

## Appealing 6.5% yield

Befimmo declined by -3% ytd vs. +21% return for the European Continent. As a result the stock is now closely trading to our +12M EFV of EUR 71.4, leading us to upgrade to Neutral. We believe Befimmo is an attractive trading idea at current, since dividend is secured for the coming years and translates into an attractive 6.5% 2007 yield, which is the highest on the Continent after VastNed O/I.

- Low risk, safe bet** We regard Befimmo as one of the lowest risk stocks on the Continent due to a: I) Solid tenant base (50% public sector tenants), II) Long leases (>50% of leases run longer than 9yrs) and III) High (65%) exposure to the low risk Brussels CBD office market. Moreover, the current yield on portfolio (7.7% gross; 7.0% NOI) is conservative, certainly given the fact that the prime NOI yield in Brussels stands at 5.5% and the spread with LT bond yields (3.6%) amounts to 340bps. We currently have only marginal revaluation assumptions in our model (+0.5% per annum), which could be conservative given the high spread.
- Dividend is secured** We expect the recurring CFPS to slightly decrease in 2006 to EUR 4.95 (due to sale of Borschette in 2005) but to recover as from 2007 by 2-3% per annum, which is mainly indexation. We consider the Brussels office rental market among the weakest in 2006 and expect rents to fall slightly in specific sub markets. However, with 15% of leases expiring the next 3 yrs, impact on Befimmo will be modest, though negative. Nevertheless, management stated that dividends are secured (at least stable at EUR 4.80) by the cap gain from the Borschette sale (EUR 14m).
- Trading idea, at a 6.5% dividend yield** Given this certainty, the stock trades at an attractive 6.5% dividend yield, which is the highest on the Continent after VastNed O/I. We believe the attractive yield together with the low risk profile of Befimmo is an interesting trading idea in the current market of stretched valuations of European property stocks. In the same category we also like Affine (9.5% CF yield; ADD rating) and VastNed O/I (6.8% CF yield; ADD rating).

Top 5 dividend yields on European Continent (all valuations based on 2007 Kempen estimates)							
Stock	Price	CFPS	CF yield	DPS	Yield	NNAV	P/NNAV
VastNed Offices	27.0	1.84	6.8%	1.84	6.8%	25.0	8%
Befimmo	75.3	5.06	6.7%	4.90	6.5%	62.7	20%
STE	89.0	8.44	9.5%	5.60	6.3%	83.6	6%
VastNed Retail	62.7	3.92	6.3%	3.92	6.3%	56.3	7%
Nieuwe Steen	22.4	1.43	6.4%	1.43	6.4%	17.6	27%

Source: Kempen & Co estimates

- Upgrade to Neutral** Due to the recent share price decline, we upgrade Befimmo from Reduce to Neutral since the stock trades closely to its +12M EFV of EUR 71.4 per share. Befimmo trades at a realistic 2007E 6% EBITDA yield and an attractive 2007E 6.7% CF yield.

- Further triggers** include yield compression (we now assume marginal revaluation) based on the high spread between NOI yield and bond yields, as well as debt-financed acquisitions (EUR 140m firepower) abroad.

Rating

**NEUTRAL**

(from REDUCE)

Price target (12m) **€71.4**

Closing price (3 March 2006) **€75.3**

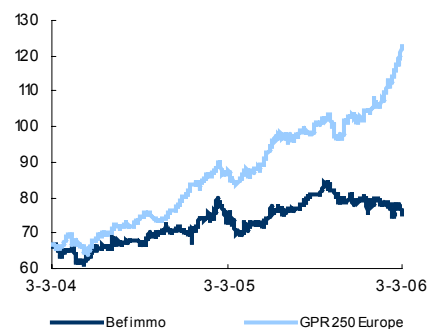
Upside / downside **1,3%**

Date **6 March 2006**

Fiscal Year	2005	2006E	2007E	2008E
Net rental income (€m)	71,4	70,4	71,5	73,1
EBITDA (€m)	65,5	64,8	65,8	67,4
Net Income (€m)	62,6	54,7	60,3	66,7
Recurring CF p/s (€)	5,05	4,95	5,06	5,22
Indirect result p/s (€)	1,35	0,63	1,10	1,60
EPS (€)	6,40	5,58	6,15	6,81
Dividend (€)	4,80	4,80	4,90	5,00
NNAV (€)	60,5	61,5	62,7	64,5
P/NNAV-1	30,7%	22,3%	20,0%	16,7%
EBITDA/EV	5,6%	6,0%	6,1%	6,2%
Recurring CF Yield	6,4%	6,6%	6,7%	6,9%
Earnings Yield	8,1%	7,4%	8,2%	9,1%
Dividend Yield	6,1%	6,4%	6,5%	6,6%

Source: Company Data, Kempen & Co Estimates

### BEFB BB vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	-3,4%	-4,6%	3,1%
Rel. to GPR 250 Europe	-10,6%	-19,9%	-26,7%

Source: Factset

### Share data

52-Week range	€88.50 - 73.00
Market cap	€737,02m
Number of shares	9,8m
Average daily volume	9.699
Free float	84%

### Company data

Bloomberg / Reuters **BEFB BB / BEFB.BR**

### Analyst

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# Befimmo

Property ■ Belgium

Income Statement	2003	2004	2005	2006E	2007E	2008E
Gross rental income	77.6	78.3	77.9	76.8	77.9	79.5
Operating costs	-4.2	-5.6	-6.4	-6.4	-6.4	-6.4
Net rental income	73.3	72.7	71.4	70.4	71.5	73.1
Sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Costs of sales (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Sales result (developments)	0.0	0.0	0.0	0.0	0.0	0.0
Overhead costs	-5.6	-6.4	-6.2	-6.1	-6.2	-6.2
Other income	0.7	0.3	0.2	0.5	0.5	0.5
Other costs	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	68.5	66.5	65.5	64.8	65.8	67.4
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	68.5	66.5	65.5	64.8	65.8	67.4
Net financial	-15.8	-15.1	-15.4	-15.6	-15.6	-15.6
EBT	52.7	51.4	50.1	49.1	50.2	51.8
Taxes	-0.1	-0.7	-0.7	-0.7	-0.7	-0.7
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment result	52.6	50.8	49.5	48.5	49.5	51.1
Sales result	0.0	2.6	13.2	0.0	0.0	0.0
Revaluation Property	-5.9	-2.6	0.0	6.2	10.8	15.6
Taxation on revaluation	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation financial instruments	0.3	0.0	0.0	0.0	0.0	0.0
Total indirect investment result	-5.6	0.0	13.2	6.2	10.8	15.6
Net profit	47.0	50.7	62.6	54.7	60.3	66.7

Per share data	2003	2004	2005	2006E	2007E	2008E
Number of shares	9.8	9.8	9.8	9.8	9.8	9.8
Average number of shares	9.8	9.8	9.8	9.8	9.8	9.8
Direct investment result per share	5.37	5.18	5.05	4.95	5.06	5.22
Indirect investment result per share	-0.57	0.00	1.35	0.63	1.10	1.60
EPS (IFRS)	4.80	5.18	6.40	5.58	6.15	6.81
CFPS (recurring)	5.37	5.18	5.05	4.95	5.06	5.22
Dividend per share	4.45	4.62	4.80	4.80	4.90	5.00
Payout ratio %	83%	89%	95%	97%	97%	96%
NNAV per share	56.68	58.38	60.52	61.51	62.72	64.46
NAV per share	56.68	58.38	60.52	61.51	62.72	64.46

Balance sheet	2003	2004	2005	2006E	2007E	2008E
Investment property	1,054.7	1,125.4	1,090.0	1,046.2	1,057.0	1,072.6
Financial fixed assets	10.1	3.7	1.4	1.4	1.4	1.4
Other fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets	1,064.8	1,129.2	1,091.4	1,047.6	1,058.4	1,074.0
Receivables	6.4	8.2	8.2	7.4	7.5	7.8
Cash and banks	13.9	2.7	9.5	122.7	120.2	121.3
Other current assets	17.1	12.2	6.6	6.6	6.6	6.6
Total current assets	37.4	23.1	24.3	136.7	134.3	135.7
Total assets	1,102.2	1,152.3	1,115.7	1,184.3	1,192.7	1,209.7
Shareholders' equity	601.3	603.9	623.3	631.1	643.4	661.1
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	601.3	603.9	623.3	631.1	643.4	661.1
Provisions	4.8	5.8	5.2	5.2	5.2	5.2
Long interest bearing debt	117.7	186.8	116.9	186.8	184.7	183.6
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total long term liabilities	122.5	192.6	122.1	192.0	189.9	188.8
Short term debt	304.9	283.2	297.5	283.2	283.2	283.2
Other current liabilities	73.5	72.6	72.8	77.9	76.2	76.6
Total current liabilities	378.4	355.8	370.3	361.2	359.4	359.8
Total equity and liabilities	1,102.2	1,152.3	1,115.7	1,184.3	1,192.7	1,209.7

Financing Ratio's	2003	2004	2005	2006E	2007E	2008E
Equity-to-assets %	54.6%	52.4%	55.9%	53.3%	53.9%	54.7%
Net gearing %	68.0%	77.4%	65.0%	55.0%	54.0%	52.3%
Interest cover	4.3	4.4	4.3	4.1	4.2	4.3

Valuation	2003	2004	2005	2006E	2007E	2008E
Enterprise value	1,069.0	1,178.1	1,179.4	1,084.3	1,084.7	1,082.5
Market Cap	660.3	710.7	774.5	737.0	737.0	737.0
P/NNAV-1	18.9%	24.3%	30.7%	22.3%	20.0%	16.7%
EBITDA/EV	6.4%	5.6%	5.6%	6.0%	6.1%	6.2%
Recurring Cash Flow Yield	8.0%	7.1%	6.4%	6.6%	6.7%	6.9%
Earnings Yield	7.1%	7.1%	8.1%	7.4%	8.2%	9.1%
Dividend Yield %	6.6%	6.4%	6.1%	6.4%	6.5%	6.6%

Model updated: 03 March 2006

Rating

**NEUTRAL**

(from REDUCE)

Price target (12m)

€71.4

Closing price (3 March 2006)

€75.3

Upside / downside

1,3%

Date

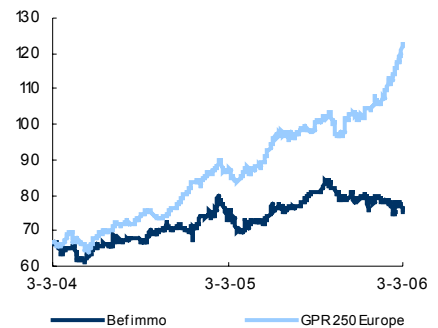
6 March 2006

### Company description

Tax efficient property company with focus on offices in the greater Brussels area (Belgium)

Website: www.befimmo.be

### BEFB BB vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	-3.4%	-4.6%	3.1%
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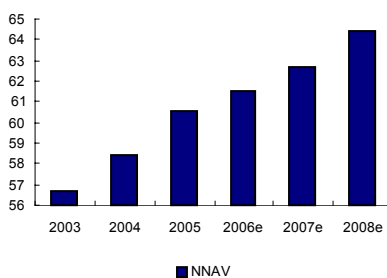
### Analyst

Matthijs Storm

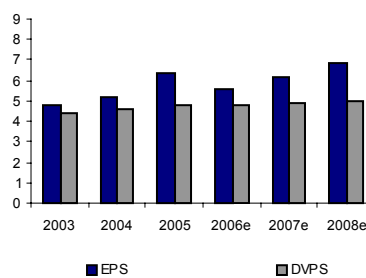
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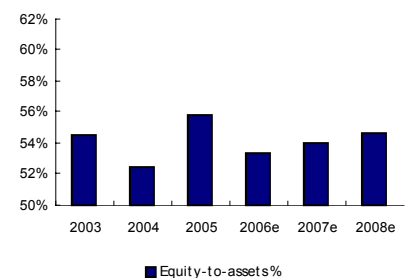
### NNAV



### EPS & Dividends



### Equity-to-assets



Source: Company Data, Kempen &amp; Co



## Disclosures

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### Regulatory disclosure

#### Company mentioned in this report

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### Recommendation structure

#### Definitions

<b>Method</b>	Combination of cash flows, NNAVs, relative valuation and our fair value analysis. The Kempen & Co equity fair value analysis calculates the returns the company is expected to generate going forward. If these returns exceed the returns that are perceived as 'fair', we consider the company's fair value to be higher than the NNAV and vice versa.
<b>Sell</b>	Expected negative total return of 20% or more on a 12 month basis.
<b>Reduce</b>	Expected negative total return of 5% or more on a 12 month basis.
<b>Neutral</b>	Expected total return between 5% to -5% on a 12 month basis.
<b>Add</b>	Expected positive total return of 5% or more on a 12 month basis.
<b>Strong Buy</b>	Expected positive total return of 20% or more on a 12 month basis.
<b>Under review</b>	Rating and/or price target are under review in case there is insufficient basis for determining a rating and/or price target.
<b>Not rated</b>	Rating and price target are suspended because of Kempen & Co's engagement in an investment banking transaction and in certain other circumstances.
<b>Price Target</b>	Expected share price in 12 months.

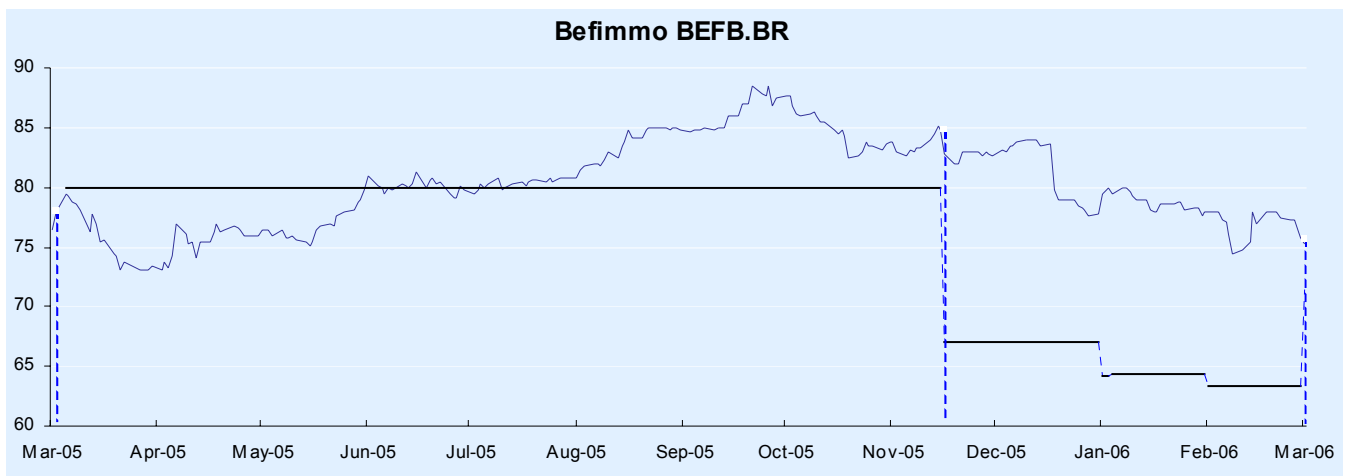
### Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
STRONG BUY	1 (3%)	0%
ADD	12 (30%)	54%
NEUTRAL	17 (43%)	15%
REDUCE	10 (25%)	31%
SELL	0 (0%)	0%
<b>Total</b>	<b>40 (100%)</b>	<b>100%</b>

### Stock price, price target and recommendation history

#### Befimmo (BEFB BB)

Date	Close	Price target	Rating
3-Mar-06	75.25	71.42	NEUTRAL
18-Nov-05	82.85	67.10	REDUCE
7-Mar-05	79.50	80.00	NEUTRAL



Analyst coverage: Matthijs Storm  
Source: Kempen & Co, Factset



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