

**CREDIT RATING ANNOUNCEMENT**

GCR upgrades Vukile Property Fund Limited's rating to A<sup>+(ZA)</sup>; Outlook Stable.

Johannesburg, 5 July 2018 -- Global Credit Ratings has today upgraded the long term national scale Issuer rating assigned to Vukile Property Fund Limited to A<sup>+(ZA)</sup> and affirmed the short term rating at A1<sup>(ZA)</sup>; with the outlook accorded as Stable.

**SUMMARY RATING RATIONALE**

Global Credit Ratings ("GCR") has accorded the above credit ratings to Vukile Property Fund Limited ("Vukile") based on the following key criteria:

The rating upgrade reflects Vukile's successful growth and repositioning towards a quality, retail focused property portfolio (c.90% of the portfolio value). Cumulatively, c.R10bn in net assets have been added to the investment portfolio over the last five years through a mix of acquisitions and redevelopments, which registered at R21.6bn at FY18. The increased scale and scope of the portfolio has improved its growth profile through the cycle, whilst exposure to segments with relatively weak leasing prospects has been reduced. Looking ahead, strategic objectives remain strongly underpinned by Spanish expansion opportunities, with this region exhibiting favourable industry and macroeconomic conditions. Vukile's current exposure towards core international geographies represents 26% of the total investment pool. Nevertheless, operating in a foreign jurisdiction does entail additional risk.

The assessment takes into account Vukile's continuously strong like-for-like net income growth, generally above 6% YoY, underpinned by sustained sound occupancy rates and a high-quality tenant base. Active lease management and rental escalations on in-force contracts and new leases support GCR's forecast of income and cash flow advancement across the portfolio.

Vukile's low leveraged balance sheet provides further support to the rating. The net LTV of 27% and net debt/EBITDA of 4x reported at FY18 are lower than peer averages and remain well within GCR's parameters for highly rated REITs. GCR is of the view that the REIT will retain conservative financial policies even as it pursues strategic, large-scale investment opportunities, within the stated LTV target range of c.35%.

The REIT reflects a well-laddered debt maturity profile, with manageable near-term expiries. Supporting adequate liquidity is unutilised bank facilities of close to R1.5bn (as committed credit lines were extended significantly post year-end) and strong shareholder support, evident by frequent and oversubscribed issuances. Nonetheless, the pool of unencumbered assets remains limited, albeit growing.

Continued strong earnings growth, whilst maintaining gearing at conservative levels, could provide positive ratings uplift over the medium term. Higher ratings would also require a material strengthening in the liquidity profile. The ratings could come under downward pressure from a weakening trend in portfolio performance, including the Spanish assets and/or if the LTV were to be sustained above 35%.

**NATIONAL SCALE RATINGS HISTORY**

Initial rating (February 2012)

Long term: A<sup>(ZA)</sup>

Short term: A1<sup>(ZA)</sup>

Outlook: Stable

Last rating (February 2018)

Long term: A<sup>(ZA)</sup>

Short term: A1<sup>(ZA)</sup>

Outlook: Positive



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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Master Criteria for Rating Corporate Entities, updated February 2018  
Global Criteria for Rating Property Funds and Commercial Real Estate Companies, updated February 2018  
Vukile Issuer rating reports, 2012-18

**RATING LIMITATIONS AND DISCLAIMERS**

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**GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY**

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Loan to value	The principal balance of a loan divided by the value of the property funded. LTVs can be computed as the loan balance to current property market value, or the original property market value.
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	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
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.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
REIT	Real Estate Investment Trusts are JSE listed companies that own operate and manage a real estate portfolio consisting of income producing property (office parks, industrial parks or retail centres).
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.



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## SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Vukile Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Vukile Property Fund Limited with no contestation of the rating.

The information received from Vukile Property Fund Limited and other reliable third parties to accord the credit ratings included:

- The 2018 audited annual financial statements (plus prior four years of comparative numbers)
- A breakdown of debt facilities available and related counterparties at FY18
- 2018 analyst presentations

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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