

ORYX PROPERTIES LIMITED

FY19 Results Review

October 2019

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Oryx Properties Limited

FY19 Results Review

Target Price (c)	***1800***
Current Price (c)	2031

Year End 30 June	2017	2018	2019	F2020	F2021
Revenue (N$m)	297.1	304.9	324.8	344.3	361.5
Vacancies (%)	6.4	6.5	3.2	3.8	4.0
HEPU (c)	158.6	146.0	137.4	163.7	175.1
HEPU growth (%)	-2.6	-7.9	-6.0	19.2	7.0
DPU (c)	167	157	150	160	161
DY (%)	8.1	7.8	7.7	7.8	7.8
P/E (x)	13.0	13.8	14.8	13.7	12.8
D/A (%)	33.2	35.9	35.0	35.3	35.3

Recommendation	SELL
NSX Code	ORY
Market Cap (N$m)	1,775
Shares in Issue (m)	87.4
Free float (%)	100
52 week high (c)	2060
52 week low (c)	1950
Expected Total Return (%)	-11.4

Source: ORYX PROPERTIES LIMITED, IJG

FY19 Results Review

Oryx Properties Limited (Oryx) released results for the full year ended 30 June 2019 (FY19). Total distributions per linked unit for the year decreased by 4.5% to 150.00c compared to 157.00c in FY18. The distributions comprised of debenture interest of 147.25c, dividends paid of 1.50c and dividends declared of 1.25c. The decrease in distributions is the result of a decision by the board of directors to only pay out 90% of distributable income for the 2nd half of the year in order to improve the group's overall liquidity. According to the results release Oryx will apply the 90% principle to next year's distribution as well. During the year earnings attributable to linked units (EPU) increased by 183.5% from 187.98c to 533.00c, largely due to higher fair value adjustments on the property portfolio. Headline earnings attributable to linked units decreased by 7.2% from 148.03c in FY18 to 137.34c in FY19, which is below our expectations.

Net rental income increased by 10.0% y/y to N$223.4 million, compared to N$203.1 million in FY18. Total revenue increased by 6.5%, which is better than expected in our view given the current economic climate. Rental expenses fell by 0.4% y/y to N$101.4 million, due to the savings being realised from the 2.6MW solar installation at Maerua Mall. Oryx' cost to income ratio has dropped to 31.2% in FY19 from 33.4% in FY18 as a result.

Oryx reported a profit after tax for the period of N$303.1 million, an increase of 692.3% compared to the N$33.2 million profit after tax reported in FY18. The increase in profit is mostly as a result the N$274.2 million fair value adjustments to the property portfolio, which is substantially higher than the N$18.0 million adjustment in FY18. Management notes in the results release that the higher property valuations are due to the impact of capital spent on upgrading certain properties. During the year N$50 million was spent on upgrading the Gustav Voigts Centre and N$10 million on the Elisenheim project. Management further noted that the Gustav Voigts upgrade resulted in a healthy increase in rental income.

Despite the struggling Namibian economy, Oryx' vacancy factor (as a % of lettable area) decreased from 6.85% at 1H19 to 3.2% at FY19. This is primarily due to Oryx finally offloading its Isando property in Johannesburg, which accounted for over half of the total vacancy rate. Oryx' relatively low vacancy rate is remarkable given the current economic climate. The difficult economic conditions will likely continue for the rest of the year which will continue to put pressure on rental income and vacancies.

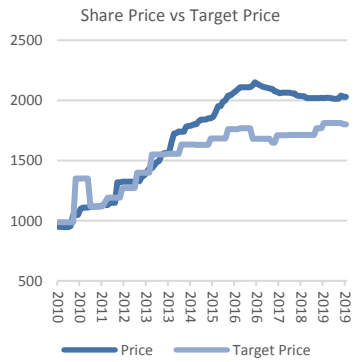
Oryx' interest bearing borrowings increased to N$1.16 billion in FY19 from N$950.8 million in FY18. Oryx' gearing ratio however decreased from 35.9% in FY18 to 34.9% at FY19, within management's self-imposed 40% cap. The ratio of fixed to variable rate borrowings for the period was split at 65:35 versus 49:51 the prior year. The addition of the low interest euro-based loan brought Oryx' weighted average interest rate down to 7.4% from the 9.0% recorded last year. Management used N$78 million of the funds raised during the rights issue to settle the Nedbank SA loans. Total unencumbered assets in FY19 amounted to N$426 million, compared to N$40 million in FY18.

Oryx also made a voluntary SENS announcement that it had entered into an agreement to acquire three tenanted residential complexes in Windhoek for N$86.7 million. The acquisition will add 8,225 m^2 gross lettable area to the overall portfolio. According to Oryx, the portfolio is being acquired at a net yield of 10.0% which is yield accretive to unitholders. The transaction is funded by Standard Bank Namibia, and carries an interest rate of 3-month JIBAR +2.0% over a term of 5 years.

The Chairperson, Mr Francois Uys, has not availed himself for re-election after suffering an accident earlier in the year. Mr PM Kazmaier was subsequently appointed as Deputy Chairperson to the board and will serve as Acting Chairperson until the AGM. Mr M Shikongo has retired from the board effective 30 June 2019, and has since been replaced by Ms RMM Gomachas.

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 (c)



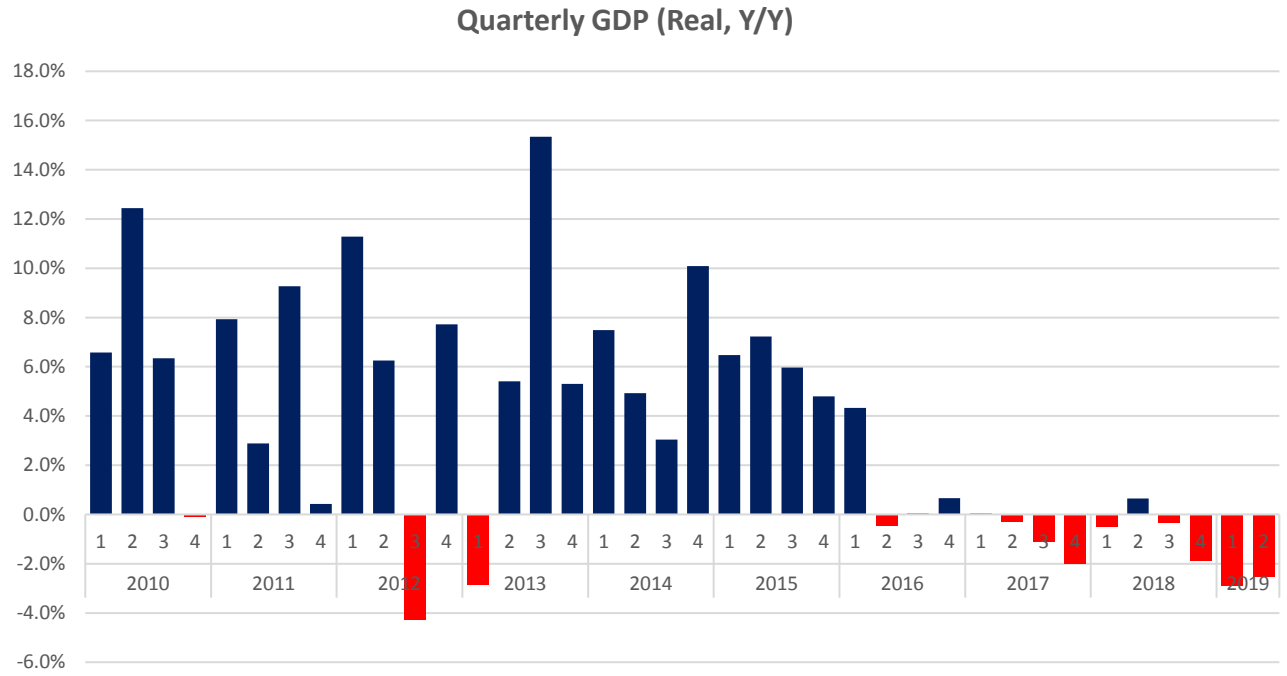
Dividends

Notice is hereby given that a distribution and dividend of 69.75 cents per linked unit and 1.25 cents per linked unit respectively was declared on 30 August 2019 for the period ended 30 June 2019.

- Last day to trade cum distribution: 06 September 2019
- First day to trade ex-distribution: 09 September 2019
- Record date: 13 September 2019
- Payment date: 27 September 2019

Macroeconomic Environment

Growth in the Namibian economy remains lacklustre. The most recent quarterly GDP release pointed to a contraction of 2.6% y/y making it the fourth consecutive quarter of contraction the country has experienced. The data shows that eight of the last twelve quarters have posted contractions on an annual basis, while the quarters during which growth took place were marginally positive at best.



Source: NSA, IJG Securities

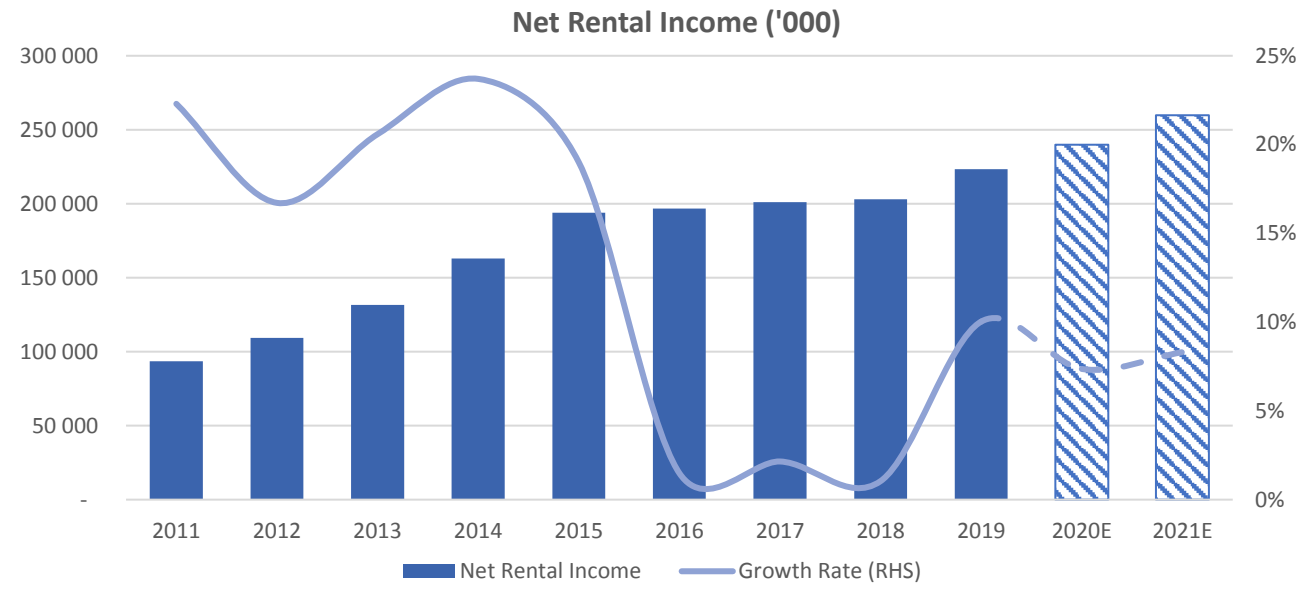
In its July 2019 Economic Outlook, the Bank of Namibia projected the domestic economy to contract by 1.7% in 2019, following a contraction of 0.1% in 2018. This revision from the 0.3% contraction expected for 2019 in their April 2019 outlook was due to weaker growth prospects in major sectors such as agriculture, diamond mining and wholesale and retail trade.

The deterioration in the outlook for agriculture has been as a result of the ongoing drought, which was declared a state of emergency in May 2019. According to the crop prospects, food security and drought situation report, published by the Ministry of Agriculture, Water and Forestry during April 2019, the country is expecting a substantial reduction in harvest of over 42.0% below the average production, while 64,526 heads of livestock were estimated to have died between October 2018 and April 2019 as a result of the drought.

Domestic consumer demand remains depressed as disposable incomes have been and will likely remain under pressure and structural unemployment has risen. This has had an adverse effect on wholesale and retail trade, which continued to contract. Wholesale and retail trade is the best yardstick to measure the health of the consumer, and the deterioration in outlook is worrying. These trends are not likely to reverse in the medium term and as a result growth is expected to remain low over the next two years. According to the Bank of Namibia, the country is expected to post growth of 0.8% in 2020 and 1.2% in 2021.

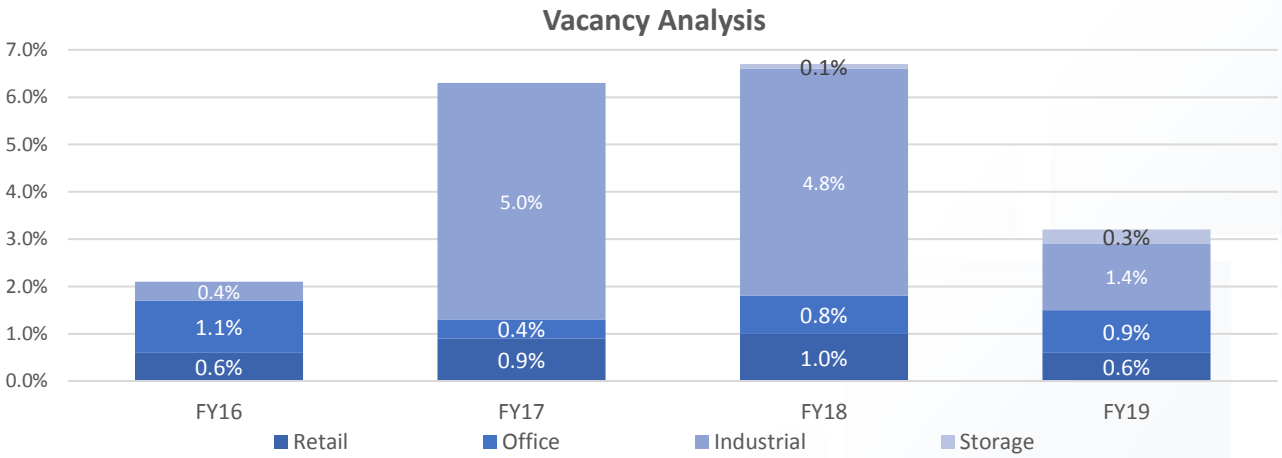
Revenue

Oryx grew revenue by 6.5% y/y to N$324.8 million, which is better than expected in our view, given the current economic climate. Net rental income increased by 10.0% y/y to N$223.4 million from N$203.1 million in FY18. This is the first time Oryx reported double digit growth in net rental income since 2015. According to management, a strong increase in rental income from the Gustav Voigts Centre resulting from the recent renovations, the Elisenheim head lease income, full year income from the Family Entertainment Centre at Maerua Mall, and positive rental renewals contributed to the growth in net rental income. Management expects rental income to remain under pressure as the difficult economic climate is likely to persist for the medium term.



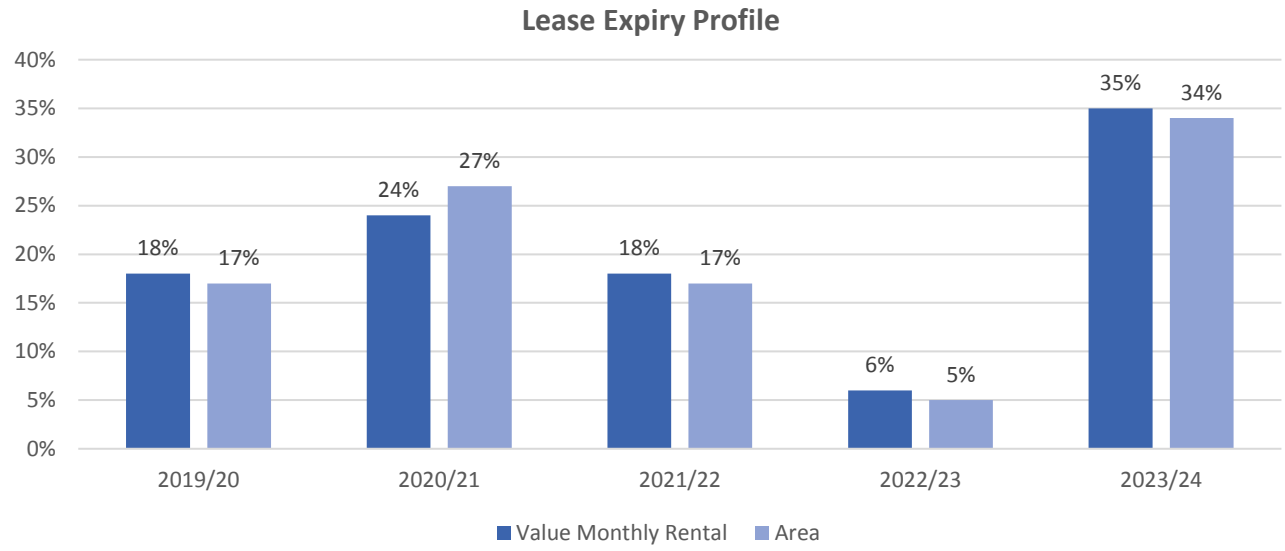
Source: Oryx, IJG Securities

Despite the struggling Namibian economy Oryx' vacancy factor (as a % of lettable area) decreased from 6.85% at 1H19 to 3.2% at FY19. This is primarily due to Oryx finally offloading its Isando property in Johannesburg, which accounted for over half of the total vacancy rate. Oryx' relatively low vacancy rate is remarkable given the current economic climate. The difficult economic conditions continue to put pressure on rental income and vacancies for some time still in our view.



Source: Oryx, IJG Securities

According to Oryx, rental reversions averaged 0.61% in FY19. The lease expiration profile shows 18% of the current leases are up for renewal in FY20, followed by 24% in FY21. The company, however, expects the renewals for FY21 to be lower as a new five-year lease for CIC is at an advanced stage.



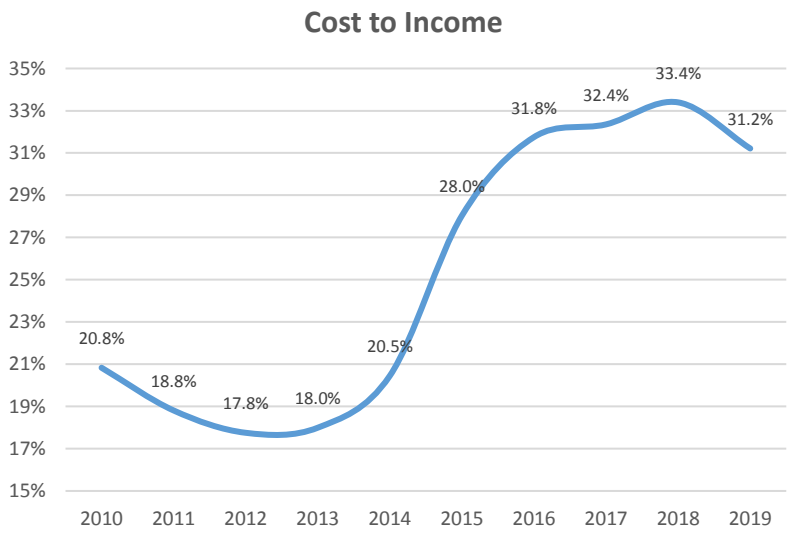
Source: Oryx, IJG Securities

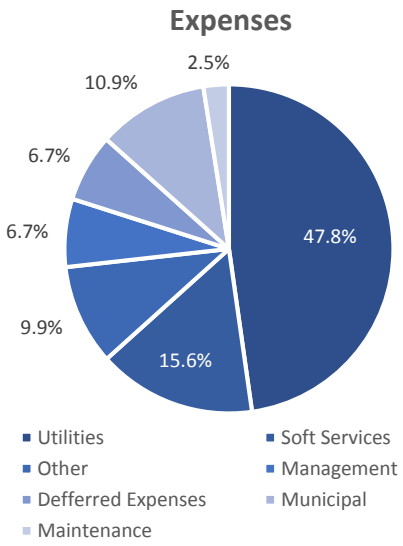
Expenditure

Rental expense remained fairly flat at N$101.4 million, compared to N$101.8 million in FY18. The current economic climate has resulted in renewed efforts from the management team to reduce costs and improve efficiencies. The property management team has been insourced which, according to management, creates various operating efficiencies such as improving recoveries from tenants, saving on placement commissions, and improving cash flow management.

Oryx is planning on adding solar facilities to several of its industrial properties within the next financial year to further reduce energy costs, following the installation of the PV plant on Maerua Mall. The company's electricity recovery ratio improved to 133%, from 113% in FY18 as a result of the additional PV installation on Maerua. To deal with the ongoing drought, Oryx plans on implementing water-savings initiatives such as installing water-savings devices and smart water meters.

The 6.5% increase in revenue and relatively flat rental expenses meant that Oryx' cost to income ratio has dropped to 31.2% in FY19 from 33.4% in FY18.





Source: Oryx, IJG Securities

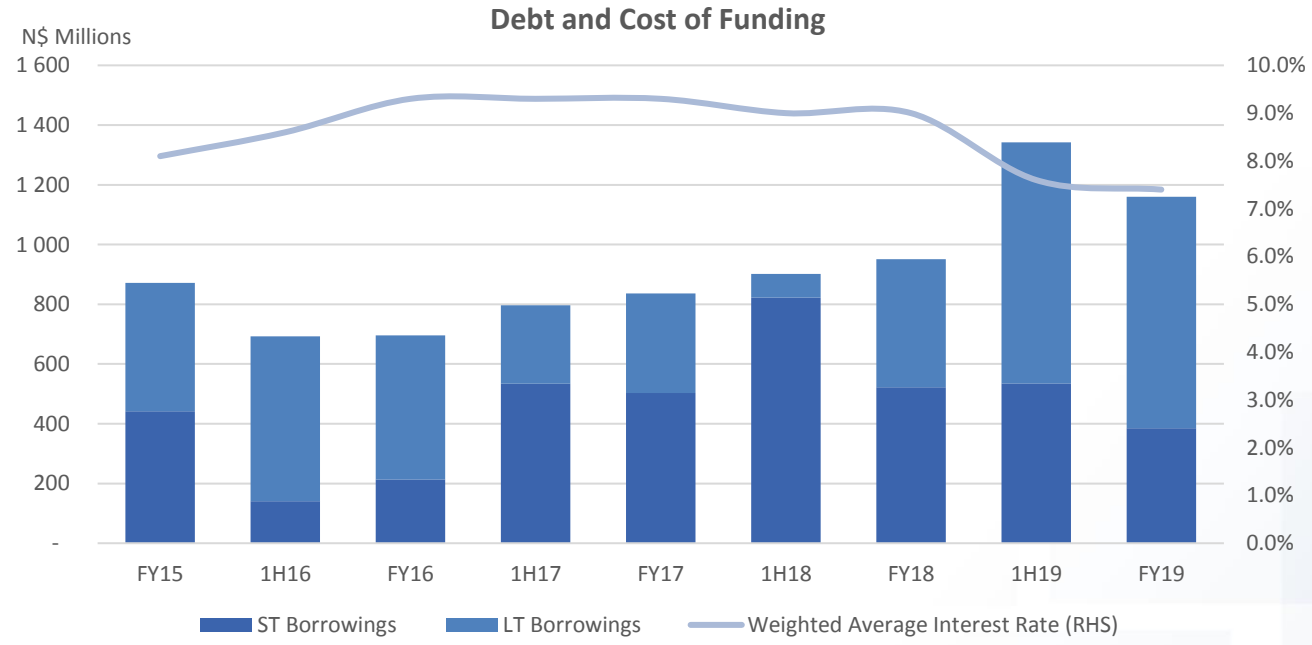
Borrowings

Oryx' interest bearing borrowings increased by 22.0% y/y to N$1.16 billion in FY19 from N$950.8 million in FY18. This increase is largely a result of the N$300 million euro-equivalent loan in 1H19 used to finance the offshore investment into TPF International Limited (TIL).

Oryx has total loan facilities of N$1.67 billion of which N$149 million is unutilised and available to fund further expansion. This excludes the Medium-Term Note Program. The ORY19 bond is the only debt maturing in FY20, but management has indicated that the company has already started discussions with financiers to increase the term of the bond. The OMIGNAM facility was rolled for a three-year term and was increased by N$20 million to N$90 million in September 2018.

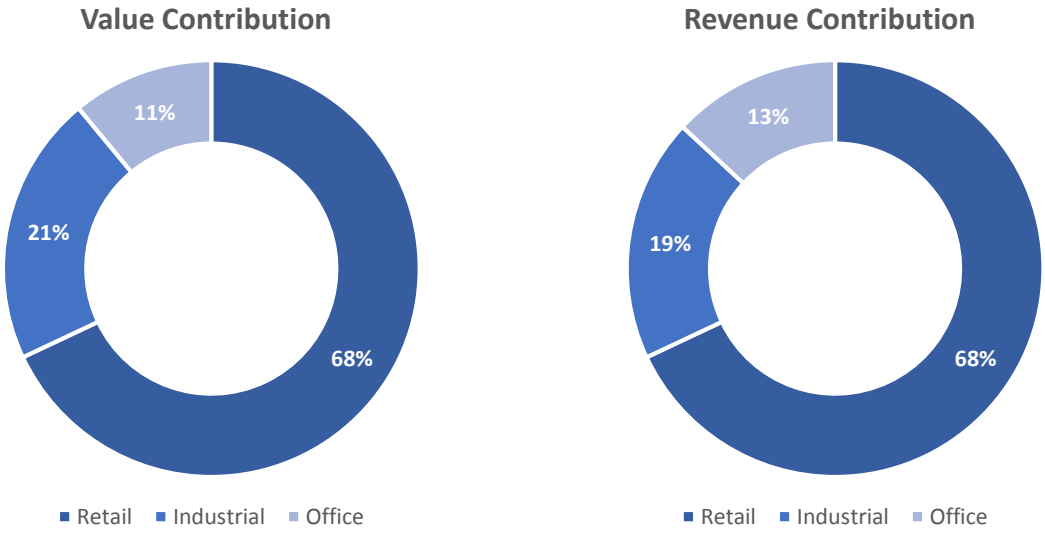
Proceeds from the rights issue earlier in the year were partially utilised to settle the N$78.8 million owed to Nedbank South Africa in order to reduce the cost of funding, and has further allowed for properties to be unencumbered. Total unencumbered assets in FY19 amounted to N$426 million, compared to N$40 million in FY18.

Oryx' gearing ratio decreased marginally from 35.9% in FY18 to 34.9% at FY19, remaining within management's self-imposed 40% cap. Management plans on keeping the gearing ratio at roughly 35%. The ratio of fixed to variable rate borrowings for the period was split at 65:35 versus 49:51 the prior year, with 65% of the total debt fixed using interest rate swaps. The overall weighted average interest rate for the debt held by Oryx was 7.4% as at the end of F19, down from the 9.0% recorded last year. This is mostly due to the addition of the low interest euro-based loan. The weighted average interest rate of the variable interest rate borrowings was 9.1%, compared to 9.0% in FY18.



Source: Oryx, IJG Securities

Property Portfolio



Source: Oryx, IJG Securities

The property portfolio was valued at N$2.91 billion for FY19, 13.8% up from the FY18 value of N$2.64 billion. Full year valuations were executed by an independent 3rd party, Mills Fitchet Magnus Penny, in contrast to half-year valuations which are performed by the company's directors. According to management, the increase in valuations is primarily due to capital investments in the portfolio, improved capitalisation rates on the renovated properties and standardising the capitalisation rates within Maerua Mall. Management intends to grow the company's assets to N$4.0 billion by FY21, signifying a required growth rate of 10.6% per year in the asset base.

The average capitalisation rates used to value the property portfolio has declined from 9.10% in FY18 to 8.87% in FY19. Given the current economic climate, this decrease is somewhat strange to us, as domestic property prices have generally been coming down since the recession started.

	Capitalisation Rate (%)		Discount Rate (%)	
Property Type	**2018**	**2019**	**2018**	**2019**
Retail	8.50%	7.80%	14.00%	13.80%
Industrial	9.30%	9.50%	14.90%	15.00%
Office	9.50%	9.30%	15.10%	15.30%
Portfolio Avg.	**9.10%**	**8.87%**	**14.67%**	**14.70%**

Source: Oryx, IJG Securities

Oryx finally managed to offload its Isando property in Johannesburg, which accounted for over half of the total vacancy rate as was vacant for more than two years. The property was sold for N$14 million, realising a profit of N$1.9 million. The disposal of the property is part of Oryx' strategy to disinvest in high-risk, high-yielding assets. The only property Oryx currently owns in South Africa is the one in Roodepoort, which is currently occupied by Action Ford. 2.55% of Oryx' Namibian portfolio is located outside of Windhoek.

Maerua Mall

The largest property in Oryx' portfolio was valued at N$1.538 billion in FY19, N$168.7 million or 11.0% higher than in FY18 and thus makes up the bulk of the fair value adjustment of N$278.8 million. The capitalisation rate on Maerua was dropped by 50 basis points, which resulted in the fair value gains. Maerua Mall had a vacancy rate of 1.7% at June 2019. The lower cap rate implies higher rental reversions and this has yet to come through. Given the economic outlook and the poor performance from the wholesale and retail trade sector we did not expect to see cap rates on Maerua dropped at this time. Until we see a pickup in retail activity and growth in rental reversions we would caution using the stated NAV growth as a proxy for future cash flow growth.

Elisenheim

Construction work on the Urban Village property at Elisenheim is well underway, with N$10 million spent on the development in FY19. According to management, the retail facility will have a GLA of about 3,000 m^2. The aim is to open the first phase to the public by February 2020. Development of the second and third phases will be spread over a seven-year period after that and should add an additional 9,000 m^2 to the GLA. Management expects unencumbered assets to increase to N$490 million in FY20 (from the current N$426 million) once phase one is completed.



Source: Oryx

Residential Acquisitions

Oryx announced that it had entered into an agreement to acquire three tenanted residential complexes in Windhoek for N$86.7 million. The acquisition will add 8,225 m² gross lettable area to the overall portfolio. According to Oryx, the portfolio is being acquired at a net yield of 10.0% which is yield accretive to unitholders. The transaction is funded by Standard Bank Namibia, and carries an interest rate of 3-month JIBAR +2.0% over a term of 5 years.

Two of the complexes are located in Pioniers Park Extension 1 and the third in Kleine Kuppe. Jimmey Realtors will manage the properties for the next three years, after which Oryx will take over the management of the properties.

Management has noted that it does not intend on becoming a residential property fund, but that the opportunities were just too good to be passed up. This is an indication of the distressed position property developers find themselves in as a result of the ongoing recession.

Tower International Limited

The N$300 million in Euro equivalent investment for the 26% stake in Tower International Limited (TIL) was completed in July 2018. The table below provides an overview of the Croatian properties held by TIL. The properties are all under head leases, meaning that Tower International is not the operational manager. The properties currently have no vacancies.

	SUB CITY CENTRE	VMD KVART OFFICE	MERIDIJAN 16 CENTRE	VUKOVARSKA KONZUM	SUPER KONZUM
Open Market Valuation (N$)	499,000,000	462,000,000	262,000,000	183,000,000	151,000,000
Sector	Retail	Office	Retail	Retail	Retail
City	Dubrovnik	Zagreb	Zagreb	Zagreb	Zagreb
GLA (m^2)	12,259	10,650	9,362	9,362	9,362
Gross Rent (€/m^2)	€15.14	€13.50	€10.81	€20.75	€10.32

Source: Oryx, IJG Securities

N$100 million of the original N$300 million investment was reserved to acquire an industrial facility for a Japanese automotive parts manufacturer, Yazaki. According to Oryx, the acquisition was partially concluded in FY19. Management has indicated that it does not currently have any further plans on entering other international markets.

The next step for TIL is to list an instrument which will allow the company to raise capital for additional acquisitions. The original intention was for the listing to be on the Mauritian Stock Exchange, but it is now more likely that it will be in Croatia, as it will make it more attractive to financial institutions, according to Oryx.

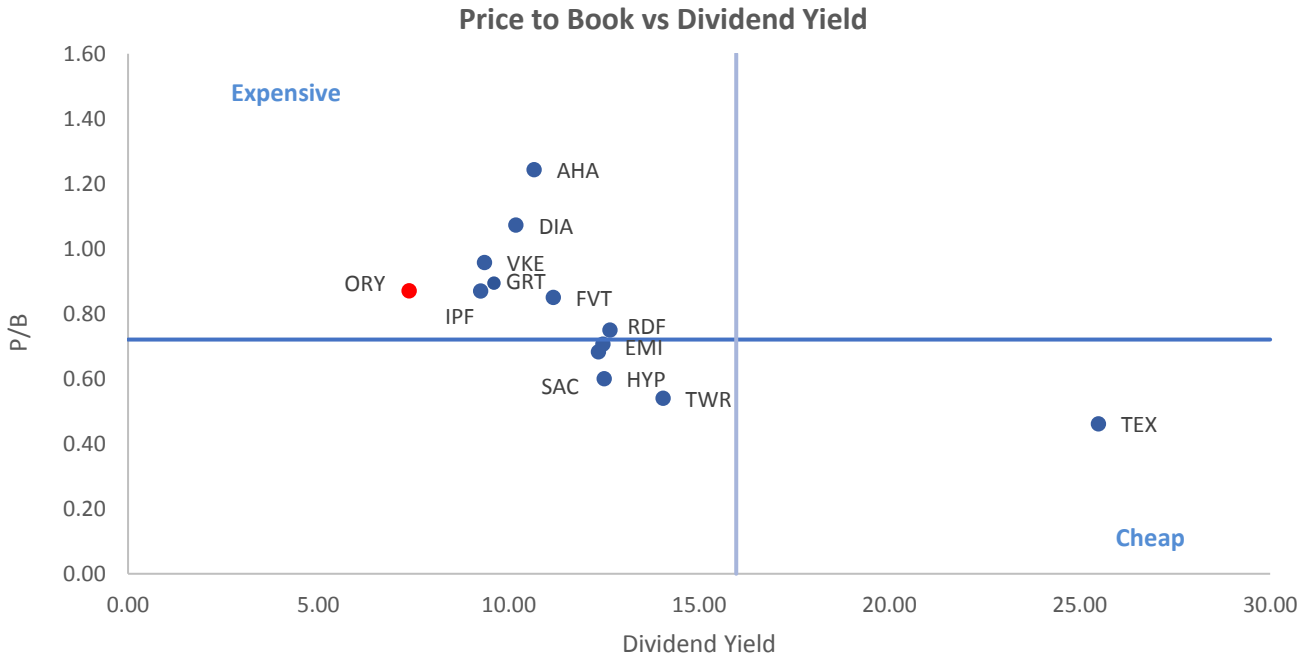
Relative Comparison

The below table is a peer comparison pitting Oryx against its JSE-listed Real Estate Investment Trust (REIT) peers, and has been ranked according to distribution yield. Oryx continues to rank last in terms of distribution yield compared to its JSE-listed peers, and lags the average for the group by about 10 percentage points. Delta Property Fund, Accelerate Property Fund and Texton Property Fund are however outliers in this group, as they have all seen large decreases in share price in the last year. Removing these from the group sees the average dividend yield drop to 10.97%, still over three percentage points higher than Oryx'.

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	50.81	0.12	0.49	1.49	778 510 393
Accelerate Property Fund Ltd	-11.42	-1.70	31.66	0.20	1.28	3.56	1 607 624 574
Texton Property Fund Ltd	-30.57	-11.70	25.49	0.46	1.73	5.03	1 052 986 945
Tower Property Fund Ltd	-8.36	-6.92	14.05	0.54	3.79	6.37	1 792 822 136
Redefine Properties Ltd	4.77	6.18	12.66	0.75	4.62	13.93	45 302 692 679
Hyprop Investments Ltd	-1.54	6.31	12.50	0.60	4.65	18.56	15 315 286 783
Emira Property Fund Ltd	3.09	1.18	12.47	0.71	3.52	7.64	6 345 180 379
SA Corporate Real Estate Ltd	-7.55	-0.36	12.36	0.68	3.78	10.22	8 654 956 380
Fairvest Property Holdings Ltd	8.05	9.33	11.17	0.85	3.99	9.12	1 985 344 610
Arrowhead Properties Ltd	109.43	5.32	10.66	1.24	5.72	12.94	5 272 668 792
Dipula Income Fund Ltd	4.49	4.66	10.19	1.07	4.38	9.64	3 832 361 059
Growthpoint Properties Ltd	4.55	5.87	9.62	0.89	5.79	8.89	67 381 855 612
Vukile Property Fund Ltd	7.50	7.44	9.36	0.96	5.18	15.76	18 541 234 317
Investec Property Fund Ltd	2.73	14.43	9.26	0.87	6.18	7.76	11 412 510 392
Oryx Properties Ltd	**-3.97**	**-3.35**	**7.39**	**0.87**	**2.46**	**14.80**	**2 095 344 416**
AVERAGE	**2.54**	**1.43**	**15.98**	**0.72**	**3.84**	**9.71**	**12 758 091 964**

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 is currently expensive compared to its peers.

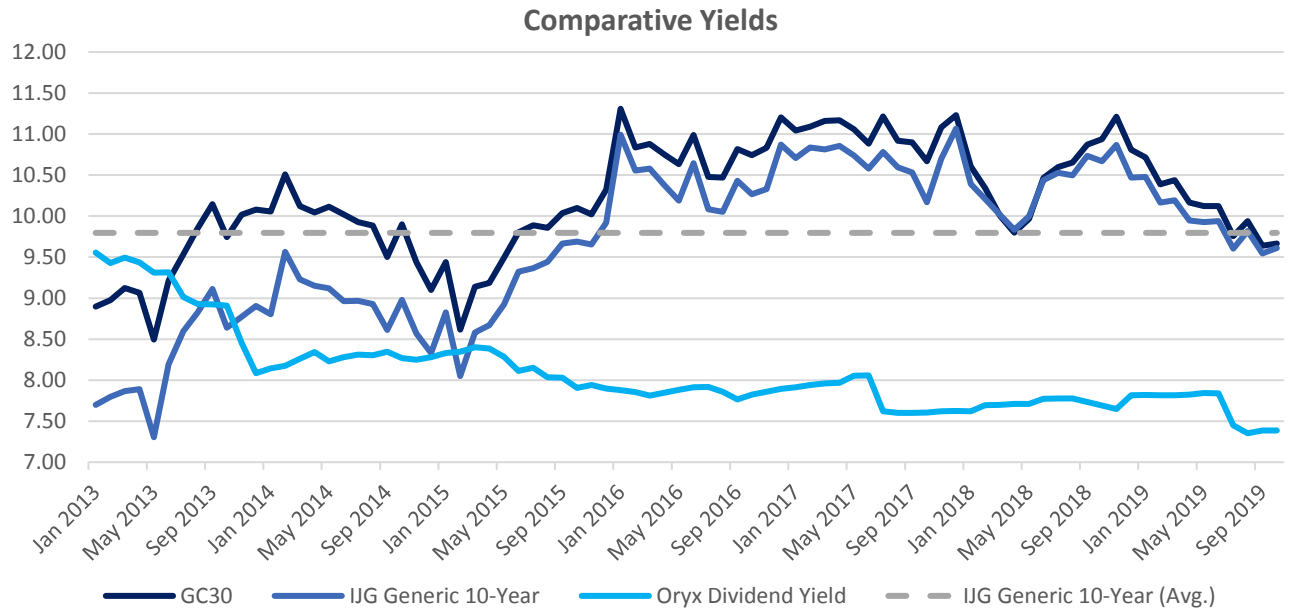


Source: Bloomberg, IJG Securities

Valuation

Oryx' total distributions per linked unit for the year decreased by 4.5% to 150.00c compared to 157.00c in FY18. The decrease in distributions is the result of a decision by the board of directors to only pay out 90% of distributable income for the 2nd half of the year in order to improve the group's overall liquidity. According to management, Oryx will apply the 90% principle to next year's distribution as well. Oryx will no longer pay dividends out of capital reserves.

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 bonds 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 2031c and our forecast for relatively flat distributions for FY20, Oryx returns a distribution yield of 7.8%. A required yield of 9.80% combined with our expectation of FY20 distribution of 160c per unit generates our **target price of N$18.00.** This represents a 11.4% discount to the current share price and as such we maintain our **SELL** recommendation on Oryx.

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