IJG Securities (Pty) Ltd.
Member of the NSX

ORYX PROPERTIES LIMITED

1H16 Results Review

April 2016

Oryx Properties Limited

1H16 Results Review

Target Price (c)	1770
Current Price (c)	2110

Year End 30 June	2014A	2015A	F2016	F2017
Revenue (N$m)	204.8	269.4	296.1	330.0
Vacancies (%)	0.9	0.7	1.5	1.5
HEPU (c)	162.2	159.6	159.2	178.2
HEPU growth (%)	8.9	-1.6	-0.2	21.0
DPU (c)	148.0	158.5	159.2	169.3
DY (%)	8.1	7.9	7.5	8.0
P/E (x)	11.4	12.5	13.3	11.8
D/A (%)	40.5	38.8	29.8	29.4

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	HOLD
NSX Code	ORY
Market Cap (N$m)	1,643
Shares in Issue (m)	77.9
Free float (%)	100
52 week high (c)	2110
52 week low (c)	1851
Expected Total Return (%)	7.5

1H16 Results Review

Oryx Properties Limited (Oryx) released its results for the six months ended 31 December 2015, reporting distribution per unit growth of 8%, from 71.75c to 77.50c. Total distributions increased by 27.3% to N$60.3m from N$47.4m declared in 1H15. Earnings attributable to linked units per unit (EPU) grew by 2.1%, to 129.82c, from 127.21c in the same period in 2015. Headline earnings attributable to linked units increased by 6.7% from 74.37c in 1H15, to 79.37c in the review period.

Net rental income increased by 5.9%, to N$98.9 million, compared to the same period last year. Rental expenses increased by 32.8%, largely on the back of bulk electricity metering which is offset by the increase in gross revenues. Oryx reported a profit after tax for the period of N$31.3 million, a decrease of 14.5% compared to the first half of 2015. Worth noting is that the reported fair value gain during the current period is more modest than that reported for the comparable period of last year.

Vacancies (as a percent of lettable area) increased from 0.5% in 1H15 to 1.8%. The increase in vacancies is more in line with our projected vacancy rate of 1.5%. Oryx has managed to maintain exceptionally low vacancy rates in the past and some normalization does not concern us. The vacated properties were as a result of government tenants relocating to new offices and Oryx management is confident that these vacated premises will be filled shortly.

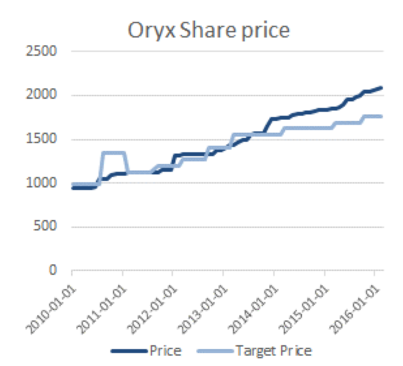
At the end of the interim period, Oryx' investment properties were valued at N$2.27bn, up 11.5% from N$2.04bn in 1H15. Most of the gain is attributable to fair value adjustments, with capital expenditure of N$45 million contributing the remainder. Retail space continued to represent the bulk of assets, at 66%. Industrial space contributed 28%, and office space made up 6%.

Oryx' long term borrowing decreased by 19.8% y/y to N$692m in 1H16, from N$872m reported as at 1H15. This was due to an issue of rights, the funds from which were used to reduce interest bearing debt. Unutilised debt facilities have thus expanded to N$280 million, compared to N$71 million in the comparable period of FY15. Financial room has thus been freed up for future projects. Fixed interest loans make up N$298m, or 43%, of total borrowings, with the remainder made up of floating rate loans. The weighted average interest rate for borrowings is 8.9%, compared to 8.7% in 1H15. With the reduction in long term borrowings, Oryx has reduced the company's gearing ratio to 29.8% from 41.5% in 1H15.

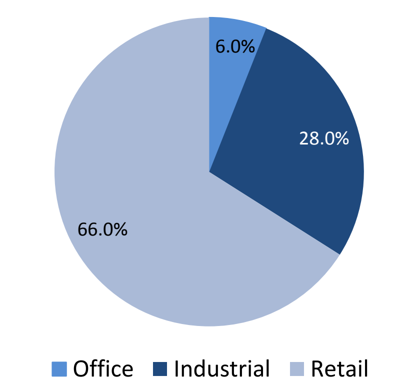
Our revised forecast for FY16 distributions is 159.2c per linked unit. Based on this, Oryx is currently trading on a distribution yield of 7.5%. The comparable GC27 is currently trading at a yield of 10.4%, a relatively attractive premium over the Oryx distribution yield. However Oryx shares have traded up to 2090c from 1842c as at 31 December 2014, resulting in a total return for the 12 months of just over 20%, which should not be overlooked.

Oryx' overall performance remains satisfactory although current economic headwinds are placing some pressure on the valuation. A change in management with current CEO Stefan de Bruin stepping down could see further consolidation during the remainder of 2016. We will keep an eye on FY16 distributions in the next set of results, specifically as to the source of distribution growth. We maintain a HOLD recommendation on Oryx even though we have only revised up our FY16 target price slightly. From a distribution yield perspective Oryx is less attractive than it was as at the release of the FY15 results. We look forward to the in depth results due in September for more clarity on future prospects.

Share Price (c)



Property Portfolio



Dividends

An interim distribution of 77.50 cents per linked unit was declared on 25 February 2016 for the period ended 31 December 2015.

- Last day to trade cum distribution: 4 March 2016
- First day to trade ex-distribution: 7 March 2016
- Record date: 11 March 2016
- Payment date: 29 March 2016

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Macroeconomic Environment

The global macroeconomic environment has continued to deteriorate since our FY15 report was released. The global outlook remains uncertain and largely negative with the IMF, and numerous other financial authorities, revising down global growth forecasts seemingly at every opportunity. Europe continues to struggle with low inflation and low growth, while the US economy has proven more fragile than it appeared before the Federal Reserve hiked rates in December. Chinese growth is slowing as the economy transitions towards a more consumptive economy, largely contributing to the commodity price slump seen in recent months. Growth in sub-Saharan Africa is also projected to slow as much of the region's value addition comes from commodity exports. South Africa has been plagued by low growth, for the most part, since the 2008 financial crisis. The outlook for our challenged neighbour has deteriorated further over the last few months, as the leadership of the country has been called into question, a credit ratings downgrade looms on the horizon, and projected growth rates continue to fall.

The Namibian macro picture has also come under pressure due to various factors ranging from drought to tightening monetary and fiscal policy. Interest rates have increased by 50 basis points since June 2015 and are widely forecast to increase further during 2016. Inflation in South Africa has breached the 3% - 6% inflation target, which suggests that further rate hikes in South Africa are likely. Namibia will be forced to follow suit in the event that South Africa does hike interest rates in order to protect the external position and the currency peg. This will translate to higher borrowing costs for companies such as Oryx, as well as putting pressure on the property market in general from an affordability perspective. The macroeconomic environment is thus not as conducive to property development as it may have been in the past decade or so, but may offer opportunities in the acquisition space as owners of property come under pressure from diminishing yields and higher costs.

Revenue and Rental Expense

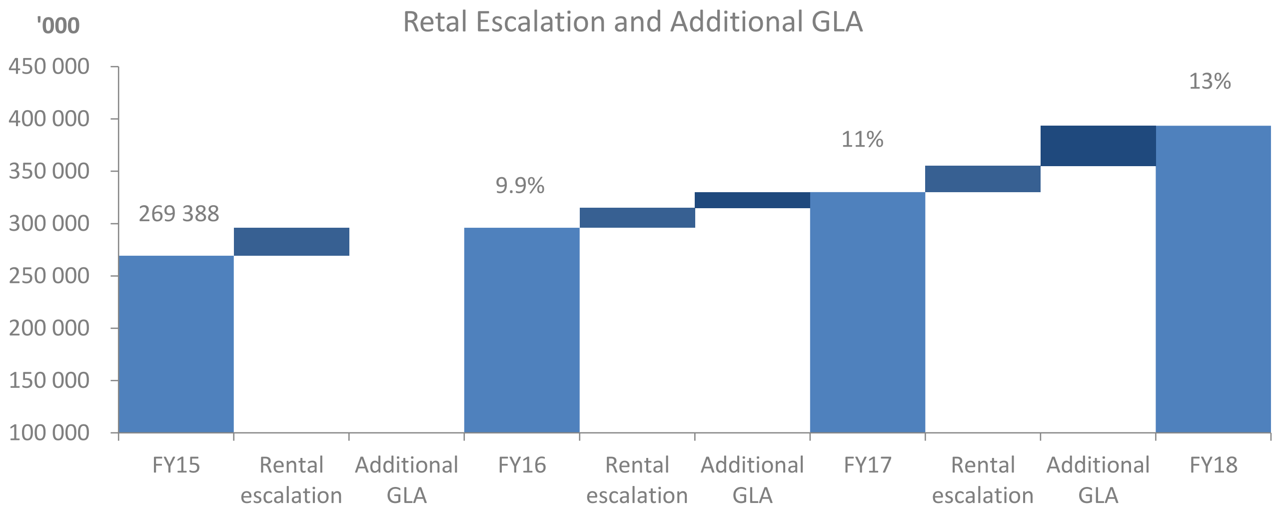
Oryx recorded revenue of N$147.1 million in 1H16, an increase of 14.4% over the comparable period in 2015. Revenue for the period was largely in line with our expectations and thus on track to meet our full year estimates. While recorded revenue increased much as expected, vacancies increased in excess of our benchmark 1.5%. Rental receipts were thus slightly better than expected over the occupied properties which we attribute to better than anticipated upward revisions in rent per m² (achieved on various industrial properties in the capital), as well as implementation of the bulk metering of electricity and solar gains at Maerua Mall.

The increase in vacancies over the period was due to government tenants vacating the Channel Life building as they moved into their own offices. Oryx management expects that these vacancies will be filled soon and vacancies should mean revert somewhat in the full year results. The vacated spaces in the Channel life building were relatively large and it is likely that the spaces will be subdivided and let to smaller tenants, which will result in more admin but could also lead to modest increases in rentals received for these specific spaces. We do not expect to see vacancy rates as low as they have been over the last few years as a result of the current economic climate, and thus continue to forecast revenue on the assumption of a 1.5% vacancy rate. Oryx management has done an exceptional job with regard to renewals and minimising vacancies in the past and we feel that this is currently a strength which will be tested during the next few years should we see a prolonged slowdown in the Namibian economy.

Rental expense for the period increased by 37% to N$48.2 million, a larger increase than we were expecting. The conversion from commercial to bulk electricity supply was largely responsible for this increase. The bulk electricity supply results in an increase in rental expense which is more than offset in the gains through the recovery of electricity expenses from tenants. Thus while rental expense as a percentage of revenue has increased, the net effect on a cash flow basis is positive. Operating income is therefore not directly comparable to prior periods but this will not affect net income negatively.

Revenue Growth Projections

Our revenue growth projections for the full year results have been adjusted slightly to account for the increase in rental receipts from the industrial properties located in Windhoek as well as from the bulk metering of electricity. Additional GLA has been removed from our calculation as none of the projects currently underway or in the pipeline are expected to be complete before financial year end. The company also has plans to sell its current low-yielding Port Elizabeth properties. We are partially accounting for this, as we can currently only estimate the effect that this will have on revenues for the full year period. The below chart expresses these expectations. Our forecast for FY16 revenue has been increased from N$295 million to N$296 million due to the above mentioned changes.



Source: IJG Securities

Borrowings
Oryx' long term borrowing decreased by 19.8% to N$692.8m in 1H16, from N$864m reported as at 1H15. This decrease in leverage is as a direct result of management's decision to reduce debt going into an interest rate hiking cycle. The reduction in debt does mean that the current lending facilities will be available to draw down should financing be needed for a project or purchase. The ratio of fixed rate borrowing to variable rate borrowings currently stands at 43:57 compared to 46:54 in 1H15. Fixed rate borrowings are still largely comprised of variable rate debt hedged through swap transactions. The hedging actions taken coupled with the reduction in more expensive debt have had a positive influence on the weighted average interest rate for the period, resulting in a rate of 8.9% compared to 8.7% in 1H15 (the Namibian repo rate has increased by 100 basis points over the period). Current leverage is 29.8% compared to 41.5% in 1H15 as a result of the reduction in debt. This does provide Oryx with room for expansions or acquisitions should opportunities present themselves.

No further details have been released regarding the Oryx medium term note program to date. A lot has changed since the company first hinted at the possibility of raising listed debt on the NSX. Bond yields have increased significantly during the last 9 months, well in excess of Oryx's current weighted average interest rate referred to above. The current timing is thus not in the company's favour and as a result of this, as well as likely further increases in interest rates during the year, we do not expect Oryx to come to market with a bond in the near future.

Property portfolio
There were no notable additions to the Oryx portfolio during the period, although N$45 million in capital expenditure as well as N$23.5 million in fair value adjustments have resulted in the value of the property portfolio increasing to N$2.27 billion from N$2.21 billion in FY15. The fair value gain of approximately 2% on an annualised basis is largely as a result of adverse effects from the current economic climate flowing through to the cap rates used to value the property. This fair value gain is thus conservative which we feel is prudent given the challenges that the adverse economic climate puts on Oryx and its tenants. Rising inflation and tighter monetary and fiscal policy put pressure on consumers which in turn puts pressure on retailers as well as other businesses. Higher cap rates and the economic conditions which determine them should persist for the duration of 2016 at least and thus we do not expect to see major upward revisions to the fair value of the property portfolio in the FY16 results later this year.

Capital expenditure during the period is due to the relocation of the Virgin Active gym at the Maerua Mall. Construction on the new site is currently under way and should be complete by the end of 1H17. Virgin Active will move out of their current premises in September 2016 and should be move into the new premises in November 2016. Upon Virgin Active vacating their current premises Oryx will commence with the transformation of that site into additional retail space.

For the time being the development of two industrial properties (Walvis Bay and Windhoek) proposed in the FY15 results seem to be on hold. The plans are complete and as such development can commence when management determines that the timing is right. We do thus not expect to see development on these properties during the period to 1H17. As earlier mentioned, Oryx has also decided to dispose of part of the Port Elizabeth property portfolio, which were higher risk in management's opinion. The transactions will result in the sale of approximately N$90 million worth of the property portfolio over the period of a few months. We expect that more detail on the properties being sold will be provided with the FY16 report.

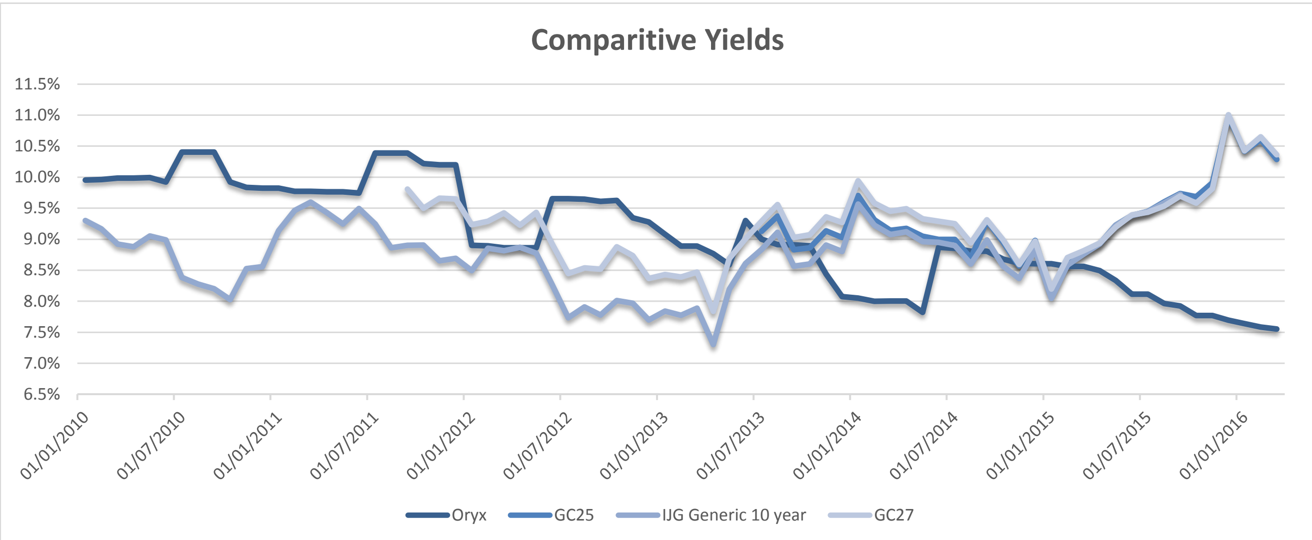
Management Changes
Stefan de Bruin, the current CEO of Oryx Properties will be stepping down at the end of June this year. Mr de Bruin's five year contract with Oryx has come to an end and the company has announced that his replacement will be Mr Gerhard van Zyl. During Mr de Bruin's tenure (23 February 2011 – present) the Oryx share price has increased from N$11.18 to N$21.10 while yielding a total return of 173% (including reinvested distributions). Mr de Bruin has presided over Oryx during a period of strong economic growth in Namibia as well as the property market in the Capital, and under his leadership Oryx has increased their portfolio value from just over N$1 billion to the present level of N$2.27 billion.

As Mr van Zyl takes the helm of Oryx the Namibian economic outlook is decidedly less sunny than it has been for most of the past decade. That said Oryx is less leveraged at present than it has been for some time and thus ready to capitalize on opportunities that may arise. Mr van Zyl brings with him a wealth of experience which will be well received and possibly tested given the current market conditions. Mr van Zyl is currently an independent non-executive director for Emira Property Fund Ltd, has been CEO of Vukile Property Fund Ltd, and most recently headed up SA Corporate Real Estate Fund.

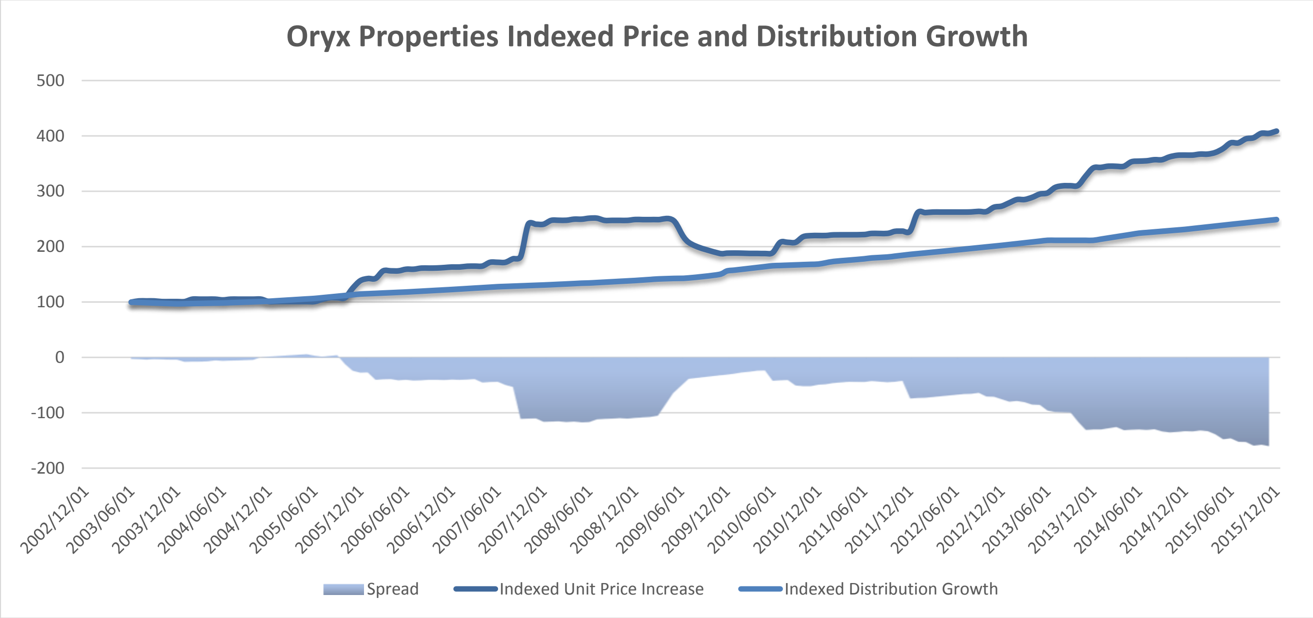
Director's Dealings
Director's dealings have comprised approximately 31% of the trading volume of Oryx units since May 2014 when TLP Investments One Three Seven (TLP) started liquidating small volumes of shares. The Chairman of the Board, Mr Francois Uys, as well as Mr Jens Kuehhirt, an Independent Non-Executive Director, are shareholders in TLP which has accounted for all of the dealings by directors (or unit holders which directly benefit directors). This is not an insignificant proportion of the volumes traded over the period although the illiquidity in local stocks plays a role here too, with many unitholders holding on to their shares for extended periods (once sold Oryx unit may be hard to re-buy). Over this period the unit price of Oryx has increased by 18.5%.

Rights Issue
The results for the Oryx Properties rights issue were released on Monday 26 October 2015. A total of 89.4% of the rights were exercised as 11,809,781 new shares were issued with a cash value of N$236,195,620. These units were issued including antecedent distributions which meant that the rights issue did not dilute distributions per unit (those unitholders that acted on the rights issue effectively paid for their own distributions). The majority of the proceeds from the rights issue were used to pay down debt, with a portion going toward capital expenditure.

Relative comparison
The below figure illustrates the decline in Oryx distribution yields relative to risk free government bonds. The downward trending distribution yield is evident and primarily as a result of downward trending distribution growth as well as an increasing share price. It should also be noted that the yields on government bonds have increased substantially over the last year and a half.



The below figure illustrates the growth in distributions compared to the growth in the Oryx unit price. The growth in the unit price has accelerated away from that of the rate of distribution growth since 2009. This has resulted in a persistent decline in the distribution yield over time. While this places pressure on our target price, it is normal considering the quality of the company as well as the illiquidity in the local market and local asset requirements for pension funds and life insurance companies.



Valuation

At the current share price of 2110c and our revised forecasted distribution for FY16, Oryx returns a distribution yield of 7.5% which lags the current GC27 yield of around 10.4%. Political missteps in South Africa have resulted in bond yields spiking to well above normal levels, we may see yields elevated for quite some time as the risk of South African credit being downgraded remains large. The return on "risk free debt" is thus abnormally high at present. This presents a challenge when valuing Oryx in the current period. As the economy slows and interest rates pick up it becomes increasingly difficult for Oryx to maintain the rate of fair value appreciation on its property portfolio as seen over the last few years. We are not expecting a major upward revision in the value of the property portfolio in the FY16 results and it is likely that distribution growth will also be under pressure.

Should we consider 9.0% (FY15 average one year yield on the IJG Generic 10 year bond) to be a more realistic yield given the asset price appreciation potential on Oryx's property portfolio, we derive a target price of 1770c. This figure is based on revised distributions of 159.20c per share, which revisions are due to higher than expected rental expenses as well as the increase in shares due to the recent rights issue.

Despite our target price we maintain a HOLD recommendation on Oryx due to the buy and hold nature of the Namibian market, market sentiment on the quality of Oryx relative to other single listed companies, and regulation driving the investors into local securities due to local asset requirements. Local asset requirements for pension funds and life insurance companies may also be increased in the future, which would lead to further fund flows into local securities. Oryx remains a well run company and the competent management team should prove valuable during the coming period given the economic climate. We look forward to seeing Mr van Zyl's vision for the company.

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