TRADEHOLD LTD

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Tradehold confident of surviving COVID-19

As you might have seen, Tradehold has just announced its results for the 12 months to February 2020. Despite the drop in profits, we as management believe that the company has actually weathered well the highly volatile and demanding conditions that defined that period.

And because, by some good fortune, we started restructuring the business some two years ago we are also convinced – and you might believe this somewhat arrogant – that Tradehold is actually now much better positioned to confront the challenges presented by the Covid-19 pandemic, even should they continue into next year.

But first, just to remind you of some of the salient features of the results which were announced today: Total assets increased from £858 million to £883 million while revenue was slightly down from £96.4 million to £94.6 million. Headline earnings per share rose from 8 pence to 9.4 pence. Profit attributable to shareholders dropped from £13.2 million to £5.994 million. This was mainly due to additional tax of £7.1 million and the reduction in Tradehold's 100% holding in Collins Group to 74.3% – we sold 25.7% of the company to the I-Group early in the financial year.

The-sum-of-the-parts valuation as defined by management, was 122.8 pence (R24.60) per share compared to 126.5 pence (R23.50) in the corresponding period.

The board initially anticipated declaring a gross cash dividend of 60 cents per ordinary share (2019: 55 cents) for the 12 months to February 2020. In the light of the great uncertainty brought about by the pandemic since year-end and the consequent need to preserve cash, the board has decided to declare a gross cash dividend of 30 cents per ordinary share. Depending on the results achieved in the six months to 31 August, the board may then declare an interim dividend, which will also mark the first time Tradehold has declared an interim dividend.

But back to the operational side of the business: I sincerely believe that during the reporting period we really started to see the benefits of our ongoing restructuring programme aimed at increasing flexibility and resilience so the company can adapt rapidly to any change in the environment. As part of that programme, we are also simplifying its structure and strengthening its focus.

As you know, in the UK we own, through our subsidiary Moorgarth, a property portfolio consisting of four substantial shopping malls and a number of commercial buildings in Greater London. Some are let to Boutique, another subsidiary, which offers flexible office space on short-term leases.

Some two years ago, when our UK management team started picking up major changes in consumer buying patterns, it began implementing an extensive programme to repurpose the four shopping centres so as to widen their consumer appeal while reducing the dependence on traditional retail. This involved giving greater focus to facilities designed to accommodate health and wellness, hospitality, entertainment and community activities.

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By working closely with tenants and achieving a number of key new lettings in all four centres, Moorgarth was able to increase footfall to between 11% and 15% in two of its major centres and reduced vacancies to only 5.6% after taking into account all contracted new lettings concluded before year-end. Vacancy in its office portfolios was 0.9% and 1.3% in its leisure portfolio. By applying rigorous cash and asset management the team managed to exceed its budgeted operating profit for the year.

Moorgarth continues to partner closely with Boutique which specialises in short-term, flexible office accommodation. Boutique has the major advantage that, unlike co-working, where different entities share desk space in an open office environment, it provides clients with a traditional private office environment. This allows tenants to manage for themselves the hygiene regimes imposed because of the present pandemic.

With an occupancy level of 92% in the case of its 4 500 individual work stations, we believe this business is excellently positioned to benefit substantially from the new work-from-home culture that we anticipate will remain in place after the pandemic, coupled with a need by businesses for a physical presence in the major cities where they will accommodate fewer employees on a more flexible basis. Another 500 work stations are in the pipeline.

We have also for a while been simplifying the group's structure. As part of this we are reducing the number of countries in Africa in which we are active by selling off the properties we own there. We have already exited Botswana and have reached agreements with potential buyers for them to acquire our last remaining properties in Zambia. Then we still have three properties in Mozambique on our books and, as you know, a quite substantial portfolio in Namibia although, should we receive an acceptable offer, we would not be averse to withdrawing from Namibia in the medium term as well.

In South Africa we are fortunate in that 83% of the total gross lettable area (GLA) of 1.5 million square metres held through our subsidiary Collins Group, comprises large-format industrial and distribution centres leased on long-term contracts to major local corporates. Vacancies reduced from 1.95% at half-year to 1.26% at year-end while the weighted average lease expiry profile remains at just under seven years.

For a considerable time now our focus had been on reducing debt. Early in the year we raised equity of R500 million for Collins Group which was used to reduce its gearing. We are also using the proceeds from the on-going sale of non-core assets – we have to date sold a total of 26 smaller commercial buildings from our portfolio – to bring down debt. And since the start of the new financial year we have been focusing aggressively on cost and cash management at all levels.

In South Africa we have collected 87% of rent payable for the month of April while in the UK we are confident of collecting 67% of all rent for the March quarter which started on 25 March. Locally, we have also taken advantage of the recent spike in long-term interest rates after year-end to unwind expensive fixed-rate debt to immediately benefit from much lower floating rate debt. All these actions have, in my view, put us in a very strong position to weather the Covid-19 storm, also as the business has access to sufficient liquidity for the foreseeable future.

I believe the way our highly resilient and experienced management teams have adapted Tradehold to a changing and highly volatile environment, offers us a realistic chance to successfully confront the challenges brought on by the pandemic, even if these continue into next year. Our new flexible culture also ensures we shall be better equipped at the end of it to benefit from any new opportunities and challenges that arise.

With warm regards

FRIEDRICH ESTERHUYSE
Joint CEO