STANDARD & POOR'S

Standard & Poor's Research

Summary:

Befimmo S.C.A.

Primary Credit Analyst:
Franck Delage, Paris (33) 1-4420-6778; franck_delage@standardandpoors.com

Secondary Contact:
Maxime Puget, London (44) 20-7176-7239; Maxime_Puget@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. 1013595 | 300642892
See Terms of Use/Disclaimer on the last page.

Summary:

Befimmo S.C.A.

Credit Rating:	BBB/Stable/A-2

Rationale

The ratings on Belgium-based real estate company Befimmo S.C.A. reflect Standard & Poor's Ratings Services' view of the company's good-quality assets; its long-term leases to creditworthy tenants; and its limited exposure to development activities. These strengths are tempered by Befimmo's high exposure to the oversupplied Brussels office market, which continues to face high vacancy rates overall. In addition, the company is exposed to concentration risk owing to its focus on Belgian federal and regional entities and the European institutions, whose leases represent 67.3% of Befimmo's gross revenues.

We view Befimmo's business risk profile as "strong" according to our criteria. Befimmo's strategy mainly focuses on the long-term holding and renting of real estate assets, which, from a credit standpoint, is associated with passive low-risk property ownership and rent collection. The portfolio is large, valued at €1,981 million on June 30, 2012. It is composed of offices mainly situated in Brussels with a long average lease maturity of 9.62 years and a tenant base that has a strong credit quality. Some 8.5% of rental income comes from peripheral districts of Brussels, which carry a higher vacancy rate (16.9%) than the central business district (2.4%). We view this as a risk factor, together with Befimmo's strong focus on the Brussels property market and public sector tenants (namely Belgian federal and regional states and European institutions), which represent 67.3% of the company's gross revenues. That said, concentration risk is partly offset by the long-term nature of their tenancies. Befimmo's development strategy is relatively cautious in our opinion. Large renovation projects are backed by long-term lease commitments from strong tenants, which offset redevelopment and renting risks.

Our assessment of Befimmo's financial risk profile as "significant" is based on the company's somewhat high loan-to value (LTV) internal limit set at around 50% and the relatively low cash flows metrics, although we understand they are standard for the real estate industry. Mitigating factors are the resilience and the predictability of cash flows from Befimmo's mostly long-term tenancies and its good access to capital markets, which remain key rating drivers given the sector's capital intensive characteristics. The ratings also capture the company's low cost of debt (3.46% over the first six months of 2012) and good ability to cover its interests with an EBITDA interest coverage ratio higher than 3x. Befimmo's tax-exempt status as a SICAFI (a Belgian tax-transparent vehicle) currently imposes maximum gearing of 65%.

S&P base-case operating scenario

Over the next two years, we anticipate that Befimmo will record flat rental income growth on a like-for-like basis, as rental demand in Belgium remains subdued. For the current portfolio, we believe some departures and rent incentives following lease renegotiations should offset the positive effect of the indexation over the next 12 months. We also forecast slightly negative market valuations for Befimmo's properties owing to our view that Brussels property market

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1013595 | 300642892

yields may not compress until the end of 2013. This forecast is also sensitive to the potential supply of new projects in Brussels in 2013.

S&P base-case cash flow and capital-structure scenario

We anticipate that Befimmo will post a Standard & Poor's-adjusted ratio of EBITDA to interest above 3x over the next two years, while maintaining a low cost of debt. Still, funds from operations (FFO) to debt should remain in the 9%-11% range as cash flow generation remains solid and the company monitors its debt leverage prudently.

We forecast an adjusted LTV ratio between 45% and 48% over the next couple of years, which we believe remains adequate for the current ratings.

We believe the company will likely refinance its upcoming debt maturities to fund its renovation works. As a result, the LTV ratio will very much depend on the share of stock dividend in the overall dividend payment.

We have factored into our analysis a slight depreciation of the asset portfolio value until 2013 to reflect the negative effect of a slowdown of real estate activity on the appraisal values.

Liquidity

The short-term rating is 'A-2'. We assess Befimmo's liquidity as "adequate" as our criteria define the term, because we anticipate that its liquidity sources will be sufficient to meet its funding needs over the next 12 months.

On June 30, 2012, Befimmo's liquidity uses for the next 12 months included:

- Short-term debt maturities of €77.2 million, mainly the amount outstanding on the 2006 syndicated loan expiring on March 30, 2013, and €251.4 million outstanding under a €400 million commercial paper program;
- Committed investment costs of about €60 million; and
- Our forecast of about €60 million of dividends, part of which may be distributed in shares.

Against these short-term cash calls, we estimate:

- €250 million of available committed credit facilities maturing beyond the same period, excluding the €450 million of commercial paper backup lines;
- €3.4 million of unrestricted cash as of June 30, 2012; and
- Our anticipation of about €80 million of FFO.

Because Befimmo distributes free cash flows to its shareholders under its SICAFI status, we think the company is likely to refinance rather than repay existing and future debt. The company's maintenance of adequate backup liquidity resources is therefore important.

Supporting liquidity are the company's good access to capital markets as evidenced by the successful closing of its €110 million bond in December 2011 and about €150 million of U.S. dollar and British pound sterling private placements in May 2012, the extended average debt maturity of 5.1 years (from 4.5 years as of Dec. 31, 2011), and the headroom under the covenants, which we estimated was adequate on June 30, 2012.

Befimmo has what we view as a satisfactory hedging strategy, consisting of a combination of caps and swaps. Overall, Befimmo's interest rate policy is to hedge a decreasing portion of borrowings, over a period of five to 10 years. That

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1013595 | 300642892

said, 62% of the company's total debt was at fixed rates on June 30, 2012.

Outlook

The stable outlook reflects our view of Befimmo's good-quality office property portfolio and long-term leases, which will likely enable it to continue generating stable and predictable income.

We anticipate that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2.5x and a maximum LTV ratio of about 50% over the short to medium term. In addition, we believe that Befimmo will likely maintain adequate hedging and backup credit lines to limit any interest rate-related risks in the medium to long term. We forecast that Befimmo should retain a high degree of rent predictability, which should help mitigate the risks stemming from the rent concentration in a single regional market and a concentration of its tenants in the Belgian public sector and the EU Commission.

Ratings upside depends, in our view, on the company's nominal cash flow increasing to a more resilient level, resulting in full-year FFO of more than €200 million, an adjusted LTV ratio of less than 40%, and an average debt duration remaining above 3.5 years.

Conversely, we could take a negative rating action in the event of an unexpected and significant downward revaluation of the company's real estate portfolio, combined with an absence of deleveraging actions to maintain the LTV ratio below 50%, or if Befimmo makes material debt-financed acquisitions.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1013595 | 300642892

Copyright © 2012 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw·Hill Companies