

Deutsche EuroShop

Hold (previous: Buy) Price target: €27.00

Real Estate

Bullet Points

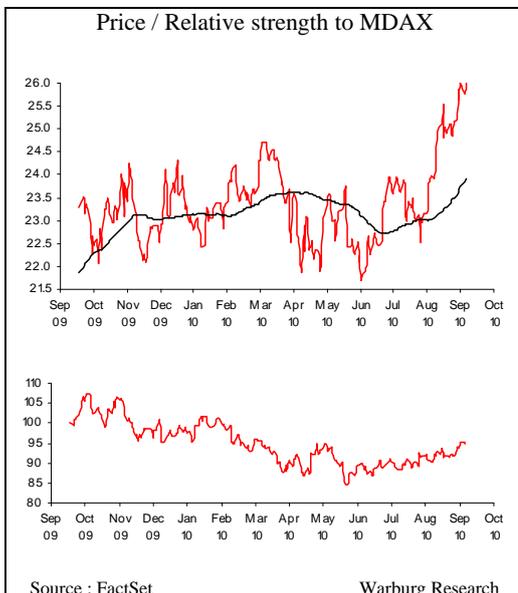
 Bloomberg Code: DEQ
 ISIN: DE0007480204

 Price on 5 October 2010: €25.99
 High/Low 12 month: €26.00/21.72

Capital	
Market capitalization	€1,192.8 m
Number of shares	45.9 m
Subscribed capital	€45.9 m

Ownership structure	
widely spread	ord 82.0%
Otto family	ord 18.0%

Upcoming events	
11 Nov 2010 :	Q3-report



in €	12/2009	12/2010e	12/2011e	12/2012e
EPS (current)	0.93	1.20	1.32	1.45
EPS (previous)	0.93	1.20	1.32	1.45
CFPS	1.49	1.43	1.58	1.73
Dividend	1.05	1.10	1.10	1.10

in €m	12/2009	12/2010e	12/2011e	12/2012e
Sales	127.6	144.9	152.8	159.5
EBITDA	110.7	123.3	130.5	138.5
EBIT	110.7	123.3	130.5	138.5
Net income	34.4	54.0	60.8	66.6
Cash flow	55.0	64.3	72.4	79.3
ROCE (EBIT/CE)	5.5%	5.1%	5.1%	5.2%

	12/2009	12/2010e	12/2011e	12/2012e
PER	23.2	21.7	19.7	17.9
PCFR	14.4	18.2	16.5	15.0
Div. Yield	4.9%	4.2%	4.2%	4.2%
EV/Sales	15.64	17.92	17.82	17.50
EV/EBITDA	18.0	21.1	20.9	20.2

Valuation stretched – Downgrade to Hold

- Positive sentiment at the real estate exhibition ExpoReal:** after several meetings with real estate companies, real estate lenders, real estate brokers and developers at the ExpoReal in Munich we think that overall sentiment for investments in real estate has improved. Solid real estate companies were offered portfolios (mainly developments) so there might be some opportunities to grow further at reasonable purchase prices. Furthermore, investors and developers in particular are becoming more confident as demand for high-quality real estate with strong cash flows has increased (e.g. insurance companies). The current development of transaction volumes e.g. in Germany supports this view. Jones Long La Salle expects transaction volumes to double in 2010 to €20bn after nearly €12bn after 9M.
- DEQ's focus in 2011 probably more on the optimisation of its high-quality portfolio:** Deutsche EuroShop made anti-cyclical investments as the company uses an opportunistic approach for portfolio growth. In the years from 2007 to 2009 DEQ did not acquire any shopping centres and only slightly expanded its participations. As demand for first-class shopping centres is visible we believe that after a period of successful acquisitions – we anticipate one further acquisition in 2010 - the company will grow more organically in 2011 by optimisations and an expansion of the lettable area in its portfolio.
- Downgrade from Buy to Hold – PT of €27 unchanged:** after the strong positive share price performance of 16% since June we feel strongly that additional upside to the share price potential is limited in the next few months. We downgrade the stock from Buy to Hold for three reasons: a) Valuation is stretched as the company already trades at its calculated NAV (MMWe: ~ €26). A significant premium to its NAV (more than 5%) is currently not justified despite the excellent management quality. b) The company is well on track to expand its shopping centre portfolio with another acquisition as it is in negotiations for two shopping centres. The expected purchase price of €150m to €160m can be financed by DES' credit line of €150m and its free cash of approx. €40m. As we believe that DEQ will additionally increase its stake only in existing shopping centres in 2011 we expect no capital increase over the next 3 months. For this reason investors might hesitate to invest in the share at present. c) Investors who are looking for a high dividend payment have enough time to reinvest in the share as the next dividend payment is expected for June 2011.

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	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e	
Income statement (in €m)							
Sales	95.8	115.3	127.6	144.9	152.8	159.5	
Cost of goods	-9.4	-6.0	-5.8	-8.2	-9.1	-9.4	
Gross profit	86.4	109.4	121.7	136.7	143.6	150.1	
SG&A expenses	-6.1	-7.2	-7.2	-8.5	-9.1	-8.0	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-3.2	-4.1	-3.8	-4.8	-4.0	-3.6	
EBITDA	77.2	98.1	110.7	123.3	130.5	138.5	
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	77.2	98.1	110.7	123.3	130.5	138.5	
Operating profit (company definition)	27.1	50.0	51.6	51.6	51.7	---	
Financial income	-50.1	-48.2	-55.9	-59.0	-58.1	-59.2	
Pre-tax profit	77.8	87.0	40.1	64.3	72.4	79.3	
Income taxes	16.3	-18.1	-5.7	-10.4	-11.6	-12.7	
(Tax rate in %)	-21.0	20.8	14.3	16.1	16.0	16.0	
Net income	94.2	68.9	34.4	54.0	60.8	66.6	
Net income after minorities	94.2	68.9	34.4	54.0	60.8	66.6	
EPS ord.	2.74	1.96	0.93	1.20	1.32	1.45	
Growth (in %)	CAGR (07/12)						
Sales	10.7 %	3.1	20.4	10.6	13.6	5.4	4.4
EBITDA	12.4 %	-10.6	27.1	12.8	11.4	5.8	6.2
EBIT	12.4 %	-10.6	27.1	12.8	11.4	5.8	6.2
Net income	---	-6.1	-26.9	-50.1	57.0	12.8	9.5
Cost ratios (in % of sales)							
Cost of goods / sales	9.8	5.2	4.6	5.7	6.0	5.9	
SG&A / sales	6.4	6.2	5.6	5.9	6.0	5.0	
R&D / sales	---	---	---	---	---	---	
Cash flow (in €m)							
Gross cash flow	27.1	49.9	55.0	64.3	72.4	79.3	
Operating cash flow	27.1	49.9	55.0	64.3	72.4	79.3	
Cash flow from investing activities	-70.5	-100.0	-75.0	-75.0	-75.0	-75.0	
Free cash flow	-43.4	-50.1	-20.0	-10.7	-2.6	4.3	
Cash earnings	27.1	49.9	55.0	64.3	72.4	79.3	
Productivity (in €ts.)							
Sales / employee	19,152.4	23,068.6	25,512.6	28,978.8	30,551.9	31,903.8	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	15,434.2	19,621.0	22,141.4	24,667.7	26,095.2	27,707.1	
Returns (in %)							
EBITDA / sales	80.6	85.1	86.8	85.1	85.4	86.8	
EBIT / sales	80.6	85.1	86.8	85.1	85.4	86.8	
Pre-tax profit / sales	81.3	75.4	31.4	44.4	47.4	49.7	
Net income / sales	98.3	59.7	26.9	37.2	39.8	41.8	
Return on equity	10.9	8.0	3.7	5.1	5.7	6.3	
Return on total capital	4.8	3.4	1.6	2.2	2.3	2.5	
ROCE	4.2	5.0	5.5	5.1	5.1	5.2	
Balance sheet (in €m)							
Property, plant and equipment	1,658.2	1,897.8	1,991.0	2,356.0	2,498.2	2,573.2	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	19.5	8.2	9.0	14.9	15.3	15.8	
Current assets	137.2	52.9	92.0	85.9	37.1	34.5	
Capital employed (CE)	1,855.0	1,960.4	2,027.6	2,395.6	2,563.9	2,639.9	
Equity	860.8	860.5	921.3	1,050.0	1,060.3	1,060.3	
Equity ratio in %	43.6	42.9	43.6	42.5	40.9	39.8	
Net financial debt (+), liquidity (-)	871.0	891.3	926.7	1,145.2	1,248.7	1,318.3	
Total net debt (+), liquidity (-)	871.0	891.3	926.7	1,145.2	1,248.7	1,318.3	
Gearing in %	101.2	103.6	100.6	109.1	117.8	124.3	
Price ord. on 5 October 2010: €25.99							
Valuation							
EPS ord. (€)	2.74	1.96	0.93	1.20	1.32	1.45	
CFPS (€)	0.79	1.42	1.49	1.43	1.58	1.73	
Number of shares ord., (m)	34.4	35.1	36.8	45.0	45.9	45.9	
P/E ord.	9.6	11.8	23.2	21.7	19.7	17.9	
P/CF	33.5	16.2	14.4	18.2	16.5	15.0	
EV / Sales	21.38	17.06	15.64	17.92	17.82	17.50	
EV / EBITDA	26.5	20.1	18.0	21.1	20.9	20.2	
EV / EBIT	26.5	20.1	18.0	21.1	20.9	20.2	

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