

# 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 <u>website</u>.

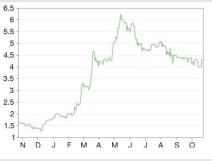
Historical	financials					
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	63.7	55.5	3.03	N/A	1.4	N/A

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

**Real estate** 



#### 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

Julian Roberts	+44 (0)20 3077 5748
Martyn King	+44 (0)20 3077 5745
financials@edisongroup.com	



Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks wordwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (<u>www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584</u>). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Los no IX is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research lor US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is regulated by the Australian Securities and Investment Commission. Edison Investment Research Limited (794244]. <u>www.edisongroup.com</u>

DISCI AIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to cratin categories of investors. This research is subtained only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison at the information reflects our sincere opinions. The information class of the construed part on the 'publishers' exclusion' from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities alws. As such, Edison does not offer or provide personalised advice. We publish information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. New publish information understores who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (11)a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment any securities mentioned or in the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (11)a), (b) and (c) of the FAA). This is not a solicitation or investment

Frankfurt +49 (0)69 78 8076 960 Schumannstrasse 34b 60325 Frankfurt Germany London +44 (0)20 3077 5700 280 High Holborn London, WC1V 7EE United Kingdom New York +1 646 653 7026 245 Park Avenue, 39th Floor 10167, New York US Sydney +61 (0)2 9258 1161 Level 25, Aurora Place 88 Phillip St, Sydney NSW 2000, Australia

Wellington +64 (0)48 948 555 Level 15, 171 Featherston St Wellington 6011 New Zealand