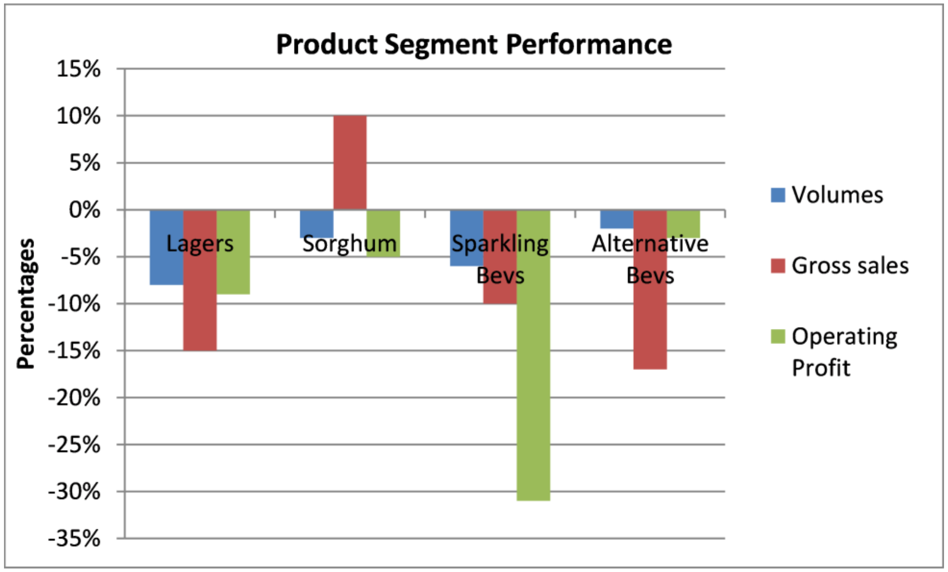
Delta Financial Year Ended 31 March 2016 Analysis

Market Data			
Current Share Price(Usc)			73
Shares in Issue			1,244,313,975.00
Market cap(US$)			908,349,201.75
YOY high(Usc)			107
YOY Low(Usc)			52
YTD			3.54%
YOY			-30.47%
Dividend Payout			72%
P/E			11.25
Income Statement	**FY2016**	**FY 2015**	**% Change**
	US$'000	**US$'000**	
Revenue	538,198.00	576,552.00	-6.7%
Operating profit	96,072.00	111,136.00	-13.6%
Profit After tax	80,089.00	91,954.00	-12.9%
Operating margin	18%	19%	-7.4%
Net Profit margin	15%	16%	-6.7%
Financial Position			
Total Assets	696,238.00	663,665.00	4.9%
Total Liabilites	208,339.00	207,020.00	0.6%
Attributable Equity	487,899.00	456,645.00	6.8%
Cashflows and Ratios			
Cashflows from Operations	137,463.00	131,690.00	4.4%
Cashflows from Investing	(49,426.00)	(67,653.00)	-26.9%
Cashflows from Financing	(55,632.00)	(42,660.00)	30.4%
ROE	16.42%	20.13%	-18.5%
ROA	11.50%	13.86%	-17.0%
Current Assets to CLs	3.13	2.91	7.7%
Total asset turnover	0.77	0.90	-14.0%
Debt to Assets	9.3%	9.1%	3.1%

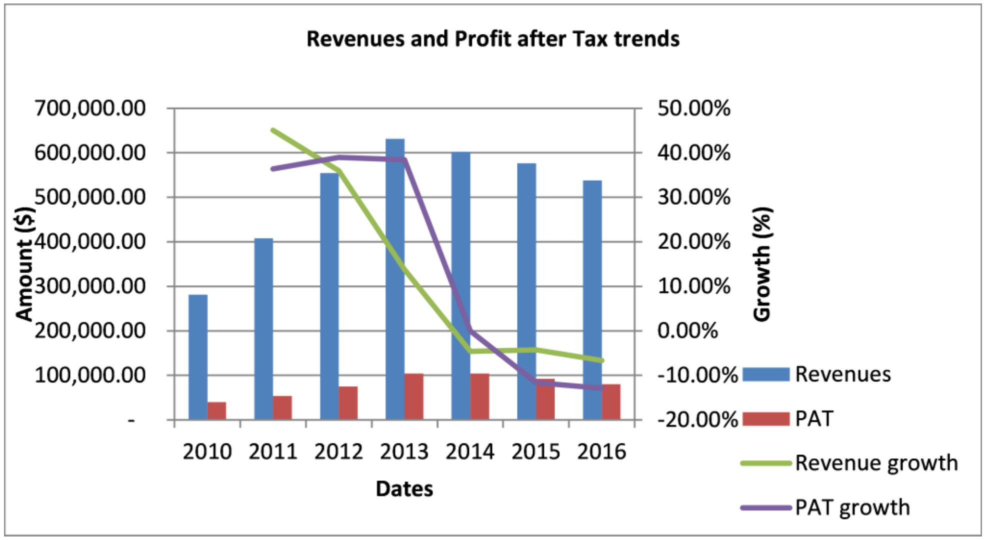
Delta Revenues Down 7%

Revenue declined by 7% due to a drop in volumes across all product segments with the worst performance coming from Lagers. The year ended was a tough one on the Group as the harsh operating environment resulted in lower volumes across all products whilst a change in demand was experienced with economy beer and Sorghum beer taking over higher valued products such as Mainstream Lagers and Sparkling beverages. The stronger US dollar increased the level of imports and parallel products, the cash crisis reduced discretionary expenditures whilst high unemployed lowered disposable incomes. Below is the performance of the various product segments;



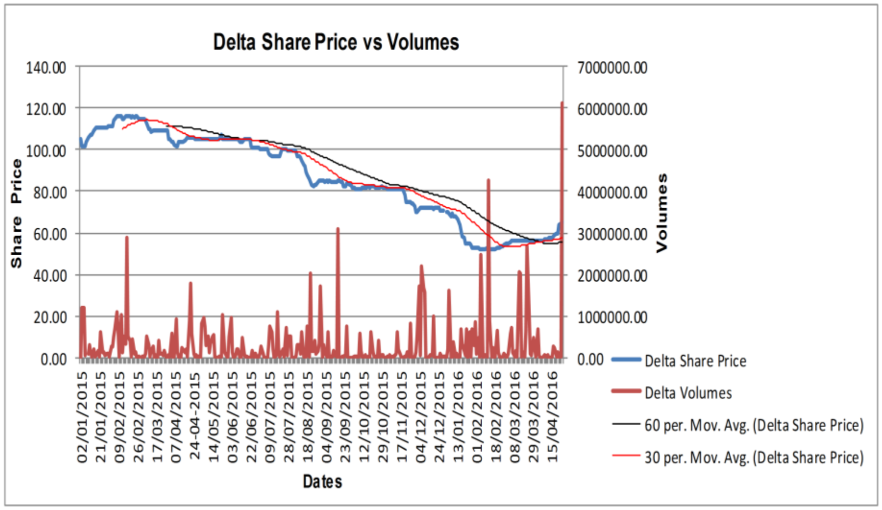
Lagers recorded the worst performance in volumes at -8% followed by Sparkling Beverages and Sorghum which were down by -6% and -3% respectively. Sorghum beer recorded the highest gross sales at 10% with the worst performance being recorded from Alternative Beverages and Largers.

All products recorded negative operating income with the worst performance being recorded in Sparkling Beverages at -31%, followed by Lagers at -9% and Sorghum beer at -5%. The decline in operating profit was greater than the decline in revenues due to trading off margins by reducing prices. Cash flow from operations was up 4% due to a positive working capital changes. ROE and ROA declined by 19% and 17% percent respectively but remained in the double digit figures. A final dividend of 2.35c was declared bringing total dividend to 3.75c and was up by 3% from the previous year. A special dividend of 0.95c was declared due to the availability of cash (net cash of $101mln) and limited growth opportunities for investment.



The graph above indicates that Revenue growth has been declining since 2012 whilst PAT growth has been weakening since 2014. Growth for both has since moved into the negative territory since 2014 and has remained there. The steep decline has been capped however due to various measures to maintain market share such as cutting product prices and introducing products that allow for low disposable incomes.

Technical Analysis



The graph exhibits a gradual decline in the share price of Delta Beverages between February 2015 and February 2016. The blue-chip counter like many other listed counters also fell out of favor with investors given the bearish outlook on the ZSE that resulted in increased selling especially from foreign investors who are the most active traders of Delta. Since February 2016 the counter's trading price trend took a turn for the positive and the stock has since managed to erase the losses that had been incurred since the beginning of the year. We also observe the short term moving average cutting the long term average from below indicating a **BUY** signal. We believe that the recent positive turn in the share price movement could be attributed to that the counter has been over punished by the market and that the news of the special dividend could have filtered into the market before the announcement of the year end results.

Investment case

- Despite the challenging economic environment the counter has been paying a consistent and growing dividend. In particular, during the period ending March 2016 the company paid a total dividend of 4.7 cents per share (comprising of 3.75 per share as the annual dividend and 0.95 cents per share as a special dividend).The dividend paid translates into a dividend payout ratio of 72% (or a payout ratio of 50% excluding the special dividend.)
- Its product diversity has allowed Delta to continue to retain a significant portion of the market despite the changing consumer preferences towards lower value beverages such as Sorghum beer.
- Delta is also continuously enhancing its Chibuku Super capacity in order to improve product availability and to also enhance revenues as the product currently has the highest growth in gross sales. In particular, additional plants will be commissioned at Kwekwe and Masvingo in September 2016.
- ROE and ROA levels have remained at attractive levels despite indicating declines. The same can be said for the operating and the net profit margins which have remained significantly higher than other beverages concerns like Dairiboard.
- Although the net cash position of the Group remains quite high at $101million, it has allowed the company to leverage on this position through reducing the fixed cost element of increasing borrowings in the short term.
- It is a highly liquid counter.
- It's a bell weather stock whose product demand is highly inelastic despite the competitive pressures from imports.
- Delta has an experienced board of directors and management whose role in running the company cannot be doubted because it does not have a single major shareholder who can influence the direction of the company through majority representation on the board.

Investment Concerns

- Delta's runs a 'cash business' therefore the current cash challenges in the economy will reduce consumer spending on beverages thus negatively affecting the company's performance.
- The unrelenting operating environment is slowly seeking to eclipse the significance of Delta mainstream's products like Lagers and SBs leaving it to slowly depend on low margin products like Chibuku and economy lagers.
- The strengthening dollar is increasing pressure for Delta by making imports relatively cheaper thus forcing it to continuously cut prices to remain competitive.

Valuation and Recommendation

An increase in Sorghum beer production is expected to continue to support volumes whilst further price cuts in premium products are expected to retain competitiveness and to protect the shrinking Largers and SBs market share. Due to the negative revenue growth trend, we expect the higher Sorghum beer production and price cuts to continue to provide a slight reprieve to revenue declines and as such a negative revenue growth of -5% is forecasted in full year 2017. Operating margins are forecasted to shrink to 17% as further cuts are inevitable leading to an EPS of 5.87c which is 10% lower than the current one. Inspite of the lower forecasts, we believe that Delta is currently undervalued upon considering a number valuation methods. The Constant Dividend method reveals a fair value of 77c, the EV/EBITDA indicates a 11.6x historical average against a current EV/EBITDA of 9.8x and the P/E multiple indicates a historical average of 13.1x against a current P/E of 11.3x. Historical averages were used in our relative methods as the ZSE currently has no companies that are comparable with Delta in critical factors like size, product lines and growth rate. All three methods which are shown in the table below were used in valuing the counter to come up with a fair price of 89c per share which gives an upside potential of 22% from the current price. We therefore give a **BUY r**ecommendation as we have a firm belief that the counter's strong investment case can support the recovery of the counter.

Method	Weight	Valuation	Weighted valuation
DCF	0.33	77.30	25.51
P/E Multiple	0.33	104.44	34.47
EV/ EBITDA	0.33	85.02	28.06
			88.03