

DEFAMA

Retail - Property / Germany

Smooth continuation of deployment

Earnings/sales releases - 18/08/2023

DEFAMA is planning to look at attractive acquisition opportunities in a German commercial real estate market that is adjusting to higher interest rates. Given the structure of its balance sheet, DEFAMA continues to present a more favourable risk reward than a couple of its peers.

Fact

- Rental revenue of €5.6m in Q2 23 was up by 3% sequentially and by 16% yoy. Q3 23 will include full contributions from two acquisitions closed in late May 2023.
- Both EBITDA and FFO were up by 13-14% YoY in Q2 23
- The occupancy ratio of 94% was stable (+20b since December) and showed no deterioration.
- The FY 23 guidance was confirmed. There was a positive message on the dividend payable in 2024.

Analysis

Operational

DEFAMA has announced the signature of some major rental contracts (figures not available) which should fully secure the achievement of the FY 23 guidance. The 2023 objective thus remains the achievement of a Net Profit of €4m generating FFO of €9.8m, up significantly vs. FY 22. DEFAMA even said that this should allow a further increase in the dividend to be paid next year.

The two acquisitions in H1 23 (closed at the end of May 2023 for an accrued €6m of GAV and €630k of rents) demonstrate the ability of the Group's Business Model to continue to operate in a market that has changed, due to the rise in interest rates over the period. We expect a significant increase in the number of affordable opportunities.

DEFAMA seems well positioned to take advantage of this due to: i/ its size, thanks to which a small number of selected targets (vs. full market size) will have a significant positive impact and ii/ its balance sheet structure (both LTV ratio and debt structure).

After the two acquisitions in H1 23 (63 properties vs. 61 at December 31, +3%) DEFAMA continues to monitor market opportunities, some of which are substantial. In our view being active in the market in 2023-25 may well be a good move. We thus like the fact that DEFAMA is not stepping up its acquisition strategy too quickly since this will not call into question the 2025 objectives. The best opportunities will potentially be in 2024-25 once the end-market transaction prices have adjusted in full.

More favourable prices make it possible to absorb the increase in financing costs. On this subject, DEFAMA mentioned full access to market liquidity via its lenders: local retail banks, outside of bond circuits which are more difficult or expensive today. The average cost of debt was 2.45% in June 2023 vs. 2.32% in June 2022, an increase of only 15bp since last December.

NAV per share: no negative impact

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Add	Upside: 25.3%
Target Price (6 months)	€ 27.6
Share Price	€ 22.0
Market Cap. €M	106
Price Momentum	GOOD
Extremes 12Months	20.6 ▶ 25.6
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	-0.45%	0.46%	3.77%	-13.4%
Real Estate	-5.00%	-2.34%	2.82%	-18.9%
STOXX 600	-2.81%	-2.08%	-2.76%	2.77%

Sector Opinion	Underweight
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	25.2	22.1	20.1
Dividend yield (%)	2.14	2.55	2.64	2.73
EV/EBITDA(R) (x)	21.4	18.2	17.0	16.1
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](#)

The NAV per share of €23.92 was up 3% QoQ and by 5% on its December 2022 level (the dividend of €0.54 per share was paid at the end of July 2023). The Yield Decompression currently visible on many Property companies in Europe does not affect DEFAMA which remains protected by the high yield of its portfolio (net rents/GAV).

DEFAMA takes full advantage of inflation via indexation (undisclosed contribution) which will percolate directly into the FFO 2024 and is already visible in the YoY growth since indexation is essentially passed on to tenants at the end of the Q1 or the beginning of the Q2. The current level of inflation should undoubtedly result in a new positive contribution to Q1-Q2 24. Note that 91% of contracts are indexed.

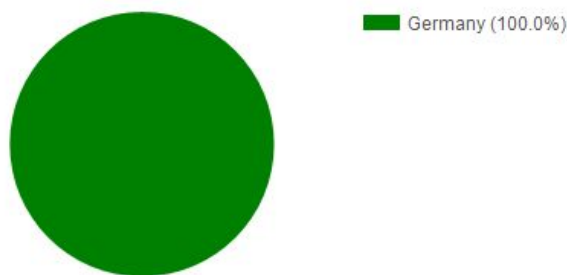
It should be remembered that the sector yield decompression is, above all, concentrated on the Offices segment and had very little impact on the European Retail segment in H1 23, including for large Property companies offering Rental Yields much lower than those of DEFAMA. We therefore expect an increasing underlying NAV in H2 23 for the latter (restated for dividend payments).

■ Impact

DEFAMA offers a better risk reward than some of its peers due to a good balance sheet profile. The company is thus being spared the reductions in FFO that can be seen elsewhere in the market. Growth continues.

Our estimates are unchanged. We confirm our positive opinion.

Sales by Geography



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	€ 22.0	20%	
DCF	€ 27.5	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 27.6	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	25.2	22.1
Free cash flow yield	%	-29.9	-10.2	-12.8
P/Book	x	2.93	2.46	2.35
Dividend yield	%	2.14	2.55	2.64

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€M	121	106	106
+ 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	269	285
EV/EBITDA(R)	x	21.4	18.2	17.0
EV/Sales	x	13.4	10.9	10.4

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

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