BIZCOMMUNITY

Delta aims to sell non-core assets to reduce debt

Decreasing the listed Delta Property Fund's gearing in a tough economic environment in which commentators expect interest rates to rise later this year, will be the focus of CEO Sandile Nomvete and his team.

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"It's a very difficult environment out there and we know that a rating downgrade for SA to junk would affect us, so we are trying to mitigate risks."

In the year to February, Delta acquired a portfolio of government-tenanted properties from Redefine Properties for a purchase consideration of R1.25bn, at a yield of 13.27%. The portfolio consists of 15 properties and was acquired through a specific share issue.

"These results are indicative of our focus on doing the basics right. In line with our strategy, we reduced Delta's loan-to-value ratio from 47.2% in the prior year to 42.3% post the Redefine transaction, and we will gradually cut debt levels to within a 40% range relative to income-producing assets," he said. The fund grew its distribution per share 8% to 90.79c in the year to February, which was in line with the group's growth forecast.

It managed to renew 80% of its 2015 expiring leases.

The black-managed JSE listed real estate investment is focused on properties underpinned by government tenants, with

74% of its revenue stemming from these leases.

Nomvete said Delta was seen as a safe investment for pension funds and other investors seeking consistent returns.

"Our strategy to dispose of non-core assets further supports our focus on reducing gearing and has gained momentum over the review period, with sales totalling R658m concluded, of which R107m transferred and R551m are under sale agreement," said Nomvete.

"We expect that the balance of non-core disposals will happen in the current financial year, with a number of transactions close to finalisation," he said.

Stanlib head of listed property funds Keillen Ndlovu said Delta had met the market's expectations and was managing its portfolio "relatively well".

"Delta achieved 8% distribution per unit which was in line with their guidance and market consensus. It is respectable given the market environment and the fact that capital, both debt and equity, has become increasingly more expensive to obtain.

"Operationally, Delta seems to be managing their portfolio relatively well. Vacancies have ticked up slightly due to the new properties they have acquired, but overall, the portfolio has not had any negative rental reversions," Ndlovu said.

Rental escalations achieved were healthy at 7.8% on average, which was commendable, given that the government had said it would only sign three-year leases at 5.5% escalations, he said.

"Loan to value has reduced slightly, but remains high compared to sector average. Management is aware of this and have made concerted plans to reduce this to below 40% by disposing non-core assets."

Source: Business Day