

## **Befimmo (EUR 52.59 - Reduce) Non-recurring items saved the case.**

Befimmo reported its Q4 figures (we remind: Q5 reporting to come). Results were in line with our expectations and Befimmo could flavour up reporting with some non-recurring items (linked to leaving tenants), which do not bode well for the future.

### **Facts**

- Top line arrived at EUR 124.3m (EUR 123.5m one year ago), which was bang in line with what we expected (124.0m). At a constant floor area, this result is slightly lower -0.9%, while at Cofinimmo like-for-like rental growth stands at 2.36% (last 12 months).
- Occupancy rate remained stable at 94.38% from 94.44% one quarter ago. Befimmo signed new leases and lease renewals for an approximate total of 6,500sqm. Management quoted that letting market in Brussels is standing still.
- Net real-estate charges decreased by -27.5% compared to last year. This decrease essentially results from non-recurring items, notably compensations associated with departing tenants.
- Epra earnings/share decreased to EUR 4.41 from EUR 5.05 over the year. This is straight in line with our expectations of EUR 4.42. Net current result was EUR 78.1m or 5.54% higher than our expectations thanks to non-recurring items (non expected indemnities from leaving tenants) and lower technical costs (EUR - 600k).
- Financial result (excl. IAS 39) amounts to -EUR26.3m compared to -EUR 22.8m one year earlier and was in line with expectations. Increase in the financial result is explained by a rise in the interest rates to 3.36%, while it was 3.03% at H1.
- Befimmo started to work 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). For its maturity of EUR 130m in March, the company announced that it refinanced it by a bilateral credit line of EUR 100m (5yrs) at a bank which wasn't on the list before. Additionally the company signed a EUR 44m fixed rate loan.
- Regarding the permit for the Paradis tower in Liège, the company is waiting to receive and to investigate the claims against the project. The company is confident that it will get green light for the project in the near future (Q1 2012).
- LfL portfolio value decreased by -1.51% over full year 2011, which is in line with estimates provided at the beginning of the year. Highest decrease vs. previous quarters was reported in Brussels CBD namely -0.45% while -1.46% ytd. Largest decrease during past 12 months was noted in the Walloon portfolio with a decrease of -5.58%.
- NAV stands at EUR 60.40, while we banked on EUR 60.1. Average duration of current leases is 9.04 yrs vs. 9.22 yrs at Q3. Gross yield remained stable at 6.98% (100% let) compared to Q3.
- Froissart building (EU quarter) which totals 2.800sqm, is currently let for 25%. No news for the Science Montoyer building.
- Befimmo reiterated guidance on the interim dividend of EUR 3.94, which offers a 7.6% dividend yield when looking to yesterday's closing price.

### **Our view**

- Results were in line with our expectations and Befimmo could flavour up reporting with some non-recurring items. These one-offs (leaving tenants) do not bode well for the future. Brussels office market is standing still and we do not expect it to pick up in the near future.

- We welcome the work on its refinancing. We are confident that Befimmo won't face many difficulties to refinance, though we expect cost of debt to increase. This is confirmed by the increase of cost of debt from 3.03% at H1 to 3.36% (+11.5%).
- Although management is quite confident on the topic, we believe that the risk of the Belgian state willing to reduce its real estate portfolio by 25% to 30% (lowering the space per civil servant from 20sqm to 13.5sqm) is real. Régie des Bâtiments stated it would renegotiate with its private landlords (Befimmo, Cofinimmo, Axa, IVG...) in order to lower the rent while they will only resign for 9 years in the future.

## Conclusion

Befimmo reiterated guidance on the (interim) dividend of EUR 3.94 which offers a 7.6% dividend yield when looking to yesterday's closing price. Looking forward, P/E for '12 stands at 12.5 for Befimmo, while 11.4 at Cofinimmo. Relative upside for the stock remains poor when looking to the rest of our coverage (20.6%). However the dividend to be paid out in December (ex-date: 19 December) should provide some support to the stock price, and even maybe a mini-rally.

| <b>in EUR</b>       | <b>2010 4Qa</b> | <b>2011 4Qa</b> | <b>% Diff 11/10</b> | <b>2011 4Qe</b> | <b>% Diff A/E</b> |
|---------------------|-----------------|-----------------|---------------------|-----------------|-------------------|
| Rental income (m)   | 123.5           | 124.2           | 0.61%               | 124.0           | 0.20%             |
| Epra earnings (m)   | 84.8            | 76.9            | -9.36%              | 77.0            | -0.23%            |
| Epra earnings/share | 5.05            | 4.41            | -12.67%             | 4.42            | -0.23%            |
| NAV                 | 60.07           | 60.50           | 0.72%               | 61.20           | -1.14%            |

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