ORYX PROPERTIES LIMITED
FY21 Results Review
November 2021

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Oryx Properties Limited

FY21 Results Review

Target Price (c)	***1185***
Current Price (c)	999

Year End 30 June	2019	2020	2021	2022E	2023E
Revenue (N$ m)	324.8	332.8	336.5	321.8	328.4
Vacancies (%)	3.2	5.4	5.9	5.9	5.5
HEPU (c)	137.4	3.9	179.3	123.7	119.4
HEPU growth (%)	-6.0	-97.2	4,520.6	-31.0	-3.5
DPU (c)	150	69.75	99.75	105.7	100.0
DY (%)	7.7	4.0	8.7	10.6	10.0
P/E (x)	14.8	448.5	6.4	8.1	10.4
D/A (%)	35.0	39.1	38.2	39.3	39.7

Recommendation	HOLD
NSX Code	ORY
Market Cap (N$ m)	873.1
Shares in Issue (m)	87.4
Free Float (%)	100
52-Week High (c)	1694
52-Week Low (c)	1000
Expected Total Return (%)	18.6

Source: ORYX PROPERTIES LIMITED, IJG SECURITIES

FY21 Results Review

Oryx Properties Limited (Oryx) released results for the year ended 30 June 2021 (FY21), reporting 43.0% distribution growth to 99.8cpu from 69.8cpu, with the growth largely attributable to Oryx retaining earnings in FY20. Over the same period earnings attributable to linked units (EPU) increased from a loss of 110.63c to a profit of 111.28c per unit. HEPU rose by 4,520.6% y/y to 179.28c following the 97.2% contraction recorded in FY20.

Net rental income rose by 0.4% y/y to N$227.5 million, compared to N$226.7 million in FY20. Total revenue increased by 1.1% y/y to N$336.5 million, which was ahead of our conservative forecast of a contraction. Management notes in the results release that negative rental reversions were recorded on the large South African national retailers' lease agreements which were renewed towards the latter part of the financial year. Going forward, we thus expect rental income to remain under pressure. Rental expenses were well contained, increasing by 2.7% to N$109.0 million. Oryx' cost-to-income ratio increased from 31.9% to 32.4%.

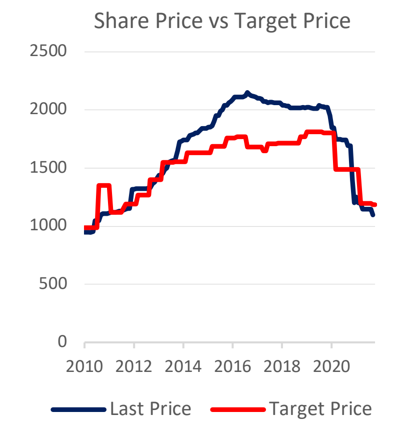
The company reported a profit after tax for the period of N$10.0 million, compared to a loss after tax in FY20 of N$157.6 million. The property portfolio was valued at N$2.78 billion at FY21 by an independent third party, down 2.8% from the FY20 valuation and down 0.6% from the directors' 1H21 valuation. A negative fair value adjustment of N$94.0 million was reported for the period. Management stated in the results release that a conservative valuation approach was applied to account for the impact of the Covid-19 pandemic, but the 3% and 7% contractions attributed to the retail and residential segments, respectively, suggest that their assumptions were perhaps not conservative enough in the prior period.

Oryx' vacancy factor (as a % of lettable area) increased moderately from 5.4% at FY20 to 5.9% at FY21. This is hardly surprising given that the economic growth remains depressed. Residential vacancies deteriorated to 11.2% from the 10.8% reported at FY20.

The weighted average interest rate paid on the company's debt has increased to 5.6% at the end of FY21 from 5.2% from 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.

Oryx' results continue to be impacted by the current economic climate, and the FY21 results have come in more or less in line with our expectations, with rental income coming in ahead of our forecasts. A required yield of 9.80% combined with our expectation of FY22 distributable income of 117c per unit informs our target price. Assuming a normal 90% distribution equivalent to 105c per unit, this generates our **target price of N$11.85**. This represents a 18.6% premium to the current unit price. However, we feel the risk of future reduced distributions remains due to a stretched balance sheet and lacklustre economic environment and as such we maintain our **HOLD** recommendation.

ORY Share Price vs Target Price (c)



Dividends

Notice is hereby given that a distribution of 43.25 cents per linked unit was declared for the period ended 30 June 2021.

• Last day to trade cum distribution: 23 September 2021

• First day to trade ex-distribution: 27 September 2021

• Record date: 01 October 2021

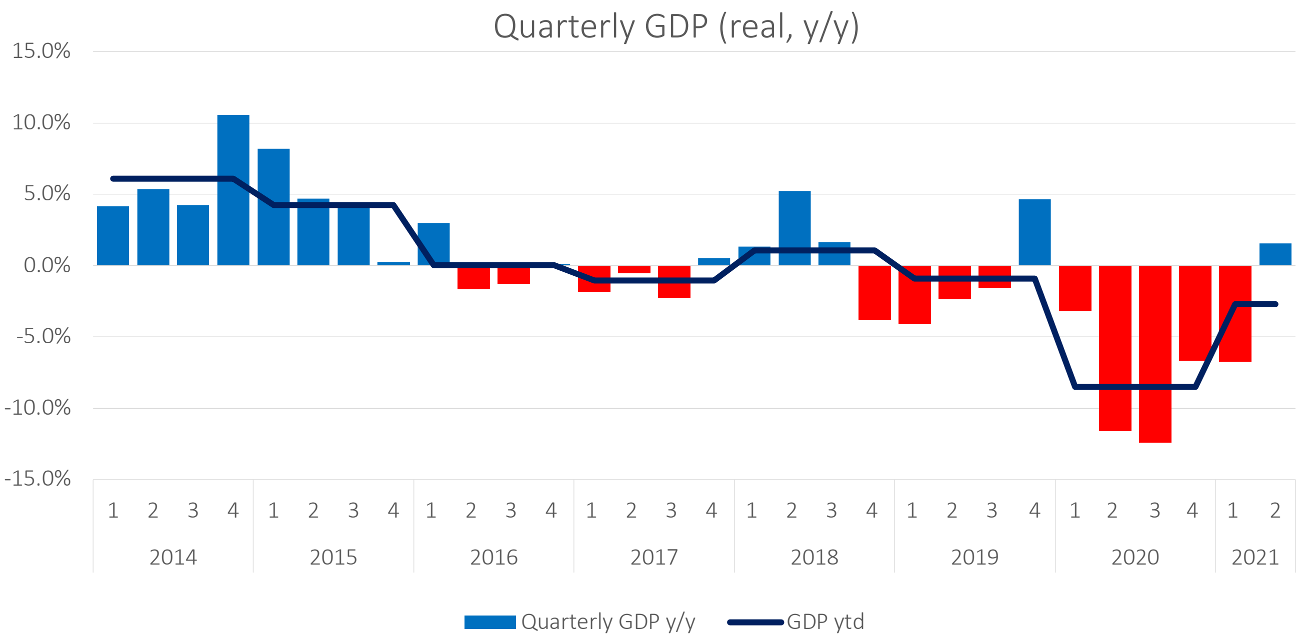
• Payment date: 15 October 2021

*Unitholders are advised that 24

Macroeconomic Environment

The current macroeconomic environment in which Oryx Properties (Oryx) operates remains one of uncertainty as the headwinds that have plagued Namibia since 2016, coupled with the Covid-19 pandemic, are yet to dissipate.

The Namibia Statistics Agency's Q2 GDP data shows Q2 GDP grew marginally by 3.7% q/q and 1.6% y/y. This follows the 8.5% contraction in 2020, the deepest in Namibian history. The data further indicated that twelve of the last eighteen quarters, or since the start of 2017, have posted contractions on an annual basis, separated by six quarters of very subdued growth.



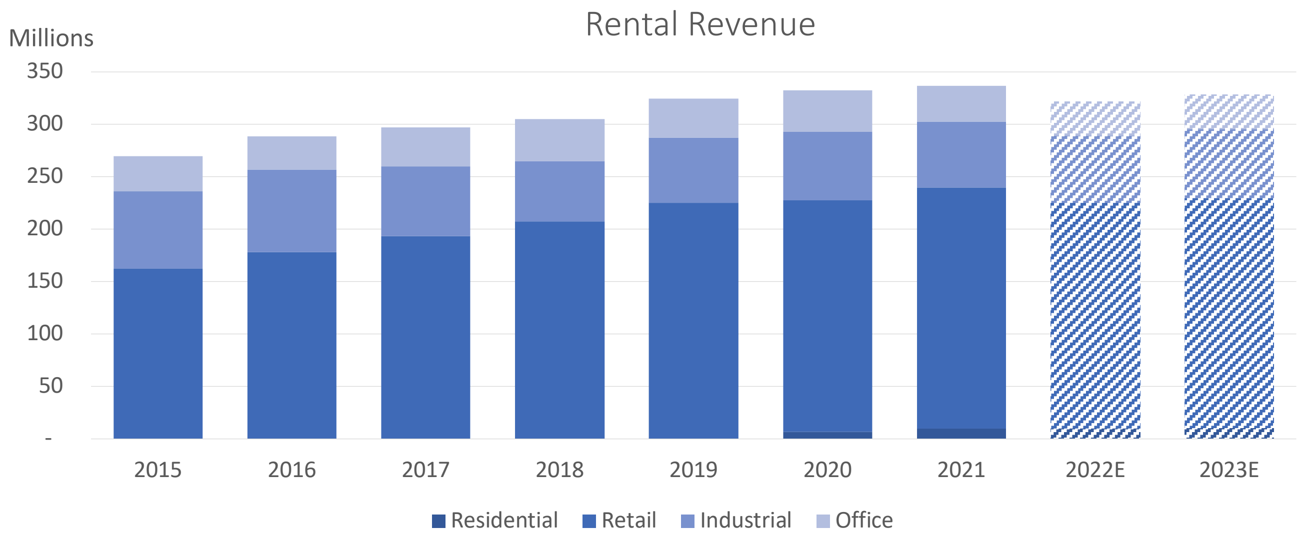
Source: NSA, IJG Securities

The Namibian economy is expected to grow by 1.4% in 2021 and 3.4% in 2022, according to the Bank of Namibia's August 2021 Economic Outlook. This effectively means that the economy will still be 4.1% smaller in 2022 than it was in 2019 and, at the current expected pace of recovery, will likely not reach its pre-pandemic levels until at least 2024.

Namibia has been ranked as the country with the second highest unemployment rate in the world, at 33.4%, on a global list of 82 countries scrutinised by Bloomberg. While some recovery is expected in economic output in the short-term, the longer-term growth outlook remains precarious with low vaccination uptake, the threat of more Covid-19 infection waves, declining per capita income, weak consumer and business confidence all still threatening the recovery path. As such the environment in which Oryx operates in is likely to remain a challenging one.

Revenue

Oryx recorded revenue growth of 1.1% y/y to N$336.5 million, which is ahead of our conservative forecast of a contraction for the year. Net rental income rose by 0.4% y/y to N$227.5 million, compared to N$226.7 million in FY20.



Source: Oryx Properties, IJG Securities

The prolonged recession followed by the Covid-19 pandemic has resulted in pressure on consumer spending, and coupled with a struggling South African retail market, has led management to believe that the reliance on SA tenants will have to be minimised. The reality is that South African retailers dominate the Namibian retail trade and will likely continue to do so for the foreseeable future, and as such will remain the key tenants for Oryx. Management noted that due to the cash flow challenges experienced by some SA retailers several are avoiding long-term contracts, and some have requested switching to turnover based rental agreements. They however stated that they generally try to avoid these contracts due to retailers often experiencing issues outside their control, such as logistics issues, which affects their turnover. They will however consider it in a worst-case scenario. Turnover based contracts will significantly increase the unpredictability of rental income for Oryx, but would result in a natural reversion which may benefit tenants. However, should the retail and wholesale sector continue to experience contractions, as has been the case since 2016, this will result in lower rental income for Oryx.

Reversion Rates	*FY19*	*FY20*	*FY21*
Industrial	8.24%	4.15%	3.85%
Office	-5.19%	4.29%	-4.64%
Retail	0.74%	-2.52%	-18.57%

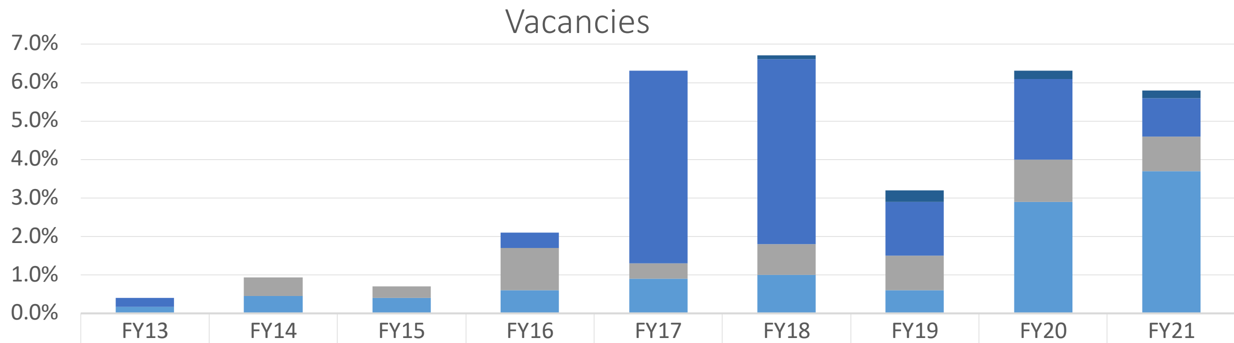
Source: Oryx Properties, IJG Securities

The table above shows the impact the Covid-19 pandemic, and the corresponding measures had on Oryx' rental reversions. The rental escalation rate in the industrial space has more than halved since FY19 but remained relatively resilient compared to the office and retail reversions which were harshly impacted by the pandemic. The large negative reversion in the retail portfolio emanated from SA national retailers' lease agreements which were renewed towards the latter part of the financial year.

We thus only expect to see the full impact thereof in FY22 and overall expect rental income to remain under pressure, seeing as we do not expect to see a swift recovery in the operating environment.

Based on the above, we view management's aim to grow annual revenue to N$500 million by 2026 as ambitious.

Vacancies



	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Storage						0.1%	0.3%	0.2%	0.2%
Industrial	0.2%	0.0%	0.0%	0.4%	5.0%	4.8%	1.4%	2.1%	1.0%
Office	0.0%	0.5%	0.3%	1.1%	0.4%	0.8%	0.9%	1.1%	0.9%
Retail	0.2%	0.5%	0.4%	0.6%	0.9%	1.0%	0.6%	2.9%	3.7%

Source: Oryx Properties, IJG Securities

Oryx' commercial vacancy factor (as a % of lettable area) deteriorated from 4.4% at 1H21 to 5.9% at FY21 (FY20: 5.4%). The retail sector was the main contributor to this increase. As mentioned in the previous section, SA national retailers remained under pressure during the period, and several (such as the Edcon Group) began closing stores in Namibia. Management notes that a large focus will be on retail vacancies going forward and that they continue to investigate ways to reduce the reliance on SA retailers.

Industrial tenants were able to operate during the lockdown periods as they had essential services classifications. Resultantly, the industrial portfolio proved resilient with some tenants looking to expand and vacancies for the sector fell from 2.1% in FY20 to 1.0% in FY21. Residential vacancies deteriorated to 11.2% from the 10.8% reported at FY20.

Tenant Retention Rate	*FY18*	*FY19*	*FY20*	*FY21*
Industrial	87.83%	100.00%	82.92%	100.00%
Office	70.27%	87.35%	92.79%	85.95%
Retail	90.87%	95.70%	92.30%	80.29%

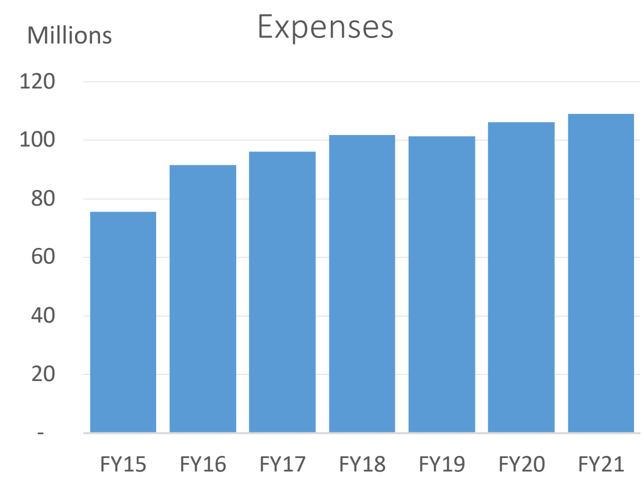
Source: Oryx Properties, IJG Securities

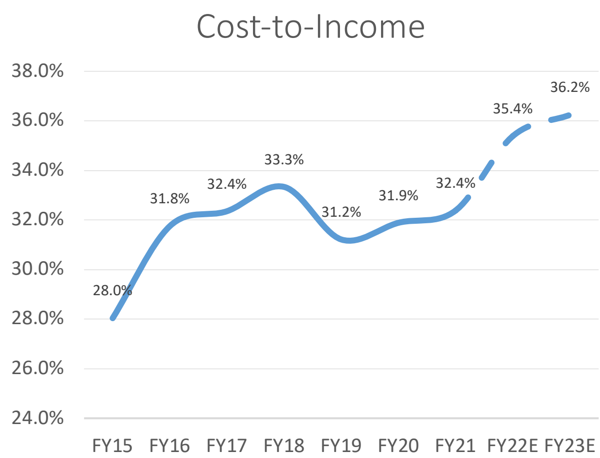
Management expects a slight uptick in vacancies in the short-term, but to start improving gradually in the medium term. They expect office vacancies in Maerua Park to remain under pressure, while residential and industrial vacancies are under control and will likely remain near current levels.

Oryx is in the difficult position where they have to ask themselves whether it is worth renewing certain lease agreements that are coming up for renewal in the next two years. The cash flow constraints that some of the retail tenants are experiencing has resulted in them not being able to keep their shelves stocked which drags down the 'look and feel' of the stores and their surrounding area. Several of the lease agreements of the large commercial banks are up for renewal in the next two years, and due to the digitalisation drive of these banks their space requirements have shrunk, which will place further pressure on vacancies going forward as the vacant space next to these smaller banks are often unsuitable for many retailers due to their odd shape, as we have seen in some shopping centres.

Expenditure

Rental expenses were well contained, increasing by 2.7% to N$109.0 million. This is well below inflation of 4.1% over the same period. Expenses growth did however still outpace the low growth in rental income, resulting in the cost-to-income ratio increasing slightly to 32.4% from 31.9% in FY20.



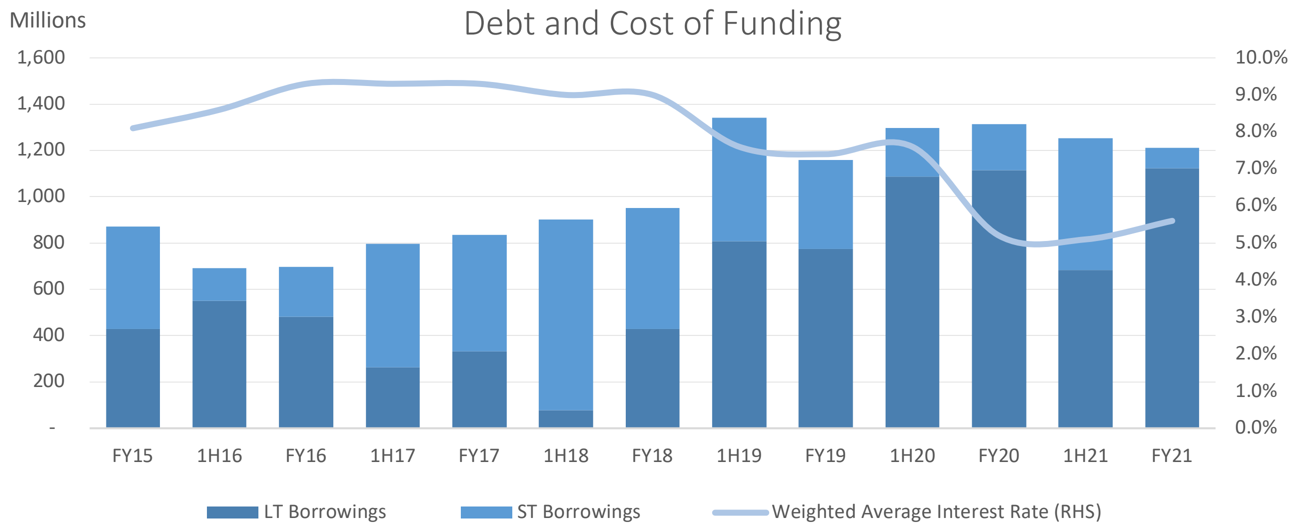


Source: Oryx Properties, IJG Securities

Management ascribes the low increase to planned maintenance and improvement projects being put on hold during the year to preserve cash flows as a result of the pandemic. They further note that the higher cost-to-income rate was due to higher vacancies with there being fewer tenants to recover expenses from.

Total capital expenditure amounted to N$10.8 million (2020: N$153 million). This significant reduction is due to the acquisition of three residential complexes in the prior period, although excluding these acquisitions still sees capital expenditure declining by N$54.5 million. Capital expenditure in the current period was kept to a minimum to enable necessary maintenance to be effected on Oryx's high quality assets. Capital expenditure is however expected to increase significantly in FY22 resulting from cosmetic upgrades to various properties, possible solar installations and the first phase of the major planned upgrade to Maerua Mall.

Funding



Source: Oryx Properties, IJG Securities

Oryx' interest bearing borrowings declined by 7.6% to N$1.21 billion at FY21 from N$1.31 billion at FY20. The company's gearing ratio improved slightly to 38.2% at FY21 from 39.1% at FY20 following the decision to not distribute a final distribution in the previous financial year. With the gearing ratio trending just below management's self-imposed 40% cap, coupled with negative fair value adjustments to Oryx' property portfolio, it will make future debt-funded acquisitions challenging. Total unutilised facilities stood at N$183 million at FY21 (FY20: N$65 million) and €4.8 million (FY20: €2 million) in the Euro facility, excluding the unutilised portion of the Medium-Term Note Programme of N$316.7 million.

Oryx' weighted average interest rate amounted to 5.6%, up from the 5.2% recorded last year due to additional swaps entered 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 swaps during the period to fix rates, with management corroborating our view that interest rates are expected to rise in the next twelve months.

As we reported in our 1H20 Results Review, half of the Euro loan was converted to Namibian dollar debt to take advantage of the stronger local currency exchange rate observed since the beginning of the year. We noted that the conversion made sense to us as it is unlikely that the local currency will strengthen significantly going forward. The ORYJ22 bond is maturing on 20 November 2022. At the moment management's first preference is to roll the bond, unless they are able to obtain cheaper funding elsewhere. They would also consider raising an additional bond, but only if gearing is to remain below the 40% cap.

Subsequent to year-end, Oryx refinanced the N$90 million Old Mutual Promissory Note facility at 3-month JIBAR plus 2.05% for a four-year term. The interest rate on the N$75 million facility with Nedbank was increased to 3-month JIBAR plus 3.0%.

While a final decision has not been made, management does not rule out the possibility of a rights issue at some point over the short- to medium-term, as it is being considered in certain scenarios to fund the envisioned Maerua Mall upgrades or to fund other projects/acquisitions. With Oryx' gearing ratio continuing to trend near the internal limits and property values likely to remain under pressure for another year or two, we view the possibility of a rights issue as very likely.

In the results release, management mentions that they believe that vendor placements can improve gearing, cash flows and reduce overdependencies on major assets, and it will therefore be recommended for use as a resolution to unitholders again at the November AGM.

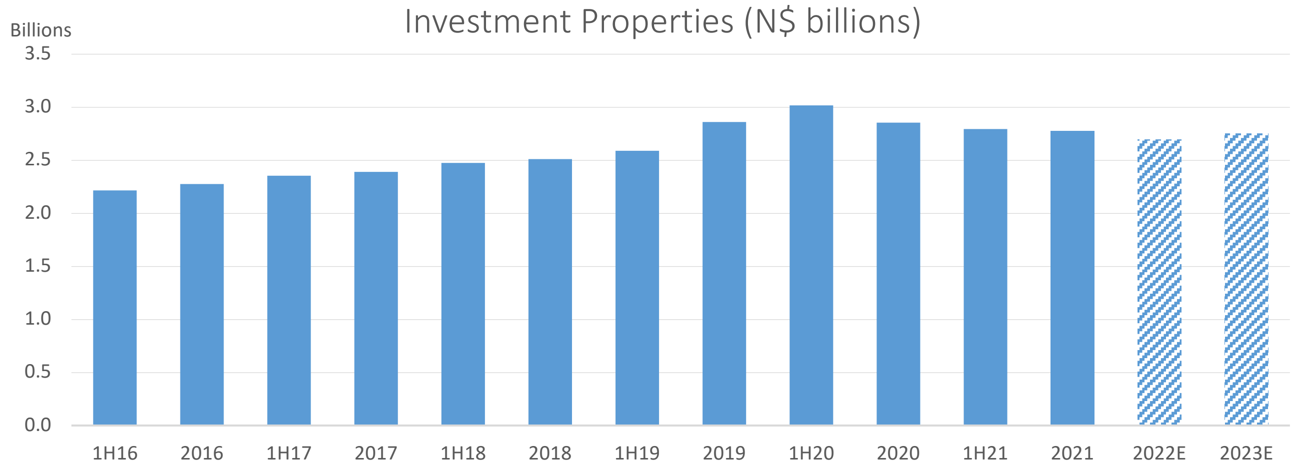
Debentures

Oryx' debentures are set to mature on 2 December 2027. Through a special resolution at the upcoming AGM, Oryx would like to extend the redemption date by 25 years to 2 December 2052. This follows an evaluation of the company's business model during the year by the Board and executives and would mitigate the risk of Oryx becoming liable for payment if the debenture holders were to exercise their right to redeem them. Oryx' financiers have started seeing this as a risk and therefore the decision to extend the maturity date now seems like a prudent one as the status quo will likely result in higher finance costs going forward.

Property Portfolio

The property portfolio was valued at N$2.78 billion at FY21 by Mills Fitchet Magnus Penny, down 2.8% from the FY20 valuation and down 0.6% from the directors' 1H21 valuation. A negative fair value adjustment of N$94.0 million was reported for the period. Management states in the results release that a conservative valuation approach was applied to account for the impact of the Covid-19 pandemic, but the 3% and 7% contractions attributed to the retail and residential segments, respectively, suggest that their assumptions were perhaps not conservative enough in the prior period. Management's aim is to grow the fund to N$5 billion by 2026, which seems ambitious at this stage.

The company has implemented an interim, two-year consolidation strategy to strengthen the balance sheet and optimise the portfolio. The strategy will include focusing on the turnaround or disposal of assets either not contributing to distributable income or that are approaching the end of their economic life cycle. Oryx further plans to rebalance the portfolio by increasing its exposure to industrial, community-based retail and residential properties, while trimming exposure to C Grade office space and large retail by not making further acquisitions in super regional centres in the future. Oryx plans to exit its last direct investment in South Africa and limit exposure to indirect holdings in SA REITs.



Source: Oryx Properties, IJG Securities

Maerua Mall

A 10-year masterplan was developed for Maerua Mall Retail to 'revitalise' the asset, attract new tenants and improve foot count. Increased outdoor restaurant space and entertainment options for shoppers will be a particular focus of the plan. It is likely going to be a three- to four-year capital-intensive project, which is subject to the amount of capital raised. Maerua lost its spot as the premier mall in Windhoek when the Grove opened. Should Oryx wish to reposition Maerua as the premier mall once again, a very concerted effort would be needed to execute a clear vision.

Gustav Voigts

Management is expecting activity to pick up in and around the Gustav Voigts Centre after Nedbank's new headquarters becomes occupied sometime in 2022. Upgrades are planned to the anchor tenant, Checkers, and co-working spaces are being considered for the first floor.

Residential and Offices

Part of Oryx' plan to diversify away from its large retail portfolio is to increase its exposure in the residential space. Vacancies in the Channel Life Office Tower are increasing, and Oryx is considering either disposing the asset or converting a portion of it to residential apartments. The Maerua Park office portfolio is experiencing similar challenges and Oryx is considering a similar conversion to residential units and believe that roughly 54 apartments could be constructed within the space. A niche medical centre is also being explored.

Tower Property Fund

Tower Property Fund has 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 buyout will see Oryx receiving N$14.9 million for its stake in the REIT. Oryx' initial investment in Tower was worth N$30 million. A final decision has not been made on the use of the proceeds, but Oryx are reviewing the highest yielding options. Current options including reinvesting it into another SA REIT or deploying it elsewhere in the portfolio by investing in solar or to further reduce gearing. The former seems improbable at this stage and is likely to be ill received by shareholders as Oryx has been on a drive to retain earnings to invest into its fixed asset portfolio.

Tower International Limited

Oryx plans on retaining its investment in TIL with the intention of bulking up the portfolio by partnering with a new investor so that a capital raise and eventual European listing becomes viable which would allow TIL to acquire additional Croatian assets. Oryx noted that while there are challenges associated with the proposed listing, they have applied pressure to Tower Properties to list TIL, and if the outcome is that TIL cannot list, Oryx would consider exiting the investment. The abovementioned buyout will see RDC Properties own Tower Properties' 74% investment in TIL.

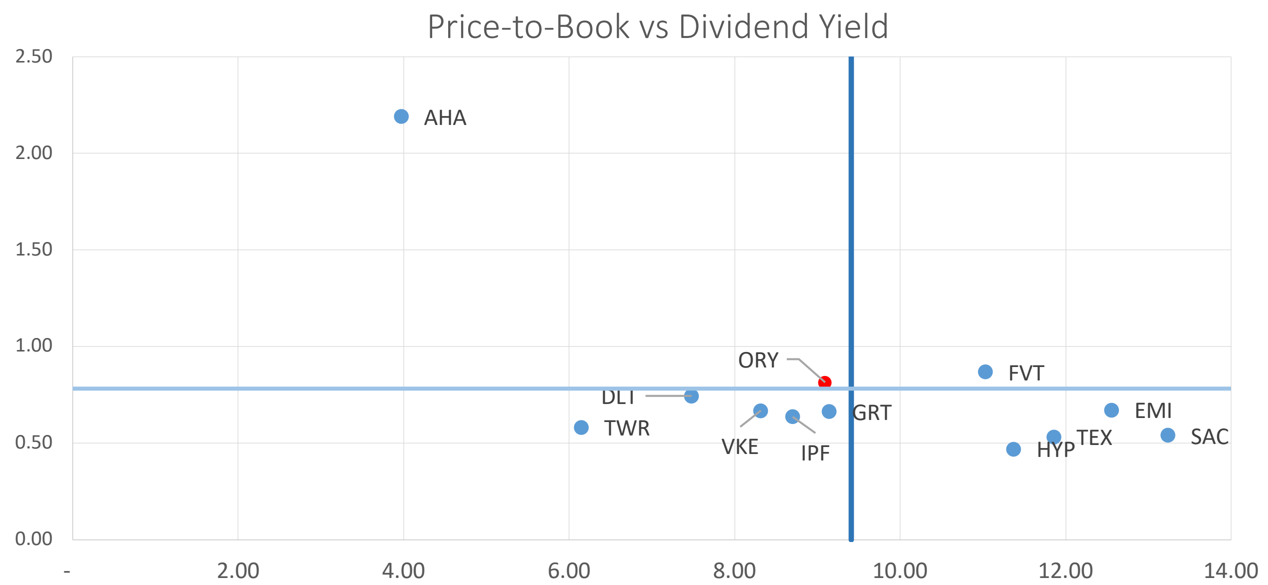
Relative Comparison

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 7th 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
Oryx Properties	**43.01**	**(13.88)**	**9.09**	**0.82**	**3.37**	**6.38**	**1,131,754,222**
Investec Property Fund	136.15	(12.68)	8.70	0.64	5.81	8.12	8,532,135,506
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**	**9.41**	**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 averages of its peer group, signalling that the share is currently similarly priced compared to its peers.

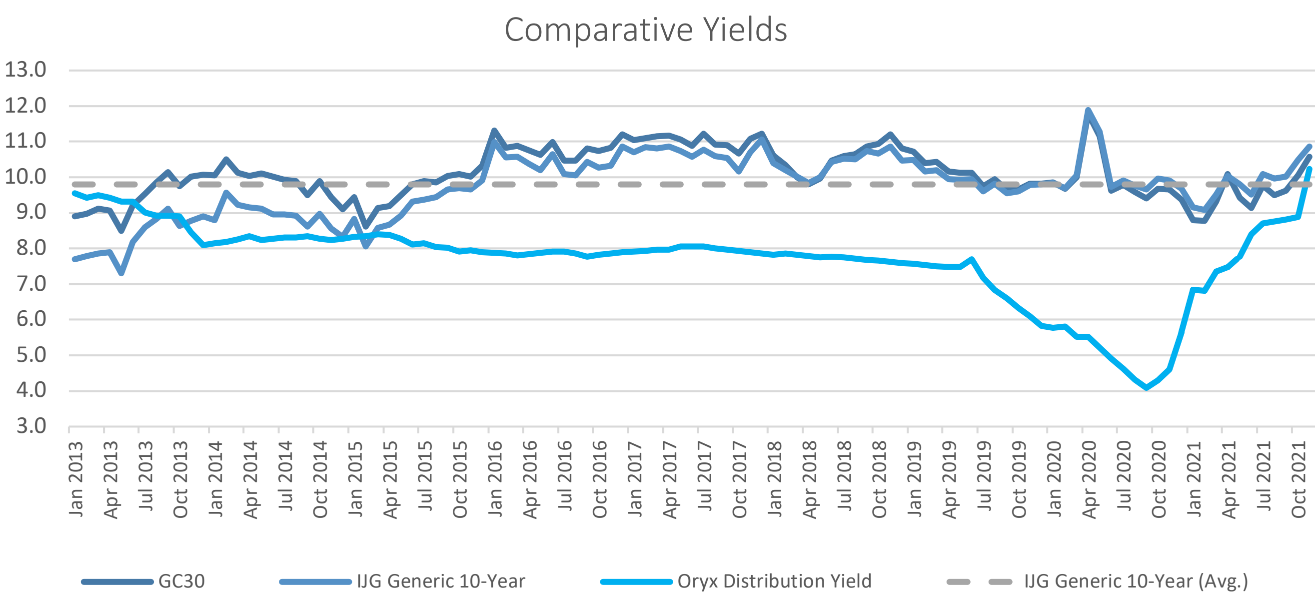


Source: Bloomberg, IJG Securities

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 remains expensive with few upside factors currently present that could drive meaningful distribution growth.

The graph below compares the Oryx distribution yield to the GC30 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. The drop in Oryx' share price since May 2020, coupled with FY21 distributions being higher than in FY20 (due to Oryx only paying 1H20 distributions), has resulted in a significant uptick in the company's distribution yield over the last year.



Source: IJG Securities

A required yield of 9.80% combined with our expectation of FY22 distributable income of 117c per unit informs our target price. Assuming a normal 90% distribution equivalent to 105c per unit, this generates our **target price of N$11.85.** This represents a 18.6% premium to the current unit price. However, we feel the risk of future reduced distributions remains due to a stretched balance sheet and lacklustre economic environment and as such we maintain our **HOLD** recommendation.

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