

CREDIT OPINION

26 April 2023

Update



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RATINGS

Redefine Properties Limited

Domicile	South Africa
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Redefine Properties Limited

Update to credit analysis

Summary

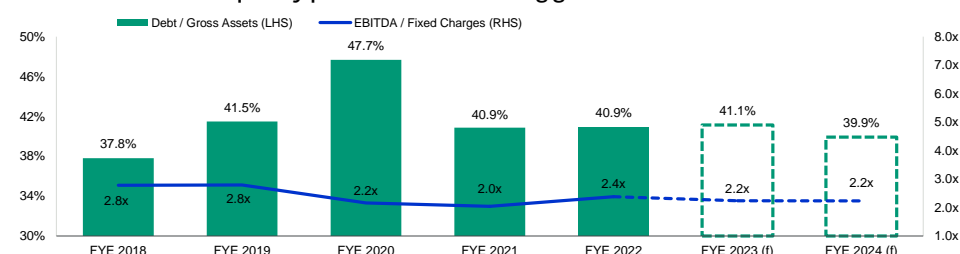
Redefine Properties Limited's (Redefine) Ba2 corporate family rating (CFR) is underpinned by its strong market position, good asset quality, and sizeable property portfolio. Its portfolio is diversified across key assets in office, industrial and retail, with an offshore property exposure to [Poland](#) (A2 stable). Redefine improved its adjusted gross debt to total assets ratio to 41% from 48% in 2021, supported by asset disposals and has maintained a stable performance during 2022.

The rating is constrained by the portfolio's predominant exposure to [South Africa](#) (Ba2 stable) with 66% of property value derived from the country as of 31 August 2022. The operating environment remains challenging especially with respect to the company's office portfolio. We expect higher vacancies and lower rental growth prospects in the next 12-18 months, particularly in the office segment where there is an oversupply.

Whilst Redefine benefits from some diversification into Poland through its ownership of EPP which represents 34% of the company's property value, this is not sufficient to warrant a delinking from the South Africa sovereign rating. South Africa's challenging macroeconomic and operating environment is hampering the recovery in the real estate sector and we expect the leasing market to remain very competitive.

Exhibit 1

Credit metrics are adequately positioned within rating guidance



All ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end (31 August) unless indicated.

Source: Moody's Investors Service

Credit strengths

- » Diversified property portfolio in South Africa with exposure to Poland
- » Strong market position and good asset quality
- » Improved gross debt to total assets ratio following asset disposals

Credit challenges

- » Geographic concentration in South Africa
- » Low growth prospects and challenging real estate market outlook in South Africa
- » Weak unencumbered assets ratio

Rating outlook

The stable outlook is in line with that of the sovereign rating and it reflects Redefine's exposure to the economic trends in South Africa.

Factors that could lead to an upgrade

Subject to an upgrade of South Africa's rating, an upgrade could be considered if: (1) total debt to gross assets remains below 45% on a sustained basis; (2) fixed charge coverage ratio remains well above 2.5x on a sustained basis.

Factors that could lead to a downgrade

The ratings are likely to be downgraded in case of a downgrade of the South Africa's rating. We would also consider a downgrade if: (1) total debt to gross assets trending towards 55%; (2) fixed charge coverage ratio falling below 2.0x; (3) the company's liquidity risk profile deteriorates.

Key indicators

Exhibit 2

Redefine Properties Limited

	31-Aug-18	31-Aug-19	31-Aug-20	31-Aug-21	31-Aug-22	31-Aug-23 (f)	31-Aug-24 (f)
Real Estate Gross Assets (USD Billion)	\$6.7	\$6.7	\$4.8	\$5.2	\$5.4	\$5.4	\$5.6
Unencumbered Assets / Gross Assets	38.7%	39.5%	32.8%	37.7%	34.2%	34.4%	33.4%
Total Debt + Preferred Stock / Gross Assets	37.8%	41.5%	47.7%	40.9%	40.9%	41.1%	39.9%
Net Debt / EBITDA	4.6x	5.4x	6.5x	5.7x	6.1x	5.7x	5.5x
Secured Debt / Gross Assets	25.9%	26.3%	29.9%	28.4%	33.8%	34.0%	33.0%
Fixed Charge Coverage	2.8x	2.8x	2.2x	2.0x	2.4x	2.2x	2.2x

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Source: Moody's Investors Service

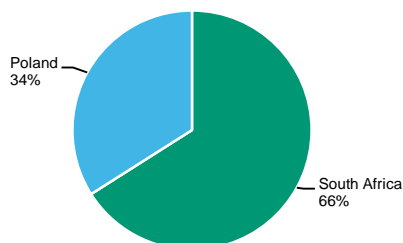
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Profile

Redefine Properties Limited is one of the largest real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange. Its activities include direct investments in property assets across the retail, industrial and office sectors. Redefine's main offshore property exposure is held through its investment in EPP N.V.. Redefine took full control of EPP during fiscal year 2022 through the acquisition of 95.5% of its equity.

Exhibit 3

Geographic footprint by asset value



As of 31 August 2022

Source: Company information

Detailed credit considerations

Geographic concentration in South Africa increases risks, despite exposure to Poland

Whilst Redefine's asset base is diversified between South Africa and Poland across the retail, industrial and office sectors, around 66% of the company's asset value are investment properties in South Africa. As a result, the company's credit profile is highly exposed to the macroeconomic environment in South Africa. Property assets are concentrated in two provinces in South Africa: Gauteng and the Western Cape which are two of the wealthiest and the most economically active regions in the country.

The company's primary focus of diversification is to Poland following divestments of non-core assets in Australia and UK. During fiscal year 2022, Redefine received the green light from shareholders, took full control (95.5% stake) and began to consolidate EPP from the previous 45.4% stake (equity accounted). Redefine's investment in EPP partly offsets the company's large footprint in South Africa because EPP is one of the top owners and managers of food, fashion and entertainment-anchored shopping centres in Poland.

Redefine's total exposure to Poland (including its European logistics platform), which is the main focus of its expansion strategy, has increased to 34% from 14% on a property value basis following the control takeover transaction. We believe that EPP's business fundamentals remain solid and the real estate market is in a better position than the South African one. Poland's economy grew strongly until the start of the pandemic and we expect GDP growth of 4.9% in 2022, 0.4% in 2023 and 2.4% in 2024.

Since the second half of 2021, 100% of GLA has been continuously operational, and footfall for the South African and Poland business stabilized at approximately 87%-88% of pre-pandemic levels, while turnover reached 107% in FY2022 of pre-pandemic levels driven by essential service retailers. South Africa's vacancy rate increased to 7.5% as of 30 January 2023 from 6.7% in August 2022 due to an occupancy rate reduction in the company's industrial business. In Poland, the vacancy levels remain broadly flat at 6.4% of the total GLA as of 28 February 2023, compared to 6.5% in 31 August 2022.

Despite Redefine's increased exposure to Poland, the company's asset base, revenue and cash flow generation remain reliant on its South African portfolio. As a result we believe the existing diversification into Poland is not sufficient to warrant a delinking from the South African sovereign rating.

Loadshedding and weak office market drive a difficult operating environment in South Africa

We believe Redefine's business profile would benefit from further geographical and sector diversification, nevertheless it remains significantly exposed to South Africa's economic environment. The real estate market in South Africa remains difficult, in particular the office industry which has been suffering from excess supply for the last 5 years.

Civil unrest and a slow coronavirus vaccine rollout slowed down South Africa's economic and real estate sector recovery. We expect the leasing market to remain very competitive, particularly in the office sector. Pressure on portfolio value will persist because market rental growth assumptions have declined, tenant retention is uncertain and the macroeconomic environment remains difficult. We expect GDP growth rates of 1.8% in 2022, 1.0% in 2023 and 1.2% in 2024 in South Africa with inflation growth in the mid-to-high single digits.

The civil unrest in July 2021 increased risks to the economy's recovery from the pandemic, and highlighted the social challenges the government faces in progressing its reform agenda. The protests subsequently broadened in scope and spread to several cities, including Johannesburg, fueled by social discontent regarding high levels of income inequality and unemployment in the country. We understand that Redefine's assets did not suffer material damage. South Africa is not particularly affected by the Russia-Ukraine conflict due to its limited trade links with both countries. Its most significant direct exposure is primarily through higher inflation and thereby fiscal pressure stemming from social demands.

In the retail segment, retailers' recovery post Covid-19 pandemic is strong with improvement in footfall levels however pressure remains because of the loadshedding disruption and increasing costs. South Africa's retail portfolio had a vacancy level of 4.2% as of January 2023 but tenants remain keen to downsize space and look to reduce cost occupancy ratio. Focus on tenant retention and structuring leases with longer weighted average lease expiry will continue to negatively impact rental growth rate as shown by the rent reversion on renewals to January 2023 which was -4.4%. In the office segment, weak corporate demand and structural over supply will continue to drag rental prices down. Intense competition amongst landlords and market vacancies will remain high and key tenants are pursuing shorter lease agreements. Nevertheless, the South Africa office portfolio vacancy level reduced slightly to 14.1% in January 2023 from 14.4% as of August 2022.

Overall, we expect Redefine to experience lower rent negotiations when renewing leases, or offer greater component of its rent based on turnover, in line with the demand made by large South African retailers including Woolworths Holdings Limited, Foschini Group, [Pepkor Holdings Limited](#) (Ba2 stable). Turnover-based rents will reduce the predictability of rental income, a credit negative. We note that rent collections have significantly improved since the end of the lockdowns. As of 31 August 2022, weighted average annual renewal growth rate for the South African portfolio was negative at -12.0% and is likely to remain under pressure. This risk is somewhat offset by average in-force annual escalations on renewals of 6.5%. We view Redefine's market positioning and asset quality as good, consistent with a "Baa" rating sub-factor score. This supports good medium to long-term leases with a weighted average lease expiry of 3.6 years.

Loan to value has improved mainly due to asset disposals

Adjusted gross debt to total assets decreased to 40.9% for the fiscal year ending 31 August 2021 from 47.7% a year before and has remained stable at 40.9% for the fiscal year ending 31 August 2022. Improvement during fiscal 2021 was due to Redefine's internal initiatives to maintain loan to value (LTV) below 40%. As part of these initiatives, Redefine made solid progress on asset disposals, such as the sale of its Australian student accommodation portfolio for AUD459 million and the sale of local non performing properties. During the first half of fiscal 2023, the company has announced five small asset disposals in its South African portfolio. During fiscal 2021 and 2022, the company also reduced speculative capital expenditure and halted local property acquisitions although in the first half of 2023, the company has invested ZAR675 million in two new assets in South Africa.

These initiatives are in line with Redefine's strategy which includes the disposal of non-core assets across its property asset platform in order to focus on its core markets being South Africa and Poland. In 2023, we expect further pressure on property valuations, following the historical trend of the last 4 years which will be partly offset by the company's internal initiatives to maintain the loan to value ratio below 40%. This will likely result in an adjusted gross debt to total assets between 40% to 42%. We also estimate an adjusted fixed charge coverage of 2.2x for the next 12 to 18 months.

South African property companies have traditionally favored secured debt through bank loans. Redefine's adjusted unencumbered assets ratio of 34% is weak. We will monitor the extent to which secured debt and encumbered assets increases because this would be increasingly disadvantageous for unsecured creditors.

ESG considerations

Redefine Properties Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Redefine's ESG credit impact score is neutral to low (**CIS-2**). Redefine has moderately negative environmental (E-3) and social risks (S-3) while it has a neutral to low governance risk (G-2) reflecting its conservative financial policy and good liquidity risk management, particularly during the coronavirus pandemic.

Exhibit 5

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

Redefine's environmental issuer profile score (IPS) is moderately negative (**E-3**). Redefine's environmental risks are moderate and mostly relate to physical climate and carbon transition. Redefine has a diversified portfolio of assets and continually invests in the assets to mitigate event and operational risks. Nevertheless, real estate companies' exposure to physical risk is material given our expectations of more frequent and severe climate events and a steady increase in surface temperatures, and their physical asset-intensive business models. In South Africa, significant parts of the population periodically face severe droughts. As climate change intensifies, water scarcity is likely to become increasingly constraining. Exposure to carbon regulation is growing as more jurisdictions establish emission and energy-efficiency guidelines. A property's environmental footprint (parameters such as energy efficiency, water usage, waste management and indoor environment quality) could influence leasing outcomes because tenants are becoming more sensitive to the green attributes of their leased spaces.

Social

Redefine's social issuer profile score is moderately negative (**S-3**). Demographic and societal trends are moderately negative due to risks related to labor and income. South Africa has one of the highest levels of income inequality, very high unemployment especially amongst the young. Demographic changes and affordability are important factors driving demand, and changes in these areas could

moderately affect the risks that real estate companies face. However, we recognize that Redefine's real estate investments outside of South Africa, particularly in Poland, provide an offset to the exposure to South Africa.

Governance

Redefine's governance issuer profile score is neutral to low (**G-2**). We note that one of Redefine's key performance indicators is to maintain the LTV ratio at 40% or below. In 2021, Redefine made several asset disposals to reduce the LTV. In addition, Redefine has a good track of addressing debt maturities well ahead of time. In South Africa, a REIT must pay a minimum of 75% of distributable income in dividends to retain its status and we consider this to be a high payout limiting organic cash preservation. As a result, the REIT status limits the company's ability to retain cash and requires it to maintain access to external sources of capital to support its business and repay debt. However, the JSE requirement to distribute at least 75% of distributable income is subject to the solvency and liquidity requirements of the South African Companies Act. It therefore follows that Redefine's REIT status will not be impacted by distributing less than 75% of total distributable profits in any given year, if the reason for this is to meet the solvency and liquidity requirements imposed by the South African Companies Act.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Redefine's liquidity is sufficient to meet its obligations over the next 12-18 months, supported by funds from operations of around ZAR4.1 billion, committed disposals of around ZAR1.4 billion and cash on balance sheet and available undrawn committed facilities of ZAR6.2 billion as of 31 January 2023. This is sufficient to cover capital spending of ZAR1.0 billion and ZAR4.2 billion of debt maturing in the next 12 months as of 31 January 2023 not assuming any refinancing. Redefine intends to pay dividends of at least 75% of distributable income which will represent about ZAR3.1 billion in the next 12 months.

Rating methodology and scorecard factors

The principal methodology used in these ratings was the REITs and Other Commercial Real Estate Firms rating methodology published in September 2022. The Scorecard-Indicated Outcome is Baa3 while the actual assigned rating is Ba2. The two notches difference reflects the company's credit profile exposure to the challenging macroenvironment of South Africa, which is not fully captured by the grid.

Exhibit 6

Rating factors

Redefine Properties Limited

REITs and Other Commercial Real Estate Firms Industry Scorecard			Current FY 08/31/2022		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score	Measure	Score
a) Gross Assets (USD Billion)	\$5.4	Baa	\$5.4 - \$5.6	Baa		
Factor 2 : Business Profile (25%)						
a) Market Positioning and Asset Quality	A	A	A	A		
b) Operating Environment	Ba	Ba	Ba	Ba		
Factor 3 : Liquidity and Access To Capital (25%)						
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa		
b) Unencumbered Assets / Gross Assets	34%	B	33% - 34%	B		
Factor 4 : Leverage and Coverage (45%)						
a) Total Debt + Preferred Stock / Gross Assets	41%	Baa	40% - 41%	Baa		
b) Net Debt / EBITDA	6.1x	Ba	5.5x - 5.7x	Baa		
c) Secured Debt / Gross Assets	34%	B	33% - 34%	B		
d) Fixed Charge Coverage	2.4x	Ba	2.2x - 2.3x	Ba		
Rating:						
a) Scorecard-Indicated Outcome		Baa3		Baa3		
b) Actual Rating Assigned				Ba2		

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Source: Moody's Investors Service

Appendix

Exhibit 7

Moody's-Adjusted Debt Reconciliation for Redefine Properties Limited

(In ZAR millions)	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	FYE Aug-22
As Reported Debt	36,124	41,186	36,795	30,856	37,778
Operating Leases	250	265	0	0	0
Non-Standard Adjustments	820	1,056	2,253	0	0
Moody's-Adjusted Debt	37,194	42,507	39,048	30,856	37,778

All figures are calculated using Moody's estimates and standard adjustments. Periods are financial year-end (31 August) unless indicated.

Source: Moody's Investors Service

Exhibit 8

Moody's-Adjusted EBITDA Reconciliation for Redefine Properties Limited

(In ZAR millions)	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21	FYE Aug-22
As Reported EBITDA	9,742	6,318	-7,579	6,090	11,237
Operating Leases	25	27	0	0	0
Unusual	-766	-7	12,733	-715	-3,483
Non-Standard Adjustments	-2,043	574	266	-196	-1,868
Moody's-Adjusted EBITDA	6,958	6,911	5,420	5,178	5,887

All figures are calculated using Moody's estimates and standard adjustments. Periods are financial year-end (31 August) unless indicated.

Source: Moody's Investors Service

Exhibit 9

Peers comparison table

	Redefine Properties Limited			Growthpoint Properties Limited			Fortress REIT Limited			Arabian Centres Company		
	Ba2 Stable			Ba2 Stable			Ba2 Negative			Ba2 Negative		
(in USD millions)	FYE Aug-20	FYE Aug-21	FYE Aug-22	FYE Jun-20	FYE Jun-21	FYE Jun-22	FYE Jun-21	FYE Jun-22	LTM Dec-22	FYE Mar-21	FYE Mar-22	LTM Dec-22
Gross Assets	4,835	5,218	5,416	9,688	10,815	10,055	3,190	2,899	2,946	5,336	5,571	7,360
Unencumbered Assets / Gross Assets	32.8%	37.7%	34.2%	37.2%	35.6%	33.0%	27.2%	28.9%	32.7%	68.0%	70.2%	63.2%
Gross Debt / Gross Assets	47.7%	40.9%	40.9%	43.3%	41.6%	39.3%	36.4%	40.3%	37.5%	54.3%	55.6%	39.8%
Net Debt / EBITDA	7.2x	5.7x	6.1x	7.4x	6.4x	6.4x	7.2x	6.5x	6.2x	7.7x	8.1x	7.6x
Secured Debt / Gross Assets	29.9%	28.4%	33.8%	26.0%	25.9%	25.0%	30.7%	30.3%	28.2%	25.7%	12.8%	11.6%
Fixed Charge Coverage	2.2x	2.0x	2.4x	2.9x	2.9x	3.0x	2.4x	2.7x	2.3x	2.6x	2.3x	2.3x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
REDEFINE PROPERTIES LIMITED	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured MTN -Dom Curr	(P)Ba2
Other Short Term -Dom Curr	(P)NP
NSR Corporate Family Rating	Aa2.za
NSR Senior Unsecured MTN	Aa2.za
NSR ST Issuer Rating	P-1.za
NSR Other Short Term	P-1.za

Source: Moody's Investors Service

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