

Quality which comes at a price

Deutsche EuroShop's 9M07 results did not produce any major surprises. We favour the good and stable quality of the portfolio. However, we also see limited upside at present; in particular compared to other European retail stocks which have higher I-f-I growth and significant development pipelines. As such, we believe Deutsche EuroShop is quite steeply valued, trading at a 9% FY08 P/NNAV and 3.8% FY08 CF yield. We fine-tune our Price Target from €24.5 to €24.7 but reiterate our Reduce rating.

- Results** Deutsche EuroShop's 9M07 results came out in line with expectations. Gross rental income came in at €68.9m (9M06: €68.7m), with net rental income at €58.2m (9M06: €58.3m). EBIT came in at €55.6m, slightly below last year's €57.2m due to €0.7m negative currency effects in 3Q and a €0.8m sales gain booked last year. EBT (excl. measurement gains/losses) came in at €25.8m, while CF was €25.7m or €0.75/share.
- External growth** Management does not expect to sign any acquisitions this year as it still sees prices well below its 5.5% net yield hurdle. Demand for prime quality shopping centres is still strong, but has shifted more to equity investors. Management added that it sees little potential in investing in higher-yielding retail parks, as these generally have rather unfavourable lease terms. The company is investigating potential co-investments in ECE development projects but does not expect news on this in the short term.
- Portfolio** Deutsche EuroShop showed a I-f-I rental growth of 2.9% on a y-o-y basis (1H07: 3.2%; 1Q07: 2.8%; E: 2.8% going forward), which is lower than its European retail peers. Pre-letting reached 76% for the Passau centre (opening autumn 2008) and 95% for the Hameln centre (opening March 2008). Management does not expect major movements in its €25.5 NAV by year-end, which seems fair given the 5.3% net yield on the portfolio.
- Outlook** Management slightly increased its outlook for FY07, which brings it in line with our expectations. The company is targeting gross rental income of €93-95m (was €92-94m; E: €94.8m), EBIT of €72-74m (was €71-73m; E: €76.8m) and EBT of €31-33m (was €30-32m; E: €33.2m). The outlook for FY08 remained unchanged at €108-112m rental income, €87-90m EBIT and €42-44m EBT respectively, which is in line with our expectations.
- Valuation** We appreciate the good quality of Deutsche EuroShop's portfolio, the high visibility on earnings and the realistic stance of management, which had not been lured into paying excessive prices at the peak of the market. However, we also see limited external and internal growth potential. Therefore, we believe the company is quite steeply valued, trading at a 9% FY08 P/NNAV, compared to e.g. Klepierre (-24%), Corio (-9%), Unibail-Rodamco (-17%), despite the large development pipelines and higher I-f-I growth of these companies. Moreover, the 3.8% FY08 CF yield (5.8% European sector average) is rather low too. We fine-tune our Price Target from €24.5 to €24.7 and reiterate our Reduce rating.

Rating

REDUCE

Price target (12m) **€24.7**

Closing price (8 November 2007) **€27.0**

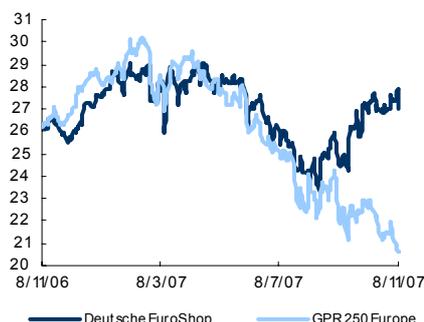
Expected total return **-4.5%**

Date **10 November 2007**

Fiscal Year	2006	2007E	2008E	2009E
Net rental income (€m)	76.7	80.7	94.4	103.8
EBITDA (€m)	73.6	76.8	89.2	99.9
Net Income (€m)	65.9	38.9	21.4	20.1
Recurring CF p/s (€)	0.94	0.96	1.03	1.10
Indirect result p/s (€)	1.98	1.23	0.55	0.41
EPS (€)	2.92	2.18	1.58	1.51
Dividend (€)	1.05	1.05	1.08	1.11
NNAV (€)	23.16	24.30	24.82	25.26
P/NNAV-1	16.6%	11.0%	8.7%	6.8%
EBITDA/EV	4.6%	4.3%	4.6%	4.8%
Recurring CF Yield	3.5%	3.5%	3.8%	4.1%
Earnings Yield	10.8%	8.1%	5.9%	5.6%
Dividend Yield	3.9%	3.9%	4.0%	4.1%

Source: Company Data, Kempen & Co Estimates

DEQ GY vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	0.4%	11.0%	3.0%
Rel. to GPR 250 Europe	11.1%	23.8%	31.2%

Source: Factset

Company data

52-Week range	€23.22 - 30.09
Market cap	€927.09m
Number of shares	34.4m
Average daily volume	122,640
Free float	79%

Company data

Bloomberg / Reuters	DEQ GY / DEQn.DE
Next announcement	18 April 2008
	FY 2007 Turnover Results

Analyst

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Deutsche EuroShop

Property ■ Germany

Income Statement (Year to 31 Dec)	2005	2006	2007E	2008E	2009E	2010E
Gross rental income	72.1	92.9	94.8	110.2	120.9	131.6
Operating costs	-12.3	-16.2	-14.2	-15.8	-17.2	-18.6
Net rental income	59.8	76.7	80.7	94.4	103.8	113.0
Sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Costs of sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Sales result (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Overhead costs	-4.6	0.0	0.0	0.0	0.0	0.0
Other income	2.3	1.2	1.2	1.2	1.2	1.3
Other costs	0.0	-4.2	-5.1	-6.5	-5.1	-5.4
EBITDA	57.5	73.6	76.8	89.2	99.9	108.9
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	57.5	73.6	76.8	89.2	99.9	108.9
Net financial	-39.3	-41.0	-43.6	-49.6	-51.9	-56.4
EBT	18.2	32.7	33.2	39.6	48.0	52.5
Taxes	-1.0	-0.5	-0.3	-2.0	-4.8	-5.2
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment result	17.2	32.2	32.8	37.6	43.2	47.2
Sales result	0.0	12.7	0.0	0.0	0.0	0.0
Revaluation Property	49.9	72.3	22.8	27.1	23.3	20.2
Taxation on revaluation	-18.5	-16.9	-10.3	-7.2	-7.0	-6.7
Revaluation financial instruments	0.0	0.0	29.7	0.0	0.0	0.0
Total indirect investment result	31.5	68.1	42.2	20.0	16.3	13.5
Net profit	48.7	100.3	75.0	57.5	59.6	60.7

Per share data	2005	2006	2007E	2008E	2009E	2010E
Number of shares	34.4	34.4	34.4	38.5	40.4	42.8
Average number of shares	31.6	34.4	34.4	36.4	39.4	41.6
Direct investment result per share	0.55	0.94	0.96	1.03	1.10	1.13
Indirect investment result per share	1.00	1.98	1.23	0.55	0.41	0.33
EPS (IFRS)	1.54	2.92	2.18	1.58	1.51	1.46
CFPS (recurring)	0.55	0.94	0.96	1.03	1.10	1.13
Dividend per share	1.00	1.05	1.05	1.08	1.11	1.13
Payout ratio %	183%	112%	110%	105%	101%	100%
NNAV per share	21.08	23.16	24.30	24.82	25.26	25.62
NAV per share	23.11	25.53	26.09	26.62	27.14	27.55

Balance sheet	2005	2006	2007E	2008E	2009E	2010E
Investment property	1,138.3	1,452.0	1,614.2	1,836.6	1,955.6	2,147.8
Developments	71.9	155.3	186.6	113.3	158.3	158.3
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed assets	116.8	45.6	45.6	45.6	45.6	45.6
Total fixed assets	1,327.0	1,652.9	1,846.4	1,995.5	2,159.5	2,351.7
Receivables	2.1	4.5	4.5	4.5	4.5	4.5
Cash and banks	197.2	95.9	76.3	61.0	47.5	33.6
Other current assets	17.3	42.9	42.9	42.9	42.9	42.9
Total current assets	216.6	143.3	123.7	108.4	94.9	81.0
Total assets	1,543.6	1,796.2	1,970.1	2,103.9	2,254.5	2,432.7
Shareholders' equity	724.7	796.3	835.2	954.7	1,021.1	1,096.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	724.7	796.3	835.2	954.7	1,021.1	1,096.0
Provisions	79.0	101.0	81.6	88.8	95.8	102.5
Long interest bearing debt	613.8	752.1	906.4	913.5	990.7	1,087.3
Other long term liabilities	65.3	102.0	102.0	102.0	102.0	102.0
Total long term liabilities	758.2	955.2	1,090.1	1,104.4	1,188.6	1,291.9
Short term debt	50.5	28.5	28.5	28.5	28.5	28.5
Other current liabilities	10.2	16.3	16.3	16.3	16.3	16.3
Total current liabilities	60.7	44.8	44.8	44.8	44.8	44.8
Total equity and liabilities	1,543.6	1,796.2	1,970.1	2,103.9	2,254.5	2,432.7

Financing Ratio's	2005	2006	2007E	2008E	2009E	2010E
Equity-to-assets %	46.9%	44.3%	42.4%	45.4%	45.3%	45.1%
Net gearing %	64.5%	86.0%	102.8%	92.3%	95.2%	98.7%
Interest cover	1.5	1.8	1.8	1.8	1.9	1.9

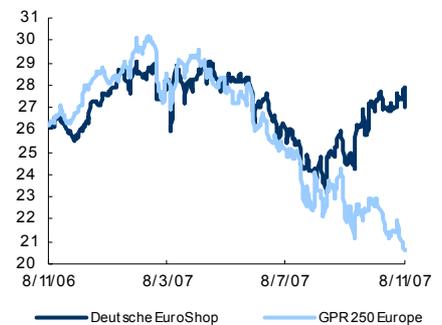
Valuation	2005	2006	2007E	2008E	2009E	2010E
Enterprise value	1,219.9	1,612.8	1,785.8	1,918.4	2,062.0	2,236.2
Market Cap	752.8	928.1	927.1	1,037.4	1,090.3	1,153.9
P/NAV-1	3.9%	16.6%	11.0%	8.7%	6.8%	5.3%
EBITDA/EV	4.7%	4.6%	4.3%	4.6%	4.8%	4.9%
Recurring Cash Flow Yield	2.5%	3.5%	3.5%	3.8%	4.1%	4.2%
Earnings Yield	7.0%	10.8%	8.1%	5.9%	5.6%	5.4%
Dividend Yield %	4.6%	3.9%	3.9%	4.0%	4.1%	4.2%

Model updated: 10 November 2007

Rating

REDUCEPrice target (12m) **€24.7**Closing price (8 November 2007) **€27.0**Expected total return **-4.5%**Date **10 November 2007****Company description**

Deutsche EuroShop invests in shoppingcenters in Germany, Poland, Austria and Hungary.

Website: www.deutsche-euroshop.de**DEQ GY vs GPR 250 Europe**

Total Return Performance (%)	-1m	-3m	-12m
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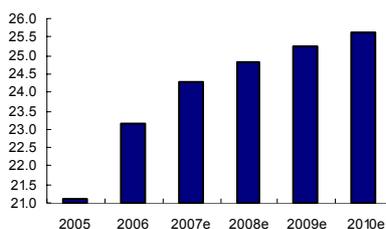
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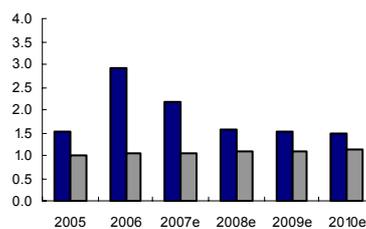
NNAV

EPS & Dividends

Equity-to-assets

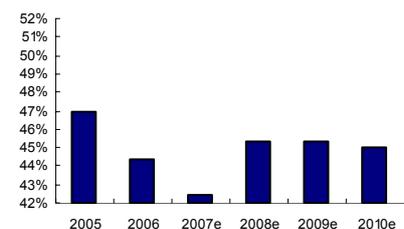


■ NNAV



■ EPS

■ DVPS



■ Equity-to-assets%

Source: Company Data, Kempen & Co



Disclosures

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Regulatory disclosure

Company mentioned in this report
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Recommendation structure

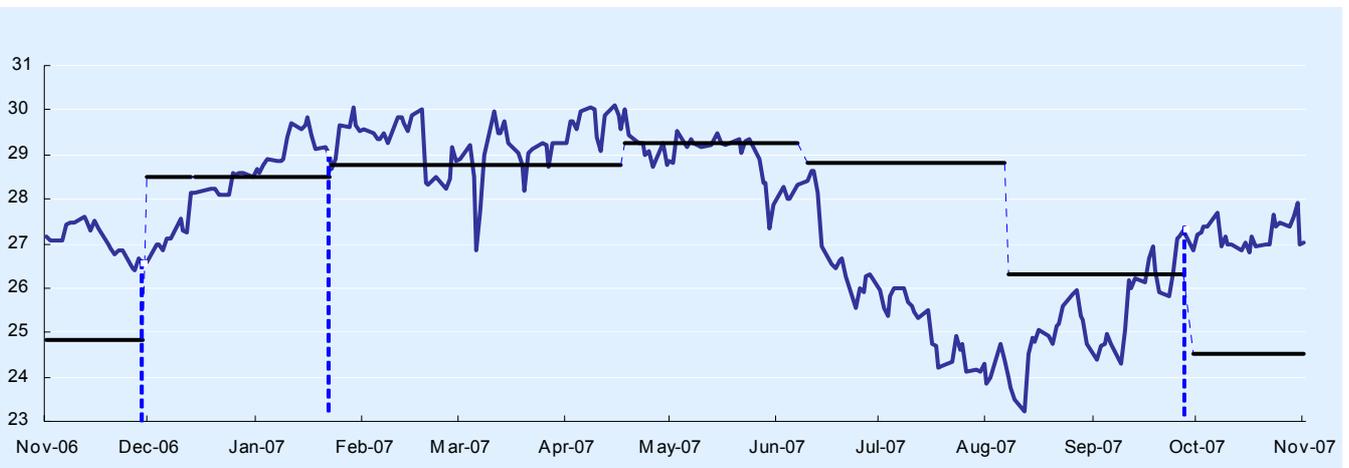
Definitions	
Method	Combination of cash flows, NNAVs, relative valuation and our fair value analysis. The Kempen & Co equity fair value analysis calculates the returns the company is expected to generate going forward. If these returns exceed the returns that are perceived as 'fair', we consider the company's fair value to be higher than the NNAV and vice versa.
Sell	Expected negative total return of 20% or more on a 12 month basis.
Reduce	Expected negative total return of 5% or more on a 12 month basis.
Neutral	Expected total return between 5% to -5% on a 12 month basis.
Add	Expected positive total return of 5% or more on a 12 month basis.
Buy	Expected positive total return of 20% or more on a 12 month basis.
Under review	Rating and/or price target are under review in case there is insufficient basis for determining a rating and/or price target.
Not rated	Rating and price target are suspended because of Kempen & Co's engagement in an investment banking transaction and in certain other circumstances.
Price Target	Expected share price in 12 months.

Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
BUY	6 (12%)	0%
ADD	26 (53%)	81%
NEUTRAL	13 (27%)	14%
REDUCE	4 (8%)	5%
SELL	0 (0%)	0%
Total	49 (100%)	100%

Stock price, price target and recommendation history

Deutsche EuroShop (DEQ GY)			
Date	Close	Price target	Rating
06-Oct-07	27.31	24.50	REDUCE
31-Jan-07	28.67	28.75	NEUTRAL
08-Dec-06	26.58	28.51	ADD
07-Feb-06	25.48	23.51	REDUCE



Analyst coverage: Remco Simon
Source: Kempen & Co, Factset



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