

# Kempen & Co Property Daily

Friday, 18 February 2011



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BEFB BB | CLOSE: EUR 60.64 (+2.23%) | RATING: NEUTRAL | PRICE TARGET: EUR 61.00

**Kempen & Co news – Befimmo: modestly ahead with its 1Q10/11 CFPS**

Befimmo's key figures for 1Q10/11 showed a decent CF of EUR 19.8m, a write-down of EUR 7.1m (-/-0.38% on the portfolio) and in addition Befimmo has signed leases for 28,000sqm in which the uplift was roughly in line with its forecast/reversionary (YE09/10 reversionary potential: -/-5.6%). Moreover the company reiterates its 2009/10 DPS of 3.94 (or a dividend yield of 6.4%). We regard it as positive that Befimmo can derive benefit from its 50% exposure to a floating interest rate (whereas interest rates have been capped at between 3.5% and 4.5%). The company is still looking at several acquisitions in Belgium. We reiterate our Neutral rating and our PT (EUR 61; +12m total return +4.7%) is unchanged.

CF to increase by EUR 0.10/share following the Pavilion acquisition: The net rental income over 1Q10/11 came out at EUR 31.2m (+1% y-o-y) which is in line with our EUR 124m FY10/11 assumptions. The CF improved by 1.7% y-o-y to 19.8m (EUR 1.18p/s) and is slightly ahead of our FY10/11E CF of EUR 19.6m; however a one-off redemption of leases occurred in the first quarter and therefore we leave our FY10/11E CF unchanged. No further guidance was provided other than that the company's forecast still applies, with the adjustment for the acquisition of 'The Pavilion' (or, EUR 0.10/share). After including the 'Pavilion'-acquisition, the company forecasts a 2010/11 CF of EUR 74.1m (CFPS: EUR 4.4), a 2011/12 CF of EUR 77.1m (CFPS EUR 4.6) and a 2012/13 CF of EUR 72.2m (CFPS EUR 4.4). We expect Befimmo's CF to come out at EUR 75.3m for 2011/12 and EUR 73.3m for 2012/13, implying CF yields of 7.4% and 7.1% respectively.

Write-down on the portfolio: The overall gross yield on the portfolio came out at 6.6% at the end of 1Q10/11 and the total write-down on the standing portfolio came out at EUR 7m in the first quarter; management expects the write-downs to decelerate over the next few quarters, yet they still pencil in a total write-down of 26.1m for FY10/11. We consider this as fairly conservative from Befimmo given that the latest transactions have been executed at around 5.0% (i.e. The Pavilion at 5.1% / the office building in Brugge is rumoured to have been sold at yield below 5%). For the period 2011-2013, we expect a flat revaluation result (CAPEX and negative reversionary to offset 10bp yield compression) and thus a FY12/13 NNAV of EUR 63/share.

Outlook: Befimmo reiterated a gross dividend for FY09/10 of EUR 3.94/share. Following the acquisition of the 'Pavilion' and dividend payment, Befimmo can invest up to EUR 40m without jeopardizing its maximum LTV of 50% (currently 43%). We expect Befimmo to acquire on average EUR 25m p.a. over the period 2011-2014. Furthermore, Befimmo announced its intention to invest about €10m in sustainability to make its buildings 'greener' (e.g. to reduce energy consumption).

Valuation: We favour future revenues being secured, however we continue to be negative about the Brussels office market and the fact that the portfolio is over-rented (~-5.6%). We regard the multiples as modestly appealing: a FY11/12E CF yield of 7.1% (Europe 6.3%) and a 11E EBITDA/EV of 5.5% (average: 5.4%), yet we dislike the fact that the stock is trading at a 7% premium vs the current 1Q10/11 NNAV. We reiterate our PT of €61 and Neutral rating. *For further information please contact Robert Woerdeman (+31 (0)20 348 8458; robert.woerdeman@kempen.nl)*

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