GCR RATINGS

Credit Rating Announcement

GCR upgrades Resilient REIT's issuer rating to AA(ZA) on conservative financial profile; Outlook Stable

Rating Action

Johannesburg, 17 September 2020 - GCR Ratings ("GCR") has upgraded Resilient REIT Limited's ("Resilient" or "the REIT") national scale long-term issuer rating to AA(ZA), from AA-(ZA) previously. At the same time, Resilient's national scale short term issuer rating has been affirmed at A1+(ZA). The ratings remain on Stable Outlook.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Resilient REIT Limited	Long Term Issuer Short Term Issuer	National National	AA(ZA) A1+(ZA)	Stable Outlook

The rating action follows successive reviews of GCR's Country and Sector risk assessments since May 2020, with the latest update applicable to South African property funds being the August 2020 publication of GCR's Commercial Property Sector Risk Scores.

Updates of GCR's Country and Sector Risk Assessments and related research can be accessed *via* the following links: https://gcrratings.com/risk-scores/ and https://gcrresearch.com/reports/house/industry-reports. Looking ahead, GCR could revise the South African REIT rating universe's operating environment assessments if our view of the impact of COVID-19 restrictions or interventions to normalise national/global economic activity deteriorates or begins to stabilise.

Rating Rationale

GCR has reduced a range of Country and Commercial Property Sector Risk Scores to reflect expectations of the adverse impact of COVID-19 related disruptions on economic productivity and to signal our view of the effectiveness of interventions to stabilise the respective economies. More recently, we expanded our international assessment of commercial real estate sector risk to include selected territorial groupings in Europe, in order to establish a clearer distinction between the anchors of funds with exposures to highly developed Eurozone territories and other economies in that region. In August 2020, we also placed the South African Commercial Real Estate Sector on Negative Outlook to reflect its vulnerability to vagaries from a fragile economy.

Against this backdrop, Resilient's ratings upgrade not only captures the demonstrated performance track record of its international strategy, but also encapsulates the rigour of the REIT's overall asset and financial management. Specifically, Resilient has consistently demonstrated strong treasury management, lately evidenced by termination of cross-currency swaps in addition to proactive refinancing and maintenance of strong facility headroom. Accordingly, and notwithstanding attrition of its offshore investments' values, Resilient remains one of the most conservatively leveraged domestic funds. Covenant risk and asset encumbrances also continue to be proactively managed, supporting reasonably sound access to funding despite real estate and other corporate entities' curtailed access to capital markets. While Resilient has maintained a 100% pay-out ratio in the short-term, GCR expects its 12 months' liquidity coverage to continue to be managed comfortably above 1.25x over the outlook period, with cost rigour and low capex requirements helping to further enhance financial flexibility.

Asset quality remains strong, with the REIT's domestic assets' resilient performance further illustrating their defensive positioning relative to regional shopping centres in over-traded metropolitan areas. Comfort is also taken from a strongly performing offshore strategy, which has historically supported robust cash margins. Looking ahead, the increased Lighthouse Capital ("Lighthouse") focus represents both upside and downside risks for the REIT. Specifically, while Lighthouse's strategy is geared towards lower-risk economies compared to NEPI Rockcastle, this is currently counterbalanced by its small scale, comparatively shorter track record, and high balance sheet exposure to listed securities. While we have noted Lighthouse's low leverage (June 2020: 23%), it is GCR's view that debt could rise to fund growth opportunities in the medium-term. Accordingly, Resilient will be expected to sustain a geographically diverse earnings base and to support Lighthouse's growth trajectory, while still adhering to a conservative funding profile.

Outlook Statement

The Stable Outlook reflects the REIT's strong portfolio performance, consistently conservative treasury management, and proactive de-risking of its balance sheet amidst pressure on domestic commercial real estate from (*inter alia*) adverse currency movements, BEE exposures, attrition of portfolio values, and constrained access to capital markets.

Rating Triggers

The ratings could be upgraded if Resilient continues to grow its earnings footprint in highly developed jurisdictions. In addition, moderation of the net debt to operating income ratio to 3.5x, interest cover managed comfortably above 3.5x, and LTV ratios sustained within the 30%-35% range would bode positively. Conversely, downside pressure on interest cover, or upward creep in the LTV ratio due to 1) international investments whose leverage is managed more aggressively than Resilient's conservative levels or 2) material pressure on investment portfolio valuations would be negatively viewed. Unforeseen pressure on performance beyond the vagaries of COVID-19 due to the weak operating climate in South Africa could also constrain the ratings.

Analytical Contacts

Primary analyst	Patricia Zvarayi	Deputy Sector Head: Corporate Ratings
Johannesburg, ZA	Patricia@GCRratings.com	+27 11 784 1771
Committee chair	Susan Hawthorne	Senior Analyst: Insurance Ratings
Johannesburg, ZA	Susan@GCRratings.com	+27 11 784 1771

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, May 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

Resilient REIT Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A-(ZA)	Stable Outlook	Jun 2010
Short Term Issuer		National	A1-(ZA)		
Long Term Issuer	Last	National	AA-(ZA)	Stable Outlook	Sep 2019
Short Term Issuer		National	A1+(ZA)		

Risk Score Summary

Rating components & factors	Risk Score
Operating environment	**14.00**
Country risk score	7.50
Sector risk score	6.50
Business profile	**1.50**
Portfolio quality	1.50
Management & governance	0.00
Financial profile	**0.50**
Leverage & capital structure	0.50
Liquidity	0.00
Comparative profile	**0.00**
Peer comparative	0.00
Group support	0.00
Government support	0.00
Total risk score	**16.00**

Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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 because of holding the security or asset. For a company, its exposure may relate to a 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
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	In corporate analysis, leverage (or gearing) typically 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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Outlook period	See GCR Rating Scales, Symbols and Definitions.
Portfolio	A collection of investments held by an individual or institutional investor. These may include (*inter alia*) private/listed stocks, debt securities, 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.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Upgrade	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 the rated entity. The ratings above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process *via* management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered to be adequate, and has been independently verified where possible. The information received from the rated entities and other reliable third parties to accord the credit ratings included:

- The latest financial results (plus four years of comparative, audited financials)
- SENS announcements
- The latest market updates in respect of trading, leverage, and liquidity management.