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Redefine harnesses it's strategic strengths to deliver on a solid set of results

JSE-listed, internationally diversified real estate investment trust Redefine Properties (JSE: RDF) has harnessed the benefits of a diversified portfolio and operational efficiencies to deliver a solid performance for the full year to end August 2016.

While South African businesses continue to be buffeted by ongoing political uncertainty and economic headwinds, Redefine's high quality property portfolio, a broad source of funding, its effective hedging strategy and the robust performance from offshore assets has enabled the company to achieve continued expansion despite the challenging conditions.

"There is no doubt that in the prevailing macro-economic environment trading conditions have been difficult. For Redefine this has been a year of alignment - we have aligned our structures and refined our business processes. Our focus remains on operating efficiently, investing strategically, optimising capital, engaging talent and growing our reputation," says CEO Andrew Konig.

In Rand terms, the total distributable income for the year was up 21.9% to R3.9 billion and, with a second half distribution of 44.3 cents per share (up 8%), the full year distribution per share increased by 7.5% to 86 cents.

Prospects for 2017 are subject to numerous factors which remain uncertain, including volatile financial markets, the continuing possibility of a sovereign credit downgrade and the outcome of the offer to acquire Pivotal. Growth in distributable income per share for 2017 is anticipated to range between 7.5% to 8.5%.

During the past year Redefine expanded its property base by R8.9 billion rand, with the bulk of the investment into a 1.2 billion Euro high-yield commercial portfolio in Poland. "International property assets total 22.6% of assets, up from 14.8% a year ago, contributing 25.9% of income in the period versus 16.7% in the previous year," says Konig.

In September, Redefine successfully placed Euro 150 million exchangeable bonds due in 2021, with the proceeds to be used in part settlement of the bridge facility used to fund the investment into Poland.

Redefine's loan to value ratio was 38.5% at the year end, which chief financial officer Leon Kok says is regarded as satisfactory. "Given concerns about higher interest rates, 82% of our debt is fixed, which protects us against interest rate spikes and the impact on income going forward," says Kok.

Assets under management at the year end totalled R72.7 billion.

Given ongoing currency volatility, Redefine adopted a policy of hedging foreign currency. Kok says the company took a strategic decision in late May that the rand was looking unusually weak and hedged exposure to the pound, the euro and the Australian dollar just ahead of Brexit. "The hedging policy certainly stands us in good stead for 2017," says Kok.

"Despite the tough local trading conditions it is gratifying that we have maintained our operating margin at 80%," says Kok.

Notwithstanding a low growth environment, Redefine has continued a strong focus on improving its local portfolio through development, including expansion and improvements at the Centurion, Benmore, Kenilworth and South Coast malls. "We are looking at all sectors where we have strategically located positions," says Konig. "For example, we are in the process of developing the Rosebank Link on the doorstep of Gautrain and are also harnessing the use of our industrial land in KZN, Cape Town and Johannesburg with specific expansion into the industrial logistics sector."

In the new financial year, Redefine will progress on the proposed acquisition of the entire issued share capital of listed Pivotal Fund, a development focused fund with an A-grade portfolio of completed income producing properties and developments, which will add R11 billion to the local property portfolio.

Redefine sees attractive opportunities in the student accommodation market. "Despite the 'fees must fall' protests, we expect the demand for quality accommodation space to intensify, as students who are able to afford it, demand quality" says Konig. By the end of 2017 Redefine intends supplying around 10,000 student beds in SA, and is also diversifying into student accommodation in Australia.