

Deutsche EuroShop

EUR 56.11

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

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

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High valuation result underpins the high value of the company

Performance (04/19/06)	1W	1M	3M
Absolute (%)	2.7	2.7	0.5
Relative to Euro STOXX 50 (%)	1.5	1.5	0.8

Rating

New: Outperform	Previous: Outperform
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Price target

New: EUR 61.00	Previous: EUR 58.00
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Market cap. (EUR mn)	964.4
Free float (%)	81
Capital subscribed (EUR mn)	22.0
Number of shares (mn)	17.2
Shareholders	Family Otto 19%
Annual general meeting	22-Jun-06
Q1	15-May-06
H1/Q2	11-Aug-06

	2005	2006e	2007e
Sales (EUR mn)	72.1	93.1	95.8
EBITDA (EUR mn)	57.5	77.0	76.3
EBITA (EUR mn)	57.5	77.0	76.3
EBIT (EUR mn)	57.5	77.0	76.3
Net income (EUR mn)	61.7	52.3	44.2
EPS reported (EUR)	3.09	3.01	2.54
EPS adj. before measurements	1.24	1.73	1.70
P/E (EPS reported)	14.2	18.6	22.1
EV/sales	16.9	17.9	17.5
EV/EBITDA	21.2	21.6	21.9
EV/EBITA	21.2	21.6	21.9
Dividend (EUR)	2.00	2.10	2.15
Div. yield (%)	4.6	3.7	3.8

The shopping center investor Deutsche EuroShop reported solid 2005 figures, which exceeded the preliminary figures released in January. The sale of the center in France was announced at the same time, which will lead to a capital gain in the current year. In our view, a higher NAV and our revised 2006-2008 estimates justify confirmation of our Outperform rating.

High gains on measurements. While operating profit slightly exceeded preliminary figures and our forecast, the gains on fair value adjustments came as a positive surprise. Both the first-time valuation of the new centers in Hamburg and Wetzlar and the follow-up valuation of the remaining centers exceeded our estimates. This resulted in a rise in EPS from EUR 1.78 to EUR 3.09 in 2005. DES had announced EUR 2.80 in January. After minority interests and taxes, the net income contribution of the valuation amounted to EUR 29.1 mn, thus exceeding our forecast of 24.3 mn. It is important to note that the external experts have left the discount rate for the long-term valuation unchanged at ca. 6.5%. This means that the higher net asset value was not a result of lower interest rates. Overall, the NAV per share rose from EUR 42.96 in 2004 to EUR 46.22 (preliminary figure was 45.70).

OVERVIEW OF FIGURES

EUR mn	2005	2004	y-o-y %	HVBe	Dev. %
Revenues	72.1	61.4	17	71.4	1
EBIT	57.5	49.8	16	56.5	2
Margin (%)	80	81	-1PP	79	1PP
EBIT-FX-adjusted	58.5	47.7	23	57.0	3
Measurements gains	49.9	8.0		27.0	85
EBT excl. measurement gains	32.1	27.1	18	31.0	4
Margin (%)	45	44	OPP	43	1PP
EBT	81.1	37.3	118	57.5	41
Net income	48.7	27.7	76	44.7	9
Net income excl. measurement gains	49.5	25.7	93	45.2	10

Sources: Deutsche EuroShop, HVB Global Markets Research

More concrete outlook for 2006 and initial guidance for 2007. As expected, DES concretized the initial guidance for 2006 provided in January upon release of 2005 figures. Revenues and earnings should increase by 20%, although the announced guidance has to be adjusted again. Upon release of the figures, DES announced that the center in France will be sold by mid April, which, according to our 2006 estimates, will lead to an adjustment in our revenue estimate by some EUR 2.5 mn. EBIT has to be adjusted by the center's earnings contribution and the announced capital gain of EUR 3.5 mn (after taxes). The EBT guidance will also change due to the lower interest burden from the cash inflow of ca. EUR 40 mn. Overall, our calculations assume that revenues will still be in line with the guidance. According to its own calculations, DES has merely assumed an organic growth rate of rent income of 1%, which can be considered conservative. In regard to earnings, there is, in our view, a possibility that the capital gain will cause the guidance to be exceeded. We expect revised guidance upon release of Q1 figures on May 15.

OVERVIEW OF THE GUIDANCE

EUR mn	2006		2007	
	Guidance	HVBe	Guidance	HVBe
Revenues	91-94	93	92-95	96
EBIT	72-75	77	75-78	76
EBT excl. gains on measurements	37-40	44	40-43	42

Sources: Deutsche EuroShop, HVB Global Markets Research

Strong revenue increase in 2006 and 2008. Due to the increase of the holding in the Main-Taunus Center as of the end of 2005, the center will be consolidated proportionately from 2006 and will lead to higher revenues of ca. EUR 10 mn p.a. On the other hand, the income from investments will be lower. Despite the deconsolidation in France, we expect a revenue increase of 29% in 2006. Furthermore, the center acquired in Dessau will be consolidated for the first time. The Klagenfurt center has been contributing to revenues since March. No new opening is on the agenda yet for next year; so we anticipate growth of 3% in 2007. The Hameln center, which is currently under construction, will not be opened prior to 2008. This will result in a revenue increase of 8%.

Additional potential from gains on measurements is the primary reason that we are lifting our earnings estimates. We expect operating profits to develop in line with revenues, although capital gains will yield a positive contribution this year. We anticipate a rise in operating EPS from EUR 1.24 in 2005 to EUR 1.73. We have lifted our estimates of the gains on measurements. Similar to the initial consolidation of Hamburg and Wetzlar, we expect a strong impact on earnings from the first-time valuation of Klagenfurt at the end

of the year. According to IAS 40, the former valuation of acquisition and production costs will be replaced by a market valuation. Furthermore, the proportionate investment volume of EUR 75 mn was presumably undershot by EUR 4.3 mn. Overall, we are lifting our 2006 EPS including the gains on fair value adjustments from EUR 2.61 to EUR 3.01. For 2007, we expect a decline to EUR 2.54 since no initial valuation is due. In particular, the initial valuation of Hameln can result in an EPS increase to EUR 3.18 in 2008.

OVERVIEW OF HVB ESTIMATES

EUR mn	2006e		2007e		2008e
	new	prev.	new	prev.	new
Revenues	93.1	84.5	95.8	88.3	103.3
<i>y-o-y (%)</i>	29	18	3	4	8
EBIT	77.0	70.2	76.3	72.8	82.7
<i>y-o-y (%)</i>	34	24	-1	4	8
EBT incl. valuation result	68.6	60.9	58.2	57.1	72.7
<i>y-o-y (%)</i>	-15	6	-15	-6	25
Net income	51.8	44.9	43.7	41.4	54.7
<i>y-o-y (%)</i>	6	1	-16	-8	25
EPS reported (EUR)	3.01	2.61	2.54	2.41	3.18
EPS (EUR) excl. gains on measurements	1.73	1.67	1.70	1.78	1.93

Source: HVB Global Markets Research

Increase in the price target to EUR 61 – Outperform rating confirmed. We are lifting our price target from EUR 58 to EUR 61, which is based on our increased estimates and the higher NAV. Our long-term DDM yields a fair value of EUR 61, which assumes constantly rising dividends for the coming years. The peer group of European real estate stocks with a focus on retail properties is currently trading at a premium of nearly 30% on the 2005 NAV, while DES has a premium of 21%. In our assessment, the assumed rise in NAV justifies a valuation of EUR 60.20. In regard to the P/E valuation, we are using the average EPS for 2006-2008 of EUR 2.91 as the basis because a single-year analysis is distorted by the volatility of the gains on measurements. A P/E ratio of 21 (average of competitors) yields a price target of EUR 61.20, while the median value yields EUR 61. Together with the upcoming tax-free dividend of EUR 2, this confirms our Outperform rating. We see the risks for Deutsche EuroShop stock as relatively limited due to the strong market position and the substantial portfolio, also in phases of general weakness of the overall market.

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 04/21/2006
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Company	Date	Product	Rating	Price target
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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