

Maintained

Buy**Befimmo**

Bréderode 2 building pre-leased

Price (11/02/08) €71.77

Maintained

12m target price €84.00

12m forecast returns (%)

Share price 17.0

Dividend 6.3

23.3

Market cap €937.2m

Reuters BEFB.BR

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Forecasts and ratios

Yr to Sep (€m)	2007	2008F	2009F	2010F
Turnover	104.9	110.3	119.5	126.6
EBITDA	88.3	91.0	100.3	105.5
Net profit	129.0	71.7	79.1	80.3
Adj EPS (€)	4.55	3.75	4.19	4.37
Adj PER (x)	15.8	19.1	17.1	16.4
Dividend yield (%)	6.3	6.3	6.4	6.5
EV/EBITDA (x)	20.1	20.1	19.8	19.0
Price/NAV (x)	1.0	1.0	1.0	1.0
ROE (%)	11.2	6.4	7.1	7.2

Source: Company data, ING estimates

News

According to the property magazine Expertise Befimmo signed a lease with a new tenant for 100% of its Bréderode 2 building, currently under refurbishment. According to the article, the new tenant is Starwood Hotels & Resorts and the rent paid €235/m² or €1.8m on an annual basis to start at the completion of the works (February).

Following a contact with the company we maintained our assumptions, ie, a rent of €200/m² (€1.5m per annum) on a net basis as from October 1 2008 in order to include rent-free periods. The company also said that the new tenant is indeed a hotel group, but not Starwood.

Investment thesis

We sustain our estimates but the new lease is nevertheless good news as the building is now 100% pre-leased and not a mere analysts' assumption. The stock remains an attractive investment given its total return upside potential (23%), its ultra-low risk profile (two thirds of its rental income is generated by government bodies) and high dividend yield at over 6%.

Conclusion

Earnings estimates maintained & DCF-based target price maintained as the terms of this new lease are in line with our estimates. The lease is nevertheless good news, especially in the current nervous property climate.

Risk factors

Market risk: mainly exposed to the Brussels office market but mitigated by long-term leases & top tenants.

Interest rate risk: financial debt is mainly at floating rates, but most of it is hedged. Hedging was substantially reinforced recently with a 2007-12 IRS at 3.73%.