

Balwin Properties Limited
(Incorporated in the Republic of South Africa)
Registration number 2003/028851/06
Share code: BWN
ISIN: ZAE000209532
("Balwin" or "the Company" or "the Group")

VOLUNTARY BUSINESS AND TRADING UPDATE FOR THE YEAR ENDED 28 FEBRUARY 2019

HIGHLIGHTS

- Approximately 2 350 apartments sold and recognised in revenue in the current year (2018: 2 084 apartments)
- Successfully achieved the objective of selling apartments to a strategic alliance partner
- Refinement of operational cash management showing results, with a healthy increase in cash on hand at year end

BUSINESS UPDATE

Balwin continued to experience strong demand for its lifestyle apartments for the year ended 28 February 2019, despite continued economic headwinds and sustained consumer pressure. Significant management focus was placed on cash preservation in the current period and despite continued delays experienced in the registration of apartments as a result of council delays, pleasing positive cash flows are expected to be recorded for the year.

Approximately 2 350 apartments were sold and handed over during the reporting period (2018: 2 084 apartments) representing top-line growth of approximately 10%. This demonstrates the consistent demand for Balwin's high quality, affordable apartments and innovative lifestyle product offering to the South African market. Approximately 1 000 apartments have been pre-sold for the 2020 financial year and thus not recorded in revenue in the current financial year.

Demand for one- and two-bedroom apartments remained strong. As highlighted at the interim results in October 2018, the Group proactively adapted its apartment mix and block configuration during the year, introducing more affordable one-bedroom one-bathroom and two-bedroom, two-bathroom apartments to satisfy the changing market demand.

Pursuant to the above, the current period's revenue is expected to increase on a year-on-year comparative basis, buoyed by stronger sales, albeit at a slightly lower average selling price than the prior year. The VAT increase levied in the current year was absorbed into the Group's selling price.

The initial phases of four new developments were handed over to customers in the current year, namely at The Blyde (Tshwane East), The Reid (Sandton), The Jade (Somerset West) and Ballito Hills (Ballito). Giving consideration to the total lifecycle of Balwin's current development portfolio, the majority of the existing projects remain at their earlier stages which traditionally return a lower margin. The majority of the projects within the development portfolio have, however, matured over the current year, and as a result the Group expects to record a marginal improvement in the gross margin since the interim results presented.

Management maintains their expectation that the gross profit margin will improve as the current early stage developments near completion. The business continues to target a gross profit margin of approximately 35% through the entire lifecycle of a project, with typically higher margins being achieved on Gauteng-based projects.

Cost management remains a priority area, with overhead costs being carefully monitored. Cash management and capital allocation were key focus areas in the current year and management are pleased to report that cash on hand improved to slightly in excess of R300 million at year end. Cash management and cash utilisation remains a top priority for management for the forthcoming financial year.

Management further remains committed to reviewing its development pipeline to ensure that the existing pipeline is complimentary to its core business model.

SALES TO STRATEGIC ALLIANCE PARTNER

Balwin successfully implemented one of its strategic objectives of introducing a rental product to be sold to a strategic alliance partner which is complimentary to the Group's current build-to-sell model. A new and separate business, named Balwin Rentals Pty Limited was incorporated in the current year together with various strategic partners. Balwin hold a 25% shareholding in Balwin Rentals Pty Limited from which it is expected to derive annuity income over time. Balwin successfully concluded the sale of 252 residential rental apartments to Balwin Rentals Pty Limited for a total consideration of R155,565,104 at an approximate gross margin of 30%. Additionally, Balwin entered into a right of first refusal with Balwin Rentals Pty Limited in which Balwin Rentals hold the right to acquire 4 544 residential rental apartments on existing land parcels of Balwin. Balwin expects to deliver the rental portfolio over a period of 6 to 8 years.

These apartments will retain Balwin's quality and innovative design but are distinct from the Company's core business model, both in architecture and specification levels.

Lease rentals will range from R4 500 to R9 000 per month and provide tenants with access to unique lifestyle features associated with the Balwin brand, such as a lifestyle centre, restaurants, gym and concierge.

ANNUITY INCOME

In addition to the rental business, management remains committed to delivering annuity income to its shareholders through revenue generated by fibre line rentals to internet service providers. Balwin also has an existing partnership agreement for solar installations. Although contributions from annuity income initiatives currently constitute a negligible portion of the total profits of the Group, it is expected to increase substantially over the medium to long term.

Management remain alert to further annuity opportunities in partnership with leading providers that are complimentary to the Group and enhance the lifestyle offering to its customers.

OUTLOOK

Notwithstanding robust demand for Balwin's lifestyle products, the Board remains concerned over macro-economic growth, interest rates and policy uncertainty. In this context, and as advised at the interim results in October 2018, the Board continues to place a greater emphasis on cash preservation, a more focused allocation of capital and cost containment, especially given the early stage nature and infrastructure requirements of a number of developments.

TRADING UPDATE

The following disclosure is made in accordance with Section 3.4(b) of the JSE Limited's Listings Requirements:

- Consolidated earnings per share and headline earnings per share for the twelve months ended 28 February 2019 are expected to decrease by between 5.35% and 9.99% over the prior

financial year, translating into a decrease from last year's 104.56 cents to a range of between 94.11 and 98.97 cents per share.

It is expected that Balwin will release its results for the year ended 28 February 2019 on or about 15 May 2019.

CORPORATE OVERVIEW

Balwin is a specialist national large-scale residential property developer focused on the turnkey development and sale of sectional-title apartments as well as surrounding infrastructure, in the low-to-middle market segment.

Estates typically consist of between 500 and 1 500 sectional title residential apartments and are located in high-density, high-growth nodes across key metropolitan areas in Johannesburg, Tshwane, the Western Cape and KwaZulu-Natal. Apartments range in size from 33m² to 120m² and are priced from R599 900 to R1 999 900 per apartment (including modern fitted kitchen appliances) within the classic operating model.

Balwin's current strategy rests on four key elements:

- **Core business**

The core business focuses on providing a quality product to the low-to-middle income market at an affordable price. Balwin benefits from economies of scale, in-house construction and management whilst retaining flexibility throughout individual phases of large developments.

- **Balwin Elite model developments**

On existing land holdings in select nodes, where higher selling prices can be achieved (R1 999 900 to R2 999 900). The Elite model developments are built to higher specifications but follow the same phase-by-phase development structure as all Balwin developments. Management do not intend on continuing the Elite model developments and will phase these out once the existing developments are completed.

- **Sales to strategic alliance partner**

Balwin will develop apartments to sell to a strategic alliance partner in line with the existing proven model of a phase-by-phase approach. These apartments have a distinctive architecture that is different to Balwin's core business model, yet will remain synonymous with Balwin quality and innovative design.

- **Annuity income**

The Group continuously explores opportunities to leverage its existing asset base and all-inclusive service offering. Annuity income opportunities such as partnerships on solar energy solutions and fibre infrastructure within the Balwin estates and the rental business have been initiated during the year. The annuity business will be complementary to Balwin's current business model as well as enhance the lifestyle offering to its customers, with limited additional construction costs required in order to generate annuity returns.

The information contained in this business and trading update have not been reviewed or reported on by the Group's auditors.

Bedfordview

14 March 2019

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