

Company Flash
Real Estate
Germany
June 24, 2009

Deutsche EuroShop

Sound financing and stable cash flow

- **We confirm our Buy rating with a TP of EUR 26.00. Our recent roadshow confirms our positive view on the company. Overall, we get the impression that the company is still in good shape, despite the weak economic situation. This is based on a high occupancy rate of still 100%, good-quality shopping centers in attractive locations and a stable financing and capital structure.**
- **Leasing situation:** There are still no concrete signs of deterioration in consumer activity in the group's shopping centers. Even if vacancy rate increases to 2-3% and write-downs on rents increase to some EUR 0.5 mn, there is no danger of a lower dividend for 2009.
- **Arcandor issue: 1.** As cited by the press in recent days, DEQ could probably be interested in two Karstadt properties. **2.** Additionally, Karstadt is a tenant in only two centers. As rent per m² is on a very low level, we view a potential cancellation of the rental contract (which is clearly not certain or already discussed) more as a chance for higher rental levels in the future.
- **Sound financing: 1.** DEQ has very low refinancing needs over next couple of years and has no covenant issues. **2.** DEQ still has a credit line of EUR 100 mn, of which EUR 22 mn is utilized.
- **Investment strategy: 1.** DEQ will focus on its investment in existing centers. **2.** After an investment pause in 2007/08, new investment opportunities could probably arise on the market. However, there are no attractive centers available at the moment for the company.
- More details on the above mentioned takeaways on the following page.

	2006	2007	2008	2009e	2010e
Gross rental income (EUR mn)	92.9	95.8	115.3	126.8	129.3
EBITDA (EUR mn)	86.3	78.5	98.1	106.2	109.7
Net income (EUR mn)	100.3	94.2	68.9	2.7	47.1
EPS reported (EUR)	2.92	2.74	2.00	0.08	1.37
EPS adj. (EPRA) (EUR)	0.76	0.94	1.13	1.23	1.29
NAVPS (EUR)	25.52	26.91	27.43	26.47	27.03
DPS (EUR)	1.05	1.05	1.05	1.15	1.15
ROE (%)	11.9	10.1	7.1	0.3	5.0
P/E adjusted (EPRA) (x)	35.5	29.0	21.0	18.3	17.5
P/Cash earnings (x)	20.7	24.1	16.5	14.6	14.0
P/FFO diluted (x)	30.9	24.3	16.5	14.6	14.0
P/NAV (x)	1.06	1.01	0.87	0.85	0.83
EV/EBITDA (x)	18.7	21.9	17.1	15.8	15.2
Div. yield (%)	3.9	3.9	4.4	5.1	5.1

Source: Company data, UniCredit Research

Buy (prev. Buy)

Price on 06/23/09	EUR 22.48
Target price (prev. EUR 26.00)	EUR 26.00
Upside to TP	15.7%
Cost of equity	7.5%
High/Low (12M)	26.00/18.55

INVESTMENT HIGHLIGHTS

Focus on attractive and established shopping centers
 Stable generation of cash flows and dividends
 Solid financing and capital structure

STOCK TRIGGERS

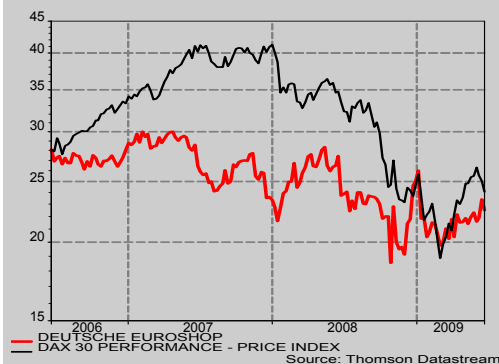
Expansion steps in Frankfurt and Dresden
 Potential news on refinancing
 Next large investment requires a capital injection

STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	94.5
Free float (%)	80.5
Market capitalization (EUR bn)	0.8
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.5%, Attfund Ltd 5.3%, free float 75.2%

UPCOMING EVENTS

Annual general meeting	30-Jun-09
H1/Q2	13-Aug-09
9M/Q3	12-Nov-09



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	7.2	-2.5	-10.3
Euro STOXX 50	6.2	-0.7	-7.4
ES Financ. S.	11.1	-10.1	-9.9

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Roadshow feedback

We hosted a management roadshow. Main takeaways are the following, which confirm our positive view on the company.

Main topics

- **Leasing situation:** There are still no concrete signs of deterioration in consumer activity in the group's shopping centers (turnover in Q1: +1%). As of April outstanding rents are only EUR 0.3 mn higher than in April 2008. Occupancy rate is still at 100%. There are some discussions ongoing with tenants about a rent reduction; however the company has not accepted this so far. The CFO stated that it is still possible to find new tenants; however, not at increasing but at stable rents. One important argument for unchanged demand from potential and existing tenants is the high turnover per m² of EUR 4,700 p.a. versus an average of EUR 3,300 for German retailers on average. Also the rent-to-sales levels of only 6.5-8.5% is a positive argument for tenants. Even if vacancy rate increases to 2-3% and write-downs on rents increase to some EUR 0.5 mn (2008: EUR 0.28 mn), there is no danger of a lower dividend for 2009.
- **Arcandor issue:** 1. As cited by the press in recent days, DEQ could probably be interested in some Karstadt properties. More precisely, there are two Karstadt properties near the existing DEQ centers in Dessau and Viernheim. Therefore, DEQ could be an interested partner/buyer by nature. 2. Additionally, Karstadt is a tenant in only two centers (MTZ, Hamburg), with a total space of ca. 18,000 m² and a rental income of ca. EUR 1 mn p.a., i.e. 0.9% of group's rental income. As rent per m² is on a very low level, i.e. far below average of EUR 20-25 per m²/ month, we view a potential cancellation of the rental contract (which is clearly not certain or already discussed) more as a chance for higher rental levels in the future.
- **Sound financing:** 1. DEQ has very low refinancing needs over next couple of years and has no covenant issues. Currently the company is negotiating the only loan of about EUR 50 mn, which is due in 2009, and indicated that also a loan of about EUR 80 mn, which is due in 2013, could be rearranged in the next couple of weeks. So far, the EUR 50 mn loan has an interest rate of 5.93% compared to 5.33% on average for overall debt of EUR 890 mn. The CFO gave an indication of ca. 5.2-5.5% for the new financing. Since the 10-year Pfandbrief rate is currently at only 4.25%, we guess that final rate could be below the above mentioned indication. After completion, DEQ's next refinancing needs are only in 2013. 2. DEQ still has a credit line of EUR 100 mn, of which EUR 22 mn is utilized, at a favorable margin of 75 bp.
- **Investment strategy:** 1. DEQ will focus on its investment in existing centers: MTZ: EUR 36 mn (DEQ share), Dresden: EUR 75 mn (DEQ share), Kassel: EUR 5.5 mn and Hamm: EUR 1.8 mn. 2. After an investment pause in 2007/08, new investment opportunities could probably arise on the market. However, there are no attractive centers available at the moment for the company. With respect to potential fire sales, the CFO commented that this will probably be an issue in 2010, but is not one at the moment. The only available fire sales came from Arcandor at the beginning of the year, when DEQ increased its stake from 40% to 90% at a yield of above 6.5%. New investments should reach a yield of ca. 6-6.5%.
- **Capital needs only for growth:** Above mentioned investments will be covered by credit lines and cash flow. For a new center investment, the CFO repeated statements that a capital injection is needed (potential 10% capital increase at a maximum discount of 5%). DEQ will not change its strategy to keep the group's equity ratio at least at 45% (currently: 48%). The CFO made it clear that a new investment will not be made without being sure that it can get new equity.

CONSOLIDATED INCOME STATEMENT

		2006	2007	2008	2009e	2010e
Total revenues	EUR mn	184.6	135.8	153.3	127.8	130.3
Total expenses	EUR mn	-25.9	-18.3	-18.1	-71.1	-17.0
EBIT	EUR mn	158.6	117.5	135.2	56.7	113.3
Gross rental income	EUR mn	92.9	95.8	115.3	126.8	129.3
Property op./management costs	EUR mn	-16.2	-14.1	-13.1	-17.1	-16.5
as a percentage of rental income	%	17.4	14.7	11.4	13.5	12.8
Net rental income (NOI)	EUR mn	76.7	81.7	102.2	109.7	112.7
as a percentage of rental income	%	82.6	85.3	88.6	86.5	87.2
Profit on disposal of investment properties	EUR mn	14.8	0	0	0	0
Other operating income	EUR mn	1.2	1.1	0.9	1.0	1.0
Other operating expenses	EUR mn	-6.3	-4.2	-5.0	-4.5	-4.0
EBITDA (DES defin.: EBIT)	EUR mn	86.3	78.5	98.1	106.2	109.7
as a percentage of total revenues	%	46.8	57.8	64.0	83.1	84.2
Valuation result	EUR mn	72.3	39.0	37.1	-49.5	3.6
EBIT	EUR mn	158.6	117.5	135.2	56.7	113.3
as a percentage of total revenues	%	86.0	86.5	88.2	44.3	87.0
Income from investments	EUR mn	1.9	1.5	1.7	1.4	1.5
Net financial result	EUR mn	-42.9	-41.1	-49.9	-54.8	-56.0
EBT	EUR mn	117.6	77.8	87.0	3.3	58.8
as a percentage of total revenues	%	63.7	57.3	56.8	2.6	45.2
EBT excl. revaluation	EUR mn	45.3	38.9	49.9	52.9	55.3
Taxes	EUR mn	-17.4	16.3	-18.1	-0.7	-11.8
Income tax rate	%	14.8	-21.0	20.8	20.0	20.0
Profit for the period	EUR mn	100.3	94.2	68.9	2.7	47.1
as a percentage of total revenues	%	54.3	69.4	44.9	2.1	36.1
Minority interests	EUR mn	0	0	0	0	0
Earnings after minority interests	EUR mn	100.3	94.2	68.9	2.7	47.1
Adj. net income (direct investment result)	EUR mn	26.1	32.3	39.0	42.3	44.2
Indirect investment result	EUR mn	74.2	61.8	29.9	-39.6	2.9
Funds from operation (FFO)	EUR mn	30.0	38.5	49.8	52.9	55.3
EPS reported	EUR	2.92	2.74	2.00	0.08	1.37
EPS reported/diluted	EUR	2.92	2.74	2.00	0.08	1.37
EPS diluted (EPRA)	EUR	0.76	0.94	1.13	1.23	1.29
FFOPS basic	EUR	0.87	1.12	1.45	1.54	1.61
FFOPS diluted	EUR	0.87	1.12	1.45	1.54	1.61
DPS	EUR	1.05	1.05	1.05	1.15	1.15

Source: Company data, UniCredit Research

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-	-

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Deutsche EuroShop	01/07/2009	HOLD	EUR	26.00
Deutsche EuroShop	10/30/2008	BUY	EUR	25.00
Deutsche EuroShop	08/14/2008	HOLD	EUR	25.00
Deutsche EuroShop	07/10/2008	HOLD	EUR	26.50

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