NEWS RELEASE FROM TEXTON PROPERTY FUND

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***Operationally sound Texton continues rebuilding towards a rerating***

Texton Property Fund today reported a total dividend of 71.37 cents per share for its full-year ended 30 June 2019.

This financial year has been the toughest in the company’s history. Texton is a diversified JSE-listed SA REIT with total property assets valued at R4.4bn, of which 58.5% by value is in South Africa and 41.5% in the United Kingdom. Besides facing weak and deteriorating property fundamentals in both SA and UK markets, the company reconstituted its board and executive management during the year to strengthen its leadership and stabilise its management. Its new management also dealt with several inherited legacy issues, including the PIC Put Option.

While Texton’s distributions were 20.1% down from 89.31 cents per share in the 2018 financial year as a result of negative market factors including rental reversions, vacancies, an oversupply of space, prolonged let-up periods, lower foreign exchange gains and increased funding costs, this was in line with expectations and the company made significant operational progress.

After his first full six-month period at Texton’s helm, new CEO Marius Muller says, “The tough macroeconomics in both our markets weakened property fundamentals. Rather than dwelling on factors over which we have no control, we remained firmly focused on what we can manage. We made pleasing operational advances that place Texton on a much firmer footing for the future.”

Muller, who has been tasked with the groundwork that will return Texton to positive performance, has declined his contractual bonus and increase in compensation, saying that difficult but necessary decisions have had to be made to bring Texton back in line with shareholder and stakeholder expectations.

“We are confident that Texton will come through this challenging cycle and emerge stronger. We believe the necessary steps have been taken to provide a robust platform for growth. By focusing on the fundamentals, we are reinforcing Texton’s solid foundations and strengthening our portfolio and balance sheet. However, turning Texton around in difficult and unsupportive macroeconomic environments is proving to be a more gradual process than we would have liked. As a small market cap company, Texton is relatively more exposed to the impacts of the difficult operating environment. It would, however, be equally able to benefit from and capitalise on a future upturn in the market,” he says.

Texton achieved substantial success securing new lettings, retaining tenants and protecting property income streams through early renewals, which resulted in portfolio occupancies, including its 50% stake in Broad Street Mall in the UK, improving from 10.5% to 9.2% in the second half of the financial year. In the process, Texton increased its exposure to blue-chip, listed and national tenants in the portfolio by 5.5% to 69.7% and renewed 83.6% of leases expiring in the year. Texton’s collections also improved, reducing arrears from 4.5% to 2.0% of billings during the year. This translates to a 55.6% improvement in cash receipts.

In this market, however, securing tenants and protecting revenue streams is only possible at the cost of rental growth. Economic erosion and the resulting rental reversions in the portfolio reduced property revaluations. Texton’s like-on-like held property portfolio value decreased 13.2% to R4.154bn, with most of the reduction contributed by the SA portfolio.

Even so, Texton continues to maintain well-positioned and defensive portfolios in both its markets underpinned by good properties with strong covenants. Its office properties have performed well despite oversupply and intense competition. The industrial property portfolio performed as expected. Its retail portfolio has done remarkably well and enjoys high occupancies across all properties and regions.

Texton introduced more aggressive broker and tenant incentives to boost its leasing. During the year in SA, it concluded 108 new leases and renewals over nearly 95,000sqm, indicating the success of its focused and proactive approach in a challenging market. Its vacancy levels improved in SA from 12.6% to 10.8% in the second half of the financial year, with the weighted average lease expiry increasing 16% to 2.9 years. All of its wholly-owned UK assets remain fully let and income producing, contributing strong income returns to the company.

Texton’s refinancing programme is one of its biggest challenges and priorities and, having resolved the PIC Put Option in the first half of the year, the focus has shifted to decreasing gearing levels. However, the progress made is not yet showing in the numbers. Texton’s loan-to-value ratio increased from 42.7% to 47.7%. It aims to bring this below 40% and to diversify its lending portfolio.

An aggressive programme of non-core asset disposals, which is being stepped up, will support Texton’s drive to reduce debt and selectively reposition its portfolio. During the year in the UK, Texton disposed of Tesco Chobe at Quorum Business Park in Newcastle, let to Tesco Bank, for GBP12m. The property transferred eight days after year end. The proceeds were used to de-leverage the Santander loans repayable in February 2020 and significantly de-risk the repayment burden of this tranche of debt, while improving UK portfolio metrics. In SA, Texton completed the strategic sale of two non-core properties and allocated the proceeds to reduce debt. To further support its refinancing and achieve its debt strategy, Texton intends to dispose of a further 13 properties of R326.8m already held for sale in the year ahead.

Muller concludes, “We’ve made good progress in a short time with the full confidence of our board and an excellent team supporting us. We have endeavoured to improve our relationships with our shareholders and stakeholders and set a course towards enhanced total returns to support a re-rating of Texton’s share price. Texton’s 2020 financial year distribution is expected to decrease by around 20%, however, we are confident that we will resolve all inherited legacy issues during year.”

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