ORYX PROPERTIES LIMITED

1H17 Initial Impression

March 2017

Oryx Properties Limited

1H17 Initial Impression

Target Price (c)	1680
Current Price (c)	2101

Year End 30 June	2015A	2016A	F2017	F2018
Revenue (N$m)	269.4	288.3	301.7	327.0
Vacancies (%)	0.7	2.1	2.0	2.0
HEPU (c)	159.6	163.0	161.2	174.8
HEPU growth (%)	-1.6	2.1	-0.1	8.4
DPU (c)	158.5	167	161.2	174.8
DY (%)	7.9	7.8	7.6	8.2
P/E (x)	12.5	13.1	13.2	12.2
D/A (%)	38.8	29.0	30.2	30.7

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,637
Shares in Issue (m)	77.9
Free float (%)	76
52 week high (c)	2154
52 week low (c)	2073
Expected Total Return (%)	7.8

1H17 Initial Impression

Oryx Properties Limited (Oryx) released its results for the six months ended 31 December 2016, reporting distribution per unit growth of 0.6%, from 77.50c to 78.00c, inclusive of dividends declared of 1c per linked unit. Total distributions (excluding dividends) decreased by 0.6%, to N$59.95m from N$60.34m declared in 1H16. Earnings attributable to linked units per unit (EPU) contracted by 18.7%, to 105.54c, from 129.82c in the same period in 2016. Headline earnings attributable to linked units decreased by 3.8% from 79.37c in 1H16, to 76.33c in the review period.

Net rental income decreased by 1.8%, to N$97.19m, when compared to the same period last year. Rental expense growth of 3.8% indicates that the effects of bulk electricity metering is now included in the base for this line-item. Oryx reported a profit after tax for the period of N$22.2m, a decrease of 29.2% compared to the first half of 2016. The reported fair value gain attributable to the property portfolio was modest in the prior period at N$23.4m, and the current period adjustment of only N$4.2m is reflective of current economic headwinds.

Vacancies (as a % of lettable area) increased from 1.8% in 1H16 to 2.7%. According to Oryx the uptick in the vacancy rate is due to the family entertainment centre currently under construction at Maerua Mall which will fill the space vacated by Virgin Active. The family entertainment centre is expected to be completed by the end of July 2017. Excluding this space from total GLA results in a vacancy rate of 0.9%, which is an improvement on the prior period, and testament to demand for space at the mall.

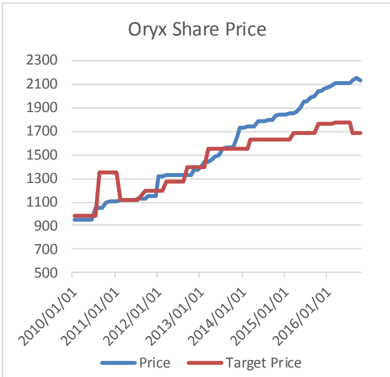
At the end of the interim period, Oryx' investment properties were valued at N$2.40bn, up 5.6% from N$2.27bn in 1H16. The half year valuation is performed by the directors and resulted in a fair value gain of N$1.9m, with the remainder of the increase in property value driven by capital expenditure of N$93m during the period. Most of this capital expenditure will stem from the construction of the new Virgin Active premises (estimated capital outlay for this project in the FY16 financials was N$80m). Retail space continued to represent the bulk of assets at 60%, while industrial space contributed 27%, and office space made up 13%.

Oryx' interest bearing borrowings increased by 14.9% y/y to N$796.4m in 1H17, from N$692.8m in 1H16. The ratio of fixed rate borrowings to floating rate borrowings was 50:50 at period end, with a weighted average interest cost of 9.5% versus 8.9% in 1H16. Capital expenditure has largely been the driver of the gearing ratio which is now 32.1% versus 29% in 1H16. Expectations are for interest bearing borrowings to increase going forward as the renovation of the Gustav Voigts property commences, although to be partially offset by the sale of two South African properties for N$67 million.

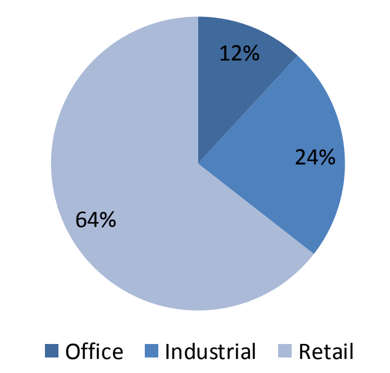
Our forecast FY17 distributions was 161.2c per linked unit. Based on this, Oryx is currently trading on a distribution yield of 7.7%. The indicative IJG Generic 10-year bond is currently yielding 10.8%, a relatively attractive premium over the expected Oryx distribution yield.

In our FY16 results review we changed our recommendation on Oryx to a SELL. We maintain this recommendation until our full review of the 1H17 results during which we will update our target price accordingly. With our FY16 results review we expected distribution growth and earnings growth to continue to slow in FY17, a view that is unchanged in this initial impression. The Namibian economy is facing headwinds which have undoubtedly put pressure on the consumer, and so also on Oryx. We expect these headwinds to ease slightly in 2017, but for tougher economic conditions to remain for some time.

Share Price (c)



Property Portfolio (Revenue contribution)



Dividends

Notice is hereby given that an interim distribution and dividend of 77.00 cents per linked unit and 1.00 cent per linked unit respectively was declared on 2 March 2017 for the period ended 31 December 2016.

- Last day to trade cum distribution: 10 March 2017
- First day to trade ex-distribution: 13 March 2017
- Record date: 17 March 2017
- Payment date: 31 March 2017

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