



Members of the Zimbabwe Stock Exchange

---

# EFE Research – Delta Corporation: 2016 Interim Results Review

---

## Highlights:

- Group Volumes down 10%
- Sales turnover down 8% to \$315m
- Revenue down 8% to \$269m
- EBITDA down 16% at \$59.4m
- Operating Income down 20% to \$43.5m
- Attributable Earnings down 19% to \$35.7m
- Earnings Per Share down 19% at 2.89c
- Interim dividend per share 1.40c

---

Nov 12, 2015

---

research@efesecurities.co.zw

---

	Delta
Price:	81.75
52 Wk High:	116.00
52 Wk Low:	81.00
20 Day VWAP:	81.76
P/E:	9.65
D/Y:	0.04
PBV:	2.81
EV/EBITDA:	6.82
Issued Shares:	1,247.01
Market Cap:	1,019.43

	30-Sep-14	31-Mar-15	30-Sep-15	2016F
	\$	\$	\$	\$
Gross Sales	342,649	676,850	314,522	615,303
Revenues	291,471	576,552	269,021	526,289
EBITDA	74,400	143,168	59,400	116,205
Operating Income	54,422	111,136	43,500	85,100
PAT	45,007	92,800	35,733	69,905
AE	44,090	91,943	35,733	69,905
NAV	544,206	636,149	463,145	497,317
	30-Sep-14	31-Mar-15	30-Sep-15	2016F
EBITDA Margins	22%	21%	19%	19%
EPS (US cents)	3.55	7.44	2.89	5.61
Dividend Per Share	1.35	2.30	1.40	2.25
RoE	16.54	14.59	15.43	14.06
P/E (X)	15.58	15.46	12.01	14.58
Div Yield	2.09%	2.19%	3.44%	2.96%
Earnings Yield	5.50%	7.09%	7.09%	7.36%
Closing Share Price	129	105	81.5	
Target Price				80.42

## Results for the Interim period to September 2015

As expected Delta released a lower set of financials for the interim period to September 2015 owing to the difficult operating environment. Group revenues were down 8% at \$269m weighed down by volume losses in the lager and sparkling beverages. Group EBITDA was down 16% at \$59.4m while operating income fell 20% to \$43.5m as the group sacrificed margin to defend market share. Group pre-tax profit fell 18% to \$47.6m from which attributable earnings of \$35.7m accrued. The group's balance sheet firmed 1.8% from its period opening level to \$675.3m, with \$463.1m being attributed to equity holders. Funding closed in a net cash position of \$65.9m while full cash and cash equivalents totaled \$135.9m. An interim dividend of 1.4c per shares was declared

### *...volume and revenue weighed down by slowing demand*

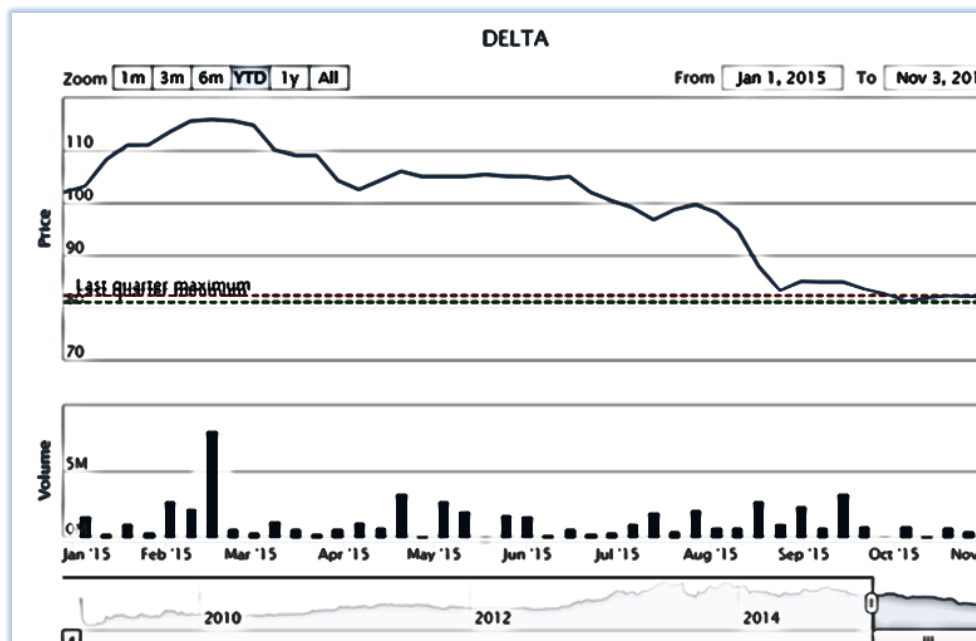
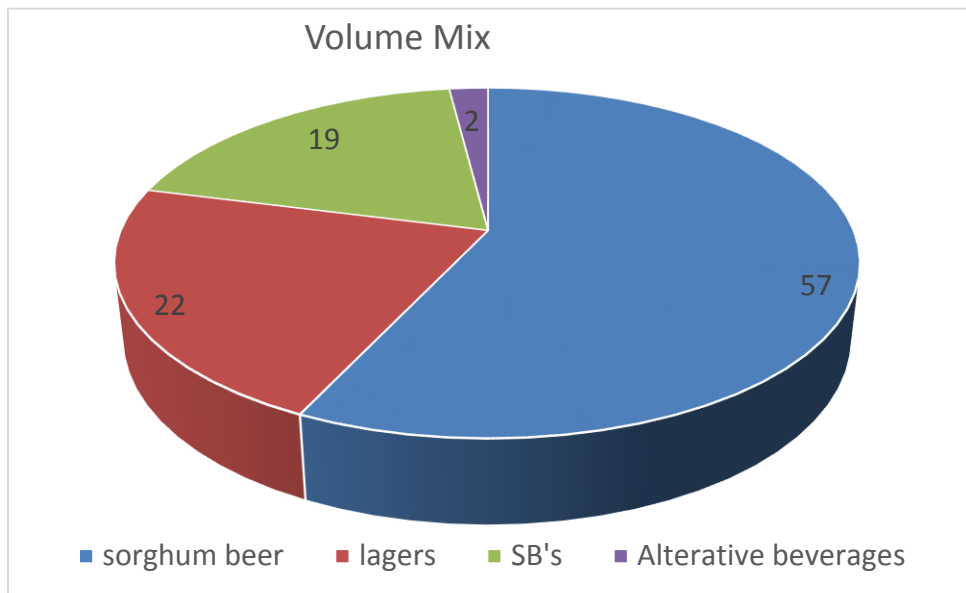
The beverage portfolio suffered pressures that resulted in the 8% volume loss. Sorghum beer was the only beverage line to survive the revenue decline onslaught despite itself losing 12% of its volumes, its revenues were up 1%. Lager beer saw a modest 2% volume loss but price cuts to maintain competitiveness coupled with a consumer shift towards the economy brands in the portfolio resulted in a 9% drop in the revenues from the line. Heavy competition in the soft drinks lines particularly in the convenience packs saw volumes in the carbonated soft drinks fall 13% while revenue from the line was down 18%.

### *...sorghum beer drives group volumes*

Sorghum beer dominated the volume mix as has always been the norm contributing 57% of the total while Lagers accounted for 22% and Sparkling beverages accounted for 19%.

### *...new Chibuku super line to augment supply*

Over the reported period the Fairbridge brewery was commissioned and hit full capacity by October 2015 and this is tipped to go a long way in addressing the supply bottlenecks that have been affecting Chibuku Super. The group also continued its efforts to refresh its beer brands and introduced new beer styles in an effort to maintain their stranglehold on the lagers market. The group's associate companies continued to make headway in the challenging environment with growth in revenue, volumes and profitability being seen in Afdis, while the group reported improved



SOURCE EFE SECURITIES

financial performance from Schweppes despite volume and revenues being under pressure.

### Comment

The numbers from Delta confirm the difficulties in the operating environment reflecting an economy deep in the throes of a slowdown. What makes it even worse for Delta and indeed all the local manufactures is the country's use of a stronger currency which the other regional competitors are pursuing as a store of value. Competitiveness is therefore lost right from the pricing perspective before we look at the operational efficiencies that companies need to address to compete with regional players. The competition in the sparkling beverages alone for the convenience packs clearly prices Delta out of the market with management alluding to the fact that the competition's selling price for a two litre bottle was already ahead of their cost for a litre bottle. With consumers seeking more value for their dollar their choice is always obvious. While doubts could be cast on the long term sustainability of the group's plan to invest into a further two sorghum beer breweries, management's efforts could be commended as that seems to be the only line in their traditional product mix showing promise for growth.

### Valuation

Given the first half performance and the prevailing economic climate characterized by slowing demand and shrinking consumer spend, Delta would do well to replicate its first half performance on volumes. The same is exacerbated by competition pressures that has seen the group cut prices on most products likely sacrificing margins. Against this background we forecast FY2016 Revenue EBITDA and after tax profits of \$526.3m, \$116.1m and \$69.9m. These forecasts would place the group at P/E+1 of 14.58x while the group has averaged P/E multiples of 14.47x which would value it at \$1.01bn (\$0.8112). Therefore based on its historical performance we see very limited upside in the group for the short to medium term, though it is worth noting that at these P/E multiples Delta remains one of the cheapest breweries in the region that trade at averages around 20x. Based on the group's potential to preserve value and consistency rewarding shareholders with dividend payouts we place a **HOLD** recommendation on them.

---

Notes:

### **Contacts**

Edgeton Tsanga | edgetont@efesecurities.co.zw | +263 772 277 153

Christopher Masendeke | christopherm@efesecurities.co.zw | +263 772 135 234

Phenias Mandaza | pheniasm@efesecurities.co.zw | +263 772 144 334

Coreen Madanha | coreenm@efesecurities.co.zw | +263 772 144 333

Brenda Mwaturura | brendam@efesecurities.co.zw | +263 782 785 666

---

*Disclaimer: This document has been prepared by EFE Securities (Private) Limited (EFE), for the information of its clients. Although the statements of fact in this report have been obtained from sources that the company believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates included in this report constitute the company's judgment as of the date of this report and are subject to change without notice. The securities discussed and mentioned in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors they believe necessary.*

*This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. EFE and any of the individuals preparing this report may at any time have a long and/ or short position in any securities of companies in this report. In addition EFE may from time to time perform investment banking or other services for, or solicit investment banking or other business from any entity mentioned in this report. EFE may at times buy and sell shares on an agency or principal basis to its clients. Shares may rise or fall and investors may end up with a reduced amount from their initial capital invested. Additional information on EFE's recommended securities is available on request.*

---