Credit Rating Report | South African Corporate | November 2021

Resilient REIT Limited

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

Strengths

- Good liquidity and covenant risk management
- High growth potential in strong offshore markets
- Conservative leverage and capital structure relative to peers

Weaknesses

- High concentration by property
- Exposure to market variability *via* listed security investments

Rating rationale

The issuer ratings assigned to Resilient are underpinned by the REIT's growing exposure to highly developed Europe, its robust portfolio quality, as well as its well managed and conservative financial profile.

The portfolio delivered a robust performance for FY21 despite the challenging landscape with the imposition of trading restrictions through the peak festive period resulting in a 5% contraction in revenue. This continues to demonstrate the defensiveness of the South African retail portfolio, which targets dominant non-metropolitan centres with large grocery and convenience offerings. As such, the vacancy rate remains very low at 2.3% (FY20: 2.1%), supporting the 2% upward revaluation of the SA portfolio in FY21. While lease renewals over the last 18 months were agreed for shorter periods resulting in a higher 27% (FY20: 23%) of contractual rentals coming up for expiry in the coming year, reversions and rental escalations remain broadly favourable. The relatively high tenant concentration is mitigated by the strong quality of tenants, with c.89% of revenues coming from A and B grade tenants.

Resilient's offshore strategy hinges off growth opportunities presented by its increased investment in listed Lighthouse Capital ("Lighthouse"), which has a predominant focus on the Western European property market. As such Resilient reduced its interest in NEPI Rockcastle in exchange for Lighthouse shares and has grown its stake in the latter to 41.4%, as the REIT aims to maintain significant influence. This after receiving a scrip dividend from Lighthouse in April 2021 and participating in the most recent equity raise. Furthermore, Resilient acquired a 25% stake in four shopping centres in France in September 2021 (Lighthouse acquired the remaining 75%), which is expected to further enhance its offshore earnings. The additional earnings from France will only be fully realised at the FY22 reporting date, considering the forthcoming change of year end from June to December. The REIT's Nigerian interests were held for sale at June 2021, with the sale proceeds expected to be realised in the coming months.

The financial profile is bolstered by conservative leverage, with the LTV reported at 28.8% at FY21 (FY20: 35.2%). While the REIT looks to pursue various local and offshore growth opportunities, GCR expects the LTV ratio to remain conservative within the 30%-35% range over the rating horizon. GCR's calculated net debt to operating income remained flat at 5x in FY21 (FY20:4.9x) and interest cover improved to 3.4x (FY20: 2.9x). Interest cover is anticipated to remain moderately strong, trending between 3.3x and 3.8x in light of the 5bps reduction in the weighted average cost of funding at FY21 to 6.69%.

The liquidity profile is underpinned by Resilient's well-managed relationships with its funders and access to capital through their DMTN programme. Although the REIT has reinstated several refurbishment and development projects, short term capital commitments are minimal. Notwithstanding the upcoming debt maturities and the 100% dividend pay-out ratio, Resilient had access to c.R2.5bn in unutilised available facilities at October 2021 supporting a 12-month liquidity coverage of at least 1.2x, Additional liquidity support is provided by the large portfolio of listed equity investments, whilst we also note the comfortable headroom to the covenant limits.

Outlook Statement

The Stable Outlook reflects GCR's expectations that the REIT's earnings will remain robust and treasury management will remain consistently conservative.

Rating Triggers

Positive ratings migration could follow increased earnings contribution and investment exposure to highly developed regions over the medium term, while maintaining a very conservative leverage profile.

A downgrade could emanate from 1) an unexpected deterioration in the SA portfolio fundamentals, 2) curtailed offshore earnings, 3) deterioration in credit protection metrics.

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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, October 2021
GCR Rating Scales Symbols and Definitions, May 2019
GCR's Commercial Property Sector Risk Score report, July 2021
GCR's SA Corporate Sector Risk Score report, April 2021

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	Nov 2020
Short Term Issuer		National	A1+(ZA)		

Analytical Entity: Resilient REIT Limited

Resilient REIT Limited ("Resilient" or "the REIT") is a retail-focused property fund domiciled in South Africa that has been listed on the JSE since 2002. The domestic portfolio mostly consists of dominant regional shopping centres with multiple anchor tenants and a large proportion of national retailers. The REIT also benefits from direct and indirect exposure to the offshore Europe retail property market.

Operating Environment

The operating environment assessment is anchored by Resilient's domestic portfolio, with uplift provided by its exposure to highly developed European regions

Country risk

Resilient's directly held South African property portfolio anchors GCR's country risk assessment. South Africa's county risk score of '7.0' reflects the challenges facing the economy amidst a prolonged pandemic that has continued to blunt any recovery prospects. A sharp contraction in GDP growth, lower GDP per capita, worsening fiscal position, rising unemployment and social inequality all contribute to a broadly negative overlay on future prospects. The assessment is somewhat supported by fairly stable institutional scores based on the World Bank Governance Indicators & World Economic Forum Global Competitiveness Index which are in the middle of the range, but better then regional peers.

The REIT's growing exposure to developed Europe through investments into and provides diversification toward lower risk economies. As part of the strategy, the REIT aims to maintain significant influence over its investment targets, which saw the disposal of a significant portion of its interest in NEPI Rockcastle ("NEPI") with the proceeds reinvested into Lighthouse Capital ("Lighthouse"). Post FY21, Resilient increased its ownership stake in Lighthouse to 41.4%. More recently, Resilient has also made a joint bid to purchase a portfolio of four shopping centres in France, acquiring a 25% interest while Lighthouse acquired the remaining 75%, furthering their exposure to developed Europe. Accordingly, Resilient's country risk score is uplifted through its exposure to developed Europe, and Central and Eastern Europe ("CEE"). Although a downturn was also experienced across Europe because of the pandemic, recovery prospects were aided by its reserve currency status, the extensive stimuli injected to stabilise the territories' economies and the relatively quick rollout of vaccinations.

Sector risk

GCR considers the South African property sector to evidence moderate risk characteristics, supported by below average cyclicality, assets that generate strong income through the cycle, and sustained demand for well-positioned properties. Despite these inherent advantages, the South African property sector has stagnated somewhat over the past 24 months with rising vacancies and lower rental reversions, placing pressure on asset valuations. With the decrease in income and property valuations, covenant risk has increased. To date, banks have largely been supportive of the property industry, granting covenant waivers and debt extensions were needed. However, debt funding headroom remains limited, and other liquidity sources such as assets sales are taking long to materialise. Amidst these challenges GCR expects conservatively leveraged funds to evidence much greater resilience, whilst those funds with shorter term debt maturities and limited access to capital will likely face more onerous refinancing terms

The overall sector risk assessment balances the dynamics of the South African market with those of developed Europe and to a lesser extent, CEE. The property market in highly developed Europe is characterised by defensive property fundamentals that are underpinned by global gateway cities, robust international capital, relatively resilient construction and manufacturing dynamics, as well as demonstrably moderate variability in property values and all-in returns through business cycles. The pandemic has accelerated structural changes, most notably to the office and retail real estate sectors. Traditional shopping centres in certain countries continue to be under significant pressure with online retail sales growing to between 15-25% depending on the country, further promoted by the repeated lockdown measures taken throughout Europe because of COVID-19. However, retail parks remain popular given their convenience element and open-air nature, whilst retail sales are in general already benefiting from pent-up demand post-lockdown.

CEE also faced various COVID-19 disruption challenges, resulting in a high degree of financial uncertainty and decreased investment levels. Nevertheless, the underlying real estate fundamentals and performance prospects of this region remain compelling to investors, underpinned by sustained long term economic growth expectations beyond the pandemic related pullback in 2020. The CEE region still has to mature, particularly in regard to its smaller markets and sectors, and competition within the market is considered less rife than that of the more sought-after developed European markets.

Details of the latest updates to discrete country and sector risk scores are outlined in GCR's Risk Score reports, available *via* the following link: https://gcrratings.com/risk-scores/.

Business Profile

Robust portfolio quality is supported by Resilient's defensive strategy, high quality of tenants and strong asset management resulting in low vacancies and stable margins

Portfolio quality

The continued moderation in the overall portfolio value has been driven by attrition of the listed securities portfolio, relative to the stability evidenced in the direct property base. The REIT maintained its direct portfolio of 28 properties at FY21, with the sale of Murchison Mall concluded after the reporting date and the held for sale Nigerian assets expected to conclude in the near term. The SA portfolio was revalued upwards by 2.2% in FY21 in light of the strong rebound in the performance of the defensive and conveniently located shopping centres. This is reflected in the c.8% increase in retail sales for the 12 months to June 2021, notwithstanding the periods of restricted trading imposed at some intervals during that period, which led to a 5% contraction in revenue.

Figure 1: Portfolio value progression

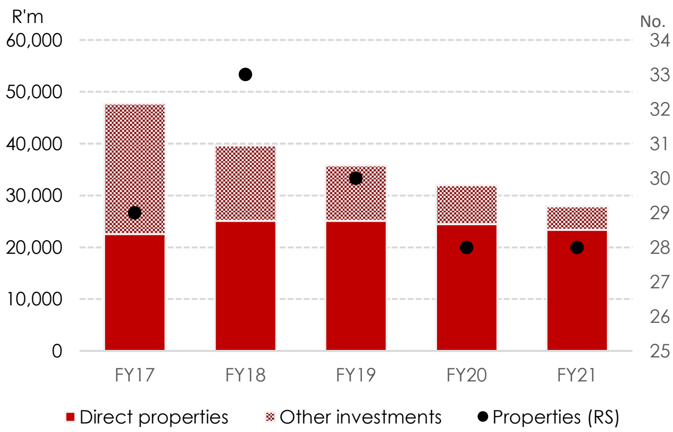
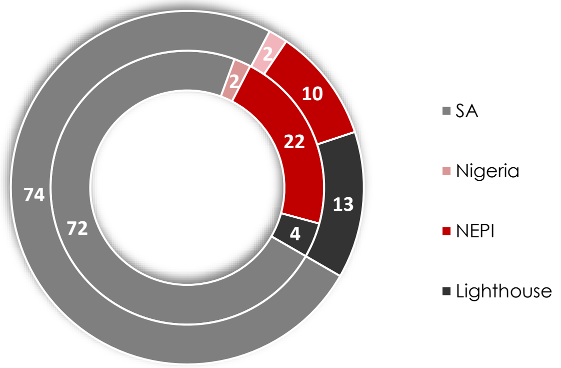


Figure 2: Portfolio split %, FY21 (FY20)



The South African portfolio fundamentals remain supportive of the strong portfolio quality assessment, with vacancies remaining well below the sector average despite creeping up to 2.3% at FY21 (FY20: 2.1%). Although lease renewals over the last 18 months have been concluded for shorter periods to avoid locking in less favourable terms, GCR takes comfort from the sound reversions and rental escalations that the REIT has historically achieved. Looking ahead, the positive impact of ongoing vaccination rollouts on economic activity is expected to create a conducive environment for concluding longer term leases. Although the portfolio exhibits moderate asset concentration with the largest and top 10 properties accounting for 8% and 54% of aggregate value respectively, this is mitigated by the high quality tenant profile, comprising 88.5% of large national A and B grade tenants.

Figure 3: Vacancy profile

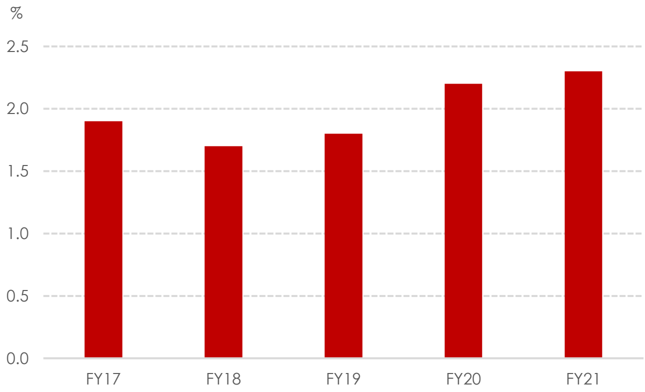
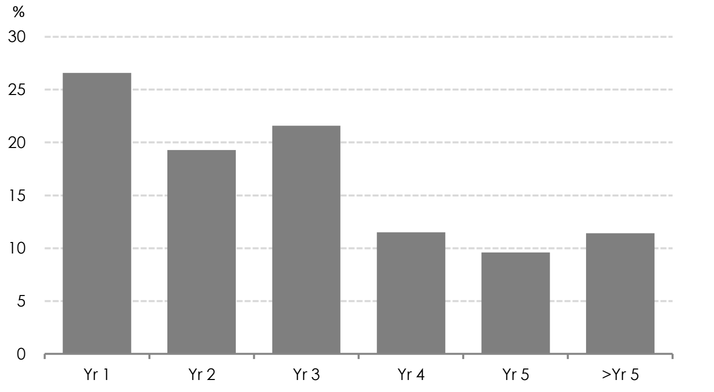


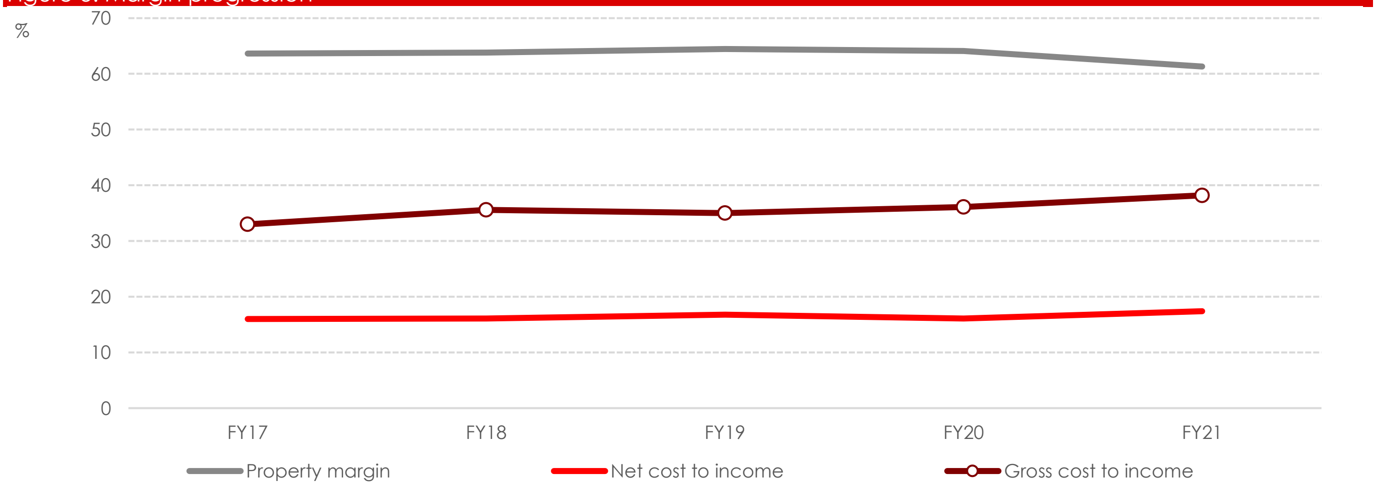
Figure 4: SA lease expiry profile, FY21



Resilient has exercised rigorous cost management enabling the REIT to maintain a stable expense ratio averaging 36.8% over the last 5 year period. The continuous roll out of alternative power solutions is expected to further entrench cost saving, as it mitigates against rising utility costs. Net arrears showed improvement, reducing to R37.7m at FY21 (FY20: R67m) inclusive of the discontinued Nigerian operations. In particular, the REIT received a partial repayment of R9.7m from Edcon following the sale of the business to Retailability as part of business rescue proceedings, with the remaining outstanding amount expected to be paid by December 2021. The REIT continued to grant rental discounts to distressed tenants, with a total of R61.2m (FY20: R172.9m) provided in FY21 and accounted for as a reduction in rental revenue. The strong collection rate of 97% on rentals and recoveries (before discounts) is indicative of a recovery in the underlying cash flows which is expected to be sustained going forward.

The offshore portfolio performance was positive with NEPI delivering dividend flows in December 2020 after failing to declare a dividend for the six months to June 2020 and Lighthouse declaring a scrip dividend in February 2021. This follows a swift recovery in trading across Europe, with all GLA being operational at NEPI following the lifting of restrictions, supported by the pace of COVID-19 vaccinations. NEPI reported strong collections of more than 99% at 1H FY21, with a positive trend expected as retailers seek to expand so as to take advantage of the economic rebound. Lighthouse carries high growth potential and has an investment strategy aligned to that of Resilient. The 99% occupancy rate at its directly owned properties was maintained, and positive distributable income growth was achieved throughout the pandemic-affected period. The aforementioned joint acquisition of properties in France, which closed in September 2021 is expected to further enhance Resilient's offshore earnings going forward. The French shopping centres are strategically located to attract strong footfalls, offering convenience and multiple national retailers such as Zara and H&M.

Figure 5: Margin progression*



*Represents cash earnings relative to contractual rentals.

Management and governance

Management and governance are currently viewed as neutral to the rating assessment.

Financial Profile

Conservative funding and proactive overall treasury management underpin a strong financial profile

Leverage and capital structure

The leverage assessment remains positive, on the back of a prudent funding philosophy and demonstrably strong overall treasury management. Resilient managed its LTV ratio down to 28.8% at FY21 (FY20: 35.2%) following the reduction of outstanding debt to R9.5bn from R11.3bn the prior year. Post FY21, the REIT participated in the Lighthouse equity raise in August 2021 and acquired an interest in the four French shopping centres mentioned above, while other growth opportunities both in SA and abroad may also be pursued. Nevertheless, GCR expects the LTV ratio to remain conservative and is projected to trend in the 30%-35% range over the medium term. GCR calculated credit protection metrics were also moderate with debt to operating income flat at 5.0x and interest cover improved at 3.4x (FY20: 4.9x and 2.9x respectively). Interest cover is anticipated to remain moderately strong, trending between 3.3x and 3.8x in light of the 5bps reduction in the weighted average cost of funding at FY21 to 6.69%.

Figure 6: Loan to value progression

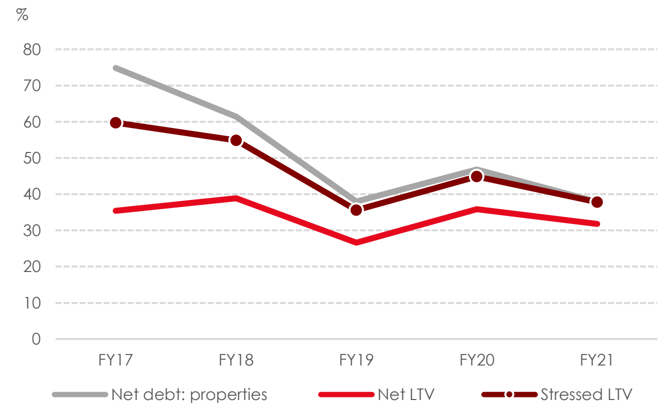
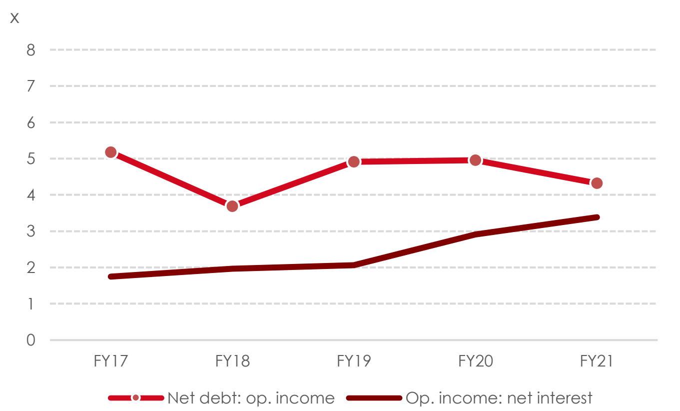


Figure 7: Earnings based leverage



Resilient has well established relationships with key banking counterparties in addition to its good access to capital markets through its DMTN programme. Most of the bank funding is secured against South African properties, while the listed investment portfolio is unencumbered. During FY21, the REIT placed unsecured notes totalling R950m under the DMTN programme, with the intention to potentially increase the proportion of unsecured debt in its capital structure over the medium term. The REIT has also demonstrated good ability to secure funding with longer tenors generally available in the local market. This has ensured that the debt maturity profile remains well spread with less than 30% of debt maturing in any given year.

Table 1: Facility profile (R'm)

Funder/territory	FY21			FY20		
	Facility	Drawn	Security	Facility	Drawn	Security
Nedbank	1,798	1,555	2,962	1,385	1,252	2,294
RMB	2,950	2,761	7,292	3,550	3,572	7,884
Standard Bank	3,908	2,807	8,814	4,108	3,578	8,551
Liberty Financial Solutions	1,160	814	1,168	810	814	1,940
Nigeria*				783	783	1,310
DMTN (unsecured)°	2,195	2,204	-	-	1,253	-
Total	**12,010**	**10,140**	**20,236**	**10,636**	**11,251**	**21,979**

*FY20 Includes minorities' interest of R306m. Held for sale at FY21.

Liquidity

The liquidity profile is underpinned by proactive treasury management, with the REIT displaying a solid track record of successfully refinancing debt ahead of maturity. While Resilient looks to increase its capex projects pipeline over time, the required cash outlay over the coming 12 months is minimal. The REIT also maintained its 100% dividend pay-out ratio, even at the height of the pandemic. Nonetheless, GCR estimates a liquidity coverage ratio of at least 1.2x over the next 12 months, supported by R2.5bn in unutilised debt facilities available. Additional liquidity support is provided by the large portfolio of listed equity investments, whilst we also note the comfortable headroom to covenant limits.

Comparative Profile

Peer analysis and group support

The peer analysis is neutral to the ratings. Group support is not applicable to the ratings, as Resilient is not a subsidiary of a larger group or operating holding company.

Rating Adjustment Factors

Structural adjustments

As Resilient is assessed as a group, no structural adjustments were made to the anchor credit evaluator in arriving at the final ratings.

Instrument ratings

No adjustments for instrument ratings are applicable.

Risk Score Summary

Rating components & factors	Risk Score
Operating environment	**14.50**
Country risk score	8.00
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	**16.50**

Glossary

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.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Committed Facility	A line of credit extended to a borrower that is guaranteed to be available for a specified period. The lender is obliged to lend the predetermined amount for the defined period under the terms of the agreement.
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.
Coverage	The scope of the protection provided under a contract of insurance.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
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
Facility	The grant of availability of money at some future date in return for a fee.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Income	Money received, especially on a regular basis, for work or through investments.
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 Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Lessee	The party that enjoys temporary use of a corporeal thing.
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.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Performing	An obligation that performs according to its contractual obligations.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
REIT	Real Estate Investment Trust. A company that owns, operates or finances income-producing real estate.
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	Current; ordinarily less than one year.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Vacancy	In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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 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* virtual 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 2021 audited annual financial statements (plus four years of audited comparative numbers)
- Results presentations and market/trading updates
- Facility schedule at October 2021
- The latest market updates in respect of trading, leverage, and liquidity management
- The latest investees' results and trading updates