



Deutsche Euroshop AG

Neutral → | Target price : 40.00 EUR

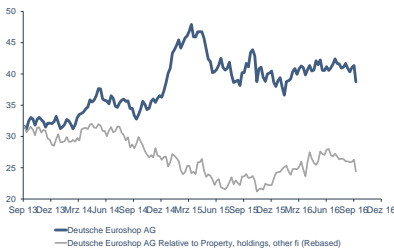
Price (10/06/2016) : 38.75 EUR | Upside : 3 %

Est.chg	2016e	2017e
EPS	-	-

Acquisition of 50% stake in Saarpark-Center Neunkirchen, Saarland – no influence on 2016e guidance – only marginal financial impact

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Capital

DEQ GY DEQGn.DE	
Market Cap (EURm)	2,090
Enterprise value (EURm)	3,483
Extrema 12 months	35.86 - 43.87
Free Float (%)	78.5

Performance (%)	1m	3m	12m
Absolute	-7.3	-2.7	-6.6
Perf. rel. Country Index	-5.5	-9.5	-1.8
Perf. rel. Property, holding	-6.6	-15.9	0.5

P&L	12/16e	12/17e	12/18e
NRI (EURm)	181	182	183
EBIT (EURm)	200	202	204
Attr. net profit (EURm)	137	141	145

Adjusted EPS (EUR)	2.55	2.61	2.69
FFOI ps (EUR)	2.28	2.34	2.40
Dividend (EUR)	1.40	1.45	1.50
NAV ps (EUR)	33.98	35.19	36.43
EPRA NAV ps (EUR)	39.72	41.15	42.60

P/E (x)	15.2	14.8	14.4
P/NAV (x)	1.14	1.10	1.06
P/EPRA NAV (x)	0.98	0.94	0.91
FFOI Yield (%)	5.9	6.0	6.2
Dividend Yield (%)	3.6	3.7	3.9
FCF Yield (%)	2.87	4.09	4.25
ROE (%)	7.6	7.6	7.5
Net LTV (%)	40.9	40.5	40.1

Next Events

14.11.2016 Q3 Results

Acquisition of a 50% stake in a German shopping centre at € 113m

Yesterday (6 Oct), DES announced the acquisition of a 50% participation in Saarpark-Center Neunkirchen in the German state of Saarland at an investment volume of € 113m. The seller is the pension fund BAT Custodian. The net purchase price amounted to € 79m and was financed by the use of a credit line, and will later be financed by long-term debt. The centre has a lettable space of 35,600sqm, ~130 shops and ~1,600 parking spaces with renowned anchor tenants such as C&A, Müller Drogerie, H&M, P&C Düsseldorf, REWE, and TK Maxx. It has a 1.5% vacancy rate, a WALT (weighted-average lease term) of 4.8 years and is managed by ECE Projektmanagement, which belongs to the Otto family, who is also a major shareholder in DES.

No influence on 2016e guidance and only marginal financial impact

The total acquisition volume of € 226m (thereof 50% belonging to DES) is close to our assumption of € 200m, and no capital increase was required. At H1 2016 DES had € 3.4bn of investment properties and € 405m of at-equity investments on its balance sheet.

DES expects the proportional rental income for the 50% stake in Saarpark-Center to be € 6.4m in 2017. This implies a gross rental income yield of 5.7%, which is slightly below the portfolio yield of 6%. The acquisition will be accounted for as a joint venture (at equity) and will not influence the 2016e guidance.

The fact that DES has purchased only a 50% stake in a shopping centre and will account for it at equity indicates how difficult it is for the company in the current market environment to acquire an entire shopping centre at a reasonable price. We think the impact of this acquisition on the P&L will be relatively limited given its proportional share of rental income of € 6.4m booked in the financial result vs annual revenues of ~ € 200m. We estimate that the LTV will also increase only marginally from 40.4% as at H1 2016 to 41.8%.

However, DES was finally able to conduct a minor acquisition, and did not overpay, in our view.

The company is also targeting 100% control of a large shopping centre (~80,000 sqm) in an eastern European country via an international auction. DES did not disclose the specific country but did qualify it as politically stable with a top net yield on real estate acquisitions of 5% in 2015. According to management, this acquisition would require a capital increase. As it is an international auction, however, we consider it very unlikely that DES will be able to outbid its competitors. This acquisition would require 50-60% debt financing and a capital increase.

Neutral recommendation reiterated – TP at € 40.00

We see DES as a defensive investment with reliable cash flows. The company's external growth opportunities are limited, as it is careful not to overpay. We have a Neutral recommendation on the stock and a TP to € 40.00, close to our 2016e EPRA NAVPS estimate of € 39.72.

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DEQn.DE | DEQ GY
Property | Germany

Neutral

Upside 3.23%

Price 38.75EUR

TP 40.00EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EPRA NAV per share	28.53	30.59	33.17	38.51	39.72	41.15	42.60
NAV per share	24.50	26.49	28.26	32.77	33.98	35.19	36.43
FFO I per share	1.68	2.08	2.23	2.29	2.28	2.34	2.40
Reported EPS	2.36	3.17	3.29	5.73	2.55	2.61	2.69
Net dividend per share	1.20	1.25	1.30	1.35	1.40	1.45	1.50
FCF to equity per share	-1.45	0.68	2.92	2.30	1.11	1.58	1.65
Number of shares market cap	53.95	53.95	53.95	53.95	53.95	53.95	53.95
Number of diluted shares	52.26	56.90	57.01	53.95	53.95	53.95	53.95
VALUATION	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	31.99	34.60	37.93	47.92	42.52		
12m lowest price	23.78	29.45	30.64	36.18	35.86		
(*) Reference price	28.48	31.79	34.49	41.82	38.75	38.75	38.75
Capitalization	1,536	1,715	1,861	2,256	2,090	2,090	2,090
P/E (x)	12.2	10.6	11.1	7.3	15.2	14.8	14.4
P/FFO I (x)	17.0	15.3	15.4	18.3	17.0	16.6	16.1
FFO I Yield (%)	5.9	6.5	6.5	5.5	5.9	6.0	6.2
Dividend Yield (%)	4.2	3.9	3.8	3.2	3.6	3.7	3.9
Payout ratio (%)	71.6	60.2	58.2	59.0	61.5	62.0	62.5
FCF Yield (%)	neg	2.1	8.5	5.5	2.9	4.1	4.3
P/NAV (x)	1.16	1.20	1.22	1.28	1.14	1.10	1.06
P/EPRA NAV (x)	1.00	1.04	1.04	1.09	0.98	0.94	0.91
(*) historical average price							
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Rental revenue	178	188	201	203	201	203	204
NRI	160	170	182	183	181	182	183
Total revenue	160	170	182	183	181	182	183
Property revaluation	13.9	56	77	221	25.4	26.4	27.2
EBITDA	166	222	254	397	200	202	204
Adj. EBITDA	152	166	178	176	175	176	177
EBIT	166	222	254	397	200	202	204
Net financial income	-62.1	-34.1	-39.8	-2.1	-42.1	-36.9	-34.6
Corporate tax	19.1	-16.6	-37.2	-85.4	-20.5	-24.2	-24.2
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	122	171	177	309	137	141	145
FFO I	87	112	121	123	123	126	130
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment properties	2,824	2,962	3,060	3,357	3,402	3,449	3,496
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	161	40.8	58.3	70.7	19.6	16.5	31.6
Ordinary shareholders equity	1,322	1,429	1,524	1,768	1,833	1,899	1,965
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity							
Net debt	1,307	1,446	1,372	1,337	1,392	1,397	1,402
Deferred tax liabilities	181	198	227	310	310	321	333
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Attributable net profit	122	171	177	309	137	141	145
Property revaluation	-36.5	-60.5	-88.3	-285.4	-25.4	-26.4	-27.2
Interest & taxes	0.0	-29.7	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	122	115	133	136	105	106	110
Cash flow from investing activities	-197.4	-78.6	24.5	-11.9	-45.1	-20.9	-21.0
Cash flow from financing activities	179	-136.8	-139.8	-109.4	-111.1	-88.5	-73.8
Free cash flow	-75.5	36.6	157	124	60.0	85.5	88.9
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Rental revenue growth		5.5%	6.8%	1.0%	-1.0%	1.0%	0.8%
FFO I growth		28.7%	7.6%	2.4%	-0.4%	2.6%	2.9%
EPS growth		28.3%	3.5%	84.2%	-55.6%	2.6%	2.9%
NRI margin	89.6%	90.5%	90.5%	90.4%	90.1%	90.0%	89.7%
EBITDA margin	92.9%	118%	127%	196%	99.6%	99.6%	99.7%
Adj. EBITDA margin	94.9%	97.4%	97.6%	96.1%	96.5%	96.2%	96.2%
Tax rate	-18.4%	8.8%	17.4%	21.6%	13.0%	14.6%	14.3%
SG&A / NRI	6.8%	4.3%	3.4%	4.3%	4.3%	4.3%	4.3%
FFO I / Real estate (Total properties)	5.4%	5.6%	5.8%	5.3%	5.1%	5.1%	5.0%
FFO I / Rental revenues	54.5%	65.8%	66.3%	67.2%	67.9%	69.1%	70.7%
Property revaluation / Investment properties	0.5%	1.9%	2.5%	6.6%	0.7%	0.8%	0.8%
ROA	3.7%	5.0%	5.1%	8.0%	3.5%	3.5%	3.5%
ROE		12.4%	12.0%	18.8%	7.6%	7.6%	7.5%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Equity ratio							
Net LTV	46%	49%	45%	40%	41%	41%	40%
Gearing							
Net debt / Adj. EBITDA	8.6	8.7	7.7	7.6	8.0	8.0	7.9
Adj. EBITDA / net financial charges	-2.4	-2.9	-3.0	-3.2	-2.9	-3.1	-3.2

Mention of conflicts of interest

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Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(412)	50%	39%	11%
Liquidity providers coverage	(146)	57%	38%	5%
Research service coverage	(64)	67%	30%	3%
Investment banking services	(27)	70%	30%	

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