



## Credit Rating Announcement

GCR affirms National Scale Issuer Ratings assigned to Investec Property Fund Limited of A+(ZA). Outlook Stable

### Rating Action

Johannesburg, 27 September 2019 – GCR Ratings (“GCR”) has affirmed the national scale long term and short term Issuer ratings assigned to Investec Property Fund Limited (“IPF” or “the REIT”) of A+(ZA) and A1(ZA); with a Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Investec Property Fund Limited	Issuer Long Term	National	A+(ZA)	Stable Outlook
	Issuer Short Term	National	A1(ZA)	

### Rating Rationale

The ratings are supported by IPF's well-diversified and resilient portfolio that provides a solid base of recurring income, which partially offsets its geographic concentration, as well as its adequate funding profile and good liquidity position.

The REIT's R17.3bn South African property portfolio displays diversity across sectors, assets and tenants, which supports its credit quality. While the slowdown in rental growth on the back of a weak market is noted, in general the properties generate stable cash flows without large volatility as the portfolio is largely well positioned. Specifically, it is anticipated that the retail assets will continue to temper the effect of office rental reversions, with the overall portfolio displaying solid occupancies (FY19: 97.6%), a manageable lease expiration schedule and above inflation contractual rent increases. The REIT also benefits from a growing contribution from ZAR-hedge investments in select international growth regions (that are of lower country risk), albeit providing a moderate amount of diversification. To complement this strategy IPF will continue to look to dispose of properties with declining competitiveness and recycle capital into acquisitions or refurbishments in order maintain the profitability of its portfolio.

IPF maintains a sound balance sheet, with the net LTV aligning with management's target of around 35%. However, GCR does recognise the complexity of the European investment structure which potentially leaves leverage metrics vulnerable to high in-country debt of the vehicle (albeit ringfenced to the specific investments). Thus, adjusting gearing on a consolidated look-through basis would see the LTV trend in the 40-45% range. While this could also impact net debt to operating income and interest coverage, these metrics are likely to continue to remain sound around the 4x and 3x marks respectively. GCR expects that IPF will maintain ample headroom under its financial debt covenants.

IPF's liquidity is viewed as a relative credit strength. This is based on its ratio of liquidity sources to uses of 1.1x over the next 12 months as at FY19. Liquidity is supported by the absence of large debt maturities for the next two to three years, asset sales and available undrawn committed credit lines. The REIT also reflects well-diversified funding sources, with proven capital market access. Further, the REIT's asset encumbrances remained very low, at 34% on the direct property portfolio, comparing favourably to rated peers and enhancing financial flexibility.

## Outlook Statement

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The outlook on the ratings is stable, which balances expectations that IPF will continue to generate largely stable cash despite the weak operating environment. It is also anticipated that the REIT will maintain a prudent approach to its overall investment activities, such that the LTV remains around 35% and interest coverage stays around 3x.

## Rating Triggers

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The ratings could improve if the REIT continues to profitably increase its geographic diversification, as well as its scale and portfolio quality. GCR could also raise the ratings on a more favourable view of the look-through gearing position. The ratings could be lowered if leverage metrics deviate from the stated leverage policy, and/or weaker liquidity. The rating could also be pressured if the quality of the portfolio declines or rental income falls, negatively impacting credit metrics.

## Analytical Contacts

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## Related Criteria and Research

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Criteria for the GCR Ratings Framework, May 2019

Criteria for Rating Real Investment Trusts and Other Commercial Property Companies, May 2019

GCR's Country Risk Score report, published June 2019

GCR's SA Sector Risk Score report, published June 2019

GCR's Industry Research on the SA Commercial Property Market, July 2019

## Ratings history

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Investec Property Fund Limited						
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date	
Issuer Long term	Initial	National	BBB+ <sub>(ZA)</sub>	Stable Outlook	Nov 2011	
Issuer Short Term	Initial	National	A2 <sub>(ZA)</sub>			
Issuer Long term	Last	National	A+ <sub>(ZA)</sub>	Stable Outlook	Sep 2018	
Issuer Short Term	Last	National	A1 <sub>(ZA)</sub>			

## Risk Score Summary

<b>Risk score</b>	<b>15.25</b>
<b>Operating environment</b>	<b>14.75</b>
Country risk score	7.75
Sector risk score	7.00
<b>Business profile</b>	<b>1.00</b>
Portfolio quality	1.00
Management and governance	0.00
<b>Financial profile</b>	<b>-0.50</b>
Leverage and Capital Structure	-0.50
Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group Support	0.00
Peer analysis	0.00

## Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
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.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' 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 exposures 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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Flexibility	The company's ability to access additional sources of capital funding.
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.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Loan to value	The principal balance of a loan divided by the value of the property and other investments that it funds.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
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.
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.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
REIT	Real Estate Investment Trust. A company that owns, operates or finances income-producing real estate.
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

## Salient Points 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 ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit ratings have been disclosed to Investec Property Fund Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Investec 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 information received from Investec Property Fund Limited and other reliable third parties to accord the credit ratings included:

- 2019 audited financial statements (plus four years of prior comparative audited numbers);
- presentations and SENS announcements in respect of material transactions;
- a breakdown of debt facilities available and maturities and encumbrances per counterparty at 31 March 2019 and post year-end.

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