

BLOOMBERG: Choppies: BG			
Current price (BWP)	4.10		
Current price (USD)	0.37		
Target price (BWP)	3.75		
Upside/Downside	-9.33%		
12 month High/Low (BWP)	5.50;3.85		
Liquidity			
Market Cap (BWPm)	5,295.76		
Market Cap (USDm)	480.86		
Shares (m)	1,291.63		
Free Float	100%		
Income Statement (BWP'm)			
	H1 16	H1 15	%ch
Revenue	3,530.67	3,008.48	17.36%
Gross profit	713.81	644.01	10.84%
EBIT	141.12	140.58	0.38%
PBT	133.47	129.44	3.11%
Net profit	104.10	103.25	0.82%
EPS (thebe)	8.08	8.57	-5.72%
DPS (thebe)*	4.88	4.51	8.20%
NAV/share(thebe)	114.51	77.72	47.34%
Balance Sheet (BWP'm)			
	H1 16	FY 15	
Non current assets	1,446.49	1,269.31	13.96%
Current assets	1,204.51	1,149.38	4.80%
Total assets	2,651.00	2,418.70	9.60%
Non current liabilities	331.93	312.43	6.24%
Current liabilities	840.06	654.73	28.31%
Equity	1,479.02	1,451.54	1.89%
Ratios and Margins			
Gross profit Margin (%)	20.22%	21.41%	
Operating profit margin (%)	4.00%	4.67%	
PBT margin (%)	3.78%	4.30%	
Net profit margin (%)	2.95%	3.43%	
Inventory Turnover (x)	8.39	9.04	
LT Debt/ Equity (%)	22.44%	21.52%	
Current ratio (x)	1.43	1.76	
RoaE (%)*	16.57%	21.21%	
RoaA (%)*	8.26%	9.02%	
PER (x)*	26.73	30.10	
PBV (x)	3.58	5.66	
Dividend Yield (%)*	1.10%	0.95%	
Dividend cover (x)	1.66	1.90	

\*last 12 months

## Choppies Enterprises Ltd

### Half Year Results to 31 December 2015

Still growing further...

Choppies released satisfactory results for the six months ended 31 December 2015 as reflected by a moderate 0.82% increase in net profit and a 5.72% decrease in EPS to 8.08 thebe. The company continued to grow at a robust pace, having opened a total of 18 stores during the half year (Botswana: 5, South Africa: 4, Zimbabwe: 8, Zambia: 1), bringing overall store count at H1 16 to 147, covering an aggregate floor space of 214,052m<sup>2</sup> - up 22.19% from 177,031m<sup>2</sup> at H1 15. Currently, Choppies operates 172 stores and 10 distribution centres in 5 countries. Choppies' on-going aggressive growth strategy saw high cash flows used to fund expansion and as a result, the company maintained its low yield dividend policy - no interim dividend was declared, thus its dividend yield remained flat at a modest 1.10%.

**Income Statement:** The opening of new stores during H1 16 and declining inflation levels across all markets aided the 17.36% growth in Choppies' top line to BWP 3.5bn (H1 15: BWP 3.0bn). Despite the aforementioned decline in inflation levels which would imply cheaper expenses for the company, cost of goods sold grew ahead by 19.13% to BWP 2.8bn (H1 15: BWP 2.4bn) leading to the GPM contracting by 1.19pp to 20.22%. Opex grew by 17.93% to BWP 606.1m (H1 15: BWP 514.0m), underpinned by a 23.28% increase in administration expenses to BWP 491.5m with the high rate of growth mainly attributable to the addition of the 18 stores during H1 16; electricity (+28.97% to BWP 44.8m), rent (+19.12% to BWP 85.4m), and staff costs (+21.18% to BWP 230.4m). Execution costs associated with establishing infrastructure such as distribution centres, ERP systems and marketing of new stores further eroded earnings and EBIT margins slightly declined by 0.52pp to 3.78% (H1 15: 4.30%).

## Equity Research

### Botswana

13 May 2016

### Retail



Interest expenses shrunk by 4.97% to BWP 11.6m on the back of a 26.93% decrease in total borrowings and the bank overdraft, while interest received increased 3.7x to BWP 3.9m and this supported a 3.11% increase in PBT to BWP 133.5m. With the effective tax charge increasing to 22.00% from 20.23% in the comparative period, PAT improved marginally by 0.82% to BWP 104.1m.

**Balance Sheet:** Total assets grew by 9.60% to BWP 2.7bn (FY 15: BWP 2.4bn), driven by a 25.90% increase in inventory to BWP 674.4m from BWP 535.7m at FY 15, and a 17.28% rise in plant and equipment to BWP 875.0m reflecting the ongoing expansion. Choppies registered BWP 147.1m in net cash inflows from operating activities and a 22.51% decrease in cash flows used in investment activities, while cash from financing activities fell by 98.22% to BWP 8.9m (FY 15: BWP 501.9m). The company reported a 27.58% decrease in cash overall to BWP 249.0m (FY 15: BWP 343.8m) decline in.

The group increased its gearing during the period under review and this was reflected in the 48.07% rise in net debt to BWP 923.0m (FY 15: BWP 623.3m), while equity funding rose by a marginal 1.89% to BWP 1.5bn during H1 16. Given the capital raise from the secondary listing on the JSE which increased equity funding by 62.07% to BWP 1.5bn at FY 15 vs. BWP 912.6m at H1 15, annualised RoaE decreased to 16.57% at H1 16 vs. 21.21% at H1 15. Despite a 56.32% decrease in the bank overdraft, the 53.46% increase in trade and other payables to BWP 695.4m (FY 15: BWP 453.1m) underpinned a 28.31% rise in current liabilities to BWP 840.1m.

**Segmental Analysis:** The Botswana segment maintained its position as the largest contributor to the top line - accounting for 64.44% of total revenue. Revenue in the group's mainstay grew by 14.78% to BWP 2.3bn partly attributable to the opening of 5 stores. Although macroeconomic pressures continued to weigh on the spending power of consumers in Zimbabwe and deflationary trends manifested through the strengthening USD, the segment achieved the largest revenue growth rate of 48.86% to BWP 587.3m partly due to the translation effects of the strong USD.

Although South Africa registered revenue growth of 8.20% to BWP 674.5m, despite a decrease in footfall (H1 16: 9.0m vs H1 15: 10.0m) - it recorded the lowest rate across all segments, partly attributable to challenging trading conditions in mining towns - which stemmed from prevailing strikes and workers leaving the mining belt due to industry job losses. 22 out of the 40 Choppies stores in South Africa are in mining towns. Operations in Zambia commenced on 25 November 2015 with a distribution centre and 1,192m<sup>2</sup> store in Lusaka being opened and the store generated BWP 5.5m in revenue.

An aggressive pricing and promotions strategy and start-up costs for the 8 new stores opened in Zimbabwe during the period under review further eroded the country's profitability as it registered an EBITDA margin of 2.40% (H1 15: 3.82%). Botswana continued to record the highest EBITDA margin of 9.41%, 57bps higher than the corresponding period's 8.84%, while rising power cuts which resulted in higher cost pressures impacted South Africa's profitability negatively, thus producing a negative EBITDA margin of - 1.98% (H1 15: 2.24%). Although the South African segment's average basket size increased from 54 to 55 items y-o-y and retail floor space increased by 29% to 76,451sqm (H1 15: 59,271sqm), the sharp devaluation of the rand during H1 16 put pressure on the conversion of rand - based sales into pula (01/06/15: BWP 1.00 - ZAR 1.19 vs. 31/12/15: BWP 1.00 - ZAR 1.36), which further weighed down earnings generated from operations in South Africa.

Botswana's pre-tax profit margin rose by 110bps to 7.58% (H1 15: 6.48%), while Zimbabwe's declined by 0.92pp to 0.16% (H1 15: 1.96%). South Africa's negative pre-tax profit margin also worsened to 5.94% at H1 16 vs. -1.29% at H1 15 and Zambia also recorded a pre-tax loss, with an expected negative margin of 29.71% as the store recorded revenues for 1 month vs. start up costs incurred in the opening of the store.

**Outlook:** Choppies continues to invest heavily in new stores which is undeniably assisting the group to grow its top-line in the double digits, but this does expose the company to execution risks. A total of 18 stores were opened in H1 16 and an additional 21 stores were acquired in South Africa on 01 March 2016, taking the total to 168 - leaving the company well positioned to achieve its target of over 200 stores in around 6 countries by FY 16. Choppies extended its presence in its home market with the opening of 5 stores in H1 16, and the addition of a 79<sup>th</sup> local store on 4 March 2016, further strengthening its position as the leading supermarket/grocery retailer in Botswana with a dominant market share of c.36% of the formal grocery retail channel. Management asserts that a further 2 stores are expected to open before the end of the current year in Botswana.

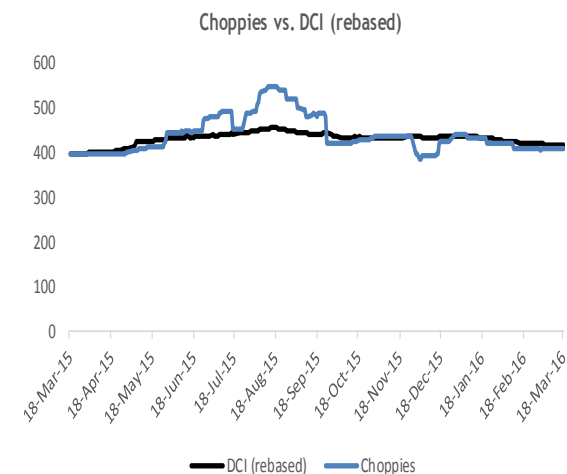
Although the market size in Botswana is limited owing to its small population (just over 2.0m), while Botswana's overall retail market is increasingly getting saturated in terms of players and market share due to the mushrooming of many malls (5 opened in the past 3 years), the expansion is justified as the local retail market has been efficient and is characterised by high volume sales due to a relatively high GDP per capita. The expected recovery of the local economy should boost disposable incomes and thus spending in the sector, which could inherently yield higher revenue inflows for the company.

**Analyst: Kaone Kebonang**

[kaone.kebonang@imara.com](mailto:kaone.kebonang@imara.com)

A deal was concluded in Kenya whereby 10 stores will be acquired - the process commenced on 13 February 2016 with the takeover of the first store in Kisumu and to date, a further 4 stores have been taken over. Moreover, the 21 retail stores which were acquired in South Africa on 01 March 2016 broadened Choppies' SA footprint to 61 stores. The acquired stores which are currently operating under the brand 'Jwayelani' in Kwa-Zulu Natal and Eastern Cape, generated revenues of ZAR 1.0bn in the year to August 2015 with a gross profit margin of 20.37% and a PBT margin of 2.84%. An additional 10 stores are to be acquired in Zambia during FY 16. The aforementioned acquisitions create a strong platform for potential earnings growth and could translate into higher economies of scale which would strengthen Choppies' core competitive advantage of low pricing on goods.

The counter is currently trading at a PER of 26.73x and a Price to Sales of 1.5x, which are above its peer average in Sub-Saharan Africa. Using the relative valuation method, we arrive at a target price of BWP 3.75, which represents a 9.33% downside. Accordingly, we recommend a **HOLD** call on the stock.



<b>Momentum SP Reid Securities Africa and Offshore</b> (A division of Momentum SP Reid) Imara House, Block 3 257 Oxford Road Illovo Johannesbur2146 <b>South Africa</b> Tel: +27 11 550 6200 Fax: +27 11 550 6295	<b>Imara Securities Angola SCVM Limitada</b> Rua Rainha Ginga 74, 13 <sup>th</sup> Floor, <b>Luanda, Angola</b> Tel: +244 222 372 029/36 Fax: +244 222 332 340	<b>Imara Capital Securities</b> Ground Floor Plot 64511 Showgrounds Gaborone <b>Botswana</b> Tel: +267 3188886 Fax: +267 3188887 <i>Members of the Botswana Stock Exchange</i>	<b>Imara Edwards Securities (Pvt.) Ltd</b> Tendeseka Office Park 1 <sup>st</sup> Floor Block 2 Samora Machel Avenue <b>Harare, Zimbabwe</b> Tel: +263 4 790590 Fax: +263 4 791435  4 Fanum House Cnr. Leopold Takawira/Josiah Tongogara Street <b>Bulawayo</b> Tel: +263 9 74554 Fax: +263 9 66024 <i>Members of the Zimbabwe Stock Exchange</i>	<b>Imara S P Reid (Pty) Ltd</b> Imara House 257 Oxford Road Illovo 2146 P.O. Box 969 Johannesburg 2000 <b>South Africa</b> Tel: +27 11 550 6200 Fax: +27 11 550 6295 <i>Members of the JSE Securities Exchange</i>	<b>Stockbrokers Malawi Ltd</b> Ground Floor NBM Business Centre Cnr. Hannover Avenue/ Henderson Street <b>Blantyre Malawi</b> Tel: +265 1822803 <i>Members of the Malawi Stock Exchange</i>	<b>Namibia Equity Brokers (Pty) Ltd</b> 1st Floor City Centre Building West Wing Levinson Arcade Windhoek <b>Namibia</b> Tel: +264 61 246666 Fax: +264 61256789 <i>Members of the Namibia Stock Exchange</i>	<b>Stockbrokers Zambia Ltd</b> Second Floor (Wing), Exchange Building Central Park Corner Cairo Road & Church Road P O Box 38956 <b>Lusaka Zambia</b> Tel: +260 1227303 Fax: +2601221055 <i>Members of the Lusaka Stock Exchange</i>
--	---	--	--	---	---	---	---

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by Imara S.P. Reid (Pty) Ltd, ("Imara") from sources that it believes to be reliable, but no representation or warranty is made or guarantee given by Imara or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of Imara as of the date of this report only and are subject to change without notice. Neither Imara nor any other member of the Imara group of companies including their respective associated companies (together "Group Companies"), nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of companies referred to in this report. Group Companies and their respective affiliates, officers, directors and employees, including persons involved in the preparation or issuance of this report may, from time to time (i) have positions in, and buy or sell, the securities of companies referred to in this report (or in related investments); (ii) have a consulting, investment banking or broking relationship with a company referred to in this report; and (iii) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors (or, in the case of the United States, major US institutional investors as defined in Rule 15a-6 of the US Securities Exchange Act of 1934) and dealers in securities and must not be copied, published or reproduced or redistributed (in whole or in part) by any recipient for any purpose. © Imara S.P. Reid (Pty) Ltd.