05 May 2016

Redefine lifts distribution for half year to end February 6.9% to 41.7 cents a share

Redefine Properties (JSE: RDF) has reported a 6.9% increase to 41.7 cents a share in the distribution for the six months to end February 2016.

In rand terms distributable income rose 29.3% to R1.9bn and the company maintains its guidance of 6-7% distribution growth for the full 2016 year.

The bulk of Redefine's local strategy is centred on existing properties and on servicing its significant development pipeline. Leases covering 282 070 sqm were renewed at an average rental increase of 4.3%, with the retention rate at a pleasing 83%.

The average cost of funding in the period was recorded at 8.5% from 8.4% in 2015, while the interest cover ratio improved to 3.7 times from 3.4 times in the prior year.

During the review period, the company completed projects totalling R1.8 billion representing investment of R700m, outgunning acquisitions for the period of about R400m. Disposals amounted to R1.2 billion, while new development projects with an approved value of R2.3 billion are currently in progress.

"We have successfully recycled capital domestically to fund development as well as new acquisitions," says CEO Andrew Konig.

Net arrears improved to R34m from R42m at end 31 August 2015. "Cash management is critically important and we have also put a greater emphasis on the quality of tenants at inception of leases," says financial director Leon Kok.

High debt funding costs are expected to constrain future development in the property sector locally, but a rerating of Redefine's share price has offset the increase in its cost of funding.

The major disposal during the six months related to Redefine's government tenanted office portfolio, where it has been the company's stated intention to dispose of these assets. During the period it entered into an agreement with Delta Property Fund which acquired approximately 60% of this portfolio valued at R1.3 billion, in return for Delta shares.

Opportunities for select industrial development remains on the agenda - as an example, Redefine entered into a joint venture with Pivotal and Abland whereby Redefine acquired a 45% interest in S & J land earmarked for an industrial precinct to be serviced and developed in phases based on demand. S&J land comprises a 160 hectare (1.6 million sqm) prime industrial parcel of land located in Germiston, Johannesburg.

On the retail front, expansion and improvement initiatives totalling R1.1 billion are underway to improve and differentiate a number of our malls including Centurion Mall.

A core ongoing offshore strategy is to exploit attractive offshore yield spreads, where debt can be locked in for five years at exceptionally low rates. The company's offshore portfolio is set to grow from 20% currently to 25% once the company's ground-breaking Polish deal kicks in later this year.

Redefine has broadened its offshore footprint via an initial 75% investment into a 1.2 billion euro high-yielding commercial platform comprising 18 properties in the rapidly-expanding and exciting Polish market. The initial stake will reduce to 49.9% as a result of a placement of shares with co-investors.

Anti-trust clearance has been received for this deal and the company anticipates the acquisition to be fully implemented on June 1 and to add accretive income in the last quarter 2016 at an additional one cent of distribution per share.

"Local property fundamentals remain challenging, with issues like electricity price increases, illiquid capital markets and the impact of drought conditions still permeating the industry. But we continue to deliver on our strategy of diversifying, growing and improving the quality of our core property portfolio, while ensuring that we focus on our people, the fine-tuning of our management structures and delivery to all our stakeholders," concludes Konig.