



Deutsche Euroshop AG

Neutral → | Target price : 40.00 EUR

Price (11/15/2016) : 36.63 EUR | Upside : 9 %

	Est.chg	2016e	2017e
EPS		-	-

Q3 2016 overall in line with our estimates – parts of 2017 guidance upgraded

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Q3 2016 results overall in line

DES released its Q3 2016 results yesterday (15 Nov) after the market close. The figures were in line with our estimates and consensus. Rental revenues of € 50.42m were a touch lower than our estimate of € 51.15m and consensus of € 51.00. Net profit was down -1.7% yoy to € 23.50m (Q3 2015: € -0.82m) and missed our estimate of € 27.5m by 14.6% mainly due to slightly higher investments in the portfolio's shopping centres and higher taxes. However, FFO I p/s of € 0.58 (+7.4% yoy) was a touch higher than our estimate of € 0.57. The company reiterated its 2016 guidance, i.e. revenues of € 200-204m, EBIT of € 175-179m, and FFO I p/s € 2.26-2.30, but slightly upgraded parts of its 2017 guidance, reflecting the acquisition of 50% of Saarpark-Center: EBT of € 133-136m (previously € 131-134m) and FFO I p/s of € 2.38-2.42 (previously € 2.34-2.38).

Capital

DEQ GY | DEQGn.DE

Market Cap (EURm)	1,976
Enterprise value (EURm)	3,368
Extrema 12 months	35.86 - 42.52
Free Float (%)	78.5

Performance (%)	1m	3m	12m
Absolute	-6.2	-12.2	-5.5
Perf. rel. Country Index	-6.0	-10.4	3.0
Perf. rel. Property, holding	-8.5	-13.2	5.5

P&L

	12/16e	12/17e	12/18e
NRI (EURm)	181	182	183
EBIT (EURm)	200	202	204
Attr. net profit (EURm)	137	141	145
Adjusted EPS (EUR)	2.55	2.61	2.69
FFOI ps (EUR)	2.28	2.34	2.40
Dividend (EUR)	1.40	1.45	1.50
NAV ps (EUR)	33.98	35.19	36.43
EPRA NAV ps (EUR)	39.72	41.15	42.60

P/E (x)	14.4	14.0	13.6
P/NAV (x)	1.08	1.04	1.01
P/EPRA NAV (x)	0.92	0.89	0.86
FFOI Yield (%)	6.2	6.4	6.6
Dividend Yield (%)	3.8	4.0	4.1
FCF Yield (%)	3.04	4.33	4.50
ROE (%)	7.6	7.6	7.5
Net LTV (%)	40.9	40.5	40.1

Next Events

28.04.2017	FY Results
11.05.2017	Q1 Results

DES: Q3 2016 results

€ m	3Q 2015	2Q 2016	3Q 2016	QoQ %	YoY %	3Q 2016e	3Q16 cons
Revenues	50.39	51.09	50.42	-1.3%	0.1%	51.15	51.00
EBIT	42.86	44.24	42.65	-3.6%	-0.5%	44.26	44.00
Net income attributable to shareholders	23.92	23.81	23.50	-1.3%	-1.7%	27.53	25.00
Earnings per share (EUR)	0.44	0.44	0.44	-1.3%	-1.7%	0.51	0.57
FFO I	29.24	30.93	31.41	1.6%	7.4%	30.80	31.10
FFO I per share (EUR)	0.54	0.57	0.58	1.6%	7.4%	0.57	0.58

Source : Company Data; Oddo Seydler Bank AG

German retail market looks saturated; gradual debt refinancing continues; no guidance for 2016 revaluation gains

In 9M 2016, Ifl retail turnover at DES's German shopping centres was -1.7% yoy. Management attributed the softness primarily to weather conditions impeding shoppers' visits to shopping centres, mainly in Q3. DES's shopping centres abroad posted an increase in retail turnover of +1.1% yoy, indicating that the German retail market is relatively saturated.

Regarding refinancing measures, DES is currently in negotiations and indicated e.g. that, the € 80m related to the Galeria Baltycka in Poland might be refinanced at 1.8% for 10 years. The company's gradually refinancing will lift its FFO. Its average interest rate is still a high 3.68%. In our view, the company's only major cash-driver is its gradual decrease in interest cost as rental growth looks to remain subdued in this low inflation environment and given that external growth opportunities are expensive.

DES believes shopping centres have appreciated in value, but the company did not provide guidance for YE 2016 revaluation gains.

Neutral recommendation maintained – TP at € 40.00

We see DES as a defensive investment with reliable cash flows. The company's external growth opportunities are limited, however, as it is careful not to overpay. We have a Neutral recommendation on the stock and a TP to € 40.00, close to our 2016e EPRA NAVPS estimate of € 39.72.

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Property | Germany**

Neutral

Price 36.63EUR

Upside 9.20%

TP 40.00EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EPRA NAV per share	28.53	30.59	33.17	38.51	39.72	41.15	42.60
NAV per share	24.50	26.49	28.26	32.77	33.98	35.19	36.43
FFO I per share	1.68	2.08	2.23	2.29	2.28	2.34	2.40
Reported EPS	2.36	3.17	3.29	5.73	2.55	2.61	2.69
Net dividend per share	1.20	1.25	1.30	1.35	1.40	1.45	1.50
FCF to equity per share	-1.45	0.68	2.92	2.30	1.11	1.58	1.65
Number of shares market cap	53.95	53.95	53.95	53.95	53.95	53.95	53.95
Number of diluted shares	52.26	56.90	57.01	53.95	53.95	53.95	53.95
VALUATION	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	31.99	34.60	37.93	47.92	42.52		
12m lowest price	23.78	29.45	30.64	36.18	35.86		
(*) Reference price	28.48	31.79	34.49	41.82	36.63	36.63	36.63
Capitalization	1,536	1,715	1,861	2,256	1,976	1,976	1,976
P/E (x)	12.2	10.6	11.1	7.3	14.4	14.0	13.6
P/FFO I (x)	17.0	15.3	15.4	18.3	16.1	15.7	15.2
FFO I Yield (%)	5.9	6.5	6.5	5.5	6.2	6.4	6.6
Dividend Yield (%)	4.2	3.9	3.8	3.2	3.8	4.0	4.1
Payout ratio (%)	71.6	60.2	58.2	59.0	61.5	62.0	62.5
FCF Yield (%)	neg	2.1	8.5	5.5	3.0	4.3	4.5
P/NAV (x)	1.16	1.20	1.22	1.28	1.08	1.04	1.01
P/EPRA NAV (x)	1.00	1.04	1.04	1.09	0.92	0.89	0.86
(*) historical average price							
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Rental revenue	178	188	201	203	201	203	204
NRI	160	170	182	183	181	182	183
Total revenue	160	170	182	183	181	182	183
Property revaluation	13.9	56	77	221	25.4	26.4	27.2
EBITDA	166	222	254	397	200	202	204
Adj. EBITDA	152	166	178	176	175	176	177
EBIT	166	222	254	397	200	202	204
Net financial income	-62.1	-34.1	-39.8	-2.1	-42.1	-36.9	-34.6
Corporate tax	19.1	-16.6	-37.2	-85.4	-20.5	-24.2	-24.2
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	122	171	177	309	137	141	145
FFO I	87	112	121	123	123	126	130
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment properties	2,824	2,962	3,060	3,357	3,402	3,449	3,496
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	161	40.8	58.3	70.7	19.6	16.5	31.6
Ordinary shareholders equity	1,322	1,429	1,524	1,768	1,833	1,899	1,965
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity							
Net debt	1,307	1,446	1,372	1,337	1,392	1,397	1,402
Deferred tax liabilities	181	198	227	310	310	321	333
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Attributable net profit	122	171	177	309	137	141	145
Property revaluation	-36.5	-60.5	-88.3	-285.4	-25.4	-26.4	-27.2
Interest & taxes	0.0	-29.7	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	122	115	133	136	105	106	110
Cash flow from investing activities	-197.4	-78.6	24.5	-11.9	-45.1	-20.9	-21.0
Cash flow from financing activities	179	-136.8	-139.8	-109.4	-111.1	-88.5	-73.8
Free cash flow	-75.5	36.6	157	124	60.0	85.5	88.9
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Rental revenue growth		5.5%	6.8%	1.0%	-1.0%	1.0%	0.8%
FFO I growth		28.7%	7.6%	2.4%	-0.4%	2.6%	2.9%
EPS growth		28.3%	3.5%	84.2%	-55.6%	2.6%	2.9%
NRI margin	89.6%	90.5%	90.5%	90.4%	90.1%	90.0%	89.7%
EBITDA margin	92.9%	118%	127%	196%	99.6%	99.6%	99.7%
Adj. EBITDA margin	94.9%	97.4%	97.6%	96.1%	96.5%	96.2%	96.2%
Tax rate	-18.4%	8.8%	17.4%	21.6%	13.0%	14.6%	14.3%
SG&A / NRI	6.8%	4.3%	3.4%	4.3%	4.3%	4.3%	4.3%
FFO I / Real estate (Total properties)	5.4%	5.6%	5.8%	5.3%	5.1%	5.1%	5.0%
FFO I / Rental revenues	54.5%	65.8%	66.3%	67.2%	67.9%	69.1%	70.7%
Property revaluation / Investment properties	0.5%	1.9%	2.5%	6.6%	0.7%	0.8%	0.8%
ROA	3.7%	5.0%	5.1%	8.0%	3.5%	3.5%	3.5%
ROE		12.4%	12.0%	18.8%	7.6%	7.6%	7.5%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Equity ratio							
Net LTV	46%	49%	45%	40%	41%	41%	40%
Gearing							
Net debt / Adj. EBITDA	8.6	8.7	7.7	7.6	8.0	8.0	7.9
Adj. EBITDA / net financial charges	-2.4	-2.9	-3.0	-3.2	-2.9	-3.1	-3.2

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Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(414)	48%	42%	10%
Liquidity providers coverage	(147)	52%	43%	5%
Research service coverage	(66)	64%	33%	3%
Investment banking services	(32)	72%	28%	

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