Atenor

Rating: **Neutral (=)** PT: **€40.0 (-)** Last: **€36.2**

Key estimates

€	2007A	2008A	2009E	2010E
Net Profit (m)	35.4	41.3	9.6	17.1
EPS	7.03	8.20	1.90	3.40
DPS	2.60	2.60	2.60	2.60
CFPS	7.45	8.86	1.90	3.40
NAV	20.5	25.0	24.3	25.1

Valuation & other

	2007A	2008A	2009E	2010E
P/E	5.2	4.4	19.1	10.7
P/NAV	1.77	1.45	1.49	1.44
CF yield (%)	20.6	24.4	5.2	9.4
Div. yield (%)	7.2	7.2	7.2	7.2
DPS growth (%)	100.0	0.0	0.0	0.0

A comforting position

- **2008 has been another excellent year.** i. posting record earnings of €41.3m on the back of the President project in Luxembourg (€90m guaranteed profit), ii. (partial) de-risking or important milestones reached in several other projects (Premium, Vue sur Hain), iii. reloading the development pipeline with 4 new projects, together with the strong balance sheet creating a bridge towards a new cycle.
- **The key ingredient: a (very) solid capital base.** The gearing ratio defined as net debt/equity was 22% at end 2008 and after the last tranches of the President (final construction phase and reversal of the original equity investment) this should be nearer -16% or €20m net cash at H1'09. Correcting for the gross project debt in fact the available liquidities should be around €85m. One would easily be inclined to assume this substantial amount be used for new projects, but we highlight management will probably be very cautious in its use of these proceeds. With bank financing restrained it will probably have to utilize this cash for the first phases of the CEE projects and bank requirements will probably call for more equity in its Belgian projects when construction is to be launched. Nevertheless, it is very comforting and rather exceptional to see a developer in this kind of position at this stage of the crisis.
- **Operational: short-term challenges vs. long-term potential.** We list a couple of random thoughts: i. the main impact of the crisis will be the timing of projects which will be pushed forward and phased as management may want/have to show more pre-lettings/pre-sales on its projects before starting construction. ii. the €50m+ equity investment in the land in CEE remains questionable and in our view a price nearer peak-cycle. We believe management has adopted a cautious view on rental levels but not on exit yields. Our calculations show that at today's prime cap rates (Budapest 6.75%, Bucharest 8.50% - CBRE Q4'08 data), arguably unreliable given the absence of transactions, the projects would still be in the black but at a 75bps increase the two projects taken together would barely break even. For the record though: management has committed towards a 10% equity investment in the projects that were added to the portfolio last year. iii. for the projects in Belgium we see the potential intact with Premium - if all goes well - showing potential to be another jackpot (but too early to judge). iv. construction costs are starting to fall - overall and on our assumptions a drop by 5% offsets a 25bps increase in exit yields and both have an effect of 10% on our valuation.
- **Investment case.** Atenor has now moved into a preparation phase to offload its 8 projects under management for when capital markets re-open. We still feel comfortable with the stock considering i. Atenor's sound financial position, ii. the exceptional management track record and alignment of interests with shareholders, iii. the sustainable 7% dividend yield. Nevertheless, in view of the CEE question mark (we are unwilling to pay upfront for CEE development gains today) and limited visibility on the P&L we stay Neutral (new PT of €40). Quid 2009: obtaining several construction permits? letting the remaining 2/3 of President (~ €1.5 per share)? Pre-lettings in CEE? Another block sale for Media Gardens? Acquirer/lessee for South City Hotel?

Analyst: **Mickael Van den Hauwe**(+32 2 222 33 95 mickael.vandenhauwe@dexia.com)

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- **Buy:** we expect this stock to generate a return of >15% over the next twelve months;
- **Add:** we expect this stock to generate a return of 5-15% over the next twelve months;
- **Neutral:** we expect this stock to generate a return of 0-5% over the next twelve months;
- **Reduce:** we expect this stock to generate a negative return over the next twelve months

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	Rating distribution		Investment banking relationship	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
Buy	17	23.6%	1	5.9%
Add	13	18.1%	0	0.0%
Neutral	36	50.0%	0	0.0%
Reduce	6	8.3%	1	16.7%

Rating distribution Total: 72
Investment banking relationship Total: 2

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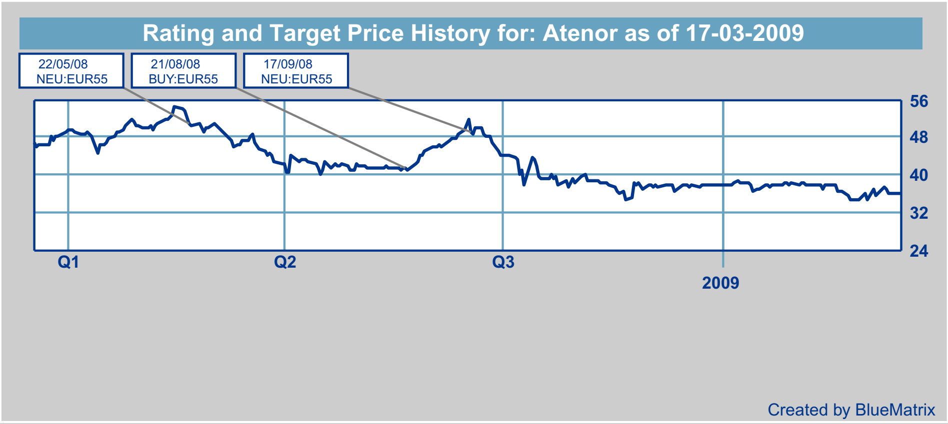
12-MONTH PRICE TARGET CHART



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EQUITIES CONTACT LIST

RESEARCH

HEAD OF EQUITY RESEARCH

Rob Goyens	+32 2 222 03 47

ENERGY & UTILITIES

Alternative Energies

Dieter Furniere	+32 2 222 55 45

Electrical Equipment

Dieter Furniere	+32 2 222 55 45

Environmental Utilities

Filiz Satik	+32 2 222 33 16

INFRASTRUCTURE

Construction

Damien Caucheteux	+32 2 222 01 67

Healthcare Infrastructure & Services

Koen Wuyts	+32 2 222 33 18

Shipping

Koen Boriau	+32 2 222 33 12

Transportation Infrastructure

Koen Wuyts	+32 2 222 33 18

REAL ESTATE

Mickaël Van den Hauwe	+32 2 222 33 95

COMMUNICATION SERVICES

Fixed Satellite Services

Kristof Lybaert	+32 2 222 56 14

Postal Services

Rob Goyens	+32 2 222 03 47

Telecom Services

Kristof Lybaert	+32 2 222 56 14
Rob Goyens	+32 2 222 03 47

HOLDINGS

Willem Glorie	+32 2 222 33 12

SALES

BELGIUM

Head of Sales

Guy Noerens	+32 2 222 71 73

Equity Sales

Bertrand Butez	+32 2 222 11 11
Dennis Scheyltjens	+32 2 222 70 68
Olivier Schoevaerdts	+32 2 222 70 20
Wouter De Schrijver	+32 2 222 70 82

FRANCE

Manager Institutional and Corporate Sales

Didier Chaudesaygues	+33 1 5628 5001

Head of Institutional Sales

Philippe Plaa	+33 1 5628 5121

Equity Sales

Olivier Streichenberger	+33 1 5628 5008

Corporate Sales

Arnaud de Montlaur	+33 1 5628 5004
Patrick Berebi	+33 1 5628 5116
Philippe Cantelaube	+33 1 5628 5111

STRATEGY

Jean-Paul Pierret	+33 1 5628 5267