DIC Asset

Buy (unchanged) **Target: Euro 16.00** (unchanged)

13 | April | 2023

Der Spezialist für Finanzaktien

Price (Euro)	**6,71**
52 weeks range	14.48 / 6.51

Key Data

ISIN	DE000A1X3XX4
Bloomberg	DIC:GR
Reporting standard	IFRS
Market Cap (Euro million)	549
Number of shares (million)	81,9
Free Float	45,4%
Free Float Market Cap (Euro million)	249
CAGR EBIT ('22 -'25e)	10,6%

Multiples	**2022**	**2023e**	**2024e**	**2025e**
Market Cap / Total revenues	3,1	2,9	3,0	2,8
PE-Ratio	**17,9**	**26,7**	**15,2**	**14,8**
Dividend Yield	11,2%	9,7%	9,7%	10,4%

Key Data per share (Euro)	**2022**	**2023e**	**2024e**	**2025e**
Earnings per share (EPS)	**0,38**	**0,25**	**0,44**	**0,45**
FFO per share	**1,38**	**1,15**	**1,30**	**1,36**
Dividend per share (DPS)	0,75	0,65	0,65	0,70

Financial Data (Euro '000)	**2022**	**2023e**	**2024e**	**2025e**
Gross rental income	175.956	189.206	181.268	195.368
Net rental income	**152.540**	**161.923**	**153.356**	**166.836**
Administrative expenses	-37.863	-27.924	-29.012	-30.100
Personnel expenses	-42.581	-43.247	-44.214	-47.781
Real estate management fees	88.375	73.693	116.512	122.928
Profit on disposal of investment property	12.697	21.761	14.210	6.659
EBIT	**101.575**	**107.663**	**131.705**	**137.469**
Net financial result	-60.582	-66.304	-62.100	-64.361
EBT	**59.911**	**47.228**	**75.282**	**78.593**
Taxation	-17.053	-34.577	-36.607	-38.637
Net profit after minorities	**31.024**	**20.878**	**36.940**	**38.478**
FFO	**114.200**	**95.749**	**108.795**	**115.296**

Main Shareholders

Deutsche Immobilien Chancen-Gruppe	34,5%
Yannick Patrick Heller	10,1%
RAG-Stiftung	10,0%

Financial calendar

1Q 2023 report	11 May 2023
1H 2023 report	3 August 2023
SRC Forum Financials & Real Estate	**12 September 2023**
9M 2023 report	8 November 2023

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New company name Branicks Group AG to come soon, improvement in ESG ratings as well as some remarkable letting success for huge logistics and retail assets - Buy and 16 Euros target affirmed

In recent weeks, the company released some news, one is about a plan for a name change to a more international name, the other news are about significant improvements in the ESG rating that underline the strong ESG orientation. And DIC Asset also delivered some remarkable new lettings and prolongations, that underline their track record for a strong letting performance even in difficult times.

To start with the new name, the AGM on 30 March decided for the proposal of management and supervisory board to change the company name to Branicks Group AG, which is more international as DIC stands for Deutsche Immobilien Chancen and **Branicks is a mix of Brain and Bricks, which means to take prudent decisions to choose the right Bricks.** The new name might stand for a new era after the VIB takeover last year and RLI Investors in 2021, which clearly installed a second huge pillar besides premium offices, the very stable logistics segment. The new name might be possibly effective through the course of the fourth quarter.

Besides the name, the AGM also confirmed management's proposal to leave the dividend payment unchanged at Euro 0.75 (again with the option to vote for a scrip dividend), which means again a payout of FFO of a bit above 50% and a current dividend yield in the double digit with about 11%.

Besides the new name and the unchanged dividend, the company announced some days before AGM a significant hike in important ESG ratings, as MSCI improved from Sigle A to Double A and the S & P CSA rating (corporate sustainable assessment) improved by 12 points, which means that DIC Asset is now amongst the Top 20% (highest quintile) of international real estate investors.

Besides these important steps in ESG improvement, the company also convinced with some big lettings, as DIC announced end of March a successor for Kaufhof Leverkusen with over 20k sqm, which ends his contract for 30 June 2023 in the course of their insolvency proceedings. The new tenant will move in quickly in September, as it is Modehaus aachener with a broad offer for fashion, which has already seven Highstreet shops in some other German B cities. As done with Kaufhof Bremen in 4Q 2020 (which was newly let to a furniture company in a quite difficult pandemic situation), DIC once more proved to find smart solutions even for challenging retail Highstreet properties.

The successor for Kaufhof Leverkusen was not the only milestone news from the letting side, as the firm just announced last week, on 3 April, a remarkable prolongation of a logistics property in Biebesheim in the south of Hesse, near Darmstadt. DIC Asset managed a premature 10 years prolongation for a big 36k sqm logistics asset with logistics service company Dachser, that has several hubs in the Rhine Main area. Both sides, DIC and Dachser, are geared to improve the quality of the property to high ESG standards by important investments, which is also a value-add for the investors of the RLI Logistics Fund – Germany II.

Also from the financing side, there was good news regarding a VIB portfolio of 45 logistics properties, where a renowned consortium of banks (Helaba, BayernLB, Berlin Hyp etc) refinanced prematurely Euro 505m for seven years.

The recent news flow is good from the point of ESG, of letting and also the financing side. **The recent share price of below 7 Euros does not reflect the strong cash flow generation and the strongly improved diversification with 20% logistics on the platform (40% in the own portfolio) at all. We confirm our Buy recommendation and also confirm our € 16.00 price target. 1Q report to come on 11 May.**

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: 341

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Management Board of DIC Asset
Sonja Wärntges (CEO)
Johannes von Mutius (CIO)
Torsten Doyen (CIBO)
Christian Fritzsche (COO)

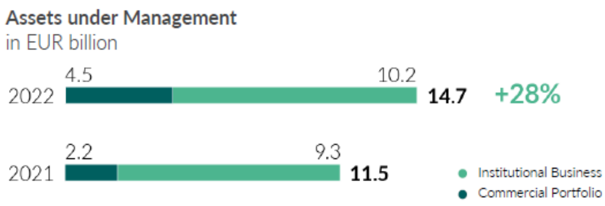
Supervisory Board of DIC Asset:
Prof. Dr. Gerhard Schmidt
Michael Zahn
Prof. Dr. Ulrich Reuter
Eberhard Vetter
Rene Zahnd
Dr. Angela Geerling

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 about Euro 4.5bn at present. A bigger focus is now laid on logistics assets Here, the successful partial takeover of VIB Vermögen is already a big milestone and lifts the share of logistics asset to almost 40% of the commercial portfolio.

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 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 and Euro 10.25bn in 2022. 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 lucrative income stream of management fees as well as transaction-related fees and performance fees. 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. The company aims to reach a Euro 15bn asset base in the short- to mid-term.

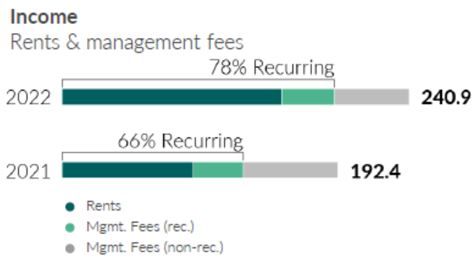
The FFO I result of 2022 reached a record level of Euro 114.2m and increased by almost 7% from Euro 107.2m in 2021. For 2023 DIC Asset guides a range of Euro 90m to Euro 97m for the FFO I result. This expected decline is mainly driven by the worse market conditions and the respective lower transaction volume in the institutional business segment.

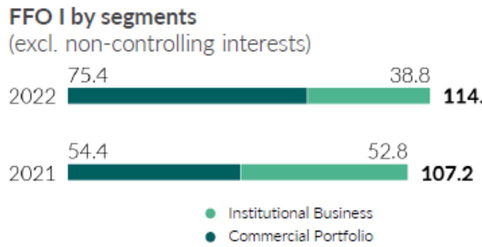


Source: Company Data, SRC Research

More resilient and predictable income structure following the takeover of VIB Vermögen

With the takeover of VIB Vermögen early in 2022, the firm more than doubled the assets under management of the commercial portfolio from Euro 2.2bn to Euro 4.5bn and also increased the share of logistics in the commercial portfolio to almost 40%, thus giving the portfolio more diversification. With this, the firm also improved the income stream. While in 2021 only 66% of the income of the group was recurring, the share significantly increased to 78% in 2022. Thus, the income is now much more reliable and predictable and also significantly less dependent on market conditions. Here, DIC already benefited in the last year as the institutional business segment clearly suffered from the turbulent markets and fees clearly came down, but were more than made up by the higher recurring rental income.



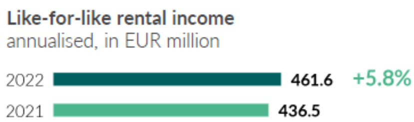


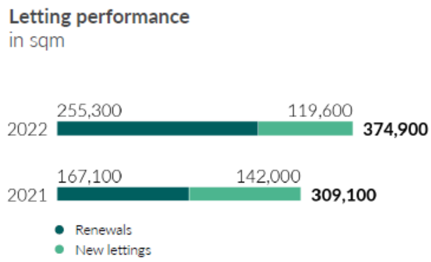
Source: company data

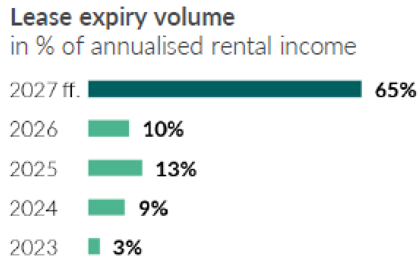
This is also the case looking at the FFO. While the split last year was more or less 50/50 between the two segments, the spilt clearly shifted in 2022 to a mix of two-thirds from the commercial portfolio and one-third from the IBU. Such a contribution mix makes the FFO for the coming years more stable and predictable as well, which is in the current shaky times much appreciated and surely limits the downside from rough markets.

Strong letting performance leads to very comfortable lease expiry volume – Like-for-like rental growth driven by indexation

After an already strong year in terms of letting volume in 2021, the firm managed to even further improve the letting volume in the last fiscal year 2022. The letting performance was up by 21% and reached a volume of about 375k sqm. About 68% of that were renewals, while the other 32% accounted for new lettings. All in all, the letting performance stood for about Euro 49m of contracted annualized rent, up 48% compared to the previous year. The recent Dachser prolongation from 3 April 2023 is another prominent news and big milestone.
At the same time, the value of new contractually agreed monthly rents per sqm increased from Euro 15.56 to Euro 18.72 for office properties and from Euro 4.24 to Euro 4.80 for logistic objects.







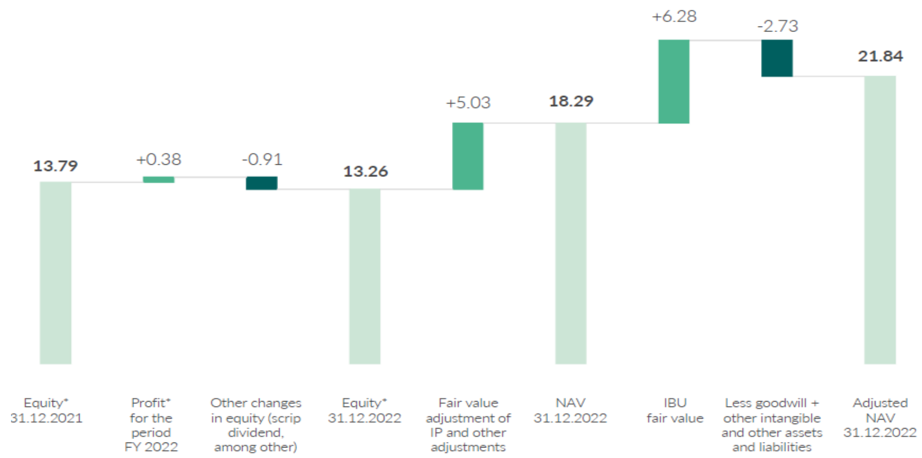
Source: company data

With the strong letting performance in the books, the firm's lease expiry volume looks very comfortable. Only about 3% of annualized rental income will expire in the current year and about 65% of rental income is locked in until 2027 and beyond. This makes it very manageable in our opinion

The like-for-like rental income grew by 5.8% across both segments, from Euro 436.5m to Euro 461.6m. The like-for-like growth of the commercial portfolio was at 3.6%, while the institutional business l-f-l rental growth amounted to 6.4%. About 80% of the overall growth was driven by indexation. Here, we expect another significant contribution in the current year.

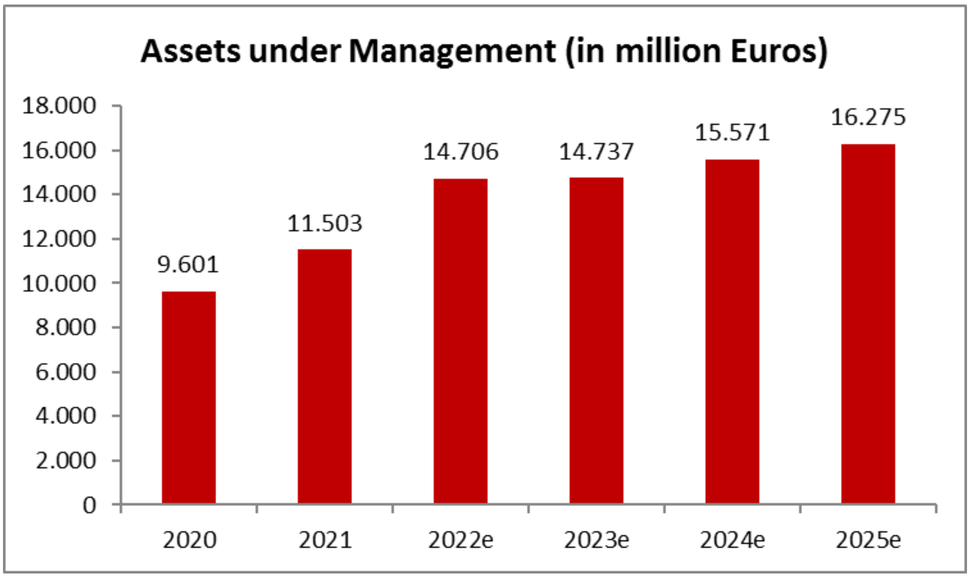
Significant discount to NAV at current price level

The firm's NAV, only taking into account the commercial portfolio segment, remained almost unchanged year-over-year and only slightly came down from Euro 18.44 to Euro 18.29, driven by a higher number of shares due to the scrip dividend. The adjusted NAV per share, which also takes into account the value of the Institutional Business segment on the other hand significantly came down from Euro 25.00 at FY 2021 to now Euro 21.84. This decline was driven by new valuation parameters. On the one hand, the discount rate was increased from 6.2% to now about 7.0%, as it incorporates the changed economic environment and the overall higher interest rate levels. Furthermore, the value was also burdened by the lowered earnings estimates for 2023 and the coming years.



Despite the reduced adjusted NAV, the share is still trading at a deep discount at the current share price level of below 7 Euros. Furthermore, our target price of 16.00 Euros is also more than supported by the NAV level and still reflects a security discount for further valuation adjustments.

DIC Asset AG 31/12 IFRS ('000)	2020	2021	2022	2023e	2024e	2025e	CAGR '22 - '25e
Gross rental income	100,695	108,390	175,956	189,206	181,268	195,368	3.5%
Ground rents	-510	-523	-339	-1,045	-1,276	-1,498	
Service charge income on principal basis	22,135	23,211	31,269	39,417	41,548	43,679	
Service charge expenses on principal basis	-24,029	-26,415	-36,572	-47,214	-48,974	-50,734	
Other property-related expenses	-16,070	-13,447	-17,774	-18,441	-19,210	-19,979	
Net rental income	**82,221**	**91,216**	**152,540**	**161,923**	**153,356**	**166,836**	3.0%
Administrative expenses	-19,077	-21,518	-37,863	-27,924	-29,012	-30,100	
Personnel expenses	-30,280	-38,096	-42,581	-43,247	-44,214	-47,781	
Depreciation and amortization	-38,774	-42,986	-73,883	-77,412	-78,103	-80,116	
Real estate management fees	79,722	101,225	88,375	73,693	116,512	122,928	11.6%
Other operating income	2,222	3,815	5,699	3,255	3,180	3,105	
Other operating expenses	-1,852	-1,802	-3,409	-4,386	-4,224	-4,062	
Net proceeds from disposal of investment property	116,324	139,337	51,494	124,334	89,657	54,980	
Carrying amount of investment property disposed	-84,324	-115,572	-38,797	-102,573	-75,447	-48,321	
Profit on disposal of investment property	32,000	23,765	12,697	21,761	14,210	6,659	
Net operating profit before financing activities (EBIT)	**106,182**	**115,619**	**101,575**	**107,663**	**131,705**	**137,469**	10.6%
Share of the profit or loss of associates	11,370	6,524	18,918	5,869	5,677	5,485	
Interest income	8,670	9,550	10,635	7,243	6,247	5,251	
Interest expenses	-36,760	-59,257	-71,217	-73,547	-68,347	-69,612	
Profit/los before tax (EBT)	**89,462**	**72,436**	**59,911**	**47,228**	**75,282**	**78,593**	9.5%
Tax	-16,350	-14,051	-17,053	-12,751	-18,821	-19,648	
Net profit	**73,112**	**58,385**	**42,858**	**34,476**	**56,462**	**58,945**	11.2%
Minorities	3,099	590	11,834	13,598	19,522	20,467	
Net profit after minorities	**70,013**	**57,795**	**31,024**	**20,878**	**36,940**	**38,478**	7.4%
FFO	**96.5**	**107.2**	**114.2**	**95.7**	**108.8**	**115.3**	0.3%
Number of shares ('000)	79,421	81,504	82,689	83,152	83,945	84,738	
Earnings per share	**0.88**	**0.71**	**0.38**	**0.25**	**0.44**	**0.45**	
FFO per share	**1.22**	**1.32**	**1.38**	**1.15**	**1.30**	**1.36**	
Dividend per share	**0.70**	**0.75**	**0.75**	**0.65**	**0.65**	**0.70**	
Shareholders' Equity	**1,108,421**	**1,133,969**	**1,664,101**	**1,762,962**	**1,745,853**	**1,869,933**	4.0%
Equity Ratio	**40.7%**	**32.5%**	**32.1%**	**32.1%**	**30.6%**	**31.2%**	



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Rating chronicle:

Company	Date	Rating	former share price	former target
DIC Asset AG	15.02.2023	Buy	8,85 €	16,00 €
DIC Asset AG	26.01.2023	Buy	8,74 €	16,00 €
DIC Asset AG	09.11.2022	Buy	7,30 €	17,00 €
DIC Asset AG	03.11.2022	Buy	7,03 €	17,00 €
DIC Asset AG	03.08.2022	Buy	10,34 €	22,00 €
DIC Asset AG	10.05.2022	Buy	12,04 €	26,00 €
DIC Asset AG	24.03.2022	Buy	15,48 €	26,00 €
DIC Asset AG	10.02.2022	Buy	15,46 €	24,00 €
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 €

Please note:
The share price mentioned in this report is from 12 April 2023. DIC Asset AG mandated SRC Research for covering the share.

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