

ARROWHEAD PROPERTIES LIMITED

(formerly Gemgrow Properties Limited)
Incorporated in the Republic of South Africa)
(Registration number 2007/032604/06)
JSE share code: AHA ISIN: ZAE000275491
JSE share code: AHB ISIN: ZAE000275509
(Granted REIT status with the JSE)
("Arrowhead" or "the Company" or "the group")

PRE-CLOSE INVESTOR UPDATE

Shareholders are advised that Arrowhead will be hosting a pre-close call with investors today at 11:00 to provide an update in respect of the 6 months ending 30 March 2020. Shareholders that wish to participate in the call can register at <https://www.diamondpass.net/7947356>.

The pre-close investor update will cover the topics set out below.

Introduction

Whilst our operating environment remains as difficult as we have ever seen we have not experienced any material surprises in the first five months of the financial year that could have an adverse impact on operations and the portfolio has performed in line with our expectations. As such we remain, subject to the uncertainties surrounding the impact of the Coronavirus as discussed below, cautiously optimistic that our dividend for the financial year will be in line with the guidance provided in the September 2019 results.

Intensive hands on asset and property management are making a positive contribution in ensuring that our portfolio holds through these turbulent times. The additional resources employed over the last two years are adding tremendous value and helping the portfolio perform in uncertain times.

We believe the major risk to our results for the year ended September 2020 may arise from multiple unexpected tenant failures. Fortunately, we have not experienced any major tenant failures in the financial year to date, significantly ameliorating this risk. We remain cautious and ready to act in the face of any unexpected events.

Disposals program

Arrowhead has embarked on a disposals program where it is disposing of its weaker, isolated and smaller properties (below R15 million). Arrowhead has sold and transferred R827 million (R551 million transferred in 2019 financial year and R276 million in the current financial year) to date and has another R637 million in the transfer process. Arrowhead is looking to retain only properties that have high tenant demand and are capable of growth over the medium to long term.

In the financial year to date we have disposed of non-core assets with a sales value of R913 million at a 1% premium to book value. There are however sales currently being negotiated that are at a discount to book value. Of this R913 million, R276 million has already transferred and we expect the balance (R637 million) to transfer during the second half of the financial year.

These sales comprise 42 assets at a weighted average yield of 10% (excluding letting assumptions on vacancies) at an average sales price per asset of R21.7 million. By book value, the assets disposed of consist of 46% retail, 25% office and 29% industrial. The successful disposals program aids in the repositioning of our portfolio and enhances the quality of our asset base.

Capital Allocation

The majority of the funds of R827 million received from sales over the last 12 months have been used to reduce debt. Of this amount, approximately 10% (R84 million) has been used for share repurchases. Just under

22 million Arrowhead B shares have been repurchased at an average price of R3.83 per share. The share repurchases have been net asset value per share and dividend per share enhancing. A further R70 million has been used for capital expenditure and solar investments.

Similarly, we anticipate utilizing the majority of the balance of the sale proceeds still to be received to reduce debt, with some being applied for capital expenditure needed to maintain and improve our revenue streams. We have put our share repurchase program on hold for the time being and will continue to evaluate this decision against market conditions and our capital requirements.

Gearing

At Arrowhead's September 2019 year-end results, the group reported a loan-to-value ("LTV") of 40,5%. With the further devaluation of the listed investments in Dipula Income Fund Limited and Rebohis Property Fund Limited, the share repurchase program, capital expenditure and solar investments during the 6-month period, we expect the LTV to increase marginally to around 41.5% by the end of the interim period. Listed investments now account for just under R150 million relative to a balance sheet of R15 billion comprising only 1% of total assets. Arrowhead is in the process of renewing a further R550 million of its debt. There is no further debt expiring in the current year nor in the next financial period. We would expect to be hedged around the 80% level as at 31 March 2020.

Lease expiries and letting activities

In the five months to end February 2020, gross lettable area ("GLA") of approximately 87 728m² has expired of which 81.5% has been renewed and a further 4.2% re-let, increasing the overall retention to 85.7%. Lease renewal reversions at the end of February 2020 were -5% overall (if three anomalies are excluded where we reverted for strategic reasons and/or as a defensive measure, rental reversions would be -2%), -2.97% for office, -8.17% for retail and -3% for industrial. Leasing results have been in line with our expectations and forecast. Of our rental revenue, turnover rental only accounts for 0.35% which positions us as defensive in an environment where retail turnover may be under pressure.

Vacancies

Arrowhead expects vacancies to remain stable around 8% at the time of reporting the interim results.

Arrears Management

Bad debt provisions and write offs have been in line with expectations despite the increased risk of tenant failure and arrears.

Dividend Guidance

The Company reaffirms its forecast for the year ended September 2020 of 117 cents per Arrowhead A share (assumes inflation of 5% even though the Arrowhead A share growth in dividend is the lower of inflation and 5%) and 66 cents per Arrowhead B share.

We are cognisant of the uncertainty surrounding the Coronavirus in South Africa and its potential impact on business or otherwise. We will continue to monitor events closely and will communicate with shareholders again should the need arise. Arrowhead has a well-diversified tenant base and we believe a significantly reduced risk given the diversified nature of its portfolio.

The information on which this investor update has been based has not been reviewed or reported on by the Company's auditors.

16 March 2020

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