EQUITY RESEARCH

SOUTH AFRICA
Listed Property Sector

Equites (JSE:EQU)

Company Update

16/03/2021

Prime logistic assets remain defensive during pandemic period

Increased e-commerce sales amidst Covid-19 lockdown

Notwithstanding the proven resilient nature of the EQU portfolio, we revise our target price downwards to R19.88 with a ACCUMULATE recommendation.

Given the current challenging trading conditions in the property sector, the need for an online retail presence and supply chain efficiency has further driven the demand for logistic properties which have continued to be defensive. The growth of e-commerce sales globally has catalysed tenant and occupier demand for modern logistics assets and EQU's ability to specialise in strategic nodes in both SA and the UK has been beneficial amidst the Covid-19 pandemic. Despite rental deferrals provided to tenants, EQU's like-for-like net rentals in SA increased by 6.2% in H1FY21 from H1FY20. This is primarily due to the robust nature of the tenant profile which consists of 95% A-Grade tenants. Transportation and logistics providers, FMCG retailers and food producers remained 100% operational throughout the lockdown period.

99.7% and 100% rent collections in SA and the UK respectively

Despite the adverse effects of the Covid-19 pandemic, EQU has collected an average of 99.7% of rentals invoiced in SA for the five months ended January 2021. Remarkably, from the onset of lockdown in March 2020, EQU has managed to achieve a rental collection rate of 100% in the UK to date. As of February 2021, EQU's SA short-term deferred rentals amounted to R13m, of which R4m has been collected and its long-term deferred rentals amounted to R13m, of which R4m has been collected. In the UK, long-term deferred rentals amounted to £326,000, of which £145,000 has been collected. There are no short-term deferred rental in the UK. This further emphasises the quality of the portfolio and tenant profile as some tenants have fast-tracked the repayment of their deferred rentals, with some even settling the full amount despite being granted cash flow relief over a longer period.

Long property portfolio WALE

EQU has managed to secure long-dated leases with its tenants. The portfolio WALE has increased from 10.2 years at FY20 to 15.2 years at January 2021. This is mainly as a result of the acquisition of the Shoprite properties with a portfolio value of R3.2bn. 60% of EQU's leases expire beyond five years, indicating a healthy level of income with prospects of better performance given their historic growth and improving quality of assets. Through the recycling of capital, EQU concluded the sale of two quality logistics facilities in the UK for £43m. This was at 6% premium to book value and 24% above acquisition value which reiterates the appreciative potential of EQU's appreciative underlying assets. The rationale being the disposals was to release capital to fund the Newlands JV pipeline whilst eliminating relatively shorter lease expiries which no longer aligned with EQU's long term lease approach.

Strong balance sheet management

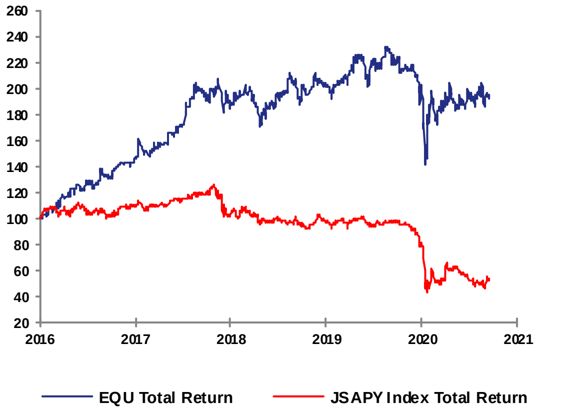
In H1FY21, EQU achieved an LTV of 29.5%, which is favourably conservative for a REIT and is much lower than its peers. Cost of debt reduced from 5.94% in FY20 to 5.44% H1FY21 due to the optimisation of the term structure of loans and borrowings. The group has negotiated new loan facilities at preferential rates and has also reduced refinancing risk. EQU has also maintained strong liquidity by having more than R1bn of undrawn available facilities, cash and short-term deposits at H1FY21. This will enables EQU to unlock further development opportunities, particularly in the UK which has been an area they have identified for expansion through the Newlands partnership.

Valuation & Recommendation: With the gradual recovery in macroeconomic activity, the improving performance of EQU's portfolio and the income-contributing development pipeline, we anticipate property revenue to grow by 5.8% to R928.8m in FY21e and further growth of 8.2% to R1,005.3m in FY22e. Management has given a DPS growth guidance of 2-4%, whilst maintaining a dividend payout ratio of 100%. We expect positive distribution growth of 3.2% in FY21e, while distributable earnings are anticipated to grow to R865.8m. Based on our valuation methodology; we derived a revised 12-month target price of R19.88 resulting in a 16.5% expected total return (dividends inclusive) with a ACCUMULATE recommendation.

RECOMMENDATION:	ACCUMULATE
12m TP ZAR	**19.88**
Upside	8.0%
Dividend Yield	8.5%
12month expected return	**16.5%**

Price (15 March 2021)	18.40
Market capitalisation (Rbn)	11.6
No. of shares (m)	554
Free Float	63%

(Rm) (Continuing operations)	FY2020	FY2021e	FY2022e
Net property income (Rm)	877.8	928.8	1005.3
Distributable earnings (Rm)	839.4	865.8	904.5
DPS	151.4	156.2	163.1
DY	8.8%	8.5%	8.9%
NAVPS	17.5	19.2	20.8
LTV	26.1%	33.9%	37.2%
P/BV	0.98	0.96	0.88
ROE	7.0%	5.3%	4.9%



Shareholders:	**Debt Holders:**
PIC 12.83%	*Aviva Commercial Finance 3178%*
Sanlam Ltd 7.10%	*Nedbank 24.36%*
Old Mutual Plc 5.95%	*HSBC Bank 12.45%*
Stanlib Asset Management	*Standard Bank 6.55%*

Source: Bloomberg

Analysts

Ntokozo Makhado
27(0)11 290 7817
NtokozoM@afrifocus.co.za

Anza Mugovhani
+27(0)11 290 7816
AnzaM@afrifocus.co.za

^LTV is calculated as (borrowings - financial assets held at fair value-cash)/(inv. Property+equity inv.+inv. In associate)