

# DEFAMA

Retail - Property / Germany

## Numerous opportunities

Earnings/sales releases - 21/08/2024

DEFAMA is currently submitting a record number of purchase offers, which should support the achievement of the 2025 roadmap. The level of risk remains well controlled. We remain positive.

### Fact

- Revenue has increased by 19%, driven by changes in scope, indexation and low vacancy ratio (4%)
- FFO (ex-capital gains) increased by 10% to €5.1m in H1 24. The annualized FFO was €11.6m
- The disposal of Búdelsdorf brought back €3m in cash, net of tax, net of debt
- The 2024 guidance is confirmed. DEFAMA is currently submitting a record number of purchase offers in a buyer-friendly market
- The 2025 roadmap is also confirmed

### Analysis

#### Cash recycling

In 2023, DEFAMA dedicated €2.5m of equity to the acquisition of €28m of assets. Búdelsdorf's cash back could therefore theoretically allow it alone to finance up to €30m of acquisitions over 2024-25. DEFAMA does not give a precise indication of the net amount of acquisitions in 2025 or 2026 (and therefore its growth pace) but we consider it likely, in a market favorable to buyers, that the group will be able to make high(er)-yield investments (rents / full transaction price). The 2025 plan (GAV €350m vs. €280m in June 2024, or €70m to buy, net, by December 2025) is also maintained, which implies continued development that will bring the annualized rent from €24m currently to €28m.

There are always opportunities for asset arbitrage in the current market as seen with Búdelsdorf (see picture below): there are retail buyers for this type of assets sold at €6.7m (€3.1m invested in 2016 and €2m of modernization work since then) for a rent of €550k, i.e. a gross yield of c.7.5% for the buyer, once duties are included. Thanks to its positioning, DEFAMA is in our opinion capable of recycling these disposals on targets with a higher yield. On the basis of a stable scope in terms of the number of assets or sqm (excluding extension of the scope), this strategy improves its own risk-reward profile.

am 14.02.2024 verkauft



# Baader Europe

Add	Upside: 11.8%
Target Price (6 months)	€ 29.3
Share Price	€ 26.2
Market Cap. €M	126
Price Momentum	<b>GOOD</b>
Extremes 12 Months	19.9 ▶ 27.2
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	0.00%	0.77%	4.60%	21.7%
Real Estate	1.12%	2.68%	-0.49%	24.8%
STOXX 600	2.11%	0.44%	-2.22%	14.2%

Sector Opinion	Underweight
Strongest upside	Icade
Worst potential	Hammerson

[Complete Sector Analysis](#)

Last updated: 28/02/2024	12/23A	12/24E	12/25E	12/26E
Adjusted P/E (x)	24.0	26.2	23.7	23.2
Dividend yield (%)	2.56	2.25	2.33	2.37
EV/EBITDA(R) (x)	18.8	18.1	17.1	16.2
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](#)

## Balance sheet

The level of risk by 2025 is reasonable with around €9m of loan repayments matching : i/ €12m of annualized FFO in FY 24 and ii/ €2.7m of dividends paid. In 2026, we will begin to see an increase in the refinancing of loans initially taken out at a fixed rate but over a fixed period. In the current interest rate market and liquidity in Germany, it should gradually slow down the rise in FFO a little from 2027 onwards but not lead to a drop in FFO in €m. Beyond monetary considerations and the potential turbulences in European Commercial Real Estate, we believe that DEFAMA has sufficiently solid fundamentals to prevent a sharp decline in its FFO in the coming years. Even taking a slightly unfavorable assumption on the market environment (credit spreads, Bund), DEFAMA is capable of continuing the growth of its portfolio in the medium term in our opinion.

## Continue to buy growth oriented profile

When we look at a NOPAT (after maintenance capex, once the tax particularities have been restated as well vs. tax-exempted REITs) vs. EV, DEFAMA is almost as valued as some much larger peers. However, DEFAMA has three advantages that its colleagues do not have: i/ the structure of its balance sheet, supported by local German banks which decorrelates its debt from the bond markets ; ii/ a low dividend payout ratio (28% of FY 23 FFO, 23% of FY 24 annualised FFO) which allows it to devote the cash to control the LTV and above all iii/ the potential growth of its GAV which many other listed REITs cannot afford precisely given the high cash dividends they use to pay.

By transparency, DEFAMA's investment case therefore remains based on its ability to grow over the coming years: this is what makes its interest despite its small cap status. DEFAMA continues to develop at a sustainable pace, this is equivalent to a level of risk properly managed for the shareholder, without exaggeration of the level of leverage.

## German Retail

The latest overall data available on the Retail market in Germany (Pfandbrief, August 2024), show good performance in nominal rents and a still visible drop in transaction prices (see chart below). This is intuitively entirely consistent with the vision given by DEFAMA: yields which continue to rise. For two decades, the gap between prices and rents has never been so high. After five years of continuous decline in nominal rents, it is already very interesting to observe that the current increase in 2024 seems to be accelerating after the start of the rebound in 2023. Confirmation of this trend would be a decisive message addressed to tenants, thus bringing further comfort to the pricing power of landlords.

Germany, Retail, Nominal (base 100, 2003)



Source: Pfandbrief, AVNOTA : FY 24e - H1 24 '2

The most interesting of course remains the net of inflation figures, towards a flattening of the curves which suggests that the market is in the process of stabilization. The long transition of German Retail may not be over, but with very little surface construction in recent decades and the significant migratory influx of recent years: German Retail could reach a point of better resilience (which remains subject, of course, to macroeconomic conditions).



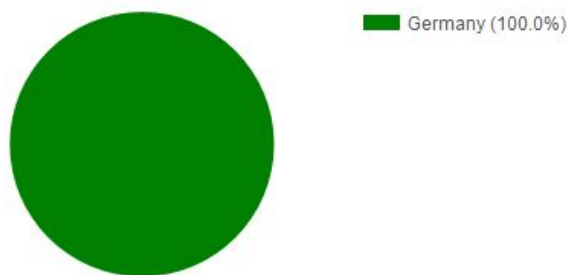
As in other European countries where we have already made this observation, any significant economic restart could leverage ERVs significantly and particularly for companies like DEFAMA (low rent per sqm) since the FFO would be favorably impacted during the rent roll. The cash conversion would certainly be very gradual due to the average maturity of contracts but it would offer increasing visibility on higher cash flows. The general retail environment in Germany therefore remains a point to particularly monitor, which could, for example, support an upward revision of our target price in the future.

## ■ Impact

In a market where there are a high number of good quality assets for sale, the location in Germany is a trigger: control of public finances offers a real advantage when it comes to financing costs for all of real estate (residential mortgages & commercial bank loans). This is particularly favorable when looking at DEFAMA's targets which offer a gross yield of 9-11%, thus generating a positive incremental margin (FFO).

This is why, from a macro perspective, we like German Real Estate at the moment and DEFAMA is well positioned in this sector. Our positive recommendation remains unchanged.

## Sales by Geography



## Consolidated P&amp;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
<b>EBITDA(R) margin</b>	<b>%</b>	<b>61.2</b>	<b>61.5</b>	<b>61.7</b>
Depreciation	€M	-6.51	-6.72	-7.35
Underlying operating profit	€M	7.82	10.1	11.1
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>7.82</b>	<b>10.1</b>	<b>11.1</b>
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			
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>4.45</b>	<b>4.81</b>	<b>5.30</b>
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
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>-10.4</b>	<b>-13.5</b>	<b>-7.35</b>

## 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
<b>Benchmark EPS</b>	<b>€</b>	<b>0.93</b>	<b>1.00</b>	<b>1.10</b>
Restated NAV per share	€	21.9	23.3	24.7
<b>Net dividend per share</b>	<b>€</b>	<b>0.57</b>	<b>0.59</b>	<b>0.61</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 30.6	55%	
Dividend Yield	€ 26.2	20%	
DCF	€ 28.1	10%	
PE based	n/a	10%	
P/book based	n/a	5%	
TARGET PRICE	€ 29.3	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
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>43.2</b>	<b>45.3</b>	<b>47.7</b>
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			
<b>Net debt (cash)</b>	<b>€M</b>	<b>163</b>	<b>179</b>	<b>189</b>
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 &amp; Risks Ratios

		12/23A	12/24E	12/25E
<b>ROE (after tax)</b>	<b>%</b>	<b>10.5</b>	<b>10.9</b>	<b>11.4</b>
ROCE	%	2.84	3.38	3.51
<b>Gearing (at book value)</b>	<b>%</b>	<b>363</b>	<b>378</b>	<b>386</b>
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
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>24.0</b>	<b>26.2</b>	<b>23.7</b>
Free cash flow yield	%	-9.74	-10.7	-5.84
P/Book	x	2.47	2.78	2.64
<b>Dividend yield</b>	<b>%</b>	<b>2.56</b>	<b>2.25</b>	<b>2.33</b>

## EV Calculation

		12/23A	12/24E	12/25E
Market cap	€M	107	126	126
+ 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	305	315
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>18.8</b>	<b>18.1</b>	<b>17.1</b>
EV/Sales	x	11.5	11.1	10.5

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

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