

# Deutsche EuroShop

EUR 53.21

(Reuters: DEQGn.F; Bloomberg: DEQ GR; WPK: 748020)

**Outperform****Andre Remke, CFA, +49 (0) 89 378-18202**

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## Solid first-half results and largest single new investment to date

Performance (08/11/06)	1W	1M	3M
Absolute (%)	0.2	0.2	-3.1
Relative vs. Euro STOXX 50 (%)	1.3	1.3	-4.6

Recommendation	
New: Outperform	Previous: Outperform

Price target	
New: EUR 61.00	Previous: EUR 61.00

Market cap. (EUR mn)	914.6
Free float (%)	81
Capital subscribed (EUR mn)	22.0
No. of shares in issue (mn)	17.2
Shareholders	Otto family 19%

Annual general meeting	Jun-07
9M/Q3	14-Nov-06
Bal. sheet press conf.	Apr-07

	2005	2006e	2007e
Sales (EUR mn)	72.1	92.9	98.6
EBITDA (EUR mn)	57.5	74.9	79.3
EBITA (EUR mn)	57.5	74.9	79.3
EBIT (EUR mn)	57.5	74.9	79.3
Net income (EUR mn)	61.7	55.1	47.4
EPS reported (EUR)	3.09	3.06	2.67
EPS adj. pre valuation result	1.24	1.57	1.49
P/E (EPS reported)	14.2	17.4	19.9
EV/sales	16.9	18.0	17.8
EV/EBITDA	21.2	22.4	22.2
EV/EBITA	21.2	22.4	22.2
Dividend (EUR)	2.00	2.10	2.15
Div. yield (%)	4.6	3.9	4.0

Apart from publishing its first-half results, Deutsche Euroshop (DES) has also announced plans to invest in a new shopping center. As expected, the figures were solid with DES recording substantial growth rates on the basis of new centers. Guidance for 2006 was reaffirmed. The new investment in Danzig, Poland, is DES's largest single investment since it was founded in 2000.

**New investment in Poland announced.** The 74% stake in Galeria Baltycka in Danzig, Poland, is the largest single investment since the company was founded in 2000. With an investment volume of EUR 123 mn (DES interest) and a total volume of EUR 161 mn, the market value of the shopping center portfolio increases to EUR 2.3 bn, with the DES holding amounting to EUR 1.5 bn.

- Galeria Baltycka is situated in Danzig and covers a catchment area of 1.2 mn inhabitants. According to management, there is no center in the area able to compete with it.
- Construction work started in May 2006 and the opening is scheduled for autumn 2007. 80% of the sales space of 47,100 m<sup>2</sup> has already been leased.
- DES is taking over the 74% holding from HGA Capital Grundbesitz u. Anlage GmbH – as usual not on the basis of a bidding procedure. ECE, also a partner, will be responsible for managing the center.
- Based on an initial rent yield of 6.8%, rental income of EUR 11.3 mn p.a. is calculated from 2008 onward and we project EUR 2.8 mn for 2007.
- The resulting monthly rent per m<sup>2</sup> comes to around EUR 20, just a little less than that of the DES centers in Germany.
- The center is being financed at a ratio of 47% from equity and 53% using borrowed funds with a 10-year term. However, the details of the breakdown of capex costs have not yet been published although we assume it will be 45% in 2006 and 55% in 2007.

**Investment guidance already met.** With this acquisition the investment volume of EUR 100 to 150 mn budgeted for 2006 has already been fulfilled. As this is generally a question of opportunities, we do not rule out further investments in the course of this year. Following the sale of the center in France and the planned sale of the center in Italy, at year-end the portfolio will consist of 11 centers in Germany and 4 abroad. The 16% share of centers outside Germany is focused on what we regard as interesting regions in Eastern Europe and Austria. As far as acquisitions are concerned, these are also likely to be the locations of future investment. Regarding sales, in spite of the current attractive sales multiples, we do not expect DES to dispose of any property because the number of reinvestment opportunities is correspondingly limited.

**First-half figures solid, as expected.** There were no surprises in the figures reported. The increase in revenues (rental income) and EBIT of 30% and 38%, respectively, was due principally to the new centers in Klagenfurt, Dessau and Wetzlar, and to consolidation of the MainTaunus center. Adjusted rental income came to 1%. No regular benefit of sales-linked rents will be felt until Q4. EBIT includes EUR 0.8 mn from the sale of the French center. The highly disproportionate rise in net income is the result of the sale of the center in France (EUR 3.5 mn after taxes) and of the valuation results in H1. For the first time, in Q2 the unrealized foreign-exchange effects from the holding in Hungary were not included in other operating expenditure but in the valuation result. At the same time the market value of the center was converted into Hungarian forints in the course of the year for the first time, resulting in an unrealized exchange-rate gain. Liabilities led to a currency loss. The delta stood at a positive figure of EUR 1.1 mn.

#### KEY FIGURES

EUR mn	H1/2006	H1/2005	y-o-y %	HVBe	Dev. %
Sales	45.9	35.2	30	45.7	0
EBIT	39.0	28.2	38	38.4	2
Margin (%)	85	80	5 pp	84	1 pp
Valuation result	8.2	-1.0		8.9	-8
EBT excl. valuation result	21.4	14.3	49	21.5	0
Margin (%)	47	41	6 pp	47	0 pp
EBT	29.6	14.1	109	30.4	-3
Net income	23.9	9.0	165	23.8	0
EPS reported (EUR)	1.39	0.58	141	1.38	0

Sources: Deutsche EuroShop, HVB Global Markets Research

**Guidance for 2006 reaffirmed – New center in Poland prompts us to raise our forecasts from 2007.** As expected, DES has reaffirmed its guidance for this year. We have left our estimates virtually unchanged. The three-month contribution to revenues provided by the new investment announced for 2007 and the full-year benefit from 2008 mean that we have raised our forecasts for these years. We are increasing our revenue estimate from EUR 95.6 mn (2007) and EUR 103.2 mn (2008) to EUR 98.6 mn and EUR 114.6, respectively. Our EPS forecast for 2007 is up slightly from EUR 2.54 to EUR 2.67 and from EUR 3.18 to EUR 3.29 for 2008.

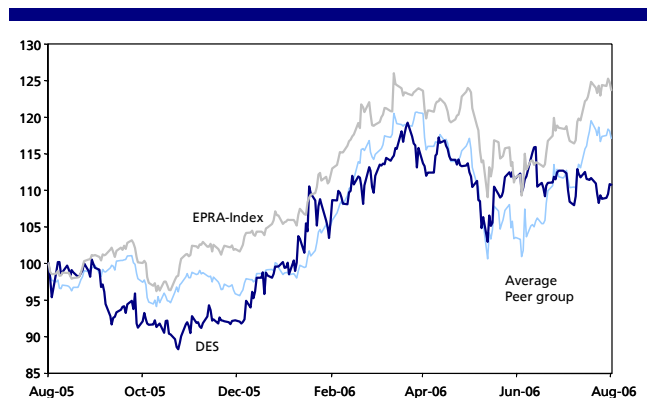
#### GUIDANCE

EUR mn	2006 Guidance	2006 HVBe
Sales	91-94	93
EBIT	72-75	75
EBT – excl. valuation result	37-40	40

Sources: Deutsche EuroShop, HVB Global Markets Research

**We reaffirm our Outperform rating and our price target of EUR 61.** The European peer group, which focuses mainly on retail properties, and the European real estate association EPRA have made substantial gains in recent months while DES stock was unable to keep up, performing more in line with the German stock market. We do not consider this difference justified from an operating aspect. The NAV premium (basis 2005) of competitors stands at around 30% with that of DES at 15%. On the basis of the DES portfolio we regard a multiple in line with that of the peer group as justified, the result being a fair value of EUR 60. Our long-term DDM produces a fair value of EUR 61. A P/E peer-group comparison produces EUR 61 (basis: average EPS 2006-2008). All in all, we derive a price target of EUR 61. **Especially in the current phase of the market, we consider the company's risk profile attractive and are reaffirming our Outperform rating on its stock.**

#### PERFORMANCE COMPARISON



Sources: Thomson Financial Datastream, HVB Global Markets Research

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 08/14/2006  
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 Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany

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Company	Date	Product	Rating	Price target
Deutsche EuroShop	04/21/2006	CF	Outperform	61.00
Deutsche EuroShop	01/27/2006	CF	Outperform	58.00
Deutsche EuroShop	10/10/2005	CF	Outperform	50.00
Deutsche EuroShop	08/11/2005	CU	Neutral	50.00

CF: Company Flash, CR: Company Report, CU: Company Update, EV: E-Valuation, GD: German Daily, LP: Local Product, MSC: Mid Caps/Small Caps, SF: Sector Flash, SP: Sector Preview, SR: Sector Report, WP: Company Weekly Preview

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Company	Key
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