



Befimmo (Reduce - EUR 52.01) Downgrade from Hold - Cut in dividend guidance: the Doubly whammy?

Befimmo published its Q5 reporting Thursday after close. We remind that FY '11 counts 5 quarters (YE moved to 31/12). Befimmo plans to distribute only a dividend for '12 of EUR 3.45/share or a decrease of 13.3%.

Facts

- Figures were bang in line with our expectations on all levels. Epra earnings arrived at EUR 5.35, (diluted at EUR 5.15/share vs. ours at EUR 5.20/share) while it stood at EUR 6.6/share last year (-19% YoY).
- Refinancing ('12-'14) consists of a tranche of EUR 527m by 2014 (40.4% of total debt), while it doesn't seem that easy. Mr. De Blicq quoted "margins have increased very badly". Average financing costs were 3.55% over '11, while at 2.97% last year. Company forecasts that cost of debt will increase to a level close to 4%.
- Hence EPS guidance for 12e was lowered by 8% to 3.86/share because of higher cost of debt and general economic weakening. This is even 9.9% lower than what we had in our model.
- Despite previous communication on the dividend for '12 at EUR 3.98/share, Befimmo plans to distribute only EUR 3.45/share (interim div of EUR 2.59 in December and EUR 0.89 in May) or a decrease of 13.3% when comparing to previous guidance.
- Befimmo confirms the final dividend to EUR 0.99/share, as expected for the 5th quarter, bringing the total dividend for '11 at EUR 4.93/share.
- Top line came in at EUR 155.7m or slightly higher than last year (EUR 155.0m). Befimmo signed new leases and lease renewals for over 70,000sqm (twice as much as normal). Occupancy rate stands at 94.3%, which is the same level as previous quarter.
- Corporate overhead costs have increased by 11.8%. This increase is due mainly to the fees incurred by the refinancing program and the costs associated with the team and the Managing Agent.
- Revaluation of the portfolio was positive during Q5 (+0.19% QoQ), while it was -1.29% for the past 15 months (-0.93% on a yearly base). Q5-valuation was better than we expected (-0.33% QoQ) for Q5. Befimmo quotes that this is due to a higher than expected inflation, i.e. 2.8% instead of estimates below 2%). Rental reversion of the portfolio is negative at -7.5% instead of -5.6% last year (contracts are indexed though market is standing still). Reversion rate is highest in Wallonia (-20.9%), but relates to long-term let assets (Fedimmo).
- Befimmo expects a negative revaluation of its properties of -1.44% in '12, -0.89% in '13 and -0.38% in '14.
- NAV arrived at EUR 57.35, currently a discount of 9.3%. NAV was in line with our expectations at EUR 57.25 (difference with last year EUR 60.60 is explained by the payment of the dividend in December).
- Capex amounts EUR 58.8m for '12: Paradis tower largest with EUR 22.5m for the year.
- Sale of Empress court and Kattendijkdok offer a capital gain of 0.82/share.
- Positive news on the Paradis project, where the permit was obtained last week. This is a 39,000sqm tower in Liège let to the Finance Federal Public Service. The building which counts 27 floors, was signed for 25 years. Works will start in March '12 and completion is foreseen by Mid '14 (one year delay).
- Brussels periphery and decentralized zones are considered as non-core for Befimmo, though the company will not sell buildings in these zones and will put things on hold until better times as there is no market there currently.
- Buildings older than 15 years account for almost 1/3 of the portfolio and have a duration of 8.3 years.
- Meirfree SA and Vitalfree SA, 100% subsidiaries of Befimmo, have together held an additional 637,371 shares in Befimmo. These shares were issued, though not placed (and currently treated as treasury shares).

- Befimmo might go back to France (Paris?), when momentum to take risk returns.
- Befimmo will offer a stock dividend (in '11 a 60% hit rate).

Our view

- Befimmo signed quite a lot in a difficult market, though we would have been keen to have more indications on the LfL rental growth ((the company only mentioned it was negative while it was positive at Cofinimmo at +2.1%). Positive news on the Paradis project is not only the approval of project itself, but also the fact that Befimmo gained expertise and now has the skilled workforce to bring such a tower to the market (while before Befimmo was mainly looking to already built investments only). The building will increase the average duration of the portfolio to 10 years from 9 years currently.
- Dividend plans for '12 were cut quite hard, while a potential cut was never mentioned before. Moreover, we didn't expect the dividend cut given the LT lease profile of the portfolio and the linked sustainability on dividend. Since the beginning of the macro-economic perils, long term investors face a lower share price (with a discount to NAV of 9.3%). Secondly the dividend is lowered as well. This double whammy comes probably quite unexpected given the defensive profile of the company (i.e. LT lease contracts in Brussels CBD).

Conclusion

Results for the 5 quarters were bang in line with our expectations, however the adjusted guidance is well below our estimates. We believe that the cut in dividend will be negatively perceived (one needs to remember the numerous private investors who usually stabilize the stock price but are quite sensitive to the dividend). Looking to the LTV estimates of the company, LTV will move up from 44.2% to 48.1% without acquisitions nor CF/share growth nor NAV/share growth. Based on the dividend cut and lower EPS guidance for the coming 3 years, we downgrade the stock from Hold to Reduce.

in EUR	2010a 5Q*	2011a 5Q	% Diff 11/10	2011e 5Q	% Diff A/E
Rental income (m)	155.0	155.7	0.45%	155.8	-0.06%
EBITDA	140.1	129.0	-7.94%	130.8	-1.38%
Net current result (m)	110.9	90.0	-18.81%	90.8	-0.86%
Epra earnings (fully dilluted)	6.60	5.16	-21.89%	5.20	-0.86%
NAV at YE	60.60	57.35	-5.36%	57.25	0.17%

* annualised

Analyst: Joël Gorselé, Phone: +32 (0)2 229 63 40, E-mail: joel.gorsele@petercam.be
 Sales contact: Joël Gorselé, Phone: +32 (0)2 229 63 40, E-mail: joel.gorsele@petercam.be