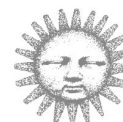


## Solid quality, limited upside

Deutsche EuroShop published solid figures and an outlook in line with our expectations. We appreciate the good quality portfolio, but see limited upside at present. The 20% 2007 P/NAV is considerable given the company's conservative approach to growth. We fine-tune our Price Target to €58.5 (was €57.5) but reflecting 2.5% expected return we reiterate our Neutral rating. Deutsche EuroShop is trading at a 3.5% dividend yield and a 2.9% 2007 CF yield, which is affected by expensive 5.5% loans.

- No major surprises in results and outlook** As already stated in our note of Monday 23 April, the final FY06 results did not produce any surprises. Likewise, the outlook management presented was in line with our expectations. The company targets FY07 revenues of €92-94m (in line with FY06) and €108-112m for FY08. In addition, management targets an FY07 EBIT of €71-73m (FY08: €87-90m) and FY07 EBT of €30-32m (FY08: €42-44m), which is in line with our estimates. The portfolio was valued at a net yield of 5.39%, which we think leaves room for c30 bps yield compression.
- Operational performance** L-f-I rental growth came out at a low 1.9% (reflecting only six centres), although the sales growth of Deutsche EuroShop's tenants was at 3.3% well above the German average of 0.8%. We believe this sales result reflects the good quality of the portfolio, but we would have expected this to have been more reflected in higher rental growth. Based on the strong German economy we expect l-f-l rental growth to improve to c2.9% p.a. on average for FY07-10, but this is still well below other retail investors such as Rodamco Europe (4.5%) and Unibail (9.4%).
- Probably no REIT** Deutsche EuroShop indicated it is not very likely the company will convert into a REIT, or establish a sub-REIT as DIC Asset and IVG are considering. As the company has a low effective tax rate due to tax loss carry forwards, it expects the benefits from a REIT do not offset the negative effects of paying exit tax and losing the tax free status of its dividend. Although we acknowledge this rationale, we however expected that the company could have benefited from private owners who are willing to sell under the reduced exit tax, if it were to establish a (sub) REIT.
- Limited upside in valuation** We have updated our estimates and fine-tune our Price Target to €58.5 (was €57.5). Representing 2.5% total expected return, we reiterate our Neutral rating. We appreciate the good quality of the portfolio and see Deutsche EuroShop as a stable investment case. However, we also see limited further upside at present. The company is trading at a 20% 2007 P/NAV (European sector average: 20%), which we deem considerable given the relatively conservative growth of the company. The 2007 CF yield and dividend yield amount to 2.9% and 3.5% respectively (sector averages: 4.5% and 3.8%). The CF yield is however negatively affected by the 5.5% average interest costs, which are high compared to the good quality portfolio and 56% leverage.



Rating

**NEUTRAL**

Price target (12m) **€58.5**

Closing price (25 April 2007) **€59.1**

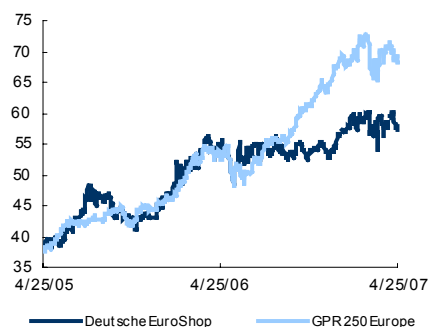
Expected total return **2.5%**

Date **26 April 2007**

Fiscal Year	2006	2007E	2008E	2009E
Net rental income (€m)	76.7	80.6	94.3	104.1
EBITDA (€m)	73.6	75.5	90.8	100.3
Net Income (€m)	65.9	50.7	75.3	60.4
Recurring CF p/s (€)	1.87	1.74	2.07	2.28
Indirect result p/s (€)	3.96	3.31	4.10	2.91
EPS (€)	5.84	5.05	6.17	5.19
Dividend (€)	2.10	2.10	2.21	2.28
NNAV (€)	46.33	49.28	53.88	57.02
P/NAV-1	16.6%	20.0%	9.8%	3.7%
EBITDA/EV	4.6%	4.1%	4.6%	4.8%
Recurring CF Yield	3.5%	2.9%	3.5%	3.9%
Earnings Yield	10.8%	8.5%	10.4%	8.8%
Dividend Yield	3.9%	3.5%	3.7%	3.9%

Source: Company Data, Kempen & Co Estimates

### DEQ GY vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	-2.3%	-3.0%	4.2%
Rel. to GPR 250 Europe	0.2%	-0.7%	-18.2%

Source: Factset

### Share data

52-Week range	€50.20 - 60.18
Market cap	€1,016m
Number of shares	17.2m
Average daily volume	41,111
Free float	79%

### Company data

Bloomberg / Reuters	DEQ GY / DEQn.DE
Next announcement	11 May 2007
	Q1 2007 Turnover Results

### Analyst

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## Solid quality, limited upside

### No surprises in FY06 results

Deutsche EuroShop published its final FY06 results last Friday, 20 April, following the preliminary figures of 30 January. As we already stated in our note on Monday 23 April, the results did not produce any major surprises.

### Operational performance

L-f-I rental growth came in lower than expected at 1.9% in 2006 (FY05: 3.8%), but only reflects half of the centres in the portfolio according to the company. The l-f-l sales growth of Deutsche EuroShop's tenants in Germany came in at 3.3%, compared to 0.8% on average for German retail. We believe this underlines the good quality of the portfolio, but would have expected this to have been more reflected in rental growth. The vacancy in the portfolio remained stable at less than 1%.

### Management outlook in line with expectations

Deutsche EuroShop targets revenues of €92-94m for FY07, which implies no growth compared to FY06 due to the sale of two centres in Italy and France last year. The company targets revenues of €108-112m for FY08, as it will open the centres in Hameln and Passau in spring and autumn 2008 and in Gdansk in autumn 2007. Furthermore, the company targets an FY07 EBIT of €71-73m (FY08: €87-90m) and FY07 EBT of €30-32m (FY08: 42-44m) based on the current portfolio and signed acquisitions. Management's targets are in line with our previous and current estimates. Only our FY08 EBT is at €41.5m slightly lower, as we assume interest costs on additional (development) acquisitions going forward, whereas Deutsche EuroShop does not take into account additional acquisitions.

### German economy strong, but not reflected in rental growth

The German economy is performing strongly and the VAT increase in January from 16% to 19% seems to have only had a limited impact on GDP growth. The expected drop in consumer spending appears to be limited, as the VAT increase was not immediately priced on to consumers. In addition, unemployment rates are going down, which might boost consumer confidence. We therefore expect rental growth will improve in the coming year and pencil in l-f-l rental growth rates of 2.9% p.a. on average going forward. This is however still well below other European retail investors, such as Rodamco Europe (average FY07-10E: 4.5% p.a.) and Unibail (average FY07-10E: 9.4% p.a.).

### Probably no REIT for Deutsche EuroShop

Deutsche EuroShop indicated it is unlikely the company would convert into a REIT or establish a sub-REIT, as DIC Asset and IVG are considering. Besides the exit tax that the company would have to pay for converting as a whole, it would also lose the tax free status of its dividend and it would have to sell its 33% stake in the Wroclaw centre. As the company already has a low effective tax rate due to tax loss carry forwards, the tax exempt REIT status would not offset the negative implications.

As we noted earlier, we believe the largest potential benefit from the REIT introduction lies more in an increasing liquidity of the direct real estate market than directly on a property company level. Therefore we acknowledge that a total REIT conversion might not be an ideal option, but we expected that the creation of a sub-REIT could have had a positive influence on the company in our view. A lot of shopping centres in Germany are traditionally owned by private investors. The reduced exit tax under the REIT could therefore form an attractive exit for private investors who want to sell their assets, from which we expected Deutsche EuroShop could have benefited. However, the company indicated that it does not see enough potential in creating a sub-REIT to facilitate such a reduced-exit tax sale for these investors. As a result, there currently appear to be no potential benefits from the REIT for Deutsche EuroShop.

*Outlook and results in line with expectations*

*Strong German economic performance not reflected in rental growth*

*Unlikely that Deutsche EuroShop will convert into a REIT*



**Impact German corporate tax reforms**

Deutsche EuroShop stated it is difficult to reliably assess the exact impact of the corporate tax reforms in Germany as too many details are currently unknown. The effective tax rate in Germany will be lowered from c39% at current to c30% as of January 2008, but interest deductibility would be limited to 30% of EBT. This limitation can be avoided if the leverage in the group company is higher than in its subsidiaries, which is not the case for Deutsche EuroShop since it has its financing on centre level instead of group level. Based on its close contacts to decision makers around the legislative procedure however, the company however expects that the final corporate tax reform will not have a significant negative impact.

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*High 5.5% cost of debt puts pressure on CF*

**Expensive loans put pressure on CF**

Deutsche EuroShop's operating CF is negatively affected by the relatively expensive loans of the company. Given the reasonable 56% leverage and the good quality of the portfolio, the effective interest rate of 5.5% is in our view high. We expected this to be lower, but with the sale of the centre in Italy, a relatively cheap loan was sold too. Furthermore, lowering the interest rate in the near future is difficult, as 82% of the loans have a maturity of more than five years.

**Good quality portfolio, but limited upside**

We favour the good quality of Deutsche EuroShop's portfolio, but we see limited upside from current levels. We believe there is room for c30bps yield compression on the standing portfolio, which was valued at a net theoretical yield of 5.39% at the end of 2006. Rental growth potential on German shopping centres is however not expected to be too high. In addition, Deutsche EuroShop has a rather conservative external growth strategy, which aims for expanding the portfolio by c10% p.a. The portfolio has a long average remaining lease term of c8 years.

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*At €58.5 Price Target limited upside in terms of valuation*

**Limited upside in valuation**

We have updated our estimates following the results and outlook management gave. We fine-tune our Price Target to €58.5 (was €57.5). Representing a 2.5% expected total return, we reiterate our Neutral rating. We believe Deutsche EuroShop provides a relatively stable investment case, but we think upside potential is priced in at current levels. Deutsche EuroShop is trading at a 20% 2007 P/NAV (European property sector average: 20%), which we think is considerable given the growth potential of the company. Recurring CF yield is at 2.9% for 2007 relatively low (sector average: 4.5%). The 2007 dividend yield is at 3.5% however more in line with the 3.8% sector average.



# Deutsche EuroShop

Property ■ Germany

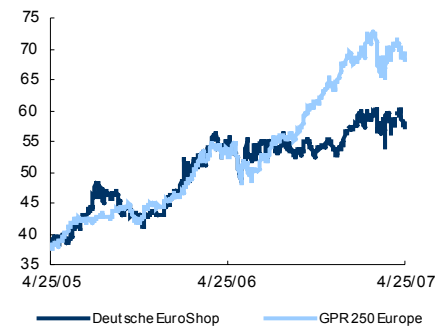
Income Statement	2004	2005	2006	2007E	2008E	2009E
Gross rental income	61.4	72.1	92.9	94.8	109.2	120.3
Operating costs	-15.7	-12.3	-16.2	-14.1	-14.9	-16.2
Net rental income	45.7	59.8	76.7	80.6	94.3	104.1
Sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Costs of sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Sales result (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Overhead costs	-5.3	-4.6	0.0	0.0	0.0	0.0
Other income	4.5	2.3	1.2	1.2	1.2	1.3
Other costs	0.0	0.0	-4.2	-6.4	-4.8	-5.1
EBITDA	44.9	57.5	73.6	75.5	90.8	100.3
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	44.9	57.5	73.6	75.5	90.8	100.3
Net financial	-19.2	-39.3	-41.0	-44.0	-49.3	-51.4
EBT	25.7	18.2	32.7	31.5	41.5	48.9
Taxes	-2.7	-1.0	-0.5	-1.6	-4.2	-4.9
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment result	23.0	17.2	32.2	29.9	37.4	44.1
Sales result	4.8	0.0	12.7	0.0	0.0	0.0
Revaluation Property	8.0	49.9	72.3	77.8	101.2	77.2
Taxation on revaluation	-8.1	-18.5	-16.9	-20.9	-27.1	-20.9
Revaluation financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Total indirect investment result	4.8	31.5	68.1	56.8	74.0	56.3
Net profit	27.7	48.7	100.3	86.8	111.4	100.4
Per share data	2004	2005	2006	2007E	2008E	2009E
Number of shares	15.6	17.2	17.2	17.2	19.0	19.7
Average number of shares	15.6	15.8	17.2	17.2	18.1	19.3
Direct investment result per share	1.47	1.09	1.87	1.74	2.07	2.28
Indirect investment result per share	0.30	1.99	3.96	3.31	4.10	2.91
EPS (IFRS)	1.78	3.08	5.84	5.05	6.17	5.19
CFPS (recurring)	1.47	1.09	1.87	1.74	2.07	2.28
Dividend per share	1.92	2.00	2.10	2.10	2.21	2.28
Payout ratio %	131%	183%	112%	121%	107%	100%
NNAV per share	40.65	42.16	46.33	49.28	53.88	57.02
NAV per share	43.96	46.22	51.05	55.22	60.70	64.64
Balance sheet	2004	2005	2006	2007E	2008E	2009E
Investment property	918.5	1,138.3	1,452.0	1,654.6	1,930.5	2,084.7
Developments	183.1	71.9	155.3	185.0	115.2	160.2
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed assets	101.7	116.8	45.6	45.6	45.6	45.6
Total fixed assets	1,203.3	1,327.0	1,652.9	1,885.2	2,091.3	2,290.6
Receivables	2.0	2.1	4.5	4.5	4.5	4.5
Cash and banks	150.3	197.2	95.9	88.2	87.9	90.3
Other current assets	14.7	17.3	42.9	42.9	42.9	42.9
Total current assets	167.0	216.6	143.3	135.6	135.3	137.7
Total assets	1,370.2	1,543.6	1,796.2	2,020.8	2,226.7	2,428.3
Shareholders' equity	635.1	724.7	796.3	847.0	1,021.0	1,123.8
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	635.1	724.7	796.3	847.0	1,021.0	1,123.8
Provisions	73.2	79.0	101.0	121.9	149.1	170.0
Long interest bearing debt	597.6	613.8	752.1	905.1	909.8	987.7
Other long term liabilities	49.4	65.3	102.0	102.0	102.0	102.0
Total long term liabilities	720.1	758.2	955.2	1,129.1	1,160.9	1,259.7
Short term debt	6.7	50.5	28.5	28.5	28.5	28.5
Other current liabilities	8.3	10.2	16.3	16.3	16.3	16.3
Total current liabilities	15.0	60.7	44.8	44.8	44.8	44.8
Total equity and liabilities	1,370.2	1,543.6	1,796.2	2,020.8	2,226.7	2,428.3
Financing Ratio's	2004	2005	2006	2007E	2008E	2009E
Equity-to-assets %	46.4%	46.9%	44.3%	41.9%	45.9%	46.3%
Net gearing %	71.5%	64.5%	86.0%	99.8%	83.3%	82.4%
Interest cover	2.3	1.5	1.8	1.7	1.8	2.0
Valuation	2004	2005	2006	2007E	2008E	2009E
Enterprise value	1,003.5	1,219.9	1,612.8	1,861.9	1,971.1	2,091.4
Market Cap	549.5	752.8	928.1	1,016.5	1,120.7	1,165.5
P/NNAV-1	-13.5%	3.9%	16.6%	20.0%	9.8%	3.7%
EBITDA/EV	4.5%	4.7%	4.6%	4.1%	4.6%	4.8%
Recurring Cash Flow Yield	4.2%	2.5%	3.5%	2.9%	3.5%	3.9%
Earnings Yield	5.0%	7.0%	10.8%	8.5%	10.4%	8.8%
Dividend Yield %	5.5%	4.6%	3.9%	3.5%	3.7%	3.9%

Model updated: 26 April 2007

Rating

**NEUTRAL**Price target (12m) **€58.5**Closing price (25 April 2007) **€59.1**Expected total return **2.5%**Date **26 April 2007****Company description**

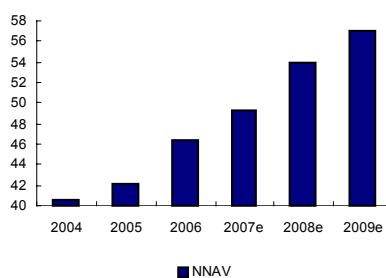
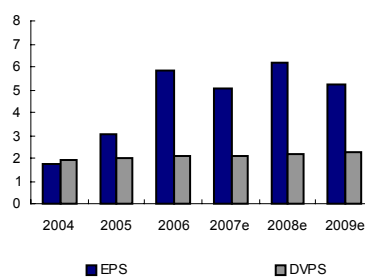
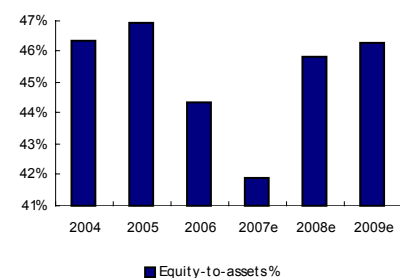
Deutsche EuroShop invests in shoppingcenters in Germany, Poland, Austria and Hungary.

Website: [www.deutsche-euroshop.de](http://www.deutsche-euroshop.de)**DEQ GY vs GPR 250 Europe**

Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	-2.3%	-3.0%	4.2%
Rel. to GPR 250 Europe	0.2%	-0.7%	-18.2%

Source: Factset

**Share data**52-Week range **€50.20 - 60.18**Market cap **€1,016m**Number of shares **17.2m**Average daily volume **41,111**Free float **79%****Company data**Bloomberg / Reuters **DEQ GY / DEQGn.DE**Next announcement **11 May 2007****Q1 2007 Turnover Results****Analyst****Remco Simon****+31 (0)20 348 8461****rsim@kempen.nl****NNAV****EPS & Dividends****Equity-to-assets**

Source: Company Data, Kempen &amp; Co



## Disclosures

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### Regulatory disclosure

#### Company mentioned in this report

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### Recommendation structure

#### Definitions

<b>Method</b>	Combination of cash flows, NNAVs, relative valuation and our fair value analysis. The Kempen & Co equity fair value analysis calculates the returns the company is expected to generate going forward. If these returns exceed the returns that are perceived as 'fair', we consider the company's fair value to be higher than the NNAV and vice versa.
<b>Sell</b>	Expected negative total return of 20% or more on a 12 month basis.
<b>Reduce</b>	Expected negative total return of 5% or more on a 12 month basis.
<b>Neutral</b>	Expected total return between 5% to -5% on a 12 month basis.
<b>Add</b>	Expected positive total return of 5% or more on a 12 month basis.
<b>Buy</b>	Expected positive total return of 20% or more on a 12 month basis.
<b>Under review</b>	Rating and/or price target are under review in case there is insufficient basis for determining a rating and/or price target.
<b>Not rated</b>	Rating and price target are suspended because of Kempen & Co's engagement in an investment banking transaction and in certain other circumstances.
<b>Price Target</b>	Expected share price in 12 months.

### Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
BUY	0 (0%)	0%
ADD	18 (39%)	43%
NEUTRAL	18 (39%)	48%
REDUCE	10 (22%)	9%
SELL	0 (0%)	0%
<b>Total</b>	<b>46 (100%)</b>	<b>100%</b>

### Stock price, price target and recommendation history

#### Deutsche EuroShop (DEQ GY)

Date	Close	Price target	Rating
31-Jan-07	57.33	57.50	NEUTRAL
08-Dec-06	53.16	57.01	ADD
07-Feb-06	50.95	47.02	REDUCE
10-Nov-05	44.50	45.00	NEUTRAL
10-Aug-05	48.70	45.00	REDUCE
11-May-05	41.50	42.00	NEUTRAL

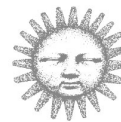


Analyst coverage: Remco Simon  
Source: Kempen & Co, Factset





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