



Credit Rating Announcement

GCR affirms National Scale Issuer Ratings assigned to Resilient REIT Limited of AA_{-(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 Resilient REIT Limited ("Resilient" or "the REIT") of AA_{-(ZA)} and A1_{+(ZA)}; with a Stable Outlook.

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

Rating Rationale

The ratings are supported by Resilient's high-quality retail properties, and their attractiveness to tenants. The REIT's credit profile also benefits from its conservative financial risk profile.

Resilient owns and manages a R23.8bn South African retail portfolio, which continues to sustain positive rental increases, and drive strong cash flow growth through the cycle. Its centres are comprised of dominant regional malls and small shopping centres in growing secondary cities' catchment areas, where it is expected that the REIT will continue to generate high footfall. This allows Resilient to attract high quality tenants, with mostly long-term leases, and sustain low vacancy rates (FY19: 1.8%). Planned capex consists of lower-risk refurbishments and extensions, which should support rental growth. That said, the relative asset and tenant concentrations in the portfolio are noted.

GCR also views positively the constant robust distributions from the offshore listed share portfolio (domiciled in lower risk Eastern European countries), which partly mitigates its dependence on the domestic economy, and provides margin support as local pressures on rentals, rates and utilities drive up the all-in cost of occupancy.

Resilient's credit profile benefits from its maintenance of low LTVs. For FY19, the REIT's fair value LTV (adjusted for consolidations) equated to 26.8% (IFRS: 26.6%), and has consistently tracked below 30% on this basis over the 5-year review period. In GCR's view, the LTV is expected to remain around 30%, even adjusting for conservative haircuts to the listed portfolio/general market risk. With the restructuring of the BEE trusts and its subsequent deconsolidation, interest cover ratios are expected to trend at improved levels going forward.

The REIT displays a good liquidity profile. It is expected that liquidity sources (including liquidity on hand and committed undrawn facilities of c.R1.5bn) will likely cover liquidity uses by at least 1x for the next 12 months. Resilient maintains favourable relationships with many financial institutions, with ample covenant headroom enabling refinancing with relative ease. The REIT also maintains sound financial flexibility as the unencumbered listed securities portfolio counterbalances the mostly encumbered property pool (88%).

Outlook Statement

The stable outlook reflects the view that Resilient's portfolio of high-quality retail assets should continue to generate a stable and significant proportion of income, as supported by strong fundamentals and complemented by robust distributions from the listed share portfolio. It also takes into account expectations that Resilient will maintain a disciplined funding approach.

Rating Triggers

The rating could improve on sustained earnings growth despite weakness in the local economy, whilst maintaining good leverage and liquidity positions. GCR considers a ratings downgrade unlikely over the outlook horizon.

Analytical Contacts

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Related Criteria and Research

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

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

Risk Score Summary

Risk score	16.75
Operating environment	14.75
Country risk score	7.75
Sector risk score	7.00
Business profile	1.50
Portfolio quality	1.50
Management and governance	0.00
Financial profile	0.50
Leverage and Capital Structure	0.50
Liquidity	0.00
Comparative profile	0.00
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.
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
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.
Haircut	The percentage by which the market value of an asset is reduced. The size of the haircut reflects the expected ease of selling the asset and the likely reduction necessary to realised value relative to the fair value.
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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
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.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Vacancy	In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.

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 Resilient REIT 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.

Resilient REIT 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 Resilient REIT Limited and other reliable third parties to accord the credit ratings included:

- the 2019 preliminary audited summarised consolidated financial statements;
- prior four years of audited annual financial statements;
- presentations and SENS announcements in respect of material transactions;
- a breakdown of debt facilities available and maturities per counterparty at 30 June 2019 and post year-end.

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