

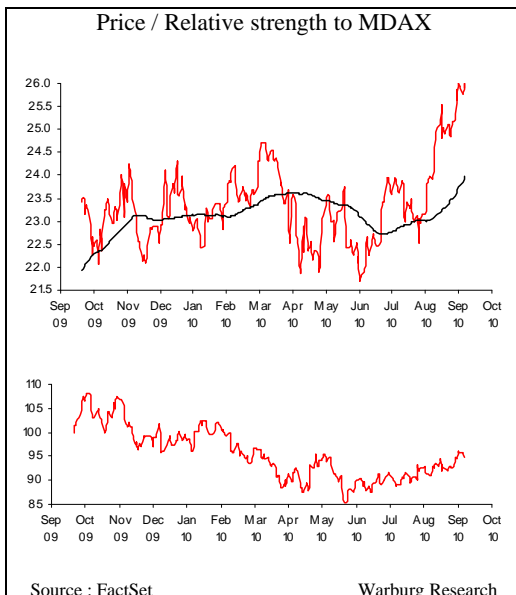
Deutsche EuroShop

Hold Price target: €27.00
Real Estate
Bullet Points

 Bloomberg Code: DEQ
 ISIN: DE0007480204

 Price on 6 October 2010: €25.91
 High/Low 12 month: €26.00/21.72

Capital	Ownership structure	Upcoming events
Market capitalization €1,188.9 m	widely spread ord 82.0%	11 Nov 2010 : Q3-report
Number of shares 45.9 m	Otto family ord 18.0%	
Subscribed capital €45.9 m		



in €	12/2009	12/2010e	12/2011e	12/2012e
EPS (current)	0.93	1.20	1.32	1.45
EPS (previous)	0.93	1.20	1.32	1.45
CFPS	1.49	1.43	1.58	1.73
Dividend	1.05	1.10	1.10	1.10

in €m	12/2009	12/2010e	12/2011e	12/2012e
Sales	127.6	144.9	152.8	159.5
EBITDA	110.7	123.3	130.5	138.5
EBIT	110.7	123.3	130.5	138.5
Net income	34.4	54.0	60.8	66.6
Cash flow	55.0	64.3	72.4	79.3
ROCE (EBIT/CE)	5.5%	5.1%	5.1%	5.2%

	12/2009	12/2010e	12/2011e	12/2012e
PER	23.2	21.6	19.6	17.9
PCFR	14.4	18.1	16.4	15.0
Div. Yield	4.9%	4.2%	4.2%	4.2%
EV/Sales	15.64	17.89	17.79	17.48
EV/EBITDA	18.0	21.0	20.8	20.1

Further expansion of shopping centre portfolio

- Established shopping centre in Hamburg acquired:** Deutsche EuroShop buys the Billstedt-Center with effect from January 1, 2011. The seller is Prime Commercial Properties plc which is a specialist for investments in shopping centres with a portfolio of 10 centres (4 in Germany). DEQ is not interested in one of their three remaining domestic shopping centres. The **total investment volume of approx. € 160m**, which already includes necessary refurbishments and possible rent discounts for tenants, is in line with our expectations for a shopping centre investment (€150m - €160m). Therefore, the **expected net initial yield of 6%** is based on a conservative approach and beats our estimate of 5.6% to 5.7%.
- Billstedt-Center should be a good fit based on the released data:** The Billstedt-Center has a selling space of more than 40k sqm on two levels. The centre is already managed by Deutsche Euroshop's partner ECE so the same concept with anchor tenants is applied here. In Billstedt these are the hypermarket Toom, Media Markt (a specialist consumer electronics retailer) and the three fashion stores (C&A, H&M and TK Maxx). Therefore, the upside potential resulting from implementing a new centre management is limited in our view. The occupancy rate is 100% so no deterioration of the overall rate within all shopping centres should be expected. The Billstedt-Center is one of DEQ's largest shopping centres given the mentioned selling space, a catchment area of roughly 0.7m people and a rental income of approx. €11m p.a. The sales turnover per sqm should be 10-20% below DEQ's average (4,700 €) as the urban quarter Billstedt is definitely no prime location.
- Further investments would require additional equity to defend the solid capital ratios:** the new acquisition can be financed with DEQ's credit line of €150m and its cash position (at least €40m). As the credit line has a maturity of 3 years there is no pressure for DEQ to replace this financing in the short term. Nevertheless, as DEQ wants to finance its centres with a mix of 50% long-term debt and 50% equity we expect a replacement of the debt part by a long-term loan. Furthermore, an investor should consider that DEQ is in a bidding process for another shopping centre. The investment volume could be higher according to our assumptions (MMWe: €190m to €210m). If DEQ is successful in this bid the required equity to achieve the target ratios would be €175m to €195m in our view (15% -17% new shares). If no agreement will be achieved only 7% new shares would be issued in order to be well above the 45% equity ratio. Against this background and as fair valuation currently does not offer significant upside potential we stick to our hold recommendation.

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	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e	
Income statement (in €m)							
Sales	95.8	115.3	127.6	144.9	152.8	159.5	
Cost of goods	-9.4	-6.0	-5.8	-8.2	-9.1	-9.4	
Gross profit	86.4	109.4	121.7	136.7	143.6	150.1	
SG&A expenses	-6.1	-7.2	-7.2	-8.5	-9.1	-8.0	
R&D expenses	---	---	---	---	---	---	
Other oper. income/expenses	-3.2	-4.1	-3.8	-4.8	-4.0	-3.6	
EBITDA	77.2	98.1	110.7	123.3	130.5	138.5	
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	123.3	130.5	138.5	
Operating profit (company definition)	27.1	50.0	51.6	51.6	51.7	---	
Financial income	-50.1	-48.2	-55.9	-59.0	-58.1	-59.2	
Pre-tax profit	77.8	87.0	40.1	64.3	72.4	79.3	
Income taxes	16.3	-18.1	-5.7	-10.4	-11.6	-12.7	
(Tax rate in %)	-21.0	20.8	14.3	16.1	16.0	16.0	
Net income	94.2	68.9	34.4	54.0	60.8	66.6	
Net income after minorities	94.2	68.9	34.4	54.0	60.8	66.6	
EPS ord.	2.74	1.96	0.93	1.20	1.32	1.45	
Growth (in %)	CAGR (07/12)						
Sales	10.7 %	3.1	20.4	10.6	13.6	5.4	4.4
EBITDA	12.4 %	-10.6	27.1	12.8	11.4	5.8	6.2
EBIT	12.4 %	-10.6	27.1	12.8	11.4	5.8	6.2
Net income	---	-6.1	-26.9	-50.1	57.0	12.8	9.5
Cost ratios (in % of sales)							
Cost of goods / sales	9.8	5.2	4.6	5.7	6.0	5.9	
SG&A / sales	6.4	6.2	5.6	5.9	6.0	5.0	
R&D / sales	---	---	---	---	---	---	
Cash flow (in €m)							
Gross cash flow	27.1	49.9	55.0	64.3	72.4	79.3	
Operating cash flow	27.1	49.9	55.0	64.3	72.4	79.3	
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	-10.7	-2.6	4.3	
Cash earnings	27.1	49.9	55.0	64.3	72.4	79.3	
Productivity (in €ts.)							
Sales / employee	19,152.4	23,068.6	25,512.6	28,978.8	30,551.9	31,903.8	
Personnel expense / employee	---	---	---	---	---	---	
EBIT / employee	15,434.2	19,621.0	22,141.4	24,667.7	26,095.2	27,707.1	
Returns (in %)							
EBITDA / sales	80.6	85.1	86.8	85.1	85.4	86.8	
EBIT / sales	80.6	85.1	86.8	85.1	85.4	86.8	
Pre-tax profit / sales	81.3	75.4	31.4	44.4	47.4	49.7	
Net income / sales	98.3	59.7	26.9	37.2	39.8	41.8	
Return on equity	10.9	8.0	3.7	5.1	5.7	6.3	
Return on total capital	4.8	3.4	1.6	2.2	2.3	2.5	
ROCE	4.2	5.0	5.5	5.1	5.1	5.2	
Balance sheet (in €m)							
Property, plant and equipment	1,658.2	1,897.8	1,991.0	2,356.0	2,498.2	2,573.2	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	
Working capital	19.5	8.2	9.0	14.9	15.3	15.8	
Current assets	137.2	52.9	92.0	85.9	37.1	34.5	
Capital employed (CE)	1,855.0	1,960.4	2,027.6	2,395.6	2,563.9	2,639.9	
Equity	860.8	860.5	921.3	1,050.0	1,060.3	1,060.3	
Equity ratio in %	43.6	42.9	43.6	42.5	40.9	39.8	
Net financial debt (+), liquidity (-)	871.0	891.3	926.7	1,145.2	1,248.7	1,318.3	
Total net debt (+), liquidity (-)	871.0	891.3	926.7	1,145.2	1,248.7	1,318.3	
Gearing in %	101.2	103.6	100.6	109.1	117.8	124.3	
Price ord. on 6 October 2010: €25.91							
Valuation							
EPS ord. (€)	2.74	1.96	0.93	1.20	1.32	1.45	
CFPS (€)	0.79	1.42	1.49	1.43	1.58	1.73	
Number of shares ord., (m)	34.4	35.1	36.8	45.0	45.9	45.9	
P/E ord.	9.6	11.8	23.2	21.6	19.6	17.9	
P/CF	33.5	16.2	14.4	18.1	16.4	15.0	
EV / Sales	21.38	17.06	15.64	17.89	17.79	17.48	
EV / EBITDA	26.5	20.1	18.0	21.0	20.8	20.1	
EV / EBIT	26.5	20.1	18.0	21.0	20.8	20.1	

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