

## CREDIT RATING ANNOUNCEMENT

GCR places Vukile Property Fund Limited's ratings of AA<sub>(ZA)</sub> on Positive Outlook due to continued focus on growing its high-quality, diversified retail portfolio

### Rating action

Johannesburg, 22 July 2024 – GCR Ratings (GCR) has affirmed Vukile Property Fund Limited's national scale long and short-term issuer ratings of AA<sub>(ZA)</sub> and A1+<sub>(ZA)</sub> respectively. The rating Outlook has been revised to Positive from Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
Vukile Property Fund Limited	Long Term Issuer	National	AA <sub>(ZA)</sub>	Positive Outlook
	Short Term Issuer	National	A1+ <sub>(ZA)</sub>	

### Rating rationale

The Positive Outlook on Vukile Property Fund Limited's (Vukile or the REIT) ratings reflects the consistently strong property performance metrics in its South African and Spanish portfolios, along with the likelihood of further diversification into certain lower risk Western European countries given attractive market fundamentals. This is supported by demonstrated access to capital and strong liquidity, albeit the gearing metrics are moderately high.

Vukile's portfolio quality is increasingly supported by the growth of its Spanish subsidiary Castellana Properties SOCIMI SA (Castellana), and its investment in listed Lar Espana Real Estate SOCIMI, S.A. (Lar Espana), with the rating also benefiting from the solid operating environment in Spain. Of the combined portfolio size of ZAR40 billion (c.USD2.2 billion), the Spanish assets comprised a higher 61% of assets at 31 March 2024 (financial 2024), from 58% in financial 2023. The remaining assets are domiciled in South Africa, where the operating environment remains constrained by weak economic activity.

Vukile's property performance remains a key rating strength. Across both jurisdictions, Vukile focuses on non-metropolitan, convenience-oriented shopping centres and retail parks that are primarily anchored by grocery or essential services tenants and have tended to outperform the overall property sector. Despite the weak South African consumer environment, Vukile's South African properties reported a lower 1.9% vacancy rate at financial 2024 (financial 2023: 2.0%), below the sector average. Combined with rising footfall and higher trading densities, this has supported an average positive reversion of 2.9% and 5.4% like-for-like growth in net operating income. Similarly, the Spanish portfolio reported a very low vacancy rate of 1.1%, with positive rental reversion of 9.7% and adjusted net operating income growth of 11% in financial 2024. Moreover, GCR considers income stability to be high, with blue-chip national and international tenants accounting for 82% of rentals in South Africa and 95% in Spain, whilst the WALE is relatively long dated at 2.7 and 12.6 years respectively. The robust performance metrics have been achieved on the back of significant investment in enhancing the customer experience and collecting data so that the REIT can optimally position its centres. In addition, Vukile has embraced sustainability considerations, with green building designs, large solar installations and water management systems attracting high quality tenants and investors, while also helping to offset rising operating costs.

Vukile's gearing profile is expected to remain moderately high but in line with metrics evidenced by European REITs. Given the ongoing capex and investment activity, gross debt rose to ZAR18.9 billion in financial 2024 (financial 2023: ZAR17 billion, 2022: ZAR15 billion), of which ZAR10.2 billion is ringfenced to Castellana. This was somewhat moderated by a ZAR1 billion share issuance during the year, which combined with some asset sales, bolstered cash holding to ZAR2.4 billion in financial

2024. As a result, GCR's calculated net LTV was slightly lower at 40.3% (financial 2023: 42.1%; 2022: 42.2%), albeit we expect the ratio to trend nearer the top end of management's 40% to 45% target range if new acquisitions come to fruition. Pressure from high interest rates in both jurisdictions and the expiry of swaps is evidenced in the weaker net interest cover ratio per Vukile's calculation at 2.3x in financial 2024 (financial 2003: 3.1x). GCR expects this metric to remain under pressure, with limited headroom to covenants of 2.0x, but some increase is expected as rates begin to decrease.

Notwithstanding the higher debt, GCR has positively considered Vukile's funding structure. The REIT has demonstrated strong access to debt funding from the capital markets and commercial banks, as well as having accessed new equity funding. Debt remains well spread by maturity and is fairly long dated. There is a considerable ZAR6.1 billion maturity of Spanish debt in financial 2026, but refinancing arrangements are expected to be concluded in 3Q 2024.

Vukile evidences a strong liquidity profile, albeit that GCR's considerations are tempered by the likelihood of acquisitions over the medium term. In this regard, Vukile's sources of liquidity are underpinned by around ZAR2.4 billion in available cash and ZAR2.9 billion in committed unutilised facilities. Against this, there is around ZAR829 million in short term debt, substantial committed capex, and dividend payments. Nevertheless, GCR has factored in the likelihood of large acquisitions, which would utilise much of the available liquidity sources. Accordingly, we calculate a more moderate liquidity ratio of around 1.3x. Whilst the high level of asset encumbrances remains a ratings constraint, GCR views Vukile's strong access to capital and unencumbered listed equity positively. Accordingly, we expect liquidity coverage to remain robust even if there is acquisition activity.

## Outlook statement

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The Positive Outlook reflects the likelihood of a rating upgrade if Vukile continues to demonstrate growing cash flows off the back of very strong property performance metrics. In addition, we anticipate further growth, particularly expansion into lower risk Western European countries that are benefitting from a strong operating environment, whilst gearing metrics and liquidity should remain at comfortable levels.

## Rating triggers

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Factors that could lead to an upgrade include 1) if Vukile continues to demonstrate robust performance metrics, leading to earnings and cash flow growth ahead of its peers; 2) continued growth and geographic diversification outside of South Africa; 3) managing acquisitions and funding such that the net LTV ratio is maintained within the 40%-45% range and interest cover over 2.3x.

Conversely, GCR could take negative rating action if 1) the LTV trends above 45% on a sustained basis; 2) net interest remains close to its 2.0x interest coverage covenant for a sustained period; 3) acquisition activity that results in portfolio operating metrics and cash flows weakening; 4) and if any liquidity challenges are evidenced, such as a delay in refinancing large maturities.

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## Related criteria and research

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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, July 2024

## Ratings history

Vukile Property Fund Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issuer	Initial	National	A <sub>(ZA)</sub>	Stable Outlook	February 2012
Short Term Issuer		National	A1 <sub>(ZA)</sub>		
Long Term Issuer	Last	National	AA <sub>(ZA)</sub>	Stable Outlook	July 2023
Short Term Issuer		National	A1+ <sub>(ZA)</sub>		

## Risk score summary

Rating Components & Factors	Score
<b>Operating environment</b>	<b>16.00</b>
Country risk score	8.75
Sector risk score	7.25
<b>Business profile</b>	<b>1.75</b>
Portfolio quality	1.75
Sustainability	0.00
<b>Financial profile</b>	<b>(1.00)</b>
Leverage & capital structure	(1.00)
Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer comparison	0.00
<b>Total Risk Score</b>	<b>16.75</b>

## 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.

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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 ZAR18.35/USD on 19/07/2024; Source: <https://www.bloomberg.com/markets/currencies>
- The audited annual financial statements to 31 March 2024 (plus four years of audited comparative numbers)
- The 2024 integrated report
- SENS announcements
- Debt facility schedule at March 2024
- The latest investees' results and trading updates

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