

■ Price (Euro)	9.02
52 weeks range	17.40 / 6.69

■ Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	713
Number of shares (million)	79.1
Free Float	55.9%
Free Float Market Cap (Euro million)	399
CAGR EBIT ('19 -'22e)	12.8%

■ Multiples

	2019	2020e	2021e	2022e
Market Cap / Total revenues	7.0	7.4	6.6	5.6
PE-Ratio	8.0	10.5	8.6	6.7
Dividend Yield	7.3%	7.3%	7.7%	7.8%

■ 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

1Q 2020 report	4 May 2020
1H 2020 report	29 July 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

DIC Asset reduces 2020 full-year guidance due to Covid-19 - Our cautiously reduced P&L estimates result in a new target price of Euro 20.00 - Buy rating affirmed

Last Friday evening, the company released news about the impact on the firm due to the current Corona pandemic and also updated the 2020 full-year guidance. The management of the company expects that rental income as well as real estate management fees from the institutional business will be affected by the pandemic. As of Friday, 3 April, tenants with a monthly rental volume of about Euro 1.5m have indicated to be in need to suspend their rental payments for up to three months. Furthermore, due to the government measures in place, the overall German real estate transaction market is expected to be deteriorated. Thus, the company expects a possibly lower transaction volume for 2020 or a later than initially planned closing of transactions, which would affect both the commercial portfolio regarding rental income from newly acquired properties, as well as the institutional business regarding transaction fees and management fees.

As a result, the company reduced its 2020 full-year guidance and now expects a FFO result between Euro 94m to Euro 96m, thus more or less on the level of last year. The previous guidance was at a range between Euro 104m to Euro 106m. Gross rental income is expected to be in a range of Euro 94m to Euro 98m compared to Euro 102m to Euro 104m, while real estate management fees are now guided to be between Euro 80m to Euro 90m instead of Euro 85m to Euro 95m. In terms of the transaction volumes, DIC now estimates that a total volume of Euro 700m to Euro 1.1bn (previously Euro 1.6bn to Euro 1.9bn) on the acquisition side, while the sales volume remains unchanged at Euro 400m.

On a positive note, the management reaffirmed its dividend proposal of 66 cents per share. This is a very good sign at a time where several companies already suspended their dividends. At the current share price, this translates into a dividend yield of more than 7%. The annual general meeting, which was supposed to take place on 17 March, had to be cancelled due to the Corona pandemic as well and is expected to take place sometime during the second half of the year.

While we see the company in a good position with a solid balance sheet and strong liquidity position, which also benefited from the equity capital hike in January, we also take a more cautious approach to our P&L estimates. We now estimate rental income of more than Euro 96m, real estate management fees of almost Euro 85m and a FFO of Euro 95.5m. Furthermore, as the duration and the scope of the pandemic are currently not predictable, we also assumed a spill-over effect to the coming years and thus also reduced our estimates for 2021 and 2022 until a clearer picture is possible. For the moment, we reduce our target price from Euro 23.00 to Euro 20.00. As the share price was almost cut in half since our opening coverage from 5 March due to the Covid-19 situation, we clearly stick to our Buy rating.

DIC Asset AG

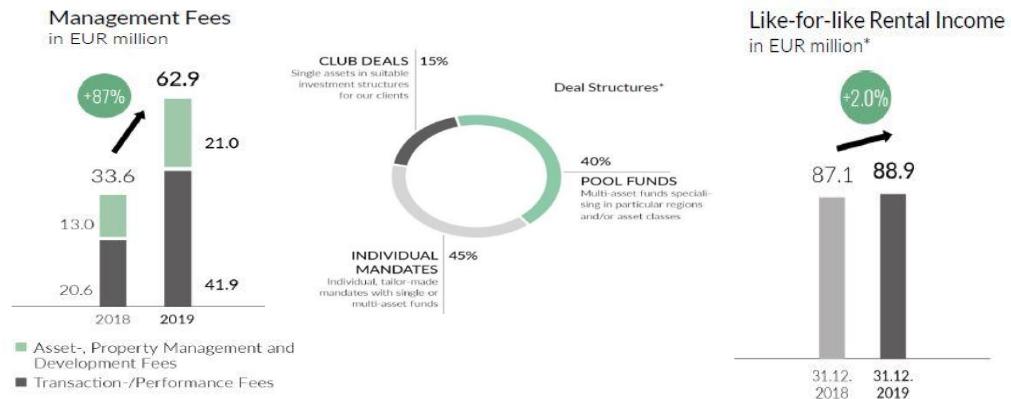
Industry:	Real Estate	Management Board of DIC Asset
Sub-segment:	Commercial property investor Institutional Business / Managed Accounts (transaction, asset and property management)	CEO Sonja Wärntges CIO Johannes von Mutius Patrick Weiden (from 2H 2020 on)
Region:	Germany	Supervisory Board of DIC Asset:
Headquarter:	Frankfurt	Prof. Dr. Gerhard Schmidt Klaus-Jürgen Sontowski
Foundation	1998	Prof. Dr. Ulrich Reuter
Employees:	247	Eberhard Vetter Dr. Anton Wiegers Rene Zahnd
IR Contact:		
Peer Schlinkmann, CIRO		
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 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, 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.



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 93 properties and about 1,500 rental contracts for an annual rental income of over 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 not yet closed in 2019 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 -

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	05/03/2020	Buy	17.12 €	23.00 €

Please note:

The share price mentioned in this report is from 6 April 2020. DIC Asset AG mandated SRC Research for covering the share.

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