

■ **Price (Euro)** **8.70**
52 weeks range 15.15 / 7.50

■ **Key Data**

ISIN-No. DE0006372626
Reuters FFMG.DE
Bloomberg FFM GR
Accounting standard IFRS
Market cap (Euro million) 76.6
Number of shares ('000) 8,800
Free Float 45.7%
Free Float Market Cap (mn) 35.0
3Y-estimated profit growth 40.7%

Valuation multiples	2006	2007e	2008e	2009e
Market Cap / revenues	4.6	2.1	1.0	0.8
PE-ratio	8.1	9.7	6.8	5.9
Price-EBIT-ratio	7.5	3.5	2.3	1.7
Dividend yield	6.9%	9.2%	9.2%	11.5%
Price to book-ratio	1.02	0.95	0.90	0.86

Key data per share (Euro)	2006	2007e	2008e	2009e
Earnings per share (EPS)	1.07	0.90	1.29	1.46
Dividend per share	0.60	0.80	0.80	1.00
Equity per share	8.49	9.18	9.67	10.13
NAV per share	11.46	11.86	14.94	18.31
Price / NAV	0.76	0.73	0.58	0.48

Financials ('000)	2006	2007e	2008e	2009e
Operating Revenues	16,696	36,732	74,684	92,123
Operating profit (EBIT)	10,144	21,979	32,771	44,430
Pre-tax profit (EBT)	9,359	20,301	21,535	26,080
Net profit	6,429	7,916	11,336	12,882
RoE pre-tax (%)	18.4%	25.1%	25.3%	29.3%
RoE after tax (%)	12.6%	9.8%	13.3%	14.4%
Shareholders Equity	50,898	80,776	85,072	89,154

■ **Financial calendar**

Sal. Oppenheim Real Estate, N.Y. Dec. 10, 2007
FY 2007 figures March / April 2008

■ **Analyst**

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Positive 9M figures and a positive News Flow

Franconofurt published 9M-figures at the evening of Nov. 30. We refer to our in-depth report dated September 10, 2007. All in all assumptions and expected developments are still valid. 9M-net result of Franconofurt was at Euro 7.85m. Pre-tax profit amounted for Euro 14.0m compared to 3.65m in 9M 2006. Rental income was at 6.16 million (1.7 million in 9M 2006). To highlight is, that there are much higher unrealised earnings from fair value measurement of investment property than we anticipated. Euro 13.5m were booked into the P&L as a valuation gain. We always said that these kind of gains are operational for an investment company as it is the genuine business to extract gains on properties and further the valuation is done by an independent assessor. The figures are signalling strong growth momentum. Company confirmed its dividend guidance of 80 cents per share. Dividend is based on German HGB accounting (German GAAP) result.

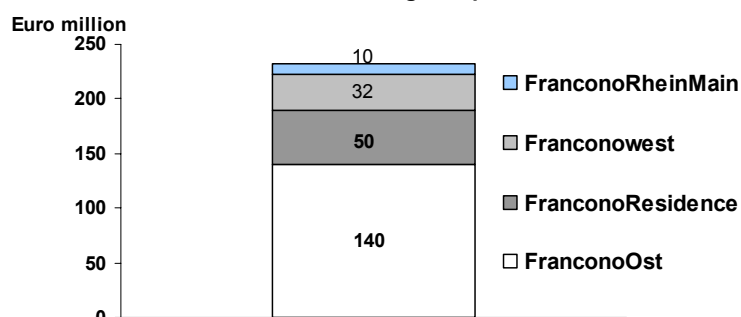
To update is, that Franconofurt managed to fulfil its plan to place shares of its subsidiary FranconoWest AG. 5 million shares have been placed for 1.80 Euros per share through an IPO. Three million shares represented a capital increase, generating a cash inflow of 5.4 million for FranconoWest AG. Two million shares were placed by Franconofurt, which now owns 85% of FranconoWest AG. We view the transaction as a partial success in the light of the very inconvenient environment for Real Estate companies. We view possible capital increases or further placements of shares as useful strategic options in a more convenient business environment.

Another recognizable fact is, that LRI Invest has bought more than 5% (5.51%) of the shares of Franconofurt. Thus there is a new major shareholder in the company.

In the light of the 9M figures we are upgrading our earnings estimates for 2007 by 1%. On 2008 and 2009 numbers we slightly reduce our estimates by -4% and -6%.

Our Price target is still 17.00 Euros per share.

Portfolio volume of Asset Holding Companies as of 08/2007



SWOT Analysis

Strengths

- High attractiveness of Franconofurt's real estate core region Rhein Main area.
- Price sensitivity in the upper market segment is lower. Thus margins are better than in the low price segment
- Long term track record of the Management Team. Different highly qualified and trained members of the Management team
- Strong in IT
- Growth stock: Strong growth in the P&L and the portfolio
- Focussing on German real estate: thus the company can apply its strengths in its home market
- Diversification: the Holding model provides a regional diversification within Germany
- Number of houses is good for diversification: Actually 277 houses with 3.342 apartments in different parts of Rhein-Main and Rhein-Ruhr region. Vacancies are a less likely and less serious situation than at other real estate companies

Weaknesses

- Investors have to provide a lot of liquidity to finance Franconofurt-Holding, as well as FranconoRheinMain as well as FranconoWest.
- Higher management cost and higher costs of stock market listing due to the Holding structure of the company

Opportunities

- Rents and real estate prices should increase in Frankfurt Rhein Main and Rhein Ruhr area
- The sub prime crises should crowd out smaller or weaker players of the market. The size, the strength, the management quality, the independence and the weak vacancy rate should make Franconofurt an attractive partner for banks
- Demographic megatrend of overaging population results into the so called "melt down syndrom". Old people or heirs are selling their properties. Thus the market potential of Franconofurt is to be increased

Risks

- Competition in the segment of Franconofurt could be increased
- Rising rates increase refinancing costs in spite of fixed rates loans as new projects have to be refinanced at higher rates
- Should real estate prices in Germany fall – a scenario we dont expect – this could hurt earnings drastically as there would be decreased valuation gains. Nevertheless correllation between US and German real estate market is very low historically

	2006	2007e	2008e	2009e	CAGR '06 - '09e
Franconofurt					
IFRS 31/12 ('000 Euro)					
Rental Income	1,571	5,478	23,764	37,723	188.5%
Earnings from the sale of inventory property	4,031	6,195	12,180	12,915	
Net other operating income	6,893	5,489	16,120	17,500	
Unrealized earnings from fair value of invest. properties	2,631	15,770	5,220	5,535	
Profit on the disposal of investment properties	1,570	3,800	17,400	18,450	127.4%
Sum of operating revenues	16,696	36,732	74,684	92,123	76.7%
Administrative expenses	-2,552	-6,580	-19,654	-25,009	114.0%
Selling expenses	-515	-974	-1,914	-2,030	58.0%
Other operating income	-3,485	-7,200	-20,345	-20,654	
EBIT	10,144	21,979	32,771	44,430	
Interest income	275	1,400	569	2,300	
Interest expences, financing income	-1,060	-3,078	-11,805	-20,650	169.1%
Pre-tax	9,359	20,301	21,535	26,080	40.7%
Income tax	-1,868	-7,105	-7,537	-9,128	
Earnings after tax	7,490	13,194	13,997	16,951	
Minorities	-1,060	-5,278	-2,659	-4,068	
Net profit after minorities	6,429	7,916	11,336	12,882	26.1%
Number of shares (Thsd.)	5,994	8,800	8,800	8,800	
Earnings per share	1.07	0.90	1.29	1.46	10.9%
Dividend per share	0.60	0.80	0.80	1.00	
Price to book per share	8.5	9.2	9.7	10.1	
NAV per share	11.5	11.9	14.9	18.3	
Equity (before minorities)	50,898	80,776	85,072	89,154	20.5%
Net Asset Value	68,700	104,376	131,472	161,154	
RoE pre-tax	18%	25%	25%	29%	
RoE after tax	13%	10%	13%	14%	

Annex: DCF-model on Franconofurt AG (Source: SRC Research)

Franconofurt ('000 Euro)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Rental Income	5,478	23,764	37,723	39,986	42,385	44,928	47,624	50,481	53,510	56,721	60,124
Earnings from the sale of inventory property	6,195	12,180	12,915	14,550	14,550	14,550	14,550	14,550	14,550	14,550	14,550
Net other operating income	5,489	16,120	17,500	18,375	19,294	20,258	21,271	22,335	23,452	24,624	25,855
Unrealized earnings from fair value of inves	15,770	5,220	5,535	5,756	5,987	6,226	6,475	6,734	7,004	7,284	7,575
Profit on the disposal of investment properti	3,800	17,400	18,450	19,373	20,341	21,358	22,426	23,547	24,725	25,961	27,259
Sum of operating revenues	36,732	74,684	92,123	98,040	102,557	107,321	112,346	117,648	123,240	129,140	135,363
Administrative expenses	-6,580	-19,654	-25,009	-26,510	-28,100	-29,786	-31,573	-33,468	-35,476	-37,604	-39,861
Selling expenses	-974	-1,914	-2,030	-2,151	-2,280	-2,417	-2,562	-2,716	-2,879	-3,052	-3,235
Other operating income	-7,200	-20,345	-20,654	-21,893	-23,207	-24,599	-26,075	-27,640	-29,298	-31,056	-32,919
EBIT	21,979	32,771	44,430	47,486	48,969	50,518	52,136	53,824	55,587	57,428	59,349
Interest income	1,400	569	2,300	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Interest expences, financing income	-3,078	-11,805	-20,650	-21,683	-22,767	-23,905	-25,100	-26,355	-27,673	-29,057	-30,509
Pre-tax	20,301	21,535	26,080	28,203	28,603	29,013	29,436	29,869	30,314	30,771	31,239
Income tax	-7,105	-7,537	-9,128	-9,871	-10,011	-10,155	-10,302	-10,454	-10,610	-10,770	-10,934
Earnings after tax	13,194	13,997	16,951	18,332	18,592	18,859	19,133	19,415	19,704	20,001	20,306
Minorities	-5,278	-2,659	-4,068	-6,416	-6,507	-6,601	-6,697	-6,795	-6,897	-7,000	-7,107
NOPAT	7,916	11,336	12,882	11,916	12,085	12,258	12,437	12,620	12,808	13,001	13,199
Change in Working Capital /. Investments	-5,200	-7,200	-8,600	-10,800	-12,660	-13,420	-14,225	-15,078	-15,983	-16,942	-17,958
depreciation	120	120	120	120	120	120	120	120	120	120	120
interest expenses	3,078	11,805	20,650	21,683	22,767	23,905	25,100	26,355	27,673	29,057	30,509
Tax Shield	-1,077	-4,132	-7,228	-7,589	-7,968	-8,367	-8,785	-9,224	-9,686	-10,170	-10,678
Free Cashflows	4,836	11,929	17,824	15,329	14,343	14,497	14,647	14,792	14,932	15,066	15,191
Value of Free Cash Flows	4,778	11,226	15,978	13,090	11,666	11,232	10,810	10,400	10,000	9,611	9,231
Present value	99%	94%	90%	85%	81%	77%	74%	70%	67%	64%	61%
Sum FCFs	118,022										
Terminal Value	312,919										
Value of dept 2007e	-279,224										
Fair Value DCF	151,716										
Fair Value per share (Euro)	17.24										

Model assumptions	
risk free interest rate	4.5%
risk premium (CAPM):	4.0%
Beta:	1.3
discounting interest:	5.5%
Terminal growth rate:	2.0%
Parameter:	
Cost of equity (CAPM)	9.5%
WACC:	5.0%

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Rating chronicle	Datum	Rating	former share price	former target
Franconofurt	Sept. 10, 2007	Buy	9.95 €	17.00 €

Please note:

The Franconofurt share price mentioned in this report is from closing of December 7, 2007. Franconofurt mandated SRC Research for mentoring the Franconofurt share.

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