DIC Asset

Buy (unchanged) **Target: Euro 24.00** (unchanged)

10 | February | 2022

Price (Euro)	**15.46**
52 weeks range	16.63 / 13.55

Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	1,266
Number of shares (million)	81.9
Free Float	45.3%
Free Float Market Cap (Euro million)	573
CAGR EBIT ('21 -'24e)	8.0%

Multiples	**2021**	**2022e**	**2023e**	**2024e**
Market Cap / Total revenues	11.7	11.7	11.0	10.2
PE-Ratio	**21.8**	**17.3**	**16.9**	**16.8**
Dividend Yield	4.9%	5.0%	5.2%	5.5%

Key Data per share (Euro)	**2021**	**2022e**	**2023e**	**2024e**
Earnings per share (EPS)	**0.71**	**0.89**	**0.92**	**0.92**
FFO per share	**1.32**	**1.42**	**1.49**	**1.53**
Dividend per share (DPS)	0.75	0.78	0.81	0.85

Financial Data (Euro '000)	**2021**	**2022e**	**2023e**	**2024e**
Gross rental income	108,390	108,172	115,157	124,150
Net rental income	**91,216**	**91,914**	**97,793**	**105,113**
Administrative expenses	-21,518	-23,214	-25,544	-26,266
Personnel expenses	-38,096	-39,521	-40,177	-40,833
Real estate management fees	101,225	111,367	125,235	137,406
Profit on disposal of investment property	23,765	26,698	21,761	14,210
EBIT	**115,619**	**124,480**	**135,747**	**145,755**
Net financial result	-49,707	-36,642	-39,555	-42,750
EBT	**72,436**	**94,093**	**102,061**	**108,682**
Taxation	-14,051	-20,471	-23,473	-24,800
Net profit after minorities	**57,795**	**73,255**	**78,071**	**83,194**
FFO	**107,200**	**116,183**	**127,042**	**138,388**

Main Shareholders

Deutsche Immobilien Chancen-Gruppe	34.6%
Yannick Patrick Heller	10.1%
RAG-Stiftung	10.0%

Financial calendar

AGM	24 March 2022
1Q 2022 report	10 May 2022
1H 2022 report	2 August 2022
SRC Forum Financials & Real Estate	**13 September 2022**

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2021 results deliver good growth and are in line with guidance – FFO up 11%, Dividend lifted to 75 cents per share – Outlook for the current year very realistic – Buy and Euro 24.00 affirmed

Yesterday, the company released the 2021 annual report and held a conference call. The firm expectedly delivered a good year with significant growth in most of the key numbers, which were fully in line with the firm's full-year guidance and in reach of our estimates. Gross rental income hiked by 8% from almost Euro 101m last year to now more than Euro 108m, while net rental income even increased by 11% to more than Euro 91m. The hike in these numbers was driven by the strong letting performance of almost 310k sqm, a 3.5% like-for-like rental growth and the acquisitions including the effects from warehousing. The institutional business segment saw a steep hike in real estate management fees, which were up 27% from almost Euro 80m to more than Euro 101m. Operating expenses all in all amounted to about Euro 60m, while other operating result came in at about Euro 2m. With a profit on disposals of almost Euro 24m (FY 2020: Euro 32m), the firm's EBIT increased to almost Euro 116m, up from last year's number of more than Euro 106m, and met our expectation of Euro 116.1m. The share of profit or loss of associates was down from Euro 11.4m to Euro 6.5m, as it benefited from a high amount of transaction-related income. While financial income was up from Euro 8.7m to Euro 9.6m, financial expenses were up significantly from Euro 37m to Euro 59m and were mainly impacted by the about Euro 15m prepayment penalties regarding the early refinancing as reported in our update from 12 January, which will lead to interest savings of about Euro 5m annually from 2022 on. Thus, the firm's bottom line after minorities declined from Euro 70m to Euro 58m, translating into earnings per share of 71 cents. **The cash driven FFO I result for the first time crossed the Euro 100m mark and hiked by 11% to Euro 107.2m. This translates into a FFO per share of Euro 1.32. In line with the successful results, the management decided to propose a dividend of 75 cents per share, up 7% from last year's dividend of 70 cents and exactly our estimate. This represents a very lucrative dividend yield of almost 5% at the current share price level.**

Along with the 2021 numbers, the firm also released an outlook for the current fiscal year, which sees further growth and is also very realistic in our opinion. While the guidance for gross rental income is for a range between Euro 106m and Euro 109m, thus more or less unchanged to this year's result (keep in mind the sales from the commercial portfolio in 2021 and the effects from the warehousing), real estate management fees are expected to grow to a range of Euro 105m to Euro 115m. The firm's FFO is also guided to grow further, to a range between Euro 115m and Euro 119m. This is based on the expectations of acquisitions between Euro 1.4bn and Euro 1.9bn, of which Euro 200m to Euro 300m are planned for the commercial portfolio, and sales in the volume of Euro 300m to Euro 500m, of which about Euro 100m come from the own portfolio. Thus, the effects from a possible consolidation of VIB Vermögen, on which we reported on our update from 1 February and for which the official documents have been published yesterday, are not included in the firm's guidance as well as in our estimates, but would cause the numbers to be significantly higher.

We are satisfied with the results of 2021 and are optimistic that the current year will also be similarly successful. The new year has already started on a good note with the news on the letting side and we are confident, that we will hear more good news regarding the portfolio in the coming weeks. We confirm our Euro 24.00 target price and stick to our Buy recommendation.

DIC Asset AG

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

Region: Germany
Headquarter: Frankfurt
Foundation 1998
Employees: 306

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Management Board of DIC Asset
CEO Sonja Wärntges
CIO Johannes von Mutius
Patrick Weiden
Christian Bock

Supervisory Board of DIC Asset:
Prof. Dr. Gerhard Schmidt
Klaus-Jürgen Sontowski
Prof. Dr. Ulrich Reuter
Eberhard Vetter
Michael Zahn
Rene Zahnd

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 more than Euro 2.2bn at present. A bigger focus will be laid on logistics assets in future.

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 or the new RLI-GEG Logistics & Light Industrial III fund with a volume of Euro 400m. 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 management in the Institutional Business steeply increased by almost 50% in 2019, from Euro 3.9bn to Euro 5.7bn, to Euro 7.6bn in 2020 and again steeply to Euro almost Euro 9.3bn in 2021. 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, Berlin and Stuttgart. The institutional business offers a very steady and lucrative income stream of management fees as well as transaction-related fees and performance fees. In 2020 the real estate management fees significantly hiked 27% to Euro 80m. Another milestone was the takeover of Munich based RLI investors in December 2020 (closing January 2021) with over Euro 700m Assets under Management. This helps to sharpen the profile of DIC in the field of logistics investments and helps to cross sell logistics assets to GEG clients and vice versa. With the RLI deal and further transactions, the total assets base grew to Euro 11.5bn at FY2021 and the management fees hiked to more than Euro 101m. The company aims to reach a Euro 15bn asset base in the mid-term. We assume this is very realistic until year-end 2023 or mid 2024.

The FFO I result of 2021 crossed the Euro 100m mark for the first time and was at more than Euro 107m, up more than 11% from the Euro 96.5m in 2020. For 2022 DIC Asset forecasts a range of Euro 115m to Euro 119m for the FFO I result.

	GUIDANCE (without guidance for external growth)
Gross rental income	EUR 106–109 million
Real estate management fees	EUR 105–115 million
FFO	EUR 115–119 million
Acquisitions	EUR 1.4–1.9 billion CP: EUR 200–300 million IB: EUR 1.2–1.6 billion
Sales	EUR 300–500 million CP: around EUR 100 million IB: EUR 200–400 million

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 8 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 94 properties and about 1,500 rental contracts for an annual rental income of more than Euro 105m 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 RLI Investors takeover in December 2020 strengthened the new logistics footprint and offers some decent cross sell potential.
- 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 hike in dividend from 70 Cents to 75 Cents offers a decent yield of almost 5%.

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 RLI Investors takeover also offers synergies and of course important cross sell potential. More M & A deals might come in mid-term to boost the growth of assets base in Institutional Business, in office and / or logistics. A successful VIB takeover with a Euro 1.4bn portfolio size would be a big milestone.
- 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 34% 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. The mid-term growth of the portfolio to Euro 15bn in the next 2-3 years might still offer the opportunity for MDax.

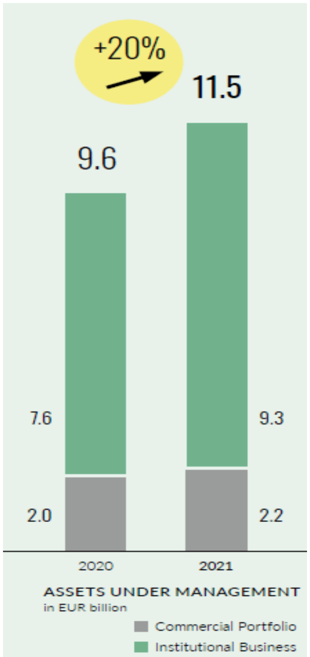
Threats

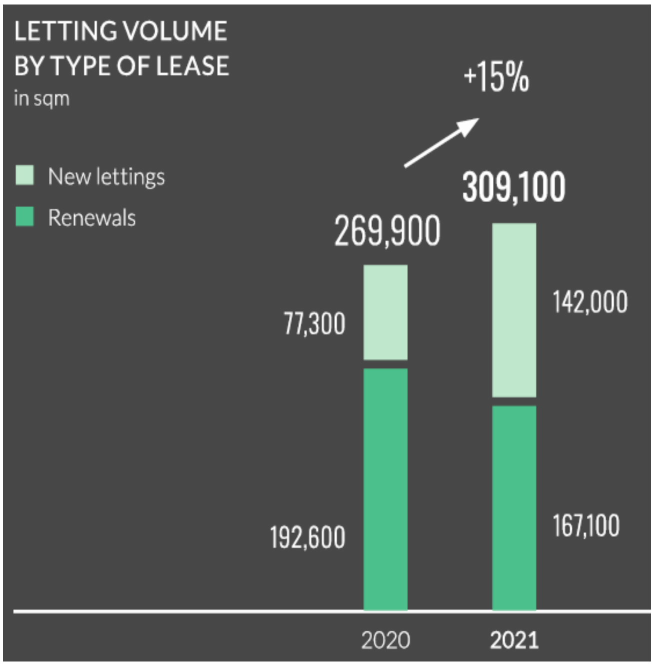
- A severe economic downturn or shocks like the current Corona pandemic would not impair the P & L so much, as the firm does cost accounting. But the institutional demand for commercial properties could decline with a decelerating demand for office space. Furthermore, the letting performance for new lettings or prolongations might dwindle. The 2021 letting performance and space demand draw another picture, so far.
- The general trend for more working in home office accelerating in pandemic times might have a dampening effect on the general space demand. In general, some new economic research reports show that the "working from home effect" on the space demand is overestimated.
- An uplift in bid price could significantly bring up transaction costs. It is also thinkable that DIC only reaches a minority stake in VIB Vermögen and holds it as at-equity investment.

Strong development of the portfolio in 2021 – we expect more to come in 2022

Over the course of the year 2021, DIC extended its assets under management by 20% from Euro 9.6bn to Euro 11.5bn. An additional about Euro 500m will still be added to the AuM volume, as some of the transactions were not closed as of the reporting date but already notarized. Thus, DIC came a big step closer to the mid-term target of Euro 15bn AuM. The acquisition volume for 2021 amounted to Euro 1.9bn, including sales of about Euro 300m.

The portfolio now consist of about Euro 2.2bn of assets in the firm's commercial portfolio and about Euro 9.3bn of assets in the institutional business segment. The assets are now comprised of 237 (2020: 189) properties with a rental space of more than 3.1m (2020: 2.2m) sqm. Furthermore, the share of logistics has significantly increased and now makes up about 8%. This was mainly driven by the acquisition and integration of RLI.





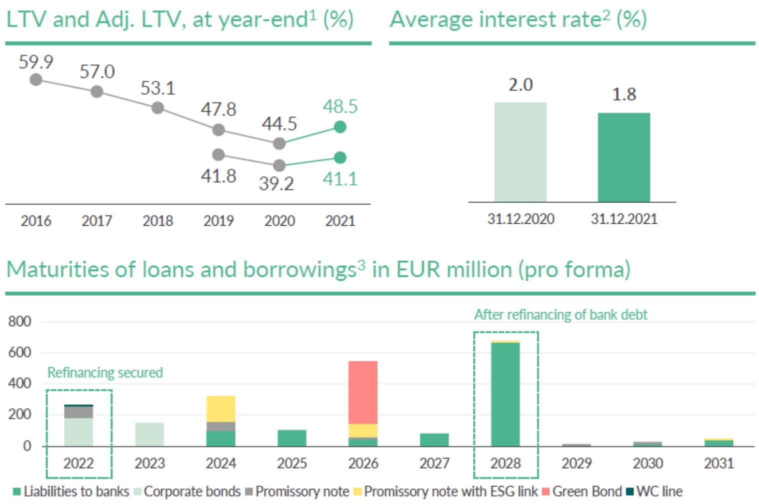
Source: 2021 annual report

Next to the transactions, the firm was also very successful on the letting side of the portfolio and once again even topped the high level of the previous year, as the letting volume climbed by 15% from about 270k sqm to almost 310k sqm, representing about Euro 33m of annualized rental income. The average rent per sqm for the new lettings was increased by 9% and an additional about Euro 17m of annualized rental income was signed. Of the 142k sqm of new lettings, about 84% was let to new tenants. Following this strong performance, only about 2% of leases have a term of less than one year, while 68% of lease terms have a term of more than four years.

Looking at the current fiscal year, we expect that DIC will be very active and successful on the letting side again. Furthermore, the company has guided that it plans to acquire assets in the volume of Euro 1.4bn to Euro 1.9bn, while the planned sales amount to Euro 300m to Euro 500m. All in all, our expectation regarding assets under management at year-end 2022 is currently at about Euro 13.1bn, and does not include effects from the current tender offer for VIB Vermögen, which would further push the growth of the assets and significantly lift the share of logistics assets.

2021 was also an active year on the financing side and resulted in improved cost of debt and a very solid maturity profile

The firm was very active in 2021 on the financing side. Amongst others, DIC Asset placed an ESG linked promissory note with a volume of Euro 250m at an average interest coupon of only 1.78% in April. Another step was the placement of a Euro 400m senior unsecured fixed-rate Green Bond with a maturity of five years and a coupon of 2.25%, which was significantly below the level of the last corporate bond. Furthermore, shortly before the end of the year, the company announced the early refinancing of a collateralized loan with a volume of about Euro 550m and a new maturity of seven years. While the refinancing led to one-off expenses in 2021, such as early termination penalties of about Euro 15m, this leads to annual interest savings of about Euro 5m in the coming years, which will further drive the FFO development.



Source: 2021 full year results conference call presentation

Overall, the firm's financing activities led to a reduction of the average interest rate from 2.0% at year-end 2020 to now 1.8% and we believe that this rate can be improved even further, e.g. due to the refinancing of the more expensive 2017/22 bond. Furthermore, the average maturity of all financial liabilities increased year-over-year from 3.6 years to now 4.4 years and more than 85% has a maturity of more than one year. Even though the LTV ratio somewhat increased along with the growth of the company, the current level of 48.5% is still very solid and offers further room for growth.

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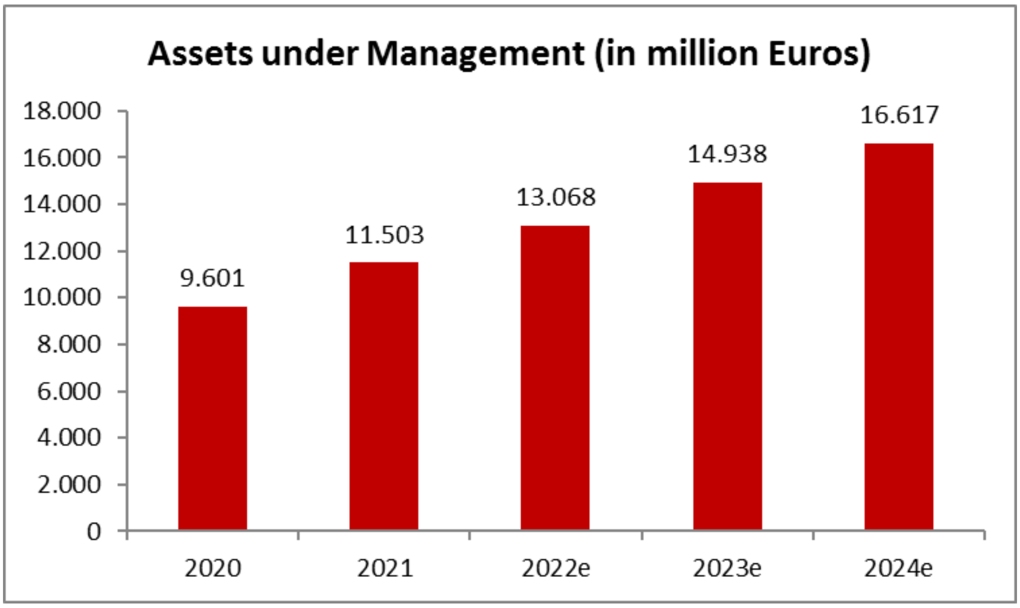
DIC Asset AG *31/12 IFRS ('000)*	2019	2020	2021	2022e	2023e	2024e	CAGR '21 - '24e
Gross rental income	101,942	100,695	108,390	108,172	115,157	124,150	4.6%
Ground rents	-676	-510	-523	-814	-1,045	-1,276	
Service charge income on principal basis	20,836	22,135	23,211	25,641	28,947	31,958	
Service charge expenses on principal basis	-23,565	-24,029	-26,415	-27,141	-30,013	-33,175	
Other property-related expenses	-10,631	-16,070	-13,447	-13,944	-15,253	-16,544	
Net rental income	**87,906**	**82,221**	**91,216**	**91,914**	**97,793**	**105,113**	4.8%
Administrative expenses	-17,876	-19,077	-21,518	-23,214	-25,544	-26,266	
Personnel expenses	-27,918	-30,280	-38,096	-39,521	-40,177	-40,833	
Depreciation and amortization	-34,242	-38,774	-42,986	-43,558	-44,102	-44,646	
Real estate management fees	62,883	79,722	101,225	111,367	125,235	137,406	10.7%
Other operating income	2,616	2,222	3,815	2,549	2,775	3,001	
Other operating expenses	-1,979	-1,852	-1,802	-1,756	-1,993	-2,230	
Net proceeds from disposal of investment property	175,973	116,324	139,337	186,332	124,334	89,657	
Carrying amount of investment property disposed	-135,457	-84,324	-115,572	-159,634	-102,573	-75,447	
Profit on disposal of investment property	40,516	32,000	23,765	26,698	21,761	14,210	
Net operating profit before financing activities (EBIT)	**111,906**	**106,182**	**115,619**	**124,480**	**135,747**	**145,755**	8.0%
Share of the profit or loss of associates	18,321	11,370	6,524	6,255	5,869	5,677	
Interest income	10,296	8,670	9,550	8,221	7,231	6,241	
Interest expenses	-42,660	-36,760	-59,257	-44,863	-46,786	-48,991	
Profit/los before tax (EBT)	**97,863**	**89,462**	**72,436**	**94,093**	**102,061**	**108,682**	14.5%
Current income tax expenses	-13,803	-14,128	-19,447	-14,475	-13,586	-15,473	
Deferred tax expenses	-3,371	-2,222	5,396	-5,996	-9,887	-9,327	
Tax	-17,174	-16,350	-14,051	-20,471	-23,473	-24,800	
Net profit	**80,689**	**73,112**	**58,385**	**73,622**	**78,588**	**83,882**	12.8%
Minorities	-222	3,099	590	367	517	688	
Net profit after minorities	**80,911**	**70,013**	**57,795**	**73,255**	**78,071**	**83,194**	12.9%
FFO	**95.0**	**96.5**	**107.2**	**116.2**	**127.0**	**138.4**	8.9%
Number of shares ('000)	71,713	79,421	81,504	81,861	85,122	90,214	
Earnings per share	**1.13**	**0.88**	**0.71**	**0.89**	**0.92**	**0.92**	
FFO per share	**1.32**	**1.22**	**1.32**	**1.42**	**1.49**	**1.53**	
Dividend per share	**0.66**	**0.70**	**0.75**	**0.78**	**0.81**	**0.85**	
Shareholders' Equity	**968,778**	**1,108,421**	**1,133,969**	**1,146,096**	**1,300,315**	**1,314,560**	5.0%
Equity Ratio	**36.5%**	**40.7%**	**32.5%**	**34.2%**	**36.6%**	**35.6%**	



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Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	01/02/2022	Buy	15.24 €	24.00 €
DIC Asset AG	12/01/2022	Buy	15.18 €	24.00 €
DIC Asset AG	15/11/2021	Buy	15.44 €	22.00 €
DIC Asset AG	16/09/2021	Buy	15.30 €	22.00 €
DIC Asset AG	08/06/2021	Buy	15.03 €	22.00 €
DIC Asset AG	06/05/2021	Buy	14.67 €	22.00 €
DIC Asset AG	11/02/2021	Buy	15.56 €	22.00 €
DIC Asset AG	15/01/2021	Buy	14.24 €	22.00 €
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 €

Please note:
The share price mentioned in this report is from 9 February 2022. DIC Asset AG mandated SRC Research for covering the share.