KBC Securities

**27 August 2010**

COMPANY: Befimmo
Recommendation: Buy
Current Price: € 57.0
Target Price: € 62.0

News:

Befimmo published its 3Q09/10 trading update last night. Only headline numbers are released and these were broadly in line with our forecasts: i. Rental income at € 92.4m vs. € 93.2m KBCS est. ii. Recurring EPS € 3.51 above € 3.46 KBC est. due to lower interest expenses. There was also an exceptional (cash) gain of € 0.39 related to the early termination of the leasehold granted on the site of Block 2 of the WTC in Brussels. iii. Confirmation of the dividend at € 3.90. iv. The loan-to-value equates to 43% and we estimate this to be nearer 40% after the completion of the sale of the Empress Court (foreseen early 2011). v. NAV (IFRS) at € 60.0 vs. € 60.2 KBCS est. after a mild q/q portfolio adjustment of -0.4% (1Q: -0.5%, 2Q: -0.5%). The gross rental yield is now 6.4% and 7.0% on full occupancy. The latter was stable q/q at 95% and 94% including buildings under renovation.

Our View:

Management made two interesting comments on funding and investments which we found encouraging. First, on debt financing it mentioned that banks are again willing to provide longer term funding (from 3y to 5-7y) at a reasonable cost. On a potential bond issue, the company is reluctant taking into account the high spread implied at a yield of, say, 4.0-4.5% (with the 5y swap at 1.74%). Second, on investments it pointed out that it is analyzing several investment opportunities and that it became more optimistic than a few months ago when it saw no genuinely attractive product on the market.

Conclusion:

We are changing our recommendation to Buy and set a new fair value at € 62 in line with our forecast 2010E NNAV. The rationale is threefold: i. The stock has generated a total return year-to-date of -9% – underperforming both the sector and the broader market. ii. In a period of stock market volatility its 7% dividend yield stands out (with 2/3 of income derived from public institutions) which also limits the downside in absolute terms. iii. There are two positive share price triggers that could materialize: a lengthening of the debt maturity (<3y) and acquisitions.

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