ECONET Wireless Zimbabwe Limited

Price:	27.01c
52 Wk High:	78.00c
52 Wk Low:	26.50c
20 Day VWAP:	26.98
P/E:	9.85
D/Y:	0.00%
PBV:	0.67
EV/EBITDA:	3.29
Issued Shares:	1,639,414,239
Market Cap:	$442,805,786.10

(All values $000 exc stated)	**Audited 28-Feb 2014**	**Audited 28-Feb 2015**	**Unaudited 31-Aug 2015**	**Forecast 28-Feb 2016**
Revenue	752,678	746,183	323,001	623,766
EBITDA	332,174	285,645	122,535	236,634
EBIT	230,450	159,356	57,870	111,756
PBT	194,009	123,345	38,555	74,456
PAT	119,397	70,209	23,808	45,977
OCI	106	209	-329	-635
TCI	119,503	70,418	23,479	45,342
AE	119,282	70,258	24,112	46,564
EPS (USc)	7.63	4.44	1.50	3.02
shares in issue (mn)	1,640	1,640	1,640	1,640
Avrge shares (mn)	1,564	1,582	1,541	1,541
Total assets	1,173,664	1,256,492	1,244,024	1,290,001
Net Asset Value	599,795	655,461	657,310	684,896
Minorities	3,924	4,525	4,221	4,398
Total liabilities	569,945	591,196	582,493	564,102
Operating CashFlow	384,953	226,962	134,188	259,138

Major performance lines lower relative to comparative period…

Revenue for the period under review declined 17.7% and closed at $323.0m relative to the comparable six months period last year. Overlay services revenue, however, grew by 29.1%. Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) decreased from $155.0m to $122.5m, a decrease of 21%.The EBITDA margin declined by 1.6% to close at 37.9%. The Group's balance sheet stood at $1,244m financed by shareholders to the tune of $657m while obligations of the group stood at $582.5m with the funded debt amounting to $220m. Debt repayments of $32.8m were made in the half year period, leaving the balance sheet with $220m debt, down from $255m, and thus a 37% gearing ratio.

Diversification of income streams minimise revenue loss…

The group's efforts to diversify income streams continue to mitigate the voice revenue loss, with a notable 29% increase in overlay services revenues which in turn contributed 11% to the aggregate. Broadband contributed 16% (or $52m) of the group's revenues. Major cost containment initiatives saw the group costs come down 15.2% to $212m with the reduction largely coming from a 15% cut in supply side costs; the group expects its cost realignment exercise to have full impact on performance in 2017.

Tariff cut on voice dampens performance…

Following a 35% tariff cut on voice calls by the regulator last year which has taken its full toll on the results for the period, the revenue decline was expected and looking at revenue contributions by product voice took the biggest knock. Like most reporting local companies, deflationary pressures in the economy also weighed on revenue performance for the group. The severity of the declines in other line items after the top line are the ones of concern notably the 21% drop in EBITDA and the 52% fall in net profits, as these speak of a misaligned cost structure. It is however commendable that despite the 21% drop in absolute EBITDA the margin was an improved 38% compared to the 37% achieved in the immediate six months periods to 28 Feb 2015.

H2 revenue decline likely to be lower…

Given the revenue outturn from the first half we do expect second half declines in revenues though these should have a lesser impact than the 17.7% experienced in H1 as the tariff cut affected a couple of months of their 2015 H2 performance. Against this backdrop we expect H2 revenues to be 15% lower than the comparable second half period last year to give us a

forecast of FY 2016 outturn of $623.8m. Applying similar EBITDA and PBT margins from H1 at 38% and 11.94% we forecast the group to post $236.6m EBITDA and $74.5m pre-tax profit. Consequently, an after tax profit of $46.0m should accrue. These would imply forward PE of 8.94x which in our view keeps Econet as one of the cheaper telecoms group in the region.

Price took a battering but upside still limited based on forecasts

Econet has not been spared the down turn on the ZSE and in fact is one of the heavies to have taken the biggest knock since the beginning of the year having seen its price dip 55%, in part also due to the anticipated lower financial performance. In the short term, we can expect the stock to soften on the market owing to the lower profitability, however with their cost containment initiatives that are set to impact future performance periods, we expect price recovery in the medium to long term. Based on our PE valuation matrix and our assumed average for ZSE stocks of 10x we believe the upside is be limited in the short term and thus place a **HOLD** recommendation on the group.

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.