CENTUM

tangible wealth

Centum Financial Results for the six-month period ended 30 September 2018

Results Commentary

Key Performance Highlights:

Group Performance:

- Consolidated Profit after Tax grew by 27% to KES 2.1 billion on the back of increased investment income performance.
- Completion of the sale of GenAfrica realised a KES 1.2 billion gain on disposal and a holding period IRR of 29%.
- Real Estate sector has achieved significant residential pre-sales and land sales leading to a fair valuation gain of KES 2.7 billion due to the achieved revenue potential for pre-sales of KES 1.8 billion.

Company Performance:

- Company Profit after Tax grew by 713% to KES 0.9 billion driven by the GenAfrica transaction. This was also achieved due to a 9% decrease in operating expenses and a 6% decrease in finance costs.
- Shareholder funds increased by 0.6% to KES. 48.9 billion.
- Total Assets grew by 1.3% to KES. 67 billion.

James Mworia, Group CEO Centum Investment Co. Plc commented

Centum's portfolio is categorised into four business lines; Private Equity, Real Estate, Marketable Securities and Development. As at 30 September 2018, the Real Estate and Private Equity portfolio accounted for 44.9% and 42.7% of our total assets respectively. The Marketable Securities accounted for 9.4% while the Development Portfolio stood at 2.9%.

Market validation of our RE projects through achieved pre-sales

Our real estate development cycle consists of 5 main gates of value creation; feasibility business case, concept business case, market validation, pre-construction and construction. Market validation, an important phase within the stage-gate process, allows us to validate the business assumptions from the potential market and potential investors and fundraise with a target debt to equity structure of 70% to 30%. All projects are required to meet the hurdle rate of 25% before proceeding to pre-construction.

During the period, the focus across the three land banks – Vipingo Development in Kilifi, Two Rivers Development in Nairobi and Pearl Marina Development in Uganda – has been on pre-sales of residential infill projects and land development rights. During the six-month period, the revenue potential for pre-sales achieved was KES 1.8 billion from residential infill projects and an additional KES 400 million from the sale of development rights.

In Vipingo Development, we have two residential projects – Awali Estate and Palm Ridge – with a total of 1,326 units in the pipeline. During the period we achieved pre-sales of 249 units, attracting KES 1.05 billion in potential revenue. We anticipate to begin construction of Phase 1 of Palm Ridge in Q4 of

2018 while construction of Awali Estate began in mid-November. Both projects are to be completed in 2020. In addition to this, Vipingo realized revenue of KES 400 million through the sale of development rights for a retail centre and industrial development. This was at a significant multiple to carrying value, supporting our investment property valuations. We also began construction of the infrastructure for the investment park. To meet the projected water demand within the development, Vipingo awarded the construction of the water desalination plant to Metito (Overseas) Ltd, one of the largest water desalination companies in the world. Phase 1 of the water desalination plant is projected to be completed in 2019.

In Pearl Marina, we have 262 units in the pipeline with 4 units already completed. We have so far pre-sold 84 units attracting KES 754 million in potential revenue. Construction expected to start in Q4 2018 for Mirabella Residences, a 22-unit development and Q1 2019 for Bella Vista Apartments, a 222-unit development. Construction completion for the two projects is expected in 2020 and 2021 respectively.

At Two Rivers, we are in the process of selling development rights while engaging with other development partners to launch various projects within the precinct. We are also carrying out market validation of Riverbank Apartments project. Two Rivers Mall, owned by Two Rivers Lifestyle Centre in which we have an effective stake of 29%, is currently 76% let on gross lettable area and is projected to close the year at 90% based on the pipeline of tenants we have in the tenant engagement and fit out process.

Increased performance of underlying assets within the PE Portfolio

Over the six-month period our Private Equity Portfolio recorded KES 1.5 billion in consolidated operating profit representing a 300% growth. During this period, consolidated dividend income received from portfolio companies where the Group holds minority stakes also increased by 60%. During the period, we realised a gain of KES 1.2 billion from investment activities through the GenAfrica transaction.

Within the Private Equity Portfolio, Sidian Bank recorded a 60% increase in non-funded income while trade finance balances grew by 7x. This is in line with the bank's strategy to focus on trade finance and growth of non-funded income. The bank has also recorded a 15% growth in both total assets and customer deposits over the last six months. We are confident that the bank will achieve profitability next year.

Longhorn Publishers recorded a 168% growth in profitability over the period, driven by a strong top line performance. Almasi Beverages recorded lower volumes largely driven by the weather conditions, resulting in a 2% decline in revenues. However, the business has a positive outlook.

Our Marketable Securities Portfolio recorded a dollar return of -9.2% in the period under review while significantly outperforming the NSE-20 by 15.7%. Over the strategic period this portfolio has generated over 20% IRR and outperformed the market by 3X.

Significant potential within the Development Portfolio

On the Development Portfolio side; our investment in the education sector through Africa Crest Education (ACE) has seen the opening of the first school in the country – SABIS® International School – Runda. The school admitted its first students in September 2018.

Our investments in the power sector have taken a much longer term to close than we initially anticipated. Akiira Geothermal has completed the various licensing requirements for the project including the PPA and Government Letter of Support. Exploration drilling commenced in the previous financial year and we are currently at the tail-end of discussions with a potential strategic partner to resume further drilling of exploration wells with our concession area. These discussions are anticipated to conclude within Q1 2019 with phase one of the project targeted to generate 70MW. With regards to Amu Power, all license requirements are in place including the PPA, ERC and Government Letter of Support and we are progressing to financial close.

I am pleased to report that our Agribusiness – Greenblade Growers is progressing well producing over 238 tonnes over the 6-month period exhibiting significant potential within our fresh herbs and vegetables export business. We are currently exporting to Europe and Canada and are looking to increase production capacity as we lock in new markets. We also have an out-grower partner model for those crops that are in demand and that we can't grow ourselves.

Strategic Outlook – From Centum 3.0 to Centum 4.0

We are coming to the end of our strategic period Centum 3.0 and I expect the Group to close at 70% of our strategic target from an NAV perspective and with costs down to a 1% of total assets as opposed to a 2% target. This is a good performance considering the difficult operating environment we have weathered during the current strategic period and especially the past 2 years.

As we transition into Centum 4.0 our intent and focus will be on our business units to be more cash generative and to subsequently enhance the dividend pay-out to our shareholders. To achieve this, we will focus more on the nature of our returns – not only on capital gains basis but also the annuity income generated by the respective business units. This requires that we review the Group's capital structure. Our intention within the Centum 4.0 strategic period is to pay down our entire long-term debt as it matures and going forward, raise debt at the individual company and project level. We will therefore utilise part of our proceeds from the exits in the pipeline to pay down debt. Within our portfolio, we currently have several of our companies that are mature enough and cash generative to take on their own debt.

Consequently, cash received at Group level will be utilised for reinvestment or dividend distribution. In the new strategy we have an explicit target to enhance dividend pay-out as a proportion of the cash annuity income of the business. We have also reduced the cost target at the Group level as costs will be migrated to their respective business units. Going forward, costs at the Group level will be measured against cash as opposed to assets in the current strategic period.

To date, our Private Equity investments have been exclusively funded from our balance sheet and generated a 30% IRR over the current strategic period. We also have built a very successful track record of realised exits and I believe this firmly puts us at pole position amongst the top PE firms. Going into Centum 4.0, our intent is to set up an alternative asset manager that will invest Centum's capital alongside funds from third parties. Centum Capital, the private equity arm, will continue to manage our current portfolio. In addition, Centum Capital is setting up a new platform specifically designed to offer diversification benefits to the Group and to appeal to institutional investors (i.e. pension funds). We believe that in the current operating environment valuations are cheaper, liquidity is tight and there exists companies meeting our criteria, looking to exit or restructure their balance sheet.

With regard to our Development Portfolio; we do not intend to further allocate capital within the strategic period. Development assets require a long lead time for scalability and especially in the current operating environment.

Subsequently, we hope that with the measures we have outlined here and with the strategic objectives of Centum 4.0 focused more on cash generation and enhanced dividend payouts; we will ultimately close the gap between our NAV and the share price.