GCR RATINGS

Credit Rating Announcement

GCR affirms Oryx Properties Limited's Rating at BBB$_{(NA)}$. Outlook Stable

Rating Action

Johannesburg, 26 April 2022 – GCR Ratings ("GCR") has affirmed the national scale long-term and short-term Issuer ratings assigned to Oryx Properties Limited ("Oryx" or "the fund") at BBB$_{(NA)}$ and A3$_{(NA)}$, respectively. The Outlook is Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Oryx Properties Limited	Long Term Issuer Short Term Issuer	National National	BBB$_{(NA)}$ A3$_{(NA)}$	Stable Outlook

Rating Rationale

Oryx Properties Limited's ("Oryx" or "the fund") ratings balance its concentrated portfolio against relatively sound performance metrics. Prudent balance sheet management has also aided in providing stability to the credit profile.

Oryx's property portfolio is underpinned by good quality assets in prime locations in Namibia, complemented by modest exposure to a Croatian property fund. Whilst rentals remain under pressure due to the weak local economic environment, including continued rental concessions for certain strained tenants (albeit to lesser degree), the fund's performance has shown resilience despite the negative impact from the COVID-19 pandemic. Gross rental income has shown growth of around 3% for FY20 and FY21, as well as for 1H FY22 compared to the same period in the prior year. Vacancy rates (excluding the residential portfolio) have remained fairly intact at 5.9% as at FY21 and 1H FY22 (FY20: 5.4%), retention levels have improved to 91% (FY20: 89%), whilst lease maturities are well laddered (WALE of 3.6 years). As such, the recent relaxation of COVID-19 restrictions bodes well for improvements in performance, along with strategic asset repositioning. The fund's modest scale, concentrated asset portfolio (particularly to the flagship asset Maerua Mall comprising c.40% of rentals) and limited geographic diversity nevertheless temper its portfolio quality assessment.

On a GCR-calculated basis, Oryx's net LTV was reported at 38.9% in 1H FY22, down from 39.8% at FY20, remaining within management's financial policy guidance of at/below the 40% level. Net interest cover remained stable at 2.3x in 1H FY22, continuing to benefit from the more favourable interest rates secured from the debt refinancing undertaken during 2H FY21. This also resulted in a longer tenor debt expiry profile, with only NAD196m maturing in FY23. We also positively note the better headroom on most key financial covenants, with some that still have condonement to be adjusted to align with current trends. Whilst Oryx has announced that it will increase spend on asset enhancement initiatives at two of its largest existing assets, we expect that credit protection metrics will largely remain within current range as the fund looks to recycle capital and as asset valuations have largely stabilised.

The liquidity assessment is supported by small near-term debt maturities and negligible capital expenditure requirements over the next 12 months. Liquidity sources are largely underpinned by NAD241m in unutilised committed facilities as at December 2021 and the increased retention of distributions following the resolution to cap the distribution pay-out to 75% (from 90%) for three years, which is expected to see Oryx's liquidity coverage remain at around 1.5x in respect of its one-year requirements. We do note the larger debt maturity concentrations of around NAD370m respectively in FY24 and FY25, which we expect will be refinanced well ahead of time. To this end, cognisance is taken of the fund's good banking relationships, and diversified funding pool, providing demonstrated access to capital. The high asset encumbrance to existing funders (1H FY22: >90%), does, however remain a constraint to financial flexibility.

Outlook Statement

The Stable Outlook reflects GCR's expectation that earnings will continue to evidence gradual growth over the rating horizon on the back of the improved operating environment following the recent relaxation of COVID-19 restrictions. Ongoing financial discipline is also expected in pursuit of its growth strategy.

Rating Triggers

Positive rating action is unlikely over the rating horizon but could be considered if Oryx expands its asset portfolio and endeavors to optimize its portfolio quality, leading to stronger rental income growth. Improvements in credit protection measures on a consistent basis would also be positively considered.

Negative action may be taken 1) on a sustained weakening of operational metrics, including occupancy rates and EBITDA margin; 2) if financial metrics deteriorate, such that the LTV rises above 40% or interest coverage drops to 2x, on a sustained basis.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
GCR Rating Scales, Symbols and Definitions, May 2019
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, January 2022
GCR's Commercial Property Sector Risk Scores, July 2021
GCR's Country Risk Scores, December 2021

Ratings History

Oryx Properties Limited					
Rating class/Stock code	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	BBB+(NA)	Stable Outlook	February 2015
Short Term Issuer	Initial	National	A2(NA)		
Long Term Issuer	Last	National	BBB(NA)	Stable Outlook	April 2021
Short Term Issuer	Last	National	A3(NA)		

RISK SCORE SUMMARY

Rating components & factors	Risk scores
Operating environment	**10.75**
Country risk score	5.75
Sector risk score	5.00
Business profile	**(1.00)**
Portfolio quality	(1.00)
Management and governance	0.00
Financial profile	**(1.00)**
Leverage and Capital Structure	(0.75)
Liquidity	(0.25)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**8.75**

Glossary

Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Property	Movable or immovable asset.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- the 2021 audited annual financial statements (plus four years of audited comparative numbers);
- unaudited consolidated results for the six months ended December 2021;
- Facility schedules and property schedules.