

Company Flash
Real Estate
Germany
January 7, 2009

Deutsche EuroShop

Target price reached – downgrade to Hold

- **We downgrade the stock from Buy to Hold.** Following our upgrade to Buy two months ago, the share price has increased by 37% (DAX: +3%; EPRA Europe: -3%) and reached our target price.
- **Valuation:** DES was the best performing real estate stock last year (+5%; EPRA Germany: -55%; EPRA Europe: -51%), which was based on the stable generation of cash flows in combination with a solid financing and capital structure. We would argue that this will continue to be the case. However, this is now more or less priced in. Our NAV estimate of EUR 26 for 2009 means that the stock currently trades at this level compared to a discount of ca. 30% for the European peer group (retail property shares). Therefore, we think that the upside potential is limited for the time being.
- **Increased stake in existing center:** DES raised its stake in the shopping center in Kassel from 40% to 90% by acquiring the stake from Arcandor. Only the investment volume of EUR 53 mn has been disclosed. However, due to the financial situation of the German retailer, we think that DES could achieve a very attractive acquisition yield on the investment. No capital increase is needed for the investment; however, the next investment could require a capital measure, in our view.
- **Changes in estimates:** Due to the new investment, we increase our estimates for rental income for 2009 and 2010. Therefore, we expect a higher guidance for 2009 within the next few months. On the other hand, we are more cautious about the valuation result for 2008 and 2009, as the investment market will certainly stay weak for the time being and could drive yields higher. Our NAV estimates are: 2008 EUR 27.05 (prev.: 27.74); 2009 EUR 25.53 (prev.: 28.75).

	2005	2006	2007	2008e	2009e
Gross rental income (EUR mn)	72.1	92.9	95.8	114.3	125.7
EBITDA (EUR mn)	57.5	86.3	77.2	93.8	103.6
Net income (EUR mn)	48.7	100.3	94.2	33.9	-13.3
EPS reported (EUR)	1.54	2.92	2.74	0.99	-0.39
EPS diluted (EPRA) (EUR)	0.62	0.76	0.91	1.12	1.28
NAVPS (EUR)	23.11	25.52	26.91	27.05	25.53
DPS (EUR)	1.00	1.05	1.05	1.05	1.15
ROE (%)	6.9	13.2	11.4	3.9	-1.6
P/E reported (x)	14.2	9.2	10.0	26.4	-67.1
P/Cash earnings (x)	40.0	20.7	25.1	19.2	16.8
P/FFO diluted (x)	32.6	28.1	24.6	19.7	16.9
P/NAV (x)	0.95	1.06	1.01	0.96	1.02
EV/EBITDA (x)	21.2	19.8	23.8	19.9	18.3
Div. yield (%)	4.6	3.9	3.9	4.0	4.4

Source: Company data, UniCredit Research

Hold (prev. Buy)

Price on 01/06/09	EUR 26.00
Target price (prev. EUR 25.00)	EUR 26.00
Upside to TP	0.0%
Cost of equity	7.6%
High/Low (12M)	28.34/18.55

INVESTMENT HIGHLIGHTS

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

STOCK TRIGGERS

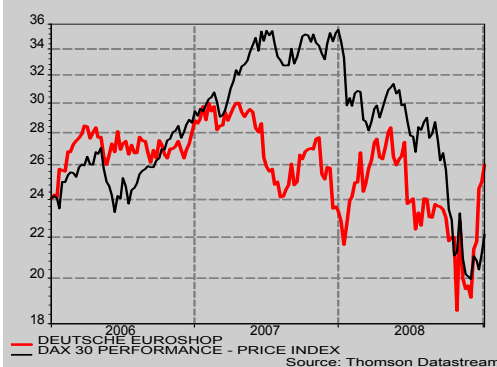
Low risk profile already priced in, in our view
 Next investment probably requires a capital increase
 Release of prelim. figures/valuation result expected

STOCK DATA

Reuters/Bloomberg	DEQn.F/DEQ GR
Average daily volume (tds.)	141.1
Free float (%)	80.5
Market capitalization (EUR bn)	0.9
No. of shares issued (mn)	34.4
Shareholders	Otto family 19.5%, Attfund Ltd 5.3%, free float 75.2%

UPCOMING EVENTS

Annual general meeting	30-Jun-09
BPC, AC	24-Apr-09
Q1	14-May-09



RELATIVE PERFORMANCE (% CHG.)

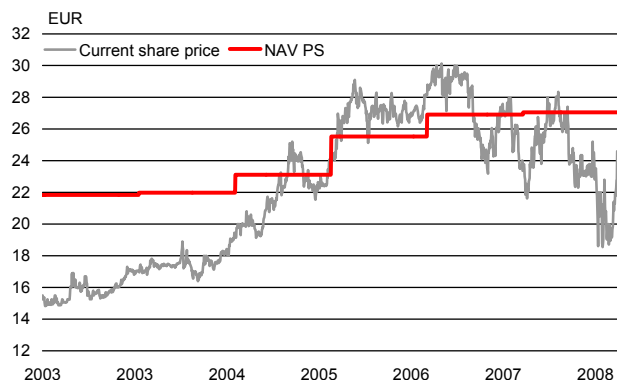
	1M	3M	6M
DAX	16.3	24.9	26.9
Euro STOXX 50	16.5	28.3	28.3
ES Financ. S.	20.4	31.2	36.3

Andre Remke, CFA (HVB)

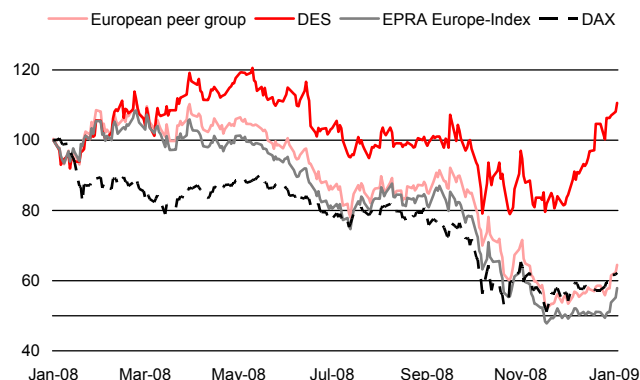
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PERFORMANCE OVERVIEW

Strong share price rebound to NAV level



Share price with relative strength



Source: Company data, Thomson Datastream, UniCredit Research

CONSOLIDATED INCOME STATEMENT

		2005	2006	2007	2008e	2009e
Total revenues	EUR mn	133.4	184.6	147.6	109.7	57.7
Total expenses	EUR mn	-26.0	-25.9	-19.6	-21.7	-23.3
EBIT	EUR mn	107.4	158.6	127.9	88.1	34.5
Gross rental income	EUR mn	72.1	92.9	95.8	114.3	125.7
Property op./managment costs	EUR mn	-12.3	-16.2	-15.4	-17.3	-18.9
as a percentage of rental income	%	17.1	17.4	16.1	15.1	15.0
Net rental income (NOI)	EUR mn	59.8	76.7	80.3	97.1	106.9
as a percentage of rental income	%	82.9	82.6	83.9	84.9	85.0
Profit on disposal of investment properties	EUR mn	0	14.8	0	0	0
Other operating income	EUR mn	2.3	1.2	1.1	1.1	1.1
Other operating expenses	EUR mn	-4.6	-6.3	-4.2	-4.4	-4.4
EBITDA (DES defin.: EBIT)	EUR mn	57.5	86.3	77.2	93.8	103.6
as a percentage of total revenues	%	43.1	46.8	52.3	85.5	179.4
Valuation result	EUR mn	49.9	72.3	50.8	-5.7	-69.1
EBIT	EUR mn	107.4	158.6	127.9	88.1	34.5
as a percentage of total revenues	%	80.5	86.0	86.7	80.3	59.7
Income from investments	EUR mn	5.0	1.9	1.5	1.6	1.7
Net financial result	EUR mn	-44.3	-42.9	-51.6	-48.9	-52.2
EBT	EUR mn	68.1	117.6	77.8	40.8	-16.0
as a percentage of total revenues	%	51.1	63.7	52.7	37.2	-27.8
EBT excl. revaluation	EUR mn	18.2	45.3	27.1	46.5	53.1
Taxes	EUR mn	-19.4	-17.4	16.3	-6.9	2.7
Income tax rate	%	28.5	14.8	-21.0	17.0	17.0
Profit for the period	EUR mn	48.7	100.3	94.2	33.9	-13.3
as a percentage of total revenues	%	36.5	54.3	63.8	30.9	-23.1
Minority interests	EUR mn	0	0	0	0	0
Earnings after minority interests	EUR mn	48.7	100.3	94.2	33.9	-13.3
Adj. net income (direct investment result)	EUR mn	19.5	26.1	31.2	38.6	44.0
Indirect investment result	EUR mn	29.2	74.2	63.0	-4.7	-57.3
Funds from operation (FFO)	EUR mn	21.1	33.0	38.2	45.3	52.7
EPS reported	EUR	1.54	2.92	2.74	0.99	-0.39
EPS reported/diluted	EUR	1.54	2.92	2.74	0.99	-0.39
EPS diluted (EPRA)	EUR	0.62	0.76	0.91	1.12	1.28
FFOPS basic	EUR	0.67	0.96	1.11	1.32	1.53
FFOPS diluted	EUR	0.67	0.96	1.11	1.32	1.53
DPS	EUR	1.00	1.05	1.05	1.05	1.15

Source: Company data, UniCredit Research

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-	-

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Company	Date	Rating	Currency	Target price
Deutsche EuroShop	10/30/2008	Buy	EUR	25.00
Deutsche EuroShop	08/14/2008	Hold	EUR	25.00
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

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A **Hold** is applied when the expected total return over the next twelve months is lower than its cost of equity but higher than zero.

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