



Befimmo (EUR 56.6 - Hold) - Dividend already covered

27 August 2010

Facts

- Befimmo published a limited set of quarterly results (as they usually do for Q1 and Q3).
- Rental income increased by 6% (slightly below our expectation), mainly thanks to the acquisition of Axento. The net current cash flow was up 13% (above our expectation), helped by the low level of interest rates.
- In Q3, Befimmo bought the freehold on WTC 3 and 4 and generated a capital gain of EUR 6.5m (EUR 0.39/share).
- As a result, the company reiterates its dividend guidance (EUR 3.9/share).
- The fair value of the portfolio went down 0.39% over the quarter, better than what was registered in Q1 and Q2 (-0.54% and -0.48% respectively). But the reader may remember that Cofinimmo registered a 0.48% decline over H1 (6 months). The portfolio is valued at EUR 1,847m, a yield of 6.43% (6.99% if fully let). This yield may appear as quite compressed but can (partly) be explained by the average maturity of the leases (9.3 years, stable over a year). Occupancy rate is 93.9%, up from 92.1% over 3 months.
- NAV stands at EUR 59.95/share (5.5% discount). LTV reached 42.7%.
- The sale of Empress Court will generate a profit of EUR 0.7/share in H1 2011.

Our view

Befimmo reported results better than expected, mainly thanks to the support of interest rates (again). Another good surprise is the capital gain realized on the acquisition of the freehold of WTC 3 & 4, which will generate EUR 6.5m capital gain (EUR 0.39/share). Looking at the portfolio value, it was down 0.39% over the quarter, proportionately more than Cofinimmo. Befimmo reiterates its dividend guidance, which is fully covered by the current cash flow per share over the first 9 months of the year (EUR 3.51/share) and the EUR 0.39/share capital gain. Occupancy rate is also on the right track although we continue to see the 35% which is not related to the public authorities as a risk in the case.

Conclusion

Although non-recurring items are helping Befimmo to build a buffer for future more difficult times, we stick to our Hold recommendation, lacking of triggers in the short-term. In addition, we fear that the (almost) pure exposure to the Belgian office market could, from a perception standpoint, start/continue to weigh on the stock price.