HYPROP INVESTMENTS LIMITED

Property investment excellence.

HYPROP WEATHERS LOCAL HEADWINDS AND SCOOPS EUROPEAN WINS

3 PAGES

HIGHLIGHTS

- **8,8% growth in distributable income from SA portfolio**
- **16,6% growth in distributable income from SEE portfolio**
- **Vacancies reduced to 1.6% (SA) and < 0.1% (SEE)**
- **Sale of last non-core asset in SA - Lakefield Office Park**
- **Plans in place for Edcon challenge; ex-Stuttafords space fully let**

1 March 2019 - ***JSE specialist shopping centre REIT, Hyprop, grew distributable income 6% on this time last year, resulting in 2.5% dividend growth for the six months to December 2018 (the period). Excluding the poorly performing sub-Saharan Africa portfolio, dividend growth was 6,6%, in line with Hyprop's prior guidance. The group successfully weathered the local headwinds to deliver 8,8% growth in distributable income from the South African portfolio, and achieved critical mass in the high-performing SEE portfolio which produced double that growth.***

Newly-appointed CEO, Morné Wilken, says Hyprop's ability to hold steady in SA's turbulent conditions is testimony to the quality of its shopping centres and strong cash generation, which continue to underpin the group's financial strength.

Given the backdrop of reducing consumer spend and political uncertainty, trading density in the SA portfolio deteriorated from positive 1.4% at December 2017 to negative 0,6%. However, the portfolio proved its mettle with The Glen and Rosebank Mall reporting double-digit rental income growth on the back of recent renovations, and Clearwater Mall achieving the same organically. Woodlands Boulevard is expected to improve its performance, as the Nu Metro and Food Court upgrades have been well received and new tenants are trading well.

Wilken says in the prevailing economic climate Hyprop is focussing even more intently on tenant arrears. As a result of the increase in arrears to R34 million, Hyprop added R11 million to bad debt provisions for the period. Wilken explains that the increase was not driven entirely by local economic difficulties, but also in* part by seasonality and back-charges for rates increases. "Hyprop is constantly looking for ways

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to bring down the cost of occupancy for tenants to ensure sustainability," he adds.

He points out that despite tough times for retailers, Hyprop continues to enjoy unabated demand for space at its local malls. "This is reflected in the ongoing trend of declining vacancies, down to 1.6% from 1.9% six months ago." Although lease renewal rates receded in the period, over half the floorspace under leases expiring in 2019 has been renewed, at a healthy average rental escalation rate of 7.3%.

Wilken says the group is particularly mindful of its exposure to the Edcon group and is working proactively to mitigate against this. "Our total exposure at a rental income level is 7.7%, and almost 7 600m² of Edcon's total 67 000m² floorspace has already been taken back and, in the majority, re-tenanted by Hyprop." Hyprop has a proven track record of successfully re-tenanting major tenant spaces following the closure of the Stuttafords chain in 2017. Clearwater Mall was the last of Hyprop's malls to fill the vacated Stuttafords space. National anchor tenant, Checkers, will be taking over some of the Edcon space at The Glen, which Wilken says should boost the centre's footfall and turnover.

He adds that in principle Hyprop has agreed to support the Edcon restructuring proposal with a reduction in rentals, compensated for by equity participation in Edcon. "Whilst this will impact distributable earnings in the 2019 and 2020 financial years by 0.8% and 2.3%, respectively, it is considered an acceptable limitation of the risk."

He says management is cognisant that local economic conditions impact on future capital spend, but says "some capital projects are inevitable, as it remains critical to keep the portfolio relevant". He explains that keeping pace with ever-changing retail trends and consumer demands, particularly the rising trend of online shopping, is critical to Hyprop's sustainability. At present such projects are planned for Canal Walk.

In South-Eastern Europe Hyprop continues to reap the benefits of a favourable macro environment, with ongoing increases in rental rates and trading densities across the portfolio. Wilken says EUR25 million worth of capital projects is planned or in progress, including a major upgrade to The Mall in Sofia (Bulgaria) that will see 40 new stores brought online. "Mall expansion in the SEE portfolio is critical, as all of our malls are almost fully-let and tenant demand is strong."

Hyprop's sub-Saharan Africa portfolio remains a challenge in light of the severe trading conditions for some of the centres. "Taking into account the consequent weakness in the portfolio and the need to right-size some malls in the future, we have made prudent downward adjustments to the centres' valuations resulting in a R1.07 billion impairment for the period."

Going forward Wilken says the group is looking to reduce exposure to the region and has made good progress in identifying potential buyers for the African investments. "Certain of our African malls remain attractive acquisition opportunities, despite the negative trading conditions. For instance, Accra and Ikeja City Malls managed to grow foot count in the last six months, and the Achimoto and Kumasi malls successfully cut vacancies, despite the severity of retail conditions."

In February Moody's downgraded Hyprop's credit rating. Hyprop's calculation of its debt-to-asset ratio at June 2018 (32.6%) was significantly lower than Moody's, taking into account only its attributable share of the net assets in Hystead (of which it owns 60%), the Hystead debt it guarantees and the back-to-back security for these guarantees from fellow shareholder PDI. Wilken asserts that this basis of calculation makes sense as it aligns with how the financial institutions compute Hyprop's LTV ratio. He says the group has nonetheless taken note of Moody's concerns and will take the necessary steps to restore its investment grade status.

A new Stratco was recently appointed to devise and implement a five-year plan for Hyprop with defined outcomes and targets. "A key strategic priority in the short- to medium-term is addressing the sub-Saharan Africa portfolio, and then continuing to recycle capital to ensure growth, keeping all malls relevant, and paying out to shareholders only cash-backed dividends."

Given the sub-Saharan Africa scenario, the Edcon restructuring in SA and persistent harsh local macro conditions, Hyprop is forecasting distribution growth for the full year to June 2019 of approximately 2%.

Wilken concludes: "The new management team - Brett Till, Wilhelm Nauta and myself - is excited to take this highly credible business to the next level, and we are confident that Hyprop is well-placed to deal with the challenges that lie ahead."

Hyprop's share closed yesterday at R77.49.

Ends.

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Notes to editors:

- **Hyprop's R37,3 billion portfolio spans South Africa, the rest of sub-Saharan Africa and South-Eastern Europe (SEE)**
- The SA portfolio includes super-regional centre Canal Walk, large regional centres Clearwater, The Glen, Woodlands, CapeGate, Somerset and Rosebank Malls, regional centre Hyde Park Corner and value centre Atterbury Value Mart.
- The SEE portfolio is held via a 60% interest in UK-based Hystead Limited and includes interests in Delta City Belgrade, Serbia; Delta City Podgorica, Montenegro; Skopje City Mall in Skopje, Macedonia; The Mall Sofia, Bulgaria (acquired October 2017) and a 90% interest in City Centre one Zagreb East and City Centre one Zagreb West, both in Zagreb, Croatia (acquired April 2018).
- The SSA portfolio includes interests in Accra Mall, West Hills Mall and Achimota Retail Centre (all in Accra, Ghana); Kumasi City Mall in Kumasi, Ghana; Manda Hill Centre in Lusaka, Zambia and Ikeja City Mall in Lagos, Nigeria