

## CREDIT OPINION

23 April 2019

### Update

 Rate this Research

### RATINGS

#### Redefine Properties Limited

Domicile	South Africa
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
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

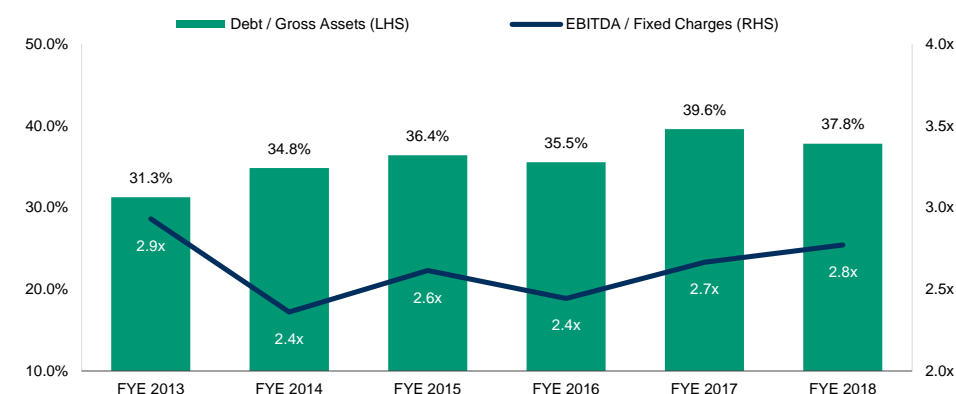
### Summary

[Redefine Properties Limited's](#) (Redefine) Baa3/Aa1.za long-term issuer ratings are underpinned by its (1) strong market position and sizeable property portfolio; (2) stable cash flow, supported by low vacancy rates and stable operating margins; and (3) well-diversified property portfolio across key sectors in office, industrial and retail, with local and offshore property exposures in South Africa, the United Kingdom, Poland and Australia.

The rating is however constrained by (1) the portfolio's predominant exposure to South Africa; (2) a weak economic environment in South Africa, leading to pressure on rent as well as consumer spending; (3) relatively high total debt/gross assets of 38% as of 31 August 2018 (end of fiscal 2018); and (4) the low level of unencumbered assets/gross assets (39%) as of 31 August 2018.

### Exhibit 1

**Key credit metrics are adequately positioned within the rating guidance but with limited headroom**



Source: Moody's Financial Metrics™

## Credit strengths

- » Diversified property portfolio across key sectors in South Africa, with a growing exposure to Europe
- » Stable cash flow, supported by low vacancy rates and stable operating margins
- » Good liquidity profile, with a track record of addressing debt maturities well ahead of time

## Credit challenges

- » Weakening credit metrics, but remaining within Baa3 tolerance levels
- » Low growth prospects and difficult operating environment in South Africa

## Rating outlook

The stable outlook reflects our view that Redefine will continue to generate steady rental income despite a weakening economic environment in South Africa. The outlook also factors in our expectation that Redefine will maintain conservative credit metrics within our current rating guidance levels and an adequate liquidity profile at all times, addressing approaching debt maturities 12-18 months ahead of time.

## Factors that could lead to an upgrade

Redefine's current rating is the at same level as the sovereign rating. As a result, any upgrade will be contingent upon an upgrade of the sovereign rating.

Subject to the [Government of South Africa](#)'s rating (Baa3 stable), we would consider an upgrade if the company's:

- » total debt/gross assets remains sustainably below 35%
- » fixed charge coverage remains above 3.0x on a sustained basis
- » secured debt/gross assets falls below 25%

## Factors that could lead to a downgrade

We would consider a downgrade if one or a combination of the following occurs:

- » Total debt/gross assets exceeding 40% on a sustained basis
- » Fixed charge coverage trending below 2.0x
- » Secured debt/gross assets remaining above 30%
- » A deterioration in Redefine's liquidity risk profile

Redefine's ratings may also be weakened by a downgrade of the rating of the South African government.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### KEY INDICATORS [1]

#### Redefine Properties Limited

	31/08/2014	31/08/2015	31/08/2016	31/08/2017	31/08/2018	FYE2019(f)
Gross Assets (USD Billion)	\$5.4	\$5.5	\$5.4	\$7.0	\$6.7	\$7.1
Unencumbered Assets / Gross Assets	41.8%	45.0%	51.6%	42.4%	38.7%	38.4%
Total Debt + Preferred Stock / Gross Assets	34.8%	36.4%	35.5%	39.6%	37.8%	39.4%
Net Debt / EBITDA	5.2x	5.5x	5.1x	5.7x	5.3x	5.1x
Secured Debt / Gross Assets	28.7%	22.7%	20.5%	26.5%	25.9%	27.0%
Fixed Charge Coverage	2.4x	2.6x	2.4x	2.7x	2.8x	2.9x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (f) represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Profile

Redefine Properties Limited (Redefine) is one of the largest commercial real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange in South Africa by total reported assets (ZAR98.7 billion) as of 31 August 2018 (FYE2018). Its activities include direct investments in property assets and investments in the listed securities of other commercial property investment companies. Redefine's offshore property exposure is held through its key investments in RDI REIT PLC (29.4%) in the UK; Cromwell Property Group (3%), Journal Student Accommodation Fund (90%) in Australia; [EPP N.V.](#) (EPP, Ba1 stable, 39%), Chariot Top Group (25%) and Logistics Platform B.V. (95%) in Poland; GRIT Real Estate Income Group (3.7%) and Oando Wings Development Limited (38.9%) in the rest of Africa.

## Detailed credit considerations

### Sizeable portfolio that is diversified across sectors

The value of Redefine's direct and indirect property portfolio has grown materially over the past three years as a result of a number of moderately sized property portfolio acquisitions. Redefine's direct local property portfolio totals ZAR72.4 billion as of 31 August 2018, while its other investments include sizeable strategic holdings of listed REIT securities in Europe, Africa and Australia.

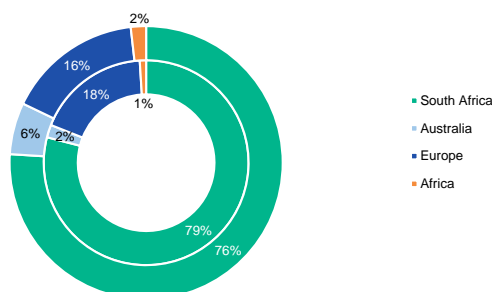
Redefine's property exposure in South Africa is diversified across the retail, industrial and office sectors. However, because of its exposure to the office and industrial sectors, it faces risks from the current weak local economic environment. Redefine is also looking to pursue new opportunities in less traditional sectors, such as student accommodation; however this is currently a relatively small exposure.

We expect only marginal capital growth in Redefine's South African property portfolio in the next 12-18 months, driven by weak local demand and slowing consumer confidence.

### Increasing offshore property exposure diversifies property portfolio and cash flow

Geographically, Redefine's directly held South African properties, which represent 79% of group property assets, are highly concentrated in two provinces: Gauteng and the Western Cape. However, these two provinces are also the wealthiest and the most economically active, as measured by their contribution to the South African gross domestic product, and should be more resilient to a weakening economy. Furthermore, the concentration risk is partially offset by the company's indirect exposure to the European property markets. Poland is the primary focus of Redefine's offshore expansion strategy, mainly through EPP (39%), which is its largest investment and one of the top owners and managers of food, fashion and entertainment-anchored shopping centres in Poland. We view Redefine's market positioning and asset quality as good, consistent with a Baa rating factor.

Exhibit 3

**Geographical split by property value (inner circle) and distributable income (outer circle) as of 31 August 2018**

Source: Company information

### Strategic focus on improving the quality of the portfolio

Management's strategy has been to upgrade the core property portfolio in South Africa through disposals of non-core holdings, and reinvest the proceeds through redevelopments and acquisitions in larger, well-located and higher-grade properties. Over the past five years, Redefine has improved the size and quality of its South African portfolio, with a higher proportion of A- and B-grade tenants. Tenant classifications are as follows: A-grade: national, provincial and local government departments, national retailers and large listed companies; B-grade: professional firms and medium-sized companies; and C-grade: other. We understand that management intends to continue to dispose non-core assets, which include its government-tenanted office portfolio and older properties outside the three main economic hubs (Johannesburg, Cape Town and Durban) in South Africa, contributing to the improvement in its portfolio quality.

In addition to the above steps, Redefine continued to invest in redevelopments and new developments of around ZAR5.9 billion in FYE2018. We view the company's approach to development risk as conservative, expanding its portfolio and quality through low-risk, purpose-driven developments. As of year-end 2018, properties under development represented 6% of gross assets, consisting of primarily tenant-driven and pre-let developments. Furthermore, Redefine's refurbishment capital spending is considered lower-risk extensions being made to existing successful properties, ensuring that its property portfolio remains current.

### Low vacancies, above-inflation contractual rental escalations and manageable annual lease expiries support a stable cash flow

Redefine's overall vacancy rates were stable at 4.5% as of year-end fiscal 2018 (4.6%: FYE2017), broken down by offices at 9.5% (8.1%: FYE2017), retail at 4.5% (3.3%: FYE2017) and industrial at 1.0% (3.3%: FYE2017). We consider Redefine's overall vacancy rate to be below that of its domestic peers we rate in South Africa: [Growthpoint Properties Limited](#) (Baa3 stable, 5.4% as of 30 June 2018) and [Fortress REIT Limited](#) (Baa3 RUR, 7.4%). Over the next two years, 12%-15% of Redefine's leases will expire each year, which we view as manageable.

However, above-inflation price increases of local utilities, electricity concerns and the weak South African economic environment (our real GDP growth forecast is 1.3% for 2019 and 1.5% for 2020) will continue to exert pressure on tenants, leading to higher vacancy levels. Renewal rental rate was negative at -1.5% in FYE2018 and is likely to remain under pressure. This will however be offset by the annual rent escalation clauses from existing tenant contracts of 6.3% on average.

### Adequate credit metrics but limited headroom within the Baa3 rating guidance

Given the number of sizeable acquisitions and investments in new developments made during the past three years, we have seen a weakening trend in credit metrics, despite Redefine's balanced approach towards funding its growth. We expect leverage, measured by adjusted total debt/gross assets, to remain elevated at close to 40%. While this remains within the Baa rating category, it reduces Redefine's financial flexibility to pursue debt-funded acquisitions or accommodate weaker performance.

Redefine's fixed charge ratio was 2.8x as of FYE2018. Management has hedged 81.9% of its floating interest rate debt with an average expiry of 2.3 years at an average cost of borrowing of 9.3% as of FYE2018. This compares with a minimum hedging target of 75% of outstanding debt to be fixed and provides a high level of protection against rising interest rates, which would otherwise exert downward pressure on the fixed charge ratio.

Redefine's high level of secured debt/gross assets at 26% and unencumbered assets at 39% of gross assets are considered weak for its rating category. We recognise that management has an ongoing strategy to shift its financing from secured debt towards unsecured borrowings and improve the level of unencumbered assets, which would be positive for the rating positioning. We will monitor the extent to which secured debt and encumbered assets increases, compared with property assets, because this would be increasingly disadvantageous for unsecured creditors.

## Liquidity analysis

Redefine's liquidity is deemed sufficient to meet its obligations over the next 12 months, supported by funds from operations of ZAR5.1 billion, cash of ZAR0.4 billion and available credit facilities of ZAR3.8 billion as of 31 August 2018. This is sufficient to cover capital spending of ZAR0.6 billion, dividends of ZAR5.4 billion and ZAR3.2 billion of debt maturing in the next 12 months. We expect Redefine to manage its liquidity profile by addressing approaching debt maturities 12-18 months ahead of time. Given the REIT status, the company must pay a minimum of 75% of net income in dividends. However, in line with other South African REITs, Redefine should pay 100% of profit in dividends. Redefine has introduced a distribution reinvestment plan which, at the option of the investor electing to take units/shares instead of dividends, could free up additional liquidity sources for Redefine. Redefine's current credit facilities are provided by a variety of leading South African banks. We rate Redefine's access to capital as good, consistent with a Baa rating.

## 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 2018.

Exhibit 4

Rating Factors				
Redefine Properties Limited				
Real Estate / REIT Industry Grid [1][2]			Current FY 08/31/2018	
Factor 1 : Scale (5%)	Measure	Score	Moody's 12-18 Month Forward View As of 4/11/2019 [3]	
a) Gross Assets (USD Billion)	\$6.7	Baa	\$6.8 - \$7	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	38.7%	B	38% - 39%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	37.8%	Baa	38% - 39%	Baa
b) Net Debt / EBITDA	5.3x	Baa	5.1x - 5.2x	Baa
c) Secured Debt / Gross Assets	25.9%	Ba	26% - 27%	Ba
d) Fixed Charge Coverage	2.8x	Baa	2.7x - 2.9x	Baa
Rating:				
a) Indicated Outcome from Scorecard			Baa3	
b) Actual Rating Assigned			Baa3	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2018.

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Sources: Moody's Investors Service, Moody's Financial Metrics™

## Appendix

Exhibit 5

### Peer comparison

	Redefine Properties Limited			Growthpoint Properties Limited			Hyprop Investments Limited			Fortress REIT Limited		
	Baa3 Stable			Baa3 Stable			Ba1 Negative			Baa3 RUR-DNG		
(in USD million)	FYE Aug-16	FYE Aug-17	FYE Aug-18	FYE Jun-17	FYE Jun-18	LTM Dec-18	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-16	FYE Jun-17	FYE Jun-18
Gross Assets	\$5,417	\$7,031	\$6,714	\$9,684	\$10,036	\$9,875	\$2,551	\$2,964	\$2,566	\$3,764	\$4,723	\$4,112
Unenc. Assets / Gross Assets	51.6%	42.4%	38.7%	39.9%	43.8%	35.8%	34.9%	32.3%	42.6%	39.0%	34.5%	30.1%
Gross Debt / Gross Assets	35.5%	39.6%	37.8%	33.7%	34.8%	35.8%	35.8%	33.4%	38.7%	24.0%	32.5%	32.9%
Net Debt / EBITDA	5.1x	5.7x	5.3x	4.8x	5.0x	5.1x	5.5x	4.6x	4.9x	4.1x	4.3x	4.3x
Secured Debt / Gross Assets	20.5%	26.5%	25.9%	23.6%	20.6%	21.7%	30.3%	26.4%	30.7%	20.4%	25.9%	26.2%
Fixed Charge Coverage	2.4x	2.7x	2.8x	3.1x	3.2x	3.3x	3.4x	3.7x	4.3x	2.6x	2.7x	2.6x

All figures and ratios are calculated using Moody's estimates and standard adjustments.

FYE = financial year-end; LTM = last 12 months; RUR-DNG = Rating Under Review for Downgrade.

Source: Moody's Financial Metrics™

Exhibit 6

### Moody's-adjusted debt breakdown

(in ZAR thousand)	FYE Aug-13	FYE Aug-14	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18
<b>As Reported Debt</b>	<b>20,100,786</b>	<b>19,756,529</b>	<b>23,582,366</b>	<b>28,190,102</b>	<b>34,713,186</b>	<b>36,123,905</b>
Operating Leases	115,720	115,200	148,027	140,385	225,250	250,450
Non-Standard Adjustments	-4,833,119	218,000	2,995,000	0	1,240,902	819,706
<b>Moody's-Adjusted Debt</b>	<b>15,383,387</b>	<b>20,089,729</b>	<b>26,725,393</b>	<b>28,330,487</b>	<b>36,179,338</b>	<b>37,194,061</b>

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 7

### Moody's-adjusted EBITDA breakdown

(in ZAR thousand)	FYE Aug-13	FYE Aug-14	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18
<b>As Reported EBITDA</b>	<b>4,611,698</b>	<b>6,134,856</b>	<b>7,200,422</b>	<b>6,764,084</b>	<b>6,114,630</b>	<b>9,741,944</b>
Operating Leases	11,572	11,520	15,443	19,313	22,525	25,045
Unusual	-1,355,816	-2,099,328	-2,302,013	-502,692	809,196	-765,547
Non-Standard Adjustments	-186,807	-284,597	-94,191	-808,886	-650,172	-2,063,712
<b>Moody's-Adjusted EBITDA</b>	<b>3,080,647</b>	<b>3,762,451</b>	<b>4,819,661</b>	<b>5,471,819</b>	<b>6,296,179</b>	<b>6,937,730</b>

All figures and ratios are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 8

Category	Moody's Rating
<b>REDEFINE PROPERTIES LIMITED</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Secured	Baa3
Senior Unsecured MTN -Dom Curr	(P)Baa3
Other Short Term -Dom Curr	(P)P-3
NSR Senior Unsecured MTN	Aa1.za
NSR LT Issuer Rating	Aa1.za
NSR ST Issuer Rating	P-1.za
NSR Other Short Term	P-1.za

Source: Moody's Investors Service

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