

## Offices might be beautiful after all

### Facts

- In the last years Befimmo has substantially changed for the better. After streamlining its corporate structure in 2012 (Fedimmo 100%-owned, no partnership by shares anymore, in-sourcing of property management) and shelving expansion plans in France, the portfolio grew dramatically in 2013 with its value expected to grow by more than 12% (a/o Blue Tower & AMCA acquisitions, partially financed by new shares).
- Since our rating downgrade to Hold last August following 1H results (on valuation, figures were OK) the **Brussels office letting market has barely improved** with lacklustre take-up (-6% YoY as of 30/09, further depressed by fairly inactive government bodies), vacancy stubbornly above 10% and declining rents. Despite some positives on the economic front we do not expect significant improvements in the foreseeable future given the massive vacancy and the fact that offices trail the cycle.
- We have barely changed our earnings estimates;** we still expect a decline of direct results (EPS down 9%) in 2014 as a result of the full dilutive effect of the recent capital increases and average occupancy expected to improve as from 2015 only. Our FY13 recurrent EPS estimates are stable at EUR 4.11 (vs. 4.13) but still above company guidance (EUR 4.04). The latter now looks very conservative.

### Our View

- What has changed since August ? Firstly **we believe the expected dividend at EUR 3.45 is now very safe** on the back of 1) a very low payout (84% of EPS FY13e), 2) **a loan-to-value now firmly under 50%** and 3) a **solid business model**; a higher dividend looks even possible as from FY14 (as from FY15 in our model as a measure of caution). Secondly, the traditionally solid business model has been further strengthened by the recent acquisitions with an increased weight of government tenants, the above-mentioned lower leverage and an average lease duration restored at 9.3 years. Thirdly, we believe the expected revival of government demand will focus on large, recent, energy-efficient, well located & CBD buildings, the sweet spot of the Brussels office market where Befimmo excels.
- Hence, even the challenging Noord Building (43,000 sq.m.), expected to be empty as from 2017 as its tenant (Flemish Community) leaves, might be an opportunity given the scarcity of very large, well located office sites. Note that Befimmo also holds the permits for the construction of the neighbouring WTC IV Tower which is a candidate to house the Flemish Community in the future. A refurbished Noord Building remains a valid alternative for all public tenants looking for new, large premises (EU bodies, domestic administrations). Befimmo stated that no works on the WTC IV will be started on a speculative basis.
- On the basis of improved medium term prospects, we lift our composite TP to EUR 54.40** (53.00 previously). Our earnings scenario includes on-going-investments in several assets including the new Finance Tower in Liège and environmental improvements but no new acquisitions which are perfectly possible without having to tap the market; investment capacity at 60% leverage (legal ceiling at 65%) is close to EUR 650m and still at over EUR 300m at 55% leverage.

### Conclusion

Our new TP shows a 9% upside in addition to a substantial 7% dividend yield, not bad given the low risks involved. The downward pressure on NAV (EUR 56.13 as of 30/09) has eased as IAS 39 now turns positive and on-going investments on the portfolio compensate for lower values in the problematic locations (mainly Brussels suburbs). Admittedly the underlying property market remains challenging but Befimmo has showed it is a canny investor in difficult circumstances. **Rating upgraded to ADD** from Hold.

### Add

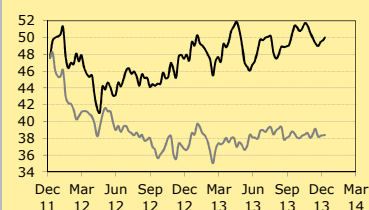
|                            |               |
|----------------------------|---------------|
| Price:                     | EUR 50.00     |
|                            | (07/01/14)    |
| Target price:              | 54.40         |
| Risk:                      | Low           |
| Reuters:                   | BEFB.BR       |
| Bloomberg:                 | BEFB BB       |
| Shares number (m):         | 18.45         |
| Market cap. (m):           | 923           |
| NAV 30/09/2013 :           | 56.13         |
| Premium :                  | -11%          |
| H/L 1 year:                | 52.03 - 45.48 |
| 1 year price perf.:        | 4.9%          |
| Diff. with EPRA Eurozone : | 4.2%          |
| Volume (sh./day):          | 22,882        |
| Free Float                 | 76%           |
| AG Insurance               | 14%           |
| Axa                        | 9%            |

|            | 13e  | 14e  | 15e  |
|------------|------|------|------|
| P/E        | 12.3 | 13.4 | 12.9 |
| Div. yield | 6.8% | 6.9% | 7.0% |
| Premium    | -8%  | -9%  | -10% |

### Company Calendar

20/02/14 FY13 results  
29/04/14 AGM  
02/05/14 Final FY13 div. ex-date

Befimmo + relative to EPRA Eurozone (grey)



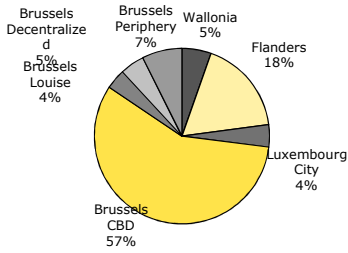
### Analyst:

**Herman van der Loos, CFA**  
+32 (0)2 229 63 40  
h.vanderloos@petercam.be

# Befimmo

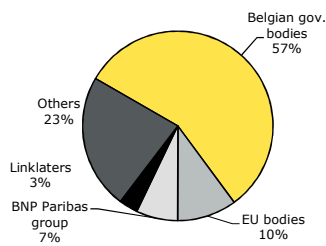
Updated Estimates: YES

Exhibit 1 Geographic spread (FV value 30/06)



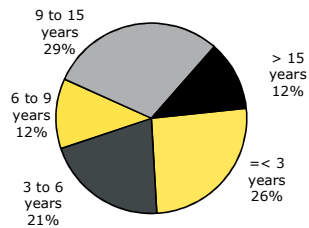
Source: Company data

Exhibit 2 Main tenants (current rents 30/06)



Source: Company data

Exhibit 3 Residual duration of leases (current rents 30/06, up to next break)



Source: Company data

| Profit & Losses (EUR m)       | 12/11          | 12/12          | 12/13e         | 12/14e         | 12/15e         |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Rental income                 | 124.8          | 129.3          | 136.0          | 136.9          | 143.4          |
| Operating costs               | -0.2           | -0.6           | -0.6           | -0.6           | -0.6           |
| <b>Net rental income</b>      | <b>124.6</b>   | <b>128.8</b>   | <b>135.5</b>   | <b>136.4</b>   | <b>142.8</b>   |
| <b>EBIT</b>                   | <b>102.6</b>   | <b>107.3</b>   | <b>113.8</b>   | <b>114.8</b>   | <b>121.0</b>   |
| Interest charges              | -25.8          | -26.3          | -28.7          | -30.5          | -32.1          |
| Interest income               | -              | -              | -              | -              | -              |
| <b>Financial Result</b>       | <b>-28.2</b>   | <b>-28.9</b>   | <b>-31.2</b>   | <b>-33.1</b>   | <b>-34.7</b>   |
| Minorities                    | 4.2            | 2.6            | 0.0            | 0.0            | 0.0            |
| <b>Pre-tax result</b>         | <b>74.4</b>    | <b>78.5</b>    | <b>82.6</b>    | <b>81.8</b>    | <b>86.3</b>    |
| Taxes                         | -0.7           | -0.8           | -0.5           | -0.5           | -0.5           |
| <b>Direct result</b>          | <b>73.7</b>    | <b>77.7</b>    | <b>82.1</b>    | <b>81.3</b>    | <b>85.8</b>    |
| Balance Sheet (EUR m)         | 12/11          | 12/12          | 12/13e         | 12/14e         | 12/15e         |
| Property investments          | 1,971.3        | 1,960.7        | 2,211.3        | 2,256.0        | 2,272.5        |
| 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            |
| <b>Total investments</b>      | <b>1,998.3</b> | <b>1,990.8</b> | <b>2,241.4</b> | <b>2,286.1</b> | <b>2,302.6</b> |
| Cash position                 | 4.2            | 2.3            | 2.3            | 2.3            | 2.3            |
| Tradable receivables          | 15.7           | 3.5            | 4.5            | 5.5            | 6.5            |
| Other current assets          | 9.7            | 30.6           | 21.7           | 20.7           | 19.7           |
| <b>Total assets</b>           | <b>2,027.8</b> | <b>2,027.2</b> | <b>2,270.0</b> | <b>2,314.7</b> | <b>2,331.2</b> |
| Total Equity                  | 1,070.5        | 998.2          | 1,164.6        | 1,192.3        | 1,222.4        |
| Provisions & deferred taxes   | -              | -              | -              | -              | -              |
| LT bearing interest debt      | 866.2          | 566.3          | 642.7          | 659.6          | 646.1          |
| 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         |
| <b>Direct result</b>          | <b>4.13</b>    | <b>4.25</b>    | <b>4.11</b>    | <b>3.74</b>    | <b>3.86</b>    |
| Recurring cash earnings       | 4.40           | 4.42           | 4.13           | 3.75           | 3.88           |
| Indirect result               | -0.45          | -3.81          | -0.05          | 0.00           | 0.00           |
| Dividend                      | 3.94           | 3.45           | 3.45           | 3.45           | 3.50           |
| Book Value                    | 56.13          | 54.10          | 55.00          | 55.15          | 55.37          |
| No shares - average (m)       | 16.82          | 17.69          | 19.99          | 21.76          | 22.21          |
| Ratios                        | 12/11          | 12/12          | 12/13e         | 12/14e         | 12/15e         |
| <b>Valuation analysis</b>     |                |                |                |                |                |
| P/E                           | 11.7           | 11.0           | 12.3           | 13.4           | 12.9           |
| Price/Recurring cash earnings | 11.0           | 10.6           | 12.2           | 13.3           | 12.9           |
| P/BV                          | 0.9            | 0.9            | 0.9            | 0.9            | 0.9            |
| EV/EBITDA                     | 18.2           | 17.6           | 19.2           | 19.3           | 18.4           |
| Premium on NAV                | -13.9%         | -13.2%         | -8.3%          | -9.3%          | -9.7%          |
| Div. Yield                    | 8.1%           | 7.3%           | 6.8%           | 6.9%           | 7.0%           |
| <b>Financial ratios</b>       |                |                |                |                |                |
| Net Debt/Equity               | 89.0%          | 102.9%         | 94.7%          | 93.9%          | 90.5%          |
| Equity/Total Assets           | 52.8%          | 49.2%          | 51.3%          | 51.5%          | 52.4%          |
| ROCE post-tax                 | 5.7%           | 4.9%           | 4.7%           | 4.7%           | 3.9%           |
| ROE                           | 8.2%           | 7.1%           | 7.0%           | 6.4%           | 4.6%           |
| EBITDA / Rental income        | 82.2%          | 83.0%          | 83.7%          | 83.9%          | 84.4%          |

## Business description

Befimmo is a property investment company with a primary focus on the Brussels office market. Ca. 70% of current rents are generated by government organisations (domestic & European, incl. AMCA) and the average lease duration exceeds 9 years.

## Competitive position

Amid a difficult underlying Brussels office property market bargaining power has logically remained with tenants. However, large tenants, mainly government & EU bodies are looking for large, efficient and well located (read in the CBD and close to public transportation) office buildings, the sweet spot of the Brussels office market where Befimmo excels; this type of assets has become a rarity as developers (and their bankers) are not eager to build on a speculative basis. Hence we believe Befimmo could in the future bargain on more equal terms with current and potential tenants eager to optimize their property requirements. Assets outside the Brussels area may not look very glamorous but cater for a reliable & indexed rental income with close to no reversion (long-term leases with government bodies).

# Petercam Institutional Research and Sales

www.petercam.com

Place Sainte-Gudule 19 – 1000 Brussels  
De Lairessestraat 180 – 1075 HM Amsterdam  
JPP Eurosecurities, 595 Madison Avenue – 38<sup>th</sup> floor – New York, 10022

**Marc Janssens - Managing Director – +32.2.229.64.28**

## Analysts

|  |                                 |                        |
|--|---------------------------------|------------------------|
| <b>Stefaan Genoe</b><br>Head of Research | Telecom/Technology              | <b>+32.2.229.64.66</b> |
| Marcel Achterberg                        | Technology/Services             | +31.20.573.54.63       |
| Junior Cuigniez                          | Industrials/Shipping            | +32.2.229.63.39        |
| Fernand de Boer                          | Retail/Food                     | +31.20.573.54.17       |
| Marc Debrouwer                           | Misc.                           | +32.2.229.65.78        |
| Kris Kippers                             | Food & Bev./Media/Real Estate   | +32.2.229.65.95        |
| Luuk van Beek                            | Energy/Engineering/Construction | +31.20.573.54.71       |
| Herman van der Loos, CFA                 | Real Estate                     | +32.2.229.63.40        |
| Tom van Kempen                           | Financials                      | +32.2.229.65.56        |
| Roderick Verhelst, PhD                   | Life Sciences/Chemicals         | +32.2.229.66.82        |

## Sales

**Gert Potvlieghe**  
Head of Sales **+32.2.229.66.59**

|                       |                  |
|-----------------------|------------------|
| Raymond de Wolff      | +31.20.573.54.14 |
| Céline Donnet, CFA    | +32.2.229.63.80  |
| Damien Fontaine       | +32.2.229.65.62  |
| Sammy Nebbou          | +32.2.229.64.23  |
| Jurgen Smits van Oyen | +31.20.573.54.13 |
| Jochen Vercauteren    | +32.2.229.66.12  |

## Sales Trading

**Hans de Jonge**  
Head of Sales Trading **+31.20.573.54.04**

|                          |                  |
|--------------------------|------------------|
| Veronique De Schoemaeker | +32.2.229.66.20  |
| Frans van Wakeren        | +31.20.573.54.07 |

## JPP Eurosecurities

Simon Vlaminck +1.212.521.67.35

**Investment rating system:** The Petercam stock ratings are based on the estimated performance relative to the Petercam Benelux coverage universe. The total return required for a given rating depends on the risk profile relative to this universe. This risk profile is represented by the Beta, as estimated by the analyst. Low risk stocks have an estimated Beta below or equal to 0.9, Medium risk stocks have a Beta between 0.9 and 1.3 and High risk stocks have a Beta equal to or above 1.3. The required relative performance for a given rating is indicated below. The price targets given and the expected relative performance are always based on a 12 month time horizon.

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

RP : Relative Performance against Petercam coverage universe

### Rating distribution and remuneration policy:

<http://www.petercam.com/indexen.cfm?act=petercam.ssresearch>

### Recommendation history and additional company related disclosure and any potential conflict of interest for each individual company:

<http://www.petercam.be/indexfr.cfm?act=petercam.isrmifid>

This document is intended for the benefit of institutional and professional investors and is sent for information only. Under no circumstances may it be used or considered as an offer to sell or as seeking an application to buy securities. Although the information contained in this report has been obtained from sources considered to be reliable, we guarantee neither its accuracy nor its completeness. The Managing Director of Petercam Institutional Research & Sales bears final responsibility of this report. This document may not be reproduced in whole or in part or communicated in any other way without our written consent. This document is distributed in North America by JPP Eurosecurities, 595 Madison Avenue 38th floor, New York 10022. JPP Eurosecurities distributes third party European Equities research to North American institutional investors. Petercam may make markets or specialise in, have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies. Institutional sell-side research is performed by Petercam S.A. under regulatory supervision of the Belgian "Financial Services and Markets Authority (FSMA)". The analyst(s) claim(s) not to have any meaningful financial interest in one of the above mentioned companies nor to have any conflict of interest.