



# Dream Global REIT (DUNDF)

Updated June 26<sup>th</sup>, 2019 by Noah Horwood

## Key Metrics

<b>Current Price:</b>	\$14	<b>5 Year CAGR Estimate:</b>	6.0%	<b>Volatility Percentile:</b>	12.9%
<b>Fair Value Price:</b>	\$12	<b>5 Year Growth Estimate:</b>	3.2%	<b>Momentum Percentile:</b>	44.9%
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.0%	<b>Growth Percentile:</b>	19.4%
<b>Dividend Yield:</b>	5.8%	<b>5 Year Price Target</b>	\$15	<b>Valuation Percentile:</b>	31.4%
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	31.3%

## Overview & Current Events

In late 2011, Dream Global REIT was founded by Dream Asset Management Corporation, a subsidiary of Dream Unlimited Corp. Dream Global REIT was formed to provide Canadian investors with an opportunity to invest in real estate exclusively outside of Canada. The company is an owner operator of a diversified high-quality portfolio of mainly office and industrial properties. The company's properties are located in Western Europe and are operated by an in-house team of local real estate professionals. Dream Global has operations in four Western European countries: Germany (73% of fair market value of the company), Netherlands (21%), Belgium (3%), and Austria (3%). Dream Global has two broad classes of properties: initial and acquisition. The company's initial portfolio includes national and administrative offices, banking, distribution offices and regional logistics headquarters of Deutsche Post. The company's acquisition portfolio includes high-quality multi-tenant office buildings in Germany. This \$2.0 billion market capitalization company is listed on the Frankfurt Stock Exchange under the trading symbol DRG and in the U.S. in the over-the-counter market under the trading symbol DUNDF. For this report all values will be in the company's home currency the Canadian Dollar (CAD).

On April 10<sup>th</sup>, 2019 Dream Global released Q1 results for the period ending March 31<sup>st</sup>, 2019 and full year results for period ending December 31<sup>st</sup>, 2019 were reported on March 29<sup>th</sup>, 2019. Funds from operations per share (FFO/S) for the quarter totaled \$51.3 million (\$0.27 per share) against \$47.6 million (\$0.27 per share) in Q1 of 2018. For the year FFO/S totaled \$195 million (\$1.06) against \$147 million (\$0.97) in 2017.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>FFO/S</b>	N/A	N/A	N/A	\$0.84	\$0.85	\$0.88	\$0.77	\$0.80	\$0.97	\$1.06	<b>\$1.10</b>	<b>\$1.29</b>
<b>DPS</b>	N/A	N/A	N/A	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	<b>\$0.83</b>	<b>\$0.97</b>
<b>Shares</b>	N/A	N/A	N/A	72.2	109.7	111.5	113.0	125.5	176.5	192.6	<b>209.9</b>	<b>242.9</b>

Dream Global considers funds from operations per share (FFO/S) to be their main performance indicator instead of the typical EPS. The company uses FFO/S, because it better represents how REIT's perform, using EPS depreciates income properties where they would typically actually increase in value over time. Dream Global's FFO/S has increased at an average of 4 percentage points annually for the seven reportable years which the company has operated in. We expect their growth to continue into the foreseeable future for our 2019 and 2024 estimates we used their historic growth of 4%. To sustain this growth Dream Global will need to see success from several value-add projects of their Dutch Properties which took place in 2018 and the company will also need to continue to hold their impressive occupancy rates going forward. Results from our calculations include a 2024 FFO/S amount of \$1.29 which drives a 5-year price target of \$14.84.

Dream Global first introduced their monthly dividend in mid-2012 for \$0.067 per share and the company has continued to issue dividends monthly for the same payment amount. We expect Dream Global to raise their dividend by the year 2024 to \$0.97 per share annually, or \$0.081 monthly, which is in line with our growth estimates for funds from operations per share.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*



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## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	13.0	9.9	9.9	11.3	11.8	12.9	11.4	13.4	11.5
Avg. Yld.	N/A	N/A	N/A	7.3%	9.5%	9.3%	9.2%	8.5%	6.6%	6.7%	5.8%	6.9%

Dream Global’s average price to funds from operations (P/FFO) ratio has deviated around their historic average of 15.5. Comparing current average P/FFO levels to their historic average Dream Global is relatively overvalued at current prices. We expect valuation multiple compression to reduce total returns by 3.0 percentage points annually over the next 5 years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	95%	94%	91%	104%	100%	82%	75%	71%	63%

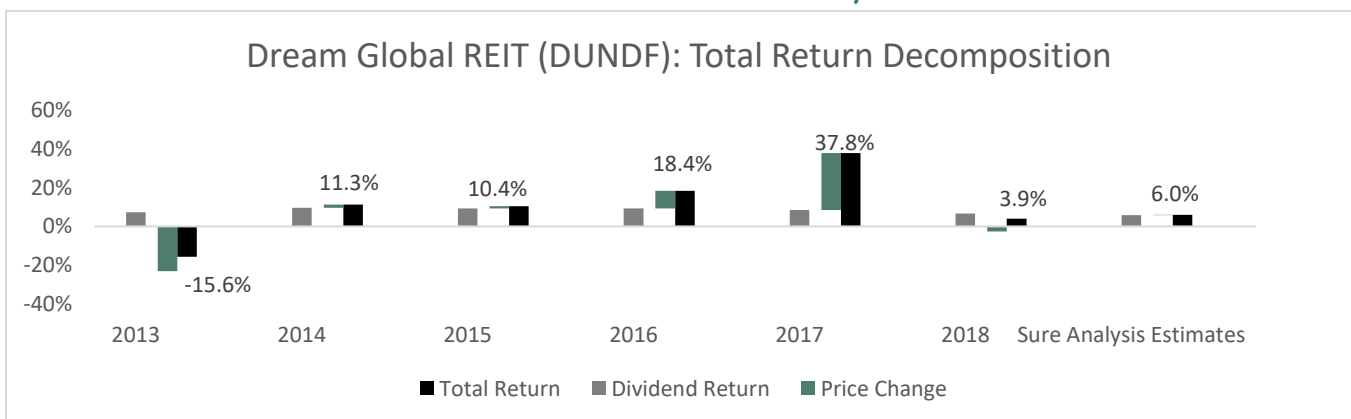
Dream Global has a focus on sustainability which guides how the company runs their business and manages their environmental and social obligations. The company has a proactive approach to their asset management and capital investments which is leading them to compelling returns and collaboration with their tenants. Some initiatives which Dream Global takes part in to better their communities are: investments in e-charging stations, installation of solar panels, improving the energy efficiency of current buildings, and programs for the professional development of their employees. This way of proactively looking at sustainability should help Dream Global in the future, because it betters their assets and helps build strong company values.

Dream Global has not been around for a recession, but historically companies who operate predominantly office properties do not fare well in recessions. While local businesses are deteriorating companies would be more likely to close offices rather than start new leases, so in a recession Dream Global should be adversely affected from potential losses of current tenants.

## Final Thoughts & Recommendation

At current prices Dream Global is currently slightly overvalued from our calculations with the company’s P/FFO ratio. Overall, we expect total returns of 6.0% annually, mainly driven by their strong dividend of 5.8% annually, the company’s growth is expected to improve total returns by 3.2% and our valuation estimate reduces returns by 3.0%. As a result, we rate Dream Global REIT as hold at current prices. Investors should also note the company is unproven during recessions and may be at risk of a dividend reduction during difficult economic periods.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue				139	220	256	200	204	264	354
Gross Profit				85	145	178	134	134	184	255
Gross Margin				61.6%	65.8%	69.6%	67.0%	65.9%	69.8%	72.1%
SG&A Exp.				11	15	21	22	26	33	45
Operating Profit				75	127	155	110	105	147	206
Operating Margin				53.8%	57.7%	60.4%	54.9%	51.4%	55.8%	58.3%
Net Profit				11	23	208	145	140	293	577
Net Margin				7.9%	10.3%	81.2%	72.4%	68.6%	110.9%	163.0%
Free Cash Flow				52	85	96	53	60	101	158
Income Tax				-2	-2	17	17	29	48	90

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets				1400	2559	2432	2764	2887	4501	5568
Cash & Equivalents				182	106	122	29	50	57	43
Accounts Receivable				0	7	11	8	5	7	13
Total Liabilities				804	1525	1312	1475	1530	2366	2684
Accounts Payable				7	9	11	4	9	18	27
Long-Term Debt				727	1424	1228	1381	1399	2114	2305
Shareholder's Equity				596	1034	1114	1280	1347	2121	2864
D/E Ratio				1.22	1.38	1.10	1.08	1.04	1.00	0.80

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets				0.9%	1.2%	8.3%	5.6%	4.9%	7.9%	11.5%
Return on Equity				2.3%	2.8%	19.4%	12.1%	10.6%	16.9%	23.1%
ROIC				0.9%	1.2%	8.7%	5.8%	5.1%	8.4%	12.2%
Shares Out.				72.2	109.7	111.5	113.0	125.5	176.5	192.6
Revenue/Share				1.92	2.01	2.30	1.77	1.57	1.70	1.88
FCF/Share				0.72	0.78	0.86	0.47	0.46	0.66	0.84

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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