

Price:	24.00
52 Wk High:	40.00
52 Wk Low:	20.00
20 Day VWAP:	23.71
P/E:	10.28
D/Y:	2.25
PBV:	1.49
EV/EBITDA:	9.77
Issued Shares (m)	159.04
Market Cap (mn)	38.17

	12 MTHS 30-Jun-12	12 MTHS 30-Jun-13	6 MTHS 30-Dec-13	Forecast 30-Jun-14
Revenue	52,848	60,782	33,982	68,927
EBITDA	7,224	4,808	3,760	7,626
EBIT	5,968	2,032	2,815	5,870
PBT	6,439	2,249	2,982	6,029
PAT	4,820	1,628	2,193	4,827
Long Term Assets	17,884	18,419	18,604	18,604
Current Assets	17,912	18,839	21,975	24,609
TOTAL ASSETS	35,797	37,258	40,579	43,213
NAV	25,399	25,823	27,732	30,365
LT Liabilities	3,535	2,917	3,126	3,126
Current Liabilities	6,276	7,609	8,578	8,578
Basic EPS	2.87	0.87	1.20	2.43
EBITDA Margins	13.67	7.91	11.06	11.06
EBIT Margins	11.29	3.34	8.29	8.52
PBT Margins	12.18	3.70	8.78	8.75
PAT Margins	9.12	2.68	6.45	7.00
NAVPS	15.97	16.24	17.44	19.09
P/E	8.82	35.64	18.33	9.89
PBV	1.58	1.91	1.26	1.26
<b>Target Price</b>				<b>36.61</b>

SOURCE: EFE SECURITIES

### Financial

Colcom posted a much improved interim performance with turnover at \$34.0m representing growth for the interim period to 31 December 2013 of 13% relative to the comparable interim period. Income from operations went up 108% to \$3.8m while profit before tax at \$3m was up 89%. The group's tax charge came in at \$788,799 giving Colcom after tax profits of \$2.2m which was an uplift of 87% giving an implied basic EPS of 1.2c. The fine performance was then capped with a reward to shareholder of a dividend of 0.4 US cents per share being a 33.3% pay-out. The group's balance sheet increased to \$40.6m up 8.9% on the back of the profit while the NAV closed at \$27.7m having improved 7.3% for the year.

### Operational

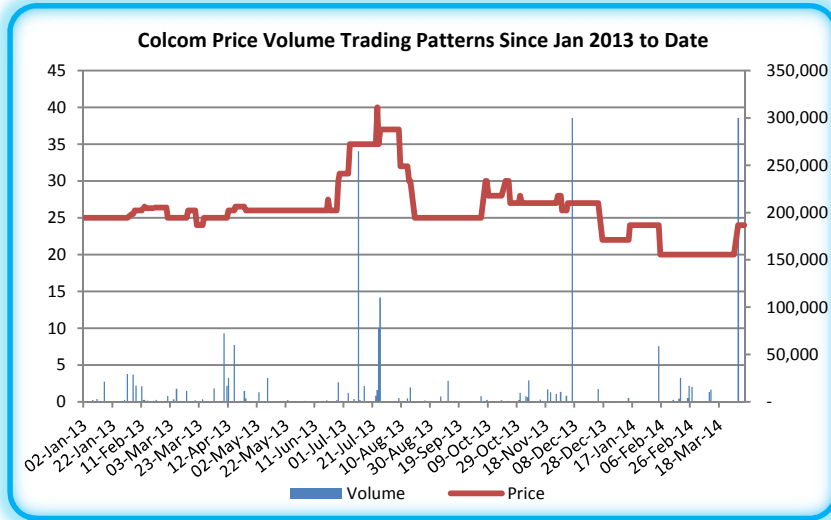
Colcom Foods had a 10% decline in revenue while Associated Meat Packers (AMP) achieved a 103% growth in revenue over to see the group post overall revenue growth. Sustaining revenue growth was group volume growth of 17% over the prior period that was disaggregated to a 33% decline in volume for Colcom Foods showing countered by a 115% growth in volumes at AMP.

Colcom Foods' decline was attributed to the rationalisation of product lines weighed heavily by the closure of the frozen pies division to affect volumes. Within the pork category, processed products reflected a 5% decline whilst fresh pork achieved a growth of 28% over prior year's volumes. At PBT level AMP enjoyed growth of 138% while Colcom Foods was up 53% growth, despite a decline in the producer price of pork and a 49% decline in equity accounted earnings from Freddy Hirsch.

The group also employed improved purchasing practices and stricter controls over operating costs to bring up profitability. Margins remain under pressure with increase in raw materials not being factored into final prices creating a disparity between revenue growth and profits growth. Two Texas retail outlets were opened during the period under review, with 3 more sites expected to be opened before the end of the ensuing financial year.

### Outlook

New factory equipment whose delivery had been previously delayed will be commissioned in the third quarter of the group's financial year improving installed capacity for Colcom Foods. Plans are afoot to modernise the factory and preliminary investigations have already been conducted with the next stage of designing and viability testing of the plan is on the cards. This augments the company's objective of continuing achieving competitiveness by continual development of facilities and operational procedures. Depressed pig producer prices against higher cost of maize and transport costs remain the major challenge for the pork business.



SOURCE: EFE SECURITIES.

### Comment and Valuation

Colcom’s interim performance is nothing short of impressive showing the benefits of successful restructuring and realignment of operations with new and modern trends as well as horizontal integrations. Even in the face of the difficult economic conditions where others reporting falling revenues and margins lamenting depressed demand, Colcom’s numbers reflected a complete opposite of trends in the bulk of the financials that have been coming in the recent reporting season. Growing revenues and even faster growing margins speaks volumes of the group’s potential more so coming fast on the heels of significant management shakeup that claimed the scalps of top managers. Though growth is likely to come under heavy test as more and more components of the feeds continue to be coming from imports.

The company’s financial momentum in H1 suggests that the group should post full year revenues, EBITDA and PAT of \$69.0m, \$7.6m and \$4.8m respectively based on the H1 growth and margins. We believe these forecast will be very conservative given the expected capacity improvements at Colcom Foods that will only impact Q4 numbers while there is the additional component of additional branches being opened under the Texas meats brand. Using our combined trailing average PBV and P/E valuations for the forecast Colcom performance values Colcom at \$58.2m being a target price of 36.61c. Given the stocks limited free float we are very bullish on its potential to surpass this target price and the stock has traditionally traded at a premium to peer average valuation matrices, we therefore place a Buy recommendation on Colcom.

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