



Deutsche Euroshop AG

Deutsche Euroshop AG (DEQ): comment from its annual summer analyst meeting in Dresden

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Rating: Neutral (from buy)	Target price: €22.50	Close 31/07/09: €21,37	RIC: DEQ GR
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Altmarkt Galerie Dresden

The Altmarkt Galerie is one of DEQ's most prestigious shopping centres with sales revenues of its tenants of €165m in 2008. The strong 4.4% growth in sales was a function of excellent shop mixes (with a high local tenant number), the ability to attract tourists (account for 40% of visitors) and good marketing. Even in Q1 2009, sales of tenants grew by 1.5%. These figures are sound and suggest that DEQ should not expect rent defaults in 2009 or 2010. However, located at the end of the pedestrian area Prager Strasse, Altstadt Galerie will face a new, large competition with the Centre Galerie of Multi, which is located right on the Prager Strasse. DEQ will use part of its capital raised to finance the expansion of the Altstadt Galery by 32,000 sqm , a 70% addition to the current offering. More than 45% is already pre-let, another 30% are in final negotiations. The expansion should open by Spring 2011. Average rent level at the 2002 opening was €25.62/sqm. The expansion will see €30.42/sqm as average rent, lifting the overall level to more than €27,50/sqm. The total investment will be €155m, of which DEQ will assume 50%.

Shopping environment

ECE, DEQ's centre manager, describes the overall situation as challenging. The management has to react to these changes pro-actively. ECE watches the sales/rent ratio very closely and sees a certain increase in the ration in the past 12 months, suggesting higher risks of tenant insolvencies. To avoid these, ECE acts fast to attract new tenant prospects. In all of ECE's centres (of which DEQ's are only a small part), insolvency management is paramount, with Woolworth, Karstadt and Pohland being the most recognized current insolvency cases. ECE reacts with rent payment programs (prolongation of rent payments) and other options. Overall rent insolvencies, however, are likely to rise. This in mind, shopping centre appraisers are likely to raise cap rates, resulting in IFRS40 valuation losses in 2009. CEO Boege sees a risk of a 10 – 15bps increase in cap rates, i.e. the required rental yield by investors.

IFRS31

The changes, which are likely to emerge in 2010 latest, call for companies with minority stakes of stakes without providing full control to end the proportionate consolidation and shift to at equity consolidation. This said, the rental revenues of Klagenfurt, Pecz, MTZ Frankfurt, Dresden and Hamburg will no longer be recognized, but only the pre-tax profits (around €13.4m in 2008, or 15% of reported 2008 PTP of €86.9m). More relevant are effects on the balance sheet, where assets and associated debt would be excluded, while the equity portions remain untouched, lifting the equity ratio of the DEQ to levels north of 56% after the recent capital raising, making it one of the best capitalized real estate companies.

It is not certain that these changes occur already in 2009, but the likelihood of this happening in 2010 is high. We present our figures still in the historical format, but will change

Abbreviated profit&loss account

Following the Dresden event, we adjusted our financial model. DEQ will present its Q2 H1 2009 results next week. We expect little surprises at the event, but will review our model thereafter.

Table: DEQ Financials

Deutsche Euroshop AG	2006	2007	2008	2009e	2010e	2011e	2012e
Sales	91,14	94,35	113,61	122,96	126,75	131,64	136,36
Total revenues	108,85	96,82	115,33	126,70	130,50	135,42	140,18
Administration costs	- 5,76	- 6,08	- 5,00	- 7,47	- 7,47	- 7,59	- 7,66
Personell costs	- 1,03	- 1,18	- 1,30	- 1,46	- 1,64	- 1,85	- 2,08
Other costs	- 15,25	- 12,37	- 10,74	- 12,15	- 11,97	- 12,41	- 12,84
Total costs	- 22,04	- 19,63	- 17,03	- 21,08	- 21,08	- 21,85	- 22,58
% of sales	24,2%	20,8%	15,0%	17,1%	16,6%	16,6%	16,6%
EBITDA	86,80	77,19	98,30	105,61	109,42	113,57	117,59
EBIT	86,34	77,17	98,28	105,59	109,40	115,55	121,57
% of sales	94,7%	81,8%	86,5%	85,9%	86,3%	87,8%	89,2%
IFRS 40	65,92	50,77	21,96	- 2,44	15,23	27,98	35,44
Pre tax earnings	117,68	77,84	86,75	68,30	86,63	105,20	119,81
Attrib. net profits	100,31	94,18	69,00	52,46	66,15	82,38	95,32
Number of shares	34,38	34,38	34,38	37,81	37,81	37,81	37,81
EPS	2,92	2,74	2,01	1,39	1,75	2,18	2,52
FFO	1,10	1,45	1,41	1,41	1,42	1,54	1,68
DPS	1,00	1,05	1,05	1,05	1,05	1,15	1,20
DPS/FFO	91,1%	72,5%	74,3%	74,4%	73,9%	74,9%	71,4%

Source: Bloomberg, Silvia Quandt Research GmbH

Comment:

Where do we stand with DEQ? The basic message is that DEQ's FFO will be around last estimates made by DEQ – but on the basis of a 10% higher number of shares. This suggests that the NAV/share would decline from about €27.40 to around €26.50, based on the issuance price of €19.50.

In addition, we understand from the meeting that DEQ's CEO Boege sees a further decline in NAV due o the negative development in consumer spending in Germany. While this is difficult to assess for the time being, we assume that the NAV/share could decline towards €24.00 from pre-capital increase levels of around €27.50. We will look at the issue in more detail after the release of the Q2 2009 results next week, with the conference call on August 13th, 2009 (conference call at 10:00CET).



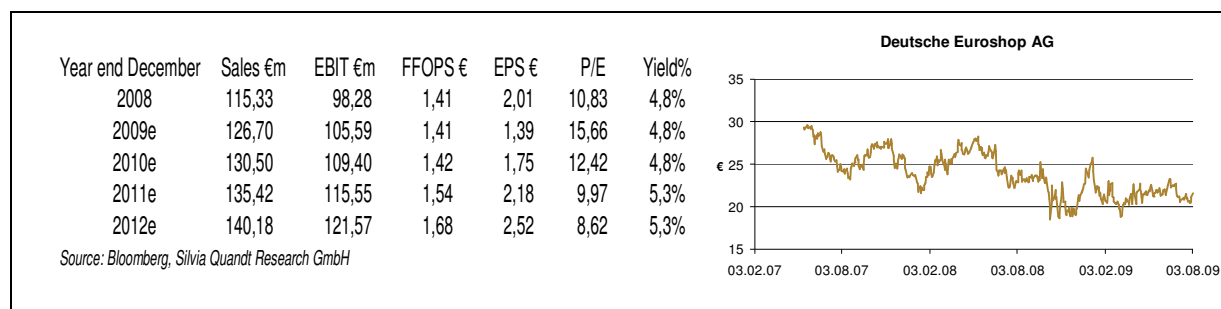
Deutsche Euroshop AG

Table: Deutsche Euroshop AG peer group

NAME	COUNTRY	LAST PRICE	NAVPS	DISCOUNT TO NAV	MARKET CAP €m	% CHG YTD	2009 CONS PE EST	2010 CONS PE EST
UNIBAIL-RODAMCO SE	FR	123,10	131,42	-6,3%	10.410,37	17,8%	13,63	13,05
CORIO NV	NE	39,52	44,73	-11,7%	3.017,87	20,2%	13,38	13,24
EOROCOM.PROPERTY	NE	24,00	27,65	-13,2%	860,17	0,0%	13,35	13,41
KLEPIERRE	FR	20,58	25,20	-18,3%	3.744,99	17,6%	13,71	14,50
CITYCON OYJ	FI	1,90	3,38	-43,8%	420,01	21,2%	9,31	9,18
DEUTSCHE EUROSHOP AG	GE	22,00	26,71	-17,6%	831,87	-9,5%	15,58	14,04
AVERAGE				-18,5%		11,2%	13,16	12,90

Source: Bloomberg, Silvia Quandt Research GmbH

For the time being, we assume that DEQ will remain an attractive long term investment – i.e after the full investment of the capital acquired and the accompanied debt investment – but for the short term, we would assume that investors look for more geared investment opportunities



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