

Deutsche EuroShop

EUR 45.69

(Reuters: DEQGn.F; Bloomberg: DEQ GR; WPK: 748020)

Outperform**Andre Remke, CFA, +49 (0) 89 378-18202**

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New center in Hameln extends portfolio starting in 2008

Performance (11/23/05)	1W	1M	3M
Absolute (%)	2.4	2.4	2.0
Relative to Euro STOXX 50 (%)	0.1	0.1	-4.1

Rating

New: Outperform	Previous: Outperform
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Price target

New: EUR 50.00	Previous: EUR 50.00
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Market cap. (EUR mn)	785.3
Free float (%)	19.3
Capital subscribed (EUR mn)	22.0
Number of shares (mn)	17.2
Shareholders	Family Otto 19.3%

Annual general meeting	22-Jun-06
BPC, AC	20-Apr-06
Q1	15-May-06

	2004	2005e	2006e
Sales (EUR mn)	61.4	71.4	84.2
EBITDA (EUR mn)	50.7	55.0	69.5
EBITA (EUR mn)	50.7	55.0	69.5
EBIT (EUR mn)	50.7	55.0	69.5
Net income (EUR mn)	26.4	36.2	38.5
EPS reported (EUR)	1.78	2.12	2.15
EPS adj. pre valuation result	1.32	1.01	1.58
P/E (EPS reported)	19.8	21.5	21.2
EV/sales	17.1	18.2	17.4
EV/EBITDA	20.7	23.6	21.1
EV/EBITA	20.8	23.6	21.1
Dividend (EUR)	1.92	2.00	2.10
Div. yield (%)	5.5	4.4	4.6

New building project in Hameln acquired. The shopping center investor Deutsche EuroShop announced today that it is taking a 94.9% stake in the Stadtgalerie Hameln in Lower Saxony. With an investment volume of EUR 82 mn, the figure is in line with the figure already announced two weeks ago (see Company Flash of November 11).

The following basic parameters were released or can be deduced:

- Construction will start in spring 2006, opening in early 2008, possibly already in 2007.
- As is usual for DES properties, the center is in a central city center location (A location), in a B city with 60,000 inhabitants and 370,000 people in the catchment area.
- The occupancy rate is now already 50%.
- With a rentable area of 25,500m² and an assumed rental yield of around 7.25%, the annual rental volume comes to around EUR 6 mn and the rent to around EUR 20 m²/month.
- With a stake of 94.9%, DES is basically the full owner and will benefit from lending opportunities. The ECE group will hold 5.1% and will – as usual – be responsible for planning, renting and center management.

Rental income from 2008, investment costs from 2005 already. While the expected rental income of around EUR 6 mn p.a. will already accrue from 2008, investment costs – as is usual with new building projects – will already put pressure on the P&L in the meantime, which the company puts at EUR 4.5 mn. We had estimated costs for this in 2006 to 2008 in our planning model to date. Based on the acquisition now carried out, 2005 will also be affected, though. We are therefore lowering our earnings forecast for 2005 (EBT) by EUR 1.5 mn, from EUR 30.8 mn to EUR 29.3 mn. On the other hand, we are raising our forecast for 2006 to EUR 41.5 mn. EPS excluding valuation results is adjusted to EUR 1.01 (previously: EUR 1.09) for 2005 and to EUR 1.58 (previously: EUR 1.53) for 2006. Our estimate for 2007 remains EUR 1.69. We are lowering our NAV estimate for 2005 marginally by EUR 0.09 to EUR 44.53. The investment costs of EUR 4.5 mn up to 2008, which will appear in the P&L, will be made up for again with the first-time valuation of the new center at the end of 2008 – i.e. should lead to positive net valuation result.

Guidance for 2005 can therefore just be reached at best. Based on the investment costs mentioned, which will already affect 2005, we assume that the earnings guidance of EUR 30-32 mn given to date will just be missed. At EUR 29.3 mn, we remain slightly below the guidance, even though the lower end is still within reach. Since this is only a preemptive effect, we do not attach too much importance to it, though. However, it should remain in the back of our minds with respect to the announcement of the results at the beginning of next year.

Valuation, price target and rating unchanged. We are confirming our price target of EUR 50 (NAV valuation, DDM) and the Outperform rating after the expected announcement of the investment in the sixteenth shopping center in the meantime.

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 11/24/2005
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Company	Date	Product	Rating	Price target
Deutsche EuroShop	10/10/05	CF	Outperform	50.00
Deutsche EuroShop	08/11/05	CU	Neutral	50.00
Deutsche EuroShop	05/02/05	CU	Outperform	46.70
Deutsche EuroShop	01/31/05	CF	Outperform	44.70
Deutsche EuroShop	09/28/04	CR	Outperform	40.00

CF: Company Flash, CR: Company Report, CU: Company Update, EV: E-Valuation, GD: German Daily, LP: Local Product, MSC: Mid Caps/Small Caps, SF: Sector Flash, SP: Sector Preview, SR: Sector Report, WP: Company Weekly Preview

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Company	Key
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Sources: Thomson Financial Datastream, HVB Global Markets Research