

## BR Properties (BRPR3.SA)

### Alert: BR Properties announces approval for sale of assets

**Approval for sale of office assets at 8.7% cap rate or better** - This morning, BR Properties disclosed in a notice to the stock exchange approval by its Board of Directors for the sale of R\$690m in assets. The company estimates these assets will generate R\$60m in revenues over the next 12 months, equivalent to a cap rate of 8.7%. While not specified in the release, we understand these assets to be office properties in both Rio de Janeiro and Sao Paulo.

**Exit cap rates below 9% attractive vs. cost of both equity and debt** - Further details were not made public by the company because the assets remain under negotiation and other potential offers are still being entertained. According to BRPR3, the rationale for the sale is to take advantage of a compelling price and exit cap rate for the assets. While the proceeds could be recycled into acquisitions at a higher cap rate or put towards share repurchase (with BRPR3 shares trading at a 2014 cap rate of 10%), we expect the short term use would be debt reduction, which is also FFO/shr accretive given an average 1Q13 borrowing cost of ~11%.

**Motivation based on valuation and accretion, not liquidity** - BR Properties' balance sheet is in strong condition with R\$771m of cash and net debt of R\$4,758m as of 1Q13, equivalent net debt/EBITDA of 5.6x and 39% debt/gross asset value (GAV). Hence, we agree the motivation of the asset sale is valuation and accretion based, not liquidity. BR Properties has an average debt maturity of 4.4 years and R\$645m and R\$819m maturing in 2013-14, respectively.

<b>Buy</b>	<b>1</b>
Price (21 Jun 13)	R\$17.53
Target price	R\$27.00
Expected share price return	54.0%
Expected dividend yield	3.1%
<b>Expected total return</b>	<b>57.1%</b>
Market Cap	R\$5,481M
	US\$2,427M

### Price Performance (RIC: BRPR3.SA, BB: BRPR3 BZ)



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### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## BR Properties

### Valuation

Our 12M PT of R\$ 27.0/shr is based on discounted cash flow analysis, including a WACC of 11.8% and a terminal year cap rate of 9%.

### Risks

Key risks for BR Properties' target price include sensitivity to overall business activity and GDP growth as well as the balance of supply and demand for office space, particularly in Sao Paulo and Rio de Janeiro. Valuation is highly sensitive to real interest rates. With more than 180 tenants of generally high quality and none larger than 5% of rent revenues, tenant concentration risk is low.

Rent contracts are indexed for inflation but adjusted to market price every 3 years, which implies fair degree of business and real estate cycle risk.

Principal risks to the upside include better than expected rent growth, G&A cost dilution or net financial cost savings. Principal risks to the downside include rent variation, occupancy levels and greenfield delivery delays.

## Appendix A-1

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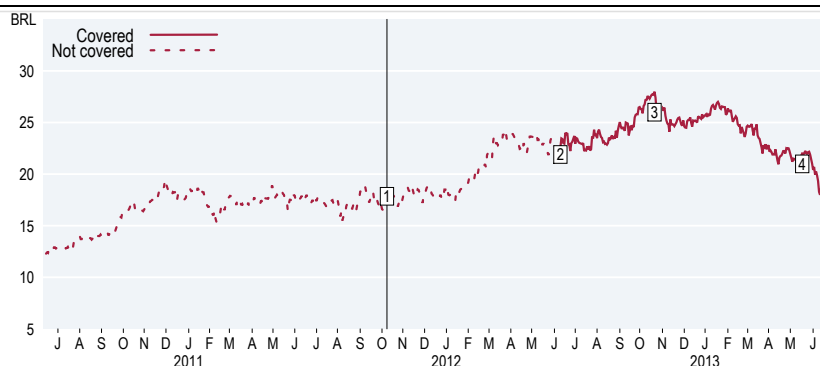
#### BR Properties (BRPR3.SA)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Dan McGoe, CFA

Covered since June 11 2012



Date	Rating	Target Price	Closing Price
1 8-Oct-11	Stock rating system changed		
2 10-Jun-12	*1	*27.90	22.37

\* Indicates change

Date	Rating	Target Price	Closing Price
3 22-Oct-12	*2	*27.00	27.99
4 17-May-13	*1	27.00	22.00

Rating/target price changes above reflect Eastern Standard Time

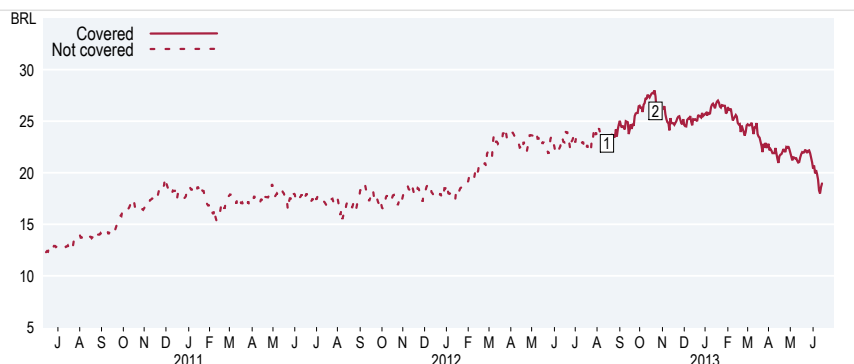
## BR Properties (BRPR3.SA)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Dan McGoe, CFA  
Covered since June 11 2012



Date	Rating	Target Price	Closing Price
1 15-Aug-12	*ADD MP	-	22.85

Date	Rating	Target Price	Closing Price
2 23-Oct-12	*REM MP	-	27.41

\* Indicates change

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12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
48%	39%	12%	7%	87%	7%
53%	49%	43%	65%	49%	51%

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