

20 March 2014

Oryx Properties Limited	Target Price (c)	1632
1H14 Results Review	Current Price (c)	1741

Year End 30 June	2012A	2013A	2014F	2015F	Recommendation	Hold
Revenue (N\$m)	133	161	203	238	NSX Code	ORY
Vacancies (%)	0.6%	0.5%	1.5%	1.5%	Market Cap (N\$m)	792.6
HEPU (c)	132	149	144	157	Shares in Issue (m)	66.1
HEPU growth (%)	11.5	13.0	-3.3	8.8	Free float (%)	76.6
DPU (c)	128	140	144	157	52 week high	17.41
DY	7.4%	8.0%	8.3%	9.0%	52 week low	14.38
P/E	13.2	11.7	12.1	11.1	Expected 12 m return (%)	8.3%
P/B (x)	1.4	1.5	1.4	1.3		

Source: ORY, IJG

1H14 Results Review

Oryx Properties Limited (Oryx) released its results for the six months ended 31 December 2013, reporting a 20% increase in total distributions to N\$44.4m from N\$37.0m declared in the first half of 2013. The increase in distributions notwithstanding, no growth in distribution per unit was witnessed following a rights issue of 11,008,335 new linked units in November 2013. As such the distribution per linked unit remains at 67.25cpu. Over the same period EPU rose by 113.5% to 209.85c but HEPU only rose by 12.3% to 81.58c.

The company displayed another period of good operational performance, with net rental income increasing by 20.9% y/y to N\$89.7m, supported by above average occupancy levels, low interest environment, as well from strong renewals characteristic of the period under review. Rental expense added 42.6% to N\$18.9m. Oryx reported a profit of N\$75.9m (up 344.7% y/y), mainly as a result of a 237.6% higher change in the fair value of investment property of N\$46.6m (1H13: N\$13.8m) and a bargain purchase gain stemming from acquisition of Tuinweg Properties, which is the owner of the Gustav Voigts Centre.

Vacancies (as a % of lettable area) increased from 0.35% as at December 2012 to total 0.95% this time round. The increase in the vacancy rate was to be expected, and is in line with our forecast, as a result of the additional lettable area coming upstream following Maerua construction and the Gustav Voigts acquisition.

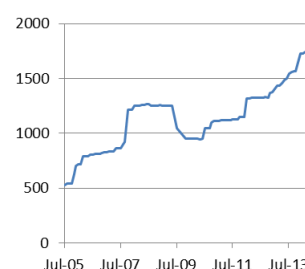
At the end of the interim period, Oryx' investment properties were valued at N\$1.89bn, up from N\$1.45bn end December on account of acquisition, construction and revaluation. Retail contributed 62% to this valuation, Industrial 29% and Offices 9%. The Maerua Mall extension and refurbishment project is nearing completion. As at 31 December 2013 the project was approximately 86% complete with expected finalisation of construction works in April 2014.

Oryx' long term borrowing increased by 53.1% y/y to N\$777.9m in 1H14, from N\$507.8m reported as at 1H13. Of this, N\$211.7m (27.2%) is made up of fixed interest rate loans at a weighted average interest rate of 10.15%; and N\$566.2m in variable interest rate loans carrying a weighted average rate of 7.30%. Thus, the weighted average interest rate of total borrowings amounts to 8.07% as at 1H14, down from 8.45% as at 1H13. The firm took on a Development Loan Facility of N\$330m with Absa Bank in order to finance the Maerua Mall extension and upgrade, of which N\$239.5m had already been utilised by 31 December 2013.

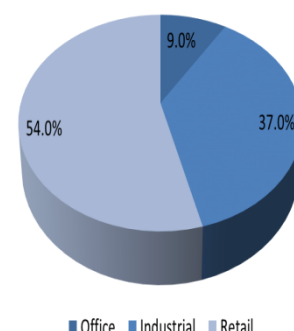
We forecast FY14 distribution to be 143c per linked unit, this is after incorporating for the repayment of debt and the dilution effect. Based on this Oryx is currently trading on a before tax yield of 8.2%, compared to the GC24 at 9.27%, pointing to the stock's relative expensiveness considering the Oryx tend to trade at a premium to the government bond.

Overall the performance of the company remains satisfactory, however following the rights issuance dilution and the increased trading price, we believe that the yield given the current price no longer justifies a buy recommendation in the short term. However growth prospects for financial years 2015 and 2016, coupled with the illiquidity of the stock and the possibility that once sold units may be difficult to rebuy in future, we recommend a hold on the stock for the current year.

Share Price (c)



Property Portfolio



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Macroeconomic environment

The current macroeconomic environment within the country bodes positively for all manner of business, however none more so than the wholesale and retail sector. Strong growth within the country has resulted in rapidly increasing incomes, largely bolstered by accommodative monetary policy and highly expansive fiscal policy over recent years. Reductions in unemployment, access to cheap credit, increased banking participation and reduced tax rates, over recent years have resulted in a significantly increased disposable income across the country. Given strong anecdotal evidence of a high marginal propensity to consume in the country, much of this increased disposable income flows directly into the pockets of wholesalers and retailers.

In 2014/15, a highly expansive budget was announced, injecting over N\$60bn into the economy, much of which into salaries and wages. Additionally, the country's monetary policy position has remained accommodative to date, despite expectations of rate hikes through the year. These factors, coupled with strong growth expectations for the country in general bode well for Oryx's tenants, which should in turn bode well for the landlords themselves. As such, barring a small level of structural vacancy, always to be expected, we believe that vacancies will remain minimal, and demand for rental space maximised, putting upward pressure on rental prices.

One possible risk, however, is that of inflation, on account of Rand and Namibia Dollar depreciation, dampening demand for imported goods which make up the majority of goods on the retailers floors. However, while this inflation has been prophesied, it is yet to be witnessed, and if observed would likely favour local exporters many of whom rent industrial space from Oryx.

Revenue

Revenue rose by 18.7% y/y to N\$91.2m from the N\$76.8m reported for 1H13. This growth is on account of significant increases in rental cash flows, despite a notable increase in rental expenses. The increase in rental income come about as a result of the addition of a number of new properties to the Oryx portfolio over the last year, including the Scania Truck Facility in Lafrenz, the Maerua retail and office extensions and the Gustav Voigts Centre. Additionally, vacancies remained relatively low through the first half of the financial year, at 0.9%, despite the on-going disruptions at the Maerua centre, particularly.

The addition of the Gustav Voigts Centre, purchased at a bargain rate, to the Oryx portfolio will further add to the revenues of the company as it comes with rentals in-place, and thus contributes positively to the company's revenue stream from day one.

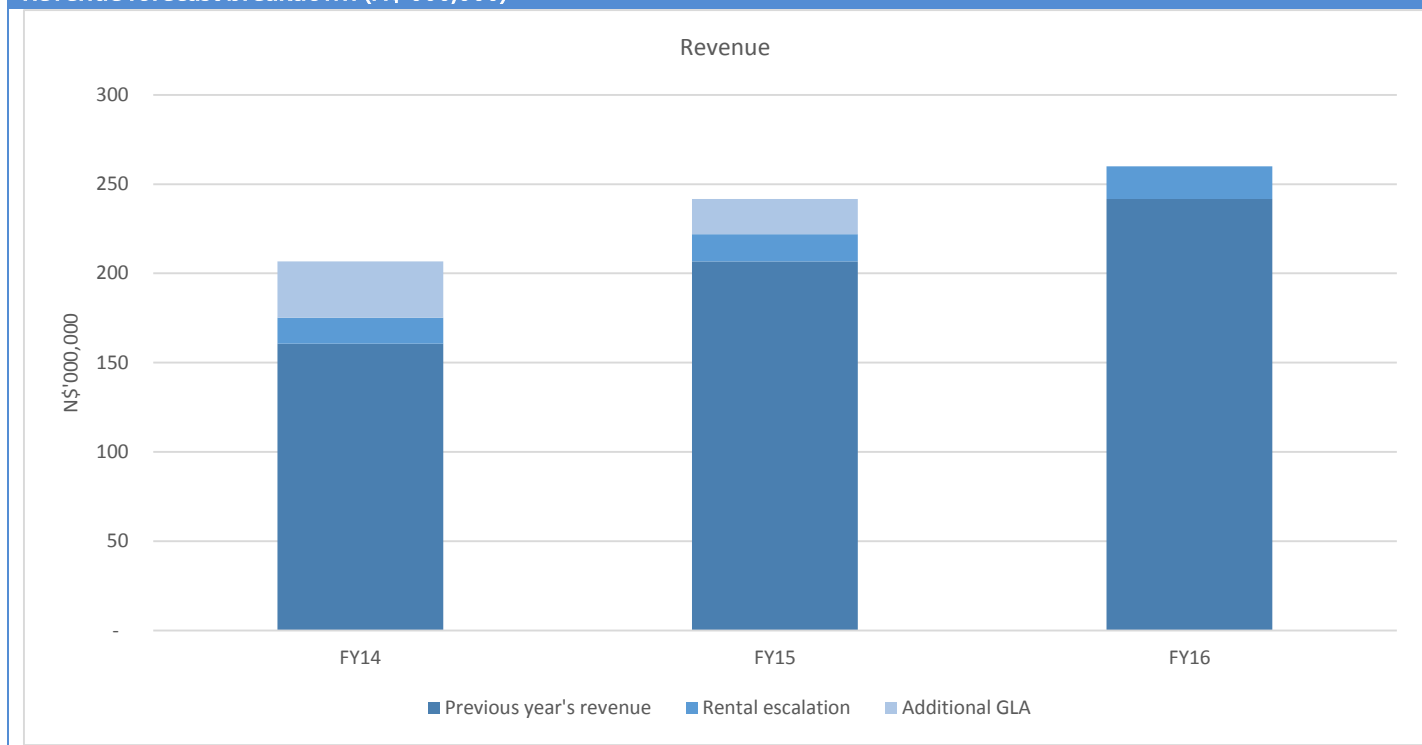
Competition

When looking at the Maerua retail space and the accompanying future rental flows, a factor to bear in mind is the expected impact of the Grove Mall, currently under construction in Kleine Kuppe and due for completion towards the end of 2014. Given that the new mall will house many of the same franchises as the Maerua Mall, some impact on Oryx' current tenant renewals and as well as on obtaining new tenants to fill the 8,300m² retail space, can be expected. Nevertheless, the seemingly insatiable growth in retail demand within the country, as well as the ever increasing retail tourism seen from neighbouring countries (particularly Angola) will likely ensure that sufficient demand for retail space exists for both Maerua and the Grove.

Projections

We have incorporated all the above into our revenue projections, and foresee final FY14 revenue up by a staggering 27.1% y/y on the back of the new additions to the portfolio. Additionally, we foresee a further 17.1% increase in the 2015 financial year as these new acquisitions and developments yield their first full year of revenue to the company. For the 2014 financial year, only approximately 7 months of revenue will be received from the Maerua extensions and 8 months from the Gustav Voigts purchase, and as such without further development the 12 month revenues that will be received in the 2015 financial year will in effect represent an increased lettable area for the 2015 financial year.

Revenue forecast breakdown (N\$'000,000)



Source: ORY, IJG

Expenditure

Rental expense added 42.6% y/y to N\$18.9m as of 1H14, a major jump from the N\$13.2m cost incurred in 1h14. This increase is on account of increased vacancies, as well as an increased weighting of retail space in the overall portfolio, which has a higher cost to income ratio than for example industrial space. Additionally, a number of operational changes have resulted in increased revenues, however at the expense of incurring additional costs.

Given that the main expenditure items for the company include electricity, maintenance, property management fees, collection fees, rates and taxes, other municipal charges, cleaning and sanitation, insurance, and security costs, our projection are for above inflation increases in costs going forward, per unit area of lettable space. The reason for this is simply that municipal charges, electricity, water, rates and taxes are expected to experience double digit increases over coming years, while maintenance costs, property management fees and collection fees, are also expected to see inflation-plus adjustments. Further, as the Oryx portfolio grows, the staffing component of the operation will have to increase. And while some economies of scale may be realised with a bigger portfolio, greater inefficiencies in other areas too could be noticed. Finally, the newest and oldest properties in the portfolio will likely require a fair amount of teething-maintenance and revamping-maintenance, respectively.

Profit

Oryx reported a profit of N\$75.9m (up 344.7% y/y), mainly as a result of a 237.6% increase in the valuation (fair value) of investment property of N\$46.6m (1H13: N\$13.8m) and a N\$25.3m bargain purchase gain stemming from acquisition of Tuinweg Properties, the owner of the Gustave Voigts Centre. As non-cash flow items however, these changes do not materially affect the shareholders return and thus share value of the company.

Headline earnings are projected to increase by 14.1% between 2013 and 2014 to N\$96m, largely on account of strong growth in revenue, for the reasons listed above. Nevertheless, the increasing drag on operating profit as a result of increased rental expenses and financing costs in 2014, mean that this growth in headlines earnings is below the growth in the number of units in the company for the 2014 financial year following the November 2013 rights issue. As such, the headline earnings per unit are expected to decline between 2013 and 2014, to 145cpu from 149cpu, before rebounding to 158cpu in 2015, an 8.9 percent increase.

Borrowings

Oryx' long term borrowings added 53.1% y/y to N\$777.9m from N\$507.8m reported as at 1H13, with N\$211.7m (27.2%) in fixed interest rate loans coupled with a weighted average interest rate of 10.15%; and N\$566.2m in variable interest rate loans carrying a weighted average rate of 7.30%. Thus, the weighted average interest rate of total borrowings amounts to 8.07% as at 1H14, down from 8.45% as at 1H13. The firm took on a Development Loan Facility of N\$330m with Absa Bank in order to finance the Maerua Mall extension and upgrade, of which N\$239.5m had already been utilised by 31 December 2013.

Going forward, however, an interest rate hiking cycle is expected in Namibia and neighbouring South Africa, which can be expected to increase the cost of debt to the company. At present, only 27% of the company's debt is at a fixed interest rate, and the bulk of these fixed instruments mature towards the end of 2014. As such, we can expect to see management starting to swap out a number of floating rate instruments over coming months. While the intention here may be correct, the costs associated with this fixing of interest rates will be large, as the extent of the interest rate hiking cycle is yet unknown. Thus, interest rate swaps for one to four years out will come at a premium of between 130 and 350 basis points, respectively, on top of current prime and prime-minus rates.

Possible rights issue

At the current share price, and in light of expectations of increasing interest rates over the next 18-24 months, we are of the belief that another rights issue will be an attractive option for the company's management, and shareholders. At the current share price, a rights issue will present a cheaper capital source than the current relatively high debt levels of the company (relative to historic levels), especially should interest rates increase as expected, and require swapping from floating to fixed rate. Additionally, by issuing debentures to settle debt, the risk exposure of the company will be reduced from the currently high level, which should improve the marginal cost of debentures from a risk perspective. By adding equity units and reducing debt liabilities, the cost of finance, projected to increase substantially on the back of the foreseen interest rate hiking cycle, could be reduced, adding to the value of assets of the company, and ultimately increasing the profit for the company, a notable benefit for the shareholders. Given the current market dynamics and capital regulations on certain institutional investors, we believe there would be ample demand in the market for an additional N\$200m+ worth of Oryx units.

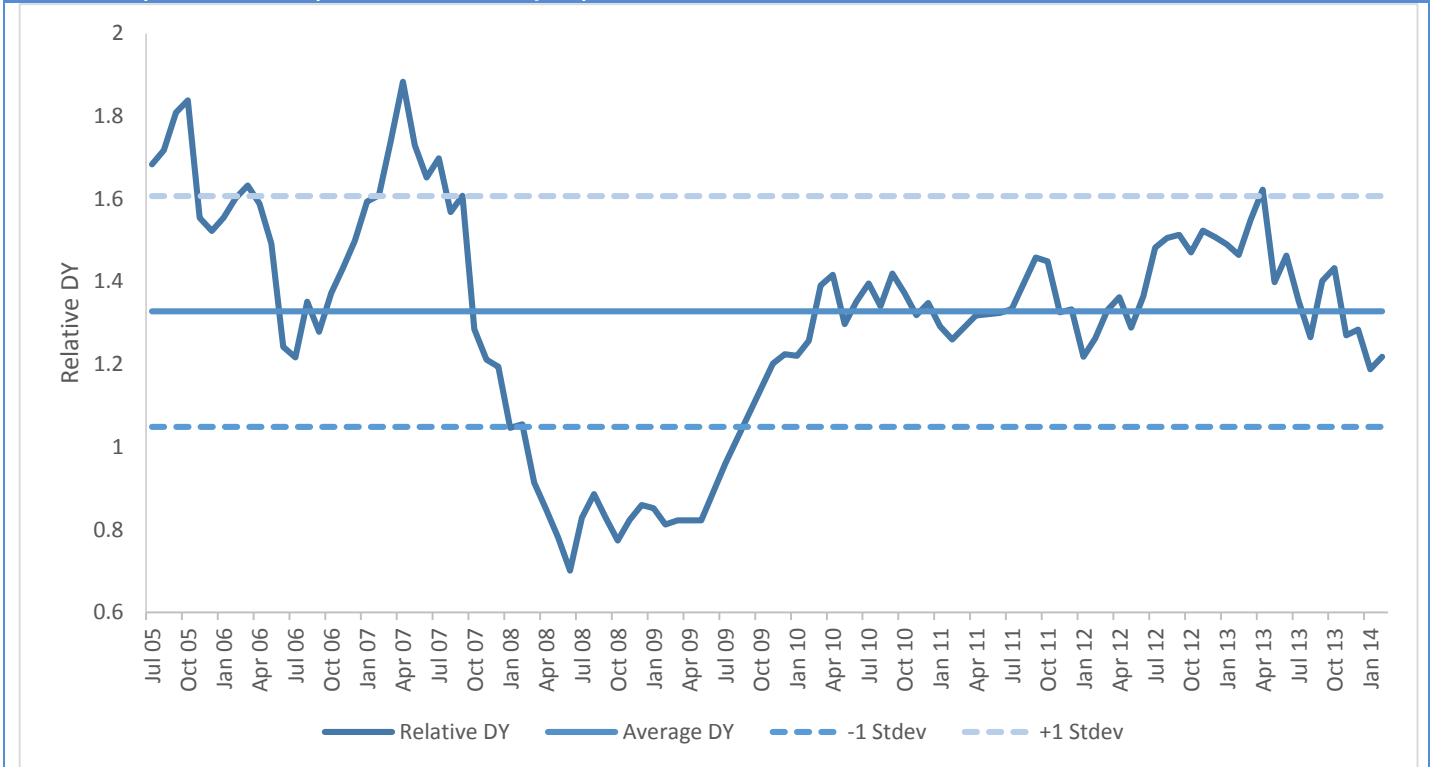
Property portfolio

At the end of the interim period, Oryx' investment properties were valued at N\$1.89bn, up from N\$1.45bn end December on account of acquisition, construction and most importantly, revaluation. Retail contributed 62% to this valuation, Industrial 29% and Offices 9%. The Maerua Mall extension and refurbishment project is nearing completion, and as at 31 December 2013 the project was approximately 86% complete with expected finalisation of construction works in April 2014.

Relative comparison

We have graphed the relative Oryx' distribution yield against that of that of the JSE Property Index, and have included the average relative dividend yield, as well as +- the one standard deviation thereof.

Relative Oryx distribution yield to the JSE Property Portfolio

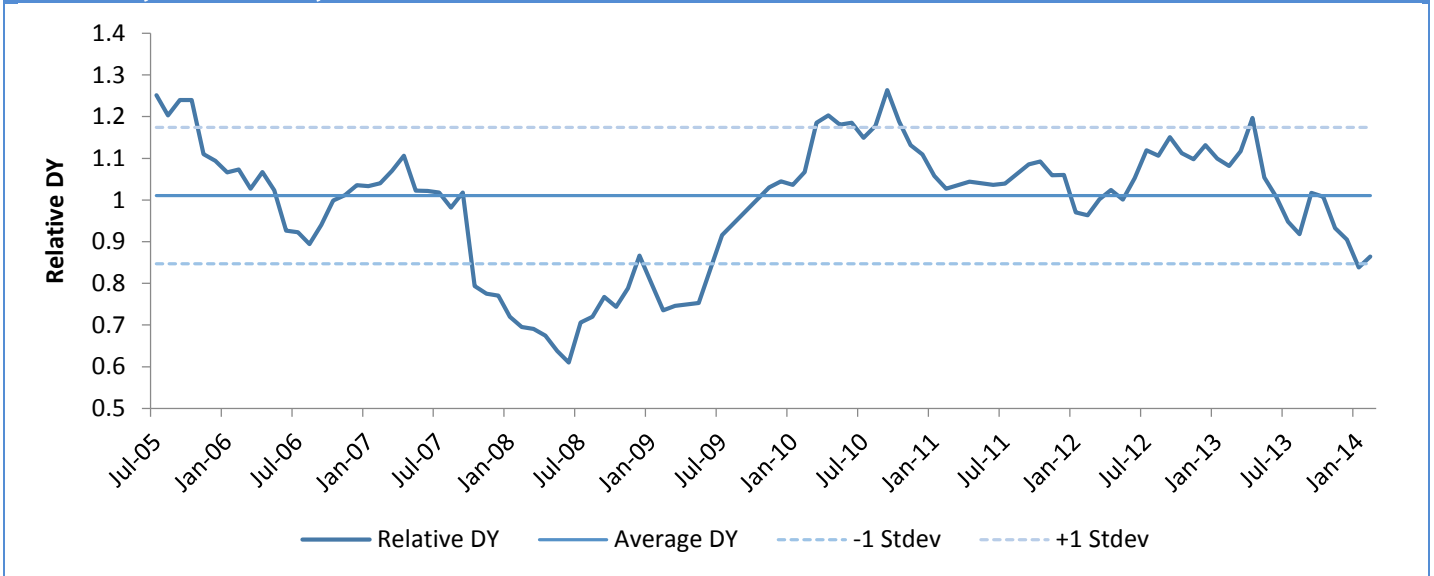


Source: Bloomberg, IJG

As can be seen in the above graph, Oryx currently offers relative value from a distribution yield perspective relative to the JSE Property Index, as it remains above the 1 threshold level. However, at the current price, the relative yield is below the average level witnessed over recent years. On average, from distribution yield perspective, Oryx trades at a 28.5% premium to the JSE Property Index, however in the latest period this premium fell to just 21.7%. Nevertheless, as at the end of February, Oryx remained well within the +-1 standard deviation range, despite the price rally seen over recent months. On the back of this share price increase, the relative yield is relatively unattractive exclusively from a valuation point of view, however given additional dynamics within the local equity space, will continue to receive interest from investors, particularly institutional.

A comparison to the GC24 paints a similar picture. We graph Oryx' distribution yield against the GC24 yield, and have also included the average relative dividend yield, as well as +- the one standard deviation thereof.

Relative Oryx distribution yield to the GC24 Yield



Source: Bloomberg, BoN, IJG

Relative to the GC24 yield, the current Oryx yield is highly unfavourable, being well below the 9.25% yield seen on the GC24 as of the end of February 2014. On average, Oryx trades at a very slight, 10 basis point margin over the GC24, while at the current stock price it is trading at a 125 basis point discount to the GC24.

Valuation

We value Oryx using a justified yield of 9.7% and our forecasted FY15 distribution of 158.3cps. This yields a target price of N\$16.32. Using the current share price, our FY14 distribution yield amounts to 8.4%, where the 12m forward yield amounts to 9.1%. In both instances, this yield is a discount to the local 10 year fixed income instrument.

Nevertheless, despite these factors, we have placed a **HOLD** recommendation on the stock.

This hold recommendation is not based on the current earnings of the company, but rather based on the future earnings and growth outlook for the 2015 and 2016 financial years. We believe that the current trading price is not justified given the shares projected earnings for the current financial year, and that in the short term comparable fixed income instruments will deliver a better yield. That said, given the illiquid nature of the local stock exchange and the regulatory local asset requirements for pension funds and long term insurance companies, we do not foresee a decline in the stock price. Further, given the fact that the company has a relatively small market cap and sees little trading on the local market, we are of the belief that once out, institutional investors, particularly, will struggle to gain access to reasonable volumes of the stock in future should returns improve. Given that our target price is below the current price from a valuation point of view, but noting that valuation fundamentals do not exclusively determine price in Namibia, we are of the view that the current price will remain in place for much of the coming year, and thus that the total 12 month return will be the dividend yield for the year.

As such, we recommend carrying the slight portfolio drag, in the form of opportunity cost, from this stock in the short (one year) term in the interest of picking up improved returns in 2015 and 2016.



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