GCR RATINGS

Credit Rating Announcement

GCR revises Oryx Properties Limited's Rating to BBB$_{(NA)}$ on Criteria Change. Outlook Stable

Rating Action

Johannesburg, 23 April 2020 – GCR Ratings ("GCR") has revised the national scale long-term and short-term Issuer ratings assigned to Oryx Properties Limited ("Oryx" or "the fund") on Criteria change to BBB$_{(NA)}$ and A3$_{(NA)}$, respectively, from BBB+$_{(NA)}$ and A2$_{(NA)}$ previously. The Outlook been revised to Stable.

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

Rating Rationale

The ratings counterbalance Oryx's small and highly concentrated portfolio against its strong through-the-cycle earnings performance, as well as the recently adopted cash preservation initiatives, which are expected to shore up the fund's financial profile through a period of considerable uncertainty.

Despite the improvement achieved year-on-year, leverage remains a ratings constraint. Specifically, the net LTV ratio eased to 38% at 1H FY20 (1H FY19: 44.5%), and due to expectations of a more cautious capital investment over the rating horizon, is expected to remain below 40%. However, interest cover and debt to operating income weakened at 1H FY20, reflecting the earnings drag ascribed to recent debt-funded capex, and could be significantly curtailed in the short-term, due to COVID-19 related disruptions. The two metrics are expected to stabilise between 2.5-3.0x and 5.0x-5.7x respectively from FY21.

The high asset and tenant concentration constrain Oryx's portfolio quality assessment, with Maerua Mall accounting for nearly 50% of its portfolio value, and the top 10 tenants taking up c.40% of GLA. The fund also remains small, with just NAD3.1bn in directly-owned properties at 1H FY20. We have, however, noted Oryx's leading position in Namibian Commercial Real Estate, strong support from local industry players and sound asset management. In addition, Oryx remains a retail-biased Namibian fund, and we consider the sector the most resilient to economic vagaries. We have also positively considered its modest earnings diversification through indirect exposure to Croatia, as well as the predominance of national and international tenants, which account for over 80% of rental income.

Oryx's property performance continues to be supported by long-standing leases with leading South African and Namibian corporates. This has seen core vacancies stabilise between 3.0%-4.0%, while enabling Oryx to sustain above inflation escalations and a lease maturity profile above 3.5 years. While rentals are under pressure, the mostly positive reversions underscore the defensiveness of Oryx's properties. Costs remain well-controlled, although margin pressure is expected over the rating horizon, due to rising all-in costs of occupancy for tenants already facing significant strain from the persistently weak economic climate.

Liquidity remains a negative ratings assessment, as Oryx maintains limited unutilised, committed facilities, and has a high asset encumbrance ratio (1H FY20: +80%) which implies low recoveries for unsecured funders. Nonetheless, Oryx has well-established banking relationships with Namibia's leading financial institutions, with use of the NAD500m note programme adding financial flexibility. The deferral of the 1H FY20 distribution and major capital investments, proceeds from the sale of an asset in Croatia, and a recently approved bank facility, will all help to shore up liquidity until there is some certainty. While this supports 12 months' liquidity coverage of at least 1.0x, lumpiness in the debt maturity profile in FY21/22 sees the ratio decline sharply thereafter. The fund reflected reasonable headroom on its covenants at 1H FY20. In the short term, covenant risk could be heightened by pressure on valuations, much higher than anticipated currency volatility that amplifies the EUR exposure on translation, and weaker than expected earnings due to COVID-19 related disruptions. Counterbalancing this somewhat is the expectation that international cash flow coverage of the modest EUR-linked finance charge will remain relatively strong.

Outlook Statement

The Stable Outlook reflects our expectations that banks will continue to support the fund through a protracted period of considerable uncertainty, and that Oryx will sustain its cash preservation initiatives in the short term.

Rating Triggers

Negative action may be taken if 1) GCR considers the risk of accelerated debt repayments to be heightened due to unremedied covenant strain arising from the COVID-19 crisis 2) the liquidity coverage ratio remaining below 1.0x over the rating horizon, due to delays in terming out maturities early 3) reduction of international cash flows, which impacts coverage of the EUR-related interest. Positive rating action is likely in the medium term, if further enhancements to the debt maturity profile continue to support liquidity coverage of at least 1.0x, and sustained earnings performance.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, May 2019
GCR's Country Risk Score report, published January 2020
GCR's Namibian Sector Risk Score report, published April 2020

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)	Negative Outlook	May 2019
Short Term Issuer	Last	National	A2(NA)		

RISK SCORE SUMMARY

Risk scores	
Operating environment	**11.00**
Country risk score	6.00
Sector risk score	5.00
Business profile	**(1.00)**
Portfolio quality	(1.00)
Management and governance	0.00
Financial profile	**(1.50)**
Leverage and Capital Structure	(1.00)
Liquidity	(0.50)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**8.50**

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 ratings 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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit ratings have been disclosed to Oryx Properties Limited. 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.

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

- the 2019 audited annual financial statements (plus four years of audited comparative numbers);
- unaudited consolidated results for the six months ended December 2019;
- Facility schedules and property schedules.