

Deutsche EuroShop

EUR 53.90

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

Outperform

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High revaluation gains already in Q1 – Strong operating result

Performance (05/15/06)	1W	1M	3M
Absolute (%)	-2.6	-2.6	-1.4
Relative vs. Euro STOXX 50 (%)	0.6	0.6	-0.7

Recommendation

New: Outperform	Previous: Outperform
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Price target

New: EUR 61.00	Previous: EUR 61.00
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Market cap. (EUR mn)	926.4
Free float (%)	81
Capital subscribed (EUR mn)	22.0
No. of shares in issue (mn)	17.2
Shareholders	Otto family 19.3%

Annual general meeting	22-Jun-06
H1/Q2	11-Aug-06
9M/Q3	14-Nov-06

	2005	2006e	2007e
Sales (EUR mn)	72.1	92.6	95.6
EBITDA (EUR mn)	57.5	73.2	76.2
EBITA (EUR mn)	57.5	73.2	76.2
EBIT (EUR mn)	57.5	73.2	76.2
Net income (EUR mn)	61.7	54.4	44.1
EPS reported (EUR)	3.09	3.08	2.54
EPS adj. pre valuation result	1.24	1.59	1.70
P/E (EPS reported)	14.2	17.5	21.2
EV/sales	16.9	17.6	17.2
EV/EBITDA	21.2	22.3	21.6
EV/EBITA	21.2	22.3	21.6
Dividend (EUR)	2.00	2.10	2.15
Div. yield (%)	4.6	3.9	4.0

The shopping center investor Deutsche EuroShop (DES) has reported good operating figures for Q1.

- The initial valuation of the center in Dessau and the additional shares acquired in the Main-Taunus-Zentrum (MTZ) and Rhein-Neckar-Zentrum centers already led to higher-than-expected revaluation gains in Q1.
- Despite the unrealized currency losses from the investments in Hungary, EBIT came in as we expected and was 10% higher adjusted for this effect.
- Since the book gain from the sale of the French center in Q2 will be primarily on an after-tax level, the pre-tax guidance for 2006 was confirmed and not raised.
- We are maintaining our Outperform rating and a price target of EUR 61.

Strong operating result in Q1. The Q1 figures presented were influenced as expected by the effects of consolidating the new center in Dessau, the first-time inclusion of the MTZ and the first full contribution from Wetzlar. Revenues were therefore up by 31% y-o-y to EUR 22.7 mn. The like-for-like rental income was up by 1%. According to the management, both indexed rental price increases and the effect of turnover rents will not have an impact until later in the year. At EUR 17.3 mn, EBIT was in line with our estimate. However, since it includes an unrealized currency loss of EUR 1.7 mn on the Hungarian investment, adjusted EBIT was 10% higher than expected and 38% up on last year.

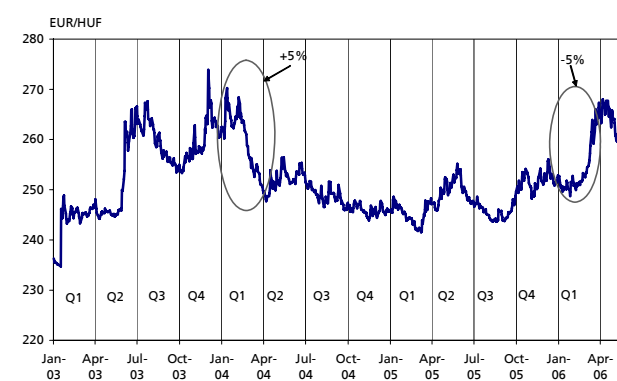
KEY FIGURES 1Q

EUR mn	Q1/06	Q1/05	y-o-y (%)	HVBe	Dev. (%)
Revenue	22.7	17.4	31	22.5	1
EBIT	17.3	13.6	27	17.3	0
Margin (%)	76	78	-2 pp	77	-1 pp
Revaluation gains	8.0	-0.2		-0.2	
Currency effect	-1.7	-0.1		0.0	
EBIT excl. currency effect	19.0	13.7	38	17.3	10
EBT excl. revaluation gains/ currency effect	10.4	7.0	49	8.6	20
Margin (%)	46	40	6 pp	38	7 pp
EBT	16.6	6.9	143	8.4	97
Net result	11.5	4.4	158	5.9	93
EPS reported	0.67	0.28	135	0.35	93
EPS excl. revaluation gains	0.32	0.28	12	0.35	-8

Sources: Deutsche EuroShop, HVB Global Markets Research

Revaluation gains already reported in Q1. The initial inclusion of the Rathaus-Center in Dessau as well as the increase in the stakes held in the MTZ and Rhein-Neckar-Zentrum centers surprisingly led to high revaluation gains of EUR 8 mn in Q1. As a rule, only the investment expenses incurred for the operational centers are reported for periods of less than one year. We had estimated a contribution from these centers of EUR 4 mn in the wake of the initial valuation that we were assuming at the end of the year. Based on the performance in Q1, we are raising revaluation gains by EUR 4 mn to EUR 28.5 mn.

HUNGARIAN FORINT EXCHANGE RATE



Sources: Thomson Financial Datastream, HVB Global Markets Research

Again a currency effect. The currency effect issue became relevant again in Q1. The result was depressed by unrealized currency losses on the Hungarian investment of EUR 1.7 mn. The background to this is the HUF-denominated loan on the investment which led to this non-realized loss in Q1 as a result of the devaluation of the HUF. This was the second-highest

earnings effect in one quarter so far. By comparison, the full-year effect in 2004 came to EUR 2.2 mn (gain) and in 2005 to EUR 1.0 mn (loss). The company basically gives guidance adjusted for the current result especially because it does not have an impact on cash.

Guidance for 2006 confirmed. DES has confirmed the sales and earnings guidance for 2006 given a month ago. Although we had expected the guidance to be raised against the background of the book gain of at least EUR 3.5 mn from the sale of the French center in Q2, only EUR 0.8 mn will be EBT or EBIT relevant. The remainder of at least EUR 2.7 mn will be generated by the reversal of deferred taxes and therefore only become visible on net level, for which no guidance is given. We are lowering our EBIT/EBT estimates accordingly but are keeping to the forecast for the net result. As a result of the higher revaluation gains, our EPS estimate increases from EUR 3.01 to EUR 3.08. For 2007 and 2008, we are still expecting EUR 2.54 and EUR 3.18.

OVERVIEW OF GUIDANCE

EUR mn	2006 Guidance	2006 HVBe	2007 Guidance	2007 HVBe
Revenue	91-94	93	92-95	96
EBIT	72-75	73	75-78	76
EBT - excl. revaluation gains	37-40	41	40-43	42

Sources: Deutsche EuroShop, HVB Global Markets Research

DES appears to be optimistic that it can invest EUR 100-150 mn in 2006 – despite the strong demand. DES mentioned the significant excess demand for retail real estate in Germany and its other target markets in the rest of Europe at present. The company is currently examining various projects that are still in a very early review phase. In its sales activities, the sale of the Italian shopping center is still being examined.

We are confirming our Outperform rating and the price target of EUR 61. Our long-term DDM shows a fair value of EUR 60.45. A P/E valuation based on the average EPS of 2006-2008 and a P/E of 21 (average of the competitors) comes to EUR 61.58. The European peer group is currently trading at a premium of 30% to the 2005 NAV. A corresponding premium on the 2006 NAV gives a fair value of EUR 60.11. Together with the tax-free dividend of EUR 2.00 (AGM date: June 22), this justifies an Outperform rating. In the current market phase, we regard the risk to DES shares as limited owing to the strong shopping center portfolio.

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Company	Date	Product	Rating	Price target
Deutsche EuroShop	04/21/2006	CF	Outperform	61.00
Deutsche EuroShop	01/27/2006	CF	Outperform	58.00
Deutsche EuroShop	10/10/2005	CF	Outperform	50.00
Deutsche EuroShop	08/11/2005	CU	Neutral	50.00
Deutsche EuroShop	05/02/2005	CU	Outperform	46.70
Deutsche EuroShop	01/31/2005	CF	Outperform	44.70

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