

Deutsche Euroshop

Real Estate

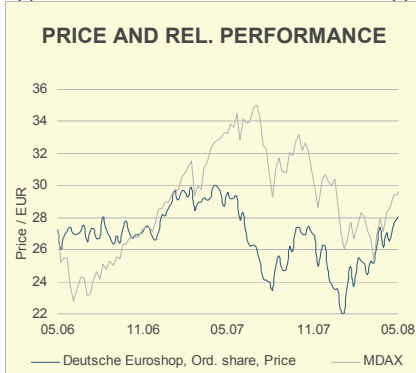
2008-05-14

Applied disclosures can be found in the appendix

Buy

Fair Value EUR30.00

Price EUR28.05 (Closing price as of 2008-05-12)



CONSUMERS AHEAD: GOOD Q1

ASSESSMENT

- Deutsche Euroshop released Q1 figures. While total revenues of EUR 26.9 million were in line with expectations, pre-tax profit and net profit exceeded market expectations by around 10%.
- The company that owns, but does not operate shopping centers, booked unrealized book gains of EUR1.8 million, which had not been expected by investors. These non-cash gains come from unrealized currency gains in relation with the Polish Zloty and Hungarian Forint.
- Management confirmed its targets with revenues to be in the range of EUR110 to EUR113 million. This 17% rise in revenues appears realistic as the company has already opened one and will open another shopping center this year.
- The strong rise in revenues this year should translate into an even higher rise in EBIT, namely 20% up to EUR90-92 million (EUR 77.2 million), mirroring the scalability of Deutsche Euroshop's business model and leading to a pre-tax profit of EUR43-45 million, excluding revaluation gains, which we estimate to amount to EUR86 million. 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.

MARKET DATA

Reuters	DEQn.DE
Bloomberg	DEQ GR
Market cap €bn	1,0
Free float %	81,0

KEY DATA			
Yr.end 12/31	2007	2008e	2009e
Revenues m	146,5	201,6	185,6
Net profit m	93,1	100,5	83,6
EPS	2,74	2,92	2,43
PER	10,0	9,6	11,5
EV/EBIT	13,6	11,5	13,1
EBIT mgn. %			
EPS CAGR: 06-10 %			-2,3

NEXT EVENTS

Quarterly results	2008-05-14
AGM	2008-06-19
Quarterly results	2008-08-14

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Deutsche Euroshop (€m)	Q1 07	Q1 08	consensus
Total revenues	22,6	26,9	27,0
EBIT	18,7	22,5	22,0
Net finance result	-10,1	-11,9	--
Revaluation gain / losses	-0,1	0,0	--
EBT	8,5	12,3	11,0
Net income	6,3	10,2	9,0

CONCLUSION & VALUATION

For us, Deutsche Euroshop is one of our favored real estate stocks, as the company has a vacancy rate of just 1%, and its rental contracts are turnover and CPI-linked. Moreover, we like the fact that the company is focused and rather cautious before it pursues new projects. In our view, Deutsche Euroshop should receive additional tailwind from sound German consumption for the rest of the year. We think German consumption is likely to be fueled by higher disposable income, reduced unemployment, and a base effect following last year's VAT increase. While a P/E ratio of 10 appears still relatively moderate, the cash- P/E stands at 23. However, we think the revaluation measures that make up that difference are done prudently at Deutsche Euroshop, backed by solid underlying assets.

Deutsche Euroshop - P&L					
EURm (Yr. end: 12/31)	2006	2007	2008e	2009e	2010e
Rental income	92,4	94,5	113,8	123,2	126,9
Revaluation of investment properties	72,3	50,8	85,6	60,0	65,0
Other income	16,4	1,3	2,2	2,4	2,6
Total income	181,2	146,5	201,6	185,6	194,5
Real estate operating expenses	16,2	15,4	21,4	22,0	22,5
Other operating expenses	6,3	4,2	4,4	4,6	4,9
Total operating expenses	22,5	19,6	25,8	26,6	27,4
EBITDA	158,6	126,9	175,8	159,0	167,1
EBITDA (excl. revaluation)	86,3	76,1	90,2	99,0	102,1
EBIT	158,6	126,9	175,8	159,0	167,1
Interest income	2,3	2,7	2,7	2,8	2,8
Interest expenses	38,9	40,2	43,8	46,9	49,2
Other financial income	-4,4	-12,6	-13,1	-13,6	-14,2
EBT	117,7	76,8	121,7	101,3	106,6
Taxes	17,4	-16,3	21,2	17,7	18,6
Adjusted net profit	100,3	93,1	100,5	83,6	87,9
Net profit	100,3	93,1	100,5	83,6	87,9
Net profit after minorities	100,3	93,1	100,5	83,6	87,9
Total operating income	108,9	95,8	116,0	125,6	129,5
Operating costs	22,5	19,6	25,8	26,6	27,4
Key ratios and figures					
EURm (Yr. end: 12/31)	2006	2007	2008e	2009e	2010e
Number of total shares	17,2	34,4	34,4	34,4	34,4
EPS (reported)	5,84	2,74	2,92	2,43	2,56
FFOPS	2,71	1,63	1,06	1,12	1,14
DPS	2,10	1,05	1,10	1,10	1,15
NNAVPS	48,64	26,22	27,94	29,42	30,69
Growth rates %					
Revenues	45,7	-19,1	37,6	-7,9	4,8
EBITDA	47,6	-20,0	38,6	-9,5	5,1
EBIT	47,6	-20,0	38,6	-9,5	5,1
EBT	72,7	-34,8	58,5	-16,7	5,2
Net profit after minorities	105,9	-7,2	7,9	-16,8	5,2
FFO	313,4	-39,7	-35,3	6,4	1,6
Margins and ratios %					
Cost/income ratio	-12,4	-13,4	-12,8	-14,3	-14,1
Property expens./gross rental inc.	-17,5	-16,3	-18,8	-17,8	-17,8
EBITDA/total income (excl. revaluation)	87,6	86,6	87,2	85,7	85,9
EBIT/total income (excl. revaluation)	87,6	86,6	87,2	85,7	85,9
EBT/total income	65,0	52,4	60,3	54,6	54,8
Net profit margin	55,4	63,6	49,8	45,0	45,2
RONNAV	5,8	4,4	3,9	3,9	3,8
Other ratios					
Interest cover	-4,1	-3,2	-4,0	-3,4	-3,4
Equity ratio %	44,3	43,6	40,2	40,0	40,3
LTV	53,8	54,0	58,3	57,7	57,0
Gearing %	86,0	91,4	113,6	117,0	115,3

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