

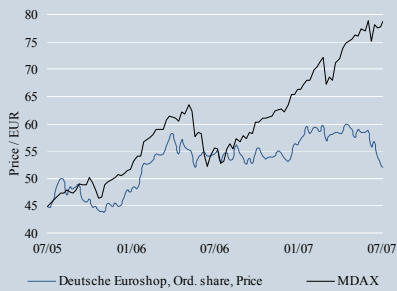
Deutsche Euroshop

Real Estate

5 July 2007

Applied disclosures can be found in the appendix

Price and rel. Performance



Market Data

Reuters	DEQn.DE
Bloomberg	DEQ GR
Market cap €bn	0.9
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	17.6	8.9
EV/EBIT	10.2	14.9	11.1
EBIT mgn. %			
EPS CAGR (2006-2007)	-41.6%		

Next Events

Quarterly results	08/14/2007
Quarterly results	11/09/2007

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Strong buy (Buy)

Fair Value EUR60.00

Price EUR51.98 (Closing price as of 07/03/2007)

DISCOUNT ON P/NAV07E NOT JUSTIFIED

INVESTMENT CASE AND PERFORMANCE TRIGGER

Deutsche Euroshop (DEQ) is the only listed German retail property stock and manages a high-quality portfolio of 16 malls primarily in Germany. The demand for German retail real estate is great, with the expectation of ongoing economic strength, while esp. shopping centers find high interest among investors and consumers similarly.

FACTS

DEQ yesterday announced the topping-out ceremony of the Hamelin mall to open in spring 2008. It is already pre-let by 90%.

DEQ has recently confirmed its outlook for FY 2007 with EBIT of €71-73m and 2008 with €87-90m to come out at the upper end.

The share price has suffered despite there being no negative news. We see that the real estate sector in general, and the German retail sector in particular, has come down due to the higher interest rate levels and the strong yield compression for German retail properties.

Economic underlying remains attractive and DEQ benefits directly from a higher turnover in its malls.

ASSESSMENT

The net yield on DEQ's portfolio comes to 5.4%, significantly above the markets' level of 4.6-4.8%.

In Q1, DEQ's German shopping centers, showing an increase in retail sales of 5.3%, outperformed compared to total retail, which only grew by 0.5%. This again reflects the high attractiveness of shopping centers from the consumers' perspective in general but of DEQ's malls in particular, as they are located close to the city center.

VALUATION

DEQ is currently trading at a NAV06 that came out at €51.05 and at a discount to our forecasted NAV of €52.68.

We do not regard this discount as justified compared to the peers' P/NAV of > 20%.

Due to DEQ's tax-transparent structure, the stock can already be regarded as a REIT today and offers a tax-free dividend yield of 4%.

The higher interest level is less risky for DEQ, due to its fixed financial liabilities of 82% for more than five years.

Given the stable economic fundamentals, DEQ's sound development pipeline and confirmed earnings outlook, and the discount in valuation to its peers, we upgrade the stock to **strong buy** at €60 FV.

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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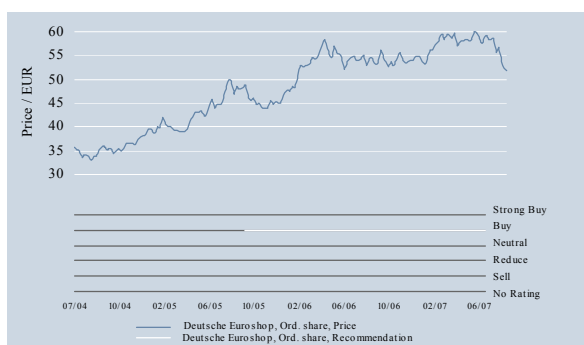
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