GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR affirms Resilient REIT Limited's ratings; Outlook remains Positive

Rating action

Johannesburg, 7 June 2023 - GCR Ratings (GCR) has affirmed Resilient REIT Limited's national scale long and short-term issuer ratings of $AA_{(ZA)}$ and $A1+_{(ZA)}$ respectively. The rating outlook remains on Positive.

Rated Entity	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

Resilient REIT Limited's (Resilient or the REIT) ratings are supported by its high-quality South African retail property portfolio, whilst leverage metrics remain well-positioned. The positive outlook reflects GCR's expectations that the recent shift in the portfolio's exposure to highly developed European territories will further strengthen its portfolio quality, although this has not materialised in earnings performance as yet.

The rebalancing of the offshore growth strategy from Central and Eastern Europe to retail opportunities in the Western European property market is viewed as a credit positive. As at December 2022, the offshore portfolio comprised around 23% of Resilient's invested assets. The REIT holds a 40% direct interest in a portfolio of French shopping centres, a 30.9% investment in listed Lighthouse Properties p.l.c. and a 4.0% shareholding in UK based retail REIT, Hammerson plc (Hammerson). Some of these assets have lagged earnings expectations to date but should show stronger income growth for 2023 and beyond given various asset re-positioning strategies. Hammerson has also guided to return to cash distributions in 2023. We positively note Resilient's very experienced management, which has historically demonstrated profitable strategic growth execution and well-conceived asset selection.

Resilient's South African retail portfolio performance remains robust, with active asset-management supporting the 4.2% upward revaluation of this portfolio to ZAR26 billion at December 2022 (December 2021: 3.7%). Despite the higher costs attributed to persistent loadshedding, the portfolio was able to deliver 6% like-for-like net property income growth for the financial year to 31 December 2022. This was driven by sustained low vacancies (1.7%) and higher leasing spreads for new (17.2%) and renewed (3.4%) lease contracts. Further, weighted average rental escalations remain favourable at 6.2%. Accordingly, although the untypically high 32% of leases maturing during 2023 (a consequence of the shorter lease tenors during the pandemic) presents a risk, GCR does not expect to see a meaningful deterioration in vacancies or rental rates. Efforts to enhance renewable energy within the portfolio are being undertaken and are expected to contribute to growing cash flows. Resilient's high-quality portfolio is focused on regionally dominant assets, located in secondary cities covering large catchment areas with limited competition. The centres are anchored by grocers and convenience stores, with other tenants including a range of fashion and entertainment offerings. The portfolio does show modest granularity due to its concentration of just 27 shopping centres.

The REIT adheres to a consistent financial policy that includes public leverage targets as it executes on its strategic growth initiatives. Resilient's reported LTV stood at 34.7% at December 2022 (December 2021: 28.8%), in line with its long-term leverage target of 30%-35%. GCR expects net debt to operating income to sustain in the mid-4x to 5x range, consistent with historical leverage levels. Interest cover fell to 3.3x in financial year 2022 from 4.1x in financial year 2021 due to higher interest rates. We expect the coverage to decline but remain strong at 2.5x-3x. We also note comfortable headroom to covenant limits.

Resilient displays good liquidity with ZAR1 billion in committed available facilities as at May 2023, which sufficiently covers upcoming maturities of ZAR954 million due in 2023. Notwithstanding its 100% dividend pay-out policy and high capital commitments (of just over ZAR1 billion over 24 months) for extensions/refurbishment and energy projects, GCR positively views the REIT's commitment to prefunding its capex by securing sufficient new debt issuances in advance. Contingent liquidity is also available from the unencumbered listed investment pool. Resilient continues to demonstrate strong access to debt capital, with ZAR1 billion in unsecured notes issued in 1Q 2023. GCR estimates a 12-month liquidity coverage of at least 1.5x to be sustained.

Outlook statement

GCR has kept a Positive outlook on expectation that over the next 12-18 months, Resilient's offshore operations will generate strong growth in cash flows. Moreover, the REIT's very strong local portfolio is expected to report positive growth despite the very challenging consumer environment. GCR also expects moderate gearing and strong liquidity to be sustained.

Rating triggers

A rating upgrade could follow a stronger earnings performance from key international investments, 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 investments do not meaningfully contribute to earnings growth and overall asset quality as anticipated 2) credit protection metrics fall out of current ranges 3) a weakening in portfolio operating metrics.

Analytical contacts

Primary analyst Sheri Morgan Deputy Sector Head: Corporate Ratings
Johannesburg, ZA Morgan@GCRratings.com +27 11 784 1771

Primary analyst Lara Krug Senior Analyst: Corporate Ratings
Johannesburg, ZA Larak@GCRratings.com +27 11 784 1771

Committee chair Eyal Shevel Sector Head: Corporate Ratings
Johannesburg, ZA Shevel@GCRratings.com +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
GCR Rating Scales Symbols and Definitions, May 2023
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, January 2022
GCR's Country Risk Score report, May 2023
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)	Positive Outlook	November 2022
Short Term Issuer		National	A1+(ZA)		

Risk score summary

Rating Components & Factors	Score
Operating environment	**15.00**
Country risk score	8.25
Sector risk score	6.75
Business profile	**1.25**
Portfolio quality	1.25
Management and governance	0.00
Financial profile	**0.50**
Leverage & capital structure	0.50
Liquidity	0.00
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**16.75**

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 entity.

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.

The rated entity 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 financial results to 31 December 2022 (plus four years of comparative, audited financials)
- Integrated annual report for 2022
- SENS announcements
- Debt facility schedule at May 2023
- The latest investees' results and trading updates