

27 August 2010

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Befimmo

3Q10 - Slow decline continues

Hold

Target price
€61.00

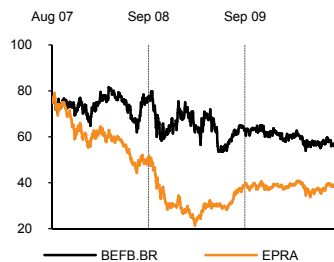
Price
€56.60

Short term (0-60 days)
n/a

Sector relative to market
Neutral

Price performance

	(1M)	(3M)	(12M)
Price (€)	59.42	55.65	64.49
Absolute (%)	-4.7	1.7	-12.2
Rel market (%)	-2.1	-3.1	-16.2
Rel sector (%)	-2.9	-9.1	-14.3



Market capitalisation
€950.32m

Average (12M) daily turnover
€1.57m

RIC: BEFB.BR, BEFB.BB
Priced €56.60 at close 26 Aug 2010.
Source: Bloomberg

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Befimmo reports solid cash flow results, but is still faced with a slow but steady decline in the Brussels office market, which remains characterised by oversupply. Befimmo's 65% government-related tenant roster will continue to guarantee the needed stability. We remain at Hold; TP €61.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Total property income (€m)	109.5	119.1	125.6	128.9	132.4
Gross rental income (€m)	109.5	119.1	125.6	128.9	132.4
Normalised PTP (€m)	54.9	77.4	83.7	80.1	81.3
Normalised EPS (€)	4.16	5.47	4.96	4.72	4.79
Normalised PE (x)	13.6	10.3	11.4	12.0	11.8
Dividend per share (€)	4.55	4.40	3.90	3.94	3.98
Dividend yield (%)	8.04	7.77	6.89	6.96	7.03
Adj NAV per share (€)	74.0	58.9	61.1	62.4	64.4
NNNAV per share (€)	74.0	58.9	61.1	62.4	64.4
Disc/(prm) to adj NAV (%)	23.5	3.85	7.43	9.33	12.1
Net debt to tot ass (%)	46.7	42.0	38.3	39.3	40.0

Accounting standard: IFRS
Source: Company data, RBS forecasts

year to Sep, fully diluted

Cash flow still solid

Cash flow per share was €3.90 for the first three quarters of FY10, compared to €3.98 for the same period the year before. The dilution of the rights issue last year is mostly compensated for by acquisitions and much lower interest costs, where Befimmo still pays a c3% all-in financing cost. Vacancy increased slightly from 4.5% (at 2Q10) to 4.7% at 3Q10, which positively compares to the office segment vacancy for Cofinimmo of 7.1%. For the rest of the year, we believe it is very unlikely vacancy will increase further.

Portfolio value continues to gently slide down

Portfolio value was down again in 3Q10. Befimmo's portfolio declined 0.5% in value in 2Q10 (January-March) and 0.4% in 3Q10 (April-June). The decline for calendar 2010 therefore stands at 0.9%, while Cofinimmo's office portfolio fell 0.5% in value over the period (January-June). No Iff rental numbers are available, but Befimmo's number should be slightly worse than Cofinimmo's - 1.2% for January-June. The NAV per share is €60 and the LTV is still a very safe 43% at 3Q10. Befimmo confirmed the sale of the former Telex building for €51m, to be executed in early 2011 at a yield of c5.2%.

Befimmo remains defensive and bond-like - Hold, TP €61

Management confirmed the dividend outlook of €3.90. The stock is trading at a 2011F dividend yield of 6.9%, a spread of c400bp over Belgian 10- year government bonds. While the lease duration is still 9.3 years and tenants are c65% Belgian and EU government dominated, the comparison looks fair. Befimmo is also still able to profit from the ongoing low interest rates. The stock trades at a 2011F normalised PE of 12.0x, a discount to NAV of 9% and EBITDA/EV yield of 6.8%. This is in line when compared to Cofinimmo, which is trading at a 2011F dividend yield of 7.0%, normalised PE of 12.8x, discount to NAV of 8% and EBITDA/EV yield of 5.9%. Based on the still declining momentum in the Brussels office market, we keep our Hold rating.

Important disclosures can be found in the Disclosures Appendix.

Income statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Gross rental income	109.5	119.1	125.6	128.9	132.4
Prop development income	n/a	n/a	n/a	n/a	n/a
Other revenue	0.00	0.00	0.00	0.00	0.00
Total property income	109.5	119.1	125.6	128.9	132.4
Other costs	-15.6	-95.8	-44.2	-9.33	1.34
EBITDA	93.9	23.3	81.4	119.6	133.8
DDA & Impairment (ex gw)	0.00	0.00	0.00	0.00	0.00
EBITA	93.9	23.3	81.4	119.6	133.8
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	93.9	23.3	81.4	119.6	133.8
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Net interest	-30.8	-18.4	-25.2	-31.8	-33.6
Other pre-tax items	-4.32	-38.9	0.00	0.00	0.00
Reported PTP	58.8	-34.0	56.2	87.8	100.1
Taxation	-0.65	-0.46	-0.50	-0.80	-0.81
Minority interests	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	58.2	-34.5	55.7	87.0	99.3
Dividends declared	-23.3	-59.5	-17.5	-65.5	-66.2
Tot normalised items	3.90	-111.4	-27.6	7.75	18.9
Normalised EBITDA	91.4	106.1	108.9	111.9	114.9
Normalised PTP	54.9	77.4	83.7	80.1	81.3
Normalised net profit	54.3	76.9	83.2	79.3	80.5

Balance sheet

€m	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	4.55	22.6	80.9	52.4	25.0
Props under dev	0.00	0.00	0.00	0.00	0.00
Other current assets	30.4	39.0	39.0	39.0	39.0
Investment prop	1878	1902	1882	1932	1992
Other non-current assets	59.2	25.9	25.9	25.9	25.9
Total assets	1972	1989	2028	2049	2082
Short term debt (2)	15.4	1.88	1.88	1.88	1.88
Long term debt (3)	862.4	529.1	529.1	529.1	529.1
Other liabilities	65.4	408.5	408.5	408.5	408.5
Total liabilities	943.2	939.4	939.4	939.4	939.4
Total equity (incl min)	1029	1050	1088	1110	1143
Total liab & sh equity	1972	1989	2028	2049	2082
Net debt	920.2	835.2	776.9	805.4	832.8

Source: Company data, RBS forecasts

year ended Sep

Cash flow statement

€m	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	93.9	23.3	81.4	119.6	133.8
Change in working capital	-12.7	0.74	0.00	0.00	0.00
Net interest (pd) / rec	-36.5	-28.7	-25.2	-31.8	-33.6
Taxes paid	-0.65	-0.46	-0.50	-0.80	-0.81
Other oper cash items	6.32	83.1	36.0	-7.75	-18.9
Cash flow from ops (1)	50.4	77.9	91.6	79.3	80.5
Capex (2)	0.00	-36.6	-38.3	-42.3	-41.7
Disposals/(acquisitions)	-62.7	-79.1	22.4	0.00	0.00
Other investing cash flow	5.53	41.8	0.00	0.00	0.00
Cash flow from invest (3)	-57.1	-73.8	-15.9	-42.3	-41.7
Incr / (decr) in equity	-1.78	86.9	0.00	0.00	0.00
Incr / (decr) in debt	37.2	-21.8	0.00	0.00	0.00
Ordinary dividend paid	-23.3	-59.5	-17.5	-65.5	-66.2
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	2.22	n/a	n/a	n/a	n/a
Cash flow from fin (5)	14.4	5.59	-17.5	-65.5	-66.2
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	7.66	9.64	58.3	-28.5	-27.4
Equity FCF (1+2+4)	50.4	41.3	53.3	37.0	38.8

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Sep

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 27 Aug 2010)

	Global total (IB%)	Europe total (IB%)
Buy	680 (0)	246 (0)
Add	0 (0)	0 (0)
Hold	423 (0)	162 (0)
Reduce	0 (0)	0 (0)
Sell	99 (0)	23 (0)
Total (IB%)	1202 (0)	431 (0)

Source: RBS

Trading recommendations (as at 27 Aug 2010)

	Global total (IB%)	Europe total (IB%)
Trading Buy	2 (0)	0 (0)
Trading Sell	1 (0)	0 (0)
Total (IB%)	3 (0)	0 (0)

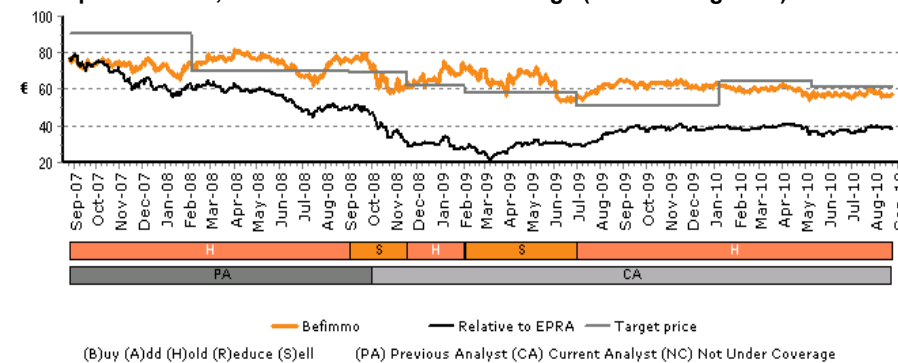
Source: RBS

Valuation and risks to target price

Befimmo (RIC: BEFB.BR, Rec: Hold, CP: €56.60, TP: €61.00): Our PVS-derived target price is based on the latest reported NAV. The main downside risk to our target price is a substantial further decrease in property values due to deteriorating economic circumstances and a weak property market, leading to higher vacancy and lower rents. Upside risks include value-adding larger acquisitions, an increase in demand for office space in Brussels, and lower-than-expected negative revaluations.

Befimmo coverage data

Stock performance, recommendations and coverage (as at 27 Aug 2010)



Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Jaap Kuin started covering this stock on 1 Oct 08

Source: RBS

Regulatory disclosures

None

Global disclaimer

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