GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR has affirmed Hyprop's long-term international and national Issuer ratings of BB- and A+$_{(ZA)}$ respectively; Outlook Stable.

Rating action

Johannesburg, 28 October 2024 – GCR Ratings (GCR) has affirmed Hyprop Investments Limited's (Hyprop or the REIT) long- and short-term international scale issuer ratings at BB- and B respectively. Concurrently, GCR has affirmed Hyprop's long- and short-term national scale issuer ratings at A+$_{(ZA)}$ and A1$_{(ZA)}$ respectively. The Outlook on all ratings remains Stable.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Hyprop Investments Limited	Long Term Issuer	International	BB-	Stable Outlook
	Short Term Issuer	International	B	
	Long Term Issuer	National	A+$_{(ZA)}$	Stable Outlook
	Short Term Issuer	National	A1$_{(ZA)}$	

Rating rationale

The rating affirmation and Stable Outlook reflect the improvements Hyprop has made to its portfolio quality over the past few years and GCR's expectations for leverage to remain in a stable range over the rating horizon.

Hyprop has made substantial progress in its portfolio repositioning and re-tenanting programme to improve the quality and growth profile of its core South Africa (SA) and Eastern European (EE) retail property portfolios. Despite the focus on large metropolitan malls, which in our view are generally more exposed to economic pressures, the REIT's performance has rebounded strongly in a post-pandemic environment. Positive leasing activity (with reversions having turned positive in SA), driven by strong demand and accretive redevelopment should continue to drive rent growth and high occupancy, which was reported at 98.2% in SA and 99.9% in EE for the financial year ended June 2024. Moreover, manageable lease expiries together with built-in SA rental escalations and EE lease indexations should help maintain strong rental income visibility. The ongoing focus on solar power projects in SA is also expected to partially alleviate rising property expenditure, thus protecting operating margins.

The REIT's large property portfolio valued at c. ZAR38 billion ($2.2 billion) June 2024 has good geographical diversification, with its presence in EE contributing at least a third to invested assets and income. While Hyprop has some investment exposures in the Rest of Africa (RoA), these continue to be excluded from the assessment of country risk, as they are considered immaterial and non-core to the REIT's strategy, with sale transactions having been recently finalised. Despite a recent large ZAR1.7 billion local acquisition, the portfolio remains concentrated compared with peers. With the portfolio comprised of just 13 retail assets, the top 10 centres account for 76% of portfolio value and the largest at a sizeable 18%. Likewise, the top 10 tenants account for a high 50% of SA and 40% of EE GLA. Nevertheless, we note the high-quality tenant roster (with national/international tenants representing at least c.80% of rentals in both markets).

Leverage (LTV) has been sustained in the 35%-38% range since the EE consolidation transaction in 2022, compared to levels above 45% historically. GCR expects the LTV to be maintained below 40% over the rating horizon, consistent with management's gearing policy of 35%-40%, and the group debt covenant level of 50%-55%. Additionally, the non-core RoA asset sale continues to demonstrate a strong commitment to strengthen the balance sheet and reduce currency risk. GCR also estimates that interest coverage, reported at a lower 2.5x in financial 2024 (financial 2023: 2.8x), should remain fairly stable with good headroom above the covenant level of 2x. GCR also positively views Hyprop's strong record of debt market access both locally and offshore.

We view Hyprop's liquidity as strong, based on its ratio of liquidity sources to uses of 1.6x over the next 12 months to June 2025. Sources of liquidity include ZAR2.8 billion available in cash and committed facilities. Hyprop has a well-laddered debt maturity profile, with most facilities maturing in the medium to long term. ZAR738 million/5% in debt is due in financial 2025, with capex projected at around ZAR750 million for strategic internal redevelopment opportunities. As with most REIT peers, the high asset encumbrances (>80%) are viewed to somewhat limit financial flexibility.

Outlook statement

The Stable Outlook reflects GCR's expectation that Hyprop's operational performance will remain strong, whilst the LTV will remain in management's target 35%-40% range and that interest coverage will be between 2.5x and 2.8x over the rating horizon.

Rating triggers

An upgrade is unlikely in the near term, given the REIT's high property concentrations. Over time, upward pressure could emerge if the REIT significantly improves the diversity of its asset base and expands geographic exposure into lower-risk jurisdictions, yielding quality, sustainable cashflows. A stronger financial profile, with the LTV sustaining below 35% and net interest cover above 3x on a consistent basis could also result in an upgrade.

GCR could downgrade Hyprop's rating if the financial and operating profiles weaken, such that the LTV trends above 40% and net interest cover dips below 2.2x for a sustained period.

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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 SA Corporate Sector Risk Score report, March 2024
GCR Commercial Property Sector Risk Score report, July 2024
GCR Country Risk Score report, August 2024

Ratings history

Hyprop Investments Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial	International	B+	Stable outlook	November 2021
Short Term Issuer		International	B		
Long Term Issuer	Last	International	BB-	Stable outlook	October 2023
Short Term Issuer		International	B		
Long Term Issuer	Initial	National	A(ZA)	Stable outlook	Nov 2021
Short Term Issuer		National	A1(ZA)		
Long Term Issuer	Last	National	A+(ZA)	Stable outlook	October 2023
Short Term Issuer		National	A1(ZA)		

Risk score summary

Rating Components & Factors	Score
Operating environment	**13.75**
Country risk score	7.50
Sector risk score	6.25
Business profile	**1.25**
Portfolio quality	1.25
Sustainability	0.00
Financial profile	**(0.75)**
Leverage & capital structure	(0.50)
Liquidity	(0.25)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Risk Score	**14.25**

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.
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 because of holding the security or asset. For a company, its exposure may relate to a 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
Downgrade	See GCR Rating Scales, Symbols and Definitions.
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.
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	In corporate analysis, leverage (or gearing) typically 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.
Outlook period	See GCR Rating Scales, Symbols and Definitions.
Portfolio	A collection of investments held by an individual or institutional investor. These may include (*inter alia*) private/listed stocks, debt securities, 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.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.

Upgrade	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 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 1USD=17.61ZAR (23 October 2024)
- The audited annual financial statements to 30 June 2024 (plus four years of audited comparative numbers)
- A breakdown of utilised and available debt facilities at June 2024.
- Covenant compliance schedules for June 2024.
- Portfolio valuation summary.
- Analyst Presentations and SENS announcements.

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.

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