



Calgro M3 – 1H FY23 Results

Date: 03 November 2022

Key message: 2H should see revenue of approx. R1bn as units under construction are transferred. A strong pipeline (with Frankenwald doubling opportunities) with short to medium-term infrastructure costs mostly expensed should ensure sustainable earnings.

- Calgro released 1H FY23 results. HEPS increased 33% to 57c on a 5% increase in revenue. The gross profit margin remained in the target range of 20-25% at 22%. The Development businesses are targeted to achieve +20% and the Memorial Parks 60%.
- 1193 units were completed in 1H and 3965 units are under construction. Revenue in 2H should grow as at least half of the units currently under construction are completed/transferred. At an average R500k per unit the revenue in 2H should reach approx. R1bn (1H revenue R607m).
- Cash declined due to investment in serviced opportunities (sectional title open market units in particular) to be completed in 2H – by YE cash from operations should be in line with after-tax profits. Revenue and profit for sectional title developments are only recognised on transfer.
- The current pipeline comprises more than 24 000 opportunities (approximate revenue of R15.9bn) across 9 projects, excluding the Frankenwald project. Frankenwald should add a further 20 000 opportunities (approximate revenue of R15bn) to the pipeline in mid-2023 if Calgro exercises the land acquisition option. This will bring the total pipeline to in excess of 40 000 opportunities (R30bn).
- The Frankenwald property provides exciting long-term growth should it proceed. Calgro's 50% portion of the initial development cost is approx. R250-300m. This would be required in FY24/25. Frankenwald has lower infrastructure costs than normal for the first half of the development as the electrical substation is already installed and access roads already there. Power and water availability have been signed off by the relevant utilities. Design costs will be low as Calgro will use existing plans that can be standardised for large developments.
- Calgro continues to manage its pipeline conservatively to allow steady growth without stressing cash balances. A strong pipeline (with Frankenwald doubling opportunities) with infrastructure costs mostly expensed should ensure sustainable earnings in the medium term.
- We adjust our Target Price for Calgro to R8.36 (from R8.63). Calgro is trading at a significant discount to realisable NAV.

Analyst

Rowan Goeller
082 801 2071

rowan.goeller@chronux.co.za

Price (03/11/2022): R2.76

Target Price: R8.36

Market cap R382m

Shares in issue 125.5mn

Financial summary

ZARmn (year to February)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	879	1322	1629	1896	2207
EBITDA	63	190	284	348	418
Net income	19	132	201	239	282
Headline EPS (diluted)	-15	103	160	190	225
PE Ratio	12.2	3.3	1.7	1.4	1.2
Dividend	0	0	0	0	0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Factset, Company data, Chronux Research estimates

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Figure 1 Financial summary

Financial year to February	FY21A	FY22A	FY23E	FY24E	FY25E
Per share data					
Earnings (diluted)	14.6	105.7	160.4	190.4	224.8
Headline earnings (diluted)	(14.9)	102.8	160.4	190.4	224.8
NAV	6.32	7.94	9.87	10.31	12.05
Dividend	0	0	0	0	0
Valuation ratios					
P/E ratio	12.2	3.3	1.7	1.4	1.2
EV/EBITDA	37.5	5.7	3.8	3.1	2.6
P/B	0.28	0.46	0.28	0.26	0.23
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Income Statement (ZARmn)					
Sales	879	1,322	1,629	1,896	2,207
<i>Sales growth</i>		50.3%	23.2%	16.4%	16.4%
Cost of Goods Sold (COGS)	771	1,040	1,260	1,465	1,704
Gross Income	108	282	369	431	503
<i>Gross margin</i>	12.3%	21.3%	22.6%	22.7%	22.8%
SG&A Expense	(87)	(90)	(92)	(95)	(98)
Other Operating Income/Expense	46	2	12	16	17
EBITDA	63	190	284	348	418
<i>EBITDA margin</i>	7.1%	14.4%	17.4%	18.3%	18.9%
Depreciation & Amortisation	5	4	4	4	4
EBIT (Operating Income)	67	194	288	352	422
<i>EBIT margin</i>	7.7%	14.7%	17.7%	18.6%	19.1%
Nonoperating Income - Net	3	6	9	12	15
Net Interest Expense	(45)	(24)	(19)	(28)	(40)
Equity in Earnings of Affiliates	3	10	12	14	17
PBT	29	185	289	349	413
Income Taxes	(8)	(47)	(78)	(98)	(116)
<i>Tax rate</i>	26.1%	25.5%	27.1%	28.0%	27.9%
Consolidated Net Income	18	132	202	240	283
Minority Interest	0	(0)	(0)	(0)	(1)
Net Income	19	132	201	239	282
Cash flow statement (ZARmn)					
Changes in working capital	72	(54)	21	(7)	(5)
Cash from operating activities	(3)	130	190	198	240
Capital expenditure	(1)	(1)	(1)	(1)	(1)
Other	(51)	27	(10)	(10)	(10)
Investing cash flow	(52)	26	(11)	(10)	(10)
Changes in borrowings	(7)	(107)	(106)	(133)	(12)
Dividend paid	0	0	0	0	0
Other	(39)	(11)	(1)	0	0
Financing cash flow	(46)	(119)	(108)	(133)	(12)
Change in cash	(101)	37	72	55	218
Balance sheet (ZARmn)					
Total assets	2,468	2,439	2,739	3,010	3,503
Cash and equivalents	155	191	263	318	536
Other current assets	2,004	1,957	1,931	1,976	2,031
Non-current assets	309	292	545	716	936
Total liabilities	1,640	1,476	1,501	1,716	1,991
Long-term liabilities	209	214	230	230	230
Current liabilities	1,431	1,262	1,270	1,485	1,761
Total shareholders' funds	828	964	1,239	1,294	1,512
Net debt/(cash)	790	648	587	682	664

Source: Factset, Company data, Chronux Research estimates

Valuation

- We value Calgro M3 on a Sum-of-the-Parts basis, using a combination of NAV (residential property development portfolio) and EBITDA multiples (Memorial Parks) to value the operational divisions.

Figure 2 Valuation (using FY22 EBITDA)

ZARm	Comment	FY23 EBITDA	EV/EBITDA Multiple	Enterprise Value
Memorial parks	3-5X multiple for annuity-type income	20	4.0x	80
Enterprise Value		20	4.0	80
		NAV	Discount	
Residential Property	NAV	2170	40%	1302
Kwanobuhle & other properties	NAV	375	40%	225
Other investments	From balance sheet			84
Minorities	From balance sheet			-1
Deferred land payouts	From balance sheet			-53
Net (debt)/cash	From balance sheet			-587
Equity value				1,050
Number of shares ('m)				125.5
Valuation (ZAR per share)				8.36

Source: Company data, Chronux Research estimates

- **Residential Property Developments:** we value this division on a NAV basis given the nature of the property development model. Calgro is traditionally very conservative on accounting for book value – everything is on the balance sheet at cost, and this does undervalue the property portfolio by almost 50%.
- Management does provide their market-adjusted valuation for the property portfolio. We believe that the values provided are realistic and based on recent sales experience.

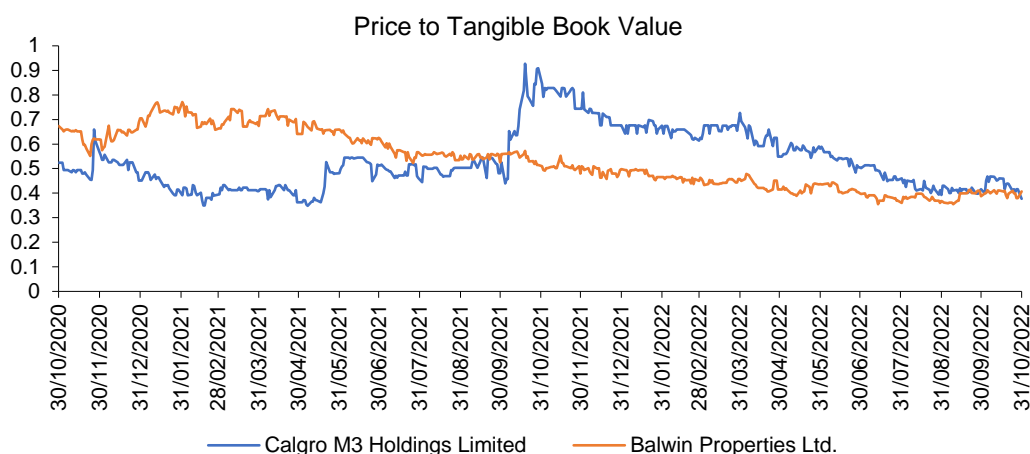
Figure 3 Residential Property Development NAV

	Discount applied in line with group financial ability and Covid 19	Total Number of opportunities	Effective number of opportunities	Selling price external Party(Excluding Vat)	Value
Serviced integrated and affordable housing opportunities	30%	6459	6459	119670	772,948,530
Mid to High portfolio(Serviced and partially serviced)	40%	743	743	349326	259,549,218
Partially and non serviced land - where development is under way	40%	17253	14314	48000	687,072,000
Frankenwald - Option value	0%	30000	30000	15000	450,000,000
Partially and unsurmised land - where development have had limited progress or no start yet	50%			15000	-
					2,169,569,748
Expected value of commercial and retail land at 50% - 60% discounted prices					200,000,000
Kwanobuhle and Umhlanga Hills land					175,000,000
Total value in property portfolio					2,544,569,748
Construction contracts - Value of land in the construction contract part of the financial statements					(548,477,000)
FW land purchase price still payable					(100,000,000)
Inventories excluding Memorial Parks					(391,990,000)
Investment in joint ventures (excluding Residential Rental Investments)					(49,992,000)
Loans to joint ventures and associates					(206,692,612)
Management estimated additional value not yet accounted for, locked in the Balance Sheet					1,247,418,136
Current Equity value					963,685,834
Added valuation difference based on the above estimates					1,247,418,136
Fair asset value:					2,211,103,970

Source: Company data, Chronux Research estimates

- We believe that a 40% discount to the market-adjusted NAV of R2.54bn is appropriate for Calgro's property portfolio. The option value of Frankenwald is valued at R450m.
- The Kwanobuhle and other KZN property is included at a 40% discount to the book value of R375m.
- The adjusted property portfolio valuation adds R1,247m to the book value of Calgro.
- The Price/Tangible Book Value for Calgro and peer Balwin Properties is shown in the following chart. We do believe that the understatement of NAV on the balance sheet means that Calgro could easily trade at a price/NAV of over 1 times.

Figure 4 Price to Tangible Book Value



Source: Company data, Chronux Research estimates

- **Memorial Parks:** we value the Memorial Parks on an EBITDA multiple basis as the business follows a simpler inventory/sales model. We believe that the relatively stable and growing revenue stream should attract at least a 4x EBITDA multiple.
- **Net debt:** net debt is currently R753m, and we forecast this to fall to R587m by YE as cash is realised from transfers.

Key Risks to Valuation

- **Upside:** increased government use of private sector to deliver subsidised housing and land/infrastructure funding assistance, converting current pipeline to sales with minimal extra development costs, Memorial Park growth.
- **Downside:** further land invasions, locking up cash in property and infrastructure for too long, government inactivity in housing.

Notes from the Results

Residential Property Developments

- Half of the 4000 units under construction should be handed over in 2H. At an average R500k per unit the revenue in 2H should reach approx. R1bn.
- The current project pipeline of R15bn extends for at least 6 years.
- Frankenwald will add R15bn to the project pipeline (20 000 units).
- Admin costs increased due to increased marketing and general inflation.
- 2600 houses were handed over in FY22, with an expected 3200 in FY23.
- Revenue per unit should increase as there is lower proportion of public sector units in FY23.
- Demand remains strong with the government RDP backlog keeping interest in low-cost housing high.

- Sales are up YoY with R499-610k being the sweet spot. Customers are bankable and earn 4500/month.
- Calgro can downspec units if demand starts to weaken to provide a more competitive price.
- Construction inflation is 6.1%, with imported sanitaryware sensitive to the R/\$ exchange rate.
- Open market sales have a 9-12 month development cycle and Calgro tries to hand over the units by year-end. Cash is therefore absorbed in 1H and released in 2H. This creates a marked 1H:2H swing and management are trying to even that out – this may take 2-3 years.
- New units are started as previous units are transferred.
- Cash flow should equal PAT for FY23.
- Frankenwald has lower infrastructure costs than normal for the first half of the development as the electrical substation is already installed and access roads already there. Power and water availability have been signed off by the relevant utilities. Design costs will be low as Calgro will use existing plans that can be standardised for large developments.
- It will take 18 months for the full infrastructure to be installed on Frankenwald and 30 months to top structures starting. Town planning approval is still required (expected Feb/Mar 2023).
- The option payment of R100m is due in June 2023, with development costs of R250-300m for Phase 1 (shared 60:40 Calgro:Eris).

Memorial Parks

- Demand is weak with family estates being the most impacted. Affordability is an issue, especially in the higher value Fourways park.
- A lay-by payment system has been introduced (24 months). This is not recognised in the income statement until fully paid off, but cash is received monthly.
- The aim is for the Memorial Parks to cover group overheads and interest on group debt.

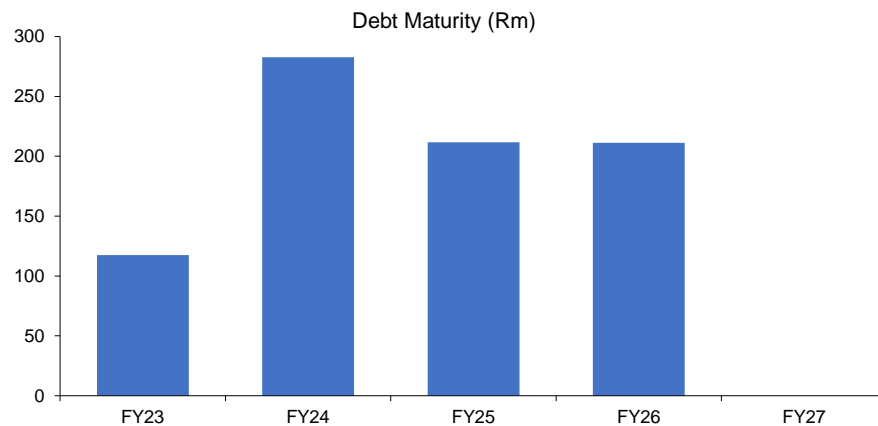
Cash flow

- Debt should stabilise at R1.2bn as the development pipeline is constructed. The current R850m of debt will be added to by the R350m DFC loan.
- Frankenwald should be funded internally.
- Bonds will be settled as they mature. The Proparco loan will be settled, and they will exit.
- Debt;Equity of 0.65-0.7:1 is planned.
- Cash is being released in 2H as transfers start to come through.
- Infrastructure costs for the FY24 pipeline have already been expensed and current project spending is for the FY25 pipeline.

Debt

- Debt levels are reducing, with net debt: equity of 0.76 times 31 August 2022. The DSCR is 1.45.
- Calgro has a mix of corporate debt and two loans from development agencies Proparco and the NHFC.
- Near term debt maturities relate mainly to the Proparco loan which is due to be restructured.

Figure 5 Calgro Debt Maturity



Source: Company data, Chronux Research estimates

- All debt is accounted for as a current liability due to the accounting treatment of the operating cycle (working capital, construction contracts and work in progress up to 10 years).
- Calgro is well within Net debt/ Equity and DSCR covenants with little risk of breach.
- Calgro will maintain debt levels of approx. R1.2bn to be able to fund the development pipeline.

Residential Developments

Figure 6 Residential Developments

Project	Municipality	Region	Government /private	Progress	Units under construction	Total remaining units	Anticipated turnover (Rm)	Life
Belhar	Cape Town	Western Cape	Private/public	Under development	1292	3030	1402	5 yrs
Bridge City	eThekweni	KwaZulu-Natal	Private	All units sold	356	0	139	5 yrs
Fleurhof	JHB	Gauteng	Private/public	Under development	295	5246	3899	5 yrs
Jabulani	JHB	Gauteng	Private/public	Under development	876	1624	803	5 yrs
La Vie Nouvelle	JHB	Gauteng	Private	Under development	5	87	200	5 yrs
Scottsdene	Cape Town	Western Cape	Private/public	Under development	668	1053	409	5 yrs
South Hills	JHB	Gauteng	Private/public	Under development	261	5372	3345	
Umhlanga Hills	eThekweni	KwaZulu-Natal	Private	Land to be sold	0	720	563	
Vredehoek	Cape Town	Western Cape	Private	Awaiting approval	0	263	819	
Maitland	Cape Town	Western Cape	Private	Under development	204	204	37	
Mid-to-high					8	393	1167	
Witpoortjie	JHB	Gauteng	Private/public	Under development	0	6107	3032	
KwaNobuhle	Port Elizabeth	Eastern Cape	Private/public	To be sold	0	0	175	
Total					3965	24099	15990	
Frankenwald	JHB	Gaiteng	Private/public	To be developed	0	20000	15000	
Total (incl. Frankenwald)					3965	44099	30990	

Source: Company data, Chronux Research estimates

Figure 7 Divisional Forecast

Total Segment Revenue	1H20	2H20	FY20	1H21	2H21	FY21	1H22	2H22	FY22	1H23	2H23	FY23	1H24	2H24	FY24	1H25	2H25	FY25
Fleurhof	293246	86251	379497	141748	89630	231378	163444	239490	402934	292353								
	20%	3%	15%	-52%	4%	-39%	15%	167%	74%	79%								
Jabulani	18098	10281	28379	3189	92915	96104	32160	34860	67020	28293								
	-43%	-46%	-45%	-82%	804%	239%	908%	-62%	-30%	-12%								
Witpoortjie	12902	28328	41230	9783	12241	22024	18514	8214	26728	1373								
	-55%	1389%	34%	-24%	-57%	-47%	89%	-33%	21%	-93%								
South Hills	37132	51500	88632	65093	42707	107800	141308	78254	219562	64412								
	-83%	-46%	-72%	75%	-17%	22%	117%	83%	104%	-54%								
Belhar	107178	121860	229038	141369	174572	315941	146348	318095	464443	104963								
	60%	64%	62%	32%	43%	38%	4%	82%	47%	-28%								
Third parties	39481	144085	183566	11679	44175	55854	43985	44655	88640	95852								
	44.2%	70.3%	63.9%	-70.4%	-69.3%	-69.6%	276.6%	1.1%	58.7%	117.9%								
Total Residential	508037	442305	950342	372861	456240	829101	545759	723568	1269327	587246	996904	1584150	684729	1162390	1847119	798394	1355347	2153741
% change	-17.6%	23.1%	-2.6%	-26.6%	3.2%	-12.8%	46.4%	58.6%	53.1%	7.6%	37.8%	24.8%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%
Memorial parks	11000	14692	25692	19251	23201	42452	30456	21812	52268	19832	24596	44428	21815	27055	48871	23997	29761	53758
% change	-7.3%	62.2%	22.8%	75.0%	57.9%	65.2%	58.2%	-6.0%	23.1%	-34.9%	12.8%	-15.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Residential Rental	1744	6352	8096	3717	3876	7593												
Total	520781	463349	984130	395829	483317	879146	576215	745380	1321595	607078	1021500	1628578	706544	1189445	1895989	822391	1385107.7	2207498
% change	-17.2%	25.8%	-1.3%	-24.0%	4.3%	-10.7%	45.6%	54.2%	50.3%	5.4%	37.0%	23.2%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%
Point in time	155135	240563	395698	170555	107389	277944	134146	215771	349917	153640	-153640			0				0
Over time	365646	222786	588432	225274	325884	551158	442068	529608	971676	433606	-433606			0				0
	520781	463349	984130	395829	483317	829102	576214	745379	1321593	587246	-587246	0	0	0	0	0	0	0
Gross revenue	501275	457477	958752	391438	429098	820536	575487	745298	1320785	607078	1021500	1628578	706544	1189445	1895989	822391	1385108	2207498
Reversal of unrealised profit	19506	5872	25378	4391	4175	8566	728	80	808	0	0	0	0	0	0	0	0	0
	520781	463349	984130	395829	483317	829102	576215	745378	1321593	607078	1021500	1628578	706544	1189445	1895989	822391	1385108	2207498
Cost of sales	481010	402511	883521	364572	406551	771123	462817	576930	1039747	472911	787161	1260072	544996	920192	1465188	633546	1070563	1704109
Residential Property	475349	391571	866920	352165	389642	741807	450476	556614	1007090	461216	774421	1235637	534088	906664	1440753	622747	1057171	1679918
	-8%	14%	1%	-26%	-0.5%	-14%	28%	42.9%	36%	2.4%	39.1%	22.7%	15.8%	17.1%	16.6%	16.6%	16.6%	16.6%
Memorial parks	4734	7106	11840	9695	12756	22451	12341	20316	32657	11695	12740	24435	10908	13528	24435	10799	13392	24191
	-9%	302%	70%	105%	79.5%	90%	27%	59.3%	45%	-5.2%	-37.3%	-25.2%	-6.7%	6.2%	0.0%	-1.0%	-1.0%	-1.0%
Residential Rental	927	3834	4761	2712	4153	6865	0											
Revenue	520781	463349	984130	395829	483317	879146	576215	745380	1321595	607078	1021500	1628578	706544	1189445	1895989	822391	1385108	2207498
Residential Property	508037	442305	950342	372861	456240	829101	545759	723568	1269327	587246	996904	1584150	684729	1162390	1847119	798394	1355347	2153741
Memorial parks	11000	14692	25692	19251	23201	42452	30456	21812	52268	19832	24596	44428	21815	27055	48871	23997	29761	53758
Residential Rental	1744	6352	8096	3717	3876	7593												
Gross Profit	39771	60838	100609	31257	76766	108023	113398	168450	281848	134167	234339	368506	161548	269254	430801	188845	314545	503390
Residential Property	32688	50734	83422	20696	66598	87294	95282	166954	262236	126031	222482	348513	150640	255726	406366	175647	298176	473823
Memorial parks	6266	7586	13852	9556	10445	20001	18115	1496	19611	8137	11856	19993	10908	13528	24435	13198	16369	29567
Residential Rental	817	2518	3335	1005	-277	728	0	0	0	0	0	0	0	0	0	0	0	0
Gross profit margin	7.6%	13.1%	10.2%	7.9%	15.9%	12.3%	19.7%	22.6%	21.3%	22.1%	22.9%	22.6%	22.9%	22.6%	22.7%	23.0%	22.7%	22.8%
Residential Property	6.4%	11.5%	8.8%	5.6%	14.6%	10.5%	17.5%	23.1%	20.7%	21.5%	22.3%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Memorial parks	57.0%	51.6%	53.9%	49.6%	45.0%	47.1%	59.5%	6.9%	37.5%	41.0%	48.2%	45.0%	50.0%	50.0%	50.0%	55.0%	55.0%	55.0%

Source: Company data, Chronux Research estimates

Figure 8 Detailed Divisional Data

	FY19	1H FY20	2H FY20	FY20	1H FY21	2H FY21	FY21	1H FY22	2H FY22	FY22	1H FY23
Revenue	949102	520781	432597	953378	395829	483317	879146	576214	745378	1321592	607081
Residential Property Developments	938195	508037	429156	937193	372861	456240	829101	542963	726362	1269325	587247
Infrastructure	440224	84749	88716	173465	140362	68921	209283	194290	252634	446924	268517
Fully and partially subsidised units	414116	361023	135019	496042	146318	331641	477959	291256	394383	685639	174947
Non-subsidised units	33622	43763	178563	222326	13008	32354	45362	51286	72925	124211	85629
Service land sales	50233	18502	26858	45360	73173	23324	96497	6131	6420	12551	3154
Commercial land sale											55000
Memorial Parks	10907	11000	1988	12988	19251	23201	42452	30456	21811	52267	19834
Burial rights	9538	9277	1394	10671	16068	18938	35006	25096	17169	42265	16918
Maintenance	398	771	-266	505	1192	1584	2776	1462	2125	3587	2032
Burial services	971	952	860	1812	1991	2679	4670	3898	2517	6415	884
Residential Property Rental	0	1744	1453	3197	3717	3876	7593	2795	-2795	0	0
Rental income	0	1744	1453	3197	3717	3876	7593	2795	-2795	0	0
Cost of sales											
Residential Property Developments	856554	475349	407114	882463	352165	389642	741807	447460	559499	1006959	461213
Infrastructure	288917	70930	47889	118819	115708	40556	156264	152083	171689	323772	185468
Fully and partially subsidised units	424908	339414	154778	494192	141364	277083	418447	223628	312026	535654	129262
Non-subsidised units	89091	50246	196233	246479	45336	60873	106209	68944	70007	138951	105178
Service land sales	53638	14759	8214	22973	49757	11130	60887	2805	5777	8582	4109
Commercial land sale											37196
Memorial Parks	4025	4734	1763	6497	9695	12756	22451	12340	20448	32788	11698
Burial rights	3607	3288	709	3997	4350	6657	11007	7315	16664	23979	8149
Maintenance	37	718	1615	2333	3222	3420	6642	3413	4008	7421	3029
Burial services	381	728	-561	167	2123	2679	4802	1612	-224	1388	520
Residential Property Rental	0	927	641	1568	2712	4153	6865	3017	-3017	0	0
Rental income	0	927	641	1568	2712	4153	6865	3017	-3017	0	0
Gross Profit	88523	39771	23079	62850	31257	76766	108023	113397	168448	281845	134170
Residential Property Developments	81641	32688	22042	54730	20696	66598	87294	95503	166863	262366	126034
Infrastructure	151307	13819	40827	54646	24654	28365	53019	42207	80945	123152	83049
Fully and partially subsidised units	-10792	21609	-19759	1850	4954	54558	59512	67628	82357	149985	45685
Non-subsidised units	-55469	-6483	-17670	-24153	13008	-28519	-60847	-17658	2918	-14740	-19549
Service land sales	-3405	3743	18644	22387	23416	12194	35610	3326	643	3969	-955
Commercial land sale											17804
Memorial Parks	6882	6266	225	6491	9556	10445	20001	18116	1363	19479	8136
Burial rights	5931	5989	685	6674	11718	12281	23999	17781	505	18286	8769
Maintenance	361	53	-1881	-1828	-2030	-1836	-3866	-1951	-1883	-3834	-997
Burial services	590	224	1421	1645	-132	0	-132	2286	2741	5027	364
Residential Property Rental	0	817	812	1629	1005	-277	728	-222	222	0	0
Rental income	0	817	812	1629	1005	-277	728	-222	222	0	0
Gross Profit Margin	9.3%	7.6%	5.3%	6.6%	7.9%	15.9%	12.3%	19.7%	22.6%	21.3%	22.1%
Residential Property Developments	8.7%	6.4%	5.1%	5.8%	5.6%	14.6%	10.5%	17.6%	23.0%	20.7%	21.5%
Infrastructure	34.4%	16.3%	46.0%	31.5%	17.6%	41.2%	25.3%	21.7%	32.0%	27.6%	30.9%
Fully and partially subsidised units	-2.6%	6.0%	-14.6%	0.4%	3.4%	16.5%	12.5%	23.2%	20.9%	21.9%	26.1%
Non-subsidised units	-165.0%	-14.8%	-9.9%	-10.9%	100.0%	-88.1%	-134.1%	-34.4%	4.0%	-11.9%	-22.8%
Service land sales	-6.8%	20.2%	69.4%	49.4%	32.0%	52.3%	36.9%	54.2%	10.0%	31.6%	-30.3%
Commercial land sale											32.4%
Memorial Parks	63.1%	57.0%	11.3%	50.0%	49.6%	45.0%	47.1%	59.5%	6.2%	37.3%	41.0%
Burial rights	62.2%	64.6%	49.1%	62.5%	72.9%	64.8%	68.6%	70.9%	2.9%	43.3%	51.8%
Maintenance	90.7%	6.9%	707.1%	-362.0%	-170.3%	-115.9%	-139.3%	-133.4%	-88.6%	-106.9%	-49.1%
Burial services	60.8%	23.5%	165.2%	90.8%	-6.6%	0.0%	-2.8%	58.6%	108.9%	78.4%	41.2%

Source: Company data, Chronux Research estimates

Group History and Strategy

- Calgro is a developer of low- to middle income housing.
- Experience over the years has taught Calgro to operate on the following basic principles:
 - Don't buy expensive land
 - Don't rely on government subsidised housing

RDP Housing and shift to private sector

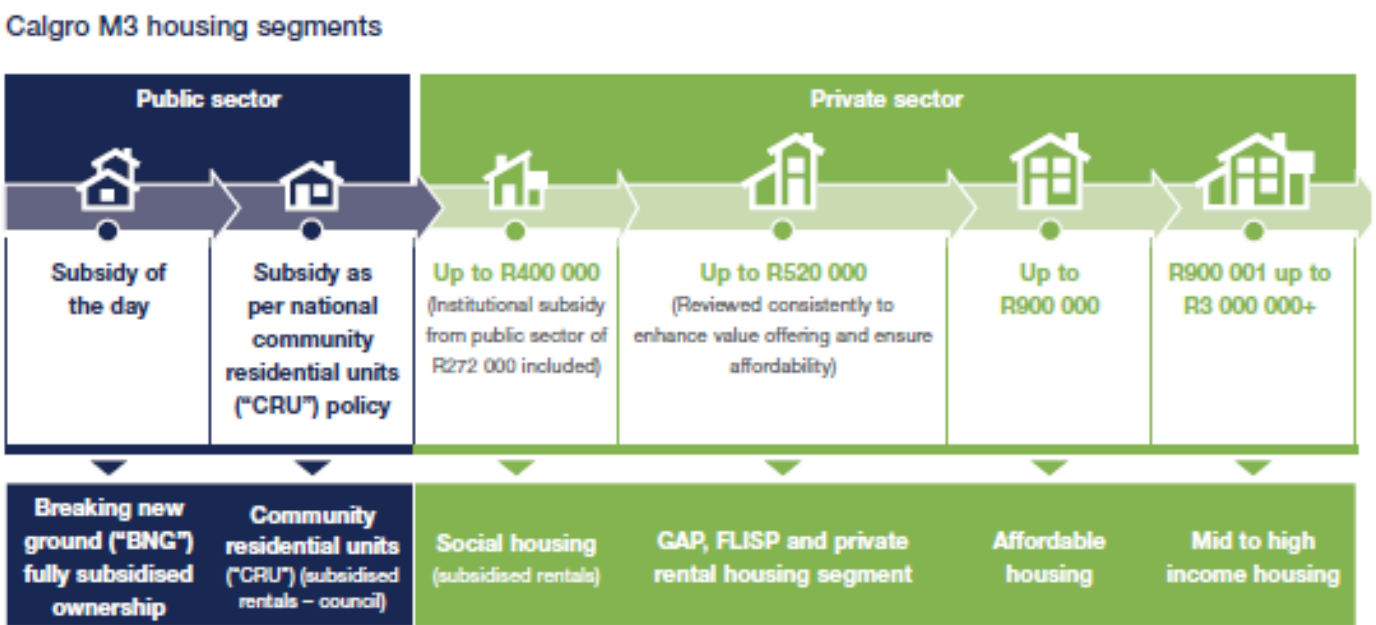
- Calgro has benefitted from government subsidies, infrastructure grants and purchases of units. This has varied over time and recent years has seen a reduction in government contribution, which has had an impact on Calgro's balance sheet as more of the development is now funded privately.
- However, Calgro still sells a reasonable portion of units to government for the different social housing schemes and most Calgro developments incorporate affordable/social housing into the mix.
- This does allow Calgro to recover some of the infrastructure costs. While profitability on the affordable/social housing may be low, it does absorb some of the project overheads and increases the profitability of the remaining units sold into the private market.
- The RDP housing program has been running for many years, providing free houses to people who qualify according to a means test.
- However, in December 2020 the Minister of Human Settlements announced changes to the RDP housing program, ordering provincial government to immediately scale down on free housing projects. This is apparently up for discussion at the ANC conference in December 2022.
- The focus will shift to handing out serviced sites where people can build their own homes.
- The Minister acknowledged failures and unintended consequences of the free housing program.
- Housing projects will now only be supported if they benefit the elderly, child-headed homes, people living with disabilities, and military veterans.
- Government will still buy houses from private developers for the various housing schemes.
- It does appear if the onus has shifted to the private sector to develop and fund housing projects, with government as a customer as opposed to a client.
- We believe that Calgro is well positioned for this. The company has built up strong relationships with local government and the type of development done by Calgro is in line with government housing requirements.
- However, Calgro should be seen as a private sector developer with government being a relatively small customer at the low end. Calgro's experience is to not rely on government grants or subsidies but to use them when available. Each development is sustainable as a private sector development and Calgro is now sustainable without public sector support.
- Notwithstanding, we do believe that sales to the public sector will maintain and there is a possibility that they increase as government winds down the RDP program (and associated direct tenders to construct RDP housing).

Divisional Overview

Residential Property Development

- This division is a developer of residential projects from land procurement to sales of units.
- Calgro operates primarily in the subsidised and affordable housing sector. This is the largest contributor to Calgro’s revenue.
- Calgro operates in the lower-to-middle segment of the residential property market. The average price of a Calgro home is approx. R500k.
- Calgro is effectively a private sector developer - public sector housing is a small and declining part of the business, although developments cater for government subsidised purchases and rentals.
- Calgro has shifted back to a simple development model that worked well previously. Development projects have been reduced from 15 to 7 over the past year, with a geographic focus will be on the faster growing Gauteng and Western Cape regions.
- Gross profit margin expectations are above 20% for this division.
- The price range that Calgro operates in is R250k – +R1m.
 - Average price is approx. R450k (this does depend on the mix sold)
 - Growth is being seen in the sub-R500k market

Figure 9 Calgro M3 Housing Segments



Source: Company data, Chronux Research estimates

- Fully subsidised housing (RDP or BNG) cost approx. R195k with a R30k geotechnical allowance.
- Social and CRU housing is at levels of approx. R400k.
- Peer companies like Balwin Properties (who operate in the higher end – average price of Balwin units in FY20 was approx. R1.2m) have stated that they are moving down into the more affordable categories as that is where demand is strongest.

Property segments

- BNG Subsidised New Housing

- In 2004 Cabinet approved the “Comprehensive Plan for the Development of Sustainable Human Settlements”.
- Also known as Breaking New Ground (BNG) - as the updated version of the Reconstruction and Development Programme (RDP housing), the policy seeks to refocus attention on the development of sustainable human settlements, rather than just on the delivery of subsidised housing units.
- This strategy seeks to alter the housing patterns in the country by integrating communities and placing them closer to areas with economic opportunities.
- Segment targets
 - Income earners below R3 500 pm. Move to the next market segment if monthly earnings exceed R3 500.
- CRU Housing
 - The Community Residential Unit (CRU) Programme comprises subsidised rental units owned by the public sector. This rental option caters for income earners between R3 500 and R7 500 pm and excludes individual ownership.
 - Segment targets
 - Income earners below R7 500 pm. Move to the next market segment if monthly earnings exceed R7 500
- Social Housing
 - Social Housing is a rental or co-operative housing option of subsidised rentals owned by Section 21 social housing institutions (SHI's).
 - This rental option caters for income earners between R3 500 and R7 500 pm and excludes individual ownership.
 - Segment targets
 - Provincial and institutional subsidy and private sector funding to the value of R300 000
 - Income earners below R7 500 pm. Move to the next market segment if monthly earnings exceed R7 500.
- FLISP Housing
 - Finance Linked Individual Subsidy Programme (FLISP).
 - The product was introduced when the affordability level of R3 500 pm income to qualify for subsidy housing was removed, allowing people previously disqualified based on income, to qualify for a partly subsidised home.
 - FLISP housing denotes the market earning up to R15 000 pm.
 - To qualify for the once-off state assisted subsidy, the prospective client will be required to qualify for a bond by one of the major financial institutions.
 - The subsidy of between R10 000 up to R87 000, depending on monthly income, is subject to certain qualifying criteria as set out by the Department of Human Settlements.
 - Segment targets
 - Income earners up to R15 000 pm. Then move on to the next market segment depending on income levels.
- GAP Housing
 - Grassroots Affordable Peoples (GAP) Homes cater for people excluded from the subsidised programme, but with incomes too low to qualify for traditional affordable homes.
 - Units in this market segment can be:
 - Freestanding
 - Full title units

- Sectional title units
 - Multi-storey sectional title apartments.
- Segment targets
 - Up to R450 000
 - Income earners up to R15 000 pm. Then move on to the next market segment depending on income levels.
- Affordable Housing
 - Full and sectional title residential units aimed at homeowners in the bonded market regulated by the FSC.
 - Affordable housing describes open market bonded homes with a sales value deemed 'affordable' to those that have a median income of R15,000+ pm.
 - This sector, where financial institutions provided user finance, typically comprises of unit sizes ranging from 40m² 2-bedroom units to 4-bedroom units more than 120m² in size, depending on clients' requirements and affordability.
 - Units in this market segment can be:
 - Freestanding
 - Full title units
 - Sectional title units
 - Multi-storey sectional title apartments.
 - Segment Targets
 - Sales values from R450 000 to R700 000
 - Income earners R15 001+
- Mid- to high income housing
 - Full and sectional title residential units aimed at homeowners in the bonded market, outside the Financial Services Charter (FSC).
 - Segment targets
 - Sales values from R620 001 up to R3 000 000+
 - Income earners R20 000+

Memorial Parks

- The Memorial Parks act as a diversifier against the lumpy and cash intensive Residential Property Development division. Mature Parks are Nasrec, Fourways and Durbanville, with Enokuthula only in operation since March 2020.
- The land associated with the memorial parks is all full owned by Calgro (no debt). The cash revenue less operational costs therefore flows straight to the bottom line. Operational costs are relatively low and limited to security and park maintenance.
- Revenue is received on the sale of a grave site. Calgro offers a 12-month repayment period option – with the revenue only accounted for at the end of the 12-month period. This explains the difference between cash and accounting sales.
- There is no recurring cash flow in this division – the sale of a site generates a once-off cashflow.
- Grave sites are generally purchased on death (with funeral policies commonly being used to fund the purchase), but Calgro also offer family sites that are purchased upfront and used multiple times.
- Some revenue (15-20%) is deferred for ongoing maintenance (this is amortised over a 15-year period).
 - A maintenance fund is maintained for memorial park maintenance

- This is growing to be a self-supporting fund
- The land available at the memorial parks is sufficient for at least 20 years of sales.
- Other revenue includes rental of facilities at the memorial, parks (memorial plaques, church venues, function hire, office space for funeral businesses).
- Management expects steady growth in sales in the Memorial Parks division driven by a renewed marketing effort and word of mouth. Public facilities are becoming full and there are no other private memorial park developments at present.

Accounting

Contract assets

- The current ratio of sectional title: free-standing units is approx. 50:50, but Calgro is moving to a 90:10 model due to stronger demand in that segment.
 - Free-standing units are more profitable (approx. 50% margin on a R1m house – costs are roughly R250k land and R250k construction)
 - Cash is received for bonded free-standing units upfront for the land and on a draw-down basis through construction
 - Sectional title developments are more working capital intensive as cash is only received on sale and registration of the unit
- The accounting treatment for the different models is shown in the following table.
- Sectional title developments are more working capital intensive as all costs are borne by Calgro until the point of sale.
- Freestanding developments generate cash flow on the sale of the land and then on a draw-down basis during construction.

Figure 10 Accounting Treatment of Residential Housing

Income statement	Cash Flow
<u>Freestanding:</u>	<u>Freestanding:</u>
Land - revenue and associated costs recognised on registration	Land - cash received upfront before building
Building - % of completion method	Building - cash draw against bond
<u>Sectional Title:</u>	<u>Sectional Title:</u>
Accounting revenue and costs recognised on registration of unit (associated costs include construction, land, services etc)	Cash received only after full construction and registration of unit in clients name
Costs capitalised in Construction Contracts until registration	

Source: Company data, Chronux Research estimates

- Calgro is conservative in the way costs and revenue are allocated.
- The value of land and all improvements are accounted for in the Balance Sheet under Inventories and Construction Contracts.
- This accounting treatment undervalues the land and improvements significantly relative to the current realisable value.

- The following excerpts are from the Accounting Policies in the Annual Financial Statements.
- **Inventories:**
 - Land owned by the Group which is being developed to get into a condition to start construction of the various projects is classified as inventory. The land may also be sold without any construction depending on the intention of management. Inventories are stated at the lower of cost or net realisable value. The cost of land under development held for sale comprises design costs, building materials, indirect labour, borrowing costs and other direct costs.
 - The amount of any write down of inventories to net realisable value is recognised as an expense in the year which the write down occurs. The amount of any reversal of any write down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.
 - Individual units which do not form part of construction contracts are classified as inventory and are sold as a completed unit.
- **Construction contracts:**
 - Construction contracts consist of both contract assets and cost incurred to be allocated to future contract assets when the Group enters into an agreement with a customer.
 - Future costs to be allocated to contract assets are costs incurred on the development of land which includes costs such as direct labour, materials, professional/consulting services, commissions, and allocation of overhead costs which relate directly to the development of the land. These costs are only allocated to the individual units when a contract is entered into with a customer to purchase the relevant unit.
 - Contract assets arise on the basis that costs are incurred to satisfy performance obligations, the related payment and timing is determined based on each individual contract.
 - These costs include costs to fulfil a contract and includes costs such as direct labour, materials, professional/consulting services, commissions, and allocation of overhead costs which relate directly to satisfy performance obligations of the contract. Contract assets are recovered from the relevant customer when the relevant performance obligations are completed, and payment can be obtained from the customer.
 - If costs are incurred on a contract without a corresponding payment received it is shown as a contract asset at the reporting period, if the customer has paid in advance for performance obligations to be satisfied it is shown as a contract liability within trade and other payables.
 - The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).
 - Costs incurred in the year in connection with future activity on a contract are excluded from contract costs. They are presented as costs incurred to be allocated to future contract assets depending on their nature, which will be assessed on a case-by-case basis.
 - The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within “trade and other receivables”.
 - The transaction price for each performance obligation is the contractually stipulated price and represents the stand-alone selling price at the time when the contract is entered into with the customer.

Working capital cycle

- The operating cycle for inventory, construction contracts and work in progress is longer than 12 months.
- The operating cycle is generally between 1 and 10 years depending on the project size and type, which includes different typologies and infrastructure requirements.

- Accordingly, the associated liabilities are classified as current as they are expected to be settled within the same operating cycle as inventory, construction contracts and work in progress.

Figure 11 Income Statement - Forecast

Calgro M3 Holdings Limited	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	02/2024	02/2025
Sales	798	785	932	1204	1555	1743	997	984	879	1322	1629	1896	2207
Cost of Goods Sold (COGS) incl. D&A	653	674	759	954	1222	1474	870	888	776	1044	1260	1465	1704
Gross Income	145	111	173	250	333	269	127	96	103	278	369	431	503
SG&A Expense	52	56	97	104	117	131	188	85	82	86	92	95	98
Other Operating Expense	5	4	1	0	0	0	0	-31	-2	3	1	0	0
EBIT (Operating Income)	88	51	75	147	216	138	-61	42	23	189	275	336	405
Nonoperating Income - Net	10	12	18	50	37	42	83	41	68	33	45	48	48
Interest Expense	10	14	12	19	22	17	59	65	73	47	51	60	72
Unusual Expense - Net	-	-	-	6	4	1	2	4	-4	6	0	0	0
Income Taxes	26	10	23	46	63	51	-25	8	8	47	78	98	116
Equity in Earnings of Affiliates	29	66	87	67	6	10	14	-1	3	10	12	14	17
Consolidated Net Income	91	106	146	193	170	121	1	5	18	132	202	240	283
Minority Interest	0	0	0	-1	1	0	-2	0	0	0	0	0	1
Net Income	91	106	146	194	169	120	3	5	19	132	201	239	282
Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income available to Common	91	106	146	194	169	120	3	5	19	132	201	239	282
Per Share													
EPS (recurring)	0.72	0.83	1.15	1.54	1.31	0.93	0.03	0.06	0.13	1.09	1.66	1.97	2.32
EPS (diluted)	0.72	0.83	1.15	1.50	1.29	0.92	0.02	0.04	0.16	1.06	1.60	1.90	2.25
Earnings Persistence	78.90	59.80	83.65	73.25	89.17	71.35	84.05	88.53	91.04	95.81			
Dividends per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA													
EBITDA	91	53	77	148	217	139	-59	46	28	193	292	356	426

All figures in millions of South African Rand except per share items.

Calgro M3 Holdings Limited	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	02/2024	02/2025
Rental Expense	4	4	5	5	6	6	6	0	0	0			
Stock Option Comp Exp (Net of Tax)	-	-	-	19	21	17	32	3	6	3			
Foreign Currency Translation Gains/Losses	-	-	-	-	-	-	-	-	-	-			
Tax Rate	29.5	19.4	27.7	26.8	27.8	31.4	-	56.8	33.4	27.8	28.0	29.0	29.0
Headline EPS	0.72	0.83	1.10	1.39	1.33	0.90	-0.19	0.02	-0.15	1.06	1.66	1.97	2.32
Headline EPS (diluted)	0.72	0.83	1.10	1.37	1.29	0.88	-0.19	0.02	-0.15	1.03	1.60	1.90	2.25

All figures in millions of South African Rand except per share items.

Calgro M3 Holdings Limited	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	02/2024	02/2025
Price / Sales	0.8	1.1	1.8	2.0	1.5	0.9	1.1	0.4	0.3	0.3	0.2	0.2	0.1
Price / Earnings	7.2	8.3	11.6	11.9	13.2	13.2	345.8	72.9	12.2	3.3	1.7	1.4	1.2
Price / Book Value	2.0	2.0	2.9	2.8	2.2	1.4	1.4	0.4	0.3	0.5	0.3	0.3	0.2
Price / Tangible Book Value	2.2	2.2	3.1	3.5	2.6	1.6	1.7	0.5	0.3	0.5	0.3	0.3	0.3
Price / Cash Flow	51.9	-3.0	21.3	66.1	9.6	-5.9	5.6	1.1	-76.7	3.5			
Price / Free Cash Flow	67.2	-	21.5	72.9	9.7	-	5.7	1.1	-	3.5			
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value / EBIT	8.6	25.1	27.2	18.9	11.9	16.8	-32.5	28.5	45.0	5.8	4.1	3.3	2.8
Enterprise Value / EBITDA	8.3	24.0	26.7	18.7	11.9	16.7	-33.2	25.6	37.5	5.7	3.8	3.1	2.6
Enterprise Value / Sales	0.9	1.6	2.2	2.3	1.7	1.3	2.0	1.2	1.2	0.8	0.7	0.6	0.5
EBIT / Interest Expense (Int. Coverage)	3.6	1.2	1.4	2.5	3.3	1.7	-0.4	0.3	0.2	2.1	5.4	5.6	5.6

Source: Factset, Company data, Chronux Research estimates

Figure 12 Balance Sheet and Cash Flow - Forecast

	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	02/2024	02/2025
Assets													
Cash & Short-Term Investments	198	63	131	80	241	157	123	255	155	191	263	318	536
Short-Term Receivables	188	439	393	1212	1701	2185	1815	1353	1360	1340	178	196	216
Inventories	267	390	512	466	600	554	568	719	644	616	1471	1525	1585
Other Current Assets	2	3	3	7	18	98	12	24	20	3	282	255	230
Total Current Assets	656	895	1039	1765	2560	2994	2518	2351	2178	2149	2194	2293	2567
Net Property, Plant & Equipment	4	3	2	4	6	6	12	27	23	20	18	18	18
Total Investments and Advances	102	148	235	6	19	51	178	178	70	80	84	84	84
Long-Term Note Receivable	0	0	-	-	-	-	-	-	-	-	0	0	0
Intangible Assets	33	33	41	159	160	160	160	160	160	160	160	160	160
Deferred Tax Assets	14	19	14	9	0	16	43	38	37	30	25	25	25
Other Assets	0	0	0	0	0	0	0	0	0	0	258	429	649
Total Assets	809	1098	1330	1942	2745	3226	2911	2755	2468	2439	2739	3010	3503
Liabilities & Shareholders' Equity													
ST Debt & Curr. Portion LT Debt	300	471	492	538	177	193	157	290	124	209	850	1000	1200
Accounts Payable	118	110	121	110	238	302	161	178	150	186	420	485	560
Income Tax Payable	1	0	0	231	137	199	123	124	118	84	1	1	1
Other Current Liabilities	36	46	101	233	610	513	758	458	319	222	0	0	0
Total Current Liabilities	455	627	714	1113	1161	1207	1199	1050	712	701	1270	1485	1761
Long-Term Debt	0	0	0	0	395	697	812	794	837	644	0	0	0
Provision for Risks & Charges	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred Tax Liabilities	27	37	38	10	165	155	94	96	91	130	230	230	230
Other Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities	482	664	752	1123	1722	2059	2105	1940	1640	1476	1501	1716	1991
Common Equity	327	433	579	821	1023	1167	806	814	828	963	1238	1293	1512
Total Shareholders' Equity	327	433	579	821	1023	1167	806	814	828	963	1238	1293	1512
Accumulated Minority Interest	0	0	0	-1	0	0	0	1	0	1	1	1	1
Total Equity	327	433	579	820	1023	1168	807	815	828	964	1239	1294	1512
Total Liabilities & Shareholders' Equity	809	1098	1330	1942	2745	3226	2911	2755	2468	2439	2739	3010	3503
Per Share													
Book Value per Share	2.58	3.41	4.55	6.46	7.98	9.11	6.29	6.36	6.82	7.93	9.87	10.31	12.05
Tangible Book Value per Share	2.32	3.15	4.23	5.21	6.74	7.86	5.05	5.11	5.50	6.62	8.60	9.04	10.78
	02/2013	02/2014	02/2015	02/2016	02/2017	02/2018	02/2019	02/2020	02/2021	02/2022	02/2023	02/2024	02/2025
Operating Activities													
Net Income / Starting Line	117	115	168	239	233	172	-24	13	26	179	288	352	422
Depreciation, Depletion & Amortization	3	2	2	1	1	1	1	5	5	4	4	4	4
Other Funds	-59	-100	-103	-107	-21	-62	-32	-111	-106	-73	-123	-151	-181
Funds from Operations	61	18	67	134	213	111	-55	-93	-75	110	169	205	245
Changes in Working Capital	-49	-310	12	-98	25	-387	257	436	72	20	21	-7	-5
Net Operating Cash Flow	13	-292	79	36	238	-276	202	343	-3	130	190	198	240
Investing Activities													
Capital Expenditures	-3	-1	-1	-3	-1	-2	-3	-1	0	-1	-1	-1	-1
Net Assets from Acquisitions	0	0	-25	-143	-98	-3	-41	-28	-23	-9	0	0	0
Sale of Fixed Assets & Businesses	0	0	0	-	0	0	0	0	0	0	0	0	0
Purchase/Sale of Investments	11	-15	0	6	-18	-126	-270	-145	-50	27	0	0	0
Other Funds	0	0	0	0	0	0	0	0	0	0	-10	-10	-10
Net Investing Cash Flow	8	-16	-26	-141	-117	-130	-314	-174	-74	16	-11	-10	-10
Financing Activities													
Cash Dividends Paid	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Capital Stock	0	0	0	8	7	-2	-25	0	-14	0	0	0	0
Issuance/Reduction of Debt, Net	74	173	14	46	33	324	80	-12	-7	-107	-108	-133	-12
Other Funds	0	0	0	0	0	0	23	-23	0	0	0	0	0
Net Financing Cash Flow	74	173	14	55	39	322	78	-37	-23	-110	-108	-133	-12
Exchange Rate Effect	-	-	-	-	-	-	-	-	-	-	0	0	0
Net Change in Cash	95	-135	68	-50	161	-84	-34	132	-101	37	72	55	218
Free Cash Flow	10	-292	79	32	237	-278	199	343	-3	129	189	198	240
Free Cash Flow per Share	0.08	-2.30	0.62	0.25	1.81	-2.12	1.53	2.56	-0.03	1.03	1.51	1.57	1.91
Free Cash Flow Yield (%)	1.5	-33.4	4.7	1.4	10.3	-17.1	17.5	91.6	-1.5	28.4	55.4	57.8	70.2

Source: Factset, Company data, Chronux Research estimates

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