Kempen & Co Property Daily

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BEFB BB | CLOSE: EUR 52.460 (0.27%) | RATING: NEUTRAL | PT: EUR 55.00

Kempen & Co news – Befimmo: FY12 dividend cut to overshadow FY11 results

Befimmo's results contained an outlook on 2012-14 CF/share that was markedly lower than the company's previous outlook and in addition a dividend cut for FY12 was revealed by management (i.e. FY12 DPS of EUR 3.45/share vs earlier indications of EUR 3.98/share). We had already (partly) anticipated a downward adjustment to Befimmo's future CF, however our downward adjustment was clearly overshadowed by yesterday's lowered outlook. Besides this, Befimmo's FY10/11 (an exceptional book year of five quarters) was at it's a CF of EUR 90m modestly above our CF expectations. With a dividend cut for 2012 on the cards and a lacklustre outlook for future CF, we expect Befimmo to underperform today.

Three-year CF outlook adjusted downwards mainly on account of higher financing expenses: For the coming three years Befimmo has lowered its outlook on earnings as it faces more headwind on letting levels while financing expenses will see a marked increase. More specifically, Befimmo lowered its forecast on its future EPRA earnings: (i) FY12 CF is expected to come in at EUR 68m (was: EUR 75m; K&Co est. EUR 71m), (ii) FY13 CF is expected to come in at EUR 65m (was: EUR 72m; K&Co est EUR 70m), and (iii) FY14 CF is expected to be EUR 67m (vs K&Co est EUR 72m). About EUR 4m of the decline is attributable to higher financing costs and the remainder is a result of subdued LFL rental growth expectations for 2012-14. As such (and also due to a higher number of outstanding shares following its latest stock dividend), the earlier anticipated FY12 dividend of EUR 3.98/share is expected to be lowered by 13% to EUR 3.45/share.

Letting activity solid, yet negative reversionary still being locked in: Befimmo has signed 70,000sqm in leases over the last five quarters, which is clearly above its annual letting run-rate of 36,000sqm. This keeps the occupancy level flat at 94.3%, which was a tad better than anticipated. The negative reversionary potential locked in on the re-lettings was roughly in line with its forecast/reversionary (YE11 reversionary potential: -/-7.5%). LFL over the last twelve months was mildly negative (also due to the end of the rental guarantee on Axento) vs. Cofinimmo's LFL of +2.1%. Hence we continue to pencil in that new leases will be re-let 10% below current levels. This translates into expected FY12 LFL growth of 30bps below indexation.

CF/share just above our estimate: The EBITDA over 1Q-5Q10/11 came out at EUR 129m, which is in line with our EUR 128m assumptions. The CF came in at EUR 5.35/share and is slightly above our 1Q-5Q10/11E CF of EUR 5.33/share. As such the dividend for FY11 is confirmed at EUR 4.93/share. For the period 2012-14 we will lower our CF by 6%, which translates into FY13/FY14 CF yields of 7.0% and 7.2% respectively.

Write-down on the portfolio for FY10/11: The overall gross yield on the portfolio was kept flat at 6.6% at the end of FY10/11 and the total write-down on the standing portfolio came in at 0.93% for 2011. For the period 2012-2014, we expect a total write-down of 3.8% (vs. -/-2.7% anticipated by management; mainly from CAPEX and negative reversionary), translating into a trough FY14 NNAV of EUR 55/share.

Final permit for the Paradis building received: Befimmo indicated that it had received planning permission for its EUR 95m development Paradis on which management expects to start construction in March 2012. As a result, the average lease maturity will increase to ten years, instead of the current nine years. Furthermore, Befimmo's management indicated that the transaction market in Belgium had dried up, hence it seems that the company sees limited investment opportunities. As such, we have included a limited EUR 50m in acquisitions in the next 24 months.

Outlook for financing: For YE12 Befimmo's main focus is to increase the unused credit facilities by EUR 450m to EUR 686m, to be ready for the maturing debt in March/June 2013 of EUR 220m and EUR 300m respectively. Management indicated that this will most likely be refinanced with either another retail (or convertible) bond or a US PP, in addition to bank lending. However, it is expected that this would come through in markedly higher CoD (vs current CoD at 3.55%). We expect Befimmo's average CoD on its refinancing to be 4.0% in the medium term.

Valuation: We will revise our estimates and PT downwards given the more subdued outlook. For now leave our Neutral rating unchanged, as the forecast FY12E CF yield of 7.4% (after the downward adjusted assumptions) is still modestly better than the sector average. However, we still expect the stock to underperform today. *For further information please contact Robert Woerdeman (+31 (0)20 348 8458; robert.woerdeman@kempen.nl)*