

Deutsche Euroshop

Real Estate

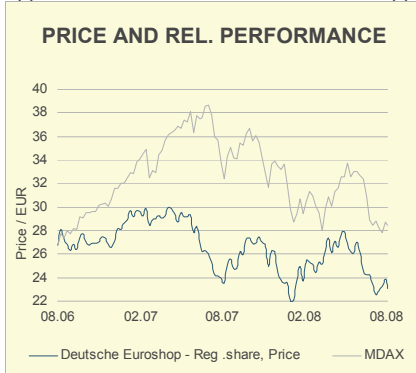
2008-08-14

Applied disclosures can be found in the appendix

Buy

Fair Value EUR30.00

Price EUR23.05 (Closing price as of 2008-08-13)



GOOD NUMBERS, AS EXPECTED

ASSESSMENT

- Deutsche Euroshop released Q2 figures, which were in line with expectations. Overall the numbers are good and therefore quite unspectacular – just the reason why we like the stock.
- The company that owns, but does not operate, shopping centers delivered a net income of EUR11.4 million in Q2, compared to Q2 last year with an increase of 58% (y-o-y), while revenues had “only” risen by 23% (y-o-y), due to the opening of new shopping centers. This year we will see the opening of another shopping center in Passau, which is already fully let. Thus two new shopping centers have been added this year, allowing for further revenue growth next year.
- In Q2, Deutsche Euroshop booked unrealized book gains of EUR2.4 million, which had not been expected by investors. These non-cash gains came from unrealized currency gains associated with the Polish Zloty and Hungarian Forint.
- Management confirmed all of its targets: revenues to be in the range of EUR110 to EUR113 million; an EBIT increase of 20% up to EUR90-92 million (EUR77.2 million), mirroring the scalability of Deutsche Euroshop’s business model and a pre-tax profit of EUR43-45 million, excluding revaluation gains, which we estimate to amount to EUR86 million. Moreover, management said it expects to pay a dividend of EUR1.05 per share.
- Despite reiterating its targets, which we consider achievable, management has expressed its concern about consumer confidence and reduced consumer spending.

MARKET DATA

| | |
|----------------|---------|
| Reuters | DEQn.DE |
| Bloomberg | DEQ GR |
| Market cap €bn | 0,8 |
| Free float % | 81,0 |

| KEY DATA | | | |
|---------------------|-------|-------|-------|
| Yr.end 12/31 | 2007 | 2008e | 2009e |
| NNAVPS | 26,22 | 27,94 | 29,42 |
| FFOPS | 1,63 | 1,06 | 1,12 |
| EPS | 2,74 | 2,92 | 2,43 |
| P/NNAV | 1,0 | 0,8 | 0,8 |
| FFO yield % | 6,0 | 4,6 | 4,9 |
| RONNAV % | 4,4 | 3,9 | 3,9 |
| FFOPS CAGR: 07-10 % | | | -11,3 |

NEXT EVENTS

| Deutsche Euroshop (€m) | Q2 07 | Q1 08 | Q2 08e |
|---------------------------|------------|-------------|-------------|
| Total revenues | 23,0 | 26,9 | 28,3 |
| EBIT | 19,0 | 22,5 | 23,5 |
| Revaluation gain / losses | 0,3 | 1,8 | 2,6 |
| EBT | 9,8 | 12,3 | 14,0 |
| Net income | 7,2 | 10,2 | 11,4 |

CONCLUSION & VALUATION

For us, Deutsche Euroshop is one of our favored real estate stocks, as the company has a vacancy rate of just 1%, and its rental contracts are turned over and CPI-linked. Moreover, we like the fact that the company is focused and rather cautious before pursuing new projects. Q2 RONNAV amounted to 4.4%; for the FY 2008 we expect a stated ROE of 11%, with any revaluation gains being pretty sustainable, as they are backed by solid underlying assets.

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| Deutsche Euroshop - P&L | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| EURm (Yr. end: 12/31) | 2006 | 2007 | 2008e | 2009e | 2010e |
| Rental income | 92,4 | 94,5 | 113,8 | 123,2 | 126,9 |
| Revaluation of investment properties | 72,3 | 50,8 | 85,6 | 60,0 | 65,0 |
| Other income | 16,4 | 1,3 | 2,2 | 2,4 | 2,6 |
| Total income | 181,2 | 146,5 | 201,6 | 185,6 | 194,5 |
| Real estate operating expenses | 16,2 | 15,4 | 21,4 | 22,0 | 22,5 |
| Other operating expenses | 6,3 | 4,2 | 4,4 | 4,6 | 4,9 |
| Total operating expenses | 22,5 | 19,6 | 25,8 | 26,6 | 27,4 |
| EBITDA | 158,6 | 126,9 | 175,8 | 159,0 | 167,1 |
| EBITDA (excl. revaluation) | 86,3 | 76,1 | 90,2 | 99,0 | 102,1 |
| EBIT | 158,6 | 126,9 | 175,8 | 159,0 | 167,1 |
| Interest income | 2,3 | 2,7 | 2,7 | 2,8 | 2,8 |
| Interest expenses | 38,9 | 40,2 | 43,8 | 46,9 | 49,2 |
| Other financial income | -4,4 | -12,6 | -13,1 | -13,6 | -14,2 |
| EBT | 117,7 | 76,8 | 121,7 | 101,3 | 106,6 |
| Taxes | 17,4 | -16,3 | 21,2 | 17,7 | 18,6 |
| Adjusted net profit | 100,3 | 93,1 | 100,5 | 83,6 | 87,9 |
| Net profit | 100,3 | 93,1 | 100,5 | 83,6 | 87,9 |
| Net profit after minorities | 100,3 | 93,1 | 100,5 | 83,6 | 87,9 |
| Total operating income | 108,9 | 95,8 | 116,0 | 125,6 | 129,5 |
| Operating costs | 22,5 | 19,6 | 25,8 | 26,6 | 27,4 |
| Key ratios and figures | | | | | |
| EURm (Yr. end: 12/31) | 2006 | 2007 | 2008e | 2009e | 2010e |
| Number of total shares | 17,2 | 34,4 | 34,4 | 34,4 | 34,4 |
| EPS (reported) | 5,84 | 2,74 | 2,92 | 2,43 | 2,56 |
| FFOPS | 2,71 | 1,63 | 1,06 | 1,12 | 1,14 |
| DPS | 2,10 | 1,05 | 1,10 | 1,10 | 1,15 |
| NNAVPS | 48,64 | 26,22 | 27,94 | 29,42 | 30,69 |
| Growth rates % | | | | | |
| Revenues | 45,7 | -19,1 | 37,6 | -7,9 | 4,8 |
| EBITDA | 47,6 | -20,0 | 38,6 | -9,5 | 5,1 |
| EBIT | 47,6 | -20,0 | 38,6 | -9,5 | 5,1 |
| EBT | 72,7 | -34,8 | 58,5 | -16,7 | 5,2 |
| Net profit after minorities | 105,9 | -7,2 | 7,9 | -16,8 | 5,2 |
| FFO | 313,4 | -39,7 | -35,3 | 6,4 | 1,6 |
| Margins and ratios % | | | | | |
| Cost/income ratio | -12,4 | -13,4 | -12,8 | -14,3 | -14,1 |
| Property expens./gross rental inc. | -17,5 | -16,3 | -18,8 | -17,8 | -17,8 |
| EBITDA/total income (excl. revaluation) | 87,6 | 86,6 | 87,2 | 85,7 | 85,9 |
| EBIT/total income (excl. revaluation) | 87,6 | 86,6 | 87,2 | 85,7 | 85,9 |
| EBT/total income | 65,0 | 52,4 | 60,3 | 54,6 | 54,8 |
| Net profit margin | 55,4 | 63,6 | 49,8 | 45,0 | 45,2 |
| RONNAV | 5,8 | 4,4 | 3,9 | 3,9 | 3,8 |
| Other ratios | | | | | |
| Interest cover | -2,2 | -1,9 | -2,1 | -2,1 | -2,1 |
| Equity ratio % | 44,3 | 43,6 | 40,2 | 40,0 | 40,3 |
| LTV | 53,8 | 54,0 | 58,3 | 57,7 | 57,0 |
| Gearing % | 86,0 | 91,4 | 113,6 | 117,0 | 115,3 |

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