

Deutsche EuroShop

Buy

EUR 57.65

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

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

andre.remke@hvb.de

Increase in NAV underlines high value of the center portfolio

Performance (01/31/07)	1W	1M	3M
Absolute (%)	-3.5	-3.5	2.1
Relative vs. Euro STOXX 50 (%)	-3.3	-3.3	0.7

Recommendation	
New: Buy	Previous: Buy

Price target	
New: EUR 64.00	Previous: EUR 61.00

Market cap. (EUR mn)	926.9
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	21-Jun-07
Bal. sheet press conf.	20-Apr-07
Q1	11-May-07

	2006e	2007e	2008e
Sales (EUR mn)	94.1	95.2	113.0
EBITDA (EUR mn)	87.9	76.5	91.2
EBITA (EUR mn)	87.9	76.5	91.2
EBIT (EUR mn)	87.9	76.5	91.2
Net income (EUR mn)	98.2	46.2	80.8
EPS reported (EUR)	5.71	2.69	4.70
NAVPS (EUR)	50.85	51.43	54.03
P/E (EPS reported)	9.4	21.4	12.2
EV/sales	16.8	18.6	16.5
EV/EBITDA	18.0	23.2	20.5
EV/EBITA	18.0	23.2	20.5
Dividend (EUR)	2.10	2.10	2.20
Div. yield (%)	3.9	3.7	3.8

Deutsche EuroShop (DES) presented strong preliminary figures for 2006 that were way above our estimates. High valuation gains in particular led to a strong increase in NAV of 10%. We see this as confirmation of the successful acquisition strategy as well as the high value of the entire shopping center portfolio. While the 2007 operating result will turn out to be lower due to lower property sales proceeds, there will again be a significant increase in revenues, operating earnings and net valuation gains in 2008 and 2009 based on the three centers that are currently under construction. We are raising our price target from EUR 61 to EUR 64 and confirming our Buy recommendation.

DES reported an excellent net result for 2006. Overall, DES is expecting consolidated earnings of around EUR 98 mn based on a preliminary projection that is 101% up on the previous year and 85% higher than our estimate. First, we had not yet included the sales proceeds from the Italian center (end of December). Second, at over EUR 70 mn, net valuation gains (before tax) by far exceeded our forecast of EUR 28.5 mn. The pure operating profit excluding property sales proceeds should be in line with our expectations at just below EUR 40 mn.

Divestment program successfully completed for the time being. As planned, DES sold two centers in Western Europe outside Germany in 2006 (France, Italy). We therefore believe the portfolio optimization has been completed to a large extent. DES is focusing on Germany (12 centers) and Central and Eastern Europe (4 centers) and on rental space of at least 25,000 m². The sale of the center in Italy has highlighted what multiples and net yields can be achieved at present. According to our calculation, the profit from the sale should have come to just over EUR 10 mn, from which we calculate sales proceeds of around EUR 55 mn and a rental return of just over 5%. We assume for the years ahead that DES will essentially expand the portfolio further and, if appropriate, try to increase shares in the existing portfolio. We are not expecting further divestments for the time being.

Increase in value underlines the high value of the portfolio. The high net valuation gains of over EUR 70 mn are based, on the one hand, on the first-time valuation of the center in Klagenfurt (Austria), which was opened in March 2006. We assume from this an upward revaluation of amortized acquisition and construction costs of just below EUR 20 mn. On the other hand, independent appraisers revalued the portfolio by 4.7% on average (HVBe: +1.3%). Although the timing of this is unexpected, in our view, it hardly comes as a surprise based on the quality of the centers and the current demand for shopping center properties. Overall, this underlines the company's successful acquisition policy and the high value of the portfolio.

Outlook for 2007 and 2008 is no surprise. For 2007 DES expects revenues and operating earnings excluding gains from property sales to be on the year-earlier level. This comes as no surprise based on the known performance of the portfolio. On account of the sales, proportionate revenues of around EUR 4.2 mn were sold, which will be compensated in part by the new center in Gdansk from autumn 2007 and the first full-year contribution from Klagenfurt (around EUR 3.2 mn). Together with the increase in operating rents, we are expecting an increase in revenues of 1.2% to EUR 95.2 mn. The new centers in Gdansk (opening 10/07), Hameln (3/08) and Passau (9/08) will lead to a 19% increase in revenues (HVBe) in 2008. Operating profit will move in line with this in 2007 (+0%) and 2008 (+26%).

We are raising our NAV estimate for 2007/08 and our earnings estimate for 2008. Based on the preliminary 2006 figures presented and allowing for the transactions in December (sale in Viterbo, purchase in Passau), we are adjusting our EPS estimate for 2006 from EUR 3.08 to EUR 5.71, are leaving our estimate for 2007 at EUR 2.69 and are expecting EUR 4.70 for 2008 (to date 3.31). The strong increase for 2008 is based on two factors: **1)** New investment in Passau and **2)** first-time valuation of two new centers (Hameln, Danzig) will probably lead to a significant initial valuation contribution again. According to DES, the NAV per share increased by 10% in 2006 to EUR 50.85 (HVBe: 48.05). Owing to the higher base, we see a NAV of EUR 51.43 for 2007 (previously: 49.61), i.e. an increase largely in line with the rental increase and a significant increase of 5% to EUR 54.03 (previously: 51.89) in 2008 owing to the first-time center valuations mentioned.

Increase in our price target from EUR 61 to EUR 64 underpins the Buy rating. Based on the increased earnings and NAV estimates, we are raising our price target by 5% to EUR 64. We still value the shares on the basis of a NAV valuation (EUR 63.80), a DDM (62.40) and a 3-year P/E (EUR 65.40).

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 02/01/2007
 Responsibility for its preparation lies with: Bayerische Hypo- und Vereinsbank AG, Am Tucherpark 16, 80538 Munich, Germany
 Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany

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Company	Date	Product	Rating	Price target
Deutsche EuroShop	12/06/2006	LP	Buy	61.00
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

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Company	Key
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