

**Rating Action: Moody's confirms Growthpoint's Baa2/P-2 ratings, negative outlook**

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Global Credit Research - 11 May 2016

**Follows sovereign rating action announcement**

Johannesburg, May 11, 2016 -- Moody's Investors Service has today confirmed the Baa2/P-2 long term and short term global scale ratings assigned to Growthpoint Properties Limited (Growthpoint) and changed the outlook to negative.

Today's rating actions were prompted by the confirmation of South Africa's Baa2 government bond rating with a negative outlook on 6 May 2016. For details, please refer to the press release: [https://www.moodys.com/research/--PR\\_348291](https://www.moodys.com/research/--PR_348291)

This concludes the review for downgrade that was initiated by Moody's on 11 March 2016. Growthpoint's national-scale ratings, which were also on review, are addressed in a separate press release.

A full list of affected ratings is provided towards the end of this press release.

**RATINGS RATIONALE**

Today's confirmation of Growthpoint's Baa2/Prime-2 ratings was prompted by the confirmation of South Africa's Baa2 government bond rating with a negative outlook on 6 May 2016. Growthpoint's Baa2 ratings are supported by its strong market position as the largest Real Estate Investment Trust (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 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 or 81% of total gross debt as well as the low level of unencumbered assets to gross assets of 31%. All credit metrics mentioned are as per Moody's standard adjustments.

**RATIONALE FOR NEGATIVE OUTLOOK**

The negative outlook reflects Growthpoint's operational concentration in South Africa, with 81% property exposure and 85% of distributable income derived from properties located in South Africa. This exposes the bulk of its operations to the heightened risks associated with the operating environment in South Africa. Given Growthpoint's Baa2 rating is at the same level of South Africa's long term bond rating we view Growthpoint's rating as being highly correlated with South Africa's long term bond rating.

We note Growthpoint's exposure outside of South Africa, both from cash flow generation and asset exposure, as well as current strong credit metrics. However, we do not consider this to be sufficient to warrant a delinking from South Africa's Baa2 sovereign rating.

**WHAT CAN CHANGE THE RATING DOWN/UP**

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 divided by interest expense) trends towards 2.5x. Furthermore, we would view it negatively if secured debt to property

assets exceeds 30% or there is a material decline in unencumbered assets from the current levels.

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%.

Growthpoint Properties Limited, was established in 1987 and is the largest primary listed 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 474 retail, office and industrial properties that are geographically diversified across South Africa.

Growthpoint also holds a 64.5% controlling stake in Growthpoint Properties Australia Ltd (Growthpoint Australia) (Baa2 stable - senior secured rating), 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).

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

List of affected ratings:

Confirmations:

..Issuer: Growthpoint Properties Limited

... Issuer Rating (Local Currency), Confirmed at Baa2

... Short Term Issuer Rating (Local Currency), Confirmed at P-2

...Senior Unsecured Regular Bond/Debenture, Confirmed at Baa2

...Short Term Senior Unsecured Regular Bond/Debenture, Confirmed at P-2

Outlook Actions:

..Issuer: Growthpoint Properties Limited

...Outlook, Changed To Negative From Rating Under Review

## REGULATORY DISCLOSURES

The rating for MDY:821834963, LT Issuer Rating, ISSUER RATING, ZAR of Growthpoint Properties Limited was initially assigned on 20 Oct 2009 and the last Credit Rating Action was taken on 11 March 2016.

The rating for MDY:821834963, ST Issuer Rating, ISSUER RATING, ZAR of Growthpoint Properties Limited was initially assigned on 20 Oct 2009 and the last Credit Rating Action was taken on 11 March 2016.

The rating for MDY: 822614442, LT Senior Unsecured BOND, ZAR of Growthpoint Properties Limited was initially assigned on 17 Jun 2011 and the last Credit Rating Action was taken on 11 March 2016.

The rating for MDY: 822614444, ST Senior Unsecured BOND, ZAR of Growthpoint Properties Limited was initially assigned on 17 Jun 2011 and the last Credit Rating Action was taken on 11 March 2016.

Only credit rating actions issued by Moody's Investors Service South Africa (Pty) Ltd are considered for the purpose of this disclosure.

Please see the ratings tab on the issuer page on [www.moodys.com](http://www.moodys.com) for additional rating history details. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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**Affirmation:** An Affirmation is a public statement that the current Credit Rating assigned to an issuer or debt obligation, which is not currently under review, continues to be appropriately positioned.

**Baseline Credit Assessment (BCA):** Baseline credit assessments (BCAs) are opinions of issuers' standalone intrinsic strength, absent any extraordinary support from an affiliate or a government. Baseline Credit Assessments are not Credit Ratings.

**Capital Expenditures, or Capex:** This includes gross expenditures for property, plant and equipment and intangible assets.

**Confirmation:** A Confirmation is a public statement that a previously announced review of a rating has been completed without a change to the rating.

**Corporate Family Rating:** Moody's Corporate Family Ratings (CFRs) are long-term ratings that reflect the likelihood of a default on a corporate family's contractually promised payments and the expected financial loss suffered in the event of default. A CFR is assigned to a corporate family as if it had a single class of debt and a single consolidated legal entity structure.

**Credit Rating:** A Credit Rating is an opinion from Moody's Investors Service (MIS) regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.

**Debt:** Long term debt (including liability for capital leases) plus short term debt plus current portion of long term debt. May also be adjusted to include other long term obligations, such as leases and pensions.

**Default Dependence:** Default dependence reflects the joint susceptibility of a Government-Related Issuer and its supporting government to adverse circumstances that simultaneously move them closer to default. Default dependence is reflected as one of four levels: low (30%), moderate (50%), high (70%) and very high (90%).

**EBIT:** Pre-tax income plus interest

**EBITA:** EBIT plus amortisation of intangible assets. EBITA and EBITDA may be used as an indication of earnings available to service debt and capital expenses.

**EBITDA:** EBIT plus depreciation plus amortisation of intangible assets. EBITA and EBITDA may be used as an indication of earnings available to service debt and capital expenses.

**Extraordinary Support:** Extraordinary support is defined as action taken by a supporting government to prevent a default by a regional or local government (RLG) or a Government-Related Issuer (GRI) and can take

different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing. Support is categorized into five ranges: low (0% - 30%), moderate (31% - 50%), strong (51% - 70%), high (71% - 90%) and very high (91% - 100%).

Free Cash Flow (FCF): Cash flow from operations, less capital expenditures and dividends.

Funds from Operations (FFO): Cash flow from operations before changes in working capital and changes in other short term and long term operating assets and liabilities.

Global Scale Long Term Credit Rating: Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

Global Scale Ratings: Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities.

Global Scale Short Term Credit Rating: Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect the likelihood of a default on contractually promised payments.

GRI (Government-Related Issuer): GRI is an entity with full or partial government ownership or control, a special charter, or a public policy mandate from the national, regional or local government. Moody's generally uses 20% as the minimum government ownership level before considering an issuer to be a GRI.

Interest Burden: The ratio of interest payments to operating revenue.

Issuer: The term Issuer means any entity by which a Security has been issued, guaranteed, or by which the credit underlying a Security has been otherwise supported. The term Issuer also includes the corporate parent or majority-owned subsidiary of an Issuer.

Issuer Rating: Issuer Ratings are opinions of the ability of entities to honor senior unsecured financial counterparty obligations and contracts.

Moody's Financial Adjustments, or "Adjustments" or "as-Adjusted" statistics: Moody's adjusts financial statements to better reflect the underlying economics of transactions and events and to improve the comparability of financial statements. Moody's computes credit-relevant ratios using adjusted data and base our debt ratings, in part, on those ratios.

National Scale Long Term Rating: Moody's long-term National Scale Ratings (NSRs) are opinions of the relative creditworthiness of issuers and financial obligations within a particular country. NSRs are not designed to be compared among countries; rather, they address relative credit risk within a given country.

National Scale Short Term Rating: Moody's short-term NSRs are opinions of the ability of issuers in a given country, relative to other domestic issuers, to repay debt obligations that have an original maturity not exceeding one year. Shortterm NSRs in one country should not be compared with short-term NSRs in another country, or with Moody's global ratings.

Net Debt: Debt, less cash and cash-like current assets on the balance sheet.

Net Direct or Indirect Debt: Net Direct and Indirect Debt is a broad measure of the stock of debt, capturing debt instruments issued by a sub-sovereign government and other debt for which the government may become responsible. Net direct and indirect debt is calculated by subtracting, from total direct and indirect debt, financial assets dedicated to debt retirement, such as sinking fund assets, and any debt related to guarantees and government-majority-owned enterprises deemed to be financially self-supporting.

Operating Expenditures: Recurrent spending needed to support core operations. For regional and local governments, this would include wages, supplies or costs of public services. For corporations, this would include the costs of goods sold and general and administrative expenses.

Operating Margin: The ratio of operating revenue less operating expenditures over operating revenue, which measures the issuer's ability to contain operating expenditures below operating revenues.

Operating Revenue: For regional and local governments, this represents recurrent income such as taxes and central government transfers, used for government's core operations. For corporations, this represents income

received from the sale of goods and services.

**Outlook:** An Outlook is an opinion regarding the likely direction of an issuer's rating over the medium term.

**Rating Outlook:** A Moody's rating outlook is an opinion regarding the likely rating direction over the medium term. Rating outlooks fall into four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV). Outlooks may be assigned at the issuer level or at the rating level.

**Rating Review:** A rating review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade (UPG), downgrade (DNG), or more rarely with direction uncertain (UNC). A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings on review are said to be on Moody's "Watchlist" or "On Watch".

**Retained Cash Flow (RCF):** Funds from operations less common dividends, preferred dividends and minority dividends

**Short-term Debt:** The short-term debt includes debt instruments with a maturity of less than one year and the current portion of long-term borrowings.

**Withdrawn:** When Moody's no longer rates an obligation on which it previously maintained a rating, the symbol WR is employed.

For further information on these definitions or on Moody's ratings symbols, please consult the Rating Symbols and Definitions document on [www.moody.com](http://www.moody.com)

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