Moody's
INVESTORS SERVICE

Credit Opinion: Growthpoint Properties Limited

Global Credit Research - 16 Mar 2016

Johannesburg, South Africa

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Issuer Rating -Dom Curr	*Baa2
Senior Unsecured -Dom Curr	*Baa2
Other Short Term -Dom Curr	*P-2
NSR Senior Unsecured MTN	*A1.za
NSR LT Issuer Rating	*A1.za
NSR ST Issuer Rating	*P-1.za
NSR Other Short Term	*P-1.za

* Placed under review for possible downgrade on March 11, 2016

Contacts

Analyst	Phone
Dion Bate/Johannesburg	27.11.217.5470
Douglas Rowlings/DIFC - Dubai	971.42.37.9536
David G. Staples/DIFC - Dubai	

Key Indicators

[1]**Growthpoint Properties Limited**

	12/31/2015(L)	6/30/2015	6/30/2014	6/30/2013	6/30/2012
FFO Payout	93.6%	124.5%	90.5%	105.1%	81.0%
Amount of Unencumbered Assets	30.8%	38.0%	42.7%	38.1%	34.9%
Debt / Gross Assets [2]	31.5%	32.0%	30.4%	30.9%	35.8%
Net Debt / EBITDA	4.5x	4.7x	4.5x	3.5x	4.6x
Secured Debt / Gross Assets	25.0%	24.6%	24.6%	25.0%	27.2%
Gross Assets (ZAR Million)	116 702	106 684	83 573	64 431	56 056
Development Pipeline	4.4%	4.8%	4.4%	3.0%	4.8%
EBITDA Margin (YTD)	81.3%	86.6%	79.5%	83.2%	78.9%
EBITDA Margin Volatility	2.8%	4.7%	3.0%	3.1%	2.8%
EBITDA / Fixed Charges (YTD) [3]	3.1x	3.2x	3.0x	2.8x	2.5x
Joint Venture Exposure (YTD)	0.0%	0.0%	0.0%	0.0%	0.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] Debt includes a portion of hybrid securities considered to have debt like features as explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010 [3] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Sizeable portfolio diversified across South Africa and Australia

- Stable cash flows supported by low vacancy rates and stable operating margins

- Challenging operating environment in South Africa likely to drive vacancies higher and/or below inflationary rent renewal increases

- High credit rating of Baa2 but sizable exposure to South Africa creates rating linkage to the Government of South Africa's credit profile (Baa2 rating under review for downgrade)

Corporate Profile

Growthpoint Properties Limited ("Growthpoint" or the "Company"), was established in 1987 and is the largest primary listed Real Estate Investment Trust (REIT) by gross assets (ZAR116 billion or US$7.5 billion) and by market capitalisation (ZAR63.5 billion or US$4.1 billion) in South Africa. Its activities focus on a portfolio of 473 retail, office and industrial properties that are geographically diversified across South Africa (Baa2 rating under review for downgrade). Growthpoint also holds a 65% controlling stake in Growthpoint Properties Australia Ltd (Growthpoint Australia) (Baa2 stable - senior secured), which currently owns 57 properties valued at AUS$2.6 billion (ZAR29.4 billion or US$1.9 billion) and a 50% of the V&A Waterfront in Cape Town valued at ZAR7.0 billion (US$0.45 billion).

Growthpoint reported total consolidated property assets valued at ZAR110.0 billion (US$ 7.1 billion), producing revenues and EBITDA of ZAR9.4 billion (US$0.74 billion) and ZAR7.9 billion (US$0.62 billion), respectively and as adjusted by Moody's. All data points are as of 31 December 2015 unless expressly stated otherwise and as per Moody's standard adjustments.

Rating Rationale

The Baa2/A1.za ratings are supported by Growthpoint's strong market position as the largest primary listed REIT company in South Africa. The ratings are also based on the property portfolio's size and quality that benefits from an active internal management team and produces solid, recurring rental income underpinned by (1) medium- to long-term leases; (2) contractual annual rent escalation clauses above inflation; (3) low vacancy rates; and (4) diversification by tenant base and property sector. The portfolio is geographically concentrated in the province of Gauteng, South Africa, but substantial investments over the past three years in Australia (Aaa stable) and in Cape Town, South Africa, have broadened its geographical base. The ratings also factor Moody's expectation that Growthpoint's development activity will increase as tenant demand in South Africa improves but that the company will continue to limit development risk to only a moderate exposure and that its projects will be predominantly pre-let.

A constraining factor on the ratings is the proportion of debt that is secured equivalent to 25% of gross assets as well as the low level of unencumbered assets to gross assets of 31%. A further constraint is the sizable approaching debt maturities over the next three years, notably in 2016 when most of the Acucap and Sycom debt matures. However, we note that Growthpoint is in the process of refinancing these facilities and we gain comfort that Growthpoint has in the past been successful in addressing approaching debt maturities around 12 months before the maturity date.

DETAILED RATING CONSIDERATIONS

SIZEABLE PROPERTY PORTFOLIO RELATIVE TO LOCAL PEERS

Growthpoint's Baa2 rating is underpinned by the size and quality of its investment property portfolio. The buildings are of modern specification and are closely managed by the Company's internal management team. Its multi-sector investment strategy provides diversification across a broader spectrum of the modestly-sized South African economy.

Including the fully consolidated Australian properties, Growthpoint's portfolio was split by value as follows: 46% Office, 30% Retail, 24% Industrial and 1% Other. Management's long term goal is a sector mix of Office 40%, Retail 40%, and Industrial 20%. Barring any opportunistic property acquisitions we believe management will enter a phase of internal consolidation focusing on driving cost efficiencies throughout the portfolio and integrating the acquisitions of Abseq Properties (Pty) Ltd, Tiber Property Group, Acucap and Sycom made over the past 24 months.

Growthpoint's tenants present a well-spread mix. The top 20 tenants by gross monthly income amount to around 29% of total rental income, of which less than 1% comes from the South African government, being Transnet (Baa2 rating under review for downgrade). The company's larger retail tenant exposures are to some of the country's pre-eminent retail brands. We note that 10 of the top 20 tenant exposures are retailers and Growthpoint's largest retail tenant is Edcon (Caa1 stable) contributing to 2.9% of gross monthly income.

CONCENTRATION RISK IN SOUTH AFRICA OFFSET BY GROWING PORTFOLIO IN AUSTRALIA

A constraining factor on portfolio diversification is the geographic concentration of the portfolio. Approximately half of the properties by gross lettable area (GLA) were located in the province of Gauteng, South Africa, and rental levels and values are reliant on a relatively small economic area (approximately 35% of South African GDP). Concentration risk has been helped by the acquisition of a listed property trust in Australia in November 2009 that is continuing to grow in size (26.7% of consolidated investment property assets) and contribution (14.8% of distributable group income); as well as the acquisition of the V&A Waterfront in Cape Town in June 2011. After Gauteng (52% of total GLA), the Western Cape (19% of total GLA) is the second strongest province economically in South Africa.

Growthpoint has a strong market position as the largest primary listed REIT company in South Africa. Given its size, Growthpoint will see most important property transactions on offer in South Africa and is a partner of choice for other large property investors, as demonstrated by its recent office property acquisitions of Abseq Properties (Pty) Ltd and Tiber Property Group, as well as retail focused Acucap and Sycom acquisitions.

Growthpoint's valuations are obtained on a rotational basis, ensuring that every property is valued at least once every three years by an external independent valuer. The directors value the remaining properties annually on an open-market basis using the discounted cash flow method on projected cash flows. The last independent valuations were carried out as of 31 December 2015 for Growthpoint's portfolio, which resulted in a positive single digit like for like growth, driven predominantly by future rental increases.

MODERATE LEASE PROFILES, LOW VACANCY RATES AND HIGH OPERATING MARGINS SUPPORT STABLE OPERATING CASHFLOWS

Growthpoint's ratings are underpinned by the sustainable rental income generated from medium-term leases from well-located properties let to a diversified tenant base predominately across three property sectors in South Africa and Australia. The vast majority of Growthpoint's South African leases are for terms of 3 to 5 years. While the company's average South African lease term of 3.6 years is similar to that in the U.S., it is shorter than what is generally seen across Europe, where leases tend to be longer and span a wider range, from 5 to 25 years, depending on the property sector. The average lease term of the properties owned by Growthpoint Australia and the V&A Waterfront is longer and currently around 6.6 years and 10.8 years respectively driven by market standards in Australia and the high quality marqui asset in the V&A Waterfront. Moody's notes that across Growthpoint's South African portfolio 24.4% and 15% of gross monthly rentals will be expiring to FYE 2017 (18 months to June 2017) and FYE2018, respectively, which is considered manageable. The average South African renewal success rate of around 69% with average renewal growth rates on new leases of around 1.6% (below 6.2% CPI inflation as of January 2016) reflects the challenging and competitive operating environment. Overall the average escalation rates on the whole South African property portfolio was 7.7%, factoring in the contractual increases of between 8% and 9%.

Growthpoint's overall South African vacancy rates (excluding the V&A waterfront) have fallen to 4.9% (6.4% as of 31 December 2014) and was split as follows: Office 7.6% (8.4% - 31 December 2014), Retail 2.5% (4.4% - 31 December2014) and Industrial 4.2% (5.8% - 31 December 2014). The vacancy rate from the V&A Waterfront and in the Australia portfolio remained at low levels at 1.3% and 3.0%, respectively. Overall vacancy rate across the various sectors was below industry averages reflecting the quality and resilience of the property portfolio. Given the cost pressures facing tenants from above inflationary utility costs and vacancy rates at historic low levels, we anticipate pressure on both vacancy levels and Growthpoint's ability to push above inflationary rental increases on renewing tenants for the first rental year as experienced over the past year with an average 1.6% rental growth on renewing new tenants, with the office sector experiencing an average 4.3% rental decline compared to the more resilient retail portfolio of 5.8% average rental growth on renewing new tenants. This is partially mitigated by the higher annual rental escalation of between 8% to 9% in

South Africa after the first year of the lease.

Growthpoint's profitability is considered to be above global peers, as measured by the EBITDA margin of 84.6% for the last twelve months to 31 December 2015. It has remained fairly stable over the past five years as indicated by the low adjusted EBITDA margin volatility of 2.8%. The Company's financial profile is further supported by the good fixed charge cover (EBITDA by the year-to-date sum of interest expense, capitalized interest, preferred dividends, trust preferred distributions and preferred unit distributions) of 3.1x. Growthpoint has a policy to hedge at least 75% of its borrowing costs (84% of South African debt was hedged to fixed rates as of 31 December 2015), which are currently at higher all in interest rates of 9.0% compared to floating rates. Moody's views Growthpoint's hedging policy to be conservative protecting the Company from a rising interest rate environment.

The company's development risk is conservative with current development and committed capex equal to 4.4% of total gross assets. Growthpoint's policy is to limit its development programme to those that will increase its exposure to prime locations and that will be attractive to "blue chip" tenants. Developments are anticipated to be largely pre-let turnkey developments, although under certain conditions the company may consider speculative developments that fall within the Board of Director's strict investment criteria and that are yield enhancing.

STRONG CREDIT METRICS ARE CREDIT POSITIVE

Leverage, as measured by adjusted total debt to gross assets, has increased to 31.5% driven by consolidation of Acucap and Sycom's financial positions into Growthpoint (effective 1 April 2015), but is expected to remain below 40% in line with management's stated policy objectives for the next 12 months. Moody's ratio of fixed charge cover of 3.1x has steadily improved over the past three years (2.5x - financial year end 2012). We expect that Growthpoint's credit metrics will remain within our expectations and allow for some headroom within the assigned Baa2 rating.

South African property companies have in the past traditionally favoured secured debt - bank loans and commercial mortgage-backed securities (CMBS) - and Growthpoint is no exception. The company's adjusted ratio of secured debt to gross assets has fallen to 25% from its high of 33% in 2011. This is still considered as weakly positioned for the rating, consistent with a Ba rating factor. We do anticipate that as and when the recently added Sycom and Acucap secured debts mature (mostly in the second half of 2016) Growthpoint will look to replace them with unsecured debt. Moody's expects this ratio to be maintained below 25%, while also improving the level of unencumbered assets to gross assets towards 35-40% (31% as of 31 December 2015). We will monitor the extent to which secured debt and encumbered assets increases compared to property assets as this would be increasingly disadvantageous to unsecured creditors.

GOOD LIQUIDITY PROFILE WITH TRACK RECORD OF ADDRESSING DEBT MATURITIES WELL AHEAD OF TIME

Growthpoint's liquidity is deemed sufficient to meet its near-term obligations within the next 12 months, supported by cash flow from operations and available credit facilities of ZAR4.9 billion. However, Growthpoint does have sizable debt of ZAR6.8 billion maturing in 2016 largely as a result of the inclusion of the Acucap and Sycom debt which we note Growthpoint is making progress to address its 2016 debt maturities. In general, access to debt funding in South Africa has been good however funding margins have been increasing over the past 6 months. In addition, Growthpoint has successfully raised funding through the equity markets to fund developments and property acquisitions. Moody's rates Growthpoint's access to diversified sources of funding as good.

The company's credit facilities are provided by a variety of leading South African banks and are subject to relatively few covenants and continuing MAC clause; however there is a 30 day remedy period. At present, there is sufficient headroom between the company's credit metrics and the loan covenant ratios.

Rating Outlook

The rating under review for downgrade reflects Growthpoint's operational concentration in South Africa, with 81% property investment exposure and 85% of distributable income derived from operations within South Africa. This exposes the bulk of its operations to the heightened risks associated with the political, social and economic environment in South Africa.

The review will assess the credit implications on Growthpoint's ratings following (1) the conclusion of the review for downgrade on the bond ratings of South Africa; (2) the impact of a weakening economic environment on Growthpoint's business profile; and (3) offsetting credit characteristics which could reduce the degree of rating linkage to that of South Africa's government bond rating.

What Could Change the Rating - Up

We do not expect any further upward rating action as Growthpoint's rating is likely to be constrained at the same level as South Africa's government bond rating given the bulk of Growthpoint's cash flows and property exposure are derived in South Africa. Any positive rating action would further depend on strengthening financial metrics such that (1) leverage as measured by debt to gross assets is around 30% on a sustainable basis; (2) fixed charge cover trends towards 3.5x; and (3) the level of unencumbered assets to gross assets improves towards 60% while maintaining the level of secured debt to gross assets below 20%.

What Could Change the Rating - Down

Growthpoint's rating would come under downward pressure in the event (1) South Africa's government bond rating is downgraded from Baa2; (2) the company's liquidity risk profile deteriorates; (3) unexpected difficulties integrating acquisitions that negatively impact operational and cash flow performance; (4) leverage in terms of total debt to gross assets trends towards 40%; or (5) fixed charge coverage (as measured by EBITDA to interest expense) trends towards 2.5x. Furthermore, we would view negatively if secured debt to property assets exceeds 30% or there is a material decline in unencumbered assets from the current levels.

OTHER CONSIDERATIONS

Given Growthpoint's Baa2 rating is in line with the Government of South Africa it is exposed to risks associated with the political, social and economic environment in South Africa. While Growthpoint's exposure outside of South Africa, both from a cash flow generation and asset exposure, and strong credit metrics does reduce the degree of rating linkage to South Africa's long term bond rating. However, we do not consider this to be sufficient to warrant a delinking from the SA sovereign rating. Going forward, any future upward or downward rating pressure on Growthpoint's ratings and outlook will have to be considered in the context of the South African long term bond rating position and outlook at the time.

Mapping to the Rating Methodology

The principal methodology used in rating Growthpoint was the Global Rating Methodology for REITs and Other Commercial Property Firms, published on 30 July 2010. Based on the most recent published accounts at 30 June 2015, Growthpoint's overall performance measurements from the rating grid indicate a rating outcome of Baa2, in line with its long-term issuer rating. The grid is based on historic financial information while the rating is based on our expectation for future performance accommodating some financial flexibility, liquidity profile and capital structure as well.

Rating Factors

Growthpoint Properties Limited

REITs and Other Commercial Property Firms Industry Grid [1][2]	**Current LTM 31/12/2015**		[3]**Moody's 12-18 Month Forward ViewAs of 11/03/2016**	
Factor 1: Liquidity and Funding (24.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Liquidity Coverage	Ba	Ba	Ba	Ba
b) Debt Maturities	Caa	Caa	B	B
c) FFO Payout	93.6%	Ba	85% - 95%	Baa
d) Amount of Unencumbered Assets	30.8%	B	35% - 40%	B
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets [4]	31.5%	Baa	30% - 35%	Baa
b) Net Debt / EBITDA	4.5x	Baa	4.5x - 5x	Baa
c) Secured Debt / Gross Assets	25.0%	Ba	20% - 25%	Ba
d) Access to Capital	Baa	Baa	Baa	Baa
Factor 3: Market Position and Asset Quality (22%)				

a) Franchise / Brand Name	A	A	A	A
b) Gross Assets(USD Million)	$7,531.3	Baa	$7500 - $8000	Baa
c) Diversity: Location / Tenant / Industry / Economic	Baa	Baa	Baa	Baa
d) Development Pipeline	4.4%	Aa	4% - 5%	Aa
e) Asset Quality	A	A	A	A
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin (YTD)	81.3%	Aa	78% - 82%	Aa
b) EBITDA Margin Volatility	2.8%	Baa	2% - 5%	Baa
c) EBITDA / Fixed Charges (YTD) [5]	3.1x	A	2.8x - 3.3x	A
d) Joint Venture Exposure (YTD)	0.0%	Aa	0%	Aa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31/12/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. [4] Debt includes a portion of hybrid securities considered to have debt like features as explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010 [5] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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