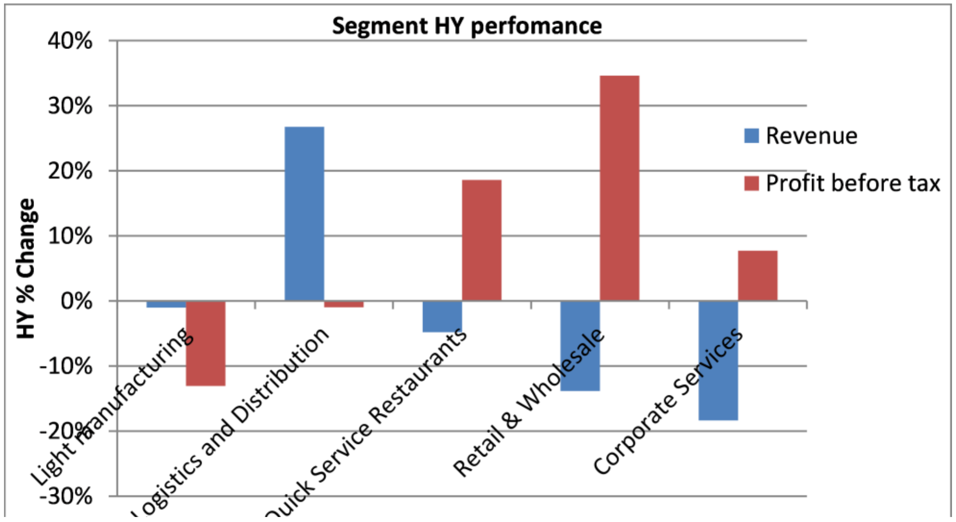
INNSCOR HALF YEAR ENDED 30 DECEMBER'14 RESULTS ANALYSIS

Market Data			
Current Share Price(Usc)			58
Shares in Issue			540,118,440.00
Market cap(US$)			313,268,695.00
YOY high			81
YOY Low			55
YTD			-3.30%
YOY			-22.66%
Interim Dividend(USc)			0.55
EPS			2.50
P/E			23.20
Income Statement	**HY2014**	**HY 2013**	**% Change**
Revenue	512,996,433.00	525,204,383.00	-2.3%
EBITDA	46,133,930.00	45,920,178.00	0.5%
Operating profit	33,371,851.00	74,966,514.00	-55.5%
Profit After tax	23,778,124.00	64,228,596.00	-63.0%
Operating margin	6.5%	6.8%	-4.9%
Net Profit margin	4.6%	4.8%	-3.4%
Financial Position			
Total Assets	582,305,056.00	511,910,697.00	13.8%
Total Liabilites	251,019,913.00	248,267,185.00	1.1%
Atrributable Equity	217,738,217.00	168,068,001.00	29.6%
Cashflows and Ratios			
Cashflows from Operations	(288,683.00)	42,046,964.00	-100.7%
Cashflows from Financing	11,335,550.00	(5,421,410.00)	-309.1%
ROE	0.06	0.32	-80.6%
ROA	0.02	0.11	-77.8%
Current Assets to Current liabiltie	1.39	1.36	1.9%

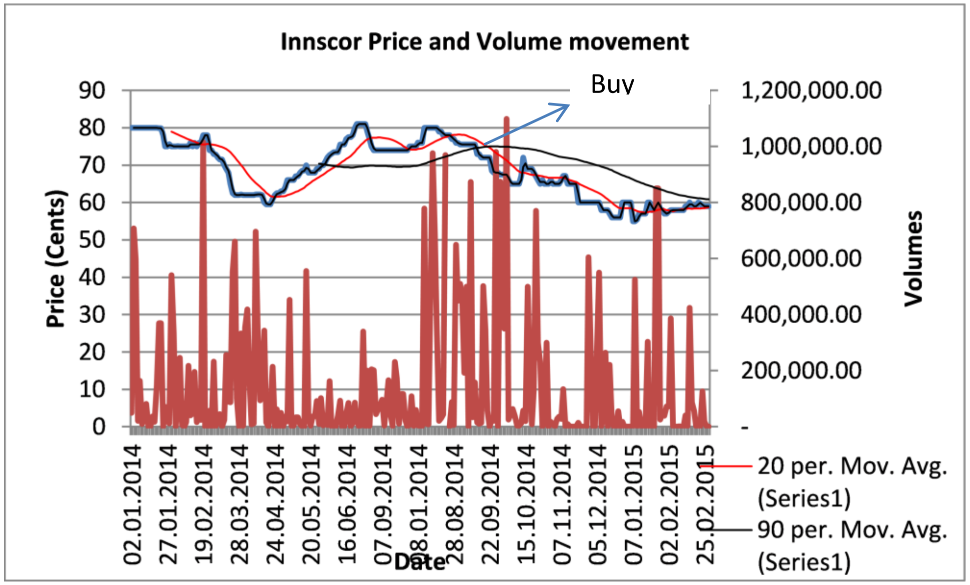
Innscor HY Revenue down 2%

The first half of its financial year was a particularly tough one for Innscor, its revenue shed 2% from last year's figures due to a negative performance from its various business interests with the exception of its Distribution and Logistics unit. It registered a mixed volume growth with Colcom, Irvines, Capri, Natpak and TV Sales and Home showing positive volume growth and whilst National Foods, the Bakery division , Fastfoods operations and Spar stores showed a decline in volumes. The bottom line suffered an even worse performance as margins across most segments were under pressure from lower average selling prices and a heavy cost structure. Compared to the corresponding period last year, PAT fell by 63% largely due to the presence of a once off fair value adjustment in 2013 relating to the attainment of control of its subsidiaries of $39million which had elevated profits in that period. However, after adjusting for this once off gain, Profit after Tax shows a decline of 5.6%. Profits were pulled down by negative profits movement from National Foods, Irvines, Bakery operations, TV Sales and Home and Spar Stores. The positive performance and growth from Capri, Natpak, Fastfood outlets and Logistics and distribution was not sufficient to cushion the group from a decline in the bottom line.



The graph above shows an overall positive performance in the various segments in Profit Before Tax. This was however outweighed by the negative profit movement in the largest contributing segment which is the Light Manufacturing due to sub performance from National Foods, Irvines and the Bakeries thus causing overaly lower profits.

Technical analysis



The graph above indicates that the Innscor share price has been trending downwards since the beginning of the 2nd half last year to reach a year on year low of 55c which also serves as its short term support price. It is currently trading close to this price at 58c per share. Its resistance over the past 6 months was 80c. A combination of a short term and a long term moving average shows that the short term average cuts the long term average from above in the third quarter of 2014 indicating a **BUY** strategy. As the current price is trading close to its support price we still recommend the same strategy.

Investment Case

- Widely diversified business model.
- Has a great capacity to act on economies of scale and therefore reduce costs.
- Very high cash generating ability, it records the highest revenues on the ZSE.
- Highly liquid counter which is favored by foreign traders.
- Stable dividend payer.
- It is well positioned to take advantage of any positive economic developments that increase disposable incomes.
- It has business interests in Zambia and Malawi thus allowing it to partly hedge against country specific factors.
- It's a great contributor to the country's GDP.

Investment Concerns

- It is highly vulnerable to prevailing economic conditions and in depressed times such as the current ones its margins and profits become adversely affected.
- Its diverse business model needs a tight reign as it appears that it has a huge cost bill from its profits that are largely out of line with its revenues. Its margins have been trending downwards and have declined by 58% from 2011 to 2014.
- Most of its business models are quite simple and easy to copy and as such its competitors have increased over the years.
- A huge conglomerate like Innscor ends up running loss making entities for longer periods because of its ability to absorb these losses.

Recommendation

As Innscor is a stable dividend payer the Dividend Discount Model was used in combination with the P/E Multiples Approach in our valuation. Innscor currently trades at a P/E of 14x against a sector average of 11.7x. Equal weighting of both these methods indicates a forward fair value of 73c that gives an upward potential of 25% at the current prices. Given this valuation we recommend a **BUY** strategy which concurs with the technical analysis given above.