



May 22, 2013

Stock Data	Natfoods
Current Price :	260.00
52 Week High :	260.00
52 Week Low :	90.00
20 Day VWAP :	254.53
P/E :	18.42
D/Y :	1.48
PBV :	3.14
EV/EBITDA :	20.32
Issued Shares (m) :	68,400
Market Cap(m) :	177.84

	2011	2012	2012	2013F
	Interim	Final	Interim	Final
REVENUE	116,144	233,998	143,815	289,747
EBITDA	5,793	12,940	11,529	23,228
EBIT	4,953	11,053	10,619	21,183
PBT	4,822	10,708	10,057	19,703
TAX	(1,218)	(2,804)	(2,414)	(4,729)
PAT	3,604	7,904	7,643	14,974
Total Assets	85,590	88,517	117,530	132,504
NAV	47,205	50,011	56,593	71,567
EPS (US cents)	5.21	11.35	11.17	21.88
Div Per Share		1.55	3	5.88
RoE	0.08	0.17	0.15	0.26
P/E (X)	13.43	5.73	8.95	11.88
Div Yield	0%	2%	3%	2%
Earnings Yield	7%	17%	11%	8%
Closing Price	70	65	100	
EFE Target Price				356.22

2013 Results Review

In the period under review the group achieved a 24% growth in revenue from \$116m to 144m on the back of improved volumes growth of a similar magnitude. Resultantly an operating profit of \$11.5m was realized which is 99% ahead of last year. The growth in revenue coupled with benefits of holding strategic raw materials positions and a relatively lower growth in fixed costs assisted the group to achieve a higher operating margin of 8% of revenue. A simultaneous 109% increase in PBT sufficed to give a relatively firmer bottom line of \$7.6m which is 110% ahead of last year and a basic EPS of 11.17c a 99% on the prior year. The asset base grew 3% to \$117.5 on improved current assets while total liabilities grew 73% to \$52.6m buoyed by a substantial increase in interest bearing borrowings to \$21.4m which was meant to fund stock cognizant of the high raw materials requirements. Cash and cash equivalents at the end of the period stood at \$4.6m against a negative balance last year.

Operations Review

8 factories were operational in the period under review which provided sufficient capacity to satisfy demand. Three maize mills remain under care and maintenance with no immediate plans to re-opening. Security structure at Aspindale was upgraded as a capital initiative to improve efficiency of the operating system. New packing machines were commissioned at Bulawayo flour and maize plant. A generator was also installed to provide back up power to the Bulawayo flour mill and a similar project is due to be completed at the Harare flour mill. Two new depots were opened at Aspindale and Ruwa bringing the total of distribution and wholesale to twenty as at December 2012.

Divisional performances

Milling: comprising of Flour and Maize Milling:

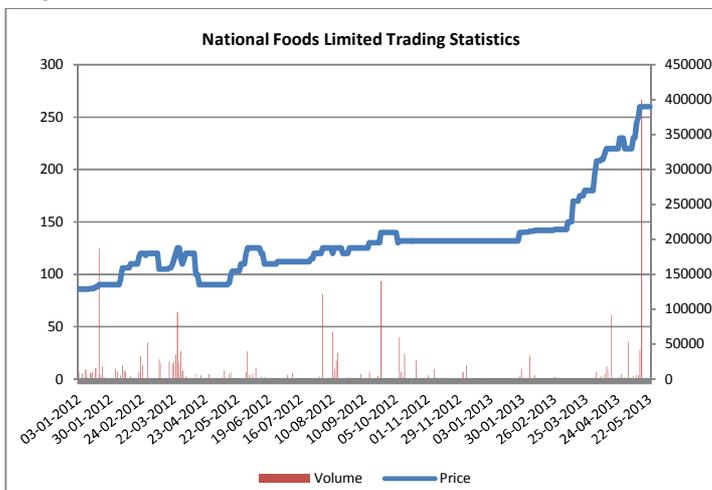
Flour milling saw improved contribution from the flour division driven by growth in volumes on the back of new tariffs. The group is evaluating the viability of investing in a modernized mill to increase production. In maize milling, the group installed an automated packing line at the Harare mill. Volumes for the six months improved by a marginal 0.7% on last year while revenue grew 9.6% due to an increase in realization per ton.

Stock feeds: Volumes sold improved 48% on prior year, with the quality of feed produced achieving regional benchmarks though management believes further investment is required to increase production.

FMCG: Volumes were 4.7% up on the corresponding period achieved on the back of declining gross margins in a competitive market.

Properties: Four properties were sold in the period under review thereby reducing the net lettable area of properties by 5% to 160 000 sqm, 13% of which is under lease.

Natfoods Price Volume Trends



Company	Country	PER	Source
Natfoods	ZWE	11.88	EFE/ZSE d-base
Tiger brands	SA	17.42	Bloomberg P/E TTM
Pioneer foods	SA	20.53	Bloomberg P/E TTM
DZLH	ZWE	14.66	EFE/ZSE d-base
Flour Mills	Nig	25.9	Bloomberg P/E TTM
Average		18.08	

Natfoods' interim results reflected just how far the group has gone towards reestablishing correct efficiencies and attaining their target operating margins of above 10% achieving 8% EBITDA margins compared to 5.4% for the full year to June 2012. The group expects to prop up production capacity in line with increased demand by investing \$8.5m in capex in the second half. Plans are also afoot to improve profitability by curbing costs fluctuations. However management expects less robust growth in the second half due to increases in raw material prices coupled with liquidity problems. Overall, the Group's strategic thrust will focus on consolidating current production and growing the current business.

Comment

The group is the biggest food processing company in Zimbabwe with a strong brand portfolio that has helped drive the performance of the group. The group's attraction vests in the strategic shareholders from whom synergies could be drawn for the benefit of its stakeholders like distribution benefits from Innscor's significant interests in Zimbabwe's retail sector and technical expertise and support from the international group Tiger Brands that controls a very significant portion of food exports into Zimbabwe. The group rightly identified the need to right size its operation while increasing the milling capacity creating greater scope for growth.

We believe that the group will maintain the growth momentum achieved in first half prompting us to revise our forecast revenue for the current year to \$289.7m. We believe that the group will maintain the interim EBITDA and PAT margins of 8% and 5% respectively to achieve \$23.2m EBITDA and \$15.0m after tax profits which, based on the current market of Natfoods implies a forward PER of 11.8x comparing favorably to the peer group average PE of 16.27x (18.08x discounted 10%). Applying the group average PE of 16.27x we value National Foods at \$243.7m giving us a target price of 356.22c. With the allure of steady growth and potential short term gains we place a **BUY** recommendation on **National Foods**.

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