TRADEHOLD LTD

QUARTERLY NEWSLETTER: **SUMMER EDITION** | **2018**

Was it a demanding year? Yes, absolutely so.

But was it also a year that inspired one about the future? And again the answer will be: Yes, absolutely so.

For I believe 2018 has been a seminal year in Tradehold's journey of becoming a pure, fully-fledged property play. For those of you who have been around for a while will know that Tradehold started off as a JSE listed company housing retail interests in the UK's lower-income market. When these operating interests were sold early this century, the company was left with a portfolio of 31 second-tier buildings with a combined value of £8 million that had housed some of the company's retail outlets.

Management at the time decided not to dump these on the market, but rather to retain them, add value where possible, while at the same time building up a portfolio of top-quality assets, a challenge turned into reality under the guidance of Tim Vaughan who joined Tradehold in 2003. Over the years all but three of the original 31 buildings were replaced with up-market properties of which Tradehold's share of the total value today is £250 million with a development pipeline of close to £160 million.

Until 2014, all of Tradehold's investments were in the United Kingdom. These also included a 70% holding in the financial services company Reward.

The situation changed quite dramatically in 2016 when Tradehold acquired the total issued share capital of Collins Group, a fourth-generation KwaZulu-Natal property business with a portfolio valued at some £460 million. If the £40 million Namibian portfolio is added, about 52% of total net assets are now Rand denominated.

Much time during the past year was spent on streamlining and refocusing the business after four years of strong growth during which the value of our property portfolio increased more than tenfold – from £73 million to £842 million as at February this year. Part of the refocusing included unbundling our financial services interests to shareholders and listing them separately on the JSE under the name Mettle Investments. At the same time we have put on the market the few small properties we own elsewhere in Africa with the exception of those in Namibia.

And, with the focus of our South African portfolio shifting increasingly to large industrial properties, we have identified a total of 53 smaller, mainly commercial buildings for sale. These buildings, with a total book value of some R1.4 billion, have been accumulated over the long history of the company. All have served Collins well over the years in terms of rental income, but they no longer central to what we see as the future of the business. A number of these – 19 in total – have either been sold already or are in the process of being sold and prices achieved exceed total book value. The sale proceeds will be used primarily to reduce debt levels further and improve cash flow.

The "Big Box team"

In announcing our interim results for the six months to August this year we pointed out that in the Collins portfolio some 91% of space available for rent consisted of quality industrial warehouses and distribution centres. The 1.46 million m^2 of total gross lettable area (GLA) includes long-term tenants such as Sasol, Pep, Unilever, Massmart and Nampak.

This dominance of large-scale industrial properties in Collins's overall portfolio of roughly 144 buildings did not come about overnight. Murray and Ken Collins; the fourth generation of the family which started the business more than a hundred years ago, in and about 2006 found an increasing number of their tenants were keen to consolidate their spread of smaller warehouses into single large ones.

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The "Big Box team"

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Responding to what they saw as a new growth area, Murray and Ken targeted tenants such as Pep, Unilever and Massmart offering to provide them with such "big box" solutions. Encouraged by the response, they assembled a competent team of professionals and contractors with experience of such large-scale developments. The next step was doing a logistics needs analysis with the client in terms of size, location, access, stacking and racking, and loading requirements.

And so a whole new chapter started in the history of Collins. The first project to be tackled was a 70 000 m^{2}warehouse for Pep in Durban that was completed in 2007 and is today one of four such centres operated by the company in South Africa. It services more than 2 000 Pep stores and employs highly sophisticated "pick and pack" technologies in servicing the stock replenishment needs of these outlets.

Soon Collins was commissioned to build a 45 000m^2 warehouse in Pietermaritzburg for Unilever. In time the Collins Group acquired land in the Gosforth Industrial Park which was identified as a future logistics node in Gauteng. Here in 2010 it custom-built for Massmart its main distribution centre in South Africa. It's easy to say it covers 73 500m^2 – a meaningless figure – until you stand inside the building and are overwhelmed by its size which spans over more than seven rugby fields, to put it in layman's terms. The 3 000m^2 of office space inside the structure is, in its own right, the equivalent of a modern standalone office building.

This was followed by further distribution centres for the JD Group in Kokstad and Pietermaritzburg, 18 000m^2 distribution centre for Toll (a logistics company) in Pomona, Gauteng, 50 000m^2 for Ellerines in Cato Ridge (which was sold shortly after construction was completed) and 50 000m^2 for Illovo Sugar in Pietermaritzburg, which was sold on to Illovo by Collins.

The demand for "big boxes" is more muted at the moment, understandably so as the whole of the South African economy is muted. The tenants we have are there for the long term. Our weighted average lease profile is 7.2 years while vacancies represent less than 2% of total GLA. So we are not worried about the immediate future, but neither are we complacent and we constantly have our ear to the ground to see where demand is surfacing and how we can develop such opportunities.

A lawyer at the helm

Meet **Sean Meekers**, who has been at the helm of Collins for the past nine years. A Durban "boytjie", he is a highly qualified legal mind who, in addition to holding a B Com LLB from the University of KwaZulu-Natal, went on to achieve a Master's degree in Law from Unisa in 1998. He was a partner at the legal firm Mooney Ford Attorneys in Durban when in 2007 he was approached by Murray and Ken Collins who had shortly before taken control of the company, to head its Durban office with its staff of six. Two years later, it was decided to merge the company's Pietermaritzburg office with the one in Durban and Sean was invited to become its CEO.


Sean Meekers

Today the office employs a staff of 66, among them specialists in a range of disciplines such as law, finance, accounting, planning and construction management, leasing and marketing. This team manages the company's entire portfolio of assets in South Africa.

Sean (his second name is Henk – his father emigrated with his family to South Africa from Utrecht in the Netherlands) says the company already in 2016 started bedding down a strategy to rationalise assets and identifying those that are non-core. The accent is on consolidation. "When we now consider acquisitions, the decision to buy or not is very strongly influenced by the potential for adding value, and the extent to which such acquisitions would heighten the attraction of the rental space we offer."

When he is not at the office, Sean spends as much time as possible on the beach in between games of social tennis and golf. He is married with three daughters, two of whom graduated this year.

I said at the start, 2018 has been a demanding year. For all of us. But then, Alexander Pope said: "Hope springs eternal in the human breast." It is for this reason we want to believe that 2019 will be better, that it will see the start of the growth in our economy the country so desperately needs. Let us all work towards that. But in the meantime: Enjoy the festive season that lies ahead. Treasure the time spent with family and friends and let us come back with renewed energy and enthusiasm!

Friedrich Esterhuyse, Tradehold, Joint CEO