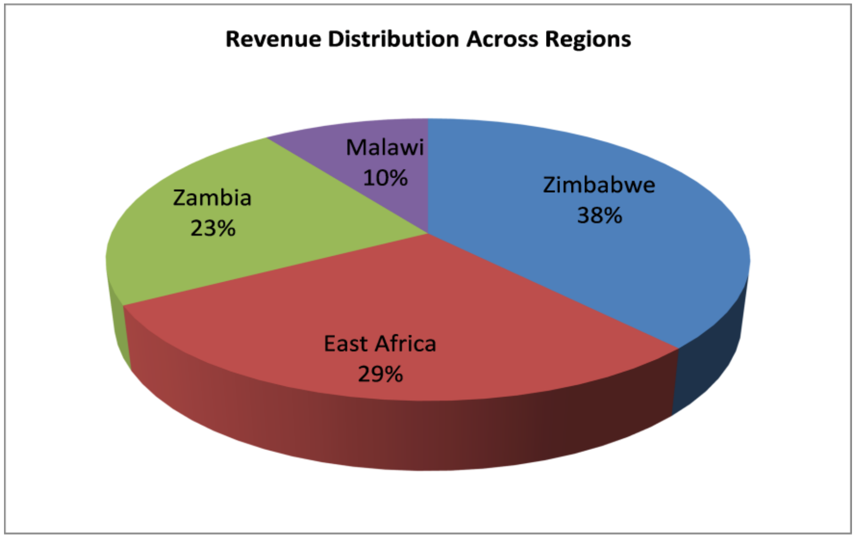
SEEDCO YEAR ENDED 31 MARCH 2015 RESULTS ANALYSIS

Market Data			
Current Share Price(Usc)			**95**
Target Price			**114**
Shares in Issue			**234,448,466.00**
Market cap(US$)			**213,348,104.00**
YOY high(Usc)			**106**
YOY Low(Usc)			**70**
YTD			**-6.2%**
YOY			**28.2%**
EPS			**6.92**
P/E			**13.73**
Income Statement	**FY 2015**	**FY 2014**	**% Change**
Revenue	94,659,536.00	106,534,790.00	**-11.1%**
Operating profit	16,659,833.00	18,358,822.00	**-9.3%**
Profit After tax	15,009,741.00	11,833,431.00	**26.8%**
Operating margin	17.60%	17.23%	**2.1%**
Net Profit margin	15.86%	11.11%	**42.8%**
Financial Position			
Total Assets	186,977,114.00	170,311,869.00	**9.8%**
Total Liabilites	39,174,310.00	68,528,831.00	**-42.8%**
Attributable Equity	147,802,804.00	101,859,714.00	**45.1%**
Cashflows and Ratios			
CFs from Operations	17,236,218.00	15,539,466.00	**10.9%**
CFs from Investing	(2,455,022.00)	(9,509,539.00)	**-74.2%**
CFs from Financing	21,469,614.00	7,243,852.00	**196.4%**
ROE	10.31%	11.58%	**-11.0%**
Current Assets to CLs	3.21	2.17	**47.5%**
Total asset turnover	0.51	0.63	**-19.1%**
Debt to Assets	7%	21%	**-64.5%**

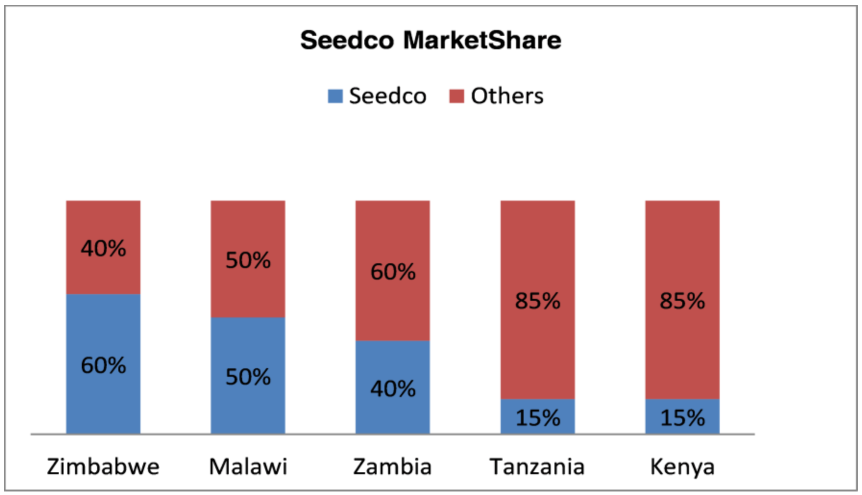
Seedco PAT Up 27% to $15million

Group revenue was down by 11% to $95m due to maize seed shortages as demand shifted to short season varieties owing to delayed rains and subdued input programs across the region. Costs of sales were down by 10% to $51m and subsequently Gross Profit recorded a 12% drop. Gross margins were 1% lower at 46%. Operating cost management and tight credit risk management significantly reduced impairments leading to a 11% decline in operating expenses. Operating profit came off by 9% whilst operating profit margins improved by 2% to 17.6%. Finance charges were 56% lower than the previous year due to a Capital injection from Seedco's technical partner Limagrain and lower borrowing costs at rates below 8%. The Income tax expense was 61% lower than the previous year. These cost reductions in combination with the 11% decline operating expense culminated to a 27% increase in After Tax profit to $15m.

Noncurrent assets went up by 81% due to the inclusion of treasury bills worth $23.7m as part compensation for government debt and the capitalization of Malawian assets. Current assets were 19% lower due to concreted efforts on debt collection and a stock rebalancing exercise aimed at substantially reducing inventory levels. On the other hand the Group remains highly liquid and has $14m cash balances deposited with reputable banks. This is indicated by the current ratio which recorded a 47% increase and is currently at 3.21x. This increase was also due to substantial reduction in the short term interest bearing borrowings from $32m to $12m which led to a 67% reduction in the debt ratio to 7%.The 196% increase in cashflows from financing activities was primarily due to capital injection from Limagrain. Investing activities involving purchase of PPE were not significantly different from the previous year therefore the reduction in the cashflows from investing activities was due to cash inflows from the sale of its 60% stake in Quton. EPS were 17% higher at 6.9c a share. A dividend of 1c per share is proposed by the board. This is the first time in 3 years that the company is declaring a dividend.



Source: Seedco 2015 Financial Results

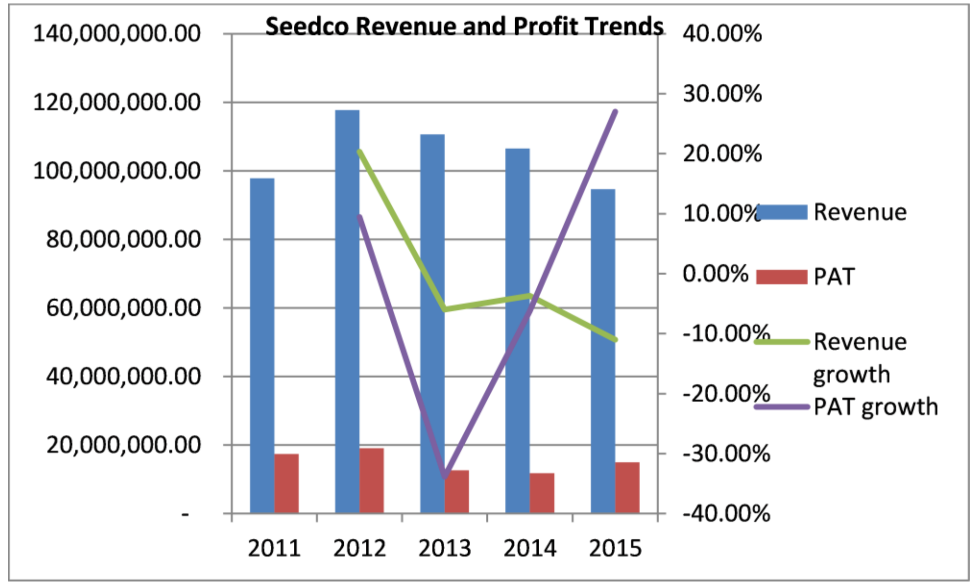


Source: Seedco F15 Presentation

Seedco commands the first position in terms of market share in all the mentioned regions with the exception of Kenya were it has second position.

Revenue and Profit Trend

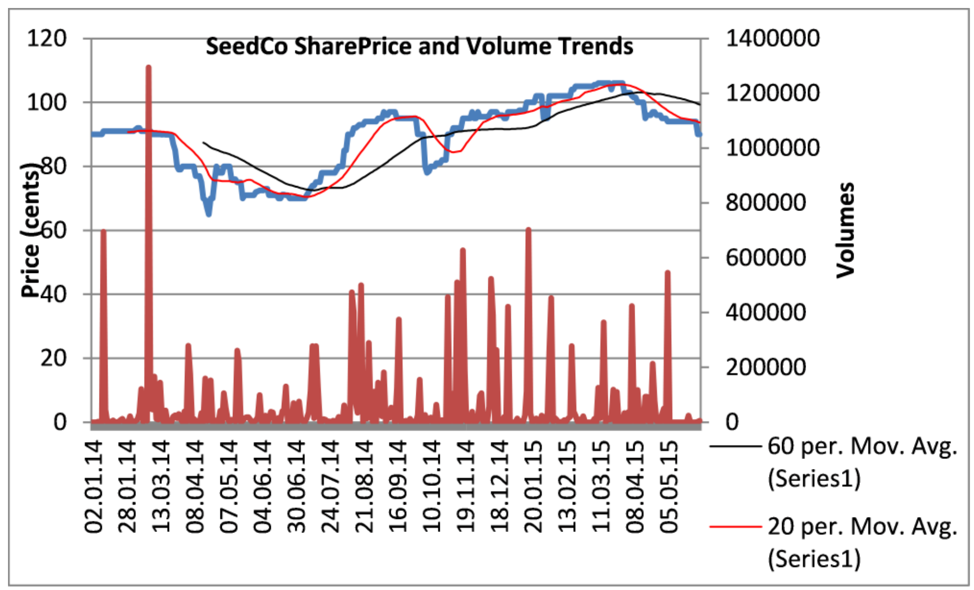
The following graph indicates that overall revenue growth has been negative since 2012 with only a slight reprieve seen in 2014. Profit After Tax on the other hand has indicated a marked recovery since 2013.



Source: Seedco Financial Statements

We expect revenue growth to take a positive turn in the current financial year due to the various developments and prospects of the Group that are mentioned below under the Investment Case.

Technical Analysis



The Seedco share price has generally been trending upwards since the beginning of 2014.It is one of the few counters on the ZSE that has exhibited such a trend which indicates the strong resilience of the counter to local turbulences. This could be attributed to the Group's diversified country risk favored by investors as 62% of its revenues comes from four other countries in Africa. In April 2015 we can see the short moving average cutting the long term average from above thereby signaling a downtrend after a resistance price of 106c. The downturn however appears to have capped at a higher support price of 90c. This can then be taken as a good entry point into an exposure to the counter given its strong investment case and upside potential indicated by its fundamental value in the valuation given below. We therefore give a **BUY** recommendation.

Investment case

- It is a highly liquid counter.
- It has strong profit margins.
- Major grain deficits across Southern Africa are expected to spur seed demand in the coming season and SeedCo is well positioned to take advantage of this through its various Strategic Business Units.
- Partnering with Limagrain has given the Group technological expertise in seed production. New seed varieties for maize, soya and sugar beans have already been released and this partnership is expected to provide further support to new seed varieties for the group.
- New income streams are expected from the acquisition of Prime Seeds' assets a major vegetable seed producer in Zimbabwe. Prime seeds' turnover is currently estimated at $5m.
- Diversified country risk through major operations across Africa. Efforts continue to be made to widen the Group's footprints in Kenya, DRC and Tanzania.
- Debt ratios have significantly reduced after the capital injection from Limagrain. This has also come with the added benefit of reducing the Group's borrowing charges to below 8%.
- The Group has $14m cash deposits in its balance sheet.
- Increased production of the medium to early maturity varieties to cater for the changing weather conditions.
- Government debt has been converted to $23.7m worth of TBs which the Group is partly using to offset part of its tax obligations. Seedco currently has a liquid Balance Sheet but these TBs can also come in handy in the event of a significant need of a cash injection that cannot be adequately covered by its cash resources.
- The construction of a Research Technology laboratory has been completed. This factor in addition to the partnership with Limagrain is set to strengthen SeedCo's position as a market leader in the African markets

Investment concern

- Declining revenue growth.
- The Zimbabwean market is increasingly being affected by deflation, company closures, rising unemployment and a shrinking government revenue base which may affect Government input programmes and the ability of the government to meet its obligations to SeedCo.
- The Zambian market is adversely affected by a depreciating Kwacha and increasing government liquidity constraints which may affect the Input support programme if these do not improve.
- Malawi's economy is in turmoil, interest rates are hovering at 40% whilst inflation is estimated at 24% .The cash-gate scandal has resulted in subdued donor participation.
- In Kenya terrorism from what can be termed 'holy wars' are affecting economic progress, causing signs of weakening in the Shilling whilst MLND, a maize disease is affecting the crop.
- In Tanzania, the weakening currency is affecting value of remittances whilst in West Africa, a market still in its infancy, terror attacks and Ebola threats are affecting economic progression.
- Changing weather conditions make production planning difficult.

Valuation and Recommendation

Despite the 11% revenue decline in the period ended March 2015 we have a bullish outlook on SeedCo's revenue growth for the coming periods which is supported by the strategic initiatives recently taken by the Group. Prime Seeds is a $5m dollar turnover business; the partnership with Limagrain has given Seedco a competitive and productive edge in the region whilst the grain deficit in the Southern Africa is expected to spur seed demand. In light of these major strengths we forecast a 10% revenue growth in 2016. Gross profit margins have fluctuated between 45% and 46% in the last 3 years and given the projected increase in revenue, we forecast a conservative 1% rise in gross margins to 47%. The operating expense to revenue ratio is expected to be lower in the coming period given that the major part of Research and Development has been taken care off by the completion of the research lab. We thereby expect a tapering off from the 33% ratio experienced in the last two years to 30%.

Continued tax offsets against TBs are expected to keep the tax expenses/revenue ratio at the current levels of 1% thus leading to a 11% increase in forecasted after tax profits, an EPS of 6.58c and a P/E of 14.4x. Seedco is therefore currently undervalued in comparison to an average of its regional and local peers P/E of 17x. However its EV/EBITDA which is11.9x indicates that the counter is overvalued in comparison to an average of regional and local peers of 11.6x. The Maintainable Earnings approach together with the EV/EBITDA method were used in determining a fair value for the counter with a greater weight given to the Maintainable earnings approach as it considers the going concern status and the future prospects of the firm. A fair value of 114c shown in the table below was reached which gives a 20% upside potential at the current price of 95c. We therefore give a **BUY** recommendation on the counter.

Valuation Method	Price	Weight	Weighted Price
Maintenable Earnings	117.04	0.6	70.23
EV/EBITDA	109.01	0.4	43.60
			113.83