

DEFAMA

Retail - Property / Germany

DEFAMA remains on the offensive

Earnings/sales releases - 04/06/2024

DEFAMA continues to stand out in the under-coverage property segment, with further growth in its top line and assets. We remain positive.

Fact

- In Q1 24, the top line grew by 22% to €6.6m.
- EBITDA rose by 14% to €4.1m, while net profit was stable.
- FFO per share was up 10% yoy.
- Guidance was unchanged at €10.6m FFO.

Analysis

The search for acquisitions continues

In May, DEFAMA carried out an asset arbitrage with the sale of Büdelsdorf, which will generate a €1.5m pretax capital gain. The cash will be recycled in new acquisitions during 2024, and the company remains on the lookout for opportunities in a buyer's market. Most of the acquisitions are expected to take place in the H2 24, which would generate positive news flow.

At this stage, the Group is not aware of any slowdown in bank financing or any particular reluctance to lend. The financing of future acquisitions therefore seems secured. While the credit spread conditions in the market remain attractive, the German sovereign bond remains the most attractive in Europe, of course.

Indexation and FFO

Indexation and new acquisitions will probably enable the company to meet the 2024 guidance of €10.6m in FFO (€12m annualised FFO at end 2024), despite the disposal of Büdelsdorf. At the end of the Q1 24, annualised FFO was already running at €11.3m, which implies GAV growth of around 6% between now and the end of the year. Work is continuing on the standing portfolio. This will also help to optimise rents. In proportion to its size, DEFAMA remains one of the companies in our portfolio that invests the most in its assets, which we regard as positive.

However, the Q1 24 highlights a relative loss of incremental leverage: EBITDA is growing at a slower pace than revenues. However, we believe that the improvements currently being made to the portfolio should enable, on a similar perimeter, a recovery in this leverage ratio by the end of the year.

As far as net profit (and FFO) are concerned, the gradual rise in credit conditions will gradually weigh on the speed of development of the bottom line and, of course, FFO per share. However, as the pace of growth is under control, DEFAMA remains confident that the dividend payable in 2025 will increase, which we do not believe will be the case for a number of other listed REITs. DEFAMA has a specific debt structure, with a large proportion of the debt being repayable and no bonds at all. This is an effective natural hedge, although it is not absolutely backed by very long resources (e.g. 20 or 25 year residential mortgages).

The forthcoming acquisitions will enable to see to what extent building prices continue to adapt to long-term interest rates and whether they even generate a better FFO than previously (net of financial expenses). This could have a virtuous medium-term effect, but would require attractive acquisition terms (much lower

Baader Europe

Add	Upside: 13.9%
Target Price (6 months)	€ 29.1
Share Price	€ 25.6
Market Cap. €M	123
Price Momentum	STRONG
Extremes 12Months	20.3 ▶ 26.6
Sustainability score	2.6 /10
Credit Risk	B →
Fundamental Strength	0 /10
Bloomberg	DEF GY Equity
Reuters	DEF.DE


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PERF	1w	1m	3m	12m
DEFAMA	3.23%	-1.54%	-1.92%	15.8%
Real Estate	2.95%	4.47%	13.4%	27.8%
STOXX 600	-0.45%	2.83%	4.48%	12.5%

Sector Opinion	Underweight
Strongest upside	VIB Vermögen
Worst potential	Nexity

[Complete Sector Analysis](#)

Last updated: 28/02/2024	12/23A	12/24E	12/25E	12/26E
Adjusted P/E (x)	24.0	25.6	23.2	22.7
Dividend yield (%)	2.56	2.30	2.38	2.42
EV/EBITDA(R) (x)	18.8	17.9	16.9	16.1
Adjusted EPS (€)	0.93	1.00	1.10	1.13
Growth in EPS (%)	-20.9	8.09	10.3	2.30
Dividend (€)	0.57	0.59	0.61	0.62
Sales (€M)	23.4	27.4	29.9	31.9
EBITDA/R margin (%)	61.2	61.5	61.7	61.7
Attributable net profit (€M)	4.45	4.81	5.30	5.42
ROE (after tax) (%)	10.5	10.9	11.4	11.1
Gearing (%)	363	378	386	382

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

prices for assets put up for sale when looking to EV/rents ratios). Our view is that the end-market remains fairly sluggish, given the balance sheet problems faced by a number of potential buyers, who have recourse to bond debt in particular. For a couple of years, DEFAMA therefore has a competitive advantage that it knows how to use prudently and gradually.

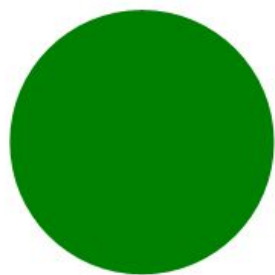
Sector news flow

We are beginning to see the first effects of higher interest rates on FFO in some of the most fragile German REITs. Although the transaction market is tighter, to the benefit of the few who can buy, there have been no fire sales or violent adjustments for the time being. The ECB is still fairly alarmist about commercial real estate. This remains a significant concern for players with the most fragile debt structures, a cohort to which DEFAMA does not belong. DEFAMA remains focused on opportunities and a cherry-picking strategy, which should exclude the acquisition of 'large portfolios' that could come onto the market (e.g. €100/300m). For this reason, while DEFAMA may necessarily suffer from a perception of increased risk in the sector, we do not envisage any change in its own risk profile or any major risk-taking (e.g. acquisition of €100-300m assets).

■ Impact

No need to change our operating forecasts. We will have to add back the capital gain on Büdelsdorf on an exceptional basis. Our understanding of the business is unchanged by Q1 24 and our positive view is also unchanged.

Sales by Geography



Germany (100.0%)

Consolidated P&L Accounts

		12/23A	12/24E	12/25E
Sales	€M	23.4	27.4	29.9
Change in sales	%	15.7	17.1	9.24
Change in staff costs	%	8.00	6.00	6.00
EBITDA	€M	14.3	16.8	18.5
EBITDA(R) margin	%	61.2	61.5	61.7
Depreciation	€M	-6.51	-6.72	-7.35
Underlying operating profit	€M	7.82	10.1	11.1
Operating profit (EBIT)	€M	7.82	10.1	11.1
Net financial expense	€M	-3.74	-4.40	-4.80
of which related to pensions	€M	0.00	0.00	0.00
Exceptional items & other	€M	0.50	0.00	0.00
Corporate tax	€M	-0.13	-0.92	-1.01
Equity associates	€M			
Minority interests	€M			
Adjusted attributable net profit	€M	4.45	4.81	5.30
NOPAT	€M	5.86	7.59	8.33

Cashflow Statement

		12/23A	12/24E	12/25E
EBITDA	€M	14.3	16.8	18.5
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		-0.92	-1.01
Exceptional items	€M	4.00	0.00	0.00
Other operating cash flows	€M			
Total operating cash flows	€M	18.3	15.9	17.5
Capital expenditure	€M	-25.0	-25.0	-20.0
Total investment flows	€M	-25.0	-25.0	-20.0
Net interest expense	€M	-3.74	-4.40	-4.80
Dividends (parent company)	€M	-2.59	-2.74	-2.83
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	0.00	0.00	0.00
Total financial flows	€M	6.30	9.07	2.55
Change in cash position	€M	-0.37	0.00	0.00
Free cash flow (pre div.)	€M	-10.4	-13.5	-7.35

Per Share Data

		12/23A	12/24E	12/25E
No. of shares net of treas. stock (year...	Mio	4.80	4.80	4.80
Number of diluted shares (average)	Mio	4.80	4.80	4.80
Benchmark EPS	€	0.93	1.00	1.10
Restated NAV per share	€	21.9	23.3	24.7
Net dividend per share	€	0.57	0.59	0.61

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 30.6	55%	
Dividend Yield	€ 25.6	20%	
DCF	€ 28.1	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 29.1	100%	

NAV/SOTP Calculation

Balance Sheet

		12/23A	12/24E	12/25E
Goodwill	€M			
Total intangible	€M	0.00	0.00	0.00
Tangible fixed assets	€M	200	218	231
Financial fixed assets	€M			
WCR	€M	6.17	6.17	6.17
Other assets	€M			
Total assets (net of short term liab.)	€M	206	224	237
Ordinary shareholders' equity	€M	43.2	45.3	47.7
Quasi Equity & Preferred	€M			
Minority interests	€M	0.00	0.00	0.00
Provisions for pensions	€M		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	163	179	189
Total liab. and shareholders' equity	€M	206	224	237

Capital Employed

		12/23A	12/24E	12/25E
Capital employed after depreciation	€M	206	224	237

Profits & Risks Ratios

		12/23A	12/24E	12/25E
ROE (after tax)	%	10.5	10.9	11.4
ROCE	%	2.84	3.38	3.51
Gearing (at book value)	%	363	378	386
Adj. Net debt/EBITDA(R)	x	11.4	10.6	10.3
Interest cover (x)	x	2.09	2.30	2.32

Valuation Ratios

		12/23A	12/24E	12/25E
Reference P/E (benchmark)	x	24.0	25.6	23.2
Free cash flow yield	%	-9.74	-11.0	-5.98
P/Book	x	2.47	2.72	2.57
Dividend yield	%	2.56	2.30	2.38

EV Calculation

		12/23A	12/24E	12/25E
Market cap	€M	107	123	123
+ 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	163	179	189
+ 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	270	302	312
EV/EBITDA(R)	x	18.8	17.9	16.9
EV/Sales	x	11.5	11.0	10.4

Analyst : Christian Auzanneau, Changes to Forecasts : 28/02/2024.

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