

DEFAMA Deutsche Fachmarkt AG (DEF GY) | Real Estate

August 25, 2022

Good H1 figures

We maintain our Buy rating and our PT of EUR 31.50 following good H1 figures. The H1 sales climbed noticeably by 12.1% yoy to EUR 9.5m (M'e: EUR 9.4m) driven by property acquisitions and rent increases. The FFO even increased by 14.5% yoy to EUR 4.0m (M'e: EUR 3.9m) while the FFOPS amounted to EUR 0.87 in H1 22 (H1 21: EUR 0.79). With an acquisition volume of ~EUR 29m so far this year, the company also showed a strong acquisition momentum, already noticeably exceeding the annual acquisition target of EUR 15-20m. We are confident that DEFAMA could announce further accretive acquisitions during the remaining year as the company has a comfortable cash position and sees a strong acquisition pipeline. Based on the recent strong acquisition momentum, we also have the impression that DEFAMA's mid-term portfolio volume and FFO targets (EUR 260-300m/EUR 11m) appear to be too low. DEFAMA already noted that it currently reviews its FY 22e and mid-term targets, we therefore assume that both could be raised by the company soon. In total, we remain confident on the company's investment case and we think DEFAMA is on a good track to reach its current FY 22e targets. Trading at an attractive estimated FFO yield 23e of 8.4%, DEFAMA benefits from its non-cyclical tenants, CPI-linked rents contracts, attractive rental yields and its long debt maturity of 6.5 years.

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

Buy

 **unchanged**

Price*

EUR 25.00

Price target

EUR 31.50 (unchanged)

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

Market Cap (EUR m) ¹	120
Enterprise Value (EUR m) ¹	258
Free Float (%) ¹	72.0

Price (in EUR)¹



Fundamentals (in EUR m) ¹	2019	2020	2021	2022e	2023e	2024e
Sales	11	15	17	20	23	26
EBITDA	7	9	13	13	15	17
EPS adj. (EUR)	0.51	0.57	1.14	0.78	0.90	1.02
FFO	4.6	5.9	7.1	8.6	10.0	11.0
DPS (EUR)	0.45	0.48	0.51	0.54	0.58	0.61
Operating Cash Flow (EUR)	4	5	7	8	10	11
Dividend paid (EUR)	2	2	2	2	2	3
Capital expenditures (EUR)	16	38	28	31	22	20
Ratios ¹	2019	2020	2021	2022e	2023e	2024e
EV/EBITDA	19.4	21.5	18.4	20.5	18.6	17.0
PCFR	10.5	10.9	10.3	10.5	9.1	8.0
P/E adj.	32.5	34.8	24.4	32.2	27.9	24.5
Dividend yield (%)	2.7	2.4	1.8	2.2	2.3	2.4
EBIT margin (%)	40.1	38.6	53.2	40.2	40.0	40.3
Gearing (%)	281.7	420.5	437.7	357.3	345.8	321.1
PBV	2.8	3.5	4.4	3.1	2.7	2.4

¹Sources: Bloomberg, Metzler Research

Performance (in %) ¹	1m	3m	12m
Share	-2.3	0.0	0.8
Rel. to Prime All Share	-2.3	6.4	23.4

Changes in estimates (in %) ¹	2022e	2023e	2024e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	0.0	0.0

Sponsored Research



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DEFAMA released its **H1 results** on Tuesday. Key highlights were the following:

- In the first six months of the year, sales increased by 12.1% yoy to EUR 9.5m. 48 properties contributed to the sales performance in the first quarter of the year, three new properties started to contribute to the sales performance in Q2. Due to the high share of CPI-linked rent contracts (~89%), DEFAMA's half-year sales performance was also able to benefit from rent increases.
- DEFAMA's H1 FFO jumped by 14.5% yoy to EUR 4.0m, implying an FFO margin of 42.3%. The FFOPS amounted to EUR 0.87, representing an increase of 10.1% yoy.
- The company announced several acquisition in H1, which in total represent an acquisition volume of EUR 24m. Yesterday, the company also communicated that it acquired four additional properties located in Bavaria and Baden-Wuerttemberg for an acquisition volume of EUR 5.25m, which generate an annual rent of EUR 0.43m. Key tenant of the properties is AWG Mode, a large German fashion retailer. In total, the ytd acquisition volume now amounts to ~EUR 29m.
- Following yesterday's acquisition, the company's property portfolio will consist of 62 properties with a lettable space of ~250.000sqm. The vacancy rate is expected to be at 5% while the annualized rental income should come in at ~EUR 20m. The annualized FFO will amount to EUR 9.6m respectively EUR 2.01 per share.
- The company announced in its H1 report that it currently reviews its FY 22e and mid-term targets.

Overview of DEFAMA's H1 results in m EUR

			<u>Reported</u>			
	H1 21	FY 21	H1 22	FY 22e Guidance	Metzler H1 22e	Metzler FY 22e
Sales	8.5	17.1	9.5	-	9.4	20.0
Growth yoy (in %)	27.9%	17.5%	12.1%	-	11.1%	16.7%
FFO	3.5	7.1	4.0	8.5	3.9	8.6
Margin (in %)	41.4%	41.2%	42.3%	-	41.5%	42.9%
FFOPS	0.79	1.60	0.87	-	0.86	1.79

Sources: DEFAMA, Metzler Research

Our investment case in a nutshell

- Focus on a retail property market niche: DEFAMA has become what we would

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

- **Growth momentum is 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. 40% 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.

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 30.06.2022, DEFAMA's property portfolio comprised 58 properties.

Major shareholders

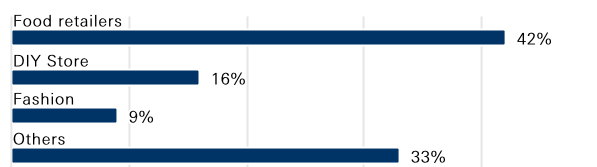
Matthias Schrade (26%), Supervisory board (2%)

Key figures

P&L (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Sales	11	23.3	15	30.1	17	17.5	20	16.7	23	16.0	26	13.4
Gross profit on sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gross margin (%)	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0
EBITDA	7	27.3	9	27.6	13	48.5	13	-5.5	15	16.2	17	13.9
EBITDA margin (%)	62.9	3.2	61.7	-1.9	77.9	26.4	63.1	-19.0	63.2	0.2	63.5	0.5
EBIT	4	25.3	6	25.1	9	61.9	8	-11.7	9	15.4	11	14.2
EBIT margin (%)	40.1	1.6	38.6	-3.8	53.2	37.8	40.2	-24.4	40.0	-0.5	40.3	0.7
Financial result	-2	-28.7	-2	-23.9	-3	-22.0	-3	-17.8	-4	-15.2	-4	-14.9
EBT	3	23.3	3	25.8	7	86.3	5	-23.5	6	15.5	7	13.8
Taxes	-1	-28.7	-1	-38.7	-1	-49.4	-1	15.4	-1	-15.5	-2	-13.8
Tax rate (%)	-25.6	n.a.	-28.2	n.a.	-22.6	n.a.	-25.0	n.a.	-25.0	n.a.	-25.0	n.a.
Net income	2	21.5	3	21.4	5	100.8	4	-25.9	4	15.5	5	13.8
Minority interests	0	-48.8	0	-62.9	0	-85.8	0	n.m.	0	0.0	0	0.0
Net Income after minorities	2	22.5	3	21.9	5	101.1	4	-26.1	4	15.6	5	13.9
Number of shares outstanding (m)	4	11.9	4	9.1	4	0.0	5	8.6	5	0.0	5	0.0
EPS adj. (EUR)	0.51	9.5	0.57	11.7	1.14	101.1	0.78	-31.9	0.90	15.6	1.02	13.9
DPS (EUR)	0.45	12.5	0.48	6.7	0.51	6.3	0.54	5.9	0.58	7.4	0.61	5.2
Dividend yield (%)	2.7	n.a.	2.4	n.a.	1.8	n.a.	2.2	n.a.	2.3	n.a.	2.4	n.a.
Cash Flow (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Operating Cash Flow	4	11.1	5	30.6	7	49.3	8	14.8	10	15.3	11	12.2
Increase in working capital	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Capital expenditures	16	-48.4	38	135.7	28	-27.4	31	12.5	22	-29.0	20	-9.1
Dividend paid	2	29.4	2	27.5	2	6.7	2	6.3	2	5.9	3	7.4
Free cash flow (post dividend)	-14	52.2	-35	-152.3	-22	36.3	-25	-11.2	-15	41.1	-12	20.7
Balance sheet (in EUR m)	2019	%	2020	%	2021	%	2022e	%	2023e	%	2024e	%
Assets	104	21.6	137	31.1	156	14.3	188	20.4	208	10.8	230	10.5
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Shareholders' equity	25	50.7	25	2.1	28	11.6	39	37.6	44	14.2	51	15.8
Net Debt incl. Provisions	70	7.0	106	52.4	123	16.1	138	12.3	153	10.6	164	7.6
Gearing (%)	281.7	n.a.	420.5	n.a.	437.7	n.a.	357.3	n.a.	345.8	n.a.	321.1	n.a.
Net debt/EBITDA	9.9	n.a.	11.8	n.a.	9.2	n.a.	11.0	n.a.	10.4	n.a.	9.8	n.a.

Structure

Tenant structure 2021



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)					
01.07.2022	Buy	Buy	24.00 EUR	31.50 EUR	Bonhage, Stephan
27.05.2022	Buy	Buy	25.20 EUR	31.50 EUR	Bonhage, Stephan
25.04.2022	Buy	Buy	27.80 EUR	31.50 EUR	Bonhage, Stephan
01.03.2022	Buy	Buy	28.00 EUR	32.50 EUR	Bonhage, Stephan
21.02.2022	Buy	Buy	27.80 EUR	32.50 EUR	Bonhage, Stephan
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

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

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*** All authors are financial analysts

DEFAMA Deutsche Fachmarkt AG

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