

Company Flash
Real Estate
Germany
August 14, 2008

Deutsche EuroShop

One further potential investment this year

- Deutsche EuroShop published H1 figures well in line with our and consensus expectations.
- Rental income was up by 21% to EUR 55.2 mn (UniCredit (E) 54.9 mn) and EBIT up by 22% to EUR 46.0 mn (UniCredit (E): 45.4 mn), both based on the new centers in Hameln and Gdansk. The like-for-like rental growth was 2%. As expected, there was a positive valuation result from the appreciation of the Eastern European currencies (PLN, HUF) of EUR 4.4 mn (UniCredit (E): EUR 2.3 mn). Together with the lower tax rate, this resulted in a net profit increase of 60% to EUR 21.6 mn (UniCredit (E): EUR 20.0 mn). Overall, again a solid set of figures.
- DES is on track to reach the confirmed guidance of EUR 110-113 mn (revenues), EUR 90-92 mn (EBIT) and EUR 43-45 mn (EBT). As always, the earnings guidance did not include revaluation results.
- The company is still optimistic to meet the investment targets of EUR 150-200 mn for this year. Following the EUR 75 mn project Dresden Altmarktgalerie, there is one more concrete EUR 120-140 mn project in Germany in the pipeline with a potential yield of ca. 5.8%. Financing costs would be currently at ca. 5.4%. After that, we do not expect a further investment due to limited equity.
- We slightly adjust our TP to EUR 25 and confirm our Hold rating. Due to the relative outperformance this year, we do not see an immediate short-term trigger for a share price increase.

	2005	2006	2007	2008e	2009e
Gross rental income (EUR mn)	72.1	92.9	95.8	113.3	122.7
EBITDA (EUR mn)	57.5	86.3	77.2	92.4	101.1
Net income (EUR mn)	48.7	100.3	94.2	52.6	58.9
EPS reported (EUR)	1.54	2.92	2.74	1.53	1.71
EPS diluted (EPRA) (EUR)	0.62	0.76	0.91	1.09	1.25
NAVPS (EUR)	23.11	25.52	26.91	27.70	28.62
DPS (EUR)	1.00	1.05	1.05	1.15	1.20
ROE (%)	6.9	13.2	11.4	6.0	6.6
P/E reported (x)	14.2	9.2	10.0	15.1	13.5
P/Cash earnings (x)	40.0	20.7	25.1	17.6	15.3
P/FFO diluted (x)	32.6	28.1	24.6	18.0	15.4
P/NAV (x)	0.94	1.06	1.01	0.83	0.81
EV/EBITDA (x)	21.2	19.8	23.8	19.1	17.3
Div. yield (%)	4.6	3.9	3.9	5.0	5.2

Sources: Company data, UniCredit Global Research

Hold (prev. Hold)

Price on 08/13/08	EUR 23.07
Target price (prev. EUR 26.50)	EUR 25.00
Upside to TP	8.4%
Cost of equity	7.7%
High/Low (12M)	28.34/21.61

INVESTMENT HIGHLIGHTS

Clear focus on attractive shopping centers
 Stable generation of cash flows and dividends
 Solid financing and capital structure

STOCK TRIGGERS

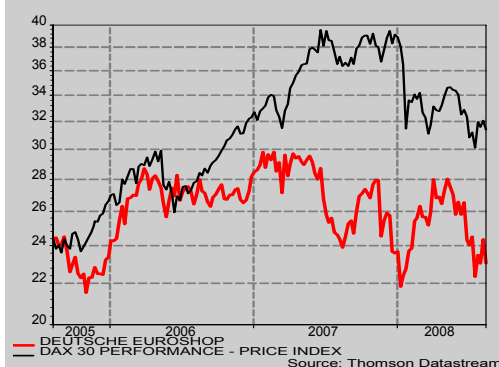
Low risk profile supports share price
 One further investment expected after a pause
 JV with ECE in the field of development

STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	128.1
Free float (%)	80.7
Market capitalization (EUR bn)	0.9
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.5%

UPCOMING EVENTS

Annual general meeting	Jun-09
9M/Q3	14-Nov-08
Key data	Feb-09



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	-6.1	-6.1	2.6
Euro STOXX 50	-6.6	-3.0	6.5
ES Financ. S.	-7.7	7.2	16.6

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KEY FIGURES H1

EUR mn	H1/08	H1/07	y-o-y %	UniCredit (E)	Dev. %
Revenues	55.2	45.6	21	54.9	1
EBITDA	46.0	37.8	22	45.4	1
Margin (%)	83	83	1 pp	83	1 pp
EBIT	50.4	37.9	33	47.7	6
EBT excl. valuation result	21.9	18.1	21	22.2	-1
Margin (%)	40	40	0 pp	40	-1 pp
Valuation result	4.4	0.2		2.3	
EBT	26.3	18.2	44	24.4	8
Net income	21.6	13.5	60	20.0	8
EPS reported (EUR)	0.63	0.39	60	0.58	8
EPS excl. valuation result (EUR)	0.56	0.39	44	0.53	-1

Sources: Company data, UniCredit Global Research

Guidance confirmed

As expected, DES confirmed its guidance for FY 2008 and 2009. We still believe that the company will reach or probably slightly beat the given targets. However, it is important to mention that the guidance does not include any valuation results, which will occur from the revaluation of properties at year end.

GUIDANCE

EUR mn	2007		2008		2009	
	rep.	Guidance	UniCredit (E)	Guidance	UniCredit (E)	
Revenues	95.8	110-113	113.3	119-121	122.7	
EBIT (excl. revaluation/disposals)	77.2	90-92	92.4	100-102	101.2	
EBT (excl. revaluation/disposals)	37.7	43-45	45.1	49-51	51.7	
EBT reported	77.8		63.3		71.0	

Source: Company data, UniCredit Global Research

Valuation

We are sticking to our Hold rating and are lowering the target price to EUR 25.00. We only moderately changed our assumptions in our DDM and Economic profit model (slightly higher cost of debt). We also did a peer group comparison with the European retail property companies. This shows that after one year's outperformance there is still no clear undervaluation to see. All three models produce a fair value of EUR 25.28. We stick to our Hold rating for the time being.

VALUATION OVERVIEW

EUR	Fair value	Weighting %
Economic profit (ROCE) model	26.54	50
Dividend discount model	23.35	25
Peer group valuation (2009e)	24.68	25
Fair value (weighted)	25.28	
Target price (t+12M)	25.00	
Current share price	23.07	
Valued at:	Target price	Current
Share price	25.00	23.07
Dividend yield 2008e (%)	4.6	5.0
Price/NAV 2008e	0.90	0.83
P/E ratio 2009e	14.6	15.1
FFO yield 2009e (%)	5.1	5.5
Return on cash earnings 2009e (%)	5.3	5.7

Source: UniCredit Global Research

PEER GROUP – EUROPEAN RETAIL PROPERTY COMPANIES – FAIR VALUE FOR DES

EUR	2008e	2009e	Average	Potential %
P/E	24.53	26.31	25.42	10
P/NAV	20.78	21.19	20.98	-9
EV/EBITDA	24.85	28.72	26.79	16
Dividend yield	21.98	22.51	22.25	-4
Average	23.04	24.68	23.86	3

Source: Thomson Financial, UniCredit Global Research

DIVIDEND DISCOUNT MODEL

		2008e	2009e	2010e	2011e
Dividend	EUR	1.15	1.20	1.25	1.28
y-o-y	%	9.5	4.3	4.2	2.0
Beta		0.71			
Risk-free rate	%	4.50			
Risk premium	%	4.50			
Discount factor	%	7.67			
CAGR dividend 2008e-2011e	%	3.5			
Dividend growth rate after 2011	%	2.0			
NPV dividend	EUR	1.08	1.05	1.01	0.96
Sum NPV until 2011e	EUR	4.10			
NPV terminal value	EUR	17.59			
Value of equity per share	EUR	21.69			
Fair value (t+12M)		23.35			

Sensitivity analysis

Discount factor	CAGR dividend after 2011e				
	1.00	1.50	2.00	2.50	3.00%
6.17%	24.59	26.77	29.47	32.91	37.42
6.67%	22.42	24.18	26.32	28.97	32.35
7.17%	20.60	22.05	23.78	25.88	28.49
7.67%	19.05	20.26	21.69	23.39	25.45
8.17%	17.72	18.75	19.94	21.34	23.01
8.67%	16.57	17.44	18.45	19.61	20.99
9.17%	15.55	16.30	17.16	18.15	19.30

Source: UniCredit Global Research

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-	-

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Company	Date	Rating	Currency	Target price
Deutsche EuroShop	07/10/2008	Hold	EUR	26.50
Deutsche EuroShop	05/14/2008	Hold	EUR	30.00
Deutsche EuroShop	04/30/2008	Buy	EUR	30.00
Deutsche EuroShop	02/19/2008	Buy	EUR	29.00
Deutsche EuroShop	08/15/2007	Buy	EUR	30.00

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