

DEFAMA

Retail - Property / Germany

Sticking to the roadmap

Earnings/sales releases - 28/02/2024

DEFAMA's FY 23 earnings were in line with both its own expectations and our estimates. The Group remains on the offensive for 2024 and has reiterated its 2025 targets, which call for investment of around €35m p.a.

Fact

- FFO was up 13%, driven by a 16% increase in the top line and financial costs that remained contained.
- The annualised FFO was €11.3m for a portfolio valued at €283m at the end of 2023. FFO has more than doubled since 2019. The vacancy ratio remains low at 4%.
- There were fewer disposals in 2023 than in 2022, and therefore a smaller contribution from capital gains to net profit (-19%). DEFAMA will continue to rotate some elements of its portfolio (65 local Retail Parks in Germany, 277,000 sqm) on an opportunistic basis.
- DEFAMA achieved all its 2023 targets.
- The dividend per share was increased from €0.54 to €0.57. The dividend yield is 2.2%.
- The newly published 2024 guidance is for FFO of €10.6m vs. €9.7m in 2023, an increase of 10%. Annualised FFO should rise from €11.3m to over €12.0m. The cash dividend payable in 2025 should continue to rise vs. 2024.

Analysis

Operational and shareholder returns

The ongoing sound management of the Retail Parks, including regular investment in the assets, is reflected in an occupancy ratio that remains highly favourable, at over 96%. The conversion of revenues into cash is therefore at a maximum: for €23.4m of revenues (€24.2m of net rents annualised in end-2023), the FFO is €9.7m, i.e. a ratio of 41%. For the acquisitions in 2023, the FFO (> €0.9m) vs. acquisition price (€28m) was 3.2%, giving a net conversion ratio of 28% (rents to FFO), which also partly reflects the higher cost of debt, which is primarily visible on recently-acquired targets, despite the higher initial yield. Be that as it may: these levels of cash generation remain sufficiently high to enable DEFAMA to continue to grow.

Using an annualised FFO per share to market cap ratio, the shareholder yield is closer to 10%. The forward Total Shareholder Return (largely capitalised and reinvested in development) is high but, in our view, sustainable. It is supported by a gross return on assets of 8.5% (annualised net rents vs. GAV), with an improvement in this ratio if we look at acquisitions in 2023 (11% yield, for c.10% of the full portfolio at end 2023).

The market interest rates will gradually weigh on FFO and this is built into our 2024 -25 estimates: the debt is well hedged. This could be more significant beyond 2025 if long-term rates (or debt spreads) were to be higher than they are today. This would remain manageable but could slow the FFO per share development pace.

Portfolio & indexation

Baader Europe

| Add | Upside: 9.94% |
|-------------------------|---------------|
| Target Price (6 months) | € 28.5 |
| Share Price | € 25.9 |
| Market Cap. €M | 124 |
| Price Momentum | STRONG |
| Extremes 12Months | 20.3 ▶ 26.6 |
| Sustainability score | 3.2 /10 |
| Credit Risk | B → |
| Fundamental Strength | 0 /10 |
| Bloomberg | DEF GY Equity |
| Reuters | DEF.MU |


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| PERF | 1w | 1m | 3m | 12m |
|-------------|--------|--------|--------|--------|
| DEFAMA | -0.38% | 2.37% | 18.3% | 7.92% |
| Real Estate | -1.01% | -4.76% | -0.37% | -1.48% |
| STOXX 600 | 0.90% | 2.58% | 8.27% | 7.30% |

| Sector Opinion | Underweight |
|------------------|-------------|
| Strongest upside | DEMIRE |
| Worst potential | Segro |

[Complete Sector Analysis](#)

| Last updated: 17/05/2023 | 12/22A | 12/23E | 12/24E | 12/25E |
|------------------------------|--------|--------|--------|--------|
| Adjusted P/E (x) | 21.6 | 25.5 | 26.1 | 23.6 |
| Dividend yield (%) | 2.14 | 2.52 | 2.24 | 2.32 |
| EV/EBITDA(R) (x) | 21.4 | 18.3 | 18.1 | 17.1 |
| 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](#)

There were no significant negative revaluations in 2023. The portfolio remains valued at less than €900 per sqm, which is well below its replacement cost, especially after the wave of inflation in the last two years in Germany. The value of the portfolio has also benefited from – as yet undisclosed – rent indexation through 2023. In our opinion this is not over given the increases that will be passed through at the start of 2024. For this reason too, we believe that the 2024 guidance is eminently achievable. Beyond 2025, the indexation effect is likely to make a smaller contribution, with a corresponding increase in financial expenses, but DEFAMA has time to plan ahead if necessary.

The current portfolio is €283m and the target is €350m for 2025. This implies c.€35m of investment p.a., which is in line with the pace of development in recent years once expressed in Euros. The pace of expansion, in relative terms compared with the previous year's GAV, is slowing and is therefore still achievable, in our view, given that cash generation remains satisfactory.

Using two years of net annualised FFO, a 2023 figure (net of dividend) of €9m p.a. and the capitalised FFO will be €18m vs. €70m of acquisitions (i.e. 25%), while market conditions enabled DEFAMA to finance its acquisitions at c.90% by debt in 2023 (AV est.). The current high-yield targets are almost completely self-financing thanks to their rental income, despite the currently slightly higher cost of debt. For example, the yield on the 2023 targets was above 11% for a €28m investment.

DEFAMA therefore still has room to finance its development, but also to invest in its portfolio assets (€4m planned), which is very important to preserve and, in DEFAMA's case continuously improve, its attractiveness.

Balance sheet, dividend and development pace

The cost of its €163m debt remains contained thanks to its structure. The LTV ratio of 60% remains manageable for a company with such a profile, especially when looking to the average €900 value per sqm, which is far from excessive. The average debt maturity of 6.3 years gives DEFAMA time to manage its balance sheet and weather any external shocks.

We will continue to pay close attention to the situation of the German banks, which are in the news because of their presumed global exposure to Commercial Real Estate. 36 local German banks are financing DEFAMA. At this stage, we do not fear a credit crunch in 2024. For the time being, there is no change in the German banks' lending policy. This situation should enable DEFAMA to continue to finance the growth in its portfolio in 2024.

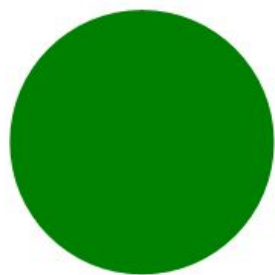
Dividends will absorb €2.7m, leaving the equivalent of €7m in cash flow in the company in 2023. With a dividend pay-out ratio to FFO of 27%, the company's dividend policy remains prudent: it favours the Group's development and the strength of its balance sheet. In our view, DEFAMA is pursuing a long-term strategy. We like this kind of story.

■ Impact

There is no need to modify our 2024 estimates, which are fully in line with DEFAMA's 2024 guidance. Our 2025 estimates remain below the company's strategic plan target, but the latter should be seen as an expected snapshot of DEFAMA's perimeter at 31 December 2025. Given the interest rate environment, the 2025 FFO per share target (€2.70 vs. €2.01 in 2023) may seem a little riskier at first glance, but we need to bear in mind the fact that it was already €2.42 in December 2023 on an annualised basis, before restating this for higher forward financial expenses, admittedly.

In any case, the strategic plan is not central to our investment case. We remain positive on this well-managed company. We would continue to play the development of the portfolio and the CEO's clear ability. The pace of growth is controlled and compatible with the Group's balance sheet.

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 | € 25.9 | 20% | |
| DCF | € 27.5 | 10% | |
| PE based | n/a | 10% | |
| P/book based | n/a | 5% | |
| TARGET PRICE | € 28.5 | 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 |
| 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 | 25.5 | 26.1 |
| Free cash flow yield | % | -29.9 | -10.0 | -10.9 |
| P/Book | x | 2.93 | 2.49 | 2.76 |
| Dividend yield | % | 2.14 | 2.52 | 2.24 |

EV Calculation

| | | 12/22A | 12/23E | 12/24E |
|---|----------|-------------|-------------|-------------|
| Market cap | €M | 121 | 107 | 124 |
| + 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 | 304 |
| EV/EBITDA(R) | x | 21.4 | 18.3 | 18.1 |
| EV/Sales | x | 13.4 | 11.0 | 11.1 |

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

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