Redefine Properties Ltd.

Real estate

Company Update Report

Buy

Analyst recommendation

Counter	Share price	Intrinsic value	Difference
RDF-ZA	R4.53	R5.47	21%

April 2025

Executive summary

We maintain a Buy recommendation on Redefine Properties (RDF) and leave our intrinsic value unchanged, with an upside of 21%. The recent increased likelihood of a US recession, tariff announcements along with concerns around the GNU has caused the share price to trade lower, however, the investment case remains unchanged given the lack of new information with regards to RDF since the last report.

We anticipate RDF's distributable income per share to benefit from decreasing interest rates. This supported by distributable income per share management guidance for FY25 of between 50 to 53 cents per share when compared to FY24's 50 cents per share. We anticipate similar levels as management's guidance on distributable income per share growth. The company is expected to report interim results in mid-May, and we anticipate more colour on the outlook and assumptions around what the expectation of either a slowdown or continuation in rate cuts may mean for the DIPS guidance.

Valuation

We maintain our buy recommendation and leave our intrinsic value unchanged since there hasn't been any stock specific news prompting a view change. We expect distributable income to grow further in FY26 driven by improvements in demand for space illustrated by positive rental reversions along with improving vacancies and positive impacts from interest rate cuts on finance costs. We left our scenario weights unchanged and still expect upside on a weighted basis considering recent market risks.

What would change our minds?

- A view change to government bonds increasing, having a potential negative impact on property performance.
    - Yield levels remain elevated albeit having decreased materially in the last 18 months. The current stance is a view of bond yields decreasing driven by interest rate cuts and stabilised inflation within the SARB's target range. The risk on the sector presented by the GNU (SA specific) and a possible global recession remains, however at current levels, the stock remains attractive on a risk adjusted basis.
- If we expect property fundamentals such as occupancies and rental reversion to deteriorate rather than improve.
    - The current stance is that vacancies should see improvement along with reversions driven by improving performance in the retail sector, the supply (low)/demand (high) dynamics in the industrial sector and the low base in vacancies as return to office picks up pace in the office sector.

Table 2: Qualitative summary

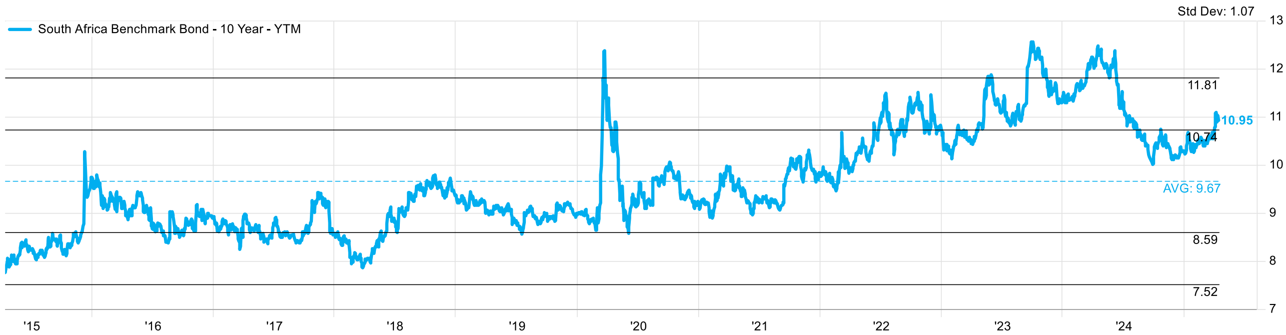
Factor review	Rating	Description
Growth		We expect revenue growth of 5% for the FY25 period driven by the improving reversions across its assets. Office remains a highlighted risk. We also forecast an expansion in DIPS of 3%, close to the midpoint of management's guidance.
Valuation		We have an intrinsic value of R5.47 with an upside of 21%.
Dividend yield		RDF trades with an 11.1% dividend yield.
Issuance		Share dilution over the last five years has been 24% primarily driven by a capital raise to fund the purchase of the Polish business, EPP.
Catalyst	A decrease in interest rates and finance costs to positively impact DIPS growth.	
Quality of earnings		We rank RDF's quality of earnings as low primarily because of the impact fair value adjustments have on the bottom line not just in RDF but across the property sector as a whole.
Management and governance		The average tenure for management in the company is seven years. The team has decreased the LTV levels from their highs of 2020, executed the Polish expansion successfully but have had to negotiate a reduction in their ICR covenant.
Balance sheet		RDF has an interest cover ratio of 2.1x with an LTV of 42.3%. The group has less than 10% of debt maturing in FY25. RDF has negotiated to reduce its ICR covenant from 2x to 1.75x for the next two periods.
Risks	RDF has material exposure to office which is a risk because of a structural change in demand for office space. A demand shift in retail and industrial space which would lead to negative rental reversions and an increase in vacancies would have negative impacts on its ability to generate distributable income.	
Regulation		RDF complies with REIT regulations as showcased in their retained status and operates in a sector whose regulation is not as constrictive compared to others, with the option to no longer be a REIT at the risk of losing the tax benefit of being one.
ESG		RDF has an average FactSet ESG Truvalue score
Momentum price		RDF has negative price momentum.
Momentum earnings		RDF has negative earnings momentum.

Source: PSG Wealth

Outlook

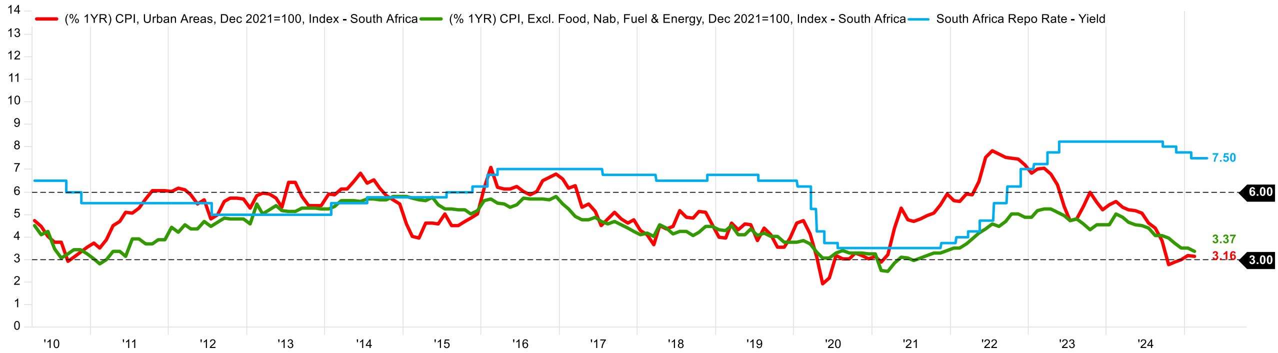
Our outlook has not changed since the last report. However, the volatile rand, tensions in the GNU and a potential US recession does add risk to the view of lower bond yields at these levels. Since the last report, bond yields have increased by 32 basis points. We remain positive on the overall trend of bond yields depressing and expect them to continue to feel pressure catalysed by interest rate cuts. We expect the levels to move from the current 10.95% to the long-term average of 9.67% catalysed by inflation remaining within the SARB's target range and consistently being on the lower end of it.

Graph 1: SA 10-year bond yield



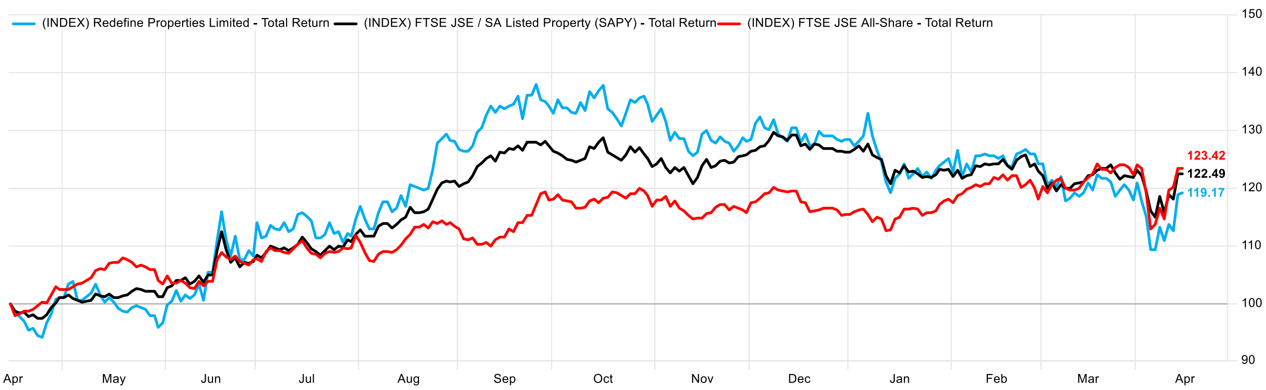
Source: FactSet

Graph 2: Inflation and repo rate



Source: FactSet

Graph 3: RDF, SAPY and ALSI indexed 1-year total returns



Source: FactSet

Valuation

We value RDF using a product of our forecasted FY26 FFO/s and an expected range of P/FO multiples discounted to compute our intrinsic value of R5.47 with an upside of 21%. Our initial investment thesis focused on an expectation of outperformance as a combination of a positive inflection point in property metrics and a depression in bond yield levels. We have seen yields depressing over the last 12 months along with inflection points in property metrics except for office. Office remains a risk with RDF's exposure primarily in Gauteng. Reaching the inflection point is taking longer than anticipated from a renewals point of view but the rest of the business (retail and industrial) gives us confidence.

We expect revenue in FY25 to grow between 4% and 6% driven by growth across segments except for Office. Although exposed to mostly P- and A-grade office space, it is primarily Gauteng which is the area of concern. We forecast distributable income to grow 3%, in the midpoint of management's guidance for the period. In our FY26 bear case we consider a decrease in office space due to change in demand dynamics in that segment prompting strategic disposal of underperforming office assets to contextualise the risk RDF has with its office exposure.

The forecasted slight FFO margin decrease takes into consideration FFO pressure driven by regular municipal cost increases, finance cost pressure albeit decreasing with interest rate which are not at pre-covid levels yet and risk associated with backup power generation costs should loadshedding return. We take into consideration, in our bear case, a scenario that sees RDF reducing its office exposure materially in response to varying dynamics changing demand. We view the risk of a material exit out of the office space as low and thus assigned a lower weight in our valuation.

Table 3: Income statement items and estimates

	FY21	FY22	FY23	FY24	***FY25 est***	***FY26 est***
Revenue (Rm)	7 157	8 244	9 909	10 656	***11 185***	***11 972***
Growth (%)	-15%	15%	20%	8%	*5%*	*7%*
FFO (Rm)	2 395	3 662	3 629	3 465	***3 586***	***3 570***
Growth (%)	-15%	53%	-1%	-5%	*3%*	*0%*
FFO margin (%)	33.5%	44.4%	36.6%	32.5%	***32.1%***	***29.8%***
FFO per share (cents)	44.1	54.2	53.7	51.3	***52.9***	***52.7***
Growth	-15%	23%	-1%	-5%	*3%*	*0%*

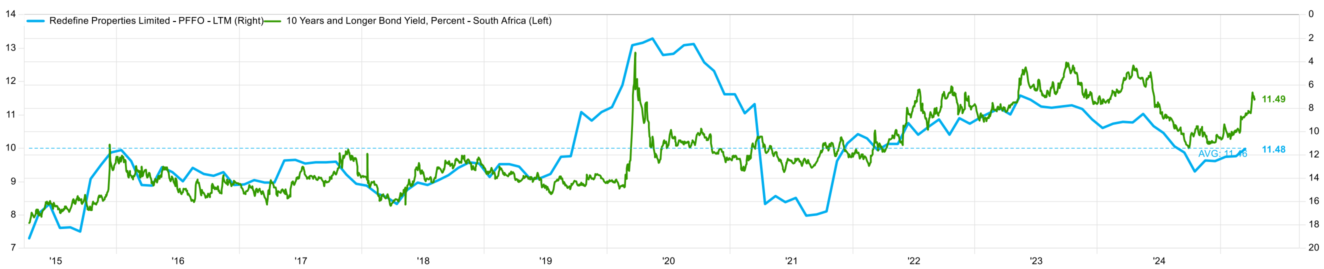
Source: PSG Wealth Research

Table 4: Valuation

	Bear	Base	Bull	Weighted
FFO (Rm)	3 024	3 694	3 729	3 570
FFO per share (cents)	44.6	54.5	55.0	52.7
Price/FFO multiple	9.0x	11.0x	15.0x	11.8x
Intrinsic value (Rands)	3.50	5.23	7.12	5.47
Upside/(Downside)	-23%	15%	59%	21%
Scenario	20%	50%	30%	-

Source: PSG Wealth Research

Graph 4: P/FFO (Inversed) and SA 10-year bond yield



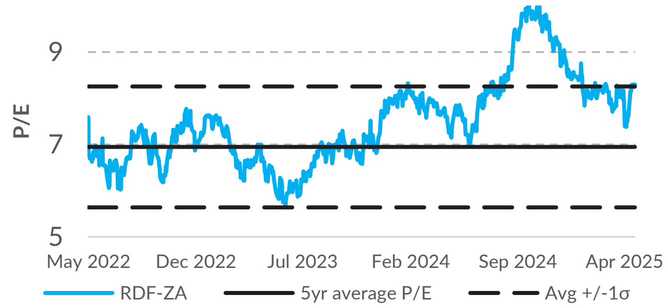
Source: FactSet

Table 5: Company data

52-week high	R5.22
52-week low	R3.50
Market value (bn)	R30.3
Price momentum	Negative
3m earnings revision	-10.2%
Fiscal year end	2025/08/31
Beta (3Y, daily)	0.71

Source: FactSet

Graph 5: Price to earnings



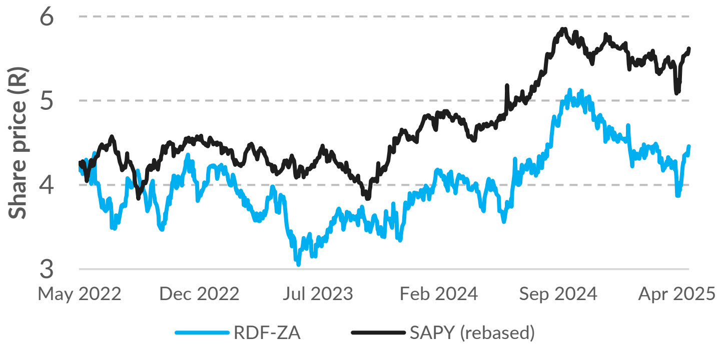
Source: FactSet

Table 6: Valuation multiples (NTM)

Multiple	*Latest:* Apr-2025	*Last note:* Jan-2025
P/E	8.0x	8.2x
P/S	4.0x	3.7x
EV/EBITDA	13.0x	13.2x
EV/SALES	9.3x	8.5x
Dividend yield	11.1%	9.9%

Source: FactSet

Graph 6: Share price history versus benchmark



Source: FactSet

Table 7: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Redefine Properties Limited	-0.4%	8.4%	2.7%	-9.4%	14.4%	16.8%	3.4%	99.6%	-62.4%
SAPY	1.0%	5.0%	3.6%	0.8%	20.8%	27.9%	22.0%	67.8%	-39.8%

Source: FactSet

Table 8: Key competitors

Code	Price (local)	Market Cap (Rbn)	Sales FY0 (Rbn)	EBITDA FY0 (Rbn)	Net Income FY0 (Rbn)	EV/EBITDA	P/E	Price % (3mo)	Price % (1YR)
RDF-ZA	4.5	33	10.7	7.2	4.0	10.5x	8.1x	2.7%	14.4%
GRT-ZA	13.0	45	15.3	8.1	1.3	15.9x	32.5x	6.0%	18.7%
BTN-ZA	8.6	7	2.4	1.0	0.2	18.2x	26.0x	0.0%	24.3%
SAC-ZA	2.9	7	3.0	1.4	0.6	11.1x	11.2x	0.0%	13.2%

Source: FactSet

Table 9: Key financials and ratios

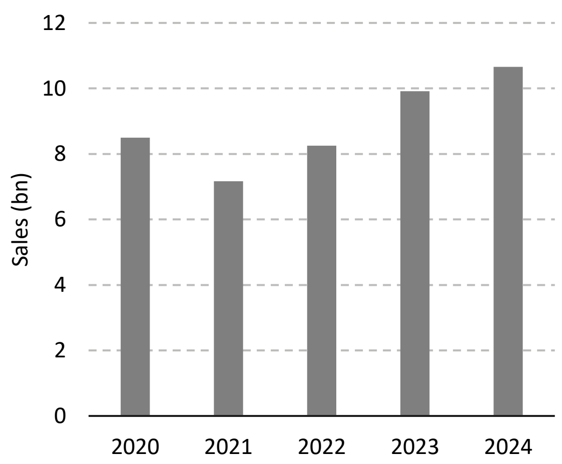
Income Statement (ZAR bn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Revenue	9.2	8.5	7.2	8.2	9.9	10.7	2.9%	-	-
Y/Y growth (%)	*1%*	*-8%*	*-16%*	*15%*	*20%*	*8%*			
Gross Income	6.1	5.3	4.1	4.9	5.9	6.3	0.6%	-	-
Y/Y growth (%)	*-5%*	*-13%*	*-23%*	*17%*	*21%*	*8%*			
EBITDA	4.8	2.0	5.7	6.5	4.9	7.2	8.5%	5.5	5.6
Net Income	3.3	-16.2	2.9	8.7	1.4	4.0	3.5%	3.5	3.6
EPS (rands)	0.6	-3.1	0.5	1.4	0.2	0.6	-1.0%	0.5	0.5

Balance sheet and cash flow (ZAR bn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Capex (ZAR mn)	9.3	14.6	28.6	10.3	6.1	24.5	21.3%	-	-
Cash from Operations	4.9	2.7	2.2	2.8	2.9	2.5	-12.9%	-	-
Free Cash Flow	4.6	2.7	2.3	2.6	2.6	2.9	-8.8%	5.4	5.7
Cash and ST Investments (ZAR mn)	407	437	1 460	1 792	761	531	5.5%	378	417
Total Assets	102.7	82.2	75.6	92.4	99.4	101.9	-0.2%	102.9	104.0
ST Debt	4.5	1.9	2.3	4.3	5.8	1.8	-16.5%	-	-
LT Debt	36.7	34.9	28.5	33.5	34.9	41.5	2.5%	-	-

Ratios	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Gross Margin (%)	66%	63%	58%	59%	59%	59%	60%	-	-
EBITDA Margin (%)	52%	24%	80%	79%	50%	67%	60%	-	-
Net Income Margin (%)	36%	*-191%*	41%	106%	15%	37%	1%	-	-
Total Debt to Equity	74%	96%	79%	78%	78%	82%	82%	-	-
Total Debt to Assets	40%	45%	41%	41%	41%	43%	42%	-	-
ROA (%)	3%	-18%	4%	10%	2%	4%	0%	-	-
ROE (%)	6%	-34%	8%	20%	3%	8%	1%	-	-

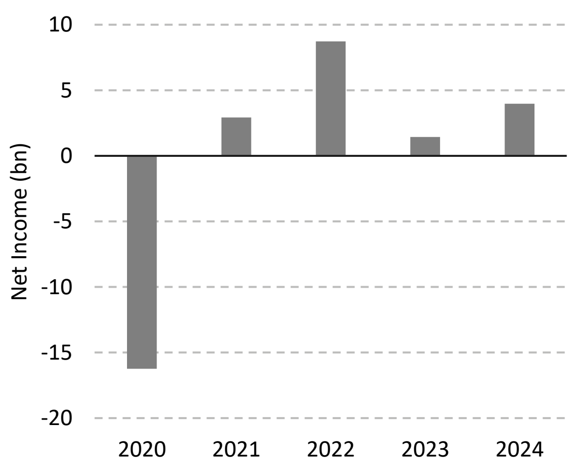
Source: FactSet,

Graph 7: Annual sales



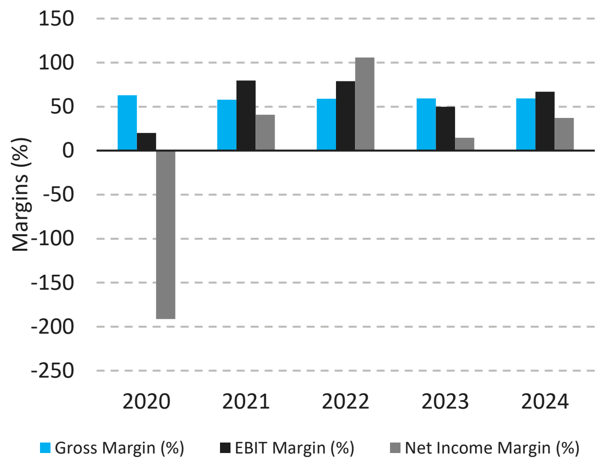
Source: FactSet

Graph 8: Annual net income



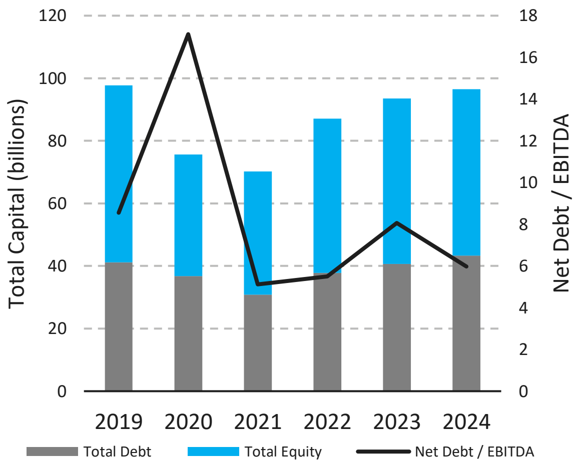
Source: FactSet

Graph 9: Gross, EBIT and net margins



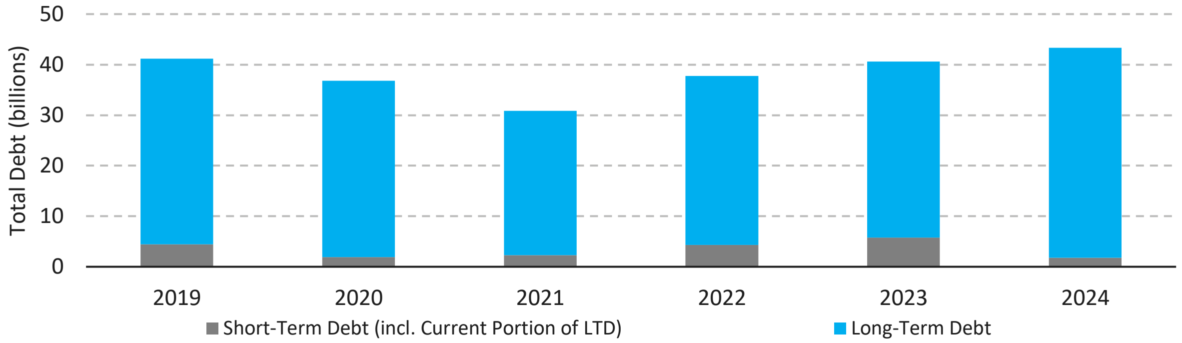
Source: FactSet

Graph 10: Capital structure and net debt / EBITDA



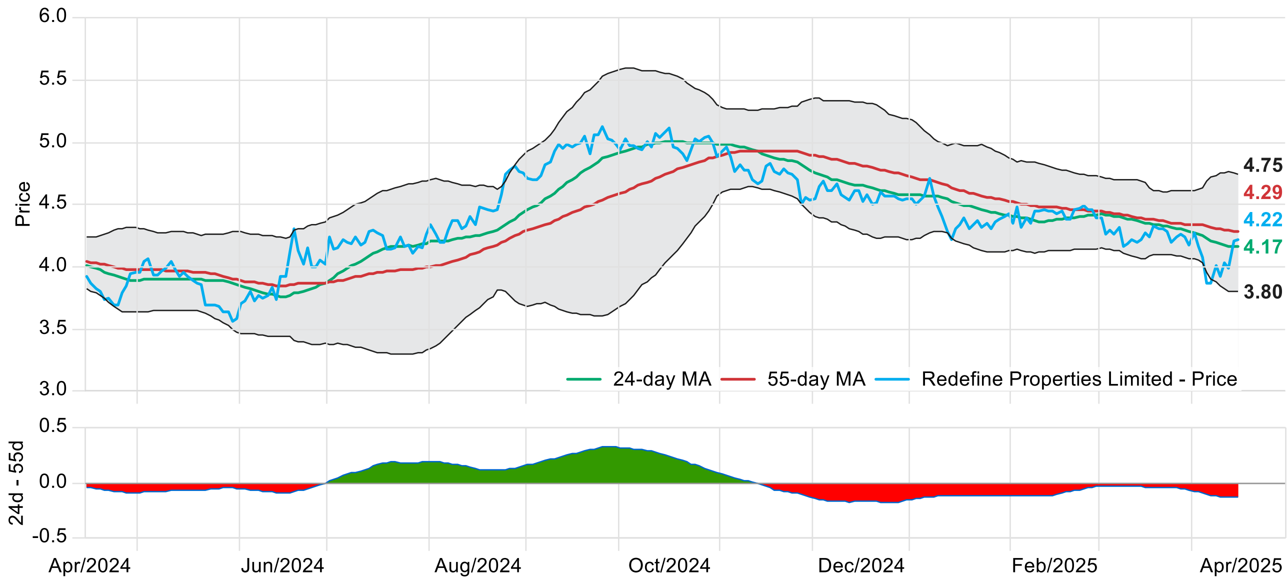
Source: FactSet

Graph 11: Short-term and long-term debt



Source: FactSet

Graph 12: Price momentum



Source: FactSet

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House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.
Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

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