

28 November 2012

## BEFIMMO

### Steady as she goes

**REAL ESTATE INVESTMENT TRUSTS**  
**BELGIUM**

**CURRENT PRICE** € 48.50  
**TARGET PRICE** € 50.00

**HOLD**  
RATING UNCHANGED



Source: Thomson Reuters Datastream

FY/e 31.12	2011	2012E	2013E	2014E
Current Result (€ m)	90.0	75.5	71.7	71.1
Portfolio Result (€ m)	-6.6	-28.2	-14.5	-4.4
Net Profit (€ m)	81.9	47.3	57.2	66.7
Diluted Adjusted EPS	5.35	4.28	3.96	3.97
NAV Per Share	57.4	57.7	58.4	58.5
P/E	10.85	11.34	12.25	12.23
EV / EBITDA	15.01	16.90	17.48	17.28
DPS	4.93	3.50	3.50	3.50
Dividend Yield	8.5%	7.2%	7.2%	7.2%

Source: KBC Securities

Bloomberg	BEFB.BB
Reuters	BEFB.BR
www.befimmo.be	
Market Cap	€ 814m
Shares outst.	16.8m
Volume (Daily)	€ 1.01m
Free float	77.58%

Next corporate event

Results FY12: 19 February 2013

Performance	1M	3M	12M
Absolute	5%	2%	-4%
Rel. BEL20	3%	1%	-23%

12-m Hi/Lo € 53.71/42.72

**Befimmo has a strong profile characterised by a presence in prime locations with a high-quality tenant base resulting in LT leases and high occupancy rates. However, the Brussels office market is challenging at present, exerting pressure on rental growth and limiting external expansion opportunities. Hold.**

- Corporate simplification.** Befimmo posted good 3Q12 results. Overall there was a slight positive indexation of rents over 9M12, which was better than expected. The bottom line was however impacted by some non-recurring items such as early-leaving fees and the fee for coordination of the works at WTC III. Nevertheless, following the corporate simplification – i.e. the acquisition of its statutory manager (yearly positive impact of € 0.06 p.s.), the integration of the property management team (expected synergies) and gaining the full control over Fedimmo (yearly positive impact of at least € 0.03 p.s.) – the company's costs are expected to come in structurally lower.
- Investment case.** Befimmo has a defensive profile, earning stable long-term cash flows through the letting of its € 2bn portfolio to a high-quality tenant base o.w. public (57%) and European (10%) institutions. The company has an outstanding portfolio lease maturity of 9.4 years, the occupancy rate amounts to 95.5% and the yield hovers between 6 and 7%. Furthermore, the company is present at prime locations in the Brussels office market (58% CBD) with sustainable buildings. But the current challenges in the market also exert pressure on its rental income and additionally limit the company's growth opportunities. We therefore reiterate our Hold rating and see minor upside to € 50 on the back of strong fundamentals and a dividend yield of 7%.

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**COMPANY PROFILE**

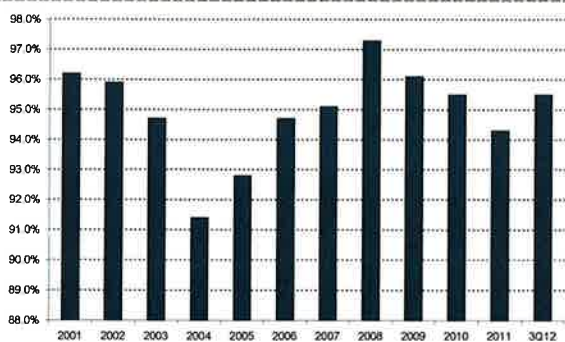
Befimmo is a pure office player active in Belgium (96%) and the Grand Duchy of Luxembourg (4%). The company has a defensive profile with a 96% occupied € 2bn portfolio leased for 67% to public (57%) and European (10%) institutions. The average lease term equals 9.4 years.

Undoubtedly, the Belgian office market suffers from structural overcapacity, thus limiting the company's growth and exerting pressure on rents. However, these challenges predominantly affect the periphery (8% of Befimmo) and decentralized zone (6%), whereas the company is mainly located in Brussels' CBD (58%). The remaining offices are spread over Flanders (18%), Wallonia (4%) and Luxembourg city (4%).

In August, management said it was investigating the Paris office market for possible growth. In October, however, they announced that the plans have been shelved as the current macro-economic conditions don't allow for a decent risk/return reward. Also the need for immediate critical mass and a full team in France require too much effort. The company prefers to focus on prime locations in its core markets. The latest market research reports a fall in availability rates in the Brussels office market on the back of a more active European Parliament and corporates.

The company recently acquired full control over Fedimmo through the acquisition of the remaining 10% for € 65m (a 10% discount vs. market value). This portfolio mainly comprises long-term let buildings including the new Paradis building in Liège (25y lease) and the recently-renovated Science-Montoyer building in Brussels CBD (21y lease). Befimmo will apply for a REIT status for its daughter Fedimmo.

**PORTFOLIO OCCUPANCY RATE**



Source: Befimmo

**SWOT / VALUATION**

**Strengths**

- High-quality LT cash flows on the back of a 96% occupied portfolio, 67% let to public institutions and leased for an average remaining duration of >9yrs.
- Solid balance sheet with a debt ratio of 46% and an interest rate cover ratio significantly above 3x.
- 81% of the offices in Brussels are located in the Central Business District (Befimmo's vacancy: 3.4%) significantly outperforming the general Brussels office market (11%+ vacancy).

**Weaknesses**

- Following the bond issues in 2011 (executed at fixed rates of 4.5% and 4.75%), the company suffers from a high cost of debt despite the low Euribor rates.
- The increased competition for large, well-located and long-let offices (from e.g. insurers) has lowered yields, limiting growth opportunities.

**Opportunities**

- The historic ties with the European Commission can offer new projects.
- Market research shows a slight improvement in vacancy rates in the Brussels office market, which will support rents.

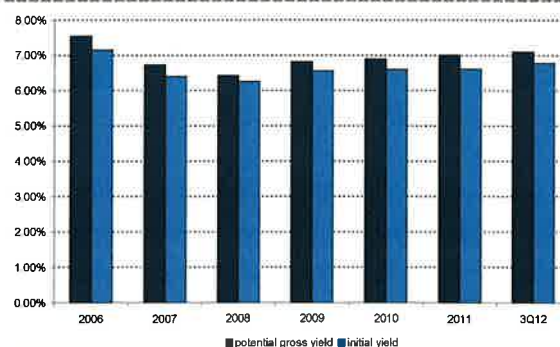
**Threats**

- The Brussels office market suffers from structural overcapacity the impact of which is mainly visible in the periphery and decentralized area.
- The departure of tenants out of outdated buildings could hurt the company's rental income stream.

**Valuation**

We value Befimmo using an EVA and DCF model and attain a fair value range from € 49.9 to € 50.5 p.s. We therefore set our TP at € 50 p.s. which corresponds to an attractive dividend yield of 7%.

**YIELD EVOLUTION**



Source: Befimmo

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## FINANCIAL DATA

Income statement (€ m)	2010	2011	2012E	2013E	2014E	2015E
Gross Rental Income (GRI)	124.0	156.0	129.2	134.3	138.0	140.8
Other Income	-	-	-	-	-	-
Property & Development Costs	0.7	-9.3	-7.5	-9.2	-9.4	-9.4
Other Costs	-12.5	-17.7	-12.1	-13.3	-14.0	-14.3
EBITDA	112.2	129.0	109.6	111.9	114.6	117.1
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	112.2	129.0	109.6	111.9	114.6	117.1
Financial Result	-20.7	-34.5	-29.9	-34.7	-37.7	-38.9
Taxes	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued / Other	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-3.9	-5.2	-3.9	-4.6	-5.0	-5.2
Net current result (Group's share)	86.9	90.0	75.5	71.7	71.1	72.2
Changes in FV of investment properties	-34.6	-26.4	-23.7	-14.5	-4.4	13.5
Gains/losses on real estate divestments	0.2	14.8	0.0	0.0	0.0	0.0
Minorities	0.1	0.0	0.0	0.0	0.0	0.0
Portfolio Result	-40.1	-6.6	-28.2	-14.5	-4.4	13.5
Net Profit (Group's share)	46.7	81.9	47.3	57.2	66.7	85.7
Adjusted Net Profit (Group's share)	86.9	90.0	75.5	71.7	71.1	72.2
Cash flow statement (€ m)	2010	2011	2012E	2013E	2014E	2015E
Cash Flow from Operations	93.8	93.9	57.8	76.3	76.1	77.4
Change in Working Capital	-6.1	75.2	0.2	0.2	0.2	0.2
Cash Flow from Operating Activities	87.7	169.1	58.0	76.5	76.3	77.6
Cash Flow from Investments	-26.0	-115.5	-123.5	-139.3	-60.7	-10.0
Free Cash Flow	61.7	53.6	-65.5	-62.8	15.6	67.6
Dividend Payments	-62.7	-91.9	-17.4	-38.0	-31.7	-31.7
Share issues	0.0	0.0	30,586.0	0.0	0.0	0.0
New borrowings / reimbursements	-1.7	86.5	65.5	129.0	11.0	0.0
Other cash flow from financing	-	-	-	-	-	-
Cash Flow from Financing	-64.3	-5.5	30,634.1	91.0	-20.7	-31.7
Fx and changes in consolidation scope	-	-	-	-	-	-
Change in Cash & Equivalents	-2.6	48.1	30,568.6	28.2	-5.1	35.9
Balance sheet (€ m)	2010	2011	2012E	2013E	2014E	2015E
Investment Properties	1,885.0	1,971.3	2,071.1	2,195.9	2,252.2	2,275.8
Development Projects	-	-	-	-	-	-
Other Fixed Assets	20.8	27.0	22.4	22.4	22.4	22.4
Total Fixed Assets	1,905.7	1,998.3	2,093.6	2,218.4	2,274.7	2,298.2
Assets held for Sale	37.6	0.0	0.0	0.0	0.0	0.0
Receivables	19.5	15.7	15.7	15.7	15.7	15.7
Other current assets	18.7	18.5	18.3	18.1	17.9	18.1
Cash and Cash Equivalents	3.5	4.2	17.4	45.6	40.5	76.4
Total Current Assets	79.4	29.6	42.6	70.6	65.3	101.0
<b>TOTAL ASSETS</b>	<b>1,985.1</b>	<b>2,027.8</b>	<b>2,136.1</b>	<b>2,288.9</b>	<b>2,340.0</b>	<b>2,399.2</b>
Shareholders' Equity	1,017.4	1,002.6	1,045.4	1,069.2	1,109.2	1,168.5
Minority Interest	64.4	67.8	67.8	67.8	67.8	67.8
Total Equity	1,081.9	1,070.5	1,113.2	1,137.0	1,177.1	1,236.3
LT Financial Debt	584.8	855.8	921.3	1,050.3	1,061.3	1,061.3
Other LT Liabilities	20.1	10.4	10.4	10.4	10.4	10.4
Total LT Liabilities	604.9	866.2	931.7	1,060.7	1,071.7	1,071.7
ST Financial Debt	206.0	21.4	21.4	21.4	21.4	21.4
Other Current Liabilities	92.3	69.7	69.7	69.7	69.7	69.7
Total ST Liabilities	298.3	91.1	91.1	91.1	91.1	91.1
<b>TOTAL LIABILITIES</b>	<b>1,985.1</b>	<b>2,027.8</b>	<b>2,136.1</b>	<b>2,288.9</b>	<b>2,340.0</b>	<b>2,399.2</b>

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<b>Performance criteria</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net Debt (€ m)	787.3	874.3	926.6	1,027.4	1,043.5	1,007.6
NAV (€ m)	61.7	57.4	57.7	58.4	58.5	58.9
Net Current Result (€ m)	86.9	90.0	75.5	71.7	71.1	72.2
Portfolio Result (€ m)	-40.1	-6.6	-28.2	-14.5	-4.4	13.5
Debt Ratio (%)	40.9%	44.3%	44.7%	46.7%	46.3%	44.2%
Net Debt / Equity+Minorities (%)	72.8%	81.6%	83.1%	90.3%	88.5%	81.4%
Net Debt / EBIT	7.0	6.8	8.4	9.2	9.1	8.6
Interest Cover Ratio	541.7%	416.8%	366.8%	321.9%	304.0%	300.7%
ROA	3.8%	4.5%	5.2%	5.9%	6.5%	6.8%
GRI-growth	4.1%	25.8%	-17.2%	4.0%	2.7%	2.0%
EBITDA-growth	5.7%	15.0%	-15.1%	2.1%	2.5%	2.2%
EBITDA margin	90.4%	82.7%	84.8%	83.3%	83.0%	83.2%
Pay-out Ratio	77.2%	92.1%	81.9%	88.4%	88.2%	91.3%
<b>Per share data (€)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Year-end # of shares (m)	16.8	17.5	17.7	17.7	17.9	17.9
Weighted average # of shares (m)	16.8	17.5	17.7	17.7	17.9	17.9
Weighted average # of shares, diluted (m)	16.8	17.5	17.7	17.7	17.9	17.9
Dividend shares (m)	16.8	17.5	17.7	17.7	17.9	17.9
Basic EPS (€)	2.66	4.98	2.68	3.14	3.72	4.74
Adjusted EPS (€)	5.05	5.35	4.28	3.96	3.97	3.99
Diluted EPS (€)	2.66	4.98	2.68	3.14	3.72	4.74
Diluted Adjusted EPS (€)	5.05	5.35	4.28	3.96	3.97	3.99
Net Current Result Per Share (€)	5.05	5.35	4.28	3.96	3.97	3.99
Portfolio Result Per Share (€)	-2.39	-0.38	-1.59	-0.82	-0.24	0.75
DPS (€)	3.90	4.93	3.50	3.50	3.50	3.64
NAV Per Share (€)	61.68	57.37	57.68	58.45	58.52	58.86
<b>Valuation data</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Max share price (€)	65.00	64.40	53.71	-	-	-
Min share price (€)	53.95	47.11	42.72	-	-	-
Reference share price (€)	59.92	58.10	48.50	48.50	48.50	48.50
Market Cap (€ m)	1,006.1	1,019.0	857.3	860.3	869.5	869.5
Enterprise Value (€ m)	1,832.8	1,936.1	1,851.8	1,955.6	1,980.8	1,944.9
Current Net Profit / EV	2.5%	4.2%	2.6%	2.9%	3.4%	4.4%
EV / EBITDA	16.3	15.0	16.9	17.5	17.3	16.6
P / NAV	1.0	1.0	0.8	0.8	0.8	0.8
Premium (Discount) to NAV	2.8%	-1.3%	15.9%	17.0%	17.1%	17.6%
Dividend Yield	6.5%	8.5%	7.2%	7.2%	7.2%	7.5%

Source: KBC Securities

\*Historic valuation data are based on historic prices