Real Estate Investment & Services

MARA DELTA PROPERTY HOLDINGS

SEM: DELN0000; JSE: MDP

Report catalyst: ongoing capital raising for acquisitions

PRIME OCCUPANCY

Mara Delta Property Holdings presents an unusual investment case for property investors. Whilst exhibiting the characteristics of a real estate investment trust, Mara Delta is not a REIT but rather a property income fund, the pre-tax income of which is taxed on assets within each jurisdiction with net income then distributed to shareholders. In a REIT, no tax is paid on profits inside the structure with 90% of profits paid as dividends. Depending on tax status and domicile, any applicable shareholder tax is based on the Mara Delta distribution. The business model brings a greater level of sophistication to property markets in many African countries that either do not have REIT legislation or which have property markets that are evolving relative to a well-established and sizable market such as South Africa, in which the company does not participate. Management targets a 2% to 4% nominal distribution growth and a total return of up to 12% in income and capital, denominated in US dollar. Such returns over time in USD would be unusual, not least in developed REIT markets. Prevailing rental escalations and sources of other income indicate that approximately 3% growth in income per annum is not unrealistic. In weighing up the risk that comes with such aspiration, the key factors at stake are country specific and tenancies. In practice, country risk is less significant than it would be appear at face value in large measure because of the tenancy profile, the effective dollarization of income and a fair degree of confidence to be able to realise hard currency for running expenses and payment of dividends. Country risk is an important macro factor to be understood and managed and it shapes acquisition decisions and expansion strategies. At the micro level, the majority of income is from tenants who tend not to be typical of the overall domestic political economy, and include multinational companies, whilst sector classification and origin of rental income is relatively defensive. There is reasonable line of sight on future cash flow with aggregate lease expiry being boosted of late to in excess of seven years with the acquisition of Mauritian hospitality assets that benefit from year-round high occupancies generating hard currency revenue. Newly promulgated REIT legislation in Morocco presents an opportunity for Mara Delta to initiate a public offering to minority investors at some future date, with the objective of listing the current asset on the Casablanca Stock Exchange. Post a pending capital raise, a pro forma future net operating income yield of approximately 8,5% is indicated, the equivalent of a capitalisation rate and translating to a 7,4% yield on net asset value on assumed property gearing of 43% and an interest rate averaging 5,8%, with a mix of USD and EUR facilities. Attributable distributable earnings is closely aligned to funds from operations.

The investment case:

- Rapidly developing a track record of acquiring superior property assets in Africa and Indian Ocean islands
- A combination of hard currency income and real growth characteristics
- Strategy to continue raising debt and equity capital as good risk-reward opportunities identified
- Management demonstrate a competency to manage the operational portfolio well during an acquisitive phase

Pro forma net asset value of $1,59 captures liquidation value fairly but not future performance. On a DDM and DCF basis fair value of $1,60 is indicated based on current and transferring-in portfolio. A Trading Buy and a Portfolio Buy.

June Year End Est. pro forma Currency US$	NOI million	Expenses million	Interest (Incl. fund level) million	Taxation million	Distributable Income million	DPS Cents	Debt (Incl. fund level) million	Equity million	L/V %
2017	30,0	4,2	11,5	2,1	18,3	12,10	256,9	305,3	46,4
2018	49,1	4,6	16,2	4,4	24,1	12,53	256,9	316,9	45,5
2019	50,5	4,7	16,2	4,8	24,9	13,00	256,9	339,4	43,7
2020	52,9	4,8	16,2	5,4	26,5	13,83	256,9	363,0	42,0
2021	54,4	4,9	16,2	5,9	27,5	14,34	256,9	387,6	40,4

Pro forma NAV: $ 305,3m	Pro forma property value: $553,2m	Share price: 154c (SEM)/1720c (JSE)	Distribution Yield/ SEM price 7,9%
Pro forma NAV per share: 159,1c	Pro forma gross yield: 8,5% (2018)	Market cap: $188m (SEM)/R2,1bn (JSE)	Issued shares: 121,9m
Target price per DDM & DCF: 160c	Pro forma after tax yield: 7,4% (2018)	Company pays out net distributable income	Pro forma shares: 191,9m

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Pricing and estimates effective close of business 17 March 2017

A product of Ingham Analytics
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COMPANY INFORMATION

The Mara Delta Property Holdings Limited website http://www.maradelta.com *provides financial, operational and stock exchange regulatory information that will further assist investors in making an informed judgement call.*

Disclosure

Mark N Ingham (Ingham), director of Ingham Analytics, is independent equity research analyst. The descriptions, opinions, financial forecasts, valuations and conclusions reached are entirely those of Ingham. The report conforms to best financial analysis practice and is fully compliant with relevant professional codes of conduct and legislative imperatives. Mara Delta agreed to respect the independence of Ingham. In making an evaluation of the company. Ingham may take into account material confidential information without making that information available in the investment report or to third parties. He may use material and immaterial public information and non-public immaterial information to arrive at a conclusion that has the equivalence of material non-public information and apply deductive logic/reasoning in arriving at a conclusion.

At time of issue of this report Ingham held no beneficial interest, direct or indirect, in the equity of Mara Delta.

This report is confidential, issued for the information of clients of Ingham Analytics and current or potential investors in Mara Delta and may not be disseminated other than by prior consent. Sources referenced are reliable and opinions are formulated in good faith based on professional judgment and thorough analysis. Use hereof or action taken is done so at own risk.

Exhibit 1

Stock appraisal checklist on Mara Delta

Industry Positioning	**	Influential in shaping increased property sophistication in African markets
Management	***	Experienced leadership with appropriate technical skills
Transparency	**	Appropriate disclosure, open-door to interested investors or potential vendors, partners
Balance sheet	**	Target 50/50 L/V ratio, adequate liquidity, accessing equity and debt capital for growth
Revenue Growth	**	Organic 3% to 4% in USD, capital matched to good acquisitions provides blue sky
Dividend Growth	**	Targeting 2% to 4% in USD, 3% realistic based on lease escalations
Rating	*	SMU/JSE differential, market value below NAV, not reflecting portfolio return performance
Upside	***	The stock has potential upside based on soundness of strategy and execution
Downside	*	Socio-political disturbances, changes in government policy, forex repatriation
Volatility	**	Stable rental income, minimal vacancy, increasing diversification, >7 years lease expiry
Stock liquidity	---	Constrained by shareholder structure, effective free float 12%,
Shareholder structure	**	Supportive institutional and property fund shareholders, management 6% (no free carry)

*** Very Good ** Good * Satisfactory - Unsatisfactory -- Poor --- Very Poor

Exhibit 2

SWOT on Mara Delta

Strengths

- Strategy well formulated and cognizant of macro risks
- Executing to plan on strategy with strong growth
- Acquisitions strategically well-chosen
- Skilled and motivated entrepreneurial management
- Financial position strengthened by ongoing equity raises
- Effectively a leasing company with a property underpin

Weaknesses

- Geared structure vulnerable to increased vacancies
- Interest only debt could have pitfalls
- Upturn in USD/EUR interest rate cycle
- Growth subject to investor/bank funding appetite
- Focus on dollarized income could limit opportunities
- Skill pool limited in the African market

Opportunities

- Optimizing return on Anfa Place through redevelopment
- Learnings across 5 countries, basis for expanding elsewhere
- Stake in Gateway development company, future deals
- Build critical mass in portfolio size and market value
- Sell-downs as REIT legislation/sophistication evolves in Africa and listing opportunities present

Threats

- Not immune to potential capricious government policy
- Me-too competitor activity, potential yield compression
- Hard currency availability for rental and distribution
- Underlying business economics of counterparties
- Debt rating and willingness of banks to lend/refinance
- Paucity of suitable new assets for growth agenda

Exhibit 3

Mara Delta company roadmap and strategic forces

MDP

Company road map

Past

May 2012: Incorporated
July 2014: Anadarko ($42m) & AnfaPlace ($100m)
March 2015: SEM listing
April 2015: Holland/KPMG ($19m)
May 2015: Vodacom ($46m)
June 2015:issues shares on SEM
July 2015: JSE main board
Oct 2015: Zimpeto Square ($11m)
Dec 2015: Kafubu & Makubua ($40m)
March 2016: Barclays ($14m)
May 2016: Buffalo Mall & Bollore ($15m)
Oct 2016: total distribution of 11,75c
Sept/Nov 2016: Hospitality acquisitions
Dec 2016: approval of new shares

Present

Bolstering operational skill capacity
Investor relations efforts to improve understanding
Capital raising round internationally =/- $100m in new equity
$244m of transferring-in assets
Impact of Tamassa and Beachcomber
Anfa Place completing redevelopment
Anadarko Phase 2 pending - good yield
$19m Bank of China refinancing
Refinancing negotiations
Exploring new territories
Morocco REIT legislation
Gateway Delta pursuing greenfields developments in a separate structure

Current footprint

Present in Mozambique, Morocco, Mauritius, Zambia and Kenya across 19 properties with further territories identified

Retail 42% by value, commercial 24%, hospitality 22%, 7% corporate accommodation and 5% logistics

Mozambique 36% by value, Mauritius 25%, Morocco 18%, Zambia 16%, Kenya 5%

Strategic forces analysis

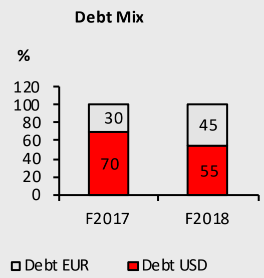
Substitutes

Asset substitutes
Retail has the most potential substitutes in theory but practicalities of retail in Mozambique and Zambia, together with tenants secured, makes this unrealistic
Morocco retail deficiencies being addressed with new tenants attracted
Logistics in Kenya has few substitutes and offers a growth vector
Bespoke assets in Vodacom and Anadarko - 18% of portfolio
Bespoke asset in Vale accommodation - 7% of portfolio value
Hospitality is locked in for a long period, model presents future opportunity

Competitors
Largely privately owned individual investors or businesses investing in developing own assets
Growing corporate market
Funds such as Hyprop, Attacq, Sanlam, Old Mutual

Tenants

Counterparties are formal businesses such as Anadarko, Vodacom, Shoprite,LC Waikiki, Barclays, Vale, Imperial Logistics, Massmart, New Mauritius Hotels and LUX Island Resorts

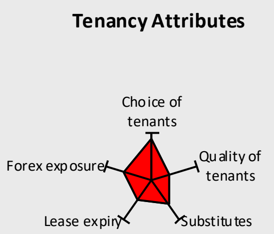


Suppliers

Few external suppliers other than in exceptional circumstances when a redevelopment requires build and reconfiguration work

Arms length relationship with Gateway Delta developers

Key suppliers are banks with whom a close and trustworthy relationship is imperative



A smaller area denotes less pressure

Competition – USP

First mover advantages in corporatizing formality in less sophisticated real estate markets

Building institutional memory and market knowledge

Entrepreneurship with accountability to good governance and stock market scrutiny

Learnings make territorial expansion less risky

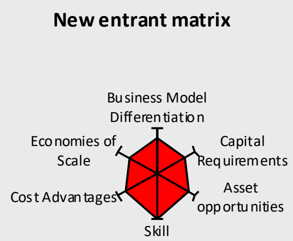
New entrants

Both a threat and opportunity

Successful entrants could force yield compression

But if competitors slip up it reinforces Mara Delta's raison d'etre

Attractive yields are beguiling at face value but are hard won and vigilance is necessary with excellent internal systems



Larger area = higher barriers to entry

Key takeaways

Apropos of Ingham Analytics investment merits assessment on Mara Delta, the following salient factors influencing the outcomes merit mention.

Mara Delta is a property income fund rather than a REIT

- Mara Delta is not a real estate investment trust but is a property income fund, the pre-tax income of which is taxed on assets within each jurisdiction with net income then distributed to shareholders. It does exhibit certain characteristics of a REIT, not least in the way it is run, with management well versed in South African REIT practice and legislation.

Meets stringent stock exchange listing criteria

- The business meets the stringent listing criteria of both the Stock Exchange of Mauritius and the Johannesburg Stock Exchange, which criteria include world class corporate governance and transparent financial reporting.

Gauging risk/reward factors

- The objective of this report is to objectively gauge the investment merits of the company and some of the factors new investors would need to weigh when considering the risks and rewards associated with that. Within the time scale afforded to assess the company it is not exhaustive nor is it intended to be. As the business continues to evolve so too will further analysis and research eventuate and market knowledge grow.

Macro factors consideration in initial due diligence

- An important consideration in initial due diligence at the outset was to determine whether or not the macro factors that so often deter investment in Africa themed assets were significant enough to warrant primary attention, with the granularity of the business and its strategic objectives secondary due to the risk and reward relationship being misaligned.

Political economy of the nation state not representative of the Mara Delta investment case

- On consideration, whilst the political economy of a nation state is the context for physical location of the assets it is not representative of the strategic goals of the company, the business model, the targeted tenancies, the income sources that support those tenancies, and the practical experience of management on the ground in realising cash flow and a return.

Macros are not a stumbling block to the progress of the company

- It is self-evident that if the macros were the overriding stumbling block not only would the strategy have been ill-conceived from day one but few if any properties would have been identified for purchase or development, tenants meeting qualitative criteria would have been all but absent, administrative hurdles would have been insurmountable, currency fluctuations a death knell for hard currency cash flow and a highly-qualified, multidisciplinary team of professionals impossible to attract. None of this is manifest.

Rapidly building a balance sheet of tangible, income generating assets

- Mara Delta is in an early phase of its business life cycle but has rapidly built a balance sheet of tangible, income generating assets. Between 2014 until the last known date, $200 million in equity was raised from institutional investors of substance. In the period to December 2016, $300 million was raised in debt with $160 million settled.

Total assets reached $343,8 million by 30 June 2016

- In 2014, Mara Delta was barely a shell and it had no revenue. In 2015, net operating income was $13 million, total assets were valued at $236,0 million, shareholder equity was $124,4 million and a distribution of $6,4 million equated to 11,28 US cents. In 2016, the above figures were $20,5 million, $343,8 million, $163,4 million, $10,6 million and 11,75 US cents respectively.
- Mara Delta has a June year end and will report in the first week of September.

Audited results for the year to 30 June 2017 will not fairly reflect the annualised effect of corporate activity underway

- The audited result for the year to June 2017 will not fairly reflect the annualised financial effect of the substantial corporate activity underway with further activity, also accompanied by raising of equity and debt, likely.

Forecasts are on a pro forma scenario basis

- The forecasts are on a pro forma scenario basis, assuming the raising of further equity and debt by 30 June 2017 and the impact that will have as fully operational assets, developing assets (Anfa Place Shopping Centre and

Anadarko Phase 2), and transferring-in assets (Vale, Mall de Tete, Cosmopolitan Mall, Imperial warehouse, Tamassa and Beachcomber) contribute to expectation through 2018 onwards.

Full impact of developing assets and transferring-in assets in 2018 fiscal

- The Ingham forecast for fiscal 2017 reflects fully operational assets in place for twelve months together with Anfa Place Shopping Centre, which is under redevelopment, and a proportionate contribution from transferring-in assets. Thereafter, all nineteen properties as at the date of this note are assumed to contribute for a full twelve months.

Forecasts normalised and intended to be as close as reasonably possible to a cash result and in line with distributable earnings

Best estimates

- Forecasts are normalised to exclude one-off costs, non-cash items such as straight-lining, and non-forecastable items such as fair value adjustments or foreign currency gains or losses. These are as close as reasonably possible to a cash result or funds from operations in REIT accounting, thus in line with Yield, rental per square metre, debt, equity, and interest costs per asset are best estimates but in aggregate relate to norms guided by management.

Keener interest rates as track record has evolved

- As the track record evolves so too has an ability to secure lines of funding at keener rates. Euro debt on Tamassa is at a rate of 3,8% with Beachcomber at a rate of 3,9%.

70% of US dollar interest rate exposure hedged

- The company hedges 70% of US dollar interest rate exposure whereas euro rates are fixed. Approximately 55% of debt post further capital raising will be dollar denominated.

Interest rate sensitivity on a 0,5% move approximately 2%

- A 0,5% move in the dollar interest rate would have an approximate $0,7 million effect on income pre-tax. On the basis of Ingham 2018 estimates, the effect of a 0,5% rise in interest rate over a full year would depress the dividend by 0,3 cents per share or a difference of 2% on the base case.

Leases linked to US dollar or euro

- All leases are linked to either the US dollar or euro due to the type of tenant and the leases negotiated. Day-to-day costs would be in local currency. In Morocco, lease income is only indirectly dollarized as rents are in local currency whilst the dirham is weighted 60/40 to the euro and US dollar with the currency controlled.

Political risk insurance has been taken out in Mozambique and Morocco

- To limit the risk of not being able to convert and transfer hard currency, political risk insurance has been taken out in Mozambique and Morocco. This comes at a cost of approximately 1,2% of insured value.

A 10% devaluation of the Moroccan dirham, all else equal, has a 3,4% dilutive effect

- Based on my current estimates, Anfa Shopping Centre in Morocco could contribute roughly 19% of total group net operating income once operating as envisaged post the current revamp. In the event of a 10% devaluation of the dirham, with euro denominated interest payments unaltered, the approximate dilutive effect on distributable income is 3,4% over a full year.

Weighted average lease expiry exceeds seven years across the portfolio

- Leases are assumed to continue on the same basis when the term is up. There is no evidence of an over-rented situation on the properties, which are on competitive terms in largely fully occupied space, and no remissions are likely. The weighted average lease expiry exceeds seven years across the portfolio with the legacy assets in the base for a year or more exceeding five years.

Properties are escalated for the forecast in line with lease rental escalation rates

- Properties from a balance sheet point of view are escalated for the forecast in line with lease rental escalation rates. Morocco property is escalated at 3,33% a year, in line with the three-year periodic 10% rental adjustment legislated. Whilst Tamassa is at a zero escalation on rental (excluding an EBITDA sharing agreement) and Beachcomber on a 1% escalation, the properties are deemed to increase in value by 3% a year. All else equal, with debt stable and rentals and values rising, loan to value ratios will slowly reduce.

- Whilst Mara Delta in a good position to capitalise on future public market REIT developments in Africa and the Indian Ocean Islands this should not to be of immediate priority. There is much work yet to be done to build critical mass in

Future opportunity to capitalise on public market REIT developments in Africa and the Indian Ocean Islands

the portfolio and, as important, build a solid stock market rating. Investor education remains thin but improving in Mauritius and South Africa. New markets opening up to the REIT concept, including Kenya, have a long road to travel.

- Dividend and interest income flow from subsidiaries to Delta International Mauritius Limited, a subsidiary of Mara Delta.
- Forward group interest payments are an estimated $16,2 million which is estimated to be covered 2,75x by net operating income after deducting corporate and administrative costs. Interest cover ratios between 2x and 3x would be considered acceptable for this risk profile.

Total forward group interest payments estimated at $16,2 million giving a 2,75x cover ratio

- Independent property valuations are considered robust with net operating income on the lease as a percentage of asset value a healthy yardstick by which to judge the rightness of a property's value.

Independent property valuations considered robust

- Debt funding is predominantly interest only across the estate although Anfa Place Shopping Centre does have a capital repayment and the small Banco Unico facility is amortised. There are potential pitfalls to interest only in this regard. A geared structure in which the nominal value of debt stays the same has its advantages for amplifying returns but it works in reverse too.

Debt funding predominantly interest only, potential pitfalls

- Rollover or refinancing has to be sought in a timely manner but in the event of a mismatch new equity would be necessary.

Timely refinancing necessary

- The group targets a loan to value threshold of 50%, including property debt and corporate debt. This is not out of kilter with international REITS.

Loan to value of 50% targeted

- However, interest rates, whilst attractive by emerging market standards at an average of 6%, are relatively high compared to developed markets – a REIT in the UK would borrow at half that.

Interest rates attractive for emerging markets but not developed markets

- Furthermore, given that there are operating costs, interest and in-country tax to pay, together with the possibility of tenancy slippage, as seen with Anfa, this 50% target should be seen as a ceiling not necessarily a figure to be permanently maintained. A degree of conservatism would not be amiss, even at the price of slightly lower yields.

A degree of conservatism on debt/equity mix would not be amiss

- A common question is what are typical cap rates in these various countries. The reality is there aren't reliable data. In many respects, Mara Delta is determining benchmark rather than going with the flow. Therefore, quality of leases and counterparty are the ultimate determinant rather than general market norms. A sanity check back to a desired rate of return that is being asked for and accepted, say 7% to 10% with a mid-point of 8,5%, is a good proxy and transactions completed in recent years suggest this is a reasonable and sustainable number for these territories for the foreseeable future.

There are no reliable data on country cap rates…

…in many respects, Mara Delta is determining benchmark…

…8,5% reasonable and sustainable

Earnings scenarios

Transitioning portfolio

The 31 December 2016 balance sheet and P&L, per the interim results released on 8 February 2017, is not reflective of a transitioning portfolio of assets.

Properties as at December 2016 valued at $299,1 million

As at December 2016, eleven properties were valued at $299,1 million. This included Anfa Place Shopping Centre in Casablanca, under redevelopment, and the second Anadarko building in Maputo, being built for occupation in October 2017.

Liabilities as 31 December 2016 were largely short and long term debt totalling $170,0 million. Shareholder equity equalled $182,6 million.

Eight properties valued at $244,1 million in the process of transfer

Subsequently, based on announced deals, a further eight properties valued at $244,1 million were in the process of transfer.

Collectively, this makes for nineteen properties worth $543,1 million.

On 1 March 2017, Mara Delta issued through the Mauritian share register 7,1 million new ordinary shares at $1,62 per share, raising $11,5 million. This was in part for settling the $25 million Mall de Tete acquisition in Mozambique, effective 1 March 2017.

10,1 million new shares issued wef from March 2017

Also on 1 March, Mara Delta placed 3,0 million ordinary shares on the South African share register at an issue price of $1,54 per share, raising $4,6 million. These proceeds have been used to reduce gearing on the $42,3 million Tamassa acquisition. Transfer on Tamassa was March 2017.

The sum of these two equity raises was $16,1 million.

€10 million bond in Mauritius

Rating agency indicates low credit risk

Mara Delta is further raising €10 million in the Mauritian market in the form of unlisted bonds arranged by AfrAsia Bank. The tenor is 364 days with the interest rate 2%. CARE Ratings (Africa) issued a CARE MAU2 rating which indicates low credit risk and a strong degree of safety regarding timely payment of financial obligations in Mauritius.

Terming appears to be well matched

Terming tends to a medium to longer term duration. Of the $170 million in borrowings, 15% of $25,3 million expired in March 2017. A $19 million refinancing was secured through the Bank of China for Zambia assets and a further $6,3 million equity bridge secured. $5,7 million is due in June 2017, a rollover is scheduled for March 2018 whilst $38 million or 22% expires in July 2018. Of the $170 million, $71,5 million expires from 2019 onwards with 70% of that expiring only in February 2022.

Tenor tends to link with the expiry of lease agreements but there remains refinancing risk although that has been limited of late due to an appetite by banks to lend at more attractive rates given the track record of tenant payments.

Additions to the portfolio would require approximately $122 million of new capital

An addition to the portfolio of $244,1 million post December 2016 would require $122 million of equity and debt on management's 50/50 guidance. Typically, property debt is less than 50% of property value as debt is kept at fund centre to take advantage of opportunities. Feedback from management suggests between $20 million and $35 million could be at fund level.

Fund level debt estimated to be between $20 million and $35 million

Management in presentation disclosure have indicated a loan to value ratio of 43,6% on the total properties which suggests $236,9 million in total group debt. Adding conservatively $20 million in fund level debt the revised group debt compared to December is $256,9 million.

Future equity of approximately $106 million estimated

Based on the above acquisition of new assets, I estimate that equity would have to be boosted from $182,6 million as at December 2016 to approximately $305,3 million. With $16,1 million already raised that leaves a balance of around $106 million.

Additional equity gives rise to an antecedent dividend

Additional equity based on the assumptions above gives rise to an antecedent dividend.

Scenarios are pro forma

The scenarios presented are pro forma assumptions based on a modelling of the existing and transferring in assets.

Pro forma equity modelled to be $305 million for 2017

The balance sheet as modelled on a pro forma basis for 2017 indicates equity of $305,3 million with total debt at just below $257 million. The fair value of the property is increased by $10 million to $553,2 million to allow for an assumption that the Anadarko Phase 2 project in Mozambique will be substantially complete and shortly contributing full rental income.

Loan to value ratio of 46% indicated

The pro forma 2017 position indicates a combined loan to value ratio of 46,4%, within target.

Projected NAV 159,1 cents, excluding deferred tax

The valuation section gives further colour on indicative fair value parameters for raising additional equity. Shares in issue is modelled at year end to be 191,93 million. With equity at that date modelled to be $305,3 million, the net asset value per share is therefore calculated to be 159,1 US cents which compares with 157,2 cents, excluding deferred tax, as at 31 December 2016.

Projected 2017 distributable earnings of $18,3 million

The summarised P&L indicates net distributable earnings of $18,3 million for 2017, up 72% from $10,6 million in 2016. This would be split $6,8 million for the first half and $11,5 million for the second half.

Total share in issue at date of report 121,9 million

With effect from March 2017, through an issue of two tranches of shares, a further 10,1 million shares are in issue at the date of this report, taking the total in issue to 121,9 million shares.

10,1 million new shares issued wef from March 2017

Per the previous comments on equity issues, on the assumption of a further 70 million shares being issued for cash by the end of June 2017, the total issued share capital as at 30 June 2017 would be 191,93 million. This would compare with 79,8 million shares in issue as at 31 December 2015 and 100,1 million as at 30 June 2016.

Interim distribution made provision for an antecedent dividend

Whilst the additional equity would ostensibly be dilutionary, this will not be the case. Whilst Mara Delta is not a REIT, it follows the broad principles that govern a REIT. For example, the interim result for the six months ended December 2017 made provision for an antecedent dividend.

Antecedent dividend principle is the same as for a REIT

In a REIT structure, if a REIT issues new shares at a point in time, other than at the beginning of a distribution period, the next distribution will include an antecedent dividend. This is because of the dividend being paid on the total number of shares in issue, including the new issue, for the full period. Whilst accounting for an antecedent dividend as income is not in line with IFRS the antecedent dividend is a cash inflow on the issue of new equity and should be recognised as a credit to capital. In effect, the new shares are paying for the distribution at time of issue.

Interim distribution of 6,12 cents with a final distribution of 5,98 cents projected

An interim distribution equalling 6,12 cents was declared on 111,8 million shares. Of this, 13% was allocated to an antecedent dividend. All else equal, and in line with management guidance, the run rate for the full year would suggest 12,1 cents per share or 3% growth on the 11,75 cents in 2016. A final distribution per share of 5,98 cents has thus been factored in to the forecast on the assumption of additional shares in issue.

Net operating income projected at $49 million in 2018

With total assets, worth $553,2 million, funded by an increase in borrowings, to $256,9 million and an increase in total equity to $305,3 million, net operating income is projected at $30,0 million in 2017, $49,1 million in 2018 and then $50,5 million in 2019.

Material increase in distributable income

Given the uplift to operating income, distributable income will rise materially in 2017 and 2018 on the basis of the new assets and additional capital assumptions made. The forecast below has distributable income at $18,3 million in 2017, up 72% on the $10,6 million in 2016, with distributable income in 2018 forecast to be $24,1 million, up 32%, and then rising to $29,6 million by 2023 assuming no further property additions to the fund.

Three-year CAGR in distribution per share projected to be 3,4% of a base of 11,75 cents in 2016

If a dividend of 12,1 cents is assumed for 2017, growing to 12,53 cents in 2018 and then 13,0 cents in 2019, then off a base of 11,75 cents in 2016 the three-year compound growth in the unit value of the distribution is 3,4%, which is comfortably within management targeted guidance.

Income boosted by Anfa Place, Anadarko Phase 2, Vale, Mall de Tete, and Mauritian holiday resorts

Income will be boosted by the following factors.

- Anfa Shopping Centre should begin contributing optimally from 2018/19 as vacancies diminish further and new tenants are added to the mix.
- Anadarko Phase 2 contributes with effect from October 2017. Cost recoveries on expenses of up to $0,6 million, reflected until now in other income, will fall away.
- Vale is assumed to contribute to NOI for only about three months in 2017 and then fully from 2018. Income from December 2015 to date of transfer has already been captured in other income.
- Mall de Tete, Tamassa and Beachcomber will also only contribute for a period of a quarter in 2017 before being fully reflected in the 2018 accounts.

Operating costs likely to rise by 2% pa

- Interest payments, unless dollar rates change beyond the hedged periods, will remain broadly stable but corporate centre costs will rise by around 2%, costs associated with properties in line with escalation, whilst income will rise by 3%. Therefore, a rise in operating income would be accompanied by a slightly higher rise in attributable income, even allowing for a slight rise in the effective tax rate.

Cost to income likely to decrease to between 15% and 20% from an historic 25%

- Operating cost to income ratio is likely to decrease from an historic 25% to between 15% to 20% as more triple net leases such as Tamassa and Beachcomber increase their weight in the mix.

Through 2023 effective average tax rate of 17%

Through the forecast period to 2023, the effective current tax rate as modelled averages 17%. This is lower than corporate tax rates in various jurisdictions due to a property allowance, based on the cost of a building, setoff annually against taxable income.

Corporate tax rates and property allowances vary

The corporate tax rate in Mozambique is 32%, it is 30% in Morocco, Kenya and Zambia with the rate an effective 17% in Mauritius. However, property allowances are 2% in Mozambique, 4% in Morocco, 2,5% in Kenya, 5% in Zambia, and 5% in Mauritius.

Growth dependent on ability to raise capital and identify suitable assets

Growth has been driven by an ambitious capital raising exercise over the past three years, a process expected to continue, dependent on identification of assets that meet criteria.

Refinancing and liquidity

Refinancing and liquidity are potentially vulnerable to both this aspect of the business life cycle and the fact that all of the after-tax income is paid out to shareholders.

Bad debts and write-offs minimal

Whilst there can be timing differences between cash due and interest payments due, provisions are generally adequate whilst write-offs too have been limited. Of late, bad debt provision ($0,5 million) and write offs ($0,4 million) are confined to the Anfa Shopping Centre redevelopment.

With no reliable cap rate benchmarks in markets, quality of leases and counterparty are the ultimate determinant rather than general market norms.

Conventional REIT type benchmarks such as cap rates typically don’t apply to Mara Delta as there are no publicly available data of consequence available. Quality of leases and counterparty are the ultimate determinant rather than general market norms. Net operating income is a function of rental agreed and operating costs. The building also has to be in a position to secure another tenant if a vacancy occurs.

Director valuation on assets are done per discounted cash flow with discount rates between 11% to 13% and capitalised revisionary rates between 8% to 10%. Independent and reputable valuators such as Jones Lang LaSalle undertake routine valuations on each asset.

Valuations could come under pressure in the event of negative economic factors

Whilst robust, valuations could come under pressure due to negative economic factors. Ultimately, the net operating income on the lease as a percentage of asset value is a healthy yardstick by which to judge the rightness of a property's value.

Robustness of valuation key for debt funding

Robustness of valuation is also key for debt funding. Debt funding is predominantly interest only across the estate. There are potential pitfalls in this regard in that an immovable and illiquid asset 50% backed by debt with a given maturity requires interest to be serviced, regardless of whether it is tenanted or not. As the debt is not amortised it remains the same in nominal terms whether or not the equity in the building increases or declines. Debt can only be raised if backed by the security of the value in the properties.

Geared structure amplifies return but the reverse is true

A geared structure has its advantages for amplifying returns but it works in reverse too.

Rentals fund the interest, principal owed on maturity

Debt repayments are not necessarily in sync with when lease terms expire. Whilst rentals fund the interest the principal is owed on maturity. Rollover or refinancing has to be sought in a timely manner, which to-date has been done successfully and at keener rates. In the event of a mismatch, new equity would be the only alternative.

Variety of lenders

Maturities are 80% term with 20% due in 2017 as at December 2016. Lenders include Investec, Standard Bank, AfrAsia Bank, State Bank of Mauritius, Barclays, Nedbank, Banco Unico and Bank of China.

Pro forma estimates follow below

On a consolidated basis, the pro forma summarised estimates for both income and financial position are presented below.

The fair value of property post March 2017 of $553,2 million is $10 million higher than what it will actually be but the value of Anadarko Phase 2 has been adjusted upwards to account for contributing fully post development.

Net operating income estimated at $30 million in 2017, increasing to $49 million in 2018

Property yields estimated to exceed 8%

Distributable earnings estimated to be $18,3 million in 2017, including a $6 million antecedent dividend on equity capital raisings

Distributable earnings estimated to be $24,1 million in 2018

Actual interim distribution per share 6,12 US cents for the six months ended December 2017

Final distribution per share estimated at 5,98 cents, including antecedent distribution of approximately 3,1 cents

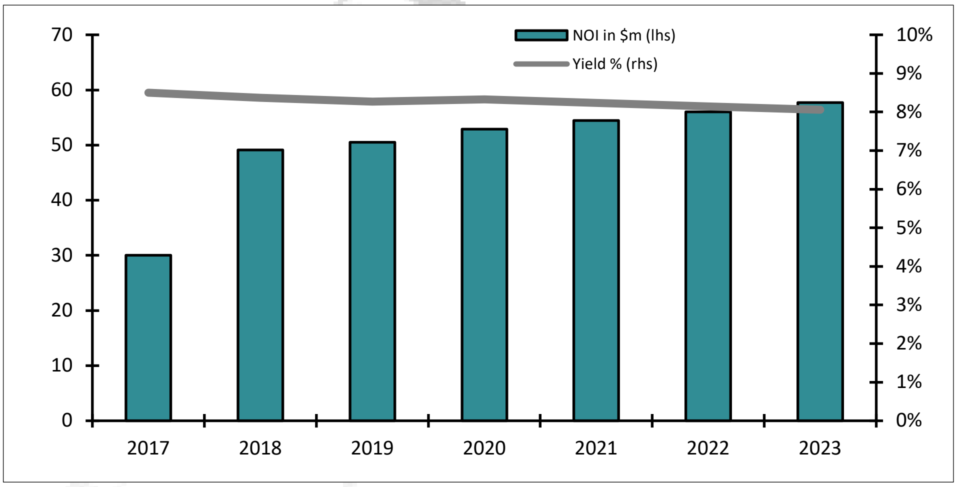
A total annual distribution for the year to June 2017 of 12,10 cents, up 3% on the 11,75 cents in 2016

Average annual compound growth of up to 4% is possible 2017 through 2023

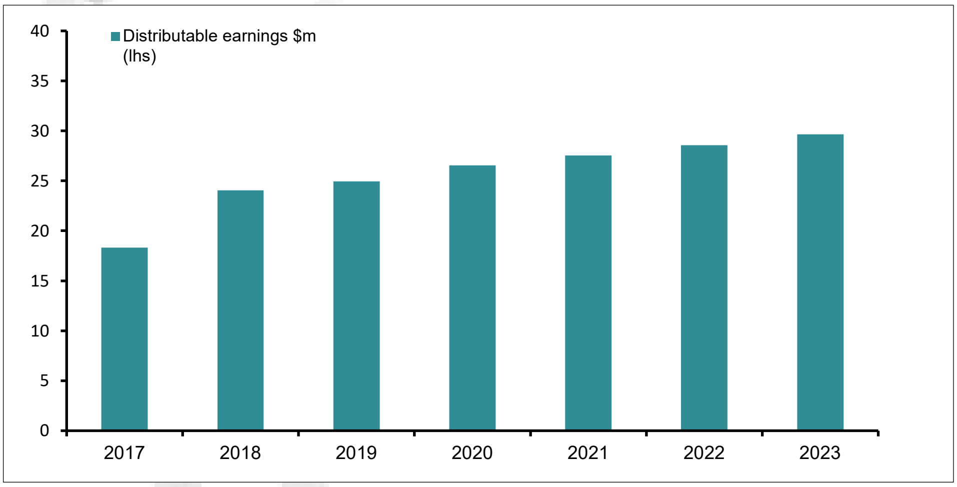
Exhibit 4

Forecasts for fiscal years ended June

Net operating income and yield on property value in $ million (pro forma estimates)



Distributable earnings (pro forma estimates)



Distribution per share US cents (pro forma estimates)

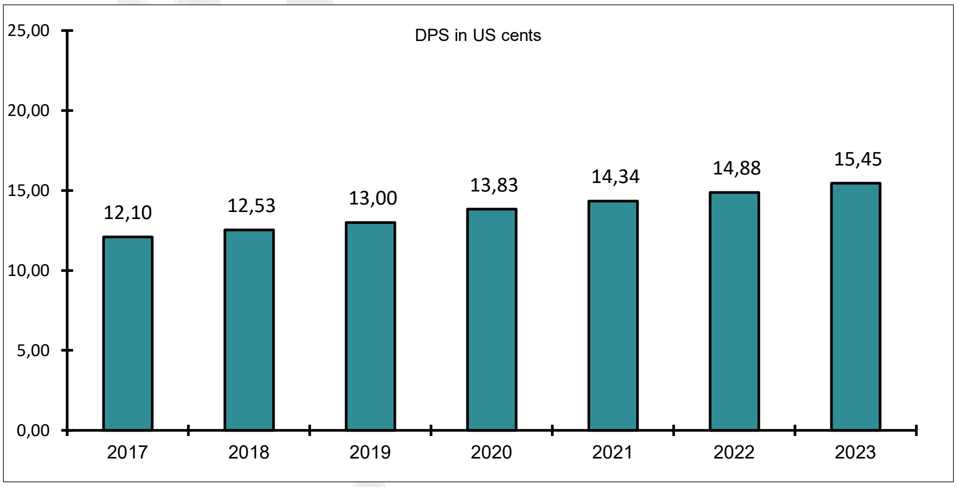


Exhibit 5

Abbreviated Profit & Loss: source is published company information, Ingham calculations (pro forma estimates)

$ million	2017	2018	2019	2020	2021	2022	2023
NOI	30,0	49,1	50,5	52,9	54,4	56,0	57,7
Expenses	4,2	4,6	4,7	4,8	4,9	5,0	5,2
Interest	11,5	16,2	16,2	16,2	16,2	16,2	16,2
Tax	2,1	4,4	4,8	5,4	5,9	6,3	6,7
Net	18,3	24,1	24,9	26,5	27,5	28,6	29,6
Interim distribution	6,8						
Final distribution	11,5						
Interim $ cents	6,12						
Final $ cents #	5,98						
Total $ cents	12,10	12,53	13,00	13,83	14,34	14,88	15,45
% chg.	3,0%	3,6%	3,7%	6,4%	3,7%	3,8%	3,8%
Dec 2016 issued shares (m)	111,79						
June 2017 issued shares (m)*	191,93	191,93	191,93	191,93	191,93	191,93	191,93

** assuming 10,1 m new shares on 1 March 2017 plus a further 70 million new shares post March*

 # antecedent dividend of 3,1 cents on equity issues in fiscal 2017

Exhibit 6

Abbreviated balance sheet: source is published company information, Ingham calculations (pro forma)

Balance Sheet $ million	Pro Forma	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Fair Value of Property	553,2	564,8	587,3	610,9	635,5	661,2	688,1	716,2
% chg.		2,1%	4,0%	4,0%	4,0%	4,0%	4,1%	4,1%
Debt	256,9	256,9	256,9	256,9	256,9	256,9	256,9	256,9
Net current assets	9,0	9,0	9,0	9,0	9,0	9,0	9,0	9,0
Equity	305,3	316,9	339,4	363,0	387,6	413,3	440,2	468,3
NAV per share $ cents	159,1	165,1	176,9	189,1	201,9	215,3	229,4	244,0
% chg.		3,8%	7,1%	6,9%	6,8%	6,6%	6,5%	6,4%
Shares at year end (m)								
191,93								
L/V	46,4%	45,5%	43,7%	42,0%	40,4%	38,8%	37,3%	35,9%

Portfolio of assets assessment

Operational and transferring in assets

Each country is assessed at a granular level. The assessment is based on best available information at the date of this note and may not necessarily reflect all pertinent factors but is believed to be as comprehensive as possible. The information contained herein assists with making an informed judgement call on the totality of the investment case and with an evaluation of fair value.

The tables within each country section provide detail on each asset as follows:

- Tenant
- Date of acquisition
- Gross lettable area in square meters
- Vacancy
- Weighted average lease expiry
- Lease expiry
- Type of lease
- The industry represented by the tenant
- Valuation of the building per reputable valuators
- Annual rental escalation
- Assessed tenant risk on a scale of high, medium and low
- Prevailing yield
- Prevailing rent per square metre in US dollar

The nineteen properties with a collective value of $543,2 million are located across five countries within Sub-Saharan Africa, North Africa and the Indian Ocean island of Mauritius. The locations could be considered prime for the locations.

With the temporary exception of one particular property, the properties enjoy high occupancy. Leases are agreed with tenants of substance in office, retail, logistics, and corporate accommodations, and with Mauritian holiday resort operators.

The estimates for debt, interest and operating income are based on 2018 modelled estimates given that 2017 is not a representative year. In 2018, all assets are anticipated to be either fully or substantially yielding as anticipated.

Mozambique

Of the nineteen properties in the portfolio post acquisitions, eight will be in Mozambique although two of those are the same tenant but in two buildings.

Vodacom, Anadarko, KPMG and Hollard, and Zimpeto are considered low risk tenancies. There is no bad debt across any of the tenancies. Vacancy is effectively zero.

Below is an analysis of the characteristics of each property and major tenants.

Anadarko

Anadarko has invested considerably, discovering >75 trillion cubic feet of recoverable natural gas resources. A large liquefied natural gas project is underway. The oil & gas exploration industry is subject to pricing and demand variability but the industries fundamental economics in Mozambique are undisturbed.

The Anadarko premises is built to strict client specification to meet global best practice.

Sub-contractors to Anadarko are located in the same premises.

Anadarko Phase 2 is underway, scheduled for October 2017, with the tenant providing a letter of intent to a new lease for 10 years. The developer developed the initial building and the new building is on land owned by the company.

In total, Anadarko will occupy 10 482m² across the two developments. Rent is approximately $42/m² and escalates at 3,5%. Lease expiry runs to May 2028.

The building lends itself to use by other tenants requiring high spec at some future date, including diplomatic occupancy.

Vodacom

The Vodacom building was also built to spec to include the data centre and switch gears for outgoing and incoming calls. The building is the nerve centre for Vodacom's in-country operations. In addition to existing space utilisation, a further two floors are available to accommodate growth. Vodacom has a ten + ten-year double net lease.

KPMG/Hollard

KPMG occupies the largest space in the KPMG/Hollard building for which Hollard and KPMG have naming rights. The lease runs through to February 2023 with KPMG occupying the largest square meterage. The estimated total rent per square metre is considerably lower than new space coming to market in Maputo, which is both attractive for tenant retention and provides scope for future uplift.

Zimpeto Square

Zimpeto Square is thirteen kilometres north of Maputo city centre and is the sole retail mall within ten square kilometres of its location. Portuguese retail group Sonae is the new grocery retail anchor tenant and is refurbishing to its requirement. Sonae has signed a ten-year lease at $16/m² which is payable in dollars. PEP and Edcon are present in the centre as is Vodacom.

Bolloré Warehouse

Bolloré is a French based conglomerate leasing 5 352m² of warehousing space in Pemba with Plexus leasing a further 1 022 m² for a total of 6 374 m² of such space, which is in short supply in the region. The warehouse is well located at the ENI/Anadarko Pier at Pemba Harbour. Offshore oil & gas logistics support is supplied though the port with the pier having been constructed for ENI/Anadarko. The current lease runs to March 2020 and the facility could readily find other tenants if need be.

Vale Residential Compound

With effect from March 2017, Brazilian mining company Vale and South African capital equipment group Barloworld will occupy the bulk of the residential compound in Tete, covering 12 966m². Good quality expatriate accommodations with a full range of facilities is in short supply and both companies have requested further capacity in this important mining centre. Transfer of the asset to Mara Delta will take effect from the latest capital raise.

Mall de Tete

Mall de Tete transferred to Mara Delta with effect from 1 March 2017. This geographically very well-located centre is developed by rural retail specialists McCormick Property Development. Shoprite occupies 3 194m² of space and Choppies a further 1 504m² with Jet taking up 917m² in this 11 571m² development. There are no comparable trading density statistics and there is no alternative for shoppers in the area but the key tenants are experienced Africa retailers with a strategic objective to expand in areas such as Tete. In the interim, the sellers have guaranteed Mara Delta a three-year net operating income which is estimated at $2,3 million.

Tables follow below:

Exhibit 7

Portfolio data: source is company, Ingham calculations

Mozambique	*Acquired*	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Anadarko I/Maputo	Jul-14	7248	0,0%	7,9	May-28	Traditional	Oil & Gas
Vodacom/Maputo	May-15	10995	0,0%	3,9	Dec-20	Double net	Telecoms
KPMG/Hollard/Maputo	Apr-15	5056	0,0%	1,7	Feb-18	Traditional	Financial
Zimpeto Square/Maputo	Sep-15	4764	0,0%	3,0	Jul-22	Traditional	Retail
Bollore Warehouse/Maputo	May-16	6374	0,0%	3,3	Mar-20	Double net	Logistics
Sub-Total		34437					
Anadarko 2/Maputo	Oct-17	3234	0,0%	10,0	May-28	Traditional	Oil & Gas
VALE Residential/Tete	Mar-17	12966	0,0%	5,00	Jan-21	Traditional	Mining
Mall de Tete/Tete	Dec-16	11571	5,0%	6,10	May-28	Traditional	Oil & Gas
Total of the above		62208					

Exhibit 8

Portfolio data: source is company, Ingham calculations

Mozambique	*Valuation $m*	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Anadarko I/Maputo	43,2	3,5%	Low	9,7%	41,92
Vodacom/Maputo	47,8	5,0%	Low	7,7%	25,09
KPMG/Hollard/Maputo	18,6	4,1%	Low	8,6%	24,82
Zimpeto Square/Maputo	10,9	3,6%	Low	10,1%	20,69
Bollore Warehouse/Maputo	8,6	0,0%	Medium	10,0%	11,30
Sub-Total	129,1			8,4%	24,43
Anadarko 2/Maputo	6,0	3,5%	Low	10,6%	41,10
VALE Residential/Tete	35,0	3,0%	Low	9,8%	26,95
Mall de Tete/Tete	24,9	3,6%	Low	9,3%	18,68
Total of the above	195,0			9,1%	25,31

Exhibit 9

Portfolio data: source is company, Ingham calculations

Mozambique	*Projected Debt*	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Anadarko I/Maputo	10,5	43,2	24,2%	1,0		4,4	USD
Vodacom/Maputo	27,4	47,8	57,2%	1,9		3,8	USD
KPMG/Hollard/Maputo	10,6	18,6	57,2%	0,8		1,7	USD
Zimpeto Square/Maputo	2,5	10,9	23,0%	0,7		1,2	USD
Bollore Warehouse/Maputo	0	8,6	0,0%	-		0,9	
Sub-Total	51,0	129,1	39,5%	4,4		11,9	
Anadarko 2/Maputo		6,0	0,0%	-		1,7	
VALE Residential/Tete	9,4	35,0	26,9%	0,6		4,3	USD
Mall de Tete/Tete	12,5	24,9	50,1%	0,7		2,4	USD
Total of the above	72,9	195,0	37,4%	5,7	7,9%	20,3	

Conclusion

On an annualised basis, the Mozambican portfolio will have 62 208m² of space across eight distinct assets, two of which are occupied by Anadarko, which will be 100% owned and at close to full occupancy with rentals averaging approximately $25/m². The total 2017 combined valuation is $195 million. On a weighted average, a property yield of 9,1% is estimated.

Of the total Mara Delta property portfolio of 208 195m² and $543,2 million by value on a proportionate basis, the Mozambican assets will account for 29,9% of the square meterage and 35,9% of the valuation.

Loan to value for the portfolio is estimated at 37% with an average interest rate in USD of 7,7%. Interest paid is estimated to be covered 3,3x by net operating income in 2018.

The portfolio is well balanced and exhibits a mix of largely international tenants.

On currency, the metical exchange rate on the dollar has stabilised after the large depreciation in 2015 and 2016 and is currently MZN70/$. Movements don't impact income but do effect revaluations, not least forex gains and losses.

Mall de Tete has a shareholder loan approved at a 7,85% interest rate which results in a tax deduction of 7,85% of the investment value.

Anadarko Phase 2 enjoys a tax credit of 5% of the investment value to the extent that the first $0,5 million in income is tax free.

Zambia

Of the nineteen properties in the portfolio post acquisitions, three will be in Zambia with all three 50% held by Mara Delta.

Below is an analysis of the characteristics of each property and major tenants.

Makuba Mall

Makuba Mall in Kitwe is a regional mall close to the DR Congo border covering 28 230m² of gross lettable area, with Mara Delta sharing in half of that. There is 100% occupancy with Massmart leasing 5 061m², Shoprite 4 262m² and Pick n Pay 2 240m². Trading densities are among the best in Zambia, assisted by demand from both local and Congolese consumers. Mining effectively dollarizes the regional economy and makes it much less vulnerable to kwacha exchange rate fluctuations.

Kafubu Mall

Kafubu Mall is the largest in Ndola with high footfall. Shoprite, which has high densities, leases 4 144m² of the 12 142m² and has a lease through to April 2024. Mara Delta has 50% ownership.

Cosmopolitan Mall

Cosmopolitan Mall in Lusaka is scheduled to transfer in March 2017 and is a new development with Massmart (4 518m²), Shoprite (4 122m²) and Edgars (2 539m²) the key tenants. Trading densities are comparable to the South African market. Rentals are estimated at $22/m², escalating at 6%. The mix of offering bodes well for trading.

Exhibit 10

Portfolio data: source is company, Ingham calculations

Zambia	*Acquired*	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Makuba Mall/Kitwe*	Dec-15	14115	0,0%	4,83	Mar 20/Apr 25	Traditional	Grocery
Kafubu Mall/Ndola*	Dec-15	6071	1,6%	3,92	Mar 19/Apr 24	Traditional	Grocery
Sub-Total		20185					
Cosmo Mall/Lusaka*	Mar-17	13256	2,4%	5,49	Mar-21	Traditional	Grocery
Total of the above		33441					
** 50% share*							

Exhibit 11

Portfolio data: source is company, Ingham calculations

Zambia	*Valuation $m*	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Makuba Mall/Kitwe*	34,9	6,7%	Low	7,5%	17,68
Kafubu Mall/Ndola*	9,9	7,1%	Low	8,8%	15,25
Sub-Total	44,8			7,8%	16,95
Cosmo Mall/Lusaka*	43,4	6,0%	Low	7,85%	22,11
Total of the above	88,1			7,8%	19,00
** 50% share*					

Exhibit 12

Portfolio data: source is company, Ingham calculations

Zambia	*Projected Debt*	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Makuba Mall/Kitwe*	14,0	34,9	40,1%	0,7		2,8	USD
Kafubu Mall/Ndola*	5,0	9,9	50,7%	0,3		0,9	USD
Sub-Total	19,0	44,8	42,5%	1,0		3,7	
Cosmo Mall/Lusaka*	19,5	43,4	45,0%	1,1		3,4	USD
Total of the above	38,5	88,1	43,7%	2,1	5,5%	7,1	

** 50% share*

Conclusion

On an annualised basis, the Zambian portfolio will have 33 441m² of space across three grocery and related retail assets which will be 50% owned with rentals averaging approximately $19/m². The total 2017 combined valuation is $88,1 million. On a weighted average, a property yield of 7,8% is estimated.

These assets will account for 16,1% of the total portfolio square meterage and 16,2% of the valuation.

Loan to value for the portfolio is estimated at 44% with an average interest rate in USD of 6,3%. Interest paid is estimated to be covered 3,0x by net operating income in 2018.

The portfolio has a grocery and general merchandise orientated profile, anchored by well-known South African retailers on long leases.

Zambian properties have a tax concession that results in no corporate tax or withholding taxes on dividends for five year. There is three years remaining of this concession on Makuba and Kafubu with about 53 months remaining on Cosmopolitan Mall. When the five years is up, tax steadily rises over the following five years until the tax rate normalises. In year six, there is a 2% rental withholding tax, in year seven a 4% withholding tax and by year ten this reaches the maximum of a 10% withholding tax, which represents a final tax then on the company.

Kenya

Of the nineteen properties in the portfolio post acquisitions, two will be in Kenya with Buffalo Mall 45,5% held by Mara Delta.

Below is an analysis of the characteristics of each property and major tenants.

Buffalo Mall

The only asset so far in Kenya has been the Buffalo Mall in Naivasha, Nakuru county, some 90 kilometres north of Nairobi. Leading local supermarket chain Tuskys is the largest tenant with 3 861m² of gross lettable area or over half the centre space. Lease expiry on Tuskys is November 2029. A drawback of Tuskys could be its lower income target market which does not square with the mall's target customers. The location of the mall adjacent to the Trans-African Highway makes it an appealing centre for potential future tenants.

Imperial Health Sciences Logistics Warehouse

A purpose-built the13 560m² logistics warehouse in Nairobi will transfer shortly. Imperial is the tenant with the facility purchased on a ten-year sale & leaseback with

Imperial Health Sciences, underwritten by Imperial Holdings. This type of specialist facility is in short supply in Kenya with many operators having to design, construct and own their own properties.

Exhibit 13

Portfolio data: source is company, Ingham calculations

Kenya	*Acquired*	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Buffalo Mall/Naivasha*	May-16	3010	3,5%	9,87	Nov-29	Traditional	Grocery
Imperial/Nairobi	Mar-17	13560	0,0%	10,00	Oct-26	Triple Net	Logistics
Total of the above		16570					
**45,5% share*							

Exhibit 14

Portfolio data: source is company, Ingham calculations

Kenya	*Valuation $m*	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Buffalo Mall/Naivasha*	6,8	4,0%	High	7,7%	18,60
Imperial/Nairobi	20,0	3,0%	Low	8,6%	9,31
Total of the above	26,8			8,4%	11,00
45,5% share					

Exhibit 15

Portfolio data: source is company, Ingham calculations

Kenya	*Projected Debt*	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Buffalo Mall/Naivasha*	2,0	6,8	29,3%	0,2		0,5	USD
Imperial/Nairobi	8,6	20,0	42,8%	0,6		1,5	USD
Total of the above	10,6	26,8	39,4%	0,8	8,0%	2,0	
45,5% share							

Conclusion

On an annualised basis, the Kenya portfolio will have 13 560m² of space in grocery and logistics, 6,5% of total square meterage. Aggregate rental of 11$/m² is skewed by the lower rental typical on a warehouse but the aggregate property yield of an estimated 8,4% is attractive. The combined valuation is $26,8 million, less than 5% of the total portfolio.

Loan to value for the portfolio is estimated at 39% with an average interest rate in USD of 8,0%. Interest paid is estimated to be covered 2,4x by net operating income in 2018.

Kenya is a relatively new territory for Mara Delta and there is much to learn. For retail trading properties, towns other than Nairobi may offer a better expansion opportunity, either greenfield development or purchase. As the Imperial example demonstrates, a non-traditional asset can combine low risk with attractive yield.

The country does have REIT legislation and the Stanlib Fahari Income Real Estate Investment Trust was a pioneer in this regard, listing in late 2015 at KES20 per unit. Domestic investor acceptance and knowledge of what a REIT offers as an investment is inadequate. The Stanlib fund had low initial subscription and has experienced a sharp fall in the unit price on the Nairobi Securities Exchange on thin volume.

Morocco

Of the nineteen properties in the portfolio post acquisitions there will be one in Morocco, albeit a sizeable asset with potential.

Below is an analysis of the characteristics of Anfa Place Shopping Centre.

Anfa Place Shopping Centre

Morocco, North Africa, offers future revenue upside for Mara Delta from the existing Anfa Place Shopping Centre asset whilst the Casablanca Stock Exchange is a likely listing destination given that REIT legislation has been promulgated and taxation considerations addressed. Introducing outside unitholders at some future date to provide sufficient liquidity, whilst retaining majority ownership, would also give future see-through on valuation.

Anfa Place Shopping Centre is situated in Casablanca. The Sir Norman Foster designed mall was developed in 2013 and is in a mixed-use complex of offices, apartments, and hotels together with the shopping centre. This was acquired with effect from July 2015.

At the prevailing exchange rate of 10 dirhams to the US dollar, Anfa is currently valued at $97,5 million.

The fact that such a new property is undergoing redevelopment is partly by design and partly experience – the initial tenant mix wasn't optimal with the benefit of hindsight. Too much in the way of luxury brands and too little food & beverage, entertainment, and cultural, religious and family facilities.

Whilst Mara Delta is not a property development company per se, interventions can be necessary and this is one of those.

A construction cost budget of $10 million was allocated as a defensive measure to reconfigure the premises and expand GLA to over 32 000m². The redevelopment is attracting new tenants such as Turkish apparel retailer LC Waikiki which will have its flagship Moroccan store at Anfa.

Vacancies topped 22% in 2016 and have since reduced to 12%. Meantime, as this is a traditional lease Mara Delta is not fully recovering operating expenditure and monthly running expenses. As a result, on a net basis after interest on $50 million Anfa is yielding around 3,7% on equity. This is also partly deliberate as there are both interim vacancies that will be filled following the build phase and there is a need to placate existing tenants.

Temporary costs will be capitalised. The reconfiguration is targeting a 15% yield on capital deployed with a targeted yield of 9,6% once the centre is operating to optimal capacity in 2018.

Tables follow below:

Exhibit 16

Portfolio data: source is company, Ingham calculations

Morocco/Casablanca	*Acquired*	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Anfa Place	Jul-14	30879	12%	5,6	Jun 21/July 27	Traditional	Retail

In redevelopment, new tenants planned, some tenant reallocation, yield and rent assumes full occupancy

Exhibit 17

Portfolio data: source is company, Ingham calculations

Morocco/Casablanca	*Valuation $m*	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Anfa Place	97,5	3,3%	Medium	9,6%	25,00

In redevelopment, new tenants planned, some tenant reallocation, yield and rent assumes full occupancy
Morocco legislates a 10% rent adjustment every three years, hence the 3,33% average

Exhibit 18

Portfolio data: source is company, Ingham calculations

Morocco/Casablanca	*Projected Debt*	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Anfa Place	50,1	97,5	51,4%	2,4	4,8%	9,4	EUR

Post reconfiguration and upgrade

Conclusion

On an annualised basis, Anfa is estimated to have an aggregate rental of around 25$/m² with a mix of anchors and line stores such as LC Waikiki, Marks & Spencer, Carrefour, H&M, Virgin, Starbucks and many other international and local names.

Outstanding debt on the centre is currently $50 million. The property valuation is $97,5 million, a figure that will probably get an uplift following redevelopment. This value could be susceptible to possible dirham devaluation.

Lease income is only indirectly dollarized as the dirham is weighted 60/40 to the euro and US dollar.

Based on my current estimates, Anfa could contribute up to 19% of total group net operating income in 2018 and 2019. In the event of a 10% devaluation of the dirham, with euro denominated interest payments unaltered, the approximate dilutive effect on distributable income is 3,4% over a full year. Political risk insurance covers the possibility of currency convertibility threat.

Morocco legislates a 10% rent adjustment every three years, hence a 3,33% average per annum but only adjusted upwards at the end of each three-year period.

Loan to value for the portfolio at present is 51% with an average interest rate in EUR of 4,8%. Interest paid is estimated to be covered 2,5x by net operating income in 2017 but this could rise to 3,9x in 2018/2019.

Mauritius

Of the nineteen properties in the portfolio post acquisitions, five will be located in Mauritius.

Below is an analysis of the characteristics of the assets and tenants.

Barclays House

Mara Delta owns 100% of Barclays House, the Barclays Bank Mauritian head office in Ebene Cyber City, south of Port Louis. The asset comprising 7 700m² of GLA transferred in March 2016, paid for by shares and debt. This was the first prime asset acquired in Mauritius. The double net lease runs through 2028. The tenant is low risk and stable.

Loan to value for the portfolio at present is 53% with an average interest rate in USD of 6,1%. Interest paid is estimated to be covered 2,4x by net operating income in 2018.

Mauritian hospitality assets

Normally, Mara Delta would not consider holding hospitality assets – hotels, vacation resorts and restaurants. The acquisition of both Beachcomber and Tamassa is a rare exception that will nonetheless continue to prove the rule, if for no other reason than these hospitality assets have unique qualities and location and offer good returns off relatively stable income with no operational risk – Mara Delta is not becoming a resort manager.

The resort industry is largely reflective of international demand, particularly out of Europe, and is thus independent of domestic economic factors.

Both New Mauritius Hotels (trading under the Beachcomber brand) and LUX Island Resorts are Stock Exchange of Mauritius listed entities with audited financials. Each requires asset upgrade from time to time to remain competitive and, with both having stretched balance sheets, the sale and leaseback option is appealing.

Financial statements of both NMI and LUX indicate a consistent trend in revenue, EBITDA and tourist arrivals in recent years.

New airport capacity in Mauritius has increased flight schedules for Europe, the Middle East and Asia, including frequent Airbus A380 aircraft flights. Political stability, weather, choice, service and value for money reinforce Mauritius' appeal to holidaymakers.

With effect from February 2017, Mara Delta acquired the Tamassa Resort in Bel Ombre, in the south west of the island, for the euro equivalent of $42,3 million. The deal has a corresponding lease back to Néréide Ltd, a subsidiary of LUX and guaranteed by LUX. The initial period is ten years to 2026, renewable. The lease is in euro and is triple net. Occupancies average in the region of 80% through the year and in excess of 90% during peak season.

Whilst Tamassa has a zero percent escalation there is a profit sharing clause that provides for Mara Delta to share in 20% of EBITDA annually adjusted for rental and management fee. Because the rental is fixed the proportionate share in net EBITDA rises by more than the percentage rise in revenue, which is likely to rise by 3% or much in line with euro hospitality inflation. The net effect of such an EBITDA sharing arrangement could potentially result in net after tax income growing by 1% per annum, which is equivalent to the Beachcomber annual escalation.

On a value of $42,3 million the loan to value ratio is estimated to be around 57%. Euro interest rates are lower than dollar rates at present and the Tamassa rate is estimated at 3,8%, resulting in annual interest of $1 million. With an estimated take on yield of 7,6% the after interest and tax geared return is 10%.

Tamassa is purely an arm's length sale and leaseback property transaction with no operational involvement.

The New Mauritius Hotels deal is for a 44,4% interest in three hotels, Le Victoria, at Pointe Aux Piments, Le Canonnier, at Pointe Aux Canonniers, and Le Mauricia, at Grand Baie. Occupancies average in the region of 80% through the year and in excess of 90% during peak season.

The total price paid for the New Mauritius Hotels sale and leaseback is €50 million. The three properties have been independently valued at $176,9 million giving Mara Delta a proportionate 44,4% share of $78,5 million.

Earnings will be in euro with the lease triple net for fifteen years until 2031. There is an escalation clause linked either to European Central Bank Harmonised Index of Consumer Prices or a minimum escalation of 1%.

On a value of $78,5 million the property debt is $31,6 million giving a loan to value of 40%. At an estimated euro interest rate of 3,6% annual interest is $1,2 million. Interest paid for both assets is estimated to be covered 3,8x by net operating income in 2018. With an estimated take on yield of 7,5% the after interest and tax geared return is 10%.

Exhibit 19

Portfolio data: source is company, Ingham calculations

Mauritius	*Acquired*	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Barclays House/Ebene	Feb-16	7700	0,0%	10,2	May-18	Double Net	Banking
Tamassa Resort/Bel Ombre	Feb-17	21117	0,0%	5,0	Sep-26	Triple Net	Hospitality
Beachcomber/North*	Dec-16	36280	0,0%	15,0	Nov-31	Triple Net	Hospitality
Total of the above		65097					
44,4% share							

Exhibit 20

Portfolio data: source is company, Ingham calculations

Mauritius	*Valuation $m*	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Barclays House/Ebene	15,0	6,6%	Low	7,2%	12,19
Tamassa Resort/Bel Ombre	42,3	0,0%	Low	7,6%	12,62
Beachcomber/North*	78,5	1,0%	Low	7,5%	13,86
Total of the above	135,8			7,5%	13,26
44,4% share					

Exhibit 21

Portfolio data: source is company, Ingham calculations

Mauritius	*Projected Debt*	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Barclays House/Ebene	7,9	15,0	52,8%	0,5	6,1%	1,1	USD
Tamassa Resort/Bel Ombre	25,4	42,3	60,0%	1,0	3,8%	3,2	EUR
Beachcomber/North*	31,6	78,5	40,2%	1,2	3,9%	5,9	EUR
Total of the above *44,4% share*	64,8	135,8		2,7		10,3	

Total portfolio summary

The total portfolio is summarised as follows:

- 208 95m² of space (proportionate to ownership)
- a vacancy rate of 0,5% (2% with Anfa Shopping Centre at the current 12% vacancy but assumed to drop to less than 1%)
- a lease expiry of over seven years
- a valuation of $543,2 million earning an estimated yield of 8,5% at an average rental of $19/m²
- Tenant profile is generally robust

With property debt of $236,9 million post the latest capital raise, excluding debt at fund level, the loan to value ratio on the properties is a comfortable 43,6% whilst debt at corporate centre would take this to no more than 50%.

Annual interest on the properties alone is estimated to be in the region of $14 million and I have made a provision on top of that for up to $2 million of corporate interest, depending on where fund level debt ends up. That suggests that annual group interest could be approximately $16 million.

Net operating income based on 2018 estimates is $49,1 million. If I assume group interest payments of $16,2 million and corporate and administrative costs of $4,6 million then the net interest cover is 2,75x. On a 2019 forward view this ratio improves to 2,83x. Interest cover ratios between 2x and 3x would be considered acceptable on a net basis after all costs.

Tables follow below:

Exhibit 22

Portfolio data: source is company, Ingham calculations

	Acquired	*GLA m²*	*Vacancy*	*Current WALE*	*Lease Expiry*	*Lease Type*	*Industry*
Grand total	Various	208195	0,50%	7,4	Various	Various	Various

	Valuation $m	*Escalation*	*Tenancy Risk*	*Est. Yield*	*Ave. rent m² in $*
Grand total	543,2	3,4%	Low	8,5%	19,34

	Projected Debt	*Valuation $m*	*Loan/ Value*	*Est. Interest $m*	*Est. Rate %*	*Est 2018 NOI $m*	*Debt Currency*
Grand total	236,9	543,2	43,6%	13,8	5,8%	49,1	USD/EUR

Valuation

Determining valuation parameters

The Ingham Analytics valuation has reference to the projected net asset value of the balance sheet, equity and debt mix, risk free rate in the United States given that income is largely US dollar linked, equity risk premium, after tax cost of debt and country risk.

Mara Delta has an ambitious distribution policy, paying out all of its after tax income. Net asset value per share is a good proxy for fair value as it captures the liquidation value of the assets. However, the dividend payout reflects anticipated future performance of the assets insofar as growth in income is concerned.

Both a dividend discount model and a discounted cash flow model are used in determining realistic fair value give certain assumptions.

The challenge in determining an appropriate discount rate is the differing risk profiles of the five countries – Mozambique, Zambia, Kenya, Morocco and Mauritius.

Ordinarily, a steep premium to developed market benchmarks would be demanded.

In the context of Mara Delta, the physical location of the assets is in these five countries but the political economy of these nation states is not representative of the economics of the property portfolio.

As the business evolves, the portfolio gains increased depth and the shareholder spread increases and internationalises, the rating, all else equal, should reflect a diminished risk perception.

The other factor is share liquidity on both the Stock Exchange of Mauritius and the Johannesburg Stock Exchange. In terms of fair value measurement, a listed property or REIT would ordinarily be valued within the bid-ask spread.

In the 2016 fiscal year, the JSE register traded only 6% of stock outstanding.

The share registers are fungible and thus pricing should in theory be consistent on both markets, with minimal gap for arbitrage.

The last quoted JSE price at the time of writing is R17,20 which at a closing exchange rate of R13,15/$ equates to 131 US cents. The SEM last quoted price is 154 US cents, down from 161 cents recently. There is an approximate 15% differential therefore. An historic differential exists in varying degrees. Dividend withholding taxes in whatever jurisdiction should not influence the unit price for trading purposes.

On a forward basis, taking a forecast distribution of 12,10 cents for the year ended June 2017, at a SEM share price of 154 cents the annual yield on the unit price is 7,9% but on forecast NAV of 159,1 cents the yield is 7,6%.

Cross referencing with the earnings modelling the following is relevant:

- Net yield, equating to a capitalisation rate: 8,4%.
- Expenses to revenue: 14%
- Loan to value: 46%
- After tax interest rate: 5%
- NAV ex deferred tax: 159,1 US cents
- Theoretical yield: 8,3%

Per the above, the theoretical income yield on NAV given the inputs would be 8,3% which is within 5% of the current SEM share price and within 8% of the projected NAV.

In determining a weighted average cost of capital for discounting purposes the following are applied:

- US 10-year Treasury: 3,5% (100 basis points above current yield as the rate cycle is assumed to normalise)
- Inflation: 2%
- Growth rate for terminal value purposes: 3%
- After-tax cost of debt: 5%
- Debt to equity mix: 50/50

Director valuation on assets are done per discounted cash flow with discount rates between 11% to 13% and capitalised revisionary rates between 8% to 10%. These are conservative rates for the assets concerned and are a good basis for modelling.

For a DCF calculation, a blended WACC of 11% for example would translate to a cost of equity of 17% with the debt component providing a geared kicker to the return.

A DCF produces the following outcomes:

- Discount rate of 11%
- Projected income through 2023 followed by continued growth of 3% until 2029
- A capitalisation rate of 8%
- NPV specified period: 94 cents
- NPV terminal value: 66 cents
- Total value: 160 cents

The DDM model produces the following outcomes at an 11% discount rate:

Exhibit 23

Dividend discount model

Growth rate	Value per share	% of NAV	Gross yield
4,0%	186	117	6,7%
3,5%	173	109	7,2%
3,0%	**161**	101	7,8%
2,5%	151	95	8,3%
2,0%	142	89	8,8%
1,5%	134	84	9,4%
1,0%	127	80	9,9%
0,0%	114	72	11,0%
Net asset value	159,1		
WACC	11,0%		
Expected growth	3,0%		
DPS cents 2018	12,53		

On the basis of the above, the SEM unit price of 154 cents from a DCF and DDM point of view is effectively pricing in a discount rate of just under 11,5% if I simply use the projected distributions as modelled. The JSE equivalent price of 131 cents is pricing in a discount rate of close to 13%.

A discount rate of 11% assuming growth of 3% in income would produce a yield of 7,8%, within the target range of 7% to 8% of management.

Given that the portfolio would be growing in value to the extent of 3% to 4% then total return in the region of 11% to 12% is possible.

From a capital raising perspective the above assumptions suggest that Mara Delta is fairly valued in the region of 160 US cents assuming a weighted cost of capital of 11%. With time, it is feasible to postulate a lower discount rate as the risk profile steadily improves. A reduction in the discount rate to 10% would elicit the following outcomes. The below scenario would still produce yields on NAV of in the region of 7%.

Exhibit 24

Dividend discount model

Growth rate	Value per share	% of NAV	Gross yield
4,0%	217	137	5,8%
3,5%	200	125	6,3%
3,0%	**184**	116	6,8%
2,5%	171	108	7,3%
2,0%	160	100	7,8%
1,5%	150	94	8,4%
1,0%	141	88	8,9%
0,0%	125	79	10,0%
Net asset value	159,1		
WACC	10,0%		
Expected growth	3,0%		
DPS cents 2018	12,53		

Recommendation

Risk appetite key to investment suitability

Mara Delta is an investment for a select investor seeking a good yield with potential future capital growth from non-traditional property markets.

The assets are located in countries that vary from upper middle income and relatively stable (Mauritius) through to a frontier economy such as Mozambique or Zambia. Tenant characteristics are the principal risk determinant in such territories.

Management need to have sound relations with administrative officials, including central banks, and be alert to macro factors that could be destabilising for the business model.

The company has been building a reliable track record and in the process attracted equity capital from recognised institutional sources and lines of debt funding from a growing number of sources at keener rates.

A Trading Buy recommendation for those with a shorter-term horizon, but with the recognition that stock liquidity is tight and there is a pricing mismatch between the JSE and the SEM.

A Portfolio Buy recommendation for the investor with a longer-term horizon seeking a dollarized yield at an attractive price with scope for capital growth in the asset base.

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