TRADEHOLD LTD

TRADEHOLD LIMITED (Registration number: 1970/009054/06) | Incorporated in the Republic of South Africa
JSE Ordinary Share code: TDH ISIN: ZAE000152658 | JSE B Preference Share code: TDHBP ISIN: ZAE000253050 | ("Tradehold" or "the Group")

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS OF THE TRADEHOLD GROUP FOR THE YEAR TO 29 FEBRUARY 2020 AND CASH DIVIDEND DISTRIBUTION

KEY INFORMATION

- Total assets: £883 million (2019: £859 million)
- Headline earnings per share: 9.5 pence (2019: 8 pence)
- Profit before taxation: £17.4 million (2019: £14.2 million)
- Revenue: £94.6 million (2019: £96.4 million)
- Ordinary shareholders' equity: £282.7 million (2019: £287.2 million)
- Net profit attributable to ordinary shareholders: £5.99 million (2019: £13.2 million)
- Tangible net asset value per share: 120 pence/R24.05 (2019: 123.7 pence/R22.97).

TRADEHOLD'S NET ASSETS AT THE REPORTING DATE WERE SPLIT ACROSS THE UNITED KINGDOM IN POUND STERLING (42.3%), UNITED STATES DOLLAR ASSETS IN AFRICA (7.5%), AND THE BALANCE IN SOUTH AFRICAN RAND (50.2%). IN SOUTH AFRICA IT OWNS 74.3% OF THE COLLINS PROPERTY GROUP (AFTER THE INVESTMENT BY I-GROUP). IN THE UK IT HOLDS 100% OF THE MOORGARTH PROPERTY GROUP, INCLUDING A 90% STAKE IN BOUTIQUE (PREVIOUSLY KNOWN AS THE BOUTIQUE WORKPLACE COMPANY), A PROVIDER OF SERVICED OFFICE ACCOMMODATION IN GREATER LONDON. MOORGARTH OWNS A NUMBER OF BOUTIQUE'S SITES.

FINANCIAL PERFORMANCE

Total assets now amount to £883 million (2019: £859 million). Revenue was £94.6 million (2019: £96.4 million) and profit before taxation increased to £17.4 million (2019: £14.2 million). Total profit attributable to shareholders decreased to £5.99 million (2019: £13.2 million), adversely affected by an increase in taxation payable of £6.6 million, mainly due to an increase in the deferred tax expense of Collins, and an increase in the non-controlling share by £3.6 million, mainly due to the I-Group non-controlling interest in Collins.

Headline earnings per share was 9.5 pence, up from 8 pence, and tangible net asset value per share (as defined by management) was 120 pence / R24.05, compared to 123.7 pence / R22.97 in the corresponding year.

The sum-of-the-parts valuation per share (as defined by management) was 122.8 pence / R24.6, compared to 126.5 pence / R23.50 in the corresponding period.

BUSINESS ENVIRONMENT

For Tradehold's subsidiaries the business environment remained extremely challenging. In South Africa, the economy already in recession, was dealt a further blow with a downgrade to junk status by the last of all the major international rating agencies; economic policy uncertainty has persisted and, with that, a lack of investor confidence. Eskom's inability to provide a consistent power supply has further inhibited growth while causing massive production losses in the mining sector. In this environment the economy grew by less than 1%, offering no relief as far as the high unemployment levels are concerned. We can expect that even greater demands will be made on the economy, with the country's already high public debt projected to rise significantly as a result of the prevailing Covid-19 pandemic.

In the UK, even before the coronavirus hit with such devastating effect, economists were predicting that 2020 would be another turbulent year of low economic growth of 1% at best. The final three months of the year with the run-up to the election and the uncertainties surrounding Brexit ever present, saw no growth at all. Little came of the expected "Boris Bounce" after the Conservative Party's resounding win.

Collins Group

Despite the extremely demanding business environment in which it operated, Collins Group enjoyed a good year, producing a considerably improved operating performance. This was mainly due to lease escalations in its long-term contracts and a significantly reduced net finance cost with a R500 million capital injection at the beginning of the year, used to bring down debt levels. These funds were part of the proceeds from a R833 million capital raise through the subscription of a 25.7% shareholding in Collins Group by U Reit Collins (Pty) Ltd (I-Group) early in the financial year. The injection of capital enabled the company to reduce its gearing, in the process lowering loan to value (LTV) from 67.5% to 61.8%. The company could also start restructuring its debt more efficiently.

In the year to February, Collins increased its profit by 55.8% from R206 million to R321 million.

Its property portfolio, valued at R8.8 billion and comprising largely industrial and commercial buildings, offers a total of about 1.5 million square metres of gross lettable area (GLA). The main focus remains quality industrial and distribution centres which represent about 83% of total GLA. As many corporates are at present postponing investment decisions, not many opportunities present themselves to grow the size of the portfolio at this stage. The Group nevertheless managed to develop five new properties. More than 80% of the rental income they generate is backed by 10- to 15-year leases. Among the new tenants are SPAR, Boxer and The Cure Day Clinic Group.

In addition to pursuing new opportunities, management's main focus was on protecting the income stream through meticulous attention to the needs of existing clients. They include Nampak, Sasol, Unilever, MassMart and Pep. Vacancies reduced to 1.26% at year-end from 1.95% at the half-year. The weighted average lease expiring profile remains at almost seven years.

As part of its defensive strategy introduced more than a year ago, Collins continued to dispose of non-core assets. Of the 37 mainly smaller commercial buildings originally identified for disposal, 26 have been sold to date, 16 during the reporting period.

For the foreseeable future management will continue to focus on protecting its income stream and on preserving and strengthening its cash resources. It has substantial operational cash resources with access to additional funds generated by the I-Group transaction. Management is confident in its resources to weather the present abnormal conditions for more than 12 months if necessary.

Moorgarth

Despite the turbulent and extremely challenging market conditions in the UK, Moorgarth achieved solid results for the year, and managed to report an operating profit of £5.5 million as against a budget of £5 million. The company had a number of its larger properties, including its shopping centres, revalued by external consultants at half-year and year-end, which led to an impairment of £13.6 million. The total value of its investment property at year end (including JV2) was £243.1 million.

Despite market conditions, Moorgarth's vacancy rate within its retail estate reduced to 5.6% after taking into account all contracted new lettings concluded before the year end. Vacancy in its office portfolios was 0.9% and 1.3% in its leisure portfolio. This was achieved by management working proactively in securing new substantial lettings at its centres, in particular in Reading and Waverley in Edinburgh where vacancy rates saw the largest fall. New lettings in its office portfolio in both its central London and regional office estate also enabled the group to reduce its vacancy rate.

To increase their viability, Moorgarth embarked on an extensive programme of repurposing its centres to broaden their attraction for consumers. Footfall increased by between 11% and 15% in two of its larger centres, thanks to an expanded tenant mix to accommodate the rising demand for health and wellness, hospitality, entertainment and community-oriented facilities. The reliance on retail is being steadily reduced, to align with major changes in consumer buying trends, notably the rise in e-commerce.

Other significant gains during the year include the finalisation of planning permission for the extension of Waverley Mall in Edinburgh; securing planning permission and a pre-let for a 101-bedroomed hotel in Reading; and planning permission for 422 apartments on the roof of Broad Street Mall in Reading (a few days after year-end).

The objective for its shopping centre portfolio is to create a place where people live, work, shop and spend their free time – an almost self-sufficient community within the greater urban context. Planning consent has been obtained for all aspects of the project in Reading.

Boutique

Moorgarth continues to work closely with its serviced office business Boutique (previously The Boutique Workplace Company or TBWC) in acquiring suitable properties, predominantly in Greater London, which are then refurbished to suit Boutique's needs.

Boutique, which offers flexible office accommodation as opposed to co-working space, operates from 31 buildings offering a total of 4 500 individual work stations with a pipeline under contract of a further 500. Unlike co-working, where different entities share desk space in an open office environment, Boutique provides clients with a traditional private office environment with access to shared facilities and breakout areas. Particularly in the present environment, this enables tenants to decide for themselves the extent of their contact with others, to maintain social-distancing requirements and manage their hygiene regimes independently.

Boutique performed well throughout the reporting period, maintaining an occupancy level of 92%. In addition, for the first time it achieved a monthly revenue exceeding £2 million.

Nguni Group (Namibia)

Namibia's economy, which is heavily dependent on mining and agriculture, continued to contract during the reporting period. Tradehold owns a number of top-quality retail and commercial properties as well as some vacant land for development in that country. The retail properties form the core of the portfolio which, in total, offers some 60 000 square metres of gross lettable space, and the company owns shopping centres not only in Windhoek, the capital, but also in several of the larger towns. The latest addition is a 10 000 square metre shopping centre recently completed in Gobabis, east of Windhoek, which is anchored by Shoprite.

Tradehold Africa Group (Mozambique, Botswana and Zambia)

The Group continued its strategy of selling all properties owned outside South Africa and Namibia. Of the three in Zambia, one – the Lusaka Hotel – has been sold while the prospective buyers have made a down-payment of 37% on the remaining two. During the course of the year it sold its last remaining property in Botswana so all that remains in the portfolio are three relatively small properties in Mozambique. Terms have been agreed for the sale of one of these.

ORDINARY SHARE CASH DIVIDEND

On 21 May 2020, the board approved and declared a gross cash dividend of 30 cents per ordinary share. The dividend will reduce the Company's stated capital.

OUTLOOK

With the world in turmoil because of the pandemic there are just too many imponderables to try to predict what the new financial year will bring. However, what we do know, is that it will be an extremely demanding period with far-reaching effects for businesses everywhere and in every sphere of the economy. According to recent media reports, the UK economy could shrink by as much as 8.3% this year with the unemployment rate more than doubling to 10% as more than 2 million people lose their jobs. In South Africa, which is already in recession, the economy is contracting further due to the protracted lock-down and its effects, and it will take a long time to recover, whatever stimuli are introduced by government. The only certainty is that uncertainty will reign during the year with volatility bringing constant change.

CONFRONTING COVID-19

We believe the basic principles on which we have built Tradehold over the past few years – adapt, simplify and focus – offer us a realistic chance to confront and overcome the challenges brought on by the pandemic, even if it does continue beyond 2020. Our flexible culture also ensures we shall be better equipped at the end of it to benefit from new opportunities that present themselves.

Adapt

Pre-Covid this required adapting to the ever-changing real-estate environment especially in the UK. Doing so has led to an extensive, on-going programme of repurposing our four local shopping centres to reduce their dependence on traditional retail in the light of major changes in consumer buying patterns.

For some time, management has recognised a growing interest in the market for flexible, fully equipped office space offering more flexible and shorter lease terms. We believe this business is excellently positioned to benefit from the new work-from-home lifestyle likely to remain after the pandemic, coupled with a need by businesses for a physical presence in the major cities accommodating fewer employees on a more flexible basis.

In South Africa we are fortunate in that the bulk of our property portfolio comprises large-format industrial and distribution centres leased on long-term contracts to prominent local corporates.

Simplify

We are simplifying the group's structure, inter alia by reducing the number of countries in which we do business so we can focus all our attention on our primary markets.

Focus

We are focusing on our core assets and, in doing so, selling non-core assets in South Africa, the UK and Namibia to free up capital. Similarly, if an attractive opportunity were to arise in the medium term, we would not be averse to withdrawing from Namibia.

For a considerable while now our focus has been on reducing debt levels. As part of these efforts we raised equity of R500 million for Collins Group while the proceeds from the sale of non-core assets are also used to reduce debt. Since year-end we have focused aggressively on cost and cash management on all levels in addition to tenant management and retention. Collins Group collected 87% of rent payable for the month of April 2020. This is a significant achievement under the circumstances and testament to the quality of the portfolio and of a hands-on management. Arrears are expected to hover around 5% of income collectable. This is post the granting of rent remissions to tenants in good standing who are providing non-essential services. This will hopefully be a once-off dip in rent collections. In the UK we are confident of collecting 67% of all rent for the March quarter (the 3 months beginning on the 25th of March).

In South Africa, we took advantage of the recent spike in long-term interest rates after year-end to unwind expensive, long-dated fixed-rate debt. This will enable us to immediately benefit from substantially lower interest rates on floating rate debt, positively impacting cash-flow for the local business. All these actions have put Tradehold in a strong position to weather the Covid-19 storm with the Group having access to sufficient liquidity for the foreseeable future.

CH WIESE
CHAIRMAN

KL NORDIER
DIRECTOR

19 May 2020

FULL ANNOUNCEMENT

The contents of this announcement is the responsibility of the directors of Tradehold Limited. It is only a summary of the information contained in the full announcement. Any investment decisions by investors and shareholders should be based on consideration of the full announcement available at the following link: https://senspdf.jse.co.za/documents/2020/jse/isse/tdh/ye2020.pdf and on Tradehold's website at www.tradehold.co.za. Copies of the full announcement are available for inspection and may be requested at no charge from Tradehold's registered office at 36 Stellenberg Road, Parow Industria, or from that of its sponsor, Questco Corporate Advisory (Pty) Ltd, 33 Ballyclare Drive, Bryanston at no charge, from Monday to Friday during office hours.

These annual results have been audited by the Company's auditors, PricewaterhouseCoopers Inc. who expressed an unmodified audit opinion thereon. That report also includes communication of key audit matters. This opinion is available, along with the annual financial statements on the Company's website at www.tradehold.co.za.

DIRECTORS AND ADMINISTRATION

Executive directors: TA Vaughan, FH Esterhuyse, DA Harrop, KL Nordier, KR Collins
Non-executive directors: CH Wiese (alternate JD Wiese), HRW Troskie, MJ Roberts, LL Porter
Independent non-executive directors: HRW Troskie, MJ Roberts, LL Porter
Company secretary: PJ Janse van Rensburg
Transfer secretary: Computershare Investor Services (Pty) Ltd
Sponsor: Questco Corporate Advisory (Pty) Ltd

WWW.TRADEHOLD.CO.ZA