

Befimmo (EUR 62.00 - Reduce): Preview FY '08: 2008 dividend sustainable but what about 2009? [17 November 2008]

Today after close Befimmo will publish its FY results. We expect the company to pay-out EUR 4.51 dividend per share but lower direct result per share (-10%). We expect indirect result to amount to EUR -15.4m (vs. EUR 37.4m last year).

Preview

Period	FY 2008
Date/Time	Tuesday 18 November, after close
Recommendation	Reduce
Target price	67.50

in EUR	2007 FY	2008 FYe	% Ch
Revenues (m)	104.9	109.9	5%
EBITA (m)	88.1	93.0	6%
Direct result (m)	51.7	56.3	9%
Direct result per share	4.78	4.31	-10%
Indirect result (m)	37.4	-15.4	-141%
NAV per share	71.36	73.32	3%

Conference Call	na
Analyst Meeting	Tuesday 18 November 17.30hrs Brussels

Key items

- We expect the rental income to have increased by 5% year-on-year to EUR 109.9m due to the increased occupancy, rental indexation and the EUR 94.1m Fortis acquisition at 19 August 2008 (5.22% yield). We expect the operating and overhead costs to remain unchanged compared to H1 '08. At the H1 results the company announced they had successfully arranged EUR 260m credit line for 5 years to re-finance its bridge financing for the Fedimmo portfolio. This enabled the company to increase its average maturity of debt from 2.3yrs to 4.2yrs and significantly decrease its short term debt from 85% to approx. 45%. However, the new debt facility was arranged at higher levels (4.6%) than Befimmo's average interest rate at H1 '08 (4.4%). At the Q3 results the company said it had arranged another EUR 300m debt facility, which brought the average maturity of debt to 4.0yrs. This time no interest rate or margin was provided, it was however at higher levels than the previous arrangement, according to the company. Therefore, financing costs will have increased. Due to the increased share capital (13.058.969 vs. 10.822.844 on average over 2007) we expect the direct result per share to have decreased to EUR 4.31 (vs. EUR 4.78 last year). Nonetheless, the company targets to pay-out the same dividend for 2008 as I did for 2007 (EUR 4.51 per share), due to capital gains on divestments;
- Year to date, deals in the Brussels office market have dried up and surveyors have little evidence to value portfolios. In Q3 2008, Brussels saw one significant investment; Axa purchased a

21.000sqm building for EUR 50m. As a result, yields have slightly moved up (+15bps for prime) and rental growth came to a standstill. Cushman & Wakefield estimates demand for 2009 to be below the 5 year average (450.000sqm) as the financial institutions might/will downsize or relocate to Amsterdam or Paris (ABN / BNP), whilst last year it was expected that a lot of ABN AMRO people would come to Brussels. Furthermore, the EU institutions are putting new space on hold as a new longer term view for the European district will be developed. However, supply will grow to 2m sqm in 2009. Currently 1.2m sqm of space is vacant and in 2009 800,000sqm of new space will be delivered. At 30/06/08 the top rental level amounted to EUR 300/sqm and is expected to stay stable for the short term but incentives are increasing. Nonetheless, last month the Dutch government signed a lease for a prime space at EUR 255/sqm.

- Despite the slowing market in Brussels, year-to-date the Befimmo portfolio hasn't been negatively impacted. The average yield remained stable at 6.38% at H1 '08. Due to the Fortis acquisition at 5.22%, we estimate this to have decreased to 6.32% at Q3 '08. Therefore, we believe that compared to its main competitor, Cofinimmo (6.56%) the portfolio is rather aggressively valued. Cofinimmo's office portfolio lost -0.8% of its value over the first 9 months of the year due to an unfavourable impact of yield out shift (-2.1%), which was positively off-set by an increase in rents used for valuation (+1.9%) following indexation. Cofinimmo has 81.4% of its office assets in Brussels (centre + decentralised) vs. 65.3% for Befimmo and Cofinimmo has 10.3% in other regions (Antwerp + others) vs. 24.9% for Befimmo with similar lease lengths. However, only 70% of the Cofinimmo portfolio consists of offices whilst the Befimmo portfolio consists of 99% offices. In our model we estimate +25bps for the Fedimmo portfolio, which was acquired at 5.5% and has not been negatively re-valued since and +10bps for the remaining portfolio, which we believe is inline with current market movements. We expect the total negative revaluation to amount to EUR -23.2m for Q4 of the company's financial year. Due to the EUR 7.8m capital gain on the disposal of the semi-industrial portfolio and Woluwe garden, we expect the indirect result to amount EUR -15.4m.

Conclusion

Even though, the company's the direct result per share will have slightly decreased compared to last year. We believe the company will be able to pay-out a FY dividend of EUR 4.51 per share due to the achieved capital gains. We estimate that due to negative revaluations in Q4 (EUR -23.2m) the indirect result will be negative (EUR -15.4m). The NAV per share will have slightly decreased to EUR 73.32 (vs. EUR 74.50 at 30/06/08). For 2009 we estimate financing costs to further increase due to Befimmo's EUR 266m pipeline. Increasing financing costs will also further decrease the spread compared to the expected pipeline yield (6.21%, our estimate). Furthermore, we expect little good news from the Brussels office market next year and thus reiterate our Reduce recommendation and further lower our target price to EUR 67.50 (vs. 75.60).

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