Franconofurt

Buy (Reinitiating Coverage) Target: 10.00 Euro

19 | April | 11

Der Spezialist für Finanzaktien

Price (Euro)	**8.65**
52 weeks range	8.72 / 3.30

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)	41,315
Performance 1Y	117.26%
Performance 3Y	23.94%
Market Cap (EUR million)	66.6
Number of shares (million)	7.7
Free Float	31.9%
Free Float MarketCap (Euro million)	21.2
CAGR pre-tax profits '10 - '13e	-4.1%

Multiples	**2010**	**2011e**	**2012e**	**2013e**
P/S-Ratio	3.6	5.0	5.0	4.9
P/E-Ratio	**8.0**	**35.1**	**18.4**	**12.4**
Dividend Yield	12.1%	1.4%	2.7%	4.0%

Key Data per Share (Euro)	**2010**	**2011e**	**2012e**	**2013e**
Earnings per Share (EpS)	**1.08**	**0.25**	**0.47**	**0.70**
Dividends per Share (DpS)	1.05	0.12	0.24	0.35
Book Value per Share (BVpS)	8.18	7.70	8.05	8.51

Financial Data (Euro '000)	**2010**	**2011e**	**2012e**	**2013e**
Total revenues	**18,420**	**13,198**	**13,348**	**13,600**
Operating Profit (EBIT)	**7,915**	**3,009**	**3,272**	**3,290**
Pre-tax profit (EBT)	8,693	2,712	5,185	7,655
Shareholders' Equity	65,850	59,296	61,976	65,521

Financial Calendar

AGM	12/05/2011
1H 2011	August 2011
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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FFM among residential players to benefit the most in vast retail demand for residential properties in Germany

Franconofurt published end of March its annual statement for 2010 and announced the intention to pay out a record high dividend of Euro 1.05 for fiscal year 2010 (AGM on 12 May) on account of the good result for 2010. The company generated through the sale of its share in TAG Immobilien (14%) some Euro 31m in December last year. Based on the reduced number of shares to 7.7m, the amount of Euro 8.1m will be distributed to shareholders. Furthermore the company set up a new participation named Opera One where Franconofurt invested Euro 15m and holds currently a share of 75% while the remaining 25% are held by the management board of Opera One that invested also some Euro 5m. By the end of March Opera One went public and is now listed officially at the Entry Standard of the Frankfurt Stock Exchange. However, there is currently almost no free float (0.1%) but through a capital increase, which is intended for the second quarter, this is supposed to change. For the current year it is planned to raise a three digit million amount through capital increases which should enable Opera One to invest in several prime residential projects located in the best districts in Frankfurt. The participation is supposed to clearly step up Franconofurt's earnings in the future. We consider a significant contribution to Franconofurt's P&L starting from 2012 on.

Furthermore Franconofurt currently benefits from a very high demand for residential properties and rising prices in Frankfurt. Upside on book value increased from a level of 15% to 20%, as usual for Franconofurt's converting business ("Aufteilergeschäft"), to more than 50% by now which translates into a higher profitability for the company and also boosts hidden NAV potential. Book value related NAV per share is at Euro 8.55 ("at cost") but considering the realistic market value of the portfolio, which we calculated in detail in our report, we come up with a NAV of Euro 10.10 per share.

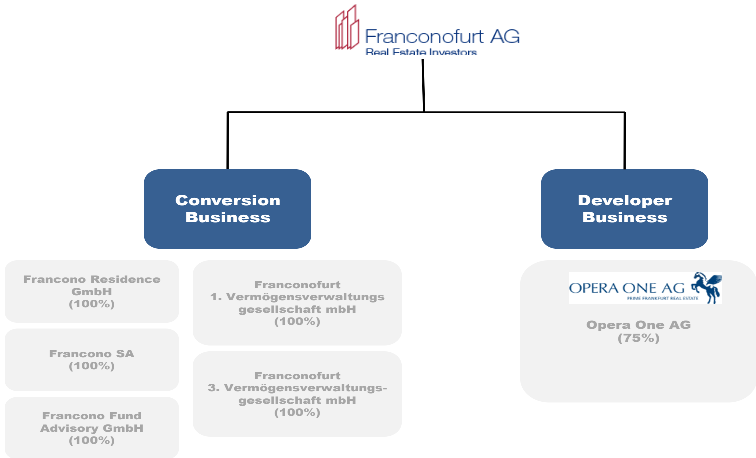
Therefore we reinitiate our coverage for Franconofurt and set our target price at 10 Euros meaning a 16% upside to the present share price. Our rating for the Franconofurt share is Buy.

Investment Case

Franconofurt AG

Industry:	Real Estate	**Management Board of Franconofurt**	
Sub-segment:	Residential	CEO	Metehan Sen
Country:	Germany		
Headquarter:	Frankfurt		
Foundation:	2000	**Supervisory Board of Franconofurt**	
Employees:	5	Bruno Otto Kling (Chairman)	
		Carsten Siegert	
IR Contact:		Christian Wolf	
Metehan Sen (sen@franconofurt.de)			

Franconofurt Group acquires, manages, leases, refurbishes and finally sells small-scale residential properties in selected locations mainly in Frankfurt / Main. The major strategy is to acquire attractive apartment houses, build up an comprehenisve portfolio and sell single apartments with an attractive yield to retail clients. Usually Franconofurt sells about 20% to 25% percent of these apartments within one year . At present company's portfolio comprises about 34 residential properties located in Frankfurt / Main with approx. 250 to 260 linked apartments. The majority of properties are vintage and built in the second half of the 20th century. Total portfolio value ("at cost") amounts to Euro 40m while we estimate the fair market value, assuming quite conservative asssumptions, at more than Euro 60m.



The newly founded Opera One AG is a 75% participation of Franconofurt. The company is a developer specialized in acquisition, development and distribution of premium residential properties. It specializes in prime residential properties in the best locations in Frankfurt. Hence, investment focus is in particular the downtown area of Frankfurt am Main symbolized by a radius of one mile around the “Alte Oper/Operntum”. The company mentions as favorable investment districts the Westend, Nordend, Holzhausenviertel, Sachsenhausen and the Europaviertel, which are all part of the upmarket segment in Frankfurt. The aim is to acquire exisiting residential- and, first and foremost, office properties that have potential for extension and conversion into prime luxury apartments. Currently the company is developing a project in Frankfurt's Westend, the Mendelssohn Carre, which has 40 apartments of which 6 are skyline view penthouses.

Source: Company Data, SRC Research

SWOT-Analysis

Strengths

- Franconofurt has currently a very high equity ratio of more than 90% and a high cash position of Euro 31.4m by year-end 2010 which reduced through the Opera One deal by Euro 15m (but currently fully consolidated - a 75% participation) and the upcoming dividend payment (some Euro 8.1m). However, still deep pockets and high leverage potential for new investments and value creation.
- More than 50% of shares are held by the founders, speaking for a high commitment and responsibility.
- Strategy of the "Aufteilergeschaeft" to say conversion or privatization business is highly attractive, in particular in Frankfurt. Current portfolio is valued at approx. Euro 1,900 / sqm, while comparable units were often sold at Euro 3,500 / sqm to private clients. "At cost" portfolio value is at some Euro 40m currently, hiding some Euro 20m to Euro 25m of earnings potential.
- Extremely investor friendly dividend policy in the past on account of very high dividends in the past.

Weaknesses

- Low free float market cap of some Euro 21.3m and low turnover in the share which recently picked up. Thus, an increased volatility. Furthermore Franconofurt changed in 2010 due to cost reduction issues from the Regulated Market to the Entry Standard which means reduced reporting standards and therefore less monitoring possibilities and verification for investors.

Opportunities

- Promising regional focus on Frankfurt. Inhabitants are supposed to hit 700k. Purchase prices for middle-sized residential flats (60 to 80 sqm) in Frankfurt gained 16.1% in the past 5 years and 6.2% within the last year (according to Empirica 2011)
- Frankfurt's home owner ship rate is only at some 15% to 20%, far below the already quite low Germany average of 42%. Mainly influenced due to the fact that vast properties are owned by investors which not intend to sell single apartments to private clients.
- The newly founded 75% subsidiary Opera One AG is supposed to invest as developer in high quality premium apartments with a radius of more or less 1 mile around Frankfurt's city center (Alte Oper/ Opernturm). The premium segment offers high margins and will have significant impact on Franconofurt's P&L. At the moment the subsidiary is fully consolidated.

Threats

- Price development within the residential property could fall and therefore cause a negative revaluation of the Franconofurt's portfolio value. Due to a stable demand for residential properties this risk is rather low.
- The newly founded subsidiary Opera One started its business in the past months and has no provable track record. In particular start-ups have on account of their newly established activities a much higher general business risk than vintage companies.

Franconofurt is among residential players in Germany to benefit the most in vast retail demand for residential real estate

Very convincing dividend friendly corporate policy

Franconofurt is an investor in residential real estate which recently changed its focus to invest solely in Frankfurt am Main. The company has a long and established track record and is active in the residential real estate business since foundation in 2000. Since its IPO in 2005 the company aims to pay annual dividends to its shareholders. In sum dividends amount to this day to c. 15m which equals to Euro 1.80 per share. For fiscal year 2010 the company announced the intention to pay out a record high dividend of Euro 1.05. Therefore Franconofurt has a very convincing dividend policy and investors will fully participate in company's success. It is intended to continue this policy for the future.

Franconofurt has a long established track record with an excellent access to capital markets

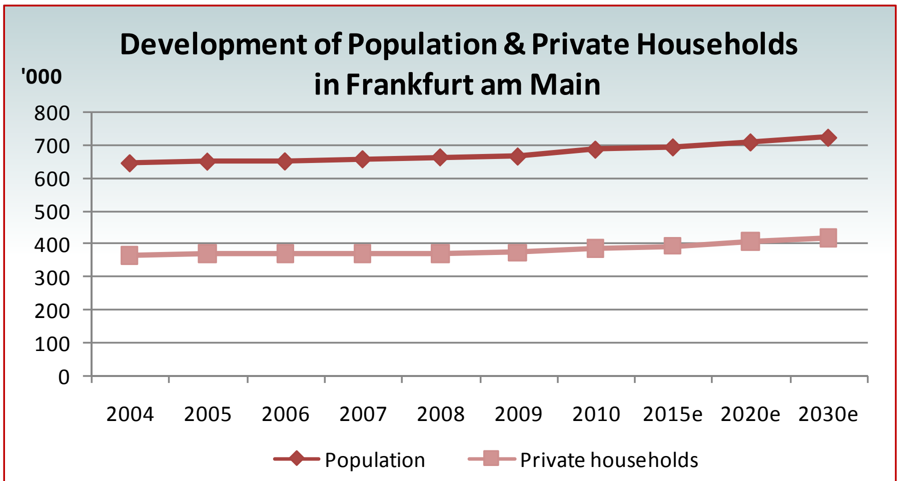
Corporate Milestones of Franconofurt AG

Year	Event
2000	Foundation of Franconofurt (FRIMAG Frankfurter Immobilien AG)
2005	IPO of Franconofurt (ISIN: DE0006372626) *1m shares, Euro 6.50 per share, amount raised Euro 6.5m*
2006	Capital Increases of Franconofurt AG *0.4m shares, Euro 7.50 per share, amount raised Euro 3.0m* *2.2m shares, Euro 10.00 per share, amount raised Euro 22.0m*
	IPO of FranconoRheinMain (FRM) (ISIN: DE000A0J2LC4) *7.0m shares, Euro 3.10 per share, amount raised Euro 21.7m*
2007	Capital Increases of Franconofurt AG *2.2m shares, Euro 11.00 per share, amount raised Euro 24.2m*
2007	Foundation FrancnoOst AG
	IPO of FranconoWest (FRW) *5.0m shares, Euro 1.80 per share, amount raised Euro 9.0m*
2008	Sale of Euro 160m portfolio of FRM to Grainger plc *54% in FRM (15.2m shares), Euro 1.50 per share, total Euro 22.8m*
2010	Sale of Euro 110m portfolio of FranconoWest & Ost to TAG Immobilien AG for a 14% participation *Sold the 14% share in TAG for Euro 31m in December 2010*
2010 / 2011	Foundation of Opera One AG *Developer for high qualitiy buildings* *Franconofurt subscribed for capital of Euro 15m* *Managament of Opera One subscribed for a capital of Euro 5m*
2011	*Opera One listing completed in March.* *Public capital increase intended for 2Q 2011* *At present a 75% participation of Franconofurt*

Investment focus is Frankfurt am Main, one of the most attractive locations for real estate investments in Germany

The company solely invests within the borders of Frankfurt am Main, which is among five largest cities in Germany and is at the centre of the Rhine-Main Metropolitan region which has a population of 5.6m. In fact, the city itself has a slightly growing population of 688k by 3Q 2010 and is the largest financial centre in continental Europe. Frankfurt also ranks among the top 10 most livable cities in the world according to Mercer Human Resource Consulting. Furthermore the city is the only German city listed as one of ten Alpha world cities and is ranked 21st among global cities by Foreign Policy's 2008 Global Cities Index. It is Germany's second most expensive city, and the 48th most expensive in the world.

Frankfurt has a migration surplus, which recently gained momentum. Therefore the city could hit 700k inhabitants much earlier than expected



Source: Destatis, BBR, SRC Research

Frankfurt's residential market is coined by a under-supply of 13.1k apartments p.a. and a very low ownership rate of 16%

At present, the real estate market in Frankfurt is clearly a sellers's market. High demand in prime and good locations is being met with scarce supply. A continued marked discrepancy between supply and demand can also be expected. Equalisation is only to be expected if a modified interest rate and other investment options offer an alternative to the current situation. Almost exclusively private investors are emerging as buyers. At present, institutional and foreign investors are only playing a minor role in Frankfurt's residential market. The willingness to sell on the part of property owners is low, although investors also consider current prices to be high. The biggest demand can be seen in prime locations like the Westend, Westhafen, Europaviertel or Holzhausenviertel. The very good location of Sachsenhausen also continues to be popular with investors. In contrast ordinary or basic locations like for instance Griesheim, Fechenheim, Höchst, Rödelheim, Riederwald etc. are in low demand.

Yields for Frankfurt came down, 4% and below for prime locations are quite usual by now

Residential market data for Frankfurt

	Price in Euro/sqm	Yield in %	Purchasing price in €/sqm		
Prime location	14.00 -18.00	3.50 - 5.00	3,360	to	6,171
Good location	10.00 -13.00	4.00 - 6.50	1,846	to	3,900
Average location	8.00 - 10.00	5.00 - 6.50	1,477	to	2,400
Basic location	6.00 - 8.00	6.00 - 9.50	758	to	1,600

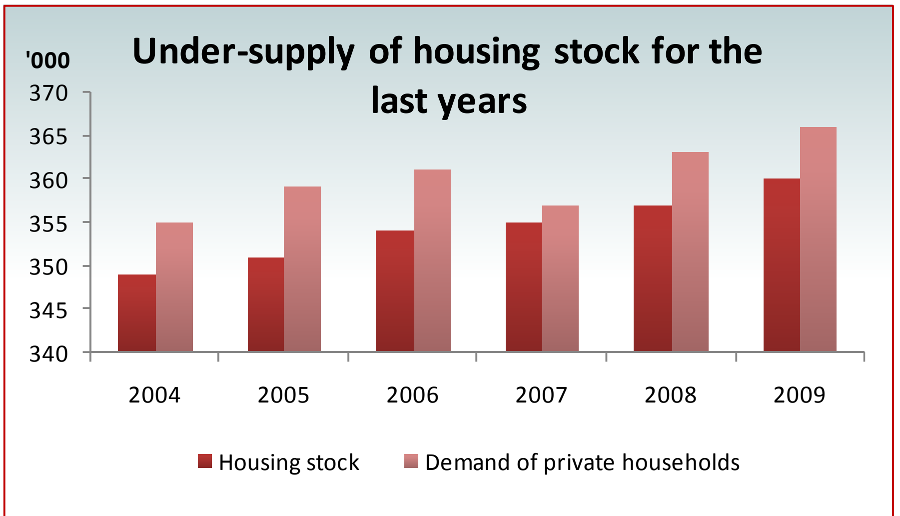
Housing stock (in '000)		General data	
in 1- or 2 family houses	47.7	Vacancy	3%
in apartments	303.2	Home ownership rate	16%
in non-residential properties	9.0	Inhabitants (3Q 2010)	688k
Total housing stock supply	**359.9**	Moving in	56k
Demand of households	373.0	Moving away	47k
Under-supply	13.1	Single households	53.2%
New residential units in 2009	2.5	Av. size of household	1.85
		Foreigners	24.3%

Source: Engel & Völkers, Destatis, SRC Research

Shortage in supply exists for many years in Frankfurt

However, the demand for homes has been stable at a high level for years now with at the same time a persisting shortage in supply, so the market rents in the preferred residential locations in Frankfurt, also when compared to other major German cities, are decidedly high. Rents are rising in practically all parts of the city. The average net rents for stock properties with average quality of life in Frankfurt are at ca. Euro 8.00 per sqm to Euro 8.50 per sqm, for first-time lets in new buildings with high quality of life, between Euro 11.00 per sqm and Euro 12.00 per sqm. The city centre locations, above all, are proving to be especially dynamic. Over-proportional price increases were registered, among other places, in the Europaviertel, the Westend and in Bockenheim (Rebstockpark). The current average market rents in good to very good locations in Bockenheim (Rebstockpark), Dornbusch (Dichterviertel), Nordend and the prime locations in Sachsenhausen and Westend are fluctuating at between Euro 13.00 per sqm and Euro 17.00 per sqm. In view of the positive trends in population and household numbers and the still inadequate new-build and renovation activity, a much more serious under-supply of living space and, in the medium-term, also still high demand pressure for homes in prime areas of the city is expected. As a result, one can expect rents to continue to rise on the Frankfurt housing market for properties that suit the demand in preferred locations. In fact, purchase prices for upmarket residential flats (60 sqm to 80 sqm) in Frankfurt already gained 16.1% in the past 5 years and 6.2% within the last year according to an Empirica study of 2011.

Higher prices for residential property are likely. In particular for high-end freehold apartments in preferred locations.

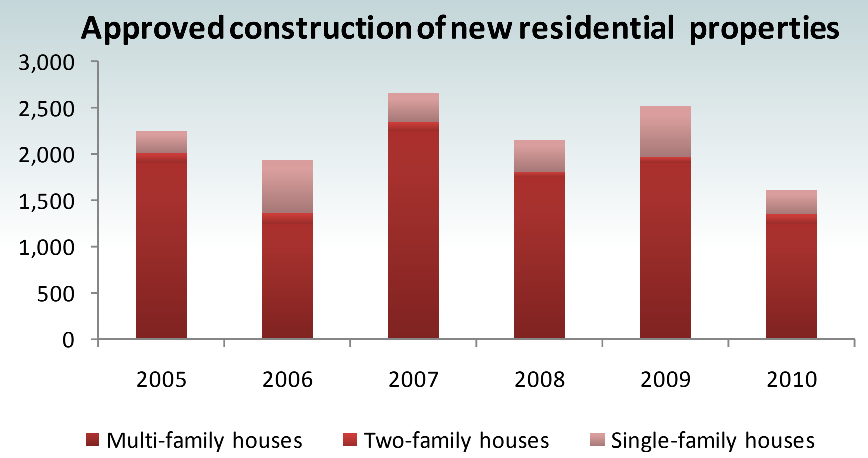


Source: Statistical Yearbook Frankfurt/Main

The demographic development in Frankfurt results in a higher demand which accounted for 366k units in contrast to a supply of 360k

Indeed, in 2010 there were clearly more people moving in to Frankfurt than moving away and that development is supposed to last. Singificantly increased costs for mobility increases also willingness to pay more for accomodation and stay closer for instance to the working place to reduce mobility costs. The housing stock in Frankfurt rose to around 360,200 units in 2010. Whilst the continuous growth in supply thus continued, but the supply of living space remained tight. Measured against currently ca. 366,500 private households, there is purely mathematically a nominal shortage of about 6,300 homes. After accounting for the necessary fluctuation and mobility reserve normal on the market of 3% to 5% of the total stock, and the fact that 1% to 2% of the total stock in metropolitan centres is always off the market for renovation or modernisation, the under-supply rate on the Frankfurt housing market is in fact much higher: At 21,000 to 31,000 residential units, therefore it can be set at around 6% to 9% of the stock. When looking at approved construction of new residential properties, which fluctuates between 1,600 and 2,600 units p.a for the last five years, there will be obviously no change to that situation in short- to mid-term. So the demand pressure for homes remains very high at least in the preferred market segments and districts.

Compared to the high demand for residential properties relatively low supply of new properties in the range of 1.6k to 2.6k p.a.



Source: Construction Statistics, municipal offices Frankfurt/Main

Franconofurt's portfolio in the current market environment

Prices for apartments in good locations gained significantly as investors seek a safe haven

Company's portfolio has a book value of some Euro 40m. We estimate the current market value at Euro 60m to Euro 65m which is an upside of some 50% to 60% driven by the high demand mentioned already above and, furthermore, retail customers fearing high inflation or even a monetary reform. In addition, it is important to know that Franconofurt accounts its portfolio "at cost" and has no revaluation gains or losses on its books. Therefore the company already generates an usual upside of at least 15% to 20% on its portfolio value only fostered by its business model. Of course the highest upside is being generated by Franconofurt's development participation Opera One AG.

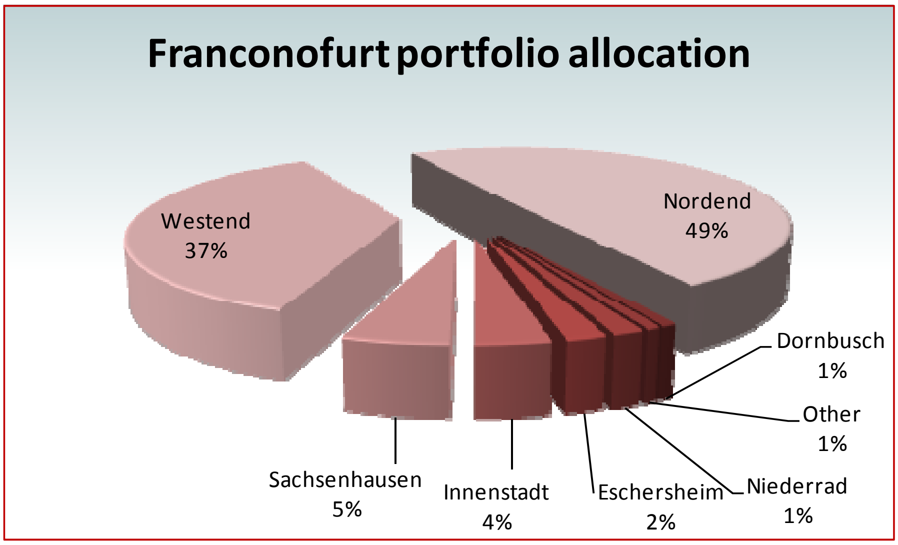
Portfolio data of Franconofurt AG	Total Portfolio	thereof Franconofurt AG	thereof Opera One AG
Properties	**34**	33	1
Apartments	**255**	215	40
Apartments per object Ø	**8**	7	40
Lettable space	**21,000**	16,800	4,200
At cost value (Euro m)	**40**	28	12
At cost price per object (Ø Euro m)	**1.2**	0.8	12.0
At cost price/sqm	**1,905**	1,667	2,857
Est. market value of portf. (Euro m)	**62**	43	19
Market value price/sqm	**2,952**	2,560	4,524
Vancancy	**0%**	0%	*under constr.*

Source: Company data, SRC Research estimeates

The major share of Franconofurt's portfolio is situated in highly requested areas

The portfolio contains currently 34 objects which are all located across Frankfurt am Main, mostly situated in better or highly requested areas which are among Frankfurt's top locations. The major share of the portfolio (86%) is therefore located in the "Nordend" and "Westend". The "Westend", where 37% of portfolio value is located, is Frankfurt's upmarket district par excellence. It is traditionally the most requested quarter in Frankfurt and the right place for people that are keen for prestige and a prime location. It attracts in first line high earners working in the city. Apartments are located close to all major banks that are situated on the so called "Bankenmeile". The Westend is dominated by apartment houses while detached mansions are an exception. Traditional vintage buildings cost some 5k to 6k Euro per sqm with an increasing tendency. Of major importance is the actual location, configuration and equipment and the quality of the object. As there are almost no new developments on account of the high population and object density, developers started to convert office into residential properties like Franconofurt's new participation Opera One AG is doing. Indeed, the development "Mendelssohn Carré" accounts for the largest share of Franconofurt's Westend investments.

Developers started to convert office- into residential properties as Frankfurt has a high office vacancy of 17.8% but negligible residential vacancy (3%)



Franconofurt has most of its properties in districts close to downtown while there are no properties in suburbs, periphery or outskirts

The "Nordend" is also upmarket but less exclusive than the "Westend". In particular the emerging middle class is to find here. Very upscale is the nothwestern part of the quarter, the so called "Holzhausen-Viertel" which is considered one of the most beautiful residential areas of Frankfurt. Demand for condominiums is high, but supply is extremly rare, therefore prices are rising steadily. Franconofurt has one object situated in the "Holzhausenviertel" at Fürstenberger Strasse. But the most of the of the portfolio objects (15) are located in the common "Nordend" district.

"Sachsenhausen" is also among upmarket districts and quite popular for its entertainment area at Schweizer Strasse as well as at Kleine-Rittergasse in Alt-Sachsenhausen. Price per sqm are at 3,000 Euro/per sqm for new buildings. Franconofurt's "Kaulbachstrasse" for instance is a side road of Schweizer Strasse while “Launitzstrasse” is next to the Schweizer Platz.

Furthermore several objects are in the downtown area of Frankfurt like “Fahrgasse”, “Hainer Hof”, “Hermes Weg” or “Hochstrasse” which is currently under construction being refurbished.

The best parts of the city

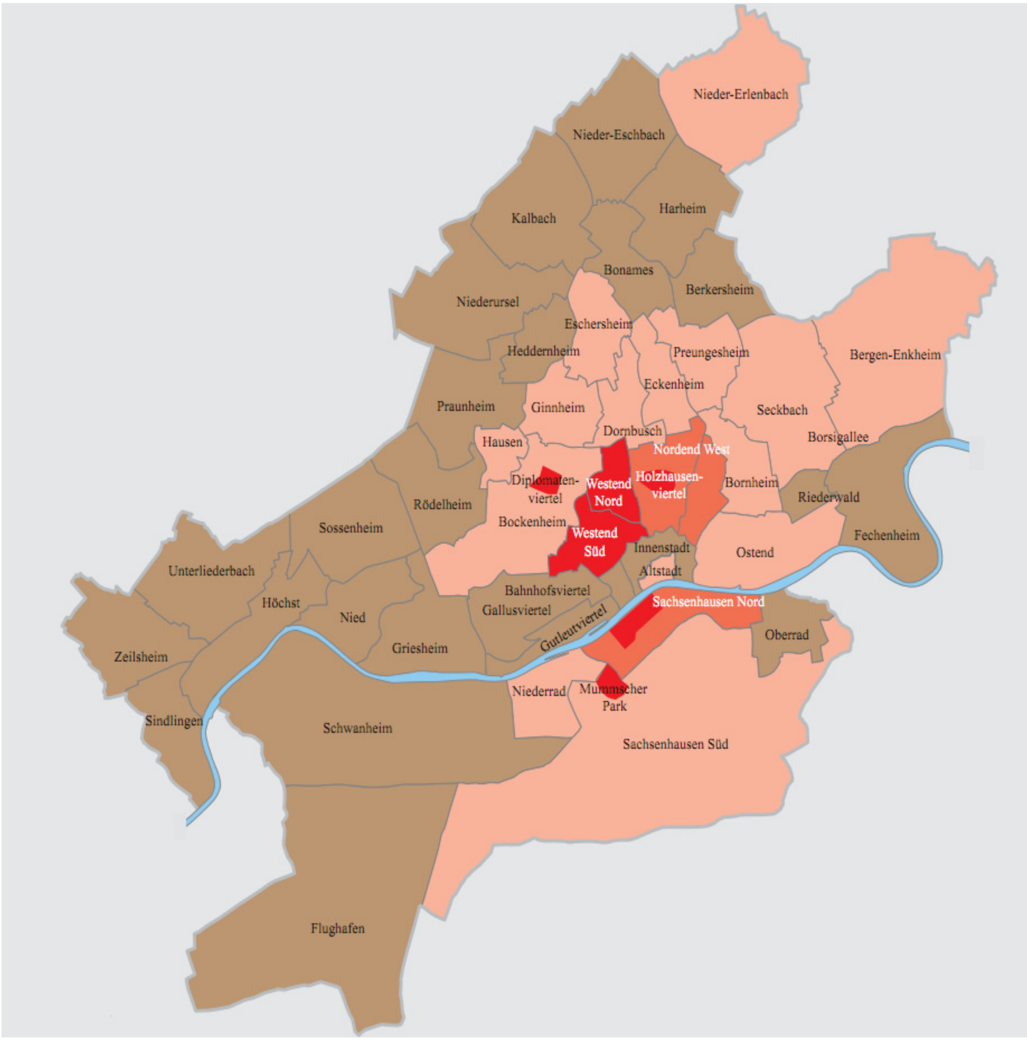
Prime locations
Westend
Westhafen
Europaviertel
Holzhausenviertel
Diplomatenviertel
Mummscher Park

Good locations
Nordend
Sachsenhausen
Eschersheim
Bockenheim
Altstadt

Average locations
Dornbusch
Niederrad
Ostend
Bornheim
Bergen-Enkheim
Seckbach
Ginnheim
Preungesheim
Eckenheim
Hausen

Basic locations

Residential locations in Frankfurt after districts



Franconofurt's business model generates an upside of 15% to 20% on purchasing prices without considering impact of an increasing market

In fact, Franconofurt only acquires multi-tenant houses with a high residential quality within the borders of Frankfurt. The business model is to convert multi apartment houses, which are single owned, into multi tenant, where each apartment is owned by a different party. This kind of privatization business enables to achieve highest prices per sqm but takes in average four to five years per object.

The current portfolio with its 34 objects has a cumulated lettable are of some 21,000 sqm.Thereof 16,800 sqm belong to Franconofurt while 4,200 sqm belong to the object "Mendelssohn Carré" which is currently under development by Opera One AG. Some 250 to 260 apartments are linked to Franconofurt's portfolio (in average 8 per property). Within one year Franconofurt sells about 20% to 25% percent of these apartments, which are approx. 50 to 70 apartments per year or in other words an investment volume of round about Euro 12m to Euro 17m per year. On the other hand Franconofurt has to acquire new objects to keep a stock of available properties. The management stated that for this year already three new objects were acquired with a volume of Euro 4m to 5m (Hermesweg, Eschersheimer Landstrasse, Sandweg) with a very moderate average price clearly below Euro 2k. per sqm. For the whole year new acquisitions with a volume in the range of approx. Euro 10m to Euro 12m are necessary to keep a stable stock of properties for the business. However portfolio slightly decrases momentarily due to lack of appropriate properties.

We calculate Franconofurt's market value of portfolio with moderate assumptions for annual rent and yields

Franconofurt's market value of portfolio

Opera One / Mendelssohn Carré separately

District	Book value in € m	Book value price/sqm	space in sqm	Av. monthly € rental price/sqm	Feasible rent p.a. in €	Yield	Av. € market price/sqm	Market value in €
Dornbusch	0.3	1,200	250	8.50	25,500	5.5%	1,855	463,636
Other	0.3	1,200	250	8.00	24,000	5.5%	1,745	436,364
Niederrad	0.6	1,200	500	8.00	48,000	5.5%	1,745	872,727
Eschersheim	0.8	1,600	500	9.50	57,000	5.0%	2,280	1,140,000
Innenstadt	1.5	1,500	1,000	8.00	96,000	4.6%	2,087	2,086,957
Sachsenhausen	2.1	1,680	1,250	10.00	150,000	4.5%	2,667	3,333,333
Westend	2.0	2,667	750	14.00	126,000	4.2%	4,000	3,000,000
Nordend	20.5	1,667	12,300	10.00	1,476,000	4.6%	2,609	32,086,957
Franconofurt Portfolio	28.1	1,673	16,800		2,002,500			43,419,974
Opera One	12.0	2,857	4,200	16.00	806,400	4.2%	4,539	19,063,830
Total	40.1		21,000		2,808,900			**62,483,803**

Source: Company data, SRC Estimates

Vacancy of the portfolio is at 0% while apartments being vacant are being sold within a very short time (according to the management often within two weeks) influenced by the very attractive market condition for sellers at present. The annual rent of the portfolio amounts to Euro 1.1m speaking for a yield of about 4%. Furthermore it is to mention that the present tenant structure is of high quality with almost zero unpaid rents. As objects are accounted at cost, portfolio value is with Euro 40m quite low an equals to 1,900 Euro per sqm which is far below average sqm prices which are usual for objects that are located in districts where Franconofurt has properties.

Calculation of the NAV per share

We come up with a fair market value of Euro 62.4m for Franconofurt's portfolio

When assuming usual market prices for the present portfolio, a hidden potential of 50% to 60% emerges. We calculated all properties with moderate assumptions and assumed always the lower end of the achieveable range of rents, which is disclosed by several real estate brokers. Furthermore we calculated market yields very conservative, clearly above the generally disclosed market yield of 4% for Frankfurt. Then we come up with a fair market value for Franconofurts portfolio of some Euro 62.4m. To calculate the NAV per share we assume our calculated fair market value for the portfolio of Euro 62.4m, add other assets of Euro 0.4m as well as the liquidity of Euro 22.9m while we subtract liabilities of Euro 7.9m. Our NAV results then in Euro 77.8m which translates into a NAv of Euro 10.10 per share.

NAV Calculation for Franconofurt AG	2011
Investment properties	40.1
Untapped potential of investment properties	22.4
Other assets	0.4
Liquidity	22.9
Total	**85.7**
- longterm debt by book value	0.0
- shortterm debt by book value	7.9
- derivate financial instruments by book value	0.0
NAV in Euro m	77.80
Number of shares	7.7
NAV per share in Euro	**10.10**

Opera One is supposed to step up Franconofurts earnings

Opera One AG is the developer to create high luxury apartments within the city centre of Frank-furt

At year-end 2010 Franconofurt set up a new participation, named Opera One AG (ISIN: DE000A1H6YK2/ WKN: A1H6YK). The company is a developer specialized in acquisition, development and distribution of residential properties. It specializes in prime residential properties in the best locations in Frankfurt. Hence, investment focus is in particular the downtown area of Frankfurt am Main symbolized by a radius of one mile around the “Alte Oper/Opernturm”. The company mentiones as favorable investment districts the Westend, Nordend, Holzhausenviertel, Sachsenhausen and the Europaviertel, which are all part of the upmarket segment in Frankfurt. It is intended to acquire exisiting residential- and, first and foremost, office properties that have potential for extension and conversion into prime luxury apartments. The project specific investment volume is aimed at Euro 15m to Euro 25m. After completion, the whole property could be sold to a new investor or apartments could be distributed to retail cusomers, like practiced at Franconofurt. In particular in case of residence tower developments, the last mentioned method is likely. However, the final decision concerning that issue is depending on conditions of each project.

On account of its investment focus on premium residential properties the company is first and foremost comparable to competitiors like JK Wohnbau located in Munich or Peach Property Group, which is also in our coverage, headquatered in Zurich.

Opera One AG - Mendelssohn Carré at Frankfurt Westend

The participation has already operational business developing the Mendelssohn Carré at Frankfurt's prime location "Westend"

Opera One developes at present the project "Mendelssohn Carré" situated in Frankfurts's Westend where six penthouses and 34 apartments are build. The property from the 1950ies was already acquired in 2009 and is scheduled to be completed in October 2011. Lettable space amounted to 3,200 sqm when acquired but will be increased to 4,200 sqm. Major measures to refurbish the object are besides building six completely new penthouses on the rooftop, the addition of lifts and balconies, creation of 16 sub-ground parking lots and the energy efficient insulation combined with a sand-stone façade. Opera One calculates with total costs for the project of some Euro 12m including cost of acquisition and redevelopment. We assume that approx two-thirds of investment volume are acquisition costs while one-third is necessary for the redevelopment. The intended sales price is in the area of Euro 19m which would be roughly an average price per sqm of Euro 4,500 which is defintеley among achievable prices for high quality space in Frankfurt's Westend. Upside would be some 50% to 60% on the invested capital of Euro 12m or in other words a margin of 37% on the intended sales price of Euro 19m.

Opera One AG generates an upside of 50% to 60% on the amount invested or, in other words, a margin of 37% on the sales price with its first project

Opera One stated to have a vast pipeline of various projects with a realistic volume in the range of Euro 350m to Euro 400m. However, among these projects are smaller developments with a volume of about 5m but also bigger projects with a volume of up to Euro 125m. The planned capital increase should enable the company to invest in 15 to 25 projects out of a pipeline of 50 within the next five years.

Opera One AG went public at the end of March and aims on a capital increase in 2Q

At present the 75% subsidiary is equipped with Euro 20m cash paid in equity. Thereof Euro 15m through Franconofurt (a part of the Euro 31m received from the TAG stake sale) and Euro 5m through Maindelta GmbH which is Ralph Jerey, the CEO of the company. Since 30 March the company is officially listed within the Entry Standard of the Frankfurt Stock Exchange. 20m no-par value ordinary bearer shares were included in trading without a prospectus. The initial listing price was Euro 10.05 which translates into a market cap of some Euro 200m. However free float is at present time below 0.1%, therefore a public capital increase with a three-digit Euro million number volume is intended for the near future. We assume a smaller capital increase for 2Q and a larger one for 3Q or 4Q this year.

Due to safety reasons no leverage intended for Opera One AG

In case of a successful placement of the capital increases market cap could hit Euro 300m to Euro 450m based on company's intended investment volume for projects. Indeed, management board and supervisory board of Opera One calculate with no or a very low leverage for the company and aim on a pure equity play. Therefore whole investment volume for development projects is supposed to stem from equity, generated by capital increases. The idea behind it is to reduce risks in case of weaker markets, not to face major problems when prices plunge and potential credits mature.

Opera One AG Euro m	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**
Invested	58	100	100	25	55
Sale	0	25	55	75	89
Gross Profit	0	8.25	17.6	23.25	26.7
Gross margin	*0.00%*	*33.00%*	*32.00%*	*31.00%*	*30.00%*
Personnel	-0.25	-0.5	-0.5	-0.5	-0.5
External expenses	-0.5	-0.75	-0.75	-0.75	-0.5
Other	-0.25	-0.25	-0.25	-0.25	-0.25
EBIT	**-1.00**	**7.08**	**16.42**	**22.06**	**25.75**
EBIT margin	*0.00%*	*28.32%*	*29.85%*	*29.41%*	*28.93%*
Interest expenses	0	0	0	0	0
EBT	**-1.00**	**7.08**	**16.42**	**22.06**	**25.75**
Tax	0.00	-1.77	-4.11	-5.52	-6.44
Net Profit	**-1.00**	**5.31**	**12.32**	**16.55**	**19.31**
Franconofurt's share (35.0%)	-0.35	1.86	4.31	5.79	6.76

Opera One AG is the additional trigger for Franconofurt's earnings in the future

Taking that into account, it is likely that Franconofurt's share in Opera One reduces from 75% by now to 40% or 30%, depending on the size of capital increases. We consider the participation in our P&L projection among "Income from at equity" and calculate with significant earnings from 2012 and following years. However, the subsidiary has the potential to boost Franconofurts earnings significantly.

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**	**12,998**	**13,128**	**13,380**	**20.0%**
thereof rental income and additional costs	1,365	1,473	1,050	1,061	1,071	
thereof from the sale of properties	8,838	6,273	11,948	12,067	12,309	
Other operating income	599	10,674	200	220	220	
Total revenues	**10,801**	**18,420**	**13,198**	**13,348**	**13,600**	**-9.6%**
Increase / decrease of unfinished products	133	-37	75	75	75	
Expenses from disposal of properties	-7,230	-4,375	-8,244	-8,447	-8,616	
Expenses for accounts payable	-983	-1,242	-490	-540	-560	
Personnel expenses	-601	-2,301	-520	-650	-660	
Other operating expenses	-1,902	-2,434	-880	-906	-952	
EBITDA	**271**	**8,153**	**3,269**	**3,009**	**3,022**	**-28.2%**
EBITDA margin	*2.5%*	*44.3%*	*24.8%*	*22.5%*	*22.2%*	
Depreciation	-259	-239	-260	263	268	
EBIT	**11**	**7,915**	**3,009**	**3,272**	**3,290**	
EBIT margin	*0.1%*	*43.0%*	*22.8%*	*24.5%*	*24.2%*	
Income from at-equity	476	0	-350	1,859	4,310	
Income from profit transfer	1,000	750	0	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**	**2,712**	**5,185**	**7,655**	**-4.1%**
EBT margin	*4.4%*	*47.2%*	*20.5%*	*38.8%*	*56.3%*	
Taxes	-15	0	-814	-1,555	-2,297	
Tax rate	3.3%	0.0%	30.0%	30.0%	30.0%	
Net profit	**463**	**8,693**	**1,899**	**3,630**	**5,359**	**-14.9%**
Return on sales	*4.3%*	*47.2%*	*14.4%*	*27.2%*	*39.4%*	
Earnings per share (EpS) (Euro)	**0.05**	**1.08**	**0.25**	**0.47**	**0.70**	
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**	**0.12**	**0.24**	**0.35**	
Dividend Payout ratio	190%	97%	50%	50%	50%	
Book Value per Share (BVpS) in Euro	**7.06**	**8.18**	**7.70**	**8.05**	**8.51**	
Total Assets	70,131	72,486	74,661	76,900	79,207	
Shareholders Equity after minorities and payout of dividends	62,152	65,850	59,296	61,976	65,521	**1.8%**
Equity ratio	*88.6%*	*90.8%*	*79.4%*	*80.6%*	*82.7%*	

Key ratios & figures

Key ratios & figures	2009	2010	2011e	2012e	2013e
Growth rates in %					
Revenues	n.s.	-24.1%	67.8%	1.0%	1.9%
EBITDA	n.s.	2911.9%	-59.9%	-7.9%	0.4%
EBIT	n.s.	70347.9%	-62.0%	8.7%	0.5%
EBT	n.s.	1718.7%	-68.8%	91.2%	47.7%
Net profit	n.s.	1778.4%	-78.2%	91.2%	47.7%
Margins in %					
EBITDA	2.5%	44.3%	24.8%	22.5%	22.2%
EBIT	0.1%	43.0%	22.8%	24.5%	24.2%
EBT	4.4%	47.2%	20.5%	38.8%	56.3%
Expense ratios in %					
Personnel costs quota	5.6%	12.5%	3.9%	4.9%	4.9%
Oth. operating expenes quota	17.6%	13.2%	6.7%	6.8%	7.0%
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%	14.4%	27.2%	39.4%
Return on equity after tax (RoE)	0.7%	13.2%	3.2%	5.9%	8.2%
Valuation					
P/E-ratio	164.5	8.0	35.1	18.4	12.4
P/E-ratio (historical share price by year-end)	61.8	6.2	-	-	-
Price/BVpS	1.22	1.06	1.12	1.07	1.02
Dividend yield in %	1.2%	12.1%	1.4%	2.7%	4.0%
P/S-ratio	6.2	3.6	5.0	5.0	4.9
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	0.25	0.47	0.70
DpS	0.10	1.05	0.12	0.24	0.35
BVpS	7.06	8.18	7.70	8.05	8.51

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Rating Chronicle:

Since there was no research report within the last 24 months there is no rating chronicle available.

Please note:

The Franconofurt share price mentioned in this report is from closing of 18 April 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