equites PROPERTY FUND

news release

EQUITES CONTINUES TO DELIVER MARKET BEATING PERFORMANCE

Highlights for the year ended 29 February 2020

- Distribution per share of 151.39 cents, up 9.4%
- Conservative loan-to-value ratio of 26.1%
- All-in cost of debt down 77 basis points to 5.94%
- Cash and available facilities of R1.5 billion, up R0.6 billion
- Net asset value up 3.7% to R17.55
- NAV compound annual growth rate since listing of more than 10%

Cape Town, **5 May 2020** – Equites Property Fund Limited today announced a 9.4% increase in distributable earnings per share and dividends per share. The growth was mainly attributable to the healthy 6.9% growth in like-for-like net rental income which, Equites said, is a product of the longevity of its weighted average lease expiry period of 10.2 years. Financial leverage contributed only 1.0% to the increase, as the company maintained a low LTV of 26.1%. Net asset value per share increased by 3.7% to R17.55 and cash generated from operations increased by R202 million, a 29.9% increase against the comparative period.

Equites CEO, Andrea Taverna-Turisan, said: "*The 2020 financial year was a successful period for Equites, with the company again making significant progress in implementing its vision to be a globally relevant REIT, focused exclusively on high quality logistics assets. Equites has established itself as a market leader in the logistics property space in South Africa and the United Kingdom, with a portfolio of premium logistics properties which has grown from R1 billion at listing in 2014, to R15 billion at 29 February 2020. The Equites portfolio continues to present a compelling investment case and generate strong shareholder returns, with a compounded annual growth rate in Equites' share price and market capitalisation exceeding 10% and 48%, respectively."*

Equites increased its property portfolio by R2.9 billion to R14.9 billion during the past year. The company said that it has continued to enhance income certainty by both increasing its weighted average lease expiry period ("WALE") and increasing the credit quality of the portfolio. The WALE has increased to 10.2 years, up from 8.8 years at 28 February 2019, while 94.0% of the company's revenue is derived from A-grade tenants. Equites completed seven developments with a capital value of R1.3 billion and commenced the development of six, state-of-the-art logistics facilities with a capital value of R1.1 billion on completion.

Taverna said: "*Our financial performance over the past 12 months is testament to a strong tenant base, a sound investment philosophy and prudent financial risk management policies*."

Property portfolio

Equites' property portfolio grew by 24.4% during the year, with the growth mainly attributable to acquisitions and developments in SA of R0.5 billion and £100 million in the UK. Equites' development team in South Africa continues to create a product offering inspired by global best practice and unmatched in the SA context and this remains a key competitive advantage. For the year under review, Equites delivered seven assets with a capital value of R1.3 billion. Due to the exacting nature of these buildings and the highest quality standards the company adheres to in all new builds, Equites views this as an increasingly important source of its portfolio growth in future years.

The demand that has been placed on the logistics asset class within the UK market and the scarcity of investment-grade facilities have compressed yields to a level that makes it difficult to compete for new product. Equites' decision to partner with a best-in-class development team in Newlands provides the company with the opportunity to unlock value on land holdings in the UK in the coming years, through the development of assets at a discount to market value. Equites concluded two acquisitions of land and entered into options over four other land parcels as part of its joint venture with Newlands during the year, including the acquisition of 12 hectares of land in Basingstoke for a consideration £14.2 million, and the acquisition of a 6.7-hectare plot in the Peterborough Gateway logistics park for a price of £7.3 million.

The company has capital commitments over the next 12-18 months of R1.9 billion, with the most significant capital commitment pertaining to obtaining control over a portfolio of distribution centres in South Africa which is expected to be completed in the coming months. The company is currently in discussions with several interested debt and equity investors in relation to this transaction.

Due to increased focus on property valuations, Equites has revised its external valuation policy to enhance transparency by increasing its valuation panel in SA and the UK to five external valuation specialists, as well as increasing the frequency of the valuations. More than 70% of its portfolio was externally valued in the current financial year.

Equites said that while the UK portfolio continues to grow, the SA portfolio still contributed 74.5% of total revenue in 2020. The largest single geographic concentration is Gauteng, with 48.3% of its portfolio currently situated in the region. Equites views this region as the hub of South African logistics and continue to focus its growth efforts there.

Managing the portfolio

One of Equites' competitive advantages relates to how the company manages its properties. Equites favours long-dated leases with low-risk tenants and its WALE of 10.2 years and 94% A-grade tenants remain sector-leading and suggests a high level of income predictability and a low risk of default. Equites focuses its investment in locations that evidence strong potential for capital and rental growth and which serve as proven nodes given their proximity to road networks, densely populated areas and accessibility to a large labour force, which strongly contributes to its ability to attract robust occupier demand. Vacancies for the year was 3.4% by gross lettable area, decreasing to 2.2% post year-end. The vacancy rate on the industrial portfolio was 0.2%.

Debt and funding

Equites maintains a robust balance sheet which offers flexibility for future growth opportunities. Actual LTV levels over the past five years have remained well below the 35% upper limit of its target range, currently at 26.1%. The company raised R1.55 billion through oversubscribed accelerated bookbuilds in August 2019 and March 2020.

Equites reduced the cost of debt in SA and the UK since February 2019 by 35 basis points and 19 basis points, respectively, and increased the debt maturity profile from an average of 3.6 years to 4.0 years. All-in effective cost of debt has fallen 77 basis points to 5.94%.

The company has maintained interest rate hedging levels above 80% throughout the period under review, with a duration of derivative interest rate hedging instruments at 4 years as at February 2020. At 29 February 2020, Equites had hedged 93.3% and 95.7% of the existing term loan balances and total committed future cash outflows, respectively. The hedging policy with respect to distributable earnings and cash flow risk is deliberately constructed to provide short-term stability in the growth in distributable earnings but to gain from the hard currency appreciation over the medium and long term.

To further diversify the sources of funding, the company has issued R600 million in unsecured notes and commercial paper in the period and eight financial institutions currently provide SA and UK bank funding to the company on a secured and unsecured basis.

Equites had undrawn facilities of R1.4 billion at February 2020 and unencumbered assets of R2.9 billion. Together with its low LTV, this continues to provide Equites with the necessary flexibility to pursue growth opportunities.

COVID-19 impact

Equites has proactively implemented measures to limit the potential spread of the virus among employees, service providers, tenants and other persons linked to the business. The company said that while it is still too early to quantify the full impact, if any, of COVID-19 on its core portfolio, they have evaluated the impact in both SA and the UK on rental collections since year-end and tenants' ability to remain operational during this period. Since 29 February 2020, Equites has collected 92.8% and 100% of the contractual rental due in terms of their lease agreements in SA and the UK, respectively. While the situation remains fluid and largely unpredictable, the company believes that its quality portfolio and conservative balance sheet provide a sound foundation from which to participate in opportunities that may arise.

In South Africa, Equites has engaged with many tenants and have granted 3-month cash flow relief to tenants representing 3.7% of total contractual rental and 6-month cash flow relief to a further 1.1% of tenants. More than 80% of Equites' tenants have remained operational and more tenants should be able to resume operations as lockdown restrictions are relaxed. In the UK, Equites has collected 100% of the contractual rental due and remains confident of the financial strength of its tenants. In addition, the company anticipates that the structural trends that have been driving occupier demand for high-quality, well located logistics facilities, will be further reinforced by the crisis.

Equites has agreed to assist contractors and subcontractors in ensuring that their low-income workers are provided with a living wage, by contributing R1 million to the various organisations. Through the Michel Lanfranchi Foundation, Equites has also committed financial resources to feed some of the most vulnerable families in the environments in which it operates and the executive team has uniformly agreed to forfeit 1/3 of their salary for three months to be donated to charities of their choice.

Prospects

Through focusing on the strength and quality of its underlying portfolio, being disciplined in capital allocation, and managing the flexibility of its balance sheet, Equites has demonstrated a large degree of resilience in the face of adversity. The economic consequences of COVID-19 will however be far-reaching, and the economic pain has yet to be fully experienced. Furthermore, while Equites is continually stress-testing its forecasting models and planning for various extremely unlikely eventualities, the level of unpredictability continues to rise. It is for these reasons that providing detailed guidance proves to be challenging. The board will communicate guidance once the situation surrounding the pandemic becomes clearer and the board is comfortable that the guidance is highly probable.

Ends

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About Equites Property Fund

Equites Property Fund Limited listed on the Johannesburg Securities Exchange ("JSE") on 18 June 2014 and has established itself as a market leader in the logistics property space, with a vision of becoming a globally relevant Real Estate Investment Trust ("REIT"). The value of the fund has grown significantly from R1 billion on listing to R15 billion at 29 February 2020.

Equites focuses on owning and developing modern, well-located logistics properties let to A-grade tenants on long-dated leases. The fund has established itself as a leading owner and developer of high-quality logistics assets in South Africa and the United Kingdom.

Equites is the only specialist logistics REIT listed on the JSE. All the group's assets are in proven logistics nodes near large population centres and major transport links that have predictable patterns of strong rental growth. The group focuses on premium "big-box" distribution centres, let to investment grade tenants on long-dated "triple net" leases, built to institutional specifications. The locations of preference are Cape Town and Gauteng in South Africa and the central Midlands and "last-mile" fulfilment centres near major conurbations in the United Kingdom. While its exposure to the UK has been increasing, Equites remain a South Africa-focused fund and continue to focus on growing the South African portfolio through acquisitions and developments.