

**Company Flash**
**Real Estate**
**Germany**
**July 7, 2009**

## Deutsche EuroShop

### Capital increase for expansion

■ **DEQ concluded a 10% capital increase with gross proceeds of EUR 67 mn.** Following yesterday's announcement, 3.4 mn shares have been placed at a price of EUR 19.50 via an accelerated bookbuilding process. The discount amounts to 8.5% on yesterday's close and to 3% on the opening price this morning.

■ **Proceeds for further expansion steps.** DEQ stated that proceeds will be used to finance further growth and to take advantage of investment opportunities that may arise. A potential capital increase has already been indicated for a while. At our last roadshow, the CFO made clear that a new investment will not be made without being sure that the company can get new equity. Due to the fact that apparently no concrete shopping center investment is currently in the pipeline, we think that DEQ will first use proceeds to reduce usage of the existing credit line (EUR 100 mn, of which EUR 40 mn were used). Furthermore, the company will finance the expansions in Dresden (EUR 75 mn investment) and Frankfurt (EUR 36 mn investment). Moreover, there is still headroom to finance a potential new shopping center via the unused credit line. Currently, the transaction market is still weak; however, new investment opportunities might arise in the market later this year or in 2010. In our view, a new investment should offer a yield of ca. 6-6.5%. Overall, the company will not change its strategy to keep the group's equity ratio at least at 45% (47.6% as of March, ca. 49.2% after the capital increase), in our view.

■ **Target price reduction from EUR 26 to EUR 25 – Buy rating confirmed.** The capital increase has a dilutive effect on NAV per share by ca. 2.5%, as long as a potential new investment will not increase the portfolio. We change our NAV estimate for 2009 from EUR 26.5 to EUR 25.8. We confirm our Buy rating with a TP of EUR 25 (prev. EUR 26).

	2006	2007	2008	2009e	2010e
Gross rental income (EUR mn)	92.9	95.8	115.3	126.8	129.3
EBITDA (EUR mn)	86.3	78.5	98.1	106.2	109.7
Net income (EUR mn)	100.3	94.2	68.9	3.8	48.3
EPS reported (EUR)	2.92	2.74	2.00	0.11	1.28
EPS adj. (EPRA) (EUR)	0.76	0.94	1.13	1.21	1.20
NAVPS (EUR)	25.52	26.91	27.43	25.84	26.44
DPS (EUR)	1.05	1.05	1.05	1.05	1.15
ROE (%)	11.9	10.1	7.1	0.4	4.8
P/E adjusted (EPRA) (x)	35.5	29.0	21.0	17.7	17.7
P/Cash earnings (x)	20.7	24.1	16.5	14.1	14.2
P/FFO diluted (x)	30.9	24.3	16.5	14.1	14.2
P/NAV (x)	1.06	1.01	0.87	0.82	0.81
EV/EBITDA (x)	18.7	21.9	17.1	14.7	14.2
Div. yield (%)	3.9	3.9	4.4	4.9	5.4

Source: Company data, UniCredit Research

## Buy (prev. Buy)

Price on 07/06/09	EUR 21.30
Target price (prev. EUR 26.00)	EUR 25.00
Upside to TP	17.4%
Cost of equity	7.5%
High/Low (12M)	26.00/18.55

### INVESTMENT HIGHLIGHTS

Focus on attractive and established shopping centers  
 Stable generation of cash flows and dividends  
 10% capital increase underpins solid capital structure

### STOCK TRIGGERS

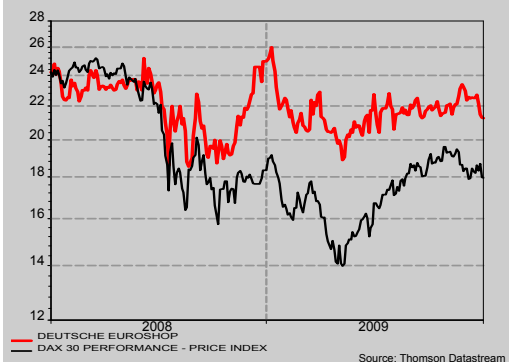
EUR 65 mn capital injection for new investments  
 Expansion steps in Frankfurt and Dresden

### STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	106.9
Free float (%)	80.5
Market capitalization (EUR bn)	0.8
No. of shares issued (mn) - new	37.8
Shareholders (pre capital increase)	Otto family 19.5%, Attfund Ltd 5.3%, free float 75.2%

### UPCOMING EVENTS

Annual general meeting	Jun-10
H1/Q2	13-Aug-09
9M/Q3	12-Nov-09



### RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	9.2	0.2	-6.6
Euro STOXX 50	7.2	-0.4	-5.0
ES Financ. S.	12.5	-2.0	-6.0

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**Dilutive effect on earnings and NAV**

**We change our estimates following the capital increase.** On the one hand, interest costs will decrease due to the cash inflow of net ca. EUR 65.5 mn and the reduction of usage of the credit line. On the other hand, the number of shares will increase by 10%, which will have a full impact on 2010. We reduce our estimates for NAV per share by 2.5% due to the placement below current NAV. We do not include potential positive effects from a new investment as we are not able to estimate a time frame and the potential acquisition yield.

**New accounting standards**

**At its AGM last week, management announced the change of its guidance for FY 2010.** This is based on expected changes in IAS 31 accounting standards on joint ventures and will not change EBT, net income and cash flows (see German Equity Daily as of July 1). Therefore, management confirmed the EBT guidance for FY 2010. The company will host an investor/analyst day and will present details on IAS changes and effects on July 17. We will revise our estimates for revenues and EBIT afterwards, but we stick to our estimates for EBT and NAV. The lowered guidance for revenues of EUR 96-99 mn and for EBIT of EUR 82-85 mn is in line with our estimates, which we will derive after application of IAS 31 as of 2010.

**No further refinancing needs until 2012**

**Ahead of the capital increase, DEQ announced the refinancing of two loans with an amount of around EUR 132 mn, of which EUR 50 mn is due in 2009 and EUR 82 mn in 2013.** Interest payments will be reduced by over EUR 1 mn and average debt maturity will increase from ca. 7 to 8 years after completion. DEQ will have no refinancing needs until 2012 when only EUR 26 mn will come due. With the new refinancing of ca. 14% of total debt, the company is able to reduce average interest rate from currently 5.33%. Both loans had previously interest rates of ca. 5.9%. Based on our calculation, we estimate that the new refinancing could be in the magnitude of 5.2%, as the 10-year swap rate is currently at 3.6% and 10-year Pfandbrief rate at ca. 4.2%.

**CHANGES IN ESTIMATES**

EUR mn	2008 rep.	2009e			2010e		
		new	prev.	Dev. (%)	new	prev.	Dev. (%)
Revenues	115.3	126.8	126.8	0	129.3	129.3	0
y-o-y (%)	20	10	10		2	2	
EBIT reported	98.1	106.2	106.2	0	109.7	109.7	0
y-o-y (%)	25	8	8		3	3	
EBIT incl. valuation result	135.2	56.7	56.7	0	113.3	113.3	0
y-o-y (%)	15	-58	-58		100	115	
EBT incl. valuation result	87.0	4.8	3.3	44	60.4	58.8	3
y-o-y (%)	12	-94	-96		1160	-8879	
Net income	68.9	3.8	2.7	44	48.3	47.1	3
y-o-y (%)	-27	-94	-96		1160	-8879	
EPS reported (EUR)	2.00	0.11	0.08	37	1.28	1.37	-7
EPS adjusted (EUR)	1.13	1.21	1.23	-2	1.20	1.29	-6
<b>FFO per share (EUR)</b>	<b>1.45</b>	<b>1.51</b>	<b>1.54</b>	<b>-2</b>	<b>1.50</b>	<b>1.61</b>	<b>-7</b>
<b>NAV per share (EUR)</b>	<b>27.43</b>	<b>25.84</b>	<b>26.47</b>	<b>-2</b>	<b>26.44</b>	<b>26.92</b>	<b>-2</b>
y-o-y (%)	2	-6	-3		2	2	
DPS (EUR)	1.05	1.05	1.15	-9	1.15	1.15	0
Equity ratio (%)	48.7	48.7	46.6		49.2	47.2	
LTV (%)	46.2	47.6	48.5		46.3	46.9	

Source: Company data, UniCredit Research

**Buy rating with a slightly reduced TP**

**The dilution effect on NAV leads to a TP reduction from EUR 26 to EUR 25. However, we keep our Buy rating.** We think that the potential capital increase has already been partly reflected over recent months. Now, the company has firepower again to grow further. Together with the refinancing this underpins our view that DEQ is solidly and long-term oriented financed with an equity ratio of ca. 50% and a debt maturity of 8 years. This corresponds to the average maturity of lease contracts of above 7 years and an occupancy rate of 100%.

**VALUATION OVERVIEW**

EUR	Value per share	Weighting (%)
Economic profit (ROCE) model	27.16	33
Dividend discount model	23.95	33
NAV 2010e (10% discount)	23.80	33
<b>Value (weighted)</b>	<b>24.97</b>	
Peer group comparison (2009-11e)	21.47	
<b>Target price (t+12 months)</b>	<b>25.00</b>	
Current share price	20.50	
Share price potential (%)	22.0	

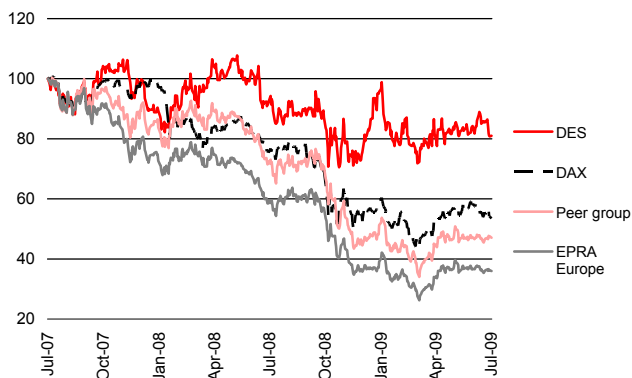
  

Valuation at:	Target price	Current
<b>Share price</b>	<b>25.00</b>	<b>20.50</b>
Dividend yield 2009e (%)	4.2	5.6
P/NAV 2010e	0.95	0.78
P/E adj. 2010e	20.8	17.0
FFO yield 2010e (%)	6.0	7.3
Cash earnings yield 2010e (%)	6.0	7.3

Source: UniCredit Research

**SHARE PRICE PERFORMANCE AND NAV TREND**

Relative performance compared to indexes (2Y)



NAV and share price trend



Source: Thomson Datastream, UniCredit Research

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-	-

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Deutsche EuroShop	02/10/2009	BUY	EUR	26.00
Deutsche EuroShop	01/07/2009	HOLD	EUR	26.00
Deutsche EuroShop	10/30/2008	BUY	EUR	25.00
Deutsche EuroShop	08/14/2008	HOLD	EUR	25.00
Deutsche EuroShop	07/10/2008	HOLD	EUR	26.50

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