CREDIT RATING ANNOUNCEMENT

GCR assigns Attacq Limited with initial Issuer rating of A+$_{(ZA)}$; Outlook Stable

Rating action

Johannesburg, 20 August 2024 – GCR Ratings (GCR) has assigned Attacq Limited (Attacq or the REIT) national scale Issuer ratings of A+$_{(ZA)}$ and A1$_{(ZA)}$ for the long and short term respectively. The Outlook is stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Attacq Limited	Long Term Issuer	National	A+$_{(ZA)}$	Stable Outlook
	Short Term Issuer	National	A1$_{(ZA)}$	

Rating rationale

Attacq's ratings factor in its large high-quality South African portfolio of modern and efficient buildings, with its long-term development pipeline expected to continue to progressively enhance the quality of its portfolio and cash flows. The ratings also reflect expectations that the REIT will maintain very conservative leverage and strong liquidity as the ongoing rollout of developments is well controlled. These strengths are tempered by geographic, asset and funding concentrations.

The REIT's portfolio quality is considered a positive ratings factor, underpinned by its large South African property portfolio of c.ZAR20 billion (USD1.1 billion) including the recent acquisition of the remaining 20% stake in the marquee retail asset, Mall of Africa. The portfolio exhibits a good mix across asset classes, including retail, office, logistics, hotels and data centers, although we note the limited geographic diversification of the portfolio and high reliance on the economic prospects of Waterfall City (a well-located mixed-use densification district in Gauteng). Mall of Africa represents just over 20% of the total completed portfolio value, while the Waterfall node represents c.65%. However, we believe having exclusive development rights to control the supply, spatial planning, and to maintain the attractiveness of an entire precinct in a large metropolitan city aid in mitigating the risk of a concentrated portfolio to an extent. Further, Attacq's significant but controlled development programme in Waterfall City underpins its long-term organic growth prospects over the next 10-15 years given the advantage of its extensive land bank. The REIT's commitment to new developments over 12-18 months totals around 3% of its portfolio assets, which is low compared with that of peers. Underpinning the development planning of Waterfall City is a focus on ensuring high environmental standards, with resource consumption driven outputs being of priority.

Strong demand has underpinned the REIT's sound occupancy rates of 93.8% as reported for the six months ending December 2023 (1H 2024), a medium term weighted average lease profile (4.4 years), and high proportion of quality tenants. Whilst retail and logistics vacancies are low, office vacancies are relatively high (12.7%), although better than market averages, but should continue to reduce due to active asset management. Depending on the recovery in the office market, we believe that Attacq will limit its office developments and primarily invest in the higher demand logistics segment to drive rental growth over the short to medium term. Most projects are expected to be on a pre-let basis, which reduces the risk. Thus, we project high single digit growth in net property income over the next two financial years as new builds are completed and occupied, healthy weighted average lease escalations of 6.8% and additional cash flows from the Mall of Africa acquisition.

Attacq's credit metrics have shown significant improvement following the Government Employees Pension Fund (GEPF) transaction. The ZAR2.7 billion in proceeds from the effective sale of 30% of Attacq Waterfall Investment Company to GEPF were utilised to pay down debt, which reduced to ZAR5.9 billion in December 2023 from ZAR8.4 billion at June 2023. Accordingly, the REIT's LTV lowered to 25.6% from 37.6%. This also helped to moderate the net debt/operating income ratio to 4.3x from of 6.5x, with improvement in the net interest coverage to around 2.3x expected for the full year to June 2024 (1H 2024: 1.9x) and to 2.5x-2.7x thereafter as the full effects of the much lower debt and higher income levels filter through. The recent divestment of the REIT's shareholding in listed MAS P.L.C. also provided most of the funding for the acquisition of the remaining 20% interest in Mall of Africa. In view of the concentrated portfolio strategy, we expect the leverage profile to remain more conservative than similarly rated peers, with the LTV projected to trend closer to 30% in financial 2025 and 2026 as the REIT progresses with its development rollout.

In conjunction with the GEPF transaction, Attacq refinanced a significant ZAR4.1 billion, terming out the debt maturity profile to 3.8 years. As such, the next debt maturities are only due in financial 2026, although we do note a significant ZAR2.5 billion concentration in financial 2027 (44% of total outstanding) that is expected to be refinanced well ahead of time. Whilst Attacq displays strong funding relationships with various financial institutions, we note some funding concentration partly as the REIT's access to public unsecured debt is yet to be established.

We view Attacq's liquidity as strong, based on its ratio of liquidity sources to uses of 1.8x over the next 12 months to June 2025. This is based on the absence of large debt maturities for the next two years, moderate projected development spend, and cash and committed credit lines of around ZAR1.4 billion. We also expect Attacq to maintain ample headroom relative to covenants. As with most South African REIT peers, the high asset encumbrances (c.80%) is viewed to somewhat limit financial flexibility.

Outlook statement

The stable outlook reflects GCR's expectation that the REIT will continue delivering a strong operational performance as occupancies improve and newly developed buildings are tenanted. We also expect that Attacq will maintain strong credit ratios over the rating horizon, which have enough headroom to absorb funding needs for the development rollout. In this regard, we expect LTV to be around 30% in the next 12-18 months, and interest coverage at around 2.6x.

Rating triggers

We could raise the rating if Attacq continues to meaningfully increase its scale, asset diversity and delivers robust cash flow growth, supported by high occupancies of existing assets and new builds over the medium to long term. Additionally, maintenance of very strong key credit ratios; liquidity coverage above 1.5x on a consistent basis, enhanced unencumbered portfolio, smoother debt maturity profile and demonstration of frequent unsecured debt capital access, would also be necessary for an upgrade.

The ratings could be downgraded if 1) operating results or asset quality weakens; and/or 2) liquidity coverage sustains below 1.5x; and/or 3) the LTV trends towards/above 35% and/or fixed charge coverage below 2.3x without maintaining diversified funding sources.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
GCR Rating Scales Symbols and Definitions, May 2023
Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, May 2024
GCR Country Risk Score report, July 2024
GCR SA Corporate Sector Risk Score report, March 2024

Ratings history

Attacq Limited					
Rating class	Review	Rating scale	Rating	Outlook	Date
N/A	Initial/last	National National	N/A	N/A	N/A

Risk score summary

Rating Components & Factors	Score
Operating environment	**13.00**
Country risk score	7.00
Sector risk score	6.00
Business profile	**1.00**
Portfolio quality	1.00
Sustainability	0.00
Financial profile	**0.00**
Leverage & capital structure	0.25
Liquidity	(0.25)
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Risk Score	**14.00**

Glossary

Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
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 because of holding the security or asset. For a company, its exposure may relate to a 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
Downgrade	See GCR Rating Scales, Symbols and Definitions.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	In corporate analysis, leverage (or gearing) typically 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.
Loan to value	The principal balance of a loan divided by the value of the property and other investments that it funds.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Outlook period	See GCR Rating Scales, Symbols and Definitions.
Portfolio	A collection of investments held by an individual or institutional investor. These may include (*inter alia*) private/listed stocks, debt securities, 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.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Upgrade	See GCR Rating Scales, Symbols and Definitions.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings process was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) the ratings process was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Exchange Rate Source: https://www.bloomberg.com/markets/currencies 1USD=18.04ZAR (15 August 2024)
- The audited annual financial statements to 30 June 2023 (plus four years of audited comparative numbers)
- The 2023 integrated report

- Unaudited interim results to 31 December 2023
- Pre-close update June 2024
- A breakdown of utilised and available debt facilities at December 2023 and June 2024
- New facility term sheets and approvals
- Analyst Presentations, SENS announcements
- Cash flow and debt forecasts
- Property portfolio breakdown and statistics

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.