



19.11.09

BEFB BB | CLOSE: EUR 65.00 | RATING: REDUCE

Kempen & Co news – Befimmo: Firm FY08/09 CF, yet no news on potential acquisitions

Befimmo published its FY08/09 results yesterday after trading hours, showing a healthy CF of EUR 72.4m (09 CFPS 5.15), but in line with our forecast of EUR 71.7m. The conference call contained interesting and clear guidance on Befimmo's future CF estimates and unequivocally stated that in the short-term no significant acquisitions could be expected regardless of the EUR 300m firepower that the company has following the EUR 167m equity issue. The latter is unsatisfactory given the strongly dilutive effect of the issue. The reported FY08/09 NNAV came out at EUR 58.9; implying that the stock is trading at a marked 10% premium to current NNAV, which we cannot justify given the company's limited growth potential. As such we reiterate our Reduce rating which is also underlined by its low 10E EBITDA/EV yield of 5.3%. The risk to our rating would be the company being able to execute earnings-accretive acquisitions to boost its yield. We will update our price target.

Decent operating results: Befimmo's net rental income increased by EUR 12m to EUR 114m (11.8% y-o-y); EUR 8.7m is from renovated buildings (e.g. WTC 2 and Extension Justice) the remainder is from indexation, higher rental levels and lower property charges. Befimmo's CF came out at EUR 72m, reflecting an increase of 21% y-o-y; this is mainly due to the EUR14m decline in net financials (lower interest rate and paid off debt). The company's occupancy (excl. projects) has declined by 1.2% y-o-y however is still up by 1.0% since YE07. Furthermore we like the security of income given that 63% is let to a public institution, only 6% of the rental income is at risk in the following two years and the lease maturity is 9.4yrs.

Realistic outlook: For the coming three years the company forecasts a 2009/10 CF of EUR 82m (CFPS: EUR 4.9; CF yield 7.5%), a 2010/11 CF of EUR 71m (CFPS EUR 4.2; 6.5%) and a 2011/12 CF of 67m (CFPS EUR 4.0; 6.1%), this includes the current committed investments (c. EUR 153m) but no future acquisitions. Our post-FY08/09 assumptions are generally north of the company's guidance (2009/10 CF: EUR 81m, 2010/11 CF: EUR 74m and 2011/12 CF: EUR 72m) since we include a total of EUR 200m of acquisitions for the period 2009-2012. We will fine-tune our external growth assumptions. Furthermore, the company projects a EUR 3.90 (yield: 6.0%), EUR 3.94 (yield: 6.1%) and EUR 3.98 (yield: 6.1%) for 2009/10, 2010/11 and 2011/12 respectively.

Future acquisitions: During the conference call management indicated that the company would not invest 'tomorrow' since there are very few acquisitions in its home market where the company's focus lie (hence, no plans for French acquisitions). What is more, the Befimmo is not interested in potential Public Private Partnerships (PPP) given that the residual value is zero and the 'financial engineering' character of a PPP does not match Befimmo's strategy. That said, we still question why the company has raised (expensive) equity at more or less the bottom of the market, whilst the equity was not needed to bridge the downward cycle. A earnings-accretive acquisition would jeopardize our Reduce rating on the stock.

Portfolio valuation: Befimmo's th. gross yield on the portfolio came out at 6.92% vs. 7.45% for Cofinimmo at 30 September'09. We regard the 57bps difference as realistic given that the average lease length of Cofinimmo's portfolio of 6.5 yrs is less attractive than Befimmo's 9.4yrs and we perceive Befimmo's portfolio as being of somewhat higher quality (i.e. a higher percentage exposure to the Brussels CBD). As such, the total write-down on the standing portfolio came out at EUR 75m (-/-3.7% on the pf). We expect a modest 3% write-down until YE10 NNAV to come out at €56.1 p/s due to adjustments in rental levels and the occupancy rate. This implies that the stock is trading at a demanding 16% premium to our trough NNAV.

Befimmo vs. Cofinimmo: We have a slight preference for Cofinimmo (Neutral) based on the company's multiples. Cofinimmo is trading at its current NNAV whilst Befimmo is trading at a premium of 10%. Furthermore, Befimmo has an FY11 CF yield and EBITDA/EV yield of 6.5% (vs. Cofinimmo's CF yield of 7.0%) and 5.5% (vs. Cofinimmo's EBITDA yield of 5.6%) respectively. We reiterate our Reduce rating. *For further information please contact Robert Woerdeman (+31 (0)20 348 8458; .woerdeman@kempen.nl)*