ORYX PROPERTIES LIMITED
FY17 Results Review
November 2017

Oryx Properties Limited

FY17 Results review

Target Price (c) **1711**
Current Price (c) 2060

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)	1,603
Shares in Issue (m)	77.9
Free float (%)	100
52 week high (c)	2135
52 week low (c)	2020
Expected Total Return (%)	8.1

FY17 Results Review

Oryx Properties Limited (Oryx) released its results for the financial year ended 30 June 2017, reporting a total distribution of 167cpu. While distribution growth was unchanged from the 167cpu reported for FY16. The distribution was supported by a 10.25c dividend per unit which is included in the 167cpu. Over the period under review, EPU declined by 37.6% from 316.64c to 197.58c, due largely to low fair value adjustments on the property portfolio. HEPU fell by 2.7% to 158.63c in FY17.

Net rental income rose by 2.1% from N$196.7m in FY16 to N$200.1m in FY17. Rental expenses marginally exceeded our projections, increasing by 5.0% to N$96.1m. Negative fair value adjustments to the property portfolio resulted in profit of N$31.7m for the period, which represents a decrease of 70.0% y/y. As valuations have no effect on the cash flows distributed this did not impact distribution growth.

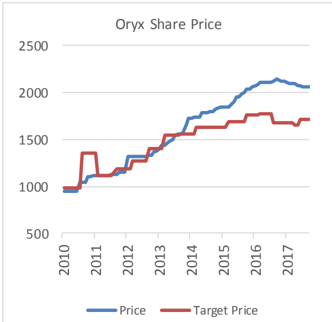
At FY17 the property portfolio was valued at N$2.365bn or 5.9% up from FY16, in line with our expectations that were based on the slowdown in the Namibian economy. This is a lower upward revision in valuations compared to the 8.4% increase in revisions from FY15. Management's divesting strategy from South Africa properties has contributed towards the lower fair value adjustments, and will further impact valuations in FY18 with pending sales of further SA assets. Capital expenditure on specified upgrades during FY17 are expected to add value from FY18 onward.

Vacancies as a percentage of lettable area grew markedly to 6.4% for the year compared to 2.1% in FY16. The industrial portfolio contributed towards the bulk of the vacancies with 5.0%, retail added 0.9% while office vacancies declined to 0.4%. Industrial vacancies rose substantially due to liquidation of a tenant from Oryx's 6,263m² Isando property in South Africa, as well as a 2,976m² vacancy in Prosperita. At the time that the financials were released management was in negotiation to fill the vacant Prosperita property and have been actively marketing the Isando unit.

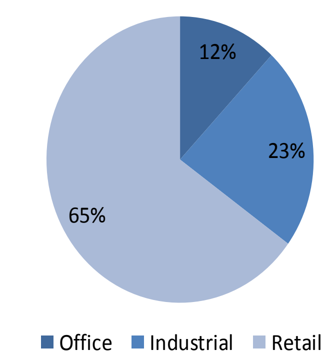
Net asset value per liked unit declined by 0.09% to 2,032 cents per unit compared to 2,034 cents per unit in FY16, according to the company financials. The Oryx share price is thus currently trading at a 1.6% premium to net asset value. Total interest-bearing borrowings increased by 20.1% from N$695.9 million to N$835.9 million. The weighted average interest rate paid on the company's debt remained unchanged from FY16 at 9.4%. The increase in borrowings resulted in increased financial gearing, from 29% in FY16 to 33.2% for FY17.

We do not expect rapid distribution growth going forward, though we do expect Oryx to maintain distributions around FY17 levels. The FY18 distribution yield of 8.1% is based on distributions of 166.3cpu, below the average yield on the IJG Generic 10-year bond of 9.72% (averaged from 2002). We continue to use this as a reasonable benchmark with which to calculate our target price of **N$17.11** for FY17, a 17% discount to the current price of N$20.60. As such we maintain our **SELL** recommendation.

Unit Price (c)



Property Portfolio (Revenue Contribution)



Distributions

Notice is hereby given of the declaration of distribution number 29, amounting to interest of 79.75 cents and a dividend of 9.25 cents per linked unit, for the six-month period ended 30 June 2015.

- Last day to trade cum distribution: 8 September 2017
- Record date: 15 September 2017
- Payment date: 29 September 2017

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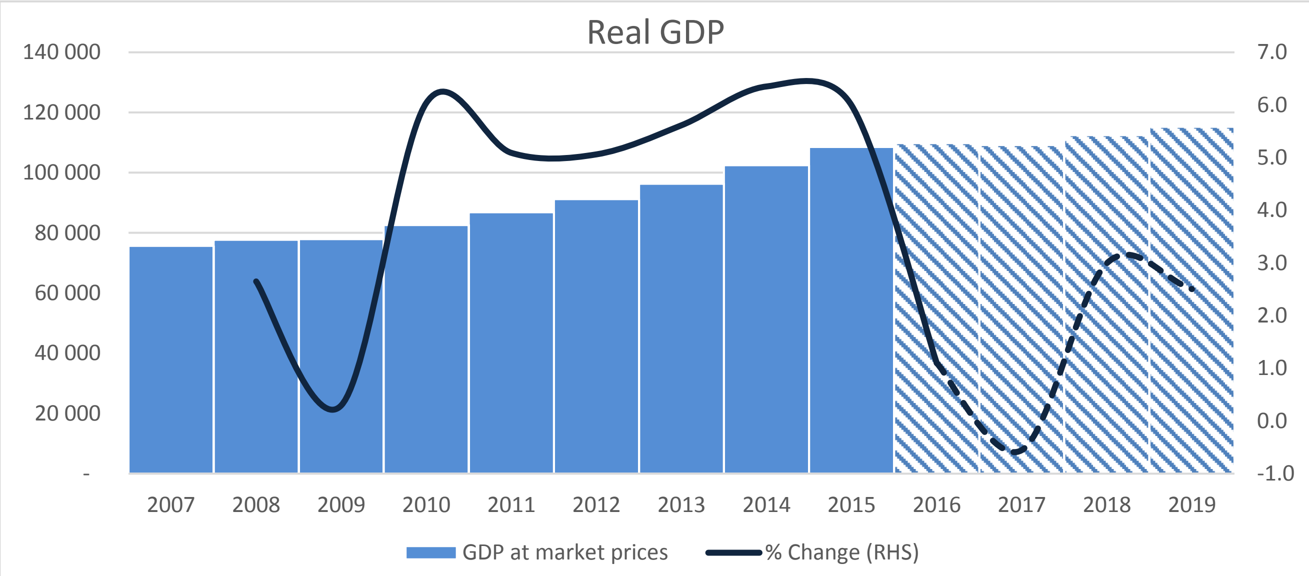
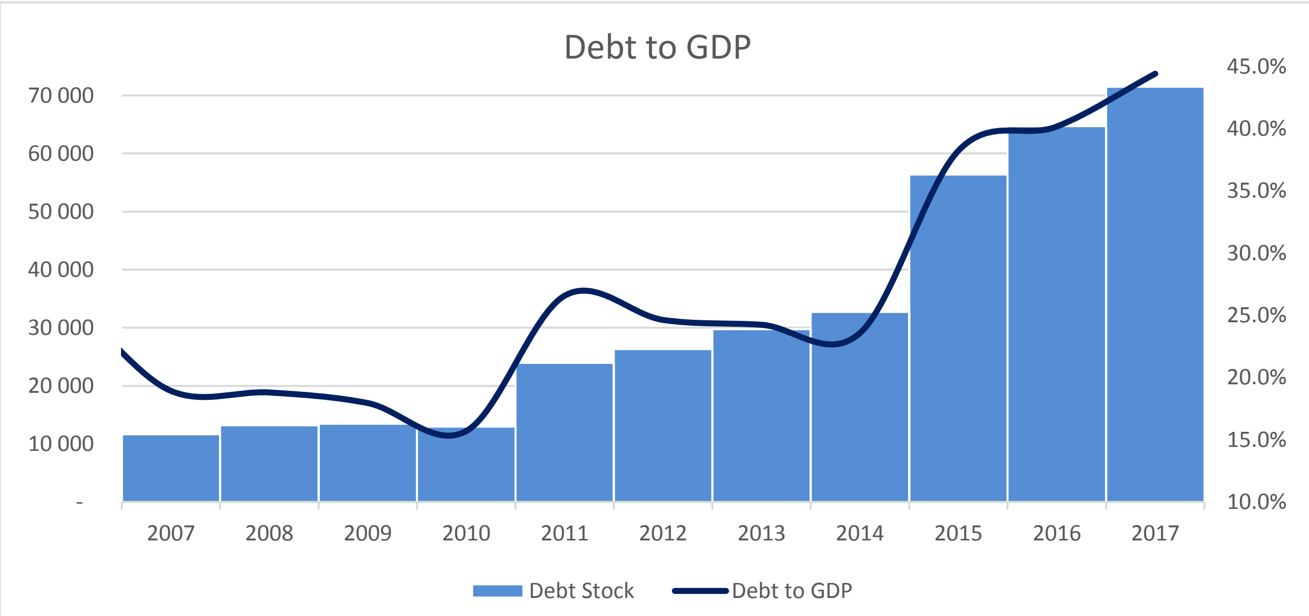
Macro-Economic Backdrop

Growth Environment

The Namibian economy faced a difficult period during the 2016/17 financial year. Between 2010 and 2015 the Namibian economy averaged growth of 5.7% that was largely driven by a combination of expansionary fiscal policy, accommodative monetary policy and foreign direct investment. Signs of a slowdown in economic activity only began to surface during 2015, but these signs were largely masked by expansionary fiscal policy as well as the boom in construction which only began to taper toward the end of that year. A subsequent slowdown in foreign direct investment inflow and completion on various construction projects, coupled with a slump in commodity prices and a slowdown in government revenue growth, effectively brought real economic growth to a halt.

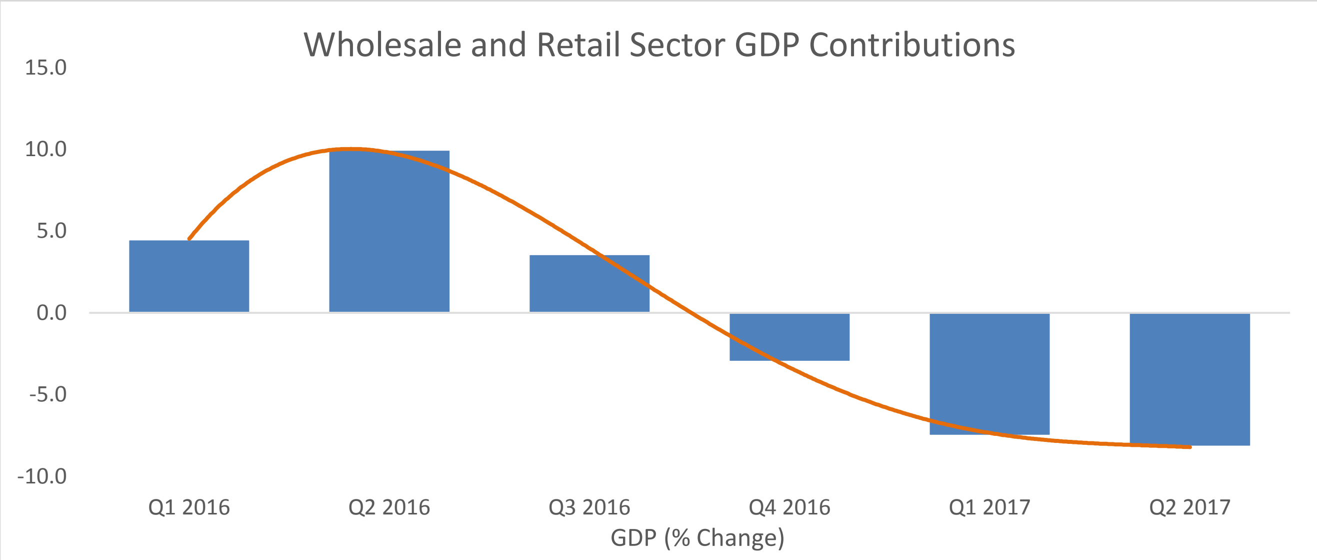


Elevated levels of government spending led to a surge in public debt during 2015 and 2016, limiting fiscal policy intervention. Declining government revenue further widened the budget deficit which needed to be financed, and as a result debt to GDP rose from 23.6% in 2014 to over 41% at present.

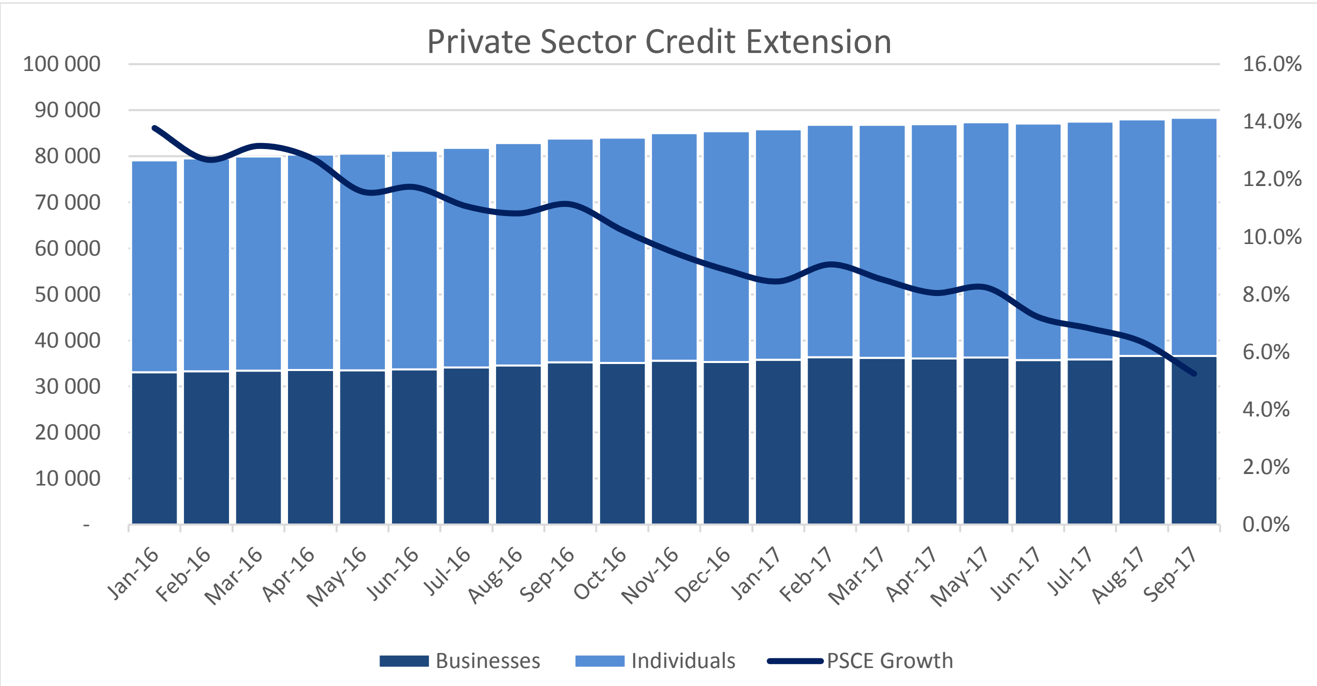


Final National Accounts data shows GDP growth figures for 2016 considerably depressed at 1.1% from 6.0% in 2015. The construction sector was the hardest hit, posting a real contraction of 26.5%. While second quarter GDP figures indicate that both the first and second quarters of 2017 have contracted by 1.7% on an annualised basis. Effectively, the Namibian economy now finds itself in a recession with very little policy tools available with which to kick-start growth.

The wholesale and retail trade sector of the economy has been estimated to have had a contraction in growth since the fourth quarter of 2016. Recording negative growth of 3.0%, 7.5% and 8.2% for Q4 2016, Q1 and Q2 of 2017 respectively. This sector has been one of the key drivers of growth between 2010 and 2014, fuelled largely by unusually high government spending, personal income tax cuts and historically low interest rates.



Historically low interest rates which led to heavy borrowing by the private sector, was replaced by a hiking cycle in 2014. This saw the repo rate increase from 5.5% to 7.0% by May 2016, effectively reducing the disposable income of consumers and putting highly leveraged businesses under pressure. Slowing growth in private sector credit extension serves testament to ailing businesses and consumer confidence, characterised by tighter credit conditions, higher repayments and less personal spending.



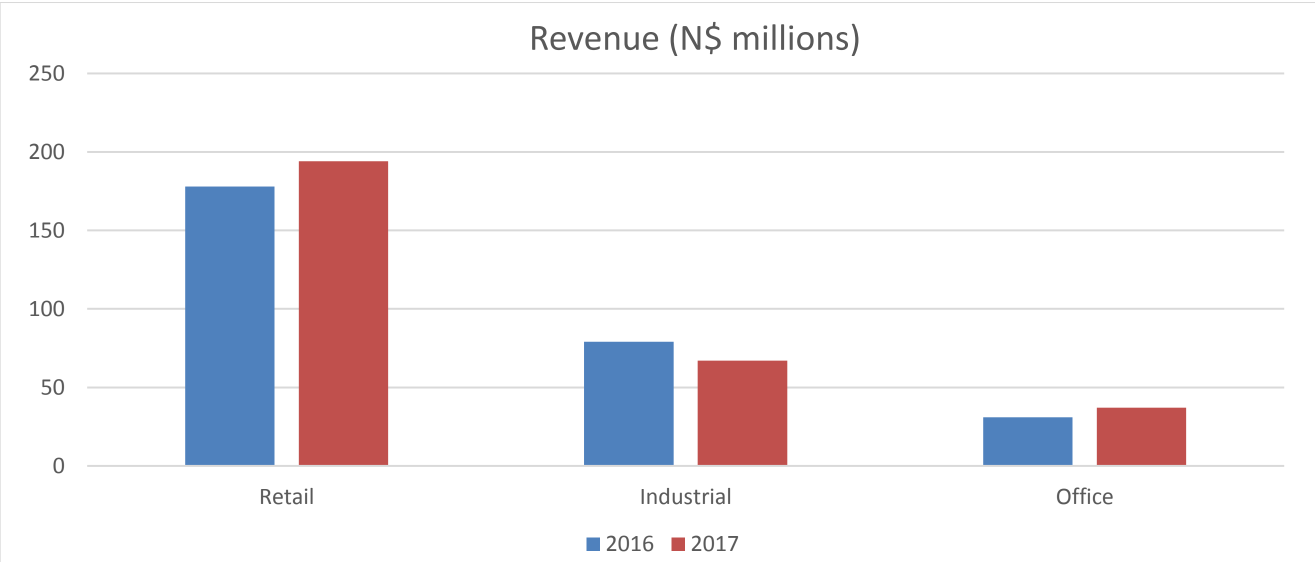
Government's effort in curtailing expenditure through the adoption of fiscal consolidation measures, did little to avert a foreign currency downgrade from Moody's Investor Services. Elevated debt to GDP levels as well as the delayed payment of private sector invoices by government were contributing factors for the Moody's downgrade. Future foreign currency denominated debt will be issued at higher borrowing costs as a result.

Further afield, the region has been showing some signs of growth prospects. Following two consecutive quarters of contraction, the South African economy clawed out of recession in the second quarter of 2017. Agriculture and mining lifted South African GDP by 2.5% on the second quarter on an annualised basis. However, growth expectations going forward remain depressed and risk regarding the local currency credit rating remain ever present.

IJG expects Namibia to register real GDP growth of -0.6% in 2017. The expected contraction stems from the secondary and tertiary sectors of the economy. Primary industries are expected to register good growth due to higher commodity prices and the end of the drought which plagued Namibia for the last four years. Poor construction and manufacturing performance are have remained a drag on the economy in 2017 while large line-items within the tertiary sectors such as wholesale and retail trade and public administration and defence are expected to weigh on growth in real terms. Namibia is likely to remain in a low growth environment over the medium term as the tools to stimulate growth have been depleted. Fitch Ratings has recently also pointed to economic growth engaging a lower gear.

Revenue

Oryx managed to grow revenues by 3.06% to N$297 million in FY17, compared to 7% growth in FY16. Management adopted a strategy to sell off several of Oryx's high yielding, and high risk, South African properties. Though this can be viewed as a means of risk mitigation, the decision did effect revenue. Coupled with a sharp rise in vacancies contributed largely by the industrial and retail sectors, this resulted in a decline of the total gross lettable area (GLA).



Net rental income increased by 2.1% in FY17, higher than 1.5% in FY16. As a result of the higher than expected vacancies, occupancy levels fell to 93.6% in FY17.

The large spike in the vacancy rate of 6.4% was in large due to the liquation of long lease tenant of an industrial property in Johannesburg. According to management, Oryx is actively marketing the property as well as assessing the feasibility of subdividing the building into smaller more marketable units. Events such as these serve as vindication to management's decision to sell high risk South African properties. Retail vacancies of 0.9% demonstrate the resilience of this segment of the portfolio with forced non-renewals during the Gustav Voigts upgrades being the main reason behind retail vacancies increasing from 0.6% in FY16.

According to Oryx rental reversions averaged to 6.2% for the year while lease escalations averaged 7.9%. The lease expiration profile shows 17% of the current leases are up for renewal in FY18, followed by 18% in FY19. Oryx was able to mitigate a large lessee risk factor by replacing two CIC lease agreements and replacing them with two new tenants.

Revenue Growth Projections

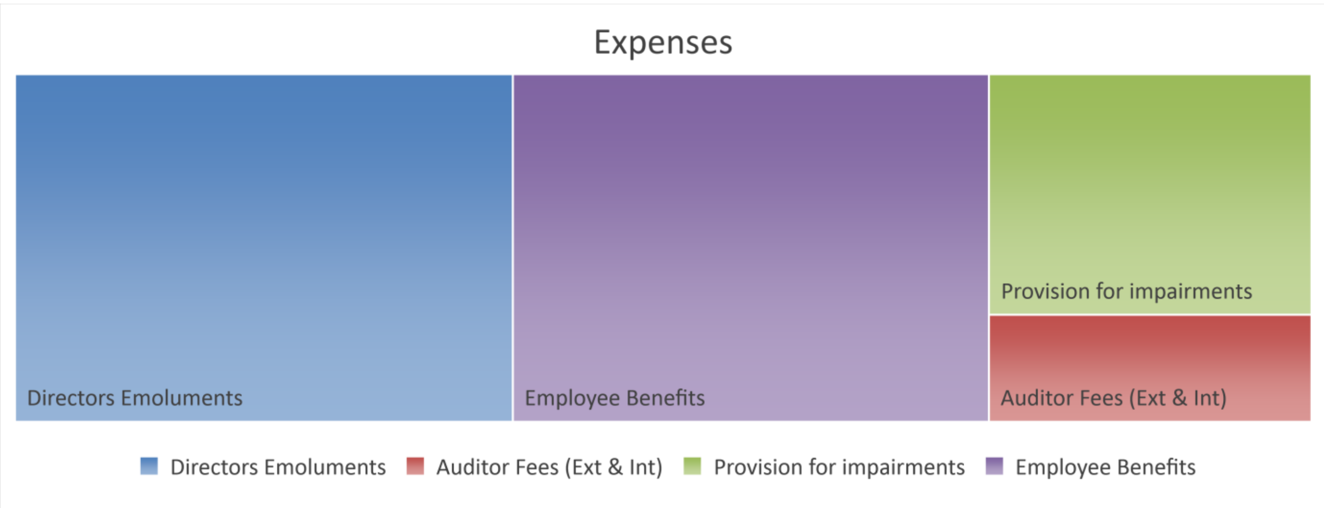
Oryx has embarked on and completed new capital additions in FY17. Key developments were the upgrade of the common areas and food court of Maerua Mall, the new Virgin Active premises adding GLA of 3,045 m², the opening of the new family entertainment centre and the commencement of the upgrades to Gustav Voigts. These developments are primarily aimed at attracting a greater number of footfall and secondly, they provide for bigger GLA. In addition to these developments rental escalations will drive revenue growth.

Our forecast factors in the sale of two properties in South Africa subsequent to year end, valued at N$14 million and N$56 million. These properties reduce the total GLA by 9,987 m² and 10,050 m² respectively, thus reducing rental income with it. As a result we expect rental income to grow by 7.4% in FY18 and net rental income to grow by 9.5%.

Expenditure

Net rental expenses increased by 5% to N$96.1 million in FY17 from N$91.5 million in FY15. FY17 is the second consecutive full year in which Oryx has been charged as a bulk electricity buyer. Electricity costs made up 46% of total property expenses in FY17. Management plans to further enhance its ability to reduce cost and boost recoveries by adding solar power units to the existing 1 MW Maerua rooftop PV plant. The acquired distribution licence from the Electricity Control Board (ECB) will allow for further cost savings and enhanced recoveries.

Other expenses increased by 23% to N$19.52 million in FY17 from N$15.87 million the previous year. Continuing from FY16, Oryx provided for impairments on receivables of N$2.67 million. In light of the current economic environment this provides as a prudent step. The main increases in other expenses are stem from salaries and other employee benefits of N$1.4m as well as an underestimation of a South African income tax penalty of N$0.9 million.



Borrowings

Long term borrowing increased by 20.1% y/y in FY17 to N$835.9 million. Oryx has a total loan facility available of N$973.2 million of which N$137 million is unutilized. As at FY16 Oryx had access to loan facilities of N$286 million. During FY17 Oryx tapped into these facilities to fund various projects such as the new Virgin Active premises, the general upgrades to Maerua Mall and the transformation of the old Virgin Active space into the new Family Entertainment Centre. The increase in borrowings have also effectively pushed up gearing to 33.2%.

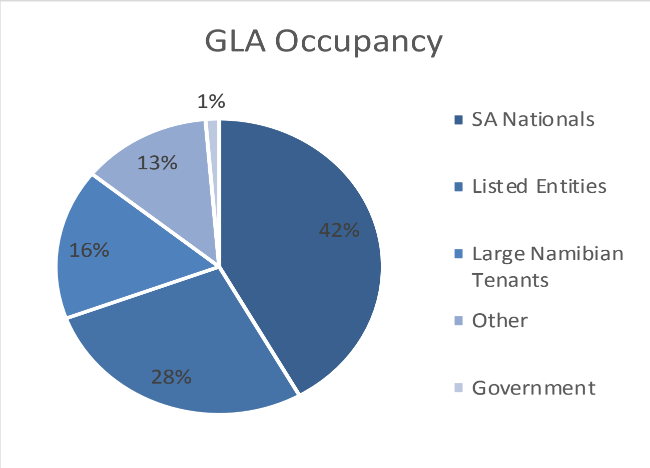
As at the end of FY17 the ratio of fixed rate to variable borrowings was 63:37, an increase in fixed borrowings from FY16 of 57:43 which is reflected in the increased borrowings taken to expand on capital projects. Oryx has increased the amount of hedging against floating interest rates, adding N$130 million to the interest rate swaps mix in FY17. Oryx has managed to maintain the weighted average fixed rate of the swap contracts to 7.5% in FY17 and all priced against 3-month JIBAR.

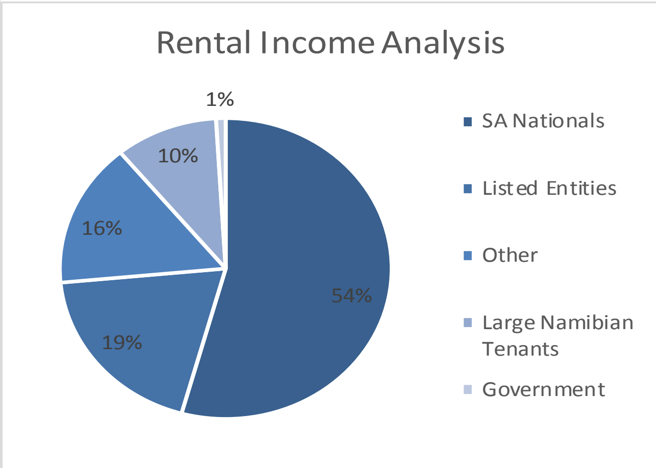
Oryx further has access to the approved Domestic Medium-Term Note programme (MTNP) of N$500 million. Management is looking at the possibility of utilising the programme during the 2018 financial year. Oryx's weighted cost of debt sits at 9.3% in FY17. Oryx tapped into the MTNP on 20 November 2017, raising N$128.7 million.

Management further plans to make use of a N$300 million foreign currency facility through a strategy to tap into the European property market. Properties have been encumbered to ABSA in anticipation of drawing down on this facility in 2018.

Property Portfolio

The property portfolio, valued independently by Broll Valuations and Advisory Services, was valued at N$2.43 billion in FY17, an increase in value of 4.7% from N$2.32 billion in FY16. This resulted in a fair value loss of N$3.8 million, compared to N$84.8 million fair value gains enjoyed in FY16.





During the year Oryx spent N$131 million on capital projects, with the majority going towards the completion of the new Virgin Active facility and the transformation of the old Virgin Active space into the new Family Entertainment Centre. GLA of 3,045 m² was added as a result of the new Virgin Active premises as well as an additional 1,765 m² to an industrial warehouse in Walvis Bay.

As per management strategy to dispose of high risk South African properties, Oryx sold an industrial property in Port Elizabeth for N$21 million before costs. Accounting for selling costs and commissions the sale realised a profit of N$1.2 million. As at year end two properties worth N$14 million and N$56 million had sales agreements in place with the latter successfully sold subsequent to year end.

Maerua Mall

The Maerua Mall node accounts for 68% of the gross income contribution to the retail portfolio and as such also bears a large quantum of the risk. Retail retentions were down in FY17 at 88% compared to the retention rate of 96% the previous year. Lease escalations averaged 7.9%. These are all signs of the difficult economic conditions faced during 2016 and 2017. The mall is going through a phase of diminishing visitor counts, shorter dwell times and waning consumer spending.

Managements response in order to entice more footfall was to upgrade the existing food court and a facelift to the common areas of the mall. The addition of new retailers to the tenant mix and the introduction of the Family Entertainment Centre were all aimed at increasing dwell times at the mall, that will further support the argument for extended trading hours where Maerua Mall currently lags behind establishments such as the Grove Mall.

Gustav Voigts

The Gustav Voigts centre makes up the second largest retail offering of the portfolio, contributing 26% towards gross income. The long-awaited upgrade of the centre officially kicked off in July and is expected to be completed by December 2018. Developments of corporate establishments within the vicinity means the upgrade to the centre comes at an opportune time for the centre.

Retail vacancies for the centre rose to 1.0% in FY17 from 0.6%. This is largely attributable to forced vacancies within the centre to allow for the scheduled upgrades. The planned upgrades will see the addition of new tenants, relocation of the Avani lobby, more parking as well as new leisure offerings on the hotel rooftop.

Office Portfolio

Office vacancies receded well in FY17 falling from 1.1% in FY16 to 0.4% in FY17. This followed off the back of an exodus of a large government tenant from the Channel Life building office in FY16. The building has since been fully occupied and given government's limited resources over the past fiscal year means Oryx simultaneously reduced its exposure to government's payment risk. Overall office vacancies were largely made up by space at the Maerua Office park that was not renewed, accounting for 7.9% of office vacancies. One of the spaces was subsequently leased by Methealth, reducing the vacancy level of that space to 4.0%.

Industrial Portfolio

As alluded to earlier in this report industrial vacancies significantly contributed towards the 6.4% spike in overall vacancies of the portfolio. The industrial portfolio contributes 23% in terms of value and is further split 19% Namibian and 4% South African. The continued sale of South African properties will impact this contribution going forward. Oryx managed to retain 100% of the industrial tenants, buoyed by the sale of industrial properties that posed high risk in lease renewals.

Relative comparison

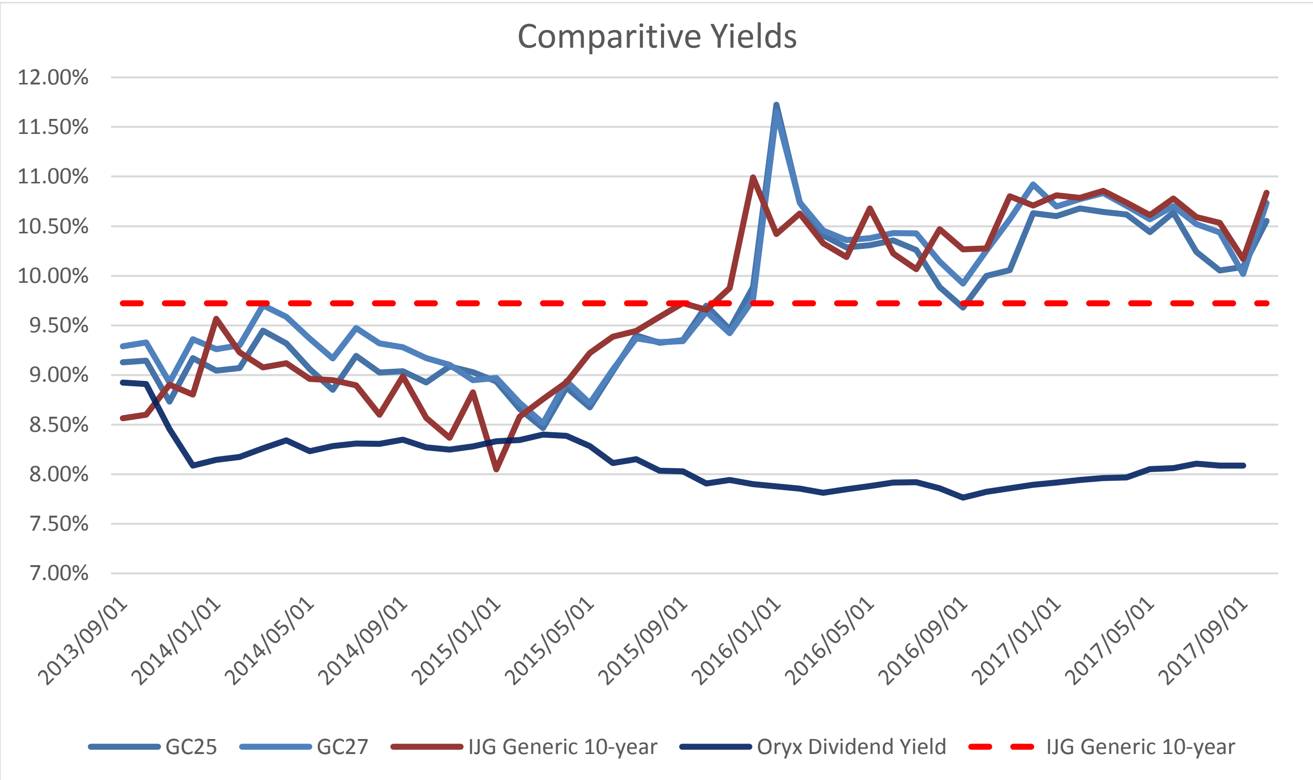
Below is a peer comparison table squaring up Oryx with JSE listed Real Estate Investment Trusts (REITs). The comparison provides for greater perspective into the financial performance of Oryx relative to its peers. Being the second smallest from a market capitalisation point of view, Oryx's dividend yield of 8.1% is below the peer average of 10%. If ranked according to dividend yield, Oryx comes through as the 3rd worst performer. Oryx uses the peer comparison as a performance benchmark in determining the remuneration of executive employees and selected senior management. The annual report drew attention to the fact that the top quartile of the peer group grew distributions by 9.7% while Oryx only managed to grow distributions by 5.4% in FY16, effectively falling short of the performance criteria.

	Distribution Growth (%)	3Yr Distribution Growth (Bloomberg)	Dividend Yield	Price to Book	Price to Sales	P/E	Market Cap
Texton Property Fund Ltd	(0.85)	6.93	16.32	0.66	3.68	5.36	2 369.22
Delta Property Fund Ltd	3.62	6.64	13.43	0.74	3.22	7.96	5 144.98
Arrowhead Properties Ltd	(15.92)	10.77	11.41	0.91	4.17	6.92	7 836.26
Emira Property Fund Ltd	(2.00)	5.14	10.90	0.78	3.68	12.99	6 862.62
Accelerate Property Fund Ltd	7.27		10.74	0.72	4.17	9.89	5 277.09
Tower Property Fund Ltd	(16.22)	1.10	10.72	0.75	5.41	5.45	2 441.36
Fairvest Property Holdings Ltd	10.04	10.14	9.70	0.87	4.11	9.88	1 636.09
Dipula Income Fund Ltd	5.00	5.00	9.47	1.03	4.13	5.59	4 575.20
SA Corporate Real Estate Ltd	6.31	8.93	9.43	0.91	5.62	10.70	11 793.01
Redefine Properties Ltd	7.76	7.67	8.58	1.03	6.67	12.47	58 704.04
Investec Property Fund Ltd	3.39	5.82	8.21	0.92	6.16	14.42	11 167.24
Vukile Property Fund Ltd	7.11	3.76	8.12	1.03	6.60	12.77	14 630.20
Oryx Properties Ltd	**-**	**4.11**	**8.11**	**1.02**	**5.40**	**12.86**	**1 603.91**
Growthpoint Properties Ltd	6.50	6.67	8.10	0.96	6.32	13.46	70 949.02
Hyprop Investments Ltd	12.13	13.77	6.60	1.05	8.13	16.34	26 155.90
Average	**2.28**	**6.89**	**9.99**	**0.89**	**5.16**	**10.47**	**15 409.74**

Source: Bloomberg, IJG Securities

Valuation

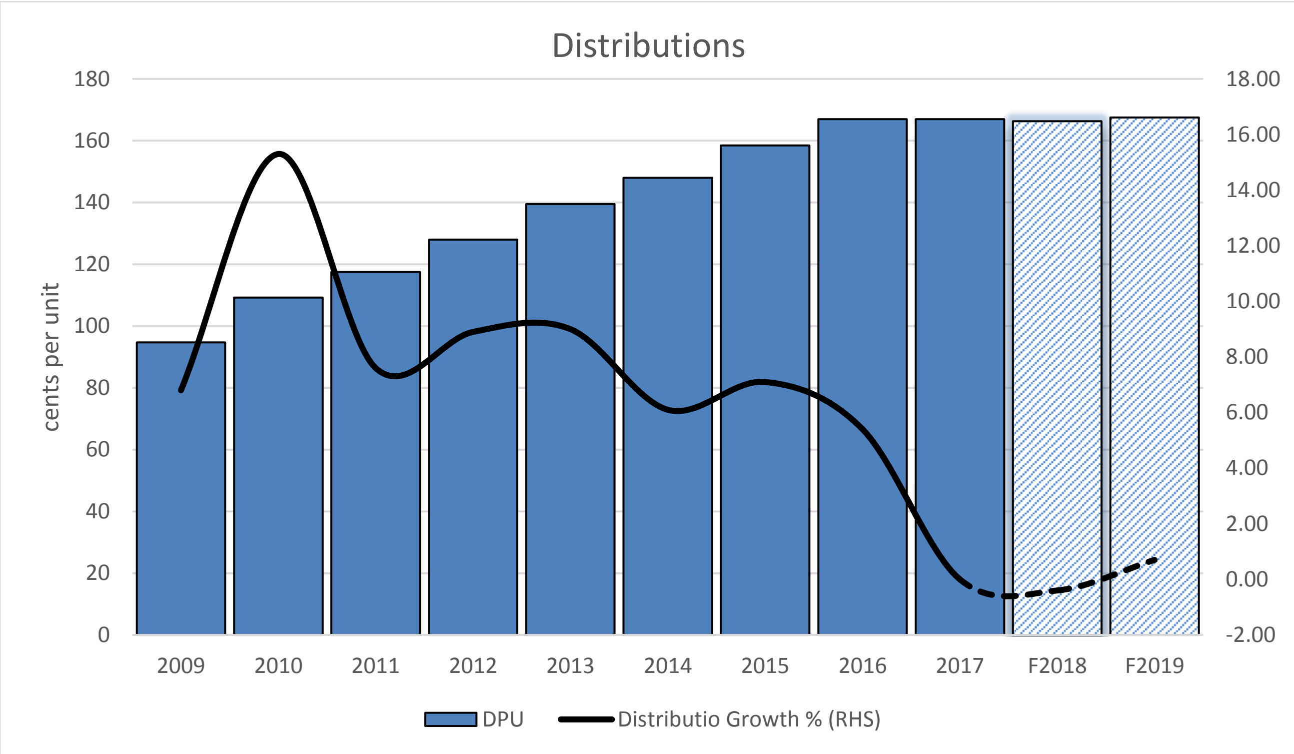
We continue to value Oryx on distribution yield basis relative to the risk-free rate of return. The graph below compares the Oryx distribution yield to the GC25 and GC27 sovereign bonds as well as the IJG Generic 10-year bond.



Source: IJG Securities

Since 2013 the Oryx distribution yield lagged the risk-free rate until bond prices rallied from 2014 to 2015. However, bond yields soared since the start of 2015 and diverged further from the Oryx distribution yield. Based on our forecast the challenge lies in maintaining distributions for FY18. Vacancies will need to be brought back down closer to 2%, which will depend on managements ability to fill the Isando vacancy or continue in its quest to sell the South African property.

Further pressure on the Namibian economy will continue to filter through to Oryx in the form of strain felt by tenants. Keeping rental expenses low as well as escalations will be key in driving distribution growth. Our valuation is based on a distribution of 166.3cpu that further translates to a distribution yield of 8.1%. We've calculated the IJG Generic 10-year bond average at 9.7% (since 2002) with which we derived a target price of **N$17.11**. The current share price of Oryx is N$20.60, which in accordance with our valuation is at a 17% premium to our target price. The share price may not drop to our target price over the next 12-month period but **subdued distribution growth for FY18 is expected** and there is likely to be little upside in the share price. We thus maintain our **SELL** recommendation given these factors.



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