



Credit Rating Announcement

GCR upgrades Investec Property Fund Limited's ratings to AA-(ZA)/A1+(ZA) on its strongly positioned geographically diversified portfolio; Outlook Stable

Rating Action

Johannesburg, 18 December 2020 – GCR Ratings ("GCR") has upgraded Investec Property Fund Limited's ("IPF") national scale long and short term issuer ratings to AA-(ZA) and A1+(ZA) respectively, from A+(ZA) and A1(ZA). The Rating Outlook has been changed to Stable.

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

Rating Rationale

The ratings upgrade reflects IPF's geographically diverse earnings base, with its significant footprint in more stable, highly developed jurisdictions helping to temper weakness in its South African portfolio. Funding risk has also eased following the recent successful refinancing of its offshore debt, albeit counterbalanced by the REIT's high look-through gearing profile.

IPF's international growth strategy is viewed as a positive credit factor, as the REIT's enlarged portfolio is well diversified geographically, particularly into the strong economies of Western Europe. With the recent finalisation of its 65% shareholding in its Pan European Logistics ("PEL") platform, on a proportionally consolidated basis, 51% of its assets are located in South Africa, 42% in Europe and 7% in the UK. Notwithstanding the current challenges posed by the COVID-19 pandemic across all its markets, GCR considers the property markets in Western Europe to be more favourable than in South Africa, due to stronger underlying economic fundamentals, thus providing a level of insulation.

The European assets have also increased the REIT's exposure to the logistics sector (46% on a consolidated basis), which have proven to be one of the more defensive property classes globally amidst the COVID-19 pandemic turmoil. This is evidenced by the continued high collection rates on average of 98% in the PEL portfolio even through the first wave of lockdowns, strong positive reversions on new and renewed leases, together with sound occupancies with quality tenants reinforcing cash flow stability. This has helped to partially offset the weak trading performance of the South African portfolio, which is expected to remain under significant strain. For 1H FY21, net property income for the base SA portfolio fell by 24.4% YoY due to rental concessions, whilst vacancies have risen to 12.7% due to delinquencies and insolvencies.

Following IPF's deleveraging trajectory, its LTV ratio has reduced to around 40% on its reported balance sheet post 1H FY21 (1H FY21: 43.8%; FY20: 47.5%). However, with the LTV in the PEL portfolio intended to remain at 60%, the look-through LTV is expected to remain high at around 55%, a metric that ultimately constrains the overall leverage assessment. Accordingly, gearing headroom remains limited at the current rating and any further increase could lead directly to a ratings downgrade. Positively, interest cover ratios in its core markets remain sound, whilst treasury rigour has resulted in a smoother debt maturity profile, largely owing to the refinancing within the PEL portfolio recently concluded, pushing out most of these maturities to 2025.

Liquidity is viewed as adequate, with GCR estimating the REIT's 12 months' liquidity coverage of at least 1.0x as of December 2020. GCR has also noted the reasonable covenant headroom across the REIT's facilities, and IPF's demonstrated access to capital, with a wide range of funders in South Africa and Europe. Further, GCR expects continued proactive refinancing of debt well ahead of scheduled expiries in order for the REIT to sustain a stable funding profile. The ratio of unencumbered local property assets has reduced from historical levels to around 40%, albeit still generally higher than market norms.

Outlook Statement

The stable outlook reflects our expectation that IPF will continue to deliver sound cash flows supported by its high-quality Pan-European logistics portfolio, which should enable the REIT to maintain its consolidated credit measures within rating parameters.

Rating Triggers

An upgrade would depend on IPF's ability to notably improve leverage metrics on a consolidated basis. Profitable growth, evidenced by positive core net property income growth, particularly for the South African portfolio will also be positive for the ratings.

Negative rating action could arise if debt continues to increase such that 1) the LTV is rises above 55% on a sustained basis, even to fund growth opportunities 2) liquidity coverage reduces or there is a perceived weakening in treasury management; 3) unexpected underperformance of the Pan European Logistics portfolio that negatively affects cash flows.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, May 2019
 GCR's Country Risk Score report, November 2020
 GCR Rating Scales Symbols and Definitions, May 2019
 GCR's Commercial Property Sector Risk Score report, August 2020
 GCR places South African commercial property on negative trend as fragile economy continues to drive high asset, liquidity and funding risks, August 2020

Ratings History

Investec Property Fund Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	BBB+(ZA)	Stable Outlook	November 2011
Short Term Issuer		National	A2(ZA)		
Long Term Issuer	Last	National	A+(ZA)	Evolving Outlook	September 2020
Short Term Issuer		National	A1(ZA)		

Risk Score Summary

Rating components & factors	Risk scores
Operating environment	17.50
Country risk	10.00
Sector risk	7.50
Business profile	1.00
Portfolio quality	1.00
Management & governance	0.00
Financial profile	(3.50)
Leverage and capital structure	(3.00)
Liquidity	(0.50)
Comparative profile	0.00
Government support	0.00
Peer analysis	0.00
Group support	0.00
Total Risk Score	15.00

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.
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.
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.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
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.
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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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:

- Audited annual financial statements for FY20 (plus four years of audited comparative numbers);
- Interim financial statements for the 1H FY21;
- Investor presentations;
- PEL portfolio cash flows;
- A breakdown of current debt facilities available and related counterparties (including proportionally consolidated debt and related debt covenants).

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