FIRST MUTUAL

PROPERTIES

Go Beyond

TRADING UPDATE

for the quarter ended 30 September 2020

Overview of Operating Environment

Though there are signs of improvement with overall inflation coming down and relative stability in the local currency exchange rate, the operating environment remains challenging. Annual inflation receded to 659% at quarter end from 737% at 30 June 2020, while the local currency depreciated by 30% to USD 1 : ZWL 81.50 at 30 September 2020. Business activity improved as the Government of Zimbabwe relaxed operating hours informed by the reduction in COVID-19 cases. This improved revenue generation and collections during the quarter.

Property Market Overview

The property market fundamentals remained depressed due to the difficult macro-economic climate and low business confidence. Overally, the market remains susceptible to low demand for rental space, increasing vacancy levels and increasing defaults. Transactions within the property market continue to be concentrated around the residential sector. Commercial transaction activity remains subdued due to constrained local currency liquidity. Development activity also remains low because of price volatility and weak demand for space.

Financial Performance Highlights

Set out below are the financial performance highlights for the period:

	Inflation adjusted		Historical Costs	
	Unaudited July-Sept 2020 ZWL 000	Unaudited July-Sept 2019 ZWL 000	Unaudited July-Sept 2020 ZWL 000	Unaudited July-Sept 2019 ZWL 000
Comprehensive income highlights				
Revenue	91,473	103,069	53,223	6,879
Net Property Income	62,695	78,878	35,643	5,043
Profit/loss for the period	105,431	775,158	1,684,655	8,211
Financial Position highlights	**30 Sept 2020**	**31 Dec 2019**	**30 Sept 2020**	**31 Dec 2019**
Investment properties	9,199,340	5,565,348	9,199,340	1,392,132
Shareholders' equity	7,462,811	4,603,134	7,459,284	1,160,772
Key Performance Indicator Highlights				
	Sept-20 Actual	**Sept-19 Actual**	**Movement**	
Occupancy Level	88%	83%	5%	
Collections	84%	81%	3%	

Revenue for the quarter increased by 674% compared to the same period in the prior year, driven by rent reviews, turnover rentals and the occupancy level rising to 88%, mainly attributable to net lettings in the CBD office and retail sectors.

Net property income grew at a slower rate of 607% during the period due to deliberate efforts to reinvest earnings into maintenance works, to improve space quality for leasing purposes and tenant retention. A total of ZWL 7.7 million was spent during the quarter on property maintenance.

Administration expenses to revenue ratio stood at 32% for the quarter remaining unchanged compared to the prior period.

Investment properties at 30 September 2020 were valued by the Directors at ZWL 9.2 billion.

Impact of COVID-19

The impact of COVID-19 on business operations during the quarter has been minimal, with the major impact experienced in Q2 2020 where rental reviews were delayed to ease the impact of the pandemic on our tenants. During the quarter, occupancy level remained unchanged at 88% as deliberate efforts to improve space quality continues to yield positive results. Collections improved during the period to 84% as the business actively engaged tenants with arrears to reduce their obligations.

The company continues to prioritise the health and safety of staff and our tenants, implementing digital strategies, remote working as well as enhanced sanitation procedures at all our properties.

Sustainability

The Group is engaged in a solar energy initiative at First Mutual Park, with implementation earmarked for Q1 2021. In addition, waste management plans will be implemented with an objective to establish waste separation infrastructure at key locations within the property portfolio.

Outlook

Market conditions are expected to remain highly volatile and rapidly changing, dictated by the trajectory of broader economic fundamentals and public health conditions, with occupiers reassessing space requirements. Despite the relative stability of performance across all sectors, there are growing concerns over productivity losses and threats to collaborative efforts in the execution of tasks, innovation and workplace culture, as the current remote working period is drawn out.

Value preservation and cash flow management remains critical in the immediate to short term as the impact of COVID-19 on rentals, occupancy levels and cash flow generation evolves, as the macroeconomic environment remains uncertain. To this end, as occupiers reassess their space requirements, the Group will actively seek new tenants and improve space quality in line with occupier requirements to sustain occupancy levels and earnings.

DIRECTORS: E K Moyo (Chairman), C K Manyowa (Managing Director)*, D Hoto, S Jogi, W M Marere, E Mkondo, R B Ncube, A Chidakwa, S Wekwete, T Ruvingo *Executive Director
First Mutual Park, First Floor, 100 Borrowdale Road, Borrowdale, Harare, Zimbabwe | Tel: +263 (242) 886121-4 | Email: info@firstmutualproperties.co.zw | Website: www.firstmutualproperties.co.zw