Petercam Real Estate

Befimmo (from Add to Hold - EUR 54.05): Weaker occupancy balanced by an indemnity

Befimmo published H1 13 results boosted by a EUR 3.7m indemnity from a leaving tenant (in a top location so we are not too worried about the vacancy there). When adjusting for it, top line was slightly below our/consensus estimate while the lower cost of debt helped to slightly outperform our/consensus current cashflow estimate. The portfolio is somewhat negatively valued (similar to the entire Cofinimmo portfolio), due to a 2% decrease of occupancy rate, which is probably the little surprise of this publication. Finally, the company confirms its dividend guidance (EUR 3.45/share).

Facts

- The occupancy rate was under pressure (93.6% from 95.87% 3 months ago, 91.3% for the office portfolio of Cofinimmo) due to the departure of some tenants (the 2 large being Levi Strauss and GE) and the inclusion of the Blue Tower (only 90% let). 8,600sqm were rented by Befimmo in H1 13 (13,500sqm in H1 12), which is at a low historical level. The average maturity of the leases amounts to 9.3 years while the reversion rate improves somewhat: -10.7% (including AMCA).

- Net rental income increased by 8% YoY (EUR 68.7m), mainly boosted by a EUR 3.7m indemnity from a leaving tenant (+2.2% increase when excluded, below our and consensus estimate). We estimate the like-for-like rental growth at 1.4% (but the figure is not provided by Befimmo), which is lower than the 1.9% of Cofinimmo. As in Q1 13, operating charges are below estimates due to delayed works. The average cost of debt declined from 3.38% in FY 12 to 3.17% in H1 13. As a result, EPRA earnings (recurring cashflow but including the indemnity) increased by 20% YoY to EUR 44.8m (4% ahead of our estimate but in line when adjusting for the indemnity). On a per share basis, the increase was 12.2% YoY (dilutive effect of the new shares related to the stock dividend, the Fedimmo acquisition and the treasury share placement), pointing to EUR 2.39, which compares nicely with the FY13 EPS guidance of EUR 4.03 (we are at EUR 4.13/share).

- The indirect result was negative as the portfolio lost 0.36% of its value while it was slightly positive (+0.03%) in Q1 13. This seems to be explained by the tenants leaving the portfolio in Q2 13 (Levi Strauss, GE…). The value increase of the ongoing developments (WTC 4, Paradis 2) balanced slightly for the outstanding portfolio (-0.53% negative revaluation for the standing portfolio vs. -1.32% for the office portfolio of Cofinimmo).

- The Triomphe I, vacated by its tenant Levi Strauss, will be renovated for EUR 10.4m and weighted on the portfolio value. The Triomphe III will be sold to a developer to convert it into student housing (sale price in line with latest book value). The Bastion tower (at the border of the European district) might be a potential acquisition (bids expected by end Summer).

- NAV reached EUR 55.35/share, reflecting a 2% discount, slightly below ours due to the negative indirect result. Following the AMCA acquisition (10 July 2013), LTV reached 45.2% (from 48% 6 months ago), which leaves EUR 200m firepower. EUR 215m have been refinanced (Q1 13) and the next maturity is in Q3 14. 56.1% of the debt is fixed, which is an improved ratio but still at the low end of the Sicafis (but providing a low cost of debt for many quarters now).

- The dividend is confirmed at EUR 3.45/share (6.4% yield on yesterday's stock price).

- 528,615 new shares will be created (at a price of EUR 55.36) when the EGM quorum will be reached and the (internal) merger will be approved (19 August or 6 September 2013).

Our view / Conclusion

When adjusted for the GE indemnity, Befimmo's H1 13 results are in line with our estimates (and slightly disappointing on rental income as we didn't anticipate a 2% drop in occupancy). However we tend to see the indemnity as good news since it's a EUR 3.7m cash inflow while the premises should be re-rented easily (one of the top locations in Brussels).The indirect result was also a slight disappointment but linked to the before mentioned point (and better than last year). Beside a weaker occupancy rate, we didn't learn much during the call. The tone on the office market is not much more bullish than at Cofinimmo (but prime remains strong), despite a slight decrease of the market occupancy rate.
All in all, we admit that Befimmo succeded to convert into a limited liability company, to internalize property management and to complete 2 large investments (10% of the portfolio financed with 75% of new equity). For all these reasons we decided to upgrade the stock to Add 1.5 month ago. Since then, Befimmo outperformed the market by 9% and after yesterday's jump, we feel more confortable with a Hold recommendation.

Details

in m EUR	'H1 12a	'H1 13a	% Ch YoY	'H1 13e	% A/E	Cons.
Net rental result	63.6	68.71	8.0%	67.1	2.4%	65.8
Adjusted net rental result	63.6	65.01	2.2%	67.1	-3.1%	65.8
EBITDA	53.90	59.46	10.3%	55.69	6.8%	
EPRA earnings	37.30	44.84	20.2%	43.11	4.0%	
EPRA earnings/share	2.13	2.39	12.2%	2.33	2.5%	2.26
NAV/share	57.24	55.35	-3.3%	56.11	-1.3%	

Analyst: Celine Donnet, E-mail: celine.donnet@petercam.be, Phone: +32 2 229 6380
Sales Contact: Joel Gorsele, E-mail: joel.gorsele@petercam.be, Phone: +32 2 229 6340