



# Deutsche EuroShop

Buy (previous: Buy) Price target: € 30.00

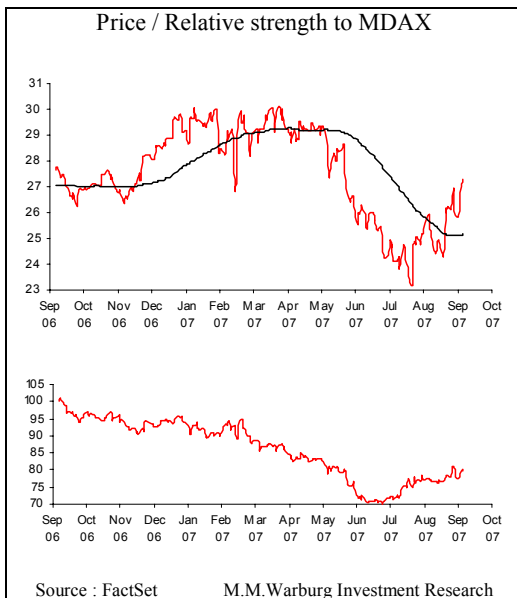
Real Estate

## Bullet Points

Reuters symbol: DEQn.DE  
ISIN: DE0007480204

Price on 5 October 2007: € 27.31  
High/Low 12 month: € 30.09/23.22

Capital	Ownership structure	Upcoming events
Market capitalization € 938.8 m	widely spread ord 80.7%	9 Nov 2007 : Result Q3 2007
Number of shares 34.4 m	Otto family ord 19.3%	
Subscribed capital € 22.0 m		



## Positive tax effects expected

- Gains of € 23.8 m to be entered in Q3 2007:** The management of Deutsche Euroshop (DES) has now specified the tax effects expected from the German corporate tax reform. As a result of writing back provisions for deferred taxes, a positive one-off tax effect of nearly € 30 m is expected, € 23.8 m of which will be credited to earnings in the P&L account and € 5.9 m of which will flow directly into equity. We have now considered this non-recurrent effect in our earnings estimates. When the reform comes into force on 1 January 2008, Deutsche Euroshop will also profit noticeably from the lower tax rate. Management states that the company's tax rate will then fall by 10.6% points to then only 15.8%.
- Uncertainties on interest limit:** There are some uncertainties, however, as to how the interest limit is to be applied under the corporate tax reform, according to which the net interest expense is only deductible for up to 30% of the taxable EBITDA. If this limit is exceeded, the interest expense is added again to the profit off the balance sheet and brought forward as so-called interest carried forward. Unlike most regulations of the corporate tax reform in 2008 (generally effective as of 2008) the interest limit applies for the first time for financial years beginning after the 25 May 2007 and ending not before 1 January 2008. It is completely unclear at the moment, however, whether the interest limit applies at all to Deutsche Euroshop, as various special regulations are stipulated in the law that could be relevant to DES. Furthermore, it is questionable clear whether the regulation will stand the scrutiny of the courts. Court actions against the interest limit regulation are very likely to be filed, as numerous new terms have to be interpreted and applied. Companies firstly have to wait for the letter of introduction from the German Ministry of Finance which should provide more clarity on the matter. Given these uncertainties, we have initially estimated DES's company's tax rate from 2008 at 20% (previously 25%).
- Impact of withholding tax:** With effect from 1 January 2009 a withholding tax of 25% on all capital gains will be introduced. DES' dividends from the taxable deposit account are not subject to this tax, however, so DES investors can continue to collect dividends fully tax-free. Investors who buy DES shares after 1 January 2009 will likewise receive dividends tax-free initially, but will have to pay tax subsequently if they sell the shares.

in €	2006	2007e	2008e	2009e
EPS (current)	3.10	1.99	1.76	1.86
EPS (previous)	3.10	1.29	1.65	1.74
CFPS	0.88	1.29	0.93	1.15
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	68.3	60.4	63.9
Cash flow	30.4	44.3	31.9	39.4
ROCE (EBIT/CE)	5.2%	4.3%	4.9%	5.1%
	2006	2007e	2008e	2009e
PER	8.7	13.8	15.6	14.7
PCFR	30.5	21.2	29.5	23.8
Div. Yield	3.9%	3.8%	4.2%	4.2%
EV/Sales	18.85	18.79	16.21	15.78
EV/EBITDA	20.3	23.8	20.6	19.3

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	2004	2005	2006	2007e	2008e	2009e	
<b>Income statement (in € m)</b>							
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	8.8	-15.1	-16.0	
(Tax rate in %)	25.8	28.5	14.0	-14.0	19.3	19.3	
Net income	27.7	48.7	106.7	68.3	60.4	63.9	
EPS ord.	0.89	1.42	3.10	1.99	1.76	1.86	
<b>Growth (in %)</b>	<b>CAGR (04/09)</b>						
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	18.1 %	45.8	75.6	119.0	-36.0	-11.6	5.8
<b>Cost ratios (in % of sales)</b>							
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	---	---	---	---	---	---	
<b>Cash flow (in € m)</b>							
Gross cash flow	21.7	17.2	55.7	52.7	41.8	47.9	
Operating cash flow	21.6	19.9	55.5	52.9	42.1	47.9	
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	-17.6	-28.4	-21.6	
Cash earnings	13.6	-1.2	30.4	44.3	31.9	39.4	
<b>Productivity (in € ts.)</b>							
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	
<b>Returns (in %)</b>							
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	71.5	52.7	51.7	
Return on equity	4.1	6.7	13.3	8.0	6.9	7.0	
Return on total capital	2.0	3.2	5.9	3.8	3.2	3.1	
ROCE	4.5	4.7	5.2	4.3	4.9	5.1	
<b>Balance sheet (in € m)</b>							
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	65.5	40.3	84.7	
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	851.9	878.7	910.7	
Equity ratio in %	49.9	46.9	44.5	47.0	45.9	43.7	
Net financial debt (+), liquidity (-)	454.1	467.1	683.7	810.3	870.3	961.0	
Total net debt (+), liquidity (-)	435.9	467.1	683.7	803.3	862.3	953.0	
Gearing in %	66.4	64.5	85.2	95.1	99.0	105.5	
<b>Price ord. on 5 October 2007: € 27.31</b>							
<b>Valuation</b>							
EPS ord. (€)	0.89	1.42	3.10	1.99	1.76	1.86	
CFPS (€)	0.44	-0.04	0.88	1.29	0.93	1.15	
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	13.8	15.6	14.7	
P/CF	40.4	-605.6	30.5	21.2	29.5	23.8	
EV / Sales	17.63	18.09	18.85	18.79	16.21	15.78	
EV / EBITDA	21.8	22.7	20.3	23.8	20.6	19.3	
EV / EBIT	21.8	22.7	20.3	23.8	20.6	19.3	

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