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Improved numbers drive Dipula's solid performance

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Dipula Income Fund (JSE: DIB) delivered a defensive performance for the year ended 31 August 2023 with increased property values, higher occupancy levels and improved rental renewal growth.

Izak Petersen, chief executive officer of Dipula Income Fund

Dipula is a prominent, diversified, South Africa-invested REIT that owns a R9.8bn portfolio of 170 retail, office, industrial and residential rental assets countrywide. Convenience, rural and township retail centres comprise 64% of its portfolio value, with 61% of its rental income generated in Gauteng.

Izak Petersen, CEO of Dipula, says, *“Dipula is pleased to report a good set of results given the low-growth environment in South Africa with its power challenges and spiralling costs.”*

The company reported increased non-core asset disposals of R190m (FY22: R56m). The sales were achieved at an aggregate 9% yield and proceeds are being recycled into value-enhancing property revamps, repaying debt and the roll-out of renewable energy and back-up power solutions.

Excellent leasing results reduced total vacancies from 10% to a pleasing 6%. Lease renewals were concluded at a positive renewal rate of 1.1%, up from 0% in FY22. Resulting increased rentals and property income position Dipula positively.

Net property income grew 1.8% based on a 3% increase in revenue and a moderate 3.4% increase in property-related expenses, notwithstanding the current high inflation and higher-than-inflation increases in administered costs that are over-burdening property owners.

Dipula’s balance sheet strength was bolstered by its higher property valuations, and it concluded the year with debt levels stable at the R3.6bn mark. Low gearing of 35.7% and an ICR of 2.8x are both comfortably within covenant levels of 50% and 2x, respectively. The company had R178m undrawn facilities (FY22: R80m) on hand at year end. GCR Ratings affirmed Dipula’s credit rating of BBB+(za) long-term and A2(za) short-term, with a stable outlook.

However, SA's significant increase in interest rates resulted in a 14.1% increase in net finance costs and was the main contributor to a 6.9% decrease in Dipula's distributable earnings to R514m. Dipula declared 90% of distributable earnings as dividends. Given Dipula's successful capital restructure in June 2022 – its dual A and B share structure was consolidated into a single share structure, where all A shares were repurchased, and B shares (DIBs) became the company's only ordinary shares – full-year distributable earnings per share of 56.96c cannot be compared to prior periods. Dipula's capital restructure resulted in the number of DIB shares tripling and a more than 200% increase in liquidity this year.

After year-end, Dipula also restructured its debt, concluding a R3.8bn debt syndication programme that has diversified its funding sources, increased debt tenure and reduced funding margins.

"Dipula is strategically focused and defensively positioned to continue to deliver sustainable value for stakeholders. The first signs of economic improvement will immediately reflect in our performance," reports Petersen.

Improved occupancy is a stated management focus, and Dipula signed leases worth R1bn in rental income. Of this, approximately R300m were new leases and R700m renewals. The company's tenant-centric approach led to a noteworthy improvement in the tenant retention ratio from 72% to 84%.

Dipula's industrial property portfolio demonstrated robust performance with a steady, low 2% vacancy. Its retail real estate investments benefitted most from new leases and vacancies improved from 10% to approximately 7%. Showing the most improvement, office vacancies were reduced from 29% to 15% during the year. Dipula's residential portfolio comprised 716 rental accommodation units valued at R409m, or 4% of rental income, with a stable vacancy rate of 7%. Dipula's portfolio valuation increased by 2.9% year-on-year. The increased value of Dipula's defensive industrial (9.7%), retail (2.9%) and residential (5.6%) portfolios was somewhat offset by a decline in the office portfolio value (2.5%).

"As the improved occupancy in our office portfolio shows, better performance in this sector was evident during the year. However, a significant improvement in offices is highly correlated to economic growth. Businesses need to be doing well for office occupancies and rentals to increase," notes Petersen.

The improved leasing and positive rental renewal rate driving Dipula's defensive performance are a direct result of its strategic capital allocation to improve the quality of its portfolio with value-adding investments that ensure its property assets are attractive and competitive in the market. The REIT dedicated R147m to asset refurbishments during the year, funded primarily by recycled capital from asset sales, and has allocated a further R370m for upgrades in the next 18 months.

Making giant strides in the areas of ESG, in FY23 Dipula completed its first ESG benchmarking and gap analysis as the basis of a formal ESG strategy, for which targets will be set in FY24. Dipula is committed to align its reporting on these matters with the JSE Sustainability and Climate Disclosure Guidance.

"Besides water savings and waste recycling, energy is a vital operational and environmental consideration for Dipula. We are currently finalising a strategic energy plan, including solar and broader backup power solutions, in addition to the measures already in place for our portfolio. The three-phased plan prioritises properties based on financial feasibility, optimising trading hours and tenants' needs. Its implementation will begin in early 2024," confirms Petersen.

While the expected slowing of interest rate increases is good news for much-needed market stability, Petersen says ongoing concerns include local economic weakness, high unemployment, lacklustre economic reforms, power shortages and deteriorating logistics infrastructure as well as the impact of global events. In light of the high volatility being experienced in the economy, Dipula's board has decided not to provide guidance for FY24.

"With scant economic growth of 1.0% and 1.1% expected by the SARB for 2024 and 2025 respectively, Dipula will remain focused on keeping occupancies high, making our properties attractive for rental, unlocking value from our assets, keeping a tight grip on costs and rolling out our energy strategy. The higher occupancy levels and lower funding margins already in place will support us in tough trading conditions. We are well placed to navigate the expected

economic headwinds and poised to benefit from any economic improvement," Petersen concludes.

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