ORYX PROPERTIES LIMITED

1H19 Results Review

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Oryx Properties Limited

1H19 Results Review

Target Price (c)	***1812***
Current Price (c)	2015

Year End 30 June	2016A	2017A	2018A	F2019	F2020
Revenue (N$m)	288.3	297.1	304.9	329.1	336.7
Vacancies (%)	2.1	6.4	6.5	2.0	2.0
HEPU (c)	163.0	158.6	146.0	154.0	162.2
HEPU growth (%)	2.1	-2.6	-7.9	5.5	5.3
DPU (c)	167	167	157	161.7	166.2
DY (%)	7.8	8.1	7.8	7.8	8.0
P/E (x)	13.2	13.0	13.8	13.1	12.4
D/A (%)	29.0	33.2	35.9	42.1	42.1

Recommendation	SELL
NSX Code	ORY
Market Cap (N$ m)	1,704
Shares in Issue (m)	87.4
Free float (%)	100
52 week high (c)	2021
52 week low (c)	1950
Expected Total Return (%)	-10.1

Source: ORYX PROPERTIES LIMITED, IJG

1H19 Results Review

Oryx Properties Limited (Oryx) released half year results for the period ended 31 December 2018. 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 Elisenheim 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 on the N$129 million 1-year MTNP bond during the 1H19 period. The bond was first issued in November 2017 and its first two coupons were paid during 2H18, and thus not included in the base period.

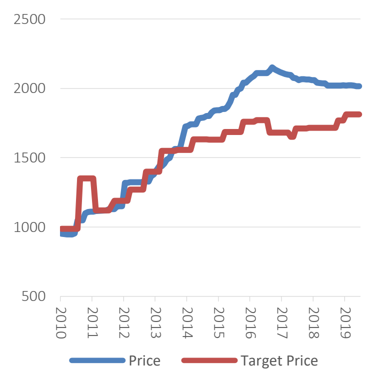
The 1H19 results include a foreign currency translation loss of N$20.1 million related to the euro-denominated loan used to fund the investment in associate. The N$300 million transaction resulted in Oryx owning 26% of TPF International Limited (TIL). The foreign currency translation loss on the loan 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. 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. Oryx' gearing ratio increased to 43.9% in 1H19 as a result and is well above management's self-imposed 40% cap. 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.

Based on our distribution expectations, Oryx trades at distribution yield of 7.8%, comparing unfavourably to the long-term average IJG Generic 10-year yield of 9.8%. The elevated share price currently makes Oryx an unattractive purchase and as such we maintain our **SELL** recommendation on the stock.

Share Price vs Target Price(c)



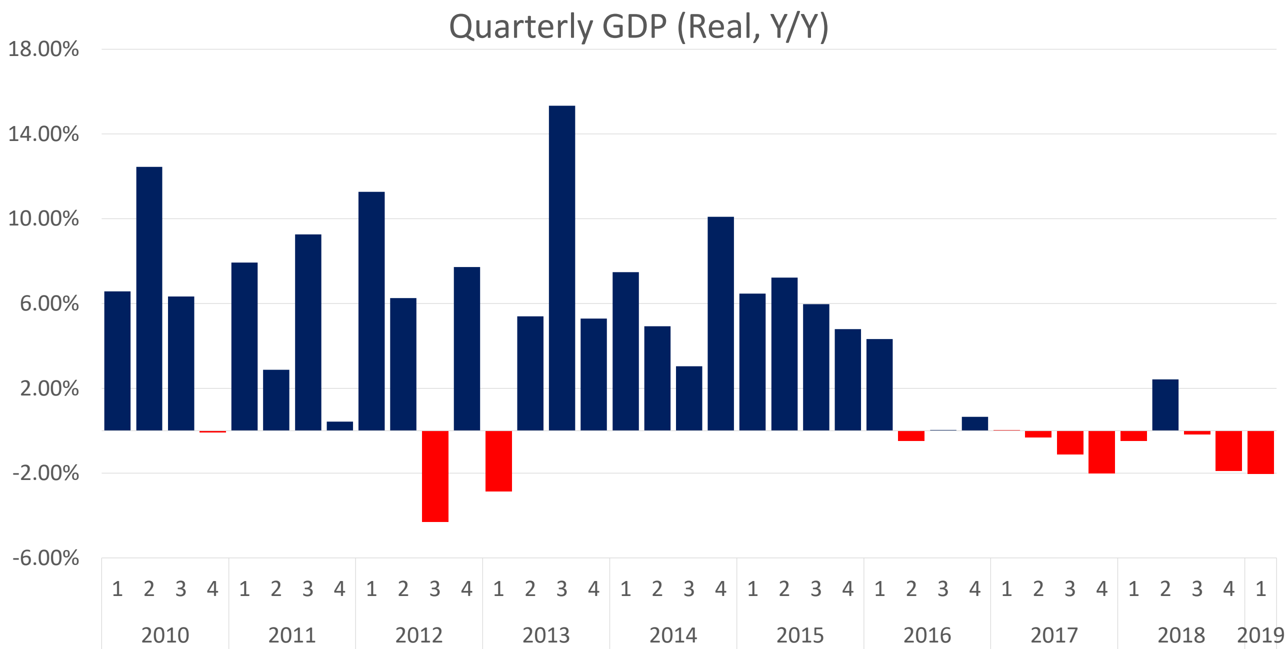
Dividends

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

Macroeconomic Environment

The Namibian economy continues to find itself in a precarious position. Quarterly growth for the last three years has either been negative or marginally positive, meaning that the country's economy has been relatively stagnant since the beginning of 2016. The Namibia Statistics Agency's Q1 GDP data release in June shows Q1 GDP contracted by 2.0% y/y and 0.7% q/q. Data for prior periods was revised as far back as 2014, but not to the extent that material changes in growth rates was recorded as with the preliminary GDP data for 2018. The data shows that Namibia has now experienced 3 consecutive quarters of contraction on a year-on-year basis, and two consecutive quarters of contraction on a quarter-on-quarter basis. The revised data shows that eight of the last twelve quarters have posted contractions on an annual basis, separated by four quarters of very subdued growth as illustrated below.



Source: NSA, IJG Securities

We do not expect to see much improvement in economic performance in the remaining quarters of 2019 as the country riles from drought once again. This is likely to lead to a further increase in unemployment in an environment where GDP per capita has been declining for successive years.

Government is continuing with its pro-growth fiscal consolidation efforts, which was reiterated in this year's March budget speech. The budget revealed that fiscal controls have improved as the 2018/19 budget outturn was very close to the forecast from March 2018. This is a very positive development as improvement in fiscal controls and governance is critical to managing the fiscal position and avoiding further slippage. Government expenditure is expected to increase by 2.4% to N$66.55 billion in the 2019/20 budget year, from N$65.02 billion in 2018/19. This is an upward revision of 1.1% from the mid-term budget review last year, and the highest forecast expenditure ceiling for the year since the inclusion of 2019/20 in an MTEF period. Any slippage in the fiscal consolidation efforts will result in deteriorating debt metrics and will eventually have a negative impact on credit ratings.

Although expected to decline over time, government continues to run large fiscal deficits, and as a result government debt continues to rise. As per the latest budget forecasts, the funding requirements are roughly N$9.2 billion, N$8.6 billion and N$7.4 billion over each of the next three financial years. Should there be overruns in expenditure or shortfalls in revenues, pressure to fund the deficits by issuing sovereign paper locally will return, which is likely to have a negative effect on banking sector liquidity and cost of funding for banks.

Additionally, business and consumer confidence remain low as the lack of clarity surrounding investor unfriendly policies such as NEEEF and the Namibian Investment Promotion Act (NIPA) remain an overhang to the investment environment, acting as disincentives for both local and foreign direct investment.

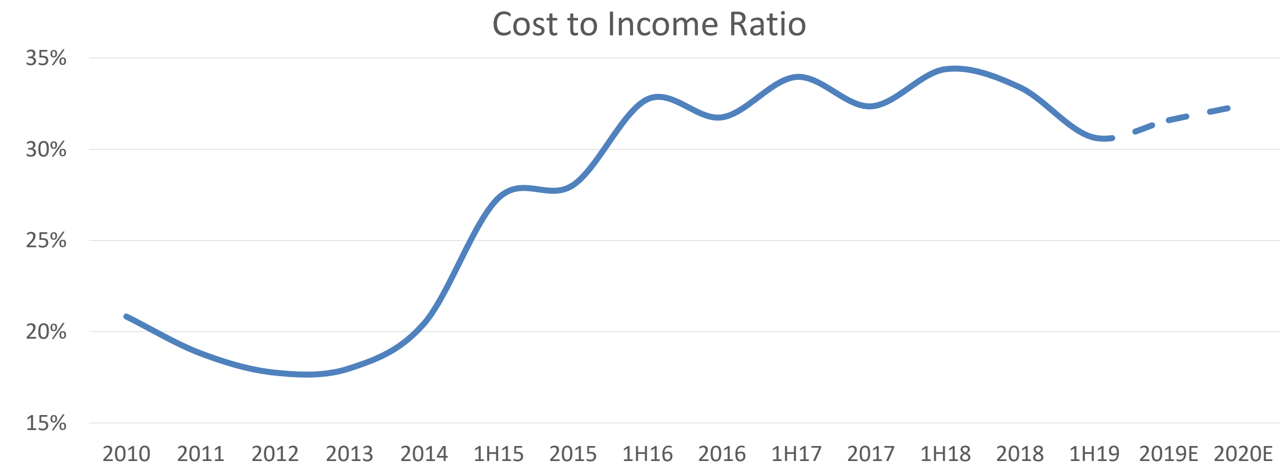
Given the current circumstances, we expect real GDP growth of 0.9% in 2019. We expect growth to be driven by a marginal rebound in tertiary sector activity as government ups operational expenditure and consumers start to find their feet. After which we expect real growth to stabilise around the 3.4% level in 2020 and 2021.

Revenue and Rental Expense

Despite the current economic downturn, Oryx managed to grow total revenue by 5.2% y/y to N$155.3 million, after accounting for positive straight-line adjustments to rentals. Revenue growth has remained relatively low in recent years as the stagnant state of the economy has put rental escalations under pressure. The 5.2% growth achieved in 1H19 is thus positive in our view, given the current economic state and shows the resilience of Oryx' property portfolio.

The struggling economy has had an impact on Oryx' vacancy factor (as a percentage of lettable area) which increased from 6.5% at FY18 to 6.85% at 1H19. This was mainly due to office space becoming vacant in the Channel Life property and management's continued struggle to offload 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 Isando property. Clearly this has not materialised as at 1H19. Management does however cite that "an acceptable, conditional offer has been received" in the 1H19 results release. If the deal went through before year-end, Oryx's vacancy rate could halve by FY19, assuming no new vacancies. Given the current state of the Namibian economy it is expected that local office and retail floorspace will continue to face occupancy challenges. The same trend is being seen in the industrial sector as anecdotal evidence points to vacated properties being difficult to fill. That said, bar the South African property held for sale, Oryx has shown remarkable resilience in maintaining vacancies at relatively low rates.

Rental expenses decreased by 6.3% y/y to N$47.6 million in 1H19. The decrease in rental expenses is attributable to the additional solar installations at Maerua Mall during the previous financial year which resulted in a savings benefit. Oryx' cost to income ratio has dropped to 30.6% in 1H19 from 34.4% in 1H18 as a result. The initial increase in the ratio was due to Oryx onboarding the electricity distribution function at Maerua and thus taking over the electricity payments to the municipality for the entire mall. This allowed Oryx to add solar to the electricity supply. The exercise has resulted in an improved rental yield from the mall as well as the environmental benefits that come with clean energy.



Source: Oryx, IJG Securities

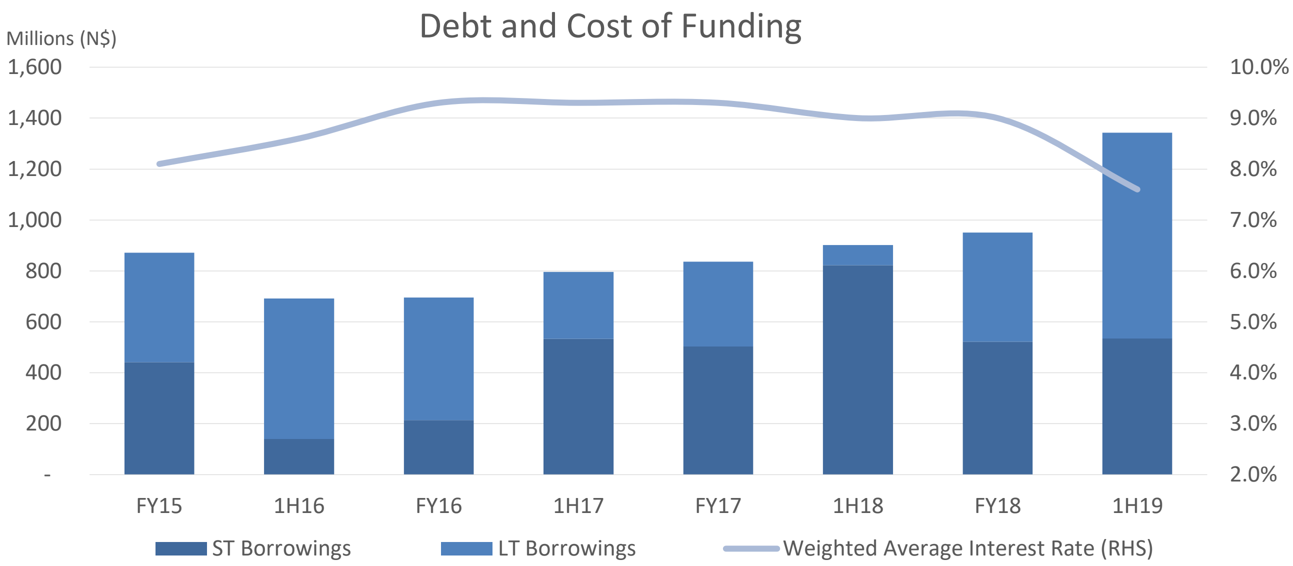
Net rental income (NRI) for the period increased by 11.2% to N$155.3 million and includes earnings from the Family Entertainment Centre (FEC) that opened late 2017, as well as the savings being realised from the additional solar installations. Earnings from the 'guaranteed' Trustco head lease on the land acquired at Elisenheim also contributed to growth in NRI for the period under review.

Borrowings

Oryx' long-term borrowings increased by a significant 48.8% y/y to N$1.34 billion in 1H19, from N$902.7 million reported as at 1H18. This increase in debt is largely a result of the N$300 million euro-equivalent loan used to finance the offshore investment into TPF International Limited (TIL). The investment in TIL was funded by a 3-year loan from ABSA Bank. As a result of this, Oryx' gearing ratio increased to 43.9% in 1H19, above management's self-imposed 40% cap. In November Oryx also managed to successfully roll the N$128.7 million 1-year medium-term note for another year, at the same terms.

The increase in long-term borrowings resulted in an almost 50.0% increase in finance costs 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 on the N$129 million 1-year MTNP bond during the 1H19 period. The bond was first issued in November 2017 and its first two coupons were paid during 2H18, thus not in the base period.

The ratio of fixed to variable rate borrowings for the period was 59:41 compared to 49:51 in 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% (N$/ZAR debt 9.17%, Euro debt 2.7%), down considerably from the 9.2% recorded last year.

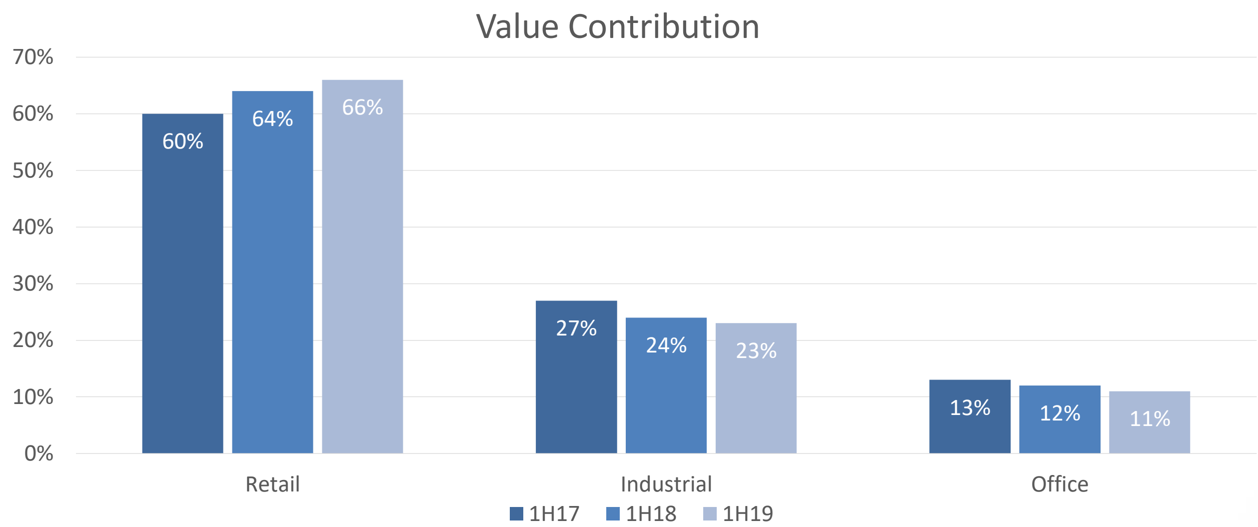


Source: Oryx, IJG Securities

Property Portfolio

Oryx' property portfolio was valued by the directors at N$2.64 billion for 1H19, representing a 4.7% increase from the N$2.52 billion valuation in 1H18 and 3.1% higher than at FY18. Management noted in the results release that a conservative valuation approach has been applied due to the country's weak economic state. 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 expended N$41 million on the upgrade to the Gustav Voigts Centre during 1H19, contributing to the portfolio value increase.

On 18 December 2018, Oryx announced that it had successfully concluded a transaction to purchase an industrial property, Steeledale, for N$20.9 million in the Northern Industrial area. The property was acquired by means of a vendor placement. The transaction was concluded with TLP Investments 137 (Pty) Ltd., an existing unitholder, at a price of N$19.19 per linked unit, which was a 5% discount of the weighted aver share price 10 days prior to the issue date. The property was acquired on a yield of 10.2%, indicating some opportunity in the market to acquire properties on a yield basis.



Source: Oryx, IJG Securities

Oryx stated in a January Sens announcement that intends to grow its assets to N$4.0 billion over the next three years, signifying a required growth rate of 15% per year in the asset base, as the company is focused on diversifying its property portfolio with more focus on non-retail assets. The figure above shows how Oryx' portfolio has become more concentrated on the retail sector in terms of value. This is largely due to the sales of the South African industrial properties as well as vacancies in the office portfolio and slower rental increases as a result.

Rights Issue

Oryx' rights issue closed on 29 March after 61% of unitholders voted in favour of the rights offer. Oryx unitholders only subscribed for a total of 8,432,166 or 53.4% of the total linked units offered for subscription. The total value of these additional units amounted to N$165,186,131.94. The table below illustrates our assumptions for FY19 and the dilutive effects from the new rights for the three remaining months of Oryx' financial year after the rights issue.

	Full Subscription	53.4% Subscription
Units Raised by Rights Issue	15 789 275	8 432 166
Total Proceeds from Rights Issue @19.59 per unit	309 311 897	165 186 132
Current Shares in Issue	78 946 669	78 946 669
New Weighted Average Number of Shares	82 893 988	81 054 711
Distributions* (N$)	127 893 710	124 950 866
DPU (c)	**154.29**	**154.16**
Distribution Yields @ 1950c per share (current price)	**7.91%**	**7.91%**

**IJG FY19 Forecast*

In the 2 April announcement of the rights issue results, Oryx noted that the proceeds from the rights offer will be used to "reduce interest-bearing borrowings and to fund the development pipeline, which is in the process to be rolled out." No additional information has been given on which specific debt facilities were paid down. The lowered gearing could possibly allow for attractive, debt funded acquisitions and developments to Oryx' property portfolio. The benefit for unitholders (in the form of distributions), from the proposed projects are however only expected to filter through from 2020.

The results of the rights issue corroborate our view that a larger discount than the 3.1% (5.0% after accounting for the antecedent distribution) to the unit price at the time was needed to guarantee a successful rights issue. Oryx last raised capital by way of a rights issue in 2015. The aim, at that point in time, was to rise approximately N$264 million by offering 13,210,002 rights at a subscription price of 2,000 cents per right. Unitholders took up 11,809,781 units of the offered rights or 89.4%, and ORY raised N$236 million in the process. Market conditions in 2015 were however more favourable in which to attempt a rights issue from a sentiment perspective, as the property market was showing strong growth and the Oryx share price and distributions were still rising. This has however not been the case over the last three years.

Relative Comparison

The below figure is a peer comparison between Oryx and its JSE-listed Real Estate Investment Trust (REIT) peers, and has been ranked according to distribution yield. Oryx ranks last in terms of distribution yield compared to its JSE-listed peers, and lags the average for the group by about 5 percentage points.

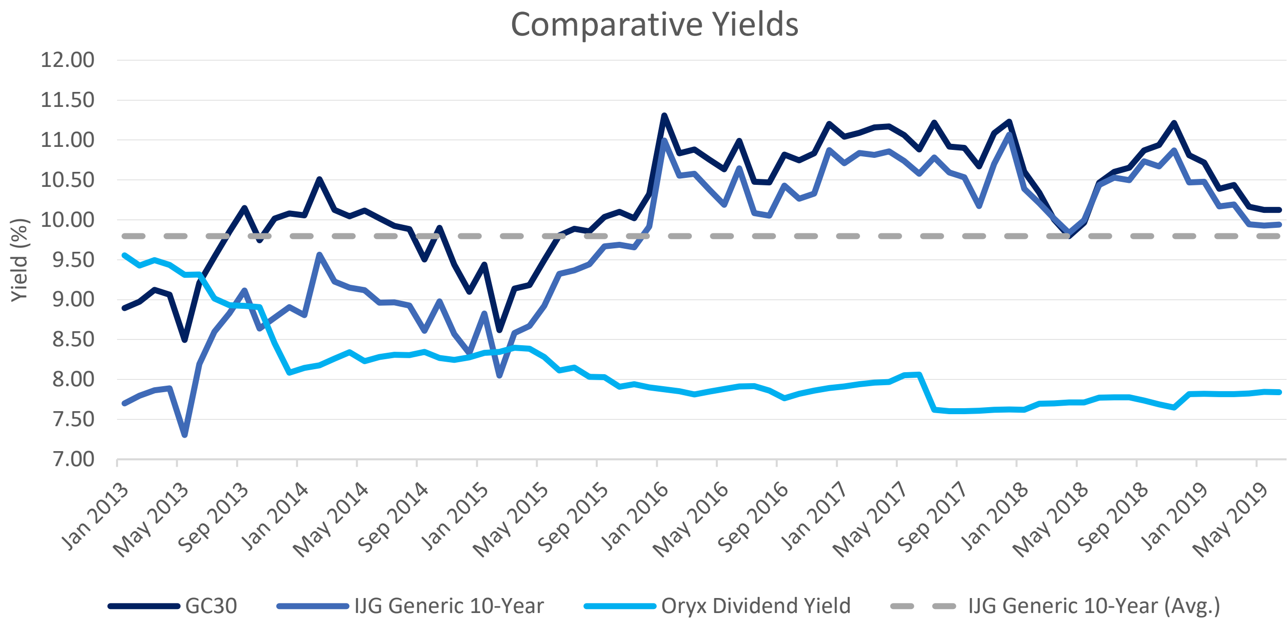
It should however be noted that many of the companies at the top of the table have high distribution yields because their share prices dropped drastically during the last year, and not necessarily because of remarkable results, as is evident by the distribution growth rate of these companies.

Company	Distribution Growth	3Yr Distrb. Growth (Bloomberg)	Dividend Yield	Price to Book	Price to Sales	P/E	Market Cap
Delta Property Fund Ltd	-43.04	-15.19	29.78	0.20	0.82	2.54	1 328 467 275
Texton Property Fund Ltd	-24.57	-8.62	19.63	0.60	2.40	27.17	1 485 463 726
Accelerate Property Fund Ltd	-2.70	1.72	17.51	0.40	2.54	7.05	3 185 293 410
Arrowhead Properties Ltd	-47.81	-10.93	15.66	0.53	1.43	27.87	3 719 258 622
SA Corporate Real Estate Ltd	-6.01	2.25	12.91	0.64	3.56	8.74	8 275 353 030
Tower Property Fund Ltd	-2.88	-5.03	12.64	0.62	5.07	8.20	2 081 439 336
Redefine Properties Ltd	4.77	6.18	11.02	0.86	5.30	16.00	52 022 785 199
Hyprop Investments Ltd	5.76	9.83	10.91	0.70	5.46	21.76	17 974 030 804
Emira Property Fund Ltd	2.84	2.11	10.77	0.79	3.83	4.97	7 228 488 026
Fairvest Property Holdings Ltd	9.25	9.76	9.98	0.90	4.11	9.17	2 138 063 426
Dipula Income Fund Ltd	4.49	4.66	9.91	1.10	4.50	8.04	4 605 185 251
Vukile Property Fund Ltd	7.50	7.44	9.36	0.96	5.17	15.75	18 531 672 051
Investec Property Fund Ltd	2.73	14.43	9.27	0.86	6.12	7.68	11 302 066 743
Growthpoint Properties Ltd	5.54	16.74	8.70	0.95	6.52	17.48	72 759 331 743
Oryx Properties Ltd	**-5.15**	**-1.20**	**8.08**	**1.52**	**4.41**	**9.80**	**1 702 607 537**
AVERAGE	**-5.95**	**2.28**	**13.08**	**0.78**	**4.08**	**12.81**	**13 889 300 412**

Source: Bloomberg, IJG Securities

Valuation

Oryx managed to slightly increase distributions to 79cpu despite the currently depressed economic environment. We continue to value Oryx on a distribution yield basis relative to the risk-free rate. ORY distributions for the last four years have lagged the yield of the IJG Generic 10-year bond, which has averaged 9.80% since 2002, thus making ORY expensive relative to risk-free assets. At the current share price of 2015c and our forecast for relatively flat distributions for FY19, Oryx returns a distribution yield of 7.8%.



Source: IJG Securities

A required yield of 9.80% combined with our expectation of FY19 distributions of 162c per unit generates our **target price of N$18.12.** This represents a 10.1% discount to the current share price and as such we maintain our **SELL** recommendation on Oryx.

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