



ORYX PROPERTIES LIMITED

1H15 Results Review

March 2015

Oryx Properties Limited					Target Price (c)	1685
1H15 Results review					Current Price (c)	1851
Year End 30 June	2013A	2014A	F2015	F2016	Recommendation	HOLD
Revenue (N\$m)	160.6	204.8	230.8	260.0	NSX Code	ORY
Vacancies (%)	0.4	0.9	1.5	1.5	Market Cap (N\$m)	1,223
HEPU (c)	148.9	162.2	149.9	180.8	Shares in Issue (m)	66.1
HEPU growth (%)	13.0	8.9	-7.5	20.6	Free float (%)	76
DPU (c)	139.5	148.0	149.9	180.8	52 week high (c)	1855
DY (%)	8.9	8.1	8.1	9.8	52 week low (c)	1740
P/E (x)	13.3	11.4	12.3	10.2	Expected Total Return (%)	8.1
D/A (%)	39.2	40.5	41.0	39.0		

Source: ORYX PROPERTIES LIMITED, IJG

1H15 Results Review

Oryx Properties Limited (Oryx) released its results for the six months ended 31 December 2014, reporting a 6.8% increase in total distributions to N\$47.4m from N\$44.4m declared in 1H14. Distributions per unit grew from 67.25c to 71.75c or 6.8%. Over the same period EPU fell by 39.4% to 127.21c with the gain in net rental income being offset by the bargain purchase gain in the base period and a slower increase in fair value adjustments. HEPU fell 8.8% from 81.56c in 1H14 to 74.37c due to an increase in the weighted number of units in issue during the period under review.

The company displayed good operational performance, with net rental income increasing by 29.3% y/y to N\$93.4m, supported by above average occupancy levels, a low interest rate environment as well as strong renewals characteristic of the period under review. Rental expenses increased by 86% to N\$35.1m, largely on the back of the bulk metering of electricity as well as renovations and an increase in gross lettable area (GLA) from the previous period. Oryx reported a profit of N\$36.6m. This is a decline of almost 50% y/y from N\$72.3m, but was largely as a result of a more modest fair value gain and the once off bargain purchase gain recorded during the previous comparable period, i.e., no-cash flow events.

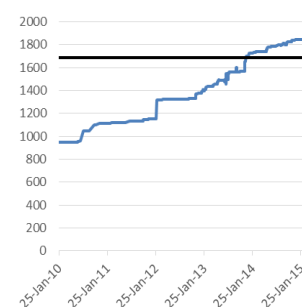
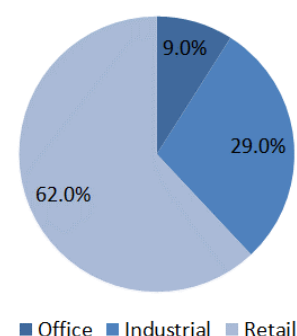
Vacancies (as a % of lettable area) decreased from 0.9% in 1H14 to 0.5%. The decrease in vacancies is attributable to the completion of the Maerua Mall renovation and expansion, as well as the completed renovations of various smaller properties in the portfolio. This vacancy rate is exceptional, and is well below our projection of 1.5%.

At the end of the interim period, Oryx' investment properties were valued at N\$2.04bn, up from N\$1.89bn in 1H14, on account of modest acquisitions, and revaluations. Retail space continued to represent the bulk of assets, at 62%, while industrial space contributed 29%, and office space made up the remaining 9%.

Oryx' long term borrowing increased by 10.7% y/y to N\$861m in 1H15, from N\$777.9m reported as at 1H14. Fixed interest loans make up N\$400m of the total, with the remainder made up of floating rate loans. The weighted average borrowing rate on fixed rate debt is 7.97%, while that of floating rate debt is 9.41%. The average interest rate for borrowings is 8.75% compared to 8.07% in 1H14. Through swap transactions Oryx has greatly increased the portion of total debt that is fixed (46.5% versus 27.2% in 1H2014)

We forecast FY15 distributions to be 149.9c per linked unit, unchanged from our FY14 review. Based on this Oryx is currently trading on a distribution yield of 8.1%. The comparable GC24 is currently trading at a yield of 8.39%, which has come down significantly since the start of the year. The relative attractiveness of Oryx shares at the current price has thus increased but is still below the risk free yield on 10-year government debt. The potential for upside price movement may warrant a slightly lower yield.

Overall the performance of the company remains satisfactory, and the shift away from floating rate debt should be beneficial in the long run. However the yield given the current price does not justify a buy recommendation in the short term. In the longer term, however, due to growth prospects for financial years 2016 and 2017, coupled with the illiquidity of the stock, the potential upside to the units and the possibility that once sold units may be difficult to rebuy in the future, we recommend a HOLD on the stock.

Unit Price (c)**Property Portfolio****Dividends**

Notice is hereby given that an interim dividend of 71.75 cents per linked unit was declared on 26 February 2015 for the period ended 31 December 2014.

- Last day to trade cum dividend: 6 March 2015
- First day to trade ex-dividend: 9 March 2015
- Record date: 13 March 2015
- Payment date: 27 March 2015

Analyst

Eric van Zyl
+264 61 383 530
eric@ijg.net

Macroeconomic environment

Broadly speaking, the Namibian macroeconomic environment remains positive, notwithstanding scattered patches of growth contraction, mainly due to external factors. Regional inflation has experienced a notable slowdown following the decline in oil prices witnessed since mid-2014, notwithstanding increases in food prices in the region due to low rainfall in South Africa. Declining oil prices have offered a notable windfall to consumers as fuel price declines have driven increases in discretionary disposable income. Nevertheless, the weak rand has the potential to drive up prices of imported goods, many of which are sold by retailers renting from Oryx. While this may pose a threat to Oryx's tenants, it is unlikely that it will result in a notable decline in tenant revenue, and when coupled with the declining oil price, little net-negative impact is expected. Domestic consumer demand is still relatively strong and is currently supported by low fuel prices, strong real wage growth, increasing employment, low interest rates and a high marginal propensity to consume. In addition, the newly appointed Government is expected to announce an expansive budget, which should further drive GDP growth and disposable income.

Revenue

Oryx's revenue growth was strong when compared to previous periods, up 41% to N\$128.6 million from N\$91.2 million for 1H14. This increase was attributable to two factors primarily, the first being the net metering of electricity which results in Oryx paying the power bill of tenants up front and then passing this charge along to the tenants on their rental bill. Electricity costs are thus effectively captured in the revenue component of the income statement. The second factor contributing to increased revenues is the completion of the Maerua Mall upgrade and renovations, leading to increased lettable area.

The vacancy rate for the period under review was 0.5%, down from 0.9% in 1H14. The completion of the Maerua Mall renovations have contributed positively to this as well as the vacancy rates dropping for the office portfolio. We continue to benchmark against a vacancy rate of 1.5% and by this measure Oryx has been performing exceptionally well. The low vacancy rate can be attributed to a strong tenant mix in the retail property portfolio as well as the high demand for quality industrial space in Windhoek.

Projections

The 1H15 results are largely in line to reach our forecasts for net rental income for the full year. These remain unchanged as a result. Net rental income growth of 13.5% is expected for the full year, unchanged from our FY14 results review. The increase is largely attributable to rent escalation as well as a modest contribution from new GLA. Our forecasts capture the completion of the Maerua Mall renovations and expansion.

Expenditure

Rental expenses saw a notable increase of 45% in 1H15 compared to 1H14, on the back of the bulk metering of electricity. In this regard, this increase is largely offset by the increased revenue collected from the same process, mentioned in the previous paragraph. Thus electricity payments are included in the rental cash flow inherent in leases portion of the income statement and should offset the income statement expense increase.

Competition

During the period under review, a largely unknown factor was the opening of the Grove mall which promised to compete much more directly with Maerua Mall, Oryx's biggest revenue generator, than did the Wernhill and other local malls. The Grove Mall opened on 23 October with a similar tenant mix to that of Maerua. Nevertheless, the new mall's opening appears to have been fairly inconsequential, partially due to the opening taking place even though there was ongoing construction to parts of the mall. This may have been in Maerua's favour as the initial foot-count at the Grove was not as high as expected, which foot-count has yet to increase dramatically. Maerua did experience an initial drop in foot-count following the opening of the new mall, but this quickly normalised as the year drew to a close and the short term novelty of the Grove wore off. At Maerua, the foot-count appears to have remained largely unaffected, with record foot-counts being noted during the new year. However, revenue in a number of the mall's retail outlets appear to have declined, which seems to indicate that the consumers are exploring both malls, splitting expenditure between such. However, it is currently unclear as to whether this trend will continue going forward.

Maerua's location makes it more accessible during the week than is the Grove. This is supported by the foot-count trends, which indicate that if the Grove is drawing customers away from Maerua, it is more prominent during weekends rather than during the week. There is evidence that customers are shopping around due to expanded options and logic suggests that some retailers will experience revenue declines due to the influx of similar or the same stores at the two key locations. We feel that due to lower square meterage rent in Maerua, as well as generally smaller outlets, Oryx's tenants should be better able to absorb a drop in revenues than those in the Grove.

Oryx properties acquired the Gustav Voigts centre including the tower housing the Kalahari Sands Hotel and Casino during the previous financial year. The centre is earmarked for a full scale renovation in the future which should see the tower being brought up to date as it is competing directly with the recently constructed Hilton Hotel, located in the immediate vicinity of the Kalahari Sands. The hotel was recently sold by Sun International to Minor International (MINT) a Thailand based company. MINT has extensive expertise in the hotel management business and will be taking over the profitable Kalahari Sands. The hotel has been a reliable tenant and will continue to be so according to Oryx management.



Borrowings

Oryx' long term borrowing increased by 10.7% y/y to N\$861m in 1H15, from N\$777.9m reported as at 1H14. Fixed interest loans make up N\$400m of the total, with the remainder made up of floating rate loans. The weighted average borrowing rate on fixed rate debt is 7.97%, while that of floating rate debt is 9.41%. The average interest rate for borrowings is 8.75% compared to 8.07% in 1H14. Through swap transactions Oryx has greatly increased the portion of total debt that is fixed (46.5% versus 27.2% in 1H2014). This is as expected and finance costs were roughly in-line with our forecasted amount despite the addition of N\$ 55 million additional debt. Fixing debt has been a priority for Oryx through the past 12 months. This is a positive move given the Bank of Namibia hiking rates by 25 basis points in February, a continuation of the hiking cycle which has seen interest rates increase by 75 basis points since the lowest point in the cycle. We expect to see further rate hikes in the future although these may be small and intermittent in nature.

Oryx management is in the process of registering a domestic medium term note programme to the volume of N\$500 million which will initially be used to re-finance existing debt. Oryx has proven to be effective at managing their debt and relentless in seeking to lower finance rates. The current debt to assets ratio of 41.5% is marginally above the company's target of 40% although not concerning. The debt to adjusted equity level which has increased to 77.4% from below 50% in FY12 is reasonable by industry standards. Oryx has taken a very involved approach to debt management which should see debt levels stay within reasonable levels and reassure investors.

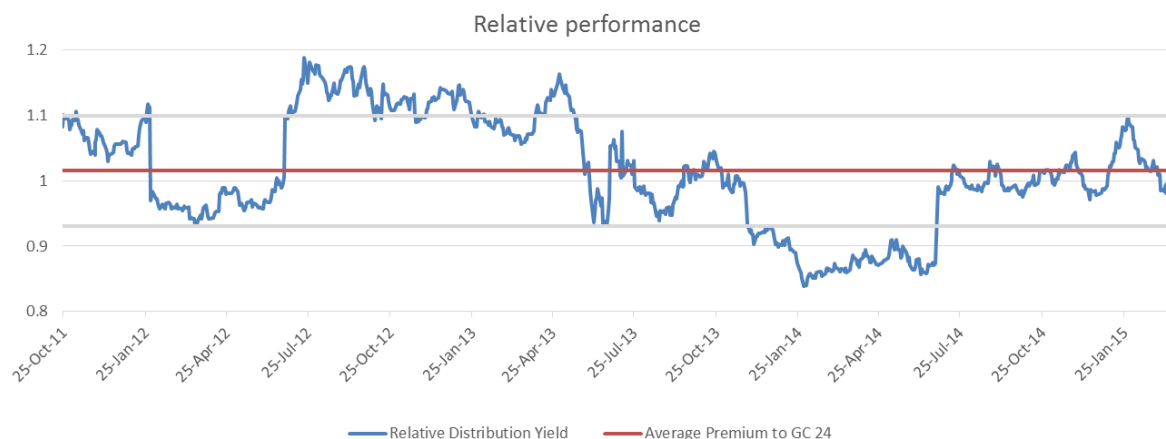
Property portfolio

There were no notable additions to Oryx's property portfolio during the period under review. As of the end 1H15, the portfolio was valued at N\$2.039 billion, reflecting a fair value gain of N\$33 million. Elevated revaluations have been driven by the recent renovation of a number of properties as well as the improvements to the Maerua Mall. The current sectoral spread based on value is 62% retail, 29% industrial, and 9% office space. With limited investment options available at the current asset quality of the company, Oryx has focussed on raising the quality of existing properties through renovations and additions. The renovation of the Gustav Voigts property is currently in a planning phase and should start in the next financial year. According to Oryx this will be a substantial project which may see an increase in GLA when undertaken. While much of Oryx's current portfolio value is due to development, Oryx prefers to buy existing property on a yield basis and does not intend to venture into the property development arena any further than necessary.

While we see the current financial year as one of consolidation for Oryx, we expect to see growth in the portfolio in the FY16 financial year. Oryx has noted a lack of availability of purchasable properties which would not water-down the quality of the current portfolio. Options exist to expand on the Gustav Voigts properties and this is where we expect to see future growth over the next few years. In addition to these options, Oryx is focused on opportunities within the industrial space as well as tenant specific office space. The perpetually low vacancy rates experienced by Oryx is directly related to the quality of the current property portfolio and this is something Oryx does not want to lose through growth, thus we can expect future acquisitions and developments to be complimentary to the current portfolio from a quality perspective.

Relative comparison

The below figure compares the relative distribution yield of Oryx to that of the GC24 government bond. On average the distribution yield outperforms that of the GC24 by about 1.5%. The fluctuations are largely attributable to the GC24 yield changes. Currently the two yields are very much in line, with Oryx yields outperforming the GC24 slightly. As equities carry more risk investors expect higher yields from these investments than from risk free government debt. This suggests that Oryx yields should be higher. But yield is a function of the share price and the Oryx share price has gained considerably in the last few years. Thus we are comfortable with the level of distributions currently being paid out to shareholders as they have been compensated by capital growth. The relatively low distribution yield could be justified given Oryx growth profile, however in our view the yield does point out that Oryx shares are relatively expensive at current prices.



Valuation

At the current share price of 1851c and our unrevised forecasted distribution for FY15, Oryx returns a distribution yield of 8.1% which lags the current GC24 yield of around 8.4%. This makes the share relatively expensive at the current market price. Based on a 50 basis point risk premium over the GC24, we get a target price of 1685c. The current price to book value of 1.8 times is above the JSE Property Index average of 1.4 times and has been rising notably year on year.

While these metrics portray Oryx as overpriced at current share prices we maintain our HOLD recommendation due to the lack of liquidity in the share as well as improving metrics, an upwardly revised target price (to 1685c from 1630c), and a competent management team. We believe that Oryx has potential for future growth which is likely to be unlocked in the future, which when coupled with a high quality asset base, should provide them with a strong base from which to expand. In addition, the economic climate in the country is conducive to future growth and opportunities and we feel that Oryx is well placed to take advantage of any such opportunities should they arise.



Managing Director

Romé Mostert
Tel: +264 (61) 383 520
rome@ijg.net

Sales and Research

Rowland Brown
Tel: +264 (61) 383 513
rowland@ijg.net

Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Eric van Zyl
Tel: +264 (61) 353 530
eric@ijg.net

Money Market & Administration

Leon Maloney
Tel: +264 (61) 383 521
leon@ijg.net

Tashiya Shekutamba
Tel: +264 (61) 383 511
tashiya@ijg.net

Director

Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Financial Manager

Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

IIG Direct

Naike Burger
Tel: +264 (61) 383 515
naike@ijg.net

Equity & Fixed Income Dealing

Nigel Mubita
Tel: +264 (61) 383 514
nigel@ijg.net

Stuart Main
Tel: +264 (61) 383 512
stuart@ijg.net

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