

Hold (old: Hold)

12.12.2022

EUR 2.80 (old: EUR 2.80)

Macro uncertainties weigh on stable operations

So far, 2022 has not been favorable for DEMIRE, even if this may look different on paper thanks to stable operations. However, rising interest rates and the uncertain macro-environment cast a big shadow over the real estate sector, as evidenced by deteriorated share prices.

In late November, **Moody's announced to downgrade DEMIRE's long term CFR rating** from B1 to B2 and confirmed the negative outlook. It was already the **second rating downgrade for the company this year**. The rating agency cites the rising refinancing pressure as well as high economic uncertainty as the main reasons for the downgrade.

In fact, DEMIRE not only needs to refinance its € 600m corporate bond in 2024, but also an additional € 169m bank debt. The cumulative **refinancing requirement of € 769 represents 87% of the company's total interest-bearing liabilities**. As the majority of the portfolio will be unencumbered by 2024, we expect the company to refinance mainly via bank loans with an average LTV of 45%, as a timely refinancing via bonds currently appears unattractive.

In order to reduce the upcoming refinancing wall, **DEMIRE looks set to become a net seller** going forward, especially in 2023e, where we expect disposals of € 250m. In fact, the company is already in advanced talks with potential buyers to dispose the logistics property "LogPark" in Leipzig, which is valued at c. € 140m. Supplementary, we expect several smaller disposals (<€ 20m) starting in Q1'23e. As a result, DEMIRE should be on track to provide a **much healthier LTV of c. 43% at FY'23e** (eNuW), compared to 51.2% as of 9M'22. This should in turn significantly improve DEMIRE's negotiation position towards lenders going into 2024.

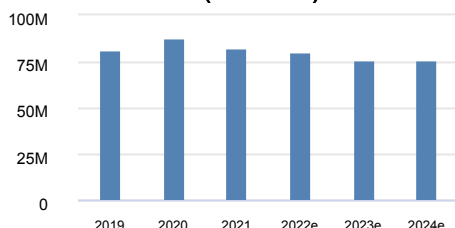
However, this also implies that the company's initial target of reaching a portfolio value of € 2bn is off the table for now; we estimate the portfolio to decline to **€ 1.1bn FY'24e**. Importantly, the company's FFO should remain stable going forward thanks to a high share of inflation linked rental contracts (eNuW c. 70%), allowing for operating leverage.

Despite trading on a significant discount of 59% to the company's EPRA NAV, we currently do not see any turnaround catalyst due to the headwinds described above. Remains a **HOLD with an unchanged PT of € 2.80** based on NAV and DDM.

Y/E 31.12 (EUR)	2019	2020	2021	2022e	2023e	2024e
Net rental income	81.8	87.5	82.3	80.3	76.5	76.6
Rental income growth	5.8%	6.5%	-3.9%	-22.8%	-15.6%	25.1%
FFO	34.5	40.4	39.8	39.8	40.9	40.3
Net profit	79.7	9.2	61.6	30.1	-0.8	10.7
EPS	0.70	0.08	0.55	0.27	0.00	0.10
FFO yield	6.0%	16.0%	15.9%	15.9%	16.3%	3.8%
FFO margin	42.2%	46.1%	48.4%	49.6%	53.4%	52.6%
NTA per share	6.3	5.8	6.0	5.8	5.9	6.1
Dividend yield	10.1%	26.2%	13.1%	11.1%	11.4%	11.3%
P/NTA premium/discount	-62.7%	-59.2%	-60.2%	-59.4%	-59.5%	-60.8%
P/FFO	16.7	6.3	6.3	6.3	6.1	26.1
Loan-to-value (LTV)	46.9%	51.5%	50.8%	51.0%	42.7%	43.3%
Implied yield	6.3%	7.1%	6.6%	7.8%	9.6%	10.6%

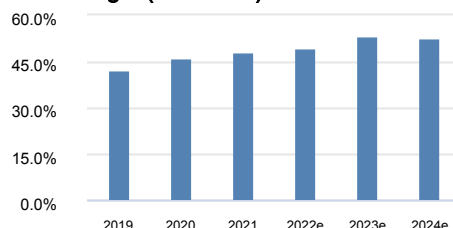
Source: Company data, NuWays, Close price as of 07.12.2022

Net rental income (2019-24e)



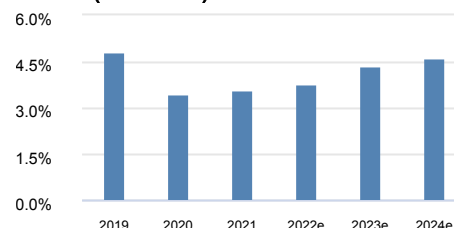
Source: NuWays Research

FFO margin (2019-24e)



Source: NuWays Research

ROCE (2019-24e)



Source: NuWays Research

Company description

DEMIRE is a German real estate company specializing in promising commercial real estate located in larger cities and their adjacent metropolitan areas. Properties are predominantly used as offices, but hotel, retails and logistics properties complement Demire's offering.

Share Performance



High/low 52 weeks (€)	4.74 / 1.88
3m rel. performance	-15.3%
6m rel. performance	-35.2%
12m rel. performance	-21.1%

Market data

Share price (in €)	2.37
Market cap (in € m)	255.4
Number of shares (in m pcs)	107.8
Enterprise value (in € m)	1028.9
Ø trading volume (6 months)	7,522

Identifier

Bloomberg	DMRE GR
Reuters	DMRE
WKN	A0XFSF
ISIN	DE000A0XFSF0

Key shareholders

Apollo	58.6%
Wecken Group	32.1%
Treasury Shares	2.1%
Free Float	7.2%

Estimates changes

	2022e	2023e	2024e
Net rents	0%	0%	0%
FFO	0%	0%	0%
EPS	0%	0%	0%

Comment on changes

Source: Company data, NuWays, Close price as of 07.12.2022

Financials

Profit and loss (EUR m)	2019	2020	2021	2022e	2023e	2024e
Net rental income	81.8	87.5	82.3	80.3	76.5	76.6
Direct property expenses	35.9	38.6	35.4	44.1	45.9	38.3
Net operating income	45.9	48.9	47.0	36.2	30.6	38.3
Earnings from property disposals	16.8	-1.0	1.4	1.3	1.0	1.0
Earnings from project developments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Earnings from other property activities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other operating income	24.0	22.8	22.5	28.6	35.2	31.4
Total revenues	122.6	109.3	106.2	110.2	112.7	109.0
Revaluation result from investment properties (net)	83.0	-22.1	48.8	0.2	-42.7	-23.4
Total income	205.6	87.1	155.0	110.4	70.0	85.6
Administrative expenses	6.5	6.8	4.7	2.6	-3.7	2.9
Personnel expenses	0.0	0.0	0.0	0.0	0.0	0.0
Other operating expenses	0.9	1.4	2.0	1.6	3.0	3.0
Total operating expenses	13.9	14.7	13.2	10.8	5.9	12.4
EBITDA	155.8	33.8	106.4	55.5	18.2	34.9
EBITDA excl revaluation result (net)	72.8	55.9	57.6	55.3	60.9	58.3
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBITA	155.8	33.8	106.4	55.5	18.2	34.9
EBITA excl revaluation result (net)	72.8	55.9	57.6	55.3	60.9	58.3
Amortisation of goodwill	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
Impairment charges	0.6	6.2	3.5	0.5	1.0	1.0
EBIT (incl revaluation net)	155.2	27.7	103.0	55.1	17.2	33.9
EBIT (excl revaluation net)	72.1	49.8	54.2	54.9	59.9	57.3
Interest income	1.3	1.3	3.2	6.2	7.0	7.0
Interest expenses	50.9	19.1	18.3	18.8	18.1	22.6
Depreciation of financial investment	n.a.	0.0	0.0	0.0	0.0	0.0
Investment income	-7.7	-3.4	-7.0	-4.7	-4.8	-4.8
Financial result	-57.3	-21.2	-22.1	-17.2	-15.9	-20.4
Earnings before taxes	97.9	6.5	80.8	37.9	1.3	13.5
Earnings before taxes (excl revaluation result)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Taxes	4.7	0.7	6.7	3.9	2.4	2.4
Net income from continuing operations (incl reval. result)	79.7	9.2	61.6	30.1	-0.8	10.7
Net income from continuing operations (excl reval. result)	-3.3	31.3	12.8	29.9	42.0	34.1
Income from discontinued operations (net of tax)	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
Cumulative effect of accounting changes (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income (incl revaluation result net)	79.7	9.2	61.6	30.1	-0.8	10.7
Net income (excl revaluation result net)	-3.3	31.3	12.8	29.9	42.0	34.1
Minority interest	4.2	0.7	3.1	1.1	-0.8	0.3
Net income (net of minority interest, incl reval. result)	75.5	8.5	58.5	28.9	0.0	10.4
Net income (net of minority interest, excl reval. result)	-7.5	30.6	9.7	28.7	42.8	33.8
Funds from operations (FFO)	34.5	40.4	39.8	39.8	40.9	40.3

Profit and loss (common size)	2019	2020	2021	2022e	2023e	2024e
Net rental income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct property expenses	43.9%	44.1%	42.9%	54.9%	60.0%	50.0%
Net operating income	56.1%	55.9%	57.1%	45.1%	40.0%	50.0%
Earnings from property disposals	20.5%	neg.	1.8%	1.6%	1.3%	1.3%
Earnings from projects developments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Earnings from other property activities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other operating income	29.3%	26.1%	27.3%	35.6%	46.0%	41.0%
Total revenues	149.8%	124.9%	129.1%	137.3%	147.4%	142.4%
Revaluation result from investment properties (net)	101.5%	neg.	59.2%	0.2%	neg.	neg.
Total income	251.3%	99.6%	188.3%	137.5%	91.5%	111.8%
Administrative expenses	7.9%	7.8%	5.7%	3.3%	neg.	3.7%
Personnel expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other operating income	29.3%	26.1%	27.3%	35.6%	46.0%	41.0%
Total operating expenses	17.0%	16.8%	16.1%	13.5%	7.7%	16.2%
EBITDA	190.5%	38.6%	129.3%	69.1%	23.8%	45.5%
EBITDA excl revaluation result (net)	89.0%	63.9%	70.0%	68.9%	79.7%	76.1%
Depreciation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITA	190.5%	38.6%	129.3%	69.1%	23.8%	45.5%
EBITA excl revaluation (net)	89.0%	63.9%	70.0%	68.9%	79.7%	76.1%

Profit and loss (common size)	2019	2020	2021	2022e	2023e	2024e
Amortisation of goodwill	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%
Impairment charges	0.8%	7.0%	4.2%	0.6%	1.3%	1.3%
EBIT (incl revaluation net)	189.7%	31.6%	125.1%	68.6%	22.5%	44.2%
EBIT (excl revaluation net)	88.2%	56.9%	65.8%	68.3%	78.4%	74.8%
Interest income	1.6%	1.5%	3.8%	7.8%	9.2%	9.1%
Interest expenses	62.2%	21.8%	22.3%	23.4%	23.7%	29.5%
Depreciation of financial investment	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%
Investment income	neg.	neg.	neg.	neg.	neg.	neg.
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
Earnings before taxes (incl revaluation result)	119.6%	7.4%	98.2%	47.1%	1.7%	17.6%
Earnings before taxes (excl revaluation result)	18.1%	32.7%	38.9%	46.9%	57.6%	48.2%
Taxes	22.1%	neg.	23.4%	9.7%	2.7%	3.7%
Net income from continuing operations (incl reval. result)	97.5%	10.5%	74.8%	37.4%	neg.	13.9%
Net income from continuing operations (excl reval. result)	neg.	35.8%	15.6%	37.2%	54.8%	44.5%
Income from discontinued operations (net of tax)	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%
Cumulative effect of accounting changes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income (incl revaluation result net)	97.5%	10.5%	74.8%	37.4%	neg.	13.9%
Net income (excl revaluation result net)	neg.	35.8%	15.6%	37.2%	54.8%	44.5%
Minority interest	5.2%	0.8%	3.8%	1.4%	neg.	0.4%
Net income (net of minority interest, incl reval. result)	92.3%	9.7%	71.1%	36.0%	0.0%	13.6%
Net income (net of minority interest, excl reval. result)	neg.	35.8%	15.6%	37.2%	54.8%	44.5%
Funds from operations (FFO)	42.2%	46.1%	48.4%	49.6%	53.4%	52.6%

Source: Company data, NuWays

Balance sheet (EUR m)	2019	2020	2021	2022e	2023e	2024e
Intangible assets	6.9	6.9	6.8	6.8	6.8	6.8
Investment properties	1,493.9	1,426.3	1,433.1	1,424.4	1,170.9	1,084.2
Property, plant and equipment	0.4	0.3	0.2	0.2	0.2	0.2
Financial assets	0.0	8.2	91.8	92.7	93.6	94.6
Other non-current assets	19.4	9.5	11.9	11.9	11.9	11.9
Deferred taxes	13.5	-3.4	12.6	3.9	-0.3	0.5
FIXED ASSETS	1,520.7	1,451.1	1,543.8	1,536.0	1,283.5	1,197.7
Properties held for sale	16.3	31.0	0.0	0.0	0.0	0.0
Accounts receivable	6.3	7.3	8.7	8.8	8.4	8.4
Other current assets	32.0	34.2	13.5	15.0	15.0	15.0
Liquid assets	102.1	101.6	139.6	82.6	250.3	198.9
CURRENT ASSETS	156.7	174.2	161.8	106.4	273.6	222.3
TOTAL ASSETS	1,677.4	1,625.3	1,705.6	1,642.5	1,557.1	1,420.0
Subscribed capital	107.8	105.8	105.5	105.5	105.5	105.5
Surplus capital	0.0	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	430.1	443.7	385.0	409.9	420.4	393.9
Net profit/loss	75.5	8.5	58.5	28.9	0.0	10.4
SHAREHOLDER'S EQUITY	613.4	558.0	549.0	544.4	525.9	509.8
MINORITY INTEREST	47.4	40.1	43.3	43.3	43.3	43.3
PROVISIONS AND ACCRUED LIABILITIES	7.2	7.1	12.7	12.7	12.7	12.7
short-term liabilities to banks	69.1	12.4	16.1	66.4	171.1	60.0
Bonds (long-term)	590.0	592.0	594.0	550.0	550.0	100.0
long-term liabilities to banks	147.8	225.3	280.4	215.2	44.2	484.2
other interest-bearing liabilities	19.2	18.7	24.5	24.5	24.5	24.5
Interest-bearing liabilities	826.2	848.4	915.0	856.1	789.7	668.6
Accounts payable	10.0	10.7	10.6	11.0	10.5	10.5
Current liabilities	107.8	99.7	100.9	101.3	100.8	100.8
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	75.5	72.1	84.7	84.7	84.7	84.7
LIABILITIES	1,009.5	1,020.2	1,100.6	1,042.1	975.2	854.1
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,677.4	1,625.3	1,705.6	1,642.5	1,557.1	1,420.0

Balance sheet (common size)	2019	2020	2021	2022e	2023e	2024e
Intangible assets	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%
Investment properties	89.1%	87.8%	84.0%	86.7%	75.2%	76.4%
Property, plant and equipment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial assets	0.0%	0.5%	5.4%	5.6%	6.0%	6.7%
Other non-current assets	1.2%	0.6%	0.7%	0.7%	0.8%	0.8%
Deferred taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FIXED ASSETS	90.7%	89.3%	90.5%	93.5%	82.4%	84.3%
Properties held for sale	1.0%	1.9%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%
Other current assets	1.9%	2.1%	0.8%	0.9%	1.0%	1.1%
Liquid assets	6.1%	6.3%	8.2%	5.0%	16.1%	14.0%
CURRENT ASSETS	9.3%	10.7%	9.5%	6.5%	17.6%	15.7%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Subscribed capital	6.4%	6.5%	6.2%	6.4%	6.8%	7.4%
Surplus capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Additional paid-in capital	25.6%	27.3%	22.6%	25.0%	27.0%	27.7%
Net profit/loss	4.5%	0.5%	3.4%	1.8%	0.0%	0.7%
SHAREHOLDERS EQUITY	36.6%	34.3%	32.2%	33.1%	33.8%	35.9%
MINORITY INTEREST	2.8%	2.5%	2.5%	2.6%	2.8%	3.1%
PROVISIONS FOR PENSIONS AND SIMILIAR OBLIGATIONS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
short-term liabilities to banks	4.1%	0.8%	0.9%	4.0%	11.0%	4.2%
Bonds (long-term)	35.2%	36.4%	34.8%	33.5%	35.3%	7.0%
long-term liabilities to banks	8.8%	13.9%	16.4%	13.1%	2.8%	34.1%
other interest-bearing liability	1.1%	1.2%	1.4%	1.5%	1.6%	1.7%
Interest-bearing liabilities	49.3%	52.2%	53.6%	52.1%	50.7%	47.1%
Accounts payable	0.6%	0.7%	0.6%	0.7%	0.7%	0.7%
Current liabilities	6.4%	6.1%	5.9%	6.2%	6.5%	7.1%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred taxes	4.5%	4.4%	5.0%	5.2%	5.4%	6.0%
LIABILITIES	60.2%	62.8%	64.5%	63.4%	62.6%	60.2%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2019	2020	2021	2022e	2023e	2024e
Net profit	97.9	6.5	80.8	37.9	1.3	13.5
Other recurrent / non-recurrent items	-41.7	45.3	-20.9	2.6	47.4	23.6
Increase/decrease in working capital	-8.2	-15.7	5.3	0.3	-0.1	0.0
Cash flow from operating activities	48.0	36.0	65.2	40.7	48.6	37.1
CAPEX	0.0	0.0	0.0	0.0	0.0	0.0
Payment for acquisitions	-213.3	-65.4	-24.7	-34.4	-39.2	-36.7
Financial investments	-71.3	-0.1	-78.6	0.0	0.0	0.0
Income from asset disposals	31.4	100.5	103.1	50.0	250.0	100.0
Cash flow from investing activities	-253.2	35.0	-0.2	15.6	210.8	63.3
Increase/decrease in debt position	164.0	20.1	58.8	-66.3	-66.4	-121.1
Dividends paid	-2.2	-60.1	-67.7	-32.7	-8.0	-8.2
Purchase of own shares	0.0	-9.0	-1.2	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0
Others	-44.9	-22.5	-16.9	-14.3	-17.4	-22.6
Cash flow from financing activities	116.9	-71.5	-27.0	-113.3	-91.8	-151.8
Cash flow from operating activities	48.0	36.0	65.2	40.7	48.6	37.1
Cash flow after maintenance capex	97.9	6.5	80.8	37.9	1.3	13.5
Cash flow before financing	366.2	262.1	339.4	157.8	345.8	182.0
Increase/decrease in liquid assets	485.2	268.6	382.4	77.2	262.0	38.4
Key ratios (EUR m)	2019	2020	2021	2022e	2023e	2024e
Return on Equity						
Net profit / Y/E equity	-1.2%	5.5%	1.8%	5.3%	8.1%	6.6%
Recurring net profit / Y/E equity	5.6%	7.2%	7.3%	7.3%	7.8%	7.9%
Net profit / avg. equity	-1.2%	5.5%	1.8%	5.3%	8.1%	6.6%
Recurring net profit / avg. equity	5.6%	7.2%	7.3%	7.3%	7.8%	7.9%
Security						
Net debt	724.0	746.8	775.4	773.4	539.4	469.8
Debt / equity	134.7%	152.1%	166.7%	157.3%	150.2%	131.1%
Net gearing	118.0%	133.8%	141.2%	142.1%	102.6%	92.1%
Interest cover	1.4	2.6	3.0	2.9	3.3	2.5
EBIDTA / interest paid	3.1	1.8	5.8	3.0	1.0	1.5
Dividend payout ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend cover	0.6	0.6	1.2	1.4	1.4	1.4
Loan-to-value (LTV)	46.9%	51.5%	50.8%	51.0%	42.7%	43.3%
Return on Net Asset Value	5.0%	6.5%	6.3%	n.a.	n.a.	n.a.
Liquidity						
Current ratio	0.6	0.9	0.7	0.4	0.7	0.8
Acid test ratio	0.6	0.9	0.7	0.4	0.7	0.8
Valuation metrics						
FFO	34.5	40.4	39.8	39.8	40.9	40.3
FFO per share	0.32	0.38	0.38	0.38	0.39	0.38
NTA per share	6.3	5.8	6.0	5.8	5.9	6.1

Source: Company data, NuWays

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Company	Disclosures
DEMIRE AG	2

Historical target price and rating changes for DEMIRE AG

Company	Date	Analyst	Rating	Target Price	Close
DEMIRE AG	02.12.2022	Sennewald, Philipp	Hold	EUR 2.80	EUR 2.38

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According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under:

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