ORYX PROPERTIES LIMITED

1H17 Results Review

May 2017

Oryx Properties Limited

1H17 Results Review

Target Price (c)	1650
Current Price (c)	2096

Year End 30 June	2015A	2016A	F2017	F2018
Revenue (N$m)	269.4	288.3	294.6	315.6
Vacancies (%)	0.7	2.1	2.0	2.0
HEPU (c)	159.6	163.0	160.0	167.8
HEPU growth (%)	-1.6	2.1	-1.9	2.5
DPU (c)	158.5	167	160.0	167.8
DY (%)	7.9	7.8	7.6	8.0
P/E (x)	12.5	13.1	13.1	12.5
D/A (%)	38.8	29.0	31.1	31.7

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,632
Shares in Issue (m)	77.9
Free float (%)	100
52 week high (c)	2154
52 week low (c)	2073
Expected Total Return (%)	-18.4

1H17 Results Review

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.

Revenue for the period was flat at N$147.2 million compared to N$147.1 million in 1H16. Rental expense increased by 3.8% and resulted in a decrease in net rental income of 1.8% in 1H17. This is below our expectations and is largely due to a loss of revenue due to the sale of high yielding South African properties during FY16 and the period under review. 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.

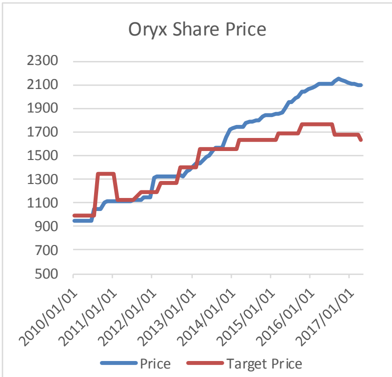
Vacancies (as a % of lettable area) increased from 1.8% in 1H16 to 2.7%. According to Oryx the uptick in the vacancy rate is due to the family entertainment centre currently under construction at Maerua Mall which will fill the space vacated by Virgin Active. Excluding this space from total GLA results 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.

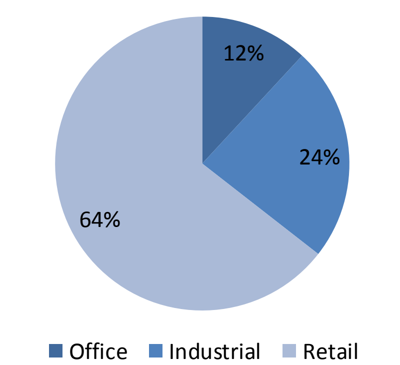
Oryx' interest bearing borrowings increased by 14.9% y/y to N$796.4m in 1H17, from N$692.8m in 1H16. The ratio of fixed rate borrowings to floating rate borrowings was 50:50 at period end, with a weighted average interest cost of 9.5% versus 8.9% in 1H16. Capital expenditure has largely been the driver 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 for slowed revenue growth of 2.2% and net rental income growth of 1.4%, coupled with increased finance costs, offset the gains from the sale of property and the profitable investment in Delta Property Fund, **resulting in a change in our forecasted distribution to 160c per linked unit** versus our FY17 estimate of 162c per linked unit in our FY16 review. The FY16 distribution benefitted from antecedent dividends built into the rights issue, and the FY17 distribution will be underpinned by the profitable Delta Property Fund investment, but the increase in finance costs and projected increase in rental expense results in a decrease in expected headline earnings when compared to the prior period. The average yield on the IJG Generic 10-Year bond has increased slightly over the period to 9.69% versus 9.65% in our FY16 review. **Computing the required distribution yield using 9.69% and an expected distribution of 160c per unit results in a target price of N$16.50. We thus maintain our SELL recommendation on Oryx.**

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

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

Macroeconomic Environment

The current macroeconomic environment in which Oryx operates remains one of uncertainty as the headwinds that have plagued Namibia over the last 12 months are yet to dissipate. Namibia has been facing a perfect storm, brought on by the deflating of pro-cyclical monetary and fiscal policy, a fall in commodity prices, as well as a slowdown in foreign direct investment into the country. Pro-cyclical monetary and fiscal policy ramped up the business cycle leading to more rapid economic growth than would otherwise have been seen, but also lead to the exhaustion of policy space to deal with the drop in commodity prices and growing merchandise trade deficit.

Over the last 12 months we have witnessed the unwinding of this overheated economy through contractions in high frequency data such as vehicle sales and building plans approved and completed, and slower PSCE growth. Real GDP growth dropped from 6.1% in 2015 to 0.2% in 2016 according to the Namibia Statistics Agency (NSA), while IJG in house forecasts suggest a contraction of 1.5% was experienced in 2016. Government revenue has disappointed over the last two years and resulted in a decrease in expenditure in the 2016/17 year compared to 2015/16. As the Namibian government plays such a large role in the economy, any decrease in expenditure will affect economic activity. The mid-year budget last year saw large cuts to expenditure and the indication from government was that it would follow a path of further fiscal consolidation. Fast forward to the March budget and the drive for fiscal consolidation, while still a priority, has moderated somewhat due to a strong (unexpected) recovery in SACU revenues. As a result, government spending was increased from the mid-term budget figure.

While we are concerned about the longer term sustainability of the highly consumptive fiscal policies employed by government, it does bode positively for some recovery in retail activity. Civil service wage settlements of 9% were agreed upon, and the civil serve wage bill has grown as a percentage of total government spending.

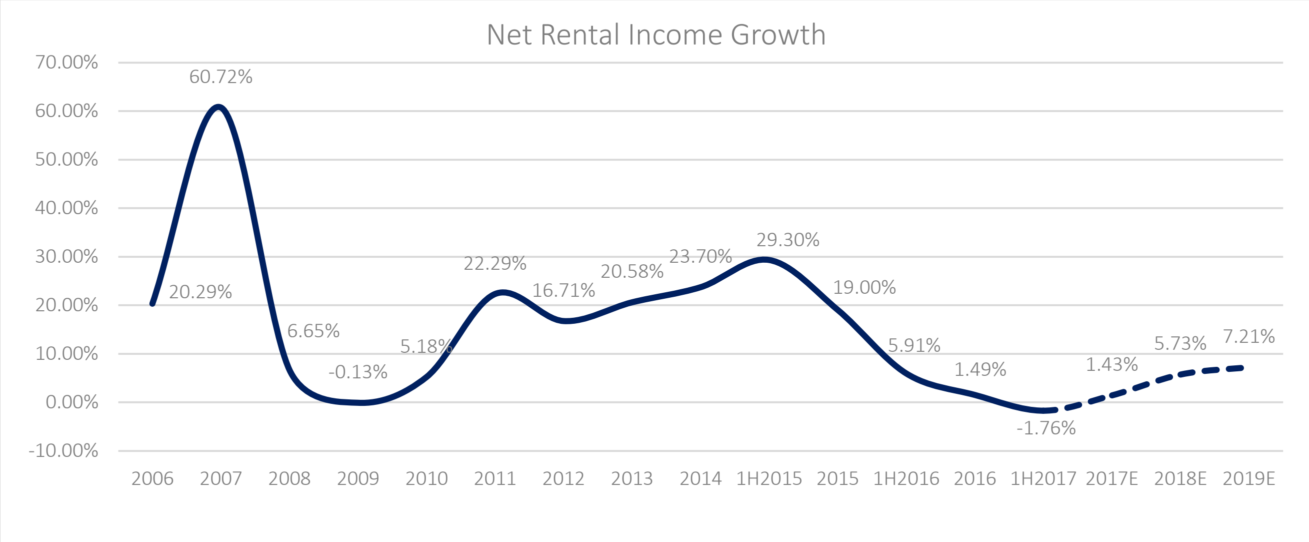
Oryx management have made us aware of decreases in store turnovers and foot-counts through Maerua Mall in the past 12 to 18 months, and last year’s economic slowdown would have put pressure on Oryx’ industrial and office tenants as well. A recovery in government spending and certainty surrounding civil service wages is positive for Oryx as it provides for some relief to the consumer. Government was also largely able to settle accounts in arrears with contractors due to the improved revenues. While we do not expect to see an immediate improvement in rent escalations and demand for lettable area due to the above factors, we may see somewhat of a recovery in rental escalations and demand for retail space (smaller tenants) in the FY18 results. Oryx management have noted that demand for office space has already started to tick up.

The above mentioned recovery in government revenue expectations is still a far cry from the elevated growth rates achieved prior to 2015 and growth going forward is expected to be more moderate than during that period. Government does not have room to issue the amount of debt that it has over the last 24 months. Angolan participation in the Namibian economy also remains muted as oil prices are yet to recover sufficiently to stimulate such activity. Key commodity prices such as that of uranium, while recovering, are still well off the highs. And private sector has shed jobs and is largely still feeling the pinch. All these factors will have a moderating influence on the macro environment in which Oryx operates.

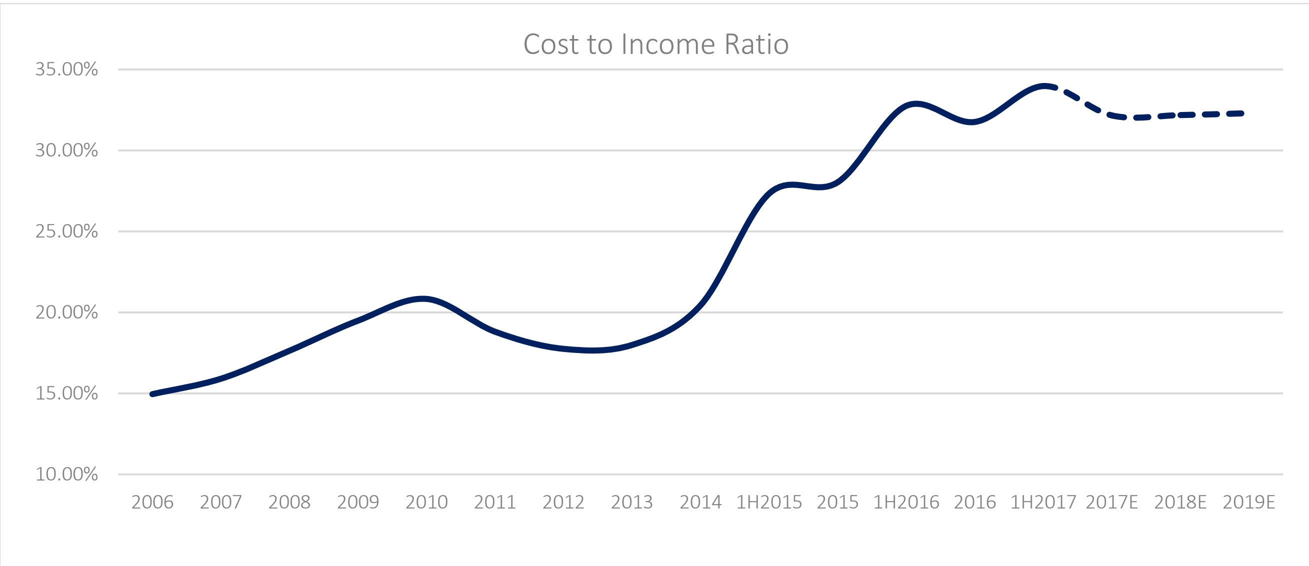
Revenue and Rental Expense

Revenue for the period was flat at N$147.2 million compared to N$147.1 million in 1H16. Rental expense increased by 3.8% and resulted in a decrease in net rental income of 1.8% in 1H17. This is below our expectations and is largely due to a loss of revenue due to the sale of high yielding South African properties during FY16 and the period under review. These properties were sold due to a high risk of non-renewal of rental contracts as well as changes in taxation legislation in South Africa.

Our FY17 expectations were for slower revenue growth of 4.7%, and initial talks with management after the release of the 1H17 results suggested that this growth rate would be optimistic. Rental escalations have come under pressure in the Windhoek market as an increase in retail GLA over the last few years has provided consumers with greater choice and as a result dispersed consumer activity. In the industrial space escalations remain relatively consistent at present and the office portfolio has recently experienced a return of demand. It is thus the retail portion of the portfolio where escalations have been most affected. This pressure on escalations coupled with the sale of high yielding industrial properties in South Africa points to flat revenue for FY17.

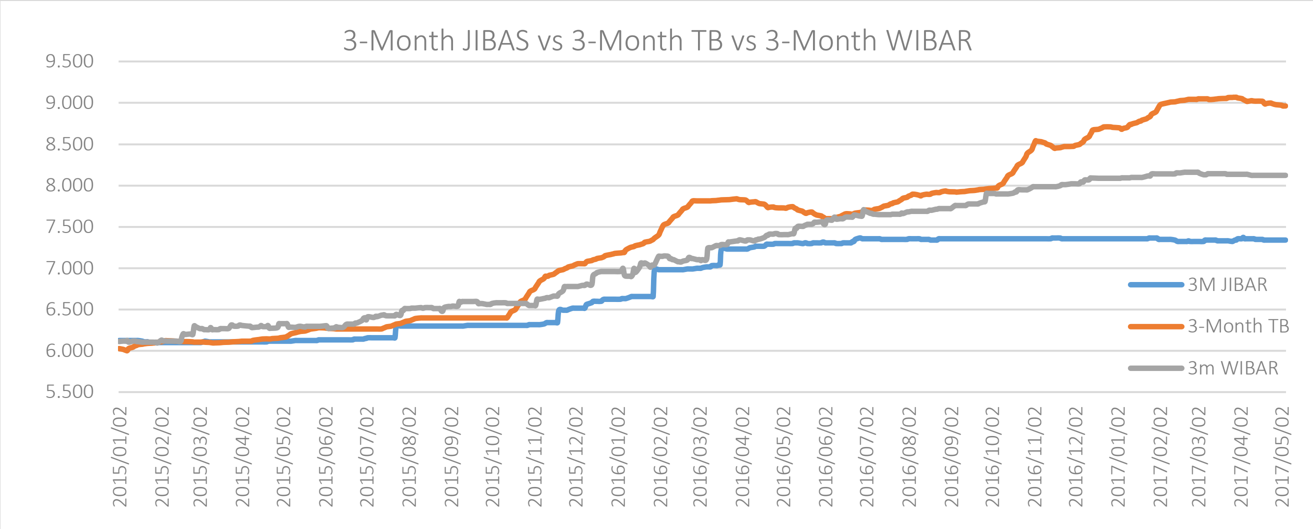


Rental expenses however are unlikely to remain flat for the year with 1H17 exhibiting growth in this measure of 3.8% compared to 1H16. Net rental income for the period declined as a result of flat revenues and increasing expenses. In our assumptions for FY17 results we expect to see muted net rental income growth of 1.4% due to quicker growth in rental expenses than in revenues for the period. Our expectations are for revenue growth of 2.2% in FY17 and rental expense growth in line with that of 1H17 at 3.8%. We thus expect the cost to income ratio to improve slightly for the full year results, although deteriorating when compared to FY16.



Borrowings

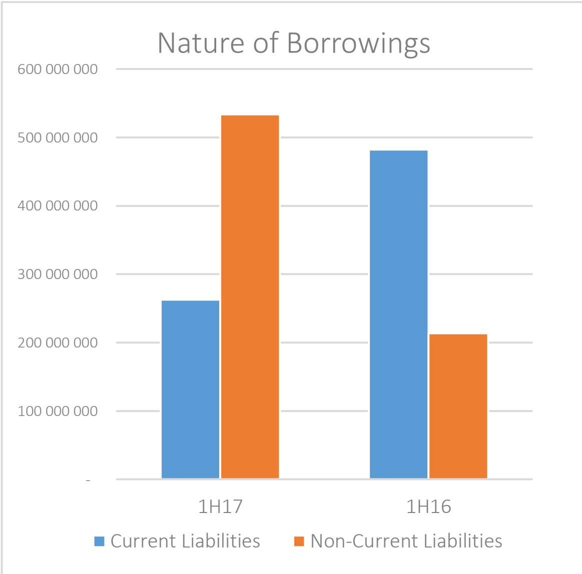
The weighted average interest rate of borrowings rose to 9.5% in 1H17 versus 8.9% in 1H16, and fixed rate to variable rate borrowings were split 50:50 at 31 December 2016. Oryx continues to hedge floating rate debt using swap transactions which total N$400 million. The increase in interest rates was to be expected as Namibian and South African rates have been increasing, although Oryx' exposure to South African financing (1-month JIBAR, 3-month JIBAR, SA Prime minus) has resulted in favourable rates when compared to interest costs in the Namibian market. The below Figure illustrates how 3-Month JIBAR has remained relatively unchanged over the reporting period while Namibian WIBAR and TB rates have continued to increase.



Source: Bloomberg, BoN, NSX

The gearing ratio of the group was 32.1% at the end of 1H17 versus 29% in 1H16. Oryx aims to maintain this ratio below 40% and thus has some room to manoeuvre before reaching this threshold. As such unutilized borrowing facilities amounted to N$176 million at the end of 1H17. At the time of writing Oryx has refinanced a N$70 million loan which expired during April and should be in the process of refinancing another N$220 million facility. The nature of borrowings as at end 1H17 was tilted toward current liabilities.

Interest bearing borrowings have increased by approximately N$100 million since FY16 results were released. Of these funds N$93 million was utilised in the construction of various capital projects such as the completion of the Virgin Active facility, a N$15 million development in Walvis Bay, as well as the renovation of existing properties for use by new tenants. The remainder of the increase in borrowings were utilised in operations during the period.



Property Portfolio

Oryx' property portfolio was valued by the directors at N$2.4 billion for 1H17, 4.1% up on 1H16 on a like for like basis. The change in fair value of investment property was muted for the period at N$4.2m (after straight line adjustments) compared to an increase in value of N$23.4 million in 1H16. This is consistent with our expectations as economic headwinds filter through to the property market. In our FY16 report we suggested that we do not expect the cap rates used to value the property portfolio to continue decreasing due to adverse economic conditions. We maintain this view in the current economic climate. Growth in the portfolio value in FY17 will be driven by capital expenditure such as that taking place in the vacated Virgin Active space.

Virgin Active was successfully relocated during the period under review with the tenant moving in in December. Virgin Active has traditionally been an anchor tenant for Oryx and their occupancy of the new building comes with a 10-year lease agreement. The vacated space, earmarked for a family entertainment centre, is nearing completion and Oryx has been successful in leasing out the vast majority (approx. 90%) of this space. The space will be complemented and integrated with the upgraded food court in order to enhance the overall experience at the Maerua Mall. Along with these upgrades, some renovations to shopfronts have taken place and Oryx is in the process of updating the walkways as well. The initial yield on the Virgin Active GLA is in the region of 7%, with the family entertainment centre yielding a slightly more attractive 10%. Oryx is expecting an initial yield of between 7% and 8% on the upgrades to the Maerua Mall as a whole. Oryx tenants benefit from a rent-to-turnover advantage at Maerua Mall which, along with a keen focus on tenant mix from management, should result in the mall remaining competitive relative to the competition.

The Gustav Voigts renovation and expansion is on track at a cost of N$110 million. This will include shifting the Avani Hotel lobby to the street front, major changes to the current mall area in the form of a new roof structure, new tiles, and new shopfronts. Additional parking will also be added, a necessity in the city centre. Additionally, there will be some further renovations to the Avani Hotel in the form of new lifts as well as a sky bar. Avani will be contributing to the project costs for the sky bar and lifts. The hotel has been doing very well with the increase in tourism activity in Namibia and occupancy has been above expectations. This has resulted in Avani and Oryx entering negotiations for longer term lease agreements which will benefit both companies. We expect tourism to continue to do well and thus a longer-term lease agreement will be positive. The upgraded Gustav Voigts Centre and Avani Hotel add some diversification to the Maerua dominated portfolio.

Property to the value of N$19 million was sold during October as Oryx continues to divest from the South African market. Sales agreements for a further N$67 million worth of property (N$11 million which had not been sold in 1H17 as anticipated, and the remainder a sale of the Stellenbosch property) had also been signed with suspensive conditions by the end of 1H17. We do not expect to see significant losses or profits to stem from the sale of these properties. Divesting from the South African market is largely due to changes in taxation legislation which would dampen rental incomes from these properties.

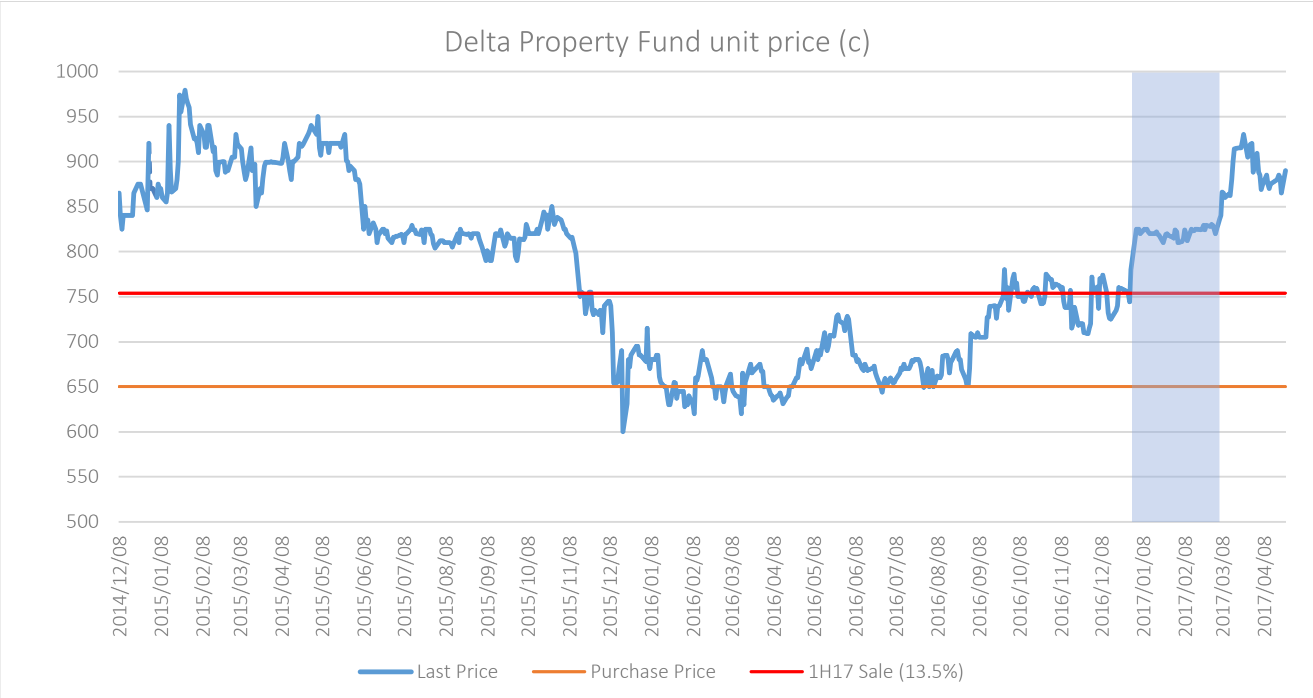
Oryx management are targeting to double the value of the property portfolio over the next five years through development of current properties as well as adding to the portfolio. We believe that the current economic climate may provide opportunities for yield based acquisitions within the next few years. Management aim to take a proactive approach going forward by exploring opportunities in other markets as well as in the domestic market.

Management Changes

Mr Carel Fourie has now taken over from Gerhard van Zyl as the CEO of Oryx, effective 1 March 2017. Mr Fourie is a chartered accountant who joined Oryx in 2011 as Chief Financial Officer, a position he held until June 2014 when he was appointed as Chief Operating Officer. As Mr Fourie was previously COO and this position will now fall away, this has reduced top level personnel expenditure, and allowed Oryx to shore up the middle-management within the company. Management believe that this will lead to more attention to detail in the daily operations as well as providing top level management with the time to focus on the strategic direction of the company. Our view is that this is a positive change for Oryx and that Mr Fourie has the necessary skills to continue to add value to the organization. Mr van Zyl's recognition of the opportunity to streamline management functions within Oryx is testament to his experience, and his faith in Mr Fourie's ability is reassuring.

Investment in Listed Shares

Oryx invested N$25 million in 3,847,221 shares of Delta Property Fund Ltd during FY16. 520,490 or 13.5% of these shares were disposed of during 1H17 resulting in a distributable profit of N$542,000 during the period. The remaining shares in Delta Property Fund were disposed of after the end of the period and as such will reflect in the FY17 results. The shaded area on the below figure shows the price range in which we expect the remainder of the Delta shares to have been disposed. We estimate that the total profit made on the Delta Properties purchase to be in the region of N$5.6 million with dividends adding N$1.2 million, as indicated in the 1H17 income statement. This does bolster our distribution expectations for FY17 as we expect net rental income growth to be fairly subdued.



Source: Bloomberg, Oryx

Relative comparison

	Distribution Growth	3Yr Distribution Growth (Bloomberg)	Dividend Yield	Price to Book	Price to Sales	P/E	Market Cap
Texton Property Fund Ltd	(1.48)	8.69	12.13	0.86	4.83	6.22	3 102.55
Tower Property Fund Ltd	(5.31)	N/A	11.17	0.81	5.04	7.33	2 594.97
Delta Property Fund Ltd	7.93	18.64	10.66	0.89	3.74	11.81	6 253.56
Emira Property Fund Ltd	3.38	6.97	9.85	0.80	3.82	11.08	6 951.47
Fairvest Property Holdings Ltd	10.04	11.01	9.43	0.90	4.01	7.03	1 461.20
Arrowhead Properties Ltd	9.92	11.91	9.32	1.10	5.51	8.88	9 382.76
Dipula Income Fund Ltd	5.00	5.00	9.24	1.03	4.00	10.05	4 859.88
Accelerate Property Fund Ltd	4.86	N/A	8.70	0.93	5.66	13.25	6 519.92
Vukile Property Fund Ltd	7.00	1.73	7.98	1.02	5.19	10.25	13 258.62
Oryx Properties Ltd	**1.98**	**6.32**	**7.97**	**1.74**	**5.66**	**12.86**	**1 631.94**
Redefine Properties Ltd	7.50	7.77	7.92	1.03	7.27	14.10	60 516.03
SA Corporate Real Estate Ltd	8.94	9.67	7.72	1.12	7.05	13.55	13 465.37
Growthpoint Properties Ltd	6.50	6.94	7.40	1.02	6.60	14.13	73 857.99
Investec Property Fund Ltd	3.39	(2.29)	6.02	1.01	6.96	9.68	11 490.40
Hyprop Investments Ltd	15.79	14.67	5.56	1.22	9.10	12.15	29 889.97
Average	**5.70**	**8.23**	**8.74**	**1.03**	**5.63**	**10.83**	**16 349.11**

Source: Bloomberg, IJG Securities

In terms of distribution yield Oryx remains relatively close to the average when compared to listed peers. Oryx occupies the same position on the above list (weighted by distribution/dividend yield) as it did six months ago, a positive indication considering the relative performance of the Namibian economy versus that of South Africa. However, on a distribution growth basis Oryx fared less well when compared to the peer group. Both the price-to-book and price-to-earnings measures for Oryx also look slightly less attractive than the peer group average.

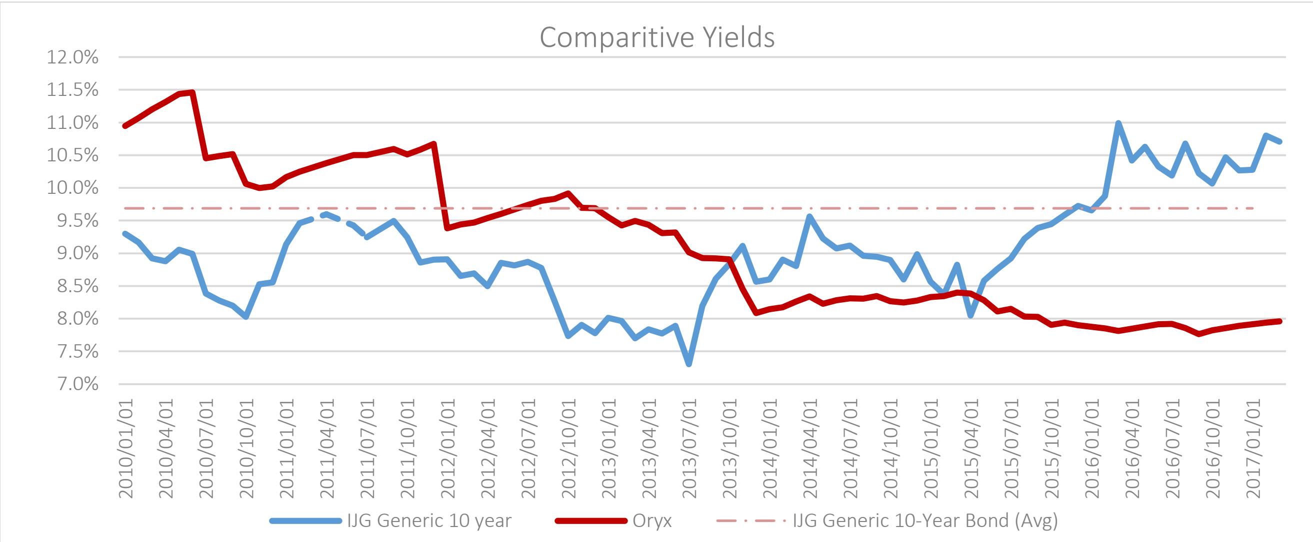
The Oryx share price remains elevated as a lack of market liquidity hampers price determination. We believe that Oryx is priced unattractively at present but that the lack of assets and low liquidity in the local market may mean that distributions catch up to the price before it corrects.

Valuation

We have been of the opinion for some time now that Oryx is trading at a distribution yield that is unattractive compared to the risk-free rate. This is partly due to a higher risk-free rate and partly due to the fact that the Oryx unit price has increased at an elevated rate between 2012 and 2016. Distribution growth has lagged unit price growth which has resulted in Oryx trading at a distribution yield of more than 2% below the 10-year bond, but total returns have exceeded expectations due to unit price appreciation. We do not think that the rapid increases in unit prices are likely to continue in the current economic climate. We thus continue to value Oryx relative to the average long term risk free rate (IJG Generic 10-year bond) which is sufficiently below current 10-year rates to provide some margin for the fact that risk free rates in Namibia are trading at elevated spreads over South African benchmarks and may not accurately reflect the difference in credit risk between the two countries (Namibia's credit rating has been upgraded on the South African scale).

Our forecast for slowed revenue growth of 2.2% and net rental income growth of 1.4%, coupled with increased finance costs, offset the gains from the sale of property and the profitable investment in Delta Property Fund, resulting in a **change in our forecasted distribution to 160c per linked unit** versus our FY17 estimate of 162c per linked unit in our FY16 review. The FY16 distribution benefitted from antecedent dividends built into the rights issue, and the FY17 distribution will be underpinned by the profitable Delta Property Fund investment, but the increase in finance costs and projected increase in rental expense results in a decrease in headline earnings when compared to the prior period. The average yield on the IJG Generic 10-Year bond has increased slightly over the period to 9.69% versus 9.65% in our FY16 review. **Computing the required distribution yield using 9.69% and an expected distribution of 160c per unit results in a target price of N$16.50. We thus maintain our SELL recommendation on Oryx.**

Should Oryx be able to maintain distributions at FY16 levels a target price of N$17.20 can be justified. This is however not our base case scenario but does illustrate how far from intrinsic value the current unit price is.



TEAM NAMIBIA MEMBER

IJG Holdings

Group Chairman
Mathews Hamutenya
Tel: +264 (61) 256 699
mathews@millennium-invest.com

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

Group Financial Manager
Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

IJG Securities

Managing Director
Lyndon Sauls
Tel: +264 (61) 383 514
lyndon@ijg.net

Sales and Research
Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Equity & Fixed Income Dealing
Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

Settlements & Administration
Annetjie Diergaardt
Tel: +264 (61) 383 515
anne@ijg.net

Dylan van Wyk
Tel: +264 (61) 383 521
dylan@ijg.net

IJG Wealth Management

Managing Director
René Olivier
Tel: +264 (61) 383 522
rene@ijg.net

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

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

IJG Capital

Managing Director
Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

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

Business Analyst
Mirko Maier
Tel: +264 (61) 383 500
mirko@ijg.net

IJG Advisory

Director
Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

Business Analyst
Jason Hailonga
Tel: +264 (61) 383 529
jason@ijg.net