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CREDIT OPINION
27 November 2020

Update

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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 following the sovereign rating action on South Africa

Summary

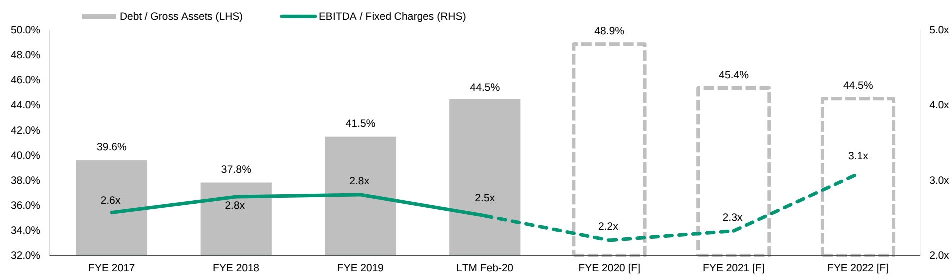
On 26 November 2020, we downgraded the rating of Redefine Properties Limited's (Redefine) to Ba2 from Ba1. The rating action is a direct consequence of the rating action on the South African sovereign and reflects Redefine's significant exposure to the real estate market in South Africa with 80% of property value derived from South Africa. Whilst Redefine benefits from some diversification into Poland (A2 stable), this is not sufficient to warrant a delinking from the sovereign rating.

Redefine's 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 has a good liquidity profile, supported by recent asset disposals.

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

Exhibit 1

Credit metrics are adequately positioned within rating guidance



All ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless otherwise indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Credit strengths

» Diversified property portfolio in South Africa with exposure to Poland

» Strong market position and good asset quality

» Good liquidity profile, supported by recent asset disposals

Credit challenges

» Geographic concentration in South Africa

» Low growth prospects and weak real estate market outlook in South Africa, exacerbated by the coronavirus outbreak

» 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

	31-Aug-17	31-Aug-18	31-Aug-19	LTM 29-Feb-20	FY2020 [F]	FY2021 [F]	FY2022 [F]
Real Estate Gross Assets (USD Billion)	$7.0	$6.7	$6.7	$5.9	$5.0	$4.6	$4.6
Unencumbered Assets / Gross Assets	42.4%	38.7%	39.5%	40.0%	35.1%	37.5%	38.0%
Total Debt + Preferred Stock / Gross Assets	39.6%	37.8%	41.5%	44.5%	48.9%	45.4%	44.5%
Net Debt / EBITDA	5.9x	5.3x	6.1x	5.6x	5.9x	6.4x	5.3x
Secured Debt / Gross Assets	26.5%	25.9%	26.3%	30.0%	31.5%	33.7%	34.1%
Fixed Charge Coverage	2.6x	2.8x	2.8x	2.5x	2.2x	2.3x	3.1x

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 unless otherwise indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Profile

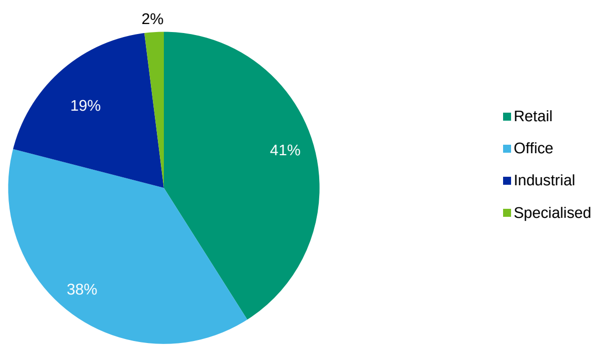
Redefine Properties Limited is one of the largest real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange. Its activities include direct investments in property assets across the retail, industrial and office sectors. Redefine's main offshore property exposure is held through its key investment in EPP N.V. (45.4%).

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. EPP accounted for 9.3% of Redefine's total assets as of 29 February 2020. Despite the coronavirus outbreak, EPP's business fundamentals remain sound, thanks to Poland's robust growth prospects. We view positively the company’s exposure to Poland, which has demonstrated strong economic growth until the beginning of the pandemic. The coronavirus shock will result in a recession in 2020. We now expect GDP to contract 3.8% in 2020 and grow 4% in 2021.

Exhibit 3
Net operating income by segment



For six months ended 29 February 2020
Source: Company information

Weak operating environment, exacerbated by the coronavirus outbreak

Redefine's operating environment has sharply deteriorated because of the business interruption caused by the coronavirus outbreak and will likely remain weak for a prolonged period and only recover gradually. The company's properties have been open since mid-May following a two-month closure in South Africa. Retail is the most affected segment because of the extended period that many shops selling nonessential goods have been unable to trade. It will take time for footfall and retail sales to recover to levels seen before the coronavirus outbreak, but Redefine is now under less pressure to provide concessions to its tenants given most of them are trading again. We note that rent collections and retail sales have significantly improved since the end of the lock-down. We believe that Redefine's diversified property assets across the industrial and office sectors will partially mitigate the more negative trends in the retail sector.

The impact of the lock-down to curb the spread of coronavirus and the government measures put in place to contain it will weigh on economic growth in South Africa. We now expect GDP to contract 6.5% in 2020 and grow 4.5% in 2021. As a result we expect higher unemployment and lower consumer confidence, which will curb spending. 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. Turnover-based rents will reduce the predictability of rental income, a credit negative.

As of 29 February 2020, renewal rental rate for local portfolio was negative at -1.2% and is likely to remain under pressure. This risk is somewhat offset by average in-force annual escalations on renewals of 7.3%. 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 (WALE) of 3.6 years.

Solid progress made on asset disposals to lower LTV and improve liquidity

On 7 July 2020, Redefine concluded an agreement to dispose all of its shares in RDI REIT P.L.C. (RDI) to Starwood Capital Group. The proceeds of the disposal were used to settle the outstanding secured exchangeable bonds (exchangeable into the ordinary shares of RDI) due in September 2021. The transaction is credit positive because it will enhance Redefine's liquidity and partially mitigates the expected deterioration in its credit metrics in 2020. Redefine's liquidity profile has improved because it will not need to put in place funding arrangements to allow for EUR117.2 million secured exchangeable bond repayment in September 2021. In addition, Redefine also announced the sale of its Australian student accommodation portfolio for AUD459 million. Similarly, the proceeds of the disposal will be used to settle debt. Both transactions 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.

Downside risks to credit metrics

We estimate adjusted leverage, measured by adjusted gross debt to total assets, to increase to 48.9% for the fiscal year ending in August 2020. This is due to sharp property asset value decline (-9.8%). However, pro forma for asset disposals, we estimate this ratio to be at 46.7% well within our guidance for a Ba2 rating. Whilst management's target is to bring this ratio down to 35%-40%, we believe that it could take time due the uncertainties regarding property valuations going forward. In 2020, we estimate an adjusted net debt to EBITDA ratio of 5.9x which is appropriate for the rating. Similarly, we estimate a fixed charge coverage ratio between 2-2.5x in 2020. We note that EPP's board of directors has elected not to distribute a dividend for the first half of the year to June 2020 to preserve liquidity. This results in a lower adjusted fixed charge coverage ratio because we add dividends received from EPP in Redefine's adjusted EBITDA calculation. Going forward, we expect further downside risks and these ratios could come under pressure if tenants, especially retailers, face financial challenges requiring downward adjustments to rent levels.

South African property companies have traditionally favored secured debt through bank loans. Redefine's adjusted unencumbered assets ratio of 35.1% is low for the rating, equating to a rating sub-factor of "B". We will monitor the extent to which secured debt and encumbered assets increases because this would be increasingly disadvantageous for unsecured creditors. However, as of 31 August 2020, we estimate the ratio of unencumbered assets to unsecured debt to be at 2.2x, reflecting a strong recovery on the unsecured debt.

ESG considerations

The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. 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. Although an economic recovery is underway, it is tenuous and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around our forecasts is unusually high. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

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. On 23 March 2020, in order to preserve cash, the board of directors has resolved to defer its decision on a dividend payment for the six months ended 29 February 2020 until the release of its results for the year ending 31 August 2020.

Liquidity analysis

Redefine's liquidity is deemed sufficient to meet its obligations over the next 12 months, supported by cash flow from operations of around ZAR2.0 billion, committed disposals of around ZAR5.3 billion, cash of ZAR0.2 billion and available credit facilities and undrawn committed lines of ZAR2.5 billion as of 31 August 2020. This is sufficient to cover capital spending of ZAR1.2 billion and ZAR1.0 billion of debt maturing in the next 12 months, assuming no dividend for the six months ended 29 February 2020 is paid in November 2020 instead, incurring a tax payment of around ZAR0.6 billion. Redefine's current credit facilities are provided by a variety of leading South African banks. To create additional headroom to absorb adverse LTV triggers and to avoid a potential technical breach of LTV covenant as at 31 August 2020, Redefine has obtained a temporary relaxation of the corporate LTV covenant from 50% to 55% for the measurement periods of 31 August 2020 and 28 February 2021 from all funders.

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. The difference between the grid indicated outcome of Baa3 and the rating of Ba2 is due to the constrain created by the sovereign rating.

Exhibit 4

Rating factors

Redefine Properties Limited

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current LTM 2/29/2020		Moody's 12-18 Month Forward View	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$5.9	Baa	$4.6 - $5	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	40.0%	Ba	35% - 37%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	44.5%	Baa	45% - 49%	Baa
b) Net Debt / EBITDA	5.6x	Baa	6x - 6.4x	Ba
c) Secured Debt / Gross Assets	30.0%	Ba	32% - 34%	B
d) Fixed Charge Coverage	2.5x	Baa	2.2x - 2.3x	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba2

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Appendix

Exhibit 5
Peer comparison

(in USD million)	Redefine Properties Limited Ba2 Negative FYE Aug-18	FYE Aug-19	LTM Feb-20	Arabian Centres Company Ba2 Negative FYE Mar-19	FYE Mar-20	LTM Jun-20	Growthpoint Properties Limited Ba2 Negative FYE Jun-18	FYE Jun-19	FYE Jun-20	Fortress REIT Limited Ba2 Negative FYE Jun-18	FYE Jun-19	FYE Jun-20
Gross Assets	$6,714	$6,748	$5,853	$5,850	$6,681	$6,779	$10,036	$10,070	$9,688	$4,112	$3,765	$2,464
Unenc. Assets / Gross Assets	38.7%	39.5%	40.0%	46.2%	62.7%	62.9%	43.8%	42.1%	37.2%	34.5%	35.6%	26.1%
Gross Debt / Gross Assets	37.8%	41.5%	44.5%	58.1%	63.3%	62.5%	34.8%	35.2%	43.3%	32.5%	32.5%	39.0%
Net Debt / EBITDA	5.3x	6.1x	5.6x	5.0x	6.4x	6.7x	5.0x	5.1x	7.4x	4.8x	4.8x	4.7x
Secured Debt / Gross Assets	25.9%	26.3%	30.0%	43.2%	29.1%	28.7%	20.6%	20.7%	26.0%	25.9%	27.4%	33.3%
Fixed Charge Coverage	2.8x	2.8x	2.5x	3.6x	2.8x	2.7x	3.2x	3.3x	2.9x	2.4x	2.2x	2.3x

All ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Exhibit 6
Moody's-adjusted debt breakdown

(In ZAR millions)	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18	FYE Aug-19	LTM Feb-20
As Reported Debt	**23,582**	**28,190**	**34,713**	**36,124**	**41,186**	**39,739**
Operating Leases	148	140	225	250	265	0
Non-Standard Adjustments	2,995	0	1,241	820	1,056	1,200
Moody's-Adjusted Debt	**26,725**	**28,330**	**36,179**	**37,194**	**42,507**	**40,939**

All ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Exhibit 7
Moody's-adjusted EBITDA breakdown

(In ZAR millions)	FYE Aug-15	FYE Aug-16	FYE Aug-17	FYE Aug-18	FYE Aug-19	LTM Feb-20
As Reported EBITDA	**7,200**	**6,764**	**6,115**	**9,742**	**6,318**	**-1,859**
Operating Leases	15	19	23	25	27	13
Unusual	-2,302	-503	809	-766	36	8,337
Non-Standard Adjustments	-453	-1,406	-869	-2,043	574	637
Moody's-Adjusted EBITDA	**4,461**	**4,875**	**6,077**	**6,958**	**6,954**	**7,128**

All ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = last twelve months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 8

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

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