Morning Note

19 November 2008

Befimmo

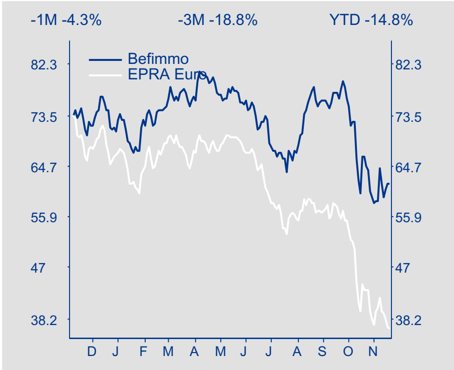
Rating: **Neutral (=)** PT: **€72.0 (=)** Last: **€62.0**

Key estimates

€	2006A	2007A	2008E	2009E
Net Profit (m)	47.5	50.4	52.4	57.5
EPS	4.85	4.66	4.02	4.40
DPS	4.92	4.51	4.51	4.60
CFPS	4.87	4.79	4.03	4.42
NAV	67.4	71.7	72.8	74.2

Valuation & other

	2006A	2007A	2008E	2009E
P/E	12.8	13.3	15.4	14.1
P/NAV	0.92	0.86	0.85	0.84
CF yield (%)	7.9	7.7	6.5	7.1
Div. yield (%)	7.9	7.3	7.3	7.4
EV/EBITDA	16.0	18.3	17.7	17.7



FY'07/08 results

- **We summarize the most important elements.** i. recurring EPS in line at €3.89 vs. €3.91 Dexia estimate. ii. together with €0.69 realized capital gains the dividend set at €4.55 (yielding 7.3%) is covered. iii. the portfolio declined by 0.3% yoy (Q4: -0.6%) and arguably is very defensive (64% public institutions, 58% Brussels CBD, 9.4y lease duration) but in our view will see further negative mark-to-market since a substantial part of the assets was acquired at the peak of the market. The valuation yield is 6.3% with Fedimmo close to 5.5% after 1y of indexation. iv. the debt book is solid with a 47% LTV, no refi risk (4y duration and <10% of committed amounts maturing in 2009-10 with €250 uncommitted lines which are sufficient to fund the capex backlog) and no covenant risk (LTV <65% and interest cover > 2.25x). The average cost of debt worked out at 4.8% and the hedge ratio is 83%.

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Table. Befimmo FY'07/08 results

EUR m	2007A	2008A	*chg %*	2008E
Rental income	104.9	109.5	*4.4%*	110.8
Operating expenses	(16.8)	(18.1)		(16.4)
EBIT	88.1	91.4	*3.8%*	94.4
margin %	*84.0%*	*83.5%*		*85.2%*
Net financial	(34.4)	(36.4)		(39.5)
Taxes	(0.6)	(0.6)		(0.6)
Minorities	(2.7)	(3.7)		(3.2)
Net direct result - group	50.4	50.7	*0.4%*	51.1
EPS (recurring EPRA adj.)	4.66	3.89	*-16.5%*	3.91
DPS	4.51	4.55	*0.9%*	4.51
NAV	71.7	74.0	*3.2%*	71.1

- **The French connection.** Management gave a clear cut presentation at the analyst meeting showing confidence in the robustness of its cash flow. Again the topic of geographical diversification towards the Paris CBD was brought to the table. Management argues it sees appealing low-risk investment opportunities in a liquid market characterized by a low vacancy rate. We are cognisant that indeed now is the time home run deals can be made, but we wonder why Befimmo should venture into Paris since i. synergies are non-existent and it will have to install a local management team, ii. what is the added value of having 10-15% of the portfolio invested in another, more cyclical market which dilutes the good public sector exposure built up through Fedimmo and more importantly iii. won't there be any rising investment opportunities in its home market as some participants might turn insolvent or developers need cash to survive (1mm² development pipeline in Brussels of which 65% is speculative)? That's of course for the theory, since before any transaction could be settled the market return and the marginal cost of capital need to find themselves in equilibrium. Quod non. We stay Neutral.

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We use four stock recommendations which reflect the share's expected absolute performance as follows:

- **Buy:** we expect this stock to generate a return of >15% over the next twelve months;
- **Add:** we expect this stock to generate a return of 5-15% over the next twelve months;
- **Neutral:** we expect this stock to generate a return of 0-5% over the next twelve months;
- **Reduce:** we expect this stock to generate a negative return over the next twelve months

DISTRIBUTION OF RATINGS/INVESTMENT BANKING RELATIONSHIPS (AS OF 09-30-2008)

	Rating distribution		Investment banking relationship	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
Buy	27	29.0%	4	14.8%
Add	19	20.4%	1	5.3%
Neutral	41	44.1%	2	4.9%
Reduce	6	6.4%	0	0.0%

Rating distribution Total: 93
Investment banking relationship Total: 7

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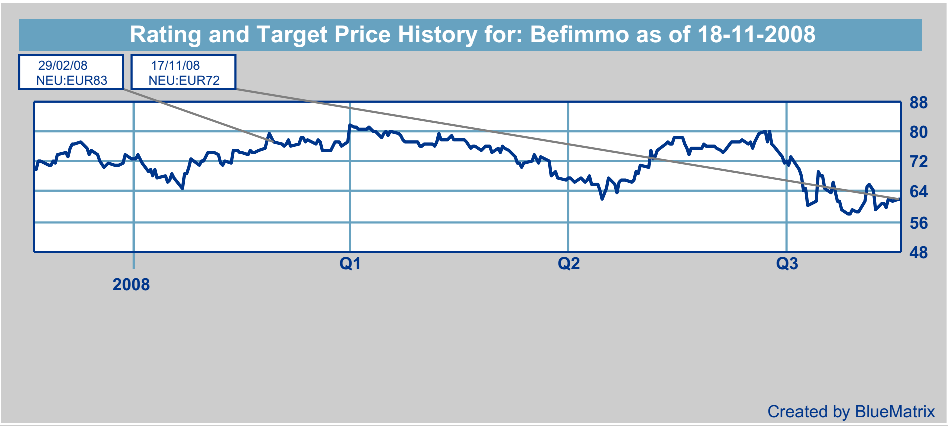
12-MONTH PRICE TARGET CHART



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