

29 August 2012

BEFIMMO

Preview 1H12 results

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE € 47.03
TARGET PRICE € 50.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEFB.BB
Reuters BEFB.BR
www.befimmo.be
Market Cap € 789.6m
Shares outst. 16.8m
Volume (daily) € 1,087,947
Free float 77.6%
Next corporate event

Results 1H12: 30 August 2012

(€ m)	2011	2012E	2013E
Current Result	90.0	67.8	66.9
Portf. Result	-6.6	-23.7	-16.1
Net Profit	81.9	44.2	50.8
Adj. EPS (€)	5.35	3.87	3.77
NAV (€)	57.4	56.7	56.5
P/E (x)	10.9	12.2	12.5
DPS (€)	4.93	3.50	3.50
Dividend yield	8.5%	7.4%	7.4%

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Befimmo will publish its 1H12 results Thursday 30 August after market followed by an analyst meeting at 5:30pm.

We expect the company to release a better 1H12 report than anticipated at the beginning of the year following the lower interest rates in the market. We recall that Befimmo aligned its book year with the calendar year in 2011, resulting in an exceptional book year counting 5 quarters. Therefore, we won't use 1H10/11 as a comparison base, but 2Q10/11 and 3Q10/11. We use pro forma figures as detailed information on 3Q10/11 is not available.

For 1H12, we estimate a net rental income of € 64.1m or an increase of 5% y/y (vs. € 61m) driven by a positive indexation of the rents and the contributions of the Pavilion building. Property charges are expected to increase in line with the portfolio, while we also expect an indexation of the overhead costs, resulting in an operating result (before result on portfolio) or EBITDA of € 53.4m vs. € 50.9m in the comparable period. The net financial result (excl. IAS39) is expected to increase y/y from € -12.9m to € -14.7m due to the higher debt amount, but less than expected as a result of the lower EURIBOR rates. Hence the EPRA result is expected to equal € 36.1m, in line with the result over the same period last year of € 36.0m.

Following the severe negative portfolio revaluation in 1Q12, we bank on a negative change of the portfolio value (IAS40, non-cash) of € -20.9m in 1H12. While we also estimate a negative change in FV of the financial instruments following the decrease in long-term interest rates. This leads to an expected net result (group share) per share of € 0.72.

The severe guidance cut at the full year results in February might have come somewhat of a surprise. However it seems to be a correct anticipation. We believe the company to be on track to attain its FY12 guidance with an expected EPRA EPS of € 2.06 in 1H12.

Our View:

We do not change our investment case on Befimmo. The company has still strong fundamentals with an occupancy hovering around 95%, an average portfolio lease of >9 years, a stable yield of 6.6% and a high-quality tenant base. However, market trends as decentralization of the working areas together with tele-working and an economic market still under pressure seem to increase rather than solve the structural overcapacity problem of offices in Brussels. Moreover, inherently to the business are substantial capex requirements to keep the assets sustainable and attractive, which appear difficult to recuperate in rental increases under the current circumstances. We therefore reiterate our Hold recommendation on the back of solid fundamentals but a challenging environment.