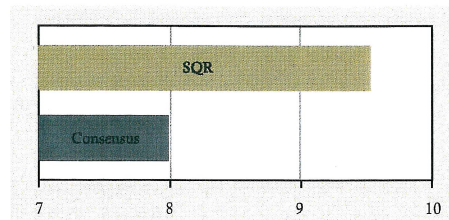




## Target price decomposition



## Franconofurt (BUY)

Franconofurt 'FFM' is a focused high end residential investor and developer. Successful disposals made it cash rich and offering high returns – also for investors.

**Franconofurt** invests only in Frankfurt. It successfully initiated investment vehicles, which followed its value-creation principles and sold them, when maturity was reached (FrancoWest & -Ost to TAG, FrancoRheinMain to Grainger). Its current portfolio of high end assets in Frankfurt is at €40m on its books, hiding some €15m of earnings potential.

**Stock doubled in the last 12 months**, helped by the successful sale of FRW to TAG, which made FFM its largest single shareholder before disposing in late 2010. Since inception, the company always paid dividends. The sale of TAG shares should lead to a special dividend payment this year.

## \* Entrepreneurial real estate approach

FFM banks on its in-depth understanding of the Frankfurt real estate market and combines this knowledge with profit generating ideas. Its current portfolio is valued at approx. €1,900/sqm, while typical units are sold at €3,500/sqm. FFM's assets gained around 20% in value in the past 12 months.

## \* New approach: unleveraged developing

FFM sees additional value potential in acting as general contractor, lifting the value even further. This new approach is supported by its high cash balance, due to high sales margins and the proceeds from the sale of the stake in TAG. FFM is the only operator in Frankfurt with these specifics.

## \* Next step: New investment theme

FFM has identified the square mile around the core Frankfurt center (Opera) as its focused investment terrain. 'Opera One AG' is funded (€21m) and will acquire high value creating assets, which FFM buys in the price gap between private investors (€3m) and institutional buyers (€25m).

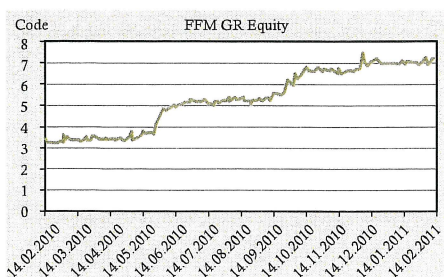
## \* Still plenty of cash

FFM increases its NAV not only by these measures, but also through buy backs at current high discounts to NAV. Outstanding shares will decline from 8.8m to around 7.7m. Cash creation and cash distribution is the business credo of FFM. 51% of shares are held by the founders, safeguarding the entrepreneurial spirit.

**We base our views** on the fact that a) high discount to NAV, b) high payouts and c) strong future cash creation meets low current valuation. The stock is rather illiquid, but investors benefit from the launch of new investment vehicles. In addition, these vehicles themselves offer high value potential.

**Next triggers** are the release of 2010 full results and more details on a) the 2010 dividend (TAG disposal) and b) the new investment vehicle 'Opera One AG'. NAV looks poised for strong upside, particularly as FFM's assets are in the most desired parts of Frankfurt (West- and Nordend). Given the high discount and the high cash distribution, the stock is too cheap.

Stock data/Rating			BUY
Last price	€/CHF	6.81	+
SQR target	€/CHF	9.50	39.4%
Consensus target	€/CHF	8.00	
52 week high/low	€	7.50	3.15
All-time high/low	€	18.72	1.97
Performance	-1month	-3months	ytd
%	-0.6%	8.6%	0.9%
Current market cap	€	57	m
Shares out (average)		8	m
Free float		38.17	%
<b>P&amp;L</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Sales €m	5.0	5.0	5.0
EBIT margin	>100%	>100%	>100%
Net margin	60.00%	60.00%	60.00%
ROA	10.00%	11.00%	12.00%
ROE	12.00%	14.00%	16.00%
Dividend yield	10.00%	12.00%	15.00%
<b>Balance Sheet €m</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
Balance Sheet	70.0	85.0	80.0
Investment assets	45.0	40.0	40.0
Cash	25.0	10.0	10.0
Equity	65.0	77.0	70.0
Net debt	-	-	-
Enterprise value	31.9	46.9	46.9
NAV	9.0	10.0	12.0
<b>Valuation</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>
EV/EBIT	10.6	11.7	9.4
P/E	14.2	9.5	7.1
P/E relative	78%	58%	56%
P/E at SQR target	2.4	1.6	1.2
ROE/ROA	1.2	1.3	1.3
FFO/NAV%	9.50%	10%	11%
<b>Market data</b>			
Bollinger up/low	€	7.19	6.91
MAV 100/200 days	€	6.76	5.83
Beta (6 months)		0.22	



Source: Bloomberg