SAFARI INVESTMENTS RSA LTD

SAFARI BUSINESS UPDATE – 27 MARCH 2019

HIGHLIGHTS

- Net operating expenses maintained at an acceptable level
- Healthy occupancy rate maintained
- 80% of the expiring GLA during the last 12 months were renewed at a positive rental reversion rate
- Average reversion ratio is 6% across the portfolio
- Footfall across the total retail portfolio were up from the previous year
- New brands introduced into portfolio include: Boxer, Food Lovers Market, McDonalds, The Gym Company, Virgin Active among others
- Introduction of interest rate hedging policy; 40% of debt hedged with intention to increase hedging profile
- R500 million in new debt facilities secured
- Thornhill Shopping Centre, Polokwane acquired
- Nkomo Village Shopping Centre in Atteridgeville opened
- Commitment to South African peri-urban retail market
- Property management and leasing function internalised

Listed property companies across the sector continue to face increased pressure on key performance measures. Safari's vacancy levels, turnover of its national retailers, total arrears as a percentage of collectables and rental reversions underscore the intent and focus with which the Safari team is mananging its portfolio.

Safari updates the valuation of its property portfolio in March every year. Fair value is determined by external, independent and JSE-accredited professional valuers with appropriate and recognised qualifications and recent experience in the locations and class of properties being valued. For the year under review, Mills Fitchet will perform the valuations on the properties.

Global Credit Ratings (GCR) affirmed Safari's national scale issuer ratings of BBB(ZA), and A2(ZA) in the long- term and short-term respectively; with the outlook accorded as Positive.

The Company's exposure to Edcon is limited to 5.39% of GLA and 3.17% of gross rental income. Safari has reached an agreement with Edcon on rental levels, renewals and early termination options of all Edgars and Jetmart stores in our portfolio. Safari did not agree to taking the equity stake in Edcon, this is due to the belief that it will result in a conflict of interest. Management continues to work hard to minimise the impact on the property portfolio

Dirk Engelbrect, CEO commented:

"Safari has committed itself to the South African peri-urban retail market with a strong focus on our current portfolio to ensure that we achieve the best possible performance despite difficult financial and economic conditions in both in South Africa and Namibia.

During the year under review, Safari has undergone positive internal changes and re-aligned itself with its investors' mandate. Management continues to work intentionally and intensively on unlocking shareholder value through prudent asset management and development opportunities, cost control and yield enhancing acquisitions."

SAFARI'S 2019 YEAR AT A GLANCE

The Financial Year 2019 was a busy year with many operational and management changes. We have listed the major events and a short synopsis of some of these events:

June 2018	First BEE certificate issued – level 7
Oct 2018	Effective date of acquisition of Thornhill Shopping Centre in Polokwane
31 Oct 2018	Safari announces that after detailed investigation the company would stay focused on SA regional assets and will not diversify with an off-shore strategy
7 Nov 2018	Francois Marais retires as CEO and was appointed Chairman of the Board. Dirk Engelbrecht was appointed as CEO
13 Nov 2018	General meeting ratifying and approving share buy-backs
15 Nov 2018	Trading statement announces the re-base of the interim distribution per share from 35 cents per share to 26 cents per share
22 Nov 2018	Interim Financial Results presentation hosted at the JSE
22 Nov 2018	Grand opening of Nkomo Village Shopping Centre in Atteridgeville, Pretoria
27 Nov 2018	Site visit with Investors, financiers and analysts
Febr 2019	Successful implementation of SPV Finance Structure, securing additional facilities and implementing a hedging policy
1 March 2019	Internalisation of the management and leasing function

INTERNALISATION OF PROPERTY MANAGEMENT AND LEASING FUNCTION

Safari has bought the rights and obligations of the Management Agreement from Cosmos Management CC for R10.3 million for the remainder of the contract term. The rationale for the transaction is to follow the generally-accepted practice of internalising the management function of a property investment fund, eliminate related party components in our business and achieve significant cost savings over the long term. Future growth of the portfolio leads to higher management fees being paid. Where such a function is internalised, the effective use of personnel will limit such increases. The effective date of the internalisation was 1 March 2019.

Following the internalisation of the property management and leasing functions, Safari will relocate to independent corporate offices during April 2019, which is expected to support the further corporatisation of the Company.

ACQUISITIONS DURING 2019

The effective date of the Thornhill Shopping Centre acquisition was 1 October 2018. The rationale for this acquisition is that Thornhill fits Safari's focused retail approach of community centres, it also presented a strong value proposition with sustainable and secure income growth. The purchase consideration of R174 million was based on a 10% yield on net income from the property. The centre's gross lettable area ("GLA") is 12 467 sqm and anchored by Spar. Other national tenants are Clicks, Food Lovers Market, Virgin Active gym and Crazy Store. The management team has already made strong headway in managing the centre and securing new tenants such as Universal Paint as well as the expansion of Food Lovers Market.

NEW DEVELOPMENTS DURING 2019

Nkomo Village Shopping Centre opened its doors on 22 November 2018. It is the third centre owned by Safari in the Atteridgeville area. The 18 900 sqm community centre has 80% national tenancy and is anchored by Pick and Pay and Boxer Superstore. With the opening of the centre, Atteridgeville will for the first time ever be exposed to brands such as McDonalds, Builders Warehouse, Food Lovers Market, Boxer Superstore, The Gym Company and Goldwagen.

The total cost of the development was R345 million which includes a portion of the Phase 2 costs. This will be developed as soon as the critical level of tenancy has been secured. Phase 1 is 95% let and is trading well as a new centre. Its impact on the neighbouring Safari centres has been limited due to the differing focus of tenants' product and service offerings. The other Safari Shopping Centres in close proximity are Atlyn Shopping Centre and Mnandi Shopping Centre.

TRADING RESULTS OF THE SAFARI PORTFOLIO

SOUTH AFRICAN PORTFOLIO

Safari has eight operational properties in South Africa, of which seven are retail centres and one is a day hospital in Soweto. Six of the seven retail centres are Gauteng based while Thornhill Shopping Centre is located in Polokwane. The close proximity of these assets ensures that the management teams are able to provide hands-on attention across the portfolio, while staying aware of the fact that one non-performing asset in such a relatively small pool of assets may have a significant impact on the overall performance of the Company. Risk mitigants include tenant mix, location and convenience offerings with all centres trading in line with expectation.

The following key figures (based on the 11 months to 28 February 2019, without taking into account any material events until 31 March 2019 which might impact the figures) will assist in evaluating the performance of the South African portfolio:

The SA portfolio has a total gross lettable area ("GLA") of 152 093 sqm, comprising seven shopping centres and a day hospital. The vacancy level of the portfolio remained at an acceptable level. Our weighted average operating expenses are still well within acceptable market norms and achieved good rental escalations and reversions in this highly competitive market.

Another key figure monitored and actively managed is arrears as a percentage of collectables being 2.2% at current figures.

NON-SOUTH AFRICAN PORTFOLIO

PLATZ-AM-MEER

The non-South African portfolio includes only one property which consists of a mixed-use development comprising a retail shopping centre, 36 luxury residential apartments and offices. The development is known as the Platz Am Meer Waterfront. The retail shopping centre with a GLA of 21 155 sqm, is disclosed as investment property and the residential portion as inventory. There are 36 luxury residential apartments with signed purchase offers for 10 of the units. The transfer of the sold apartments are, however, being delayed until the finalisation of the sectional title register.

In general, the Namibian economy is under pressure and this has an impact on the performance of the centre. Platz-Am-Meer is a new development and management are ensuring that the required attention is being spent on the progress and development of the property.

TREASURY UPDATE

During FY19, Safari successfully implemented a Security SPV whereby bonds have been registered over most of Safari's investment properties in the security SPV structure to provide pooled security to lenders. The structure is regulated by a Common Terms Agreement ("CTA"), cession of security, counter indemnity agreements as well as debt guarantees. ABSA is currently Safari's sole financier. More details on the existing facilities will be disclosed in our FY19 financial results.

In line with an internal hedging policy adopted by the board as well as requirements of the ABSA facility agreements, a portion of the debt has been fixed by way of interest rate swaps. To date, Safari has hedged its exposure to interest rates for approximately 40% of its interest bearing debt. The portion of debt hedged will be increased in the coming months.

GUIDANCE

In line with Safari's focus on quality of earnings and distribution, the Board decided in the prior financial year to not distribute from capital reserves.

This resulted in a 26% reduction in distribution on a year-on-year comparative basis.

The forecasted interim distribution growth was between 8% - 10% and management is committed to achieve the guideline. The general macro economic factors of the country, Edcon, interest rate pressures, rental reversion prospects where retailers are struggling in the current economic environment and further challenges such as the Eskom crisis and the over supply of retail space in certain areas may however impact the distribution growth forecasts.

SOUTHERN PALACE – MAJOR BEE SHAREHOLDER OF SAFARI

Southern Palace became a shareholder during the August 2017 capital raise. Southern Palace subscribed for 66 million Safari shares at R7.60 per share. The subscription was funded by a Sanlam facility of R455 million and Southern Palace's own capital contribution of approximately R50 million (raised from a short-term facility supplied by Sanlam). Safari provided financial assistance for this transaction in the form of an interest and capital guarantee to Sanlam on the R455 million facility.

During the current financial year, Southern Palace defaulted on the R50 million equity loan from Sanlam which has resulted in a cross-default on the R455 million senior loan as disclosed in previous financial results of Safari. During October 2018 Sanlam sold 13 million Safari shares to settle the equity loan.

The remainder of the debt with Sanlam is secured with the 53 million shares remaining in the structure. There is also a reversionary pledge and cession in place where the shares will be pledged to Safari if the guarantees are called by Sanlam.

CONCLUSION

Safari will stay focused on its core strategy. The Company remains committed to delivering sustainable and quality growth in earnings and distributions.

Safari will publish its results for the year ended 31 March 2019 on or about 24 June 2019.

DISCLAIMER

Safari will enter into a closed period from 1 April 2019 until the publication of its results by the end of June 2019. The information contained in this document has not been reviewed or reported on by the auditors of Safari. Estimates, assumptions and forward-looking statements may therefore differ from the final results published at the end of June 2019.