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EQUITES PROPERTY FUND

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Equites Property Fund is a real estate investment trust that listed on the JSE in 2014. When it listed, its assets were valued at R1billion; today it boasts a portfolio of R28.4billion, reflecting the strategic vision and execution of its management team under founder and CEO Andrea Taverna-Turisan, supported by CFO Laila Razack and COO Riaan Gouws.

Equites focuses on developing and acquiring best-in-class logistics facilities in prime locations across South Africa and the UK. This strategy has enabled the company to assemble a highquality portfolio with zero vacancies (as of end-February 2024). The R28.4billion portfolio is split 71/29 between South Africa and the UK, comprising 61 income-producing properties locally and six in the UK.

A standout feature of Equites is its impressive lease expiry profile, with a weighted average lease term of 12.6 years and an above-inflation South African rental escalation of 6.2%. The company's tenants, which include blue-chip firms such as Shoprite and TFG, as well as global logistics players such as DSV, highlight the quality of its portfolio, of which comprises of 98% - A-grade tenants.

The logistics sector has had significant tailwinds since before the pandemic. There has been a substantial increase in demand for space from e-commerce providers due to the shift to online shopping. Supply chain optimisation has further bolstered demand for logistics properties, reinforcing the company's strategic focus.

However, despite the positive fundamentals of the logistics sector globally and locally, rising building costs, increased financing expenses and higher capitalisation rates in the UK have created challenges. The funding environment has been less favourable, with interest rates reaching their highest levels in years. In response, Equites has scaled back its UK developments to focus on projects with better long-term returns. The company is disposing of its UK development platform and redirecting its attention to local developments.

Nevertheless, Equites retains a stable portfolio of assets in the UK worth R6billion, which continues to perform well. In South Africa, it remains focused on rolling out its development and acquisitions pipeline. Equites has a substantial land bank of 49ha in the country, positioning it for future growth.

In the 2024 financial year, the termination of cross-currency interest rate swaps and higher funding costs contributed to a 22.7% fall in distribution per share. Despite this, property performance remained robust. Net property-related income grew 4.6%, while property valuations improved 4.2% in South Africa and 2.1% in the UK in GBP terms.

The balance sheet remains well capitalised, with a loan-to-value ratio of 39.6%. Equites anticipates a dividend of about 132.5c a share (midpoint of guidance) for the 2025 financial year, slightly up from the previous year. That represents a 10.25% forward yield at a share price of R12.93 on June 26 2024, which places the shares at a 24.6% discount to N AV.

The investment case hinges on management's ability to execute its strategy of high-quality acquisitions and developments, while effectively disposing of noncore assets to drive long-term growth.