



Deutsche EuroShop

Buy (previous: Buy) Price target: € 30.00

Real Estate

Bullet Points

Reuters symbol: DEQn.DE
ISIN: DE0007480204

Price on 8 November 2007: € 26.97
High/Low 12 month: € 30.09/23.22

Capital

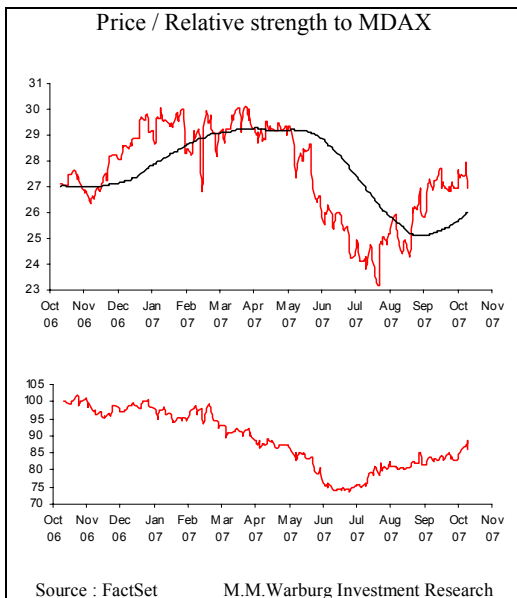
Market capitalization	€ 927.1 m
Number of shares	34.4 m
Subscribed capital	€ 22.0 m

Ownership structure

widely spread	ord	80.7%
Otto family	ord	19.3%

Upcoming events

18 Apr 2008 :	Result 2007
14 May 2008 :	Result Q1 2008
14 Aug 2008 :	Result Q2 2008
14 Nov 2008 :	Result Q3 2008



in €	2006	2007e	2008e	2009e
EPS (current)	3.10	1.98	1.76	1.86
EPS (previous)	3.10	1.98	1.76	1.86
CFPS	0.88	1.29	0.93	1.14
Dividend	1.05	1.05	1.15	1.15

in € m	2006	2007e	2008e	2009e
Sales	92.9	94.7	113.8	122.8
EBITDA	86.3	73.0	89.7	100.1
EBIT	86.3	73.0	89.7	100.1
Net income	106.7	67.9	60.3	63.8
Cash flow	30.4	44.2	31.8	39.4
ROCE (EBIT/CE)	5.2%	4.1%	4.8%	5.1%

	2006	2007e	2008e	2009e
PER	8.7	13.6	15.4	14.5
PCFR	30.5	21.0	29.1	23.6
Div. Yield	3.9%	3.9%	4.3%	4.3%
EV/Sales	18.85	18.83	16.22	15.78
EV/EBITDA	20.3	24.4	20.6	19.4

Outlook raised slightly for 2007

- 9M sales and earnings in line with our expectations:** Apart from the opening of the Galeria Baltycka in Gdansk (Poland), the third quarter was unspectacular for DES in operating terms. The centre (200 stores, sales floor of 39,500 qm) is estimated to generate sales of € 10 to 11 m from 2008. The 9-month sales in 2007 of € 68.9 m (MMW: 68.8 m) were on par with the same period last year, for deconsolidation reasons, but still showed a very pleasing organic growth of 2.9%. EBIT fell slightly by 3% to € 55.6 m (MMWe: € 55.6 m) owing to investments in the shopping centres under construction. DES posted a huge increase in post-tax earnings to € 44.5 m (adjusted y-o-y: € 22.4 m), although the one-off tax effect of € 23.8 m should be taken into account (in operating terms EAT therefore -7.6%). The balance sheet is still looking very solid, with an equity ratio of 49.4%.
- Outlook raised slightly for 2007 – significant sales and earnings growth in 2008:** Management has increased its guidance for the current year a little: sales of € 93-95 m, EBIT: € 72-74 m, EBT: € 31-33 m (without valuation result). Owing to the opening of new shopping centres in Gdansk (Oct. 2007, rented level of 100%), Hameln (early 2008, 95% already tenanted) and Passau (autumn 2008, 76% already tenanted), a significant sales and earnings leap can be expected in 2008 (sales +18%, EBIT +23%). Furthermore, management is aiming at new investments of € 100-150 m in 2008 too. The minimum requirement for the initial return remains at 5.5%, although returns have not yet reached this level again at present due to the sustained high prices.
- Price target confirmed at € 30:** After three excellent years, share prices in the entire property sector have made substantial losses since the start of 2007 – also on the back of the US subprime crisis. Deutsche Euroshop has been able to detach itself from this trend since mid 2007 and, today, has already recovered the level of mid May 2007. We still expect a positive NAV development (2006: € 25.52, 2007e: € 26.20 per share). Based on the initial valuations from the new centres, further rises are likely in 2008 and 2009. We do not see any risks of depreciation of the property assets at the moment, as the valuation scope has been by no means exhausted in the past. Nor are any financial difficulties to be anticipated due to the very conservative financing of the shopping centres, even if banks' loan granting policies will be more restrictive in future. The current investment plans are fully financed. In our view, the dividend – still tax-free - is also attractive (dividend yield 2007e: 3.8%).

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	94.7	113.8	122.8	
Cost of goods	-11.4	-7.9	-10.4	-9.9	-12.5	-11.5	
Gross profit	50.0	64.3	82.4	84.8	101.3	111.3	
SG&A expenses	-4.3	-4.5	-5.8	-6.4	-6.6	-7.1	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	4.1	-2.3	9.7	-5.4	-5.0	-4.0	
EBITDA	49.8	57.5	86.3	73.0	89.7	100.1	
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	49.8	57.5	86.3	73.0	89.7	100.1	
Operating profit (company definition)	49.8	57.5	86.3	73.0	89.7	100.1	
Financial income	4.8	5.0	1.9	0.2	0.2	0.2	
Extraordinary income/expenses	8.0	49.9	72.3	23.7	28.5	24.5	
Pre-tax profit	42.1	68.1	124.1	59.7	77.4	81.7	
Income taxes	-10.8	-19.4	-17.4	11.1	-15.1	-16.0	
(Tax rate in %)	25.8	28.5	14.0	-18.5	19.5	19.5	
Net income	27.7	48.7	106.7	67.9	60.3	63.8	
EPS ord.	0.89	1.42	3.10	1.98	1.76	1.86	
Growth (in %)	CAGR (04/09)						
Sales	14.9 %	6.1	17.4	28.7	2.0	20.2	7.9
EBITDA	15.0 %	22.7	15.6	50.2	-15.5	22.9	11.6
EBIT	15.0 %	22.7	15.6	50.2	-15.5	22.9	11.6
Net income	18.1 %	45.8	75.6	119.0	-36.3	-11.2	5.8
Cost ratios (in % of sales)							
Cost of goods / sales	18.6	10.9	11.2	10.4	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	52.5	41.8	47.9	
Operating cash flow	21.6	19.9	55.5	52.7	42.0	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	-17.8	-28.5	-21.6	
Cash earnings	13.6	-1.2	30.4	44.2	31.8	39.4	
Productivity (in € ts.)							
Sales / employee	12,284.2	14,424.2	18,570.8	18,933.9	22,762.6	24,562.1	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	9,951.6	11,499.4	17,268.2	14,599.3	17,949.1	20,028.6	
Returns (in %)							
EBITDA / sales	81.0	79.7	93.0	77.1	78.9	81.5	
EBIT / sales	81.0	79.7	93.0	77.1	78.9	81.5	
Pre-tax profit / sales	68.5	94.5	133.6	63.1	68.0	66.5	
Net income / sales	45.2	67.5	114.9	71.8	53.0	52.0	
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	3.7	3.2	3.1	
ROCE	4.5	4.7	5.2	4.1	4.8	5.1	
Balance sheet (in € m)							
Property, plant and equipment	1,101.6	1,210.2	1,623.8	1,717.5	1,846.0	1,970.5	
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	65.3	40.1	84.5	
Capital employed (CE)	1,114.6	1,223.1	1,663.7	1,759.4	1,857.4	1,981.6	
Equity	684.4	724.7	802.7	851.5	878.4	910.3	
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	810.5	870.5	961.2	
Total net debt (+), liquidity (-)	435.9	467.1	683.7	803.5	862.5	953.2	
Gearing in %	66.4	64.5	85.2	95.2	99.1	105.6	
Price ord. on 8 November 2007: € 26.97							
Valuation							
EPS ord. (€)	0.89	1.42	3.10	1.98	1.76	1.86	
CFPS (€)	0.44	-0.04	0.88	1.29	0.93	1.14	
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	13.6	15.4	14.5	
P/CF	40.4	-605.6	30.5	21.0	29.1	23.6	
EV / Sales	17.63	18.09	18.85	18.83	16.22	15.78	
EV / EBITDA	21.8	22.7	20.3	24.4	20.6	19.4	
EV / EBIT	21.8	22.7	20.3	24.4	20.6	19.4	

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