

## Buy

Current €19.82

Target ~~€25.00~~

Current price equivalent

\$26.90

Market cap

€681.3m

\$924.8m

52-week high/low

€28.40/€18.56

Price perf.	1M	3M	12M
Price (€)	19.0	23.9	27.0
Absolute (%)	4.3	-18.7	-26.7
Rel market (%)	2.4	27.6	35.6
Rel sector (%)	0.0	6.7	49.4

Source: DKIB, Thomson IBES

DEQn.DE DEQ GR

### Research Analysts

**Kai Klose**

+44 (0)20 7475 2436

kai.klose@dkib.com

## Deutsche Euroshop

Higher earnings but stable dividends ?

**Markets were confused today that Deutsche Euroshop (DEQ) has increased the FY-guidance but not the dividend. Even based on the old guidance of EBT €43-45m (new: €45-47m) earnings would have increased by 19-24% compared to €37.7m in 2007. Our valuation is based on €1.10 as dividend for 2008-2010. We keep it unchanged for the time being as we expect the dividend to be raised as well.**

### Deutsche Euroshop forecasts

Year	Sales EUR m	EBIT incl associates EUR m	EBIT margin %	Net income EUR m	Dil EPS incl except EUR	Funds from operations EUR m	P/E x	EV/ EBITDA x	Yield %	P/NAV x
Dec-2006A	93	161	172.9	100	5.84	48	3.4	11.8	5.3	0.4
Dec-2007A	96	129	135.2	94	2.74	52	7.2	19.0	5.3	0.8
Dec-2008E	113	129	114.0	58	1.68	28	11.8	18.7	5.5	0.8
Dec-2009E	121	125	103.5	50	1.46	32	13.6	18.3	5.5	0.8
Dec-2010E	124	125	101.1	47	1.38	30	14.4	19.0	5.5	0.8

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ The CEO provided a rather optimistic outlook for DEQ. Even the risk of higher vacancies due to the potential insolvency of some fashion stores (Wehmeyer, Leffers) or higher competition by new malls in Dresden and Wroclaw should be manageable. Demand for space by new tenants is high as well as the frequency by the buying public. Outstanding rents remain low at €120T for Q3 and the tenants have not reported decreasing sales figures so far.
- ▶ The company's reluctance regarding new acquisitions has been intensively discussed during the conference call. DEQ stressed to have sufficient fire power in place but requested prices have still been too high related to the company's investment criteria despite of a yield expansion by 40-60bp. For its own portfolio excl the new openings in this year DEQ indicated a net yield of 5.60% which is an increase by 11 bp compared to the end of 2007.
- ▶ We appreciate that DEQ keeps the "deal fever" low and sticks to its investment strategy which has been successful so far reflected in stable valuations and high occupancy rates. Markets' concerns regarding a potential capital increase are now abolished.  
We had not expected DEQ to publish a higher profit guidance for EBIT 2008 to €93-95m (old: €90-92m). And it is even surprising that the outlook for 2009 was kept unchanged. The CEO mentioned that the planning has not been finalised.

- ▶ Given the weighted maturity of DEQ's rental contracts of more than 8 years we would assume that earnings in the following years also need to adjusted upwards. This is due to the fact that the predictability is high due to high level of contracted and indexed rents and the turnover-based rents amount only to 2% of total rents. As DEQ kept

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[www.dresdnerkleinwort.com/research](http://www.dresdnerkleinwort.com/research)

### Bloomberg:

DKIB1<GO>

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the outlook for 2009 stable markets assumed that the risk of defaults or higher vacancy rates could increase which we do not foresee. This expectation was even increased as the dividend was "only" confirmed with €1.05 which is the level of 2007.

- ▶ We assume that DEQ will publish a higher profit forecast also for 2009 including an increase of the dividend to €1.10 at latest at the beginning of the next year. In 2006-2008 the company has always published an update with a higher earnings forecast in January or February and we expect this to happen also for 2009. Otherwise the higher profit forecast for 2008 as one-time effect would be even counterproductive as earnings predictability was one of the core aspects of DEQ's business model. And shareholders should participate via a sufficient dividend policy.
- ▶ We only have kept our dividend forecasts stable for 2008-2010 at €1.10 as we do not expect new acquisitions. But we assume that shopping centres will continue to outperform the general retail sales reflected e.g. in an average turnover of €4,700/sqm/year vs €3,270/sqm/year. At the same time we expect that DEQ will keep a high occupancy rate for its shopping centres due to the portfolio quality and the inner-city locations.
- ▶ All in all we keep our target price and rating unchanged. The company might have missed the opportunity today to "pull the trigger" by increasing the earnings forecast also for 2009 as well as the dividend but we are optimistic that this will caught up by DEQ soon. With a performance of "only" -11% YTD DEQ has been relatively stable among the larger German property stocks and we would recommend to buy into weakness.
- ▶ Our valuation is based on DDM, EVA-valuation and Return on NAV.

## Disclosure appendix

### Disclosures under US regulations

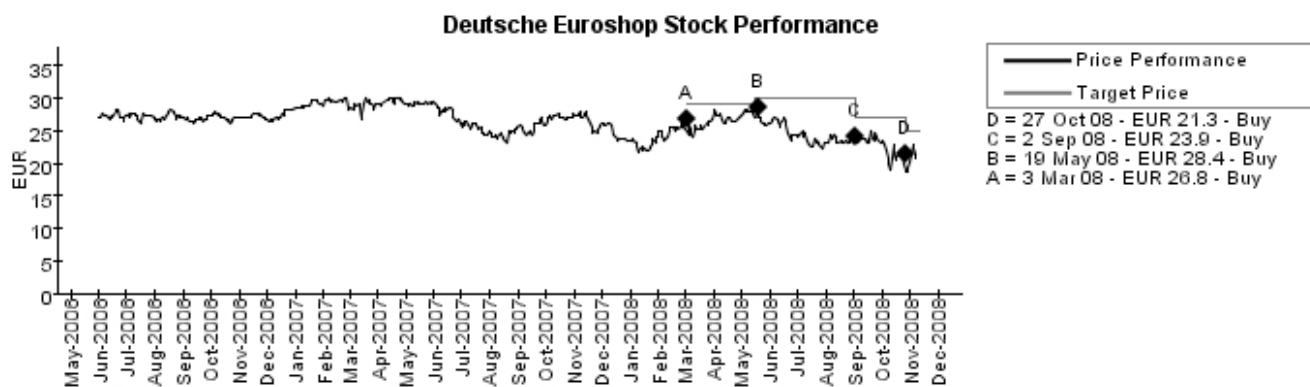
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(Except as otherwise noted, expected performance over next 12 months)

Buy:	10% or greater increase in share price	Sell:	10% or more decrease in share price
Add:	5-10% increase in share price	Reduce:	5-10% decrease in share price
Hold:	+5%/-5% variation in share price		

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Hold:	Stock expected to perform in-line with its sector, and may increase/decrease in value, but remain less attractive than Buy-rated stocks/more attractive than Sell-rated stocks.
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Hold	180	31%	17	9%
Sell/Reduce	73	12%	9	12%
<b>Total</b>	<b>588</b>		<b>71</b>	

Source: Dresdner Kleinwort

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