SAL. OPPENHEIM

Franconofurt

Real Estate

2008-11-20

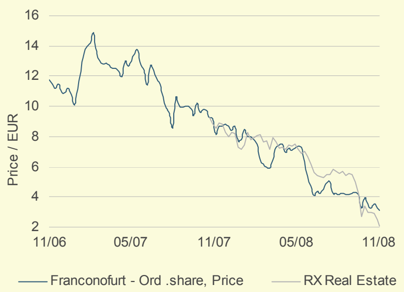
Applied disclosures can be found in the appendix

Neutral

Fair Value EUR4.00

Price EUR3.10 (Closing price as of 2008-11-19)

PRICE AND REL. PERFORMANCE



MARKET DATA

Reuters	FFMG.DE
Bloomberg	FFM GR
Market cap EURm	27.3
Free float %	58.0

KEY DATA

Yr.end 12/31	2007	2008e	2009e
NNAVPS	8.79	8.43	8.40
FFOPS	0.13	-0.43	0.08
EPS	0.53	0.05	0.22
P/NNAV	1.3	0.4	0.4
FFO yield %	1.2	-13.9	2.6
RONNAV %	1.5	-5.0	0.9
FFOPS CAGR: 07-10 %			2.9

NEXT EVENTS

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POSITIVE MOMENTUM WITH Q3 2008 RESULTS

ASSESSMENT

- Franconofurt reported Q3 2008 results that were above our expectations, with the most positive surprise in the Frankfurt conversion business as well as in administrative costs development. Also, rental income was above our expectations, with gross rents of €2.6m vs. €2.3m our forecast. Proceeds from the sale of inventory property (Frankfurt conversion business) reached €4.3m in Q3 2008, well above our forecast of €3.0m. This development shows that currently the demand for high-end apartments seems high. We were also positively surprised by the cost development, which shows that the cost-cutting program, initiated at the beginning of 2008, pays off more and more. Q3 2008 administrative costs came out at €1.4m, which is down from €2.7m in the previous quarter and well below our forecast of €2.3m.

Franconofurt Q308 Results				
€m	**Q308 rep.**	**Q308e**	**Q208**	**Q108**
Rental income	2.6	2.3	2.1	2.1
EBIT	n/a	1.2	1.0	2.2
Pre-tax profit	n/a	0.5	0.4	1.4
Net profit	0.6	0.2	0.3	0.9

Source: Oppenheim Research

- Management confirmed its FY 2008 guidance, which is a German GAAP result above the level of the pervious year. This would also offer room for an increased dividend payment (€0.75 DPS in FY 2007). However, while confirming a dividend payment for FY 2008, management was reluctant to indicate the amount. We forecast €0.50 DPS for FY 2008e, corresponding to a dividend yield of above 16%.

VALUATION

- Based on the better than expected Q3 2008 results, we will likely adjust our FY 2008e forecast upwards. However, we keep our FY 2009e and FY2010e estimates as well as our fair value unchanged for the time being. This could change to the positive, if the company continues to show strict cost control and continuing positive momentum in the Frankfurt conversion business.

CONCLUSION

Franconofurt surprised positively with Q3 2008e results due to a good conversion business and strict cost control. This makes us confident on dividend FY 2008 outlook, which should be supportive for the stock.

Franconofurt - P&L					
EURm (Yr. end: 12/31)	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Rental income	2.8	3.5	9.0	10.4	11.4
Earnings from sale of real estate investments	12.6	11.9	12.4	13.0	13.0
Revaluation of investment properties	2.6	8.7	5.6	3.0	2.0
Other income	8.5	7.9	0.0	0.0	0.0
Total income	**26.5**	**32.0**	**27.0**	**26.4**	**26.4**
Real estate operating expenses	-1.2	-1.5	-2.6	-3.1	-3.4
Real estate maintenance and renovation exp.	-2.6	-5.2	-9.0	-6.0	-6.0
General and administrative expenses	-8.6	-8.1	-9.0	-9.5	-9.5
Other operating expenses	-4.0	-6.5	-0.5	-0.5	-0.5
Total operating expenses	**-16.4**	**-21.4**	**-21.1**	**-19.1**	**-19.4**
EBITDA	**10.1**	**10.6**	**5.9**	**7.3**	**7.0**
EBITDA (excl. revaluation)	**7.5**	**1.9**	**0.3**	**4.3**	**5.0**
EBIT	**10.1**	**10.6**	**5.9**	**7.3**	**7.0**
Interest income	0.3	0.7	0.0	0.0	0.0
Interest expenses	-1.1	-2.0	-4.5	-4.0	-4.0
EBT	9.4	9.3	1.4	3.3	3.0
Taxes	-1.9	-2.0	-0.8	-0.8	-0.9
Adjusted net profit	7.5	7.3	0.6	2.4	2.1
Net profit	4.9	-1.4	-5.0	-0.6	0.1
Minority	-1.1	-2.7	-0.2	-0.5	-0.6
Net profit after minorities	6.4	4.7	0.4	1.9	1.5
Total operating income	23.9	23.3	21.4	23.4	24.4
Operating costs	-16.4	-21.4	-21.1	-19.1	-19.4

Key ratios and figures					
EURm (Yr. end: 12/31)	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Number of total shares	6.0	8.8	8.8	8.8	8.8
EPS (reported)	1.07	0.53	0.05	0.22	0.17
FFOPS	0.74	0.13	-0.43	0.08	0.14
DPS	0.60	0.75	0.50	0.25	0.25
NNAVPS	8.51	8.79	8.43	8.40	8.03
Growth rates %					
Revenues	218.4	20.6	-15.7	-2.4	0.1
EBITDA	444.4	4.8	-44.5	23.0	-3.8
EBIT	444.4	4.8	-44.5	23.0	-3.8
EBT	494.3	-0.7	-84.9	132.5	-8.5
Net profit after minorities	651.1	-27.4	-91.4	377.8	-22.3
FFO	211.2	-82.6	nm	nm	77.7
Margins and ratios %					
Cost/income ratio	61.8	66.8	78.1	72.5	73.5
Property expens./gross rental inc.	135.0	191.6	128.9	88.0	82.7
EBITDA/total income (excl. revaluation)	38.2	33.2	21.9	27.5	26.5
EBIT/total income (excl. revaluation)	38.2	33.2	21.9	27.5	26.5
EBT/total income	35.3	29.0	5.2	12.4	11.3
Net profit margin	24.2	14.6	1.5	7.3	5.6
RONNAV	13.0	1.5	-5.0	0.9	1.7
Other ratios					
Interest cover	7.1	1.0	0.1	1.1	1.2
Equity ratio %	80.1	46.6	47.2	49.9	49.9
LTV	70.1	290.5	74.3	69.1	70.9
Gearing %	22.5	145.3	70.5	82.9	94.9

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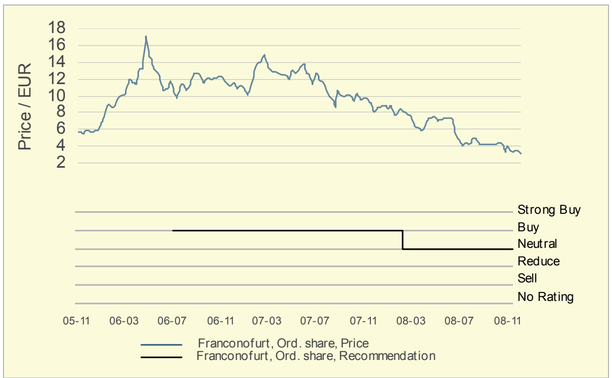

Rating Distribution				
	Coverage Universe		Investment banking-relationship	
Recommendation	No.	in %	No.	in %
Strong buy	8	2.0	4	8
Buy	148	37.7	20	42
Neutral	156	39.7	16	33
Reduce	49	12.5	6	13
Sell	1	0.3	0	0
No rating	31	7.9	2	4

Previous report with differing recommendation published at 2007-06-27.

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