

Price (Euro) **5.51**
52 weeks range 9.28 / 5.05

Key Data

Country	Germany
Industry	Residential Real Estate
Segment	Open Market
Transparency	Entry Standard
ISIN	DE0006372626
WKN	637262
Symbol	FFM
Reuters	FFMG.DE
Bloomberg	FFM:GR
Internet	www.franconofurt.de
Reporting Standard	HGB
Fiscal Year	31/12
IPO	21-Jun-05
Ø Daily Turnover in € (1M)	9,251
Market Cap (EUR million)	42.4
Number of shares (million)	7.7
Free Float	31.9%
Free Float MarketCap (Euro million)	13.5
CAGR pre-tax profits '10 - '13e	-5.1%

Multiples	2010	2011e	2012e	2013e
P/S-Ratio	2.3	3.4	3.4	3.3
P/E-Ratio	5.1	24.7	12.2	8.2
Dividend Yield	19.1%	2.0%	4.1%	6.1%

Key Data per Share (Euro)	2010	2011e	2012e	2013e
Earnings per Share (EpS)	1.08	0.22	0.45	0.68
Dividends per Share (DpS)	1.05	0.11	0.23	0.34
Book Value per Share (BVpS)	8.18	7.68	8.02	8.47

Financial Data (Euro '000)	2010	2011e	2012e	2013e
Total revenues	18,420	12,298	12,439	12,672
Operating Profit (EBIT)	7,915	2,279	3,052	3,064
Pre-tax profit (EBT)	8,693	2,449	4,965	7,430
Shareholders' Equity	65,850	59,112	61,730	65,194

Financial Calendar

SRC Forum Financials & Real Estate 7/09/2011

Main Shareholders

Christian und Nadja Wolf GmbH	29.8%
Lesire AG	24.0%
Witzleben Asset Mnmgt.	6.4%
Deutsche Aktien Total Return	7.2%
Own shares	0.6%

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Released 1H numbers in-line with expectations, share price offers huge discount to NAV

Franconofurt recently released its half year numbers which came in fully in-line with our estimates. The numbers are provided as individual financial statement without full consolidation of majority participation like Opera One (75%) or FranconoResidence (100%). Revenues came in at Euro 5.7m while sold properties accounted for a revenue contribution of Euro 5.0m and Euro 0.7m were generated through rental income. When looking at book values, portfolio additions of 2.4 Mio. Euro and portfolio sales of 3.8 were realized. That implies a profit of Euro 1.2m i.e. a margin of 24%. We calculated for our annual projection with a margin of 31% which we adjusted slightly to 27% now. Franconofurt's book value of portfolio reduces little from Euro 30.1m at the end of 2010 to 28.7m by 1H 2011. Further sales were realized by the 100% subsidiary FranconoResidence GmbH that contributed a profit of Euro 0.4m stated among income from profit transfer in the P&L. Therefore total portfolio sales on a group level amount to a cumulated volume of Euro 6.7m with a cumulated book value of Euro 5.1m and a cumulated gross profit of Euro 1.6m.

In fact, the subsidiary FranconoResidence still holds properties with a book value of Euro 2.1m while Opera One holds the "Westend Suites" accounting for Euro 9.5m "at cost" and furthermore two newly in July acquired properties (Kettenhofweg and Hasenpfad) with an estimated book value of Euro 3m to Euro 4m. Therefore we estimate current entire book value of portfolio on a group level by now to some Euro 45m. On the basis of a sales margin within the range of 25% to 35% for Franconofurt and 55% to 65% for Opera One, the portfolio has a market value of Euro 58m to Euro 65m. On account of published numbers, we feel confirmed in our assumptions and keep our estimated portfolio sales volume of Euro 12m to Euro 13m for 2011 (equalling a book value of some Euro 10m) unchanged, generating a gross profit of Euro 2.5m to Euro 3.0m. That translates into an EBIT profit of Euro 2.0m to Euro 2.5m for fiscal year 2011.

Now our NAV calculation results in a NAV of Euro 10.02 per share, which means, that the current share price offers a huge discount of 46%. The discount even enlarges when considering the ongoing share buyback program and company's intention to reduce total number of shares by 0.3m in the near future. Therefore we confirm our Buy-recommendation and our target of 10 Euros.

NAV remains above 10 Euros as book value of portfolio increases on account of latest acquisitions, liquidity on group's level is still high

One out of the two newly acquired properties in Frankfurt offers high potential to step up earnings already in short-term

NAV Calculation for Franconofurt AG on Group Level	1H 2011	2011e
Investment properties	40.3	45.5
thereof Franconofurt	28.7	27.9
thereof FranconoResidence	2.1	2.1
thereof Opera One	9.5	15.5
Untapped potential of investment properties	19.2	20.7
Other assets	0.4	0.4
Liquidity	21.0	17.5
thereof Franconofurt	6.3	8.8
thereof FranconoResidence	0.8	0.8
thereof OperaOne	13.9	7.9
Total	80.9	84.1
- longterm debt by book value	0	0
- shortterm debt by book value	7.1	7.0
thereof Franconofurt	3.2	3.00
thereof Opera One	3.9	4.0
- derivate financial instruments by book value	0	0
NAV in Euro m	73.8	77.1
Number of shares	7.7	7.7
NAV per share in Euro	9.58	10.02
Current share price		5.43
Discount Share price/NAV		45.8%

Source: Company data, SRC Research

The intended capital increase for Opera One with a price range from 1.25 Euro to 1.75 Euro for up to Euro 14m new shares was cancelled on 19 July (subscription period 11 July to 19 July) due to a weak and volatile market environment. It is now intended for the next months until year-end. However, to realize an IPO in the remaining year, it is necessary that markets recover and return to stability. That is not visible at present. However, due to almost no leverage, there is no high pressure on Opera One to accomplish an IPO urgently.

The two in July newly acquired properties (Kettenhofweg and Grosser Hasenpfad) are supposed to generate earnings in short-term. In particular a part of apartments at Kettenhofweg, situated in Frankfurt's Westend, are scheduled for a disposal already this year, which enables Opera One to generate more significant revenues than up to now. The property at "Grosser Hasenpfad" offers more potential for an entire disposal than for single apartments. Both acquisitions require revitalisation, are suitable for high-class reconstruction and fit therefore into Opera One's business model.

Admittedly completion of "Westend Suites", at present under construction, delays and is expected now for the first quarter of 2012 (old completion date was October 2011). Anyhow, as we planned our P&L quite cautious, we do not calculate with an earnings contribution of Opera One for the present year but consider earnings through Opera One for Franconofurt's P&L for 2012.

P&L Account Franconofurt AG

31/12 HGB (Euro '000)	2009	2010	2011e	2012e	2013e	CAGR '10 - 13e
Revenues (Rental income)	10,202	7,747	12,098	12,219	12,452	17.1%
thereof rental income and additional costs	1,365	1,473	1,150	1,162	1,173	
thereof from the sale of properties	8,838	6,273	10,948	11,057	11,279	
Other operating income	599	10,674	200	220	220	
Total revenues	10,801	18,420	12,298	12,439	12,672	-11.7%
Increase / decrease of unfinished products	133	-37	75	75	75	
Expenses from disposal of properties	-7,230	-4,375	-7,992	-7,740	-7,895	
Expenses for accounts payable	-983	-1,242	-490	-540	-560	
Personnel expenses	-601	-2,301	-620	-650	-660	
Other operating expenses	-1,902	-2,434	-880	-906	-952	
EBITDA	271	8,153	2,521	2,807	2,815	-29.8%
<i>EBITDA margin</i>	<i>2.5%</i>	<i>44.3%</i>	<i>20.5%</i>	<i>22.6%</i>	<i>22.2%</i>	
Depreciation	-259	-239	-242	244	249	
EBIT	11	7,915	2,279	3,052	3,064	
<i>EBIT margin</i>	<i>0.1%</i>	<i>43.0%</i>	<i>18.5%</i>	<i>24.5%</i>	<i>24.2%</i>	
Income from at-equity	476	0	-350	1,859	4,310	
Income from profit transfer	1,000	750	467	0	0	
Interest earnings	269	248	278	284	289	
Interest costs	-1,279	-221	-225	-230	-234	
Financial result	-1,010	27	53	54	55	
EBT	478	8,693	2,449	4,965	7,430	-5.1%
<i>EBT margin</i>	<i>4.4%</i>	<i>47.2%</i>	<i>19.9%</i>	<i>39.9%</i>	<i>58.6%</i>	
Taxes	-15	0	-735	-1,489	-2,229	
<i>Tax rate</i>	<i>3.3%</i>	<i>0.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	
Net profit	463	8,693	1,715	3,476	5,201	-15.7%
<i>Return on sales</i>	<i>4.3%</i>	<i>47.2%</i>	<i>13.9%</i>	<i>27.9%</i>	<i>41.0%</i>	
Earnings per share (Eps) (Euro)	0.05	1.08	0.22	0.45	0.68	
Number of shares	8,800.0	8,050.0	7,700.0	7,700.0	7,700.0	
Dividends per Share (DpS) (Euro)	0.10	1.05	0.11	0.23	0.34	
Dividend Payout ratio	190%	97%	50%	50%	50%	
Book Value per Share (BVpS) in Euro	7.06	8.18	7.68	8.02	8.47	
Total Assets	70,131	72,486	74,661	76,900	79,207	
Shareholders Equity after minorities and payout of dividends	62,152	65,850	59,112	61,730	65,194	1.6%
<i>Equity ratio</i>	<i>88.6%</i>	<i>90.8%</i>	<i>79.2%</i>	<i>80.3%</i>	<i>82.3%</i>	
Key ratios & figures	2009	2010	2011e	2012e	2013e	
Growth rates in %						
Revenues	n.s.	-24.1%	56.2%	1.0%	1.9%	
EBITDA	n.s.	2911.9%	-69.1%	11.4%	0.3%	
EBIT	n.s.	70347.9%	-71.2%	33.9%	0.4%	
EBT	n.s.	1718.7%	-71.8%	102.7%	49.7%	
Net profit	n.s.	1778.4%	-80.3%	102.7%	49.7%	
Margins in %						
EBITDA	2.5%	44.3%	20.5%	22.6%	22.2%	
EBIT	0.1%	43.0%	18.5%	24.5%	24.2%	
EBT	4.4%	47.2%	19.9%	39.9%	58.6%	
Expense ratios in %						
Personnel costs quota	5.6%	12.5%	5.0%	5.2%	5.2%	
Oth. operating expenses quota	17.6%	13.2%	7.2%	7.3%	7.5%	
Depreciation to sales	2.5%	3.1%	2.0%	-2.0%	-2.0%	
Tax rate	3.3%	0.0%	30.0%	30.0%	30.0%	
Profitability in %						
Net profit to sales ratio	4.3%	47.2%	13.9%	27.9%	41.0%	
Return on equity after tax (RoE)	0.7%	13.2%	2.9%	5.6%	8.0%	
Valuation						
P/E-ratio	103.2	5.0	24.4	12.0	8.0	
P/E-ratio (historical share price by year-end)	61.8	6.2	-	-	-	
Price/BVpS	0.77	0.66	0.71	0.68	0.64	
Dividend yield in %	1.8%	19.3%	2.1%	4.2%	6.2%	
P/S-ratio	3.9	2.3	3.4	3.4	3.3	
Data per share						
Share price at year-end	3.25	6.74	-	-	-	
Number of shares in m	8.8	8.1	7.7	7.7	7.7	
EpS	0.05	1.08	0.22	0.45	0.68	
DpS	0.10	1.05	0.11	0.23	0.34	
BVpS	7.06	8.18	7.68	8.02	8.47	

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Rating chronicle	Date	Rating	former share price	former target
Franconofurt	19 Apr 2011	Buy	8.65 €	10.00 €

Please note:

The Franconofurt share price mentioned in this report is from closing of 18 August 2011. Franconofurt mandated SRC Research for mentoring the Franconofurt share prior to our investors' conference Forum Financials and Real Estate on 7 September 2011 in Frankfurt, Germany

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