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Please find below our latest publication:

Befimmo (Hold, TP=€54) - Rating downgrade - CBD still serves as a refuge - H. Quadrelli (6p)

Update

We have updated our valuation model after analysing the earnings forecasts and adopting the IFRS recommendations. Our new estimates factor in a flat rental margin of 90% and an EBITDA margin of 83%. They also include weaker disposal volumes on account of current conditions in the investment market, with higher interest expenses in the medium term as a result. All told, we have cut our cash flow forecasts for 2013-2015 and now see an annual decrease of 4% vs +1.5% before. Average lease duration for the portfolio is 9.4 years, with negative reversionary potential of 12%, split as follows: CBD3 years /-14%; non-centralise areas 2.5 years/-14%; periphery 2.4 years/-11%; Wallonia 17 years/-10%; Flanders 12 years/ -6%; city of Luxembourg 3years/-6%. Note that duration is shorter where reversionary potential is more negative, i.e. in the non-central areas and the periphery, which together generate 14% of rental income. The negative potential is attributable to heavy index-related adjustments, as well as to declining market rents.

SG view

While the Belgian office market seems sustainably impacted by oversupply, the CBD remains prime, with far weaker vacancy rates than on average (Pentagon 5.3%, southern district 1%, northern district 6.6%, Leopold 5.9%) vs 10.4% on average for the capital. A beefing up of Befimmo's positions in these areas is therefore a priority in our view.

How we value the stock

Our estimates change leads us to lower our target price from €61 to €54, derived from a fair value of €59.5, to which we apply a 10% market discount. Our fair value results from the average of SG's three standard valuation approaches: a 10-year DCF with terminal value in line with 2% growth to perpetuity and a WACC of 6.6% (€59.5), a Gordon-Shapiro model inputting a normalised dividend (€71.3) and a 10-year DDM with terminal value in line with average gross and net NAV (€47.8). Our market discount is split as a 10% sector discount, a 2% liquidity discount and a 2% 'reputation' premium. Our expected TSR of 14.2% leads us to downgrade from Buy to Hold.

Next events, catalysts & TP risks

Negative trends in Belgium's investment market would have a direct impact on market values and on the company's NAV.

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