



Credit Rating Announcement

GCR Downgrades Dipula Income Fund Limited's rating to BBB_(ZA) due to the constrained funding environment; Outlook Stable.

Rating Action

Johannesburg, 1 April 2020 – GCR Ratings ("GCR") has downgraded Dipula Income Fund Limited's ("Dipula") national scale long and short term Issuer ratings to BBB_(ZA) and A3_(ZA) respectively, from BBB_(ZA) and A2_(ZA) previously. The Rating Outlook remains Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Dipula Income Fund Limited	Long Term Issuer	National	BBB _(ZA)	Stable
	Short Term Issuer	National	A3 _(ZA)	

Rating Rationale

The ratings downgrade reflects the Dipula's constrained funding position, combined with the deterioration in the outlook for the South African property sector. Notwithstanding this, the ratings are supported by a continued stability in several property performance metrics despite the weaker operating environment.

Dipula's funding remains stable albeit the key credit protection metrics are at the upper end of the band for similarly rated companies. In this regard, the gross LTV ratio registered at 39.9% at FY19, in line with the level over the past three years. Net debt to EBITDA improved to 425% (FY18: 475%), as previous acquisitions contributed for a full period. Similarly, interest cover remained stable at 3.1x.

Nevertheless, within the current environment, where property valuations are under pressure, GCR expects gearing ratios to deteriorate. Moreover, mid-cap REIT's are likely to find it increasingly difficult to reduce leverage. Equity valuations have fallen sharply in recent months, with Dipula's market value now reflecting a more than 70% discount to reported net asset value, implying significant dilution for existing shareholders in a capital raise, which would likely preclude this option. An equity raise would also be complicated by Dipula's dual share structure. Moreover, while there are a number of properties that have been earmarked for sale, the property market remains very weak and asset sales have taken longer than expected to materialise, and at lower prices.

Positively, Dipula continues to demonstrate good funding relationships with long standing bankers. Accordingly, the REIT was able to refinance around R700m in maturing facilities in 1H FY20, of which R270m was extended for four years and R300m for two years. Nevertheless, liquidity coverage is expected to be constrained below 1x due to Dipula's limited facility headroom. Covenant headroom is also low, and is expected to remain restricted over the rating horizon.

Dipula's credit risk profile is also somewhat constrained by the fairly small size of its property portfolio (R8.8bn in properties at FY19), as well as its geographic concentration to South Africa. Nevertheless, within the domestic environment, the REIT evidences a fairly diverse portfolio. Asset concentration to retail is positively considered, with Dipula mitigating sector risk with exposure to office, industrial and going forward residential assets. Coupled with internal efficiencies, this has allowed Dipula to report improving performance metrics, with the vacancy rate declining to 6% on FY19, whilst maintaining strong average escalations on new and renewed leases. However, GCR expects rental income to come under pressure, due to current disruptions due to the COVID-19 crisis and a deteriorating operating climate.

Outlook Statement

The Stable Outlook reflects GCR's expectation that earnings will continue to report relatively sound performance metrics.

Rating Triggers

Negative rating movement could arise if there is an increase in the LTV ratio, which results in further restrictions in covenant headroom. A deterioration in performance metrics could also result in GCR lowering the ratings, whether due to internal factors or if the operating environment weakens further. Positive rating action is unlikely until the operating environment improves. However, a meaningful reduction in debt and improved liquidity coverage ratio would be positively considered.

Analytical Contacts

Primary analyst Johannesburg, ZA	Eyal Shevel Shevel@GCRratings.com	Sector Head: Corporate Ratings +27 11 784 1771
Committee chair Johannesburg, ZA	Patricia Zvarayi Patricia@GCRratings.com	Deputy Sector Head: Corporate Ratings +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, May 2019
GCR Rating Scales, Symbols and Definitions, May 2019
GCR's Country Risk Score report, January 2020
GCR's SA Sector Risk Score report, March 2020
Pressure on valuations, soft equity prices signal weakening REIT financial profiles, March 2020
GCR Special Report - Corporate Performance in Infected by COVID-19, March 2020

Ratings history

Dipula Income Fund Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term Issuer	Initial	National	BBB _{ZA}	Stable Outlook	September 2014
Short Term Issuer	Initial	National	A3 _{ZA}		
Long term Issuer	Last	National	BBB+ _{ZA}	Stable Outlook	September 2019
Short Term Issuer	Last	National	A2 _{ZA}		

Risk Score Summary

Risk score	Dipula Income Fund Limited
Operating environment	14.00
Country risk score	7.50
Sector risk score	6.50
Business profile	(1.00)
Portfolio quality	(1.00)
Management and governance	0.00
Financial profile	(2.00)
Leverage and Capital Structure	(1.00)
Liquidity	(1.00)
Comparative profile	0.00
Group Support	0.00
Peer analysis	0.00
Total Risk Score	11.00

Glossary

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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	See GCR Rating Scales, Symbols and Definitions.
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.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
REIT	Real Estate Investment Trust. A company that owns, operates or finances income-producing real estate.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.

Salient Points of Accorded Ratings

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

The credit ratings have been disclosed to Dipula Income Fund Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Dipula Income 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 information received from Dipula Income Fund Limited and other reliable third parties to accord the credit ratings included:

- the 2019 audited annual financial statements (plus four years of audited comparative numbers);
- Investor presentations, SENS announcements and roadshows;
- a breakdown of debt facilities available and related counterparties at - (including related debt covenants).

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GCRRATINGS.COM](http://GCRRATINGS.COM). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GCRRATINGS.COM/RATING_INFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2019 GCR INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.