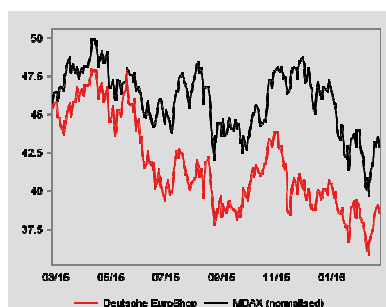


Hold EUR 42.20 (EUR 40.30) Price EUR 38.65 Upside 9.2 %	Value Indicators: EUR NAV (WRe) 17e: 39.00 Dividend discount 17e: 45.60 Rent multiples 17e: 43.69	Share data: Bloomberg: DEQ GR Reuters: DEQGn ISIN: DE0007480204	Description: Deutsche EuroShop is a portfolio holder in shopping centre real estate
	Market Snapshot: EUR m Market cap: 2,084.7 No. of shares (m): 53.9 Freefloat MC: 1,772.0 Ø Trad. Vol. (30d): 5.83 m	Shareholders: Freefloat 85.0 % Otto Family 15.0 % Black Rock 3.0 % Hertie Foundation 3.0 %	Risk Profile (WRe): 2015e LTV: 38.4 % Equity Ratio: 53.1 %

Sound asset quality and positive outlook for financing costs

- Our positive view on the quality of DEQ's shopping centres and the market positioning in the relevant regional catchment area has been confirmed after a field trip with several investors to the Altmarkt-Galerie in Dresden. The sales productivity of EUR 5,520 /sqm at this centre is well above the DEQ portfolio average (~EUR 4,480/sqm) and more significantly, stronger than the overall average for German shopping centres (EUR 3,972/sqm). The location at Altmarkt remains very attractive for DEQ as Dresden's population is still growing (+10k or 2% in 2015) and more than 1.4m people live within the catchment area, which is defined as a driving distance of up to 45 minutes. In the core catchment area the centre is well accepted and in our view has no need to fear the competition in the surrounding area (inner-city shops, Centrum-Galerie, Dresden Central Station) as the architecture and the tenant-mix structure increases the retention period of consumers in the centre. The turnover of DEQ's tenants at the centre Altmarkt-Galerie should be nearly stable in spite of expected headwind for traders' turnover (e.g. weekly political demonstration).
- DEQ's NAVPS at the end of 2015 is expected to increase significantly from EUR 33 to EUR 38 based on an announced positive valuation result for all centres of EUR ~260m. The uplift could be explained by a further improvement in some variables (e.g. risk-free rate) in the valuation model of the new evaluator Savills, which replaced Feri after more than 10 years. This valuation uplift did not come as a surprise as, in our view, previous parameters used in the former evaluator's discounted cash-flow method did not adequately reflect the changing environment. A phase-in of the adoption of more realistic parameters seems possible, which could lead to further meaningful valuation uplift in 2016.
- The environment for the refinancing of several loans has improved steadily in recent weeks and DEQ will thus avail of the opportunity to prolong its loans expiring in 2016 and 2018. A volume of EUR 152m in fully consolidated loans is expiring or will have reached the end of the fixed interest periods. The average interest rate for these loans stands at 4.79%, according to our calculations. Furthermore, DEQ should be able to improve conditions for a loan volume of nearly EUR 145m which is not fully consolidated (City Arkaden Klagenfurt ~EUR 91.8m at 4.3%, Phoenix centre EUR 53.1m at 6.06%). Assuming a new interest rate of ~1.8% for the prolonged volume the interest rate expenses could decrease by EUR 5.8m p.a. at the end of 2018.
- We stick to our Hold recommendation and increase our price target to EUR 42.20 as we now value the company on our 2017 estimates.

Changes in Estimates:				Comment on Changes:			
FY End: 31.12. in EUR m	2015e (old)	+ / -	2016e (old)	+ / -	2017e (old)	+ / -	
Rental income	201.8	0.0 %	202.9	0.0 %	208.5	0.0 %	We included the announced valuation gain for 2015 in our revised numbers. Furthermore, we are now expecting lower interest rate expenses in 2016 and 2017 due to favourable conditions in refinancing negotiations.
EBIT adj.	175.5	0.0 %	176.9	0.0 %	181.9	0.0 %	
EBT	213.4	77.3 %	193.9	1.4 %	199.9	2.6 %	
FFOPS I	2.24	0.0 %	2.27	0.0 %	2.42	0.0 %	

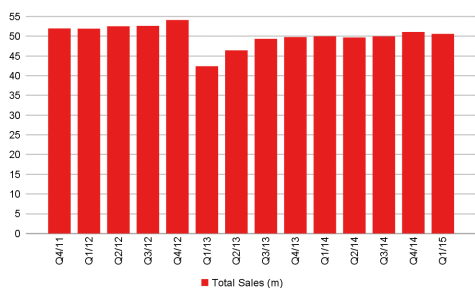


Rel. Performance vs MDAX:	
1 month:	0.3 %
6 months:	0.0 %
Year to date:	3.9 %
Trailing 12 months:	-9.1 %

Company events:	
18.04.16	FY 2015
12.05.16	Q1
15.06.16	AGM
15.08.16	Q2

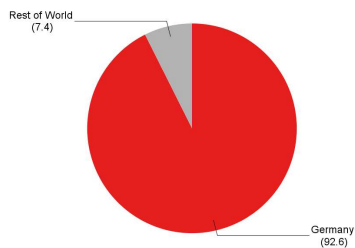
FY End: 31.12. in EUR m	CAGR (14-17e)	2011	2012	2013	2014	2015e	2016e	2017e
Total Sales	1.3 %	190.0	211.2	188.0	200.8	201.8	202.9	208.5
Rental income		190.0	211.2	188.0	200.8	201.8	202.9	208.5
Change yoy		31.8 %	11.2 %	-11.0 %	6.8 %	0.5 %	0.6 %	2.7 %
EBIT adj.	0.8 %	165.7	181.0	165.8	177.5	175.5	176.9	181.9
FFO I	3.5 %	83.1	86.4	112.0	120.5	120.9	125.0	133.5
FFO I-margin		43.7 %	40.9 %	59.6 %	60.0 %	59.9 %	61.6 %	64.0 %
Valuation result	-5.7 %	50.1	8.5	56.0	77.0	215.2	64.6	64.6
EBT	-1.5 %	136.7	103.5	187.6	214.7	378.4	196.6	205.1
Net income	-1.6 %	99.0	122.5	171.0	177.4	309.3	162.2	169.2
EPS	-1.8 %	1.92	2.36	3.17	3.29	5.73	3.01	3.12
FFOPS I	3.2 %	1.61	1.66	2.08	2.23	2.24	2.32	2.46
DPS	3.7 %	1.10	1.20	1.25	1.30	1.35	1.40	1.45
Dividend Yield		4.1 %	4.2 %	3.9 %	3.8 %	3.5 %	3.6 %	3.8 %
Book Value / Share		23.11	25.45	26.49	28.26	32.64	34.25	35.70
EPRA NAV / Share		27.64	28.53	30.59	33.17	38.35	40.15	39.49
P / E		13.9 x	12.1 x	10.0 x	10.5 x	6.7 x	12.9 x	12.4 x
Price / Book		1.2 x	1.1 x	1.2 x	1.2 x	1.2 x	1.1 x	1.1 x
P / NAV		1.0 x	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x
FFO I-Yield		6.0 %	5.8 %	6.5 %	6.5 %	5.8 %	6.0 %	6.4 %
ROE		8.4 %	9.7 %	12.4 %	12.0 %	18.8 %	9.0 %	8.9 %
LTV		47.0 %	49.2 %	44.5 %	41.8 %	38.4 %	37.2 %	36.1 %
Equity Ratio		45.7 %	45.3 %	48.4 %	50.1 %	53.1 %	54.3 %	55.4 %
Guidance:		2015 in EUR m Sales 201-204, EBIT 175-178, EBT 126-129, FFOPS EUR 2.24-2.28						

Total Sales development
in EUR m



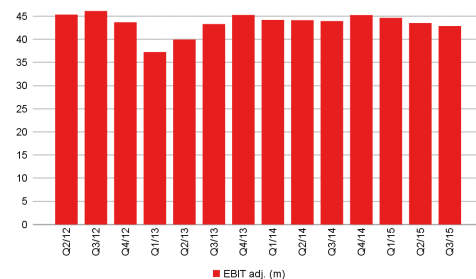
Source: Warburg Research

Sales by regions
2014; in %



Source: Warburg Research

EBIT adj. development
in EUR m



Source: Warburg Research

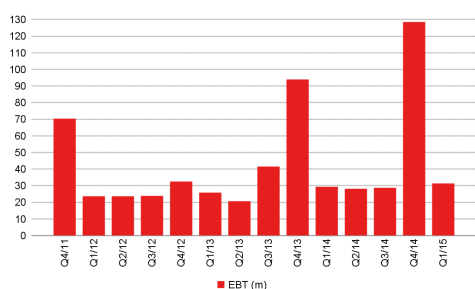
Company Background

- Deutsche EuroShop's core strategy is to achieve sustainable long-term growth with solid value-accretion of the portfolio and the payment of an attractive dividend.
- In its shopping centre portfolio, Deutsche EuroShop has stakes in 19 different shopping centres. As well as the core market Germany (16 centres), DES has investments in Poland, Hungary and Austria.
- The portfolio volume has increased significantly by 66% within the years 2010-2013, through acquisitions, the extension of existing centres and increasing stakeholdings in shopping centres.
- DES shopping centres are managed by the experienced shopping centre operator ECE. The vacancy ratio is low at 1%.

Competitive Quality

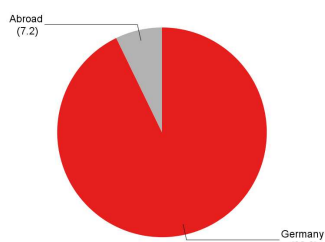
- The company finances its centres very conservatively with at least 50% equity capital and normally a 10-year loan contract.
- Portfolio expansion occurs when opportunities arise and with a targeted return of at least 5.5%, which avoids large downward valuation corrections on the property.
- Future cash flows are well secured with the average outstanding duration of the rental contracts at more than six years. The top 10 tenants account for only 25% of the total rental income.

EBT development
in EUR m



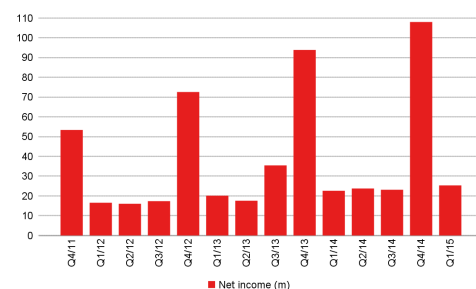
Source: Warburg Research

EBIT by regions
2014 in %



Source: Warburg Research

Net income development
in EUR m



Source: Warburg Research

Peer Group

▪ ...

Valuation

	2011	2012	2013	2014	2015e	2016e	2017e
P / E	13.9 x	12.1 x	10.0 x	10.5 x	6.7 x	12.9 x	12.4 x
P / NAV	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x
Price / Book	1.2 x	1.1 x	1.2 x	1.2 x	1.2 x	1.1 x	1.1 x
P / FFOPS I	16.6 x	17.2 x	15.3 x	15.5 x	17.2 x	16.7 x	15.7 x
FFO I-Yield	6.0 %	5.8 %	6.5 %	6.5 %	5.8 %	6.0 %	6.4 %
ROE	8.4 %	9.7 %	12.4 %	12.0 %	18.8 %	9.0 %	8.9 %
Equity Ratio	46 %	45 %	48 %	50 %	53 %	54 %	55 %

Consolidated profit and loss

In EUR m	2011	2012	2013	2014	2015e	2016e	2017e
Total Sales	190.0	211.2	188.0	200.8	201.8	202.9	208.5
Rental income	190.0	211.2	188.0	200.8	201.8	202.9	208.5
Change yoy	31.8 %	11.2 %	-11.0 %	6.8 %	0.5 %	0.6 %	2.7 %
Property operating costs	8.5	11.3	8.5	9.1	10.0	9.7	10.0
Property management costs	9.8	10.5	9.3	9.9	10.2	10.3	10.6
Rental profit	171.6	189.4	170.2	181.8	181.6	182.8	187.8
Income from property sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	171.6	189.4	170.2	181.8	181.6	182.8	187.8
Other operating income/expenses	-6.0	-8.4	-4.4	-4.3	-6.1	-5.9	-5.9
EBITDA	165.7	181.0	165.8	177.5	175.5	176.9	181.9
Valuation result	50.1	8.5	56.0	77.0	215.2	64.6	64.6
EBITA	215.8	189.5	221.7	254.5	390.7	241.6	246.6
Amortisation of intangible assets/Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	215.8	189.5	221.7	254.5	390.7	241.6	246.6
Interest income	0.9	0.5	0.4	0.3	0.3	0.6	0.6
Interest expenses	65.8	72.1	57.8	58.6	55.4	53.6	52.4
Other financial income (loss)	-14.5	-13.9	0.7	-16.1	-16.9	-17.1	-17.2
Financial result	-79.1	-86.0	-34.1	-39.8	-12.2	-44.9	-41.5
EBT	136.7	103.5	187.6	214.7	378.4	196.6	205.1
<i>Margin</i>	<i>72.0 %</i>	<i>49.0 %</i>	<i>99.8 %</i>	<i>106.9 %</i>	<i>187.5 %</i>	<i>96.9 %</i>	<i>98.4 %</i>
Total taxes	37.7	-19.0	16.6	37.2	69.2	34.4	35.9
thereof cash taxes	3.4	8.6	2.4	5.4	5.4	7.0	7.0
Net income	99.0	122.5	171.0	177.4	309.3	162.2	169.2
FFO (II)	83.1	86.4	112.0	120.5	120.9	125.0	133.5
<i>FFO I-margin</i>	<i>43.7 %</i>	<i>40.9 %</i>	<i>59.6 %</i>	<i>60.0 %</i>	<i>59.9 %</i>	<i>61.6 %</i>	<i>64.0 %</i>
Number of shares, average	51.6	51.9	53.9	53.9	53.9	53.9	54.3
FFOPS I	1.61	1.66	2.08	2.23	2.24	2.32	2.46
EPS	1.92	2.36	3.17	3.29	5.73	3.01	3.12
EPS adj.	1.92	2.36	3.17	3.29	5.73	3.01	2.95

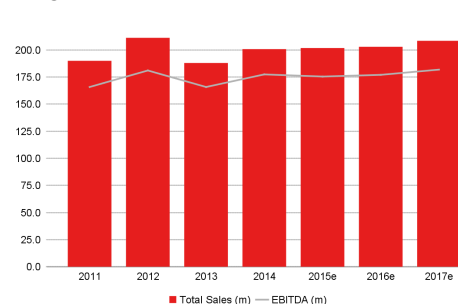
*Adjustments made for:

Guidance: 2015 in EUR m Sales 201-204, EBIT 175-178, EBT 126-129, FFOPS EUR 2.24-2.28

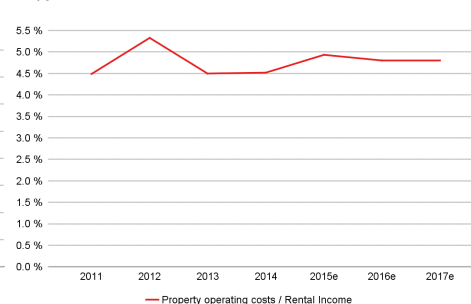
Financial Ratios

	2011	2012	2013	2014	2015e	2016e	2017e
Property operating costs / Rental Income	4.5 %	5.3 %	4.5 %	4.5 %	4.9 %	4.8 %	4.8 %
Operating Leverage (Real Estate)	4.3 x	9.3 x	-11.8 x	15.8 x	200.6 x	184.6 x	39.0 x
Rental profit / interest expenses	2.6 x	2.6 x	2.9 x	3.1 x	3.3 x	3.4 x	3.6 x

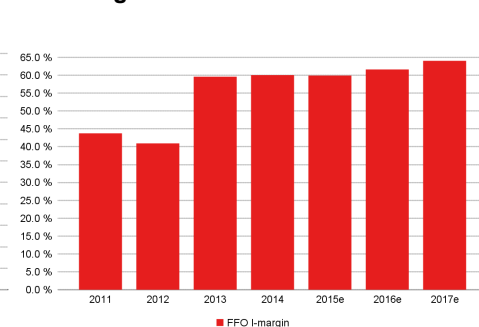
Total Sales, EBITDA
in EUR m



Rental expense ratio
in %



FFO margin



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

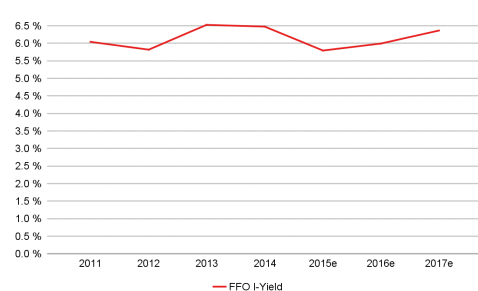
Consolidated balance sheet

In EUR m	2011	2012	2013	2014	2015e	2016e	2017e
Assets							
Goodwill and other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
thereof other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
thereof Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.1	0.1	0.4	0.4	0.4	0.4	0.4
Investment properties	3,106.8	3,330.3	2,962.2	3,060.2	3,275.3	3,340.0	3,404.6
Financial assets	27.8	30.3	34.5	0.3	0.3	0.3	0.3
Other long-term assets	5.0	4.4	342.1	359.4	402.5	410.6	418.8
Fixed assets	3,139.8	3,365.1	3,339.2	3,420.2	3,678.6	3,751.3	3,824.1
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	5.6	4.7	5.6	4.5	4.7	5.0	5.2
Liquid assets	64.4	167.5	40.8	58.3	56.8	64.7	76.5
Other short-term assets	15.3	11.5	9.3	9.2	3.6	3.8	4.0
Current assets	85.3	183.7	55.7	71.9	65.1	73.5	85.7
Total Assets	3,225.1	3,549.0	3,395.0	3,492.0	3,744.0	3,825.0	3,910.0
Liabilities and shareholders' equity							
Subscribed capital	51.6	53.9	53.9	53.9	53.9	53.9	53.9
Capital reserve	890.5	962.0	962.0	962.0	962.0	962.0	962.0
Retained earnings	250.9	306.0	413.0	508.4	744.9	831.6	922.0
Other equity components	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	1,193.0	1,321.9	1,428.9	1,524.3	1,760.8	1,847.5	1,937.9
Minority interest	280.1	284.2	213.4	226.8	227.8	227.8	227.8
Provisions	14.8	37.3	8.2	10.7	10.9	11.1	11.4
thereof provisions for pensions and similar obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities (total)	1,472.1	1,657.2	1,486.8	1,430.1	1,413.6	1,397.3	1,381.4
thereof short-term financial liabilities	136.2	194.1	97.2	55.3	52.5	49.9	47.4
Accounts payable	2.8	2.3	3.4	1.1	1.1	1.2	1.2
Other liabilities	262.2	246.0	254.4	299.0	329.8	340.1	350.3
Liabilities	1,752.0	1,942.9	1,752.6	1,740.8	1,755.4	1,749.7	1,744.2
Total liabilities and shareholders' equity	3,225.1	3,549.0	3,395.0	3,492.0	3,744.0	3,825.0	3,910.0

Financial Ratios

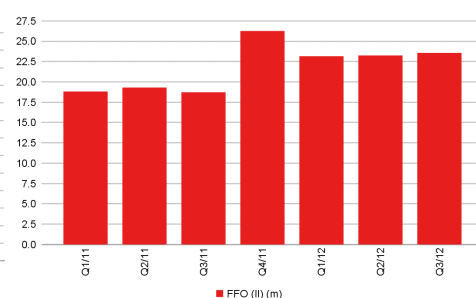
	2011	2012	2013	2014	2015e	2016e	2017e
Return on Capital							
ROA	3.2 %	3.6 %	4.9 %	5.2 %	8.5 %	4.3 %	4.4 %
ROE	8.4 %	9.7 %	12.4 %	12.0 %	18.8 %	9.0 %	8.9 %
FFO I / Equity	0.1 x	0.1 x	0.1 x	0.1 x	0.1 x	0.1 x	0.1 x
Solvency							
Net Debt	1,407.7	1,489.7	1,445.9	1,371.8	1,356.8	1,332.6	1,304.9
Net Financial Debt	1,407.7	1,489.7	1,445.9	1,371.8	1,356.8	1,332.6	1,304.9
Net Fin. Debt / EBITDA	8.5 x	8.2 x	8.7 x	7.7 x	7.7 x	7.5 x	7.2 x
LTV	47.0 %	49.2 %	44.5 %	41.8 %	38.4 %	37.2 %	36.1 %
Equity Ratio	45.7 %	45.3 %	48.4 %	50.1 %	53.1 %	54.3 %	55.4 %

FFO yield



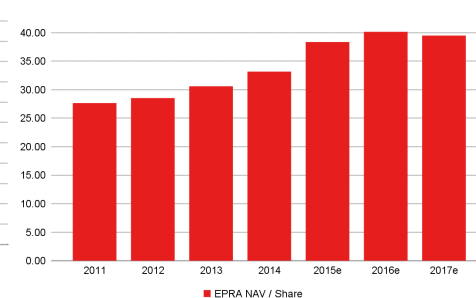
Source: Warburg Research

FFO development in EUR m



Source: Warburg Research

NAV per Share in EUR



Source: Warburg Research

Consolidated cash flow statement

In EUR m	2011	2012	2013	2014	2015e	2016e	2017e
Net income	93.4	122.5	171.0	177.4	309.3	162.2	169.2
Valuation changes properties	-54.3	-31.1	-60.5	-88.3	-215.2	-64.6	-64.6
Depreciation of fixed assets	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Deferred taxes	31.6	-27.5	14.2	31.8	63.8	27.4	28.9
Other non-cash income and expenses	178.7	57.5	-25.4	11.8	-18.0	23.7	26.9
Net cash provided by operating activities	249.4	121.4	99.4	132.8	140.0	148.8	160.5
Payments for acquisitions	-77.2	-12.6	-18.5	-9.8	-10.0	-10.2	-10.4
Investments in property, plant and equipment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Investments in intangible assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Investments in properties	-266.3	-176.3	-59.4	0.0	0.0	0.0	0.0
Financial investments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Investments in other assets (net)	-8.7	-9.4	-0.7	34.2	0.0	0.0	0.0
Net cash provided by investing activities	-352.2	-198.3	-78.6	24.5	-10.0	-10.2	-10.4
Change in financial liabilities	184.0	191.7	-59.7	-58.4	-38.4	-38.1	-37.9
Dividends paid	-56.8	-56.8	-64.7	-67.4	-72.8	-75.5	-83.2
Capital measures	0.0	66.2	0.0	0.0	0.0	0.0	0.0
Other	-25.3	-21.2	-12.3	-14.0	-16.9	-17.1	-17.2
Net cash provided by financing activities	101.9	180.0	-136.8	-139.8	-128.1	-130.7	-138.3
Change in liquid funds	-0.9	103.1	-116.0	17.5	1.9	7.9	11.8
Effects of exchange-rate changes on cash	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalent at end of period	64.4	167.5	40.8	58.3	60.2	68.1	79.9

Financial Ratios

	2011	2012	2013	2014	2015e	2016e	2017e
Cash Flow							
FFO (II)	83.1	86.4	112.0	120.5	120.9	125.0	133.5
FFOPS I	1.61	1.66	2.08	2.23	2.24	2.32	2.46
FFOPS I diluted	1.61	1.65	1.97	2.11	2.12	2.18	2.33
FFO I-Yield	6.0 %	5.8 %	6.5 %	6.5 %	5.8 %	6.0 %	6.4 %
FFO I-margin	43.7 %	40.9 %	59.6 %	60.0 %	59.9 %	61.6 %	64.0 %
Interest Paid / Avg. Debt	4.8 %	4.6 %	3.7 %	4.0 %	3.9 %	3.8 %	3.8 %
Management of Funds							
Maint. Capex / Net rental income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capex/Investment Properties	-8.6 %	-5.3 %	-2.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Avg. Working Capital / Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend Payout Ratio	57.3 %	50.9 %	39.4 %	39.5 %	23.5 %	46.6 %	46.5 %

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-B-	Buy:	The price of the analysed financial instrument is expected to rise over the next 12 months.
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“-“	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	124	65
Hold	58	31
Sell	4	2
Rating suspended	4	2
Total	190	100

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

... taking into account only those companies which were provided with major investment banking services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	27	82
Hold	4	12
Sell	1	3
Rating suspended	1	3
Total	33	100

PRICE AND RATING HISTORY DEUTSCHE EUROSHOP AS OF 24.02.2016



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.

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