

# CENTUM INVESTMENT COMPANY PLC AUDITED RESULTS

The Board of Directors of Centum Investment Company Plc is pleased to announce the audited financial results of the Group and Company for the financial year ended 31 March 2020 as set out below

## CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME for the year ended 31 March 2020

GROUP KES MILLION	2020	2019
Investment income	14,996	9,549
Trading profit	395	1,117
Operating income/(loss) from financial services	171	(461)
Other income	301	303
Operating expenses	(2,465)	(2,128)
Finance costs	(3,223)	(2,518)
Share of loss in joint ventures and associates	(1,977)	(1,423)
Profit before tax (before one-off provisions)	8,198	4,439
Income tax expense	(818)	(319)
Profit for the year (before one-off provisions)	7,380	4,120
Provision for impairment of assets	(2,752)	-
Net profit for the year	4,628	4,120
Other comprehensive income, net of tax	802	(1,207)
Total comprehensive income	5,430	2,913

COMPANY KES MILLION	2020	2019
Investment income	3,695	3,167
Operating expenses	(894)	(630)
Finance costs	(1,815)	(1,710)
Operating profit	986	827
Income tax expense	(797)	(84)
Profit for the year (before one-off provisions)	189	743
Other comprehensive (loss)/income, net of tax	(971)	3,970
Return for the year (before one-off provisions)	(782)	4,713
Provision for impairment of assets	(3,580)	-
Total comprehensive (loss)/income	(4,362)	4,713

## CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION as at 31 March 2020

KES MILLION	Group		Company	
	Mar '20	Mar '19	Mar '20	Mar '19
Investment portfolio	18,202	19,163	53,167	70,538
Cash and cash equivalents	8,182	5,393	2,912	253
Other assets	75,477	77,208	771	853
Total Assets	101,861	101,764	56,850	71,644
Customer deposits	17,460	14,817	-	-
Borrowings	22,197	26,871	7,486	16,145
Other Liabilities	9,582	8,500	1,926	2,899
Total Liabilities	49,239	50,188	9,411	19,044
Total Equity	52,622	51,576	47,439	52,600
Total Capital and Liabilities	101,861	101,764	56,850	71,644
NAV per share (KES.)			71.29	79.05

## CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 31 March 2020

KES MILLION	Mar '20	Mar '19
Opening cash and cash equivalents	5,285	4,074
Net cash from operations	21,589	5,965
Net cash used in investing activities	(7,883)	(4,721)
Cash used in financing activities	(11,865)	(33)
Closing cash and cash equivalents	7,126	5,285

(\*Closing cash net of overdraft of KES 1,056 million (2019: 109 million))

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 March 2020

KES MILLION	Mar '20	Mar '19
Share capital	333	333
Share premium	590	590
Other reserves	1,984	1,182
Retained earnings	41,747	37,387
Proposed dividends	798	798
Non-controlling interests	7,170	11,286
Total	52,622	51,576

The financial data presented above are selected extracts of the audited financial results. For an in-depth analysis of performance, please refer to the detailed investor presentation available on our website [www.centum.co.ke](http://www.centum.co.ke).

### DIVIDEND DECLARATION

The Board of Directors has recommended the payment of a dividend equivalent to KES 1.20 per share for the financial year ended 31 March 2020 (2019: KES 1.20 per share).

### A. FINANCIAL PERFORMANCE

The year ended 31 March 2020 marked the first year of our five-year strategy period to year 2024 dubbed 'Centum 4.0'. Under that strategy, the Group's focus is on balance sheet resilience through deleveraging of the parent Company, enhancement of liquidity and cash generation by the portfolio companies. The Group structure and operating model has now firmly moved into four business units namely: Private Equity, Real Estate, Marketable Securities and Development. Performance against our strategic targets and the key drivers in each of the Group's four business segments are set out below.

ASSET CLASS PERFORMANCE	GROSS VALUE KES MILLION	VALUE PER SHARE KES
Marketable securities and cash	8,965	13.5
Private Equity	8,641	13
Real Estate	36,880	55.4
Development	1,594	2.4
Other assets	771	1.2
Total	56,850	85.4
Debt	(7,486)	(11.2)
Other liabilities	(1,925)	(2.9)
Book value of equity	47,439	71.3

### i. Marketable securities and cash

The Group held KES 9 billion in marketable securities and cash deposits at 31 March 2020 (excluding the cash and securities held by Sidian Bank Limited). This represents a growth of 119% over the prior year holding of KES 4.1 billion. This portfolio is structured to minimize risk of capital loss while generating annuity cash flows which contribute to additional liquidity for the Group. At 31 March 2020, 90% of this portfolio was held in fixed income securities and interest earning cash deposits. This position was taken in light of the prevailing market conditions and our objective of capital preservation. Over the last 12 months, this portfolio recorded a realised cash investment income of KES 450 million.

### ii. Private Equity

During the year, the Group completed the disposal of the entire of its equity stakes in Almasi Beverages Limited, Nairobi Bottlers Limited and King Beverage Limited respectively, and thereby realising proceeds of KES 19.6 billion. The disposal of Almasi Beverages Limited and Nairobi Bottlers Limited achieved a combined average IRR of 31% over the last ten years, demonstrating our track record in growing shareholder wealth through an optimal investment strategy, active portfolio management and successful exits. Between years 2014 and 2019, the average annual dividends from the two businesses was KES 299 million. The proceeds from the exit were applied towards paying off our US Dollar bank debt and local currency revolving credit facilities, with the balance being invested into a cash-generating marketable securities portfolio. The interest income from this investment in marketable securities combined savings in finance costs on the bank debt is KES 1.9 billion per year, which compares favourably to the annual dividends we were receiving of KES 299 million.

In our financial statements for the period ending 31 March 2020, the beverage business was consolidated only up to September 2019, which explains the drop in the operating profit of the trading businesses compared to the operating profit in the prior period ending 31 March 2019.

The aggregate profitability of the remaining underlying portfolio in which the Group has a controlling stake increased by 2.7x year on year, driven primarily by the performance of Sidian Bank Limited, which returned to profitability in the year. Of the six portfolio companies in this category, five were profitable during the year. Two portfolio companies where the Group holds a minority stake below 20% were also profitable and paid a combined dividend of KES 232 million to the Group, representing a growth of 28% year on year.

Excluding the beverage business, the portfolio companies paid out a dividend of KES 318 million to Centum, representing a growth of 27% from the prior year.

### iii. Real Estate

Under the real estate business, we are pursuing a four pronged strategy, namely: development and sale of infill developments within our land, sale of development rights within our current land bank, management of rental assets and development on third party sites on a joint-venture basis. Performance on each of these pillars is set out below:

#### a. Development and sale of infill residential projects

Within this business line, the Group is pursuing a sales-led development model and is currently constructing 1,442 residential units across its three mixed-use developments. Of the 1,442 units under construction, 999 units, with a revenue potential of KES 7.8 billion had been sold as at 31 March 2020, representing a pre-sale level of 70%. The business has collected over 27% in cash deposits for these presold units and was therefore holding a receivable of KES 5.7 billion, which fully covers the construction cost and profits. This profitability is not reflected in the current year group performance and will be booked progressively from the year ending 31 March 2021, as we complete and hand over the units. We expect to complete and hand over 426 of the units under construction in the financial year ending 31 March 2021. All the units under construction have been financed through internally generated cash flows and the projects were debt free as at 31 March 2020. The underlying subsidiaries have an asset to debt ratio of 4.8x and are therefore under-leveraged. As at 31 March 2020, both Vipingo and Pearl Marina developments were fully funded through shareholders' funds.

#### b. Sale of development rights

At 31 March 2020, the business had converted bulk land sales worth KES 2.8 billion, on which the requisite deposits have been received. These sales are at different phases of legal documentation and are expected to be booked in the financial year ending 31 March 2021. The business has booked a net fair value gain on properties amounting to KES 1.8 billion, representing a decrease of 76% from the gain booked in the prior year, on account of property market movements.

#### c. Management of rental assets

The primary asset under this business line is the Two Rivers Mall and two office towers. At 31 March 2020, the mall leasing level was at 81% while both office towers were at 20% compared to 71% and 8% respectively as at March 2019. Of the leased space, trading tenants constituted 73% and 20% of the mall and offices gross leasable area respectively, compared to 62% and 8% in the prior year.

#### d. Development of joint venture projects

At 31 March 2020, the Group had signed a joint venture agreement for a 965-unit development along Thika Road, which is now under market validation. In accordance with our business model, progression of this project is subject to attainment of our pre-sale threshold.

### iv. Development portfolio

During the year, the business recorded a one-off impairment provision against the debt instrument investment in Amu Power

Company Limited. As at 31 March 2020, Amu Power Company had completed negotiations for the Operations and Maintenance (O&M) and the Engineering, Procurement and Construction (EPC) contracts, secured a Power Purchase Agreement with Kenya Power Limited, negotiated a debt term sheet and obtained a Government of Kenya Letter of Support. Amu Power Company had however not yet secured a Partial Risk Guarantee, which is a requirement for financial close of funding with lenders. Further while the company had obtained the relevant environmental approvals, the same is currently under litigation before the High Court of Kenya following an appeal from the National Environment Tribunal. In view of the uncertainties surrounding the timing of closure of these matters and the classification of the investment as a debt instrument, a full provision has been recorded in accordance with IFRS 9, Financial Instruments. Contractually, however, the investment in the debt instrument continues to be outstanding.

### COMPANY PERFORMANCE

#### a. Total returns

The company's operating profit increased from KES 827 million to KES 985 million for the year ended 31 March 2020, representing a 19% growth relative to prior year. This was primarily attributable to the gains of KES 2.7 billion booked following the disposal of Almasi Beverages Limited and Nairobi Bottlers Limited. Notably, the Company has changed the accounting method for realised gains on exit of investments following the adoption of IFRS 9, Financial Instruments. Previously, realised gains booked on the income statement were computed as the difference between the sales proceeds from the exit and the acquisition cost of the asset, which would have resulted in a realised gain for the year ended 31 March 2020 of KES 16 billion. Under the IFRS 9 change, previously unrealised valuation gains are transferred directly to equity and the gain is computed as the difference between the sales proceeds and the previous period valuation.

The company has recorded a one-off impairment provisions of KES 3.6 billion, which include the provision on Amu Power Company Ltd among other assets.

The negative return of KES 4.4Bn is attributable to these impairment provisions. Net Asset Value therefore decreased from KES 52.6 billion as at 31 March 2019 to KES 47.4 billion as at 31 March 2020 on this account the dividend payment of KES 798 million in the year.

Total assets decreased from KES 71.6 billion to KES 56.9 billion between 31 March 2019 and 31 March 2020 as a result of debt repayments and the above provisions.

#### b. Borrowings

At 31 March 2020, the only long term borrowing on the Company's balance sheet was the five-year KES 6.6 billion corporate bond. On 8 June 2020, Centum repaid the full amount outstanding. With this repayment, the Company has now fully retired all its medium and long term debt, having earlier repaid USD 75 Million (Kshs 7.8 Billion) of USD Dollar denominated bank debt in September 2019. The strengthening of the capital structure of Centum through the repayment of all of its debt and the enhancement of liquidity is one of the five core pillars of the Company's 'Centum 4.0' strategy. We have delivered on this critical strategic objective within 14 months into the Centum 4.0 strategy period. This deleveraging will save KES 1.8 billion in annual finance costs, which will further enhance the Company's performance and dividend payout.

Although we retired the debt, we incurred finance costs for most of 2019 as the retirement took place late in the year. The saving in finance costs is therefore expected to be realized from the financial year ending 31 March 2021 and going forward.

### OUTLOOK

The medium term macro-economic environment is projected to be difficult, exacerbated by the economic shocks arising from the Covid-19 pandemic. Our now deleveraged balance sheet and significantly enhanced cash and marketable securities provide the necessary resilience in this difficult period. Notably, 90% of those marketable securities are allocated to fixed income. While the return on those securities would be lower, this strategy ensures capital preservation. The enhanced liquidity further provides us with a platform to take advantage of available opportunities in Private Equity and in public markets under the current market conditions.

The saving of KES 1.8 billion in annual finance costs will support our objective of enhancing dividend payout looking forward.

The short-term impact of Covid-19 on our Private Equity business is likely to be a substantial reduction in the 2020/2021 earnings of the underlying portfolio companies and consequently a reduction in dividend income to Centum as the portfolio companies are likely to cut their dividend payout to preserve liquidity. In the long term however, the current market conditions present opportunities to make investments at reasonably priced valuations and ride the growth in earnings and market valuations as economies recover from the crisis caused by the Covid-19 pandemic and companies go back to their sustainable earnings levels under normal operating conditions.

Within real estate, we have seen a 40% reduction in new residential unit sales as a direct result of the pandemic. The units expected to be completed and handed over in the year ending 31 March 2021 are largely fully sold out. The decrease in sales, if it persists, would likely affect the roll out of new developments since our development is sales-led.

### BY ORDER OF THE BOARD.



**JAMES MWORIA, CFA, CGMA**  
GROUP CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR