EQUITY RESEARCH

SOUTH AFRICA
Listed Property Sector

Attacq (JSE:ATT)

Company update

07/04/2021

Anticipated recovery in rental income

A resilient tenant profile

Following further resumed economic activity, we revise our target price upwards to R7.81 and maintain our BUY recommendation. As highlighted before, the resilience of the tenant profile coupled with a long portfolio WALE has been favourable for the group during the pandemic period. Majority of the tenants are now fully operational and further recovery is anticipated in H2-FY21. However, with the anticipated third wave, revenue growth might still be subdued if restrictions on trade are imposed. Despite the challenging trading conditions, Attacq's strategy of weighting majority of their assets in Waterfall has proven to be robust, as the group achieved 97.9% occupancy levels in Waterfall. The cost to income ratio in the Waterfall portfolio decreased to 18.2% in H1-FY21 compared to 19.4% in the previous comparable period. This was due to economies of scale coupled with cost saving initiatives.

Improved occupancy levels

The group's overall occupancy levels in the South African portfolio has shown improvement since FY20. Occupancy levels of 96.4 % were achieved in H1-FY21, with the light industrial and hotel segments reporting 100% occupancy levels. The office and mixed use segment occupancy level showed improvement after the sale of the 2 Eglin building, which was the main contributor to the high vacancy levels in the office and mixed use segment. We anticipate vacancies to drop to 4.2% in FY21e from 6.3% in H1-FY21, as a result of the sale of the 2 Eglin Road building and an improving economic environment. The positioning of the group's assets in prime locations will increase desirability as economic growth improves.

Recovery in group revenue

Assuming that there are no further restrictions on economic activity, we anticipate group revenue to grow by 3.8% to R2.27bn in FY21e and further growth of 5.5% to R2.39bn in FY22e. This is due to the increase in investment property through completed developments during the period, coupled with gradual improvement in trading conditions. While consumer spending trends have changed, we anticipate improvement in collectable billings to be driven by economic growth. Net property margins for the group are estimated at 65.1% in FY21e and 62.6% in FY22e, with a net property income of R1.49bn and R1.51bn in FY21e and FY22e, respectively.

Developments in Waterfall on track

The strategy to develop on the Waterfall bulk leasehold land is on track, as a Midi warehouse was completed during the interim period and 3 other buildings were under construction at the end of H1-FY21. Waterfall Corporate Campus building 4 as well as Nexus Waterfall Courtyard Hotel leases are expected to commence in Q3-FY21. However, the leasehold land continues to incur holding costs, which impacts the distributable income. Despite the developments contributing negatively to the distributable income, the utilization of the bulk creates future economic benefits for the group. Post interim period, 31 791 m^2 developments commenced of which 85% were pre-let.

Subdued interest cover ratio

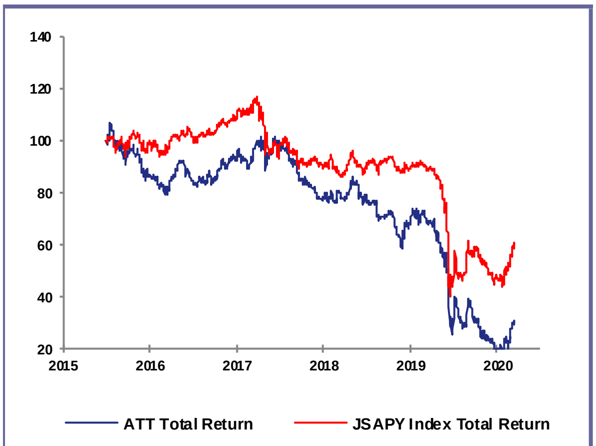
The group's available liquidity in H1-FY21 was R1.3bn with improvement expected in H2-FY21e due to the partial sale of the MAS investment. Gearing still remains above the industry average with an interest cover ratio of 1.4 times. While the group anticipates a decreased LTV after the proceeds from the MAS disposal, the interest cover ratio remains concerning, as it is below the industry average of above 2.0 times.

Valuation & Recommendation: For FY21e, we anticipate the net asset value per share to grow slightly to R16.64, mainly due to an increase in investment properties through completed developments, offset by continued negative property fair valuations. We expect distributable earnings to grow to R535.9m and R557.3m in FY21e and FY22e, respectively. The dividend pay-out ratio is anticipated to remain at 75%. Based on our valuation methodology; we derived a revised 12-month target price of R7.81 resulting in a 36.9% expected total return (dividends inclusive) with a **BUY** recommendation.

RECOMMENDATION:	BUY
12m TP ZAR	**7.81**
Upside	27.6%
Dividend Yield	9.3%
12month expected return	**36.9%**

Price (07 April 2021)	6.12
Market capitalisation (Rbn)	4.6
No. of shares (m)	704
Free Float	49%

(Rm) (Continuing operations)	FY2020	FY2021e	FY2022e
Net property income (Rm)	1423.7	1493.2	1513.0
Distributable earnings (Rm)	529.2	535.9	557.3
DPS	45.0	57.1	59.4
DY	12.0%	9.3%	9.7%
NAVPS	16.5	16.6	16.8
LTV	45.4%	41.2%	42.8%
P/BV	0.23	0.43	0.42
ROE	-27.7%	4.6%	4.7%



Shareholders:	*Debt Holders:*
Coronation Fund Managers 11.3%	*Nedbank 42.7%*
Governemt Employee Fund 10%	*Standard Bank 27.7%*
Royal Bafokeng Holdings 5.5%	*RMB 7.8%*
	ABSA 5.5%

Source:Bloomberg

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^LTV calculated as (borrowings - cash)/(inv. property+equity inv.+inv. in associate)