

## Real estate

## Belgium

Maintained

## Befimmo

## Buy

## 1Q trading update confirms our earnings scenario

28/02/08

Maintained

Reuters: BEFB.BR

Price: €78.29

12-mth target: €85.00

- **Positive 1QFY08 trading update. A difficult FY08 is expected due to ongoing refurbishments; an improvement in 2009 is now more or less secured as most portfolio uncertainties have been addressed.**
- **Given its profile and the difficult property context, the medium-term growth potential of Befimmo is modest, but in our view it retains both an undemanding valuation and a very low risk profile.**

**Positive 1Q trading update but no more yield compression.** The 1QFY08 trading update closed 31 December (fiscal year closes end-September) shows rents up 36.5% YoY at €27.3m on the back of the enlarged consolidation scope (Fedimmo consolidated as from January 2007). Reported CFPS (close to net current EPS given the lack of realised gains in both 1QFY08 and 1QFY07) is down 14.9% at €1.03. This supports our earnings scenario; for the full year we expect net current EPS to reach a conservative €3.89 (-14.3%) despite the positive effect as from 4Q (ie, as from 1 July 2008) of the recent disposal of underperforming assets (see our report *Befimmo, Sharpening the focus*, publication date of 22 February). At €71.12, NAVPS is flat vs end-September as a result of the final dividend payment (-€1.44) and net reported 1Q EPS (€1.20), down 63.1% as last year witnessed important unrealised gains (€2.01/share, close to nil in 1QFY08). The portfolio fair value stands at €1,832.4m, flat on a like-for-like basis vs end-September. Appraised yields (6.32%, 6.40% as of end-September) confirm that the yield compression happy days are now over.

**Earnings scenario confirmed** Befimmo confirms its FY08 earnings' guidance with a flat gross DPS at €4.51 despite falling recurrent EPS. Prospects as from FY09 look much better as several refurbishments are completed and refurbished assets start generating income. Following the recent prelease of the Bréderode 2 building and the sale of 'difficult' assets in the Brussels Periphery, there is no significant vacancy left. Occupancy now stands above 97% (95.1% as of end September). Our only adjustment consists of higher rent inflation assumptions, in line with those for Cofinimmo and ING's views on inflation (2.6% in 2008F, 2.1% in 2009F). Befimmo guidance stands at a mere 1.9% for 2008-10. Hence, our higher EPS figures (see table overleaf).

**Valuations remains undemanding and the risk profile second to none, in our view.** As is the case for Cofinimmo, Befimmo is not about growth as recurrent earnings are plagued by a lacklustre Brussels office market and portfolio results are not supported by falling property yields anymore. Despite its consistent outperformance vs sector peers (up 7.6% YTD, benign erosion in 2007), the Befimmo share retains important attractions including: 1) an ultra-low risk profile (two-thirds of rents generated by State bodies, average lease duration above nine years, substantial hedging of financial debt, high weight of CBD locations); 2) still attractive multiples (unchanged DCF-based target price at €85 leaves upside potential close to 15%, dividend yield close to 6%); and 3) a positive newsflow.

## 12-month forecast returns (%)

Share price	8.6
Dividend	5.8
12m f'cst total return	14.3

## Forecasts and ratios

Yr to Sep (€m)	2007	2008F
Turnover	104.9	109.7
EBITDA	88.3	90.9
Net profit	129.0	83.7
Adj EPS (€)	4.55	3.89
Adj PER (x)	17.2	20.1
Dividend yield (%)	5.8	5.8
EV/EBITDA (x)	21.0	20.2
Price/NAV (x)	1.1	1.1
ROE (%)	11.2	7.1

## Share data

No. of shares (m)	13.1
Daily turnover (shares)	12,339
Free float (%)	83.8
Enterprise value (€m)	1,838.8
Market cap (€m)	1,022.4

## Share price performance



Source: ING

Herman van der Loos, CFA

Brussels +32 2 547 2509

herman.van-der-loos@ing.be

29 February 2008

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

**Fig 1 Financial expenses - main assumptions (€m)**

	2007*	2008F	2009F	2010F
Average financial debt		800.5	865.1	946.7
Assumed 3M Euribor		4.43%	4.54%	4.50%
Margin (bp)	22	40	35	35
IRS 3.73% callable March 2009		200.0	100.0	
IRS 3.90% callable January 2011		75.0	100.0	100.0
Twin caps 3.5% - 5.0%			300.0	400.0
Unhedged debt		525.5	365.1	446.7
Interest expenses		36.8	37.7	41.3
<b>As a % of average debt</b>		<b>4.60%</b>	<b>4.36%</b>	<b>4.36%</b>

\* = actual, fiscal year closes end September

Source: Company data, ING estimates

**Fig 2 Data per share - change of estimates (€)**

	2007*	2008F	2009F	2010F
Befimmo net current EPS guidance (est.)	4.55	3.74	4.47	4.70
ING old net current EPS ests.	4.55	3.84	4.23	4.34
ING new net current EPS ests.		3.89	4.31	4.43
ING old NAVPS before profit appropriation	73.66	72.72	73.31	73.92
ING new NAVPS before profit appropriation		72.77	73.45	74.14
Average shares' outstanding (m)	10.8	13.1	13.1	13.1
Total shares' outstanding (m)	13.1	13.1	13.1	13.1

\* = actual, fiscal year closes end September

Source: Company data, ING estimates

**Fig 3 1QFY08 trading update closed 31 December 2007**

	1Q07	FY07*	1Q08	diff. YoY	FY08F
Rents (€ m)	20.0	104.9	27.3	36.5%	109.7
Reported CFPS (€)	1.21	4.78	1.03	-14.9%	
Reported EPS (€)	3.25	8.23	1.20	-63.1%	5.15
NAVPS	65.79	71.36	71.12	8.1%	72.77

\* = actual, fiscal year closes end September

Source: Company data, ING estimates

## Company profile

Listed in 1995, Befimmo was the first closed-end property investment company established under the SICAFI/V-BEVAK legislation (ex-ServiceFlats). 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<sup>2</sup> office building fully leased to the Belgian state for 18 years, no new acquisitions were completed till end-2006, reflecting the lack of investment opportunities. The real breakthrough came with the acquisition end 2006 of the Fedimmo portfolio. Fedimmo consists of office properties leased on a long-term basis to the Belgian federal state and spread all over Belgium; after years of apparent inactivity, this acquisition dramatically increased the size of the company; The subsequent capital increase (summer 2007) brought Befimmo's market cap above the €1bn threshold. After the recent prelease of the Bréderode 2 building and the disposal of several underperforming assets, no significant vacancies remain.

## 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 (64% of rental income), the relatively low contribution of decentralised and periphery Brussels, further reduced by recent disposals of underperforming assets in the Brussels Periphery, and the high rental duration (total duration of nine years). Befimmo focus towards offices was strengthened by the Fedimmo acquisition and the recent disposal of its semi-industrial (warehousing) assets.

Given the lack of suitable investment opportunities, the company recently hinted it might expand abroad, albeit only for a small portion of its portfolio. The only acquisition abroad so far is the Axento portfolio (Luxembourg).

## Risks

**Market risk:** Befimmo is mainly exposed to the Brussels office market, but this risk is mitigated by long-term leases and top tenants.

**Interest rate risk:** most of the financial debt is at floating rates, but a sizeable part is hedged.

## Financials

Yr to Sep (€m)	2007	2008F	2009F	2010F
<b>Income statement</b>				
Turnover	104.9	109.7	116.2	123.4
EBITDA	88.3	90.9	97.3	102.6
Net financial charges	(35.7)	(35.9)	(36.8)	(40.4)
Operating exceptionals	38.6	11.2	11.4	11.3
Adj pre-tax profit	52.4	54.9	60.4	62.0
Corporate exceptionals				
Profit/loss on sale of tangible fixed assets	1.3	5.2	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	92.3	71.3	71.8	73.3
Taxes	(0.6)	(0.7)	(0.7)	(0.7)
Extraordinary items (net)	39.9	16.4	11.4	11.3
Minorities	(2.6)	(3.3)	(3.4)	(3.4)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	129.0	83.7	79.1	80.4
<b>Balance sheet</b>				
Investment Properties	1,815.1	1,796.0	1,960.8	1,987.4
Working capital	24.0	15.9	16.8	17.8
L/T non-interest-bearing liabilities	88.6	61.4	63.9	66.8
Enterprise net assets	(48.5)	(29.3)	(31.0)	(32.8)
Group equity	996.8	1,018.5	1,030.7	1,043.2
Net debt	806.0	784.4	935.3	947.6
Capital employed	1,802.8	1,802.9	1,966.0	1,990.7
<b>Cash flow</b>				
Operating cash flow	97.4	107.1	99.0	104.5
Cash taxes	(0.6)	(0.7)	(0.7)	(0.7)
Net financial charges (CF)	(35.7)	(35.9)	(36.8)	(40.4)
Gross cash flow	61.1	70.4	61.5	63.3
Capital expenditures (net of disposals)	(716.5)	30.7	(157.4)	(16.0)
Free cash flow	(655.5)	101.1	(96.0)	47.3
<b>Ratios (%)</b>				
EBITDA margin	84.1	82.9	83.8	83.2
Operating margin	84.0	82.8	83.7	83.0
Net debt/equity	80.9	77.0	90.7	90.8
ROACE	8.6	5.6	5.7	5.7
ROE	11.2	7.1	7.1	7.2
<b>Growth (%)</b>				
Turnover	37.6	4.6	5.9	6.2
EBITDA	40.9	3.1	7.0	5.4
Net profit	35.0	(24.5)	0.6	2.2
<b>Valuation</b>				
EV/EBITDA (x)	21.0	20.2	20.5	19.6
Adj EPS (€)	4.55	3.89	4.31	4.43
Adj PER (x)	17.2	20.1	18.2	17.7
Price/NAV (x)	1.1	1.1	1.1	1.1
DPS (€)	4.51	4.51	4.60	4.65
Dividend yield (%)	5.8	5.8	5.9	5.9

Source: Company data, ING estimates

# Disclosures Appendix

## ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

## IMPORTANT DISCLOSURES

For disclosures on companies other than the subject companies of this report visit our disclosures page at <http://research.ing.com> or write to The Compliance Department, ING Financial Markets LLC, 1325 Avenue of the Americas, New York, USA, 10019.

### US regulatory disclosures

- The following subject company/ies of this report are or have been a client of ING Financial Markets LLC or an affiliate within the last 12 months and have received investment banking services: Befimmo.
- One or more members of ING Group has lead managed or co-lead managed a public offering of the shares of the following subject company/ies of this report in the last 12 months: Befimmo.
- One or more members of ING Group has received compensation for investment banking services from the following subject company/ies of this report within the last 12 months: Befimmo.

*Valuation & risks:* For details of the methodologies used to determine our price targets and risks related to the achievement of these targets refer to main body of report and/or the most recent company report at <http://research.ing.com>.

### European regulatory disclosures

- One or more members of ING Group has lead managed or co-lead managed a public offering of the securities of the following subject company/ies of this report in the last 12 months: Befimmo.
- The following subject company/ies of this report are or have been party to an investment banking agreement with one or more members of ING Group over the last 12 months: Befimmo.

The *remuneration of research analysts* is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

*Financial interests:* One or more members of ING Group may hold financial interests in the companies covered in this report other than those disclosed above.

*Securities prices:* Prices are taken as of the previous day's close on the home market unless otherwise stated.

*Job titles.* The functional job title of the person/s responsible for the recommendations contained in this report is equity research analyst unless otherwise stated. Corporate titles may differ from functional job titles.

*Conflicts of interest policy.* ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at <http://research.ing.com>.

## FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

### RATING DISTRIBUTION (as of end 4Q07)

	Equity coverage	Investment Banking clients*
Buy	51%	31%
Hold	43%	26%
Sell	6%	27%
	<b>100%</b>	

\* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

### RATING DEFINITIONS

**Buy:** Forecast 12-mth absolute total return greater than +15%

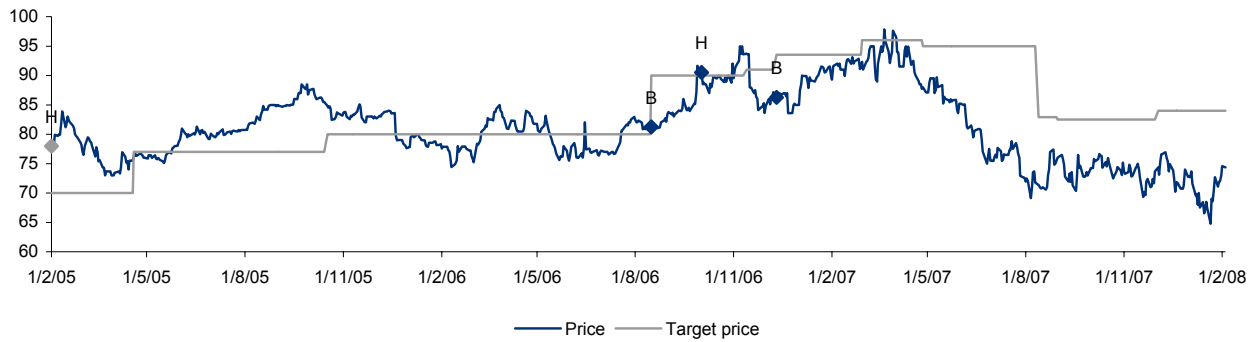
**Hold:** Forecast 12-mth absolute total return of +15% to -5%

**Sell:** Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

Research published prior to 15/12/05: EMEA equities' ratings were based on US dollar total returns; Western Europe's were based on: absolute return +25%, Strong Buy; greater than +10%, Buy; +10% to -10%, HOLD; lower than -10%, Sell.

**PRICE & RATINGS HISTORY TO 04/02/08: BEFIMMO (BEFB.BR)**



SB = Strong Buy; B = Buy; H = Hold; S = Sell; NR = Not Rated; R = Restricted

Chart shows ING coverage: current analyst may or may not have covered the stock for the entire period shown

Where ING coverage is longer than three years, chart shows recommendation current at start of the share price history

Source: ING

<b>AMSTERDAM</b> Tel: 31 20 563 84 17	<b>BRUSSELS</b> Tel: 32 2 547 75 34	<b>LONDON</b> Tel: 44 20 7767 1000	<b>NEW YORK</b> Tel: 1 646 424 6000	<b>SINGAPORE</b> Tel: 65 6535 3688
<b>Bratislava</b> Tel: 421 2 5934 61 11	<b>Edinburgh</b> Tel: 44 131 527 3000	<b>Madrid</b> Tel: 34 91 789 8880	<b>Paris</b> Tel: 33 1 56 39 31 41	<b>Shanghai</b> Tel: 86 21 6841 3355
<b>Bucharest</b> Tel: 40 21 222 1600	<b>Geneva</b> Tel: 41 22 593 8050	<b>Manila</b> Tel: 632 479 8888	<b>Prague</b> Tel: 420 2 5747 1111	<b>Sofia</b> Tel: 359 2 917 6400
<b>Budapest</b> Tel: 36 1 268 0140	<b>Hong Kong</b> Tel: 852 2848 8488	<b>Mexico City</b> Tel: 52 55 5258 2000	<b>Santiago</b> Tel: 562 452 2700	<b>Taipei</b> Tel: 886 2 2734 7600
<b>Buenos Aires</b> Tel: 54 11 4310 4700	<b>Istanbul</b> Tel: 90 212 258 8770	<b>Milan</b> Tel: 39 02 89629 3660	<b>Sao Paulo</b> Tel: 55 11 4504 6000	<b>Tokyo</b> Tel: 813 5210 0100
<b>Dubai</b> Tel: 971 4 365 3430	<b>Kiev</b> Tel: 380 44 230 3030	<b>Moscow</b> Tel: 7495 755 5400	<b>Seoul</b> Tel: 822 317 1800	<b>Warsaw</b> Tel: 48 22 820 5018

**Research offices:** legal entity/address/primary securities regulator

<b>Almaty</b>	Representative office, ING Bank N.V. in Kazakhstan, 85a, Dostyk Avenue, Office 510, 050010, Almaty, Kazakhstan. <i>Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market &amp; Financial Organizations</i>
<b>Amsterdam</b>	ING Bank N.V., Foppingadreef 7, Amsterdam, Netherlands, 1102BD. <i>Netherlands Authority for the Financial Markets</i>
<b>Bratislava</b>	ING Bank N.V., pobočka zahraničnej banky, Jesenskeho 4/C, 811 02 Bratislava, Slovak Republic. <i>National Bank of Slovakia</i>
<b>Brussels</b>	ING Belgium S.A./N.V., Avenue Marnix 24, Brussels, Belgium, B-1000. <i>Banking Finance and Insurance Commission</i>
<b>Bucharest</b>	ING Bank N.V. Bucharest Branch, 11-13 Kiseleff Avenue, PO Box 2-208, 011342, Bucharest 1, Romania. <i>Romanian National Securities and Exchange Commission</i>
<b>Budapest</b>	ING Bank Zrt, Dozsa Gyorgy ut 84/B, H - 1068 Budapest, Hungary. <i>Hungarian Financial Supervisory Authority</i>
<b>Dubai</b>	ING Bank N.V. Dubai Branch, Level 2, Gate Village 05, Dubai International Financial Center (DIFC), PO Box 506641. <i>Dubai Financial Services Authority</i>
<b>Edinburgh</b>	ING Bank N.V. London Branch (Edinburgh office), 2 Canning Street Lane, Edinburgh, United Kingdom, EH3 8ER. <i>Financial Services Authority</i>
<b>Hong Kong</b>	ING Bank N.V. Hong Kong Branch, 39/F, One International Finance Centre, Central Hong Kong. <i>Hong Kong Monetary Authority</i>
<b>Istanbul</b>	ING Bank N.V. Istanbul Representative Office, Suleyman Seba Cadessi No. 48 BJK Plaza, Blok B Floor 8, 34357 Akaretler-Besiktas, Istanbul, Turkey. <i>Capital Markets Board</i>
<b>Kiev</b>	ING Bank Ukraine JSC, 30-a, Spaska Street, Kiev, Ukraine, 04070. <i>Ukrainian Securities and Stock Commission</i>
<b>London</b>	ING Bank N.V. London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. <i>Financial Services Authority</i>
<b>Madrid</b>	ING Bank NV, Sucursal en Espana, C/Genova, 27. 4th Floor, Madrid, Spain, 28004. <i>Comisión Nacional del Mercado de Valores</i>
<b>Manila</b>	ING Bank N.V. Manila Branch, 21/F Tower I, Ayala Avenue, 1226 Makati City, Philippines. <i>Philippine Securities and Exchange Commission</i>
<b>Mexico City</b>	ING Grupo Financiero (Mexico) S.A. de C.V., Bosques de Alisos 45-B, Piso 4, Bosques de Las Lomas, 05120, Mexico City, Mexico. <i>Comisión Nacional Bancaria y de Valores</i>
<b>Milan</b>	ING Bank N.V. Milano, Via Paleocapa, 5, Milano, Italy, 20121. <i>Commissione Nazionale per le Società e la Borsa</i>
<b>Moscow</b>	ING Bank (Eurasia) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. <i>Federal Financial Markets Service</i>
<b>Mumbai</b>	ING Vysya Bank Limited, A Wing, Shivsagar Estate, 2nd Floor, South Wing, Dr. Annie Besant Road, Worli, Mumbai, 400 018. India. <i>Securities and Exchange Board of India</i>
<b>New York</b>	ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States, 10019. <i>Securities and Exchange Commission</i>
<b>Paris</b>	ING Belgium S.A., Succursale en France, Coeur Défense, Tour A, La Défense 4, 110 Esplanade du Général de Gaulle, Paris La Défense Cedex, 92931. <i>l'Autorité des Marchés Financiers</i>
<b>Prague</b>	ING Bank N.V. Prague Branch, Nadrazni 25, 150 00 Prague 5, Czech Republic. <i>Czech National Bank</i>
<b>Sao Paulo</b>	ING Bank N.V. Sao Paulo, Av. Brigadeiro Faria Lima n. 3.400, 11th Floor, Sao Paulo, Brazil 04538-132. <i>Securities and Exchange Commission of Brazil</i>
<b>Singapore</b>	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. <i>Monetary Authority of Singapore</i>
<b>Sofia</b>	ING Bank N.V. Sofia Branch, 12 Emil Bersinski Str, Ivan Vazov Region, 1408 Sofia, Bulgaria. <i>Bulgarian Central Bank and Financial Supervision Commission</i>
<b>Warsaw</b>	ING Securities S.A., Plac Trzech Krzyzy, 10/14, Warsaw, Poland, 00-499. <i>Polish Financial Supervision Authority</i>

**Disclaimer**

This report has been prepared on behalf of ING (being for this purpose the wholesale and investment banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this report. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this report. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this report or its contents. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report. This report is issued: 1) in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors); 2) in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. ING Bank N.V., London branch is authorised by the Dutch Central Bank and regulated by the Financial Services Authority for the conduct of UK business. It is incorporated in the Netherlands and its London branch is registered in the UK (number BR000341) at 60 London Wall, London EC2M 5TQ. ING Financial Markets LLC, which is a member of the NYSE, NASD and SIPC and part of ING, has accepted responsibility for the distribution of this report in the United States under applicable requirements. ING Vysya Bank Ltd is responsible for the distribution of this report in India.