Sal. Oppenheim

OPPENHEIM COMPANY NEWS

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DEUTSCHE EUROSHOP[5] DEQGn.DE Price: €52.96

Buy

Positive feedback from company roadshow Fair value: €60.00

Yr. end	2004	2005	2006e	2007e
Sales	61.4	72.1	91.1	94.0
Net Profit	27.7	48.7	50.1	52.7
adj. EPS	1.78	2.83	2.92	3.07
PER	19.8	15.4	18.2	17.3
EV/EBITDA	21.4	21.7	21.5	21.8
EBIT margin %	82.5	79.7	80.9	79.8
Yield %	5.5	4.6	3.8	3.8

Market Cap.: €0.91bn Free Float: 7.0% EPS CAGR 03-2007: 26.0%

Investment case: Deutsche Euroshop (DEQ) is the only listed German retail stock with a high-quality portfolio of €1.4bn consisting of 15 malls, mainly in Germany. The company intends to expand its portfolio, but is currently cautious due to rising prices because of the strong demand from foreign investors.

Facts: _____ We conducted a very successful management road show in Zurich. The company confirmed the outlook of EBIT in a range of €72-75m, which is based on the current portfolio. The clear intention is to acquire malls but the company is cautious due to the strong inflow of capital coming from international investors, which leads to rising prices. DEQ requests a net yield of 6% in Germany, which is currently difficult to find with a current level of 5.5-5.8%. The intended investment volume is in the region of €100-150m but the company sees no pressure to acquire new malls. The focus lies herewith on 1) increasing the stake in current portfolios as recently done at the Main-Taunus-Zentrum, 2) increase the commercial space in the existing malls, 3) selective projects developments as with Stadt-Galerie in Hameln, 4) increasing the foreign stake by acquiring malls in CEE or Klagenfurt and 5) increasing rental income by improving letting contracts with a higher stake of the turnover-driven rents.

_____ Due to the strong demand for retail space, DEQ has already sold the remaining mall in France and is considering selling the remaining one in Italy.

_____ As already indicated, the turnover in the clothing segment (H&M, Zara etc) was weak in Q1 due to weather conditions (winter started after the winter sales) but other sectors such as books or perfumeries are doing well.

Assessment: _____ Although no concrete outlook and timetable was given, we appreciate that DEQ sticks to its strategy and focus on value-enhancing acquisitions. The existing portfolio is a good platform for further growth. Due to the cooperation with ECE, the leading European shopping centre developer and manager, the company has access to an attractive deal-flow but is independent to find opportunities on its own. Even if no investments are taken in this year, the existing portfolio contributes stable and attractive earnings and will lead to a new record earning and tax-free dividend.

Valuation:	____ The share is currently trading at a PER06e 18 that is below the European peers, which we regard as not justified. DEQ is still negatively affected by uncertainties about the German private consumption climate, although no risks can be seen for DEQ due to CPI-linked rents.
Conclusion and performance trigger:	____ We reiterate our buy rating and increase the fair value slightly to €60. We see in DEQ a well-positioned and well-managed company with a high-quality portfolio and remain positive for the defensive but attractive investment case.

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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 twelve 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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