

### **Befimmo (EUR 55.67 - HOLD vs. Add): Short term potential now limited**

Befimmo remains a solid investment case. However, given its recent performance (+10.4% YTD) the stock now trades close our target price and the short term potential limited. Hence, our rating goes from 'Add' to 'HOLD'.

#### **Facts**

- We have revisited our 2014-15 estimates mainly on the back of 1) higher capex and 2) lower financial expenses. We also publish 2016 estimates. 2014-16 capex is now expected to amount to a total of EUR 117.4m vs. EUR 62.2m previously, including a more expensive & longer renovation for Brederode II starting as soon as Linklaters returns to Brederode I.
- Our rental income projections are barely changed as we already include in our estimates a very low inflation (1.0% in 2014, 1.3% in 2015) and scheduled new assets (Brederode I, Triomphe I, Tower Paradis with the older building on site to be subsequently demolished).
- Still given that new assets will only have a full effect as from 2015 we expect 2014 rental income to fall slightly to 2.6% before rebounding by 3.6% in 2015. Mind also that 2013 rents include a large EUR 3.1m lease termination fee worth EUR 3.4m on its Schuman 3 building)
- Given stubbornly low interest rates we also revised downwards our financial expenses forecasts with cost of debt now expected flat in 2014 & 2015. This partially compensates our higher capex projections.
- No changes on Noord building. The asset, to be vacated by its current tenant sometime in 2017, is for sure an important question mark (rents in 2013 amount to ca. EUR 0.38 per share) and has to cope with several competing projects. However, we remain 'cautiously optimistic' given the superb location of the asset and its size (43,000 sqm, building easily expandable), both features sought after by public bodies.
- All in all, our direct EPS estimates are slightly down (see table). Still, given a lower WACC, now more in line with market conditions, our valuation (DCF/EVA) is slightly up to EUR 55.90/share vs. EUR 53.00 previously.

#### **Our View**

- Overall we expect a lacklustre 2014, we are the lowest among consensus contributors, but followed by a nice results' rebound in 2015. 2016 results should nevertheless have to cope with higher financial expenses. We have not included any external growth nor an improved occupancy on properties available for lease.
- For 2014-16 the dividend looks reasonably safe but the main question mark beyond 2016 remains the Noord Building.

#### **Conclusion**

All in all, Befimmo remains a solid investment case supported by the high weight of public bodies in its tenants' base, a high quality portfolio and a recovering office market for high quality assets. However, given its recent performance (+10.4% YTD) the stock now trades close our target price and the short term potential limited. Hence, our rating goes from 'Add' to 'HOLD'.

## Details

(EUR m)	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Net rental income	136.8	133.7	138.5	141.5
EBIT	113.7	110.6	115.2	117.8
Net financial expenses	-28.8	-29.8	-30.7	-33.1
Direct results	84.1	80.0	83.6	83.8
Direct EPS (EUR, old ests.)	4.22	3.74	3.86	
<b>Direct EPS (EUR, new ests.)</b>		<b>3.68</b>	<b>3.77</b>	<b>3.70</b>
Direct EPS (EUR, Befimmo guid.)		3.90	3.72	3.62
DPS (EUR)	3.45	3.45	3.50	3.55
EPRA NAV (EUR)	54.35	54.30	54.44	54.46

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