

Maintained

Buy

Befimmo

Acquires three important buildings from Fortis

Price (26/06/08) €69.30

Previously: 86

12m target price €86.50**12m forecast returns (%)**

Share price 24.8

Dividend 6.5

12m fcst total return 31.3

Market cap €905.0m

Reuters BEFB.BR

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Forecasts and ratios

Yr to Sep (€m)	2007	2008F	2009F	2010F
Turnover	104.9	111.8	121.7	125.9
EBITDA	88.3	92.6	102.5	104.3
Net profit	129.0	83.8	83.5	80.2
Adj EPS (€)	4.55	3.75	4.58	4.39
Adj PER (x)	15.2	18.5	15.1	15.8
Dividend yield (%)	6.5	6.5	6.6	6.7
EV/EBITDA (x)	19.7	19.6	19.2	19.1
Price/NAV (x)	1.0	1.0	0.9	0.9
ROE (%)	11.2	7.1	7.5	7.1

Source: Company data, ING estimates

News

Befimmo announces this morning the acquisition of three office buildings from Fortis located in Antwerp and Leuven. The buildings are fully let (27Y, 18Y, both leased to Fortis and one multi-tenancy with LT leases, total avg. lease duration of 17 years). Total price amounts to €94.1m. The company indicates a yield of 5.22% and reckons the operation will add 7 eurocents on an annual basis as from year two thanks to the 'financing structure put in place'.

Investment thesis

A contact with the company confirms us the advantageous conditions of the financing of the operation (€100m credit line for three years) which should remain safely below our assumed weighted average cost of debt (4.76% for 2008). Some of the buildings are rather old but no investments are expected before the expiry of the long leases. Our earnings model results in lower net current EPS estimates for 2008 (-12 eurocents, rents as from end June ie, only three months during current fiscal year ending Sept. 30) and a positive effect as from FY09 (+5 eurocents) albeit slightly below company projections. Our DCF-based target price is raised slightly from €86 to €86.50 (+€0.50).

Conclusion

On pure financials, we assess the operation as positive given the relative effect on earnings. Fundamentals are also further reinforced with a longer average lease duration (now at 9.5 years (9years as of Sept. 30), the larger portfolio (up 4.3% vs end-Sept. 2007) and the occupancy further up to 97%. The weight of Fortis remains modest (below 4%). Obviously one cannot help to think that this operation is related to the current solvency woes of Fortis. As a reminder Fortis is the main shareholder (16%) and the statutory manager of Befimmo (partnership by shares). However, Befimmo reckons negotiations have been in progress since months and one can also argue that Befimmo was in a position of strength vs Fortis. The strict Belgian SICAFI legislation applies for such conflicts of interest. After the overall market fall, Befimmo trades with very attractive multiples (4.7% discount vs. NAV, dividend yield at 6.5%) whereas the risk profile remains second to none (over 60% of rents are generated by public bodies). BUY rating sustained.

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%.