Publication: Business Report (The Star)
Date: Tuesday, November 05, 2019
Page: 15

■ PROPERTY FUND

Delta's share price is on a steady rise

Backed by resilient interim performance

EDWARD WEST
edward.west@inl.co.za

Delta

A RESILIENT interim performance by Delta Property Fund, a specialist black-managed and substantially owned Reit in talks to merge with Rebosis Property Fund, saw its share price rise by as much as 10.58 percent to R1.15 on the JSE yesterday and close at R1.16.

The distribution for the six months to August 31 came to 30.48 cents. However, after capital commitments, working capital and liquidity requirements were considered in the tough environment, an interim distribution of 12.2c per share (2018 interim: 39.40c) was declared.

Delta chief executive Sandile Nomvete said the company had been through a "trying past six months from a macro perspective, but we're encouraged by the progress we're making with lease renewals". The company's major assets are government offices in the Durban and Tshwane CBDs.

Investment levels in the economy were subdued and businesses were struggling with weak private sector activity and a lacklustre outlook on future business conditions, he said.

However, the appointment of Department of Public Works (DPW) Minister Patricia De Lille had brought "much-needed impetus and improved confidence in our sector. We envisage positive outcomes regarding the renewal of leases, which will further stabilise our fund," said Nomvete.

Lease renewals remained behind schedule, but there was currently "a great deal of traction, and management were confident the remaining four major leases, covering some 100 000m², would be renewed by year-end", said Nomvete.

Forty leases were renewed with the DPW totalling 95 523m², two-thirds of which were for a five-year period and the balance for three years.

"There are still 18 leases to be finalised – four of these are in three buildings with a combined 96 502m².

Loan to value improved to 44.3 percent from 45.1 percent at the prior year-end, mainly due to cash generated by operations and repayment of debt facilities. The group was working to reduce loan-to-value further through asset disposals value enhancing capital expenditure on assets following the conclusion of bulk leases.

"Our long-term target is to reduce the loan-to-value to below 40 percent," said Nomvete.

Contractual rental income fell 3.5 percent, mainly due to increased vacancies, disposal of assets held for sale and the reversion of renewed leases.

Expiring debt facilities of R2.8 billion were extended to diversify funding sources and renegotiate more market related terms on the back of longer weighted average lease term.

Finance costs increased by 19.3 percent due to higher interest rates and restructuring fees on the debt facilities extended. The all-in cost of debt reduced to 10 percent from 10.2 percent at the prior year-end. Vacancies across the portfolio increased to 15.4 percent. In Pretoria and Durban CBDs, vacancies were 10 percent and 19 percent respectively. The South African Property Owners Association averages were 9 percent and 14 percent, respectively, for these areas.

"Notwithstanding possible corporate action, our primary focus for the next six months is to conclude the bulk lease renewals and the longer-term financing of our debt at market related levels," said Nomvete.

The disposal of 12 New Street and Top Trailers Site 1 was completed for R60.7 million, with proceeds used to settle debt and facility raising fees.

Nomvete said the merger talks were on track, and a successful merger would need all parties and stakeholders to participate in the transaction so that the merged entity was in a "far more healthier" position than prior to the merger. He said a capital raising might be required post the merger.