



**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")**

---

**Business and trading statement for the six month period ended 31 August 2020**

---

**HIGHLIGHTS**

- Approximately 900 apartments sold and recognised in revenue in the current period
- R150 million increase in cash and cash equivalents with approximately R427 million cash on hand at interim period close
- Successful introduction of online sales platform to complement the existing sales processes with 2 466 sales recorded in the 6 month period
- Successful launches of Munyaka (Waterfall), Greencreek (Tshwane East), Greenbay (Gordons Bay) and Izinga Eco Estate (Umhlanga) with strong sales recorded at all projects
- Expansion of the Company's footprint in Tshwane through the successful contracting of Mooikloof Eco Estate
- The gazetting of Greencreek, Tshwane East and Mooikloof Mega Residential City, Tshwane East as Strategic Integrated Projects (SIPs) by government for an initial combined total of approximately 20 000 apartments

**BUSINESS UPDATE**

Balwin's results for the six month period ended 31 August 2020 reflect the unprecedented and evolving market conditions as brought about by the coronavirus pandemic. Shareholders are advised that as a result of the outbreak and the response implemented by the South African government to best contain the Covid-19 virus, no construction activity took place from the enforcement of the national lockdown on 26 March 2020 until the easing of the restrictions to alert level 3 on 1 June 2020 ("lockdown" or "lockdown period"). The start-up of construction was conducted on a phased basis in line with national regulations and accordingly it is estimated that, in total, construction activity was adversely impacted by approximately 3 months.

In response to the national lockdown, an online sales platform was launched and 350 sales were concluded during the 9-week construction lockdown period. Despite the welcome interest rate relief through the 275 basis point reduction in lending rates since the commencement of the financial year, market conditions remain challenging for the consumer. In response, Balwin has continued its marketing campaigns to clients to continue to drive sales where necessary.

Due to the inability of the business to complete construction as a direct result of the national lockdown, revenue is expected to decrease by 35% when compared to the prior corresponding period, with approximately 900 apartments recognised in revenue. Demand for one- and two-bedroom apartments remained strong and comprised approximately 74% (H12019: 71%) of the total apartments sold.

The gross margin of the Group is expected to remain consistent with that of the prior corresponding period at 25%, but will reduce slightly when compared to the prior financial year. The reduction from the prior financial year is largely due to the marketing campaigns offered to clients in the form of price support and cost incentives which contributed to an

approximate 5% reduction in the average selling price of apartments when compared to the prior period. The reduced selling prices were absorbed by the healthy margins generated by the business. Although margin dilutive, the marketing campaigns have yielded the desired results in ensuring the generation of cash flow to the business. The Signature collection developments continue to derive a lower gross margin when compared to both the Green collection and Classic collection apartments. Excluding the Signature collection developments, the business recorded a 29% margin for the six month period.

Approximately 1 667 apartments have been pre-sold beyond the reporting period and have accordingly not been recorded in revenue in the current financial period. This represents an increase of 685 apartments forward-sold when compared to the prior corresponding reporting period and evidences the sustained demand for the Balwin product. The Group is pleased with its strong pre-sales position and has implemented several measures for the remainder of the financial year that will increase its construction rate to match existing sales and continued strong demand for its product.

As previously communicated to shareholders, cost management remains a priority area, with overhead costs being carefully monitored and aggressively managed. Operating costs of the Company are expected to record an inflationary based increase when compared to the prior corresponding period, however, the Group operating costs are expected to increase by approximately 12% as a result of the increased activity in Balwin Fibre. The Company has continued to grow its management team during the period in an ongoing effort to strengthen the leadership team. Focused cost containment in other areas of the business has, however, largely offset these costs. A significant decrease is expected in "other income" when compared to the prior corresponding period as a result of the loss of rental income that the Company earned in the prior period on the Greenpark apartments. Rental income was derived during the lease-up period prior to the sale of the apartments to Balwin Rentals Proprietary Limited in the previous year.

In addition to cash management, the Company continued its focus on capital allocation and is pleased to report that cash on hand for the Group is expected to improve to R427 million at interim period end, an increase of approximately R150 million from the prior corresponding period. It is noted that the deferral of the final dividend for the year ended 29 February 2020 (dividend of R68.5 million paid for year ended 28 February 2019) contributed to the increased cash on hand at period end. Cash management and cash utilisation will continue to remain a priority focus area for the Group and Balwin continues to engage with its funding partners to ensure that appropriate facilities and financial support remain in place.

As per prior communication to shareholders, while the Company's immediate focus remains on the execution of its existing pipeline, it has remained alert to strategic opportunities in identified nodes. During the interim period, Balwin has successfully contracted land at Mooikloof Eco Estate in Mooikloof in order to expand its footprint in the Tshwane node. The land was contracted for an initial deposit of R94 million (funded 60% by Investec Bank Limited) with the remainder of the purchase price being paid out of realised profits on registration of the apartments over the next 7 years to optimally manage cash resources.

Additionally, the Board recently advised shareholders of the designation of Mooikloof Mega Residential City as a SIP whereby the Department of Public Works and Infrastructure fund the external bulk services installations in an effort by government to boost the economy post Covid-19 and to create employment through infrastructure development. Balwin is in advanced negotiations regarding the creation of a Special Purpose Entity to undertake the project for an initial 16 000 apartments with the potential to expand the development to approximately 50 000 apartments. In addition to Mooikloof Mega Residential City, Greencreek, Tshwane East which comprises approximately 3 800 apartments, was also announced as a SIP

in the Gazette with the potential for the introduction of additional SIP's in other nodes in the future.

## **ANNUITY INCOME**

The Group remains committed to delivering annuity income through relationships that enhance the lifestyle offering to Balwin's customers. Contributions from annuity income initiatives currently constitute a negligible portion of the total profits of the Group, with the most significant contributor being Balwin Fibre Pty Limited which has experienced pleasing growth during the period as a result of the increase in the apartments connected during lockdown.

## **OUTLOOK**

Whilst remaining apprehensive over the prevailing macro-economic climate and fiscal policy uncertainty, the Board remains positive on the resilience of the Balwin product as demonstrated by the sustained demand by its customers. This is evidenced through continued strong sales, enhanced by the highly successful recent launch of the online sales platform.

The Board is optimistic with respect to the opportunities presented through the recently gazetted SIPs. The Company is cautiously and actively engaging with government to best position the business to roll out these projects to the benefit of Balwin's shareholders, prospective customers and the South African economy. In this regard, the required capital outlay and funding of the project is being given priority consideration.

As consistently advised in recent communication to the shareholders, the Board continues to place an emphasis on appropriate cash management and cost containment. The growth in the Company's cash resources enables the Board to remain alert to prospects that could enhance its development pipeline in strategic nodes.

The Board continues to closely and carefully monitor the continued implications of the coronavirus on the business and management continues to prioritise the well-being of its people in this regard. The Board would like to compliment management on its exceptional response to the pandemic with no site disruptions noted to date outside of the national lockdown period.

## **TRADING STATEMENT**

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 six month period ended 31 August 2020 are expected to decrease by between 55% and 60% over the prior corresponding period, translating into a decrease from the prior financial year's 40 cents (HEPS: 40 cents) to a range of between 16 and 18 cents per share.

The financial information which this trading statement is based on has not been reviewed and reported on by the Company's external auditors.

It is expected that Balwin will release its results for the six month period ended 31 August 2020 on or about 12 October 2020.

Bedfordview  
10 September 2020

Sponsor: Investec Bank Limited