Kempen & Co Property Daily

KEMPEN & CO
Merchant Bank

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BEFB BB | CLOSE: EUR 63.67 (-0.31%) | RATING: NEUTRAL | PT: EUR 61.00
Kempen & Co news – Befimmo: 1H10/11 results on track for the year

Yesterday Befimmo's conference call expressed increased confidence on the letting process of Froissart, a further diversification of Befimmo's outstanding debt (e.g. convertible bond, private placements or medium-term notes) and the fact that the company is still eyeing several potential acquisitions to exploit the EUR 100m firepower that the company has. Furthermore, Befimmo reported an unsurprising CF of EUR 38m (CFPS: EUR 2.27), a marginal write-down of EUR 13.1m (-/-0.7% on the portfolio) and an NNAV of EUR 60. Moreover the company reiterates its 2010/11 DPS of 3.94 (or a dividend yield of 6.2%). We reiterate our Neutral rating and our PT (EUR 61) is unchanged.

<u>32,500 sqm of leases renewed; negatively affecting the CF yet improving the future security of income:</u> Befimmo's retention rate on its maturing leases was 80%, which showed a negative reversionary that was in line with that of the portfolio (i.e. -/-6%). Although the overall tone of the conference call was that the recovery of the Brussels market had been slower than expected, management remained confident on the lettings of e.g. Froissart and Axento which where the main reasons of the 1.6% increase in vacancy to 6.1% (1H09/10: 4.5%).

<u>Key operational figures – business as usual:</u> The net rental income over 1H10/11 came out at EUR 61.0m (-/-1.6% y-o-y; due to a decline in occupancy) and is in line with our EUR 123m FY10/11 assumptions. Rental income did not yet fully reflect income from Pavilion (EUR 78m at 5.1% net yield) which will contribute EUR 1.7m annually to Befimmo's CF. The CF was EUR 38m reflecting a CFPS of EUR 2.27 and as such the company is well on track to achieve our forecast EUR 4.44 per share (FY10/11E CF EUR 75m). No further guidance was given other than that the company's forecast still holds, however adjusted for the change in "fiscal-year". For the coming year the company amends its 2010/11 (5 quarters) CF of EUR 95m (CFPS: EUR 5.64) which is in line with our adjusted forecast. We expect a FY12 and FY13 CF of EUR 4.4/share and EUR 4.3/share implying CF yields of 6.9% and 6.7% respectively.

<u>Result on the portfolio – outlook on portfolio valuation remains negative until YE13:</u> The overall gross yield on the portfolio remained flat at 6.5% at the end of 1H10/11 and the total write-down on the standing portfolio came out at EUR 13m (or -/-0.7% on the portfolio). Management stated that the pace of the write-down was decelerating yet the company still expects a marginal write-down (i.e. -/-1.3%) for FY10/11. All in all, we expect the year-end NNAV to be EUR 61.

<u>Outlook:</u> Befimmo reiterated a gross dividend for the FY10/11 to be EUR 3.94 per share. During the conference call Befimmo indicated that prime yields are close to 5.0% (or even below); hence it will be challenging to source acquisitions that will be NNAV/CF accretive from the start. Nevertheless, the company reiterates its acquisition strategy of mainly searching for grade A offices in Brussels and can invest up to EUR 100m without jeopardizing its maximum LTV of 50% (current LTV 43%). Moreover, with a marked number of refinancing coming through in the medium term, the company stated that it is working on the issue of new debt (e.g. convertible bond, private placements or medium term notes). All in all, we maintain our Neutral and PT of EUR 61 on Befimmo, although we are not keen on Befimmo's exposure to the challenging Brussels office market, this is offset by its favourable security of income. The company's multiples are in line with the rest of Europe (FY12E CF yield and EBITDA/EV yield of 6.9% and 5.2%.

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