

31 August 2012

BEFIMMO

Will Paris provide the solution?

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE € 47.04
TARGET PRICE € 50.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEFB.BB
Reuters BEFB.BR

www.befimmo.be

Market Cap € 789.8m
Shares outst. 18.8m
Volume (daily) € 1,080,074
Free float 77.6%

Next corporate event

Results 3Q12: 15 November 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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Summary:

Befimmo reported good 1H12 results. The recurring result increased 4% y/y, on the back of an increased rental income, lower operating charges & overheads and a windfall for the financial charges. FY dividend guidance of € 3.45 confirmed. Interim dividend guided of € 2.59 in December 2012.

Slightly better than expected 1H12 results:

- Net rental income came in slightly below our expectations, € 63.5m vs. 64.1m KBCSe and up 4% y/y, driven by the contributions of the Pavilion building and positive rental indexations. The company surprised positively with a decrease in corporate overhead costs y/y, while also a significantly positive other operating income result was attained. This led to an operating margin of 85% (vs. 83% KBCSe) or an operating income before result on portfolio of € 53.9m vs. € 53.4m KBCSe. Befimmo reported low financial charges (as anticipated in our preview of Tuesday), corresponding to an average cost of debt over 1H12 of 3.46% vs. 3.8% FY guidance by the company at the beginning of the year. Therefore, the net current result/EPRA result equalled € 37.3m vs. € 36.1m KBCSe or 4% up y/y.
- The portfolio showed a positive change in fair value over 2Q12, leading to an only moderate € -13.5m 1H12 negative (non-cash) change vs. € -20.9 KBCSe. We recall the company expects over FY12 an IAS40 adjustment of € -29m vs. € -23m KBCSe. The FV change of the financial instruments was also negative, resulting in a net result of € 18.8m 1H12.
- Befimmo confirms strong portfolio fundamentals: i. the occupancy rose from 94.3% FY11 to 95.5% following new leases e.g. contract was signed with the European Parliament to rent the refurbished Science-Montoyer building for 21 years at € 210 per square meter, approving Befimmo's portfolio quality as well as demand for offices in the centre of Brussels. ii. the lease duration amounts to 9.62y vs. 9.02y FY11 and, iii. the initial gross yield equals 6.78% vs. 6.61% FY11. NAV EPRA stands at € 56.67.

Pure player, but geographical diversification?

After a period of silence about growth, the company emphasized to be actively searching for new opportunities. Hereby, the focus is expanded to France and more specifically the region of Paris. Mgmt confirms however that the intercity of Paris is too expensive (read: yields are too low) and we should therefore rather expect acquisitions in Paris' subregions (outside peripheral boulevard). The company predominantly examines investment opportunities of around € 80m at a yield of at least 6%. For the moment, mgmt. describes its expansion in Paris as 'gathering knowledge and building a network', as its main concern is 'acquiring assets with LT stable cash flows to serve its shareholders'. The company currently possesses an investment base of € 100m to € 150m. For acquisitions exceeding this budget, mgmt will call upon its shareholders. Also the Brussels market provides investment alternatives, but the competition (mainly insurance companies) is tough.

Conclusion:

€ 50 target price and Hold rating maintained.