

COFINIMMO

UNDERPERFORM

EUR98.4 ■ TARGET PRICE EUR100 (UPSIDE 2%)

TARGET PRICE	FFO 16e	FFO 17e
↗ 1%	↘ -2%	↘ -3%

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Healthcare justifies further capital allocation

Cofinimmo's FY2015 results unveiled few surprises. The LfL rental growth trend remains negative, due to -10% average reversions on renegotiated office leases and the drag of pubs held vacant ahead of sale. Healthcare is the one division which delivered above-indexation LfL growth of 1.5% in 2015. There is little difference in net yields between the healthcare (6.3%) and office portfolios (6.7%) despite far longer leases in healthcare and stronger occupational demand. This argues for the vast majority of the company's acquisition firepower to be deployed in the healthcare sector.

Acquisitions are the major sensitivity to guidance

Cofinimmo unveiled guidance for FFO/share of EUR6.19 for 2016, implying a 4% YoY reduction. They acknowledged that they hope to do better dependent on securing future acquisitions. The company talked of 10 smaller deals in the Dutch and German healthcare markets but offered 'no comment' when asked whether they were pursuing an acquisition of Gecina's healthcare portfolio, Gecimed, which Bloomberg suggests has received bids of EUR1.4bn. The scale of the Gecimed portfolio likely excludes Cofinimmo from an offer for the whole and we are also doubtful that the company would want to skew its healthcare portfolio so heavily in favour of France.

Cutting EPS forecasts, flat outlook for NAV

We have reduced our 2016-2018e FFO/share forecasts by 2-4% to reflect higher than anticipated operating costs in the FY2015 results. We have also phased acquisitions over a slightly longer period (EUR500m over three years), although we would acknowledge that deals could be lumpier. We forecast a broadly flat profile for EPRA NAV/share, which reflects modest capital growth in healthcare offset by slippage in office and pub values as leases shorten.

Dividend yield offers valuation support

Our Target Price has increased by 1% despite cuts to our FFO forecasts due to a reduction in our WACC from 5.6% to 5.4%. Our valuation implies a 5.5% dividend yield, albeit ex-growth.

Price (4 February 2016)

	EUR98.4
Market cap (EURbn)	2.0
Free float (EURbn)	2.0
EV (EURbn)	3.6
3m avg volume (EURm)	4.9
Reuters / Bloomberg	COFB.BR / COFB.BB
Country / Sub Sector	Belgium / Diversified

Performance⁽¹⁾

	1w	1m	3m	12m
Absolute(%)	2	1	(2)	(4)
Rel. Real Estate(%)	1	5	11	5
Rel. MSCI SMID(%)	3	10	11	(2)

Financials

	12/15	12/16e	12/17e	12/18e
Diluted FFO (EUR)	6.46	6.26	6.21	6.42
Net dividend (EUR)	5.50	5.50	5.50	5.69
Diluted NAV (EUR)	96.62	97.72	98.58	99.90
Diluted NNNNAV (EUR)	94.12	95.23	96.07	97.36
Rental income (EURm)	203	205	212	223
EBITDA (EURm)	174	177	182	193
NOPAT (EURm)	171	173	178	189
FFO (EURm)	125	127	126	131

Valuation metrics⁽²⁾

	12/15	12/16e	12/17e	12/18e
NOPAT yield (%)	5.2	4.8	4.7	4.8
FFO yield (%)	6.5	6.4	6.3	6.5
Dividend yield (%)	5.5	5.6	5.6	5.8
Premium to GAV (%)	4	3	2	1
Premium to NAV (%)	3	1	0	(1)
Premium to NNNNAV (%)	6	3	2	1

Source: Exane BNPP (estimates), Thomson Reuters (consensus) (1) In listing currency, with dividend reinvested (2) Yearly average price for FY ended 12/15

See Appendix (on p4) for Analyst Certification, Important Disclosures and Non-US Research Analyst disclosures.

Forthcoming events

Date	Event
28 Apr. 2016	Q1 2016 Results
11 May 2016	AGM
28 Jul. 2016	H1 2016 Results
10 Nov. 2016	Q3 2016 Results
9 Feb. 2017	FY 2016 Results

Investment case, valuation and risks

Cofinimmo (Underperform, Target Price EUR100)

Investment case

A resilient dividend yield, underpinned by long-term lease contracts in the healthcare sector and a healthy yield spread between investment yields and a cost of debt, which is now below 3%. There is an opportunity to expand the company's presence in the European healthcare sector through growing in underpenetrated markets such as Germany and the Netherlands. The 2015 capital increase provides significant firepower for acquisitions.

Valuation methodology

We use a 10-year DCF, which is well suited to the sector given the high visibility of cash flows.

Risks to rating and target price

Occupier demand in the office portfolio is sensitive to economic activity in the Brussels market and the presence of EU and national institutions within the CBD. While demand for healthcare property is less cyclical, there are still risks surrounding the operating performance of tenants. Future FFO growth will also depend on the company's ability to find investment opportunities in its target markets.

DISCLOSURE APPENDIX

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Cofinimmo	3

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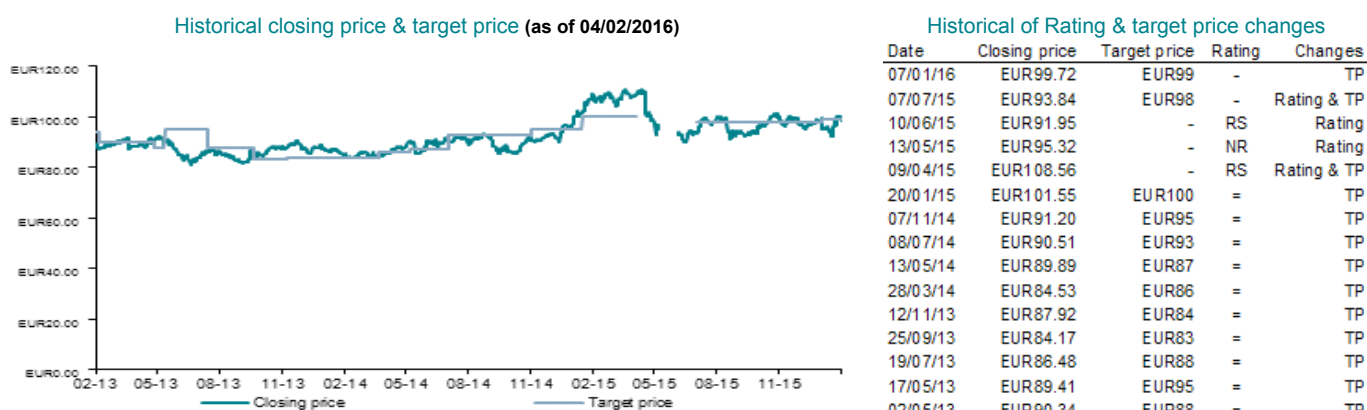
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Price and Ratings Chart

Cofinimmo



Source: Exane BNP Paribas

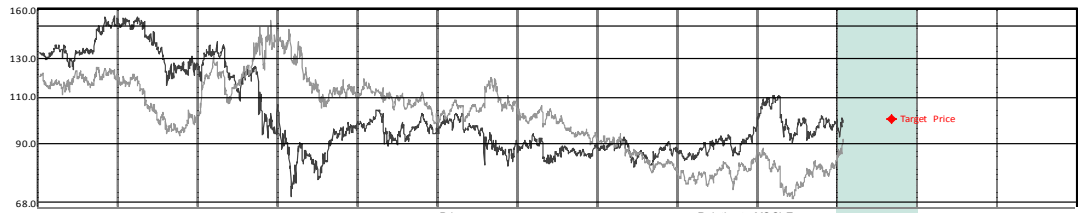
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Company Highlights

Enterprise value	EURm		
Market capitalisation	3,603		
Free float	1,998		
3m average volume	4.9		

Performance (*)			
	1m	3m	12m
Absolute	1%	(2%)	(4%)
Rel. Sector	5%	11%	5%
Rel. MSCI SMID	10%	11%	(2%)
12m Hi/Lo (EUR) : 110.7 -11% / 90.2 +9%			

CAGR		
	2004/2016	2016/2018
Diluted FFO PS	(2%)	1%
Diluted NNAV PS	(1%)	1%



PER SHARE DATA (EUR)

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
No of shares year end, basic, (m)	9,720	9,872	9,909	10,988	12,683	13,614	14,126	15,318	16,905	17,285	20,294	20,294	20,294	20,294
Avg no of shares, diluted, excl. treasury stocks (m)	11,220	11,220	11,372	12,384	14,009	14,864	17,222	16,008	17,594	17,971	19,888	20,980	20,980	20,980
Diluted FFO	8.61	8.13	7.38	7.42	7.47	8.02	7.08	7.67	6.80	6.70	6.46	6.26	6.21	6.42
Net dividend	7.35	7.40	7.75	7.80	6.50	6.50	6.50	6.50	6.00	5.50	5.50	5.50	5.50	5.69
Diluted NAV	109.89	114.28	131.79	126.49	114.88	112.86	102.50	102.04	98.85	97.43	96.62	97.72	98.58	99.90
Diluted NNAV	107.95	114.85	133.25	121.78	109.76	107.16	93.30	96.71	97.80	90.19	92.42	93.53	94.38	95.70
Diluted NNAV	107.95	114.85	121.84	109.21	99.37	97.50	95.40	94.38	95.74	92.30	94.12	95.23	96.07	97.36

STOCK MARKET RATIOS

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
NOPAT yield	5.1%	4.8%	4.4%	5.1%	6.1%	5.9%	5.3%	5.7%	5.7%	5.3%	5.2%	4.8%	4.7%	4.8%
FFO yield	6.8%	5.9%	5.4%	6.2%	8.4%	8.3%	7.6%	8.8%	7.8%	7.6%	6.5%	6.4%	6.3%	6.5%
Dividend yield	5.8%	5.4%	5.7%	6.6%	7.3%	6.7%	6.9%	7.4%	6.9%	6.2%	5.5%	5.6%	5.6%	5.8%
Premium/Discount to GAV	9%	10%	0%	(1%)	(9%)	(5%)	0%	(4%)	(5%)	(1%)	4%	3%	2%	1%
Premium/Discount to NAV	15%	20%	4%	(6%)	(23%)	(15%)	(9%)	(14%)	(12%)	(9%)	3%	1%	(0%)	(1%)
Premium/Discount to NNAV	17%	19%	3%	(2%)	(19%)	(10%)	0%	(10%)	(11%)	(2%)	8%	5%	4%	3%
Premium/Discount to NNAV	17%	19%	12%	9%	(11%)	(1%)	(2%)	(8%)	(9%)	(4%)	6%	3%	2%	1%

ENTERPRISE VALUE (EURm)

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
Market cap	1,232	1,334	1,352	1,296	1,122	1,312	1,322	1,337	1,473	1,532	1,910	1,998	1,998	1,998
+ Net debt	1,023	1,126	1,548	1,831	1,695	1,609	1,726	1,737	1,698	1,589	1,234	1,456	1,630	1,775
+ Minority interests	0	0	21	9	7	55	66	67	67	65	65	65	65	65
+ Derivatives	19	(6)	(17)	59	72	85	130	177	101	125	85	85	85	85
+ Other debt marked to market adjustment	0	0	0	0	0	0	(96)	(83)	0	0	0	0	0	0

P & L HIGHLIGHTS (EURm)

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
Rental income	144.2	137.5	146.6	187.8	197.9	195.1	189.0	202.4	195.2	195.9	202.6	205.1	211.5	223.2
Operating expenses	(21.5)	(21.9)	(20.6)	(21.0)	(24.0)	(24.9)	(24.9)	(29.1)	(28.0)	(26.9)	(30.7)	(30.9)	(32.0)	(32.5)
Other operating income	2.6	9.2	10.1	11.1	17.7	21.1	21.0	23.0	25.3	15.9	10.2	10.3	10.4	10.5
G&A expenses	(6.1)	(4.6)	(5.5)	(7.3)	(6.4)	(6.3)	(7.3)	(7.4)	(6.9)	(7.2)	(7.8)	(8.0)	(8.1)	(8.2)
EBITDA	119.2	120.1	130.6	170.5	185.2	185.0	177.8	188.8	185.6	177.7	174.3	176.5	181.8	193.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.5	1.3	0.5	0.5	0.5	0.5
Non-real estate depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial expenses	(29.3)	(35.7)	(51.8)	(81.8)	(81.2)	(66.3)	(64.1)	(63.9)	(65.6)	(55.8)	(41.6)	(40.8)	(47.1)	(53.6)
Pre-tax recurring profit	89.9	84.4	78.8	88.7	104.0	118.7	113.7	125.4	121.5	123.2	133.2	136.2	135.1	139.9
Current taxation	(2.9)	(2.8)	(4.2)	(6.1)	(7.3)	(7.2)	(6.9)	(4.3)	(2.2)	(2.5)	(4.2)	(4.3)	(4.3)	(4.4)
Minorities	0.0	0.0	0.2	(0.3)	(0.5)	(0.2)	(0.3)	(3.7)	(4.4)	(4.5)	(4.5)	(4.6)	(4.5)	(4.7)
FFO	87.0	81.7	74.4	82.3	96.2	111.2	106.4	117.4	114.9	116.2	124.5	127.3	126.3	130.7
Real estate depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
After-tax unrealised valuation movements	2.5	51.8	68.1	(97.1)	(72.2)	(35.4)	5.3	(23.8)	(26.3)	(5.5)	(8.6)	0.7	2.4	7.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(34.3)	(167.8)	(16.3)	0.0	0.0	0.0
Net income	89.5	133.4	142.5	(14.9)	24.0	75.8	111.7	93.7	54.4	(57.0)	99.6	128.0	128.7	137.8
NOPAT	116.3	117.4	126.4	164.5	177.9	177.8	170.9	185.1	185.0	176.6	170.6	172.7	178.0	188.1

CASH FLOW HIGHLIGHTS (EURm)

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
FFO total share	87.0	81.7	74.6	82.6	96.7	111.5	106.7	121.1	119.3	120.8	129.0	131.9	130.9	135.5
Other recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow from operations	87.0	81.7	74.6	82.6	96.7	111.5	106.7	121.1	119.3	120.8	129.0	131.9	130.9	135.5
Investments	(412.2)	(193.8)	(793.6)	(602.5)	(229.1)	(73.8)	(222.8)	(85.9)	(60.0)	(112.0)	(127.4)	(317.8)	(264.0)	(167.1)
Disposals	330.3	63.6	404.0	228.6	325.1	100.2	172.1	3.3	3.8	59.8	224.3	75.0	75.0	2.5
Change in working capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investments	(81.8)	(130.2)	(389.6)	(373.9)	96.1	26.4	(50.7)	(82.6)	(56.2)	(52.2)	96.9	(242.8)	(189.0)	(164.6)
Distributed dividend	(64.7)	(71.4)	(72.2)	(77.1)	(86.2)	(91.0)	(65.4)	(58.9)	(48.0)	(57.0)	(99.8)	(110.2)	(116.2)	(116.3)
Capital increases	75.1	0.0	0.0	0.0	97.0	68.3	0.0	0.0	92.6	0.0	281.1	0.0	0.0	0.0
Change in borrowings	76.3	106.7	354.5	269.1	(202.5)	(93.8)	121.8	7.2	(19.3)	(97.1)	(351.8)	242.8	189.0	164.6
Other non-recurring items	(76.1)	12.3	19.9	122.3	(24.2)	(20.5)	(105.5)	6.0	(75.5)	86.7	(50.4)	0.0	0.0	0.0
Total cash flow	15.8	(1.0)	(12.8)	23.0	(23.1)	0.9	6.9	(7.2)	12.9	1.1	4.9	21.7	14.7	19.1

BALANCE SHEET HIGHLIGHTS (EURm)

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	Dec. 15	Dec. 16e	Dec. 17e	Dec. 18e
Property investments	2,117	2,297	2,790	3,125	3,041	3,042	3,189	3,309	3,347	3,199	3,134	3,378	3,570	3,742
Other fixed assets	11	11	11	11	1	1	0	0	0	0	0	0	0	0
Working capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net intangibles	0	1	137	174	166	165	158	151	130	119	112	112	112	112
Other net assets	(36)	(52)	(33)	(58)	(36)	(47)	(119)	(93)	(42)	22	13	13	13	13
Capital employed	2,092	2,257	2,905	3,251	3,172	3,161	3,229	3,366	3,436	3,340	3,260	3,503	3,695	3,867
Long-term debt	(818)	(978)	(1,319)	(1,748)	(1,522)	(1,359)	(1,548)	(1,451)	(1,327)	(1,212)	(888)	(1,131)	(1,320)	(1,484)
Short-term debt	(421)	(368)	(382)	(221)	(245)	(314)	(246)	(351)	(456)	(473)	(446)	(446)	(446)	(446)
Cash	16	15	2	25	2	3	10	3	16	17	22	44	58	78
Financial assets	199	204	149	112	70	61	58	62	69	80	77	77	77	77
Net debt	(1,023)	(1,126)	(1,548)	(1,831)	(1,695)	(1,609)	(1,726)	(1,737)	(1,698)	(1,589)	(1,234)	(1,456)	(1,630)	(1,775)
Minority interests	0	0	21	9	7	55	66	67	67	65	65	65	65	65
NAV	1,068	1,131	1,355	1,411	1,469	1,545	1,448	1,563	1,671	1,684	1,961	1,983	2,001	2,027
Derivatives	(19)	6	17	(59)	(72)	(85)	(130)	(177)	(101)	(125)	(85)	(85)	(85)	(85)
Other marked to market adjustment	0	0	0	0	0	0	0	96	83	0	0	0	0	0
NNAV	1,049	1,137	1,352	1,352	1,397	1,460	1,318	1,481	1,653	1,559	1,876	1,898	1,915	1,942
Net deferred tax liabilities	0	0	(130)	(152)	(137)	(133)	30							

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