

Deutsche Euroshop

Real Estate

11 May 2007

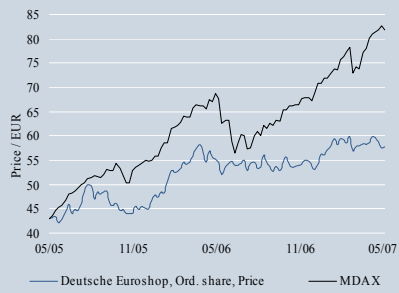
Applied disclosures can be found in the appendix

Buy

Fair Value EUR62.00

Price EUR57.65 (Closing price as of 05/10/2007)

Price and rel. Performance



Market Data

Reuters	DEQn.DE
Bloomberg	DEQ GR
Market cap €bn	1.0
Free float %	81.0

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	181.2	140.5	205.4
Net Profit m	28.0	8.1	14.8
Adj. EPS	5.84	2.95	5.84
PER	9.3	19.6	9.9
EV/EBIT	10.2	15.8	11.6
EBIT mgn. %			
EPS CAGR (06/05-07/06, "0"), "%")			

Next Events

Quarterly results	05/11/2007
AGM	06/21/2007
Quarterly results	08/14/2007

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STABLE Q1 FIGURES ON THE OPERATING LEVEL, VALUATION DISCOUNT NOT JUSTIFIED

INVESTMENT CASE AND PERFORMANCE TRIGGER

Deutsche Euroshop (DEQ) is the leading German retail property stock with a high-quality portfolio of 16 malls. The investment markets for shopping centers esp. in Germany are so strong that we regard DEQ as well positioned taking also the attractive development pipeline into account where the company is currently working on. We reiterate our **buy** rating and increase the fair value to €62.

FACTS

___ Despite of the sale of two malls in France and Italy, DEQ was able to keep revenues and EBIT almost stable and close to our estimates and consensus (revenues: Q107: €22.6m, est.: €22.5m, Q106: €22.8m, EBIT: Q107: €18.7m, est.: €17.9, Q106: €19.0m). The main reason is the increase of rents within the existing portfolio of 2.8%, which reflects the stable GDP development in Germany and the attractiveness of DEQ's portfolio.

___ Bottom line was down by 45% to €6.3m (est.: €6.3m) due to a one-off revaluation gains of €6.2m in Q106 because of the increase in the stake in one mall, which lead to a change in consolidation.

___ Attractive pipeline: DEQ is currently working on three new malls, whereof two will be opened in 2008 but all three show a high pre-letting quota (70-100%).

___ Guidance confirmed: DEQ sticks to its targets in EBIT of €71-73m, a decrease to 2006 (€86.3m). High capital gains from disposal led to this strong earnings growth.

ASSESSMENT

___ The published figures reflect the positive fundamentals, where DEQ is benefiting from the stable GDP growth and consumer spending. The recurrent income from rents could increase even further for FY2007.

___ We follow DEQ's defensive buy-and-hold strategy but would appreciate if the company were a bit more aggressive as otherwise it is very difficult to reach the investment volume of €100-150m for 2007 for new malls given the ongoing strong demand for German malls.

VALUATION

___ We strongly reiterate our buy rating and increase the fair value to €62 due to 1) attractive underlying figures, 2) strong pipeline with a very visible valuation impact in 2008, 3) valuation discount in P/NAV06 12% and P/NAV07e 9% compared to > 30% of DEQ's peers and 4) the strong demand for retail properties and esp. malls in Germany making DEQ a potential takeover candidate. Altogether, this leads to €62 as new fair value and we explicitly reiterate our buy rating.

Deutsche Euroshop - P&L

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Rental income	72.1	92.4	94.3	114.1	117.1
Revaluation of investment properties	49.9	72.3	42.5	85.6	45.5
Other income	2.3	16.4	3.7	5.7	5.7
Total income	124.3	181.2	140.5	205.4	168.3
Real estate operating expenses	12.3	16.2	19.1	24.5	25.1
Other operating expenses	4.6	6.3	6.7	7.0	7.3
Total operating expenses	16.9	22.5	25.8	31.5	32.5
EBITDA	107.4	158.6	114.8	173.9	135.8
EBITDA (excl. revaluation)	57.5	86.3	72.3	88.3	90.3
EBIT	107.4	158.6	114.8	173.9	135.8
Interest income	2.2	2.3	2.4	2.4	2.5
Interest expenses	33.6	38.9	42.8	49.2	50.7
Other financial income	-7.9	-4.4	-4.6	-4.8	-5.1
EBT	68.1	117.7	69.8	122.3	82.6
Taxes	19.4	17.4	19.1	22.0	23.1
Adjusted net profit	48.7	100.3	50.6	100.4	59.5
Net profit	-1.2	28.0	8.1	14.8	14.0
Net profit after minorities	48.7	100.3	50.6	100.4	59.5
Total operating income	74.4	108.9	98.0	119.8	122.8
Operating costs	16.9	22.5	25.8	31.5	32.5

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Number of total shares	17.2	17.2	17.2	17.2	17.2
EPS (reported)	2.83	5.84	2.95	5.84	3.46
adj. EPS	2.83	5.84	2.95	5.84	3.46
Dividend	2.00	2.10	2.10	2.16	2.16
Net asset value per share	46.22	51.05	52.68	54.87	57.88
Growth rates %					
Revenues change	57.8	45.7	-22.4	46.2	-18.1
EBITDA	86.0	47.6	-27.7	51.6	-21.9
EBIT	86.0	47.6	-27.7	51.6	-21.9
EBT change	82.9	72.7	-40.7	75.4	-32.5
Net profit	84.3	105.9	-49.5	98.2	-40.7
adj. EPS	59.6	106.0	-49.5	98.2	-40.7
Margins %					
ROE incl. Revaluation effect	-0.2	3.7	1.0	1.8	1.6
ROE excl. Revaluation effect	7.2	13.2	6.3	12.0	6.8
Expense ratios %					
Other ratios					
Interest cover	3.2	4.1	2.7	3.5	2.7
Equity ratio %	46.9	44.3	41.7	37.3	35.8
Gearing %	88.8	113.5	129.2	158.9	171.4
Net financial debt / EBITDA	5.7	4.7	7.6	6.2	9.3
Net yield investment properties	nm	nm	nm	nm	nm

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3

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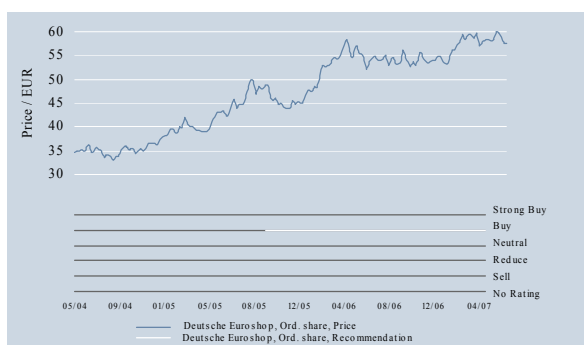
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Reduce	34	9.9	1	2.0
Sell	0	0.0	0	0.0
No rating	25	7.3	3	6.1

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