S&P Global
Ratings

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Befimmo S.A.

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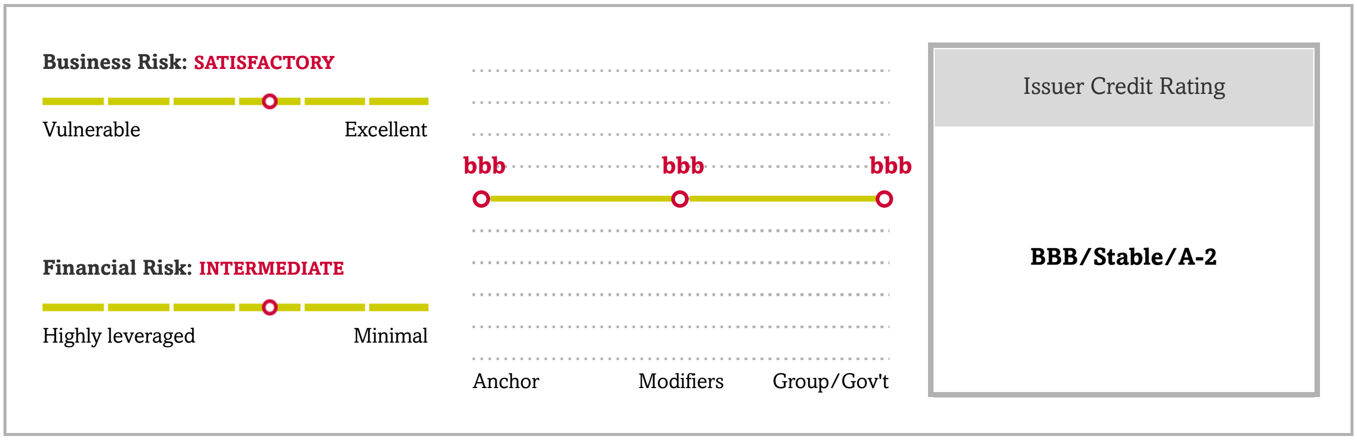


Credit Highlights

Key Strengths	Key Risks
Good-quality office assets, with the majority of the portfolio in the Brussels central business district (CBD), where demand for office properties is relatively good	Large redevelopment pipeline (18% of gross asset value), especially due to the ZIN project (€375 million), which will be responsible for a temporary increase in leverage
Long-term leases of seven years, on average, excluding buildings under redevelopment such as the ZIN project (which already signed an 18-year lease) and Quatuor project (15-year lease), and a high share of public tenants (65%) supporting stable and recurring rental income generation	Temporary deterioration of asset quality as Befimmo S.A. sells some core assets to fund the redevelopment pipeline; high-quality assets entering the portfolio in the coming years will gradually offset this
Strong pre-letting activity, with 74% of current committed ongoing projects already pre-let, partially mitigating risk of vacancy inherent of redevelopment projects	Relatively small size of portfolio compared with that of similarly rated peers
Moderate debt leverage, with adjusted debt-to-debt-plus-equity of 40%-45% and EBITDA-interest-coverage exceeding 4x, although high debt-to-EBITDA of close to 10x partially moderates this	The Brussels office leasing market being less dynamic than that of Paris, and with some oversupply in decentralized areas where Befimmo's share of assets is about 8%

Befimmo recently increased its riskier redevelopment activities, which it funds with debt and proceeds from asset disposals. Belgium-based property investment company Befimmo S.A.'s total committed redevelopment pipeline today represents about 18% of its portfolio value. This is higher than its long-term average and most of real estate rated peers, which generally limit this exposure to 5%-10% of their portfolio value. S&P Global Ratings believes redevelopment activities typically carry risks such as cost overrun, vacancy at completion, or unexpected drop in rental market rates during the construction cycle.

Strong pre-leasing characteristics should partially mitigate the increased redevelopment risk. We acknowledge the company's particularly strong ability to pre-lease its redevelopment projects well in advance, with 72% of its committed ongoing projects already pre-let. This partially shields Befimmo from the risk of future vacancy, and attests to the attractiveness of its projects under redevelopment. We note the pre-leasing of 70,000 square meters (sq. m.) of office space in the ZIN building (out of the 110,000 sq. m. multifunctional project) to Flemish authorities with an 18-year lease and expected delivery by 2023; the pre-leasing of 100% of the Brederode Corner project; and one-third of the Quatuor project two years before delivery.

Planned assets disposals should limit leverage increases from the increased redevelopment pipeline, but will temporarily deteriorate the portfolio's overall quality. To maintain a moderate leverage with adjusted debt-to-debt-plus-equity below 50%, Befimmo will partially fund its redevelopment pipeline with assets disposals. On April 20, 2019, the company announced the sale of the Pavilion Building (in the Leopold district of Brussels) for €93 million. We expect the company to sell €100 million-€250 million in office assets in the next two years.

Befimmo has identified potential assets for sale, most of which we consider as mature but still appealing and core under its strategy, which means they enjoy a central location and good tenant demand. Therefore, we anticipate a slight and temporary deterioration of the portfolio size and quality in the coming years, falling to about €2.5 billion in 2019-2020 from €2.7 billion currently, and with the share of CBD space decreasing to about 58% of rental income from about 62%. That said, the situation should only be temporary, because projects entering service in 2021-2023 should increase the portfolio size to more than €3 billion and the share of assets in CBD space to more than 65%.

Outlook: Stable

The stable outlook continues to reflect Befimmo's stable and predictable rental income from its good-quality office property portfolio and long-term leases with trustworthy tenants. The outlook also reflects our expectation that Befimmo will maintain an EBITDA interest coverage ratio of at least 3.5x and an adjusted debt-to-debt-plus-equity ratio of less than 45% over the next two years.

Downside scenario

We could lower our ratings on Befimmo in the next 24 months if the company's credit metrics were to deteriorate more than anticipated, with sustainable debt-to-debt-plus-equity (S&P Global Ratings-calculated) exceeding 45%. This could result from lower-than-anticipated assets disposals, higher-than-expected development capital expenditure, unexpected decline in valuations.

At the same time, a negative rating action could follow an extended deterioration of Befimmo's portfolio's quality and size, which could result in EBITDA-interest-coverage ratio decreasing close to 3.5x. This could happen if Befimmo were to sell off more prime assets than anticipated.

We might also consider lowering the rating if the company's business model became riskier, with for example a substantial proportion of revenues coming from co-working spaces management, or more redevelopment activities draining on liquidity.

Credit stress could also come from lower-than-anticipated sources to cover upcoming debt maturities, dividends, and large redevelopment capital expenditures (capex) in the next 12 months that could deteriorate our liquidity assessment.

Upside scenario

An upgrade would depend on Befimmo's ability to improve its sustained adjusted debt-to-debt-plus-equity ratio to near 35%, with EBITDA interest coverage remaining comfortably above 3.5x.

An upgrade would also require Befimmo to build a track record of rental growth on a like-for-like basis and a marked change in the company's earnings base, with improved diversification of income streams.

Our Base-Case Scenario

Assumptions

- Slightly positive like-for-like rental income growth in the next two years. We assume GDP growth in Belgium will remain positive in the 1.3%-1.5% range for the next 24 months. In addition, the good sustained economic momentum and the decrease in supply of CBD office space should contribute to positive lease renewals
- Stable-to-slightly decreasing occupancy in the 93.5%-94.5% range in 2019-2020, due to the sale of core assets that typically have a high occupancy. We forecast this will reverse as projects enter service. For instance, Brederode and ZIN have pre-let all their office space
- Relatively flat portfolio valuation in the forecast period reflecting our anticipation of yields stabilization in the coming 24 months
- Overall portfolio value will decrease temporarily of the sale of assets happening before redevelopment projects starting up.
- Annual capex of €120 million-€130 million in the following two years, reflecting the intensive redevelopment pipeline in place. These mainly include the remaining investments for the Quator, Brederode, and ZIN projects
- No acquisitions planned in the forecast period. We understand the company will focus on its substantial current redevelopments
- Asset sales of €200 million-€350 million in 2019-2020, including the already signed sale of Pavilion building for €93 million. We anticipate the company will continue selling assets to partially fund its redevelopment capex
- 9.4% of Befimmo shares that we conservatively considered as representing €100 million of additional equity, versus €130 million-€140 million if considering the current market capitalization

Key Metrics

	2018A	2019E	2020E
EBITDA margin(%)	81	76-82	72-78
EBITDA interest coverage (x)	6.3	4.0-4.5	3.5-4.0
Debt/debt+equity (%)	44.6	40.0-41.0	41.0-43.0
Debt/EBITDA (x)	10.0	10.0-11.0	11.0-12.0

A--Actual. E--Estimate. FFO--Funds from operations.

Base-case projections

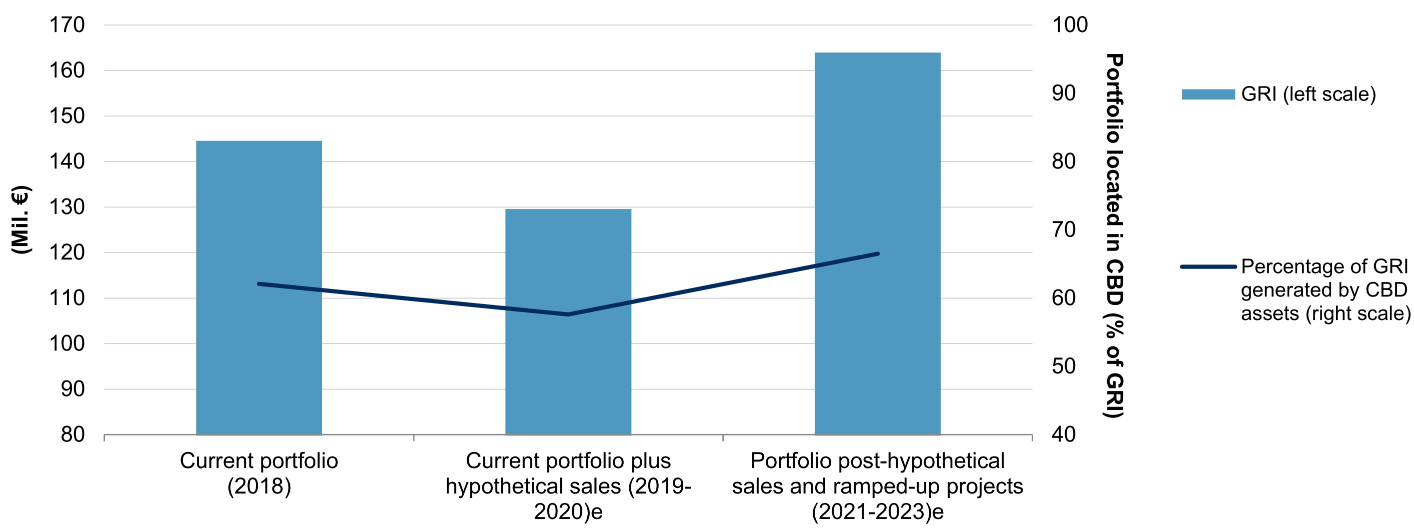
Credit ratios should improve in 2019 due to assets disposals, but they are likely to deteriorate in 2020 as projects ramp up. Befimmo announced in February its intention to increase asset rotation to capitalize on strong market momentum, and also partially fund its upcoming redevelopments. Therefore, we expect credit metrics to improve in 2019, before a noticeable deterioration in 2020 resulting from the ramp-up of committed redevelopments. Still, the ratios will remain compatible with Befimmo's financial risk profile and the rating. We expect cash outflows from redevelopment projects to peak in 2020-2021.

Company Description

Befimmo operates in the office real estate segment, with a focus on Brussels (68.9% of portfolio value) and, to a lesser extent, Luxembourg (4.6%). The company's portfolio consists of more than 100 buildings, with a total value of €2.6 billion as of year-end 2018. It is listed on Euronext Brussels with a market capitalization of about €1.5 billion (as of July 2019). Befimmo has B-REIT status (regulated Belgian Real Estate Investment Trust).

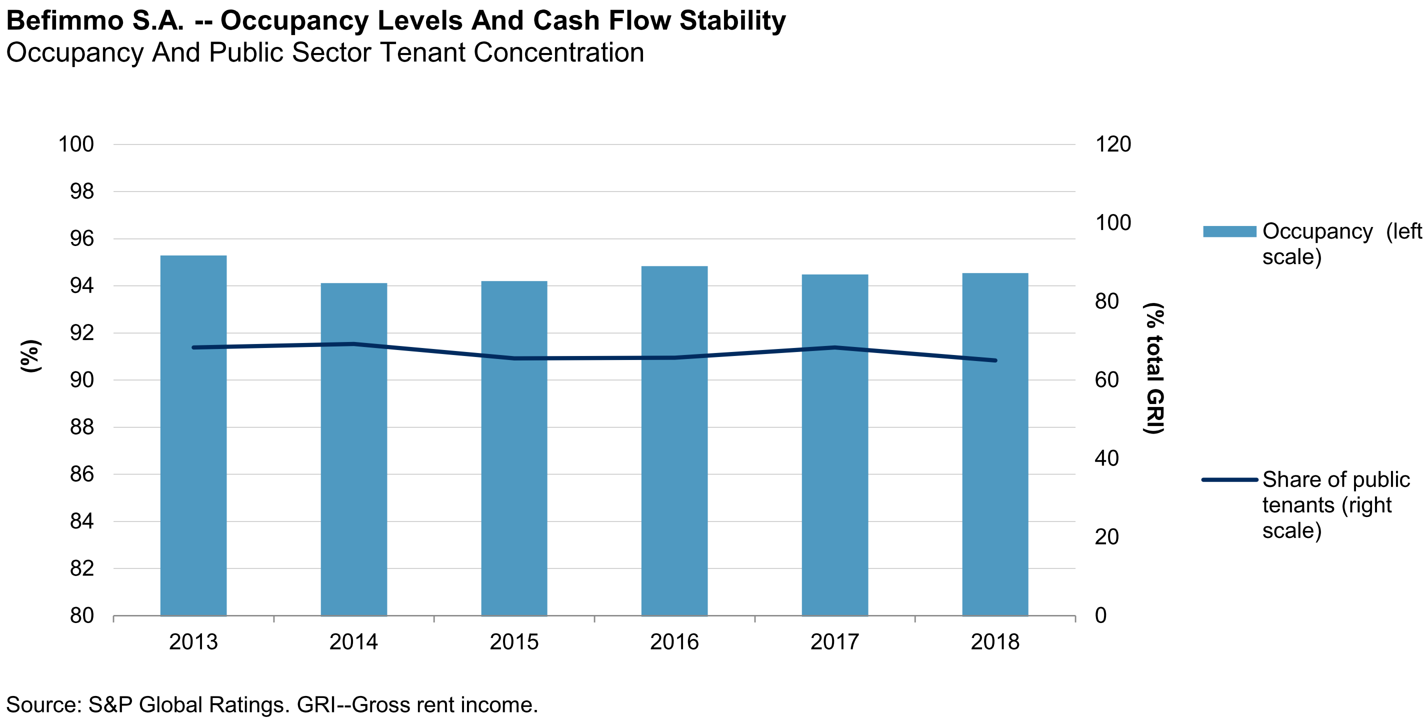
Chart 1

Befimmo S.A. -- Evolution Of Portfolio Quality
Portfolio Located In CBD In Terms Of Gross Rental Income (GRI)



E--Estimate. Source: S&P Global Ratings.

Chart 2



Business Risk: Satisfactory

Our business risk assessment reflects Befimmo's good predictability in cash flow generation, including long leases terms of about seven years (excluding the 18-year lease recently signed for ZIN building), high occupancy of about 94%, and the significant portion of public tenants (about 65% of rental income) that we view as creditworthy, such as the Belgian public sector and the EU Commission.

Befimmo recently intensified its redevelopment activity, which will be partially funded by core assets disposals, but that will likely result in particularly long leases. The total committed redevelopment pipeline represents about 18% of the portfolio value, which is higher than its long-term average and that of most rated real estate peers that generally limit their exposure to more risky redevelopment activities to 5%-10% of their portfolio value. The company recently launched large redevelopment projects, such as the 110,000 sq. m. mixed-used ZIN project for a total investment of €375 million; and the 60,000 sq. m. offices building Quatuor for €157 million.

To fund this, Befimmo is selling off mature and high-quality centrally located assets, such as the recently announced Pavilion building. As a result, the company's share of assets in the Brussels CBD will temporary shrink to about 58% in 2020 from 62% currently. However, the deterioration in portfolio size and quality should only be temporary because the majority of the projects under redevelopment are large buildings in the Brussels CBD.

The business risk profile also reflects Befimmo's relatively small portfolio size of about €2.6 billion as of Dec. 31, 2018 which compares negatively with that of similarly rated peers such as Merlin Properties (€12.2 billion as of March 2019), CPI Property Group (€7.6 billion as of December 2018), or Alstria Office REIT-AG (€3.9 billion as of March 2019). We believe a small-scale portfolio exposes holding companies to the risk of revenue volatility in the case of asset or tenant rotation. In addition, Befimmo has high rent concentration, mainly in a single market in Brussels, which is still recovering and significantly less liquid than other Western European office markets such as Paris and Berlin.

Peer comparison

Table 1

Befimmo S.A. -- Peer Comparison

Industry Sector: Real Estate Investment Trust Or Company

	--Fiscal year ended Dec. 31, 2018--				
	Befimmo S.A.	**Merlin Properties, Socimi, S.A.**	**Alstria Office REIT-AG**	**CPI Property Group SA**	**Cofinimmo S.A./N.V.**
Ratings as of July 15, 2019	BBB/Stable/A-2	BBB/Positive/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/A-2
(Mil. €)					
Revenue	144.1	485.4	169.1	450.0	212.2
EBITDA	116.6	402.7	143.7	271.6	155.8
Funds from operations (FFO)	95.3	271.8	117.1	162.8	122.9
Interest expense	18.5	112.8	29.8	87.0	35.4
Cash interest paid	20.2	121.7	26.6	92.9	32.9
Cash flow from operations	90.9	254.4	119.0	158.6	131.8
Capital expenditure	51.0	193.8	88.6	143.5	47.4
Free operating cash flow (FOCF)	39.9	60.6	30.4	15.1	84.5
Dividends paid	88.2	215.4	92.2	6.3	116.0
Discretionary cash flow (DCF)	(48.3)	(210.8)	(61.7)	(136.2)	(31.6)
Cash and short-term investments	0.6	169.0	132.9	74.4	27.2
Debt	1,160.6	5,079.9	1,217.4	3,077.5	1,708.9
Equity	1,443.2	6,401.8	2,684.1	4,087.3	2,059.3
Debt and equity	2,603.9	11,481.7	3,901.4	7,164.8	3,768.2
Valuation of investment property	2,655.3	11,909.6	3,968.5	7,357.9	3,694.2
Adjusted ratios					
Annual revenue growth (%)	0.6	4.8	(1.9)	12.6	4.0
EBITDA margin (%)	81.0	82.9	85.0	60.4	73.4
Return on capital (%)	4.6	3.7	3.9	3.7	4.5
EBITDA interest coverage (x)	6.3	3.6	4.8	3.1	4.4
FFO cash interest coverage (x)	5.7	3.2	5.4	2.8	4.7
Debt/EBITDA (x)	10.0	12.6	8.5	11.3	11.0
FFO/debt (%)	8.2	5.3	9.6	5.3	7.2

Table 1

Befimmo S.A. -- Peer Comparison (cont.)

Industry Sector: Real Estate Investment Trust Or Company

	--Fiscal year ended Dec. 31, 2018--				
	Befimmo S.A.	**Merlin Properties, Socimi, S.A.**	**Alstria Office REIT-AG**	**CPI Property Group SA**	**Cofinimmo S.A./N.V.**
Cash flow from operations/debt (%)	7.8	5.0	9.8	5.2	7.7
FOCF/debt (%)	3.4	1.2	2.5	0.5	4.9
DCF/debt (%)	(4.2)	(4.1)	(5.1)	(4.4)	(1.8)
Debt/debt and equity (%)	44.6	44.2	31.2	43.0	45.4

Financial Risk: Intermediate

We base Befimmo's financial risk profile on relatively low leverage, as our adjusted debt-to-debt-plus-equity ratio of close to 45% (44.6% at year-end 2018) and a solid EBITDA interest coverage of about 6x at year-end 2018 indicate. Supporting the strong coverage ratio is the relatively high-yield environment in Befimmo's main markets (5.9% of EPRA net initial yield at year-end 2018 versus 3.2% for Societe Foncière Lyonnaise in Paris, for example). This also reflects the company's low cost of debt, which improved to 2.01% in 2018 (compared with 2.08% in 2017) due to higher usage of inexpensive commercial paper and other short-term instruments. We believe that Befimmo will likely maintain adequate hedging and back-up credit lines to limit any significant interest-rate-related risks in the medium-to-long term.

Befimmo's credit metrics are also burdened by a relatively high debt-to-EBITDA ratio at about 10.0x, highlighting the high cost of capital and low yield relative to the capital-intensive nature of Befimmo's business, especially due to its significant development pipeline; and still lower yield than) some other riskier asset classes or geographical exposures.

Our assessment of Befimmo's financial risk profile captures in the company's financial policy, targeting a loan-to-value (LTV) ratio of maximum 50%, which is commensurate with the weaker end of our intermediate category.

We expect Befimmo to sell €200 million-€350 million of assets in 2019-2020 while the ramp-up of redevelopment projects should start by 2020. As a result, we expect our adjusted debt-to-debt-plus-equity ratio to improve to close to 40% in 2019, before deteriorating in 2020. However, we expect the company to maintain this ratio below 45% sustainably.

Because asset sales will reduce EBITDA while projects are still under redevelopment, we anticipate EBITDA-interest-coverage and debt-to-EBITDA ratios to deteriorate, to close to 4x and 11x-12x in the coming years, respectively.

Financial summary

Table 2

Befimmo S.A. -- Financial Summary

Industry Sector: Real Estate Investment Trust Or Company					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. €)					
Revenue	144.1	143.2	137.8	140.1	139.7
EBITDA	116.6	117.7	112.2	115.1	113.4
Funds from operations (FFO)	95.3	94.6	90.1	86.3	80.0
Interest expense	18.5	19.5	25.0	30.6	28.0
Cash interest paid	20.2	21.8	20.9	27.4	32.3
Cash flow from operations	90.9	105.4	90.1	87.7	66.7
Capital expenditure	51.0	40.5	32.8	30.1	69.0
Free operating cash flow (FOCF)	39.9	64.8	57.3	57.6	(2.2)
Dividends paid	88.2	89.3	78.5	57.5	48.8
Discretionary cash flow (DCF)	(48.3)	(24.4)	(24.2)	(0.3)	(51.5)
Cash and short-term investments	0.6	0.3	0.2	0.2	0.1
Gross available cash	0.6	0.3	0.2	0.2	0.1
Debt	1,160.6	990.2	1,065.1	1,091.2	1,034.7
Equity	1,443.2	1,448.5	1,401.3	1,265.3	1,195.4
Debt and equity	2,603.9	2,438.7	2,466.4	2,356.5	2,230.2
Valuation of investment property	2,655.3	2,494.4	2,511.7	2,387.8	2,283.2
Adjusted ratios					
Annual revenue growth (%)	0.6	3.9	(1.6)	0.3	1.4
EBITDA margin (%)	81.0	82.2	81.5	82.2	81.2
Return on capital (%)	4.6	4.8	4.7	5.0	5.2
EBITDA interest coverage (x)	6.3	6.0	4.5	3.8	4.0
FFO cash interest coverage (x)	5.7	5.3	5.3	4.1	3.5
Debt/EBITDA (x)	10.0	8.4	9.5	9.5	9.1
FFO/debt (%)	8.2	9.6	8.5	7.9	7.7
Cash flow from operations/debt (%)	7.8	10.6	8.5	8.0	6.4
FOCF/debt (%)	3.4	6.5	5.4	5.3	(0.2)
DCF/debt (%)	(4.2)	(2.5)	(2.3)	(0.0)	(5.0)
Debt/debt and equity (%)	44.6	40.6	43.2	46.3	46.4

Liquidity: Adequate

We assess Befimmo's liquidity as adequate because we anticipate that the ratio of liquidity sources to uses will be near 1.2x for the 12 months from March 31, 2019.

We consider that the company has well-established and solid relationships with its banks, with a generally high standing in the credit markets. The adequate liquidity assessment also includes our view of Befimmo's generally very prudent financial risk management and our expectation that the company will maintain adequate headroom under all maintenance covenants.

Principal Liquidity Sources	Principal Liquidity Uses
• €710 million available under committed undrawn credit facilities, out of which 438 million are back-up lines for the commercial paper (with a maturity of more than 12 months) • Our forecast of cash funds from operations of about €80 million in the next 12 months • Contracted asset sales of €93 million for the Pavilion building	• Short-term debt maturities of about €542 million, including drawn commercial papers of €438 million. We understand that the commercial paper is backed by long-term bank facilities, which are included in the €710 million credit facilities mentioned in the sources • Committed capex of about €80 million • Dividend payment of about €88 million

Reconciliation

Table 3

Reconciliation Of Befimmo S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2018--				
Befimmo S.A. reported amounts	**Debt**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**
	1,178.5	117.0	110.1	18.5	116.6
S&P Global Ratings' adjustments					
Cash taxes paid	--	--	--	--	(1.1)
Cash taxes paid: Other	--	--	--	--	--
Cash interest paid	--	--	--	--	(20.2)
Postretirement benefit obligations/deferred compensation	--	0.0	0.0	0.0	--
Accessible cash and liquid investments	(0.6)	--	--	--	--
Nonoperating income (expense)	--	--	0.9	--	--
Debt: Fair value adjustments	(17.3)	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	(0.3)	(0.3)	--	--
Depreciation and amortization: Asset valuation gains/(losses)	--	--	5.5	--	--
Total adjustments	(17.9)	(0.3)	6.1	0.0	(21.3)
S&P Global Ratings' adjusted amounts	**Debt**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**
	1,160.6	116.6	116.1	18.5	95.3

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of September 12, 2019)*

Befimmo S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Issuer Credit Ratings History	
18-Jun-2007	BBB/Stable/A-2
27-Dec-2006	BBB/Watch Neg/A-2
25-Feb-2004	BBB/Positive/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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