

BELGIAN REAL ESTATE

Updating estimates

	RATING	TARGET PRICE	FFO 13e	FFO 14e
Befimmo	(-)	EUR46 ↘-4%	↗ 7%	↗ 2%
Cofinimmo	(=)	EUR83 ↘-6%	-	-
Warehouses De Pauw	(=)	EUR49 ↘-2%	-	-

25 SEPTEMBER 2013

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Please refer to important disclosures at the end of this report

Befimmo – beating its own expectations yet again

For the second year in a row, Befimmo looks on course to comfortably beat its own earnings guidance. Solid operational performance and a couple of big acquisitions year-to-date confirm Befimmo's status as the premier pure play on the Belgian office market. The key question for investors is whether to be exposed to this weak market at a still unfavourable point of the cycle.

What's happened so far this year?

There weren't too many surprises in the half-year results for the Belgian stocks.

Befimmo – earnings hold up better than expected

For the second year in a row, Befimmo looks likely to significantly outperform the earnings guidance it provided at the beginning of the year. During H1, Befimmo reported FFO/share of EUR2.39 (up 12% year-on-year), in part driven by a lower cost of debt which averaged just 3.17% over the first half of the year. H1 earnings therefore represented c. 58% of the company's FY guidance of EUR4.03, which was given at the beginning of the year. Despite this, Befimmo made no explicit comments about changing the outlook and reiterated its EUR3.45 dividend/share guidance.

Operational performance provided few clues that conditions in the Brussels office market are improving meaningfully. 8,600 sq m of new leases and renewals were agreed during H1 at levels "in line with assumptions made when preparing the three-year outlook". Delivering an improvement in leasing trends looks likely to remain challenging, with reversionary potential remains still deep in negative territory at -11.8%.

Befimmo's activity in 2013 year-to-date has been dominated by two major acquisitions in its core Belgian office market, with a combined value of just under EUR200m. First, Befimmo acquired the 28,500 sq m Blue Tower office building for EUR78.5m, partly funded by the issuance of 640,000 shares (raising EUR31.2m). Secondly, Befimmo agreed to acquire the AMCA building in Antwerp for EUR110m (implying a 6.4% gross yield) from AXA Belgium in exchange for 2.037m new shares – strengthening capital ratios and introducing a major new shareholder into the register.

Befimmo's activities over the year leave us in no doubt about the business's focus, strategy and operations. The question, as ever, for investors is whether it makes sense to be exposed to the weak Belgian office market at all at this point of the cycle.

Befimmo (-)

Offices ■ Belgium
Price*: EUR50.5 ■ TP: EUR46 ■ Downside: 9%
Market cap: EUR1.1bn

	12/13e	12/14e	12/15e	12/16e
Diluted FFO (EUR)	4.33	3.90	3.94	3.88
NOPAT yield (%)	5.4	5.4	5.6	5.7
FFO yield (%)	8.6	7.7	7.8	7.7
Dividend yield (%)	6.8	6.8	6.8	6.8
Premium to GAV (%)	(2)	(1)	(1)	(2)
Premium to NNAV (%)	(4)	(1)	(2)	(3)
Premium to NNNAV (%)	(4)	(1)	(2)	(3)

* Prices at 24 September

BEFIMMO (Underperform)

Price at 24 Sep. 13 / Target Price

Offices | Real Estate - Belgium

EUR50.5 / EUR46 -9%

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

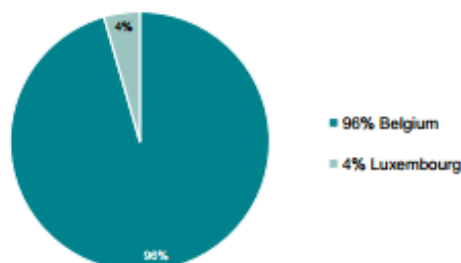
Benoit De Blicq, CEO

Alain Devos, Chairman

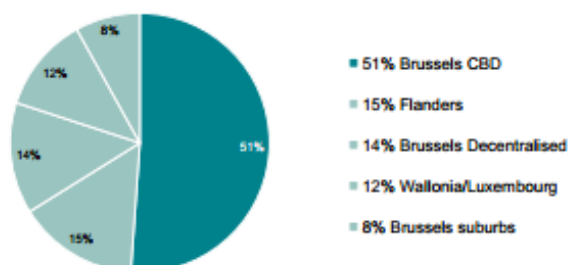
Ownership structure

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

Geographical breakdown of 2013e EBITDA



Breakdown by activity of 2013e EBITDA



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Peer group YTD performance

Stock	Price		YTD performance in EUR (%)	
	(24 Sep. 13)		Abs.	Rel. Sector
Capco (+)	p	336	34.4	26
SEGRO (-)	p	307	22.6	15
WdP (=)	EUR	51.1	13.3	6
Beni Stabili (=)	EUR	0.49	12.1	5
Land Securities (+)	p	927	12.1	5
Nexity (+)	EUR	27.0	10.9	4
Derwent Ldn (+)	p	2,387	10.2	4
Klépierre (=)	EUR	32.0	10.2	3
Gecina (-)	EUR	90.0	9.6	3
Great Portland (+)	p	541	8.1	2
CeGeREAL (=)	EUR	20.4	6.9	0.4
Cofinimmo (=)	EUR	85.2	5.6	(1)
Unibail-Rodamco (+)	EUR	184.5	5.2	(1)
Icade (+)	EUR	66.7	5.1	(1)
Befimmo (-)	EUR	50.5	4.7	(2)
Hammerson (+)	p	505	3.6	(3)
British Land (=)	p	585	3.2	(3)
Shaftesbury (-)	p	591	2.8	(3)
IGD (=)	EUR	0.79	2.3	(4)
Fo. des Régions (+)	EUR	60.6	0.4	(6)
Corio (-)	EUR	31.9	(0.5)	(7)
Eurocommercial (-)	EUR	29.2	(3.3)	(9)
Mercialys (=)	EUR	14.6	(6.8)	(12)
Intu (-)	p	324	(7.8)	(13)
PSP (+)	CHF	79.2	(10.2)	(16)

Sector calendar

01 Oct. 13	Capco: Q3 2013 Results
09 Oct. 13	Mercialys: Investor Day
15 Oct. 13	Mercialys: Q3 2013 Sales
16 Oct. 13	Castellum: Q3 2013 Results Citycon: Q3 2013 Results
22 Oct. 13	Silic: Q3 2013 Results
23 Oct. 13	Gecina: Q3 2013 Results Klépierre: Q3 2013 Sales
24 Oct. 13	Icade: Q3 2013 Sales SEGRO: Q3 2013 Sales
25 Oct. 13	Unibail-Rodamco: Q3 2013 Sales (Post Mkt)
29 Oct. 13	Nexity: Q3 2013 Sales
05 Nov. 13	Eurocommercial: AGM Fo. des Murs: Q3 2013 Sales Intu: Q3 2013 Sales
06 Nov. 13	Beni Stabili: Q3 2013 Results WdP: Q3 2013 Results
07 Nov. 13	Capco: Q3 2013 Sales Corio: Q3 2013 Results IGD: Q3 2013 Results
08 Nov. 13	Eurocommercial: Q1 2013 Results Fo. des Régions: Q3 2013 Sales
11 Nov. 13	Hammerson: Q3 2013 Sales
12 Nov. 13	Cofinimmo: Q3 2013 Results Land Securities: H1 2013 Results PSP: Q3 2013 Results
13 Nov. 13	Barratt Develop: AGM
14 Nov. 13	Befimmo: Q3 2013 Sales CeGeREAL: Q3 2013 Sales Great Portland: H1 2014 Results
15 Nov. 13	Derwent Ldn: Q3 IMS

