

# High debt levels take the shine off Delta's grand 15.7% growth

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Delta Property Fund is proving that government-tenanted properties can be lucrative assets, with the real estate investment trust (Reit) growing its full year distribution 15.7% in the year to February - more than twice the sector average...



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When Delta listed in 2012, many property funds were trying to clear their portfolios of government buildings as they felt state tenants were too often unreliable or late rent payers. Yet, Delta chose to be a government-focused fund and has grown its asset base from about R2bn at listing to nearly R9bn in two-and-a-half years.

Delta's assets are predominantly government-tenanted offices in Durban and Pretoria but the fund has diversified into other sectors and owns a stake in Delta International, the first pan-African development fund to list on the JSE.

Reporting results late on Friday, Delta grew its distributions 15.7% to 84.07c for the year to February.

Meanwhile, the listed property sector's average distribution for the year to February was about 7.2%. CEO Sandile Nomvete said on Monday he was happy to generate double-digit revenue growth, while keeping the company's cost of funding relatively low at 8.1%.

But Sefikile Capital director Mohamed Kalla said the market had recognised a number of risks to Delta maintaining strong distribution growth. "On face value 15% looks impressive; however, if you consider the fact that Delta missed their initial guidance last year, the number is off a much lower base.

"There were also one-off fees of around R12.5m relating to their commitment fees for Delta International worth R6.3m and a leasing commission of R6.2m which represents circa 3.3% of Delta's growth," he said.

"I think the market is concerned by the high gearing in Delta and the fact that management has little headroom and will probably need to raise more equity to fund expansion," said Kalla.

Stanlib's head of listed property funds, Keillen Ndlovu said even though there were concerns Delta's gearing had been close to 50% before, this had come down in the past year and there was value in the stock.

"The market had been concerned with higher debt levels and management has been addressing that.

"The market believes that some of the portfolio is over-rented and management has been very active with acquisitions," said Ndlovu.

**Source:** BDpro

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