Credit Rating Announcement

GCR upgrades Dipula Income Fund Limited's ratings to BBB+$_{(ZA)}$/A2$_{(ZA)}$, on solid performance and improved financial flexibility

Rating Action

Johannesburg, 12 August 2022 – GCR Ratings ("GCR") has upgraded the national scale long term and short term issuer ratings assigned to Dipula Income Fund Limited ("Dipula" or "the REIT") to BBB+$_{(ZA)}$ and A2$_{(ZA)}$ respectively. The Outlook is 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	A2$_{(ZA)}$	

Rating Rationale

The upgrade to Dipula's ratings reflects its continued resilient performance, which has allowed it to maintain solid credit protection metrics, whilst financial flexibility has been improved through the restructuring of the dual shareholding and the easing of financial covenants.

The improvement in Dipula's portfolio quality assessment follows the solid performance of its property portfolio through the COVID-19 pandemic, which has allowed the fund to generate stable operating profits. Dipula's performance has been hampered somewhat by many of its smaller properties, particularly in the office space, where underperformance has been more acute, as evidenced by the spike in office vacancies to 17.3% at 1H FY22 (FY21: 11.6%), which contributed to an increase in the overall vacancy rate to 9.3% at 1H FY22 (FY21: 7.6%). Nevertheless, as a result of higher rental rates and continued strong escalations from the majority of its portfolio, revenue and operating profits have remained stable. Moreover, the operating margin widened to 63.5% at 1H FY22, from around 62% during the pandemic, due to tight control over property and administrative costs. Looking ahead, GCR expects operating profit to gradually increase, despite inflationary pressures, with the operating margin remaining between 62% to 65%.

Although Dipula's portfolio is considered of moderate size, with a combined value of R9.2bn, the portfolio's diversity supports a lower risk profile. The REIT owns 186 properties, of which the ten largest only account for 28.5% of the portfolio value and the largest just 4%. Accordingly, Dipula is less exposed to any single asset disruption, as evidenced by the limited impact of the July 2021 riots on overall performance.

GCR has positively considered the recent capital restructuring whereby the two share classes were collapsed into a single equity class with common rights (completed May 2022). The simplification of the structure will better align shareholder and funder incentives, and thereby should improve access to new funding, albeit the discount to NAV that the share is trading at may remain an impediment to new equity issuances.

Key credit protection metrics have been maintained at moderate levels, with the LTV ratio remaining between 37% and 40% over the review period (1H FY22: 38%). Debt to EBITDA has improved gradually from 4.8x FY18 to 4.2x at 1H FY22, whilst net interest cover improved to 3.1x at FY21 and 1H FY22. Credit protection metrics are projected to trend at current levels at year-end FY22 and FY23. The debt maturity profile remains concentrated in the short to medium term, although strong relationships with key funders have enabled the REIT to refinance maturing facilities on 3- and 4-

year terms, which will lengthen the weighted average maturity profile. In addition, the adjustment of debt covenants to market norms has provided additional funding capacity and more comfortable headroom.

Liquidity coverage is considered relatively weak at slightly above 1x over the next 12 months, largely as a result of low cash holdings and only around R100m in unutilised committed facilities. This compares to around R250m in planned capex over the next 12 month, which will be funded by asset sales. GCR has factored the strong funder support in expectations that maturing facilities will be refinanced and there will be sufficient funding to complete the modest capex requirements. Additionally, encumbrances on almost the entire property portfolio remains a constraint to the liquidity assessment.

Outlook Statement

The stable outlook reflects GCR's view that Dipula should continue to display earnings resilience and that credit protection metrics will be consistent with expectations for the rating level. To this end, the LTV ratio is expected to trend in the 35% to 40% range and interest cover to be maintained around the 3x level over the rating horizon.

Rating Triggers

Positive rating could arise if Dipula successfully diversifies its funding sources and lengthens its debt maturity, whilst securing larger unutilised facilities to mitigate refinancing risk and other liquidity pressure. Over the medium term, renewed growth and development of the property portfolio, whilst maintaining strong property performance metrics could also lead to upwards movements in the rating.

Negative rating movement could arise if there is a sustained increase in the LTV ratio above 40%, a material weakening in interest cover and/or if liquidity coverage deteriorates below 1.0x. A deterioration in performance metrics could also result in GCR lowering the ratings, whether due to internal factors or as a result of weakening in the operating environment.

Analytical Contacts

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

Related Criteria and Research

Criteria for the GCR Ratings Framework, Jan 2022
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, Jan 2022
GCR Rating Scales, Symbols and Definitions, May 2022
GCR's Country Risk Score report, published July 2022
GCR's SA Sector Risk Score report, published March 2022

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)	Stable Outlook	September 2014
Long Term Issuer	Last	National	BBB(ZA)	Stable Outlook	July 2021
Short Term Issuer	Last	National	A3(ZA)	Stable Outlook	July 2021

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**13.00**
Country risk score	7.00
Sector risk score	6.00
Business profile	**(0.50)**
Portfolio quality	(0.50)
Management and governance	0.00
Financial profile	**(1.50)**
Leverage and Capital Structure	(0.75)
Liquidity	(0.75)
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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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.

Subsequent to an appeal, the rating was revised as reflected in the announcement.

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 2021 audited annual financial statements (plus four years of audited comparative numbers);
- the interim results at 28 February 2022;
- investor presentations, SENS announcements and roadshows;
- breakdown of debt facilities available and related counterparties.