



ORYX PROPERTIES LIMITED

1H19 Initial Impression

March 2019

Research Analyst:

Cecil Goliath
cecil@ijg.net
+264 61 383 529

Oryx Properties Limited

1H19 Initial Impression

Target Price (c) 1714

Current Price (c) 2021

Year End 30 June	2016A	2017A	2018A	F2019	F2020	Recommendation	SELL
Revenue (N\$m)	288.3	297.1	304.9	344.7	370.0	NSX Code	ORY
Vacancies (%)	2.1	6.4	6.5	2.0	2.0	Market Cap (N\$m)	1,571
HEPU (c)	163.0	158.6	146.0	169.1	190.5	Shares in Issue (m)	77.9
HEPU growth (%)	2.1	-2.6	-7.9	28.5	12.7	Free float (%)	100
DPU (c)	167	167	157	169.1	190.5	52 week high (c)	2080
DY (%)	7.8	8.1	7.8	8.3	9.3	52 week low (c)	2017
P/E (x)	13.2	13.0	13.8	12.1	10.7	Expected Total Return (%)	-7.1
D/A (%)	29.0	33.2	35.9	42.1	42.1		

Source: ORYX PROPERTIES LIMITED, IJG

1H19 Initial Impression

Oryx Properties Limited (Oryx) released half year results for the period ended 31 December 2019. Despite the current economic downturn Oryx has managed to produce satisfactory results. Total distributions of 79.00c per unit were reported for the period, representing a 1.3% increase from the 78.00c per unit reported for the corresponding period in 2018. The distribution is made up of 77.50c debenture interest and a dividend of 1.50c filtering through from Oryx' investment in Tower Property Fund. The total distribution of 79.00c was largely a result of interest distributions increasing by 5.1% while the dividend component fell 66.7%. Earnings attributable to linked units per unit (EPU) decreased by 27.2% to 99.48c for the period under review, down from 136.63c EPU in 1H18. Headline earnings attributable to linked units increased by 8.3% from 76.04c in 1H18 to 82.38c in 1H19.

Oryx' defensive capital deployment into the existing portfolio is starting to yield dividends. Net rental income (NRI) for the period increased by 11.2% to N\$155.3 million and includes earnings from the Family Entertainment Centre (FEC) that opened late 2017, as well as the savings being realised from the now complete 2.6MW solar installation at Maerua Mall. Earnings from the 'guaranteed' Trustco head lease on the land acquired at Eisenheim also contributed to growth in NRI for the period under review. The resilience of Oryx' property portfolio is highlighted by the 3.9% increase in rental revenue for the period. After accounting for positive straight-line adjustments to rentals, total revenue increased by 5.2% for the year. Rental expenses decreased by 6.3% to N\$47.6 million in 1H19 from N\$50.8 million the corresponding period in 2018. The decrease in rental expenses was largely a result of the savings benefits from Oryx' solar PV installation. Oryx' cost to income ratio has dropped to 30.6% in 1H19 from 34.4% in 1H18 as a result.

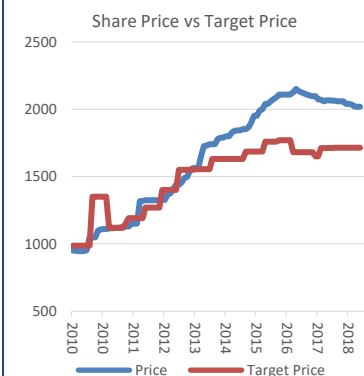
Oryx recorded a loss after tax of N\$5.5 million during the period under review, compared to profit after tax of N\$48.9 million in 1H18. Oryx passed through N\$8.9 million as fair value adjustments to the property portfolio, which is considerably lower than the N\$37.8 million adjustment in 1H18. Oryx' finance costs increased by almost 50.0% to N\$49.7 million for the period. The N\$16 million increase in finance costs is made up of the interest payments on the euro-loan, and further includes coupon payments of the N\$129 million 1-year MTNP bond during the 1H19 period. The bond was first issued in November 2017 and its first two coupon were paid during 2H18, thus not in the base period.

The 1H19 results include a foreign currency translation loss of N\$20.1 million related to the euro-denominated loan used to fund the investment in associate. The N\$300 million transaction resulted in Oryx owning 26% of TPF International Limited (TIL). The foreign currency translation loss on the loan was offset by the currency translation gains of N\$21.8 million realised on the investment in associate.

Oryx has been impacted by the stagnant state of the economy as is evident in its vacancy factor (as a % of lettable area) increasing to 6.85% in 1H19 compared to 6.5% in the corresponding period. Management continued to struggle with the offloading of the vacant Isando property in Johannesburg. Guidance from management post FY18 was that Oryx was at an advanced stage in securing a buyer for the property. Clearly this has not materialised, however management commentary in the 1H19 results release cites a conditional offer for the property has been received. Given the current state of the economy it is expected that local office and retail floorspace will continue to face occupancy challenges. Oryx does however note that vacancies eased to 6.3% subsequent to 1H19 as some vacancies were filled.

There was a marked increase in Oryx' interest bearing borrowings which grew to N\$1.34 billion in 1H19 from N\$903 million in 1H18. The biggest contributor to this increase was the N\$300 million euro-equivalent loan used to finance the investment in associate (TIL). Oryx' gearing ratio increased to 43.9% in 1H19 as a result and is well above management's self-imposed 40% cap. Oryx also successfully rolled the N\$129 million 1-year medium-term note last November. The ratio of fixed to variable rate borrowings for the period was 59:41 versus 49:51 the prior year, satisfying management's 60% debt hedging policy. The addition of the low interest euro-based loan brings Oryx' weighted average interest rate to 7.6%, down considerably from the 9.2% recorded last year.

Share Price (c)



Dividends

Notice is hereby given that a distribution and dividend of 77.50 cents per linked unit and 1.50 cents per linked unit respectively, was declared on 1 March for the period ended 31 December 2018.

- Last day to trade cum distribution: 08 March 2019
- First day to trade ex-distribution: 11 March 2019
- Record date: 15 March 2019
- Payment date: 29 March 2019



Overall the interim results look satisfactory and the impending rights issue promises to add some yield accretive acquisitions, if successful. The benefits from the bulk of these acquisitions will only be realised in 2020 however. Oryx announced on the 31st of January that it intends to raise over N\$309 million by way of a rights issue. Oryx is offering qualifying unit holders 1 right for every 5 linked units, which equates to a total of 15,789,275 rights issue units. Oryx last raised capital by way of a rights issue in 2015. The aim, at that point in time, was to raise a total of N\$264 million from the issuance of 13,210,002 rights units. Oryx was successful in raising only N\$236 million.

In 2015, 89.1% of unitholders voted in favour of going ahead with the rights issue while none voted against it. The rights issue concluded with 11,809,781 of the proposed 13,210,002 rights units subscribed (an 89.4% success rate). We believe the votes in favour of the rights issue provide a general sense of unitholder sentiment with regards to the rights offering. At the General Meeting held on the 15th of February 61% of unitholders voted in favour of the rights issue offering, markedly lower than at the previous rights issue. If the 2015 rights issue is anything to go by, bearing in mind that conditions were more favourable back then in terms of rising property prices and stronger economic growth, the likelihood of a fully subscribed rights offer is significantly lower this time around.

The extent of Oryx' success in selling the rights to unitholders will have significant bearing on Oryx' ability to grow the property portfolio and increase earnings through yield accretive acquisitions. A successful rights issue will allow Oryx to release a substantial portion of their property portfolios by decreasing and renegotiating debt agreements. At present, the increase in Oryx' gearing ratio limits their use of debt as a source of funding for future acquisitions. Below we've provided several probable scenarios with regards to the rights issue, outlining the effects on our forecast of distributions for FY19.

Rights Issue: Possible Subscription Scenarios

	Full subscription	60% Subscription	40% Subscription	20% Subscription
Units Raised by Rights Issue	15 789 275	9 473 565	6 315 710	3 157 855
Total Proceeds from Rights Issue @19.59 per unit	309 311 897	185 587 138	123 724 759	61 862 379
Current Shares in Issue	78 946 669	78 946 669	78 946 669	78 946 669
New Weighted Average Number of Shares	82 893 988	81 315 060	80 525 597	79 736 133
Distributions* (N\$)	127 893 710	125 367 426	124 104 284	122 841 142
DPU (c)	154.29	154.17	154.12	154.06
Distribution Yields @ 2021c per share (current price)	7.63%	7.63%	7.63%	7.62%

*IJG FY19 Forecast

** @ 2021c per share (current price)

The rights issue offer closes on the 29th of March, with the results scheduled to be public on the 1st of April. The table above illustrates our assumptions for FY19 and the dilutive effects from the possible new rights for the three remaining months of Oryx' financial year. In our view the short-term benefits from the rights issue is a stronger balance sheet. The lowered gearing will allow for attractive, debt funded acquisitions and developments to Oryx' property portfolio, that has produced satisfactory results in the face of a prolonged recession. The benefit for unitholders (in the form of distributions) on the other hand, from most of the proposed projects are expected to filter through from 2020 only. We are of the view that a larger discount than the 3.1% discount (5.0% after accounting for the antecedent distribution) to the current share price would be needed to guarantee a successful rights issue. Notwithstanding that the distribution yield is expected to remain under pressure in the near-term. Pending further analysis of Oryx' half year results and consultation with management, we maintain our SELL recommendation on Oryx Properties. We will also provide a revised target price with the release of the full 1H19 report.



IJG Holdings

Group Chairman

Mathews Hamutenya
Tel: +264 (61) 256 699
mathews@millennium-invest.com

Group Managing Director

Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Group Financial Manager

Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

IJG Securities

Managing Director

Lyndon Sauls
Tel: +264 (61) 383 514
lyndon@ijg.net

Equity & Fixed Income Dealing

Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

Sales and Research

Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Danie van Wyk
Tel: +264 (61) 383 262
danie@ijg.net

Settlements & Administration

Annetjie Diergaardt
Tel: +264 (61) 383 515
anne@ijg.net

Financial Accountant

Tashiya Shekutamba
Tel: +264 (61) 383 511
tashiya@ijg.net

Cecil Goliath
Tel: +264 (61) 383 529
cecil@ijg.net

Dylan van Wyk
Tel: +264 (61) 383 500
dylan@ijg.net

IJG Wealth Management

Managing Director

René Olivier
Tel: +264 (61) 383 522
rene@ijg.net

Portfolio Manager

Ross Rudd
Tel: +264 (61) 383 523
ross@ijg.net

Money Market & Administration

Emilia Uupindi
Tel: +264 (61) 383 513
emilia@ijg.net

Wealth

Andri Ntema
Tel: +264 (61) 383 500
andri@ijg.net

Wealth Manager

Alexa Reilly
Tel: +264 (61) 383 533
alexa@ijg.net

Wealth Administration

Lorein Kazombaruru
Tel: +264 (61) 383 521
Lorein@ijg.net

IJG Capital

Managing Director

Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

Portfolio Manager

Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

Business Analyst

Mirko Maier
Tel: +264 (61) 383 500
mirko@ijg.net

Business Analyst

Eward Kavungo
Tel: +264 61 383 536
llona@ijg.net

IJG Advisory

Director

Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

Business Analyst

Jason Hailonga
Tel: +264 (61) 383 529
jason@ijg.net

No representation is given about, and no responsibility is accepted, for the accuracy or completeness of this document. Any views reflect the current views of IJG Securities (Pty) Ltd. The views reflected herein may change without notice. IJG Securities (Pty) Ltd provides this document to you for information purposes only and should not be constructed as and shall not form part of an offer or solicitation to buy or sell securities or derivatives. It may not be reproduced, distributed or published by any recipient for any purposes.

Talk to **IJG** today ...

and let us make your money work for you

4th Floor, 1@Steps, C/O Grove and Chasie Street, Kleine Kuppe, Windhoek

P O Box 186, Windhoek, Namibia

Tel: +264 (61) 383 500 www.ijg.net

STOCKBROKING | PRIVATE EQUITY | WEALTH MANAGEMENT | ADVISORY

