

**SEFALANA HOLDINGS LIMITED- H1 15 RESULTS**

Price (BWP): 11.51  
His EPS (BWP): 0.65  
His PER: 17.71x  
PBV: 2.52x  
Dividend Yield: 1.74%  
Recommendation: HOLD

**Equity Research**

**Botswana**

**April 2015**

**Results Scorecard**

**Sefalana Holdings results for the 6months period to October 2014 reflect healthy revenue generation .....**

**Healthy topline growth:** Overall topline for the group grew a striking 32.48% to BWP 1.6bn (H1 14: BWP 1.2bn) anchored by its Sefcash subsidiary which accounted for 69.53% of overall group revenues. However, there was a decline in the subsidiary's contribution from 86.69% at H1 14, on the back of the group's acquisition of 12 Metro stores in Namibia during the period for BWP 255m funded by a 1 for 5 rights issue. The Namibian subsidiary generated BWP 305.1m of revenue despite having only been consolidated for 4months in Sefalana's operations and outperformed the previous owner's revenue performance by 15%. Other group divisions contributed positively to overall top line except for Manufacturing whose contribution fell to 6.36% (H1 14: 8.54%). This was largely due to the KSI business that manufactures soaps and detergents no longer being accounted for under this segment but rather as an associate of the group.

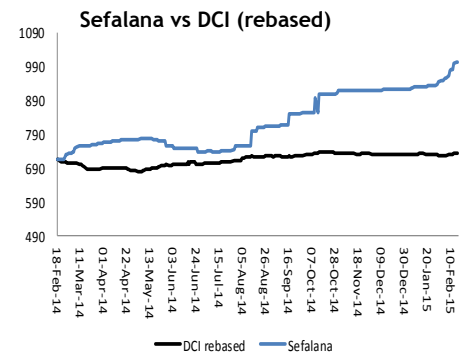
**Margins were under strain:** Overall costs for the group grew ahead of revenue generation. Group GPM's declined to 8.45% from 9.81% as cost of goods sold grew by 34.41% to BWP 1.4bn (H1 14: BWP 1.2bn). All divisions recorded declines in GPM's with the biggest coming from Manufacturing (-2.1bp) to BWP 22.40%, followed by Sefcash (0.20bp) to 5.77% then Trading Others (1.71bp) to 19.11%. The gross profit for the group stood at BWP 131.8m up from BWP 115.5m at H1 14. Operating expenses were more contained than cost of sales, rising at 10.80% to BWP 59.0m and this resulted in a PBT increase of 26.61% to BWP 80.5m (H1 14: BWP 63.6m). The effective tax charge to the income statement for the period was relatively flat at 22.83% (H1 14: 22.73%), and net profit increased by 23.27% to BWP 62.1m (H1 13: BWP 50.4m). An interim dividend of 10t (H1 14: 10t) was declared implying a dividend cover of 2.8x.

**Balance sheet remains robust:** On the balance sheet, total assets grew 56.5% to BWP 1.7bn. Current assets were up 7026% to BWP 1.0bn (H1 14: BWP 588.6m) largely fueled by strong growth in cash and cash equivalents of 156.91% to BWP 474.9m. The short term solvency of the group improved with improved current and quick ratio values of 1.69x from 1.54x and 1.04x from 0.91%, respectively. Total assets increased by 56.46% to BWP 1.1bn, the most significant increase coming from a 425.93% increase in intangible assets to BWP 147.1m largely arising from the Namibian acquisition. On the liabilities side the company increased its gearing to 13.06% (H1 14: 11.91%) driven by a 302.95% increase in long term borrowings to BWP 38.4m (H1 14: BWP 9.5m).

BLOOMBERG: SFLN: BG	BUY		
Current price (BWP)	11.49		
Current price (USD)	1.19		
Target price (BWP)	11.69		
Upside/Downside	1.74%		
12 month High/Low (BWP)	10.03; 7.16		
<b>Liquidity</b>			
Market Cap (BWPm)	2,224.22		
Market Cap (USDm)	230.65		
Shares (m)	222.9		
Free Float	100%		
<b>Income Statement (BWP'm)</b>			
	H1 15	H1 14	%ch
Revenue	1,558.32	1,176.85	32.41%
Gross profit	131.75	115.49	14.08%
EBIT	76.68	64.55	18.79%
PBT	80.46	63.55	26.61%
Net profit	62.09	50.37	23.27%
EPS (thebe)*	65.20	70.97	-8.13%
DPS (thebe)*	20.00	18.00	11.11%
NAV(thebe)	455.18	345.12	31.89%
<b>Balance Sheet (BWP'm)</b>			
Non current assets	716.38	509.73	40.54%
Current assets	1,002.10	588.56	70.26%
Total assets	1,718.42	1,098.30	56.46%
Non current liabilities	109.98	74.94	46.76%
Current liabilities	593.98	382.38	55.34%
Equity	1,014.46	640.97	58.27%
<b>Ratios and Margins</b>			
Gross profit Margin (%)	8.45%	9.81%	
Operating profit margin (%)	4.92%	5.48%	
PBT margin (%)	5.16%	5.40%	
Net profit margin (%)	3.98%	4.28%	
Inventory Turnover (x)*	4.57	4.69	
LT Debt / Equity (%)	3.78%	1.49%	
Current ratio (x)	1.69	1.54	
Roae (%)*	16.59%	23.03%	
Roaa (%)*	9.75%	13.15%	
PER (x)*	17.62	10.09	
PBV (x)	2.52	2.07	
Dividend Yield (%)*	1.74%	2.51%	
Dividend cover (x)	3.26	3.94	

**Outlook:** The group has a war chest of cash sitting on its balance sheet to continue focusing on expanding its Fast moving Consumer Goods (FMCG) business. In Botswana the group intends to open 3-5 “Shoppers” stores per year until a store count of 70 is reached. This is a relatively conservative growth strategy in comparison to the more dominant retailers in the country which are rolling out stores at a faster pace. We are however of the view that the Botswana retail market is nearing saturation and believe that Shoppers will find it difficult to steal market share from its larger competitors. On the bright side, the group’s attempts to diversify away from Botswana gives us reasonable optimism in the company’s prospects, and according to management the Namibian business is expected to increase group turnover by about BWP 800m- BWP 900m in the first 12months and contribute BWP 30m- BWP 35m to PAT by FY 15. Furthermore management has expressed that they continue to assess expansion opportunities within the sub- Saharan Africa region.

The current price of BWP 11.51 puts the counter on a PER of 17.7x and PBV of 2.5X while the Botswana market is trading at 13.40 and 3.42 respectively. Usually there is a 50-50 split between the performance of the first and second half of the year, and using that rule of thumb the company looks set to exceed our FY 15 expectations. We target a price of BWP 11.69 compared to its current price of BWP 11.63, and thus advise investors to **HOLD**.



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