

Buy (Hold) EUR 14.30 (EUR 12.00) Price EUR 11.60 Upside 23.3 %	Value Indicators: EUR NAV (WRe): 14.40 FFO-Yield: 14.36	Share data: Bloomberg: DEF GR Reuters: DEF.MU ISIN: DE000A13SUL5	Description: Commercial real estate company focused on retail parks in Northern and Eastern Germany
	Market Snapshot: EUR m Market cap: 41.15 No. of shares (m): 3.55 Freefloat MC: 19.54 Ø Trad. Vol. (30d): 6.04 th	Shareholders: Freefloat 47.5 % MSC Invest GmbH 35.2 % Geminus GmbH 4.8 % Supervisory board 2.1 % ABCON Vermögensverwaltung 10.4 %	Risk Profile (WRe): 2018e LTV: 63.4 % Equity Ratio: 18.5 %

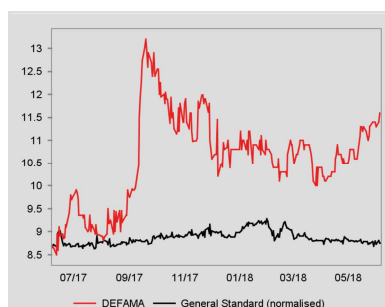
Growth momentum continues; Attractive FFO yield

Stated Figures Q1/2018:					Comment on Figures:				
Group P&L	Q1 2018	Q1 2018e	Q1 2017	+/- in %					
Revenue	1.77	1.70	1.06	67%	<ul style="list-style-type: none"> DEFAMA Q1 figures were strong and, generally, beat our estimates. The strong growth rates reflected the sound portfolio expansion at an attractive rent multiple of ~9 in 2017. Q1 numbers included contributions from 22 properties. The most recently announced deals in Q2 lay the basis for further growth. Conservative FY guidance for 2018 was confirmed with an FFO of EUR 3.2m and a net profit (German GAAP) of EUR 2.65m (WRe: 2.71m) including a one-off from JV Radeberg. FFO margin remains solid at a level above 40% 				
EBITDA	1.12	1.09	0.68	65%					
EBT	0.47	0.46	0.30	59%					
Net profit	0.37	0.37	0.24	57%					
FFO	0.75	0.73	0.47	58%					
FFO-margin	42.3%	43.1%	44.5%						

We upgrade the stock to Buy and increase our price target to EUR 14.30 as we roll over our model to 2019 estimates. Valuation is driven by an attractive FFO yield of 10% (2018) and a rising NAV, based on estimated fair values. Our more positive view is driven by the following points:

- DEFAMA has successfully strengthened its portfolio with three recently announced acquisitions, which are a perfect fit for DEFAMA's acquisitions policy and the former portfolio quality. The three acquisitions, with a purchase volume of EUR 12.6m, showed DEFAMA's competence in the acquisition of smaller retail parks and clearly improves the transparency of its business model. The targeted acquisition volume of EUR 15-20m p.a. is within reach (WRe: 17.5m). The annualized net rental income already stands at EUR 7.8m and could improve further in the course of the year.
- The FFO margin of a sound 40% is sustainable and there is good chance of improvement given DEFAMA's strong acquisition discipline and lean management structures. Refinancing costs should remain at low levels as we expect no meaningful increase in long-term yields. Experience with local banks should underpin its reputation as a solid debtor especially in the savings and cooperative bank sectors.
- Strong earnings momentum, excluding valuation effects, offers further potential for a significant dividend increase (payout ratio 2017 ~89%). The expected cash-inflow (~EUR 2m) and one-off gain (~EUR 0.9m) from JV Radeberg will support liquidity and earnings in 2018.

Changes in Estimates:							Comment on Changes:						
FY End: 31.12. in EUR m	2018e (old)	+ / -	2019e (old)	+ / -	2020e (old)	+ / -	<ul style="list-style-type: none"> Satisfactory growth driven by attractive acquisitions in Q2 increases visibility on DEFAMA's competence to build up a portfolio of retail parks at an attractive price. We increase our top-line growth for the announced acquisitions and we include an acquisition volume of EUR 17.5m p.a. in the years 2019-2021. 						
Rental income	8.06	8.4 %	9.35	11.2 %	10.04	25.4 %							
FFOPS I	0.91	7.4 %	1.04	9.9 %	1.12	22.5 %							
EPS	0.53	44.0 %	0.58	5.0 %	0.60	18.0 %							

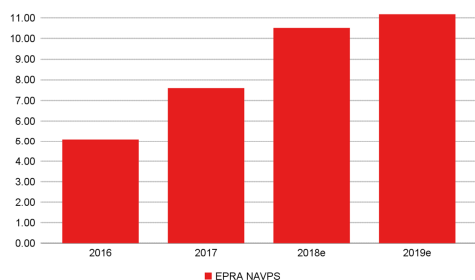


Rel. Performance vs General	
1 month:	8.0 %
6 months:	11.1 %
Year to date:	10.0 %
Trailing 12 months:	31.7 %

Company events:
13.06.18 AGM

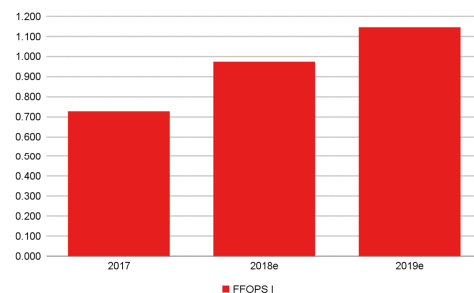
FY End: 31.12. in EUR m	CAGR (17-21e)	2015	2016	2017	2018e	2019e	2020e	2021e
Rental income		1.01	3.44	5.83	8.73	10.40	12.59	14.83
Change yoy		n.a.	240.6 %	69.5 %	49.8 %	19.1 %	21.0 %	17.8 %
EBIT		0.46	1.67	2.67	4.92	4.68	5.58	6.69
FFO I		0.53	1.59	2.58	3.45	4.06	4.87	5.74
FFO I-margin		52.2 %	46.2 %	44.3 %	39.6 %	39.1 %	38.7 %	38.7 %
EBT		0.36	1.11	1.77	3.67	3.09	3.65	4.42
Net income		0.30	0.89	1.36	2.71	2.17	2.53	3.14
EPS		0.14	0.30	0.38	0.76	0.61	0.71	0.88
FFOPS I		0.24	0.54	0.73	0.97	1.15	1.37	1.62
DPS		0.10	0.20	0.34	0.42	0.50	0.59	0.69
Dividend Yield		n.a.	3.8 %	3.8 %	3.6 %	4.3 %	5.1 %	5.9 %
Book Value / Share		2.57	3.00	3.18	3.53	3.64	3.76	3.96
EPRA NAVPS		3.26	5.10	7.60	10.52	11.18	13.58	21.13
P / E		n.a.	17.2 x	23.2 x	15.2 x	19.0 x	16.3 x	13.1 x
Price / Book		n.a.	1.4 x	2.8 x	3.3 x	3.2 x	3.1 x	2.9 x
P / NAVPS		n.a.	1.0 x	1.2 x	1.1 x	1.0 x	0.9 x	0.5 x
FFO I-Yield		n.a.	10.4 %	8.2 %	8.4 %	9.9 %	11.8 %	13.9 %
ROE		n.a.	10.9 %	12.4 %	22.8 %	17.1 %	19.3 %	22.9 %
LTV		59.7 %	56.0 %	61.1 %	63.4 %	65.4 %	67.1 %	68.5 %
Equity Ratio		31.6 %	32.0 %	20.5 %	18.5 %	15.8 %	13.9 %	12.7 %
Guidance:	2018e: FFO of EUR >3.2m, EPS (HGB) of EUR >0.49 +one-off from JV Rade. of 0.25							

NAV per share development in EUR



Source: Warburg Research

FFO per share development in EUR



Source: Warburg Research

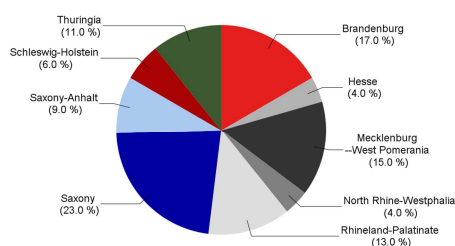
Company Background

- Founded in 2014 and headquartered in Berlin, DEFAMA focuses on the acquisition, ownership and management of retail parks in German small and medium-sized cities, predominantly in Northern and Eastern Germany.
- The investment strategy is to "buy and hold" assets with high occupancy and minor capex needs for a maximum purchase price of 9x annual rent.
- Investment volumes are EUR 1 - 5 million per asset. Anchor tenants are nationwide retailers.

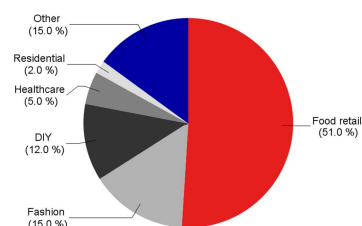
Competitive Quality

- Real estate competence: founder, major shareholder and CEO Matthias Schrade, previously oversaw as a board member responsible for acquisitions for a non-listed real estate company based in Munich.
- Unique focus: the company competes for assets that are too large for individual investors and too small for institutional investors and can "buy low".
- Strong access to local public banks networks, for whom real estate financings for DEFAMA projects are large and important deals. They in turn know smaller tenants well.
- Focus on leading centers in smaller cities ("big fish in a small pond").

Geographical breakdown of rental income % of total rental income



Rental income by sector % of rental income



Source: Warburg Research

NAV

	Rent multiplier 2019						
	10.5	11.0	11.5	12.0	12.5	13.0	13.5
Investment Properties	107.0	112.1	117.2	122.3	127.4	132.5	137.6
Cash	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other assets	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total assets	109.4	114.5	119.6	124.7	129.7	134.8	139.9
- Liabilities	70.1	70.1	70.1	70.1	70.1	70.1	70.1
- Minority interest	0.3	0.3	0.3	0.3	0.3	0.3	0.3
NAV	39.0	44.1	49.2	54.3	59.4	64.5	69.6
NAV per share	11.00	12.44	13.87	15.31	16.75	18.18	19.62
Fair value (12 months)				14.40			
Net rental yield	9.5%	9.1%	8.7%	8.3%	8.0%	7.7%	7.4%

Valuation							
	2015	2016	2017	2018e	2019e	2020e	2021e
P / E	n.a.	17.2 x	23.2 x	15.2 x	19.0 x	16.3 x	13.1 x
P / NAVPS	n.a.	1.0 x	1.2 x	1.1 x	1.0 x	0.9 x	0.5 x
Price / Book	n.a.	1.4 x	2.8 x	3.3 x	3.2 x	3.1 x	2.9 x
P / FFOPS I	n.a.	9.6 x	12.2 x	11.9 x	10.1 x	8.5 x	7.2 x
FFO I-Yield	n.a.	10.4 %	8.2 %	8.4 %	9.9 %	11.8 %	13.9 %
ROE	n.a.	10.9 %	12.4 %	22.8 %	17.1 %	19.3 %	22.9 %
Equity Ratio	32 %	32 %	21 %	19 %	16 %	14 %	13 %

Company Specific Items							
	2015	2016	2017	2018e	2019e	2020e	2021e
NAV/Share	3.26	5.10	9.09	10.52	11.18	13.58	21.13
Vacancy Rate	2.5 %	2.7 %	2.7 %	3.5 %	3.0 %	3.0 %	3.0 %

Consolidated profit and loss

In EUR m	2015	2016	2017	2018e	2019e	2020e	2021e
Total Sales	1.01	3.44	5.83	8.73	10.40	12.59	14.83
Rental income	1.01	3.44	5.83	8.73	10.40	12.59	14.83
Change yoy	n.a.	240.6 %	69.5 %	49.8 %	19.1 %	21.0 %	17.8 %
Property operating costs	0.15	0.60	1.24	1.86	2.18	2.71	3.19
Property management costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rental profit	0.86	2.84	4.58	6.87	8.22	9.88	11.64
Income from property sales	0.00	0.00	0.00	1.00	0.00	0.00	0.00
Other revenues	0.00	0.11	0.12	0.12	0.12	0.12	0.12
Gross profit	0.87	2.95	4.70	7.99	8.34	10.00	11.76
Administration expenses	0.12	0.38	0.35	0.52	0.52	0.76	0.89
Personnel expenses	0.05	0.20	0.47	0.72	0.85	1.03	1.22
Other operating income/expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unfrequent items	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0.69	2.36	3.89	6.75	6.86	8.21	9.66
Valuation result	0.00	0.00	0.00	1.00	0.00	0.00	0.00
Depreciation of fixed assets	-0.23	0.69	1.22	1.83	2.18	2.63	2.97
EBITA	0.46	1.67	2.67	4.92	4.68	5.58	6.69
Amortisation of intangible assets/Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	0.46	1.67	2.67	4.92	4.68	5.58	6.69
Interest income	0.01	0.00	0.00	0.00	0.10	0.10	0.10
Interest expenses	0.11	0.56	0.90	1.25	1.60	1.93	2.27
Other financial income (loss)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial result	-0.11	-0.56	-0.90	-1.25	-1.60	-1.93	-2.27
EBT	0.36	1.11	1.77	3.67	3.09	3.65	4.42
<i>Margin</i>	<i>35.4 %</i>	<i>32.2 %</i>	<i>30.4 %</i>	<i>42.0 %</i>	<i>29.7 %</i>	<i>29.0 %</i>	<i>29.8 %</i>
Total taxes	-0.06	-0.22	-0.41	-0.77	-0.65	-0.65	-0.65
thereof cash taxes	-0.06	-0.22	-0.41	-0.77	-0.65	-0.77	-0.93
Net income from continuing operations	0.30	0.89	1.36	2.90	2.44	2.88	3.49
Income from discontinued operations (net of tax)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income before minorities	0.30	0.89	1.36	2.90	2.44	2.88	3.49
Minority interest	0.00	0.00	0.00	0.18	0.27	0.35	0.35
Net income	0.30	0.89	1.36	2.71	2.17	2.53	3.14
Number of shares, average	2.16	2.92	3.55	3.55	3.55	3.55	3.55
FFO (II)	0.53	1.59	2.58	3.45	4.06	4.87	5.74
<i>FFO I-margin</i>	<i>52.2 %</i>	<i>46.2 %</i>	<i>44.3 %</i>	<i>39.6 %</i>	<i>39.1 %</i>	<i>38.7 %</i>	<i>38.7 %</i>
FFOPS I	0.24	0.54	0.73	0.97	1.15	1.37	1.62
EPS	0.14	0.30	0.38	0.76	0.61	0.71	0.88
EPS adj.	0.14	0.30	0.38	0.48	0.61	0.71	0.88

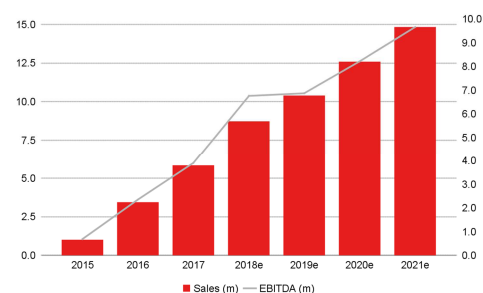
*Adjustments made for:

Guidance: 2018e: FFO of EUR >3.2m, EPS (HGB) of EUR >0.49 +one-off from JV Rade. of 0.25**Financial Ratios**

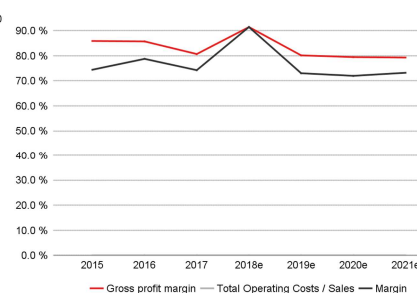
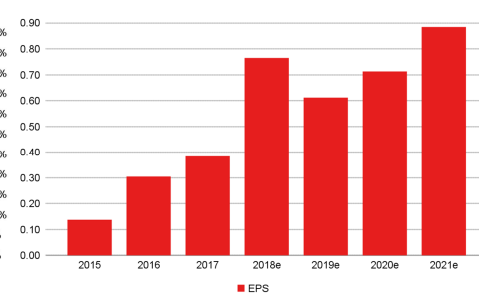
	2015	2016	2017	2018e	2019e	2020e	2021e
Property operating costs / Rental Income	14.4 %	17.3 %	21.4 %	21.4 %	21.0 %	21.5 %	21.5 %
Operating Leverage (Real Estate)	n.a.	1.3 x	2.3 x	2.7 x	6.1 x	5.7 x	6.6 x
Rental profit / interest expenses	7.5 x	5.1 x	5.1 x	5.5 x	5.1 x	5.1 x	5.1 x

Sales, EBITDA

in EUR m

**Operating Performance**

in %

**Performance per Share**

Source: Warburg Research

Source:

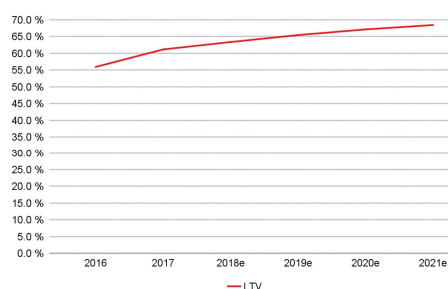
Source: Warburg Research

Consolidated balance sheet

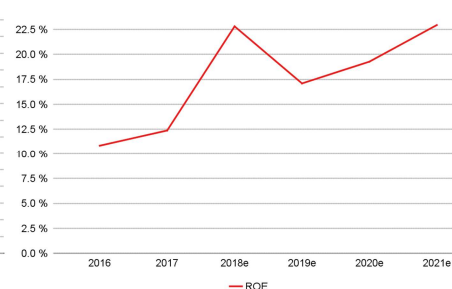
In EUR m	2015	2016	2017	2018e	2019e	2020e	2021e
Assets							
Goodwill and other intangible assets	0.00	0.01	0.01	0.01	0.01	0.00	0.00
thereof other intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
thereof Goodwill	0.00	0.01	0.01	0.01	0.01	0.00	0.00
Property, plant and equipment	0.00	0.03	0.03	0.04	0.04	0.04	0.04
Investment properties	14.23	31.41	51.96	65.63	80.95	95.82	110.35
Financial assets	0.04	0.05	0.24	0.24	0.24	0.24	0.24
Other long-term assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fixed assets	14.28	31.50	52.24	65.91	81.24	96.10	110.63
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts receivable	0.04	0.12	0.22	0.22	0.00	0.22	0.22
Liquid assets	3.71	1.46	2.49	2.61	1.39	0.91	1.28
Other short-term assets	0.08	0.17	0.46	0.46	0.68	0.46	0.46
Current assets	3.83	1.75	3.17	3.29	2.08	1.59	1.96
Total Assets	18.10	33.25	55.41	69.21	83.31	97.70	112.60
Liabilities and shareholders' equity							
Subscribed capital	2.23	3.55	3.55	3.55	3.55	3.55	3.55
Capital reserve	2.21	6.15	6.15	6.15	6.15	6.15	6.15
Retained earnings	1.28	0.94	1.59	2.82	3.20	3.64	4.34
Other equity components	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shareholders' equity	5.72	10.64	11.29	12.51	12.90	13.33	14.03
Minority interest	0.00	0.00	0.10	0.29	0.29	0.29	0.29
Provisions	0.06	0.20	0.36	0.36	0.36	0.36	0.36
thereof provisions for pensions and similar obligations	0.03	0.10	0.18	0.18	0.18	0.18	0.18
Financial liabilities (total)	12.24	20.83	43.07	57.23	70.55	84.07	97.77
thereof short-term financial liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts payable	0.02	0.08	0.19	0.19	0.19	0.19	0.19
Other liabilities	0.07	1.51	0.51	-1.09	-0.68	-0.25	0.25
Liabilities	12.38	22.61	44.13	56.69	70.41	84.36	98.57
Total liabilities and shareholders' equity	18.10	33.25	55.41	69.21	83.31	97.70	112.60

Financial Ratios

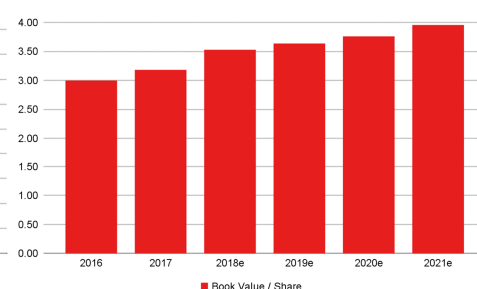
	2015	2016	2017	2018e	2019e	2020e	2021e
Return on Capital							
ROA	n.a.	3.5 %	3.1 %	4.4 %	2.8 %	2.8 %	3.0 %
ROE	n.a.	10.9 %	12.4 %	22.8 %	17.1 %	19.3 %	22.9 %
FFO I / Equity	n.a.	0.2 x	0.2 x	0.3 x	0.3 x	0.4 x	0.4 x
Solvency							
Net Debt	8.56	19.46	40.76	54.80	69.33	83.33	96.67
Net Financial Debt	8.53	19.37	40.58	54.62	69.16	83.15	96.49
Net Fin. Debt / EBITDA	12.3 x	8.2 x	10.4 x	8.1 x	10.1 x	10.1 x	10.0 x
LTV	59.7 %	56.0 %	61.1 %	63.4 %	65.4 %	67.1 %	68.5 %
Equity Ratio	31.6 %	32.0 %	20.5 %	18.5 %	15.8 %	13.9 %	12.7 %

LTV

Source: Warburg Research

ROE
in %

Source: Warburg Research

Book Value per Share
in EUR

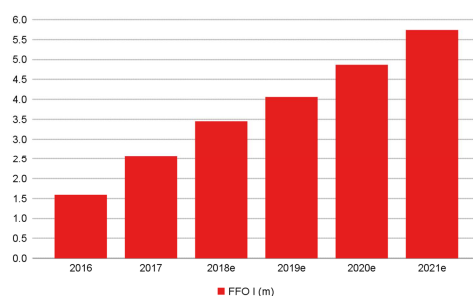
Source: Warburg Research

Consolidated cash flow statement

In EUR m	2015	2016	2017	2018e	2019e	2020e	2021e
Net income	0.30	0.89	1.36	2.71	2.17	2.53	3.14
Valuation changes properties	0.00	0.00	0.00	1.00	0.00	0.00	0.00
Depreciation of fixed assets	-0.23	0.69	1.22	1.83	2.18	2.63	2.97
Amortisation of goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortisation of intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase/decrease in long-term provisions	0.00	0.07	0.08	0.00	0.00	0.00	0.00
Deferred taxes	0.00	0.07	0.28	0.12	0.10	0.13	0.15
Other non-cash income and expenses	n.a.	1.49	-1.30	0.00	0.00	0.00	0.00
Cash Flow before NWC change	n.a.	3.21	1.64	3.66	4.45	5.29	6.26
Increase / decrease in inventory	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Increase / decrease in accounts receivable	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Increase / decrease in accounts payable	n.a.	0.06	0.11	0.00	0.00	0.00	0.00
Increase / decrease in other working capital positions	n.a.	-0.14	-0.29	0.00	0.00	0.00	0.00
Increase / decrease in working capital (total)	n.a.	1.41	-1.48	0.00	0.00	0.00	0.00
Net cash provided by operating activities [1]	0.36	1.65	1.36	4.66	4.45	5.29	6.26
Investments in properties	n.a.	-17.92	-15.89	-17.50	-17.50	-17.50	-17.50
Income from asset disposals	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Investments in intangible assets	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Payments for acquisitions	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Financial investments	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Investments in other assets (net)	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Net cash provided by investing activities [2]	-14.32	-17.92	-15.89	-17.50	-17.50	-17.50	-17.50
Change in financial liabilities	n.a.	8.59	22.24	14.17	13.32	13.52	13.71
Dividends paid	n.a.	0.22	-0.58	-1.21	-1.49	-1.79	-2.09
Purchase of own shares	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Capital measures	n.a.	1.32	0.00	0.00	0.00	0.00	0.00
Other	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Net cash provided by financing activities [3]	3.71	14.02	21.63	12.96	11.83	11.73	11.61
Change in liquid funds [1]+[2]+[3]	n.a.	-2.25	7.09	0.12	-1.22	-0.48	0.37
Effects of exchange-rate changes on cash	n.a.	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalent at end of period	n.a.	1.46	8.56	8.68	7.46	6.98	7.35

Financial Ratios

	2015	2016	2017	2018e	2019e	2020e	2021e
Cash Flow							
FFO (II)	0.53	1.59	2.58	3.45	4.06	4.87	5.74
FFOPS I	0.24	0.54	0.73	0.97	1.15	1.37	1.62
FFOPS I diluted	0.24	0.45	0.73	0.97	1.15	1.37	1.62
FFO I-Yield	n.a.	10.4 %	8.2 %	8.4 %	9.9 %	11.8 %	13.9 %
FFO I-margin	52.2 %	46.2 %	44.3 %	39.6 %	39.1 %	38.7 %	38.7 %
Interest Paid / Avg. Debt	n.a.	3.4 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %
Management of Funds							
Capex/Investment Properties	n.a.	-57.0 %	-30.6 %	-26.7 %	-21.6 %	-18.3 %	-15.9 %
Avg. Working Capital / Sales	n.a.	0.9 %	0.7 %	0.4 %	-0.7 %	-0.6 %	0.2 %
Dividend Payout Ratio	72.8 %	65.7 %	88.6 %	51.3 %	73.3 %	72.6 %	69.9 %

FFO

Source: Warburg Research

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
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“-“	Rating suspended:	The available information currently does not permit an evaluation of the company.

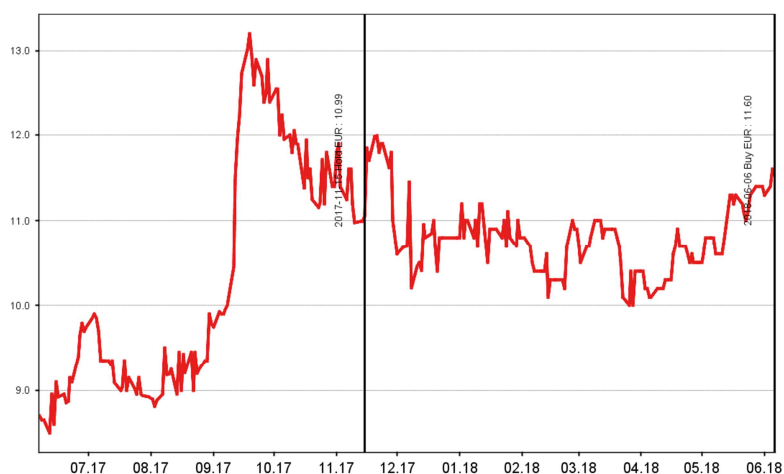
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Rating	Number of stocks	% of Universe
Buy	109	54
Hold	89	44
Sell	4	2
Rating suspended	0	0
Total	202	100

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	32	71
Hold	13	29
Sell	0	0
Rating suspended	0	0
Total	45	100

PRICE AND RATING HISTORY DEFAMA DEUTSCHE FACHMARKT AG AS OF 06.06.2018

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