

FY2022 Investor Briefing Q&A  
 Analyst questions and managements responses  
 Date: 29 July 2022

Questions	Management Responses
<p>1. TRDL debt level seems high and unsustainable considering its revenues vis a vis the finance costs it incurs. This has been dragging Centum group's performance. What is management doing to address the issue?</p> <p>2. What portion is the group is in foreign currency and how is management addressing the risk exposure given the weakening of the Kenya shillings?</p>	<p><u>Our investment in Two Rivers Development Limited (TRDL)</u></p> <p>We see a great opportunity for value creation and accelerated growth of TRDL. The demand for housing in the mid-market housing segment is rapidly growing, and TRDL is well positioned and has earmarked 867,000 SQM for residential development in partnership with Centum Re. This will not only enhance the value of the underlying assets but will also unlock cashflows for the business.</p> <p>We are in the process of raising equity at the TRDL level on the back of this opportunity. This will align the capital structure to the business model.</p> <p>The consolidated group debt as at 31 March 2022 was <b>Kes 20.6Bn</b> as highlighted in the FY2022 Investor Presentation (<b>Slide 51</b>). Two Rivers Development holds 49.5% of this debt (<b>Kes 10.2Bn</b>). Of this amount, the USD denominated debt at TRDL was USD 50M. This temporary mismatch in capital structure, and foreign currency exposure will be cured through the equity raise.</p> <p>Centum endeavors to reduce leverage on its balance sheet. We have prioritized repayment of our USD denominated facilities which on 31 March 2022 was USD 10 Mn. Our investments in USD Eurobonds also hedge our exposure.</p>



3. What percentage of your portfolio is real estate, private equity and treasury and bonds. Please do not complicate it.

Our Portfolio Value as at 31<sup>st</sup> March 2022

The portfolio value as on 31 March 2022 was Kes 47 billion comprising the Total Assets on the Company's Statement of Financial Position. The portfolio was allocated as follows:

Centum portfolio composition	March 2022	
	Kes Bn	Proportion
Centum Real Estate	22.2	47%
Two Rivers Development Ltd	5.6	12%
Two Rivers Lifestyle (Mall)	0.7	1%
Marketable Securities	7.2	15%
Private Equity	11.2	24%
<b>Total</b>	<b>47.0</b>	<b>100%</b>

Some of the businesses have borrowed against their assets. The consolidated debt is **Kes 20.6Bn** as broken down in Slide 51 of the FY2022 Investor Briefing Presentation.

4. Did Centum incur Kes 7.3Bn in financing costs? The debt has not reduced even though Sidian bank's debt has not been included in the financial statements, yet the bank's performance is incorporated. Is this accurate? How come the debt has not reduced yet the proceeds from sale of Sidian Bank have been used to repay?

Centum (the Company) recorded finance costs of **Kes 540 Mn**, a 10% reduction from **Kes 603Mn** FY2021(Slide 44 on Company Statement of Comprehensive Income).

In line with IFRS requirements, the Consolidated Income Statement is simply an aggregation of 100% income and expense of all subsidiary companies (even where Centum does not own 100% stake) finance costs in FY2022 amounted to **Kes 5.3Bn** compared to **Kes 5.05Bn** in FY2021 (Slide 48). The finance cost included Kes 2.2Bn in finance costs of Sidian Bank.

Sale of our investment in Sidian Bank

In June 2022, Centum signed an agreement to sell Sidian Bank at Kes 4.3Bn. In line with International Reporting Standard (IFRS 5) we have accounted for Sidian as held for sale in both our Company and Consolidated statements of financial position as of 31 March 2022. In our Company statement of financial position, Sidian is held at a fair value of Kes. 2.7Bn, while in the consolidated statement of financial position the bank's assets and liabilities are shown as separate line items.

Proceeds from this exit are expected in FY2023 and will be used to reduce the Company's debt and in allocation to our marketable securities portfolio.



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<p>5. Show us the Centum group performance.</p>	<p><u>Our Consolidated Performance</u> We present our consolidated financial statements in accordance to the International Financial Reporting Standards (IFRS 10). The consolidated financial statements aggregate line by line the performance of our subsidiaries both in the statement of total comprehensive income as well as in the statement of financial position.</p> <p>The Consolidated financial statements are highlighted on Slide 48 &amp; 50 of the FY2022 investor briefing presentation.</p>
<p>6. Are you investing in Kenya and SSA Eurobonds?</p>	<p><u>Our Marketable Securities Portfolio (MSP)</u> Our MSP portfolio was valued at Kes. 7.2Bn as at 31<sup>st</sup> March 2022. We pursue a pan-African strategy and continue to evaluate all equities and fixed income opportunities across. The portfolio is managed at arm's length by our subsidiary, Nabo Capital Ltd.</p>



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<p>7. Debt has not reduced. The drop indicated is because Sidian is no longer consolidated, are you able to manage the debt repayments or will replace with new debt? 45% of your debt is in foreign currency, how is the currency risk mitigated? What is your target Debt/Asset ratio?</p>	<p>The FY2022 consolidated borrowings stood at Kes 20.6Bn, against Kes 21Bn in FY2021 excluding Sidian which was accounted for separately as an asset held for sale. See our Group statement of financial position in <b>Slide 48</b> of the FY2022 investor briefing presentation.</p> <p><b>Slide 51</b> of the FY2022 investor briefing presentation highlight the detail of the above debt and the debt cover per subsidiary. The debt at subsidiary level is dependent on each company's capacity.</p> <p>Various actions are being taken to mitigate USD exposure on borrowings. These include the planned retirement of the USD debt and diversification of the MSP portfolio which includes USD denominated assets as a hedge.</p>
<p>8. You pay 2.3B in interest per annum, considering you sold units for 3.8B, assuming a 50% margin on property sale, it means you do not raise enough margin to pay the debt interest alone let alone operating costs and principal, do you have a plan on cashflows to manage debt?</p>	<p>The debt service costs per entity are highlighted in the Consolidated Statement of financial position which discloses the aggregated revenues and expenses of all subsidiaries across our 5 business segments. <b>See slide 48</b> of the FY2022 investor briefing presentation.</p> <p>The debt at subsidiary level is dependent on each company's capacity. As an example, in FY2022 Centum Real Estate generated <i>free cashflows</i> of <b>Kes. 1.3Bn</b> and incurred <b>Kes 449 Mn</b> in debt service costs. This represented an interest payment cover of almost 3 times.</p>



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	<p>Centum RE assets stood at <b>Kes 40.9Bn</b> as of 31 March 2022, against borrowings of <b>Kes 5.25Bn</b>, essentially translating to a debt cover of <b>9.6x</b>. (Refer to <b>Slide 22 &amp; 48</b> of FY2022 investor briefing presentation).</p> <p>The debt coverage of Two Rivers Development Ltd (TRDL) was <b>2.1x</b>. An opportunity exists for TRDL to enhance its cash flow generating ability through the development of residential projects. The demand is significantly high as demonstrated by the level of sales of ongoing projects. In addition, there are ongoing capital restructuring efforts through an equity raise. (<b>Slide 25</b>).</p>
<p>9. Private equity portfolio is depleted, there are no other real and significant private equity assets to sell to pay the debts as had been done previously, what is the plan on debt repayment? Your real estate does not seem to sell fast enough to keep up with the debt payments.</p>	<p>The debt at subsidiary level is dependent on each company's capacity. Save for the restructuring efforts at TRDL, all other entities in the Group will service and repay their debt through their respective operating cashflows.</p> <p><b>Slide 51</b> of the FY2022 investor briefing presentation highlight the detail of the above debt and the debt cover per subsidiary.</p>
<p>10. You said Real Estate is valued at recent sales prices, previously you had mentioned you carry it at cost. Inconsistent? Doesn't it mean your RE is overvalued carrying it at market prices and we should brace for reduced profits since all profits have been captured upfront?</p>	<p>Accounting for Investment Property is guided by IAS 40. Accordingly, we have consistently accounted for the investment property held by our subsidiaries at <b>Fair value</b>. The fair value of property is assessed annually by independent professional land valuers.</p> <p>When we sell land, we assess the sale price against the last reported fair value. We note that the selling prices have been above or at least equal to the reported fair value, indicating that the reported fair value is reasonable. (<b>Slide 13</b> of Centum RE FY2022 investor briefing presentation).</p>



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	<p>Real Estate revaluation movements are reported through the statement of total comprehensive income each year in accordance with IAS 40. The price of future sales will continue to validate the reasonableness of the reported valuations.</p>
<p>11. Is private equity still a focus? Where will you source funds to make the planned investments? Is there a private equity strategy in place? What happened to the rumoured USD 500M fund raise and planned acquisitions per Fred Murimi's news article? Did it fail?</p>	<p>Yes, private equity is a core component of our business. The broad strategy of our Private Equity play is to acquire businesses that present us with an opportunity to grow their value and ultimately monetize the value created. Proceeds from an exit are reinvested in new Private Equity opportunities and the cycle repeated.</p> <p>In the current operating environment, our focus is to deploy proceeds from exits into our MSP portfolio as we continue to scout for good opportunities.</p> <p>We envisioned to set up a USD 500Mn fund to provide investors platform to pool funds and invest alongside us and benefit from our Private Equity expertise. However, the onset of Covid-19 interrupted our fundraising efforts and we temporary put the idea on hold. We are re-evaluating the idea as economies and private capital markets recover from the impact of Covid-19 and will provide additional information once the decision is made.</p>
<p>12. On governance matters, Why do you still maintain PWC Kenya as the auditors for more than 11 years? Don't best governance practices dictate there be auditor rotations every so</p>	<p>There should be no reason for shareholders to be concerned. The auditor's rotation is under consideration. It has taken a longer time to effect due to the number of Group companies with different reporting and regulatory requirements.</p>



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<p>often? Should shareholders be concerned or is it a matter of strong business relationships?</p>	<p>We have taken measures to ensure that independence is maintained. PWC for example ensures regular rotation of Audit Partners and Senior Managers assigned to the engagement.</p>
<p>13. What plans and strategies does the board led by Dr. Donald Kaberuka have to instill confidence to the shareholders that there is a clear strategic plan to revert the business to a profitable &amp; diversified investment company, not a real estate company with huge debts and losses.</p>	<p>Centum has a clear strategic plan as summarized on <b>Slide 11</b> of Centum’s FY22 investor briefing presentation. Good progress has been made on most of the strategic pillars which centered around debt reduction, enhancement of liquidity and improvement of operational efficiency to reduce costs. We are working on several initiatives to enhance the sustainable annuity cash income which will provide further headroom to enhance dividend distribution to shareholders. Some of the portfolio exits and equity capital raise at portfolio companies will lead to rebalancing of the portfolio in line with strategic objectives.</p>
<p>14. There has been a revolving door with the chairs of the Audit and Risk committee and the CFO’s leaving after short stints with Risper Mukoto being brought back in what seems like an effort to clean up matters, is there a governance issue that is of concern and unsaid?</p>	<p>Centum upholds the highest standards of corporate governance.</p> <p>The immediately preceding CFOs had worked with Centum for more than 6 years each in various executive capacities. The committee chairs are rotated from time to time in line with good governance practices.</p>



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<p>15. Centum PLC and Dr. Mworira have been critical of the 37k small shareholders saying they do not understand the business. Are we blaming shareholders for poor performance and the impact at the bourse? Are institutional investors your sole target? Is this why you paid a dividend?</p>	<p>Centum and the management team are not critical of any shareholders. We value all shareholders and work hard to grow the Company sustainably and offer market beating returns to all our shareholders.</p>
<p><b>Centum Real Estate Operations</b></p>	
<p>1. Is the GEM transaction exclusive and are there any other ongoing fundraising efforts?</p>	<p>The GEMs investment was conditional on successful listing of Centum RE. As we prepare the entity for that milestone, we continue to fundraise to fund its growth.</p>
<p>2. Centum RE Shareholder loans increased in FY2022, does this represent additional investment in the Company?</p>	<p>No additional investment was made to Centum RE in the period. The movement represents accrued interest and FX revaluations.</p>
<p>3. How far along is the sinking fund that was set up to pay the Centum RE bond.</p>	<p>The sinking fund is more than sufficiently funded per the terms of the bond issue.</p>



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<p>4. At 3.8B RE revenues, assuming an average 10M a house, it means you sold only 380 units. Were these fully sold? How does this compare with the plan as shared by the real estate team in 2021 on units to be sold vis a vis stockpile? How is Vipingo Ltd and Pearl Marina doing?</p>	<p>Centum RE has two core business segments:</p> <ul style="list-style-type: none"> <li>i) Sale of land (development rights); and</li> <li>ii) Development and sale of residential units</li> </ul> <p>In FY2022, Kes 1.8Bn revues was recognized from sale of residential units and Kes 1.7Bn from sale of land (development rights). These represent sale transactions that had met the revenue recognition criteria (i.e fully paid, completed and transferred to the buyers). (Slide 24 of Centum RE FY2022 investor briefing presentation).</p> <p>There are ongoing sale transactions of residential units and development rights for which cash is continuously collected but will only be reflected in the income statement in future periods. (Slide 8 &amp; 9 of Centum RE FY2022 investor briefing presentation)</p>
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Quick References	Link
1. Centum's Investor Briefing Presentation	<a href="https://www.centum.co.ke/images/docs/Full_Year_FY22_Investor_Briefing_Presentation.pdf">https://www.centum.co.ke/images/docs/Full_Year_FY22_Investor_Briefing_Presentation.pdf</a>
2. Centum's FY2022 full year results	<a href="https://www.centum.co.ke/images/docs/Centum_Results_Full_Year_2022.pdf">https://www.centum.co.ke/images/docs/Centum_Results_Full_Year_2022.pdf</a>
3. Centum Real Estate Investor Briefing Presentation	<a href="https://centumre.co.ke/wp-content/uploads/2022/07/Investor-Update-Presentation-July-2022.pdf">https://centumre.co.ke/wp-content/uploads/2022/07/Investor-Update-Presentation-July-2022.pdf</a>
4. Centum Real Estate full year results	<a href="https://centumre.co.ke/wp-content/uploads/2022/07/Investor-Update-Presentation-July-2022.pdf">https://centumre.co.ke/wp-content/uploads/2022/07/Investor-Update-Presentation-July-2022.pdf</a>

