Members of the Zimbabwe Stock Exchange

DZLH FY14 REVIEW: BUY

DAIRIBORD

Price:				8.00
52 Wk High:				12.20
52 Wk Low:				7.00
20 Day VWAP:				8.48
P/E:				(16.16)
D/Y:				0.06
PBV:				0.59
EV/EBITDA:				4.97
Issued Shares:				358.00
Market Cap:				28.64
	Dec 12	Dec 13	Dec 14	Dec 15
	US$	US$	US$	US$
Revenues	**106.89**	**100.05**	**99.02**	**102.98**
EBITDA	**6.05**	**5.36**	**6.45**	**8.04**
Operating Profit	**9.80**	**(1.84)**	**1.36**	**4.12**
PBT	**9.42**	**(2.32)**	**0.77**	**3.54**
Profit for the year	**7.19**	**(1.78)**	**0.60**	**2.76**
Total assets	**73.80**	**67.80**	**75.80**	**78.56**
Total capital	**49.52**	**45.47**	**46.08**	**48.85**
Total liabilities	**24.28**	**22.24**	**29.71**	**29.71**
EV	**52.92**	**50.88**	**58.35**	**58.35**
Ratios				
Shares In Issue (mn)	355.98	355.98	355.98	355.98
EBITDA Margins	5.66	5.36	6.51	7.81
Operating Margins	9.17	(1.84)	1.37	4.00
PBT Margins	8.81	(2.32)	0.78	3.43
PAT Margins	6.72	(1.78)	0.61	2.68
EPS (US cents)	2.02	(0.50)	0.17	0.78
Dividend Per Share	1.00	3.00	4.00	5.00
RoE	9.74	(2.63)	0.80	3.51
P/E (X)	8.42	(15.99)	47.14	10.32
Div Yield %	5.88	37.50	50.00	62.50
Earnings Yield	11.88	(6.25)	2.12	9.69
Target Price				**17.07**

Results Review:

A solid H2 performance saw Dairibord turnaround a slow first half performance from a loss position to close profitable. Group revenues declined 1% to $99.0m despite volumes going up 8%for the year. Operating profit of $1.4m was achieved, compared to a loss of $1.8m in 2013, and represented 1% margin. The group's PBT came in at $0.77m compared to a loss in the prior year while after tax profit was $0.60m. Group operations generated $4.4m in cash over the reported period, while closing the year with cash and cash equivalents valued at $1.4m. The group's total assets were valued at $75.8m of which $45.7m was the shareholder's equity. CAPEX for the year totaled $9.96m and was funded from borrowings and internal resources.

Zimbabwe raw milk production in 2014 grew 1.5% to 55.5m litres, with 40% of this being DZL's intake. The company's intake growth rode on the group's Heifer Importation Scheme that has since added a cumulative 430 heifers to the national herd and contributed 5% of group milk intake. In Malawi the intake decreased 20% on persistent quality challenges to see overall group intake close the 2%. Price adjustments as well as a change in the product mix resulted in a mismatch between the growth in volumes sold, and revenue as Beverages grew while Foods declined. Declining consumer prices weighed on group margins. Beverages contribution to revenues was 31% (30% in 2013) while Foods contributed 31% (30% in 2013), liquid milk contribution was at 37%, up from 35% the prior year. Production disruptions were experienced during the commissioning of new ice cream equipment reducing foods' contribution

Comment:

DZLH's 2014 full year financials at a glance are not quite exciting with revenues falling 1% for the full year and attaining just 1.3% operating margins; but a disaggregation of the two halves points to a different story in the second half of a better performance anchored by the company's capital investment and reorganization of its operations. Second half matrices indicated a 26% revenue growth on H1 and a 3.6% operating margin. Management is quite bullish in their projections for 2015 forecasting raw milk intake growth of 2%, volumes growth of +8%, revenue growth +4%; operating profit margin around 4% while capex is expected to be around $10m.

DZLH has a wide range of products that are largely in the milk based products which have commanding brands particularly in the Zimbabwean market and are making inroads in the regional export markets. Import legislation has also come in handy curtailing the vagaries of competition from imports while the company's investment on plant and equipment and rejiggering of operations position them for better returns in their main markets. As the group continues to reclaim its market share, thanks to repositioning of its existing brands and introduction of new competitive ones, similar or improved revenue outturns to H2 in coming years are attainable while we also believe that they should be able to improve operating margins to management's forecasts of 4% or even better. The management forecasts place the group at modest revenue and operating profits 2015 targets of $102m and $4.1m while we forecast EBITDA of $8.0m. Based on a Food Sector EV/EBITDA multiple of 11.79m and total liabilities of 33.3m we expect a target value of $61m (Target price 17.07c).