# ORYX PROPERTIES LIMITED
## 1H22 Results Review
## April 2022

Research Analyst:

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# Oryx Properties Limited

## 1H22 Results Review

| | |
|---|---|
| ***Target Price (c)*** | ***1228*** |
| Current Price (c) | 1021 |

| Year End 30 June | 2019 | 2020 | 2021 | 2022E | 2023E |
|---|---|---|---|---|---|
| Revenue (N$ m) | 324.8 | 332.8 | 336.5 | 334.2 | 354.5 |
| Vacancies (%) | 3.2 | 5.4 | 5.9 | 5.9 | 5.5 |
| HEPU (c) | 137.4 | 3.9 | 179.3 | 253.1 | 245.9 |
| HEPU growth (%) | -6.0 | -97.2 | 4,520.6 | 41.1 | -2.8 |
| DPU (c) | 150 | 69.75 | 99.75 | 109.8 | 104.5 |
| DY (%) | 7.7 | 4.0 | 8.7 | 10.8 | 10.2 |
| P/E (x) | 14.8 | 448.5 | 6.4 | 4.0 | 4.2 |
| D/A (%) | 35.0 | 39.1 | 38.2 | 37.4 | 38.1 |

| Recommendation | BUY |
|---|---|
| NSX Code | ORY |
| Market Cap (N$ m) | 892.1 |
| Shares in Issue (m) | 87.4 |
| Free Float (%) | 100 |
| 52-Week High (c) | 1198 |
| 52-Week Low (c) | 825 |
| Expected Total Return (%) | 20.3 |

*Source: ORYX PROPERTIES LIMITED, IJG SECURITIES*

**1H22 Results Review**

Oryx Properties Limited (Oryx) released interim results for the period ended 31 December 2021 (1H22). A distribution of 44.00 cents per linked unit was reported for the period, representing a 22.1% decline from the 56.50 cents per unit reported for the corresponding period in 2021, which is due to a change in the distribution payout ratio from 90% to 75%. Earnings attributable to linked units per unit (EPU) increased from 32.59c in 1H21 to 79.77c in 1H22. HEPU fell by 58.0% y/y to 16.51c.

Net rental income rose by 7.3% y/y to N$100.8 million, compared to N$93.9 million in 1H22. Total revenue increased by 6.3% y/y to N$155.8 million, which is roughly in line with our forecasts. The results release notes that rental relief of N$8 million was provided to tenants that continue to be negatively impacted by the aftermath of the pandemic. We expect rental income to remain under pressure going forward, given that negative rental reversions were recorded on the large South African national retailers' lease agreements which were renewed towards the latter part of the previous financial year. Rental expenses were well contained, increasing by 4.5%, in line with inflation. Oryx' cost-to-income ratio fell marginally from 36.0% to 35.3%.

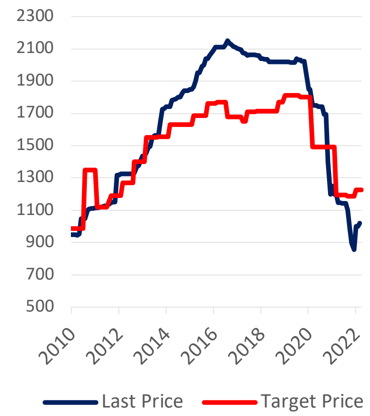
Profit for the period came in at N$31.1 million, compared to a loss after tax in 1H21 of N$20.9 million. The directors passed through N$1.3 million as a negative fair value adjustment to the property portfolio. The value of Oryx' property portfolio grew by 0.4% in the last six months to N$2.84 billion. Management notes that the increase was largely due to capital expenditure of N$11 million, primarily on the retail portfolio. Oryx received proceeds of N$14.9 million following the disposal of the investment in Tower Property Fund on 24 December.

Oryx' vacancy factor (as a % of lettable area) was steady at 5.9% as economic headwinds persist. Residential vacancies improved markedly from 11.2% at FY21 to 2.5% at 1H22. The results release notes that foot count has recovered well at Maerua Mall, nearly reaching the levels last seen pre-pandemic in Q4 of 2019. While consumers have returned to retail centres the 1H22 results still indicate that trading volumes are yet to recover to pre-pandemic levels.

Interest bearing borrowings increased slightly to N$1.23 billion at 1H22 from N$1.21 billion at FY21. Oryx' gearing ratio remained relatively stable at 38.1% (FY21: 38.2%). Management however notes in the results release that subsequent to the end of the period the proceeds from the sale of the investment in Tower Property Fund and dividends from the associate were transferred into debt facilities, resulting in the company's gearing declining to 37.6%. At the end of the review period, fixed rate borrowings made up 50% of total interest-bearing borrowings. The weighted average interest rate paid on the company's debt declined from 6.7% at FY21 to 5.6% at 1H22. Total unutilised facilities stood at €2.6 million and N$193 million, excluding the medium-term note programme.

Overall, the interim results came in roughly in line with our expectations, but the subdued economic conditions continue to weigh on Oryx' results. A required yield of 10.74% combined with our expectation of FY22 distributable income of 146c per unit informs our target price. Assuming a normal 90% distribution equivalent of 132c per unit, this generates our **target price of N$12.28**. This represents a 20.3% premium to the current unit price. As a result of the apparent discount to fair value, we upgrade our recommendation to **BUY**.

**ORY Share Price vs Target Price (c)**



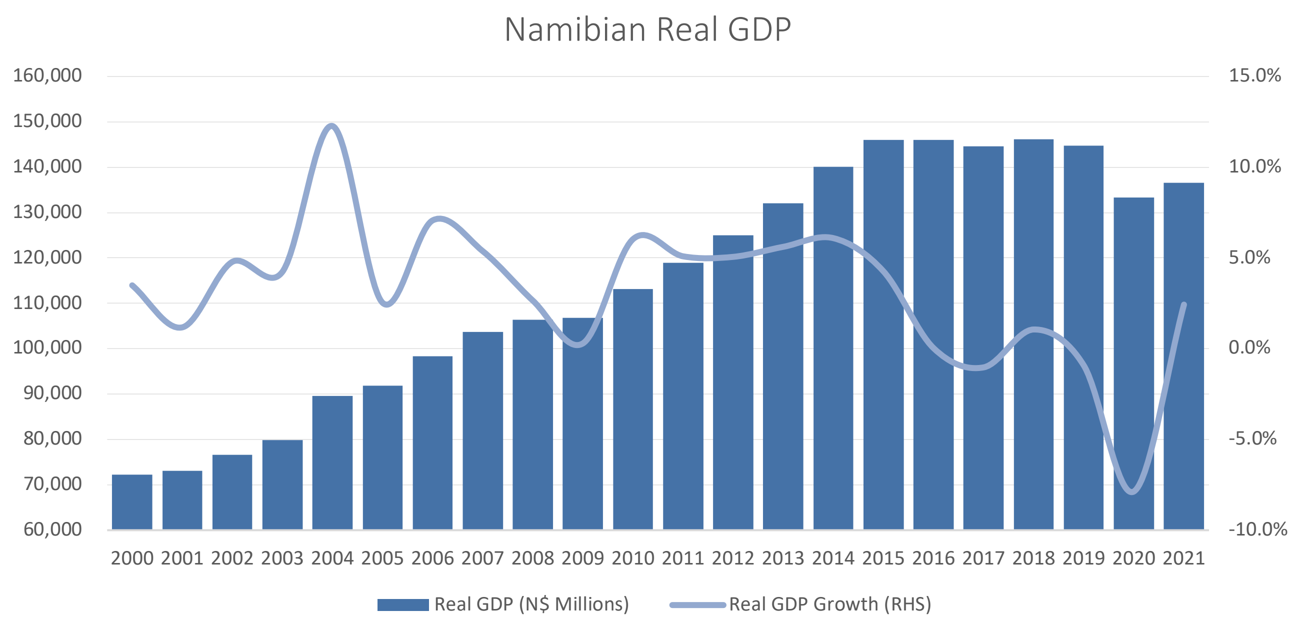

**Dividends**

Oryx declared a distribution of 44.00 cents per linked unit was declared on 10 March 2022 for the period ended 31 December 2021.

- Last day to trade cum distribution: 25 March 2022
- First day to trade ex-distribution: 28 March 2022
- Record date: 01 April 2022
- Payment date: 14 April 2022

## Macroeconomic Environment

The Namibia Statistics Agency's recently released preliminary national accounts data showed that the Namibian economy grew marginally by 2.4% y/y in 2021, following the 7.9% contraction in 2020. The Namibian economy is expected to grow by 3.0% in 2022, according to the Bank of Namibia's (BoN) April MPC statement. This effectively means that the economy will still be 2.8% smaller at the end of 2022 than it was in 2019 and, at the current expected pace of recovery, will likely not reach its pre-pandemic levels until 2024. According to the BoN, there has been an uptick in economic activity during the first two months of the year, mainly observed in the mining, agriculture, transport, tourism, wholesale and retail trade as well as communication sectors. Activity in the construction, manufacturing and electricity generation sectors however languished over the same period.



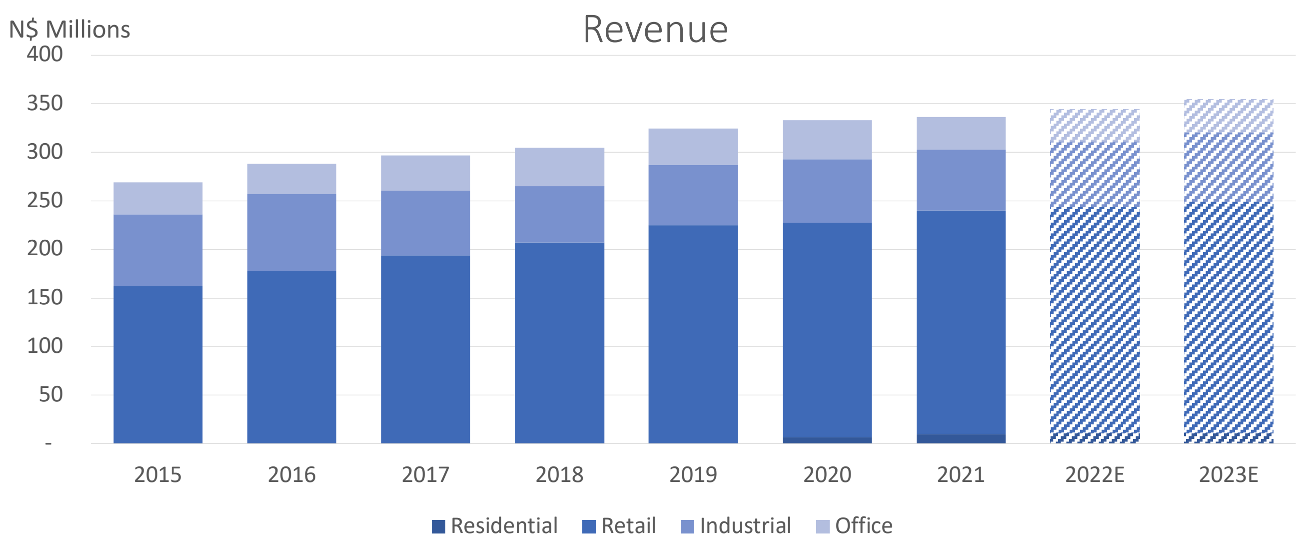

*Source: NSA, IJG Securities*

While the economic growth forecast is encouraging news, it is from a low base and we do not expect consumers to see a meaningful change in their pockets in the medium-term. Rising inflation, monetary policy normalisation and the high unemployment rate will continue to have an impact on consumers' disposable income which will weigh on the financial performance of Oryx' tenants.

On 5 April the ratings agency Moody's Investors Service (Moody's) announced that it had downgraded the Government of Namibia's long-term issuer and senior unsecured ratings one notch from Ba3 to B1, with the outlook changed from negative to stable. Moody's cited Namibia's low economic growth and high debt burden that constrains the sovereign's shock absorption capacity, something that was already a concern prior to the pandemic. Moody's expects the country's debt-to-GDP ratio will increase to 75% in 2025, from below 30% a mere decade ago. Moody's made the argument that the country is unlikely to see a meaningful reversal in income per capita in the coming years, which will lead to higher social spending pressures for the government and "the risk of fiscal slippages".

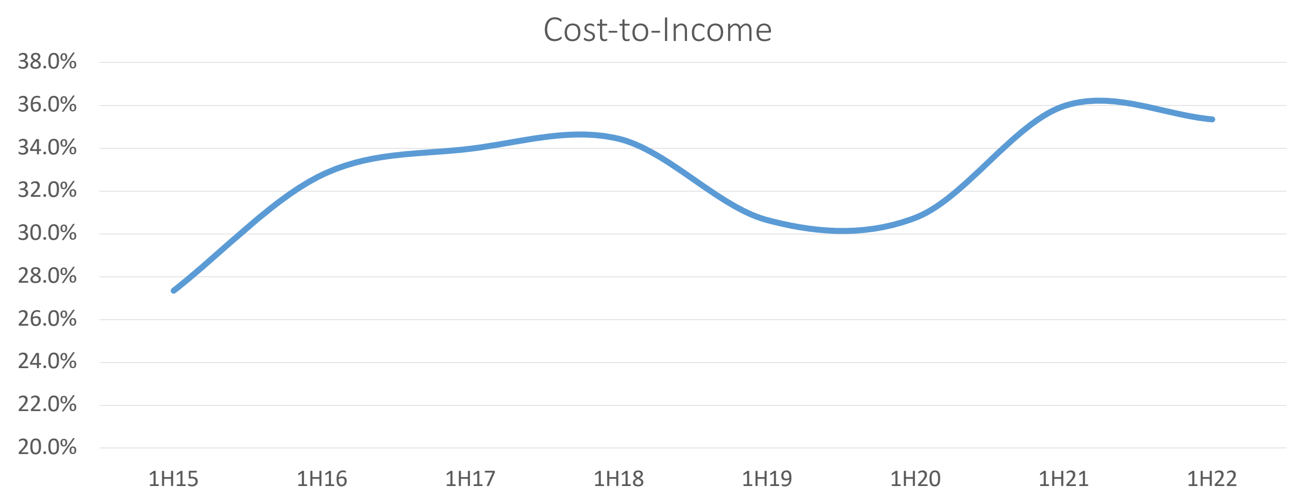
## Revenue and Rental Expense

Oryx' revenue grew by 6.3% y/y to N$155.8 million as all four segments posted growth, following the 16.2% y/y contraction recorded in 1H21. While marginal revenue growth was recorded in the retail and office portfolios, both segments continue to feel the impact of the pandemic, with retail revenue still N$14.9 million below its pre-pandemic level in 1H20 and revenue from the office portfolio lagging by N$3.3 million. The industrial and residential portfolios however remained resilient, recording revenue growth of 4.4% y/y and 11.9% y/y, respectively, although the growth of latter is from a low base. The results release notes that rental relief of N$8 million was provided to tenants that continue to be negatively impacted by the effects of the pandemic. We expect rental income to remain under pressure going forward, given that negative rental reversions were recorded on the large South African national retailers' lease agreements which were renewed towards the latter part of the previous financial year.




*Source: Oryx Properties, IJG Securities*

Rental expenses were well contained, increasing by 4.5%, in line with inflation. Net rental income rose by 7.3% y/y to N$100.8 million, compared to N$93.9 million in 1H21. Oryx' cost-to-income ratio fell marginally from 36.0% to 35.3%.




*Source: Oryx Properties, IJG Securities*

Oryx’ vacancy factor (as a % of lettable area) was steady at 5.9% as economic headwinds persist. Residential vacancies improved markedly from 11.2% at FY21 to 2.5% at 1H22. The results release notes that foot count has recovered well at Maerua Mall, nearly reaching the levels last seen in Q4 of 2019. Thus, while consumers have returned to retail centres, the 1H22 results still indicate that trading volumes are yet to recover to pre-pandemic levels.

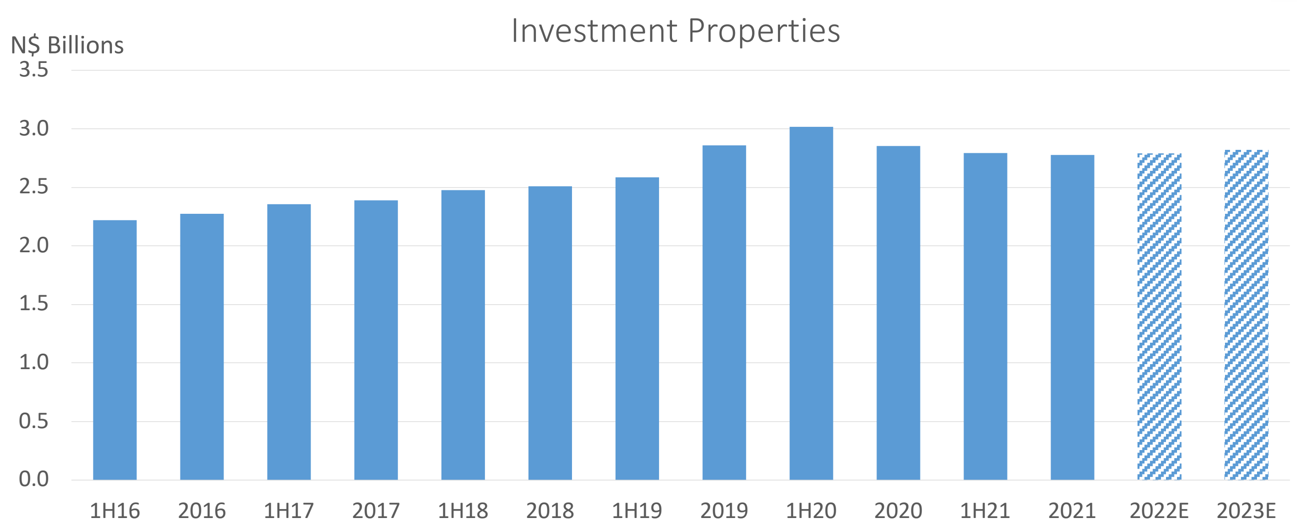
## Property Portfolio

Oryx’ property portfolio was valued at N$2.84 billion as at the end of 1H22 by the directors, up 0.3% or N$9.2 million from the FY21 valuation but down 0.2% or N$5.4 million from the directors’ 1H21 valuation. Management notes that the increase was largely due to capital expenditure of N$11 million, primarily on the retail portfolio. The directors passed through N$1.3 million as a negative fair value adjustment to the property portfolio.

As discussed in our FY21 Results Review, Tower Property Fund received an offer by RDC Properties Ltd to acquire all of the issued share capital not already owned by RDC at R3.776 per share. The deal has since gone through and Oryx received N$14.9 million for its stake in the REIT. The results release notes that the proceeds were transferred into debt facilities subsequent to the reporting period. Oryx acquired the stake in Tower Property Fund in 2017 and 2018 for N$30.2 million.

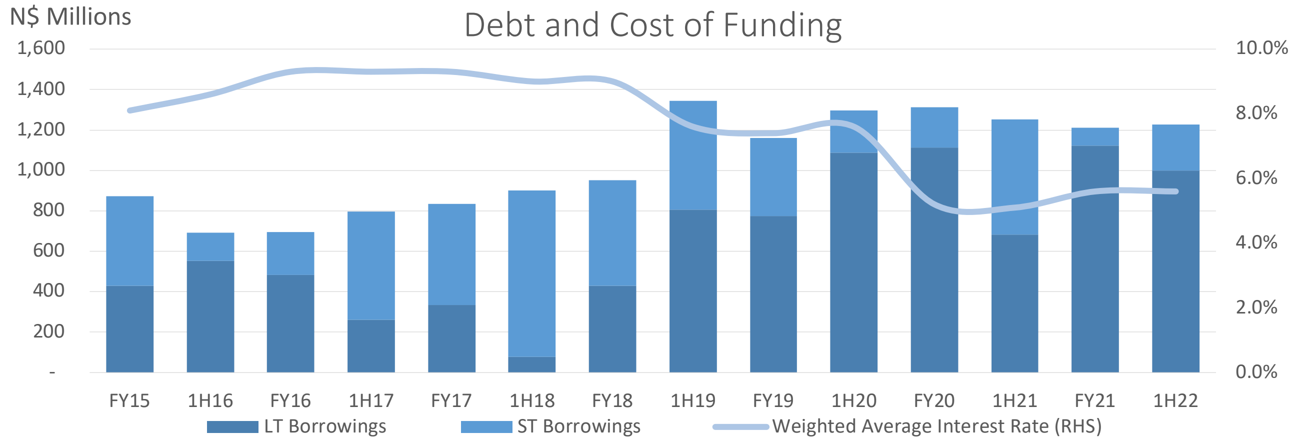
With the release of the FY21 results, Oryx introduced a 10-year ‘master plan’ for Maerua Mall to “revitalise the asset”. Management notes that the planned changes will be implemented in phases and that there is currently a plan for every vacant space. Several of the retail tenants have recently updated their ‘look and feel’ and new shops will be opening their doors in the coming months. Management are planning on using debt to finance the planned changes to the mall due to it being cheaper than equity funding and the fact that Oryx’ gearing ratio is relatively low.

Upgrades to the Checkers at the Gustav Voigts Centre and the Iscor Street property are underway and are expected to take 6 months to complete. The Croatian property portfolio which is held by Oryx and RDC was valued at €81.9 million in December 2021, marginally down from the June 2021 valuation of €82.2 million. Management notes in the results release that the investment in associate achieved an average cash yield of 7.8% for the period, of which Oryx’ share is N$10 million.




*Source: Oryx Properties, IJG Securities*

## Funding




*Source: Oryx Properties, IJG Securities*

Interest bearing borrowings increased slightly to N$1.23 billion at 1H22 from N$1.21 billion at FY21. Oryx' gearing ratio remained relatively stable at 38.1% (FY21: 38.2%). Management however notes that subsequent to the reporting period, the dividends from the associate as well as the proceeds from the sale of the investment in Tower Property Fund were transferred into debt facilities, resulting in the company's gearing declining to 37.6%.

The weighted average interest rate paid on the company's debt has increased to 5.6% at the end of FY21 from 5.2% at FY20, due to additional swaps entered into during the year. As at the end of the review period, fixed rate borrowings made up 57% of total interest-bearing borrowings compared to 49% at FY20. The increase is due to Oryx entering three swap options during the period, with management corroborating our view that interest rates are expected to rise in the next twelve months. Not declaring a final distribution in FY20 resulted in the group reducing gearing from 39.1% to 38.2% and unutilised borrowing facilities now stand at N$183 million and €4.8 million, excluding the medium-term note programme.

The ORYJ22 bond is maturing on 20 November 2022. The N$83.3 million outstanding on the bond is relatively small in comparison to other Namibian corporate bonds, and we do not foresee major challenges to Oryx rolling the bond. There is a high likelihood that interest rates will rise though which will see the weighted average interest rate paid increase, all else equal.

Following the company's conservative approach to distributions to protect cash flows and reign in debt over the past two years due to the economic uncertainty, management are seeing some green shoots and are considering lifting their internal 40% gearing limit to make use of debt funding to take advantage of these opportunities. Oryx' gearing ratio of 37.6% is roughly in line with the rest of the South African REITs as the table below shows. We believe that raising the debt limit could be advantageous to the company if it is seeing an improvement in the trading activity of its tenants, provided that the debt is spent on yield enhancing projects or acquisitions and that no covenants are at risk of being breached.

| COMPANY | GEARING RATIO |
|---|---|
| VUKILE PROPERTY FUND | 43.36 |
| INVESTEC PROPERTY FUND | 40.25 |
| EMIRA PROPERTY FUND | 39.45 |
| GROWTHPOINT PROPERTIES | 38.63 |
| TEXTON PROPERTY FUND | 38.00 |
| **ORYX PROPERTIES** | **37.60** |
| DIPULA PROPERTY FUND | 37.16 |
| FAIRVEST PROPERTY HOLDINGS | 36.75 |
| SA CORPORATE REAL ESTATE | 36.27 |
| HYPROP INVESTMENTS | 18.70 |

*Source: Bloomberg, IJG Securities*

Unitholders voted in favour of the company (with 99.7% of the votes) extending the maturity date of the debentures which were due to expire on 2 December 2027 by 25 years to 2 December 2052. We see this as a positive move, as Oryx' financiers have started seeing this as a risk and the status quo would likely have resulted in higher finance costs going forward.

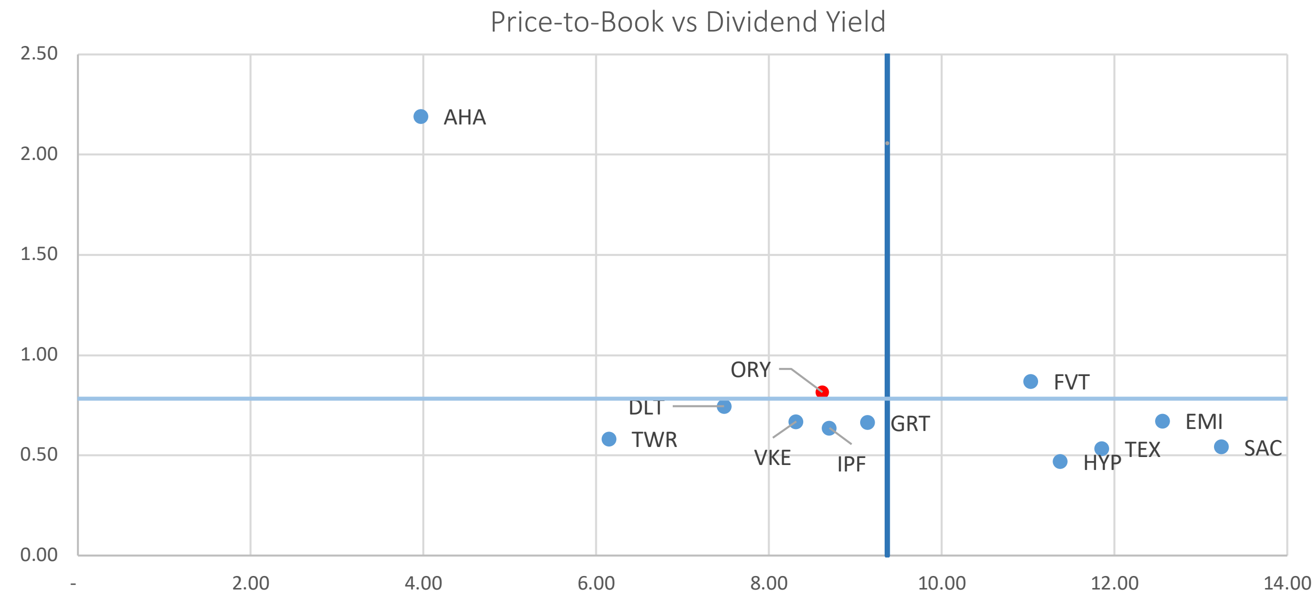
## Relative Comparison

The table below reviews Oryx against its JSE-listed Real Estate Investment Trusts (REITs) peers. The table has been ranked according to historic distribution yield and shows that Oryx ranks 8th in terms of distribution yield compared to its JSE-listed peers, with its distribution yield close to the average of the peer group.

| Company | Distribution Growth | 3Yr Distrib. Growth (Bloomberg) | Dividend Yield | Price to Book | Price to Sales | P/E | Market Cap |
|---|---|---|---|---|---|---|---|
| SA Corporate Real Estate | 195.64 | (13.94) | 13.24 | 0.54 | 2.50 | 5.55 | 5,390,367,570 |
| Emira Property Fund | 13.69 | (6.85) | 12.56 | 0.67 | 3.10 | 5.02 | 4,939,205,484 |
| Texton Property Fund | 6.48 | (25.14) | 11.86 | 0.53 | 2.46 | 4.31 | 1,155,417,401 |
| Hyprop Investments | (6.35) | (23.66) | 11.37 | 0.47 | 2.90 | 9.03 | 9,145,382,987 |
| Fairvest Property Holdings | 4.87 | 3.07 | 11.03 | 0.87 | 3.39 | 8.50 | 2,092,842,178 |
| Growthpoint Properties | (45.72) | (17.18) | 9.14 | 0.66 | 3.19 | 7.62 | 44,463,000,375 |
| Investec Property Fund | 136.15 | (12.68) | 8.70 | 0.64 | 5.81 | 8.12 | 8,532,135,506 |
| **Oryx Properties** | **43.01** | **(13.88)** | **8.62** | **0.82** | **3.37** | **6.38** | **1,131,754,222** |
| Vukile Property Fund | (21.69) | (15.73) | 8.32 | 0.67 | 3.48 | 8.85 | 11,618,153,530 |
| Dipula Income Fund | 6.51 | (17.03) | 7.48 | 0.75 | 3.24 | 9.51 | 3,112,470,031 |
| Tower Property Fund | (49.61) | (34.80) | 6.15 | 0.58 | 3.81 | 53.04 | 1,239,356,212 |
| Arrowhead Properties | (0.35) | 2.86 | 3.97 | 2.19 | 7.34 | 33.32 | 5,868,129,894 |
| **AVERAGE** | **23.55** | **-14.58** | **9.37** | **0.78** | **3.72** | **13.27** | **8,224,017,949** |

*Source: Bloomberg, IJG Securities*

As the figure below illustrates, at the current share price Oryx' price-to-book multiple and dividend yield are trending close to the average of its peer group, indicating that the share price is near fair value on a relative basis.

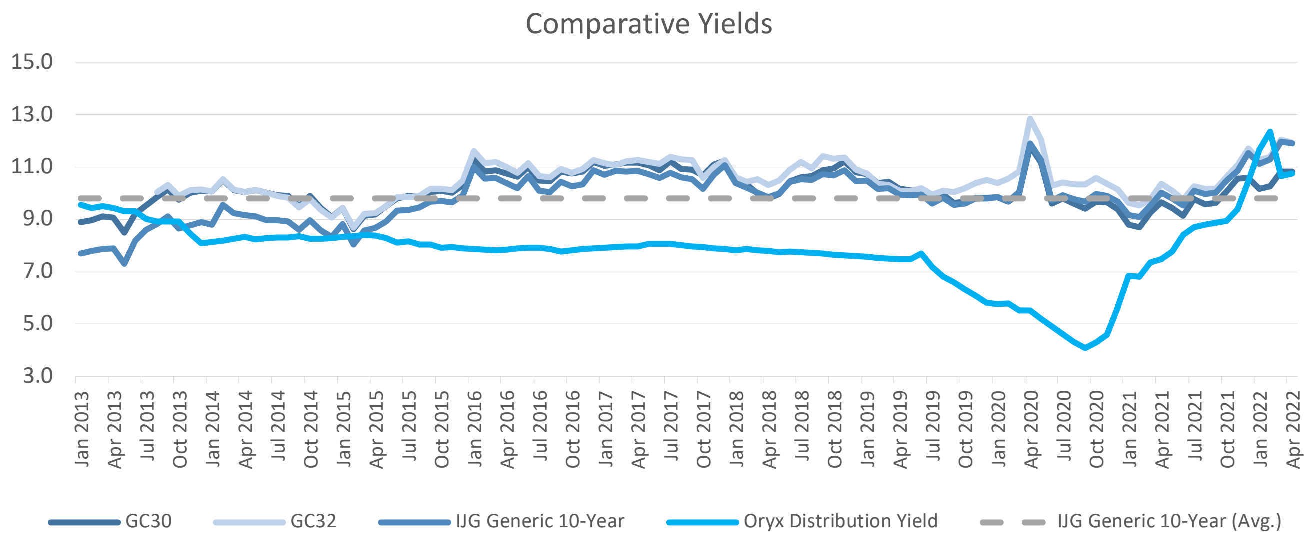



*Source: Bloomberg, IJG Securities*

## Valuation

We value Oryx on a distribution yield basis relative to the risk-free rate as represented by the IJG Generic 10-year bond yield. On this basis, Oryx is starting to look closer to being fairly valued, following the drop in share price, and a slow but steady expected recovery in distribution growth.

The graph below compares the Oryx distribution yield to the GC32 sovereign bond as well as the IJG Generic 10-year bond. Oryx distributions have lagged the yield of the IJG Generic 10-year bond for the most part since 2013, making Oryx expensive relative to risk-free assets. However, the drop in Oryx' share price over the past year, coupled with FY21 distributions being higher than in FY20 (due to Oryx only paying 1H20 distributions) and our expectation that distributions will increase over the next year or two as more tenants should be in a position to pay their full rental amounts, has resulted in a significant uptick in the company's distribution yield.




*Source: IJG Securities*

A required yield of 10.74% combined with our expectation of FY22 distributable income of 146c per unit informs our target price. Assuming a normal 90% distribution equivalent of 132c per unit, this generates our **target price of N$12.28.** This represents a 20.3% premium to the current unit price. As a result of the apparent discount to fair value, we upgrade our recommendation to **BUY**.

TEAM NAMIBIA MEMBER

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