

15 | November | 2021

■ Price (Euro)	15.44			
52 weeks range	16.63 / 11.63			
■ Key Data				
ISIN	DE000A1X3XX4			
Bloomberg	DIC:GR			
Reporting standard	IFRS			
Market Cap (Euro million)	1,264			
Number of shares (million)	81.9			
Free Float	45.1%			
Free Float Market Cap (Euro million)	570			
CAGR EBIT (20 -23e)	9.3%			
■ Multiples				
	2020	2021e	2022e	2023e
Market Cap / Total revenues	12.6	11.7	11.5	10.1
PE-Ratio	17.5	15.9	15.7	14.0
Dividend Yield	4.5%	4.9%	5.1%	5.2%
■ Key Data per share (Euro)				
	2020	2021e	2022e	2023e
Earnings per share (EPS)	0.88	0.97	0.98	1.10
FFO per share	1.22	1.33	1.36	1.46
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	107,668	110,205	124,830
Net rental income	82,221	92,596	92,643	104,331
Administrative expenses	-19,077	-20,596	-24,822	-25,544
Personnel expenses	-30,280	-37,901	-39,521	-40,177
Real estate management fees	79,722	102,203	122,502	134,435
Profit on disposal of investment property	32,000	18,724	19,116	8,890
EBIT	106,182	115,254	127,153	138,615
Net financial result	-28,090	-33,146	-35,437	-36,027
EBT	89,462	91,662	104,936	118,042
Taxation	-16,350	-12,879	-17,592	-18,661
Net profit after minorities	70,013	79,200	87,817	99,731
FFO	96,524	108,176	121,599	132,209
■ Main Shareholders				
Deutsche Immobilien Chancen-Gruppe	34.8%			
Yannick Patrick Heller	10.1%			
RAG-Stiftung	10.0%			
■ Financial calendar				
Annual report 2021	9 February 2022			
AGM	24 March 2022			
1Q 2022 report	10 May 2022			
■ Analysts				
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DIC Asset 9M numbers in line with estimates – FFO up about 10% – high news flow regarding transactions expected for closing weeks of 2021 – Buy and Euro 22.00 target price affirmed

Last week Thursday, on 11 November, the company released the report for the first nine months of 2021. The numbers were largely in line with our estimates and the firm's guidance. Gross rental income came in at Euro 78m, somewhat above our expectation, leading us to lift our full year estimate. The firm also lifted its full year guidance regarding gross rental income and now expects a range of Euro 107m to Euro 108m compared to the previous range between Euro 98m to Euro 102m. Real estate management fees amounted to almost Euro 75m, up more than 23% to last year's number of about Euro 61m. Profit on disposals of the first nine months stood at Euro 17.5m (9M 2020: Euro 1.2m). The firm's pre-tax profit for the first three quarters stood at more than Euro 64m, up 38% from last year's number of almost Euro 47m, while the bottom line after minorities increased by about 33% from more than Euro 38m to almost Euro 51m. The cash driven FFO hiked by about 10% from almost Euro 73m to almost Euro 80m. This hike was mainly driven by the commercial portfolio segment (+18%), while in the institutional business segment (+2%) the higher fees were offset by higher operating expenses due to the growth of the business and the RLI integration. The FFO per share hiked by almost 7% to 98 cents.

The transaction volume of the first three quarters amounts to about Euro 1.2bn. On the acquisition side, the company has acquired six objects for the commercial portfolio, 2 objects for the institutional business and two objects for the warehousing portfolio for a total of more than Euro 1bn. Over the same time, the firm has disposed three objects from the institutional business and 2 properties from the commercial portfolio. Assets under management have thus grown to Euro 11.4bn as of 9M 2021. As we expect further significant news from the transaction side in the coming weeks till year-end, we are confident that the company is on track to reach its full year targets on the transaction side as well, most likely even on the upper side of the acquisition guidance. The letting performance was good with a letting volume of almost 230k sqm in the first nine months, locking in about Euro 23m of annualized rental income. As a result, the lease maturity profile of the total portfolio looks very good with only 2.5% lease expiry volume in 2021, 2.8% in 2022 and more than 78% expiring in 2025 or later. The vacancy rate of the commercial portfolio was decreased from 7.1% at year-end 2020 to now 6.5%, and we expect it to further decrease over the coming weeks and months.

The balance sheet remains solid with an equity ratio of 29.7% and a LTV of 48.0%, which should decrease at year-end. The adjusted NAV per share remained roughly unchanged at Euro 22.02, however considering the increased shares outstanding grew on an absolute basis.

We are very satisfied with the developments of the first nine months and continue to see the company on track to reach our estimates and the firm's full year guidance. We thus confirm our Euro 22.00 target price and stick to our Buy recommendation at a current upside of more than 40%.

DIC Asset AG

Industry:	Real Estate	Management Board of DIC Asset
Sub-segment:	Commercial property investor	CEO Sonja Wärntges
	Own book / Institutional Business / Managed Accounts (transaction, asset and property management)	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:	286	Prof. Dr. Ulrich Reuter
		Eberhard Vetter
IR Contact:		Michael Zahn
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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 almost Euro 2.2bn 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 September 2017 with a size of about Euro 250m or the new RLI-GEG Logistics & Light Industrial III fund with a volume of Euro 400m. 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 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, 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 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 and further transactions, the total assets base grew to Euro 11.4bn at 9M 2021. 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).

2021 Guidance and 9M status

	Q3 STATUS	GUIDANCE
Gross rental income	EUR 78.0 million	EUR 107–108 million
Real estate management fees	EUR 74.6 million	EUR 94–104 million
FFO	EUR 79.6 million	EUR 106–110 million
Acquisitions	EUR 1.0 billion	EUR 1.2–1.8 billion CP: EUR 200–300 million IB/Warehousing: EUR 1.0–1.5 billion
Sales	around EUR 250 million	300–400 million CP: around EUR 100 million IB: EUR 200–300 million

CP = Commercial Portfolio
IB = Institutional Business

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 95 properties and about 1,500 rental contracts for an annual rental income of about Euro 105m 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. The hike in dividend from 66 Cents to 70 Cents offers a decent yield far above 4%.

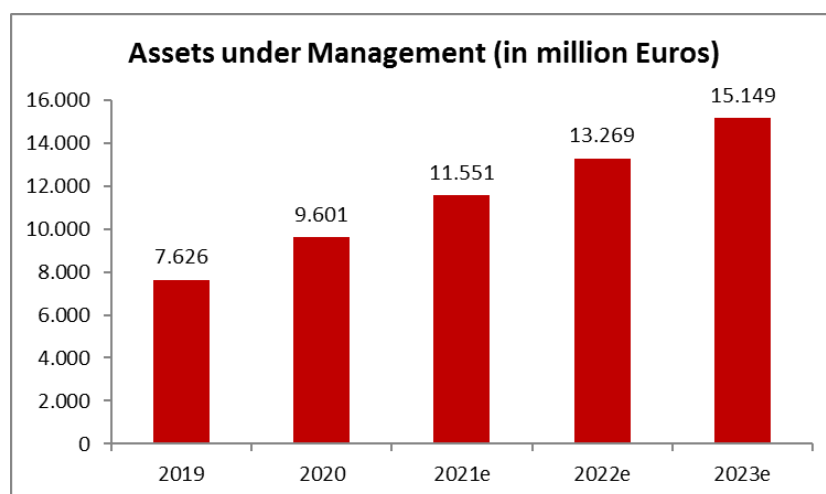
Opportunities

- 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 2021 letting performance and space demand draw 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.

DIC Asset AG 31/12 IFRS ('000)	2018	2019	2020	2021e	2022e	2023e	CAGR '20 - '23e
Gross rental income	100,189	101,942	100,695	107,668	110,205	124,830	7.4%
Ground rents	-810	-676	-510	-561	-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	-24,358	-29,145	-33,445	
Other property-related expenses	-12,186	-10,631	-16,070	-13,941	-14,747	-16,128	
Net rental income	84,690	87,906	82,221	92,596	92,643	104,331	8.3%
Administrative expenses	-12,113	-17,876	-19,077	-20,596	-24,822	-25,544	
Personnel expenses	-18,204	-27,918	-30,280	-37,901	-39,521	-40,177	
Depreciation and amortization	-29,577	-34,242	-38,774	-42,178	-43,558	-44,102	
Real estate management fees	33,639	62,883	79,722	102,203	122,502	134,435	19.0%
Other operating income	585	2,616	2,222	3,855	2,549	2,775	
Other operating expenses	-730	-1,979	-1,852	-1,449	-1,756	-1,993	
Net proceeds from disposal of investment property	86,752	175,973	116,324	126,174	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	18,724	19,116	8,890	
Net operating profit before financing activities (EBIT)	76,936	111,906	106,182	115,254	127,153	138,615	9.3%
Share of the profit or loss of associates	15,829	18,321	11,370	9,554	13,220	15,454	
Interest income	9,266	10,296	8,670	9,410	8,221	7,231	
Interest expenses	-46,098	-42,660	-36,760	-42,556	-43,658	-43,258	
Profit/loss before tax (EBT)	55,933	97,863	89,462	91,662	104,936	118,042	9.7%
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	78,783	87,344	99,381	10.8%
Minorities	-78	-222	3,099	-417	-473	-350	
Net profit after minorities	47,691	80,911	70,013	79,200	87,817	99,731	12.5%
FFO	68.0	95.0	96.5	108.2	121.6	132.2	11.1%
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	0.97	0.98	1.10	
FFO per share	0.97	1.32	1.22	1.33	1.36	1.46	
Dividend per share	0.48	0.66	0.70	0.75	0.78	0.80	
Shareholders' Equity	895,921	968,778	1,108,421	1,162,026	1,348,718	1,398,639	8.1%
Balance Sheet sum	2,490,051	2,657,443	2,724,168	3,862,153	4,325,611	4,541,892	
Equity Ratio	36.0%	36.5%	40.7%	30.1%	31.2%	30.8%	



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Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	16/9/2021	Buy	15.30 €	22.00 €
DIC Asset AG	08/06/2021	Buy	15.03 €	22.00 €
DIC Asset AG	06/05/2021	Buy	14.67 €	22.00 €
DIC Asset AG	11/02/2021	Buy	15.56 €	22.00 €
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 €

Please note:

The share price mentioned in this report is from 12 November 2021. DIC Asset AG mandated SRC Research for covering the share.

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