Centre of Growth

MEDIA RELEASE
12 June 2023

VUKILE SHINES WITH 6.2% CASH DIVIDEND GROWTH, STELLAR OPERATIONS AND WIN-WIN SOLAR SOLUTIONS

Vukile Property Fund (JSE: VKE) has reported a 6.2% increase in its cash dividend to 112.4cps for the financial year to 31 March 2023 and 6.0% growth in its funds from operations (FFO) to 144.5cps. Not only do these results meet Vukile's guidance but the business is forecasting growth again next year, notwithstanding the headwinds in its markets.

Vukile is a consumer-focused retail real estate investment trust (REIT), differentiated by its sector specialisation and international diversification.

Vukile creates value for all its stakeholders by providing spaces and experiences that anticipate, meet and exceed shoppers' and tenants' needs and expectations. It applies this approach to its R37bn defensive portfolio of retail property assets, diversified across South Africa and Spain, through its 99.5% held Madrid-listed subsidiary Castellana Properties Socimi.

Nearly 60% of Vukile's assets and approaching 50% of its earnings are Euro-denominated, insulating its business from SA-specific risks and positioning it as a Rand hedge. Its net asset value (NAV), which increased by 14.3%, and earnings are positively geared to a weakening ZAR.

Laurence Rapp, CEO of Vukile Property Fund, attributes this strong performance to excellent operational results in both the South African and Spanish markets and the strength of its financial position.

Rapp says, "This is the best set of results Vukile has produced in South Africa in nearly two decades since listing. Similarly, Castellana delivered another set of market-leading results in Spain. The strength of our portfolio, a committed, specialised team and strategy of owning dominant assets in their catchment areas is reflected in excellent operating metrics."

In its domestic portfolio of high-quality shopping centres located mainly in townships and rural areas, like-for-like net operating income and retail valuations increased by 5.4% and 5.8%, respectively. Vacancies reduced from 2.6% to a low 2.0% while rental reversions turned positive, moving from -2.4% to +2.3%. Further highlighting the attractive spaces Vukile creates for its tenants, trading densities increased by 6.2% and rent-to-sales ratios remained at an exceptionally low 6.1%.

In the Spanish portfolio, normalised net operating income grew by a very impressive 9.0%. Highlighting strong tenant demand and the performance of its assets, vacancies closed at a negligible 1.3% with positive rental reversions of 3.3%, further enhanced by inflation indexation of 7.7%. The portfolio has a long weighted average

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lease expiry of 12.6 years. Indicating the shopper attraction factor of these assets, portfolio sales exceeded all industry benchmarks as did footfalls – boosted by tactical promotional programmes. Castellana's 25.7% investment in Lar Espana also continued to perform well.

"These operating metrics show that the expected challenges in consumer spending over the past 18 months didn't materialise as anticipated. Only now are we seeing some impact of higher interest rates filtering through to consumer spending in South Africa. Vukile is well-positioned to navigate short- to medium-term cyclical downturns such as this and protected against reduced spending, with defensive tenancies and strong security of contractual rental income with 99% of income provided by the best retail covenants in Spain and SA," notes Rapp.

Over the next year, Vukile will invest R350m in sustainable backup power in SA at an accretive yield, building on Vukile's well-established energy savings initiatives. To date, it has installed 20 solar plants of 14.9MWp, accounting for 9.6% of its energy consumption.

Expanding this, Vukile announced an innovative new energy solution where everyone wins. Through a combination of solar plants and battery storage, it is guaranteeing sustainable power to retailers in 17 of its shopping centres in South Africa between the hours of 9am and 4pm, removing the backup burden and cost pressure from its tenants and consistently enabling uninterrupted shopping for customers.

This project insulates Vukile from the impact of load shedding, one of several SA-specific risks it is managing. This year, Vukile spent R11.2m on generator diesel. R7.8m of this was used directly by tenants, of which 54% was recovered. The rest was for common area and emergency lighting. Some 75% of Vukile's tenants trade during load shedding and 88% of common areas have backup.

Increasing its solar capacity will substitute fossil-fuelled energy with renewable green energy in line with Vukile's environmental commitment, which saw Vukile complete its first certified Carbon Footprint Calculation this year. At the same time, it will lighten the load on the national electricity grid.

"Our energy solution reflects Vukile's customer focus and tenant partnership. It has been carefully crafted to benefit all stakeholders," notes Rapp.

Water security is a growing challenge in SA and Vukile has already invested in more boreholes, which now provide water to 58% of its portfolio and 98% of its rural malls, which all have backup water.

Vukile and Castellana both continued to invest in making a difference in communities where they operate, with a range of initiatives to positively impact each community and society in general. Both also received several awards and ratings for their active environmental, social and governance (ESG) initiatives, reporting, ethics and investor relations.

"When our communities prosper, our malls do too. When our shopping centres change lives for the better, they reap the benefits of positive shopper affinity, which grows value for all our stakeholders," says Rapp.

Vukile has a strong balance sheet with no refinancing risk in Europe over the next two years. Its corporate long-term credit rating was upgraded to AA(ZA) by GCR during the year.

"Vukile has done well to deliver on its promise of being a centre of growth by creating value for all our stakeholders through delivering excellent operational results," concludes Rapp. *"We are realistic about the headwinds in the market caused by inflation, higher interest rates and increased pressure on consumers. Cycles turn, and until this happens, our business is exceptionally well-positioned to navigate these challenges with our clear strategic direction, robust operating platform, strong balance sheet and active ESG focus."*

Vukile expects FY24 full-year FFO growth of 3% to 5% and dividend per share growth of 7% to 9%, which equates to 120cps to 123cps, to be paid in an interim and final dividend.

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