



# Deutsche EuroShop

Buy Price target: € 27.00

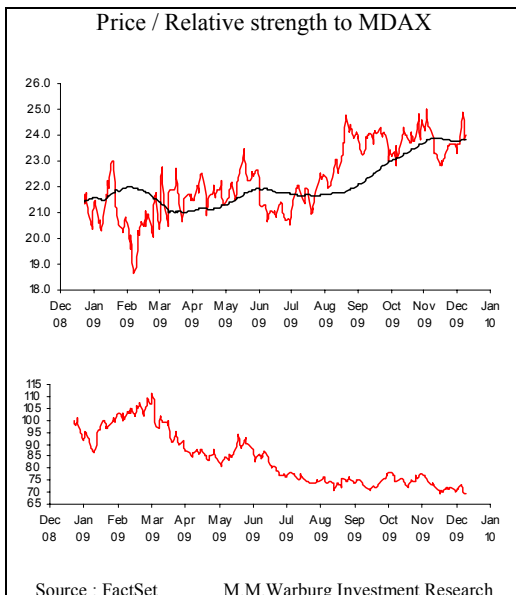
Real Estate

## Bullet Points

Bloomberg Code: DEQ  
ISIN: DE0007480204

Price on 7 January 2010: € 24.00  
High/Low 12 month: € 25.00/18.66

Capital	Ownership structure	Upcoming events
Market capitalization € 907.5 m	widely spread ord 80.7%	30 Apr 2010 : Result 2009
Number of shares 37.8 m	Otto family ord 19.3%	12 May 2010 : Result Q1 2010
Subscribed capital € 37.8 m		



## A wise investment strategy

- Countercyclical investment in attractive shopping centre near Berlin:** The management of Deutsche EuroShop (DES) managed to land an extremely attractive acquisition, in our view. It buys the A10, one of the largest German shopping centres located on the southern limits of Berlin with available renting space of 120,000 sqm (66,000 sqm of which is trading space). The property is currently rented out to capacity and went bankrupt in September 2009. The previous owner was a syndicate made up of investors from the UK, Ireland, the US and India. Currently the centre is being expanded, which will take the number of shops from currently 120 to 180 by the beginning of 2011. Given the attractive location of the shopping centre on the southern limits of Berlin and the great experience of its future operator ECE, we are firmly convinced that with this investment DES has tapped into a fantastic opportunity to expand its portfolio.
- Investment volume of € 265 m:** In addition to the purchase price of € 205 m for the centre in its current state, DES will invest another € 60 m in the current expansion process and additional refurbishments (share of DES: 100%). At the moment, the rental income of the centre amounts to about €14 m p.a. Because of the expansion and in parts a restructuring of rental contracts, in 2012 about € 19.4 m should be generated. This would take the rent yield up to 7.3% (net: 6.5%), which considerably exceeds DES's minimum requirements for rent yields of 6.0%. In addition to existing own funds, the investment is financed via borrowed capital of € 150 m (lender: DG Hyp, repayment period: 10 years, margin 110-120bp via Swap).
- Positive earnings effect strikes in 2012:** In view of the highly attractive acquisition terms we anticipate positive earnings effects on DES's income statement. Moreover, due to highly stable market yields for shopping centres in Germany so far, 2010 should already see a positive valuation effect we have not yet considered in our EPS estimates. The new centre is supposed to be initially consolidated in the first or second quarter of 2010.

in €	12/2008	12/2009e	12/2010e	12/2011e
EPS (current)	2.00	1.22	1.31	1.44
EPS (previous)	2.00	1.22	1.22	1.23
CFPS	1.45	1.48	1.56	1.71
Dividend	1.05	1.05	1.10	1.10

in € m	12/2008	12/2009e	12/2010e	12/2011e
Sales	115.3	126.6	143.6	120.4
EBITDA	98.1	108.6	121.4	101.8
EBIT	98.1	108.6	121.4	101.8
Net income	68.9	44.0	49.7	54.4
Cash flow	49.9	53.4	59.1	64.7
ROCE (EBIT/CE)	5.0%	5.3%	5.0%	4.0%

	12/2008	12/2009e	12/2010e	12/2011e
PER	11.9	18.3	18.3	16.7
PCFR	16.4	15.1	15.3	14.0
Div. Yield	4.4%	4.7%	4.6%	4.6%
EV/Sales	17.15	15.77	15.31	20.02
EV/EBITDA	20.2	18.4	18.1	23.7

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	12/2006	12/2007	12/2008	12/2009e	12/2010e	12/2011e
<b>Income statement (in € m)</b>						
Sales	92.9	95.8	115.3	126.6	143.6	120.4
Cost of goods	-10.4	-9.4	-6.0	-6.8	-8.7	-7.1
Gross profit	82.4	86.4	109.4	119.8	134.9	113.3
SG&A expenses	-5.8	-6.1	-7.2	-7.6	-8.9	-7.9
R&D expenses	---	---	---	---	---	---
Other oper. income/expenses	9.7	-3.2	-4.1	-3.6	-4.6	-3.6
EBITDA	86.3	77.2	98.1	108.6	121.4	101.8
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	86.3	77.2	98.1	108.6	121.4	101.8
Operating profit (company definition)	45.4	27.1	50.0	51.6	51.6	51.7
Financial income	-41.0	-50.1	-48.2	-55.2	-62.3	-37.1
Pre-tax profit	117.7	77.8	87.0	52.8	59.1	64.7
Income taxes	-17.4	16.3	-18.1	-8.7	-9.5	-10.4
(Tax rate in %)	14.8	-21.0	20.8	16.6	16.0	16.0
Net income	100.3	94.2	68.9	44.0	49.7	54.4
Net income after minorities	100.3	94.2	68.9	44.0	49.7	54.4
EPS ord.	2.92	2.74	2.00	1.22	1.31	1.44
<b>Growth (in %)</b>	<b>CAGR (06/11)</b>					
Sales	5.3 %	28.7	3.1	20.4	9.7	13.5
EBITDA	3.4 %	50.2	-10.6	27.1	10.7	11.8
EBIT	3.4 %	50.2	-10.6	27.1	10.7	11.8
Net income	---	105.9	-6.1	-26.9	-36.1	12.8
<b>Cost ratios (in % of sales)</b>						
Cost of goods / sales	11.2	9.8	5.2	5.4	6.1	5.9
SG&A / sales	6.2	6.4	6.2	6.0	6.2	6.5
R&D / sales	---	---	---	---	---	---
<b>Cash flow (in € m)</b>						
Gross cash flow	45.4	27.1	49.9	53.4	59.1	64.7
Operating cash flow	45.4	27.1	49.9	53.4	59.1	64.7
Cash flow from investing activities	-70.5	-70.5	-100.0	-75.0	-75.0	-75.0
Free cash flow	-25.1	-43.4	-50.1	-21.6	-15.9	-10.3
Cash earnings	45.4	27.1	49.9	53.4	59.1	64.7
<b>Productivity (in € ts.)</b>						
Sales / employee	18,570.8	19,152.4	23,068.6	25,315.8	28,723.4	24,080.0
Personnel expense / employee	---	---	---	---	---	---
EBIT / employee	17,268.2	15,434.2	19,621.0	21,719.6	24,285.5	20,361.2
<b>Returns (in %)</b>						
EBITDA / sales	93.0	80.6	85.1	85.8	84.5	84.6
EBIT / sales	93.0	80.6	85.1	85.8	84.5	84.6
Pre-tax profit / sales	126.7	81.3	75.4	41.7	41.2	53.8
Net income / sales	108.0	98.3	59.7	34.8	34.6	45.2
Return on equity	12.6	10.9	8.0	4.7	5.3	5.7
Return on total capital	5.6	4.8	3.4	2.1	2.1	2.1
ROCE	5.1	4.2	5.0	5.3	5.0	4.0
<b>Balance sheet (in € m)</b>						
Property, plant and equipment	1,452.0	1,658.2	1,897.8	2,007.0	2,372.0	2,458.7
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Working capital	42.6	19.5	8.2	7.0	11.1	11.2
Current assets	143.3	137.2	52.9	71.2	36.1	44.7
Capital employed (CE)	1,692.8	1,855.0	1,960.4	2,046.5	2,413.1	2,524.9
Equity	796.3	860.8	860.5	933.2	941.3	954.1
Equity ratio in %	44.3	43.6	42.9	44.2	40.1	37.1
Net financial debt (+), liquidity (-)	736.0	871.0	891.3	923.0	1,167.3	1,336.0
Total net debt (+), liquidity (-)	736.0	871.0	891.3	923.0	1,167.3	1,336.0
Gearing in %	92.4	101.2	103.6	98.9	124.0	140.0
<b>Price ord. on 7 January 2010: € 24.00</b>						
<b>Valuation</b>						
EPS ord. (€)	2.92	2.74	2.00	1.22	1.31	1.44
CFPS (€)	1.32	0.79	1.45	1.48	1.56	1.71
Number of shares ord., (m)	34.4	34.4	34.4	36.1	37.8	37.8
P/E ord.	9.3	10.0	11.9	18.3	18.3	16.7
P/CF	20.5	34.6	16.4	15.1	15.3	14.0
EV / Sales	20.51	21.69	17.15	15.77	15.31	20.02
EV / EBITDA	22.1	26.9	20.2	18.4	18.1	23.7
EV / EBIT	22.1	26.9	20.2	18.4	18.1	23.7

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