

# Western Europe Morning Notes

17 February 2012

## **Befimmo: realistic adjustment to EPRA forecasts, tight focus**

Befimmo has published the results of its 5-quarter transition year as it moves from a 30 September to a 31 December year-end. Values of the property portfolio fell 1.1% during the first 12 months of the financial year and in Q5 the portfolio lost another 0.19%. For the FY 2012 period, the valuation was down -0.93%. IFRS NAV came in at €57.17 (down 6% from the €60.60 at 30 September 2010), EPRA NAV was €57.37 (-7% to €61.68) and EPRA NNNNAV was €57.03 (-5% to €59.96). Recently management took two initiatives to strengthen the capital base. It proposed a stock dividend and issued a second bond targeted to retail investors, for a value of €75m, a coupon of 4.75% and an actuarial gross yield of 4.21%. The company needs to refinance €450m in 2012 and 2013.

2012–2013 Development capex is estimated at c.€178m, a large part of which is into the €87m New Finance Tower. Sustainability at Befimmo is strong and it has its investments and not just its developments rated. We believe that office tenants will increasingly discriminate between offices and will take the footprint of the offices into account. That is not just the case for governments, but also for other semi-public institutions. Befimmo benefits from its long leases with reputable tenants. Management believes that Quartier Leopold will outperform its other Brussels markets and that, should it wish to add risk to its profile, it would move to France. That is something unlikely to happen soon.

Management have cut their detailed 2012 and 2013 earnings outlook numbers by 10% and 11%. These forecasts are required for Belgian REITs. EPRA earnings per share are expected to fall by 8%, from €4.18 in the 12 months to 31 December 2011 to €3.86 in 2012 (was €4.27) and then by another 5% to €3.65 (was €4.08). They are then expected to bounce back to €3.76 in 2014. These estimates are lowered to reflect higher cost of debt and a larger number of shares outstanding. We rate Befimmo a BUY, based on a 5% target discount to our estimate of 2012 IFRS NAV. The stock may be volatile today, as investors need to digest the cuts in the forecasts. While Befimmo remains a solid real estate stock we argue that very optimistic investors should, however, underweight the stock at the current valuation as we believe there is more value elsewhere in the real estate sector, notably in the Netherlands, France and Italy.

**Price: €52.00. Last published: target price: €60.00; recommendation: BUY**

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