

# Franconofurt

Real Estate

22 January 2007

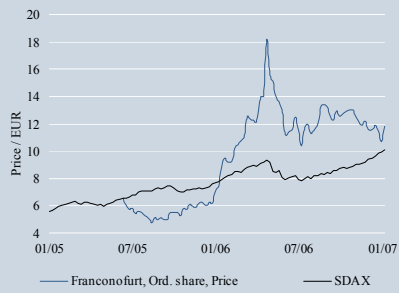
Applied disclosures can be found in the appendix

**Buy**

Fair Value EUR15.70

Price EUR11.80 (Closing price as of 01/19/2007)

## Price and rel. Performance



## Market Data

Reuters	FFMG.DE
Bloomberg	FFM GR
Market cap €bn	0.1
Free float %	56.8

## Key Data

Yr. end	2005	2006e	2007e
Revenues m	0.00	0.00	0.00
Net Profit m	0.45	5.25	6.32
Adj. EPS	0.11	0.81	0.97
PER	54.8	14.7	12.2
EV/EBIT	54.6	10.2	10.9
EBIT mgn. %			
EPS CAGR 04-08e: 3E			
Equity ratio 06: 0 %			

## Next Events

## POSITIVE FEEDBACK AFTER PROPERTY TOUR

### INVESTMENT CASE

FRANCONOFURT (FFM) continues its strong growth as “portfolio generator” in German growth centers. As market leader in high-end residential properties in Frankfurt, the company has now set up a standing residential portfolio in the Frankfurt area generating > 8% yield and is in the process of growing in the Cologne/Dusseldorf area.

### FACTS

On Friday we conducted a tour to see some properties of FranconoResidence (former Franconofurt) as part of the asset conversion but also some properties out of the FranconoRheinMain portfolio (FRM). In addition, we met two board members and discussed the next steps of the company.

### ASSESSMENT

We had a very good impression after the property tour as it confirmed the company’s outstanding knowledge about the Frankfurt market. FFM confirmed that the demand for high-quality assets is increasing and also the price level has risen. But FFM is able to keep its margin > 20 % stable and is working on further acquisitions.

Of special interest we found the properties from FRM that had been bought over the last months. The yield is for some assets significantly above 8 % and FRM was able to sell some assets already in last year. Out of this transaction to a Scandinavian investor, FRM intends to build up a partnership and was mandated as asset manager.

FFM keeps its high growth momentum and is already in the acquisition process for FranconoWest, which focuses on the Dusseldorf/Cologne area. The company confirmed its intention to take FranconoWest public in this year.

### VALUATION

Our fair value is calculated on a DCF model that currently does not take the further expansion in Western and Northern Germany into account. We regard the business model of FFM as highly attractive and regard the stock as significantly undervalued. Given the expected dividend of €0.60 for 2006, the dividend yield of 5 % is very attractive. We thus confirm our positive view on FFM and reiterate our **buy** rating.

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**Franconofurt - P&L**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
Earnings from sale of real estate investments	4.6	6.9	27.0	35.7	43.7
Other income	0.4	0.5	0.5	0.5	0.5
<b>Total income</b>	<b>4.9</b>	<b>7.4</b>	<b>27.5</b>	<b>36.2</b>	<b>44.2</b>
Real estate operating expenses	2.8	3.7	12.0	15.0	17.2
Personnel expenses	0.5	0.5	1.0	1.0	1.1
Other operating expenses	0.9	2.1	4.9	8.9	9.8
<b>Total operating expenses</b>	<b>4.1</b>	<b>6.3</b>	<b>17.9</b>	<b>24.9</b>	<b>28.1</b>
<b>EBITDA</b>	<b>0.8</b>	<b>1.1</b>	<b>9.6</b>	<b>11.3</b>	<b>16.2</b>
<b>EBITDA (excl. revaluation)</b>	<b>0.8</b>	<b>1.1</b>	<b>9.6</b>	<b>11.3</b>	<b>16.2</b>
Depreciation	0.0	0.0	0.0	0.0	1.1
<b>EBIT</b>	<b>0.8</b>	<b>1.0</b>	<b>9.6</b>	<b>11.3</b>	<b>15.0</b>
Interest income	0.1	0.1	0.1	0.1	0.1
Interest expenses	0.3	0.3	0.6	1.2	1.6
EBT	0.6	0.8	9.1	10.2	13.5
Taxes	0.2	0.3	3.8	3.9	5.5
Adjusted net profit	0.4	0.5	5.3	6.3	8.0
Net profit	0.4	0.5	5.3	6.3	8.0
Net profit after minorities	0.4	0.5	5.3	6.3	8.0
Total operating income	4.9	7.4	27.5	36.2	44.2
Operating costs	4.1	6.3	17.9	24.9	28.1

**Franconofurt - P&L (Total Costs)**

<b>EURm</b>	<b>2004</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>
Personnel costs	0.5	0.5	1.0	1.0	1.1
<b>EBITDA</b>	<b>0.8</b>	<b>1.1</b>	<b>9.6</b>	<b>11.3</b>	<b>16.2</b>
Depreciation	0.0	0.0	0.0	0.0	1.1
<b>EBIT</b>	<b>0.8</b>	<b>1.0</b>	<b>9.6</b>	<b>11.3</b>	<b>15.0</b>
<b>EBT</b>	<b>0.6</b>	<b>0.8</b>	<b>9.1</b>	<b>10.2</b>	<b>13.5</b>
<b>Net profit</b>	<b>0.4</b>	<b>0.5</b>	<b>5.3</b>	<b>6.3</b>	<b>8.0</b>
<b>Adjusted net profit</b>	<b>0.4</b>	<b>0.5</b>	<b>5.3</b>	<b>6.3</b>	<b>8.0</b>

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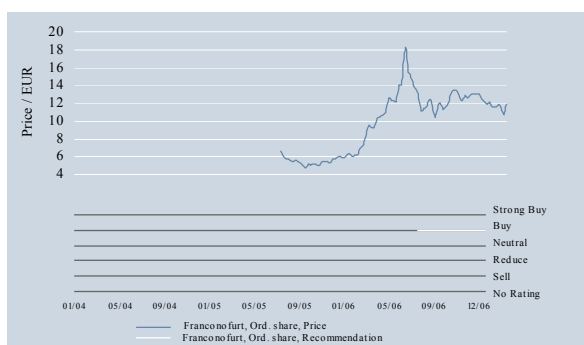
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Buy	129	42.4	3	60.0
Neutral	122	40.1	1	20.0
Reduce	29	9.5	1	20.0
Sell	1	0.3	0	0.0
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