

# Befimmo

(maintained) **Hold**

Belgium Real Estate	Price (15/01/13) Target price (12-mth)	€49.78 €50.90 (prev €48.70)	Forecast total return Bloomberg	2.2% BEFB BB
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## Investment summary

Befimmo raised its EPS forecast for 2012 to more than €4.05; not a surprise given the run rate in 9M12 of €3.30 (EPRA defined EPS, including some undisclosed non-recurring items). Together with the positive impact of the announcement on 30 October that it would fully internalise property management and which was approved by the EGM on 20 December, we see sentiment on Befimmo turning more positive.

The internalising of property management is a long-term positive trigger for Befimmo shares, as it reduces corporate governance concerns. For example, shareholders can now exert their influence more directly over the board and the portfolio.

We see a continued soft market for Befimmo in the Brussels office market with slowly sliding rental levels, still mostly compensated for by indexation. Despite this, Befimmo has managed to cut its vacancy rate to 4.5%, from 5.7% at the start of 2012, indicating that its assets can withstand the weak demand for office space for a number of years to come.

Given the undemanding FY13F multiples – PER of 11.7x (historically at 13x), a share price discount of 7% to EPRA NAV, and a dividend yield of 7.1% (>400bp over Belgian government bonds, providing ample share price support) – we believe Befimmo should outperform the EPRA index if the general market sentiment turns more negative.

We still see Befimmo as a stock that should do well in a risk-off environment, which could be triggered by resurfacing sovereign issues in southern Europe or by an economic recession triggered by the austerity facing European economies, including Belgium.

We increase our NAV derived target price to €50.8 and keep our HOLD recommendation. The key risk to Befimmo would be a further fall in rental values for Brussels offices and rising interest rates.

## Company profile

Befimmo is the second-largest SICAFI (REIT) in Belgium, with a €1.9bn portfolio. In 2006, Befimmo won the tender for the Fedimmo (Belgian government) portfolio (€725m at 5.5% NIY). The initial duration of the contract (17 years) significantly enhanced Befimmo's defensive profile. Late 2012, shareholders approved the internalisation of property management and conversion of the company structure into an NV, improving corporate governance and increasing management control over the portfolio.

## Newsflow

Date	Description
21 February 2013	2012 results publication
29 March 2013	2012 Online Annual Report

## Financials

Year end Dec (€m)	FY2010	FY2011	FY2012E	FY2013E	FY2014E
<b>Profit and loss</b>					
Rental income	124.2	124.8	127.3	126.4	130.3
Net rental income	123.7	124.6	126.9	126.0	129.9
Total property charges	(14.3)	(14.7)	(12.3)	(18.3)	(18.9)
Corporate management costs	(12.7)	(14.2)	(14.0)	(10.1)	(10.4)
Operating result before result on portfolio (EBITDA)	112.2	102.6	106.8	105.8	109.1
Gains or losses on disposals of investment property	0.4	14.6	0.0	0.0	0.0
FV on investment property	(31.6)	(19.0)	(30.2)	(32.7)	(21.5)
Operating result	81.0	98.2	76.6	73.1	87.5
Net financing expenses	(21.2)	(31.3)	(54.8)	(26.9)	(29.8)
Pre tax result	59.8	66.9	21.8	46.2	57.8
Corporation tax	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Net result	59.2	66.2	21.1	45.5	57.0
<b>Per share data</b>					
EPRA Earnings per share	5.06	4.18	4.26	4.24	4.26
Indirect result per share	(1.79)	(0.49)	(3.21)	(1.77)	(1.17)
Total result per share	3.28	3.69	1.05	2.47	3.09
DPS	3.90	4.93	3.45	3.52	3.62
IFRS NAV p.s.	60.60	57.17	54.35	53.35	52.90
Recurring CFPS	5.06	4.14	3.03	4.24	4.26
<b>Balance sheet</b>					
Investment properties	1,885	1,971	1,964	1,931	1,910
Assets held for sale	38	0	0	0	0
Cash and cash equivalents	3	4	2	45	62
Total assets	1,985	2,028	2,034	2,054	2,052
Equity group share	1,017	1,003	1,003	984	976
Minorities	64	68	69	67	65
Total equity	1,082	1,070	1,072	1,052	1,041
Long term liabilities	605	866	801	801	801
Current liabilities	298	91	161	202	210
Total equity and liabilities	1,985	2,028	2,034	2,054	2,052
<b>Cash flow statement</b>					
Operating income	81.0	117.4	76.6	73.1	87.5
Fair value adjustments	(3.8)	5.0	(4.5)	0.0	0.0
CF from operations	90.8	67.0	60.1	108.6	82.2
CF from investing	(26.0)	(39.3)	(40.9)	0.0	0.0
CF from financing	(64.3)	(27.0)	(21.5)	(65.9)	(64.4)
Net change in cash	0.5	0.7	(2.4)	42.7	17.8
Ending cash balance	6.6	4.2	1.8	44.5	62.3

Source: Company data, ING estimates

## Share data

Avg daily volume (3-mth)	19,724
Free float (%)	81.0
Market cap (€m)	918.6

## Major shareholders (%)

Ageas	16.5
Meirfree SA	2.2
BlackRock	1.9
Vitalfree SA	1.1
ING Asset Management	1.0

Sources: Company data, ING estimates

## Share price performance

