



# The Chairperson's statement

## Economic Environment

The year 2016 has proved to be another challenging one for the economy exacerbated by, among other issues, country-wide interruptions in utility provisions. Electricity blackouts and water shortages affected us greatly and as a result most of our properties had to run on electricity generators for lengthy periods which turned out to be costly for the business. In addition, installed water tanks could not cope with the unprecedented intermittent water supply.

Implementation of the fiscal budget was a challenge due to limited support from the country's development partners as they continued to withhold budgetary support.

The economic environment is forecast to improve margin-ally in the ensuing year because of the expected good agricultural production following good rains. The Malawi Kwacha currency stabilized in the second half of the year after depreciation at the beginning of the year. Inflation was on the downward trend and the Authorities reduced the interest policy rate.

## Property Market in Malawi

The office, retail and residential letting market in Malawi continues to perform well. Retail sector has outperformed office sector due to poor policing by local authorities as offices are being illegally allowed to mushroom in residential areas. The property sales market has slowed down considerably as cost of finance has remained high there-by suppressing demand. There has been a huge number of repossessions of properties as buyers have had problems in servicing mortgages due to prevailing high interest rates.

The MPICO Group, excluding The Gateway, has continued to maintain its vacancy rate at less than two percent and will continue to strive for this level in 2017.

The average rental increase achieved during 2016 was 29% across the commercial and residential portfolio. Government rent payments remain a challenge. Once again the stagnation of the economy coupled with high interest rates are having a dampening effect on our tenants' ability to pay rent timeously.

The Gateway has continued to grow. We are pleased with progress being made and the continued interest by prospective tenants as well as the growth in foot traffic. The Gateway occupancy was at 58% at the start of the year but increased to 74% by the end of 2016. Food Lovers' Market opened its operations in December 2016 as the second anchor tenant alongside Shoprite. The increased foot traffic at the mall has resulted in good businesses for most of our tenants.

## Rights Issue

During the year MPICO Limited offered a total of 1, 149, 023, 730 shares by a way of renounceable rights offer, at a subscription price of K7.83 per MPICO share on the basis of 1 (one) rights offer shares for every 1 (one) MPICO share held by shareholders. The number of shares increased to 2,298,047,460 from 1,149,023,730.

As anticipated, the Rights Issue was a success and K9.0 billion was raised making it the largest Rights Issue in Malawi and indeed the Malawi Stock Exchange history. Following the Rights Issue exercise, the shareholding changed as follows:

	2016	2015
Old Mutual Malawi	72%	57%
General Public	23%	33%
Lincoln Investments Limited	5%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Total market capitalisation of the company increased to K18 billion as at 31 December 2016 from K9.4 billion as at 31 December 2015.

## Group Performance

Overall Group results were satisfactory. Total income increased to MK11.5 billion in 2016 from MK6.1 billion in 2015. This represents an increase of 90% and is attributed to the growth in rental income of 29% and fair value adjustment of 98%.

Total operating expenses went up to MK1.8 billion from MK1.3 billion in 2015. Finance costs went up to MK6.7 billion from MK4.2 billion in 2015. The increase in operating expenses is mostly due to backlog maintenance expenses.

The profit after tax increased to MK2.0 billion from MK0.8 billion, representing a year-on-year increase of 156%.

## Human Resources

The MPICO Group has remained the employer of first choice in Real Estate industry. Consequently, MPICO was able to keep and recruit suitable employees. Staff participated in Employee Assistance Programme which aims at keeping the employees aware of their health status thereby increasing their productivity. Employees also participated in an Old Mutual sponsored Culture Survey which helped management to gauge the company's progress in terms of human resources management.

MPICO continues to support training needs of employees.

## Prospects for 2017

The economy is expected to pick up following expected good crop harvest and reduced inflation rate. High interest rates, water and electricity challenges are the main downside risks to the growth prospects.

The Group's future looks bright especially after the capital restructuring of MPICO Limited in 2016. This will soon be followed by MPICO Malls restructuring. This will result in reduced finance charges. The Group will continue to grow the 3rd Party consultancy business.