

## DEFAMA Deutsche Fachmarkt AG (DEF GY) | Real Estate

March 01, 2021

### Another record year

We stick to our BUY rating with a new PT of EUR 23 (22.2) after the company reported preliminary FY 20 results with record FFO and sales figures: FY 20 sales increased by 32% yoy to EUR 14.8m (M'e: EUR 14.1m) while the FFO increased by 26% yoy to EUR 5.8m (M'e: EUR 5.9m). As we expected, DEFAMA's rent collection rate during the first two months of FY 21e remained stable with 93%. We think the ongoing solid rent collection rate shows the defensiveness of DEFAMA's rental business and we remain confident that the company should be able to collect a high share of rents during the remaining lockdown. Currently outstanding rent payments amount to c. EUR 0.27m, thereof 55% from creditworthy non-food retailers. DEFAMA's investment case remains intact and we expect double-digit percentage sales and FFO growth this year mainly driven by new property acquisitions (M'e: EUR 15m-20m).

- DEFAMA also announced its first property sale. The company was able to sell a retail park center in Bleicherode for EUR 5.2m at an attractive sales multiple of 14.7x annual rent, achieving a one-time profit of EUR 2.6m before taxes. Cash inflows resulting from the transaction (c. EUR 3m) should be used for new acquisitions. We increase our FY 21e profitability estimates following the property sale, while our sales estimate declines slightly.
- Valuation:** DEFAMA trades at a P/FFO 22e multiple of 10.6x, its peers at 12.7x.

Fundamentals (in EUR m)	2017	2018	2019	2020e	2021e	2022e
Sales	6	9	11	15	17	19
EBITDA	4	6	7	9	14	12
EPS adj. (EUR)	0.38	0.46	0.51	0.57	1.18	0.81
FFO	2.6	3.6	4.6	5.8	7.3	8.1
DPS (EUR)	0.34	0.40	0.45	0.48	0.55	0.60
Operating Cash Flow (EUR)	3	3	4	5	6	7
Dividend paid (EUR)	1	1	2	2	2	3
Capital expenditures (EUR)	22	31	16	20	15	15
Ratios	2017	2018	2019	2020e	2021e	2022e
EV/EBITDA	20.2	19.6	19.4	18.3	13.9	16.2
PCFR	10.9	8.7	10.5	10.9	7.5	8.2
P/E adj.	27.8	25.9	32.5	34.7	16.4	24.1
Dividend yield (%)	3.2	3.3	2.7	2.4	2.8	3.1
EBIT margin (%)	45.8	39.5	40.1	39.9	56.2	41.0
Gearing (%)	356.5	396.8	281.7	288.8	328.5	325.0
ROE (%)	12.4	12.3	10.2	9.5	17.6	11.1
PBV	3.4	2.7	2.8	3.1	2.8	2.6

Sources: Refinitiv, Metzler Research

**Buy**

 **unchanged**

**Price\***

**EUR 19.40**

**Price target**

**EUR 23.00 (22.2)**

\* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)	86
Enterprise Value (EUR m)	188
Free Float (%)	65.0

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	-0.5	-2.0	22.8
Rel. to Prime All Share	-1.4	-6.0	4.9

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2020e	2021e	2022e
Sales	5.0	-2.0	0.0
EBIT	2.6	33.9	0.0
EPS	-5.9	55.9	0.0

### Sponsored Research



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**The sale price for the retail park center in Bleicherode has been meaningfully above the recent fair value and the initial purchase price**

## **An attractive sales proceeds**

One day before releasing its preliminary FY 20 results, DEFAMA announced the first property sale of its company's history, a retail park center in Bleicherode. The property, built in 1993, has a lettable space of 4044m<sup>2</sup> and an occupancy rate of 88%, generating an annual rental income of approx. EUR 0.35m. Main tenants are Rewe, Ernsting's Family and a pharmacy. DEFAMA was able to sell this property for EUR 5.16m (14.7x annual rental income), twice the purchase price initially paid by DEFAMA and significantly above the recent property's market value of EUR 4.23m. The company expects to achieve a one-time profit of EUR 2.6m before taxes with this transaction. After tax payments and the repayment of bank liabilities, DEFAMA should receive approx. EUR 3m cash inflows, which can be used for future acquisitions.

Despite the property sale, management has emphasized that it is sticking to its Buy and Hold approach for the remaining property portfolio. In our opinion, the high acquisition multiple of 14.7x annual rental income shows the hidden reserve potential in DEFAMA's property portfolio as the company acquired its properties at significantly lower acquisition multiples. The paid acquisition multiple is also remarkable, as we assess the property in Bleicherode as one of the weaker ones in DEFAMA's property portfolio, when considering the location (Bleicherode's population decreased by approx. 12% between 2008 to 2018) and the comparatively high vacancy rate of 12% (average vacancy rate of the property portfolio: 3.7%).

**A picture of the retail park center in Bleicherode**



Source: DEFAMA

**Record sales and FFO figures were achieved last year**

## **A short FY 20 recap**

DEFAMA finished the past year again with record sales and FFO figures: sales grew by 32% yoy to EUR 14.8m (M'e: EUR 14.1m) while the FFO increased by 26% yoy to EUR 5.8m (M'e: EUR 5.9m). DEFAMA's FFOPS, in our view the key figure to look at, increased by 16% yoy from EUR 1.14 in FY 19 to EUR 1.32 in FY 20. These solid growth and profitability figures allowing the company to hike its dividend by 7% to EUR 0.48, implying a dividend yield of ~2.5% based on the current share price. In total, DEFAMA purchased six new properties for EUR 21m in

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FY 20, exceeding the initial acquisition target of EUR 15m-20m slightly. At the end of FY 20, the property portfolio included 43 properties with a portfolio value of EUR 179m (+30% yoy).

From our perspective, the two main highlights of the last year have been the property acquisition in Zeitz and the redevelopment completion in Radeberg. In Zeitz, the company was able to acquire a fully leased retail property (main tenants: Kaufland and Toom) for EUR 9m at just 7x annual rental income. The redevelopment project in Radeberg, successfully completed last November, increased the property's annual rental income sustainably from EUR 0.77m to EUR 1.31m and allows DEFAMA to achieve an annual FFO of EUR 0.8m with the refurbished property.

## A FY 20 overview in EUR m

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 20e Guidance	Metzler FY 2020e	FY 2020
<b>Sales</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>4.5</b>	not provided	14.1	14.8
Growth yoy (in%)	15.6%	26.0%	37.4%	47.4%		25.8%	32.1%
<b>FFO</b>	<b>1.3</b>	<b>1.5</b>	<b>1.4</b>	<b>1.6</b>	5.7	5.9	5.8
Growth yoy (in%)	15.9%	37.0%	37.6%	15.6%	23.5%	27.8%	25.7%
<b>FFO margin</b>	<b>41.7%</b>	<b>42.2%</b>	<b>39.5%</b>	<b>34.9%</b>	not provided	41.8%	39.2%
<b>FFO per share</b>	<b>0.30</b>	<b>0.33</b>	<b>0.33</b>	<b>0.36</b>	1.30	1.30	1.32
Growth yoy (in%)	3.4%	22.2%	22.2%	16.1%	14.0%	14.0%	15.8%

Sources: DEFAMA, Metzler Research

## Our view on the current fiscal year

**We think the FY 21e guidance should be well-achievable for DEFAMA**

Looking at the current fiscal year, we believe DEFAMA could again acquire retail properties for EUR 15m-20m, thus increasing its rental income by approx. EUR 1.5m-2m. To complement our estimates, we outline DEFAMA's guidance for FY 21e below, which the company has confirmed during the recent earnings call:

- Net income should come in at EUR 3.1m (FY 20: EUR 2.5m) this year, equivalent to an EPS of EUR 0.69 (FY 20: EUR 0.57).
- The company forecasts an FFO of EUR 7.1m (FY 20: EUR 5.8m), which would represent an FFO growth of ~22.5% yoy. The annualized FFO should amount to at least EUR 8m.
- This year's sales and FFO growth are expected to result in a further dividend increase.

**It remains to be seen how the recent increase of investor interest for DEFAMA's market niche could affect purchase yields**

According to DEFAMA, the liquidity position amounts to c. EUR 10m, providing a solid base for further property acquisitions in our view. However, it remains to be seen how the recent increase of investor interest for non-cyclical retail properties could affect DEFAMA's purchase yields. We think it could be possible that DEFAMA has to pay slightly higher acquisition multiples for new properties than

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in previous years due to the recently rising investor interest for this interesting asset class.

**DEFAMA's rent collection rate should remain high during the remaining lockdown in our opinion**

With regard to the rent collection rate during the remaining lockdown, we are confident that DEFAMA should still be able to collect a high share of rents during the coming months. During the first two months of the current year, the company collected 93% of rents, confirming in our view the defensiveness of the rental business. According to DEFAMA, outstanding rents amount to EUR 0.27m, thereof 55% from creditworthy non-food retailers. From our perspective, it is important to consider that these rents are deferred, which means that there is no negative impact on the company's profit for the time being. We also believe the company should get payments after the end of the lockdown or can find a proper solution with tenants for the majority of the currently outstanding rents. Thus, we currently expect negligible impacts on the FY 21e rental income and the guidance should remain still well-achievable for the company.

### **Changes in estimates**

**We include the one-time profit from the property sale in Bleicherode into our updated estimates**

We include the one-time profit from the property sale in Bleicherode into our FY 21e estimates, resulting in a significant increase of this year's profitability figures. According to our calculations, the transaction should result in a one-time profit of approx. EUR 2m after taxes for DEFAMA. The rent loss (c. EUR 0.35m) resulting from the portfolio disposal leads to a slight decrease of our FY 21e sales estimate. We do not include any lockdown related rent losses into our estimates yet as we believe DEFAMA should be able to get payments for a high share of the outstanding rents, which has been the case last year. On that basis, we believe it is currently yet not necessary to adjust our rental income estimate for the current year. With regard to the coming years, we expect a continuation of sales and FFO growth based on DEFAMA's annual acquisition target (EUR 15m-20m), which is already reflected in our estimates. Thus, our estimates for the coming years remain unchanged.

### **Valuation**

Our updated peer group valuation based on a P/FFO 22e multiple reflects our current PT of EUR 23, which shows that DEFAMA trades meaningfully below its real estate peer group.

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		Share Price	Metzler	P/FFO
	Bloomberg	26.02.2021	Recommendation/ Price Target	2022e
Hamborner Reit	HAB GY	8.7		13.1
Deutsche Konsum Reit	DKG GY	15.5		11.0
VIB Vermögen	VIH1 GY	29.6		13.9
<b>Average</b>				<b>12.7</b>
DEFAMA	DEF GY	19.4	BUY / EUR 23	10.6
<b>Upside</b>				<b>19%</b>

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Sources: DEFAMA, Metzler Research, Bloomberg

# company note

## Key Data

### Company profile

CEO: Matthias Schrade

CFO: -

Berlin, Germany

DEFAMA, headquartered in Berlin, is a large German real estate company that specializes in the acquisition and management of retail parks. Acquisition targets are retail parks in small and medium-sized German cities, preferably in Northern and Eastern Germany. The property portfolio currently comprises 42 properties.

### Major shareholders

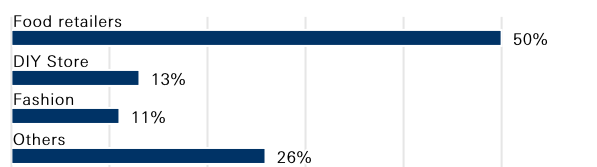
Matthias Schrade (29%), Geminus GmbH (4%), Other management (2%)

### Key figures

P&L (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
<b>Sales</b>	<b>6</b>	<b>69.5</b>	<b>9</b>	<b>55.9</b>	<b>11</b>	<b>23.3</b>	<b>15</b>	<b>32.1</b>	<b>17</b>	<b>15.9</b>	<b>19</b>	<b>10.8</b>
<b>EBITDA</b>	<b>4</b>	<b>64.8</b>	<b>6</b>	<b>42.3</b>	<b>7</b>	<b>27.3</b>	<b>9</b>	<b>31.7</b>	<b>14</b>	<b>45.6</b>	<b>12</b>	<b>-10.7</b>
EBITDA margin (%)	66.7	-2.8	60.9	-8.7	62.9	3.2	62.7	-0.2	78.8	25.6	63.5	-19.4
<b>EBIT</b>	<b>3</b>	<b>60.1</b>	<b>4</b>	<b>34.5</b>	<b>4</b>	<b>25.3</b>	<b>6</b>	<b>31.3</b>	<b>10</b>	<b>63.1</b>	<b>8</b>	<b>-19.1</b>
EBIT margin (%)	45.8	-5.6	39.5	-13.8	40.1	1.6	39.9	-0.6	56.2	40.8	41.0	-27.0
<b>Financial result</b>	<b>-1</b>	<b>-60.3</b>	<b>-1</b>	<b>-49.0</b>	<b>-2</b>	<b>-28.7</b>	<b>-3</b>	<b>-45.5</b>	<b>-3</b>	<b>-6.3</b>	<b>-3</b>	<b>-13.6</b>
<b>EBT</b>	<b>2</b>	<b>60.0</b>	<b>2</b>	<b>27.1</b>	<b>3</b>	<b>23.3</b>	<b>3</b>	<b>22.5</b>	<b>7</b>	<b>104.9</b>	<b>5</b>	<b>-31.6</b>
Taxes	-0	-88.2	-1	-34.3	-1	-28.7	-1	-24.6	-2	-97.0	-1	31.6
Tax rate (%)	-23.2	n.a.	-24.5	n.a.	-25.6	n.a.	-26.0	n.a.	-25.0	n.a.	-25.0	n.a.
Net income	1	53.1	2	25.0	2	21.5	3	21.8	5	107.6	4	-31.6
Minority interests	0	n.a.	0	n.m.	0	-48.8	0	0.0	0	0.0	0	0.0
<b>Net Income after minorities</b>	<b>1</b>	<b>52.9</b>	<b>2</b>	<b>23.4</b>	<b>2</b>	<b>22.5</b>	<b>3</b>	<b>21.9</b>	<b>5</b>	<b>108.1</b>	<b>4</b>	<b>-31.7</b>
Number of shares outstanding (m)	4	21.4	4	2.1	4	11.9	4	9.1	4	0.0	4	0.0
<b>EPS adj. (EUR)</b>	<b>0.38</b>	<b>26.1</b>	<b>0.46</b>	<b>20.7</b>	<b>0.51</b>	<b>9.5</b>	<b>0.57</b>	<b>11.8</b>	<b>1.18</b>	<b>108.1</b>	<b>0.81</b>	<b>-31.7</b>
<b>DPS (EUR)</b>	<b>0.34</b>	<b>70.0</b>	<b>0.40</b>	<b>17.6</b>	<b>0.45</b>	<b>12.5</b>	<b>0.48</b>	<b>6.7</b>	<b>0.55</b>	<b>14.6</b>	<b>0.60</b>	<b>9.1</b>
Dividend yield (%)	3.2	n.a.	3.3	n.a.	2.7	n.a.	2.4	n.a.	2.8	n.a.	3.1	n.a.
<b>Cash Flow (in EUR m)</b>	<b>2017</b>	<b>%</b>	<b>2018</b>	<b>%</b>	<b>2019</b>	<b>%</b>	<b>2020e</b>	<b>%</b>	<b>2021e</b>	<b>%</b>	<b>2022e</b>	<b>%</b>
<b>Operating Cash Flow</b>	<b>3</b>	<b>67.2</b>	<b>3</b>	<b>24.1</b>	<b>4</b>	<b>11.1</b>	<b>5</b>	<b>31.6</b>	<b>6</b>	<b>26.0</b>	<b>7</b>	<b>11.1</b>
Increase in working capital	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Capital expenditures	22	22.6	31	42.1	16	-48.4	20	24.3	15	-25.0	15	0.0
Dividend paid	1	218.8	1	70.0	2	29.4	2	41.7	2	10.0	3	9.1
<b>Free cash flow (post dividend)</b>	<b>-20</b>	<b>-20.8</b>	<b>-29</b>	<b>-45.6</b>	<b>-14</b>	<b>52.2</b>	<b>-17</b>	<b>-24.3</b>	<b>-11</b>	<b>35.3</b>	<b>-11</b>	<b>4.3</b>
<b>Balance sheet (in EUR m)</b>	<b>2017</b>	<b>%</b>	<b>2018</b>	<b>%</b>	<b>2019</b>	<b>%</b>	<b>2020e</b>	<b>%</b>	<b>2021e</b>	<b>%</b>	<b>2022e</b>	<b>%</b>
<b>Assets</b>	<b>55</b>	<b>66.6</b>	<b>86</b>	<b>54.8</b>	<b>104</b>	<b>21.6</b>	<b>125</b>	<b>20.2</b>	<b>149</b>	<b>19.1</b>	<b>164</b>	<b>9.7</b>
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
<b>Shareholders' equity</b>	<b>11</b>	<b>7.0</b>	<b>16</b>	<b>43.9</b>	<b>25</b>	<b>50.7</b>	<b>29</b>	<b>16.7</b>	<b>31</b>	<b>8.0</b>	<b>34</b>	<b>8.7</b>
<b>Net Debt incl. Provisions</b>	<b>41</b>	<b>109.5</b>	<b>65</b>	<b>60.2</b>	<b>70</b>	<b>7.0</b>	<b>83</b>	<b>19.6</b>	<b>102</b>	<b>22.8</b>	<b>110</b>	<b>7.5</b>
Gearing (%)	356.5	n.a.	396.8	n.a.	281.7	n.a.	288.8	n.a.	328.5	n.a.	325.0	n.a.
Net debt/EBITDA	10.4	n.a.	11.7	n.a.	9.9	n.a.	9.0	n.a.	7.6	n.a.	9.1	n.a.

### Structure

#### Tenant structure 2019



Sources: Refinitiv, Metzler Research

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### Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
<b>Issuer/Financial Instrument (ISIN): DEFAMA Deutsche Fachmarkt AG (DE000A13SUL5)</b>					
22.02.2021	Buy	Buy	19.10 EUR	22.20 EUR	Bonhage, Stephan
30.10.2020	Buy	Buy	18.50 EUR	22.20 EUR	Bonhage, Stephan
11.09.2020	Buy	Buy	19.00 EUR	22.20 EUR	Bonhage, Stephan
07.08.2020	Buy	Buy	17.90 EUR	20.50 EUR	Bonhage, Stephan
30.07.2020	Buy	Buy	17.40 EUR	20.50 EUR	Bonhage, Stephan
28.07.2020	n.a.	Buy	17.50 EUR	20.50 EUR	Bonhage, Stephan

\* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

\*\* XETRA trading price at the close of the previous day unless stated otherwise herein

\*\*\* All authors are financial analysts

### DEFAMA Deutsche Fachmarkt AG

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HOLD	The price of the analysed financial instrument is expected to largely remain stable in the next 12 months.
SELL	The price of the analysed financial instrument is expected to fall in the next 12 months.

### Bonds:

BUY	The analysed financial instrument is expected to perform better than similar financial instruments.
HOLD	The analysed financial instrument is not expected to perform significantly better or worse than similar financial instruments.
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