

Deutsche EuroShop

EUR 59.11

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

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

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The dividend looks appealing in the short-term while the moderate valuation looks attractive in the mid-term

| Performance (05/22/07) | 1W | 1M | 3M |
|-------------------------------|-----|-----|------|
| Absolute (%) | 0.6 | 0.6 | -0.8 |
| Relative to Euro STOXX 50 (%) | 0 | 0 | -2.0 |

Rating

| | |
|----------|---------------|
| New: Buy | Previous: Buy |
|----------|---------------|

Price target

| | |
|----------------|---------------------|
| New: EUR 64.00 | Previous: EUR 64.00 |
|----------------|---------------------|

| | |
|-----------------------------|-----------------|
| Market cap. (EUR mn) | 926.9 |
| Free float (%) | 81 |
| Capital subscribed (EUR mn) | 22.0 |
| Number of shares (mn) | 17.2 |
| Shareholders | Family Otto 19% |
| Annual general meeting | 21-Jun-07 |
| H1/Q2 | 14-Aug-07 |
| 9M/Q3 | 09-Nov-07 |

| | 2006 | 2007e | 2008e |
|---------------------|-------|-------|-------|
| Sales (EUR mn) | 92.9 | 93.7 | 111.4 |
| EBITDA (EUR mn) | 86.3 | 74.0 | 88.7 |
| EBITA (EUR mn) | 86.3 | 74.0 | 88.7 |
| EBIT (EUR mn) | 86.3 | 74.0 | 88.7 |
| Net income (EUR mn) | 100.3 | 48.5 | 81.7 |
| EPS reported (EUR) | 5.84 | 2.82 | 4.75 |
| NAVPS (EUR) | 51.05 | 51.77 | 54.42 |
| P/E (EPS reported) | 9.2 | 21.0 | 12.4 |
| EV/sales | 17.3 | 19.3 | 17.1 |
| EV/EBITDA | 18.7 | 24.4 | 21.4 |
| EV/EBITA | 18.7 | 24.4 | 21.4 |
| Dividend (EUR) | 2.10 | 2.10 | 2.20 |
| Div. yield (%) | 3.9 | 3.6 | 3.7 |

We affirm our Buy rating and the price target of EUR 64 for DES shares. The AGM will take place on June 21. Here, a dividend of EUR 2.10 should be approved, which would amount to a tax-free dividend yield of some 3.6%. In the past few years the shares have regularly outperformed in the run-up to the dividend payment. Besides this short-term aspect we also see sound prospects for a positive company performance in the mid-term. While 2007 earnings will fall short of the previous year's level, the focus should be shifted to the significant profit increase in 2008 during the course of the year.

The importance of the profit outlook for 2007 will diminish. As expected, the Management Board confirmed the 2007 guidance upon release of Q1 figures. Revenues will roughly be on par with the prior year's value as two shopping centers were sold. At the same time, the acquisitions and the new opening made last year, as well as higher rental revenues, will merely offset the lack in rental income. Against the background of one-time capital gains of EUR 13 mn in 2006, the operating profit will drop at unchanged revenues and, adjusted for this effect, will largely remain at this level. The profit decline will be even more apparent when considering the valuation result. EBT including the previous year's high valuation result will, according to our model, come in at 45% below the 2006 figure. However, it has to be noted that the valuation result last year was very high due to the initial valuation of new centers. In 2007 it is probable that no centers will be revalued so that, according to our forecast, the valuation result will fall by 54%. In the scope of these initial valuations it has to be considered that the investments made during the construction phase are directly recognized as expenses in the P&L, explaining a potential profit from valuation. Overall, the reported profit for 2007 will be considerably lower, which should however, at least in our view, already be factored in the current valuation of the shares.

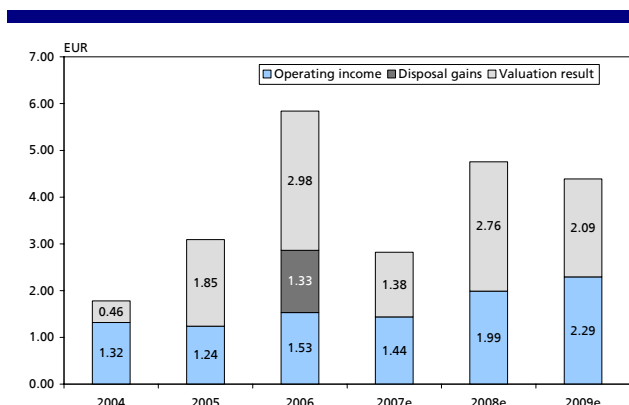
GUIDANCE VS. HVB FORECASTS

| EUR mn | 2006 | 2007 | | 2008 | |
|---------------------------------|-------|---------------|------|---------------|-------|
| | rep. | Guid- ance | HVBe | Guid- ance | HVBe |
| Rental income | 92.9 | 92-94 | 93.7 | 108-112 | 111.4 |
| EBIT reported | 86.3 | | 74.0 | | 88.7 |
| EBIT (excl. disposal gains) | 73.6 | 71-73 | 74.0 | 87-90 | 88.7 |
| EBT reported | 117.7 | | 64.9 | | 108.9 |
| EBT (excl. valuation result) | 36.1 | 30-32 | 31.9 | 42-44 | 42.9 |

Sources: Deutsche EuroShop, HVB Global Research

During the course of the year the focus will be increasingly shifted towards the significant earnings increase in 2008. There are currently three new shopping centers in the construction phase. In 2008 these centers will not only result in a significant increase in the operating profit but also in the valuation result. Overall, we estimate a rise in EPS from EUR 2.82 in 2007 to EUR 4.75 in 2008. As usual we have assumed that all three centers will be fully rented at the time of opening. In Gdansk the opening will take place in October (current preletting rates are 100%), in Hamelin the opening will take place in the spring 2008 (currently 75%) and in Passau in the fall 2008 (70%). For the first two centers the initial valuation should occur in 2008, while the Passau Center should be valued for the first time in 2009. We expect the focus to be increasingly shifted to 2008 during the further course of the year. We anticipate an EPS increase of 70% on the group level.

EPS



Sources: Deutsche EuroShop, HVB Global Research

Demand for shopping centers remains at a high level. After DES exceeded its own investment target of EUR 100-150 mn p.a. in the past two years, we expect the company to more than likely meet this volume in 2007. In the meantime the purchase price factors for attractive centers in Germany fell to more than 20 (of the annual net rent), or to considerably below 5%. Assuming financing costs of around 4.8% it becomes more and more diffi-

cult to justify investments. In light of the three centers currently under construction, the Management Board will, in our view, not expose itself to pressure to invest at excessive prices. The high demand rather emphasizes the attractiveness of the meanwhile established DES portfolio.

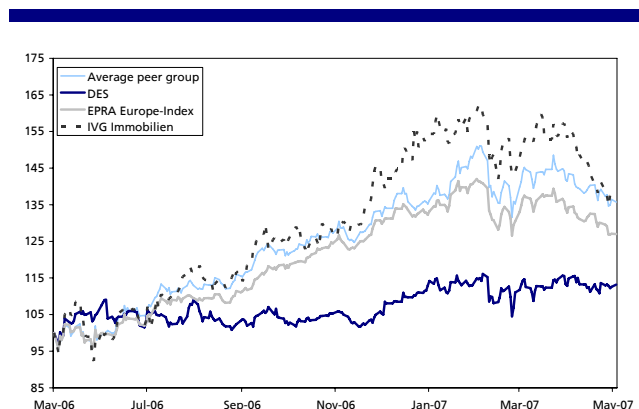
The dividend looks appealing in the short-term while higher earnings combined with the moderate valuation look attractive in the mid-term. On June 21, the AGM is set to approve a DPS of EUR 2.10. This amounts to a net dividend yield of 3.6% due to the tax-exempt status of the dividend (payout from the tax deposit account). Over the past few years an investment in the stock paid off. We analyzed the share's performance for the period of one month before the AGM and one month after. This analysis showed that, up to the date of the dividend discount, an increasingly positive performance became apparent. This discount was then made up for within one month only (see table). Beyond this rather short-term horizon, the moderate valuation (in our assessment) yields additional potential with a relatively moderate risk profile. We confirm our price target of EUR 64 and our Buy rating. The fair value has been calculated by way of a NAV valuation (15% on 2008 NAV yields EUR 64.70), a DDM (EUR 62.00) and a P/E analysis (P/E of 16.5 based on EPS 2007-2009).

PERFORMANCE BEFORE AND AFTER THE AGM

| AGM | Div. EUR | Price ex div. % | Performance (%) | | |
|----------|-------------|-----------------------|-------------------------|---------------------------------|-----------|
| | | | 1M pre AGM until AGM | 1M pre AGM until 1M post AGM | DAX 2M |
| 06/18/03 | 1.92 | -5 | 2 | 3 | 13 |
| 06/17/04 | 1.92 | -5 | 5 | 6 | 2 |
| 06/23/05 | 1.92 | -4 | 7 | 18 | 10 |
| 06/22/06 | 2.00 | -4 | 12 | 13 | 1 |

Sources: Thomson Financial Datastream, HVB Global Research

SHARE PRICE PERFORMANCE



Sources: Thomson Financial Datastream, HVB Global Research

This analysis was prepared by Mr. Andre Remke, CFA and was published the first time on 05/23/2007
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| Company | Date | Product | Rating | Price target |
|-------------------|------------|---------|------------|--------------|
| Deutsche EuroShop | 02/01/2007 | CF | Buy | 64.00 |
| 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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Sources: Thomson Financial Datastream, company data, HVB Global Research