



Dawn Properties Limited

TRADING UPDATE FOR THE FIRST QUARTER ENDED 31 MARCH 2020

Operating environment

The operating environment during the period under review continued to be challenging, characterised by foreign currency, electricity and fuel shortages as well as galloping inflation and diminishing real incomes. This situation was exacerbated by the effects of lockdowns and travel restrictions imposed by World governments following the advent of the COVID-19 pandemic. Flights were cancelled, economies shut down and supply chains were disrupted. This further deepened the economic crisis afflicting an already poorly performing Zimbabwean economy. The International Monetary Fund estimates that effects of COVID-19 will result in Zimbabwe's GDP shrinking by approximately 7.4%.

During the quarter ended 31 March 2020, the Reserve Bank of Zimbabwe (RBZ) introduced the "Managed Floating" foreign currency exchange rate system by fixing the rate at USD1: ZWL25. Through Statutory Instrument 85 of 2020 (SI 85 2020), the RBZ also pronounced that individuals and companies with free funds could utilise them to purchase goods and services in the local market. However, the new exchange rate management system has not improved the market allocative efficiencies as foreign currency shortages have persisted.

Declining disposable incomes, low capacity utilisation, the preference by property owners to transact in foreign currency has put downward pressure on both rents and property prices in real terms. Rental yields continue to fall as rent reviews lag behind inflation and the depreciation of the ZWL, while voids remain a big issue.

Financial Highlights and Operations update

Hotel revenue for the first quarter ended 31 March 2020, at ZWL15.7 million, was 68% ahead of the revenue achieved during the same period in the prior year. Hotel occupancy for the period closed at 39%, which represents a 4 percentage points increase from same period last year. The improved occupancies reflect a more politically stable environment compared with the corresponding prior period, which was characterised by riots, national security lockdowns and protests.

Property Consultancy revenue at ZWL9.5 million registered a 70% growth from prior year driven by a better than expected performance from the Valuation and Advisory Services cluster. The need for Clients to revalue their asset balances in ZWL for yearend reporting was a key factor in this performance. The Property Management cluster continued to underperform as rent reviews failed to keep pace with inflation and exchange rate movements.

Administrative expenses to revenue ratio for the quarter ended 31 March 2020 was 42% compared with 57% for the previous corresponding period. Property expenses to revenue ratio remained flat at 0.1%.

Impact of COVID-19

On 17 March 2020, the Government of Zimbabwe ("the Government") declared the coronavirus pandemic a national disaster. In order to curb the spread of COVID-19 the Government implemented a 21 day lockdown starting 30 March 2020.

The Group is primarily invested in hospitality properties. The World Travel and Tourism Council has warned that the COVID-19 pandemic could adversely impact travel and tourism by up to 25% this year, the equivalent of three months of tourism activity. Travel restrictions imposed to curb the spread of COVID-19 negatively impacted foreign tourist arrivals, which in turn affected occupancies, especially in Victoria Falls.

To comply with the Government imposed lockdown measures African Sun Limited, the Lessee for most of the Group's hotel properties, temporarily closed the hotels with effect from 30 March 2020. African Sun has indicated that it will continue to monitor the situation and will reopen the hotels in a phased manner when the Government relaxes the lockdown restrictions.

It is difficult to estimate the full impact of the COVID-19 pandemic on the performance of the business for the remainder of the year as the situation is fluid. The Group has put in place a survival plan and cashflow requirements will be met with income generated from the Property Consultancy and Property Development operations.

The company's first priority is the safety of its customers and employees. We are closely monitoring the COVID-19 pandemic situation globally and are following social distancing guidelines and other measures as directed by the Health Authorities.

Outlook

As a value preservation initiative, the Group's focus had started to shift to property development utilising its extensive land holdings. Rent income from the Hotel properties was largely deployed to fund this activity during Q1 2020. Phase 1A of the Marlborough Sunset Views township development, which will deliver 65 half-acre plots was due for completion by mid-April 2020. Unfortunately, the completion has been delayed due to the closing of the site in compliance with the Government lockdown measures. In total, the project, which is being implemented in stages will yield 295 plots. Masimba Construction is the contractor for the project.

The promulgation of SI 85 2020 has been fortuitous and gives the business the opportunity to profitably trade its inventory. This should create a self-sustaining Property Development business going forward. The Property Consultancy business' strong resilience qualities should enable it to continue contributing positively to the Group's performance. African Sun Limited has indicated an intention to reopen some of the properties at the earliest possible opportunity, which should further strengthen the business' cashflows.

By Order of the Board

Justin Dowra
Managing Director

29 May 2020

DIRECTORS:

P.P. Gwatidzo (Chairman), B.I. Childs, M. Mukonoweshuro, L. Mhishi, P. Saungweme, G.P. Johnson, J. Dowra (Managing Director), N. Mutizwa (Finance Director).