

## A premium for acquisitions?

Befimmo published its 9M07/08 key figures: CFPS (adj. for sales gains) of €3.04 and a NNAV of €74.5 implying that the stock is trading at a premium of 2%. Somewhat unexpectedly management announced its intention to complete a French SIIC listing by September 2008, giving us reason to believe that the first acquisition in France will be completed in 12 months. We have concerns about Befimmo's competitive advantage in the French market. We reiterate our Reduce rating and €61 PT.

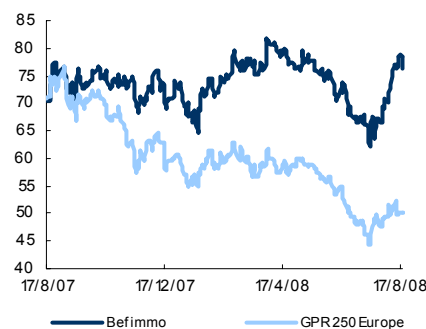
- Result** The net rental income over 9M07/08 came out at €82.0m (+/+6.5% y-o-y) which is in line with our FY07/08 assumption. The increase in revenues is mainly due to €9m in extra income from the Fedimmo portfolio and partly offset by the decline in rental income due to the renovation program of WTC II. The 9M07/08 CF was €3.72 p/s of which €0.68 p/s was due to capital gains on disposals. We expect that Befimmo's FY07/08 CFPS will come out at €4.05. After the renovation the FY08/09 CFPS will increase to €4.50 implying CF yields of 5.9% which is still below the European average of 6.6%. The revaluation result on the standing portfolio came out at €5m or +0.3% for Befimmo's 9M07/08 property portfolio (net yield: 5.9%). We believe Befimmo is subject to an annual softening of yields of 30bps for FY08 and FY09, reflecting a return on the portfolio of -/-1.3% and -/-1.0% respectively. All in all, we expect the YE09 NNAV to come out at €67 p/s.
- Financing** In June 2008 Befimmo signed a new 5-yr syndicated loan for an amount of €300m (at a margin of c80bps) increasing the duration of its loans to 4.0yrs (was: 2.3yrs) and the unused credit facilities to €350m. The facilities are sufficient to finance the expected capital expenditure on the renovation works for FY08-09 and the Axento acquisition in 1H09 (€95m) without jeopardizing its refinancing needs for all maturing debt for FY09.
- Applying for SIIC status** The company continues to search for offices in Paris (preferably CBD) and intends to invest between €90m and €180m (or 5-10% of the portfolio). Simultaneously the company will complete a French SIIC listing at YE07/08 (September 2008) in order to be tax-efficient. We however do not favour the company gearing up for acquisitions and especially not for investments in new areas. Additionally, Fortis currently has two buildings for sale in Brussels for a total of between €100m and €150m that has attracted the company's attention. We calculate annual acquisitions of €100m at an average net yield of 6.0% which will be financed at 5.8% and thereby hardly CF-accretive. Whereas the previous acquisition from Fortis generated a gross yield of 5.2%.
- Outlook** Management increased its 07/08E CFPS of €3.79 to €4.40 due to additional acquisitions and realized capital gains (disposal of four buildings for a total amount of €24.3m). We expect recurring CF (excl sales results) to come out at €4.05 which is well in line with the 9M07/08 CFPS of €3.04. The management has confirmed the €4.51 dividend forecast for FY07/08 (payable from 19 December 2008) reflecting a dividend yield of 5.9%.
- Valuation** We believe that the CF that the company is generating is too low whilst trading at a premium to 1H08 NNAV. We continue to favour Cofinimmo's higher CF yield (09E: 6.6% vs. Befimmo's 5.9%). We leave our PT unchanged and reiterate our Reduce rating.

Rating	<b>REDUCE</b>
Price target (12m)	€61.0
Closing price (19 August 2008)	€76.3
Expected total return	-14.2%
Date	20 August 2008

Fiscal Year	2007	2008E	2009E	2010E
Net rental income (€m)	97.0	109.4	125.9	135.6
EBITDA (€m)	88.1	98.7	114.2	123.4
Net Income (€m)	89.2	35.7	36.3	57.4
Recurring CF p/s (€)	4.30	4.05	4.50	4.61
Indirect result p/s (€)	3.50	-1.32	-1.72	-0.21
EPS (€)	7.80	2.73	2.78	4.40
Dividend (€)	4.90	4.51	4.50	4.55
NNAV (€)	68.15	66.66	66.67	67.58
P/NNAV-1	7.0%	14.5%	14.5%	13.0%
EBITDA/EV	5.0%	5.0%	5.5%	5.6%
Recurring CF Yield	5.9%	5.3%	5.9%	6.0%
Earnings Yield	10.7%	3.6%	3.6%	5.8%
Dividend Yield	6.7%	5.9%	5.9%	6.0%

Source: Company Data, Kempen & Co Estimates

### BEFB BB vs GPR 250 Europe



Source: Factset

Total Return Performance (%)	-1m	-3m	-12m
Absolute	13.3%	-1.6%	7.6%
Rel. to GPR 250 Europe	7.3%	15.3%	52.0%

Source: Factset

### Company data

52-Week range	€62.01 - 81.62
Market cap	€996.92m
Number of shares	13.1m
Average daily volume	15,669
Free float	84%

### Company data

Bloomberg / Reuters	BEFB BB / BEFB.BR
Next announcement	28 August 2008 9m 2008 Results

### Analyst

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# Befimmo

Property ■ Belgium

Income Statement (Year to 30 Sep)	2006	2007	2008 E	2009E	2010E	2011E
Gross rental income	76.3	104.9	118.5	135.8	146.3	155.6
Operating costs	-5.9	-7.9	-9.1	-10.0	-10.7	-11.3
Net rental income	70.3	97.0	109.4	125.9	135.6	144.3
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	-7.0	-8.9	-10.7	-11.7	-12.2	-12.7
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	63.3	88.1	98.7	114.2	123.4	131.6
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	63.3	88.1	98.7	114.2	123.4	131.6
Net financial	-14.3	-35.7	-42.2	-51.7	-59.5	-67.3
EBT	49.0	52.4	56.5	62.5	63.9	64.3
Taxes	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8
Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	-2.6	-3.0	-3.0	-3.0	-3.0
Direct investment result	48.4	49.2	52.9	58.7	60.1	60.6
Sales result	0.5	1.3	9.0	0.0	0.0	0.0
Revaluation Property	18.0	38.7	-26.2	-22.5	-2.7	13.0
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	18.5	40.0	-17.2	-22.5	-2.7	13.0
Net profit	66.8	89.2	35.7	36.3	57.4	73.6

Per share data	2006	2007	2008 E	2009E	2010E	2011E
Number of shares	9.8	13.1	13.1	13.1	13.1	13.1
Average number of shares	9.8	11.4	13.1	13.1	13.1	13.1
Direct investment result per share	4.94	4.30	4.05	4.50	4.61	4.64
Indirect investment result per share	1.88	3.50	-1.32	-1.72	-0.21	1.00
EPS (IFRS)	6.82	7.80	2.73	2.78	4.40	5.63
CFPS (recurring)	4.94	4.30	4.05	4.50	4.61	4.64
Dividend per share	4.92	4.90	4.51	4.50	4.55	4.60
Payout ratio %	100%	114%	111%	100%	99%	99%
NNAV per share	71.36	68.15	66.66	66.67	67.58	69.74
NAV per share	71.36	68.89	67.44	67.50	68.46	70.67

Balance sheet	2006	2007	2008 E	2009E	2010E	2011E
Investment property	1,078.4	1,812.9	1,941.2	2,044.4	2,176.7	2,293.7
Developments	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets	0.4	0.0	0.0	0.0	0.0	0.0
Other fixed assets	0.0	16.2	16.2	16.2	16.2	16.2
Total fixed assets	1,078.7	1,829.1	1,957.4	2,060.6	2,192.9	2,309.9
Receivables	10.3	15.2	15.2	15.2	15.2	15.2
Cash and banks	15.0	5.3	5.5	14.3	23.8	33.2
Other current assets	2.6	47.2	47.2	47.2	47.2	47.2
Total current assets	27.9	67.7	67.9	76.7	86.2	95.6
Total assets	1,106.6	1,896.8	2,025.3	2,137.3	2,279.1	2,405.5
Shareholders' equity	660.2	931.9	899.7	880.7	881.5	894.0
Minority interests	0.0	64.9	65.0	65.0	65.0	65.0
Total equity	660.2	996.8	964.7	945.7	946.5	959.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Long interest bearing debt	91.4	148.6	148.6	148.6	148.6	148.6
Other long term liabilities	0.0	5.2	5.2	5.2	5.2	5.2
Total long term liabilities	91.4	153.8	153.8	153.8	153.8	153.8
Short term debt	317.4	662.7	823.3	954.3	1,095.4	1,209.2
Other current liabilities	40.0	83.4	83.4	83.4	83.4	83.4
Total current liabilities	357.4	746.1	906.8	1,037.8	1,178.8	1,292.7
Total equity and liabilities	1,109.0	1,896.8	2,025.3	2,137.3	2,279.1	2,405.5

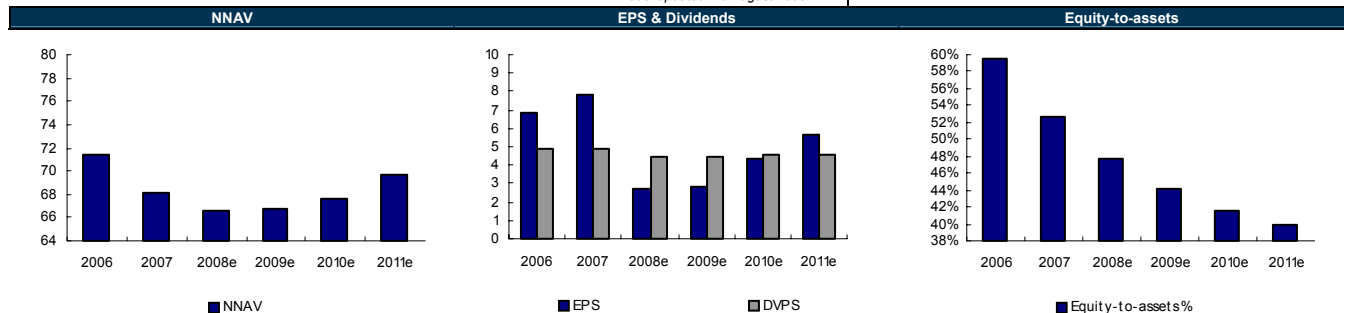
  

Financing Ratio's	2006	2007	2008 E	2009E	2010E	2011E
Equity-to-assets %	59.5%	52.6%	47.6%	44.2%	41.5%	39.9%
Net gearing %	59.7%	80.9%	100.2%	115.1%	128.9%	138.1%
LTV (Gross debt/Properties + Dev)	37.9%	44.8%	50.1%	53.9%	57.1%	59.2%
LTV (Net debt/Properties + Dev)	36.5%	44.5%	49.8%	53.3%	56.1%	57.8%
Interest cover	4.4	2.5	2.3	2.2	2.1	2.0

Valuation	2006	2007	2008 E	2009E	2010E	2011E
Enterprise value	1,255.3	1,758.4	1,963.4	2,085.6	2,217.1	2,321.6
Market Cap	773.9	1,093.9	996.9	996.9	996.9	996.9
P/NNAV-1	23.2%	7.0%	14.5%	14.5%	13.0%	9.5%
EBITDA/EV	5.0%	5.0%	5.0%	5.5%	5.6%	5.7%
Recurring Cash Flow Yield	5.6%	5.9%	5.3%	5.9%	6.0%	6.1%
Earnings Yield	7.8%	10.7%	3.6%	3.6%	5.8%	7.4%
Dividend Yield %	6.2%	5.8%	5.9%	5.9%	6.0%	6.0%

Model updated: 20 August 2008

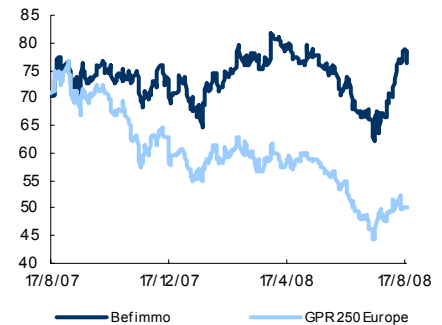


Source: Company Data, Kempen &amp; Co

Rating

**REDUCE**Price target (12m) **€61.0**Closing price (19 August 2008) **€76.3**Expected total return **-14.2%**Date **20 August 2008****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 (%)	-1 m	-3 m	-12 m
Absolute	13.3%	-1.6%	7.6%
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## Regulatory disclosure

Company mentioned in this report
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## Recommendation structure

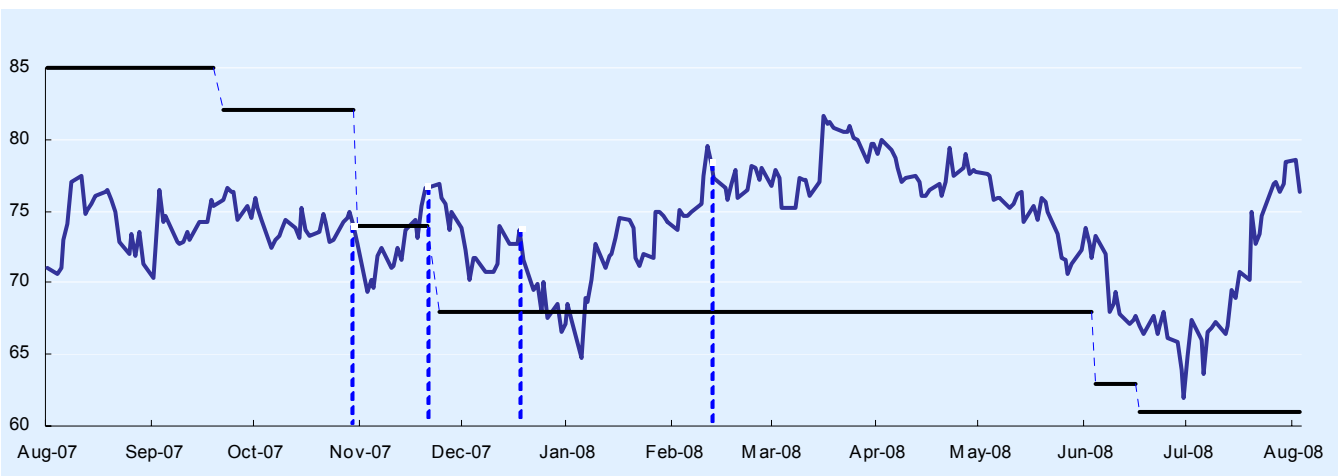
Definitions	
<b>Method</b>	Combination of cash flows, NNAVs, relative valuation and our fair value analysis. The Kempen & Co equity fair value analysis calculates the returns the company is expected to generate going forward. If these returns exceed the returns that are perceived as fair, we consider 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	4 (8%)	0%
ADD	15 (29%)	27%
NEUTRAL	18 (35%)	41%
REDUCE	13 (25%)	27%
SELL	1 (2%)	5%
<b>Total</b>	<b>51 (100%)</b>	<b>100%</b>

## Stock price, price target and recommendation history

Befimmo (BEFB BB)			
Date	Close	Price target	Rating
29-Feb-08	77.25	68.00	REDUCE
04-Jan-08	71.59	68.00	NEUTRAL
08-Dec-07	76.61	68.00	REDUCE
16-Nov-07	72.70	74.00	NEUTRAL



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



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