

Buy EUR 18.20 (EUR 19.30) Price EUR 13.20 Upside 37.9 %	Value Indicators: EUR NAV (WRe) 21e: 19.60 FFO-Yield 21e: 16.80	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: 58.34 No. of shares (m): 4.42 Freefloat MC: 37.92 Ø Trad. Vol. (30d): 76.76 th	Shareholders: Freefloat 65.0 % MSC Invest GmbH 29.0 % Geminus GmbH 4.0 % Supervisory board 2.0 %	Risk Profile (WRe): 2019e LTV: 57.3 % Equity Ratio: 23.7 %

Moderate headwind expected from coronavirus crisis

- Visibility of recurring rental income decreases in most commercial estate classes in the current economic environment due to the closure of shops in Germany. For the time being, it is unclear how long shops in the non-food sector will be closed. For this reason we took a closer look at DEFAMA's tenant structure. In our view DEFAMA's tenant split seems very robust. Rental income from food anchor-tenants accounts for a share of ~47% of DEFAMA's rental income. These tenants are benefiting from current situation as the turnover of most food retailers has improved significantly, which could have some minor positive effects due to turnover-driven rents in DEFAMA's portfolio. DIY stores contribute ~13% to rental income and are not closed for commercial customers in most federal states. In the segment Fashion & Shoes (~12%), DEFAMA's portfolio includes names like KiK, Deichmann, and Takko which have solid financial ratios and should survive this severe environment. After discussing the quality of DEFAMA's tenants with the CEO, we came to the conclusion that a default risk of 10% could be a worst-case scenario assuming normalisation after six to eight weeks. Top-10 tenant group sum up to 62% of rental income. As no single rental contract exceeds 5% of total revenues and Top-5 contracts sum up to ~15% of rental income, the portfolio looks well diversified.

Top tenants	2017	H1/18	2018	Q1/19	H1/19	9M/19	2019
REWE/Penny/Sky	13.0%	14.1%	10.4%	9.7%	10.8%	9.9%	12.7%
Edeka/Netto/trinkgut	9.7%	9.9%	7.5%	8.2%	12.9%	12.0%	
toom/Baumarkt B1	9.0%	8.4%	6.0%	10.5%	10.5%	9.6%	8.9%
NORMA	7.2%	6.8%	6.4%	5.7%	5.7%	5.2%	4.8%
Tengelmann-Gruppe (Tedi, kik)	4.7%	4.5%	4.4%	4.9%	4.9%	4.9%	6.3%
Aldi Nord	4.5%	4.3%	4.1%	3.8%	3.8%	4.7%	4.4%
Lidl	4.4%	4.0%	6.8%	6.8%	6.3%	5.7%	5.3%
Dänisches Bettenlager	4.0%	3.7%	2.7%	2.5%	2.5%	2.2%	3.1%
TAKKO	3.1%		2.9%		2.7%	2.4%	2.5%
Hammer	3.0%	3.0%					
Deichmann		3.5%	2.5%	2.3%	2.3%	2.1%	1.9%
Top 10 total	62.6%	62.2%	53.7%	54.4%	57.7%	59.6%	61.9%

Tenant sector	Q1/19	H1/19	9M/19	2019
Food retailers	44%	45%	47%	47%
Fashion/Shoes	15%	15%	13%	12%
DIY	15%	15%	14%	13%
Less cyclical Retailers	7%	7%	9%	9%
Health	6%	6%	5%	6%
Residential	2%	2%	2%	2%
Office	3%	3%	3%	3%
Others	8%	7%	7%	8%
Total	100%	100%	100%	100%

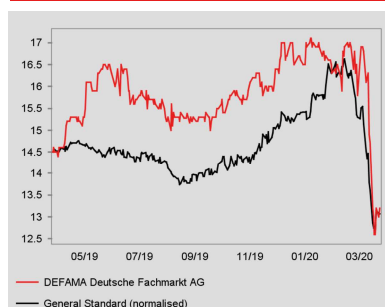
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Changes in Estimates:

FY End: 31.12. in EUR m	2019e (old)	+ / -	2020e (old)	+ / -	2021e (old)	+ / -
Rental income	11.25	-0.2 %	14.03	-12.3 %	16.31	-0.1 %
FFO I	4.60	0.5 %	5.67	-4.1 %	6.56	-0.7 %
FFOPS I	1.13	0.5 %	1.28	-4.1 %	1.48	-0.7 %
Net income	2.09	1.9 %	8.33	-77.3 %	3.29	144.8 %
EPS	0.51	1.9 %	1.88	-77.3 %	0.74	144.8 %

Comment on Changes:

- 2020 estimates reduced as we include a discount of 5% for the net cold rent to reflect possible temporary defaults. The higher decrease (-12%) in our estimates for the top line results from a reduction of running costs which have to be paid by tenants.
- Additionally, we postpone the possible contribution from the sale of Radeberg to 2021 as construction is expected to take longer and a possible forward-sale is unlikely in the current environment. Our calculated book gain of EUR 6.5m remains unchanged and reflects a multiple of 16.



Rel. Performance vs General

1 month:	-4.0 %
6 months:	-8.1 %
Year to date:	-4.8 %
Trailing 12 months:	1.3 %

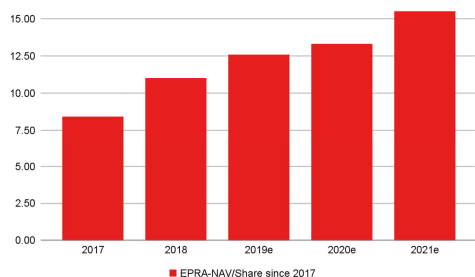
Company events:

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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	11.23	12.30	16.30
Change yoy		n.a.	240.6 %	69.5 %	55.9 %	23.6 %	9.6 %	32.5 %
EBIT		0.46	1.67	2.67	3.59	4.51	4.44	12.92
FFO I		0.53	1.59	2.58	3.65	4.63	5.44	6.51
FFO I-margin		52.2 %	46.2 %	44.3 %	40.1 %	41.2 %	44.2 %	40.0 %
EBT		0.36	1.11	1.77	2.25	2.80	2.49	10.64
Net income		0.30	0.89	1.36	1.68	2.13	1.89	8.06
EPS		0.13	0.25	0.38	0.46	0.52	0.43	1.82
FFOPS I		0.24	0.54	0.73	1.01	1.14	1.23	1.47
DPS		0.10	0.20	0.34	0.40	0.46	0.49	0.59
Dividend Yield		n.a.	3.8 %	3.8 %	3.4 %	3.5 %	3.7 %	4.5 %
Book Value / Share		2.57	3.00	3.18	4.10	5.57	5.50	6.74
P / E		n.a.	20.9 x	23.2 x	25.0 x	25.2 x	30.9 x	7.2 x
Price / Book		n.a.	1.4 x	2.8 x	2.6 x	2.4 x	2.4 x	2.0 x
P / NAVPS		n.a.	1.0 x	1.1 x	1.2 x	1.2 x	1.1 x	0.9 x
FFO I-Yield		n.a.	10.4 %	8.2 %	8.7 %	8.6 %	9.3 %	11.2 %
ROE		n.a.	10.9 %	12.4 %	12.3 %	10.5 %	7.7 %	29.8 %
LTV		50.8 %	38.9 %	55.7 %	59.9 %	57.3 %	59.4 %	58.4 %
Guidance:	2020e: FFO of EUR ~5.7m, Net profit (HGB) of EUR 2.5m							

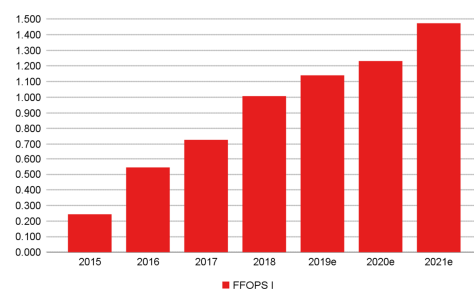
- In terms of financing, DEFAMA took a conservative approach as it preferred loans with a long maturity. The existing loan portfolio (2019: EUR 76.5m) has an average duration of 7.6 years and an average interest rate of 2.4%. The refinancing via annuity loans was made with several regional banks and savings banks (24) which reduces the dependence on one, or only a few, lenders. Average LTV stood at 56% and would decrease quickly in the case of no additional acquisitions considering a first average redemption payment of 4.73%. The next maturity for a loan will be in 2025 with a volume of EUR 5m. Overall, we see no refinancing risks for DEFAMA due to solid underlying asset quality and robust cash flows.
- In terms of acquisitions, DEFAMA had a good start to 2020. Management signed a contract for a shopping centre in Zeitz (Sachsen-Anhalt) which is ~40km south west of Leipzig. Total investment volume (including additional costs) sums up to around EUR 9m which leads to an attractive acquisition multiple of <7.5 based on net rental income of >EUR 1.2m. Core tenants are Kaufland and Toom. The annualised net rental income increase to EUR 13m including this acquisition. Annualised FFO improved to EUR 6.2m or EUR 1.40 per share (FFO-yield 10.8%).
- The management and supervisory boards showed their confidence in DEFAMA's robust business model with several director dealings. The CEO has bought ~14.7k shares for approx. ~EUR 217k which led to an average purchase price of EUR 14.7 per share. This is a positive sign, in our view, as management should have higher visibility of a tenant's turnover than external observers and, as a consequence, higher visibility on possible defaults of rental income. Furthermore, the main shareholder of DEFAMA's peer, Deutsche Konsum REIT, Rolf Elgeti is heavily investing in its own company which might be also a good indication for an overall robust development of retail parks in the current corona crisis.
- In 2020 DEFAMA expects FFO of EUR 5.7m and net profit (German GAAP) of EUR 2.5m which would enable a further dividend increase. The annualised FFO should rise to EUR 7m.
- We confirm our Buy recommendation. Our slight adjustment of estimates in 2020 is driven by a more conservative stance due to some possible minor rental defaults. Nevertheless, the risk-reward profile remains very attractive at this share price level, looking at an FFO-yield of nearly 10% (2020e).

EPRA-NAV per share development in EUR



Source: Warburg Research

FFO per share development in EUR



Source: Warburg Research

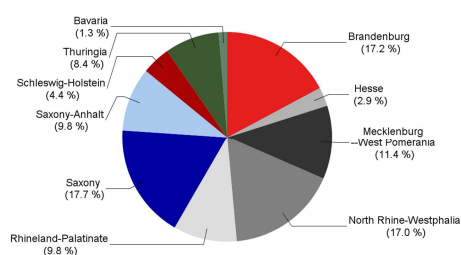
Company Background

- 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 purchase price of ~10x annual rent.
- Investment volumes are EUR 1 - 5 million per asset. Anchor tenants are nationwide retailers.

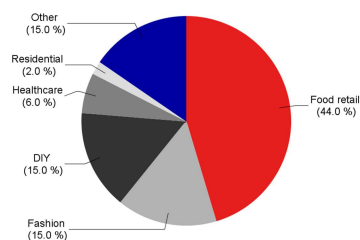
Competitive Quality

- 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.	20.9 x	23.2 x	25.0 x	25.2 x	30.9 x	7.2 x
P / NAVPS	n.a.	1.0 x	1.1 x	1.2 x	1.2 x	1.1 x	0.9 x
Price / Book	n.a.	1.4 x	2.8 x	2.6 x	2.4 x	2.4 x	2.0 x
P / FFOPS I	n.a.	9.6 x	12.2 x	11.5 x	11.6 x	10.7 x	9.0 x
FFO I-Yield	n.a.	10.4 %	8.2 %	8.7 %	8.6 %	9.3 %	11.2 %
ROE	n.a.	10.9 %	12.4 %	12.3 %	10.5 %	7.7 %	29.8 %
Equity Ratio	32 %	32 %	21 %	19 %	24 %	21 %	21 %

Company Specific Items							
	2015	2016	2017	2018	2019e	2020e	2021e
EPRA-NAV/Share since 2017	3.28	5.14	8.42	11.02	12.60	13.32	15.52
Vacancy Rate	2.5 %	2.7 %	2.7 %	4.3 %	5.0 %	5.0 %	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	11.23	12.30	16.30
Rental income	1.01	3.44	5.83	9.09	11.23	12.30	16.30
Change yoy	n.a.	240.6 %	69.5 %	55.9 %	23.6 %	9.6 %	32.5 %
Property operating costs	0.15	0.60	1.24	2.21	2.49	2.91	3.65
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	8.74	9.39	12.65
Income from property sales	0.00	0.00	0.00	0.00	0.00	0.00	6.50
Other revenues	0.00	0.11	0.12	0.08	0.09	0.10	0.13
Gross profit	0.87	2.95	4.70	6.95	8.83	9.49	19.28
Administration expenses	0.12	0.38	0.35	0.70	0.70	0.84	0.98
Personnel expenses	0.05	0.20	0.47	0.72	1.08	1.31	1.47
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	7.05	7.34	16.83
Valuation result	0.00	0.00	0.00	0.00	0.00	0.00	6.50
Depreciation of fixed assets	-0.23	0.69	1.22	1.95	2.55	2.90	3.91
EBITA	0.46	1.67	2.67	3.59	4.51	4.44	12.92
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	4.51	4.44	12.92
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	1.71	1.95	2.28
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	-1.71	-1.95	-2.28
EBT	0.36	1.11	1.77	2.25	2.80	2.49	10.64
<i>Margin</i>	<i>35.4 %</i>	<i>32.2 %</i>	<i>30.4 %</i>	<i>24.8 %</i>	<i>24.9 %</i>	<i>20.2 %</i>	<i>65.3 %</i>
Total taxes	-0.06	-0.22	-0.41	-0.55	-0.64	-0.64	-0.64
thereof cash taxes	-0.06	-0.22	-0.41	-0.55	-0.64	-0.57	-2.55
Net income from continuing operations	0.30	0.89	1.36	1.70	2.15	1.91	8.08
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	2.15	1.91	8.08
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	2.13	1.89	8.06
Number of shares, average	2.16	2.92	3.55	3.62	4.06	4.42	4.42
FFO (II)	0.53	1.59	2.58	3.65	4.63	5.44	6.51
<i>FFO I-margin</i>	<i>52.2 %</i>	<i>46.2 %</i>	<i>44.3 %</i>	<i>40.1 %</i>	<i>41.2 %</i>	<i>44.2 %</i>	<i>40.0 %</i>
FFOPS I	0.24	0.54	0.73	1.01	1.14	1.23	1.47
EPS	0.13	0.25	0.38	0.46	0.52	0.43	1.82
EPS adj.	0.13	0.25	0.38	0.43	0.48	0.43	1.82

*Adjustments made for:

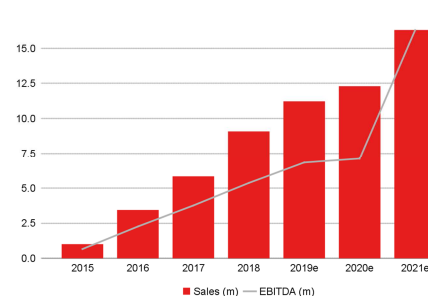
Guidance: 2020e: FFO of EUR ~5.7m, Net profit (HGB) of EUR 2.5m

Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Property operating costs / Rental Income	14.4 %	17.3 %	21.4 %	24.4 %	22.1 %	23.7 %	22.4 %
Operating Leverage (Real Estate)	n.a.	1.3 x	2.3 x	2.5 x	5.4 x	12.3 x	3.7 x
Rental profit / interest expenses	7.5 x	5.1 x	5.1 x	5.1 x	5.1 x	4.8 x	5.5 x

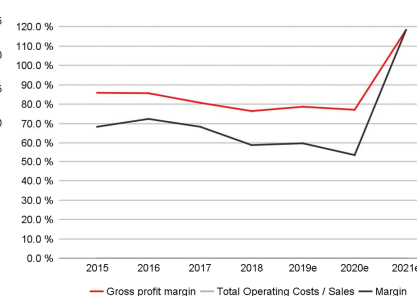
Sales, EBITDA

in EUR m



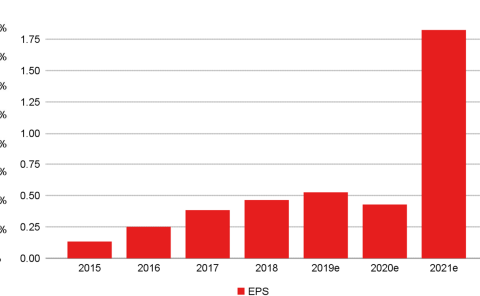
Operating Performance

in %



Performance per Share

in EUR



Source: Warburg Research

Source:

Source: Warburg Research

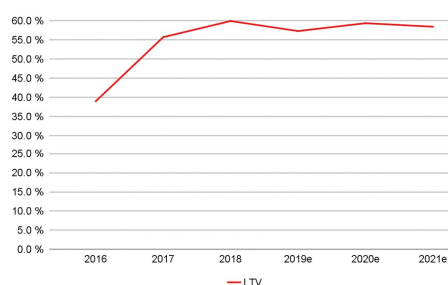
Consolidated balance sheet

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	98.55	110.15	126.24
Financial assets	0.04	0.05	0.24	0.26	0.52	0.52	0.52
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	99.16	110.75	126.84
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	4.53	8.50	13.10
Other short-term assets	-1.52	1.97	0.83	0.59	-0.11	-4.59	-9.19
Current assets	3.83	1.75	3.17	4.34	6.12	9.65	14.24
Total Assets	18.10	33.25	55.41	85.79	105.28	120.40	141.09
Liabilities and shareholders' equity							
Subscribed capital	2.23	3.55	3.55	3.90	4.42	4.42	4.42
Capital reserve	2.21	6.15	6.15	10.03	17.31	17.31	17.31
Retained earnings	1.28	0.94	1.59	2.06	2.88	2.59	8.04
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	24.61	24.32	29.78
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	78.10	93.37	108.24
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	1.85	1.99	2.34
Liabilities	12.38	22.61	44.13	69.79	80.67	96.08	111.31
Total liabilities and shareholders' equity	18.10	33.25	55.41	85.79	105.28	120.40	141.09

Financial Ratios

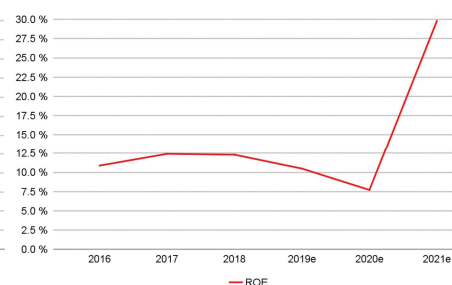
	2015	2016	2017	2018	2019e	2020e	2021e
Return on Capital							
ROA	n.a.	3.5 %	3.1 %	2.4 %	2.2 %	1.7 %	6.2 %
ROE	n.a.	10.9 %	12.4 %	12.3 %	10.5 %	7.7 %	29.8 %
FFO I / Equity	n.a.	0.2 x	0.2 x	0.3 x	0.2 x	0.2 x	0.2 x
Solvency							
Net Debt	8.56	19.46	40.76	65.20	73.78	85.08	95.36
Net Financial Debt	8.53	19.37	40.58	64.99	73.57	84.86	95.14
Net Fin. Debt / EBITDA	12.3 x	8.2 x	10.4 x	11.7 x	10.4 x	11.6 x	5.7 x
LTV	50.8 %	38.9 %	55.7 %	59.9 %	57.3 %	59.4 %	58.4 %
Equity Ratio	31.6 %	32.0 %	20.5 %	19.1 %	23.7 %	20.5 %	21.4 %

LTV



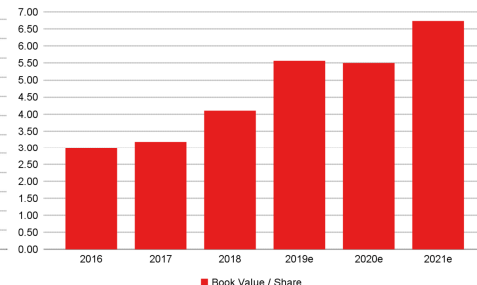
ROE

in %



Book Value per Share

in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

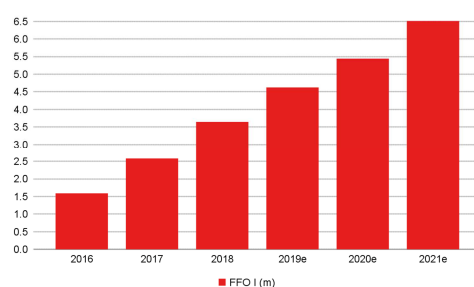
Consolidated cash flow statement

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	4.94	12.14
Net cash provided by investing activities [2]	-14.32	-17.92	-21.95	-31.12	-20.00	-9.00	-20.00
Net cash provided by financing activities [3]	3.71	14.02	20.23	28.01	17.05	8.04	12.45
Change in liquid funds [1]+[2]+[3]	n.a.	-2.25	1.03	0.31	1.73	3.97	4.59
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	4.53	8.50	13.10

Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Cash Flow							
FFO (II)	0.53	1.59	2.58	3.65	4.63	5.44	6.51
FFOPS I	0.24	0.54	0.73	1.01	1.14	1.23	1.47
FFOPS I diluted	0.24	0.45	0.73	0.94	1.05	1.23	1.47
FFO I-Yield	n.a.	10.4 %	8.2 %	8.7 %	8.6 %	9.3 %	11.2 %
FFO I-margin	52.2 %	46.2 %	44.3 %	40.1 %	41.2 %	44.2 %	40.0 %
Interest Paid / Avg. Debt	n.a.	3.4 %	2.8 %	2.4 %	2.3 %	2.3 %	2.3 %
Management of Funds							
Capex/Investment Properties	n.a.	-57.0 %	-42.3 %	-38.4 %	-20.3 %	-8.2 %	-15.8 %
Avg. Working Capital / Sales	n.a.	0.9 %	0.7 %	1.4 %	-0.4 %	-0.3 %	1.3 %
Dividend Payout Ratio	72.8 %	65.7 %	88.6 %	85.1 %	86.0 %	113.7 %	32.2 %

FFO



Source: Warburg Research

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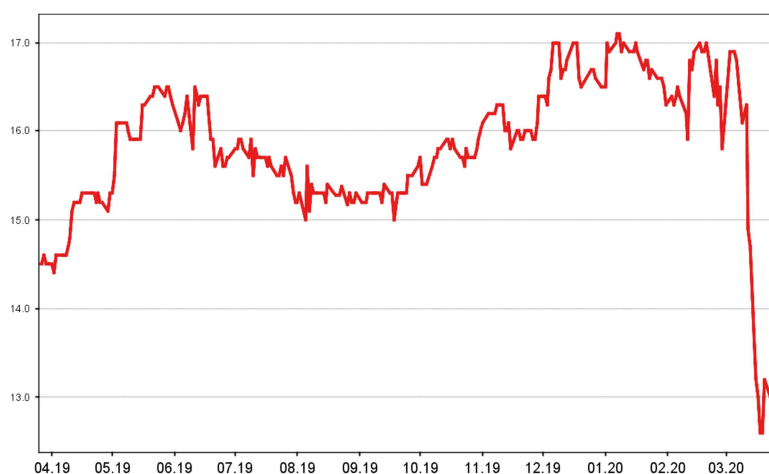
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Rating	Number of stocks	% of Universe
Buy	122	60
Hold	67	33
Sell	9	4
Rating suspended	6	3
Total	204	100

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	81
Hold	5	12
Sell	0	0
Rating suspended	3	7
Total	42	100

PRICE AND RATING HISTORY DEFAMA DEUTSCHE FACHMARKT AG AS OF 25.03.2020

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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