Befimmo

Belgium/ Real Estate

Company report

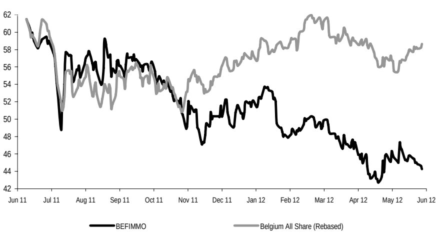
Investment Research *Reason: Fundamental Report* *27 June 2012*

Hold	
Recommendation unchanged	
Share price: EUR	44.26
closing price as of 26/06/2012	
Target price: EUR	50.00
from Target Price: EUR	54.00
Reuters/Bloomberg	BEFB.BR/BEFB BB

Daily avg. no. trad. sh. 12 mth	23,648
Daily avg. trad. vol. 12 mth (m)	1.23
Price high 12 mth (EUR)	62.24
Price low 12 mth (EUR)	42.72
Abs. perf. 1 mth	-3.7%
Abs. perf. 3 mth	-10.8%
Abs. perf. 12 mth	-26.8%

Market capitalisation (EURm)	785
Current N° of shares (m)	18
Free float	81%

Key financials (EUR)	12/11	12/12e	12/13e
Gross Rental Income (m)	156	128	128
EBITDA (m)	129	105	105
EBITDA margin	*78.1%*	*77.0%*	*76.6%*
Portfolio Result (m)	(12)	(29)	(18)
Net Financial Result	*(29)*	*(30)*	*(33)*
Net Profit (adj.)(m)	105	68	65
Funds From Operations	104.55	68.31	65.41
EPS (adj.)	6.22	3.89	3.69
DPS	4.93	3.45	3.69
IFRS NAVPS	57.14	54.35	53.30
EPRA NAVPS	*56.64*	*53.85*	*53.30*
Premium/(Discount)	(12.0%)	(18.6%)	(17.0%)
Earnings adj. yield	*14.0%*	*8.8%*	*8.3%*
Dividend yield	*11.1%*	*7.8%*	*8.3%*
EV/EBITDA	*14.1*	*17.1*	*17.8*
P/E (adj.)	*8.1*	*11.4*	*12.0*
Int. cover(EBITDA/Fin.int)	*4.4*	*3.4*	*3.1*
Net debt/(cash) (m)	*874*	*941*	*995*



Shareholders: AG Insurance 19%;

For company description please see summary table footnote

Location, durability, durability

As a pure play in offices largely focused on Brussels and Belgium and dominated by public tenants delivering long leases, Befimmo has probably the most transparent portfolio among Belgian REITs. The Brussels office market however is today characterised by a high vacancy rate. As a pure play on offices, we can only expect modest rental growth, especially if we take into consideration the potential negative rents reversion of 7.5% - end 2011 - and a rather limited pipeline, putting aside a major delivery in Liège (Paradis project, 39,000sqm, EUR 95m) in 2014 at the latest. The share price has largely underperformed the EPRA Europe index and the other Belgian REITs since the cautious guidance given in February.

- ✓ Befimmo owns and lets a property portfolio based on office buildings in Brussels and, since 2007 to a much smaller extent, in Luxembourg. It is made of 90 office properties with an above ground surface of 851,000 sqm, for 73% located in Brussels (58% in the CBD) and 67% let to public institutions on a LT basis of which 9% to European institutions and delegations. The value of the portfolio reaches EUR 1.9bn.
- ✓ In the framework of a geographical diversification, Befimmo is looking first for investments in Luxembourg (4.1% of the portfolio already) while it could revive ambitions of 2008 to make a first step in France (not only Paris), although no concrete steps have been made for the latter up to now.
- ✓ Another permanent challenge is to continue to improve the quality of its own portfolio in particular regarding sustainability and "green" requirements which means that developments will continue in the coming years. Renovation costs have fluctuated between EUR 30m to EUR 40m (2% of the FV of the portfolio) annually over the last few years and will represent a similar amount in the coming years. This effort comes on top of EUR 10m of technical costs.
- ✓ As far as the financial structure is concerned, the company has been very active and successful in the renegotiation of rather huge financing needs over 2012 and 2013. At the start of 2012, the company had a refinancing need over 2013 totalling 450m which has been recently reduced to EUR 300m after having made a private placement of registered notes mainly in USD. All in all, the company could up to now benefit from a lower cost of debt than its peers (3.45% for FY 2010/11, and 3.87% guided for FY 2012). As a result of the combined effect of increasing margins, lengthening and diversification of its debt; this cost is expected to increase in 2012 and over the following years. On top of a difficult rental environment, this factor explains the lower guidance given by the company at the issue of the 2011 results in mid February.
- ✓ Our new target price of EUR 50 means a discount to the latest published NAV of 11%, contrasting with the 12% premium of Belgian REITs, on the back of a DCF fair value of EUR 49.8. It implies a dividend yield of 6.9%.

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Investment Case

Despite a difficult environment for the Brussels office market, Befimmo sticks to its strategy of being a pure player in offices of which by priority in Brussels and Belgium. The company is also looking for expansion in Luxembourg (4.1% of its portfolio) while theoretical thoughts about diversification in French offices, started after 2008, have been revived.

From an investment point of view this means that the comparison between Befimmo and Cofinimmo, a traditional way of thinking among many investors, becomes more and more irrelevant. Cofinimmo has diversified outside of office since 2005, so that the share of this real estate segment has now been reduced to 48%.

More capex in the future?....

One of the main challenges that could affect Befimmo more than other Belgian REITs, given that is a pure play in offices, is the shortening of the life cycle of offices because of the higher sustainability requirements. This logically leads to either higher capex requirements for assets in the portfolio and/or a higher rotation of the portfolio in the medium term. This trend is mitigated by the long duration of leases (9.8years) of Befimmo's portfolio

Since Befimmo sticks to its vocation of pure player in Belgium "well located" assets in Belgium, one may question if the best approach is more on investments than on divestments. Recent years, characterised by a poor level of transactions, have not been favourable to assess neither the one nor the other strategy, with two notable exceptions however: the acquisition of an office building let to the European Commission on a 15 year period at a net initial yield of 5.12%. This contrasts with the sale of the new Empress Court in 2011 in the Brussels CBD at a 5.5% initial yield.

… and/or more rotation of the portfolio

Anyway, the requirement for either higher rotation or refurbishment is ongoing and there is no other way out. For sure the larger inclination of Befimmo portfolio versus long term rents to public authorities at good locations may explain that the urgency of facing these challenges appears less crucial for Befimmo than for any other Belgian REITs.

According to the management, the company may sell assets in the latest cycle of their renting period depending on the location of the assets (for example in regions where there is no market for offices). Complementary, it may (like other players) also reconvert vacant assets into other real estate segments than offices, in particular in residential real estate in the periphery of Brussels which is suffering from a higher vacancy rate or smaller assets from Fedimmo in the regions. We only anticipate this at a modest scale in the near future (let us say two years), considering that the potential for reconversion is pretty limited at economic satisfying conditions.

Do not over estimate rent reversion

The next years may become more difficult for rent renewals at attractive conditions, considering potential negative rent reversion of some 7.5% on the back of a vacancy rate in the Brussels office market approaching 12%. We should however not fear too much the direct impact of this over-renting on Befimmo's portfolio since it is concentrated in the CBD where leases are the longest one of its portfolio.

Higher interest charges and overheads

On top of this issue, the management guides since the release of FY 2011 results in February for an increase in net interest charges and overhead costs from financial year 2012 onwards. The increase in net interest charges is linked to increasing bank margins and a shift towards a longer duration of its debt structure (which was at the lower end of Belgian REITs as a result of a short duration of debt and floating rates). The limited increase in management costs is partly linked to an increase in the work force justified by more attention to sustainability issues.

23% discount to NAV

These issues led to a lower dividend guidance from FY 2012 onwards and have largely contributed to the 15% price correction seen in the meantime. As a result, on 21 of May, the company has announced the setting up of a share buyback program limited however to EUR 4.5m. Today the discount to the NAV is close to 23%, a record since 2001 and among

Belgian REITs. In the meantime, the NAV only lost 3% over the last two years, of which even a slight rebound during the last quarter of 2011 (+ 0.19%) but however a minor decline in 1Q2012 linked to a change of appraiser which affected in particular the assets in the periphery (-9.1%) and the decentralised part of Brussels (-12.1%). These differences are mainly linked to each appraiser's specific estimate of the key valuation parameters and approach to the various sub-markets. Despite the rotation of the appraisers, the overall decline of the value of the portfolio remained limited (-0.76% compared to the end of December 2011).

The current debt to total assets ratio of 45.8% at the issue of FY 2011 is in line with the levels observed since 2007. The management does not feel comfortable with LTV exceeding 50% although this level does not reflect any covenant obligation. At the current LTV level, it means that Befimmo still has some EUR 100m of firepower. As a reminder, the capital increase of EUR 166m of 2009 was justified by a reduction of the LTV as well by having more room for investments opportunities.

Outlook

Modest growth

Befimmo guides for a 2.5% increase of the top line in 2012, which is in line with its inflation expectation (2.49%). This assumption reflects also the 99% contractually secured part of its portfolio while the changes in the portfolio of 2011 (sale of the 15,500 sqm Empress Court which had been in renovation, sale of the 12,000sqm Kattendijkdok, acquisition of the 19,700sqm Pavilion) will only have a marginal impact.

The potential for supplemental growth in the existing portfolio is limited considering that among the buildings currently under renovation, the two largest one (Central Gate, 33,000sqm and WTC-Tower III, 75,800smq) are not empty and have high occupancy rates. The Froissart building only has a 35% occupancy rate but this building which is well located in the Quartier Léopold (CBD of Brussels) has a GLA of only 3,185sqm. Besides, according to CBRE, the European Parliament has agreed terms on the letting of the Science-Montoyer building of 5379sqm, under a long-term lease agreement. This building was fully renovated by Befimmo and is now certified as a green building with a Breeam "Excellent" score. The European Parliament will move in the office building towards the end of the year.

Befimmo could up to now benefit from a lower cost of debt than its peers. But as a result of the lengthening of its financial debt, the average cost of debt is expected to increase in the coming years. For financial year 2012, the average cost of debt is expected to increase from 3.45% for FY 2010/11 to 3.64% (our estimate). The company has been very active and successful in the renegotiation of rather huge financing needs over 2012 and 2013. At the start of 2012, the company had a refinancing need over 2012 and 2013 totalling 450m which has been recently reduced to EUR 300m after having made a private placement of registered notes mainly in USD.

Location yesterday is not location today, Quality yesterday is not quality today

In the current difficult economic environment on the back of a high vacancy rate (11.5%), of the Brussels office market and only rather small or today theoretical targets for expansion abroad, Befimmo believes that it is certainly the right time to manage a portfolio of good quality. Indeed, despite the high vacancy rate, the move towards increasing sustainable requirements will not be stopped and having state of the art buildings and long rents: This being said, Befimmo has a development pipeline made of renovations for EUR 177m between 2012 and 2014 of which EUR 88.4m for the new Finance Center (Paradis, 38,945sqm) in Liège. In other words the development pipeline for the three coming years (excluding the Paradis building) is not very different from earlier achievements. In recent years, Befimmo invested some EUR 30m to EUR 40m, as a result from leases ending and renovations being organised consequently. Befimmo spends some EUR 10m in technical costs corresponding mostly to repairs (P&L).

Financial year 2010/11 and 1Q 2012 results

FY10/11 figures were exceptionally made of 5 quarters end in December 2011, as a consequence of the change in fiscal period of Befimmo.

While Befimmo posted rental income that has beaten expectations, this was overshadowed by much higher financial costs and corporate overheads.

New leases

During the exercise, Befimmo signed new leases and renewals for more than 70,000sqm (8.2% of the total portfolio of 851,441 sqm), which is nearly two times higher than in the three previous years.

Guidance: Down

Nevertheless, the outlook for the three coming years was particularly cautious, to such an extent that the management has proposed a sizeably lower dividend relative to FY 2012 – payable in 2013 (EUR 3.45 compared to EUR 3.94 previously announced on a 12 month basis). As a reminder, the dividend for previous FY made of five quarters was EUR 4.93/share of which an interim dividend.

For 1Q2012, results were in line with expectations. EPRA earnings per share emerged at EUR 0.99 in line with annual guidance on the back of a stable occupancy rate of 94.6%. The remaining average length of leases was higher at 9.75 years (from 9.0 years at the end of December 2011) reflecting largely the inclusion of the 25-year lease agreed with the Buildings Agency for the new Paradis building in Liège, following the granting of the permit and the start of the works.

NAV pretty stable

EPRA NAV at the end of March was pretty stable at EUR 57.44 (EUR 57.37 at the end of December) and EUR 57.21 on a IFRS basis (EUR 57.17 at the end of December). The fair value of the portfolio was down by 0.76% to EUR 1.964.9m. It's noteworthy that the sharp decreases in the value of the assets in the periphery (-9%) and the decentralised (-12%) Brussels is linked to the change of experts according to Befimmo and not to a change in the fundamentals of these sub-markets.

The yield on properties available for lease was 6.74% coming from 6.61% at the end of 2011.

Swot Analysis

STRENGTHS	WEAKNESSES
▪ 58% of the portfolio (FV) in CBD of Brussels.Relative stability of the Brussels office market ▪ 67% of the portfolio leased to public institutions ▪ Long average length of leases of 9.8 years ▪ Traditionally rather low debt ratio (now 45.8% vs max. target of 50%) and cost of debt of around 3.8% with increasing duration (4.51 years at 31 December 2011) ▪ High dividend yield	▪ High dependence on the Brussels office market ▪ Vacancy rate of Brussels office market (12%) and virtually no net take-up ▪ Developments of offices in Brussels is regulated by 19 ‘competing’ municipalities ▪ Management company, which makes a hostile takeover more difficult
OPPORTUNITIES	**THREATS**
▪ Prices on the Brussels office market ▪ Environmental standards ▪ Diversification in offices in France ▪ Disinterest of the Brussels office today may offer opportunities ▪ Conversion into residential / other	▪ Increasing real interest rates ▪ Lifecycle of offices ▪ Public institutions could negotiate lower rents and reduce their real estate portfolio (in sqm/people) ▪ Higher environmental standards ▪ Decreasing occupier demand offices (mobility)

Financials

Befimmo's financial structure has historically never been highly leveraged compared to other Belgian REITs. As at December 2011, its LTV of 44.2% is in line with historical targets but nowadays not much lower than most other Belgian REITs which for the most have gradually reduced their leverage as a result of a lower wave of investments since 2008.

The cost of debt was also much lower than other REITs on the back of a short duration of the debt.

The average cost of debt climbed from 2.97% for FY 2009/10 to 3.45% during the 15 months FY 2010/11 and is guided to emerge at 3.87% for current financial year. The financial debt is 56% floated (end 2011) so that the company has set up a hedging program insuring interest charges remain at comparable levels in the coming years. The financial debt is hedged at 83.5% (figure at end December 2011) and will continue to exceed 80% before 2014, before coming back to 70% in 2014 and 40% until 3Q 2016.

Recently, the company has been very active and successful in the renegotiation of rather huge financing needs over 2012 (EUR 130m) and 2013 (EUR 520m). In order to lengthen and diversify its financing sources, Befimmo issued two bonds in 2011 of respectively EUR 162m and EUR 110m coming on top of a new bilateral credit line of EUR 100m and fixed rate loan of EUR 44m. And in May, Befimmo made a private placement of registered notes mainly in USD, corresponding to EUR 300m.

All in all, the company could up to now benefit from a lower cost of debt than its peers. As a result of the increase in bank margins and of the change in the structure of the debt; this cost is expected to increase in 2012 and to remain at comparable levels largely backed by the hedging policy. Combined with a difficult rental environment, this factor explains the lower guidance given by the company by the release of the 2011 results in mid February.

	2009/10	2010/11	2012	2013	2014
Average financing cost	2.97%	3.45%	3.87%	3.91%	3.94%

Source: Befimmo

Valuation

As a pure play in offices largely focused on Brussels and Belgium and dominated by public tenants delivering long leases, Befimmo has probably the most transparent portfolio among Belgian REITs. However, the Brussels office market has lost somewhat of its typical defensive character made of a high vacancy rate. As a pure play on offices, we can only expect modest rental growth, especially if we take into consideration the potential negative rents reversion of 7.5% - end 2011 - and a rather limited pipeline, putting aside a major delivery in Liège (Paradis project, 39,000sqm, EUR 95m) in 2014 at the latest. The share price has largely underperformed the EPRA Europe index and the other Belgian REITs since the cautious guidance made in February.

We have based our target price on the NAV of the company and on a DCF.

Our key criteria are:

- We took into account inflation figures of 2% on a long term basis, in line with Befimmo own assumptions.
- At the issue of 2011, 99% of the 2012 rents were secured, while it is 92% for 2013 and 87% for 2013.
- With an over-renting estimated at 7.5% by the company and considering an average remaining length of leases of 9.8 years, the impact on the annual rental income is about 0.8% per year on an average.
- Since 2008, Befimmo spends on an average between EUR 30m to EUR 40m (close to 2% of the FV of the portfolio today) per year for deep renovation of its buildings and still plans to pursue this effort at the same levels. For FY 2012, 2013 and 2014, Befimmo has a development program of EUR 177m of which EUR 88m for the construction of the new finance center (Paradis) in Liège. It's noteworthy that maintenance costs are about EUR 10m per year.

NAV

The discount to the latest published fair value of the Net Asset Value per share (EUR 57.21 on an IFRS basis at the end of March 2012 and EUR 57.44 for EPRA NAV) is close to 23%, a record since 2001 and among Belgian REITs, contrasting with the 12% premium of Belgian REITs. The management of Befimmo still anticipates negative corrections of the value of the portfolio of -1.44% for 2012, -0.89% for 2013 and -0.38%. As a result, Befimmo anticipates a NAV per share (IFRS) of EUR 54.88 at the end of 2014 which means that the current share price shows a discount of 19.4%. The Entreprise value per sqm is at EUR 2,108, excluding the potential added value for developments in course which seems us lower than the replacement value of the assets considering current construction costs and in particular the value of the land in the CBD of Brussels (58% of the portfolio), in Flanders (18%) and in Luxembourg (4%). DCF

CASH FLOW (EUR m)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net rental income	**155.8**	**128.0**	**128.4**	**132.7**	**136.4**	**139.8**	**143.3**	**146.9**	**150.6**	**154.4**
% change	*26.2%*	*-17.8%*	*0.3%*	*3.4%*	*2.8%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
EBITDA	**129.0**	**104.8**	**104.5**	**108.7**	**112.2**	**115.0**	**117.9**	**120.8**	**123.9**	**127.0**
% margin	*82.8%*	*81.8%*	*81.4%*	*81.9%*	*82.3%*	*82.3%*	*82.3%*	*82.3%*	*82.3%*	*82.2%*
% change	*15.0%*	*-18.8%*	*-0.2%*	*4.0%*	*3.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Depreciation & other provisions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**	**2.0**
% sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*	*1.3%*
EBITA	**129.0**	**104.8**	**104.5**	**108.7**	**112.2**	**115.0**	**117.9**	**120.8**	**123.9**	**127.0**
% margin	*82.8%*	*81.8%*	*81.4%*	*81.9%*	*82.3%*	*82.3%*	*82.3%*	*82.3%*	*82.3%*	*82.2%*
% change	*15.0%*	*-18.8%*	*-0.2%*	*4.0%*	*3.3%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Taxes	**-0.8**	**-0.8**	**-0.7**	**-0.9**	**-0.9**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Normative tax rate	*0.6%*	*0.8%*	*0.7%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*
NOPLAT	**128.2**	**104.0**	**103.8**	**107.8**	**111.3**	**114.1**	**116.9**	**119.9**	**122.9**	**125.9**
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
% sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*	*1.3%*
Gross Operating Cash Flow	**128.2**	**104.0**	**103.8**	**107.8**	**111.3**	**114.1**	**116.9**	**119.9**	**123.9**	**127.9**
Capex	**-39.3**	**-58.8**	**-79.6**	**-39.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**
% sales	*25.2%*	*45.9%*	*62.0%*	*29.4%*	*3.7%*	*3.6%*	*3.5%*	*3.4%*	*3.3%*	*3.2%*
Change in Net Working Capital	**-12.0**	**1.3**	**0.1**	**1.5**	**1.3**	**0.1**	**1.2**	**1.2**	**1.3**	**1.3**
Cash Flow to be discounted	**77.1**	**46.88**	**24.98**	**70.60**	**107.66**	**109.28**	**113.18**	**116.14**	**120.16**	**124.25**

DCF EVALUATION (EUR m)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
WACC	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%	6.91%
Discount Rate factor	0.97	0.90	0.85	0.79	0.74	0.69	0.65	0.61	0.61	0.57
Discounted Cash Flow	74.5	42.4	21.1	55.8	79.6	75.6	73.2	70.3	72.7	70.3
Cumulated DCF	**74.5**	**116.9**	**138.0**	**193.8**	**273.5**	**349.1**	**422.3**	**492.6**	**565.3**	**635.6**

WACC & DCF ANALYSIS					
Cost of Equity (Ke or COE)	**10.22%**	**Cumulated DCF**	**635.6**	**- Net Financial Debt**	**(874.3)**
				- Minorities (estimated value)	(67.8)
Cost of Debt (gross)	3.6%	**Perpetual Growth Rate (g)**	**1.0%**	+ Associates	0.0
Debt tax rate	1%	Normalised Annual CF	107.7	- Pension underfunding	0.0
Cost of Debt net (Kd or COD)	**3.60%**	Terminal Value @ 12/2018	1,822.4	- Off-balance sheet commitments	0.0
		Disc. Rate of Terminal Value	0.65		
Target gearing (D/(E+D)) or % Kd	50.0%	**Discounted Terminal Value**	**1,179.2**	**Equity Market Value (EUR m)**	**873.0**
% Ke	50.0%			Number of shares (m)	17.5
Normative Tax Rate	**1%**	Financial assets	0.3		
WACC	**6.91%**	**Enterprise Value (EUR m)**	**1,815.2**	**Fair Value per share (EUR)**	**49.76**

Source: ESN Estimates

Multiple comparison

Peer Group Valuation

Company	Country	Rec.	Price 26-Jun-12	Target Price *Fair value*	Market cap EUR (m)	P/E(adj.) 2011	P/E(adj.) 2012	Div. Yield % 2011	Div. Yield % 2012	EV/EBITDA 2011	EV/EBITDA 2012
Aedifica	BE	Hold	EUR 47.55	45.00	341	22.2	21.4	3.8	4.0	27.8	29.8
Ascencio	BE	Hold	EUR 48.90	50.00	204	15.4	13.9	5.6	6.1	20.0	
Atenor	BE	Accumulate	EUR 27.14	34.00	137	10.8	15.3	7.4	5.5	13.8	9.7
Banimmo	BE	Accumulate	EUR 7.82	14.00	89	21.3	7.5	3.5	4.5	31.3	20.9
Befimmo	BE	Hold	EUR 44.26	50.00	785	8.1	11.4	11.1	7.8	17.4	16.3
Beni Stabili	IT	Accumulate	EUR 0.32	0.60	616	10.2	14.1	6.8	0.0	16.0	
Citycon	FI	Buy	EUR 2.13	3.10	592	11.4	9.7	7.0	7.5	21.0	19.1
Cofinimmo	BE	Hold	EUR 84.19	99.00	1,367	12.2	10.9	7.7	7.7	17.0	
Corio	NL	Accumulate	EUR 32.79	39.00	3,069	11.6	11.3	8.4	8.5		
Deutsche EuroShop	DE	Hold	EUR 27.04	27.50	1,396	20.8	20.6	4.1	4.1	33.9	32.1
Fonciere Des 6eme et 7eme	FR	Accumulate	EUR 15.95	19.50	408	19.9	46.3	3.8	3.9	20.8	31.9
IGD	IT	Accumulate	EUR 0.56	1.20	173	7.2	6.7	14.3	10.8	14.7	14.1
Intervest Retail	BE	Hold	EUR 49.00	46.00	249	17.8	18.8	5.2	5.3	20.1	
IVG Immobilien AG	DE	Hold	EUR 1.47	2.50	306	nm	nm	0.0	0.0	17.0	15.1
Leasinvest Real Estate	BE	Hold	EUR 61.86	69.00	247	13.6	13.4	6.7	6.9	16.3	16.8
Montea	BE	Hold	EUR 26.40	26.50	149	19.5	12.4	7.0	7.4	21.0	
Realia	ES	Buy	EUR 0.51	1.29	140	nm	nm	0.0	0.0	17.1	15.0
Sponda	FI	Accumulate	EUR 2.81	3.60	795	11.3	8.1	5.7	6.0	16.9	14.5
Technopolis	FI	Buy	EUR 3.01	4.50	227	8.0	7.0	6.4	6.6		
VastNed Retail	NL	Buy	EUR 28.56	42.50	535	9.6	8.3	12.6	12.3		
VIB Vermoegen	DE	Buy	EUR 7.77	11.00	166	8.8	9.6	4.5	4.5		
WDP	BE	Hold	EUR 38.02	39.50	543	10.8	10.3	7.7	8.2	17.5	
Mkt cap total (EUR) & Weighted averages					12,533	16.3	12.1	7.0	6.5	nm	nm
Arithmetical Average						13.7	13.8	6.4	5.8	20.0	19.6
Median						11.6	11.4	6.7	6.1	17.5	16.6

Source: ESN estimates

Company profile and Market environment

Company profile

Befimmo has a long experience as a pure player in management of real estate assets in the Brussels office market. The company has built a portfolio predominantly made of public tenants, both Belgian and European. The company sticks to its strategy of being a pure player in offices with Brussels as his core market. However, considering modest growth potential in this market, Befimmo is also looking for opportunities in Luxembourg (4.1% of its current portfolio) but considers also the French market (no presence today) as an investment alternative.

Befimmo is the second largest Belgian REIT after Cofinimmo. It is listed on the BEL 20 and EPRA Europe.

At the origin of the company in 1995, Befimmo had set itself the goal of investing in three types of properties: mainly office buildings, semi-industrial buildings in the Brussels-Antwerp corridor and retail estates in Belgium.

The reality has become different however since the company is focused on offices in Belgium, and to a small extent in Luxembourg, of which the bulk in Brussels and for public institutions. The company aims at remaining a pure player in the office market putting the accent on occupied buildings of top quality and top location and with a sufficiently large size enabling to identify an accretion starting from the acquisition year.

The portfolio is made of about 90 buildings representing 851,000sqm with various sizes, ranging from 1,000 sqm up to a maximum of 75,800 sqm for the WTC III building in the North part of CBD of Brussels which is currently being renovated.

The average gross yield of the real estate portfolio is 6.7%, impacted by the major share of public authorities as well as the long length of their contracts.

The portfolio has become much more defensive in 2006 as a result of the acquisition of 90% of Fedimmo (Belgian State offices). This came on top of the gradual reduction of the exposure to the decentralised area and periphery of Brussels (respectively 6.2% and 8.6% of the total portfolio nowadays), a move that Befimmo would like to pursue although it is a slow move today and especially in this area of Brussels coping with high vacancy rates. Besides, reconversion of office buildings in apartments will only alleviate modestly this situation because only a minor part of the assets are fit to justify reconversion at economic acceptable conditions. The portfolio of Fedimmo consisted originally of 62 office buildings let to the Belgian state. This transaction represented an investment for Befimmo of EUR 576m.

On top of the majority share of the national & international public bodies, the offices rented to private tenants are spread over a few sectors and large companies: BNP Paribas (6.9%), Linklaters Associates (2.6%), Levi Strauss (2.3%),…

The first achievement of the diversification outside of Belgium was about the Axento building (10,640 sqm of offices and 1600 sqm of retail spaces) in Luxemburg of which the costs involved were EUR 96.5m.

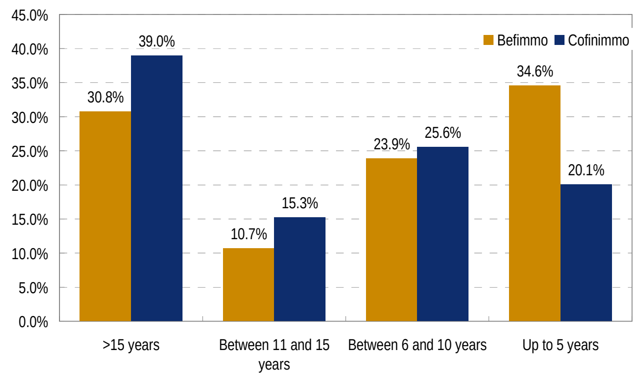
The average length of leases of 9.75 years is built on very different situations, made of the long ones in the CBD (10.2 years) which accounts for 58% of the portfolio) and much shorter ones in the decentralised part (3.9 years) and periphery of Brussels (2.7 years) where the market vacancy rates are high (17.3% and 17.7% respectively).

Investment and Renovation

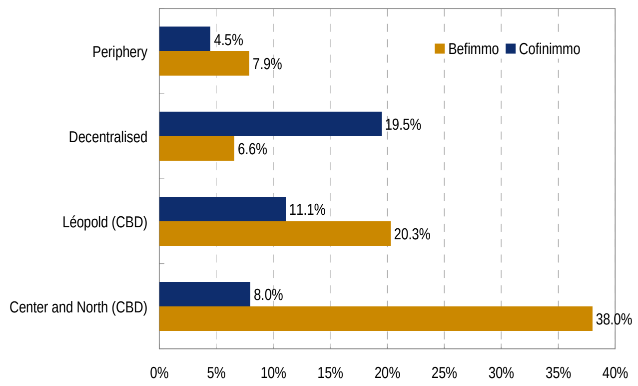
Investments as well as divestments have historically been scarce.

The strategy is built on concentrating on large office buildings in the Brussels CBD with long term leases, while gradually getting out of the decentralised area of Brussels and its periphery which represent together 14.5% of the total portfolio as well as from the regions which are not liquid markets. Having in mind the low rotation of the portfolio and its gradual ageing, the company has been making important renovations of some EUR 30m to EUR 40m (1.8% of the fair value of the portfolio) on an annual average over the last years. For the years 2012, 2013 and 2014, Befimmo plans to invest EUR 177m, of which EUR 88m for the new finance center (Paradis) in Liège.

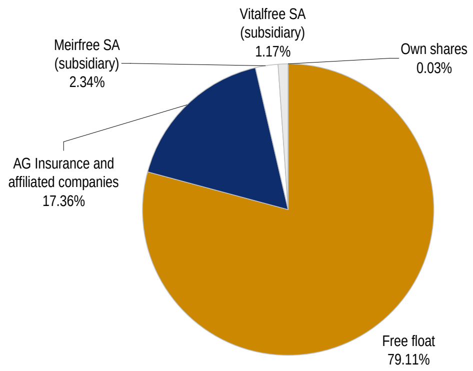
Age of buildings



Location

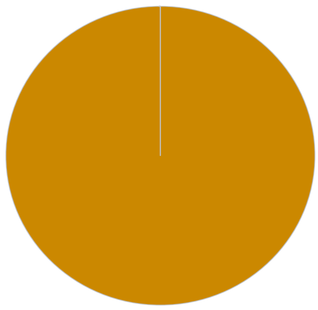


Shareholder structure



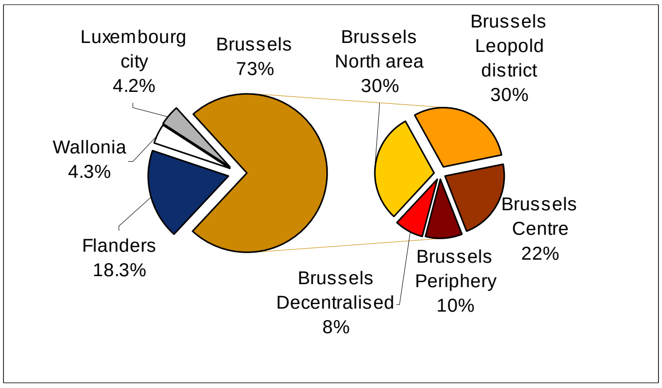
Source: Befimmo, Degroof Research

Portfolio: EUR 1965m, 100% offices



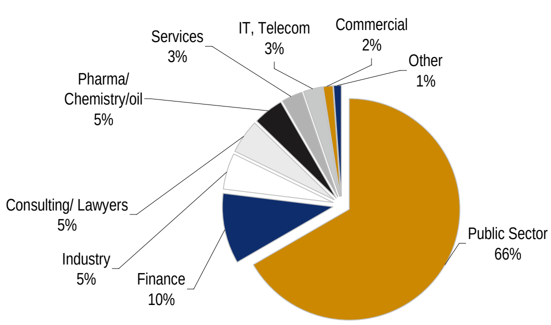
Source: Befimmo, Degroof Research

Portfolio breakdown by region



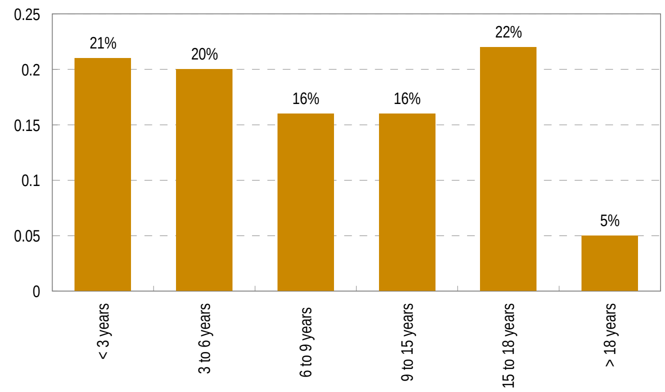
Source: Befimmo, Degroof Research

Portfolio breakdown by tenants



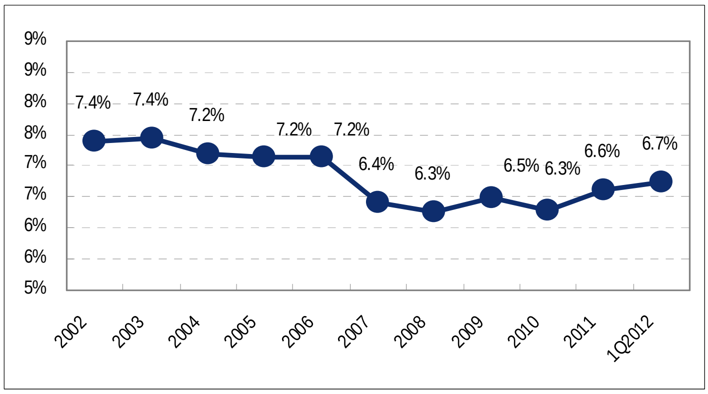
Source: Befimmo, Degroof Research

Lease durations



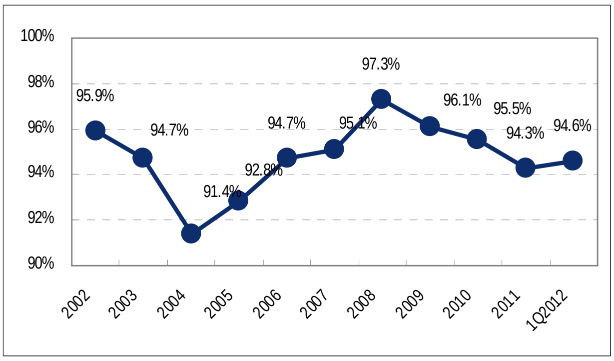
Source: Befimmo

Gross portfolio yield (without ERV)



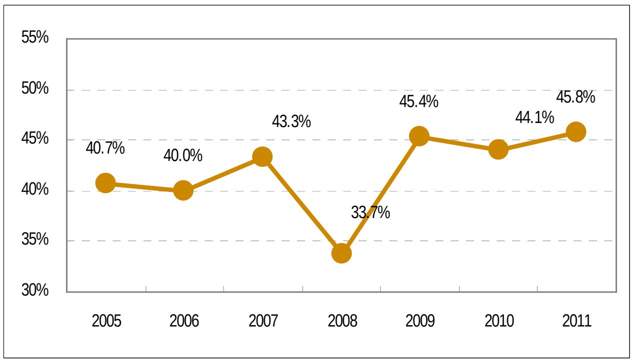
Source: Befimmo

Spot occupancy rate



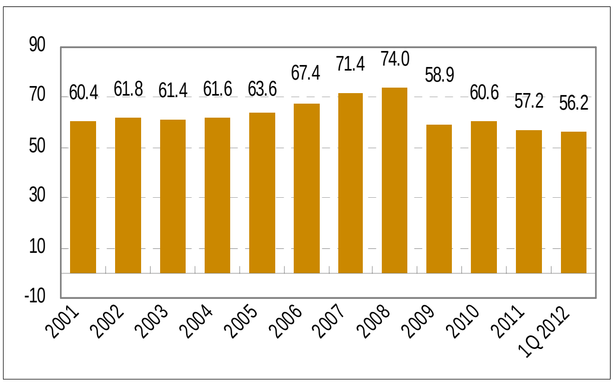
Source: Befimmo

Debt to total assets ratio



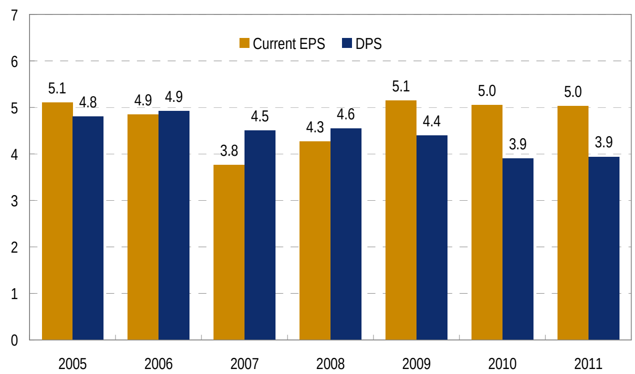
Source: Befimmo

IFRS NAVps (in EUR)



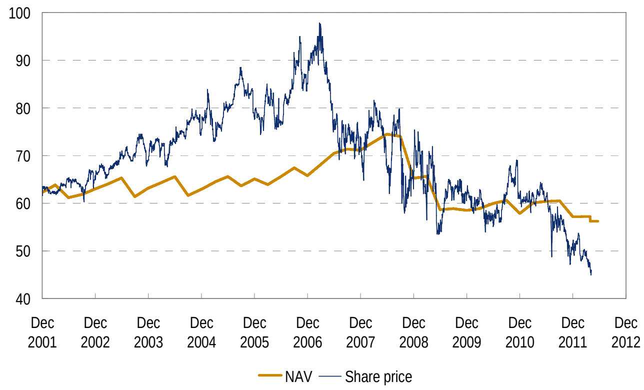
Source:Befimmo, Degroof Research

Current EPS and DPS.



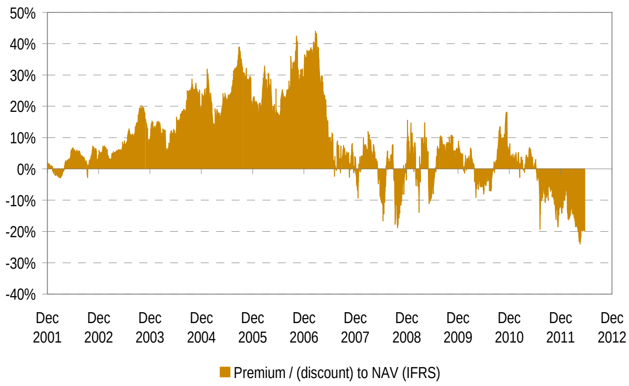
Source: Befimmo, Degroof Research

Total Return Chart.



Source: Befimmo, Degroof Research

Premium to NAV (IFRS, adj. for dividend payments)



Source: Befimmo, Degroof Research

Market environment

▪ Brussels

Brussels, which is the third largest office market in Europe, has the reputation of being relatively more stable for real estate than several other European cities such as London, Paris, Munich, Amsterdam or Madrid. This is partly due to the strong presence of the public sector but also the good equilibrium between the public and the private sector, both national and international, accompanied by non profit organisations and representation offices from all over Europe. As such it is less dependent from the economic environment. On top of this, the occupiers market is to a large extent focused in the service sector in addition to a rather rigid labour market.

This being said, the picture is less rosy since the crisis of 2008.

According to DTZ, in 2011 the Brussels' office market struggled with the lowest level of annual take-up of the past 12 years. In particular, take-up in 2011 was 348,000 sqm, compared to 1,526,000 sqm of available space.

At the issue of 1Q 2012, the take-up reached 95,000 about in line with the modest figures of the past few years.

The vacancy rate in the Brussels'office market was very gradually down to 11.9% at the issue of 1Q 2012, coming from a peak of 12.2% in 2010, with however large differences between the districts: 8.8% in the CBD, 17.3% in the Decentralised districts and 17.7% in the Periphery.

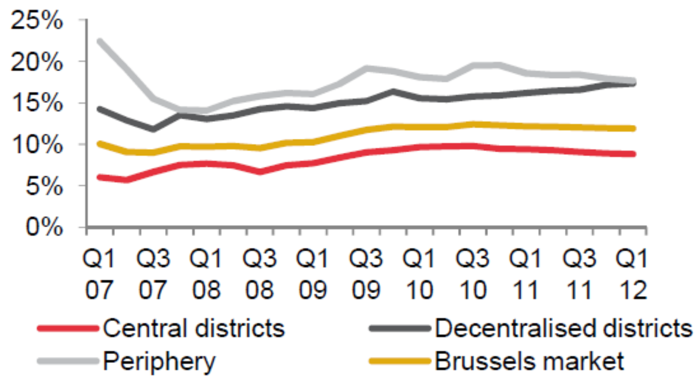
Only 85,000 sqm of new supply is expected in 2012. A sharp acceleration to 300,000 sqm of new supply is anticipated for 2013, of which however only 70,000 sqm of speculative developments.

According to DTZ, prime rents have slightly increased to EUR 275/sqm/year, and effective prime rents have also risen as gratuities decreased, confirming that prime buildings continue to attract occupiers. The 3-month moving average shows that rents have been relatively stable since 2005, increasing from EUR 150/sqm/year to EUR 170/sqm/year in 2012.

While some observations tend to demonstrate that the situation will not worsen, and some potential major transactions are in the market according to Befimmo management, the triggers do not seem strong enough to reverse the current situation quickly.

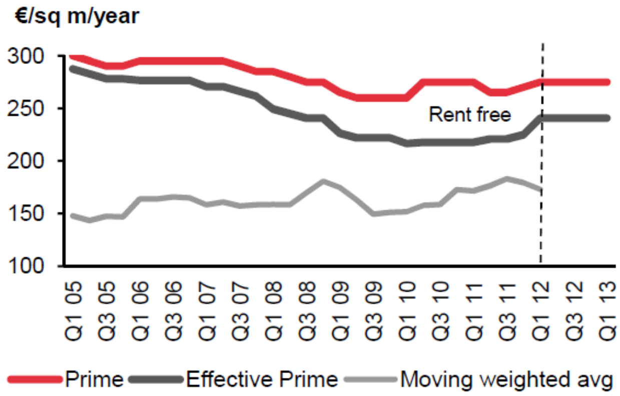
Obviously, such a high vacancy rate puts downward pressure on effective rents. Important gratuities of up to 2 months per year of lease were indeed granted in 2010. As a general rule of thumb, when availability is 6 to 8 %, one could speak of a balanced market with constant rental prices, while availability below 6 % would facilitate rental prices' growth. Availability above 8 % would raise the probability of decreasing rental prices. Currently, we are clearly in the latter scenario.

Brussels offices: Vacancy rate



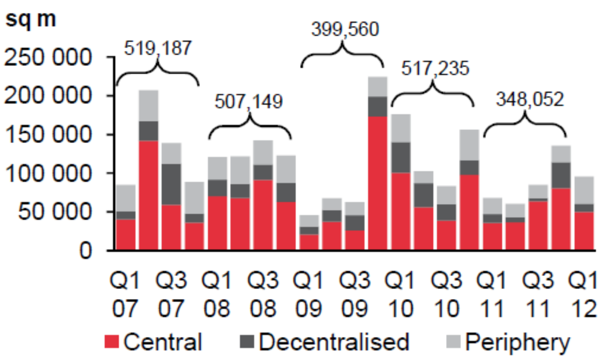
Source: DTZ

Brussels office rent



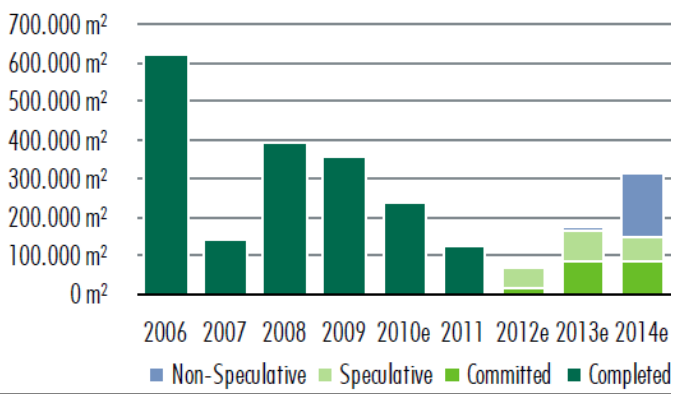
Source: DTZ

Office take-up in the Brussels office market



Source: DTZ

Development pipeline in the Brussels office market



Source: CBRE

- Luxembourg

Following a recovery in the office market in 2011, 2012 started in a similar way than the previous year, made of a slow start of take-up of 24,300 sqm during 1Q. It's noteworthy that the bulk of the transactions is concentrated in office spaces under 500sqm. The lack of new supply and the weak level of new deliveries are pushing occupiers to take up pre-lets in developments currently under way.

The vacancy rate stands at 5.9% at the issue of 1Q 2012 compared to 6.7% a year ago. The prime rent remained stable at EUR 480 per sqm. The falling vacancy rate is expected to lead to an increase in the net effective rents in the short or medium term.

Upcoming Corporate Events Calendar

Date	Event Type	Description	Period
30/08/12	Results	Interim 2012 Results	2012H1

Source: Precise

Befimmo: Summary tables

PROFIT & LOSS (EURm)	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Gross Rental Income	**109**	**119**	**123**	**156**	**128**	**128**
Other Operating Income	12.9	13.1	6.5	9.4	8.0	8.0
Operating Costs	-20.0	-17.7	-14.3	-18.4	-17.3	-17.5
Net Rental Income	**102**	**114**	**116**	**147**	**119**	**119**
General Expenses	-11.9	-9.8	-12.5	-17.7	-14.8	-15.1
Net Other Income/(Costs)	1.3	1.9	9.0	-0.1	0.8	0.7
EBITDA	**91.4**	**106**	**112**	**129**	**105**	**105**
Portfolio Result	**2.5**	**-74.8**	**-34.3**	**-11.6**	**-29.0**	**-18.0**
o/w Revaluation of Fair Value of Investment Properties	*-6.3*	*-75.0*	*-34.6*	*-26.4*	*-29.0*	*-18.0*
o/w Gain/Losses on Disposal of Investment Properties	*8.8*	*0.2*	*0.2*	*14.8*	*0.0*	*0.0*
Net Operating Profit before Finance Cost	**93.9**	**31.4**	**77.8**	**117**	**75.8**	**86.5**
Net Financial Result	**-31.3**	**-64.3**	**-26.6**	**-29.5**	**-30.5**	**-33.4**
o/w Share of the profit of associates & dividend income	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
o/w Revaluation of Financial Instruments	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
o/w Net Financial Costs	*-31.3*	*-64.3*	*-26.6*	*-29.5*	*-30.5*	*-33.4*
EBT	**62.6**	**-32.9**	**51.3**	**87.9**	**45.3**	**53.2**
Tax	-0.6	-0.6	-0.5	-0.7	-0.8	-0.8
o/w Deferred Taxes	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
o/w Real Taxes	*-0.6*	*-0.6*	*-0.5*	*-0.7*	*-0.8*	*-0.8*
Tax rate	*0.9%*	*-2.0%*	*0.9%*	*0.7%*	*1.8%*	*1.5%*
Net Result (reported)	**62.0**	**-33.6**	**50.8**	**87.3**	**44.5**	**52.4**
o/w Minorities	*-3.7*	*-1.1*	*-3.9*	*-5.2*	*-4.7*	*-4.0*
o/w Group Share	*58.2*	*-34.5*	*46.7*	*81.9*	*39.8*	*48.5*
Earnings adj.	**55.7**	**72.4**	**84.8**	**105**	**68.3**	**65.4**
Funds From Operations	55.7	72.4	84.8	105	68.3	65.4

CASH FLOW (EURm)	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Cash Flow from Operations after change in NWC	**57.9**	**159**	**72.6**	**72.7**	**81.3**	**82.0**
Interest Costs	-31.3	-64.3	-26.6	-29.5	-30.5	-33.4
Capex	-592	-78.2	-29.8	-48.3	-39.3	-58.8
Free Cash Flow	**-566**	**16.2**	**16.2**	**-5.1**	**11.5**	**-10.2**
Dividends	-48.2	-58.9	-59.4	-61.9	-65.5	-82.9
Other (incl. Capital Increase + change in cons. & share buy	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Debt	**-613.7**	**-42.7**	**-43.2**	**-67.0**	**-54.0**	**-93.1**
NOPLAT	90.6	108	111	128	103	103

BALANCE SHEET & OTHER ITEMS (EURm)	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Investment Properties	1,894	1,935	1,902	1,988	2,018	2,064
Development Properties	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	33.6	4.9	4.2	10.2	10.2	10.2
Cash & Cash equivalents	4.6	6.1	3.5	4.2	4.6	4.6
Other current assets	39.3	43.6	75.9	25.4	30.6	30.7
Total Assets	**1,972**	**1,989**	**1,985**	**2,028**	**2,063**	**2,109**
Shareholders Equity	967	988	1,017	1,003	964	956
Minorities Equity	61.7	61.6	64.4	67.8	67.8	67.8
Non Current Financial Debt	597.7	745.4	584.8	855.8	699.6	739.3
Deferred Tax Liabilities	5.4	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	259.4	18.9	20.1	10.4	10.4	10.4
Current Financial Debt	15.4	47.0	206.0	22.6	246.4	260.4
Other Current Liabilities	65.4	128.1	92.3	68.5	75.0	75.2
Total Equity & Liabilities	**1971.8**	**1989.4**	**1985.1**	**2027.8**	**2063.4**	**2109.1**

GROWTH & MARGINS	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Rental Income Growth	*4.3%*	*8.7%*	*4.1%*	*26.2%*	*-17.8%*	*0.3%*
EBITDA growth	*3.8%*	*16.1%*	*5.7%*	*15.0%*	*-18.8%*	*-0.2%*
Net Result Group Share Growth	*-34.7%*	*-chg*	*+chg*	*75.4%*	*-51.4%*	*21.9%*
Earnings adj. growth	*13.4%*	*30.0%*	*17.1%*	*23.3%*	*-34.7%*	*-4.2%*
EPS growth	*-34.7%*	*-chg*	*+chg*	*75.1%*	*-53.4%*	*20.6%*
EPS adj. growth	*13.4%*	*20.8%*	*-1.9%*	*23.1%*	*-37.4%*	*-5.3%*
DPS adj. growth	*0.9%*	*-3.3%*	*-11.4%*	*26.4%*	*-30.0%*	*6.9%*
Operating Margin	*74.9%*	*80.5%*	*86.3%*	*78.1%*	*77.0%*	*76.6%*

Befimmo: Summary tables

RATIOS	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Net Debt/Equity	0.6	0.7	0.7	0.8	0.9	1.0
Net Debt/EBITDA	6.7	7.4	7.0	6.8	9.0	9.5
Interest cover (EBITDA/Fin.interest)	2.9	1.7	4.2	4.4	3.4	3.1
Total Debt/Total Assets	47.8%	47.2%	45.5%	47.2%	50.0%	51.5%
LTV	32.4%	40.8%	41.8%	44.3%	47.0%	48.2%
Cash Flow from Operations/Capex	0.1	2.0	2.4	1.5	2.1	1.4
ROE	5.4%	6.9%	7.8%	9.8%	6.6%	6.4%
ROCE	5.4%	6.1%	6.0%	6.7%	5.3%	5.2%
WACC	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
ROCE/WACC	0.8	0.9	0.9	1.0	0.8	0.8
Payout ratio	102.1%	-179.3%	140.3%	101.3%	152.2%	134.9%

PER SHARE DATA (EUR)**	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Average diluted number of shares	13.1	14.1	16.8	16.8	17.5	17.7
Diluted Number of shares end of period	13.1	16.8	16.8	17.5	17.5	17.7
EPS (reported)	4.5	-2.5	2.8	4.9	2.3	2.7
EPS (adj.)	4.3	5.1	5.0	6.2	3.9	3.7
DPS	4.6	4.4	3.9	4.9	3.5	3.7
IFRS NAV	57.6	58.9	56.0	57.1	54.3	53.3
EPRA NAV	57.6	58.9	61.7	56.6	53.8	53.3
EPRA NNNAV	57.6	58.9	60.3	56.8	54.0	53.3

PORTFOLIO KEY FIGURES	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Occupancy Rate	97.3%	93.8%	93.8%	93.8%	93.8%	93.8%
Portfolio Yield	6.3%	6.5%	6.9%	7.0%	7.0%	7.0%
Portfolio Yield on Full Occupancy	6.4%	6.9%	6.6%	6.6%	6.6%	6.6%
Average length of leases (end of contract)	0.0	0.0	0.0	9.2	0.0	0.0
Average length of leases (first break)	9.4	9.4	9.4	9.2	9.2	9.2

VALUATION	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Premium/(discount) to NAV	16.4%	5.3%	10.8%	(12.0%)	(18.6%)	(17.0%)
Premium/(discount) to EPRA NAV	16.3%	5.3%	0.5%	(11.2%)	(17.8%)	(17.0%)
P/E (adj.)	15.7	12.0	12.3	8.1	11.4	12.0
EV/Earnings adj.	32.3	26.1	23.3	17.4	26.3	28.4
EV/EBITDA	19.6	17.8	17.6	14.1	17.1	17.8

EV AND MKT CAP (EURm)	09/2008	09/2009	09/2010	12/2011	12/2012e	12/2013e
Price* (EUR)	67.0	62.0	62.0	50.3	44.3	44.3
Outstanding number of shares for main stock	16.8	16.8	18.2	17.5	17.7	17.9
Total Market Cap	**1,126**	**1,041**	**1,127**	**882**	**785**	**794**
Net Debt	608	786	787	874	941	995
o/w Cash & Marketable Securities	*-4.6*	*-6.1*	*-3.5*	*-4.2*	*-4.6*	*-4.6*
o/w Gross Debt (+)	*613.0*	*792.4*	*790.8*	*878.5*	*946.0*	*999.6*
Other EV components	61.7	61.6	64.4	67.8	67.8	67.8
Enterprise Value (EV adj.)	**1795.9**	**1889.0**	**1978.6**	**1824.3**	**1794.6**	**1856.9**

Source: Company, Bank Degroof estimates.

Notes
**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years*
***EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs*

Sector: Real Estate/Real estate

Company Description: With a portfolio predominantly made by public tenants in Brussels, Befimmo has probably the most defensive and transparent portfolio among Belgian REITs. Befimmo is one of the two largest Belgian REITs listed in the BEL20 but also on EPRA Europe.