

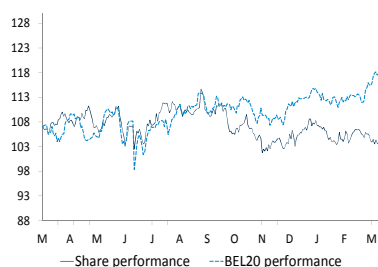
## COFINIMMO

### Reducing momentum by postponing HC target

REAL ESTATE INVESTMENT TRUSTS  
BELGIUM

CURRENT PRICE € 105.40  
TARGET PRICE € 112.00

**HOLD**  
RATING UNCHANGED



Source: Thomson Reuters Datastream

FY/e 31.12	2016	2017E	2018E	2019E
Current Result (€ m)	134.3	138.3	146.5	153.0
Portfolio Result (€ m)	-37.9	13.5	19.5	27.5
Net Profit (€ m)	96.4	151.8	166.0	180.5
Diluted Adjusted EPS (€)	6.40	6.52	6.86	7.17
NAV Per Share (€)	92.8	94.5	97.6	101.1
P/E	16.53	16.17	15.36	14.70
EV / EBITDA	21.96	21.57	20.95	19.97
DPS (€)	5.50	5.50	5.80	5.80
Dividend Yield	5.2%	5.2%	5.5%	5.5%

Source: KBC Securities

Bloomberg COFB BB  
Reuters COFB.BR  
www.cofinimmo.be

Market Cap € 2,217m  
Shares outst. 21.0m  
Volume (Daily) € 4.21m  
Free float 94.68%

Next corporate event

Results 1Q17: 27 April 2017

Performance	1M	3M	12M
Absolute	-1%	1%	-2%
Rel. BEL20	-6%	-5%	-12%

12-m Hi/Lo € 114.65/101.75

**Cofinimmo has a very sound balance sheet with a good funding base and visibility. Its office transactions definitely add value. However, expansion in healthcare disappoints and is expected to continue to do so, given the postponed strategic target of 50% HC by 2019. We therefore see few triggers for a re-rating in the short-term. We stick to our Hold rating.**

- **Logical FY16 results trend.** NRI rose 1.0% y/y to € 214m, on the back of 0.9% GRI growth, positive I-f-I rental growth of 0.9% and a small increase in writeback of lease payments sold. Higher opex and a tax provision resulted in a drop in EPRA earnings of 1% to € 6.40 (€ 6.47 KBCS & € 6.36 CSS).
- **Stable yield, but occupancy down.** The occupancy rate declined 40bps to 94.5% due to the acquisition of offices at a lower occupancy (room for value creation), and the average lease maturity by 0.3y to 10.2y. The EPRA NIY remained flat at 6.0%.
- **Balance sheet offers visibility.** The debt ratio increased from 39% to 44% (due to investments and the unwinding of IRSes). The avg. CoD improved markedly from 2.9% to 2.4% (2.1% run rate). The avg. debt maturity is solid at 4.8y. Hedge ratio is at 85% for the coming 5y. NAV (EPRA) declined 0.6% however to € 92.8.
- **Outlook does not surprise.** Cofinimmo guides for a 1.4% increase in EPS to € 6.49. Despite being below CSS, we also note that the guidance does not include external expansion, which should be regarded as conservative. The company also guides for a stable DPS of € 5.5, which is in-line with expectations.

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## COFINIMMO – COMPANY PROFILE

### Company profile

Cofinimmo is **Belgium's largest REIT** with a **diversified € 3.4bn portfolio** spread across **healthcare (45%) and offices (38%)** (and two non-core distribution networks) active in **Belgium, France, the Netherlands and Germany**. It generates a NIY EPRA of 6.0% and holds an avg. lease maturity of 10.2y. The current focus is on expanding the healthcare segment in the more fragmented Dutch and German markets. It has a strong **track record in generating a fairly stable net yield**. Management applies active asset arbitrage and focuses on diversification, thereby mitigating sector, tenant and country-specific risks.

The healthcare portfolio amounts to € 1.5bn (99% occupied and average lease maturity of 15.6y). The company invests in **skilled nursing facilities, but also rehab clinics, psychiatric clinics, wellness centres, acute care, etc.** across countries. In FY16, Cofinimmo identified € 104m growth, predominantly in Germany and the Netherlands, at attractive yields (5.9%-7.9% for a WALT of >12 years).

Cofinimmo is **improving its € 1.3bn office portfolio** (89% occupied and avg. lease of 3.9 years) by rebalancing towards prime locations. Today, 49% is located in the decentralized area and periphery. **A very important project is the sale of Souverain 25, to be vacated by mid-FY17**. It is sold to a foreign government, but the closing of the transaction still needs to occur and depends upon the receiving of the necessary redevelopment permits.

### Investment case

Cofinimmo has a strong track record in generating a **stable and attractive net yield of 6%**, on the back of its € 3.4bn portfolio **diversified in segments and geography**. The **office portfolio** has been diluted over recent years, but remains important. Today, it is skewed towards decentralized and peripheral locations, but Cofinimmo is **rebalancing towards the CBD district** where occupier interest is strong. This was reflected in recent transactions (Arts 46 and Quattro portfolio) in the Leopold district, while it sold the Souverain 25 site. We strongly believe that this strategy is value-adding, which has already been demonstrated with the letting of one-third of the Quattro portfolio's vacant space.

The € 1.5bn **healthcare portfolio** carries the lowest risk and should also act as the **growth engine** for the company. However, the current growth pace is disappointing. Cofinimmo has furthermore **postponed its strategic shift towards 50% healthcare in the portfolio from 2018 to 2019**, leaving us to believe that the pipeline is poor.

We therefore expect a delay in the foreseeable re-rating of the share, which should reflect the true value of the HC portfolio. Meanwhile, Cofinimmo strongly reduced its cost of debt, thereby supporting the earnings yield. But this was thanks to the unwinding of the IRSes hitting its intrinsic value. In FY17, **we see few triggers**. Fundamentals are solid with a stable net yield and excellent earnings visibility, but we are disappointed by the slow growth pace. Hold.

### Valuation

**Target price:** We value Cofinimmo on the basis of an EVA and DCF model over a fixed 5-year forecasting period and apply a WACC of 5.5%. Our valuation leads to a theoretical future fair value range between € 99 and € 118 p.s. We therefore have a € 112 price target which corresponds to a dividend yield 17E of 4.9% and a P/NAV17E of 1.19x. Given the current share price, we rate the stock a Hold.

**EVA valuation:** Starting from the NAV (EPRA), we estimated the value creation spread (ROIC-WACC) in the coming 5-year forecasting period, yielding an expected total value of € 99/sh.

**DCF Valuation:** We discounted our FCF at a WACC of 5.5% over a 5-year forecasting period and applied a 1.5% long-term growth rate. This calculation pointed to a forward price of € 118/sh.

### SWOT analysis

#### Strengths:

- Largest healthcare platform in Western-Europe
- Excellent asset-liability duration match
- Attractive return for improving risk profile
- Continuous asset arbitrage capturing value gains

#### Weaknesses:

- Diversification always comes at a cost
- 50% HC target delayed to 2019. Insufficient deal-sourcing capabilities?
- Exposure to poorly-performing office areas

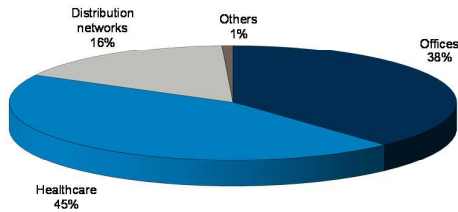
#### Opportunities:

- Yield compression translating into capital gains
- Closing the sale of the Souverain 25 building

#### Threats:

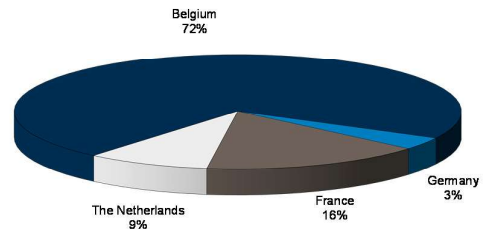
- Upcoming vacancies in French healthcare assets
- No further value creation for Distribution networks

SEGMENTAL SPREAD



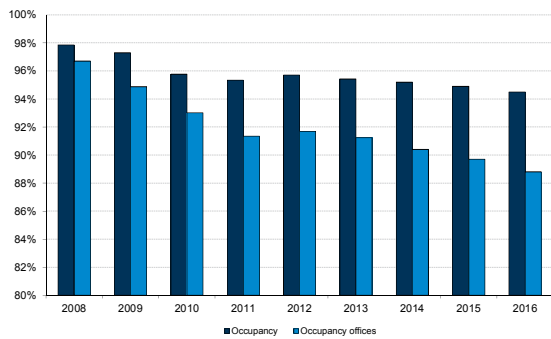
Source: Cofinimmo data

GEOGRAPHIC SPREAD



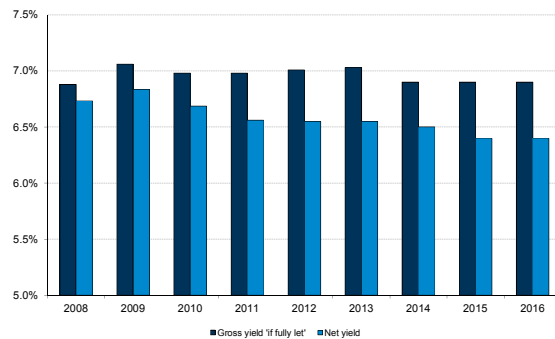
Source: Cofinimmo data

PORTFOLIO OCCUPANCY EVOLUTION



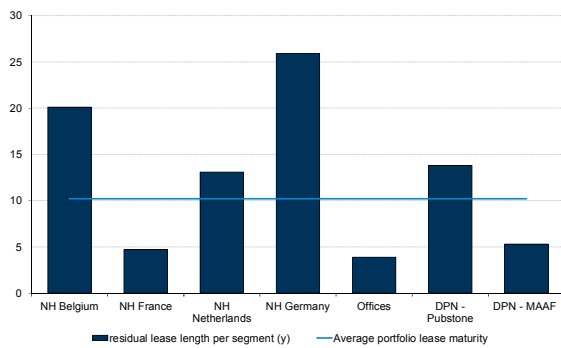
Source: Cofinimmo data

PORTFOLIO YIELD EVOLUTION



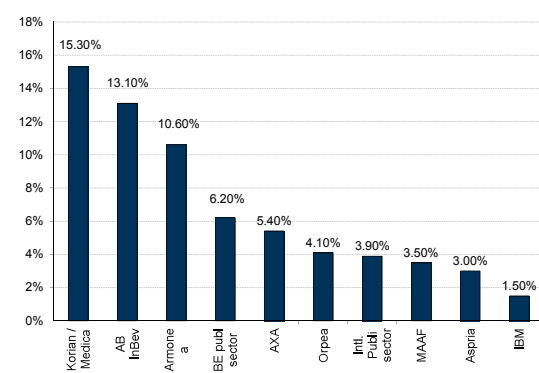
Source: Cofinimmo data

LEASE EXPIRY OVERVIEW



Source: Cofinimmo data

TENANT EXPOSURE



Source: Cofinimmo data

20 March 2017

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## FINANCIAL DATA

Income statement (€ m)	2013	2014	2015	2016	2017E	2018E	2019E
Gross Rental Income (GRI)	195.2	195.9	202.6	203.1	209.9	217.1	227.1
Other Income	25.3	15.9	10.2	11.3	12.5	13.2	14.0
Property & Development Costs	-28.0	-26.9	-30.7	-34.2	-32.3	-32.2	-33.7
Other Costs	-6.9	-7.2	-7.8	-8.0	-8.2	-8.4	-8.5
EBITDA	185.6	177.7	174.3	172.1	182.0	189.8	198.8
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>185.6</b>	<b>177.7</b>	<b>174.3</b>	<b>172.1</b>	<b>182.0</b>	<b>189.8</b>	<b>198.8</b>
Financial Result	-61.2	-49.1	-36.6	-28.0	-34.1	-34.9	-36.1
Taxes	-2.2	-2.5	-4.2	-4.7	-6.0	-4.8	-4.8
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	-3.1	-3.4	-4.5	-4.8	-4.8	-4.8	-4.8
<b>Net current result (Group's share)</b>	<b>119.2</b>	<b>120.5</b>	<b>128.5</b>	<b>134.3</b>	<b>138.3</b>	<b>146.5</b>	<b>153.0</b>
Changes in FV of investment properties	-49.0	-5.1	-17.2	-2.3	13.5	17.9	25.9
Gains/losses on real estate divestments	0.1	-22.4	22.4	2.7	0.0	1.6	1.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio Result	-61.9	-162.8	-24.9	-37.9	13.5	19.5	27.5
<b>Net Profit (Group's share)</b>	<b>58.7</b>	<b>-42.3</b>	<b>103.6</b>	<b>96.4</b>	<b>151.8</b>	<b>166.0</b>	<b>180.5</b>
Adjusted Net Profit (Group's share)	119.2	120.5	128.5	134.3	138.3	146.5	153.0
Cash flow statement (€ m)	2013	2014	2015	2016	2017E	2018E	2019E
Cash Flow from Operations	142.7	132.9	146.9	152.9	159.6	168.1	175.2
Change in Working Capital	11.9	16.4	-13.9	-6.1	0.0	0.0	0.0
Cash Flow from Operating Activities	154.7	149.3	133.0	146.9	159.6	168.1	175.2
Cash Flow from Investments	-101.3	94.8	41.3	-223.4	-195.7	-85.4	-30.0
Free Cash Flow	53.4	234.1	174.3	-76.5	-36.0	84.3	146.8
Dividend Payments	-52.3	-70.3	-64.1	-110.4	-86.0	-99.1	-104.5
Share issues	5.0	0.0	0.0	0.0	0.0	0.0	0.0
New borrowings / reimbursements	-30.0	-110.0	-269.8	240.3	120.0	40.0	-5.0
Other cash flow from financing	6.0	7.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from Financing	-45.2	-229.4	-89.5	100.1	-0.2	-94.0	-145.7
Fx and changes in consolidation scope	6.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Cash & Equivalents	8.2	4.7	84.8	23.6	-36.2	-9.7	1.1
Balance sheet (€ m)	2013	2014	2015	2016	2017E	2018E	2019E
Investment Properties	3,338.7	3,195.8	3,131.5	3,363.6	3,585.3	3,701.8	3,771.7
Development Projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Fixed Assets	226.5	214.3	193.9	183.5	183.5	183.5	183.5
<b>Total Fixed Assets</b>	<b>3,565.2</b>	<b>3,410.1</b>	<b>3,325.4</b>	<b>3,547.2</b>	<b>3,768.8</b>	<b>3,885.3</b>	<b>3,955.2</b>
Assets held for Sale	8.3	3.4	2.9	2.7	2.7	2.7	2.7
Receivables	25.7	24.8	19.8	25.6	25.6	25.6	25.6
Other current assets	54.1	42.0	40.7	42.7	42.7	42.7	42.7
Cash and Cash Equivalents	16.0	17.1	22.0	41.3	5.1	-4.6	-3.5
Total Current Assets	105.3	89.0	87.1	114.1	77.9	68.3	69.4
<b>TOTAL ASSETS</b>	<b>3,670.4</b>	<b>3,499.0</b>	<b>3,412.5</b>	<b>3,661.3</b>	<b>3,846.7</b>	<b>3,953.6</b>	<b>4,024.6</b>
Shareholders' Equity	1,614.9	1,542.0	1,860.1	1,852.9	1,918.3	1,985.2	2,061.2
Minority Interest	66.3	67.0	64.5	66.5	66.5	66.5	66.5
Total Equity	1,681.2	1,609.0	1,924.6	1,919.5	1,984.9	2,051.8	2,127.8
LT Financial Debt	1,360.0	1,250.1	874.0	1,020.6	1,140.6	1,180.6	1,175.6
Other LT Liabilities	52.9	53.2	52.9	54.1	54.1	54.1	54.1
Total LT Liabilities	1,412.9	1,303.3	926.9	1,074.7	1,194.7	1,234.7	1,229.7
ST Financial Debt	455.5	473.5	445.7	558.2	558.2	558.2	558.2
Other Current Liabilities	120.6	113.3	115.3	109.0	109.0	109.0	109.0
Total ST Liabilities	576.1	586.8	561.0	667.2	667.2	667.2	667.2
<b>TOTAL LIABILITIES</b>	<b>3,670.4</b>	<b>3,499.0</b>	<b>3,412.5</b>	<b>3,661.3</b>	<b>3,846.7</b>	<b>3,953.6</b>	<b>4,024.6</b>

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Performance criteria	2013	2014	2015	2016	2017E	2018E	2019E
Net Debt (€ m)	1,696.5	1,608.0	1,247.9	1,486.7	1,642.9	1,692.6	1,686.5
NAV (€ m)	98.9	96.2	98.3	92.8	94.5	97.6	101.1
Net Current Result (€ m)	119.2	120.5	128.5	134.3	138.3	146.5	153.0
Portfolio Result (€ m)	-61.9	-162.8	-24.9	-37.9	13.5	19.5	27.5
Debt Ratio (%)	48.9%	48.1%	38.6%	43.7%	44.7%	44.5%	43.6%
Net Debt / Equity+Minorities (%)	105.0%	104.3%	67.1%	80.2%	85.6%	85.3%	81.8%
Net Debt / EBIT	9.1	9.0	7.2	8.6	9.0	8.9	8.5
Interest Cover Ratio (%)	281.1%	324.9%	412.1%	615.7%	533.1%	544.4%	528.2%
ROA	5.9%	6.1%	5.9%	6.0%	6.0%	6.0%	6.0%
GRI-growth	-3.6%	0.4%	3.4%	0.2%	3.4%	3.4%	4.6%
EBITDA-growth	-1.7%	-4.2%	-1.9%	-1.3%	5.8%	4.3%	4.8%
EBITDA margin	95.1%	90.7%	86.0%	84.7%	86.7%	87.4%	87.6%
Pay-out Ratio	88.5%	82.1%	85.2%	86.0%	84.4%	84.5%	80.9%
Per share data (€)	2013	2014	2015	2016	2017E	2018E	2019E
Year-end # of shares (m)	17.6	18.0	21.0	21.0	21.0	21.0	21.0
Weighted average # of shares (m)	17.6	18.0	21.0	21.0	21.0	21.0	21.0
Weighted average # of shares, diluted (m)	17.6	18.0	21.0	21.0	21.0	21.0	21.0
Dividend shares (m)	17.6	18.0	21.0	21.0	21.0	21.0	21.0
Basic EPS (€)	3.26	-2.36	5.27	4.60	7.15	7.78	8.46
Adjusted EPS (€)	6.78	6.70	6.46	6.40	6.52	6.86	7.17
Diluted EPS (€)	6.78	6.70	6.46	6.40	6.52	6.86	7.17
Diluted Adjusted EPS (€)	6.78	6.70	6.46	6.40	6.52	6.86	7.17
Net Current Result Per Share (€)	6.78	6.70	6.46	6.40	6.52	6.86	7.17
Portfolio Result Per Share (€)	-3.52	-9.05	-1.18	-1.80	0.63	0.91	1.29
DPS (€)	6.00	5.50	5.50	5.50	5.50	5.80	5.80
NAV Per Share (€)	98.85	96.16	98.35	92.76	94.45	97.59	101.15
Valuation data	2013	2014	2015	2016	2017E	2018E	2019E
Max share price (€)	93.50	97.83	112.10	114.65	108.60	-	-
Min share price (€)	82.23	84.74	90.15	92.12	103.40	-	-
Reference share price (€)	88.25	89.76	99.91	105.79	105.40	105.40	105.40
Market Cap (€ m)	1,552.7	1,613.8	2,101.1	2,224.8	2,216.7	2,216.7	2,216.7
Entreprise Value (€ m)	3,315.4	3,288.7	3,413.5	3,778.1	3,926.2	3,975.8	3,969.7
Current Net Profit / EV	1.8%	-1.3%	3.0%	2.6%	3.9%	4.2%	4.5%
EV / EBITDA	17.9	18.5	19.6	22.0	21.6	21.0	20.0
P / NAV	0.9	0.9	1.0	1.1	1.1	1.1	1.0
Premium (Discount) to NAV	10.7%	6.7%	-1.6%	-14.0%	-11.6%	-8.0%	-4.2%
Dividend Yield	6.8%	6.1%	5.5%	5.2%	5.2%	5.5%	5.5%

Source: KBC Securities

\*Historic valuation data are based on historic prices