



COMPANY: Befimmo
Recommendation: Hold
Current Price: € 61.6
Target Price: € 63.0

News:

Befimmo yesterday announced it will implement a merger by absorption of Ringcenter NV. The latter was acquired at the end of January from a German open-ended fund and owns an 18,750m² office building in the European district in Brussels let on a 15y lease to the European Commission. The transaction valued the asset at € 78m reflecting a net initial yield of 5%.

Our View:

As is usually the case, the acquired special purpose vehicle (Ring Centre NV) will be merged into the REIT parent company to create a tax transparent income stream generated from the underlying assets.

However, what is particular to this transaction is that 637k new Befimmo shares (~ 3.8%) will be created that will be held by subsidiaries. Hence, analytically this will look like a debt-funded acquisition but technically treasury shares have been created which could be used to (partially) fund future acquisitions. As a reference, Befimmo's balance sheet is still conservative with a projected loan-to-value of 45% by 2013. When those newly created shares (~ € 39m) would be monetized the impact on the loan-to-value would be 2%.

This is an inventive technique that has also been applied in the past by peer Cofinimmo as a means to issue new equity in a flexible manner but that in our view has become less necessary after the new Belgian REIT legislation has provided more flexibility re financing solutions. Note that there is no additional tax benefit linked to this structure.

Conclusion:

We maintain our Hold recommendation.