

OPPENHEIM COMPANY NEWS

11.08.2006

DEUTSCHE  
EUROSHOP<sup>5</sup>

DEQ G n . DE

Price: €54.00

Buy

**Positive H1 results and acquisition (finally!)**

Fair value: €60.00

Yr. end	2004	2005	2006e	2007e
Sales	61.4	72.1	95.8	98.7
Net Profit	27.7	48.7	57.6	58.9
adj. EPS	1.78	2.83	3.35	3.43
PER	19.8	15.4	16.1	15.8
EV/EBITDA	21.4	21.7	20.5	21.6
EBIT margin %	82.5	79.7	81.8	81.1
Yield %	5.5	4.6	3.7	3.7

Under review

Market Cap.: €0.93bn

Free Float: 7.0%

EPS CAGR 03-2007: 29.5%

Investment case:

DEQ is the only listed German retail stock with a clear focus on malls, which is a fast growing market in Europe. Due to the strong investment markets, the yields for German malls decreased significantly and made it difficult for DEQ to find new investments. We have always suggested that, based on its defensive, high-quality portfolio, DEQ could increase the return by entering into project development and/or developments abroad.

Facts:

\_\_\_\_ 1) DEQ's H1 figures came out very strong, as expected, with a 38% increase in EBIT, which we regard as the most important figure, driven by the higher stake in Main-Taunus-Zentrum and the new malls in Klagenfurt and Dessau. Rents increased by 1%, as expected. The company confirmed the outlook for 2006 with an EBIT between €72m and €75m and the expected tax-free dividend of €2.00.  
2) Yesterday, DEQ announced the acquisition of a 74 % stake in the Galeria Baltycka in Danzig for €123m, which it buys from HGA Capital, a subsidiary of HSH Nordbank. The shopping center will be finished in autumn 2007 but is currently already pre-let at 80%. The attractive yield of 6.8% indicated a rental income of €1.3m, which would be in line with the yields of DEQ's foreign malls in Poland and Hungary. Again, DEQ profits from its strong relationships with ECE (largest European developer and manager of shopping centers), which is currently developing the mall and will do the center management afterwards.

Assessment:

\_\_\_\_ 1) H1 results show the stable earnings growth of DEQ based on the high-quality portfolio of malls and the positive impact of the acquired malls in Klagenfurt and Dessau. Based on the positive consumer confidence, we also expect stable growth for FY2006.

\_\_\_\_ 2) DEQ was very cautious regarding new investments in Germany and abroad due to the strong investment markets and the decreasing yields. Therewith, we highly appreciate the acquisition of the new shopping center development in Poland because it fits perfectly well to DEQ's existing portfolio and also to our idea how the portfolio could be improved regarding yields. We regard the higher risk in Poland as marginal due to the stable GDP growth, the lack of high-quality shopping center space, and the experience of DEQ in connection with ECE regarding malls in CEE.

**Valuation:** \_\_\_\_\_ DEQ is currently trading at an 8% premium to NAV06e compared to the peers' premium of 26%. It has to be noted that the consumer confidence is expected to decrease in Germany due to the increase in VAT in 2007 but we regard undervaluation as unjustified.

**Conclusion and performance trigger:** \_\_\_\_\_ We remain positive for DEQ and regard the portfolio including the Polish mall now as even more attractive and see a sound mix of national and European malls. We will adjust our assumptions but reiterate our buy rating strongly.

Kai Malte Klose, CIIA

Telephone: + 49 (69) 7134 - 5235

kai.klose@oppenheim.de

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The ratings are based on the analysts' expectations for the stock's absolute change in stock price over a period of 6 to 9 months. The change in stock price results from the difference between the current share price and the analysts' performance expectations, which are generally based on a fair value calculation.

Along with the expected high change in value, the STRONG BUY and SELL ratings also reflect the high degree of security which the analyst has in the given fair value.

Rating: Potential for change in stock price % (Difference between share price and performance expectations)

STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); SELL (< -10%)

Time horizon: The ratings are based on the expected change in value of a stock within a time scale of 6 to 9 months

Fair value: The calculation of a stock's fair value is generally based on the following models: 1) Discounted Free Cash Flow Model; 2) by a key comparable analysis

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