

Exane Market Commentary
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3) ****New Note**** Befimmo – A solid 2012, but multi-year earnings declines to come

>A solid 2012 in a weak underlying market

Befimmo reported FY results in-line with expectations (FFO/share of EUR4.24 vs. Exane forecast EUR4.27) although comfortably ahead of the original guidance for the year. Befimmo was boosted both by solid operational performance (occupancy improved over the year to 95.9%) and financing activity, which helped drive the average cost of debt down to 3.38%. Befimmo's portfolio continues to do better than the weak Brussels office market, but the stubbornly high market vacancy rate (>11%), leaves landlords with little pricing power in our view. Befimmo's portfolio is significantly over-rented, however, with the company estimating average negative reversion of -12% for the portfolio. This is set to be a significant drag on rental income growth as leases are renegotiated.

>Management guiding to multi-year earnings declines and a flat dividend

As usual, Befimmo has provided detailed earnings guidance for the next three years, with management expecting FFO/share to decline in each year to EUR4.04 in 2013e, EUR3.81 in 2014e and EUR3.75 in 2015e. This is worse than we were previously expecting in the latter years. Befimmo comfortably beat its 2012 guidance thanks to much lower than expected finance costs, but we see less scope for a similar surprise in the future. We make meaningful cuts to our FFO/share estimates in 2014e (-6%) and 2015e (-9%). Befimmo expects the dividend to be maintained at the current level (EUR3.45) but the shrinking earnings base leaves little or no scope for growth in our view.

>Shares look modestly overvalued - we retain Underperform rating

We think that stocks exposed to the Belgian office market would need to offer a meaningful discount to be attractive. Befimmo trades at just a 4% discount to our end-2013e NNAV/share estimate which looks tight, particularly given the negative outlook for capital values and the 8% average discount for our Continental European office universe. The 6.8% dividend yield is one of the highest in the sector, but need to be considered in the context of a 6.7% average over the past decade.

Source: Exane BNPP Research

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Befimmo – Guidance up – but not by enough

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