

DEFAMA

Retail - Property / Germany

A pure play in High Yield German Retail

Initiation cov. - 13/03/2023

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

DEFAMA 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 attractiveness 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.

Baader Europe

Add	Upside: 19.0%
Target Price (6 months)	€ 27.8
Share Price	€ 23.4
Market Cap. €M	112
Price Momentum	GOOD
Extremes 12Months	20.6 ▶ 27.4
Sustainability score	2.8 /10
Credit Risk	B →
Fundamental Strength	3 /10
Bloomberg	DEF GY Equity
Reuters	DEF.MU


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Analyst : Christian AUZANNEAU

Equity Sales EquitySales@baaderbank.de

Frankfurt	+49 69 1388 1357
London	+44 20 7054 7100
Munich	+49 89 5150 1850
Zurich	+41 43 388 9200
New York	+1 212 935 5150

PERF	1w	1m	3m	12m
DEFAMA	-2.50%	-0.85%	-2.50%	-13.5%
Real Estate	-6.46%	-11.3%	-1.08%	-30.5%
STOXX 600	-2.26%	-1.24%	3.33%	6.24%

Sector Opinion	Overweight
Strongest upside	Deutsche Wohnen
Worst potential	Hammerson

[Complete Sector Analysis](#)

Last updated: 13/03/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	21.2	27.2	23.9	21.6
Dividend yield (%)	2.14	2.39	2.48	2.56
EV/EBITDA(R) (x)	22.3	18.7	17.4	16.5
Adjusted EPS (€)	1.19	0.86	0.98	1.08
Growth in EPS (%)	4.29	-27.7	13.9	10.5
Dividend (€)	0.54	0.56	0.58	0.60
Sales (€M)	20.3	24.7	27.5	30.0
EBITDA/R margin (%)	60.2	60.1	61.3	61.5
Attributable net profit (€M)	5.48	4.12	4.70	5.19
ROE (after tax) (%)	15.7	9.73	10.6	11.2
Gearing (%)	331	368	384	392

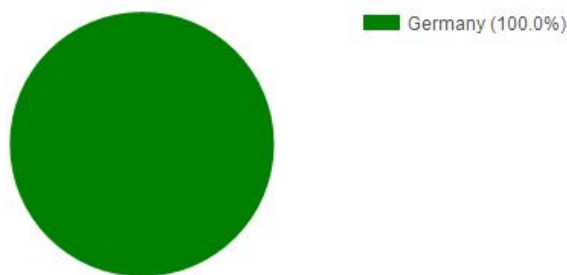
[Company Valuation](#) - [Company Financials](#)

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.

Sales by Geography



Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€M	20.3	24.7	27.5
Change in sales	%	18.5	21.8	11.1
Change in staff costs	%	5.00	10.0	6.00
EBITDA	€M	12.2	14.9	16.8
EBITDA(R) margin	%	60.2	60.1	61.3
Depreciation	€M	-5.10	-6.21	-6.85
Underlying operating profit	€M	7.13	8.65	9.99
Operating profit (EBIT)	€M	7.13	8.65	9.99
Net financial expense	€M	-2.90	-3.74	-4.40
of which related to pensions	€M	0.00	0.00	0.00
Exceptional items & other	€M	2.30	0.00	0.00
Corporate tax	€M	-1.05	-0.79	-0.89
Equity associates	€M			
Minority interests	€M			
Adjusted attributable net profit	€M	5.48	4.12	4.70
NOPAT	€M	5.35	6.49	7.50

Cashflow Statement

EBITDA	€M	12.2	14.9	16.8
Change in WCR	€M	0.00	0.00	0.00
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-1.05	-0.79	-0.89
Exceptional items	€M	0.50	4.00	0.00
Other operating cash flows	€M			
Total operating cash flows	€M	11.7	18.1	15.9
Capital expenditure	€M	-48.2	-25.0	-25.0
Total investment flows	€M	-48.2	-25.0	-25.0
Net interest expense	€M	-2.90	-3.74	-4.40
Dividends (parent company)	€M	-2.25	-2.59	-2.69
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	10.3	0.00	0.00
Total financial flows	€M	34.2	6.93	9.05
Change in cash position	€M	-2.30	0.00	0.00
Free cash flow (pre div.)	€M	-39.4	-10.7	-13.5

Per Share Data

No. of shares net of treas. stock (year...	Mio	4.80	4.80	4.80
Number of diluted shares (average)	Mio	4.61	4.80	4.80
Benchmark EPS	€	1.19	0.86	0.98
Restated NAV per share	€	19.5	21.2	22.5
Net dividend per share	€	0.54	0.56	0.58

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 29.6	55%	
Dividend Yield	€ 23.4	20%	
DCF	€ 27.2	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 27.8	100%	

NAV/SOTP Calculation

Balance Sheet

		12/22A	12/23E	12/24E
Goodwill	€M			
Total intangible	€M	0.00	0.00	0.00
Tangible fixed assets	€M	193	208	226
Financial fixed assets	€M			
WCR	€M	0.95	0.95	0.95
Other assets	€M			
Total assets (net of short term liab.)	€M	194	209	227
Ordinary shareholders' equity	€M	41.6	43.1	45.1
Quasi Equity & Preferred	€M			
Minority interests	€M	0.00	0.00	0.00
Provisions for pensions	€M	0.00	0.00	0.00
Other provisions for risks and liabilities	€M			
Total provisions for risks and liabilities	€M	0.00	0.00	0.00
Tax liabilities	€M			
Other liabilities	€M			
Net debt (cash)	€M	152	165	182
Total liab. and shareholders' equity	€M	194	209	227

Capital Employed

Capital employed after depreciation	€M	194	209	227
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Profits & Risks Ratios

ROE (after tax)	%	15.7	9.73	10.6
ROCE	%	2.76	3.11	3.31
Gearing (at book value)	%	331	368	384
Adj. Net debt/EBITDA(R)	x	12.4	11.1	10.8
Interest cover (x)	x	2.46	2.31	2.27

Valuation Ratios

Reference P/E (benchmark)	x	21.2	27.2	23.9
Free cash flow yield	%	-32.5	-9.50	-12.0
P/Book	x	2.91	2.60	2.49
Dividend yield	%	2.14	2.39	2.48

EV Calculation

Market cap	€M	121	112	112
+ Provisions	€M	0.00	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	152	165	182
+ Leases debt equivalent	€M	0.00	0.00	0.00
- Financial fixed assets (fair value)	€M			
+ Minority interests (fair value)	€M	0.00	0.00	0.00
= EV	€M	273	278	294
EV/EBITDA(R)	x	22.3	18.7	17.4
EV/Sales	x	13.5	11.2	10.7

Analyst : Christian Auzanneau, Changes to Forecasts : 13/03/2023.

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