

26 February 2014

BEFIMMO

Kicking off FY14 with a good feeling

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE €51.50
TARGET PRICE €55.00

ACCUMULATE
RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	1%	-4%	1%
Rel. BEL20	-4%	-10%	-15%
12m Hi/Lo	€ 54.11/47.30		
Bloomberg	BEFB.BB		
Reuters	BEFB.BR		
Market Cap	€ 1,090m		
Next corporate event	General Assembly 14: 29 April 2014		
www.befimmo.be			

FY/e 31.12	2013	2014E	2015E	2016E
Current Result (€ m)	84.0	84.4	88.6	90.5
Portfolio Result (€ m)	-4.8	-4.4	4.7	14.2
Net Profit (€ m)	79.2	80.0	93.3	104.7
Diluted adj. EPS (€)	4.24	3.91	4.11	4.17
NAV per share	54.4	55.6	56.3	56.9
P/E	12.00	13.17	12.54	12.34
EV / EBITDA	18.29	19.21	18.20	17.15
DPS	3.45	3.45	3.45	3.60
Dividend Yield	6.8%	6.7%	6.7%	7.0%

Source: KBC Securities

Befimmo reported solid FY13 results, confirming its ability to generate CF. Here we will zoom in on the negative revaluation, rental reversion rate, LTV evolution, NAV growth and provide our model update.

LOWER LTV AND RENTAL REVERSION RATE

- **Solid FY13 results.** Befimmo reported solid FY13 results, confirming our expectations except for the general expenses, which overshot our estimate by € 1.5m due to one-off integration costs for the property management team and transaction fees linked to portfolio growth.
- **Portfolio fundamentals reiterated.** The portfolio quality was maintained with an occupancy of 95.2%, average lease maturity of 9.1 years and a 6.8% yield. Furthermore, the portfolio value was negatively revalued by only -0.5% vs. -1.8% in FY12. We detect a bottoming trend here. The number of rental renewals was somewhat lower than last year but still acceptable. Note also the drop in rental reversion rate from -12.0% to -10.4%.
- **10.6% growth largely equity-funded.** The acquisitions in Antwerp and Brussels were mostly paid for through increasing equity, enabling the company to lower its LTV ratio from 47.8% to 45.0%, while increasing earnings potential. Furthermore, the average interest cost showed a small decline to 3.2%, while earnings visibility was maintained with a 4.1 years average debt and 3.4 years average hedge maturity. Disappointing was the lack of growth in NAV per share which remained broadly unchanged at € 54 p.s.
- **Investment case.** We reiterate our Accumulate rating as we believe that Befimmo is the best-positioned REIT in Belgium to benefit from economic recovery in the office market. Its portfolio consists of high-quality assets at top locations that are much more sought-after in the current market. Furthermore, it offers an attractive base in CFPS generation given the 95%-occupied portfolio with average lease maturity of > 9 years and a stable yield of 6.8%. More specifically, 70% of the tenants are public institutions that have an average lease maturity of c. 11 years. Additionally, we believe that the LTV ratio offers sufficient flexibility going forward. A minus however is that shareholders shouldn't count on significant NAV growth in the years ahead. Our TP of € 55 corresponds to a gross dividend yield FY14E of 6.3% and P/NAV14E of 0.99x.

ANALYSTS

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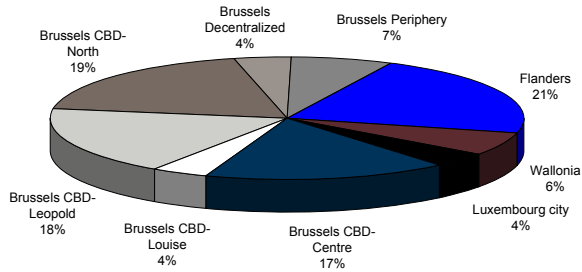
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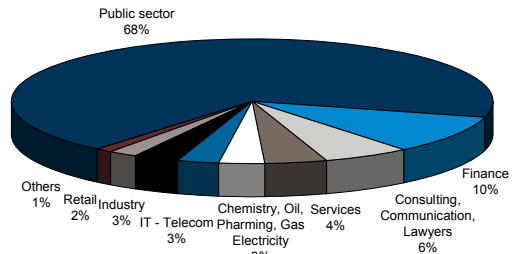
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GEOGRAPHIC SPREAD



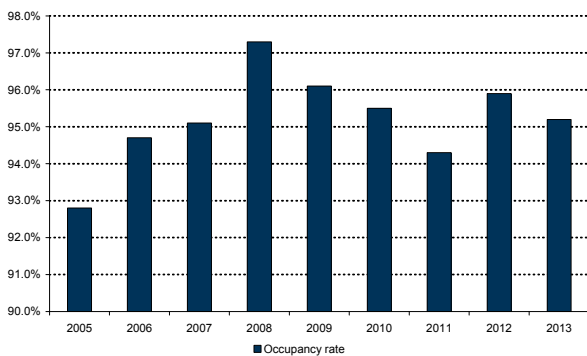
Source: Befimmo

TENANT OVERVIEW



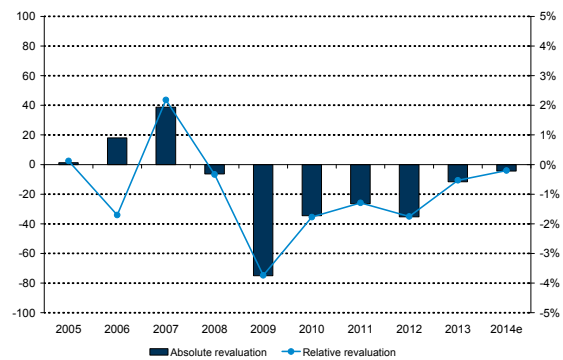
Source: Befimmo

PORTFOLIO OCCUPANCY



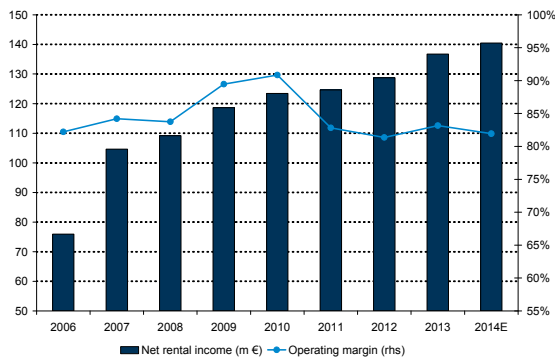
Source: Befimmo

PORTFOLIO REVALUATION



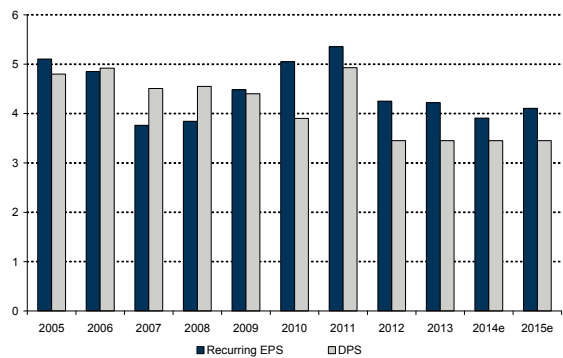
Source: Befimmo, KBC Securities

NET RENTAL INCOME – OPERATING MARGIN



Source: Befimmo, KBC Securities

EPS – DPS EVOLUTION



Source: Befimmo, KBC Securities

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SOLID FY13 RESULTS

Net rental income increased 6.2% from € 128.9m to € 136.8m (€ 136.9m KBCSe) strongly in line with expectations. This rise resulted from external portfolio growth (Blue Tower and AMCA building) and internal improvements, being a broadly stable occupancy and positive I-f-I rental growth of approx. 1.5%. The operating costs were bang in-line, resulting in a property operating result of € 125.4m (€ 125.5m KBCSe), but the overheads rose € 1.5m more than expected following the one-off integration costs of the property management team, increased fund taxes and transaction fees (lawyers, due diligence, etc). Hence, the increase in operating result before result on portfolio was tempered to 5.9% to attain € 113.7m (€ 115.3m KBCSe).

The net financial result improved slightly more strongly than expected, decreasing from € -29.6m to € -28.9m (€ -29.3m KBCSe) on the back of a lower avg cost of debt of 3.2% (3.4% in FY12) and despite the 8% rise in debt. All in all, the company reported a 12.3% rise in EPRA earnings from € 74.9m to € 84.1m (€ 85.2m KBCSe). This corresponds to almost stable EPS of € 4.22 in FY13 (€ 4.25 in FY12), largely sufficient to cover the DPS of € 3.45.

The change in FV remained limited to € -11.6m (€ -14.2m KBCSe) or -0.5% (-1.8% FY12 and -1.3% in FY11). Hence, the neg. portfolio revaluations are bottoming out. With regard to the North Building, which is expected to be vacated in FY17, the value has already been reduced to the land value plus remaining cash flows. The combination of the revaluation and 10.6% portfolio growth results in a new value of € 2.18bn. The occupancy remained broadly stable at 95.2% (95.9% FY12), the current yield stands at 6.8% (6.9%) and the average lease maturity remains strong at 9.1 (9.3) years.

OPERATIONAL PERFORMANCE

Befimmo expanded its portfolio by 10.6% in FY13. In 1H13, the company acquired the 24.5k m² Blue Tower in the Brussels Louise district. The office building had recently been renovated and has a Breeam In-Use Good rating. The building's occupancy amounts to 95%, but Befimmo was also able to reduce the acquisition price taking into account of this vacancy. Despite the fact that most of the contracts are of the 3-6-9 years type, the tower houses several high-quality tenants whose rental track record in the building is stable.

Secondly, Befimmo acquired the AMCA building in Antwerp. This office building has 58k m² and is fully rented to the Belgian government Buildings Agency as a Finance centre for a fixed residual lease term of 16.5 years. It benefits from an excellent location that offers a strong potential for redevelopment into residential at the end of the lease. Hence, Befimmo has acquired a building with a reputable tenant and an excellent exit scenario.

PORTFOLIO EXPANSION

Office building	Location	Acquisition price (€ m)	Gross initial yield (%)	Occupancy (%)	Type of tenant
Blue Tower	Brussels Louise	78.5	6.9	95%	multi
AMCA building	Antwerp 't Eilandje	110	6.4	100%	single

Source: KBC Securities

RENTAL REVERSION DOWN FROM -12.0% TO -10.4%

In FY13, the Brussels renting market remained rather calm. This was also reflected in Befimmo's rent renewal figures. The company signed new leases and renewals for 15k m² (down from 23.8k m² in FY12). The lower FY figure did not however harm the company's average lease maturity, which remained stable at >9 years. With a strengthening economic recovery estimated in FY14, we expect renewal numbers to come in higher this year. Overall, we also believe the health of the Brussels office market is improving, as the vacancy in the Brussels CBD had dropped by year-end to its pre-crisis level of 6% (we already announced this more positive trend in our Offices sector note published in January).

Positive was the lowering of the rental reversion rate from -12.0% to -10.4%. This risk reduction flowed mainly from the acquired Blue Tower and AMCA buildings, which show rents more aligned to market levels.

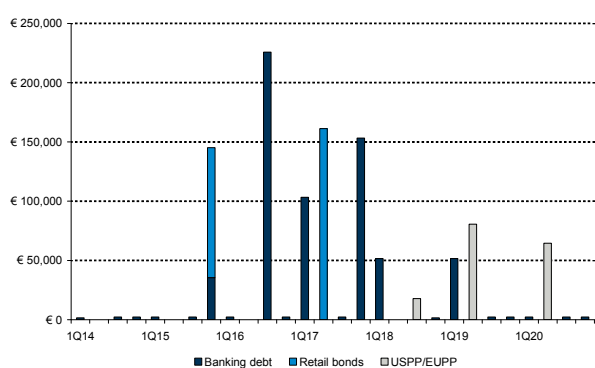
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EQUITY-FUNDED GROWTH RESULTS IN LTV DROP

Befimmo funded its acquisitions largely through the issuance of equity. Hence, the company's LTV ratio dropped y/y from 47.8% to 45.0% (Befimmo targets 45-50%). The Blue Tower acquisition was partly funded through the private placement of 637,371 treasury shares at € 49. The merger by absorption of the company owning the Blue Tower resulted furthermore in the creation of 528,615 new treasury shares at € 55.36. The AMCA building was acquired through a contribution in kind, which resulted in a € 110m equity issue or 2,037,037 shares at € 54.

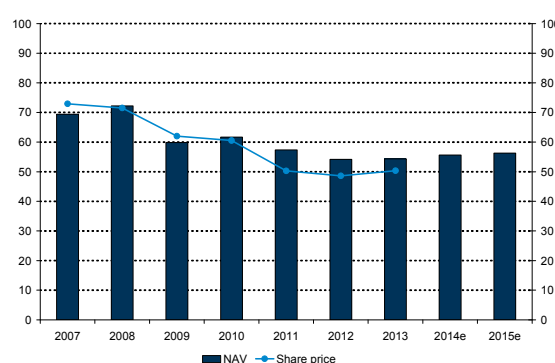
Management succeeded in maintaining a low average interest cost (incl. margins & cost of hedging) at 3.18% (3.38% in FY12). Earnings visibility was also preserved as the debt maturity remained broadly stable at 4.1 years (4.5 years in FY12), with a first expiry of approx. € 150m in 4Q15. The average hedge maturity is roughly 3.4 years. During FY13, Befimmo concluded € 215m of new bilateral credit lines with three banks, while its first European private placement was executed in July for a small amount of € 18m. Today, the total confirmed credit lines equal € 1,100m, of which € 984.5m are drawn. The volume of unused lines is a provision for the commitments of constructions and renovations planned for FY14 and FY15.

DEBT MATURITY PROFILE



Source: Befimmo

NAV (EPRA) EVOLUTION



Source: Befimmo, KBC Securities

MARGINAL NAV GROWTH

The impact of the solid results was partly offset by the negative portfolio result and equity increases, hence limiting the company's NAV (EPRA) growth per share to 0.3%. However, it was the first year that the company was able to match NAV growth per share. In the coming years, we expect this growth to remain moderate, ranging between 1% and 2.5%.

MANAGEMENT OUTLOOK

Befimmo will no longer provide guidance on its expected evolution in the property portfolio as this evolution seems highly volatile and hence unpredictable. The company guides for a stable net rental income around € 140m, which should however correspond to a drop in EPS (EPRA) to € 3.90 in FY14, € 3.72 in FY15 and € 3.62 in FY16. However, we should take into account that management has always been very conservative in its guidance and that these forecasts don't include potential portfolio growth. The guidance can therefore be regarded as cautious. and management probably has the DPS of € 3.45 fully covered in the years ahead.

MODEL UPDATES: INCREASING OPERATING CHARGES AND LOWERING FINANCING COSTS

We updated our model, mainly taking into account the lower financial charges forecast (at average interest rate of 3.2%). We however also tempered our growth expectations and integrated lower rental inflation. Furthermore, we upped the operating charges to make our estimates better aligned with the guidance. Hence, we attain new EPS forecasts of € 3.91 in FY14, € 4.11 in FY15 and € 4.17 in FY16.

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P&L ANALYSIS

€ th	2012E	2013E	2013E	2014E	2014E	2015E	2015E
	Actual	Estimate	Actual	Old	New	Old	New
Rental income	129,313	137,404	137,803	140,808	140,994	150,152	145,851
Net rental income	128,754	136,904	136,765	140,308	140,494	149,652	145,492
Property related costs	5,773	5,127	8,506	5,600	5,200	5,000	4,600
Property charges	-14,185	-16,570	-19,898	-17,939	-19,601	-18,904	-18,535
Property operating result	120,342	125,461	125,373	127,969	126,093	135,748	131,416
Corporate management costs	-14,340	-9,877	-10,973	-9,976	-10,973	-10,175	-11,192
Other corporate management costs	-19,247	-243	-663	0	0	0	0
Operating result before result on portfolio	86,755	115,341	113,737	117,993	115,120	125,573	120,224
Gains or losses on disposals	206	188	293	0	0	0	0
Changes in FV of investment parties	-35,172	-14,194	-11,643	-4,424	-4,368	14,235	4,674
Operating result	51,789	101,335	102,387	113,570	110,752	139,807	124,898
Net financial result	-29,601	-29,330	-28,296	-34,564	-29,840	-35,879	-30,497
Changes in FV of financial instruments	-11,000	6,378	6,555	0	0	0	0
Financial result	-40,601	-22,952	-22,371	-34,564	-29,840	-35,879	-30,497
Pre-tax result	11,188	78,383	80,016	79,006	80,911	103,928	94,401
Taxes	-750	-771	-860	-750	-900	-750	-1,100
Net result	10,438	77,612	79,156	78,256	80,011	103,178	93,301
Minority interests	-2,570	0	0	0	0	0	0
Net result – group share	7,868	77,612	79,156	78,256	80,011	103,178	93,301
Net current result – group share	74,926	85,428	84,244	82,679	84,380	88,943	88,627
EPRA Result	75,132	85,240	84,125	82,679	84,380	88,943	88,627

Source: KBC Securities

INVESTMENT CASE: ACCUMULATE, €55 TP

We reiterate our Accumulate rating as we believe that Befimmo is the best-positioned of Belgium's REITs to benefit from the economic recovery visible in the office market. Its portfolio consists of high-quality assets at top locations which are more sought-after in the current market. Furthermore, the company offers an attractive base in cash flow generation per share thanks to the 95%-occupied portfolio with average lease maturity of more than 9 years and stable yield of 6.8%. More specifically, 70% of tenants are public institutions that have an average lease maturity of c. 11 years. Additionally, we believe that the LTV ratio offers sufficient flexibility going forward. On a negative note, shareholders shouldn't count on significant NAV growth in the years ahead.

Our Economic Value Added and Discounted Cash Flow models point to a theoretical fair value range between € 53.5 and € 55.4 p.s. We therefore stick to our target price of € 55 p.s. which corresponds to a gross dividend yield FY14E of 6.3% and P/NAV14E of 0.99x.

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FINANCIAL DATA

Income statement (€m)	2010	2011	2012	2013	2014E	2015E	2016E
Gross Rental Income (GRI)	124.0	156.0	129.3	137.8	141.0	145.9	152.1
Other Income	-	-	-	-	-	-	-
Property & Development Costs	0.7	-9.3	-9.0	-12.4	-14.9	-14.4	-13.3
Other Costs	-12.5	-17.7	-33.6	-11.6	-11.0	-11.2	-11.5
EBITDA	112.2	129.0	86.8	113.7	115.1	120.2	127.3
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	112.2	129.0	86.8	113.7	115.1	120.2	124.1
Financial Result	-20.7	-34.5	-29.6	-28.9	-29.8	-30.5	-32.4
Taxes	-0.7	-0.8	-0.8	-0.9	-0.9	-1.1	-1.2
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	-3.9	-5.2	-2.6	0.0	0.0	0.0	0.0
Net current result (Group's share)	86.9	90.0	74.9	84.0	84.4	88.6	90.5
Changes in FV of investment properties	-34.6	-26.4	-56.1	-11.6	-4.4	4.7	14.2
Gains/losses on real estate divestments	0.2	14.8	0.0	0.3	0.0	0.0	0.0
Minorities	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio Result	-40.1	-6.6	-67.1	-4.8	-4.4	4.7	14.2
Net Profit (Group's share)	46.7	81.9	7.9	79.2	80.0	93.3	104.7
Adjusted Net Profit (Group's share)	86.9	90.0	74.9	84.0	84.4	88.6	90.5
Cash flow statement (€m)	2010	2011	2012	2013	2014E	2015E	2016E
Cash Flow from Operations	93.8	93.9	56.4	84.2	84.4	88.6	90.5
Change in Working Capital	-6.1	75.2	-6.5	-9.6	0.2	0.2	0.2
Cash Flow from Operating Activities	87.7	169.1	49.9	74.6	84.6	88.8	90.7
Cash Flow from Investments	-26.0	-116.6	-109.7	-265.2	-157.4	-22.6	-10.0
Free Cash Flow	61.7	52.6	-59.8	-190.6	-72.8	66.2	80.7
Dividend Payments	-62.7	-91.9	-49.2	-11.2	-44.0	-43.6	-74.8
Share issues	0.0	0.0	30.6	141.2	0.0	0.0	0.0
New borrowings / reimbursements	-1.7	86.5	80.5	70.0	120.0	-25.0	-12.0
Other cash flow from financing	-	-	-	-	-	-	-
Cash Flow from Financing	-64.3	-5.5	61.9	200.0	76.0	-68.6	-86.8
Fx and changes in consolidation scope	-	-	-	-	-	-	-
Change in Cash & Equivalents	-2.6	47.1	2.1	9.4	3.3	-2.3	-6.1
Balance sheet (€m)	2010	2011	2012	2013	2014E	2015E	2016E
Investment Properties	1,885.0	1,971.3	1,960.7	2,184.1	2,337.1	2,364.4	2,388.6
Development Projects	-	-	-	-	-	-	-
Other Fixed Assets	20.8	27.0	30.1	38.7	38.7	38.7	38.7
Total Fixed Assets	1,905.7	1,998.3	1,990.8	2,222.9	2,375.8	2,403.1	2,427.3
Assets held for Sale	37.6	0.0	7.9	0.0	0.0	0.0	0.0
Receivables	19.5	15.7	14.8	15.2	15.2	15.2	15.2
Other current assets	18.7	9.7	11.5	9.7	9.5	9.3	9.1
Cash and Cash Equivalents	3.5	4.2	2.3	1.5	4.8	2.5	-3.6
Total Current Assets	79.4	29.6	36.4	26.5	29.6	27.0	20.7
TOTAL ASSETS	1,985.1	2,027.8	2,027.2	2,249.4	2,405.4	2,430.2	2,448.0
Shareholders' Equity	1,017.4	1,002.6	998.2	1,165.6	1,201.7	1,251.4	1,281.3
Minority Interest	64.4	67.8	0.0	0.0	0.0	0.0	0.0
Total Equity	1,081.9	1,070.5	998.2	1,165.6	1,201.7	1,251.4	1,281.3
LT Financial Debt	584.8	855.8	553.5	709.6	829.6	804.6	792.6
Other LT Liabilities	20.1	10.4	12.8	16.9	16.9	16.9	16.9
Total LT Liabilities	604.9	866.2	566.3	726.4	846.4	821.4	809.4
ST Financial Debt	206.0	21.4	396.3	269.1	269.1	269.1	269.1
Other Current Liabilities	92.3	69.7	66.4	88.2	88.2	88.2	88.2
Total ST Liabilities	298.3	91.1	462.7	357.3	357.3	357.3	357.3
TOTAL LIABILITIES	1,985.1	2,027.8	2,027.2	2,249.4	2,405.4	2,430.2	2,448.0
Per share data (€)	2010	2011	2012	2013	2014E	2015E	2016E
Basic EPS (€)	2.66	4.98	0.46	4.02	3.71	4.32	4.83
Adjusted EPS (€)	5.05	5.35	4.25	4.24	3.91	4.11	4.17
Diluted EPS (€)	2.66	4.98	0.46	4.02	3.71	4.32	4.83
Diluted Adjusted EPS (€)	5.05	5.35	4.25	4.24	3.91	4.11	4.17
Net Current Result Per Share (€)	5.05	5.35	4.25	4.24	3.91	4.11	4.17
Portfolio Result Per Share (€)	-2.39	-0.38	-3.79	-0.22	-0.20	0.22	0.65
DPS (€)	3.90	4.93	3.45	3.45	3.45	3.45	3.60
NAV Per Share (€)	61.68	57.37	54.18	54.35	55.63	56.28	56.86

Source: KBC Securities

*Historic valuation data are based on historic prices

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DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website <http://www.kbcsecurities.be/disclosures>.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

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	20.40%	0.00%
ACCUMULATE	30.10%	0.00%
HOLD	43.40%	0.00%
REDUCE	5.30%	0.00%
SELL	0.90%	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
29-JAN-14	Accumulate	€ 55.00
05-AUG-13	Hold	€ 54.00
19-APR-13	Hold	€ 51.00

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

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The company disclosures can be consulted on our website <http://www.kbcsecurities.com/disclosures>.

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