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Sent: 23 May 2008 09:06
To: Delacroix Emilie
Subject: Petercam: Befimmo (EUR 75.92 Upgrade from Reduce to Hold): Dividend guidance unchanged, whilst decreasing the short term debt.

Befimmo (EUR 75.92 Upgrade from Reduce to Hold): Dividend guidance unchanged, whilst decreasing the short term debt.

Facts

Total rental income increased from EUR 48.6m to EUR 54.7m due to the full impact of Fedimmo. Furthermore, the company was able to increase the occupancy to 97% due to the leasing of Brederode corner (7,340sqm) to Sheraton and its Media building to Oracle (4,645sqm) and Denso (1,455sqm). The company extended current leases with Siemens and TG Europe and orders at an average reversion of +2.9%. As we expected the occupancy to remain stable at 95% in H1 and slightly increase in H2 due to the sale of the semi-industrial portfolio, our estimate for H1 was slightly lower at EUR 52.6m. As expected the company saw its operating and overhead costs increase due to the increased size of the portfolio to 14.5% of gross rental income (13.9% last year), which was inline with our estimates. Furthermore, the company saw its financing costs increase to EUR -19.4m (our estimate EUR -19m) compared to EUR -14.9 for the same period last year, as the company's average interest rate increased to 4.57% compared to 4.09% at 30/09/2007 and approx. 3.8% at 30/03/2007. However, the financial revenues increased to EUR 6.5m, which includes EUR 0.9m value increase of derivatives, compared to EUR 1.5m last year. As a result, the financial result only increased to EUR -16.1m compared to EUR -15.9m last year, whilst we expected EUR -19m. As a result the net cash flow per share amounted to EUR 29.2m or EUR 2.23 per share. We expected EUR 25.8m or EUR 1.98 per share;

The company was able to finalize the sale of its semi-industrial portfolio to Rockspring for EUR 72m, with a capital gain of EUR 0.52 per share before 31/03/2008. Furthermore, the revaluation result of the portfolio amounted to EUR 7m as the portfolio value increased with 0.44%, even though the average yield amounted to 6.38% compared to 6.32% at 30/09/2007. As we expected the sale of the industrial portfolio to be finalized in H2 and the portfolio value to remain stable our estimate was significantly lower at EUR 2.2m;

The leverage (48%) compared to H1 2007 (61%) decreased significantly due to the placement last year and was more or less inline with 30/09/2007 (47%). The amount of short term debt decreased from 85% to 44%;

The company has successfully arranged EUR 260m new debt for 5 years. This includes two separate loans of EUR 100m and a third loan of EUR 60m. The average interest rate on these loans will be 4.6%, including approx. 45bps margin, which will increase the average maturity of loans from 2.3 years to 4.2 years. Furthermore, as the company extended its interest rate hedging structure by buying an IRS callable at 3.9%, the company will increase its hedging ratio to 74%;

According to the company, the pipeline is progressing according to plan and for the FY the company maintains its dividend guidance of EUR 4.51 per share.

Our View

As the company increased its occupancy and achieved further rental reversion in H2, the top line results were higher than we expected. Furthermore, as the company was able to close the Rockspring deal before the end of H1, whilst we expected this be done in H2. The company is slightly ahead of our schedule. Furthermore, due to the significantly increased financial income, which positively off set the increased financing cost, the net cash flow per share was 12% higher than we expected. However, as the company expects the financial result to increase from EUR -16.1m in H1 to EUR -40.3m for the FY and we pencilled in increased occupancy for H2, our FY estimate is still inline with the company's EUR 3.79 per share net cash flow guidance at 30/09/2007;

As the company significantly lowered its short term debt ratio to 44%, this takes away some uncertainty and risk regarding the company's financing. The re-financing will be slightly more expensive at 4.6% whilst we estimated 4.5% for the FY, which is still quite an achievement considering the current market sentiment. However, due to the increased financial income the company is able to maintain its net cash flow per share guidance;

At 30/09/2007 the company said it would be able to maintain its 2007 dividend of EUR 4.51 for 2008 due to the capital gain on the Tocopro building. This is further strengthened by the capital gain on the Rockspring deal in H1. Furthermore, according to local Belgian real estate news letter Expertise. DTZ and JLL are currently marketing the remaining of the semi-industrial and periphery portfolio (approx. EUR 175m), which was part of the original deal. Therefore, we might see another capital gain in H2.

Conclusion

All in all, the results were slightly better than we expected, as the company was slightly ahead of our schedule. The re-financing of the loans takes away some uncertainty and risk, even though this will increase the company's average interest rate for the FY (4.6%) slightly above our estimate of 4.5%. However, as the financial income in H1 tripled, the company is able to maintain its dividend guidance, whilst decreasing its short term debt ratio. As a result the company is still inline with our estimate for the FY, although we were somewhat worried re-financing would ruin Befimmo's plans for 2008. Therefore, as the company is able to maintain its dividend guidance, further increased its NAV to EUR 72.86 we upgrade back to Hold as the price cooled off to EUR 75.9, but leave the target price unchanged at EUR 82.60.

Details

	07 H1a	08 H1a	% ch.	08 H1e	% diff e/a
Rental income (m)	48.8	54.7	12%	52.6	-4%
EBITA (m)	41.9	46.8	12%	44.1	-6%
Net cash flow (m)	26.2	29.2	11%	25.8	-12%
Net cash flow (per share)	2.68	2.23	-17%	1.98	-11%
Indirect result (m)	28.4	15.4	-46%	2.2	-86%
NAV per share (m)	68.11	72.86	7%	71.12	-2%

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