

OPPENHEIM COMPANY NEWS

15.11.2006

DEUTSCHE EUROSHOP<sup>5</sup> DEQGN.DE Price: €4.15

Buy **"We can easily confirm guidance for FY 2006"** Fair value: €60.00

**Rise in profits ahead**

Yr. end	2005	2006e	2007e	2008e
Sales	72.1	95.7	97.9	108.8
Net Profit	48.7	51.5	35.1	70.4
adj. EPS	2.83	3.00	2.04	4.10
PER	15.4	18.1	26.5	13.2
EV/EBITDA	21.7	21.6	23.8	21.8
EBIT margin %	79.7	77.6	76.6	77.2
Yield %	4.6	3.7	3.7	3.9

Under review Market Cap.: €0.93bn Free Float: 7.0% EPS CAGR 04-2008: 23.3%

Investment case: Deutsche Euroshop (DEQ) has a clear focus on high-quality shopping centers in Germany and in Europe. Given stable economic fundamentals and strong investment markets we see DEQ very well-positioned and expect further growth.

Facts: \_\_\_\_\_ The company yesterday published 9-month figures with EBIT slightly above our estimates. The company yesterday held a conference call to give a better insight into the published results. The decrease in taxes was due to the increase of the valuation of the book value of the Italian mall Viterbo that triggered only half of the ordinary tax rate due to a change in Italian tax laws. Revaluation results were lower due to the project development in Poland. The revaluation of the existing portfolio will be conducted in Q4 and the company expects a positive result given the strength of the markets and the expected higher valuation of the mall in Wolfsburg where a new anchor tenant has moved in.

\_\_\_\_\_ On the operational base DEQ reports a like-for-like rental growth of 1.9 % and is optimistic for a positive contribution from a strong Christmas season. This should be reflected in the contribution of the turnover-base rents that are normally charged in Q4. The total turnover-based rents are around 1.9 %.

\_\_\_\_\_ The focus was more on the above-mentioned acquisition where DEQ is optimistic to close a deal in Q4. As prime yields have already been squeezed, DEQ's initial target of 6% will probably not be reached. However, the company expects to come out at the upper end of the current range.

\_\_\_\_\_ DEQ is currently in the process of selling the Italian shopping centre Viterbo and expects to close the deal in Q4. The profit will increase due to this transaction.

Assessment: \_\_\_\_\_ Given the strong demand for shopping centers, we think that Viterbo will be sold at a very attractive price. In general, we regard the guidance of DEQ as conservative given the good location of the malls and the increasing consumer appetite for shopping centers. While we are optimistic for 2006, we remain cautious for 2007 due to the increase in VAT in Germany from 16% to 19%. DEQ is only affected to a very low extent as base rents are indexed and turnover-rents are in the region of 1.9%.

\_\_\_\_\_ For the portfolio we expect the above-mentioned acquisition in Q4 whereby DEQ will again fulfil its strategy to increase its portfolio by approx. 10% p.a. If the deal is closed it again shows the benefits from the cooperation with ECE. Given this transaction, the company's portfolio will increase from 2008 onwards.

**Valuation:**

\_\_\_\_\_ We do not regard that the valuation discount in terms of P/NAV06e (DEQ: 19%, European peers: > 30%) given DEQ's stable earnings growth and sound development pipeline as justified. DEQ is already today a REIT with a tax-free dividend of €2.00 per share that leads to a dividend yield of 3.7%. We therefore regard a market-equal valuation as justified.

**Conclusion and performance trigger:**

\_\_\_\_\_ Published interim figures and conference call confirm our positive view for DEQ. The share price has declined over the last few weeks and we see attractive opportunities to buy. We therefore strongly reiterate our rating and fair value.

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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 9 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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