

Buy EUR 17.70 Price EUR 15.70 Upside 12.7 %	Value Indicators: EUR NAV (WRe): 17.80 FFO-Yield: 17.20	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: 61.23 No. of shares (m): 3.90 Freefloat MC: 37.35 Ø Trad. Vol. (30d): 31.88 th	Shareholders: Freefloat 61.0 % MSC Invest GmbH 32.4 % Geminus GmbH 4.8 % Supervisory board 1.9 %	Risk Profile (WRe): 2019e LTV: 62.6 % Equity Ratio: 16.6 %

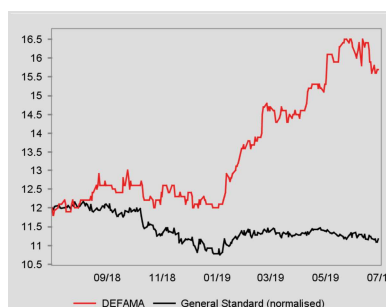
Possible capital increase to support growth ambition

DEFAMA's outlook seems to be anticipating strong opportunities for further growth as management said it is considering a capital increase with subscription rights, primarily to finance new acquisitions. A possible capital increase with a subscription ratio of 8 to 1 at around the current share price could lead to gross proceeds of EUR 7-8m.

Why is a capital increase necessary? The cash position stood at EUR 4m at end of Q1. After a dividend payment of EUR 1.56m in Q2 and some necessary cash collateral for banks, we estimate the available cash position at between ~ EUR 1.5m and EUR 1.8m. We regard this amount as adequate to finance the targeted investment volume (EUR 15-20m p.a.) in combination with positive quarterly FFO contributions (FFO annualised 4.7m). Nevertheless, the build-up of a war chest would clearly increase operating flexibility for the following reasons:

- Firstly, we assume that DEFAMA's pipeline is strong. DEFAMA has already invested 50% (~EUR 7.5m) of the targeted annual minimum investment volume with the purchase of one retail park in Dinslaken. The CEO pointed out at the AGM that he gave an indicative bid for properties with a volume of EUR 10m in the last 10 days. DEFAMA would additionally benefit from a higher equity position as it could invest a volume similar to the record year 2018 (EUR 27m).
- Secondly, DEFAMA's focus on the optimisation of the existing portfolio has increased as the CEO has been supported by an appointed project manager since January. A smaller share of the proceeds from a cap raise could be used for expansion, refurbishment and tenant incentives which should lead to further FFO improvement.
- As only very small investments are necessary in some retail parks, a possible revaluation of loans based on DEFAMA's steady repayments would require too much management effort with several savings banks.
- Additionally, a strong cash position would increase management's flexibility in a possible sale process of the development in Radeberg. The building permit for Radeberg is expected by the end of 2019. In terms of letting activities, DEFAMA is well on track, so a forward deal in 2020 seems to be possible with a substantial book gain (WRe: EUR 6.5m with a multiple of 16; breakeven at a multiple of 11).
- We confirm our Buy recommendation and our PT of EUR 17.70.

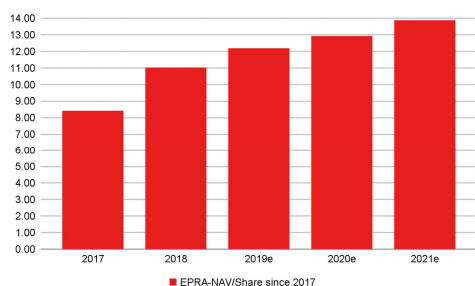
Changes in Estimates:						Comment on Changes:	
FY End: 31.12. in EUR m	2019e (old)	+ / -	2020e (old)	+ / -	2021e (old)	+ / -	
Rental income	11.48	0.4 %	13.80	-1.5 %	15.99	-2.5 %	<ul style="list-style-type: none"> We adjust the multiples for investments from 9 to 10 due to a) higher market multiples, b) expected investment in slightly larger cities and c) expected higher maturity of rental contracts which should lead to a lower FFO contribution. We increase our assumption for a possible book gain from the sale of Radeberg to EUR 6.5m in 2020.
FFOPS I	1.17	-0.2 %	1.44	-5.2 %	1.68	-6.2 %	
EPS	0.61	-5.6 %	1.86	7.5 %	0.90	-9.4 %	



Rel. Performance vs General	
1 month:	-2.4 %
6 months:	27.2 %
Year to date:	27.2 %
Trailing 12 months:	38.3 %
Company events:	
06.08.19	RS DUB
07.08.19	RS LON
08.08.19	RS FFM
09.08.19	RS STR

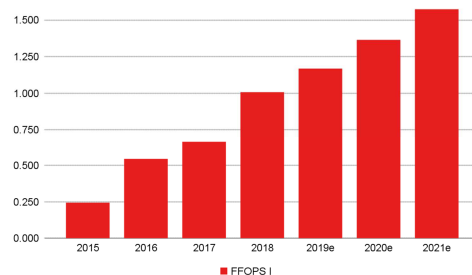
FY End: 31.12. in EUR m	CAGR (18-21e)	2015	2016	2017	2018	2019e	2020e	2021e
Rental income		1.01	3.44	5.83	9.09	11.53	13.60	15.59
Change yoy		n.a.	240.6 %	69.5 %	55.9 %	26.9 %	17.9 %	14.6 %
EBIT		0.46	1.67	2.67	3.59	4.88	12.25	6.75
FFO I		0.53	1.59	2.58	3.65	4.56	5.32	6.14
FFO I-margin		52.2 %	46.2 %	44.3 %	40.1 %	39.5 %	39.1 %	39.4 %
EBT		0.36	1.11	1.77	2.25	2.88	9.90	4.05
Net income		0.30	0.89	1.36	1.68	2.25	7.80	3.18
EPS		0.14	0.30	0.38	0.46	0.58	2.00	0.81
FFOPS I		0.24	0.54	0.66	1.01	1.17	1.36	1.57
DPS		0.10	0.20	0.34	0.40	0.51	0.59	0.67
Dividend Yield		n.a.	3.8 %	3.8 %	3.4 %	3.3 %	3.7 %	4.3 %
Book Value / Share		2.57	3.00	3.18	4.10	4.16	5.58	5.72
P / E		n.a.	17.2 x	23.2 x	25.0 x	27.2 x	7.8 x	19.3 x
Price / Book		n.a.	1.4 x	3.1 x	2.6 x	3.8 x	2.8 x	2.7 x
P / NAVPS		n.a.	1.0 x	1.2 x	1.2 x	1.4 x	1.3 x	1.3 x
FFO I-Yield		n.a.	10.4 %	7.4 %	8.7 %	7.4 %	8.7 %	10.0 %
ROE		n.a.	10.9 %	12.4 %	12.3 %	14.0 %	41.1 %	14.4 %
LTV		50.8 %	40.5 %	55.7 %	59.9 %	62.6 %	62.3 %	64.2 %
Guidance:	2019e: FFO of EUR ~4.4m, Net profit (HGB) of EUR 2.2m							

EPRA-NAV per share development in EUR



Source: Warburg Research

FFO per share development in EUR



Source: Warburg Research

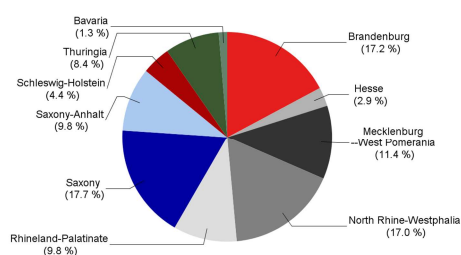
Company Background

- 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.

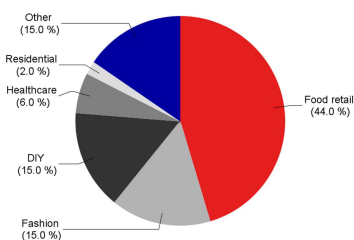
Competitive Quality

- 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

Valuation							
	2015	2016	2017	2018	2019e	2020e	2021e
P / E	n.a.	17.2 x	23.2 x	25.0 x	27.2 x	7.8 x	19.3 x
P / NAVPS	n.a.	1.0 x	1.2 x	1.2 x	1.4 x	1.3 x	1.3 x
Price / Book	n.a.	1.4 x	3.1 x	2.6 x	3.8 x	2.8 x	2.7 x
P / FFOPS I	n.a.	9.6 x	13.5 x	11.5 x	13.4 x	11.5 x	10.0 x
FFO I-Yield	n.a.	10.4 %	7.4 %	8.7 %	7.4 %	8.7 %	10.0 %
ROE	n.a.	10.9 %	12.4 %	12.3 %	14.0 %	41.1 %	14.4 %
Equity Ratio	32 %	32 %	21 %	19 %	17 %	19 %	17 %

Company Specific Items							
	2015	2016	2017	2018	2019e	2020e	2021e
EPRA-NAV/Share since 2017	3.28	5.14	8.42	11.02	12.18	12.92	13.87
Vacancy Rate	2.5 %	2.7 %	2.7 %	4.3 %	4.0 %	4.0 %	4.0 %

Consolidated profit and loss

In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Total Sales	1.01	3.44	5.83	9.09	11.53	13.60	15.59
Rental income	1.01	3.44	5.83	9.09	11.53	13.60	15.59
Change yoy	n.a.	240.6 %	69.5 %	55.9 %	26.9 %	17.9 %	14.6 %
Property operating costs	0.15	0.60	1.24	2.21	2.71	3.20	3.66
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	8.82	10.40	11.93
Income from property sales	0.00	0.00	0.00	0.00	0.00	6.50	0.00
Other revenues	0.00	0.11	0.12	0.08	0.12	0.00	0.00
Gross profit	0.87	2.95	4.70	6.95	8.94	16.90	11.93
Administration expenses	0.12	0.38	0.35	0.70	0.70	0.82	0.94
Personnel expenses	0.05	0.20	0.47	0.72	0.95	1.12	1.28
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	5.53	7.19	14.97	9.71
Valuation result	0.00	0.00	0.00	0.00	0.00	6.50	0.00
Depreciation of fixed assets	-0.23	0.69	1.22	1.95	2.31	2.72	2.96
EBITA	0.46	1.67	2.67	3.59	4.88	12.25	6.75
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	3.59	4.88	12.25	6.75
Interest income	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Interest expenses	0.11	0.56	0.90	1.34	2.00	2.35	2.70
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	-1.34	-2.00	-2.35	-2.70
EBT	0.36	1.11	1.77	2.25	2.88	9.90	4.05
<i>Margin</i>	<i>35.4 %</i>	<i>32.2 %</i>	<i>30.4 %</i>	<i>24.8 %</i>	<i>24.9 %</i>	<i>72.8 %</i>	<i>26.0 %</i>
Total taxes	-0.06	-0.22	-0.41	-0.55	-0.60	-0.60	-0.60
thereof cash taxes	-0.06	-0.22	-0.41	-0.55	-0.60	-2.08	-0.85
Net income from continuing operations	0.30	0.89	1.36	1.70	2.27	7.82	3.20
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	1.70	2.27	7.82	3.20
Minority interest	0.00	0.00	0.00	0.02	0.02	0.02	0.02
Net income	0.30	0.89	1.36	1.68	2.25	7.80	3.18
Number of shares, average	2.16	2.92	3.90	3.62	3.90	3.90	3.90
FFO (II)	0.53	1.59	2.58	3.65	4.56	5.32	6.14
<i>FFO I-margin</i>	<i>52.2 %</i>	<i>46.2 %</i>	<i>44.3 %</i>	<i>40.1 %</i>	<i>39.5 %</i>	<i>39.1 %</i>	<i>39.4 %</i>
FFOPS I	0.24	0.54	0.66	1.01	1.17	1.36	1.57
EPS	0.14	0.30	0.38	0.46	0.58	2.00	0.81
EPS adj.	0.14	0.30	0.38	0.43	0.58	2.00	0.81

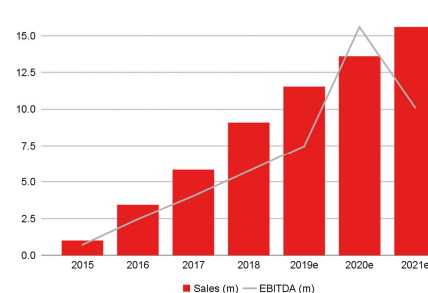
*Adjustments made for:

Guidance: 2019e: FFO of EUR ~4.4m, Net profit (HGB) of EUR 2.2m**Financial Ratios**

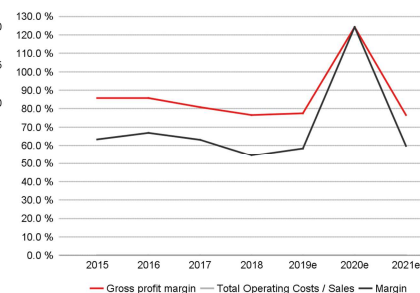
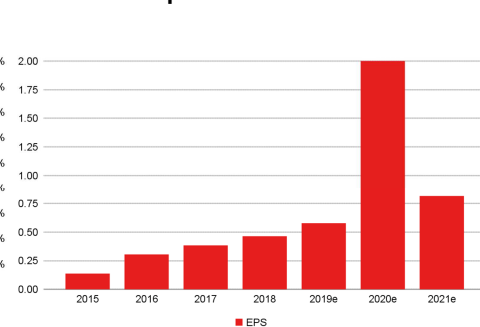
	2015	2016	2017	2018	2019e	2020e	2021e
Property operating costs / Rental Income	14.4 %	17.3 %	21.4 %	24.4 %	23.5 %	23.5 %	23.5 %
Operating Leverage (Real Estate)	n.a.	1.3 x	2.3 x	2.5 x	4.6 x	6.5 x	7.9 x
Rental profit / interest expenses	7.5 x	5.1 x	5.1 x	5.1 x	4.4 x	4.4 x	4.4 x

Sales, EBITDA

in EUR m

**Operating Performance**

in %

**Performance per Share**

Source: Warburg Research

Source:

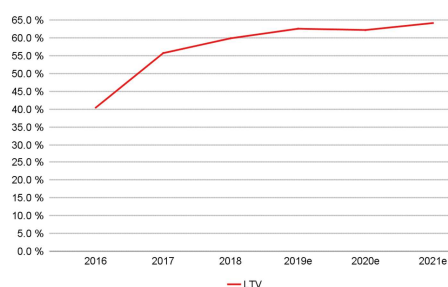
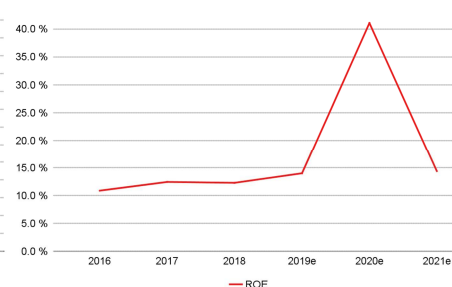
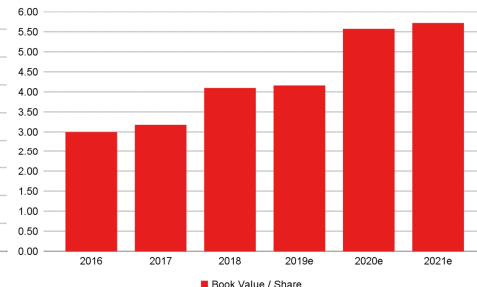
Source: Warburg Research

Consolidated balance sheet

In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Assets							
Goodwill and other intangible assets	0.00	0.01	0.01	0.01	0.00	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	0.00	0.00	0.00
Property, plant and equipment	0.00	0.03	0.03	0.08	0.08	0.08	0.08
Investment properties	14.23	31.41	51.96	81.10	96.29	105.57	120.11
Financial assets	0.04	0.05	0.24	0.26	0.26	0.26	0.26
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	81.44	96.63	105.91	120.45
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts receivable	0.04	0.12	0.22	0.51	0.00	0.51	0.51
Liquid assets	3.71	1.46	2.49	2.80	2.10	12.36	12.07
Other short-term assets	0.08	0.17	0.46	1.04	1.11	0.60	0.60
Current assets	3.83	1.75	3.17	4.34	3.21	13.47	13.18
Total Assets	18.10	33.25	55.41	85.79	99.85	119.38	133.64
Liabilities and shareholders' equity							
Subscribed capital	2.23	3.55	3.55	3.90	3.90	3.90	3.90
Capital reserve	2.21	6.15	6.15	10.03	10.03	10.03	10.03
Retained earnings	1.28	0.94	1.59	2.06	2.31	7.82	8.39
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	15.99	16.24	21.75	22.32
Minority interest	0.00	0.00	0.10	0.38	0.38	0.38	0.38
Provisions	0.06	0.20	0.36	1.01	0.43	0.43	0.43
thereof provisions for pensions and similar obligations	0.03	0.10	0.18	0.21	0.21	0.21	0.21
Financial liabilities (total)	12.24	20.83	43.07	67.79	80.96	94.83	108.35
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	0.30	0.30	0.30	0.30
Other liabilities	0.07	1.51	0.51	0.70	1.93	2.07	2.25
Liabilities	12.38	22.61	44.13	69.79	83.61	97.63	111.32
Total liabilities and shareholders' equity	18.10	33.25	55.41	85.79	99.85	119.38	133.64

Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Return on Capital							
ROA	n.a.	3.5 %	3.1 %	2.4 %	2.4 %	7.1 %	2.5 %
ROE	n.a.	10.9 %	12.4 %	12.3 %	14.0 %	41.1 %	14.4 %
FFO I / Equity	n.a.	0.2 x	0.2 x	0.3 x	0.3 x	0.3 x	0.3 x
Solvency							
Net Debt	8.56	19.46	40.76	65.20	79.07	82.69	96.49
Net Financial Debt	8.53	19.37	40.58	64.99	78.86	82.48	96.27
Net Fin. Debt / EBITDA	12.3 x	8.2 x	10.4 x	11.7 x	11.0 x	5.5 x	9.9 x
LTV	50.8 %	40.5 %	55.7 %	59.9 %	62.6 %	62.3 %	64.2 %
Equity Ratio	31.6 %	32.0 %	20.5 %	19.1 %	16.6 %	18.5 %	17.0 %

LTV**ROE**
in %**Book Value per Share**
in EUR

Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

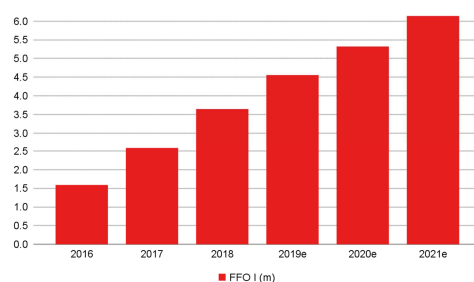
Consolidated cash flow statement

In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Net cash provided by operating activities [1]	0.36	1.65	2.76	3.42	4.68	10.66	6.31
Net cash provided by investing activities [2]	-14.32	-17.92	-21.95	-31.12	-17.50	-6.50	-17.50
Net cash provided by financing activities [3]	3.71	14.02	20.23	28.01	12.12	6.09	10.91
Change in liquid funds [1]+[2]+[3]	n.a.	-2.25	1.03	0.31	-0.70	10.25	-0.28
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	2.49	2.80	2.10	12.36	12.07

Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Cash Flow							
FFO (II)	0.53	1.59	2.58	3.65	4.56	5.32	6.14
FFOPS I	0.24	0.54	0.66	1.01	1.17	1.36	1.57
FFOPS I diluted	0.24	0.45	0.73	1.01	1.17	1.36	1.57
FFO I-Yield	n.a.	10.4 %	7.4 %	8.7 %	7.4 %	8.7 %	10.0 %
FFO I-margin	52.2 %	46.2 %	44.3 %	40.1 %	39.5 %	39.1 %	39.4 %
Interest Paid / Avg. Debt	n.a.	3.4 %	2.8 %	2.4 %	2.7 %	2.7 %	2.7 %
Management of Funds							
Capex/Investment Properties	n.a.	-57.0 %	-42.3 %	-38.4 %	-18.2 %	-6.2 %	-14.6 %
Avg. Working Capital / Sales	n.a.	0.9 %	0.7 %	1.4 %	-0.4 %	-0.3 %	1.4 %
Dividend Payout Ratio	72.8 %	65.7 %	97.4 %	85.1 %	88.2 %	29.2 %	81.5 %

FFO



Source: Warburg Research

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
DEFAMA Deutsche Fachmarkt AG	5	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE000A13SUL5.htm

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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.

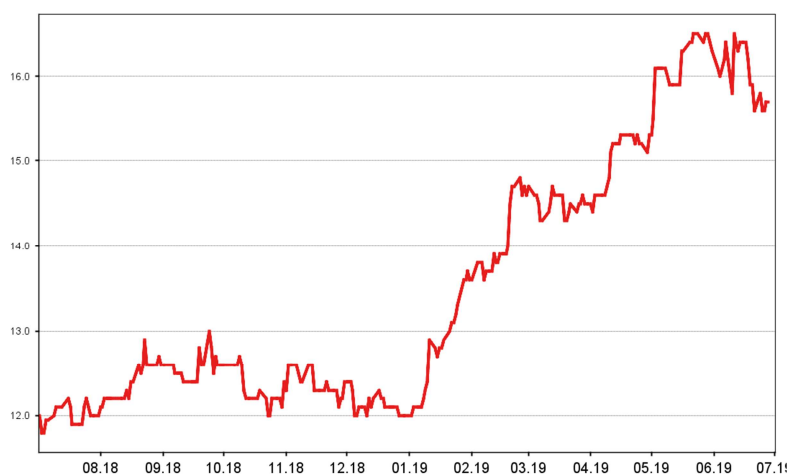
WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	121	61
Hold	69	35
Sell	4	2
Rating suspended	6	3
Total	200	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	33	80
Hold	6	15
Sell	0	0
Rating suspended	2	5
Total	41	100

PRICE AND RATING HISTORY DEFAMA DEUTSCHE FACHMARKT AG AS OF 01.07.2019

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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