

Moving in the right direction

- Balwin announced FY24 HEPS of 48c, below our 55c estimate that excluded the sale of the development rights in 1H24, which sale subsequently fell through in 2H24. As expected, no dividend was declared. The miss in HEPS relates mainly to lower GP margins. Developments under construction of R6342m (+11%), is below our R6501m estimate, which is positive for working capital and debt.
- The title of our recent initiation report, [Time to sweat the land bank](#), had an investment case premised on a decline in the value of the developments under construction. This trend is emerging as there is only one land purchase envisaged in each of FY25 and FY26, one in WC and the other in KZN. In addition, the construction rate is tightly linked to sales ensuring construction costs are contained. Lastly the development pipeline is down from 43 781 in FY23 to 41 581 – after peaking at 62 288 in FY21.
- The Western Cape (WC) is now the largest revenue contributor (46%) and we don't see land investment in this region as problematic as project durations are significantly lower (5 vs 15 in Gauteng) and demand allows for price increases.
- The number of units sold exceeded our expectations, 1892 (-32%) verses 1812 (2788 in FY23). As expected, 2H delivered higher sales, largely due to promotional activity (mainly in Gauteng) as the environment remains challenging -1058 units in 2H vs 834 in 1H. Forward sales are also down on the prior year, 529 compared to 870. Price increases have been negligible apart from the WC, resulting in revenue from the sale of apartments down 31%
- As expected, promotional activity impacted development GP margins, 23.9% vs. 27% in FY23, below our 25.3% estimate. The market is unlikely to improve much in FY25E with interest rate cuts anticipated to only occur in 2H25. We therefore believe GP margins will remain under pressure – we forecast 24% in FY25E.
- We support ongoing promotional activity, even though it's at lower GP margins, as it eases the pressure on the balance sheet. We forecast unit sales of 1987 (+5%) in FY25E which is less than 2H24 annualised (traditionally 2H is stronger). We anticipate the average price per unit to be down 6% as sales favour one and two bed units. We forecast development revenue of R2193m, down 1.3%.
- Development operating expenses of R251m were very well contained, down 22%, with fixed costs declining 2%. Management believes there is further scope to manage fixed costs tightly in FY25E. Annuity business costs were up 44% to R100m given the expansion of the operations which delivered an impressive 70% revenue growth. The annuity business now comprises 9% of PBT (higher at an operating profit level but it is highly geared).
- Debt has risen modestly from R2957m to R3073m, below expectations. Part of the increase relates to the expansion of the annuity business. Development funding as a % of development costs under construction has declined from 52% in FY23 to 48%, a positive trend. Management indicated it is currently negotiating a restructuring of its debt which apart from more favourable terms could see funding support for Mooikloof after the government has reneged on infrastructure contributions (these are being actively pursued).
- We revise our FY25E HEPS from 50c to 47c and retain FY26E at 70c. We reintroduce a dividend of 9c in FY25E. Balwin trades on an attractive 3.9x fwd. P/E, a 0.23x price to NAV, considerably below its 8 year historic average of 1.15x. The early signs of working capital reduction (and subsequent debt reduction) initiatives are evident and are key to our investment case. In our DFCF valuation we calculate a value range of R2.23-3.30, a mid-point of R2.70.

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Price (23/05/2024):	R1.85
Market cap	R961mn
Shares in issue	519.4mn

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Price performance - ZAR



Source: FactSet

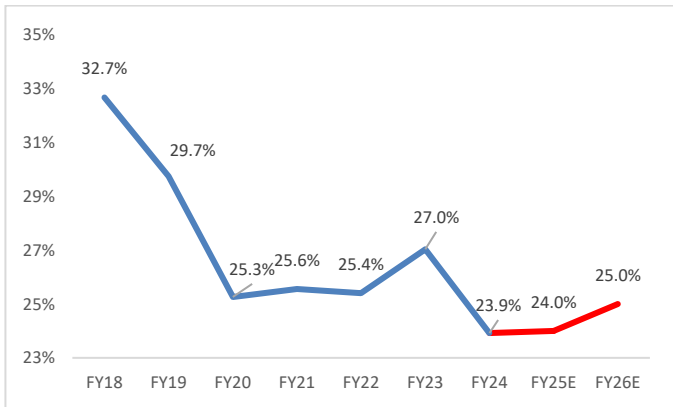
Figure 1 Financial summary – R'mn

Year Ending	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Income Statement						
Revenue from sale of apartments	3,074	3,244	2,222	2,193	2,711	3,242
<i>Sales growth (%)</i>	15.6%	5.5%	-31.5%	-1.3%	23.6%	19.6%
Gross profit	781	877	532	526	678	843
<i>GP margin %</i>	25.4%	27.0%	23.9%	24.0%	25.0%	26.0%
Annuity revenue	52	83	134	155	182	204
EBITDA	526.4	605.1	363.0	365.8	494.9	645.1
<i>EBITDA Margin (%)</i>	17.1%	18.7%	16.3%	16.7%	18.3%	19.9%
EBIT	504.8	578.4	330.8	332.7	458.1	599.4
<i>EBIT Margin (%)</i>	16.4%	17.8%	14.9%	15.2%	16.9%	18.5%
Profit before tax	519.0	597.4	310.3	305.5	442.4	594.6
Net profit	363.3	437.3	217.4	219.9	320.8	431.1
Net profit post minorities	362.8	436.2	215.7	218.1	318.2	427.6
Group headline earnings	356.4	425.6	223.9	218.1	318.2	427.6
<i>Growth %</i>	6.1%	19.4%	-47.4%	1.3%	45.8%	34.4%
Recurring headline earnings	390.5	425.6	223.9	218.1	318.2	427.6
<i>Growth %</i>	16.3%	9.0%	-47.4%	1.3%	45.8%	34.4%
Reported EPS (ZAR)	0.77	0.94	0.46	0.47	0.70	0.95
HEPS Group (ZAR)	0.76	0.91	0.48	0.47	0.70	0.95
<i>EPS Growth</i>	6.0%	20.4%	-47.6%	-1.4%	48.2%	35.8%
HEPS Recurring (ZAR)	0.83	0.91	0.48	0.47	0.70	0.95
<i>EPS Growth</i>	16.2%	9.9%	-47.6%	-1.4%	48.2%	35.8%
DPS (ZAR)	0.21	0.24	0.00	0.09	0.18	0.29
<i>Payout ratio (%)</i>	27.5%	26.2%	0.0%	20.0%	25.0%	30.0%
Balance Sheet						
Cash and Cash equivalents	667	772	290	333	346	542
Current asset (ex – all cash)	5,611	5,980	6,695	6,517	6,171	6,087
Net Fixed assets	259	481	602	614	763	759
Intangible assets	17	23	22	28	35	43
Investments	6	0	0	0	0	0
Other assets	36	42	21	21	26	32
Total assets	6,596	7,298	7,630	7,513	7,341	7,463
Debt excl lease liabilities	2,541	2,957	3,073	2,673	2,073	1,673
Lease liabilities	126	1	0	0	0	0
Current liabilities	175	230	200	197	241	285
Other liabilities	239	274	348	442	561	713
Total liabilities	3,080	3,462	3,621	3,313	2,876	2,671
Shareholders' equity	3,515	3,835	4,006	4,202	4,453	4,761
Minorities	1	2	3	5	8	11
Total shareholders' equity	3,516	3,837	4,009	4,207	4,461	4,772
<i>BVPS (ZAR)</i>	6.8	7.4	7.7	8.1	8.6	9.2
<i>ROE (%)</i>	11.6%	11.6%	5.7%	5.3%	7.3%	9.3%
<i>ROIC (%)</i>	7.1%	7.3%	3.8%	3.6%	5.3%	7.2%
Debt ex leases						
<i>Debt: Ebitda</i>	4.8	4.9	8.5	7.3	4.2	2.6
<i>Interest Cover</i>	22.8	57.8	11.4	8.9	17.9	40.7

Year Ending	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E
Cash Flow						
Reported net profit	362.8	436.2	215.7	218.1	318.2	427.6
Change in net working capital	-586.3	-84.3	-744.4	175.0	389.8	128.0
Other adjustments	82.5	-106.6	37.3	33.5	43.4	53.9
Dividends paid	-111.6	-107.1	0.0	-22.0	-66.7	-119.9
Cash flow from operations	-252.6	138.2	-491.4	404.7	684.6	489.6
Net Capex	-75.5	-95.6	-121.5	-54.0	-189.6	-44.1
<i>Capex/sales (%)</i>	<i>2.5%</i>	<i>2.9%</i>	<i>5.5%</i>	<i>2.5%</i>	<i>7.0%</i>	<i>1.4%</i>
Other investing cash flows	0.0	-177.1	45.1	0.0	0.0	0.0
Cash flow from investing	-75.5	-272.7	-76.4	-54.0	-189.6	-44.1
Equity raised/(bought back)	0.0	-20.1	0.0	0.0	0.0	0.0
Net inc/(dec) in borrowings	639.1	98.2	-7.1	-400.0	-600.0	-400.0
Other financing cash flows	18.1	-1.8	74.0	94.0	119.3	151.6
Cash flow from financing	657.2	76.3	65.8	-307.2	-481.9	-249.7
Net cash flow	329.1	-58.2	-502	43.5	13.1	195.8
Free cash flow	-191.1	292.1	-595.8	401.3	573.4	565.5
Lease payments	-1.9	-1.8	-1.1	-1.2	-1.2	-1.3
Net free cash flow	-193.0	290.3	-596.9	400.1	572.2	564.2
Valuation Summary						
Share Price (ZAR)	3.09	3.15	1.85	1.85	1.85	1.85
P/E (Underlying) (x)	3.7	3.4	3.9	3.9	2.6	1.9
P/BV (x)	0.5	0.4	0.2	0.2	0.2	0.2
EV/EBITDA (x)	6.0	5.2	8.7	8.6	6.4	4.9
EV/EBIT (x)	6.2	5.4	9.5	9.5	6.9	5.3
FCF Yield (%)	-20.1%	30.2%	-62.1%	41.6%	59.6%	58.7%
Dividend Yield (%)	6.8%	7.6%	0.0%	5.1%	9.5%	15.4%
Net Debt	2,000	2,186	2,784	2,340	1,727	1,131
Debt/Equity	0.57	0.57	0.69	0.56	0.39	0.24
Net Debt (excl lease liabilities)	1,874	2,185	2,783	2,340	1,727	1,131
Debt/Equity (excl lease liabilities)	0.53	0.57	0.69	0.56	0.39	0.24

Source: Company data, ASB research

Figure 2 Development GP margin %



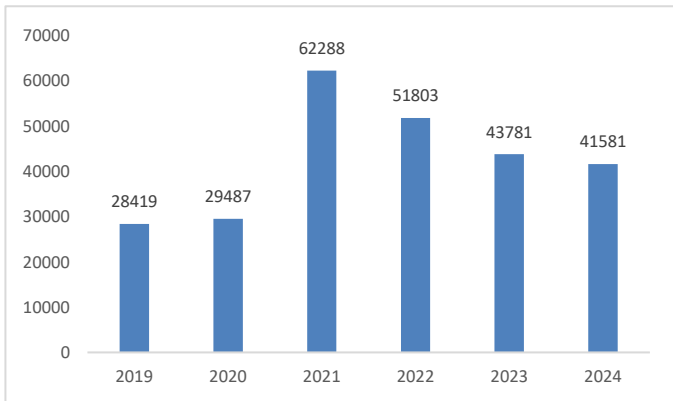
Source: Company data, ASB Research

Figure 3 Sales recognised (R'm) vs ave unit sales price (RHS)



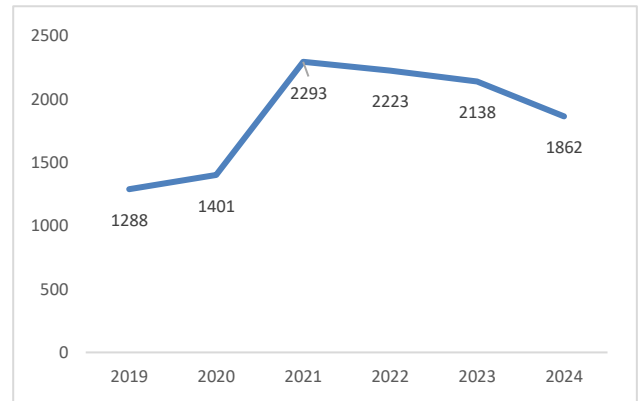
Source: Company data, ASB Research

Figure 4 Pipeline of apartments



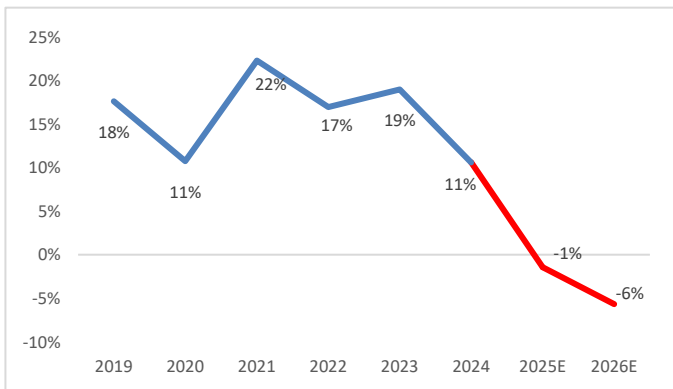
Source: Company data, ASB Research

Figure 5 Ave development size



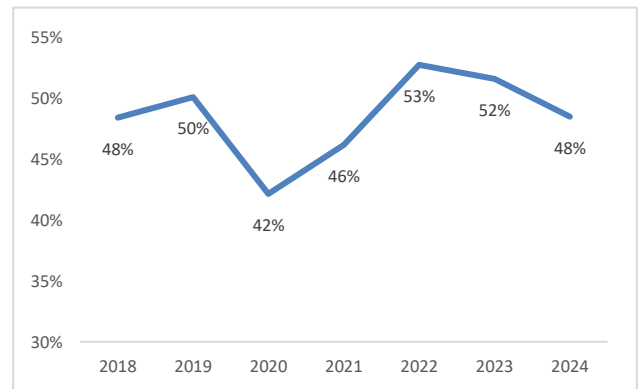
Source: Company data, ASB Research

Figure 6 Developments under construction - % growth



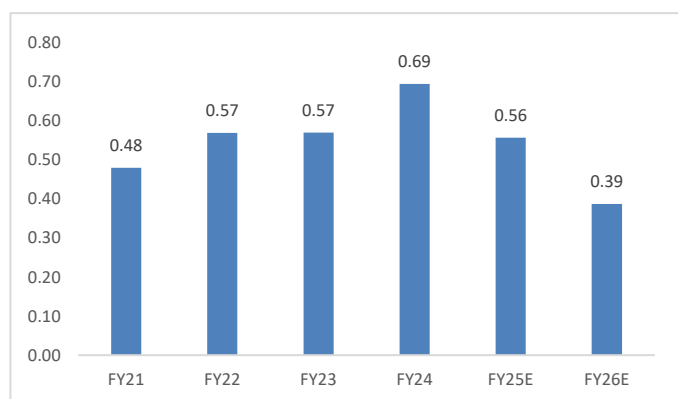
Source: Company data, ASB Research

Fig 7 Development funding as a % of development costs



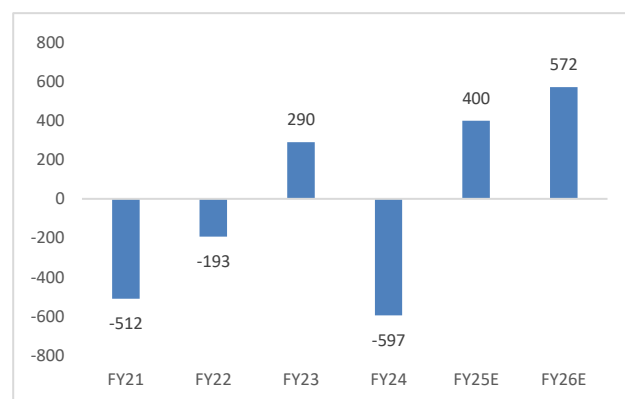
Source: Company data, ASB Research

Figure 8 Net Debt/Equity ratio



Source: Company data, ASB Research

Figure 9 Free cash flow R'm



Source: Company data, ASB Research

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