

Franconofurt

Real Estate

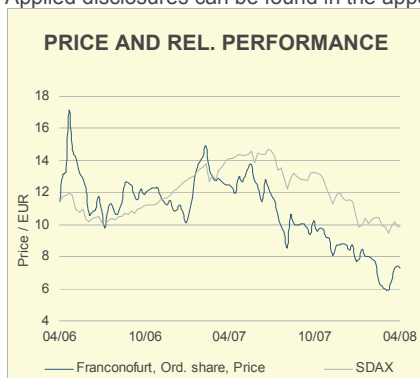
2008-04-17

Applied disclosures can be found in the appendix

Neutral

Fair Value EUR8.30

Price EUR7.30 (Closing price as of 2008-04-15)



WE REITERATE OUR NEUTRAL VIEW

ASSESSMENT

- Franconofurt published FY07 key numbers, which are underlying below our forecast with a positive surprise on dividend payment.
- Net profit (pre-minorities) for the group reached €8.5m and a ~€4m net write-down on FranconoRheinMain was considered, according to management. Adjusted for the write-down, net profit amounts to €12.5m, which is below our €13.7m forecast. The final FY07 report will be published next week.
- Management proposed a dividend of €0.75 per share, which is above our forecast of €0.60 and corresponds to a dividend yield of 10.6%.
- Management also announced a decision on a share buyback program on the AGM. This has to be seen on the back of the cash inflow from the FranconoRheinMain sale. However, we would be in favor of expanding the privatization business, as it should yield higher returns.
- Management took a conservative view on 2008 outlook and expects the HGB profit to be above the 2007 level. Considering an expected €6.5m cash relevant book profit from the FranconoRheinMain sale, the expansion of the higher-margin privatization business and cost-cutting measures, we believe that guidance could have been more optimistic.

MARKET DATA

| | |
|----------------|---------|
| Reuters | FFMG.DE |
| Bloomberg | FFM GR |
| Market cap €bn | 0.1 |
| Free float % | 58.0 |

| KEY DATA | | | |
|-------------------|-------|-------|-------|
| Yr.end 12/31 | 2006 | 2007e | 2008e |
| Revenues m | 26.54 | 49.30 | 49.70 |
| Net profit m | 6.43 | 9.71 | 11.38 |
| EPS | 1.07 | 1.10 | 1.29 |
| PER | 10.4 | 10.1 | 5.6 |
| EV/EBIT | 8.1 | 12.3 | 7.9 |
| EBIT mgn. % | | | |
| EPS CAGR: 05-09 % | | | -18.0 |

VALUATION

- We keep our fair value of €8.3 unchanged and will update our model after the publication of the final FY07 report. We expect more relevant newsflow to be in May, when the company will publish Q1 2008 results and hold an analyst meeting to present its strategy outlook.

CONCLUSION

We stick to our neutral investment case and believe that the high dividend yield will be a downside protection.

NEXT EVENTS

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| Franconofurt - P&L | | | | | |
|---|------------|-------------|-------------|-------------|-------------|
| EURm (Yr. end: 12/31) | 2005 | 2006 | 2007e | 2008e | 2009e |
| Rental income | 0.7 | 2.8 | 12.0 | 11.2 | 14.0 |
| Earnings from sale of real estate investments | 6.3 | 12.6 | 12.0 | 13.5 | 16.5 |
| Revaluation of investment properties | 0.0 | 2.6 | 15.0 | 4.0 | 3.0 |
| Other income | 1.3 | 8.5 | 10.3 | 21.0 | 14.5 |
| Total income | 8.3 | 26.5 | 49.3 | 49.7 | 48.0 |
| Real estate operating expenses | 0.5 | 1.2 | 4.9 | 3.9 | 4.2 |
| Real estate maintenance and renovation exp. | 0.7 | 2.6 | 7.0 | 4.5 | 4.0 |
| General and administrative expenses | 3.8 | 8.6 | 5.6 | 10.0 | 12.0 |
| Other operating expenses | 1.5 | 4.0 | 9.0 | 10.0 | 10.5 |
| Total operating expenses | 6.5 | 16.4 | 26.5 | 28.4 | 30.7 |
| EBITDA | 1.9 | 10.1 | 22.8 | 21.3 | 17.3 |
| EBITDA (excl. revaluation) | 1.9 | 7.5 | 7.8 | 17.3 | 14.3 |
| EBIT | 1.9 | 10.1 | 22.8 | 21.3 | 17.3 |
| Interest income | 0.0 | 0.3 | 0.5 | 0.5 | 0.5 |
| Interest expenses | 0.3 | 1.1 | 5.0 | 7.3 | 8.4 |
| EBT | 1.6 | 9.4 | 18.3 | 14.5 | 9.4 |
| Taxes | 0.7 | 1.9 | 4.6 | 2.1 | 2.3 |
| Adjusted net profit | 0.9 | 7.5 | 13.7 | 12.4 | 7.0 |
| Net profit | 0.9 | 4.9 | -1.3 | 8.4 | 4.0 |
| Minority | 0.1 | 1.1 | 4.0 | 1.0 | 0.5 |
| Net profit after minorities | 0.9 | 6.4 | 9.7 | 11.4 | 6.5 |
| Total operating income | 8.3 | 23.9 | 34.3 | 45.7 | 45.0 |
| Operating costs | 6.5 | 16.4 | 26.5 | 28.4 | 30.7 |
| Key ratios and figures | | | | | |
| EURm (Yr. end: 12/31) | 2005 | 2006 | 2007e | 2008e | 2009e |
| Number of total shares | 3.6 | 6.0 | 8.8 | 8.8 | 8.8 |
| EPS (reported) | 0.24 | 1.07 | 1.10 | 1.29 | 0.74 |
| adj. EPS | 0.24 | 0.74 | -0.18 | 0.95 | 0.41 |
| Dividend | 0.17 | 0.60 | 0.60 | 0.60 | 0.60 |
| Net asset value per share | 0.00 | 8.51 | 9.27 | 11.12 | 11.28 |
| Growth rates % | | | | | |
| Revenues change | 69.0 | 218.4 | 85.7 | 0.8 | -3.5 |
| EBITDA | 137.4 | 444.4 | 124.6 | -6.6 | -18.9 |
| EBIT | 144.2 | 444.4 | 124.6 | -6.6 | -18.9 |
| EBT change | 162.9 | 494.3 | 95.3 | -20.8 | -35.3 |
| Net profit | 108.2 | 717.6 | 83.1 | -9.7 | -43.2 |
| adj. EPS | -45.7 | 211.2 | nm | nm | -56.9 |
| Margins % | | | | | |
| ROE incl. Revaluation effect | 12.4 | 12.4 | -8.1 | 8.4 | 3.6 |
| ROE excl. Revaluation effect | 12.4 | 21.0 | 14.9 | 13.0 | 6.7 |
| Expense ratios % | | | | | |
| Other ratios | | | | | |
| Interest cover | 6.0 | 9.6 | 4.6 | 2.9 | 2.1 |
| Equity ratio % | 47.6 | 80.1 | 41.9 | 46.1 | 42.9 |
| Gearing % | 95.8 | 31.8 | 190.2 | 117.5 | 139.6 |
| Net financial debt / EBITDA | 3.3 | 0.3 | 6.7 | 4.6 | 6.7 |
| Net yield investment properties | nm | nm | nm | nm | nm |

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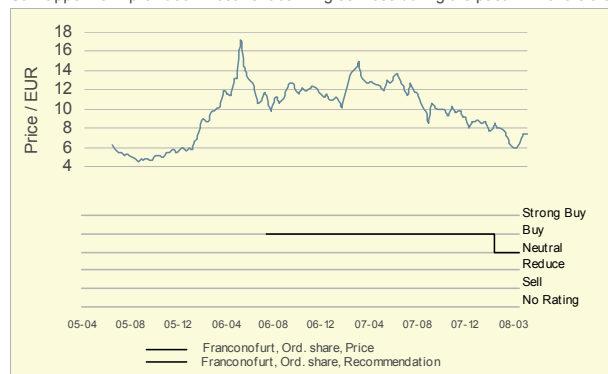
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| | No. | in % | No. | in % |
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| Buy | 183 | 46.4 | 40 | 68 |
| Neutral | 142 | 36.0 | 12 | 20 |
| Reduce | 15 | 3.8 | 0 | 0 |
| Sell | 0 | 0.0 | 0 | 0 |
| No rating | 37 | 9.4 | 4 | 7 |

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

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