

**Company Flash**
**Real Estate**
**Germany**
**November 9, 2007**

## Deutsche EuroShop

### Nothing spectacular but solid

- Deutsche EuroShop reported 9M figures basically in line with expectations.
- The company slightly increased its guidance for revenues, EBIT and clean EBT by one million EUR. Our estimates were already within the new guidance range. We made only a few minor adjustments to our model. For FY 2007, DES will propose a dividend of EUR 1.05.
- Demand for shopping centers remains high – consequently, so do prices for existing and new buildings. Achievable yields are still 10% below DES's required net initial yield of ca. 5.5%. Therefore, new investments will not take place this year.
- However, this means that there should be no pressure on valuations for the existing portfolio at year end.
- The stock has outperformed the weak real estate sector (Germany and Europe) ytd and in recent months, especially due to its low risk profile, solid financing structure and the ongoing high demand for shopping centers. For the time being, we stick to our Buy rating. However, the remaining upside to our unchanged target price of EUR 30 is limited.

	2004	2005	2006	2007e	2008e
Total revenues (EUR mn)	70.8	74.4	108.9	95.2	112.7
Rental income (EUR mn)	61.4	72.1	92.9	94.4	111.7
EBITDA (EUR mn)	49.7	57.5	86.3	73.9	89.7
Net income (EUR mn)	27.7	48.7	100.3	72.2	82.1
EPS reported (EUR)	0.89	1.54	2.92	2.10	2.39
NAVPS (EUR)	21.98	23.11	25.52	25.85	27.19
DPS (EUR)	0.96	1.00	1.05	1.05	1.10
ROE (%)	3.9	6.2	12.6	8.7	9.4
P/E (x)	19.8	14.2	9.2	12.8	11.3
P/CF (x)	19.7	40.8	23.6	50.8	46.0
P/BV (x)	0.91	0.99	1.22	1.16	1.10
P/NAV (x)	0.80	0.94	1.06	1.04	0.99
EV/EBITDA (x)	20.0	21.2	18.7	23.4	20.2
Div. yield (%)	5.5	4.6	3.9	3.9	4.1

Source: Company data, UniCredit Global Research

## Buy (prev. Buy)

Price on 11/08/07	<b>EUR 26.95</b>
Target price (prev. EUR 30.00)	<b>EUR 30.00</b>
Upside to TP	11.3%
Cost of equity	6.1%
High/Low (12M)	30.13/23.18

### INVESTMENT HIGHLIGHTS

**Sole focus on attractive shopping centers**  
**Stable cash flow ensured by full occupancy**  
**Still high market demand for retail properties**

### STOCK TRIGGERS

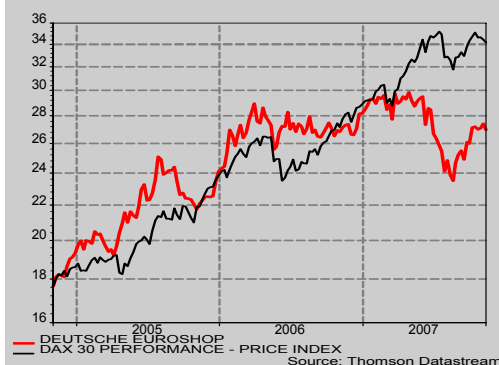
**Attention should increasingly focus on 2008**  
**New acquisitions currently unlikely**  
**Attractive, assured dividend**

### STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	152.4
Free float (%)	80.7
Market capitalization (EUR bn)	0.9
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.3%

### UPCOMING EVENTS

Annual general meeting	19-Jun-08
Bal. sheet press conf.	18-Apr-08
Q1	14-May-08



### RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	1.4	7.7	-8.7
Euro STOXX 50	1.1	10.6	-2.6
ES Financ. S.	3.8	13.3	8.7

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## Solid 9M figures and slight increase of the guidance

### 9M review

The reported figures showed only marginal deviations to our forecasts. Revenues were flat y-o-y but were up by 2.9% on a like-for-like basis. EBIT was down 3% due to expenses for the three current development projects. Net income showed a strong increase y-o-y, mainly due to a positive tax effect of EUR 23.8 mn in Q3. Due to the German tax reform, the corporate tax rate will decrease from 25% to 15%. DES had to write down a portion of the deferred tax provisions created in previous years.

### KEY FIGURES Q3/9M

EUR mn	9M/07	9M/06	y-o-y %	UniCredit (E)	Dev. %	Q3/07	Q3/06	y-o-y %	UniCredit (E)	Dev. %
Revenues	68.9	68.7	0	68.6	0	23.2	22.9	2	22.9	1
EBIT	55.6	57.2	-3	55.3	1	17.8	18.1	-2	17.5	2
Margin %	81	83	-2 Pp	81	0 Pp	77	79	-3 Pp	76	0 Pp
EBT excl. valuation result	25.9	28.1	-8	26.0	0	7.8	8.2	-5	7.9	-2
Margin %	38	41	-3 Pp	38	0 Pp	34	36	-2 Pp	35	-1 Pp
Valuation result	-0.3	5.1		-0.5		-0.4	-3.1		-0.7	
EBT	25.6	33.2	-23	25.5	0	7.4	5.2	43	7.3	1
Net income	44.5	30.2	47	43.4	2	31.0	6.3	390	29.9	4
EPS reported (EUR)	1.29	0.88	47	1.26	2	0.90	0.18	390	0.87	4
EPS excl. valuation result (EUR)	1.30	0.79	65	1.27	2	0.91	0.27	237	0.89	3

Source: Deutsche EuroShop, UniCredit Global Research

### New guidance

DES slightly increased its guidance for revenues, EBIT and clean EBT by ca. EUR 1 mn. Our estimates were already within the new guidance range. In the conference call, the CEO stated that the upper end of these ranges is likely to be reached. However, there are always some remaining uncertainties with respect to the current development projects.

### GUIDANCE

EUR mn	2006	2007		2008	
	rep.	Guidance	UniCredit (E)	Guidance	UniCredit (E)
Revenues	92.9	93-95	94.4	108-112	111.7
EBIT (excl. result on disposals)	73.6	72-74	73.9	87-90	89.7
EBT (excl. valuation result)	36.1	31-33	32.1	42-44	43.3

Source: Deutsche EuroShop, UniCredit Global Research

### Earnings increases in 2008/09

We made only a few minor adjustments to our model. Overall, earnings will be lower this year, due to positive one-offs (disposals) and a higher valuation gain last year. This year, no new center will be valued. This will happen in 2008 (Gdansk, Hameln) and in 2009 (Passau). Together with the additional rental income contributions from these new centers, earnings will increase strongly in 2008 and 2009.

### CHANGES IN ESTIMATES

EUR mn	2006		2007e		2008e		2009e	
	rep.	new	prev.	Dev.	new	prev.	Dev.	new
Revenues	92.9	94.4	93.7	1	111.7	111.4	0	121.5
y-o-y %	29	2	1		18	19		9
EBIT	86.3	73.9	73.7	0	89.7	89.0	1	97.6
y-o-y %	50	-14	-15		21	21		9
EBT incl. valuation result	117.7	61.1	60.7	1	105.3	109.2	-4	96.3
y-o-y %	52	-49	-48		71	77		-9
Net income	100.3	72.2	69.1	4	82.1	81.9	0	75.1
y-o-y %	106	-28	-31		14	19		-9
EPS reported	2.92	2.10	2.01	4	2.39	2.38	0	2.18
EPS excl. valuation result	1.43	1.47	1.40	5	0.98	1.00	-2	1.07

Source: Deutsche EuroShop, UniCredit Global Research

**Retail parks or project developments – not a short-term topic**

**Still a lack of new investment opportunities**

Demand for shopping centers – and consequently prices for existing and new buildings – remains high. Achievable yields are still 10% below DES's required net initial yield of ca. 5.5%. Therefore, new investments will not occur this year. For 2008, DES sticks to its general target to increase the portfolio by 10% via new investments. One opportunity was mentioned some months ago: to enter a new business field, e.g. retail parks. Despite the fact that no final decision has been made, the CEO currently sees the segment as not very attractive (lease contracts are too long, not enough rental potential, unattractive yields at the moment). Overall, we think DES will continue to focus purely on shopping centers. A second possible opportunity to invest is the area of own project development. It could make sense to invest in projects at an earlier stage than before. This could mean more attractive investment opportunities and higher margins. The CEO stated that this topic will only be the focus of a possible JV with ECE and that the company could test this with one or two projects.

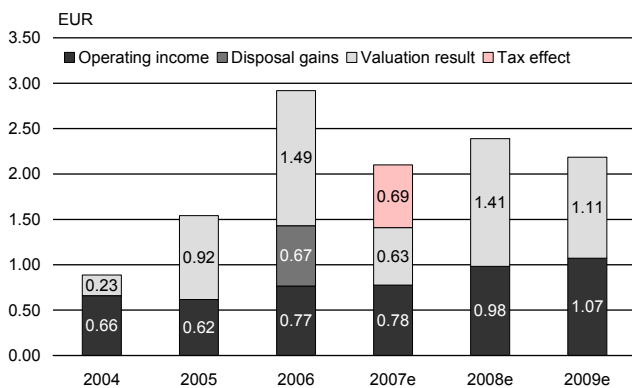
**TP of EUR 30 unchanged**

**Buy rating stands for the time being**

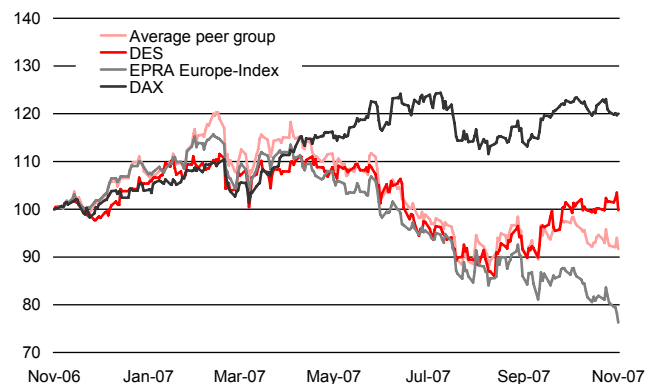
The stock has outperformed the weak real estate sector (Germany and Europe) ytd and in recent months, especially due to the low risk profile, solid financing structure and the remaining high demand for shopping centers. For the time being, we stick to our Buy rating. However, the remaining upside to our unchanged target price of EUR 30 is limited. The TP is based on a NAV valuation and a dividend discount model.

**EPS AND SHARE PRICE PERFORMANCE**

Increasing operating EPS in 2008 and 2009



Share price performance – 12 months



Source: Deutsche EuroShop, Thomson Datastream, UniCredit Global Research

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-	-

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Company	Date	Rating	Currency	Target price
Deutsche EuroShop	08/15/2007	Buy	EUR	30.00
Deutsche EuroShop	02/01/2007	Buy	EUR	64.00
Deutsche EuroShop	12/06/2006	Buy	EUR	61.00
Deutsche EuroShop	11/14/2006	Outperform	EUR	61.00

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