



Befimmo (Hold - EUR 50.70): Time to harvest has not yet come

Befimmo released FY results yesterday.

Facts

- Top line (EUR 128.7m) and Epra earnings (EUR 74.9m or 4.24/share) arrived bang in line with ours. We note that these figures exclude the net one off effect of -EUR 19.2m following the transformation of the legal structure of the Sicafi following from the agreement with AG Real Estate.
- The company guided on the epra earnings for the coming years: EUR 4.03 in 2013 (4.02 Pcam), 3.81 in 2014 (4.14 Pcam) and 3.75 in 2015 (4.12 Pcam). The company hints that the dividend should remain stable at EUR 3.45 at these Epra earnings levels.
- The dividend was reconfirmed at EUR 3.45/share for this year and 2013. Befimmo proposes the interim dividend of 0.86/share.
- The negative change of the fair was stronger than expected at -EUR 35m (-1.75%; EUR 2/share) vs. our -EUR 29.2m and -EUR 19m last year. The main negatives are found in the decentralized area (-18.8%) and periphery (-9.9%). Management quoted that Befimmo should almost have reached to the bottom of the values in these zones.
- The overall lfl value change for buildings available for lease stood at -2.33%, while the overall negative trend was limited thanks to the positive variation in light of the construction of the Paradis tower where the construction has started. We estimate that the building under construction was valued at approx. EUR 19m - looking to the variation of 2011-2012. While the total cost is approx. EUR 95m for the tower in Liège at a yield of 6.3%, one might pencil in more positive revaluations regarding this building given the 25 year lease contract attached.
- Befimmo was able to profit from the full inflation impact for 2013, quoting on a lfl rental growth of 3%.
- Debt ratio amounts to 49.3% (45.8% last year) and the LTV at 48.03% (44.18%). The cost of debt evolved positively from 3.55% to 3.38%.
- Weighted average duration of leases representing 9.32 years at year end as against 9.02 years one year earlier.
- The refinancing of its two syndicated loans, which mature in March 2013 (EUR 220m) and June 2013 (EUR 300m), were finalised. We understood that management opted for bilateral loans with 3 banks. Until Q4 2015, the company has no refinancings on its to do-list. 58.4% of total borrowings at fixed rates (including IRS).
- The company obtained the permit for the WTC 4 at Brussels North. By 2016-2017 the 56k sqm tower could be constructed.

Our view

- NAV came in below our estimates at EUR 54.18 vs. our EUR 57.58 because of the higher than expected negative variation of properties, a lower net result (one off included) and to a minor extent a lower than expected result of the interim dividend in shares. We note that a 1% decline in the variation of the value has an impact of the order of -EUR 1.09 on the NAV. The discount to NAV is now limited to -6.55% vs. -2.72% at Cofinimmo.
- It is very positive that the company obtained the permit for WTC 4 as the building can be intensively marketed as from now. Befimmo quotes that the Brussels region and city itself could be interested along with corporates. We believe that

the very good location in terms of public transport should indeed convince a tenant. The Flemish government could look at the building as well, as we believe they will probably leave the Noord Building of Befimmo by 2016 – though no official quotes so far on that topic. Befimmo aims to let the WTC 4 to one single tenant.

- In the case of a leave of the Noord Building, we estimate the negative impact on the NAV at 9% on NAV as the building is let for EUR 200/sqm (vs. current prime at EUR 155/sqm) + construction cost of a new building is min. EUR 70m (~EUR 1,600/sqm). Top line effect would be -6.6%. That negative effect could be limited if Befimmo is able to lease the building with a more sqm's than the current 45k sqm.
- The company was very transparent by showing the negative reversion rate for each of the regions. The negative reversion rate is highest in Brussels CBD (-14.3%) and Decentralized area (14.4%). Probably the negative reversion rate of -10.9% in the periphery is more worrying as some 400k sqm will be developed at the airport zone and the lease maturity of the Befimmo buildings in that area is at 2.45 years only.
- In the past, we mentioned that we would not be surprised if Befimmo reshuffles its dividend policy (intermediary + final) and just pay a final dividend after the publication of year-end figures. This would be logic when looking at the timing of the dividend pay out at peers. Befimmo mentioned that it would be favorable for the company to change the policy, although the current pay out agenda will remain in place as a change will have a negative impact for the shareholders.
- We were keen to see that the occupancy rate of the Central gate reached 100%. Nevertheless the company announced the leave of Levi's Straus (2% of rent or EUR 3m/year). We expected these announcements.

Conclusion

Direct results were in line with expectations, although the indirect result surprised negatively (even with the Paradis) taking down NAV as well. Positive trigger would be the leasing of the WTC 4, the leave of the Noord Building would be the negative one. The dividend yield stands at 6.8% vs. 6.7% at Cofinimmo. Befimmo trades with a P/E of 12.6x, Cofinimmo 12.8x and Gecina at 16.4x. Hold.

in mEUR	'11a	'12a	% Ch	'12e	% A/E
Net rental result	124.62	128.75	3.3%	128.92	-0.1%
EBITDA	102.58	106.00	3.3%	109.88	-3.5%
Transformation one off		-19.24			
Epra earnings - excl.one off	70.87	74.92	5.7%	74.92	0.0%
Recurring CF/share (undilluted)	4.18	4.24	1.4%	4.24	0.0%
Recurring CF/share (dilluted)	4.07	3.81	-6.3%	3.81	0.0%
NAV/share	57.17	54.18	-5.2%	57.58	-5.9%

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