

Calgro M3 delivers an outstanding result for sixth consecutive year

Johannesburg, Wednesday 11 May 2016 – Calgro M3, the listed residential property and memorial parks developer, today announced final results for the year ended 29 February 2016, with a 91.2% improvement in operating profit and profit after taxation up 32.7%.

Wikus Lategan, Managing Director of Calgro M3 said, “We are pleased to have once again increased revenue and overall profitability of the Group, that saw combined revenue grow in excess of R2 billion. This is underpinned by a strong pipeline, our turnkey approach and knowledge of the industry in which we operate.”

Calgro M3, announced an increase in the pipeline from R19 billion to R27 billion. 92% of this pipeline is attributable to providing homes for the majority of South Africans in the format of Breaking New Group (fully subsidised housing), Community Residential Unit (CRU) (public sector subsidised rentals) and Social Housing (section 21 social housing institutes). This will ensure enough construction work for the next seven to eight years. It is the Group’s goal to extend the pipeline further and provide stakeholders with an estimated 10-year visibility.

The Group’s focus over the past year was to ensure that more projects in the pipeline were converted into construction projects and thus contributed to revenue. The Group was successful in this and currently has 12 of its 17 residential projects in the ground, ensuring that risk is sufficiently spread over projects, provinces and customer bases. Concurrently Calgro M3 launched its pilot Memorial Park project.

The Group is agile and fortunate enough to be able to make changes between markets without a material impact on the business. Its flexibility allows the Group to move between select markets in some financial years. This is one of the core strengths of the Group.

Financial review

Growth in revenue of 29.2% to R1.2 billion (2015: R932 million) and in combined revenue of 38.1%, to R2.3 billion (2015: R1.7 billion) supported growth in operating profit and earnings. On a segmental basis Property Development contributed 98.2%, Professional Services 1.7% and Memorial Parks 0.1% to the total revenue of the Group.

Towards the end of the financial year Calgro M3 successfully acquired the remaining 30% of the Fleurhof project for a total consideration of R243 million. Lategan indicated that, “This was undertaken as many synergies will be unlocked, which will add to the current development.”

The gross profit margin increased from 18.8% to 20.9% due to a better mix between infrastructure installations and top structure construction across the projects in the ground – meaning that activity has begun on site.

Basic earnings per share (EPS) increased by 33.3% to 152.77 cents per share (2015: 114.65 cents per share). Fully diluted headline earnings per share (HEPS) increased by 24.8% to 136.85 cents per share (2015: 109.69 cents per share). The main differences between EPS and HEPS is a R17.6 million

fair value gain on the acquisition of the remaining 30% stake of the Fleurhof project, and the dilutive effect of the equity settled executive share scheme.

The Fleurhof acquisition resulted in pressure on cash-on-hand at year-end, which is down 38.7%, with R46,4 million new debt raised during the year. Nonetheless, the Group has sufficient short-term receivables to build up cash resources post the year-end.

A dividend was not declared, opting to retain cash as the Group is in a growth phase and coupled with the challenging economic climate and tough trading conditions, will use retained cash to fund growth.

Operating review

Residential Developments

Across Calgro M3's integrated housing and mid-to-high portfolio, phased development continued at a pace acceptable to the company. The flagship Fleurhof project was once again recognised by the Department of Human Settlements as the premium integrated project in South Africa. This project accounts for just over half of the current revenue for the Group.

During the year 5,837 houses were constructed and 3,575 additional opportunities serviced across different projects in the Group.

Professional Services

The Professional Services segment enhanced value in the turnkey business model and ensured that profits from this segment were retained within the Group. A new architectural department was added to the segment towards the end of the 2016 financial year which will result in additional value creation.

Memorial Parks

The launch of the first Memorial Park project was not without challenges, but the Group is pleased to report that sales are picking up and that it remains committed to this business as a significant contributor in future. Marketing efforts are being focused on funeral directors, who are the first port of call with respect to advising on burial proceedings, and great strides were made in building relationships in this area. Post year-end in a SENS announcement dated 9 May 2016, it was announced that Calgro M3 has entered into an agreement with Conduit Capital Limited in respect of marketing the Calgro M3 Memorial Parks burial sites insurance products that should see the Group start to build an annuity income stream of substance.

Prospects

It is envisaged that Government will slow down on infrastructure spend, however in the case of housing, Government remains committed to the rollout of catalytic and mega projects. Lategan indicated that, "Calgro M3 is well positioned to benefit," pointing out that the acquisition of the Leratong development post year-end is a case in point, where Calgro M3 together with McCormick Property Development and Sasuka, have joined forces to provide some 12,000 residential units.

With 12 projects in the ground in different phases and the expectation that the Vista Park, Leratong and the Kwa Nobuhle projects will commence with bulk infrastructure in the third and fourth quarter of the new financial year, Calgro M3 is well diversified to weather a possible recession and a credit rating downgrade for South Africa.

The rental market shortfall presents an opportunity for the Group and, it will continue to work closely with portfolios of these properties, as well as continue to investigate bringing in-house functions that are currently performed by external parties, into the turnkey business model. Lategan concluded that, "Calgro M3 expects low economic growth and that the consumer will remain under pressure. What will see the Group through tough time is its ability to switch between product categories in order to keep the financial performance acceptable."

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