

# Kempen & Co Property Daily

Friday, 18 November 2011



**BEFB BB | CLOSE: EUR 52.10 (-1.08%) | RATING: NEUTRAL | PRICE TARGET: EUR 57.00**

**Kempen & Co news** – Befimmo: letting and transaction market currently in standstill modus

Befimmo's key figures for FY10/11 showed a decent CF of EUR 4.41/share, a 4Q write-down of EUR 7.7m (-/-0.39% on the portfolio; FY10/11: -/-1.51%) and a 4Q10/11 NNAV of EUR 60.5/share, whereby its CF/share was marginally lower than our expected EUR 4.44/share. The results contained limited surprises, yet again underlining the challenging Brussels office market. Although Befimmo's portfolio is fully exposed to the Belgian office market, we believe that part of this risk is offset by its 9-yr lease maturity and its significant exposure to government tenants. We reiterate our Neutral rating and our PT (EUR 57) as we believe that the 8.3%/7.6% CF/dividend yield is fairly attractive.

Letting market in a standstill, negative reversionary still being locked: Befimmo has signed leases in 4Q10/11 for 6,500sqm (last twelve months: 54,000), in which the negative reversionary potential locked-in was roughly in line with its forecast/reversionary (YE10/11 reversionary potential: -/-6.5%). The tone of yesterday's call was that management is seeing a stand-still in new lettings for the Brussels office market, which seems to be underlined by the low number of lettings in the fourth quarter. LFL over the last twelve months which was -/-0.9% (also due to the end of the rental guarantee on Axento) vs. Cofinimmo's +2.4%. Hence we continue to pencil in that new leases get re-let at 10% below current levels. This translates into an expect FY12 LFL growth of 0.4% incl. indexation.

CF/share nearly achieve our estimate: The net rental income over 1Q-4Q10/11 came out at EUR 124.3m (vs. FY09/10 EUR 123.5m), which is in line with our EUR 123.8m FY10/11 assumptions. The CF came in at EUR 4.41/share and is slightly below our 1Q-4Q10/11E CF of EUR 4.44/share.

Write-down on the portfolio for 4Q10/11: The overall gross yield on the portfolio was kept flat at 6.6% at the end of 4Q10/11 and the total write-down on the standing portfolio came in at EUR 7.7m in the fourth quarter. For the period 2012-2014, we expect a total write-down of 2.4% (mainly coming from CAPEX and negative reversionary), and thus a FY12/13 NNAV of EUR 59.5/share.

Outlook on acquisitions: transaction market is also in a standstill: Yesterday Befimmo's management indicated that the transaction market in Belgium has dried up, hence it seems that the company sees limited investment opportunities. As such, we included a limited EUR 50m in acquisitions in the next twenty-four months. Furthermore, Befimmo indicated that it received its planning permission for its EUR 91m development Paradis on which management expects to start construction in March 2012 (they still have claims against the permit that Befimmo needs to deal with).

Outlook on financing: In the next few months, Befimmo's main focus is to refinance the EUR 500m maturing debt in March/June 2013, where management indicated that this most probably will be refinanced with either a retail bond (latest evidence for spread was 230bps – earlier this week) or a US PP, next to bank lending.

Valuation: Although we are not keen on Befimmo's exposure to the challenging Brussels office market, we favour the company's above-average FY12E CF/Dividend yield of 8.3% and 7.6% respectively, whilst having an average lease maturity of 9.0-yr which is for two-third let to the government. Moreover, we consider the largest part of the portfolio to be of prime quality, whilst the remaining part being core plus quality. We maintain our Neutral and PT of EUR 57 on Befimmo.

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