



# Deutsche EuroShop

Buy (previous: Buy) Price target: € 30.00

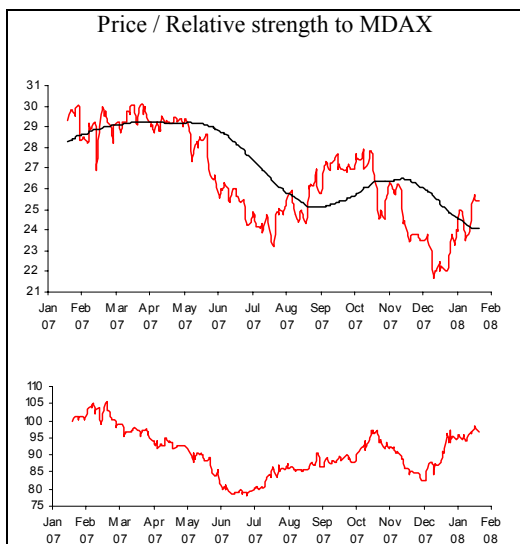
Real Estate

## Bullet Points

Bloomberg Code: DEQ GY Equity  
ISIN: DE0007480204

Price on 18 February 2008: € 25.44  
High/Low 12 month: € 30.09/21.67

Capital	Ownership structure	Upcoming events
Market capitalization € 874.5 m	widely spread ord 80.7%	18 Apr 2007 : Result 2007
Number of shares 34.4 m	Otto family ord 19.3%	14 May 2008 : Result Q1 2008
Subscribed capital € 22.0 m		14 Aug 2008 : Result Q2 2008
		14 Nov 2008 : Result Q3 2008



Source : FactSet M.M.Warburg Investment Research

in €	2006	2007e	2008e	2009e
EPS (current)	2.92	2.71	1.75	1.81
EPS (previous)	3.10	1.98	1.76	1.81
CFPS	1.32	1.05	1.25	1.44
Dividend	1.05	1.05	1.15	1.20
in € m	2006	2007e	2008e	2009e
Sales	92.9	95.6	114.3	122.4
EBITDA	86.3	76.1	91.7	100.1
EBIT	86.3	76.1	91.7	100.1
Net income	100.3	93.0	60.1	62.1
Cash flow	45.4	36.2	43.0	49.4
ROCE (EBIT/CE)	5.2%	4.2%	4.8%	4.9%
	2006	2007e	2008e	2009e
PER	9.3	10.1	14.6	14.1
PCFR	20.5	25.9	20.3	17.7
Div. Yield	3.9%	3.9%	4.5%	4.7%
EV/Sales	18.85	18.86	15.77	15.50
EV/EBITDA	20.3	23.7	19.6	19.0

## Renewed substantial valuation gains

- NAV in 2007 rose to € 26.90 per share:** Once again in 2007 Deutsche Euroshop has reported high valuation gains of € 45 m in its preliminary figures. This means an average appreciation of all centres by 3.1%. According to the company, these results included no special effects in the form of first valuations etc. The centre that was opened in Gdansk (Poland) in October 2007 will be valued for the first time in the current year, which also implies substantial value growth in 2008. The high valuation effect in 2007 is impacting NAV accordingly, which increased from € 25.53 (2006) to € 26.90 per share at the end of 2007. The valuation gain clearly exceeded our estimate of € 24 m. Owing to the higher than expected value growth, EPS at € 2.71 was also much higher than we had expected. Operating income was in line with our expectations, however. Sales in 2007 of € 95.7 m were slightly above our expectations of € 95.5 m, the same as EBIT, which came to € 76 m (MMWe: € 75.3 m).
- More optimistic outlook for 2008:** Management has confirmed its earlier guidance for the current year. Based on the first-time full-year consolidation of the shopping centre in Danzig (opened at the start of October 2007) and the planned opening of the new centres in Hameln (spring 2008) and Passau (autumn 2008), sales in the current year will total € 110-113 m, while EBIT is set to reach € 90-92 m. Pre-tax earnings (without valuation effects) are expected to be in the region of € 43-45 m. As the rental income is fixed and the costs are predictable, we have no doubts that these targets will be reached.
- Buy rating is confirmed:** Based on the first valuations of the new centres, further rises in NAV are to be expected in 2008 and 2009. We currently do not see any risks of property assets losing value as the valuation scope has by no means been exhausted in the past. Similarly, no financing problems are to be anticipated - even if banks' lending policies do become more restrictive in future - given the very conservative financing basis of the shopping centres. The current investment plans are fully financed. We also believe the dividend is attractive (dividend yield in 2007e: 3.9%), which is still tax-free.

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	2004	2005	2006	2007e	2008e	2009e	
<b>Income statement (in € m)</b>							
Sales	61.4	72.1	92.9	95.6	114.3	122.4	
Cost of goods	-11.4	-7.9	-10.4	-9.9	-11.4	-11.5	
Gross profit	50.0	64.3	82.4	85.6	102.9	110.9	
SG&A expenses	-4.3	-4.5	-5.8	-6.4	-6.9	-7.1	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	4.1	-2.3	9.7	-3.2	-4.2	-3.7	
EBITDA	49.8	57.5	86.3	76.1	91.7	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	76.1	91.7	100.1	
Operating profit (company definition)	---	---	45.4	36.2	43.0	49.4	
Financial income	-20.5	-39.3	-41.0	-39.8	-48.7	-50.6	
Extraordinary income/expenses	8.0	49.9	72.3	44.7	28.5	24.5	
Pre-tax profit	37.3	68.1	117.7	80.9	71.5	73.9	
Income taxes	-10.8	-19.4	-17.4	12.1	-11.4	-11.8	
(Tax rate in %)	29.1	28.5	14.8	-15.0	16.0	16.0	
Net income	27.7	48.7	100.3	93.0	60.1	62.1	
EPS ord.	0.89	1.42	2.92	2.71	1.75	1.81	
<b>Growth (in %) CAGR (04/09)</b>							
Sales	14.8 %	6.1	17.4	28.7	2.9	19.6	7.1
EBITDA	15.0 %	22.7	15.6	50.2	-11.9	20.6	9.1
EBIT	15.0 %	22.7	15.6	50.2	-11.9	20.6	9.1
Net income	17.5 %	45.8	75.6	105.9	-7.3	-35.4	3.3
<b>Cost ratios (in % of sales)</b>							
Cost of goods / sales	18.6	10.9	11.2	10.4	10.0	9.4	
SG&A / sales	7.0	6.2	6.2	6.7	6.1	5.8	
R&D / sales	---	---	---	---	---	---	
<b>Cash flow (in € m)</b>							
Gross cash flow	---	---	45.4	36.2	43.0	49.4	
Operating cash flow	---	---	45.4	36.2	43.0	49.4	
Cash flow from investing activities	---	---	-70.5	-70.5	-100.0	-100.0	
Free cash flow	---	---	-25.1	-34.3	-57.0	-50.6	
Cash earnings	---	---	45.4	36.2	43.0	49.4	
<b>Productivity (in € ts.)</b>							
Sales / employee	12,284.2	14,424.2	18,570.8	19,110.3	22,859.7	24,471.9	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	9,951.6	11,499.4	17,268.2	15,213.5	18,345.8	20,012.1	
<b>Returns (in %)</b>							
EBITDA / sales	81.0	79.7	93.0	79.6	80.3	81.8	
EBIT / sales	81.0	79.7	93.0	79.6	80.3	81.8	
Pre-tax profit / sales	60.7	94.5	126.7	84.7	62.6	60.4	
Net income / sales	45.2	67.5	108.0	97.3	52.6	50.7	
Return on equity	4.1	6.7	12.6	10.7	6.7	6.7	
Return on total capital	2.0	3.2	5.6	4.9	3.0	3.0	
ROCE	4.5	4.7	5.2	4.2	4.8	4.9	
<b>Balance sheet (in € m)</b>							
Property, plant and equipment	1,101.6	1,210.2	1,623.8	1,768.5	1,896.9	2,021.4	
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	118.3	63.8	54.8	
Capital employed (CE)	1,114.6	1,223.1	1,663.7	1,810.3	1,908.3	2,032.6	
Equity	684.4	724.7	796.3	870.2	896.8	926.9	
Equity ratio in %	49.9	46.9	44.3	45.8	45.5	44.4	
Net financial debt (+), liquidity (-)	454.1	467.1	683.7	800.4	859.8	953.9	
Total net debt (+), liquidity (-)	435.9	467.1	683.7	793.4	851.8	945.9	
Gearing in %	66.4	64.5	85.9	92.0	95.9	102.9	
<b>Price ord. on 18 February 2008: € 25.44</b>							
<b>Valuation</b>							
EPS ord. (€)	0.89	1.42	2.92	2.71	1.75	1.81	
CFPS (€)	0.00	0.00	1.32	1.05	1.25	1.44	
Number of shares ord., (m)	31.3	34.4	34.4	34.4	34.4	34.4	
P/E ord.	19.8	15.5	9.3	10.1	14.6	14.1	
P/CF	high	high	20.5	25.9	20.3	17.7	
EV / Sales	---	---	18.85	18.86	15.77	15.50	
EV / EBITDA	---	---	20.3	23.7	19.6	19.0	
EV / EBIT	---	---	20.3	23.7	19.6	19.0	

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