

# Demire AG

## Offer to create bigger commercial property player

Demire (DMRE) refocused its business in 2012 from Eastern Europe to Germany, where it now has a commercial portfolio of €700m generating rental income of €52.3m, having doubled in size in 2015. The proposed acquisition of Fair Value REIT (FVI), which has been recommended by FVI's board, would add a further €306m of investment property and €25.4m of income, and reduce DMRE's LTV. The deal would also give DMRE shareholders access to growth through FVI's closed-end fund investment platform. Holders of 41.9% of FVI shares and voting rights had accepted the offer as of 4 November.

### Refocus almost complete

Current management took over in 2013/2014, reduced costs and has substantially redirected DMRE's strategy by concentrating solely on cash-generating German commercial property. It also opportunistically disposed of legacy Eastern European assets and smaller German properties. €2.4m of non-core assets remain. Nearly all DMRE's properties are managed internally, generating an additional revenue stream and the potential for further economies of scale in future.

### Proposed acquisition to maintain NAV growth

The offer of two DMRE shares for each FVI share announced on 31 July 2015 requires a minimum acceptance rate of 50.1% and already had the backing of holders of 23.2% of FVI when it was made. The offer premium to EPRA NAV stood at 10% at 30 October 2015. Demire states that the deal would reduce leverage and borrowing costs, and would provide a new acquisition stream. FVI has historically bought into property funds below NAV, further grown its stake to take control and then benefits from the full value of the underlying properties; DMRE has concentrated on the secondary market. Demire's intention is to maintain FVI's REIT status and dividend policy (distributing 90% of net rental income) by leaving at least 15% free float; this will also stay below the 94.9% German land transfer tax (RETT) threshold. Synergy benefits of c €2m are expected. The portfolios complement each other by geography and sector.

### Valuation: Estimates suspended pending deal

Consensus estimates have been suspended pending an outcome of the offer. FVI's board has recommended that FVI shareholders accept the offer despite the completion of the T6 portfolio acquisition on 30 October 2015 being at a higher price than previously envisaged, meaning that DMRE increases its equity by €2.9m less than the €43.5m previously envisaged. Statements about the offer are available on the company's [website](#).

#### Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	63.7	55.5	3.03	N/A	1.4	N/A

Source: Demire. Note: Estimates have been suspended pending the FVI offer.

## Real estate

**Price** €4.33

**Market cap** €118m

#### Share price graph



#### Share details

Code	DMRE
Listing	Frankfurt
Shares in issue	27.35m

#### Business description

Demire (Deutsche Mittelstand Real Estate) AG owns and manages a commercial real estate portfolio in Germany with an EPRA NAV of €94m at 30 June 2015. It has offered to acquire Fair Value REIT AG with a goal to create a company with gross assets nearing €1bn.

#### Bull

- Established player with broad portfolio.
- Potential acquisition would increase portfolio and rental income significantly.
- German economy and property market continue to improve.

#### Bear

- LTV and cost of debt relatively high at 75% and 4.7%.
- Vacancy rate 13.7% by value at 31 August 2015.
- No dividend.

#### Analysts

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