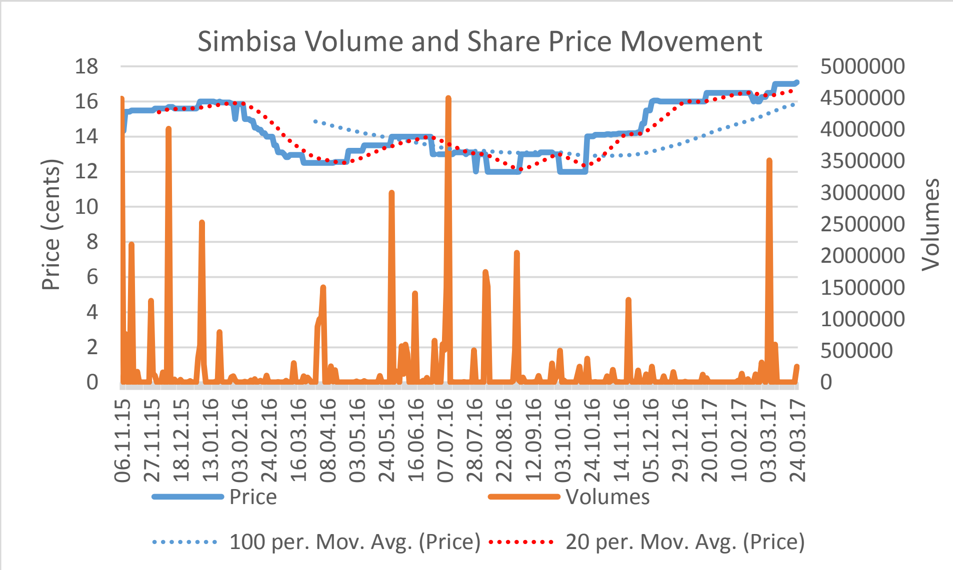
Simbisa 6 Months Ended 31 December 2016 Report

Market Data			
Current Share Price(Usc)			**17**
Recomendation			**HOLD**
Shares in Issue			**556,784,788.00**
Market cap(US$)			**94,653,413.96**
Year high(Usc)			**17**
Year Low(Usc)			**16**
YTD			**6.30%**
EPS			**0.86**
Interim Dividend			**0.23**
Dividend Payout			**27%**
Dividend Yield			**2.7%**
Income Statement	**FY2016**	**FY 2015**	
Revenue	79,144,627.00	77,062,113.00	**2.7%**
EBITDA	10,441,928.00	10,166,184.00	**2.7%**
Net Profit	4,711,929.00	4,502,017.00	**4.7%**
Operating margin	13.2%	13.2%	**0.0%**
Net Profit margin	6.0%	5.8%	**1.9%**
Financial Position			
Total Assets	73,571,581.00	67,082,264.00	**9.7%**
Total Liabilites	44,535,226.00	42,400,155.00	**5.0%**
Total Equity	29,036,355.00	24,682,109.00	**17.6%**
Cashflows and Ratios			
Cashflows from Operations	8,428,220.00	9,278,265.00	**-9.2%**
ROE	16.23%	18%	**-11.0%**
Current Assets to CLs	0.48	0.35	**36.2%**
Total asset turnover	1.08	1.15	**-6.4%**
Debt/Equity	0.66	0.76	**-13.7%**
CFO/PAT	2.10	2.06	**2.0%**

Simbisa Revenue Up 3%, PAT Up 5%

Simbisa revenues were up 3% to $79.1 million with significant support coming from Zimbabwean operations which contributed $48.9 million (62%) although this figure was 1% lower than in 2015. The combined revenues from regional operations was up by 10% to $30.2 million driven by performance from Kenya and the expansion activities in Mauritius. Kenya alone contributed 26% to Group revenues and 8 new counters were opened taking the overall store count to 124. Despite the 1% decline in revenues from the Zimbabwean operations, these contributed $8.4 million or 80% to total operating profit whilst mixed results from regional operations contributed only $2 million to operating profit. Dragging down profitability were operating losses in the setup up phase in Mauritius, economic challenges and political instability in DRC and macroeconomic challenges in Zambia. The 10 counters in DRC have remained profitable despite the economic pressures in this market. The entire regional operations have a total of 205 counters whilst Zimbabwean operations have 193 counters. EBITDA was up 3% whilst operating margins were unchanged at 13.2%. Cashflows from operations recorded a 9% decline due to an increase in receivables and inventory levels. The liquidity ratio however remains quite low although there was a 36% improvement from the previous period. The quality of earnings ratio remains quite strong at 2.1 reflecting the high cash generating ability of the business and earnings that are supported by cash. Financial leverage was 14% below previous period due to a reduction of long term debt and a growth in total equity. A dividend of 0.23 cents was declared thus bringing the total dividend payout to 27% and an annualized dividend yield of 3% which remains quite low.

Technical Analysis



The Simbisa share price movement has been on a general uptrend since the last quarter of 2016 and the counter is currently trading at an all-time high of 17 cents. Volumes however remain a bit thin although this could generally be attributed to the low levels of turnover on the ZSE as the counter remains quite liquid. The short term moving average remains above the long term moving average although the two appear to be moving closer together which could be an indicator of a possible limited upside in the short term. Company results however indicate strong resilience especially in Zimbabwe albeit with poor contributions from the region. Going forward improved performance is expected particularly from Kenyan operations and Mauritius. These factors can therefore limit any significant downturn in share prices.

Investment case

- Simbisa dominates the QSR market in Zimbabwe which is the market that has the greatest contribution to revenues (62%) and profits (80%).
- Performance of the company has been quite impressive given the prevailing economic challenges facing the country. It has managed to grow its profits, reign in operating expenditures, maintain strong operating margins and grow its market share despite rising competition from global brands such as KFC and many other growing local brands.
- It is also able to leverage on former associations with Innscor and its various subsidiaries such as National Foods, Irvines, and associates such as Pure Oil Industries.
- Simbisa's rising regional presence has allowed the company to have a diversified revenue base thereby protecting it from over exposure and over reliance to the tough operating environment in Zimbabwe.
- Simbisa's wide product range caters for a wide spectrum of the market from the lower end to the upper end.
- Simbisa is a cash rich business which allows it to readily take advantage of random opportunities for expanding its operations and procurement of resources locally and regionally. This gives the company additional leverage even in securing debt financing.
- Its cash resources enables the company to declare a regular dividend.
- It's a highly liquid counter.

Investment Concerns

- The effectiveness of diversifying operations regionally is slowly losing meaning given the dismally poor contributions to revenues and profitability. The total number of counters in the region now exceed those in Zimbabwe (205 against 193) and yet these operations contributed only 20% to current profits.
- Regional operations have been highly susceptible to foreign exchange risk which has diluted revenue performance. Given the high likelihood of continued currency depreciation in these regional markets, this exchange rate risk is likely to continue in the medium term.
- Simbisa continues to face rising levels of competition which limits upward potential of margins as the company's products can easily be substituted and the industry has low barriers of entry and exit. The company therefore continuously needs to remain competitive through price cuts and product promotions.

Analyst Comment

These results exhibit the strong presence that Simbisa continues to have on the local market. The company has managed to maintain operation margins at strong levels even though the rising levels of competition are increasingly prompting regularly promotions and price cuts in a bid to maintain and grow market share (Simbisa recorded 7% rise in the customer count in Zimbabwe). We believe that apart from the macro economic challenges that are affecting regional operations, performance could also be affected by the 57 new counters that were added to regional operations in 2015-16 as new businesses tend to be major cost centres in the first few years. Going forward, a close watch shall be kept on the continued performance of these operations as they are expected to have a rising contribution to both revenues and profits. Valuation of Simbisa remains quite complex at this stage as it was recently unbundled from Innscor and it currently has no peers on the ZSE. Its dividend policy is still not clear given its infancy as a standalone public company. There are still a number of gross uncertainties as to how the company will perform going forward but current performance indicates future possibilities of continued positive growth. We therefore give a **HOLD** recommendation.