

30 August 2013

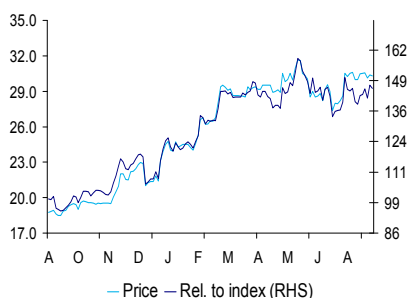
TEXAF

Cha group enters into Texaf's capital (10% stake)

FINANCIAL SERVICES
BELGIUM

CURRENT PRICE €30.30
TARGET PRICE €33.60

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg TEXF BB
Reuters TEXB.BR

www.texaf.be

Market Cap	€ 96.6m
Shares outst.	3.2m
Volume (daily)	€ 25,958
Free float	22.1%

Next corporate event

Trading update 3Q13: 22 November 2013

(€ th)	2012	2013E	2014E
Sales	17,248	19,050	20,300
REBITDA	7,642	9,203	9,803
Net earnings	6,516	4,440	4,710
Adj. EPS (€)	0.94	1.39	1.48
P/E (x)	20.6	21.8	20.5
EV/REBITDA	13.0	14.5	13.9
FCF Yield	1.2%	2.2%	-1.5%
Dividend yield	1.7%	1.2%	1.3%

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Major news this morning:

- 1) The board of Texaf proposes to spin off a new company. The assets of the new company will consist of Imbakin.
- 2) Hong Kong based Cha group is contributing its 50% (minus 1 share) stake in Immotex (joint real estate subsidiary) in exchange of 354,370 new Texaf shares. Cha will have a 10% stake in Texaf post the capital increase.
- 3) Texaf's REBIT rose by 17% to € 3.01m in 1H13 on the back of a 20% rise in rental income. Carrigrès' production rose by 23% compared to the 1H12 level but sales and REBIT fell by respectively 2% and 13%. The group's net profits rose by 16% to € 2.2m.
- 4) Two new members will join Texaf's board of directors: a representative of the Cha group and Ms Pascale Tytgat of BST (Belgian audit firm). Ms Tytgat will join as an independent board member.

Imbakin spin-off:

In 1996, a court ruled that the Congolese state owes Imbakin € 63m excluding interest, following the nationalization of land in 1965. An appeal is not possible. The first € 12m would go to Cobepa (Texaf's owner prior to the management buy-out in 2002). The new company will receive € 0.5m cash in addition to 100% of the Imbakin shares. An EGM will have to vote on the proposed spin-off. The spin-off will take place prior to the capital increase (see below).

Cha entering Texaf's capital:

Cha has been active in Africa since 1964. Texaf and Cha group have been partners in Immotex since 2005. Immotex owns 14 hectares (ex-textile factory site) of partially developed land at the centre of Kinshasa and 104 hectares of undeveloped land at Kinsuka at 15 kilometers from the centre of Kinshasa. The transaction includes the issue of 354,370 Texaf shares. Note that Immotex was already fully consolidated in Texaf's accounts. The transaction will be slightly dilutive on an EPS basis because the bulk of Immotex's real estate consists of undeveloped land that does not contribute to earnings yet.

Conclusion:

We took a close look at the valuation of Texaf. Last month Texaf sold a plot of land adjacent to Immotex's prime land for € 426 per sq.m. We assume € 300 per sq.m. for Immotex's undeveloped land at the centre of Kinshasa, a 10% yield to value the properties that are let, € 34 for about 60% of the land at Kinsuka and a capital gains tax of 35% to arrive at € 57m for 100% of Immotex. At first sight, the transaction with Cha seems to imply a significantly lower valuation for Immotex. Prior to the deal, Cha had a minority stake in a non-listed company. This probably explains the discount. We raise our target price from € 32.8 to € 33.6. The new target price assumes € 18m for Carrigrès (EV/EBITDA of 6.4x), € 0 for Imbakin and a discount of 25% for the country risk. The deal with Cha is a major step for Texaf. The transaction will allow Texaf to accelerate the development of Immotex's prime site and Texaf's board should also benefit from Cha's expertise in Africa and connections in China. We stick to our Accumulate rating.