

#### MASHONALAND HOLDINGS LIMITED "THE GROUP"

## **TRADING UPDATE FOR THE FIRST QUARTER ENDED 31 DECEMBER 2019**

# **Operating environment**

The operating environment during the quarter ended 31 December 2019 continued to deteriorate; characterised by rising inflation, depreciating exchange rate, erosion of disposable incomes and shortages of electricity, fuel and foreign currency. The government suspended publication of annual inflation data until February 2020, but economic analysts estimate that year on year inflation rate at the end of quarter exceeded 500%. Weak economic fundamentals resulted in subdued GDP growth rate and the economy is estimated to have shrunk by approximately 6.5% for the year 2019.

Interest rates, ranging from 30% to 40%, that are lower than inflation have negatively affected the debt and mortgages market. Relatively low interest rates together with lack of liquidity in the market has made it challenging to debt fund acquisitions and developments.

Reduced capacity utilisation of most companies, decline in real wages and purchasing power continue to put pressure on demand for real estate space and properties. Rent reviews are becoming sticky as the tenants' rent paying capacity continues to be under threat.

In November 2019, the Ministry of Finance announced a number of initiatives that are aimed at increasing productivity, economic growth and enhance job creation. Among those initiatives include; managing expenditure within the allocated budgets supported by non-inflationary financing, removal of customs duty on alternative energy equipment, marginal cut in corporate tax (24% from 25%), VAT (14.5% from 15%) and increased the tax-free threshold to \$2 000 from \$700 with effect from 1 January 2020, etc. However, the benefits arising from marginal cut in tax rates, is likely to be eroded by rampant inflation.



# **Financial Highlights and Operations update**

The following are key financial highlights for the quarter ended 31 December 2019:

 Rental income at ZWL 10 million increased by 45% compared to same period last year. Rental income is adjusted for inflation line with requirements of International Accounting Standard 29 *Financial Reporting in Hyperinflationary Economies*). The increase in rental income is attributable to a positive impact of rent reviews during the quarter.

In line with market practice, the Group is performing rent reviews on a quarterly basis in an attempt to salvage value.

- Occupancy level at 31 December 2019 were flat at 76.2% compared to the same period last year. However, occupancy levels decreased marginally from 77% at September 2019 due to some Office sector tenants reducing space in December 2019. Subsequent to the quarter ended 31 December 2019, the Group managed to let new space, in the Office sector which increased occupancy levels to 77.6% at 31 January 2020.
- Property expenses to revenue ratio for the quarter was 16% compared with property expenses to revenue ratio of 19% achieved during the same period last year. Minor repairs and maintenance expenses were incurred during the period under review.
- Administrative expenses to revenue ratio for the quarter ended 31 December 2019 was 35% compared with a 32% that was achieved in the previous period. Marginal increase in the ratio reflects the impact of staff cost of living cushioning allowances and increase in certain general administrative expenses at a rate that is higher than increase in revenue.

# **Investment properties and developments**

The Group maintained the fair values on investment property that were determined at 30 September 2019.

The Group spent ZWL 250,000 on refurbishment of its existing investment properties.

Consultancy fees amounting to ZWL 1.1 million were spent on various projects that are currently underway.



The construction of the 25-cluster houses in Westgate is to commence in Q2 of 2020 and cost management measures, including pre-purchases of raw materials, will be put in place to ensure successful delivery of the project.

The 2.5-hectare land bank in Mabelreign, Sherwood Park that was classified as non-current asset held for sale had not been disposed off at 31 December 2019.

#### **Outlook**

In the short to medium term the operating environment is likely to remain challenging. Whilst government has put in place measures to manage inflation, rentals are expected to grow at a much slower rate than inflation. The company will continue to explore opportunities to preserve shareholder value primarily through acquisition of strategic assets to feed into the development pipeline. Despite the development submarket getting more riskier, the company will carry on with some of its construction projects.

## **Honey & Blanckenberg**

Represented by Batanai Peresuh
Company Secretary
13 February 2020