

BEFIMMO

UNDERPERFORM

TARGET PRICE EUR46 (DOWNSIDE 2%)

TARGET PRICE

unchanged

FFO 12e

↗ 2%

FFO 13e

↗ 2%

Positive steps on corporate structure and strategy

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Simplification of the corporate structure to bring more transparency and control

On 31 October, Befimmo announced it has reached an agreement with AG Real estate on (1) the purchase by Befimmo SCA of the Statutory Manager, Befimmo SA, from AG Real Estate for a consideration in cash of EUR21m and (2) the full internalisation of property management activities for a consideration of EUR1. This agreement is subject to EGM approval (to be organised in December 2012). We believe this is positive as it will give Befimmo better control as it will be in closer/direct contact with its tenants. Interestingly, management indicated that this initiative came from AG Real estate. Befimmo will also propose to transform the Limited Partnership by Shares into a Limited Liability. Finally, management confirmed its decision to apply for REIT status for its 100% owned subsidiary Fedimmo.

Simplification of corporate structure: one-off cost but annual accretion of cash-flows

Management indicated that the EUR21m price was assessed using a wide range of valuation methodologies. The cancellation of the annual management fee would have saved EUR1.6m in 2011 (EUR1.4m in 2010), implying a positive FFO impact of EUR0.07/share in 2012 and EUR0.06/sh pa from 2013e. There will be a one-off negative impact on NNNAV of EUR1.09/sh in 2012, ie EUR21m minus EUR1.6m. LTV will also increase by 1%. We have updated our model to reflect this. This is broadly neutral on valuation and we keep our TP and rating unchanged.

Strategy: no longer looking at Paris office, re-focus on core market makes sense

Following Befimmo's announcement earlier this year that it was assessing potential diversification in Paris offices, management indicated that in the current macroeconomic environment, such a diversification would not meet Befimmo's risk/return targets as returns in CBD were too low and risks in the suburbs too high. Therefore, Befimmo will remain focused on the Belgian and Luxembourg office markets. Mgmt will monitor investment opportunities, which will be financed through disposals of non-strategic buildings (from Fedimmo portfolio). Mgmt intends to keep LTV around or below 50%. We believe that focusing on its core markets where its expertise lies makes sense, although the outlook for the Belgian office market remains very weak in our view.

Price (31 October 2012)

Market cap (EURm)	834
Free float (EURm)	677
EV (EURm)	1,806
3m avg volume (EURm)	0.7
Reuters / Bloomberg	BEFB.BR / BEFB.BB
Country / Sub Sector	Belgium / Offices

EUR47.0

Performance* (%)

	1w	1m	3m	12m
Absolute	1	2	(4)	(11)
Rel. Real Estate	(0)	(2)	(7)	(25)
Rel. MSCI SMID	0	1	(8)	(22)

* In listing currency, with dividend reinvested

Financials

	12/11	12/12e	12/13e	12/14e
Diluted FFO (EUR)	5.30	3.90	3.66	3.78
Net dividend (EUR)	4.93	3.45	3.45	3.48
Diluted NAV (EUR)	57.37	54.20	52.81	51.84
Diluted NNNAV (EUR)	57.02	54.30	53.10	52.29
Rental income (EURm)	156	129	129	134
EBITDA (EURm)	103	108	107	112
NOPAT (EURm)	103	107	106	111
FFO (EURm)	71	69	65	67

Valuation metrics*

	12/11	12/12e	12/13e	12/14e
NOPAT yield (%)	6.6	5.9	5.7	5.8
FFO yield (%)	7.1	8.3	7.8	8.0
Dividend yield (%)	8.3	7.3	7.3	7.4
Premium to GAV (%)	2	(7)	(5)	(4)
Premium to NAV (%)	4	(13)	(11)	(9)
Premium to NNNAV (%)	4	(13)	(11)	(10)

* Yearly average price for FY ended 12/11

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Forthcoming events

Date	Event
15 Nov. 2012	Q3 Trading Statement
19 Feb. 2013	FY 2012 Results
24 Apr. 2013	AGM

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