ORYX PROPERTIES LIMITED

1H21 Results Review

May 2021

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Securities (Pty) Ltd.
Member of the NSX

Oryx Properties Limited

1H21 Results Review

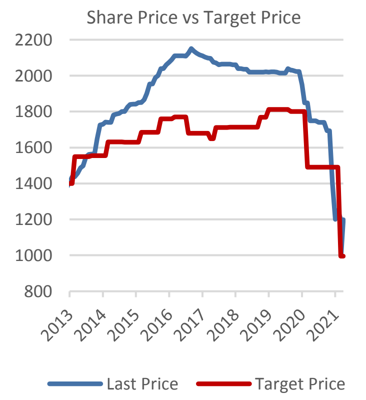
Target Price (c)	***1194***
Current Price (c)	1000

Year End 30 June	2018	2019	2020	F2021	F2022
Revenue (N$ m)	304.9	324.8	332.8	306.2	315.2
Vacancies (%)	6.5	3.2	5.4	4.8	4.8
HEPU (c)	146.0	137.4	3.9	72.1	217.7
HEPU growth (%)	-7.9	-6.0	-97.2	-24.9	202.2
DPU (c)	157	150	69.75	117.0	121.9
DY (%)	7.8	7.7	4.0	11.7	12.2
P/E (x)	13.8	14.8	448.5	13.9	10.4
D/A (%)	35.9	35.0	39.1	39.7	39.6

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	HOLD
NSX Code	ORY
Market Cap (N$ m)	874
Shares in Issue (m)	87.4
Free float (%)	100
52 week high (c)	1749
52 week low (c)	1000
Expected Return (%)	19.4

Share Price (c)



Dividends

Notice is hereby given that a distribution of 56.50 cents per linked unit was declared on 05 March 2021 for the period ended 31 December 2020.

- Last date to trade cum distribution: 19 March 2021
- First day to trade ex-distribution: 23 March 2021
- Record date: 26 March 2021
- Payment date: 09 April 2021

1H21 Results Review

Oryx Properties Limited (Oryx) released interim results for the period ended 31 December 2020. A distribution of 56.50 cents per linked unit was reported for the period, representing a 19.0% decrease from the 69.75 cents per unit reported for the corresponding period in 2020. No dividend was declared for the period. Earnings attributable to linked units per unit (EPU) declined by 74.4% y/y to 32.59 cents per unit. Headline earnings attributable to linked units however increased by 28.4% y/y from 74.66c in 1H20 to 95.88c in 1H21.

It is clear from the results release that the trading conditions for Oryx and its tenants remained challenging. During the reporting period, Oryx provided N$16 million in rental relief to its tenants, resulting in rental income contracting 9.9% y/y to N$153.5 million. Excluding this would have seen Oryx' rental income remaining relatively flat compared to 1H20. Oryx' cost to income ratio consequently increased from 30.75% in 1H20 to 35.96% in 1H21. While the rental relief is negative for Oryx' revenues, it is at least keeping vacancies low. With the release of the FY20 results, Oryx management conveyed that they are using creative solutions such as payment deferments to ensure some rental is still collected, as opposed to just writing it off completely. Management mentioned that rental collections are improving steadily, with average collections between April 2020 and January 2021 being at 92%. Net rental income declined by 22.5% y/y to N$93.9 million, compared to N$121.1 million in 1H20. Rental expenses were well contained, decreasing by 2.0% y/y to N$52.7 million. Capital expenditures were kept relatively low at N$5.6 million during the period.

Oryx recorded a loss after tax for the period of N$20.9 million, compared to a profit after tax of N$50.1 million in 1H20. The directors passed through N$74.0 million as a negative fair value adjustment to the property portfolio, which was attributed to the retail and office segments remaining under pressure. The value of Oryx' property portfolio contracted by 2.4% in the last six months to N$2.85 billion. We expect property valuations to remain under pressure for the short- to medium term.

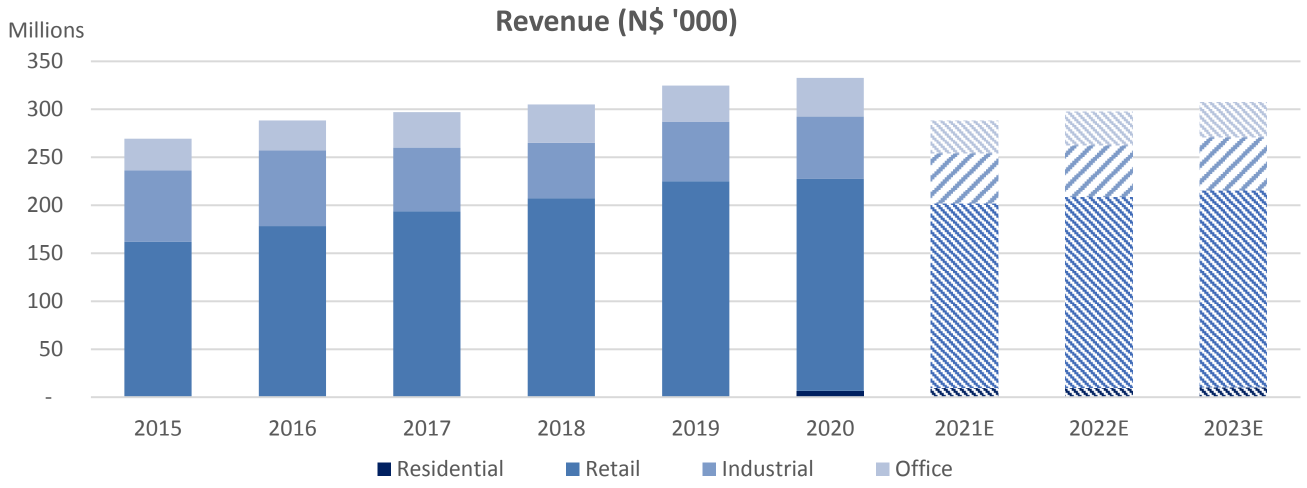
Oryx' commercial vacancy factor surprisingly improved from 5.4% at FY20 to 4.4% at 1H21, while the vacancy factor for the residential properties deteriorated from 10.8% to 12.5% during the same period. Despite residential vacancies deteriorating, we still expect rental income from the residential portfolio for the full year to be higher than in FY20 due of the fact that this will be the first full year of ownership of the residential properties.

Interest bearing borrowings declined slightly to N$1.25 billion in 1H21 from N$1.31 billion in FY20. Oryx' gearing ratio fell to 38.9% as a result (FY20: 39.1%) and remained just below management's self-imposed 40% cap. The weighted average interest rate increased moderately to 5.9% (FY20: 5.8%), which Oryx states is due to additional financing at a more expensive rate obtained during the period. Subsequent to the reporting period, Oryx concluded the refinancing of N$779 million of debt facilities with ABSA. Oryx converted half of the Euro loan to Namibia Dollar debt to reduce the risk of foreign currency deterioration. Better rates were obtained for most of the ABSA debt including the remaining halve of the Euro debt.

The share price has declined substantially since November, dropping 41.0% to N$10.00. A required yield of 9.80% combined with our expectation of FY21 distributable income of 130c per unit informs our target price. Assuming a normal 90% distribution equivalent to 117c per unit, this generates our target price of N$11.94. This represents a 19.4% premium to the current share price. However, we feel that 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.

Revenue and Rental Expense

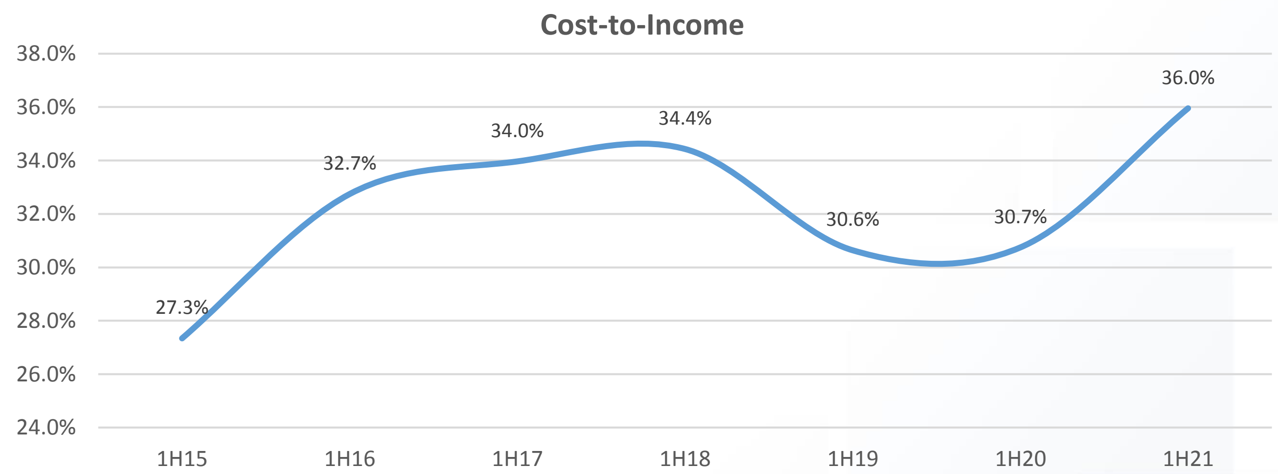
Oryx' revenue contracted by 9.9% y/y to N$153.5 million. To keep vacancies to a minimum, Oryx provided rental relief amounting to N$16 million to its tenants. Excluding this would have seen Oryx' rental income remaining relatively flat compared to 1H20. Management mentions that rental collections are improving steadily, with average collections between April 2020 and January 2021 being at 92%.



Source: Oryx Properties, IJG Securities

While the rental relief is negative for Oryx' revenues, it is at least keeping vacancies low. With trading conditions remaining difficult, we expect that it will be challenging for Oryx to keep vacancies at current levels. Deferring rental payments is not a long-term sustainable solution. At some point difficult decisions will need to be made on how much tenants can still be assisted.

Rental expenses were well contained during the period, decreasing by 2.0% y/y to N$52.7 million. Capital expenditures were kept relatively low at N$5.6 million during the period, compared to N$139.6 million in 1H20. The decline is due to the completion of the Elisenheim Phase 1 project in the prior financial year and management's decision to keep capital expenditure projects during the period to a minimum to abate the negative impact of the pandemic on cash flows.



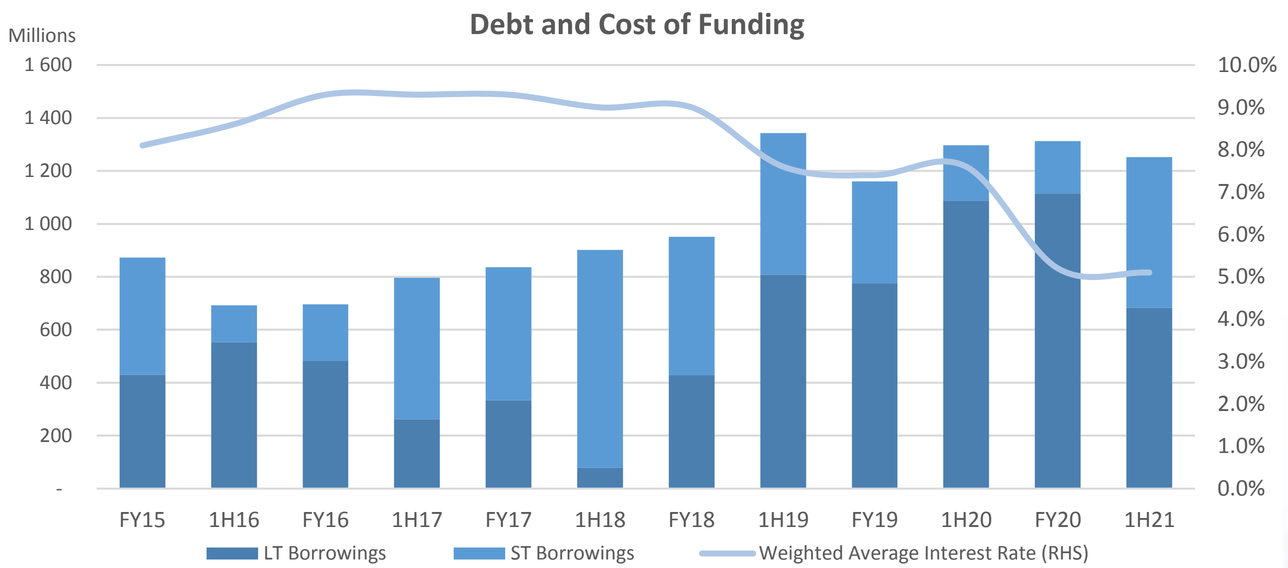
Source: Oryx Properties, IJG Securities

Given the expectations that economic growth is likely going to remain under strain for at least the next year or two, it will become increasingly difficult for Oryx to maintain positive rental reversions in our view. While larger tenants are better able to weather the storm, and might be able to handle rental increases, many smaller tenants are struggling. We assume that rent and rental escalations are more negotiable for this group, especially as Oryx will struggle to fill vacancies. We thus foresee very little upside potential in rental revenue coming from rental escalations in the short-term, especially in the residential, office and retail space.

Funding

Oryx' interest bearing borrowings declined by 3.5% y/y to N$1.25 billion in 1H21 from N$1.30 billion in 1H20. Oryx' gearing ratio increased to 38.9% at 1H21 from 37.3% at 1H20, but remained roughly in line with the FY20 ratio of 39.1%. 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.

The unutilised loan facilities available are made up of the unutilised portion of the Domestic Medium-Term Note Programme amounting to N$416.7 million, N$65 million of other facilities and €3.8 million in the ABSA flexi reserve facility.



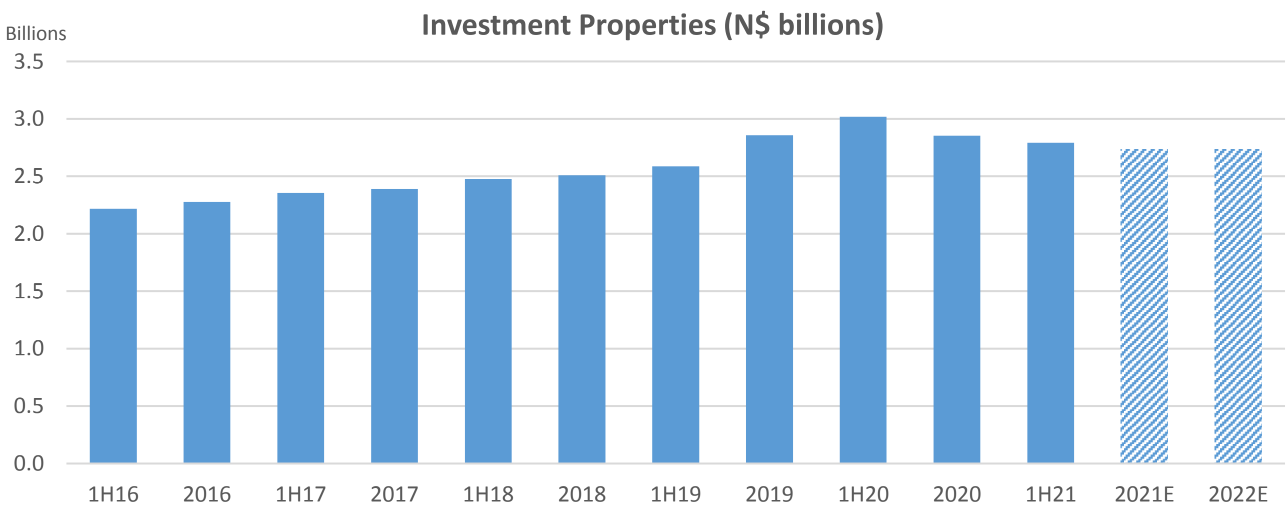
Source: Oryx Properties, IJG Securities

The company's weighted average interest rate amounted to 5.1%, down considerably from the 7.6% recorded last year, following the various rate cuts by central banks. Subsequent to the reporting period, Oryx refinanced N$779 million of debt facilities with ABSA. A more uniform maturity profile was achieved, and better rates were obtained. 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. The conversion makes sense to us as it is unlikely that the local currency will strengthen significantly going forward.

Oryx' ability to take advantage of the opportunities presented by the current economic climate to fund acquisitions is fairly limited at this stage. At its previous AGM, held in November 2020, unitholders voted against a resolution that would permit Oryx to issue shares for the purpose of vendor placements for the acquisition of properties. As mentioned above, Oryx' gearing ratio is already trending close to the internal limits and property values are still declining amidst the tough domestic economic conditions, making debt funded acquisitions difficult.

Property Portfolio

Oryx' property portfolio was valued by the directors at N$2.846 billion for 1H21, representing a 7.5% contraction from the N$3.079 billion valuation in 1H20 and 2.2% lower than at FY20. The directors passed through a N$74 million negative fair value adjustment which was attributed to the difficult operating environment, particularly experienced in the retail and office segments, which led to a conservative valuation approach being followed. None of the properties earmarked for sale at FY20 were sold during the reporting period.



Source: Oryx Properties, IJG Securities

With domestic economic growth to remain marginal over the next two years, we expect property values to remain under pressure over the medium term, especially in the retail sector. As mentioned in the Revenue and Rental Expense section, capital expenditures on the property portfolio were kept low to protect cash flows. Going forward, we expect a reasonable uptick in capital expenditure. Management mentioned that upcoming capital expenditure will be a balance between defensive spending and value-adding spending.

General Meeting Insights

On 20 April, Oryx announced that it is calling for a General Meeting of the unitholders on Thursday, 20 May 2021 to pass the following special resolutions:

SPECIAL RESOLUTIONS

1	**Amendment to Debenture Trust Deed**
	To change clause 7.5 (b) of the Debenture Trust Deed to be in line with NSX listing requirements.
2	**Amendment to Debenture Trust Deed**
	to separate clause 7.5 (c) into two different sections where (i) refers to the minimum pay-out ratio and (ii) refers to the calculation of distributable income.
3	**To clarify distributable income in terms of IFRS requirements – clause 7.5 (c)(ii)**
	Rewording the definition of distributable income to make it clear to all unitholders with respect to the adjustments being made to arrive at distributable income. This amendment does not add or remove any new matters to the definition of distributable income.
4	**To reduce the debenture interest for the second half of 2021 to 75%**
	Resolved that, as a result of the impact of COVID-19 on the company and the current low-growth operating environment, the debenture holders enter into a compromise or arrangement with the company to reduce the debenture interest, for the second half of the 2021 financial year to 75% of distributable income.
5	**To reduce the debenture interest for 3 financial years (2022, 2023 and 2024) to a minimum of 75%**
	Resolved that, in order to provide the company with financial flexibility to cover capital expenditure from cash resources instead of loans, the debenture holders enter into a compromise or arrangement with the company to reduce the debenture interest, for a 3-year period (2022, 2023 and 2024 financial years) to a minimum of 75% of distributable income, after which it will revert back to a minimum of 90% pay-out effective 2025 financial year.

Special resolutions 1 through 3 deal with various small changes to clause 7.5 of the Debenture Trust Deed. These changes are relatively straightforward and will ultimately aid unitholders in calculating distributable income.

Special resolutions 4 and 5 deal with temporarily lowering the minimum debenture interest payout ratio from the current 90% to 75% of distributable income. The two resolutions, especially number 4 which applies to the current year, are unsurprising in our view. During our analyst meeting with them, management reiterated their view that 75% is a more sustainable payout ratio, for at least the medium term. Retaining earnings would allow Oryx to maintain the value of their existing portfolio and free up room on the balance sheet to exploit potential acquisition opportunities.

In the SENS announcement, Oryx mentioned that after last year's vote to lower the minimum payout ratio to 75% failed, the company approached the unitholders who voted against it to obtain clarity on the difference in view to management. These unitholders informed Oryx that permanently revising the minimum payout ratio down to 75% was not in line with initial investment case and they preferred that a timeline be coupled to the change in payout. In the announcement, the Board encourages unitholders to vote in favour of resolutions 4 and 5 and to "consider the impact that voting against the resolutions will have on the company and its ability to continue operations as normal, without being forced to dispose of investment properties to maintain its internal gearing levels and reducing the risks associated with it."

As mentioned earlier in the report, the company purposefully kept capital expenditure low during the past year to preserve cash flows as a result of the pandemic. It has been determined that 'significant' capital expenditure to maintain the quality of assets such as Maerua Mall is needed. Due to Oryx being very close to its internal gearing limits, the Board would prefer to cover the necessary capital expenditure from cash resources instead of additional loans.

A temporary reduction in the payout ratio is more favourable, in our view, than the alternative measures to finance the needed capital expenditure projects (rights issue or additional debt). While the risk of breaching covenants is currently low, the risk could escalate quite quickly should vacancies increase and if property values continue declining. We therefore understand the Board's view that additional debt could end up increasing risk substantially, especially given the fact that any capital expenditure aimed at maintaining the value of the current portfolio will not contribute directly to distributable income in the short term.

We do not believe that the lower payout ratio entirely eliminates the need for a rights issue in the next year or two, but it should at least prevent a situation where Oryx is forced to do so (e.g. to urgently reduce gearing) or to have a rights issue to cover capital expenditure costs. As it stands, it will be relatively difficult for Oryx to acquire additional properties without obtaining additional capital. As mentioned above, raising additional debt will lead to breaching covenants. Unitholders voted against resolution 8 at last year's AGM that proposed to allow the management team blanket approval to pursue vendor placements. While this does not completely rule out vendor placements as an alternative, approaching unit holders for approval on a case-by-case basis is a time-consuming process that could result in Oryx not being able to act quickly enough to acquire a new property on the market. It is for this reason that we are of the view that a rights issue could still be on the cards at some point.

Relative Comparison

The table below reviews Oryx against its JSE-lister Real Estate Investment Trusts (REITs) peers. Doing a peer comparison on distribution growth and dividend yields (as we have done in the past) would be pointless in the current year, as many REITs suspended distribution payments in 2020 to protect their balance sheets.

The table has been ranked according to price-to-book values and shows that Oryx currently trades at the third highest price-to-book multiple as well as the third highest price-to-sales multiple compared to its JSE listed peers. Oryx' price-to-book value is 1.2 times higher than the average for the peer group. This signals that the share remains slightly expensive compared to its peers, although much of this has to do with the slow repricing in the Namibian market.

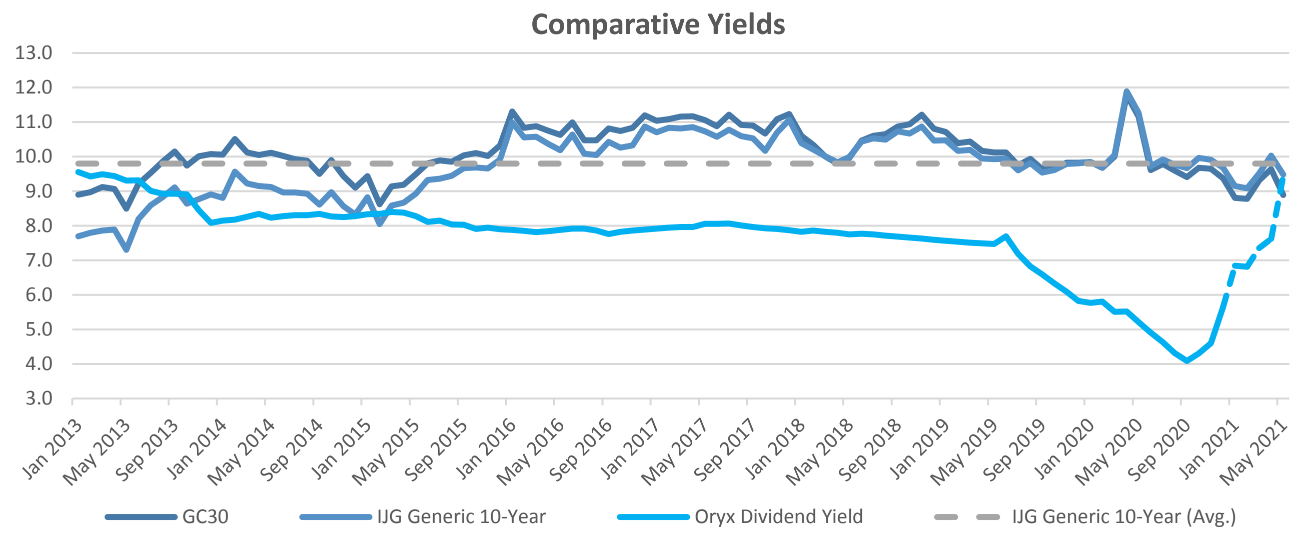
Company	Price to Book	Price to Sales	Market Cap
Arrowhead Properties	1.51	4.53	4 730 264 244
Fairvest Property Holdings	0.83	3.20	1 951 932 083
Oryx Properties	**0.76**	**3.91**	**1 031 681 150**
Emira Property Fund	0.72	3.29	5 169 179 073
Growthpoint Properties	0.70	3.21	48 271 174 019
Dipula Income Fund	0.70	2.87	2 408 458 953
Investec Property Fund	0.63	5.19	8 813 856 962
Vukile Property Fund	0.61	2.91	10 088 190 925
Redefine Properties	0.59	2.56	23 983 778 477
SA Corporate Real Estate	0.53	2.58	5 390 367 570
Texton Property Fund	0.47	2.02	1 052 986 945
Tower Property Fund	0.40	2.60	1 035 626 423
Hyprop Investments	0.39	2.58	8 600 872 888
Accelerate Property Fund	0.11	0.77	729 229 330
AVERAGE	**0.64**	**3.02**	**8 804 114 217**

Source: Bloomberg, IJG Securities

Valuation

We continue to 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 42.8% drop in Oryx' share price since May 2020, as well as the fact that FY21 distributions will be higher than in FY20 (due to Oryx only paying 1H20 distributions), has resulted in a significant uptick in the company's distribution yield in the last couple of months.



Source: IJG Securities

A required yield of 9.80% combined with our expectation of FY21 distributable income of 130c per unit informs our target price. Assuming a normal 90% distribution equivalent to 117c per unit, this generates our **target price of N$11.94**. This represents a 19.4% premium to the current share price. However, we feel that 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. The peer comparison also points to the current share price still being potentially overvalued versus the peer-group and affirms our cautious outlook on the share price.

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