

# DEUTSCHE EUROSHOP

Property • Germany

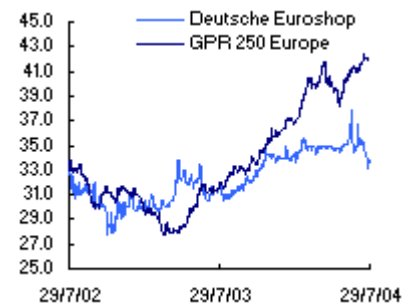
**NEUTRAL**

## Prime quality retail

**Company profile:** Deutsche EuroShop (DES) is Germany's only listed retail property company. The portfolio (99% occupancy) comprises fairly modern shopping centres, located in Germany, Italy, France, Hungary and Poland. DES has been internally managed since 1 July 2003. All historic links with Deutsche Bank (DB) came to an end after DB replaced its final 45%-stake in DES. The high yield on the stock makes DES more attractive than investing in open-end funds, particularly for German private investors.

Price target **€35.0**  
 Date **29 July 2004**  
 Last price **€33.1**

Fiscal year:	2003	2004e	2005e	2006e
Net rental income (€m)	49.5	51.4	53.8	56.3
EBITDA (€m)	42.0	47.4	52.1	54.0
Net income (€m)	-0.5	2.9	6.2	7.0
EPS (€)	-0.03	0.18	0.40	0.43
CFPS (€)	1.79	1.89	2.10	2.11
NNAV (€)	41.4	40.4	39.9	38.0
Dividend (€)	1.92	1.95	2.00	2.00
P/NNAV-1	-22.5%	-18.0%	-17.0%	-12.9%
EV/EBITDA	21.8	19.6	17.7	17.2
P/CF	17.9	17.5	15.8	15.7
Dividend yield	6.0%	5.9%	6.0%	6.0%



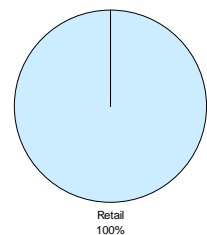
Performance vs GPR 250 EUROPE

-1m -7.7% -3m -10.0% -12m -28.2%

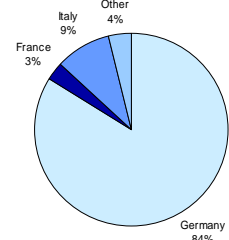
Market cap **€517m**  
 Number of shares **15.6m**  
 Avg. daily volume **4,928**  
 Reuters code **DEQn.DE**  
 Bloomberg code **DEQ GR**  
 H1 2004 results **17 Aug. 2004**

- Recent developments** At an analysts meeting in March 2004 Deutsche EuroShop (DES) published a net asset value for the first time in its history, which came out substantially higher than market consensus. The hidden reserve in the portfolio amounts to 12%, whereas our conservative estimates had incorporated neither hidden reserves nor hidden losses. Mid-July 2004, the company sold the *Centro Commerciale Friuli* in Udine (Italy) for €62m to SEB Immobilien Investment. The realised book profit has not been disclosed but the company states that it amounts to "a small seven figure number". We are positive about the sale, as the centre was performing at the lower end of DES's portfolio range. Management is confident about reinvesting the liquidity resulting from the transaction within the next months. We expect the money to be spent in Germany.
- Outlook** In the (external) valuation, a discount factor of 6.2% has been applied. VastNed Retail's German portfolio is valued at 5.8% net, while Hammerson recently concluded two shopping centre sale transactions in Germany at 5.8% and 6.1% respectively. As such, DES's portfolio does not appear to be too aggressively valued in a German context. However, we anticipate a European retail sector low FY 2003-2005E NNAV CAGR of -1.8%, due to DES's high dividend concept and the weak German economy.
- Valuation** Our price target of €35.0 is based on a 11% target discount to the +12M NNAV. The reasons for the relatively high target discount in a European retail context are (i) the risks related to the troubled situation in the German retail sector and (ii) the fact that 6 out of 14 of DES's shopping centre participations concern stakes of ≤50%, which are less liquid (and thus -in our view- less valuable) than majority stakes in shopping centre companies. Our price target translates into a 3% total return expectation, and justifies our **Neutral** on the stock. Note that on 1 April 2004, DES re-entered the GPR 250 Europe index.

Sectoral spread



Regional spread



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<b>Consolidated P&amp;L (in €m)</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>
Net rental income	0.0	22.9	46.8	49.5	51.4	53.8	56.3
EBITDA	8.6	9.1	36.1	42.0	47.4	52.1	54.0
Depreciation	0.0	11.9	21.6	22.7	23.1	23.6	24.1
EBIT	-0.5	-5.6	10.0	13.3	14.6	16.2	17.7
Net financial	2.3	-9.7	-11.4	-13.7	-15.5	-16.1	-16.5
EBT	1.8	-15.2	-1.4	-0.4	-0.9	0.1	1.1
Taxes	-3.9	-4.5	-6.1	-6.1	-5.9	-6.2	-6.4
Participations	9.1	2.8	4.5	6.5	10.3	13.3	13.3
Minorities	0.0	0.0	0.0	-0.5	-0.6	-1.0	-1.0
Extraordinary items incl impairments	-0.3	17.5	11.9	13.0	13.0	13.0	13.0
Net income	7.0	-16.9	-3.0	-0.5	2.9	6.2	7.0
<b>Per share data</b>							
Number of shares	15.6	15.6	15.6	15.6	15.6	15.6	16.6
Average number of shares	15.6	15.6	15.6	15.6	15.6	15.6	16.1
Ordinary EPS	-1.08	-0.19	-0.19	-0.03	0.18	0.40	0.43
CFPS	-0.86	0.82	1.58	1.79	1.89	2.10	2.11
NNAV	38.94	37.99	36.18	41.40	40.39	39.88	38.01
DPS	0.00	1.92	1.92	1.92	1.95	2.00	2.00
Payout ratio %	0.0%	338.8%	338.8%	240.0%	191.8%	162.9%	161.6%
<b>Balance sheet</b>							
Market value of property portfolio	0.0	553.5	1,006.4	1,139.0	1,127.4	1,121.3	1,126.6
Revaluations of property portfolio	0.0	0.0	-19.6	-21.1	-15.4	-10.1	1.1
Cash and near-cash	259.5	196.1	153.9	2.6	7.3	14.8	21.4
Capital invested	935.1	931.8	1,001.8	984.3	969.8	957.7	944.4
Equity	607.0	592.0	559.3	541.8	527.3	515.2	502.0
Net debt	47.8	113.1	263.4	414.7	410.0	402.5	395.9
<b>Financing ratios</b>							
Equity-to-assets %	65%	63%	56%	55%	54%	54%	53%
Net gearing %	8%	19%	47%	77%	78%	78%	79%
Interest cover	-3.8	-0.3	1.3	1.4	1.6	1.8	1.9
<b>Market ratios</b>							
Average share price	38.4	35.7	32.2	32.1	33.1	33.1	33.1
P/NNAV-1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1
P/E multiple	1028.0	62.9	56.8	40.1	32.6	27.0	26.8
P/CF multiple	-44.8	43.4	20.4	17.9	17.5	15.8	15.7
Market cap	600.0	557.3	503.2	501.2	517.3	517.3	533.9
Enterprise value	647.8	670.5	766.6	915.9	927.3	919.8	929.8
EV/EBITDA	75.1	73.9	21.2	21.8	19.6	17.7	17.2
Dividend yield %	0.0%	5.4%	6.0%	6.0%	5.9%	6.0%	6.0%





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