

Buy EUR 17.70 Price EUR 16.40 Upside 7.9 %	Value Indicators: EUR NAV (WRe): 17.97 FFO-Yield: 17.52	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: 63.96 No. of shares (m): 3.90 Freefloat MC: 39.02 Ø Trad. Vol. (30d): 30.21 th	Shareholders: Freefloat 61.0 % MSC Invest GmbH 32.4 % Geminus GmbH 4.8 % Supervisory board 1.9 %	Risk Profile (WRe): 2019e LTV: 68.0 % Equity Ratio: 17.4 %

Highly profitable retail park specialist with sound growth momentum

Founded in 2014, DEFAMA is a German commercial real estate company focused on retail parks in small and medium-sized cities. The geographic focus lies in northern and eastern Germany. The portfolio currently comprises 31 assets with an estimated market value of approximately EUR 120m and 130k square meters of rentable space.

Quality: LTV is currently estimated at close to 60%. WALT is 3.9 years and the average occupancy is 95%. DEFAMA pursues a “buy and hold” strategy and is able to generate a highly profitable average FFO margin of almost 40% of total rental income, thanks to a lean structure.

Theme: The market segment chosen by the company offers compelling yield opportunities because, with investment volumes of EUR 1m to EUR 5m essentially in rural areas, it is too small and too illiquid to attract the attention of institutional investors. Hence DEFAMA typically pays a maximum of 10x rental income when purchasing retail parks, which is considerably less than the 15x to 16x typically paid for similar assets in metropolitan regions. Competition from other retail locations in the catchment areas is low. Nationwide food retailers with strong credit ratings are typically the anchor tenants, currently accounting for some 51% of annualised rental income. With limited online competition, traffic at the retail locations is stable. At the same time, the tenant base is well diversified with no single tenant accounting for more than 14% of annual rental income.

The company typically leverages 90% of the initial purchase price with local savings and cooperative banks who also have good knowledge of local tenants. Conditions obtained are very advantageous with fixed rates for 7.8 years on average at 2.41% p.a.

Growth: The market for retail parks is very fragmented with some 10,000 assets in northern and eastern Germany that could conceivably come to market, mostly currently in private hands. DEFAMA screens several hundred assets per year, only one-tenth of which fit the company's acquisition criteria (solid tenants, low vacancies, low capital expenditure requirements). On average, five to eight assets are added per year to the company's portfolio for typical yearly capital outlay of EUR 15-20m. Our model assumes that the company will buy an additional EUR 17.5m worth of assets in 2019e and 2020e with existing financial means and without an additional capital increase. Including our acquisition scenario, planned larger capital expenditure and the resulting rental increases on existing assets, the annual rental income is expected to grow by ~21% p.a. on average into 2021e. The FFO is seen up by 23% p.a. on average into 2021e.

Valuation: The EPRA-NAV per share communicated by the company, which uses conservative assumptions, amounts to EUR 11.28 per share as of March 30 2019 (w/o new acquisitions). Our NAV calculation 2020e yields EUR 17.97 per share based on a multiple of 12. A valuation based on an FFO yield of 7.5% compared to a peer group level of 6.5% results in a fair value of EUR 17.52 per share. Our recommendation with a PT of EUR 17.70 is the average of both methodologies. We expect a generous dividend policy resulting in an attractive dividend yield of 5% going forward.



Rel. Performance vs General	
1 month:	1.7 %
6 months:	32.1 %
Year to date:	33.1 %
Trailing 12 months:	44.2 %

Company events:
20.06.19 AGM

FY End: 31.12. in EUR m	CAGR (18-21e)	2015	2016	2017	2018	2019e	2020e	2021e
Rental income		1.01	3.44	5.83	9.09	11.48	13.80	15.99
Change yoy		n.a.	240.6 %	69.5 %	55.9 %	26.4 %	20.2 %	15.8 %
EBIT		0.46	1.67	2.67	3.59	4.97	11.49	7.10
FFO I		0.53	1.59	2.58	3.41	4.57	5.62	6.54
FFO I-margin		52.2 %	46.2 %	44.3 %	37.5 %	39.8 %	40.7 %	40.9 %
EBT		0.36	1.11	1.77	2.25	3.02	9.19	4.44
Net income		0.30	0.89	1.36	1.68	2.38	7.26	3.51
EPS		0.14	0.30	0.38	0.46	0.61	1.86	0.90
FFOPS I		0.24	0.54	0.71	0.94	1.17	1.44	1.68
DPS		0.10	0.20	0.34	0.40	0.52	0.62	0.71
Dividend Yield		n.a.	3.8 %	3.8 %	3.4 %	3.1 %	3.8 %	4.3 %
Book Value / Share		2.57	3.00	3.18	4.10	4.27	5.51	5.70
P / E		n.a.	17.2 x	23.2 x	25.0 x	26.8 x	8.8 x	18.2 x
Price / Book		n.a.	1.4 x	2.9 x	2.6 x	3.8 x	3.0 x	2.9 x
P / NAVPS		n.a.	1.0 x	1.2 x	n.a.	1.7 x	1.7 x	1.7 x
FFO I-Yield		n.a.	10.4 %	8.0 %	8.1 %	7.1 %	8.8 %	10.2 %
ROE		n.a.	10.9 %	12.4 %	12.3 %	14.6 %	38.0 %	16.0 %
LTV		59.7 %	56.0 %	61.1 %	62.5 %	68.0 %	75.7 %	76.0 %
Equity Ratio		31.6 %	32.0 %	20.5 %	19.1 %	17.4 %	18.8 %	17.3 %
Guidance:		2019e: FFO of EUR ~4.4m, Net profit (HGB) of EUR 2.2m						

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
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-B-	Buy:	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	Hold:	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	Sell:	The price of the analysed financial instrument is expected to fall over the next 12 months.
“-“	Rating suspended:	The available information currently does not permit an evaluation of the company.

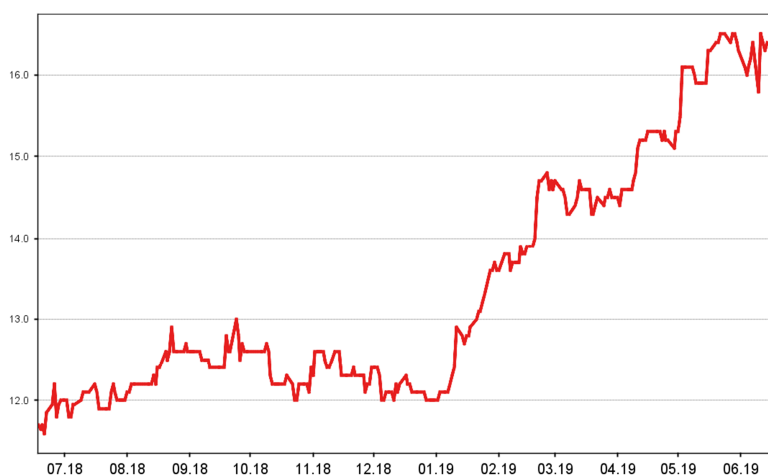
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Rating	Number of stocks	% of Universe
Buy	120	60
Hold	69	35
Sell	4	2
Rating suspended	6	3
Total	199	100

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	34	83
Hold	5	12
Sell	0	0
Rating suspended	2	5
Total	41	100

PRICE AND RATING HISTORY DEFAMA DEUTSCHE FACHMARKT AG AS OF 17.06.2019


Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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