INTUITION
21 FEBRUARY 2025

Sirius Real Estate

Local property companies have been flying over the last two years, finishing 2024 as the best performing asset class on the JSE for a second year in a row, and earning investors a total return of 29%. However, Sirius Real Estate has lagged its peers since the beginning of 2024, returning a disappointing -11.6% (including dividends) to shareholders. While Sirius must navigate several challenges, we remain optimistic about its prospects despite the prevailing uncertainty.

Daniel Reynard

SPEED READ

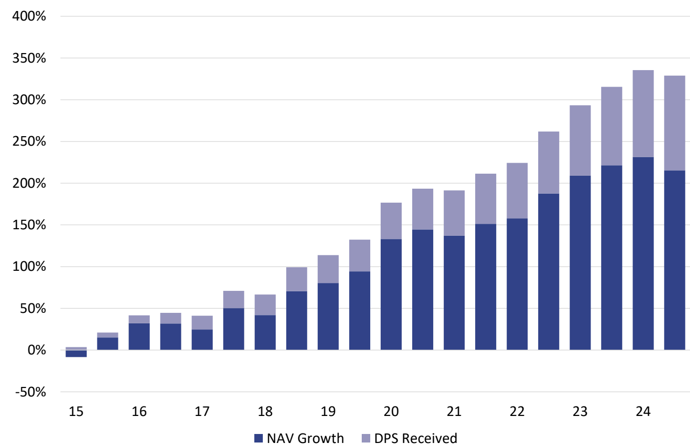
- **Sirius invests in a portfolio of storage, light industrial, workshops, and office space, focusing on properties located on the outskirts of large industrial cities.**
- **Sirius has been a laggard compared to the JSE Listed Property index over the last 12 months as it faces weak economies in both Germany and the UK.**
- **Our optimism for Sirius's prospects stems from its skilled management team and substantial capital reserves, some of which have already been deployed.**

Whilst Sirius is almost eighteen years old as a company, it celebrated ten years of being listed on the JSE in December. That was a chance for reflection. Sirius used the listing in December 2014 to raise its profile, but also to raise new capital, thereby creating an instant SA shareholder base and liquidity in its shares. Those shareholders who supported it (including many HH clients) have been handsomely rewarded. Over that ten-year period, Sirius's performance has been nothing short of exceptional, achieving a compound annual growth rate of 18.1% in dividends per share and 13.2% in net asset value per share. This is thanks to a robust business model as well as an astute management team who have a reputation for capitalising on any opportunities that arise and a hands-on approach that maximises the return from every asset.

Sirius Real Estate owns and manages a portfolio comprising storage, light industrial, workshops, and office space across Germany and the UK, focusing on properties located on the outskirts of large industrial cities. These types of properties are attractive investments because they benefit from the significant demand servicing the considerable number of small and medium enterprises (SMEs) in Germany, known as the "Mittelstand". It is estimated that there are 3.1 million businesses in the Mittelstand, employing 60% of the German workforce in mainly manufacturing and engineering jobs. Sirius provides short-term and flexible lease agreements to tenants to meet their needs. In the UK, Sirius's smaller portfolio caters to a similar SME market, operating under the Bizspace brand name.

What sets Sirius apart from their peers are their extensive property management systems and business networks. Their systems allow management to identify and acquire underperforming properties that either have a sizeable percentage of long-term vacancies or require substantial capital investments, or both. Sirius then leverages its established business networks to match tenants to the vacant space. As tenants occupy the once-vacant space, the rental income earned increases, leading to an increase in

SHAREHOLDER RETURNS



Sirius's impressive returns to shareholders over the last 10 years has been achieved through a combination of both NAV growth and dividends. In recent years, NAV growth has been impacted by a weakening exchange rate between the Euro and the Rand.

MAHLSDORF

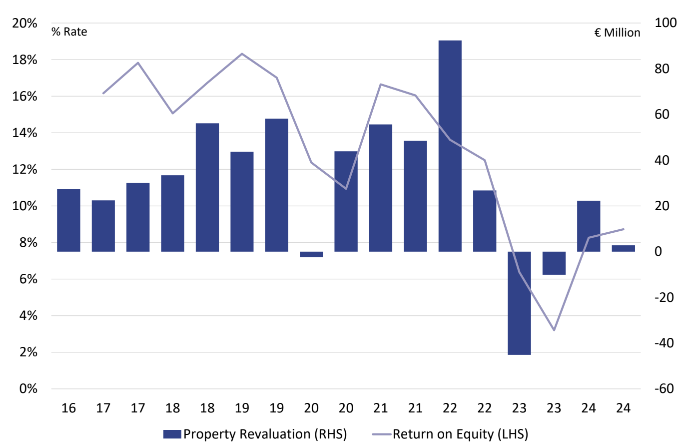
POTSDAM

The above properties were bought for €49 million in 2014, using money raised from South African investors (including HH clients). They currently have a market value of €126 million, a significant uplift in value thanks to their ability to sweat their assets to the max.

the property's value. In other words, Sirius unlocks value from properties which are "fixer-uppers". Sirius gave examples of their strategy in action at their 10-year JSE listing anniversary. Two properties were purchased in 2014 for €49 million, using funds raised from South African investors for the first time. At acquisition, the properties had vacancies of 14%. Currently, those properties are worth a combined €126.2 million, representing an increase in value of €77.2 million (R1.5 billion), and that's before taking any rental income earned into account.

Having rallied hard in the immediate aftermath of the Pandemic, investor sentiment has since soured amid a more challenging business environment in both Germany and the UK caused by higher energy prices and sluggish GDP growth. Higher interest rates rubbed salt into the wound. Higher interest rates have weakened property valuations, forcing Sirius to lower valuations, despite continued growth in net rental income. This has dampened the impressive returns on equity to which the investment community had become accustomed.

PROPERTY REVALUATIONS: IMPACT ON ROE



The weaker and negative property valuations have undermined returns on shareholders equity.

The outlook for property valuations is mixed. On the one hand, political uncertainty in Germany is weighing on economic activity, although elections scheduled for later this month might well be the catalyst for a more prosperous period if the expected change in government does materialise. A longer-term challenge is that SMEs – Sirius's core tenants – are expected to remain pressurised from intense competition with China in established industries that are export-dependent. A fitting example would be the automotive industry, as industry leader Volkswagen makes headlines regularly, detailing its woes. That said, Sirius is somewhat shielded from such risks given its extremely diversified tenant base – they have more than 6,000 individual tenants in Germany and almost 4,000 tenants in the UK, diversified across hundreds of industries. As much as the automotive industry is under pressure, other industries, such as aerospace, are flourishing. Airbus has never been this busy, given the woes at Boeing.

> *"Investor sentiment has since soured amid a more challenging business environment in both Germany and the UK caused by higher energy prices and sluggish GDP "*

With regard to valuations, the positive is lower interest rates. Rates have fallen faster in Europe and the UK than the US, underpinning property values. Furthermore, multi-let industrial property is a defensive and highly sought-after asset class. Generally, there is a significant shortage of space, as planning permission for new units is prohibitive, or the location is unattractive relative to older stock. Companies with similar portfolios have been snapped up by large private equity funds, highlighting just how attractive this segment has become.

Faced with these challenges, we remain optimistic about Sirius for two main reasons: a proven and astute management team and their balance sheet fire power. Management's skilful stewardship has been demonstrated through Sirius's impressive five-year DPS and NAV growth already highlighted. A more specific example of good stewardship was management's ability to take advantage of lower gas prices during the Covid downturn, locking in cheaper gas prices for tenants until the end of 2023. This forward thinking was an important shield for tenants when gas prices surged in 2022 post the Ukraine conflict. We are confident that management is capable to continue stewarding Sirius effectively despite the challenges.

"A more specific example of good stewardship was management's ability to take advantage of lower gas prices during the Covid downturn, locking in cheaper gas prices "

The second point is the company's exceptional balance sheet and the fire power to pursue growth opportunities that arise in tough times. Sirius conducted two major equity raises over the past 15 months, totalling €345 million, increasing its total equity by 30%. Sirius has already expanded their portfolio in 2024 by investing €185 million, with another €350 million earmarked to be invested soon. (Sirius has announced several acquisitions over the past 2 weeks). While these large equity raises have been dilutionary in the short-term, the rapid portfolio expansion is expected to reignite growth in both dividend and net asset value per share. We expect growth in net operating income in the mid-teens for the next few years.

In conclusion, Sirius Real Estate is a standout property company with an experienced management team and robust growth potential as cash from the balance sheet is invested. While we're not oblivious to the recent underperformance and risks that Sirius faces, we believe the current malaise offers an excellent opportunity to build a position.

Bizspace in Wimbledon, London, is one Sirius's properties.

Having examined the case for SA in our last seminar, our next presentation will focus on the prognosis for offshore investments.

Topic:	**Re-examining the case for offshore**

Natal Midlands

Date:	13 March 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	11 March 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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