

REAL ESTATE (=)

	RATING	TARGET PRICE	FFO 12e	FFO 13e
Befimmo	(-)	EUR43 ↘ -9%	↘ -13%	↘ -17%
Cofinimmo	(-)	EUR82 ↗ 1%	↗ 5%	↘ -2%
Warehouses De Pauw	(-)	EUR38 ↗ 3%	↗ 3%	↗ 7%

Still cautious on Belgian real estate

19 JUNE 2012

Nick Webb
 (+44) 203 430 8419
 nick.webb@exanebnp-paribas.com

Valerie Guezi
 (+44) 207 039 9505
 valerie.guezi@exanebnp-paribas.com
 realestate@exanebnp-paribas.com

Befimmo: exposure to a declining market not easy to remedy

Befimmo has a relatively good quality portfolio of long-term income streams, but this can only partially insulate the business from the weak outlook in the structurally over-supplied Brussels office market. We do not foresee any near-term demand or supply-driven factors which could materially reduce vacancy. As a result, we expect rents and asset values to continue to drift down in coming years. We believe that dividends remain a key driver of the stock price, which has fallen 13% since 2012e dividend guidance was cut by 13% in February.

Investment Case

Befimmo: we look briefly at the potential for growth in a very challenging Brussels office market, surprisingly high valuation volatility in Q1, the capital return outlook (remember, Befimmo has cut dividend guidance and launched a share buyback just a few months apart) and the impact of rising financing costs on earnings.

Befimmo (-)

Offices ■ Belgium
 Price*: EUR45.7 ■ TP: EUR43 ■ Downside: 6%
 Market cap: EUR811.3m

	12/11	12/12e	12/13e	12/14e
Diluted FFO (EUR)	5.30	3.82	3.60	3.72
NOPAT yield (%)	6.6	6.0	5.7	5.8
FFO yield (%)	7.1	8.4	7.9	8.1
Dividend yield (%)	8.3	7.5	7.5	7.6
Premium to GAV (%)	2	(9)	(7)	(6)
Premium to NNAV (%)	4	(17)	(15)	(13)
Premium to NNNAV (%)	4	(17)	(16)	(14)

* Prices at 14 June

Befimmo

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We reduce our target price by 9% to EUR43, implying 6% potential downside from the current share price and reiterate our Underperform recommendation. The stock trades on an 8.4% 2012e FFO yield, 7.5% dividend yield and a 17% discount to our end-2012e NNNAV/share estimate.

Relatively good assets in a very weak market

Befimmo's relatively high quality portfolio continues to outperform the generally weak Belgian office market. Nearly 60% of the portfolio is based in the CBD, which benefits from public sector demand due to the presence of both Belgian and European Union institutions. The portfolio vacancy rate of 5.4% remains well below the Brussels market average of 11.5%. Befimmo's average lease duration of 9.8 years is also attractive relative to market averages.

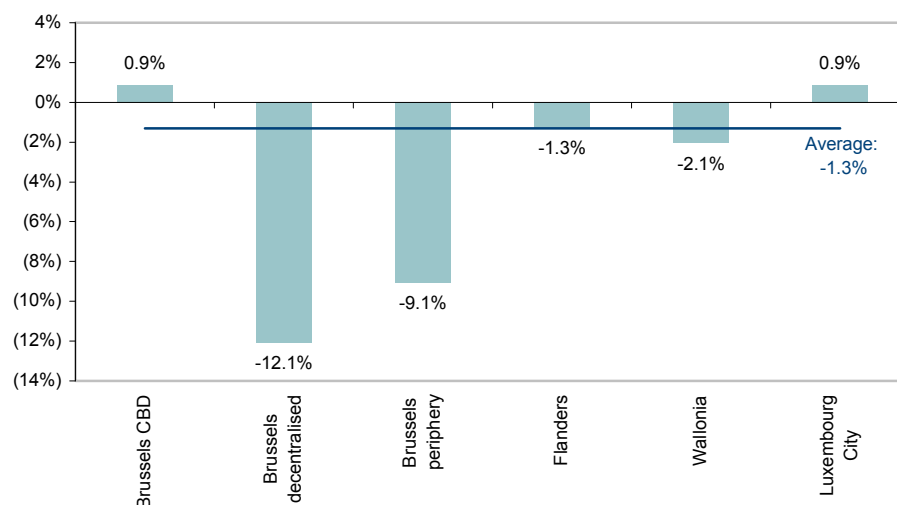
We would expect Befimmo's portfolio to continue to deliver good performance relative to more peripheral and shorter-leased assets. Nonetheless, rental market conditions are likely to remain very challenging, in our view. The Brussels market vacancy rate of 11.5% looks too high to stimulate rental growth. We would expect the short-term benefits of indexation to be negated by an absence of market rental growth over the medium to long term, making positive like-for-like rental income growth very hard to sustain.

Surprisingly high portfolio valuation volatility in Q1

To comply with SICAFI regulations on the rotation of real estate experts, new valuers were appointed for each subsector of the portfolio at the beginning of 2012 (the valuation is broken down into Fedimmo, public sector leases and private sector leases). While the overall portfolio valuation did not move significantly over the first quarter (-0.76%), there were some big negative moves in certain geographies: decentralised and peripheral Brussels. Properties available for lease fell 1.3% but this was offset significantly by a 31% gain in the development portfolio (although this represents just over 2% of the total).

Figure 6: Small overall change but some big moves within it

Q1 valuation changes by geographical area



Source: Company

Befimmo's management expects the pace of capital value decline to moderate over the course of 2012, reiterating its full-year forecast for a decline in the portfolio valuation of -1.44% at the time of the Q1 results.

A dividend cut and a share buyback

At the time of its FY results, Befimmo announced a significant cut in its FFO/share guidance (-10%) and DPS guidance (-13%), citing the weak economic environment generally and higher finance costs specifically as the single biggest driver of the negative revision (as higher margins more than offset the benefits of lower EURIBOR).

The dividend guidance cut from EUR3.98 to EUR3.45 per share was clearly a significant negative for the shares (see weak performance below). Dividends have historically been the dominant component of shareholder returns for Belgian real estate stocks.

On 21st May, Befimmo announced its intention to buyback shares up to a maximum aggregate value of EUR4.5m. Befimmo explained that the move was a response "to the current economic climate in which there is a significant decline in share prices. It reflects Befimmo's confidence in its strategy and the fact that the share price is particularly low in relation to the net asset value".

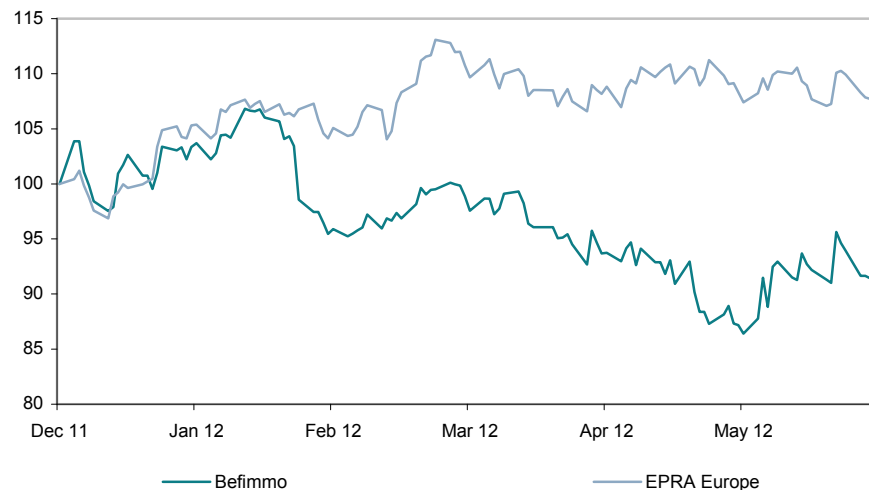
The buyback sends out a positive signal about management's faith in the strategy, but this signal is diluted by the relatively small size of the buyback, which implies a lack of conviction (it represents a maximum of 0.6% of market capitalisation as of the date of the announcement). Similarly, the financial and technical impact of such a small buyback will be very modest. Nonetheless, if the maximum amount is bought back, this implies a return of capital equal to nearly 50% of the cut in the guided dividend, which we estimate equated to c. EUR9.3m.

Share price performance has been weak year-to-date

Befimmo's shares have underperformed the EPRA Europe index significantly year-to-date (16%), with the earnings and dividend guidance cut announced at the full-year results the clear catalyst for the share price decline. The relative performance of the stock troughed on 11th May, shortly before the announcement on 21st May of Befimmo's intention to buyback shares.

Figure 7: A significant underperformer year-to-date

Total return of Befimmo vs EPRA Europe index



Source: Datastream

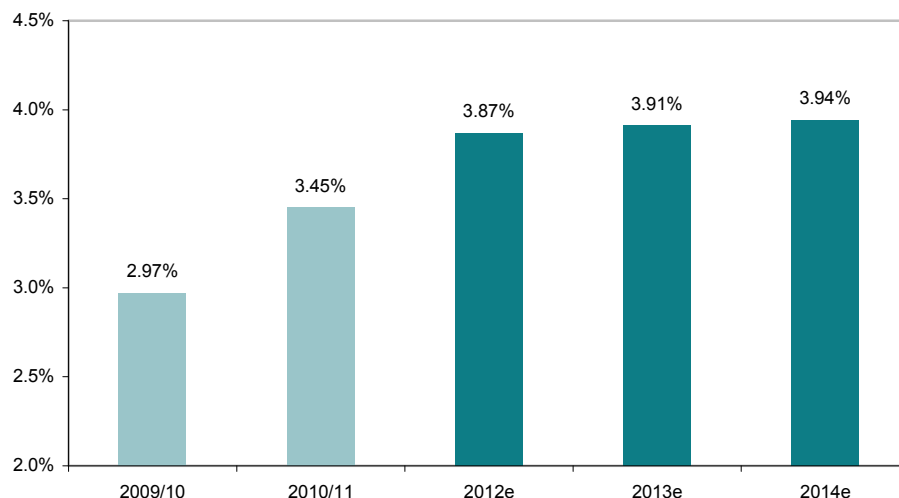
Financing position secure, but cost continues to rise

Befimmo's last reported LTV of 44% looks slightly high relative to the sector average of 40%, but is low relative to its Belgian peers. We have written in more detail previously about our view that Belgian stocks are able to sustain higher than average balance sheet leverage due to the exceptionally low volatility of their asset values (for a detailed discussion of this issue, please see our report *Too Good to be True*, April 2012). We therefore see little reason to expect Befimmo to de-lever through asset sales except in the event of a severe deterioration in market conditions.

Befimmo does not appear to be struggling to access finance, having recently negotiated a US private placement for c. EUR150m (which closed on 30th May). However, despite low market interest rates, Befimmo is currently facing a sharp increase in its average cost of financing, which rose from just 2.97% in 2009/10 to 3.45% in 2010/11 with the company forecasting a further increase to 3.87% this year.

Figure 8: Sharp rise in financing costs is a negative for earnings

Actual and forecast average financing costs for Befimmo



Source: Company

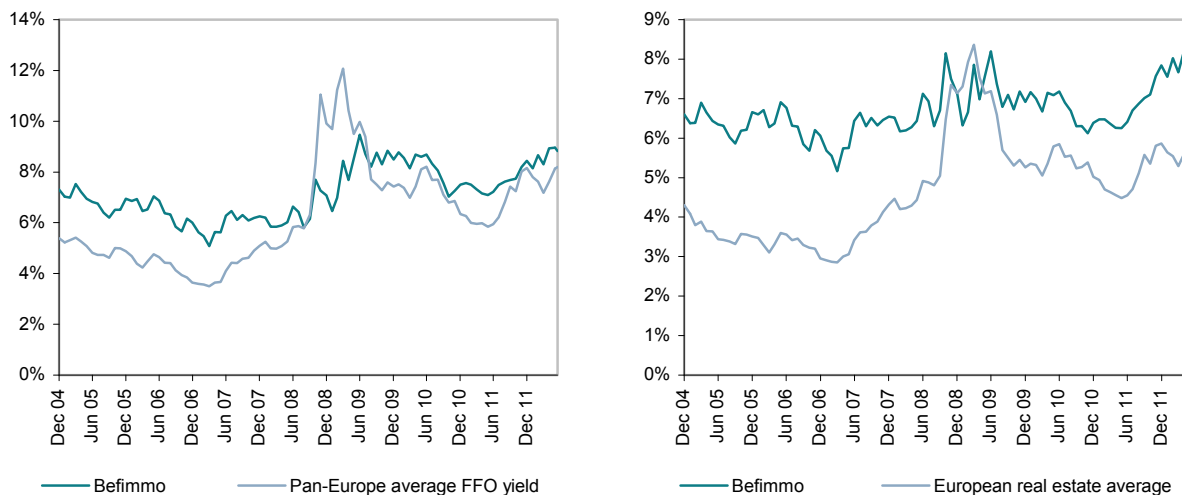
Valuation: a wider than usual NAV discount

On our estimates, Befimmo currently trades on a 2012e FFO yield of 8.4% and dividend yield of 7.5%, versus long-term average multiples of 7.3% and 6.7% respectively. Befimmo offers higher FFO and dividend yields than the European real estate sector, but the spread is currently in-line with long-term averages.

Figure 9: Higher FFO and dividend yields than usual, but spread vs. sector at normal levels

Spot FFO yields

Spot dividend yields

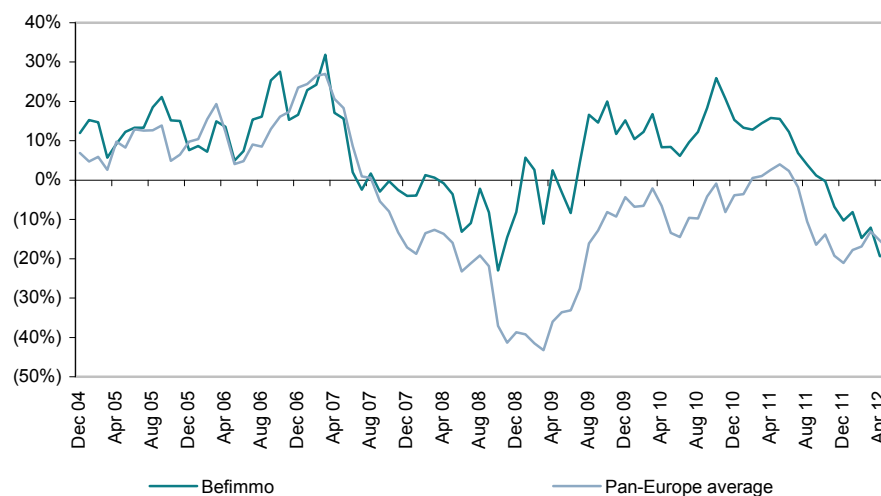


Source: Company data, Datastream, Exane BNP Paribas estimates

Befimmo trades at a relative wide discount to NNNAV/share versus historical averages and at a spot multiple in-line with the sector average. While earnings and dividend expectations for Befimmo have fallen, our NNNAV forecasts show much more modest declines. We believe that the lower ROE which results helps to explain and justify a wider discount than has historically been the case.

Figure 10: A relatively wide NNAV discount versus history

Spot NNAV discount: Befimmo vs. European real estate sector



Source: Company data, Datastream, Exane BNP Paribas estimates

Estimate and target price changes

We reduce our target price by 9% from EUR47 to EUR43. This is the result of less favourable fundamental expectations partially offset by a slightly lower cost of capital.

We make significant cuts to our FFO/share and DPS forecasts in-line with the lower guidance provided by management earlier in the year. A combination of weaker like-for-like rental growth and a higher average cost of debt are the two main drivers.

We moderate our near-term capital value decline expectations in-line with most of our Continental European real estate coverage, leading to a 5% increase in our NNAV/share estimate for end-2012e. However we also reverse our expectations of a modest capital value recovery over 2013/4, leading to end-2014e NNAV/share expectations 3% below previous forecast levels.

Figure 11: Befimmo – changes to our FFO/share, DPS and NNAV/share estimates

	New	2012e Old	% Ch	New	2013e Old	% Ch	New	2014e Old	% Ch
Diluted FFO/share	3.82	4.41	(13)	3.60	4.35	(17)	3.72	4.60	(19)
DPS	3.45	3.98	(13)	3.45	4.02	(14)	3.48	4.06	(14)
NNNAV/share	55.4	52.8	+5	54.2	53.4	+1	53.3	55.1	(3)

Source: Exane BNP Paribas estimates

BEFIMMO (Underperform)

Price at 14 Jun. 12 / Target Price

Offices | Real Estate (Neutral) - Belgium

EUR45.7 / EUR43 -6%

Company description

Befimmo is one of the leading players in the Belgian real estate market, with a portfolio consisting wholly of offices that was valued at EUR1.9bn at last year end (Sept 2010). During the 2006/07 fiscal year, the company acquired a 90% shareholding in Fedimmo SA, owners of a portfolio of 62 buildings all occupied by federal public services, valued at EUR725.5m at the time of the transaction. Befimmo now derives 59% of its revenues from the Belgian public sector. Befimmo benefits from the tax-transparent Sicafi status.

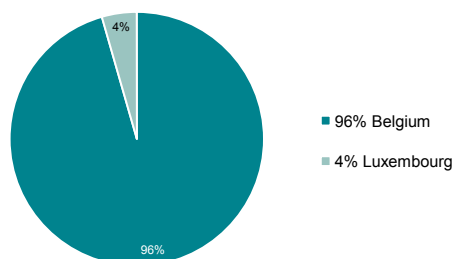
Management

Benoit De Blicq, CEO
Alain Devos, Chairman

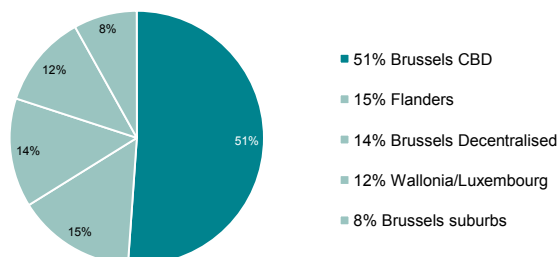
Ownership structure

AG Insurance	18.1%
Treasury shares	3.6%
Other Shareholders	78.2%

Geographical breakdown of 2013e EBITDA



Breakdown by activity of 2013e EBITDA



Analyst

Nick Webb (+44) 203 430 8419
nick.webb@exanebnp-paribas.com

Peer group YTD performance

Stock	Price		YTD performance in EUR (%)	
	(14 Jun. 12)		Abs.	Rel. Sector
Great Portland (-)	p	376	19.8	11
Derwent Ldn (-)	p	1,783	19.1	10
FEL (=)	EUR	3.20	18.5	10
ANF (+)	EUR	31.7	13.8	5
PSP (-)	CHF	83.1	11.1	3
Shaftesbury (=)	p	498	10.9	3
Capco (=)	p	196	9.2	1
Nexity (=)	EUR	19.0	8.5	0.3
CeGeREAL (+)	EUR	14.7	6.2	(2)
Mercialys (+)	EUR	14.5	4.4	(3)
Silic (+)	EUR	76.8	2.4	(5)
WdP (-)	EUR	37.8	1.9	(6)
Eurocommercial (-)	EUR	24.8	1.0	(7)
Beni Stabili (=)	EUR	0.33	(1.1)	(9)
Cofinimmo (-)	EUR	84.4	(1.8)	(9)
Klémurs (=)	EUR	15.1	(2.1)	(10)
FDL (=)	EUR	15.8	(4.2)	(11)
Fo. des Murs (=)	EUR	16.0	(4.7)	(12)
Befimmo (-)	EUR	45.7	(9.0)	(16)
IGD (=)	EUR	0.60	(19.0)	(25)

Sector calendar

22 Jun. 12	Icade: AGM Silic: AGM (15:00 CET)
28 Jun. 12	CeGeREAL: AGM
01 Jul. 12	Capco: H1 2012 Results Shaftesbury: Q3 2012 Sales
05 Jul. 12	Great Portland: AGM
06 Jul. 12	Land Securities: AGM Land Securities: Investor Day Land Securities: AGM
11 Jul. 12	Citycon: Q2 2012 Results
12 Jul. 12	Castellum: H1 2012 Results
13 Jul. 12	British Land: AGM
16 Jul. 12	Fo. des Murs: H1 2012 Results
18 Jul. 12	FDL: H1 2012 Results FEL: H1 2012 Results Land Securities: Q1 2013 Sales
23 Jul. 12	Hammerson: H1 2012 Results Unibail-Rodamco: H1 2012 Results (Post Mkt)
24 Jul. 12	Beni Stabili: H1 2012 Results CeGeREAL: H1 2012 Results Gecina: H1 2012 Results Great Portland: Q1 2013 Sales Klémurs: H1 2012 Results (Post Mkt) Klépierre: H1 2012 Results (Post Mkt) Mercialys: H1 2012 Results (Post Mkt)
25 Jul. 12	British Land: Q1 2012/13 Results Nexity: H1 2012 Results
26 Jul. 12	Capital Shop.: H1 2012 Results Fo. des Régions: H1 2012 Results Icade: H1 2012 Results (Post Mkt)
27 Jul. 12	Silic: H1 2012 Results
01 Aug. 12	Cofinimmo: H1 2012 Results
02 Aug. 12	SEGRO: H1 2012 Results
07 Aug. 12	Alstria Office: Q2 2012 Results Atrium European: Q2 2012 Results Corio: H1 2012 Results

