DIC Asset

Buy (opening coverage) Target: Euro 23.00

5 | March | 2020

Price (Euro)	**17.12**			
52 weeks range	17.40 / 9.30			

Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	1,354
Number of shares (million)	79.1
Free Float	55.9%
Free Float Market Cap (Euro million)	757
CAGR EBIT ('19 -'22e)	16.6%

Multiples	**2019**	**2020e**	**2021e**	**2022e**
Market Cap / Total revenues	13.3	13.0	11.5	9.9
PE-Ratio	**15.2**	**16.2**	**13.6**	**11.1**
Dividend Yield	3.9%	4.0%	4.3%	4.4%

Key Data per share (Euro)	**2019**	**2020e**	**2021e**	**2022e**
Earnings per share (EPS)	**1.13**	**1.05**	**1.26**	**1.54**
FFO per share	**1.32**	**1.33**	**1.49**	**1.51**
Dividend per share (DPS)	0.66	0.68	0.74	0.75

Financial Data (Euro '000)	**2019**	**2020e**	**2021e**	**2022e**
Gross rental income	101,942	103,973	117,626	136,372
Net rental income	**87,906**	**89,383**	**102,035**	**117,705**
Administrative expenses	-17,876	-20,183	-22,596	-24,822
Personnel expenses	-27,918	-29,731	-30,986	-31,745
Real estate management fees	62,883	90,754	108,019	122,303
Profit on disposal of investment property	40,516	27,952	22,420	30,198
EBIT	**111,906**	**123,192**	**143,160**	**177,283**
Net financial result	-32,364	-33,698	-38,524	-38,865
EBT	**97,863**	**99,618**	**116,552**	**151,169**
Taxation	-17,174	-17,174	-17,174	-17,174
Net profit after minorities	**80,911**	**82,792**	**99,795**	**134,468**

Main Shareholders

Deutsche Immobilien Chancen-Gruppe	34.1%
RAG-Stiftung	10.0%

Financial calendar

AGM	17 March 2020
1Q 2020 report	4 May 2020
1H 2020 report	29 July 2020

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DIC Asset is cheap as the share price does only reflect the own commercial portfolio but not the immense value add coming from the institutional business – starting coverage with a Buy recommendation and a Euro 23.00 target price

DIC Asset is one of the leading German commercial property investors, having a commercial portfolio of Euro 1.9bn on their own books, which is two Thirds above average office and one Third retail and other commercial use. We derive the value of the commercial portfolio by the new EPRA key performance indicator **EPRA Net Disposal Value** which represents the intrinsic value of the portfolio, less recognized goodwill for the GEG takeover and plus the hidden reserves on the investment portfolio and a fair value adjustment for the fixed-rate liabilities. We come up with a fair value of approx. Euro 1.1bn now and probably over Euro 1.2bn at year-end 2020. From this basis which represents only the existing commercial portfolio the share has already a Fair Value of c. Euro 15.00.

In addition to that, the institutional business with Euro 5.7bn assets under management at year-end 2019 delivered strong full year numbers and will further gain momentum with 2020 being the first full year in the books with regards to the GEG takeover which took place in June last year and was included in the 2019 numbers only with 7 months. The 2019 growth was tremendous, assets in institutional business hiked from Euro 3.9bn to Euro 5.7bn, and **not only coming from GEG takeover, which was responsible for an additional Euro 1.4bn but also organic growth.** The commercial portfolio also grew from Euro 1.7bn to Euro 1.9bn in 2019, and another Euro 85m not yet transferred to the balance. Furthermore, the quality increased as KPIs improved. WALT was up from 5.8 to 6.0 years and vacancy down from 7.2% to 6.5%.

DIC delivered a steep 2019 FFO growth of +40%, from Euro 68m to Euro 95m. The surge in cash-driven EBITDA was quite similar, +35% from Euro 122m to c. Euro 165m. For 2020 the firm guided another hike in FFO to a range of Euro 104m to Euro 106m. With regards to the total AuM, which is at present at Euro 7.6m, it is also guided to steeply increase again. DIC plans to increase AuM to Euro 10bn in short to mid-term. **We expect that level to be reached soon, in mid of 2021, just about 5 or 6 quarters from now.** Thus, we judge the given FFO and AuM targets to be very realistic, even more with a rock solid balance as equity is near Euro 1.1bn after the January capital hike and equity ratio is coming close to 40%.

We value the DIC share with a Sum-of-the-Parts approach as both business units have a strong and more or less equal weighting for the entire group, at least in terms of long-term FFO generation. For the commercial portfolio we derive a fair value from the EPRA Net Disposal Value of more than Euro 15.00. For the institutional business we come up with a DCF and EBITDA multiples which indicate Fair Values between Euro 8.00 and Euro 9.50. Summing up, the fair value range for the DIC Asset share is between Euro 23.00 and Euro 25.00. We initiate our coverage with a Buy rating and a Euro 23.00 target price.

DIC Asset AG

Industry:	Real Estate	**Management Board of DIC Asset**
Sub-segment:	Commercial property investor	CEO Sonja Wärntges
	Institutional Business / Managed Accounts	CIO Johannes von Mutius
	(transaction, asset and property management)	Patrick Weiden (from 2H 2020 on)
Region:	Germany	**Supervisory Board of DIC Asset:**
Headquarter:	Frankfurt	Prof. Dr. Gerhard Schmidt
Foundation	1998	Klaus-Jürgen Sontowski
Employees:	247	Prof. Dr. Ulrich Reuter
		Eberhard Vetter
IR Contact:		Dr. Anton Wiegers
Peer Schlinkmann, CIRO		Rene Zahnd
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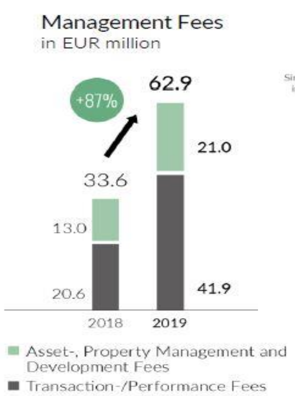
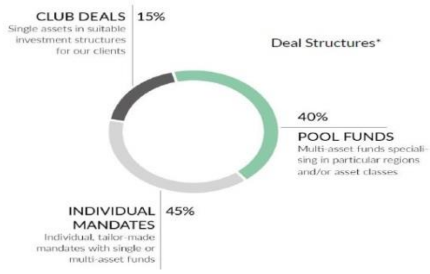
DIC Asset is a strong commercial properties player in the German market with two strong and more or less equally weighted pillars or businesses, which help for a very complementary income and investment structure.

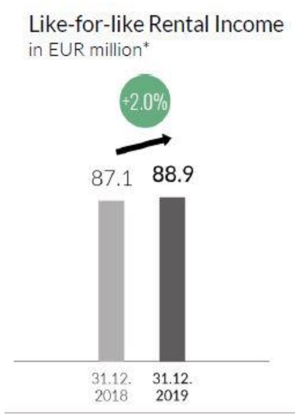
In the Commercial Portfolio DIC Asset does on balance sheet investmenst for their own books , in particular office properties that offer a stable cash income (core / core plus) as well as some value add properties which need more attention to reduce vacancy and increase the intrinsic cash flow in mid-term, in particular by repositioning or revitalization of some assets. This strategy is complemented by an intelligent cycle management to sell some properties at the right time for portfolio optimization and generating additional trading profits. The commercial portfolio has a size of Euro 1.9bn at year-end 2019 with another Euro 85m notarizations done, which come into the books in the first half of 2020.

In the second pillar, the Institutional Business, the company launches diversified real estate funds for many years, as the DIC Office Balance I was initiated in 2010 and DIC Office Balance II in 2014 and DIC Office Balance III in 2015, all with targeted AuM between Euro 300m and Euro 450m. DIC also initiated funds outside the office topic, for instance with the DIC Retail Balance I fund, which came in Sepptember 2017 with a size of about Euro 250m. The institutional business offers a great range of fees for set-up, transactions, asset and property management services for the funds, club deals and and individual mandatess. In addition to a broad income stream from servicing fees there are lucrative equity returns from the co-investment stakes. The assets under managment in the Institutional Business steeply increased by almost 50% in 2019, from Euro 3.9bn to Euro 5.7bn. After the company sold the 14% stake in Berlin-based office and retail property investor TLG in the first half of 2019 for Euro 376m, the proceeds were used to buy German Estate Group (GEG) to strenghten the Institutional Business and exploit common synergies. All activities in the field of fund business (third party mandates) have been bundled under the GEG roof. Both pillars, the Commercial Portfolio and the Institutional Business , are serviced from the group's own asset and property management platform, named DIC Onsite, with branches in Frankfurt, Mannheim, Dusseldorf, Cologne, Hamburg, Munich and Berlin. The institutional business offers a very steady and lucrative income stream of management fees as well as transaction-related fees and performance fees. In 2019 the real estate mangement fees almost doubled from Euro 34m to Euro 66m. And keep in mind, that GEG takeover is only included with 7 months in the 2019 numbers.

Individual mandates in the institutional business stand for about 45% of the total volume, the Pool funds (DIC Office Balance and GEG Infrastructure etc.) for about 40%. The remaining 15% are club deals.







Source: Company Data, SRC Research

SWOT Analysis

Strengths

- The company has a very experienced management team that has a broad network in the industry and a high level of combined knowledge in investments, asset and property management and real estate finance and a year-long and outstanding track record in transactions to foster group's overall earnings with a lucrative deal pipeline.
- The company has its own property management platform (DIC Onsite) operating from 7 German cities in all German core regions for commercial properties, in particular office properties. With DIC Onsite the firm covers the entire value chain for the own properties and third party properties and exploits its platform in a perfect way.
- The commercial portfolio with 93 properties and about 1,500 rental contracts for an annual rental income of over Euro 100m is a very solid base to deliver a steady cash flow. This stable business is complemented by a lucrative institutional business to satisfy the growing demand for stable and lucrative yielding assets from different types of institutional investors. DIC Asset serves a long list of first class clients with demanding and often tailor-made products. Thus, the institutional business is a perfect completion for the group's earnings structure with the additional inflow of asset, property management and set up fees as well as lucrative transaction related fees for buying or selling the properties for the funds and other third party mandates.
- The diversity of business gives DIC Asset a brighter scope in the market, as the company is offered more than 2,000 properties each year. The huge scope in the market gives a bigger impetus at typical market participants, such as banks, real estate brokers and construction firms.

Weaknesses

- The business model as investor AND property manager is not very common in Germany, but more in other countries. We assume that with a longer history and track record of the own trading platform the company gets a higher visibility for their success story which will also translate into higher prices for the DIC Asset share.
- The GEG takeover was in mid of 2019, which means that the 2019 annual numbers did not show the full capacity of earnings in the institutional business. Furthermore, the Stadthaus Cologne landmark Club Deal with a size of Euro 0.5bn (100,000 sqm, fully rented to the City of Cologne) was not yet closed in 2019 and thus did not show up in the 2019 annual numbers, which would make the hike in volume even more impressive.

Opportunities

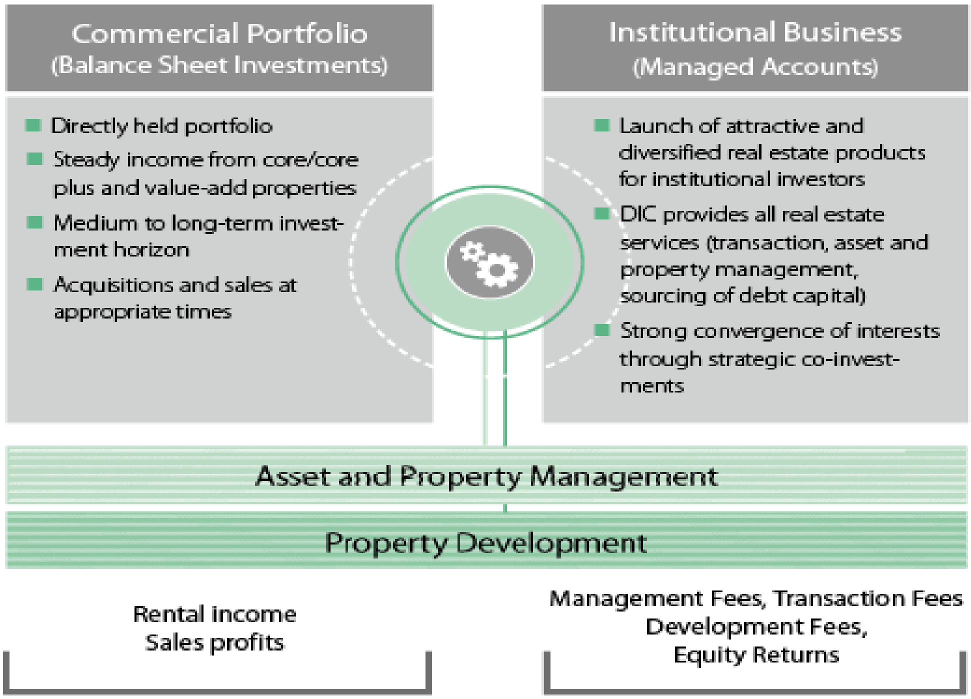
- There are synergies at the cost side of institutional business after the GEG takeover of about Euro 3.0m to Euro 3.5m, coming from 2020 on.
- The firm has a very high transparency level with all new EPRA key indicators in their annual report and publishes the annual and quarterly numbers quite early, which should give further credit and higher appreciation at investors.
- A promotion of the DIC Asset share from the SDax to the higher MDax index in the mid-term would be a pushing impetus for the share price. For the moment, the free float market cap is too low, and with 44% of the shares held by Deutsche Immobilien Chancen Group and 10% by RAG Foundation it is a way to go to bring up free float market cap.

Threats

- A severe economic downturn would not impair the P & L so much, as the firm does cost accounting. But the institutional demand for commercial properties could decline with a decelerating demand for office and / or retail space. Furthermore, the letting performance for new lettings or prolongations might dwindle.
- The general trend for more working in home office (accelerating in pandemic times of Corona) and more co-working space might have a dampening effect on the general demand for office space.
- A general significant increase in interest rate level would dampen institutional demand for real estate and thus might dampen the growth in institutional business.

The firm’s operations are built on two pillars

The company is running a hybrid business model consisting of two segments, the commercial portfolio and the institutional business. Across both segments, the company has combined assets under management of Euro 7.6bn. The currently 180 properties with 2m sqm of rental space are concentrated to 70% on office properties.



Source: Company data

In the commercial portfolio segment the company invests in properties from its own balance sheet with a medium to long-term investment horizon. It currently holds a portfolio of about Euro 1.9bn with which it creates steady income from rentals as well as from sales.

The institutional business segment structures and manages attractive investment vehicles for institutional investments, in which the company co-invests up to 10% and thus has an aligned interest. Next to the returns from the co-investments, the main income from that segment comes from the fees, such as management fees and transaction fees. Currently the assets under management amount to Euro 5.7bn.

Commercial portfolio with focus on offices in Germany

The segment comprises the direct real estate investments from the balance sheet of DIC. At the end of 2019, the portfolio consisted of 93 properties. The market value amounted to around Euro 1.9bn, a hike of 12% compared to last year’s value of Euro 1.7bn. The focus of the portfolio is on commercial properties in major cities and regional economic centers across Germany. Next to the stable long-term rental income the company derives from the portfolio properties, DIC can also profit from property disposals that come from sales due to portfolio optimization.

Over the course of 2019, the company acquired five objects with a total volume of more than Euro 300m. Four of these acquisitions were effectively transferred to the portfolio in 2019, while the fifth object is being transferred in 2020. Additionally, one property which was acquired in December 2018 was transferred into the portfolio as well.

Portfolio quality picked up with a higher WALT and a lower vacancy

Development of Commercial Portfolio*

	31.12.2019	31.12 2018
Number of properties	93	101
Market value (in EUR million)	1,900.0	1,696.8
Rental space in sqm	842,400	893,500
Annualised rental income in EUR million	101.8	97.6
Avg. rent per sqm in EUR	10.41	9.64
WALT in years	6.0	5.8
EPRA vacancy rate in %	6.5	7.2
Gross rental yield in %	5.4	5.9

* all figures excluding repositioning properties except for number of properties, market values and rental space

Source: Company data

Portfolio streamlined by the sale of non-strategic assets, sales 18% on top of the most recently determined market values

Acquisitions include e.g. the Bremen technology park, acquired in January 2019 for about Euro 15m, the Stadtfenster in Duisburg, which DIC purchased in early May for more than Euro 58m, the "SAFE" office building in Berlin-Mitte, with an investment volume of about Euro 111m, as well as the new-build property in Offenbach, which was acquired in a forward deal for about Euro 85m and is still under construction and to be completed in 2021. Over the same time period, the company sold 11 non-strategic properties for a total of Euro 154m to further optimize the portfolio. These sales were on average 18% on top of the most recently determined market values.

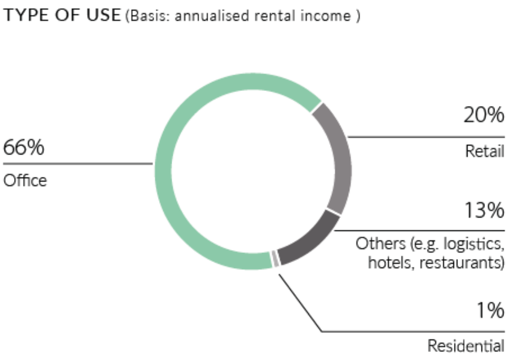
COMMERCIAL PORTFOLIO: TOP 20 ASSETS BY MARKET VALUE*

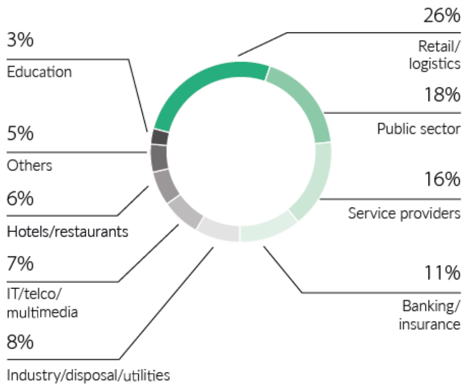
	Location	Address	Rental space (thsd. sqm)	EPRA vacancy rate	Annualised rental income (EUR million)	Market value (EUR million)	WALT (years)
1	Berlin	Taubenstr. 7–9	10.1	0.0%	4.3	120.5	5.1
2	Düsseldorf	Werdener Str. 4	29.5	4.2%	6.2	107.0	5.8
3	Darmstadt	Wilhelminenstr. 1–3	25.7	0.0%	4.3	106.0	17.1
4	Halle	Neustädter Passage 17 a–d	30.7	0.0%	4.3	70.6	4.5
5	Frankfurt	Insterburger Str. 7	14.3	7.5%	5.5	68.3	2.2
6	Hamburg	Marckmannstr. 129a–e	23.4	0.0%	**	60.4	**
7	Duisburg	Steinsche Gasse 26	12.6	0.0%	2.2	58.1	17.3
8	Leverkusen	Horst-Henning-Platz 1	13.4	0.0%	**	56.7	**
9	Chemnitz	Am Rathaus 1	26.9	0.0%	**	56.7	**
10	Frankfurt	Kaiserstr. 62–64	9.6	1.6%	2.1	56.5	12.4
11	Berlin-Mahlsdorf	Landsberger Str. 225–241, 245–249, 252–255, 261–262	40.1	2.4%	2.9	56.1	3.9
12	Frankfurt	Königsberger Str. 29	12.8	0.5%	2.4	50.8	8.9
13	Wiesbaden	Gustav-Stresemann-Ring 12–16	26.1	0.0%	3.3	46.2	2.3
14	Karlsruhe	Bahnhofplatz 12	11.0	0.0%	1.8	44.9	10.1
15	Hamburg	Kurt-Schumacher-Allee 2–6	13.2	0.2%	1.6	41.2	4.5
16	Cologne	Mathias-Brüggen-Str. 124–170	28.2	4.7%	2.0	40.5	3.1
17	Kronberg	Westerbachstr. 28–32	12.8	0.6%	2.0	34.5	4.7
18	Offenbach	Berliner Str. 60	12.8	0.0%	**	33.7	**
19	Cologne	Agrippinawerft 22+24	8.5	0.1%	1.7	33.0	2.7
20	Mannheim	Coblitzallee 1–7	17.9	0.0%	2.2	32.7	3.0
Top 20 properties			**379.6**	**1.4%**	**59.7**	**1,174.4**	**7.5**
Other properties			**462.7**	**12.6%**	**42.1**	**725.6**	**4.0**
Total			**842.3**	**6.5%**	**101.8**	**1,900.0**	**6.0**

Source: Company data

The Top 20 stand for c. 60% of rental income and market value in the commercial portfolio with very solid tenants, also public authorities as in Darmstadt and Wiesbaden

At the reporting date, the top 20 properties in the commercial portfolio make up for about 60% both in terms of annualized rental income and market value and have a low vacancy rate of only 1.4%. The remaining 73 properties have a higher vacancy rate at 12.6%, however, some of that vacancy rate is structural due to e.g. refurbishments. The total portfolio now consists, based on annual rental income, with a share of 66% mainly of offices, with the second largest share at 20% coming from retail properties. In terms of tenants, the company is looking to avoid a dependency on major tenants. In 2019, about 41% of rental income comes from the top ten tenants, while no single tenant accounts for more than 10%. The tenants are renowned and come mostly from the public sector, the telecommunications industry, and the retail sector.

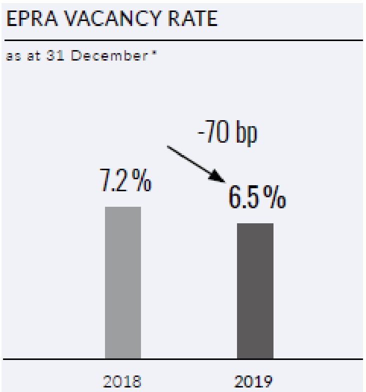


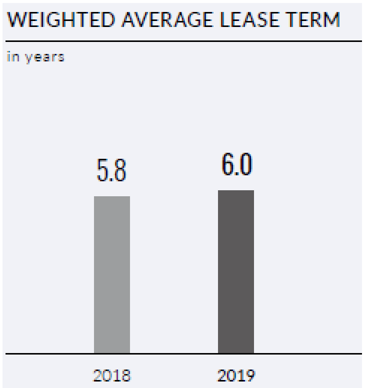


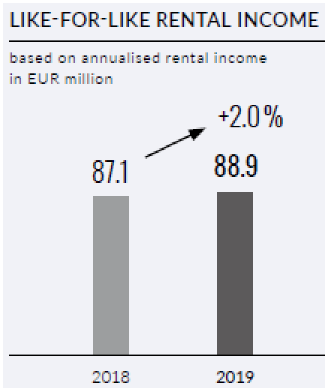
Source: Company data

Despite a declining number of properties the annualized rental income in the commercial portfolio went up in 2019.

Despite a declining number of properties from 101 to 93 and a decline of about 50k sqm of total rental space, the annualized rental income still increased from Euro 98m to Euro 102m in 2019. This is the result of the portfolio optimization and the good work from the in-house asset- and property management "DIC Onsite", about which we give more details later on.







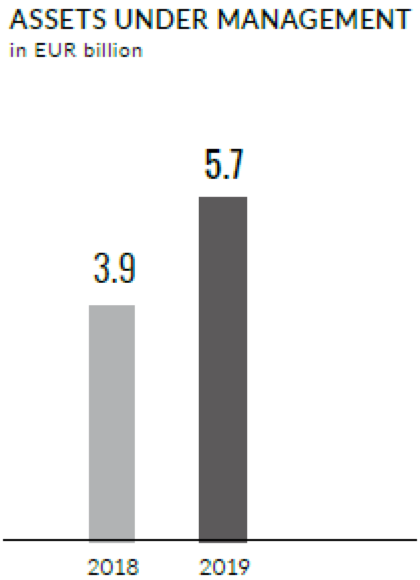
Source: Company data

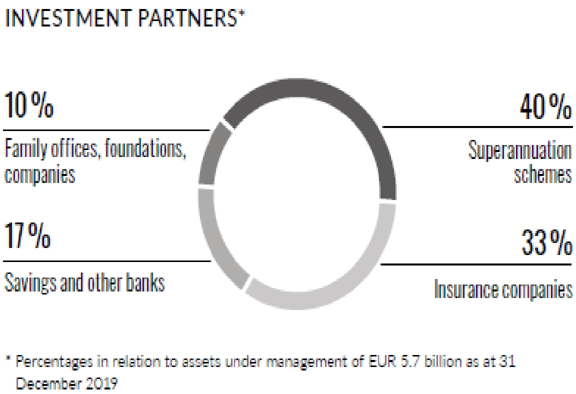
On a like-for-like basis, rental income was lifted by 2% last year, from Euro 87.1m to Euro 88.9m. The EPRA vacancy rate was reduced from 7.2% in 2018 to now 6.5%. The weighted average lease term was increased from 5.8 to 6.0. The measurement gains of the commercial portfolio in terms of market value in 2019 were at 7.0% or Euro 124m, but are not reflected in the P&L, as the firm accounts for them at cost.

The institutional business gains more importance in terms of earnings and FFO contribution

The GEG takeover was an important strategic step to broaden the national and international Investors base for DIC Asset.

The second pillar is the institutional business segment, where the company offers third-party asset management and property management. This segment now combines the previous Funds and Other Investments segment with the newly added institutional investment segment of GEG and is gaining more and more importance in terms of earnings. GEG German Estate Group, a real estate investment and asset manager with about Euro 3.6bn of assets under management, of which about Euro 2.2bn were already managed by DIC's property management team, was acquired in June 2019 from private equity investors KKR and TTL. This transaction not only significantly reshaped the second pillar of the firm's business, but also lifted the assets under management and broadened the institutional investor base of DIC. The segment acts as issuer and manager of special real estate funds, individual mandates and club deals for institutional investors. It also acts as a co-investor, typically up to 10%, and thus generates investment income from minority interests. As of FY 2019, the assets under management in the institutional business segment amounted to Euro 5.7bn.

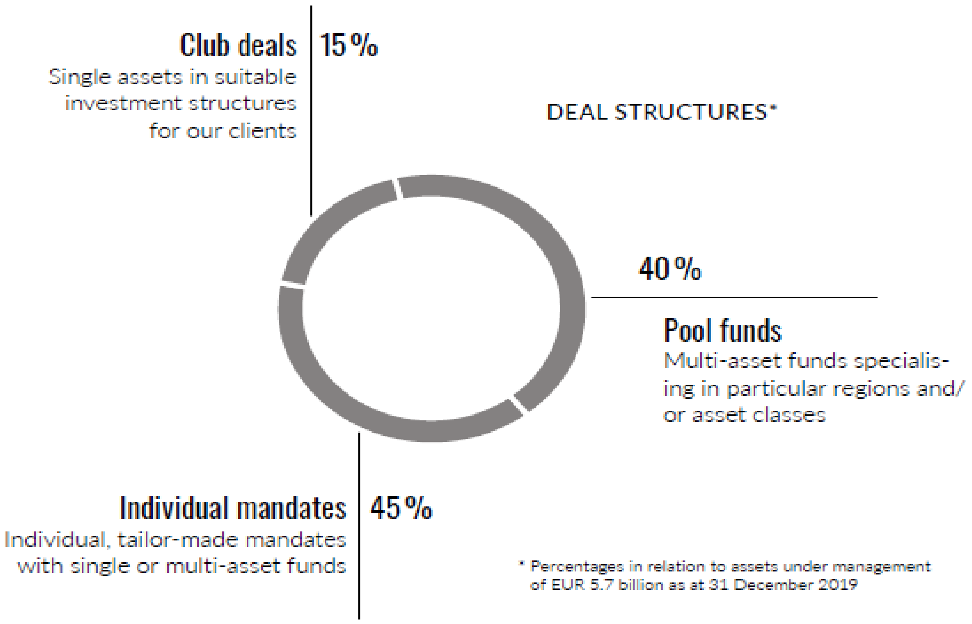




Source: Company data

Next to the growth in AuM, the series of special office funds was expanded with the initiation of the fund DIC Office Balance VI, which is being marketed in 2020. Furthermore, a new special fund focusing on infrastructure properties was launched as well.

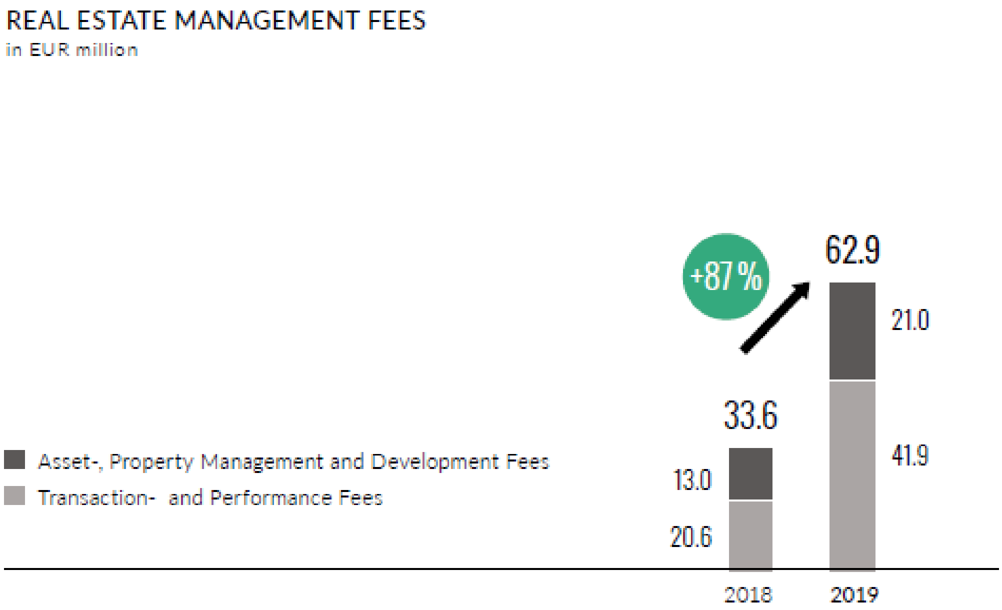
A total of 16 properties for about Euro 1.6bn was acquired in 2019, of which about Euro 761m came from the GEG transaction alone. Examples of new acquisitions are e.g. the HELIO in Augsburg with an investment volume of about Euro 112m, the Fashion Mall Munich at Euro 89m, and the Stadthaus Köln in Cologne at total investment cost of more than Euro 500m. Twelve of these assets were transferred into the firm's managed assets in 2019. The remaining four assets will be transferred into the firm's managed assets in the current fiscal year. Four properties with a volume of Euro 132m were in turn sold as part of the active fund management mandates, after a significant increase in value. Thus, a total of 87 properties are comprised in that segment now and DIC manages 26 investment products, including 9 pool funds, which are multi-asset funds that specialize in particular regions and/or asset classes, 5 club deals, where single assets are put in suitable investment structures, and 12 individual mandates, which are tailor-made mandates with single or multi-asset funds. The currents deal structure split in terms of assets under management looks as follows:



Source: Company data

Further growth in terms of investment products as well as assets under management is expected this year, as the company plans that new investment vehicles become operational in 2020. Furthermore it plans to acquire between Euro 1.1bn and Euro 1.3bn of new assets for the institutional portfolio, while about Euro 300m is to be sold in 2020.

In terms of new acquisitions, the focus is on the German commercial market, especially office and retail properties, in major cities and attractive cities in economic centers. In terms of income, a portion comes from the regular investment income from the mentioned co-investments, however, the most significant portion is created by income from asset management, property management and development fees, which are closely correlated to the amount of asset under management, as well as from transaction fees and performance fees for exceeding predefined target returns.

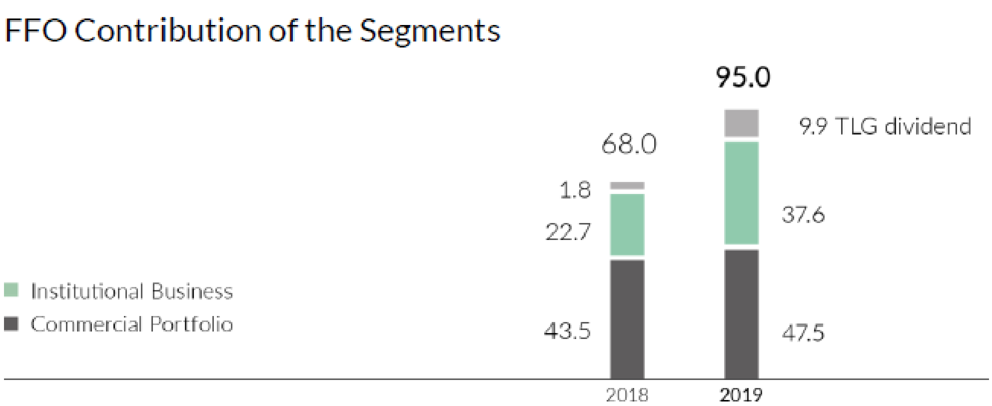


Source: Company data

In 2019, the company significantly lifted its real estate management fees to Euro 63m, almost double the amount of last year's number of Euro 34m. This significant growth was driven by the GEG acquisition. Asset-, property management and development fees grew in line with assets under management at 62%. As these assets did not contribute for the full year, another significant hike can be expected for 2020. The steep hike in transaction- and performance fees, which more than doubled, was the result of two completed sales from the "DIC Office Balance I" special fund, as well as high performance-based revenues stemming from the portfolio development and structuring fees from newly launched investment vehicles. We also see another hike in 2020 in these fees, as the company intends to be active on the transaction side and also plans to launch new funds in 2020.

In terms of FFO contribution, the institutional business already stood for about 40% of the total in 2019. In future it will stand for 50% or even slightly above.

In terms of FFO contribution, the institutional business made up for about 40% in 2019 while the commercial portfolio made up for 50%. The remaining 10% came from the TLG dividend, which was received for the last time in 2019, however, as the holding was liquidated.



Source: Company data

For the coming years we expect the institutional business to gain importance in terms of FFO contribution. For the current year we believe that slightly more than 50% of the estimated FFO of about Euro 104m will come from the institutional business. The FFO in that segment will grow from the higher fee income and can also benefit from synergies of estimated about Euro 3.5m from the GEG integration. In the longer run we expect a more or less equal contribution from the two segments.

Both segments benefit from the in-house real estate management company “DIC ONSITE”

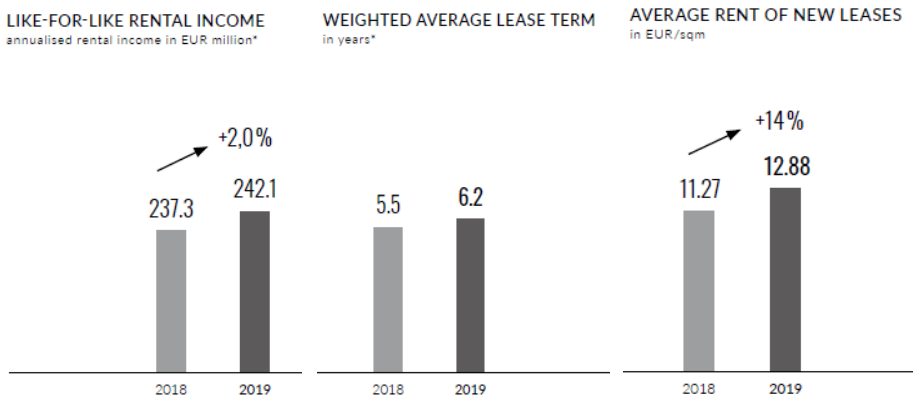
The DIC ONSITE platform pools the asset- and property management activities of both segments of DIC and thus is responsible for the operative property management of the entire assets under management. It covers the entire span of activities as an asset manager, property manager, letting manager, and technical property manager.

DIC ONSITE covers the entire span of activities as an asset manager, property manager, letting manager, and technical property manager.

Source: Company data

The platform has a nationwide presence with seven offices across Germany, in Munich, Frankfurt, Mannheim, Dusseldorf, Cologne, Hamburg and Berlin. This provides a profound regional expertise, which allows DIC to exploit opportunities and to utilize different market dynamics.

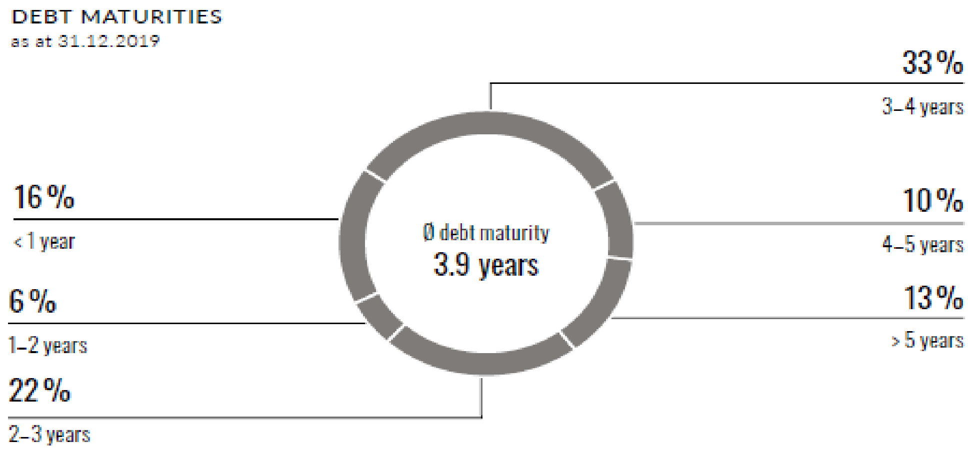
The performance of the asset and property management in 2019 was strong. Over both segments, a total rental volume of more than 211k sqm was achieved, representing annual rental income of almost Euro 33m. In the concluded leases, the average rent rose by 14%, from Euro 11.27 per sqm to Euro 12.88 per sqm. The overall like-for-like rental hike was at 2.0%, from Euro 238m in 2018 to more than Euro 242m. Also in terms of lease maturities clear progress can be seen. New leases and lease renewals lifted the weighted average lease term of the overall portfolio from 5.5 years to 6.2 years. Only 5% of leases expire in 2020, while 64% are until 2024 and beyond.



Source: Company data

Solid financial position with room to grow

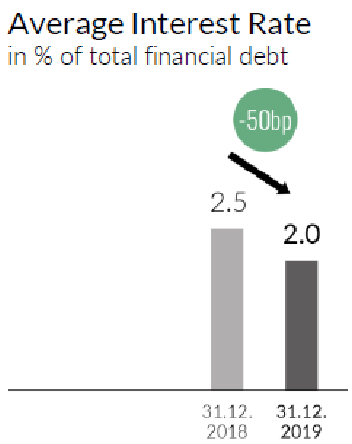
The financial position of the company is solid and was further improved and broadened in 2019. In July 2019, the company placed a first time promissory note with a volume of Euro 150m. The maturity band ranged from 3 to 11 years and the average coupon wat at a low rate of only 1.55%. This note was then further increased to a volume of Euro 180m in the second half of 2019. In September, the 14/19 bond was repaid on schedule, which had volume of Euro 175m and a high coupon of 4.625%. Furthermore, at the beginning of December 2019, DIC set up a commercial paper programme in 2019, under which the company can at short notice call up to Euro 300m for up to three months with a very low interest rate of only 0.1%. This gives the company further flexibility. The overall financial debt as of year-end 2019 stood at about Euro 1.55bn. About 64% comes from bank loans, 21% from bonds, 12% from promissory notes and 3% from the commercial paper programme.

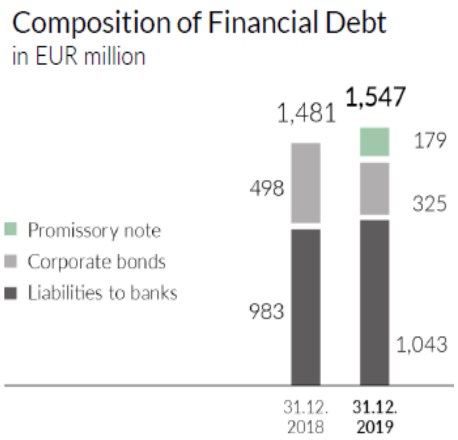


Source: Company data

The average debt maturity remained unchanged to the previous year at 3.9 years. As can be seen, the company has only 16% of the outstanding debt with a maturity of less than a year, while 56% are at more than 3 years and the repayment schedule is thus relatively long-term and spread.

The average interest rate was significantly reduced due to the mentioned capital measures. At year-end 2019, the cost of debt was on average at a low level of 2.0%, down 50 basis points from last year's level of 2.5%. Around 91% of the financing is at fixed interest rates, giving the firm certainty for their planning also in the long-term.





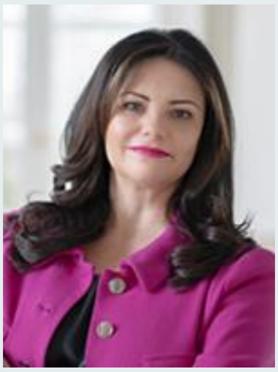
Source: Company data

The financial ratios at year-end were good and allow for further growth. The LTV came down from 53.1% at year-end 2018 to now 47.8%. The new strategic LTV target level of the firm was now set to c. 45%. The interest cover ratio improved significantly from 333% at FY 2018 to 509% at year-end 2019.The firm's equity ratio as of FY 2019 was at a comfortable level of 36.5% (FY 2018: 36.0%).

The financial ratios are sound and have even further improved after the equity capital hike

Another significant improvement of the financial position and the liquidity came in early 2020. The company successfully finalized a 9.5% capital increase from authorized capital by placing almost 6.86 million new shares. The shares were issued at a price of Euro 16.00 per share, resulting in gross proceeds of about Euro 110m. These funds are to be used for further growth, especially for the commercial portfolio. This also had a positive effect on the financial ratios, which have further improved with the effects of the equity capital hike.

Experienced management team with a very profound industry network and a long DIC affiliation



The firm's management is very experienced and well-known in the industry. DIC Asset is led by **CEO Sonja Wärntges**. She was already CFO since June 2013 and appointed as CEO from 1 October 2017 on, still taking the CFO commissions in personal union. Before joining DIC as member of the board of DIC Deutsche Immobilien Chancen AG & Co KGaA in 2011, she had some leading positions at the fashion giant C & A as well as MAC Mode and GHH-Rand Schraubenkompressoren. She holds a Diplom-Ökonom degree from TU Braunschweig. Furthermore, Ms. Wärntges is member of the Presidium of the ZIA, German Property Federation. Just some days ago, Ms. Wärntges was awarded "Kopf des Jahres 2020" by the notable German Real Estate magazine "Immobilien Manager", to honor her outstanding management personality and strategic thinking in 2019.

Since almost five years, from April 2015 on, **Johannes von Mutius is Chief Investment Officer** and thus responsible for the Investments and sales of the group. He worked before at DIC Deutsche Immobilien Chancen & C KGaA for more than 10 years. He is an acknowledged property expert who has gathered a great experience in senior positions in the real estate sector. He holds a degree as Diplom-Kaufmann from TU Berlin.

On 4 February, the supervisory board announced its decision for a premature prolongation of both management contracts, with Ms. Wärntges and Mr. von Mutius, until December 2023. This is a very clear signal to honor the excellent work of the management and to prepare DIC Asset for a stable and prosperous future.

From July 2020 on, **Patrick Weiden**, will join the Management Board of DIC Asset and will be responsible **for all capital market related issues**. At present, Mr. Weiden is MD and Head of Equity and Debt Capital Markets at Düsseldorf based Bankhaus Lampe, where he worked since 2013. Before Lampe, he had several leading positions at Commerzbank and WestLB. All in all, he has over twenty years of experience in equity and debt capital markets. He holds a Diplom-Kaufmann degree of FH Cologne.

Positive outlook with further growth in 2020 and beyond

The 2020 full-year guidance of the company reflects some further growth and is in line with our estimates.

Along with the 2019 annual report, the company gave an outlook for the firm's targets in 2020 and expects further growth in all segments. In terms of gross rental income of the commercial portfolio, the company expects a slight increase from the 2019 level of almost Euro 102m to a range between Euro 102m to Euro 104m in 2020. Our expectation is at Euro 104m at the upper end of the guided range, and we would not rule out, that rental income might even come out on top of that number, depending on the pace of acquisitions. In terms of those, the company plans to acquire a total volume between Euro 1.6bn and Euro 1.9bn in 2020, of which Euro 500m to Euro 600m are to be added to the commercial portfolio and Euro 1.1bn to Euro 1.3bn are to be bought for the institutional business. At the same time, the company intends to sell about Euro 400m of properties, Euro 100m from the commercial portfolio and Euro 300m from the institutional business assets. Our expectations are in line here, as we expect the commercial portfolio to grow to more than Euro 2.4bn at year-end 2020 and the assets of the institutional business to increase to more than Euro 7.1bn. Keep in mind here, that about Euro 600m were already notarized in 2019 but were not transferred to the assets under management in 2019, thus will be added in 2020. Overall, we see the assets under management to hike from Euro 7.6bn to almost Euro 9.6bn at year-end 2020, thus already close to the short-term to mid-term target of Assets under management of Euro 10bn, which in our opinion could be reached by mid-2021.

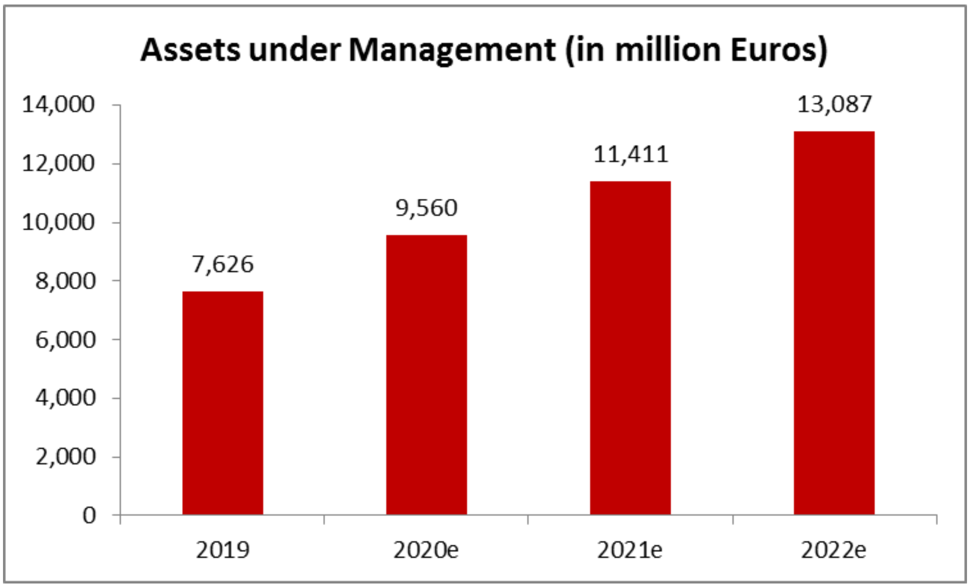
- Increase in FFO to EUR 104–106 million
- Acquisition volume of EUR 1.6–1.9 billion,
  thereof
  – EUR 500–600 million for the Commercial Portfolio
  – EUR 1.1–1.3 billion for the Institutional Business
- Sales volume of c. EUR 400 million,
  thereof
  – c. EUR 100 million from the Commercial Portfolio
  – c. EUR 300 million from the Institutional Business
- Gross Rental Income of EUR 102–104 million
- Real Estate Management Fees of EUR 85–95 million
- Short-term to mid-term AuM target of EUR 10.0 billion

Source: Company data

In the institutional business segment the company delivered steep growth in 2019 in terms of real estate management fees with a hike of 87% to Euro 63m. In 2020, another significant increase is expected. DIC estimates the real estate management fees to grow to a range between Euro 85m to Euro 95m. This further steep growth was to a large part already secured with the GEG acquisition last year, which in 2020 will for the first time be consolidated for the full year. Furthermore, as described above, the expected acquisitions, which will lift the assets under management, will also create new fee income as will the targeted sales. Another part of the growth will be the performance fees for exceeding predefined target returns. Our real estate management fees estimate for 2020 is at Euro 91m.

The funds from operations are expected to grow by about 10%, from Euro 95m to Euro a range between Euro 104m to Euro 106m. The growth comes on the one side from the above mentioned expected developments of gross rental income and real estate management fees, but also from a contribution of synergy effects from the GEG integration, which are estimated at about Euro 3.5m per year.

Our outlook for the coming years is very positive as well and we expect more significant growth in the numbers, as can be seen in our P&L, as well as in the assets under management, which we expect to grow to more than Euro 13bn by the end of 2022.



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Our valuation results in an initial target price of € 23.00

For the valuation of the DIC Asset share we use a sum-of-the-parts approach, valuing both segments separately. For the commercial portfolio segment we make use of the EPRA Net Disposal Value (NDV), as reported in the firm's financial reports. The EPRA NDV represents the intrinsic value of the company after adjusting for goodwill recognized in the balance sheet, as well as fair value adjustments for fixed-rate liabilities. As DIC currently has about Euro 178m of goodwill in the books following the acquisition of GEG, we see this number as more representative compared to the classic NAV.

The commercial portfolio segment has a fair value per share of more than Euro 15.00, reflected in the EPRA NDV

Euro million	**31 Dec 2019**	**31 Dec 2020**
Equity attributable to shareholders	**964.7**	**1,107.8**
plus hidden reserves on investment properties	**268.9**	**275.4**
plus hidden reserves on equity investments	**5.9**	**6.4**
less recognised goodwill	**-177.9**	**-177.9**
plus fair value adjustment on fixed-rate liabilities	**3.8**	**1.1**
EPRA-Net Disposal Value (NDV)	**1,065.3**	**1,212.7**
Number of shares ('000)	72,214	79,072
EPRA NDV per share (in Euro)	**14.75 €**	**15.34 €**

The reported EPRA NDV per share at year-end 2019 was at Euro 14.75. Our estimate for the EPRA NDV per share as of year-end 2020 is at Euro 15.34, which is our fair value for the commercial portfolio segment.

The institutional business segment is being valued with a DCF approach and a EBITDA-Multiple.

The second pillar of the firm's operations, the institutional business, we use both a Discounted Cash Flow valuation model (ENTITY WACC method) as well as a Multiple based on the 2020e EBITDA.

For the DCF we project the free cash flows as derived from EBITDA for the coming years until 2027 and use the Gordon growth approach for the terminal value. The free cash flow of each year gets discounted to the present using the firm's weighted average cost of capital (WACC). For the years 2020 to 2023 we have our detailed projection stemming from our P&L forecast for the institutional business as follows:

Institutional Business *31/12 IFRS ('000)*	**2020e**	**2021e**	**2022e**	**2023e**
Real estate management fees	90.754	108.019	122.303	138.030
Profit from associates	10.124	11.916	12.751	14.821
Administrative expenses	-17.654	-21.588	-27.011	-30.570
Personnel expenses	-28.246	-35.381	-38.490	-45.091
EBITDA	**54.979**	**62.966**	**69.553**	**77.190**

For the years after we assume a respective growth rate to derive the values for EBITDA. For the Terminal Value we just take a small 1.5% growth into consideration, which is more or less not more than an adjustment for monetary inflation. These values are then adjusted for tax expenses, which brings us to our free cash-flows.

For our valuation, we assume a long-term equity ratio of 90%, as there is almost no debt involved in the institutional business. For the calculation of our discount rate, WACC, we came to a cost of equity of 10.6%. This number results from the firm's Beta, which we set at 1.55, the risk free rate of 0.5% and a market risk premium of 6.5%. In regards to the firm's cost of debt we assume that a rate of 2.0%, which is the current average cost of capital. All these assumptions bring us to a weighted average cost of capital (WACC) of approx. 9.7%. We see this rate possibly decline in the coming years, as the firm will build a track record in the institutional business segment and thus will reduce the company specific risk factors.

The free cash flows are then discounted at our calculated discount rate (WACC), resulting in a total sum of free cash flows of about Euro 315m for the detailed period until 2027 and a Terminal Value for the time after 2027 of about Euro 407m. This results in a fair value of the segments equity of almost Euro 683m, or about Euro 8.60 per share respectively.

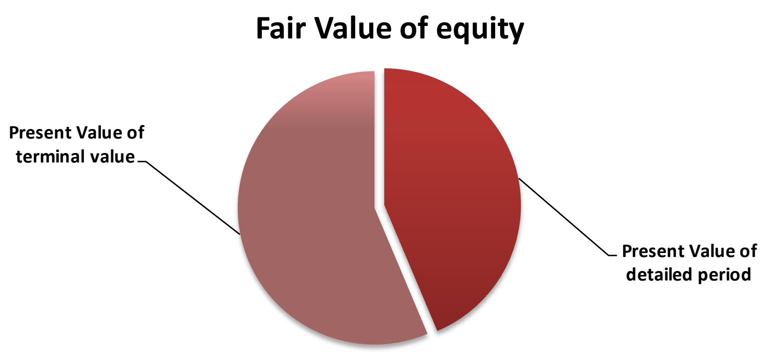
DCF-Valuation DIC Asset AG Institutional Business
(WACC Method)

Assumptions

Long-term equity ratio	90%	Beta	1.55
Cost of Equity	10.6%	Risk free rate	0.5%
Cost of Debt	2.0%	Market risk premium	6.5%
Weighted Average Cost of Capital (WACC)	9.7%		
years until first payout	0.8		
Long-term growth for Terminal Value	1.5%		

'000 Euro	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	Terminal Value
EBITDA	**55.0**	**63.0**	**69.6**	**77.2**	**79.5**	**81.9**	**84.3**	**85.6**	
Tax adjustement	-11.5	-13.2	-14.6	-16.2	-16.7	-17.2	-17.7	-18.0	
Free Cash-Flows	**43.4**	**49.7**	**54.9**	**61.0**	**62.8**	**64.7**	**66.6**	**67.6**	
Discounted Free Cash-Flows	**40.5**	**42.3**	**42.6**	**43.1**	**40.4**	**38.0**	**35.6**	**33.0**	**407**

Present value of detailed period	315
Present value of terminal value	407
Sum of Free Cash-Flows	**723**
- Net debt	-40
Fair Value of Equity	**683**
Number of shares ('000)	79.1
Fair Value per share	**€ 8.63**



The fair value of the institutional business stemming from our DCF is in a range of Euro 8.00 to Euro 9.50

The sensitivity analysis with regards to the WACC and the growth rate for the Terminal Value offers a most realistic fair value range of about Euro 8.00 to Euro 9.50 for the institutional business.

Scenario analysis (per share)

Long-term growth of TV \ WACC	8.7%	9.2%	9.7%	10.2%	10.7%
1.00%	9.49	8.87	8.31	7.82	7.38
1.25%	9.70	9.05	8.47	7.95	7.49
1.50%	9.93	9.24	8.63	8.10	7.62
1.75%	10.17	9.44	8.81	8.25	7.75
2.00%	10.43	9.66	8.99	8.41	7.89

The EBITDA-Multiple comes to a very similar conclusion, prompting a fair value between Euro 8.00 and Euro 9.40.

For the EBITDA-Multiple valuation we take the 2020e EBITDA of Euro 55m, as derived from the P&L of the institutional business and apply an appropriate market multiple to come to the fair value of the segment. In our opinion, a multiple in the range of 11.5x to 13.5x is the most suitable for the institutional business segment, as these multiples can also be observed on the market at comparable businesses.

Multiple	11.5x	12.5x	13.5x
Fair Value	Euro 632m	Euro 687m	Euro 742m
Fair Value per share	Euro 8.00	Euro 8.69	Euro 9.39

According to our EBITDA-Multiple valuation, the fair value per share of the institutional business segment is between 8.00 Euros and 9.40 Euros, thus very similar to our DCF valuation.

Our initial target price for DIC Asset AG is set at 23.00 Euros.

Putting the valuations of the two segments together, we come up with a fair value for DIC Asset per share in a range of Euro 23.00 to Euro 25.00. As the institutional business segment does not have a long track record yet, we decide to take the conservative approach for the moment and set our initial target price at Euro 23.00.

DIC Asset AG *31/12 IFRS ('000)*	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Gross rental income	109,666	100,189	101,942	103,973	117,626	136,372	10.2%
Ground rents	-1,253	-810	-676	-714	-775	-814	
Service charge income on principal basis	21,140	20,438	20,836	21,583	23,417	26,039	
Service charge expenses on principal basis	-22,967	-22,941	-23,565	-24,224	-25,473	-29,145	
Other property-related expenses	-13,517	-12,186	-10,631	-11,235	-12,760	-14,747	
Net rental income	**93,069**	**84,690**	**87,906**	**89,383**	**102,035**	**117,705**	**10.2%**
Administrative expenses	-12,828	-12,113	-17,876	-20,183	-22,596	-24,822	
Personnel expenses	-19,010	-18,204	-27,918	-29,731	-30,986	-31,745	
Depreciation and amortization	-31,013	-29,577	-34,242	-35,723	-36,430	-37,149	
Real estate management fees	20,818	33,639	62,883	90,754	108,019	122,303	24.8%
Other operating income	754	585	2,616	2,954	2,843	2,549	
Other operating expenses	-705	-730	-1,979	-2,214	-2,144	-1,756	
Net proceeds from disposal of investment property	229,505	86,752	175,973	123,586	85,634	124,563	
Carrying amount of investment property disposed	-204,023	-68,106	-135,457	-95,634	-63,214	-94,365	
Profit on disposal of investment property	25,482	18,646	40,516	27,952	22,420	30,198	
Net operating profit before financing activities (EBIT)	**76,567**	**76,936**	**111,906**	**123,192**	**143,160**	**177,283**	**16.6%**
Share of the profit or loss of associates	28,996	15,829	18,321	10,124	11,916	12,751	
Interest income	8,701	9,266	10,296	11,486	9,470	10,777	
Interest expenses	-43,787	-46,098	-42,660	-45,184	-47,994	-49,642	
Profit/los before tax (EBT)	**70,477**	**55,933**	**97,863**	**99,618**	**116,552**	**151,169**	**15.6%**
Tax	-6,065	-8,320	-17,174	-20,471	-24,741	-31,966	
Net profit	**64,412**	**47,613**	**80,689**	**82,444**	**99,378**	**133,995**	**18.4%**
Minorities	820	-78	-222	-348	-417	-473	
Net profit after minorities	**63,592**	**47,691**	**80,911**	**82,792**	**99,795**	**134,468**	**18.5%**
FFO	**60.2**	**68.0**	**95.0**	**104.4**	**117.7**	**131.6**	**11.5%**
Number of shares ('000)	68,578	69,958	71,713	78,500	79,072	87,247	
Earnings per share	**0.93**	**0.68**	**1.13**	**1.05**	**1.26**	**1.54**	
FFO per share	**0.88**	**0.97**	**1.32**	**1.33**	**1.49**	**1.51**	
Dividend per share	**0.44**	**0.48**	**0.66**	**0.68**	**0.74**	**0.75**	
Shareholders' Equity	**828,913**	**895,921**	**968,778**	**1,107,760**	**1,153,787**	**1,383,335**	**12.6%**
Balance Sheet sum	**2,341,278**	**2,490,051**	**2,657,443**	**2,957,537**	**3,094,223**	**3,786,214**	
Equity Ratio	**35.4%**	**36.0%**	**36.5%**	**37.5%**	**37.3%**	**36.5%**	

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Rating chronicle:
As this research report is an initiating coverage there is no rating chronicle available.

Please note:
The share price mentioned in this report is from 4 March 2020. DIC Asset AG mandated SRC Research for covering the share.