



Befimmo (EUR 53.65 - Reduce) Q4 preview

Befimmo will publish its Q4 reporting Thursday after close. We remind that FY '11 will count 5 quarters, i.e. to move year end towards 31/12.

Preview

Period	Q4 results 2011
Date/Time	17/11/2011 after close
Recommendation	Reduce
Target price	EUR 52.4

in EUR	2010 4Q	2011 4Q	% Diff 11/10
Rental income (m)	123.5	124.0	0.40%
Net current result (m)	84.7	74.0	-12.6%
Recurring CF/share	5.05	4.42	-12.5%
NAV	60.07	61.20	1.9%

Analyst Meeting	N/A
Conference call	17 November at 6pm

Key items

1. During Q3 FFO/share decreased to EUR 3.31 from EUR 3.96 over the year. We expected EUR 3.39/share (diff A vs. E is -2.27%). Main reason for the higher decrease on FFO level was a higher cost of debt vs. LY.
2. Befimmo reiterated guidance on the (interim) dividend of EUR 3.94/share (4 quarters), which provides a dividend yield of 7.3%. The company will pay out a final dividend of EUR 0.99 for the fiscal period 2010/2011 (5 quarters) after approval in April 2012. Additionally the company reiterated guidance for 2012 and a dividend of EUR 3.98/share.
3. We are keen to receive more info on refinancing. Amounts which will mature: EUR 130m in 03/2012, EUR 220m in 03/2013 and EUR 300m in 06/2013 (or approx 75% of financial debt). Average cost of financing stands at 3.03%, while 55.5% is mainly floating rate financed. Although we are confident that Befimmo won't face many difficulties to refinance, we expect cost of debt to increase.
4. In November, the Belgian state stated that it intends to decrease its real estate portfolio by 25% to 30% (lowering the space per civil servant from 20sqm to 13.5sqm). On top of it, the Régie des Bâtiments will renegotiate with its private landlords (Befimmo, Cofinimmo, Axa, IVG...) in order to lower the rent while resigning for 9 years maximum. Keeping in mind that in 2010, the Régie paid EUR 420m for 2.91m sqm rented, the impact on the already weak Brussels office market could be significant.

Conclusion

For Q3, we were happy to see quite some lease renewals (Brederode), however we remain cautious as rental reversion is still negative (-5.6% reported in H1 is quite sharp) and the fact that the renewals go hand in hand with renovations. Moreover, the proportion of leases with duration of less than 3 years amounts to approx. 21%. Our EVA-model echoes a value of EUR 58 and P/E stands at 13.5 for Befimmo. Hence it trades with a 12.5% premium vs. Cofinimmo. Average relative upside for our universe is 18.55%, while only 5.7% for Befimmo.

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