



Deutsche EuroShop

Buy (previous: Buy) Price target: € 30.00

Real Estate

Bullet Points

Reuters symbol: DEQn.DE
ISIN: DE0007480204

Price on 16 August 2007: € 23.74
High/Low 12 month: € 30.09/23.74

Capital

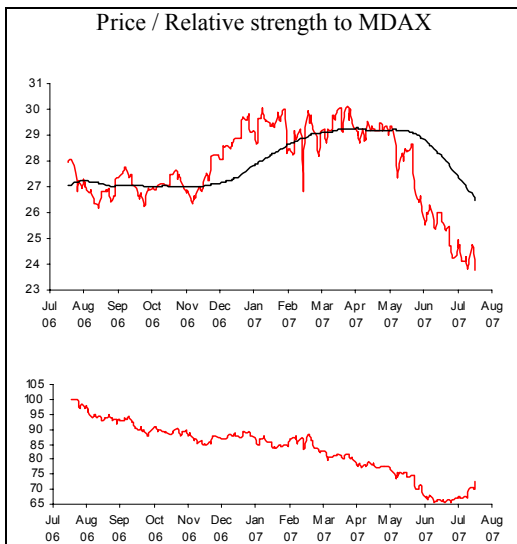
Market capitalization € 816.1 m
Number of shares 34.4 m
Subscribed capital € 22.0 m

Ownership structure

widely spread ord 80.7%
Otto family ord 19.3%

Upcoming events

9 Nov 2007 : Result Q3 2007



Source : FactSet M.M.Warburg Investment Research

in €	2006	2007e	2008e	2009e
EPS (current)	3.10	1.29	1.65	1.74
EPS (previous)	3.10	1.29	1.65	1.74
CFPS	0.88	0.60	0.82	1.03
Dividend	1.05	1.05	1.15	1.15
in € m	2006	2007e	2008e	2009e
Sales	92.9	95.5	114.6	123.6
EBITDA	86.3	75.3	90.3	100.8
EBIT	86.3	75.3	90.3	100.8
Net income	106.7	44.5	56.6	59.9
Cash flow	30.4	20.5	28.1	35.4
ROCE (EBIT/CE)	5.2%	4.3%	4.9%	5.1%
	2006	2007e	2008e	2009e
PER	8.7	18.3	14.4	13.6
PCFR	30.5	39.8	29.0	23.1
Div. Yield	3.9%	4.4%	4.8%	4.8%
EV/Sales	18.85	17.76	15.38	15.04
EV/EBITDA	20.3	22.5	19.5	18.4

Return to significant growth in 2008

- Sales and earnings in line with our expectations:** the figures presented for the 1st half of 2007 provided no surprises. At € 45.6 m, sales were 1% below the corresponding pre-year figure, although this decline was marked by the deconsolidation of the Company's French and Italian shopping centre. On a like-for-like basis sales were up by 3.2%. EBIT reported a decline of 3% to € 37.8 m on account of deconsolidation items and slightly higher costs. Earnings at DES, both before and after tax, showed a substantial drop in comparison with the H1 2006 figure, declining by 35% to € 37.8 m and by 43% to € 18.2 m, respectively. This drop is probably due, in essence, to an € 8.1 m boost to the valuation in the 1st half of 2006, which did not materialise in the 1st half of 2007. The balance sheet showed very few changes in the first 6 months of 2007 and remains very sound. The equity ratio stands at 48.4%.
- Guidance unchanged – no sales and earnings growth before 2008:** management confirmed its previous guidance for this year: sales € 92-94 m, EBIT: € 71-73 m, EBT: € 31-32 m (excluding valuation result). Owing to the opening of new shopping centres in Gdansk (October 2007, current occupancy rate 100%), Hameln (Spring 2008, 90% leased) and Passau (Autumn 2008: 72% leased), 2008 is expected to see a substantial surge in both sales and earnings (sales up 18%, EBIT up 23%).
- Target price reduced to € 30, Buy recommendation reaffirmed:** since the valuation of the entire real estate sector has come under substantial strain in recent weeks, we have lowered our target price for Deutsche EuroShop from € 34 to € 30. We expect the NAV to continue rising (2006: € 25.52, 2007e: € 26.20 per share). Due to the first-time valuation of the new centres, an even more pronounced increase is to be expected in 2008. We do not at present anticipate any risks concerning a devaluation of the property assets, as the valuation potential is far from having been fully exploited in the past. Furthermore, due to the very conservative financing of the shopping centres we do not anticipate any financing difficulties, even if the banks' lending policy was to become more restrictive in the future. The full financing for all currently planned investments is in place. As we see it, the dividend (dividend yield 2007e: 4.4%) is also attractive and remains tax-exempt.

RALF DIBBERN
Senior Analyst

Tel.: +49 (0) 40 / 3282 -2486
rdibbern@mmwarburg.com

	2004	2005	2006	2007e	2008e	2009e	
Income statement (in € m)							
Sales	61.4	72.1	92.9	95.5	114.6	123.6	
Cost of goods	-11.4	-7.9	-10.4	-9.4	-12.6	-11.6	
Gross profit	50.0	64.3	82.4	86.0	102.0	112.0	
SG&A expenses	-4.3	-4.5	-5.8	-6.5	-6.6	-7.2	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	4.1	-2.3	9.7	-4.3	-5.0	-4.0	
EBITDA	49.8	57.5	86.3	75.3	90.3	100.8	
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	49.8	57.5	86.3	75.3	90.3	100.8	
Operating profit (company definition)	49.8	57.5	86.3	75.3	90.3	100.8	
Financial income	4.8	5.0	1.9	0.2	0.2	0.2	
Extraordinary income/expenses	8.0	49.9	72.3	24.0	28.5	24.5	
Pre-tax profit	42.1	68.1	124.1	62.5	78.2	82.6	
Income taxes	-10.8	-19.4	-17.4	-15.0	-18.9	-20.0	
(Tax rate in %)	25.8	28.5	14.0	24.1	24.1	24.2	
Net income	27.7	48.7	106.7	44.5	56.6	59.9	
EPS ord.	0.89	1.42	3.10	1.29	1.65	1.74	
Growth (in %)	CAGR (04/09)						
Sales	15.0 %	6.1	17.4	28.7	2.8	20.0	7.8
EBITDA	15.2 %	22.7	15.6	50.2	-12.8	19.9	11.6
EBIT	15.2 %	22.7	15.6	50.2	-12.8	19.9	11.6
Net income	16.6 %	45.8	75.6	119.0	-58.3	27.2	5.8
Cost ratios (in % of sales)							
Cost of goods / sales	18.6	10.9	11.2	9.9	11.0	9.4	
SG&A / sales	7.0	6.2	6.2	6.8	5.8	5.8	
R&D / sales	---	---	---	---	---	---	
Cash flow (in € m)							
Gross cash flow	21.7	17.2	55.7	28.9	38.1	43.9	
Operating cash flow	21.6	19.9	55.5	29.1	38.3	43.9	
Cash flow from investing activities	-74.2	-70.5	-70.5	-70.5	-70.5	-69.5	
Free cash flow	-52.6	-50.6	-15.0	-41.4	-32.2	-25.6	
Cash earnings	13.6	-1.2	30.4	20.5	28.1	35.4	
Productivity (in € ts.)							
Sales / employee	12,284.2	14,424.2	18,570.8	19,092.1	22,918.1	24,714.7	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	9,951.6	11,499.4	17,268.2	15,060.2	18,064.0	20,158.1	
Returns (in %)							
EBITDA / sales	81.0	79.7	93.0	78.9	78.8	81.6	
EBIT / sales	81.0	79.7	93.0	78.9	78.8	81.6	
Pre-tax profit / sales	68.5	94.5	133.6	65.5	68.3	66.9	
Net income / sales	45.2	67.5	114.9	46.6	49.4	48.4	
Return on equity	4.1	6.7	13.3	5.4	6.6	6.8	
Return on total capital	2.0	3.2	5.9	2.5	3.0	2.9	
ROCE	4.5	4.7	5.2	4.3	4.9	5.1	
Balance sheet (in € m)							
Property, plant and equipment	1,101.6	1,210.2	1,623.8	1,717.8	1,846.2	1,970.7	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	-1.7	-4.4	-4.2	-4.4	-4.6	-4.9	
Current assets	166.9	216.6	143.3	41.7	12.7	53.2	
Capital employed (CE)	1,114.6	1,223.1	1,663.7	1,759.6	1,857.6	1,981.9	
Equity	684.4	724.7	802.7	828.1	851.2	879.1	
Equity ratio in %	49.9	46.9	44.5	46.3	45.1	42.8	
Net financial debt (+), liquidity (-)	454.1	467.1	683.7	834.1	897.9	992.6	
Total net debt (+), liquidity (-)	435.9	467.1	683.7	827.1	889.9	984.6	
Gearing in %	66.4	64.5	85.2	100.7	105.5	112.9	
Price ord. on 16 August 2007: € 23.74							
Valuation							
EPS ord. (€)	0.89	1.42	3.10	1.29	1.65	1.74	
CFPS (€)	0.44	-0.04	0.88	0.60	0.82	1.03	
Number of shares ord., (m)	31.3	34.4	34.4	34.4	34.4	34.4	
P/E ord.	19.8	15.5	8.7	18.3	14.4	13.6	
P/CF	40.4	-605.6	30.5	39.8	29.0	23.1	
EV / Sales	17.63	18.09	18.85	17.76	15.38	15.04	
EV / EBITDA	21.8	22.7	20.3	22.5	19.5	18.4	
EV / EBIT	21.8	22.7	20.3	22.5	19.5	18.4	

Disclaimer: The legal disclaimer as well as updated disclosures according to Section 34b of the German Securities Trading Act and German FinAnV on the security/securities analysed in this report can be found on our internet pages at : <http://www.mmwarburg.com/research/disclaimer/disclaimer.htm>
The disclaimer and disclosures provided are considered a part of this report and should be taken into account when making investment decisions based on this report.

Copyright: This work including all its parts is protected by copyright. Any use beyond the limits provided by copyright law without permission is prohibited and punishable. This applies, in particular, to reproductions, translations, microfilming, and storage and processing on electronic media of the entire content or parts thereof.