

24 | March | 2022

Price (Euro) **15.48**
52 weeks range 16.19 / 13.06

Key Data

ISIN DE000A1X3XX4
Bloomberg DIC:GR
Reporting standard IFRS
Market Cap (Euro million) 1,267
Number of shares (million) 81.9
Free Float 45.3%
Free Float Market Cap (Euro million) 574
CAGR EBIT ('21 -'24e) 27.3%

Multiples	2021	2022e	2023e	2024e
Market Cap / Total revenues	11.7	7.2	5.6	5.4
PE-Ratio	21.8	16.0	11.5	11.3
Dividend Yield	4.8%	5.2%	6.1%	6.7%

Key Data per share (Euro)	2021	2022e	2023e	2024e
Earnings per share (EPS)	0.71	0.97	1.35	1.37
FFO per share	1.32	1.52	1.89	2.07
Dividend per share (DPS)	0.75	0.80	0.95	1.03

Financial Data (Euro '000)	2021	2022e	2023e	2024e
Gross rental income	108,390	175,660	225,346	234,112
Net rental income	91,216	153,181	198,063	206,200
Administrative expenses	-21,518	-25,199	-27,924	-29,012
Personnel expenses	-38,096	-42,613	-43,955	-44,476
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	178,925	227,765	238,437
Net financial result	-49,707	-57,863	-53,971	-59,166
EBT	72,436	127,317	179,663	184,948
Taxation	-14,051	-25,905	-34,577	-36,607
Net profit after minorities	57,795	84,676	121,439	123,228
FFO	107,200	133,239	170,870	186,346

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

Analysts

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Successful partial takeover of 60% of VIB Vermögen announced – P&L estimates and the firm's full year guidance lifted following full consolidation – Target up to Euro 26.00, Buy rating affirmed

Yesterday, the company published the final result regarding the successful completion of the partial tender offer for VIB Vermögen and gave more details as both companies have signed a business combination agreement. At the expiration of the offer on last Friday, 18 March, a total of 33.7% of VIB shares were tendered, which is clearly above the targeted 6.5m shares included in the partial tender offer, leading to a retransfer of the excess shares. Together with the about 36% of VIB shares, which were acquired outside the offer, DIC Asset now holds approx. 60% of all outstanding VIB shares and will thus fully consolidate starting 1 April.

With the successful offer, DIC has managed to significantly expand its portfolio to more than Euro 13bn and has clearly improved its logistics exposure and its regional presence in the economically strong and important region of southern Germany. VIB Vermögen is supposed to continue its proven growth strategy and will keep its headquarters in Neuburg and DIC aims to retain the relationships with the employees of VIB. As a result of the signed business combination agreement, DIC CEO Sonja Wärntges and the chairman of DIC's supervisory board Prof. Dr. Gerhard Schmidt will be appointed to the supervisory board of VIB and Dirk Oehme will join the management board of VIB, from which the two previous members Martin Pfandzelter and Holger Pilgenröther will resign effective end of June.

As mentioned in our update from 1 February after the announcement of the partial takeover offer, we see the takeover as a milestone for DIC, which will clearly drive the targeted focus on logistics as a second strong pillar and also offers a good pipeline for developments from which the company can benefit in the coming years. Thus, we see the successful bid as very good news for the company. We assume the overall transaction consideration to be at about Euro 850m and the company will source that amount by existing cash as well as by a bridge financing, which in turn will be refinanced partially by an equity capital hike and partially by new debt capital market instruments. We expect more specific news in that regard to follow in the coming weeks or months but have already incorporated our respective assumptions into our estimates.

As a result of the partial takeover and the resulting full consolidation, DIC revised its full-year guidance, which was published on 9 February and did not consider any effects of the offer at that date. The firm now expects gross rental income to grow to a range of Euro 170m to Euro 180m instead of Euro 106m to Euro 109m. Furthermore, the firm's FFO (after minority interests and before taxes) is now expected to grow to a range between Euro 130m to Euro 136m compared to the initial guidance of Euro 115m to Euro 119m. The other guided numbers will not be affected by the consolidation and remain at the previous levels.

The effects of the partial takeover will further strongly diversify the firm's portfolio and operations, which is a positive factor in terms of risk and also regarding a possible future rating upgrade that will benefit the financing side. Further-more, the consolidation also improves the firm's P&L numbers. While the conditions for the refining of the transaction are yet to be determined and some level of uncertainty regarding the full picture of the new and consolidated P&L still remains, our first valuation of the combined group based on our estimates yields a new fair value of above 26.00 Euros. Thus, we lift our target price for the DIC share from Euro 24.00 to now Euro 26.00 and clearly confirm our Buy recommendation.

DIC Asset AG

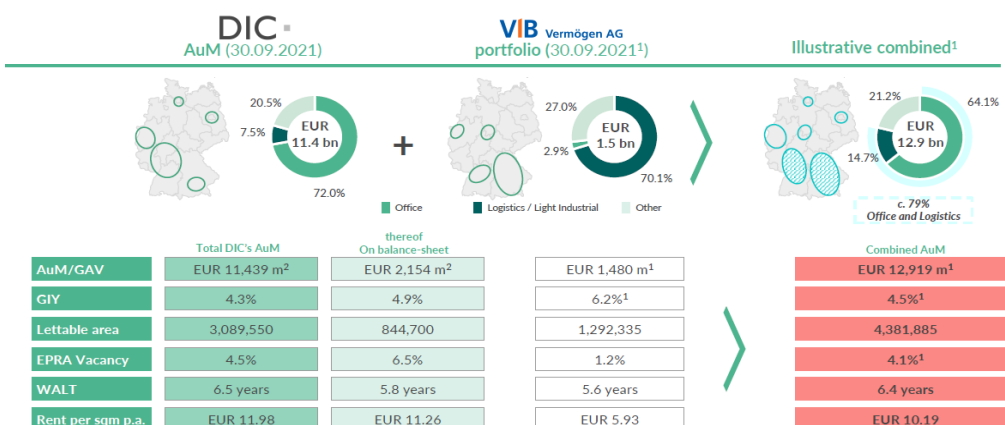
Industry:	Real Estate	Management Board of DIC Asset
Sub-segment:	Commercial property investor Own book / Institutional Business / Managed Accounts (transaction, asset and property management)	CEO Sonja Wärtnges CIO Johannes von Mutius Patrick Weiden Christian Bock
Region:	Germany	Supervisory Board of DIC Asset:
Headquarter:	Frankfurt	Prof. Dr. Gerhard Schmidt
Foundation	1998	Michael Zahn
Employees:	306	Prof. Dr. Ulrich Reuter Eberhard Vetter
IR Contact:	Dipl.-Kfm. Peer Schlinkmann, CIRO P.Schlinkmann@dic-asset.de	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 investment 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. Here, the successful partial takeover of VIB Vermögen is already a big milestone and will further lift the portfolio as can be seen in the grafik below.

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 individual mandates. 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, Düsseldorf, 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 already in 2023, as the VIB consolidation has already brought the portfolio a big step closer to that target.

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 has lifted its forecast to a range of Euro 130m to Euro 136m for the FFO I result following the successful partial takeover of VIB.



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 and will now be even further lifted with the consolidation of VIB Vermögen. 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 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%.

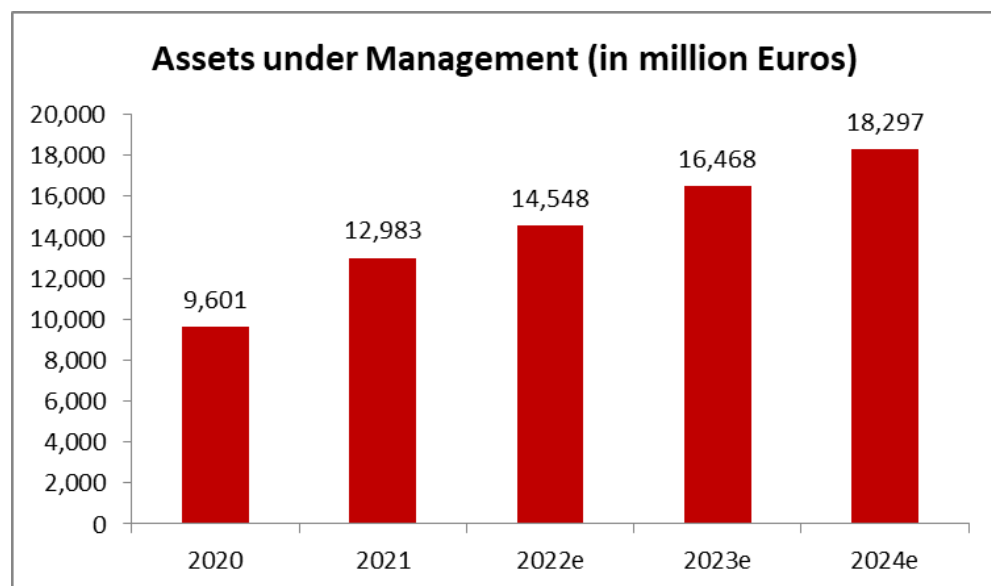
Opportunities

- 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. The successful VIB takeover with a Euro 1.5bn portfolio size was already 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 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.

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	175,660	225,346	234,112	29.3%
Ground rents	-676	-510	-523	-814	-1,045	-1,276	
Service charge income on principal basis	20,836	22,135	23,211	33,053	39,417	41,548	
Service charge expenses on principal basis	-23,565	-24,029	-26,415	-39,167	-47,214	-48,974	
Other property-related expenses	-10,631	-16,070	-13,447	-15,552	-18,441	-19,210	
Net rental income	87,906	82,221	91,216	153,181	198,063	206,200	31.2%
Administrative expenses	-17,876	-19,077	-21,518	-25,199	-27,924	-29,012	
Personnel expenses	-27,918	-30,280	-38,096	-42,613	-43,955	-44,476	
Depreciation and amortization	-34,242	-38,774	-42,986	-43,941	-44,284	-44,847	
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	3,146	3,255	3,180	
Other operating expenses	-1,979	-1,852	-1,802	-3,714	-4,386	-4,224	
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	178,925	227,765	238,437	27.3%
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	8,235	7,243	6,247	
Interest expenses	-42,660	-36,760	-59,257	-66,098	-61,214	-65,413	
Profit/loss before tax (EBT)	97,863	89,462	72,436	127,317	179,663	184,948	36.7%
Current income tax expenses	-13,803	-14,128	-19,447	-17,758	-25,443	-26,874	
Deferred tax expenses	-3,371	-2,222	5,396	-8,147	-9,134	-9,733	
Tax	-17,174	-16,350	-14,051	-25,905	-34,577	-36,607	
Net profit	80,689	73,112	58,385	101,412	145,086	148,341	36.5%
Minorities	-222	3,099	590	16,736	23,647	25,113	
Net profit after minorities	80,911	70,013	57,795	84,676	121,439	123,228	28.7%
FFO	95.0	96.5	107.2	133.2	170.9	186.3	20.2%
Number of shares ('000)	71,713	79,421	81,504	87,591	90,214	90,214	
Earnings per share	1.13	0.88	0.71	0.97	1.35	1.37	
FFO per share	1.32	1.22	1.32	1.52	1.89	2.07	
Dividend per share	0.66	0.70	0.75	0.80	0.95	1.03	



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Rating chronicle:

Company	Date	Rating	former share price	former target
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 €
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 €

Please note:

The share price mentioned in this report is from 23 March 2022. DIC Asset AG mandated SRC Research for covering the share.

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