GRIT REAL ESTATE INCOME GROUP LTD (LON: GR1T)

proactive research

Bronwyn Corbett - CEO

Corbett was appointed to the board in 2015, having been a founder member and served as non-executive director on the board of Mara Delta Property Holdings (now Grit Real Estate Income Group)

Leon van de Moortele - CFO

Van de Moortele was appointed to the board in 2015. He was previously a senior manager at PwC and the group finance director of Solenta Aviation.

Real Estate 05/03/2019

PRICE	$1.43
MARKET CAP MLN	$423.93

Major Shareholders

Govt. Employees Pension Fund (PIC) - 28%
Drive in Trading Limited - 8%
Delta Property Fund - 8%

Avg Three-month trading volume	9,122
Primary Index	FTSE AS

Company Information

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Analyst Details

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GRIT Real Estate Income Group - Succeeding by design

Steady progress

GRIT Real Estate Income Group (LON:GR1T) is a pan-African (excluding South Africa) real estate company, generating high levels of US dollar and euro-denominated rental yield underpinned by a blue-chip tenant base.

The company has achieved good progress since its London Stock Exchange (LSE) listing in July 2018. Results for the half-year ended 31 December (released 14 February) showed gross rental income +25.9% year-on-year and group loan-to-value down to 43.4% (full-year to June 2018: 51.4%). Furthermore, the ratio of administration costs to asset value was reduced to 1.3% from 1.4%. We believe this can go below 1% as the portfolio continues to grow.

Performance has been achieved in spite of pockets of significant weakness in the African retail sector, highlighting the value of GRIT's diversification strategy. We provide some outlines of the strategy on page 2 (p2).

Opportunities to exceed target returns

Grit targets a minimum total return in US dollars of 12%, which consists of an 8.25% dividend yield and at least 3.75% growth in net asset value (NAV). We argue that this model is solidly on track and offers an attractive proposition to investors. In addition, Grit has ongoing initiatives to deliver over and above the targeted minimum total return of 12%. We outline some of these initiatives on p2.

Year end Dec 31	2017	2018	Current*	2020
Income producing assets	488.5	642.3	816.6	841.3
Adj. EPRA net income	5.6	22.8	37.2	38.9
Adj EPRA EPS (cents)	5.1	11.3	12.5	13.1
DPS (cents)	12.1	12.2	12.7	13.1
Dividend yield	8.4%	8.5%	8.9%	9.1%
EPRA NAV / share (cents)	137.4	145.7	149.7	153.5
Price / NAV (x)	1.0	1.0	1.0	0.9

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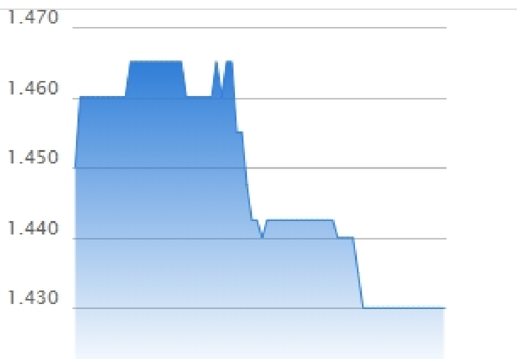
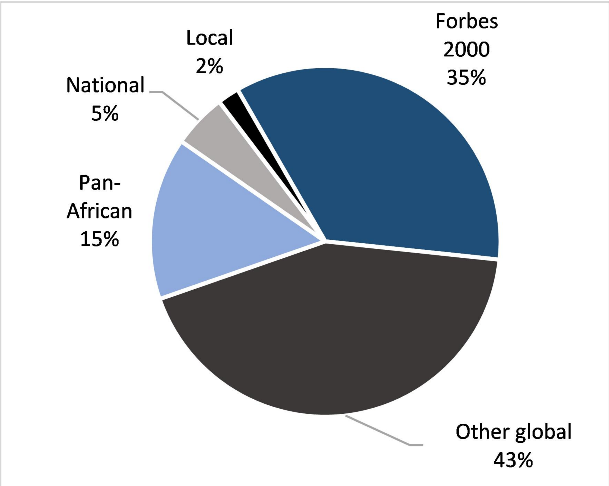
Share Price



Performance and risk mitigation

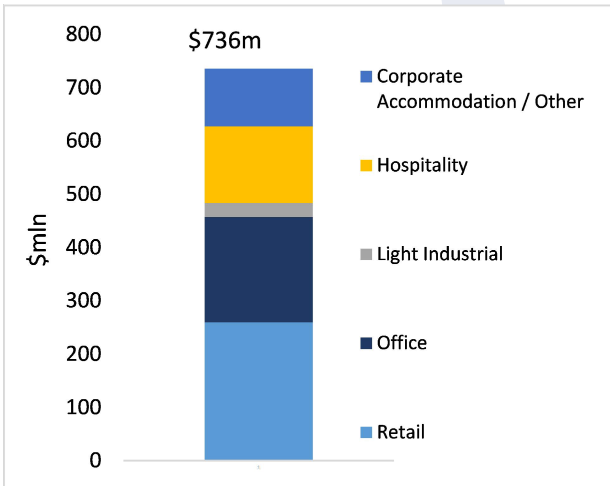
GRIT manages a portfolio of properties generating strong rental yields, predominantly in hard currency ($US and euro), delivering a weighted average capitalisation rate of 8.6%. Rental income is underpinned by a diverse property portfolio and a blue-chip tenant base.

Tenant base by category



Source: Company data

Property portfolio



Source: Company data

We highlight some of the key factors in diversifying and mitigating risk:

- Maintaining <25% portfolio exposure to any individual country, and a geographic spread around Africa – North, Southern, East, West.
- Exposure to investment grade countries (e.g. Morocco, Mauritius) as well as higher growth developing economies.
- Diversification across property sectors.
- Focus on blue-chip tenants (see above charts) and long leases - weighted average lease expiry 6.5 years.

The targeted minimum 12% return is essentially based on steady-state rental income, rent inflation, and day-to-day asset management activities. There are additional opportunities to generate value and exceed the 12% target, We highlight some examples that apply in the medium/near term:

- **Accretive acquisitions.** Acquisitions are still being achieved on terms that can lead to an immediate uplift to European Public Real Estate (EPRA) NAV/share (see first half results).
- **NAV enhancement initiatives.** We expect the Anfa Place Shopping Centre redevelopment to complete in the second half of the year to June 2019, with a positive impact on rental income and asset value. We expect further property enhancements to benefit the light industrial portfolio in the next financial year.
- **Market specific drivers.** For example, Mozambique prime office demand is benefiting from the country's natural gas projects, offering potential rent enhancements. This is an example of GRIT's portfolio positioning in the right markets.

We argue that in the medium term, GRIT is well positioned to exceed its 12% returns target.

Properties acquired since LSE listing

The LSE listing in July 2018 raised additional capital of US$132mln. Since that event, GRIT has completed three new major property acquisitions

Ghana - CADS II

Source: Company image

Ghana - 5th Avenue

Source: Company image

These properties are both in the commercial (office) segment, and extend GRIT's reach in Ghana. The 5th Avenue property was acquired for US$21.4mln and at an acquisition yield of 10.13%. The CADS II property was acquired for US$37.1mln at an acquisition yield of 8.46%. The anchor tenant at CADS II is the multi-national oil & gas company Tullow Oil.

Mozambique - Acacia Estate

Source: Company image

The Acacia Estate complex was acquired for US$64.7mln, at an acquisition yield of 8.25%. The estate is an accommodation complex for staff at the US embassy at Maputo.

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