Interim Results 2015 Review
November 20, 2014

Delta Corporation Limited

BUY

Bloomberg	DELTA.ZH
Reuters	DLTA.ZI
ZSE	DLTA.ZW
Price:	113.00c
52 Wk High:	153.30c
52 Wk Low:	105.00c
20 Day VWAP:	113.68
P/E:	13.30
D/Y:	3.12%
PBV:	3.87
EV/EBITDA:	9.11
Issued Shares:	1,2bn
Market Cap:	$1,4bn

Analysts:

Phenias Mandaza
+263 (0) 772 144 334
pheniasm@efesecurities.co.zw

Respect Gwenzi
+263 773 782 392
respect@efesecurities.co.zw

Trading:

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

Edgeton T Tsanga
+263 772 277 153
edgetont@efsecurities.co.zw

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

Brenda Mwaturura
+263 777 096 920
brendam@efesecurities.co.zw

Results Review

Delta's interim results were a reflection of the prevailing economic environment in Zimbabwe headlined by slowing demand coupled with a tight liquidity situation. Group revenue was down 4% on the comparable prior year six months period at $302.2m with EBITDA falling by a similar margin to settle at 74.4m. The group's EBIT at $56.9m was down 9% on last year as operating margins fell from 23.04% to 21.56%. The attributable income achieved for the period took a 7% knock on last year to $44.1m and from these the group intends to pay out a dividend of $16.7m up 4% on last year and represents US 1.35 cents on a per share basis. At the end of the interim period the group's balance sheet stood at $680.8m which was 10% firmer relative to its period opening level. Its NAV amounted to $424.7m amounting to net asset value per share of US 34.19cents. Operations managed to generate $54.4m with $13.3m being used in investing activities as the group closed the period with cash and cash equivalents amounting to $129.4m.

Operations Review

The group's beverage portfolio performance reflected that lager volumes continued to suffer from the migration of customers from higher priced value products to cheaper categories as they sought value for the dollar. Resultantly lager volumes were down 25% at 695khl while the line's revenue contribution amounted to $139m and this was down by a lower margin of 15% owing to the mix changes in the category. Sparkling beverage volumes were down 9% at 708khl while revenue from the category dipped 10% to $99m. Alternative beverage volumes were up 15.5% at 93khl and contributed $8m to group revenues and that being a 16% growth on prior period outturn. Sorghum beer, seemingly the beneficiary of the lager beer volume decline saw volumes go up 14% and revenues surging 24%

Over the period the group was seized with rationalising breweries and ramping up Chibuku super production as consumer are looking for value for the disposable income and increasingly switching to affordable sorghum beer. Management contends that affordability of lagers affected by RRP rounding up after excise increase, however despite the decline in volumes market share held in the lagers reflecting that the downturn is more economic than competitiveness. The group's operational focus by beverages category is now in in place for lagers and SBs. Procurement of maize has been curtailed by onerous pricing though the group saw improved barley yields on reduced hectrage.

Outlook

In the outlook focus will be on adding capacity on Chibuku, with Bulawayo plant expected to come on stream while optimising production for better returns. The group also intends to expand the alternative beverages categories and recently repackaged its Maheu products. In the second half of the year the group will finalise demerger of Megapak launch the revamped Shumba Maheu packaging resume barley malt exports. Efforts will also go towards supporting lager beer volume recovery via affordability initiatives and also make initiatives to stem volumes decline in sparkling beverages

US$000's	Sep-13	Sep-14	Variance (%)
Gross Sales	367,326	342,649	-7%
Revenue	315,468	291,471	-8%
EBITDA	77,700	74,400	-4%
Operating profit	62,578	54,422	-13%
PBT	64,128	57,945	-10%
Profit after tax	47,708	45,007	-6%
TOTAL ASSETS	**582,135**	**680,801**	17%
Total Equity	**362,935**	**424,695**	17%
Total Liabilities	**211,913**	**246,881**	17%
Operating CashFlows	**63,183**	**54,381**	-14%
Cash & Cash Equivalents	**81,669**	**130,130**	59%
EPS	**3.83**	**3.55**	**-7%**
Dividend Per Share	**1.3**	**1.35**	**4%**
EBITDA Margin	21%	22%	3%
Operating margins	17%	16%	-7%
PBT Margins	17%	17%	-3%
PAT Margin	13%	13%	1%

Comment

The vagaries of the economic situation have placed a premium on operations for most companies in Zimbabwe, Delta included. Sadly due to the diversity of its product range these exogenous factors affecting the company performance have somewhat seen a cannibalism of revenues between own product lines in particular the trade-off between sorghum beer and lagers. In the near term the difficult operating environment is not likely to give more so with government missing revenue targets while more companies are reportedly closing shop demand is likely to remain depressed and the drop in performance is likely to carry through to the second half. Against this back ground we forecast the group achieve revenues, EBITDA and Attributable earnings of $593.5m, $151.8m and $92.3m. Based on a PE multiple of 19.64x derived from a selection of sub Saharan Africa beverage groups we value the group at $1.81bn which implies a target price of US 145.73 cents. The depressed sentiment in the economy, on the back of slowing down economic activity has brought pressure to bear on Zimbabwean companies. We commend management for the efforts to curtail financial performance decline however we are concerned that excessive investment in the lower value product lines might create unnecessary excess capacities should the environment improve. Delta's allure however remains that they are a virtual monopoly in their main beverage lines and a turn in the economy will drive the group's performance in similar direction and therefore we maintain our **BUY** recommendation on them.