

DEMIRE

Real estate

Aiming to be first in secondary locations

After considerable portfolio growth in 2015 and early 2016, including the acquisition of 77.7% of Fair Value REIT in December, DEMIRE's portfolio is valued at c €1bn. The FVI acquisition has given investors access to growth through FVI's closed-end fund investment platform as well as adding €306m in assets and €25m in revenue.

Strategic realignment nearing completion

In 2012 DEMIRE's board decided to move away from investment in Central and Eastern Europe to refocus on German commercial property in secondary locations which are seen as having attractive and stable returns and at the same time strengthening the balance sheet. The portfolio is now exclusively German, LTV has fallen from 87% in 2014 to 64% and the average cost of debt is down from 6.4% to 4.4% over the same period. Almost all properties are managed internally, generating additional revenue and the potential for further economies of scale.

Fair Value REIT

The acquisition of 77.7% of FVI's shares was instrumental in achieving new scale and efficiency: DEMIRE's H116 results showed rental income of €37.5m, almost treble H115's €13.8m with FVI contributing €11.4m. FFO moved from a slight loss to 5c per share after minorities. EPRA NAV per share rose from €4.23 at 30 June 2015 to €4.37 while LTV fell from 75% to 64%, helped in particular by the FVI acquisition, but also by the refinancing of bond and bank debt which brought the average interest rate on debt down to 4.4% compared to 5.1% at 31 December.

Outlook

Management will continue to streamline the portfolio; the aim is to reduce the number of properties from 190 to 93 and increase rental income from €75m in 2016 to €77m in 2017, reducing vacancy from 12.2% at the end of 2015 to 10% by the end of 2017. The German prime office market in particular is experiencing a supply shortage which market commentators expect to continue, driven by a strong economy and low interest rates. With prime yields continuing to contract and rents rising strongly, secondary office properties look increasingly appealing and DEMIRE is well placed to benefit.

Valuation: Price/NAV below peers

The company currently trades on a price to EPRA NAV ratio of 0.85, vs an average of c 1.1 in the sector and a prospective P/FFO of c 10x (using management's guided €19.1m 2016e FFO), well below the sector average of c 17x. Higher occupancy and a reduction in the LTV ratio might see a re-rating closer to peers.

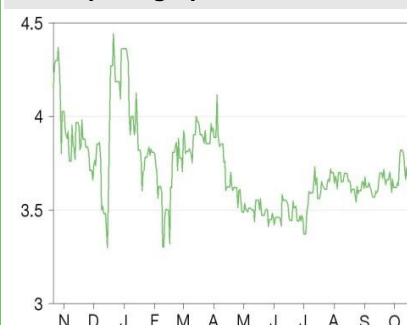
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (c)	P/E (x)	Yield (%)
12/15	43.3	33.0	0.71	0.0	5.2	N/A
12/16e	76.0	52.3	0.47	0.0	7.9	N/A
12/17e	78.0	56.7	0.63	0.0	5.9	N/A
12/18e	80.0	58.1	0.63	0.1	5.9	0.3

Source: Bloomberg

Price €3.72
Market cap €202m

Share price graph



Share details

Code	DMRE
Shares in issue	54.2m
Net debt (€m) at 30 June 2016	649

Business description

DEMIRE has €1bn of investment property, mainly in office and industrial real estate in secondary locations across Germany. In December 2015 it completed the acquisition of a majority (77.7%) stake in Fair Value REIT, which historically has had more focus on office and retail property.

Bull

- Diverse portfolio and rising occupancy.
- Now a leader in secondary commercial property markets.
- Strong property market with record office take up expected in Germany in 2016.

Bear

- No dividend yet.
- Relatively high LTV at 64%.
- Vacancy rate relatively high at 10.7%

Analysts

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