

FREQUENTLY ASKED QUESTION (FAQ) – CENTUM RE DEBT STATUS

1.0 A Demonstrable Track Record of Cash Return

- Real Estate is an asset class that is typically included in a well-diversified portfolio because of the strong and positive investment attributes it possesses. Firstly, real estate is a **tangible and non-perishable asset** that provides a high degree of physical control over the investment unlike other asset classes such as bonds and equities. Secondly, real estate as an asset class provides a steady and virtually certain cash streams for an extended period of time that provides an attractive return for investors. Finally, compared to other asset class, particularly in emerging markets as Kenya, has inherently lower risk due to the demand arising from economic and population growth coupled with the regions highest urbanization rates.
- Centum Real Estate assets possess these inherent investment attributes to ensure we deliver an optimal return to our ultimate shareholders. The real estate portfolio held by Centum Real Estate has a strong demonstrable cash return record that is supported by robust market fundamentals and a track record for delivering to promise to our customers and stakeholders. To date, we have completed construction and handed 620 residential units across East Africa and target to hand over an additional 416 residential units before the end of year. Additionally, we presently have over 1,200 residential units under construction, which has collected a total of **KES 5.4 billion shillings** within a period of 24 months. From the sold residential units under construction, Centum RE, will conservatively collect an additional **10.7 billion shillings** over the next 24 months as we complete the units under construction and deliver to promise.
- On the sale of development rights (land) Centum Real Estate has sold a total of **KES 8 billion shillings** worth, verifiable by duly executed sale agreements. Of this sale amount, Centum Real Estate has collected **KES 3.6 billion shillings**, with the balance to be collected over the next 2 years. In summary, Centum Real Estate has collected a total of **9 billion shillings** and will most assuredly collect **KES 14.7 billion**. The business is therefore in a strong cash position and has more than sufficient capacity to meet its debt obligations. The next section will further break down the debt at Centum RE and demonstrate the business has sufficient capacity to repay the debt.

2.0 Why is sustainable debt important in a capital structure?

- Debt is one of the two main ways a company can raise money in the capital markets, the other way is Equity. The decision on whether to take debt or equity depends on a variety of reasons. However, companies benefit more from raising sustainable debt because of three main reasons. Firstly, debt has inherent tax advantages; interest payments made as a result of borrowing funds may be tax-deductible. Secondly, debt allows a company to retain ownership, unlike equity. Thirdly and most importantly, compared to equity, debt has a lower financing cost because debt is finite – a company is contractually liable to make periodic interest payments and return debt principal for a fixed period. After that, the debt is paid off. Equity, on the other hand, is infinite. Once a company's stake has been sold, the company will be required to share a certain percentage profit by paying some of the company's profit to the equity holder for an infinite period.
- It is for the above reasons, as prudent investors in real estate that Centum Real Estate embarked on debt capital raising to fund developments in its portfolio. The debt levels at Centum Real Estate are sustainable given that the current debt to equity ratio stands at 23%, meaning that our assets have been mainly funded by our own equity and internally generated funds.

3.0 Debt status as of 30th September 2021

- The table below summarizes Centum RE's debt position, which has an adequate cash over of **2.35 times** meaning that we have twice the amount of cash in the business required to retire the current outstanding debt. The three main debt facilities that Centum Real Estate has raised are:
 - Vipingo Development Limited (VDL): Corporate facility to refinance the initial debt utilised in acquiring the 10,254 acres in Vipingo.
 - Uhuru Heights Limited (UHL): A project finance facility to fund the construction of Cascadia Apartments along Limuru Road
 - Centum Real Estate Holding Company (CRE): A zero-coupon bond to fund the construction of Riverbank and Loft Apartments situated in Two Rivers. Riverbank Apartments have been completed and 60% of loft apartments have also been completed.

Nature Purpose	VDL	CRE	UHL	
	Corporate facility	Zero coupon bond	Project finance facility	
	Corporate facility to refinance the initial debt utilised in acquiring the 10,254 acres in Vipingo.	To fund the construction of Riverbank and Loft Apartments situated in Two Rivers	To fund the construction of Cascadia Apartments along Limuru Road	
	VDL	CRE	UHL	Total
As of 30 September 2021 (half year)				
Outstanding debt	4,002,943	2,211,257	206,952	6,421,153
Escrow cash	(606,340)	(127,268)	(191,759)	(925,367)
Net debt	3,396,603	2,083,989	15,193	5,495,785
Covered by:				
Land sales receivables	4,524,130	-	-	4,524,130
Unit sales receivables + inventory	733,729	3,118,857	4,557,171	8,409,757
Total	5,257,859	3,118,857	4,557,171	12,933,887
Coverage	1.55x	1.50x	22.02x	2.35x

- From the above analysis, the debt is repayable within the next 36 months and is fully covered by the cashflows realisable from the assets it was meant to fund.
- The business is well positioned to capture all growth opportunities and fund future investments in highly attractive market segments

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Managing Director
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CENTUM REAL ESTATE LIMITED

FINANCIAL RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2021

The Board of Directors of Centum Real Estate Limited is pleased to announce the Company's unaudited interim financial results for the six-month period ended 30 September 2021 as set out below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2021		
KES '000	30 SEPT 2021	30 SEPT 2020
Residential projects:		
Revenue from sale of residential units	1,107,771	-
Cost of sales	(963,633)	-
Gross profit from residential units	144,138	-
Development rights sales:		
Revenue from sale of development rights	172,171	-
Cost of acquisition and development	(6,112)	-
Cash profit on sale of development rights	166,059	-
Less: previously recognized revaluations	(103,451)	-
Net incremental gain	62,608	-
Other income	96,526	26,075
Operating and administrative expenses	(233,204)	(148,327)
Operating profit	70,068	(122,252)
Finance costs	(512,389)	(495,067)
Profit before tax	(442,321)	(617,319)
Profit after tax	(301,998)	(412,353)
Other comprehensive income, net of tax	398,169	-
Total comprehensive income	95,471	(412,353)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021		
KES '000	30 SEPT 2021	31 MARCH 2021
Investment property	28,668,997	28,481,271
Inventory – completed residential units	517,350	874,434
Inventory – residential units under construction	6,668,477	5,731,611
Cash and cash equivalents	1,442,938	1,637,944
Other assets	3,613,536	2,857,165
Total Assets	40,911,298	39,582,425
Deferred Revenues	4,847,015	3,590,750
Borrowings	6,421,152	6,673,402
Other Liabilities	5,639,774	5,939,027
Total Liabilities	16,907,941	16,203,179
Net Assets	24,003,357	23,379,245
Funded by:		
Equity	16,653,432	16,557,956
Shareholder loans	7,349,925	6,821,289
Total Shareholder Funding	24,003,357	23,379,245

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2021		
KES '000	30 SEPT 2021	30 SEPT 2020
Opening cash and cash equivalents	1,086,106	268,825
Net cash generated from / (used in) operations	1,217,830	(190,347)
Net cash used in investing activities	(42,127)	-
Net cash (used in) / generated from financing activities	(818,871)	1,007,628
Closing cash and cash equivalents	1,442,938	1,086,106

As a development company, payments in relation to development costs are classified as cash used in operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 SEPTEMBER 2021		
KES '000	30 SEPT 2021	31 MARCH 2021
Share capital	1,934,633	1,934,633
Other reserves	1,370,152	971,978
Retained earnings	13,348,647	13,651,345
Total	16,653,432	16,557,956

A. BUSINESS OVERVIEW AND PERFORMANCE

The two primary value drivers in our business are (i) sale of development rights within our land banks; and (ii) development and sale of residential infill projects. We have made significant progress on both fronts in Kenya and Uganda, as evidenced by the quantum and value of development rights sales, size of residential projects pipeline and sales, cash collections and the receivable on sales.

i. Development rights

On sale of development rights, out of a holding of 10,639 acres in 2019, our current holding is 8,400 acres, representing sales of 2,239 acres over the last two years. Of this, sales on 1,356 acres have been recognised in the income statement. The build-up of the sales, cash collected and the amounts receivable as of 30 September 2021 is set out below:

Six-month period ended:			
Financial year ended 31 March:			
	2019 KES'000	2020 KES'000	2021 KES'000
Cumulative Acres	-	32	1,367
Cumulative sales	-	420,000	2,908,301
Cumulative collections	-	83,255	2,604,356
Cumulative receivable	-	336,745	303,945

The receivable as of 30 September 2021 represents the cash inflows expected within a twelve-month period. This receivable is not recognised on the balance sheet.

The cash profit on development rights sales that were recognised in the year ended 31 March 2021 were KES 2.2 billion. The combined cash profit on land sales recognised in that year and the six-month period ended 30 September 2021 is therefore KES 2.4 billion. This is analysed as follows:

	Six-month period ended 30 Sep 2021 KES'000	Year ended 31 March 2021 KES'000	Cumulative to 30 Sep 2021 KES'000
Sale proceeds	172,172	2,466,301	2,638,473
Cost of acquisition and infra	(6,112)	(258,668)	(264,781)
Cash profit realised	166,059	2,207,633	2,373,692
Previously recorded unrealised gains	(103,451)	(2,445,540)	(2,548,991)
Incremental gain on disposal	62,608	(237,907)	(175,299)

At 30 September 2021, the sales in progress, being the difference between the KES 5,453 million cumulative sales above and the sales recognised by 30 September 2021 was KES 2,815 million. The cash profit on those sales in progress is KES 2,474 million, as analysed below:

KES'000	
Sale in progress	2,815,481
Cost of acquisition and infra	(341,682)
Cash profit	2,473,799
Less: previously recognised uplifts	(1,842,980)
Incremental gain on disposal	630,819

The realisation of those previously booked gains into a cash profit moves them into a distributable revenue reserve. Realisation at a value higher than that previously recorded validates our carrying value. Based on the carrying value of our properties at 31 March 2021, the average selling price to carrying value ratio is 1.0x, primarily as a result of the weighting of individually large transactions in the mix of sales. Exclusive of these large transactions, the average selling price to carrying value ratio is 2.79x.

Subsequent to 30 September 2021, we have entered into further transactions of KES 3.4 billion.

Our unsold stock of development rights in Kenya and Uganda is currently valued at KES 29 billion, which valuation is validated by transactions over the last two years, as above.

The bulk of these sales closed in the six-month period to 30 September 2021 will qualify for revenue recognition starting from the second half of our financial year. Transactions with a sales value of KES 172 million qualified for revenue recognition, with a realised gain of KES 63 million.

ii. Residential projects

In our sales-led development model, we seek to pre-sell at least 30% of a project phase before ground-breaking. Under our payment terms, 20% of the sale value is collected as deposits while the balance is payable over the construction period. The deposits are accounted on the balance sheet as deferred revenue. The amount receivable from any sale, being the difference between the sale value of a unit and deposits paid, is not accounted for in our books.

The cumulative profit potential of the current pipeline of 2,374 units is KES 4.01 billion built up since 2019 as follows:

Six-month period ended:			
Financial year ended 31 March:			
	2019 KES'000	2020 KES'000	2021 KES'000
Cumulative profit potential of infill projects	2,827,918	3,282,498	3,617,584
Cumulative Profits booked in the income statement	-	-	124,418
Cumulative deferred profit	2,827,918	3,282,498	3,493,166

The profits recognised to date relate to fully paid units that have been handed over to buyers. At 30 September 2021, we recognized a profit of KES 144 million for the completed units that met our revenue recognition threshold (March 2021: KES 124 million). We have a stock of 307 completed units of which 93% has been sold and whose revenue is expected to be recognised in the next half of the year. A further 1,834 units are under construction or have been market validated, with a pre-sale level of 62%. The revenue and profit from this project pipeline will be recognised progressively over the next three years. Currently however, our corporate operating costs are recognised upfront. This mismatch, which creates the current loss position, will unwind as we recognise our deferred profits.

An analysis of pre-sale value, collections and the amounts receivable as of 30 September is set out below:

Six-month period ended:			
Financial year ended 31 March:			
	2019 KES'000	2020 KES'000	2021 KES'000
Cumulative value of pre-sales	3,385,628	7,623,443	11,389,608
Customer deposit collections	511,342	1,973,300	3,793,534
Cumulative receivable	2,874,286	5,650,143	7,596,074

Deferred revenue, representing cash collected as deposits on these pre-sales for units that had not met the revenue recognition criteria stood at KES 4 billion as at 30 September 2021. The amounts due on the pre-sales and collectable over the development period reflects the projected cash inflows over the next three years. The quality of this receivable is supported by our monthly cash inflows.

We can now expect this component of our financial performance to grow sustainably looking forward, as the current projects under development are completed and handed over to customers.

B. Financial Performance and Position

Against the above background, the Group made an operating profit of KES 70 million driven by profit from the completed residential units and land sales. Of an inventory of 536 residential units that have been completed, 202 units met our revenue recognition criteria under IFRS (March 2021: 27). We expect revenue and profit from the balance of these units to be booked in the second half of the financial year ending 31 March 2022, together with revenues and profits arising from projects that are currently being completed. Of the total finance costs of KES 512 million in the period, KES 244 million relates to interest payable on shareholder loans. The interest payable on both the shareholder loans and corporate finance facilities will continually reduce as we pay down the facilities from ongoing development rights sales.

Investment properties

The Group's total assets of KES 41 billion includes KES 29 billion of investment properties. These properties are revalued annually by third party firms, in accordance with IFRS. In both the prior year and the six-month period to 30 September 2021, we have completed several transactions on our land banks either at the carrying value of the land or at several multiples of the carrying values. Those transaction prices validate the valuation of the properties.

Borrowings

	30 September 2021 KES'000	31 March 2021 KES'000
Borrowings	6,421,152	6,673,402
Less:		
Cash and cash equivalents	(1,442,938)	(1,637,944)
Net Borrowings	4,978,214	5,035,458
Equity	24,003,357	23,379,246
Total Assets	40,911,298	39,582,425
Debt-Equity Ratio	21%	22%
Asset Cover Ratio	8.2x	7.9x

The receivable from development rights sales and the available inventory and receivables from residential projects financed by the borrowings is KES 10.2 billion, net of costs-to-completion. This gives a cover of 2.1x over the debt. The Group's cash holding at 30 September 2021 was KES 1.4 billion. At a net debt position of KES 4.98 billion, the group has an asset cover of 8x over the debt and a gearing ratio of 21%. All the project finance debt, including the corporate bond, is fully covered by the escrowed cash and the projects' inventories and receivables. The corporate finance facility is also wholly covered by designated project and land sales receivables.

Outlook

In March 2021, we recognised revenue from sale of 27 residential units as the first batch of units that met our revenue recognition criteria. This has grown by 202 units in the 6-months to 30 September 2021. We are on course to completing construction and commencing hand over of an additional 84 homes in the financial year ending 31 March 2022 and a further 431 in the subsequent financial year. We therefore expect the contribution of our residential projects to our revenues and profitability to sustainably grow, moving forward. The revenue potential of our current pipeline is KES 17.9 billion, which we project to progressively be recognised over the period to 31 March 2024. We continue to see strong demand on all our nodes and remarkable traction in deposit collection. We expect this momentum to be sustained, given the proportion of affordable and mid-market homes in our portfolio.

On development rights sales, we are at various stages of closing on additional sales worth KES 3.4 billion across our sites, where the required deposits are expected to be received in the second half of the year. These sales are expected to be closed in the financial years ending 31 March 2022 and 31 March 2023. We expect the sale of development rights to be a key driver of our performance looking forward, given the level of activity on both nodes and the level of expressions of interest received.

By Order of the Board,

SAMUEL KARIUKI
MANAGING DIRECTOR