

## Conservative play in a volatile market

Befimmo FY06/07 results showed a disappointing revaluation result and a CF of €51.8m, reflecting a CF yield of 5.4%. The CF was below our expectations because we had pencilled in lower financing costs due to a timing difference in the financing of the Fedimmo pf. We believe that the gross valuation yield of 6.4% (net 6.0%) can potentially absorb 25bps yield expansion in the Belgian market. We lowered our PT to €74 (was €82) indicating a total return of 6.2%. We downgrade Befimmo to Neutral.

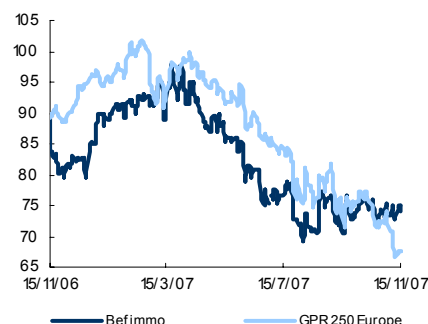
- Rental revenues:** Befimmo did not provide any surprises in the publication of its FY06/07 gross rental income which was in line with our expectations: €105m (E: €106m) an increase of 38% on FY05/06. This is the result of the consolidation of the Fedimmo portfolio with a total value of €726m (or 67% of the YE05/06 pf). The rental income growth over Befimmo's portfolio (excluding Fedimmo) was 0.5% y-o-y; the lower than indexation growth-figure was due to renovations in the portfolio. Management announced its intention to increase the portfolio by acquiring (office) properties in Belgium, Luxemburg and even mentioned the Netherlands and France as potentially new geographical areas. At YE06/07 Befimmo published an LTV of 47% implying a warchest of approximately €350m, assuming a 55% LTV. Going forward we assume Befimmo will acquire €100m pa in properties.
- Company's CF:** The recurring CF amounted to €51.8m (E: €53.5m). This was lower than expected due to higher than expected financing costs, however this was partly offset by a higher than expected operating margin (actual 92.4% vs expected 91.0%) as a result of economies of scale after the Fedimmo acquisition. We believe the 07 CF yield of 5.4% is attractive taking into account the low risk profile of the company. We perceive Befimmo's CF as secure because of the long lease duration of 9.1 years (index-linked) and the fact that two-thirds of the portfolio is leased by the government. However, we assume Befimmo will renovate a substantial part of the entire portfolio over the next two years, which will temporarily reduce the 08E CFPS and 09E CFPS by approximately 7% and 3% respectively. Going forward we expect a 5.4% 08E yield and a 5.7% 09E CF yield. Thereafter the CFPS will grow by 5% per annum.
- Revaluation result:** Befimmo reported a lower than expected revaluation result of €39m or 2.2% of the portfolio, while we had expected a revaluation result of €68m. We think that the 6.0% net valuation yield for Befimmo's portfolio is a cushion for the yield expansion that we expect on properties in the Belgian suburbs and therefore we keep our net yield assumptions for FY08 and FY09 flat. We expect Befimmo to report an average annual revaluation result of 1.5% for these years due to modest rental growth on the portfolio.
- Valuation:** Currently Befimmo is trading at small premium to our 08E NNAV, while generating a safe 5.4% 08E CF yield and thereafter we foresee a modest increase in future CF yields. Additionally, we believe that the stock would only suffer minimally from the risk of yield expansion and consider this stock as a safe haven in current market. Nevertheless, we downgrade Befimmo to Neutral from Add.

Rating	<b>NEUTRAL</b>
Price target (12m)	<b>€74.0</b>
Closing price (15 November 2007)	<b>€73.9</b>
Expected total return	<b>6.2%</b>
Date	<b>16 November 2007</b>

Fiscal Year	2007	2008E	2009E	2010E
Net rental income (€m)	97.0	106.7	116.5	126.5
EBITDA (€m)	88.1	96.2	105.4	114.7
Net Income (€m)	91.8	15.8	11.6	28.0
Recurring CF p/s (€)	4.53	4.02	4.25	4.51
Indirect result p/s (€)	3.50	1.70	1.15	2.23
EPS (€)	8.03	5.72	5.40	6.74
Dividend (€)	4.51	4.51	4.60	4.70
NNAV (€)	71.83	72.95	75.31	77.66
P/NNAV-1	16.6%	1.3%	-1.9%	-4.8%
EBITDA/EV	4.5%	4.9%	5.0%	5.2%
Recurring CF Yield	5.4%	5.4%	5.8%	6.1%
Earnings Yield	9.6%	7.7%	7.3%	9.1%
Dividend Yield	5.4%	6.1%	6.2%	6.4%

Source: Company Data, Kempen & Co Estimates

### BEFB BB vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	-1.8%	4.4%	-17.1%
Rel. to GPR 250 Europe	10.2%	19.6%	8.8%

Source: Factset

#### Company data

52-Week range	€69.12 - 95.53
Market cap	€965.19m
Number of shares	13.1m
Average daily volume	17,236
Free float	84%

#### Company data

Bloomberg / Reuters	BEFB BB / BEFB.BR
Next announcement	15 March 2008
	Q1 2007 Results

#### Analyst

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# Befimmo

Property ■ Belgium

Income Statement (Year to 30 Sep)	2005	2006	2007	2008E	2009E	2010E
Gross rental income	78.1	76.3	104.9	115.5	126.1	136.7
Operating costs	-12.6	-5.9	-7.9	-8.8	-9.5	-10.2
Net rental income	65.5	70.3	97.0	106.7	116.5	126.5
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	0.0	-7.0	-8.9	-10.5	-11.1	-11.8
Other income	0.0	0.0	0.0	0.0	0.0	0.0
Other costs	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	65.5	63.3	88.1	96.2	105.4	114.7
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	65.5	63.3	88.1	96.2	105.4	114.7
Net financial	-15.4	-14.3	-35.7	-42.6	-48.7	-54.6
EBT	50.1	49.0	52.4	53.6	56.7	60.1
Taxes	-0.7	-0.6	-0.6	-1.1	-1.1	-1.2
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	49.5	48.4	51.8	52.5	55.5	58.9
Sales result	0.0	0.0	1.3	0.0	0.0	0.0
Revaluation Property	0.6	18.0	38.7	22.2	15.0	29.1
Taxation on revaluation	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Total indirect investment result	0.6	18.0	40.0	22.2	15.0	29.1
Net profit	50.1	66.4	91.8	74.7	70.5	88.1
Per share data	2005	2006	2007	2008E	2009E	2010E
Number of shares	9.8	9.8	13.1	13.1	13.1	13.1
Average number of shares	9.8	9.8	11.4	13.1	13.1	13.1
Direct investment result per share	5.05	4.94	4.53	4.02	4.25	4.51
Indirect investment result per share	0.06	1.83	3.50	1.70	1.15	2.23
EPS (IFRS)	5.11	6.77	8.03	5.72	5.40	6.74
CFPS (recurring)	5.05	4.94	4.53	4.02	4.25	4.51
Dividend per share	4.80	4.92	4.51	4.51	4.60	4.70
Payout ratio %	95%	100%	100%	112%	108%	104%
NNAV per share	65.17	71.36	71.83	72.95	75.31	77.66
NAV per share	67.37	71.36	72.57	73.74	76.17	78.57
Balance sheet	2005	2006	2007	2008E	2009E	2010E
Investment property	1,090.0	1,078.4	1,812.9	1,940.5	2,083.4	2,251.2
Developments	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets	1.4	0.4	0.0	0.0	0.0	0.0
Other fixed assets	0.0	0.0	16.2	16.2	16.2	16.2
Total fixed assets	1,091.4	1,078.7	1,829.1	1,956.7	2,099.6	2,267.4
Receivables	10.3	10.3	8.6	10.0	10.0	10.0
Cash and banks	9.5	15.0	15.0	20.8	34.6	51.0
Other current assets	4.5	2.6	44.1	44.2	44.2	44.2
Total current assets	24.3	27.9	67.7	75.0	88.8	105.2
Total assets	1,115.7	1,106.6	1,896.8	2,031.7	2,188.4	2,372.6
Shareholders' equity	623.3	660.2	931.9	947.7	963.0	994.7
Minority interests	0.0	0.0	64.9	65.0	65.0	65.0
Total equity	623.3	660.2	996.8	1,012.7	1,028.0	1,059.7
Provisions	5.0	0.0	0.0	0.0	0.0	0.0
Long interest bearing debt	116.9	357.4	716.6	839.0	980.4	1,133.0
Other long term liabilities	0.2	0.0	0.0	0.0	0.0	0.0
Total long term liabilities	122.1	357.4	716.6	839.0	980.4	1,133.0
Short term debt	315.5	91.4	183.4	180.0	180.0	180.0
Other current liabilities	54.8	0.0	0.0	0.0	0.0	0.0
Total current liabilities	370.3	91.4	183.4	180.0	180.0	180.0
Total equity and liabilities	1,115.7	1,109.0	1,896.8	2,031.7	2,188.4	2,372.6
Financing Ratio's	2005	2006	2007	2008E	2009E	2010E
Equity-to-assets %	55.9%	59.5%	52.6%	49.8%	47.0%	44.7%
Net gearing %	67.8%	65.7%	88.8%	98.6%	109.5%	119.1%
Interest cover	4.3	4.4	2.5	2.3	2.2	2.1
Valuation	2005	2006	2007	2008E	2009E	2010E
Enterprise value	1,179.8	1,207.7	1,978.9	1,963.5	2,091.0	2,227.1
Market Cap	756.9	773.9	1,093.9	965.2	965.2	965.2
P/NNAV-1	18.5%	10.7%	16.6%	1.3%	-1.9%	-4.8%
EBITDA/EV	5.6%	5.2%	4.5%	4.9%	5.0%	5.2%
Recurring Cash Flow Yield	6.5%	6.3%	5.4%	5.4%	5.8%	6.1%
Earnings Yield	6.6%	8.6%	9.6%	7.7%	7.3%	9.1%
Dividend Yield %	6.2%	6.2%	5.4%	6.1%	6.2%	6.4%

Model updated: 16 November 2007

Rating

**NEUTRAL**

Price target (12m) **€74.0**

Closing price (15 November 2007) **€73.9**

Expected total return **6.2%**

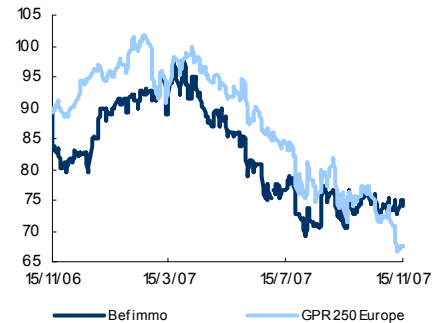
Date **16 November 2007**

### Company description

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

Website: [www.befimmo.be](http://www.befimmo.be)

### BEFB BB vs GPR 250 Europe



Total Return Performance (%)	-1m	-3m	-12m
Absolute	-1.8%	4.4%	-17.1%
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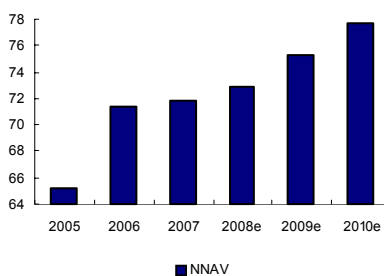
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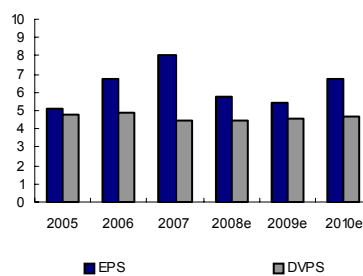
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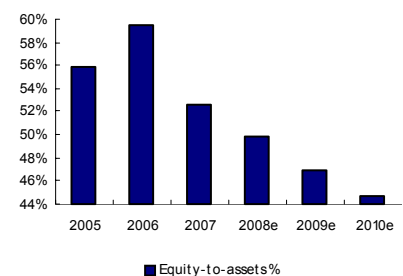
### NNAV



### EPS & Dividends



### Equity-to-assets



Source: Company Data, Kempen & 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>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.

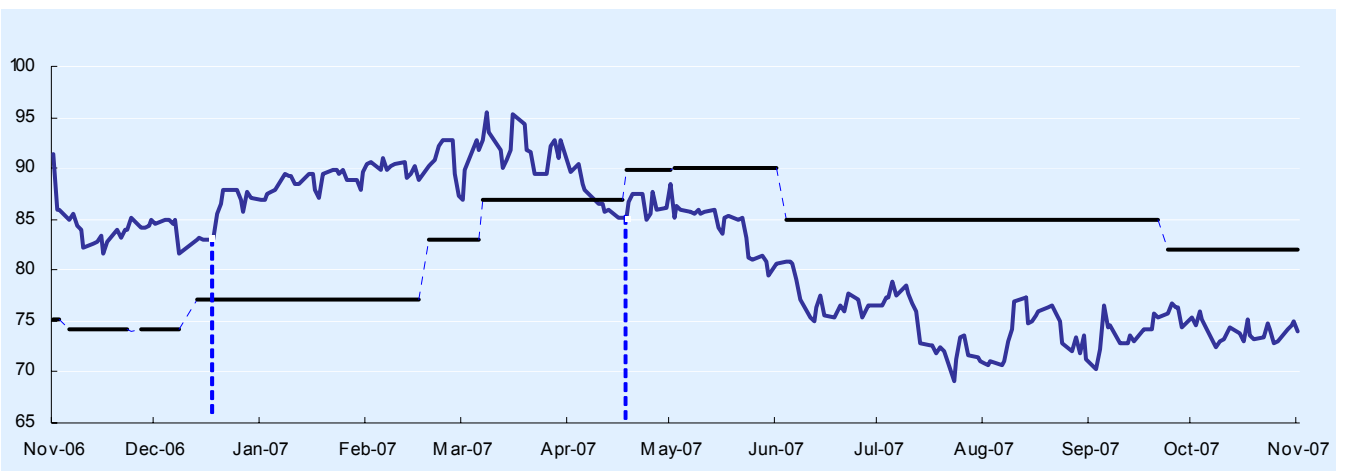
### Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
BUY	6 (12%)	0%
ADD	26 (53%)	86%
NEUTRAL	13 (27%)	14%
REDUCE	4 (8%)	0%
SELL	0 (0%)	0%
<b>Total</b>	<b>49 (100%)</b>	<b>100%</b>

### Stock price, price target and recommendation history

#### Befimmo (BEFB BB)

Date	Close	Price target	Rating
16-Nov-07	73.91	74.00	NEUTRAL
03-May-07	86.73	89.86	ADD
02-Jan-07	85.46	77.16	NEUTRAL
06-Oct-06	86.44	75.21	REDUCE



Analyst coverage: Robert Woerdeman  
Source: Kempen & Co, Factset



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