

Hypo Real Estate

Banks

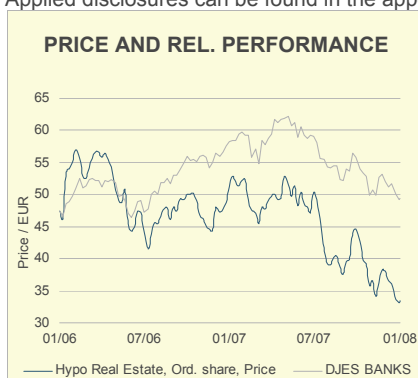
2008-01-16

Applied disclosures can be found in the appendix

Neutral

Fair Value EUR47.00

Price EUR33.38 (Closing price as of 2008-01-14)



NO REASON TO HURRY

ASSESSMENT

- With its preliminary full year results, Hypo Real Estate announced to have booked a €390m write-down on its US CDO exposure, of which €295m was charged against the P&L. The mark down of 33% reduces the bank's net US CDO exposure to €980m. The management highlights to have taken a partially forward-looking approach, e.g. taking a nine notch downward adjustment on 2006/07 structured finance CDOs with exposure to US RMBS into account. This reduces – as major management share buying does - the risk for further write-downs, in our view.
- The management refers to a broad and massive widening of credit spreads. Only 2 out of 40 CDOs would not pay. On the back of Hypo Real Estate's minimal charge on Q3 results, it may not be fully fair to directly translate it into charges for other banks, but clearly, risks for negative surprises have risen.
- The Management Board targets for a 2008 pre-tax profit of €1.0bn to €1.2bn, which corresponds to an after-tax RoE of 10% to 12%. It reiterates its target net RoE of 15% for 2010.
- The dividend cut from €1.50 to €0.50 highlights the bank's tight capital ratio of 5.5% and makes it – as well as the nearly exclusive wholesale funding – sensitive to potential stress tests, in our view. Even without major one-off charges to come, we would not rule out a capital hike.
- The dependency on wholesale funding could be a potential drag on the management's plans to raise the growth contribution of the public finance business. Given the still high TED spreads and the difference in short term rates for bank and risk-free exposure, we continue to see the risk that Hypo Real Estate might not continue to lend money to public borrowers' profitably. In other words, a stronger decline in funding costs for sovereigns and municipalities raises the question as to whether it should prefer an intermediary, rather than directly tapping the market.
- We will update our estimates and set the rating and fair value under review.

MARKET DATA

Reuters	HRXG.DE
Bloomberg	HRX GR
Market cap €bn	7.0
Free float %	100.0

KEY DATA

Yr.end 12/31	2006	2007e	2008e
Revenues bn	1.1	2.0	2.3
Net profit bn	0.4	0.7	1.0
Adj. EPS	3.20	3.33	4.91
P/E	15.9	11.8	6.4
NAVPS	36.07	29.98	31.97
P/NAV	1.4	1.5	1.0
Div. Yield %	2.0	3.3	4.5
EPS CAGR 06-09e: 20 %			

NEXT EVENTS

Full year results	2008-03-27
Quarterly results	2008-05-06

Thomas Stögner, Mag. (FH)
+49 (0) 69/71 34 - 56 02
thomas.stoegner@oppenheim.de
Oppenheim Research GmbH, Frankfurt

Carsten Werle, CFA , Dipl.-Vw.
+49 (0) 69/71 34 - 51 33
carsten.werle@oppenheim.de
Oppenheim Research GmbH, Frankfurt

VALUATION

- Even when adjusting our earnings to the downside, it will be evident that our new fair value will be substantially above current share price levels. The much stronger decline in share price suggests, in our view a) that management does not get a premium valuation anymore, and b) markets have started to consider scenarios in which a wholesale funded business does not prove robust.

CONCLUSION

Despite the excessive reaction of Hypo Real Estate's share price, we would not see a reason for hurrying to re-enter the stock. The bank's tight capital position and its pure focus on wholesale funding make it vulnerable to potential stress scenarios and might imply further shaky newsflow.

Hypo Real Estate - P&L					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Net interest income	722.0	811.0	1,290.0	1,438.6	1,566.1
Provision for loan losses	151.0	159.0	105.0	208.6	234.9
Net interest inc. after provision for loan losses	571.0	652.0	1,185.0	1,230.0	1,331.2
Commission income	125.0	145.0	225.0	292.5	380.3
Trading income	27.0	38.0	-60.0	95.0	115.0
Income from financial assets	67.0	86.0	485.0	475.3	465.8
Total operating income	946.0	1,082.0	1,990.0	2,346.4	2,567.6
Operating costs	317.0	335.0	645.0	713.4	758.1
Personnel costs	188.0	196.0	377.4	417.4	443.6
thereof: General expenses	123.0	122.0	234.9	259.8	276.1
thereof: Depreciation	6.0	17.0	32.7	36.2	38.5
Operating profit	478.0	588.0	1,240.0	1,424.4	1,574.6
Goodwill impairment	9.0	0.0	0.0	0.0	0.0
Extraordinary items	-35.0	-17.0	-325.0	-60.0	-25.0
Pre-tax profit	443.0	571.0	890.0	1,364.4	1,549.6
Taxes	103.0	142.0	220.0	327.4	371.9
Tax rate (%)	23.3	24.9	24.7	24.0	24.0
Net profit	340.0	429.0	670.0	1,036.9	1,177.7
+/- Net profit adjustments	-35.0	-13.0	100.0	65.0	25.0
Adjusted net profit	305.0	416.0	770.0	1,101.9	1,202.7
Hypo Real Estate - Balance sheet					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Assets					
Cash and due from banks	182.0	648.0	125.0	125.0	125.0
Loans and advances to banks	19,542.0	18,010.0	51,500.0	54,050.0	56,600.0
Loans and advances to customers	76,294.0	81,602.0	243,145.6	258,950.0	274,487.0
thereof: NPLs	1,847.4	1,067.0	1,167.1	1,320.6	1,482.2
Provisions for losses on loans and advances	889.0	940.0	1,013.2	1,120.1	1,227.5
Trading assets	5,696.0	11,630.0	23,250.0	22,087.5	23,081.4
Financial investments	39,139.0	41,287.0	86,000.0	84,280.0	82,594.4
Goodwill/Intangible assets	28.0	69.0	2,153.8	2,153.8	2,153.8
Deferred tax credits	4,906.0	3,559.0	3,050.0	3,050.0	3,050.0
Other assets	5,663.0	3,848.0	4,253.6	5,817.5	7,762.8
Total assets	152,339.0	161,593.0	414,491.2	431,633.9	451,082.0
Liabilities					
Deposits from other banks	22,446.0	24,609.0	108,500.0	109,500.0	115,000.0
Customer deposits	10,080.0	12,225.0	45,500.0	47,500.0	49,500.0
Securitized liabilities	95,333.0	102,511.0	137,322.3	144,993.5	151,916.1
Trade payables	3,753.0	5,745.0	6,250.0	7,150.0	8,000.0
Provisions	57.0	55.0	50.0	50.0	50.0
Deferred tax liabilities	3,596.0	2,190.0	3,250.0	3,270.0	3,290.0
Other liabilities	12,571.0	9,353.0	105,436.5	110,267.8	113,625.6
Shareholders' equity	4,503.0	4,905.0	8,182.4	8,902.7	9,700.4
Total liabilities	152,339.0	161,593.0	414,491.2	431,633.9	451,082.0

IMPORTANT REGULATORY DISCLOSURES

This research report has been prepared by Oppenheim Research GmbH, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA, and/or the research department of Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. And/or Bank Sal. Oppenheim jr. & Cie (Austria) AG (collectively, together with their affiliates, "Sal. Oppenheim").

Sal. Oppenheim's policy prohibits research analysts, strategists and research associates from investing in securities in their sub-industry as defined by the Global Industry Classification Standard, which was developed by and is the exclusive property of Morgan Stanley Capital International and Standard & Poor's. Research analysts, strategists and research associates may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that, with respect to each security or issuer that the analyst covered in this report: all of the views expressed accurately reflect his or her personal views about those securities or issuers; and no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research report.

Disclosures about potential conflicts of interest.

We refer to the following potential conflict(s) of interest:

Trading: Sal. Oppenheim jr. , Cie. KGaA and/or its affiliated entities regularly trade stock of Hypo Real Estate.

Rating system

Securities firms use a variety of rating terms and systems to describe their recommendations. Sal. Oppenheim uses a rating system with the categories STRONG BUY, BUY, NEUTRAL, REDUCE and SELL (see definitions below).

A rating system using such terms as Overweight, Equal Weight or Underweight is not equivalent to our rating system. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst's views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

The ratings in this report are based on the analyst's expectations of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The STRONG BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

The levels of change expressed in each rating categories are: STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); and SELL (< -10%).

The change in stock price results from the difference between the current share price and the analyst's performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted free cash flow model and a key comparables analysis.

In general, updated ratings are provided in connection with material events, such as changes in credit ratings, significant model adjustments and the publication of periodic financial information.

Ratings distribution

The following table discloses, for each of Sal. Oppenheim's rating categories, the percentage of (1) all companies covered by Sal. Oppenheim and (2) companies for which Sal. Oppenheim provided investment banking services during the past 12 months that received such rating.



Previous report with differing recommendation published at 2007-07-25.

ADDITIONAL INFORMATION FOR US INSTITUTIONAL CLIENTS

This research report is being distributed in the United States of America solely to major US institutional investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended). Sal. Oppenheim jr. & Cie. Securities Inc. accepts responsibility for the content of reports prepared by its non-US affiliates when distributed to major US institutional investors. Major US institutional investors who wish to effect any transaction in securities mentioned in this research report should do so with Sal. Oppenheim jr. & Cie. Securities Inc. at the address below and not with Sal. Oppenheim jr. & Cie. KGaA or any other Sal. Oppenheim affiliate.

Sal. Oppenheim jr. & Cie. Securities Inc.

250 Park Avenue, Suite 911
New York, NY 10017
Tel: +1 212 888 52 46
Fax: +1 212 888 0916

E-MAIL: jhagenbuch@sal-oppenheim.com

Sal. Oppenheim jr. & Cie. Securities Inc. is a broker-dealer registered with the Securities and Exchange Commission as well as a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

ADDITIONAL INFORMATION FOR U.K. CLIENTS

In the United Kingdom, this report is approved and/or distributed by Sal. Oppenheim jr. & Cie. KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG. Sal. Oppenheim jr. & Cie. KGaA registered as a German bank, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. registered as a Swiss bank and Bank Sal. Oppenheim jr. & Cie. (Austria) AG registered as an Austrian bank have no place of business in the United Kingdom and are not regulated under the Financial Services and Markets Act 2000. The protections provided by the U.K. regulatory system will not be applicable to the recipients of any information or documentation provided by Sal. Oppenheim jr. & Cie KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd., or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG and compensation under the Financial Services Compensation Scheme will not be available.

Any contact with analysts, brokers or other employees of Sal. Oppenheim jr. & Cie. KGaA, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. or Bank Sal. Oppenheim jr. & Cie. (Austria) AG must be directly with the relevant bank and not through the offices or employees of any other Sal. Oppenheim affiliate in the United Kingdom.

In the United Kingdom, this document is being distributed only to persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or to persons to whom it may otherwise be lawfully communicated under the Order (together, "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons.

ADDITIONAL INFORMATION FOR CLIENTS IN GERMANY, SWITZERLAND, AUSTRIA AND OTHER COUNTRIES

In Germany, this research report is approved and/or distributed by Oppenheim Research GmbH in Cologne, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA in Cologne, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

In Switzerland, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Schweiz) AG authorized by the Eidgenössische Bankenkommission (EBK).

In Austria, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Austria) AG authorized by the Finanzmarktaufsicht (FMA).

Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

FURTHER INFORMATION

For further information on how Sal. Oppenheim manages conflicts of interest and maintains independence of its research product and on certain additional disclosures concerning research recommendations, especially in light of the continuing requirements of § 34 b of the German Securities Trading Act (WpHG), please refer to the homepage of Sal. Oppenheim: http://www.oppenheim.de/de/04_research/06_compliance/04_06.htm

DISCLAIMER

This research report contains selected information and does not purport to be complete. The research report is based on publicly available information and data (the "Information") that is believed to be accurate and complete. Sal. Oppenheim has not independently verified the accuracy and completeness of the Information, nor does it guarantee such accuracy and completeness. Possible errors or incompleteness of the Information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, Sal. Oppenheim is not liable for the statements, plans or other details contained in the Information concerning the examined companies, their associated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling the Information, no assurance can be provided that the Information is complete or free from error.

Neither Sal. Oppenheim nor its shareholders and employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the Information contained in this research report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g., financial advisory or similar services, the liability of Sal. Oppenheim shall be restricted to gross negligence and wilful misconduct. In any case, the liability of Sal. Oppenheim is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. Sal. Oppenheim may perform investment banking services or other services for companies mentioned in this report. Directors or employees of Sal. Oppenheim may serve on the board of directors of companies mentioned in this report. Opinions expressed in this report are subject to change without notice.

Past performance is not a guide to future results. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is directed solely to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

© Copyright Sal. Oppenheim. All rights reserved.

ANALYSTS	SAL. OPPENHEIM JR. & CIE. KGAA	OPPENHEIM RESEARCH GMBH	BANK SAL. OPPENHEIM JR. & CIE. (SCHWEIZ) AG
<p>Thomas Stögner, Mag. (FH) Tel. +49 (0) 69/71 34 - 56 02 thomas.stoegner@oppenheim.de Oppenheim Research GmbH, Frankfurt</p> <p>Carsten Werle, CFA, Dipl.-Vw. Telephone +49 (0) 69/71 34 - 51 33 carsten.werle@oppenheim.de Oppenheim Research GmbH, Frankfurt</p>	<p>Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 – 01</p> <p>Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 – 0</p> <p>Odeonsplatz 12 80539 München Telephone +49 (89) 29 00 74 – 0</p> <p>www.oppenheim.de info@oppenheim.de</p>	<p>Unter Sachsenhausen 4 50667 Köln Telephone +49 (2 21) 1 45 – 02</p> <p>Untermainanlage 1 60329 Frankfurt am Main Telephone +49 (69) 71 34 – 0</p> <p>www.oppenheim- research.de research@oppenheim.de</p>	<p>Uraniastrasse 28 CH-8022 Zürich Telephone + 41 (44) 2 14 22 14</p> <p>SAL. OPPENHEIM JR. & CIE. KGAA, PARIS</p> <p>13, rue Royale, 75008 Paris, France Telephone + 33 (1) 44 94 64 - 00</p> <p>SAL. OPPENHEIM JR. & CIE. SECURITIES INC</p> <p>250 Park Avenue, Suite 911, New York, NY 10017 Telephone + 1 (2 12) 8 88 52 46</p>
PRODUCED BY	FURTHER LOCATIONS		BANK SAL. OPPENHEIM JR. & CIE. (ÖSTERREICH) AG
<p>Press contact: Tel. +49 221 145-1955 presse@oppenheim.de</p>	<p>Baden-Baden, Berlin, Dublin, Duesseldorf, Geneva, Hamburg, Luxembourg, Salzburg, Stuttgart, Wiesbaden</p>		<p>Palais Equitable Stock im Eisen-Platz 3 1010 Vienna Telephone + 43 (1) 518 66 0</p>