Chairman's letter to shareholders

Fellow shareholders, distinguished ladies and gentlemen, it is my honour and privilege to welcome you to the 16th Annual General Meeting (AGM) of our Company, UACN Property Development Company (UPDC) Plc., holding today June 4th 2014, at Arthur Mbanefo Hall, Golden Tulip Festac, Amuwo Odofin, Lagos.

Please permit me to do a quick review of the global and national business environments, within which our Company operated in 2013, before presenting to you the Annual Report and Financial Statements for the year ended December 31, 2013.

The global economy

The global economic recovery inched forward in 2013, with fast growing emerging markets losing pace while developed nations gained strength. Despite the contrasting fortunes, the overall global economy appeared to be on surer footing as the year ended. The International Monetary Fund (IMF) forecasts that world output will grow 3.6% in 2014, compared with 2.9% in 2013.

The Nigerian economy

According to estimates issued by the Nigeria National Bureau of Statistics, the country's GDP advanced 7.67% year-on-year in Q4 2013, higher than the revised figure of 6.99% recorded in the corresponding period of 2012. For 2013, growth rate was estimated at 6.54%, up from 6.58% in 2012.

The non-oil sector remained the major driver of growth, recording 8.73% in Q4, 2013. The oil sector recorded a decline in output due to supply related disruptions. The increase in economic output recorded in 2013 was as a result of the increases recorded in the Agriculture, Hotels & Restaurants, Building and Construction and Telecommunications sectors of the economy. The real estate sector contributed 1.94% to the GDP in 2013 as against 1.85% in 2012.

Monetary policy remained restrictive throughout 2013, with the Central Bank of Nigeria (CBN) keeping a close watch on inflation and exchange rates. The Monetary Policy Rate (MPR) was retained at the 12% benchmark but the increase in the Cash Reserve Ratio (CRR) on public sector deposits in August effectively raised lending rates by banks.

Headline inflation rate dropped from 12.2% in December 2012 to 8.5% in December 2013.

While reversion to Retail Dutch Auction System (RDAS) and other administrative measures of the CBN kept exchange rate stable, the premium between official and parallel market rates has continued to widen. The Naira value in 2013 appreciated marginally by 0.04% at the official market to close at ₦155.75 to US$1.00, while at the interbank market, where market forces had more influence, the Naira value was volatile, closing the year at N160.05 to US$1.00.

The country's external reserves as at end December 2013 stood at US$43.61 billion, representing a decrease of 1.29% compared to the figure of US$44.18 billion as at the end of year 2012. The decrease in the reserves level resulted largely from a slowdown in portfolio and FDI inflows in Q4 2013 resulting in increased funding of the foreign exchange market by the CBN to stabilize the Naira.

The rally in the Nigerian capital market continued with the equities market providing the lead. The All-Share Index (ASI) increased by 47.2% from 28,078.81 in December 2012 to 41,329.19 in December 2013. Market Capitalization increased by 47.4% from N8.97 trillion in December 2012 to ₦13.23 trillion in December 2013. Improved earnings and investor confidence in macroeconomic management contributed to the rise in stock prices.

The Nigerian real estate industry

The Nigerian real estate sector was largely characterized by the same prevalent issues of lack of adequate long term funds, high interest rates, regulatory bottlenecks and inadequate linkage of housing finance to the capital market.

Although research has shown that an average of 1million housing units need to be created each year to cater for the housing need of the country, only 30,000 units were added in 2013, due to non-availability of favorable financing, unfavorable land policies, poor infrastructure, amongst others.

There was a rise in vacancy rates at the high end of the market, but remarkable growth was experienced in the low/medium-segments. Also, the commercial and retail segments continued to improve during the year with new investments. Prime office rents remained high, while developments commenced and continued on a number of shopping malls across major cities.

The ongoing mortgage reform saw the recapitalization of some primary mortgage banks (PMBs) and the setting up of the Nigerian Mortgage Refinance Company (NMRC), a private sector-led secondary mortgage refinance company being promoted by the Federal Government with US$ 300 million seed capital provided by the World Bank.

Our people

The Company's long-term success is dependent upon the diversity, dedication and commitment of all our people. We have invested in the development of succession plans and talent development. We have ensured that all our people have a common set of values captured in our Code of Business Ethics. We have further made good progress on Health and Safety both in terms of safe working practices in our projects and the reporting of performance. The sustainability section of this annual report explains this more fully.

Review of operations

In 2013, we delivered a solid performance which is consistent with our pledge and promise to our shareholders, customers and the investing public.

Our growth momentum has increased and reinforced our standing as a market leader.

We successfully completed the floatation of the UPDC Real Estate Investment Trust (REIT) in 2013 on a capital value of N26.7 billion, of which UPDC currently holds 62.2%. The REIT was listed on the Nigerian Stock Exchange (NSE) on July 1, 2013. It is our plan to reduce our holding to 40% in line with our strategy.

In the luxury residential category, we completed and delivered to buyers the prestigious 32-unit 'Cameron Green' Ikoyi.

Phase 1 of Metro City, Abuja comprising of 88 units of mixed residential apartments was also completed and is being gradually handed to buyers, while construction work on Phase 2 has commenced.

Phase 1 of Vintage Gardens, Port Harcourt, comprising of 54 units of mixed residential apartments is also being rounded up and scheduled for delivery to buyers by end of March 2014.

We also took advantage of the lack of a formal retail channel in the Festac axis of Lagos State by undertaking the ongoing Festival Mall development, which is expected to open to customers by end of 2014.

The hotel arm of the business, Golden Tulip Festac, also performed well in 2013, with rooms occupancy averaging 44%, an increase of 91% over 2012. With five international airlines currently utilizing the hotel's facilities and continuing upward trend in residential conferences by blue chip corporate customers, the hotel is set for improved performance from 2014.

We plan to develop the adjoining Block B of the hotel into residential apartments in 2014.

Financial performance and dividend

In spite of the challenging operating environment, your Company posted revenue of ₦11.29 billion, against ₦12.04 billion in 2012. Profit before taxation (PBT) was ₦3.71 billion against ₦2.45 billion. Profit after tax stood at ₦3.16 billion for the year.

In the light of these results, the Board of Directors has recommended for your consideration and approval a dividend of ₦962, 500,000 representing 70 kobo per ordinary share held by members as at May 5, 2014 and a bonus issue of 1 for 4 shares to shareholders who are on the register of members at close of business on May 12, 2014.

Outlook for 2014

According to the Global Economic Prospects of the World Bank (January 2014 edition), global economic growth is expected to strengthen over the next few years and there are indications that a self-sustaining recovery has begun among the high income countries. The stronger growth will expectedly boost demand for the exports of developing countries and contribute to a modest acceleration in their growth.

For Nigeria, the factors of power sector privatization, agriculture sector transformation, on-going and planned reforms in the petroleum sector, drive for data services by the telecoms companies, financial inclusion strategy of the CBN and continuing improvement in infrastructure remain critical and will drive Nigeria's GDP performance in the immediate future.

The potential GDP growth (estimated at 7.59% in 2014) is however hampered by the continuing security challenges in the Northern part of the country; vandalism, oil theft and shortage of petroleum products.

Market analysts predict a possible devaluation of the Naira at some point in 2014, especially in the light of declining external reserves.

Country risk will be expectedly higher due to the coming 2015 elections and will further put pressure on the Naira exchange rate as speculations fuel the demand for foreign currency in a bid to hedge the currency risk.

For real estate development, it is expected that the revised guidelines for PMBs and a fully operational NMRC will provide a wider scope of activities and opportunities for estate developers and ultimately result in affordable mortgages and increased home ownership for middle and lower income earners.

Possible Naira depreciation may also result in increased demand for real estate, as an alternative means of hedging against value erosion.

With the huge housing deficit of 17.45 million units (2013), emerging opportunities in the commercial and retail categories and partnership opportunities in the areas of housing technology and finance, the sector continues to hold exciting promise for the future.

For Updc, there is a good reason for optimism against this backdrop and given the capability and zeal of our business to surmount challenges, mitigate risks, take advantage of profitable opportunities, sustain our pedigree and in fact, surpass achievements year-on-year.

Appreciation

I want to seize this opportunity to express my gratitude and deepest appreciation to you, my colleagues on the Board, for your support and cooperation during the period under review.

I also thank all our people for their continuing commitment and passion for the business and its customers thus enabling the delivery of a solid set of financial results in 2013.

Finally, on behalf of the Board, I would like to thank our customers, consultants, contractors and other stakeholders for your continuing support, and our esteemed shareholders for your unwavering confidence and belief in us.

I thank you all for your attention.

Larry Ephraim Ettah
Chairman FRC/2013/IODN/00000002692