

DEFAMA

Retail - Property / Germany

On track to achieve the FY 23 guidance

Earnings/sales releases - 31/05/2023

Both the Q1 23 performance and the acquisitions made in May will progressively secure the FY 23 guidance on top of an accelerating contribution from inflation as 2023 unfolds.

Fact

- Revenue was up 17% yoy and net profit was up 15%.
- Portfolio value was up 14% yoy and stable since December 2022 (€257m).
- Net debt of €150m was flat sequentially and the LTV ratio was therefore contained at 58.7% (59.3% in December 2022).
- All the other operational parameters were broadly stable (vacancy, WALT, etc.)
- Guidance was confirmed of annualised FFO of €11m and net profit above €4m.
- 2025 target also confirmed with €28m of annualised rents (€20m in 2022), €350m of portfolio (€257m in 2022) and €13m of FFO (€10.4m in run rate in 2022).

Analysis

Q1 23 in line with the FY 23 guidance

The Q1 23 performance embarked the contribution from acquisitions made in Q2-Q4 22 as DEFAMA made no acquisitions in Q1 23 and one in Q2 23 (see below). The portfolio optimization is still on track with the ongoing deployment of electric cars charging stations, solar panels on roofs and work in progress for diminishing vacancy at the group level to be delivered in FY 23. Individual investments of c.€1m per unit in Gardelegen, Hof, Lübbenau and Rendsburg will increase the attractiveness of these centres.

DEFAMA reiterated that it won't acquire free cashflow negative targets: the latter are designed to absorb their own debt repayments in full despite higher interest rates. Inflation will help in the FY 23 by generating incremental revenue (and FFO) on the running portfolio as 90% of rents will benefit from strongly positive indexation (70bp in Q1 23 vs. December 2022 i.e. c.3% annualised). We believe that inflation alone will be enough to secure a significant portion of DEFAMA's FY 23 guidance.

In Q1 23, FFO stood at €2.3m, thus in line with the FY 23 target of €11m when accounting for the contributions from the expected acquisitions.

Acquisitions year to date

In May 2023, DEFAMA realised two acquisitions which should support the FY 23 guidance of annualised FFO up by 10% yoy. Two retail parks acquired in Thüringen and Niedersachsen will contribute €0.6m of annual net rent for a total acquisition cost of c.€6m (our estimate). With an accrued occupancy ratio of 97%, lettable ground of 7,900 sqm and individual sizes within the range of €1-5m, they are typical targets for the company. The tenants are the customary clients of DEFAMA mostly, e.g. Netto, JYSK, etc.

The company's external growth target is c.€20-30m p.a. and the acquisitions made year to date weigh 25-30% of this annual expectation. We expect DEFAMA

Baader Europe

Add	Upside: 23.4%
Target Price (6 months)	€ 27.7
Share Price	€ 22.4
Market Cap. €M	108
Price Momentum	UNFAVORABLE
Extremes 12Months	20.6 ▶ 25.9
Sustainability score	2.7 /10
Credit Risk	B →
Fundamental Strength	3 /10
Bloomberg	DEF GY Equity
Reuters	DEF.MU


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PERF	1w	1m	3m	12m
DEFAMA	4.67%	6.16%	-6.67%	-9.32%
Real Estate	-4.38%	-8.30%	-16.0%	-31.7%
STOXX 600	-2.03%	-2.15%	-0.97%	2.25%

Sector Opinion	Overweight
Strongest upside	CORESTATE Capital Group
Worst potential	Hammerson

[Complete Sector Analysis](#)

Last updated: 17/05/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	21.6	25.6	22.5	20.4
Dividend yield (%)	2.14	2.50	2.59	2.68
EV/EBITDA(R) (x)	21.4	18.3	17.1	16.2
Adjusted EPS (€)	1.17	0.87	0.99	1.10
Growth in EPS (%)	2.73	-25.3	13.7	10.4
Dividend (€)	0.54	0.56	0.58	0.60
Sales (€M)	20.2	24.7	27.4	29.9
EBITDA/R margin (%)	62.8	60.1	61.3	61.5
Attributable net profit (€M)	5.40	4.20	4.77	5.27
ROE (after tax) (%)	15.5	9.96	10.8	11.4
Gearing (%)	331	366	382	389

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

to be able to further accelerate in the June-December period as today's conference call indicated that access to liquidity had been secured.

Liquidity has become a bit more costly recently, with mortgages now trading above 4.0%. As a reminder, DEFAMA's current average cost of debt is 2.43% (2.32% in December 2022) with the average maturity at 5.7 years.

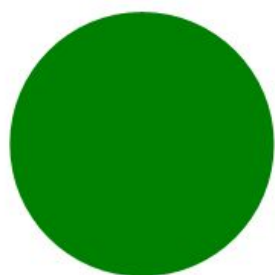
DEFAMA still plans to make opportunistic asset disposals although we remain cautious as to the end-market's potential appetite. However, the Group's balance sheet doesn't make such sales compulsory. At pixel time, DEFAMA doesn't detect a rising risk of strong yield decompression in H1 23 due to its own high Capitalisation Rates supporting book value.

■ Impact

There is accessible liquidity for companies requesting low individual amounts from the banks (below €10m) whereas the addressing bond market looks a bit more tricky these days (see other listed landlords). In our view DEFAMA will be able to reach its FY 23 guidance which will be supported by an attainable acquisition roadmap vs. : i/ the size of the overall German market and ii/ local banks lending capacities.

The hysteresis impact will remain positive throughout 2023-25 at the FFO level until the debt-roll gradually accelerates later in the decade. The P&L looks designed to resist any such issues in the out-years. Despite the potentially gloomy sector news flow which is expected to accelerate through 2023, we confirm our positive stance on DEFAMA.

Sales by Geography



Germany (100.0%)

Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€M	20.2	24.7	27.4
Change in sales	%	18.1	21.9	11.2
Change in staff costs	%	5.59	10.0	6.00
EBITDA	€M	12.7	14.8	16.8
EBITDA(R) margin	%	62.8	60.1	61.3
Depreciation	€M	-5.10	-6.08	-6.72
Underlying operating profit	€M	7.60	8.74	10.1
Operating profit (EBIT)	€M	7.60	8.74	10.1
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	2.48	0.00	0.00
Corporate tax	€M	-1.78	-0.80	-0.91
Equity associates	€M			
Minority interests	€M			
Adjusted attributable net profit	€M	5.40	4.20	4.77
NOPAT	€M	5.70	6.55	7.56

Cashflow Statement

		12/22A	12/23E	12/24E
EBITDA	€M	12.7	14.8	16.8
Change in WCR	€M	-1.18	0.00	0.00
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-1.78	-0.80	-0.91
Exceptional items	€M	2.09	4.00	0.00
Other operating cash flows	€M			
Total operating cash flows	€M	11.8	18.0	15.9
Capital expenditure	€M	-45.2	-25.0	-25.0
Total investment flows	€M	-45.2	-25.0	-25.0
Net interest expense	€M	-2.90	-3.74	-4.40
Dividends (parent company)	€M	-2.45	-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	34.8	6.99	9.11
Change in cash position	€M	1.50	0.00	0.00
Free cash flow (pre div.)	€M	-36.2	-10.7	-13.5

Per Share Data

		12/22A	12/23E	12/24E
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	€	1.17	0.87	0.99
Restated NAV per share	€	20.2	21.9	23.2
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	€ 22.4	20%	
DCF	€ 27.5	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 27.7	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	186	200	219
Financial fixed assets	€M			
WCR	€M	6.17	6.17	6.17
Other assets	€M			
Total assets (net of short term liab.)	€M	192	207	225
Ordinary shareholders' equity	€M	41.3	42.9	45.0
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	150	164	180
Total liab. and shareholders' equity	€M	192	207	225

Capital Employed

		12/22A	12/23E	12/24E
Capital employed after depreciation	€M	192	207	225

Profits & Risks Ratios

		12/22A	12/23E	12/24E
ROE (after tax)	%	15.5	9.96	10.8
ROCE	%	2.97	3.17	3.36
Gearing (at book value)	%	331	366	382
Adj. Net debt/EBITDA(R)	x	11.8	11.1	10.7
Interest cover (x)	x	2.62	2.34	2.29

Valuation Ratios

		12/22A	12/23E	12/24E
Reference P/E (benchmark)	x	21.6	25.6	22.5
Free cash flow yield	%	-29.9	-9.98	-12.6
P/Book	x	2.93	2.50	2.39
Dividend yield	%	2.14	2.50	2.59

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€M	121	108	108
+ 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	150	164	180
+ 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	271	271	287
EV/EBITDA(R)	x	21.4	18.3	17.1
EV/Sales	x	13.4	11.0	10.5

Analyst : Christian Auzanneau, Changes to Forecasts : 17/05/2023.

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