**OCTODEC INVESTMENTS LIMITED**
(Incorporated in the Republic of South Africa)
(Registration number 1956/002868/06)
JSE share code: OCT ISIN: ZAE000192258
(Approved as a REIT by the JSE)
("**Octodec**" or "**the Company**")

# UPDATE ON THE COVID-19 IMPACT AND TRADING STATEMENT

## Introduction

From the onset of the COVID-19 pandemic, Octodec implemented a range of measures across its portfolio to manage its impact on the business effectively, while prioritising the health and wellbeing of employees, tenants, business partners and other stakeholders across the group's value chain.

To date, the business continuity plans implemented in collaboration with City Property Administration Proprietary Limited, Octodec's property and asset manager, have ensured uninterrupted services to tenants throughout the extended lockdown, while the business responded quickly to the pressures in its operating environment.

## Operational update

The impact of the government's lockdown restrictions on Octodec's operations has been challenging. While the operating environment remains fluid, and the full effects of the crisis on Octodec uncertain, trading conditions have improved as the economy progressively reopened in line with the government's risk-adjusted strategy.

Octodec's response included selective rental relief packages to address affordability during the lockdown period. These were granted on a case-by-case basis, based on a long-term view, considering factors including the tenant's business sustainability as well as retention and vacancy levels.

The majority of commercial tenants were afforded discounts rather than deferments or payment plans, especially small, medium, and micro enterprises (SMMEs) which continue to be the most affected. Given the uncertain outlook, this approach provides greater certainty around the management of future cash flows, arrears, and bad debts.

As lockdown restrictions eased, more commercial tenants resumed their business activities, resulting in a month-on-month improvement in rental collections. Longer recovery time is projected for tenants in the education, places of worship and hotel sectors as reflected by lower collection levels. These sectors represent 4% of our total rental income.

On the retail front, Octodec's shopping centres and shops are well located, with many offering affordable and neighbourhood shopping conveniences which have been well supported by consumers.

Government office tenants, which make up 8% of Octodec's total rental income, have continued to meet their obligations.

The residential portfolio remains resilient with relief measures only provided under exceptional circumstances and predominantly in the form of payment plans.

**Collections**
The table below illustrates collections for April, May, and June 2020, expressed as a percentage of the contractual rental plus recoveries billed before the granting of any COVID-19 related relief. Further, the table illustrates the rental relief given to tenants for the same period. March 2020 figures are included for comparative purposes.

| **Collections as a percentage of billings (before rental relief as set out below)** | | | |
|---|---|---|---|
| | **Total (%)** | **Commercial (%)** | **Residential (%)** |
| March 2020 | 98 | 97 | 99 |
| April 2020 | 66 | 61 | 83 |
| May 2020 | 74 | 69 | 88 |
| June 2020 | 91 | 90 | 92 |
| **Rental relief granted to date (excluding Vat)** | | | |
| | **Total (R' million)** | **Commercial (R' million)** | **Residential (R' million)** |
| March 2020 | nil | nil | nil |
| April 2020 | 0.3 | 0.3 | nil |
| May 2020 | 44.7 | 44.6 | 0.1 |
| June 2020 | 33.8 | 33.3 | 0.5 |
| July 2020 (to date) | 10.4 | 10.3 | 0.1 |
| **Total** | **89.2** | **85.5** | **0.7** |

Encouragingly, July 2020 collections to date have shown similar trends when compared to June 2020. Whilst our credit control processes remain robust the final assessment of the impairment of our trade receivables will be done when we have more clarity and certainty on the outstanding arrears.

**Capital management and liquidity**
Octodec entered the pandemic with a strong liquidity position, having adopted a prudent approach to portfolio expansion and capital management, including further diversification of its funder base.

More recently, Octodec engaged pro-actively with its banks to extend upcoming debt maturities and relax Group Interest Cover Ratio (ICR) covenants, given the anticipated impact of COVID-19 relief measures and trade receivables impairments on profitability for the current financial year. Approval was obtained to extend the term of all bank loans maturing prior to 30 June 2021 for a further period of 1 to 2 years and for the relaxation of Group ICR covenants for the 31 August 2020 measurement period.

Global Credit Ratings ("GCR") has undertaken a credit rating review of Octodec, as guarantor to Premium Properties Limited's Domestic Medium-Term Note Programme (''DMTN"). GCR has confirmed Octodec's rating, long-term national scale issuer rating of A-(za) and the short-term issuer rating of A2(za). The rating outlook has been changed to "Negative" from "Stable outlook". The Negative Outlook reflects the REIT's and the industry's susceptibility to elevated covenant and funding risk, lately exacerbated by COVID-19 related disruptions.

GCR's full credit rating announcement is publicly available on GCR's website at *https://gcrratings.com/announcements/gcr-places-octodec-investments-limiteds-issuer-rating-of-a-za-on-negative-outlook-due-to-elevated-industry-risk/*.

In June 2020, Octodec repaid a DMTN maturing note amounting to R155 million, using available facilities and cash resources. Octodec's remaining exposure to noteholders is R376 million or 8% of overall debt with the next maturity date falling due in May 2021, amounting to R120 million.

Octodec currently has available cash and committed undrawn debt facilities of approximately R400 million and continues to prioritise cash preservation, including reducing expenditure on upgrades and a moratorium on new projects, with the exception of critical and necessary capital expenditure.

While unprecedented decreases in interest rates have taken place over recent months, bank margins have increased, and this trend is expected to continue. Octodec's interest rate risk is approximately 94% hedged for an average weighted tenure of 2.6 years and therefore Octodec does not benefit to the full extent on the recent interest rate decreases.

Given the changes in the trading conditions, property valuation metrics are expected to come under pressure, especially in the absence of measurable property transactions. Octodec has always taken a conservative approach to its valuations, and management continues to monitor the impact of property fundamentals on valuations, including through engagements with external valuers.

Extensive forecasting, sensitivity analysis and modelling of cash flow and balance sheet metrics is carried out regularly, including stress testing under different potential scenarios arising from COVID-19. The Board is satisfied with Octodec's current levels of solvency and liquidity.

**Conclusion**
Octodec's management team continues to engage with a wide range of stakeholders to proactively manage the impact of this unprecedented crisis on tenants while addressing emerging trends to inform its strategy.

The inherent defensive nature of Octodec's portfolio, supported by a large and diverse tenant base focused predominantly in key nodes around the Johannesburg and Pretoria CBDs, coupled with continued focus on prudent balance sheet management and cash preservation, positions Octodec well to navigate the challenging period ahead.

**Trading statement**
Shareholders are referred to the Company's SENS announcements released on 7 April and 22 April 2020, wherein the distribution guidance previously communicated for the financial year ending 31 August 2020, was withdrawn.

Octodec currently uses distribution per share (DPS) as its relevant measurement of financial results, and accordingly, in terms of the JSE Listings Requirements, is required to publish a trading statement as soon as it becomes reasonably certain that the DPS for the next reporting period will differ by at least 15% from that of the prior corresponding period.

Given the ongoing uncertainty around the future impact of COVID-19 on the economy and Octodec's future financial performance, the Board has decided to revisit the current distribution policy which was to pay out 100% of distributable earnings. When assessing the final distribution, numerous factors will be taken into account, including our commitment to cash preservation and balance sheet management and potential amendments to the REIT legislation. As reported at half-year, Octodec did not declare an interim distribution to prioritise prudent capital management.

Shareholders are advised that distributable earnings, on which DPS are based, is expected to decrease by at least 15% for the financial year ending 31 August 2020 with a corresponding decrease of at least 15% from the DPS of 200.9 cents for the prior corresponding period. The Company will publish a further trading statement once it has the reasonable degree of certainty required to confirm the extent of the difference in DPS from the prior corresponding period.

A final decision in respect of DPS will be made at the Board meeting on 13 November 2020 to approve the FY2020 results, which will be released to the market on or about 16 November 2020, subject to no delays as a result of COVID-19.

The contents of this announcement and the financial information on which it has been based have not been reviewed, audited, or reported on by the Company's auditors.

24 July 2020

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