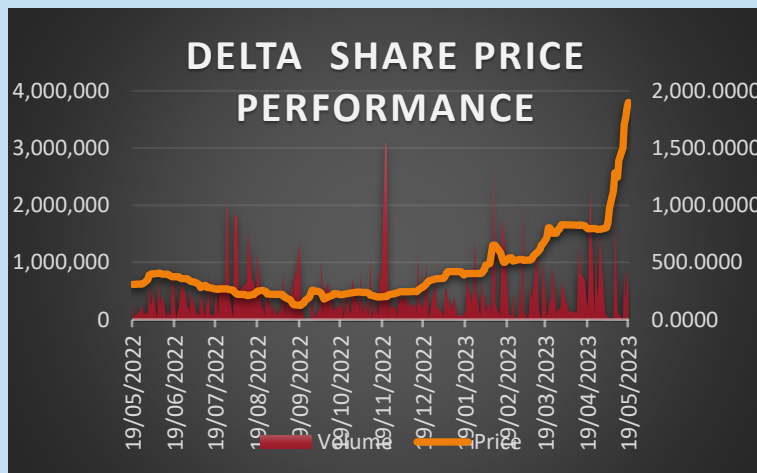


Sector	Beverages
Company Name	Delta
Stock Data	
Current Price (ZWL\$) (as at 19/05/2023/)	1928.6167
Price Performance YTD (as at 19.05.2023)	34.09%
Shares Outstanding (millions)	1,313.70
Market Capitalisation (ZWL\$ trillion) (as at 19.05.2023)	2.48
PER +1 (X)	9.57
Average (20 day) Daily Value (\$m)	668.24
Average (20 day) Daily Volume (m)	0.59
Target Price	1899.3578

Financial Data	HY22	HY23	FY23F
Gross Sales(000HLS)	10,056	11,221	15,148
Revenue (\$000)	335,163	536,923	885,923
Operating Income (\$000)	77,203	99,795	164,662
Profit before tax	60,349	87,329	144,093
PAT	48,682	63,143	104,186
EPS (ZWL\$ cents)	37.5759	48.4223	79.95
Dividend Per Share (\$)	0.03	0.03	
PAT margin	18.01%	16.26%	
RoE	28.40%	26.36%	
P/E (X)	18.52	23.21	
Closing Share Price	84.5295	221.8934	
EFE Target Price	10,056	11,221	15,148



DELTA FULL YEAR EARNINGS UPDATE 2023

Strong volumes in lager and sorghum beer beverages spur group revenues...

Strong demand in lager and sorghum beer beverages drove volumes up 12% to see revenue rise by 60% to close at \$536.92bn. Operations improved in the year under review as EBITDA and operating profit surged by an identical 29% to close at \$99.79bn and \$112.60bn respectively. The group reported that they are generating 67% of their revenue in US Dollars giving them a buffer on imported raw materials. The group's PBT closed at \$87.34bn after accounting for share of profit of associates while, share of profit of associates fell by 74% to \$452m. The income tax expense totaled 24.19bn closing with \$63.14bn profits which represent a 11% margin on revenue, PAT grew by 29% compared to the previous period. The NAV also firmed 42.11% to \$184.9996 on the back of the groups profits. Delta's balance sheet as at year-end stood at \$402.72bn with equity of \$239.51bn, while operations managed to increase by 57.64% to generate \$59.02bn in cash flows over the year.

Operating Activities

Sorghum beer

Sorghum beer volumes in Zimbabwe grew by 9% to 4.072m Hectoliters (HLS) as the launch of Chibuku Super Banana flavor lifted the volumes. Other factors that drove volumes in the sorghum segment were improved supply of scud and utilization of available regional capacity to cover supply. Zimbabwean sorghum beer still faces challenges of water, electricity outages and poor market access due to bad road network. Chibuku brand boasts of a 92% market share in Zimbabwe. South Africa recorded a 12% growth to 1.47m (HLS) anchored by penetration into more distribution channels, driving new product offering and reopening of a 3rd brewery at Butterworths. Zambia's volumes rose by 28% to 875(HLS) due to optimization of production facilities and good offtake of scud and chibuku super banana. The Zambian segment is being affected by cost pressure from depreciating Kwacha.

Lager beers

Lager beer volumes rose by 17% to 2.18m (HLS) anchored by competitive & stable US\$ pricing and injection of new glass

bottles and glass circulation. The company also benefited from increased consumer engagements through brand activations and improved brand & pack availability. Delta recorded its all time high in the larger volumes since inception in FY23 period. In the lager segment the group hold 96% market share.

Sparkling beverages

Sparkling beverages volumes charged by 10% to close the period under review at 1.59m (HLS) as alternative beverages fell 12% to 83,000 (HLS). There was a steady recovery in volumes and market for sparkling beverages and alternative drinks. Consistent product supply driven by improved access to raw material and the injection of new glass drove volumes. Improved supply of packs, and flavour range from improved factory performance. Market share for sparkling beverages improved from 59% to 61%. AFDIS volumes grew by 18% to 159,000 (HLS) and Schweppes was stable at 799,000 (HLS). Afdis mainly benefited from ciders that grew by 23% underpinned by supply improvements, expansion of route to market channels and increased local production.

Challenges

The company continues to be affected by distortions in exchange rates affecting pricing in formal channels, this is likely to continue and impede growth in FY24. Increased electricity and water supply challenges have been affecting the company's cost's over time, as sourcing alternatives is expensive and time consuming. Poor road infrastructure has been affecting accessibility to certain markets. Schweppes is being affected by prolonged plant breakdowns and shortages of essential raw materials.

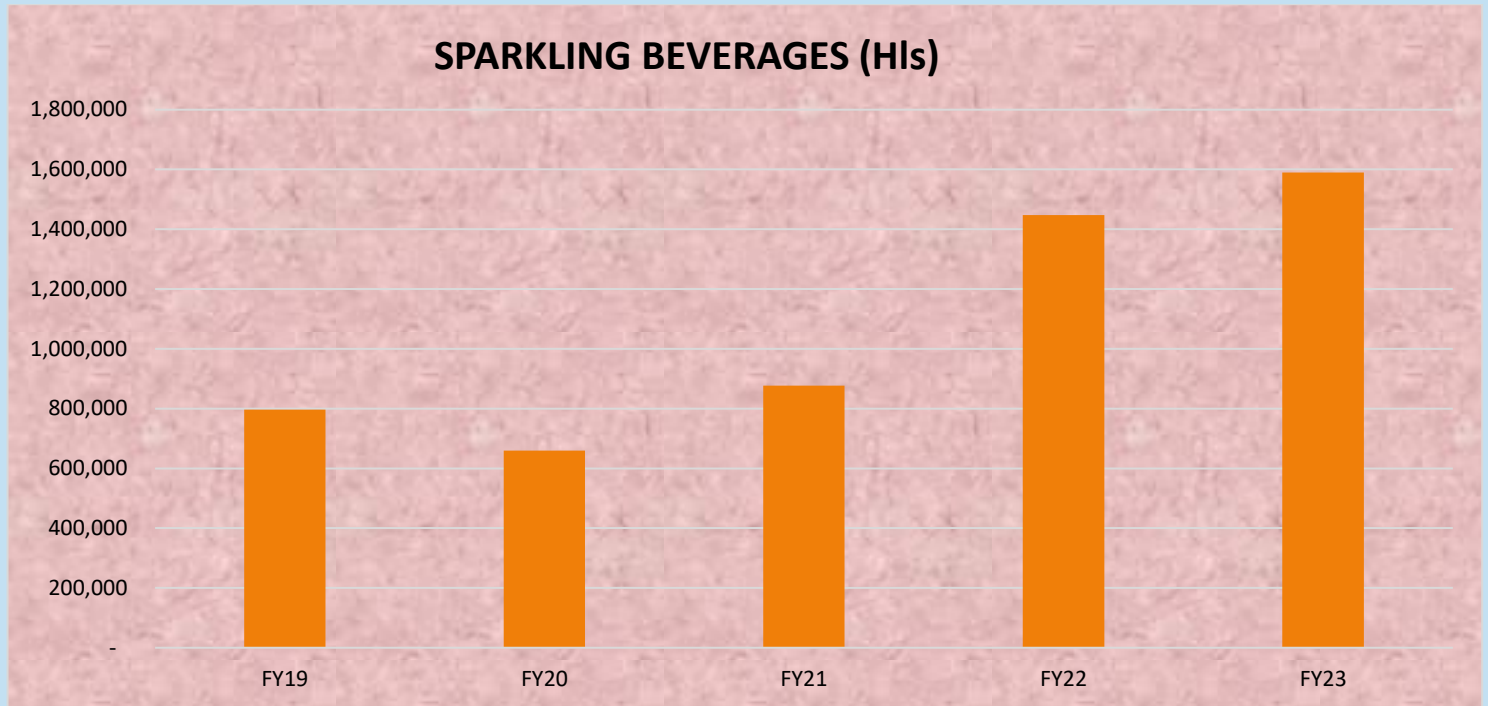
In South Africa, performance is being affected by low disposable incomes arising from increasing fuel prices and electricity supply outages. In the recent past the Rand has been volatile and this has in some sort reduced demand for the beverages.

In Zambia, volumes were affected by depressed disposable incomes coupled by depreciating Kwacha exchange rate. Shortages and high prices of maize affected the volumes that could have been obtained.

Developments and Outlook

Additional packaging capacity for lager beer volumes is expected in the second quarter of 2024 to allow full portfolio availability. A new sorghum beer plant is expected to be commissioned in June 2023 at the Harare Brewery. There is limited PET capacity which will be augmented by a new plant that is expected to be commissioned in May 2024. The aforementioned projects will be financed internally using funds raised from profits generated in the prior periods

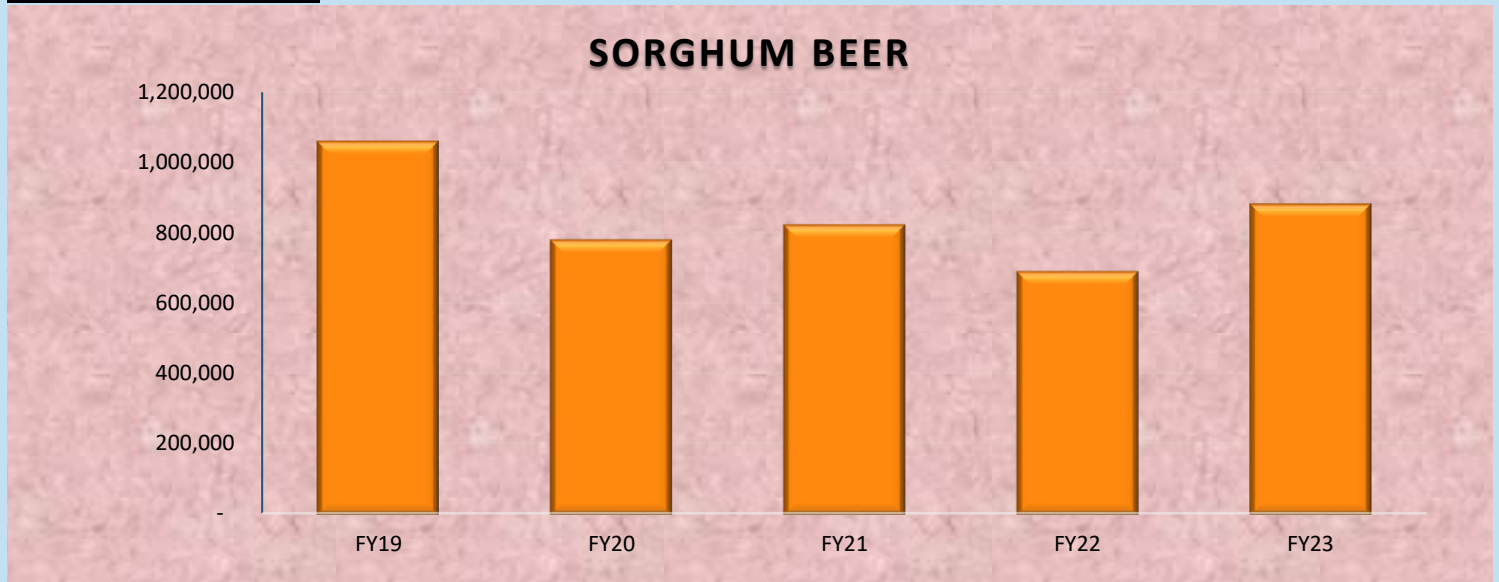
Sparkling Beverages Segment



Source:Delta

Sparkling beverages volumes rose by 9.88% to 1.59m HLS in the period under review with a total revenue contribution of \$92.22bn representing 17% of the total group’s outturn. The growth in volumes is due to improved supply of packs and flavour range from improved factory performance.

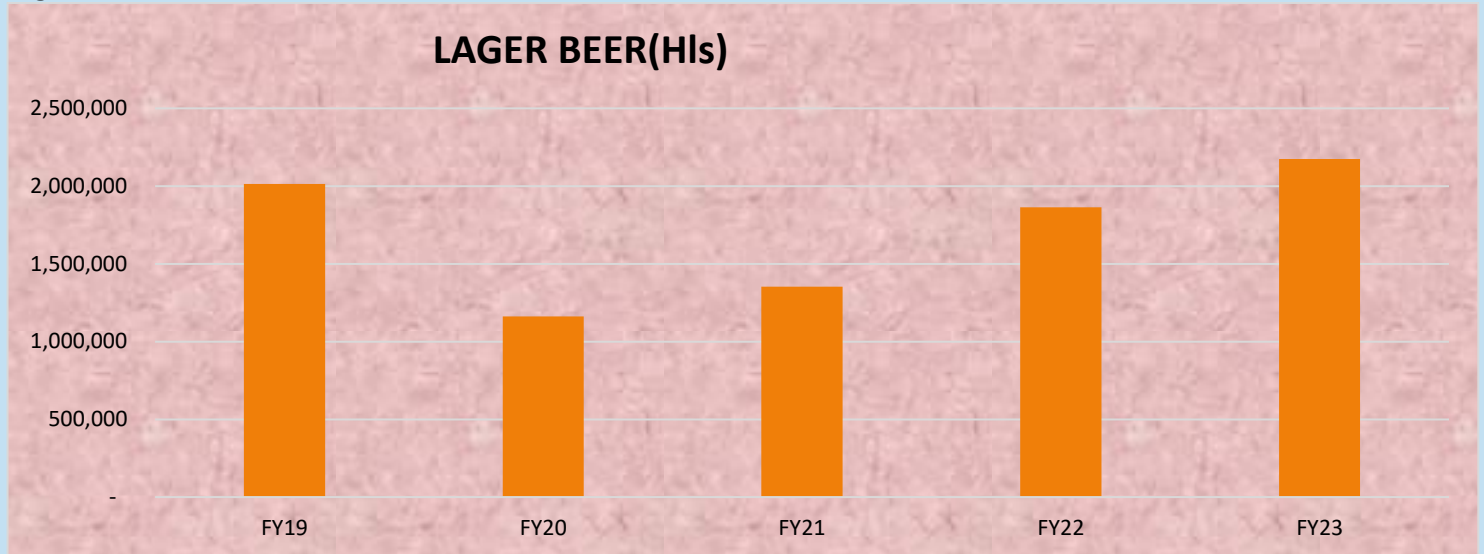
Sorghum Beer Segment



Source:Delta

We anticipate volumes for Sorghum beer to increase by 18% in the financial year buoyed by increased economic activity coupled with improved supply, good agricultural season and appropriate economic performance.

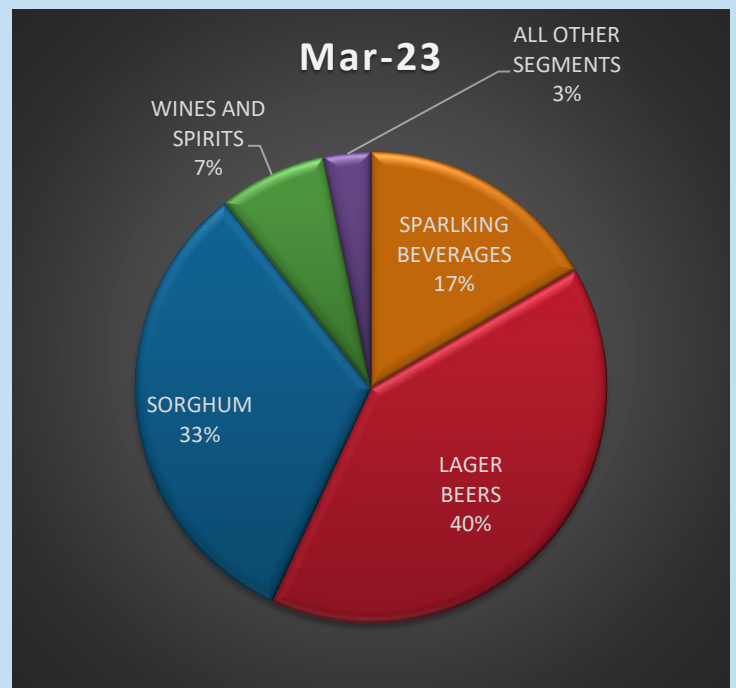
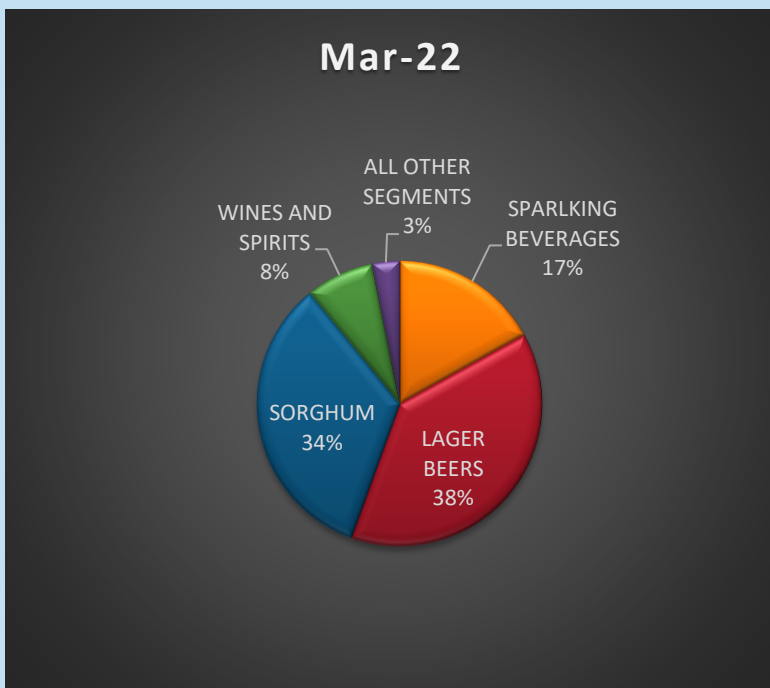
Lager Beer



Source : DELTA

In the period under review clear beer recorded a 17% increase in volumes to 2.18m (HIs) these were the best volumes that the company has ever produced. The growth is mainly attributable to competitive and stable pricing. We anticipate to see Delta maintain the growth trajectory in FY24 as an additional packaging capacity for lager beer volumes is expected to come aboard in Q2 2024.

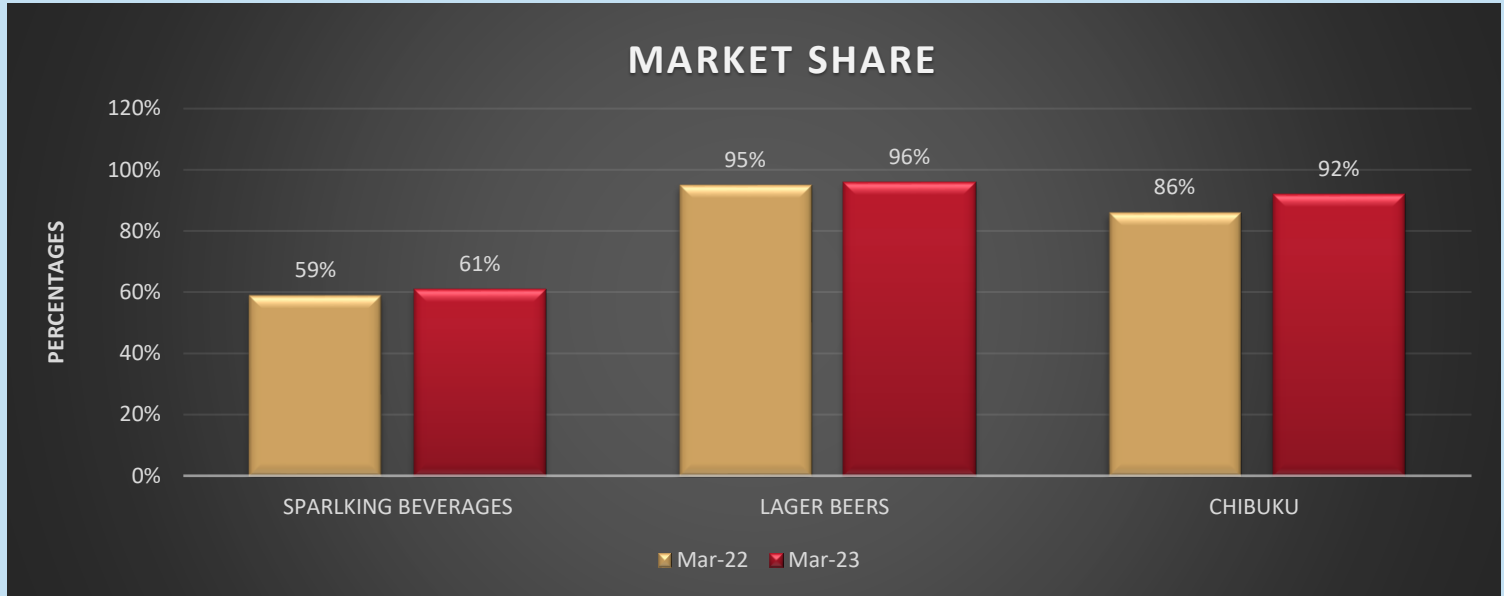
Delta revenue contribution 2021 & 2022



Source:Delta

Lager beers were the major revenue contributor with a whopping 40% contribution having gained 2% in FY23, trailed by sorghum beer segment that claimed 33% of the revenue. Sparkling beverages and wines & spirits segments had respective contributions of 17% and 7%.

Market Share



Source:Delta

Market share for Chibuku increased from 86% in March 2022 to 92% in March 2023 as the scud pack continued to recover. Sparkling beverages market share went up by 2% to 61% as lagers’ market shares improved by 1% to 96% buoyed by competitive & stable US\$ pricing and better glass circulation.

Valuation

We expect volumes to increase by 35% to 15.15m (HLS) in the next full year spurred by the developments of new plants that will be commissioned in FY24, improved payment of salaries in USD, impending elections, improved volume uptake from the South African segment as that market is now familiar with the groups products. We forecast a total revenue of \$885.92bn for the next full year (FY24) and a PAT growth of \$104.19bn, the major jump in profitability should emanate from a turnaround from losses in associates and other foreign parties that were affected by aforementioned challenges. However the group can be affected by macroeconomic policy changes, increased competition in the sorghum & sparkling beverages. Also taking into cognizance that the group performance mirrors economic performance they are higher risks that the impending elections may derail anticipated economic growth therefore dampening Delta’s projected growth. Delta remains the most impressive counter on the market by all metrics therefore, we place a strong **BUY** recommendation with a target price of ZWL\$2300.9879 which shows that the counter is trading at a discount of 15% at current prices.



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