

Company Flash
Real Estate
Germany
12 November 2009

Deutsche EuroShop

Stable existing portfolio pays off

We are increasing our TP from EUR 25.00 to EUR 27.70 and confirming our Buy rating for Deutsche EuroShop. The higher target price is based mainly on our higher estimates for NAV. We have above all reduced our assumptions for writedowns as of year-end. We welcome the still cautious view on potential new investments and think that they have to be NAV accretive.

■ **9M figures as solid as expected – no signs of decreasing rental income.** Overall, the existing portfolio is developing solidly as expected. The FFO for 9M increased by 8%, and DEQ confirmed its guidance for FY 2009. We are leaving our estimates for the operating result virtually unchanged. One positive aspects that as of now the company has not seen any significant changes in consumer spending in their centers, and writedowns on rent receivables and overdue rents remain on a low level.

■ **We expect lower writedowns on the portfolio at year-end than feared so far.** We estimate a 15bp upward shift of the valuation yield to 5.80% instead of 5.85%. This leads to a lower estimated valuation loss of only EUR 15mn instead of EUR 35mn and to a higher NAV of EUR 26.70 (prev.: EUR 26.20). The reason for this change is that market yields continued to stabilize in 3Q, interest rates remain on a low level and rental income for DEQ's shopping center portfolio seems to be largely resilient to the economic crisis.

■ **New investments only, if they are NAV accretive.** The company is currently examining some new investment opportunities, however, also mentioning to remain cautious on that side. The capital increase in July bolstered the already solid capital structure and opened the window for new investments. We expect a net initial yield of at least 6% and as a prerequisite for a new investment, which is higher than the estimated yield of 5.80% for the overall portfolio.

	2006	2007	2008	2009E	2010E
Gross rental income (EUR mn)	92.9	95.8	115.3	127.3	129.8
EBITDA (EUR mn)	86.3	78.5	98.1	107.6	109.7
Net income (EUR mn)	100.3	94.2	68.9	30.6	69.1
EPS reported (EUR)	2.92	2.74	2.00	0.85	1.83
EPS adj. (EPRA) (EUR)	0.76	0.94	1.13	1.20	1.20
NAVPS (EUR)	25.52	26.91	27.43	26.70	27.91
DPS (EUR)	1.05	1.05	1.05	1.05	1.15
ROE (%)	11.9	10.1	7.1	3.0	6.5
P/E adjusted (EPRA) (x)	35.5	29.0	21.0	20.2	20.1
P/Cash earnings (x)	20.7	24.1	16.5	16.7	16.6
P/FFO diluted (x)	30.9	24.3	16.5	16.7	16.6
P/NAV (x)	1.06	1.01	0.87	0.91	0.87
EV/EBITDA (x)	18.7	21.9	17.1	16.3	16.3
Div. yield (%)	3.9	3.9	4.4	4.3	4.8

Source: Company data, UniCredit Research

Buy (prev. Buy)

Price on 11 Nov 2009	EUR 24.18
Target price (prev. EUR 25.00)	EUR 27.70
Upside to TP	14.6%
Cost of equity	7.5%
High/Low (12M)	26.00/18.70

INVESTMENT HIGHLIGHTS

Focus on attractive and established shopping centers
 Stable generation of cash flows and dividends
 Recent capital increase bolsters solid capital structure

STOCK TRIGGERS

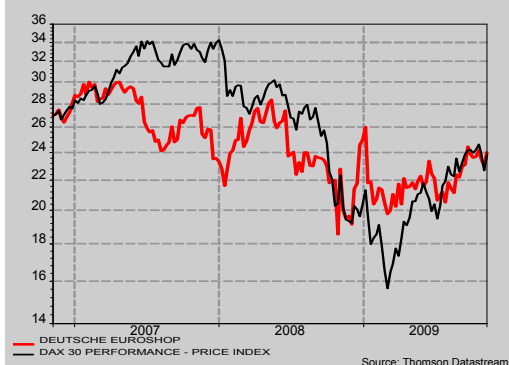
Potential news on NAV accretive investments
 Lower-than-expected writedowns at year end
 Also convincing 4Q figures

STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	100.2
Free float (%)	80.5
Market capitalization (EUR bn)	0.8
No. of shares issued (mn)	37.8
Shareholders	Otto family 18.5%, Attfund Ltd 5.3%, free float 76.2%

UPCOMING EVENTS

Annual general meeting	17 Jun 2010
Preliminary figures	Feb 2010
BPC, AC	30 Apr 2010



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	0.9	5.5	-1.2
Euro STOXX 50	0.2	4.1	-3.1
ES Financ. S.	1.3	2.1	7.5

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9M/3Q09 AT A GLANCE – ALMOST EXACTLY IN LINE WITH OUR ESTIMATES

EUR mn	9M09	9M08	yoy (%)	UniCredit (E)	Dev. (%)	3Q09	3Q08	yoy (%)	UniCredit (E)	Dev. (%)
Revenues	94.4	84.1	12	94.6	0	31.5	28.9	9	31.6	0
EBT excl. valuation result	39.3	35.4	11	39.3	0	13.1	11.3	16	13.2	0
Margin (%)	42	42	0pp	42	0pp	42	39	3pp	42	0pp
Valuation result	6.9	2.5		6.8		-3.9	0.3		-4.0	
EBT	46.2	37.9	22	46.1	0	9.2	11.6	-20	9.2	1
Net income	38.5	31.3	23	38.0	1	8.0	9.7	-17	7.5	6
Adj. net income	32.7	29.2	12	32.4	1	8.0	-14.1	-157	7.5	6
EPS reported (EUR)	1.09	0.91	19	1.07	1	0.21	0.28	-24	0.20	6
EPS excl. valuation result (EUR)	0.92	0.85	9	0.91	1	0.30	0.27	11	0.29	5
FFO per share (EUR)	1.11	1.03	8	1.11	0	0.35	0.33	7	0.35	0

CHANGES IN ESTIMATES – LOWER ASSUMPTIONS FOR WRITEDOWNS LEAD TO INCREASE IN EPS AND MORE IMPORTANTLY NAV

EUR mn	2008		2009E		2010E		2011E		Dev. (%)	
	rep.	new	prev.	Dev. (%)	new	prev.	Dev. (%)	new		prev.
Revenues	115.3	127.3	126.8	0	129.8	129.3	0	135.1	134.6	0
yoy (%)	20	10	10		2	2		4	4	
EBIT reported	98.1	107.6	107.4	0	109.7	109.1	1	113.7	112.9	1
yoy (%)	25	10	9		2	2		4	3	
Valuation result	37.1	-15.2	-34.8		28.5	15.7		25.2	11.9	
EBT excl. valuation result	49.9	52.2	53.0		55.2	54.8		59.0	59.0	
yoy (%)	1	5			6			7	1	
Net income	68.9	30.6	14.6	110	69.1	56.4	23	69.4	56.7	22
EPS reported (EUR)	2.00	0.85	0.40	110	1.83	1.49	23	1.84	1.50	22
EPS adjusted (EUR)	1.13	1.20	1.18	2	1.20	1.16	4	1.29	1.25	3
FFO per share (EUR)	1.45	1.45	1.47	-2	1.46	1.45	1	1.56	1.56	0
NAV per share (EUR)	27.43	26.70	26.20	2	27.91	27.06	3	28.99	27.79	4
yoy (%)	2	-3	-4		5	3		4	3	

Source: Company data, UniCredit Research

TP increase due to higher NAV assumptions

We are confirming our Buy rating and increasing our TP from EUR 25 to EUR 27.70. DEQ is currently trading at a discount of 14% to our 2010E NAV compared to a premium of 13% for the European retail peer group. Furthermore, we clearly expect that 2009E NAV will be the through and estimate an increase of 4.8% p.a. until 2012E.

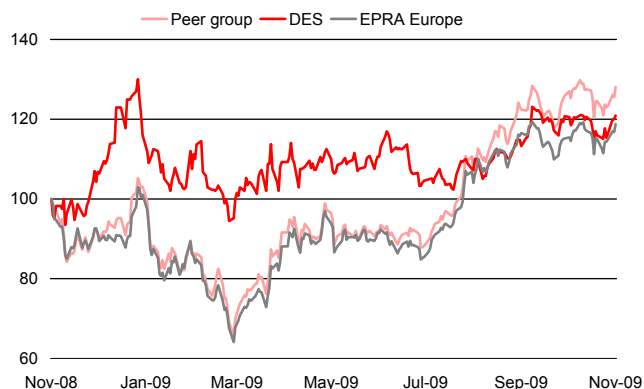
VALUATION OVERVIEW

EUR	Value per share	Weighting (%)
Economic profit (ROCE) model	28.24	25
Dividend discount model	27.89	25
NAV 2010E (5% discount)	26.52	25
Peer group comparison (2009-11E)	28.20	25
Value (weighted)	27.71	
Target price (t+12 months)	27.70	
Current share price	24.18	
Share price potential (%)	14.6	
Valuation at:	Target price	Current
Share price	27.70	24.18
Dividend yield 2009E (%)	3.8	4.8
P/NAV 2010E	0.99	0.87
P/E adj. 2010E	23.0	20.1
FFO yield 2010E (%)	5.3	6.0
Cash earnings yield 2010E (%)	5.3	6.0

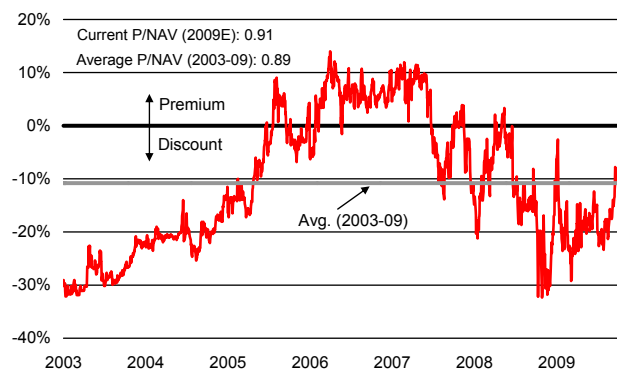
Source: UniCredit Research

SHARE PRICE PERFORMANCE AND P/NAV TREND – UNDERPERFORMANCE SINCE MARKET TURNAROUND IN MARCH

1-year relative performance to retail peers since March



Premium/discount to NAV: still enough potential



Source: Thomson Datastream, UniCredit Research

CONSOLIDATED INCOME STATEMENT

		2006	2007	2008	2009E	2010E	2011E
Total revenues	EUR mn	184.6	135.8	153.3	128.2	130.8	161.3
Total expenses	EUR mn	-25.9	-18.3	-18.1	-35.8	7.4	-22.4
EBIT	EUR mn	158.6	117.5	135.2	92.5	138.3	139.0
Gross rental income	EUR mn	92.9	95.8	115.3	127.3	129.8	135.1
Property op./management costs	EUR mn	-16.2	-14.1	-13.1	-15.6	-16.1	-16.9
as a percentage of rental income	%	17.4	14.7	11.4	12.3	12.4	12.5
Net rental income (NOI)	EUR mn	76.7	81.7	102.2	111.7	113.7	118.2
as a percentage of rental income	%	82.6	85.3	88.6	87.8	87.6	87.5
Profit on disposal of investment properties	EUR mn	14.8	0	0	0	0	0
Other operating income	EUR mn	1.2	1.1	0.9	0.9	1.0	1.0
Other operating expenses	EUR mn	-6.3	-4.2	-5.0	-5.0	-5.0	-5.5
EBITDA (DES defin.: EBIT)	EUR mn	86.3	78.5	98.1	107.6	109.7	113.7
as a percentage of total revenues	%	46.8	57.8	64.0	83.9	83.9	70.5
Valuation result	EUR mn	72.3	39.0	37.1	-15.2	28.5	25.2
EBIT	EUR mn	158.6	117.5	135.2	92.5	138.3	139.0
as a percentage of total revenues	%	86.0	86.5	88.2	72.1	105.7	86.1
Income from investments	EUR mn	1.9	1.5	1.7	1.4	1.5	1.6
Net financial result	EUR mn	-42.9	-41.1	-49.9	-56.8	-56.0	-56.4
EBT	EUR mn	117.6	77.8	87.0	37.0	83.8	84.2
as a percentage of total revenues	%	63.7	57.3	56.8	28.9	64.0	52.2
EBT excl. revaluation	EUR mn	45.3	38.9	49.9	52.2	55.2	59.0
Taxes	EUR mn	-17.4	16.3	-18.1	-6.5	-14.7	-14.7
Income tax rate	%	14.8	-21.0	20.8	17.5	17.5	17.5
Profit for the period	EUR mn	100.3	94.2	68.9	30.6	69.1	69.4
as a percentage of total revenues	%	54.3	69.4	44.9	23.8	52.8	43.0
Minority interests	EUR mn	0	0	0	0	0	0
Earnings after minority interests	EUR mn	100.3	94.2	68.9	30.6	69.1	69.4
Adj. net income (direct investment result)	EUR mn	26.1	32.3	39.0	43.1	45.6	48.6
Indirect investment result	EUR mn	74.2	61.8	29.9	-12.5	23.5	20.8
Funds from operation (FFO)	EUR mn	30.0	38.5	49.8	52.2	55.2	59.0
EPS reported	EUR	2.92	2.74	2.00	0.85	1.83	1.84
EPS adj.	EUR	0.76	0.94	1.13	1.20	1.20	1.29
FFOPS diluted	EUR	0.87	1.12	1.45	1.45	1.46	1.56
DPS	EUR	1.05	1.05	1.05	1.05	1.15	1.20

Source: UniCredit Research

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Deutsche EuroShop	-

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Company	Date	Rating	Currency	Target price
Deutsche EuroShop	07/07/2009	BUY	EUR	25.00
Deutsche EuroShop	10/02/2009	BUY	EUR	26.00
Deutsche EuroShop	07/01/2009	HOLD	EUR	26.00
Deutsche EuroShop	30/10/2008	BUY	EUR	25.00

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