Equity Markets

Company results

ING WHOLESALE BANKING

Belgium

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Befimmo

The Kirchberg on the cake

Maintained

Buy

12 December 2006

Real estate

11/12/06

€86.25

Target price (12 mth): Maintained

€93.5

Reuters

BEFIT.BR

After its recent fall, the stock is trading 8% below our new target price. Depressed earnings guidance is actually the result of poorly timed refurbishments. Befimmo has finally announced a new acquisition.

Acquisition in Luxembourg and more precisely in the sought-after Kirchberg business district, the first since end-2003. This consists of an office building to be completed in 1H09. Despite its limited financial impact in the short run, we believe the operation should be positive for the shares from a psychological point of view. As hinted at by Befimmo, other operations are likely in Luxembourg.

New estimates, TP raised from €91.0 to €93.5, upgraded from Hold to BUY (see *Benelux Daily*, 12 December 2006). Our lower estimates for FY07-09 are mostly affected by lost rent during the refurbishment works and vacancy at the Woluwe Garden D before rents gradually pick up from FY10. Higher interest rates, the main cause of Befimmo's lower guidance, only had a limited impact on our figures. Our higher target price is a result of a poor short-term outlook more than compensated by value creation from the planned refurbishments and the acquisition in Luxembourg.

Forecasts and ratios

Yr to Sep (€m)	2006	2007F	2008F	2009F
Turnover	76.3	76.3	74.8	80.2
EBITDA	62.6	61.6	59.5	64.6
Net profit	84.5	56.4	55.8	57.1
Adj EPS (€)	4.85	4.46	4.09	4.28
Adj PER (x)	17.8	19.3	21.1	20.2
Dividend yield (%)	5.7	5.2	5.2	5.3
EV/EBITDA (x)	19.7	20.7	21.9	22.1
Price/NAV (x)	1.3	1.3	1.3	1.3
ROE (%)	10.1	7.6	7.2	7.4

Source: Company data, ING estimates

12-month forecast returns (%)

Share price	8.4
Dividend	5.7
12m f'cst total return	**14.1**

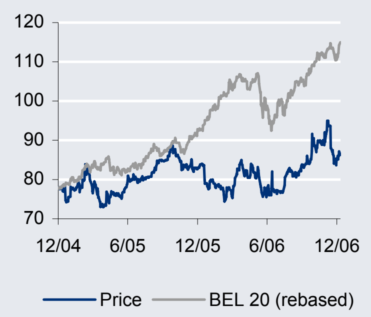
Key ratios (%)

	2006	2007F
Turnover growth	(3.7)	0.1
EBITDA margin	82.1	80.7
Operating margin	81.9	80.5
Net debt/equity	59.7	65.1
ROACE	7.6	6.1

Share data

No. of shares (m)	9.8
Daily turnover (shares)	16,673
Free float (%)	83.8
Enterprise value (€m)	1,236.2
Market cap (€m)	844.8

Share price performance



Source: ING

Investment case

Valuation

We have adjusted our estimates, raised our DCF-based target price from €91.0 to €93.5 and upgraded the stock from Hold to **BUY** (*Benelux Daily*, 12 December 2006). This is the result of a depressed short-term outlook (company guidance for FY07-09 shows CFPS down 14% to 17% versus previous guidance), but a sharp catch-up from FY10. Actually, the main culprits behind the lower guidance are the poor timing of several important projects and an unexpected vacancy[1]. These refurbishment works should result in tangible value creation in the medium term (higher rents, better occupancy) further aided by the recent acquisition in Luxembourg.

The stock trades at a sizeable discount on dividend yield and Price/NAV to its arch-rival Cofinimmo (€154.70, SELL).

The stock has been penalised since the release of this lacklustre FY07-09 guidance (-8% since November) leaving upside potential of 8.4% and total return of 14.1% to our new target price considering that the shares still trade cum the FY06 dividend (€4.92).

Positive newsflow

After admittedly a laconic financial disclosure on crucial refurbishment works, we believe the company's earnings guidance addresses all possible negative outcomes. The usual three-year earnings guidance covers the crucial transitional fiscal years FY07-09, but misses the likely strong recovery afterwards as refurbished buildings start to generate income again. It also misses the impact of the recently announced acquisition in Luxembourg (full impact expected in FY10).

In its press release related to the Luxembourg acquisition, Befimmo strongly hinted that the acquisition might be followed by others. Alongside the positive impact of this acquisition (Luxembourg is one of the few European locations still offering decent office yields), we believe this move should at last enable the Befimmo share to shrug off its image of 'sleeping partner' to the more active Cofinimmo.

Excellent quality

We believe the Befimmo property portfolio has a high-class quality on all counts even when compared with the excellent Cofinimmo portfolio. Close to 50% of Befimmo's rental income is generated by public institutions (European and Belgian state bodies), often on a long-term basis. Assets owned are young and well located. In all districts, Befimmo consistently shows occupancy above the market level.

[1] The negative impact of the WTC operation was already detailed by the company.

Valuation

Befimmo shares are trading at a 33% premium to its NAV as of end-September 2006. However, we believe it has been unduly punished since the full-year results (and uninspiring guidance) were published in November (-8%).

Undervalued versus Cofinimmo

Even the lower dividend guidance from the company still offers an attractive 5.2% gross yield (FY07F). This can be compared with Cofinimmo's estimated gross yield at 4.8%. The premium to NAV is also much lower than that of its major peer (33.5% versus 45.3% as of end-2006F for Cofinimmo). We believe Cofinimmo shares have commanded a (hefty) premium to Befimmo given the latter's less dynamic activity in the last few years. We believe this should gradually change given the recent acquisition in Luxembourg and the future impact of the refurbishments currently planned.

Fig 1 Discounted cash flow model (€m)

Yr to Sep	FY07F	FY08F	FY09F	FY10F
Operating cash flow	**54.9**	**34.5**	**(58.3)**	**65.6**
Discount factor	0.96	0.90	0.85	0.80
Present value of free cash flow	52.5	31.0	(49.3)	52.2
Cumulative present value of free cash flow	86.4			
+ Present value of terminal value	1,168.2			
+ Other financial assets (e)	0.9			
= Enterprise value	1,255.5			
- Net financial debt (group share)	(393.8)			
= Theoretical market capitalisation	**861.6**			
Fair value per share (€)	88.0			
12-month price target (€)	93.5			

Source: ING estimates

Our main assumptions are detailed below. Note the very conservative credit margin at 100bp whereas actual margins are below 50bp.

Fig 2 DCF assumptions (%)

Gearing*	46.5
Tax rate	0.00
Cost of debt before tax	4.75
Cost of debt after tax	4.75
Medium-term growth rate	2.79
Long-term growth rate	1.50
Risk-free 10Y	3.75
Risk premium	5.30
Beta	0.73
Cost of equity	7.62
WACC	6.29

* Gross gearing
Source: ING estimates

Target price of €93.5

Our new DCF model derived a target price barely changed despite the new depressed earnings prospects for FY07-09. The next three fiscal years are more the result of poor timing of several important refurbishments in addition to the vacancy at Woluwe Garden D. These investments, alongside the announced acquisition in Luxembourg, are an important step towards the optimisation of the financial structure of the company (net gearing in FY09F close to 90% versus the current 60%), which is now very suboptimal.

Our target price is €93.5. This slight improvement was the combination of a poor short-term outlook (next three fiscal years) more than compensated by the value creation of the planned refurbishments and the acquisition in Luxembourg. Our model does not assume any further acquisitions.

Risks

- Market risk: mainly exposed to the Brussels office market but mitigated by long-term leases and top tenants.
- Interest rate risk: 80% of financial debt is at floating rates, but most of it is hedged.
- Additional costs could be incurred if refurbishments overrun.
- Refurbished buildings could take longer to be re-let than our time span assumes.

Company portfolio

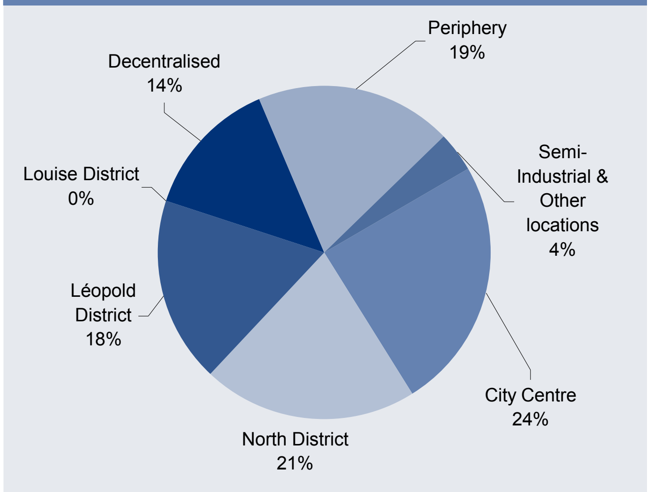
As is the case for rival Cofinimmo, Befimmo mainly invests in offices in the Brussels area (96% of rental income in-force as of end-September). The rest of the portfolio includes offices in Mons (1.5%) and semi-industrial property (2.5%). Despite its smaller size (fair value of €1.1bn versus 2.2bn for Cofinimmo), both portfolios are comparable.

A high quality portfolio…

In terms of diversification, Cofinimmo looks better than its smaller rival as at Befimmo the two largest buildings (WTC and Noord Building) together account for c.25% of rental income (15% at Cofinimmo). However, these two assets are rented on a long-term basis to public bodies. The latter make close to 49% of rents in-force at Befimmo, ie, substantially above Cofinimmo (32%). Another point is the average age of the portfolio; here too Befimmo scores well with 58% of its portfolio younger than ten years.

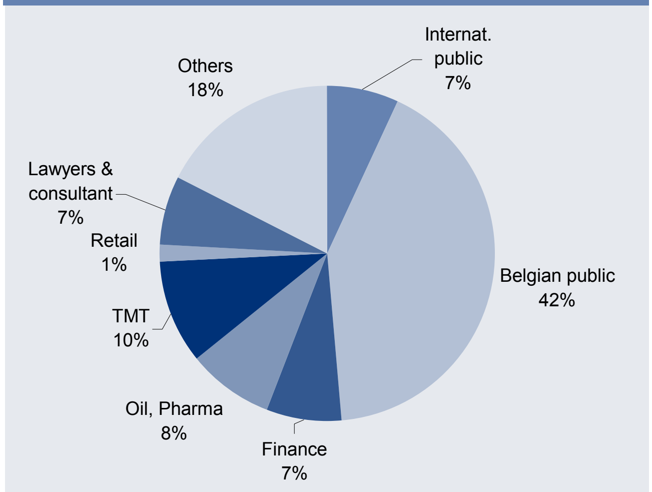
We also like the geographic spread of the portfolio with a low weight of the Decentralised area (14% versus 31% at Cofinimmo). The weight of the Periphery (offices) stands at 19%, admittedly above Cofinimmo (11%), but we are positive on that location, especially versus Decentralised locations. The North District represents 21% of the portfolio and concerns two assets (WTC and Noord Building leased on a very long-term basis to public bodies, until end-2018 and January 2017 respectively). On duration, the top 20 tenants represent c.71% of rental income with an average duration of 7.3 years.

Fig 3 Geographic portfolio breakdown



Source: Company data – as % of portfolio investment value

Fig 4 FY06 rental income breakdown by tenant



Source: Company data

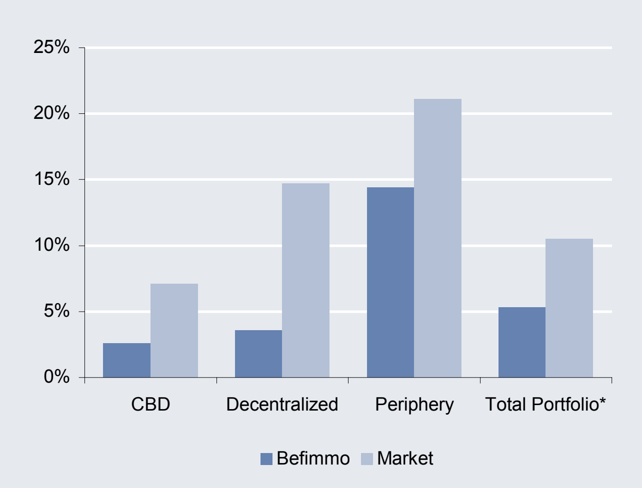
Befimmo portfolio occupancy remains well above market levels. Actually, both Befimmo and Cofinimmo have managed to consistently outperform market occupancy figures. However, occupancy can be easily 'improved' with low rents or high rental incentives. SICAFIs usually disclose 'spot' occupancy figures (ie, occupancy at a specific moment[2]) rather than more economically meaningful average figures.

[2] Usually computed dividing in-force rents of let areas (ex rental incentives) by in-force rents and estimated rent on vacancies. A more meaningful measure of actual occupancy is the actual rent income booked during the considered period (this including the effect of rental incentives) divided by the annualised 'normal' rent + estimated rent on vacancies. IAS complicates things further by requiring rental incentives to be spread over the lease duration.

… but several issues cloud upcoming results

All in all, we believe the Befimmo property portfolio offers a quality equivalent if not superior to that of Cofinimmo despite its smaller size. However, several 'problematic' buildings are expected to affect future results as they are likely to be refurbished after the departure of their current tenants. In addition, Befimmo has to cope with an unexpected departure of an important tenant.

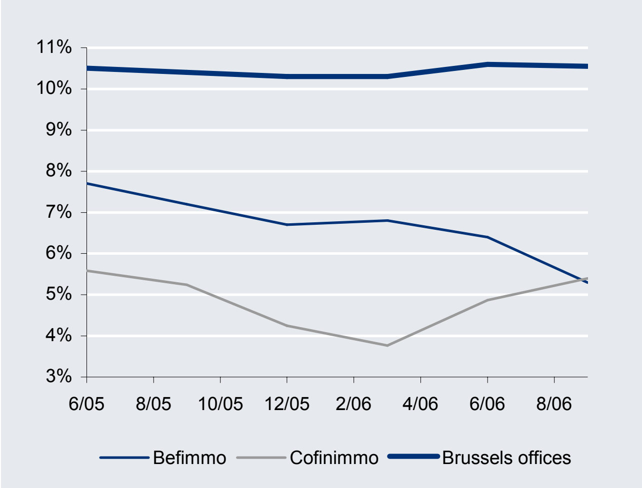
Fig 5 Spot vacancy per segment as of 30/09/06



Versus total Brussels office market

Source: Company data, Jones Lang LaSalle

Fig 6 Spot vacancy evolution



Source: Company data, Jones Lang LaSalle

Agreement reached on the WTC building but at a price…

The first issue has been known since February and is the WTC building (16% of rents). As a reminder, the original owner (Belgian Post) wanted to leave the huge building but was stuck with a long-term lease (until 2016). A deal was closed with the Belgian state. The latter will take over the lease (via the state agency Régie des Bâtiments) from 2009. Although it had a strong case against the Belgian Post, Befimmo is nevertheless relieved to obtain a willing first-class tenant and a lengthened lease (until end-2018).

Fig 7 WTC operation – financial impact (€000)

Yr to Sep	FY06F	FY07F	FY08F	FY09F
Inflation	0.018			
Margin (%)	0.30			
3M interest rate (%)	2.90	4.03	4.11	4.11
Discount factor	0.97	0.93	0.90	0.86
No. of shares	9,794,227	9,794,227	9,794,227	9,794,227
Rent rebates	0	325	1300	375
Charge rebates	625	625	1250	625
Impact on CF	(625)	(950)	(2550)	(1000)
Per share (€)	(0.06)	(0.10)	(0.26)	(0.10)
Renovation expenses	0	4000	11000	3500
Average additional debt	312.5	3,100.0	12,350.0	21,375.0
Additional int. expenses	(9.1)	(124.8)	(507.9)	(879.0)
Per share (€)	0.00	(0.01)	(0.05)	(0.09)
Total CFPS impact per share (€)	(0.06)	(0.11)	(0.31)	(0.19)
Befimmo guidance (€)	*(0.06)*	*(0.13)*	*(0.37)*	*(0.13)*
Revaluation effect	607.4	887.5	2,288.1	861.8
Per share (€)	0.06	0.09	0.23	0.09
Total EPS impact per share (€)	0.00	(0.02)	(0.08)	(0.10)
Befimmo guidance (€)	*(0.07)*	*(0.01)*	*(0.04)*	*(0.06)*

Source: Company data, ING estimates

However, this has a price as Befimmo has granted to the tenant renovation works at its own expense (from June 2007 until December 2008, worth c.€18.5m), rebates on charges normally paid by the tenant and lower rent. In the February 2006 press release, Befimmo succinctly quantified the financial impact of these arrangements. Figure 7 includes these figures alongside our own assessment. Our figures are more prudent. In addition to the unavoidable approximations, one has to remember that the company's projections are now quite old when short-term interest rates were nearly 100bp lower. The impact on cash flow is the sum of rent rebates, rebates and additional interest expenses. The impact on EPS is lower as in addition to the cash impact, it includes a non-cash revaluation effect (each year less future negative actualised cash flows have to be deducted from the value of the building) similar to the North Galaxy[3] (Cofinimmo). All in all, we estimate the impact of the WTC operation on EPS to be fairly substantial at €0.08 in FY08. The impact on CFPS is much higher and is expected to peak in FY08 at €0.37.

Extension Justice building to be refurbished from March 2008

Befimmo is also currently preparing the refurbishment of the Extension Justice building (over 15 years old). Permits have been obtained and works will start as soon as the current tenant (Ministry of Justice) leaves the building (March 2008). The total cost amounts to €18.2m and no rental income is expected during the works. Given its excellent location, we assume the building is re-let from July 2010, ie, some three months after the completion of the works at an annual rent of €200/sq m (currently c.€160/sq m). The negative impact of the refurbishments (no rental income, higher indebtedness) should peak in FY09 and FY10.

Bréderode 2 building to be refurbished from February 2007

Another building to be refurbished is the Bréderode 2, built in 1993; work will start as soon as the current tenant (a government agency) leaves the building at end-February 2007. We assume a new lease from October 2008 at €190/sq m (currently at an impressive €260/sq m). Work will be relatively 'light' and is expected to be completed in early 2008.

Central Gate building to be upgraded

The company is also preparing the Central Gate (ex Shell Building) refurbishment. After considering a 'light' refurbishment in order to position the building in the mid-range segment, Befimmo now wants a complete renovation (c.€20m) in order to market this landmark building at the top of the range in a location (city centre) with very low vacancy and with few speculative projects expected in the coming years. The current vacancy (c.25%) allows refurbishment without having to vacate the building; alongside a general upgrade, the final work will be completed floor by floor as soon as a tenant leaves. We assume a stable occupancy at current levels and a gradual readjustment of rents towards €200/sq m from 2010 (currently below €150 on average).

Finally, Befimmo announced the departure of an important tenant from its Woluwe Garden D building from end-2006. We assume the building will be re-let without major work from March 2008 (12 months of effective vacancy, ie, including likely rent-free periods).

Fig 8 Expected investments on property (€000)

Yr to Sep	FY07F	FY08F	FY09F	FY10F
WTC	4,000	11,000	3,500	
Extension Justice	200	6,000	12,000	
Bréderode 2	2,000	1,300	0	
Central Gate	300	2,500	12,500	4,500
Woluwe Garden D				
Total	**6,500**	**20,800**	**28,000**	**4,500**

Source: Company data, ING estimates

[3] North Galaxy revaluation is related to the sale of future rents. Each year less future actualised rents need to be deducted to obtain the fair value of the building.

Guidance and outlook

At the November release of its FY06 results, Befimmo surprised the market with new, sharply lower, earnings guidance for FY08 versus its previous release in February. So what went wrong?

We have already discussed the WTC issue which triggered updated earnings guidance in February. The new guidance comes as a surprise as, putting aside the WTC issue and higher interest rates, the above-mentioned refurbishments and the vacancy at Woluwe Garden D were total surprises not mentioned by the company until now. Befimmo believes that alongside slightly less favourable occupancy and inflation forecasts (1.75% pa versus 2.0% before), the main culprit is a less rosy interest rate environment.

Overall, new earnings guidance is 14-17% lower in terms of CFPS. In terms of DPS, the fall is less sharp but, for the first time in its history, Befimmo will let its dividend per share fall; in the past, Befimmo has hinted that future dividend growth might be 'covered' by the capital gains from the Borschette building.

Fig 9 Company earnings guidance (€ per share)

Yr to Sep	FY06F	FY07F	FY08F	FY09F
Guidance December 2005				
Net current CFPS	4.88	5.24	5.33	
Net CFPS	4.93	5.24	5.33	
Gross DPS	4.92	5.04	5.17	
Inflation** (%)	2.0	2.0	2.0	
Average occupancy (%)	91.9	92.7	93.7	
3M Euribor (%)	2.5	2.7	3.0	
Guidance February 2006				
Net current CFPS	4.82	5.11	4.96	
Net CFPS	4.87	5.11	4.96	
Gross DPS	4.92	5.04	5.17	
Guidance December 2006				
Net current CFPS	4.88*	4.42	4.10	4.42
diff. vs. February guidance	*0.06*	*(0.69)*	*(0.86)*	
Net CFPS	4.84*	4.42	4.10	4.42
diff. vs. February guidance	*(0.03)*	*(0.69)*	*(0.86)*	
Gross DPS	4.92*	4.45	4.50	4.55
diff. vs. February guidance	*0.00*	*(0.59)*	*(0.67)*	
Inflation** (%)	1.85*	1.8	1.8	1.8
Average occupancy (%)	91.0*	91.1	91.1	91.4
3M Euribor (%)	2.8*	3.7	3.7	3.7

* actual

** 'health' index

Source: Company data

A new investment in Luxembourg

Befimmo recently announced, at last, a new investment in Luxembourg and more precisely in the sought-after Kirchberg business district[4], its first since end-2003 and its first outside Belgium. It consists of an office building to be completed in the first half of 2009. No immediate impact is therefore expected in the short run. The total investment amounts to c.€95m[5]. No financial details were disclosed but Befimmo believes the

[4] Current vacancy below 2% versus 5.6% for the Luxembourg city overall office market (source: Jones Lang LaSalle).

[5] Investment value of Axento SA, the company owning the building.

operation should add €0.15 to CFPS. According to our calculations, this is equivalent to a property yield slightly below 6%. We assume rental income from April 2009 (six months during FY09). Befimmo was granted an 18-month rent guarantee by the seller; according to us, this is more than enough to find a first-class tenant should the building not be leased before completion.

Despite its limited financial impact in the short run, we believe this operation should be very positive for the share from a psychological point of view. In addition, Luxembourg offers an interesting diversification in a healthy and booming market. As hinted at by the company, other operations are likely in Luxembourg; the investment capacity of Befimmo (close to €800m as of end-September, expected at €716m in 2009 pre-deal) is only partially used.

Our new estimates and assumptions are detailed below. Assumptions are close to the ones adopted by the company. It can be noted that the impact of higher interest rates only partially explains lower estimates as we already discounted higher rates. Our lower estimates are mostly affected by lost rent in FY07-09 during the refurbishment work (and vacancy at the Woluwe Garden D) before rents gradually pick up from FY10.

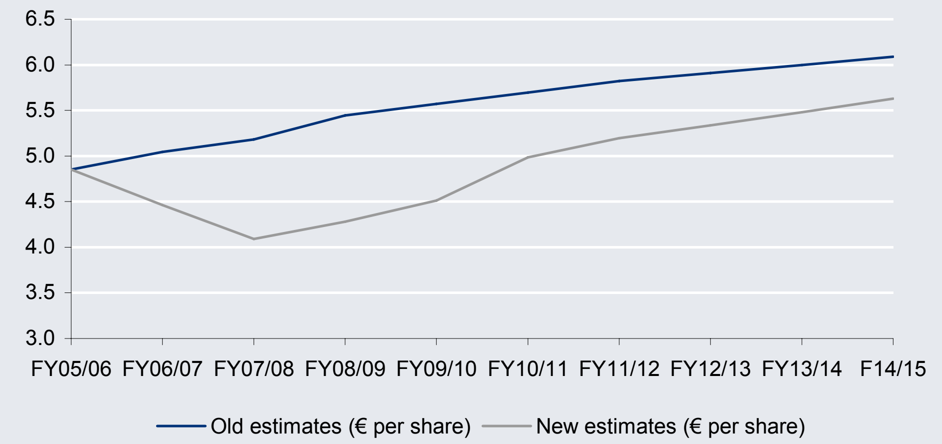
Fig 10 ING earnings revisions (€ per share)

Yr to Sep	FY06	FY07F	FY08F	FY09F	FY10F	FY11F	FY12F
Old net current EPS estimates	4.90	5.04	5.18	5.44	5.57	5.70	5.82
Refurbishment***		(0.04)	(0.06)	(0.16)	(0.24)	(0.27)	(0.30)
Lost/additional rents		(0.23)	(0.45)	(0.45)	(0.30)	0.12	0.21
Higher interest rates		(0.22)	(0.32)	(0.36)	(0.34)	(0.34)	(0.34)
Axento acquisition				0.02	0.14	0.15	0.17
Other adjustments		(0.09)	(0.26)	(0.21)	(0.31)	(0.38)	(0.37)
New net current EPS estimates	**4.85***	**4.46**	**4.09**	**4.28**	**4.51**	**4.99**	**5.19**
Inflation** (%)		2.2	1.9	1.8	1.8	1.8	1.8
Average occupancy (%)		92.8	90.4	91.5	92.6	94.6	95.3
3M Euribor (%)		3.7	3.7	3.7	3.7	3.7	3.7

* Actual
** Health index
*** Additional interest expenses
Source: ING estimates

More fundamentally, this shows that a lot of the deterioration during the next three fiscal years has to do with poor timing of important works arriving together in addition to the current lacklustre property environment.

Fig 11 ING net current EPS estimates (€)



Source: ING estimates

FY06 results

FY06 (closed end-September) results were roughly in line with our estimates and market expectations.

The net current result was €47.5m (-5.0%, €48.0m expected) and net current EPS €4.85 (ING estimate €4.90). Consensus expectations were slightly lower at €47.2m and €4.83 per share, respectively.

This fall was the result of expected lower rental income (the full effect of the Borschette and Charleroi disposals), higher costs (especially general & corporate expenses; bear in mind the intensive investment activity related a/o the state SICAFI in 2H) and lower net interest expenses, all roughly in line with our earnings scenario. Interest expenses were helped by low average interest rates but also the effect of very low margins on a new syndicated loan.

Spot occupancy as of end-September 2006 stood at a rosy 94.7% (versus 92.8% one year ago) despite the disposal of two assets (Borschette and Charleroi) 100% leased. However, average occupancy was roughly unchanged (91.0% versus 89.8%) but was much lower than the spot level. Let's recall that the latter – roughly rental income cashed in during the considered timeframe divided by rental income plus estimated rent on vacancies – offers a more realistic picture than the former which considers at a particular moment all occupied areas even if they do not bring any income (for example, in the case of rent-free periods).

As expected, and promised by the company, gross DPS to be paid in December is up 2.5% at €4.92. Reported results at €66.0m (+1.8%) were helped by higher-than-expected unrealised gains (€18.0m, €11.0m for 2H alone), which compensated for the lack of capital gains on disposals this year. As a result, NAVPS before profit appropriation was also higher than expected at €67.41 (+2.9%, €66.27 expected).

Fig 12 Main P&L items (€m)

Yr to Sep	1H05	2H05	FY05	1H06	2H06	YoY %ch	FY06	YoY %ch
Rents	**39.4**	**39.9**	**79.2**	**37.9**	**38.4**	**(3.8)**	**76.3**	**(3.7)**
% change rents		*1.3*			*1.2*			
Other operating income	3.0	(3.4)	(0.4)	2.7	(3.0)	(13.0)	(0.3)	(28.9)
Operating expenses	(8.2)	(4.5)	(12.7)	(9.4)	(4.1)	(8.1)	(13.5)	6.6
EBIT	**34.1**	**32.0**	**66.1**	**31.1**	**31.3**	**(2.2)**	**62.5**	**(5.6)**
Net interest	(8.3)	(7.2)	(15.5)	(6.5)	(7.8)	9.4	(14.3)	(7.5)
Tax	(0.5)	(0.1)	(0.7)	(0.5)	(0.1)	(25.2)	(0.6)	(5.9)
Current net profit	**25.3**	**24.7**	**50.0**	**24.2**	**23.4**	**(5.4)**	**47.5**	**(5.0)**
Realised capital gains	0.0	13.6	13.6	0.5	0.0	(100.0)	0.5	(96.4)
Unrealised capital gains	1.4	(0.1)	1.3	7.0	11.0	NM	18.0	NM
Net profit	**26.7**	**38.2**	**64.9**	**31.6**	**34.4**	**(9.9)**	**66.0**	**1.8**

2005 data IFRS restated
Source: Company data

Comments on financials

- Since FY06 Befimmo publishes its results according to IFRS (FY05 figures restated).
- Properties are now booked at 'fair value' (IAS40) which is the investment value minus 2.5%; the latter is a compromise figure lower than official transfer costs in Belgium (10% or 12.5% depending on the Region) as most SICAFIs do not actually pay full transfer costs.
- Most of the financial debt is financed at short-term rates. However, Befimmo hedges its interest rate exposure. The hedging only works at high interest rates (current cap for €368m at 5%) but the trigger will be lowered from January 2009 (twin caps at 3.5-5.0% for €200m).

Income statement (€m)

Yr to Sep	2006	2007F	2008F	2009F
Turnover	76.3	76.3	74.8	80.2
Total operating revenues	76.3	76.3	74.8	80.2
Costs of goods sold	(76.3)	(76.3)	(74.8)	(80.2)
Other operating costs	(13.3)	(14.4)	(15.0)	(15.4)
Depreciation	(0.2)	(0.2)	(0.2)	(0.2)
Total operating costs	(13.5)	(14.6)	(15.1)	(15.5)
EBIT before exceptionals	62.5	61.4	59.4	64.4
Operating exceptionals	18.0	6.3	7.9	7.6
Profit/loss on sale of tangible fixed assets	0.5	0.0	0.0	0.0
EBITA	**62.5**	**61.4**	**59.4**	**64.4**
Operating profit	**62.5**	**61.4**	**59.4**	**64.4**
EBITDA	**62.6**	**61.6**	**59.5**	**64.6**
Net interest income	(14.3)	(17.1)	(18.8)	(21.9)
Net financial charges	(14.3)	(17.1)	(18.8)	(21.9)
Adj pre-tax profit	48.1	44.3	40.6	42.5
Exceptionals & GW	18.5	6.3	7.9	7.6
Pre-tax profit	**66.6**	**50.6**	**48.4**	**50.1**
Taxes	(0.6)	(0.6)	(0.5)	(0.6)
Extraordinary items (net)	18.5	6.3	7.9	7.6
Group profit	84.5	56.4	55.8	57.1
Net profit	**84.5**	**56.4**	**55.8**	**57.1**
Net attributable profit	84.5	56.4	55.8	57.1
Adj net attributable profit	47.5	43.7	40.1	41.9
Net attributable profit from ordinary ops	66.0	50.0	47.9	49.5
Dividend on ordinary shares	(48.2)	(43.6)	(44.1)	(44.6)
Retained earnings	36.3	12.8	11.7	12.5

Source: Company data, ING estimates

Cash flow (€m)

Yr to Sep	2006	2007F	2008F	2009F
EBITDA (CF)	63.1	61.6	59.5	64.6
Change in working capital	3.5	0.7	(3.5)	1.4
Operating cash flow (pre-tax)	66.6	62.2	56.0	66.0
Cash taxes	(0.6)	(0.6)	(0.5)	(0.6)
Operating cash flow (after-tax)	66.0	61.6	55.5	65.4
Net financial charges	(14.3)	(17.1)	(18.8)	(21.9)
Capital expenditure (net of disposals)	2.4	(6.5)	(20.8)	(123.4)
Free cash flow	**54.1**	**38.0**	**15.9**	**(79.9)**

Source: Company data, ING estimates

Balance sheet (€m)

Yr to Sep	2006	2007F	2008F	2009F
Total fixed assets and L/T investments	0.0	0.0	0.0	0.0
Working capital	13.3	11.9	11.0	11.8
L/T non-interest-bearing liabilities	40.0	39.3	34.9	37.0
Enterprise net assets	(26.7)	(27.4)	(23.8)	(25.2)
Group equity	660.2	662.1	666.4	671.9
Net debt	393.8	431.1	459.0	583.1
Capital employed	1,054.1	1,093.2	1,125.4	1,255.0
L/T debt	91.4	101.4	111.4	121.4
L/T hybrid debt	0.0	0.0	0.0	0.0
L/T non-interest-bearing liabilities	40.0	39.3	34.9	37.0
Minority interests (equity)	0.0	0.0	0.0	0.0
Shareholders' equity	660.2	662.1	666.4	671.9

Source: Company data, ING estimates

Per share and other data

Yr to Sep	2006	2007F	2008F	2009F
Per share data (€)				
Adj EPS	4.85	4.46	4.09	4.28
DPS	4.92	4.45	4.50	4.55
NAV	67.41	67.60	68.04	68.60
Ratios (%)				
EBITDA margin	82.1	80.7	79.6	80.4
Operating margin	81.9	80.5	79.4	80.3
EBITDA growth	(5.6)	(1.7)	(3.3)	8.5
Operating profit growth	(5.6)	(1.7)	(3.3)	8.5
Adj tax rate	1.3	1.4	1.2	1.3
ROE	10.1	7.6	7.2	7.4
ROACE	7.6	6.1	5.9	5.9
Net debt/equity	59.7	65.1	68.9	86.8
Valuation (x)				
EV/turnover	16.2	16.7	17.4	17.8
EV/EBITDA	19.7	20.7	21.9	22.1
Adj PER	17.8	19.3	21.1	20.2
Price/NAV	1.3	1.3	1.3	1.3
P/FCFPS	15.6	22.2	53.2	(10.6)
Adj PEG	(3.6)	(2.4)	(2.5)	4.3
Dividend yield (%)	5.7	5.2	5.2	5.3

Source: Company data, ING estimates

Company profile

Listed in 1995, Befimmo is the first closed-end property investment company established under the SICAFI/V-BEVAK legislation (ex-Service Flats). Assets consisted mainly of properties formerly held by Bernheim-Comofi (now part of Fortis), which, as statutory manager, retains managing control of Befimmo despite the dilution of its stake.

In 2001, Befimmo merged with Cibix, resulting in further marginalisation of non-office assets and a higher weight of offices in central Brussels versus the Brussels periphery, not a bad thing as the latter continues to suffer in the current economic context. Since the acquisition of the Poelaert building (December 2003), a 14,000m^2 office building fully leased to the Belgian state for 18 years, no new acquisitions have taken place reflecting the lack of investment opportunities. However, Befimmo has not been idle; several important issues were addressed recently such as the disposal of non-strategic assets (Charleroi), the sale of the huge Borschette conference centre and an agreement on the allegedly asbestos-plagued WTC building (the state took over the Belgian Post lease and extended it until end-2018). With a vacancy rate above 25%, the Central Gate (ex-Shell) building remains the main challenge in the short term, but its excellent location and the planned refurbishment should eventually help its full occupancy at higher rents. Other issues are the planned refurbishments of the Bréderode 2 and Extension Justice buildings and the expected vacancy at the Woluwe Garden D building.

Strategy

As a registered SICAFI, Befimmo's sole activity is the active management of a property portfolio. Its assets consist mainly of office premises located in/around Brussels. A main feature of the portfolio is its low-risk profile epitomised by the high weight of government-like tenants, the relatively low contribution of decentralised and periphery Brussels locations and the high rental duration (61% of rents guaranteed until 2009). It also holds hi-tech and semi-industrial buildings in Brussels and other attractive areas (Brussels-Antwerp axis). Given the lack of suitable investment opportunities, the company recently hinted it might expand abroad, albeit only for a small portion of its portfolio. A first investment was recently announced in Luxembourg.

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