

5 August 2013

BEFIMMO

Ready for a new hunting season

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE €52.00
TARGET PRICE €54.00

HOLD
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	5%	-1%	8%
Rel. BEL20	-5%	-5%	-12%
12m Hi/Lo	€ 54.11/45.28		
Bloomberg	BEFB BB		
Reuters	BEFB.BR		
Market Cap	€ 1,100m		
Next corporate event			
Results 3Q13: 14 November 2013			
www.befimmo.be			

FY/e 31.12	2012	2013E	2014E	2015E
Current Result (€ m)	74.9	85.0	82.2	88.9
Portfolio Result (€ m)	-67.1	-7.6	-4.5	14.3
Net Profit (€ m)	7.9	77.4	77.8	103.3
Diluted adj. EPS (€)	4.25	4.29	3.89	4.20
NAV per share	54.1	54.9	55.0	55.7
P/E	11.22	12.13	13.38	12.37
EV / EBITDA	20.65	18.37	18.92	16.39
DPS	3.45	3.45	3.45	3.45
Dividend Yield	7.2%	6.6%	6.6%	6.6%

Source: KBC Securities

Befimmo reported good 1H13 numbers. The underlying operations were in-line with expectations, while positives came from a €3.7m one-off indemnity and lower financial charges. After a quiet period, the company has returned to growth (+10%). Slightly higher liquidity and an improved debt ratio lead us to believe that the company's discount to NAV should come down. We up our TP to €54.

IMPROVED LIQUIDITY AND LOWER RENTAL REVERSION

- Good set of 1H13 figures.** Befimmo's underlying net rental income increased from € 63.6m to € 65m, bang in-line with expectations. An additional indemnity payment of € 3.7m was however received following the contract termination of GE ahead of maturity. Delayed works meant that operating costs were down, while an impressively low average interest rate of 3.17% resulted in lower-than-expected financial charges.
- €200m of acquisitions.** 1H13 was coloured by the acquisitions of two significant office buildings. In April, the 28.5k m² Blue Tower, (located in Brussels Louise) was acquired for € 78.5m and in June, the sale agreement of the 58k m² AMCA office building in Antwerp with a price tag of € 110m was signed. Both buildings are high quality in prime locations and with reputable tenants.
- Lowered rental reversion.** Including the AMCA building (acquired in July), the company's average lease maturity remained stable at 9.3 years. The occupancy rate dropped slightly from 95.9% to 95.1% following the disposal of the Mons I building and the acquisition of the Blue Tower. The initial yield declined from 6.9% to 6.8%. But most importantly, the company's rental reversion rate dropped from -12% to -10.7%.
- Investment case.** Befimmo reported decent results. Following the € 3.7m one-off and lower financial charges, the company's FY13 EPS is expected to increase from € 4.05 to € 4.29. This is certainly enough to pay out a € 3.45 DPS. With liquidity improving slightly on the Brussels office market and Befimmo's proven ability to manage prime-location and LT leased assets to reputable tenants, we believe the discount vs. NAV should come down. This is despite the risk that some tenants may leave their offices or reduce office space. Backed by our EVA and DCF model, we up our TP to € 54. Hold maintained.

ANALYSTS

Koen Overlaet-Michiels

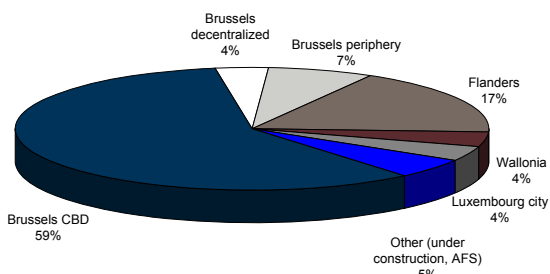
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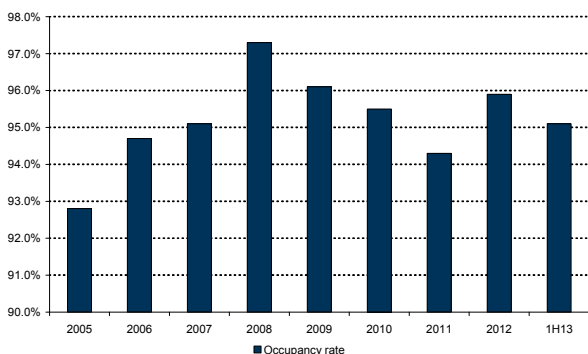
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GEOGRAPHIC SPREAD



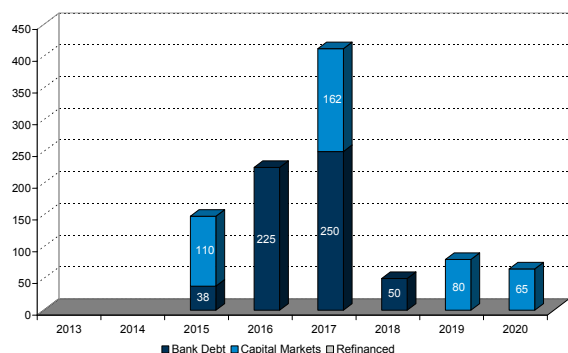
Source: Befimmo

PORTFOLIO OCCUPANCY EVOLUTION



Source: Befimmo

DEBT MATURITY PROFILE



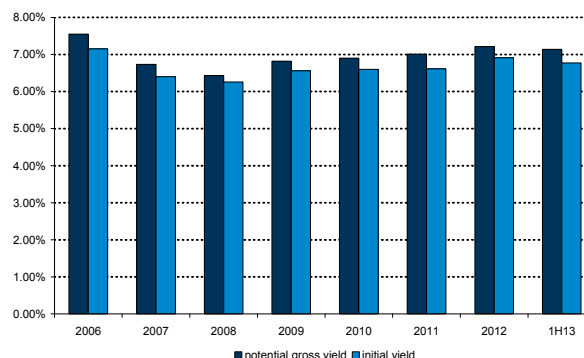
Source: Befimmo

TENANT OVERVIEW

Tenant	% Portfolio	Avg duration
Public sector (federal & regional)	56.60%	
European institutions	10.10%	
Public sector	66.70%	10.8 years
BNP Paribas and aff comp	3.80%	
Linklaters	2.60%	
BGL BNP Paribas and aff comp	2.40%	
Beobank	2.30%	
Sheraton Management LCC	2.20%	
Federal Express	1.50%	
Oracle	0.90%	
Fluxys	0.70%	
20 largest tenants	86%	10.0 years

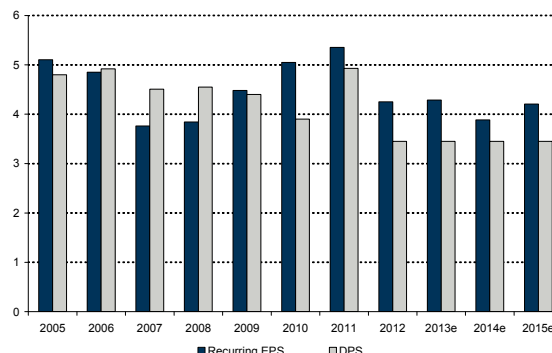
Source: Befimmo

YIELD EVOLUTION



Source: Befimmo

EPS – DPS EVOLUTION



Source: Befimmo, KBC Securities

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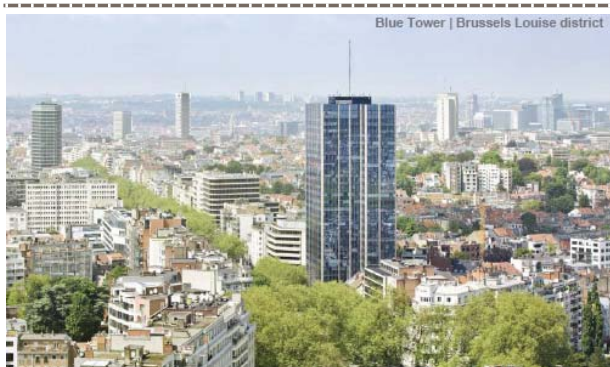
EXCEPTIONALS IMPACT 1H13 RESULTS

Befimmo's 1H13 net rental income increased 8.1% y/y from € 63.6m to € 68.7m. However, this rise includes a € 3.7m one-off indemnity payment by General Electric, a tenant whose contract is terminating ahead of the maturity date of end-FY15. Without this fee, net rental income would land at € 65.0m, bang in-line with our € 65.0m forecast. This underlying increase resulted from the indexation of the rents (€ 0.8m), new rentals and renewals (€ 0.1m) and external portfolio changes (e.g. contributions from the acquired Blue Tower). The net property charges were € 1m lower than expected and dropped y/y on the back of delays to maintenance and minor renovation works following the bad weather in 1H13. These costs will however be added to 2H13. Hence, the company's underlying operating result before result on portfolio increased from € 53.9m to € 55.8m (€ 54.8m KBCSe).

The portfolio value shrank by € 7.3m (€ -6.9m KBCSe) or -0.36%. This drop is modest compared to € -13.5m a year ago, but it confirms that offices in the decentralized area and periphery are still under pressure. The portfolio result was furthermore impacted by a gain of € 0.2m on the disposal of the Mons I building in Wallonia. No further value creation was expected for this building that in addition was seriously over-rented.

We were positively surprised by financial costs, which dropped from € -15.1m in 1H12 to € -14.2m (€ -15.3m KBCSe) on the back of a further y/y decline in average interest rate from 3.64% to 3.17% and despite the rise in debt from € 878m to € 958m. As a result, the company was able to book an increase in net current result from € 38.4m to € 45.0m (€ 41.3m excl. the indemnity payment) vs. our € 39.1m estimate.

BLUE TOWER – BRUSSELS



Source: Befimmo

AMCA BUILDING - ANTWERP



Source: Befimmo

€200M OF ACQUISITIONS IN 1H13

- **BLUE TOWER:** End of April, Befimmo (25%) and its daughter company Fedimmo (75%) acquired the 28.5k m² Blue Tower located in Brussels' Louise district for € 78.5m. The tower is 90% occupied by reputable tenants under standard 3/6/9 contracts and currently generates a yield of 6.9%. At full occupation a yield of 7.5% is possible. This deal was debt/equity funded. € 31.2m was raised through the private placement of 637,371 treasury shares held by daughter companies.
- **AMCA BUILDING:** Recently, Befimmo acquired the AMCA office building in Antwerp. This 58,000m² building is located in the premium 'Het Eilandje' neighbourhood and is 100%-occupied by the Federal Building Agency for a remaining duration of 16.5 years. The price of € 110m corresponded to the market value. Rental income stands at € 7.1m, reflecting a 6.4% gross yield. This transaction occurred as a contribution in kind, whereby AXA Belgium becomes a new reference shareholder with 2,037,037 new shares, or 9.6% of the total.
- **PARADIS PROJECT:** We remind that Befimmo is developing a brand new 39k m² office building (BREEAM Excellent) in Liège, which is pre-leased for 25years to the Federal Building Agency. Some small delays have occurred, as a result of which the rental contract is expected to commence in the beginning of FY15.

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WTC IV: Fedimmo (100% daughter of Befimmo) has a building permit for a 100% passive office block of 56.4k m² in front of Brussels North station. As soon as a tenant has been found (public or private), construction work can start, with delivery expected in 2016-18.

TRIOMF III: In July, Befimmo signed a sale agreement (subject to suspensory conditions) for its Triomf III building. This building, located in Elsene, is attractive as a reconversion project for developers. The sale price is in-line with market value.

CHANGES TO THE PORTFOLIO FUNDAMENTALS

Befimmo's portfolio metrics (incl. AMCA building) changed slightly y/y: the average lease maturity remained at 9.3 years, while the initial yield slipped to 6.8% from 6.9%. Following the disposal of the 100%-occupied Mons I building and the acquisition of the 90%-occupied AMCA building, the occupancy rate dropped from 95.9% to 95.1%. These operations created value, with a reported increase in NAV from € 54.1 to 55.2. Noteworthy is the improvement in rental reversion. Due to the sale of the Mons I (heavily over-rented) and the acquisition of the AMCA building (at or just below market rent), the rental reversion rate decreased from -12% to -10.7%, thereby significantly reducing risk.

MOST IMPORTANT MODEL UPDATES

We updated our model to reflect:

- lower rental income following the departure of GE,
- higher expected operational costs in 2H13, following the delays in 1H13,
- lower financial charges given the decrease in average interest rate and the persistently low Euribor rates.

We therefore raise our FY13 EPS estimate from € 4.05 to € 4.29 (incl. a € 3.7m one-off).

P&L ANALYSIS

€ th	1H12	2H12	2012	1H13	2H13E	2013E
Rental income	63,793	65,520	129,313	69,007	68,397	137,404
Rental-related expenses	-211	-348	-559	-211	-289	-500
Net rental income	63,582	65,172	128,754	68,799	68,195	136,904
property related costs	2,773	3,000	5,773	3,547	1,360	4,907
Property result	66,356	68,172	134,527	72,256	69,555	141,811
Property charges	-8,271	-8,013	-16,284	-7,739	-8,831	-16,570
Property operating result	58,085	60,159	118,244	64,517	60,724	125,241
Corporate management costs	-4,881	-7,360	-12,241	-4,815	-5,062	-9,877
Other corporate management costs	680	-19,927	-19,247	-243	643	400
Operating result before result on portfolio	53,884	32,872	86,755	59,459	56,305	115,764
Gains or losses on disposals of invest. properties	0	206	206	188		188
Changes in fair value of investment parties	-13,530	-21,642	-35,172	-7,331	-6,394	-13,725
<i>% change in value of investment portfolio</i>			<i>-1.75%</i>			<i>-0.7%</i>
Operating result	40,354	11,436	51,789	52,316	49,723	102,227
Financial result (excl. IAS39)	-15,113	-14,487	-29,601	-13,211	-16,994	-29,330
Changes in FV of financial assets and liabilities	-4,541	-6,459	-11,000	6,378	0	6,378
Financial result	-19,655	-20,946	-40,601	-7,850	-22,355	-22,952
Pre-tax result	20,699	-9,510	11,188	44,466	27,368	78,163
Taxes	-360	-390	-750	-396	-375	-771
Net result	20,339	-9,900	10,438	44,070	26,993	77,392
Minority interests	1,565	-1,005	-2,570	0	0	0
Net result – Group share	18,773	-10,905	7,868	44,070	26,993	77,392
Net current result – Group share	36,844	37,782	74,926	45,023	39,765	85,020

Source: KBC Securities

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REDUCED DEBT RATIO

The acquisition of the AMCA building in Antwerp through a contribution in kind lowered the company's debt ratio to 46% and generated € 208m of new fire power. We furthermore believe that the company's balance sheet is ready for further growth given the debt maturity of 4.46 years, the impressively low interest rate of 3.2% and the sound interest cover ratio (EBIT/interest expense) of more than 3x.

INVESTMENT CASE

Befimmo reported decent results that were operationally in-line with expectations despite the one-off indemnity payment and the delayed works. Following the € 3.7m one-off and lower financial charges, the company's FY13 EPS is expected to increase from € 4.05 to € 4.29. This certainly provides sufficient comfort to pay out a € 3.45 DPS. Moreover, we believe that the location of the Schuman III building – which is being vacated earlier than expected – is attractive enough to find a tenant before the beginning of FY16, generating unexpected cash. With liquidity on the Brussels office market improving slightly and Befimmo's proven abilities as a manager of prime-location and LT leased assets to reputable tenants, we believe the discount vs. NAV should come down. This is despite the risk of some tenants leaving their offices or reducing office space. Furthermore, the decrease in debt ratio towards 46% has added around € 208m to the company's investment purse.

Backed by our EVA and DCF-model (WACC of 6.8%, LT growth rate of 1.5% and 5-year forecasting period), pointing to a theoretical fair value range between € 52 and € 54, we raise our target price from € 51 to € 54 (3.8% upside). Hold rating maintained.

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FINANCIAL DATA

Income statement (€m)	2009	2010	2011	2012	2013E	2014E	2015E
Gross Rental Income (GRI)	119.1	124.0	156.0	129.3	137.4	140.8	150.2
Other Income	-	-	-	-	-	-	-
Property & Development Costs	-3.1	0.7	-9.3	-9.0	-12.2	-12.8	-14.4
Other Costs	-9.8	-12.5	-17.7	-33.6	-10.1	-10.0	-10.2
EBITDA	106.1	112.2	129.0	86.8	115.1	118.0	125.6
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	106.1	112.2	129.0	86.8	115.1	118.0	125.6
Financial Result	-30.0	-20.7	-34.5	-29.6	-29.3	-35.0	-35.9
Taxes	-0.5	-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	0.0
Discontinued / Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-3.3	-3.9	-5.2	-2.6	0.0	0.0	0.0
Net current result (Group's share)	72.4	86.9	90.0	74.9	85.0	82.2	88.9
Changes in FV of investment properties	-75.0	-34.6	-26.4	-56.1	-14.2	-4.5	14.3
Gains/losses on real estate divestments	0.2	0.2	14.8	0.0	0.2	0.0	0.0
Minorities	2.2	0.1	0.0	0.0	0.0	0.0	0.0
Portfolio Result	-106.9	-40.1	-6.6	-67.1	-7.6	-4.5	14.3
Net Profit (Group's share)	-34.5	46.7	81.9	7.9	77.4	77.8	103.3
Adjusted Net Profit (Group's share)	73.1	86.9	90.0	74.9	85.0	82.2	88.9
Cash flow statement (€m)	2009	2010	2011	2012	2013E	2014E	2015E
Cash Flow from Operations	82.8	93.8	93.9	56.4	85.2	82.2	88.9
Change in Working Capital	4.8	-6.1	75.2	-6.5	0.2	0.2	0.2
Cash Flow from Operating Activities	87.6	87.7	169.1	49.9	85.4	82.4	89.1
Cash Flow from Investments	-29.4	-26.0	-115.5	-109.7	-282.0	-163.6	-46.1
Free Cash Flow	58.2	61.7	53.6	-59.8	-196.6	-81.2	43.0
Dividend Payments	-60.6	-62.7	-91.9	-49.2	-10.9	-36.5	-36.5
Share issues	159.5	0.0	0.0	30,586.0	141,231.2	0.0	0.0
New borrowings / reimbursements	-155.5	-1.7	86.5	80.5	70.0	120.0	-10.0
Other cash flow from financing	-	-	-	-	-	-	-
Cash Flow from Financing	-56.7	-64.3	-5.5	30,617.3	141,290.3	83.5	-46.5
Fx and changes in consolidation scope	-	-	-	-	-	-	-
Change in Cash & Equivalents	1.5	-2.6	48.1	30,557.5	141,093.6	2.3	-3.5
Balance sheet (€m)	2009	2010	2011	2012	2013E	2014E	2015E
Investment Properties	1,918.3	1,885.0	1,971.3	1,960.7	2,228.6	2,387.7	2,448.1
Development Projects	-	-	-	-	-	-	-
Other Fixed Assets	21.4	20.8	27.0	30.1	30.1	30.1	30.1
Total Fixed Assets	1,939.7	1,905.7	1,998.3	1,990.8	2,258.7	2,417.8	2,478.2
Assets held for Sale	4.6	37.6	0.0	7.9	7.9	7.9	7.9
Receivables	23.5	19.5	15.7	14.8	14.8	14.8	14.8
Other current assets	15.5	18.7	18.5	18.3	18.1	17.9	18.1
Cash and Cash Equivalents	6.1	3.5	4.2	2.3	6.0	8.3	4.9
Total Current Assets	49.7	79.4	29.6	36.4	39.9	42.1	38.4
TOTAL ASSETS	1,989.4	1,985.1	2,027.8	2,027.2	2,298.6	2,459.9	2,516.6
Shareholders' Equity	988.4	1,017.4	1,002.6	998.2	1,205.9	1,247.2	1,314.0
Minority Interest	61.6	64.4	67.8	0.0	0.0	0.0	0.0
Total Equity	1,050.0	1,081.9	1,070.5	998.2	1,205.9	1,247.2	1,314.0
LT Financial Debt	745.4	584.8	855.8	553.5	623.5	743.5	733.5
Other LT Liabilities	18.9	20.1	10.4	12.8	6.4	6.4	6.4
Total LT Liabilities	764.3	604.9	866.2	566.3	630.0	750.0	740.0
ST Financial Debt	1.9	206.0	21.4	396.3	396.3	396.3	396.3
Other Current Liabilities	173.3	92.3	69.7	66.4	66.4	66.4	66.4
Total ST Liabilities	175.1	298.3	91.1	462.7	462.7	462.7	462.7
TOTAL LIABILITIES	1,989.4	1,985.1	2,027.8	2,027.2	2,298.6	2,459.9	2,516.6
Per share data (€)	2009	2010	2011	2012	2013E	2014E	2015E
Basic EPS (€)	-3.97	2.66	4.98	0.46	3.93	3.68	5.00
Adjusted EPS (€)	2.40	5.05	5.35	4.25	4.29	3.89	4.20
Diluted EPS (€)	-3.97	2.66	4.98	0.46	3.93	3.68	5.00
Diluted Adjusted EPS (€)	2.40	5.05	5.35	4.25	4.29	3.89	4.20
Net Current Result Per Share (€)	2.40	5.05	5.35	4.25	4.29	3.89	4.20
Portfolio Result Per Share (€)	-6.36	-2.39	-0.38	-3.79	-0.36	-0.21	0.80
DPS (€)	4.40	3.90	4.93	3.45	3.45	3.45	3.45
NAV Per Share (€)	59.85	61.68	57.37	54.10	54.94	54.98	55.73

Source: KBC Securities

*Historic valuation data are based on historic prices



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	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	18.60%	0.00%
ACCUMULATE	30.50%	0.00%
HOLD	48.30%	0.00%
REDUCE	1.70%	0.00%
SELL	0.80%	0.00%

Befimmo is an office REIT focussing on prime assets let on long-term to public entities.

The price target for Befimmo is based on following parameters: Absolute Multiples, Peer Group Multiples, Estimated Equity Value (NAV), Dividend Discount Model (DDM)

The risks which may impede the achievement of our price target are: Access to capital (debt & equity), evolution of interest rates and credit spreads, real estate investment market, impact real economy on portfolio vacancy and rental values

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
05-AUG-13	Hold	€ 54.00
19-APR-13	Hold	€ 51.00

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