COMPANY: Befimmo
Recommendation: Hold
Current Price: € 63.7
Target Price: € 63.0

News:
Befimmo last night reported 1H11 results. On the quant side we highlight: i. Recurring EPS at € 2.27 stable y/y and in line with € 2.25 KBCS est. ii. The portfolio revaluation came at -0.3% q/q versus -0.4% in 1Q11 and in line with our assumptions. The gross portfolio yield (based on 100% occupancy) was 6.9% which suggests a modest yield compression of 8bps – thereby partly offsetting the decline in rentalvalues. The occupancy rate (incl. redevelopment projects) was stable q/q at 94%. iii. The decline in value was offset by capital gains of € 0.86 per share realized on disposals (Empress Court, Kattendijkdok). iv. The NAV (EPRA) equates to € 60.1 vs. € 59.9 KBCS est. v. The guidance for a DPS of € 3.94 for the full year was confirmed implying a payout ratio of 90-95% on our recurring earnings forecast. We remind that Befimmo will extend its current fiscal year by one quarter to let it converge towards the calendar year. As a consequence, the company will as foreseen distribute € 3.94 in December as an interim dividend and a closing dividend of € 0.99 in April 2012.

Our View:

We summarize a few other highlights: i. On the debt refinancing process management pointed out that it will seek to further diversify its funding sources (USPP, convertible etc.) which we view as a positive. After the retail bond issue the debt duration was extended to 3.7y from 2.7y with the floating rate component unchanged at 55%. The loan-to-value equates to 43%. ii. The recurring EPS generated in 1H11 should not be extrapolated to 2H11 as direct property expenses will rise, temporary vacancies will increase due to redevelopments and the debt cost will rise steadily from the current 3.0%. This is captured by our forecast which stands at € 4.32 for the full year (-6% y/y). iii. We believe one of the biggest challenges will be to maintain the high lease length of 9.2y (till first break). Note that in 2011-12 only 2.8% of leases mature implying that the company can dedicate its focus on leasing up vacancies created by the redevelopment programme. iv. On acquisitions, the company has been effectively priced out of the market with prime yields at sub 5%. Obviously, this is a common issue for REITs having to respect their cost of capital whilst competing with cash buyers like insurers or pension funds for prime product. But how should one view investment yields of 5% or lower in a Brussels office market that is characterised by a protracted deflationary backdrop?

Conclusion:

The key messages we retained from the release: there have been some important business developments over 1H11 (bond issue, disposals, acquisition) but this release contained no material new elements. The underlying trends remain unchanged: modest pressure on property values, required capex to maintain the quality of the buildings and a recurring EPS that is likely to move in a range of € 4.10-4.50 over the next few years. Hold.

Kind regards,
Mickael

Tel : +32 2 429 37 21

E-mail : mickael.vandenhauwe@kbcsecurities.be