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Kempen & Co Property Daily

Tuesday, 15 May 2012

BEFB BB | CLOSE: EUR 43.580 (0.97%) | RATING: NEUTRAL | PT: EUR 51.00
Kempen & Co News – Befimmo: on track to achieve our FY12E CF

Befimmo's key figures for 1Q12 which include CFPS of EUR 0.99 are well on track to our FY12 CFPS of EUR 3.86 when adjusted for our anticipated 40bp increase in CoD y-o-y. Furthermore Befimmo has written down 0.76% on the portfolio following a change in valuers translating into a flattish Q-o-Q NNAV of EUR 57.2. Lastly, Befimmo announced that it has issued EUR 150m in an US private placement with a maturity of between seven and eight years with a spread that was just over 250bps (hence strongly affecting the higher CoD that we pencil in). Following this private placement the company targets approximately another EUR 300m in refinancing for 2012 to cover the refinancing due in March 2013 which will be a combination of bank lending, European PP and other sources of financing that will result in an average 4.0% CoD (vs. 3.6% for 2011). We reiterate our Neutral rating and our PT is unchanged.

1Q12 CFPS to decline by 9%: The net rental income over 1Q12 increased by 3% y-o-y to EUR 31.7m due to inflation (LFL growth +2.7%) and the contribution by Pavilion, yet was still in line with our EUR 127m FY12 assumptions. The CFPS declined by 9% y-o-y to 0.99 as a result of higher financing costs and a higher number of shares outstanding (stock dividend).

Letting update – still a lacklustre market: The first quarter letting market continued to be lacklustre, with Befimmo signing 3,300sqm in net lettings, yet still increasing the occupancy rate by 27bps to 94.57% (average reversionary on these new lettings is expected to be about -/-7.5%). Furthermore, as in other parts of Europe, we are seeing that leases are being vacated at an early stage, e.g. Samsung is rumored to be moving out of its 3,000sqm office building (in peripheral Brussels) whilst its contract only ends in 2015. Although management sees this as an opportunity, we are cautious on the re-letting of this building. Besides this, management indicated that incentives for new leases remain high (between 1.5 months and 2 months rent-free for every year lease), however this has not deteriorated in the last three months.

New valuers employed for the portfolio valuation: The overall gross yield increased by 13bp Q-o-Q to 6.74% at the end of 1Q12 translating into a total write-down on the standing portfolio of EUR 15m (-/-0.76%). For 2012 management expects the write-downs to come out at -/-1.44% (if the market does not weaken further), whilst we write down a total of 3.8% over the period 2012-15. Our write-downs are mainly the result of CAPEX and negative reversionary on the portfolio, rather than further yield compression as we believe that the valuation yield correctly reflects the 9.75-yr average lease maturity and the decent quality of the portfolio.

Outlook: For the year the company's guidance CFPS/DPS forecast still applies of EUR 3.81 and EUR 3.45 respectively and thus hardly differs from our CFPS of EUR 3.86, assuming that the company does not make any major investment. During the conference call management clearly stated that about EUR 400m to EUR 500m in potential acquisitions were on the market which meet the company's criteria of prime locations in Brussels and long leases. We expect the company to have between EUR 100m and 125m in firepower, without jeopardizing Befimmo's maximum targeted LTV of 50%.

Valuation: We favour future revenues being secured by the 9.75-yr average lease maturity with high exposure to government tenants and increased debt maturity (although at a cost), however we continue to be negative about the Brussels office market and the fact that the portfolio is over-rented (7.5%). Although the company's CF yield is appealing, we are not convinced about its 5.9% FY13E EBITDA/EV yield whilst the 18% discount to our FY13E NNAV is in line with the rest of the sector. We reiterate our PT of EUR 51 and Neutral rating.

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