

## **TEXTON PROPERTY FUND LIMITED**

Granted REIT status by the JSE  
Incorporated in the Republic of South Africa  
(Registration number 2005/019302/06)  
Share code: TEX ISIN: ZAE000190542  
("Texton" or "the Company" or "the Group")

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### **BUSINESS UPDATE, DIVIDEND DECISION AND APPOINTMENT OF PERMANENT CEO**

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#### **BUSINESS UPDATE**

Texton wishes to provide a business update for the quarter ended 30 September 2020 (the quarter) and to inform shareholders of the decision relating to the dividend for the financial year ended 30 June 2020 (FY2020).

#### **1. OPERATIONS**

Texton owns 52 properties located in both South Africa and the UK. The geographic split by value is 55.8% (June 2020: 55.9%) South Africa and 44.2% (June 2020: 44.1%) the UK (including our portion of Broad Street Mall).

#### **Vacancy and letting**

##### *South Africa*

At 30 September 2020, vacancy in the South African portfolio, on a like-for-like basis, was 10.5% (30 June 2020: 11.5%)<sup>1</sup>. Texton held a total of 29 245m<sup>2</sup> GLA vacant at that date, of which assets held-for-sale comprised 16 538m<sup>2</sup>. The remaining 12 707m<sup>2</sup> of vacant GLA mostly relates to our office portfolio in Gauteng.

As previously disclosed in the year-end results disclosed on 23 September 2020, Edcon Limited - who had occupied 12 Laub Street, Edcon Park - has cancelled the lease effective 1 November 2020. Management is looking at various ways to repurpose the building and in the interim, have received several offers for the purchase of the building.

In the quarter, Texton successfully concluded 20 (FY 2020: 36) new leases with a combined 8 318m<sup>2</sup> GLA (FY 2020: 28 600m<sup>2</sup>). 97.0% of the leases that expired during the quarter were renewed or placed on a month-to-month lease.

Specifically, the lease of Transnet SOC Limited - which occupies 30 Wellington Road, Parktown - expired on 30 August 2020 and is currently being managed on a month-to-month basis. We are in discussions with Transnet to renew the lease, which were somewhat delayed due to COVID-19. We will update shareholders on the outcome of these discussions as soon as we have sufficient clarity and certainty.

The focused hands-on letting and renewal activity undertaken by Texton has proved rewarding, with the weighted average lease profile remaining largely stable at 3.13 years for the quarter as compared to 3.19 years as at 30 June 2020.

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<sup>1</sup> Previously reported vacancy at 30 June was 12.7%, the decrease due to buildings being sold and the repurposing of GLA.

## UK

The UK portfolio remains 100% let with a weighted average lease profile of 9.19.

### Rental collections

#### South Africa

Rental collections in the quarter remained resilient and even showed some improvement, with the overall collection rate at 30 September 2020 being 90.3% including Edcon, and 96.3% excluding Edcon.

Sector	% of collections received			
	July	August	September	Q1 total
Office	87.8	91.4	90.2	89.8
Industrial	90.7	96.5	94.1	93.9
Retail	82.8	91.9	98.3	90.9
Total	87.3	91.9	91.7	90.3

Sector	% of collections received (ex Edcon)			
	July	August	September	Q1 total
Office	95.7	99.1	98.3	97.7
Industrial	90.7	96.5	94.1	93.9
Retail	82.8	91.9	98.3	90.9
Total	93.2	97.7	97.9	96.3

## UK

The UK collections for our wholly owned portfolio remained at 97.0%. Only two of our UK tenants are currently not paying rent. One of these tenants is Peacocks, located at our Poundland property in Nottingham, who have gone into administration. We are in close contact with these tenants and are confident that we will be able to collect on these rentals.

#### Broad Street Mall

Collections at Broad Street Mall were at 78% for the quarter. This collection rate is significantly higher than many other malls in the UK during the time and reflects the defensive nature of the retail as well as mixed-use aspects of the precinct. We are monitoring the effect on the property as the UK enters a second national lockdown. Significant management time has been invested into the asset to navigate sustainably through the months ahead.

## 2. DISPOSALS

As at 30 June 2020, we had identified 16 portfolio properties for disposal valued at R601,3 million. Five properties have transferred since year-end to date, for a total consideration of R92.6 million. Sale agreements in respect of a further five properties - valued at R110.0 million - have been concluded and become unconditional. However, transfer has been delayed due to municipal and deeds office backlogs as a result of COVID-19. We are optimistic that these assets will be transferred before 31 December 2020.

The remaining assets are being actively marketed and we will update shareholders as and when we reach contractual certainty in that regard.

### 3. BALANCE SHEET MANAGEMENT

Texton has remained steadfast in our stated objective to strengthen our balance sheet through the sale of non-core assets and the reduction of debt. Texton's loan-to-value (LTV)<sup>2</sup> profile improved marginally from 46.1% at 30 June 2020 to 44.6% at 30 September 2020. To date, Texton has paid R85 million into our debt facilities as a permanent reduction in our South African borrowings, in addition to a further R400 million paid down during FY2020.

Also as previously communicated at year-end results, Texton had intended to convert the £7.5 million of debt securitized over South African assets into ZAR debt, as the mismatch of foreign currency debt secured against local assets caused unnecessary currency exposure. We are pleased to announce that due to the strengthening of the ZAR, this process has been successfully completed and the debt has been converted into ZAR, effectively addressing the foreign exchange mismatch risk.

#### DIVIDEND DECISION RELATING TO FY 2020

Texton has made significant strides in strengthening our balance sheet. Texton refinanced all of our debt falling due in 2020 on improved tenures, and as a testament to the longevity of the business, this refinancing took place at the peak of the national lockdowns in South Africa and the UK (the UK's first national lockdown).

Texton is a listed REIT and as per S13.47(a) of the JSE Listings Requirements, a REIT issuer is required to –

*"distribute **at least 75% of its total distributable profits** as a distribution to the holders of its listed securities (which includes shares and linked units) by no later than four months<sup>3</sup> after its financial year end, subject to the **solvency and liquidity** test as defined in the Act and applied in section 46 of the Act" (our emphasis).*

#### Definition of distributable profits

Total distributable profits are calculated by reference to the taxable profits in terms of S13.47(d) of the JSE Listings Requirements. Taxable profit is derived as a function of its "gross income" as defined in the Income Tax Act, which does not discriminate between realised cash income and unrealised or non-cash incomes. As a result, taxable profits may exceed ordinary distributable earnings.

For the year ended 30 June 2020, Texton's taxable profits (and hence its distributable profits as per S13.47(d) of the JSE Listings Requirements) exceeded its cash profits as a result of unrealised foreign exchange and other gains. In order to distribute 75% of total distributable profits, the distribution would exceed the cash generated by the business to the extent Texton would be required to finance 75% of these unrealised gains from other cash resources.

#### Solvency and liquidity ("S&L") considerations

In making distributions, Texton is required to comply with section 46 of the Companies Act, No 71 of 2008, as amended (the "**Companies Act**"), in terms of which a company may not make a dividend except if –

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<sup>2</sup> LTV is calculated based on SA REIT best practice principles

<sup>3</sup> In terms of the Financial Sector Conduct Authority Notice 6 of 2020, the period to declare a dividend was extended to six months after year end

- I. the Board of Directors (“the Board”) has authorised the distribution by way of resolution;
- II. it reasonably appears that the company will satisfy the solvency and liquidity test immediately after completing that distribution; and
- III. the Board has acknowledged, by means of resolution, that it has applied the solvency and liquidity test to the making of the distribution and that it has reasonably concluded that the company will satisfy the solvency and liquidity test immediately after completing the distribution.

When the S&L test is applied in the context of a *prospective* distribution, the point at which the solvency and liquidity test is required to be applied is immediately *after* such prospective distribution is completed (i.e. paid and settled in full).

### **Application of the S&L test**

Shareholders are advised that the Board has applied the S&L test in the context of the prospective distribution of 75% of Texton's distributable income for FY2020. The Board is of the view that the Group is in a robust position from a solvency perspective. However, the Board has identified several considerations which are relevant to the Group's liquidity position.

The Board has taken into consideration, *inter alia*: the Group's existing debt facilities and maturity dates, the requirement to refinance certain facilities, cash flow forecasts, the forecast planned capital expenditure that has been contracted for, the planned disposal of certain assets and expected proceeds therefrom. The Board is therefore of the view that the Group is, at present and prior to making any distribution in respect of FY2020, in a liquid position. However, noting that 75% of Texton's distributable income for FY2020 will exceed the cash generated by the Group in the year, the Board is not able to reasonably conclude that after distributing 75% of Texton's distributable income for FY2020 Texton will

satisfy the liquidity leg of the S&L test.

Shareholders are advised that due to the above, the Board has resolved not to declare a dividend for FY2020. The Board is rather of the view that the Group's liquidity position will be strengthened by retaining cash resources in reserve, that such retention is the commercially prudent approach, and that the decision is ultimately to the benefit of the Group and our shareholders.

### **APPOINTMENT OF PERMANENT CEO**

The Board is pleased to inform shareholders that Pienaar Welleman has been appointed as an executive director and the permanent CEO of Texton, effective 20 November 2020.

Pienaar had been the interim CEO of Texton since 1 July 2020, prior to which he was the acting CFO since December 2019. Pienaar's knowledge of the business, and close work with stakeholders, delivers much benefit and continuity for the Group which solidifies the leadership of Texton.

### **CONCLUSION**

The Board is confident that the decision not to pay a final dividend for FY2020, combined with the significantly reinforced balance sheet and capital management initiatives, will result in the Group's sustainable capacity to trade through this unprecedented environment.

Looking ahead, Texton intends adopting a variable dividend pay-out policy which may include a lower pay-out ratio as well as variable timing of the dividend payment.

20 November 2020

**Sponsor**

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