

Deutsche EuroShop

EUR 54.38

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

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

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Further transactions (acquisition and disposal) possible in Q4

Performance (11/13/06)	1W	1M	3M
Absolute (%)	1.2	1.2	0.6
Relative vs. Euro STOXX 50 (%)	0.2	0.2	-1.5

Recommendation

New: Outperform Previous: Outperform

Price target

New: EUR 61.00 Previous: EUR 61.00

Market cap. (EUR mn)	934.7
Free float (%)	81
Capital subscribed (EUR mn)	22.0
No. of shares in issue (mn)	17.2
Shareholders	Otto family 19%

Annual general meeting	21-Jun-07
Bal. sheet press conf.	20-Apr-07
Q1	11-May-07

	2005	2006e	2007e
Sales (EUR mn)	72.1	94.1	99.0
EBITDA (EUR mn)	57.5	75.1	79.7
EBITA (EUR mn)	57.5	75.1	79.7
EBIT (EUR mn)	57.5	75.1	79.7
Net income (EUR mn)	48.7	52.9	46.2
EPS reported (EUR)	3.09	3.08	2.69
NAVPS (EUR)	46.22	48.04	49.61
P/E (EPS reported)	14.2	17.7	20.2
EV/sales	16.9	18.0	17.9
EV/EBITDA	21.2	22.6	22.3
EV/EBITA	21.2	22.6	22.3
Dividend (EUR)	2.00	2.00	2.10
Div. yield (%)	4.6	3.7	3.9

Deutsche EuroShop (DES) has presented very solid quarterly figures once again. Sales and operating income have risen roughly 30% over the nine months largely on the back of new shopping centers. Guidance for 2006 was reaffirmed, but does not yet include the likely disposal of the Italian center. Furthermore, DES flagged a possible further acquisition worth EUR 100 mn in Q4. We reaffirm our "Outperform" rating, and the price target of EUR 61. For valuation reasons, we consider the DES share to be a top pick in our real estate coverage.

Solid nine-month figures as expected. DES continued with its very solid operating performance in Q3. After nine months, sales are up 29% and EBIT has grown 34%. The EBIT margin rose year-on-year from 80% to 83%. The Q3 valuation result contained a negative earnings effect of EUR 3.4 mn arising from acquisition costs of the center acquired in Gdansk in August. As a result, the Q3 EBT margin of 25.7%, including the valuation result, was markedly down on 64.5% of the first half-year. A positive effect of EUR 3.3 mn resulted from the dissolution of deferred tax provisions for the planned sale of the Italian center. Overall, these opposing effects caused net income to be roughly in line with our estimate.

CORE FIGURES

EUR mn	9M/ 2006	9M/ 2005	y-o-y %	HVBe	Dev. %
Sales	68.7	53.3	29	68.6	0
EBIT	57.2	42.8	34	56.3	2
Margin (%)	83	80	3 pp	82	1 pp
Valuation result	5.1	-1.4		7.7	
EBT, excluding valuation result	30.3	21.9	38	30.1	1
Margin (%)	44	41	3 pp	44	0 pp
EBT	35.5	21.4	66	37.8	-6
Net income	30.2	13.7	121	29.5	2
EPS reported (EUR)	1.76	0.87	101	1.72	2
EPS before valuation result (EUR)	1.57	0.87	80	1.38	14

Sources: Deutsche EuroShop, HVB Global Research

Guidance was reaffirmed, but the disposal in Italy should offer substantial upside potential. The reaffirmation of guidance for 2006 is a logical consequence of the expected and solid operating performance. We have only made minor adjustments to our estimates. The planned disposal of the center in Viterbo, Italy, announced some months ago, might provide an additional earnings effect. On the basis of an estimated balance sheet value of EUR 45 mn (HVBe), we expect a significant earnings contribution equivalent to roughly 10% of this value (HVBe). The company announced that the disposal in the form of an auction has aroused great interest, which is not a surprise. Although management is confident of completing the disposal by year-end, we still have not factored the earnings effect into our prognosis for 2006. The after-tax effect is difficult to estimate on account of the dissolution of deferred taxes that has already taken place. At any rate, booking in 2006 should cause the guidance to be raised.

GUIDANCE FOR FY 2006

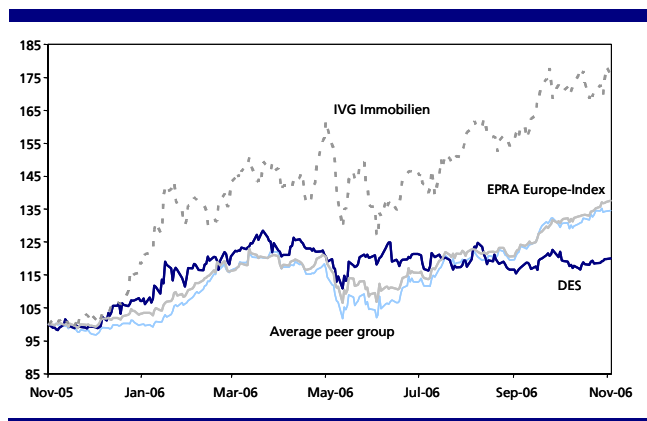
EUR mn	Guidance	HVBe	
		new	prev.
Sales	91-94	94.1	92.9
EBIT	72-75	75.1	74.9
EBT, excluding valuation result	37-40	40.1	40.0

Sources: Deutsche EuroShop, HVB Global Research

Further transactions planned for the year-end. Aside from the aforementioned disposal of the center in Italy, DES announced that it is currently doing its due diligence on the purchase of a further center with a volume of EUR 100 mn. It is still unclear whether a transfer is still possible in 2006 or only at the start of next year. The center concerned is a new building project in West Germany with an indicated initial rental yield that is less than 6%, but higher than the board's current estimate of market yields of 5% to 5.5%. Completion is due in 2008. This would further fill up DES's pipeline, aside from the centers currently being constructed in Gdansk (to open in fall 2007) and Hameln (spring 2008), and safeguard further growth in rental revenues for the years ahead. All the signs are that Hameln and Gdansk will be fully leased at the outset, since the pre-leasing levels are ready at 70% and 95%. Even if the disposal of Viterbo were to be delayed, we do not believe that a capital increase would be needed for the acquisition target mentioned. With that purchase, DES would, at EUR 225 mn, have markedly exceeded its investment target of EUR 100-150 mn per year, just as it did in the prior year.

We reaffirm our "Outperform" rating, and the price target of EUR 61. The European peer group with its focus on retail properties and the broader European property index EPRA have made substantial gains since June and outperformed the share of Deutsche EuroShop. The premium to the NAV 2007e in the European peer group is 23%, and, in a comparison of 40 European property securities, also roughly 23%. We do not believe that the relative 9% premium for DES is justified, in view of its portfolio strength and ongoing portfolio activities. For an imputed price/NAV multiple of 1.23, the fair value is EUR 61. Our long-term DDM model returns a fair price of EUR 58.40. A P/E comparison on the basis of the mean EPS 2006-2008 returns a figure of EUR 63.50. Overall, the price target remains unchanged at EUR 61. Together with an already flagged dividend of EUR 2.00 for 2006 (dividend-end yield currently 3.7%), we consider the DES share to be undervalued at its current price and simultaneous low risk profile.

PERFORMANCE COMPARISON



Sources: Thomson Financial Datastream, HVB Global Research

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 11/14/2006
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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

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, company data, HVB Global Research