

5 June 2014

## BEFIMMO

### Share rally hits the ceiling – Rating downgraded

REAL ESTATE INVESTMENT TRUSTS  
BELGIUM

CURRENT PRICE € 55.58  
TARGET PRICE € 56.00

**HOLD**  
RATING DOWNGRADED



Source: Thomson Reuters Datastream

Bloomberg	BEFB.BB
Reuters	BEFB.BR
www.befimmo.be	
Market Cap	€ 1,175.9m
Shares outst.	21.2m
Volume (daily)	€ 1,178,189
Free float	82.2%
Next corporate event	

(€ m)	2013	2014E	2015E
Current Result	84.0	85.1	89.0
Portf. Result	-4.8	0.0	4.7
Net Profit	79.2	85.1	93.7
Adj. EPS (€)	4.24	3.96	4.12
NAV (€)	54.4	55.9	56.5
P/E (x)	12.0	14.0	13.5
DPS (€)	3.45	3.45	3.45
Dividend yield	6.8%	6.2%	6.2%

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#### Summary:

We detect improving trends in the Brussels office market. As a result, we expect that Befimmo's negative portfolio revaluations could come to an end in FY14, while we also don't rule out further portfolio growth. The company remains our preferred office play in the market, but the recent share rally has limited further share upside. We lower our rating from Accumulate to Hold.

#### Strong rally confirmed undervalued situation:

Befimmo offers a very solid profile of high-quality offices at top locations in the Brussels office market. As this quality standard is essential to the company's business model, management invests actively in order to keep it state-of-the-art. The tenant base provides strong income stability as public and European institutions occupy 70% of the portfolio via long-term lease contracts with an average maturity exceeding 11 years. Today, we furthermore notice increasing investment liquidity in the Brussels CBD region, which reflects its good position to benefit from the economic recovery.

All this results in sound cash flow generation enabling an at least stable dividend, which on its turn leads us to believe that the discount to NAV was overdone. However, the stock has rallied strongly over the past couple of months limiting further upside.

We believe that the negative portfolio revaluations could come to an end in FY14, but the current market offers yet too little liquidity to justify a premium to NAV. The Brussels office market reflects a steady tenant take-up of 100k m<sup>2</sup> on a quarterly basis, which is stable and in-line with last year, while investors demand is increasing. This exerts slight pressure on yields, which are today however still relatively high in comparison to the surrounding European countries and this despite the high tenant stability and liquidity profile of Brussels. We expect that Befimmo's assets could benefit from this yield pressure, while we also don't rule out portfolio expansion in 2H14.

#### Challenges and opportunities in the market remain:

On the one hand, there is the uncertainty regarding the Flemish government which will vacate the North Building end-FY17 and, as is the situation today, would go to the Meander project at Tour & Taxi. Though, Fedimmo (100% daughter company of Befimmo) has lodged an appeal against this decision. We expect more clarification with regard to this file before the summer. Also tenants' decision process to occupy new office space remains lengthy. Today, it takes several committees before a final decision to move is taken.

On the other, the Brussels Region and the European Commission remain in search of new high-quality office space. Hence, we expect demand to remain highly present. This could result in further portfolio expansion, as mentioned above.

**Conclusion:** We still believe that Befimmo is the best office play in the Belgian REIT universe. However, the recent rally has limited upside potential, due to which we lower our rating from Accumulate to Hold.