



# Deutsche EuroShop

Buy (previous: Buy) Price target: €28.00

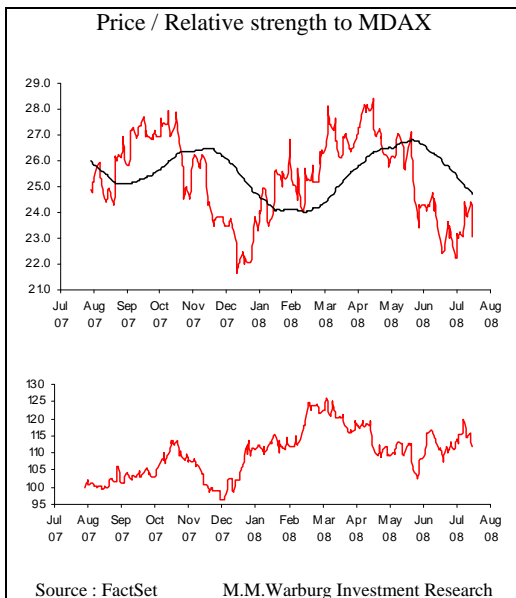
Real Estate

## Bullet Points

Bloomberg Code: DEQ GY Equity  
ISIN: DE0007480204

Price on 13 August 2008: €23.05  
High/Low 12 month: €28.40/21.67

Capital	Ownership structure	Upcoming events
Market capitalization €792.3 m	widely spread ord 80.7%	14 Nov 2008 : Result Q3 2008
Number of shares 34.4 m	Otto family ord 19.3%	
Subscribed capital €22.0 m		



## Company targets reaffirmed after a good Q2

- Rating remains Buy, price target lowered to €28 (prev.: €30).** After a good performance in H1 2008 as forecast, Deutsche Euroshop's management has reaffirmed the targets for the full year (sales: €110-113 m, EBIT: €90-92 m, EBT: €43-45 m, excluding the valuation result). Further growth is to be anticipated in 2009 (sales +8%, EBIT + 11%, EBT +14%). Alongside operating gains, the expansion of the shopping centre in Dresden is also likely to provide further growth in 2010.
- H1 sales and earnings in line with our expectations:** The figures presented for the 1<sup>st</sup> half of 2008 provided no surprises. Sales reached € 55.2 m (+21%) thanks to the first-time consolidation of the new shopping centres in Gdansk and Hamlin (€ +8.7 m) alongside an organic rent increase of 2%. EBIT was up by 22% to €46 m as a result in particular of the effects of first-time consolidation (MMWe: €45.8 m). As financing costs rose in line with the expansion of the portfolio, EBT also grew by 21% to €26.3 m. Net earnings were up by 43% to €21.6 m since the Company paid far less tax as a result of the corporate tax reform (MMWe: €19.2 m). The quality of the balance sheet remains excellent with an equity ratio of 49% and long-term secured loans. As regards the NAV, we are anticipating a further slight increase this year in view of the conservative valuation of the shopping centres and the scope for upward revaluation in Gdansk and Hamlin (NAV end of 2007: €26.91 per share).
- Further shopping centres in the pipeline:** Deutsche Euroshop's management still intends to invest €150-200 in expanding the portfolio this year. In addition to the expansion of the Altmarktgalerie in Dresden (investment volume around € 75 m), the company is negotiating the purchase of a further shopping centre in Germany with an investment volume of € 120-140 m. The property shows an initial rental return of 5.75-5.9% and is therefore yielding more than the current refinancing costs of 5.3-5.5%. According to the management, the cost of refinancing has risen by around 30 bp in the past 12 months. The Company remains cautious in selecting its investments. We see no problems as regards financing the new investment projects given cash on hand of €61 m and unutilized credit lines of around €100 m. Nevertheless, a capital increase cannot be ruled out in the medium term given further steady expansion of the portfolio and a more positive capital market setting.

in €	2007	2008e	2009e	2010e
EPS (current)	2.74	2.09	1.98	2.03
EPS (previous)	2.74	2.07	1.94	1.99
CFPS	0.79	1.30	1.62	1.67
Dividend	1.05	1.15	1.20	1.25
in €m	2007	2008e	2009e	2010e
Sales	95.8	114.0	123.8	133.9
EBITDA	77.2	91.7	103.5	109.3
EBIT	77.2	91.7	103.5	109.3
Net income	94.2	72.0	68.1	69.8
Cash flow	27.1	44.6	55.6	57.6
ROCE (EBIT/CE)	4.2%	4.7%	5.0%	5.0%
	2007	2008e	2009e	2010e
PER	10.0	11.0	11.6	11.4
PCFR	34.6	17.8	14.3	13.8
Div. Yield	3.9%	5.0%	5.2%	5.4%
EV/Sales	19.63	16.18	15.70	15.45
EV/EBITDA	24.4	20.1	18.8	18.9

RALF DIBBERN  
Senior Analyst

Tel.: +49 40 3282-2486  
rdibbern@mmwarburg.com

	2005	2006	2007	2008e	2009e	2010e
<b>Income statement (in €m)</b>						
Sales	72.1	92.9	95.8	114.0	123.8	133.9
Cost of goods	-7.9	-10.4	-9.4	-11.3	-11.6	-12.5
Gross profit	64.3	82.4	86.4	102.7	112.2	121.4
SG&A expenses	-4.5	-5.8	-6.1	-6.9	-7.2	-7.7
R&D expenses	---	---	---	---	---	---
Other oper. income/expenses	-2.3	9.7	-3.2	-4.1	-1.5	-4.4
EBITDA	57.5	86.3	77.2	91.7	103.5	109.3
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	91.7	103.5	109.3
Operating profit (company definition)	---	45.4	27.1	44.6	55.6	57.6
Financial income	-39.3	-41.0	-50.1	-47.1	-47.9	-51.7
Pre-tax profit	68.1	117.7	77.8	86.7	81.1	83.1
Income taxes	-19.4	-17.4	16.3	-14.8	-13.0	-13.3
(Tax rate in %)	28.5	14.8	-21.0	17.0	16.0	16.0
Net income	48.7	100.3	94.2	72.0	68.1	69.8
Net income after minorities	48.7	100.3	94.2	72.0	68.1	69.8
EPS ord.	1.42	2.92	2.74	2.09	1.98	2.03
<b>Growth (in %)</b>	<b>CAGR (05/10)</b>					
Sales	13.2 %	17.4	28.7	3.1	19.1	8.2
EBITDA	13.7 %	15.6	50.2	-10.6	18.9	5.6
EBIT	13.7 %	15.6	50.2	-10.6	18.9	5.6
Net income	7.5 %	75.6	105.9	-6.1	-23.6	-5.4
2.5						
<b>Cost ratios (in % of sales)</b>						
Cost of goods / sales	10.9	11.2	9.8	9.9	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	44.6	55.6	57.6
Operating cash flow	---	45.4	27.1	44.6	55.6	57.6
Cash flow from investing activities	---	-70.5	-70.5	-100.0	-100.0	-100.0
Free cash flow	---	-25.1	-43.4	-55.4	-44.4	-42.4
Cash earnings	---	45.4	27.1	44.6	55.6	57.6
<b>Productivity (in €ts.)</b>						
Sales / employee	14,424.2	18,570.8	19,152.4	22,801.8	24,762.7	26,784.9
Personnel expense / employee	---	---	---	---	---	---
EBIT / employee	11,499.4	17,268.2	15,434.2	18,347.4	20,698.8	21,864.0
<b>Returns (in %)</b>						
EBITDA / sales	79.7	93.0	80.6	80.5	83.6	81.6
EBIT / sales	79.7	93.0	80.6	80.5	83.6	81.6
Pre-tax profit / sales	94.5	126.7	81.3	76.1	65.5	62.0
Net income / sales	67.5	108.0	98.3	63.1	55.0	52.1
Return on equity	6.7	12.6	10.9	8.1	7.4	7.4
Return on total capital	3.2	5.6	4.8	3.5	3.2	3.0
ROCE	4.7	5.2	4.2	4.7	5.0	5.0
<b>Balance sheet (in €m)</b>						
Property, plant and equipment	1,210.2	1,623.8	1,806.4	1,948.5	2,074.0	2,199.5
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	52.7	0.0
Capital employed (CE)	1,223.1	1,663.7	1,825.8	1,966.9	2,090.5	2,208.2
Equity	724.7	796.3	860.8	893.2	920.1	949.0
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	895.7	991.2	1,079.7
Total net debt (+), liquidity (-)	467.1	683.7	787.0	895.7	991.2	1,079.7
Gearing in %	64.5	85.9	91.4	100.3	107.7	113.8
<b>Price ord. on 13 August 2008: €23.05</b>						
<b>Valuation</b>						
EPS ord. (€)	1.42	2.92	2.74	2.09	1.98	2.03
CFPS (€)	0.00	1.32	0.79	1.30	1.62	1.67
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	11.0	11.6	11.4
P/CF	high	20.5	34.6	17.8	14.3	13.8
EV / Sales	---	18.85	19.63	16.18	15.70	15.45
EV / EBITDA	---	20.3	24.4	20.1	18.8	18.9
EV / EBIT	---	20.3	24.4	20.1	18.8	18.9

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