



# Deutsche Euroshop

Buy (previous: Buy) Price target: € 61.00

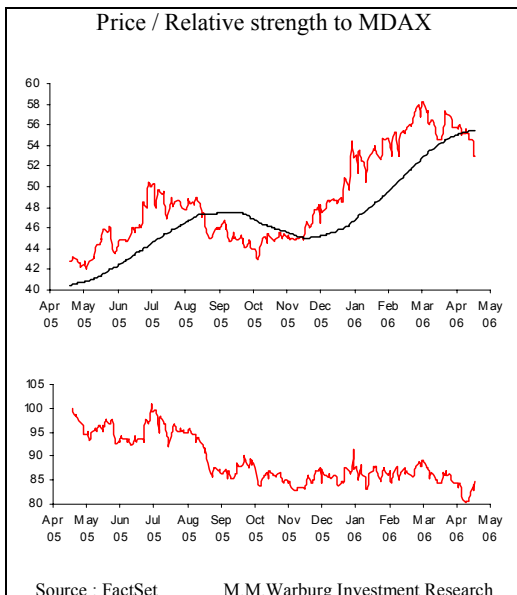
Real Estate

## Bullet Points

Reuters symbol: DEQn.DE  
ISIN: DE0007480204

Price on 17 May 2006: € 52.96  
High/Low 12 month: € 58.24/42.10

Capital	Ownership structure	Upcoming events
Market capitalization € 910.1 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



## Company goals confirmed after the good Q1

- Rating remains at “Buy”, price target € 61:** After a very successful Q1 2006, Deutsche Euroshop’s management has confirmed the goals for the FY 2006 (sales: € 91-94 m, EBIT: € 72-75 m and EBT of € 37-40 m – all excluding currency and valuation effects). While the achievement of the lower end of the guidance was considered realistic after the release of the 2005 figures due to the sale of the holding of the Entrembieres shopping centre in France in Q2, the company now even expects to reach the upper end. We are confirming our price target of € 61, which is based on a peer group comparison and a dividend discount model. In regard to the price/NAV multiple, which is important to real estate companies, DES is currently trading at the average level of the peer group with 1.15. In view of the clear company strategy and the expected continuous increase of the NAV, we deem a multiple of 1.3 fundamentally justified.
- Q1 influenced by high initial consolidation effects:** DES increased its sales by 31% in Q1 2006 to € 22.7 m, of which 30% resulted from first-time consolidations from the new opening of shopping centres (Dessau and Wetzlar) or higher shareholdings (MTZ). EBIT increased 27% to € 17.3 m for the same reasons. The financial result deteriorated considerably from € –6.6 m to € –8.7 m. The reclassification of the MTZ from financial assets into investments due to the higher stake was the reason for this. Investment income was omitted accordingly. Moreover, financing costs grew as a result of the expansion of the portfolio of shareholdings (Wetzlar, MTZ, Klagenfurt). Due to the first-time consolidations, a valuation result of € 8 m also accrued during the fiscal year. The net income reached € 11.5 m (+157%), out of which approximately 50% was attributable to the operating business and the remaining 50% to one-off valuation effects.
- Growth through additional investments:** DES continues to anticipate an investment volume of up to € 150 m for the current year. Sufficient liquid funds for this are present and the sale of the Viterbo stake (Italy) is not ruled out. The past divestment of the Entrembieres Centre will lead to a capital gain of € 0.8 m before taxes and (due to the release of deferred taxes) € 3.5 m after taxes in Q2.

in €	2005	2006e	2007e	2008e
EPS (current)	3.09	2.29	2.36	2.56
EPS (previous)	3.09	2.29	2.36	2.56
CFPS	1.91	2.14	2.34	2.54
Dividend	2.00	2.10	2.20	2.30

in € m	2005	2006e	2007e	2008e
Sales	72.1	91.9	95.6	101.0
EBITDA	57.5	72.3	76.0	81.1
EBIT	57.5	72.2	76.0	81.1
Net income	48.7	39.4	40.5	44.0
Cash flow	11.7	26.8	30.3	33.7
ROCE (EBIT/CE)	4.7%	5.4%	5.3%	5.2%

	2005	2006e	2007e	2008e
PER	14.2	23.1	22.5	20.7
PCFR	59.1	34.0	30.1	27.0
Div. Yield	4.6%	4.0%	4.2%	4.3%
EV/Sales	15.31	15.35	15.58	15.78
EV/EBITDA	19.2	19.5	19.6	19.7

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	2003	2004	2005	2006e	2007e	2008e
<b>Income statement (in € m)</b>						
Sales	57.9	61.4	72.1	91.9	95.6	101.0
Cost of goods	---	---	---	---	---	---
Gross profit	57.9	61.4	72.1	91.9	95.6	101.0
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	-18.8	-18.7	-19.0
EBITDA	40.5	50.7	57.5	72.3	76.0	81.1
Goodwill amortisation	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	72.2	76.0	81.1
Operating profit (company definition)	---	---	---	---	---	---
Financial income	-12.3	-12.5	23.6	-17.1	-18.8	-18.8
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	28.2	38.2	81.1	55.2	57.2	62.3
Income taxes	-8.5	-11.8	-19.4	-12.8	-13.9	-15.5
(Tax rate in %)	-30.2	-30.8	-24.0	-23.2	-24.4	-24.9
Net income	19.3	27.7	48.7	39.4	40.5	44.0
EPS ord.	1.23	1.78	3.09	2.29	2.36	2.56
<b>Growth (in %) CAGR (03/08)</b>						
Sales	11.8 %	24.5	6.1	17.4	27.5	4.0
EBITDA	14.9 %	24.8	25.1	13.5	25.6	5.2
EBIT	14.9 %	272.7	25.1	13.5	25.6	5.2
Net income	18.0 %	---	43.9	75.6	-19.0	2.7
<b>Cost ratios (in % of sales)</b>						
Cost of goods / sales	---	---	---	---	---	---
SG&A / sales	1.3	1.3	1.2	0.9	0.9	0.9
R&D / sales	---	---	---	---	---	---
<b>Cash flow (in € m)</b>						
Gross cash flow	---	21.7	30.2	36.8	40.3	43.7
Operating cash flow	---	6.4	19.6	26.2	29.7	33.1
Cash flow from investing activities	---	-74.2	-70.5	-70.5	-70.5	-70.5
Free cash flow	---	-67.8	-50.9	-44.3	-40.8	-37.4
Cash earnings	---	18.4	11.7	26.8	30.3	33.7
<b>Productivity (in € ts.)</b>						
Sales / employee	11,575.8	12,284.2	14,424.2	18,384.8	19,120.2	---
Personnel expense / employee	---	---	---	---	---	---
EBIT / employee	8,104.8	10,135.6	11,499.4	14,447.6	15,196.4	---
<b>Returns (in %)</b>						
EBITDA / sales	70.0	82.5	79.8	78.6	79.5	80.3
EBIT / sales	70.0	82.5	79.7	78.6	79.5	80.3
Pre-tax profit / sales	48.7	62.2	112.4	60.0	59.8	61.6
Net income / sales	33.3	45.2	67.5	42.9	42.4	43.6
Return on equity	2.8	4.1	6.2	4.8	4.8	5.1
Return on total capital	1.6	2.0	3.2	2.5	2.4	2.4
ROCE	3.9	4.5	4.7	5.4	5.3	5.2
<b>Balance sheet (in € m)</b>						
Property, plant and equipment	995.1	1,101.6	1,210.2	1,325.8	1,425.8	1,538.8
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	-6.2
Current assets	145.1	166.9	216.6	128.6	152.0	150.7
Capital employed (CE)	1,034.3	1,114.6	1,223.1	1,336.2	1,435.9	1,548.6
Equity	695.3	684.4	787.5	822.7	849.1	858.3
Equity ratio in %	56.1	49.9	51.0	52.5	50.2	47.6
Net financial debt (+), liquidity (-)	379.4	454.1	467.1	547.8	624.5	726.1
Total net debt (+), liquidity (-)	361.2	454.1	461.1	540.8	616.5	726.1
Gearing in %	54.6	66.4	59.3	66.6	73.6	84.6
<b>Price ord. on 17 May 2006: € 52.96</b>						
<b>Valuation</b>						
EPS ord. (€)	1.23	1.78	3.09	2.29	2.36	2.56
CFPS (€)	0.00	1.39	1.91	2.14	2.34	2.54
Number of shares ord., (m)	15.6	15.6	15.8	17.2	17.2	17.2
P/E ord.	25.7	19.8	14.2	23.1	22.5	20.7
P/CF	---	25.3	22.9	24.7	22.6	20.8
EV / Sales	14.34	15.49	15.31	15.35	15.58	15.78
EV / EBITDA	20.5	18.8	19.2	19.5	19.6	19.7
EV / EBIT	20.5	18.8	19.2	19.5	19.6	19.7

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