

Recommendation:
HOLD (HOLD)

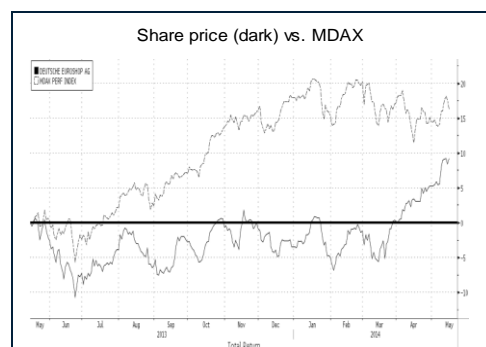
Risk:
Low (LOW)

Price Target:
EUR 34.70 (32.00)

16 May 2014

Good 1Q14 results without surprises

- Yesterday, DES held its conference call concerning the 1Q14 results which were in line with consensus and our expectations. The management confirmed its guidance on revenue, EBIT, EBT excluding measurement result and FFO for FY14E and FY15E.
- Sales grew to EUR 50.0m (PY EUR 42.4m, +17.9% yoy) mainly driven by the full consolidation of 'Altmarkt-Gallerie Dresden' with effect from 1 May 2013. Like-for-like sales grew by 3.2% yoy. EBT excluding measurement result went up to EUR 30.4m (PY EUR 27.2m, +11.7% yoy) and FFO per share increased by around 10% yoy to EUR 0.55 from EUR 0.50.
- Like in the past quarters, there was nothing new to tell in concrete about potential acquisitions. The management stated that there is too much money in the market that is looking for acquisitions and pushing up prices. DES is under no pressure to do acquisitions and is not willing to overpay.
- Growth will come through increasing rental income and through the extension of 'Phoenix-Center, Hamburg' and 'Galeria Balttycka, Gdansk, Poland'. DES is confident to start construction work for 'Phoenix-Center' in September 2014. The building permission could come in summer.
- A peculiar point in the call was the presentation of a 2.3% decrease in its tenant's retail turnover. Interestingly, a similar figure was mentioned for the retail turnover development in Germany. As DES received these figures just a couple of days ago it was too early to give a substantiated explanation. However, even if there is a negative trend established, there will be no severe impact for the rental income of DES as only a minor portion of the rental income of around 1% is linked to retail turnover.
- Based on the FY13 and 1Q14 results we adjusted our forecasts thereby estimating FFOs which are at the middle of the management guidance. DES is a defensive investment, paying an attractive dividend (yield around 4%) and generating a reliable cash flow. However, we feel that this is well discounted in the share price and external growth possibilities are limited. We confirm our HOLD recommendation and increase our PT to EUR 34.70 (old: EUR 32.00).



Source: CBS Research AG, Bloomberg, Deutsche EuroShop

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	198.3	197.4	202.1	202.0	205.4	-
EBIT	174.0	173.6	177.3	177.4	180.2	-
EPS	2.43	2.19	2.52	2.23	2.59	-

deutsche-euroshop.de Sector: Real Estate
WKN: 748020 ISIN: DE0007480204
Reuters: DEQGN.DE Bloomberg: DEQ GY

Short company profile:

Deutsche EuroShop is Germany's only public company, that invests solely in shopping centres in prime locations. The company has equity interests in European shopping centres, mainly in Germany and to a small extent in Austria, Hungary and Poland.

Share data:

Share price (EUR, latest closing price):	35.74
Shares outstanding (m):	53.9
Market capitalisation (EUR m):	1,928.0
Enterprise value (EUR m):	3,312.6
Ø daily trading volume (3 m., no. of shares):	111,551

Performance data:

High 52 weeks (EUR):	36.32
Low 52 weeks (EUR):	29.27
Absolute performance (12 months):	5.0%
Relative performance vs. MDAX:	
1 month	1.1%
3 months	15.4%
6 months	7.6%
12 months	-9.7%

Shareholders:

Otto family	15.9%
Black Rock	3.0%
Hertie Foundation	3.0%
Freefloat and others	78.1%

Financial calendar:

AGM	18 June 2014
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Author: **Manuel Martin**, CEFA (Analyst)

Close Brothers Seydler Research AG
Phone: +49 (0) 69-977 84 56 0
Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

Key data

FY 12/31, EUR m	2012	2013	2014E	2015E	2016E
Sales	178.2	188.0	198.3	202.1	205.4
EBIT	151.6	165.8	174.0	177.3	180.2
EBT ex revaluation	89.5	131.6	121.6	126.6	130.6
Net result	122.5	171.0	131.0	136.0	140.0
EPS	2.36	3.17	2.43	2.52	2.59
DPS	1.20	1.25	1.30	1.35	1.40
EBIT margin	85.1%	88.2%	87.7%	87.7%	87.7%
ROE	7.0%	n.a.	9.0%	8.9%	8.8%
Dividend yield	3.6%	3.9%	3.6%	3.8%	3.9%
LTV	50.2%	n.a.	49.0%	49.0%	49.0%
Price / NAV	1.50	n.a.	1.29	1.24	1.19
EV/EBIT	18.5	19.1	19.0	18.7	18.4
P/E	21.2	10.0	14.7	14.2	13.8

Source: Deutsche EuroShop AG, CBS Research AG

Deutsche EuroShop AG

Profit and loss account

	IFRS	EURm	1Q 2013	1Q 2014	change	% change
Sales			42.4	50.0	7.6	17.9%
Property operating costs			-1.6	-1.7	-0.1	-8.8%
Property management costs			-2.2	-2.7	-0.4	-19.0%
Net operating income (NOI)			38.6	45.6	7.0	18.2%
Other operating income			0.5	0.1	-0.4	-88.5%
Gross income			39.1	45.7	6.6	16.9%
Other operating expenses (corporate costs)			-1.8	-1.5	0.3	18.0%
EBIT			37.3	44.2	6.9	18.6%
in % of sales			87.9%	88.4%		
Financial result			-10.1	-13.8	-3.8	-37.3%
Measurement gains			-1.4	-1.1	0.3	24.6%
EBT			25.8	29.3	3.5	13.7%
in % of sales			60.8%	58.6%		
EBT excl. measurement gains			27.2	30.4	3.2	11.7%
in % of sales			64.1%	60.7%		
Taxes			-5.7	-6.7	-1.0	-18.5%
as % of EBT			-22.0%	-22.9%		
Net income attributable to shareholders			20.1	22.6	2.5	12.3%
in % of sales			47.4%	45.2%		
Shares outstanding (in millions)			53.9	53.9	0.0	0.0%
Earnings per share (EUR)			0.37	0.42	0.05	12.3%
FFO			27.2	29.4	2.2	8.3%
FFO per share (EUR)			0.50	0.55	0.05	9.3%

Source: CBS Research AG, Deutsche EuroShop AG

Deutsche EuroShop AG

Profit and loss account

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Sales			178.2	188.0	198.3	202.1	205.4
YoY growth			-6.2%	5.5%	5.5%	1.9%	1.7%
EBIT			151.6	165.8	174.0	177.3	180.2
in % of sales			85.1%	88.2%	87.7%	87.7%	87.7%
Financial result			-62.1	-34.1	-52.4	-50.7	-49.6
Measurement gains			13.9	56.0	29.6	30.1	30.6
EBT			103.4	187.6	151.2	156.7	161.1
in % of sales			58.0%	99.8%	76.3%	77.5%	78.4%
EBT excl. measurement gains			89.5	131.6	121.6	126.6	130.6
in % of sales			50.2%	70.0%	61.3%	62.7%	63.6%
Net income attributable to shareholders			122.5	171.0	131.0	136.0	140.0
in % of sales			68.7%	91.0%	66.1%	67.3%	68.1%
Shares outstanding (in millions)			51.9	53.9	53.9	53.9	53.9
Earnings per share (EUR)			2.36	3.17	2.43	2.52	2.59
FFO			87.0	112.0	116.6	120.0	123.7
FFO per share (EUR)			1.68	2.08	2.16	2.22	2.29
Dividend per share (EUR)			1.20	1.25	1.30	1.35	1.40

Source: CBS Research AG, Deutsche EuroShop AG

Deutsche EuroShop AG

Balance Sheet

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Assets							
Noncurrent assets			3,176.4	3,339.2	3,399.4	3,477.4	3,558.1
as % of total assets			94.9%	98.4%	98.6%	97.9%	97.2%
Intangible assets			0.0	0.0	0.0	0.0	0.0
PP&E			0.1	0.4	0.0	0.0	0.0
Investment properties			2,824.1	2,962.2	3,006.8	3,056.9	3,107.4
Financial assets			30.3	34.5	24.0	24.0	24.0
Investments in equity-accounted associates			321.5	341.9	367.9	395.9	425.9
Other noncurrent assets			0.3	0.2	0.7	0.7	0.7
Current assets			171.2	55.7	48.7	76.3	102.6
as % of total assets			5.1%	1.6%	1.4%	2.1%	2.8%
Accounts receivables			3.8	5.6	3.5	3.5	3.5
Receivables from other investees & investors			0.0	0.0	0.0	0.0	0.0
Other current assets			6.4	6.3	8.3	8.3	8.3
Other financial investments			0.0	3.0	0.0	0.0	0.0
Cash and cash equivalents			161.0	40.8	36.9	64.5	90.8
Total Assets			3,347.6	3,394.9	3,448.1	3,553.7	3,660.7
Total equity and liabilities							
Total equity			1,321.9	1,428.9	1,492.5	1,558.5	1,625.4
as % of total equity and liabilities			39.5%	42.1%	43.3%	43.9%	44.4%
Issued capital			53.9	53.9	53.9	53.9	53.9
Capital reserve			962.0	962.0	962.0	962.0	962.0
Retained earnings			306.0	413.0	476.6	542.6	609.5
Noncurrent liabilities			1,783.7	1,842.6	1,854.9	1,893.4	1,932.4
as % of total equity and liabilities			53.3%	54.3%	53.8%	53.3%	52.8%
Financial liabilities			1,276.3	1,389.6	1,404.1	1,427.5	1,451.1
Deferred tax liabilities			180.5	198.5	211.4	224.5	237.9
Right to redeem of limited partners			284.2	213.4	215.4	217.4	219.4
Other liabilities			42.7	41.1	24.0	24.0	24.0
Current liabilities			242.0	123.4	100.6	101.8	102.9
as % of total equity and liabilities			7.2%	3.6%	2.9%	2.9%	2.8%
Financial liabilities			191.3	97.2	69.2	70.4	71.6
Trade accounts payables			2.1	3.4	7.0	7.0	7.0
Liabilities to other investees and investors			0.0	0.0	0.0	0.0	0.0
Tax liabilities			24.6	1.4	1.4	1.4	1.4
Other provisions			12.5	6.8	9.5	9.5	9.5
Other liabilities			11.5	14.6	13.5	13.5	13.5
Total equity and liabilities			3,347.6	3,394.9	3,448.1	3,553.7	3,660.7

Source: CBS Research AG, Deutsche EuroShop AG

Deutsche EuroShop AG

Cash flow statement

	IFRS	EURm	2012	2013	2014E	2015E	2016E
Cash flow from operating activities			121.9	99.4	114.3	108.8	110.5
Cash flow from investing activities			-197.4	-78.6	-5.3	-20.8	-20.8
Cash flow from financing activities			178.9	-136.8	-113.0	-60.4	-63.3
Total change in cash and cash equivalents			103.4	-120.2	-3.9	27.6	26.3
Cash and cash equivalents at the start of the period			57.6	161.0	40.8	36.9	64.5
Cash and cash equivalents at the end of the period			161.0	40.8	36.9	64.5	90.8

Source: CBS Research AG, Deutsche EuroShop AG

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters Member of the Board	+49 (0)69 - 977 8456- 12 Roger.Peeters@cbseydlerresearch.ag	Igor Kim (Equities)	+49 (0)69 - 977 8456- 15 Igor.Kim@cbseydlerresearch.ag
Martin Decot (Equities)	+49 (0)69 - 977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Daniel Kukalj (Equities)	+49 (0)69 - 977 8456- 21 Daniel.Kukalj@cbseydlerresearch.ag
Gennadij Kremer (Corporate Credit)	+49 (0)69 - 977 8456- 23 Gennadij.Kremer@cbseydlerresearch.ag	Ralf Marinoni (Equities)	+49 (0)69 - 977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag
Carsten Kunold (Equities)	+49 (0)69 - 977 8456- 28 Carsten.Kunold@cbseydlerresearch.ag	Felix Parmantier (Equities)	+49 (0)69 - 977 8456- 22 Felix.Parmantier@cbseydlerresearch.ag
Manuel Martin (Equities)	+49 (0)69 - 977 8456- 16 Manuel.Martin@cbseydlerresearch.ag	Dr. Oliver Pucker (Equities)	+49 (0)69 - 977 8456- 27 Oliver.Pucker@cbseydlerresearch.ag
Roland Pfänder (Equities)	+49 (0)69 - 977 8456- 26 Roland.Pfaender@cbseydlerresearch.ag	Marcus Silbe (Equities)	+49 (0)69 - 977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag
Nicolas Pütz (Support)	+49 (0)69 - 977 8456- 24 Nicolas.Puetz@cbseydlerresearch.ag	Veysel Taze (Equities)	+49 (0)69 - 977 8456- 18 Veysel.Taze@cbseydlerresearch.ag
Simone Steymann (Support)	+49 (0)69 - 977 8456- 25 Simone.Steymann@cbseydlerresearch.ag	Sergey Weinberg (Corporate Credit)	+49 (0)69 - 977 8456- 20 Sergey.Weinberg@cbseydlerresearch.ag
Ivo Višić (Equities)	+49 (0)69 - 977 8456- 19 Ivo.Visic@cbseydlerresearch.ag		

Institutional Sales



Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

Karl Filbert (Head of Sales)	+49 (0)69 -9 20 54-104 Karl.Filbert@cbseydler.com	Klaus Korzilius (Benelux, Scandinavia)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com
Sebastian Holl (Head of Sales Trading)	+49 (0)69 -9 20 54-119 Sebastian.Holl@cbseydler.com	Stefan Krewinkel (Head of Sales Execution)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com
Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com	Dr. James Jackson (UK, Ireland)	+49 (0)69 -9 20 54-113 James.Jackson@cbseydler.com
Claudia Jurewecz (Germany, Austria, Switzerland)	+49 (0)69 -9 20 54-106 Claudia.Jurewecz@cbseydler.com	Markus Laifle (Sales Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com
Angela Leser (Germany, Austria, Switzerland)	+49 (0)69 -9 20 54-111 Angela.Leser@cbseydler.com	Mirella Mancuso (Sales Support)	+49 (0)69 -9 20 54-107 Mirella.Mancuso@cbseydler.com
Enikő-Sofia Matyas (Germany, France)	+49 (0)69 -9 20 54-115 Enikoe-Sofia.Matyas@cbseydler.com	Carsten Pfersdorf (Sales Execution)	+49 (0)69 -9 20 54-168 Carsten.Pfersdorf@cbseydler.com
Carsten Schlegel (Sales Trading)	+49 (0)69 -9 20 54-137 Carsten.Schlegel@cbseydler.com	Christopher Seedorf (Switzerland)	+49 (0)69 -9 20 54-110 Christopher.Seedorf@cbseydler.com
Bas-Jan Walhof (Benelux, Scandinavia)	+49 (0)69 -9 20 54-105 Bas-Jan.Walhof@cbseydler.com		

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This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
16 May 2014	HOLD	EUR 35.74	EUR 34.70
24 March 2014	HOLD	EUR 31.93	EUR 32.00
26 November 2013	HOLD	EUR 33.05	EUR 32.00
21 August 2013	HOLD	EUR 31.60	EUR 32.00

13 June 2013	HOLD	EUR 31.92	EUR 32.00
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Responsible Supervisory Authority:

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)
Graurheindorferstraße 108
53117 Bonn

and

Marie-Curie-Str. 24-28
60439 Frankfurt

Close Brothers Seydler
Research AG

Schillerstrasse 27 - 29
60313 Frankfurt am Main
www.cbseydlerresearch.ag
Tel.: 0049 - (0)69 - 97 78 45 60