

# DIC Asset

Buy (unchanged) Target: Euro 22.00 (old: Euro 20.00)



Der Spezialist für Finanzaktien

15 | January | 2021

Price (Euro) 14,24  
52 weeks range 17.40 / 6.69

## Key Data

ISIN DE000A1X3XX4  
Bloomberg DIC:GR  
Reporting standard IFRS  
Market Cap (Euro million) 1.126  
Number of shares (million) 79,1  
Free Float 55,9%  
Free Float Market Cap (Euro million) 629  
CAGR EBIT ('19 -'22e) 10,6%

Multiples	2019	2020e	2021e	2022e
Market Cap / Total revenues	11,0	11,8	11,2	9,5
PE-Ratio	12,6	12,8	12,3	11,0
Dividend Yield	4,6%	4,8%	4,9%	5,3%

Key Data per share (Euro)	2019	2020e	2021e	2022e
Earnings per share (EPS)	1,13	1,11	1,16	1,29
FFO per share	1,32	1,23	1,35	1,37
Dividend per share (DPS)	0,66	0,68	0,70	0,75

Financial Data (Euro '000)	2019	2020e	2021e	2022e
Gross rental income	101.942	95.336	100.901	118.306
Net rental income	87.906	81.003	86.531	99.639
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	84.731	101.399	114.503
Profit on disposal of investment property	40.516	36.576	24.370	30.198
EBIT	111.906	117.414	122.987	151.417
Net financial result	-32.364	-28.924	-30.871	-33.514
EBT	97.863	99.084	104.032	130.654
Taxation	-17.174	-11.972	-12.879	-18.292
Net profit after minorities	80.911	87.460	91.570	112.835
FFO	95.000	96.380	106.370	119.410

## Main Shareholders

Deutsche Immobilien Chancen-Gruppe 34,1%  
RAG-Stiftung 10,0%  
Ketom AG 5,0%

## Financial calendar

2020 annual report 10 February 2021  
AGM 23 March 2021  
1Q 2021 report 6 May 2021  
1H 2021 report 11 August 2021  
SRC Forum Financials & Real Estate 8 September 2021

## Analysts

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## Good news flow in December from the expansion of the logistics asset class and by the issue of a new huge Euro 1.6bn open ended institutional fund – share price still much too low – TP up to Euro 22.00

In December, DIC Asset released some very promising news. On 4 December, the firm announced the launch of a new and very huge open-ended institutional fund with a volume of Euro 1.6bn, thereof the equity commitments of more than Euro 800m already fully subscribed. The next good news is, that the seed portfolio for this Special AIF contains four first class assets, for instance the new Deka Office Hub with 47k sqm and the Wilhelminenhaus Darmstadt with 26k sqm and a total WALT of 18 years. All in all, the seed portfolio in the Rhine Main area with a value of Euro 780m is an impressive start for the new fund. In addition to the new Special AIF, DIC delivered more good news from the transaction side with corporate news in the short period 18 to 23 December, buying some more attractive yielding properties with long term leases in the value of more than Euro 200m in Düsseldorf, Mannheim, Kassel and Bremen, the majority for the Institutional business and the Bremen logistics for their own book. With these latest acquisitions, the company realized a 2020 acquisition volume of c. Euro 1.7bn to Euro 1.8bn, despite the pandemic year, far ahead of their own goal to deliver a purchasing volume of Euro 700m to Euro 1.1bn. The company proved once more to be very resilient and to grow the portfolio in a very profitable way. The Euro 1.8bn was the targeted volume on a pre-Covid level and 2020 results are a very clear statement for DIC's strength. Furthermore, the new asset class logistics had a very good start already in 2020 and we feel sure to see a very positive development and fast growth to follow in 2021, as the firm also managed to deliver more good news on the staff side with hiring renown Martin Birkert as new Head of Logistics who will start in February.

Another milestone came with ad hoc news from 23 December, that DIC purchased 100% of Munich and Berlin based RLI Investors GmbH with 16 employees and more than Euro 700m logistics assets under management, which will add from January 2021 on to DIC's portfolio. Clients of RLI are pension funds, family offices and international asset managers allowing DIC Asset for some cross selling, to offer them some GEG office fund products and vice versa. The purchasing price of Euro 42m for a value accretive buy that allows to add Euro 4m to DIC's EBITDA from 2021 on seems appropriate to us. Moreover, DIC Asset took a 25% stake in Realogis Holding GmbH industrial and logistics consulting house with 60 employees. This stake is value accretive to further quickly expand firm's footprint in logistics.

We expect total portfolio size (own book and Institutional Business) at year-end 2020 to be at Euro 9.5bn to 9.6bn, after Euro 7.6bn in 2019 a tremendous growth in a range of 25%, despite Covid-19 turmoil. With regards to RLI assets joining in January, the total portfolio size will go up to about Euro 10.3bn or even slightly above right from the start of the new year. If you look at Euro 5.6bn at year-end 2018, that shows that DIC almost doubled the total size in just a little bit more than 2 years. Our full year 2020 EPRA Net Disposal Value expectation of Euro 1.21bn was already reached with 9M numbers (+13% y-o-y). For the full year the EPRA NDV should be at around Euro 16.00 per share and this only reflects the own 2.0bn book and not the value of Institutional Business. The IB strongly gained value (and huge hike +56% in fees already in 9M 2020) and the new special AIF will strongly add to future fees income. So, the IB value is another Euro 8.00 to Euro 10.00 for the total share value. The 66 Cents dividend should be confirmed for FY 2020 or even an increase might be in consideration after the successful 2020. The share is a clear Buy. We lift the target to € 22 - still being not ambitious.

### DIC Asset AG

**Industry:** Real Estate  
**Sub-segment:** Commercial property investor  
Institutional Business / Managed Accounts  
(transaction, asset and property management)

#### Management Board of DIC Asset

CEO Sonja Wärtnges  
CIO Johannes von Mutius  
Patrick Weiden  
Christian Bock

**Region:** Germany  
**Headquarter:** Frankfurt  
**Foundation:** 1998  
**Employees:** 247

#### Supervisory Board of DIC Asset:

Prof. Dr. Gerhard Schmidt  
Klaus-Jürgen Sontowski  
Prof. Dr. Ulrich Reuter  
Eberhard Vetter  
Dr. Anton Wieggers  
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 investment 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 pro forma size of more than Euro 2bn at current.

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 September 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 individual mandates. In addition to a broad income stream from servicing fees there are lucrative equity returns from the co-investment stakes. The assets under management 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 strengthen 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, Düsseldorf, 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 management 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.

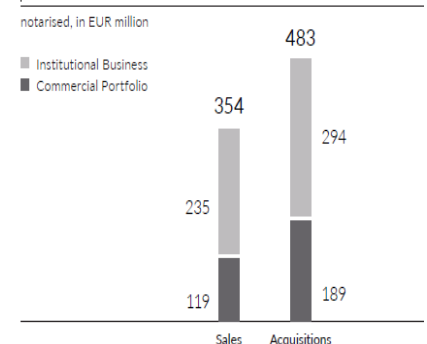
Individual mandates in the institutional business stand for about 45% of the total volume, the Pool funds (DIC Office Balance and GEG Infrastructure etc.) for about 40%. The remaining 15% are club deals.

#### PORTFOLIO BY SEGMENT

30.09.2020	Commercial Portfolio	Institutional Business	Total
Number of properties	96	93	189
Market value in EUR million*	2,054.1	6,598.0	8,652.1
Rental space in sqm	873,400	1,334,700	2,208,100
30.09.2019	Commercial Portfolio	Institutional Business	Total
Number of properties	96	77	173
Market value in EUR million*	1,800.9	5,513.6	7,314.5
Rental space in sqm	903,400	1,112,200	2,015,600

\* Market value as at 31.12. of the previous year, later acquisitions generally considered at cost

#### TRANSACTIONS IN 2020



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 92 properties and about 1,500 rental contracts for an annual rental income of almost 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 only recently closed in 2020 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.

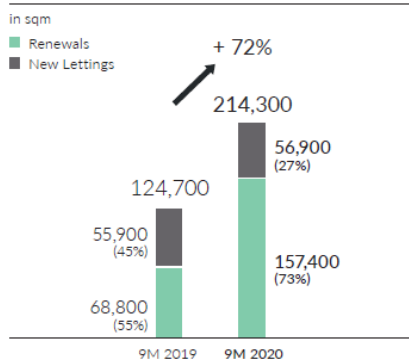
### Threats

- A severe economic downturn or shocks like the current Corona pandemic 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 might have a dampening effect on the general space demand. That is not reflected by the very good 9M picture, in particular a +72% in letting performance, thereof 27% new lettings.
- A general significant increase in interest rate level would dampen institutional demand for real estate and thus might dampen the growth in institutional business.

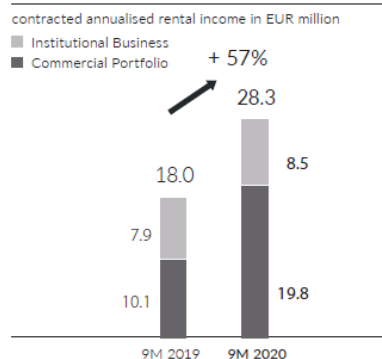
**Good letting performance in Commercial Portfolio and the Institutional Business and many renewals with top tier tenants, no sign of a softening space demand**

**Highly dynamic letting performance**

LETTING VOLUME

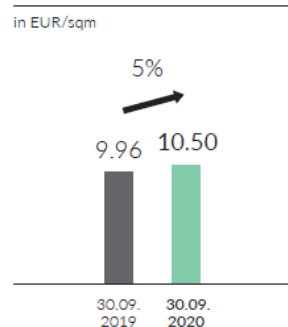


LETTING VOLUME BY SEGMENTS

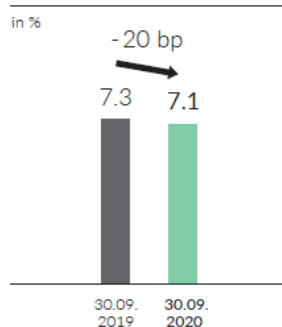


**Improving KPIs in the Euro 2.0bn Commercial Portfolio**

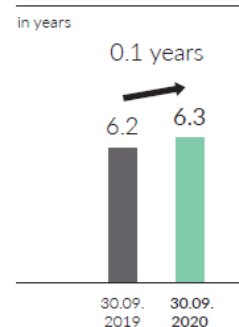
AVERAGE RENT



EPRA VACANCY RATE



WALT



Source: Company 9M 2020 presentation, 28 October 2020

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	95.336	100.901	118.306	5,1%
Ground rents	-1.253	-810	-676	-705	-775	-814	
Service charge income on principal basis	21.140	20.438	20.836	21.583	23.788	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	-10.987	-11.910	-14.747	
<b>Net rental income</b>	<b>93.069</b>	<b>84.690</b>	<b>87.906</b>	<b>81.003</b>	<b>86.531</b>	<b>99.639</b>	<b>4,3%</b>
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	84.731	101.399	114.503	22,1%
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	139.114	87.584	124.563	
Carrying amount of investment property disposed	-204.023	-68.106	-135.457	-102.538	-63.214	-94.365	
Profit on disposal of investment property	25.482	18.646	40.516	36.576	24.370	30.198	
<b>Net operating profit before financing activities (EBIT)</b>	<b>76.567</b>	<b>76.936</b>	<b>111.906</b>	<b>117.414</b>	<b>122.987</b>	<b>151.417</b>	<b>10,6%</b>
Share of the profit or loss of associates	28.996	15.829	18.321	10.594	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	-40.410	-40.341	-44.291	
<b>Profit/loss before tax (EBT)</b>	<b>70.477</b>	<b>55.933</b>	<b>97.863</b>	<b>99.084</b>	<b>104.032</b>	<b>130.654</b>	<b>10,1%</b>
Current income tax expenses	-5.856	-6.241	-13.803	-4.017	-4.778	-7.845	
Deferred tax expenses	-209	-2.079	-3.371	-7.955	-8.101	-10.447	
Tax	-6.065	-8.320	-17.174	-11.972	-12.879	-18.292	
<b>Net profit</b>	<b>64.412</b>	<b>47.613</b>	<b>80.689</b>	<b>87.112</b>	<b>91.153</b>	<b>112.362</b>	<b>11,7%</b>
Minorities	820	-78	-222	-348	-417	-473	
<b>Net profit after minorities</b>	<b>63.592</b>	<b>47.691</b>	<b>80.911</b>	<b>87.460</b>	<b>91.570</b>	<b>112.835</b>	<b>11,7%</b>
<b>FFO</b>	<b>60,2</b>	<b>68,0</b>	<b>95,0</b>	<b>96,4</b>	<b>106,4</b>	<b>119,4</b>	<b>7,9%</b>
Number of shares ('000)	68.578	69.958	71.713	78.500	79.072	87.247	
<b>Earnings per share</b>	<b>0,93</b>	<b>0,68</b>	<b>1,13</b>	<b>1,11</b>	<b>1,16</b>	<b>1,29</b>	
<b>FFO per share</b>	<b>0,88</b>	<b>0,97</b>	<b>1,32</b>	<b>1,23</b>	<b>1,35</b>	<b>1,37</b>	
<b>Dividend per share</b>	<b>0,44</b>	<b>0,48</b>	<b>0,66</b>	<b>0,68</b>	<b>0,70</b>	<b>0,75</b>	
<b>Shareholders' Equity</b>	<b>828.913</b>	<b>895.921</b>	<b>968.778</b>	<b>1.112.428</b>	<b>1.150.229</b>	<b>1.361.991</b>	<b>12,0%</b>
<b>Balance Sheet sum</b>	<b>2.341.278</b>	<b>2.490.051</b>	<b>2.657.443</b>	<b>2.957.537</b>	<b>3.094.223</b>	<b>3.786.214</b>	
<b>Equity Ratio</b>	<b>35,4%</b>	<b>36,0%</b>	<b>36,5%</b>	<b>37,6%</b>	<b>37,2%</b>	<b>36,0%</b>	

## SRC Research

### - Der Spezialist für Finanz- und Immobilienaktien -

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#### Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	28.10.2020	Buy	9,57 €	20,00 €
DIC Asset AG	06.07.2020	Buy	12,32 €	20,00 €
DIC Asset AG	30.04.2020	Buy	12,72 €	20,00 €
DIC Asset AG	06.04.2020	Buy	9,02 €	20,00 €
DIC Asset AG	05.03.2020	Buy	17,12 €	23,00 €

#### Please note:

The share price mentioned in this report is from 14 January 2021. DIC Asset AG mandated SRC Research for covering the share.

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