

## PROPLASTICS INVESTMENT CASE

19 JUNE 2015

### Masimba Holdings Limited Unbundles Proplastics...

Proplastics (former manufacturing division at Masimba) was unbundled from the group and separately listed on the Zimbabwe Stock Exchange in June 2015. The unbundling was done after the Board of Directors at Masimba realised that there was considerable value to be unlocked in pursuing the contracting and manufacturing strategies through two independently managed businesses. Shareholders of Masimba Holdings Limited were given shareholding in Proplastics Limited through a dividend in specie. Due to the fact that Proplastics has not completed a half/full financial cycle as an independent our financial analysis shall only be restricted to segment financial information obtained from the Masimba Holdings Results for the year ending December 2014. An investment case of the company shall be given after the analysis and a recommendation shall wrap up the discussion.

### Proplastics Financial Analysis

The company's revenue declined by 11% from US\$14.9 million computed as the adjusted figure for the 12 months ending December 2013 to US\$13.3 million for the 12 months ending December 2014.

#### Masimba Segmented Statement of Comprehensive Income

	12 Months December 2014	Adjusted December 2013	18 Months December 2013
<b>Revenue</b>			
Contracting	14,848,743	26,649,541	39,974,312
Manufacturing	13,328,216	14,893,425	22,340,137
Other		-	
<b>Total</b>	<b>28,176,959</b>	<b>41,542,966</b>	<b>62,314,449</b>
<b>Profit Before Tax</b>			
Contracting	(1,078,101)	547,073	820,610
Manufacturing	651,684	301,477	452,215
Other	(228,589)	(547,489)	(821,233)
<b>Total</b>	<b>(655,006)</b>	<b>301,061</b>	<b>451,592</b>
Contracting Net Profit Margin	-7.3%	2.1%	2.1%
Manufacturing Net Profit Margin	4.9%	2.0%	2.0%
Group Net Profit Margin	-2.3%	0.7%	0.7%

In the year 2014 Proplastics contributed 47% to the group's total revenue compared to 36% for the adjusted 12 months ending December 2013. Notwithstanding the decline in revenue the company's profitability improved by 116% from an adjusted profit figure for the 12 months ending 2013 of about US\$311,000 to about US\$652,000 for the year ending December 2014. An analysis of the segmented financial results yields the following key observations about Proplastics Limited;

- Although Proplastics was not the dominant division in terms of revenue contribution at Masimba Holdings, it played a pivotal role of sterilising the negative profit margins recorded at the construction division. In other words, Proplastics profitability significantly reduced losses for the group especially for the financial year ending December 2014
- Proplastics Limited net profit margins have been heading northwards signalling an improvement in efficiencies.

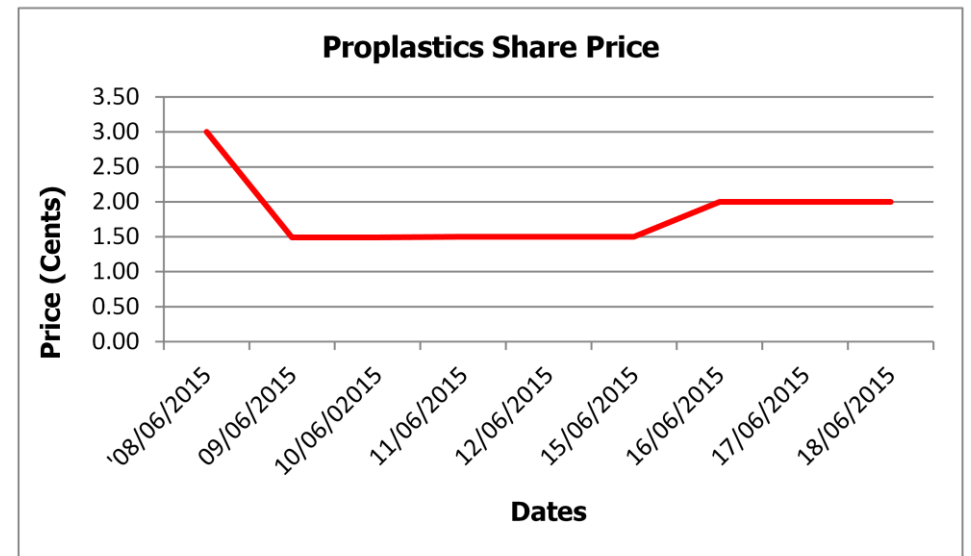
## Proplastics Limited Investment Case

### 1. Demand for Proplastics Products will remain elevated:

Demand is expected to remain firm driven by urban sanitation rehabilitation programs, irrigation and agriculture and the buoyant housing developments. In particular, despite the challenging economic environment, new property developments are emerging. Some of the recent developments in the property market sector include:

<b>Masimba Segmentated Statement of Financial Position</b>		
	<b>December 2014</b>	<b>December 2013</b>
<b>Assets</b>		
Contracting	13,784,399	14,721,743
Manufacturing	10,267,196	9,513,061
Other	9,917,586	13,215,565
<b>Total</b>	<b>33,969,181</b>	<b>37,450,369</b>
<b>Liabilities</b>		
Contracting	10,597,656	12,697,668
Manufacturing	2,285,346	2,882,418
Other	974,126	1,276,105
<b>Total</b>	<b>13,857,128</b>	<b>16,856,191</b>

## Counter Technicals



- Mashonaland Holdings Natal Road office Park;
- Old Mutual Borrowdale Park;
- Celestial Park; and
- Grant Thornton Associates Office Development along Enterprise Road.

Some of the Developments Expected to onto the market during the year 2015 include;

- The Methodist Church Offices along Blakiston Road;
- Spar Distribution Centre along Chitungwiza Road; and
- The Tobacco Auction Floors along Glen Eagles Road, Willowvale

The above developments will add to the existing residential developments across the country which include but not limited to:

- Pokugara residential Estate and Office Park adjoining Dandaro Village along Borrowdale Road;
- Pomona Residential Estate after Wingate Golf Club;
- Fidelity Life Southview Park Residential Estate;
- Sandton City Residential Estate;
- Springvale Estate in Ruwa;
- Sunway City along Mutare Road;
- ZPI Tynwald Residential Estate along Bulawayo Road;

- Fairview Residential Estate;
- CABS' Budiriro Residential development;
- Lomagundi Road Industrial Park along Lomagundi Road; and
- The Arlington Estate along Airport and Chitungwiza Roads.
- Madokero Housing Estate

## **2. The company created headroom to deal forecast demand for its products**

In 2014 Proplastics Limited launched HDPE plant with a view of increasing its product offering both locally and regionally. Based on the above, we believe the company enhanced its capacity to meet the envisaged demand which may be stimulated by proper marketing strategy

## **3. Improving Net Profit Margins**

Proplastics net profit margins have been improving indicating an improvement in efficiencies between the two periods under review. Going forward, if the trend is sustained we expect it to enhance shareholder value.

## **4. Marimba's Strategic Shareholding**

Masimba Holdings Limited will retain a minimum a 10% shareholding in the Proplastics for strategic reasons. This will provide a platform for guaranteed business from the sister company going forward thus reducing business risk.

## **Recommendation**

Due to the dearth of information a proper valuation exercise could not be carried out. However, the company's financial highlights extracted from Masimba Holdings accounts reflect a company with bright future prospects. This is also supported by the investment case discussed above. RECOMMENDATION: **BUY at a price of 1.5 cents per share.**

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## **Disclaimer:**

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