ORYX PROPERTIES LIMITED
Rights Issue
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Oryx Properties Limited

Rights Issue

Target Price (c)	***1714***
Current Price (c)	2021

Year End 30 June	2016A	2017A	2018A	F2019	F2020
Revenue (N$m)	288.3	297.1	304.9	344.7	370.0
Vacancies (%)	2.1	6.4	6.5	2.0	2.0
HEPU (c)	163.0	158.6	146.0	169.1	190.5
HEPU growth (%)	2.1	-2.6	-7.9	28.5	12.7
DPU (c)	167	167	157	169.1	190.5
DY (%)	7.8	8.1	7.8	8.3	9.3
P/E (x)	13.2	13.0	13.8	12.1	10.7
D/A (%)	29.0	33.2	35.9	42.1	42.1

Source: ORYX PROPERTIES LIMITED, IJG

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,571
Shares in Issue (m)	77.9
Free float (%)	100
52 week high (c)	2080
52 week low (c)	2017
Expected Total Return (%)	-7.1

Rights Issue

Oryx Properties Limited (ORY) announced its intention of raising capital by way of a rights issue on the 31st of January 2019. ORY is offering qualifying unitholders 1 right for every 5 linked units held, which equates to a total of 15,789,275 rights issue units. ORY will offer these rights at a subscription price of 1959c per rights issue unit, which is inclusive of a 40c antecedent interest distribution. ORY intends to raise N$309 million from this rights issue, if all unitholders exercise their rights. Unitholders are also entitled to apply for excess rights to a maximum of 10% of their original entitlement.

Approximately 61% of unitholders voted in favour of the rights offer, while the remaining 39% abstained from voting, with no votes cast against the rights offer. The rights offer will open at 09:00 on the 1st of March and will close on Friday the 29th of March.

Right issue Timeline – Key Dates

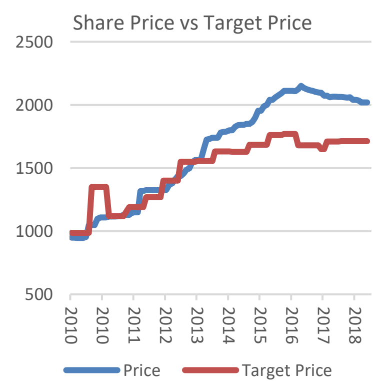
Event Pertaining to Rights Issue	Date
Circular Notice of GM	31 January 2019
LDT in order to be eligible to vote at the General Meeting	01 February 2019
RD to be eligible to vote at the General Meeting	08 February 2019
GM of Oryx Unitholders to be held at 11:00	15 February 2019
LDT in linked units to participate in the Rights Issue (cum entitlement)	15 February 2019
Results of the General Meeting released on NENS	18 February 2019
Linked units commence trading ex entitlement at 09:00	18 February 2019
RD which Unitholders are eligible to receive Letters of Allocation	22 February 2019
Listing of and trading in the Letters of Allocation on the NSX commences at 09:00	01 March 2019
Rights Issue opens at 09:00	01 March 2019
LDT Letters of Allocation on the NSX	15 March 2019
Rights Issue closes at 12:00	29 March 2019
Results of the Rights Issue announced on NENS	01 April 2019
Excess applications allocated to Unitholders	03 April 2019
Refund payments in respect of unsuccessful excess applications to Unitholders	04 April 2019

Reasons Behind the Offer

ORY's interest-bearing borrowings increased by 13.7% y/y to N$951 million (N$970 million according to the circular) as at the end of FY18. ORY's gearing ratio rose to 35.9% as at FY18 (not 39.9% as stated in the circular), up from 33.2% in FY17. The gearing at 35.9% is uncomfortably close to ORY's self-imposed 40% cap, leaving very little room for further debt financing to fund yield accretive acquisitions.

ORY's property portfolio was valued at over N$2.56 billion in FY18, of which close to N$2.3 billion is encumbered. ORY intends to utilise approximately N$100 million of the funds raised to settle bank debt over the medium term (i.e. the N$100 million will not be drawn down on for a period of at least 1 year). ORY is of the view that reducing its bank borrowings and the subsequent release of some of these encumbrances on the portfolio will strengthen its balance sheet, allowing for the utilisation of the MTNP and cheaper sources of funding. The rest of the funds raised (N$209 million) will also initially be used to pay down on existing debt facilities. These funds will be utilised within the following months and thus the debt facilities utilised as need be.

Share Price (c)



Acronyms

RD: Record Date
LDT: Last Day to Trade
GM: General Meeting

According to the circular ORY plans to initially use the proceeds from the rights issue to settle various interest-bearing borrowings. ORY's goal is to reduce its variable rate borrowings, which have a weighted average interest rate of 9.16%. As per the circular ORY intends to pass on the savings from the reduced finance charges to unitholders in the form of distributions, which equates to approximately N$28 million. Dividing the N$28 million by the average interest rate indicates that to achieve the N$28 million saving approximately N$305.7 million worth of debt facilities will not be utilised for a period of one year after being paid down. This will not happen as the circular points out that N$209 million of the funds raised will be deployed either immediately or within a year of the rights issue. Thus, the interest saving should be between N$9 million and N$28 million over a one-year period. We estimate that a saving of around N$7 million in interest will be passed on to unitholders at FY19 year end in June.

ORY's existing debt facilities will remain in place. This will provide ORY with room for future debt funded acquisitions. Furthermore, ORY has access to the approved N$500 million MTNP of which only N$129 million has been utilised to date. ORY successfully refinanced the note which matured in November last year.

Use of proceeds

Of the N$309 million to be raised, approximately N$209 million is being earmarked for new acquisitions and improvements to existing properties. ORY sees the yield accretive investment opportunities in growing its retail offering, housing a new production facility, and extending its solar projects to its industrial and retail portfolios. A fourth project, and a first for ORY, is an opportunity in the residential property market.

ORY intends to use N$80 million of the proceeds from the rights issue to develop the first phase of the land acquired at Elisenheim. This development has been acquired at an attractive initial net yield, which is guaranteed by Trustco. ORY acquired the land in 2018 and Trustco has been paying interest of 11% on the cost of the land, and will pay the same yield on capital expended on the phased development. ORY is also looking to extend the benefits it has enjoyed from the 2.6MW solar installation at Maerua Mall. The improvement in the electricity recovery ratio has encouraged ORY to propose a N$15 million capital spend expected to yield 20.0% (net) from installations at various industrial and retail properties.

ORY has identified a pre-existing residential portfolio as an acquisition opportunity. Low yields have previously kept ORY out of the residential market, but the market correction seems to have opened up opportunities. According to ORY the proposed N$80 million worth of townhouses are sought after units with "almost no historical vacancies". ORY is of the view that at present the housing market favours the buyer, which we agree with in some cases, and that opportunities may arise going forward as the market improves. The estimated initial net yield for the residential portfolio is 9.8%, with an anticipated acquisition in February 2020. Likewise, the envisaged N$35 million production facility to be set up at ORY's vacant Lafrenz erf is also expected to add to distributions in 2020. The net yield estimated for this industrial development is 10.2%. Summary of the opportunities:

USE OF PROCEEDS	AMOUNT	NET YIELD	DEPENDENT	DATE OF 1ST INCOME
ELISENHEIM	N$ 80 million	10.00%	Self	Immediately
RESIDENTIAL PORTFOLIO	N$ 80 million	9.80%	Market	01 February 2020
INDUSTRIAL WAREHOUSE LAFRENZ	N$ 35 million	10.20%	Market	01 January 2020
PV INSTALLATION	N$ 15 million	20.00%	Self	
SETTLEMENT OF DEBT	N$ 99 million	9.20%	Self	Immediately
TOTAL	N$ 309 MILLION	10.20%		

Previous Rights Issue

ORY had previously raised capital through a rights issue in 2015. In 2015 ORY intended to raise approximately N$264 million by offering 13,210,002 rights at a subscription price of 2000 cents per right. At the time ORY's distribution yield was approximately 7.9% (now 7.8%) and distributions were above present levels at 167cpu (157 now). Unitholders took up 11,809,781 units of the offered rights (89.4%), and ORY raised N$236 million in the process. ORY's gearing ratio prior to the rights issue stood at 38.8% and the proceeds from rights offer were utilised in settling some variable rate borrowings with the gearing level falling to approximately 30% as a result.

Conclusion

Refurbishment and upgrades to ORY's existing property portfolio have taken up the majority of capital expenditure over the last few years as few acquisition opportunities have been available in the local market. The depressed economic climate in Namibia and rapid growth in retail floorspace have put pressure on rental escalations, and distribution growth as a result. For some time now we have suggested that the economic downturn would present opportunities at some point. It seems like this is now playing out. The proposed uses of the proceeds from a potentially successful rights issue would be yield enhancing according to the net yields estimated in the circular. Together with the yield expected from the recently concluded Tower International transaction, distributions going forward are expected to rise.

The fact that ORY is coming to market with a rights issue points out that equity funding is currently cheaper than debt funding. This is a function of an expensive share price and justifies our SELL recommendation to some extent. The rights issue subscription price of 1959 (inclusive of antecedent distribution) is at a premium of 14.3% to our latest target price update of 1714cpu. The total net yield of the opportunities presented in the circular is 10.2%, which will have a positive impact on distribution yield going forward.

ORY distributions for the last three years have lagged the yield of the IJG Generic 10-year bond, which we use to value ORY relative to the risk-free rate. ORY is offering unitholders rights at a subscription price of 1959cpu (1919cpu when factoring in the antecedent distribution), which at the current share price of 2021c represents a discount of 3.1% (5.0% after accounting for the antecedent distribution). Our 1H18 review of ORY valued it at 1714c, a discount of 15.2% from 2021c, which underpins our **SELL recommendation**. We are of the opinion that from a distribution yield basis ORY is expensive relative to risk-free assets.

Despite the ORY share price being just about in line with the share price at the time of the previous rights issue in October 2015, the distribution yield has not improved. This illustrates just how difficult the property market in Namibia has been over the last three years. At the time of the last rights issue the ORY share price was still rising and distributions per unit were doing the same. As such conditions in 2015 were more favourable in which to attempt a rights issue from a sentiment perspective. As pointed out earlier, 89.4% of rights were exercised in 2015. At the AGM held in August 2015, 89.1% of unitholders voted for the rights issue. This does lead us to believe that the current rights issue will not see all rights exercised and may see as little as 61% of unitholders exercise rights. Of course, the difference between now and then is that current opportunities offer a more attractive yield due to a correction in property prices over the last three years. While an economic recovery may still be some way off, it is likely that the outlook will improve somewhat over the course of 2019, whereas at the time of the last rights issue it was deteriorating rapidly. The question for rights holders, in our view, now becomes one of whether an increase in distributions will be seen over the next 12 months and whether or not the equity risk in Oryx will yield a greater return than cash or fixed income over this period.

It is on the back of this that our view on the rights issue is that a 3.1% discount (a 5.0% discount after accounting for the antecedent distribution) offers too little for a distribution yield only expected to rise more than 12 months from now. After accounting for the antecedent distribution, the subscription price of 1919cpu constitutes a 12.0% premium over our latest target price.

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