

## CREDIT OPINION

12 November 2019

### Update

 Rate this Research

### RATINGS

#### Redefine Properties Limited

Domicile	South Africa
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
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 following the sovereign rating action on South Africa

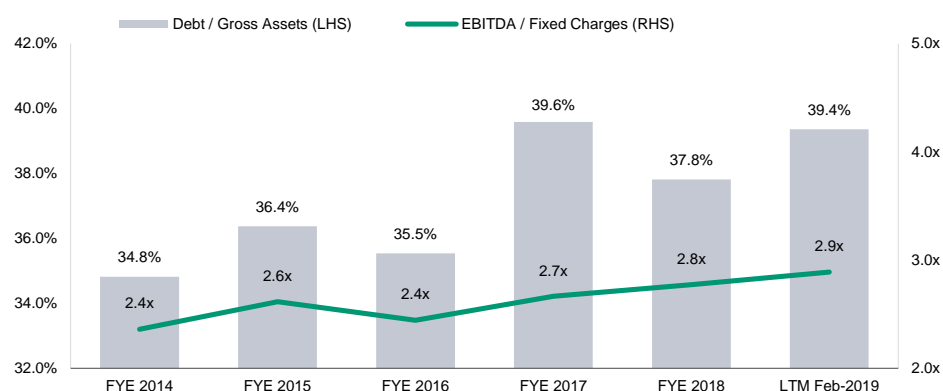
### Summary

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 rental income, supported by low vacancy rates; 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 39% as of 28 February 2019 (half-year results); and (4) the low level of unencumbered assets/gross assets (42.9%) as of 28 February 2019.

Exhibit 1

#### Total debt/gross assets ratio is weakly positioned within the rating guidance



Source: Moody's Financial Metrics™

## Credit strengths

- » Diversified property portfolio across key sectors in South Africa, with a growing exposure to Eastern Europe
- » Stable rental income supported by low vacancy rates
- » Adequate liquidity profile, with a track record of addressing debt maturities ahead of time

## Credit challenges

- » Weakening total debt/gross assets ratio
- » Low growth prospects and difficult operating environment in South Africa

## Rating outlook

The negative outlook reflects Redefine's close linkages with the [Government of South Africa](#). As of 1 November 2019, the rating outlook on the Government of South Africa has changed to negative from stable.

## 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 the Government of South Africa's rating is changed to stable.

Subject to an upgrade of the South African government bond rating, an upgrade could be considered if:

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

## Factors that could lead to a downgrade

The ratings are likely to be downgraded in case of a downgrade of the Government of South Africa's rating.

Moody's would also 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 ratio trending below 2.0x
- » Secured debt/gross assets remaining above 30%
- » A deterioration in Redefine's liquidity risk profile

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

	31/08/2015	31/08/2016	31/08/2017	31/08/2018	2/28/2019(L)	FYE2019(f)
Gross Assets (USD Billion)	\$5.5	\$5.4	\$7.0	\$6.7	\$7.1	\$7.3
Unencumbered Assets / Gross Assets	45.0%	51.6%	42.4%	38.7%	42.9%	41.6%
Total Debt + Preferred Stock / Gross Assets	36.4%	35.5%	39.6%	37.8%	39.4%	41.3%
Net Debt / EBITDA	5.5x	5.1x	5.7x	5.3x	5.6x	5.9x
Secured Debt / Gross Assets	22.7%	20.5%	26.5%	25.9%	27.0%	28.3%
Fixed Charge Coverage	2.6x	2.4x	2.7x	2.8x	2.9x	2.7x

[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 is one of the largest commercial real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange. 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 (2.3%), Journal Student Accommodation Fund (90%) in Australia; EPP N.V. (45.4%), Chariot Top Group (25%) and Logistics Platform B.V. (95%) in Poland; and Oando Wings Development Limited (40.6%) 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 ZAR72.8 billion as of 31 August 2019, 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.

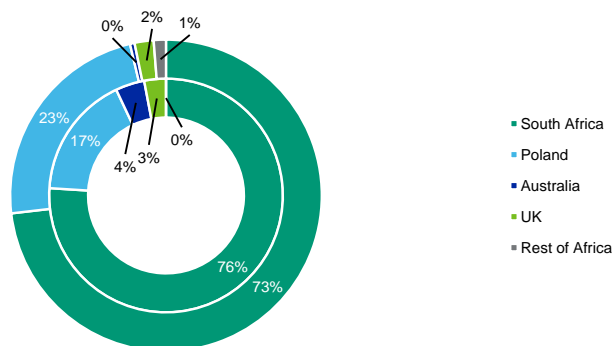
We expect only marginal capital growth in Redefine's South African property portfolio in the next 12-18 months, driven by weak local demand and slowing consumer confidence.

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

Geographically, Redefine's directly held South African properties, which represent 76% 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, 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 2019



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. 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 3.4% 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 are at 5.1% as of year-end fiscal 2019, broken down by offices at 10.2%, retail at 4.6% and industrial at 1.8%. We consider Redefine's overall vacancy rate to be below that of its domestic peers we rate in South Africa: Growthpoint Properties Limited (Baa3 negative, 6.8% as of 30 June 2019) and Fortress REIT Limited (Ba1 negative, 7.2% as of 30 June 2019). Over the next two years, 11%-13% 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 0.7% for 2019 and 1.0% for 2020) will continue to exert pressure on tenants, leading to higher vacancy levels. Renewal rental rate was negative at -2.0% in FYE2019 and is likely to remain under pressure. This will however be offset by the annual rent escalation clauses from existing tenant contracts of 7.3% 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 around 40%. As a result, Redefine has no financial flexibility to pursue debt-funded acquisitions or accommodate weaker performance at current ratings. However, management's target is to bring this ratio down to 35%-40%, mainly through the sale of non-core assets, such as Respublica (local student accommodation) or its residual stake in Cromwell Property Group (2.3%).

Redefine's fixed charge ratio was 2.9x as of 28 February 2019. Management has hedged 87.3% of its floating interest rate debt with an average expiry of 2.9 years. 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 27% and unencumbered assets at 43% 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 ZAR5.4 billion, committed disposals of around ZAR1 billion, cash of ZAR0.4 billion and available credit facilities and undrawn committed term loans of ZAR6.5 billion as of 31 August 2019. This is sufficient to cover capital spending of ZAR2.6 billion, dividends of ZAR5.0 billion and ZAR3.8 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 around 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.

## 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 Scorecard [1][2]			Current LTM 2/28/2019	
Factor 1 : Scale (5%)			Measure	Score
a) Gross Assets (USD Billion)			\$7.1	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality			A	A
b) Operating Environment			Ba	Ba
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital			Baa	Baa
b) Unencumbered Assets / Gross Assets			42.9%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets			39.4%	Baa
b) Net Debt / EBITDA			5.6x	Baa
c) Secured Debt / Gross Assets			27.0%	Ba
d) Fixed Charge Coverage			2.9x	Baa
Rating:				
a) Indicated Outcome from Scorecard				Baa3
b) Actual Rating Assigned				

Moody's 12-18 Month Forward View As of 10/30/2019 [3]	
Measure	Score
\$7.3 - \$7.6	Baa
A	A
Ba	Ba
Baa	Baa
41% - 42%	Ba
39% - 43%	Baa
5.6x - 5.9x	Baa
28% - 29%	Ba
2.8x - 2.9x	Baa
	Baa3
	Baa3

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

[2] As of 2/28/2019.

[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 Negative			Baa3 Negative			Ba1 Negative			Ba1 Negative		
(in USD million)	FYE Aug-17	FYE Aug-18	LTM Feb-19	FYE Jun-18	FYE Jun-19	LTM Jun-19	FYE Jun-17	FYE Jun-18	LTM Dec-18	FYE Jun-17	FYE Jun-18	LTM Dec-18
Gross Assets	\$7,031	\$6,714	\$7,071	\$10,036	\$10,070	\$10,070	\$2,964	\$2,566	\$2,431	\$4,723	\$4,112	\$3,776
Unenc. Assets / Gross Assets	42.4%	38.7%	42.9%	43.8%	42.1%	42.1%	32.3%	42.6%	42.8%	39.0%	34.5%	30.1%
Gross Debt / Gross Assets	39.6%	37.8%	39.4%	34.8%	35.2%	35.2%	33.4%	38.7%	41.0%	24.0%	32.5%	32.9%
Net Debt / EBITDA	5.7x	5.3x	5.6x	5.0x	5.1x	5.1x	4.6x	4.9x	5.0x	4.1x	4.3x	4.3x
Secured Debt / Gross Assets	26.5%	25.9%	27.0%	20.6%	20.7%	20.7%	26.4%	30.7%	33.6%	20.4%	25.9%	26.2%
Fixed Charge Coverage	2.7x	2.8x	2.9x	3.2x	2.9x	2.9x	3.7x	4.3x	4.6x	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-14	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18	LTM Ending Feb-19
As Reported Debt	19,756,529	23,582,366	28,190,102	34,713,186	36,123,905	38,878,674
Operating Leases	115,200	148,027	140,385	225,250	250,450	250,450
Non-Standard Adjustments	218,000	2,995,000	0	1,240,902	819,706	0
Moody's-Adjusted Debt	20,089,729	26,725,393	28,330,487	36,179,338	37,194,061	39,129,124

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-14	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18	LTM Ending Feb-19
As Reported EBITDA	6,134,856	7,200,422	6,764,084	6,114,630	9,741,944	7,087,308
Operating Leases	11,520	15,443	19,313	22,525	25,045	25,045
Unusual	-2,099,328	-2,302,013	-502,692	809,196	-765,547	661,131
Non-Standard Adjustments	-284,597	-94,191	-808,886	-650,172	-2,063,712	-807,003
Moody's-Adjusted EBITDA	3,762,451	4,819,661	5,471,819	6,296,179	6,937,730	6,966,481

Source: Moody's Financial Metrics™

## Ratings

Exhibit 8

Category	Moody's Rating
<b>REDEFINE PROPERTIES LIMITED</b>	
Outlook	Negative
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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