

CREDIT OPINION

25 November 2021

Update

 Rate this Research

RATINGS

Redefine Properties Limited

Domicile South Africa

Long Term Rating Ba2

Type LT Corporate Family Ratings

Outlook Negative

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

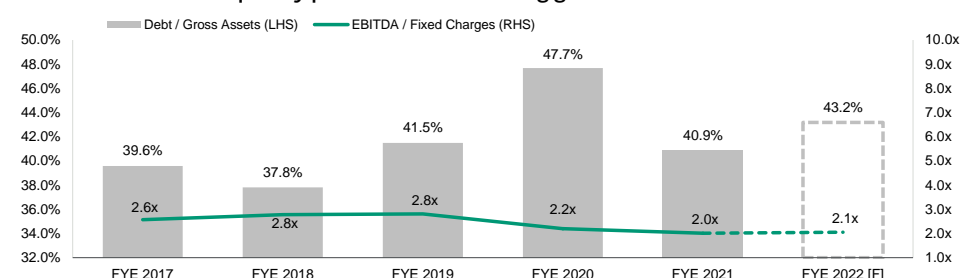
Summary

Redefine Properties Limited's (Redefine) ratings are underpinned by its strong market position, good asset quality, and sizeable property portfolio. Its portfolio is diversified across key sectors in office, industrial and retail, with an offshore property exposure to [Poland](#) (A2 stable). Redefine improved its adjusted gross debt to total assets in 2021, supported by asset disposals.

The rating is constrained by the portfolio's predominant exposure to [South Africa](#) (Ba2 negative) and its currently weak economic environment. In light of the coronavirus outbreak, the operating environment remains challenging. We expect higher vacancies, lower rental growth prospects and further pressure on property valuation in the next 12 months, especially with respect to the company's office portfolio.

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 thanks to asset disposals

Credit challenges

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

Rating outlook

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

Factors that could lead to an upgrade

Given the negative outlook, an upgrade is unlikely in the near-term. The outlook could be changed to stable if South Africa's rating outlook is changed to stable. Subject to an upgrade of South Africa's rating, an upgrade could be considered if:

- » Total debt to gross assets remains below 45% on a sustained basis
- » Fixed charge coverage ratio remains 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:

- » Total debt to gross assets exceeds 55% on a sustained basis
- » Fixed charge coverage ratio remains below 2.0x on a sustained basis
- » The company's liquidity risk profile deteriorates

Key indicators

Exhibit 2

Key Indicators for Redefine Properties Limited

	31-Aug-17	31-Aug-18	31-Aug-19	31-Aug-20	31-Aug-21	FY2022 [F]
Real Estate Gross Assets (USD Billion)	\$7.0	\$6.7	\$6.7	\$4.8	\$5.2	\$5.0
Unencumbered Assets / Gross Assets	42.4%	38.7%	39.5%	32.8%	34.0%	35.6%
Total Debt + Preferred Stock / Gross Assets	39.6%	37.8%	41.5%	47.7%	40.9%	43.2%
Net Debt / EBITDA	5.9x	5.3x	6.1x	7.2x	5.8x	6.3x
Secured Debt / Gross Assets	26.5%	25.9%	26.3%	29.9%	28.4%	30.1%
Fixed Charge Coverage	2.6x	2.8x	2.8x	2.2x	2.0x	2.1x

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Source: Moody's Investors Service

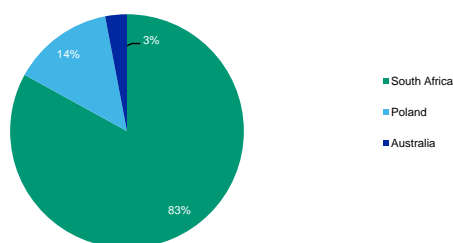
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Profile

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 key investment in EPP N.V. (45.4%).

Exhibit 3

Geographic spread by value



As of 31 August 2021

Source: Company information

Detailed credit considerations

Geographic concentration is a rating constraint, despite exposure to Poland

Around 80% of Redefine's assets are investment properties in South Africa. As a result, the company is exposed to the economic developments in the country and its rating is constrained by that of the sovereign. Property assets are concentrated in two provinces in South Africa: Gauteng and the Western Cape which are the wealthiest and the most economically active.

The company has an exposure to Poland which is the primary focus of Redefine's offshore expansion strategy. It has a 45.4% stake in EPP (equity accounted), which is its largest investment and one of the top owners and managers of food, fashion and entertainment-anchored shopping centres in Poland. As of 30 June 2021, it had gross lettable area of 1.2 million square metres, valued at €2.4 billion.

On 8 November, Redefine Properties announced that it had submitted a nonbinding proposal to the board of EPP N.V., in which it currently holds 45.4% of the shares in issue, to take full control of the company. Under the proposal, EPP shareholders would swap their shares in the company for Redefine shares, while Redefine would fully consolidate EPP in its financials and take full control of management and cash flow decisions. In our view, the proposed transaction is credit positive for Redefine because it would improve its business risk profile without impairing its credit ratios, increase its exposure to Poland and reduce its geographic concentration in South Africa.

Redefine's total exposure to Poland (including its European logistics platform), which is the main focus of its expansion strategy, would increase to 30% from 14% (property value) following the proposed transaction, and EPP's business fundamentals remain sound because of the country's robust growth prospects. Poland's economy grew strongly until the start of the pandemic and we expect GDP growth of 5.2% in 2021 and 4.5% in 2022. Footfall at EPP's shopping centres has steadily increased over the last six months and retail sales are 4% above pre-pandemic levels. EPP has also kept its retail occupancy stable at 95.4% and property valuations had increased by 0.4% as of 30 June 2021.

Persistent difficult operating environment in South Africa

While Redefine's business profile would benefit from further diversification into Poland, it remains significantly exposed to South Africa, whose real estate market remains difficult. Civil unrest and a slow coronavirus vaccine rollout are hampering the recovery in the real estate sector and 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 weak. We expect South Africa's GDP to grow by 4.1% in 2021 but by just 1.8% in 2022.

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. Confidence indicators were on an improving trend in the first half of the year. However, the civil unrest is likely to have knock-on effects for consumer, business and investor confidence. We understand that Redefine's assets have not suffered material damage: there is only one shopping centre which is not fully trading at 100% as of 31 August 2021.

In the retail segment, retailers' turnovers remain under pressure, tenants are downsizing space and looking 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. 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.

Overall, we expect Redefine to negotiate lower rents 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](#) (Ba3 negative). 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 2021, weighted average renewal growth rate for local portfolio was negative at -12.7% 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 3.4 years.

Loan to value has improved mainly due to asset disposals

We estimate adjusted gross debt to total assets to decrease to 41% for the fiscal year ending 31 August 2021 from 47.7% last year. This is due to Redefine's initiatives, in line with its goal of maintaining loan to value (LTV) below 40%. Indeed, in 2021, Redefine made solid progress on asset disposals, such as the sale of its Australian student accommodation portfolio for AUD459 million or the sale of local non performing properties. It has also reduced speculative capital expenditure and halted local property acquisitions. 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 2022, we expect further pressure on property valuations which will likely result in an adjusted gross debt to total assets between 40-45%. We estimate a ratio of 42.5% and an adjusted fixed charge coverage of 2.2x pro forma for the proposed transaction with EPP.

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

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Our analysis has considered the effect on the performance of Redefine from the current weak South African economic activity and a gradual recovery for the coming months. As a result, the degree of uncertainty around our forecasts is unusually high.

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, it must be noted that 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 effected 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.

Liquidity analysis

Redefine's liquidity is sufficient to meet its obligations over the next 12-18 months, supported by funds from operations of around ZAR4.3 billion, committed disposals of around ZAR2.5 billion, cash of ZAR1.3 billion and available credit facilities and undrawn committed lines of ZAR4.4 billion as of 31 August 2021. This is sufficient to cover capital spending of ZAR1.5 billion and ZAR3.8 billion of debt maturing in the next 18 months. Redefine intends to pay dividends of at least 75% of distributable income which will represent about ZAR5.8 billion in the next 18 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 July 2021. The Scorecard-Indicated Outcome is Baa3 while the actual assigned rating is Ba2. The two notches difference reflect the company's credit links to South Africa's rating, which are not fully captured by the grid.

Exhibit 4

Rating factors

Redefine Properties Limited

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current FY 08/31/2021		Moody's 12-18 Month Forward View	
	Measure	Score	Measure	Score
Factor 1 : Scale (5%)				
a) Gross Assets (USD Billion)	\$5.2	Baa	\$5.0	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	34.0%	B	36%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	40.9%	Baa	43%	Baa
b) Net Debt / EBITDA	5.8x	Baa	6.3x	Ba
c) Secured Debt / Gross Assets	28.4%	Ba	30%	B
d) Fixed Charge Coverage	2.0x	Ba	2.1x	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba2

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Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
REDEFINE PROPERTIES LIMITED	
Outlook	Negative
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

Appendix

Exhibit 6

Moody's-Adjusted Debt Reconciliation for Redefine Properties Limited

(In ZAR millions)	FYE Aug-16	FYE Aug-17	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21
As Reported Debt	28,190	34,713	36,124	41,186	36,795	30,856
Operating Leases	140	225	250	265	0	0
Non-Standard Adjustments	0	1,241	820	1,056	2,253	0
Moody's-Adjusted Debt	28,330	36,179	37,194	42,507	39,048	30,856

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

Source: Moody's Investors Service

Exhibit 7

Moody's-Adjusted EBITDA Reconciliation for Redefine Properties Limited

(In ZAR millions)	FYE Aug-16	FYE Aug-17	FYE Aug-18	FYE Aug-19	FYE Aug-20	FYE Aug-21
As Reported EBITDA	6,764	6,115	9,742	6,318	-7,579	6,090
Operating Leases	19	23	25	27	0	0
Unusual	-503	809	-766	-7	12,733	-715
Non-Standard Adjustments	-1,406	-869	-2,043	574	266	-275
Moody's-Adjusted EBITDA	4,875	6,077	6,958	6,911	5,420	5,099

All figures and ratios 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

Peers comparison table

(in USD million)	Redefine Properties Limited Ba2 Negative			Arabian Centres Company Ba2 Negative			Growthpoint Properties Limited Ba2 Negative			Fortress REIT Limited Ba2 Negative		
	FYE Aug-19	FYE Aug-20	FYE Aug-21	FYE Mar-20	FYE Mar-21	LTM Jun-21	FYE Jun-19	FYE Jun-20	FYE Jun-21	FYE Jun-19	FYE Jun-20	FYE Jun-21
Gross Assets	\$6,748	\$4,835	\$5,218	\$4,742	\$4,662	\$4,852	\$10,070	\$9,688	\$10,815	\$3,765	\$2,464	\$3,190
Unenc. Assets / Gross Assets	39.5%	32.8%	34.0%	62.7%	63.9%	61.4%	42.1%	37.2%	35.6%	35.6%	26.1%	27.2%
Gross Debt / Gross Assets	41.5%	47.7%	40.9%	63.3%	62.1%	62.7%	35.2%	43.3%	41.6%	32.5%	39.0%	36.4%
Net Debt / EBITDA	6.1x	7.2x	5.8x	6.4x	7.7x	8.1x	5.1x	7.4x	6.4x	4.8x	4.7x	7.2x
Secured Debt / Gross Assets	26.3%	29.9%	28.4%	29.1%	29.4%	18.1%	20.7%	26.0%	25.9%	27.4%	33.3%	30.7%
Fixed Charge Coverage	2.8x	2.2x	2.0x	2.8x	2.6x	2.5x	3.4x	2.9x	2.9x	2.2x	2.3x	2.4x

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

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