

DEFAMA Deutsche Fachmarkt AG (DEF GY) | Real Estate

November 03, 2021

The company continued its growth trajectory in Q3

We reiterate our Buy rating with an unchanged PT of EUR 27.2 after solid 9M results, which were in line with our estimates. In the first nine months of FY 21e, the company showed revenue growth of 22.8% yoy to EUR 12.6m, while its FFO improved by 23.7% yoy to EUR 5.2m. Compared to last year, the 9M FFO margin increased slightly to 41.4% (9M 20: 41.1%). DEFAMA reported its rent collection rate has returned to 100% in Q3 21 and we are confident that the company won't experience pandemic-related rent losses anymore in the future. Additionally, the company reconfirmed that it is in numerous negotiations for new property acquisitions. We therefore don't rule out DEFAMA could announce further acquisitions in the remaining two months of the year, although the company has already achieved its annual acquisition target (EUR 15m-20m) with a current acquisition volume of ~EUR 24m this year. CEO Schrade also announced that an additional employee joined his small acquisition team. In our opinion, the resulting additional resources should lead to higher acquisition deal flow in the future, which could further accelerate DEFAMA's sales and earnings growth. In summary, we believe the company remains well on track to reach its FY 21e guidance after solid Q3 figures and we continue to have a positive stance on its growth prospects and investment case.

- **Valuation:** Our estimates and thus PT remain unchanged.

Fundamentals (in EUR m)	2018	2019	2020	2021e	2022e	2023e
Sales	9	11	15	17	20	21
EBITDA	6	7	9	14	12	14
EPS adj. (EUR)	0.46	0.51	0.57	1.19	0.82	0.90
FFO	3.6	4.6	5.9	7.3	8.3	9.1
DPS (EUR)	0.40	0.45	0.48	0.53	0.58	0.63
Operating Cash Flow (EUR)	3	4	5	6	7	8
Dividend paid (EUR)	1	2	2	2	2	3
Capital expenditures (EUR)	31	16	38	26	17	17
Ratios	2018	2019	2020	2021e	2022e	2023e
EV/EBITDA	19.6	19.4	21.5	17.1	19.7	19.0
PCFR	8.7	10.5	10.9	9.3	9.8	9.1
P/E adj.	25.9	32.5	34.8	21.1	30.5	27.8
Dividend yield (%)	3.3	2.7	2.4	2.1	2.3	2.5
EBIT margin (%)	39.5	40.1	38.6	56.0	39.9	40.5
Gearing (%)	396.8	281.7	420.5	422.0	412.6	405.5
ROE (%)	12.3	10.2	10.2	19.6	11.9	11.7
PBV	2.7	2.8	3.5	3.8	3.4	3.1

Sources: Bloomberg, Metzler Research

Buy

 **unchanged**

Price*

EUR 25.00

Price target

EUR 27.20 (unchanged)

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

Market Cap (EUR m)	110
Enterprise Value (EUR m)	233
Free Float (%)	65.0

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	3.3	7.8	26.3
Rel. to Prime All Share	-1.5	5.4	-5.7

Sources: Bloomberg, Metzler Research

Changes in estimates (in %)	2021e	2022e	2023e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	0.0	0.0

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Yesterday, DEFAMA released its **9M results**. Key highlights were the following:

- In the first nine months of the year, sales increased by 22.8% yoy to EUR 12.6m. In total, 44 properties contributed to DEFAMA's Q3 revenues and the rent collection rate in Q3 returned to 100%. The recent acquisitions in Barsinghausen, Hof and Melsungen will start to contribute in January 2022e to the company's rental income.
- DEFAMA's 9M FFO grew by 23.7% yoy to EUR 5.2m, implying an 9M FFO margin of 41.4% (9M 20: 41.1%). The 9M FFOPS amounted to EUR 1.18 (9M 20: EUR 0.96), an increase of 22.9% yoy.
- The company announced a first important new tenant for the recently acquired large property in Gardelegen (lettable space: 15.850m²): Futterhaus, a retail chain in the pet supplies sector, was won as a new tenant for an area of over 800m². DEFAMA is thus making fast progress in reducing the high vacancy rate in Gardelegen. According to the company, several relevant parties are also interested to rent the large vacant DIY store space of the property.
- According to the new portfolio update and taking the recent three acquisitions into account, DEFAMA now has 47 properties in its portfolio with a lettable space of 210.000m². The portfolio currently has a vacancy rate of 4.9%. DEFAMA's annualized FFO amount to EUR 8.2m respectively EUR 1.87 per share.
- The FY 21e guidance has been reconfirmed.

DEFAMA's 9M figures in EUR m

	9M 20	FY 20	Reported	FY 21e Guidance	Metzler 9M 21e	Metzler FY 21e
			9M 21			
Revenues	10.3	14.6	12.6	-	12.7	17.2
Growth yoy (in%)	26.3%	30.1%	22.8%	-	23.5%	18.0%
FFO	4.2	5.9	5.2	7.1	5.3	7.3
Margin (in %)	41.1%	40.3%	41.4%	-	41.7%	42.4%
EBIT	4.1	5.6	7.5	-	7.6	9.6
Margin (in %)	40.0%	38.6%	59.5%	-	59.8%	56.0%

Sources: DEFAMA, Metzler Research

Our investment case in a nutshell

- **Focus on a retail property market niche:** DEFAMA has become what we would call a relevant player in a niche of the German retail property market. Its property portfolio consists of mainly retail parks, usually located in small and medium-sized cities of Northern and Eastern Germany. New acquisition objects within this fragmented market niche (purchase price per property usually between EUR 1m to EUR 5m) are too large for private buyers, but at the same time, too small for institutional investors. This allows DEFAMA to purchase at

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low market prices (~9x annual rental income in the past) and thus achieve double-digit rental yields.

- **Growth momentum driven by property acquisitions:** The company has the long-term target to become one of the largest owners of retail parks in Germany and pursues a "Buy and Hold" approach for its property portfolio. We believe retail park acquisitions should mainly drive sales and FFO growth in the coming years as DEFAMA intends to purchase new properties for EUR 15m to EUR 20m each year.
- **Anchor tenants with non-cyclical business models:** Anchor tenants of DEFAMA's retail parks are leading German food retailers, which account for approx. 50% of the rental income. Their non-cyclical business models should lower the risk of tenant losses and secure stable income generation for DEFAMA, in our opinion. Moreover, food retailers profit from a low online penetration in their sector.

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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. As of the 30.09.2021, DEFAMA's property portfolio comprised 45 properties.

Major shareholders

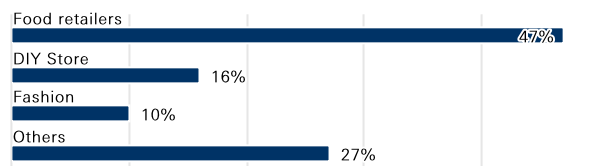
Matthias Schrade (29%), Geminus GmbH (4%), Other management (2%)

Key figures

P&L (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Sales	9	55.9	11	23.3	15	30.1	17	18.0	20	15.1	21	8.1
EBITDA	6	42.3	7	27.3	9	27.6	14	52.0	12	-9.0	14	8.6
EBITDA margin (%)	60.9	-8.7	62.9	3.2	61.7	-1.9	79.4	28.8	62.8	-20.9	63.1	0.5
EBIT	4	34.5	4	25.3	6	25.1	10	71.3	8	-18.0	9	9.7
EBIT margin (%)	39.5	-13.8	40.1	1.6	38.6	-3.8	56.0	45.2	39.9	-28.8	40.5	1.5
Financial result	-1	-49.0	-2	-28.7	-2	-23.9	-3	-23.5	-3	-15.9	-3	-10.2
EBT	2	27.1	3	23.3	3	25.8	7	100.4	5	-30.7	5	9.4
Taxes	-1	-34.3	-1	-28.7	-1	-38.7	-2	-77.7	-1	30.7	-1	-9.4
Tax rate (%)	-24.5	n.a.	-25.6	n.a.	-28.2	n.a.	-25.0	n.a.	-25.0	n.a.	-25.0	n.a.
Net income	2	25.0	2	21.5	3	21.4	5	109.3	4	-30.7	4	9.4
Minority interests	0	n.m.	0	-48.8	0	-62.9	0	169.7	0	0.0	0	0.0
Net Income after minorities	2	23.4	2	22.5	3	21.9	5	109.2	4	-30.8	4	9.4
Number of shares outstanding (m)	4	2.1	4	11.9	4	9.1	4	0.0	4	0.0	4	0.0
EPS adj. (EUR)	0.46	20.7	0.51	9.5	0.57	11.7	1.19	109.2	0.82	-30.8	0.90	9.4
DPS (EUR)	0.40	17.6	0.45	12.5	0.48	6.7	0.53	10.4	0.58	9.4	0.63	8.6
Dividend yield (%)	3.3	n.a.	2.7	n.a.	2.4	n.a.	2.1	n.a.	2.3	n.a.	2.5	n.a.
Cash Flow (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Operating Cash Flow	3	24.1	4	11.1	5	30.6	6	27.0	7	14.3	8	18.1
Increase in working capital	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Capital expenditures	31	42.1	16	-48.4	38	135.7	26	-31.4	17	-34.6	17	0.0
Dividend paid	1	70.0	2	29.4	2	27.5	2	6.7	2	10.4	3	9.4
Free cash flow (post dividend)	-29	-45.6	-14	52.2	-35	-152.3	-22	37.6	-12	44.4	-11	8.9
Balance sheet (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Assets	86	54.8	104	21.6	137	31.1	158	15.5	176	11.7	194	10.3
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Shareholders' equity	16	43.9	25	50.7	25	2.1	29	15.5	33	12.4	36	10.1
Net Debt incl. Provisions	65	60.2	70	7.0	106	52.4	123	15.9	135	9.9	146	8.2
Gearing (%)	396.8	n.a.	281.7	n.a.	420.5	n.a.	422.0	n.a.	412.6	n.a.	405.5	n.a.
Net debt/EBITDA	11.7	n.a.	9.9	n.a.	11.8	n.a.	9.0	n.a.	10.9	n.a.	10.8	n.a.

Structure

Tenant structure 2020



Sources: Bloomberg, Metzler Research

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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			
Issuer/Financial Instrument (ISIN): DEFAMA Deutsche Fachmarkt AG (DE000A13SUL5)					
11.10.2021	Buy	Buy	24.60 EUR	27.20 EUR	Bonhage, Stephan
29.07.2021	Buy	Buy	22.40 EUR	25.50 EUR	Bonhage, Stephan
19.05.2021	Buy	Buy	20.00 EUR	23.00 EUR	Bonhage, Stephan
30.04.2021	Buy	Buy	19.50 EUR	23.00 EUR	Bonhage, Stephan
01.03.2021	Buy	Buy	19.40 EUR	23.00 EUR	Bonhage, Stephan
22.02.2021	Buy	Buy	19.10 EUR	22.20 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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