



# Deutsche EuroShop

Buy (previous: Hold) Price target: € 30.00

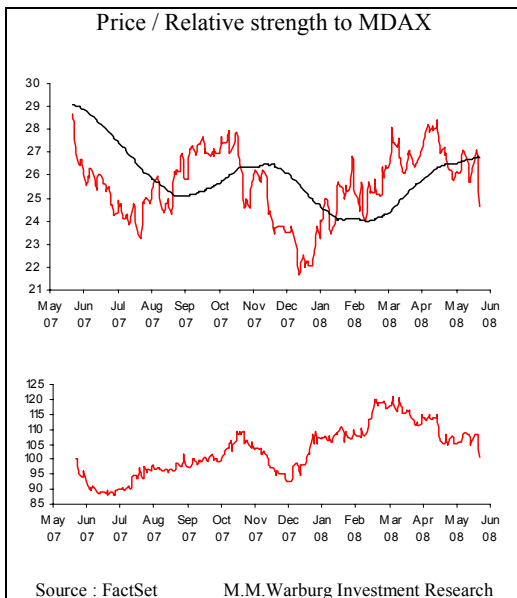
Real Estate

## Bullet Points

Bloomberg Code: DEQ GY Equity  
ISIN: DE0007480204

Price on 20 June 2008: € 24.64  
High/Low 12 month: € 28.40/21.67

Capital	Ownership structure	Upcoming events
Market capitalization € 847.0 m	widely spread	ord 80.7%
Number of shares 34.4 m	Otto family	ord 19.3%
Subscribed capital € 22.0 m		
		14 Aug 2008 : Result Q2 2008
		14 Nov 2008 : Result Q3 2008



## We are upgrading the stock to buy

- Price level very attractive again:** following the significant decline in the value of the Deutsche Euroshop shares in recent weeks, we are upgrading the stock to buy again. The price target of € 30 remains unchanged, thus opening up price potential of 21%. We regard the risk/opportunity profile as very attractive, since the business model has remained solid even in a difficult economic environment. The properties are valued very conservatively (rental return: 6.2%, corresponds to 16.1 times annual rent) and the return on equity remains at just under 50%. The company is even benefiting from the currently relatively high inflation rates as a result of the full price indexing of rental agreements. Against this background, and the fact that all of the Deutsche Euroshop shopping centres are in top locations with an unoccupancy rate of less than 1%, we do not anticipate any danger either of a devaluation of the property portfolio. We expect a NAV of € 27.90 per share by year-end 2008. Deutsche Euroshop is not currently addressing the issue of refinancing because of long-term credit agreements (average duration of liabilities: 7.5 years, interest rate: 5.36%).
- Altmarkt Galerie in Dresden to be expanded:** Deutsche Euroshop is to significantly expand the very successful Altmarkt Galerie in Dresden city centre. The plan is to extend an area of previously 26,000 sq m by 18,000 sq m and to open 90 new shops here. The investment costs are estimated at € 150m, with opening scheduled for 2010. With regard to the expected rental income, we anticipate an annual figure of € 7.5-8.0m, which would correspond to a rental return of 5.5%. Furthermore, the management confirmed at yesterday's AGM that it is to set up a development project in West Germany in cooperation with ECE. However, we expect Deutsche Euroshop to invest a maximum of 10% of its investment in shopping centre developments and that it will also seek to generate higher returns from these. At core, the company remains a classic late stage investor. Given that it is well provided with liquidity and credit lines, no capital increase is necessary for the planned projects.
- Outlook unchanged – strong sales and earnings growth in 2008:** this year we still expect sales to reach € 112m and EBIT of € 91m (company guidance: sales € 110-113m, EBIT: € 90-92m, EBT € 43-45m, excluding valuation effects). Further growth is expected in 2009 (sales +8%, EBIT +11%, EBT +14%). We have raised our forecasts for 2010 slightly to reflect the now concrete investment project in Dresden.

in €	2007	2008e	2009e	2010e
EPS (current)	2.74	2.07	1.94	1.99
EPS (previous)	2.74	2.07	1.94	1.95
CFPS	0.79	1.27	1.57	1.62
Dividend	1.05	1.15	1.20	1.25
in € m	2007	2008e	2009e	2010e
Sales	95.8	110.9	122.1	132.1
EBITDA	77.2	90.2	102.0	107.8
EBIT	77.2	90.2	102.0	107.8
Net income	94.2	71.3	66.7	68.3
Cash flow	27.1	43.6	53.9	55.8
ROCE (EBIT/CE)	4.2%	4.6%	4.9%	4.9%
	2007	2008e	2009e	2010e
PER	10.0	11.9	12.7	12.4
PCFR	34.6	19.4	15.7	15.2
Div. Yield	3.9%	4.7%	4.9%	5.1%
EV/Sales	19.63	17.12	16.38	16.08
EV/EBITDA	24.4	21.1	19.6	19.7

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	2005	2006	2007	2008e	2009e	2010e	
<b>Income statement (in € m)</b>							
Sales	72.1	92.9	95.8	110.9	122.1	132.1	
Cost of goods	-7.9	-10.4	-9.4	-11.1	-11.5	-12.3	
Gross profit	64.3	82.4	86.4	99.8	110.6	119.8	
SG&A expenses	-4.5	-5.8	-6.1	-6.7	-7.1	-7.6	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-2.3	9.7	-3.2	-3.0	-1.5	-4.4	
EBITDA	57.5	86.3	77.2	90.2	102.0	107.8	
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	57.5	86.3	77.2	90.2	102.0	107.8	
Operating profit (company definition)	---	45.4	27.1	43.6	53.9	55.8	
Financial income	-39.3	-41.0	-50.1	-46.6	-48.1	-51.9	
Pre-tax profit	68.1	117.7	77.8	85.1	79.4	81.3	
Income taxes	-19.4	-17.4	16.3	-13.8	-12.7	-13.0	
(Tax rate in %)	28.5	14.8	-21.0	16.2	16.0	16.0	
Net income	48.7	100.3	94.2	71.3	66.7	68.3	
Net income after minorities	48.7	100.3	94.2	71.3	66.7	68.3	
EPS ord.	1.42	2.92	2.74	2.07	1.94	1.99	
<b>Growth (in %)</b>	<b>CAGR (05/10)</b>						
Sales	12.9 %	17.4	28.7	3.1	15.8	10.1	8.2
EBITDA	13.4 %	15.6	50.2	-10.6	16.9	13.1	5.7
EBIT	13.4 %	15.6	50.2	-10.6	16.9	13.1	5.7
Net income	7.0 %	75.6	105.9	-6.1	-24.3	-6.5	2.5
<b>Cost ratios (in % of sales)</b>							
Cost of goods / sales	10.9	11.2	9.8	10.0	9.4	9.3	
SG&A / sales	6.2	6.2	6.4	6.0	5.8	5.8	
R&D / sales	---	---	---	---	---	---	
<b>Cash flow (in € m)</b>							
Gross cash flow	---	45.4	27.1	43.6	53.9	55.8	
Operating cash flow	---	45.4	27.1	43.6	53.9	55.8	
Cash flow from investing activities	---	-70.5	-70.5	-100.0	-100.0	-100.0	
Free cash flow	---	-25.1	-43.4	-56.4	-46.1	-44.2	
Cash earnings	---	45.4	27.1	43.6	53.9	55.8	
<b>Productivity (in € ts.)</b>							
Sales / employee	14,424.2	18,570.8	19,152.4	22,179.8	24,410.5	26,423.8	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	11,499.4	17,268.2	15,434.2	18,041.0	20,400.1	21,557.8	
<b>Returns (in %)</b>							
EBITDA / sales	79.7	93.0	80.6	81.3	83.6	81.6	
EBIT / sales	79.7	93.0	80.6	81.3	83.6	81.6	
Pre-tax profit / sales	94.5	126.7	81.3	76.7	65.0	61.6	
Net income / sales	67.5	108.0	98.3	64.3	54.6	51.7	
Return on equity	6.7	12.6	10.9	8.0	7.3	7.2	
Return on total capital	3.2	5.6	4.8	3.5	3.1	3.0	
ROCE	4.7	5.2	4.2	4.6	4.9	4.9	
<b>Balance sheet (in € m)</b>							
Property, plant and equipment	1,210.2	1,623.8	1,806.4	1,947.8	2,073.3	2,198.8	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	-4.4	-4.2	-5.5	-6.6	-8.5	-16.3	
Current assets	216.6	143.3	137.1	82.0	51.3	0.0	
Capital employed (CE)	1,223.1	1,663.7	1,825.8	1,966.2	2,089.9	2,207.5	
Equity	724.7	796.3	860.8	892.6	918.0	946.3	
Equity ratio in %	46.9	44.3	43.6	43.3	42.6	41.4	
Net financial debt (+), liquidity (-)	467.1	683.7	787.0	895.6	992.6	1,081.7	
Total net debt (+), liquidity (-)	467.1	683.7	787.0	895.6	992.6	1,081.7	
Gearing in %	64.5	85.9	91.4	100.3	108.1	114.3	
<b>Price ord. on 20 June 2008: € 24.64</b>							
<b>Valuation</b>							
EPS ord. (€)	1.42	2.92	2.74	2.07	1.94	1.99	
CFPS (€)	0.00	1.32	0.79	1.27	1.57	1.62	
Number of shares ord., (m)	34.4	34.4	34.4	34.4	34.4	34.4	
P/E ord.	15.5	9.3	10.0	11.9	12.7	12.4	
P/CF	high	20.5	34.6	19.4	15.7	15.2	
EV / Sales	---	18.85	19.63	17.12	16.38	16.08	
EV / EBITDA	---	20.3	24.4	21.1	19.6	19.7	
EV / EBIT	---	20.3	24.4	21.1	19.6	19.7	

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