



Befimmo (Hold - EUR 45.5) Tough times for the Brussels office market

Befimmo will report its Q1 figures on the 14th of May after closing.

Preview

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|----------------|-----------------------|
| Period | Q1 results 2012 |
| Date/Time | 14/5/2012 after close |
| Recommendation | Hold |
| Target price | EUR 47.4 |

| in EUR | 1/Jan - 31/March '11* | Q1 '12e | % Diff 12/11 |
|-------------------------------|--------------------------|---------|--------------|
| Rental income (m) | 29.79 | 31.70 | 6.41% |
| EBITDA (m) | 25.48 | 25.90 | 1.65% |
| Net current result (m) | 18.22 | 16.95 | -6.97% |
| Recurring CF/share (dilluted) | 1.18 | 0.96 | -18.55% |
| NAV | 60.60 | 58.28 | -3.83% |

* Pcam calculations as Q2 '11 was not published

Key items

1. Full year figures were bang in line with our expectations on all levels. Epra earnings arrived at EUR 5.35, (diluted at EUR 5.15/share) while it stood at EUR 6.6/share last year (-19% YoY). Average financing costs were 3.55% over '11, while at 2.97% last year. At the '11 results, Befimmo forecasted that CoD will increase to c. 4%. Hence EPS guidance for 12e was lowered by 8% to 3.86/share because of higher cost of debt and general economic weakening.
2. For Q1 we don't expect surprises as we haven't seen sales nor investments. The development pipeline for 2012 contains: (i) Central gate building will be renovated by H2 12 (Brussels CBD; 33,000sqm; investment of EUR 19.2m). (ii) Tower 3 of the WTC in Brussels should be renovated by the end of 2012, mostly works performed at the request of the tenant who is still occupying the building (North district; 75,800sqm; investment of EUR 22.2m). (iii) Permit for the Paradis tower in Liège (39,000sqm) was received in Q1 12.
3. Regarding the Brussels office market, the first quarter of the year presented a mitigated start with a take-up reaching 95,000sqm, neither better nor worse than the last years. Despite economic uncertainties and a low level of activity, the prime rent rose to reach EUR 275/sqm/year in the Leopold district. The Brussels office market has not yet recovered, with only EUR 104m invested in seven deals and none above EUR 20m. A high availability ratio and little improvements expected in the short term are depressing the market.

Conclusion

- As stated in Befimmo's latest presentation, 63% of the Brussels stock is located in the CBD. We note that the availability ratio in Brussels' CBD stands at approx. 8% and lower than the average vacancy ratio at 11.9%. Nevertheless, 660k sqm is waiting for a tenant in Brussels CBD (or 44k new employees at a 15/sqm/employee rate), which is quite a lot.
- We note that the former Dexia Tower will be largely vacant in 2014. The Flemish government would like to group its administration in this landmark. Befimmo is doing everything to convince the Flemish government to remain in its buildings (e.g. Noord Building). Befimmo might propose to construct WTC4 for the Flemish government. Secondly, broker Colliers Int'l mentions that Samsung electronics would leave its premises at the Medialaan (Vilvoorde). It seems that Samsung electronics, who has a contract (no break up option) with Befimmo until 2015 has taken up 3,700sqm in the Airport plaza in Brussels for its new EU HQ, owned by CBRE Investors. We would welcome more information from management on both items.
- We don't expect a new big bang at the Q1 results after the latest cut in guidance. The main difference with last year Q1 (restated from January to March) is the full contribution of the Pavillion and a higher CoD.