

# Deutsche EuroShop

**Buy Price target: €30.00**

## Real Estate

### Bullet Points

 Bloomberg Code: DEQ  
 ISIN: DE0007480204

 Price on 23 August 2011: €26.67  
 High/Low 12 month: €29.06/22.08

#### Capital

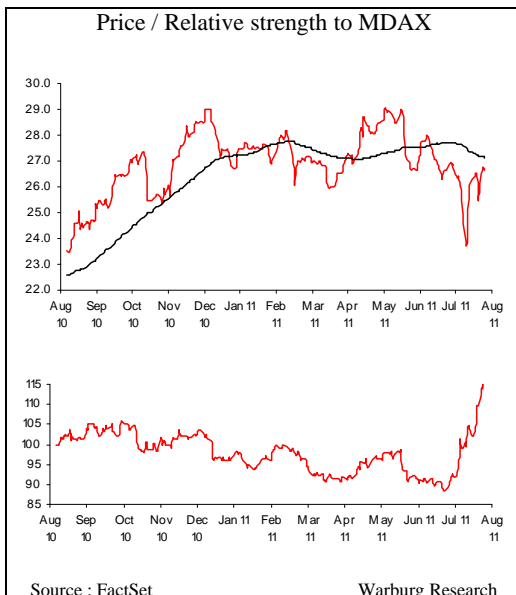
 Market capitalization €1,377.0 m  
 Number of shares 51.6 m  
 Subscribed capital €51.6 m

#### Ownership structure

 widely spread ord 82.0%  
 Otto family ord 18.0%

#### Upcoming events

10 Nov 2011 : Q3-report



in €	12/2009	12/2010	12/2011e	12/2012e
EPS (current)	0.93	1.80	0.40	1.36
EPS (previous)	0.93	1.80	1.33	1.44
CFPS	1.41	1.42	1.48	1.67
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	20.4	70.3
Cash flow	55.0	64.5	76.6	86.4
ROCE (EBIT/CE)	5.5%	4.3%	5.1%	5.4%

	12/2009	12/2010	12/2011e	12/2012e
PER	22.8	13.3	67.5	19.6
PCFR	15.0	16.9	18.0	15.9
Div. Yield	5.0%	4.6%	4.1%	4.5%
EV/Sales	15.90	19.38	18.90	17.68
EV/EBITDA	18.3	22.7	22.0	20.5

## Lower FFO guidance for 2011 due to possible change of taxation

- Revision of FFO guidance for 2011 necessary:** Deutsche EuroShop has reduced its FFO guidance for 2011 from €1.48- €1.52 to €1.40 - €1.44 per share. To date Deutsche EuroShop did not pay a local business tax as the company used the "extended trade tax deduction" which has been recognised by tax authorities for many years. Due to a new ruling by the German Federal Fiscal Court (BFH) published in the Federal Tax Gazette at the end of April 2011 there is a risk that DEQ's taxation will change in the future. If the tax authorities will extend this finding to DEQ, the company has to pay trade tax. According to DEQ the interest payments of a limited company would not be fully tax deductible in the future in connection with its participation in an asset-management real estate partnership.
- What would be the impact on DEQ's P&L?** Firstly, DEQ has to set aside a provision of €6.1m in 2011 which reduces the FFO per share by 12 cents. This provision would be made for 2011 and the previous years and would be cash effective. The amount for 2011 is estimated at €1.5m to €2m which could be an indication for a run rate if a) DEQ does not change its registered office from Hamburg to other cities in Germany and foreign countries and b) the amount of financing costs is stable. In our view this burden is not substantial and represents only 2.4% of the expected FFO in 2012. Secondly, the valuation result in 2011 would be hit by €35m to €90m in a worst case scenario due to the trade tax obligation and deferred tax provisions which have to rise significantly.
- Operating performance better than expected – A relocation of DEQ's domicile should lower possible tax burden:** The reduction of the FFO range by only 8 cents per share is lower than the expected FFO reduction of 12 cents driven by the tax payments in 2011. This implies that the operating performance in 2011 is sound and better than the previous guidance. We reduce our previous FFO estimate of €1.60 per share by the mentioned tax burden and adjust it for several minor effects, arriving at €1.46. The reduction of our price target (from €31 to €30) results from the included possible negative valuation effect. Nevertheless we believe that management will look for opportunities to diminish the trade tax. For example a relocation from Hamburg only 25km to the east would nearly halve the additional burden. As the strong operating growth performance remains unaffected we believe that DEQ will continue to pay an attractive dividend which is tax free at least for the payments till 2014. We confirm our Buy recommendation.

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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	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	31.8	88.4	
Income taxes	16.3	-18.1	-5.7	-15.2	-11.4	-18.2	
(Tax rate in %)	-21.0	20.8	14.3	15.7	35.8	20.5	
Net income	94.2	68.9	34.4	81.8	20.4	70.3	
Net income after minorities	94.2	68.9	34.4	81.8	20.4	70.3	
EPS ord.	2.74	1.96	0.93	1.80	0.40	1.36	
<b>Growth (in %)</b>	<b>CAGR (07/12)</b>						
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	-75.1	244.5
<b>Cost ratios (in % of sales)</b>							
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	---	---	---	---	---	---	
<b>Cash flow (in €m)</b>							
Gross cash flow	27.1	49.9	55.0	64.5	76.6	86.4	
Operating cash flow	27.1	49.9	55.0	64.5	76.6	86.4	
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	1.6	11.4	
Cash earnings	27.1	49.9	55.0	64.5	76.6	86.4	
<b>Productivity (in €ts.)</b>							
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	
<b>Returns (in %)</b>							
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	16.9	44.0	
Net income / sales	98.3	59.7	26.9	56.7	10.8	35.0	
Return on equity	10.9	8.0	3.7	6.5	1.7	5.8	
Return on total capital	4.8	3.4	1.6	2.8	0.6	2.2	
ROCE	4.2	5.0	5.5	4.3	5.1	5.4	
<b>Balance sheet (in €m)</b>							
Property, plant and equipment	1,658.2	1,897.8	1,991.0	2,700.7	3,139.9	3,139.9	
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	3,179.7	3,205.8	
Equity	860.8	860.5	921.3	1,249.7	1,213.3	1,213.3	
Equity ratio in %	43.6	42.9	43.6	42.2	37.5	37.6	
Net financial debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,383.1	1,410.8	
Total net debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,383.1	1,410.8	
Gearing in %	91.0	99.5	92.3	97.8	114.0	116.3	
<b>Price ord. on 23 August 2011: €26.67</b>							
<b>Valuation</b>							
EPS ord. (€)	2.74	1.96	0.93	1.80	0.40	1.36	
CFPS (€)	0.79	1.42	1.41	1.42	1.48	1.67	
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	67.5	19.6	
P/CF	32.9	15.9	15.0	16.9	18.0	15.9	
EV / Sales	21.20	16.93	15.90	19.38	18.90	17.68	
EV / EBITDA	26.3	19.9	18.3	22.7	22.0	20.5	
EV / EBIT	26.3	19.9	18.3	22.5	22.0	20.4	

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