MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns Baa3 rating to Redefine's Senior Secured Exchangeable Bond

Global Credit Research - 25 Nov 2016

London, 25 November 2016 -- Moody's Investors Service, ("Moody's") has today assigned a Baa3 long-term global rating to the EUR150 million senior secured exchangeable bonds due 2021 issued by Redefine Properties Limited (Redefine). The outlook on the rating is stable.

"The transaction allows Redefine to leverage off its offshore stake in Redefine International PLC (RI PLC) to gain access cheaper funding in the European debt capital markets, while maintaining an ongoing dividend stream over the interim period," says Dion Bate a VP-Senior Analyst at Moody's. The proceeds from the bonds will be used to help refinance the EUR250 million bridge facility that was raised for the acquisition of a 44.9% interest in Echo Prime Properties B.V.

RATINGS RATIONALE

The exchangeable bond's Baa3 rating is in line with the issuer rating (senior unsecured) of Redefine as the bonds will constitute direct and unconditional obligations of Redefine. The bonds are secured by 242.3 million RI PLC shares whereby the bondholders can elect to exchange the bonds into RI PLC (UK listed Real Estate Investment Trust). Should the bondholder do this Redefine can settle the equivalent share value in cash.

Redefine's Baa3/Aa2.za issuer rating is underpinned by a material growth of its property portfolio over the past 18 months within South Africa as well as more recently into Europe and Australia. The sizable portfolio of predominantly directly held South African properties (75% of property assets) has moderate and relatively stable occupancy rates of 92.6%, that produced high EBITDA margins. The rating is also supported by a well-diversified property portfolio across key sectors in office, industrial and retail with local and offshore property (direct and indirect) exposures in South Africa, United Kingdom, Germany and Australia.

The rating is however constrained by the more complex organisational and reporting structure, a low fixed charge cover of 2.5x and increasing total debt to gross assets ratio (leverage) of 35.5%, which is anticipated to increase towards 38%. Further key constraints on the ratings include the large proportion of secured debt in the company's capital structure, which represents 57% of total debt; and the high level of encumbered assets to gross assets equal to 60%. All data points and credit metrics are as of financial year ended 31 August 2016 and are according to Moody's standard definitions and adjustments.

Redefine's liquidity is deemed sufficient to meet its obligations over the next 12-18 months, supported by positive and stable cash flow from operations, available credit facilities of ZAR3.4 billion and listed property investments totalling ZAR11.9 billion. In addition, Redefine has introduced a distribution reinvestment plan which, at the option of the investor electing to take units/shares instead of dividends, will free up additional liquidity sources for Redefine.

The stable outlook reflects Moody's view that Redefine will continue to produce steady rental income, make well-conceived investments and produce good operating returns. The stable outlook assumes the absence of large transformational acquisitions and that management will maintain an adequate liquidity profile at all times.

Factors that Could Lead to an Upgrade

» Portfolio size and diversification materially improves

» Good track record as a rated entity

» Consistent credit metrics, maintaining leverage, defined as adjusted total debt/gross assets, sustainably below 35% and fixed charge coverage above 3.0x on a sustained basis

» Ratio of secured debt/property assets falls below 25%

Any future upward pressure will also have to be considered in the context of the South African sovereign rating, currently Baa2 with a negative outlook, which may constrain Redefine ratings.

Factors that Could Lead to a Downgrade

» Adjusted total debt/gross assets exceeds 40% on a sustained basis

» Fixed charge coverage trends below 2.5x

» Ratio of secured debt/property assets remains above 30%

» Unexpected difficulties integrating acquisitions arise, having a negative impact on the operational performance or cash flows of the company

» Deterioration of Redefine's liquidity risk profile

Redefine is the second largest South African commercial real estate investment trust (REIT) listed on the Johannesburg Stock Exchange (JSE) in South Africa by total assets, ZAR79.8 billion ($5.6 billion) as at 31 August 2016. Its activities include direct investments in property assets (ZAR55.4 billion or $3.9 billion), as well as investments in the listed securities of other commercial property investment companies totalling ZAR17.3 billion ($1.2 billion). Redefine's offshore property exposure totalling ZAR16.3 billion has exposure in the UK and Europe and Australia.

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The Local Market analyst for this rating is Dion Bate, 27-11-217-5472.

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Ramzi Kattan
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf

London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

David G. Staples
MD - Corporate Finance
Corporate Finance Group
Telephone: 00971 4237 9536

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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