

Grit Real Estate Income Group

Earnings recovery and deleveraging to drive story

Initiation of Coverage

Real Estate Management & Development.Other



Stock Rating

Buy

Target Price

GBP0.395

Closing Price

GBP0.310

Attractive entry point, given expected earnings recovery

We initiate coverage on Grit Real Estate Income Group (Grit), a unique value play on Africa's (excl. SA) real estate market, with a Buy rating. Our TP of GBP0.395 implies 27.4% upside (excl. FY23e DY of 11.1%), and we value it at 0.53x NAV. Grit's property portfolio – including associates and joint ventures – (cUSD740mn in FY21) has 54 properties in five sectors (mainly retail and hospitality) across eight countries in north, east and west Africa and in the South African Development Community (SADC) region. Grit's competitive advantage is that its leases are primarily LT and paid in hard currency (USD or EUR) by MNC tenants. This mitigates country risk, as these tenants are largely resilient to domestic shocks. The 1H22 results point to portfolio stabilisation, and we expect a recovery in net property income (+5.1% Y-o-Y) and EPS to USD0.0277 (+68% Y-o-Y) in 2023e. Grit's share price would be supported by its average 2023-27e DY of c14.6% and low trading multiple (0.4x NAV). We consider this a good entry point, given the LT potential of the Gateway Real Estate Africa (GREA) acquisition despite a near-term risk of further equity dilution, on the issuance of new shares.

Re-focusing its strategy should be constructive

Mozambique and Mauritius collectively accounted for 62% of Grit's property portfolio in FY21, with its largest exposures in the retail and hospitality sectors (c50% of aggregate). The two countries accounted for 62.4% of FY21 NAV. Post the pandemic and declining valuations, Grit re-adjusted its strategy in its key countries and sectors. The emphasis is now on asset recycling – asset disposals at near-peak valuation. Grit saw its LTV decline to 41.4% in 1H22, from 53% in 2021, after it paid down USD47mn of its debt (c12.9% of total). The recent news to refinance up to USD306mn (vs 1H22's gross debt of USD409.2mn) is positive. Implementation will lead to an increased tenor of 4.3 years (vs 1.68 years in 1H22) despite a higher interest spread rate of 559bps (from 525bps).

GREA acquisition is a significant positive for the Grit equity story

In our view, the acquisition of GREA is positive, as Grit guides it will lead to a c390bp cut in its LTV (possibly to 39.0% vs 42.9% in FY23e), and GREA's project pipeline (pre-sale and fully funded), expected to be consolidated post acquisition, will improve its earnings, capital and dividend outlook. The transaction is expected to close in Dec 2022. GREA is a private developer founded in 2018, with current exposure to Nigeria (data centre), Mali, Ethiopia, Kenya (US diplomatic housing) and Uganda (mall).

Key Financial Highlights (Jun Year End)

In USDmn, unless otherwise stated	2021a	2022e	2023e	2024e
Revenue	49,217	51,530	54,004	56,650
EBIT	19,857	30,471	33,199	34,824
Net income	(51,927)	7,879	13,240	17,018
EPS (USD)	(0.17)	0.02	0.03	0.04
EPS consensus (USD)	(0.17)	N/A	N/A	N/A
Price to earnings	N/M	21.8x	13.0x	10.1x
Price to book value	0.4x	0.4x	0.5x	0.5x
Dividend yield	4.2%	13.9%	11.1%	13.1%
Total net debt (cash) / Equity	1.5x	0.8x	0.9x	0.9x
ROAE	N/M	2.4%	3.4%	4.5%
FCF yield	1.0%	15.7%	18.8%	19.4%

Source: Grit Real Estate Income Group, Bloomberg and EFG Hermes estimates

Stock Data

Closing Price	GBP0.310 as of 27 Oct 2022
Last Div. / Ex. Date	GBP0.017 / 25 Mar 2022
Mkt. Cap / Shares (mn)	USD178.5 / 495.1
Av. Daily Liquidity (mn)	USD0.02
52-Week High / Low	GBP0.339 / GBP0.270
Bloomberg / Reuters	GR1T LN / GR1T.L
Est. Free Float	79.5%

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Data Miner

Investment Thesis

Grit Real Estate Income Group (Grit) offers exposure to the African (excl. SA) real estate market. Grit specialises in investing and actively managing a portfolio of assets predominantly underpinned by USD or EUR long-term leases with high quality multi-national tenants. As of FY21, Grit had 54 properties across five sectors in eight African countries. Due to the pandemic, Grit suffered fair value declines (primarily in retail and hospitality sectors) in 2020-21. This led to a strategy shift to focus on balance sheet restructuring and asset recycling (cUSD160mn by Dec 2023). As part of its restructuring, Grit raised USD76mn in new equity capital (Dec 2021), disposed of an asset in Mauritius for gross proceeds of USD12.2mn and is completing its acquisition of GREA (to be closed by Dec 2022e). Whilst the market has priced in the dilution of its recent capital increase, we do not believe its shares reflect the long-term value creation from its ongoing restructuring. We have a Buy rating on Grit.

Jun Year End	2021a	2022e	2023e	2024e
In USDmn, unless otherwise stated				
Income Statement				
Revenue	49,217	51,530	54,004	56,650
Net operating profit (EBIT)	19,857	30,471	33,199	34,824
Taxes or zakat	(445)	(1,970)	(3,310)	(4,255)
Net income	(51,927)	7,879	13,240	17,018
Balance Sheet				
Cash and cash equivalents	4,890	23,267	11,288	37,279
Account receivables	N/A	N/A	N/A	N/A
Investment properties	549,491	549,491	549,491	549,491
Development properties	N/A	N/A	N/A	N/A
Total assets	810,706	856,272	849,532	880,747
Customer advance	N/A	N/A	N/A	N/A
Total liabilities	532,302	469,906	467,719	500,966
Total equity	278,404	386,366	381,813	379,782
Total net debt (cash)	408,274	326,733	335,712	342,110
Cash Flow Statement				
Cash operating profit after taxes	(60,931)	9,849	16,550	21,273
Change in accounts receivables	N/A	N/A	N/A	N/A
Change in customer advances	N/A	N/A	N/A	N/A
Change in development properties	N/A	N/A	N/A	N/A
Free cash flow	18,355	27,071	32,361	33,367
Net financing	(9,920)	(8,693)	(44,340)	(7,376)
Change in cash	8,435	18,377	(11,979)	25,992

Source: Grit Real Estate Income Group, EFG Hermes estimates

Valuation and Risks

Our target price of GBP0.395, derived from DDM valuation methodology, implies 0.53x NAV. We use a risk free rate of 4.0% and risk premium of 5.5% for the 9.5% cost of equity. The movement of the GBP/USD that has touched multi-year lows is a key risk to our target price. Key downside risks include a continuation of the unfavourable global macro-economic environment that may hamper asset disposals and result in higher debt costs on rising rates. A further strengthening of USD against the EUR may lead to FX losses and delays in GREA's project pipeline.

Jun Year End	2021a	2022e	2023e	2024e
In USDmn, unless otherwise stated				
Per Share Financial Summary				
EPS (USD)	(0.17)	0.02	0.03	0.04
DPS (USD)	0.015	0.050	0.040	0.047
BVPS (USD)	0.84	0.81	0.80	0.80
Valuation Metrics				
Price to earnings	N/M	21.8x	13.0x	10.1x
Price to book value	0.4x	0.4x	0.5x	0.5x
Price to cash flow	6.0x	6.3x	5.2x	5.1x
FCF yield	1.0%	15.7%	18.8%	19.4%
Dividend yield	4.2%	13.9%	11.1%	13.1%
EV / Invested capital	0.6x	0.5x	0.5x	0.5x
ROAIC	-18.0%	2.4%	3.4%	4.5%
ROAE	N/M	2.4%	3.4%	4.5%
KPIs				
Revenue growth	1.4%	4.7%	4.8%	4.9%
Gross profit margin	81.2%	81.2%	81.5%	81.7%
Net operating profit (EBIT) margin	40.3%	59.1%	61.5%	61.5%
Effective Tax Rate	N/M	20.0%	20.0%	20.0%
Net debt (cash) / Equity	1.5x	0.8x	0.9x	0.9x
Net debt (cash) / EBITDA	19.8x	10.4x	9.8x	9.6x

Source: Grit Real Estate Income Group, EFG Hermes estimates

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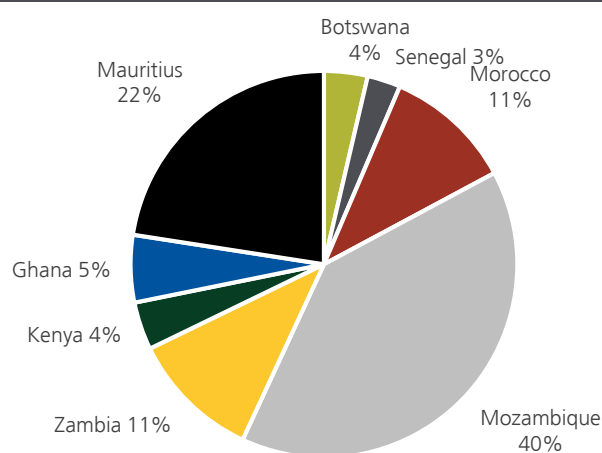
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1. Investment thesis

Strong business model, now even stronger

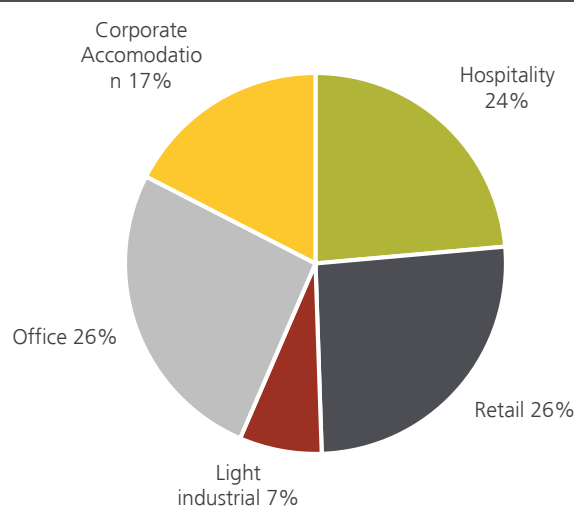
Grit Real Estate Income Group (Grit) is a leading Pan-African (excl. SA) real estate company, focused on investing in and actively managing a diversified portfolio of assets. Its profit generating segments are development management fee (c4% of development cost), asset management fee (1.5% of completed asset value) and real estate & facilities management. As of FY21, Grit's property portfolio had 54 properties, across five sectors in eight African countries in North, East, West Africa & SADC. In FY21, Grit's largest country exposures by portfolio value were Mozambique (40%) and Mauritius (22%), while its main sector exposures were retail (26%) and hospitality (24%).

Figure 1: Geographical portfolio valuation split (FY21)



Source: Company data

Figure 2: Sector portfolio valuation split (FY21)



Source: Company data

In our opinion, Grit has a strong business model because its leases are predominantly paid in hard currency (USD and Euro leases represented c92% of Grit's rental income in 1H22), are long-term in nature (4.4 years in weighted average lease expiry in 1H22), and its tenants are generally high-quality multi-nationals. As of 1H22, cash collections rates were c95% (+3.5ppt Y-o-Y) of contractual rentals, rental escalation was 4.7% and occupancy rates were strong at 94.3% (vs 94.7% in FY21). These improvements in Grit's KPIs are a reflection of management's decision to deleverage its balance sheet and reduce concentration risks through asset recycling – disposal of assets at (near) peak valuation and reinvesting in other assets and/or debt repayments. During the pandemic, pressure on portfolio valuations (mainly in the hospitality and retail sectors) highlighted the need to:

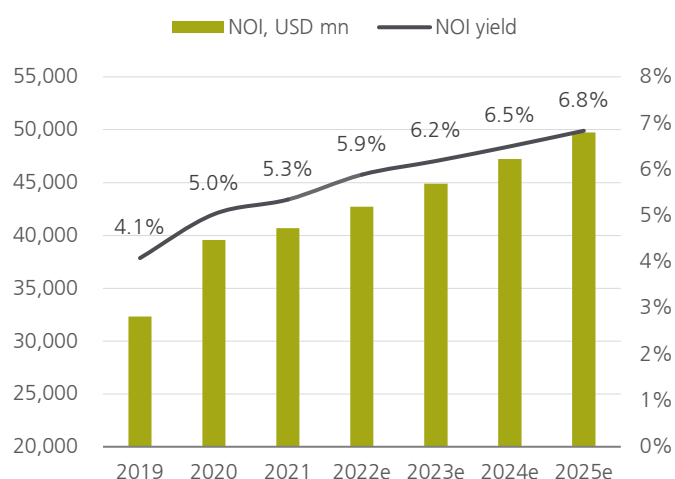
- **Recycle its assets** – Grit plans to dispose of cUSD160mn of its portfolio value by December 2023. So far in 2022, Grit has disposed of an asset in Mauritius (Abs House for gross proceeds of USD12.2mn) and Kenya (equity share sale of 30% of Orbit Africa development to Letlola La Rona Ltd [LLR] for USD7.23mn). Currently, Grit is in the process of disposing a retail asset in Morocco (AnfaPlace Mall). Whilst management has not confirmed this, we think Vale Housing Estate in Mozambique could be disposed to achieve its target. We think the uncertainty surrounding its next tenant, post lease date expiry in May 2024, and Vale's exit from its activities in the country, could be the motivation for the sale. If sold, together with AnfaPlace Mall, we believe Grit will be very close to its target (cUSD156.4mn).

- **Deleveraging its balance sheet** – In FY21, Grit's Loan-to-Value (LTV) peaked at 53.1% post the pandemic. However, by 1H22 Grit's LTV had improved to 41.4% after management paid down USD47mn of its debt following its Dec 2021 capital increase. In FY22e, we forecast a LTV of 43.3% and between 2023-27e we expect an average of 45.6% (vs guidance of 35-40% over the medium term). The use of debt as a tax shield explains our higher LTV expectations.

Grit's operational performance in 1H22 (resumption of dividend payments of USD0.025/share) implies portfolio stabilisation and recovery in its model to improve over our forecast period, in our view. With an even stronger business model, we forecast 5.3% net property income CAGR for 2021-27e on better rental escalation (c5.0% average over 2022-27e vs 3.8% in 2021) with EBITDA at USD44.8mn; 68.2% margin by FY27e (13.9% CAGR, 2021-27e) on improving administrative cost controls (2022-27e average of 1.6% in assets vs 2017-21 average of 1.9% in assets). Management guide for a 13-15% total shareholder return (dividends and NAV growth) over the medium term. We forecast an average dividend yield of c14.6% over 2023-27e.

Figure 3: Net property income (LHS) vs yield (RHS), 2019-25e

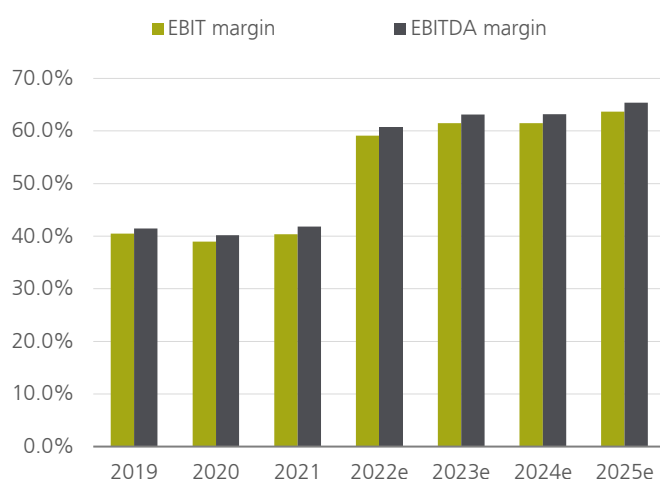
In USD '000 (LHS), %



Source: Company data, EFG Hermes estimates

Figure 4: EBIT vs EBITDA margin, 2019-25e

%



Source: Company data, EFG Hermes estimates

In December 2021, Grit successfully executed a cUSD76mn capital increase (vs an initial target of USD215mn). In addition to reducing debt levels, the proceeds of the capital raising were to be used to acquire Gateway Real Estate Africa (GREA), a private developer founded in 2018 by Grit, Gateway Partner (Dubai based PE fund); and APDM (asset management firm of GREA). As of August 2022, Grit holds 35.01% of GREA and 77.95% of APDM. Grit holds an option to acquire Gateway Partner's remaining 1% in APDM and 13.61% stake in GREA by December 2022. We understand from management that they will exercise this option.

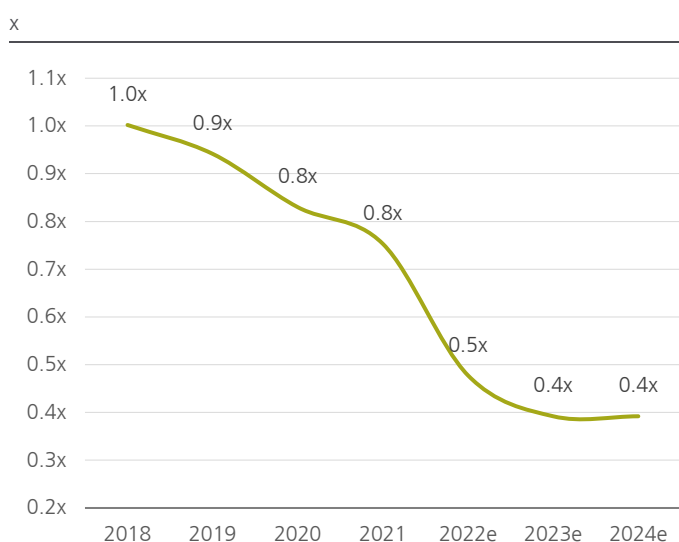
We have not included this potential acquisition in our model, as the transaction is ongoing. However, if the transaction is successfully completed, we believe there could be significant upside risk to our earnings, dividend and debt outlook. Our assumption is explained by GREA's robust balance sheet (USD10.2mn in net cash and USD193mn in total net assets as of June 2021), strong project pipeline that is fully funded across Africa, and its business model of undertaking only pre-sold projects. This represents upside to Grit's gross property income estimates and reduction in its LTV by 390bps, according to management. Additionally, its NAV outlook will be positively impacted by this transaction, if GREA executes its projects in a timely and efficient manner. With the stock trading at a discount to its NAV, the expectation of improving operational performance should be a catalyst for its re-rating, in our view.

Attractively valued

Grit shares touched a 52-week low of GBP0.27 on 29 Sept 2022, -11.3% YTD. Grit listed on the LSE at 1.0x P/NAV, on our numbers, in 2018; and prices remained largely in line with NAV over 2018-21 at 0.9x. The stock is trading at a significant discount of 0.4x NAV. This trend, in our view, has priced in the pandemic-related impact on its property portfolio (decline in valuations mainly at its hospitality and retail assets), as well as the executed equity capital raises (raised over cUSD500mn over 2014-21).

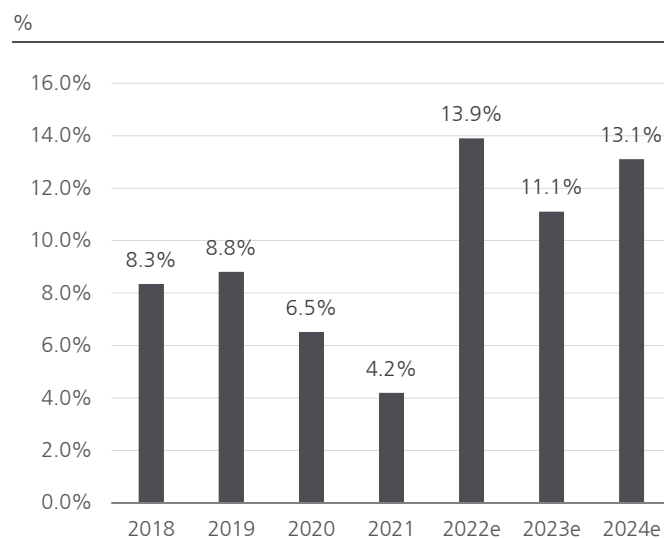
We forecast an average dividend yield of 14.6% over 2023-27e, driven by its earnings recovery supported by the stabilisation of its portfolio and new strategy. This is significantly above its average dividend yield of 6.5% over 2018-21, which reflected a more conservative stance on dividend payout during the pandemic. This is an attractive USD return for minorities considering the stock is trading at discounted levels (0.4x NAV). We initiate coverage of Grit with a Buy rating.

Figure 5: P/NAV valuation looks attractive now (2018-24e)



Source: Company data, EFG Hermes estimates

Figure 6: Dividend yield to increase significantly (2018-24e)



Source: Company data, EFG Hermes estimates

We highlight the following risks to our rating:

- **Unfavourable global environment** (inflation and rate hikes) that may affect its asset disposal strategy, especially if leverage is required to close the transaction;
- This environment may impact **Grit's weighted cost of debt** as the majority of its debt is on variable terms;
- **FX loss** as the USD strengthens against major currencies, especially the EUR;
- **Delay in GREA project pipeline** may lead to slower NAV growth as projected;
- **Dilution risk to minorities** as Grit has 7.5bn in authorised share capital as of FY21, with 477mn issued implying significant headroom to float more shares. We compute Grit raised cUSD394mn in its shares issues over 2017-22 to fund acquisitions, e.g. bought 47.5% in Capital Place in Ghana by issuing 5.5mn shares and increased its stake by 23.75% in Letlole La Rona Ltd (Botswana) by issuing 9.8mn shares. This risk will be realised if minorities do not participate in future capital raise. We provide the table below to highlight Grit's capital issues.

Figure 7: Shares issuances and buybacks, 2014-22

Thousands

	Beginning	Increase	Decrease	End	Amount (USDmn)	Premium/(discount) to respective NAV
2014	664	-	-	664		
2015	664	72,992	-	73,656	126.8	5.8%
2016	73,656	26,405	-	100,061	44.8	22.6%
2017	100,061	108,453	-	208,514	156.0	10.2%
2018	208,514	5,568	59	214,023	8.5	4.8%
2019	214,023	92,373	-	306,396	132.1	-2.8%
2020	306,396	9,840	-	316,236	11.3	22.7%
2021	316,236	15,000	-	331,236	9.8	-22.9%
2022	331,236	146,342	-	477,578	76.1	-40.0%

Source: Company data, EFG Hermes estimates

2. Valuation

Initiate with a Buy rating

We use a five-year DDM valuation methodology to derive our target price of GBP0.395 implying 0.53x NAV. We use a cost of equity of 9.5% derived from a risk free rate of 4.0% and risk premium of 5.5%. The risk of the GBP/USD trading at multi-year lows is clear as Grit's functional currency is USD while its TP is in GBP.

Figure 8: DDM valuation

In USDmn

	2023e	2024e	2025e	2026e	2027e
Dividends per share (DPS)	0.040	0.047	0.054	0.059	0.064
PV of DPS	0.036	0.040	0.041	0.041	0.041
Book Value per share					0.709
Terminal Value					0.411
PV of terminal value					0.261
Sum of PV of DPS	0.198				
Target price in USD	0.460				
Target price in GBP	0.395				

Source: Company data, EFG Hermes estimates

Figure 9: Peer comparison, 24 Oct 2022

Company	Country	Market Cap (USDmn)	P/B			Dividend Yield		
			2020	2021	Latest	2020	2021	2022e
Grit Real Estate Income Group	Mauritius	176	0.7x	N/A	0.6x	9.0%	0.0%	0.0%
Azrieli Group Ltd	Israel	8,701	1.4x	1.7x	1.5x	2.4%	1.8%	2.2%
Norstar Holdings Inc	Israel	191	0.3x	0.5x	0.1x	3.0%	2.8%	0.0%
Hagag Group Real Estate Deve	Israel	326	1.7x	2.3x	1.6x	1.3%	0.7%	0.0%
Ezdan Holding Group	Qatar	9,178	1.5x	1.1x	1.0x	0.0%	0.0%	0.0%
Blue Square Real Estate Ltd	Israel	851	1.1x	1.2x	1.1x	5.0%	4.3%	0.0%
G City Ltd	Israel	604	0.6x	0.7x	0.2x	7.0%	4.9%	0.0%
Israel Canada T.R Ltd	Israel	866	2.7x	3.3x	1.2x	0.1%	0.4%	0.0%
Yh Dimri Construct & Develop	Israel	1,182	2.1x	3.8x	2.8x	2.5%	1.6%	0.0%
Ari Real Estate Arena Invest	Israel	287	0.5x	1.5x	2.3x	0.0%	0.0%	0.0%
Melisron	Israel	3,365	1.2x	1.6x	1.3x	0.7%	0.0%	0.0%
Attacq Ltd	South Africa	273	0.3x	0.5x	0.4x	0.0%	6.3%	8.3%
Updc Real Estate Investment	Nigeria	18	0.5x	N/A	0.3x	0.0%	0.0%	0.0%
Palm Hills Developments Sae	Egypt	220	0.5x	0.7x	0.5x	0.0%	0.0%	3.9%
Emira Property Fund Ltd	South Africa	292	0.5x	0.6x	0.7x	17.8%	12.6%	11.6%
Hyprop Investments Ltd	South Africa	682	0.5x	0.6x	0.6x	11.4%	7.9%	9.2%
Redefine Properties Ltd	South Africa	1,507	0.5x	0.6x	0.7x	15.5%	13.7%	12.7%
Rdc Properties Ltd	Botswana	123	0.7x	0.7x	0.6x	2.9%	4.4%	0.0%
Sa Corporate Real Estate Ltd	South Africa	295	0.4x	0.6x	0.5x	13.9%	10.9%	11.1%
Vukile Property Fund Ltd	South Africa	718	0.4x	0.7x	0.7x	12.6%	8.6%	9.2%
Median			0.6x	0.7x	0.7x	2.7%	2.3%	0.0%
Average			0.9x	1.3x	0.9x	5.3%	4.0%	3.4%

Source: Bloomberg

Scenario analysis

As investors may have different perceptions of our assumptions used to derive our target price (shown in GBP in the tables below).

Figure 10: Risk free rate vs market risk premium

		Market risk premium				
		1.5%	3.5%	5.5%	7.5%	9.5%
Risk Free rate	2.0%	4.072	0.894	0.536	0.395	0.318
	3.0%	1.426	0.665	0.453	0.352	0.291
	4.0%	0.894	0.536	0.395	0.318	0.269
	5.0%	0.665	0.453	0.352	0.291	0.251
	6.0%	0.536	0.395	0.318	0.269	0.235

Source: Company data, EFG Hermes estimates

Our financials in this report are IFRS based but it is important to highlight that IFRS incorporates the impact of associates and joint ventures in one single line item. We provide a list of Grit's associates and joint ventures including valuations as at June 2020/21 below.

Figure 11: Value of Joint Ventures and Associates, 2020-21

In USD thousands

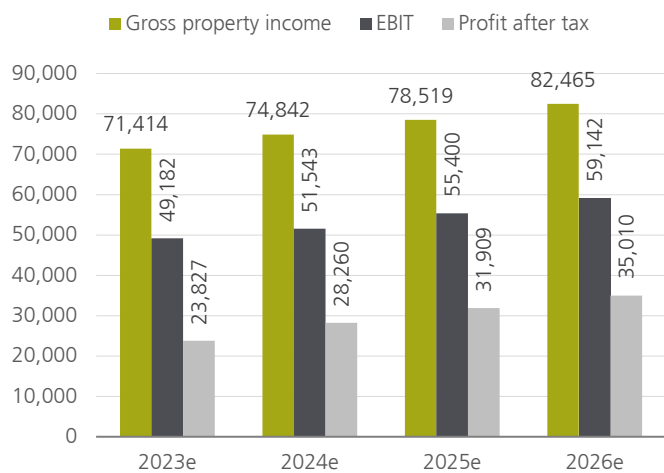
Property	Shareholding	Sector	Country	FY20	FY21
Kafubu Mall	50.0%	Retail	Zambia	9,658	9,623
CADS II Building	50.0%	Office	Ghana	16,920	15,075
Cosmopolitan Mall	50.0%	Retail	Zambia	31,375	24,945
Joint ventures				57,953	49,643
Buffalo Mall	50.0%	Retail	Kenya	6,395	5,441
Capital Place	50.0%	Office	Ghana	11,210	10,150
Beachcomber Hospitality	44.4%	Hospitality	Mauritius	95,066	101,594
Letlole La Rona (21 properties)	30.0%	Light Industrial	Botswana	15,536	18,647
Letlole La Rona (1 property)	30.0%	Hospitality	Botswana	193	209
Letlole La Rona (2 properties)	30.0%	Retail	Botswana	4,957	5,325
Letlole La Rona (1 property)	30.0%	Office	Botswana	1,316	1,517
Letlole La Rona (1 property)	30.0%	Accommodation	Botswana	1,221	1,300
Gateway Real Estate Africa (GREA)	35.0%	Other investments	Mauritius	5,009	12,557
Associates				140,903	156,740
Total				198,856	206,383

Source: Company data, EFG Hermes estimates

To determine the distributable earnings, Grit gives details to IFRS comprehensive income that provide insight into the components of properties held under joint ventures and associates, as well as portion attributable to non-controlling interest. We focus on associates and joint ventures in our forecast period rather than non-controlling interest. Taking all this into consideration results into the Grit Economic interest statement that is the platform to derive its distributable earnings (account for non-cash items like FV adjustments) and therefore dividends. We assume 80% dividend payout of distributable earnings and we do not assume any FV adjustments and acquisitions in our forecast period.

Figure 12: Grit Economic Interest statistics, 2023-26e

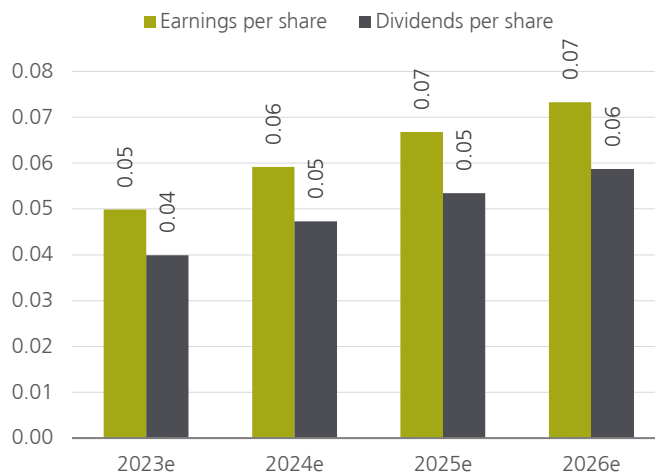
In USD thousands



Source: EFG Hermes estimates

Figure 13: Distributable EPS and DPS, 2023-26e

In USDmn



Source: EFG Hermes estimates

3. A unique play on African real estate

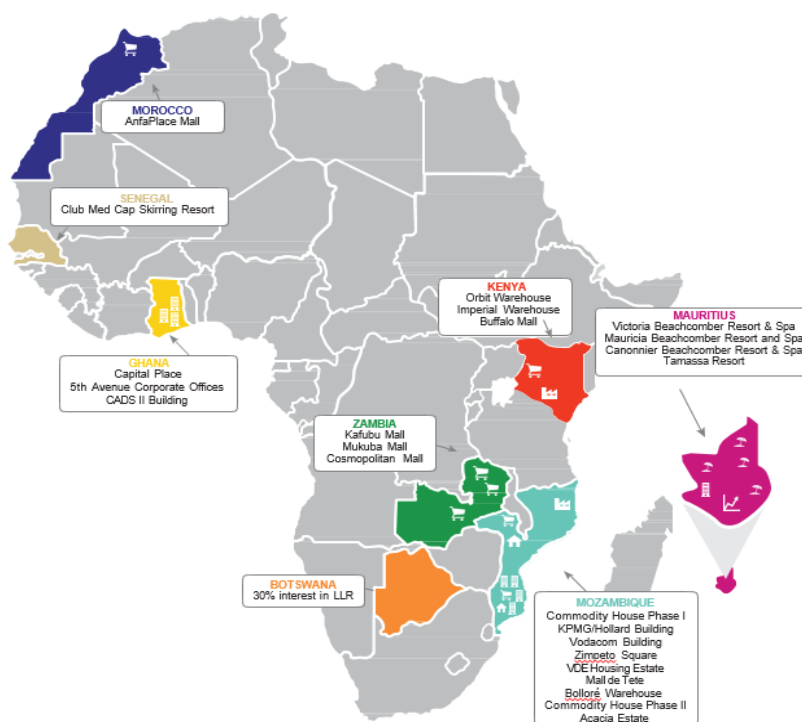
Strong property portfolio growth across eight African markets

Grit Real Estate Income Group (Grit) is focused on investing in and actively managing a diversified portfolio of assets in selected African countries (excl. SA). The assets are underpinned by predominantly USD and Euro denominated long-term leases with a range of blue-chip multinational tenants across different sectors, with the aim of delivering sustainable long-term income.

Grit offers an interesting and exceptional play on the African real estate sector, in our view. Firstly, Grit is a property income fund and not a Real Estate Investment Trust (REIT). In a REIT, no corporate taxes are paid on profits inside the structure with the resultant paid out as dividends (in Kenya, there is a withholding tax charged on dividends). Grit's pre-tax income is taxed on assets within each market it operates in, with net income distributed as dividends.

As of June 2021, Grit operated in eight African markets – Morocco, Senegal, Ghana, Zambia, Botswana, Mozambique, Mauritius, and Kenya – with 54 assets across five sectors – hospitality, retail, office, light industrial, and corporate accommodation. In July 2022, Grit announced the sale of Absa House in Ebene, Mauritius (c8,669sqm in gross lettable area) for net sale proceeds of USD4.2mn to Lavastone (Mauritian property company). According to management, the asset was in the mature phase and at peak valuation. The proceeds were used for debt reduction.

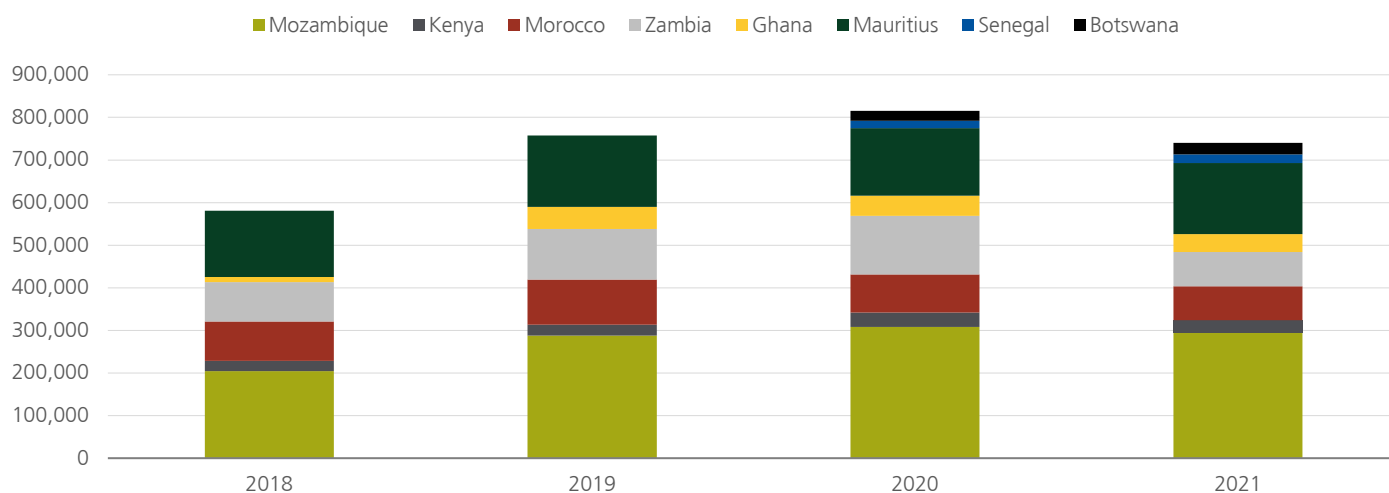
Figure 14: Property portfolio (2021)



Source: Company data

Figure 15: Property portfolio trend (2018-21)

In USD '000s



Source: Company data, EFG Hermes estimates

Grit's property portfolio was worth USD210.4mn in FY15 with Morocco (AnfaPlace Mall) as its first investment destination followed by Mozambique (Anadarko, Vodacom and Hollard Buildings). As at FY21, the property portfolio valuation was USD740.2mn (vs USD815.4mn in FY20) as Mozambique and Mauritius accounted for c62% of the total portfolio. We compute 8.4% portfolio valuation CAGR over 2018-21, which is strong, in our view, supported by Ghana's 50.5% CAGR driven by 50% stake investment in CADS Developers Ltd (Tullow Oil in Fig.16) and acquisition of 5th Avenue in FY19. Additionally, Grit increased its stake in Mukuba Mall in Zambia to 75% (from 50%) that year. Mozambique's 12.9% CAGR was supported by the acquisition of Acacia Estate in FY19 and successful handover of an additional 20 units (223 units by 1H19) in FY20 at Vale Housing Estate.

Figure 16: Grit Property's portfolio valuation, June 2021

Country	Property	Location	Sector	GLA (sqm)	Valuation (USD'000)	Valuation per sqm (USDmn)
Mozambique	Zimpeto Square	Maputo	Retail	4,752	4,587	0.97
	Bollore Warehouse	Pemba	Light Industrial	3,397	9,012	2.65
	Mall de Tete	Tete	Retail	11,255	15,952	1.42
	Commodity Phase 1	Maputo	Office	7,529	47,214	6.27
	Commodity Phase 2	Maputo	Office	3,168	19,047	6.01
	Acacia Estate	Maputo	Corporate Accommodation	18,400	70,353	3.82
	Vodacom Building	Maputo	Office	10,836	49,624	4.58
	Hollard/KPMG Building	Maputo	Office	5,051	20,816	4.12
	Vale Housing Estate	Tete	Corporate Accommodation	25,555	57,546	2.25
			89,943	294,151	3.27	
Kenya	Buffalo Mall	Naivasha	Retail	5,708	5,440	0.95
	Imperial Warehouse	Nairobi	Light Industrial	13,702	24,170	1.76
			19,410	29,610	1.53	
Morocco	AnfaPlace Mall	Casablanca	Retail	32,820	79,535	2.42
			32,820	79,535	2.42	
Zambia	Mukuba Mall (75% ownership)	Kitwe	Retail	28,236	46,210	1.64
	Cosmopolitan Mall (50% ownership)	Lusaka	Retail	25,376	24,945	0.98
	Kafubu Mall (50% ownership)	Ndola	Retail	11,923	9,623	0.81
			65,535	80,778	1.23	
Ghana	Capital Place (50% ownership)	Accra	Office	5,271	10,150	1.93
	5th Avenue	Accra	Office	5,070	16,440	3.24
	Tulloy Oil (50% ownership)	Accra	Office	7,262	15,075	2.08
			17,603	41,665	2.37	
Mauritius	Absa House	Ebene	Office	8,266	13,106	1.59
	Beachcomber Hospitality (44.42% ownership)	Cannoniers Resort & Spa, Mauricia Resort & Spa, Victoria Resort & Spa	Hospitality	90,210	101,594	1.13
	Tamassa Resort	Bel Ombre	Hospitality	21,567	52,232	2.42
			120,043	166,932	1.39	
Senegal	Club Med	Cap Skirring	Hospitality	16,462	20,594	1.25
			16,462	20,594	1.25	
Botswana	Letlole LaRona (30% ownership)	Various towns	Various	194,958	26,998	0.14
			194,958	26,998	0.14	
Total				556,774	740,263	1.33

Source: Company data, EFG Hermes estimates

Grit's top 15 clients accounted for 70.3% of its group income as of 1H22. We are encouraged with the use of triple net leases (the tenant pays the rent, insurance, and maintenance of the property), especially in the hospitality sector implying no direct exposure by Grit. The calibre of these tenants coupled with hard currency leases is reassuring, in our view.

In late 2021, Vale announced its asset divestment in Tete, Mozambique (Moatize coal mine and Nacala Logistics Corridor) for USD270mn to Vulcan (owned by Jindal Group). Vale's next lease renewal date is May 2024, and the sale creates an uncertainty if the new mine owner will occupy the facility. This led to an 18.6% decline in its valuation in FY21. To highlight its importance, Vale contributed 9.9% in 1H22 (vs FY2019's 9.8%) of the group's income. Unfortunately, we do not have more details on this subject matter.

Figure 17: Top 15 Tenants, 1H22

Rank	Tenant	Industry	Income (% of group)	Tenant grading	Lease covenant	Lease currency
1	BeachComber	Hospitality	11.1%	Other Global	Triple Net	EUR
2	Total	Mining and Natural Resources	10.1%	Forbes	Gross	USD
3	Vale	Mining and Natural Resources	9.9%	Forbes	Gross	USD
4	Vodacom	Communications	6.8%	Forbes	Triple Net	USD
5	Tamassa Resort Bel Ombre	Hospitality	5.4%	Other Global	Triple Net	EUR
6	US Embassy	Consular	5.2%	Other Global	Gross	USD
7	Shoprite	Retail	3.6%	Forbes	Gross	USD
8	Tullow Oil	Mining and Natural Resources	3.0%	Other Global	Triple Net	USD
9	Imperial Health Services	Logistics	2.8%	Pan African	Triple Net	USD
10	Exxon	Mining and Natural Resources	2.4%	Forbes	Gross	USD
11	Club Med Cap Skirring	Hospitality	2.4%	Other Global	Triple Net	EUR
12	International Retail Morocco	Retail	2.3%	Other Global	Gross	MAD
13	Hollard	Financials/Banking	1.8%	Other Global	Gross	USD
14	Tsebo	Services	1.7%	Other Global	Gross	USD
15	Absa Bank	Financials/Banking	1.6%	Other Global	Gross	MUR/USD/BWP
			70.3%			

Source: Company data

Pivot in strategy due to COVID-19

The onset of the pandemic led to shutdown of several economic sectors that impacted Grit's property valuations, more so for its retail and hospitality assets. As a result, its hospitality assets (c23.6% of group portfolio and 20.8% of Grit's total NAV in FY21), which are largely domiciled in Mauritius and Senegal, recorded 54.6% in rent deferrals (vs contract rent) in FY20 that fell to 11.2% in deferrals in FY21. In Senegal, Grit provided up to 9 months of rent deferral and cut its redevelopment programme to EUR3.3mn (from EUR6.5mn) and postponed phase 2 of the redevelopment until the hospitality sector stabilised. As the hospitality sector is key in Mauritius, rent collections were postponed by government legislation. Positively, Grit has signed triple net leases in the hospitality sector with international operators with contracts underwritten by the holding companies of the operators. In 1H22, management announced all hospitality assets were open and trading with expectations of valuation recovery.

The retail segment (c12.3% of Grit's total NAV in FY21) was hard hit and we compute valuations declined 29.1% in FY21. In FY20, rent deferrals and rent concessions came in at 12.1% and 29.5%, respectively. These improved to 0.3% and 8.9% in FY21 and according to management's latest commentary, the pressure on this sector stabilised by 1H22.

Positively, the light industrial, office and corporate accommodation (c50% of portfolio value, FY21) were largely resilient in the period.

The table below shows valuations across the portfolio have largely steadied themselves in 1H21 (+0.1% vs -14.2% between Dec 2019 and June 2021). The light industrial was the most consistent over the 18-month period (Dec 2019 to June 2021) and six-month period (1H22). The corporate accommodation performance in the 18-month period is affected by the uncertainty surrounding the exit of Vale from Mozambique. The office and retail assets performance turned positive in the 6-month vs 18-month, while pressure on hospitality assets seem to have eased off in 1H22. Positively, revenue collection increased across the board.

Figure 18: Impact on valuation and collection, 2019 to 1H22

	Reported Total value move (incl. additions)				Property valuation balance 2021	12M to 30 June 2021		6M to 31 Dec 2021	
	31 Dec 2019 to 30 June 2021	18M % move	June 2021 to 31 Dec 2021	6M % move		12M % NOI move	Revenue Collection	6M % NOI move	Revenue Collection
Office	(11,330)	▼5.7%	1,501	▲0.8%	192,973	▲13.7%	100.0%	▼4.6%	108.0%
Retail	(80,968)	▼31.2%	2,681	▲1.4%	188,976	▼29.8%	90.2%	▲10.8%	88.5%
Hospitality	(13,170)	▼7.7%	(5,133)	▼2.9%	169,287	▲19.5%	77.2%	▼0.3%	83.2%
Light Industrial	1,093	▲3.5%	1,513	▲4.2%	37,745	▼14.0%	100.3%	▲19.8%	89.4%
Corporate Accommodation	(13,589)	▼9.7%	394	▲0.3%	128,293	▲10.9%	99.2%	▼6.5%	99.3%
GREA	2,136	▲20.5%	1,060	▲8.4%	13,617	▲25.6%	n/a	▲64.3%	n/a
LLR	970	▲4.3%	(1,530)	▼5.6%	25,496	▲118.9%	Included in light industrial	▲9.3%	n/a
Total*	(114,858)	▼14.2%	486	▲0.1%	756,387	▲3.5%	92.5%	▲0.6%	94.9%

*includes associates and joint ventures

Source: Company data

As a result of the negative impact, Grit's strategy is focused on:

- **Asset recycling:** This is the process of disposing an asset then reinvesting the funds in other assets/investments and/or de-lever the balance sheet. The Board aims to accelerate this process to achieve a target of 20% of portfolio value (cUSD160mn) by 31 Dec 2023. So far, Absa House in Mauritius was disposed in 2022 for net proceeds of USD4.2mn, while the due diligence for the full disposal of AnfaPlace Mall in Morocco (largest retail asset) was completed in early 2022. We understand Grit has started discussions with a new interested party, but we highlight the higher interest rate environment could be a risk to this disposal. The disposal of 30% in Grit's industrial facility in Kenya to Letlole La Rona Ltd (LLR) for total proceeds of USD7.23mn was completed in July 2022 as part of this strategy.

Management are confident in achieving its target within the timeline. Whilst management has not confirmed this, we think Vale Housing Estate in Mozambique could be disposed to achieve the target. We think the uncertainty surrounding the next tenant, post lease date expiry in March 2024, after Vale exited the country could be the motivation for the sale. If sold, together with AnfaPlace Mall, we believe Grit would be very close to achieving its target (cUSD156.4mn).

Figure 19: Asset recycling strategy progress

Asset	Country	Transaction type	FY21 valuation, (USDmn)	Gross proceeds, (USDmn)	Status
Absa House	Mauritius	Disposal	13.1	12.2	Complete
Orbit Africa development	Kenya	Equity sale, 30%	-	7.2	Complete
AnfaPlace Mall	Morocco	Disposal	79.5		On-going
Vale Housing Estate	Mozambique	Disposal	57.5		Speculative
			137.0*	19.4	

**excludes Absa House valuation*

Source: Company data, EFG Hermes estimates

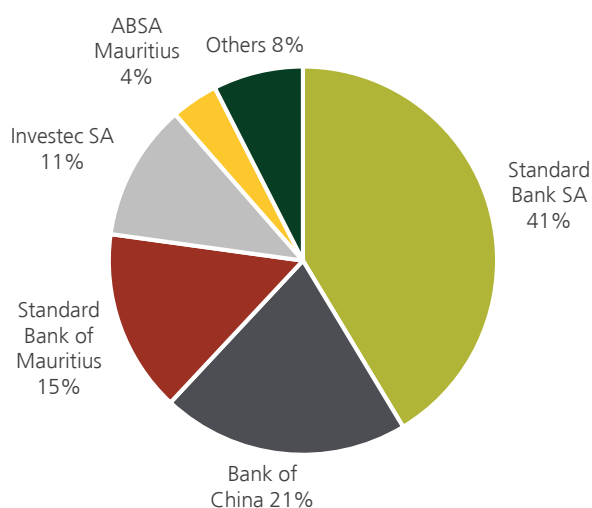
- **Strengthening balance sheet:** This became the central focus as Grit's loan-to-value (LTV) peaked at 53.1% in FY21, following the sharp declines in asset valuations. Proceeds from asset recycling (1-5% impact on LTV) will be utilised for debt reduction, as well as leveraging Grit's strong relationships with its debt providers to refinancing maturing debt. As of 1H22, LTV was 41.4%, slightly above its medium-term target of 35-40%, post USD47mn debt payment from share issue proceeds. As COVID-19 eases and economies continually open up, we expect a recovery in property valuations. We estimate FY22e LTV to be 43.3% and an average LTV of 45.6% for 2023-27e, largely due to the need for leverage to shield its taxable income.

4. Grit is a deleveraging play

Restructuring to lower leverage

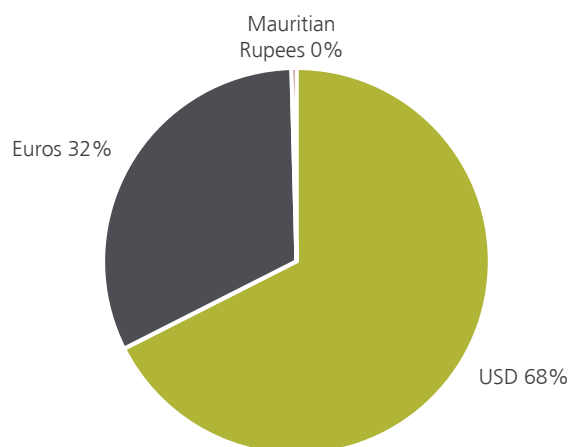
Balance sheet deleveraging is a strategic focus for Grit, especially given the lessons it learnt during the pandemic. At its peak, we compute that Grit's FY21 gross debt was cUSD412mn (vs cUSD363mn in 1H22). With these debt levels, Grit's 1H22 loan to value (LTV) was 41.4% (vs 53.1% in FY21). Grit's 1H22 LTV benefited from USD47mn of debt repayments following its Dec 2021 capital raising. We estimate its net debt will report a CAGR of -1.8% over 2021-27e; a downward trend to cUSD366mn by FY27e. Over the medium term, Grit is targeting an LTV of between 35-40%.

Figure 20: Gross debt split by lenders, FY21



Source: Company data, EFG Hermes estimates

Figure 21: Gross debt by currency, FY21

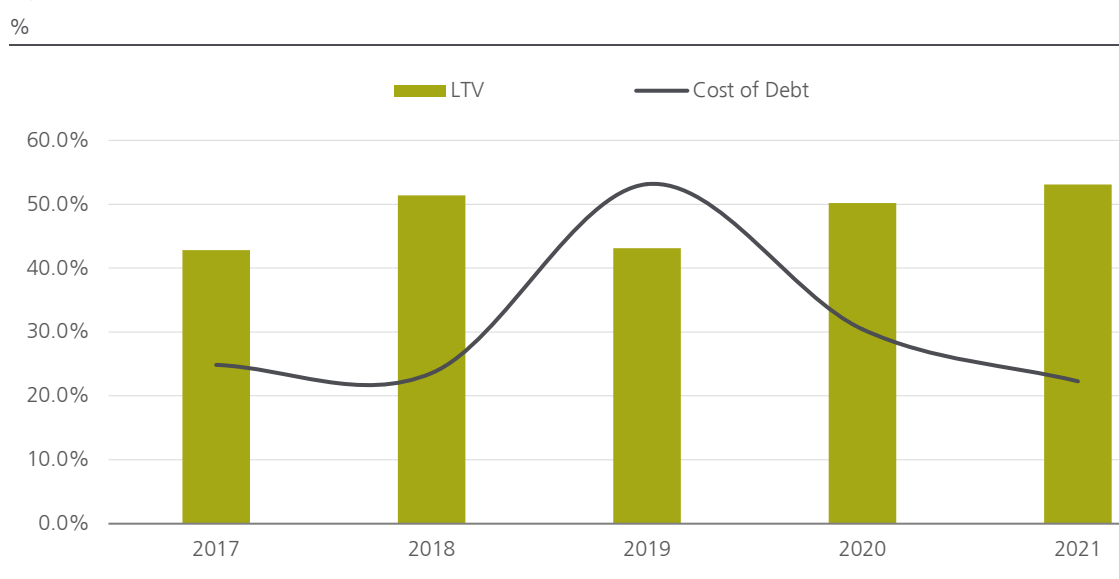


Source: Company data, EFG Hermes estimates

In our view, it is difficult to estimate the fair value adjustments, due to the discretionary nature of inputs used in the calculation of the value of its investment properties. As a result, we do not model FV adjustments over our forecast period (2023-27e), but acknowledge these adjustments are critical to the calculation of LTV.

We anticipate leverage ratios to improve to 8.2x net debt/EBITDA by FY27e (from 19.8x in FY21) supported by improving EBITDA (USD44.8mn; 68.2% margin in FY27e vs USD20.5mn; 41.8% margin in FY21) and the expected restructuring in its balance sheet. In terms of LTV, we anticipate 43.3% in FY22e and an average of 45.6% between FY23-27e. If property valuations recover quickly, then there would be scope for lower LTV estimates. However, we continue to believe that Grit will maintain some level of debt, as the debt acts as a tax shield as Grit is not a REIT.

Figure 22: Loan to Value vs Cost of Debt, 2017-21



Source: Company data, EFG Hermes estimates

Despite the positive LTV trend over our forecast period, we identify potential risks to its debt profile as follows:

The **weighted average cost of debt** was 5.7% in 1H22 (similar to FY21), but we cannot discount the impact of global inflationary environment on rates. We count 20 facilities (incl. overdrafts) with 16 using variable rates in FY21. In an increasing rates environment, we are concerned by this risk. Grit has multiple financial providers, with Standard Bank South Africa (SBSA) as the primary lender – accounting for 41.4% of total gross debt as of FY21. Grit intends to leverage its strong relationships across the different banks to consolidate and refinance its debt. Management successfully executed the following post June 2021;

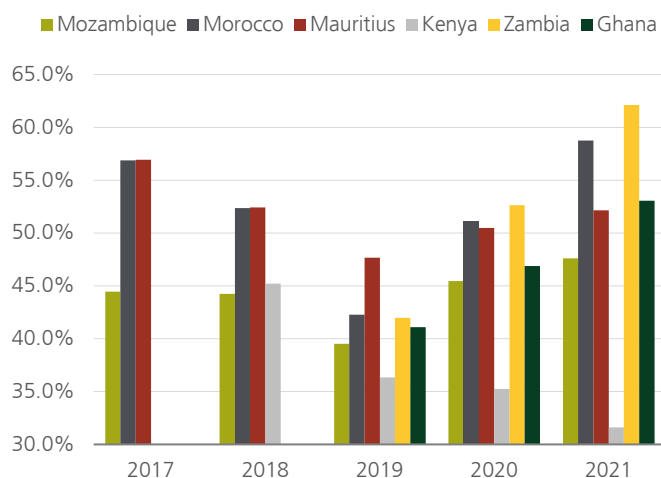
- Grit extended all its State Bank of Mauritius USD facilities to 31 March 2025;
- Investec facility on the AnfaPlace Mall was extended to April 2023 with USD6mn payable as part of the terms of the refinance;
- The Group's revolving credit facility of USD7mn with Nedbank and EUR26.5mn with SBSA were extended to April 2023.

Despite this, its weighted average debt expiry was 1.68 years in 1H22 (vs 1.48 years in FY21). Its largest debt (USD140mn, SBSA), collateralised by the Mozambique assets, is expected to mature in Oct 2023.

To underline its refinancing capability, in FY20 Grit refinanced its Mozambican facilities into a USD140mn loan from SBSA. This was through a cross collateralisation of the Mozambican assets (cUSD308mn in FY20) to SBSA resulting in c100bps savings in interest rates compared to the replaced facilities. We expect Grit to employ this strategy in future refinancing negotiations. The charts below show the trend in LTV split by geography across Grit's investment properties and its joint ventures and associates. As of FY21, the highest LTV was in Zambia at 62.1% for its investment property (Mukuba Mall) and 66.3% for its joint ventures & associates (Kafubu Mall and Cosmopolitan Shopping Centre). On average, we compute LTV at 48.6% across the investment properties portfolio and 40.6% for its joint ventures and associates. This implies some headroom for additional debt, in our view.

Figure 23: Investment properties LTV per country (2017-21)

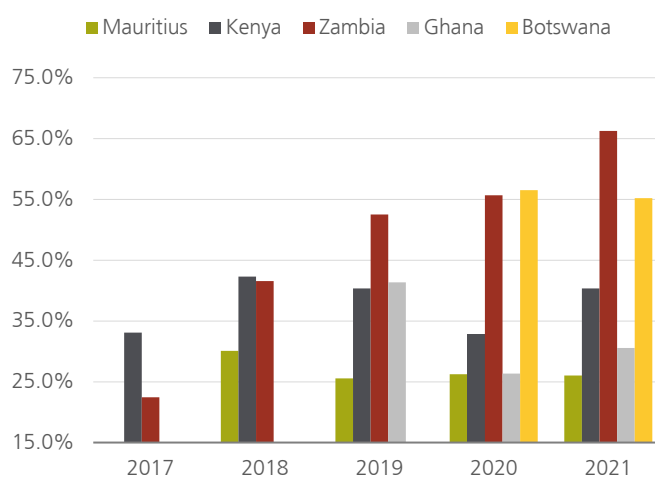
%



Source: Company data, EFG Hermes estimates

Figure 24: JV and associates' LTV per country (2017-21)

%



Source: Company data, EFG Hermes estimates

As per its press release (Sept 2022), Grit announced a sustainability-linked debt refinancing of USD306mn of existing debt facilities across Mozambique, Zambia, Ghana and Senegal creating diversification, tenor, optimal funding costs, and a scalable long-term debt solution. The refinancing of this debt will minimise the impact of an expected increase in global interest rate and reduce Grit's refinancing risks in the medium term, according to management. Grit has signed binding refinancing agreements as at 19 Oct 2022 communication and expects improved weighted average facility tenor of 4.3 years despite increased interest spread rate over the base of 559bps (from 525bps) as a result. This is a positive development with end Oct 2022 as the implementation date providing an upside risk to 2023e earnings.

In light of the **rising interest rate environment**, Grit believes that, its re-negotiated lease escalations should be a shield against higher rates. We compute 6.0% average (FY23-27e) in cost of debt vs 5.7% in 1H22. We estimate cost of debt to initially spike to 6.8% in 2023e then taper off to 5.9% by 2027e. As majority of its gross debt is variable (either linked to Libor or Euribor). With the expected retirement of Libor use is June 2023, we believe that these loans may transit to the Secure Overnight Financing Rate (SOFR). Our concern with the SOFR, is that, it is a backward looking metric that could complicate cash flow projections and may therefore result in short-term challenges to cash balances, according to management. However, we are confident that Grit can mitigate this risk through its regular communications with its financiers. We maintain use of Libor rates over our forecast period until there is clarity from the company.

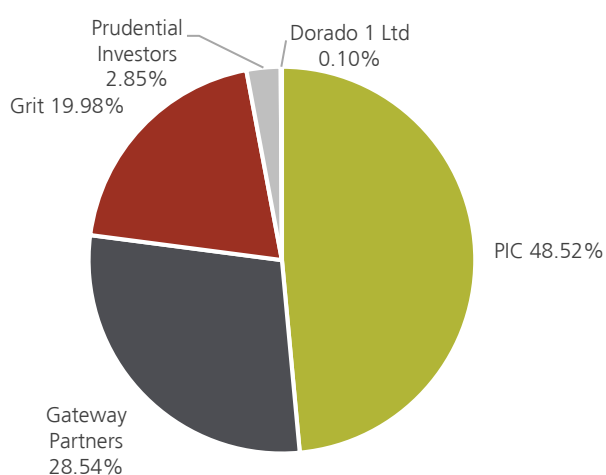
By virtue of its historical listing on the Johannesburg Stock Exchange (JSE), Grit's largest shareholder (PIC) facilitated Grit's black empowerment and transformation partner to secure a facility. **Drive in Trading (DIT)**, a Broad Based Black Economic Empowerment (B-BBEE) consortium, secured USD33.4mn loan to fund its investment in Grit (c23.25mn shares) in June 2017. This loan was granted after PIC provided a guarantee in the form of a Contingent Repurchase Obligation (CRO) for up to USD35mn.

The terms of the CRO compel PIC to acquire the loan granted to DIT should it default. In order to facilitate this, Grit agreed to de-risk 50% of PIC's USD35mn exposure to the CRO, by granting PIC a guarantee whereby should the lender enforce the CRO, Grit would indemnify PIC for up to 50% of the losses, capped at USD17.5mn, following the sale of the underlying securities, being the shares held by DIT in Grit. The loan expired in Aug 2020 and PIC assumed the position as lender to DIT. The risk is PIC reserves the right to call Grit's cash collateral with four days' notice. As at 1H22, Grit had provided for USD12.1mn of the guarantee exposure. In its latest market communication, Grit states a conclusion to unwind this exposure by 4Q22 is in the process after agreeing to fund its USD17.5mn guarantee commitment and that both Grit and PIC will take ownership of the security (Grit's ordinary shares). This is a positive development.

5. GREA acquisition is critical to Grit's fortunes

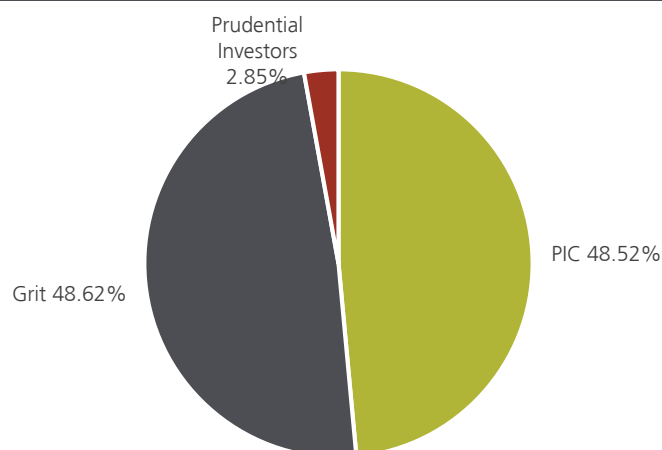
Gateway Real Estate Africa (GREA) was co-founded by Grit and Gateway Partners with the support of its anchor shareholders (Public Investment Corporation [PIC] and Prudential Financial). GREA specialises in turnkey construction of commercial real estate for multinationals who can enter into hard currency lease contracts. GREA seeks to address the significant demand from multinationals, retailers and investment grade governments seeking quality real estate solutions on the continent, but facing supply shortages. GREA raised USD175mn in equity commitments from these principal shareholders and leveraged its position over time.

Figure 25: GREA initial ownership structure



Source: Company data

Figure 26: GREA ownership structure post acquisition



Source: Company data

According to the prospectus, PIC wishes to maintain an on-going involvement directly with GREA (alongside its investment in Grit) as its mandate includes direct real estate development and investment across Africa, which is why it originally invested in GREA (and Grit).

Positively, GREA does not develop speculatively, but aligns with specific tenant requirements (i.e. pre-sale).

Figure 27: Sample list of completed/upcoming projects

Property	Country	Sector	Anchor tenant	GLA m2	GREA ownership	Project cost (USDmn)	% of project cost to be equity funded	Completion value (USDmn)	Completion/ acquisition date
OBO Ethiopia	Ethiopia	Diplomatic Residential	US Embassy	15,419	50.0%	52.4	64.0%	78.9	Oct-21
AnfaPlace Mall	Morocco	Retail	Carrefour	31,808	39.5%	23.7	100.0%	79.5	Aug-19
Metroplex Redevelopment	Uganda	Retail	Carrefour, Woolworths	12,994	100.0%	20.3	49.0%	25.9	Oct-20
Halliburton Liquid Mud Plant	Mozambique	Industrial	Halliburton	1,350	100.0%	1.5	100.0%	N/A	Mar-19
LOS1.1 Data Centre Project	Nigeria	Data Centre	Africa Data Centres	994	100.0%	22.6	40.0%	24.5	Q4 2021
The Precinct Office Complex	Mauritius	Corporate Offices	Grit Real Estate	8,594	50.0%	27.1	40.0%	30.4	Q4 2022
St Helene Clinic	Mauritius	Multi-speciality hospital	Polyclinique de L'Ouest Ltee	6,087	48.3%	19.9	32.0%	24.3	Q1 2023
Bollore Warehouse Redevelopment	Mozambique	Industrial	Bollore Africa Logistics	7,324	0.0%	5.1	100.0%	N/A	Q2 2022
OBO Kenya Diplomatic Housing	Kenya	Diplomatic Residential	US Embassy	16,038	50.0%	48.5	48.0%	56	Q3 2022
Adumuah Place	Ghana	Corporate Offices & Retail	Rendevour Group	1,996	100.0%	3.4	56.0%	3.9	Q1 2022
Coromandel Hospital	Mauritius	Oncology Hospital	Polyclinique de L'Ouest Ltee	10,085	48.3%	38.6	40.0%		Q4 2023
OBO Mali Diplomatic Housing	Mali	Diplomatic Residential	US Embassy	7,402	92.0%	52.2	50.0%		Q3 2023

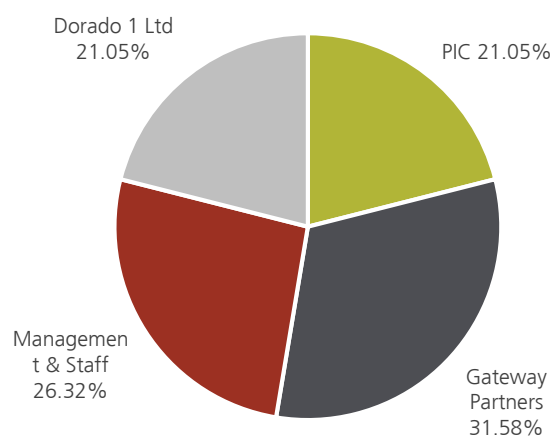
Source: Company data

APDM, which is the asset management firm of GREA is staffed with a team of professionals with an established track record in African development, investment and management of properties. APDM targets value creation through the active management of both completed and assets under development that are tenanted by blue-chip multinationals.

APDM earns revenues via:

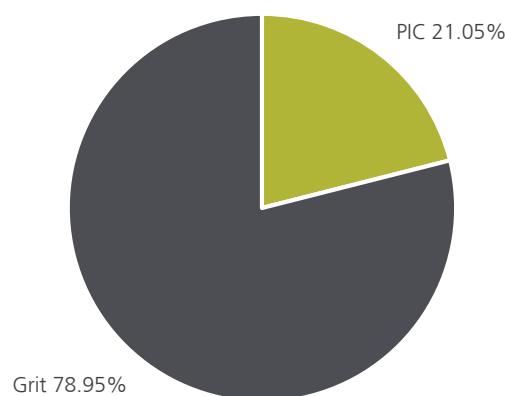
- development fees based on a percentage of total budgeted project costs;
- annual asset management fees based on final account value of each project under construction and management of that project thereafter;
- market related fees where APDM carries out services required for entering into leases once the project is complete; and
- sales commissions based on a percentage of the gross sales proceeds for disposal of investments.

Figure 28: APDM initial ownership structure



Source: Company data, EFG Hermes estimates

Figure 29: APDM ownership structure post acquisition



Source: Company data, EFG Hermes estimates

In Nov 2021, Grit issued a prospectus to raise up to USD215mn for the acquisition of GREA and APDM, make outstanding capital contribution to GREA, collateralise the DiT guarantee (see page16), reduce Grit's indebtedness and provide capital for further expansion in Grit's core and expanded business. In Dec 2021, cUSD76mn (35.3% execution rate) was raised via the issue.

We highlight the proposed acquisition via three Share Purchase Agreements as highlighted in the prospectus below:

- **Dorado Share Purchase Agreement:** This is between Grit, Dorado 1 Limited, Brownyn Knight (Grit CEO) and Greg Pearson in relation to the sale of 175,000 GREA shares and 4,210.88 APDM shares to Grit for a consideration of USD5,377,530 that can be paid in cash or Grit shares with a 24-month lock-up period;
- **GREA Executive Share Trust Share Purchase Agreement:** Between Grit, GREA Executive Share Trust, Shevia Bissessor (Chief Operating Officer), Craig Glutz (Head of Developments), Andre Janari (Chief Investment Officer), Krishnen Kistnen (Chief Financial Officer) and Greg Pearson in relation to the sale of 5,262.37 APDM shares to Grit for a consideration of USD3,730,000 that can be paid in cash or Grit shares with a 24-month lock up period;
- **Gateway Partners Share Purchase Agreement:** Between Grit and Gateway Partners in relation to the sale of 50,000,000.29 (28.54%) GREA shares and 6,315.87 (31.58%) APDM shares to Grit for a consideration of USD71,506,741 to be paid in cash or Grit shares with a 24-month lock-up period.

On 31 August 2022, Grit released its three-phase plan to acquire GREA as;

- Grit acquired 77.95% controlling stake in APDM and increased its stake in GREA to 26.29% (from 19.98%) for USD14.08mn in April 2022;
- Grit lifts its interest in GREA to 35.01% for USD19.44mn in Aug 2022; and
- Grit retains an option to acquire the remaining 13.61% interest in GREA and an additional 1% of APDM settled in cash or issuance of new Grit shares at USD0.52/share. If exercised, this option would increase Grit's direct shareholding in GREA to 48.62% and APDM to 78.95%. Upon exit of Gateway Partners, Grit will obtain control over GREA. The tentative completion date is 15 Dec 2022.

At June 2021, GREA's total net assets was USD193mn with a net cash position of USD10.2mn. As per management's guidance, the acquisition will result in a material decline in Grit's consolidated LTV (-390bps from current levels). GREA's access to an extensive pipeline of US diplomatic housing and data centre opportunities is anticipated to support its NAV outlook. The acquisition will expose Grit to new markets, such as Uganda, Ethiopia, Mali and Nigeria; but its tenant quality and USD lease contracts mean country risks have been curtailed. Additionally, GREA has a political risk insurance to limit the risk of not being able to convert and/or transfer hard currency, which mitigates repatriation risk.

Figure 30: Grit & GREA operations by geography, 1H22



Source: Company data, EFG Hermes estimates

We do not include this potential acquisition in our model, as the transaction is ongoing (GREA remains an associate so far). However, should the transaction be successfully completed, we believe that it would represent significant upside risk to our earnings/ dividend outlook for Grit.

We identify the following as the principal **earnings drivers** in our model:

- **Higher weighted average rental escalation rate** of 5.0% average over 2023-27e vs 2017-21 average of 3.2%. The escalation calculations take US CPI into account; thus, rising global inflation is partially offset by higher escalations;
- **Control in property operating expenses** to lead to average 83.6% NOI margin over 2023-27e (vs 77.4% in 2017-21);
- **Recovery in EBIT margin** to 63.7% average (2023-27e) is due to cost control on administrative expenses (1.6% average in assets over 2023-27e vs 1.9%, 2017-21e);
- We expect finance costs to increase, driven by a higher weighted cost of debt (c6.0% average over 2023-27e) as global rate hikes will be offset by **improving finance income** as debt levels decline or refinanced and the company builds on its cash reserves (cUSD13.8mn by 2027e from USD4.9mn in 2021);
- We **do not account for any acquisition** over our forecast period. This aligns with management's strategy to dispose of assets in the medium term. This leads, on our numbers, to higher FCF of USD32.4mn in 2023e (vs USD1.1mn in 2021) and higher FCF yields (19.1% in FY23e vs 1% in FY21) due to its current share price levels.

6. Corporate history, governance, and sustainability

Grit was incorporated in Bermuda in May 2012 and registered as a public company limited by shares in Mauritius in March 2015. Grit is currently dual listed on the Mauritius Stock Exchange (SEM) and London Stock Exchange (LSE) since July 2018. In Feb 2021, Grit migrated its corporate offices to Guernsey to be eligible for the UK FTSE index series. Grit has 10 directors; two executive, two non-executive and six independent non-executive directors. The board gender split is 30% female and 70% male.

Figure 31: Board of Directors

Name	Appointment date	Residency	Role	Experience
Peter McAllister Todd	14-Aug-14	Mauritius	Chairman	Qualified attorney and a founder of Osiris Group in the British Virgin Islands and Mauritius which provides international corporate finance and administrative services to global clients. He has significant understanding of the property industry in the UK, South Africa, and the rest of Africa.
Bronwyn Knight	12-May-14	Mauritius	CEO	Founding member of Grit. Chartered accountant and has served on several property company boards.
Leon Van de Moortele	30-Jun-15	Mauritius	CFO	Chartered accountant. Former Group Finance Director for an aviation group since 2004, where he gained significant financial and commercial experience across eight African countries, including Mozambique, Ghana, Kenya, Algeria, Ivory Coast, South Africa, Tanzania and Gabon. He continues to utilise his tax structuring knowledge and experience in operating in Africa to expand the asset base of the Group.
Catherine McIlraith	24-Nov-17	Mauritius	Independent Non-Executive Director	Chartered accountant since 1992. Has held senior banking and corporate finance positions including at BoE NatWest and BoE Merchant Bank in Johannesburg, before joining Investec Bank Mauritius where she was Head of Banking until 2010. She has been a member of the Financial Reporting Council and is a Fellow Member of the Mauritius Institute of Directors.
David Love	4-Dec-18	UK	Independent Non-Executive Director	Chartered accountant. Has over 21 years' experience in the real estate investment sector. He has been instrumental in the completion of several high-profile real estate transactions including IPOs and the formation of a £1.4bn UK Property Authorised Investment Fund. He currently serves as the Chief Financial Officer of Knight Frank Investment Management.
Sir Samuel Esson Jonah, KBE, OSG	21-Feb-19	Ghana	Independent Non-Executive Director	He is internationally recognised as a leading business executive. He was elected Foreign Member of the United States National Academy of Engineering in 2018. An honorary Knighthood was conferred on him by Her Majesty the Queen in 2003 and in 2006 he was awarded with Ghana's highest national award, the Companion of the Order of the Star.
Jonathan Crichton	17-Sep-20	Mauritius	Independent Non-Executive Director	His career spanned 32 years at HSBC where he held a wide range of senior positions covering corporate and retail banking as well as control support functions. His last position was as the Head of Wholesale Risk Asia Pacific at HSBC where he was responsible for the Asia Pacific corporate credit portfolio. Jonathan is a fellow of the Mauritius Institute of Directors.
Nomzamo Radebe	24-Nov-17	South Africa	Non-Executive Director	Qualified Chartered accountant and the CEO of Excellerate Real Estate Services, with a career spanning 23 years, 16 years of which have been spent in executive roles in the Real Estate investment sector. Former Chief Investment Officer at Pareto Limited and prior to this she served as a director within Assets and Liabilities Management, National Treasury and in Sasol Group Limited's treasury unit as Treasury Operations Manager.
Cross Kgosiidile	5-Mar-21	Botswana	Independent Non-Executive Director	Cross serves as the Managing Director of the Botswana Development Corporation (BDC). He is a fellow member of the Chartered Institute of Management Accountants and a fellow member of the Botswana Institute of Chartered Accountants. Cross has over 20 years' experience across key commercial areas including corporate finance, strategy, ITC and supply chain management.
Bright Laaka	29-Nov-18	South Africa	Independent Non-Executive Director (Alternate to Nomzamo Radebe)	Has 18 years' experience in Business Development, Sales and Marketing. He is the founder and CEO of Rural Development Alliance Group in South Africa. He is a member of SA BRICS Agribusiness, a technical advisory and business development working group as well as Alpha Africa Foundation, a non-profit organisation working in rural areas to improve the livelihood of communities.

Source: Company data

The table below highlights the interest of the directors in the company as of 30 June 2021 that accounted for 7.3% of total shares outstanding.

Figure 32: Directors' holding of Grit shares

Name	Role	Direct holding	Indirect holding	Total
Peter McAllister Todd	Chairman	-	8,437	8,437
Bronwyn Knight	CEO	79,758	6,635,674	6,715,432
Leon Van de Moortele	CFO	-	2,133,734	2,133,734
Catherine McIlraith	Independent Non-Executive Director	-	-	-
David Love	Independent Non-Executive Director	-	-	-
Sir Samuel Esson Jonah, KBE, OSG	Independent Non-Executive Director	-	5,567,564	5,567,564
Jonathan Crichton	Independent Non-Executive Director	80,000	-	80,000
Nomzamo Radebe	Non-Executive Director	-	3,875,000	3,875,000
Cross Kgosidiile	Independent Non-Executive Director	-	-	-
Bright Laaka	Independent Non-Executive Director (Alternate to Nomzamo Radebe)	-	5,812,500	5,812,500
		159,758	24,032,909	24,192,667

Source: Company data

Ownership Structure

We present the shareholding structure as of 1H22 (Dec 2021) as below:

Figure 33: Shareholding structure, 1H22

Shareholder	Holding	Type
PIC	17.7%	Pension Fund
M&G Investment Management	14.5%	Institutional Mutual Fund
Eskom Pension Fund	6.9%	Pension Fund
Ruffer LLP	6.1%	Institutional Mutual Fund
Botswana Development Corporation	5.5%	Development Finance Institution
Drive in Trading	4.9%	BEE Partner
Delta Property Fund	3.1%	Real Estate Fund
Janus Henderson	2.8%	Institutional Mutual Fund
Freedom AM	2.1%	Management
National Pensions of Mauritius	2.1%	Pension Fund
Others	34.3%	> 50 shareholders

Source: Company data

Sustainability

Grit has six major pillars that underpin its ESG strategy that include:

- Managing its assets responsibly
- Designing and delivering environmentally conscious and efficient spaces
- Uplifting communities
- Developing its employees
- Setting high standards in health and safety
- Protecting human rights

Figure 34: KPI achievements, 1H22

KPI	Target	Achievements
Carbon emissions	25% reduction by 2025	15% reduction in electricity usage across its assets* in Africa
Building efficiency	25% improvement by 2025	9% reduction in water usage across its assets* in Africa
Gender equality	>40% women leadership position	48% (vs FY21 45%) women in managerial positions and above; 50% (vs FY21 48%) of overall Grit staff are women; 33 Board members are women; 1:1 Gender pay ratio
Local representation	>65% locals	82% (vs FY21 81%) of employees are local

Source: Company data

Highlights of related-party transactions

Grit was listed on the LSE in 2018, providing confidence to equity shareholders on its adherence to risk and compliance regulations. After going through related-party transactions disclosed in Grit's annual reports, we believe it is important to highlight the following:

- Between 2019-21, we compute that, Copapax Proprietary Ltd (Brownyn Knight, Grit's CEO is the beneficial owner) received loans from Grit of USD60,000 in 2019 and USD138,000 in 2020. There's no disclosure if these loans attract any interest;
- In May 2018, Grit acquired 47.5% (currently 50%) in Capital Place, Ghana, for USD8.5mn from Mobus Properties (Ghana) Limited, a company controlled by Sir Samuel Jonah, who joined the Grit Board in Feb 2019. As the transaction was financed through the issue of new shares, Mr. Jonah's dividends are paid to this entity. Mobus was also paid USD123,000 in 2019, USD188,000 in 2020, then USD9,000 in 2021 as property management fees;
- Osiris Advisory Limited (owned by Peter Todd, Chairman) was paid USD36,000 in 2018 and USD16,000 in 2019 in fees for services rendered. His other company, Osiris International Trustees Ltd, was paid USD50,000 fees for services rendered in 2019, USD5,000 in 2020 and USD29,000 in 2021;
- Dorado 1 Limited (50% by Brownyn Knight and 50% by Greg Pearson) hold 0.1% in GREA and 21.05% in APDM) as part of the Dorado Share Purchase Agreement and the GREA Executive Share Trust Share Purchase Agreements entered with Grit as part of its acquisition of GREA and APDM will result in USD2.69mn and USD4.8mn payments to Brownyn Knight and Greg Pearson, respectively.
- The exposure to Drive in Trading (DIT), a B-BBEE partner, guaranteed by PIC in the form of a Contingent Repurchase Obligation (CRO) for up to USD35mn.

These amounts are small compared to Grit's Group net profit of USD28mn in 2019, net losses of USD63mn in 2020 and USD51mn in 2021; but the appearance of any conflict of interest is important to point out to potential new investors.

7. Appendix

Figure 35: Chronology of key events

Date	Event
Jul-14	Completion of inward listing on the JSE Limited's ALT-X board
Mar-15	Debut on Mauritius Stock Exchange (SEM) and migration from BSX. Maiden distribution of US\$6.64 cps
Apr-15	Introduction of the Public Investment Corporation as Anchor Shareholder in US\$42.0 million capital raise
Jun-15	Maiden issue of shares on the SEM
Aug-15	Paid distribution of US\$4.65 cps, taking FY2015 distribution to a total of US\$11.29 cps
Nov-15	Delta Africa and Pivotal announces business agreement to become Mara Delta
Mar-16	Paid distribution of US\$6.17cps for six month period ended 31 December 2015
May-16	Delta Africa officially becomes Mara Delta – the largest pan African income fund listed on the JSE and SEM
Oct-16	Paid distribution of US\$5.58 cps, taking FY2016 distribution to a total of US\$11.75 cps
Mar-17	Paid distribution of US\$6.12 cps for six month period ended 31 December 2016
Jun-17	Distribution – clean-out dividend for period 1 Jan 17 to 30 Apr 17 of US\$4.57 cps prior to rights offer
Jun-17	Raised US\$121 million by way of a rights offer at an issue price of US\$1.40 per share, significantly increasing market cap and asset value to c.US\$600 million
Jul-17	Shareholders approved Grit's rebrand and name change, reflecting the Group's current reality and future growth ambitions
Oct-17	Paid distribution of US\$1.38 cps taking FY2017 distribution to a total of US\$12.07 cps
Oct-17	Inclusion into the SEM-10 Index
Mar-18	Paid distribution of US\$6.07 cps for the six months ended 31 December 2017
Jul-18	Grit successfully raised US\$132.2 million in London Listing Capital Raise
Jul-18	Grit becomes the first PanAfrican Real Estate Income Group and first Mauritius domiciled company to list on the Main Market of the London Stock Exchange
Nov-18	Paid distribution of US\$6.12 cps for the six months ended 30 June 2018 taking FY2018 distribution to a total of US\$12.19 cps
Sep-19	Successful completion and launch of AnfaPlace Mall renovation at a capital cost of US\$25m (Morocco)
Sep-19	US\$140m debt facility in respect of Mozambique portfolio refinancing
Nov-19	Paid distribution of US\$6.95 cps, taking FY2019 distribution to a total of US\$12.20 cps
Apr-20	Paid interim dividend of US\$5.25 cents per share for the six month period to 31 Dec 2019
Jul-20	Company delists from the JSE, remaining primary listed on the LSE with a secondary listing on the SE
Aug-20	Conversion of LSE stock quote to Sterling.

Source: Company data

Figure 36: Chronology of key acquisitions, disposals and milestones

Date	Event
Jul-14	Acquired Commodity House Phase 1 as its 1st asset for US\$32.5m (Mozambique) Acquisition of Anfa Place Mall for US\$114.68m (Morocco)
Apr-15	Acquisition of Hollard/ KPMG building for US\$14.9m (Mozambique)
May-15	Acquired the Vodacom Building for US\$49m (Mozambique)
Aug-15	Acquisition of Zimpeto Square for US\$10.2m (Mozambique)
Dec-15	Acquired the Vodacom Building for US\$49m (Zambia)
Feb-16	Acquisition of Barclays House for US\$13.6m (Mauritius)
Apr-16	Acquisition of a 50% stake in Buffalo Mall (Kenya) and Bollore Warehouse (Mozambique) for US\$14.8m (combined)
Dec-16	Leaseback acquisition of a 44.4% stake in Beachcomber Hospitality Investments (BHI), owner of 3 luxury resorts for US\$83.4m (Mauritius)
Mar-17	Leaseback acquisition of Tamassa Resort (Mauritius) from Lux Resorts for US\$40m and acquisition of Mall de Tete (Mozambique) for US\$24.2m
Jun-17	Acquisition of a 50% stake in Cosmopolitan Mall for US\$37.2m (Zambia)
Aug-17	Acquisition of Imperial Distribution Center for US\$18m (Kenya) Acquisition of a 6.25% stake in Letlole La Rona (Botswana)
Nov-17	Completion of Commodity House Phase II at a value of US\$17.3M (Mozambique)
Jan-18	Acquisition of VDE Housing Estate for US\$33.1m (Mozambique)
May-18	Acquired 47.5% of Capital Place for US\$12.2m (Ghana)
Aug-18	Acquisition of 80.1% stake in Acacia Estate (Maputo) for US\$23.4m (tenanted by US Embassy) (Mozambique)
Sep-18	Acquisition of CADS II Building for US\$10.5mn in Accra (Ghana)
Dec-18	Acquisition of 5th Avenue Building for US\$20.5m in Accra (Ghana)
Mar-19	Acquisition of an additional 25% equity stake in Mukuba Mall in Kitwe for US\$8.2 million (Zambia)
Jun-19	Acquisition of an additional 20 completed units at VDE Housing Estate in Tete (including the remaining 15.5 hectares of land earmarked for further development) for US\$3.6 million (Mozambique)
Nov-19	Increased stake in Letlole La Rona Ltd (LLR) from 6.25% to 30.0% for effective acquisition price of USD\$13.8m; increased exposure to predominantly industrial single tenanted assets (Botswana)
Jan-20	Acquisition of Club Med Cap Skirring Hotel for EUR16.2mn (Senegal) with subsequent redevelopment scheme capped at EUR28m.
Sep-20	Disposal of 39.5% interest in AnfaPlace Mall for US\$25.5m (Morocco)
Sep-20	Redevelopment of Bollore Warehouse announced for US\$7.6m (Mozambique)
Dec-20	Disposal of 17.35% interest in Acacia Estate for US\$11.8m (Mozambique)

Source: Company data

Figure 37: Portfolio key metrics by geography, 1H22

% Attributable to Grit	Morocco	Mozambique	Ghana	Mauritius	Kenya	Zambia	Botswana	Senegal	Other investments	Total
Number of properties	1	9	3	5	3	3	25	1	4	54
Grit attributed Asset value (USD mn)	77.8	296.2	41.9	160.7	33.1	86.6	25.5	21.0	13.6	756.4
Weighted average property cap rate	8.3%	8.1%	8.1%	7.9%	8.3%	8.3%	9.4%	8.3%	7.3%	8.1%
Wale by income % owned (years)	5.8	3.0	1.8	8.1	5.3	2.7	2.5	10.9		4.4
Weighted average lease escalations (income) % owned	3.1%	4.8%	2.8%	3.5%	9.9%	6.8%	6.6%	3.2%		4.7%
Grit attributed weighted average USD rental per m2 per month	22.55	26.51	36.38	13.45	10.34	12.30	3.99	7.64		15.92
Total GLA (m2)	32,820	90,104	17,628	120,043	19,169	65,694	193,670	16,462		555,590
Grit attributed GLA (m2)	32,820	90,104	11,362	69,907	16,436	47,018	58,101	16,462		342,210
EPRA operating cost to income ratio	44.3%	14.1%	12.0%	0.7%	6.6%	18.5%	7.8%	0.0%		13.5%
EPRA vacancies	16.5%	5.9%	11.0%	0.1%	4.9%	3.3%	1.4%	0.0%		5.7%
Weighted average cost of property debt	5.8%	5.4%	6.6%	5.5%	6.6%	4.2%	6.2%	4.7%		5.4%
Debt to property value	50.8%	45.9%	42.1%	46.2%	32.6%	60.4%	29.3%	33.0%		46.4%

Source: Company data

Figure 38: Portfolio key metrics by sector, 1H22

% Attributable to Grit	Retail	Office	Light Industrial	Hospitality	Corporate Accommodation	LLR	Other investments	Grit Group
Number of properties	7	8	3	5	2	25	4	54
Grit attributed Asset value (USD mn)	189.0	193.0	37.7	169.3	128.3	25.5	13.6	756.4
Weighted average property cap rate	8.3%	7.9%	8.3%	7.9%	8.3%	9.4%	7.3%	8.1%
Wale by income % owned (years)	4.2	3.4	5.2	8.7	2.2	2.5		4.4
Weighted average lease escalations (income) % owned	4.9%	4.3%	10.0%	3.2%	5.1%	6.6%		4.7%
Grit attributed weighted average USD rental per m2 per month	15.48	31.29	10.63	12.54	25.36	3.99		15.92
Total GLA (m2)	119,988	52,478	17,099	128,239	44,117	193,670		555,591
Grit attributed GLA (m2)	98,578	46,211	17,099	78,103	44,117	58,101		342,209
EPRA operating cost to income ratio	31.2%	10.3%	3.3%	0.0%	15.5%	7.8%		13.5%
EPRA vacancies	12.5%	4.9%	0.0%	0.0%	4.1%	1.4%		5.7%
Weighted average cost of property debt	5.1%	5.6%	5.1%	5.5%	5.3%	6.2%		5.4%
Debt to property value	55.6%	53.9%	22.4%	44.1%	35.2%	29.3%		46.4%

Source: Company data

Figure 39: Bollore Warehouse, Mozambique



Source: Company data

Financial Statements

Income Statement (Jun Year End)

In USDmn	2021a	2022e	2023e	2024e
Revenue	49,217	51,530	54,004	56,650
Total costs	(8,543)	(8,816)	(9,104)	(9,408)
Gross profit	39,952	41,858	43,989	46,265
SG&A	(13,145)	(13,018)	(12,955)	(12,860)
Other operating income (exp.)	(6,950)	1,631	2,164	1,419
Net operating profit (EBIT)	19,857	30,471	33,199	34,824
Net investment income (loss)	N/A	N/A	N/A	N/A
Net interest income (exp.)	(22,752)	(20,622)	(16,648)	(13,551)
Other non-operating inc (exp.)	(60,379)	0	0	0
Income before taxes or zakat	(60,931)	9,849	16,550	21,273
Taxes or zakat	(445)	(1,970)	(3,310)	(4,255)
Net inc before minority interest	(61,376)	7,879	13,240	17,018
Minority interest	(9,449)	0	0	0
Net income before unusual items	(51,927)	7,879	13,240	17,018
Unusual items	N/A	N/A	N/A	N/A
Revaluation gains (loss)	N/A	N/A	N/A	N/A
Net income	(51,927)	7,879	13,240	17,018

Source: Grit Real Estate Income Group, EFG Hermes estimates

Balance Sheet (Jun Year End)

In USDmn	2021a	2022e	2023e	2024e
Cash and cash equivalents	4,890	23,267	11,288	37,279
Short-term receivables	N/A	N/A	N/A	N/A
Development properties and land	N/A	N/A	N/A	N/A
Other current assets	1,440	23,850	27,238	30,612
Total current assets	62,863	107,564	99,919	130,293
PP&E (net)	2,448	3,108	3,799	4,524
Investment properties	549,491	549,491	549,491	549,491
Receivables and prepayments	5,698	5,698	5,698	5,698
Goodwill & intangibles	480	686	899	1,015
Other non-current assets	189,726	189,726	189,726	189,726
Total non-current assets	747,843	748,709	749,613	750,454
Total assets	810,706	856,272	849,532	880,747
Total equity	278,404	386,366	381,813	379,782
Long term debt	215,565	307,172	304,172	336,562
Land purchase liabilities	N/A	N/A	N/A	N/A
Customer advance payments	N/A	N/A	N/A	N/A
Other non-current liabilities	83,540	83,540	83,540	83,540
Total non-current liabilities	299,105	390,712	387,712	420,102
Short term debt	197,599	42,828	42,828	42,828
Land purchase liabilities (ST)	N/A	N/A	N/A	N/A
Total current liabilities	233,197	79,195	80,006	80,864
Total liabilities	532,302	469,906	467,719	500,966
Total equity and liabilities	810,706	856,272	849,532	880,747

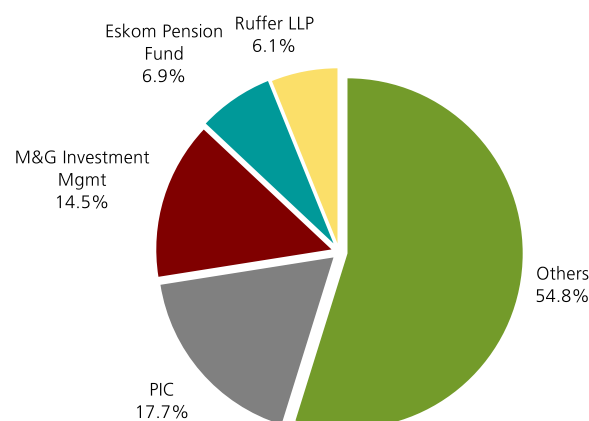
Source: Grit Real Estate Income Group, EFG Hermes estimates

Cash Flow (Jun Year End)

In USDmn	2021a	2022e	2023e	2024e
Cash operating profit after taxes	(60,931)	9,849	16,550	21,273
Chg in investment properties	N/A	N/A	N/A	N/A
Chg in development properties	N/A	N/A	N/A	N/A
Chg in trade & notes receivables	N/A	N/A	N/A	N/A
Chg in customer advances	N/A	N/A	N/A	N/A
Chg in other items	80,816	17,624	16,243	12,462
Cash flow after change in WC	19,885	27,473	32,793	33,735
Cash flow from invest activities	(1,530)	(403)	(432)	(368)
Free cash flow	18,355	27,071	32,361	33,367
Non-operating cash flow	N/A	N/A	N/A	N/A
Cash flow before financing	18,355	27,071	32,361	33,367
Net financing	(9,920)	(8,693)	(44,340)	(7,376)
Chg in cash	8,435	18,377	(11,979)	25,992

Source: Grit Real Estate Income Group, EFG Hermes estimates

Ownership Structure (%)



Source: Grit Real Estate Income Group, EFG Hermes estimates

Rating Distribution

Rating	Coverage Universe%
Buy	57%
Neutral	32%
Sell	11%
Not Rated	0%
Under Review	0%

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Company (Reuters/Bloomberg)	Last Rating	Price (27 Oct 2022)
Bamburi Cement Co (BAMB.NR/BMBC KN)	Buy	KES34.20
BUA Cement (BUACEMENT.LG/BUACEMENT NL)	Sell	NGN70.00
Ciments du Maroc (CMA.CS/CMA MC)	Neutral	MAD1398.00
Dangote Cement (DANGCEM.LG/DANGCEM NL)	Neutral	NGN245.00
East African Portland Cement Co (PORT.NR/EAPC KN)	Sell	KES7.90
Grit Real Estate Income Group (GR1T.L/GR1T LN)		GBP0.31
Lafarge Africa (WAPCO.LG/WAPCO NL)	Buy	NGN22.25
LafargeHolcim Maroc (LHM.CS/LHM MC)	Neutral	MAD1500.00
Tanga Cement Co (TCCL.TZ/SIMBA TZ)	Neutral	TZS1300.00
Tanzania Portland Cement Co (TPCC.TZ/TWIGA TZ)	Buy	TZS3700.00