

## Office market players not having an easy life

### Facts – Refinancing approaches

- **Q3 results:** FFO/share decreased to EUR 3.31 from EUR 3.96 over the year. We expected EUR 3.39/share (diff A vs. E is -2.27%). Main reason for the higher decrease on FFO level was a higher cost of debt vs. LY.
- **Guidance:** Befimmo reiterated guidance on the (interim) dividend of EUR 3.94/share (4 quarters). The company will pay out a final dividend of EUR 0.99 for the fiscal period 2010/2011 (5 quarters) after approval in April 2012. Additionally the company reiterated guidance for 2012 and a dividend of EUR 3.98/share.
- **Acquisitions/Sales:** Even after its past acquisition in February '11 in the EU quarter (Pavillion), we remind that the company still has EUR 179.7m fire power or EUR 100m when limiting the debt ratio to 50%. Debt ratio currently stands at 45%.
- **Finance:** to refinance: EUR 130m in 03/2012, EUR 220 in 03/2013 and 300 in 06/2013 (or approx 75% of financial debt). First stage was the bond issue of EUR 162m. Average cost of financing stands at 3.03%, while 55.5% is mainly floating rate financed. As a result, in the Belgian universe, they will be the most impacted by floating interest rates.
- **Current operating portfolio:** Main renewal in Q3 was the Brederode building for 13,400sqm to Linklaters (15 years). This historical building, located in Brussels CBD, will be renovated by 2013 for EUR 25.5m or approx. EUR 1900/sqm. However, the 2 other buildings let to Linklaters (Brederode 9 + Namur 48), sublet for the moment, will be vacated in 2013 (7,000sqm).
- The LfL portfolio value decreased by -1.14% in the first half of 2011 and an additional -0.48% in Q3 (vs. our estimate of -1% for the 3 quarters). The difference is partly explained by the fact that the Brussels CBD LfL value changes by -0.75% in Q3, while during the first 6 months of the year it decreased by only -0.27%. That decline is mainly explained by the Brederode building of Linklaters (lower rent + EUR 25m renovation costs despite the 15-year maturity).
- **Gross yield:** (if 100% let) stands at 6.99% in Q3 (+9bps YoY).

### Our View

- We are convinced that on the Brussels office market, prime rent remains quite stable as it moved from EUR 250/sqm to EUR 245/sqm (buildings >5,000sqm) and that ec. rent is remaining low around EUR 210/sqm.
- The Brussels office market will continue to deteriorate in H2 2011/2012. We are cautious on the stock as risk premium may increase because of rising interest rates/inflation will increase yields.

### Conclusion

- Regarding the letting market, management quoted that it remains challenging and rather slow. The Froissart building gained interest from potential tenants, though no news for the Science Montoyer building.
- For Q3, we were happy to see quite some lease renewals, however we remain cautious as rental reversion is still negative (-5.6% reported in H1 is quite sharp). The Brederode building might indicate the path forward of Befimmo: negative rental reversions despite heavy renovations and, as a result, lower valuations.
- Luckily, the probability of rising interest rates has decreased and as this is in favor of Befimmo this might save the case, temporarily. Hence we expect interest rates to pick up on the long run. Secondly the speculative developments came to an end (only 80,000sqm next year).
- Our EVA-model echoes a value of EUR 58, however the stock price increased in the past months thanks to its defensive status, we remain cautious on the stock, as a consequence of its pure Brussels/office player positioning. Therefore we reiterate our reduce rating.

### Reduce

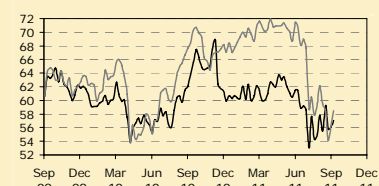
Price:	EUR 57.07
	(07/10/11)
Target price:	52.40
Risk:	Low
Reuters:	BEFB.BR
Bloomberg:	BEFB BB
Shares number (m):	16.79
Market cap. (m):	958
NAV 30/06/2011 :	60.40
Premium :	-6%
H/L 1 year:	69.05 - 48.75
1 year price perf.:	-11.1%
Diff. with EPRA Eurozon	4.5%
Volume (sh./day):	20,477
Free Float	81%
Fortis Group	19%

	10	11e	12e
P/E	11.7	13.5	13.7
Div. yield	6%	7%	7%
Premium	2%	-6%	-2%

### Company Calendar

17/11/12 Q4 2011 results  
16/02/12 FY 2011 (Q4 + 1Q)  
22/12/12 pay-out interim div  
25/04/12 OGM  
04/05/12 pay-out dividend

Befimmo + relative to EPRA Eurozone (grey)



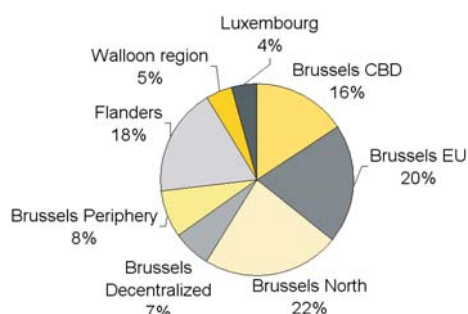
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# Befimmo

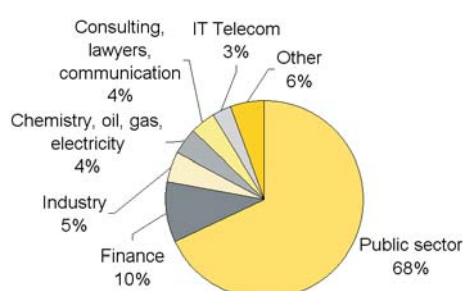
Updated Estimates: YES

Exhibit 1 Portfolio (Brussels totals 73% of total)



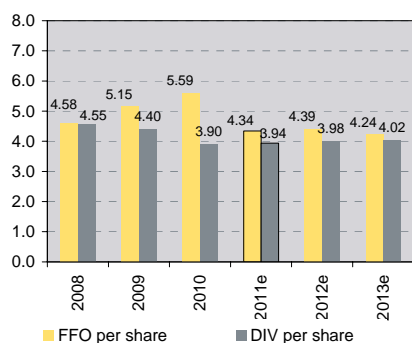
Source: Befimmo

Exhibit 2 Tenants



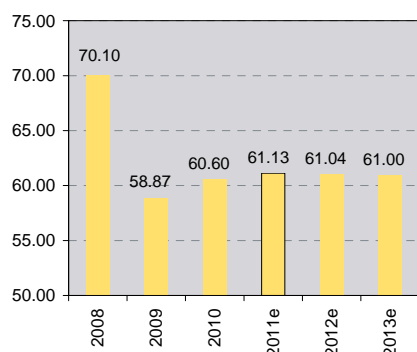
Source: Befimmo

Exhibit 3 FFO & dividend per share



Source: Befimmo & Petercam estimates

Exhibit 4 NAV per share



Source: Befimmo & Petercam estimates

Profit & Losses (EUR m)	09/09	09/10	09/11e	09/12e	09/13e
Rental income	118.6	123.5	122.4	125.8	129.9
Operating costs	-4.5	-7.8	-5.9	-6.1	-8.4
<b>Net rental income</b>	<b>114.1</b>	<b>115.7</b>	<b>116.5</b>	<b>119.7</b>	<b>121.5</b>
<b>EBIT</b>	<b>106.1</b>	<b>112.2</b>	<b>102.4</b>	<b>107.2</b>	<b>108.7</b>
Interest charges	-30.0	-20.7	-24.4	-28.0	-29.3
Interest income	-	-	-	-	-
<b>Financial Result</b>	<b>-29.3</b>	<b>-22.8</b>	<b>-26.5</b>	<b>-30.1</b>	<b>-30.8</b>
Minorities	1.1	3.9	3.9	3.9	3.9
<b>Pre-tax result</b>	<b>76.9</b>	<b>89.4</b>	<b>75.9</b>	<b>77.1</b>	<b>77.9</b>
Taxes	-0.5	-0.7	-0.8	-0.8	-0.8
<b>Direct result</b>	<b>76.4</b>	<b>88.7</b>	<b>75.1</b>	<b>76.3</b>	<b>77.1</b>

Balance Sheet (EUR m)	09/09	09/10	09/11e	09/12e	09/13e
Property investments	1,922.6	1,885.0	1,956.6	1,973.6	2,073.7
Property not in operation	-	-	-	-	-
Other Investments	20.7	20.1	26.4	26.4	26.4
Financial assets	0.6	0.7	0.6	0.6	0.6
<b>Total investments</b>	<b>1,944.0</b>	<b>1,905.7</b>	<b>1,983.6</b>	<b>2,000.5</b>	<b>2,100.7</b>
Cash position	-	-	-	-	-
Tradable receivables	-	-	-	-	-
Other current assets	49.7	79.4	39.7	46.8	52.1
<b>Total assets</b>	<b>1,989.4</b>	<b>1,985.1</b>	<b>2,023.4</b>	<b>2,093.4</b>	<b>2,195.7</b>
Total Equity	1,050.0	1,081.9	1,077.7	1,078.0	1,087.4
Provisions & deferred taxes	-	-	-	-	-
LT bearing interest debt	764.3	604.9	721.8	721.8	721.8
ST bearing interest debt	175.1	298.3	223.8	293.6	386.5
Tradable payables	-	-	-	-	-

Shares - per share data (EUR)	09/09	09/10	09/11e	09/12e	09/13e
<b>Direct result</b>	<b>5.15</b>	<b>5.28</b>	<b>4.16</b>	<b>4.15</b>	<b>4.20</b>
Recurring cash earnings	5.14	5.31	4.41	4.40	4.45
Indirect result	-7.36	-2.27	-0.65	-0.63	-0.17
Dividend	4.40	3.90	3.94	3.98	4.02
Book Value	58.87	60.60	59.59	58.51	58.93
No shares - average (m)	14.92	16.79	17.11	17.43	17.43

Ratios	09/09	09/10	09/11e	09/12e	09/13e
<b>Valuation analysis</b>					
P/E	12.0	11.7	13.5	13.7	13.6
Price/Recurring cash earnings	12.1	11.7	12.7	13.0	12.8
P/BV	1.1	1.0	0.9	1.0	1.0
EV/EBITDA	19.2	17.9	19.4	19.3	19.9
Premium on NAV	5.3%	2.3%	-5.8%	-2.5%	-3.2%
Div. Yield	7.1%	6.3%	7.0%	7.0%	7.0%
<b>Financial ratios</b>					
Net Debt/Equity	89.5%	83.5%	87.7%	94.2%	101.9%
Equity/Total Assets	52.8%	54.5%	53.3%	51.5%	49.5%
ROCE post-tax	-0.2%	3.8%	5.6%	4.9%	4.8%
ROE	-3.4%	5.0%	8.2%	6.9%	6.9%
EBITDA / Rental income	89.5%	90.9%	83.7%	85.3%	83.6%

## Business description

Befimmo is the second largest property investment company in Belgium. The primary focus is on the Brussels office market. The company enjoys the tax-efficient Sicafi/Bevak status. The portfolio represents a fair value of EUR 1.95bn (occupancy rate = 93.9% vs. 95.5% 6 months ago). The assets are located in Belgium (approximately 73% in Brussels) and in Luxembourg (The Axento project: EUR 100m, gross yield of 5.65%, was completed during H2 09). Befimmo applies a focus strategy on fully let and well-located 'green' buildings, mainly in Brussels CBD. To provide a stable starting point the company's tenant base has large exposure to public bodies (68%) such as the Belgian and European governments. The average gross portfolio yield stands stable around 6.5%.

## Competitive position

Befimmo's main competitor is Cofinimmo, the largest Belgian Sicafi. The other players in the office market are some smaller Sicafis, institutional investors (insurance companies and pension funds), as well as specialized real estate investors (German open-ended fund). Due to its focus on the Brussels office market it can offer tenants looking for office space in Brussels a wide variety of options. The last 2 years, the company has been focusing on developments, refurbishments due to lease cancellations and to upgrade the overall portfolio quality. As a result of this and a deteriorating market the occupancy rate has decreased during 2009. Befimmo reviewed the strategy to enter the Paris office market, as its CBD lacked suitable investment opportunities.