

Still looking expensive

Deutsche EuroShop's FY07 results contained few surprises. Interestingly however, management indicated it had witnessed net initial yields in the market move out from sub 5% in November to c5.5% at present. The company signed a JV with ECE for a first-time early stage development project. However, trading at a 4.5% FY08E CF yield and 8% premium to FY07 NNAV, we still believe Deutsche EuroShop is expensive compared to its European retail peers. We reiterate our €23.9 PT and Reduce rating.

- No surprises in FY07 results** Deutsche EuroShop's FY07 results Friday contained few surprises, as the company had already published preliminary figures in February. We estimate FY07 recurring CFPS was €1.09, while the company published an NAV of €26.9. L-f-I rental growth was 3.0% for FY07.
- Moving towards developments** Deutsche EuroShop has signed a 50/50 JV with ECE for a development project in Germany with a potential volume of c€200m. In the next three years the company expects to spend €15-20m on the project, which is currently still in the planning phase. Management is negotiating a second ECE JV project abroad, but indicated it would only proceed with the projects if a 6.0% net initial yield and 10% development gain were feasible. As yet the company is unable to provide further details, but we understand both centres could potentially open in 2012.
- Market yields increasing rapidly** Deutsche EuroShop aims to invest €150-200m this year, either in existing or new shopping centres. In November, management commented that it had witnessed deals in the market at 4.8% net yields, well below the company's 5.5% hurdle for acquisitions. However, management commented that it now sees acquisition opportunities again in Germany which do meet the 5.5% hurdle. This implies that initial yields on shopping centres have moved out at least 50bps in the last half year and are back at 2006 levels. Furthermore, management indicated that its financing spreads had widened from 37 to 70-80bps in the last few months.
- Outlook** Deutsche EuroShop reiterated its FY08 targets and published first-time FY09 targets, which are both in line with our estimates. The company expects €110-113m rental income for FY08 and €119-121m for FY09. Furthermore, EBIT is expected to come out at €90-92m for FY08 and €100-102m for FY09. EBT is targeted at €43-45m and €49-51m for FY08 and FY09 respectively. We estimate c2.5% l-f-l rental growth p.a. going forward, compared to <2% included in management's own forecasts.
- Valuation** We appreciate the stability of income and portfolio quality, but we still believe that the share is too expensive compared to its European retail peers. Deutsche EuroShop is trading at a 4.5% FY08E CF yield, compared to e.g. 5.3% and 5.5% for Corio and Unibail-Rodamco. Moreover, Deutsche EuroShop is trading at an 8% premium to FY07 NNAV (vs. e.g. Klepierre and Unibail-Rodamco at a 2% and 6% discount), while its 5.4% valuation yield does not seem too conservative anymore now that it can buy at 5.5% again. Therefore, we reiterate our €23.9 Price Target and Reduce rating.

Rating

REDUCE

Price target (12m) **€23.9**

Closing price (18 April 2008) **€27.1**

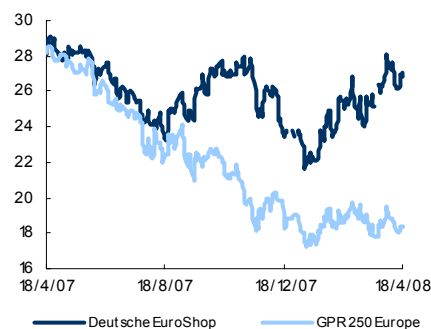
Expected total return **-7.9%**

Date **21 April 2008**

Fiscal Year	2007	2008E	2009E	2010E
Net rental income (€m)	80.3	96.1	104.2	109.6
EBITDA (€m)	77.2	92.8	100.8	106.1
Net Income (€m)	94.2	3.0	40.5	43.5
Recurring CF p/s (€)	1.09	1.22	1.34	1.43
Indirect result p/s (€)	1.65	-1.13	-0.16	-0.17
EPS (€)	2.74	0.09	1.18	1.27
Dividend (€)	1.05	1.16	1.27	1.36
NNAV (€)	25.04	24.08	24.10	24.09
P/NNAV-1	-6.2%	12.5%	12.4%	12.4%
EBITDA/EV	4.8%	5.2%	5.5%	5.6%
Recurring CF Yield	4.6%	4.5%	4.9%	5.3%
Earnings Yield	11.7%	0.3%	4.3%	4.7%
Dividend Yield	4.5%	4.3%	4.7%	5.0%

Source: Company Data, Kempfen & Co Estimates

DEQ GY vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	4.9%	2.27%	-4.5%
Rel. to GPR 250 Europe	2.4%	19.9%	49.4%

Source: Factset

Company data

52-Week range	€21.67 - 30.09
Market cap	€930.87m
Number of shares	34.4m
Average daily volume	131,536
Free float	79%

Company data

Bloomberg / Reuters	DEQ GY / DEQGn.DE
Next announcement	14 May 2008
	Q1 2008 Turnover Results

Analyst

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Deutsche EuroShop

Property ■ Germany

Income Statement (Year to 31 Dec)	2006	2007	2008 E	2009 E	2010 E	2011 E
Gross rental income	92.9	95.8	114.4	123.1	129.4	136.0
Operating costs	-16.2	-15.4	-18.3	-18.9	-19.8	-20.8
Net rental income	76.7	80.3	96.1	104.2	109.6	115.2
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	0.0	0.0	0.0	0.0	0.0	0.0
Other income	1.2	1.1	1.1	1.1	1.1	1.1
Other costs	-4.2	-4.2	-4.3	-4.5	-4.6	-4.7
EBITDA	73.6	77.2	92.8	100.8	106.1	111.6
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	73.6	77.2	92.8	100.8	106.1	111.6
Net financial	-37.5	-39.4	-50.0	-53.8	-55.8	-57.0
EBT	36.1	37.7	42.8	47.0	50.3	54.6
Taxes	-0.5	-0.4	-0.9	-0.9	-1.0	-1.1
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	35.6	37.4	41.9	46.0	49.2	53.5
Sales result	12.7	0.0	0.0	0.0	0.0	0.0
Revaluation Property	72.3	50.8	-42.9	-2.9	-3.1	25.6
Taxation on revaluation	-16.9	16.7	3.9	-2.6	-2.6	-7.4
Revaluation financial instruments	0.0	-10.7	0.0	0.0	0.0	0.0
Total indirect investment result	68.1	56.8	-38.9	-5.5	-6.7	18.2
Net profit	103.8	94.2	3.0	40.5	43.5	71.8

Per share data	2006	2007	2008 E	2009 E	2010 E	2011 E
Number of shares	34.4	34.4	34.4	34.4	34.3	34.3
Average number of shares	34.4	34.4	34.4	34.4	34.4	34.3
Direct investment result per share	1.04	1.09	1.22	1.34	1.43	1.56
Indirect investment result per share	1.98	1.65	-1.13	-0.16	-0.17	0.53
EPS (IFRS)	3.02	2.74	0.09	1.18	1.27	2.09
CFPS (recurring)	1.04	1.09	1.22	1.34	1.43	1.56
Dividend per share	1.05	1.05	1.16	1.27	1.36	1.48
Payout ratio %	101%	97%	95%	95%	95%	95%
NNAV per share	23.16	25.04	24.08	24.10	24.09	24.82
NAV per share	25.53	26.91	25.83	25.93	26.00	26.95

Balance sheet	2006	2007	2008 E	2009 E	2010 E	2011 E
Investment property	1,452.0	1,658.2	1,810.3	1,826.9	1,943.6	1,990.3
Developments	155.3	144.4	32.4	67.4	7.4	7.4
Financial fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Other fixed assets	45.6	36.7	36.7	36.7	36.7	36.7
Total fixed assets	1,652.9	1,839.2	1,879.3	1,931.0	1,987.6	2,034.3
Receivables	4.5	3.2	3.2	3.2	3.2	3.2
Cash and banks	95.9	109.0	96.9	84.9	72.2	60.2
Other current assets	42.9	25.0	25.0	25.0	25.0	25.0
Total current assets	143.3	137.1	125.0	113.0	100.3	88.3
Total assets	1,796.2	1,976.3	2,004.3	2,044.0	2,087.9	2,122.6
Shareholders' equity	796.3	860.8	827.7	828.3	827.4	852.4
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	796.3	860.8	827.7	828.3	827.4	852.4
Provisions	101.0	89.9	86.0	88.6	91.2	98.6
Long interest bearing debt	752.1	849.3	914.3	950.7	992.9	995.2
Other long term liabilities	102.0	113.8	113.8	113.8	113.8	113.8
Total long term liabilities	955.2	1,052.9	1,114.0	1,153.1	1,197.9	1,207.6
Short term debt	28.5	46.7	46.7	46.7	46.7	46.7
Other current liabilities	16.3	15.9	15.9	15.9	15.9	15.9
Total current liabilities	44.8	62.6	62.6	62.6	62.6	62.6
Total equity and liabilities	1,796.2	1,976.3	2,004.3	2,044.0	2,087.9	2,122.6

Financing Ratios	2006	2007	2008 E	2009 E	2010 E	2011 E
Equity-to-assets %	44.3%	43.6%	41.3%	40.5%	39.6%	40.2%
Net gearing %	86.0%	91.4%	104.4%	110.2%	116.9%	115.2%
Interest cover	2.0	2.0	1.9	1.9	1.9	2.0

Valuation	2006	2007	2008 E	2009 E	2010 E	2011 E
Enterprise value	1,649.9	1,594.8	1,795.0	1,843.3	1,897.4	1,911.7
Market Cap	928.1	937.1	930.9	930.9	930.0	930.0
P/NNAV-1	21.2%	-6.2%	12.5%	12.4%	12.4%	9.1%
EBITDA/EV	4.5%	4.8%	5.2%	5.5%	5.6%	5.8%
Recurring Cash Flow Yield	3.7%	4.6%	4.5%	4.9%	5.3%	5.8%
Earnings Yield	10.8%	11.7%	0.3%	4.3%	4.7%	7.7%
Dividend Yield %	3.9%	3.9%	4.3%	4.7%	5.0%	5.5%

Model updated: 21 April 2008

REDUCE

Rating

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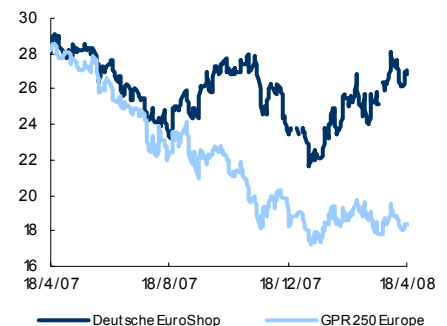
Date 21 April 2008

Company description

Deutsche EuroShop invests in shopping centers in Germany, Poland, Austria and Hungary.

Website: www.deutsche-euroshop.de

DEQ GY vs GPR 250 Europe



Total Return Performance (%)	-1 m	-3m	-12m
Absolute	4.9%	22.7%	-4.5%
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Source: Factset

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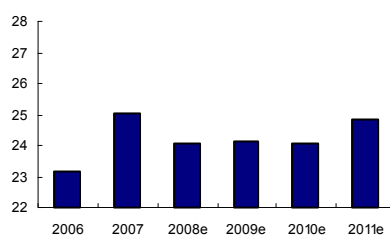
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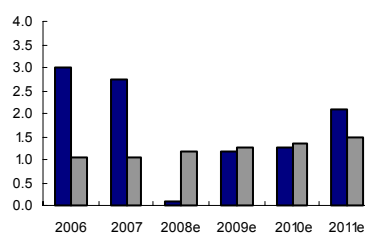
NNAV

EPS & Dividends

Equity-to-assets

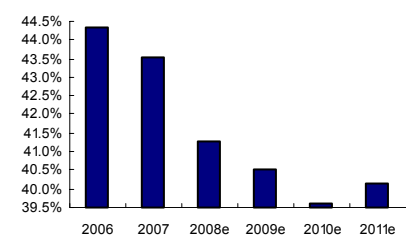


■ NNAV



■ EPS

■ DVPS



■ Equity-to-assets %

Source: Company Data, Kempen & Co



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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.

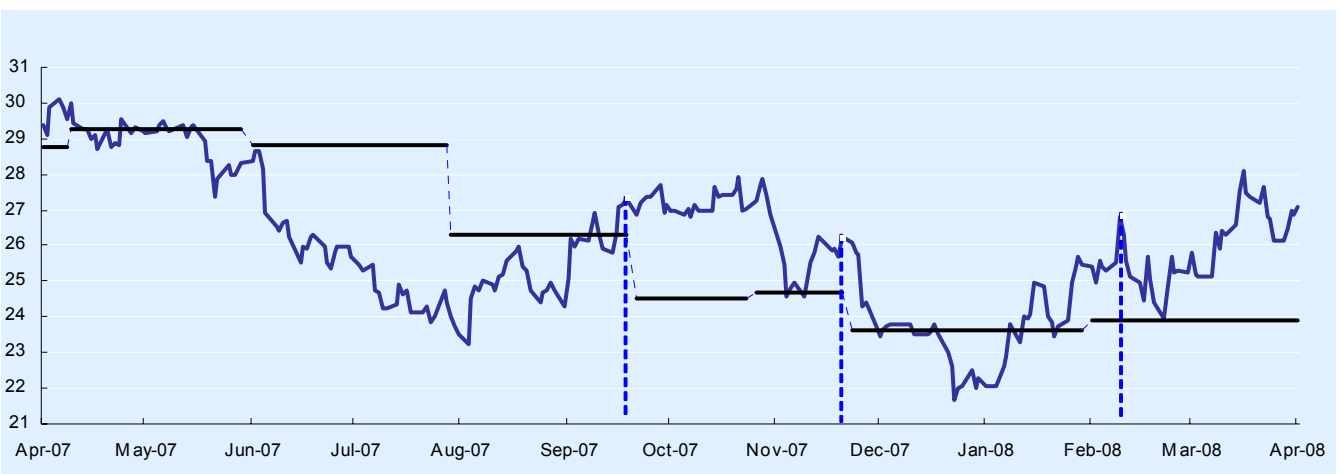
Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
BUY	9 (18%)	0%
ADD	15 (30%)	41%
NEUTRAL	20 (40%)	47%
REDUCE	5 (10%)	6%
SELL	1 (2%)	6%
Total	50 (100%)	100%

Stock price, price target and recommendation history

Deutsche EuroShop (DEQ GY)

Date	Close	Price target	Rating
27-Feb-08	26.32	23.90	REDUCE
09-Dec-07	26.23	23.60	NEUTRAL
06-Oct-07	27.31	24.50	REDUCE
31-Jan-07	28.67	28.75	NEUTRAL



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



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