GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR revises Resilient REIT Limited's rating Outlook to Positive following its growing exposure to developed Europe

Rating Action

Johannesburg, 10 November 2022 - GCR Ratings ("GCR") has affirmed Resilient REIT Limited's ("Resilient" or "the REIT") national scale long and short-term issuer ratings of AA(ZA) and A1+(ZA) respectively. The rating outlook has been revised to Positive from Stable.

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

Rating Rationale

The ratings and outlook recognise Resilient's high-quality retail portfolio focused on regionally dominant properties and its growing offshore exposure to highly developed Europe, which is expected to drive robust income growth. This combined with its disciplined financial policy is expected to lead to a stronger credit profile.

Resilient's operating performance remains robust due to the defensiveness of its South African retail portfolio and has continued to strengthen as the pandemic related headwinds have dissipated. The REIT reported 7.7% like-for-like net property income growth in 1H FY22 driven by stable occupancy levels (98%) and higher leasing spreads for new (7.7%) and renewed (1.6%) lease contracts. The portfolio benefits from sound demographic characteristics, with the assets, located in secondary cities, covering large catchments areas with limited competition. Resilient's centres are anchored by grocers and convenience offerings, with other tenants including a range of fashion and entertainment retail stores. Further supporting the 3.7% upward revaluation of the SA portfolio at December 2021 (June 2021: 2%) is the active asset-management strategy, strong quality of tenants and favourable average rental escalations of 6.3% at December 2021.

The rebalancing of the offshore growth strategy to retail opportunities presented in the Western European property market (where the REIT aims to maintain significant influence over its investments), is viewed as a credit positive. To this end, Resilient has undertaken several transactions over the past two years, which have included the acquisition of direct French assets, increased investment in listed Lighthouse Properties p.l.c and a recent investment into UK based Hammerson plc. Around 20% of the portfolio is likely to be exposed to the lower risk Western Europe region, compared to its historically large exposure to Central and Eastern Europe (held via its NEPI Rockcastle interest). The respective underlying portfolios are performing well, with the ongoing re-positioning of some of the French assets expected to have a positive earnings effect over the medium term.

Resilient's conservative leverage profile remains a rating strength, with the LTV reported at 32% at 1H FY22 (December 2021: 28.8%). While the REIT looks to pursue various local and offshore growth opportunities, GCR expects the LTV ratio to remain within the 30%-35% range over the rating horizon. GCR's calculated net debt to operating income remained flat at 5x at 1H FY22, with interest cover expected to continue to trend in the 3.0-3.5x range due to strong cash flows and a prudent hedging policy.

The REIT has a solid liquidity position backed by c.R1.2bn in unutilised available facilities at October 2022 and its large unencumbered listed equity investment portfolio. Resilient has approximately R1.4bn/11% of debt falling due by December 2023, following early refinancing negotiations. Notwithstanding its 100% dividend pay-out policy and higher capital commitments (c.R1bn over 24 months) for refurbishment and development projects, GCR estimates a 12-month liquidity coverage of at least 1.5x. Additional liquidity support is provided by the REIT's strong demonstrated access to capital, whilst we also note comfortable headroom to covenant limits.

Outlook Statement

The positive outlook reflects GCR's expectation that Resilient will continue to improve its operating environment profile leading to growth in core earnings, whilst retaining a balanced growth strategy and high liquidity.

Rating Triggers

A rating upgrade over the next 12-18 months could follow an increased earnings contribution and investment exposure to lower risk jurisdictions, while maintaining a very conservative leverage profile.

Given the positive ratings outlook, downgrade pressure is unlikely. However, the ratings outlook could return to stable if 1) offshore diversity does not materialise as meaningfully as anticipated 2) credit protection metrics fall out of current ranges 3) a weakening in portfolio operating metrics.

Analytical Contacts

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
GCR Rating Scales Symbols and Definitions, May 2022
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, January 2022
GCR's Country Risk Score report, August 2022
GCR's Commercial Property Sector Risk Scores, June 2022

Ratings History

Resilient REIT Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A-(ZA)	Stable Outlook	June 2010
Short Term Issuer		National	A1(ZA)		
Long Term Issuer	Last	National	AA(ZA)	Stable Outlook	November 2021
Short Term Issuer		National	A1+(ZA)		

Risk Score Summary

Rating Components & Factors	Score
Operating environment	**14.50**
Country risk score	8.00
Sector risk score	6.50
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 comparison	0.00
Total Risk Score	**16.50**

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 RATING

GCR affirms that a.) no part of the rating 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 entities. 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 entities participated in the rating process via face-to-face management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited 2021 financial results (plus four years of comparative, audited financials)
- Interim results to June 2022
- SENS announcements
- Debt facility schedule at November 2022
- The latest investees' results and trading updates