ORYX PROPERTIES LIMITED

1H18 Initial Impression

March 2018

Oryx Properties Limited

1H18 Initial Impression

Target Price (c)	1680
Current Price (c)	2040

Year End 30 June	2016A	2017A	F2018	F2019	F2020
Revenue (N$m)	288.3	297.0	319.1	338.5	397.1
Vacancies (%)	2.1	6.4	2.0	2.0	2.0
HEPU (c)	163.0	158.6	154	167.5	230.4
HEPU growth (%)	2.1	-2.6	-2.8	8.7	37.5
DPU (c)	167	167	166.3	167.5	230.4
DY (%)	7.8	8.1	8.1	8.1	11.2
P/E (x)	13.2	13.0	13.4	12.3	9.0
D/A (%)	29.0	33.2	34.6	35.3	35.3

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,588
Shares in Issue (m)	77.9
Free float (%)	100
52 week high (c)	2101
52 week low (c)	2020
Expected Total Return (%)	8.1

1H18 Initial Impression

Oryx Properties Limited (Oryx) released its results for the six months ended 31 December 2017, reporting total distributions per unit of 78.00c, unchanged from that reported for the period ending 31 December 2016. The distribution is inclusive of dividends declared of 4.25c per linked unit. Distributions (excluding dividends) decreased by 4.2%, to N$57.4m from N$60.0m declared in 1H17. Earnings attributable to linked units per unit (EPU) increased markedly by 24.9%, to 136.61c, from 105.54c for the same period in 2017. Headline earnings attributable to linked units decreased marginally from 76.33c in 1H17, to 76.04c in the review period.

Net rental income declined to N$96.8m, falling by 0.4% when compared to the N$97.2m collected during the same period last year. Rental expenses grew by a modest 1.5%. Oryx reported a profit after tax for the period of N$48.9m, a significant increase of 121% compared to 1H17. The reported fair value gains attributable to the property portfolio in the previous period of N$4.2m was modest and reflective of the economic conditions at that time. The current period adjustment of N$39.1m is significantly higher and is not surprising given the completion of the Family Entertainment Centre (FEC) and the surrounding upgrades in the Maerua Mall.

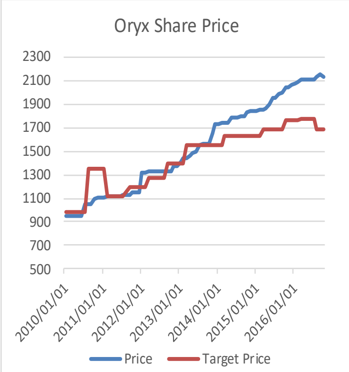
Vacancies (as a % of lettable area) increased from 2.7% in 1H17 to 6.4%. As per the 2017 full year review, the uptick in vacancies is due to the vacant Isando property in South Africa, as well as two units in Prosperita making up 3.3% and 1.6% of the vacancies respectively. Management had adopted the strategy to divest from the South African market and vacancies such as the Isando property has vindicated that decision.

At the end of the interim period, Oryx' investment properties were valued at N$2.5bn, up 5.0% from N$2.4bn in 1H17. The half year valuation is performed by the directors and resulted in a fair value gain of N$38m, with the remainder of the increase in property value driven by capital expenditure of N$118m during the period. The completion of the FEC, the upgrade of Maerua Mall, together with positive rental reversions and lease extensions in the industrial space contributed to the valuations being higher than those of the same period a year ago. Retail space continued to represent the bulk of assets at 67%, while industrial space contributed 19%, and office space made up 14%.

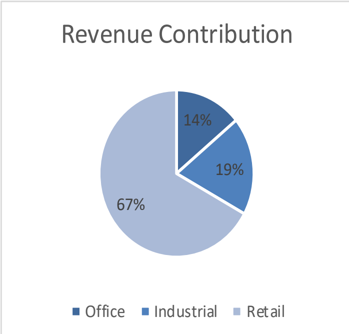
Oryx' interest bearing borrowings increased by 13.4% y/y to N$902.7m in 1H18, from N$796.4m in 1H17. The ratio of fixed rate borrowings to floating rate borrowings was 37:63 at period end, with a weighted average interest cost of 9.2% versus 9.5% in 1H17. The gearing ratio for the period is now at 34.6% compared to 33.2% for 1H17. During the period Oryx raised N$128.7m through a domestic medium-term note, which is part of the approved N$500m DMTN programme.

Our forecast FY18 distributions was 166.3c per linked unit. Based on this, Oryx is currently trading on a distribution yield of 8.15%. The indicative IJG Generic 10-year bond is currently yielding 9.97%, a relatively attractive premium over the expected Oryx distribution yield. Overall the performance of the company remains satisfactory, and the divesting strategy from the struggling South African portfolio should be beneficial in the long. Oryx joins many South African REIT's in the quest to conquer the European property market through its investment of N$300m in Tower International. The transaction will be funded by variable rate loan from ABSA. In our FY17 results review we expected distribution growth to slow. The contraction in wholesale and retail sector growth is set to filter through to Oryx, affecting especially the lower to middle income segments, and testing the resolve of smaller retailers. Mr. Carel Fourie's seven-year tenure at Oryx comes to an end on 31 March and he will be replaced by Mr. Ben Jooste as CEO on 1 April 2018. We retain our target price pending a more detailed analysis of the results and consultations with management.

Share Price (c)



Property Portfolio



Dividends

Notice is hereby given that an interim distribution and dividend of 73.75 cents per linked unit and 4.25 cent per linked unit respectively, was declared on 1 March 2018 for the period ended 31 December 2017.

- Last day to trade cum distribution: 09 March 2018
- First day to trade ex-distribution: 12 March 2018
- Record date: 16 March 2018
- Payment date: 29 March 2018

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