

## Real Estate: No downswing expected

*We remain positive for the real estate sector as we do not expect interest rates to rise significantly in the short term. Thus, real estate should remain an attractive asset class for investors. With this report we are initiating coverage of 7 real estate companies (2 residential real estate, 2 commercial real estate, 2 real estate investment managers and 1 project developer).*

### Real estate market still in a good shape

We do not expect any significant increases of long-term yields in the short to mid-term and hence forecast spreads (between real estate yields and gov. bond yields) to remain on high levels. Thus, real estate investments should remain attractive for investors even if the positive price development of recent years should slow down.

### Residential real estate market

We still expect that the residential real estate market will continue its positive development as we see migration and an increasing demand for 1-2 people apartments as the major trends which should have a positive impact on vacancies and should lead to higher rents. Having reached a transaction volume of EUR 14.9bn after 9M in 2018 the investment volume is expected to increase to around EUR 18bn in 2018 (vs. 2017: EUR 15.6bn).

### Commercial real estate market

The Commercial Real Estate market in Germany has also benefited from the decline in interest rates in recent years and the positive economic market environment. Thus, transaction volumes in all segments (Office, Retail and Logistics) have increased and prices have developed favourably. Despite slightly lower forecasts for GDP growth in the future unemployment should further decrease. We expect the commercial real estate market to remain attractive for investors and also expect further upside for rents which should positively affect property values. According to JLL the transaction volume in the German commercial real estate market is expected to increase from EUR 57.2bn in 2017 to a range of between EUR 55 and 60bn in 2018 (9M 2018: 42.8bn).

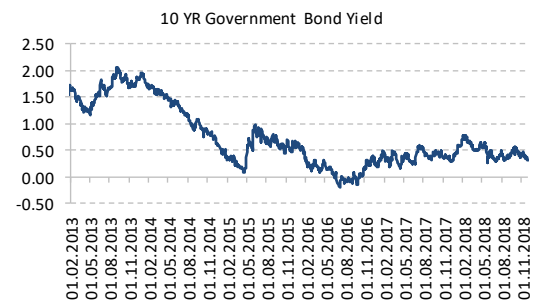
### Top Picks

Amongst the real estate investment managers, our preferred stock is CORESTATE (Buy, TP: EUR 66.00), which is well positioned to further grow organically and via M&A and attract additional clients with its diversified product range among various asset classes. In our view, the shares are significantly undervalued with a 2019e PER of 6.9x (vs. peer group 15.6x) and the dividend yield of c. 7% is also attractive.

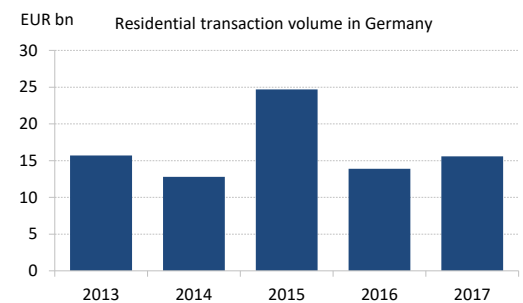
In our residential real estate coverage universe we prefer ADLER Real Estate (Buy, TP: EUR 20.00) as ADL is one of the few residential real estate companies still trading below its NAV (diluted NAV per share as of Q3 2018: EUR 18.45).

## Sector

## German Real Estate



Source: Pareto Securities, Bloomberg



Source: Pareto Securities, JLL



Source: Pareto Securities, JLL

## Analysts

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## Real estate market still in a good shape

Generally the market in Germany is divided by location. The TOP-7 locations are Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart.

We do not expect any significant increases of long-term yields in the short to mid-term and hence forecast spreads (between real estate yields and government bond yields) to remain on high levels. Note that yields of 10 YR Government Bond were well above 2% in 2011 and have fallen to around 32 basis points since then following an all-time low at -18 basis points in 2016. As there are limited investment opportunities with attractive risk-return profiles real estate investments should remain attractive for investors even if the positive price development of recent years should slow down. International insurance companies and pension funds have to invest as they have outstanding guarantees of more than 2% which they have to pay to e.g. life insurance policyholders, while reinvestment yields remain under pressure. Note that this should be supportive for real estate investment companies such as CORESTATE (Buy, TP 66.00) and Patrizia (Hold, TP 18.00) as winning additional clients is of great strategic importance to further increase its AuM which should have a positive impact on its earnings. On the other hand a high interest for real estate as an asset class should further drive prices and thus positively impact the portfolio values of real estate companies.

### Residential real estate market

We still expect that the residential real estate market will continue its positive development as we see migration and an increasing demand for 1-2 people apartments as the major trends which should have a positive impact on vacancies and should lead to higher rents.

- Supply demand gap of residential units in Germany: Migration is expected to lead to a continued high demand for residential real estate property i.e. the number of missing apartments in large cities should remain high. Between 2015 and 2030 230,000 new apartments p.a. are needed in Germany. There should still be a lack of supply as construction does not cover the high demand.

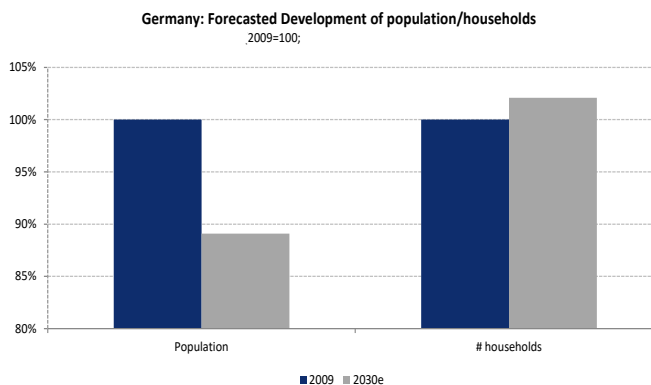
**Exhibit 1: Sum of missing apartments until 2030**



Source: Prognos, Pareto Securities

- Number of households should increase: The number of households is expected to further grow. At the same time the living space per person is expected to increase from 46 sqm in 2016 to above 50 sqm until 2030, i.e. the number of single space apartments should increase.

### Exhibit 2: Development of population/households



Source: Pareto Securities, Destatis

- Prices for real estate properties should further increase: Given high demand for housing residential rents should continue to rise and vacancies should come down. The vacancy rate in the German TOP-7 locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart) has fallen below 2% in 2017. Compared to other European countries home ownership in Germany is still relatively low with 52% in 2016 compared to almost 69% in the European Union which can be explained by high transaction costs for real estate purchases, stringent requirements, well developed rental market and tenant friendly legal environment. We do not think that the home ownership ratio will increase significantly in the coming years but it may gradually move upwards.

### Exhibit 3: Development of rents

Figure 7: Asking rents and purchase prices condominium in the Top 7 markets

	Berlin	Cologne	Düsseldorf	Frankfurt	Hamburg	Munich	Stuttgart	Germany
Asking rents 2017* (compared with 2012)	9.80 (+31%)	10.55 (+17%)	10.00 (+11%)	12.90 (+12%)	10.95 (+9%)	16.10 (+24%)	11.90 (+19%)	7.00 (+11%)
Purchase prices condo 2017** (compared with 2012)	3,710 (+60%)	3,240 (+58%)	3,430 (+56%)	4,500 (+47%)	4,130 (+37%)	6,750 (+54%)	3,850 (+72%)	2,470 (+37%)*

\* Median in €/sq m/month; \*\* Median in €/sq m; \*\*\* compared with 2013

Source: CBRE Research, empirica-systeme 2018.

Source: CBRE

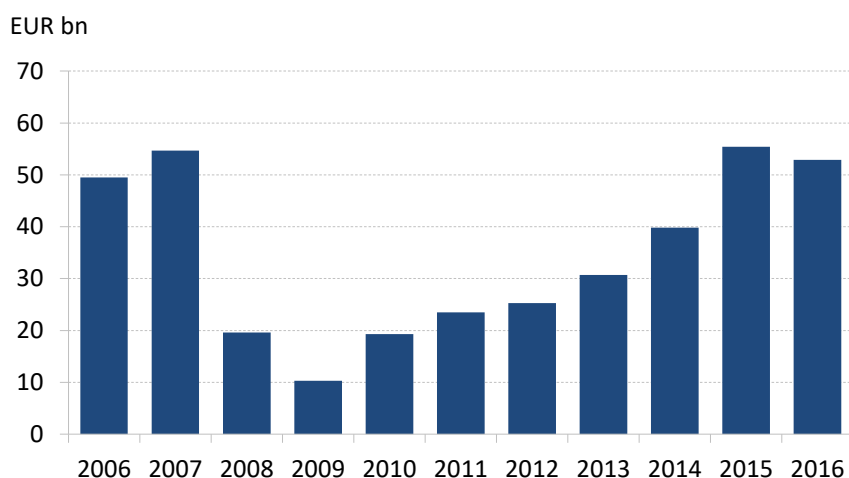
In 2017 the transaction volume in the German residential real estate market reached EUR 15.6bn (vs. EUR 13.2bn in 2016). As of 9M 2018 the transaction volume achieved EUR 14.9bn and is expected to increase to around EUR 18bn at the end of 2018. Interestingly, the largest transaction in Q3 2018 stemmed from LEG Immobilien (Hold, TP: EUR 104.00) as the company acquired 3,788 residential units in NRW from VIVAWEST. We assume a purchase price of c. EUR 200m.

Among the residential player in our coverage we prefer ADLER Real Estate (Buy, TP: 20.00) over LEG Immobilien (Hold, TP EUR 104.00) as ADL is one of the few residential real estate companies still trading below its NAV (diluted NAV per share as of Q3 2018: EUR 18.45).

## Commercial real estate market

The Commercial Real Estate market in Germany has also benefited from the decline in interest rates in recent years and the positive economic market environment. Thus, transaction volumes in all segments (Office, Retail and Logistics) have increased and prices have developed favourably. Despite slightly lower forecasts for GDP growth in the future unemployment should further decrease (unemployment rate in Germany Oct 2018: 4.8%). We expect the commercial real estate market to remain attractive for investors and also expect further upside for rents which should positively affect property values. According to JLL the transaction volume in the German commercial real estate market is expected to increase from EUR 57.2bn in 2017 to a range of between EUR 55 and 60bn in 2018 (9M 2018: 42.8bn).

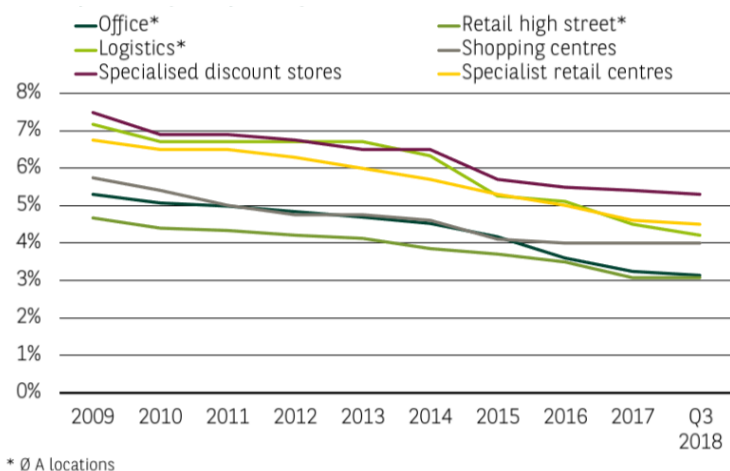
**Exhibit 4: Commercial transaction volume in Germany**



Source: JLL, Colliers, Pareto

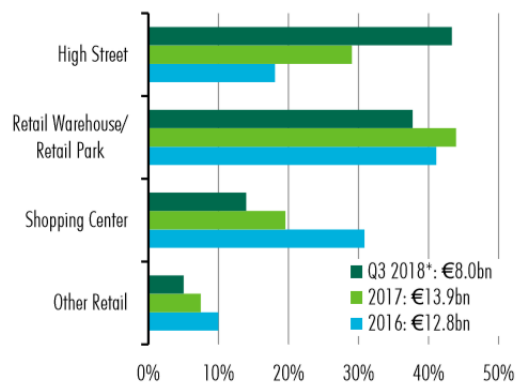
Based upon transaction volumes in Q3 2018 office was by far the biggest market in the German commercial real estate sector with a proportion of 45%, followed by retail (20%) and logistics (12%).

The high investor interest for real estate properties is also reflected in the yield development. As of Q3 2018 yields range from 2.9% for high street retail assets to 5.2% for warehousing units. Yields for office properties which is the most popular property segment according to the transaction volume declined from 3.24% as of Q2 2018 to 3.2% and JLL expects the yield compression to continue. JLL expects yields in the office segment to decrease to 3.15% by the end of 2018. In the retail asset class yields have further declined during Q3 2018 ranging between c. 3% for high street retail and 5.4% for warehousing units and DIY centers. The e-commerce development and the further positive outlook are responsible for the yield decline in the asset class logistic. Yields came down by 15bp qoq to 4.1% in Q3 2018 and should further reduce to 4.00% by the end of 2018 (source: JLL).

**Exhibit 5: Development of net prime yields**

Source: BNP Paribas Real Estate

The transaction volume of shopping centres has lost relatively in importance in recent years as a result of the increased e-commerce. However, we assume that the strong growth of e-commerce as we have seen in the past will slow down over time.

**Exhibit 6: Retail investments according to property type**

Source: CBRE

In the commercial real sector we cover Deutsche EuroShop (Hold, TP: EUR 27.00) and DEMIRE (Hold, TP: EUR 4.40).

## Exhibit 7: Overview real estate coverage

Name	Recommendation	Target Price	Last Price	Up/Downside	Market Cap (EURm)	Analyst
<b>Residential Real Estate</b>						
Adler Real Estate	Buy	20.00	14.98	34%	1,182	Katharina Mayer
LEG Immobilien AG	Hold	104.00	100.00	4%	6,319	Katharina Mayer
<b>Commercial Real Estate</b>						
Demire	Hold	4.40	4.27	3%	459	Katharina Mayer
Deutsche Euroshop	Hold	27.00	26.84	1%	1,658	Katharina Mayer
<b>Real estate investment manager</b>						
Corestate	Buy	66.00	34.45	92%	846	Katharina Mayer
Patrizia	Hold	18.00	17.03	6%	1,550	Katharina Mayer
<b>Real estate developer</b>						
Eyemaxx Real Estate	Buy	17.00	9.98	70%	73	Katharina Mayer

Source: Pareto Securities, FactSet

## Exhibit 8: Valuation figures of our real estate coverage

Name	PE (adj) 2018e	PE (adj) 2019e	Div. Yield 2018e	Div. Yield 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e
<b>Residential Real Estate</b>								
Adler Real Estate	5.7	8.7	0.0%	0.0%	15.4	13.1	0.8	0.7
LEG Immobilien AG	9.2	10.3	3.5%	3.8%	21.7	20.8	1.1	1.0
<b>Commercial Real Estate</b>								
Demire	4.6	7.1	0.0%	0.0%	15.3	20.0	0.8	0.7
Deutsche Euroshop	12.7	12.5	5.6%	5.8%	11.3	11.1	0.6	0.6
<b>Real estate investment manager</b>								
Corestate	5.4	5.9	7.3%	8.3%	n.a.	n.a.	n.a.	n.a.
Patrizia	15.2	16.1	2.1%	2.5%	n.a.	n.a.	n.a.	n.a.
<b>Real estate developer</b>								
Eyemaxx Real Estate	7.7	6.3	2.0%	3.0%	n.a.	n.a.	n.a.	n.a.

Source: Pareto Securities, FactSet

## Exhibit 9: Overview key figures for listed German commercial real estate companies

## Portfolio value

Company	Value in EUR m	Rep. Date
DEMIRE	1,105	Q3 '18
Hamborner REIT	1,454	Q3 '18
VIB Vermoegen	1,164	Q3 '18
Deutsche EuroShop	5,100	Q3 '18
DIC Asset	1,576	Q3 '18
alstria office	3,509	Q3 '18
TLG Immobilien	3,722	Q3 '18

## Number of properties

Company	%	Rep. Date
DEMIRE	85	Q3 '18
Hamborner REIT	78	Q3 '18
VIB Vermoegen	108	Q3 '18
Deutsche EuroShop	21	Q3 '18
DIC Asset	103	Q3 '18
alstria office	117	Q3 '18
TLG Immobilien	414	Q3 '18

## Domestic proportion of portfolio

Company	Domestic share	Rep. Date
DEMIRE	100%	Q3 '18
Hamborner REIT	100%	Q3 '18
VIB Vermoegen	100%	Q3 '18
Deutsche EuroShop	81%	Q3 '18
DIC Asset	100%	Q3 '18
alstria office	100%	Q3 '18
TLG Immobilien	100%	Q3 '18

## Lettable space in '000 sqm

Company	Vac. Ratio	Rep. Date
DEMIRE	957	Q3 '18
Hamborner REIT	n.a.	n.a.
VIB Vermoegen	1,061	Q4 '17
Deutsche EuroShop	1,087	Q3 '18
DIC Asset	906	Q3 '18
alstria office	1,611	Q3 '18
TLG Immobilien	1,916	Q3 '18

## Gross Rental Yield

Company	%	Rep. Date
DEMIRE	6.6%	Q3 '18
Hamborner REIT	4.8%*	Q4 '17
VIB Vermoegen	7.1%	Q4 '17
Deutsche EuroShop	4.9%*	Q4 '17
DIC Asset	6.4%	Q3 '18
alstria office	4.5%*	Q3 '18
TLG Immobilien	6.1%	Q3 '18

\*Net Rental Yield

## Vacancy ratios

Company	%	Rep. Date
DEMIRE	7.7%	Q3 '18
Hamborner REIT	1.1%	Q3 '18
VIB Vermoegen	0.8%	Q3 '18
Deutsche EuroShop	1.0%	Q3 '18
DIC Asset	8.4%	Q3 '18
alstria office	10.4%	Q3 '18
TLG Immobilien	3.6%	Q3 '18

## Weighted Average Lease Term

Company	Years	Rep. Date
DEMIRE	4.6	Q3 '18
Hamborner REIT	6.2	Q3 '18
VIB Vermoegen	4.8	Q3 '18
Deutsche EuroShop	5.5	Q4 '17
DIC Asset	5.1	Q3 '18
alstria office	4.8	Q3 '18
TLG Immobilien	5.9	Q3 '18

## Loan-to-Value Overview (based upon market values)

Company	%	Rep. Date
DEMIRE	52.6%	Q3 '18
Hamborner REIT	43.7%	Q3 '18
VIB Vermoegen	52.2%	Q3 '18
Deutsche EuroShop	32.0%	Q3 '18
DIC Asset	57.30%	Q3 '18
alstria office	34.80%	Q3 '18
TLG Immobilien	39.00%	Q3 '18

## Average cost of debt

Company	%	Rep. Date
DEMIRE	3.0%	Q3 '18
Hamborner REIT	2.2%	Q3 '18
VIB Vermoegen	2.4%	Q3 '18
Deutsche EuroShop	2.7%	Q3 '18
DIC Asset	1.8%	Q3 '18
alstria office	1.8%	Q3 '18
TLG Immobilien	1.8%	Q3 '18

## Debt maturities

Company	Years	Rep. Date
DEMIRE	n.a.	Q3 '18
Hamborner REIT	6.3	Q3 '18
VIB Vermoegen	n.a.	n.a.
Deutsche EuroShop	5.6	Q3 '18
DIC Asset	4.2	Q3 '18
alstria office	5.6	Q2 '18
TLG Immobilien	5.7	Q3 '18

Source: Pareto Securities, companies

## Exhibit 10: Overview key figures for listed German residential real estate companies

## Units Residential

Company	# number	Rep. Date
Adler	60,856	Q3 '18
ADO	22,218	Q3 '18
Dt. Wohnen	163,057	Q3 '18
Grand City Prop.	82,869	Q3 '18
LEG	130,170	Q3 '18
TAG	81,915	Q3 '18
Vonovia	403,926	Q2 '18

## Regional Split of Residential Real Estate

Company	Regional Focus
Adler	Focus on Lower Saxony and NRW
ADO	Focus on Berlin
Dt. Wohnen	Greater Berlin, Rhine-Main make up more than 50%
Grand City Prop.	Around 70% in NRW, Berlin, Dresden/ Leipzig/ Halle
LEG	Mainly North Rhine Westphalia
TAG	Thuringia/Saxony, Salzgitter, Greater Berlin, Hamburg Region
Vonovia	>30% in NRW and >10 in Saxony

## Portfolio size Residential Real Estate

Company	Size in sqm in '000	Rep. Date
Adler	3,832	Q3 '18
ADO	1,643	Q3 '18
Dt. Wohnen	9,831	Q3 '18
Grand City Prop.	5,307	Q3 '18
LEG	8,325	Q3 '18
TAG	4,981	Q3 '18
Vonovia	22,149	Q2 '18

## Fair value per sqm (in EUR)

Company	Fair value per sqm	Rep. Date
Adler	1,304 €	Q3 '18
ADO	2,343 €	Q3 '18
Dt. Wohnen	1,975 €	Q3 '18
Grand City Prop.	1,221 €	Q3 '18
LEG	1,151 €	Q3 '18
TAG	900 €	Q3 '18
Vonovia	1,567 €	Q2 '18

## Average net rent per sqm (in EUR)

Company	Rent per sqm	Rep. Date
Adler	5.4 €	Q3 '18
ADO	6.7 €	Q3 '18
Dt. Wohnen	6.6 €	Q3 '18
Grand City Prop.	5.9 €	Q3 '18
LEG	5.6 €	Q3 '18
TAG	5.4 €	Q3 '18
Vonovia	6.4 €	Q2 '18

## Rental Yield

Company	Yield	Rep. Date
Adler*	4.2%	Q4 '17
ADO	4.5%	Q3 '18
Dt. Wohnen	4.0%	Q2 '18
Grand City Prop.	5.4%	Q3 '18
LEG	5.7%	Q3 '18
TAG	6.8%	Q3 '18
Vonovia	4.9%	Q2 '18

\*excl. convertible bonds

## Vacancy rate

Company	Vacancy rate	Rep. Date
Adler	8.0%	Q3 '18
ADO	3.1%	Q3 '18
Dt. Wohnen	2.1%	Q3 '18
Grand City Prop.	7.5%	Q3 '18
LEG	3.9%	Q3 '18
TAG	5.6%	Q3 '18
Vonovia	2.8%	Q2 '18

## CAPEX per sqm (as of FY 2017)

Company	Maintenance	Capex
Adler	22.5	32.9
ADO	12.8	16.3
Dt. Wohnen	10.52	22.85
Grand City Prop.	6.1	12.4
LEG	8.7	13.8
TAG	5.8	8.5
Vonovia	15.6	35.2

## Loan-to-Value Overview (based upon market values)

Company	LTV	Rep. Date
Adler*	66.3%	Q3 '18
ADO	51.9%	Q3 '18
Dt. Wohnen	36.5%	Q3 '18
Grand City Prop.	35.0%	Q3 '18
LEG	42.7%	Q3 '18
TAG	49.4%	Q3 '18
Vonovia	43.9%	Q2 '18

\*excl. convertible bonds

## ICR

Company	ICR	Rep. Date
Adler	2.3x	Q3 '18
ADO	3.8x	Q3 '18
Dt. Wohnen*	6.5x	Q3 '18
Grand City Prop.*	4.9x	Q3 '18
LEG*	5.2x	Q3 '18
TAG*	3.7x	Q3 '18
Vonovia	6.0x	Q2 '18

\*adjusted EBITDA/interest

## Average interest costs

Company	avg. interest costs	Rep. Date
Adler	2.2%	Q3 '18
ADO	1.8%	Q3 '18
Dt. Wohnen	1.3%	Q3 '18
Grand City Prop.	1.6%	Q3 '18
LEG	1.7%	Q3 '18
TAG	2.0%	Q3 '18
Vonovia	1.8%	Q2 '18

## Debt maturity

Company	Debt mat. (yrs.)	Rep. Date
Adler	4.1	Q3 '18
ADO	4.9	Q3 '18
Dt. Wohnen	7.9	Q3 '18
Grand City Prop.	8.2	Q3 '18
LEG	7.5	Q3 '18
TAG	8.5	Q3 '18
Vonovia	8.1	Q2 '18

Source: Pareto Securities, companies



Notes

## Still trading below NAV

**ADLER Real Estate (ADL) is a residential real estate company focusing on B-locations in Germany which generate a positive cash flow and have a sustained appreciation potential. For FY 2019 we see the following drivers: 1) full-year contribution of BCP and further portfolio expansion, 2) portfolio quality improvements, 3) sale of non-core units and 4) lower funding costs. We derived a TP of EUR 20.00 and initiate coverage with a Buy recommendation. ADL is one of the few residential real estate companies trading below its NAV (diluted NAV per share as of Q3 2018: EUR 18.45).**

### Investment Case

In April 2018 ADL announced the acquisition of a 70% stake in Brack Capital Properties (BCP) for c. EUR 550m to accelerate its portfolio growth. ADL increased its residential real estate portfolio by c. 11,913 units (c. +24%), retail parks and residential development projects. ADL complements its existing portfolio as the acquired assets are mainly located in A locations. The acquisition of BCP should be value-accretive as it is expected to increase its FFO I by c. EUR 20m p.a. (excl. synergies).

Refinancing measures and the positive impact of BCP's lower funding costs helped ADL to decrease its WACD to 2.24% in Sep. 2018 (vs. Q4 2017: 2.72%). Thus, ADL already overachieved its target for FY 2018 of 2.4%. The refinancing of its EUR 300m 4.75% corporate bond which can be called next year (at par) should enable ADL to further optimize its funding costs.

Until the end of 2017 ADL renovated c. 1,300 units and launched a second tranche of its modernization program with an investment volume of c. EUR 12m which should be completed by the end of 2018. Vacancies should further reduce and we also see further upside potential for ADL's rental income and lower rents.

EURm	2016	2017	2018e	2019e	2020e
Sales	252	264	343	370	431
NOI	114	126	202	220	260
NOI margin (%)	45	48	59	59	60
CEPS (EUR)	1.6	0.6	1.7	2.1	2.7
EPRA NAV ps (EUR)	15	17	19	21	22
DPS (EUR)	-	-	-	-	-
P/CEPS (x)	8.2	21.7	9.0	7.2	5.6
P/EPRA NAV (x)	0.9	0.8	0.8	0.7	0.7
EBITDA/EV (%)	3.2	2.1	2.5	3.0	3.8
Div yield (%)	-	-	-	-	-
LTV (%)	66	62	67	64	60
NIBD/EBITDA (x)	21.0	27.3	25.6	20.4	15.4
EBITDA/IE (x)	0.8	0.5	1.0	1.7	2.1
Chg Sales (%)	16.5	4.8	29.7	7.9	16.5
Chg CEPS(%)	128.2	(62.0)	171.3	24.7	29.4
Chg EPRA NAV(%)	8.4	9.3	16.1	6.8	6.5

Note: IFPM is an abbreviation for Income from Property Management  
Source: Pareto



Target price (EUR)	20.0
Share price (EUR)	15.0

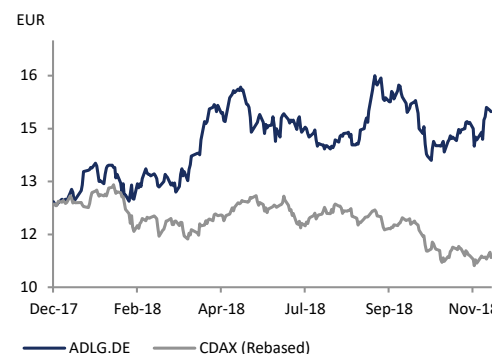
### Forecast changes

%	2018e	2019e	2020e
Sales	NM	NM	NM
NOI	NM	NM	NM
CEPS	NM	NM	NM
EPRA NAV ps	NM	NM	NM
DPS	NM	NM	NM

Source: Pareto

Ticker	ADLG.DE, ADL GY
Sector	Real Estate
FTSE EPRA property sector	Industrial
Shares fully diluted (m)	78.9
Market cap (EURm)	1,182
Net debt (EURm)	3,630
Minority interests (EURm)	325
Enterprise value 18e (EURm)	5,137
Free float (%)	54

### Performance



Source: Factset

### Analysts

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*Residential real estate  
company with a focus on B-  
locations in Germany*

## Company profile

ADLER Real Estate (ADL) is a residential real estate company focusing on B-locations in Germany which generate a positive cash flow and have a sustained appreciation potential. The company was formed out of Frankfurt Adlerwerke, a company with a history going back to the 19th century. ADL's headquarter is in Berlin.

During the recent years ADL has grown strongly from 7,797 rental units in 2013 to 62,004 units in Q3 2018 (98% residential units and 2 % commercial units), mainly through various acquisitions. Following the acquisition of BCP ADL's residential portfolio increased by c. 11,913 units. ADL's properties are mainly located in Lower Saxony (30% of the total portfolio), North Rhine-Westphalia (25%) and more than 40% of ADL's portfolio is located in Eastern Germany, i.e. Saxony (17%), Saxony-Anhalt (7%) and Brandenburg (6%).

With a vacancy rate of 8% ADLER has a comparably high vacancy rate. Avg. rent per sqm amounted to EUR 5.41 (as of Q3 2018) and ADL's LTV incl. convertibles (Net debt/GAV) stood at 68.7%.

We expect ADL to increase its FFO by 47% (CAGR 2017-2019e).

## Upcoming Triggers and Drivers

Further portfolio expansion: ADL intends to grow further by purchasing smaller portfolios.

Sale of non-core units: ADL plans to dispose 4,126 units of its non-core portfolio. ADL plans to transfer the non-core units with a GAV of c. EUR 115m into the joint venture with Benson Elliot Capital Management LLP (private equity firm) which represents a profit of c. 5% (based on the current book value). Note that this equals c. 70% of its non-core portfolio which ADL targets to dispose. The disposal should help ADL to improve its KPI's as those units have a higher vacancy rate and lower rents.

Dividend payment: As ADL has not paid a dividend before it would be a positive sign if ADL will announce to pay a sustainable dividend. However, we believe ADL to focus firstly on structural and financial improvements before paying dividends.

**Next scheduled reporting:** FY 2018 results in March 2019 assumed (date not yet disclosed)

## Risks to our Investment Case

Strong increase in interest rates: In case of a strong increase in long-term interest rates in Germany prices for real estate properties should come under pressure. This could negatively affect the value of ADL's real estate portfolio.

Stricter Regulation: The introduction of stricter laws to support tenants could negatively affect ADL's upside for its rents.

No suitable acquisitions available: As it is becoming more difficult to find attractively valued properties as competition and prices for real estate properties have increased it is possible that ADL does not find suitable assets that fit to its acquisition criteria

## Valuation and recommendation

Our TP of EUR 20.00 is derived from the average of P/FFO and P/NAV multiples. Note that we applied a discount of 10% to take into account ADL's comparably lower portfolio quality. We initiate coverage with a Buy recommendation.

*Target Price: EUR 20.00*

## Exhibit 11: Valuation overview German Residential Real Estate Companies

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e	Yield 2018e	1M Perf	12M Perf
LEG Immobilien AG	100.00	6,319	7.4x	8.9x	19.7x	18.5x	1.0x	1.0x	2.8%	4%	11%
Deutsche Wohnen SE	41.38	14,770	8.5x	10.9x	30.8x	28.8x	1.0x	0.9x	1.8%	3%	11%
TAG Immobilien AG	20.84	3,049	7.4x	10.3x	21.4x	19.9x	1.3x	1.1x	2.8%	3%	35%
Vonovia SE	41.84	21,676	12.2x	14.8x	20.7x	19.0x	0.9x	0.8x	2.7%	4%	2%
Grand City Properties	19.93	3,323	8.0x	9.6x	17.4x	16.1x	0.9x	1.3x	3.3%	-6%	4%
ADO Properties	46.20	2,037	5.0x	7.1x	29.6x	26.0x	0.9x	0.8x	1.0%	-9%	7%

	Share Price		PER 2018e	PER 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e	Yield 2018e	1M Perf	12M Perf
<b>Average</b>			8.1x	10.3x	23.3x	21.4x	1.0x	1.0x	2.4%	0%	12%
Adler Real Estate	14.98	833	5.7x	8.7x	15.4x	13.1x	0.8x	0.7x	0.0%	-2%	10%
vs average			-30.0%	-14.9%	-33.8%	-38.8%	-21.9%	-26.3%	-100.0%		
Fair Value based upon 2019e P/FFO		24.48									
Fair Value based upon 2019e P/NAV		20.32									
<b>AVERAGE</b>		<b>22.40</b>									

Source: FactSet, Bloomberg, Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Rental income	132	168	170	230	250	289
Sales	217	252	264	343	370	431
<b>Net operating income</b>	<b>92</b>	<b>114</b>	<b>126</b>	<b>202</b>	<b>220</b>	<b>260</b>
Management and administrative costs	(13)	(20)	(20)	(31)	(36)	(37)
Other operating income / (expense)	40	9	(28)	(44)	(28)	(26)
<b>EBITDA</b>	<b>119</b>	<b>103</b>	<b>77</b>	<b>127</b>	<b>156</b>	<b>198</b>
Associated companies and JVs	(0)	11	-	-	-	-
Depreciation fixed assets	(1)	(1)	(1)	(1)	(1)	(0)
Amortisation intangible fixed assets	117	113	76	126	155	197
<b>EBIT</b>	<b>117</b>	<b>113</b>	<b>76</b>	<b>126</b>	<b>155</b>	<b>197</b>
Net interest	(81)	(126)	(153)	(133)	(94)	(95)
Chg. in value properties unrealised	59	200	235	350	180	100
Current tax	(2)	(9)	(1)	-	-	-
Deferred tax	(15)	(44)	(51)	-	-	-
<b>Taxes</b>	<b>(17)</b>	<b>(54)</b>	<b>(52)</b>	<b>(89)</b>	<b>(63)</b>	<b>(53)</b>
<b>Profit after tax for the period</b>	<b>78</b>	<b>134</b>	<b>106</b>	<b>254</b>	<b>179</b>	<b>150</b>
Minorities	6	13	16	48	46	46
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Fair value properties	2,270	2,442	3,019	4,831	5,011	5,111
Associated companies and JVs	353	0	0	0	0	0
Goodwill	131	131	101	170	170	170
Other fixed assets	0	0	0	0	0	0
<b>Total fixed assets</b>	<b>2,759</b>	<b>2,578</b>	<b>3,125</b>	<b>5,008</b>	<b>5,188</b>	<b>5,288</b>
Other current assets	-	-	-	-	-	-
Cash and cash equivalents	50	124	368	383	443	576
<b>Total current assets</b>	<b>317</b>	<b>853</b>	<b>653</b>	<b>511</b>	<b>570</b>	<b>703</b>
<b>Total assets</b>	<b>3,076</b>	<b>3,430</b>	<b>3,779</b>	<b>5,520</b>	<b>5,758</b>	<b>5,991</b>
<b>Total equity</b>	<b>778</b>	<b>914</b>	<b>1,038</b>	<b>1,545</b>	<b>1,770</b>	<b>1,966</b>
Deferred tax liability	70	113	165	227	271	308
Non-current interest bearing liabilities	1,885	1,966	2,147	3,302	3,302	3,302
Other non-current liabilities	25	31	50	55	25	25
<b>Total non-current liabilities</b>	<b>1,980</b>	<b>2,111</b>	<b>2,363</b>	<b>3,592</b>	<b>3,606</b>	<b>3,643</b>
Current interest bearing liabilities	257	330	328	328	328	328
Other current liabilities	40	52	21	26	26	26
<b>Total current liabilities</b>	<b>318</b>	<b>405</b>	<b>378</b>	<b>383</b>	<b>383</b>	<b>383</b>
<b>Total liabilities</b>	<b>2,298</b>	<b>2,516</b>	<b>2,741</b>	<b>3,975</b>	<b>3,989</b>	<b>4,026</b>
<b>Total liabilities and total equity</b>	<b>3,076</b>	<b>3,430</b>	<b>3,779</b>	<b>5,520</b>	<b>5,758</b>	<b>5,991</b>
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Funds from operations	16	27	41	74	88	106
<b>Cash flow before change in working capital</b>	<b>40</b>	<b>94</b>	<b>42</b>	<b>113</b>	<b>141</b>	<b>182</b>
Change in working capital	(15)	6	(5)	1	(30)	-
<b>Cash flow post change in working capital</b>	<b>25</b>	<b>101</b>	<b>36</b>	<b>114</b>	<b>111</b>	<b>182</b>
Property acquisitions	(153)	(41)	(79)	(1,616)	-	-
Property divestments	83	46	33	154	-	-
Other capex items	(93)	(72)	409	757	-	-
<b>Cash flow from investment activities</b>	<b>(518)</b>	<b>(79)</b>	<b>213</b>	<b>(765)</b>	<b>-</b>	<b>-</b>
Dividend paid	(1)	-	-	-	-	-
Share capital issuance / (buybacks)	-	-	-	254	46	46
Debt issuance / (repayment)	431	53	19	1,008	(97)	(95)
Other financing inflow / (outflow)	-	-	(23)	(595)	-	-
<b>Cash flow from financing activities</b>	<b>430</b>	<b>53</b>	<b>(5)</b>	<b>666</b>	<b>(51)</b>	<b>(49)</b>
<b>Cash flow</b>	<b>(63)</b>	<b>74</b>	<b>244</b>	<b>15</b>	<b>59</b>	<b>133</b>

SHARE DATA	2015	2016	2017	2018e	2019e	2020e
Average number of shares	51.2	60.4	73.2	78.9	78.9	78.9
No. of shares end of period	64.1	64.1	80.0	78.9	78.9	78.9
Avg. number of shares not fully diluted	44.3	52.2	66.4	67.8	67.9	67.9
No. of shares end of period not fully diluted	56.7	58.3	67.8	67.9	67.9	67.9
Share price year-end (EUR)	12.9	13.2	13.3	15.0	15.0	15.0
PER SHARE						
CEPS (EUR)	0.71	1.61	0.61	1.66	2.07	2.68
Chg CEPS (%)		128	(62)	171	25	29
DPS (EUR)	-	-	-	-	-	-
EPRA NAV per share (EUR)	14.1	15.2	16.6	19.3	20.6	22.0
Chg EPRA NAV per share (%)		8.4	9.3	16.1	6.8	6.5
CEPS/EPRA NAV per share (%)	5.0	10.6	3.7	8.6	10.0	12.2
EPS (EUR)	1.6	1.9	1.9	2.6	1.7	1.3
EPS adj (EUR)	1.6	1.9	1.9	2.6	1.7	1.4
Funds from operations per share (EUR)	0.3	0.4	0.6	1.0	1.1	1.4
CAPITALISATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Market cap	828	844	1,063	1,182	1,182	1,182
Net interest bearing debt	2,093	2,172	2,106	3,247	3,187	3,054
Minority interest	59	71	77	325	371	417
Enterprise value	3,029	3,211	3,615	5,137	5,183	5,229
Price/CEPS (x)	18.3	8.2	21.7	9.0	7.2	5.6
Dividend yield (%)	-	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-	-
Premium/discount to book value (%)	15.1	0.1	10.7	(3.1)	(15.5)	(23.7)
Premium/discount to EPRA NAV (%)	(5.8)	(15.9)	(10.4)	(22.4)	(27.4)	(31.8)
Premium/discount to GAV (%)	(2.3)	(6.5)	(4.1)	(7.1)	(8.9)	(10.8)
EBITDA/EV (%)	3.9	3.2	2.1	2.5	3.0	3.8
PROFITABILITY & DEBT	2015	2016	2017	2018e	2019e	2020e
ROCE (%)		3.5	2.5	3.2	3.2	4.0
Net operating income margin (%)	42.3	45.0	47.6	58.8	59.5	60.4
EBITDA margin (%)	54.8	40.9	29.2	37.0	42.2	45.9
Market capitalisation/enterprise value (%)	27.3	26.3	29.4	23.0	22.8	22.6
LTV (%)	69.1	65.7	61.8	67.2	63.6	59.7
Interest bearing debt/EBITDA (x)	17.6	21.0	27.3	25.6	20.4	15.4
EBITDA/interest expense (x)	1.5	0.8	0.5	1.0	1.7	2.1
SUPPLEMENTAL DATA (million)	2015	2016	2017	2018e	2019e	2020e
Number of properties	48218.0	47640.0	50305.0	58092.0	58092.0	58092.0
Lettable space sqm	3,042	2,985	3,150	4,646	4,646	4,646
Economic occupancy (%)	88.8	90.0	90.6	93.0	94.0	95.0
Fair value investment properties (IFRS)	2,430	2,669	3,021	4,832	5,012	5,112
Cost of debt (%)	5.3	4.5	6.7	3.2	2.5	2.4

Notes

## Valuation discount not justified

**CORESTATE is a real estate investment manager and co-investor with a market focus on Germany and selected other European markets. CORESTATE is offering real estate equity and debt products and its AUM amounted to EUR 25bn (Q3 2018). In our view, main earnings drivers for 2019 should be the positive contribution of its acquisitions, lower funding costs due to refinancing measures as well as further organic and inorganic growth. We believe that CORESTATE is well positioned to further grow organically and via acquisitions and attract additional clients with its diversified product range among various asset classes. With a 2019e PER of 6.9x (vs. peer group 15.6x) the shares are significantly undervalued. We initiate coverage with a Buy recommendation and a TP of EUR 66.00.**

### Investment Case

Following various acquisitions CORESTATE's AUM increased from EUR 2.8bn (as of Dec. 2016) to EUR 25bn in 9M 2018. In terms of its inorganic growth targets the company plans small to midsize acquisitions (nationally and internationally) which should be EPS accretive. Co-operations and partnerships are also likely. CORESTATE's pipeline of EUR 5.8bn (of which 14% are in exclusivity) offers further substantial growth potential. We expect organic AuM growth of 5% p.a. In our view, winning institutional clients is of great strategic importance for CORESTATE. As the company offers a diversified product range among various asset classes we see CORESTATE well positioned to attract further clients which should further drive its AuM growth. Note that CORESTATE has already broadened its client base through the recent acquisitions (Hannover Leasing, HFS and ATOS) which offers the potential to generate new business from those new clients as they can choose now from a wider product spectrum. We expect CORESTATE to pay a DPS of EUR 2.50 for FY '18 (41% of its Adj. Net Profit) which is an attractive div. yld. of c. 7%.

EURm	2016	2017	2018e	2019e	2020e
Revenues	60	195	279	281	292
EBITDA	20	105	159	174	180
EBIT	20	84	133	153	159
EPS	1.46	3.24	4.78	4.92	5.20
EPS adj	1.84	5.43	6.33	5.87	6.16
DPS	1.00	2.00	2.50	2.86	3.00
EV/EBITDA	13.1	11.7	7.0	6.0	5.5
EV/EBIT	13.4	14.7	8.4	6.9	6.2
P/E adj	12.6	9.8	5.4	5.9	5.6
P/B	3.40	1.67	1.39	1.25	1.14
ROE (%)	25.6	17.5	17.2	18.8	18.0
Div yield (%)	4.3	3.7	7.3	8.3	8.7
Net debt	(30)	261	219	154	87

Source: Pareto



Target price (EUR)	66
Share price (EUR)	34

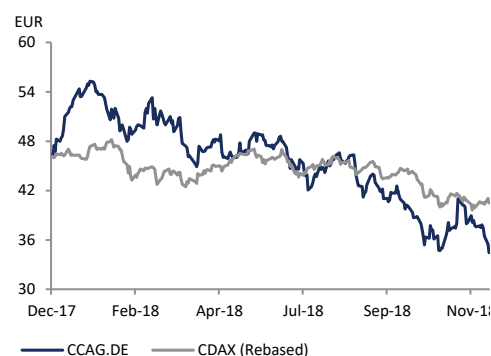
### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	CCAG.DE, CCAP GR
Sector	Diversified Financials
Shares fully diluted (m)	24.6
Market cap (EURm)	846
Net debt (EURm)	268
Minority interests (EURm)	1
Enterprise value 18e (EURm)	1,115
Free float (%)	64

### Performance



Source: Factset

### Analysts

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*Real estate investment manager and co-investor offering debt and equity products*

## Company profile

CORESTATE is a real estate investment manager and co-investor with a market focus on Germany and selected other European markets (Spain, Switzerland, Austria and the Benelux countries). The company was founded in 2006 by Ralph Winter (major shareholder with a stake of c. 18%) and Thomas Landschreiber (CIO). The shares are listed in the SDAX since March 2017.

CORESTATE's AuM significantly increased from EUR 2.8bn (as of Dec. 2016) to EUR 25bn in 9M 2018 due to the following acquisitions: Hannover Leasing (asset manager and provider of asset-based investments in Germany with a focus on the asset classes domestic real estate, foreign real estate and aviation with AuM of c. EUR 13bn), HFS (provider of mezzanine financing in the German residential and commercial real estate market with AuM of c. 4.3bn by the end of 2017) and ATOS (real estate company with a focus on the investment, asset and property management of commercial properties such as office properties, retail space and technoparks in Germany and Austria with AuM of c. EUR 2bn) and CRM Students Ltd. (UK based independent student accommodation management company with AUM of c. EUR 3bn).

As of Sep. 2018 AuM reached EUR 25bn (73% Real estate equity, 23% real estate debt). Real Estate AuM amounted to EUR 20.4bn (30% residential, 23% office, 23% student housing/micro living, 18% retail and 6% other.)

We expect Adj. Net Income to increase by 39% in 2018e (CAGR 2017-2020e: 17%).

## Upcoming Triggers and Drivers

Reduction of share overhang: Ralph Winter (founder & largest shareholder) has a stake of 18% in CORESTATE which has already decreased over time (vs. Feb. 2017: stake of 61%). We expect a further decrease of its share overhang to be a positive sign and should also increase its free float (64%).

Delivering on its targets: CORESTATE has a comparably short financial track record as its listed company since October 2016. Note that CORESTATE raised its guidance for FY 2018 within its 9M 2018 publication. The further delivering on its targets should be also positive for investors' awareness of CORESTATE.

Further organic and inorganic growth: CORESTATE's pipeline of EUR 5.8bn (of which 14% are in exclusivity) offers further substantial growth potential. We expect organic AuM growth of 5% p.a. We also expect further growth via M&A as the acquisition of Hannover Leasing, Atos and HFS has shown that CORESTATE is able to execute deals which resulted in higher AuM.

**Next scheduled reporting:** Preliminary FY 2018 results on 20 February 2019.

## Risks to our Investment Case

Strong increase in interest rates: In case of a strong increase in interest rates real estate as an asset class is expected to become less attractive for investors under such a scenario. This should negatively impact CORESTATE's AuM and thus burden its AM fees.

No suitable acquisitions available: It is possible that CORESTATE does not find suitable assets that fit to the client requirements as competition in the real estate market has increased.

## Valuation and recommendation

Our valuation is based upon a peer group analysis and a Dividend Discount Model. Our TP of EUR 66.00 is derived from the average of the calculated two fair values (Peer Group: EUR 78.11, DDM: EUR 53.98). We used diluted EPS (adjusted by the financing costs as we assume the conversion of the convertible bond) to calculate the TP. We initiate CORESTATE with a Buy rating.

*Target Price of EUR 66.00*

## Exhibit 12: Peer Group Valuation

Company	Share Price (Ic)	MC (I.c. m)	PER 2018e	PER 2019e	Div Yield 2018e	Div Yield 2019e
MPC	2.60	87	20.0	13.9	0.0%	2.0%
Partners Group Holding AG	656.00	17,474	22.8	21.5	3.2%	3.5%
Patrizia Immobilien	17.03	1,550	16.3	16.1	1.5%	2.9%
Intermediate Capital Group	10.12	2,861	11.2	12.3	3.5%	3.9%
Tikehau Capital	23.30	2,403	n.m.*	14.0	0.8%	3.7%
<b>Average</b>			<b>17.6x</b>	<b>15.6x</b>	<b>1.8%</b>	<b>3.2%</b>
<b>CORESTATE</b>	<b>34.45</b>	<b>732</b>	<b>7.0x</b>	<b>6.9x</b>	<b>7.3%</b>	<b>8.3%</b>
<i>vs average</i>			<i>-59.9%</i>	<i>-55.9%</i>	<i>303.6%</i>	<i>158.5%</i>
<i>vs Patrizia Immobilien AG</i>			<i>-56.9%</i>	<i>-57.3%</i>	<i>395.0%</i>	<i>183.2%</i>
Fair Value based upon 2019e PER	78.11					

Source: FactSet, Pareto Securities

## Exhibit 13: Dividend Discount Model

EUR m	2018	2019	Phase I			Phase II						Phase III
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
<b>EBT</b>	<b>113</b>	<b>137</b>	<b>144</b>	<b>152</b>	<b>176</b>	<b>183</b>	<b>190</b>	<b>198</b>	<b>205</b>	<b>212</b>	<b>219</b>	
growth rate	179.9%	21.1%	4.7%	6.1%	15.6%	4.0%	4.0%	3.8%	3.7%	3.5%	3.4%	
<b>Tax</b>	<b>-12</b>	<b>-15</b>	<b>-14</b>	<b>-15</b>	<b>-18</b>	<b>-18</b>	<b>-19</b>	<b>-20</b>	<b>-21</b>	<b>-21</b>	<b>-22</b>	
Tax rate	-11.0%	-11.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	
<b>Minorities</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	
growth rate	78.9%	21.1%	5.8%	6.1%	15.6%	4.0%	4.0%	3.8%	3.7%	3.5%	3.4%	
<b>Adjusted Net Income</b>	<b>130</b>	<b>142</b>	<b>149</b>	<b>156</b>	<b>157</b>	<b>167</b>	<b>173</b>	<b>180</b>	<b>187</b>	<b>193</b>	<b>200</b>	
growth rate	105.8%	9.4%	5.0%	4.5%	0.7%	6.4%	4.0%	3.8%	3.7%	3.5%	3.4%	
<b>Total dividend</b>	<b>53</b>	<b>61</b>	<b>64</b>	<b>67</b>	<b>70</b>	<b>75</b>	<b>78</b>	<b>81</b>	<b>84</b>	<b>87</b>	<b>90</b>	<b>1,303</b>
payout ratio	41.2%	43.0%	43.0%	43.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	
<b>Present Value Div</b>	<b>52</b>	<b>59</b>	<b>57</b>	<b>54</b>	<b>53</b>	<b>56</b>	<b>53</b>	<b>51</b>	<b>48</b>	<b>46</b>	<b>44</b>	<b>631</b>
<b>PV Phase I</b>		<b>222</b>										
<b>PV Phase II</b>		<b>298</b>										
<b>PV Phase III</b>		<b>631</b>										
<b>Total Fair Value</b>		<b>1,151</b>										
# shares		21.33										
<b>Fair value per share</b>		<b>53.98</b>										
						<b>Risk premium</b>	<b>5.0%</b>	<b>Beta</b>				<b>1.1</b>
						<b>Risk free rate</b>	<b>3.5%</b>	<b>Cost of equity</b>				<b>9.0%</b>
						<b>Sensitivity</b>		<b>Growth in phase III</b>				
							<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	
						<b>8.1%</b>	56	59	62	65	69	
						<b>8.6%</b>	53	55	58	60	64	
						<b>C. of eq. 9.0%</b>	50	52	54	56	59	
						<b>9.5%</b>	47	49	51	53	55	
						<b>9.9%</b>	45	47	48	50	49	

Source: Company data, Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Revenues	47	60	195	279	281	292
EBITDA	12	20	105	159	174	180
Depreciation & amortisation	(0)	(0)	(21)	(26)	(21)	(21)
EBIT	12	20	84	133	153	159
Net interest	(3)	(3)	(21)	(20)	(16)	(16)
Other financial items	-	-	-	-	-	-
Profit before taxes	9	17	63	113	137	144
Taxes	1	(1)	(7)	(12)	(15)	(14)
Minority interest	0	0	1	1	1	1
Net profit	10	15	56	100	121	128
EPS reported	1.11	1.46	3.24	4.89	5.02	5.30
EPS adjusted	1.91	1.84	5.43	6.33	5.87	6.16
DPS	0.67	1.00	2.00	2.50	2.86	3.00
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Tangible non current assets	1	1	31	36	36	36
Other non-current assets	32	44	885	921	945	967
Other current assets	64	37	402	360	339	318
Cash & equivalents	12	48	110	32	97	163
Total assets	109	131	1,427	1,349	1,417	1,485
Total equity	34	86	551	609	677	745
Interest-bearing non-current debt	25	14	238	118	118	118
Interest-bearing current debt	-	4	132	132	132	132
Other Debt	49	26	456	440	440	440
Total liabilities & equity	109	131	1,427	1,349	1,417	1,485
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Cash earnings	3	11	80	102	119	128
Change in working capital	(38)	13	(64)	-	-	-
Cash flow from investments	(5)	(16)	(146)	(17)	-	-
Cash flow from financing	29	27	192	(163)	(54)	(62)
Net cash flow	(9)	36	61	(78)	65	67
<b>CAPITALIZATION &amp; VALUATION (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Share price (EUR end)		23.2	53.4	33.1	33.1	33.1
Number of shares end period	10	13	17	25	25	25
Net interest bearing debt	13	(30)	261	219	154	87
Enterprise value		263	1,229	1,082	1,017	952
EV/Sales		4.4	6.3	3.9	3.6	3.3
EV/EBITDA		13.1	11.7	6.8	5.8	5.3
EV/EBIT		13.4	14.7	8.1	6.6	6.0
P/E reported		15.9	16.5	6.8	6.6	6.2
P/E adjusted		12.6	9.8	5.2	5.6	5.4
P/B		3.4	1.7	1.3	1.2	1.1
<b>FINANCIAL ANALYSIS &amp; CREDIT METRICS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
ROE adjusted (%)		32.1	29.3	22.3	22.0	20.9
Dividend yield (%)		4.3	3.7	7.6	8.6	9.1
EBITDA margin (%)	26.1	33.6	53.7	56.9	62.0	61.7
EBIT margin (%)	25.3	32.9	43.0	47.7	54.5	54.5
NIBD/EBITDA	1.05	(1.50)	2.49	1.38	0.88	0.48
EBITDA/Net interest	3.74	8.25	5.92	8.39	10.98	11.62

## Further portfolio growth ahead

*DEMIRE is a real estate company focusing on commercial assets in secondary locations in Germany. The focus in 2018 & 2019 should mainly lie on the expansion of its portfolio, the reduction of financing costs and further cost optimizations. These measures should help DEMIRE to further drive its FFO and NAV. We recommend to hold the shares with a TP of EUR 4.40 as the shares are fairly valued with a 2019e P/NAV of 0.7x (peer group: 0.8x) and 2019e P/FFO of 20.0x (peer group: 13.7x).*

### Investment Case

DEMIRE recently announced the acquisition of four office properties for c. EUR 167m which should help the company to reach its target to double its portfolio value to EUR 2bn. To fund its portfolio expansion DEMIRE issued EUR 34.5m new ordinary bearer shares (c. 47% of the share capital) to use the expected gross proceeds of around EUR 150m to fund its further portfolio growth of up to EUR 350m which can be expected within the next weeks (office, light industrial/logistic assets).

Its debt maturity profile should be further extended to be less affected by rising interest rates and its unencumbered asset base (as of June 2018: 47%) should increase which should help DEMIRE to come closer to its target of achieving an investment grade rating in future (current rating: BB from S&P with a stable outlook). As of September 2018 the next major refinancing is due in 2022 in an amount of EUR 544m (of which EUR 144m corresponds to its promissory notes and EUR 400m to its unsecured bond).

Further milestones include the simplification of its corporate and tax structure and the improvement of cost structures. Vacancies should further decline which should increase its rental income.

EURm	2016	2017	2018e	2019e	2020e
Sales	92	88	92	101	103
NOI	59	56	57	64	65
NOI margin (%)	64	63	62	63	63
EPRA NAV ps (EUR)	5	5	6	6	7
DPS (EUR)	-	-	-	-	-
P/EPRA NAV (x)	0.8	0.8	0.8	0.7	0.6
EBITDA/EV (%)	5.0	3.8	3.1	4.1	4.2
Div yield (%)	-	-	-	-	-
LTV (%)	63	57	37	43	40
NIBD/EBITDA (x)	(0.7)	(1.2)	(5.5)	(2.3)	(2.6)
EBITDA/IE (x)	1.2	0.7	1.5	2.1	2.1
Chg Sales (%)	112.5	(4.1)	4.4	9.1	2.1
Chg EPRA NAV(%)	8.4	7.7	14.3	12.5	8.8

Note: IFPM is an abbreviation for Income from Property Management  
Source: Pareto



Target price (EUR)	4.4
Share price (EUR)	4.3

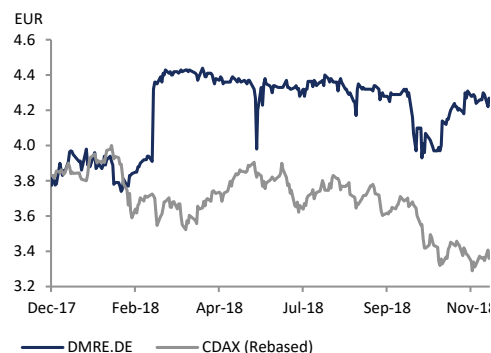
### Forecast changes

%	2018e	2019e	2020e
Sales	NM	NM	NM
NOI	NM	NM	NM
CEPS	NM	NM	NM
EPRA NAV ps	NM	NM	NM
DPS	NM	NM	NM

Source: Pareto

Ticker	DMRE.DE, DMRE GR
Sector	Real Estate
FTSE EPRA property sector	Industrial
Shares fully diluted (m)	107.6
Market cap (EURm)	459
Net debt (EURm)	652
Minority interests (EURm)	40
Enterprise value 18e (EURm)	1,155
Free float (%)	11

### Performance



Source: Factset

### Analysts

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*Commercial player in secondary locations of Germany*

## Company profile

DEMIRE is a real estate company focusing on commercial real estate in secondary locations in Germany, i.e. medium-sized cities and up-and-coming areas bordering metropolitan areas. The company is headquartered in Langen in Germany. Before 2013, DEMIRE operated under the name "MAGNAT Real Estate Opportunities GmbH & Co. KGaA", founded in 2006 with a focus on commercial real estate companies in Eastern Europe. During 2015 the company managed to nearly triple its portfolio value through various acquisitions and the takeover of a 78% stake in Fair Value REIT-AG. In February 2018 DEMIRE won Apollo Global management as a new strategic investor (stake of c. 50%). Apollo and DEMIRE's anchor shareholder Wecken (stake of c. 34%) actively support the expansion of the company.

As of Sep. 2018 the company had 85 properties with a market value of EUR 1,105m. The portfolio consists of office (68%), retail (23%) and logistic (6%) properties with a rental yield of 6.6% (as of Q3 2018). LTV amounted to 52.6% and the vacancy ratio stood at 7.7%.

We estimate average FFO I per share to grow by 60% between 2016 and 2019e.

## Upcoming Triggers and Drivers

**Further portfolio growth:** We expect DEMIRE to announce further transactions shortly to achieve its target portfolio value of EUR 2bn in the medium term.

**Improving LTV:** LTV for further portfolio growth should be less than 50% as DEMIRE targets to reach an LTV of 50%. Its portfolio growth of up to EUR 350m should be financed with the proceeds of its capital increase (EUR 150m) and the remaining part is expected to be financed with debt. Thus, the potential portfolio growth should burden its LTV (LTV of the potential acquisitions without any positive valuation effects: 57%). As it is likely that DEMIRE will report a positive valuation impact when first consolidating the assets LTV of the acquired portfolio is likely to be below 57%.

**Optimization of funding costs:** With funding costs of 3% we see further potential for DEMIRE to optimize its funding costs which should have a positive impact on its FFO.

**Next scheduled reporting:** FY 2018 results on 20 March 2019.

## Risks to our Investment Case

**Strong increase in interest rates:** In case of a strong increase in long-term interest rates in Germany prices for real estate properties should come under pressure. This could negatively affect the value of DEMIRE's real estate portfolio.

**Availability of assets:** If DEMIRE will not be able to find suitable assets to further grow it will be harder to increase its rental income. As of 9M 2018 lfl rental growth amounted to 2.5%.

## Valuation and recommendation

We have based our valuation on three scenarios reflecting different growth assumptions for DEMIRE in 2019 as DEMIRE targets to further expand its portfolio value. We did a multiple analysis, using 2019e P/FFO and P/NAV multiples, with other German commercial real estate companies as peers. Given the different weight of the three scenarios (Base case: 40%, growth case: 40% and bull case: 20%), we have derived a Target Price of EUR 4.40. We initiate coverage with a hold recommendation.

*Target Price: EUR 4.40*

## Exhibit 14: Valuation overview German Commercial Real Estate Companies

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e	Yield 2018e
Hamborner Reit	8.8	704	37.5	38.7	14.6	13.9	0.8	0.8	5.2%
VIB	21.7	598	11.2	10.4	13.5	12.4	1.1	1.0	3.0%
Deutsche Euroshop	26.8	1,658	12.5	12.1	11.2	11.0	0.6	0.6	5.6%
DIC Asset	9.4	663	11.6	11.9	9.8	9.7	0.7	0.7	5.0%
Alstria Office	12.2	2,161	16.7	16.3	18.7	17.9	0.9	0.9	4.3%
TLG Immobilien	24.3	2,509	11.8	15.0	18.7	17.4	1.0	0.9	3.7%
<b>Average</b>	<b>Share Price</b>		<b>PER 2018e</b>	<b>PER 2019e</b>	<b>P/FFO 2018e</b>	<b>P/FFO 2019e</b>	<b>P/NAV 2018e</b>	<b>P/NAV 2019e</b>	<b>Yield 2018e</b>
Demire	4.27	459	16.9x	17.4x	14.4x	13.7x	0.9x	0.8x	4%
vs average			-72.7%	-59.0%	6.2%	46.1%	-12.6%	-19.1%	-100.0%
Fair Value based upon 2019e P/FFO		2.92							
Fair Value based upon 2019e P/NAV		5.28							
<b>AVERAGE</b>		<b>4.10</b>							

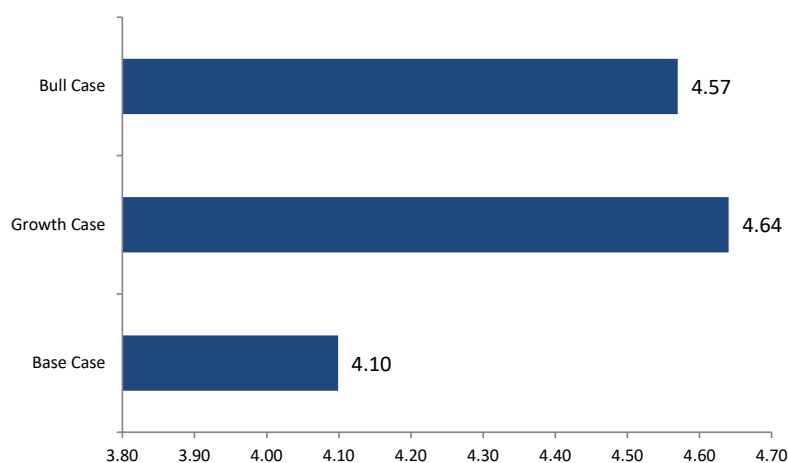
Source: FactSet, Bloomberg, Pareto Securities

## Exhibit 15: FFO/NAV dev. under the three growth scenarios (in EUR, on a per share basis)

Scenario	FFO I '18e	FFO I '19e	NAV '18e	NAV '19e
Base Case <i>no acquisitions assumed</i>	0.28	0.21	5.67	6.37
Growth Case* <i>acquisitions of EUR 183m for 2019e assumed</i> <i>*financed with cash and debt using the proceeds of its capital increase (LTV of 57% for the transaction)</i>	0.28	0.29	5.67	6.45
Bull Case** <i>acquisitions of EUR 400m for 2019e assumed</i> <i>**LTV of 50% for the transaction assumed</i>	0.28	0.31	5.67	5.86

Source: Pareto Securities

## Exhibit 16: Fair Value per share under different growth scenarios



Source: Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Rental income	33	76	74	74	84	86
Sales	43	92	88	92	101	103
Operating costs	(20)	(34)	(33)	(35)	(37)	(38)
<b>Net operating income</b>	<b>24</b>	<b>59</b>	<b>56</b>	<b>57</b>	<b>64</b>	<b>65</b>
Management and administrative costs	(11)	(10)	(14)	(15)	(11)	(11)
Other operating income / (expense)	(3)	(2)	(5)	(7)	(2)	(2)
<b>EBITDA</b>	<b>10</b>	<b>47</b>	<b>36</b>	<b>35</b>	<b>51</b>	<b>52</b>
Associated companies and JVs	-	(5)	(8)	(14)	(12)	(12)
Depreciation fixed assets	-	(2)	-	(1)	(1)	(1)
<b>EBITA</b>	<b>10</b>	<b>40</b>	<b>28</b>	<b>21</b>	<b>38</b>	<b>40</b>
<b>EBIT</b>	<b>10</b>	<b>40</b>	<b>28</b>	<b>21</b>	<b>38</b>	<b>40</b>
Net interest	(26)	(38)	(49)	(23)	(25)	(26)
Chg. in value properties unrealised	49	38	49	100	60	50
<b>Profit before taxes</b>	<b>33</b>	<b>40</b>	<b>28</b>	<b>98</b>	<b>74</b>	<b>64</b>
Current tax	(4)	(12)	(0)	(1)	(3)	(3)
Deferred tax	-	-	(8)	(25)	-	-
<b>Taxes</b>	<b>(4)</b>	<b>(12)</b>	<b>(8)</b>	<b>(26)</b>	<b>(3)</b>	<b>(3)</b>
<b>Profit after tax for the period</b>	<b>29</b>	<b>28</b>	<b>19</b>	<b>71</b>	<b>71</b>	<b>61</b>
Minorities	1	3	6	6	6	6
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Fair value properties	915	981	1,022	1,125	1,361	1,419
Associated companies and JVs	4	0	0	1	1	1
Goodwill	-	-	-	-	-	-
Other fixed assets	-	-	-	-	-	-
<b>Total fixed assets</b>	<b>948</b>	<b>1,001</b>	<b>1,033</b>	<b>1,146</b>	<b>1,382</b>	<b>1,441</b>
Other current assets	-	-	-	-	-	-
Cash and cash equivalents	28	31	74	226	145	168
<b>Total current assets</b>	<b>84</b>	<b>93</b>	<b>114</b>	<b>267</b>	<b>186</b>	<b>210</b>
<b>Total assets</b>	<b>1,033</b>	<b>1,094</b>	<b>1,147</b>	<b>1,413</b>	<b>1,568</b>	<b>1,650</b>
<b>Total equity</b>	<b>265</b>	<b>309</b>	<b>319</b>	<b>592</b>	<b>668</b>	<b>735</b>
Deferred tax liability	26	35	43	43	43	43
Non-current interest bearing liabilities	609	621	666	652	730	746
Other non-current liabilities	62	64	72	73	73	73
<b>Total non-current liabilities</b>	<b>697</b>	<b>719</b>	<b>781</b>	<b>768</b>	<b>846</b>	<b>862</b>
Current interest bearing liabilities	-	-	29	29	29	29
Other current liabilities	51	49	4	10	10	10
<b>Total current liabilities</b>	<b>71</b>	<b>66</b>	<b>47</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>Total liabilities</b>	<b>768</b>	<b>785</b>	<b>828</b>	<b>821</b>	<b>899</b>	<b>915</b>
<b>Total liabilities and total equity</b>	<b>1,033</b>	<b>1,094</b>	<b>1,147</b>	<b>1,413</b>	<b>1,568</b>	<b>1,650</b>
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Funds from operations	-	3	5	19	23	24
<b>Cash flow before change in working capital</b>	<b>9</b>	<b>37</b>	<b>23</b>	<b>(16)</b>	<b>35</b>	<b>36</b>
Change in working capital	(3)	(1)	13	7	-	-
<b>Cash flow post change in working capital</b>	<b>6</b>	<b>35</b>	<b>36</b>	<b>(8)</b>	<b>35</b>	<b>36</b>
Property acquisitions	-	-	28	(4)	(175)	(9)
Property divestments	-	-	-	-	-	-
Other capex items	-	-	(1)	-	-	-
<b>Cash flow from investment activities</b>	<b>(29)</b>	<b>6</b>	<b>21</b>	<b>(4)</b>	<b>(175)</b>	<b>(9)</b>
Dividend paid	(2)	(1)	-	-	-	-
Share capital issuance / (buybacks)	16	17	-	202	6	6
Debt issuance / (repayment)	54	(21)	(14)	(14)	78	16
Other financing inflow / (outflow)	(21)	(33)	-	(24)	(25)	(26)
<b>Cash flow from financing activities</b>	<b>47</b>	<b>(38)</b>	<b>(14)</b>	<b>164</b>	<b>59</b>	<b>(4)</b>
<b>Cash flow</b>	<b>24</b>	<b>3</b>	<b>43</b>	<b>152</b>	<b>(81)</b>	<b>23</b>

SHARE DATA	2015	2016	2017	2018e	2019e	2020e
Average number of shares	44.6	65.9	67.9	70.6	108.4	108.4
No. of shares end of period	64.0	67.9	67.9	108.4	108.4	108.4
Avg. number of shares not fully diluted	49.3	54.2	54.3	107.6	107.6	107.6
No. of shares end of period not fully diluted	49.3	54.2	54.3	107.6	107.6	107.6
Share price year-end (EUR)	4.4	3.6	3.9	4.3	4.3	4.3
PER SHARE						
DPS (EUR)	-	-	-	-	-	-
EPRA NAV per share (EUR)	4.2	4.6	5.0	5.7	6.4	6.9
Chg EPRA NAV per share (%)		8.4	7.7	14.3	12.5	8.8
EPS (EUR)	1.1	-	0.3	0.9	0.6	0.5
EPS adj (EUR)	0.7	-	0.2	0.9	0.6	0.5
Funds from operations per share (EUR)	-	0.0	0.1	0.3	0.2	0.2
CAPITALISATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Market cap	283	242	262	463	463	463
Net interest bearing debt	(28)	(31)	(45)	(197)	(115)	(138)
Minority interest	34	37	34	40	46	51
Enterprise value	973	942	962	1,155	1,238	1,260
Dividend yield (%)	-	-	-	-	-	-
Premium/discount to book value (%)	22.8	(10.9)	(8.2)	(16.1)	(25.7)	(32.3)
Premium/discount to EPRA NAV (%)	4.3	(22.5)	(22.1)	(24.6)	(33.0)	(38.4)
Premium/discount to GAV (%)	1.3	(7.2)	(7.3)	(13.4)	(16.7)	(20.3)
EBITDA/EV (%)	1.0	5.0	3.8	3.1	4.1	4.2
PROFITABILITY & DEBT	2015	2016	2017	2018e	2019e	2020e
ROCE (%)		18.2	13.1	10.6	10.8	9.1
Net operating income margin (%)	54.6	63.6	63.0	62.0	63.3	63.3
EBITDA margin (%)	22.8	50.8	40.9	38.5	50.6	50.9
Market capitalisation/enterprise value (%)	29.1	25.7	27.3	40.1	37.4	36.7
LTV (%)	67.5	62.8	57.2	37.4	42.6	40.4
Interest bearing debt/EBITDA (x)	(2.9)	(0.7)	(1.2)	(5.5)	(2.3)	(2.6)
EBITDA/interest expense (x)	0.4	1.2	0.7	1.5	2.1	2.1
SUPPLEMENTAL DATA (million)	2015	2016	2017	2018e	2019e	2020e
Number of properties	181.0	174.0	86.0	86.0	86.0	86.0
Lettable space sqm	1,065	1,069	969	969	1,136	1,136
Economic occupancy (%)	87.2	88.4	90.6	92.4	93.0	93.5
Fair value investment properties (IFRS)	915	981	1,022	1,125	1,361	1,419
Fair value investment properties per sqm (EUR)	871	941	1,067	1,067	1,067	1,067
Cost of debt (%)	5.9	4.4	4.1	3.6	3.6	3.5



Notes

## Stable business but no growth drivers ahead

*Deutsche EuroShop (DEQ) solely invests in shopping centers and currently holds a diversified portfolio of 21 shopping centers with a market value of c. EUR 5.1bn. We see DEQ's business as rather stable and like its dividend policy of stable and attractive dividends (current div. yield: c. 6%). We recommend to hold the shares with a TP of EUR 27.00 as we see no share price trigger ahead while the shares look fairly valued with a 2019e P/FFO of 11.1x (vs. peer group: 10.1x) and 2019e P/NAV of 0.6x (vs. peer group: 0.6x).*

### Investment Case

We see DEQ's business as rather stable and we like DEQ's dividend policy of stable and attractive dividends. DEQ increased its dividend per share continuously by 5 cents over the last years. For FY 2018 DEQ plans to pay EUR 1.50 as dividend which is equivalent to a payout ratio of above 60% of its FFO. With an LTV of 32% (as of 9M 2018) and a vacancy rate of 1% (as of FY 2017) its portfolio is characterized by a high quality.

As the supply for shopping centers is limited and prices have reached peak levels it is hard for DEQ to further expand its portfolio. DEQ managed to improve its funding costs from 2.89% (as of Q4 2017) to 2.73% in Q3 2018. Loan maturity stands at 5.6 years (vs. 5.9 years as of Q2 2018). DEQ sees further potential to optimize its financing costs. DEQ plans refinancings of c. EUR 194m until the end of Q1 2019.

CAPEX slightly increased as DEQ started its mall beautification programme in 5 of its centers, i.e. improve the mall design, offer more furniture, improvement of parking slots etc. As a reminder DEQ plans to spend EUR 25-30m p.a. (expected for 2018-2022).

EURm	2016	2017	2018e	2019e	2020e
Sales	205	218	223	225	227
NOI	185	197	199	200	202
NOI margin (%)	90	90	89	89	89
CEPS (EUR)	2.7	2.5	2.8	2.8	2.8
EPRA NAV ps (EUR)	43	43	44	44	45
DPS (EUR)	1.4	1.5	1.5	1.6	1.6
P/CEPS (x)	14.4	13.4	9.7	9.7	9.6
P/EPRA NAV (x)	0.9	0.8	0.6	0.6	0.6
EBITDA/EV (%)	4.9	5.3	6.1	6.1	6.2
Div yield (%)	3.6	4.3	5.6	5.8	5.8
LTV (%)	34	32	31	30	30
NIBD/EBITDA (x)	7.7	7.4	7.2	7.0	6.7
EBITDA/IE (x)	3.4	3.6	3.8	3.9	4.0
Chg Sales (%)	1.1	6.5	2.3	0.7	1.0
Chg CEPS(%)	9.8	(5.8)	9.3	0.5	0.9
Chg EPRA NAV(%)	13.4	4.8	4.7	4.9	4.9

Note: IFPM is an abbreviation for Income from Property Management  
Source: Pareto



Target price (EUR)	27
Share price (EUR)	27

### Forecast changes

%	2018e	2019e	2020e
Sales	NM	NM	NM
NOI	NM	NM	NM
CEPS	NM	NM	NM
EPRA NAV ps	NM	NM	NM
DPS	NM	NM	NM

Source: Pareto

Ticker	DEQGN.DE, DEQ GR
Sector	Real Estate
FTSE EPRA property sector	Industrial
Shares fully diluted (m)	61.8
Market cap (EURm)	1,658
Net debt (EURm)	1,547
Minority interests (EURm)	0
Enterprise value 18e (EURm)	3,205
Free float (%)	82

### Performance



Source: Factset

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*Focus on shopping centers;  
very high asset quality*

## Company profile

Deutsche EuroShop (DEQ) solely invests in shopping centers and currently holds a diversified portfolio of 21 shopping centers (17 in Germany, 1 each in Austria, Hungary, Poland and in the Czech Republic) with a market value of c. EUR 5.1bn.

The management of the shopping centers is conducted through ECE, active in the designing, planning, building, letting and managing shopping centers since 1965. The company is managing 200 facilities and is active in 12 European countries.

DEQ exclusively invests in established shopping centers in attractive locations with more than 300,000 inhabitants. Due to indexed minimum rents and the participation in sales growth of retail industry and the low vacancy rate (as of Q2 2018: 1%) DEQ's rental income is stable. As of Q3 2018 DEQ's LTV amounted to 32% which is comparably low.

DEQ plans to pay stable and attractive dividends. For FY 2018 the company intends to pay a dividend of EUR 1.50 (compared to EUR 1.45 in the previous year) and EUR 1.55 for FY 2019 which is in line with our estimate.

Lower funding costs should positively contribute to DEQ's FFO. We forecast 2017-2020e CAGR of 0.6%.

## Upcoming Triggers and Drivers

Lower funding costs: DEQ sees further potential to optimize its financing costs. DEQ plans refinancings of c. EUR 194m of its debt until the end of Q1 2019. In case of lower refinancing rates compared to DEQ's current rates the refinancing should have a positive impact on its FFO and its NAV.

Stronger than expected turnover rent in Q4: Retail turnover decreased by -2.8% on a like-for-like basis (Germany: -3.2%, abroad: -0.9%) in Q3 2018. The extreme weather conditions can be a possible reason for the development. In our view, if this development holds on in the remaining quarter turnover rent could be negatively impacted. Thus, in case of an unexpected strong Q4 turnover rents can be stronger than expected. Note that turnover rent amounted to EUR 2.5m in 2017 which represents c. 1% of DEQ's Revenue in 2017.

## Risks to our Investment Case

Strong increase in interest rates: In case of a strong increase in long-term interest rates in Germany prices for real estate properties should come under pressure. This could negatively affect the value of DEQ's real estate portfolio. Higher interest rates can also negatively affect its funding costs if DEQ will not be able to refinance at lower interest rates.

## Valuation and Recommendation

While we have derived a fair value of EUR 25.41 from the peer group analysis we have calculated a fair value of EUR 28.77 from the Dividend Discount Model. We initiate coverage with a hold recommendation and a TP of EUR 27.00.

*Target Price: EUR 27.00*

## Exhibit 17: Peer Group Valuation

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e	Yield 2018e
Unibail-Rodamco	147.7	20,431	11.0	12.3	11.5	11.0	0.7	0.7	8.0%
Atrium European Real	3.6	1,348	12.0	11.0	11.6	11.1	0.7	0.7	7.6%
Eurocommercial Prope	28.7	1,417	7.4	12.9	11.5	11.0	0.7	0.6	7.5%
Intu Properties	1.1	1,510	7.5	7.5	7.5	7.2	0.3	0.3	9.7%
Mercialys	12.4	1,141	11.6	11.6	9.8	9.2	0.6	0.6	8.9%
Vastned Retail	31.9	577	23.0	14.4	14.6	14.5	0.7	0.7	6.4%
Citycon	1.8	1,598	10.9	10.5	12.0	10.9	0.6	0.7	7.2%
IGD	5.9	650	7.7	8.7	8.1	7.3	0.5	0.5	8.5%
Klepierre	28.1	8,496	12.4	11.3	10.7	10.2	0.8	0.7	7.5%
Wereldhave	28.4	1,141	9.5	8.3	7.9	8.7	0.6	0.6	8.9%
Average			11.3x	10.8x	10.5x	10.1x	0.6x	0.6x	0.1x
Deutsche EuroShop	26.84	1,658	12.7x	12.5x	11.3x	11.1x	0.6x	0.6x	5.6%
vs average			12.2%	15.1%	7.7%	10.0%	-0.3%	1.6%	-30.4%
Fair Value based upon 2018e FFO		24.40							
Fair Value based upon 2018e P/NAV		26.43							
AVERAGE		25.41							

Source: FactSet, Bloomberg, Pareto Securities

## Exhibit 18: Dividend Discount Model

EUR m	2018	2019	Phase I			Phase II						Phase III	
	2020	2021	2022	2023	2024	2025	2026	2027	2028				
EBT	163	166	168	170	172	175	176	178	180	181	183		
growth rate	-1.4%	1.6%	1.1%	1.4%	1.2%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%		
Tax	-33	-33	-34	-34	-34	-35	-35	-36	-36	-36	-37		
Tax rate	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%		
Minorities	0	0	0	0	0	0	0	0	0	0	0		
growth rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Net Income	131	133	134	136	138	140	141	143	144	145	146		
growth rate	-2.6%	1.6%	1.1%	1.4%	1.2%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%		
FFO	146	149	151	153	155	157	158	160	161	163	164		
growth rate	-1.2%	1.9%	1.0%	1.5%	1.3%	1.2%	1.1%	1.0%	0.9%	0.8%	0.7%		
Total dividend	93	96	97	98	99	100	101	102	103	104	105		
payout ratio	63.3%	64.2%	64.4%	64.2%	64.2%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%		
Present Value Div	89	92	87	82	78	78	74	70	66	62	58		
PV Phase I	340						Risk premium		5.0%	Beta		0.7	
PV Phase II	407						Risk free rate		3.5%	Cost of equity		7.2%	
PV Phase III	1,030												
Total Fair Value	1,777						Sensitivity		Growth in phase III				
# shares	61.78								0.5%	1.0%	1.5%	2.0%	2.5%
									0.5%	1.0%	1.5%	2.0%	2.5%
Fair value per share	28.77						C. of eq.	6.5%	29	31	33	35	38
								6.8%	28	29	31	33	35
								7.2%	26	27	29	30	33
								7.6%	25	26	27	29	30
							7.9%	24	25	26	27	27	

Source: Company data, Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Rental income	203	205	218	223	225	227
Sales	203	205	218	223	225	227
Operating costs	(19)	(20)	(22)	(25)	(25)	(25)
<b>Net operating income</b>	<b>183</b>	<b>185</b>	<b>197</b>	<b>199</b>	<b>200</b>	<b>202</b>
Management and administrative costs	(3)	(2)	-	-	-	-
Other operating income / (expense)	(4)	(4)	(5)	(5)	(5)	(5)
<b>EBITDA</b>	<b>176</b>	<b>179</b>	<b>192</b>	<b>194</b>	<b>195</b>	<b>197</b>
Associated companies and JVs	51	36	16	10	10	10
Depreciation fixed assets	(0)	(0)	-	-	-	-
<b>EBITA</b>	<b>228</b>	<b>215</b>	<b>208</b>	<b>203</b>	<b>205</b>	<b>207</b>
<b>EBIT</b>	<b>228</b>	<b>215</b>	<b>208</b>	<b>203</b>	<b>205</b>	<b>207</b>
Net interest	(56)	(53)	(54)	(51)	(50)	(50)
Chg. in value properties unrealised	221	117	9	8	8	8
<b>Profit before taxes</b>	<b>395</b>	<b>282</b>	<b>166</b>	<b>163</b>	<b>166</b>	<b>168</b>
Current tax	(5)	(6)	(6)	(26)	(27)	(27)
Deferred tax	(81)	(54)	(26)	(7)	(7)	(7)
<b>Taxes</b>	<b>(85)</b>	<b>(60)</b>	<b>(31)</b>	<b>(33)</b>	<b>(33)</b>	<b>(34)</b>
<b>Profit after tax for the period</b>	<b>309</b>	<b>222</b>	<b>134</b>	<b>131</b>	<b>133</b>	<b>134</b>
Minorities	-	-	-	-	-	-
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Fair value properties	3,357	3,521	3,924	3,932	3,940	3,948
Associated companies and JVs	411	515	527	527	527	527
Total fixed assets	3,768	4,037	4,505	4,513	4,521	4,529
Other current assets	-	-	-	-	-	-
Cash and cash equivalents	71	64	107	140	172	203
<b>Total current assets</b>	<b>83</b>	<b>78</b>	<b>122</b>	<b>155</b>	<b>188</b>	<b>218</b>
<b>Total assets</b>	<b>3,852</b>	<b>4,114</b>	<b>4,627</b>	<b>4,668</b>	<b>4,708</b>	<b>4,747</b>
<b>Total equity</b>	<b>1,768</b>	<b>1,916</b>	<b>2,237</b>	<b>2,279</b>	<b>2,319</b>	<b>2,357</b>
Deferred tax liability	310	359	440	440	440	440
Non-current interest bearing liabilities	1,360	1,243	1,518	1,518	1,518	1,518
Other non-current liabilities	345	374	375	375	375	375
<b>Total non-current liabilities</b>	<b>2,015</b>	<b>1,976</b>	<b>2,333</b>	<b>2,333</b>	<b>2,333</b>	<b>2,333</b>
Current interest bearing liabilities	48	203	29	29	29	29
Other current liabilities	21	18	26	26	26	26
<b>Total current liabilities</b>	<b>69</b>	<b>223</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>
<b>Total liabilities</b>	<b>2,084</b>	<b>2,198</b>	<b>2,390</b>	<b>2,390</b>	<b>2,390</b>	<b>2,390</b>
<b>Total liabilities and total equity</b>	<b>3,852</b>	<b>4,114</b>	<b>4,627</b>	<b>4,668</b>	<b>4,708</b>	<b>4,747</b>
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Funds from operations	123	130	148	146	149	151
<b>Cash flow before change in working capital</b>	<b>132</b>	<b>145</b>	<b>156</b>	<b>171</b>	<b>172</b>	<b>173</b>
Change in working capital	2	(4)	(0)	-	-	-
<b>Cash flow post change in working capital</b>	<b>134</b>	<b>141</b>	<b>156</b>	<b>171</b>	<b>172</b>	<b>173</b>
Property acquisitions	(11)	(17)	(10)	-	-	-
Property divestments	-	0	0	-	-	-
Other capex items	(1)	(77)	0	-	-	-
<b>Cash flow from investment activities</b>	<b>(12)</b>	<b>(94)</b>	<b>(211)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Dividend paid	(70)	(73)	(82)	(90)	(93)	(96)
Share capital issuance / (buybacks)	-	-	164	-	-	-
Debt issuance / (repayment)	(24)	36	32	-	-	-
Other financing inflow / (outflow)	(15)	(17)	(17)	(48)	(47)	(47)
<b>Cash flow from financing activities</b>	<b>(109)</b>	<b>(54)</b>	<b>98</b>	<b>(138)</b>	<b>(139)</b>	<b>(142)</b>
<b>Cash flow</b>	<b>12</b>	<b>(7)</b>	<b>43</b>	<b>33</b>	<b>32</b>	<b>31</b>

SHARE DATA	2015	2016	2017	2018e	2019e	2020e
Average number of shares	57.1	57.2	58.2	61.8	61.8	61.8
No. of shares end of period	57.1	57.2	61.8	61.8	61.8	61.8
Avg. number of shares not fully diluted	53.9	53.9	58.2	61.8	61.8	61.8
No. of shares end of period not fully diluted	53.9	53.9	61.8	61.8	61.8	61.8
Share price year-end (EUR)	40.5	38.7	34.0	26.8	26.8	26.8
PER SHARE						
CEPS (EUR)	2.45	2.69	2.53	2.76	2.78	2.80
Chg CEPS (%)		10	(6)	9	0	1
DPS (EUR)	1.35	1.40	1.45	1.50	1.55	1.57
Chg DPS (%)		4	4	3	3	1
EPRA NAV per share (EUR)	38.7	42.5	43.2	43.8	44.4	45.1
Chg EPRA NAV per share (%)		13.4	4.8	4.7	4.9	4.9
CEPS/EPRA NAV per share (%)	6.3	6.3	5.9	6.3	6.3	6.2
EPS (EUR)	5.5	3.9	2.3	2.1	2.2	2.2
EPS adj (EUR)	5.5	3.9	2.3	2.1	2.2	2.2
Funds from operations per share (EUR)	2.3	2.4	2.5	2.4	2.4	2.4
CAPITALISATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Market cap	2,310	2,212	2,098	1,658	1,658	1,658
Net interest bearing debt	1,324	1,368	1,425	1,391	1,359	1,328
Minority interest	-	-	-	-	-	-
Enterprise value	3,718	3,658	3,645	3,205	3,205	3,205
Price/CEPS (x)	16.5	14.4	13.4	9.7	9.7	9.6
Dividend yield (%)	3.3	3.6	4.3	5.6	5.8	5.8
Payout ratio (%)	55.2	52.1	57.3	54.3	55.8	56.0
Premium/discount to book value (%)	30.7	15.5	(6.2)	(27.2)	(28.5)	(29.7)
Premium/discount to EPRA NAV (%)	4.5	(9.0)	(21.4)	(38.7)	(39.6)	(40.4)
Premium/discount to GAV (%)	3.0	(6.2)	(14.5)	(26.6)	(27.6)	(28.5)
EBITDA/EV (%)	4.7	4.9	5.3	6.1	6.1	6.2
PROFITABILITY & DEBT	2015	2016	2017	2018e	2019e	2020e
ROCE (%)		5.6	5.5	5.3	5.3	5.4
Net operating income margin (%)	90.4	90.1	90.1	89.0	89.0	89.0
EBITDA margin (%)	87.0	87.1	88.0	86.8	86.8	86.8
Market capitalisation/enterprise value (%)	62.1	60.5	57.6	51.7	51.7	51.7
LTV (%)	35.5	34.2	32.4	31.2	30.4	29.7
Interest bearing debt/EBITDA (x)	7.5	7.7	7.4	7.2	7.0	6.7
EBITDA/interest expense (x)	3.2	3.4	3.6	3.8	3.9	4.0
SUPPLEMENTAL DATA (million)	2015	2016	2017	2018e	2019e	2020e
Number of properties	19.0	21.0	21.0	21.0	21.0	21.0
Lettable space sqm	946,800	1,001,600	1,086,600	1,086,600	1,086,600	1,086,600
Economic occupancy (%)	99.0	99.0	99.0	99.0	99.0	99.0
Fair value property portfolio (IFRS)	3,357	3,521	3,924	3,932	3,940	3,948
Cost of debt (%)	3.9	3.7	2.9	2.6	2.5	2.3

## Notes

## Solving the supply crunch for real estate properties

*EYEMAXX Real Estate is a real estate development company and holds a small portfolio of real estate properties. We initiate coverage with a Buy recommendation and a target price of EUR 17.00 as the market environment for project developments should remain attractive, EYEMAXX has experience over different asset classes, its transaction pipeline is expected to further grow, the expansion of its portfolio should ensure stable cash flows and the valuation is attractive (PER 2019e: 6.3x vs. peer group 9.8x).*

### Investment Case

EYEMAXX acts as a developer for various asset classes in different regions, i.e. the focus is on residential, nursing homes and commercial properties with a geographical focus on Germany, Austria and selected countries in central Europe.

Since 2007 EYEMAXX has successfully developed and sold 30 projects in Germany (29%), Austria (26%) and in the Czech Republic (25%) with an ROI of around 16%.

43% of its current project pipeline of c. EUR 975m (as of Nov. 2018) relates to residential asset with a geographic focus on Germany (83%). The increase of its transaction pipeline by profitable new development projects should lead to higher cash flows.

Since 2012 EYEMAXX holds selected commercial properties in its portfolio which enables the company to generate stable cash flows to cover overhead costs. We see additional rent upside for EYEMAXX's own real estate properties from a more active management. Before the purchase of a commercial property in Bamberg which should be redesigned (project volume: c. EUR 50m, completion: 2020) the portfolio comprised of 13 properties which were fully let with an annual rental income of c. EUR 3.1m.

EURm	2016	2017	2018e	2019e	2020e
Revenues	4	5	6	7	7
EBITDA	10	15	17	20	22
EBIT	10	14	17	20	21
EPS	1.36	1.53	1.67	2.00	1.83
EPS adj	1.36	1.30	1.30	1.59	1.83
DPS	0.20	0.20	0.20	0.30	0.35
EV/EBITDA	10.2	11.5	8.2	7.0	5.8
EV/EBIT	10.4	11.7	8.4	7.1	5.9
P/E adj	6.8	9.2	7.7	6.3	5.4
P/B	1.06	1.64	1.15	0.97	0.84
ROE (%)	17.8	15.2	15.1	15.4	16.6
Div yield (%)	2.2	1.7	2.0	3.0	3.5
Net debt	66	85	67	69	52

Source: Pareto



Target price (EUR)	17.0
Share price (EUR)	10.0

### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	BTCGK.DE, BNT1 GR
Sector	Diversified Financials
Shares fully diluted (m)	7.3
Market cap (EURm)	73
Net debt (EURm)	67
Minority interests (EURm)	0
Enterprise value 18e (EURm)	140
Free float (%)	46

### Performance



Source: Factset

**Pareto Securities AS has been paid by the issuer to produce this research report. This material is considered by Pareto Securities to qualify as an acceptable minor non-monetary benefit according to the EU MIFID 2 directive.**

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*Real estate developer and property holder with experience over different asset classes*

## Company profile

EYEMAXX Real Estate is a real estate development company with a geographical focus on Germany and Austria. Besides the pure project development certain commercial properties remain in the portfolio to generate a steady rental income. The company has its headquarter in Aschaffenburg (Germany) and its operative business is based in Leopoldsdorf near Vienna (Austria). The transaction pipeline amounted to c. EUR 975m (as of Nov. 2018) which should lead to higher cash flows.

We estimate EYEMAXX's revenues to grow by c. 11% (CAGR 2016/17-2019/20e) and net profit should increase by around 27%.

## Upcoming Triggers and Drivers

Sale of its large-scale project "Sonnenhöfe" ahead and above budgeted price (initial project volume: EUR 168m): At the end of Sep. 2018, EYEMAXX published that it is in advanced negotiations for the sale of its large-scale project "Sonnenhöfe" in Berlin. The transaction should take place by way of a forward sale and should be sold to an institutional investor. It is likely that the initially expected sales price will be exceeded which we regard as positive.

Higher project volumes: The increase of the transaction pipeline by profitable new development projects should lead to higher cash flows.

Higher proportion of stable revenues: The expansion of its portfolio of real estate properties should be positive due to the fact that rental income is expected to increase. Stable cash flows are necessary to cover overhead costs.

**Next scheduled reporting:** FY 2017/2018 results on 28 February 2019.

## Risks to our Investment Case

Rising interest rates: In case of a strong increase in interest rates prices for project developments may come under pressure due to lower demand for real estate assets which would have a negative impact on the company's profitability.

Availability of suitable projects: It is possible that EYEMAXX does not find suitable projects to develop. Consequently, achievable returns would get under pressure.

Lack of construction companies: As demand for newly built properties is still high it is not easy to find construction companies. In case of higher construction costs than calculated it is possible that the expected profit could not be realized as investors are not willing to pay higher prices.

Dependence on partners to realize large-scale projects: As higher project volumes are generally realized in cooperation with a partner like a joint venture partner or a co-funder who also provide equity those projects can only be conducted if a partner is found.

## Valuation and Recommendation

Our valuation is based upon a peer group analysis and a Dividend Discount Model. While we have derived a fair value of EUR 15.61 from the peer group analysis we have calculated a fair value of EUR 18.40 from the Dividend Discount Model. Our target price of EUR 17.00 is derived from the average of the calculated two fair values. We recommend buying the shares.

*Target Price of EUR 17.00*

## Exhibit 19: Peer Group Valuation

Company	Share Price (Ic)	MC (I.c. m)	PER 2018e	PER 2019e	Div Yield 2018e	Div Yield 2019e
Consus Real Estate	7.82	838	78.2	13.0	0.0%	0.0%
UBM Development	37.60	281	7.6	7.5	5.4%	5.6%
Helma Eigenheimbau	35.00	140	9.4	8.2	4.1%	4.6%
Instone Real Estate	18.60	688	32.2	10.6	0.0%	0.0%
<b>Average</b>			<b>31.9x</b>	<b>9.8x</b>	<b>2.4%</b>	<b>2.6%</b>
<b>EYEMAXX</b>	<b>9.98</b>	<b>52</b>	<b>7.7x</b>	<b>6.3x</b>	<b>2.0%</b>	<b>3.0%</b>
<b>vs average</b>			<b>-75.9%</b>	<b>-36.1%</b>	<b>-15.7%</b>	<b>17.1%</b>
Fair Value based upon 2019e PER	15.61					

Source: FactSet, Pareto Securities

## Exhibit 20: Dividend Discount Model

EUR m	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Phase III
<b>EBT</b>	<b>11</b>	<b>13</b>	<b>17</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>24</b>	<b>27</b>	<b>30</b>	<b>33</b>	
growth rate	28.8%	25.4%	25.1%	-3.9%	10.0%	12.0%	11.8%	11.5%	11.3%	11.1%	10.8%	
<b>Tax</b>	<b>-2</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-4</b>	<b>-4</b>	<b>-5</b>	<b>-5</b>	<b>-6</b>	<b>-6</b>	
Tax rate	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	
<b>Minorities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
growth rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Net Profit</b>	<b>8.6</b>	<b>10.7</b>	<b>13.4</b>	<b>12.9</b>	<b>14.2</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>24</b>	<b>27</b>	
growth rate	29.2%	25.4%	25.1%	-3.9%	10.0%	12.0%	11.8%	11.5%	11.3%	11.1%	10.8%	
<b>Total dividend</b>	<b>1.04</b>	<b>2.20</b>	<b>2.56</b>	<b>3.15</b>	<b>3.55</b>	<b>4.13</b>	<b>4.79</b>	<b>5.54</b>	<b>6.61</b>	<b>7.83</b>	<b>9.22</b>	<b>134</b>
payout ratio	12.1%	20.5%	19.1%	24.4%	25.0%	26.0%	27.0%	28.0%	30.0%	32.0%	34.0%	
ROE	15.1%	15.4%	16.6%	14.0%	13.8%	13.9%	14.0%	14.0%	14.0%	14.0%	14.1%	
<b>Present Value Div</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>64</b>
<b>PV Phase I</b>		<b>9</b>										
<b>PV Phase II</b>		<b>22</b>										
<b>PV Phase III</b>		<b>64</b>										
<b>Total Fair Value</b>		<b>95</b>										
# shares		5.18										
<b>Fair value per share</b>		<b>18.40</b>										
						<b>Risk premium</b>	<b>5.0%</b>		<b>Beta</b>			<b>1.1</b>
						<b>Risk free rate</b>	<b>3.5%</b>		<b>Cost of equity</b>			<b>9.0%</b>
						<b>Sensitivity</b>		<b>Growth in phase III</b>				
							<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	
							8.1%	19	20	22	23	25
							8.6%	18	19	20	21	22
						<b>C. of eq.</b>	9.0%	17	18	18	19	21
							9.5%	16	16	17	18	19
							9.9%	15	15	16	17	17

Source: Company data, Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Revenues</b>	<b>2</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>7</b>
<b>EBITDA</b>	<b>10</b>	<b>10</b>	<b>15</b>	<b>17</b>	<b>20</b>	<b>22</b>
Depreciation & amortisation	(0)	(0)	(0)	(0)	(0)	(0)
<b>EBIT</b>	<b>10</b>	<b>10</b>	<b>14</b>	<b>17</b>	<b>20</b>	<b>21</b>
Net interest	(4)	(4)	(6)	(6)	(7)	(5)
<b>Profit before taxes</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>11</b>	<b>13</b>	<b>17</b>
Taxes	(2)	(1)	(2)	(2)	(3)	(3)
Minority interest	(0)	0	0	-	-	-
<b>Net profit</b>	<b>4</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>13</b>
EPS reported	1.17	1.36	1.53	1.67	2.00	1.83
<b>EPS adjusted</b>	<b>1.17</b>	<b>1.36</b>	<b>1.30</b>	<b>1.30</b>	<b>1.59</b>	<b>1.83</b>
DPS	0.20	0.20	0.20	0.20	0.30	0.35
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Tangible non current assets	56	66	77	78	93	89
Other non-current assets	16	23	34	33	33	33
Other current assets	22	30	40	39	38	37
Cash & equivalents	4	3	16	22	21	13
<b>Total assets</b>	<b>98</b>	<b>122</b>	<b>166</b>	<b>173</b>	<b>184</b>	<b>171</b>
Total equity	29	38	50	64	76	87
Interest-bearing non-current debt	47	66	83	72	72	47
Interest-bearing current debt	16	3	17	17	17	17
Other Debt	7	15	15	20	20	20
<b>Total liabilities &amp; equity</b>	<b>98</b>	<b>122</b>	<b>166</b>	<b>173</b>	<b>184</b>	<b>171</b>
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Cash earnings	(1)	(6)	(7)	(3)	(11)	(14)
Change in working capital	(0)	0	(1)	-	-	-
Cash flow from investments	(0)	(4)	(12)	16	8	33
Cash flow from financing	4	7	22	(7)	1	(27)
Net cash flow	3	(2)	2	6	(2)	(8)
<b>CAPITALIZATION &amp; VALUATION (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
<b>Share price (EUR end)</b>	<b>4.81</b>	<b>9.2</b>	<b>12.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
Number of shares end period	4	4	7	7	7	7
Net interest bearing debt	59	66	85	67	69	52
<b>Enterprise value</b>	<b>76</b>	<b>106</b>	<b>167</b>	<b>140</b>	<b>142</b>	<b>125</b>
EV/Sales	32.7	30.2	33.5	22.4	21.6	18.0
<b>EV/EBITDA</b>	<b>7.7</b>	<b>10.2</b>	<b>11.5</b>	<b>8.2</b>	<b>7.0</b>	<b>5.8</b>
EV/EBIT	7.9	10.4	11.7	8.4	7.1	5.9
P/E reported	4.1	6.8	7.8	6.0	5.0	5.4
<b>P/E adjusted</b>	<b>4.1</b>	<b>6.8</b>	<b>9.2</b>	<b>7.7</b>	<b>6.3</b>	<b>5.4</b>
P/B	0.6	1.1	1.6	1.1	1.0	0.8
<b>FINANCIAL ANALYSIS &amp; CREDIT METRICS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
ROE adjusted (%)		17.6	15.0	16.6	16.7	16.5
Dividend yield (%)	4.2	2.2	1.7	2.0	3.0	3.5
EBITDA margin (%)	424.7	296.1	291.3	272.5	307.0	312.8
EBIT margin (%)	415.1	290.1	285.2	267.7	302.4	308.4
NIBD/EBITDA	5.96	6.33	5.84	3.93	3.40	2.39
EBITDA/Net interest	2.67	2.83	2.41	2.76	3.04	4.53

## High quality assets in an attractive region

*LEG is a residential real estate company with a focus on metropolitan regions within North Rhine-Westphalia (NRW) in Germany. LEG's portfolio is characterized by a high quality and we see further growth of its FFO and NAV due to its rental upside (coming from rent index adjustments, Capex, re-letting and the ending of rent restrictions). We initiate coverage with a TP of EUR 104.00 and a Hold rating as the shares are fairly valued (2019e P/FFO: 20.8x vs. peers: 20.3x and P/NAV of 1.0x vs. peers: 0.9x).*

### Investment Case

On the back of LEG's rental upside (coming from rent index adjustments, Capex, re-letting and the ending of rent restrictions) we expect FFO I to grow by c. 7% and NAV should increase by around 8% (CAGR 2017-2020e). As rent restrictions will end in more than 25,000 units in the next 10 years LEG's rents have significant upside potential as its rents are still below the market rent. According to LEG rents should increase by c. 3.0%-3.4% p.a. on a like-for-like basis in the coming years. Note that LEG's Capex measures should also have a positive impact on its FFO and NAV. We expect LEG to be able to continue to increase its portfolio quality which should have a positive earnings impact. With a LTV of 42.7% and a vacancy rate of 3.9% LEG's portfolio is characterized by a high quality. LEG has comparatively low funding costs as its interest costs amounted to 1.73% with an average debt maturity of 7.5 years (as of September 2018) which implies that LEG should be less affected by rising interest rates.

EURm	2016	2017	2018e	2019e	2020e
Sales	512	535	566	609	629
NOI	373	399	426	468	486
NOI margin (%)	73	75	75	77	77
CEPS (EUR)	3.3	4.3	2.7	5.7	6.0
EPRA NAV ps (EUR)	67	84	91	98	104
DPS (EUR)	2.3	3.0	3.5	3.8	4.0
P/CEPS (x)	22.5	22.3	37.2	17.6	16.6
P/EPRA NAV (x)	1.1	1.1	1.1	1.0	1.0
Div yield (%)	3.1	3.2	3.5	3.8	4.0
LTV (%)	45	42	41	39	37
Chg Sales (%)	17.0	4.5	5.9	7.6	3.3
Chg CEPS(%)	144.8	30.2	(37.1)	111.1	6.1
Chg EPRA NAV(%)	17.8	28.2	12.7	11.4	9.9

Note: IFPM is an abbreviation for Income from Property Management  
Source: Pareto



Target price (EUR)	104
Share price (EUR)	100

### Forecast changes

%	2018e	2019e	2020e
Sales	NM	NM	NM
NOI	NM	NM	NM
CEPS	NM	NM	NM
EPRA NAV ps	NM	NM	NM
DPS	NM	NM	NM

Source: Pareto

Ticker	LEGN.DE, LEG GR
Sector	Real Estate
FTSE EPRA property sector	Industrial
Shares fully diluted (m)	63.2
Market cap (EURm)	6,319
Net debt (EURm)	4,395
Minority interests (EURm)	28
Enterprise value 18e (EURm)	11,644
Free float (%)	73

### Performance



Source: Factset

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*Residential player focused on NRW in Germany*

## Company profile

LEG Immobilien AG is a real estate company with a focus on residential properties solely in North Rhine-Westphalia (NRW) in Germany. The company's headquarter is also located in NRW (Dusseldorf). LEG previously acted as a state-owned public housing supplier, urban and project developer before the development to a private housing company. The shares are part of the MDAX of the German regulated market since June 2013.

Since its IPO in 2013 LEG's portfolio increased by 39,000 residential units through acquisitions, leading to a current portfolio of around 130,000 residential units which represents c. 1.5% of the total residential units in NRW. As of Sep. 2018 LEG's portfolio of 130,170 residential units mainly consisted of apartments relating to stable markets (37%), followed by high-growth markets (32%), higher-yielding markets (30%) and apartments outside of NRW (1%).

With a LTV of 42.7% (as of Q3 2018) and a vacancy rate of 3.9% LEG's portfolio is characterized by a high quality. As of Q3 2018 in-place rent per sqm amounted to EUR 5.63.

We estimate FFO I to grow by c. 7% and NAV should increase by around 8% (CAGR 2017-2020e).

## Upcoming Triggers and Drivers

Further upside for rents: Due to active portfolio management we believe LEG to be able to further increase its rents which are still below average market rents. Due to LEG's regional concentration on NRW LEG has a good knowledge of the market which is supportive for its property management to optimize its portfolio quality, i.e. rent increases and vacancy reduction. Additional upside should result from the implementation of its Capex programme and the expiry of its rent restrictions.

Economies of scale: Further portfolio growth should lead to cost savings as the costs per unit are expected to decline and thus additional earnings potential could be generated.

**Next scheduled reporting:** FY 2018 results on 11 March 2019.

## Risks to our investment case

Strong increase in interest rates: In case of a strong increase in long-term interest rates in Germany prices for real estate properties should come under pressure. This could negatively affect the value of LEG's real estate portfolio.

Stricter Regulation: The introduction of stricter laws to support tenants could negatively affect LEG's upside for its rents.

No suitable acquisitions available: It is possible that LEG does not find suitable assets in NRW that fit to its acquisition criteria as competition in the real estate market has increased.

## Valuation and recommendation

Our valuation is based upon a peer group analysis using P/FFO and P/NAV multiples and a Dividend Discount Model. While we have derived a fair value of EUR 95.30 from the peer group analysis we have calculated a fair value of EUR 112.23 from the Dividend Discount Model. We initiate coverage with a hold recommendation and a TP of EUR 104.00.

*Target Price of EUR 104.00*

## Exhibit 21: Valuation overview German Residential Real Estate Companies

Company	Share Price (LC)	MC (LC m)	PER 2018e	PER 2019e	P/FFO 2018e	P/FFO 2019e	P/NAV 2018e	P/NAV 2019e	Yield 2018e	1M Perf	12M Perf
Adler Real Estate	14.98	833	16.5x	10.1x	15.0x	12.1x	0.8x	0.7x	0.0%	7%	23%
Deutsche Wohnen SE	41.38	14,770	8.5x	10.9x	30.8x	28.8x	1.0x	0.9x	1.8%	4%	12%
TAG Immobilien AG	20.84	3,049	7.4x	10.3x	21.4x	19.9x	1.3x	1.1x	2.8%	4%	35%
Vonovia SE	41.84	21,676	12.2x	14.8x	20.7x	19.0x	0.9x	0.8x	2.7%	5%	2%
Grand City Properties	19.93	3,323	8.0x	9.6x	17.4x	16.1x	0.9x	1.3x	3.3%	-6%	4%
ADO Properties	46.20	2,037	5.0x	7.1x	29.6x	26.0x	0.9x	0.8x	1.0%	-8%	8%
<b>Average</b>											
Share Price			9.6x	10.5x	22.5x	20.3x	1.0x	0.9x	1.9%	1%	14%
LEG Immobilien	100.00	6,319	9.2x	10.3x	21.7x	20.8x	1.1x	1.0x	3.5%	-1%	-1%
vs average			-4.7%	-1.5%	-3.7%	2.4%	14.7%	7.6%	86.1%		
Fair Value based upon 2019e P/FFO		97.68									
Fair Value based upon 2019e P/NAV		92.92									
<b>AVERAGE</b>		<b>95.30</b>									

Source: FactSet, Bloomberg, Pareto Securities

## Exhibit 22: Dividend Discount Model

EUR m	2018	2019	Phase I			Phase II						Phase III
			2020	2021	2022	2023	2024	2025	2026	2027	2028	
<b>EBT</b>	<b>1,044</b>	<b>957</b>	<b>936</b>	<b>855</b>	<b>772</b>	<b>788</b>	<b>803</b>	<b>818</b>	<b>834</b>	<b>849</b>	<b>863</b>	
grow th rate	-6.8%	-8.3%	-2.2%	-8.6%	-9.7%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%	
<b>Tax</b>	<b>-277</b>	<b>-258</b>	<b>-257</b>	<b>-240</b>	<b>-216</b>	<b>-221</b>	<b>-225</b>	<b>-229</b>	<b>-233</b>	<b>-238</b>	<b>-242</b>	
Tax rate	-26.5%	-27.0%	-27.5%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	-28.0%	
<b>Minorities</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	
grow th rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
<b>Net Income</b>	<b>764</b>	<b>695</b>	<b>675</b>	<b>612</b>	<b>552</b>	<b>571</b>	<b>582</b>	<b>593</b>	<b>604</b>	<b>615</b>	<b>625</b>	
grow th rate	90.8%	-9.0%	-2.9%	-9.2%	-9.8%	3.4%	1.9%	1.9%	1.8%	1.8%	1.7%	
<b>FFO</b>	<b>320</b>	<b>342</b>	<b>360</b>	<b>380</b>	<b>394</b>	<b>402</b>	<b>409</b>	<b>417</b>	<b>425</b>	<b>433</b>	<b>440</b>	
grow th rate	108.5%	6.8%	5.3%	5.5%	3.5%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%	
<b>Total dividend</b>	<b>224</b>	<b>240</b>	<b>252</b>	<b>285</b>	<b>315</b>	<b>321</b>	<b>328</b>	<b>334</b>	<b>340</b>	<b>346</b>	<b>352</b>	<b>7,757</b>
payout ratio*	70%	70%	70%	75%	80%	80%	80%	80%	80%	80%	80%	
<b>Present Value Div</b>	<b>218</b>	<b>233</b>	<b>231</b>	<b>247</b>	<b>257</b>	<b>262</b>	<b>252</b>	<b>242</b>	<b>232</b>	<b>223</b>	<b>213</b>	<b>4,700</b>
<b>PV Phase I</b>		<b>968</b>										
<b>PV Phase II</b>		<b>1,423</b>										
<b>PV Phase III</b>		<b>4,700</b>										
<b>Total Fair Value</b>		<b>7,091</b>										
# shares		63.19										
<b>Fair value per share</b>		<b>112.23</b>										
* as a % of FFO I												
						Sensitivity						
						Growth in phase III						
						0.5%	1.0%	1.5%	2.0%	2.5%		
						5.5%	110	118	129	142	160	
						5.8%	104	111	120	131	146	
						6.1%	98	105	112	122	134	
						6.4%	93	99	105	114	124	
						6.7%	89	94	99	106	111	

Source: Company data, Pareto Securities

<b>PROFIT &amp; LOSS (fiscal year) (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Rental income	436	512	535	566	609	629
Sales	437	512	535	566	609	629
Operating costs	(117)	(139)	(135)	(140)	(142)	(144)
<b>Net operating income</b>	<b>321</b>	<b>373</b>	<b>399</b>	<b>426</b>	<b>468</b>	<b>486</b>
Other operating income / (expense)	(133)	(48)	(34)	(30)	(29)	(29)
Depreciation fixed assets	(4)	(5)	(3)	(1)	(1)	(1)
<b>EBITA</b>	<b>184</b>	<b>320</b>	<b>362</b>	<b>395</b>	<b>437</b>	<b>455</b>
<b>EBIT</b>	<b>184</b>	<b>320</b>	<b>362</b>	<b>395</b>	<b>437</b>	<b>455</b>
Net interest	(181)	(176)	(145)	(79)	(77)	(66)
Chg. in value properties unrealised	286	617	1,037	780	650	600
Chg. in value financial instruments unrealised	(76)	17	(138)	(60)	(60)	(60)
<b>Profit before taxes</b>	<b>217</b>	<b>780</b>	<b>1,120</b>	<b>1,044</b>	<b>957</b>	<b>936</b>
Current tax	(2)	(5)	(8)	(26)	(29)	(33)
Deferred tax	(80)	(195)	(267)	(250)	(230)	(225)
<b>Taxes</b>	<b>(82)</b>	<b>(200)</b>	<b>(276)</b>	<b>(277)</b>	<b>(258)</b>	<b>(257)</b>
<b>Profit after tax for the period</b>	<b>135</b>	<b>579</b>	<b>845</b>	<b>767</b>	<b>698</b>	<b>678</b>
Minorities	(0)	1	4	4	4	4
<b>BALANCE SHEET (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Fair value properties	6,399	7,955	9,461	10,609	11,433	12,203
Associated companies and JVs	9	9	10	9	29	49
Goodwill	63	77	85	85	85	85
Other fixed assets	213	98	33	31	32	33
Total fixed assets	6,905	8,222	9,664	10,734	11,514	12,240
Other current assets	-	-	-	-	-	-
Cash and cash equivalents	253	167	285	(129)	(218)	(228)
<b>Total current assets</b>	<b>290</b>	<b>214</b>	<b>349</b>	<b>(63)</b>	<b>(139)</b>	<b>(139)</b>
<b>Total assets</b>	<b>7,195</b>	<b>8,436</b>	<b>10,013</b>	<b>10,671</b>	<b>11,375</b>	<b>12,101</b>
<b>Total equity</b>	<b>3,002</b>	<b>3,459</b>	<b>4,137</b>	<b>4,718</b>	<b>5,198</b>	<b>5,642</b>
Deferred tax liability	404	588	855	1,118	1,363	1,608
Non-current interest bearing liabilities	2,746	3,222	3,821	3,783	3,753	3,793
Other non-current liabilities	115	115	146	16	21	21
<b>Total non-current liabilities</b>	<b>3,419</b>	<b>4,093</b>	<b>4,980</b>	<b>5,076</b>	<b>5,294</b>	<b>5,579</b>
Current interest bearing liabilities	515	568	491	482	485	485
Other current liabilities	276	339	429	423	429	429
<b>Total current liabilities</b>	<b>791</b>	<b>907</b>	<b>920</b>	<b>905</b>	<b>914</b>	<b>914</b>
<b>Total liabilities</b>	<b>4,210</b>	<b>4,999</b>	<b>5,901</b>	<b>5,981</b>	<b>6,208</b>	<b>6,493</b>
<b>Total liabilities and total equity</b>	<b>7,195</b>	<b>8,436</b>	<b>10,013</b>	<b>10,671</b>	<b>11,375</b>	<b>12,101</b>
<b>CASH FLOW (EURm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Funds from operations	206	268	295	320	342	360
<b>Cash flow before change in working capital</b>	<b>84</b>	<b>207</b>	<b>270</b>	<b>170</b>	<b>358</b>	<b>380</b>
Property acquisitions	(422)	(629)	(468)	(378)	(183)	(183)
Property divestments	81	64	22	1	2	5
<b>Cash flow from investment activities</b>	<b>(496)</b>	<b>(566)</b>	<b>(451)</b>	<b>(357)</b>	<b>(196)</b>	<b>(193)</b>
Dividend paid	(112)	(142)	(174)	(192)	(224)	(240)
Share capital issuance / (buybacks)	376	-	-	3	3	3
Debt issuance / (repayment)	190	420	474	(38)	(30)	40
Other financing inflow / (outflow)	(3)	(5)	1	-	-	-
<b>Cash flow from financing activities</b>	<b>452</b>	<b>273</b>	<b>300</b>	<b>(227)</b>	<b>(252)</b>	<b>(197)</b>
<b>Cash flow</b>	<b>40</b>	<b>(86)</b>	<b>119</b>	<b>(414)</b>	<b>(89)</b>	<b>(10)</b>

SHARE DATA	2015	2016	2017	2018e	2019e	2020e
Average number of shares	63.0	63.0	70.1	70.4	72.2	72.2
No. of shares end of period	67.9	68.5	68.6	72.2	72.2	72.2
Avg. number of shares not fully diluted	58.3	63.0	63.2	63.2	63.2	63.2
No. of shares end of period not fully diluted	62.8	63.2	63.2	63.2	63.2	63.2
Share price year-end (EUR)	75.5	73.8	95.3	100.0	100.0	100.0
PER SHARE						
CEPS (EUR)	1.34	3.28	4.27	2.68	5.67	6.01
Chg CEPS (%)		145	30	(37)	111	6
DPS (EUR)	2.26	2.26	3.04	3.55	3.79	3.99
Chg DPS (%)		-	35	17	7	5
EPRA NAV per share (EUR)	58.9	67.1	83.8	91.4	98.3	104.2
Chg EPRA NAV per share (%)		17.8	28.2	12.7	11.4	9.9
CEPS/EPRA NAV per share (%)	2.3	4.9	5.1	2.9	5.8	5.8
EPS (EUR)	4.7	8.3	13.3	10.8	9.6	9.3
EPS adj (EUR)	4.7	8.3	13.3	10.9	9.7	9.4
Funds from operations per share (EUR)	3.3	4.3	4.2	4.6	4.8	5.1
CAPITALISATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Market cap	5,127	5,053	6,541	7,221	7,221	7,221
Net interest bearing debt	3,008	3,623	4,027	4,395	4,457	4,507
Minority interest	17	22	25	28	31	34
Enterprise value	8,152	8,698	10,593	11,644	11,709	11,761
Price/CEPS (x)	56.4	22.5	22.3	37.2	17.6	16.6
Dividend yield (%)	3.0	3.1	3.2	3.5	3.8	4.0
Payout ratio (%)	168.9	69.0	71.3	132.2	66.9	66.4
Premium/discount to book value (%)	71.8	47.0	59.1	54.0	39.7	28.8
Premium/discount to EPRA NAV (%)	28.1	9.9	13.7	9.4	1.7	(4.1)
Premium/discount to GAV (%)	17.6	5.7	8.3	5.8	1.1	(2.5)
PROFITABILITY & DEBT	2015	2016	2017	2018e	2019e	2020e
Net operating income margin (%)	73.3					
Market capitalisation/enterprise value (%)	62.9	58.1	61.7	62.0	61.7	61.4
LTV (%)	44.2	44.9	42.3	41.3	38.8	36.8
SUPPLEMENTAL DATA (million)	2015	2016	2017	2018e	2019e	2020e
Number of properties	109696.0	129636.0	131341.0	131341.0	131341.0	131341.0
Lettable space sqm	7,162	8,405	8,528	8,728	8,728	8,728
Economic occupancy (%)	97.1	96.8	96.5	96.6	97.0	97.3
Like-for-like rental growth (%)	2.7	2.5	3.3	6.0	5.0	3.3
Fair value investment properties (IFRS)	6,399	7,955	9,461	10,609	11,433	12,203
Fair value investment properties per sqm (EUR)		930	1,091	1,216	1,310	1,398
Cost of debt (%)	2.3	2.0	1.7	1.8	1.8	1.6
Loan maturity (years)	10.8	11.0	8.0	7.0	6.5	6.0



## Notes

## Enough liquidity to fund further growth

*Patrizia is a real estate investment company with AuM of EUR 40.2bn (as of 9M 2018). Patrizia more than doubled its AuM due to the acquisition of TRIUVA, SPI and Rockspring. We assume further AuM growth (2018e: EUR 41.2bn & 2019e: EUR 43.2bn) which should have a positive impact on its earnings. As Patrizia has with c. EUR 540m enough liquidity to fund further growth we expect the company to announce further M&A transactions from 2019 onwards. In 2018 the company should focus on the integration of the three transactions. Due to the strong share price development post its guidance increase we recommend to hold the shares with a TP of EUR 18.00 as the shares are fairly valued (2019e PER: 16.4x vs. peer group: 13.5x).*

### Investment Case

Patrizia was able to more than double its AuM due to acquisitions and we expect AuM to continue to grow. With the transaction of SPI in Oct. 2017 Patrizia entered the funds of funds business and got access to additional markets. The transactions of TRIUVA (announced in Nov. 2017) and Rockspring (announced in Dec. 2017) helped to further expand its product offering, especially by commercial properties (office, retail and logistic) as well as adding infrastructure as a new asset class to the portfolio.

As of Sep. 2018 Patrizia has with c. EUR 540m still enough liquidity to fund further M&A investments, digitalisation or co-investments. Potential M&A targets should enable Patrizia to expand its product portfolio over new product lines and increase its global investor base. We see Patrizia's acquisition criteria as rather conservative as the company aims to increase its value instead of fast expansion via M&A. We expect the company to announce further M&A transactions from 2019 onwards. In 2018 the company should focus on the integration of the three transactions.

EURm	2016	2017	2018e	2019e	2020e
Revenues	526	228	329	317	324
EBITDA	328	97	127	148	155
EBIT	322	88	119	140	148
EPS	2.83	0.60	0.87	1.04	1.10
EPS adj	2.83	0.60	1.12	1.05	1.12
DPS		0.25	0.36	0.42	0.45
EV/EBITDA	2.6	14.3	9.8	7.9	7.0
EV/EBIT	2.7	15.7	10.4	8.3	7.4
P/E adj	5.1	32.2	15.2	16.1	15.2
P/B	-	-	47.31	40.37	38.08
ROE (%)	37.4	7.4	10.0	11.1	10.9
Div yield (%)		1.3	2.1	2.5	2.6
Net debt	(353)	(352)	(311)	(385)	(458)

Source: Pareto



Target price (EUR)	18
Share price (EUR)	17

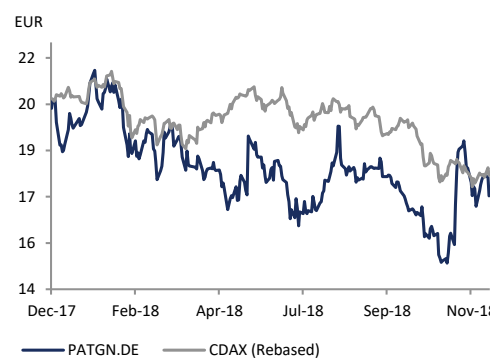
### Forecast changes

%	2018e	2019e	2020e
Revenues	NM	NM	NM
EBITDA	NM	NM	NM
EBIT adj	NM	NM	NM
EPS reported	NM	NM	NM
EPS adj	NM	NM	NM

Source: Pareto

Ticker	PATGN.DE, P1Z GR
Sector	Diversified Financials
Shares fully diluted (m)	91.0
Market cap (EURm)	1,550
Net debt (EURm)	-310
Minority interests (EURm)	2
Enterprise value 18e (EURm)	1,241
Free float (%)	43

### Performance



Source: Factset

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*Real estate investment company with c. EUR 540m available liquidity*

## Company profile

Patrizia is a real estate investment company, which was founded by Wolfgang Egger, CEO and majority shareholder (stake of c. 52%), in 1984. Patrizia used to be a traditional real estate asset manager with a focus on residential real estate. In recent years it has started a strategic reorientation moving from a holder of real estate property to a real estate manager (of both residential and commercial real estate property). As of Q3 2018 Patrizia managed assets with a value of EUR 40.2bn of which around 63% stemmed from Germany. The company is operating in 15 European countries.

## Upcoming Triggers and Drivers

**Further organic growth:** We estimate Patrizia's AuM to increase to EUR 41.2bn in 2018e and EUR 43.2bn in 2019e which is-line with Patrizia's guidance as Patrizia expects AuM to grow by EUR 2-3bn p.a.

**Deployment of its available liquidity:** As of Sep. 2018 Patrizia has with c. EUR 540m still enough liquidity to fund further M&A investments, digitalisation or co-investments.

**Dividend increase and payment of sustainable dividends:** For the first time since 2007, Patrizia paid a dividend of EUR 0.25 per share (our estimate: EUR 0.22) for FY 2017 which corresponds to a payout ratio of 42%. The shareholders had the option to decide between a dividend payment in cash or in the form of shares. According to the management the company's dividend payment should be in-line with its growth prospects. Investment decisions should be value accretive for the company's shareholders. As a result the payment of a sustainable and increased dividend can be a positive sign in our view. For FY 2018 we expect Patrizia to pay a DPS of EUR 0.36.

Patrizia recently increased its Operating Income guidance for FY 2018 which was driven by a better than expected development of revenues in Q4, mainly due to better performance fees. For 2018e we estimate Operating income to amount to EUR 143.8m (2019e: EUR 134.9m). Note that we do not assume that the strong development of performance fees will be seen in 2019 again.

Next scheduled reporting: FY 2018 results on 21 March 2019.

## Risks to our Investment Case

**Strong increase in interest rates:** In case of a strong increase in interest rates real estate as an asset class is expected to become less attractive for investors under such a scenario. This should negatively impact Patrizia's AuM and thus burden its AM fees.

**No deployment of its available liquidity:** It is possible that Patrizia will not be able to deploy its cash for further M&A investments, digitalisation or co-investments as it is possible that Patrizia does not find suitable M&A targets that meet its acquisition criteria.

**No suitable acquisitions available:** It is possible that Patrizia does not find suitable assets that fit to the client requirements as competition in the real estate market has increased.

*Target price of EUR 18.00*

## Valuation and recommendation

Our valuation is based upon a peer group analysis taking into account three different scenarios for Patrizia's cash deployment (c. EUR 540m). Given the different weights of the three scenarios we have derived a TP of EUR 18.00 and recommend to hold the shares.

Exhibit 23: Valuation overview European Investment Managers

Company	Share Price (lc)	MC (l.c. m)	PER 2018e	PER 2019e	Div Yield 2018e	Div Yield 2019e
Corestate	34.45	734	6.2	5.9	2.9%	5.8%
Intermediate Capital Group	10.12	2,861	11.2	12.3	2.6%	3.0%
Partners Group Holding AG	656.00	17,474	22.8	21.5	2.3%	2.9%
MPC	2.60	87	20.0	13.9	0.0%	2.6%
Tikehau Capital	23.30	2,403	n.m.	14.0	0.0%	0.0%
<b>Average</b>			<b>PER 2018e</b>	<b>PER 2019e</b>	<b>Div Yield2018e</b>	<b>Div Yield2019e</b>
			<b>15.0x</b>	<b>13.5x</b>	<b>1.6%</b>	<b>2.8%</b>
Patrizia Immobilien	17.03	1,573	19.5x	16.4x	2.1%	2.5%
vs average			30.0%	21.2%	36.0%	-12.7%
Fair Value based upon 2019e PER	14.05					

Source: FactSet, Pareto Securities

Exhibit 24: EPS deviation under the three growth scenarios (in EUR)

Scenario	EPS '18e	EPS '19e
Base Case <i>no deployment of cash assumed</i>	0.87	1.04
Growth Case <i>deployment of c. EUR 540m for M&amp;A or co-investments assumed (ROE of 10%)</i>	0.87	1.48
Bull Case <i>deployment of c. EUR 540m for M&amp;A or co-investments assumed (ROE of 12%)</i>	0.87	1.57

Source: Pareto Securities

Exhibit 25: Valuation under different growth scenarios (in EUR)

Scenario	Probability	Fair Value	Weighted Fair Value
Base Case <i>no deployment of cash assumed</i>	35%	14.05	4.92
Growth Case <i>deployment of c. EUR 540m for M&amp;A or co-investments assumed (ROE of 10%)</i>	40%	19.88	8.00
Bull Case <i>deployment of c. EUR 540m for M&amp;A or co-investments assumed (ROE of 12%)</i>	25%	21.07	5.27
<b>Target Price</b>			<b>18.18</b>

Source: FactSet, Pareto Securities

PROFIT & LOSS (fiscal year) (EURm)	2015	2016	2017	2018e	2019e	2020e
Revenues	249	526	228	329	317	324
EBITDA	175	328	97	127	148	155
Depreciation & amortisation	(7)	(6)	(9)	(7)	(7)	(7)
EBIT	168	322	88	119	140	148
Net interest	(17)	(4)	(4)	(5)	(5)	(5)
Other financial items	(1)	(4)	(3)	(3)	(3)	(3)
Profit before taxes	151	314	81	112	133	140
Taxes	(16)	(57)	(21)	(28)	(33)	(35)
Minority interest	24	19	4	5	5	5
Net profit	111	238	56	79	94	100
EPS reported	1.32	2.83	0.60	0.87	1.04	1.10
EPS adjusted	1.32	2.83	0.60	1.12	1.05	1.12
DPS			0.25	0.36	0.42	0.45
BALANCE SHEET (EURm)	2015	2016	2017	2018e	2019e	2020e
Tangible non current assets	26	17	20	34	34	34
Other non-current assets	229	242	255	495	488	480
Other current assets	1,197	294	594	421	421	421
Cash & equivalents	179	440	383	342	416	489
Total assets	1,632	993	1,252	1,292	1,359	1,425
Total equity	540	751	756	820	887	954
Interest-bearing non-current debt	-	-	300	300	300	300
Interest-bearing current debt	857	58	22	22	22	22
Other Debt	235	183	173	173	173	173
Total liabilities & equity	1,632	993	1,252	1,292	1,359	1,425
CASH FLOW (EURm)	2015	2016	2017	2018e	2019e	2020e
Cash earnings	90	503	17	239	105	111
Cash flow from investments	(181)	269	(412)	(260)	-	-
Cash flow from financing	124	(508)	337	(20)	(33)	(38)
Net cash flow	33	264	(58)	(41)	74	73
CAPITALIZATION & VALUATION (EURm)	2015	2016	2017	2018e	2019e	2020e
Share price (EUR end)	22.3	14.3	19.3	17.0	17.0	17.0
Number of shares end period	76	84	90	91	91	91
Net interest bearing debt	719	(353)	(352)	(311)	(385)	(458)
Enterprise value	2,441	855	1,382	1,241	1,167	1,094
EV/Sales	9.8	1.6	6.1	3.8	3.7	3.4
EV/EBITDA	13.9	2.6	14.3	9.8	7.9	7.0
EV/EBIT	14.5	2.7	15.7	10.4	8.3	7.4
P/E reported	16.9	5.1	32.2	19.5	16.4	15.5
P/E adjusted	16.9	5.1	32.2	15.2	16.1	15.2
P/B	-	-	-	47.3	40.4	38.1
FINANCIAL ANALYSIS & CREDIT METRICS	2015	2016	2017	2018e	2019e	2020e
ROE adjusted (%)		40.0	7.7	13.8	11.3	11.1
Dividend yield (%)			1.3	2.1	2.5	2.6
EBITDA margin (%)	70.2	62.3	42.4	38.5	46.7	47.9
EBIT margin (%)	67.4	61.2	38.6	36.3	44.3	45.7
NIBD/EBITDA	4.11	(1.08)	(3.64)	(2.46)	(2.61)	(2.95)
EBITDA/Net interest	10.61	-	23.36	31.34	29.94	31.48

## Notes

## Notes

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## Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

The below list shows companies where Pareto Securities AS - together with affiliated companies and/or persons – own a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Vest	4,506,060	7.63%

Pareto Securities AS or its affiliates own as determined in accordance with Section 13(d) of the US Exchange Act, 1 % or more of the equity securities of:

Companies	No. of shares	Holdings in %	Companies	No. of shares	Holdings in %
Helgeland Sparebank	1,988,203	9.53%	SpareBank 1SMN	1,879,292	1.45%
NHST Media Group AS	21,475	1.85%	SpareBank 1Østfold Akersl	1,129,560	9.12%
Pareto Bank ASA	10,839,382	18.49%	Sparebanken Møre	311,739	3.15%
Selvaag Bolig ASA	2,179,147	2.32%	Sparebanken Sør	460,589	2.94%
SpareBank 1BV	1,549,440	2.46%	Sparebanken Vest	4,506,060	7.63%
SpareBank 1Nord-Norge	1,129,459	1.12%			

Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings	Company	Analyst holdings*	Total holdings
AF Gruppen	0	1,675	Golden Ocean Group	0	1,824	Prosafe	0	5,984
Aker	0	514	Grieg Seafood	0	770	Protector Forsikring	0	14,285
Aker BP	0	860	Helgeland Sparebank	0	1,700	REC Silicon	0	159,908
Aker Solutions	0	2,085	Höegh LNG	0	8,703	SailMar	0	130
AKVA Group	0	1,500	Ice Group AS	0	55,500	Sandnes Sparebank	0	18,032
Archer	0	73,520	Jæren Sparebank	0	500	Scatec Solar	0	35,635
Atea	0	450	Komplett Bank	0	99,357	Seadrill	0	6,615
Austevoll Seafood	0	5,780	Kongsberg Gruppen	0	4,010	Selvaag Bolig	0	10,000
Avance Gas	0	34,201	Lerøy Seafood	0	33,795	SpareBank 1BV	0	10,000
Axactor	0	21,647	Marine Harvest	0	1,864	SpareBank 1Nord-Norge	0	30,000
Bonheur	0	44,509	Monobank	0	1,355,000	SpareBank 1SMN	0	16,590
Borr Drilling	0	4,415	NEXT Biometrics	0	1,730	SpareBank 1SR-Bank	0	39,187
BWLPG	0	5,569	Nordic Semiconductor	0	6,000	SpareBank 1Østlandet	0	2,891
DNB	0	35,822	Norsk Hydro	0	112,501	Sparebanken Møre	0	6,550
DNO	0	24,392	Northern Drilling	0	2,099	Sparebanken Sør	0	43,280
DOF	0	138,498	Norwegian Air Shuttle	0	3,172	Sparebanken Øst	0	3,000
Entra	0	14,362	Norwegian Property	0	150,000	Storebrand	0	5,005
Equinor	0	10,266	Ocean Yield	0	31,967	Subsea 7	0	7,351
Europris	0	14,510	Odffell Drilling	0	8,731	Telenor	0	2,272
Faroe Petroleum	9,600	9,600	Orkla	0	23,746	TGS-NOPEC	0	2,000
Flex LNG	0	13,352	Panoro Energy	0	5,670	XXL	0	7,270
Frontline	0	13,943	Pareto Bank	0	963,509	Yara International	0	19,079
Gjensidige Forsikring	0	8,547	Petroleum Geo-Services	0	57,884	Zenterio	0	78,865

This overview is updated monthly (last updated 21.11.2018).

\*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

## Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letters e-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Africa Energy	Floatel	Okea AS
Akva Group	Fortum	Pandion Energy
Arnarlax	Genel Energy	Pareto Bank
Atlantic Sapphire AS	Gfinity Plc	Petro Matad Limited
Avida Holding AB	Gulf Keystone Petroleum	Petrolat LLC
Bank Norwegian	Hertha BSC GmbH	Pioneer Public Properties Finland Oy
Borealis Finance	Hunter Group	Point Resources AS
Borr Drilling Limited	Idavang A/S	Quant AB
Brado AB	Instabank	Sakthi Global Auto Holdings
Camanchaca	Komplett Bank	Sand Hill Petroleum
DNO ASA	McDermott International	SAS
DOF ASA	MMA Offshore	Scatec Solar
Echo Energy	Monobank ASA	Scorpio Tankers
Eco Atlantic Oil and Gas	Nemaska Lithium	Shamran
Eidesvik Offshore	Northern Drilling	Siccar Point Energy
Eland Oil & Gas	Northmill Group AB	SL Bidco
Embarcadero Maritime II LLC	Norwegian Air Shuttle	SpareBank 1 Buskerud-Vestfold
Faroe Petroleum	Ocean Yield	Sparebanken Vest
FFS Bidco	Odfjell	Union Maritime Limited
Filo Mining Corp	Odfjell Drilling	Zwipe AS
Flex LNG		

*This overview is updated monthly (this overview is for the period 31.10.2017 – 31.10.2018).*

## Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11(4)

### Distribution of recommendations

Recommendation	% distribution
Buy	76%
Hold	20%
Sell	4%

### Distribution of recommendations (transactions\*)

Recommendation	% distribution
Buy	100%
Hold	0%
Sell	0%

\* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 21.11.2018).

## Appendix D

This section applies to research reports prepared by Pareto Securities AB.

### Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

### Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Aspire	Green Landscaping Holding	Powercell	Sedana Medical
Cibus Nordic Real Estate	Lehto Group	Magnolia Bostad	Shamara Petroleum
Climeon	Organoclick	SciBase	Vostok New Ventures

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Oil	Cavotec	Isofol Medical	Shamara Petroleum
BlackPearl Resources Inc	Cibus Nordic Real Estate	Saltängen Property Invest	Tethys Oil
Byggmästare Anders J Ahlström	Delarka Holding	SciBase Holding	Vostok Emerging Finance
Byggpartner i Dalarna	International Petroleum Corporation	Sedana Medical	

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None  
This overview is updated monthly (last updated 14.09.2018).

## Appendix E

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter d, ref the Securities Trading Act Section 3-10

### Designated Sponsor

Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

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Aixtron *	Gesco *	MOBOTIX AG	SMT Scharf AG *
Baywa	GFT Technologies *	MTU Aero Engines	Surteco Group *
Biotest *	Gigaset *	OVH Holding AG	Szygy AG *
Brenntag	Heidelberg Pharma *	Procredit Holding *	TAKKT AG
CORESTATE Capital Holding S.A.	Hypoport AG	PSI SOFTWARE AG *	Vapiano
Daldrup & Soehne *	Intershop Communications AG	PWO *	va-Q-tec *
Demire	Logwin *	RIB Software *	Viscom *
Epigenomics AG *	Manz AG *	S&T AG *	windeln.de
Euromicron AG *	MAX Automation SE *	Schaltbau Holding AG	
Eyemaxx Real Estate	Merkur Bank	SCOUT24	

\* The designated sponsor services include a contractually agreed provision of research services.

## Appendix F

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11, letter g, ref the Securities Trading Act Section 3-10

### Sponsored Research

Pareto Securities has entered into an agreement with these companies about the preparation of research reports and—in return—receives compensation.

Adler Modemaerkte	Hypoport AG	OHB SE	Vapiano
Baywa	Intershop Communications AG	OVH Holding AG	
BB Biotech	Merkur Bank	Schaltbau Holding AG	
Eyemaxx Real Estate	MOBOTIX AG	Siegfried Holding AG	

This overview is updated monthly (last updated 05.12.2018).