Befimmo (Hold - EUR 47): Positive on cash flows, less control by AG RE

Facts

- **Take over of management contract:** Befimmo has reached an agreement with AG Real Estate on the purchase of the Statutory Manager of Befimmo, from AG Real Estate for a consideration of EUR 21m. In practice Befimmo will pay EUR 19.5m, as the remuneration for 2012 is included in this amount.
- Befimmo has also agreed with AG Real Estate to internalize the property management activities (technical maintenance, rent accounting and accounting related to expenditures to be charged to tenants) currently performed by AG Real Estate Property Management, to Befimmo for a symbolic EUR 1.
- Management of Befimmo quoted that it was AG real estate that popped the question if Befimmo was interested to purchase back this agreement.
- The yearly remuneration granted to AG Real Estate stood at EUR 1.4m in 2010 and EUR 1.6m in 2011, equal to 2% of the adjusted IFRS consolidated pre-tax result.
- CF impact: For 2012, this operation is expected to generate a net positive impact of EUR 0.07/share on the EPRA earnings (1.75% positive impact on our 12e EPS). As from 2013 onwards, the impact will be EUR 0.06/share or EUR 1.1m/year. Befimmo quotes the further synergies will be modest.
- This transaction will lead in 2012 to an estimated one-off net negative impact of EUR 1.09/share on the NAV (EUR 56.67/share at 30/6/12). The LTV will increase by approx. 1% to 48%.
- Befimmo further announces that it will **focus on Belgium and Luxembourg** and will not pursue its plans to invest in France. Befimmo will not move to France given the lower risk return in CBD locations. In peripheral locations, management says that risk is too high.
- Befimmo sees quite some opportunities in the Belgian RE market. To keep its LTV below the level of 50%, the company might conclude a capital increase to add buildings or dispose non-strategic Fedimmo buildings carrying maturities of only 3 years.
- Fedimmo SA will apply to obtain FSMA's agreement for the institutional REIT status, a process that could still be completed by the end of 2012. Purely cosmetic, management says, as no exit tax will be paid and there will not be tax effect on cashflow (Fedimmo enjoying the notional interest system).

Our view / Conclusion

- This is good news for Befimmo, not only CF wise, but we believe that Befimmo will achieve a higher level of control together with daily direct contact through internal property management. In practice, Befimmo will take over the team from AG Real Estate. Befimmo will now decide about the constitution of the BoD, though has promised to AG RE that the majority will be independent members.
- However it wouldn't be a good deal if this is one of the first steps of AG Real Estate (still holding 16.8% of the shares) to let Befimmo go on its own way. In a world of insurance companies looking for cash flows and sitting on a pile of cash, one might question on the reason of this sale by AG RE as this contract was in AG's favor. Befimmo's management quoted that they did not receive any signal of AG intending to exit Befimmo.
- Secondly, we believe it's very wise to focus on Belgium and Luxembourg as Befimmo has in-house expertise in these markets.
- Thirdly, we welcome the fact that Befimmo will be able to profit from the REIT tax regime after implementing Fedimmo in an institutional Sicafi. We see that as a potential proactive move before the notional interests system is dismissed.
- Befimmo is trading at lower multiples these days: 11.7x (12e) and 12x (13e) vs. 12.3x and 13.1 at Cofinimmo. Especially when comparing to its French peers, Befimmo looks attractive: 17.1x and 16.8x respectively at Gecina. We keep Befimmo as a Hold as the valuation reflects the negative momentum on the Brussels office market.

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