

■ **Price (Euro)** **5.18**
52 weeks range 5.82 / 3.62

■ **Key Data**

ISIN DE000A0XFSF0
Bloomberg DMRE:GR
Reporting standard IFRS
Market Cap (Euro million) 558
Number of shares (million) 107.8
Free Float 11.4%
Free Float Market Cap (Euro million) 64
CAGR EBT ('19 -'22e) -5.8%

■ Multiples	2019	2020e	2021e	2022e
Market Cap/ Total revenues	6.8	6.1	5.1	4.5
PE-Ratio	7.4	10.6	12.1	11.4
Dividend Yield	0.0%	0.0%	2.7%	3.1%
Price-to-Book-Ratio	0.91	0.83	0.82	0.71
P/ NAV-ratio	0.82	0.76	0.77	0.66

■ Key Data per share (Euro)	2019	2020e	2021e	2022e
Earnings per share (EPS)	0.70	0.49	0.43	0.45
Dividend per share (DPS)	0.00	0.00	0.14	0.16
Book Value per Share (BVPS)	5.69	6.21	6.30	7.33
EPRA NAV per share	6.35	6.82	6.75	7.84

■ Financial Data (Euro '000)	2019	2020e	2021e	2022e
Rental income	81,799	91,876	110,213	125,336
Net revaluation result	83,022	46,823	43,589	40,355
Operating profit (EBIT)	155,170	107,820	113,654	123,044
Net financial result	-57,315	-30,210	-36,410	-41,236
Pre-tax profit (EBT)	97,855	77,610	77,244	81,808
Taxation	-18,117	-15,443	-16,117	-17,456
Net profit after minorities	75,539	59,992	59,194	62,661
FFO I after tax	34,506	41,840	49,442	56,229
Shareholders' equity (Euro million)	661	798	906	1,050
Property portfolio (Euro million)	1,488	1,813	2,079	2,215
RoE (after tax)	12.2%	8.2%	6.9%	6.4%
Equity ratio (incl. equity minorities)	39.4%	36.2%	36.7%	38.4%

■ **Main Shareholders**

Apollo 64.1%
Wecken-Group 24.5%

■ **Financial calendar**

1Q report 2020 20 May 2020
AGM 25 June 2020
1H report 2020 19 August 2020

■ **Analysts**

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2019 FFO up 48%, rental income lifted by 11% – transaction volume of more than Euro 400m and high revaluation result lift portfolio to almost Euro 1.5bn – Target down to Euro 6.00

On Wednesday, the company published the 2019 annual report and confirmed the expected very successful year, delivering on all four pillars of the firm's "REALize Potential" strategy. The numbers were strong and the firm finished the year at the top end of the firm's guidance, which was already lifted twice during the course of the last year. Rental income increased by 11% from almost Euro 74m to Euro 82m, mainly driven by the portfolio additions. The income from rental of real estate came in at Euro 65.5m, up 12% from last year's number of Euro 58.5m. This translates into an improved NOI-Margin of now 80%. The sale of four non-strategic objects in 2019 added almost Euro 17m to the P&L, as these were sold at a significant premium of 57%. The revaluation result was once again high and came in at Euro 83m. General and administrative expenses significantly improved from Euro -21m to almost Euro -13m, as last year's number was coined by one-offs. The operating profit on EBIT basis was at Euro 155m up 22% from last year's number of Euro 127m. The financial result was at Euro -57m (FY 2018: Euro -38m). Included here, however, are almost Euro 28m expenses related to the bond refinancing and the repayment of the promissory note, which will improve the firm's numbers significantly in 2020 and the coming years by about Euro 10m. Despite that, the pre-tax profit was still up almost 5% from Euro 101m to almost Euro 106m. The bottom line increased by almost 16% from Euro 69m to Euro 80m. The cash driven FFO hiked by 48% from Euro 23.4m to Euro 34.5m. This translates into a FFO per share of 32 cents, the same number as in the previous year despite a significant higher amount of shares outstanding following the capital hike in November 2018. In 2019, the company acquired 11 assets with a volume of about Euro 360m and fulfilled our expectations also on the transaction side. Included here are an office portfolio, a retail portfolio a hotel in Frankfurt and a B"B distribution center. Including the Euro 46m of sold non-strategic assets, the total transaction volume was at more than Euro 400m. Thus, the portfolio value increased by more than 30% from more than Euro 1.1bn to almost Euro 1.5bn. The letting result in 2019 was strong at almost 173k sqm and the annualized rental income grew by almost 24% from Euro 73m to Euro 90m.

We are pleased with the developments in 2019 and see the company in a good spot for the coming years, even in times of the Corona virus. We believe the company will further grow, both in terms of income and the portfolio. For the current fiscal year, the firm guides for a rental income in a range between Euro 90m to Euro 92m and a FFO between Euro 40m and Euro 42m. We reduced our estimates, which were a bit higher, as the company plans on the one side to invest more into the portfolio than expected and on the other hand we get a little more cautious given the current Corona situation. In terms of acquisitions, we believe further news to come within the first half of the year. We now also estimate that the firm will initiate a dividend payment in the coming years, starting for the FY 2021 in our opinion. Our adjusted P&L numbers lead us to reduce our target from Euro 6.30 to Euro 6.00. We stick to our Buy recommendation for the DEMIRE share.

DEMIRE Deutsche Mittelstand Real Estate AG

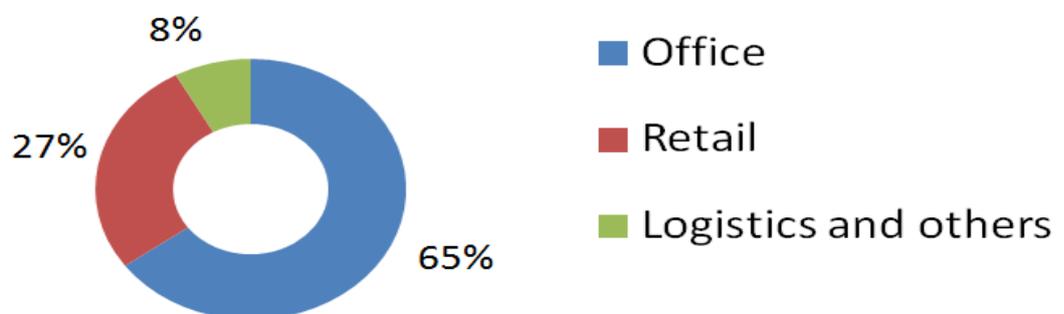
Industry:	Real Estate	Management Board of DEMIRE AG:
Sub-segment:	Office / Retail / Logistics	CEO Ingo Hartlief (FRICS)
Region:	Germany	CFO Tim Brückner
Headquarter:	Frankfurt am Main	
Foundation	2006	
Employees:	41	Supervisory Board of DEMIRE AG:
		Prof. Dr. Alexander Goepfert (Chairman)
IR Contact:		Frank Hölzle (Vice Chairman)
Michael Tegeder, Head of IR and Corporate Finance		Prof. Dr. Kerstin Hennig
tegeder@demire.ag		

DEMIRE Deutsche Mittelstand Real Estate AG acquires and manages high quality commercial real estate properties. The firm was originally founded in April 2006 as MAGNAT Real Estate Opportunities, focusing their business activities on real estate markets in Eastern Europe and the Black Sea region. In 2013 however, the company changed their strategic alignment and further changed their name to DEMIRE Deutsche Mittelstand Real Estate AG. Since then, the focus has been shifted on office, retail and logistics properties in secondary locations across Germany, such as mid-sized cities and bordering areas to metropolitan cities. The company follows a strategy that combines a stable income creating Core+ portfolio with value-add properties to create rental growth opportunities due to a "manage-to-core" strategy, and redevelopments due to extensions, refurbishments and selective developments.

The company holds a diversified portfolio with a total rental space of more than 1,100,000 sqm and a portfolio value of close to Euro 1.5bn as of FY 2019. The portfolio is diversified within the commercial segment. As of FY 2019, about 65% of the portfolio in terms of Gross Asset Value is concentrated in offices, 27% in retail properties, and about 8% in the logistics and other segment. The largest share of the portfolio is located in the state of North Rhine-Westphalia, where about 28% of the portfolio is held. In 2019 about Euro 0.36bn of new acquisitions were arranged. Furthermore, about Euro 50m of non-strategic assets were sold, bringing the total transaction volume of 2019 to more than Euro 400m.

The average maturity of rental contracts amounts to c. 4.8 years with a vacancy rate of 9.4% as of FY 2019. Among tenants are various well-known and successful brands like Telekom, Sparkasse, Comdirect Bank, and Zapf. Except the 19.1% share of GMG (Telekom) and the about 6% share of Karstadt and Imotex Neuss, the remaining tenants from the top 10 list make up for not more than 3% each. This represents a well diversified income structure. Average gross rental yield is at 6.0%. Office properties and logistic properties have a yield of 5.7% and 5.9% respectively, as compared to retail at 6.8%.

Asset Class as % of portfolio market value as of FY 2019



Since 15 July 2016, DEMIRE is trading in the Prime Standard segment in Frankfurt. That segment requires the highest level of transparency of all segments at the Frankfurt Stock Exchange and even in Europe.

Source: Company Data, SRC Research

SWOT Analysis

Strengths

- The Management is highly senior, experienced and well-known in the German real estate sector.
- The transformation of the company has well proceeded since the change in strategy in 2013 and now has a clear focus and targets for the coming years.
- The current portfolio is well diversified between asset classes and regions and therefore has no cluster risks in that regard.

Weaknesses

- The firm's current free float of the share is at about 11% very low, which limits the tradability and liquidity of the share. The free float should be increased with possible upcoming capital hikes, however.
- DEMIRE still lacks reputation in the market, which leads to a discount in their share price. As the firm gains more popularity and awareness with investors we see this current weakness turning into an opportunity to close the current gap to NAV.

Opportunities

- DEMIRE currently follows the strategic plan "REALize Potential". Thereby the company aims lift the size of the portfolio to more than Euro 2bn, realize potential through asset management, reduce their financing costs and make use of economies of scales in the portfolio. The strategic plan sounds very promising and, if accomplished, could lead to lucrative earnings in the midterm future. DEMIRE is on a very good way to deliver on the goals. Two big portfolio deals were closed in 2019 and the financing costs and profile was significantly improved following the placement of the benchmark corporate bond in September. Another significant transaction was notarized in December 2019.
- DEMIRE could reach even better financing conditions as they reach a better standing and they grow their portfolio and strengthen their balance sheet. The firm has already significantly lowered its cost of debt to currently only 1.8%, but we believe that there is even more room for improvements.
- The firm still has a lot of upside potential in their current portfolio due to revaluation gains. There are many objects that are still significantly below the potential value. The company can help realize that potential by improving their portfolio e.g. by reducing vacancy rates and other measures.
- The focus on secondary locations still offer lucrative yields compared to the Top7 locations and good opportunities to find lucrative deals with value add potential that will drive the company's operations and thus the share.

Threats

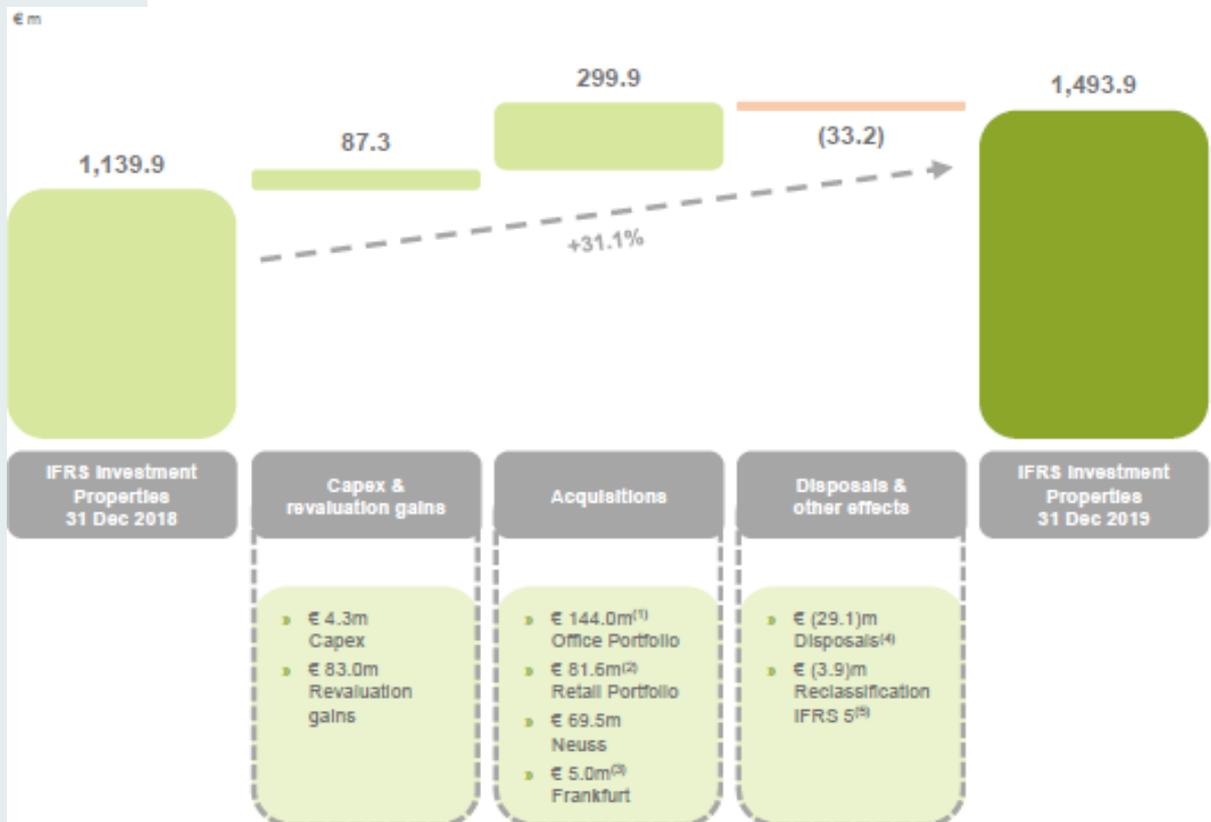
- The largest tenant in the portfolio, Deutsche Telekom, currently makes up for about 19% of gross rental income, which could lead to a significant reduction in rental income if problems were to arise. However, Deutsche Telekom is a large company with a long history and therefore a good tenant to have. Furthermore, the exposure is split over multiple different lease contracts and over many properties with long lease maturities and a high WALT.
- Letting and re-letting activities could become more challenging in a severe economic downturn caused by e.g. the Corona virus
- The company follows a "manage-to-core" strategy in their Value-Add portfolio and further has some redevelopment objects in their portfolio. Problems regarding the improvements of the objects could lead to higher than expected costs.
- A change in European monetary policy by the ECB regarding the termination of the currently all-time low-interest period could result in a relatively high increase of interest expenses and might also lead to higher expenses for DEMIRE. We currently do not see any drastic changes in the near future, even more in the Corona times, and the company has also already locked in some long term financing at good rates. And keep in mind that new portfolio additions might probably come in the portfolio with lower Cost of Debt as the current group level, bringing down the group's Cost of Debt position.

DEMIRE is reaping the fruits of its strategic program "REALize Potential"

At the beginning of 2019, the company initiated the "REALize Potential" strategy and implemented it over the course of the year. With this four pillar program, namely acquisition, management, financials, and processes, the company aims to grow the portfolio while realizing economies of scale, to realize potential through active and value-oriented property management, improve the financing structure to realize cost saving potential, and to realize optimization potential in processes and structures. achieve a profitable and sustainable growth. In 2019, the company has fully delivered and even over achieved in these four pillars.

Acquisitions:

The company acquired a total of 11 properties over the course of 2019, including an office portfolio and a retail portfolio. All of these acquisitions have an institutional size and offer further potential. The total acquisition volume amounted to almost Euro 360m. Furthermore, four non-strategic assets with a value of more than Euro 46m were sold at a premium of 57% to market value. Together with the effects from the asset management, the overall portfolio grew to about Euro 1.5bn, thus a significant step closer to the targeted portfolio size of Euro 2bn.



Source: Company data

Management:

In the property management several significant improvements were achieved in 2019. The letting performance was at almost 173k sqm more than double the amount of the previous year and equates to about 15% of the total portfolio. This secured almost Euro 11m of rental income over the coming years. The WALT increased from 4.5 years to 4.8 years, despite the passing of another year, while the vacancy rate stood at 9.4% and will come down further as new leases were already signed since year-end. All in all, these achievements translated into a high revaluation result of Euro 83m. Including the acquisitions, the annualized contractual rent increased from Euro 73m to Euro 90m, a plus of almost 24%.



Source: Company data

One of the best examples of the successful management and realization of value-add potential is the object in Bad Vilbel, which was acquired at the end of 2018 and closed on 1 May 2019. The object was transformed from a single tenant property to a multi tenant property while establishing a tenant related asset- and property management. Since the closing of the transaction, the KPIs of the object have significantly improved. The vacancy rate was massively decreased from almost 70% to 22%, and including the recent rental to Brother even to a low number of only 5%. The gross rental income almost tripled from Euro 1.1m to Euro 2.9m and the WALT was extended from 4.6 years to 7.5 years. Overall, the market value of the property was increased by 43% to more than Euro 44m within one year.

Financials:

In the financials area, clear improvements of the financing profile were accomplished and the cost of debt was reduced immensely. The company issued a 2019/2024 corporate bond with a volume of Euro 600m was issued at a low coupon of only 1.875% and a five year maturity. On the one hand, the proceeds were used to call the outstanding 17/22 bond with a volume of Euro 370m and to refund the outstanding promissory note, which was due 2022 with a volume of Euro 150m. This significantly lowered the cost of debt from 3% at year-end 2018 to now only 1.84% and also extended the maturity profile of the firm's liabilities from 2.8 years before the refinancing to 4.2 years. The Net LTV is at a comfortable level of about 47%, close to the firm's target level of 50%, which is expected to be further approached after the closing of the Hotel acquisition. The equity ratio stands at 39.4%.



Source: Company data

Processes:

In terms of processes, DEMIRE optimized the asset management processes in 2019, redefined the reporting and controlling instruments and also increased the efficiency of the administration. In terms of visible results, the firm's administration costs came down significantly, which also contributed to the strong hike in FFO.

For the current year 2020 we expect further improvements in all four pillars of the strategy and believe that further results will already become visible with the release of the 1Q report.

DEMIRE Deutsche Mittelstand Real Estate AG 31/12 IFRS ('000)	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Rental income	73,716	73,709	81,799	90,876	110,213	125,336	15.3%
Income from utility and service charges	14,624	15,101	19,625	19,993	24,247	27,574	
Operating and ancillary costs	-32,708	-30,310	-35,886	-38,168	-45,408	-50,134	
Profit/loss from the rental of real estate	55,632	58,500	65,538	72,701	89,052	102,776	16.2%
Revenues from the sale of real estate	28,389	1,052	46,130	17,254	1,245	2,574	
Expenses relating to the real estate sales	-27,445	-1,002	-29,327	-14,732	-963	-1,247	
Profit/loss from the sale of real estate	944	50	16,803	2,522	282	1,327	
Profit/loss from fair value adjustments in investment properties	48,560	93,059	83,022	46,823	43,589	40,355	
Impairment of receivables	-2,763	-1,874	-629	-547	-314	-748	
Other operating income	5,052	2,513	4,327	3,748	2,981	3,147	
Other operating income and other effects	50,849	93,698	86,720	50,024	46,256	42,754	-21.0%
General and administrative expenses	-15,304	-19,007	-13,017	-15,749	-17,214	-18,679	
Other operating expenses	-7,523	-6,176	-874	-2,478	-4,722	-5,134	
Earnings before interest and taxes (EBIT)	84,671	127,065	155,170	107,020	113,654	123,044	-7.4%
Financial income	940	480	1,288	1,341	1,413	1,485	
Finance expenses	-49,703	-26,415	-50,860	-26,224	-33,140	-38,682	
Interest of minority shareholders	-8,279	-12,373	-7,743	-5,327	-4,683	-4,039	
Financial result	-57,042	-38,308	-57,315	-30,210	-36,410	-41,236	
Profit/loss before taxes (EBT)	27,629	88,757	97,855	76,810	77,244	81,808	-5.8%
Income taxes	-8,197	-19,704	-18,117	-15,443	-16,117	-17,456	
Tax rate	30%	22%	19%	20%	21%	21%	
Net profit/loss	19,432	69,053	79,738	61,367	61,127	64,352	
Minorities	-5,649	-7,478	-4,199	-2,175	-1,933	-1,691	
Net profit/loss after minorities	13,783	61,575	75,539	59,192	59,194	62,661	
FFO I after tax	11,738	23,359	34,506	40,440	49,442	56,229	17.7%
FFO per share	0.22	0.32	0.32	0.33	0.36	0.41	
Number of shares ('000)	54,271	72,178	107,777	122,441	138,174	138,174	
Earnings per share (EPS)	0.25	0.85	0.70	0.48	0.43	0.45	
Dividend per share (DPS)	0.00	0.00	0.00	0.00	0.14	0.16	
in % of FFO result	0.0%	0.0%	0.0%	0.0%	39.1%	39.3%	
Shareholders' Equity (without minorities)	285,417	537,913	613,351	760,145	871,134	1,012,134	18.2%
Shareholders' Equity (including minorities)	319,101	582,338	660,782	798,041	905,915	1,050,030	
EPRA NAV	323,572	595,225	684,131	835,143	932,147	1,083,260	16.6%
Balance Sheet sum	1,147,116	1,378,692	1,677,416	2,205,318	2,469,269	2,733,220	
Equity Ratio	27.8%	42.2%	39.4%	36.2%	36.7%	38.4%	
RoE (after tax)	4.4%	13.7%	12.2%	8.1%	6.9%	6.4%	-19.2%
Property portfolio	1,034,100	1,130,400	1,488,400	1,812,589	2,079,025	2,214,753	
Book Value per share (Euro)	5.26	7.45	5.69	6.21	6.30	7.33	8.8%
EPRA NAV per share (Euro)	4.94	5.50	6.35	6.82	6.75	7.84	7.3%

SRC Research

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Rating chronicle:

Company	Date	Rating	former share price	former target
DEMIRE	10 January 2020	Buy	5.32 €	6.30 €
DEMIRE	14 November 2019	Buy	5.18 €	6.10 €
DEMIRE	4 October 2019	Buy	5.12 €	5.90 €
DEMIRE	24 September 2019	Buy	5.00 €	5.90 €
DEMIRE	14 August 2019	Buy	4.82 €	5.90 €
DEMIRE	15 May 2019	Accumulate	4.95 €	5.60 €
DEMIRE	22 March 2019	Accumulate	4.90 €	5.40 €
DEMIRE	18 January 2019	Buy	4.54 €	5.40 €
DEMIRE	20 December 2018	Buy	4.27 €	5.40 €
DEMIRE	15 November 2018	Buy	4.30 €	5.40 €

Please note:

The share price mentioned in this report is from 19 March 2020. DEMIRE Deutsche Mittelstand Real Estate AG mandated SRC Research for covering the share.

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