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Kempen & Co news – Befimmo: Slowly positioning for increasing interest rates, upgrade to Neutral

Befimmo published its 1Q09/10 fair value of its portfolio, turnover and CFPS yesterday after trading hours, with the positive surprise that 6,500sqm of the Axento building in Luxembourg had been let (EUR 372p/sqm vs. EUR 396p/sqm in the rental guarantee). However, unfortunately there was still no update on potential acquisitions. Yesterday's conference call also included the fact that the company is currently slowly positioning for increasing interest rates, given that Befimmo has bought new CAP's at 4% for a total amount of EUR 100m and has announced its intention to continue to do so in the quarters to follow, which we regard as positive. Furthermore, Befimmo reported a decent CF of EUR 19m (CFPS: EUR 1.13), a marginal write-down of EUR 10.3m (-/-0.5% on the portfolio) and a NNAV of EUR 58.5. Following an YTD underperformance of 4.1% versus the index and given Befimmo's healthy quarterly operational performance, we upgrade Befimmo to Neutral from Reduce and increase our PT to EUR 57 (was: EUR 55). Lastly, we want to close our long-short pair trade: Cofinimmo (long) and Befimmo (short) following a 4.8% outperformance.

Key operational figures: The net rental income over 1Q09/10 came out at EUR 30.9m (+9.6% y-o-y) and is in line with our EUR 124m FY09/10 assumptions. The increase in revenues is mainly due to the inclusion of the Axento and Extension Justice building. The CF was EUR 19m reflecting a CFPS of EUR 1.13. No further guidance was given other than that the company's forecast still holds. For the coming two years the company expects a 2009/10 CF of EUR 82m (CFPS: EUR 4.9; CF yield 8.85%) and a 2010/11 CF of EUR 71m (CFPS EUR 4.2; 7.3%). We expect Befimmo's FY09/10 CFPS to come out at EUR 5.0 and a FY10/11 CFPS of EUR 4.2 implying CF yields of 8.7% and 7.4% respectively. This is above the European average of 6.9% for 2010 and 2011.

Result on the portfolio: The overall gross yield on the portfolio came out at 6.6% at the end of 1Q09/10 and the total write-down on the standing portfolio came out at EUR 10.3m (or -/-0.54% on the portfolio). We expect a marginal write-down (i.e. <2%) for FY09/10. All in all, we expect the year-end NNAV to be EUR 59.

Outlook: Befimmo expects a gross dividend for the FY09/10 to be EUR 3.90 per share. What is more, 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 lies (hence, no plans for French acquisitions). The company reiterates its acquisition strategy of mainly searching for grade A offices in Brussels and intends to invest between EUR 150m and EUR 200m (available credit lines after all committed spends). For further information please contact Robert Woerdeman (+31 (0)20 348 8458; robert.woerdeman@kempen.nl)