



Befimmo (EUR 53.55 - HOLD): Steady As She Goes

Reassuring 9M results, slightly lower occupancy is not a concern. Rating & estimates sustained.

Facts

- Q3 witnessed the actual completion of previously announced important transactions (AMCA contribution in kind by AXA & Blue Tower acquisition) hence the higher portfolio value (+10.4% vs. end 2012 at EUR 2,173.5m) and shareholders' equity (+15%) and the resulting dramatically decreased loan-to-value to 43.6%; a further fall of LTV is expected (planned disposal of the Triomphe III building in Q4).
- Like-for-like portfolio value evolution is flat (-0.34%). For Q3 and excluding projects like,-for-like value evolution stands at -0.15% QoQ. It is reassuring to note that even in more difficult locations such as Brussels Decentralized, Q3 did not witness significant negative evolutions. Property yield is slightly down to 6.5% vs. 6.6% end June.
- Occupancy incl. assets under renovation is down to 94.0% vs. 95.9% as of end 2012 as a result a/o of the vacancy of Triomphe I (departure of Levi's Strauss) and Science 3 (see hereunder); excl. the assets under renovation, of which Triomphe I, occupancy is slightly down at 95.1% vs. 95.9% as of end 2012. No further news on the Triomphe I building (empty since May) nor on the Paradis project in Liège (awaiting 2 legal appeal decisions against the project by the Belgian Raad van Staat).
- EPRA NNAVPS stands at EUR 56.29 (55.37 as of end June), pointing to a discount of 5%.
- Net rental income up 6.2% at EUR 102.7m. EPRA earnings are up 12.8% at EUR 65.2m; as already said these figures are distorted by the enlarged consolidation scope and lease termination compensation worth 3.7m and booked in Q2 (Schuman 3 buliding – see table herunder for quarterly split of rental income).
- EPRA EPS (excludes non-recurrent & non-cash items such as IAS39) is still slightly up at EUR 3.35 (+1.5%).
- Befimmo sustains its FY13 DPS guidance at EUR 3.45 (unchanged); an intermediary dividend of EUR 2.59/share will be paid in December (ex-dividend as from November 27). The company told us it might abolish interim dividends, a legacy of the past, and only distribute dividends once per year as most SICAFIs do.

Our view

- We are not very concerned by the slightly lower occupancy as 1) the overall quality of the portfolio leases (2/3 of rents come from public bodies, avg. residual duration of rents firmly above 9 years and 2) most of the total vacancy is related to assets under refurbishment. Note also that the empty portion of the Schuman 3 building (ca. 0.5% of total portfolio) is technically leased till 2016 but still included in the vacancy figures. Negotiations are in progress for reletting the vacated area ASAP and Befimmo hinted potential rent per sq.m., definitely below the GE lease but still 'far above' EUR200/sq.m..
- Beyond the lower leverage we like the dramatic diversification of financing sources with bank loans now weighing only 55% of the total vs. virtually 100% only 18 months ago.
- We feel comfortable with our direct EPS f'cast at EUR 4.13, slightly below consensus, and with our 'strong' Hold rating as the company offers honest value for money with a reasonably safe dividend yield of 6.4%.

Conclusion

Befimmo remains very very (2X) cautious on Brussels offices rental market but still demonstrates it is a canny player in difficult circumstances; we also like the much improved overall transparency of the company vs. only a couple of years ago. We sustain our current 'Hold' rating and estimates but encourage investors to watch for a temporary weakness of the share to accumulate positions in the share.

Details

in m EUR	3Q12	3Q13	% YoY	9M12	9M13	% YoY
Net rents	33.118	33.99	2.6%	96.7	102.7	6.2%
EPRA earnings	20.49	20.36	-0.6%	57.8	65.2	12.8%
EPRA earnings/share (EUR)	1.17	1.05	-10.6%	3.30	3.35	1.5%
EPRA NNAVPS (EUR)				57.52	56.29	-2.1%

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