

Embrace the flip side

Here is why we change our view on Befimmo

- Befimmo reported positive newsflow over the past months, namely: i) the acquisition of the Blue tower in Brussels and AMCA in Antwerp iii) the takeover of the property management contract iv) the acquisition of the Fedimmo shares v) 2 new major stockholders: Axa and Blackrock.
- The Amca deal was financed by equity and will logically have a minor dilutive effect in the first 2 years. The main reason for our upgrade – next to the fact that we fancy the renovated premium building - is that the company lowered its LTV by 2.5%, and hence added some EUR 100m fire power which will easily offset the slight dilution effect.

Downside potential is significantly priced in...

- We still believe that the Flemish government will leave the Noord building, while we understood from the management that the building is treated accordingly by the valuer, i.e. discounting the secure cash flows until the end of 2016 and residual value. It would be positive if Befimmo could increase the number of sqm's on the site. Despite the on-going juridical process, we believe that the Paradis tower will be delivered as scheduled.
- Two years ago, Befimmo's financial costs were determined by fixed rates and IRS for 45% only. Nowadays, Befimmo performs better on this ratio at 60% and installed caps at 3.49% or the remainder during the coming 2 years.
- Befimmo's average CoD stands at 3.22%. One needs to conclude that Befimmo was best of class on this topic last year. Nevertheless, the company forecasts that CoD will increase to approx. 4% by 2015, which we have in our model going forward.

..., while risks are getting mitigated ...

- Befimmo has no refinancings to do: the first tranche maturing is due by Q4 2015 for EUR 150m, and concerning more than 2/3rd of retail bonds. Befimmo has more than 3 years to go before the largest trunk comes up ~ EUR 220m at 3 banks.
- While 99% and 97% of topline is secured for '13 and '14, the EBITDA margin is to remain stable in the future and Befimmo will be in closer and daily contact with its tenants thanks to internalizing the property management.
- We fully updated our model, and we see EPS and dividend uplifts as from 2015, thanks to the past acquisitions and investment potential.

... and upside potential is present

- We didn't take into account a positive result regarding the WTC IV, although there is 1 tender outstanding and 1 identified, i.e. from the Flemish and Brussels government. We believe rents to be stable in the North quarter (train station and access to retail) and the EU commission is looking to the quarter for new 'cheaper space.
- We don't take into account the letting of Triomphe or any additional letting in in the Blue tower.

Conclusion – Not all is bright, but price is fair enough to step in

- The current discount stands at 11.8% for Befimmo and the NAV should increase above EUR 57 by year end. Cofinimmo trades at a discount of 10.3% currently, not fully covering its dividend by cash though.
- Befimmo has only 7% of its offices located in the decentralized area >< 44% at Cofinimmo. A positive trigger would be an improvement of the periphery area. In this zone (10% of portfolio), the negative reversion rate is -10.9%, whilst letting activity remains low.
- For Befimmo, '13e earnings multiples stand at 11.8x offering a dividend yield of 7.2%, while 12.7x at Cofinimmo (7.1% dividend yield) and 16.2x at Gecina (5.1% dividend yield).

Add

Price: EUR 48.63
(28/06/13)

Target price: 52.00

Risk: Low

Reuters: BEFB.BR

Bloomberg: BEFB BB

Shares number (m): 18.45

Market cap. (m): 897

NAV 31/12/2012 : 54.18

Premium : -10%

H/L 1 year: 54.11 - 44.88

1 year price perf.: 10.3%

Diff. with EPRA Eurozone : -4.2%

Volume (sh./day): 20,547

Free Float 74%

AG Insurance 14%

Axa 10%

FPIM 3%

Blackrock 3%

	13e	14e	15e
P/E	11.8	13.0	12.1
Div. yield	7%	7%	7%
Premium	-15%	-17%	-20%

Company Calendar

01/08/13 H1 results
14/11/13 Q3 results
27/11/13 Ex-date interim div
20/02/14 2013 FY results
29/04/14 AGM
02/05/14 Ex-date final div

Befimmo + relative to EPRA Eurozone (grey)



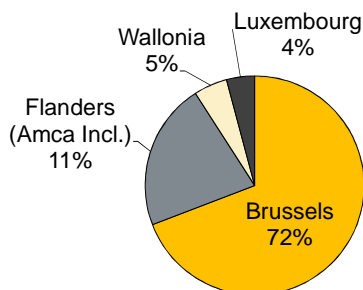
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Befimmo

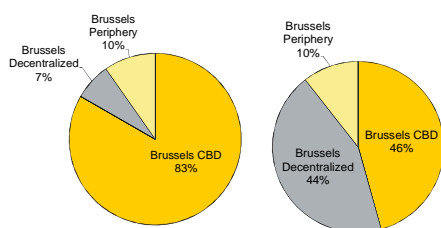
Updated Estimates: **YES**

Exhibit 1 Geographical spread



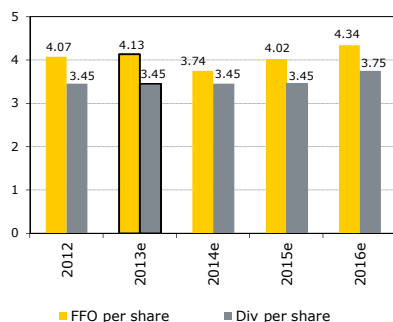
Source: Befimmo

Exhibit 2 Befimmo (left) vs Cofinimmo (right) Brussels office portfolio



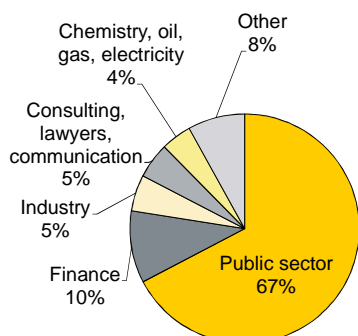
Source: Befimmo & Cofinimmo

Exhibit 3 EPS and dividend



Source: Petercam estimates

Exhibit 4 Diversification by sector



Source: Befimmo

Profit & Losses (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Rental income	124.8	129.3	138.5	141.0	147.4
Operating costs	-0.2	-0.6	-0.6	-0.6	-0.6
Net rental income	124.6	128.8	138.0	140.4	146.8
EBIT	112.2	113.8	123.0	125.5	131.9
Interest charges	-25.8	-26.3	-30.2	-35.5	-36.0
Interest income	-	-	-	-	-
Financial Result	-28.8	-29.6	-33.5	-38.6	-39.0
Minorities	4.2	2.6	0.0	0.0	0.0
Pre-tax result	83.3	84.2	89.6	86.9	92.8
Taxes	-0.7	-0.8	0.0	0.0	0.0
Direct result	82.7	83.5	89.6	86.9	92.8

Balance Sheet (EUR m)	12/11	12/12	12/13e	12/14e	12/15e
Property investments	1,971.3	1,960.7	2,219.5	2,363.2	2,428.7
Property not in operation	-	-	-	-	-
Other Investments	26.0	29.4	29.4	29.4	29.4
Financial assets	1.0	0.6	0.6	0.6	0.6
Total investments	1,998.3	1,990.8	2,249.6	2,393.3	2,458.8
Cash position	4.2	2.3	54.9	101.6	154.2
Tradable receivables	15.7	3.5	4.5	5.5	6.5
Other current assets	9.7	30.6	29.6	28.6	27.6
Total assets	2,027.8	2,027.2	2,338.4	2,527.1	2,643.6
Total Equity	1,070.5	998.2	1,188.4	1,224.4	1,266.3
Provisions & deferred taxes	-	-	-	-	-
LT bearing interest debt	866.2	566.3	687.4	840.1	914.6
ST bearing interest debt	91.1	462.7	462.7	462.7	462.7
Tradable payables	-	-	-	-	-

Shares - per share data (EUR)	12/11	12/12	12/13e	12/14e	12/15e
Direct result	4.10	4.07	4.13	3.74	4.02
Recurring cash earnings	4.95	4.66	4.54	4.13	4.41
Indirect result	-0.49	-2.07	-0.45	-0.43	-0.43
Dividend	3.94	3.45	3.45	3.45	3.45
Book Value	54.18	55.17	57.11	58.89	60.96
No shares - average (m)	16.79	18.00	19.81	21.16	21.16

Ratios	12/11	12/12	12/13e	12/14e	12/15e
Valuation analysis					
P/E	12.3	12.0	11.8	13.0	12.1
Price/Recurring cash earnings	10.2	10.5	10.7	11.8	11.0
P/BV	0.9	0.9	0.9	0.8	0.8
EV/EBITDA	17.0	16.9	17.3	17.8	17.1
Premium on NAV	-7.2%	-11.5%	-14.9%	-17.4%	-20.2%
Div. Yield	7.8%	7.1%	7.1%	7.1%	7.1%
Financial ratios					
Net Debt/Equity	89.0%	102.9%	92.2%	98.1%	96.6%
Equity/Total Assets	52.8%	49.2%	50.8%	48.5%	47.9%
ROCE post-tax	6.1%	5.3%	5.1%	4.9%	4.1%
ROE	9.0%	7.7%	7.6%	6.7%	5.0%
EBITDA / Rental income	89.8%	88.0%	88.8%	89.0%	89.5%

Business description

Befimmo is the second largest listed 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 2bn. Befimmo applies a focus strategy on fully let and well-located office buildings, mainly in Brussels CBD. To provide a stable starting point the company's tenant base has large exposure to public bodies (67%) such as the Belgian and European governments and enjoys an average lease duration of 9.21 years.

Competitive position

Befimmo's competitors are the typical other Belgian players in the office market (mainly some smaller Sicafis), institutional investors (insurance companies and pension funds), as well as specialized real estate investors (German open-ended funds). The past years, the company has been focusing on sustainable developments, refurbishments due to lease cancellations and to upgrade the overall portfolio quality. Befimmo confirmed in November '12 to focus on Belgium and Luxembourg.

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	SELL	REDUCE	HOLD	ADD	BUY
High Beta > 1.3	RP < -15%	-15% ≤ RP < -6%	-6% ≤ RP < +6%	+6% ≤ RP < +15%	RP ≥ 15%
Medium 0.9 < Beta ≤ 1.3	RP < -10%	-10% ≤ RP < -4%	-4% ≤ RP < +4%	+4% ≤ RP < +10%	RP ≥ 10%
Low Beta ≤ 0.9	RP < -6%	-6% ≤ RP < -2%	-2% ≤ RP < +2%	+2% ≤ RP < +6%	RP ≥ 6%

RP : Relative Performance against Petercam coverage universe

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