GCR affirms Emira Property Fund Limited's rating of A(ZA), Outlook Negative.

Johannesburg, 10 May 2018 – Global Credit Ratings has today affirmed Emira Property Fund Limited's national scale Issuer ratings of $A_{(ZA)}$, and $A1_{(ZA)}$ in the long term and short term respectively. The ratings have been accorded a Negative outlook.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Emira Property Fund Limited ("Emira") based on the following key criteria:

GCR takes cognisance of the continued rebalancing initiatives, which have translated into palpable improvements in the overall portfolio amidst a challenging operating environment. In this regard, the average value per property has progressed from R64m at FY13 to R113m at 1H FY18. The evolution of Emira's portfolio is most evident in the office sector, which has been repositioned to derive 80% of its value from P and A grade properties, with an average value per property of R119m at 1H FY18. The overall portfolio vacancy improved to 4.5% at 1H FY18 from 5.7% at FY17, on the back of the sale of non-core assets (of which a pipeline of R1.1bn remains), the repurposing of properties and active letting activity. Office sector vacancies reduced to 9.4% (FY17: 12.5%), against a SAPOA rate of 11.2% reported in the third and fourth quarters of 2017.

Cognisance is also taken of the diversification in the main portfolio, the hiving out of the rural retail properties into Enyuka Property Holdings ("Enyuka"), as well as the conservative capex project rollout to manage development risk at modest levels. Emira increased its investments in offshore real estate to 7% of the balance sheet at 1H FY18, with a view to sustaining a reasonable Rand-hedge for the REIT. In addition to the strategic liquidity buffer provided by the Growthpoint Properties Australia ("GOZ") investment, the REIT has partnered with the Rainier Group of companies to invest in grocery-anchored convenience centres in the US. The US investments will be financed using capital released from disposals.

Rental revenue was flat in FY17, declining by an annualised 6% in 1H FY18 due to disposals and the deconsolidation of the Enyuka portfolio. Against this backdrop, sound operating margins reflect cost rigour, though resilience will have to be proven over the medium term, underpinned by fundamentals of the South African portfolio. Having declined to a five-year low of 2.5x in FY17 on an uptick in the all-in cost of debt, net interest cover improved to 2.7x in 1H FY18 and is expected to stay within range for the ratings in the medium term.

Capex requirements were partially funded through debt, which saw gross debt climb from R5bn at FY16 to R5.5bn at 1H FY18. This translated to a 37% net LTV at 1H FY18, remaining above historical levels and at the top end of the range for REITs with similar ratings. As such, GCR will continue to monitor Emira's intention to manage down the metric in the medium term. Net debt to EBITDA increased to 488% in 1H FY18 (FY17: 483%) and is expected to be managed down towards the 400% threshold.

The Negative Outlook reflects the concentration of debt maturities in the short term. As at 1H FY18, R2.5bn was classified as short term debt and a further R2.2bn was scheduled to mature in FY19, together comprising over 80% of debt. Management has already refinanced some smaller facilities as they have fallen due, but there remains substantial short term maturities to address. To maintain the current rating, GCR would require that a longer and smoother debt maturity profile is sustained going forward. A mitigating factor is the ample liquidity drawn from the untapped facilities of R685m at 1H FY18, which cover the short term issuances, while a degree of financial flexibility is provided by the R3.1bn in unencumbered properties.

The rating will likely be downgraded if the current short dated maturity profile is not adequately addressed. Further increases in gearing metrics could also place pressure on the rating, particularly if the improved property performance is not sustained. Positive rating movement could be premised on the sustained growth in earnings and free cash flows, underpinned by improved property fundamentals, such as lower vacancy rates and longer term leases.

NATIONAL SCALE RATINGS HISTORY	
Initial rating (May 2011)	
Long term: A-$_{(ZA)}$, Short term: A1$_{(ZA)}$	
Rating outlook: Positive	
Last rating (April 2017)	
Long term: A$_{(ZA)}$, Short term: A1$_{(ZA)}$	
Rating outlook: Negative	

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for Rating Corporate Entities, updated February 2018

Global Criteria for Rating Property Funds and Commercial Real Estate Companies, updated February 2018

Emira Issuer rating reports, 2011-17

RATING LIMITATIONS AND DISCLAIMERS

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S Corporates GLOSSARY

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Downgrade	The assignment of a lower credit rating to a corporate or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.

Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Emira Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Emira Property Fund Limited.

The information received from Emira Property Fund Limited and other reliable third parties to accord the credit ratings included;

The 2017 Integrated Report and AFS (plus prior four years of comparative numbers);
2017 results presentation;
a comprehensive listing of the company's property portfolio;
comprehensive details of Emira's funding facilities;
1H 2018 unaudited interim accounts.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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