

# Grit Real Estate Income Group Ltd

Achievements backed by organic and inorganic growth



14 Nov 2017

# FUNDAMENTAL VIEW

Grit Real Estate Income Group Ltd (previously Mara Delta Property Holdings) is rapidly developing a track record of acquiring superior property assets in Mauritius and in the African continent ex SA. It aims to grow its portfolio of assets to around US\$1 billion (2017: US\$492.4 million) within the next three to five years, focusing on the current countries of operation and expansion in the African region. Indeed, currently the Group has an interesting pipelines of assets worth US\$225.5m under transfer and development which have been financed by both equity and debt.

On the risk side, political risk insurance has been taken out in Mozambique and Morocco so as to limit the risk of not being able to convert and transfer hard currency.

With assets in Morocco, Zambia, Kenya, Mozambique and Mauritius, Grit provides investors not only with diversification but also provides them with exposure to high yielding real estate assets backed by blue chip tenants, a high occupancy rate and a weighted average lease term (WALE) of approx. 8 years.

Grit stock offers an attractive yield of approx. 8.9%, in USD terms, and the management forecasts a dividend growth of 3%-5% for FY2018. The Group is dually-listed on the JSE's Main Board and the Official Market of the SEM. Also interesting to note that now Grit trades in dual currencies, in USD and MUR, on the SEM and that liquidity of Grit has increased on the local bourse. The stock trades mainly in blocks with 1 year average daily volume standing at 323,847 shares and ADT at USD 459,659.

We recommend **MODERATE BUY**.

Recommendation	<b>MODERATE BUY</b>
Forecasted NAVPS	USD 1.78
Price (As at 25 <sup>th</sup> Sept 2017)	USD 1.36

USD	2015	2016	2017
EBIT	4,427,800	16,940,621	27,195,921
PAT (in 000s)	183,330	1,973,789	17,731,685
No of shares	73,656,446	100,061,130	208,514,261
EPS (Cents)	0.39	2.42	16.06
DPS (Cents)	11.28	11.75	12.07
NAV (Cents)	168.91	163.27	150.94
P/B	1.04	1.02	0.90
Net debt to Equity	76%	88%	67%
Property Yield	7.8%	7.5%	8.2%
LTV	48.3%	48.9%	45.8%
WALE by revenue (in Years)	5.48	7.14	7.8

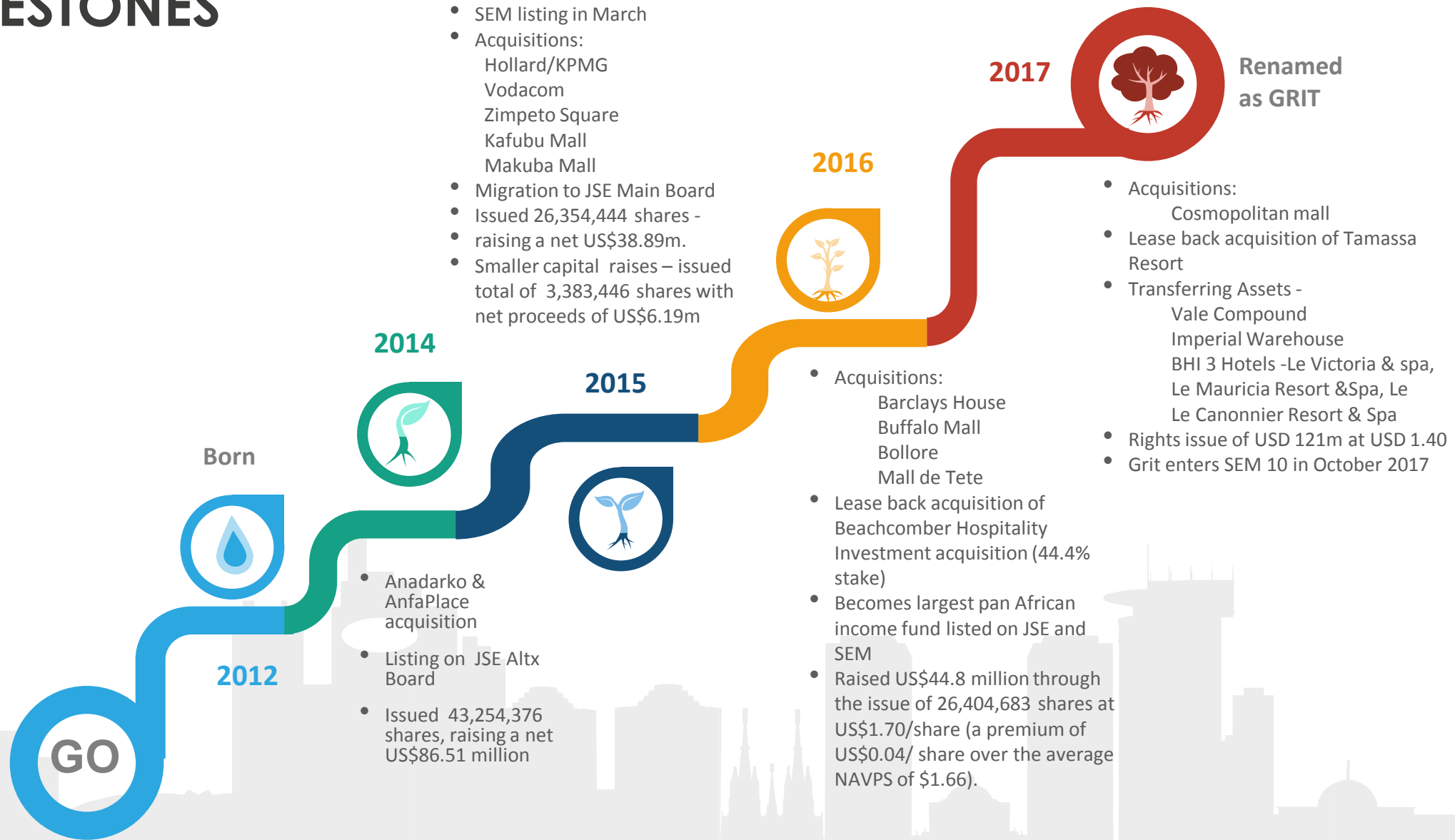
# VALUATION

- Based on Direct Capitalization method of computing, CMB's valuation of the Group's net asset value per share stands at USD 1.78 versus current net asset value per share of USD 1.51 and market price per share of USD 1.36. Our valuation embraces all recent acquisitions and assets currently under transfer.
- Worthwhile to note that our estimate excludes the planned acquisition of properties in Seychelles and other targeted jurisdictions through the Paradise Hospitality Group - an entity under the umbrella of Grit which listed on the Official Market of the SEM. Grit is acquiring a 20% stake in Gateway Delta Development Holdings Ltd – a development company with a project pipeline of USD 680m – as seed investor.
- Decrease in NAVPS for FY2017 is attributed to the recent rights issue of 98,892,723 ordinary shares at a price of USD 1.40 per share. The rights offer proceeds will be used to finance various investments that have been announced to the market in recent months as well as other yield accretive assets.
- Grit is currently cheaper compared to its peers – trading P/B of 0.9x vs its peer average P/B of 1.02x and is trading at a discount of 30% to our estimated NAVPS (assuming no further dilution occurs subject to capital raising – until now all capital raising has been done at a premium to NAV to prevent dilution except that the right issue which was at a discount to NAV). Also, taking into consideration the weakness of the dollar – USD lost approx. 10% since December – **Grit is now cheaper for the local investors and is an opportunity to grab.** Not to forget, the stock currently holds a **high yield of approx. 9% with further scope for dividend growth (3%-5%).** We thus recommend **MODERATE BUY.**

<b>Recommendation</b>	<b>MODERATE BUY</b>
<b>Forecasted NAVPS</b>	<b>USD 1.78</b>
<b>Current Yield (USD)</b>	<b>8.9%</b>

<b>Peers</b>	<b>P/B</b>
New Frontier Properties Ltd	1.47
Sanlam Africa Core Real Estate	0.61
Ascencia Ltd	0.97
Atlantic Leaf Properties Limited	1.02
<b>Average</b>	<b>1.02</b>
<b>Grit Real Estate Income Group Ltd</b>	<b>0.90</b>

# MILESTONES

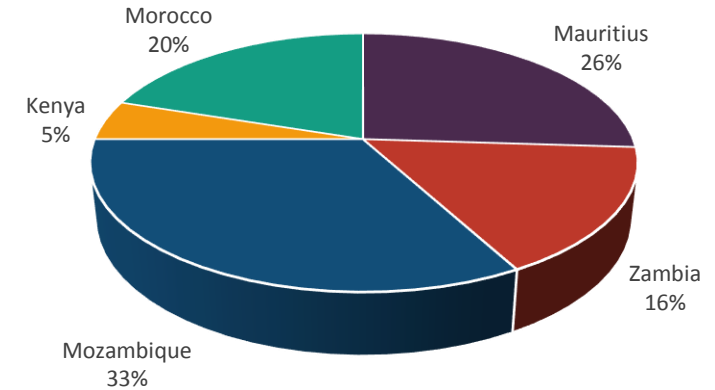


# PROPERTY PORTFOLIO ANALYSIS

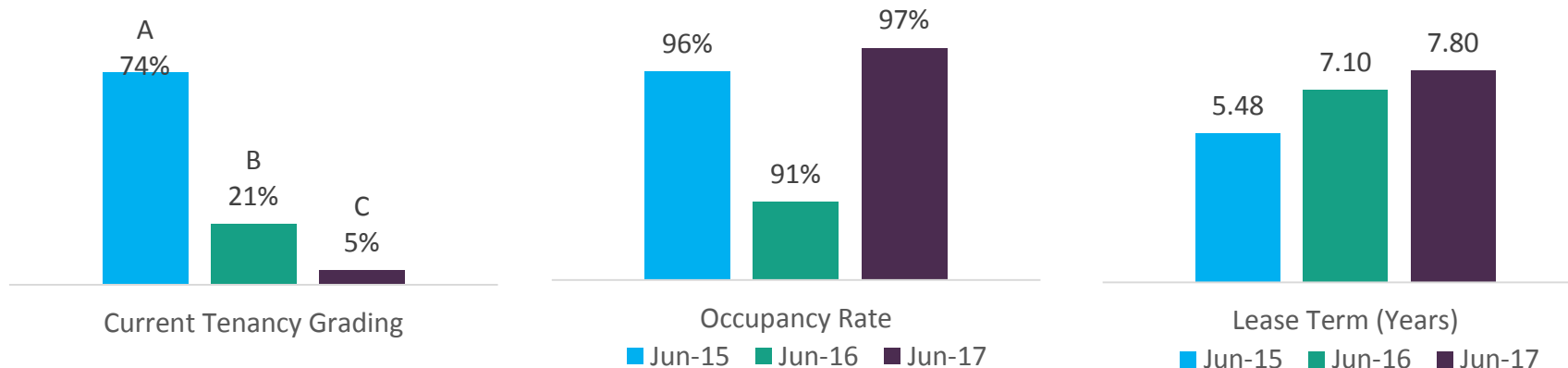
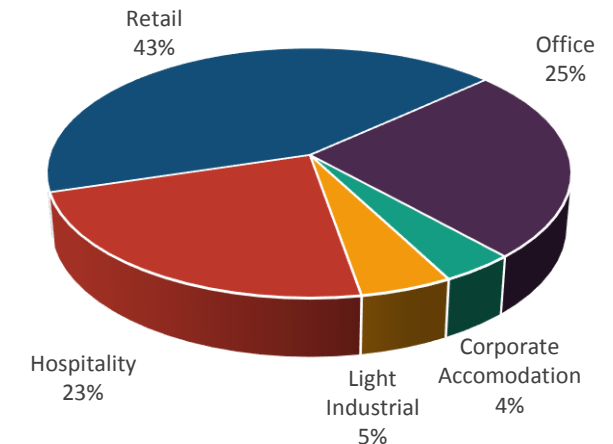
Total Portfolio Value (USD) – as at 30 <sup>th</sup> Aug 2017	546 M
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- Grit is in the process of diversifying its portfolio in an attempt to not have exposure exceeding 25% (soft target) to a single market which shall reduce risks. It is currently considering to enter other approved jurisdictions namely Botswana, Ghana and Rwanda while Seychelles and Tanzania are its targeted jurisdictions.
- WALE has increased substantially as a result of the new acquisitions and a number of lease renewal negotiations, most notably the Vodacom and KPMG leases in Mozambique (both with 10 year renewals negotiated). The increase in WALE will result in sustained rental income for longer time period and therefore more predictable return for shareholders.
- Rental income including associates increased 14%, mainly on account of rental escalations, the full year impact of properties acquired in 2016 as well as income from both Mall de Tete and the Tamassa resort that were transferred in March 2017.
- Management anticipates that properties transferred post year end (BHI, Imperial Warehouse & VDE Accommodation compound) will increase monthly rental by an additional 30.4%.
- Beachcomber Hospitality Investments and Imperial Warehouse were transferred post end of FY2017 resulting in a total portfolio value of USD 546m as at 30<sup>th</sup> August 2017 (FY2017: USD 492.4m).

## Regional Diversification



## Portfolio type by asset value



# CURRENT PROPERTY PORTFOLIO (AS AT 30<sup>TH</sup> AUG 2017)

	Anadarko Building	Vodacom Building	KPMG/Hollard	Zimpeto Square	Bollore Warehouse
<b>Valuation (USD)</b>	42.6m	48.7m	18.5m	11.5m	6.5m
<b>Location</b>	Mozambique	Mozambique	Mozambique	Mozambique	Mozambique
<b>Type</b>	Office	Office	Office	Retail	Light Industrial
<b>Property Yield</b>	9.7%	7.7%	8.6%	10.1%	10%
<b>GLA (sqm)</b>	7,805	10,995	4,945	4,764	6,374
<b>Vacancy</b>	0%	0%	0%	0%	0%
<b>Escalation</b>	3.5%	5%	4.1%	3.6%	0%
<b>WALE</b>	6.6 years	10 years (renewed)	10 years (renewed)	4.7 years	3.3 years
<b>Anchor Tenants</b>	Anakardo, Sal & Caldeira Advogados	Vodacom	KPMG, BP, British Council	Sonae, Edcon, Pep	Bollore Logistics, Plexus
<b>LTV</b>	24.2%	57.2%	57.2%	23.0%	0%

# CURRENT PROPERTY PORTFOLIO

	Anfa Place shopping Centre	Kafubu Mall	Buffalo Mall Naivaisha	Anadarko Phase II
<b>Valuation (USD)</b>	<b>102.3m</b>	<b>12.2m*</b>	<b>6m*</b>	<b>6m</b>
<b>Location</b>	Morocco	Zambia	Kenya	Mozambique
<b>Type</b>	Retail (Under development)	Retail	Retail	Office (Under development)
<b>Est. completion date</b>	Nov 2018	-	-	Oct 2017
<b>Property Yield</b>	9.6%*	8.8%	7.7%	10.6%
<b>GLA (sqm)</b>	30,879*	6,071*	3,308*	3,234
<b>Vacancy</b>	12%	1.6%	3.5%	0%
<b>Escalation</b>	3.3%	7.1%	4%	3.5%
<b>WALE</b>	5.6 years	3.9 years	9.9 years	10 years
<b>Anchor Tenants</b>	Al shaya, Samarcande, Al Hokair	Shoprite, Jet, OK Furniture	Tyskys, Java Coffee, Spur	Occupation on completion
<b>LTV</b>	51.4%	50.7%	29.5%	0%

\*Estimated post upgrade property yield

\*50% stake of asset  
(pro-rated)

\*45.5% stake of asset  
(pro-rated)

# CURRENT PROPERTY PORTFOLIO

	Tamassa Resort	Mall de Tete	Mukuba Mall	Barclays House	Cosmopolitan Mall
<b>Valuation (USD)</b>	<b>43.9m</b>	<b>24.2m</b>	<b>36.1m*</b>	<b>14.4m</b>	<b>38.4m*</b>
<b>Location</b>	Mauritius	Mozambique	Zambia	Mauritius	Zambia
<b>Type</b>	Hospitality	Retail	Retail	Office	Retail
<b>Property Yield</b>	7.6%	9.3%	7.5%	7.2%	7.9%
<b>GLA (sqm)</b>	21,117	11,571	14,115*	7,700	13,256
<b>Vacancy</b>	0%	0%	0%	0%	2.4%
<b>Escalation</b>	0%	3.6%	6.7%	6.6%	6%
<b>WALE</b>	5 years	6.1 years	4.9 years	10.2 years	5.5 years
<b>Anchor Tenants</b>	Lux* Resorts	Shoprite, Choppies, Jet	Game, Shoprite, Pick 'n Pay	Barclays, Clear Ocean	Game, Shoprite, Edcon
<b>LTV</b>	26.9%	50.1%	40.1%	52.8%	52%

\*50% stake of asset(pro-rated)

\*50% stake of asset(pro-rated)



# CURRENT PROPERTY PORTFOLIO

	Imperial Warehouse	Le Victoria Resort & Spa	Le Mauricia Resort & Spa	Le Canonnier Resort & Spa	VDE Compound*
<b>Valuation (USD)</b>	20.9m	30.8m*	23.3m*	24.8m*	34.3m
<b>Location</b>	Kenya	Mauritius	Mauritius	Mauritius	Mozambique
<b>Type</b>	Light Industrial	Hospitality	Hospitality	Hospitality	Corporate Accommodation
<b>Property Yield</b>	8.6%	7.5%	7.5%	7.5%	9.8%
<b>GLA (sqm)</b>	13 560	15,768*	9,837*	10,675*	12,966
<b>Vacancy</b>	0%	0%	0%	0%	0%
<b>Escalation</b>	3%	1%	1%	1%	3%
<b>WALE</b>	10 years	15 years	15 years	15 years	5 years
<b>Anchor Tenants</b>	Imperial Health Sciences	Beachcomber	Beachcomber	Beachcomber	Vale, Barloworld
<b>LTV</b>	42.8%	50.1%	52%	42.8%	26.9%

\*44.4% stake of asset(pro-rated)

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\*Asset under transfer – transfer expected on 30 Sept 2017



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