

# Deutsche EuroShop

Real Estate

Buy Price target: €30.00

Update

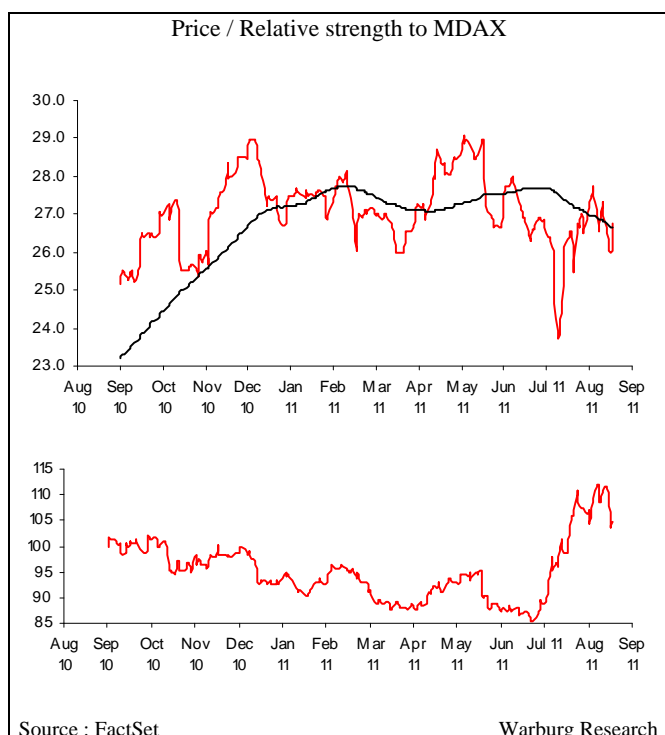
Bloomberg Code: DEQ  
ISIN: DE0007480204

Price on 16 September 2011: €26.78  
High/Low 12 month: €29.06/23.70

Capital	Ownership structure	Upcoming events
Market capitalization €1,382.4 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		

- **Site visits support our positive view about quality of shopping centres**
- **Probability of worst case scenario for trade tax burden is decreasing in our view**
- **Lower financing costs due to improved conditions**

ANDREAS PLAESIER  
Senior Analyst  
Tel.: +49 40 309537 - 246  
aplaesier@warburg-research.com



in €	12/2009	12/2010	12/2011e	12/2012e
<b>EPS (current)</b>	<b>0.93</b>	<b>1.80</b>	<b>0.40</b>	<b>1.36</b>
EPS (previous)	0.93	1.80	0.40	1.36
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	67.7	19.7
PCFR	15.0	16.9	18.1	16.0
Div. Yield	5.0%	4.6%	4.1%	4.5%
EV/Sales	15.90	19.38	18.93	17.68
EV/EBITDA	18.3	22.7	22.0	20.5

The quality of the DES shopping centres is sound in our view as we made a site visit of the shopping centres in Wolfsburg, Magdeburg and Wildau. Their excellent location in terms of the catchment area, the high standard of used architecture and also a welcoming atmosphere created by spaciousness and lightness will support the high demand for the lettable space by retailers in these shopping centres. Thus, we expect the sustainable growth trend of net rental income to continue. Besides this good news flow we are also optimistic about the trade tax issue and the financing. Firstly, the probability of the worst case scenario for the burden from changed taxation (Trade tax) has decreased in our view. We think that the possible outcome is not a threat for DES' dividend policy. Secondly, management is quite successful in negotiations with banks about renewals of existing financing, so the average paid interest will continue to decrease. We confirm our Buy recommendation with a PT of €30.

*Visited shopping centres in good shape and well accepted by people living in the catchment area.*

On a site visit with the company we got some more inside into the three shopping centres in Wolfsburg, Magdeburg and Berlin Wildau ("A10" centre). Our view:

a) In our view the "City-Galerie" is clearly the most attractive shopping possibility for people in Wolfsburg. The main shopping street in Wolfsburg does not really attract consumers to spend money. The outlet centre near the VW Autostadt is not really an alternative which was visible in the relatively low number of customers in this area. In our view the strong position is also confirmed by the fact that already 44 follow-up contracts of a total of 67 lease agreements which expire in 2011/2012 are negotiated. A 2-3% increase of net rental income is likely. Furthermore, tenants have to pay a higher portion of the property operating costs.

b) The new acquisition "Allee-Center" in Magdeburg is a good fit for the portfolio with a NOI of 6.0%. The excellent location in the centre and near the river Elbe and the inviting atmosphere due to the generous and friendly architecture leads to net sales of about €4,700 per sqm which is second best in a portfolio of 19 shopping centres. Furthermore, we believe that the high degree of centrality for Magdeburg to the tune of 124% helps to attract up to 1.2 - 1.3m visitors compared to the estimated catchment area of approx. 720k.

c) The expansion of the "A10" centre in Wildau is quite successful in our view as it is now comparable with a large shopping mall in the US. Bright colours, a new floor cover and the completion of necessary parking space should enable a turnover of €240m to €250m after currently €180m.

*A decision about the optimisation of trade tax will be taken by end of 2011*

The management now reconsiders all opportunities in order to achieve an acceptable tax charge. We believe that there is a 50% chance to displace the current domicile to the east of Hamburg where the effective trade tax would be approx. 7% lower. If EuroShop were to remain in Hamburg, an additional non-cash provision of €85m to €90m would be necessary due to deferred taxes on hidden reserves. The impact on dividend policy is negligible as the cash taxes would increase by 1.5m in 2011 and approx. €3m to €4m in the coming years.

*Excellent financing due to lower costs and no necessary refinancing needs before 2013*

DES is in negotiation to renew a financing volume of €112m. Although the margin for the banks increased significantly (90bp to 110bp) the new interest rate should be more than 2%-points lower at 3.5%. So the new average interest rate for total loans decreased to 4.14%. Based on additional refinancing benefits and good prospects for net rental income we stick to our Buy recommendation.

Fig. 1: Loan structure

Interest Lockin	Duration	Principle amounts (€ths)	Share of total loan	avg. interest rate
Up to 1 year	1,0	62.939	4,9%	3,30%
1 to 5 years	3,6	552.823	43,3%	5,38%
5 to 10 years	7,9	492.366	38,5%	4,96%
Over 10 years	14,3	169.200	13,2%	4,74%
<b>Total 2010</b>	<b>6,5</b>	<b>1.277.328</b>	<b>100,0%</b>	<b>5,03%</b>

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**Loan structure**

Interest Lockin	Duration	Principle amounts (€ths)	Share of total loan	avg. interest rate
Up to 1 year	1,0	141.109	10,4%	2,82%
1 to 5 years	3,4	431.337	31,7%	5,42%
5 to 10 years	7,4	503.884	37,0%	4,96%
Over 10 years	12,5	284.209	20,9%	4,70%
<b>Total H1 2011</b>	<b>6,6</b>	<b>1.360.539</b>	<b>100,0%</b>	<b>4,83%</b>

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**Valuation**

The share is now trading at its NAV of around €26. We believe that the high quality of the portfolio, the excellent management track record and also the growth opportunities justify a higher multiple. With a share price of €30 the portfolio would be valued with a yield of 6.4% which is far from aggressive given the current multiples paid for the acquisition of shopping centres (5.3% to 6%).

Andres Pläsier

**Deutsche EuroShop**

ANDREAS PLAESIER, + 49 40 309537 - 246

	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	1,221.6	
Equity ratio in %	43.6	42.9	43.6	42.2	37.5	37.8	
Net financial debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,383.1	1,405.7	
Total net debt (+), liquidity (-)	783.3	856.4	850.7	1,222.4	1,383.1	1,405.7	
Gearing in %	91.0	99.5	92.3	97.8	114.0	115.1	
<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	67.7	19.7	
P/CF	32.9	15.9	15.0	16.9	18.1	16.0	
EV / Sales	21.20	16.93	15.90	19.38	18.93	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	

Price ord. on 16 September 2011: €26.78



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- “-“ Rating suspended:** The available information does not currently permit an evaluation of the company.

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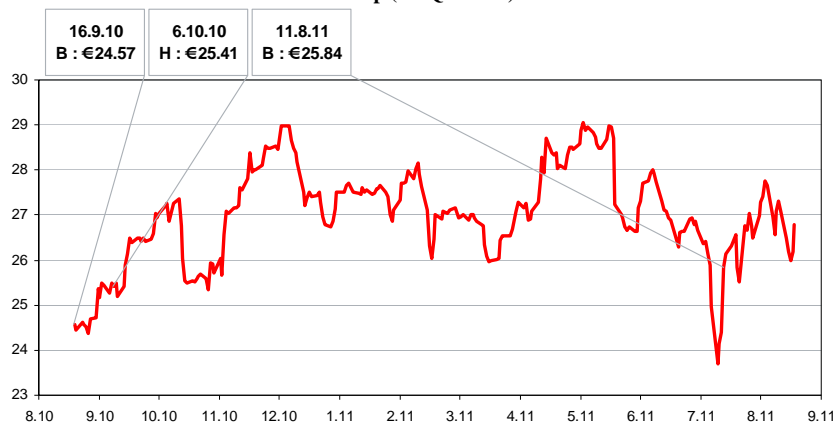
Rating	Number of stocks	% of universe
Buy	131	70%
Hold	51	27%
Sell	4	2%
Rating suspended	0	0%
<b>Total</b>	<b>186</b>	

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Rating	Number of stocks	% of universe
Buy	109	74%
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Rating suspended	0	0%
<b>Total</b>	<b>147</b>	

**Price and Rating History**

Deutsche EuroShop (DEQn.DE) as of 16.9.11



The boxes on the price and rating history chart indicate the date and rating of the Equity Alert issued by Warburg Research GmbH. Each box represents the closing price (Xetra) of the date on which an analyst publish a change to a rating, except for the first box, which may represent the rating in place at the beginning of the period or the first Alert written on the issue in the past 12 months.

Sources: Factset (prices) / Warburg Research (ratings)



# WARBURG RESEARCH

Warburg Research GmbH  
 20095 Hamburg – Hermannstraße 9  
 Tel.: (0) 40 / 309 537 – 0  
 Fax: (0) 40 / 309 537 – 110  
 Internet: [www.warburg-research.com](http://www.warburg-research.com)



# M. M. WARBURG & CO

1798

M.M. Warburg & CO  
 20095 Hamburg – Ferdinandstraße 75  
 Tel.: (0) 40 / 32 82 – 0  
 Fax: (0) 40 / 36 18 – 11 24  
 Internet: [www.mmwarburg.com](http://www.mmwarburg.com)

## Equity Research Report

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RESEARCH		
<b>Managing Directors</b>		
Christian Bruns	+49 40 309 537-253	cbruns@warburg-research.com
Henner Riischmeier	+49 40 309 537-270	hrueschmeier@warburg-research.com
<b>Automobiles, Supplier, Steel, Const.</b>		
Frank Laser	+49 40 309 537-235	flaser@warburg-research.com
Marc-René Tonn	+49 40 309 537-259	mtonn@warburg-research.com
Björn Voss	+49 40 309 537-254	bvoss@warburg-research.com
<b>Banks, Finan. Services, Real Estate</b>		
Torsten Klingner	+49 40 309 537-260	tklingner@warburg-research.com
Andreas Pläsier	+49 40 309 537-246	aplaesier@warburg-research.com
<b>Chemicals, Health Care</b>		
Ulrich Huwald	+49 40 309 537-255	uhuwald@warburg-research.com
Oliver Schwarz	+49 40 309 537-250	oschwarz@warburg-research.com
<b>Retail, Consumer Goods</b>		
Jörg Philipp Frey	+49 40 309 537-258	jfrey@warburg-research.com
Thilo Kleibauer	+49 40 309 537-257	tkleibauer@warburg-research.com
<b>Engineering, Logistics</b>		
Christian Chors	+49 40 309 537-175	cchors@warburg-research.com
Eggert Kuls	+49 40 309 537-256	ekuls@warburg-research.com
Thomas Rau	+49 40 309 537-220	trau@warburg-research.com
<b>Software, IT</b>		
Felix Ellmann	+49 40 309 537-120	fellmann@warburg-research.com
Andreas Wolf	+49 40 309 537-140	awolf@warburg-research.com
<b>Technology</b>		
Malte Schaumann	+49 40 309 537-170	mschaumann@warburg-research.com
<b>Telecom., Internet, Media</b>		
Jochen Reichert	+49 40 309 537-130	jreichert@warburg-research.com
Susanne Schwartz	+49 40 309 537-155	sschwartz@warburg-research.com
<b>Utilities, Renewables</b>		
Christopher Rodler	+49 40 309 537-290	crodler@warburg-research.com
Stephan Wulf	+49 40 309 537-150	swulf@warburg-research.com
<b>Production</b>		
Daniel Bonn	+49 40 309 537-205	dbonn@warburg-research.com
Markus Pähler	+49 40 309 537-221	mpaehler@warburg-research.com
Address: Warburg Research GmbH, Hermannstr. 9, 20095 Hamburg		

EQUITIES		
<b>INSTITUTIONAL SALES EQUITIES</b>		
Holger Nass	+49 40 3282-2669	hnass@mmwarburg.com
Christian Alisch	+49 40 3282-2667	calisch@mmwarburg.com
Cynthia Chavanon	+49 40 3282-2630	cchavanon@mmwarburg.com
Robert Conredel	+49 40 3282-2633	rconredel@mmwarburg.com
Matthias Fritsch	+49 40 3282-2696	mfritsch@mmwarburg.com
Michael Kriszun	+49 40 3282-2695	mkriszun@mmwarburg.com
Marc Niemann	+49 40 3282-2660	mniemann@mmwarburg.com
Dirk Rosenfelder	+49 40 3282-2692	drosenfelder@mmwarburg.com
Marco Schumann	+49 40 3282-2665	mschumann@mmwarburg.com
Julian Straube	+49 40 3282-2666	jstraube@mmwarburg.com
Philipp Stumpfegger	+49 40 3282-2635	pstumpfegger@mmwarburg.com
<b>SALES TRADING</b>		
Oliver Merckel	+49 40 3282-2634	omerckel@mmwarburg.com
Thekla Struve	+49 40 3282-2668	tstruve@mmwarburg.com
Gudrun Bolsen	+49 40 3282-2679	gbolsen@mmwarburg.com
Bastian Quast	+49 40 3282-2701	bquast@mmwarburg.com
Patrick Schepelmann	+49 40 3282-2700	pschepelmann@mmwarburg.com
Jörg Treptow	+49 40 3282-2658	jtrepow@mmwarburg.com
<b>SALES ASSISTANCE</b>		
Andrea Carstensen	+49 40 3282-2632	acarstensen@mmwarburg.com
Kerstin Tscherner	+49 40 3282-2703	ktescherner@mmwarburg.com
<b>ROADSHOW / MARKETING</b>		
Katharina Bruns	+49 40 3282-2694	kbruns@mmwarburg.com
Address: M.M. Warburg & CO, Ferdinandstr. 75, 20095 Hamburg		