

16 November 2012

BEFIMMO

Better-than-expected 3Q12 results

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE € 46.93
TARGET PRICE € 50.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg	BEFB.BB
Reuters	BEFB.BR
www.befimmo.be	
Market Cap	€ 788.0m
Shares outst.	16.8m
Volume (daily)	€ 983,702
Free float	77.6%

Next corporate event

Results FY12: 19 February 2013

(€ m)	2011	2012E	2013E
Current Result	90.0	75.5	71.7
Portf. Result	-6.6	-28.2	-14.5
Net Profit	81.9	47.3	57.2
Adj. EPS (€)	5.35	4.28	3.96
NAV (€)	57.4	57.7	58.4
P/E (x)	10.9	11.0	11.9
DPS (€)	4.93	3.50	3.50
Dividend yield	8.5%	7.5%	7.5%

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Summary:

Befimmo reported good 3Q12 results. The company's rental income over 9M12 increased 4% y/y, but the result was also coloured by some non-recurring items. We increase our FY12 EPRA EPS to € 4.28 but remain our Hold recommendation on a weak performing office market.

News:

Befimmo reported strong 3Q12 results. Net rental income increased 4% over 9M12 to € 96.7m vs. € 93.2m in 9M11 (€ 95.7m KBCSe). This result was mainly driven by positive indexations, the contributions of the Pavilion building and the receiving of early-leaving fees. Additionally, the company lowered its overheads y/y and could benefit from a non-recurring compensation fee for the coordination of the redevelopments in WTC III. This positive impact was however tempered by an increase in financial charges y/y, leading to an EPRA result of € 57.8m vs. € 54.3m in 9M11 and strongly above our € 54.4m estimates.

The company suffered from a negative portfolio revaluation of € -7.3m vs. € -3.4m KBCSe. As a result of the drop in interest rates, also the fair value of the financial instruments decreased by € -19.5m.

The company's occupancy rate remained stable at 95.5% vs. 95.5% in 2Q12, as well as the gross yield 6.77% vs. 6.78% in 2Q12, while the average lease maturity slightly dropped from 9.6 years in 2Q12 to 9.4 years. The EPRA NAV stands at € 57.5 p.s.

Management confirms its interim dividend of € 2.59 p.s. that will be offered as an optional dividend. For FY12, the company also confirms its final dividend of € 0.86 p.s. The company increases its FY12 EPS guidance by 5%, previous guidance of € 3.86 p.s.

Our View:

Befimmo reported good 3Q12 results. The company reported overall a positive indexation of its rents over 9M12 which is better than expected. The results were however impacted by some non-recurring items such as the early-leaving fees and the fee for coordination of WTC III. Nevertheless, following the corporate simplification (which I extensively discussed in earlier Morning notes), the company's costs are expected to be structurally lower. Thereby, the company's fundamentals show resilience with an occupancy rate of 95.5%, 6.8% yield and 9.4y lease maturity. Positive was the announcement of lettings in the Brussels periphery and decentralized zone.

Conclusion:

We had already upped our EPS to € 4.10 and therefore, the company's guidance for a higher EPS over FY12 doesn't come as a surprise. Incorporating the positive one-offs, we increase our FY12 EPS to € 4.28, but maintain our € 50 TP and Hold recommendation. We still see very limited growth opportunities for the company in the current market and unexpected departures of tenants could hurt the company's income stream.