

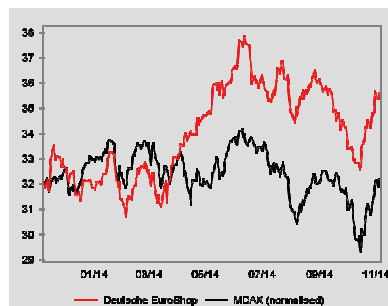
Buy EUR 39.70 Price EUR 35.60 Upside 11.5 %	Value Indicators: EUR Dividend discount 15e: 40.06 Rent multiples 15e: 41.41	Share data: Bloomberg: DEQ GR Reuters: DEQGn ISIN: DE0007480204	Description: Deutsche EuroShop is a portfolio holder in shopping centre real estate
	Market Snapshot: EUR m Market cap: 1,920.5 No. of shares (m): 53.9 Freefloat MC: 1,632.4 Ø Trad. Vol. (30d; EUR): 4.87 m	Shareholders: Freefloat: 85.0 % Otto Family: 15.0 % Black Rock: 3.0 % Hertie Foundation: 3.0 %	Risk Profile (WRe): 2014e LTV (net): 46.8 % Equity Ratio: 49.0 %

Preview: Good operating performance should have continued in Q3

Thursday, November 14: Q3 report after the bell. CC the next day.

in EUR m	Q3/14e	Q3/13	yoy	9M/14e	9M/13	yoy	Comment on Figures: <ul style="list-style-type: none"> Top-line growth momentum decreased in Q3 compared with previous two quarters due to missing impact from acquisitions. Property operating and management costs should be stable as percentage of rental income. We estimate 10.2% after 10.1% in Q3 2013. Operating performance with an EBIT growth of 10% is convincing. The drop of the EBT is driven by a positive effect from the sale of the 33% stake at Galeria Dominikanska in Q3 2013 (Gain of EUR 15.7m). On an adjusted base we would end at an impressive EBT growth of ~22% in Q3. With an expected FFO per share of EUR 1.64 in the first nine months of the year, Deutsche EuroShop is well on track to beat its guidance (EUR 2.14-2.18) in 2014.
Group							
Rental income	50.8	49.3	3%	150.5	138.2	9%	
EBIT	44.1	43.3	2%	132.5	120.5	10%	
Net Finance Costs	-13.9	2.5	n.a.	-41.9	-20.0	109%	
Valuation Result	-1.4	-4.3		-4.3	-7.4		
EBT	28.8	41.5	-31%	86.3	93.1	-7%	
Net Profit	23.1	35.4	-35%	69.4	78.3	-11%	
FFO per share in EUR	0.55	0.55	-1%	1.64	1.58	4%	
EPS (EUR)	0.43	0.66	-35%	1.29	1.36	-5%	

- In our last management meeting at the beginning of October at ExpoReal, management confirmed our view that the current pricing development for shopping centres does not offer Deutsche EuroShop many buying opportunities in order to continue its impressive top-line growth in 2015 and 2016. Nevertheless, Deutsche EuroShop should still be in negotiations regarding the purchase of a shopping centre which would fulfil its investment criteria of a net initial yield of above 5.5%. We are assuming that this shopping centre could only be found in Eastern Germany as pricing for shopping centres in or near the Top7 cities in Germany does not seem attractive for Deutsche EuroShop with their net initial yield of 5% or below. In the case of a successful acquisition, we would not expect an immediate capital increase as DEQ could use its current credit line. At least two thirds of the existing credit line of EUR 150m should be available. So a purchase price of EUR 140m to EUR 160m could be well financed assuming an existing loan on the property of EUR 50m.
- In terms of refinancing, Deutsche EuroShop should be able to make further progress. We believe that the existing loans for the shopping centres in Wetzlar and Harburg which will mature in 2015 and 2016 could be optimised. The current paid interest rates of 5.6% to 5.7% should be reduced massively to a level of 2.1% to 2.5%. Assuming a 3% point advantage on an estimated loan volume of ~135m, Deutsche EuroShop could improve its financial result by ~4m (3% of the FFO). The current slowdown of the German economy is not a threat to rental income or to domestic consumer spending which grew modestly in recent years and is less volatile than in the US. Nevertheless, the weakness of some retail sectors (e.g. fashion) could lead to tougher negotiations regarding rents.



Rel. Performance vs MDAX:	
1 month:	3.6 %
6 months:	1.3 %
Year to date:	14.3 %
Trailing 12 months:	9.6 %

Company events:	
13.11.14	Q3
29.04.15	FY 2014
12.05.15	Q1
18.06.15	AGM

FY End: 31.12. in EUR m	CAGR (13-16e)	2010	2011	2012	2013	2014e	2015e	2016e
Total Sales	3.7 %	144.2	190.0	211.2	188.0	201.3	204.4	209.9
Rental income		144.2	190.0	211.2	188.0	201.3	204.4	209.9
Change yoy		13.0 %	31.8 %	11.2 %	-11.0 %	7.1 %	1.5 %	2.7 %
EBIT adj.	3.2 %	124.0	165.7	181.0	165.8	176.7	177.0	182.0
FFO I	3.1 %	61.5	83.1	86.4	112.0	119.7	120.4	122.8
FFO-margin		42.7 %	43.7 %	40.9 %	59.6 %	59.4 %	58.9 %	58.5 %
Valuation result	-43.7 %	33.1	50.1	8.5	56.0	10.0	10.0	10.0
EBT	-9.3 %	97.0	136.7	103.5	187.6	134.4	136.0	139.8
Net income	-13.2 %	-7.8	99.0	122.5	171.0	108.7	108.8	111.9
EPS	-13.1 %	-0.17	1.92	2.36	3.16	2.02	2.02	2.07
FFOPS	3.1 %	1.35	1.61	1.66	2.08	2.22	2.23	2.28
DPS	3.8 %	1.10	1.10	1.20	1.25	1.30	1.35	1.40
Dividend Yield		4.6 %	4.1 %	4.2 %	3.9 %	3.7 %	3.8 %	3.9 %
Book Value / Share		25.55	23.11	25.45	26.49	27.04	27.67	28.30
EPRA NAV / Share		26.36	27.64	28.53	30.59	31.77	32.47	33.17
P / E		n.a.	13.9 x	12.1 x	10.1 x	17.7 x	17.6 x	17.2 x
Price / Book		0.8 x	0.9 x	0.9 x	1.0 x	1.1 x	1.1 x	1.1 x
P / NAV		0.9 x	1.0 x	1.0 x	1.0 x	1.1 x	1.1 x	1.1 x
FFO-Yield		5.6 %	6.0 %	5.8 %	6.5 %	6.2 %	6.3 %	6.4 %
ROE		-0.6 %	6.8 %	8.0 %	10.5 %	6.6 %	6.4 %	6.5 %
LTV		45.0 %	47.0 %	49.2 %	44.5 %	44.1 %	43.3 %	42.5 %
Equity Ratio		48.6 %	45.7 %	45.3 %	48.4 %	49.0 %	49.7 %	50.4 %
Guidance:		2014 in EUR m Sales 198-201, EBIT 174-177, EBT 120-123, FFO p. share EUR 2.14-2.18						

LEGAL DISCLAIMER

This research report was prepared by the Warburg Research GmbH, a subsidiary of the M.M.Warburg & CO (AG & Co.) KGaA and is passed on by the M.M.Warburg & CO (AG & Co.) KGaA. It contains selected information and does not purport to be complete. The report is based on publicly available information and data ("the information") believed to be accurate and complete. Warburg Research GmbH neither does examine the information to be accurate and complete, nor guarantees its accuracy and completeness. Possible errors or incompleteness of the information do not constitute grounds for liability of M.M.Warburg & CO (AG & Co.) KGaA or Warburg Research GmbH for damages of any kind whatsoever, and M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are not liable for indirect and/or direct and/or consequential damages. In particular, neither M.M.Warburg & CO (AG & Co.) KGaA nor Warburg Research GmbH are liable for the statements, plans or other details contained in these analyses concerning the examined companies, their affiliated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling this research report, it cannot be excluded that it is incomplete or contains errors. M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH, their shareholders and employees are not liable for the accuracy and completeness of the statements, estimations and the conclusions derived from the information contained in this document. Provided a research report is being transmitted in connection with an existing contractual relationship, i.e. financial advisory or similar services, the liability of M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH shall be restricted to gross negligence and wilful misconduct. In case of failure in essential tasks, M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are liable for normal negligence. In any case, the liability of M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH is limited to typical, expectable damages. This research report does not constitute an offer or a solicitation of an offer for the purchase or sale of any security. Partners, directors or employees of M.M.Warburg & CO (AG & Co.) KGaA, Warburg Research GmbH or affiliated companies may serve in a position of responsibility, i.e. on the board of directors of companies mentioned in the report. Opinions expressed in this report are subject to change without notice. All rights reserved.

COPYRIGHT NOTICE

This work including all its parts is protected by copyright. Any use beyond the limits provided by copyright law without permission is prohibited and punishable. This applies, in particular, to reproductions, translations, microfilming, and storage and processing on electronic media of the entire content or parts thereof.

DISCLOSURE ACCORDING TO §34B (1) OF THE GERMAN SECURITIES TRADING ACT (WHPG) AND THE ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS (FINANV)

The valuation underlying the investment recommendation for the company analysed here is based on generally accepted and widely used methods of fundamental analysis, such as e.g. DCF Model, Free Cash Flow Potential, Peer Group Comparison or Sum of the Parts Model. The result of this fundamental valuation is modified to take into consideration the analyst's assessment as regards the expected development of investor sentiment and its impact on the share price.

Independent of the applied valuation methods, there is the risk that the price target will not be met, for instance because of unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rate etc. For investments in foreign markets and instruments there are further risks, generally based on exchange rate changes or changes in political and social conditions.

This commentary reflects the opinion of the relevant author at the point in time of its compilation. A change in the fundamental factors underlying the valuation can mean that the valuation is subsequently no longer accurate. Whether, or in what time frame, an update of this commentary follows is not determined in advance.

In accordance with § 5 (4) of the Ordinance on the Analysis of Financial Instruments (FinAnV) Warburg Research GmbH has implemented additional internal and organisational arrangements to prevent or to deal with conflicts of interest. Among these are the spatial separation of Warburg Research GmbH from M.M.Warburg & CO (AG & Co.) KGaA and the creation of areas of confidentiality. This prevents the exchange of information, which could form the basis of conflicts of interest for Warburg Research in terms of the analysed issuers or their financial instruments.

The analysts of Warburg Research GmbH do not receive a gratuity – directly or indirectly – from the investment banking activities of M.M.Warburg & CO (AG & Co.) KGaA or of any company within the Warburg Group.

All prices of financial instruments given in this financial analysis are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

M.M.Warburg & CO (AG & Co.) KGaA and Warburg Research GmbH are subject to the supervision of the Federal Financial Supervisory Authority, BaFin.

SOURCES

All data and consensus estimates have been obtained from FactSet except where stated otherwise.

Reference in accordance with section 34b of the German Securities Trading Act (WpHG) and the Ordinance on the Analysis of Financial Instruments (FinAnV) regarding possible conflicts of interest with the analysed company:

- 1- The company preparing the analysis or any of its affiliated companies hold over **5% of shares** in the analysed company's equity capital.
- 2- Within the last twelve months, the company preparing the analysis or any of its affiliated companies have participated in the management of a **consortium** for the public offering of financial securities, which are (or the issuer of which) is the subject of the analysis.
- 3- The company preparing the analysis or any of its affiliated companies **manage the securities** of the analysed company on the grounds of an existing contract.
- 4- On the grounds of an existing contract, the company preparing the analysis or any of its affiliated companies, have managed **investment banking services** for the analysed company within the last twelve months, out of which a service or the promise of a has service emerged.
- 5- The company preparing the analysis and the analysed company came to an **agreement regarding the preparation of the financial analysis**.
- 6- The company preparing the analysis or any of its affiliated companies **regularly trade** in shares or derivatives of the analysed company.
- 7- The company preparing the analysis as well as its affiliated companies and employees have **other important interests** in relation to the analysed company, such as, for example, the exercising of mandates at analysed companies.

Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
Deutsche EuroShop	6	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0007480204.htm

INVESTMENT RECOMMENDATION

Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	Buy:	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	Hold:	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	Sell:	The price of the analysed financial instrument is expected to fall over the next 12 months.
“-“	Rating suspended:	The available information currently does not permit an evaluation of the company.

WARBURG RESEARCH GMBH – RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	112	60
Hold	64	34
Sell	7	4
Rating suspended	5	3
Total	188	100

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... Looking only at companies for which a disclosure according to § 34b of the Germany Securities Trading Act and the FinAnV has to be made.

Rating	Number of stocks	% of Universe
Buy	94	63
Hold	48	32
Sell	4	3
Rating suspended	4	3
Total	150	100

PRICE AND RATING HISTORY DEUTSCHE EUROSHOP AS OF 06.11.2014


The chart has markings if Warburg Research GmbH changed its rating in the last 12 months. Every marking represents the date and closing price on the day of the rating change.

EQUITIES

Roland Rapelius +49 40 309537-220
Head of Equities rrapelius@warburg-research.com

RESEARCH

Henner Rüschemeyer +49 40 309537-270
Head of Research hrueschmeier@warburg-research.com

Christian Cohrs +49 40 309537-175
Engineering, Logistics ccohrs@warburg-research.com

Felix Ellmann +49 40 309537-120
Software, IT fellmann@warburg-research.com

Jörg Philipp Frey +49 40 309537-258
Retail, Consumer Goods jfrey@warburg-research.com

Harald Hof +49 40 309537-125
Medtech hhof@warburg-research.com

Ulrich Huwald +49 40 309537-255
Health Care, Pharma uhuwald@warburg-research.com

Thilo Kleibauer +49 40 309537-257
Retail, Consumer Goods tkleibauer@warburg-research.com

Eggert Kuls +49 40 309537-256
Engineering ekuls@warburg-research.com

Frank Laser +49 40 309537-235
Construction, Industrials flaser@warburg-research.com

Andreas Pläsier +49 40 309537-246
Banks, Financial Services aplaesier@warburg-research.com

Malte Rätther +49 40 309537-185
Technology, Telco, Internet mraether@warburg-research.com

Jochen Reichert +49 40 309537-130
Telco, Internet, Media jreichert@warburg-research.com

Christopher Rodler +49 40 309537-290
Utilities crodler@warburg-research.com

Malte Schaumann +49 40 309537-170
Technology mschaumann@warburg-research.com

Oliver Schwarz +49 40 309537-250
Chemicals, Agriculture oschwarz@warburg-research.com

Marc-René Tonn +49 40 309537-259
Automobiles, Car Suppliers mtonn@warburg-research.com

Björn Voss +49 40 309537-254
Steel, Car Suppliers bvoss@warburg-research.com

Andreas Wolf +49 40 309537-140
Software, IT awolf@warburg-research.com

Stephan Wulf +49 40 309537-150
Utilities swulf@warburg-research.com

INSTITUTIONAL EQUITY SALES

Holger Nass +49 40 3282-2669
Head of Equity Sales, USA hnass@mmwarburg.com

Klaus Schilling +49 40 3282-2664
Dep. Head of Equity Sales, GER kschilling@mmwarburg.com

Christian Alisch +49 40 3282-2667
Scandinavia, Spain calisch@mmwarburg.com

Tim Beckmann +49 40 3282-2665
United Kingdom tbeckmann@mmwarburg.com

Matthias Fritsch +49 40 3282-2696
United Kingdom mfritsch@mmwarburg.com

Marie-Therese Grübner +49 40 3282-2630
France mgruebner@mmwarburg.com

Ömer Güven +49 40 3282-2633
USA, Germany ogueven@mmwarburg.com

Michael Krizsun +49 40 3282-2695
United Kingdom mkrizsun@mmwarburg.com

Marc Niemann +49 40 3282-2660
Germany mniemann@mmwarburg.com

Sanjay Oberoi +49 69 5050-7410
United Kingdom soberoi@mmwarburg.com

Philipp Stumpfegger +49 40 3282-2635
Australia, United Kingdom pstumpfegger@mmwarburg.com

SALES TRADING

Oliver Merckel +49 40 3282-2634
Head of Sales Trading omerckel@mmwarburg.com

Thekla Struve +49 40 3282-2668
Dep. Head of Sales Trading tstruve@mmwarburg.com

Gudrun Bolsen +49 40 3282-2679
Sales Trading gbolsen@mmwarburg.com

Michael Ilgenstein +49 40 3282-2700
Sales Trading milgenstein@mmwarburg.com

Bastian Quast +49 40 3282-2701
Sales Trading bquast@mmwarburg.com

Jörg Treptow +49 40 3262-2658
Sales Trading jtreptow@mmwarburg.com

Jan Walter +49 40 3262-2662
Sales Trading jwalter@mmwarburg.com

Juliane Willenbruch +49 40 3282-2694
Roadshow/Marketing jwillenbruch@mmwarburg.com

MACRO RESEARCH

Carsten Klude +49 40 3282-2572
Macro Research cklude@mmwarburg.com

Matthias Thiel +49 40 3282-2401
Macro Research mthiel@mmwarburg.com

Dr. Christian Jasperneite +49 40 3282-2439
Investment Strategy cjasperneite@mmwarburg.com

Our research can be found under:

Warburg Research research.mmwarburg.com/en/index.html

Bloomberg MMWA GO

FactSet www.factset.com

Thomson www.thomson.com

Reuters www.knowledge.reuters.com

Capital IQ www.capitaliq.com

For access please contact:

Andrea Schaper +49 40 3282-2632
Sales Assistance aschaper@mmwarburg.com

Kerstin Muthig +49 40 3282-2703
Sales Assistance kmuthig@mmwarburg.com

