

# Deutsche Euroshop

Real Estate

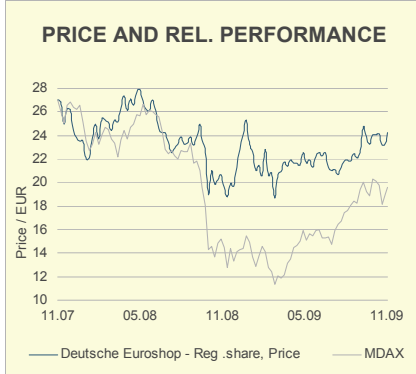
2009-11-12

Applied disclosures can be found in the appendix

Buy

Fair Value EUR26.00

Price EUR24.27 (Closing price as of 2009-11-11)



## A “MARKET MAKER” AT ITS BEST

### ASSESSMENT

- Deutsche Euroshop disclosed Q3 results which were in line with our own and market expectations. Q3 revenues amounted to €31.5m, (expected €31m), pre-tax profit was €9.2m (expected €9.9m) and net profit was €8m (expected €8.2m).
- For the first 9M this year, DEQ revenues rose by 12% (y-o-y) to €94.4m from €84.1m. This strong increase is largely due to the first-time full consolidation of a shopping centre in the city of Kassel (City-Point Kassel). However, even on a comparable basis revenues rose by 1.6%. This compares with a turnover decline of the German retail sector of -2.6% during the first 9 months of this year.
- Due to the recent capital increase the company's equity ratio rose from 48.7% to 49.8%, despite the dividend payment of €36.1m. The proceeds from the capital increase were used to repay short-term loans.
- The LTV of 45.6% is rather comfortable and would allow the company to make smaller acquisitions. Management also indicated in this morning's press release that it is currently examining several offers which could make profitable contributions. So far, management has demonstrated a very prudent approach and we feel comfortable that this approach will not change.

### MARKET DATA

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

KEY DATA			
Yr.end 12/31	2008	2009e	2010e
NNAVPS	27,17	25,79	27,10
FFOPS	1,20	0,98	0,98
EPS	2,00	0,40	1,18
P/NNAV	0,9	0,9	0,9
FFO yield %	5,0	4,0	4,0
RONNAV %	4,5	3,7	3,7
FFOPS CAGR: 08-11 %			-3,0

### VALUATION

- Management reiterated the FY 2009 guidance: revenue €125-128m, EBIT €105-108m, EBT excluding measurement gains/losses €50-52m, FFO €1.38-1.43 per share. Moreover management said it considers a stable dividend of at least €1.05 per share, which currently implies a dividend yield of 4.4%. The NAV per share should be €26 per share at the end of his year.

### NEXT EVENTS

### CONCLUSION

Clearly, Deutsche Euroshop's business model can weather the storm of the rough economic environment. By intelligently picking the more successful retailers as tenants and by actively managing these “markets”, Deutsche Euroshop knows how to generate sufficient footfall in its shopping centres. Following Deutsche Euroshop's Q3 results, we are revising our FV to €26, up from €24, and keep our buy rating for the stock

Dr. Sven Janssen, BSc MA  
 +49 (0) 69/71 34 - 55 40  
 sven.janssen@oppenheim.de  
 Oppenheim Research GmbH, Frankfurt

Thomas Rothäusler  
 +49 (0) 69/71 34 - 51 32  
 thomas.rothaeusler@oppenheim.de  
 Oppenheim Research GmbH, Frankfurt

Deutsche Euroshop - P&L					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Rental income	95,8	115,3	125,8	98,0	105,0
Revaluation of investment properties	50,8	37,1	-29,2	10,3	10,5
Other income	1,3	-5,1	1,6	-4,0	-4,3
<b>Total income</b>	<b>147,8</b>	<b>147,3</b>	<b>98,3</b>	<b>104,3</b>	<b>111,2</b>
Real estate operating expenses	15,4	7,2	14,7	12,8	13,1
Other operating expenses	4,2	5,0	4,9	4,5	4,7
<b>Total operating expenses</b>	<b>19,6</b>	<b>12,2</b>	<b>19,5</b>	<b>17,3</b>	<b>17,8</b>
Non recurring items	0,0	0,0	0,0	0,0	1,0
<b>EBITDA</b>	<b>128,1</b>	<b>135,2</b>	<b>78,7</b>	<b>87,0</b>	<b>94,4</b>
<b>EBITDA (excl. revaluation)</b>	<b>77,4</b>	<b>98,1</b>	<b>107,9</b>	<b>76,7</b>	<b>83,9</b>
<b>EBIT</b>	<b>128,1</b>	<b>135,2</b>	<b>78,7</b>	<b>87,0</b>	<b>94,4</b>
Interest income	2,7	2,4	0,8	0,8	0,8
Interest expenses	40,2	46,1	50,0	39,0	40,6
Other financial income	-12,6	-4,5	-6,2	5,7	6,0
EBT	78,0	87,0	23,3	54,5	60,7
Taxes	-16,3	18,1	8,2	9,8	10,6
Adjusted net profit	94,4	68,9	15,1	44,7	50,0
Net profit	94,4	68,9	15,1	44,7	50,0
Net profit after minorities	94,4	68,9	15,1	44,7	50,0
Total operating income	97,0	110,3	127,4	94,0	100,7
Operating costs	19,6	12,2	19,5	17,3	17,8
Key ratios and figures					
EURm (Yr. end: 12/31)	2007	2008	2009e	2010e	2011e
Number of total shares	34,4	34,4	37,8	37,8	37,8
EPS (reported)	2,74	2,00	0,40	1,18	1,30
FFOPS	1,63	1,20	0,98	0,98	1,09
DPS	1,05	1,05	1,05	1,10	1,15
NNAVPS	26,22	27,17	25,79	27,10	27,74
<b>Growth rates %</b>					
Revenues	-18,6	-0,3	-33,3	6,1	6,7
EBITDA	-19,4	5,5	-41,8	10,5	8,5
EBIT	-19,4	5,5	-41,8	10,5	8,5
EBT	-33,9	11,5	-73,2	133,8	11,4
Net profit after minorities	-6,3	-27,0	-78,0	195,5	12,0
FFO	-39,7	-26,8	-18,1	0,0	11,2
<b>Margins and ratios %</b>					
Cost/income ratio	-13,3	-8,2	-19,9	-16,5	-16,0
Property expens./gross rental inc.	-16,1	-6,2	-11,6	-13,0	-12,4
EBITDA/total income (excl. revaluation)	86,7	91,8	80,1	83,5	84,9
EBIT/total income (excl. revaluation)	86,7	91,8	80,1	83,5	84,9
EBT/total income	52,8	59,0	23,7	52,2	54,6
Net profit margin	63,9	46,7	15,4	42,9	45,0
RONNAV	4,4	4,5	3,7	3,7	4,0
<b>Other ratios</b>					
Interest cover	-1,9	-2,1	-2,2	-2,0	-2,1
Equity ratio %	43,6	42,9	42,4	42,2	41,9
LTV	54,0	47,4	51,5	50,9	51,2
Gearing %	91,4	99,7	92,5	98,3	101,7

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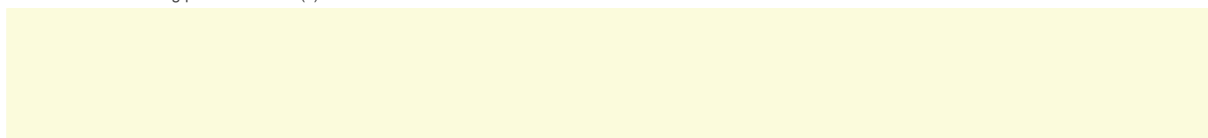
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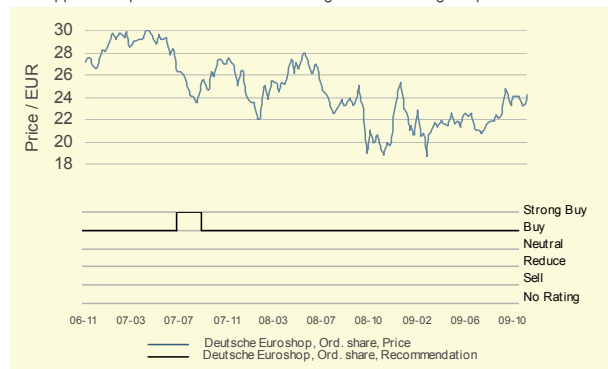
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No rating	19	5.2	0	0

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Sal. Oppenheim jr. & Cie. Securities Inc.

**250 Park Avenue, Suite 911**  
**New York, NY 10177**  
**Tel: +1 212 888 52 46**  
**Fax: +1 212 888 0916**

**E-MAIL:** jhagenbuch@sal-oppenheim.com

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ANALYSTS	GROUP PARENT COMPANY Sal. Oppenheim jr. & Cie. S.C.A 4, rue Jean Monnet 2180 Luxembourg Phone +352 221522-1 Fax +352 221522-690 info@oppenheim.lu		
<p>Dr. Sven Janssen, BSc MA Phone +49 (0) 69/71 34 - 55 40 sven.janssen@oppenheim.de Oppenheim Research GmbH, Frankfurt</p> <p>Thomas Rothäusler Telephone +49 (0) 69/71 34 - 51 32 thomas.rothaeusler@oppenheim.de Oppenheim Research GmbH, Frankfurt</p>	<p><b>Germany</b> Cologne head office Sal. Oppenheim jr. &amp; Cie. KGaA Unter Sachsenhausen 4 50667 Cologne Phone +49 221 145-01 Fax +49 221 145-1512 info@oppenheim.de</p> <p>Baden-Württemberg branch Sal. Oppenheim jr. &amp; Cie. KGaA Villa Federer Mörrikestr. 20 70178 Stuttgart Phone +49 711 220088-01 Fax +49 711 220088-12 stuttgart@oppenheim.de</p>	<p>Frankfurt am Main branch Sal. Oppenheim jr. &amp; Cie. KGaA Asset Management Bockenheimer Landstrasse 23 60325 Frankfurt am Main Phone +49 69 7134-0 Fax +49 69 7134-5211 info@oppenheim.de</p> <p>Munich branch Sal. Oppenheim jr. &amp; Cie. KGaA Odeonsplatz 12 80539 Munich Phone +49 89 290074-0 Fax +49 89 290074-29 muenchen@oppenheim.de</p>	<p><b>Luxembourg</b> Luxembourg branch Sal. Oppenheim jr. &amp; Cie. KGaA 4, rue Jean Monnet 2180 Luxembourg Phone +352 476822-1 Fax +352 476822-680 info@oppenheim.lu</p> <p><b>Austria</b> Vienna head office Bank Sal. Oppenheim jr. &amp; Cie. (Österreich) AG Stock im Eisen-Platz 3 A-1010 Vienna Phone +431 51866-0 Fax +431 51866-9000 austria@oppenheim.at</p>
PRODUCED BY			
<p>Oppenheim Research GmbH Untermainanlage 1 60329 Frankfurt am Main Phone +49 69 71 34-0 www.oppenheim-research.de research@oppenheim.de</p> <p>Publishing Team: Jane Morgan (Editor)</p>	<p>Berlin branch Sal. Oppenheim jr. &amp; Cie. KGaA Jägerstrasse 51 10117 Berlin Phone +49 30 206276-0 Fax +49 30 206276-21 berlin@oppenheim.de</p> <p>Duesseldorf branch Sal. Oppenheim jr. &amp; Cie. KGaA Malkastenstrasse 21/ Pempelforter Strasse 11 40211 Duesseldorf Phone +49 211 828249-0 Fax +49 211 828249-26</p>	<p>Northern Germany branch Sal. Oppenheim jr. &amp; Cie. KGaA Harvestehuder Weg 8 20148 Hamburg Phone +49 40 355496-0 Fax +49 40 355496-11 hamburg@oppenheim.de</p> <p><b>France</b> Paris branch Sal. Oppenheim jr. &amp; Cie. KGaA 13, rue Royale 75008 Paris Phone +33 1 449464-00 Fax +33 1 449464-10 paris@oppenheim.fr</p>	<p>Salzburg branch Bank Sal. Oppenheim jr. &amp; Cie. (Österreich) AG Getreidegasse 10 5024 Salzburg Österreich Phone +43 662 2224-0 Fax +43 662 2224-7000 salzburg@oppenheim.at</p>
PRESS CONTACT			
<p>Phone +49 221 145-1955 presse@oppenheim.de</p>	<p>Frankfurt am Main branch Sal. Oppenheim jr. &amp; Cie. KGaA Investment Banking Untermainanlage 1 60329 Frankfurt am Main Phone +49 69 7134-0 Fax +49 69 7134-5211 info@oppenheim.de</p>	<p><b>Italy</b> Milan branch Sal. Oppenheim jr. &amp; Cie. KGaA Via Dante 9 20123 Milan Phone +39 0272 4902-1 Fax +39 0272 4902-90 milano@oppenheim.it</p>	<p><b>Switzerland</b> Zurich head office Bank Sal. Oppenheim jr. &amp; Cie. (Schweiz) AG Uraniastrasse 28 8022 Zurich Phone +41 44 214-2214 Fax +41 44 211-1085</p> <p>Geneva branch Banque Sal. Oppenheim jr. &amp; Cie. (Suisse) S.A. 9, rue du Commerce 1211 Geneva 11 Switzerland Phone +41 22 319-4777 Fax +41 22 319-4787 bank@oppenheim.ch</p>