PLATINUM INVESTMENT MANAGERS PVT LTD
influence the future

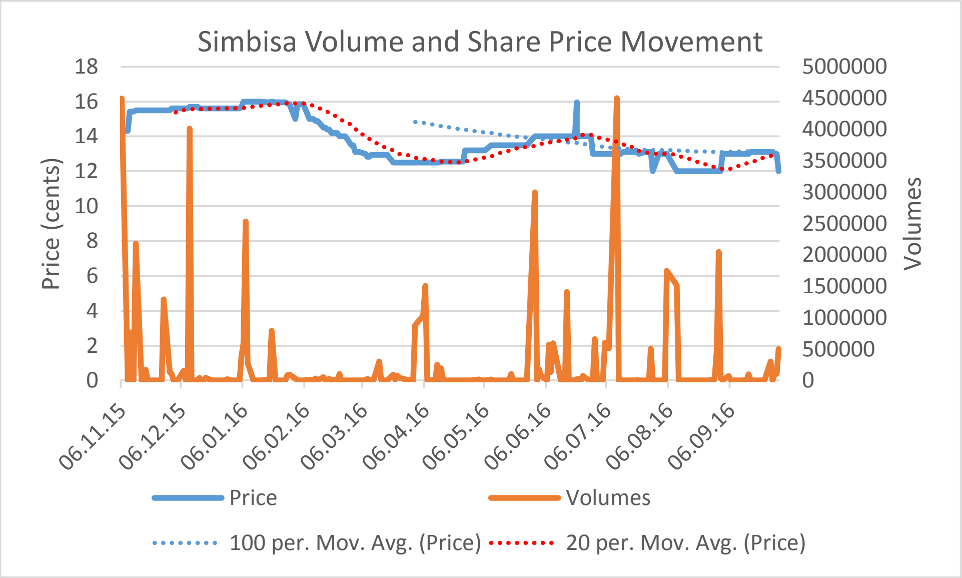
Simbisa 9 Months Ended 30 June 2016 Report

Market Data			
Current Share Price(Usc)			**12**
Shares in Issue			**556,784,788.00**
Market cap(US$)			**66,814,174.56**
YOY high(Usc)			**16**
YOY Low(Usc)			**12**
YTD			**-25.00%**
YOY			**0.00%**
EPS			**0.56**
P/E			**21.43**
Income Statement	**FY2016**	**FY 2015**	
Revenue	108,262,996.00	114,888,210.00	**-5.8%**
EBITDA	9,449,677.00	10,472,950.00	**-9.8%**
Attributable Profit	3,137,248.00	2,506,755.00	**25.2%**
Operating margin	8.7%	9.1%	**-4.2%**
Net Profit margin	2.9%	3.4%	**-14.8%**
Financial Position			
Total Assets	67,082,264.00	N/A	
Total Liabilites	42,400,155.00	N/A	
Attributable Equity	24,273,930.00	N/A	
Cashflows and Ratios			
Cashflows from Operations	10,951,309.00	N/A	
Cashflows from Investing	(12,126,558.00)	N/A	
Cashflows from Financing	1,207,847.00	N/A	
ROE	12.92%	N/A	
Current Assets to CLs	0.35	N/A	
Total asset turnover	1.61	N/A	
Debt/Equity	77.63%	N/A	
CFO/PAT	3.63	N/A	

Simbisa Revenue Down 6%, Attributable Profit Up 25%

Simbisa Brands Limited was unbundled from Innscor Africa Limited and listed on the Zimbabwe Stock Exchange (ZSE) on the 6th of November 2015. It continues to expand its presence regionally and it currently operates in 6 African countries and franchises its operations in 5 other African countries. In total it has 415 Quick Service Restaurants (QSR) in 11 countries. In the current period, the company spread its footprint to Mauritius where it rolled out 13 counters. In its first set of results for the 9 months ended 30 June 2016, it recorded a 6% decline in revenues from the same period in 2015. Revenues were adversely affected by the strengthening of the USD against regional currencies as Innscor has 196 QSRs operating in the region. Currencies that were worst affected where the Zambian Kwacha (-56%), Kenyan Shilling (-12%) and Ghananian Cedi (-9%). Zimbabwe contributes 62% to revenues whilst regional operations contribute 38%. Operating profits were 9.8% lower despite a 1% improvement in operating expenditure after the rationalization activities in Zimbabwean operations and improved efficiencies. Costs of production where however much higher thus resulting in a decline in operating profit which was much higher than the decline in revenues. The Company increased its borrowing levels by about 23% to finance the acquisition of minority interests in Zimbabwe and some of the regional operations and also to finance Capex activities worth $12.5 million for expansion and maintenance. This resulted in higher financing costs and a decline of 23%. The acquisition of minorities however led to a 25% growth in profit attributable to equity holders to $3.14 million leading to a Basic EPS of 0.56cents. The Company has a weak liquidity position as is indicated by its current ratio which stands at 0.35 as it currently has a much higher level of current liabilities as compared to its current assets. Its quality of earnings is very impressive however as is indicated by the CFO/PAT ratio at 3.63 as also is the asset turnover ratio which is at 1.6times. The business continues to have a strong cash generating potential, its cash generated from operations was $10.95 million and its Free Cash flow was 90% of EBITDA. A final dividend of 0.12c was declared which translated to a dividend payout ratio of 21%.

Technical Analysis



The Simbisa share price movement has been downward trending from the higher trading prices in the counter's earlier trading periods. The counter is currently trading at its support price of 12cents. Volume movements have been relatively strong given the low turnover levels on the ZSE and therefore the counter can be deemed to be quite liquid. The graph exhibits that the short term moving average is currently cutting the long term average from below which is a sign of an emerging uptrend. Given the relatively strong performance of the company in the released results and the clear cut strategic outline of the business, we believe that the uptrend may persist and therefore a **BUY** recommendation is given.

Investment case

- Simbisa dominates the QSR business in its largest market of operation which is Zimbabwe. 8 more counters where opened in the country in this period under review.
- Innscor is a cash rich business which allows it to readily take advantage of random opportunities for expanding its operations and procurement of resources. This gives the company additional leverage even in securing funds to finance its funding gaps. Its cash resources also allow the company to declare a regular dividend to its shareholders.
- It is also able to leverage on previous associations with Innscor and its various subsidiaries such as National Foods, Irvines, and associates such as Pure Oil Industries. This gives it additional opportunities to address its costs of production.
- 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.
- Its products allows Simbisa to cater for a wide spectrum of the market from the lower end to the upper end.
- It's a highly liquid counter.
- The company's executive management has indicated signs of strong competency and they are evidently managing to steer the company's operations during these turbulent economic times as is indicated by strong operating margins, successful restructuring and expansion activities and a sturdy reign on operating expenditures.

Investment Concerns

- 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's largest market of operation which is Zimbabwe is facing rising levels of competition from local and international brands the most dominant of which has been Chicken Slice. The fast food market is increasingly becoming more common in most major cities as it has lower costs of entry and exit.
- This rising competition is stifling margins as the company's products can easily be substituted. Simbisa therefore continuously needs to

remain competitive through price cuts and product promotions.

Valuation and Recommendation

Going forward, Simbisa's management has plans to continue spreading its footprints in Africa and in the local market. The goal is to continue expanding to keep ahead of competitors in key locations and to grow the customer base. New counters are opened each year locally and in the region and in the period under review 57 counters were opened. We therefore expect this continued expansion to continue to support revenue growth. Currency risk in countries like Zambia and Kenya however remains quite high and therefore this is likely to mute positive revenue growth together with the tough operating environment in Zimbabwe. We therefore expect a 1% revenue growth in 2017. We anticipate operation margins to be slightly compressed due to the growing competition in the local market which currently contributes 62% of Simbisa revenues. Finance costs are anticipated to be lower in the coming period as borrowings were elevated in the current period to finance further acquisition of minority interest and capital expenditure. We therefore expect the 1 year forward EPS to be 1.01cents which is 35% higher than the current period annualized EPS of 0.75cents. Valuation of Simbisa is still quite complex at this stage as it has just been unbundled from Innscor and it currently has no peers on the ZSE. Its dividend policy is still not clear given this infancy as a public company. There are still a number of gross uncertainties as to how the company will perform as a standalone. As such only the Maintainable Earnings Approach was used in the valuation and we forecasted a fairvalue of 15c for the Simbisa counter which is 25% higher than the current trading price of 12cents. We therefore give a **BUY** recommendation.