13 Mar 2023
Retail - Property
Germany

DEFAMA

A pure play in High Yield German Retail

Opinion	Add
Upside (%)	19.0
Price (€)	23.4
Target Price (€)	27.8
Bloomberg Code	DEF GY
Market Cap (€M)	112
Enterprise Value (€M)	278

Momentum	GOOD
Fundamental Strength	3/10
Sustainability	3/10

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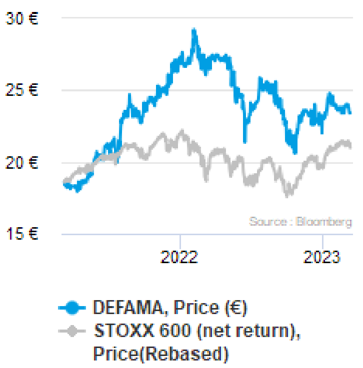

PROS

- This fast-growing leveraged business model addresses the high yield German Retail Real Estate. DEFAMA's key trigger is its ability to leverage and grow its portfolio
- DEFAMA is a pure play addressing local daily needs (primarily food) in secondary locations. Its key tenants are ranked in the top 10 German retailers
- Linear growth since 2023 should follow the exponential development phase of 2014-22. The low dividend pay-out ratio and a cautious debt management policy are attractive from a risk-reward perspective

CONS

- The leverage itself (59% of LTV, December 2022, DEFAMA standards) looks affordable. The dynamism of the forward FFO could nevertheless depend on both interest rates and further re-leveraging
- DEFAMA claims that its own resources are sufficient to reach its 2025 target (annualised rents: €28m, FFO: €13m). We don't rule out a capital increase in 2025-26 to grow the portfolio
- Small cap status and weak liquidity mean that there are alternative plays in the European Property segment

KEY DATA	12/21A	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	**19.4**	**21.2**	**27.2**	**23.9**	**21.6**
Dividend yield (%)	*2.30*	*2.14*	*2.39*	*2.48*	*2.56*
EV/EBITDA(R) (x)	21.9	22.3	18.7	17.4	16.5
Adjusted EPS (€)	**1.14**	**1.19**	**0.86**	**0.98**	**1.08**
Growth in EPS (%)	*101*	*4.29*	*-27.7*	*13.9*	*10.5*
Dividend (€)	0.51	0.54	0.56	0.58	0.60
Sales (€M)	17.1	20.3	24.7	27.5	30.0
EBITDA/R margin (%)	*59.0*	*60.2*	*60.1*	*61.3*	*61.5*
Attributable net profit (€M)	5.04	5.48	4.12	4.70	5.19
ROE (after tax) (%)	**18.9**	**15.7**	**9.73**	**10.6**	**11.2**
Gearing (%)	*407*	*331*	*368*	*384*	*392*

DEFAMA (Add)

Detailed financials at the end of this report

Key Ratios

Key Ratios		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	x	21.2	27.2	23.9	21.6
EV/EBITDA	x	22.3	18.7	17.4	16.5
P/Book	x	2.91	2.60	2.49	2.36
Dividend yield	%	2.14	2.39	2.48	2.56
Free Cash Flow Yield	%	-32.5	-9.50	-12.0	-6.52
ROE (after tax)	%	15.7	9.73	10.6	11.2
ROCE	%	2.76	3.11	3.31	3.44
Net debt/EBITDA	x	12.4	11.1	10.8	10.4

Consolidated P&L

Consolidated P&L		12/22A	12/23E	12/24E	12/25E
Sales	€M	20.3	24.7	27.5	30.0
EBITDA	€M	12.2	14.9	16.8	18.5
Underlying operating profit	€M	7.13	8.65	9.99	11.0
Operating profit (EBIT)	€M	7.13	8.65	9.99	11.0
Net financial expenses	€M	-2.90	-3.74	-4.40	-4.80
Pre-tax profit before exceptional items	€M	4.23	4.91	5.59	6.18
Corporate tax	€M	-1.05	-0.79	-0.89	-0.99
Attributable net profit	€M	5.48	4.12	4.70	5.19
Adjusted attributable net profit	€M	5.48	4.12	4.70	5.19

Cashflow Statement

Cashflow Statement		12/22A	12/23E	12/24E	12/25E
Total operating cash flows	€M	11.7	18.1	15.9	17.5
Capital expenditure	€M	-48.2	-25.0	-25.0	-20.0
Total investment flows	€M	-48.2	-25.0	-25.0	-20.0
Dividends (parent company)	€M	-2.25	-2.59	-2.69	-2.78
New shareholders' equity	€M	10.3	0.00	0.00	0.00
Total financial flows	€M	34.2	6.93	9.05	2.53
Change in net debt position	€M	-31.4	-13.3	-16.1	-10.1
Free cash flow (pre div.)	€M	-39.4	-10.7	-13.5	-7.33

Balance Sheet

Balance Sheet		12/22A	12/23E	12/24E	12/25E
Goodwill	€M				
Total intangible	€M	0.00	0.00	0.00	0.00
Tangible fixed assets	€M	193	208	226	238
WCR	€M	0.95	0.95	0.95	0.95
Total assets (net of short term liabilities)	€M	194	209	227	239
Ordinary shareholders' equity (group share)	€M	41.6	43.1	45.1	47.6
Provisions for pensions	€M	0.00	0.00	0.00	0.00
Net debt / (cash)	€M	152	165	182	192
Total liabilities and shareholders' equity	€M	194	209	227	239

Per Share Data

Per Share Data		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.19**	**0.86**	**0.98**	**1.08**
Net dividend per share	**€**	**0.54**	**0.56**	**0.58**	**0.60**
Free cash flow per share	€	-8.55	-2.22	-2.80	-1.53
Book value per share	€	8.67	8.99	9.41	9.91
Number of diluted shares (average)	**Mio**	**4.61**	**4.80**	**4.80**	**4.80**

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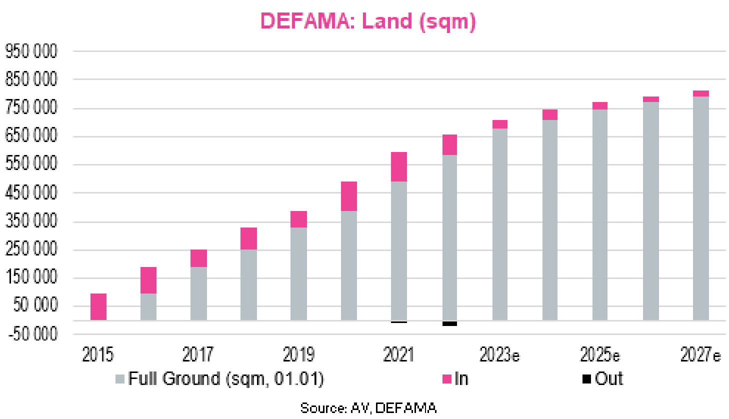
Businesses & Trends

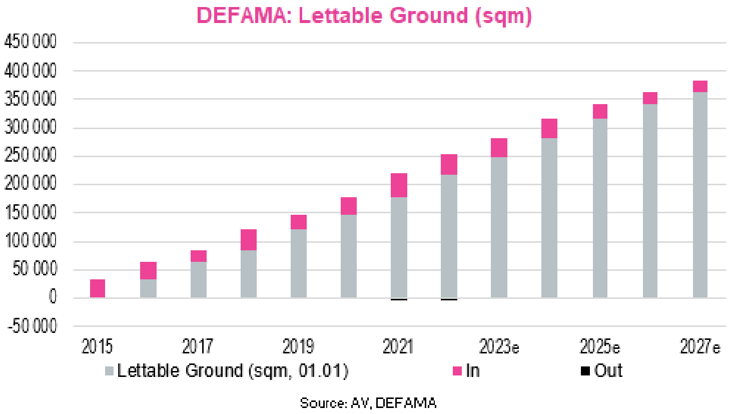
The story in a nutshell

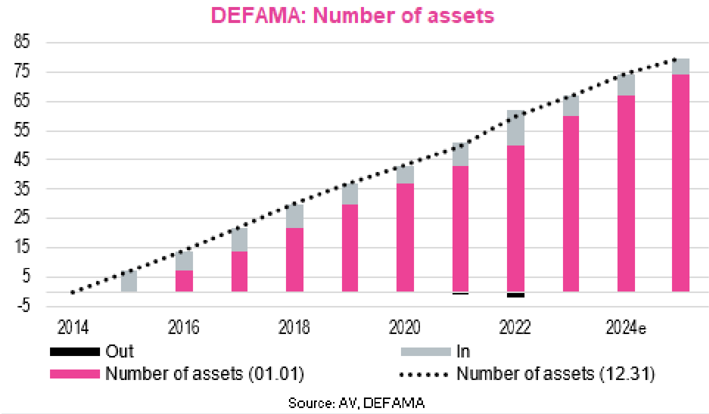
As of DEFAMA's inception in 2014, it has specialised in buying secondary Retail Parks in Germany yielding c.10% within a buy-to-hold strategy even if DEFAMA doesn't exclude tactical disposals. Rather than acquiring empty ground for reletting, DEFAMA much prefers to acquire c.95% fully-let units then improve the appeal of the assets through active "maintenance capex". The latter is profiled to improve the risk reward in the long-run rather than being pure cold maintenance. We see this as a differentiating advantage.

DEFAMA is a pure play on German retail – mostly food and daily needs – addressed by top-ranked retailers. Asset rotation is therefore limited and amounted to c.5% of assets in 2021-22 (one in 2021, two in 2022) but does generate capital gains vs. both book values and appraisals to fuel the company's further expansion (€257m of GAV in December 2022). On top of capital increases (c.€23m of hard equity raised since the IPO in late 2017), DEFAMA's strategy is about leveraging its balance sheet through its network of local German banks (savings and loans), leading to a 59% LTV ratio (source DEFAMA, December 2022, or c.62% once deferred corporate taxes are accounted, AV estimate). This looks pretty affordable when compared to the highly indebted direct peers (above 70%).

The chart below shows the considerable increase in the portfolio's size. The company's target is to raise its Asset Under Management (AuM) from €257m in 2022 (GAV, appraisals) to €350m in 2025. DEFAMA has said that its own current resources are sufficient to reach this target without having to raise additional hard equity. We believe that a further acceleration in expansion beyond 2025 would require some fresh cash although this is not in our central 2023-25 assumptions.

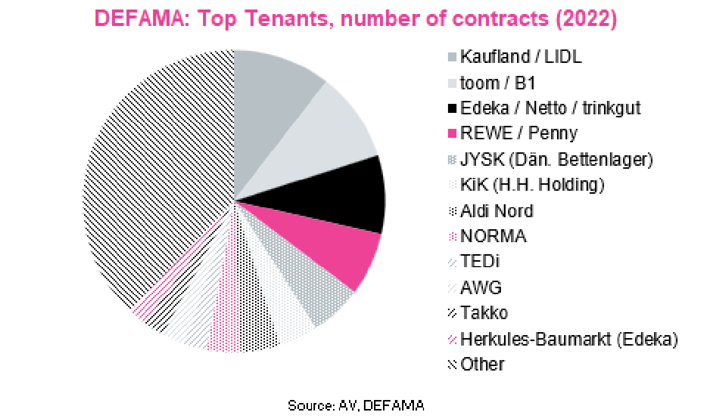






Focusing on daily needs

While retail accounts for 100% of the stores operated within DEFAMA's portfolio, there is an element of resilience closely linked to resilient German grocers on top of first ranked Aldi, EDEKA, REWE / Penny accounting for the bulk of annualised rents. There are number of smaller stores around food although the tenants are stable: twelve of the thirteen top tenants in 2021 were top tenants in 2018. DEFAMA has developed its AuM significantly in the past few years, reflecting the fact that retailers are comfortable with developing a long-term relationship.



At pixel time, the structure of German retail looks very stable with the top four supermarket chains (Edeka, Rewe, Schwarz Group, Aldi) accounting for 80-

85% of the German food market. These are DEFAMA's top tenants. In that they are gigantic national retailers employing millions of people, they need to preserve their local (sometimes rural) footprints. DEFAMA's tenants are therefore "systemic players" even if running low profitability businesses for a long time. There is little opportunity to improve discounters' margins, but there is a high likelihood that they will survive over the long term. The low level of Retailer profitability probably explains why they prefer to rent rather than buy but it also means that they miss out on the opportunity to privatize the high returns captured by DEFAMA. Retailer's low profitability is probably the first explanation of observed transaction levels per sqm and the offered (high) yields.

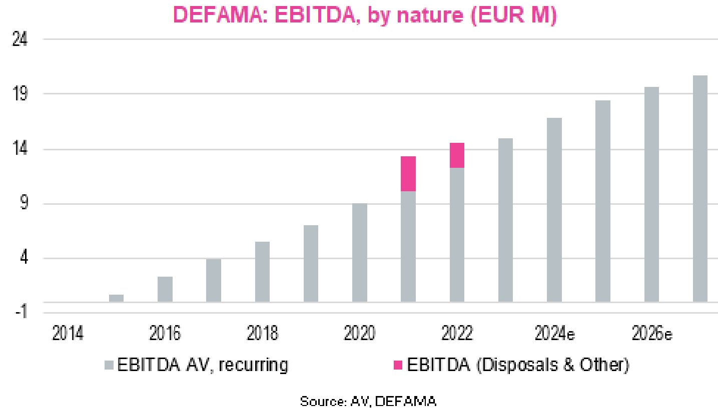
We have cross-checked some DEFAMA data with those of TLG Immobilien (formerly listed prior to its merger with Aroundtown). TLG sold the bulk of its fully retail portfolio in 2020 (roughly €500m, i.e. €1,600 per sqm). As due diligence, we investigated TLG's €1bn asset-pocket (December 2019). It was yielding 6.35% (capitalisation rate) applied to average rents of €10/sqm/month. The same figures for DEFAMA were 8.0% and €6.70, even if these do apply to much more secondary locations in our view: this percolates into the different vacancy rates (3% for TLG, 6% for DEFAMA).

Inflation

The assets sold are supposedly the less desirable ones even if they are not the consequence of a strong externalization move by retailers in the past few decades: transactions are mostly the result of owners (private landlords or funds) having built buildings within a buy-to-rent strategy initiated decades ago. DEFAMA and a couple of its peers (FCR Immobilien, Deutsche Konsum, both listed, not covered) have captured the bulk of this. A couple of hundred million euros of transactions later, the leaders don't own more than c.1% of the full German retail park. In a deflationary world, the decision to sell assets by the former owners was a clever move. It remains to be seen how transaction levels will deal with inflating rents. As tenants will have to contend with a German CPI index up by 10% in 2022 alone, the initial owners will gain some unexpected incremental profitability transforming a long flat story (rents) into an attractive play. As far as the current DEFAMA portfolio is concerned, the latter will be provided with a significant contribution in rents and therefore FFO as long as the cost of financial resource remains affordable.

Reporting and assumptions

Our estimates are based on the assumption that DEFAMA will be able to deploy c.€20-25m of annual capex. However, our forecasts do not reflect the full 2025 target of €350m of AuM (€30m p.a.) due to our combined perception on the (direct and indirect) impact of the rising cost of financial resource and the risk we perceive in the global real estate sector. Should DEFAMA's growth exceed our expectations, we may have to increase our assumptions considerably (revenue, recurring EBITDA, net profit, FFO). Note that DEFAMA's CapEx effectively hasn't been below €25m p.a. since 2017.



Our methodology is based on estimating the recurring rental EBITDA, aside from capital gains. DEFAMA provides the market with a FFO (recurring flow based on an up and running rental business). Consequently, we are able to monitor the consistency of the company's recurring performance: €8.6m of FFO (€10m in annualized FFO at December 2022) as a percentage of a portfolio worth €257m (appraisals, December 2022).

Divisional Breakdown Of Revenues

	Sector	12/22A	12/23E	12/24E	12/25E	Change 23E/22		Change 24E/23E	
						€M	of % total	€M	of % total
Total sales		**20.3**	**24.7**	**27.5**	**30.0**	**4↑**	**100%**	**3↑**	**100%**
O/w organic growth (%)		*18.5*	*21.8*	*11.1*	*9.22*	*3↑*	*75%*	*-11↓*	*-382%*
Rental Revenue	Retail - Property	17.2	21.1	23.4	25.6	4↑	89%	2↑	82%
Other Revenue	Retail - Property	2.60	3.18	3.54	3.87	1↑	13%	0↑	13%
Other		0.50	0.50	0.52	0.54	0↑	0%	0↑	1%

Key Exposures

	Revenues	Costs	Equity
Dollar	0.0%	0.0%	0.0%
Emerging currencies	0.0%	0.0%	0.0%
Euro	100.0%	100.0%	100.0%
Long-term global warming	0.0%	0.0%	0.0%
Long-term interest rates	0.0%	30.0%	50.0%

Sales By Geography

Germany	100.0%

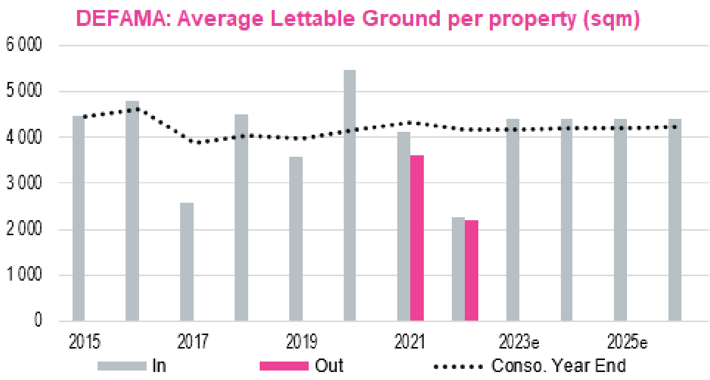
We address exposures (eg. how much of the turnover is exposed to the $) rather than sensitivities (say, how much a 5% move in the $ affects the bottom line). This is to make comparisons easier and provides useful tools when extracting relevant data.
Actually, the subject is rather complex on the ground. The default position is one of an investor managing in €. An investor in £ will obviously not react to a £ based stock trading partly in € as would a € based investor. In addition, certain circumstances can prove difficult to unravel such as for eg. a € based investor confronted to a Swiss company reporting in $ but with a quote in CHF... Sales exposure is probably straightforward but one has to be careful with deep cyclicals. Costs exposure is a bit less easy to determine (we do not allow for hedges as they can only be postponing the day of reckoning). How much of the equity is exposed to a given subject is rarely straightforward but can be quite telling
In addition, subjects are frequently intertwined. A $ exposure may encompass all revenues in $ pegged currencies and an emerging currency exposure is likely to include $ pegged currencies as well.
Exposure to global warming issues is frequently indirect and may require to stretch a bit imagination.

Money Making

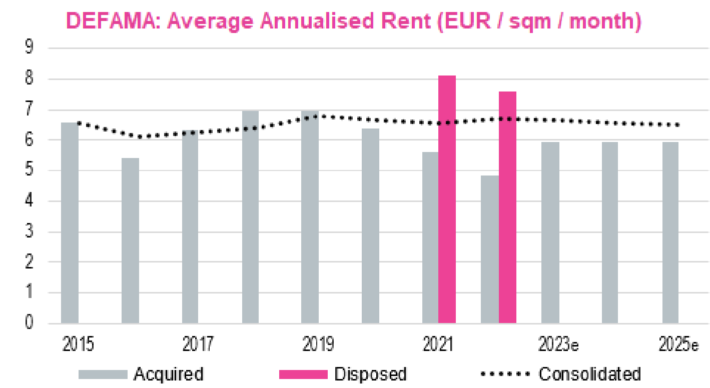
Affordable purchasing price and milking

The average purchasing price stood in a range of €800-1,200 par sqm for 2015-21 (€853 on average in December 2022). The portfolio looks homogenous with 3,500-5,000 sqm of lettable ground per unit. For the sake of transparency, the appraisers valued the portfolio at €1,032 per lettable sqm in 2022. The latter should be supported by both “improvement CapEx” providing DEFAMA with incremental rents and inflation, thus limiting the impact of any slight yield decompression in 2023-25.

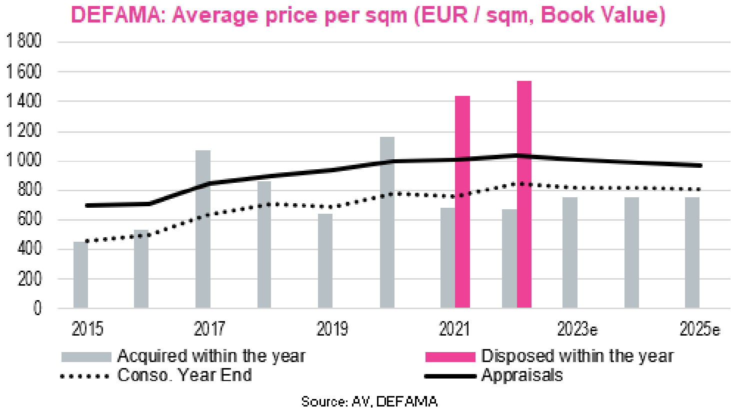
The average purchase price looks well below the construction price in Germany, explained by several factors: i/ few institutional buyers for commercial assets in the remote German countryside, generating c.9% of gross rent but c.6.75% of net rent; ii/ a low number of local individual investors able to pay €2.0-5.0m for a single commercial building or much above this for a package of two to five units; iii/ tenants unable to buy the ground they occupy; and iv/ the grocery business is considered to generate a low level of profitability in Germany (low EBIT margins due to the intense competition): its attractiveness is high but the initial owners have to contend with falling contract maturities. We believe that the value of existing buildings has been supported by the significant increase in construction costs 2022-23 (iron, concrete, energy as a whole, workforce): it would cost a lot more to build the same bricks in 2023.



Source: AV, DEFAMA

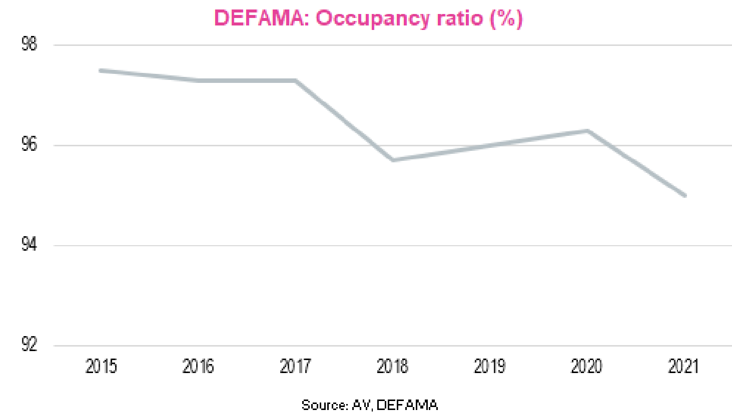


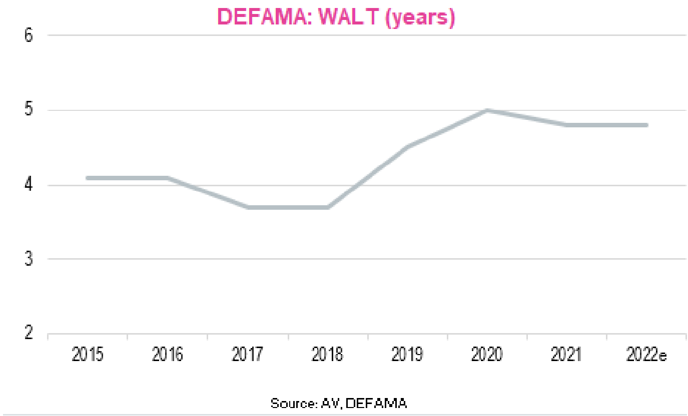
Source: AV, DEFAMA



We expect inflation to cap the number of additional, affordable sqms. In a nutshell, inflation could turn old big boxes into competitive bricks. Inflation could be the best news ever for such investments as CPI-linked contracts could provide landlords with significant profitability. Removing the brake in the form of higher financial expenses, 23% of accrued inflation in 2022-26 (of which 10% in 2022-23, i.e. 3% p.a. in 2024-26) would propel DEFAMA's FFO from €9m in 2022 to €12m. This €3m improvement at constant perimeter needs to be seen within the perspective of €153m of net debt in December 2022: it would be enough to absorb a 200bp increase in the cost of financial resource. The only concern might be when the contracts come up for their first renewals as it could be tempting for tenants to negotiate inflated rents but inflation could remove the alternative of… moving-out for building new (expensive) shops.

Fortunately, DEFAMA's Weight Average Lease Term (WALT, chart below) is c.5 years (in line with peers) i.e. c.10% of contracts coming up for renewal every year. We are likely to see increasing vacancy or stabilizing rents before observing a percolation into the company's P&L. DEFAMA doesn't release like-for-like vacancy figures. We are therefore unable to restate the annual figures for the contribution from ground acquired during the year.



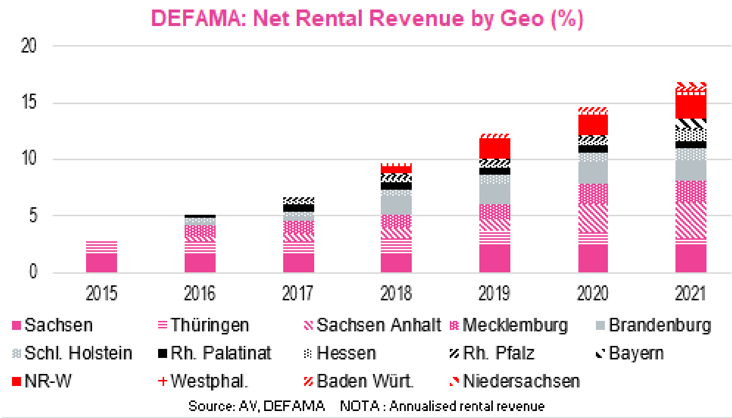


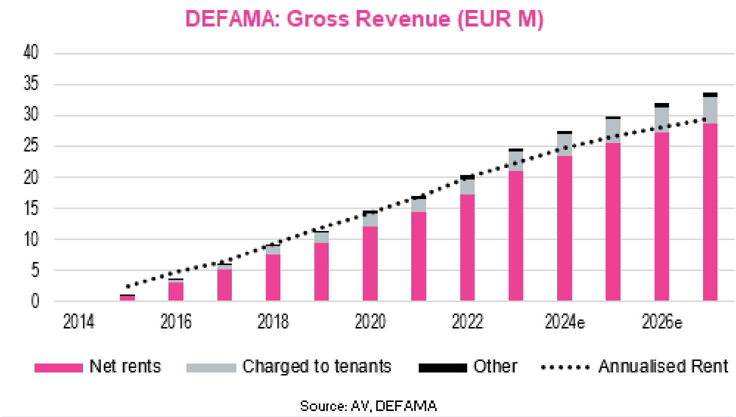
DEFAMA's vacancy being low (see the chart above) we consider this as more or less optimised: the 5% mark looks to be frictional and we don't detect a huge reservoir of improvement. At pixel time, our optimistic view is that DEFAMA won't experience a significant rise in vacancy in 2023-24 : German GDP looks resilient enough.

Affordable local rents

We calculate an average net rent of c.€6.7 per month per sqm. We have a couple of examples of luxury retailers renting sqm at above €200 in the very heart of European metropoles: we don't believe local retail to be at risk in absolute terms as managing a 2,000 sqm shop only costs the tenant €160,000 (net rent) which is low vs. the shops' turnover. ALDI, REWE, Kaufland, Lidl prefer to own the ground they occupy whereas KiK, Deichmann and JYSK are accustomed to developing as tenants. On buildings acquired by DEFAMA, the retail business model is not based on externalisation hence these tenants have never been owners. Due to the still-low rents charged, the possibility to lower rents further so as to attract new tenants looks low.

Note that the other side to affordable rents is that the management cost of €6-12 per sqm per month is the same as for €200 per sqm. Consequently, DEFAMA embarks a lower level of profitability than some of its larger peers who are focused on shopping malls (EBITDA vs. rental revenue), or Offices to some extent. The good news is that DEFAMA's business model is one of the most positively exposed to inflation with a strong leverage from indexation on FFO. This should progressively percolate into the EBITDA margin (and the FFO).



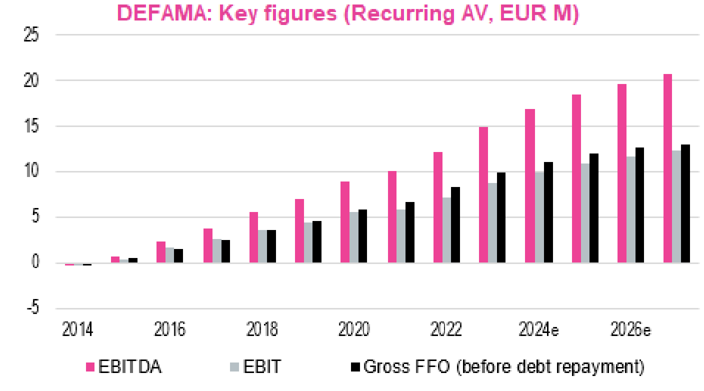


Charges and management costs

DEFAMA's expenses are mostly charged to tenants. These amount to the equivalent of c.10% of net rents that are not chargeable to tenants, on top of all the costs relating to asset management & overheads. The bulk of the pure administrative management costs has been outsourced since 2023. We are not aware of big savings on this although it should translate into an improvement in the administrative process, in our view. DEFAMA now focuses on what brings value to bricks: refurbishment, acquisition, contract negotiation (renewals, replacements etc.) and value-added refurbishment.

DEFAMA's reporting doesn't disclose the breakdown in net acquisition prices, duties, regular maintenance and value-added maintenance. While it is difficult to split CapEx (cash-flow statement) and maintenance charges (P&L), our understanding is that DEFAMA is by no means a 'do'nothing' landlord and has provided some examples of significant "improvement capex" on both units recently acquired and older acquisitions (Löwenberg and Büdelsdorf, both bought in 2016, e.g.). At the expense of weighing on returns, such CapEx protects the long term value of the assets. This is a significant difference vs. some other listed specialists preferring a simple buy to hold. DEFAMA's philosophy of accompanying its portfolio through regular reinvestment improves the relative risk reward vs. peers, in our view.

Consequently, we expect an EBITDA margin of c.75% as a run rate (74% on average in 2015-22, 69% in FY 22) vs. 90% in some other companies we cover (e.g. Colonial, Offices in France and Spain). Both inflation and contained vacancy are compatible with this estimate.



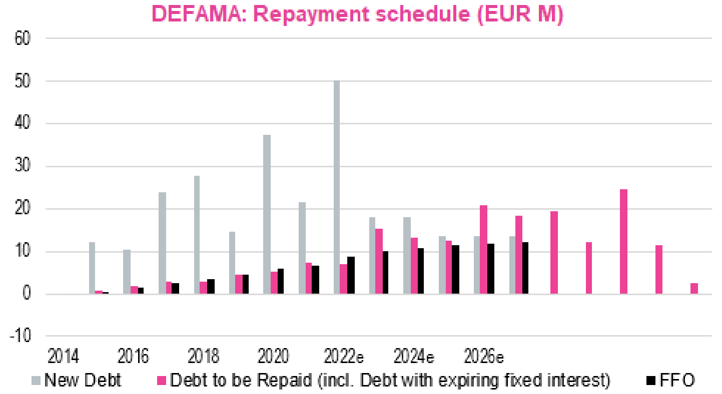
Source: AV, DEFAMA

By reining in its high-speed growth and stabilising acquisitions in a range of €20-30m per annum (company guidance), DEFAMA will face an increasing number of contract renewals in the years to come, in relative terms. We don't see this as a material threat in 2023-25 but it will test the company's ability to confirm that inflated rents are sustainable in the long-run. The bigger risk would be that top tenants turn to Chapter 11. Due to the structure of the German market, we don't expect this any time soon.

Last, but not least, the German format of a "low price grocer" should benefit from inflation, the latter increasing footfall to the detriment of the more expensive formats. In a nutshell, we don't consider grocery to be that vulnerable… beyond its own endogenous long-term challenges. In any case, we do not price in a strong reversion (higher rents when the rent-roll occurs) but at best a prolongation of both the existing contracts and inflated rents. While we don't see any real dynamism at local level, if DEFAMA is able to renew contracts without having to deploy incentives (as demonstrated in 2019-22) it will clearly benefit from higher profitability in the long run. Appraisals are therefore dependent on voids and interest rates only, without the supportive engine of a strong forward reversion there but with the welcome contribution of inflation. Only a few years ago it was unthinkable that inflation would make a significant contribution to our investment case.

Leverage: a competitive advantage
We calculate the net debt to gross acquisition price ratio at c.73% in 2022. Based on gross appraisals, the LTV ratio (source DEFAMA) was 59% in FY 22. When restated for deferred taxes, the LTV ratio of 62% still looks affordable and DEFAMA believes in conservative appraisals supporting its consolidated GAV of €257m (increasing the "V" and diminishing the LTV ratio symmetrically). Due to the specific structure of DEFAMA's financing, welcoming fixed interest rates on maturities up to ten years, the group has little exposure to short-term variations in both base rates and spreads. This structure is nevertheless different from traditional mortgages showing linear and stable annual repayments over 20 or 25 year terms.

Our perception is that of the 36 institutions working with DEFAMA, local savings and loans are liable to provide affordable liquidity in individual amounts (debt) amounting to under €4.0m of engagement, on average. At the consolidated level, FFO is sufficient to repay the banks in 2023-25. Further growth in the portfolio will depend on the complementary re-leveraging of current assets. DEFAMA's strategy is therefore to buy €20-30m of assets p.a. without raising fresh equity in the medium-term.



Source: AV, DEFAMA NOTA : 2021 includes the full extra repayment of debt dedicated to the disposed Bleicherode

The debt can be considered as 100% fixed but over the short term: the average maturity stands at below six years. The debt roll will therefore embark rising financial expenses very progressively. Our forecasts assume an increase in the average cost of debt, moving above the 2.50% threshold in 2025 (2.32% in FY 22) – for the standalone portfolio. The company's growth should add €20-30m of assets p.a. (see the strategic plan 2025), i.e. €60-90m of new debt within three years, which will be subscribed at the new market conditions. The average cost of consolidated debt could therefore cross the 3.0% mark in 2025. At the FFO level, such a hike could be compensated by the contribution of indexation (inflation) over the period.

As the debt can be considered as part of the "money making" section, here we address the impact of higher interest rates on the growth in the portfolio. Should interest rates reach 5.0% (for demonstration purposes), DEFAMA's returns would significantly diminish on the new buildings acquired: it is not the same thing to finance an asset yielding a gross 9% with a cost of financial resource of 2.0% or 5.0%. The real return of 6.75% (9.0% net of 25% of administration expenses equivalent to a rental EBITDA margin of 75%) would be insufficient to absorb both debt repayment and financial expenses, on top of an increasing dividend paid to the company's shareholders.

To absorb a 5.0% interest rate and preserving returns without degrading the risk reward profile, the yields on assets put up for sale would need to rise from the current 9% to 12%, consent be granted for a one third increase in rents same book value. We don't see the initial owners agreeing to a one-third reduction in the asset price. Consequently, DEFAMA would be offered the option to : i/ stabilise its current portfolio and milk it; ii/ pursue an active growth strategy (2025 strategic plan) but accept lower returns on equity and subscribe short-term debt until it is able to refinance loans later at more attractive conditions (deterioration in the risk reward profile) or iii/ try to select the most profitable opportunities as as to preserve its RoE and slow the expected pace of development.

One risk DEFAMA might have to face is a potential restriction in liquidity not due to its own profile but if the global real estate market were to collapse. It would have three years to react to this, which looks pretty comfortable at pixel time.

Asset disposals: material successes in 2021 & 2022
In 2021, DEFAMA disposed of its first asset (Bleicherode) – a fine condensed example of the company's portfolio. In 2022, two retail parks were disposed, thus validating both appraisals and GAV. The table below shows a summary of the disposals achieved to date.

EUR M	Bleicherode	Sonnefeld	Löwenberg
Construction (year)	1993	2006	2003
Acquisition (year)	2015	2018	2016
Ground (sqm)	10 883	7 403	10 550
Ground (sqm)		17 953	
Lettable area (sqm)	3 596	1 401	3 010
Transaction price (incl. duties)	2,6	1,2	1,8
Rents	0,360	0,135	0,200
Gross yield	14%	11%	11%
Disposal (year)	2021	2022	
Ground (sqm)	10 883	19 209	
Lettable ground disposed (sqm)	4 044	4 411	
Price (ex-duties)	5,2	6,8	
Latest appraisal	4,2	5,9	
Rents	0,350	0,400	
Gross yield	6,8%	5,9%	
Gross capital gain vs. acquisition price	2,6	3,8	
Recorded capital gain before corporate tax	2,6	2,3	
Net cash back	3,0	2,5	

These disposals were made at a time when liquidity was cheap: 2021 & 2022 even if Löwenberg was disposed in late 2022 when liquidity had become a bit more expensive. The buyers were offered a gross yield of 6-7%. 2023 and beyond will tell if prices will provide DEFAMA with such capital gains and if capital recycling could support consolidated development. Our forecasts don't account for significant asset rotations in 2023 and beyond even if DEFAMA intends to put asset up for sale regularly. We consider that the appraisals are sufficiently conservative to generate positive returns as long as mortgages don't cross the 5.0% mark. As far as we know, housing mortgages stand at around 4.0% in early 2023. Last but not least, local wealthy people could consider commercial bricks as a firewall vs. inflation: we thus don't rule out small transactions (€2-4m individually) gaining traction when considering the attractive absolute unleveraged returns.

Since DEFAMA's future development relies on taking on additional debt, it will depend on values remaining stable so as to reassure the lenders. We detect the first signs of price falls in German commercial real estate. As mentioned above, we believe that the balance sheet is strong enough to absorb an initial shock in 2023-24. We would welcome a €20-30m cash capital increase in 2025-26 in order to secure the balance sheet and/or prepare the next stage in the portfolio expansion to closer to the €0.5bn mark beyond 2025.

Corporate taxes

DEFAMA doesn't benefit from REIT status (see our Worth Knowing section). It paid corporate taxes on both recurring profit and capital gains at an average consolidated rate of 18% in 2015-22. We have applied a 16% flat rate tax from 2023 and beyond. DEFAMA doesn't use the mark to market methodology. By accounting historical acquisition prices (mirroring accrued depreciation), DEFAMA doesn't account for deferred taxes. The structure of both corporate taxes and FFO is therefore fully understandable.

On taxes, note that DEFAMA's disclosed NAV doesn't account for the potential corporate taxes to be paid on latent capital gains. REITs are exempt from taxes, but DEFAMA is not. We therefore prefer to restate the NAV for these potential exit payments.

FFO

In line with customary practice, DEFAMA's FFO doesn't include capital gains. In 2022, FFO of €8.6m was equivalent to 3.3% of the appraised GAV of €257m. The company will pay €2.6m of dividends with €6.0m remaining available for debt repayment (€152m of net debt in December 2022). Net debt is therefore equivalent to 25 years of FY 22 FFO (net of dividends), 20 years of annualised FY 22 FFO (net of dividends) or 15 years of annualised FFO when the removing dividend component. The aforementioned FFO should benefit from inflating rents in 2023-25. However, such ratios underline the real maturity of the debt requiring continuous re-leveraging (or debt-roll) over the period. Looking at a standalone portfolio (December 2022, no growth) we consider a safe horizon to be around 2030 since liquidity risk would be targeting very low levels whatever interest rates or German real estate value.

Divisional EBITDA/R

	12/22A	12/23E	12/24E	12/25E	Change 23E/22		Change 24E/23E	
					€M	of % total	€M	of % total
Total	**12.2**	**14.9**	**16.8**	**18.5**	**3↑**	**100%**	**2↑**	**100%**
Other Revenue	0.38	0.38	0.39	0.41	0↑	0%	0↑	1%
Rental Revenue	11.9	14.5	16.5	18.1	3↑	96%	2↑	105%
Other/cancellations	0.00	0.00	0.00	0.00	0↑	0%	0↑	0%

Divisional EBITDA/R margin

	12/22A	12/23E	12/24E	12/25E
Total	**60.2%**	**60.1%**	**61.3%**	**61.5%**
Other Revenue	14.4%	11.8%	11.0%	10.5%
Rental Revenue	68.9%	68.8%	70.2%	70.5%

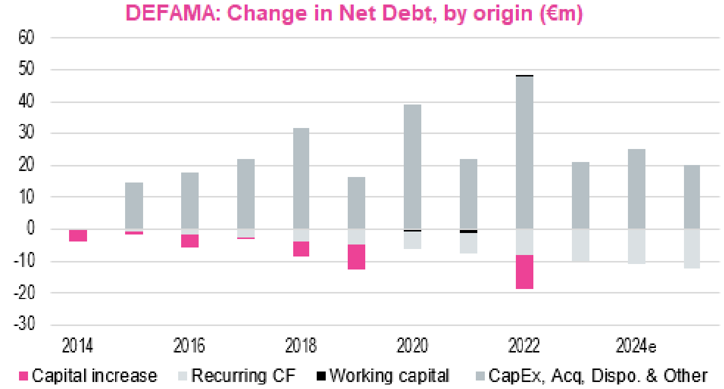
Valuation

Monitoring the GAV

DEFAMA reports annual appraisals from Winters & Hirsch Real Estate Advisory GmbH & Co. KG, an independent external valuer, which awarded the company a €257m GAV in December 2022. This is equivalent to an initial gross yield of 9.4% (annualised rents vs. purchasing price) which became 7.8% when applied to the Winters & Hirsch values. We consider the latter as reasonable in absolute terms. The latter opinion was supported by three disposals having occurred in 2021 and 2022 with the buyers' yield in a range of 5.9-6.8% percolating into transaction prices some 18% above the latest appraisals. It is noticeable that DEFAMA pursues a dynamic strategy on investing in its portfolio: €10m in Radeberg (increasing rents significantly), €2m in Löwenberg, €2m in Büdelsdorf, €1m in Hamm etc.

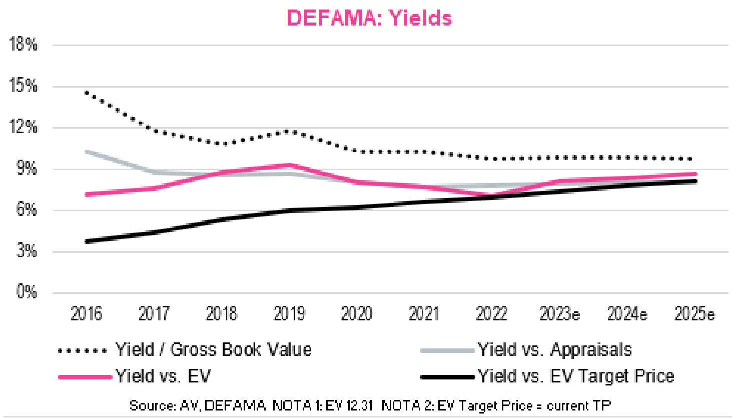
DEFAMA's revaluations compare favourably with those of the peers, showing much lower capitalisation rates for higher vacancy ratios. As the portfolio is exposed to regular re-leveraging, one can consider that the local bankers value the properties separately prior to lending. DEFAMA's GAV can therefore be considered to be backed. As for all portfolios (shopping malls, offices), it is nevertheless hard to predict whether the bulk of the retail assets could be sold at their current book values overnight especially were market liquidity to become a bit more costly or simply lower. We will monitor the company's potential retail disposals on an ad hoc basis in 2023-25.

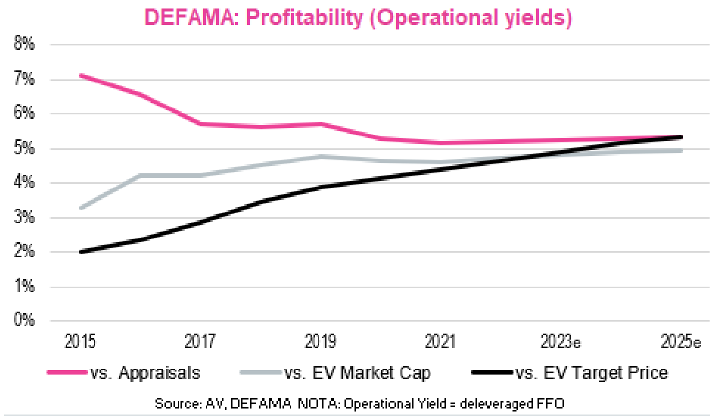
DEFAMA: Change in Net Debt, by origin (€m)



Source: AV, DEFAMA

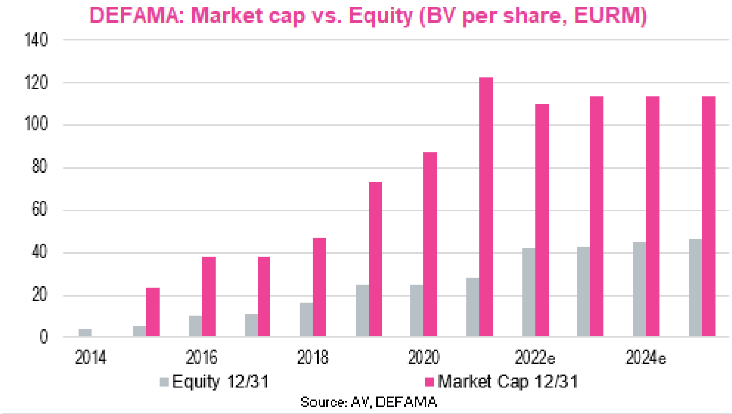
Should DEFAMA continue to buy assets yielding c.9.5% (AV assumption) this would generate further positive revaluations due to yield compression or at least act as a cushion should yield decompression one day become severe. We cautiously apply a 5% revaluation on the new buildings acquired (i.e a marginal gross Cap Rate of 9%).

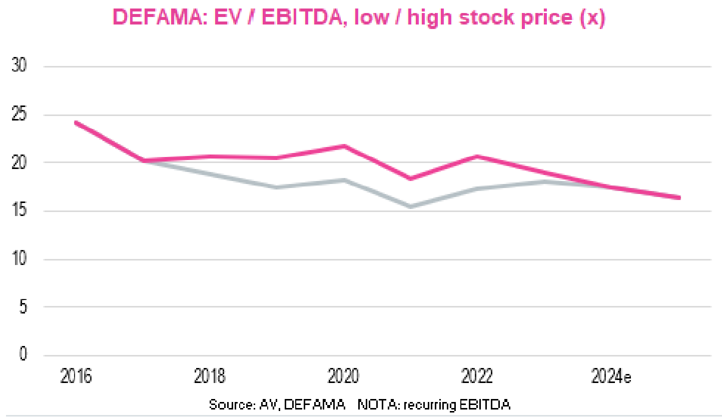




The yield itself is a strong stabiliser of the balance sheet. We share the company's opinion that secondary locations (please see acquisition price per sqm in our Money Making section) are less exposed to yield decompression than trophy assets yielding less than 2.5% (offices CBD, German Residential etc.). The latter nonetheless experienced their first negative revaluations in H2 22. To date we don't yet have any examples of significant yield decompression on high yield plays.

DEFAMA has planned acquisitions amounting to €60-90m in 2023-25 and we expect the figure to stand towards the low end of this range. We don't rule out the possibility of much higher targets later in the decade. Reaching €0.5-1.0bn of AuM (AV assumption) "quickly" would require further capital increases, in our view, coupled with stable affordable long-term interest rates. At pixel time, we can't estimate whether dilution vs. our target price will occur as the latter will rely on both DEFAMA's future share price and the company's development speed (management decision). We could discuss the difference between DEFAMA's cost of capital and ROE forever but, as long as liquidity remains affordable and widely available, we believe that these capital increases should create value for the initial shareholders.

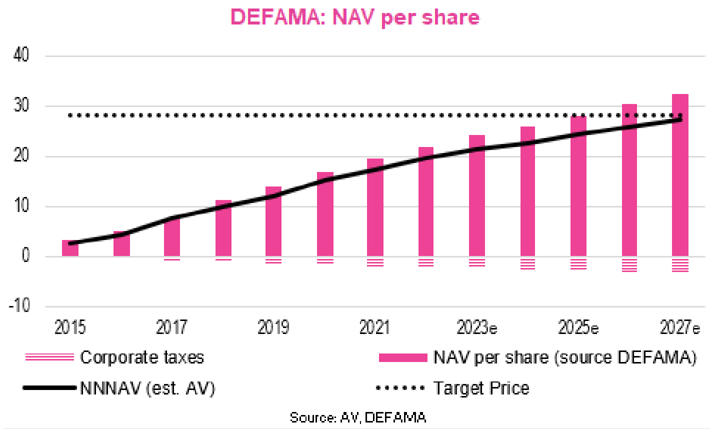




Following the company's inception, the ratios have normalised progressively. On an EV/recurring NOPAT, DEFAMA looks more expensive than many of the listed Property companies that we cover. This is the counterpart of building a portfolio very rapidly and the price to pay for such an offensive strategy. In a nutshell, DEFAMA is trading at a premium vs. NAV whereas all of the other Property companies we cover trade at significant discounts. Since the growth of the portfolio is now considered to be linear by the DEFAMA management (i.e. c.€20-30m p.a.), this will interrupt the exponential growth pace experienced in 2015-2022. Growth is a key material cushion for balancing the impact of external shocks. A linear pace could drive convergence between the share price and the NAV in the long-run.

NAV: justifying a premium

The NAV target gives an instant picture of material net value. As DEFAMA pays corporate taxes, latent taxes have to be deducted from the GAV on top of the net debt obviously. To some extent, and without discounting such a future cash item, we share the company's opinion that deferred taxes are only a future, distant but sure cash out.



In the absence of goodwill there are no other significant restatements of the balance sheet (non-cash financing tools adjustments, etc.). Working capital being considered as negligible it doesn't move the needle of the GAV/NAV. Based on DEFAMA's standards, NAV was €19.6 per share in December 2021 and €17.3 per unit according to our restated standards. Our target price matches the NAV based on DEFAMA's standard in 2025 (not restated for dividends received) and with our own standard in 2027 (idem): our target price anticipates a couple of years of value creation due to the company's portfolio growth pace. At pixel time, the shares are trading above the 2024 level. The DEFAMA share price has traded at a high premium to NAV since its listing in 2017, justified by: i/ the top-line growth; ii/ the leveraging strategy and iii/ the high yield strategy (NOPAT vs. EV) providing shareholders with incremental profitability.

At pixel time, we apply a premium to DEFAMA's latest NAV due to the growth in the consolidated portfolio that is expected for 2023-25. Were the unwinding of monetary policies and rising long-term interest rates be revealed to be more painful than expected, or should the company fail to execute its acquisition road-map, we may need to apply a discount and sharply downgrade our estimates, target price and recommendation overnight. Symmetrically, should the ECB's policy be reversed positively any time soon, we may have to anticipate a restart to value creation (re-accelerating growth and lower financial expenses), leading us to revise our target price upwards.

Sensitiveness to external parameters

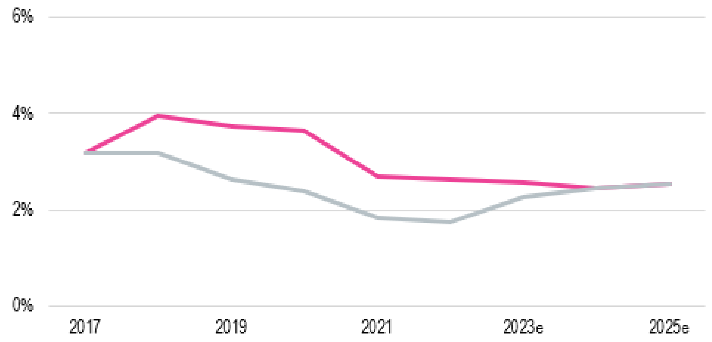
DEFAMA doesn't provide numerous sensitivity tables. We nevertheless assume that a 100bp yield decompression would cut its book value by c.13% and its NAV by c.30% due its own leverage ratio (LTV nearing 60%). The growing FFO should play the role of a cushion until rising interest rates percolate into the financial expenses. We consider that by pausing its growth and passing on its dividend, DEFAMA could resist "a" crisis. Its balance sheet profile wouldn't protect shareholders from a strong adjustment anyway (collapsing NAV coupled with a long dividend holiday) if interest remain high (or even higher) for "a long time" (using central banks' storytelling).

Dividends as a stabiliser

As a non-REIT company, DEFAMA is free to manage its dividend policy. This looks like a competitive advantage to the potential detriment of the share price. With its FFO having been positive since the inception, the dividends paid in 2016-23 came from free cash flow generation. In other words, P&L was sufficient to support debt repayment and shareholder remuneration. The hard cash raised through capital increases was use to develop the portfolio and asset sales (capital gains) were not required to pay dividends.

The growing FFO will make the dividend more sustainable provided that the latter doesn't absorb more than 20-25%. On this, DEFAMA provides no guidance concerning the long-term pay-out ratio. As a reminder, dividends will absorb 29% of FFO 2022 compared with 35-47% in 2015-19. We share the opinion that a low pay-out ratio is coherent with a LTV ratio of c.60%.

DEFAMA: Dividend Yield (low / high stock price)



Source: AV, DEFAMA

REITs can't stop paying dividends for long, even if it is possible for short periods. DEFAMA is however free to do this, at the cost of paying corporate taxes. Should the full FFO be capitalised (full dividend holiday, unchanged rents, vacancy and book values, portfolio standalone, no growth), this would save 300-350bp of LTV p.a. This is tantamount to saving that a full dividend holiday would lead to a substantial and rapid deleveraging. We see this as a major component of an attractive risk reward profile.

As far as the FY 23-25 horizon is concerned, we are betting on a dividend offering a yield of 2-3%. With the bulk of the FFO being capitalised, this generates a total cash shareholder return (TSR) of 7.5-8.5% p.a. before accounting for positive/negative revaluations. This return is compatible with the long-term performance of stock markets (6.6% applied to blue chips, above annual inflation, according to J. Siegel research) on the one hand, and isn't that far from DEFAMA's cost of equity, in our view.

Arbitrages vs. peers

Unlike for REITs, corporate tax is a cash issue for DEFAMA and should lead to a discount vs. the peers when considering the cash-flow-based valuation (EV/EBITDA for peers vs. EV/NOPAT for DEFAMA). Nevertheless, we believe that the company's acquisition pace could more than offset this disadvantage. This premium vs. peers would unwind should the acquisition pace slow in the future.

At some point, this premium should cap the share price performance as most liquid peers could offer alternative plays for shareholders. Why buy DEFAMA at a premium when one could buy Unibail at a 50% discount (should its business model stabilise…) or Treasury Bonds paying above 4%? The biggest strength of DEFAMA's business model is therefore its ability to keep its vacancy ratio low and, at the same time, push its size up: growth makes the difference.

DEFAMA: for sale?

With DEFAMA addressing a buyers' market, the liquidity of each of its local assets taken one by one is probably low overall at pixel time. Such illiquid assets are a specific risk, should another crisis occur. One could assume that all these buildings put together might have a higher value than the SOTP due to the so-called "portfolio effect" that is dear to the usual financial theory. Note however that DEFAMA was able to dispose of three individual units in 2021 and 2022, at well above the latest appraisal values.

We are not aware of a potential exit strategy for Mr Schrade, Founder and CEO, who owns a 26% stake in DEFAMA. With investors hunting for high "secured" yield plays (local retail) in the coming years, selling the company could lead to a transaction at a significant premium vs. current share price. In a nutshell, should a buyer accept a 6.5% gross yield this would push the NAV per share up by 30-40% net of corporate taxes, all other parameters being constant (vacancy, rents, interest rates, corporate taxes). Admittedly such a scenario would be directly linked to end-market interest rates.

This exit parameter is key to DEFAMA's investment proposition as the liquidity of the shares is low. Our opinion is that a full disposal is likely to anticipate a reversal of monetary policy beyond the one in 2023-25. Consequently, we don't expect a transaction at a majority price to be likely or even possible before 2026. DEFAMA's small cap status should remain for some time.

Note that a large buyer could optimise the cost of debt and free up the full potential free cash flow depending on the spread between the gross yield vs. long-term interest rates. For this, interest rates would have to be low.

Even were the portfolio to be increased to €0.5bn, the market cap would not surpass the €300m mark in the coming half-decade (ex-additional capital increases), with a low traded liquidity. the best timing to achieve a majority price would be when interest rates are again low and applied to inflation-linked rents. Which presumably means awaiting the next cycle.

Valuation Summary

Benchmarks		Values (€)	Upside	Weight
NAV/SOTP per share		29.6	26%	55%
Dividend Yield	*Peers*	23.4	0%	20%
DCF		27.2	16%	10%
PE based		n/a	0%	10%
P/book based		n/a	0%	5%
Target Price		**27.8**	**16%**	

Calculate your Target Price
Edit and modify weightings
to match your valuation principles

Comparison based valuation

Computed on 18 month forecasts	P/E (x)	P/Book (x)	Yield(%)
Peers ratios	n/a	n/a	n/a
DEFAMA's ratios	26.0	2.56	2.42
Premium	0.00%	0.00%	50.0%
Default comparison based valuation (€)	**n/a**	**n/a**	**23.4**

DCF Valuation Per Share

WACC	%	6.41
PV of cashflow FY1-FY11	€M	87.2
FY11CF	€M	17.0
Normalised long-term growth"g"	%	2.00
Sustainability "g"	%	2.20
Terminal value	€M	403
PV terminal value	€M	217
PV terminal value in % of total value	*%*	*71.3*
Total PV	€M	304

Avg net debt (cash) at book value	€M	174
Provisions	€M	0.00
Unrecognised actuarial losses (gains)	€M	0.00
Financial assets at market price	€M	0.00
Minorities interests (fair value)	€M	0.00
Equity value	€M	130
Number of shares	Mio	4.80
Implied equity value per share	**€**	**27.2**
Sustainability impact on DCF	%	8.16

Assessing The Cost Of Capital

Synthetic default risk free rate	%	3.50
Target equity risk premium	%	5.00
Tax advantage of debt finance (normalised)	%	25.0
Average debt maturity	Year	5
Sector asset beta	x	0.70 (1)
Debt beta	x	0.20
Market capitalisation	€M	112
Net debt (cash) at book value	€M	165
Net debt (cash) at market value	€M	164

Company debt spread	bp	100 (2)
Marginal Company cost of debt	%	4.50
Company beta (leveraged)	**x**	**1.46**
Company gearing at market value	%	147
Company market gearing	%	59.6
Required return on geared equity	**%**	**10.8**
Cost of debt	%	3.38
Cost of ungeared equity	**%**	**7.00**
WACC	%	6.41

1. Due to company's small cap status, the beta is higher than that of the sector
2. 4.5% marginal cost of debt looks in line with early 2023 end-market practices.

DCF Calculation

		12/22A	12/23E	12/24E	12/25E	Growth	12/26E	12/33E
Sales	€M	20.3	24.7	27.5	30.0	**4.00%**	31.2	41.1
EBITDA	€M	12.2	14.9	16.8	18.5	**4.50%**	19.3	26.3
EBITDA Margin	*%*	*60.2*	*60.1*	*61.3*	*61.5*		*61.8*	*63.9*
Change in WCR	€M	0.00	0.00	0.00	0.00	**0.00%**	0.00	0.00
Total operating cash flows (pre tax)	€M	12.7	18.9	16.8	18.5		19.3	26.3
Corporate tax	€M	-1.05	-0.79	-0.89	-0.99	**0.00%**	-0.99	-0.99
Net tax shield	**€M**	**-0.73**	**-0.94**	**-1.10**	**-1.20**	**0.00%**	**-1.20**	**-1.20**
Capital expenditure	€M	-48.2	-25.0	-25.0	-20.0	**2.00%**	-20.4	-23.4
Capex/Sales	*%*	*-237*	*-101*	*-91.0*	*-66.6*		*-65.3*	*-57.0*
Pre financing costs FCF (for DCF purposes)	€M	-37.2	-7.86	-10.2	-3.73		-3.29	0.64
Various add backs (incl. R&D, etc.) for DCF purposes	€M		17.8	21.2	15.8		16.0	16.0
Free cash flow adjusted	**€M**	**-37.2**	**9.89**	**11.0**	**12.1**		**12.7**	**16.6**
Discounted free cash flows	**€M**	**-37.2**	**9.89**	**10.4**	**10.7**		**10.6**	**8.94**
Invested capital	€	194	209	227	239		260	399

DEFAMA (Add)

NAV/SOTP fine tuning

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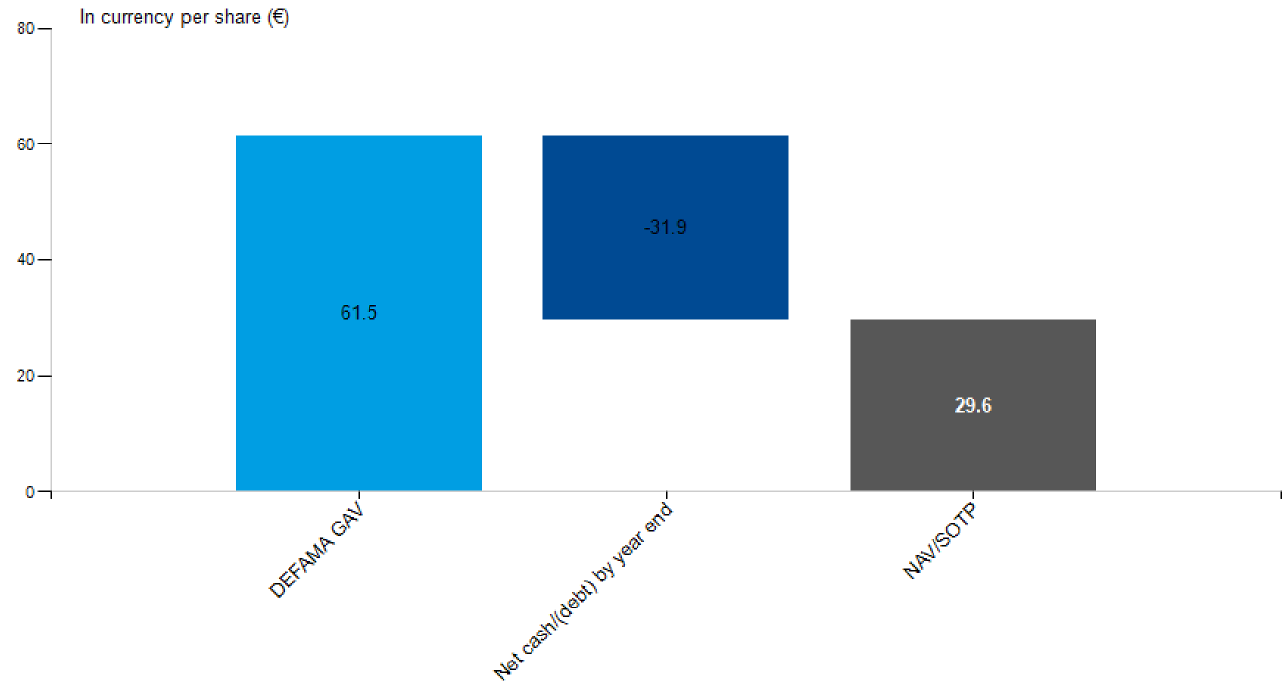
NAV/SOTP Calculation

	% owned	Valuation technique	Multiple used	Valuation at 100% (€M)	Stake valuation (€M)	In currency per share (€)	% of gross assets
DEFAMA GAV	100%	GAV		295	295	61.5	100%
Other							
Total gross assets					**295**	**61.5**	**100%**
Net cash/(debt) by year end					-153	-31.9	-51.9%
Commitments to pay							
Commitments received							
NAV/SOTP					142	29.6	48.1%
Number of shares net of treasury shares - year end (Mio)					**4.80**		
NAV/SOTP per share (€)					**29.6**		
Current discount to NAV/SOTP (%)					**20.9**		

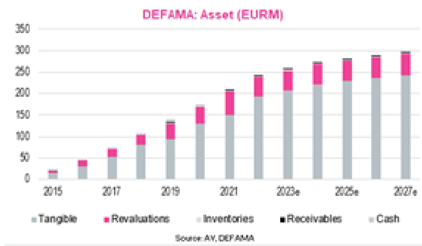


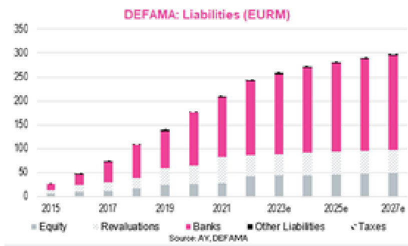
Debt

Equity and capital increases

The business model relies on acquiring cheap buildings yielding a gross 8-11% per annum. The latter have enabled DEFAMA to fund its €257m portfolio (market value, December 2022) through debt. The group has raised c.€28m as hard cash equity since its inception on top of €29m of gross cash flow net of dividends paid. As a proportion of €207m of gross tangible assets, self-financing contributed to 27% (half/half in cash flow and capital increases). It paid €10m of dividends at the same time thus repaying a third of the full hard cash-in.

Thanks to active regular asset-by-asset re-leveraging asset, via cash extraction the company should be able to fund the equity portion of the new buildings to be acquired as of 2023 without having to raise fresh cash (company projection).

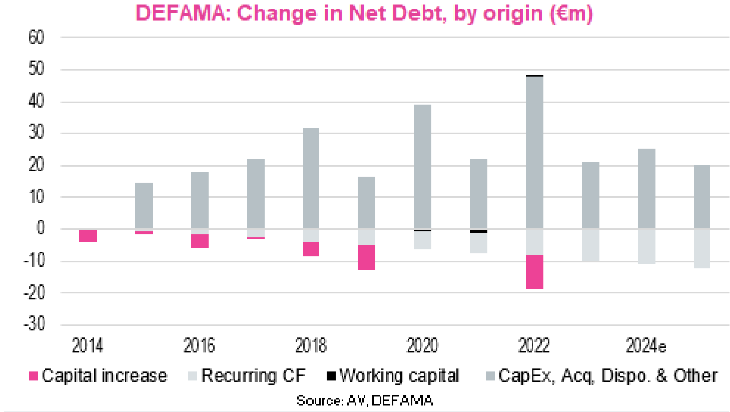




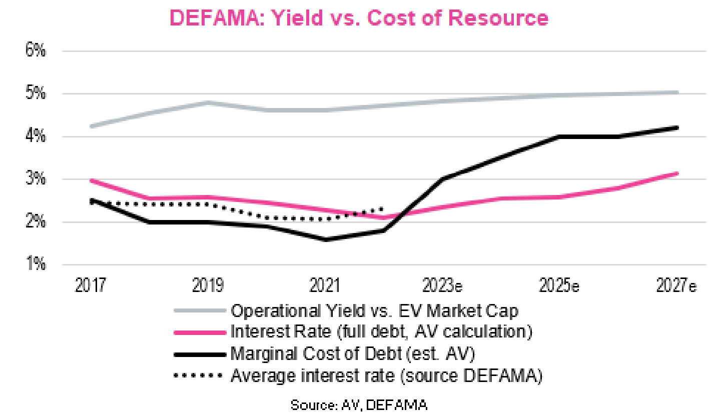
In 2022, DEFAMA raised €10m of equity at a price of €27 per share. This was significantly accretive for the NAV per share (€19.6 in December 2021, DEFAMA's standard). It was a similar story in 2019 when DEFAMA raised €8m at a price of €15 per share (NAV of €11 in December 2018, DEFAMA's standard). The company is targeting a €0.35bn portfolio over the medium-term (2025 guidance) without having to accelerate the asset rotation substantially even if DEFAMA will consider profitable options of selling assets if the prices offered are high enough. In our view DEFAMA has adopted a strategy of "steady non-aggressive" growth what should enable it to recycle its cash flow to the detriment of excessive growth. We are fine with this strategy in that it reduces the risk of significant dilution. We are a fan of marathons as opposed to successive 100m sprints.

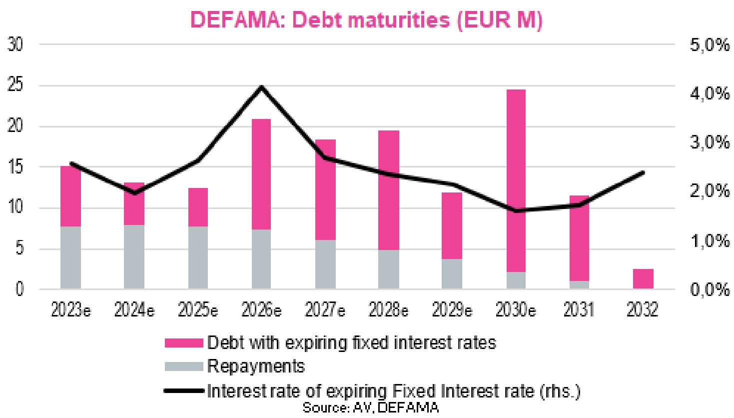
LTV and loans

The LTV was 59% in December 2022 (c.62% excluding deferred tax), which is high compared with the traditional REITs we cover (30-45% usually). This LTV ratio was applied to conservative values (low "V") according to the company. This high leverage was made possible thanks to the support from local banks (100% of DEFAMA's gross debt in December 2022), each lending low amounts. In the absence of bonds, schuldschein or promissory notes, DEFAMA has no fear of a debt wall: it "only" need manage a couple of bilateral loans.



Having financed its development through the best phase of the monetary cycle in 2015-21, the average cost of debt is low: 2.32% in FY 22. We anticipate that the marginal cost of debt applied to both re-financing rounds and acquisitions will increase the average cost of debt to above 3.0% in 2025-26. The question is still the curve of global interest rates: should ECB not adopt this hawkish behaviour for long, the average interest rate paid could be contained at below 3.5% in 2026-27.





Assuming €20-30m of acquisitions p.a., we don't expect the LTV ratio to cross the 65% threshold in 2023-25. The only parameter we are unable to monitor is the "improvement capex" dedicated to preserving the appeal of the retail park. We are not aware of a pluri-annual programme for CapEx.

Due to the first tensions in the real estate market in end-2022, we will add the contribution of opportunistic disposals as each announcement is made without forecasting any contribution from virtual capital gains. Whatever the level of disposals, we are betting on a LTV ratio capped at 65% in the coming years: FFO remaining capitalized at c.€7-9m p.a. would cap incremental leverage at around 60-75% should €20-30m of acquisitions be achieved every year. This shouldn't move the needle on the consolidated LTV ratio that much as long as appraisals are considered to be robust.

As far as liquidity is concerned, in our view the company's debt structure is strong enough to contend with the risk of lower liquidity from end-markets: by adjusting the acquisition roadmap, the €7-9m of residual free cash flow would almost support the re-financing rounds required in 2024-26 in full. Our concern would rather be defaults from other players generating a negative reaction from lenders: the first defaults are now being seen in commercial real estate (see Scandinavia/Blackstone and Offices in the US). At pixel time, DEFAMA's balance sheet looks sufficiently resilient to convince lenders: stopping development and implementing a dividend holiday would lead to a reduction in the consolidated LTV ratio to below the risk-free 50% mark (at constant appraisals). The only misses: i/ a couple of unproductive millions of cash in hand (c.€1.5m in December 2021, 2022 to be confirmed with the Annual Report) ; ii/ OR something like a 6-7 year credit line of €10m to further consolidate DEFAMA's forward credibility; iii/ OR the equivalent in unencumbered assets.

Overall then, DEFAMA's financial strategy looks safe: we don't detect a significant cash-cliff in the near future. In 2026-28 the Group will have to deal with €12-15m p.a. of loans leaving the comfortable basis of fixed interest rates. We consider the intervening three year-period to be sufficient to manage this issue. On the other hand, we don't identify any significant reservoir of potential cash savings on the current financial expenses as the cost of resource can be considered to be optimal.

The advantage of asset rotation

Through capital gains, asset rotation could provide the company with a portion of equity required to develop the GAV and thus reduce incremental leverage. In the past few years, selling assets hasn't been that key to the company's development process. We still believe that DEFAMA will examinate the options but are nonetheless convinced that the management is focusing on internal resources rather than betting on huge disposals to fuel its deployment. In our view it is sensible that the management isn't focusing on the size of the portfolio alone. While EPSs enjoy a leveraged balance sheet from a short-term perspective, the risk level tends not to over the long term. From the risk side, we consider that the DEFAMA management has adopted a clever strategy by favouring the recycling of cash flow rather than growing too fast.

As mentioned above, asset rotation is expected to depend on the ability of buyers to finance acquisitions profitably (interest rate vs. yield) or to rely on the speculative appeal of bricks as an inflation-firewall. The latter would require high and persistent inflation, which would lead central banks to increase interest rates further.

How to use FFO

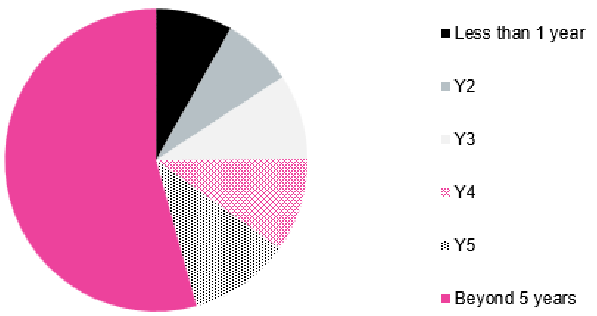
The dividend pay-out ratio has steadily fallen to 29% in 2022 (to be paid in 2023). This is reasonable from a risk management perspective as it increases the proportion of FFO dedicated to both growth and deleveraging. We much prefer this to companies distributing almost all of their FFO or the full fruits of capital increases, *a la* Ponzi.

Should DEFAMA's dividend increase to €0.02 p.a. (AV estimate), the pay-out ratio would be lower than 25% of FFO in 2025-26 which could be considered as a tipping point preceding an acceleration in dividend payments beyond this horizon. The "low" dividend yield of c.2.5% offers the counterparty of a steady improvement in the company's risk level. As from 2030, we consider that deleveraging will be sufficient to accelerate both the growth of the portfolio and dividend payments: the latest risky phase will be behind us. DEFAMA's story would therefore be consistent with best practices: i/ rapid growth in 2014-22 ; ii/ managing the risk level in 2023-27 before iii/ resuming top-line growth and unleashing shareholder return by leveraging a sound balance sheet.

Debt roll

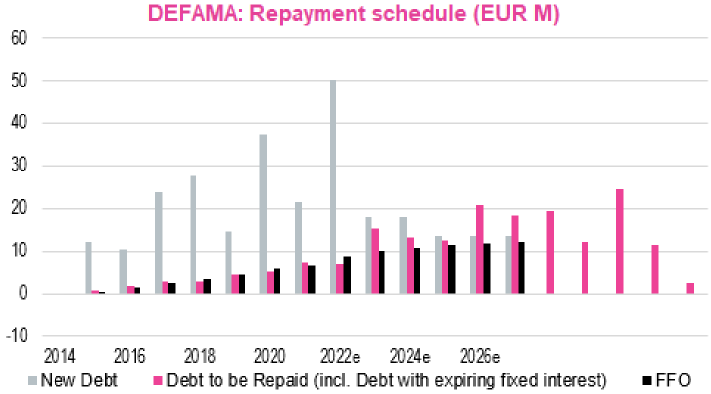
The debt structure is based on 100% of annuity loans, usually with fixed interest rates for maturities of ten years at the beginning. Globally, DEFAMA will need to contend with the risk of rising interest rates. Should the bulk of the annuity loans maturing in 2026-28 (€40m accrued) coincide with high interest rates, this would embark a high average interest rate over a long period and weigh on the FFO.

DEFAMA: Gross Debt structure, timetable (2021)



Source: AV, DEFAMA NOTA : assuming bullet debt is refinanced progressively

DEFAMA: Repayment schedule (EUR M)



Source: AV, DEFAMA NOTA : 2021 includes the full extra repayment of debt dedicated to the disposed Bleicherode

We believe that DEFAMA has enough time to manage these issues. Should interest rates stand well above their current levels, DEFAMA will however have to work on capital allocation vs. its own cost of equity. The target yields on future acquisitions will reveal which is the more profitable course – avoiding costly debt or developing the portfolio further.

Detailed financials at the end of this report

Funding - Liquidity

		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	12.2	14.9	16.8	18.5
Funds from operations (FFO)	€M	8.78	14.3	11.5	12.7
Ordinary shareholders' equity	**€M**	**41.6**	**43.1**	**45.1**	**47.6**
Gross debt	€M	154	167	183	193
+ Gross Cash	€M	1.52	1.52	1.52	1.52
= Net debt / (cash)	**€M**	**152**	**165**	**182**	**192**
Gearing (at book value)	%	331	368	384	392
Equity/Total asset (%)	%	21.5	20.7	19.9	19.9
Adj. Net debt/EBITDA(R)	*x*	*12.4*	*11.1*	*10.8*	*10.4*
Adjusted Gross Debt/EBITDA(R)	*x*	*12.6*	*11.2*	*10.9*	*10.5*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*78.7*	*79.5*	*80.2*	*80.2*
Ebit cover	*x*	*2.46*	*2.31*	*2.27*	*2.29*
FFO/Gross Debt	*%*	*5.71*	*8.58*	*6.31*	*6.56*
FFO/Net debt	*%*	*5.77*	*8.66*	*6.36*	*6.61*
FCF/Adj. gross debt (%)	*%*	*-25.6*	*-6.39*	*-7.35*	*-3.79*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*-2.49*	*-0.69*	*-0.95*	*-0.28*
"Cash" FCF/ST debt	*x*	*-2.59*	*-0.81*	*-1.08*	*-0.35*

Worth Knowing

The pandemic

Since the majority of DEFAMA's tenants are local grocers, the latter haven't been hit too much in Germany. Unlike large shopping malls, local players have experienced only eroding occupancy rates and limited rent abatements. DEFAMA hasn't experienced a rise in vacancy. In a nutshell, this confirms the difference between a Mercialys and a Unibail Rodamco Westfield in France: small (and local) is beautiful. At a much larger scale, it is noticeable that Retail Parks outperformed larger shopping malls in 2020-22: there was considerable interest from buyers for these defensive formats. This is where DEFAMA is positioned.

Segment information and reporting

The company doesn't provide the market with a detailed segmental breakdown. The full focus on German retail business is nevertheless synonymous of transparency as the P&L and BS look understandable. We would welcome some additional information about the GAV (with and ex-duties)/NAV (net of corporate taxes, EPRA NTA & NDV), on top of the annual/accrued revaluations to back up the appraiser information.

Other traditional indicators disclosed by much larger peers are absent from DEFAMA's current communication: like-for-like top-line (breakdown into indexation, change in voids, etc.), reversion and analysis of renewals (rent-roll, etc.), net rents and full tenants' payment vs. retailer's local revenue (Occupancy Cost Ratio, including charged back to tenants and rents and charges vs. tenant's local EBITDAR, data supporting appraisals (capitalisation rate, mid-term growth rate in rents on top of inflation assumptions, NIY, topped-up Yields etc.).

By improving transparency, DEFAMA could improve further its risk reward profile, in our view, in both absolute (lenders, shareholders) and relative terms (vs. peers). This could prove to be a major advantage should a major external shock occur. ESG parameters since the company's inception are another field requiring improvement to address the pool of green investors: indicators about the percentage of rooftops in the sqm equipped with solar panels, percentage of shops equipped with efficient heating/air conditioning systems, percentage of retail parks welcoming electric vehicles etc.).

DEFAMA doesn't plan to make its P&L available under EPRA/IFRS accounting standards. We are fine with the traditional presentation of the consolidated accounts even if EPRA metrics would provide some elements of additional information.

We are not aware of the portion of unencumbered assets to date, available to service further re-leveraging.

Valuers

Winters & Hirsch isn't amongst the top-ranked worldwide valuers. As a German specialist in commercial real estate, it has been active since 1990 and has carried out more than 1,000 valuations for real estate worth above €20bn. We consider Winters & Hirsch to be independent from DEFAMA and thus don't identify any conflicts of interest. The Annual Report discloses individual data by building (value, ground, GLA) but a couple of traditional parameters are absent (see *Segment information and reporting* section above).

We are not aware of any plans for DEFAMA to hire a top-ranked worldwide valuer in the near future.

Listing segment

DEFAMA is listed for trading on the unregulated segment of the German stock market. We are not aware of any immediate plans to transfer the share to the regulated market.

REIT status and taxes

DEFAMA doesn't benefit from REIT status so it is free to manage its dividend policy (pay-out ratio) without the usual Property company constraints (a 65-90% "compulsory" pay-out ratio). It must pay the usual corporate tax of c.16% (AV estimate) applied to the reported pre-tax profit net of asset depreciation. Corporate taxes are applied to both the rental business' running profit (pre-tax FFO net of financial expenses) and capital gains from disposals (acquisition price less accrued depreciation).

Different to REITs, corporate taxes are therefore cash issues. By managing its dividend policy, DEFAMA is able to save money or cap dividends so as to be able to grow the portfolio or manage debt issues if required. The buy-and-hold strategy means that cash taxes should be roughly stable (slightly growing) in the out-years. Excluding the size of DEFAMA vs. its peers, this taxation should lead to a discount for the flow-derived valuations (EV/EBITDA). From a NAV point of view, latent taxation resulting from the annual non-cash revaluations is deducted from the GAV. DEFAMA's NAV per share (company's standard) therefore needs to be restated.

ESG

DEFAMA still manages solar roofs and is aiming to further improve both its reporting and green exposure in the near future. Our due diligence notes some of the underlying efforts and these are included in our scoring method.

Shareholders

Name	% owned	Of which % voting rights	Of which % free to float
SCHRADE Matthias	26.0%	26.0%	0.00%
Apparent free float			**74.0%**

Sustainability

Sustainability of the activity

By extension, the development model can be considered sustainable as DEFAMA's target is to manage existing buildings, without having to repay for initial carbon expense. In run rate, the buildings consume very little in the way of incremental resources.

DEFAMA has the opportunity to promote sustainable consumption by addressing local needs and proximity (limitation of carbon emissions). From a social perspective, on a larger scale, DEFAMA's units are positioned in German rural territories thus bringing special daily social functions to inhabitants. We therefore apply a 20% premium as the analyst joker's view.

DEFAMA reporting

As DEFAMA is a young company, it does not publish an environmental report.

Sustainability score

Sustainability is made of analytical items contributing to the E, the S and the G, that can be highlighted as sustainability precursors and can be combined in an intellectually acceptable way. This is the only scale made available

	Score	Weight
Governance		
Independent directors rate	**3/10**	25%
Board geographic diversity	**0/10**	20%
Chairman vs. Executive split	✔	5%
Environment		
CO^2 Emission	**1/10**	25%
Water withdrawal	**3/10**	10%
Social		
Wage dispersion trend	**9/10**	5%
Job satisfaction	**0/10**	5%
Internal communication	**0/10**	5%
Analyst's Joker View	20%	
Sustainability score	**2.8/10**	100%

Governance & Management

Mr Schrade owns 26% of DEFAMA. As CEO he earned €230k on average p.a. in 2018-22 on top of a share of dividends amounting to €700k in 2022 (to be paid in 2023). We appreciate Mr Schrade's decision not to maximise dividend payments to the detriment of the company's balance sheet. We therefore consider governance decisions to be aligned with the converging interests of the Founder/Executive/shareholder and other shareholders. If our calculations are correct, Mr Schrade sold some shares in 2017 (IPO, expected cash-in of c. €3m) but his stake has remained stable since then in terms of the number of shares. Following the capital increases, his stake was diluted from 33% in 2018 to the current 26% mark. Mr Schrade's accrued cash-in was therefore c. €8m in 2017-23 pre-tax.

The company does not disclose the structure of the 72% free float. We are therefore unable to identify any potential blocking minorities nor the likelihood of some shareholders pushing for a full disposal of the company. Whatever the potential capital increases beyond 2025 may be, we expect a major change to the shareholding equilibrium.

Due to the small size of the company, and the limited number of Supervisory Board members (three people), the governance structure is not conducive to committees (i.e. remuneration, nomination, audit, SRI) and the company does not plan creating any in the near future. With the exception of Mrs Hager who joined the Supervisory Board in 2022, we don't consider the other two members to be independent owing to the length of their tenure since their appointment (2014). Therefore, one of the three Supervisory Board members is independent.

Governance score

Company (Sector)	Independent board
7.3 (6.8)	No

Parameters	Company	Sector	Score	Weight
Number of board members	3	7	10/10	5.0%
Board feminization (%)	33	28	6/10	5.0%
Board domestic density (%)	100	78	0/10	5.0%
Average age of board's members	58	59	6/10	5.0%
Type of company : Small cap, not controlled			10/10	25.0%
Independent directors rate	33	48	3/10	20.0%
One share, one vote			✓	5.0%
Chairman vs. Executive split			✓	5.0%
Chairman not ex executive			✓	5.0%
Full disclosure on mgt pay			✓	5.0%
Disclosure of performance anchor for bonus trigger			✓	5.0%
Compensation committee reporting to board of directors			✗	5.0%
Straightforward, clean by-laws			✓	5.0%
Governance score			**7.3/10**	**100.0%**

DEFAMA (Add)

Management

Name		Function	Birth date	Date in	Date out	Compensation, in k€ (year) Cash	Equity linked
Matthias SCHRADE	M	CEO	1979	2014		(2022)	(2016)
Matthias STICH	M	COO	1969	2021		(2022)	

Board of Directors

Name		Indep.	Function	Completion of current mandate	Birth date	Date in	Date out	Fees / indemnity, in k€ (year)	Value of holding, in k€ (year)
Henrik VON LUKOWICZ	M	✗	President/Chairman of th...	2025	1971	2014		(2022)	(2022)
Christine HAGER	F	✓	Deputy Chairman	2025	1972	2022		(2022)	(2022)
Ulrich RÜCKER	M	✗	Member	2025	1950	2014		(2022)	(2022)

Environment

Direct impact

As a Property business, the bulk of the direct impact took place when the buildings were erected (1975 to 2022). The impact on the environment concerning scope 1 & scope 2 is thus limited to the operation of the tenant's daily businesses (heating, air conditioning, light). We do not consider the environmental costs associated with the Property business to be part of DEFAMA's scopes 1&2. As a simple intermediary between the consumer and the retailer, the responsibility for scope 3 lies with the first two.

DEFAMA aims to connect its tenants to green energy sources. It has made specific efforts on this in the past few years and almost 100% of tenants (when materially possible) should soon be provided with green electricity. DEFAMA also produces green energy through solar panels on roofs. This revenue on top of car charging stations accounts for less than 2% of its annualised rental revenue. We are not aware of a massive plan to make buildings greener in the near future. We nevertheless apply a 20% premium as an analyst joker's view to account for the company's efforts.

Indirect impact

The models for optimising the use of infrastructure help to limit the development of under-utilised (cold ground type) or under-performing assets. They are therefore by nature considered to have a positive impact on the environment. Nevertheless, this effect cannot be quantified.

Through prolonging the life of the existing buildings, DEFAMA has the opportunity to highlight and promote low environmental impact models, thus avoiding the construction of new shops.

DEFAMA environmental reporting

Because DEFAMA's business is in its infancy, the company does not publish an environmental report. It does not publish forecasts of emissions of any kind. As a landlord, the production of waste and the consumption of water in scopes 1 and 2 can nevertheless be anticipated as marginal even in the mature phase of the project.

Environmental score

Data sets evaluated as trends on rolling calendar, made sector relative

Parameters	Score	Sector	Weight
CO² Emission	1/10	5/10	30%
Water withdrawal	3/10	5/10	30%
Energy	2/10	5/10	25%
Waste	1/10	5/10	15%
Analyst's Joker View	20%		
Environmental score	**2.2**		**100%**

Company (Sector)

2.2 (4.8)

Environmental metrics

	Company					Sector
	2019	2020	2021	2022	2023	2022
Energy (GJ) per €m in capital employed	n/a	n/a	n/a	n/a		49
					2.2	5.1
Tons waste generated per €m in capital employed	n/a	n/a	n/a	n/a		2

Cubic meter water withdrawal per €m in capital employed	n/a	n/a	n/a	n/a	47

Sector figures

Company	Country	Environment score	Energy (total, in GJ)	CO2 Emissions (in tons)	Water Withdrawal (in m3)	Waste (total, (in tons)
Aroundtown		5/10	1,722,960	37,294	5,856,611	1,602,893
CORESTATE Capital Group		2/10	368,319	30,624	293,987	606
DEMIRE		2/10				
LEG Immobilien		3/10	6,771,827	411,007	5,220,221	31,437
HIAG		5/10	81,092	3,014	83,860	
Peach Property		2/10	295,452	16,815	888,294	8,966
Ina Invest		7/10	15	1	15	
DEFAMA		2/10	n/a		n/a	n/a
Unibail-Rodamco-Westfield		7/10	1,351,069	43,513	6,024,996	95,473
Landsec		6/10	446,230	25,489	559,247	24,245
British Land Co		6/10	492,246	19,487	658,932	74,113
Hammerson		6/10	230,641	17,503	151,053	9,155
Segro		6/10	1,205,000	4,220	333,719	n/a
Klépierre		6/10	1,118,552	17,283	2,261,435	40,677
Covivio		8/10	365,047	4,659	2,188,916	8,225
Icade		6/10	4,567,853	8,421	1,639,423	4,674
Wereldhave		6/10	163,040	2,789	178,414	4,015
PSP Swiss Property		6/10	342,559	9,847	323,887	
Nexity		7/10	46,767	6,549	36,535	n/a
Gecina		8/10	395,524	8,755	930,000	1,245
Swiss Prime Site		6/10	749,419	14,771	593,074	
Allreal Holding		4/10	260,438	9,562		
Mercialys		6/10	167,493	6,208	82,455	5,168
Deutsche Euroshop		5/10	211,903	18,739	327,775	5,479
Inmobiliaria Colonial		7/10	607,917	6,165	288,641	187,147
Deutsche Wohnen		2/10	n/a	275,061	n/a	n/a
DIC Asset		5/10	780,600	295	183,769	575,665
TAG Immobilien		5/10	2,499,127	1,515	856,411	69,888
VIB Vermögen		2/10	17,726	7,057	43,203	121
PATRIZIA SE		2/10		2,883		
Vonovia		8/10	385,916	850,106	67,407	904

Social

Team

DEFAMA built a team of 27 people (equivalent full time, end of 2021) to vertically integrate all the tasks required in day-to-day asset management. To now focus the team on value-added functions (acquisitions, contracts, big maintenance, renewals etc.), the overall administration will henceforth be externalised as of 2023. In March 2023 the process had already been achieved. A couple of employees have left DEFAMA and some have been offered new opportunities within the company providing its professional services to DEFAMA.

Social reporting within DEFAMA

As DEFAMA's activity is in its infancy, the company does not publish a social report. The remuneration policies are not known to date, with the exception of both the supervisory and management boards. We believe that the outsourcing of the administrative tasks involved in buildings management could open the door to transparent Social reporting focused on a more limited number of employees.

Social score

Company (Sector)

6.4 (5.9)

Quantitative metrics (67%)

Set of staff related numerical metrics available in AlphaValue proprietary modelling aimed at ranking on social/HR matters

Parameters	Score	Weight
Staffing Trend	8/10	15%
Average wage trend	10/10	30%
Share of added value taken up by staff cost	5/10	20%
Share of added value taken up by taxes	7/10	15%
Wage dispersion trend	9/10	20%
Pension bonus (0 or 1)	0	
Quantitative score	**8.1/10**	**100%**

Qualitative metrics (33%)

Set of listed qualitative criterias and for the analyst to tick

Parameters	Score	Weight
Accidents at work	0/10	25%
Human resources development	5/10	35%
Pay	7/10	20%
Job satisfaction	0/10	10%
Internal communication	0/10	10%
Qualitative score	**3.2/10**	**100%**

DEFAMA (Add)

AlphaValue analysts tick boxes on essential components of the social/HR corporate life.
Decision about ticking Yes or No is very much an assessment that combines the corporate's communication on relevant issue and the analyst's better judgment from experience.

Qualitative score

Parameters	Yes / No	Weight
Accidents at work		**25%**
Set targets for work safety on all group sites?	No	10.0%
Are accidents at work declining?	No	15.0%
Human resources development		**35%**
Are competences required to meet medium term targets identified?	Yes	3.5%
Is there a medium term (2 to 5 years) recruitment plan?	Yes	3.5%
Is there a training strategy tuned to the company objectives?	No	3.5%
Are employees trained for tomorrow's objectives?	No	3.5%
Can all employees have access to training?	No	3.5%
Has the corporate avoided large restructuring lay-offs over the last year to date?	No	3.5%
Have key competences stayed?	Yes	3.5%
Are managers given managerial objectives?	Yes	3.5%
If yes, are managerial results a deciding factor when assessing compensation level?	Yes	3.5%
Is mobility encouraged between operating units of the group?	No	3.5%
Pay		**20%**
Is there a compensation committee?	No	6.0%
Is employees' performance combining group AND individual performance?	Yes	14.0%
Job satisfaction		**10%**
Is there a measure of job satisfaction?	No	3.3%
Can anyone participate ?	No	3.4%
Are there action plans to prop up employees' morale?	No	3.3%
Internal communication		**10%**
Are strategy and objectives made available to every employee?	No	10.0%
Qualitative score	**3.2/10**	**100.0%**

Staff & Pension matters

Personnel costs for the full year 2021 amounted to €1.9m for the equivalent of 27 people full time. The total amount includes the remuneration of the top managers, on top of the CEO receiving €220k in FY 21. DEFAMA plans to outsource the day-to-day asset management of the buildings it owns. We expect the current payroll to be replaced by more or less similar external expenses.

We don’t expect significant economies of scale as we believe that administration charges become variable as from 50-100 buildings. DEFAMA doesn’t account specific defined pension contributions and it doesn’t fund a full defined pension plan.

We are not aware of any internal employee survey on job satisfaction. Our ESG rating is in line with such a young company having to address ESG items in the future. Our rating is therefore more linked to the company’s recent inception and the absence of reporting rather than the result of a negative policy.

Recent updates

13/03/2023

A pure play in High Yield German Retail

Initiation cov.

DEFAMA focuses on buying German Retail assets from top-notch tenants, yielding c.10% in non-prime locations. It has built a €257m portfolio (GAV, MtoM, December 2022) as from its inception date in 2014 by leveraging acquisitions. The capital gains made in 2021-22 (three disposals) supported appraisal values equivalent to an attractive c.7.8% gross yield. Due to its affordable LTV ratio, DEFAMA is able to pursue an active deployment within a buy-to-hold business model.

Targeting €350m of AuM in 2025

DEAFAMA aims to increase its Asset under Management (AuM, GAV) by 40% by December 2025. To achieve this level, it will leverage its future acquisitions while containing the LTV ratio by using its FFO, net of dividends paid. It thus aims to reach €350m of AuM in 2025, coupled with €28m of annualised net rents and €13m of FFO (€20m and €10m respectively in December 2022). Consequently, it will continue to aggregate assets for around €20-30m p.a.

Our projections foresee accrued acquisitions of €15-25m p.a. Consequently, there is a room to increase our mid-term forecasts (FY 24-25) progressively should DEFAMA reach its targets.

Competitive advantages

One of DEFAMA's competitive advantages is its balance sheet which aims for fixed interest rates on initial ten-year maturities. Loans are provided by local German banks, each lending €4m on average thus reducing the risk of debt market access (bonds, schuldschein, commercial paper etc.). The average maturity of the debt is 5.8 years while the average interest rate is 2.3%. The company will have to pay higher interest rates in 2023-25 to finance the expansion in the existing portfolio but this shouldn't change the P&L big picture that much in the long-run if ECB's "pivot" happens before 2025.

We consider vacancy of c.5% as optimal and don't expect its reduction to contribute significantly to the company's performance. Symmetrically, the bulk of tenants are billion revenue retailers (Toom, ALDI, Rewe, Lidl, Toom) whose businesses rely on day-to-day compulsory grocery shopping so we don't expect occupancy to collapse any time soon. Inflation should leverage FFO significantly in 2024-25 due to CPI-linked contracts. Inflation should provide investors with much higher operational leverage than with traditional, listed and much bigger REITs (see EBITDA margin).

DEFAMA should be considered to be the most active player (in relative terms vs. peers) in investing in the buildings it acquires. Its "value add" strategy is aimed at preserving the attractivity of the assets in the long-run.

We see its low dividend pay-out ratio vs. FFO as another competitive advantage as this preserves balance sheet equilibrium: the risk reward thus looks attractive from a shareholder perspective. The dividend also looks sustainable.

Our conclusion: an attractive risk reward
Unlike large REITs adopting defensive strategies by increasing disposals, DEFAMA (non-REIT status, paying corporate taxation) has embarked on the offensive by occupying the space left empty by the larger players.

Should they remain high for long, long-term interest rates could be perceived to be a threat (financial expenses and yield decompression leading to a exposing the NAV) to such a leveraged business model. However unlike many overleveraged businesses, DEFAMA has time to manage any potential issues.

DEFAMA has built the sound foundations of a long-term story. Further growth in the GAV would therefore avoid the need to apply a discount due to its small cap status even if liquidity in the shares will remain low.

Last but not least, DEFAMA doesn't intend to raise fresh cash to attain its 2025 target, making dilution unlikely in 2023-25. This is attractive when considering the increasing probability of recaps from much larger REITs.

09/03/2023

VALUATION WISE

PROPERTY DREAMS ON

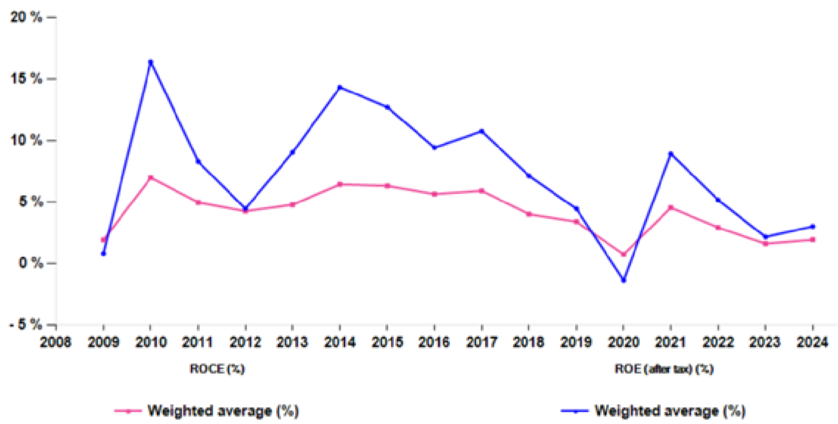
The strong performance for the Property sector post the October 2022 lows has been a lesson in humility. A degree of caution has percolated of late although the performance of stocks in the sector remains detached from the reality of the increasing red flags, such as LEG Immobilien finally passing on its 2022 dividend. We are as much at a loss about the property sector's resilience as we were two months ago.

Property has staged an impressive recovery

We understand that many investors just bought a price when they looked at European equities back in October. But the sector is one of the rare ones that lose on both the asset side and on the liabilities side of the business in the current circumstances. On the asset side, poorer households will find it difficult to service their loans or rents. The same households will not spend so much in commercial centers and help crash the already stretched economics of Mammon's temples. As for offices the fast-widening gap in rents between the best properties located in CBDs and the rest of any biggish city is a sure sign that business models are overdue a refoundation, with or without WHF as a catalyst. On the liabilities side, there is no need to insist on the ongoing mother of all squeezes as rates have trebled in the space of a few months. A Blackstone handing the keys of its Scandi property assets to lenders should speak volumes about the ongoing pressure.

We would add to this developing horror story that the long-term profitability metrics of European listed property were not that healthy in the first place. Negative funding costs helped paper over such weaknesses. This is now exposed. Consider the following chart tracking 26 European property stocks worth a combined €117bn (with €168bn net debt attached) in terms of their ROCE and ROEs.

Every-year-lower financial performance from Property?



From 2010, ROCEs have collapsed from an unconvincing 7% to a subterranean 1.5%. Leverage helps save ROEs only marginally (10% in 2010 and ... 2% in 2023). Economics are such that lenders can only be made good through property asset disposals engaged in a time-honoured game of passing the hot potato before fingers get burned.

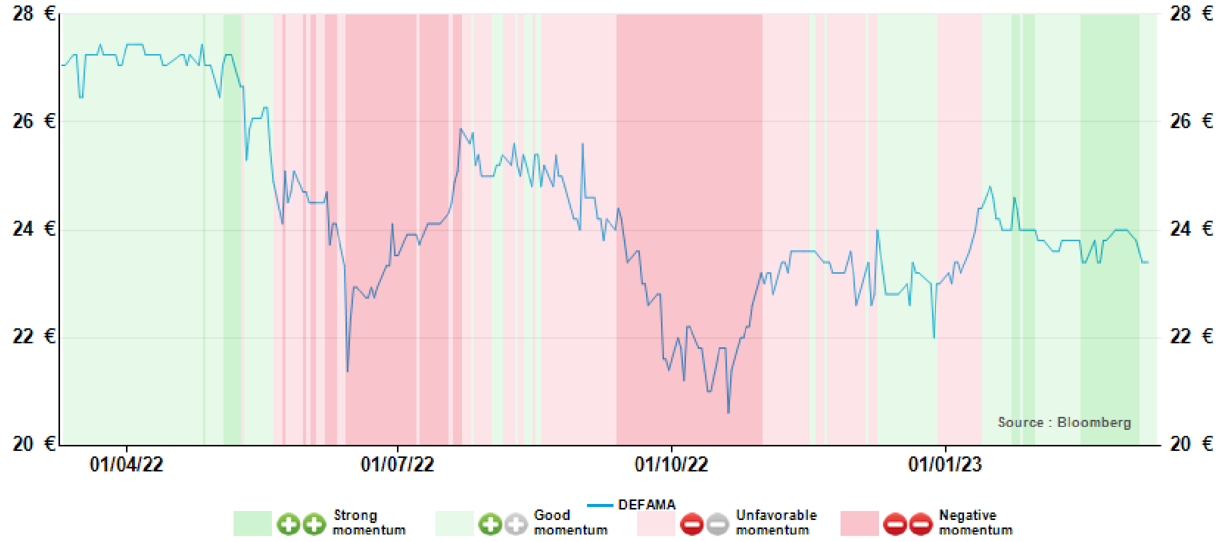
Blackstone's BREIT fund with top-notch US housing assets worth c.€70bn net has become the unwished reference for drying up liquidity. Blackstone's fire power helped rope in $4bn from the University of California (at a future cost to other shareholders) but this is unlikely to last more than 3 months as shareholders in the fund are only concerned by the size of the exit door (BREIT cash flow estimates on request).

There is no reason to hold on to listed property companies. As usual in such circumstances, valuations look comparably attractive (see table) as prices are falling more quickly than the speed at which corporates are adjusting their earnings expectations.

Property sector valuation essentials

	PE		Eps growth		P/Book		Dividend Yield	
	2023	2024	2023	2024	2023	2024	2023	2024
Weighted average	11.7 x	11.6 x	3.66%	1.29%	0.59 x	0.59 x	5.75%	5.83%
Median	12.3 x	12.5 x	2.46%	0.96%	0.61 x	0.62 x	4.97%	5.05%

Momentum



Momentum analysis consists in evaluating the stock market trend of a given financial instrument, based on the analysis of its trading flows.
The main indicators used in our momentum tool are simple moving averages over three time frames: short term (20 trading days), medium term (50 days) and long term (150 days). The positioning of these moving averages relative to each other gives us the direction of the flows over these time frames.
For example, if the short and medium-term moving averages are above the long-term moving average, this suggests an uptrend which will need to be confirmed. Attention is also paid to the latest stock price relative to the three moving averages (advance indicator) as well as to the trend in these three moving averages - downtrend, neutral, uptrend - which is more of a lagging indicator.
The trend indications derived from the flows through moving averages and stock prices must be confirmed against trading volumes in order to confirm the signal. This is provided by a calculation based on the average increase in volumes over ten weeks together with a buy/sell volume ratio.

: Strong momentum corresponding to a continuous and overall positive moving average trend confirmed by volumes

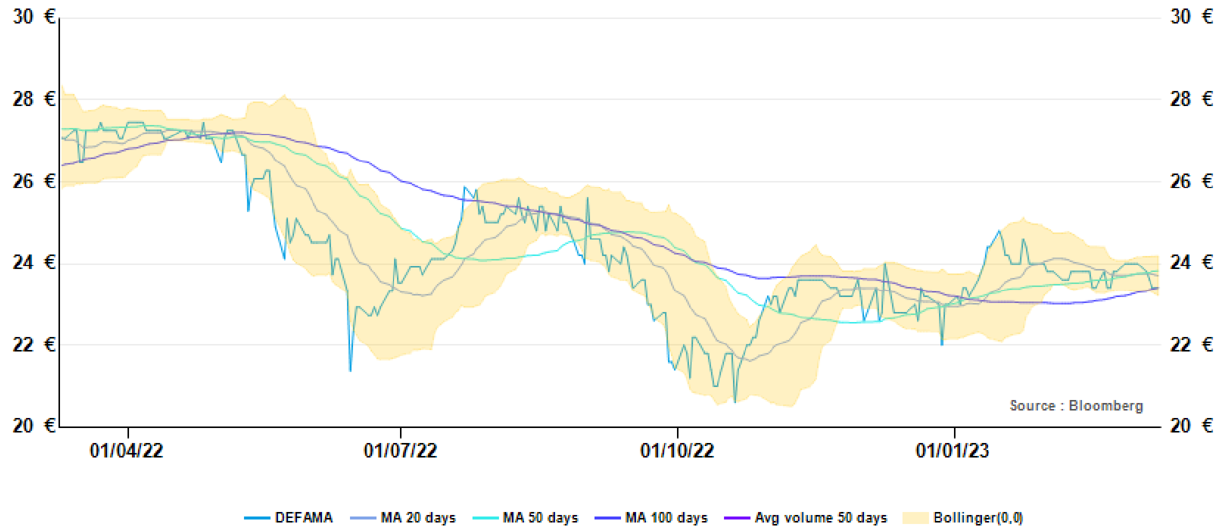
: Relatively good momentum corresponding to a positively-oriented moving average, but offset by an overbought pattern or lack of confirmation from volumes

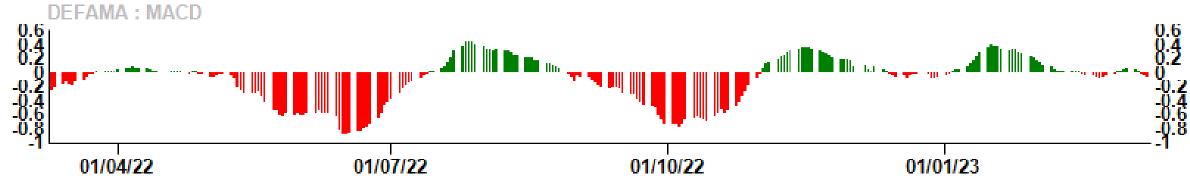
: Relatively unfavorable momentum with a neutral or negative moving average trend, but offset by an oversold pattern or lack of confirmation from volumes

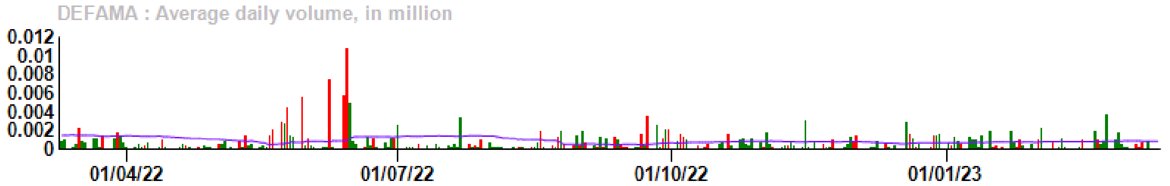
: Strongly negative momentum corresponding to a continuous and overall negative moving average trend confirmed by volumes

DEFAMA (Add)

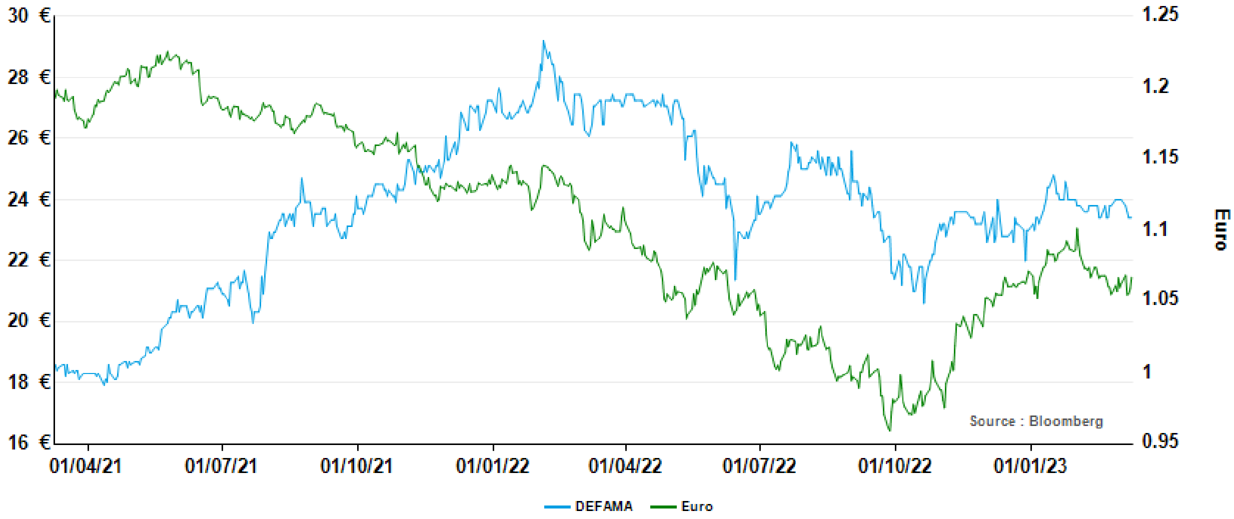
Moving Average MACD & Volume



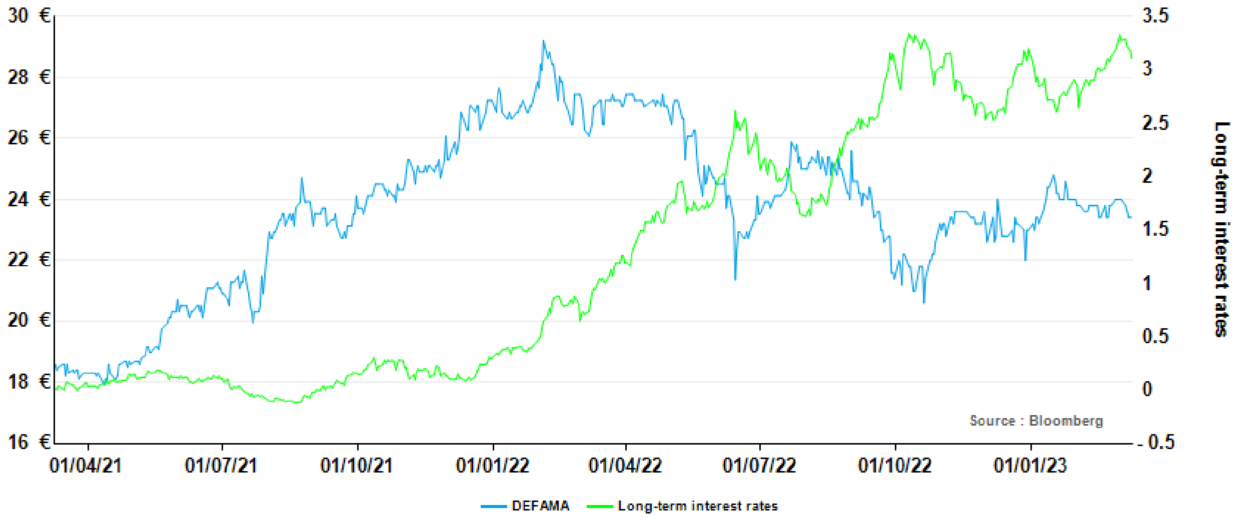




Euro sensitivity

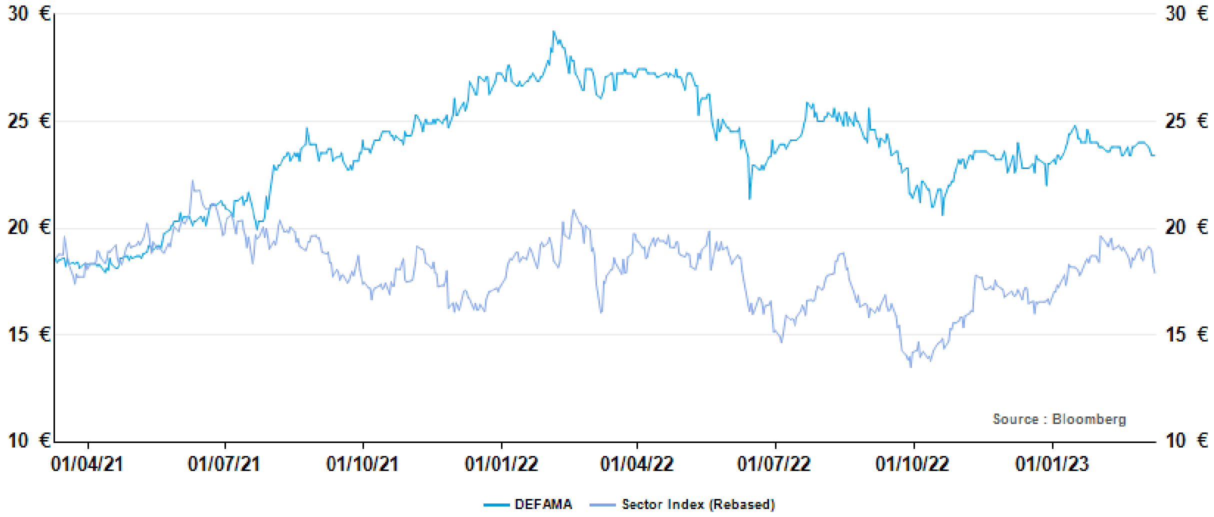


Long-term interest rates sensitivity



DEFAMA (Add)

Sector Real Estate



Retail - Property

Opinion Change

UPGRADES		Reco	Old Reco	Target	Upside
14/10	Hammerson	Call Option	Sell	18.3 p	-27.0%
DOWNGRADES		**Reco**	**Old Reco**	**Target**	**Upside**
03/02	Klépierre	Sell	Reduce	€ 19.9	-15.1%
15/12	Mercialys	Add	Buy	€ 12.3	19.2%
26/10	Unibail-Rodamco-Westfield	Reduce	Add	€ 54.0	-2.49%
01/10	Wereldhave	Reduce	Add	€ 13.0	-11.1%

Eps Change

UPGRADES		New	Old	Var.	Reco
07/05	Klépierre	€ 2.01	€ 2.00	0.29%	Sell
18/02	Unibail-Rodamco-Westfield	€ 9.50	€ 9.04	5.10%	Reduce
DOWNGRADES		**New**	**Old**	**Var.**	**Reco**
16/08	Deutsche Euroshop	€ 1.93	€ 1.98	-2.53%	Reduce
15/02	Mercialys	€ 1.15	€ 1.29	-10.8%	Add
27/07	Wereldhave	€ 1.88	€ 2.61	-27.9%	Reduce
17/05	Hammerson	1.45 p	1.48 p	-1.77%	Call Option

Sector Overview

MARKET BASICS	SECTOR	AV UNIVERSE
COMPANIES	7	581
MARKET CAP	€M 18,608	€M 11,881,645
UPSIDE	-6.73%	16.8%
PRICE MOMENTUM	Good	GOOD
PERF. YTD	8.97%	7.51%
PE 2023	7.39 x	13.0 x
DIV. YIELD 2023	6.92%	3.44%
EARN GROWTH 2023/2022	4.83%	-1.54%

Recent publications & Updates

DEFAMA - Mar 13
A pure play in High Yield German Retail

DEFAMA - Mar 13
A pure play in High Yield German Retail

HAMMERSON - Mar 09
47% LTV ratio (proportionate)

KLÉPIERRE - Feb 17
Closing the chapter of strong recovery

MERCIALYS - Feb 15
Nice cash-back in 2023-24

WERELDHAVE - Feb 10
Improving pricing power

UNIBAIL-RODAMCO-WESTFIELD - Feb 10
Eroding NAV despite dividend holiday

DEUTSCHE EUROSHOP - Jan 13
Capital increase of ~24% at EUR 21.50 to acquire minority interests in centers (partly owned by large shareholder) means a heavy NAV dilution

UNIBAIL-RODAMCO-WESTFIELD - Dec 21
US housing: a step closer to the cliff

HAMMERSON - Dec 21
US housing: a step closer to the cliff

WERELDHAVE - Dec 21
US housing: a step closer to the cliff

KLÉPIERRE - Dec 21
US housing: a step closer to the cliff

MERCIALYS - Dec 21
US housing: a step closer to the cliff

DEUTSCHE EUROSHOP - Nov 11
Stabilization of business continued in 3Q – FY22 FFOps guidance confirmed (roughly stable yoy) – Comfortable cash and low LTV

HAMMERSON - Nov 08
Awaiting further downwards adjustments in FY 23?

Retail - Property Story

Performance Drivers

Obviously, retail investment property stocks share common features with all real estate sub-sectors (sensitivity to interest rates, debt-leverage, tax-exempt status. etc.) but this is combined with proprietary performance drivers. The retail investment property groups not only own and manage mainly shopping centres but also shops, retail parks, food store, superstores, department stores, etc. meaning that the financial health of tenants a key indicator for their future profitability.

Owning and managing shopping centres requires the maintenance of close partnerships with tenants and therefore the footfall and sales of these tenants are strong indicators of the quality of the centres. Nevertheless, in Europe, few leases are linked to tenant revenues and lease contracts are generally linked to inflation indexation and periodic adjustments (for instance, every 3 years in France or every 5 years in the UK). The partnership relies on the implementation of an ecosystem profitable for the tenants (a larger number of visitors becomes potentially a larger number of buyers) and for the asset's owner (demand for commercial space increases with the success of the current tenants, and allows the price per sqm to increase). So the appeal of the best shopping centres is often built around "premium" stores ("rare" or well-known brands such as H&M, Zara, Apple, Abercrombie & Fitch, Holister, etc.) as drivers to attract new tenants.

In a stretched consumption context (due to a poor economic outlook and tight consumer purses), the gap between "prime" and "secondary" assets has been widening for a long time and has not reversed at all in recent years. The former are well-connected consumer assets, with large catchment areas and strong associated services (not only having for example websites, WiFi, bellboys, valets, catering facilities but also shows and entertainment, etc.). They are definitely the strongest assets in terms of valuation. Secondary assets are located far from population hubs, at small sites with a narrow shopping experience in obsolete buildings which are weaker and have more volatile valuations, or simply depressed valuations currently.

Need to know

The challenge of retail property groups is to continue to attract shoppers while new consumption patterns are no longer emerging but rather engaging in the second phase of their revolution, following a discovery phase by the consumer. The millennials and their followers will progressively replace the bulk of the “old” usual customers.

The well-known shift from offline to online shopping, which we call the “Retailing business’s chronic e-commerce disease”, is only beginning on the Continent (10% penetration, whereas it is 23% in the UK). The question now is whether there is an end to this cycle. If we believe the Chinese penetration of 40% is the target, the answer is: not yet. The pace is the only unknown, and the net impact on commercial assets derives from three constraints: i/ the fixed constraint of the shift which is now pretty linear; ii/ local GDP figures; and iii/ deciding the net impact on offline consumption (footfall and rents). We strongly believe that, in many areas and in the very recent years, the net impact of the shift has been contained, or shadowed, by the global economic rebound. In other words, the net impact would be much more sensitive if the economic slowdown continues or transforms into a recession. This is particularly visible now in the UK.

Adaptation of business models is becoming a requirement: shoppers no longer come to malls just to shop and Europeans (our coverage) have progressively adopted the “American attitude”, spending money not just on Saturday’s traditional food shopping but also spending more time in food malls. They are increasingly looking for a “diversified experience” encompassing catering, leisure, entertainment and service offers with multi-channel conveniences such as internet connectivity, “click & return” or “buy on internet & return to store”, etc. It is clear that, in a multi-channel retail scenario, the ability to pay rent declines. An indicator of this ability is the “occupancy cost ratio” (computed as [rental charges + service charges including marketing costs for tenants]/tenants’ sales) which reflects the burden of the rents for the tenants: levels above 11-12% become unsustainable except for secondary destinations if strong sales growth can be expected. De facto, the retail property companies tend to focus on prime assets (more resilient to changes in consumer behaviour and against a backdrop of pressure on consumer purses). This is why question marks are not yet that acute. With the “focus” on prime assets, we might legitimately ask what will happen with those that are “non-prime” as they haven’t disappeared but have just been bought by other private investors of leveraged private equity funds, with the banks carrying the risk at the end of the day. Many shopping malls will have to adapt (i.e. heavy refurbishment, as Hammerson did in its VIA Retail business, converting shopping malls into much more shopper-friendly outlets) or maybe disappearing altogether. The US experience has taught us that the agony of shopping malls can be very drawn out, sometimes running to decades with 20% to 30% vacancy rates, offering their buyers uncertain but high initial yields of 20%. Wherever possible (i.e. not in many places), landlords have begun the conversion of empty spaces into offices, houses and pleasure gardens. This sole potential strategy for optimising land just requires money. It’s the same billion dollar question for listed property companies as, for the first time, they may have to pay to protect the value of their assets. That’s why it is currently very important to keep LTVs low, so as to be able to finance this potential strategic turn. In a nutshell, the properties backed by the most debt and whose assets are weak, are already… dead men walking.

Shopping centre ownership is less of a local job than office ownership for instance. The era of buying one unit just to sell the rent receipts is over. Conversely, shopping centre property groups need to respond to the globalisation of brands. Some retail property groups go further to differentiate them: Intu Properties has rebranded its shopping centres under a common brand “Intu”, Mercialys is looking to develop a “local marketing agency” to support retailers, US and Australian shops are starting to implement “fitting fees” to deter showrooming… but marketing initiatives are proving insufficient. The transformation needs to have a major cash counterpart at some point.

What will happen next

These changes in consumption patterns will define the future of retail property groups. Shopping centre investment increased substantially in 2014, led by three countries (the UK, Germany and France) and peaked in 2018. Footfall started to recover thanks to a transformation in the sector (particularly in prime assets), and… first due to a macro upturn.

Within a “UK vs Continent” debate, as retail property groups generally do not invest in both markets (except for Hammerson), UK companies suffered more from the 2008-09 crisis than those on the Continent. Taking the sole example of the UK, if Brexit is excluded wherever possible, we can see how rapid the Retail transformation has been. Should this happen on the Continent in the coming years, can we conclude that the bulk of the worries currently hurting Continental assets is still to come. To date, the off/online shift has been slower on the Continent (the penetration rate is half that of the UK). What would happen were it to accelerate?

In terms of rental revenues for retail investment property groups, organic growth has never returned to any significant degree owing to inflation indexation (or rather disinflation), except for blockbusters like Unibail’s units. In the UK and European secondary destinations, lease renewals are now often below ERV, the latter declining year on year. While the picture was rather positive for UK prime assets five years ago, their valuations have been hurt since H2 18. Location isn’t everything.

Retail - Property Charts

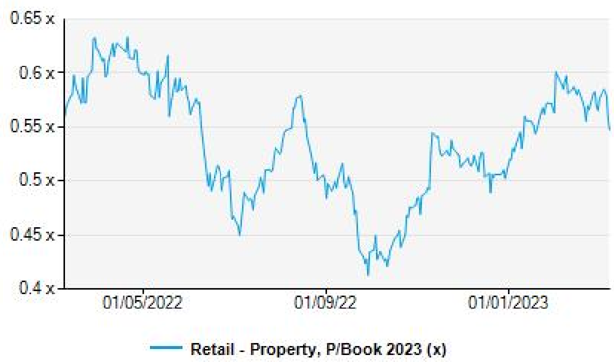
Sector Price

Sector Earning Growth 2023/2022

Sector PE 2023

Sector Yield 2023

Sector PBook 2023



DEFAMA (Add)

Aggregated sector data

		2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating revenues	€M	4,062	4,165	4,362	4,496	3,698	3,489	3,630	3,648	3,654
Sales growth	%	4.49	2.54	4.74	3.08	-17.8	-5.63	4.04	0.48	0.18
Ebitda	€M	3,149	3,264	3,512	3,568	2,483	2,410	2,707	2,795	2,815
Ebitda margin	%	78.3	79.2	80.5	79.5	67.4	69.4	74.9	77.0	77.4
Operating profit	€M	5,508	4,874	3,452	743	-6,903	163	1,081	1,460	3,357
Operating margin	%	71.7	72.4	73.6	73.3	60.7	60.0	68.9	70.7	71.2
Adj. Attrib. Net profit	€M	2,541	2,638	2,667	3,175	1,564	1,912	2,337	2,412	2,486
Free cash flow	€M	1,579	1,360	-2,031	1,438	1,376	3,268	3,499	2,162	1,934
Roe (return on equity) %	%	9.25	8.86	3.64	0.86	-25.0	-2.92	1.50	2.42	7.30
Shareholders funds (group share)	€M	39,049	41,344	49,661	47,237	35,324	34,412	34,259	33,965	35,165
Net debt	€M	31,825	32,943	41,195	41,649	40,474	36,939	33,978	32,932	32,471
Capex	€M	-734	-697	-7,457	-2,460	-2,169	-2,214	-1,306	-1,157	-1,163
ROCE	%	4.94	4.32	2.59	0.26	-9.06	-0.59	1.10	1.62	3.40

Office space for rent

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Hammerson	sqm (,000)	275	255	255	169	157	108	0.00	0.00	0.00	0.00	0.00	0.00								
Klépierre	sqm (,000)	134	120	112	110	85.9	74.9	53.4	31.7				0.00								
Unibail-Rodamco-Westfield	sqm (,000)		589	651	591	713	618	586	578	616	612	659	666	396	410	456	456	456	456	456	456
Wereldhave	sqm (,000)	469	424	453	451	434	423	155	145	286	233	173	118	60.6	62.5	62.4	62.4	62.4	62.4	62.4	62.4

Housing space for rent

		2014	2015	2016	2017
Hammerson	sqm (,000)	0.00	0.00	0.00	0.00

Commercial space for rent

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
DEFAMA	sqm (,000)													121,502	146,594	179,391	215,977	249,569	282,902	316,236	342,902
Hammerson	sqm (,000)	1,300	1,300	1,400	1,600	1,600	1,700	1,700	1,700	1,985	2,200	2,483	2,374	2,242	2,183	1,890	1,629	1,612	1,596	1,580	1,564
Klépierre	sqm (,000)	2,086	2,335	3,325	3,503	3,687	3,974	3,776	3,735	-669	600	400	4,531	4,653							
Mercialys	sqm (,000)	588	662	674	757	724	707	603	547	732	920	994	878	864	841	820	812	793	774	755	737
Unibail-Rodamco-Westfield	sqm (,000)		3,646	3,961	3,985	3,781	3,642	4,000	4,239	3,798	4,398	4,531	4,584	4,503	4,954	5,658	5,430	5,361	5,302	5,234	5,234
Wereldhave	sqm (,000)	297	312	309	324	464	439	432	347	1,049	1,270	1,390	1,440	848	851	809	686	670	657	648	638

Warehousing space for rent

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hammerson	sqm (,000)									0.00	0.00	0.00	0.00
Wereldhave	sqm (,000)	308	247	244	232	207	99.3	95.8	35.2	0.00	0.00	0.00	0.00

Loan to Value

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
DEFAMA	%													6,040	5,620	6,020	6,130	5,930	5,895	5,916	5,846
Hammerson	%	33.5	34.4	51.5	41.6	33.8	34.0	36.0	38.0	34.0	38.0	39.0	36.0	37.8	38.0	40.1	39.4	33.1	28.0	21.7	16.1
Klépierre	%	41.7	41.1	47.9	49.3	47.2	45.8	43.6	43.6	37.6	39.2	36.8	36.8	37.0	39.4	43.5	40.7	39.5	38.1	36.6	34.9
Mercialys	%	0.00	0.00	0.00	0.00	0.00	0.00	33.3	32.0	37.4	41.0	41.2	39.9	40.8	40.5	38.8	37.4	37.3	37.3	37.1	37.0
Unibail-Rodamco-Westfield	%			30.0	32.0	37.0	37.0	37.0	38.0	37.0	35.0	33.0	33.0	38.4	38.6	44.7	43.3	42.0	42.1	41.7	41.0
Wereldhave	%		21.9	27.3	29.7	39.0	41.0	43.6	27.4	35.4	37.5	39.0	40.7	37.5	44.8	46.7	41.0	40.9	40.7	38.5	36.6

DEFAMA (Add)

Companies

Company	Sector	Performances (%)				Mom.	Opinion	Upside	Market Cap (€M)	Country
		1W	1M	3M	YTD					
Unibail-Rodamco-Westfield	Retail - Property	-5.58	-10.1	5.47	13.8		Reduce	-2.49%	7,661	
Klépierre	Retail - Property	-2.01	-3.26	4.60	8.78		Sell	-15.1%	6,768	
Hammerson	Retail - Property	-15.0	-16.8	5.16	5.29		Call Option	-27.0%	1,422	
Deutsche Euroshop	Retail - Property	-8.48	-9.67	-6.98	-11.4		Reduce	18.4%	1,200	
Mercialys	Retail - Property	-2.46	-3.10	7.22	5.63		Add	19.2%	969	
Wereldhave	Retail - Property	-2.99	0.34	13.4	17.0		Reduce	-11.1%	588	
DEFAMA	Retail - Property	-2.50	-0.85	-2.50	1.74		Add	19.0%	112	

Sector	Performances (%)				Mom.	Opinion	Upside	Market Cap (€M)
	1W	1M	3M	YTD				
Weighted average	-5.08	-7.63	4.55	8.97		Reduce	-6.73%	
Median	-4.28	-6.47	5.31	7.20		Reduce	-6.81%	
Total								18,608
BD universe weighted avg	-2.20	-0.82	4.14	7.45			16.8%	11,881,645

Valuation ratios

Company	Sector	P/E		Earnings growth		P/Book		Yield		Market Cap (€M)
		2023	2024	2023/2022	2024/2023	2023	2024	2023	2024	
Unibail-Rodamco-Westfield	Retail - Property	5.79 x	5.48 x	6.41%	5.66%	0.41 x	0.40 x	7.23%	8.13%	7,661
Klépierre	Retail - Property	9.22 x	9.22 x	2.16%	0.00%	0.77 x	0.74 x	7.69%	7.69%	6,768
Hammerson	Retail - Property	10.1 x	10.1 x	2.20%	0.00%	0.52 x	0.47 x	0.00%	0.00%	1,422
Deutsche Euroshop	Retail - Property	9.38 x	9.66 x	7.25%	-2.90%	0.58 x	0.58 x	6.18%	6.44%	1,200
Mercialys	Retail - Property	8.81 x	8.81 x	1.85%	0.00%	1.35 x	1.42 x	9.69%	9.69%	969
Wereldhave	Retail - Property	8.02 x	7.47 x	8.63%	7.45%	0.69 x	0.62 x	8.22%	8.56%	588
DEFAMA	Retail - Property	27.2 x	23.9 x	-27.7%	13.9%	2.60 x	2.49 x	2.39%	2.48%	112

Sector	P/E		Earnings growth		P/Book		Yield		Market Cap (€M)
	2023	2024	2023/2022	2024/2023	2023	2024	2023	2024	
Weighted average	7.39 x	7.17 x	4.83%	3.09%	0.55 x	0.53 x	6.92%	7.33%	
Median	9.01 x	9.01 x	4.30%	0.00%	0.63 x	0.60 x	7.46%	7.91%	
BD universe weighted avg	13.0 x	12.5 x	-1.54%	4.92%	1.75 x	1.64 x	3.44%	3.67%	11,881,645

Earnings

Company	Sector	Adjusted attributable net profit (€M)					Market Cap (€M)
		2022	2023	2024	Chg. 23/22	Chg. 24/23	
Unibail-Rodamco-Westfield	Retail - Property	1,245	1,325	1,400	79.8	75.0	7,661
Klépierre	Retail - Property	695	710	710	15.0	0.00	6,768
Hammerson	Retail - Property	130	141	141	11.3	0.00	1,422
Deutsche Euroshop	Retail - Property	91.2	52.3	46.3	-38.9	-6.06	1,200
Mercialys	Retail - Property	108	110	110	2.00	0.00	969
Wereldhave	Retail - Property	67.4	73.3	78.7	5.82	5.46	588
DEFAMA	Retail - Property	5.48	4.12	4.70	-1.36	0.58	112

Sector	Adjusted attributable net profit (€M)					Market Cap (€M)
	2022	2023	2024	Chg. 23/22	Chg. 24/23	
Total	2,337	2,412	2,486	75.1	74.4	18,608

Risk ratios

Company	Sector	Gearing 2023	Gearing 2024	Goodwill / Equity 2023	Goodwill / Equity 2024	Net Debt / Ebitda 2023	Net Debt / Ebitda 2024	Market Cap (€M)
Unibail-Rodamco-Westfield	Retail - Property	116%	112%	10.3%	10.0%	15.0 x	14.8 x	7,661
Klépierre	Retail - Property	87.4%	80.2%	5.89%	5.65%	8.21 x	7.88 x	6,768
Hammerson	Retail - Property	49.7%	38.4%	0.00%	0.00%	15.6 x	13.6 x	1,422
Deutsche Euroshop	Retail - Property	44.9%	44.0%	0.00%	0.00%	6.97 x	6.90 x	1,200
Mercialys	Retail - Property	152%	157%	0.00%	0.00%	7.90 x	8.13 x	969
Wereldhave	Retail - Property	85.9%	73.2%	0.00%	0.00%	7.12 x	6.62 x	588
DEFAMA	Retail - Property	368%	384%	0.00%	0.00%	11.1 x	10.8 x	112

Sector	Gearing 2023	Gearing 2024	Goodwill / Equity 2023	Goodwill / Equity 2024	Net Debt / Ebitda 2023	Net Debt / Ebitda 2024	Market Cap (€M)
Weighted average	98.5%	93.0%	7.14%	6.90%	11.8 x	11.5 x	
Median	86.6%	76.7%	0.00%	0.00%	8.05 x	8.00 x	

B/S data

Company	Sector	Equity (€M) 2023	Equity (€M) 2024	Net Debt (€M) 2023	Net Debt (€M) 2024	Goodwill (€M) 2023	Goodwill (€M) 2024	Market Cap (€M)
Unibail-Rodamco-Westfield	Retail - Property	18,680	19,222	21,542	21,607	1,924	1,924	7,661
Klépierre	Retail - Property	8,532	8,891	7,261	6,994	502	502	6,768
Hammerson	Retail - Property	2,757	3,004	1,245	1,061	n/a	n/a	1,422
Deutsche Euroshop	Retail - Property	2,427	2,411	1,091	1,062	0.00	0.00	1,200
Mercialys	Retail - Property	716	683	1,080	1,067	n/a	n/a	969
Wereldhave	Retail - Property	854	953	714	680	0.00	0.00	588
DEFAMA	Retail - Property	43.1	45.1	165	182	n/a	n/a	112

Sector	Equity (€M) 2023	Equity (€M) 2024	Net Debt (€M) 2023	Net Debt (€M) 2024	Goodwill (€M) 2023	Goodwill (€M) 2024	Market Cap (€M)
Total	33,965	35,165	32,932	32,471	2,426	2,426	18,608

EV ratios

Company	Sector	Upside	Mom.	Ev/Ebit 2023	Ev/Ebit 2024	Ev/Ebitda(R) 2023	Ev/Ebitda(R) 2024	Market Cap (€M)
DEFAMA	Retail - Property	19.0%		32.1 x	29.4 x	18.7 x	17.4 x	112
Wereldhave	Retail - Property	-11.1%		15.6 x	14.9 x	15.5 x	14.7 x	588
Mercialys	Retail - Property	19.2%		23.0 x	24.1 x	16.5 x	17.1 x	969
Deutsche Euroshop	Retail - Property	18.4%		28.7 x	29.0 x	16.9 x	17.1 x	1,200
Hammerson	Retail - Property	-27.0%		-0.25 x	-3.14 x	-0.25 x	-3.13 x	1,422
Klépierre	Retail - Property	-15.1%		17.5 x	17.2 x	16.9 x	16.6 x	6,768
Unibail-Rodamco-Westfield	Retail - Property	-2.49%		17.4 x	17.0 x	17.4 x	17.0 x	7,661

Sector	Ev/Ebit 2023	Ev/Ebit 2024	Ev/Ebitda(R) 2023	Ev/Ebitda(R) 2024	Market Cap (€M)
Weighted average	31.9 x	13.7 x	16.6 x	16.2 x	
Median	17.4 x	17.1 x	16.7 x	16.8 x	
BD universe weighted avg	13.3 x	11.8 x	8.27 x	7.44 x	11,881,645

Detailed Financials

Valuation Key Data

Valuation Key Data		12/22A	12/23E	12/24E	12/25E
Adjusted P/E	**x**	**21.2**	**27.2**	**23.9**	**21.6**
Reported P/E	x	22.1	27.2	23.9	21.6
EV/EBITDA(R)	**x**	**22.3**	**18.7**	**17.4**	**16.5**
EV/EBIT	x	38.3	32.1	29.4	27.7
EV/Sales	x	13.5	11.2	10.7	10.1
P/Book	**x**	**2.91**	**2.60**	**2.49**	**2.36**
Dividend yield	**%**	**2.14**	**2.39**	**2.48**	**2.56**
Free cash flow yield	*%*	*-32.5*	*-9.50*	*-12.0*	*-6.52*
Average stock price	€	25.2	23.4	23.4	23.4

DEFAMA (Add)

Consolidated P&L

		12/22A	12/23E	12/24E	12/25E
Sales	€M	20.3	24.7	27.5	30.0
Sales growth	*%*	*18.5*	*21.8*	*11.1*	*9.22*
Sales per employee	*€th*	*700*	*824*	*887*	*938*
Organic change in sales	*%*	*18.5*	*21.8*	*11.1*	*9.22*
Commercial space for rent	sqm (,000)	249,569	282,902	316,236	342,902
Loan to Value	%	5,930	5,895	5,916	5,846
Staff costs	€M	-1.97	-2.17	-2.30	-2.44
Operating lease payments	€M				
Cost of sales/COGS (indicative)	€M	8.07	9.88	10.6	11.6
EBITDA	€M	12.2	14.9	16.8	18.5
EBITDA(R)	€M	12.2	14.9	16.8	18.5
EBITDA(R) margin	*%*	*60.2*	*60.1*	*61.3*	*61.5*
EBITDA(R) per employee	*€th*	*422*	*495*	*543*	*577*
Depreciation	€M	-5.10	-6.21	-6.85	-7.48
Depreciations/Sales	*%*	*25.1*	*25.1*	*24.9*	*24.9*
Amortisation	€M				
Underlying operating profit	€M	7.13	8.65	9.99	11.0
Underlying operating margin	*%*	*35.1*	*35.0*	*36.4*	*36.6*
Other income/expense (cash)	€M				
Impairment charges/goodwill amortisation	€M				
Operating profit (EBIT)	€M	7.13	8.65	9.99	11.0
Interest expenses	€M	-2.90	-3.74	-4.40	-4.80
of which effectively paid cash interest expenses	*€M*	*-2.90*	*-3.74*	*-4.40*	*-4.80*
Financial income	€M	0.00	0.00	0.00	0.00
Other financial income (expense)	€M				
Net financial expenses	€M	-2.90	-3.74	-4.40	-4.80
of which related to pensions	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Pre-tax profit before exceptional items	€M	4.23	4.91	5.59	6.18
Exceptional items and other (before taxes)	€M	2.30	0.00	0.00	0.00
Current tax	€M	-1.05	-0.79	-0.89	-0.99
Deferred tax	€M				
Corporate tax	€M	-1.05	-0.79	-0.89	-0.99
Tax rate	*%*	*24.8*	*16.0*	*16.0*	*16.0*
Net margin	*%*	*15.7*	*16.7*	*17.1*	*17.3*
Equity associates	€M				
Actual dividends received from equity holdings	*€M*				
Minority interests	€M				
Income from discontinued operations	€M				
Attributable net profit	€M	5.48	4.12	4.70	5.19
Impairment charges/goodwill amortisation	€M	0.00	0.00	0.00	0.00
Other adjustments	€M				
Adjusted attributable net profit	€M	5.48	4.12	4.70	5.19
Interest expense savings	€M	0.00	0.00	0.00	0.00
Fully diluted adjusted attr. net profit	€M	5.48	4.12	4.70	5.19
NOPAT	€M	5.35	6.49	7.50	8.24

DEFAMA (Add)

Cashflow Statement

Cashflow Statement		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	12.2	14.9	16.8	18.5
Change in WCR	€M	0.00	0.00	0.00	0.00
of which (increases)/decr. in receivables	€M		0.00	0.00	0.00
of which (increases)/decr. in inventories	€M		0.00	0.00	0.00
of which increases/(decr.) in payables	€M		0.00	0.00	0.00
of which increases/(decr.) in other curr. liab.	€M	0.00	0.00	0.00	0.00
Actual dividends received from equity holdings	€M	0.00	0.00	0.00	0.00
Paid taxes	€M	-1.05	-0.79	-0.89	-0.99
Exceptional items	€M	0.50	4.00	0.00	0.00
Other operating cash flows	€M				
Total operating cash flows	€M	11.7	18.1	15.9	17.5
Capital expenditure	€M	-48.2	-25.0	-25.0	-20.0
Capex as a % of depreciation & amort.	%	945	403	365	267
Net investments in shares	€M				
Other investment flows	€M				
Total investment flows	€M	-48.2	-25.0	-25.0	-20.0
Net interest expense	€M	-2.90	-3.74	-4.40	-4.80
of which cash interest expense	€M	-2.90	-3.74	-4.40	-4.80
Dividends (parent company)	€M	-2.25	-2.59	-2.69	-2.78
Dividends to minorities interests	€M	0.00	0.00	0.00	0.00
New shareholders' equity	€M	10.3	0.00	0.00	0.00
of which (acquisition) release of treasury shares	€M				
(Increase)/decrease in net debt position	€M	29.1	13.3	16.1	10.1
Other financial flows	€M				
Total financial flows	€M	34.2	6.93	9.05	2.53
Change in cash position	€M	-2.30	0.00	0.00	0.00
Change in net debt position	€M	-31.4	-13.3	-16.1	-10.1
Free cash flow (pre div.)	€M	-39.4	-10.7	-13.5	-7.33
Operating cash flow (clean)	€M	11.2	14.1	15.9	17.5
Reinvestment rate (capex/tangible fixed assets)	%	23.3	11.0	9.88	7.33

Balance Sheet

Balance Sheet		12/22A	12/23E	12/24E	12/25E
Goodwill	€M				
Total intangible	€M	0.00	0.00	0.00	0.00
Tangible fixed assets	€M	193	208	226	238
Financial fixed assets (part of group strategy)	€M				
Other financial assets (investment purpose mainly)	€M				
WCR	€M	0.95	0.95	0.95	0.95
of which trade & receivables (+)	€M	4.50	4.50	4.50	4.50
of which inventories (+)	€M				
of which payables (+)	€M				
of which other current liabilities (+)	€M	3.54	3.54	3.54	3.54
Other current assets	€M				
of which tax assets (+)	€M				
Total assets (net of short term liabilities)	€M	194	209	227	239
Ordinary shareholders' equity (group share)	€M	41.6	43.1	45.1	47.6
Minority interests	€M	0.00	0.00	0.00	0.00
Provisions for pensions	€M	0.00	0.00	0.00	0.00
Other provisions for risks and liabilities	€M				
Deferred tax liabilities	€M				
Other liabilities	€M				
Net debt / (cash)	€M	152	165	182	192
Total liabilities and shareholders' equity	€M	194	209	227	239
Average net debt / (cash)	€M	138	159	174	187

EV Calculations

		12/22A	12/23E	12/24E	12/25E
EV/EBITDA(R)	**x**	**22.3**	**18.7**	**17.4**	**16.5**
EV/EBIT	**x**	**38.3**	**32.1**	**29.4**	**27.7**
EV/Sales	**x**	**13.5**	**11.2**	**10.7**	**10.1**
EV/Invested capital	x	1.41	1.33	1.30	1.27
Market cap	€M	121	112	112	112
+ Provisions (including pensions)	€M	0.00	0.00	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
+ Net debt at year end (ex Right-of-use from 2019)	€M	152	165	182	192
+ Right-of-use (from 2019)/Leases debt equivalent	€M	0.00	0.00	0.00	0.00
- Financial fixed assets (fair value) & Others	€M				
+ Minority interests (fair value)	€M	0.00	0.00	0.00	0.00
= Enterprise Value	**€M**	**273**	**278**	**294**	**304**

Per Share Data

		12/22A	12/23E	12/24E	12/25E
Adjusted EPS (bfr gwill amort. & dil.)	**€**	**1.19**	**0.86**	**0.98**	**1.08**
Growth in EPS	*%*	*4.29*	*-27.7*	*13.9*	*10.5*
Reported EPS	€	1.14	0.86	0.98	1.08
Net dividend per share	**€**	**0.54**	**0.56**	**0.58**	**0.60**
Free cash flow per share	€	-8.55	-2.22	-2.80	-1.53
Operating cash flow per share	€	2.42	2.93	3.32	3.64
Book value per share	€	8.67	8.99	9.41	9.91
Restated NAV per share	€	19.5	21.2	22.5	24.0
Number of ordinary shares	**Mio**	**4.80**	**4.80**	**4.80**	**4.80**
Number of equivalent ordinary shares (year end)	Mio	4.80	4.80	4.80	4.80
Number of shares market cap.	Mio	4.80	4.80	4.80	4.80
Treasury stock (year end)	Mio				
Number of shares net of treasury stock (year end)	Mio	4.80	4.80	4.80	4.80
Number of common shares (average)	**Mio**	**4.61**	**4.80**	**4.80**	**4.80**
Conversion of debt instruments into equity	Mio				
Settlement of cashable stock options	Mio				
Probable settlement of non mature stock options	Mio				
Other commitments to issue new shares	Mio				
Increase in shares outstanding (average)	Mio	0.00	0.00	0.00	0.00
Number of diluted shares (average)	**Mio**	**4.61**	**4.80**	**4.80**	**4.80**
Goodwill per share (diluted)	€	0.00	0.00	0.00	0.00
EPS after goodwill amortisation (diluted)	€	1.19	0.86	0.98	1.08
EPS before goodwill amortisation (non-diluted)	€	1.19	0.86	0.98	1.08
Payout ratio	**%**	**47.3**	**65.2**	**59.2**	**55.5**
Capital payout ratio (div +share buy back/net income)	**%**	**47.3**	**65.2**	**59.2**	

DEFAMA (Add)

Funding - Liquidity

Funding - Liquidity		12/22A	12/23E	12/24E	12/25E
EBITDA	€M	12.2	14.9	16.8	18.5
Funds from operations (FFO)	€M	8.78	14.3	11.5	12.7
Ordinary shareholders' equity	**€M**	**41.6**	**43.1**	**45.1**	**47.6**
Gross debt	€M	154	167	183	193
o/w Less than 1 year - Gross debt	€M	15.2	13.2	12.5	20.9
o/w 1 to 5 year - Gross debt	€M	66.1	64.9	77.0	67.6
of which Y+2	€M	13.2	12.5	20.9	19.5
of which Y+3	€M	12.5	20.9	19.5	12.0
of which Y+4	€M	20.9	19.5	12.0	24.6
of which Y+5	€M	19.5	12.0	24.6	11.5
o/w Beyond 5 years - Gross debt	€M	72.4	88.9	93.6	105
+ Gross Cash	€M	1.52	1.52	1.52	1.52
= Net debt / (cash)	**€M**	**152**	**165**	**182**	**192**
Mortgages	€M	154	167	183	193
Other financing	€M	0.00	0.00	0.00	0.00
Gearing (at book value)	%	331	368	384	392
Equity/Total asset (%)	%	21.5	20.7	19.9	19.9
Adj. Net debt/EBITDA(R)	*x*	*12.4*	*11.1*	*10.8*	*10.4*
Adjusted Gross Debt/EBITDA(R)	*x*	*12.6*	*11.2*	*10.9*	*10.5*
Adj. gross debt/(Adj. gross debt+Equity)	*%*	*78.7*	*79.5*	*80.2*	*80.2*
Ebit cover	*x*	*2.46*	*2.31*	*2.27*	*2.29*
FFO/Gross Debt	*%*	*5.71*	*8.58*	*6.31*	*6.56*
FFO/Net debt	*%*	*5.77*	*8.66*	*6.36*	*6.61*
FCF/Adj. gross debt (%)	*%*	*-25.6*	*-6.39*	*-7.35*	*-3.79*
(Gross cash+ "cash" FCF+undrawn)/ST debt	*x*	*-2.49*	*-0.69*	*-0.95*	*-0.28*
"Cash" FCF/ST debt	*x*	*-2.59*	*-0.81*	*-1.08*	*-0.35*

ROE Analysis (Dupont's Breakdown)

ROE Analysis (Dupont's Breakdown)		12/22A	12/23E	12/24E	12/25E
Tax burden (Net income/pretax pre excp income)	x	1.30	0.84	0.84	0.84
EBIT margin (EBIT/sales)	%	35.1	35.0	36.4	36.6
Assets rotation (Sales/Avg assets)	%	11.8	12.3	12.6	12.9
Financial leverage (Avg assets /Avg equity)	x	4.95	4.75	4.93	5.03
ROE	**%**	**15.7**	**9.73**	**10.6**	**11.2**
ROA	%	3.68	4.15	4.41	4.59

Shareholder's Equity Review (Group Share)

Shareholder's Equity Review (Group Share)		12/22A	12/23E	12/24E	12/25E
Y-1 shareholders' equity	€M	28.1	41.6	43.1	45.1
+ Net profit of year	€M	5.48	4.12	4.70	5.19
- Dividends (parent cy)	€M	-2.25	-2.59	-2.69	-2.78
+ Additions to equity	€M	10.3	0.00	0.00	0.00
o/w reduction (addition) to treasury shares	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
- Unrecognised actuarial gains/(losses)	€M	0.00	0.00	0.00	0.00
+ Comprehensive income recognition	€M	0.00	0.00	0.00	0.00
= Year end shareholders' equity	**€M**	**41.6**	**43.1**	**45.1**	**47.6**

DEFAMA (Add)

Staffing Analytics

		12/22A	12/23E	12/24E	12/25E
Sales per staff	€th	700	824	887	938
Staff costs per employee	€th	-68.0	-72.3	-74.1	-76.1
Change in staff costs	*%*	*5.00*	*10.0*	*6.00*	*6.00*
Change in unit cost of staff	*%*	*-2.24*	*6.33*	*2.58*	*2.69*
Staff costs/(EBITDA+Staff costs)	*%*	*13.9*	*12.7*	*12.0*	*11.7*
Average workforce	**unit**	**29.0**	**30.0**	**31.0**	**32.0**
Europe	unit	29.0	30.0	31.0	32.0
North America	unit	0.00	0.00	0.00	0.00
South Americas	unit	0.00	0.00	0.00	0.00
Asia	unit	0.00	0.00	0.00	0.00
Other key countries	unit	0.00	0.00	0.00	0.00
Total staff costs	**€M**	**-1.97**	**-2.17**	**-2.30**	**-2.44**
Wages and salaries	€M	-1.97	-2.17	-2.30	-2.44
Pension related costs	€M	0.00	0.00	0.00	0.00

Divisional Breakdown Of Revenues

		12/22A	12/23E	12/24E	12/25E
Total sales	**€M**	**20.3**	**24.7**	**27.5**	**30.0**
O/w organic growth (%)	*%*	*18.5*	*21.8*	*11.1*	*9.22*
Rental Revenue	€M	17.2	21.1	23.4	25.6
Other Revenue	€M	2.60	3.18	3.54	3.87
Other	€M	0.50	0.50	0.52	0.54

Divisional Breakdown Of Earnings

		12/22A	12/23E	12/24E	12/25E
EBITDA/R Analysis					
Other Revenue	€M	0.38	0.38	0.39	0.41
Rental Revenue	€M	11.9	14.5	16.5	18.1
Other/cancellations	€M	0.00	0.00	0.00	0.00
Total	**€M**	**12.2**	**14.9**	**16.8**	**18.5**
EBITDA/R margin	%	60.2	60.1	61.3	61.5

Revenue Breakdown By Country

		12/22A	12/23E	12/24E	12/25E
Germany	%	100	100		
Other	%	0.00	0.00		

ROCE

		12/22A	12/23E	12/24E	12/25E
ROCE (NOPAT+lease exp.(1-tax))/(net) cap employed adjusted*	*%*	*2.76*	*3.11*	*3.31*	*3.44*
CFROIC	*%*	*-20.3*	*-5.11*	*-5.93*	*-3.06*
Goodwill	€M	0.00	0.00	0.00	0.00
Accumulated goodwill amortisation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
All intangible assets	€M	0.00	0.00	0.00	0.00
Accumulated intangible amortisation	*€M*	*0.00*	*0.00*	*0.00*	*0.00*
Financial hedges (LT derivatives)	€M	0.00	0.00	0.00	0.00
Capitalised R&D	€M	0.00	0.00	0.00	0.00
Rights of use/ Capitalised leases	€M	0.00	0.00	0.00	0.00
Other fixed assets	€M	193	208	226	238
Accumulated depreciation	*€M*	*14.1*	*20.4*	*27.2*	*34.7*
WCR	€M	0.95	0.95	0.95	0.95
Other assets	€M	0.00	0.00	0.00	0.00
Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00	0.00
Capital employed after deprec. (Invested capital)	**€M**	**194**	**209**	**227**	**239**
Capital employed before depreciation	€M	208	229	254	274

Divisional Breakdown Of Capital Employed		12/22A	12/23E	12/24E	12/25E
Other Revenue	€M				
Rental Revenue	€M	194	209	227	239
Other	€M	0.00	0.00	0.00	0.00
Total capital employed	**€M**	**194**	**209**	**227**	**239**

Fundamental Opinion

It is implicit that recommendations are made in good faith but should not be regarded as the sole source of advice.

There are different approaches and methodologies for determining and valuing stocks in research products, each provided by AlphaValue and Baader Helvea, as decribed below.

AlphaValue Research

Recommendations are geared to a “**value**” approach.

Valuations are computed from the point of view of a **secondary market minority holder** looking at a medium term (say 6 months) performance.

Valuation tools are built around the concepts of **transparency,** all underlying figures are accessible, and **consistency,** same methodology whichever the stock, allowing for differences in nature between financial and non financial stocks. A stock with a target price below its current price should not and will not be regarded as an Add or a Buy.

Recommendations are based on target prices with no allowance for dividend returns. The thresholds for the four recommendation levels may change from time to time depending on market conditions. Thresholds are defined as follows, ASSUMING long risk free rates remain in the 2-5% region.

Recommendation	Low Volatility 10 < VIX index < 30	Normal Volatility 15 < VIX index < 35	High Volatility 35 < VIX index
Buy ●	More than 15% upside	More than 20% upside	More than 30% upside
Add ●	From 5% to 15%	From 5% to 20%	From 10% to 30%
Reduce ●	From -10% to 5%	From -10% to 5%	From -10% to 10%
Sell ●	Below -10%	Below -10%	Below -10%

There is deliberately no “neutral” recommendation. The principle is that there is no point investing in equities if the return is not at least the risk free rate (and the dividend yield which again is not allowed for).
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Baader Helvea Research

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Interpretation matrix per risk category for each rating:
Expected total return based on forecast dividend and 12-month price targets.

Rating	Upside/downside to the target price
Buy	>20%
Add	5%-20%
Reduce	-10% to 5%
Sell	<-10%

Research ratings key:
There are four possible ratings: Buy, Add, Reduce or Sell.

Examples of certain ratings:

Buy: A company that the analyst(s) named in this report deem(s) higher risk with a forecast dividend yield of 5% and price appreciation potential of 16%, generating a forecast total return of 21% over 12 months.

Reduce:A company with a forecast dividend yield of 7% and price appreciation potential of -5%, generating a forecast total return of +2% over 12 months.

Baader Helvea uses three further categorizations for stocks in our coverage:

Restricted: A rating and/or financial forecast and/or target price is not disclosed due to compliance or other regulatory considerations such as blackout period or conflict of interest.

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Not rated: Suspension of coverage.

Valuation methodology

Company valuations are based on the following general valuation methods: Multiple-based models, peer-group comparisons, discount models, break-up value approaches, asset-based valuation methods as well as economic profit based models. Furthermore, recommendations are also based on the economic profit approach. Valuation models (including the underlying assumptions) are dependent on macroeconomic factors such as interest rates, exchange rates and raw material prices, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies.

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Valuation

Valuation processes have been organized around transparency and consistency as primary objectives.

Stocks belong to different categories that recognise their main operating features : Banks, Insurers and Non Financials.

Within those three universes, the valuation techniques are the same and in relation to the financial data available.

The weighting given to individual valuation techniques is managed centrally and may be changed from time to time. As a rule, all stocks of a similar profile are valued using equivalent weighting of the various valuation techniques. This is for obvious consistency reasons.

Within the very large universe of Non Financials, there are in effect 4 sub-categories of weightings to cater for subsets: 1) 'Mainstream' stocks; 2) 'Holding companies' where the stress is on NAV measures; 3) 'Growth' companies where the stress is on peer based valuations; 4) 'Loss making sectors' where peers review is essentially pointing nowhere (ex: Bio techs). The bulk of the valuation is then built on DCF and NAV, in effect pushing back the time horizon.

Valuation Issue	Normal industrials	Growth industrials	Holding company	Loss runners	Bank	Insurers
DCF	35%	35%	10%	40%	0%	0%
NAV	20%	20%	55%	40%	50%	15%
PE	10%	10%	10%	5%	10%	20%
EV/EBITDA	20%	20%	0%	5%	0%	0%
Yield	10%	10%	20%	5%	10%	15%
Book	5%	5%	5%	5%	10%	10%
Banks' instrinsic method	0%	0%	0%	0%	10%	0%
Embedded Value	0%	0%	0%	0%	0%	40%
Mkt Cap/Gross Operating Profit	0%	0%	0%	0%	10%	0%

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