ORYX PROPERTIES LIMITED

1H20 Results Review

April 2020

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Securities (Pty) Ltd.
Member of the NSX

Oryx Properties Limited

1H20 Results Review

Target Price (c)	***1491***
Current Price (c)	1848

Year End 30 June	2017	2018	2019	F2020	F2021
Revenue (N$m)	297.1	304.9	324.8	312.4	329.5
Vacancies (%)	6.4	6.5	3.2	4.5	4.5
HEPU (c)	158.6	146.0	137.4	119.3	127.8
HEPU growth (%)	-2.6	-7.9	-6.0	-13.2	7.1
DPU (c)	167	157	150	133	143
DY (%)	8.1	7.8	7.7	7.2	6.9
P/E (x)	13.0	13.8	14.8	15.5	14.5
D/A (%)	33.2	35.9	35.0	35.3	35.3

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,615
Shares in Issue (m)	87.4
Free float (%)	100
52 week high (c)	2060
52 week low (c)	1848
Expected Total Return (%)	-19.3

Source: ORYX PROPERTIES LIMITED, IJG

1H20 Results Review

Oryx Properties Limited (Oryx) released half-year results for the period ended 31 December 2019. A distribution of 69.75 cents per linked unit was reported for the period, representing an 11.7% decrease from the 79.00c per unit reported for the corresponding period in 2019. No dividend was declared for the period. The decline in distributions is a result of the directors' commitment to only pay out 90% of distributable income and is related to last year's financial results and does not consider the current COVID-19 financial impact. Oryx has since decided to postpone the distribution payment to October in order to provide the company with additional liquidity, should it be needed, as these are uncertain times.

Earnings attributable to linked units per unit (EPU) increased by 77.8% y/y, mainly due to higher fair value adjustments on the property portfolio. Headline earnings attributable to linked units however decreased by 6.5% y/y from 79.87c in 1H19 to 74.66c in 1H20. Net rental income increased by 12.5% y/y to N$121.1 million, compared to N$107.7 million in 1H19. Management attributed the increase to additional income stemming from the upgraded Gustav Voigts Centre, the Steeledale acquisition and the acquisition of the residential properties in October 2019. Rental expenses increased by 13.0% y/y to N$53.8 million in 1H20. Oryx' cost to income ratio remained relatively unchanged at 30.75%, compared to 30.64% in 1H19.

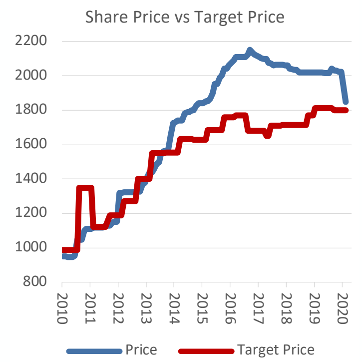
Oryx recorded a profit after tax of N$50.1 million, compared to a N$5.5 million loss after tax reported in 1H19. The company passed through N$26.6 million as fair value adjustments to the property portfolio, which was attributed to the residential acquisition. Half-year valuations are done by the directors themselves, whereas valuations at year-end are done by an independent third party. Given the fact that economic conditions remain difficult we view the fair value adjustment as pre-mature. We would have expected the first fair value adjustment on the retail book to be made in the full year numbers after consulting with an independent property valuator. Management stated that a conservative valuation approach has been applied to the rest of the property portfolio.

Oryx' vacancy factor (as a % of lettable area) increased from 3.2% at FY19 to 4.3% at 1H20 as the residential properties were included in the figure for the first time. This is to be expected given that economic growth has remained depressed in 2019, putting financial pressure on both consumers and businesses. Oryx' vacancy rate however remains relatively low given the adverse economic conditions of the last four years. One of Oryx' industrial property tenants, Steeledale, was put into liquidation after the reporting period. The vacancy rate is thus expected to increase should Oryx not find a new tenant. The property makes up about 0.8% of Oryx' total lettable area.

The COVID-19 induced lockdowns are undoubtedly going to add pressure to vacancies going forward. The increase in vacancies for the rest of the year will be dependent on what assistance packages the Ministry of Finance offers businesses affected by the lockdown, and what sort of deal Oryx manages to reach with its tenants.

Interest bearing borrowings increased to N$1.30 billion in 1H20 from N$1.16 billion in FY19. Oryx' gearing ratio increased to 37.3% as a result (FY19: 34.9%), but remained within management's self-imposed 40% cap. The weighted average interest rate for Namibian debt fell from 9.1% at FY19 to 8.8%, while the Euro debt's rate remained at 2.7%. Oryx' commercial paper of N$128.7 million

Share Price (c)



Dividends

Notice is hereby given that a distribution of 69.75 cents per linked unit was declared on 02 March 2020 for the period ended 31 December 2019. Oryx however decided to postpone the distribution payment to the next scheduled distribution date:

- Last day to trade cum distribution: 11 September 2020
- First day to trade ex-distribution: 14 September 2020
- Record date: 18 September 2020
- Payment date: 02 October 2020

matured in November and was replaced with a 3-year medium-term note of N$83.3 million. The new bond was issued at 3-month JIBAR plus 2.2%. Oryx announced that it had concluded a N$100 million loan facility with Standard Bank Namibia after the reporting period. The loan carries interest at 3-month JIBAR plus 2% and has a four-year term.

The lower payout ratio, lack of dividend payments and postponement of the distribution payment until later this year should help with operating cash flows, which have been negative in most reporting periods since 2014.

Overall, Oryx' results remained resilient, given last year's economic climate. Based on our distribution expectations, Oryx trades at distribution yield of 7.2%, 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.

Macroeconomic Environment

The global economic outlook for 2020 has changed significantly in the first three months of the year. COVID-19 has transformed from a news story somewhere on the other side of the world into a global pandemic affecting the lives of nearly every person on the planet. The impact on the global economy is expected to be one of the largest shocks on record as both demand and supply sides have been severely disrupted following global lockdowns and restrictions on trade and travel.

Namibia is no exception to this and will be similarly hit economically after the government imposed a 21-day lockdown of the country's two most important economic regions, and then immediately followed up with another two-week lockdown of the entire country. Despite the country only having a small number of confirmed cases of the virus, the government has resorted to these rather extreme measures of 'flattening the curve' early on due to the country's healthcare system not having the capacity to handle a large number of patients. The damage the lockdowns will do to the Namibian economy will be determined by the extent and duration of future lockdowns, as well as how effectively fiscal and monetary measures are put in place to mitigate business closures and job losses.

The Namibian economy was already on the backfoot when the crisis hit and remains highly vulnerable to external shocks due to the lack of fiscal space with which to deal with such shocks. According to the official statistics Namibia's unemployment rate stood at 33.4% in 2018. We do expect the COVID-19 shock to result in further job losses, with many businesses in tourism and related sectors already shedding jobs. Most companies do not maintain large cash balances on their balance sheets as this is generally inefficient. This is especially true for Namibian companies who have been operating in a recessionary environment since 2016, and as a result already struggled with cash flows. Therefore, during times of severe economic shock employers struggle to sustain their workforces as revenues drop and available cash reserves are rapidly depleted. An increase in unemployment will have negative consequences for retail trade to which Oryx is exposed.

A five-week lockdown could cost Namibia around N$8.5 billion or 4.8% of Nominal GDP, as the majority of economic activities will cease. To keep the economic impact of the lockdowns to a minimum, the Ministry of Finance has released the First Phase of the Economic Stimulus and Relief Package. This package amounts to N$8.1 billion or 4.5% of nominal GDP. The amount of N$8.1 billion includes N$3 billion worth of VAT repayments and the settlement of N$800 million worth of outstanding invoices. These balances, almost half of the package, are thus just payments to businesses that were due them already. We thus believe that it will be important for government to follow this first phase package with further measures as the size of this package is slightly misleading in our view.

COVID-19

Oryx is currently facing the same challenges as its South African counterparts. As a landlord the company accommodate a wide range of retail, office and industrial tenants affected by the lockdown. As mentioned in the previous section, most businesses do not maintain large cash balances as it is inefficient and Namibian businesses have already been operating in a recessionary environment since 2016 which added further pressure to cash flows. Paying for expenses such as rental expense in an environment where no revenue is being recorded is thus going to be an issue for many of Oryx' tenants.

Oryx has however been very proactive in dealing with the crisis. The company has set up a Covid-19 committee which helps to streamline decision-making in the business, enabling quicker decision turnaround and will enable it to implement/act more quickly on these decisions. Management have told us that they are busy with scenario planning and are prepared for a worst-case scenario. At the moment the company is extremely protective of its cash flows. There is still a lot of uncertainty surrounding future cash flows which explains the directors' decision to postpone the declared distribution until later in the year.

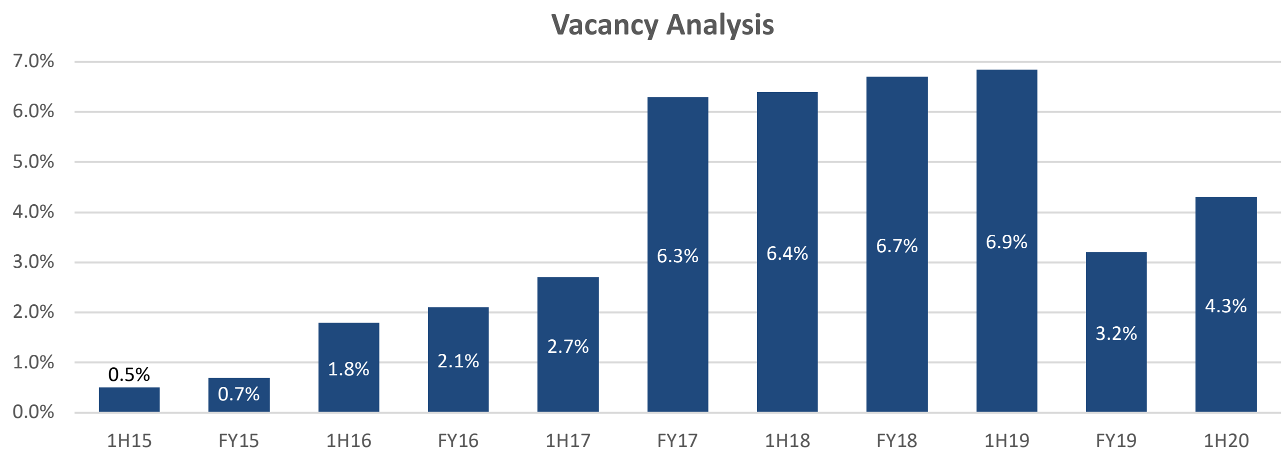
Some tenants feel that due to the fact that because they do not have access to their businesses, they are not legally obligated to pay rent, while others simply cannot afford to pay if they do not have any revenue coming in during the lockdown. Management has requested a legal opinion on the former.

Oryx does want to offer tenants some assistance in the form of lower rent or deferred payments, however, any relief to tenants is however dependent on Oryx itself receiving assistance/relief on its debt servicing obligations. Assistance to tenants is thus only possible if a number of parties work together on a solution. For the moment Oryx is dealing with rental challenges on a case-by-case basis. It is also unclear whether Oryx will benefit from debt servicing assistance from the banks. Thus both top-line and cost uncertainty remains as tenants may refuse to pay, vacancies are very likely to increase, and it is unclear whether Oryx will be able to reduce costs in line with these factors.

Revenue and Rental Expense

Oryx reported total revenue for the period under review of N$174.9 million, representing an increase of 12.6% y/y compared to the N$155.3 million reported over the corresponding period a year ago. The increase in revenue came in above our expectations and is impressive, given that economic conditions remained tough in 2019. In the results release, management attributed the increase to additional income stemming from the newly renovated Gustav Voigts Centre, the Steeledale acquisition and the acquisition of the residential properties in October 2019.

We do not expect Oryx to post revenue growth in the second half of the financial year due to the five-week lockdown period implemented by the government. Many businesses are forced into a position where they have to prioritise staff salary payments over rental payments. It is still very difficult to determine what exactly the impact will be on Oryx' revenue income, but we expect Oryx to lose about one month's worth of rental income, should this be the only lockdown. Rental reversions are likely to be negative for the next financial year or two. Tourism-dependent companies and shops (especially those in the Gustav Voigts shopping centre) will remain under pressure for a longer period than the current lockdown. Even if government lifts Namibia's travel ban, we do not expect to see a sudden influx of tourists as we expect foreigners to be weary of their travel destination's healthcare system until the virus goes away completely or a vaccine is found.



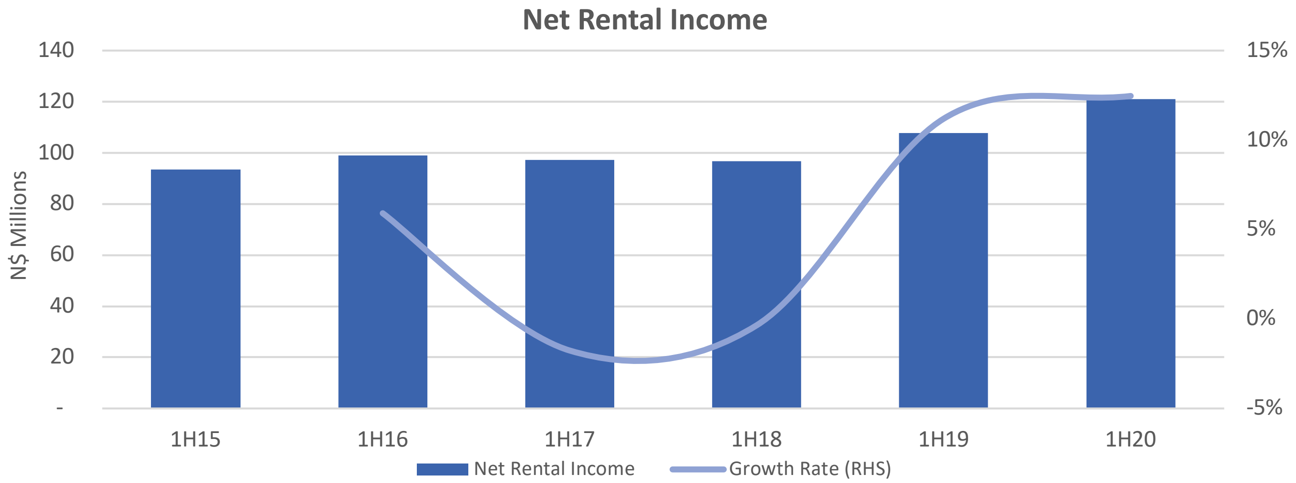
Source: Oryx, IJG Securities

Oryx' vacancy factor (as a % of lettable area) increased from the 3.2% reported in the 2019 full-year results to 4.3% at 1H20, as residential properties were included in the figure for the first time. This is to be expected given that economic growth has remained depressed in 2019. Oryx' vacancy rate however remained quite low given the economic conditions. One of Oryx' tenants, Steeledale, was put into liquidation after the reporting period. The vacancy rate will increase should Oryx not find a new tenant for the property. The property makes up about 0.8% of Oryx' total lettable area.

The lockdown is undoubtedly going to add pressure to vacancies going forward. The Edcon Group (which occupies a large area in Maerua Mall) have already stated that they are unsure whether they will be able to open up the doors to their shops post-lockdown. We expect a number of especially smaller retailers to face the same fate.

The increase in vacancies for the rest of the year will be dependent on a number of factors. Firstly, business closures will depend on what assistance packages the Ministry of Finance offers businesses affected by the lockdown, and secondly, what sort of deal Oryx manages to reach with its tenants. In our opinion Oryx will try to keep evictions to a minimum as it will be difficult for them to find replacements.

Management indicated that going forward it might measure residential vacancies differently as these generally tend to be higher at month-end as people typically move during this time. An income-loss basis is being considered.



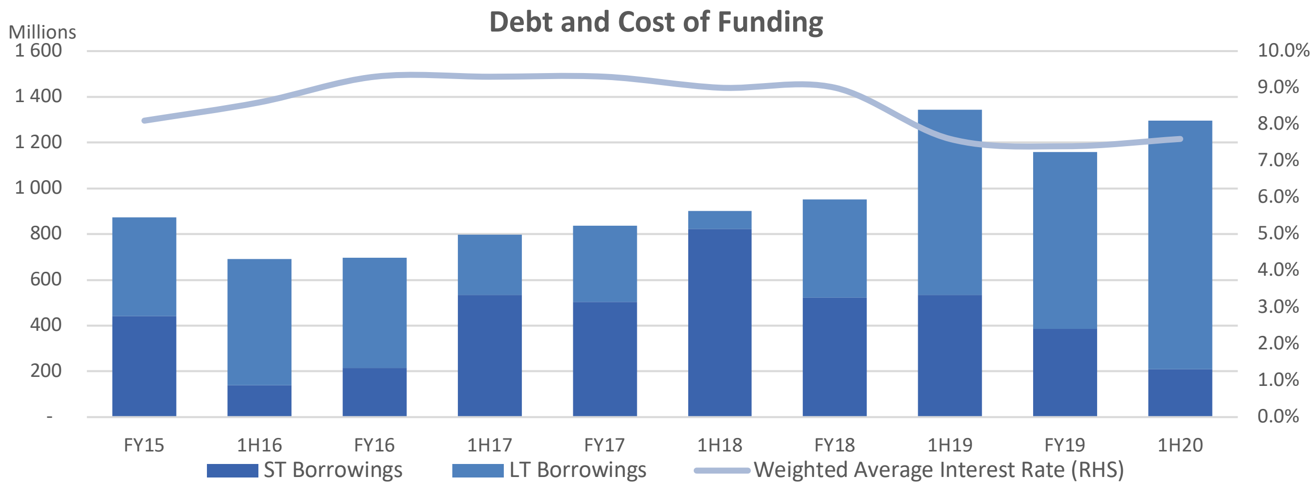
Source: Oryx, IJG Securities

Rental expenses for the period increased by a rather substantial 13.0% y/y to N$53.8 million, compared to expenditure growth in recent periods. This is due to an increase in municipal costs and risk audits that needed to be done on Oryx' properties. However, as this increase is roughly in line with the increase in revenue it means that Oryx' cost to income ratio remained relatively unchanged at 30.75%, compared to 30.64% in 1H19. Net rental income increased by 12.5% y/y to N$121.1 million.

Borrowings

Oryx' interest-bearing borrowings increased to N$1.30 billion in 1H20 from N$1.16 billion in FY19. This increase resulted in Oryx' gearing ratio increasing to 37.3% (FY19: 34.9%), but remained within management's self-imposed 40% cap. The reason for the increase in debt is due to borrowings utilised to purchase the three residential complexes. Non-current liabilities continue to make up the lion's share of Oryx' total borrowings at 83.8% (1H19: 60.1%).

Oryx' commercial paper of N$128.7 million matured in November and was replaced with a 3-year medium-term note of N$83.3 million. Management notes that the company received total bids amounting to N$198.7 million but did not accept all of it as they felt that cheaper funding could be obtained from commercial banks, and as a result, N$45.4 million was repaid. The new bond was issued at 3-month JIBAR plus 2.2%.

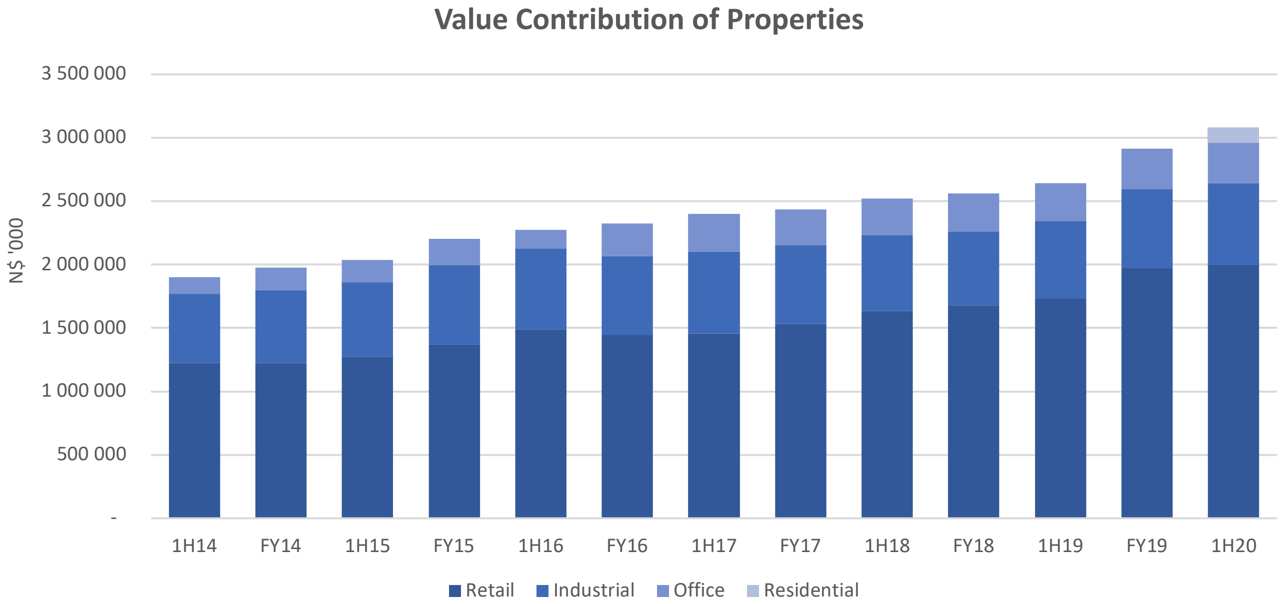


Source: Oryx, IJG Securities

Oryx announced that it had concluded a N$100 million loan facility with Standard Bank Namibia after the reporting period. The loan carries interest at 3-month JIBAR plus 2% and has a four-year term. A portion of the facility will be used for day to day cash flow while the rest will be utilised for smaller capital expenditure projects such as solar installations etc. We expect Oryx to delay these capital expenditure projects until later this year or next year when there is a bit more certainty surrounding future cash flows.

We stated in our Initial Impression of the 1H20 results that the fact that some of the Standard Bank facility will be used to cover day to day expenses could signal that Oryx is facing challenges with the timing of operating cash flows. Management have since informed us that the facility will be used to replace some of the cash that was used for the partial redemption of the ORY19 bond. The directors' commitment to a lower payout ratio and the lack of dividend payments should help with operating cash flows, which have been negative in most reporting periods since 2014.

Property Portfolio



Source: Oryx, IJG Securities

Oryx' property portfolio was valued at N$3.1 billion for 1H20, compared to N$2.9 billion at FY19, as the three residential properties that were acquired in October 2019 have now been included in the results. The current sectoral spread based on value is 65% retail, 21% industrial, 10% office, and 4% residential space.

The company passed through N$26.6 million as fair value adjustments to the property portfolio, which was attributed to the residential acquisition. Half-year valuations are done by the directors themselves, whereas valuations at year-end are done by an independent third party. Given the fact that economic conditions remain difficult we view the fair value adjustment as pre-mature. We would have expected the first fair value adjustment on the retail book to be made in the full year numbers after consulting with an independent property valuator. Management's explanation for the fair value adjustments are that the properties were acquired at a significant discount, which is a reasonable view, and that if the residential units were to be marketed individually they would have been sold at significantly higher prices, which may be the case but would have taken substantially longer to do. Management stated that a conservative valuation approach has been applied to the rest of the property portfolio.

Phase one of the Urban Village property at Elisenheim is close to completion as shops and a gym have opened on the property. Meanwhile, tenants at Oryx' Croatian properties reported strong revenues as the country's economy has been performing well with GDP estimated to have grown by 2.9% in 2019 according to the World Bank.

On 22 March, Croatia's capital city, Zagreb, was struck by a 5.5 magnitude earthquake which damaged several of the city's buildings. Oryx' building that is currently occupied by Yazaki was the company's only building that sustained damage from the earthquake. Oryx was insured for this and management informed us that the damage was limited allowing the tenant to continue with their operations.

Croatia has fortunately so far had relatively few cases of COVID-19, but similar to Namibia, Croatia's government decided to lockdown the country and then extended the lockdown until 4 May. Like most economies, Croatia is likely to be impacted by the disruption of economic activity due to the coronavirus outbreak. It is too early to determine the exact impact of the lockdown on Oryx's share of the profits as there is still a lot of uncertainty.

On the 20th of March, Oryx released a SENS announcement stating that the company, through its investment in TPF International, has disposed the Vukovarska Retail Property in Zagreb, Croatia at an 11% premium to its book value. Oryx noted that although the disposal will dilute distributable income somewhat, it will strengthen Oryx' balance sheet as it will use its share of the proceeds amounting to €2.28 million to reduce its Euro debt.

Relative Comparison

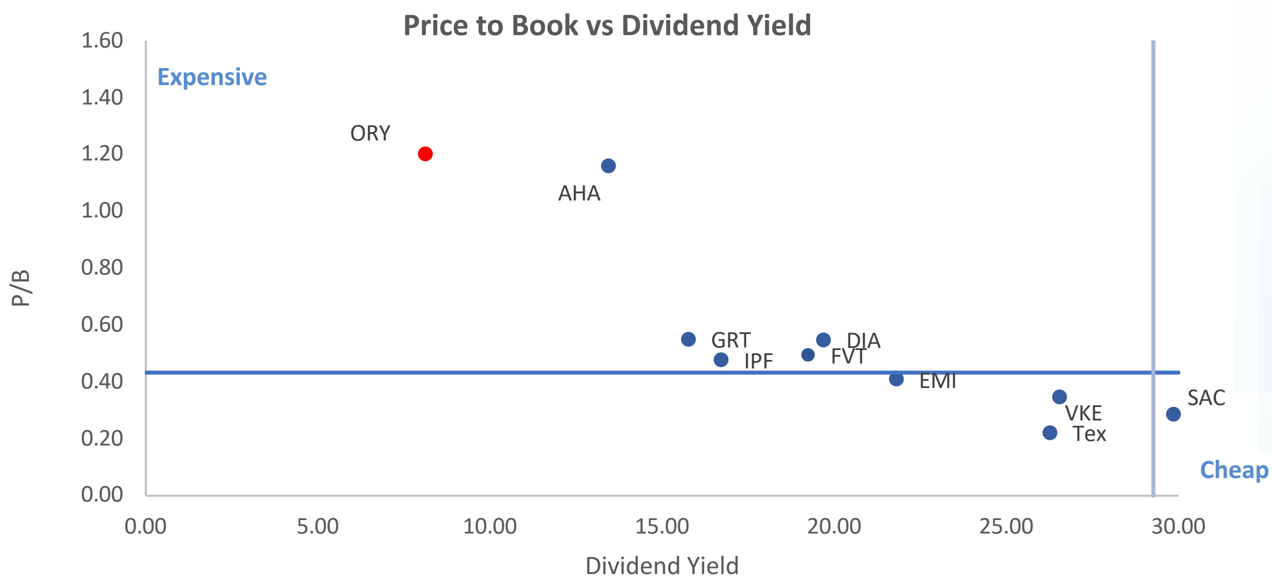
The below table reviews Oryx against its peers of JSE-listed Real Estate Investment Trusts (REITs). The table has been ranked according to historic distribution yield and shows that Oryx continues to rank last in terms of distribution yield compared to its JSE listed peers. Oryx' distribution yield lags the average for the peer group by 21 percentage points. Delta Property Fund and Accelerate Property Fund are however outliers in this group, as they have all seen large decreases in share price in the last two months. Removing these from the group sees the average dividend yield drop to 23.8%, still over ten percentage points higher than Oryx'.

The FTSE/JSE SA listed property index has dropped more than 54% year-to-date, as the global coronavirus pandemic has resulted in restrictions to the trading activity of retailers. In line with these property funds, Oryx has decided to delay their already declared distribution payments until later this year in order to manage their balance sheets.

Company	Distribution Growth	3Yr Distrb. Growth (Bloomberg)	Dividend Yield	Price to Book	Price to Sales	P/E	Market Cap
Delta Property Fund Ltd	-68.77	-33.03	67.10	0.05	0.19	0.86	299 976 482
Accelerate Property Fund Ltd	-28.89	-10.63	62.25	0.08	0.55	3.48	639 055 731
Hyprop Investments Ltd	-2.73	3.63	39.92	0.19	1.48	8.35	4 774 991 669
Redefine Properties Ltd	0.23	4.21	37.87	0.25	1.56	6.50	14 888 480 842
Tower Property Fund Ltd	-6.12	-5.30	34.46	0.23	1.50	6.21	713 054 259
SA Corporate Real Estate Ltd	-3.13	-1.67	29.85	0.29	1.52	3.94	3 467 043 930
Vukile Property Fund Ltd	5.71	6.91	26.54	0.35	1.68	4.96	6 636 212 798
Texton Property Fund Ltd	-54.62	-29.43	26.26	0.22	0.86	2.32	503 929 466
Emira Property Fund Ltd	2.40	1.79	21.80	0.41	2.41	4.96	3 658 670 729
Dipula Income Fund Ltd	4.20	4.55	19.69	0.55	2.25	9.64	1 963 820 377
Fairvest Property Holdings Ltd	6.45	8.55	19.23	0.50	2.08	5.61	1 181 025 512
Investec Property Fund Ltd	3.94	14.48	16.72	0.48	3.53	4.86	6 954 495 356
Growthpoint Properties Ltd	2.39	4.87	15.76	0.55	3.52	5.26	41 861 574 891
Arrowhead Properties Ltd	37.98	-2.91	13.44	1.16	1.71	7.56	2 756 379 691
Oryx Properties Ltd	**-4.82**	**-3.45**	**8.12**	**1.20**	**2.19**	**4.19**	**1 906 546 765**
AVERAGE	**-7.05**	**-2.50**	**23.82**	**0.43**	**1.80**	**5.25**	**6 147 017 233**

Source: Bloomberg, IJG Securities

As the below figure illustrates, Oryx has one of the highest price-to-book multiples and has the lowest dividend yield compared to its peer group, signalling that the share remains expensive compared to its peers. Much of this has to do with the slow repricing in the Namibian market.

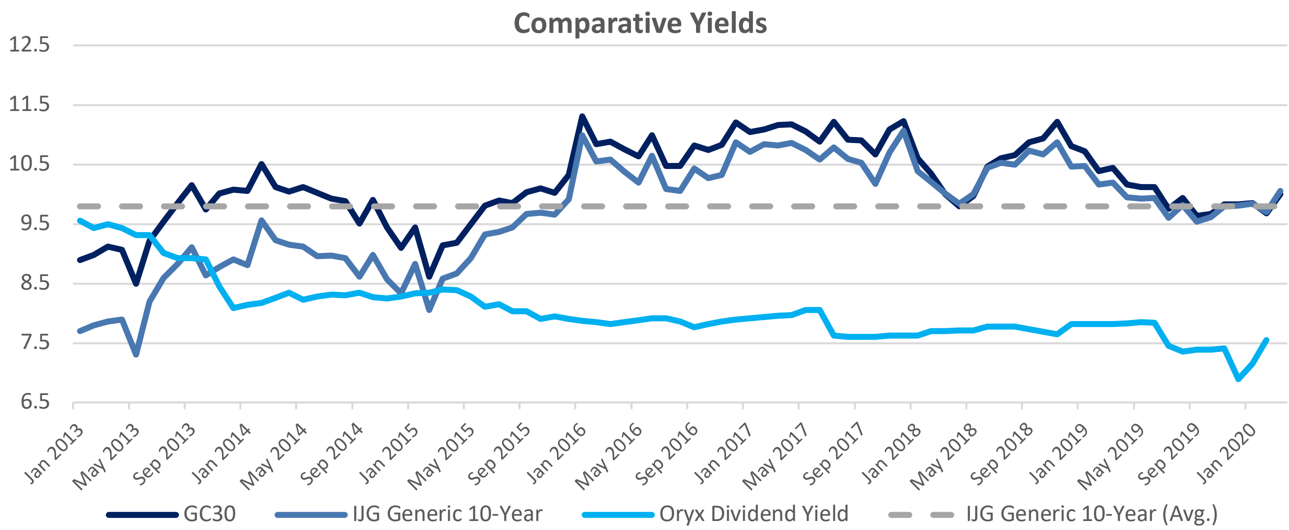


Source: Bloomberg, IJG Securities

Valuation

A distribution of 69.75 cents per linked unit was reported for the period, representing an 11.7% decrease from the 79.00c per unit reported for the corresponding period in 2019. No dividend was declared for the period. The decline in distributions is a result of the directors' commitment to only pay out 90% of distributable income in order to improve the group's overall liquidity. As the previous section mentions however, Oryx has decided to postpone the interim distribution payment to the next scheduled distribution date in October. This provides Oryx with additional liquidity, should it need it, as these are uncertain times.

We continue to value Oryx on a distribution yield basis relative to the risk-free rate. 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, which has averaged 9.80% since 2002, making Oryx expensive relative to risk-free assets.



Source: IJG Securities

At the current share price of 1848c and our forecast of lower distributions for FY20, Oryx returns a distribution yield of 7.20%. A required yield of 9.80% combined with our expectation of a FY20 distribution of 133c per unit generates our **target price of N$14.91**. This represents a 19.34% discount to the current share price and as such we maintain our **SELL** recommendation on Oryx.

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