

Deutsche EuroShop

EUR 53.95

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

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

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Higher investment result increase price scope

Performance (01/26/06)	1W	1M	3M
Absolute (%)	6.6	6.6	12.7
Relative to Euro STOXX 50 (%)	5.2	5.2	11.6

Rating

New: Outperform	Previous: Outperform
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Price target

New: EUR 58.00	Previous: EUR 50.00
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Marktkapitalisierung (EUR mn)	927.3
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

	2005e	2006e	2007e
Sales (EUR mn)	71.4	84.5	88.3
EBITDA (EUR mn)	56.5	70.2	72.9
EBITA (EUR mn)	56.5	70.2	72.8
EBIT (EUR mn)	56.5	70.2	72.8
Net income (EUR mn)	45.6	45.4	41.9
EPS reported (EUR)	2.81	2.61	2.41
EPS adj. vor Bewertungserg.	1.28	1.67	1.78
P/E (EPS reported)	15.5	20.7	22.4
EV/sales	16.7	18.9	18.3
EV/EBITDA	21.1	22.7	22.2
EV/EBITA	21.1	22.7	22.2
Dividend (EUR)	2.00	2.10	2.15
Div. yield (%)	4.6	3.9	4.0

The shopping center investor Deutsche EuroShop has given an indication for net income and the NAV for 2005 as well as an outlook for the current financial year. While the outlook is in line with our expectations, the NAV is higher than we assumed. This leads to our earnings estimate being exceeded clearly. Since the DES shares had already exceeded our price target in recent days, we are raising it in the wake of the release from EUR 50 to EUR 58. Together with the dividend of EUR 2, this justifies the confirmation of the Outperform rating.

Investment result higher than expected in 2005. NAV up by 4% (HVBe: 2%) – further scope for 2006 remains.

The external appraisers Feri and GfK estimated the NAV for the end of 2005 at EUR 45.70 (previous year: 43.96; HVBe: 44.53). The higher valuation is based as expected on the first-time valuation of the shopping centers in Hamburg and Wetzlar, which probably turned out to be higher than we had assumed, though. Furthermore, we believe the discounting rate with respect to several properties was reduced by the appraisers in the course of determining the market values of the real estate leading to an upvaluation. This discounting rate covers among other things the macro-economic location risks and was still raised for several centers the previous year despite a falling interest rate level. As most of the net measurement gains are based on Hamburg and Wetzlar, we assume that the scope for a further reduction of the rate for the end of 2006 remains. On this basis, we are expecting a further upvaluation for 2006. We are raising our estimate for net measurement gains for 2005 from EUR 19.5 mn to EUR 27 mn and for 2006 from EUR 11 mn to EUR 18 mn. This results in an increase in the NAV per share from EUR 45.70 to EUR 47.31 (to date: EUR 45.61).

2005 EPS of EUR 2.80 expected: Alongside the higher investment result, also a better than expected operating trend. We believe the delta with respect to our EPS estimate of EUR 2.12 cannot be based on the higher revaluation result alone. We are raising the investment result per share from EUR 1.11 to EUR 1.53. Our forecast for the operating result was below the range given by DES in November so far. In terms of EBT, we are increasing our estimate from EUR 29.3 mn to EUR 31.0 mn which is now within the range of EUR

30-32 mn. We had already anticipated higher investment costs for 2005 with the announcement of the new building project in Hameln and had not ruled out that the guidance would be missed. Overall, we are increasing EPS excluding net measurement gains from EUR 1.01 to EUR 1.28. Overall EPS will therefore increase from EUR 1.78 in 2004 to EUR 2.81 in 2005.

Sales and operating result to be increased by 20% in 2006. We are increasing our EPS forecasts based on the higher operating base in 2005 and the increase in our estimate for net measurement gains. For 2006 we are expecting EPS of EUR 2.61 (to date: EUR 2.15) and for 2007 EUR 2.41 (to date: EUR 2.08). While the increase in the operating results comes to around 5%, we are raising the investment results by around 60%.

We are raising the price target from EUR 50 to EUR 58. After the substantial rise in the share price in recent days, profit taking cannot be ruled out. However, DES is still one of the few real estate stocks in Germany which can be invested in and should therefore benefit from the positive market sentiment for real estate shares. We believe the buy-and-hold strategy, the focus on shopping centers and the dividend yield of 3% limit the risk. We also see further transactions (acquisitions and sales of centers) as positive drivers for the shares. The new price target is based on a NAV valuation (fair value: EUR 59.40) and a DDM (EUR 55.90). If we assume for the European competitors an increase in the NAVs for 2005 of 5% on average, these are valued at a premium of 30%. We are also applying this premium to the DES shares for the first time. The reasons for the mark-down compared to the peer group to date should disappear completely in the months ahead. First, we are assuming the introduction of G-REITs (German Real Estate Investment Trusts); second, Germany is being increasingly perceived as an investment opportunity in the real estate sector; third, the consumer climate is slowly picking up in Germany and fourth, DES has also moved into the investment focus of foreign equity investors with a market capitalization of almost EUR 1 bn in the meantime.

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 01/27/2006
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Company	Date	Product	Rating	Price target
Deutsche EuroShop	10/10/2005	CF	Outperform	50.00
Deutsche EuroShop	08/11/2005	UU	Neutral	50.00
Deutsche EuroShop	05/02/2005	UU	Outperform	46.70
Deutsche EuroShop	01/31/2005	CF	Outperform	44.70
Deutsche EuroShop	09/28/2004	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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