

Initiating coverage

Belgium

Banimmo

Turns obsolescence into excellence

Real estate

12/09/07
€19.62

The 1H07 results were satisfactory with adjusted EPS more than doubling YoY to €1.32. At current levels, the share offers substantial upside potential, combined with a moderate risk profile. We initiate with a BUY rating.

Attractive and profitable business model Banimmo's primary business of property development, is both profitable (high margins and high entry barriers exist in Belgium) and without many of the risks associated with pure property development. The long 'rotation' period versus pure developers allows it to optimise the timing of asset disposals while earning some recurring income from existing tenants. Banimmo intends to cover its recurring cost base and financial expenses with flows of recurrent income.

Risk is further reduced by adequate diversification of the property portfolio and a growing weight of recurrent income; in addition to rents, Banimmo is poised to raise the weight of recurrent income from its conference centres business and the management of property joint ventures for third parties.

Attractive valuation Our DCF and SOTP valuation models derive a target price of €25. We initiate coverage with a **BUY** recommendation.

Forecasts and ratios

Yr to Dec (€m)	2006	2007F	2008F	2009F
Turnover	16.7	12.0	12.4	12.8
EBITDA	34.2	25.5	26.8	29.4
Net profit	18.8	21.8	21.8	23.2
Adj EPS (€)	2.59	1.53	1.84	1.96
Adj PER (x)	7.6	12.9	10.7	10.0
Dividend yield (%)	14.6	5.9	6.1	6.4
EV/EBITDA (x)	7.1	9.2	8.8	8.0
Price/NAV (x)	1.6	1.5	1.4	1.4
ROE (%)	19.1	16.9	14.1	14.4

Source: Company data, ING estimates

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Initiating Coverage

Buy

13 September 2007

Target price (12 mth)

€25

Reuters

BANI.BR

12-month forecast returns (%)

Share price	27.4
Dividend	5.9
12m f'cst total return	33.3

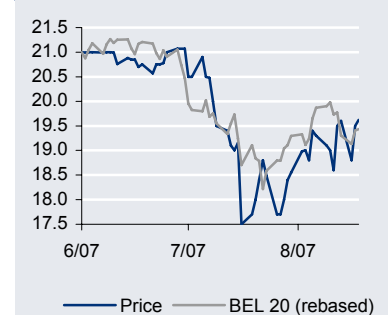
Key ratios (%)

	2006	2007F
Turnover growth	9.6	(28.0)
EBITDA margin	205.0	212.5
Operating margin	204.5	226.5
Net debt/equity	94.9	48.8
ROACE	12.5	13.2

Share data

No. of shares (m)	11.4
Daily turnover (shares)	45,421
Free float (%)	0.0
Enterprise value (€m)	234.5
Market cap (€m)	222.8

Share price performance



Source: ING

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Summary

In our view, Banimmo offers a **unique business concept, which is both highly profitable and without undue risks**. The company specialises in the acquisition, transformation and eventual disposal of 'inefficient property assets', ie, property poorly rented and managed and/or obsolete. All three stages of the process contribute to create value. This activity is very profitable given:

- The traditionally high development margins in Belgium.
- The entry barriers involved (technical, financial, legal and tax expertise).
- The lower competition among investors, especially from abroad, for 'complicated' assets.
- The upbeat investment market for suitable properties, ie, assets brought back to satisfactory technical levels and well rented. The acquisition stage implies the identification of suitable assets, a thorough due diligence and the acquisition as such at an attractive price. The transformation involves not only technical upgrades and refurbishment works, but also a financial and tax 'repackaging' of the asset in order to maximise the eventual exit price.
- The long 'rotation' period versus pure property developers. This allows Banimmo to optimise the timing of the eventual disposal of the asset, ie, maximise the price obtained as the company is not 'hard-pressed' to sell.

This 'soft' property development approach mitigates risks versus a 'pure' developer as it allows for some recurring income to be generated from remaining tenants. Banimmo intends to cover its recurring cost base and financial expenses with a recurrent flow of income which includes 'residual' rents from assets under refurbishment and rents from assets awaiting their eventual disposal.

Risk is further reduced by the adequate diversification of the property portfolio. None of the medium-sized 20+ assets accounts for more than 15% of the total portfolio value. The portfolio is well diversified among asset types (62% invested in offices, 16% in conference centres, 14% in retail assets etc); the focus on Belgium (67% of the portfolio value as of end 2006) should gradually fall as additional and larger assets are purchased in France.

We believe the perceived risk related to the relatively high indebtedness of the company and its financing at short-term rates is mitigated by an active hedging policy. Interest rate risk for 2007 is virtually 100% hedged.

Recurrent sources of income are expected to grow in the next few years. In addition to the abovementioned rents from the portfolio, Banimmo enjoys other sources of recurrent income:

- Ownership (now syndicated) of two residential conference centres managed by Dolce International. One in France was recently acquired 'up and running' (operational for several years) while the other in Belgium has just opened its doors. The latter is expected to attain its cruise speed in three years.

Summary (continued)

- Growing fee income from joint ventures. One of them is La Hulpe Services (LHS); Banimmo brought Dolce assets into LHS and then sold 51% of the latter to institutional investors. Banimmo retains a 49% stake and the management, for a fee, of the joint venture. Other joint ventures are related to large projects.
- We expect a gradual increase in dividends from the investment in the listed REIT-like Belgian SICAFI Montea. The latter was listed in 2006 and invests in logistics and semi-industrial property.

Attractive medium-term prospects. As a measure of caution, we believe our earnings scenario barely scratches the large growth potential of Banimmo:

- Additional conference centres to be brought into LHS. Negotiations are in progress for the purchase of a second conference centre in France.
- New joint ventures, such as the one with Pramerica, aimed at investing in retail assets.
- New growth opportunities enabled by the proceeds of the planned capital increase. A capital increase of €60m and a target gross indebtedness (LTV) at 60% would result in an additional investment potential of c.€150m.

Seasoned and committed management. Key managers have been active for many years in the property sector and can already boast an impressive track record at Banimmo. Management owns 27% of the company, down from 35% before the IPO; no shares were sold, but the stake was diluted as a result of the capital increase. Furthermore, management is partially paid a preferred dividend which is closely linked to the profitability of Banimmo.

Risk factors

Lack of investment opportunities. In the context of ever-falling property yields, the main risk factor in our view is, the still low but growing competition from large yield-hungry real-estate investors such as investment-starved Belgian SICAFIs.

Volatility of results still heavily relying on capital gains from asset disposals. In 2006 recurrent results did not 'cover' dividends and are barely expected to do so in 2007. However, this should improve as from FY08 given the expected strong growth of recurrent revenues.

Lack of liquidity of the share. The total market cap of the company stands at c.€220m, of which less than 25% is free float. On top of that, the preferred shares (9% of total shares' outstanding post capital increase) are not listed.

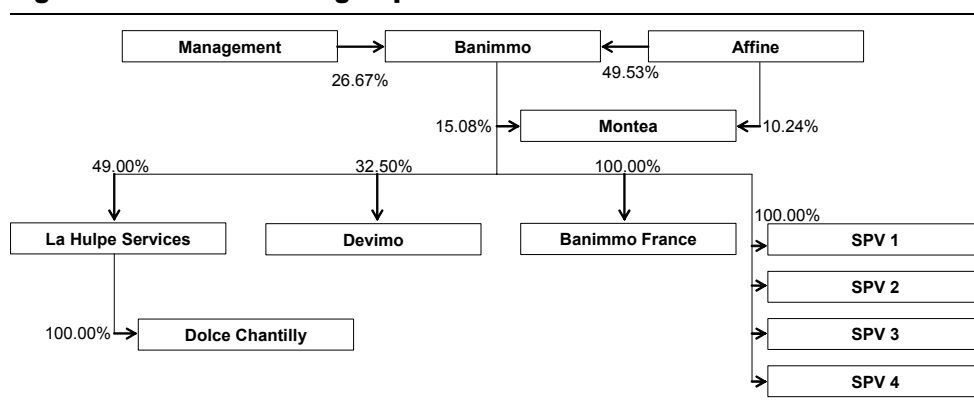
Company profile

Part of the French listed company Affine

The company has its origins in the former Antwerp-based bank An-Hyp (now renamed AXA Bank after its purchase by the AXA group); after its spin-off from the latter. Banimmo gradually developed an expertise in so-called distressed property. Its management gradually built up an equity stake which culminated at 35% before the recent IPO/capital increase. The rest (65%) was owned by the French listed SIIC Affine which acquired a majority stake in 2006. Banimmo has been listed since June 2007. The IPO was accompanied by a capital increase which diluted the participations of both, the management and Affine to the current levels. The 15% stake in Montea, a Belgian REIT-like SICAFI, is related to a contribution in kind of two logistics assets into Montea. The latter and Affine are also listed.

La Hulpe Services is owner of the conference centres in La Hulpe and Chantilly. Other participations include a 32.5% stake in Devimo (manager of shopping centres), the fully-owned Banimmo France and more than 25 SPVs used as investment vehicles for properties.

Fig 1 Banimmo – Affine group structure



Source: Company data

Banimmo activities can be divided into three main areas, ie, property repositioning (the historic and most important one), conference centres and 'other revenues'.

Property repositioning

Banimmo is a Belgian property company with a specific focus on 'exploiting the structural accelerated technical and economical obsolescence of buildings' and the 'repositioning of undervalued assets'.

- **Acquire:** identification of inefficient assets and working out a repositioning and exit strategy. Extensive due diligence, including fiscal and financial due diligence, already an entry barrier. The acquisition itself is already a challenge, as in order to create value a good price is part of the game. Many assets are scanned before any acquisition is carried out. During the bid process, Banimmo tries to obtain exclusivity.
- **Transform:** in order to sell to professional investors, a transformation of the asset is required. It involves a technical upgrading, a commercial repositioning leading to an improved quality of the building and the tenant base and, last but not least, a financial and fiscal repackaging of the ownership of the asset. Occupiers are, as much as possible, kept in the building in order to secure some recurring income.

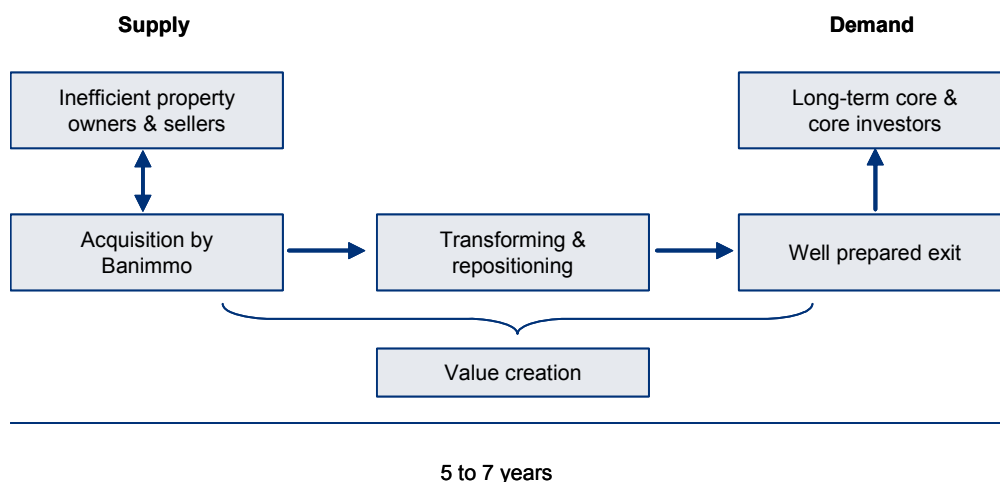
Hence, this phase generally lasts longer than a ‘classic’ development. This modus operandi was applied to the Brouckère Tower.

- **Sell:** the timing of the disposal relies on a portfolio approach, in order to avoid selling all assets at one time, but we also suspect a fair dose of opportunism. Banimmo can rely on good contacts with end-investors.

Somewhere between a property developer and a long-term property investor

Hence, given the holding period and intermediary risks (no pure development and some recurring revenues secured), the company is somewhere between a property developer such as Brussels-listed Atenor and a long-term property investor such as a SICAFI. It is a ‘property redeveloper’.

Fig 2 Investment process



Source: Company data

Acquisitions are either 100% funded by Banimmo, as has been the case until recently, or shared with financial partners if assets are (too) large. This is the case for the recent investment in the Dolce conference centres. In addition to diversifying risk, joint ventures are also expected to become a second source of recurrent income as Banimmo aims to manage them and earn asset management and redevelopment fees.

This results in strong total profitability (IRR on equity invested) since the company spin-off in 2000, combined with limited market risk. As an example of recent operations, the Brouckère Tower, a 32,700sq m office building located in the Brussels CBD, was acquired in 1998 in a tax-efficient way¹. The building was then 50% empty. The floors were gradually renovated and existing tenants were kept in the building. As a result, rental income of c.€1.5m pa (or 5.5% of the initial acquisition price) was secured. After the renovation of the remaining floors in 2005-07, full occupancy was attained by mid-2006 and disposal of the asset was completed at end-2006. The whole operation generated a post-tax and leverage IRR of 29% on total equity invested.

Banimmo is not a REIT-like SICAFI

Banimmo is not a REIT-like SICAFI and, as such, does not enjoy the fiscal advantages offered by the SICAFI status. Banimmo intends to invest substantially abroad and partially via joint ventures which would have not enjoyed SICAFI status anyway. In other words, SICAFI status is too restrictive and not suitable for a company whose business is precisely to trade assets. Hence, as a ‘plain’ company, Banimmo is fully liable to corporate tax (33.99% rate in Belgium). However, taxation remains moderate

¹ Actually Banimmo acquired a long-term lease expiring in 2066.

given depreciation, the so-called 'notional interests'² deductions, deductible interests on debt and the fact that most investments are owned via SPVs. Moreover, Banimmo real-estate investment assets, ie, those able to generate rents, are evaluated by external appraisers.

Conference centres

Alongside its original property repositioning business, Banimmo has, since 2007, also been active in the conference centres business with the acquisition of a conference centre in Chantilly, not far from Paris, and the grand opening at the end of January of the Dolce La Hulpe in the Brussels Periphery. The latter site, a former training centre of IBM, was acquired in 2005 and heavily upgraded before its opening. The Chantilly conference centre has been operational for six years.

Banimmo currently owns two conference centres, both managed by Dolce International, an American operator of conference centres founded in 1981 and offering a complete 'all-in' solution for companies wanting to organise conferences and seminars. The Dolce group manages c.20 'residential' conference centres (ie, with hotel facilities) spread over North America and, more recently, Europe. The latest additions include BallhausForum (Munich area) and La Hulpe. The concept implies out-of-town, beautifully landscaped locations (no external hotel and catering facilities are needed given the 'all-in' concept), but still close to main cities and airports.

Banimmo via its LHS unit retains the full business risk of the conference centres

Banimmo and Dolce have a long-term management agreement, the main features of which are: (1) the fact that the business risk of running the conference centre stays with Banimmo and not Dolce who is only a manager of the facilities; and (2) a mechanism exists providing strong incentives for management performance. Dolce is paid a 'base management fee' calculated as 3% of total assets. In addition to this base fee, the manager gets a cumulative 'incentive fee' which is paid to Dolce when financial targets (EBITDA), agreed with Dolce for the next six years, exceed different pre-established thresholds.

The length of the commitment with Dolce (15 years) might be a source of concern should the latter not perform optimally. We believe this risk is mitigated by the track record of Dolce and the built-in incentives. Should things still go wrong, Banimmo can terminate the agreement; termination penalties are variable and depend on the performances of Dolce.

Exposure to conference centres syndicated

Finally we would highlight that conference centres are very large assets with typical unitary values of €50m. Hence, in order to avoid too large an exposure to individual centres while still retaining management control, Banimmo sold 51% of LHS to third-party Belgian private investors. Banimmo retains the management of the joint venture and receives a fee for it.

We believe these arrangements are very positive and this activity should generate attractive profitability with a moderate risk:

- The day-to-day management, including the international reservation and IT system, is left to professionals with a long and proven track record in the sector.
- The manager is 'incentivised' by an adapted fee structure.

² Fictitious interest deductions on equity (interest expenses on debt are already tax-deductible). This results in a fall in the effective tax rate. The effect is stronger on companies with low indebtedness and low ROE.

- The business is less cyclical than hotels: most of the business is related to corporate clients, conference arrangements are typically booked well in advance (c.67.3% of Dolce budgeted rooms for 2006 were already pre-booked in 1Q06) and on average 60-70% of a mature Dolce conference centre is repeat business. The client base includes first-class corporates such as McKinsey, Total, GE, Philips, Deloitte & Touche etc. To further improve occupancy, rooms left over are offered at a discount to leisure customers (weekend, public holidays etc).
- High profitability from the 'all-in' and 'no surprise fees' concept liked by corporate clients and the flexible cost base. 20-30% of the staff at La Hulpe are temporary workers. Dolce reckons that an occupancy rate of 50% is enough to have a profitable conference centre. Average occupancies of 'mature' Dolce conference centres stand at 60-70%.
- Banimmo reckons that conference centres offer a higher yield, but this compensates, at least partially, their lower liquidity.

Talks are currently in progress for the acquisition of a second conference centre in France (Les Frégates).

Fig 3 Conference centres – key data

	Dolce Chantilly	Dolce La Hulpe Brussels
Distance from city	45 km (Paris)	15 km (Brussels)
Distance from airport	25 km (Roissy)	15 km
Rooms	200	264
Meeting rooms	32	25
Occupancy	67.6% (2006)	42.5% (2007 YTD)
Average daily rate (€)	136.56	119.54
RevPar (€)	92.38	50.88

Source: Company data, ING estimates

Other revenues

This residual category includes income from the management of joint ventures, including La Hulpe Services, a new venture with Pramerica and dividends from Montea.

Banimmo is currently active in Belgium, Luxembourg and France, and in three asset classes (offices, retail and conference centres). It operates through two business units (Brussels and Paris).

The main area of activity consists of offices with a focus on Brussels decentralised areas, as prices in the CBD are now very high. French activities are concentrated in the Ile de France area surrounding the capital and Bordeaux but, for the same reasons as in Brussels, with no strong focus for the Paris CBD area.

Retail assets are actively looked for across large- and medium-sized cities in France and Belgium. However, the share of retail in the company portfolio value remains small at 15%.

Portfolio value at €241m

The property portfolio of the company consists of 20+ assets including the holding in Montea³ and has a fair value of €283.5m⁴. Its analysis is much more difficult than for pure patrimonial companies as it includes investment/yielding assets valued at their

³ This financial investment in the listed SICAFI Montea is the result of a contribution in kind of two logistic assets into Montea before the IPO of the latter in 2006. Banimmo retains a 15% stake in Montea.

⁴ Based on latest appraisal as of end April 2007 + Orléans

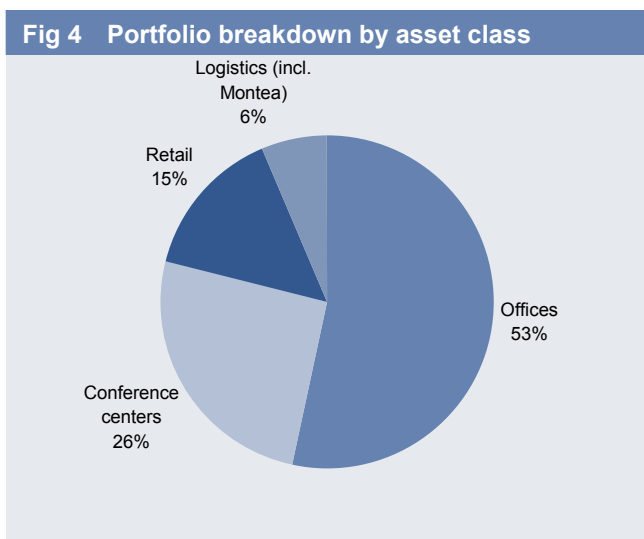
appraised value (fair value according to IAS 40⁵) from independent appraisers and development assets valued at cost (acquisition costs + CAPEX). The portfolio shows values as of end April 2007. The recently sold Brouckère building is not included in this *pro forma* portfolio.

Figures 4 and 5 illustrate the importance of investment assets, ie, assets generating at least partially some recurrent revenues, versus development assets (8%) even when bearing in mind that the latter are valued at cost.

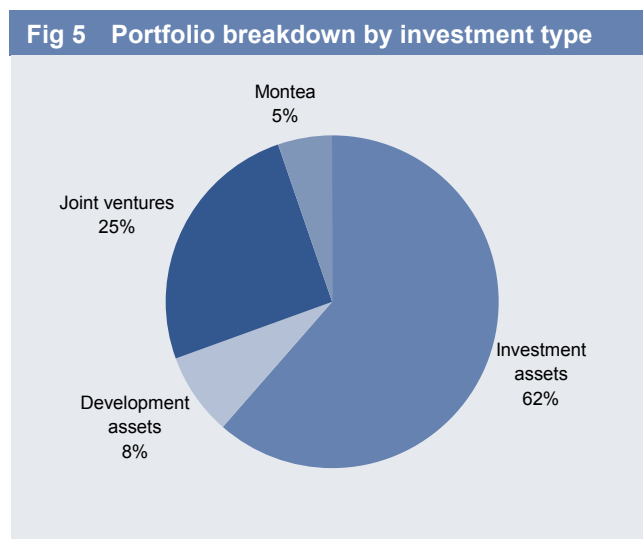
Dolce assets are valued at acquisition cost; in the case of Chantilly this amount is below the appraised value that emerged during the due diligence. The total fair value of La Hulpe (acquisition cost & capex) stands at c.€43m. Hence the value suggested by the chart below is very likely to be lower than the expected market value of the assets.

Joint ventures include specific transactions executed with third parties, mainly because Banimmo deemed the size of the project as too large to take on alone (usually above €20m). One example is LHS which should in the future include additional conference centres, another is a 50/50 joint aimed at acquiring a retail asset in the Bordeaux area. A new joint venture has also been set up with Pramerica⁶ to develop a portfolio of retail assets; Banimmo will retain a 33% stake in the joint venture and receive a commission for managing it.

The Montea stake is valued at market value, ie, the value of the Montea shares on the Brussels SE as of the end December 2006 (€34.7 per share). Since then the share price has remained roughly flat (latest price at €35 per share).



Source: Company data



Source: Company data

A breakdown of the portfolio per country shows the continued overweighting of Belgium (69.4% of total portfolio value) versus France (23.1%) and Luxembourg (7.5%). Banimmo reckons that the French portfolio is expected to grow faster versus Belgium and Luxembourg over the next three years.

⁵ Property appraisals in Belgium include registration taxes due on property sales (12.5% or 10% depending on location). However, given that most large transactions are structured in order to avoid these taxes (sale of SPV, sale of long-term leases...), the Belgian Asset Managers Association (BEAMA) recommends deducting 2.5% to the appraised value in order to obtain a fair value compliant with IAS 40. This applies to large assets (investment value above €2.5m). Most assets owned by Banimmo are above this €2.5m.

⁶ Real estate investment management business of the US-based financial group Prudential Financial Inc. As of end December 2006 Pramerica managed total assets worth US\$36.9m.

76% occupancy as of end-2006 even when development assets are included

From a more qualitative point of view, diversification is surprisingly good, as no single asset represents more than 15% of the portfolio. Occupancy rates also look satisfactory; standing at 76% as of end-2006 for the whole portfolio which includes the logically low occupancy rate of 54% for the development assets (it would be 0% at 'classic' property developers) and 78% in the investment portfolio. The latter figure looks average at best, but keep in mind that many locations are found outside the CBD, ie, in areas with structurally high vacancy ratios (21.1% and 13.4%, respectively, in the Brussels Periphery and the decentralised area versus a Brussels average of 9.9%⁷) and that investment assets are expected to leave the portfolio as they 'mature' (ie, refurbishment works are completed and they become fully let).

No occupancy rate figures were disclosed for 1H07, but occupancy rates are likely to improve significantly as a result of recently signed leases on 9,543 m² of offices and 5,856 m² of warehouses. The additional rents will be worth €1.0m in 2H07 and €1.8m on a yearly basis.

⁷ Source: Jones Lang LaSalle, City Profile Brussels 1Q07

Financial review & 1H07 results

The company disclosed historical IFRS financial data for 2004-06 prior to the IPO. 1H07 results were released last week, together with 1H06 figures. However, YoY comparisons are not very meaningful given the fundamental changes the company has undergone since 2006.

The balance sheet as of end-June 2007 includes most of the proceeds of the capital increase (total proceeds save a small portion related to the over-allotment option). Fixed assets include investment assets yielding rental income and development assets, both usually 100%-owned. As of end-June 2007, assets held under the equity method include all joint ventures such as the 50/50 venture in Bordeaux (Les Jardins des Quais shopping area, Affine is the partner) and LHS (still 100%-owned at year-end).

Fig 6 Balance sheet - main items (€m)

	2004	2005	2006	1H07	CY. Target (%)
Fixed non-current assets	220.6	223.6	194.2	185.9	
Assets held under the equity method	4.8	4.8	9.7	11.2	
Financial participation (Montea)	7.9	15.6	16.6	29.5	
Other non-current assets	3.3	0.6	1.4		
Total non-current assets	236.6	244.5	221.7	226.6	
Cash	2.5	1.2	1.5	1.3	
Other current assets	13.7	13.4	22.0	11.2	
Total assets	252.8	259.1	245.2	239.1	
Shareholders equity	93.5	90.9	105.4	149.3	
Minorities					
Non-current financial debt	135.2	149.3	85.0	20.1	
Current financial debt	2.9	2.1	16.4	47.6	
Other liabilities	21.1	16.7	38.4	22.1	
Total liabilities	252.8	259.1	245.2	239.1	
Net financial debt	135.6	150.2	100.0	66.5	
Indebtedness (LTV) (%)	63.0	64.9	57.0	37.6	60 to 70
Net debt/equity (%)	145.0	165.2	94.9	44.5	

Source: Company data, ING estimates

Gross financial debt as of end-June stood at €67.7m. Banimmo can tap a syndicated bank credit worth €215m maturing in 2011, which is supplemented by a special credit facility to finance investments in joint ventures. The abovementioned amount includes a €75m standby facility for a commercial paper programme. The main attraction of the latter is the lower cost versus a 'classic' syndicated loan (margin at c.30bp over three-months EURIBOR versus 80-120bp for bank borrowings).

Banimmo intends to maintain leverage (LTV) in a 60-70% range. This is close to the legal indebtedness ceiling applicable to registered SICAFIs (65%), but still higher than actual indebtedness at most SICAFIs (c.45%). Unlike typical development companies, Banimmo's management is committed to maintaining moderate levels of indebtedness. as intended by its managements remains moderate. Following the capital increase, indebtedness levels have logically fallen

Interest expenses fully hedged till 2009

As is the case for Belgian SICAFIs, Banimmo finances itself at short-term rates in order to profit from the yield curve slope. In order to avoid undue risk, most debt is hedged; €70m or c.70% of its financial debt is hedged with a one-year cap at 3.5%

expiring end December 2007. A further €100m running until the end of March 2008 has been capped at a newly set rate of 4.2%. An additional €40m cap runs during the same period, but with a knockout at 4.25%. Additional caps run from end-March 2008 until end-March 2009. In other words, while not as perfect as an IRS, interest rate risk is well covered on a rolling basis for the next ten months and even the next 22 months considering the high 5.2% knockout rate. For 2007, the financial debt is 100% hedged.

Fig 7 Debt hedging (€m)

Amount	Period	Type	Rate (%)	Knock out (%)
70.0	Until 31/12/07	Cap	3.50	
100.0	30/03/07 > 30/03/08	Cap	4.20	
40.0	30/03/07 > 30/03/08	Cap	3.10	4.25; 4.35, 4.45
105.0	30/03/08 > 30/03/09	Cap	3.65	5.20
15.8	Until 29/04/09	Cap	4.50	4.50
40.0	Until 31/03/10	Cap	4.20	4.20

Source: Company data

**1H07 rental income
down 39% YoY**

Net lease revenues are related to 100%-owned assets. Historical data show an unspectacular evolution, but one which is obviously related to the pace of acquisitions and disposals. This is also the case for 1H07; net rents are down 38.7% YoY to €5.2m as a result of two important disposals (Brouckère Tower and Blue Star, together they generated rents worth €3.3m in 1H06) and some reclassifications (a/o assets contributed to Montea now indirectly generating dividends). No half-yearly occupancy figures are available, but several new leases were signed during H107.

Fig 8 Dolce assets - key financials (€000)

	2004	2005	2006	1Q07	2Q07	1H07
Dolce Chantilly						
Revenues	13,984	15,003	15,633	3,778	4,627	8,405
EBITDA	3,384.0	3,864.0	4,061.0	627.0	1,383	2,010
EBITDA margin (%)	24.2	25.8	26.0	16.6	29.9	23.9
Occupancy rooms (%)	61.5	67.2	67.6	65.6	76.6	71.1
Average daily rate	136.0	131.6	136.6	127.5		134.2
RevPar (€)	83.66	88.44	92.31	83.63		95.44
Available rooms/year	73,000	73,000	73,000	73,000		73,000
RevPar * available rooms	6,107.1	6,455.8	6,739.0	6,105.2		6,966.9
As a % of revenues	43.7	43.0	43.1	40.4		41.4
As a % of EBITDA	180.5	167.1	165.9	243.4		173.3
Dolce La Hulpe (opening on Jan. 31, 2007)						
Revenues				2,095	4,068	6,163
EBITDA				128.0	837.0	965.0
EBITDA margin (%)				6.1	20.6	15.7
Occupancy rooms (%)				42.5	50.1	46.3
Average daily rate				119.5		141.2
RevPar (€)				50.80		65.39
Available rooms/year				96,360		96,360
RevPar * available rooms				4,895.5		6301.4
As a % of revenues				38.9		102.2
As a % of EBITDA				637.4		653.0
Total EBITDA						2,975.0

Source: Company data, ING estimates

**Group share in other
revenues is very
disappointing at a first
glance...**

Group share in other revenues more than doubled at €0.2m. It consists of Banimmco's share of the revenues from joint ventures, including Devimmco (€0.3m), JM Consulting (€0.1m) Jardins des Quais (Bordeaux, €0.2m loss) and, since March (four months), LHS. The contribution of the latter stands as a disappointing €11,000 loss, whereas one might have expected a contribution at c.€1.0m (we expect €2.5m for the full year).

Operating performances of the conference centres are actually satisfactory with EBITDA in 1H07 reaching €2.0m in Chantilly and €1.0 at La Hulpe (100% base). Even when considering how quiet the summer months were, our full-year expectations look quite conservative at €3.6m and €1.5m(100% base), respectively.

... as the contribution of conference centres is depressed by depreciation charges

So what went wrong? As the conference centres are now up and running (at cruise speed at Chantilly and gradually gaining momentum at La Hulpe) Banimmo logically considered they should be included in 'investment assets' and therefore valued at fair value (IAS 40). However, company auditors consider that conference centres are not specifically property, but an 'asset producing goods and services' (eg, a manufacturing plant) falling outside of the scope of IAS40. As a result, Banimmo is required to book substantial depreciation charges which are expected to reach €4m per annum (100% basis).

It is important to bear in mind that: (1) this is an unpleasant surprise for the company; but (2) the issue is more about bookkeeping as the underlying profitability of the business remains unchanged. Actually, accounting profits are 'converted' into 'postponed capital gains'. Cash flow obviously remains unaffected.

Recurrent revenue down 30%

Other revenues are actually the fees that Banimmo charges to the joint ventures it manages on behalf of all shareholders. As expected, the amounts involved here grew exponentially to €0.6m (€24,000 during 1H06) as recurrent management fees are now paid by several joint ventures including LHS (€0.2m during 1H07). Higher 'other revenues' and group share in other revenues cannot, however, fully compensate for falling rents; and as a result, recurrent revenues are down 30.3%.

Operating expenses affected by several one-off items

Operating costs are very volatile as they include, on top of recurrent running costs, costs related to acquisitions (due diligence, appraisals, preliminary study etc) if the latter are not eventually completed. If the acquisition is finally executed, these acquisition costs are capitalised as investments. Hence, these costs vary not only according to the amount of acquisitions considered, but also depend on the 'rate of success' of the potential deal screened. 1H07 figures include several one-off expenses such as expenses related to the opening of La Hulpe (€0.5m⁸) and other costs related to the recent IPO. Overall, we estimate non-recurring costs at c.€1.0m during 1H07.

Net (cash) capital gains on disposals are also intrinsically volatile given their nature. However, as already mentioned, the company aims to avoid too much volatility. This has not been the case in the past because of historical reasons; for example, during 2005 several disposals were put on hold awaiting the sale of the company to Affine.

Net financial charges are not really impacted by the recent capital increase (completed in June). 1H07 figures include one-off expenses worth €1.0m and are related to the purchase of hedging instruments. We have excluded from these figures non-cash adjustments related to the unrealised gains and losses on hedging instruments (IAS 39); the latter are included in unrealised gains.

Realised capital gains on asset disposals depend on the actual size of the latter, but also on the margin obtained (ie, net capital gains divided by the cost base, the latter being acquisition cost and capex). The company reckons that margins obtained in 2004 and 2005 were rather extraordinary and related to one-off very lucrative operations. The margin for 2006 stood at a more reasonable 24% net. 1H07 witnessed substantial capital gains worth €12.9m, mainly on the remaining 40% of the Brouckère Tower (€9.5m) and the sale of 51% of LHS (€2.7m).

⁸ Actually €0.m costs but partially compensated by operating results from Chantilly during 1.5 months.

Fig 9 P&L – main items (€000)

	2004	2005	2006	1H06	1H07	CY target (%)
Net lease revenues	14,741	15,220	16,675	8,469	5,196	
Spot occupancy (%)			76.0			
Yield (%)	6.5	6.6	8.4			
Yield is 100% occupied (%)			11.0			
Group share in other revenues	344	764	1,325	82	183	
Other revenues (JV)	18	17	334	24	596	
Recurrent revenues	15,103	16,001	18,334	8,575	5,975	
Operating costs	(6,120)	(7,244)	(8,118)	(3,453)	(3,727)	
Other revenues			540	540		
REBIT	8,983	8,757	10,756	5,662	2,248	
Net capital gains on disposals	18,189	4,049	23,348	3,328	12,891	
Margin on asset disposals (%)	58.0	51.0	24.0		26.6	>25*
EBIT	27,172	12,806	34,104	8,990	15,139	
Net financial charges	(6,240)	(5,507)	(5,522)	(3,395)	(3,842)	
Taxes	(7,170)	(2,089)	(2,195)	(998)	97	
Net economic results	13,762	5,210	26,387	4,597	11,394	
Recurrent revenues/operating costs (%)	247	221	226	248	160	
Recurrent revenues/operating costs+net fin. Charges (%)	122	125	134	125	79	>100
Recurrent revenues/total revenues (%)	45.4	79.8	43.4	68.9	31.7	>50

*: 15% IRR target related to total return over the total ownership period

Source: Company data, ING estimates

Our adjusted figures include realised capital gains net of taxes

In the case of a SICAFI, realised capital gains from asset disposals are reverted to 'portfolio results', ie, excluded from our adjusted figures; portfolio results also include unrealised gains, ie, revaluations of assets kept in the portfolio. However, in the case of Banimmo, we have decided to follow the company presentation, ie, include these realised capital gains in adjusted figures as 'asset rotation' which is an important part of the business of the company.

Unrealised gains remain excluded from our adjusted net economic results. Economic results more than doubled to €11.4m.

Company financial targets aimed at reducing results' volatility were not met during 1H07

Figure 9 includes some company financial targets aimed at

- Covering more or less recurring costs with recurring income and
- Keeping recurrent income at least at par with income from asset disposals.

In other words, complying with these ratios should limit the volatility of net economic results and ensure that, on a strict recurring basis, results do not fall below zero. One can see that economic results are up strongly, but mainly on the back of sizeable capital gains and despite falling recurrent revenues. In other words, operating expenses and net financial charges are not covered by recurrent income (the recurring income/expenses ratio is 79%). However, we are not that worried; excluding the abovementioned non-recurrent costs would bring the ratio close to 110%.

Strong unrealised gains in 1H07

Figure 10 finalises the P&L and profit appropriation. Unrealised gains, excluded from the adjusted figures, are added to the latter in order to obtain reported results. One can see that, unlike the usual gains at SICAFIs against a general backdrop of property yield compression in the property investment market across Europe, unrealised gains are often actually losses. We believe this is mainly the result of Banimmo's business, that is to say, it sells 'mature', ie, fully valued assets, with the booking of the related **realised** capital gains, while retaining suboptimal (leases etc) assets in the portfolio.

These general principles may of course be upset by opportunities arising in the market such as buyers willing to acquire assets at high prices.

Fig 10 P&L & data per share - main items (€000) (€ K)

	2004	2005	2006	1H06	1H07	Cy. Target (%)
Net economic results	13,762	5,210	26,387	4,597	11,394	
Unrealised capital gains	(189)	(463)	(3,630)	1,137	3,671	
Results from discontinued operations	932					
Net reported results	14,505	4,747	22,757	5,734	15,065	
Preferred dividend	1,329	0	3,998			
Net econ. results (share of the group)	12,433	5,210	22,389	4,597	11,394	
Net rep. results (share of the group)	13,176	4,747	18,759	5,734	15,065	
Total shares outstanding	8,653,100	8,653,100	8,653,100	8,653,100	8,653,100	
Net current EPS (€)	1.44	0.60	2.59	0.53	1.32	
Net reported EPS (€)	1.52	0.55	2.17	0.66	1.74	
Gross DPS (€)	1.00	1.39	2.86			
Ordinary payout (economic results (%))	69.6	230.9	110.5			60.0
Ordinary payout (reported results (%))	65.7	253.4	131.9			

Source: Company data, ING estimates

For 1H07 net unrealised gains on property are actually positive at €2.2m (€0.3m in 1H06), mainly on the back of assets now leased (a/o Gérardchamps, and Capellen in Luxembourg). These figures are computed **after** latent taxes on capital gains. As a reminder, unrealised gains on property held via SPVs are directly booked in net terms in the P&L, whereas property owned directly results in the booking of a tax provision which we deduct. The 'unrealised gains' caption also includes the abovementioned IAS 39 adjustments (€1.4m gain in 1H07).

Net current EPS more than doubled to €1.32 per share

Note that historical EPS as computed above refers to ordinary 'A' shares and are lower than company indications, as the latter still includes the preferred dividend. Ordinary shareholders are not entitled to the latter, hence we have deducted it from the economic results in order to compute ordinary EPS. For 1H07 we have left the shares outstanding unchanged at its pre-capital increase level (8,653,100 shares). Actually new shares are fully entitled to 2007 earnings and hence also to 1H07 results, but we nevertheless kept the old shares outstanding for comparative purposes and given that the proceeds of the capital increase were only collected at the end of June. Net current EPS more than doubled to €1.32.

Management holds preferred shares entitled to a preferred dividend on top of the ordinary one

Finally, in order to obtain net results attributable to ordinary shares, one has to deduct from the figures above the preferred dividend entitled to 'B' preferred shares (ordinary shares are called 'A' shares). We have considered the preferred dividend as minority interests in our model, ie, the portion of the company's results to which ordinary shareholders are not entitled, ie, it is an incentive fee when viewed from an economic perspective. No provision for the preferred dividend was made for half-yearly figures.

One can see that the very high volatility of results (both economic and reported) is matched by the very high volatility of the payout ratio. We have computed the payout versus results 'share of the group', ie, **after** deducting the preferred dividend. The company suggests a payout ratio of 60% for FY07 but based on EPS **before** deducting the preferred dividend. Hence a payout target comparable with our figures should be higher than 60%. The company intends to let the dividend grow at a regular pace, ie, the payout ratio is expected to fluctuate in line with results.

Outlook

Our earnings scenario takes into account the final results of the recent capital increase. As a reminder, the 2,703,444 new shares are fully entitled to FY07 results. Hence, and in order to obtain an unbiased payout figure, we have used this number when computing data per share.

General assumptions on 'property redevelopment'

Given the lack of information per asset we have considered assumptions on an aggregate basis. Our main assumption is a 'rotation length' of the portfolio of six years, ie, on average assets stay in the portfolio for six years. We have assumed additional capital expenditures at 50% of acquisition costs, spread over four years following the acquisition, and a margin on disposals of 25% for 2007 and 24% beyond. We have also assumed that on top of the cost base recouped, 40% of the net margin is reinvested (new acquisitions and capex on existing ones) as from 2008. For 2007 we have assumed acquisitions worth €70m (€82m before syndication of LHS and already realised, or committed as of end-April) and additional capital expenditures on existing assets worth €15.7m. This would bring total non-current assets to €235.2m as of end-2007.

Company guidance suggests net capital gains at €18-20m, which looks very high assuming a margin on disposals of 20%; this corresponds to disposals worth €90-100m (on a cost basis). Actually, taking into account capital gains already realised (€12.9m) and a third disposal currently under negotiation, this target should be easily reached. We have assumed a 25% margin on disposals worth €75m (cost basis).

Fig 11 Expected capital gains (€m)

	2007F	2008F	2009F	2010F	2011F	2012F
Disposals (cost base)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)
Realised cap gains	18.8	15.0	15.0	15.0	15.0	15.0
Margin on disposals (%)	25	20	20	20	20	20

Source: ING estimates

Dolce La Hulpe is the main growth driver for recurrent income

As far as rental income is concerned, we have assumed a conservative 8% on new investments and total occupancy stabilised at 80% (76% as of end 2006). Other recurrent revenues are the addition of revenues from joint ventures and fees for managing the joint venture themselves. Rents are expected to rise at a moderate pace as both occupancy and the portfolio size stabilise.

A gradually greater weight of recurrent income...

The main key growth driver here is the Dolce La Hulpe profitability gaining momentum. This asset was opened recently (end-January) and the company reckons it needs at least three years to attain profitability levels of mature assets. Our main assumptions on the Dolce assets are detailed in Figure 12. Historical 2004-06 figures are before a 4% provision for replacement & repairs of furniture, fixtures & equipment (FFE), whereas forecasts are computed after the deduction of the FF&E provision. Recall that both Dolce Chantilly and Dolce la Hulpe are owned via the 49%-owned unit LHS. Our estimates suggest a gradually greater weight of recurrent income rising from a low of 43% in 2006, to 46% in 2007 and above the company's target of 50% as from 2009.

As previously stated, 1H07 data suggest conference centres perform very well at the EBITDA level. Figure 13 includes our main assumptions, which remain well below levels already reached in 1H07.

Fig 12 Dolce assets - key financials (€000)

	2006	1Q07	2Q07	1H07	2007	2008	2009
Dolce Chantilly							
Revenues	15,633	3,778	4,627	8,405	15,868	16,169	16,476
EBITDA	4,061.0	627.0	1,383	2,010	3,808.2	3,880.6	4,119.1
<i>EBITDA margin (%)</i>	26.0	16.6	29.9	23.9	24.0	24.0	25.0
<i>Occupancy rooms (%)</i>	67.6	65.6	76.6	71.1	70.0	70.0	70.0
Average daily rate (€)	136.6	127.5		134.2	130.0	132.5	135.0
RevPar (€)	92.31	83.63		95.44	91.00	92.73	94.49
Available rooms/year	73,000	73,000		73,000	73,000	73,000	73,000
RevPar * available rooms	6,739.0	6,105.2		6,966.9	6,643.0	6,769.2	6,897.8
As a % of revenues	43.1	40.4		41.4	41.9	41.9	41.9
As a % of EBITDA	165.9	243.4		173.3	174.4	174.4	167.5
Dolce La Hulpe (opened Jan 31 2007)							
Revenues		2,095	4,068	6,163	12,570	15,713	19,641
EBITDA		128.0	837.0	965.0	1,508.4	3,928.1	4,910.2
<i>EBITDA margin (%)</i>		6.1	20.6	15.7	12.0	25.0	25.0
<i>Occupancy rooms (%)</i>		42.5	50.1	46.3	45.0	55.0	65.0
Average daily rate (€)		119.5		141.2	120.0	125.0	130.0
RevPar (€)		50.80		65.39	54.00	68.75	84.50
Available rooms/year		96,360		96,360	96,360	96,360	96,360
RevPar available rooms		4,895.5		6301.4	5203.4	6,624.8	8,142.4
As a % of revenues		38.9		102.2	41.4	42.2	41.5
As a % of EBITDA		637.4		653.0	345.0	168.6	165.8
Total EBITDA				2,975.0	5,316.6	7,808.7	9,029.2

Source: Company data, ING estimates

However, the contribution to group results is depressed by depreciation charges as detailed above. We have assumed depreciation charges of €2.0m per year (share of the group).

Fig 13 P&L prospects - main items (€000)

	2006	1H07	CY target	2007F	2008F	2009F
Net lease revenues	16,675	5,196		12,012	12,396	12,780
<i>Spot occupancy (%)</i>	76.0			80.0	80.0	80.0
<i>Yield (%)</i>	8.4			8.9	8.8	8.7
<i>Yield is 100 occupied</i>	11.0			11.2	11.0	10.9
Group share in other revenues	1,325	183		1,955	3,819	6,316
Other revenues (JV)	334	596		1,664	1,695	1,728
Recurrent revenues	18,334	5,975		15,631	17,910	20,823
Operating costs	(8,118)	(3,727)		(7,174)	(7,453)	(7,732)
Other revenues		540				
REBIT	10,756	2,248		8,457	10,458	13,091
Net capital gains on disposals	23,348	12,891		18,750	18,000	18,000
<i>Margin on asset disposals (%)</i>	24.0		>25*	25.0	24.0	24.0
EBIT	34,104	15,139		27,207	28,458	31,091
Net financial charges	(5,522)	(3,842)		(3,691)	(3,029)	(3,065)
Taxes	(2,195)	97		(2,352)	(2,543)	(2,803)
Net economic results	26,387	11,394		21,165	22,886	25,224
Recurrent revenues/operating costs (%)	226	160		218	240	269
Recurrent revenues/operating costs+net financial charges (%)	134	79	>100	144	171	193
Recurrent revenues/total revenues (%)	43.4	31.7	>50	45.5	49.9	53.6

*:company guidance

Source: Company data, ING estimates

... supporting strong growth of net economic results as from 2009

We have left operating costs moving in line with revenues. Net financial expenses are expected to remain reined in as financial debt is expected to remain flat, given the comprehensive hedging and the gradual rise of dividends from the Montea holding

(€0.85 interim dividend per Montea share already paid in 2007, €1.52 FY06/07 final dividend expected to be paid in 2008, €2.00 in 2009). The consolidated tax rate has been set close to 10%. The marginal tax rate on asset disposals stands at 33.99% in Belgium but the actual tax burden is much lower as most investments are held via SPVs whose surplus value upon disposal is untaxed. Furthermore, the abovementioned margins on disposals are after tax. As a result we expect net economic results to rise substantially in 2007-09, helped by the full impact of rising recurrent income. Our assumptions also show that as from 2007 recurrent costs and financial charges are well covered by recurrent income. Obviously these estimates are only an approximation given the timing uncertainties related to asset disposals.

Preferred dividend: a strong incentive for management to maximise company profitability

We have not made any assumptions on unrealised gains save for a moderate yield compression. In order to assess the share of the group results we still need to address the issue of the preferred dividend. As already mentioned, management holds 'B' shares which, on top of the ordinary dividend, are entitled to a preferred dividend. The system can be seen as an incentive for management to optimise the profitability of the company. We have considered these preferred dividends as minority interests in our figures. The preferred dividend is calculated as a function of ROE, the latter being defined as net economic results divided by the 'available equity' at the end of the previous period⁹. Different levels of ROE are defined and a percentage of economic results **in excess** of each threshold is to be paid as preferred dividend¹⁰. The total preferred dividend is capped at €4m and the system will last until FY2016.

Fig 14 Preferred dividend estimates (€000)

	(%)	2006	2007F	2008F	2009F	2010F	2011F	2012F
ROE for pref dividend (%)		25.0	20.2	15.5	16.5	13.9	13.6	13.3
Tranche A	25	526.8	542.4	701.7	805.5	840.2	883.7	928.8
Tranche B	30	632.1	650.9	842.1	966.6	1,008.3	1,060.5	1,114.6
Tranche C	35	737.5	759.4	982.4	1,127.7	1,176.3	1,237.2	1,300.3
Tranche D	40	3,812.4	1,828.0	(306.3)	309.1	(1,414.0)	(1,699.7)	(1,987.0)
Total, capped at €4m		4,000.0	3,780.8	2,220.0	3,208.8	1,610.9	1,481.7	1,356.7

Source: ING estimates

Our model suggests that the preferred dividend gradually falls in 2007-08, in line with ROE as the proceeds of the capital increase are gradually integrated in the denominator. Obviously this system reduces earnings available to ordinary shareholders, but it is also a strong incentive for management to maximise company profitability.

We adopt the company's dividend guidance (€1.15 per ordinary share post capital increase); the moderate initial payout should allow a healthy growth of the dividend in the future despite the volatility of the results. We have assumed a gradual convergence of the payout towards the company target (60% of economic results).

Adjusted EPS depressed by the dilutive effect of the capital increase

Figure 15 shows the full impact of the capital increase in terms of dilution in 2007 as new shares are fully entitled to this years earnings; net current EPS are down 41.0% at €1.53 as the number of shares entitled to earnings is up 31.2%

⁹ New capital from the capital increase will be reduced to 25% in 2007 and 75% in 2008 in other words, it will be only gradually added to the 'available equity' in order to take into account the time necessary to invest properly the proceeds of the capital increase.

¹⁰ Level A: ROE from 10% to 12%, level B, from 12% to 14%, level C, from 14% to 16%, level D, above 16%. The preferred dividend will be equal to 25% of level A, 30% of level B, 35% of level C and 40% of level D.

Fig 15 P&L prospects & data per share - main items (€000)

	2006	1H07 CY target	2007F	2008F	2009F	2007*
Net economic results	26,387	11,394	21,165	22,886	25,224	20,000
Unrealised capital gains	(3,630)	3,671	4,417	952	987	
Results from discontinued operations						
Net reported results	22,757	15,065	25,582	23,838	26,212	
Preferred dividend	3,998		3,842	2,028	2,997	
Net econ. results (share of the group)	22,389	11,394	17,322	20,857	22,228	
Net rep. results (share of the group)	18,759	15,065	21,740	21,810	23,215	
Total shares outstanding	8,653,100		11,356,544	11,356,544	11,356,544	
Net current EPS (€)	2.59		1.53	1.84	1.96	
Net reported EPS (€)	2.17		1.91	1.92	2.04	
Gross DPS (€)	2.86		1.15	1.20	1.25	1.15
Ordinary payout (economic results) (%)	110.5	60.0	75.4	65.3	63.9	
Ordinary payout (reported results) (%)	131.9		60.1	62.5	61.1	

*:company guidance

Source: Company data, ING estimates

Valuation

One popular valuation method used for property stocks is net asset value based on marked-to-markets assets. We believe this method is unsuitable for Banimmo as:

- An important part of the business generates future capital gains that are not included in a NAV calculation;
- Only a portion of the assets is actually appraised at fair value (IAS 40). Development assets are valued at cost and conference centres are valued at amortised cost.

Our DCF model suggests a fair value of €25 per share

Our discounted cash flow model suggests a fair value of €25.15 per share. The main assumptions are included in Figure 16. Note the conservative market risk premium of 5.1%. shown in Figure 17.

Fig 16 Discounted cash flow model (€m)

	2007F	2008F	2009F	2010F
Operating cash flow	12.2	20.0	23.3	21.4
Discount factor	0.96	0.90	0.83	0.77
Present value of free cash flow	11.8	17.9	19.5	16.6
Cumulative present value of free cash flow	65.7			
+ Present value of terminal value	260.2			
+ Other financial assets (e)	27.6			
= Enterprise value	353.5			
- Net financial debt (group share)	(74.4)			
= Theoretical market capitalisation	279.1			
- Present value pref. dividend	(13.6)			
Fair value per share (€)	23.38			
12M price target (€)	25.15			

Source: ING estimates

Fig 17 DCF assumptions (%)

Gearing*	32.1
Tax rate	20.00
Cost of debt before tax	5.40
Cost of debt after tax	4.32
Medium term growth rate	1.72
Long-term growth rate	1.50
Risk-free 10Y	4.50
Risk premium	5.10
Beta	0.90
Cost of equity	9.09
WACC	7.56

*:gross gearing

Source: ING estimates

The beta used (0.9) stands at an intermediary level between pure developers (above 1) and REIT-like companies such as Befimmo and Cofinimmo (0.7). We assume a terminal growth rate of 1.5%, which is very modest considering the moderate payout of the company. Obviously, the levels of beta and g are crucial in the DCF valuation process. Figure 18 shows our sensitivity analysis to changes of beta (vertical axis) and terminal growth rate (g, horizontal axis).

Fig 18 DCF valuation sensitivity to beta and g (%) changes

(€ per share)	1.00%	1.50%	2.00%	2.50%
0.70	27.06	29.21	31.81	35.01
0.80	25.18	27.06	29.29	32.00
0.90	23.51	25.15	27.08	29.40
1.00	22.00	23.44	25.13	27.13
1.10	20.64	21.91	23.39	25.13

Source: ING estimates

**SOTP fair value at €25
per share**

We have computed a sum-of-the-parts (SOTP) valuation using the assumptions in Figure 17, details per business are shown in Figure 19. The conference centre business was valued using an average EV/EBITDA multiple for the European hotel sector (9x 2009F EV/EBITDA). Our SOTP valuation model suggests a fair value at €25.46) per share.

Fig 19 SOTP valuation (€m)

	2007F	2008F	2009F	2010F	2011F	2012F	Terminal year
Capital gains	18.8	18.0	18.0	18.0	18.0	18.0	15.0
Discount factor	0.96	0.90	0.83	0.77	0.72	0.67	0.67
PV capital gains	18.1	16.1	15.0	13.9	13.0	12.1	
Cum. value of PV capital gains	88.2						
Terminal value							208.3
PV terminal value	139.5						
Total value redevelopment	227.7						
9.0x EV/EBITDA 2009F							
EBITDA 2009F	9.0						
Total value conference centres (49%)	39.8						
Fair value fixed assets 2007F	175.1						
Market value							
Investment in Montea	13.8						
Fee business	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Discount factor	0.96	0.90	0.83	0.77	0.72	0.67	0.67
PV capital gains	1.6	1.5	1.4	1.4	1.3	1.2	
Cum. Value of PV capital gains	8.4						
Terminal value							24.8
PV terminal value	16.6						
Total value fee business	25.0						
Corporate costs	(7.2)	(7.5)	(7.7)	(8.0)	(8.3)	(8.6)	(8.7)
Discount factor	0.96	0.90	0.83	0.77	0.72	0.67	0.67
PV corporate costs	(6.9)	(6.7)	(6.4)	(6.2)	(6.0)	(5.7)	
Cum. value of PV corporate costs	(38.0)						
Terminal value							(118.0)
PV terminal value	(79.0)						
Total corporate costs	(117.0)						
Other assets excl. cash	12.8						
Net debt	(74.4)						
PV pref. dividend	(13.6)						
= Theoretical market cap.	289.1						
Fair value per share (€)	25.46						

Source: ING estimates

Not a lot of comparables out there

A valuation based on comparables is quite difficult as Banimmo's business model lies somewhere between being a pure property developers and a long-term property investor such as REIT-like companies, and as such is rather unique. Admittedly the latter sometimes extract a substantial amount of value from 'property development' but this has to be understood as development for its own account and long holding periods as pure property development is often forbidden (Belgium, the Netherlands until recently) or taxed (France). Finally, just adding property development or pure property trading (such as at the German Vivacon) to long-term ownership of property still fails to capture the kind of value creation exercised by Banimmo. Finally, one has to cope with huge differences in size and segments (eg, residential versus offices) etc.

Significant upside potential and interesting dividend yield

We adopt a 12-month target price of €25, based on our DCF and SOTP valuation models. At current market prices, the share offers an interesting upside potential of over 30% including dividends. Note also that while offering much better growth prospects than pure ownership plays such as SICAFs (lower payout, retained earnings via depreciation); Banimmo still offers a comparable dividend yield close to 6%. We initiate coverage of the share with a BUY recommendation.

Comments on financials

- Banimmo is not a REIT-like SICAFI, but a 'normal' corporate subject to corporate tax but also not limited by the strict regulations governing Belgian SICAFIs.
- All figures under IFRS
- Property assets are partially valued at fair value (investment assets) and at cost (development assets). 'Fair value' is calculated as the appraised investment value of the asset less 2.5%.
- Financial debt is partially hedged against rising interest rates.

Income statement (€m)

Yr to Dec	2006	2007F	2008F	2009F
Turnover	16.7	12.0	12.4	12.8
Total operating revenues	16.7	12.0	12.4	12.8
Costs of goods sold	(16.7)	(12.0)	(12.4)	(12.8)
Staff costs				
Other operating costs	(7.5)	(8.9)	(9.1)	(9.4)
Depreciation	(0.1)	1.7	1.7	1.7
Amortisation of goodwill	0.0	0.0	0.0	0.0
Total operating costs	(7.6)	(7.2)	(7.5)	(7.7)
EBIT before exceptionals	34.1	27.2	28.5	31.1
Operating exceptionals	(3.6)	4.4	1.0	1.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0
EBITA	34.1	27.2	28.5	31.1
Operating profit	34.1	27.2	28.5	31.1
EBITDA	34.2	25.5	26.8	29.4
Income from associates (pre-tax)				
Net interest income	(5.5)	(3.7)	(3.0)	(3.0)
Investment income				
Net financial charges	(5.5)	(3.7)	(3.0)	(3.0)
Adj pre-tax profit	28.6	23.5	25.5	28.1
Exceptionals & GW	(3.6)	4.4	1.0	1.0
Pre-tax profit	25.0	28.0	26.4	29.1
Taxes	(2.2)	(2.4)	(2.5)	(2.8)
Extraordinary items (net)	0.0	0.0	0.0	0.0
Group profit	22.8	25.6	23.9	26.3
Minorities	(4.0)	(3.9)	(2.0)	(3.0)
Net profit	18.8	21.8	21.8	23.2
Net attributable profit	18.8	21.8	21.8	23.2
Adj net attributable profit	22.4	17.3	20.9	22.3
Net attributable profit from ordinary ops	18.8	21.8	21.8	23.2
Dividend on ordinary shares	(24.7)	(13.1)	(13.6)	(14.2)
Retained earnings	(6.0)	8.7	8.2	9.0

Source: Company data, ING estimates

Cash flow (€m)

Yr to Dec	2006	2007F	2008F	2009F
EBITDA (CF)	34.2	25.5	26.8	29.4
Change in working capital	13.0	(5.4)	0.0	0.0
Change in provisions	0.0	0.0	0.0	0.0
Operating cash flow (pre-tax)	47.2	20.1	26.8	29.4
Cash taxes	(2.2)	(2.4)	(2.5)	(2.8)
Operating cash flow (after-tax)	45.0	17.7	24.3	26.6
Net financial charges	(5.5)	(3.7)	(3.0)	(3.0)
Capital expenditure (net of disposals)	26.6	(9.0)	(6.0)	(6.0)
Free cash flow	66.1	5.1	15.3	17.6

Source: Company data, ING estimates

Balance sheet (€m)

Yr to Dec	2006	2007F	2008F	2009F
Investment Properties	194.2	175.0	181.8	188.6
Other current operating assets	22.0	11.4	11.8	12.1
S/T debt	16.4	(9.2)	(6.2)	(5.8)
L/T debt	85.0	85.0	85.0	85.0
L/T non-interest-bearing liabilities	38.4	22.4	22.8	23.2
Minority interests (equity)	0.0	0.0	0.0	0.0
Shareholders equity	105.4	152.3	157.2	164.8

Source: Company data, ING estimates

Per share and other data

Yr to Dec	2006	2007F	2008F	2009F
Per share data (€)				
Adj EPS	2.59	1.53	1.84	1.96
DPS	2.86	1.15	1.20	1.25
NAV	12.17	13.41	13.84	14.51
Ratios (%)				
EBITDA margin	205.0	212.5	216.0	230.2
Operating margin	204.5	226.5	229.6	243.3
EBITDA growth	165.9	(25.3)	4.9	9.8
Operating profit growth	166.3	(20.2)	4.6	9.3
Adj tax rate	7.7	10.0	10.0	10.0
ROE	19.1	16.9	14.1	14.4
ROACE	12.5	13.2	11.7	12.3
Net debt/equity	94.9	48.8	49.2	47.2
Valuation (x)				
EV/turnover	14.5	19.4	19.0	18.3
EV/EBITDA	7.1	9.1	8.8	8.0
Adj PER	7.5	12.8	10.6	10.0
Price/NAV	1.6	1.5	1.4	1.3
P/FCFPS	2.6	43.6	14.5	12.6
Adj PEG	0.0	(0.3)	0.5	1.5
Dividend yield (%)	14.7	5.9	6.2	6.4

Source: Company data, ING estimates

Company profile**History**

Its origins lie in the former Antwerp-based bank An-Hyp (now AXA Bank following its purchase by the AXA group); after its spin-off from the latter. Banimmo gradually developed an expertise in so-called distressed property. Management gradually built up an equity stake which now stands at 35%. The rest is owned by the French listed SIIC Affine, which acquired a majority stake in 2006.

Banimmo is a property company with a specific focus on 'exploiting the structural accelerated 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), the company is somewhere between a property developer and a long-term property investor such as SICAFI. It is a 'property redeveloper'.

Acquisitions are either 100% funded by Banimmo, or shared with financial partners if assets are (too) large, eg, the recent investment in the Dolce conference centres. In addition to diversifying risk, JVs are also expected to become a second source of recurrent income as it aims to manage the JV (earning asset management and redevelopment fees).

Banimmo is currently active in Belgium, Luxembourg and France, and in three asset classes (offices, retail and conference centres). It operates through two business units (Brussels and Paris).

The main area of activity consists of offices with a focus on the Brussels decentralised area as prices in the CBD are now very high. French activities are concentrated in the Ile de France area surrounding the capital but, for the same reasons as in Brussels, with no strong focus for the Paris CBD area. Retail assets are subject to an 'active reach' across large and medium-sized cities in France and Belgium. Still the share of retail in the company portfolio value remains small at 14%.

2007 saw the acquisition of a conference centre in Chantilly, not far from Paris, and the grand opening at end-January of the Dolce La Hulpe in the Brussels Periphery. The latter site, a former IBM training centre, was acquired in 2005 and heavily upgraded before its opening. The Chantilly conference centre has been operational for six years. Banimmo currently owns two conference centres, both managed by Dolce International, a US conference centre operator founded in 1981 and offering a complete 'all-in' solution for companies wanting to organise conferences/ seminars.

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