

Befimmo (Hold - EUR 78.29); Quality is expensive, NAV squeezed at EUR 71.12

Facts

As we expected, the company only published top and bottom line results. Total rental income saw a significant increase (due to the Fedimmo acquisition), +37% to EUR 27.3m. We expected 26.3m. No numbers were published on like-for-like rental growth. Occupancy decreased slightly to 94.5% compared to 95.1% at 30/09/07. Cash flow per share declined to EUR 1.03 where we expected EUR 1.06 per share;

Total net result (per share) saw a significant decrease (-63%) to EUR 1.20 per share. As we outlined in our preview, this was mainly the consequence of the substantial indirect result in Q1 last year due to yield compression and capital gains on sales. During Q1 2007/2008, the portfolio registered an 8bps yield decrease to 6.32% (6.40% at 30/09/07). No capital gains on disposals were reported. On a like-for-like basis the value increase of the portfolio was 0.08% since the start of the fiscal year (01/10/08). Including the acquisition of phase V of the Ikaros Business Park and investments made in the portfolio, the portfolio increased with 1.5% to EUR 1.83bn compared to 30/12/06;

As expected the NAV per share increased to above EUR 70. However, compared to 31/12/07 the NAV saw a slight decrease from EUR 71.36 to EUR 71.12. This was due to a remaining 2007 dividend payment. We expected EUR 72.28.

Our View

Unfortunately, Q1 was a rather boring quarter for the company. However, Q2 has already seen some exciting progress. After 31/12/07, the company signed a lease agreement for the newly refurbished 7,500 sqm Brederode 2 building (CBD Brussels, effective as off April) on which the company spent EUR 5.1m. Furthermore, the company came to an agreement with AIG and Rockspring for the sale of their semi-industrial portfolio and two Brussels suburban office buildings for EUR 72m. This will generate an additional EUR 0.40 cash flow per share (capital gain). These two transactions further increase the quality of the Brussels "Pure Player" portfolio and will increase the occupancy to 97%;

After the FY results (30/09/07), the company said it would see its cash flow per share decrease to EUR 3.79 per share in 2007/2008, due to refurbishments and increased costs. However, the dividend for 2007/2008 would remain unchanged compared to 2006/2007, i.e. EUR 4.51 per share. The company would finance this through a capital gain on a previous disposal. For the FY 2007/2008, we were very bullish compared to their outlook at an expect EUR 4.24 cash flow per share. It seems that with the increasing occupancy to 97% and the EUR 1.03 cash flow per share in Q1 the company is catching up and was a bit too conservative. The company maintains its EUR 4.51 per share dividend guidance for the FY;

During the FY 2006/2007 the portfolio registered a 75 bps yield compression to 6.4%, which we thought to be still on the conservative side as the portfolio obtained almost 60% of Brussels CBD assets which currently yield at 5.6% - 5.8%. The periphery of Brussels (8.5% of portfolio) currently yields at up 5.9%. Therefore, we expected another 15 bps yield decrease. However, the portfolio only registered another 8bps and seems to be squeezed out, according to its valuation team.

Conclusion

It seems that 2007/2008 will be a slightly more expensive year, in terms of costs, as cash flow per share was slightly lower than we expected. We were slightly aggressive on the yield which only decreased with 8 bps, where we expected 15bps. With the sale of the semi-industrial portfolio and the signing of the lease contract for Brederode 2 the company is further increasing the occupancy, quality of the portfolio and cash flow per share. The company maintains its EUR 4.51 dividend guidance for FY 2007/2008, which implies a 5.7% div yield;

The company now has another EUR 891m firepower (if 65% leverage). However, we don't expect the company to spend this any time soon due to the current uncertain market circumstances. Furthermore, the Corio portfolio seems to be slightly too big at EUR 1.1bn. The company could try to acquire the Finance tower in Brussels. Rumours in Brussels are increasing that Breevast would like to dispose its +/- EUR 900m tower, which will be delivered in H2 of 2008. The Brussels investment market saw a 40% decrease in Q4 due to high leverage players having left the Brussels market. With yields expected to remain stable Befimmo might have a shot at the Brussels Trophy asset;

However, we still believe that with the recent share price movement the upside is limited and therefore reiterate our Hold recommendation. In our model we have not yet made any assumptions for a EUR 891m investment. We will further update our model as the yield seems to be stuck at 6.32% and come with a new outlook on Brussels and Befimmo.

Details

	2006/2007 Q1a	2007/2008 Q1a	% ch.	2007/2008 Q1e	% diff e/a
Revenues (m)	20	27.3	37%	26.3	-4%
Cash flow (per share)	1.21	1.03	-15%	1.06	3%
Net result (per share)	3.25	1.2	-63%	1.98	65%
NAV (per share)	65.79	71.12	8%	72.28	2%

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