# Growthpoint is feeling the pinch on SA's decline

By Alistair Anderson

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While Growthpoint Properties is determined to maintain its position as a reliable South African-focused property fund that rewards investors over the long term, it is running out of space to grow in a constrained domestic environment.

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It is also likely to suffer the negative effects of any sovereign ratings downgrades that SA may receive. Moody's this week said it had placed all the global scale ratings assigned to Growthpoint under review for downgrade.

"Today's rating action on Growthpoint follows the potential weakening of the South African government's credit profile, in particular in the country's institutional, economic and fiscal strength, as captured by Moody's recent decision to place SA's Baa2 government bond ratings on review for downgrade," the group said on Tuesday, 4 April.

The rating under review reflected Growthpoint's operational concentration in SA, with 75% property exposure and 84% of distributable income derived from operations within the country. "The review will assess the credit implications on Growthpoint's ratings following the conclusion of the review for downgrade on the bond ratings of SA," Moody's said.

SA's largest locally based property group, which controls assets worth more than R100bn, has not performed especially well this year so far and is hoping its jewels - The Victoria & Alfred Waterfront, Growthpoint Australia and certain Sandton offices - will boost its fortunes in the next few years.

Growthpoint's share price is down 0.97% year-to-date. However, over a five-year period, it has climbed 26.31%.

The company has a market capitalisation of about R73bn.

Zayd Sulaiman of Catalyst Fund Managers said a downgrade could have a detrimental effect on Growthpoint's plans.

"Should there be a downgrade, it could potentially lead to an increase in borrowing costs. However, as at December 2016, about 80.5% of their South African debt was fixed for a weighted average term of 3.5 years which will provide protection in the short to medium term," he said.

Garreth Elston, MD of Golden Section Capital, said Growthpoint had a strong track record.

"Growthpoint is the bluechip South African real estate investment trust. The company possesses an exceptional portfolio in terms of both size and quality. The company's holdings include some of the country's best new office developments, a 50% holding of the iconic [Victoria & Alfred] Waterfront, 65% of Growthpoint Australia and it's recent purchase of 26.9% of Romania's Globalworth. In addition to its portfolio, the company is one of the leaders in terms of financial reporting, trading liquidity, access to management and general transparency for investors."

Elston said the company's management team had been stable, with Norbert Sasse the CEO since 2004, and that it had a broad and experienced management team.

But it was meeting challenges. "Growthpoint, though, is not purely a good news story as due to the size of the company, it has become very difficult for it to conclude deals, or do new developments that will materially move the growth needle," said Elston.

"There are fewer opportunities in SA for the company to grow its core portfolio, and in a crowded SA market, with an especially oversupplied office market and no growth, Growthpoint will increasingly have to look outside of SA's borders to find game-changing deals."

The next few years would be challenging for Growthpoint and the entire local property sector, but it was well-positioned from both a financial and personnel position to weather the headwinds, he said.

*Source: Business Day*