

SEFALANA HOLDINGS LIMITED- H1 16 RESULTS

Price (BWP): 13.50
His EPS (BWP): 0.67
His PER: 20.15x
PBV: 2.81x
Dividend Yield: 2.06%
Recommendation: HOLD

Equity Research

Botswana

February 2016

Results Scorecard

Revenue generation remains solid but profit margins are compressed

Moderate revenue growth: Total turnover stood at BWP 1.8bn, an 18.09% increase on the previous half year's BWP 1.6bn, mainly attributable to the 69.40% revenue increase at Metro Namibia which contributed 28% of the group's topline. The Namibian subsidiary recorded a turnover of BWP 0.5bn, benefiting from a full 6 months of trading compared to only 4 months in the comparative period. The retail division increased its market presence by opening additional stores in Botswana and this, alongside an increase in brand awareness, anchored the subsidiary's revenue growth. The contribution to consolidated revenue of the trading segment from other operations, such as Commercial Motors (Pty) Limited and Mechanised Farming (Pty) Limited, fell to 3.31% (H1 15: 4.98%), while the manufacturing arm also saw its contribution shrink to 2.68% (H1 15: 6.35%) on the back of delays in the awarding of 2015/2016 tenders - the subsidiary's mainstay.

Margin retreats: Gross profit margins (GPMs) across most divisions increased slightly compared to H1 15 as follows; Botswana trading - consumer goods (+0.07pp to 5.84%), Botswana trading - others (+2.44pp to 21.55%) and Namibia trading - consumer goods (+1.88pp to 6.87%). Contrastingly, Sefalana's manufacturing subsidiary recorded a 6.01pp decrease in GPM to 16.39%. The Group's total GPM fell to 7.95% (H1 15: 8.45%) as cost of sales grew at a faster rate than revenues because of downward pressures exerted on sales as a result of declining inflation levels. Operating expenses put on 21.34% to BWP 71.6m y-o-y, largely attributable to a 320.62% rise in Metro Namibia's administrative expenses accrued from a full 6 months of trading vs. 4 months in the comparative period, and execution costs incurred with the opening of a store in Swakopmund, its 14th in Namibia, which in turn weighed down consolidated EBITDA margins by 0.63pp to 4.29% (H1 15: 4.92%). PAT declined marginally by 5.54% to BWP 58.6m (H1 15: BWP 62.1m) due to a 4.31% increase in income tax expenses to BWP 21.8m, (H1 15: BWP 18.4m). Accordingly, net profit margins contracted to 3.18% (H1 15: 3.98%). The proposed interim dividend per share was flat at 10.00t, therefore implying an annualised dividend yield of 2.06%.

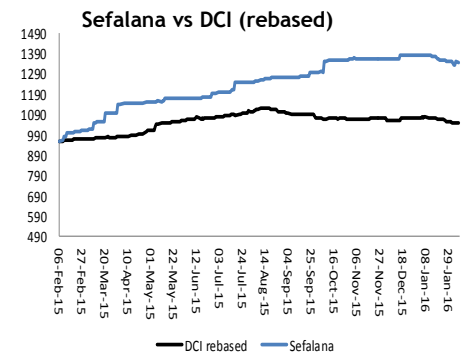
Balance sheet remains robust: Sefalana's balance sheet strengthened moderately; gearing decreased y-o-y by 7.53pp to 61.87%, (H1 15: 69.39%) with overall liabilities decreasing by 5.74% to BWP 663.5m (H1 15: 704.0m). Non-current assets grew by 15.86% due to a 40.14% increase in PPE arising from the purchase of assets such as a UHT milk plant and a building in Ramotswa. The Group has also built 4 warehouses and concluded the purchase of a site in Setlhoa, all of which increased the value of the Group's Botswana property portfolio which is currently worth BWP 0.5bn, and accordingly total assets increased by 1.02% y-o-y. Although inventories increased by 19.81% to BWP 425.5m (H1 15: BWP 384.0m), a 29.66% decrease in cash and cash equivalents on the back of a 10.30% decrease in current assets to BWP 898.88m (H1 15: BWP 1.0bn). Despite this, Sefalana's solvency ratio remained marginally flat at 1.74x (H1 15: 1.69x) owing to a 13.05% y-o-y reduction in current liabilities. The decline in current liabilities was largely attributable to a 95.25% and 9.15% reduction in short term loans and borrowings, and trade and other payables, respectively.

BLOOMBERG: SFLN: BG	BUY		
Current price (BWP)	13.50		
Current price (USD)	1.19		
Target price (BWP)	11.69		
Upside/Downside	13.41%		
12 month High/Low (BWP)	13.80;9.65		
Liquidity			
Market Cap (BWPm)	3 008.72		
Market Cap (USDm)	264.77		
Shares (m)	222.9		
Free Float	100%		
Income Statement (BWP'm)			
	H1 15	H1 14	%ch
Revenue	1 840.30	1 558.33	18.09%
Gross profit	146.26	131.75	11.01%
EBIT	78.90	76.68	2.90%
PBT	80.43	80.46	-0.04%
Net profit	58.61	62.09	-5.60%
EPS (thebe)*	60.97	65.20	-6.49%
DPS (thebe)*	30.00	30.00	0.00%
NAV/share(thebe)	481.21	506.29	-4.95%
Balance Sheet (BWP'm)			
Non current assets	829.94	716.32	15.86%
Current assets	898.88	1 002.10	-10.30%
Total assets	1 735.98	1 718.42	1.02%
Non current liabilities	147.03	109.98	33.69%
Current liabilities	516.49	593.98	-13.05%
Equity	1 072.46	1 014.46	5.72%
Ratios and Margins			
Gross profit Margin (%)	7.95%	8.45%	
Operating profit margin (%)	4.29%	4.92%	
PBT margin (%)	4.37%	5.16%	
Net profit margin (%)	3.18%	3.98%	
Inventory Turnover (x)*	4.35	4.28	
LT Debt/ Equity (%)	6.21%	3.78%	
Current ratio (x)	1.74	1.69	
RoaE (%)*	14.28%	16.59%	
RoaA (%)*	8.63%	9.75%	
PER (x)*	22.14	17.62	
PBV (x)	2.81	2.27	
Dividend Yield (%)*	2.06%	2.42%	
Dividend cover (x)	2.03	2.17	

*12 months rolling

Outlook: Sefalana continues to be proactive with regards to finding innovative ways of strengthening and diversifying revenue streams. The Group launched one of Botswana's first online shopping sites, partnering with Botswana Post to facilitate the delivery of orders within 24 hours. The Group also undertook a brand refreshment exercise, which consolidated and enhanced its existing brand. Although we are of the view that Botswana's retail sector is nearing saturation, we believe that Sefalana will still record growth, albeit modest, in its customer base due to the aforementioned efforts. The online shopping site is still at the infancy stage; therefore solid returns may only be realised further down the line. The Group also launched additional house brand products under its *A-star* brand - a move which we believe may influence growth in its bottom line fueled by the products' competitive pricing. Although the Zambian Property is fully let, going forward, we believe that the net investment may be eroded by the weakening of the Zambia kwacha on the back of low copper prices - Zambia's main export. Furthermore, the Zambian government has discontinued the use of the USD as a second currency and consequently, Sefalana's rental leases in Zambia will be converted from USD terms to kwacha, therefore exposing the division's profitability to volatility, as the company won't benefit from the more stable USD rental streams which buffered the subsidiary against the inherent foreign exchange risks in the past. The Group recently purchased a UHT milk plant, which has resulted in the commencement of milk production, leading to the supply of the *A-star* brand of milk to Sefalana stores. We are of the view that this purchase will also strengthen future earnings, as it now exposes the Company to potential earnings from tenders regarding children's milk feeding schemes, for example.

The current price of BWP 13.50 puts the counter on a PER of 20.15x and PBV of 2.81x while its peer, Choppies, is trading at an average of 26.85x and 3.65x, respectively. We currently have a **HOLD** recommendation on the counter, but are in the process of updating our models and valuations.



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