



EQUITY

REAL ESTATE

| AUGUST 21, 2013 |

↓_{PDF} **Befimmo (Buy, TP=€60) - Rating reiterated - Strong expertise an advantage in today's market conditions - H. Quadrelli (2p)**

■ Update

We have updated our model for Befimmo following information provided by the company at the time of its H1 results. The main highlights of the H1 were two investments: Blue Tower (€78.5m, 24,535 m², gross yield 6.9%) and the AMCA building (€110m, 58,000m², gross yield of 6.5%). The Blue Tower acquisition was financed for €31.2m by the private placement of own shares (av. price €49/sh) and the remainder through debt. The acquisition of the AMCA building was financed by equity, with vendor AXA Belgium receiving €110m in newly created Befimmo shares (at €54/share), thus becoming a shareholder of Befimmo with a 9.6% stake. The two assets represent c.10% of the value of Befimmo. At the same time, the Mons I building was sold for €8m in line with the fair value determined by independent experts. The fair value of the portfolio stands at €2,044.5m, down 0.34% at constant structures. The biggest decline in value was recorded by the decentralised portfolio (-5.18%). Note that the H1 results were boosted by a one-off €3.7m penalty payment related to the cancellation of a lease agreement, which should not be repeated in H2.

■ SG view

Following the acquisition of the above two mentioned assets, the occupancy rate improved slightly (from 94.8% to 95.1%) and the average lease duration increased (from 8.97 to 9.29 years) while the LTV ratio fell from 47.6% to 45.2%. We see this as testimony of Befimmo's strong expertise in the Brussels office market in which the company aims to strengthen its positions. We expect this strategy to be successful in the medium term, providing that the market undergoes a recovery.

■ How we value the stock

Our target price of €60 is derived from an estimated fair value of €66.3 to which we apply a market discount of 10%. Our fair value is based on the average of a 10-year DCF with perpetuity growth of 2% and a WACC of 6.2% (€68.9), a Gordon-Shapiro model inputting a normalised dividend (€77.1), and a 10-year DDM with terminal value in line with the average of gross and net NAV (€52.9). Our market discount is derived from a sector discount of 10%, liquidity discount of 2% and a reputation premium of 2%. Risks to TP: a deterioration in the Brussel office market could have a negative impact on rental revenues and on our valuation and recommendation.



Henri QUADRELLI

☎ +33 1 42 13 37 33

✉ henri.quadrelli@sgcib.com



Michel VARALDO

☎ +33 1 42 13 73 02

✉ michel.varaldo@sgcib.com



Marc MOZZI

☎ +44 20 7762 5090

✉ marc.mozzi@sgcib.com