

DEFAMA Deutsche Fachmarkt AG (DEF GY) | Real Estate

February 21, 2022

The company remains a defensive growth story

We keep our Buy rating and increase our PT to EUR 32.5 (27.2), reflecting our sustained confidence concerning a continuation of DEFAMA's growth story. From our standpoint, DEFAMA's asset class has proven its resilience with constant rent collections during the pandemic and with the latest easing of restrictions in the stationary retail sector, we believe the pandemic shouldn't weigh anymore on the investment case. A constant dealflow execution by management and the recent extension of the small acquisition team should both allow DEFAMA to maintain dynamic portfolio growth. On that basis, we project that the annual acquisition volume could come in at least at the high end of the EUR 15m-20m target in FY 22e and beyond. In that regard, the FY 25e targets of a EUR 260m-300m portfolio value (31/12/21: EUR 210m) and an FFO of at least EUR 11m (M'e FFO FY 22e: EUR 8.3m) appear to be well-achievable, providing investors a compelling growth story with low double-digit annual FFO growth. While we currently don't expect a fundamental shift in real estate financing conditions, we believe DEFAMA is in an exposed position to weather and handle such a scenario. The company's maturity of fixed interest currently stands at ~7 years, which is, according to our knowledge, the highest value among all listed German real estate companies. In addition, the first larger refinancing won't occur until FY 25e.

- Our FY 23e sales and FFO estimates increase by ~6%/~7%, reflecting our confidence in accelerated portfolio growth.
- **Valuation:** We derive a new PT of EUR 32.50 (27.2) from our peer group valuation, which is now based on a P/FFO 23e multiple.

Fundamentals (in EUR m) ¹	2018	2019	2020	2021e	2022e	2023e
Sales	9	11	15	17	20	23
EBITDA	6	7	9	14	12	14
EPS adj. (EUR)	0.46	0.51	0.57	1.19	0.82	0.94
FFO	3.6	4.6	5.9	7.3	8.3	9.7
DPS (EUR)	0.40	0.45	0.48	0.53	0.58	0.63
Operating Cash Flow (EUR)	3	4	5	7	8	8
Dividend paid (EUR)	1	2	2	2	2	3
Capital expenditures (EUR)	31	16	38	30	20	20
Ratios ¹	2018	2019	2020	2021e	2022e	2023e
EV/EBITDA	19.6	19.4	21.5	18.2	21.2	19.5
PCFR	8.7	10.5	10.9	10.3	10.9	9.5
P/E adj.	25.9	32.5	34.8	23.4	33.9	29.6
Dividend yield (%)	3.3	2.7	2.4	1.9	2.1	2.3
EBIT margin (%)	39.5	40.1	38.6	56.0	39.9	39.8
Gearing (%)	396.8	281.7	420.5	432.9	430.7	430.5
PBV	2.7	2.8	3.5	4.3	3.8	3.4

¹Sources: Bloomberg, Metzler Research

Buy



unchanged

Price*

EUR 27.80

Price target

EUR 32.50 (27.20)

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

Market Cap (EUR m) ¹	123
Enterprise Value (EUR m) ¹	264
Free Float (%) ¹	65.0

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	0.0	8.6	45.5
Rel. to Prime All Share	3.7	17.4	37.1

Changes in estimates (in %) ¹	2021e	2022e	2023e
Sales	0.0	0.0	5.6
EBIT	0.0	0.0	3.8
EPS	0.0	0.0	4.8

Sponsored Research



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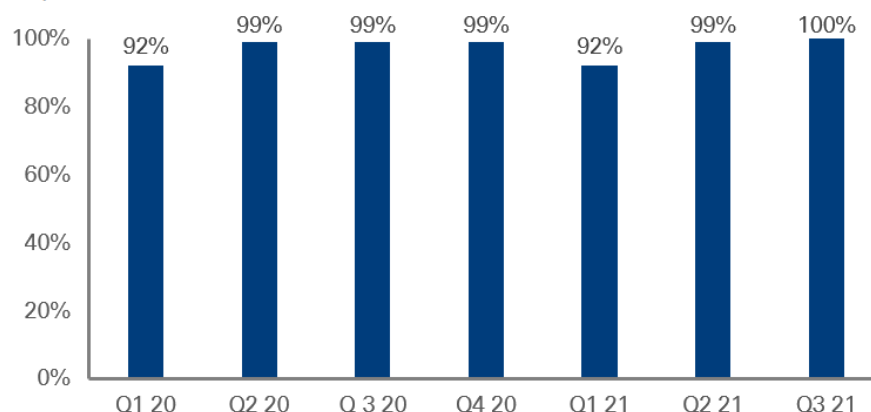
We expect a refocus on the growth prospects of the company

Leaving the pandemic behind

Since the beginning of the pandemic, the potential risk of Covid-19 related rent losses together with the uncertain development of the pandemic have constantly put their shadow on DEFAMA's investment story in our view. In this context, we however also think DEFAMA's retail parks with their high share of non-cyclical tenants have proven their resilience during the pandemic. The rent collection rate came in constantly at above 90% each quarter, which underscores the defensiveness of the company's rental cashflows.

Looking into FY 22e, we are confident that DEFAMA could finally leave this year the pandemic behind it. Federal authorities have already lifted the restrictions for the stationary retail sector (e.g. 2G rule) with the exemption of mandatory mask wearing. In addition, there is now a widespread availability of vaccines and the prevailing omicron variant is less dangerous than previous Covid-19 variants. Taking these aspects into account, we believe market participants could turn this year their focus stronger again on the growth prospects of the company.

DEFAMA's rent collection rate since the beginning of the pandemic
in %



Sources: DEFAMA, Metzler Research

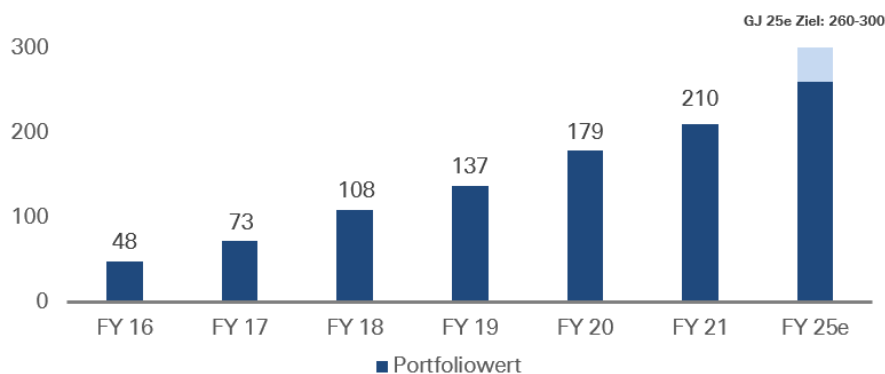
A successful acquisition approach

Portfolio growth should remain the key growth driver

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. DEFAMA targets to typically acquire new properties for EUR 15m-20m each year at an acquisition multiple of 10x annual rent on average. Portfolio growth has been the key driver of top-line growth in the past and in almost each of the recent years, the company was able to surpass its annual acquisition target significantly, which can be expressed by the dynamic portfolio value development (see below). In FY 21e, property acquisitions amounted to EUR 29.7m.

company note

Portfolio value development at DEFAMA in EUR m



Sources: DEFAMA, Metzler Research

The future annual acquisition volume should come in at the high end of the EUR 15m-20m target

In our view, portfolio expansion should remain the key lever of growth in the coming years. The company has already continued to expand its portfolio this year with the acquisition of two additional properties at the beginning of this year. For FY 22e and beyond, we target a continuation of dynamic portfolio growth based on our confidence in the dealflow execution of management, which has built up a strong track record of accretive acquisitions in recent years. CEO Schrade also announced just recently that he has expanded its small acquisition team, underscoring management ambitions to further expand the existing portfolio. On that basis, we project DEFAMA should be able to achieve at least the high end of its EUR 15m-20m annual acquisition target in the coming years. Important to consider is also that DEFAMA continues to be able to acquire the property at attractive acquisition multiples despite rising interest from (institutional) investors for the retail park segment.

Investments into existing properties and CPI-linked rent contracts could improve sales and FFO figures

Besides property acquisitions, DEFAMA is also constantly improving its FFO and revenue figures by investing into its existing properties often with the aim to reduce vacancy or extend the lettable space (recent examples are provided below). A good example for this is the so far largest redevelopment project of DEFAMA located in Radeberg (CAPEX of ~ EUR 9m), where the company was able to increase the annual rent from 0.77m to EUR 1.3m and signed long-term rent contracts. In case of a potential property sale to an institutional investor, DEFAMA would have achieved a high single-digit million extraordinary profit. Although the size and number of potential investments into the existing property are difficult to forecast, we believe they should be able to contribute to a smaller extent to sales growth in the coming years as DEFAMA's priority with regard to the existing portfolio is to maximize portfolio returns and property quality. We also want to point out that with the recent return of stronger inflation in Germany, we don't rule out that revenue growth of DEFAMA could be supported by its CPI-linked rent contracts. According to our knowledge, approx. 80% of the company's rent contracts are CPI-linked, offering DEFAMA a protection against negative inflation effects.

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DEFAMA constantly invests into existing portfolio properties to improve sales and FFO figures

Investments within the existing portfolio (examples)

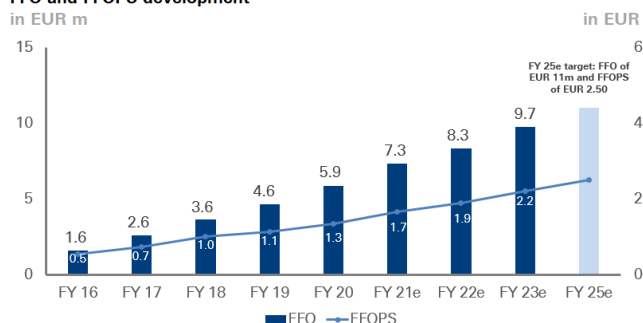
Löwenberg	<ul style="list-style-type: none"> Acquisition of neighbour parcel Expansion of ALDI's retail area 	completed completed	in total app. €2m
Büdelndorf	<ul style="list-style-type: none"> Adding an elevator at East wing Expansion of TEDI's area, roof extension, creation of area for a fitness studio 	in process, completion est. 3/2022 in process, completion est. 8/2022	in total app. €1.5m
Hamm	<ul style="list-style-type: none"> Refurbishment fitness studio Expansion of Penny's area 	completed in process, completion est. 5/2022	in total app. €500k
Lübbenau	<ul style="list-style-type: none"> Settlement of cardiology surgery Expansion of butcher's area Expansion of Amplifon's area Creation of a new rental area for TEDI Building application for larger bakery area 	completed completed completed in process, completion est. Q2/2022 in process, completion est. Q2/2022	in total completed completed > €1m (incl. further measures)

Sources: DEFAMA, Metzler Research

Mid-term targets appear to be conservative and well-achievable

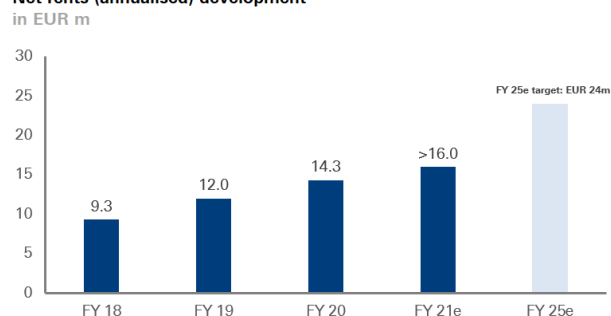
In summary, we see a high probability that the company remains an attractive and defensive growth story in the foreseeable future when taking the mentioned growth drivers into account. Our positive stance is also supported by DEFAMA's mid-term targets called "DEFAMA 2025". For FY 25e, the company targets an FFO of EUR 11m (M'e FY 22e: EUR 8.3m) and annualised net rents of EUR 24m. Additionally, the property portfolio value should amount to EUR 260m-300m in FY 25e. We believe these targets appear to be conservative and well-achievable for the company from today's standpoint, providing investors low double-digit FFO growth in the coming years (M'e: 10.8% FFO CAGR 21e-25e) in a defensive niche of the German property market.

FFO and FFOPS development
in EUR m



Sources: DEFAMA, Metzler Research

Net rents (annualised) development
in EUR m



Sources: DEFAMA, Metzler Research

Good debt maturity profile

An average maturity of fixed interest of currently ~7 years

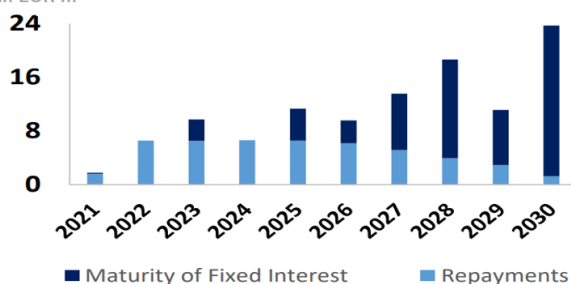
Rising financing conditions represent one of the most considerable risks for real estate companies. According to m'ment, there is currently no change in banking lending practices visible. We however think that financing conditions should be already slightly above the all-time low of the recent past. Nevertheless, we also don't expect a fundamental shift in financing conditions in the near future as the direction of monetary policy and inflation in Europe both remain hard to predict. Even if

company note

financing conditions deteriorate meaningfully, we believe DEFAMA is in an exposed position to weather and handle such a scenario. Due to low acquisition multiples in DEFAMA's niche, new acquisitions should remain accretive despite more expensive financing conditions. Additionally, the company's average maturity of fixed interest currently stands at ~7 years, which is, according to our knowledge, the highest value among all listed German real estate companies. With regard to refinancing, DEFAMA has to refinance a first small debt tranche related to its retail park center in Radeberg in FY 23e. However, the first refinancing of a larger debt tranche won't occur until FY 25e.

Debt maturity profile

in EUR m



Sources: Defama, Metzler Research

Further information on Defama's debt profile

Key Figures (as of 30 September 2021)	
Number of financing partners	34
Bank loans	€117m
Ø Interest rate	2.09%
Ø Initial repayment	4.55%
Ø Fixed interest	7.2 years
Loan-to-value-ratio (LTV)	58.0%

Sources: Defama, Metzler Research

Portfolio overview

A defensive property portfolio

As of 31/12/2021, the property portfolio comprised 50 retail parks (approx. 216.000sqm lettable space), which combined generate an annualised rental income of approx. EUR 16.7m. The vacancy rate stood at 5% with a WALT of 4.7 years and the portfolio value amounted to EUR 210m. DEFAMA has rent contracts with all leading food retailers, which benefit from low online penetration in their sector. Approx. 80% of rents are coming from non-cyclical tenants, expressing the defensiveness of DEFAMA's rental cashflows. The ten largest rent contracts of the company account for just 25% of net rents, hence rent concentration risks at DEFAMA are low.

Portfolio overview

Key Figures (as of 31 December 2021)	
Locations	50
Net Rent (annualised)	€16.7m
Lettable Space	215,778 sqm
Occupancy Rate	95%
Ø Lease Term (WALT)	4.7 years
Portfolio Value	€210m



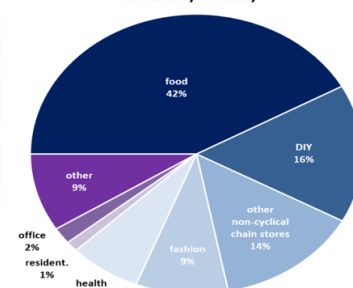
Sources: DEFAMA, Metzler Research

Tenant overview

Largest Tenants	Contracts	Share
Kaufland/LIDL	6	11.6%
toom/B1	5	10.8%
EDEKA/Netto/trinkgut	11	10.1%
REWE/Penny	8	7.3%
JYSK (= Dän. Bettenlager)	11	5.3%
Aldi Nord	5	4.2%
NORMA	7	3.6%
Herkaules (= Edeka Group)	1	2.4%
KIK	8	2.3%
TEDI	9	2.1%
Takko	6	2.1%
Deichmann	5	1.7%

Sources: DEFAMA, Metzler Research

Net Rent by Industry



Changes in estimates

Our FY 21e and FY 22e estimates remain unchanged. We however raise our FY 23e sales and FFO estimates by ~6% respectively ~7%. As already outlined, we now believe that portfolio growth at DEFAMA could accelerate in the foreseeable

company note

future due to the expansion of the acquisition team and our confidence on management concerning dealflow execution. We now see the annual acquisition volume to come in at least at the high end of the annual acquisition target of EUR 15m-20m (M'è old: EUR 15m-17m). Considering the strong acquisition track record within the last years, we believe also our more ambitious acquisition target should remain achievable for the company. Besides, we deem there is a high probability that higher rents resulting from CPI-linked rent contracts and new investment measures within the existing portfolio both could provide additional tailwind for DEFAMA to achieve our raised FY 23e estimates.

Changes in estimates in EUR m

	Old			New		
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Sales	17.2	19.8	21.4	17.2	19.8	22.6
Growth yoy (in %)	18.0%	15.1%	8.1%	18.0%	15.1%	14.1%
FFO	7.3	8.3	9.1	7.30	8.3	9.7
Margin (in %)	42.6%	42.0%	42.5%	42.4%	42.0%	43.1%
FFOPS	1.65	1.88	2.05	1.65	1.88	2.20
	<u>Δ Old vs. new</u>					
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Sales (in %)	0.3%	0.0%	5.6%			
FFO (in %)	0.0%	0.0%	7.0%			
FFOPS (in %)	0.0%	0.1%	7.5%			

Sources: DEFAMA, Metzler Research

Valuation

company note

	Bloomberg	Share price	Metzler Recommendation/ Price target	P/FFO 2023e
Hamborner Reit	HABA GY	10.0		14.4
Deutsche Konsum Reit	DKG GY	13.4	Buy / EUR 17.6	9.1
VIB Vermögen	VIH1 GY	51.6		20.9
Average				14.8
DEFAMA	DEF GY	27.8	Buy / EUR 32.50	12.6
Upside				17%

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. As of the 31.12.2021, DEFAMA's property portfolio comprised 50 properties.

Major shareholders

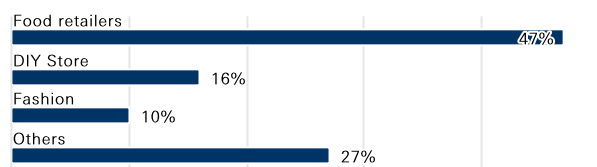
Matthias Schrade (29%), Geminus GmbH (4%), Other management (2%)

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	23	14.1
EBITDA	6	42.3	7	27.3	9	27.6	14	52.0	12	-9.0	14	14.7
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	13.9
EBIT margin (%)	39.5	-13.8	40.1	1.6	38.6	-3.8	56.0	45.2	39.9	-28.8	39.8	-0.3
Financial result	-1	-49.0	-2	-28.7	-2	-23.9	-3	-23.5	-3	-15.9	-3	-12.7
EBT	2	27.1	3	23.3	3	25.8	7	100.4	5	-30.7	6	14.6
Taxes	-1	-34.3	-1	-28.7	-1	-38.7	-2	-77.7	-1	30.7	-1	-14.6
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	14.6
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	14.7
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	0.94	14.7
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.	1.9	n.a.	2.1	n.a.	2.3	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	7	37.0	8	10.3	8	12.0
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	30	-21.7	20	-32.7	20	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	-25	28.4	-15	40.7	-14	4.6
Balance sheet (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Assets	86	54.8	104	21.6	137	31.1	160	16.8	178	11.4	196	10.1
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	126	18.9	141	11.8	155	10.1
Gearing (%)	396.8	n.a.	281.7	n.a.	420.5	n.a.	432.9	n.a.	430.7	n.a.	430.5	n.a.
Net debt/EBITDA	11.7	n.a.	9.9	n.a.	11.8	n.a.	9.2	n.a.	11.3	n.a.	10.9	n.a.

Structure

Tenant structure 2020



Sources: Bloomberg, Metzler Research

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Disclosures

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			
Issuer/Financial Instrument (ISIN): DEFAMA Deutsche Fachmarkt AG (DE000A13SUL5)					
03.11.2021	Buy	Buy	25.00 EUR	27.20 EUR	Bonhage, Stephan
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
Issuer/Financial Instrument (ISIN): Deutsche Konsum REIT-AG (DE000A14KRD3)					
15.02.2022	Buy	Buy	13.35 EUR	17.60 EUR	Bonhage, Stephan
20.12.2021	Buy	Buy	14.00 EUR	17.60 EUR	Bonhage, Stephan
09.12.2021	Buy	Buy	14.10 EUR	17.90 EUR	Bonhage, Stephan
04.10.2021	Buy	Buy	14.40 EUR	17.90 EUR	Bonhage, Stephan
13.08.2021	Buy	Buy	14.65 EUR	17.90 EUR	Bonhage, Stephan
18.06.2021	Buy	Buy	15.15 EUR	17.90 EUR	Bonhage, Stephan
17.05.2021	Buy	Buy	15.20 EUR	17.90 EUR	Bonhage, Stephan
19.03.2021	n.a.	Buy	15.55 EUR	17.90 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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Valuation criteria and methods

Valuations are based on standard and acknowledged methods of fundamental and technical analysis (e.g. DCF model, peer-group analysis, sum-of-the-parts model, relative-value analysis). The valuation models are affected by macro-economic values such as interest rates, exchange rates, commodities prices and economic performance, as well as by market sentiments. Detailed information on the valuation principles and methods used by Metzler and the assumptions on which they are based is available at www.metzler.com/disclaimer-capital-markets-en.

Sensitivity of valuation parameters: risks

The figures on which the company valuations are based are date-specific estimates and thus carry inherent risks. They may be adjusted at any time without prior notice.

company note

Irrespective of the valuation principles and methods used and the assumptions on which they are based, there is always a risk that a particular price target is not achieved or that the assumptions and forecasts prove inaccurate. This can, for instance, be the result of unexpected changes in demand, management, technology, economic or political developments, interest rates, costs, the competitive situation, the legal situation and other factors. Investments in foreign markets and instruments are subject to additional risks, as a result of changes in exchange rates or in the economic, political or social situation, for instance. This outline of risks makes no claim to be exhaustive.

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The categories for investment recommendations in research publications by Metzler have the following meanings:

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BUY	The price of the analysed financial instrument is expected to rise in the next 12 months.
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.
SELL	The analysed financial instrument is expected to perform worse than similar financial instruments.

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The quarterly quotation of the number of all investment recommendations given as “buy”, “hold”, “sell” or similar for the past 12 months as a proportion of the total number of investment recommendations made by Metzler and the quotation of the proportion of these categories relating to issuers to whom Metzler has provided services within the meaning of Annex I sections A and B of Regulation 2014/65/EU within the past 12 months can be accessed and downloaded at www.metzler.com/disclaimer-capital-markets-en.

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