



HYPROP
INVESTMENTS LIMITED

Summarised consolidated audited results
for the year ended 30 June 2019

Headlines

Revised strategy

under new executive team

Growth in distributable income from South African portfolio of **6,5%**, despite the challenging economic climate

Growth in distributable income from the Eastern European portfolio of **13,5%**

Very **low vacancies** in the South African retail portfolio (0,8%) and in the Eastern European portfolio (< 0,5%)

Progress in **reducing exposure** to sub-Saharan Africa (excluding South Africa) – investments in this region impaired by R1,46 billion in the year based on anticipated sales proceeds

Strong liquidity position and **R8,5 billion** of debt refinanced during the year

Decrease in distribution per share of **1,5%**

Summarised consolidated statement of comprehensive income

	Audited Year ended 30 June 2019 R'000	Audited Year ended 30 June 2018 R'000
Revenue	3 217 848	3 113 713
Investment property income	3 305 735	3 117 560
Straight-line rental income accrual	(87 887)	(3 847)
Property expenses	(1 179 054)	(1 049 892)
Net property income	2 038 794	2 063 821
Other operating expenses	(41 600)	(55 778)
Operating income	1 997 194	2 008 043
Net interest	(461 155)	(282 273)
Interest income	156 043	312 550
Interest expense	(617 198)	(594 823)
Net operating income	1 536 039	1 725 770
Guarantee fee income	40 542	46 671
Dividends received	221 190	182 778
Net income before fair value adjustments	1 797 771	1 955 219
Changes in fair value	(587 083)	767 052
Investment property	(337 238)	650 206
Derivative instruments	(46 102)	29 085
Financial asset	(85 229)	87 761
Loans receivable at FVTPL	(105 809)	
Other investments	(12 705)	
Profit on disposal of investment property	2 825	2 697
Derecognition of financial guarantees	185 686	11 984
Impairment of loans receivable	(1 350 727)	(176 543)
Other impairments	(29 964)	
Profit before taxation	18 508	2 560 409
Taxation	93 028	(39 486)
Profit for the year	111 536	2 520 923
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss (net of taxation)		
Exchange differences on translation of foreign operations	(44 094)	15 471
Total comprehensive income for the year	67 442	2 536 394
Total profit for the year attributable to:		
Shareholders of the company	164 922	2 529 466
Non-controlling interests	(53 386)	(8 543)
Profit for the year	111 536	2 520 923
Total comprehensive income attributable to:		
Shareholders of the company	117 963	2 540 373
Non-controlling interests	(50 521)	(3 979)
Total comprehensive income for the year	67 442	2 536 394

Summarised reconciliation – headline earnings

	Audited Year ended 30 June 2019 R'000	Audited Year ended 30 June 2018 R'000
Earnings – profit for the year attributable to shareholders of the company	164 922	2 529 466
Headline earnings adjustments	498 488	(638 616)
Change in fair value of investment property	425 125	(646 359)
Profit on disposal of investment property	(2 825)	(2 697)
Other impairments	29 964	10 102
Non-controlling interest	46 224	338
Headline earnings	663 410	1 890 850
Total number of shares in issue	255 894 516	255 894 516
Weighted average number of ordinary shares in issue	255 495 272	249 024 221
Fully diluted weighted average number of ordinary shares in issue	255 610 315	249 207 302
Total shares in issue for dividend per share (excludes treasury shares)	255 309 759	255 448 256
Basic earnings per share (cents)	64,5	1 015,8
Headline earnings per share (cents)	259,7	759,3
Fully diluted basic earnings per share (cents)	64,5	1 015,0
Fully diluted headline earnings per share (cents)	259,5	758,7

Summarised consolidated statement of financial position

	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000
Assets		
Non-current assets	28 876 436	33 951 124
Investment property	28 476 238	30 691 210
Building appurtenances and tenant installations	162 288	163 068
Financial asset	218 444	152 556
Loans receivable	18 847	2 937 444
Derivatives	619	6 846
Current assets	2 729 289	1 015 095
Loans receivable	1 333 106	40 716
Taxation	2 530	
Trade and other receivables	105 625	258 071
Derivatives	2 691	815
Cash and cash equivalents	1 285 337	715 493
Non-current assets classified as held-for-sale	2 047 847	199 257
Total assets	33 653 572	35 165 476
Equity and reserves	24 491 805	26 395 237
Stated capital and reserves	24 452 006	26 304 917
Non-controlling interest	39 799	90 320
Liabilities		
Non-current liabilities	6 578 987	8 203 399
Borrowings	6 320 801	7 815 651
Financial guarantees	110 401	185 686
Derivatives	60 224	24 060
Deferred taxation	87 561	178 002
Current liabilities	1 484 480	558 683
Borrowings	1 008 000	69 343
Trade and other payables	469 141	487 341
Derivatives	7 339	1 999
Liabilities associated with non-current assets held-for-sale	1 098 300	8 157
Total liabilities	9 161 767	8 770 239
Total equity and liabilities	33 653 572	35 165 476
Net asset value per share (R)	95,78	102,98

Summarised consolidated statement of changes in equity

	Audited Year ended 30 June 2019 R'000	Audited Year ended 30 June 2018 R'000
Balance at the beginning of the year	26 395 237	24 882 553
Opening retained income adjustment	1 806	
Adjusted opening retained income	26 397 043	24 882 553
Total profit for the year attributable to shareholders of the company	164 922	2 529 467
Total profit for the year attributable to non-controlling interest	(50 521)	(3 980)
Profit/(loss) on vesting of shares	2 453	(2 542)
Issue of shares		778 676
Treasury shares	(11 509)	(7 990)
Dividends	(1 956 467)	(1 795 398)
Share-based payment reserve	(7 157)	3 542
Foreign currency translation reserve	(46 959)	10 909
Balance at the end of the year	24 491 805	26 395 237
Distribution details		
Total distribution for the year (cents)	744,9	756,5
Six months ended 30 June (cents)	359,3	380,2
Six months ended 31 December (cents)	385,6	376,3

Reconciliation of attributable net profit for the year to distributable earnings

	Audited 12 months 30 June 2019 R'000	Audited 12 months 30 June 2018 R'000
Total profit for the year attributable to shareholders of the company	164 922	2 529 466
Adjusted for:	1 737 746	(624 952)
Change in fair value – investment property	471 349	(646 021)
Change in fair value – derivative instruments	46 102	(29 085)
Change in fair value – financial asset	85 229	(87 761)
Change in fair value – loans receivable at FVTPL	105 809	
Derecognition of financial guarantee	(185 686)	(11 984)
Profit on disposal of investment property	(2 825)	(2 697)
Impairment of loans receivable	1 350 727	176 544
Other impairments	29 964	
Taxation	(93 028)	39 486
Capital and other items	(951)	(5 832)
Income from sub-Saharan Africa*	(68 944)	(57 602)
Distributable earnings	1 902 668	1 904 514

* Net effect of converting IFRS earnings to distributable earnings

Summarised consolidated condensed statement of cash flows

	Audited 30 June 2019 R'000	Audited 30 June 2018 R'000
Cash flows (utilised by)/generated from operating activities	(186 730)	37 689
Cash generated from operations	2 149 932	2 133 136
Interest received	174 128	283 289
Interest paid	(550 115)	(580 208)
Taxation paid	(4 208)	(3 130)
Dividends paid	(1 956 467)	(1 795 398)
Cash flows from investing activities	567 235	104 745
Acquisition of and additions to investment property	(95 064)	(263 640)
Additions to building appurtenances and tenant installations	(45 051)	(52 104)
Proceeds on disposal of assets classified as held-for-sale	201 437	229 759
Increase in investment in Eastern Europe		(30 979)
Advances of shareholder loans receivable – long term		(59 061)
Repayment of loans receivable	224 517	157 934
Dividends received	281 396	163 551
Advances of loans receivable		(40 715)
Cash flows from/(applied to) financing activities	275 645	(510 777)
Loans repaid	(1 414 851)	(3 871 791)
Loans raised	1 708 078	2 600 502
Issue of shares		778 676
Purchase of Hyprop shares by Hyprop Share Scheme	(17 582)	(18 164)
Net increase/(decrease) in cash and cash equivalents	656 150	(368 343)
Effects of changes in exchange rates (FCTR)	(44 950)	(41 914)
Cash and cash equivalents transferred (to)/from non-current assets held-for-sale	(41 356)	
Cash and cash equivalents at the beginning of the year	715 493	1 125 750
Cash and cash equivalents at the end of the year	1 285 337	715 493

Commentary

Introduction

2019 was a year of significant change for Hyprop. Arising from the resignations of the former CEO and CFO, both of whom had been with the group for over a decade, Morné Wilken (CEO) and Brett Till (CFO) were appointed, and together with Wilhelm Nauta (CIO), comprise the new executive team. Under this team Hyprop's strategy was interrogated, resulting in a new three-year strategic plan that will see Hyprop adapt to the rapidly evolving retail landscape, disruptive technologies and market conditions.

The refined mission of the group is *"to create environments and opportunities for people to connect and have authentic and meaningful experiences, by managing and developing tangible (mixed-use precincts underpinned by dominant retail centres in key economic nodes) and non-tangible assets"*.

In line with the revised strategy, the group will focus on three strategic areas – the South African (SA) property portfolio, the Eastern European (EE) property portfolio and relevant non-tangible assets arising from the digital disruption which is transforming many traditional market sectors (including the retail and property sectors).

The key priorities for the next 18 months are to exit the sub-Saharan African (excluding SA) (S-SA) portfolio, to reposition the SA portfolio and to improve the dominance of the EE portfolio. In addition, we will develop and implement a strategy around digital disruption and technologies in the retail, property and infrastructure spaces.

From a financial perspective we aim to reduce our loan-to-value ratio and restore the group's investment grade credit rating (subject to South Africa's sovereign credit rating). Cash flow management will be a key priority and cash-backed income will form the basis of calculating distributions to shareholders.

Market conditions in the SA and S-SA regions have deteriorated and tenants face significant challenges as a result of the poor economic growth and currency volatility, respectively. Consumer demand remains depressed and shopping preferences are changing, impacting on the ability to maintain rental rates and growth in distributions. New appointments to the board, and at operational levels, are being considered to ensure the group has the necessary skills to deal with the challenges and opportunities presented by the strategic initiatives. Further details on specific actions being taken to meet these challenges are included in the individual portfolio reviews below.

These changes, the decision to dispose of the group's S-SA assets and the refinancing of Dollar-denominated debt with Rand-denominated debt, due to the impairment of the group's S-SA interests based on the anticipated sales proceeds, will have a negative impact on distributable income for this financial year and the 2020 financial year. The group believes these are necessary for the group's long-term sustainability and anticipate positive growth in distributable income in 2021 and beyond.

Against this background, the group's financial results for the year ended 30 June 2019 are presented below.

Financial results

Distributable income and dividend

Distributable income decreased by 0,1% from R1 905 million for the year ended 30 June 2018 to R1 903 million. The distribution per share decreased by 1,5% from 756,5 cents to 744,9 cents.

The solid performance by the SA portfolio and strong growth from the EE portfolio were offset by a decrease in distributable income from the S-SA portfolio.

Commentary continued

	30 June 2019				30 June 2018			
	South Africa	Eastern Europe	Sub-Saharan Africa	Group	South Africa	Eastern Europe	Sub-Saharan Africa	Group
Net income before fair value adjustments	1 627 268	266 016	(95 513)	1 797 771	1 592 470	234 473	128 276	1 955 219
Adjustments to calculate distributable income	67 743		37 154	104 897	(796)		(49 909)	(50 705)
Straight-line rental income accrual	81 399		6 488	87 887	4 696		(849)	3 847
Non-controlling interest			30 959	30 959			2 600	2 600
Taxation paid			(427)	(427)			(4 381)	(4 381)
Net interest adjustments			134	134			(47 279)	(47 279)
Other fair value adjustments – Edcon	(12 705)			(12 705)				
Capital items for distribution purposes	(951)			(951)	(5 492)			(5 492)
Distributable income	1 695 011	266 016	(58 359)	1 902 668	1 591 674	234 473	78 367	1 904 514
% change	6,5%	13,5%		(0,1%)				
Weighted average number of shares for calculating distribution per share				255 429 272				251 741 343
Distribution per share (cents)	663,6	104,1	(22,9)	744,9	632,2	93,2	31,1	756,5
% change	5,0	11,8		(1,5)				

The board of directors has declared a final dividend of 359,3 cents per share for the six months ended 30 June 2019. The total dividend for the year ended 30 June 2019 is 744,9 cents per share, compared to 756,5 cents per share for the year ended 30 June 2018. This dividend is based on cash earnings from the group's operating portfolios.

The weighted average number of shares in issue during the year increased by 3,7 million from 251,7 million to 255,4 million, primarily as a result of the 7,5 million new shares issued in April 2018 when additional capital was raised.

Hyprop profile

Hyprop currently has interests in a R51 billion portfolio of shopping centres in South Africa, Eastern Europe and sub-Saharan Africa (excluding SA).

South African portfolio

The shopping centre portfolio in South Africa includes super-regional centre Canal Walk, large regional centres Clearwater, The Glen, Woodlands, CapeGate, Somerset and Rosebank Mall, regional centre Hyde Park Corner and value centre, Atterbury Value Mart.

Financial performance

	Audited 12 months ended 30 June 2019 R'000	Audited 12 months ended 30 June 2018 R'000
South Africa		
Revenue	3 003 847	2 889 135
Expenses	(1 092 420)	(956 146)
Net property income	1 911 427	1 932 989
Other operating expenses	(44 969)	(59 707)
Net interest	(239 190)	(280 812)
Net operating income before fair value adjustments	1 627 268	1 592 470
Adjustments to calculate distributable income	67 743	(796)
Distributable income	1 695 011	1 591 674

Distributable income from the South African portfolio increased by 6,5% over 2018, in line with the guidance provided in September 2018. This was achieved despite a further deterioration in the South African economy and consumer confidence, particularly in the second half of the financial year.

Total revenue (before the lease straight-line adjustment) increased by 6,6% over the 2018 year, largely as a result of a 16% increase in municipal and other cost recoveries. Rental income increased by 6% having been somewhat protected from the economic climate by contractual rental escalations.

Trading density across the retail portfolio increased by 0,6% year-on-year and the overall rent-to-turnover ratio increased from 9,1% to 9,4%.

The opening of the new food court and play area at Woodlands in May 2019 had a positive effect, with foot count at the mall up 13% and trading density up 2,4% in May and June 2019. Canal Walk, The Glen, Somerset Mall, Rosebank Mall and Atterbury Value Mart also achieved good growth in trading densities in the last quarter of the financial year.

Property expenses increased by 14% compared to the year ended 30 June 2018, due to a 16% increase in non-controllable expenses (mainly rates, taxes and power-related costs). By contrast, controllable costs (excluding bad debts and depreciation), increased by 7,5%. The combined effect was an increase in the portfolio cost-to-income ratio.

	30 June 2019 %	30 June 2018 %	Annual cost increase %
Cost-to-income ratio – South Africa			
Net basis	17,1	15,8	
Gross basis	35,4	33,0	
Analysis of gross cost-to-income ratio	35,4	33,0	
Municipal costs	23,3	21,4	16,2
Bad debts and depreciation	2,0	1,6	30,7
Contractor service level agreements	3,9	3,9	6,5
Maintenance and management costs	6,2	6,1	8,2

Other operating expenses decreased due to an increase in asset management fees received from Hystead as a result of the additional properties acquired in April 2018, and savings in staff and related costs.

Commentary continued

Tenant arrears

At 30 June 2019 rental arrears were R31,5 million, compared to R18,9 million at 30 June 2018. Following the adoption of IFRS 9 *Financial instruments* and the requirements relating to how doubtful debt provisions should be calculated, doubtful debt provisions increased to R26,8 million. The increase in this amount reflects the financial pressure on the consumer, and ultimately on retailers. At 30 June 2019 the group had no material doubtful debt exposure to, or arrear rentals owing by, any particular tenant or tenant group, including the Edcon Group (Edcon).

Lettings and vacancies

Over the past four to five years' rental escalations have outpaced South Africa's economic growth and inflation rates and the growth in trading densities at our malls, leading to pressure on rental rates.

Due to the current economic environment, the significant increases in other occupancy costs borne by tenants and low growth in trading densities, rent reversions were negative 9%, with a positive weighted average escalation rate of 7,1%. The strategy to reposition the South Africa portfolio is designed to drive positive growth in trading densities, thereby reducing rent ratios for tenants. We are also investigating alternative rental models based on market-related escalations. This will reduce the risk of excessive reversions over time and produce more sustainable rental growth in the long term. Over R300 million of capital expenditure is budgeted for the 2020 financial year towards achieving these objectives (see below). We are also evaluating projects aimed at reducing occupancy costs for tenants, such as the introduction of solar plants at our malls, water saving initiatives and other "green" technologies.

Vacancy levels across the retail portfolio decreased to 0,8% (5 103m²) at 30 June 2019, largely due to reductions at The Glen, Atterbury Value Mart and Clearwater Mall. Office vacancies were 4 638m² (10%), mainly due to an increase in vacancy levels at Hyde Park Corner's office component.

	Rentable area (m ²)		Vacancy as % of total rentable area	
	Total 30 June 2019	Vacant 30 June 2019	30 June 2019	30 June 2018
Retail	663 197	5 103	0,8%	1,6%
Office	43 429	4 638	10,7%	5,5%
Total	706 626	9 741	1,4%	1,9%

At 30 June 2019 Edcon occupied 57 145m² (2018: 66 781m²) in Hyprop malls, equivalent to 8,1% (2018: 9,2%) of GLA. During the year Hyprop initiated a plan to reduce its exposure to Edcon by 15 910m². By 30 June 2019, 9 636m² of this space had been re-let. It is anticipated that the remaining 6 274m² will be re-let during the 2020 financial year. In re-letting the space vacated by Edcon we will introduce new strong anchor tenants to our centres that will positively impact trading densities.

As part of Edcon's restructuring, Edcon approached its top 31 landlords in November 2018 and offered the landlords an opportunity to subscribe for an equity interest in Edcon, or, as an alternative, requested a 40,9% reduction in rentals for a 24-month period commencing on 1 April 2019 (the Edcon rent reduction). Hyprop agreed to assist Edcon by subscribing for equity in Edcon on a monthly basis for an amount equivalent to the monthly Edcon rent reduction (a total of R12 million from 1 April 2019 to 30 June 2019) (the Edcon subscription). The equity which Hyprop has received in Edcon has been impaired to zero at 30 June 2019. Distributable income for the year has been reduced by R12 million, as a consequence of the reduction in net cash flow received from Edcon pursuant to the Edcon subscription.

Valuations

The market value of the South African portfolio, as determined by the group's independent valuers, decreased by R143 million (0,5%) from R28,8 billion (excluding assets held-for-sale) at 30 June 2018 to R28,6 billion at 30 June 2019. The main reasons for the decrease are negative rent reversions and the impact of the two-year Edcon rent reduction. The valuations are based on an average discount rate of 12,5% (2018: 12,5%) and an average exit cap rate of 6,8% (2018: 6,8%). The resultant average implied yield on the portfolio is 7,2% (2018: 7,1%).

Property valuations – South Africa	Rentable area (m ²)	Value attributable to Hyprop		Value per m ² 30 June 2019 (R/m ²)
		30 June 2019 R'000	30 June 2018 R'000	
Shopping centres	653 509	27 089 719	27 351 847	45 455
Value centres	48 649	1 411 000	1 303 000	29 004
Total retail	702 158	28 500 719	28 654 847	44 315
Standalone offices ¹	4 468	136 000	323 000	30 439
Investment property – independent valuations	706 626	28 636 719	28 977 847	44 227
Non-current assets held-for-sale ¹			(198 000)	
Building appurtenances		(162 288)	(163 068)	
Ikeja building appurtenances consolidated			3 157	
Centre management assets		1 807	1 920	
Investment property – statement of financial position		28 476 238	28 621 856	

¹ Reduction from 2018 to 2019 as a result of the disposal of Lakefield Office Park

Capital expenditure

Capital projects with a value of R132 million were completed during the year. A further R87 million of projects were delayed to the 2020 financial year. New capital expenditure for the 2020 financial year has been budgeted at R363 million, and is focused on repositioning our malls and improving trading densities.

Capital projects ¹	30 June 2020	
	Roll-over R'000	New R'000
Yield-based projects	30 058	211 887
Trading density improvements	30 755	90 720
Replacements	25 061	41 501
Infrastructure projects	1 661	18 834
Total capital expenditure	87 535	362 942

¹ Excludes the cost of solar plants under evaluation

Included in yield-driven projects for 2020 is an amount of R54 million relating to new tenant installations as a result of the reduction in space occupied by Edcon, as well as R69 million to be spent on tenant installations for the replacement and/or relocation of tenants as we fine tune our tenant mixes in line with changing customer preferences and to strengthen the tenant profiles. Trading density improvement projects are aimed at increasing overall shopper experience and dwell times. These include the development of a technology-based customer interaction platform which will allow improved connectivity with “new-age” shoppers, enhancing the food and entertainment offerings at many of our malls, upgrading parking systems (including use of better technology to reduce customer frustration and improve controls), installation and improvements to back-up power supply systems (to ensure continuous trading) and air conditioning systems. Other projects under consideration are centred on creating co-working and co-trading environments for new entrants to the retail sector to showcase and promote their products and services in a flexible and affordable manner.

Disposals

The sale of Lakefield Office Park was finalised on 4 January 2019 and the sale proceeds of R200 million were received.

Commentary continued

Investments in Eastern Europe

Hyprop's EE investments, held via a 60% interest in UK-based Hystead Limited (Hystead), include interests in Delta City in Belgrade, Serbia; Delta City in Podgorica, Montenegro; Skopje City Mall in Skopje, Macedonia; The Mall in Sofia, Bulgaria, and a 90% interest (effective 54% interest for Hyprop) in City Center One East and City Center One West, both in Zagreb, Croatia.

In line with the Hystead shareholders' agreement, Hyprop accounts for the investment in Hystead as a financial asset.

Financial performance

	Audited Year ended 30 June 2019 R'000	Audited Year ended 30 June 2018 R'000	Year ended 30 June 2019 €'000	Year ended 30 June 2018 €'000
Eastern Europe				
Dividend income	221 190	180 525	13 080	11 820
Guarantee fees	40 542	46 671	2 397	3 051
Foreign exchange gains	4 284	7 277		
Distributable income	266 016	234 473	15 477	14 871

Distributable income from Hystead, comprising dividends from Hystead and guarantee fees from PDI Investment Holdings (PDI), increased by 13% from R234 million to R266 million.

As a result of the additional in-country asset-backed finance raised by Hystead during the previous financial year, the guarantee fee percentage reduced from 17% (average) for the year ended 30 June 2018 to 11% for the 2019 year.

Trading conditions in the region remain favourable with all sites achieving growth in net operating income. The average trading density for the portfolio increased by 3,7% from 2018.

In June 2019 The Mall of Sofia, Bulgaria, successfully completed a 12 000m² extension. The extension added 40 new stores, an increase from 182 to 222, making it the second largest shopping centre in Bulgaria at 62 000m². A diverse portfolio of brands has been added to The Mall, including a modernised version of Billa supermarket (one of Central and Eastern Europe's leading supermarket chains), one of the first Pepco stores in Sofia, a Ciela book store on two levels, Scandinavian home and living retailer Jysk, and a renovated Hippoland kids store. In addition, LPP, a leading international fashion group from Poland, will open the biggest Sinsay store (900m²) in Sofia by August. Initial feedback after the opening has been positive.

Various other investment projects are planned for the new financial year to maintain the portfolio's dominance. Skopje City Mall is undergoing an 18-month project to rightsize various tenants, introduce additional international retailers, improve foot-flow and public and common areas, and refresh the food court and entertainment offerings. The project is budgeted to be earnings accretive and expected to be completed by March 2021 at an estimated cost of EUR6 million.

Investment property

	30 June 2019 '000	30 June 2018 '000
Eastern Europe		
Investment property – independent value (100%)	€795 732	€771 800
Hyprop attributable share ¹	€458 539	€456 330
Hyprop attributable share ¹	R7 386 292	R7 302 740
Rentable area m ²	241 326	230 584
Value per m ²	€3 297	€3 347

¹ Based on Hyprop's 60% effective interest in Hystead, other than Hystead's Croatian assets in which Hyprop has a 54% effective interest due to the 10% minority shareholder in Croatia

At 30 June 2019 Hystead's investment property portfolio was valued at EUR795 million (2018: EUR772 million) based on a weighted average capitalisation rate of 7,6% (2018: 7,5%). This is equivalent to an implied forward yield of 8,0%. Hyprop's attributable share of the Hystead portfolio was R7,4 billion (EUR459 million) (2018: R7,3 billion (EUR456 million)).

Vacancies

The Hystead portfolio remains almost fully let with a vacancy level of 0,5%.

Investments in sub-Saharan Africa (excluding SA)

Pursuant to the strategy review during the year, Hyprop will divest of the S-SA portfolio over the next 12 to 18 months, in order to focus on South Africa and Eastern Europe going forward. We have made good progress in this regard.

At 30 June 2019 the S-SA portfolio included interests in Accra Mall and West Hills Mall in Accra, Ghana; Kumasi City Mall in Kumasi, Ghana (all held via the group's 37,5% interest in AttAfrica); Manda Hill Centre in Lusaka, Zambia (held jointly with AttAfrica) and Ikeja City Mall in Lagos, Nigeria.

On 28 June 2019, AttAfrica disposed of its interest in Achimota Retail Centre, in Accra, Ghana. Hyprop's share of the net disposal proceeds, being USD16 million, was received by Hyprop Mauritius on 28 June 2019.

Subsequent to year-end, Hyprop Mauritius (50%) and AttAfrica (50%) have disposed of their interests in Manda Hill Shopping Centre. The group's interest in Manda Hill is accounted for as an investment in a joint venture and is included under loans receivable on the statement of financial position at 30 June 2019. The carrying value of the investment has been adjusted in line with Hyprop's share of the total net sale proceeds, being approximately USD50 million.

Progress is being made on the disposal of the group's remaining S-SA assets and the interest in Ikeja City Mall is classified as an asset held-for-sale at 30 June 2019.

Net proceeds from the disposals will be applied to reduce the group's US Dollar-denominated debt.

In light of the decision to dispose of the S-SA portfolio, the carrying amounts of the remaining properties have been impaired to align with their anticipated sales proceeds. The result of these adjustments is an impairment/fair value adjustment of Hyprop's investments in S-SA of R1,46 billion at 30 June 2019, of which R1,1 billion was reflected in the interim results to 31 December 2018.

Commentary continued

Distributable income

	Audited 12 months ended 30 June 2019 R'000	Audited 12 months ended 30 June 2018 R'000
Sub-Saharan Africa		
Revenue	214 000	224 578
Expenses	(86 634)	(93 746)
Net property income	127 366	130 832
Other operating expenses	(914)	(1 095)
Net interest paid	(221 965)	(1 461)
Net operating income before fair value adjustments	(95 513)	128 276
Adjustments to calculate distributable income	37 154	(49 909)
Distributable income	(58 359)	78 367

The investments in S-SA were affected, *inter alia*, by weaker local currencies against the US Dollar and certain South African retailers that have curtailed their operations. This resulted in an increase in vacancies and a need to re-tenant at lower yields. As a consequence, cash flow in Hyprop Mauritius, after servicing borrowings, was negative.

Accounting income from the S-SA portfolio comprises operating profits from Ikeja City Mall and interest received on loans advanced by Hyprop Mauritius to AttAfrica and Manda Hill. Ikeja City Mall and Accra Mall (owned by AttAfrica) continued to trade in line with expectations and contributed positively to distributable income for the year. In line with the provisions of IFRS 9 *Financial instruments*, and the new focus on cash-backed earnings, interest income from AttAfrica is only recognised on the net unimpaired loan balance and to the extent it was received in cash.

Distributable income from the S-SA investments reduced from R78 million for the year ended 30 June 2018 to a loss of R58 million after deducting interest paid in Hyprop Mauritius. The negative distributable income in 2019 was exacerbated by the devaluation of the Rand against the Dollar from 2018 to 2019.

Management have reviewed the business model of AttAfrica and are implementing certain changes. These include the internalisation of the asset management function, re-organising arrangements with in-country local partners, retaining and hiring key staff, restructuring bank debt and restructuring the shareholder funding arrangement from 1 January 2020.

Exchange rates

The functional and reporting currencies for the investments in S-SA and EE are the US Dollar and Euro, respectively. The exchange rates used to convert foreign currency amounts to Rand were as follows:

	30 June 2019		30 June 2018	
	Average rate R	Year-end spot rate R	Average rate R	Year-end spot rate R
US Dollar	14,13	14,15	12,47	13,70
Euro	16,04	16,11	15,32	16,00
Realised average exchange rate – USD			12,53	
Realised average exchange rate – Euro	16,91		14,80	

The realised average exchange rate is the weighted average of the actual exchange rates at which foreign currency dividends were received in South Africa and converted to Rand.

Net asset value and borrowings

Net asset value

The group's net asset value at 30 June 2019 was R95,78 per share, equating to a premium of 37,1% to the share price of R69,87 at that date.

Borrowings

In February 2019, Moody's lowered Hyprop's long-term national scale issuer rating to Aa3.za from Aa1.za and affirmed the short-term national scale rating of Prime-1.za. The main reason cited for the decrease in the rating is that Moody's estimated that Hyprop's debt-to-asset ratio, adjusted for the full consolidation of Hystead, had increased to 41% at 30 June 2018, from 33,4% in 2017, as a result of debt funded acquisitions in Eastern Europe. Moody's further stated that Hyprop will rely on external debt financing to cover R5 billion of debt coming due in the next 18 months, including the Hystead debt that it guarantees.

Hyprop has taken cognisance of Moody's points which led to two key initiatives:

- *Refinance the portion of debt maturing up to June 2020* – between March and June 2019 R4 billion of external debt (including EUR214 million of debt in Hystead) was refinanced. In addition, R500 million was raised from the issue of two new corporate bonds in March 2019, the proceeds of which were used to settle R358 million of bonds that matured in July 2019, with the balance being retained to finance capital expenditure in the 2020 financial year, and
- *Lowering of our loan-to-value (LTV) to 35% (as considered appropriate and calculated by Moody's)* – alternative ways to reduce the group's LTV ratio continue to be considered and evaluated. In the short term, the disposal of Hyprop's S-SA interests and utilisation of the proceeds to settle US Dollar-denominated debt will result in a reduction in the LTV ratio of approximately 5% (on completion of all disposals).

We will endeavour to restore Hyprop's credit rating to investment grade (subject to South Africa's sovereign credit rating) by 31 December 2020 and will continue to engage with Moody's in that regard.

Hyprop's LTV and interest cover ratios at 30 June 2019 are as follows:

LTV and interest cover ratios	30 June 2019	30 June 2018
Interest cover	4,1	4,3
LTV – Hyprop calculation ¹	35,2%	32,6%
LTV – See-through calculation ²	44,0%	41,6%

¹ Calculated taking into account Hyprop's attributable share of the net assets of Hystead, the Hystead debt guaranteed by Hyprop, and the back-to-back security Hyprop holds from PDI in relation to the guarantees

² See-through calculation including 100% of Hystead's assets and borrowings

The interest cover ratio remains healthy, reflecting the strong cash generative nature of Hyprop's properties.

The group complied with all of its banking covenants during the year.

We have tested the sensitivity of changes in the valuation of the investment property portfolio on the group's LTV ratio. A 20% reduction in the valuation of the investment property portfolio would result in an increase in the overall LTV ratio to 44% (as calculated by Hyprop), with the group still fully compliant with its banking covenants.

Commentary continued

Details of the group's borrowings (including Hystead borrowings guaranteed by Hyprop) are set out in the table below:

	Group statement of financial position 30 June 2019 Rm	LTV calculation Hyprop methodology 30 June 2019 Rm	Group statement of financial position 30 June 2018 Rm	LTV calculation Hyprop methodology 30 June 2018 Rm
Debt summary				
South African debt	4 657	4 657	2 950	2 950
Bank debt	1 558	1 558	600	600
Corporate bonds	3 099	3 099	2 350	2 350
USD (Rand equivalent)	2 671	2 671	4 936	4 936
USD (Rand equivalent included in liabilities directly associated with non-current assets held-for-sale)	1 057	1 057		
EUR (Rand equivalent) ¹		4 994		4 963
Total debt	8 385	13 379	7 886	12 849
Cash and cash equivalents	(1 285)		(715)	
Cash and cash equivalents (Rand equivalent included in non-current assets held-for-sale)	(42)			
Net borrowings	7 058	13 379	7 171	12 849
Portfolio assets				
South African assets	30 270	30 051	30 177	30 025
Investment property South African portfolio	28 476	28 476	28 621	28 621
Building appurtenances	162	162	163	163
Other assets	1 632	1 413	1 194	1 042
Assets held-for-sale			199	199
USD assets	1 333	1 333	4 988	4 988
USD assets held-for-sale	2 048	2 048		
EUR assets ²		4 604		4 297
Portfolio assets	33 651	38 036	35 165	39 310
LTV ratio		35,2%		32,7%

¹ Hyprop's attributable share of Hystead debt guaranteed by Hystead shareholders after deducting the back-to-back security received from PDI

² Hyprop's attributable share of Hystead's NAV (total assets less in-country debt) x 60%

Debt summary continued

	30 June 2019	30 June 2018
On balance sheet debt at fixed rates (excludes EUR funding)	77,0%	81,2%
South African debt	101,1%	113,6%
USD debt (Rand equivalent)	44,6%	61,0%
Average maturity of interest rate hedges (years)	2,25	2,32
South African debt	2,58	2,74
USD debt (Rand equivalent)	1,24	1,15
Average duration of borrowings (years)	2,21	2,43
South African debt	2,84	3,15
USD debt (Rand equivalent)	1,35	1,98
Cost of funding (including hedges)	7,6%	6,7%
South African debt	9,3%	9,4%
USD debt	5,4%	5,0%
Cost of funding (excluding hedges)	7,3%	6,5%
South African debt	8,7%	8,6%
USD debt	5,5%	5,1%
Debt capital market (DCM) % of total debt	25%	20%
Interest cover ratio		
Interest cover ratio (gross)	4,12	4,36
Interest cover ratio (net)	5,18	8,08
Borrowings covenants		
LTV (banks/DCM)	50% – 70%/55%	50% – 70%/55%
Interest cover (banks)	1,75 – 2,0	1,75 – 2,0

Borrowings**Rand-denominated debt**

The South African bank debt is secured against South African investment property, while the DCM funding is unsecured.

During the year R750 million was raised by issuing new bonds with an average duration of 4,5 years and an average interest rate of 1,62% above three-month JIBAR.

On 26 June 2019, USD100 million of debt in Hyprop Mauritius was re-financed through a Rand-denominated four-year term loan of R958 million and a R500 million revolving credit facility, at an interest rate of 1,65% above three-month JIBAR.

Borrowings of R1,0 billion are due for repayment before 30 June 2020. This includes the HILB05 bond of R358 million which was redeemed from available cash resources on 11 July 2019. The remaining R650 million of the short-term debt will be refinanced through new bond issues, term loans or available bank facilities.

US Dollar-denominated debt

Total US Dollar-denominated bank debt at 30 June 2019 was USD244 million (2018: USD343 million), equivalent to R3,5 billion (2018: R4,9 billion). USD188 million of this debt is secured by guarantees from Hyprop against South African investment property.

Proceeds received from the disposal of the S-SA assets will be utilised to settle US Dollar-denominated debt, after retaining sufficient cash to cover operating costs and service the remaining US Dollar-denominated debt for the next 12 months.

Euro-denominated debt

At 30 June 2019, Hyprop had guaranteed EUR357 million of interest-bearing loans advanced by banks to Hystead. This debt is not consolidated in Hyprop's statement of financial position, however, the financial support results in the recognition of a financial liability in Hyprop's statement of financial position. Hyprop's obligations under these guarantees are secured against South African investment property. In exchange for providing guarantees which exceed

Commentary continued

Hyprop's 60% shareholding in Hystead, Hyprop receives a credit enhancement fee from PDI, currently equivalent to 11% of the dividends declared by Hystead.

During the period, EUR395 million of bank loans advanced to Hystead were refinanced for three to four years at an average interest rate of 2.0%. This resulted in new financial guarantees with an initial value of R110 million being recognised, and the derecognition of financial guarantees of R186 million in respect of the retired debt. As a result of more information on credit default rates having become publicly available since implementation of IFRS 9 *Financial instruments*, the average credit default rates used by the independent valuers to determine the fair values of the financial guarantee liabilities reduced significantly from 2018, with a corresponding decrease in the financial liabilities.

Hyprop regularly reviews the funding of its investments in EE. In the context of the current low European interest rate environment, the prudent interest rate hedging strategy adopted by the group and the stable performance of the EE portfolio, the board is comfortable that the current funding structure is appropriate.

Board changes

There have been no changes to the board of directors since publication of the group's interim results for the six months ended 31 December 2018.

Prospects

In line with the group's revised strategic plan, the following key priorities have been set for the next 18 months:

- Reposition our South African portfolio – increase trading densities, increase non-GLA revenue, and identify alternative uses to create value,
- Dispose of the remainder of the S-SA portfolio, while preserving value in the interim,
- Improve the dominance of the EE portfolio – extensions to properties, asset management initiatives, leverage SA expertise and know-how,
- Finalise and implement the strategy for non-tangible assets as a new focus area,
- Reduce the LTV ratio and ultimately restore Hyprop's investment grade credit rating, and
- Improve stakeholder communication – internal and external.

Hyprop expects a reduction in distributable income per share for the year ending 30 June 2020 of approximately 10% to 13%. The main reasons for the reduction are:

- An approximate 4% to 5% reduction in distributable income from the continuing SA and EE portfolios, comprising:
 - a 2% reduction resulting from the full year effect of the Edcon rent reduction,
 - reduction due to the anticipated impact of negative rent reversions as a result of the current economic conditions in South Africa and increased capital expenditure,
 - offset by positive growth in dividends received from the EE portfolio, and
- Approximately R145 million additional net interest and other costs as a result of the need to refinance Dollar denominated debt with Rand-denominated debt, as explained above.

The board believes that the new strategy and key priorities outlined above will create a more defensive balance sheet and a base for sustainable long-term growth, and expects that following the reduction in distributable income in the 2020 financial year, the group will achieve positive growth in distributable income in the 2021 financial year, and beyond. Hyprop continues to evaluate other potential initiatives to improve financial performance and reduce the LTV.

This guidance is based on the following key assumptions:

- Forecast investment property income is based on contractual rental escalations, and market-related renewals,
- Appropriate allowances for vacancies and rent reversions have been incorporated into the forecast,
- No major corporate and tenant failures will occur,
- The impact of the Edcon rent reduction/share subscription until March 2021,
- No further deterioration in performance of the remaining S-SA assets,
- The remaining S-SA assets will be disposed by 30 June 2020 and the proceeds will be used to settle US Dollar-denominated debt,
- Earnings from offshore investments will not be materially impacted by exchange rate volatility or disruptions in the financial markets, and
- Exchange rates (which have not been hedged) have been assumed at R15,00 and R17,00 to the US Dollar and Euro, respectively.

The guidance has not been reviewed or reported on by the company's auditors.

Payment of dividend

A dividend of 359,33956 cents per share for the six months ended 30 June 2019 will be paid to shareholders as follows:

Last day to trade <i>cum</i> dividend	Tuesday, 8 October 2019
Shares trade <i>ex</i> dividend	Wednesday, 9 October 2019
Record date	Friday, 11 October 2019
Payment date	Monday, 14 October 2019

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 9 October 2019 and Friday, 11 October 2019, both days inclusive. Payment of the dividend will be made to shareholders on Monday, 14 October 2019. In respect of dematerialised shareholders, the dividend will be transferred to the CSDP accounts/broker accounts on Monday, 14 October 2019. Certificated shareholders' dividend payments will be deposited on or about Monday, 14 October 2019.

An announcement relating to the tax treatment of the dividend will be released separately.

Basis of preparation

The summarised consolidated financial statements for the year ended 30 June 2019 were prepared in accordance with the JSE Listings Requirements for summarised consolidated results and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require summarised consolidated results to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council, and as a minimum, contain the information required in terms of IAS 34 *Interim financial reporting*.

All amendments to standards that are applicable to Hyprop for its financial year beginning 1 July 2018 have been considered. Based on management's assessment, the amendments do not have a material impact on the group's annual financial statements, save for the additional disclosure requirements in relation to financial instruments as set out in these financial results.

All accounting policies applied in the preparation of the group financial statements are consistent with those applied by Hyprop in its consolidated group annual financial statements for the prior financial year.

These summarised consolidated financial statements for the year ended 30 June 2019 have been extracted from the audited group financial statements, but have not been audited. The directors take full responsibility for the preparation of the summarised consolidated results and for ensuring that the financial information has been correctly extracted from the underlying audited group financial statements. The auditor's report does not necessarily report on all of the information included in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report, together with the underlying financial information from the registered office of the company.

KPMG Inc. has audited the group financial statements. Their unqualified audit report is available from the registered office of the company.

These summarised consolidated financial statements for the year ended 30 June 2019 were prepared under the supervision of Brett Till CA(SA) in his capacity as CFO.

On behalf of the board

GR Tipper
Chairman

MC Wilken
CEO

BC Till
CFO

5 September 2019

Corporate information

Hyprop Investments Limited

(Incorporated in the Republic of South Africa)

(Registration number 1987/005284/06)

JSE share code: HYP

ISIN: ZAE000190724

Bond issuer code: HYP1

(Approved as a REIT by the JSE)

(Hyprop or the company or the group)

Directors

GR Tipper*† (Chairman)

MC Wilken (CEO)

BC Till (CFO)

AW Nauta (CIO)

KM Ellering*

Z Jasper*†

MJ Lewin*†

N Mandindi*†

TV Mokgatlha*†

L Norval*

S Shaw-Taylor* †

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