KBC Securities

19.11.09

COMPANY: Befimmo
Recommendation: Reduce (from Hold)
Current Price: € 65.0
Target Price: € 58.0

Detailed comments:

News:

Befimmo released its FY09 results yesterday. The actual numbers were in line with our assumptions: i. recurring EPS as a result of low interest rates and low property expenses up 32% y/y at € 5.13 vs. € 4.97 KBCS est. with the difference attributable to one-off fee income. ii. the NAV came bang in line at € 58.9 per share. The portfolio eroded by 3.7% (ranging from 2-3% in Flanders & Brussels CBD to 7-8% in the Brussels periphery & decentralized) during the year and the yield now equals 6.4% and 6.8% if fully let (94% occupancy rate). iii. the final dividend of € 1.04 was confirmed. Note that € 3.36 was already detached before the rights issue in June.

Our View:

Strong balance sheet. As a result of the capital raising the balance sheet is very solid with a LTV at 43% (interim dividend under equity) and 50% of the debt benefiting from the low base rates (hedged through cap options until 2011). Note the caveat that most of the debt is still on low spreads (to be renegotiated in 2011-13). Taking into account a target LTV of 50% would lend it € 300m in firepower although management highlighted it sees few real opportunities. And what is an appropriate initial yield when the marginal cost of capital is, say, 7%?

But meagre outlook. Having said that, in our view the most important read-through in the results is the fact that Befimmo has lowered its 2009-12 earnings outlook by 7-8% on average which is now below consensus estimates (including ourselves). We have been pointing out to the important lettings in the investment programme that need to be secured. The projects are top-notch but arguably the market is not accommodative so it appears that actual leasing up of the surfaces will most likely be pushed further in time. Note though that the dividend guidance (€ 3.90 per share and +1% p.a.) has been confirmed which is normal since payout ratio in 2009 will be only 85% which gives substantial headroom.

Conclusion:

We believe the shares have moved out of what we would call a fair value range of € 58-62. The quality of the underlying assets, the strong balance sheet and the safe 6.0% dividend yield are unquestioned, but the earnings outlook is not enticing (recurring EPS CAGR 2009-12 of -8%). We also wonder whether any investments will materialize soon and whether they could really change the picture. We are downgrading to Reduce (from Hold).