

**Company Flash**
**Real Estate**
**Germany**
**May 14, 2008**

## Deutsche EuroShop

### Safe haven status priced in

- We downgrade Deutsche EuroShop from Buy to Hold with an unchanged target price of EUR 30. The stock has outperformed the sector and the retail real estate peers since August 2007. All reasons for this are still valid (planning security, lower risk profile, appealing portfolio); however, our TP now shows only limited further potential. We believe that a share price in the region of EUR 30, i.e. ca. 7% above our projected 2008 NAV, could lead to some profit-taking.
- The first quarter fulfilled our expectations and could be viewed as one of the most attractive Q1 results provided by the larger listed real estate companies in Germany.
- Revenues and earnings increased by ca. 20% y-o-y, mainly driven by the rental contribution of two new centers in Gdansk and Hameln. Also like-for-like rental growth was solid at 2.2% y-o-y. Surprisingly, net profit grew by 61% to EUR 10.2 mn due a positive effect of EUR 1.8 mn from unrealized currency gains in the valuation result. Besides this, net income grew strongly by 41% y-o-y.
- Overall, the company is well on track to reach the full year guidance. Therefore, we do not have to change our estimates.
- DES mentioned that it is "significantly more optimistic" about being able to invest ca. EUR 150-200 mn in new centers this year. The company expects prices to come down further. It is hard to predict when the investment volume will come onto the balance sheet and when this will affect the P&L. Therefore, we do not include this into our model for the time being. If DES speaks about investments, this usually means that it is closing a transaction.

	2005	2006	2007	2008e	2009e
Gross rental income (EUR mn)	72.1	92.9	95.8	113.3	122.7
EBITDA (EUR mn)	57.5	86.3	77.2	92.4	101.1
Net income (EUR mn)	48.7	100.3	94.2	61.8	56.5
EPS reported (EUR)	1.54	2.92	2.74	1.80	1.64
EPS diluted (EPRA) (EUR)	0.62	0.76	0.91	1.05	1.32
NAVPS (EUR)	23.11	25.52	26.91	28.11	29.01
DPS (EUR)	1.00	1.05	1.05	1.15	1.20
ROE (%)	6.9	13.2	11.4	7.1	6.3
P/E reported (x)	14.2	9.2	10.0	15.8	17.2
P/Cash earnings (x)	40.0	20.7	25.1	21.6	18.8
P/FFO diluted (x)	32.6	28.1	24.6	22.2	19.0
P/NAV (x)	0.94	1.06	1.01	1.01	0.98
EV/EBITDA (x)	21.2	19.8	23.8	21.0	19.1
Div. yield (%)	4.6	3.9	3.9	4.1	4.2

Source: Company data, UniCredit Global Research

### Hold (prev. Buy)

Price on 05/13/08	<b>EUR 28.34</b>
Target price (prev. EUR 30.00)	<b>EUR 30.00</b>
Upside to TP	5.9%
Cost of equity	7.2%
High/Low (12M)	29.56/21.61

#### INVESTMENT HIGHLIGHTS

Clear focus on attractive shopping centers  
 Stable cash flow and therefore dividend generation  
 Still strong demand for shopping centers

#### STOCK TRIGGERS

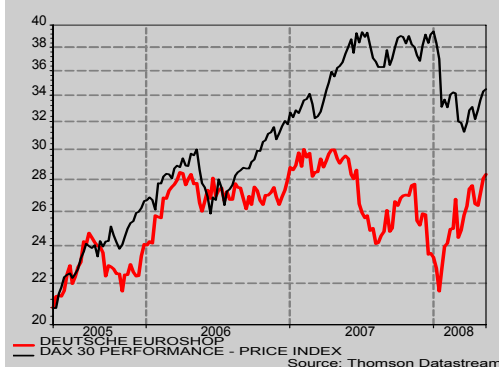
Attractive, tax-free and predictable dividend  
 Investments expected for the first time again in 2008  
 Following recent outperformance, limited potential

#### STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	134.7
Free float (%)	80.7
Market capitalization (EUR bn)	0.9
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.3%

#### UPCOMING EVENTS

Annual general meeting	19-Jun-08
H1/Q2	14-Aug-08
9M/Q3	14-Nov-08



#### RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	1.2	10.3	11.5
Euro STOXX 50	5.0	11.2	13.8
ES Financ. S.	0.3	11.1	10.3

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**Very solid first quarter**

**The first quarter was quite unspectacular but demonstrated the stability and strength of the business model.** Revenues increased by 19% to EUR 26.9 mn, mainly driven by the rental contribution of two new centers in Gdansk (opening September 2007) and Hameln (March 2008). The deviation from our forecast of EUR 26 mn derives from the latter one, because we expected first contributions as of April. On a like-for-like basis, rental income increased by 2.2% y-o-y. Usually, turnover rents will occur mainly in Q4. Therefore, the rent increase is respectable, in our view. The strong 61% increase in net income stems partly from the unexpected and unrealized currency valuation gain of the centers in Poland and Hungary. Without this effect, EPS was EUR 0.27 vs. our estimate of EUR 0.25.

**KEY FIGURES Q1**

EUR mn	Q1/08	Q1/07	y-o-y %	UniCredit (E)	Dev. %
Revenues	26.9	22.6	19	26.0	3
EBITDA	22.5	18.7	20	21.4	5
Margin %	84	83	1 Pp	82	1 Pp
EBIT	24.3	18.6	30	21.4	14
EBT excl. valuation result	10.5	8.6	22	10.5	0
Margin %	39	38	1 Pp	41	-1 Pp
Valuation result	1.8	-0.1		0.0	
EBT	12.3	8.5	46	10.6	17
Net income	10.2	6.3	61	8.4	21
EPS reported (EUR)	0.30	0.18	61	0.25	21
EPS excl. valuation result (EUR)	0.27	0.18	44	0.25	8

Source: Company data, UniCredit Global Research

**Guidance for FY 2008 and 2009 reaffirmed**

**As expected, the company reaffirmed its guidance for FY 2008 and 2009.** We do not have to change our estimates and still believe that the company will reach or maybe slightly beat the given targets.

**OVERVIEW OF GUIDANCE**

EUR mn	2007	2008		2009	
	rep.	Guidance	UniCredit (E)	Guidance	UniCredit (E)
Revenues	95.8	110-113	113.3	119-121	122.7
EBIT (excl. revaluation/disposals)	77.2	90-93	92.4	100-102	101.2
EBT (excl. revaluation/disposals)	37.7	43-45	45.1	49-51	51.7
EBT reported	77.8		77.2		70.6

Source: Company data, UniCredit Global Research

**"Investment pause" will end**

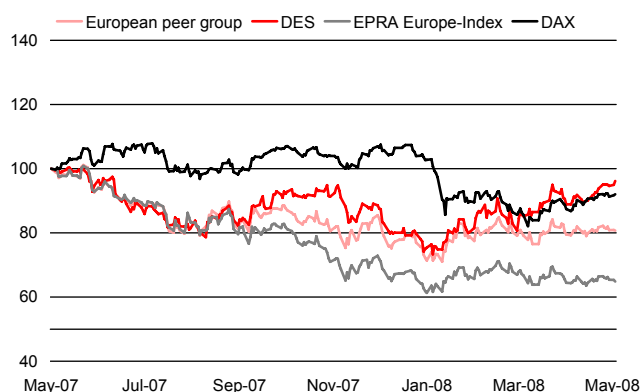
**With respect to probable new investments, the company mainly repeated statements given three weeks ago at the analyst meeting.** DES is "significantly more optimistic" about being able to initiate new investments of EUR 150-200 mn by the end of the year. In the CC, the management pointed out that it sees a lot more possible acquisition projects to focus on. However, currently nothing is final. We get the impression that the company would be ready to invest but is waiting for lower prices, which it does expect. It is hard to predict when the investment volume will come onto the balance sheet and will affect the P&L. Therefore, we do not include this into our model for the time being. If DES speaks about investments, it usually means that it is closing a transaction.

**Valuation – downgrade to Hold**

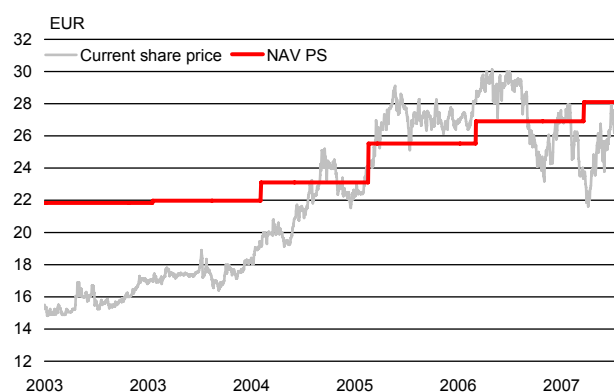
**Downgrade to Hold with an unchanged target price of EUR 30.** In our latest sector report in April, we argued that DES is still a tower of strength and increased our target price from EUR 29 to EUR 30. Since then, the share price increased by a further 7%. YTD the stock has outperformed the sector strongly with +21% vs. EPRA Germany -12% and EPRA Europe -4% (all absolute figures). This is based primarily on the planning security, the low risk profile of the business model and the appeal of the shopping center segment. All of these reasons are still valid and the stock could remain a favorite at the moment based on risk considerations. However, our target price is now coming into reach and shows only limited further potential. We do believe that a share price in the region of EUR 30, i.e. ca. 7% above our projected 2008 NAV, could lead to some profit-taking. Therefore, we downgrade the stock from Buy to Hold with an unchanged target price of EUR 30.

**PERFORMANCE OF SHARE PRICE AND NAV**

Stock has outperformed since August 2007



Stock trading at projected 2008 NAV



Source: Thomson Datastream, UniCredit Global Research

**VALUATION OVERVIEW**

EUR	Fair value	Weighting %
Economic profit (ROCE) model	28.85	50
DDM	30.95	50
Fair value (weighted)	29.90	
Discount	0.00	0
Fair value after discount	29.90	
<b>Target price (t+12 months)</b>	<b>30.00</b>	
Current share price	28.34	
Share price potential %	6	
<b>Valuation at:</b>	<b>Target price</b>	<b>Current</b>
<b>Share price</b>	<b>30.00</b>	<b>28.34</b>
Dividend yield 2008e %	3.8	4.1
P/NAV 2008e	1.07	1.01
P/E 2009e	18.2	15.8
FFO yield 2009e %	4.3	4.5
Cash earnings yield 2009e %	4.4	4.6

Source: Company data, UniCredit Global Research

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-	-

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Company	Date	Rating	Currency	Target price
Deutsche EuroShop	04/30/2008	Buy	EUR	30.00
Deutsche EuroShop	02/19/2008	Buy	EUR	29.00
Deutsche EuroShop	08/15/2007	Buy	EUR	30.00
Deutsche EuroShop	05/23/2007	Buy	EUR	64.00

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