

CREDIT RATING ANNOUNCEMENT

GCR affirms Oryx Properties Limited's national scale rating at BBB_(NA) with the Outlook revised to Positive as growth strategy should continue to enhance portfolio quality

Rating action

Johannesburg, 12 April 2024 – GCR Ratings (GCR) has affirmed Oryx Properties Limited's national scale long-term and short-term Issuer ratings of BBB_(NA) and A3_(NA) respectively. The Outlook has been revised to Positive from Stable.

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

Rating rationale

The change in Outlook to Positive reflects expectations that Oryx Properties Limited's (Oryx or the fund) portfolio quality will continue to strengthen as it gains scale, improves diversification, and focuses on asset enhancements. Recent performance metrics and cash flows of the stable portfolio have also been stronger than expected, whilst refinancing risk remains low. These strengths are partially offset as credit metric headroom could narrow in the next 12-18 months as it funds its expansion.

Oryx's property portfolio is underpinned by quality assets in prime locations in Namibia, complemented by modest exposure to a Croatian property fund. The fund has shown good progress on executing its strategy to grow its domestic portfolio to NAD4.5 billion by 2025. Following the acquisition of Dunes Mall (NAD628 million), new developments and revaluation gains, the portfolio grew to NAD3.7 billion at December 2023 from NAD2.8 billion at June 2022. Continued property additions and asset enhancement initiatives are expected to further enhance diversification by asset and geography. Exposure to the fund's largest asset, Maerua Mall retail node (including office) reduced to c.38% of the portfolio value at December 2023, from almost 50% previously. For the half year to December 2023 (1H 2024), rental operating income (excluding Dunes Mall) increased by 7%. We expect that Oryx's operating fundamentals and cash flows will continue to strengthen as vacancies lower (5.4% at December 2023 from 6.8% at June 2023), rental reversions have turned positive and additional assets are added. Maerua Mall's multi-year renovation to revitalise the centre is also expected to progressively add to rental growth over the medium term.

The completion of a rights issue in July 2023 for partial funding of the Dunes acquisition helped Oryx maintain conservative leverage, with the LTV on a GCR-calculated basis reported at 38.4% for 1H 2024 (financial 2023: 36.5%). We expect that the LTV may rise slightly above 40% in financial 2025 (within internal limits of 40-45%) due to debt drawdowns for the development of a new convenience-based retail centre and Maerua Mall's renovations. Whilst this reduces the fund's leverage headroom, with some pressure also expected on interest cover (reported at 2.7x at 1H 2024), this is likely to be temporary as the growth in earnings or potential further equity raises should see the ratios moderate thereafter. Oryx is considered to have good banking relationships and diversified funding sources, providing demonstrated access to capital. Additionally, the fund displays a relatively long tenor debt expiry profile, and comfortable covenant headroom.

The liquidity assessment is supported by low near-term debt maturities and an extension in the 75% distribution pay-out ratio (from 90%) until financial 2027. Furthermore, Oryx has NAD400 million in unutilised committed facilities available as at

December 2023 and development loans of NAD460 million have been secured to fully cover large upcoming ring-fenced capex projects. Accordingly, liquidity cover is calculated at 1.6x over the next 12 months and we would expect to see pro-active and early refinancing of the large quantum of debt maturities due for financial 2026. The high asset encumbrance to existing funders (above 90%) remains a constraint to financial flexibility.

Outlook statement

The Positive Outlook reflects GCR's expectation that Oryx's growing scale and improvement in asset quality will continue to augment cash flows. Our view also considers that fund will remain committed to prudent financial policies and moderate credit metrics following any temporary spikes as it pursues its portfolio growth.

Rating triggers

GCR would consider upgrading the ratings if Oryx continues to expand and diversify its asset portfolio, maintains stronger performance metrics and conservative leverage on a sustained basis.

The rating Outlook could be revised back to Stable on the back of a weakening of operational metrics, or if there is substantial and sustained rise in the LTV above 40% or interest coverage drops below 2.3x on a sustained basis.

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
GCR Rating Scales, Symbols and Definitions, May 2023
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, January 2022
GCR's Commercial Property Sector Risk Scores, June 2023
GCR's Country Risk Scores, March 2024

Ratings history

Oryx Properties Limited

Rating class	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 2023
Short Term Issuer	Last	National	A3 _(NA)		

Risk score summary

Rating Components & Factors	Score
Operating environment	10.75
Country risk score	5.75
Sector risk score	5.00
Business profile	(0.50)
Portfolio quality	(0.50)
Management and governance	0.00
Financial profile	(1.25)
Leverage & capital structure	(1.00)
Liquidity	(0.25)
Comparative profile	0.00
Group support	0.00
Peer analysis	0.00
Total Risk Score	9.00

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 rating

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- Exchange Rate Source: <https://www.bloomberg.com/markets/currencies>
- 2023 audited annual financial statements (plus four years of audited comparative numbers);
- Unaudited consolidated results for the six months ending December 2023;
- Facility schedules and property schedules.

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