



# Deutsche Euroshop AG

Neutral → | Target price : 41.00 EUR vs 40.00 EUR ↗

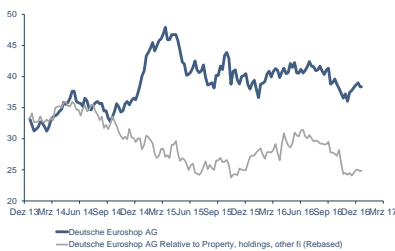
Price (01/17/2017) : 38.34 EUR | Upside : 7 %

	Est.chg	2016e	2017e
EPS		67.9%	2.3%

## Notable valuation gains (preliminary) in 2016 – raising TP, EPS and NAV

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### Company expects a property valuation gain of € 145m in 2016

Deutsche Euroshop AG (DES) announced on the evening of Tuesday, 17 Jan that it expects a pre-tax contribution to earnings of around € 145m (FY 2015: € 267.8m) from the valuation of investment properties for 2016 from unrealised changes in market values (non-cash).

Of the total amount of revaluation gains expected, approx. € 117m (previous year: € 220.6m) will come from the results of group companies and approx. € 28m (previous year: € 47.2m) from valuation gains of companies shown in the financial result, which are accounted for at equity. The preliminary valuation result might still change in the course of the preparation of the 2016 financial statements.

### Raising our EPS and NAV estimates

The preliminary valuation gain of € 145m is positive news, confirming DES's view of shopping centres as an attractive asset class. However, the consensus estimate for 2016e EPRA NAVPS (€ 41.73, old Oddo Seydler estimate: € 39.72, 2015: € 38.51), suggests the market was already expecting a valuation gain close to the reported figure.

Nevertheless, the magnitude of the reported number positively surprised us. The preliminary valuation gain of € 117m represents around 3.5% of the total investment property value while we had estimated around 0.8%, corresponding to € 25m.

This property valuation gain is non-cash and thus does not affect the company's FFO I p/s guidance (2016: € 2.26-2.30; 2017: € 2.38-2.42). It does however lead us to increase our 2016e EPS estimate to € 4.28 from € 2.55.

Given the higher property valuations, we also raise our EPRA NAVPS estimates for 2016-18e as follows: to € 41.45 for 2016e (old: € 39.72), € 42.93 for 2017e (€ 41.15), and € 44.42 for 2018e (€ 42.60). For 2017e and 2018e we expect more moderate valuation gains, in the range of € 25-50m.

### Neutral recommendation confirmed – TP raised to € 41.00 (old: € 40.00)

In our view, DES is a defensive investment with reliable cash flows. However, the company's external growth potential is limited as it is careful not to overpay on acquisitions. We confirm our Neutral rating and lift our TP to € 41.00 from € 40.00 due to our increased EPRA NAVPS estimates. The TP of € 41.00 is close to our new 2016e EPRA NAVPS estimate of € 41.45.

#### Capital

DEQ GY   DEQGN.DE	
Market Cap (EURm)	2,069
Enterprise value (EURm)	3,539
Extrema 12 months	35.86 - 42.52
Free Float (%)	78.5

Performance (%)	1m	3m	12m
Absolute	1.5	-1.6	0.9
Perf. rel. Country Index	0.9	-8.4	-8.1
Perf. rel. Property, holding	0.9	-8.6	-6.8

P&L	12/16e	12/17e	12/18e
NRI (EURm)	183	187	188
EBIT (EURm)	294	207	209
Attr. net profit (EURm)	231	144	148
Adjusted EPS (EUR)	4.28	2.67	2.75
FFOI ps (EUR)	2.30	2.39	2.46
Dividend (EUR)	1.42	1.48	1.54
NAV ps (EUR)	35.71	36.97	38.24
EPRA NAV ps (EUR)	41.45	42.93	44.42

P/E (x)	9.3	14.4	13.9
P/NAV (x)	1.11	1.04	1.00
P/EPRA NAV (x)	0.96	0.89	0.86
FFOI Yield (%)	5.8	6.2	6.4
Dividend Yield (%)	3.6	3.9	4.0
FCF Yield (%)	2.85	4.27	4.43
ROE (%)	12.5	7.4	7.3
Net LTV (%)	39.8	39.4	38.9

#### Next Events

28.04.2017	FY Results
11.05.2017	Q1 Results

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**DEQn.DE | DEQ GY**  
**Property | Germany**

**Neutral**

Upside 6.92%

Price 38.34EUR

TP 41.00EUR

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	41.45	42.93	44.42
NAV per share	24.50	26.49	28.26	32.77	35.71	36.97	38.24
FFO I per share	1.68	2.08	2.23	2.29	2.30	2.39	2.46
Reported EPS	2.36	3.17	3.29	5.73	4.28	2.67	2.75
Net dividend per share	1.20	1.25	1.30	1.35	1.42	1.48	1.54
FCF to equity per share	-1.45	0.68	2.92	2.30	1.14	1.64	1.70
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
<b>VALUATION</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
12m highest price	31.99	34.60	37.93	47.92	42.52	39.00	
12m lowest price	23.78	29.45	30.64	36.18	35.86	38.34	
(*) Reference price	28.48	31.79	34.49	41.82	39.81	38.35	38.35
Capitalization	1,536	1,715	1,861	2,256	2,148	2,069	2,069
P/E (x)	12.2	10.6	11.1	7.3	9.3	14.4	13.9
P/FFO I (x)	17.0	15.3	15.4	18.3	17.3	16.0	15.6
FFO I Yield (%)	5.9	6.5	6.5	5.5	5.8	6.2	6.4
Dividend Yield (%)	4.2	3.9	3.8	3.2	3.6	3.9	4.0
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	4.3	4.4
P/NAV (x)	1.16	1.20	1.22	1.28	1.11	1.04	1.00
P/EPRA NAV (x)	1.00	1.04	1.04	1.09	0.96	0.89	0.86
(*) historical average price							
<b>PROFIT AND LOSS (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Rental revenue	178	188	201	203	204	208	210
NRI	160	170	182	183	183	187	188
Total revenue	160	170	182	183	183	187	188
Property revaluation	13.9	56	77	221	117	27.2	28.0
EBITDA	166	222	254	397	294	207	209
Adj. EBITDA	152	166	178	176	177	180	181
EBIT	166	222	254	397	294	207	209
Net financial income	-62.1	-34.1	-39.8	-2.1	-42.9	-38.5	-36.1
Corporate tax	19.1	-16.6	-37.2	-85.4	-20.7	-24.8	-24.8
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	231	144	148
FFO I	87	112	121	123	124	129	133
<b>BALANCE SHEET (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
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	3,494	3,541	3,589
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	59.1	57.8	74.3
Ordinary shareholders equity	1,322	1,429	1,524	1,768	1,927	1,994	2,063
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	1,391	1,394	1,397
Deferred tax liabilities	181	198	227	310	310	321	334
<b>CASH FLOW STATEMENT (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Attributable net profit	122	171	177	309	231	144	148
Property revaluation	-36.5	-60.5	-88.3	-285.4	-117.5	-27.2	-28.0
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	106	109	113
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	-72.9	-89.6	-75.3
Free cash flow	-75.5	36.6	157	124	61.3	88.3	91.7
<b>GROWTH MARGINS PRODUCTIVITY</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Rental revenue growth		5.5%	6.8%	1.0%	0.4%	2.3%	0.8%
FFO I growth		28.7%	7.6%	2.4%	0.7%	3.8%	2.8%
EPS growth		28.3%	3.5%	84.2%	-25.4%	-37.5%	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%	145%	99.6%	99.6%
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%	8.2%	14.7%	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%	67.8%	68.8%	70.4%
Property revaluation / Investment properties	0.5%	1.9%	2.5%	6.6%	3.4%	0.8%	0.8%
ROA	3.7%	5.0%	5.1%	8.0%	5.7%	3.5%	3.5%
ROE		12.4%	12.0%	18.8%	12.5%	7.4%	7.3%
<b>DEBT RATIOS</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Equity ratio							
Net LTV	46%	49%	45%	40%	40%	39%	39%
Gearing							
Net debt / Adj. EBITDA	8.6	8.7	7.7	7.6	7.9	7.7	7.7
Adj. EBITDA / net financial charges	-2.4	-2.9	-3.0	-3.2	-2.9	-3.1	-3.2

## Mention of conflicts of interest

### • Valuation method

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
18.01.17	Neutral	41.00	38.35	Manuel Martin, CEFA, CREA

### Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(418)	49%	42%	9%
Liquidity providers coverage	(152)	52%	43%	5%
Research service coverage	(66)	62%	35%	3%
Investment banking services	(39)	72%	23%	5%

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