



22-Jun-10

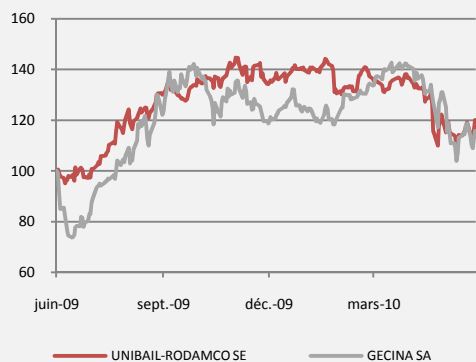
**UNIBAIL-RODAMCO SE**

Sector Retail REITs

|                |           |
|----------------|-----------|
| Code Bloomberg | UL FP     |
| Last Price     | 138,5 EUR |
| Rating         | A         |
| Code Bloomberg | GFC FP    |
| Last Price     | 69,9 EUR  |
| Rating         | BB+       |

**GECINA SA**

Sector Industrial &amp; Office REITs



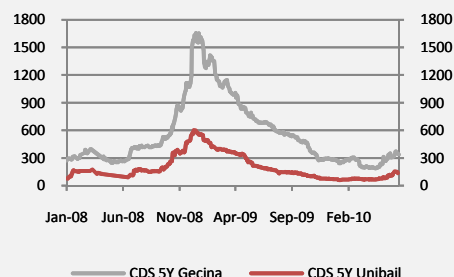
| Market data           |  | Unibail |
|-----------------------|--|---------|
| Market cap ( EURm)    |  | 12 687  |
| Shrs Outstanding (m)  |  | 91      |
| Free float            |  | 100%    |
| 3m avg, volume( EURm) |  | 70,1    |
| 1m return             |  | 9,8%    |
| YTD return            |  | -4,5%   |

| Consensus |    | Analysts' target |        |
|-----------|----|------------------|--------|
| Buy       | 18 | Price target     | 152,67 |
| Hold      | 9  | Equity upside    | 9,9%   |
| Sell      | 4  |                  |        |

| Market data           |  | Gecina |
|-----------------------|--|--------|
| Market cap ( EURm)    |  | 4 364  |
| Shrs Outstanding (m)  |  | 63     |
| Free float            |  | 29%    |
| 3m avg, volume( EURm) |  | 5,8    |
| 1m return             |  | 2,5%   |
| YTD return            |  | -8,3%  |

| Consensus |   | Analysts' target |      |
|-----------|---|------------------|------|
| Buy       | 4 | Price target     | 74,3 |
| Hold      | 3 | Equity upside    | 5,4% |
| Sell      | 5 |                  |      |

| Peer group                | Tickers |
|---------------------------|---------|
| LAND SECURITIES GROUP PLC | LAND LN |
| BRITISH LAND CO PLC       | BLND LN |
| KLEPIERRE                 | LI FP   |
| CORIO NV                  | CORA NA |
| ICADE                     | ICAD FP |



| Valuation ratios | Unibal Rodamco |        | Gecina |        |
|------------------|----------------|--------|--------|--------|
|                  | UL FP          | GFC FP | UL FP  | GFC FP |
| Share price      | 138,35         | 71,47  |        |        |
| Price / NAV 09   | 1,08           | 0,81   |        |        |
| Occupancy rate   | 98%            | 96%    |        |        |
| Dividend Yield   | 5,94%          | 6,41%  |        |        |

**Switch from Unibail to Gecina**

As growing unemployment rate in Europe is still weighting on office demand, we have, to say the least, no conviction at all regarding the sector. Actually, the trend of occupancy rate is still down hampering REIT's pricing power. A drift confirmed by Gecina, while issuing its 1st Q 2010, and resulting in a 3% reduction in rental income as the company granted a 13% reduction in rents on around 20% of its office portfolio.

Nevertheless, as economy is picking up it may make sense not to wait for all the green lights. Should you be exposed, we would advise to switch from Unibail to Gecina.

**Credit: a significant gap, but the risk is over-priced.**

The yield gap for the two convertible bonds is 5.55% ! A number unjustified by the delta difference and the annualized premium (4.7% for Unibail and 5.6 % for Gecina).

|                    | Unibal Rodamco |           | Gecina    |        |
|--------------------|----------------|-----------|-----------|--------|
|                    | UL FP          | GFC FP    | UL FP     | GFC FP |
| S&P                | A              | BB+       | Outlook + |        |
| Moody's            | A3 Outlook +   | Baa3      |           |        |
| CDS 5 y            | 118 /128       | 326 / 364 |           |        |
| Loan to value      | 38%            | 45,7%     |           |        |
| Financial coverage | 3,9            | 3,26      |           |        |

Gecina is already investment grade for Moody's and the group is currently actively managing its assets and balance sheet in order to reach an investment grade rating with S&P as well. According to the company, unless any exceptional items occurs, rating review won't occur before Q3 or Q4. Apart from credit ratios, rating agencies concerns were focused on three items:

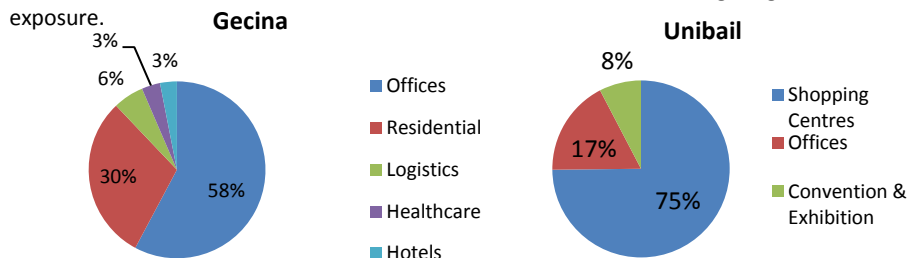
1 ) Governance - A number of steps were taken over the past months to restore not only the image but also comply with "regular" corporate governance rules. Mr Riviero has been pushed to quit both its General manager and Chairman positions. Independent administrators have been named, a new CEO and a new Chairman have been appointed. Mr Rivero and Soler are still major shareholders but their clout is seriously harmed, especially as Mr Rivero is under investigation by French Authorities.

2 ) Financial flexibility - According to S&P, corporate governance issues could have resulted in "reduced financial flexibility". Beginning of the year, following Mr Riviero step down, Gecina renewed three contracts maturing in 2011 and 2013 with its partner banks, raising the total from €1,015 million to €1,150 million and setting their maturities for 2014 and 2015 and issued an Ornane maturing January 2016 for 320 m€.

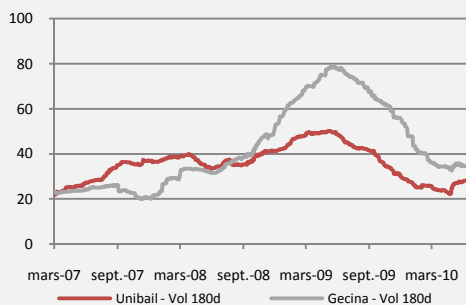
3 ) Commercial activities: Gecina has recently illustrated its ability to develop new ambitious programs leasing Anthos, the new HQE Carrefour Group headquarter (9257 sq.m in Boulogne) and leasing almost half of the new Horizons building (9 year commitment, delivery in September 2011, location: Boulogne, 36 000 sq.m).

**Equity Valuation:**

Of course businesses are not totally similar (graph below - breakdown per income), but at the end it is just about rents and leases. Unibail is much more geographically diversified and shopping centers have, so far, shown less cyclicality than offices. On the other hand Gecina shares are now trading well below its NAV (liquidation one) per share. Obviously it is not the main driver for the switch, but valuation considerations are not weighting for an Unibail exposure.



## Volatility



## Convertible Bond

### Unibail Rodamco 3,5% 2015

FR0010751396

|             |            |
|-------------|------------|
| Nominal     | 146        |
| Maturity    | 01/01/2015 |
| Redemption  | 100        |
| Coupon      | 3,500      |
| Conv. Ratio | 1,08       |
| Conv price  | 135,52     |

|             |                     |
|-------------|---------------------|
| Issuer Call | 130%                |
| Call period | 15/01/14 - 01/01/16 |

### Gecina 2,125% 2016

FR0010881573

|             |            |
|-------------|------------|
| Nominal     | 111        |
| Maturity    | 01/01/2016 |
| Redemption  | 100        |
| Coupon      | 2,125      |
| Conv. Ratio | 1,06       |
| Conv price  | 104,76     |

|             |                     |
|-------------|---------------------|
| Issuer Call | 130%                |
| Call period | 01/01/13 - 01/01/15 |

## Convertible bonds valuation

Obviously, terms at issue of the Gecina Orname 2016 were very attractive, but for the issuer. At that time, investors were chasing for paper as fund raising was successful. Valuation is now rather compelling for Gecina Orname while Unibail Orname is showing no discount at all. Shareholders structure (Spanish Banks via Metrovacesa and Mr. Rivero) and planned asset disposals\* will probably support volatility.

|                    | Gecina 2016 | Unibail 2015 |
|--------------------|-------------|--------------|
| CB Price           | 100,125     | 182          |
| Spot Price         | 69,9        | 137          |
| Spread             | 350 bp      | 130 bp       |
| Volatility         | 27,5%       | 25,0%        |
| Implied Volatility | 17,7%       | 24,4%        |
| YTM                | 4,23%       | -1,32%       |
| Delta              | 43%         | 61%          |
| Premium            | 35%         | 23%          |
| Fair Value         | 106,27      | 182,41       |

Despite credit spread gap used for valuation (CDS Level), Unibail is currently trading close to its fair price (250 days historical volatility was 24% before the last market drop) while Gecina 2016 is trading at 17.7% implied volatility, 20 points below realised volatility (250 days realised has never been lower than 37% over the last year). Should S&P act on its positive outlook on its BB+ rating for Gecina and harmonise the currently split rating from Moody, which currently rates Gecina at the investment grade rating of Baa3, then we may expect a 25bp to 50bp spread tightening on the CDS. Assuming a 25bp credit tightening, and assuming the rest of the above parameters as a given, this is worth an additional Eur 0.875 in fair value per bond and if a 50bp tightening results, then this is worth an additional Eur 1.75 in fair value per bond.

\*Hotels and Logistics will be sell but there is currently no timetable.

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