



# Deutsche EuroShop

Buy (previous: Buy) Price target: € 28.00

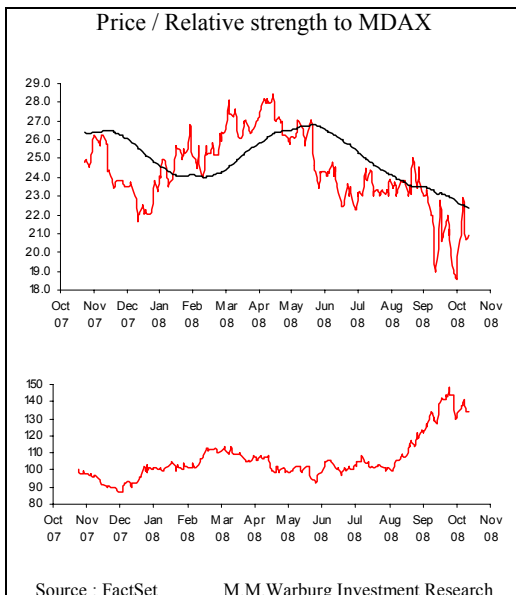
## Real Estate

### Bullet Points

Bloomberg Code: DEQ GY Equity  
ISIN: DE0007480204

Price on 10 November 2008: € 20.95  
High/Low 12 month: € 28.40/18.56

Capital	Ownership structure	Upcoming events
Market capitalization € 720.2 m	widely spread ord 80.7%	24 Apr 2009 : Result 2008
Number of shares 34.4 m	Otto family ord 19.3%	14 May 2009 : Result Q1 2009
Subscribed capital € 22.0 m		30 Jun 2009 : AGM
		13 Aug 2009 : Result Q2 2009
		12 Nov 2009 : Result Q3 2009



## High stability in difficult times

- **Buy rating remains intact, price target € 28:** the 9-month results released by Deutsche Euroshop were within the range we expected and confirm the high stability of the business model. Forecasts for this year have also been revised up, because the new centres are generating higher sales than initially expected. The full-year targets are now as follows: sales € 113-115m (old: € 110-113m), EBIT: € 93-95m (€ 90-92m), EBT: € 45-47m (€ 43-45m, excluding valuation result). For precautionary reasons the guidance for 2009 has not been altered (sales: € 119-121m, EBIT: € 100-102m, EBT: € 49-51m). In 2010, operating growth and also the expansion of the shopping centre in Dresden could generate further sales growth. As a result of the very stable business model, we regard the targets as achievable. The balance sheet remains very solid with an equity ratio of 49% and an LTV ratio of 47.4%.
- **Earnings forecasts reduced:** we have nevertheless reduced our earnings forecasts for the years 2008-2010 because we expect the valuation result to be lower than previously expected due to market conditions. The centres are currently valued at around 17.6 times annual rent, and the rental return is therefore around 5.6%. In contrast, based on the current share price level, the properties are valued at only 14.6 times the annual rent. Given the high quality of the properties and the secure cash flow from them, an overvaluation is therefore unlikely. A slight increase in vacancy rates (currently less than 1%) can certainly not be completely ruled out in future. However, according to the management, there are no signs at the moment of any seriously negative trend.
- **Very limited refinancing needs:** the most negative factor for property stocks at the moment is definitely the banks' restrictive lending practices. Against this background a clear indication should be given that Euroshop's refinancing needs are very limited. According to the company, of total bank liabilities of € 875m, only € 76m has to be carried forward into the years 2009-2012. In this period to the end of 2012, just under € 50m is projected to be paid out of current cash flow, which will further improve the very solid balance sheet figures. Companies which currently have high refinancing needs certainly face major problems, since – if banks are making loans at all – high risk premiums have to be paid. Given the current sharp decline in interest rates, the situation should however ease again in the foreseeable future and, in particular, risk-adequate interest terms should be reinstated.

in €	2007	2008e	2009e	2010e
EPS (current)	2.74	1.51	1.48	1.48
EPS (previous)	2.74	2.07	1.94	1.95
CFPS	0.79	1.37	1.57	1.58
Dividend	1.05	1.15	1.20	1.25
in € m	2007	2008e	2009e	2010e
Sales	95.8	114.6	122.3	127.0
EBITDA	77.2	94.8	100.7	103.7
EBIT	77.2	94.8	100.7	103.7
Net income	94.2	51.9	50.8	50.9
Cash flow	27.1	47.2	54.0	54.2
ROCE (EBIT/CE)	4.2%	5.1%	5.5%	5.4%
	2007	2008e	2009e	2010e
PER	10.0	13.9	14.2	14.1
PCFR	34.6	15.3	13.3	13.3
Div. Yield	3.9%	5.5%	5.7%	6.0%
EV/Sales	19.63	14.53	13.59	14.55
EV/EBITDA	24.4	17.6	16.5	17.8

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	2005	2006	2007	2008e	2009e	2010e	
<b>Income statement (in € m)</b>							
Sales	72.1	92.9	95.8	114.6	122.3	127.0	
Cost of goods	-7.9	-10.4	-9.4	-8.4	-11.5	-11.8	
Gross profit	64.3	82.4	86.4	106.1	110.8	115.1	
SG&A expenses	-4.5	-5.8	-6.1	-7.2	-7.1	-7.3	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-2.3	9.7	-3.2	-4.2	-3.0	-4.1	
EBITDA	57.5	86.3	77.2	94.8	100.7	103.7	
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	94.8	100.7	103.7	
Operating profit (company definition)	---	45.4	27.1	47.2	54.0	54.2	
Financial income	-39.3	-41.0	-50.1	-47.6	-46.7	-49.6	
Pre-tax profit	68.1	117.7	77.8	62.5	60.5	60.7	
Income taxes	-19.4	-17.4	16.3	-10.6	-9.7	-9.7	
(Tax rate in %)	28.5	14.8	-21.0	16.9	16.0	16.0	
Net income	48.7	100.3	94.2	51.9	50.8	50.9	
Net income after minorities	48.7	100.3	94.2	51.9	50.8	50.9	
EPS ord.	1.42	2.92	2.74	1.51	1.48	1.48	
<b>Growth (in %)</b>		<b>CAGR (05/10)</b>					
Sales	12.0 %	17.4	28.7	3.1	19.7	6.7	3.8
EBITDA	12.5 %	15.6	50.2	-10.6	22.8	6.3	3.0
EBIT	12.5 %	15.6	50.2	-10.6	22.8	6.3	3.0
Net income	0.9 %	75.6	105.9	-6.1	-44.8	-2.1	0.2
<b>Cost ratios (in % of sales)</b>							
Cost of goods / sales	10.9	11.2	9.8	7.4	9.4	9.3	
SG&A / sales	6.2	6.2	6.4	6.3	5.8	5.8	
R&D / sales	---	---	---	---	---	---	
<b>Cash flow (in € m)</b>							
Gross cash flow	---	45.4	27.1	47.2	54.0	54.2	
Operating cash flow	---	45.4	27.1	47.2	54.0	54.2	
Cash flow from investing activities	---	-70.5	-70.5	-100.0	0.0	-75.0	
Free cash flow	---	-25.1	-43.4	-52.8	54.0	-20.8	
Cash earnings	---	45.4	27.1	47.2	54.0	54.2	
<b>Productivity (in € ts.)</b>							
Sales / employee	14,424.2	18,570.8	19,152.4	22,918.4	24,462.2	25,398.7	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	11,499.4	17,268.2	15,434.2	18,950.8	20,143.9	20,748.5	
<b>Returns (in %)</b>							
EBITDA / sales	79.7	93.0	80.6	82.7	82.3	81.7	
EBIT / sales	79.7	93.0	80.6	82.7	82.3	81.7	
Pre-tax profit / sales	94.5	126.7	81.3	54.6	49.5	47.8	
Net income / sales	67.5	108.0	98.3	45.3	41.6	40.1	
Return on equity	6.7	12.6	10.9	5.9	5.8	5.7	
Return on total capital	3.2	5.6	4.8	2.6	2.5	2.4	
ROCE	4.7	5.2	4.2	5.1	5.5	5.4	
<b>Balance sheet (in € m)</b>							
Property, plant and equipment	1,210.2	1,623.8	1,806.4	1,821.8	1,828.3	1,909.7	
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	138.8	151.2	0.0	
Capital employed (CE)	1,223.1	1,663.7	1,825.8	1,840.1	1,844.8	1,918.4	
Equity	724.7	796.3	860.8	873.2	882.8	891.8	
Equity ratio in %	46.9	44.3	43.6	43.8	43.9	42.8	
Net financial debt (+), liquidity (-)	467.1	683.7	787.0	788.9	782.7	847.2	
Total net debt (+), liquidity (-)	467.1	683.7	787.0	788.9	782.7	847.2	
Gearing in %	64.5	85.9	91.4	90.3	88.7	95.0	
<b>Price ord. on 10 November 2008: € 20.95</b>							
<b>Valuation</b>							
EPS ord. (€)	1.42	2.92	2.74	1.51	1.48	1.48	
CFPS (€)	0.00	1.32	0.79	1.37	1.57	1.58	
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	13.9	14.2	14.1	
P/CF	high	20.5	34.6	15.3	13.3	13.3	
EV / Sales	---	18.85	19.63	14.53	13.59	14.55	
EV / EBITDA	---	20.3	24.4	17.6	16.5	17.8	
EV / EBIT	---	20.3	24.4	17.6	16.5	17.8	

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