CREDIT RATING ANNOUNCEMENT

GCR affirms Resilient REIT Limited's ratings and revises Outlook to Stable

Rating action

Johannesburg, 28 June 2024 – 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 has been revised to Stable from Positive.

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

Rating rationale

Resilient REIT Limited's (Resilient or the REIT) ratings reflect its high-quality South African retail property portfolio, good geographic diversification to developed European territories and moderate leverage. The change in Outlook to Stable from Positive reflects GCR's view that the potential for a ratings upgrade over the next 12 months is limited, as we believe stronger earnings from the repositioning of key international investments is only likely to filter through over the medium term.

Resilient's South African retail portfolio performance remains robust, with active asset-management and sustainability initiatives supporting the 4.8% upward revaluation of this portfolio to ZAR27 billion at financial year ended 31 December 2023 (December 2022: 4.2%). Despite the higher costs attributed to persistent loadshedding, the portfolio was able to deliver 7.1% like-for-like net property income growth for 2023 (2022: 6.0%). This was driven by sustained low vacancies of 1.5% (2022: 1.7%) and higher leasing spreads for new (2023: 26.5%; 2022: 17.2%) and renewed (2023: 4.6%; 2022: 3.4%) lease contracts. The weighted average rental escalations remain favourable at 6.2% (2022: 6.2%). Accordingly, although the untypically high 30% of leases maturing during 2024 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 earnings.

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.

Resilient's offshore strategy mirrors that of South Africa, where its focus is on dominant retail assets over which it can exert a high degree of asset management control. In the absence of this control, Resilient sold its 4.0% shareholding in UK based retail REIT, Hammerson plc (Hammerson) for ZAR1.2 billion (against a purchase price of ZAR746.4 million), in order to free up capital to pursue its energy initiatives and capital commitments, whilst simultaneously maintaining conservative leverage. The offshore portfolio currently includes its 40% direct interest in a portfolio of four French shopping centres and a 30.4% investment in listed Lighthouse Properties p.l.c. In January 2024, the REIT also acquired a 50% interest in Salera Centro Comercial (Salera), a retail shopping centre in Spain (with Lighthouse holding the remaining 50%). Resilient disposed of its 60.94% share in Resilient Africa, a non-core Nigerian portfolio, to Shoprite Holdings Limited (Shoprite) (the 39% shareholder) and had no financial obligations towards these Nigerian operations from 3 March 2024. We note that the French portfolio has lagged earnings expectations to date and is expected to take longer to contribute meaningfully to earnings growth. This notwithstanding, we positively note Resilient's very experienced management, which has historically demonstrated profitable strategic growth execution and well-conceived asset selection.

The REIT adheres to a consistent financial policy that includes public leverage targets as it executes on its strategic growth initiatives. GCR calculated look-through LTV stood at 36.0% at 2023 (2022: 36.3%), with Resilient's reported LTV of 35.2% in line with its long-term leverage range of 30%-35%. GCR expects net debt to operating income to sustain in the mid-4x to 5x range, consistent with historical levels. We note pressures on interest which fell to 2.2x in 2023 (from around 3.0x in 2022) due in part to high interest rates. However we expect the coverage to strengthen somewhat on the back of lower interest rates achieved on debt refinances during the first half of 2024. We also note sufficient, albeit more limited headroom in respect of interest cover, to covenant limits.

Resilient displays adequate 12-month uses versus sources liquidity coverage of at least 1.2x, notwithstanding its 100% dividend pay-out policy. Liquidity sources include ZAR1.9 billion in committed available facilities as at June 2024. This includes a EUR38.5 million (c.ZAR780 million) facility from CaixaBank that will be drawn in July 2024. Available facilities more than sufficiently cover the minimal upcoming maturity of ZAR160 million in 2024 (post recent refinancing) and higher capital commitments (of around ZAR1.0 billion over the next 12 months) for extensions/refurbishments and energy projects. GCR positively views the REIT's commitment to funding its capex by securing sufficient new debt issuances. Significant contingent liquidity is also available from the unencumbered listed investment pool, which moderates the high direct property encumbrances. Resilient continues to demonstrate strong access to commercial funders as well as debt capital markets, with ZAR1.5 billion in unsecured notes issued during 2023 and a further ZAR615 million during May 2024.

Outlook statement

The Stable outlook reflects GCR's expectations that the REIT's very strong local portfolio is expected to report positive growth, whilst the offshore portfolio will only likely contribute meaningfully to earnings over the medium term. 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.

A ratings downgrade could derive from 1) offshore investments failing to meaningfully contribute to earnings growth and overall asset quality as anticipated 2) credit protection metrics falling out of current ranges, particularly if interest cover falls below 2.1x; and 3) a weakening in portfolio operating metrics.

Analytical contacts

Primary analyst Johannesburg, ZA	Lara Krug Larak@GCRratings.com	Senior Analyst: Corporate Ratings +27 11 784 1771
Primary analyst Johannesburg, ZA	Sheri Morgan Morgan@GCRratings.com	Deputy Sector Head: Corporate Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Eyal Shevel Shevel@GCRratings.com	Senior Analyst: Financial Institutions +27 11 784 1771

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
GCR Rating Scales Symbols and Definitions, May 2023
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, May 2024
GCR Country Risk Score report, June 2024
GCR SA Corporate Sector Risk Score report, March 2024
GCR Commercial Property Sector Risk Score report, June 2023

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	June 2023
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
Sustainability	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.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
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.
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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
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.
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.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.

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 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.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and 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:

- Exchange Rate Source: https://www.bloomberg.com/markets/currencies
- The audited annual financial statements to 31 December 2023 (plus four years of audited comparative numbers)
- The 2023 integrated report
- SENS announcements
- Debt facility schedule at June 2024
- The latest investees' results and trading updates

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.