

8 November 2010

ATENOR

Invest now, harvest later

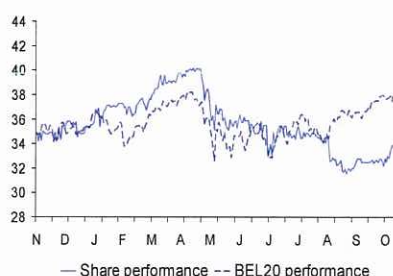
REAL ESTATE INVESTMENT & SERVICES
BELGIUM

CURRENT PRICE € 33.33

TARGET PRICE € 36.00

HOLD

RATING UNCHANGED



FY/e 31.12	2009	2010E	2011E	2012E
Current Result (€ m)	7.3	-0.3	4.6	23.0
Portfolio Result (€ m)	n.r.	n.r.	n.r.	n.r.
Net Profit (€ m)	7.3	-0.3	4.6	23.0
Diluted Adjusted EPS	1.45	-0.05	0.91	4.56
NAV	23.4	20.7	19.6	22.2
P/E	25.25	n.r.	36.82	7.30
EV / EBITDA	n.r.	n.r.	n.r.	n.r.
DPS	2.60	2.00	2.00	2.00
Dividend yield	7.1%	6.0%	6.0%	6.0%

Source: KBC Securities

Bloomberg	ATEB BB
Reuters	ATEO.BR
www.atenor.be	
Market Cap	€ 167m
Shares outst.	5.0m
Volume (Daily)	€ 0.06m
Free float	40.6%

Next corporate event

Results 3Q10: 19 November 2010

Performance	1M	3M	12M
Absolute	3%	-5%	-4%
Rel. BEL20	-1%	-8%	-14%

12-m Hi/Lo € 40.22/31.55

Since the strategic shift towards a pure play developer in 2005 Atenor has outperformed the sector by 100% (!). The year-to-date return equates to 0% versus +16% for the EPRA Euro. In our view it could take another 6 months before a renewed profit momentum could start to build whereas we believe the dividend will be cut. Hold.

- **Comforting position.** Executing on an exceptionally strong financial position (1H10: 34% net debt / equity and € 75m unsecured 5-year company financing), Atenor has every means to position itself for a new cycle – being able to fund the existing development projects and hence take an anti-cyclical view on the market and to get its hands on attractive new development sites.
- **Not if but when.** We believe the outlook for the Belgian development sites is favourable but the main issue in forecasting is not so much the quantum but the timing of profit generation. The CEE office projects are still a swing factor to us though we have seen marked improvements in market sentiment. In the meantime it remains to be seen whether the opportunistic short-term investment in Westland shopping centre could turn out to be a successful arbitrage.
- **Investment case.** To a certain extent our concerns seem priced in but the issue is that in the short term we see few triggers that could boost the shares. We continue to rate the stock as a Hold.

Mickaël Van den Hauwe
Financial Analyst - Brussels
KBC Securities NV
+32 2 429 37 21
mickael.vandenhouwe@kbcsecurities.be

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BUSINESS DESCRIPTION

Solid financial position to create a bridge towards a new cycle of capital gains

Historically Atenor was active in the field of private equity and property development. The former segment has proven largely value destructive whereas in the latter business line the company has always shown exceptional results. Subsequent to the transformation towards a pure play property developer in 2005 Atenor realized an exceptional return for its shareholders – both during the bull market phase as well as during the down leg. This was to a large extent driven by an extraordinary return on the President office project in Luxembourg which allowed generating a profit of €80m+. This strengthened the balance sheet of the company at a time most of the competition was desperate for new equity and as a consequence created a bridge towards a new profit cycle.

Bond issue provides 5y unsecured company financing

Having been flooded with liquidities through the €75m bond issue and the final payment of €50m on President, the balance sheet looks exceptionally strong with a net debt / equity of 34% and 5-year unsecured company financing. This solid financial position is a genuine competitive advantage – facilitating the execution of the existing pipeline and the acquisition of new sites.

CEE projects the main swing factor

Atenor now operates a portfolio which is for 2/3 focused on its core Belgian market and 1/3 in CEE with two offices projects in Budapest & Bucharest. Management highlighted it is analyzing several acquisition opportunities and that apart from its core Belgian/Luxembourg market it is also looking at France (Paris, Lyon) to which it has dedicated one of its execs.

€32m takeover bid on Westland Shopping

In October Atenor announced its intention to launch a €32m takeover bid on the certificate Westland Shopping centre. This is an atypical Atenor transaction since the company will not redevelop the site but will act as an intermediary to sell the asset to an institutional investor. In our view it is questionable whether Atenor would be able to turn this into an attractive short-term arbitrage opportunity.

In our view the potential for the existing Belgian projects remains intact. The €50m+ equity investment in land positions in CEE have been our reason for caution. With construction costs having fallen and signs of economic stabilisation, management has decided to launch a first phase on both development projects on a speculative basis. Note that Atenor is not betting an economic recovery in CEE but rather on the quality aspect of buildings to play the corporate relocation theme. We agree with the anti-cyclical view but today we believe it is too early to pay in full upfront for these potential gains.

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SWOT ANALYSIS

STRENGTHS

- Exceptional management track record in real estate development and alignment of interests with shareholders
- The balance sheet strength has put Atenor in a comfortable position
- Tax optimization through the use of SPVs and tax-loss carry forwards on the holding level

OPPORTUNITIES

- Exploiting market turmoil to gain access to interesting development sites
- The balance sheet strength to move ahead with some projects is a genuine competitive advantage
- Through-the-cycle view could yield strong returns but some investor patience will be required

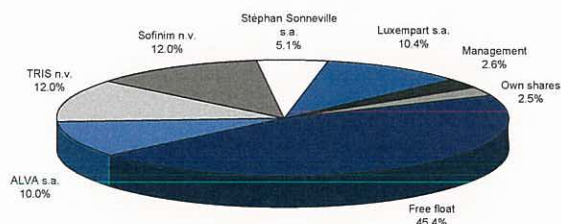
WEAKNESSES

- Equity investment in land in CEE at a price nearer peak-cycle levels is questionable
- Short-term visibility on earnings is limited, despite the longer-term potential being intact
- The potential investment in the Westland Shopping certificates is opportunistic and it is questionable whether a profitable short-term exit could be achieved

THREATS

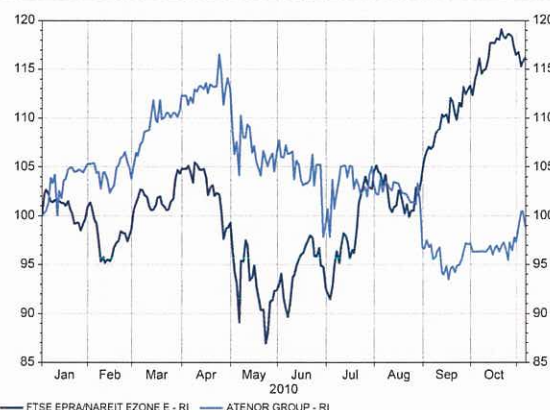
- The shares could be under pressure further to the potential announcement of a dividend cut
- Risk of erosion on RoE by having to plough available cash in to the construction of some projects
- Prolonged weakness in the economy is pushing forward planned project execution dates

SHAREHOLDER STRUCTURE



Source: Atenor

TOTAL STOCK RETURN YEAR-TO-DATE



Source: Thomson Reuters Datastream

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PORTFOLIO

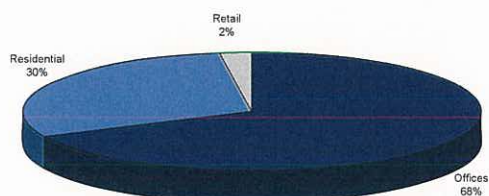
TOO EARLY TO JUDGE VENTURE INTO CEE

CEE exposure was added recently (36%)

The total surface in development now stands at >400,000m² but the net exposure is nearer 340,000m² after correcting for partnerships. Overall the composition is 68/30/2 offices/residential/retail.

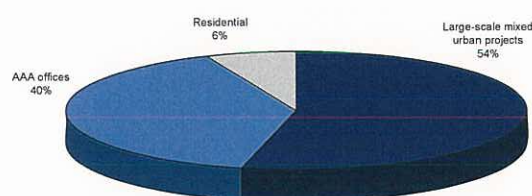
Note the venture into CEE has been inspired by a desire to export the know how built up in the Brussels market; the latter in itself still being core but its limited size and complexity have enticed management to tap new revenue sources. At the 1H10 analyst meeting management also highlighted that it has dedicated one of its executives to the French market (Paris, Lyon) where it is analyzing several opportunities.

PORTFOLIO BREAKDOWN BY REGION 1H10



Source: Atenor, KBC Securities

PORTFOLIO BREAKDOWN BY TYPE 1H10



Source: Atenor, KBC Securities

FOCUS ON SCALE/POTENTIAL/RECURRENCE OF EARNINGS

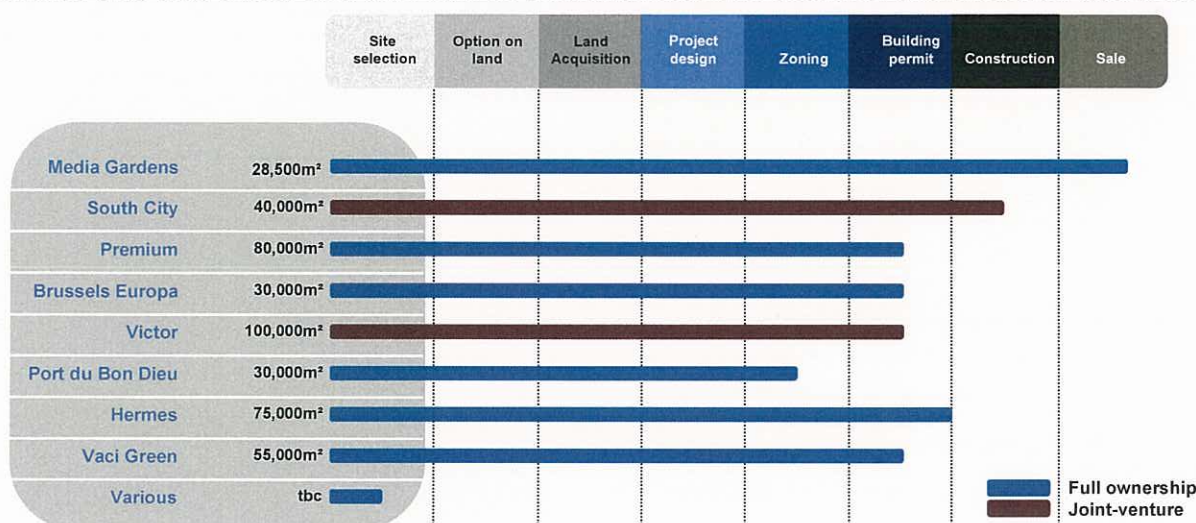
The company now has 8 projects under management, balanced between AAA office complexes (40%), major mixed urban projects (54%) and residential developments (6%). The initial outlay for these projects equates to € 125m (KBCS est.).

Note that for the 4 projects that were added over the last 2 years (Victor, Port du Bon Dieu, Hermes, Vaci Green), the management team will participate directly in the equity of the SPVs by taking a 10% joint interest.

In CEE, Atenor has teamed up with two local partners in Budapest and Bucharest who will act as local project managers but will not participate as equity partners and will thus work on the basis of a regular fee structure.

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PROJECT PIPELINE - OVERVIEW



Source: Atenor, KBC Securities

As a reference, management mentioned that for the 340,000m² under management it sees an average capital gain of €/m² 400-500 as realistic. Considering substantial differences in profitability per project we highlight that this figure can only serve as input to a back-of-the-envelope exercise to calculate the normalized earnings potential; corrected for overhead expenses and a 5 year average project lead time would point to through-the-cycle earnings of € 20m. Important to add though is management's comment that with the current equity base and installed team it could reasonably manage around 400,000 to 500,000m².

PROJECT PIPELINE - OVERVIEW

Project	Location	Equity investment (*)	GLA (m²)	Atenor share	Est. capital gain (€ m) (*)	Est. capital gain (€/m²)	Delivery
Pixel	Luxembourg	9.0	7,344	100%	16.1	2,185	sold
President	Luxembourg	37.0	30,000	100%	81.8	2,726	sold
Vue sur Hain	Belgium	2.8	9,365	100%	0.6	64	sold
South City	Belgium	7.6	40,010	40%	6.9	429	2010-11
I.D.M. ~ Media Gardens	Belgium	2.5	28,500	100%	10.2	360	2010-11
Premium	Belgium	18.0	79,850	100%	32.2	403	2011-13
Brussels Europa	Belgium	25.0	30,000	100%	23.4	781	2014-15
Victor	Belgium	10.7	100,000	45%	19.4	431	2013
Port du Bon Dieu	Belgium	4.5	30,000	90%	9.7	361	2011-13
Hermes Business Campus	Romania	33.3	75,000	90%	n.r.	n.r.	2012-14
Vaci Ut	Hungary	19.8	55,000	90%	6.2	124	2012-14
Total		170.2	485,069		206.5	529	

Source: KBC Securities, (*) Atenor share

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We prefer to look at projects on an individual basis and start off with conservative assumptions and gradually upgrade once visibility allows us to do so. Below is an overview of our expected P&L contribution per individual project in terms of timing and quantum.

PROJECT PIPELINE – ESTIMATED DEVELOPMENT SURPLUSES (€ m)

Project	Location	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Pixel	Luxembourg	4.9	0.4						
President	Luxembourg	28.6	49.6	4.2					
Vue sur Hain	Belgium		0.6						
South City	Belgium				6.9				
I.D.M. ~ Media Gardens	Belgium			7.1	0.5	2.5			
Premium	Belgium					9.7	16.1	6.4	
Brussels Europa	Belgium								23.4
Victor	Belgium			2.2				19.4	
Port du Bon Dieu	Belgium						9.7		
Hermes Business Campus	Romania								
Vaci Ut	Hungary						6.2		
Surplus		33.4	50.6	13.5	7.3	12.2	32.0	25.8	23.4

Source: KBC Securities

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BALANCE SHEET

ON THE FRONTFOOT VERSUS PEERS

Still key to the equity story and a comforting position as a developer

The balance sheet is looking strong and provides the means to comfortably execute the existing projects and acquire new development sites. Over 1H10 the debt was switched from short-term to long-term with a duration of 5y through the bond issue and there are currently € 96m available liquidities (€ 75m corrected for short-term debt). Net debt / equity equates to 34% and management expects a limited cash-out for the projects in course over the next 12-18 months (€ 10-15m). The potential takeover of the certificate Westland Shopping could represent a cash out of € 32m which would impact the gearing ratio by 32% to 66%. Note though that this would not imply a negative carry in the P&L since the prospective yield on the certificate is slightly over 7%.

BALANCE SHEET ANALYSIS

€ m	2006	2007	2008	2009	1H10
Fixed assets	15.5	56.0	46.4	61.3	63.8
Net assets to be transferred	15.9	-	-	-	-
WCR	93.2	16.8	123.2	142.9	85.2
Shareholders' equity	75.6	103.0	125.9	117.8	100.7
Minority interest	0.2	0.1	(0.4)	(0.6)	(0.5)
Net financial debt	36.2	(42.7)	28.2	71.6	34.4
Other LT liabilities	12.5	12.6	15.9	15.5	14.5
Capital invested	124.5	72.9	169.6	204.2	149.1
Number of shares - fully diluted	5.038	5.038	5.038	5.038	5.038
NAV (IFRS) - fully diluted	15.0	20.4	25.0	23.4	20.0
chg y/y	n.r.	36%	22%	-6%	-15%
Net debt / equity	48%	-41%	22%	61%	34%

Source: Atenor, KBC Securities

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FINANCIAL OUTLOOK

KEY HIGHLIGHTS

Dividend cut seems inevitable

Over 1H10 Atenor posted a small loss of € 1.7m vs. KBCS est. € 1.0m positive. The company is guiding for a full year profit 'close to the equilibrium or slightly negative'. This compares to our forecast of € 4.8m but excluding the impact from President (€ 4.0m) and the Congo receivable (€ 1.4m) we arrive at minus € 0.6m. Note that we had included a 50% recovery rate on the provisions related to the delays on the President project. However, whereas Atenor was aiming for a friendly settlement regarding this financial dispute with the general contractor, we understand that the latter has decided to take the disagreement to court.

P&L ANALYSIS

€ m	2007	2008	2009	2010E	2011E	2012E
Development surplus	33.4	0.6	13.5	7.3	12.2	32.0
Congo receivable	2.8	0.1	-	1.4	1.4	-
Corporate cost	(3.7)	(5.0)	(5.6)	(5.5)	(5.5)	(5.5)
Taxes	2.9	-	(0.6)	-	-	-
Other	0.0	(4.5)	0.0	(3.5)	(3.5)	(3.5)
Net result - group	35.4	41.3	7.3	(0.3)	4.6	23.0
EPS	7.03	8.20	1.45	(0.05)	0.91	4.56
chg y/y	159.9%	16.6%	-82.3%	n.r.	n.r.	n.r.
DPS	2.60	2.60	2.60	2.00	2.00	2.00
chg y/y	100.0%	0.0%	0.0%	-23.1%	0.0%	0.0%
Payout	37%	32%	179%	n.r.	221%	44%

Source: Atenor, KBC Securities

We believe a renewed profit momentum could start to build as from mid-2011. But in our view 2009, 2010 and 2011 will be years of subtrend earnings with respectively EPS of € 1.45, € -0.05 and € 0.96. We believe under those circumstances it will be difficult to maintain the dividend which we have lowered to € 2.00 from € 2.60. Much will depend on the profit outlook for 2011 when setting the 2010 dividend.