SOUTH AFRICA
Listed Property Sector

Resilient (JSE:RES)

Company update

30/08/2023

Defensive SA portfolio continues to perform well

Listed investments weighing down distribution growth

We reiterate a BUY recommendation with a target price to R45.92. Due to a constraint consumer environment as a result of the rising interest rates, coupled with a lower than anticipated income from the listed investments, distribution growth for FY23 is expected to be negative. We anticipate DPS to decrease to R3.96 in FY23e. A strong recovery in footfall is anticipated in the SA retail portfolio in H2FY23, mainly driven by the upcoming festive season. The performance of the French portfolio is still lagging, however post refurbishments, space repurposing and active leasing, NOI is expected to improve. The French portfolio vacancy rate was reported at 9.0% in H1FY23, and it is expected to decrease to 6.1% by December 2023. Long term benefits in the French portfolio together with a sustainable income is anticipated post reletting. The Group has reduced its stake in HMN in order to fund capex commitments. HMN has made progress in repositioning the portfolio for growth and has resumed a cash dividend, which will contribute to the Group's distributable income in H2FY23.

Defensive SA retail portfolio bodes well for the Group

Despite the challenging retail environment in South Africa, the portfolio continues to contribute positively to the revenue growth. The Group achieved a sales growth of 3.6% in H1FY23, which is lower than the current CPI rate. This suggests that the consumer continues to be financially distress. Net property income growth was reported at 5.8% in H1FY23 with an average reversionary rate of 9.6%. Revenue for FY23 is anticipated to grow by 2.5%, largely driven by the low vacancy rate coupled with positive leasing activity. Vacancy is anticipated to increase slightly to 2.1%, due to 20.1% of the GLA which is due for expiry in FY23. RES continues to benefit from a long average lease term of 5 years as well as a resilient tenant profile. The ongoing developments and shopping centre extensions particularly in Mahikeng and Klerksdrop indicate the high demand for space particular by the anchor tenants. We anticipate this growth in GLA to positively contribute to the increase in rental income. Net property income is anticipated to decrease by 2.5% and increase by 6.1% in FY23 and FY24 respectively. With more stabilised financing conditions, we anticipate the Group's SA portfolio to continue attracting consumers with its resilient tenant mix. The Nigerian portfolio is faced with a challenging operating environment especially due to current political conditions in Nigeria , however it only contributes 5.6% to the overall rental revenue, resulting in a minimal impact.

Aggressive Solar rollouts to reduce reliance on Eskom

The accelerated increase in the cost of electricity, coupled with the load shedding crisis has been putting pressure on the operating expenses. The Group has invested R564m in energy projects with the goal of producing 50% of the Group's consumption by 2027. In H1FY23, Resilient produced 20.4% of their electricity consumption through solar installations and is scheduled to increase to 27.7% by December 2023. Although these solar projects require a large amount of capex, the long-term benefits will bode well for the group's reduction in operating expenses. The Group currently has R2.3bn undrawn facilities, which could be used to fund the rollout of these solar projects, however, to maintain low levels of debt, capital recycling is important.

Healthy balance sheet with well hedged debt profile

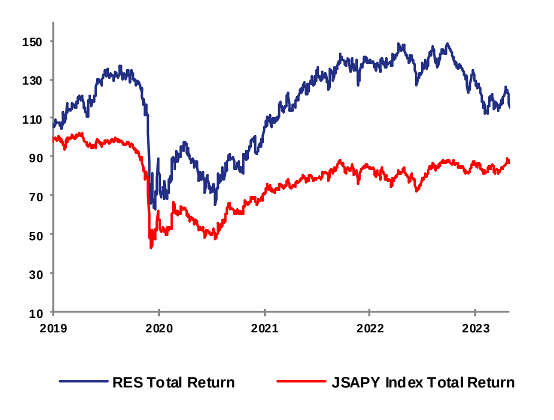
RES remains focused on ensuring that their LTV remains under 35% by recycling capital to fund capex commitments. After taking into account the sale of the Hammerson stake to date, LTV is anticipated to be 33.8% in FY23e. The Group has c.R3.5bn debt maturing in FY24, which creates refinancing risk for the Group considering the current interest rate levels. The company's debt is adequately hedged, with 91.3% of the debt hedged with interest rate caps and swaps at a 3.4 year hedge maturity, which is in line with its peers. Property valuation increased by 2.1% in H1FY23, which indicates sustainable rental revenue growth. However, the Nigerian portfolio experienced property devaluations of $12.9m, while valuations in the French portfolio remained relatively flat. We anticipate slight improvement in valuations in the SA portfolio for FY23.

Valuation & Recommendation: For FY23e, we anticipate the net asset value per share to decrease slightly to R57.98, mainly due to the sale of the investment in Hammerson. The dividend pay-out ratio is expected to be 100% for FY23. **We derived a revised 12-month target price of R45.92 resulting in a 24.9% expected total return (dividends inclusive) with a BUY recommendation.**

RECOMMENDATION:	**Buy**
12m TP ZAR	**45.92**
Upside	15.0%
Dividend Yield	9.9%
12-month expected return	**24.9%**
4 -Year expected IRR	18.5%

Price (30 August 2023)	39.94
Market capitalisation (Rbn)	14.5
No. of shares (m)	350
Free Float	81%

(Rm) (Continuing operations)	**FY2022**	**FY2023e**	**FY2024e**
Net property income (Rm)	2167.7	2221.9	2357.5
Distributable earnings (Rm)	1497.8	1469.2	1575.8
DPS	404.0	396.3	425.1
DY	10.1%	9.9%	10.6%
NAVPS	58.3	58.0	58.5
LTV	28.6%	33.8%	34.3%
P/BV	0.92	0.79	0.78
ROE	7.7%	7.5%	7.9%



Shareholders:	**Debt Facilities:**
Governemt Employee Fund 12.46%	RMB 28.4%
Resilient Properties Limited 8.13%	DMTN 25.2%
Delsa Investments 7.40%	Standard Bank 23.4%
	Nedbank 14.0%
	LibFin 9.0%

Source: Company filings

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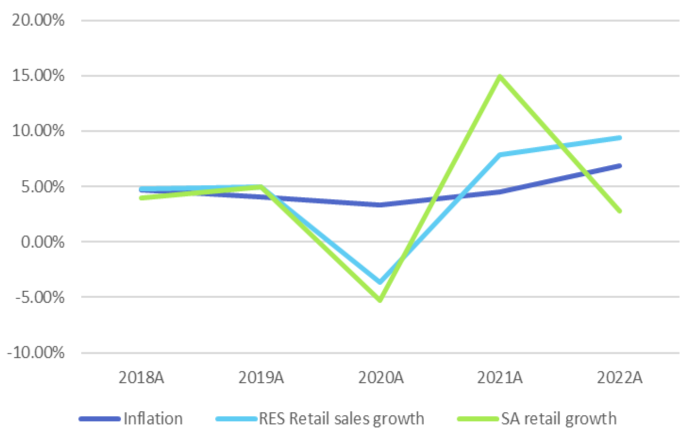
^LTV calculated as (borrowings - cash)/(inv. property + equity inv. + inv. in associate)

Executive Summary

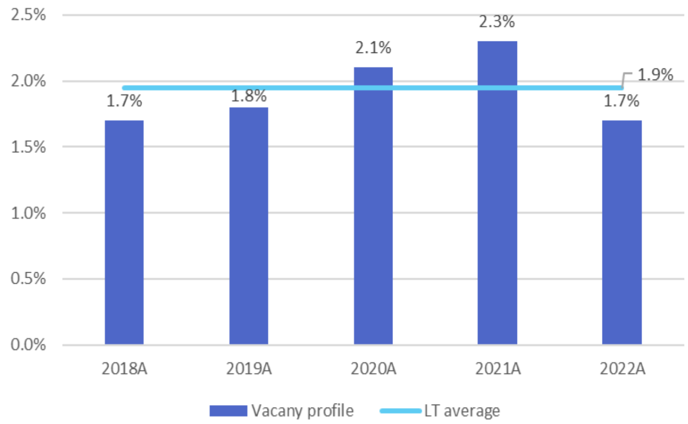
	Salient information
Resilient (RES)	**We reiterate a BUY recommendation on Resilient.** The Group's portfolio has been stable and resilient through the challenging operating environment. Despite the new consumer trends that are emerging, Resilient's tenants have geared up for the changes in consumer preference. Large multinational retailers have adapted their businesses to cater for both online and physical shopping experiences. As a result, multiple stores in the SA portfolio have downside their space. The low vacancy of 1.9% in H1FY23 is an indication of active leasing activity. The Group also benefits from having majority of their tenants being large national tenants and franchises, which are more resilient in the tough operating environment. **Resilient Investment Case** • The retail tenant profile exhibits strength and consistent robust rental growth within the South African portfolio. Nonetheless, retail tenants are faced with a challenging operating environment as the consumer's purchasing power decreases. • RES achieved appreciation in property values in H1FY23, which indicative of a portfolio that is well positioned with sustainable rental growth. • The Group's exposure to global markets through investments in listed securities bodes well for its long-term growth prospects. • The low LTV ratio gives the group enough headroom to invest in yield producing energy projects. **Key risks** • Despite RES's assets being well positioned geographically, the Group's strategy to invest only in retail assets creates asset concentration risk for the Group, especially during unprecedented periods. • Uncertainties loom regarding the French portfolio, as the performance has been lagging as a result of tenant failures. The full impact on the tenant failure for FY23 was €0.5million. • Reduced dividend expectations from the LTE investment poses a risk to the Group's final distribution. **Valuation & Recommendation**: For FY23e, we anticipate the net asset value per share to decrease slightly to R57.98. **Our preferred Discounted Cash Flow valuation yields a 12-month Target Price of R45.92(total return of 24.9% when including the dividend yield of 9.9%).**

Figure 1: RES retail sales growth outperforming



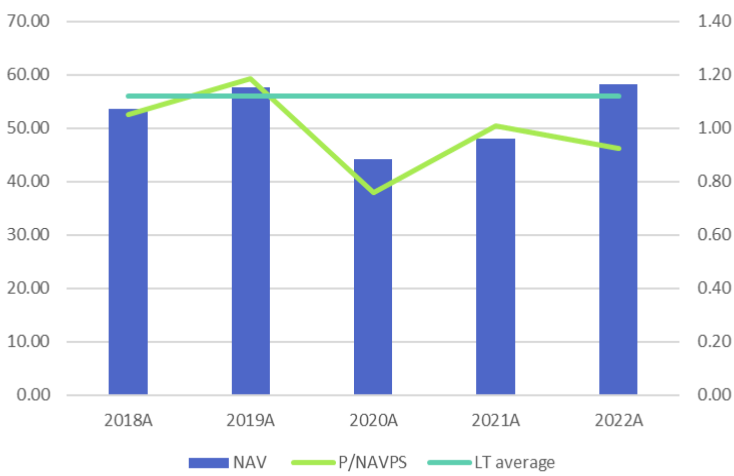
Source: Company filings

Figure 2: Low retail vacancy portfolio



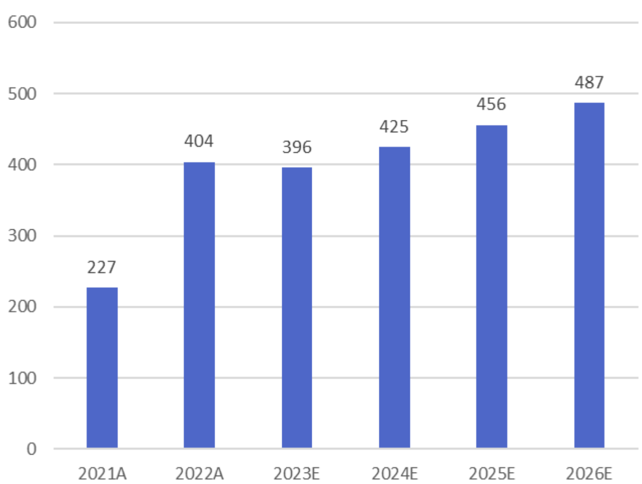
Source: Company filings

Figure 3: P/NAVPS Trading below LT average



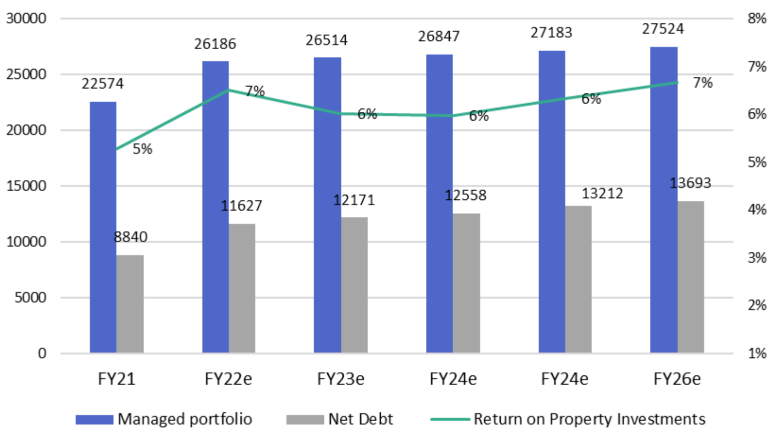
Source: Company filings

Figure 4:Forecasted DPS



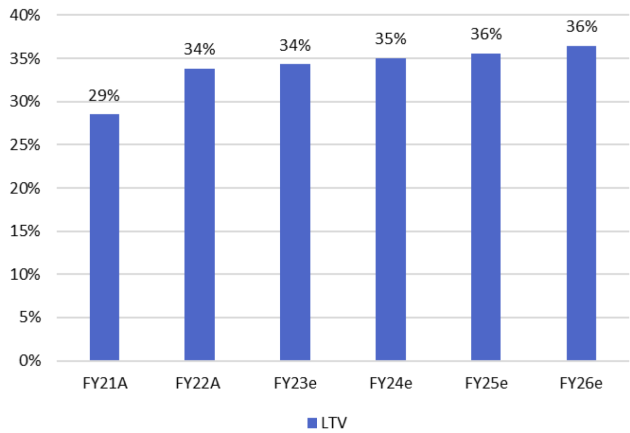
Source: Company filings

Figure 5: Stable debt levels



Source: Company filings

Figure 6: LTV forecasts



Source: Company filings

Valuation

Discounted Cash Flow Method – Preferred Valuation

We derive a fair value of R43.67. Compounding this by the cost of equity of 14.22% less the DPS NTM returns a 12-month **Target Price of R45.92,** implying a **24.9% total return** (15% Capital gain and 9.9% Dividend yield) on the current price of R39.94, reiterating our **Buy** recommendation.

Figure 7: DCF Fair value approach

DCF- Company	FY23e	FY24e	FY25e	FY26e	FY27e
EBIT	**2 175**	**2 303**	**2 436**	**2 576**	**2 725**
Tax Rate	0.07%	0.069%	0%	0%	0%
Minus: Tax on EBIT	**2 173.5**	**2 301.5**	**2 434.4**	**2 574.4**	**2 722.8**
Working capital changes	24.8	27.0	28.0	29.5	31.3
Depreciation & amortisation	-	-	-	-	-
Minus: Capital Expenditure	(376)	(405)	(450)	(520)	(630)
Free Cash Flow to Firm	**1822.2**	**1923.1**	**2012.2**	**2084.0**	**2124.2**
Period	0.33	1.33	2.33	3.33	4.33
Discounting factor	0.97	0.87	0.78	0.70	0.63
Present Value of Cash Flows	**1 759.6**	**1 672.0**	**1 575.2**	**1 468.9**	**1 348.1**

	Terminal Value
	31277.90
Sum of PVFCF	7824
Present value of terminal value	19 850
Enterprise value	**27674**
Add: Cash	309
Less: Debt	12789
Less: Minorities	-100
Equity value	**15 294**
WANOS	350.2
Fair value (ZAR)	**43.67**
Cost of equity	14.2%
Dividends payable per share (ZAR)	3.96
Target price per share (ZAR)	**45.92**
Current price (ZAR)	39.94
Gain	15.0%
Dividend yield	9.9%
Total Returns	**24.9%**
	Buy

Dividend Discount Model – Complementary Valuation

We used a DDM Valuation with a 5yr forecast for the dividends. Based on this analysis, we derive a fair value of R45.11.
The DDM is primarily sensitive to the following variables:

- **Distributable earnings** – based on our full income statement forecasts and incorporating expected contribution from contracted developments as illustrated in Figure 8.
- **Discount rate** – based on RFR; Beta & ERP applied, we have discounted to present value at a cost of equity of 14.22%.
    - **Fair value risk free rate** – based on the ZA 10-Year Government Bond yield of 10%.
    - **Beta** – a Beta of 0.9 has been applied which indicates the stock has a slightly lower investment risk in relation to the SA property market index.
    - **Equity risk premium** –we have applied an equity risk premium of 4.8%.
- **Terminal growth rate** – a terminal growth rate of 4% has been applied which is in line with the SA inflationary forecasts.

Figure 8: Dividend Forecast & Continuing Value

Dividend Discount Model	FY22	FY23e	FY24e	FY25e	FY26e	FY27e	Continuing value
DPS	**404.0**	**396.3**	**425.1**	**455.8**	**486.5**	**516.3**	**537.0**
DPS GROWTH		*-1.9%*	*7.3%*	*7.2%*	*6.7%*	*6.1%*	*4.0%*
Rolled distribution forecast							
Time (years)		0.33	1.33	2.33	3.33	4.33	
Discount factor		*0.96*	*0.84*	*0.73*	*0.64*	*0.56*	*0.56*
Discounted DPS		**379.11**	**356.00**	**334.19**	**312.33**	**290.21**	**2 839.58**

DDM Valuation	
Current date	
31-Aug-23	
Year end	
30-Jun-21	
Per share value	
Present value - Explicit forecast	1 672
Present value - Continuing value	2 840
Fair value	**45.11**
Spot price	39.94
Upside/Downside on Fair Value	13.0%
Cost of Equity	14.2%
12 month Target Price	**47.57**
Upside/Downside on 12m TP	19.1%
Dividend yield	9.9%
Total Returns	29.0%
Recommendation	**Buy**

By taking into account the cost of equity and dividend yield, we derived a **12-month Target Price of R47.57**, implying **19.1% upside** on the current price of R39.94 and total return of 29.0%.

Figure 9: 4-year IRR

	Year 0	Year 1	Year 2	Year 3	Year 4
Cashflow	-3994.0	396.3	425.1	455.8	5246.8
DPS		396.3	425.1	455.8	486.5
IRR		**14.8%**	**14.8%**	**14.8%**	**14.8%**
IRR Target	3994.0	4187.4	4380.7	4571.8	4760.3
NPV Target	4061.3	4242.5	4420.7	4593.6	4760.3
Return		**16.1%**	**14.2%**	**14.2%**	**14.2%**

Resilient - Financial Summary

Income Statement & Calculation of distributable earnings	2019	2020	2021	2022	2023e	2024e	2025e
Recoveries and contractual rental revenue	**2 841**	**2 690**	**2 998**	**3 288**	**3 483**	**3 696**	**3 916**
Straight lining of leases adjustment	61	173	-115	111	-	-	-
Gross property revenue	**2 902**	**2 863**	**2 883**	**3 398**	**3 483**	**3 696**	**3 916**
Property operating and management costs	-1 020	-1 026	-1 072	-1 230	-1 261	-1 338	-1 418
Net property income	**1 883**	**1 837**	**1 811**	**2 168**	**2 222**	**2 357**	**2 498**
Revenue from investments	**904**	**731**	**125**	**105**	**106**	**108**	**110**
Administarion expenses	-141	-120	-121	-145	-153	-163	-172
Foreign exchange losses	-42	0	-0	142	-	-	-
Income from associates and joint venture	53	-239	-2 201	281	-	-	-
Operating expense and other income	2 492	-59	-3	-16	-	-	-
Operating profit	**5 147**	**2 149**	**-389**	**3 310**	**2 175**	**2 303**	**2 436**
Fair value adjustments	793	-5 072	1 465	1 285	-	-	-
EBIT before financing activities	**5 940**	**-2 923**	**1 076**	**4 595**	**2 175**	**2 303**	**2 436**
Net finance charges	-1 254	-717	-528	-681	-706	-727	-746
Profit before Tax	**4 686**	**-3 640**	**548**	**3 914**	**1 469**	**1 576**	**1 690**
Taxation	-104	52	-62	3	-1	-1	-1
Profit for the period	**4 582**	**-3 588**	**486**	**3 916**	**1 468**	**1 575**	**1 688**
Profit from discontinued operations	**-**	**-202**	**-144**	**-**	**-**	**-**	**-**
Translation of foreign operations	138	3	279	-196	-	-	-
Total comprehensive income for the year	**4 716**	**-3 787**	**620**	**3 720**	**1 468**	**1 575**	**1 688**
Profit for the year attributable to Resilient shareholders	**4 590**	**-3 678**	**357**	**3 789**	**1 341**	**1 448**	**1 562**
Fair value gain on investment property	-372	1130	-509	-1037	0	0	0
Fair value gain on investments	-144	3142	-628	11	0	0	0
Fair value loss on currency derivatives	-443	802	-225	27	0	0	0
Foreign exchange losses/(gains	42	-112	0	-142	-	-	-
Income from associates and joint venture	-53	239	2 201	63	-	-	-
Forward contract: Edcon Limitted shares	-	37	-16	-	-	-	-
Fair value adjustment on interest rate derivatives	106	76	28	-283	-	-	-
Income tax	104	-52	62	-3	1	1	1
Minority interest	-35	-16	15	88	-	-	-
Antecedent dividend	-12	-1	-	-38	-	-	-
Dividends accrued	114	-353	-	-95	-	-	-
Available for distribution	**1 731**	**1 381**	**1 260**	**1 498**	**1 469**	**1 576**	**1 690**
Weighted average shares outstanding	368	362	363	352	350	350	350
DPS	**531**	**368**	**227**	**404**	**396**	**425**	**456**
% growth	*-*	*-31%*	*-38%*	*78.3%*	*-2%*	*7%*	*7%*

Balance Sheet	2019	2020	2021e	2022	2023e	2024e	2025e
Cash & Cash equiv.	659	63	48	116	309	318	550
Other current assets	351	215	242	221	230	240	249
Current assets	**1 009**	**278**	**290**	**338**	**540**	**557**	**799**
Property investments & PPE	24 231	23 441	22 574	26 186	26 514	26 847	27 183
Other non-current assets	11 886	8 707	5 958	6 713	6 760	6 833	6 947
Non-current assets	**36 117**	**32 148**	**28 533**	**32 899**	**33 275**	**33 680**	**34 130**
Assets held for sale			**1 519**				
Total Assets	**37 127**	**32 426**	**30 341**	**33 236**	**33 814**	**34 238**	**34 930**
ST borrowings	2 631	2 477	1 128	2 033	618	1 439	1 857
Other ST liabilities	561	599	1 035	1 775	1 809	1 845	1 883
Current liabilities	**3 192**	**3 076**	**2 163**	**3 808**	**2 427**	**3 284**	**3 740**
LT borrowings	7 564	8 774	7 712	9 593	11 553	11 119	11 355
Other LT liabilities	1 221	1 303	172	93	93	93	93
Non-current liabilities	**8 784**	**10 077**	**7 884**	**9 686**	**11 645**	**11 212**	**11 448**
			1 273				
Total liabilities	**11 976**	**13 153**	**11 320**	**13 495**	**14 072**	**14 496**	**15 188**
Shareholders equity	25 151	19 273	19 022	19 742	19 742	19 742	19 742
Non-controlling interests	-	-	-	-	-	-	-
Total Liabilities & Equity	**37 127**	**32 426**	**30 341**	**33 236**	**33 814**	**34 238**	**34 930**

Cash Flow Statement	2019	2020	2021	2022	2023e	2024e	2025e
Cash flow from operating activities	**-669**	**-560**	**251**	**-150**	**25**	**27**	**28**
Cash flow from investing activities	**3 162**	**-752**	**1 455**	**78**	**-376**	**-405**	**-450**
Cash flow from financing activities	**-2 344**	**715**	**-1 523**	**46**	**544**	**387**	**654**
Net change in cash	**149**	**-596**	**183**	**-26**	**193**	**8**	**232**

Valuation Ratios	2019	2020	2021	2022e	2023e	2024e	2025e
NAVPS (R)*	57.56	44.24	48.06	58.26	57.99	58.53	58.42
P/NAVPS	1.19	0.76	1.01	0.92	0.79	0.78	0.79
Dividend Yield	7.8%	11.0%	4.7%	10.1%	9.9%	10.6%	11.4%
Return on Property investments	7.8%	5.9%	5.3%	6.5%	6.0%	6.0%	6.3%
Return on Equity	6.7%	5.8%	5.6%	7.7%	7.5%	7.9%	8.5%

Financial Ratios	2019	2020	2021	2022	2023e	2024e	2025e
Profitability							
Net property income Margin	61.3%	63.8%	56.4%	64.7%	59.4%	59.4%	59.4%
Net distributable earnings Margin	59.7%	48.3%	43.7%	44.1%	42.2%	42.6%	43.1%
Activity							
Total Asset Turnover	0.05	0.05	0.06	0.07	0.07	0.07	0.07
Fixed Asset Turnover	0.05	0.05	0.06	0.07	0.07	0.07	0.07
Financial Leverage							
Loan to value^	0.38	0.25	0.34	0.29	0.338	0.34	0.35
Long-term Debt to Assets	0.20	0.27	0.25	0.29	0.34	0.32	0.33
Long-term Debt to Equity	0.30	0.46	0.41	0.49	0.59	0.56	0.58
Net Debt to EBIT	3.60	4.57	4.84	5.16	5.45	5.31	5.20
Net Debt to Equity	0.38	0.58	0.46	0.58	0.60	0.62	0.64
EBIT to Interest expense	1.97	3.28	3.36	3.04	2.98	3.06	3.08

^LTV is calculated as (borrowings - cash)/(inv. Property + equity inv. + inv. In associate)

**IFRS acccounting NAVPS*

Recommendation system

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The Afrifocus Securities spectrum of recommendations comprises five categories: Buy, Accumulate, Hold, Reduce and Sell. In specific cases, and for limited periods of time, analysts may have to rate the stocks as Recommendation suspended (RS) or Not rated (NR), as explained below.

Meaning of each recommendation:

Buy: the stock is expected to generate a total return of over 20% during the subsequent twelve months.

Accumulate: the stock is expected to generate a total return of 10% to 20% during the subsequent twelve months.

Hold: the stock is expected to generate a total return of 0% to 10% during the subsequent twelve months.

Reduce: the stock is expected to generate a total return of 0 to -10% during the subsequent twelve months.

Sell: the stock is expected to generate a total return below -10% during the subsequent twelve months.

Suspended: the rating is suspended due to a capital operation (takeover bid, SPO, etc.) where Afrifocus Securities or a related party of Afrifocus Securities is or could be involved or to a change of analyst covering the stock.

Not rated: there is no rating for a company being floated (IPO) by the issuer or a related party of the issuer.

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