

MEIKLES FULL YEAR ENDED 31 MARCH 2016 ANALYSIS

Market Data

Current Share Price(Usc)	7.32
Shares in Issue	245,374,791.00
Market cap(US\$)	17,961,434.70
YOY high(Usc)	8.5
YOY Low(Usc)	7
EPS	-8.95
P/E	-0.82

Income Statement	FY2016 '000'	FY 2015 '000'	% Change
Revenue	453,648.00	413,349.00	9.7%
Operating P/L	2,052.00	(10,374.00)	119.8%
Profit After tax	(19,342.00)	(34,486.00)	43.9%
Operating margin	0.45%	-2.51%	118.0%
Net Profit margin	-4.26%	-8.34%	48.9%

Financial Position

Total Assets	284,375.00	304,645.00	-6.7%
Total Liabilites	154,699.00	167,489.00	-7.6%
Attributable Equity	108,494.00	119,875.00	-9.5%

Cashflows and Ratios

CFs from Operations	20,123.00	12,182.00	65.2%
CFs from Investing	9,158.00	(2,568.00)	456.6%
CFs from Financing	(27,669.00)	23,894.00	-215.8%
ROE	-20.93%	-28.73%	27.1%
ROA	-7.99%	-11.31%	29.4%
Current Assets to CLs	0.57	0.76	-24.2%
Total asset turnover	1.60	1.36	17.6%
Debt to Assets	0.27	0.31	-11.7%
Financial leverage	0.72	0.79	-8.9%

Meikles Revenues Up 10%

Meikles revenues were up 10% due to a significant improvement across all segments of the Group with the exception of Hospitality. There was also a substantial improvement in operating profit which was positive as operating costs for the current period were contained within the current revenues thereby reversing the previous year losses of \$10.4 million. Operating margins remain very weak however at 0.5% as costs remains unreasonably high as has been the case in prior years after dollarization. Loss after tax was reduced by 44% due to the positive operating profit, investment income from interest earned on Treasury Bills held by the Group, and the absence of a provision for discount on the balance owed by the RBZ as the bank cleared its balance with the Group. The group however has very high finance costs which currently stand at \$10.5 million.

The current results however still exclude other sums due from the Government and these will be counted for they are received or when receipt is confidently assured. These sums are expected to have material positive impact on the Company's results. Total assets were lower due to a reduction in current assets such as the balance of treasury bills held by the company, the clearing of the balance owed by the RBZ and improvement in debtors collection. Despite the reduction total liabilities, the company's interest bearing borrowings remain quite substantial especially in the short term. Its obligations to its creditors also remains quite significant thereby leading to a poor liquidity position as is indicated by the liquidity ratios that have been less than one thereby indicating a poor ability to meet its short term obligations. The Company has currently shelved its plans to engage in mining as its foreign mining partner has withdrawn from Zimbabwe.

Below is a review of the performance of the various segments of the business;

Stores

Revenues were up by 28% due to the opening of 10 new stores comprising of 2 Barbours stores, 4 M stores and 4 Meikles Mega Market branches. A number of Meikles Mega Market branches and M stores are planned to be opened in 2017. Total operating costs reduced by 18% with saving being achieved from from employee and occupancy costs. This segment is expected to return to profitability

by the second quarter of the 2017 financial year.

Supermarkets

This segment is the greatest contributor to the revenues and profitability of the company. Its turnover grew by 10% to \$395mIn due to a number of initiatives by the company such as rebranding to TM Pick and Pay, competitive prices and unique promotions and expansion of local supermarkets. Customer count were 7.6% higher, stock turnover levels rose by 14% and volumes increased by 12.6%. This led to a 70% improvement in EBITDA from 9.3million to \$15.9 million. Operating costs have remained contained and stood at 16.8% of turnover from 17.1% in 2015.

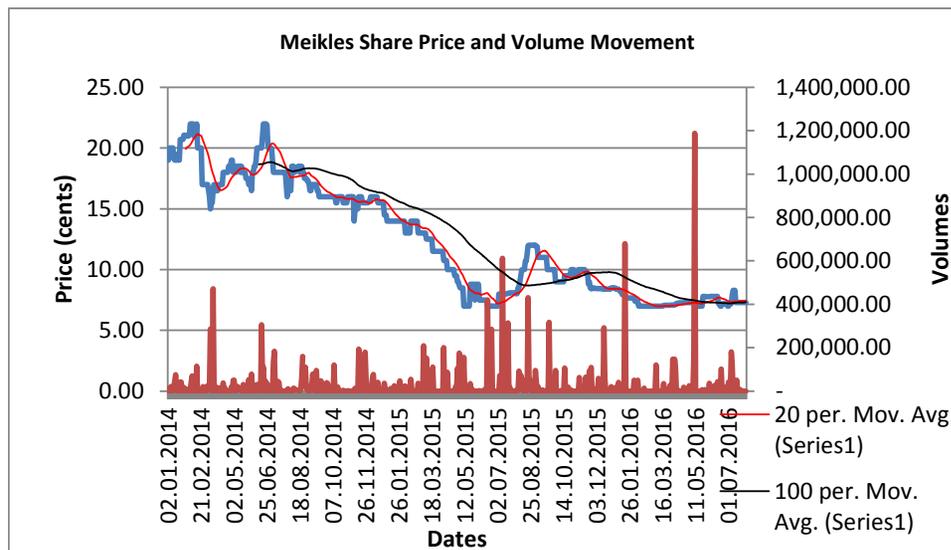
Agriculture

Revenues were 6% up due to greater volumes of tea sales arising from the Rainforest Alliance Certification that led to an improvement in export sales of tea. Production of most tea, coffee and avocados was however affected by the drought conditions experienced in the country. Operating profits were positive this year at \$255 000 from the negative \$104 000 recorded in 2015. Operating profits were likely to be much higher but were adversely affected by a taxation penalty of \$988 000 that is currently being contested.

Hotels

Hotel revenues declined by 4% to \$15.8 million due to the introduction of a VAT of 15% on revenues from foreigners which could not be fully passed onto guests in price increases. Meikles Hotel occupancy levels grew by 1.64% but were offset by a decline of 7% in average daily rates. Occupancy levels at Victoria falls Hotels were down by 2.6% whilst average daily rates reduced by 2%. Operating costs were lower by 3% whilst EBITDA declined by 15%.

Technical analysis



The Meikles share price has been generally trending downwards with thinly traded volumes that have been below the 200 000 mark on average. The levels of volumes traded have worsened in 2016 due to the low level investor participation on the ZSE. The shares are currently trading at the current support price of 7.3cents and the recent trend in the long term moving average has seen it moving slightly below the short term average which is an indication that at present there is a lower possibility of a continued downtrend. Improvement in company fundamentals supports this analysis and the current year figures indicate a turnaround in the company's fortunes with a strong possibility of continued improvement particularly from the Supermarket and stores segment that may prevent a further downward movement in share prices.

Investment case

- There has been a robust performance from the Group's leading segment of Supermarkets. The Pick N Pay brand is a very strong and is well respected countrywide. From the period of rebranding, visible improvements has been observed from the performance of all the stores which are increasingly eating into the market share of market leaders like OK Zimbabwe.
- Its supermarkets have managed to post positive figures of revenues, volumes and profits in an environment that is characterised by significant

declines in all of the above due to the tough operating environment.

- The partnership with Pick N Pay allows Meikles to accrue benefits such as cheaper lines of credit and easier access to stock in South Africa which has enabled them to keep prices at competitive levels.
- The Rainforest Alliance certification is expected to continue to improve export sales of tea. Already this certification led to growth in sales of 6% despite a 16% decline in production levels of tea.
- Performance from the Meikles M stores and Mega Market stores is expected to continue to support revenues and profits going forward given the continued expansion and opening of new stores. Already a 28% increase in revenues has been observed and profitability is expected from the second quarter of 2017.
- The Group is looking to convert some of its very high short term loans to long term loans which may improve its liquidity position.

Investment concerns

- The Group is widely diversified and yet these benefits of diversification as half of the operations still record poor performances and are diluting the good performances of other segments to the detriment of shareholder value.
- The Group has once again been unable to declare dividends given the continued significant losses (albeit reduced in the current year). Since 2009, Meikles has only declared a dividend once in 2014 when it reported results that were under questioning which eventually led to a temporary suspension of the counter on the ZSE.
- The depressed economic environment and changing weather patterns are a serious threat to future performance of the retail oriented business.
- The Group's operating costs are quite alarming and have been at logger heads with revenues since 2009 which basically indicates that on average more than 95% of the Group revenues are swallowed up by operating costs leading to operating losses in the years 2011, 2012 and 2014 and 2015.
- The withdrawal of Meikles' foreign mining partner has withdrawn some exciting revenue generating opportunities from the Group which shareholders were looking towards.
- Negative after tax profits have been reported since 2012 to the current financial year ended with the exception of 2013.
- The Group's liquidity position keeps deteriorating and its short term obligations to its creditors remain very high and inadequately covered by current assets.

➤ Pick n Pay's increased exposure in the supermarkets segment will

Possibility of further Suspension of Meikles-Probability

The main reason for suspending counters by an Exchange is to protect mainly the minority shareholders from investors overreacting to adverse information.

