

**Company Flash**
**Real Estate**
**Germany**
**August 15, 2007**

## Deutsche EuroShop

### When will the focus shift to 2008?

- As expected, the H1 numbers from Deutsche EuroShop were not very spectacular.
- Overall, H1 went according to plan, so the guidance was confirmed.
- Because of the high year-ago basis (positive divestment effects), earnings will be down sharply in 2007.
- We, however, think the focus should increasingly shift to the considerable sales and earnings growth in 2008.
- The three new shopping centers will contribute to sales and earnings from 2008.
- The market environment continues to be dominated by strong demand for shopping centers. As a result, however, new acquisitions tend to be improbable in the short term.
- We are confirming our Buy rating. Because of the sector valuation, we are lowering our target price from EUR 32 to EUR 30.

	2004	2005	2006	2007e	2008e
Total revenues (EUR mn)	70.8	74.4	108.9	94.3	112.0
Rental income (EUR mn)	61.4	72.1	92.9	93.7	111.4
EBITDA (EUR mn)	49.7	57.5	86.3	73.7	89.0
Net income (EUR mn)	27.7	48.7	100.3	65.4	81.9
EPS reported (EUR)	0.89	1.54	2.92	1.90	2.38
NAVPS (EUR)	21.98	23.11	25.52	25.76	27.09
DPS (EUR)	0.96	1.00	1.05	1.05	1.10
ROE (%)	3.9	6.2	12.6	7.9	9.4
P/E (x)	19.8	14.2	9.2	12.7	10.1
P/CF (x)	19.7	40.8	23.6	54.6	52.2
P/BV (x)	0.91	0.99	1.22	1.05	1.00
P/NAV (x)	0.80	0.94	1.06	0.94	0.89
EV/EBITDA (x)	20.0	21.2	18.7	22.0	19.3
Div. yield (%)	5.5	4.6	3.9	4.3	4.5

Source: Company data, UniCredit Global Research

## Buy (prev. Buy)

Price on 08/14/07	EUR 24.18
Target price (prev. EUR 32.00)	EUR 30.00
Upside to TP	24.1%
Cost of equity	6.3%
High/Low (12M)	30.13/23.86

### INVESTMENT HIGHLIGHTS

Sole focus on attractive shopping centers  
 Stable cash flows ensured by full occupancy  
 High market demand for retail properties

### STOCK TRIGGERS

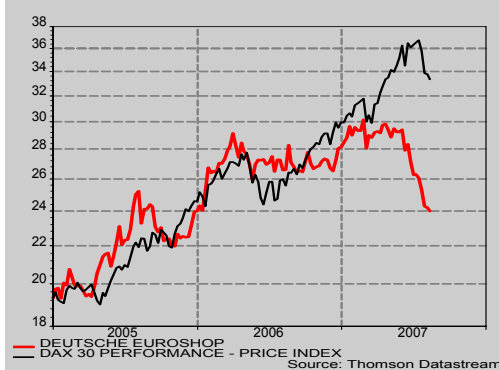
Attention should increasingly focus on 2008  
 New acquisitions not ruled out entirely

### STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	165.5
Free float (%)	80.7
Market capitalization (EUR bn)	0.9
No. of shares in issue (mn)	34.4
Shareholders	Otto family 19,3%

### UPCOMING EVENTS

Annual general meeting	Jun-08
9M/Q3	09-Nov-07
Preliminary figures	Feb-08



### RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	1.1	-13.8	-20.8
Euro STOXX 50	0.5	-9.4	-12.5
ES Financ. S.	4.1	-0.4	2.0

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## As expected, the H1 numbers were not very spectacular

### H1 numbers

According to the company, the first half of the year went as planned and, as expected, it was therefore not very spectacular. Sales were down 1% because of the divestment of two shopping centers. On a positive note, the comparable growth of the remaining centers was 3.2%. EBIT fell 3% to EUR 37.8 mn, adjusted for a positive effect from the sale of the center in France in the previous year 1.8%. EBT was down 35% because of the high valuation result in the year-ago period (positive consolidation and currency effects), but this was expected. Adjusted for this effect, the decline was 9%.

### KEY NUMBERS AT A GLANCE

EUR mn	H1/07	H1/06	y-o-y	UniCredit (E)	Dev.	Q2/07	Q2/06	y-o-y	UniCredit (E)	Dev.
Revenues	45.6	45.9	-1%	45.5	0%	23.0	23.1	0%	22.9	0%
EBIT	37.8	39.0	-3%	37.3	1%	19.0	19.8	-4%	18.5	3%
Margin %	83	85	-2 pp	82	1 pp	83	86	-3 pp	81	2 pp
EBT before valuation result	18.1	19.8	-9%	17.9	1%	9.5	10.1	-6%	9.2	2%
Margin %	40	43	-4 pp	39	0 pp	41	44	-2 pp	40	1 pp
Valuation result	0.2	8.2		0		0.3	2.1		0.1	
EBT	18.2	28.1	-35%	17.9	2%	9.8	12.2	-20%	9.4	4%
Net profit	13.5	23.9	-43%	13.4	1%	7.2	12.4	-42%	7.0	2%
EPS reported (EUR)	0.39	0.69	-43%	0.39	1%	0.21	0.36	-42%	0.20	2%

Source: Company data, UniCredit Global Research

### 2007 guidance unchanged

As expected, DES has confirmed its guidance for 2007. Sales are to be roughly at the year-ago level. Earnings will be down sharply because of the positive non-recurring effects from the sale of two centers in 2006.

### Positive tax effect expected in 2007

Up to the EBT level, we have made no changes to our forecast model based on the H1 report. We have, nevertheless, raised our estimate for EPS substantially. The backdrop here is a non-recurring positive earnings effect from the writing back of latent taxes, since these have to be shown at lower tax rates because of the corporate tax reform. The CEO expects roughly EUR 20 mn, which we reflect in the tax result in Q4. Our EPS estimate for 2007 increases from EUR 1.41 to EUR 1.90.

### GUIDANCE AT A GLANCE

EUR mn	2006	2007		2008	
	reported	guidance	UniCredit (E)	guidance	UniCredit (E)
Revenues	92.9	92-94	93.7	108-112	111.4
EBIT reported	86.3		73.7		89.0
EBIT (excl. divestment profits)	73.6	71-73	73.7	87-90	89.0
EBT reported	117.7		60.7		109.2
EBT (excl. valuation result)	36.1	30-32	31.7	42-44	43.2

Source: Company data, UniCredit Global Research

## Considerable sales and earnings growth in 2008/09

At the moment, DES has three construction projects under way. The first to open will be the Galeria Baltycka in Danzig (100% occupancy rate) at the beginning of October, and it will contribute to sales and earnings in Q4. The centers in Hameln (spring; 92% occupancy rate) and Passau (autumn; 70%) will follow in 2008. On this basis, we expect strong top-line growth in 2008 (+19%) and 2009 (+9%). Earnings will track this development. While in 2007 the capex for the current projects will still be a strain, we expect considerable earnings growth for 2008 and 2009. For EBT before the valuation result we expect an increase of in each case close on 40% p.a.

## **New acquisitions in 2007 tend to be improbable**

**Market environment characterized by strong demand**

In principle, DES' objective is to expand its portfolio by an average of EUR 100-150 mn p.a. However, management made it clear that the current market environment does not leave much scope for new investments. Demand for shopping centers is currently unbroken. Because of the rise in credit interest rates, DES has raised its minimum requirement for initial yields from 5% at the beginning of the year to 5.5%. While acquisitions cannot be ruled out entirely, we think it is improbable DES will remain on the sideline this year with these targets. Similar to the comments made recently by companies from the office/commercial real estate sector (DIC Asset, IVG Immobilien), the DES management also expects an increase in acquisition yields in the retail sector in 2008. One investment possibility for DES is to expand the Main-Taunus-Zentrum. The volume totals roughly EUR 35 mn, but the project is not expected to be completed until the end of 2009/beginning of 2010.

**Despite rise in interest rates, more favorable conditions for the entire portfolio**

One positive note is that DES can further reduce the average interest rate so far for the credit portfolio. Starting from 5.5%, this was lowered to roughly 5.35% as a result of follow-up financing. Furthermore, the current projects with a funding volume of EUR 130 mn were locked in for a 20-year period at 5.1%.

## **Valuation– Buy rating for 12M period valid**

We are confirming our Buy rating. However, we think the trigger for a strong share price gain is lacking in the short term. Investors are still tending to compare earnings in 2007 with 2006. Throughout the year, we think the focus should switch to the earnings growth expected in 2008. We expect positive effects for NAV above all in 2008 and 2009, when the three current projects will be valued for the first time. This will naturally result in a valuation gain, since the capex will hurt earnings until completion.

We value DES based on a NAV valuation (EUR 29.50), a dividend discount model (EUR 28.90) and a peer group comparison (EUR 31.50). Overall, we think the share is clearly undervalued. We are lowering our target price from EUR 32 to EUR 30 because of the lower sector valuations and a slightly higher interest rate in the DDM.

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Company	Date	Rating	Target price
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Deutsche EuroShop	12/06/2006	Buy	61.00
Deutsche EuroShop	08/14/2006	Outperform	61.00

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