

Deutsche Euroshop

Real Estate

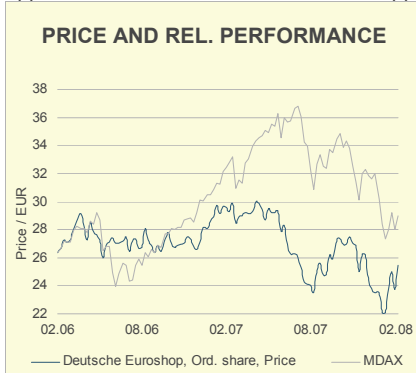
2008-02-19

Applied disclosures can be found in the appendix

Buy

Fair Value EUR30.00

Price EUR25.49 (Closing price as of 2008-02-15)



PREL. FIGURES OF AN INFLATION HEDGE WANTED? TAKE DEQ

ASSESSMENT

- Deutsche Euroshop released preliminary figures for the FY 2007, which were better than our expectations. The company that owns, but does not operate shopping centers, delivered a net profit of EUR93 million, while we estimated EUR84 million.
- The higher than expected net profit figure is largely due to a higher revaluation gain. We estimated the revaluation gain to be EUR38 million, whereas the company's appraisers considered EUR45 million to be the appropriate value increase of the company's EUR1.5 billion investment portfolio.
- The revaluation gain of 3% on the portfolio value reflects, in our view, rather conservative assumptions, which should minimise the risk of any future write-downs and increases the probability of further revaluations or the possibility to still realize a gain upon disposal. Deutsche Euroshop's centers are valued only once a year, and therefore all of the revaluation gains are booked in Q4.
- Besides the higher than expected revaluation gains, the company's total revenues of EUR95.7 million also slightly exceeded our estimated EUR94.7 million.
- For the current year, management said it expects revenues to be in the range of EUR110 to EUR113 million. This 17% rise in revenues appears realistic as the company is in the process of opening two new shopping centers in the course of this year - already reflected in our 2008 estimates. The strong rise in revenues should translate into an even higher rise in EBIT, namely 20% up to EUR90-92 million, mirroring the scalability of Deutsche Euroshop's business model.
- The company's CEO Claus-Matthias Boege also said he expects the company's single-digit percentage growth in annual sales for the next four years to lead to EBIT growth with double-digit figures per annum. This growth should be largely organic, albeit CEO Böge conceded in a recent meeting with Oppenheim that if prices were more attractive, the company would also consider acquisitions, with Poland being of particular interest for the company.
- Final 2007 figures will be published on April 18, 2008.

MARKET DATA

Reuters	DEQGn.DE
Bloomberg	DEQ GR
Market cap €bn	0,9
Free float %	81,0

KEY DATA			
Yr.end 12/31	2006	2007e	2008e
Revenues m	181,2	140,6	201,6
Net profit m	100,3	92,4	109,6
Adj. EPS	5,84	2,72	3,19
PER	4,6	10,0	8,0
EV/EBIT	7,2	14,7	11,1
EBIT mgn. %			
EPS CAGR: 05-09 %			-22,6

NEXT EVENTS

Full year results	2008-02-28
AGM	2008-04-22
Quarterly results	2008-05-06

VALUATION & CONCLUSION

Deutsche Euroshop's results imply a ROE of 11%. However, the group's cash return on equity amounts to just 4%. Despite that weak cash profitability, we maintain our buy rating as we expect the cash profitability to deliver a ROE of 6.5% for 2008, thereby covering the company's cost of equity. Deutsche Euroshop enjoys inflation-linked leasing contracts and has an occupancy rate of more than 99%, which makes it one of the most defensive plays among Germany's property stocks. Its published NAV rose from EUR25.5 to EUR26.9.

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Deutsche Euroshop - P&L					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Rental income	72,1	92,4	94,5	113,8	123,2
Revaluation of investment properties	49,9	72,3	45,0	85,6	60,0
Other income	2,3	16,4	1,1	2,2	2,4
Total income	124,3	181,2	140,6	201,6	185,6
Real estate operating expenses	12,3	16,2	16,0	21,4	22,0
Other operating expenses	4,6	6,3	4,6	4,8	5,1
Total operating expenses	16,9	22,5	20,6	26,2	27,0
EBITDA	107,4	158,6	120,0	175,4	158,6
EBITDA (excl. revaluation)	57,5	86,3	75,0	89,8	98,6
EBIT	107,4	158,6	120,0	175,4	158,6
Interest income	2,2	2,3	2,0	2,0	2,1
Interest expenses	33,6	38,9	40,0	43,6	46,7
Other financial income	-7,9	-4,4	-1,2	-1,2	-1,3
EBT	68,1	117,7	80,8	132,6	112,7
Taxes	19,4	17,4	-11,6	23,0	19,7
Adjusted net profit	48,7	100,3	92,4	109,6	93,0
Net profit	48,7	100,3	92,4	109,6	93,0
Net profit after minorities	48,7	100,3	92,4	109,6	93,0
Total operating income	74,4	108,9	95,6	116,0	125,6
Operating costs	16,9	22,5	20,6	26,2	27,0
Key ratios and figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Number of total shares	17,2	17,2	34,4	34,4	34,4
EPS (reported)	2,83	5,84	2,72	3,19	2,71
adj. EPS	2,83	5,84	2,72	3,19	2,71
Dividend	2,00	2,10	1,05	1,10	1,10
Net asset value per share	46,22	51,05	26,51	29,42	30,62
Growth rates %					
Revenues change	57,8	45,7	-22,4	43,4	-7,9
EBITDA	86,0	47,6	-24,4	46,2	-9,6
EBIT	86,0	47,6	-24,4	46,2	-9,6
EBT change	82,9	72,7	-31,3	64,1	-15,0
Net profit	84,3	105,9	-7,9	18,6	-15,1
adj. EPS	59,6	106,0	-53,4	17,3	-15,1
Margins %					
ROE incl. Revaluation effect	-0,2	3,7	5,8	2,7	3,5
ROE excl. Revaluation effect	7,2	13,2	11,2	12,3	9,8
Expense ratios %					
Other ratios					
Interest cover	3,2	4,1	3,0	4,0	3,4
Equity ratio %	46,9	44,3	43,0	40,2	40,1
Gearing %	88,8	113,5	124,4	141,2	142,4
Net financial debt / EBITDA	5,7	4,7	7,3	6,4	7,5
Net yield investment properties	nm	nm	nm	nm	nm

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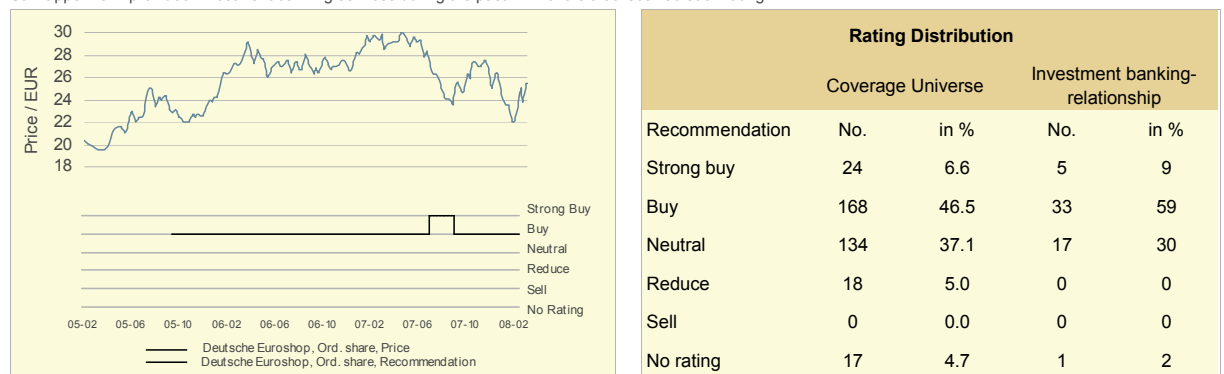
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