

# Banimmo

Maintained

Buy

## Lack of capital gains but strong underlying business

10/09/08

Maintained

Reuters: BANI.BR

Price: €19.75

12-mth target: €28.00

- 1H08 results are deeply depressed by a lack of property disposals. Still, we believe capital gains are at worst delayed till 2009. This is partially offset by strong recurrent earnings that are expected to grow further in 2H08 thanks a/o to higher rents.
- Attractive investment case remains intact: it combines a high profitability and low risks vs 'pure' property development.

**1H08 results plagued by a lack of capital gains...** Recurrent revenues showed healthy growth helped by strong rents but no property disposals were completed beyond the sale of Devimo (property management company, the deal was already leaked to the press but the eventual gains of €3.4m were well below expectations). Hence, net current EPS (before depreciation on conference centres) stand at a mere €0.41 (-63.5%, €0.80 expected).

**... and mixed 2H prospects...** Given its business mix, Banimmo results rely heavily on capital gains. In addition to residual gains from previous operations (€3.0m), the company is poised to complete two property sales in 2H and believes 'serious talks' are ongoing concerning one of them (Atlantic House, already earmarked for sale in 2007); cautiously, we have assumed that only AH is sold resulting in total FY08F capital gains at €13.4m (-41.9% YoY, previous forecast at €18.1m). Lower capital gains are partially offset by higher recurrent income (+62.7%) on the back of (1) strong rents (improving occupancy of existing portfolio, now at 88%, new acquisitions such as North Plaza and Unilever are fully contributing to 2H rents; Banimmo believes full-year rents will beat its €14m target and (2) higher income from associated companies despite the Devimo sale (Jardins des Quais and The Loop are expected to revert 1H losses, the full contribution of Montea in 2H, strong conference centres business). After repeatedly raising the issue with Banimmo we understand that planned disposals will be necessary to post an EBIT close to 2007 levels but that management is not committed to complete them before year-end in order not to hurt the eventual sale price.

**... but fundamental attractions remains intact.** Our lower earnings forecasts for 2008F, mainly the result of lower expected capital gains, include strong recurrent revenues which now easily cover operating and financial costs and stand for 60% of total revenues. Risks are further reduced by a secured financing (hedged debt, long-term borrowings). Medium-term capital gains' potential remains intact helped by portfolio growth (+62% in 2008) and the dynamics of property repositioning, a very profitable business without the risks of 'pure' property development. Banimmo attractions are eclipsed by its complexity: several activities, management's preferred shares, heterogeneous valuation of assets and hence, difficulty to compute a proper NAV. Valuation seems appealing with a DCF and SOTP-based TP at €28 and a high dividend yield, all the more attractive given the low payout vs REIT-like companies.

12-month forecast returns (%)	
Share price	41.8
Dividend	6.6
<b>12m f'cst total return</b>	<b>48.4</b>

Forecasts and ratios		
Yr to Dec (€m)	2007	2008F
Turnover	10.9	16.7
EBITDA	27.1	29.6
Net profit	19.6	19.1
Adj EPS (€)	1.78	1.66
Adj PER (x)	11.1	11.9
Dividend yield (%)	6.4	6.6
EV/EBITDA (x)	8.5	11.9
Price/NAV (x)	1.4	1.4
ROE (%)	14.9	13.1

Share data	
No. of shares (m)	11.4
Daily turnover (shares)	10.0
Free float (%)	22.6
Enterprise value (€m)	353.1
Market cap (€m)	224.3



Source: ING

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SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Fig 1 1H results' review and updated forecasts (€ K)

	1H07A	2007A	1H08A	YoY (%)	2008F	2009F	2010F
Net lease revenues	5,196	10,937	6,376	22.7	16,657	19,077	22,277
<i>Spot occupancy</i>		87.0%	88.0%		85.0%	87.0%	87.0%
<i>Yield</i>		5.8%	4.9%		5.1%	5.1%	5.8%
<i>Yield is 100% occupied</i>		6.7%	5.6%		6.0%	5.9%	6.7%
Group share in other revenues EXCL. DEPRECIATION	183	169	1,444	NM	5,024	5,633	5,986
Other revenues (JV)	596	2,729	347	-41.8	833	1,864	890
<b>Recurrent revenues</b>	<b>5,975</b>	<b>13,835</b>	<b>8,167</b>	<b>36.7</b>	<b>22,513</b>	<b>26,575</b>	<b>29,153</b>
Operating costs	-3,727	-8,176	-3,913	5.0	-8,092	-8,444	-8,651
Other revenues		0					
<b>REBIT</b>	<b>2,248</b>	<b>5,659</b>	<b>4,254</b>	<b>89.2</b>	<b>14,422</b>	<b>18,131</b>	<b>20,501</b>
Net capital gains on disposals	12,891	23,117	3,424	-73.4	13,424	18,000	18,000
<i>Margin on asset disposals</i>		47.4%			50.5%	24.0%	12.8%
<b>EBIT</b>	<b>15,139</b>	<b>28,776</b>	<b>7,678</b>	<b>-49.3</b>	<b>27,846</b>	<b>36,131</b>	<b>38,501</b>
Net financial charges	-3,842	-5,431	-2,596	-32.4	-5,608	-10,414	-11,346
Taxes	97	-404	-379	NM	-1,001	-1,157	-1,222
<b>Net economic results</b>	<b>11,394</b>	<b>22,941</b>	<b>4,703</b>	<b>-58.7</b>	<b>21,237</b>	<b>24,559</b>	<b>25,933</b>
Recurrent revenues/operating costs	160%	169%	209%		278%	315%	337%
Recurrent revenues/operating costs+net financial charges	79%	102%	125%		164%	141%	146%
Recurrent revenues/total revenues	31.7%	37.4%	70.5%		62.6%	59.6%	61.8%
(€ K)	<b>1H07</b>	<b>2007A</b>	<b>1H08A</b>		<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Net economic results	11,394	22,941	4,703	-58.7	21,237	24,559	25,933
Unrealized capital gains, IAS 39, net depr.	3,671	-208	-2,504	-168.2	306	292	110
<b>Net reported results</b>	<b>15,065</b>	<b>22,733</b>	<b>2,199</b>	<b>-85.4</b>	<b>21,543</b>	<b>24,851</b>	<b>26,043</b>
Preferred dividend	1,584	3,167	0		2,428	3,160	3,470
Net econ. results (share of the group)	9,810	19,774	4,703		18,809	21,399	22,464
Net rep. results (share of the group)	13,481	19,566	2,199		19,115	21,691	22,573
Net current EPS (€, excl. IAS 39)	1.13	1.74	0.41	-63.5	1.66	1.88	1.98
Net reported EPS (€)	1.56	1.72	0.19		1.68	1.91	1.99
Gross DPS (€)		1.26			1.31	1.36	1.41
Ordinary payout (economic results)		72.4%			79.1%	72.2%	71.3%
Ordinary payout (reported results)		73.1%			77.8%	71.2%	70.9%

Net economic results are computed BEFORE deducting conference centres' depreciation (see report dated 25 Aug).

Source: Company data, ING estimates

Fig 2 Sum-of-the-parts valuation (€m)

	2008F	2009F	2010F	2011F	2012F	2013F	Terminal year
Capital gains	13.4	18.0	18.0	18.0	18.0	18.0	18.0
Discount factor	0.98	0.91	0.85	0.79	0.74	0.69	0.69
PV capital gains	13.1	16.4	15.3	14.3	13.3	12.5	
Cum. Value of PV capital gains	85.0						
Terminal value							221.5
PV terminal value	153.3						
<b>Total value redevelopment</b>	<b>238.3</b>						
9.0x EV/EBITDA 09F							
EBITDA 09F	9.7						
<b>Value conference centers (49%)</b>	<b>42.6</b>						
<b>Fair value fixed assets 08F</b>	<b>320.0</b>						
Market value							
<b>Investment in Montea</b>	<b>25.9</b>						
Fee business	0.8	1.9	0.9	0.9	0.9	0.9	1.0
Discount factor	0.98	0.91	0.85	0.79	0.74	0.69	0.69
PV capital gains	0.8	1.7	0.8	0.7	0.7	0.7	
Cum. Value of PV capital gains	5.3						
Terminal value							11.9
PV terminal value	8.2						
<b>Total value fee business</b>	<b>13.6</b>						
Corporate costs	-8.1	-8.4	-8.7	-8.9	-9.1	-9.4	-9.7
Discount factor	0.98	0.91	0.85	0.79	0.74	0.69	0.69
PV corporate costs	-7.9	-7.7	-7.4	-7.0	-6.8	-6.5	
Cum. Value of PV corporate costs	-43.3						
Terminal value							-119.4
PV terminal value	-82.7						
<b>Total corporate costs</b>	<b>-126.0</b>						
<b>Other assets excl. cash</b>	<b>23.0</b>						
<b>Net debt</b>	<b>-193.8</b>						
<b>PV pref. dividend</b>	<b>-23.9</b>						
<b>= Theoretical market capitalisation</b>	<b>319.7</b>						
<b>Fair value per share (€)</b>	<b>28.15</b>						

Source: ING estimates

Fig 3 Discounted cash flow model (€m)

	2008F	2009F	2010F	2011F
<b>Operating cash flow*</b>	<b>-101.4</b>	<b>-3.9</b>	<b>36.2</b>	<b>34.1</b>
Discount factor	0.98	0.91	0.85	0.79
Present value of free cash flow	-99.1	-3.5	30.8	27.1
Cumulative present value of free cash flow	-44.7			
+ Present value of terminal value	521.2			
+ Other financial assets (e)	42.3			
= Enterprise value	518.8			
- Net Financial Debt (group share)	-193.8			
= Theoretical market capitalisation	325.0			
- Present value pref. dividend	-23.9			
Fair value per share (€)	26.52			
12M Price target (€)	28.41			

Source: ING estimates

## Company profile

### History

Banimmo's was initially the property arm of the former Antwerp-based bank An-Hyp (now part of the AXA). It gradually developed an expertise in distressed property with its management building up an equity stake that now stands at 27%. The French listed SIIC Affine owns 50% (acquired a majority stake in 2006).

Banimmo focuses on 'exploiting the structural, technical and economical obsolescence of buildings' and the 'repositioning of undervalued assets'. Given the holding period and intermediary risks (no pure development, some recurring revenues secured), Banimmo is somewhere between a property developer and long-term property investor, not unlike a REIT. Acquisitions are either 100% funded by Banimmo or shared with financial partners if assets are (too) large, as is the case for conference centres. In addition to diversifying risk, JVs are expected to become a second source of recurrent income as Banimmo manages the JV (asset management and redevelopment fees). Banimmo is active in Belgium and France in various asset classes (offices, retail, conference centres). The main area of activity consists of offices with a focus on decentralised locations in Brussels and Paris. Retail assets are subject to an 'active search' across large- and medium-sized cities in France and Belgium.

2007 saw the acquisition of a conference centre in Chantilly (Paris area) and the opening of Dolce La Hulpe (Brussels Periphery), a former training centre acquired in 2005 and heavily upgraded before its opening. Chantilly has been operational for six years. Both conference centres are managed by Dolce International, a US conference centre operator offering a complete 'all-in' solution for companies wanting to organise conferences/seminars.

### Strategy

Banimmo is committed to growing its portfolio with annual acquisitions roughly twice that of disposals. Other areas of expansion include a third conference centre and new JVs. It also has several targets aimed at reducing the volatility of its earnings such as a 50/50 split between capital gains and recurrent revenues and a full coverage of its operating expenses and financial charges by recurrent revenues.

### Risk factors

Lack of investment opportunities and growing rivalry from "buy and hold" investors such as Belgian REITs; volatility of results still heavily reliant on capital gains; lack of liquidity of the share.

## Financials

Yr to Dec (€m)	2007	2008F	2009F	2010F
<b>Income statement</b>				
Turnover	10.9	16.7	19.1	22.3
EBITDA	27.1	29.6	37.9	40.3
Net financial charges	(5.0)	(5.6)	(10.4)	(11.3)
Operating exceptionals	(0.7)	2.1	2.1	1.9
Adj pre-tax profit	23.8	22.2	25.7	27.2
Corporate exceptionals				
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
Amortisation of goodwill	0.0	0.0	0.0	0.0
Pre-tax profit	23.1	24.3	27.8	29.1
Taxes	(0.4)	(1.0)	(1.2)	(1.2)
Extraordinary items (net)	0.0	(1.8)	(1.8)	(1.8)
Minorities	(3.2)	(2.4)	(3.2)	(3.5)
Preference dividend	0.0	0.0	0.0	0.0
Net profit	19.6	19.1	21.7	22.6
<b>Balance sheet</b>				
Investment Properties	183.3	320.0	364.1	371.9
Working capital	6.2	7.2	8.2	9.6
L/T non-interest-bearing liabilities	26.9	36.1	40.0	45.1
Enterprise net assets	(20.7)	(28.9)	(31.8)	(35.5)
Group equity	157.5	162.3	169.1	176.2
Net debt	47.4	193.8	229.9	228.8
Capital employed	204.9	356.0	399.0	405.0
<b>Cash flow</b>				
Operating cash flow	29.2	37.8	40.8	44.1
Cash taxes	(0.4)	(1.0)	(1.2)	(1.2)
Net financial charges (CF)	(5.0)	(5.6)	(10.4)	(11.3)
Gross cash flow	23.9	31.2	29.2	31.5
Capital expenditures (net of disposals)	(20.4)	(138.0)	(43.1)	(6.2)
Free cash flow	3.4	(106.8)	(13.8)	25.4
<b>Ratios (%)</b>				
EBITDA margin	247.8	177.9	198.9	181.0
Operating margin	263.1	167.2	189.4	172.8
Net debt/equity	30.1	119.4	136.0	129.8
ROACE	13.8	10.1	9.6	9.6
ROE	14.9	13.1	14.2	14.1
<b>Growth (%)</b>				
Turnover	(34.4)	52.3	14.5	16.8
EBITDA	(20.7)	9.3	28.0	6.3
Net profit	4.3	6.8	12.4	3.8
<b>Valuation</b>				
EV/EBITDA (x)	8.5	11.9	10.2	9.5
Adj EPS (€)	1.78	1.66	1.88	1.98
Adj PER (x)	11.1	11.9	10.5	10.0
Price/NAV (x)	1.4	1.4	1.3	1.3
NAV	157.5	162.3	169.1	176.2
DPS (€)	1.26	1.31	1.36	1.41
Dividend yield (%)	6.4	6.6	6.9	7.1

Source: Company data, ING estimates

# Disclosures Appendix

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**Buy:** Forecast 12-mth absolute total return greater than +15%

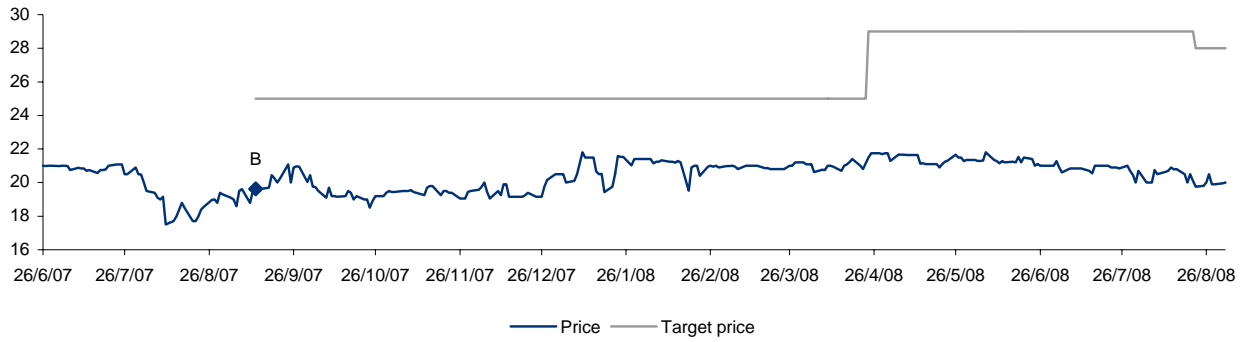
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Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

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PRICE & RATINGS HISTORY TO 02/09/08: BANIMMO (BANI.BR)



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Source: ING

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