

# Deutsche EuroShop

Hold Price target: €31.00

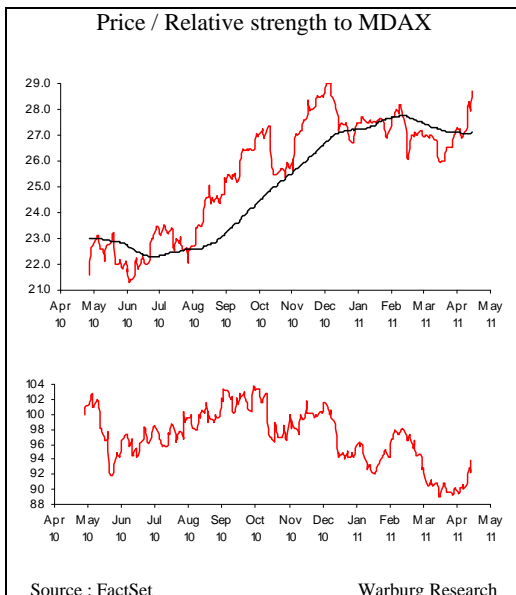
Real Estate

## Bullet Points

 Bloomberg Code: DEQ  
 ISIN: DE0007480204

 Price on 13 May 2011: €28.71  
 High/Low 12 month: €28.99/21.30

Capital	Ownership structure	Upcoming events
Market capitalization €1,482.1 m	widely spread ord 82.0%	16 Jun 2011 : AGM
Number of shares 51.6 m	Otto family ord 18.0%	11 Aug 2011 : Q2-report
Subscribed capital €51.6 m		10 Nov 2011 : Q3-report



in €	12/2009	12/2010	12/2011e	12/2012e
EPS (current)	0.93	1.80	1.33	1.44
EPS (previous)	0.93	1.80	1.34	1.44
CFPS	1.41	1.42	1.59	1.72
Dividend	1.05	1.10	1.10	1.20

in €m	12/2009	12/2010	12/2011e	12/2012e
Sales	127.6	144.2	190.7	203.5
EBITDA	110.7	123.1	164.3	177.7
EBIT	110.7	124.0	164.7	178.1
Net income	34.4	81.8	68.9	74.5
Cash flow	55.0	64.5	82.1	88.7
ROCE (EBIT/CE)	5.5%	4.3%	5.2%	5.6%

	12/2009	12/2010	12/2011e	12/2012e
PER	22.8	13.3	21.5	19.9
PCFR	15.0	16.9	18.1	16.7
Div. Yield	5.0%	4.6%	3.8%	4.2%
EV/Sales	15.90	19.38	19.13	17.90
EV/EBITDA	18.3	22.7	22.2	20.5

## Strong growth in Q1

- Good growth momentum due to attractive acquisitions and expansion of shopping centres: net rental income** of €44.4m met exactly our expectation. Growth of 28% was mainly driven by DEQ's aggressive portfolio expansion starting already in 2010. The **EBIT** of €38.6m exceeded our estimates (€38.1m) as property operating costs and management costs only sum up to 10% of total sales (WRe: ~12%). The other operating result of €-1.5m came in slightly lower than anticipated. The **EBT** of €19.1m fell short of our expectation as the increase in financing costs to €19.1m was higher than anticipated. The included interest expenses of €15.3m are only related to the rising loan volume caused by the portfolio expansion. The average interest rate of 5.03% should decrease by at least 15bp due to prolongations in FY 2011. However, the financing costs of minorities nearly doubled to €3.9m and should be seen as a run-rate for the next quarters.

in € m	Q1 2011	Q1 2011e	Q1 2010	≡ in %
<b>Group P &amp; L</b>				
Revenue	44.4	44.4	34.6	28%
EBIT	38.6	38.1	30.1	28%
Net Finance Costs	-19.1	-18.2	-14.7	n.a.
Valuation result	-0.4	0.0	0.0	n.a.
EBT	19.1	20.0	15.4	24%
Consolidated profit	16.0	16.8	12.8	25%
FFO per share	0.38	0.39	0.34	11%
Earnings per share	0.31	0.33	0.28	10%

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- Further acquisitions difficult but not impossible:** we identify a somewhat more positive wording of the management regarding additional acquisitions. We believe that the closing of one transaction with a net initial yield of > 5.5% would support the share price in the mid term.
- Valuation offers little upside:** the NAV increased by 2% in Q1 to €26.64 per share driven by the positive impact of valuation gains on cash flow hedges and the good net result in Q1. Our valuation models indicate a weighted fair value of €31 on average. For now we confirm our Hold recommendation and our PT of €31.

 ANDREAS PLAESIER  
 Senior Analyst

 Tel.: +49 40 309537 - 246  
 aplaesier@warburg-research.com

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	12/2007	12/2008	12/2009	12/2010	12/2011e	12/2012e	
<b>Income statement (in €m)</b>							
Sales	95.8	115.3	127.6	144.2	190.7	203.5	
Cost of goods	-9.4	-6.0	-5.8	-7.3	-10.5	-12.1	
Gross profit	86.4	109.4	121.7	136.9	180.2	191.4	
SG&A expenses	-6.1	-7.2	-7.2	-7.9	-11.3	-10.2	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-3.2	-4.1	-3.8	-5.9	-4.6	-3.6	
EBITDA	77.2	98.1	110.7	123.1	164.3	177.7	
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0	0.0	
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	
EBIT	77.2	98.1	110.7	124.0	164.7	178.1	
Operating profit (company definition)	27.1	50.0	51.6	51.6	51.7	---	
Financial income	-50.1	-48.2	-55.9	-60.2	-82.6	-89.4	
Pre-tax profit	77.8	87.0	40.1	97.0	82.1	88.7	
Income taxes	16.3	-18.1	-5.7	-15.2	-13.2	-14.2	
(Tax rate in %)	-21.0	20.8	14.3	15.7	16.0	16.0	
Net income	94.2	68.9	34.4	81.8	68.9	74.5	
Net income after minorities	94.2	68.9	34.4	81.8	51.6	74.5	
EPS ord.	2.74	1.96	0.93	1.80	1.33	1.44	
<b>Growth (in %)</b>	<b>CAGR (07/12)</b>						
Sales	16.3 %	3.1	20.4	10.6	13.0	32.3	6.7
EBITDA	18.1 %	-10.6	27.1	12.8	11.2	33.5	8.1
EBIT	18.2 %	-10.6	27.1	12.8	12.0	32.8	8.1
Net income	---	-6.1	-26.9	-50.1	138.1	-36.9	44.3
<b>Cost ratios (in % of sales)</b>							
Cost of goods / sales	9.8	5.2	4.6	5.1	5.5	5.9	
SG&A / sales	6.4	6.2	5.6	5.5	5.9	5.0	
R&D / sales	---	---	---	---	---	---	
<b>Cash flow (in €m)</b>							
Gross cash flow	27.1	49.9	55.0	64.5	82.1	88.7	
Operating cash flow	27.1	49.9	55.0	64.5	82.1	88.7	
Cash flow from investing activities	-70.5	-100.0	-75.0	-75.0	-75.0	-75.0	
Free cash flow	-43.4	-50.1	-20.0	-10.5	7.1	13.7	
Cash earnings	27.1	49.9	55.0	64.5	82.1	88.7	
<b>Productivity (in €ts.)</b>							
Sales / employee	19,152.4	23,068.6	25,512.6	24,031.5	31,784.2	33,916.0	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	15,434.2	19,621.0	22,141.4	20,672.0	27,448.7	29,677.5	
<b>Returns (in %)</b>							
EBITDA / sales	80.6	85.1	86.8	85.4	86.2	87.3	
EBIT / sales	80.6	85.1	86.8	86.0	86.4	87.5	
Pre-tax profit / sales	81.3	75.4	31.4	67.3	43.0	43.6	
Net income / sales	98.3	59.7	26.9	56.7	27.1	36.6	
Return on equity	10.9	8.0	3.7	6.5	4.1	5.9	
Return on total capital	4.8	3.4	1.6	2.8	1.6	2.3	
ROCE	4.2	5.0	5.5	4.3	5.2	5.6	
<b>Balance sheet (in €m)</b>							
Property, plant and equipment	1,658.2	1,897.8	1,991.0	2,700.7	3,100.7	3,100.7	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	19.5	8.2	9.0	162.3	10.5	10.8	
Current assets	137.2	52.9	92.0	234.3	62.2	35.0	
Capital employed (CE)	1,855.0	1,960.4	2,027.6	2,891.6	3,140.6	3,166.6	
Equity	860.8	860.5	921.3	1,249.7	1,261.8	1,261.8	
Equity ratio in %	43.6	42.9	43.6	42.2	39.5	39.5	
Net financial debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,370.0	1,397.7	
Total net debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,370.0	1,397.7	
Gearing in %	91.0	99.5	92.3	97.8	108.6	110.8	
<b>Price ord. on 13 May 2011: €28.71</b>							
<b>Valuation</b>							
EPS ord. (€)	2.74	1.96	0.93	1.80	1.33	1.44	
CFPS (€)	0.79	1.42	1.41	1.42	1.59	1.72	
Number of shares ord., (m)	34.4	35.1	39.1	45.5	51.6	51.6	
P/E ord.	9.4	11.5	22.8	13.3	21.5	19.9	
P/CF	32.9	15.9	15.0	16.9	18.1	16.7	
EV / Sales	21.20	16.93	15.90	19.38	19.13	17.90	
EV / EBITDA	26.3	19.9	18.3	22.7	22.2	20.5	
EV / EBIT	26.3	19.9	18.3	22.5	22.1	20.5	

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