

Befimmo

Hold

Belgium Real Estate	Price (08/09/10) Target price (12-mth)	€60.00 €59.10	Forecast total return Bloomberg	5.1% BEFB BB
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Investment summary

Even though Befimmo was initially founded as a mixed investor, it now distinguishes itself from the other Belgian SICAFs as a pure-play investor. Its investment strategy is: (1) to focus solely on office buildings; (2) prime and central locations assets; (3) a low-risk tenant base (64.6% public sector) with long-term contracts (9.3 years). Owing to increased competition for quality assets in Brussels, it acquired the €96m Axento office development in Luxembourg in 2009 (announced YE 2006). Until now the company has not been able to use any of the funds from its €160m capital increase for investments. As a result, this issue led to dilution of cash flow (CFPS) and dividend/share while improving the risk profile (LTV from 51% to 45.4%). The dividend adjustment was intentional as the company wanted to maintain its dividend yield and not the absolute amount. Together with the 2008 listing at Euronext Paris, it gives the company the opportunity to invest in France. However, as no opportunities arose that were in line with Befimmo standards, it refocused on the Brussels market. To date no investments have been made in Brussels, but the company is in the bidding process for the Vivaqua head office and it has been able to improve its occupancy rate to 95.3% (30/06/10). This is considerably better than the Brussels office market, which will see the vacancy rate increase to >12%. Even though yields are stabilising, we expect a 2% decrease in FY09/10 NAV/share mainly as a result of lower rental levels. We expect incentives to maintain the occupancy rate will affect the CFPS further. This was also reflected in the company's 09/10 and 10/11 cash flow/share guidance (from €4.40 to €3.90). We still maintain our HOLD recommendation and target price of €59.10, as the dividend adjustment implies a payout ratio of c.90% backed by almost two-thirds of rental income from the public sector. For 2011F this is supported by the €0.70/share gain on the sale of its speculative Empress development in Brussels.

Company profile

Befimmo is the second largest SICAFI in Belgium, with a portfolio worth €1.9bn. Berheim-Comofi (later acquired by Fortis Real Estates Asset Management and now known as AG Insurance) founded the company in 1995. AG Insurance is still the largest shareholder (18.8%). The remainder of the shares is free float. In 2006, Befimmo won the tender for the Fedimmo (Belgian government) portfolio (€725m at 5.5% NIY). The initial duration of 17 years significantly enhanced Befimmo's defensive profile.

Newsflow

Date	Description
18 November 2010	FY 2009/2010 results
15 December 2010	Shareholder meeting

Financials

Yr end Sept (€m)	FY08/09	FY09/10F	FY10/11F	FY11/12F	FY12/13F
Profit and loss					
Rental income	119.1	122.6	125.2	127.9	130.4
Net rental income	118.6	122.2	124.8	127.5	130.1
Total property charges	(17.7)	(17.8)	(18.1)	(18.5)	(18.9)
Corporate management costs	(9.8)	(9.8)	(10.0)	(10.2)	(10.4)
Operating result before result on portfolio	106.1	108.7	111.0	113.4	115.7
Gains or losses on disposals of Inv property	0.2	0.0	0.0	0.0	0.0
FV on investment property	(75.0)	(37.5)	(2.9)	0.0	0.0
Operating result	31.4	71.2	108.1	113.4	115.7
Net financing expenses	(64.3)	(24.7)	(27.5)	(30.1)	(31.2)
Pre tax result	(32.9)	46.5	80.6	83.3	84.5
Corporation tax	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net result	(33.4)	46.0	80.1	82.8	84.0
Per share data					
Direct result per share	4.39	4.85	4.81	4.80	4.87
Indirect result per share	(6.33)	(2.18)	(0.16)	0.01	0.01
Total result per share	(1.94)	2.67	4.65	4.81	4.88
DPS	4.22	3.90	4.09	4.08	4.14
IFRS NAV	58.87	58.27	59.13	59.98	60.90
Recurring CFPS	4.39	4.85	4.82	4.81	4.88
Balance sheet					
Investment properties	1,918.3	1,834.4	1,831.4	1,831.4	1,831.4
Assets held for sale	4.6	4.9	5.0	5.1	5.2
Cash and cash equivalents	6.1	26.4	47.9	64.7	82.9
Total assets	1,989.4	1,926.8	1,946.6	1,964.4	1,983.6
Equity group share	988.4	978.3	992.9	1,007.0	1,022.5
Minorities	61.6	60.9	61.0	61.0	61.0
Total equity	1,050.0	1,039.3	1,053.9	1,068.0	1,083.5
Long term liabilities	764.3	764.3	764.3	764.3	764.3
Current liabilities	175.1	174.3	179.5	183.1	186.8
Total equity and liabilities	1,989.4	1,977.8	1,997.6	2,015.4	2,034.6
Cash flow statement					
Operating income	31.4	71.2	108.1	113.4	115.7
Fair value adjustments	(35.0)	0.0	0.0	0.0	0.0
CF from operations	87.6	81.8	86.3	85.0	86.2
CF from investing	(29.4)	0.0	0.0	0.0	0.0
CF from financing	(56.7)	(61.5)	(64.9)	(68.2)	(68.0)
Net change in cash	1.5	20.3	21.5	16.8	18.2
Ending cash balance	6.1	26.4	47.9	64.7	82.9

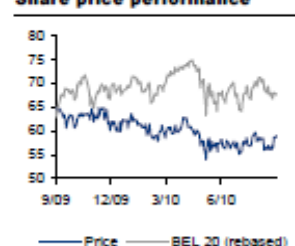
Share data

Avg daily volume (3-mth)	25,005
Free float (%)	81.2
Market cap (€m)	987.3

Major shareholders

AG Insurance	18.8%
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Share price performance



Sources: Company data, ING estimates