

DIC Asset

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



Der Spezialist für Finanzaktien

30 | April | 2020

■ **Price (Euro)** **12.72**
52 weeks range 17.10 / 6.69

■ Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	1,006
Number of shares (million)	79.1
Free Float	55.9%
Free Float Market Cap (Euro million)	562
CAGR EBIT ('19 -'22e)	12.8%

■ Multiples	2019	2020e	2021e	2022e
Market Cap / Total revenues	9.9	10.4	9.3	7.9
PE-Ratio	11.3	14.8	12.2	9.4
Dividend Yield	5.2%	5.2%	5.4%	5.6%

■ 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%

■ Financial calendar

1H 2020 report	29 July 2020
SRC Forum Financials & Real Estate	10 September 2020

■ Analysts

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First quarter results fully in line with estimates with a hike in FFO of 55% and more than doubled real estate management fees - AuM reach Euro 8.4bn - strong letting performance

Today, the company released the report for the first quarter of 2020 and held a conference call. The numbers and the management's statements were fully in line with the updated guidance from 3 April and our expectations. Gross rental income amounted to Euro 26m in the first quarter, up 6% compared to last year. This growth was driven by newly acquired properties and a like-for-like rental growth of almost 1%. Real estate management fees more than doubled from Euro 9.2m to Euro 20.4m. While asset and property management and development fees hiked by 94%, transaction and performance fees even climbed by 138%. Keep in mind the larger asset base following the GEG integration mid 2019, which grew year-over-year from Euro 3.9bn to now Euro 6.5bn. The operating expenses rose expectedly following the growth of the business from Euro 7.4m to Euro 12.1m. The net interest result on the other hand came down almost 20% following the repayment of a high yielding bond in 3Q 2019 and the issuance of a much cheaper promissory note at the end of 2019. The net profit for the period stood at more than Euro 16m, up 75% from last year's more than Euro 9m. The cash-driven FFO result hiked by 55% from Euro 17m in last year's period to more than Euro 26m, to which both segments contributed equally.

Assets under management grew to Euro 8.4bn, up about 50% year-over-year and more than 10% since year-end. Five objects with a volume of Euro 772m were transferred in 1Q, including the two large-scale objects "Stadthaus" in Cologne and the Infinity Office project development in Düsseldorf, as announced in a press release two days ago. More good news regarding the portfolio came on 27 April, with the news regarding the lease extension with a public tenant, the city of Hamburg for a 11,000 sqm large property. Including this, the firm has managed a good letting performance in 1Q of more than 37,000 sqm or Euro 5m of annualized rental income, thus reducing the 2020 lease expiry volume to only 2.4%. These are very good news in the current turbulent times. The reduction of the LTV from 47.8% at FY 2019 to now 45%, which represents the strategic target of the firm, and the cash position of Euro 342m are also pleasing and give the company more leeway and flexibility. The EPRA NAV has further grown from Euro 1.24bn at FY 2019 to now Euro 1.37bn or from Euro 17.23 to Euro 17.33 per share despite the higher number of shares after the capital hike.

With the good results of the first quarter, the recent positive news flow and the reaffirmed outlook and estimate of the Corona impacts of the management, we clearly stick to our positive opinion of the firm and to our estimates for 2020. Since our last update on 6 April, the DIC share has already gained more than 40%, but is still trading at a significant discount to NAV, which does not even include the value of the institutional business, which needs to be added on top. Thus, we clearly confirm our 20.00 Euro target price and maintain our Buy recommendation.

DIC Asset AG

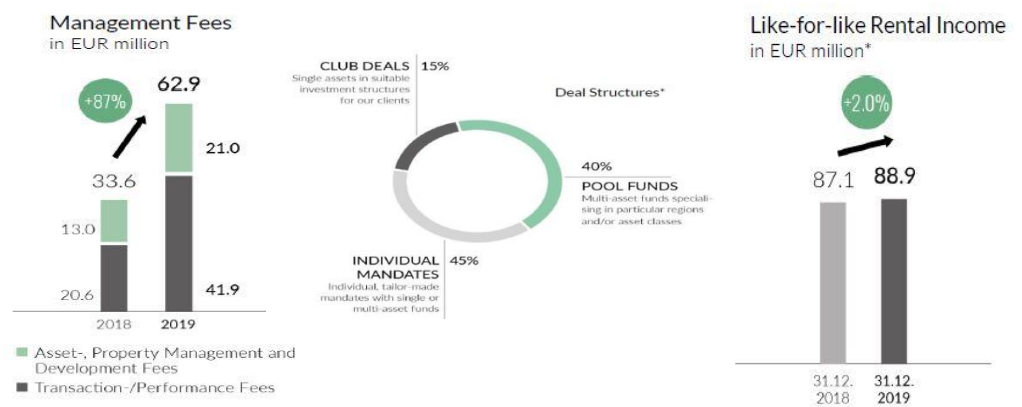
Industry:	Real Estate	Management Board of DIC Asset
Sub-segment:	Commercial property investor Institutional Business / Managed Accounts (transaction, asset and property management)	CEO Sonja Wärtnges CIO Johannes von Mutius Patrick Weiden (from 2H 2020 on)
Region:	Germany	Supervisory Board of DIC Asset:
Headquarter:	Frankfurt	Prof. Dr. Gerhard Schmidt
Foundation	1998	Klaus-Jürgen Sontowski
Employees:	247	Prof. Dr. Ulrich Reuter Eberhard Vetter
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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 size of Euro 1.9bn at year-end 2019 with another Euro 85m notarizations done, which come into the books in the first half of 2020.

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, 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 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.



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 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.

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/loss 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 -

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Rating chronicle:

Company	Date	Rating	former share price	former target
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 29 April 2020. DIC Asset AG mandated SRC Research for covering the share.

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