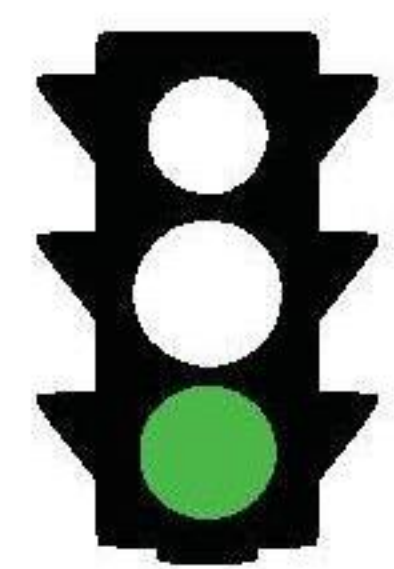


# money&investing



## Rebosis BUY

Target price: **R1.62**  
 Potential upside: **157%**

\* Based on analysts' consensus forecast

when it listed to 43 properties valued at R17bn today. This includes some high-profile shopping centres – including Sunnypark in Pretoria, Forest Hill in Centurion, and Baywest Mall in Port Elizabeth – as well as 36 office blocks, most of which are let to the public works department.

But the problem was Rebosis's unfortunate timing of its entry into the UK in 2015, when it paid R1.26bn for a stake in UK mall owner New Frontier Properties (NFP). Just a year later, UK citizens voted to leave the EU – and everything fell apart. The Brexit vote precipitated an unexpected 30% write-down in the value of NFP's properties in the UK late last year. This led to Rebosis having to take a R2bn impairment, as well as a R96m loss in income for the six months to February.

While other UK-focused property companies suffered similar devaluations thanks to Brexit (and the UK's weaker retail spending), Rebosis's problems were compounded by other issues back home. This included high debt levels in SA, which have become difficult to service, weak retail trading in the malls, and government's reluctance to sign long-term office leases. It didn't help that CEO Andile Mazwai quit in April 2018, just seven months into his tenure.

**However, Ngebulana, who** was asked by the Rebosis board to return to the helm a year ago after Mazwai left, has a plan to rescue Rebosis.

In an interview with the FM, Ngebulana sketched out his plan to mend investor sentiment. It's a multi-pronged approach, which entails walking away from the UK entirely, while selling its prime SA shopping centres and using the proceeds to pay down debt. Ngebulana says the situation is particularly tragic given that the factors that led to the destruction of UK property values were beyond management's control.

"In the six years since listing, we have never missed our divi-

dend guidance and we produced good, consistent growth every year. When we entered the UK in 2015 no-one could have foreseen a Brexit."

This is why, last week, Rebosis sold its entire 49.35% stake in loss-making NFP to Orion Hotels & Resorts, among others, for just R700m.

When you take the impairments into account, it suggests Rebosis spent R2.4bn on its ill-fated UK foray

But Ngebulana believes it was better to cut the company's losses now, than to hold out for a better offer.

He stresses that Rebosis doesn't owe UK banks any money. "Rebosis doesn't share any of NFP's UK debt obligations. We were merely a shareholder of NFP," he says.

Nor is Ngebulana resting on his laurels at home.

In SA, he says, about R6bn worth of properties have been earmarked for sale, which will bring down the company's loan-to-value (LTV) ratio from the current 57% to less than 40%.

Nine office buildings have already been sold for about R1.5bn, which should be transferred within the next few weeks.

And earlier this year, Rebosis announced the sale of three of its prized shopping centres to JSE-listed Vukile Property Fund for R1.8bn. All three malls, Mdantsane City in the Eastern Cape, and Pretoria's Sunnypark and Bloedstreet malls, cater mostly for lower-income shoppers.

Shareholders of both companies still need to approve the transaction, with voting expected to take place within the next few weeks.

Once the Vukile deal is finalised, Ngebulana says, Rebosis's LTV ratio will drop below 50%. And if he's able to sell another R3bn of assets within the next six to 12 months, as he hopes, it will cut the LTV ratio to below 40%.

Assets for sale include Rebosis's two Eastern Cape super-regional shopping centres, Port Eliza-



Sisa Ngebulana: About R6bn worth of properties have been earmarked for sale

beth's Baywest Mall (90,000m<sup>2</sup>) and Hemingways Mall (80,000m<sup>2</sup>) in East London.

"We will sell whatever assets we can get the best price for," he says. But he adds: "We won't trade our assets at any price. If we were having a fire sale, we would have sold our big malls already."

**But judging by** the hasty retreat Rebosis shareholders have beaten since November, Ngebulana's rescue plan will be a hard sell.

Stanlib, one of the company's major backers since inception with a stake of more than 12% in Rebosis at one stage, sold virtually its entire position in the company earlier this year.

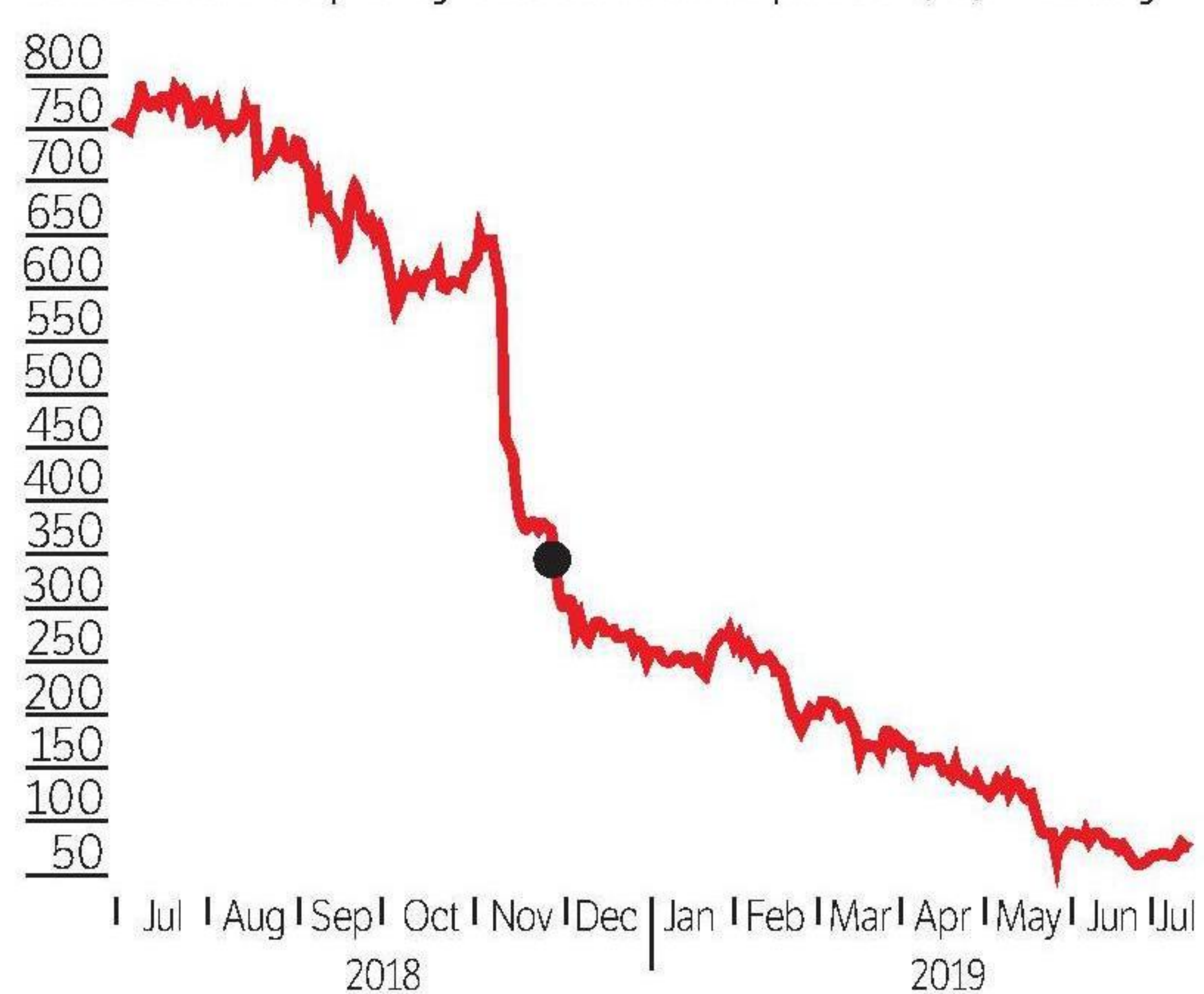
"We lost hope that things could be turned around, especially given the challenging market conditions. So we looked for better opportunities elsewhere," says Stanlib head of listed property funds Keillen Ndlovu.

Others raise similar concerns. Investec Asset Management portfolio manager Peter Clark says: "The market has lost faith in Rebosis in its current form, which is evident from the share price. A sizeable event of sorts is needed to reorganise and reset the company."

The biggest concern among shareholders right now is whether Rebosis will honour its commitment to pay its full-year dividend in December if the Vukile deal stalls or, worse, gets a thumbs-down from investors. If Rebosis skips the year-end dividend, the company could potentially lose its Reit status, which will incur capital gains tax liabilities.

## CALAMITOUS PLUNGE

Rebosis Property Fund share price (C) – daily



Source: Iress

● Dividend