

Befimmo (Hold - EUR 54.77) Waiting for triggers from the Brussels' letting market

Befimmo will report its results for Q3 2011 on Tuesday evening after close. We expect no surprises top-line and FFO wise. More news on lettings could enhance figures, though we don't expect this within the current Brussels market.

Preview

Period	Q3 2011
Date/Time	23/08/2011 after closing
Recommendation	Hold
Target price	EUR 51.70

in EUR	2010 Q3a	2011 Q3e	% Ch
Rental income (m)	92.4	91.4	-1%
FFO	65.5	56.9	-13%
FFO/Share	3.9	3.4	-14%
NAV/share	59.95	60.1	0%
Conference call	N/A		
Analyst Meeting	N/A		

Key items

1. Top line will decrease mainly due to sales of Empress court and Kattendijkdok. Befimmo acquired the Pavilion in mid-February 2011, which will now be fully accretative adding an additional EUR 500k when comparing to Q2 2011. Compared to Q3 2010, we expect FFO to decrease because of a higher cost of debt and a weaker operating margin.

2. We do not expect a material beat of rental income in Q3, which depends on new signings. No major leases have been reported so far for Q3. Take up in Brussels during the first half of 2011 was 120,000sqm in a best case scenario, which is half of the H1 take-up in the last 2 years (which were already very weak), the worst performance of the last 10 years. A key factor in the weak performance is the absence of the public sector (both Belgian as well as European) on the market.

3. Even after the past acquisition in February '11 in the EU quarter (Pavillion), we remind that the company still has EUR 179.7m fire power or EUR 100m when limiting the debt ratio to 50%.

Conclusion

The weakness of the Brussels office market has its effect on the activity of Befimmo. Luckily speculative developments came to an end (only 50,000sqm next year). Though, we need some nice lettings in the office market before it experiences positive momentum. Positive news for Befimmo, within the current macro-economic environment, is that interest rates are unlikely to increase in the short term (we believe that this is inevitable on the long run). Our EVA-model shows a value of EUR 56.55/share, however it looks less attractive when looking to other ratios and the relative upside of the rest of our coverage. Therefore we probably stick to our Hold rating. In H1 Befimmo reiterated its guidance of a EUR 3.94/share dividend (which currently offers a 7.1% yield).