

# DEFAMA

Retail - Property / Germany

## Major investment close to the Belgian border

M&amp;A /Corp. Action - 26/09/2023

With the acquisition of a new retail park in Nordrhein-Westfalen for almost €10m, DEFAMA has increased its annualised rental income to over €22m and is continuing to grow.

### Fact

- The Retail Park at Heisberg, west of Düsseldorf, has a lettable ground area of 10,500 sqm.
- The main tenants are: EDEKA, Rossmann, Deichmann, ACTION, and Woolworth.
- The acquisition multiple is 9.8x net rents of €1m, giving a total transaction price of around €10m.
- DEFAMA's annualised rental income exceeds €22m and annualised FFO approaches €11m (€2.24 per share).

### Analysis

#### Extend the perimeter

True to its strategy, DEFAMA is continuing to acquire retail parks. In this case, it is paying just under €1,000 per lettable sqm, which is at the high end of its previous acquisitions but for a good quality asset.

Heisberg is a town of around 50,000 inhabitants to the west of Köln and Düsseldorf and close to the Belgian border. The asset acquired has the advantage of being close to Heisberg station and the city's hospital, and is therefore not located on the edge of town. The surface area of the land has not been disclosed, but we believe the land is of attractive value. The Retail Park includes shops as well as 19 residential units, giving it a mixed occupancy.

#### Financial structure and sector focus

Despite the rise in short-term interest rates (ECB), the target remains self-financing thanks to a net yield of over 10%. In addition, the tenants are first ranked. This acquisition does not alter the overall risk level of the portfolio. This asset demonstrates that certain opportunities are emerging, with quality properties selling at a ratio of less than 10x net rents.

As regards Retail Europe, and particularly following the BAADER Conference in Munich, we have not detected any major problems. According to the information we have, the assets most at risk are still offices and housing. Retail seems to have been spared so far. This conclusion is corroborated at this stage by the opinions of European real estate brokers. Inflation continues to have a positive impact on rents, offsetting the rise in interest rates and capped rates. The fall in consumption volumes, for example in the food sector, has not yet spread to other segments.

As with all the property companies we cover, we will continue to monitor the sector's main risk, which is the trend in the longest maturities on the yield curve, between now and the end of 2023 and well into 2024. DEFAMA remains relatively well protected by the average duration of its rental contracts, the structure of its liabilities and the quality of its tenants.

## Baader Europe

<b>Add</b>	<b>Upside: 26.7%</b>
Target Price (6 months)	€ 27.5
Share Price	€ 21.7
Market Cap. €M	104
Price Momentum	<b>NEGATIVE</b>
Extremes 12Months	20.6 ▶ 24.8
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	-1.36%	-0.91%	2.36%	-3.98%
Real Estate	1.59%	5.76%	13.0%	9.93%
STOXX 600	-1.38%	-0.21%	-0.60%	15.4%

Sector Opinion	<b>Underweight</b>
Strongest upside	VIB Vermögen
Worst potential	Aroundtown

[Complete Sector Analysis](#)

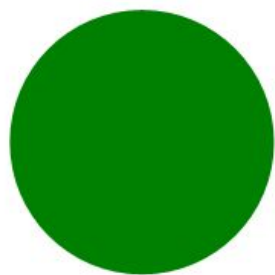
Last updated: 17/05/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	21.6	24.8	21.8	19.8
Dividend yield (%)	2.14	2.58	2.67	2.76
EV/EBITDA(R) (x)	21.4	18.1	16.9	16.0
Adjusted EPS (€)	1.17	0.87	0.99	1.10
Growth in EPS (%)	2.73	-25.3	13.7	10.4
Dividend (€)	0.54	0.56	0.58	0.60
Sales (€M)	20.2	24.7	27.4	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](#)

## ■ **Impact**

Further acquisitions by DEFAMA were already included in our estimates, which will not be revised. Our Buy recommendation remains unchanged.

## Sales by Geography



Germany (100.0%)

## Consolidated P&amp;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
<b>EBITDA(R) margin</b>	%	<b>62.8</b>	<b>60.1</b>	<b>61.3</b>
Depreciation	€M	-5.10	-6.08	-6.72
Underlying operating profit	€M	7.60	8.74	10.1
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>7.60</b>	<b>8.74</b>	<b>10.1</b>
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			
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>5.40</b>	<b>4.20</b>	<b>4.77</b>
NOPAT	€M	5.70	6.55	7.56

## Cashflow Statement

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
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>-36.2</b>	<b>-10.7</b>	<b>-13.5</b>

## 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
<b>Benchmark EPS</b>	<b>€</b>	<b>1.17</b>	<b>0.87</b>	<b>0.99</b>
Restated NAV per share	€	20.2	21.9	23.2
<b>Net dividend per share</b>	<b>€</b>	<b>0.54</b>	<b>0.56</b>	<b>0.58</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 29.6	55%	
Dividend Yield	€ 21.7	20%	
DCF	€ 27.5	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 27.5	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
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>41.3</b>	<b>42.9</b>	<b>45.0</b>
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			
<b>Net debt (cash)</b>	<b>€M</b>	<b>150</b>	<b>164</b>	<b>180</b>
Total liab. and shareholders' equity	€M	192	207	225

## Capital Employed

Capital employed after depreciation	€M	192	207	225
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## Profits &amp; Risks Ratios

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

## Valuation Ratios

<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>21.6</b>	<b>24.8</b>	<b>21.8</b>
Free cash flow yield	%	-29.9	-10.3	-13.0
P/Book	x	2.93	2.43	2.31
<b>Dividend yield</b>	%	<b>2.14</b>	<b>2.58</b>	<b>2.67</b>

## EV Calculation

Market cap	€M	121	104	104
+ 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	268	284
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>21.4</b>	<b>18.1</b>	<b>16.9</b>
EV/Sales	x	13.4	10.9	10.4

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

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