



**31/08/2012**

## **Befimmo (Hold - EUR 47): Performing better than the market and expectations**

Befimmo reported a good H1 12 set of results yesterday. We attended the analyst meeting.

### **Facts**

- Top line was in line with our expectations at EUR 63.5m, though bottom line beats our expectations by EUR 2.6m or EUR 0.21/share (+11%).
- Net current result arrived at EUR 2.13/share (same as LY but some dilution) vs. 1.92 at Pcam and consensus at EUR 1.98/share. This was mainly explained by i) a lower cost of debt (positive effect of EUR 1m). CoD stood at 3.46%, while expectations were right below 4% in the beginning of the year. ii) EBITDA was higher than expected at EUR 53.9m (EUR 52.5 at Pcam), keeping the margin at the same level of last year at 85%. The difference is explained by lower than expected technical costs.
- Indirect result was flat for Q2, which was a nice surprise vs. last quarter (-0.76%) The CEO hinted on -1.44% for the full year again. Management is confident that the 2 remaining claims lodged at Council of State against the permit will be dropped (permit received in February '12). The claim lodged by the neighborhood was dropped already.
- Nice letting news: The company leased 5.4ksqm in the Science-Montoyer to the European Commission for 21 years firm. Rental level starts at EUR 210/sqm, while inflation will improve this level to approx. EUR 315/sqm at the end of the lease. The lease duration of contracts remains high at 9.62 years. Next year expiring lease maturities stand at 6.5%. Furthermore FedEx took up 4,000sqm of the Central Gate (32,500sqm) - which will be delivered today in stead of the end of June.
- NAV stands at EUR 57.27/share, which is in line with ours but above consensus at EUR 55.
- Befimmo quoted it wants to enter the Paris peripheral office market, adding buildings of approx. EUR 80-100m for max. 20% of the total portfolio (~EUR 400m). For these investments the company targets a yield above 6%.
- Guidance on the dividend of EUR 3.45/share was reiterated (offering a 7.3% yield currently).

### **Our view**

- Befimmo showed with the lease of 50% of the building in Vilvoorde to Goodman (left by Samsung as we thought), that the company is able to attract tenants in 'challenging' zones.
- Befimmo isn't looking at the Belair tower, as some insurance companies are offering 'financial' yields close to 5%.
- There is still some upside on the valuation for the Paradis tower - we assume some EUR 10m - when the building will be delivered at the end of 2014. This is based on a yield on cost of 6.3% and a potential exit yield close to 5% (we refer to the yield lower than 5% in Bruges).
- The Brussels office market is recovering slowly as i) speculative investments are halted, ii) Delta project of the EU institutions was cancelled iii) move from EU

institutions from Evere to Brussels CBD iv) a higher pace of conversions.

## Conclusion

- Befimmo reported a good set of results and the mood during the analyst meeting was good.
- We are keen to see the first steps of Befimmo in France. We can imagine that Befimmo is looking to the Western Crescent and Inner Rim.
- After the change of interpretation of the Anti-Abuse law in Belgium, the company does not expect transaction taxes to increase (2.5% currently). Management is confident that other structures will pop up, e.g. long leases of 99 years. Nevertheless, management believes that there will be less transactions.
- Befimmo trades at an 18% discount to NAV whereas Cofinimmo trades at a discount of 4% and other Belgians mainly trade with a premium. Befimmo's earning multiple comes in at 11.5x while Cofinimmo trades at 12.1x. Gecina's multiple even stands at 15.4x, and one might wonder if Befimmo is punished too hard. We changed our estimates in our model, on the CoD and technical cost, and hence increase our target price to EUR 48.8 from 46.6 (+4.7%).

in mEUR	'11 H1a	'12 H1a	% Ch	'12 H1e	% A/E	Cons.
Net rental result	61.1	63.5	3.9%	63.9	-0.6%	
EBITDA	52.2	53.8	3.1%	52.5	2.5%	
Net current result	38.30	37.30	-2.6%	33.71	10.7%	
Recurring CF/share (undiluted; 17.53m shares)	2.28	2.13	-6.6%	1.92	10.9%	1.98
Recurring CF/share (diluted; 18.17m shares)	2.28	2.05	-10.1%	1.85	10.8%	
NAV/share	57.40	57.24	-0.3%	57.00	0.4%	55

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