
PRE-CLOSE OPERATIONAL UPDATE, DIVIDEND UPDATE AND TRADING STATEMENT

Arrowhead shareholders are referred to the previous updates published in May, July and August 2021 as well as the Company's interim financial results released on 26 May 2021.

In what has been an unpredictable environment, Arrowhead wishes to provide a further update to shareholders on its operations and general financial position.

Pre-close operational update

Repairs to damaged buildings and resumption of trade

As reported on SENS on 5 August 2021, Montclair Mall is expected to be fully operational within a period of three to six months and Mkuze Shopping Centre within two months. Repairs are progressing well and are on track.

Rental relief and collections

Arrowhead has, in the financial year to date, provided COVID-19 relief of R6.6 million (R5.6 million in discounts and R1 million in deferrals) compared to R77 million (R67 million in discounts and R10 million in deferrals) for the comparable period in 2020. In keeping with its tenant centric approach, Arrowhead continues to engage proactively with its tenants regarding the impact that COVID-19 is having on their businesses and the difficulties encountered by them following the recent unrest.

Collections (measured as a percentage of contractual rental) are currently at a pleasing 96%, compared to 86% at the same time last year.

Vacancies and letting activity

While the pressure on the rental market continues, it is anticipated that vacancies at year-end will be below 10%, an improvement on the 11% vacancy reported in May 2021.

Year-to-date tenant retention and reletting increased from 85% as at 31 March 2021 to about 87% as at 30 June 2021, and rental reversions on lease renewals improved to better than -10% (- 11% at 31 March 2021) with contractual escalations across the portfolio remaining in excess of 7%.

Core portfolio

The positive letting activity in the second six months of the year is likely to see the value of the core portfolio reducing by 8% for the 12-month period, compared to the 11% reduction reported for the 6-month interim reporting period. This improvement follows the Company's intensive asset management efforts to unlock value in the core portfolio.

Capital investment in the portfolio

The capital expenditure (“**capex**”) year-to-date is approximately R150 million, taking the total capex spend across the Arrowhead portfolio over the last four years to roughly R530 million. Of this R530 million, just over R430 million (80%) was incurred in respect of the 104 assets that are expected to remain in the portfolio at 30 September 2021, demonstrating that the Company has continued to invest in its core portfolio throughout the negative cycle of the property market. This defensive strategy has proven to be successful in protecting and rebuilding revenue streams, which will benefit the Company going forward.

Environment, Social and Governance (ESG)

Solar and water projects

In addition to the investment above, by 30 September 2021 the Company is expected to have invested approximately R60 million in solar projects, which will generate over 6% of the portfolio’s electricity requirements annually. It has, in addition, commissioned further projects to the value of just under R50 million, the majority of which are expected to be operational by early 2022. This will take the electricity generated by solar to approximately 10% of the total portfolio’s energy expense, at a weighted average investment yield of 18% per annum. At the start of the year, the Company also commissioned five water installations, of which four are already in use and the remaining installation is expected to become operational next year. The Company intends to continue the expansion of its investment into such utility management projects going forward.

Broad Based Black Economic Empowerment (“**BEE**”)

As at the end of 2020, the Company had a BEE level rating of 4. The Company has implemented initiatives to improve this rating during the 2021 financial year and anticipate this rating to improve to a BEE Level 3 by the end of the 2021 calendar year.

Arrow for Change

As reported in the previous financial year, the Company implemented a social initiative, Arrow for Change, with start-up funding of R1.5 million from executives, Arrowhead board members and employees, which the Company matched Rand for Rand.

In 2021, the Board approved additional funding of R2.5 million and the Company received funding in excess of R300 000 from service providers towards Arrow for Change.

The initiative was primarily established to support communities in and around the assets of the Group but was also used to support national initiatives, addressing the negative impact of the Covid-19 pandemic and the recent civil unrest. To date the Company has disbursed R3.5 million of these funds and has approved a further R1.9 million towards various initiatives, leaving just over R400 000 available for disbursement.

ESG reporting and compliance

The Company is committed to ESG and, in addition to that which is stated above, has employed the services of a consultant to facilitate its ESG journey, including reporting thereon.

Balance sheet management

The continued strengthening of the Company’s balance sheet, through the sale of select non-core assets and the reduction of debt, has progressed well.

Update on sales

It was reported in Arrowhead's results for the six months ended 31 March 2021 that the Company had disposed of R1.145 billion in assets at a 4.2% discount to book value, of which 20 properties valued at R498 million had transferred and 20 properties of R647 million were held for sale.

Given market conditions, certain sales fell through, however these were subsequently replaced by new sales, increasing total disposals marginally to R1.17 billion, concluded at a 3% average discount to book value. Arrowhead has now transferred 32 assets with a sales value of R978 million since the start of the year and has lodged a further 4 assets with a sales value of R62 million in the Deeds office awaiting registration. It is expected that the value of transfers will exceed R1 billion by 30 September 2021. Since the inception of the Group's property disposal programme in 2018, approximately R2.5 billion in properties have been disposed of, significantly strengthening our balance sheet and improving the quality of the portfolio.

Loan facilities

The Group has four loan facilities of R880 million in aggregate that are due for renewal in the 2022 calendar year. Of these, agreement has been reached on the renewal of two facilities valued at R250 million. Discussions are progressing well on the renewal of the remaining R630 million. Further, having settled its outstanding capital obligations in full to a funder, the Company is satisfied that it will achieve and exceed all funding covenants for the 2021 financial year.

Current expectations are that the Group's loan to value will be around 39% (including derivatives) and approximately 38% (excluding derivatives) at 30 September 2021, subject to certain sold properties being transferred and the value placed on the property valuations undertaken as part of the Group's year-end process. Post the cancellation of certain swaps reported at the interim results and subject to its sales pipeline transferring as anticipated by year-end, the Company expects its hedging position to be 75%, in line with the targeted range of between 70% to 80%, and also expects its weighted average effective interest rate to reduce to 8.5% at year-end, lower than the 9% reported at its interim results.

The Company (excluding Indluplace Properties Limited ("**Indluplace**") has just over R600 million cash on hand, and in the absence of any unforeseen circumstances and based on the assumption that a full dividend is paid for the financial year ending 30 September 2021, after the payment of such dividend the Group (excluding Indluplace) anticipates that it will have a healthy cash balance of approximately R150 million.

Shareholders are advised that no decision has yet been made by the Board on the payment of an interim and/or final dividend and if declared, the extent thereof.

Dividend update and trading statement

For the year ending 30 September 2021, Arrowhead's distributable income per A share is expected to grow by the lower of 5% and CPI inflation in accordance with its Memorandum of Incorporation (115.46 cents reported for the 2020 financial year), whilst its distributable income per B share for the 2021 financial year is expected to be between 45.5 cents and 48 cents per B share i.e. between 0% to 6% higher than the distributable income per B share of 45.39 cents reported for the 2020 financial year. This may be impacted by collections in the last quarter and is subject to the level of dividends being received from Indluplace and Dipula Income Fund Limited.

Should an interim and final dividend per B share at a 100% pay-out ratio be declared, such dividend will be between 45.5 cents to 48 cents, being 38% to 45% higher than the 2020 dividend paid by the Company of 32.99 cents per B share. As required by the JSE Listings Requirements, once Arrowhead obtains greater certainty in this regard prior to the finalisation of its results for the year ending 30 September 2021, a further trading statement will be published. Arrowhead's results for the year ending 30 September 2021 are expected to be released on or about 24 November 2021.

Capital structure

Arrowhead's dual class A and B share structure enables the Company to attract capital from shareholders with different risk appetites. The capital structure is currently efficient, with the ratio of A shares to B shares being 63 million A shares to 951 million B shares i.e. 1 A share for every 15 B shares.

In terms of its dividend cover, the total dividends payable to both classes of shareholders (assuming a dividend is declared at a 100% pay-out ratio) will cover the dividends to A shareholders by just under 7 times, meaning that the risk to A shareholders' dividends being paid will be largely mitigated. At the same time, the negative impact on the dividends to B shareholders as a result of the growth of the 2021 dividend to A shareholders will be marginal.

The financial information contained in this announcement has not been reviewed or reported on by the Company's auditors.

15 September 2021

Sponsor

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