



# Deutsche EuroShop AG

## Brno and more shares

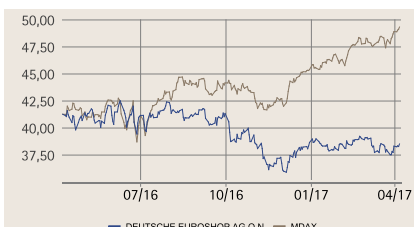
10/04/2017

**Buy** (Buy)  
**45.00 EUR** (45.00 EUR)

Close 06/04/2017 38.53 EUR  
 Bloomberg: DEQ GY WKN: 748020  
 Sector Real Estate

### Share price performance

52 week high 42.52 EUR  
 52 week low 35.92 EUR  
 Compared to MDAX  
 YTD -9.0%  
 1 month -3.3%  
 12 months -26.6%



### Share data

EV (m EUR; 2017) 4,016  
 Market Cap (m EUR) 2,250  
 No. of shares (m) 58  
 Free float 82.4%

### Next event

Annual Results 28/04/2017

### Change in model

	Sales	FFO	EPS
2017e	7.5%	9.4%	1.6%
2018e	10.1%	12.6%	3.8%
2019e	-	---	---

### Analyst

Dr. Georg Kanders, Analyst  
 Phone: +49 (0)211 4952-718  
 georg.kanders@bankhaus-lampe.de

See end of document for disclaimer.

We reiterate our BUY case for Deutsche EuroShop after the company bought its 21<sup>st</sup> shopping centre and issued about than 4.5 million new shares. All in all, we regard the transaction as accretive to the FFO. The company is also benefitting from early refinancing of some € 200 m of bank loans. As a result, we arrive at higher estimates for the FFOpS.

### INVESTMENT CASE

Deutsche EuroShop has acquired a 50% stake in the Saarpark-Center as well as the Olympia shopping centre in Brno, which is one of the largest in the Czech Republic with rental space of 85,000 sqm. As a result, the company is showing more meaningful growth in the operational results. The shopping centre (total investment € 382 m) is expected to add rental income of about € 20 m p.a., which represents about 10% of properties fully consolidated. The NOI yield amounts to 5%, and we put the cost of debt for this property at 2.1%. There should be an annual FFO contribution of about € 14.5 m. Dividing this by the additional number of shares, we arrive at an FFOpS of € 3.25 on an isolated basis. In addition, the company is benefitting from early refinancing of the bank loans expiring in 2018 and 2019 in the amount of € 195 m. We assume annual savings of close to 300 bp as the old loans had interest rate levels north of 4.6%.

### CATALYSTS

- Full annual results with upgraded guidance (incl. Brno)
- The Brno shopping centre included as of 03/04/2017 and effects from cheaper refinancing kicking in

### VALUATION

Deutsche EuroShop is trading at a discount to the NAV, while dividend yield and P/FFO are roughly in line with the sector average. However, the solid balance sheet and the high quality of its properties must also be considered. Our price target remains unchanged as we have slightly raised our risk premium.

in m EUR	2015	2016	2017e	2018e	2019e
Sales	203	205	220	227	228
FFO	123	130	142	152	155
FFO margin	60.8%	63.3%	64.5%	67.1%	68.0%
Net financial debt	1,337	1,380	1,423	1,354	1,285
Net asset value per share	39.58	43.24	43.19	44.26	45.32
FFOPS (in EUR)	2.29	2.41	2.45	2.46	2.51
DPS (in EUR)	1.35	1.40	1.45	1.50	1.55
Dividend yield	3.3%	3.6%	3.8%	3.9%	4.0%
EV/EBITDA	21.6	21.2	20.9	20.7	20.4
P/NAV	1.02	0.89	0.89	0.87	0.85
P/FFO	17.7	16.1	15.7	15.7	15.4

Source: Company information, Bankhaus Lampe Research estimates

Catchment area of 1.2 million people

#### OLYMPIC DIMENSIONS

The Olympia Brno is one of the largest shopping centres in the Czech Republic. It has more than 200 tenants on a lettable space of 85,000 sqm. Due to the large size of the Albert hypermarket, the average rent/sqm is € 19.25 per month. Other anchor tenants are H&M, P&C Düsseldorf, Cinema City, Asko and C&A. Brno itself is the second largest city of the Czech Republic with about 380,000 inhabitants. The metropolitan area comprises ~600,000 and the catchment area 1.2 million people.

NOI yield 5%

The centre generates annual rental income of € 20.1 m and produces an NOI of about 19.1 m. In relation to the total investment of € 382 m, this translates into a NOI yield of 5%. The acquisition was financed with € 217 m of debt and € 165 m of equity (issuance of 4.459 million shares at € 37).

Clearly accretive to FFO

We estimate the cost of the debt for this property at 2.1%. Thus there should be an annual FFO contribution of about € 14.5 m. Dividing this by the additional number of shares, we arrive at an FFOpS of € 3.25 on an isolated basis. As we put the FFOpS for the company at a total of € 2.45 (BHLe for 2017), the deal looks clearly accretive to the FFO.

#### VALUATION

The higher FFO estimates do not have an impact on our rounded price target as we have raised the risk premium (valuation reserves as a % of property value, BHLe for 2017) from 6% to 6.5%. This is due to the fact that retail tenants especially in the fashion segment tend to prefer shorter rental periods and to the strong growth of the online business.

Price target unchanged at € 45.00

We are sticking to our price target of € 45.00 and our BUY recommendation for this stock, which offers steadily increasing dividends.

Fair Value	Value (new) €/share	change €/share	Weight	€/share	change €/share
from dividend	45.03	0.00	0.25	11.26	0.00
from 60% FFO	45.65	1.12	0.25	11.41	0.28
Implied valuation	45.50	-0.03	0.5	22.75	-0.02
Fair Value				45.42	0.27

Source: Bankhaus Lampe Research

# Key figures

## Deutsche EuroShop AG – Income statement

in m EUR	2015	2016	2017e	2018e	2019e
Sales	203	205	220	227	228
Cost of Sales	0	0	0	0	0
Gross profit	203	205	220	227	228
Sales and marketing	-9	-10	-10	-11	-11
General and administration	-10	-10	-11	-11	-11
Research and development	0	0	0	0	0
Other operating result	-7	-6	-7	-7	-8
EBITDA	176	179	192	197	198
Depreciation	0	0	0	0	0
EBITA	176	179	192	197	198
Amortisation of goodwill	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0
EBIT	176	179	192	197	198
Financial result	-2	-14	-44	-39	-37
Income on ordinary activities	174	165	149	159	162
Extraordinary income/loss	221	117	12	4	4
EBT	395	282	161	163	166
Taxes	-85	-60	-39	-40	-41
Net income from cont. operations	309	222	122	123	126
Net income from discount. operations	0	0	0	0	0
Minority interest	0	0	0	0	0
Net income (adj.)	309	222	122	123	126
No. of shares	54	54	58	62	62
EPS (in EUR)	5.73	4.11	2.10	2.00	2.04

Source: Company information, Bankhaus Lampe Research estimates

	2015	2016	2017e	2018e	2019e
Gross margin	-	-	-	-	-
EBITDA margin	86.9%	87.1%	87.3%	87.2%	87.1%
EBITA margin	86.9%	87.1%	87.3%	87.2%	87.1%
EBIT margin	86.9%	87.1%	87.3%	87.2%	87.1%
EBT margin	194.6%	137.2%	73.0%	72.0%	73.0%
Net profit margin	152.5%	108.1%	55.3%	54.5%	55.2%
Tax rate	21.6%	21.2%	24.2%	24.4%	24.4%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2015	2016	2017e	2018e	2019e
Sales	1.0%	1.1%	7.3%	2.9%	0.6%
EBITDA	-0.7%	1.3%	7.5%	2.8%	0.5%
EBIT	-0.7%	1.3%	7.5%	7.5%	0.5%
EBT	83.9%	-28.7%	-42.9%	1.6%	2.0%
Net income (adj.)	74.3%	-28.3%	-45.1%	1.4%	1.9%
EPS	74.3%	-28.3%	-48.9%	-4.9%	1.9%

Source: Company information, Bankhaus Lampe Research estimates

## Deutsche EuroShop AG – Balance sheet

Assets (in m EUR)	2015	2016	2017e	2018e	2019e
Fixed assets	3,768	4,037	4,432	4,447	4,463
Property, plant and equipment	3,357	3,514	3,908	3,922	3,937
Intangible assets	0	0	0	0	0
Financial assets	411	523	524	525	526
Other long-term assets	0	0	0	0	0
Current assets	83	78	133	147	160
Inventories	0	0	0	0	0
Accounts receivable	6	6	6	6	6
Other current assets	7	7	7	7	7
Securities	0	0	0	0	0
Cash	71	65	121	134	147
Total assets	3,852	4,114	4,565	4,594	4,623
Equity and liabilities (in m EUR)					
Shareholders' equity	2,061	2,241	2,562	2,614	2,666
Shareholders' equity (before minority)	1,768	1,916	2,219	2,253	2,286
Minorities	293	325	343	361	380
Non-current liabilities	1,722	1,815	1,950	1,932	1,915
Pension provisions	0	0	0	0	0
Other provisions	0	0	0	0	0
Long-term financial debt	1,360	1,403	1,507	1,457	1,407
Other long-term debt	362	412	443	475	508
Current liabilities	69	59	53	48	42
Short-term debt	48	42	37	31	26
Other accruals short-term	8	8	8	8	8
Accounts payable	1	1	1	1	1
Other liabilities	13	8	8	8	8
Total equity and liabilities	3,852	4,114	4,565	4,594	4,623

Source: Company information, Bankhaus Lampe Research estimates

## Deutsche EuroShop AG – Balance sheet structure

Assets	2015	2016	2017e	2018e	2019e
Fixed assets	97.8%	98.1%	97.1%	96.8%	96.5%
Property, plant and equipment	87.2%	85.4%	85.6%	85.4%	85.2%
Intangible assets	0.0%	0.0%	0.0%	0.0%	0.0%
Current assets	2.2%	1.9%	2.9%	3.2%	3.5%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.1%	0.1%	0.1%	0.1%	0.1%
Cash	1.8%	1.6%	2.6%	2.9%	3.2%
Equity and liabilities					
Shareholders' equity	53.5%	54.5%	56.1%	56.9%	57.7%
Non-current liabilities	44.7%	44.1%	42.7%	42.1%	41.4%
Pension provisions	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term financial debt	35.3%	34.1%	33.0%	31.7%	30.4%
Current liabilities	1.8%	1.4%	1.2%	1.0%	0.9%
Short-term debt	1.2%	1.0%	0.8%	0.7%	0.6%
Accounts payable	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company information, Bankhaus Lampe Research estimates

## Deutsche EuroShop AG – Cash flow statement

in m EUR	2015	2016	2017e	2018e	2019e
Net income (adj.)	309	222	122	123	126
Depreciation	0	0	0	0	0
Amortisation of goodwill & intangible assets	0	0	0	0	0
Change of provisions	-3	0	0	0	0
Other	-150	-86	-2	8	14
Operating Cash-flow before changes in w/c	156	136	120	132	140
Change in inventory	0	0	0	0	0
Change in accounts receivable	-1	0	0	0	0
Change in accounts payable	0	0	0	0	0
Change in other working capital positions	2	-5	0	0	0
Operating Cash-flow	157	131	120	132	140
Capex, excluding maintenance	-76	-40	-382	-10	-10
Payments for acquisitions	0	0	0	0	0
Financial investments	-51	-112	-1	-1	-1
Income from asset disposals	0	0	0	0	0
Income from financial investments	0	0	0	0	0
Cash-flow from investing activities	-127	-152	-383	-11	-11
Free cash-flow	30	-20	-264	121	129
Capital measures	0	0	265	0	0
Increase/decrease in debt position	-22	38	98	-56	-56
Purchase of own shares	0	0	0	0	0
Other financing Cash-flow	75	50	31	32	33
Dividend paid	-70	-73	-76	-84	-93
Cash-flow from financing activities	-17	15	319	-107	-115
Increase/ decrease in liquid assets	12	-6	55	13	13
Effects of exchange rate changes	0	0	0	0	0
Cash at beginning of period	58	71	65	121	134
Change in total cash and cash equivalents	12	-6	55	13	13
Cash at end of period	71	65	121	134	147

Source: Company information, Bankhaus Lampe Research estimates

## Deutsche EuroShop AG – Ratios

	2015	2016	2017e	2018e	2019e
<b>Per Share Data</b>					
EPS	5.73	4.11	2.10	2.00	2.04
Book value per share	38.20	41.54	44.25	42.34	43.18
Free Cash-flow per share	0.55	-0.38	-4.55	1.96	2.09
Dividend per share	1.35	1.40	1.45	1.50	1.55
<b>Valuation ratios</b>					
EV/Sales	18.8	18.5	18.2	18.1	17.7
EV/EBITDA	21.6	21.2	20.9	20.7	20.4
EV/EBIT	21.6	21.2	20.9	20.7	20.4
P/E	7.1	9.4	18.3	19.3	18.9
Price to book (total equity)	1.1	0.9	0.9	0.9	0.9
Dividend yield	3.3%	3.6%	3.8%	3.9%	4.0%
<b>Profitability ratios</b>					
EBITDA margin	86.9%	87.1%	87.3%	87.2%	87.1%
EBIT margin	86.9%	87.1%	87.3%	87.2%	87.1%
Net return on sales	152.5%	108.1%	55.3%	54.5%	55.2%
Return on capital employed (ROCE)	5.1%	4.8%	4.7%	4.8%	4.8%
<b>Productivity ratios</b>					
Capital turnover	1,860.0%	1,970.2%	2,015.6%	1,965.3%	1,960.6%
Operating leverage	-0.7	1.2	1.0	1.0	0.9
Sales per employee (in thousands)	33,809,000	29,305,143	31,445,359	32,362,443	32,551,684
EBIT per employee (in thousands)	29,382,721	25,518,000	27,441,306	28,208,785	28,351,848
Number of employees (in thousands)	0.0	0.0	0.0	0.0	0.0
<b>Financial ratios</b>					
Equity ratio	53.5%	54.5%	56.1%	56.9%	57.7%
Net financial debt (in m EUR)	1,337	1,380	1,423	1,354	1,285
Net debt / Equity	64.9%	61.6%	55.5%	51.8%	48.2%
Interest cover	3.2	3.5	3.4	3.9	4.0
Net debt / EBITDA	7.58	7.73	7.41	6.86	6.48
Working Capital (in m EUR)	5	5	5	5	5
Change Working Capital (in m EUR)	2	0	0	0	0
WC /sales	2.5%	2.4%	2.3%	2.2%	2.2%
Stocks in days of sales	0	0	0	0	0
Trade debtors in days of sales	10	10	9	9	9
Trade creditors in days of COGS/Material cost	1	1	1	1	1
Cash conversion cycle	9	9	8	8	8
Invest. (property/plant/equity) / Depreciation	379515.0%	200100.0%	1910100.0%	50100.0%	50100.0%
<b>Others</b>					
Sales CAGR (last 3 years)	-1.3%	3.0%	3.1%	3.7%	3.6%
EBIT CAGR (last 3 years)	-0.9%	2.5%	2.7%	3.9%	3.6%
Net income CAGR (last 3 years)	36.0%	9.0%	-11.8%	-26.4%	-17.2%
Pay out ratio	23.5%	34.1%	69.0%	75.1%	76.1%
Free cash-flow (in m EUR)	30	-20	-264	121	129
Free cash flow yield	1.4%	-1.0%	-11.7%	5.1%	5.4%

Source: Company information, Bankhaus Lampe Research estimates

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## Explanation of valuation

Unless shown otherwise, the stated upside targets are based upon either a discounted cash-flow pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment.

Overview of changes in our recommendations/price targets in the previous twelve months for: Deutsche EuroShop AG (DEQ GY), Close (06/04/2017): 38.53 EUR, Analyst: Dr. Georg Kanders (Analyst).

Date of publication	Price at recommendation	Rating	Price target
19/01/2017	38.46 EUR	Buy	45.00 EUR
13/12/2016	37.32 EUR	Buy	44.00 EUR
10/10/2016	38.79 EUR	Buy	47.00 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/04/2017)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	49.0%	75.0%
Hold	46.0%	25.0%
Sell	5.0%	0.0%
Under Review	0.0%	0.0%

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Company	Disclosure
Deutsche EuroShop AG	---

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Bankhaus Lampe KG, Jägerhofstraße 10, D-40479 Düsseldorf is responsible for this study.

Further information may be obtained from Bankhaus Lampe KG.

10 April 2017

# Contacts

## HEAD OF CAPITAL MARKETS & ADVISORY

---

**Ute Gerbaulet**

+ 49 (0)211 4952-656

ute.gerbaulet@bankhaus-lampe.de

## HEAD OF EQUITY

---

**Ralf Menzel**

+ 49 (0)211 4952-282

ralf.menzel@bankhaus-lampe.de

## EQUITY SALES CONTINENTAL EUROPE

---

**Ulrich Klingmüller**

+ 49 (0)211 4952-784

ulrich.klingmueller@bankhaus-lampe.de

## EQUITY SALES IN GB

---

**Yusuf Bilgic**

+ 44 (0)203 405 4318

yb@lampe-capital.com

## EQUITY SALES IN US

---

**Björn Kahl**

+1 212 218 7411

bjorn.kahl@lampe-capital-us.com

## EQUITY SALES TRADING CONTINENTAL EUROPE

---

**Nils Carstens**

+ 49 (0)211 4952-758

nils.carstens@bankhaus-lampe.de

## EQUITY SALES TRADING IN GB

---

**Chris Ford**

+ 44 (0)203 405 1083

cf@lampe-capital.com

## EQUITY SALES TRADING IN US

---

**Kim Last**

+1 212 218 7412

kim.last@lampe-capital-us.com

## Bankhaus Lampe Research

Jägerhofstraße 10

D - 40479 Düsseldorf

research@bankhaus-lampe.de

📞 + 49 (0)211 4952-678

📠 + 49 (0)211 4952-494