

Deutsche EuroShop AG

Expansion into Saarland

10/10/2016

Buy (Buy)
47.00 EUR (45.00 EUR)

Close 06/10/2016 38.75 EUR
 Bloomberg: DEQ GY WKN: 748020
 Sector Real Estate

Share price performance

52 week high 43.87 EUR
 52 week low 35.86 EUR
 Compared to MDAX
 YTD -8.0%
 1 month -6.2%
 12 months -13.4%



Share data

EV (m EUR; 2016) 3,751
 Market Cap (m EUR) 2,090
 No. of shares (m) 54
 Free float 82.7%

Next event

Quarterly Results 14/11/2016

Change in model

	Sales	FFO	EPS
2015	---	---	---
2016e	-0.1%	0.4%	-0.5%
2017e	-0.1%	4.0%	5.5%

Analyst

Dr. Georg Kanders, Analyst
 Phone: +49 (0)211 4952-718
 georg.kanders@bankhaus-lampe.de

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We are raising our earnings estimates and the target price after the company's first acquisition since 2012. With the acquisition of a 50% stake in Saarpark Center in Neunkirchen, Deutsche EuroShop has expanded its portfolio to 20 shopping centres. We are reiterating our BUY recommendation.

INVESTMENT CASE

Deutsche EuroShop has added the 20th shopping centre to its portfolio. Saarpark Center in Neunkirchen is the largest shopping centre in Saarland, Germany's smallest federal state. With about 130 shops and retail space of 33,500 sqm, this shopping centre generates annual rental income of € 12.8 m and fits well to Deutsche EuroShop.

The 50% stake was acquired for € 113 m, of which € 79 m paid for the stake in the SPV. As there is debt at the SPV level, the NOI yield (5.0%) does not fully feed through into the at-equity result. The acquisition price of the SPV is initially paid from a credit line, but will be refinanced later on a long-term basis. We assume that debt at the SPV level has a comparatively high interest rate as it stems from more than five years ago. Thus there might be additional potential from the acquisition. The addition of the shopping centre is the reason for the increase in our FFO estimates

CATALYSTS

Deutsche EuroShop is still in a bidding process for a large shopping centre in the Czech Republic. The guidance will have to be adjusted for the portfolio addition

VALUATION

Deutsche EuroShop is trading at a discount to its NAV. The dividend yield is slightly above the sector average for 2016e. However, the company shows less growth than the sector, which also leads to lower dividend growth prospects. However, the rock-solid balance sheet and the quality of the assets have to be taken into account.

in m EUR	2014	2015	2016e	2017e	2018e
Sales	201	203	204	205	206
FFO	121	123	125	131	136
FFO margin	60.0%	60.8%	61.1%	64.2%	66.3%
Net financial debt	1,372	1,337	1,350	1,179	1,109
Net asset value per share	33.17	39.12	40.83	41.35	42.34
FFOPS (in EUR)	2.23	2.29	2.31	2.42	2.38
DPS (in EUR)	1.30	1.35	1.40	1.45	1.50
Dividend yield	3.6%	3.3%	3.6%	3.7%	3.9%
EV/EBITDA	20.0	21.6	21.1	20.1	19.7
P/NAV	1.1	1.0	0.9	0.9	0.9
P/FFO	16.2	17.7	16.8	16.0	16.3

Source: Company information, Bankhaus Lampe Research estimates

Valuation

Basis: NAV for 2018

FAIR VALUE DERIVED FROM IMPLICIT VALUATION RESERVES

The first element leading to our price target is derived from a valuation model based on implicit valuation reserves. The core factor is our 2018 NAV estimate (excl. goodwill), which leads us to a figure of € 42.34. The NAV equivalent to the share price means the property value would have to fall by 5%, i.e. we are looking at "implicit valuation reserves" of 5%. However, the expected dividend payments will reduce the future NAV. We therefore add our estimated dividend payouts for the period 2016-19 (€ 5.90) to the expected NAV.

The dividend-adjusted NAV for 2018e comes to € 48.24, and the implicit reserves increase to 13.2%.

	Price / PT (in €)	Price / PT/NAV	NAV / NAV adj. 2018e	Implicit valuation reserves
	06/10/2016	2018e	2018e	
TAG Immobilien	38.75	0.92	42.34	5.0%
TAG Immobilien NAV adj.	38.75	0.80	48.24	13.2%
TAG Immobilien NAV adj.	44.60	0.92	48.24	6.0%

Source: BHL Research

Fair value from implicit valuation reserves of € 44.60

Deutsche EuroShop has a 20 unit shopping centre portfolio that focuses on Germany (17, one each in Poland, Austria and Hungary). These are all large shopping centres, one of the most preferred asset classes in the commercial sector. The LTV is a very low at 36%. We therefore believe the risk profile requires a risk premium of 5% (implicit valuation reserves based on the adjusted NAV in relation to current real estate assets – BHL 2016). This brings us to a fair value of € 44.60.

ADJUSTMENT TO REFLECT LOW-INTEREST ENVIRONMENT

In view of still-low interest rates, we have augmented our traditional valuation with a dividend component. The starting point for our deliberations was to determine a necessary dividend yield because solid dividend stocks are increasingly considered as an alternative for investors more interested in security.

We calculate the "necessary" dividend yield by applying a discount of up to 225 bps to our required basic yield of 4.5%. We use a scoring model to determine the size of the company-specific discount. We arrive at a "fair value" by dividing the expected dividend for 2017 by the calculated specific "required" dividend yield.

Deutsche EuroShop is a member of the MDAX and its market cap exceeds € 2 bn. Larger shopping centres are among the most preferred assets in the commercial sector and the shopping centres owned by Deutsche EuroShop are mostly among the top ranked 30% in Germany. The LTV is lower than 40%. The only negative point is growth as there is virtually no organic rental growth in the current low interest rate environment.

Overall, we arrive at a score of 8.5, which corresponds to 68% of the maximum achievable score (12.5 points).

Scoring factors	
Size/ liquidity	2.00
Asset class / Region	2.50
Liabilities side	3.00
Growth	1.00
Total	8.50

Source: Bankhaus Lampe Research

Dividend view:

Fair value of € 48.82

This leads us to a required dividend yield for Deutsche EuroShop of 2.97% (4.5% - 0.68 * 2.25%). Based on this method (2017 dividend estimate of € 1.45), we arrive at a fair value of € 48.82 (€ 1.45 / 2.97%). As the payout ratio is about 60% of the FFO, a comparable calculation based on 60% of the FFO does not arrive at a significantly different level (€ 48.88).

PRICE TARGET OF € 47.00

We calculate our price target by taking the average of the dividend valuation component and the fair value from our valuation model, which is based on implicit valuation reserves. Based on a risk premium of 5% (implicit reserves as % of the real-estate assets), we arrive at a value of € 44.60 for the latter element.

Fair value	Value € per share	Weighting	€ per share
From dividends	48.82	25.0%	12.21
From 60% FFO	48.88	25.0%	12.22
Implicit valuation reserves	44.60	50.0%	22.30
Fair value			46.73

Source: Bankhaus Lampe Research

Price target € 47.00 - BUY

We round this figure to € 47.00 to arrive at our price target. As there is more than 10% upside to our new price target, we are reiterating our BUY rating for this stock.

Key figures

Deutsche EuroShop AG – Income statement

in m EUR	2014	2015	2016e	2017e	2018e
Sales	201	203	204	205	206
Cost of Sales	0	0	0	0	0
Gross profit	201	203	204	205	206
Sales and marketing	-9	-9	-9	-9	-9
General and administration	-10	-10	-10	-10	-10
Research and development	0	0	0	0	0
Other operating result	-4	-7	-7	-7	-7
EBITDA	178	176	178	179	180
Depreciation	0	0	0	0	0
EBITA	178	176	177	179	180
Amortisation of goodwill	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0
EBIT	178	176	177	179	180
Financial result	-40	-2	-49	-41	-36
Income on ordinary activities	138	174	129	137	143
Extraordinary income/loss	77	221	43	12	4
EBT	215	395	172	149	147
Taxes	-37	-85	-43	-36	-36
Net income from cont. operations	177	309	129	113	111
Net income from discount. operations	0	0	0	0	0
Minority interest	0	0	0	0	0
Net income (adj.)	177	309	129	113	111
No. of shares	54	54	54	54	54
EPS (in EUR)	3.29	5.73	2.39	2.10	2.06

Source: Company information, Bankhaus Lampe Research estimates

	2014	2015	2016e	2017e	2018e
Gross margin	-	-	-	-	-
EBITDA margin	88.4%	86.9%	87.2%	87.3%	87.3%
EBITA margin	88.4%	86.9%	87.1%	87.3%	87.3%
EBIT margin	88.4%	86.9%	87.1%	87.3%	87.3%
EBT margin	106.9%	194.6%	84.3%	72.8%	71.5%
Net profit margin	88.4%	152.5%	63.2%	55.4%	54.1%
Tax rate	17.4%	21.6%	25.0%	23.9%	24.2%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2014	2015	2016e	2017e	2018e
Sales	6.8%	1.0%	0.4%	0.5%	0.5%
EBITDA	7.1%	-0.7%	0.7%	0.6%	0.5%
EBIT	7.1%	-0.7%	0.7%	0.7%	0.5%
EBT	14.4%	83.9%	-56.5%	-13.2%	-1.4%
Net income (adj.)	3.7%	74.3%	-58.4%	-11.9%	-1.8%
EPS	3.7%	74.3%	-58.4%	-11.9%	-1.8%

Source: Company information, Bankhaus Lampe Research estimates

Deutsche EuroShop AG – Balance sheet

Assets (in m EUR)	2014	2015	2016e	2017e	2018e
Fixed assets	3,420	3,768	3,891	3,904	3,909
Property, plant and equipment	3,061	3,357	3,400	3,412	3,415
Intangible assets	0	0	0	0	0
Financial assets	360	411	491	492	493
Other long-term assets	0	0	0	0	0
Current assets	72	83	93	109	123
Inventories	0	0	0	0	0
Accounts receivable	5	6	6	6	6
Other current assets	9	7	7	7	7
Securities	0	0	0	0	0
Cash	58	71	81	97	111
Total assets	3,492	3,852	3,984	4,013	4,032
Equity and liabilities (in m EUR)					
Shareholders' equity	1,751	2,061	2,134	2,290	2,336
Shareholders' equity (before minority)	1,524	1,768	1,824	1,962	1,990
Minorities	227	293	311	328	346
Non-current liabilities	1,661	1,722	1,787	1,665	1,643
Pension provisions	0	0	0	0	0
Other provisions	0	0	0	0	0
Long-term financial debt	1,375	1,360	1,389	1,239	1,189
Other long-term debt	286	362	398	426	454
Current liabilities	80	69	63	58	52
Short-term debt	55	48	42	37	31
Other accruals short-term	11	8	8	8	8
Accounts payable	1	1	1	1	1
Other liabilities	13	13	13	13	13
Total equity and liabilities	3,492	3,852	3,984	4,013	4,032

Source: Company information, Bankhaus Lampe Research estimates

Deutsche EuroShop AG – Balance sheet structure

Assets	2014	2015	2016e	2017e	2018e
Fixed assets	97.9%	97.8%	97.7%	97.3%	96.9%
Property, plant and equipment	87.6%	87.2%	85.3%	85.0%	84.7%
Intangible assets	0.0%	0.0%	0.0%	0.0%	0.0%
Current assets	2.1%	2.2%	2.3%	2.7%	3.1%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.1%	0.1%	0.1%	0.1%	0.1%
Cash	1.7%	1.8%	2.0%	2.4%	2.7%
Equity and liabilities					
Shareholders' equity	50.1%	53.5%	53.6%	57.1%	57.9%
Non-current liabilities	47.6%	44.7%	44.8%	41.5%	40.8%
Pension provisions	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term financial debt	39.4%	35.3%	34.9%	30.9%	29.5%
Current liabilities	2.3%	1.8%	1.6%	1.4%	1.3%
Short-term debt	1.6%	1.2%	1.1%	0.9%	0.8%
Accounts payable	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company information, Bankhaus Lampe Research estimates

Deutsche EuroShop AG – Cash flow statement

in m EUR	2014	2015	2016e	2017e	2018e
Net income (adj.)	177	309	129	113	111
Depreciation	0	0	0	0	0
Amortisation of goodwill & intangible assets	0	0	0	0	0
Change of provisions	2	-3	0	0	0
Other	-78	-150	-25	106	9
Operating Cash-flow before changes in w/c	102	156	104	219	121
Change in inventory	0	0	0	0	0
Change in accounts receivable	1	-1	0	0	0
Change in accounts payable	-2	0	0	0	0
Change in other working capital positions	-2	2	0	0	0
Operating Cash-flow	99	157	104	219	121
Capex, excluding maintenance	-21	-76	0	0	0
Payments for acquisitions	0	0	0	0	0
Financial investments	17	-51	-80	-1	-1
Income from asset disposals	0	0	0	0	0
Income from financial investments	0	0	0	0	0
Cash-flow from investing activities	-4	-127	-80	-1	-1
Free cash-flow	95	30	24	218	120
Capital measures	0	0	0	0	0
Increase/decrease in debt position	-57	-22	23	-156	-56
Purchase of own shares	0	0	0	0	0
Other financing Cash-flow	47	75	36	29	28
Dividend paid	-67	-70	-73	-76	-78
Cash-flow from financing activities	-77	-17	-14	-202	-106
Increase/ decrease in liquid assets	17	12	10	16	14
Effects of exchange rate changes	0	0	0	0	0
Cash at beginning of period	41	58	71	81	97
Change in total cash and cash equivalents	17	12	10	16	14
Cash at end of period	58	71	81	97	111

Source: Company information, Bankhaus Lampe Research estimates

Deutsche EuroShop AG – Ratios

	2014	2015	2016e	2017e	2018e
Per Share Data					
EPS	3.29	5.73	2.39	2.10	2.06
Book value per share	32.46	38.20	39.57	42.45	43.31
Free Cash-flow per share	1.76	0.55	0.44	4.05	2.22
Dividend per share	1.30	1.35	1.40	1.45	1.50
Valuation ratios					
EV/Sales	17.7	18.8	18.4	17.6	17.2
EV/EBITDA	20.0	21.6	21.1	20.1	19.7
EV/EBIT	20.0	21.6	21.1	20.1	19.7
Price Earnings ratio (P/E)	11.0	7.1	16.2	18.4	18.8
Price to book (total equity)	1.1	1.1	1.0	0.9	0.9
Dividend yield	3.6%	3.3%	3.6%	3.7%	3.9%
Profitability ratios					
EBITDA margin	88.4%	86.9%	87.2%	87.3%	87.3%
EBIT margin	88.4%	86.9%	87.1%	87.3%	87.3%
Net return on sales	88.4%	152.5%	63.2%	55.4%	54.1%
Return on capital employed (ROCE)	5.6%	5.1%	5.0%	5.0%	5.0%
Productivity ratios					
Capital turnover	1,705.1%	1,860.0%	1,912.8%	1,909.4%	1,902.3%
Operating leverage	1.0	-0.7	1.7	1.3	1.0
Sales per employee	33,464,167	33,808,956	33,945,997	34,116,393	34,287,642
EBIT per employee	29,584,333	29,382,682	29,582,650	29,770,334	29,925,456
Number of employees (in thousands)	0.0	0.0	0.0	0.0	0.0
Financial ratios					
Equity ratio	50.1%	53.5%	53.6%	57.1%	57.9%
Net financial debt (in m EUR)	1,372	1,337	1,350	1,179	1,109
Net debt / Equity	78.3%	64.9%	63.3%	51.5%	47.5%
Interest cover	> 10	> 10	> 10	> 10	> 10
Net debt / EBITDA	7.73	7.58	7.61	6.60	6.18
Working Capital (in m EUR)	3	5	5	5	5
Change Working Capital (in m EUR)	1	2	0	0	0
WC /sales	1.7%	2.5%	2.4%	2.4%	2.4%
Stocks in days of sales	0	0	0	0	0
Trade debtors in days of sales	8	10	10	10	10
Trade creditors in days of COGS/Material cost	2	1	1	1	1
Cash conversion cycle	6	9	9	9	9
Invest. (property/plant/equity) / Depreciation	105195.0%	379515.0%	100.0%	100.0%	100.0%
Others					
Sales CAGR (last 3 years)	1.9%	-1.3%	2.7%	0.6%	0.5%
EBIT CAGR (last 3 years)	2.3%	-0.9%	2.3%	0.2%	0.6%
Net income CAGR (last 3 years)	23.9%	36.0%	-9.0%	-13.9%	-28.9%
Pay out ratio	39.5%	23.5%	58.6%	69.0%	72.7%
Free cash-flow (in m EUR)	95	30	24	218	120
Free cash flow yield	4.9%	1.4%	1.1%	10.4%	5.7%

Source: Company information, Bankhaus Lampe Research estimates

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Overview of changes in our recommendations/price targets in the previous twelve months for: Deutsche EuroShop AG (DEQ GY), Close (06/10/2016): 38.75 EUR, Analyst: Dr. Georg Kanders (Analyst).

Date of publication	Price at recommendation	Rating	Price target
06/11/2015	42.90 EUR	Buy	45.00 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/10/2016)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	56.0%	66.7%
Hold	38.0%	33.3%
Sell	5.0%	0.0%
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Company	Disclosure
Deutsche EuroShop AG	---

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Federal Financial Supervisory Authority – Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Marie-Curie-Str. 24-28, D-60439 Frankfurt

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Bankhaus Lampe KG, Jägerhofstraße 10, D-40479 Düsseldorf is responsible for this study.

Further information may be obtained from Bankhaus Lampe KG.

10 October 2016

Contacts

HEAD OF CAPITAL MARKETS & ADVISORY

Ute Gerbaulet

+ 49 (0)211 4952-656

ute.gerbaulet@bankhaus-lampe.de

HEAD OF EQUITY

Ralf Menzel

+ 49 (0)211 4952-282

ralf.menzel@bankhaus-lampe.de

EQUITY SALES CONTINENTAL EUROPE

Ulrich Klingmüller

+ 49 (0)211 4952-784

ulrich.klingmueller@bankhaus-lampe.de

EQUITY SALES IN GB

Yusuf Bilgic

+ 44 (0)203 405 4318

yb@lampe-capital.com

EQUITY SALES IN US

Björn Kahl

+1 212 218 7411

bjorn.kahl@lampe-capital-us.com

EQUITY SALES TRADING CONTINENTAL EUROPE

Nils Carstens

+ 49 (0)211 4952-758

nils.carstens@bankhaus-lampe.de

EQUITY SALES TRADING IN GB

Chris Ford

+ 44 (0)203 405 1083

cf@lampe-capital.com

EQUITY SALES TRADING IN US

Kim Last

+1 212 218 7412

kim.last@lampe-capital-us.com

Bankhaus Lampe Research

Jägerhofstraße 10

D - 40479 Düsseldorf

research@bankhaus-lampe.de

📞 + 49 (0)211 4952-678

📠 + 49 (0)211 4952-494