



Deutsche Euroshop

Buy (previous: Buy) Price target: € 61.00

Real Estate

Update

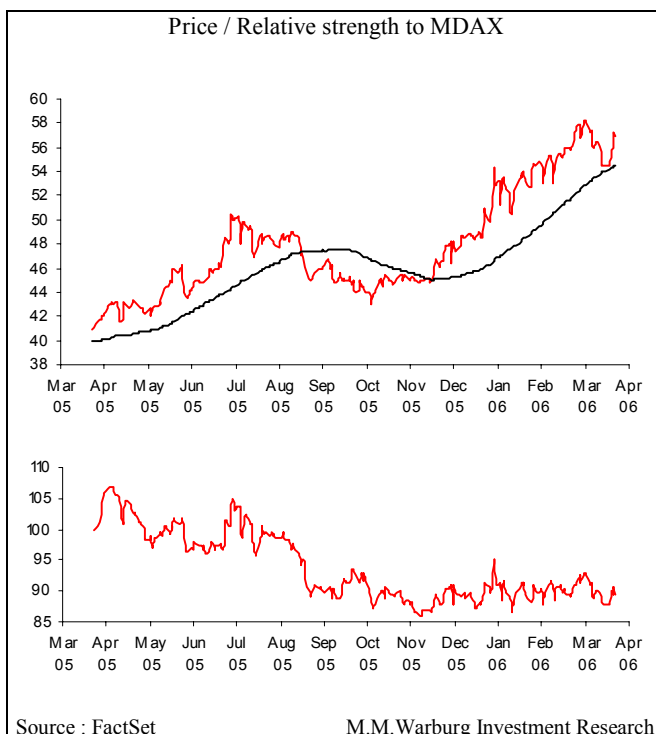
Reuters symbol: DEQn.DE
ISIN: DE0007480204

Price on 21 April 2006: € 57.00
High/Low 12 month: € 58.24/41.10

Capital		Ownership structure		Upcoming events	
Market capitalization	€ 979.5 m	widely spread	ord	80.7%	15 May 2006 : Q1 2006
Number of shares	17.2 m	Otto family	ord	19.3%	22 Jun 2006 : AGM
Subscribed capital	€ 22.0 m				11 Aug 2006 : Q2
					14 Nov 2006 : Q3

- **Positive operating trend and high revaluation result in 2005**
- **Further sales and earnings growth in 2006**
- **New investment becoming more difficult**

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in €	2005	2006e	2007e	2008e
EPS (current)	3.09	2.29	2.36	2.56
EPS (previous)	2.82	2.29	2.36	2.56
CFPS	0.74	1.59	1.74	1.96
Dividend	2.00	2.10	2.20	2.30
in € m	2005	2006e	2007e	2008e
Sales	72.1	91.1	94.7	100.1
EBITDA	57.5	73.1	76.1	81.2
EBIT	57.5	73.1	76.1	81.2
Net income	48.7	39.3	40.5	44.0
Cash flow	11.7	27.3	29.9	33.6
ROCE (EBIT/CE)	4.7%	5.4%	5.3%	5.2%
	2005	2006e	2007e	2008e
PER	14.2	24.9	24.2	22.3
PCFR	59.1	35.8	32.8	62.4
Div. Yield	4.6%	3.7%	3.9%	4.0%
EV/Sales	15.31	16.37	16.67	27.99
EV/EBITDA	19.2	20.4	20.7	34.5



2005 was successful for Deutsche Euroshop (DES) in every way. In addition to a positive operating trend, the revaluation of the property holdings led to a massive increase in earnings. Further major improvements to sales and earnings are expected in 2006. We also expect the NAV to rise further. However, the environment for new property investment in Germany is expected to become increasingly difficult given the continuing high demand, particularly from abroad. Rising interest rates are also depressing returns. The upward revision of our price target from € 57 to € 61 mainly reflects the better than anticipated trend in the NAV.

2005 better than expected

DES raised its sales by 17.4% in 2005 to € 72.1m, benefiting particularly from the effects of the first-time consolidation of the shopping centres in Hamburg and Wetzlar. Rent increases for existing properties rose by a healthy 3.8% (€ 2m), and the unoccupancy rate for properties was once again below 1%. Operating profit (EBIT) grew accordingly by 13.5% to € 57.5m. The below-average earnings trend resulted mainly from a downturn in other operating profits, which were influenced in the previous year by disposal revenue from the shopping centre in Udine (Italy) and currency gains at the Hungarian subsidiary (total: € 6.8m). Adjusted for these effects, earnings growth was an impressive 33% and is mainly the result of the abovementioned first-time consolidations.

Revaluation had positive impact

While operating profit increased significantly, financial income deteriorated due to a reduction in liquid funds with a simultaneous increase in debt as a result of investment of € 5.8m to minus € 26.4m. The valuation result had a very positive impact at € 49.9m (previous year: € 8m) which was much higher than we had expected. In particular, the first-time valuation of the shopping centres in Hamburg and Wetzlar generated € 33.8m, but the value of the other centres (with one exception) also increased by a volume of € 25.2m. The value of one shopping centre in Germany was reduced by € 6.6m, because a major tenant was experiencing financial problems. However, according to the DES management, another solvent tenant has already been found, and a further revaluation of the centre this year cannot therefore be ruled out.

Net earnings (after minorities) ultimately increased by 76% to € 48.7m, with EPS reaching around € 3.09. Of this, € 1.24 (2004: € 1.32) related to the operating business and € 1.85 (2004: € 0.46) to valuation effects. According to the management, the operating cash flow of the existing centres was € 2.10 per share in 2005, out of which a dividend of € 2.00 was also paid.

Fig. 1: Trend in Net Asset Value (NAV)

in €	2004	2005	2006e	2007e	2008e
Fixes Assets	1,203	1,381	1,436	1,536	1,649
Current Assets	167	148	127	150	149
Total Assets	1,370	1,544	1,564	1,687	1,798
Long term debt	598	636	654	754	854
Short term debt	37	50	35	37	39
Net Assets	736	857	875	896	905
Minorities (Equity)	49	63	65	67	70
Net Asset Value DES	687	794	810	829	835
NAV per share (in €)	44.0	46.2	47.1	48.2	48.6

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Healthy balance sheet

In balance sheet terms, 2005 was characterised by a further increase in fixed assets, which grew by € 123.8m to just over € 1.3bn as a result of new investment and revaluations. Liquid funds amounted to around € 197m (€ +46.9m) at the end of 2005 as a result of the capital increase, but will be needed for further investment this year. The equity ratio was correspondingly around 51% at the end of 2005, giving the company scope to expand its holdings portfolio. The management is planning investment volume of € 100-150m for 2006 (2005: € 200m), even though prices in the German property market remain under pressure, mainly as a result of the high level of interest from foreign investors. In this connection DES may also accept lower initial returns of less than 6% on future investments. Hitherto the minimum return has been around 6%. However, the 5% level will definitely not be undercut. The net asset value at the end of 2005 was around € 794m or € 46.22 per share (2004: € 43.96).

Further operating growth expected in 2006

This year the DES management expects sales growth of at least 26% to € 91-94m. This growth is once again mainly consolidation-driven, operating rents are expected to increase by 1-2%. Another new feature this year is the Rathaus Center in Dessau (bought at the beginning of Nov. 2005), which we expect to contribute sales of € 7.7m. At the end of March 2006, the City Arcade was also opened in Klagenfurt; we expect this to make a sales contribution of just under € 4m in 2006. However, the first-time inclusion of the Main-Tainus Centre in sales figures will have the greatest impact. Previously, this holding was reported under financial income; following the raising of the stake to 43.1%, a pro rata consolidation will now take place and it will therefore be included in sales. However, the sale of the holding in the Etrembieres shopping centre in France – which contributed around € 4m of sales - will result in a loss of sales in Q1 2006. We therefore expect 2006 sales to be towards the lower end of the forecast range. DES will generate an additional earnings contribution of € 3.5m after tax (mainly from the liquidation of deferred taxes) in the

Fig. 2: Valuation of peer group

Company	Price in € Apr. 21, 2006	Marketcap. in € m	P/E 2006e	P/E 2007e	EV/EBITDA 2006e	EV/EBITDA 2007e	P/B 2006e	Dividend 2006e (€)	Div. yield 2006e	Price/NAV 2006e
Rodamco Europe	88.55	7,938	21.5	19.9	22.6	21.5	1.3	3.70	4.2%	1.35
Hammerson	17.04	4,853	36.4	31.3	26.8	25.0	1.0	0.31	1.8%	1.00
Klepierre	96.70	4,464	29.4	20.1	17.9	17.2	1.3	2.99	3.1%	1.28
Corio	54.10	3,638	17.1	16.8	19.8	16.2	1.3	2.54	4.7%	1.27
Eurocommercial Prop.	31.10	1,097	18.6	16.8	20.8	21.1	1.2	1.64	5.3%	1.23
Vastned Retail	66.05	1,116	18.0	17.2	17.5	15.8	1.2	3.75	5.7%	1.22
Average			23.5	20.4	20.9	19.5	1.2		4.1%	1.2
DES	57.00	980	25.6	24.4	19.0	19.2	1.3	2.10	3.7%	1.2

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second quarter from the disposal of the shopping centre in France.

EBIT should grow by 23% in 2006

The management expects EBIT to grow by 23% to € 72-75m, also mainly due to the effects of the first-time consolidation of new and existing holdings. In terms of the interest result, we expect a further rise in net interest expenditure to € 33-34m (2005: € 31m) as a result of further investment (also financed from external borrowing). Income from holdings will also decline significantly as a result of the inclusion of the Main-Taunus centre in sales. Since only the shopping centre in Breslau will now appear under financial income, we anticipate a reduction in income from holdings to around € 1m (2005: € 5m). It is impossible to forecast the valuation result which amounted to just under € 50m in 2005. The management's guidance for earnings before tax (+15% to € 37-40m) does not include currency and valuation effects.

Another positive valuation effect expected

Our scenario assumes that another positive valuation effect of at least 1% of fixed assets (thus around € 13-14m) will materialise, since rents in the shopping centres are indexed and rise in line with inflation. Discounted earnings should therefore show a correspondingly positive trend. However, the current upward tendency in interest rates injects an element of uncertainty which is driving up the discounting rate in the discounted earnings models and could therefore offset the positive impact of higher rents.

Due to the significantly lower valuation result, consolidated group earnings will fall short of their 2005 level. However, in our view the more crucial factor is the trend in operating profit, which remains clearly upwards.

Price target raised to € 61

Our valuation of the DES shares is based on a NAV comparison with the corresponding figures for a European peer group. For this year we anticipate a further increase of 2% in the NAV to € 47.10 per share for DES. The peer

group is currently valued with a multiple of 1.2 x NAV. The current DES share price of € 57 therefore seems fair. However, we are still awarding the shares a valuation at the upper end of the range for similar companies of 1.3 x NAV. The main reason for this is the company's clear strategic positioning, the continuing interest of foreign investors in the German property market and the ongoing speculation about the introduction of REITs in Germany in the course of 2007.

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Deutsche Euroshop

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	2003	2004	2005	2006e	2007e	2008e
Income statement (in € m)						
Sales	57.9	61.4	72.1	91.1	94.7	100.1
Cost of goods	---	---	---	---	---	---
Gross profit	57.9	61.4	72.1	91.1	94.7	100.1
SG&A expenses	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9
R&D expenses	---	---	---	---	---	---
Other oper. income/expenses	-16.6	-9.9	-13.8	-17.1	-17.7	-18.0
EBITDA	40.5	50.7	57.5	73.1	76.1	81.2
Amortization	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	40.5	50.7	57.5	73.1	76.1	81.2
Financial income	-12.3	-12.5	23.6	-18.0	-18.9	-19.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	28.2	38.2	81.1	55.1	57.2	62.2
Income taxes	-8.5	-11.8	-19.4	-13.8	-14.3	-15.5
(Tax rate in %)	-30.2	-30.8	-24.0	-25.0	-25.0	-25.0
Net income	19.7	26.4	61.7	41.4	42.9	46.6
Net income ex minorities	19.3	27.7	48.7	39.3	40.5	44.0
EPS ord.	1.23	1.78	3.09	2.29	2.36	2.56
Growth (in %) CAGR (03/08)						
Sales	11.6 %	24.5	6.1	17.4	26.3	4.0
EBITDA	14.9 %	24.8	25.1	13.5	27.1	4.1
EBIT	14.9 %	272.7	25.1	13.5	27.2	4.1
Net income excl. minorities	17.9 %	---	43.9	75.6	-19.3	3.1
Cost ratios (in % of sales)						
Cost of goods / sales	---	---	---	---	---	---
SG&A / sales	1.3	1.3	1.2	0.9	1.0	0.9
R&D / sales	---	---	---	---	---	---
Cash flow (in € m)						
Operating cash flow	20.6	24.2	-12.8	34.8	38.0	41.9
Capital expenditure	71.7	75.2	209.0	40.0	30.0	30.0
Change in working capital	0.0	0.1	-2.7	-1.2	0.0	-0.3
Oper. free cash flow	-51.1	-51.1	-219.1	-4.0	8.1	12.2
Cash flow	13.8	18.4	11.7	27.3	29.9	33.6
Productivity (in € ts.)						
Sales / employee	11,575.8	12,284.2	14,424.2	18,215.6	18,944.2	---
Personnel expense / employee	---	---	---	---	---	---
EBIT / employee	8,104.8	10,135.6	11,499.4	14,621.8	15,220.4	---
Returns (in %)						
EBITDA / sales	70.0	82.5	79.8	80.3	80.4	81.1
EBIT / sales	70.0	82.5	79.7	80.3	80.3	81.1
Pre-tax profit / sales	48.7	62.2	112.4	60.5	60.4	62.1
Net income / sales	33.3	45.2	67.5	43.1	42.8	43.9
Return on equity	2.8	4.1	6.2	4.8	4.8	5.2
Return on total capital	1.6	2.0	3.2	2.4	2.3	2.4
ROCE	3.9	4.5	4.7	5.4	5.3	5.2
Balance sheet (in € m)						
Property, plant and equipment	995.1	1,101.6	1,210.2	1,334.2	1,434.2	1,547.3
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Working capital	-1.8	-1.7	-4.4	-5.6	-5.8	-6.1
Current assets	145.1	166.9	216.6	194.3	207.7	170.3
Capital employed (CE)	1,034.3	1,114.6	1,223.1	1,344.7	1,444.5	1,557.2
Shareholders' equity	695.3	684.4	787.5	811.0	837.4	846.6
Equity ratio in %	56.1	49.9	51.0	49.4	47.7	46.3
Net debt (+), net liquidity (-)	379.4	454.1	467.1	558.2	644.9	746.4
Gearing in %	54.6	66.4	59.3	68.8	77.0	88.2
Valuation						
EPS ord. (€)	1.23	1.78	3.09	2.29	2.36	2.56
CFPS (€)	0.89	1.18	0.74	1.59	1.74	1.96
Number of shares ord., (m)	15.6	15.6	15.8	17.2	17.2	36.8
P/E ord.	25.7	19.8	14.2	24.9	24.2	22.3
P/CF	35.7	29.8	59.1	35.8	32.8	29.1
EV / Sales	14.34	15.49	15.31	16.37	16.67	27.99
EV / EBITDA	20.5	18.8	19.2	20.4	20.7	34.5
EV / EBIT	20.5	18.8	19.2	20.4	20.8	34.5

Price ord. on 21 April 2006: € 57.00

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- B **Buy**: The price of the analysed equity security is expected to rise over the next 12 months.
- H **Hold**: The price of the analysed equity security is expected to remain mostly flat over the next 12 months.
- S **Sell**: The price of the analysed equity security is expected to fall over the next 12 months.

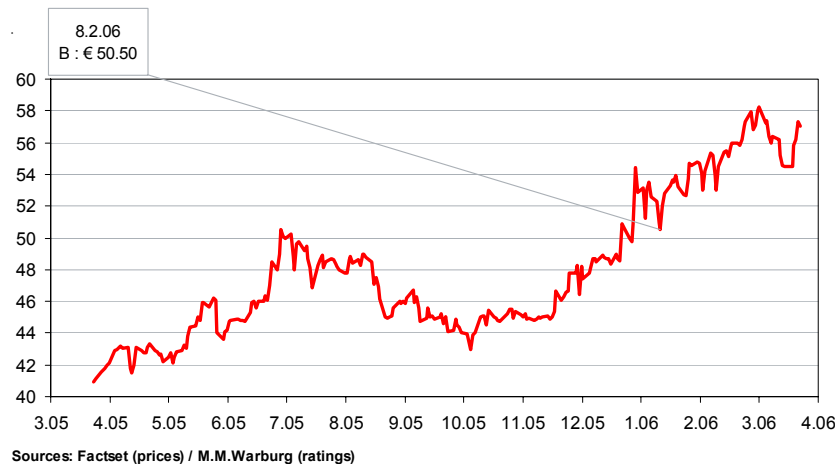
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Rating	Number of stocks	% of universe
Buy	90	51%
Hold	75	42%
Sell	13	7%
Total	178	

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Rating	Number of stocks	% of universe
Buy	69	56%
Hold	50	40%
Sell	5	4%
Total	124	

Price and Rating History
Deutsche Euroshop (DEQGn.DE) as of 21.4.06



The boxes on the price and rating history chart indicate the date and rating of the Equity Alert issued by M.M. Warburg & CO KGaA. Each box represents a date on which an analyst made a change to a rating, except for the first box, which may represent the rating in place at the beginning of the period or the first Alert written on the issue in the past 12 months.



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Equity Research Report

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Kommanditgesellschaft auf Aktien

Completed on April 24, 2006

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