

26/05/09

## **Befimmo (EUR 65.36 - Reduce): EUR 140m that needs to be spent**

Yesterday after the close, Befimmo published its H1 results and announced that it targets to increase its share capital by EUR 140m. During the analyst meeting it said it will use the funds to acquire property but has not yet identified any deals.

### **Facts**

- Total rental income increased by 5% to EUR 57.8m (vs. EUR 54.9m last year), which was inline with our expectations (EUR 57.8m). This was mainly due to indexation on rents, the acquisition of the 2 Fortis office buildings in Antwerp and Leuven last year and some one-off items. This was negatively offset by increased vacancy from 97.3% at 31/12/08 to 93.8% at 31/03/09 mainly due to Belgacom which vacated the Emperatrice building as the lease expired at 31/12/08. Excluding the latter the occupancy dropped to 96%, which was inline with our estimate for increased vacancy (+1%). Operational costs decreased from EUR 3.3m to EUR 2.1m due to non-recurring payments of tenants with regard to lease termination. As a result the operational result amounted to EUR 51m (vs. EUR 46.8m last year). As we did not estimate these non-recurring items, our estimate for operational result was lower at EUR 48.4m. Financing costs excluding derivative revaluation (EUR -27.3m) and a EUR -6m one-off on financial assets related to the Axento project (acquiring the Axento shares), amounted to EUR 16.8m (vs. EUR 17m last year). This was mainly due the average interest rate which decreased to 4.09% (vs. 4.73% at 30/09/08), which was lower than our estimate (4.35%). Nonetheless, the direct result (net cash flow) decreased to EUR 32.8m (vs. EUR 34.8m last year) due to EUR 7.5m bottom line one-off last year. Due to lower than expected operating and financing costs our estimate was lower (EUR 29.6m).
- Portfolio revaluation amounted to EUR -50.1m (-2.65%) as the average portfolio yield increased to 6.43% (vs. 6.26% at 30/09/08). Negative revaluation during the 3 months until 30/03/09 amounted to only -0.24% (vs. -2.41% between 30/09/08 and 31/12/08). Our estimate for the company's first quarter was inline (-2.5%) and as the Brussels market showed stabilisation between 01/01/09 and 31/03/09, we also expected negative revaluation to have stabilized but still expected -1% during the 3 month period until 31/03/09. Therefore, our estimate for negative revaluation was slightly higher (EUR -65m). As a result the NAV per share decreased to EUR 65.67 (vs. EUR 72.86 last year).
- With the current credit lines (EUR 225m) the company has sufficient funds to finance the Axento project (EUR 79m) and planned refurbishments (EUR 73m). The company will have to refinance EUR 200m by March 2011 and has to complete financing on its Paradis project in Liege (EUR 91m).
- Due to the decreased financing costs the company expects to be able to increase its dividend per share to EUR 4.60 (vs. EUR 4.55 last year).

- In its press release at 17.40hrs, yesterday after close, the company announced it plans to increase its share capital by EUR 140m through a rights issue. The company said this will further strengthen its balance sheet and will provide it with fire power to hunt for deals. The company's leverage (49.43% at 31/03/09) would decrease to 47% but the capital increase would not dilute the dividend per share. Furthermore, Fortis Insurance Belgium which holds 18.8% of the shares has told the company it will fully support the capital increase.
- In its second press release at 21.30hrs, yesterday after close, the company announced the right to purchase is represented by coupon nr 17 of the existing shares of Befimmo. The offer will run from 4 June until 18 June. All the shareholders will receive information from company with regard the actual offer and the procedure they have to follow to use or trade their rights. In principal this would start on 3 June after close. The rights and new share will be listed on Euronext Brussels and Paris. Credit Suisse Securities (Europe) Limited, Dexia Bank België NV, Fortis Bank NV, ING België NV en KBC Securities NV will advise Befimmo.

## Our View

- Direct result was better than expected as operating and financing costs were lower than expected. Especially, the current decline in market interest rates has benefitted the company as the average interest rate decreased 4.09%. As the company only has 45% of its debt at fixed rates we believe the company will keep benefitting from the current low interest rates. Therefore, as top line rental income should be under control, we expect the company to be able to increase its direct result compared to last year. The company only has to renew 0.3% of all leases during the remainder of the financial year and 5% next year.
- Portfolio revaluation clearly showed that the Brussels market is stable which in combination with long lease contracts (9.7 year average) limited negative revaluation. Nonetheless, as deals and/or distressed sellers are still very limited it remains difficult to find a benchmark.
- Even though, the company will increase its shopping power by EUR 140m, we are a bit wary about what the company will do with these funds. As the company said this operation will not dilute its dividend per share (EUR 4.60), we believe it will have to use some of these funds for deals that will add to the P&L. In case the company would be able to achieve a net cash flow result of EUR 65.6m (H1 result x 2) and the company would issue new shares at EUR 60 per share, its direct result per share would fall from EUR 5.23 to EUR 4.26 per share. If the company would issue new shares at EUR 55 per share, its direct result per share would fall to EUR 4.20. This excludes our estimate for possible achieved interest income (2.5% interest rate) on the EUR 140m in which case the net cash flow would amount to EUR 69.1m. Including the latter, the cash flow per share would decrease to EUR 4.49 and respectively EUR 4.42. Nonetheless, due to capital gains on disposals in 2007 and 2008 the company has EUR 12.8m cash on its balance sheet. It will have to use this not to have to dilute its dividend per share for 2009 depending on when these shares will share in the company's results. And as forced sellers are still limited on the Brussels market they might have to make a first move to the Paris market. Therefore, we hoped to get some more information regarding the use of these new funds today at 9.00hrs at the analyst meeting. However, during the meeting, the company said it always looks at investment opportunities but did not have any

investments lined up at the moment. Its first priority was to complete the capital increase after which it would start looking for investment opportunities.

- If the company would not want to use all its EUR 12.8m cash, we believe it will have to spend between EUR 65.9m and 81.1m of the increased capital not to have to dilute the dividend per share for 2010. It will however need to use its cash position for the 2009 dividend. Our estimate is based on the 2 scenarios mentioned in the previous paragraph (capital increase at EUR 55 and EUR 60 per share) in combination with an expected net cash flow for the FY of EUR 69.1m. For the calculation we expect the company to achieve 6.43% yield on the investments (average portfolio yield at 31/03/09), 50/50 debt/equity and the company's current financial and operational cost margins.

## Conclusion

Direct result was better than expected as operational and financing costs were lower than expected, due to some non-recurring items and the average interest rate that decreased to 4.09% (vs. 4.7% at 30/09/08). Portfolio revaluation was slightly less than expected and clearly shows the Brussels (prime) market is stabilizing. The company announced it will increase its capital by EUR 140m in the form of a rights issue (between 4 June – 18 June), terms and conditions will be communicated to shareholders. The company said this will strengthen the balance sheet and enable to company to hunt for bargains without diluting its dividend per share. We believe the company will have to use its EUR 12.8m cash not to dilute its 2009 dividend per share. Furthermore, it will need not spend at least between EUR 65.9m to EUR 81.1m of the capital increase to not dilute its 2010 dividend (without using all its cash). All in all, results were better than expected and the portfolio seems to be weathering the storm quite well. As the capital increase is dilutive on earnings and the company has not yet identified any acquisitions that could be completed with these funds, we expect the share price to be under some pressure. Furthermore, at the current share price we still see more upside elsewhere and reiterate our Reduce recommendation.

## Details

in EUR	2008 H1A	2009 H1A	% Ch	2009 H1E	% diff. e/a
Revenues	54.9	57.8	5%	57.8	0%
EBITA (m)	46.8	51.0	8%	48.4	-5%
Direct result (m)	34.6	32.8	-5%	29.6	-10%
Direct result per share	2.65	2.51	-6%	2.27	-10%
Portfolio result (m)	14.5	-50.5	-448%	-64.6	28%
NAV per share	72.86	65.67	-11%	65.02	-1%

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Analyst: Pieter van der Meijden, Phone: +32 2 229 63 40, E-mail: [.vandermeijden@petercam](mailto:.vandermeijden@petercam).  
 Sales contact: Pieter van der Meijden, Phone: +32 (2) 229 63 40, E-mail: [.vandermeijden@petercam](mailto:.vandermeijden@petercam).