DEMIRE AG
Germany - Real Estate

Buy (old: Initiation)

Price target: EUR 6.25

Price:	EUR 4.58	**Next result:**	Q3'20: 17/11/2020
Bloomberg:	DMRE GR	**Market cap:**	EUR 493.6 m
Reuters:	DMRE.DE	**Enterprise Value:**	EUR 1,291.9 m

25-September-20

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All boxes ticked for growth

Real estate investor **DEMIRE focuses on office** (61% of rents), **retail** (29%), **hotel** (7%) and **logistics** (3%) **value-add properties in Germany's secondary locations**. The company **mitigates risk** by a) diversifying across asset classes, b) a broad geographic exposure geared towards economic hotspots and c) a solid tenant mix with 70% of rental income derived from tenants with a 2% share or lower (main tenant Deutsche Telekom c 17%).

The new management team on board since 2018 bringing together real estate and financial expertise has improved operations significantly, **evident in a FFO that almost tripled since 2017. Highlights of the new management are better property asset management** by slashing operating expenses to 16% of rents in 2020E and significantly increasing reletting volumes and decreasing vacancy rates in the portfolio (-190bps yoy to 8.5% in Q2 2020). Furthermore, management improved **internal processes and reporting tools** to lift efficiencies and transparency in a previously undermanaged organisation.

DEMIRE follows ambitious growth targets of AuM (€ 2bn of AuM in the medium-term from € 1.5bn in Q2 2020). Portfolio growth is expected to result in a 13% revenue CAGR into 2022E. Portfolio growth coming on top of operational and financial efficiency gains should result in an **over-proportional growth in Funds From Operations (FFO) of 21% into 2022E.** The company opted to pay a dividend for the first time this summer and is expected to pay out 40% of FFO going forward, resulting in a eH&A div. yield of 3% in 2021E, which looks attractive in light of the strong growth case.

Drivers of Net Asset Value (NAV) are expected to be acquisitions but also the strong operational performance of the company resulting in moderate revaluation gains (2% in 2020E vs. 8-9% in recent years).

Successful re-financing in 2019 and de-levering enabled the company to **improve important financial KPIs** (e.g. cost of debt from 3.0% in 2018 to 1.78% in Q2 2020). **DEMIRE's finances look solid** with an increasing ICR (1.4x in 2019 to 4.1x in 2022E), LTV of 47% (50% by 2022E) and stable cost of debt (1.8%, 97% fixed interest). In our view, a **capital increase is highly likely in 2021E** (eH&A € 250m of gross proceeds) to fund further portfolio growth. We initiate with **BUY** and a **PT of € 6.25** based on NAV and DDM.

Y/E 31.12 (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Total revenues	102	94	91	123	116	133	150
Net rental income	76	74	74	82	86	102	119
EBIT (inc revaluation net)	83	85	127	155	79	101	121
EBIT (excl revaluation net)	45	36	34	72	51	69	83
Net profit (reported)	25	14	62	76	50	67	81
FFO	8	12	23	35	37	50	60
EPS reported	0.48	0.25	0.85	0.70	0.47	0.48	0.51
FFO per share	0.16	0.22	0.32	0.32	0.34	0.36	0.38
DPS	0.00	0.00	0.00	0.54	0.14	0.14	0.17
NAV per share	5.54	5.96	5.52	6.35	6.62	6.34	6.60
NNNAV per share	4.89	5.13	4.95	5.49	5.82	5.75	5.97
EV/EBITDA	17.6	21.4	25.4	17.6	23.0	22.0	21.7
FFO yield	4.4 %	5.6 %	7.4 %	6.0 %	7.5 %	7.9 %	8.3 %
P/FFO	22.6	17.8	13.5	16.8	13.3	12.7	12.1
Dividend yield	0.0 %	0.0 %	0.0 %	11.8 %	3.0 %	3.1 %	3.7 %
P/NAV premium/discount	-35.6 %	-35.2 %	-17.0 %	-27.9 %	-30.8 %	-27.8 %	-30.6 %
P/NNAV premium/discount	-27.0 %	-24.8 %	-7.5 %	-16.6 %	-21.3 %	-20.3 %	-23.2 %
Net gearing	232.2 %	217.6 %	82.9 %	114.9 %	125.8 %	95.8 %	121.8 %
Loan-to-value (LTV)	62.8 %	60.1 %	38.7 %	46.7 %	48.7 %	43.7 %	49.7 %
Implied yield	9.3 %	8.9 %	8.1 %	6.4 %	6.7 %	6.6 %	6.5 %

Source: Company data, Hauck & Aufhäuser Close price as of: 24.09.2020

Source: Company data, Hauck & Aufhäuser

High/low 52 weeks:	5.78 / 3.93
Price/Book Ratio:	0.7
Relative performance (SDAX):	
3 months	1.7 %
6 months	-35.7 %
12 months	-17.9 %

Changes in estimates

		Net rents	EBIT	FFO
2020	*old:*	86.2	79.2	37.1
	Δ	-	-	-
2021	*old:*	102.3	101.1	50.3
	Δ	-	-	-
2022	*old:*	118.7	120.8	59.8
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs)	107.8
Authorised capital: (in € m)	53.9
Book value per share: (in €)	6.6
Ø trading volume: (12 months)	11,246

Major shareholders:

Apollo	64.1 %
Wecken Group	24.5 %
Free float	11.4 %

Company description:
Real estate company focused on office, retail, logistics and hotel properties particularly in secondary locations in Germany.

Table of Contents

Competitive Quality

Strong risk diversification

The company follows a value-add ABBA approach (A properties in B cities and B properties in A cities) with German commercial real estate, which allows for strong **risk diversification by asset class, within individual assets and at a geographic level**.

Mixed commercial portfolio thankfully focused on office

Stronghold in office

While the strategic value-add approach enables DEMIRE to invest across the entire spectrum of commercial real estate in Germany, the strength of the company is its exposure to **office properties** (61% of total contractual rents), with rental upside thanks to the strong asset management of the company.

Amid the CoV outbreak and with the structural challenges from the rise of online retailers, **retail exposure** in any real estate portfolio (**29% of total rent**) is on a watch. One fifth **of the retail portfolio are five GALERIA Karstadt-Kaufhof department stores** in secondary cities (Trier, Goslar, Memmingen, Offenburg, Celle) (6% of total rental income). The current restructuring process at GALERIA will result in the closing of the department store in Trier, while all the other locations will remain open.

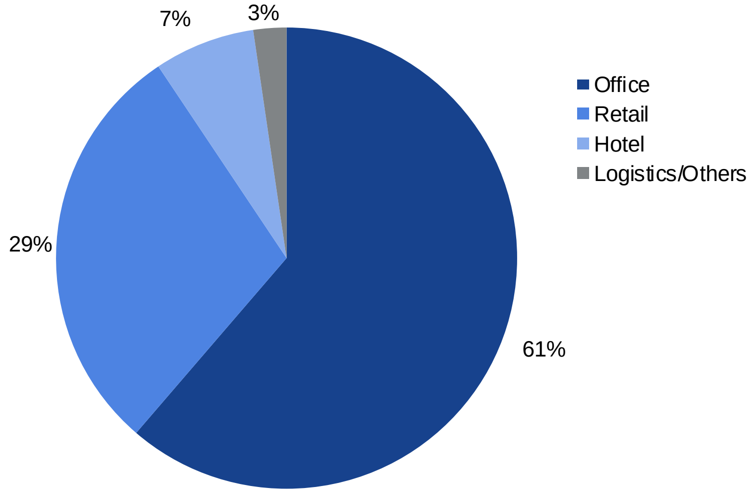
Good quality retail assets

Further, DEMIRE has already found new tenants for the premises in Trier. This shows in our view the **strong rental value of the downtown Karstadt-Kaufhof properties right in the heart at the cities' main arteries**. Even if Karstadt-Kaufhof were to close the stores in the company's portfolio, **we see a strong likelihood to find new tenants quickly given the favourable micro and macro locations of the properties.**

>33% of retail is daily supplies

Over one third of the retail assets (10% of total rent) are retail warehouses or neighbourhood shopping centres with food-anchored retail and focused on daily supplies. Those are seen as stable retail anchors unaffected by a shift towards e-commerce in Germany.

Use type by contractual rent



Source: Company data, Hauck & Aufhäuser

The **five hotels (7% of total rent)** comprise as largest assets a pentahotel in the historic city centre of Rostock, a Bestern Western Plus in Kassel and the recent acquisition of a new build hotel in Frankfurt, operated by Roomers (20 yrs. lease contract). All hotels have good client ratings and are in a good contemporary standard. The **Corona impact looks limited as all hotels pay rent since July and the company expect to recover deferred rents from April to June in next quarters and has already received 40% of the deferred rents.**

Limited CoV impact on hotels

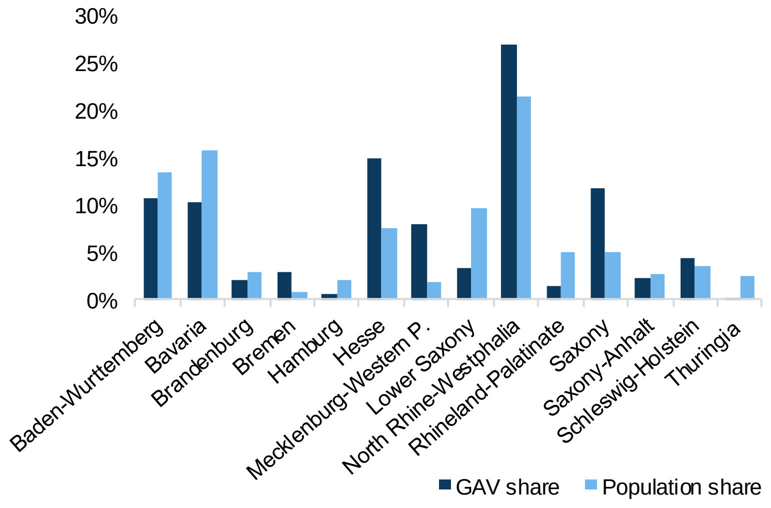
The category **logistics/others** (3% of total rent) includes one logistics property at the airport in Leipzig and three small miscellaneous properties. Amazon is among the most prominent logistics tenants and highlights the healthy demand for the Leipzig logistics property.

High geographic balance geared towards economic hotspots

A comparison of the portfolio allocation across German states shows that the gross asset value is almost evenly distributed if compared to population. Economic powerhouses like Hesse, North Rhine-Westphalia are overweighed in DEMIRE's portfolio. Overall, we expect **80% of the current and future portfolio to be located in prosperous regions with positive long-term socio-economic trends**. This adds positively to the strong regional **diversification of the portfolio**.

80% of assets in top regions

A truly diversified portfolio across German states

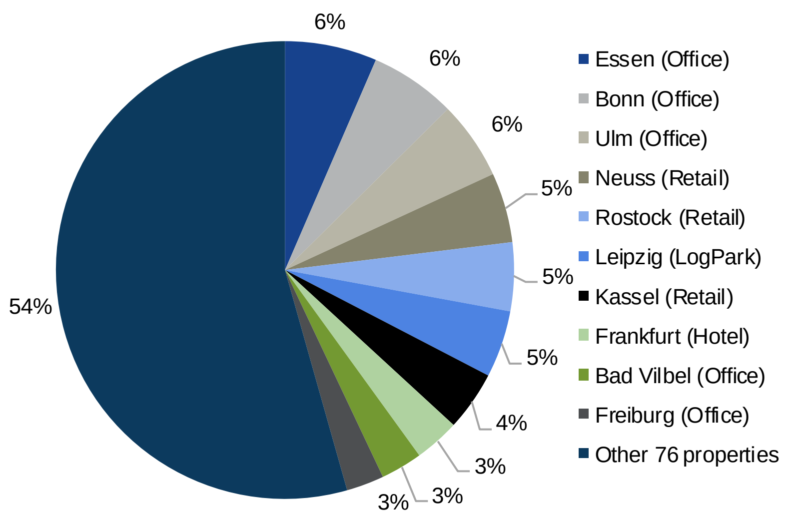


Source: Company data, Hauck & Aufhäuser

No asset cluster risks

The portfolio's cluster risk is seen as very low. **No single asset accounts for more than 6% of the GAV**.

Top 10 properties with use type

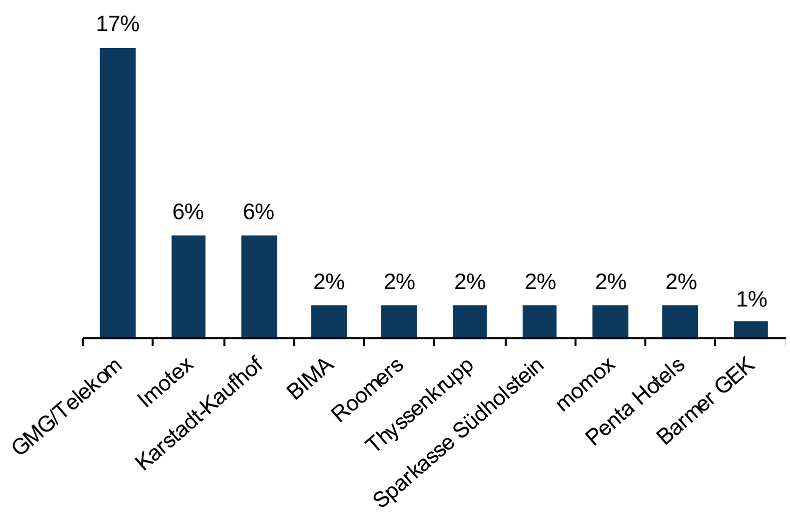


Source: Company data, Hauck & Aufhäuser

Sufficiently diversified tenant structure

Historically, Deutsche Telekom accounted for 30% of rental income. Portfolio growth and re-letting of former Deutsche Telekom offices have decreased the share of Deutsche Telekom in the rental income to 16.8% by Q2 2020. The **Deutsche Telekom share also spreads over several rental contracts including subleases by Deutsche Telekom to third parties, which should further mitigate the risk stemming from one large tenant.**

Top 10 tenants: 42% of rental income



Source: Company data, Hauck & Aufhäuser

Two other tenants contribute a significant share of the rental income (6% each): **Imotex**, a textile wholesale and distribution company located in Neuss/Düsseldorf region, and **Karstadt-Kaufhof** department stores (five locations). The rest of the top 10 tenants pay no more than 2% of total rents.

Further tenant diversification visible

While the tenant base is already diversified (70% of rental income from tenants with a share of 2% or less), **the company aims at diversifying and de-risking its tenant base further.** With anticipated strong portfolio growth (38% by 2022E), the share of the largest tenants will passively decrease. On top of that, DEMIRE is actively managing the largest tenant Deutsche Telekom and cooperates to re-let spaces, if Deutsche Telekom plans to adjust its space consumption.

Stable rating outlook amid CoV

Confirmed ratings in July 2020

The rating agencies Moody's and Standard & Poor's reviewed their ratings in early summer taking into account potential impacts from the CoV pandemic. The stable credit ratings confirm the solid business quality of DEMIRE. The rating agencies value the stable cash flows of the company due to acquisitions in 2019 and improving debt metrics (S&P: EBITDA interest coverage up to 3.-3.3x over the next 12-24 months) thanks to refinancing. Moody's sees solid credit metrics for the current rating category even in a scenario of declining rents and property values (Net debt/EBITDA 13.5x-15.5x in 12-18 months). **In summer 2020, Moody's rated the company with Ba2, stable outlook and S&P issued a BB/stable credit rating.**

Experienced management team

Dedicated real estate & financial management experience

In one-on-one talks with management, we gained valuable insights into their thinking and confirmed our management background checks. Management has a **dedicated real estate background** combining several decades of experience, which we expect to prove as a strong asset in improving operational efficiency of DEMIRE, a yet undermanaged real estate company (-45% of operating costs since 2018). Meanwhile, the recent refinancing and lowering of debt costs (-120bps since 2018) has likewise demonstrated the **financial expertise** of the management team.

Growth

REALize Potential: internal and external growth programme

Management has been implementing the REALize Potential programme in 2019. The programme focuses on internal and external growth. The four cornerstones are **1) optimising asset management** and **2) improving internal processes** as well as **3) progressing financial KPIs** and **4) growing the portfolio** by acquisitions.

1) Optimising asset management

Since 2019, DEMIRE has **doubled its headcount in asset management** from three to six employees. The rationale behind this investment in human resources is improving local asset management, which should result in **vacancy reduction and an acceleration of like-for-like rental income growth**.

€ 1m of operational cost savings realised

At the same time, the company reduced costs by outsourcing the facility and property management with cost savings of approx. € 1m p.a. (main provider Strabag). The increased asset management staff allows steering closely external service providers and optimising local management of properties (i.e. reduction of vacancies, lease extensions).

Expecting further reduced cost ratio

The improved management processes (e.g. stringent cost allocation to tenants) and scaling up the size of properties by selling smaller management-intensive properties has already resulted in significant **operational cost savings**. While operational expenses in relation to net rents still were above 30% in 2017 and 2018, they declined to 17% in 2019. **A further reduction to an operational cost ratio of 16% is expected in 2020E and 14% in 2021E**.

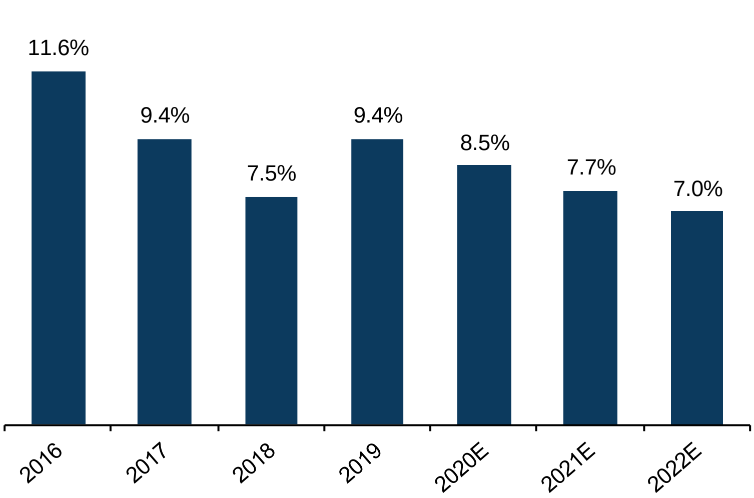
Visible vacancy reduction after acquisitions

While vacancy reduction was clearly visible until 2018, vacancy grew to 1.9pp in 2019 due to value-add acquisitions with significant vacancy rates (>20%). Since the acquisitions, the company has proven to manage the vacancies effectively despite CoV. By Q2 2020, DEMIRE reduced the vacancy rate by 1.8pp yoy to 8.5%.

Vacancy rate expected in line with higher ranking peers

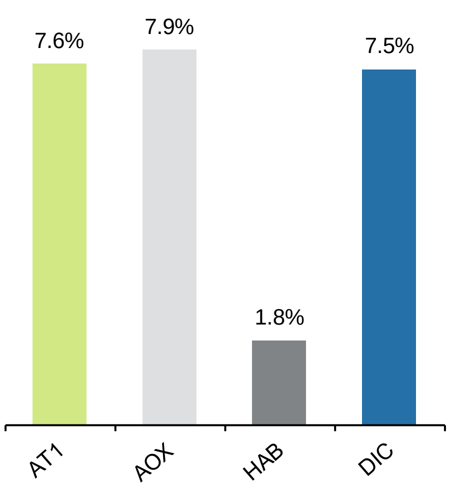
We expect a further vacancy reduction (excl. new acquisitions) to 5-7% over the next two years, which should be the natural vacancy rate for a value-add portfolio with multi-tenant assets and in line with long-standing **commercial peers in Germany (c 6% vacancy rate in Q2 2020)**.

EPRA Vacancy rate



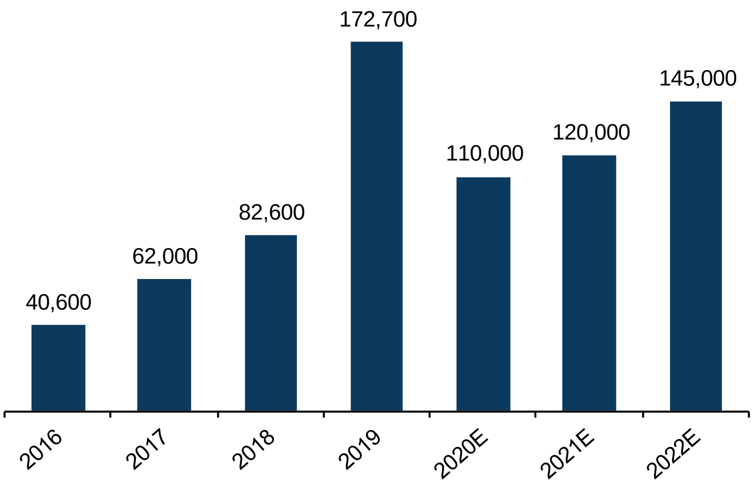
Source: Company data, Hauck & Aufhäuser

EPRA Vacancy rate in peer group



Source: Company data, Hauck & Aufhäuser

Letting performance (in k sqm)



Source: Company data, Hauck & Aufhäuser

Letting success resulting in higher l-f-l rental growth

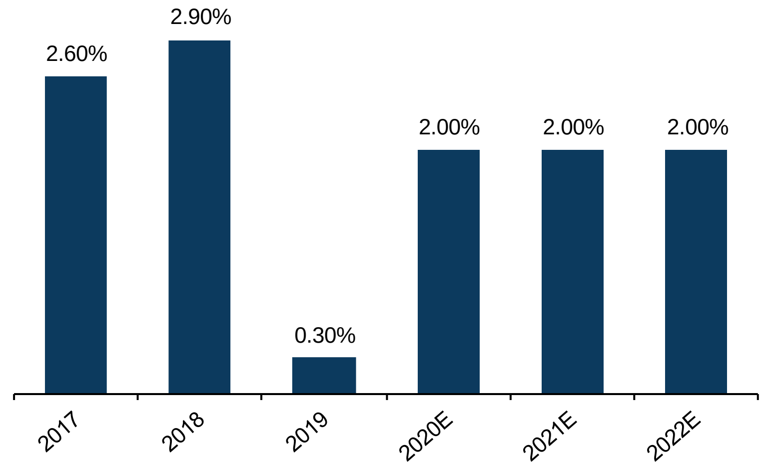
Historically, like-for-like rental growth was a solid 2.8% yoy in 2017 and 2018 (peers 2.8% yoy; 2016 and before not comparable due to different portfolio composition). In 2019, like-for-like rental growth was 2.7% yoy excl. rental properties of Deutsche Telekom. Overall, rental growth was 0.3% p.a. given several expiring rental contracts with Deutsche Telekom and interim vacancies during refurbishments before re-letting.

The re-enforced asset management strategy resulted in a doubling of the letting performance from 83k sqm in 2018 to 172k sqm in 2019. Despite the CoV lockdowns and more muted office letting markets, DEMIRE was still able to let the same amount of sqm in H1 2020 compared to previous years, which is an important driver of vacancy reduction and rental income growth.

Solid lfl rental growth amid economic headwinds

For 2020E, **we expect the company to achieve solid letting results of 110,000 sqm, which falls short of the record year of 2019 but clearly exceeds 2017 and 2018**. If looking at total rental income, the company might even be able to secure a rental income growth with relettings similar to 2019 given higher rents per sqm in relettings. Hence, **we expect like-for-like rental growth of 2% p.a. for 2020E-2022E driven by rent indexation (70% share) and re-lettings (30% share) despite increasing economic headwinds.**

Like-for-like rental growth



Source: Company data, Hauck & Aufhäuser

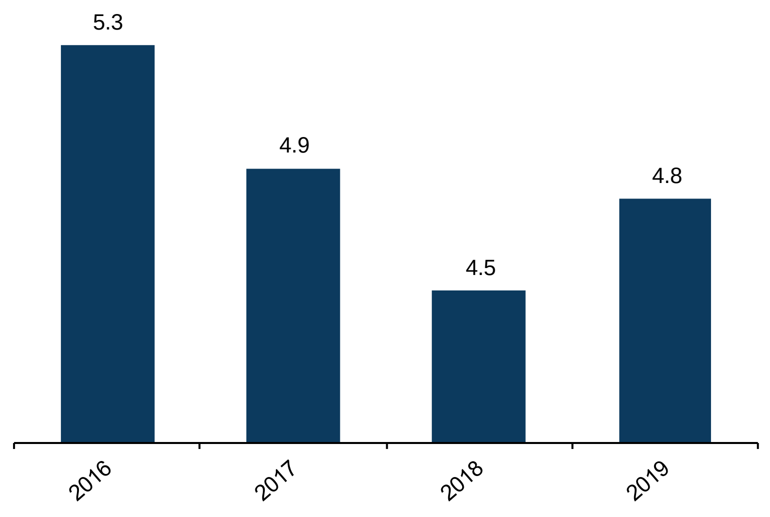
Successful turn-around with longer WALTs

Demire was faced with continuously deteriorating Weighted Average Lease Terms (WALTs) of its lease contracts. The increased agility of the asset management with the signing of a record number of new lease contracts resulted in **an increase of WALTs from the low of 4.5 years in 2018 to 4.8 years in 2019**. Despite CoV lockdowns, the company managed to stabilise WALTs at 4.8 years in Q2 2020.

WALTs to stabilise at 5 years

While most office rental contracts at DEMIRE in secondary locations run for five years, prime tenants and governments usually sign ten-year lease terms. In light of the tenant mix, **we expect WALTs to stabilise at c 5 years in the medium term.**

Turn-around of Weighted Average Lease Terms (WALT in years)



Source: Company data, Hauck & Aufhäuser

2) Improving internal processes

In the past, DEMIRE was an undermanaged company. An objective of the REALize Potential programme was therefore to establish a monthly reporting system that allows tracking KPI targets. On top of that, a state of the art treasury system facilitates work streams and delivers detailed analyses for controlling purposes.

Implementing state of the art reporting

Based on the new reporting systems in place, the company prepares comprehensive annual reviews of each property for a bottom-up management approach, which is reconciled with a top-down portfolio strategy.

3) Improving financial KPIs – investment grade in 2022E

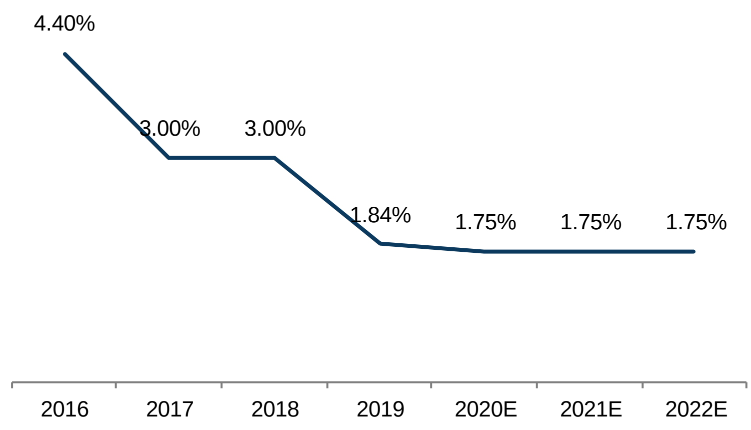
In October 2019, DEMIRE successfully **refinanced with a € 600m unsecured senior bond** (coupon 1.875%; maturity 2024). The company used the proceeds to repay a bond with € 367m outstanding (coupon 2.875%, maturity 2022) and a promissory notes loan of € 142m outstanding (coupon 4%, maturity 2022).

The refinancing significantly decreased the average cost of debt by 91bps to 1.86% and increased the weighted average debt maturity from 2.8 years to 4.1 years. The company has **no large debt maturities coming up until 2024** and 97% of the debt exposure is fixed.

Lower financing cost as additional earnings driver

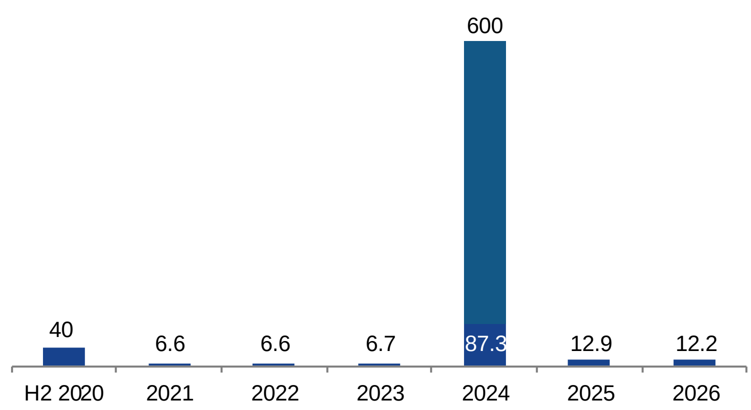
The refinancing reduced financing costs by € 6.4m p.a. (>10% of EBIT 2020E) Hence, **improved financing results should drive earnings additionally in 2020E.** Given no larger refinancing needs until 2024E, we expect the cost of debt to remain rather stable over this period (see graphs below).

Improving average cost of debt



Source: Company data, Hauck & Aufhäuser

Debt maturity profile



Source: Company data, Hauck & Aufhäuser

Growth of unencumbered assets

Valuation gains and debt repayments resulted in an **increase of unencumbered assets** from 46% at YE 2019 to 65% at the end of Q2 2020. This significant increase should facilitate the portfolio cleaning of the company as part of the growth strategy, as unencumbered assets are more easily sold.

IG rating in the medium term

The company aims at achieving an **investment grade rating in the medium-term, which is still two notches away**. Pre-condition would be to increase the free float of 11% significantly, which would only be possible if majority shareholder Apollo reduced its stake. Rating agencies would also require Demire to increase the portfolio size with equity and delever the company in line with investment rated peers (eH&A LTV <45%). Furthermore, the general market environment for commercial players needed to improve, in our view, before rating agencies start to upgrade companies again. Consequently, **we expect an investment grade rating not before 2022E (not in our estimates)**.

4) Growing the portfolio

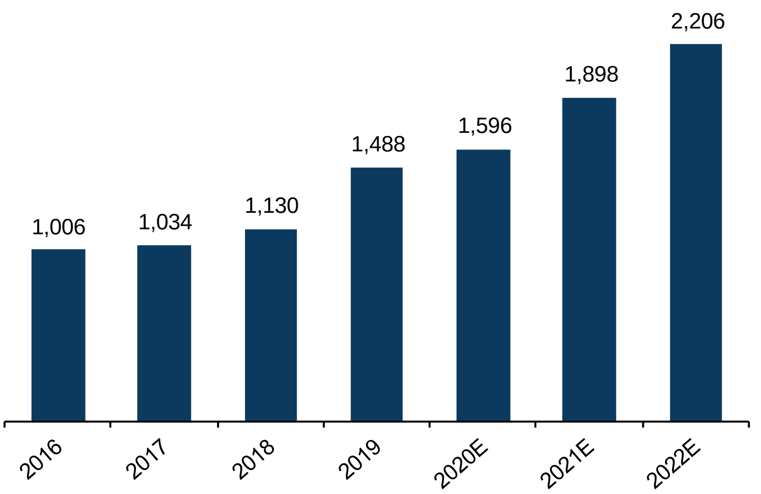
33% portfolio growth since 2018

The gross asset value (GAV) grew by 33% to € 1.5bn between the end of 2018 and Q2 2020 largely driven by acquisitions (77% of growth) but also positive revaluation gains (23% of growth). Savills certified revaluation gains in the portfolio of 7.7% yoy in 2019. Acquisitions of 2019 also proved value accretive with an average uplift of market value of 9% by YE 2019.

Acquisition pipeline of € 750m

We understand that DEMIRE holds an **acquisition pipeline of € 750m**, which is largely on hold amid the CoV pandemic. Prior to the outbreak of CoV, the company acquired a property in Frankfurt (€ 43m). Management sees limited acquisition opportunities in a relatively quiet transaction market in the next couple of months but expects more supply to enter transaction markets towards the end of 2020. Hence, **we expect the portfolio to increase moderately to € 1.6bn by the end of 2020E (+6% yoy).**

Gross asset value (in € m)



Source: Company data, Hauck & Aufhäuser

Disposing smaller and non-core assets to improve efficiency

In the meantime, active portfolio management at DEMIRE includes the **disposal of smaller and non-core assets.** In 2019 and H1 2020, the company sold asset for € 79m at an average 26% premium to book value (no single asset below book value). For example, the company sold a non-core shopping centre in the peripheral location of Eisenhüttenstadt at the Polish border, which was the largest legacy asset of former years (€ 28m). Additionally, DEMIRE sold two large properties in Berlin (€ 9m) and Stahnsdorf (€ 17m) approx. 57% above book value.

The company is expected to dispose as much as 20 out of 87 assets, each with a market value <€ 5m, to improve efficiency of management and portfolio quality. The disposal of smaller assets has already resulted in an **increase of the average asset value from € 13.5m at YE 2018 to € 17.9m at the end of Q2 2020.**

The assets earmarked for disposals are usually free of debt. Hence, **disposal receipts should largely equal additional cash flow and liquidity for acquisitions**.

Disposals generate substantial cash flow

Despite weaker transaction markets, **DEMIRE has proven to be able to sell non-core and mature assets above book value in YTD 2020**. The market for smaller assets, which are up for disposal in H2, is usually oriented towards small local investors (private persons, family offices etc.), whose investment decision making is in our view less affected by CoV uncertainties since they are deeply rooted in their local markets. Hence, we are optimistic on a strong execution of the non-core sales pipeline of 20 properties in H2 2020E. **In FY 2020E, we expect the company to dispose 27 properties (€ 105m) and increase the average asset value to approx. € 22m (€ 17.9m at YE 2019).**

Successful disposals amid CoV

The strategic growth target of DEMIRE is a portfolio with a GAV of more than € 2bn. The upsizing is an advantage due to further diversified income streams and operational as well as financial economies of scale. On top of that, it should support the company's medium-term goal of an investment grade rating.

Portfolio growth to >€ 2bn

Capex for internal growth

The strategic turnaround of the company under the new management is also evident in the capex spending strategy. While DEMIRE avoided capex as far as possible in the past resulting in an undermanaged portfolio, new management strategically invests c € 300/sqm in light refurbishments to raise the rent potential of properties.

Capex is expected to be spent on an opportunistic basis when it serves to increase rental income growth. This is expected to grow rents even in markets with stable rents.

Capex growth triggering further rental income growth

In 2018, capex amounted to € 2.5m, 2019 saw almost a doubling to € 4.3m (+73% yoy). **For 2020, we expect DEMIRE to spend c € 6m on capex and increase the investments even further in the next years (€ 10m to € 15m).**

Financing growth with a capital increase

In light of the portfolio growth targets, a capital increase looks highly likely within the next 12 months. Taking into account the LTV limit of 50%, cash of € 90m (Q2 2020), the intended dividend payment (€ 58m) and anticipated disposal gains of € 105m in 2020E, the acquisition firepower is currently seen at € 200m. Hence, the company is expected to raise equity to fund further growth. **We expect a capital increase of € 250m in 2021E, which looks adequate to finance the € 2bn portfolio target** (eH&A 45m shares for € 5.50).

€ 250 capital increase looks adequate for growth targets

Rental income growth

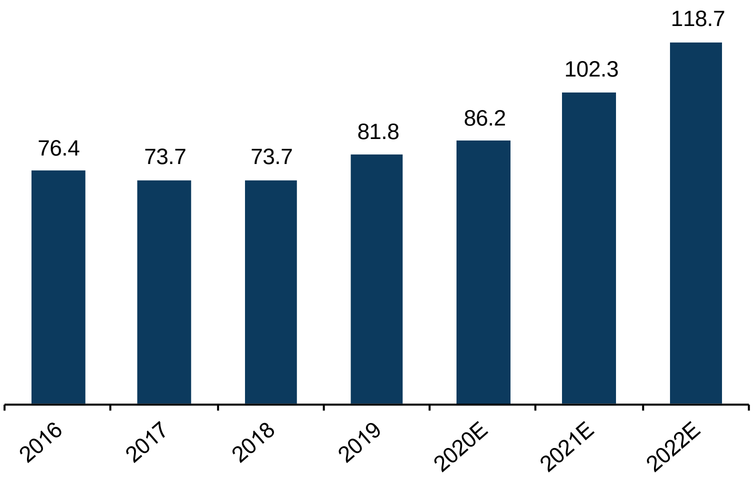
Taking into account, an estimated like-for-like rental growth of 2% yoy and a net rental income growth from transaction of € 1.8m, **we expect rental income to grow by 5.3% yoy to 86m in 2020E.** Due to CoV lockdowns and rent deferrals, the company is expected to write off € 5m as one-off effects.

>5% rental income growth in 2020E

After the anticipated capital increase and with more acquisition opportunities coming to the market in 2021E, acquisitions should ramp up (net portfolio growth of € 270m in 2021E and 2022E) and contribute € 14m p.a. of additional rental income in 2021E and 2022E. **Hence, rental income is expected to grow by 19% and 16% resp. in 2021E and 2022E.**

19% rental income growth in 2021E

Rental income (in € m)



Source: Company data, Hauck & Aufhäuser

Profit & Loss

€m	2016	2017	2018	2019	2020E	2021E	2022E
Net rents	**76**	**74**	**74**	**82**	**86**	**102**	**119**
as of total revenues	75%	78%	81%	67%	74%	77%	79%
Total revenues	**102**	**94**	**91**	**123**	**116**	**133**	**150**
EBITDA excl. revaluation gains	**47**	**40**	**36**	**73**	**56**	**70**	**84**
EBITDA margin	*46%*	*42%*	*39%*	*59%*	*48%*	*53%*	*56%*
Net income excl. rev. gains	**-14**	**-35**	**-32**	**-8**	**22**	**35**	**43**
Profit margin	*-13%*	*-37%*	*-34%*	*-6%*	*8%*	*9%*	*9%*
DPS	**0.00**	**0.00**	**0.00**	**0.54**	**0.14**	**0.14**	**0.17**

Profit & Loss (change yoy)

€m	2015	2016	2017	2018	2019E	2020E	2021E
Net rents	-32%	-4%	0%	11%	5%	19%	16%
Total revenues	-47%	-8%	-3%	34%	-5%	15%	12%
EBITDA excl. revaluation gains	-48%	-15%	-10%	103%	-23%	25%	19%
Net income excl. rev. gains	-46%	154%	-9%	-76%	n/a	57%	22%
DPS	n/a	n/a	n/a	n/a	-75%	5%	18%

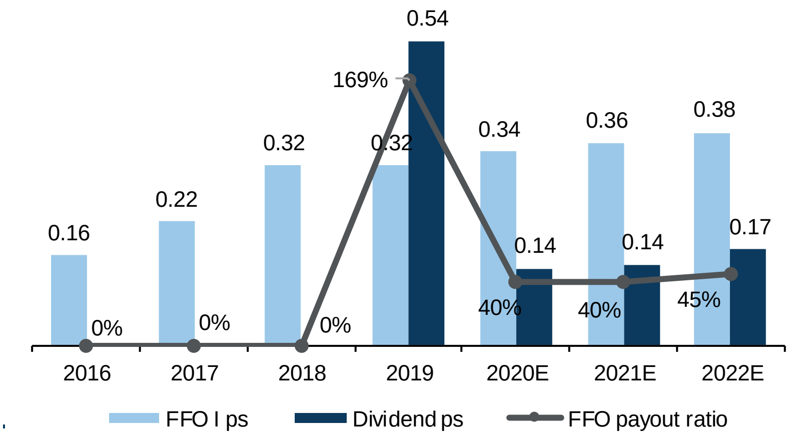
Source: Company data, Hauck & Aufhäuser

FFO growth

Rental income growth in addition to increasing efficiency with operation cost ratios down from 17% to 12% of net rents between 2019 and 2022E and meanwhile a reduction of financing expenses from 42% to 13% of revenues are expected to result in an average **FFO growth of 21% p.a. until 2022E.** FFO growth rates are expected to more than quadruple from 8% yoy to 36% yoy between 2020E and 2021E given higher portfolio growth. Meanwhile, due to an anticipated dilutive capital increase, **FFO/share is expected to grow by a solid 6% p.a. until 2022E**

Average FFO growth of 21% p.a. until 2022E

Development of FFO and dividends



Source: Company data, Hauck & Aufhäuser

Starting dividend payments in 2020

DEMIRE decided to pay a dividend for the first time in 2019. The main shareholder Apollo initiated this change in dividend policy this summer after the limited impact of the CoV pandemic on DEMIRE's business case became visible. After approval at the AGM in September 2020, Demire will use the entire net profit (€ 58m) to **pay a dividend (€ 0.54/share)** since it still holds a substantial cash position of € 81m and unused credit lines of € 63m in Q2 2020.

Dividend of € 0.54/share for 2019

Going forward, management expects to maintain a dividend payout ratio of FFO comparable to peers (AT1 65%, alstria 83%, Hamborner 69%, VIB 40%). We expect DEMIRE to maintain a 3% dividend yield and opt for the lower end of the possible payout range given its intended strong portfolio growth. This should result in our view in a **payout ratio of 40% of FFO in 2020E (€ 0.14/share, div. yield 2.7%).**

Pay-out ratio of 40% expected

Revaluation gains and acquisitions driving NAV

The driver of revaluation gains in 2019 were half stemming from improved operational performance of the portfolio and half by yield compression from increasing market prices.

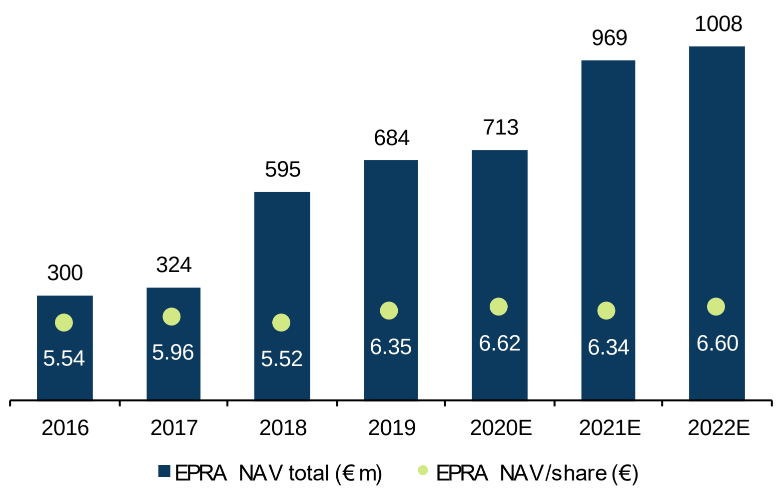
Strong operational performance to drive revaluation gains

Since yield compression is expected to have come to a standstill for large parts of the portfolio of DEMIRE, we expect the sound operational performance to overcompensate potential losses from increasing market yields. That said we expect slightly positive revaluation gains of € 28m in 2020E. For 2021E and 2022E, we maintain our conservative view on portfolio revaluation gains and expect very moderate price appreciation only from the operational performance of the yet undermanaged portfolio.

Acquisitions driver of NAV

Driver of the Net Asset Value (NAV) should be the acquisition activity. While net portfolio growth is expected to be a solid € 95m (disposals of € 105m, acquisitions of € 200m), net growth looks set to accelerate to € 270m p.a. in 2021E and 2022E driven by lower disposals of € 30m p.a. and higher acquisitions of € 300m p.a. Hence, NAV is expected to grow by 4.2% yoy to € 6.62/share in 2020E. Given a dilutive effect of an anticipated capital increase of 45m shares (€ 250m), NAV should decrease by 4.2% yoy to € 6.34/share in 2021E before increasing again by 4.1% yoy to € 6.60/share in 2022E.

Development of Net Asset Value



Source: Company data, Hauck & Aufhäuser

Maintaining solid financials

LTV target level of 50%

Despite portfolio growth, loan-to-value (LTV) to remain below target level of 50%. In light of the anticipated net portfolio growth, LTV is expected to grow by 2pp yoy to 48.7% by YE 2020E. The capital increase of € 250m should decrease the LTV significantly by 5pp in 2021E. Further portfolio growth of net € 270m in 2021E and 2022E looks set to increase LTV again to just below 50% by 2022E.

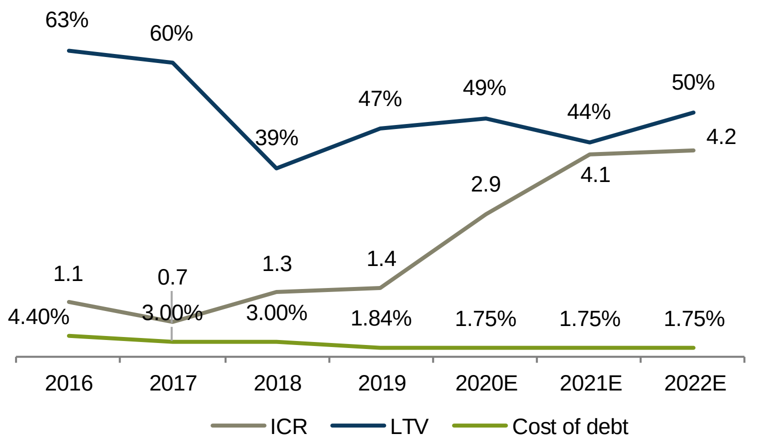
Stable cost of debt expected

Cost of debt is expected to decrease to 1.75% by YE 2020E (-9bps yoy) due to further improved financing conditions of new debt closed in 2020. **Until 2022E, we expect cost of debt to remain stable** given an anticipated low interest rate environment for new debt and only less than € 7m p.a. of expiring debt until 2023.

Improving ICR

The interest coverage ratio (ICR) is expected to increase to 2.9x by YE 2020E (+1.5x yoy) and further to 4.2x by 2022E due to EBIT excl. revaluation gains outgrowing financing expenses between 2020E and 2022E (62% vs 12%).

Solid financials



Source: Company data, Hauck & Aufhäuser

Overview debt ratios

	2016	2017	2018	2019	2020E	2021E	2022E
Equity	272	285	538	613	634	885	918
Equity ratio	25%	25%	39%	37%	36%	41%	39%
Net debt/equity	2.4	2.4	1.2	1.3	1.3	1.1	1.3
Net debt	631	621	446	705	798	848	1,118
Net debt/EBITDA	13.5	16.0	12.4	9.7	14.2	12.1	13.4
Cost of debt	4.40%	3.00%	3.00%	1.84%	1.75%	1.75%	1.75%
ICR	1.1	0.7	1.3	1.4	2.9	4.1	4.2
LTV	63%	60%	39%	47%	49%	44%	50%

Source: Company data, Hauck & Aufhäuser

Valuation

For the valuation of property companies, we usually combine **a valuation approach based on NAV and a three-stage Gordon growth/dividend discount model**.

Those methods allow capturing the two most important value drivers for real estate companies: **cash flow with dividend growth** and the **increase in property value** in the portfolio by valuation gains and portfolio growth.

We base our valuation models for DEMIRE on the estimates described in the previous chapters.

The valuation approaches result in the following fair values:

- **Net Asset Value**: The NAV model derives a **PT of € 6.60** mainly driven by increasing shareholder equity from acquisitions and revaluation gains.

- **Dividend discount model**: The DDM leads to a **fair value of € 5.90** based on a dividend payout ratio of 40% and terminal growth of 1.8%.

Our PT of € 6.25 is based on the average of NAV and DDM.

Initiate with a PT of € 6.25

Net Asset Value approach

The NAV approach assumes that the company is worth its shareholder's equity adjusted for fair value of derivatives, deferred tax liabilities and goodwill.

Hence, the **main driver of this model is the increase in the value of properties** reflected in the equity.

Based on the **adjusted EPRA net asset value**, **we derive a fair value of € 6.60** for DEMIRE based on 2020 estimates.

Equity value based on net asset value

(€m)	2020E	2021E	2022E
Total Equity	**684**	**938**	**975**
- Minorities	50	53	56
Shareholders' equity	634	885	918
+ Adjustments	86	90	97
thereof deferred taxes	81	85	92
thereof fair value adjustment	5	5	5
NAV including Goodwill	720	975	1,015
- Goodwill	7	7	7
EPRA Net Asset Value	**713**	**969**	**1,008**
Number of shares	107.8	152.8	152.8
NAV per share	**6.60**	**6.35**	**6.60**

Source: Company data, Hauck & Aufhäuser

Dividend discount model

Our DDM model derives a fair value of € 5.90.

The DDM model assumes that the company is worth the sum of all of its future dividend payments, discounted back to their present value.

Hence, **the main driver of this model is the level of dividend available to an investor**. The starting point are the estimated future earnings per share to which is applied an anticipated sustainable **dividend payout ratio (45%)** to arrive at the expected dividend payments.

The terminal value is then calculated from the dividend of € 0.20/share in 2025E and the discount rate.

Equity value based on dividend discount model

Mid-term FFO growth	7.0%
Terminal growth	2.0%
Sustainable payout	45%
Normalised CoE	5.1%

	2020E	2021E	2022E	2023E	2024E	2025E
FFO I per share	**0.34**	**0.36**	**0.38**	**0.41**	**0.43**	**0.44**
FFO growth yoy	7.5%	4.6%	5.3%	7.0%	7.0%	2.0%
Payout	40%	40%	45%	45%	45%	45%
Dividend per share	**0.14**	**0.14**	**0.17**	**0.18**	**0.20**	**0.20**
NPV of DPS	0.14	0.14	0.15	0.15	0.16	0.15
Terminal Value						6.53
NPV of Terminal Value						5.02
Fair Value per share						**5.90**

Source: Company data, Hauck & Aufhäuser

Total Cost of Equity

Portfolio	
Asset type	0.20%
Focused /Multi-focused	0.10%
Location	0.20%
Quality of assets/tenants	0.10%
Development exposure	0.00%
Management	
In-/external management	0.00%
Experience/track record	0.00%
Financing structure	
LTV	0.00%
Structure of debt	0.00%
Shareholder structure	0.15%
Liquidity / indices	0.10%
Transparency	0.00%
Corporate Governance	0.00%
Total risk premiums	0.85%
Normalised risk free rate	1.00%
Risk spread	2.91%
Beta	1.10
Total Cost of Equity	**5.05%**

Source: Hauck & Aufhäuser

Theme

Collection rate up to pre-CoV levels

During the lock-down period between April and May, DEMIRE lost 15% of rental income of which the company deems € 3.7m as non-recoverable. They were written off in Q2 2020. The collection rate is back at a high 97% in July vs. 98% pre-CoV.

Small share buy-back programme in July

The company ran a share buy-back programme of 2m shares (1.9% of total shares) in July to offer some shareholders to disinvest in the stock without placing their shares in the open market. The buy-back price of € 4.45/share gave the company the opportunity to stabilise the share price in the aftermath of CoV lockdowns and **acquire shares significantly below NAV** (€ 6.41/share at end of Q2 2020). We expect the company to sell the shares opportunistically with a book gain in the future.

Company Background

Overview

DEMIRE specializes in commercial real estate acquisition and management

Deutsche Mittelstand Real Estate AG (DEMIRE) is based in Langen/Frankfurt am Main. It **acquires and holds commercial real estate mainly in secondary cities** and up-and-coming peripheral locations of conurbations throughout Germany. The exact corporate purpose according to the German Stock Corporation Act (WpHG) is the acquisition and management of real estate with a focus on property development.

DEMIRE exhibits solid financial KPIs

As of Q2 2020, DEMIRE AG had a **property portfolio of 84 properties** – mainly focused on offices, while hotel, retail and logistics properties complement the offering – with a **rentable area of more than 1 million sqm and a market value of over € 1.5bn**. Those assets are located exclusively in Germany, predominantly in larger cities and in their adjacent metropolitan areas. In this way, the company follows the **ABBA** (**A** locations in **B** cities and **B** locations in **A** cities) approach.

This is also reflected in the portfolio composition. DEMIRE's assets are widely diversified throughout the country, with a focus on office spaces (approx. 64% of gross asset value). As of 30 June 2020, **all assets constitute € 89m in contractual rent**, resulting in a 6% gross yield. The weighted average lease term amounted to roughly five years and **the FFO (FY'19) came in around € 35m**.

Renown tenants ensure security of cash flow

Regarding their long-term tenants, it places great emphasis on renown, large and solvent tenants in order to extract sustainable rental income.

Selected premium tenants

Source: Company data; Hauck & Aufhäuser

History

Founded on 8 August 2006 as Magnat Development GmbH by **Silvia Quandt** as founding partner and the **Private Equity firms Themis/Heliad Equity Partners**, the company was renamed to DEMIRE AG seven years later.

This change in name was also accompanied by a **change in strategy** and thus DEMIRE AG shifted its international focus away from southeast Europe to **acquiring and managing commercial real estate in Germany.**

Important company milestones include the IPO in 2006, several bond placements throughout the decade and the **buy-in of Private Equity Firm Apollo** Global Management in early 2018.

Private equity firm Apollo enters in 2018

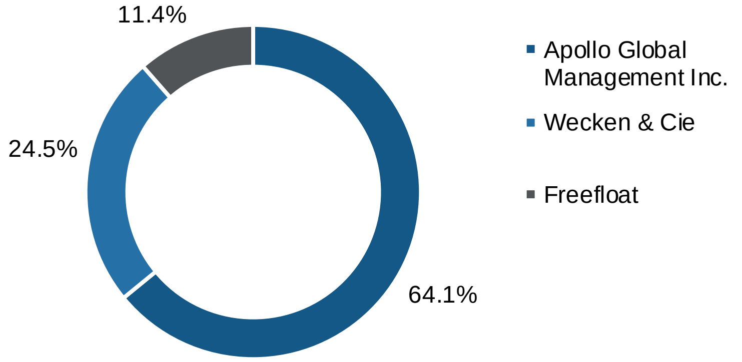
Shareholder Structure

Key shareholder is Apollo Global Management, one of the world's largest Private Equity firms and buyer of distressed assets. Apollo joined forces with DEMIRE in February 2018 and aims **to jointly accelerate the implementation of the DEMIRE 2.0 strategy** to further develop the company into a leading listed German commercial real estate player. Mid-term targets include a portfolio size > € 2bn and an investment grade on its corporate debt.

Private Equity firm Apollo as strategic investor

The small remainder of the shares lie with the early stage venture capitalist funds of Wecken & Cie, several Asset Managers and the free float.

Shareholder structure



Source: Company Data

Management – Executive Board

Ingo Hartlief, CEO

Mr. Ingo Hartlief (FRICS) was born 1965. After studying business administration at the University of Cologne, he started out his career at VEBA AG in the corporate development department. After that, he joined Vonovia SE in 1996. He then subsequently worked eight years for Union Investment Real Estate GmbH, where he was responsible for the funds of institutional investors. Before becoming CEO at DEMIRE AG, he then worked successfully for CORPUS SIREO as Vice CEO & COO, generating an additional inflow of more than € 8bn AuM. Ingo Hartlief also holds various other mandates, such as chairman of the Management Board at Swiss Life Kapitalverwaltungsgesellschaft mbH or as board member of the Competence Steering Committee Center Process Management Real Estate. Since 2016, he is a Fellow of the Royal Institution of Chartered Surveyors (FRICS). He serves as CEO at DEMIRE since 20 December 2018.

Tim Brückner, CFO

Mr. Tim Brückner was born in 1977 and initially started his career at former BHF Bank AG (now: ODDO BHF AG). Subsequently, he completed his bachelors and master degree in Banking and Finance at Frankfurt School, while working as an Analyst, first in consulting later in Investment Banking. He also held a leading position as Vice President in M&A advisory at the international investment bank Rothschild from 2007 to 2012. Most recently, he was responsible - among other things – as a managing director of the subsidiary in Luxembourg for CORPUS SIREO Real Estate, a leading German real estate service provider. He took up his duties as a CFO at DEMIRE with effect from 1 February 2019.

Management – Supervisory Board

Prof. Dr. Alexander Goepfert, Chairman

Mr. Prof. Dr. Alexander Goepfert was born in 1956 and studied law at the universities of Heidelberg and Göttingen before obtaining his doctorate at the University of Cologne. Subsequently, he worked several years as a partner for Freshfields Bruckhaus Deringer LLP in Düsseldorf. Furthermore, Goepfert also runs the Competence Center for Property and Commercial Real Estate Law at EBS University. Besides being the chairman of the supervisory board at DEMIRE AG, he holds several other mandates including seats at aamundo Holding AG (chairman) and PROXIMUS Real Estate AG (board member).

Frank Hölzle, Vice Chairman

Mr. Frank Hölzle was born in 1968 and is a certified economist (Diplom Volkswirt). He studied economics at the University of Freiburg and started working for a small Private Equity firm from 1998 - 2002 as an authorized signatory and managing director in Frankfurt am Main afterwards. He then had several positions with consulting and real estate firms, before eventually becoming the CEO of a swiss family office in 2015. Besides serving on the supervisory board of DEMIRE AG, Hölzle also holds seats with Westgrund AG, MobileObjects AG, SICinvent AG and works as a trained coach for managing directors, board members and executives of small and medium-sized companies.

Prof. Dr. Kerstin Hennig, Member of the Board

Ms. Prof. Dr. Kerstin Hennig was born in 1964 and studied business administration in London, Paris and Oestrich-Winkel before obtainting her doctorate at EBS University. She then proceeded to work for almost 25 years in the real estate industry, including positions at debis Immobilienmanagement, Tishman Speyer Properties, UBS AG, IVG Immobilien AG and Groß & Partner. Besides that, she regularly teaches at several universities, heads the Real Estate Management Institute at EBS University and sits on the supervisory board of DWS Grundbesitz AG.

Financials

Profit and loss (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Net rental income	**76.4**	**73.7**	**73.7**	**81.8**	**86.2**	**102.3**	**118.7**
Direct property expenses	33.5	32.7	30.3	35.9	46.5	49.1	51.6
Net operating income	**42.8**	**41.0**	**43.4**	**45.9**	**39.7**	**53.2**	**67.0**
Earnings from property disposals	4.9	0.9	0.1	16.8	4.0	5.0	5.0
Earnings from project developments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings from other property activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	20.9	19.7	17.6	24.0	26.0	26.0	26.0
Total revenues	**102.2**	**94.4**	**91.4**	**122.6**	**116.2**	**133.3**	**149.7**
Revaluation result from investment properties (net)	38.4	48.6	93.1	83.0	28.0	32.0	38.0
Total income	**140.6**	**143.0**	**184.4**	**205.6**	**144.2**	**165.3**	**187.7**
Administrative expenses	10.7	9.9	15.3	8.4	8.0	8.1	8.2
Personnel expenses	3.9	5.4	5.3	4.7	4.5	4.7	4.9
Other operating expenses	7.4	7.5	4.5	0.9	1.0	1.1	1.2
Total operating expenses	**21.9**	**22.8**	**25.2**	**13.9**	**13.5**	**13.9**	**14.3**
EBITDA	**85.2**	**87.4**	**128.9**	**155.8**	**84.2**	**102.3**	**121.7**
EBITDA excl revaluation result (net)	**46.8**	**38.9**	**35.9**	**72.8**	**56.2**	**70.3**	**83.7**
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITA	**85.2**	**87.4**	**128.9**	**155.8**	**84.2**	**102.3**	**121.7**
EBITA excl revaluation result (net)	**46.8**	**38.9**	**35.9**	**72.8**	**56.2**	**70.3**	**83.7**
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment charges	2.1	2.8	1.9	0.6	5.0	1.2	0.9
EBIT (inc revaluation net)	**83.2**	**84.7**	**127.1**	**155.2**	**79.2**	**101.1**	**120.8**
EBIT (excl revaluation net)	**44.8**	**36.1**	**34.0**	**72.1**	**51.2**	**69.1**	**82.8**
Interest income	1.2	0.9	0.5	0.4	0.5	0.0	0.0
Interest expenses	39.1	49.7	26.4	50.9	17.5	16.7	19.6
Depreciation of financial investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	-5.2	-8.3	-12.4	-6.8	-2.5	1.0	1.5
Financial result	**-43.2**	**-57.0**	**-38.3**	**-57.3**	**-19.5**	**-15.7**	**-18.1**
Earnings before taxes	**40.0**	**27.6**	**88.8**	**97.9**	**59.7**	**85.4**	**102.7**
Earnings before taxes (excl revaluation result)	**1.5**	**-20.9**	**-4.3**	**14.8**	**31.7**	**53.4**	**64.7**
Taxes	12.3	8.2	19.7	18.1	11.9	17.1	20.5
Net income from continuing operations (incl reval. result)	**27.7**	**19.4**	**69.1**	**79.7**	**51.9**	**68.4**	**82.2**
Net income from continuing operations (excl reval. result)	**-10.8**	**-29.1**	**-24.0**	**-3.3**	**23.9**	**36.4**	**44.2**
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary items (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative effect of accounting changes (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (incl revaluation result net)	**27.7**	**19.4**	**69.1**	**79.7**	**51.9**	**68.4**	**82.2**
Net income (excl revaluation result net)	**-10.8**	**-29.1**	**-24.0**	**-3.3**	**23.9**	**36.4**	**44.2**
Minority interest	3.0	5.6	7.5	4.2	1.7	1.5	1.5
Net income (net of minority interest, incl reval. result)	**24.7**	**13.8**	**61.6**	**75.5**	**50.2**	**66.9**	**80.7**
Net income (net of minority interest, excl reval. result)	**-13.7**	**-34.8**	**-31.5**	**-7.5**	**22.2**	**34.9**	**42.7**
Funds from operations (FFO)	8.1	11.7	23.4	34.5	37.1	50.3	59.8

Profit and loss (common size)	2016	2017	2018	2019	2020E	2021E	2022E
Net rental income	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Direct property expenses	43.9 %	44.4 %	41.1 %	43.9 %	54.0 %	48.0 %	43.5 %
Net operating income	**56.1 %**	**55.6 %**	**58.9 %**	**56.1 %**	**46.0 %**	**52.0 %**	**56.5 %**
Earnings from property disposals	6.4 %	1.3 %	0.1 %	20.5 %	4.6 %	4.9 %	4.2 %
Earnings from project developments	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings from other property activities	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other operating income	27.4 %	26.8 %	23.9 %	29.3 %	30.2 %	25.4 %	21.9 %
Total revenues	**133.9 %**	**128.1 %**	**124.0 %**	**149.8 %**	**134.8 %**	**130.3 %**	**126.1 %**
Revaluation result from investment properties (net)	50.3 %	65.9 %	126.3 %	101.5 %	32.5 %	31.3 %	32.0 %
Total income	**184.2 %**	**193.9 %**	**250.2 %**	**251.3 %**	**167.3 %**	**161.6 %**	**158.1 %**
Administrative expenses	13.9 %	13.4 %	20.8 %	10.2 %	9.3 %	7.9 %	6.9 %
Personnel expenses	5.0 %	7.3 %	7.2 %	5.7 %	5.2 %	4.6 %	4.1 %
Other operating income	27.4 %	26.8 %	23.9 %	29.3 %	30.2 %	25.4 %	21.9 %
Total operating expenses	**28.6 %**	**31.0 %**	**34.2 %**	**17.0 %**	**15.7 %**	**13.6 %**	**12.1 %**
EBITDA	**111.6 %**	**118.6 %**	**174.9 %**	**190.5 %**	**97.6 %**	**100.0 %**	**102.6 %**
EBITDA excl revaluation result (net)	**61.3 %**	**52.7 %**	**48.7 %**	**89.0 %**	**65.1 %**	**68.7 %**	**70.6 %**
Depreciation	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBITA	**111.6 %**	**118.6 %**	**174.9 %**	**190.5 %**	**97.6 %**	**100.0 %**	**102.6 %**
EBITA excl revaluation result (net)	**61.3 %**	**52.7 %**	**48.7 %**	**89.0 %**	**65.1 %**	**68.7 %**	**70.6 %**
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Impairment charges	2.7 %	3.7 %	2.5 %	0.8 %	5.8 %	1.2 %	0.8 %
EBIT (inc revaluation net)	**108.9 %**	**114.9 %**	**172.4 %**	**189.7 %**	**91.8 %**	**98.8 %**	**101.8 %**
EBIT (excl revaluation net)	**58.6 %**	**49.0 %**	**46.1 %**	**88.2 %**	**59.3 %**	**67.5 %**	**69.8 %**
Interest income	1.5 %	1.3 %	0.7 %	0.4 %	0.6 %	0.0 %	0.0 %
Interest expenses	51.2 %	67.4 %	35.8 %	62.2 %	20.3 %	16.3 %	16.5 %
Depreciation of financial investment	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Investment income	neg.	neg.	neg.	neg.	neg.	1.0 %	1.3 %
Financial result	**neg.**	**neg.**	**neg.**	**neg.**	**neg.**	**neg.**	**neg.**
Earnings before taxes (incl revaluation result)	**52.3 %**	**37.5 %**	**120.4 %**	**119.6 %**	**69.2 %**	**83.5 %**	**86.6 %**
Earnings before taxes (excl revaluation result)	**2.0 %**	**neg.**	**neg.**	**18.1 %**	**36.7 %**	**52.2 %**	**54.5 %**
Total taxes	16.1 %	11.1 %	26.7 %	22.1 %	13.8 %	16.7 %	17.3 %
Net income from continuing operations (incl reval. result)	**36.2 %**	**26.4 %**	**93.7 %**	**97.5 %**	**60.2 %**	**66.8 %**	**69.2 %**
Net income from continuing operations (excl reval. result)	**neg.**	**neg.**	**neg.**	**neg.**	**27.7 %**	**35.5 %**	**37.2 %**
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Extraordinary items (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Cumulative effect of accounting changes (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income (incl revaluation result net)	**36.2 %**	**26.4 %**	**93.7 %**	**97.5 %**	**60.2 %**	**66.8 %**	**69.2 %**
Net income (excl revaluation result net)	**neg.**	**neg.**	**neg.**	**neg.**	**27.7 %**	**35.5 %**	**37.2 %**
Minority interest	3.9 %	7.7 %	10.1 %	5.1 %	2.0 %	1.5 %	1.3 %
Net income (net of minority interest, incl reval. result)	**32.3 %**	**18.7 %**	**83.5 %**	**92.3 %**	**58.2 %**	**65.3 %**	**68.0 %**
Net income (net of minority interest, excl reval. result)	**neg.**	**neg.**	**neg.**	**neg.**	**25.7 %**	**34.1 %**	**36.0 %**
Funds from operations (FFO)	10.6 %	15.9 %	31.7 %	42.2 %	43.0 %	49.2 %	50.4 %

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Intangible assets	7.0	7.0	6.9	6.9	6.9	6.9	6.9
Investment properties	981.3	1,021.8	1,139.9	1,493.9	1,616.9	1,918.9	2,226.9
Development assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	1.8	1.9	0.5	0.4	0.4	0.4	0.4
Financial assets	11.5	2.2	9.0	19.4	22.0	23.5	24.8
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FIXED ASSETS	**1,001.5**	**1,032.9**	**1,156.2**	**1,520.7**	**1,646.2**	**1,949.7**	**2,259.0**
Properties held for sale	24.3	12.3	12.3	16.3	20.5	21.3	20.8
Inventories	2.2	1.7	0.0	0.0	0.0	0.0	0.0
Accounts receivable	33.9	23.8	16.9	36.8	25.6	25.9	26.2
Other current assets	34.7	26.3	19.8	38.3	27.1	27.4	27.7
Liquid assets	31.3	73.9	190.4	102.1	45.0	160.0	55.0
CURRENT ASSETS	**92.5**	**114.2**	**222.5**	**156.7**	**92.6**	**208.7**	**103.5**
TOTAL ASSETS	**1,094.0**	**1,147.1**	**1,378.7**	**1,677.4**	**1,738.8**	**2,158.4**	**2,362.5**
Subscribed capital	54.2	54.3	107.8	107.8	107.8	152.8	152.8
Surplus capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	193.0	217.4	368.6	430.0	476.4	665.4	684.8
Net profit/loss	24.7	13.8	61.6	75.5	50.2	66.9	80.7
SHAREHOLDERS' EQUITY	**271.9**	**285.4**	**537.9**	**613.4**	**634.4**	**885.1**	**918.3**
MINORITY INTEREST	**36.7**	**33.7**	**44.4**	**47.4**	**48.8**	**49.0**	**49.2**
PROVISIONS AND ACCRUED LIABILITIES	**5.8**	**2.6**	**5.2**	**24.5**	**26.2**	**27.3**	**28.6**
short-term liabilities to banks	42.0	29.1	30.2	69.1	45.8	45.8	45.8
Bonds (long-term)	108.6	403.2	366.6	600.0	600.0	764.9	875.1
long-term liabilities to banks	512.0	262.6	239.8	137.8	197.4	197.4	252.3
other interest-bearing liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing liabilities	**662.6**	**694.9**	**636.6**	**807.0**	**843.2**	**1,008.1**	**1,173.2**
Accounts payable	17.4	14.7	15.4	10.0	12.8	13.0	13.3
Current liabilities	**81.9**	**87.6**	**92.5**	**109.6**	**105.5**	**103.5**	**101.4**
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	35.0	42.9	62.1	75.5	80.7	85.4	91.8
LIABILITIES	**779.6**	**825.4**	**791.1**	**992.1**	**1,029.4**	**1,197.0**	**1,366.4**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,094.0**	**1,147.1**	**1,378.7**	**1,677.4**	**1,738.8**	**2,158.4**	**2,362.5**

Balance sheet (common size)	2016	2017	2018	2019	2020E	2021E	2022E
Intangible assets	0.6 %	0.6 %	0.5 %	0.4 %	0.4 %	0.3 %	0.3 %
Investment properties	89.7 %	89.1 %	82.7 %	89.1 %	93.0 %	88.9 %	94.3 %
Development assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Property, plant and equipment	0.2 %	0.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial assets	1.0 %	0.2 %	0.7 %	1.2 %	1.3 %	1.1 %	1.0 %
Other non-current assets	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred taxes	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
FIXED ASSETS	**91.5 %**	**90.0 %**	**83.9 %**	**90.7 %**	**94.7 %**	**90.3 %**	**95.6 %**
Properties held for sale	2.2 %	1.1 %	0.9 %	1.0 %	1.2 %	1.0 %	0.9 %
Inventories	0.2 %	0.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	3.1 %	2.1 %	1.2 %	2.2 %	1.5 %	1.2 %	1.1 %
Other current assets	3.2 %	2.3 %	1.4 %	2.3 %	1.6 %	1.3 %	1.2 %
Liquid assets	2.9 %	6.4 %	13.8 %	6.1 %	2.6 %	7.4 %	2.3 %
CURRENT ASSETS	**8.5 %**	**10.0 %**	**16.1 %**	**9.3 %**	**5.3 %**	**9.7 %**	**4.4 %**
TOTAL ASSETS	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Subscribed capital	5.0 %	4.7 %	7.8 %	6.4 %	6.2 %	7.1 %	6.5 %
Surplus capital	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Additional paid-in capital	17.6 %	18.9 %	26.7 %	25.6 %	27.4 %	30.8 %	29.0 %
Net profit/loss	2.3 %	1.2 %	4.5 %	4.5 %	2.9 %	3.1 %	3.4 %
SHAREHOLDERS' EQUITY	**24.9 %**	**24.9 %**	**39.0 %**	**36.6 %**	**36.5 %**	**41.0 %**	**38.9 %**
MINORITY INTEREST	**3.4 %**	**2.9 %**	**3.2 %**	**2.8 %**	**2.8 %**	**2.3 %**	**2.1 %**
PROVISIONS AND ACCRUED LIABILITIES	**0.5 %**	**0.2 %**	**0.4 %**	**1.5 %**	**1.5 %**	**1.3 %**	**1.2 %**
short-term liabilities to banks	3.8 %	2.5 %	2.2 %	4.1 %	2.6 %	2.1 %	1.9 %
Bonds (long-term)	9.9 %	35.1 %	26.6 %	35.8 %	34.5 %	35.4 %	37.0 %
long-term liabilities to banks	46.8 %	22.9 %	17.4 %	8.2 %	11.4 %	9.1 %	10.7 %
other interest-bearing liabilities	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Interest-bearing liabilities	**60.6 %**	**60.6 %**	**46.2 %**	**48.1 %**	**48.5 %**	**46.7 %**	**49.7 %**
Accounts payable	1.6 %	1.3 %	1.1 %	0.6 %	0.7 %	0.6 %	0.6 %
Current liabilities	**7.5 %**	**7.6 %**	**6.7 %**	**6.5 %**	**6.1 %**	**4.8 %**	**4.3 %**
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Deferred taxes	3.2 %	3.7 %	4.5 %	4.5 %	4.6 %	4.0 %	3.9 %
LIABILITIES	**71.3 %**	**72.0 %**	**57.4 %**	**59.1 %**	**59.2 %**	**55.5 %**	**57.8 %**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Net profit	**40.0**	**27.6**	**88.8**	**97.9**	**59.7**	**85.4**	**102.7**
Other recurrent / non-recurrent items	**-3.9**	**-3.1**	**-55.6**	**-44.7**	**-8.0**	**-11.1**	**-13.2**
Increase/decrease in working capital	-0.7	11.3	5.7	-7.3	13.9	-0.1	0.0
Cash flow from operating activities	**35.4**	**35.8**	**38.9**	**45.8**	**65.6**	**74.3**	**89.5**
CAPEX	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments for acquisitions	0.0	0.0	0.0	0.0	200.0	300.0	300.0
Financial investments	-16.2	-7.4	-24.7	-284.6	-24.7	-71.6	-54.3
Income from asset disposals	22.0	28.0	0.6	31.4	80.6	19.4	20.8
Cash flow from investing activities	**5.7**	**20.6**	**-24.0**	**-253.2**	**-144.1**	**-352.2**	**-333.5**
Increase/decrease in debt position	-20.6	32.8	-43.9	164.0	36.3	164.9	165.1
Dividends paid	0.0	0.0	0.0	0.0	14.8	22.0	26.1
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	15.8	0.0	173.7	0.0	0.0	250.0	0.0
Others	-33.5	-46.5	-28.1	-44.9	0.0	0.0	0.0
Cash flow from financing activities	**-38.3**	**-13.8**	**101.7**	**119.1**	**21.4**	**392.9**	**139.0**
Cash flow from operating activities	**39.3**	**38.9**	**94.4**	**90.6**	**73.6**	**85.3**	**102.7**
Cash flow after maintenance capex	**40.0**	**27.6**	**88.8**	**97.9**	**59.7**	**85.4**	**102.7**
Cash flow before financing	**73.6**	**71.2**	**64.2**	**361.9**	**-44.0**	**-156.7**	**-161.4**
Increase/decrease in liquid assets	**35.3**	**57.5**	**165.9**	**480.9**	**-7.7**	**258.2**	**3.7**

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Domestic	76.4	73.7	73.7	81.8	86.2	102.3	118.7
yoy change	n/a	-3.5 %	0.0 %	11.0 %	5.4 %	18.7 %	16.0 %
Rest of Europe	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NAFTA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	0.0	0.0	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TTL	**76.4**	**73.7**	**73.7**	**81.8**	**86.2**	**102.3**	**118.7**
yoy change	n/a	-3.5 %	0.0 %	11.0 %	5.4 %	18.7 %	16.0 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2016	2017	2018	2019	2020E	2021E	2022E
Return on equity							
Net profit / Y/E equity	-5.1 %	-12.2 %	-5.9 %	-1.2 %	3.5 %	3.9 %	4.6 %
Recurring net profit / Y/E equity	3.0 %	4.1 %	4.3 %	5.6 %	5.8 %	5.7 %	6.5 %
Net profit / avg. equity	-5.1 %	-12.2 %	-5.9 %	-1.2 %	3.5 %	3.9 %	4.6 %
Recurring net profit / avg. equity	3.0 %	4.1 %	4.3 %	5.6 %	5.8 %	5.7 %	6.5 %
Security							
Net debt	631.4	621.0	446.1	704.8	798.2	848.1	1,118.2
Debt / equity	243.7 %	243.5 %	118.3 %	131.6 %	132.9 %	113.9 %	127.8 %
Net gearing	232.2 %	217.6 %	82.9 %	114.9 %	125.8 %	95.8 %	121.8 %
Interest cover	1.1	0.7	1.3	1.4	2.9	4.1	4.2
EBITDA / interest paid	2.2	1.8	4.9	3.1	4.8	6.1	6.2
Dividend payout ratio	0 %	0 %	0 %	169 %	40 %	40 %	45 %
Dividend cover	n/a	n/a	n/a	0.6	2.5	2.5	2.2
Loan-to-value (LTV)	62.8 %	60.1 %	38.7 %	46.7 %	48.7 %	43.7 %	49.7 %
Return on Net Asset Value	2.8 %	3.6 %	5.8 %	5.0 %	5.2 %	5.7 %	5.7 %
Liquidity							
Current ratio	0.6	0.7	1.2	0.6	0.4	0.9	0.4
Acid test ratio	0.6	0.7	1.2	0.6	0.4	0.9	0.4
Valuation metrics							
FFO	8.1	11.7	23.4	34.5	37.1	50.3	59.8
FFO per share	0.16	0.22	0.32	0.32	0.34	0.36	0.38
NAV	300.5	323.5	594.9	684.4	713.3	968.7	1,008.3
NAV per share	5.54	5.96	5.52	6.35	6.62	6.34	6.60
NNNAV	265.2	278.6	533.5	591.7	627.6	878.3	911.5
NNNAV per share	4.89	5.13	4.95	5.49	5.82	5.75	5.97

Source: Company data, Hauck & Aufhäuser

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Company	Disclosure
DEMIRE AG	2, 8

Historical target price and rating changes for DEMIRE AG in the last 12 months

Initiation coverage

25-September-20

Company	Date	Analyst	Rating	Target price	Close

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Date of publication creation: 25/09/2020 08:04 AM

Date of publication dissemination: 25/09/2020 08:04 AM

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