

03 October 2014

Oryx Properties Limited

FY14 Results Review

Warranted Price (c)	1630
Target Price (c)	1820
Current Price (c)	1820

Year End 30 June	2013A	2014A	2015F	2016F	Recommendation	HOLD
Revenue (N\$m)	160.6	204.8	230.8	260	NSX Code	ORY
Vacancies (%)	0.4	0.9	1.5	1.5	Market Cap (N\$m)	1202
HEPU (c)	148.9	162.2	149.9	180.8	Shares in Issue (m)	66.1
HEPU growth (%)	13.0	8.9	-7.5	20.6	Free float (%)	76.0
DPU (c)	139.5	148.0	149.9	180.8	52 week high (c)	1820
DY (%)	8.9	8.1	8.2	9.9	52 week low (c)	1562
P/E (x)	13.0	11.2	12.1	10.1	Expected Total Return (%)	8.2
D/A (%)	39.2	40.5	38.7	36.7		

Source: ORY, IJG

FY14 Results Review

Oryx Properties Limited (Oryx) released its results for the financial year ended 30 June 2014, reporting 6.1% distribution growth to 148cpu from 139.5cpu reported in FY13, 3.5% higher than our estimate of 143cpu. Over the same period, EPU rose by 99% to 331.75c on the back of a significant increase in fair value of investment property and a bargain purchase gain of N\$26.7m due to the revaluation of the Gustav Voigts Centre after its purchase. HEPU rose by 8.9% to 162.16c from 148.89c in FY13 – above our estimate of 143c.

The company displayed another period of good operational performance, with net rental income increasing by 23.7% y/y to N\$162.9m – in line with our estimate of N\$163.6m, supported once again by above average occupancy levels (reported at 99.1%) and new rental streams from Maerua Mall, as well as the Gustav Voigts Centre being included for the first time. Oryx reported a profit of N\$106.9m (up over 600% y/y), despite a sharp increase in rental expense and finance costs. The additional profit being attributable to the fair value gains, bargain purchase gain and growth in revenue. Headline earnings grew by 22% to N\$100m. Much of this increase was due to revenues attributable to projects funded through the rights issue and thus per unit growth was lower at 8.9% as stated above.

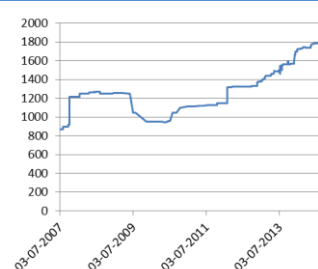
Vacancies (as a % of lettable area) increased from 0.4% in FY13 to 0.9% in FY14. This is more in line with our benchmark rate of 1.5% and we expect to see a further slight deterioration in the occupancy rate over the next year due to competition in the form of the Grove and other malls as well as a normalisation in the retail occupancy levels.

As at year end 2014, Oryx's properties were valued at N\$1.977bn. Retail made up the largest percentage of the valuation at 64%, Industrial contributed 29% and Offices 7%. In November 2013 Oryx acquired a 100% interest in Tuinweg Property Investments (Pty) Ltd, the owner of the Gustav Voigts Centre. Thus the centre has contributed to the increase in rental income from this time. The Maerua expansion and upgrade was completed during the course of the financial year (with the exception of internal works at Checkers) and has also contributed greatly to the increase in rental income. 2015 will be the first year that these two additions will contribute 12 months of rental income which will lead to higher revenues.

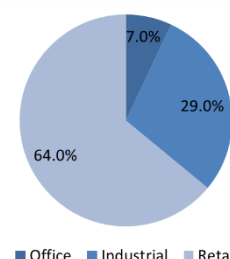
The distribution reported translates in a 12 month distribution yield amounting to 8.2%, a decline from 8.9% for the same period last year. The decline can be seen as a function of a high share price and the rights issue leading to more units in the base calculation. The last day to trade for the second half yearly distribution of 80.75cps was on 5 September 2014, and the payment date was on 26 September 2014.

Based on our FY15 forecasted distribution of 149.9cps, the current unit price is above our warranted price of N\$16.30, based on a justified yield of 9.2%. Nevertheless, we do not believe that the company's unit price will decline to this level due to supply-demand limitations within the local equity space, and thus have a target price at the current level of N\$18.20. Thus, the total return expected is described by the distribution per unit only. We keep our HOLD recommendation for 2015 as we feel that the strong management team has the ability to continue to add value to the share price in the long term, despite the current period of consolidation following major investment and unit-price growth over recent years. Stronger growth is forecasted for 2016 and 2017.

Share Price (c)



Property Portfolio



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Macroeconomic environment

The Namibian macroeconomic outlook remains highly positive, despite the weak and volatile global environment. Divergence is the current theme among developed nations with the US, Europe and Asia all following vastly different growth paths, and similarly divergent outlooks. However strong real GDP growth has persisted in Namibia over the past year driving strong income growth within the country. Accommodative monetary policy and expansive fiscal policy continue to contribute to growth, and while we expect further interest rate increases over the medium term, these are not expected to dampen domestic consumer demand excessively. Private sector credit extension to households remains strong, and should support the current levels of consumption over the next year. With regards to Oryx, the positive macro environment should translate to strong retail and industrial property demand over the next 18 to 24 months.

Revenue

Oryx revenue grew 27.5% to N\$205m in FY14, when compared to FY13. This compares favourably with the 20.9% increase in 2013 y/y; and comes on the back of a positive combination of strong renewals, low vacancies and new rental streams from the completed Maerua Mall expansion and the Gustav Voigts acquisition.

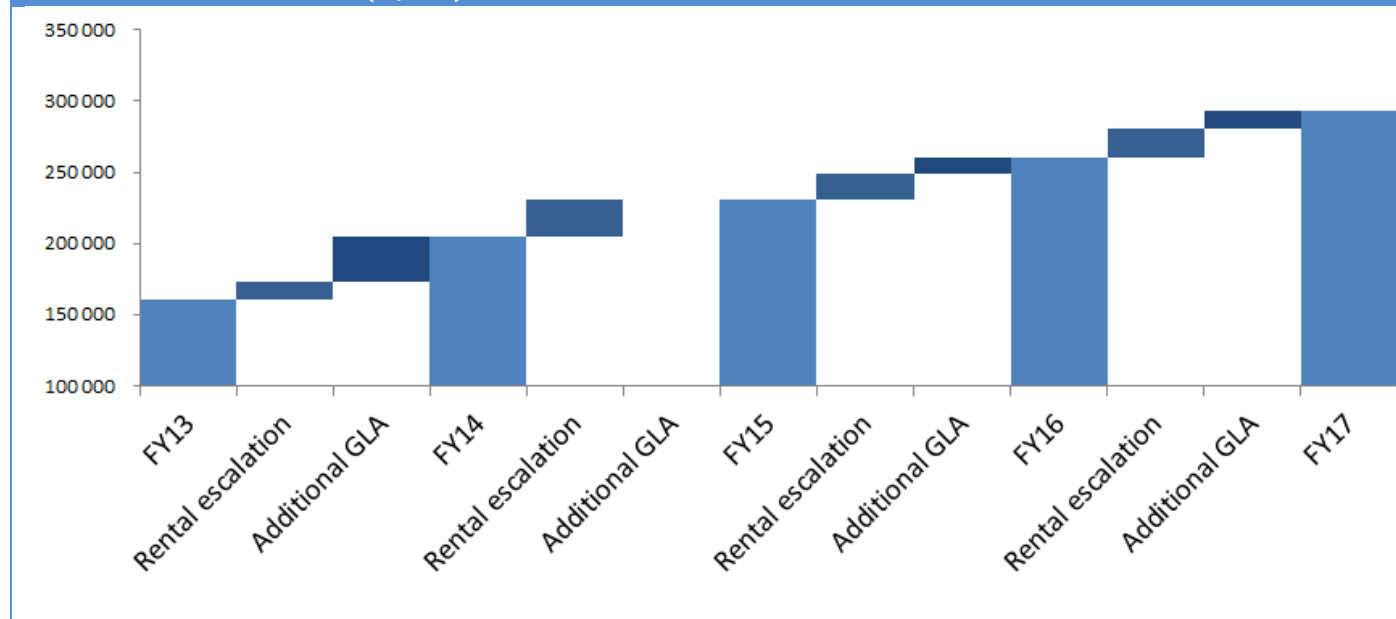
The Maerua Mall extension and refurbishment offers 60 468m² of gross lettable area, which consists of 50 648m² of retail space, 9 838m² of office space, and 2 230 parking bays. The area, while contributing greatly to revenue, was not income generating for part of the financial year and will result in a large portion of the forecasted 2015 revenue growth. The same goes for the Gustav Voigts Centre which was only acquired on the 1st of November 2013, contributing to revenue for 8 months during FY14.

The increase in the vacancy rate from an abnormally low 0.4% to 0.9% was primarily due to construction in the Maerua Mall extension with the company making provision for tenant displacement. Even considering this, the vacancy rate is low compared to our benchmark of 1.5%. The retail and industrial contribution to the vacancy rate was minimal with office vacancies contributing the largest portion to the aggregate 0.9% rate. Tenant retention has been good during the year, as indicated by strong renewal rates. A large part of this has been Management's persistence in getting the "mix" right (the right mixture of tenants) to grow the appeal of the overall shopping experience. Efforts to maintain and upgrade property is paying off and should prove positive for investors over the medium-to-long term. This said, little increase in GLA is expected in 2015, as Management focus on consolidation and scouting for quality opportunities for the future.

Projections

We are forecasting revenue growth of 12.71% for FY15, 12.64% for FY16 and 12.64% for FY17. The growth stems primarily from rental escalations as well as a modest increase in GLA over the course of the next few years. Rental escalation makes up the most of the growth in revenue for FY15 as well as the Maerua Mall and Gustav Voigts properties contributing rent for the full 12 months. In FY16 we expect to see an increase in GLA by 4% on a cautionary trajectory with rental escalation contributing over 60% to revenue growth. We forecast a further GLA increase of 4% in FY17. It is worth noting that these projections are made based on no extensive expansion of property.

Revenue forecast breakdown (N\$'000)



Source: ORY, IIG

Expenditure

The large increase in rental expense is partly due to the increased GLA, renovations and maintenance, and the bulk metering of electricity. Bulk metering means that Oryx absorbs the electricity costs in its facilities, these costs are then passed along to tenants through their rental charges. Thus electricity payments are included in the rental cash flow inherent in leases portion of the income statement and should offset the income statement expense increase.

The cost of income ratio rose to 20.45% up from 18.00% the previous year, largely on account of the construction and renovation activities at Maerua and the increase in vacancies. We forecast this ratio to decline marginally over the next year, as the Maerua development is largely completed, but aging properties will need maintenance from time to time if management are to keep vacancies levels low. This pre-emptive approach has worked well for management thus far and we expect it to continue. Further, revamping at Gustav Voigts and the completion of the Maerua Mall Checkers will contribute to future maintenance costs.

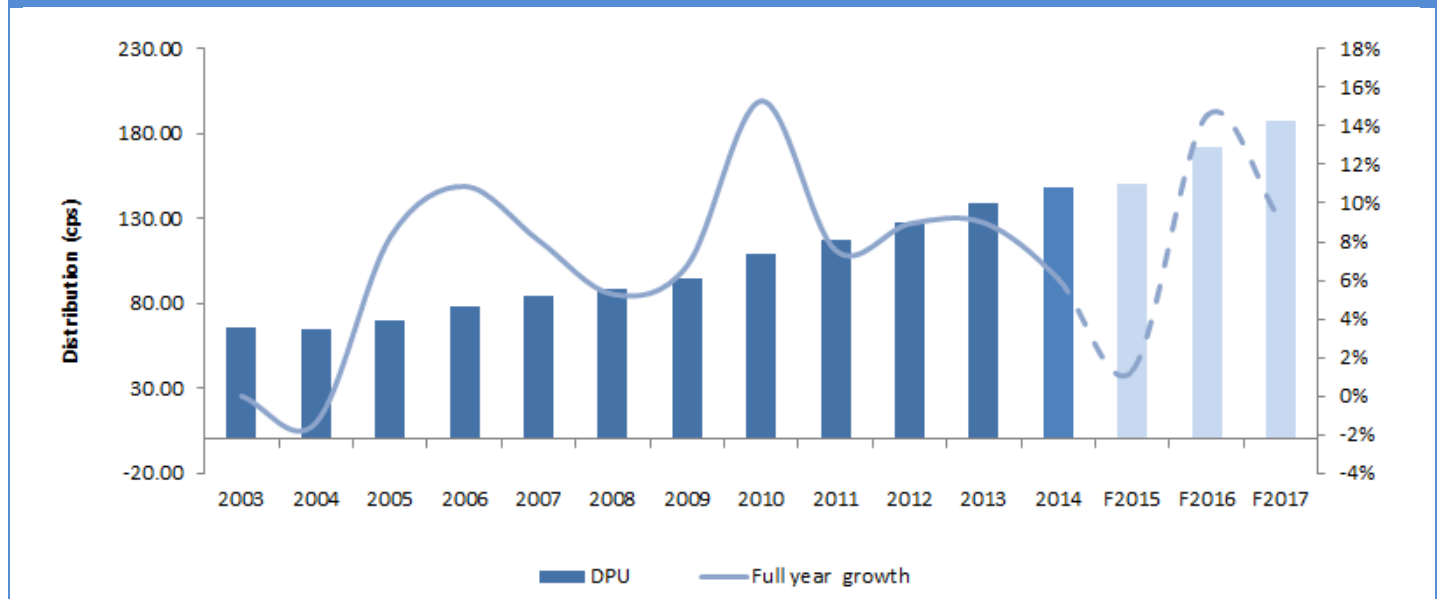
Profit

Oryx reported a profit of N\$106.8m (up over 600% y/y), the additional profit being attributable to fair value gains, bargain purchase gain and growth in revenue. Headline earnings, however, saw more stable growth and HEPS grew from 148.89cps to 162.16cps over the period, a rise of 8.9% y/y. Even though profit has fluctuated greatly over the past few years, this has been driven by non-cash flow items primarily, and headline earnings and distributions have grown relatively consistently.

DPU

Distributions for FY14 increased 6.1% y/y from the 139.5cpu reported in FY13 to 148.0cpu and translates to a 12 month distribution yield of 8.2%. We forecast DPU staying relatively stable for FY15 at 149.9cpu on the back of a lack of major expansion plans, and a higher cost of debt funding. We forecast DPU ramping up in FY16 and FY17 due to an expected increase in revenue, and stabilising borrowing costs. The introduction of further GLA from 2016 onward will further increase DPU, provided costs are contained in the acquisition or development of GLA.

DPU vs Distribution Growth



Source: ORY, IJG

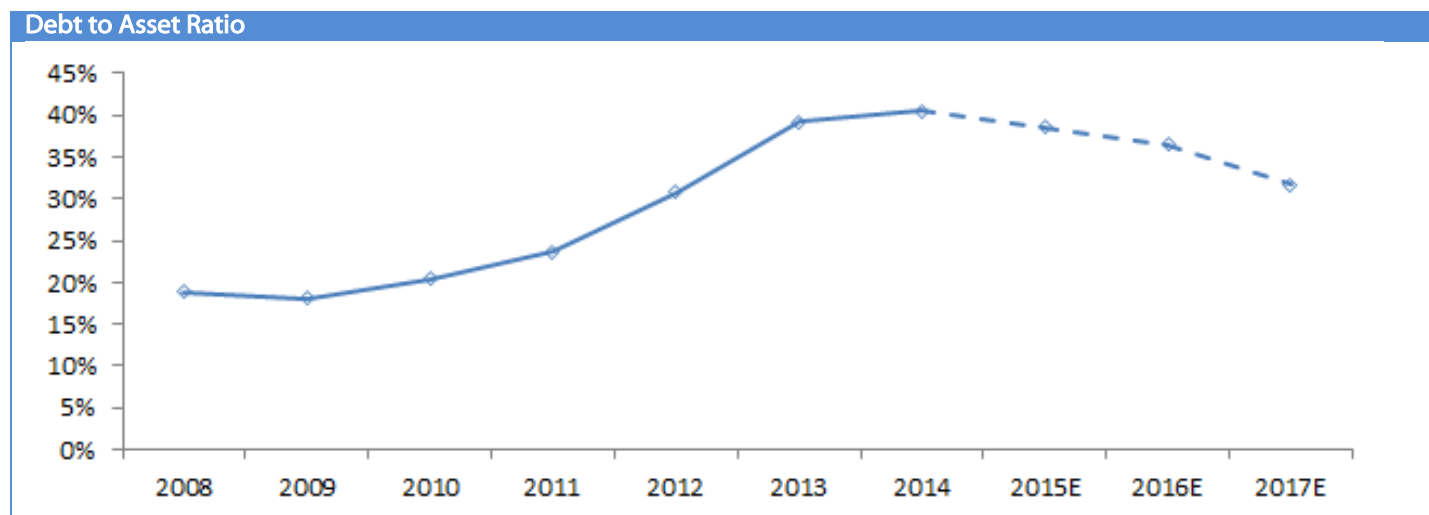
Borrowings

Oryx' long term borrowings rose 38% y/y to N\$815.6m from N\$590.4m reported as at FY13. Of the total, N\$312m (38%) is in fixed interest rate loans coupled with a reported weighted average interest rate of 9.3%; and N\$503m (62%) is in variable interest rate loans with interest rates ranging from 1m Jibar +2.00% to SA prime -0.75%. The weighted average interest rate of total borrowings amounted to 8.70%, up from 8.25% in FY13. Oryx currently has a relatively high level of variable rate borrowings compared to some of the larger SA real estate funds (many of which have up to 70% fixed) and the firm plans to increase fixed borrowings to 50% to 60% of total borrowing through negotiating fixed rate swap deals on current debt, and issuing fixed rate debt as current debt expires. Because of the use of low cost variable rate debt Oryx has been able to keep their weighted average rates below our expectations. The move to fixed rate debt will initially come at a cost as the spread on fixed rate debt is naturally higher than on variable rate debt. In an interest rate hiking cycle it is important for the firm to limit exposure to variable debt that can become more expensive as a result, particularly should an aggressive rate hiking cycle be seen. For the short term we foresee the negative implications of switching to fixed rates slightly outweighing the benefits, but further out, fixing the rate of debt should prove beneficial to the company.

D/E vs D/A

After adjusting for debentures, Oryx has a D/E ratio of 75.16%, up from 72.33% in FY13. Oryx is not in the business of growing equity with their focus more on paying out the bulk of headline earnings as distributions. The increase in the ratio over the last two years is due to an increase in debt capital to finance the Maerua Mall expansion and Gustav Voigts acquisition, as well as lower changes in fair value of property. However, as the cost of debt increases, and as Oryx further grows its portfolio of assets, we expect to see this ratio decline significantly due to equity funding becoming more attractive than the debt alternative.

Oryx has a targeted debt to asset ratio of approximately 40%. This ratio slightly exceeded the target for FY14 at 40.48%, up from 39.17% last year. The target is in place to ensure a relatively liquid balance sheet, which we feel is in place currently. Temporary breaches may occur but these are stringently monitored and should be relatively easy to manage. Furthermore probable future rights issues are being considered by management which should help to maintain current levels of liquidity. Our projections currently allow for a possible rights issue and increased retained earnings to reduce the debt to assets ratio to below 35% in FY17. This will then provide a strong liquidity base for future expansion as necessary.



Source: ORY, IJG

Property portfolio

At the end of the financial period, Oryx' properties were valued at N\$1.977bn. Retail contributed 64% to this valuation, Industrial 29% and Offices 7%. These weights fall within the target ranges for each sector, with the exception of offices that fall short of the target range of 10-20% of the value of the portfolio. Office space has seen relatively low demand for a number of years as many businesses have built their own office spaces on what was previously residential property. There has been a shift to a more boutique type office space just outside the CBD and in light of this we see the low office portfolio as a plus at the moment. We have no doubt that Oryx will grow this portion of their portfolio in the future, but for now we do not view the below-target level of office space to GLA as a cause for concern.

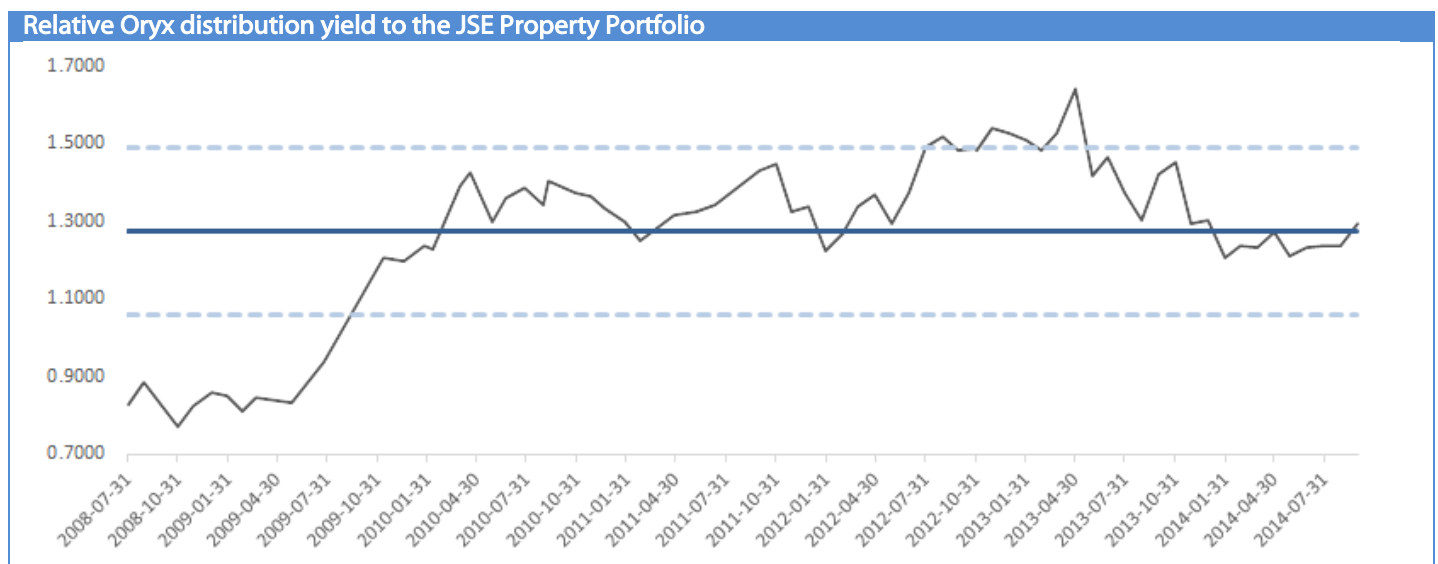
The growth in value of the portfolio (N\$494m) is mostly due to capital expenditure of N\$388m, fair value gain of N\$74m on the Gustav Voigts acquisition. On 1 November 2013 Oryx acquired a 100% interest in Tuinweg Property Investments (Pty) Ltd, the owner of the Gustav Voigts Centre. Detailed future plans for this premises are currently not available, however general renovation and upgrading of the property to bring it more in line with the current high standard of the portfolio can be expected. The Maerua Mall expansion and refurbishment has been a success with strong occupancy and tenant renewals. A number of Maerua Mall lease contracts are expiring in 2015 and 2016 which coincides with the opening of the new Grove Mall. Management expects there to be a natural flow of foot traffic to the new centre at least initially. However the foot traffic in Maerua Mall has exceeded expectations and the premium that retailers will have to pay at the Grove should not result in a major outflow of tenants from Maerua to the Grove.

Rights Issue

Our forecasts include the possibility of a future rights issue as an opportunity to expand operations. We feel that this is probable for FY16 or FY17. Given recent and expected increases in the cost of debt, a rights issue may be a cheaper option of financing future growth. A rights issue will also lower the debt to asset ratio to levels where the company can expand by growing debt. This should see the company in a strong position to capitalise on future opportunities.

Relative comparison

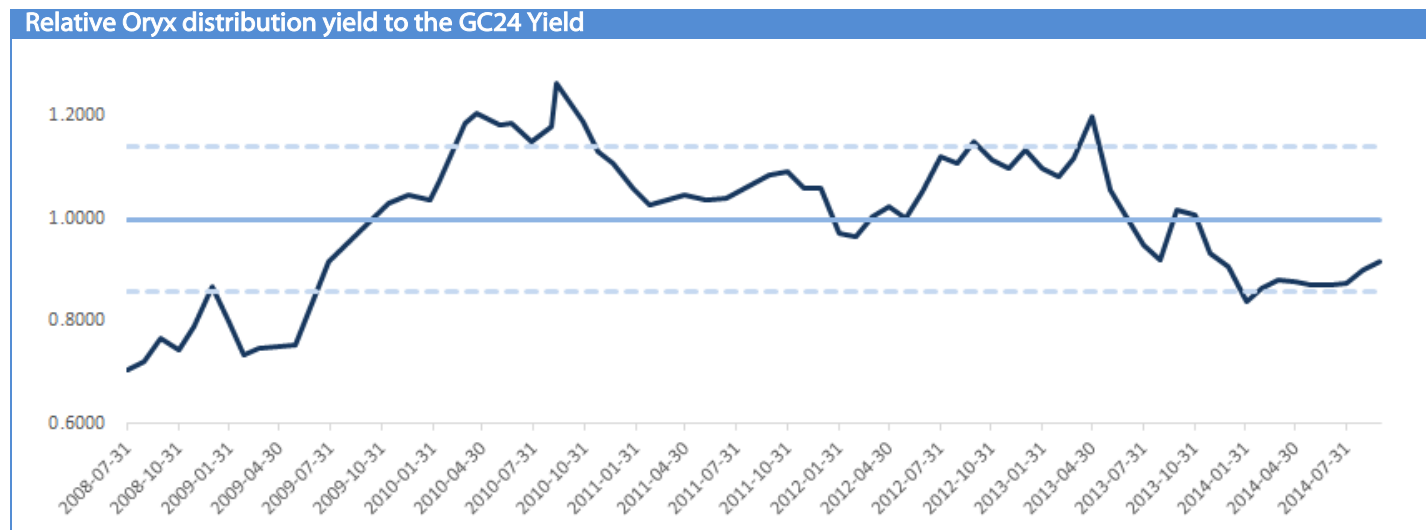
We have graphed the relative Oryx' distribution yield against that of that of the JSE Property Index, and have included the average relative dividend yield, as well as +/- the one standard deviation thereof.



Source: Bloomberg, IJG

The graph indicates that Oryx currently offers a distribution yield premium on par with its average for the last 8 years. The yield premium has been approximately 27% for the above period. The JSE property portfolio yields have been trending lower in recent years and Oryx has been following suit, but as stated above, still offers a premium. A year ago the premium was 42% compared to the current 29%. This is due to the decline in the Oryx distribution yield dropping from 8.9% to 8.2% as the JSE property portfolio numbers have improved slightly for the FY14 period. The declining Oryx distribution yield is largely due to the share price increase as well as the distribution growth rate declining over the period. This makes Oryx less attractive at the current price compared to historical levels, but more attractive than the JSE portfolio.

A comparison to the GC24 paints a similar picture. We graph Oryx' distribution yield against the GC24 yield, and have also included the average relative dividend yield, as well as +/- the one standard deviation thereof.



Source: Bloomberg, BoN, IJG

As indicated Oryx' relative distribution yield is below the average for the last 8 years. On average the distribution yield for Oryx has been in line with the average yield on the GC24 bond with no sustainable premium. Relative to past yields Oryx is expensive when compared to the GC24. When compared to the period between October 2009 and June 2013 Oryx' relative yield performance has been subpar. This supports the view above that Oryx is slightly expensive at the current share price.

Valuation

During the past financial year we have seen two interest rates increases, which should filter through to bond pricing. We expect the yields on government bonds to continue to move in an upwards trend in the future. Considering that this was our expectation last year with this report we keep the justified yield at 9.2%. At this level and a forecasted distribution of 149.9cps we calculate a warranted price of N\$16.30. However do not foresee a decline in the stock price due to liquidity issues in the local market, and thus set a target price equal to the current price, at N\$18.20.

At the current share price our FY15 distribution yield amounts to 8.2% which is on par with the current rate but is below the yield available on a comparable government bond (GC24). In light of this we maintain our rating as a HOLD due to the confidence we have in the current management team and the fact that there is a liquidity premium on the shares. The current period of consolidation is a natural state for a company that has seen strong growth over a number of years. We believe that the key factors to ensure long term future growth are intact and that there is justification in holding Oryx especially for income orientated investors.

Possible upside risks to our valuation are unexpected opportunities to expand GLA, which would directly lead to an increase in future distributions. Downside risks include accelerated interest rate hikes and a larger than anticipated vacancy rate.



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