

Hypo Real Estate

Banks

Neutral

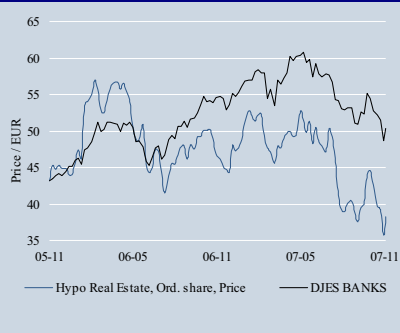
2007-11-16

Fair Value EUR47.00

Applied disclosures can be found in the appendix

Price EUR38.22 (Closing price as of 2007-11-14)

Price and rel. Performance



HIGH NEW BUSINESS VOLUME AND INCREASING MARGINS

After the Q3 results, the new group confirmed that it is fully on track to achieve all its major goals, as laid out in the business plan. The group is particularly a beneficiary of the rising margin trend in Commercial Real Estate, Public Sector and Infrastructure Finance. New business in commercial real estate was €9.7bn in Q3 2007(€8.7bn in Q2), which was significantly above our expectations of €9bn. Nine months new business volume was above €25bn, which already exceeds the full year target of at least €22bn. The future priority in commercial real estate finance will continue to stay on high profitability.

BENEFICIARY OF POSITIVE MARGIN TREND

Higher margins on new business should show the first positive impact on net interest income in the coming quarters. New business margins for Hypo Real Estate are increasing due to less competitive pressure coming from the Landesbanken and Investment Banks (which previously underwrote commercial real estate deals for securitization purposes) and secondly due to re-pricing of risk.

LESS TRADING WILL IMPROVE THE RISK PROFILE

As planned, Hypo Real estate will significantly cut back trading activities, which will improve the future risk profile of the group.

STRONG ASSET QUALITY

Average loan-to-value ratio of 64% (UK 55%) looks prudent and cash flow of properties is well intact. 72% of the new group's assets are in the public sector and infrastructure finance.

VALUATION

Based on our Oppenheim Economic Profit Model, we obtain a fair value of €47 per share. Despite fundamental upside, we leave our **neutral** rating unchanged, since we assume a rather mixed future newsflow.

12 month high/low €	52.80/35.67
Rel.% 1m -7.2	3m 1.0 12m -9.4
Abs.% 1m -14.3	3m -4.4 12m -16.6

Reuters	HRXG.DE
Bloomberg	HRX GR
Market cap EURbn	8.1
Number of shares m	211.1
Free float %	100.0
Daily turnover shares	5,451,760

Next Events

Rel. Sector

0

Key Changes

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Key Data

€ (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Revenues bn	0.9	1.1	2.1	2.2	2.5
Net Profit bn	0.3	0.4	0.9	1.0	1.1
Adj. EPS	2.54	3.20	4.50	4.67	5.21
Dividend	1.00	1.50	1.00	1.50	1.80
BVPS	33.6	36.6	47.8	48.8	52.2
NAVPS	33.4	36.1	37.1	38.5	42.0
P/E	15.8	15.9	7.6	7.8	7.1
P/BV	1.1	1.3	0.8	0.8	0.7
P/NAV	1.1	1.4	1.0	1.0	0.9
ROE %	7.2	8.8	13.8	10.4	10.7
C/I ratio %	32.7	31.0	30.7	31.0	29.5
Tier 1 ratio BIS %	7.8	7.0	7.0	6.8	6.9
EPS CAGR 06-09e: 18 %					

Hypo Real Estate - P&L

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Net interest income	722.0	811.0	1,331.8	1,467.4	1,591.2
Provision for loan losses	151.0	159.0	143.9	212.8	254.6
Net interest inc. after provision for loan losses	571.0	652.0	1,187.9	1,254.6	1,336.6
Commission income	125.0	145.0	218.2	294.6	397.7
Trading income	27.0	38.0	126.0	130.0	135.0
Income from financial assets	67.0	86.0	395.0	355.5	337.7
Total operating income	941.0	1,080.0	2,071.1	2,247.5	2,461.6
Operating costs	308.0	335.0	634.8	696.7	726.2
thereof: Personnel costs	188.0	196.0	371.4	407.6	424.9
thereof: General expenses	114.0	122.0	231.2	253.7	264.5
thereof: Depreciation	6.0	17.0	32.2	35.4	36.9
Other operating income and expenses	5.0	2.0	4.0	3.0	2.0
Operating profit	487.0	588.0	1,296.3	1,341.0	1,482.9
Goodwill impairment	9.0	0.0	0.0	0.0	0.0
Extraordinary items	-35.0	-17.0	-120.0	-60.0	-35.0
Pre-tax profit	443.0	571.0	1,176.3	1,281.0	1,447.9
Taxes	103.0	142.0	270.6	294.6	347.5
Tax rate (%)	23.3	24.9	23.0	23.0	24.0
Net profit	340.0	429.0	905.8	986.4	1,100.4
+/- Net profit adjustments	-35.0	-13.0	100.0	45.0	35.0
Adjusted net profit	305.0	416.0	1,005.8	1,031.4	1,135.4

Ratios and Key Figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Revenue breakdown %					
Net interest income	76.7	75.1	64.3	65.3	64.6
Commission income	13.3	13.4	10.5	13.1	16.2
Trading income	2.9	3.5	6.1	5.8	5.5
Growth rates %					
Net interest income	5.7	12.3	64.2	10.2	8.4
Provision for loan losses	-45.3	5.3	-9.5	47.8	19.7
Commission income	33.0	16.0	50.5	35.0	35.0
Trading income	145.5	40.7	231.6	3.2	3.8
Total operating income	12.7	14.8	91.8	8.5	9.5
Operating costs	-0.3	8.8	89.5	9.8	4.2
Operating profit	94.8	20.7	120.5	3.4	10.6
Net profit	87.8	26.2	111.1	8.9	11.6
Margins					
Net interest margin (bps, on avg. cust. loans)	94.2	102.7	82.0	58.2	58.8
Operating margin (bps, on avg. cust. loans)	63.5	74.5	79.8	53.2	54.8
Provisioning margin (bps, on avg. cust. loans)	19.7	20.1	8.9	8.4	9.4
Efficiency					
Cost Income Ratio (% ,incl. depreciation)	32.7	31.0	30.7	31.0	29.5
Cost Income Ratio (% ,excl. depreciation)	32.1	29.4	29.1	29.4	28.0
Compensation Ratio (%)	20.0	18.1	17.9	18.1	17.3
Revenues per employee (€k)	763.2	878.8	1,150.6	1,269.8	1,382.9
Personnel costs per employee (€k)	152.5	159.5	206.3	230.3	238.7
Profitability					
Pre-tax RoE (%)	10.4	12.1	16.2	12.9	13.6
Post-tax RoE (%)	7.2	8.8	13.8	10.4	10.7
Post-tax RoNAV (%)	7.4	8.9	16.3	13.2	13.4
Pre-tax margin on revenues (%)	47.1	52.9	56.8	57.0	58.8
Post-tax margin on revenues (%)	32.4	38.5	48.6	45.9	46.1