



## Befimmo (Hold - EUR 43.58) Valuation experts are not helping the case

Befimmo published its Q1 reporting yesterday after close. We had a conference call with management.

### Facts

- Top line figures were straight in line with our expectations at EUR 31.7m. Epra earnings arrived at our estimates at EUR 0.99/share (fully diluted at EUR 0.96/share).
- LfL standing portfolio value decreased by EUR 28.6m or -1.3%, while we banked on EUR -8.6m for the quarter or EUR -34m for the year 2012. Negative revaluation over the quarter is largest in the decentralized zone and Brussels periphery at approx. -12% and -9% respectively. These zones total approx. 13% of the Befimmo portfolio. Luckily Brussels CBD remained positive at 0.89% (58% of the portfolio). Management explained that the revaluation shocks were the effect of a rotation of the valuation experts.
- Refinancing ('12-'14) consists of a tranche of EUR 527m by 2014 (40.4% of total debt). Befimmo continued to diversify its sources of financing by negotiating a private bond placement in the US with institutional investors, for the sum of \$165m and £22m (approx. EUR 150m). We understood from management that margins for this refinancing tranche stand slightly above 250bps. Average cost of debt amounts to 3.8% while it was 3.55% over '11, and 2.97% in '10. Company forecasted at YE '11, that CoD will increase to a level close to 4%.
- The weighted average duration of leases was 8.8 years as at 31 March 2012 (9.75 years when including the Paradis tower).
- The occupancy rate remained stable 94.57% from 94.3% last quarter. LfL rental growth was 2.7%, mainly due to indexation of contracts. Befimmo signed new leases and lease renewals for approx. 3,300sqm only (in Q5 '11, Befimmo (re)signed 70k sqm of leases), which shows that the activity level on the Brussels office market remains low.
- NAV arrived at EUR 57.35, currently a discount of 24.1%.
- Befimmo sees investment opportunities of EUR 400m-500m in the Brussels CBD market currently.
- Befimmo reiterates guidance for the FY '12 dividend of EUR 3.4511 per share (gross) for the current fiscal year or a 7.9% dividend yield currently.

### Our view

- Brussels periphery and decentralized zones are considered as non-core for Befimmo, though putting pressure on the portfolio value. We can imagine that Befimmo has put possible disposals on hold until a new office cycle starts. Secondly, NAV was lower than our expectations because of these negative revaluations.
- We were surprised by the high level of negative revaluations during the first quarter (overall -1.3% LfL), while revaluation of the portfolio was still positive during Q5 '11 (+0.19% QoQ). This weak performance over the quarter is coming close to the overall guidance of the year, namely a negative revaluation of its properties of -1.44% in '12. For the -1.44% guidance, Befimmo takes the development and positive revaluation of the Paradis tower into account, which we find a bit risky as appeals have been lodged against the building permit.
- Broker Colliers Int'l mentioned that Samsung electronics would leave its premises at the Mediaalaan (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. Befimmo didn't confirm the move, though stated that the company would not be afraid if the building would come on the letting market again while having time till 2015 to fill the building.

### Conclusion

Top and bottom line results were bang in line with our results, which was not a surprise as there were no in/outflows of buildings over the quarter. Negative revaluations were key for us in this reporting and still not convincing us to get into the stock. Nevertheless, we can imagine that one might pick some up as valuation is low. What's not priced in yet? A possible move of the Flemish government from the Noord building to the Dexia Tower (owned by Belfius ~ government owned). Where's the upside? We believe that Befimmo might acquire the Bel Air building (66,000sqm; let for 18 years to federal police) and we estimate that Befimmo wouldn't acquire the property at a 'Pavillion' yield of 5.12%. The Bel Air building could add approx. EUR 12m/year to top line or roughly EUR 0.37/share to the NCR. The discount to NAV is rather high at -24.1% when comparing to its Belgian peer Cofinimmo at -13.5. Befimmo at P/E 12e at 11.4x, Cofinimmo at 12.1x. Dividend yield 12e at 7.9%, Cofinimmo at 7.7%. Given a mix of low valuation and potential acquisition with higher risks than peers, we keep our Hold recommendation.

in EUR	1/1 -30/3 '11	Q1 '12a	% Diff 12/11	Q1 '12e	% Diff A/E
Rental income (m)	29.90	31.7	6.02%	31.70	0.00%
Recurring CF/share (undiluted; 17.53m shares)	1.09	0.99	-9.17%	0.99	-0.49%
Recurring CF/share (diluted; 18.17m shares)	1.09	0.96	-12.36%	0.96	-0.49%
NAV	60.60	57.44	-5.21%	58.28	-1.44%

