

Deutsche EuroShop

Buy (previous: Hold) Price target: €31.00

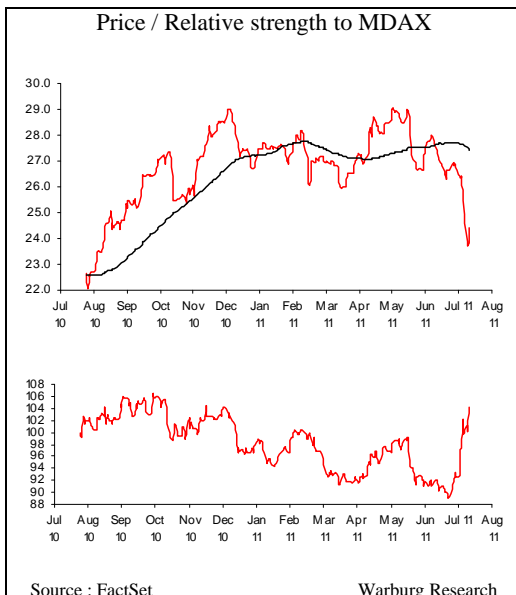
Real Estate

Bullet Points

 Bloomberg Code: DEQ
 ISIN: DE0007480204

 Price on 10 August 2011: €24.41
 High/Low 12 month: €29.06/22.08

Capital	Ownership structure	Upcoming events
Market capitalization €1,260.1 m	widely spread ord 82.0%	10 Nov 2011 : Q3-report
Number of shares 51.6 m	Otto family ord 18.0%	
Subscribed capital €51.6 m		



Upgrade to Buy – Growth trend will continue

- Substantial rise of rental income and core earnings figures in H1:** the opportunistic investments of Deutsche EuroShop in 2010 (A10, Billstedt centre) and the ongoing expansion of shopping centres (Dresden, A10) support growth in H1. Rental income and EBIT rose 29% to €91.1m and €78.4m respectively. Despite the higher number of shares FFO per share (€0.77) and EPS (€0.63) were up with a strong growth rate of 13% and 11% respectively. Mentioned figures were slightly above our estimates and consensus. The outlook remains very positive as the company confirmed all targets for 2011. As DEQ is currently in exclusive advanced negotiations to buy an additional shopping centre in Germany we should expect an upgrade for the 2012 guidance after the deal is closed. As the company wants to achieve a net initial yield of at least 5.5% with an acquisition we assume that the volume of the deal should be > €200m in order to achieve this target. As the competition of investors for lower volume deals at core shopping centres is higher – the achievable NIY is lower at ~ 5.2% - DEQ would not be able to achieve its target with smaller deals. Since the end of Q2 the cash of €70m should have increased by €60m - €80m as DEQ has now refinanced 50% of the Billstedt centre with a long term debt. So the war chest would be approx. €300m. As the company is in further negotiations with sellers of shopping centres abroad and in Germany DEQ probably needs additional funding via equity and debt in the next quarters. This should not be a problem given the excellent track record of acquisitions in the past.
- High company quality – upgrade to Buy – PT €31:** the recent share price drop is not justified. We upgrade the stock to Buy due to following reasons: a) We expect strong growth rates for rental income (+57%) and EBT (+25%) (2009-2012e). b) We see no downside potential for rents, as rents are CPI-linked, rental contracts have an average maturity of 6.7 years and the share of turn-over linked rents is very low (1.8%). Furthermore consumer spending in Germany is very robust. c) Refinancing is not an issue for DEQ. Currently DEQ uses attractive market conditions to reduce its average paid interest rate from 5.03% to 4.83% by negotiations of loan prolongation of €212m and closed the refinancing of the Billstedt centre at very attractive conditions. The average loan maturity of DEQ should now be longer than end of 2010 (6.5 years). d) The valuation of DEQ shopping centres is backed by strong cash flows and a good rating (Feri: A). Thus the valuation yield of 5.89% is pretty conservative.
- Attractive valuation:** we believe that the current P/NAV of 0.9 and a dividend yield of 4.5% offers substantial upside: the defensive stock, which some investors compare with a bond, offers a better risk return profile than most government bonds.

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	1.33	1.44
CFPS	1.41	1.42	1.60	1.71
Dividend	1.05	1.10	1.10	1.20

in €m	12/2009	12/2010	12/2011e	12/2012e
Sales	127.6	144.2	188.2	200.9
EBITDA	110.7	123.1	161.6	173.6
EBIT	110.7	124.0	162.0	174.0
Net income	34.4	81.8	68.5	74.3
Cash flow	55.0	64.5	82.7	88.4
ROCE (EBIT/CE)	5.5%	4.3%	5.2%	5.5%

	12/2009	12/2010	12/2011e	12/2012e
PER	22.8	13.3	18.4	17.0
PCFR	15.0	16.9	15.2	14.2
Div. Yield	5.0%	4.6%	4.5%	4.9%
EV/Sales	15.90	19.38	18.21	17.03
EV/EBITDA	18.3	22.7	21.2	19.7

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	12/2007	12/2008	12/2009	12/2010	12/2011e	12/2012e	
Income statement (in €m)							
Sales	95.8	115.3	127.6	144.2	188.2	200.9	
Cost of goods	-9.4	-6.0	-5.8	-7.3	-10.3	-11.9	
Gross profit	86.4	109.4	121.7	136.9	177.9	189.0	
SG&A expenses	-6.1	-7.2	-7.2	-7.9	-11.0	-11.1	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-3.2	-4.1	-3.8	-5.9	-5.3	-4.4	
EBITDA	77.2	98.1	110.7	123.1	161.6	173.6	
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	162.0	174.0	
Operating profit (company definition)	27.1	50.0	51.6	51.6	51.7	---	
Financial income	-50.1	-48.2	-55.9	-60.2	-79.3	-85.5	
Pre-tax profit	77.8	87.0	40.1	97.0	81.8	88.4	
Income taxes	16.3	-18.1	-5.7	-15.2	-13.3	-14.2	
(Tax rate in %)	-21.0	20.8	14.3	15.7	16.3	16.0	
Net income	94.2	68.9	34.4	81.8	68.5	74.3	
Net income after minorities	94.2	68.9	34.4	81.8	68.5	74.3	
EPS ord.	2.74	1.96	0.93	1.80	1.33	1.44	
Growth (in %)	CAGR (07/12)						
Sales	16.0 %	3.1	20.4	10.6	13.0	30.5	6.8
EBITDA	17.6 %	-10.6	27.1	12.8	11.2	31.3	7.4
EBIT	17.7 %	-10.6	27.1	12.8	12.0	30.6	7.4
Net income	---	-6.1	-26.9	-50.1	138.1	-16.3	8.5
Cost ratios (in % of sales)							
Cost of goods / sales	9.8	5.2	4.6	5.1	5.4	5.9	
SG&A / sales	6.4	6.2	5.6	5.5	5.8	5.5	
R&D / sales	---	---	---	---	---	---	
Cash flow (in €m)							
Gross cash flow	27.1	49.9	55.0	64.5	82.7	88.4	
Operating cash flow	27.1	49.9	55.0	64.5	82.7	88.4	
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	7.7	13.4	
Cash earnings	27.1	49.9	55.0	64.5	82.7	88.4	
Productivity (in €ts.)							
Sales / employee	19,152.4	23,068.6	25,512.6	24,031.5	31,359.0	33,485.9	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	15,434.2	19,621.0	22,141.4	20,672.0	26,995.0	28,993.5	
Returns (in %)							
EBITDA / sales	80.6	85.1	86.8	85.4	85.9	86.4	
EBIT / sales	80.6	85.1	86.8	86.0	86.1	86.6	
Pre-tax profit / sales	81.3	75.4	31.4	67.3	43.5	44.0	
Net income / sales	98.3	59.7	26.9	56.7	36.4	37.0	
Return on equity	10.9	8.0	3.7	6.5	5.4	5.9	
Return on total capital	4.8	3.4	1.6	2.8	2.1	2.3	
ROCE	4.2	5.0	5.5	4.3	5.2	5.5	
Balance sheet (in €m)							
Property, plant and equipment	1,658.2	1,897.8	1,991.0	2,700.7	3,099.9	3,099.9	
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	3,139.7	3,165.8	
Equity	860.8	860.5	921.3	1,249.7	1,261.4	1,261.4	
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	
Price ord. on 10 August 2011: €24.41							
Valuation							
EPS ord. (€)	2.74	1.96	0.93	1.80	1.33	1.44	
CFPS (€)	0.79	1.42	1.41	1.42	1.60	1.71	
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	18.4	17.0	
P/CF	32.9	15.9	15.0	16.9	15.2	14.2	
EV / Sales	21.20	16.93	15.90	19.38	18.21	17.03	
EV / EBITDA	26.3	19.9	18.3	22.7	21.2	19.7	
EV / EBIT	26.3	19.9	18.3	22.5	21.1	19.7	

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