANCE (1/3)

Strong second quarter – increased trend towards renewals



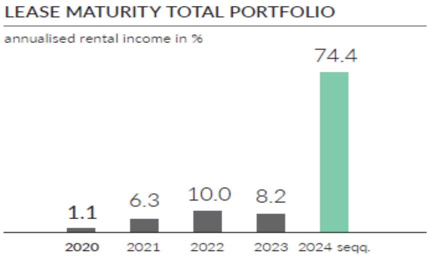


- Letting performance increased by 55% year-on-year, strong second quarter despite Covid-19 lockdown
- Annualised contracted rental income of EUR 16.3 million secured
- Increasing trend towards lease extensions
- Rental levels of renewed contracts in H1 2020 in both segments on average 4.9% higher
- Several large-volume leases exceeding 10,000 sqm signed
- 2020 lease expiry volume remaining was reduced to 1.1%. 74.4% of leases expire in 2024 or later

TOP LETTINGS

Landesbetrieb Vermögen und Bau Baden-Württemberg	R	CP	Mannheim	17,900 sqm
Allianz Deutschland	R	IB	Karlsruhe	14,000 sqm
Freie und Hansestadt Hamburg	R	CP	Hamburg	11,300 sqm
UL International Germany GmbH	R	CP	Neu-Isenburg	8,000 sqm
Chemetall GmbH	R	CP	Frankfurt	4,600 sqm

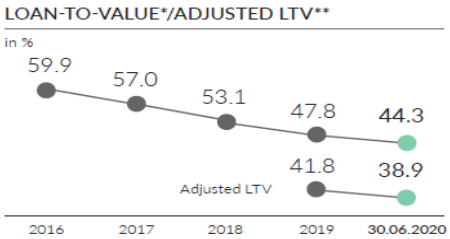
R - Renewal
CP - Commercial Portfolio, IB - Institutional Business

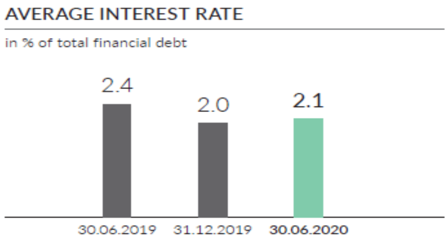


Declining LTV, low average interest rate and an undemanding debt maturity profile with a weighted average term of loans of almost 4 years, and in addition cash and cash equivalents were up from Euro 351m to Euro 417m in the first 6 months

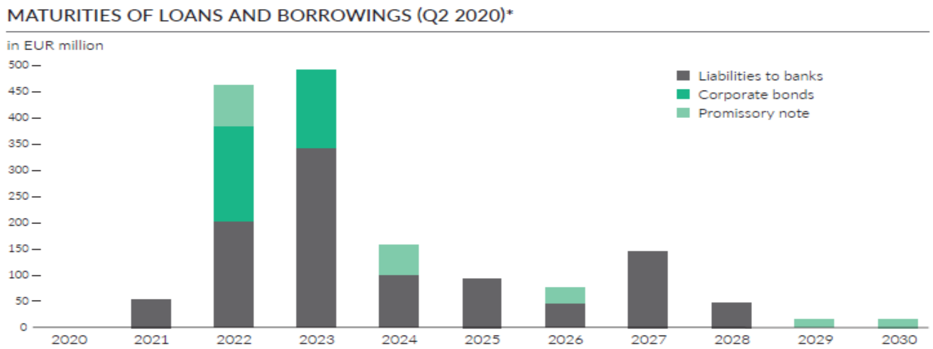
FINANCIAL STRUCTURE

No maturities in 2020 – high level of cash available to fund further growth





* The ratio of total financial debt, corporate bonds and liabilities to related parties minus cash in banks on the one hand and the fair value of investment property, equity investments and receivables from related parties and intangible assets, e.g. goodwill on the other hand, adjusted for warehousing.
** including fair value of Institutional Business



* nominal values as of 30 June 2020

- The weighted average term of loans and borrowings stood at 3.9 years (31 December 2019: 3.9 years)
- The average interest rate of loans and borrowings stood at 2.1% on 30 June 2020
- The interest cover ratio (ICR, the ratio of EBITDA to net interest result) remained at a very high level of 473% (31 December 2019: 509%)
- The LTV ratio (adjusted for warehousing) fell by 350 bp to 44.3%, the adjusted LTV incl. fair value of Institutional Business stood at 38.9%
- No Maturities in 2020:
  - Refinancing of bank debt of c. EUR 97 million in Q2
  - New financing for two acquisitions with c. EUR 58 million secured at 0.85% cost of debt and 7-year tenor
- Cash and cash equivalents as of 30 June 2020 at EUR 417 million

Source: Company half-year presentation, 29 July 2020

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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	96,439	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**	**81,849**	**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	123,586	85,634	124,563	
Carrying amount of investment property disposed	-204,023	-68,106	-135,457	-95,634	-63,214	-94,365	
Profit on disposal of investment property	25,482	18,646	40,516	27,952	22,420	30,198	
Net operating profit before financing activities (EBIT)	**76,567**	**76,936**	**111,906**	**109,636**	**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/los before tax (EBT)	**70,477**	**55,933**	**97,863**	**84,179**	**99,452**	**134,469**	**11.2%**
Tax	-6,065	-8,320	-17,174	-17,257	-20,885	-27,835	
Net profit	**64,412**	**47,613**	**80,689**	**67,005**	**82,278**	**117,295**	**13.3%**
Minorities	820	-78	-222	-348	-417	-473	
Net profit after minorities	**63,592**	**47,691**	**80,911**	**67,353**	**82,695**	**117,768**	**13.3%**
FFO	**60.2**	**68.0**	**95.0**	**95.5**	**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**	**0.86**	**1.05**	**1.35**	
FFO per share	**0.88**	**0.97**	**1.32**	**1.22**	**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**	**1,092,321**	**1,122,829**	**1,340,329**	**11.4%**
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%**	**36.9%**	**36.3%**	**35.4%**	

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
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 28 July 2020. DIC Asset AG mandated SRC Research for covering the share.

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