

Hunyani Holdings Limited
LT BUY
Current Stock Trading Statistics

Price (Usc)	6.50
Mkt Cap (US\$mn)	20.62
PBV (x)	0.98
Div Yield	-
P/E	18.78
Free float (%)	32.77
shares in issue (m)	317.21

Financials & Forecasts	30.10.2010	30.10.2011	30.10.2012
	US\$	US\$	US\$

Revenues	35,300,961	46,567,411	53,552,523
Cost of sales	27,296,506	35,081,012	39,194,524
Gross profit	8,004,455	11,486,399	14,357,999
Profit from operations	682,433	2,200,986	3,679,774
PBT	204,562	1,645,131	2,934,668
Profit for the year	6,073	1,219,611	2,175,604
Total assets	32,790,311	36,734,220	41,969,508
Total capital	20,025,839	20,999,265	23,174,869
Total non-current liabilities	4,743,227	4,751,221	8,479,694
Total liabilities	12,764,472	15,734,976	19,463,449

Ratios

EPS (US cents)	0.04	0.34	0.64
Dividend Per Share	-	-	-
RoE	1.00	5.00	-
P/E (X)	87.50	17.65	10.13
Div Yield	-	-	-
Earnings Yield	0.01	0.06	0.10
Closing Share Price	3.50	6.00	
Target Price			9.62

Business Description

Hunyani Holdings Limited is engaged in the manufacture of paper products through activities that include the production of paper, printing and packaging products, as well as growing and processing timber. The Company operates through four divisions: The Corrugated Products division manufactures corrugated containers to suit commercial packaging requirements; The Pulp and Paper division specializes in the kraft papers for the corrugated packaging industry; The Flexible division is involved in the manufacture of paper based packaging products, including a range of sacks and bags; The Printopak division focuses on the manufacture of folding cartons, laminated cartons, waxed and plastic coated cartons and labels, mainly for the cigarette, detergent, foodstuff, fast foods, pharmaceuticals and beverage industries. The Company's subsidiaries include Hunyani Paper and Packaging (1997) (Private) Limited and Hunyani Forests Limited, among others.

Group Structure
Corrugated Products

The division manufactures corrugated containers to suit a wide variety of packaging requirements with specialized packaging covering tobacco, horticulture, floriculture, and citrus sector for local and export markets. They are the key suppliers of double wall board cases to tobacco exports

Pulp and paper

Currently under care and maintenance the division specializes in the kraft papers for the corrugated packaging industry

Flexible Packaging Division

Manufactures of paper based packaging products, supplying a diverse market with products that includes a variety of sacks and bags. Product range includes multiwall paper sacks, self opening bags and open mouth sacks for packaging agricultural produce, cement and lime, other industrial produce pharmaceuticals and basic food stuffs.

Printopak division

Manufactures folding cartons, Laminate cartons, waxed and plastic coated cartons and high quality labels mainly for the detergent, cigarette, food stuffs, fast foods, pharmaceutical and beverages industries.

Hunyani Forest

Suppliers of Eucalyptus and pine timber for transmission poles, pit props and timber for firewood

Hunyani Properties Limited

Property company whose operations lie in leasing immovable property to the other companies in the group and external parties.

Financial Performance Review

Financial Year	FY09	FY10	FY11	FY12E	FY13E	FY14.E
	US\$ Mn	US\$ Mn	US\$ Mn	US\$ Mn	US\$ Mn	US\$ Mn
Revenue	23.30	35.30	46.57	53.55	58.91	64.80
Growth (%)	-	51.54	31.92	15.00	10.00	10.00
Operating Profit	0.71	0.68	2.20	3.68	5.93	9.76
EBIT	0.71	0.58	2.32	3.68	5.93	9.76
Net Profit	0.35	0.01	1.22	2.18	3.79	6.73
AE	0.35	0.01	1.22	2.18	3.79	6.73
EBITDA Margin (%)	3.05	1.93	4.73	6.87	10.06	15.06
EBIT margins (%)	3.05	1.64	4.99	6.87	10.06	15.06
Net Profit Margin (%)	1.52	0.02	2.62	4.06	6.43	10.39
AE Margins	1.52	0.02	2.62	4.06	6.43	10.39
P/E	36.36	87.50	17.65	9.35	5.24	2.90
RoE (%)	2.00	1.00	5.00	-	-	-
RoCE (%)	7.20	1.07	7.37	11.74	15.91	16.91

Results Review & Trade Update
Full Year Results for the 12 Months Ending 31 October 2011

Revenues were up 32% at \$46.5m and the group posted an operating profit of \$2,2m which was 164% above the outturn from the previous year. The profit before tax amounted to \$1,5m and after tax profits stood at \$1.1m. The group's balance sheet firmed 12% to \$36.7m of which the NAV stood at \$21m while cash and cash equivalents for the period closed in a negative position of \$1.4m. CAPEX for the period amounted to \$2.5m funded through borrowing and asset disposals.

Operations Update and Outlook

The group's overall volumes increased by 9% propelled by domestic market volume growth that more than made up for decline in export volumes.

The corrugated Products: Volumes increased by 46% with growth on the back of improvements in the domestic market leading to turnover growth of 34% whilst improved plant performance and efficiencies led to better performance

Flexible Products: Volumes grew 32% and turnover was up 34% as benefits of the new Self Opening Bag Machine commissioned in the year increased efficiencies and enabled the division to replace imported packaging with internally produced packaging.

Printopak: Improved performance in the second half drove volumes up 30% that saw it achieve a breakeven for the second half, though overall posted a loss due to the poor first half. Turnover grew by 46% with the introduction of new products and better factory throughput and efficiencies.

Forest Estates and Forest Products: Volumes dropped by 10%. Forest Estates achieved a satisfactory profit, after retrenchment costs of \$39,000. Forest Products incurred a loss, mainly constrained by limited supplies of creosote.

Associates - Softex, Waste Collections: Softex Tissue Products (Private) limited under-performed due to intense competition and supply logistics. The waste paper businesses achieved better results due to improved volumes and pricing

Outlook

In the outlook period Hunyani is looking to retool its operations by spending \$9.3m on capex over the next 4 years to be funded by medium-term secured loans and cash flow in line with the group's Corporate Capital Plan which involves the replacement of old equipment with state of the art technology using various funding options. 3 projects amounting to \$3.1m have already been approved that will see Printopak restructured at a cost of \$2m, while an in-line case-maker and generator set would be acquired for Corrugated

The Group expects better performance on the back of a satisfactory agricultural season, especially for tobacco in which volumes are expected to surpass those of last year 2011, whilst Net gearing is forecast to peak at 25% in year one 2013 but steadily reduce over the five year period to October 2015. Funds are also expected to be raised from disposal of non-core properties that will be used for early retirement of the medium-term debt. The expected return on investment over the period of the plan is 24%, over which the net operating margin is forecast rise to 7%.

On a divisional level, higher tobacco and commercial volumes were forecast at Corrugated Products in line with GDP growth. However, intense pressure on pricing, power supply, market liquidity and old equipment remain performance dampeners.

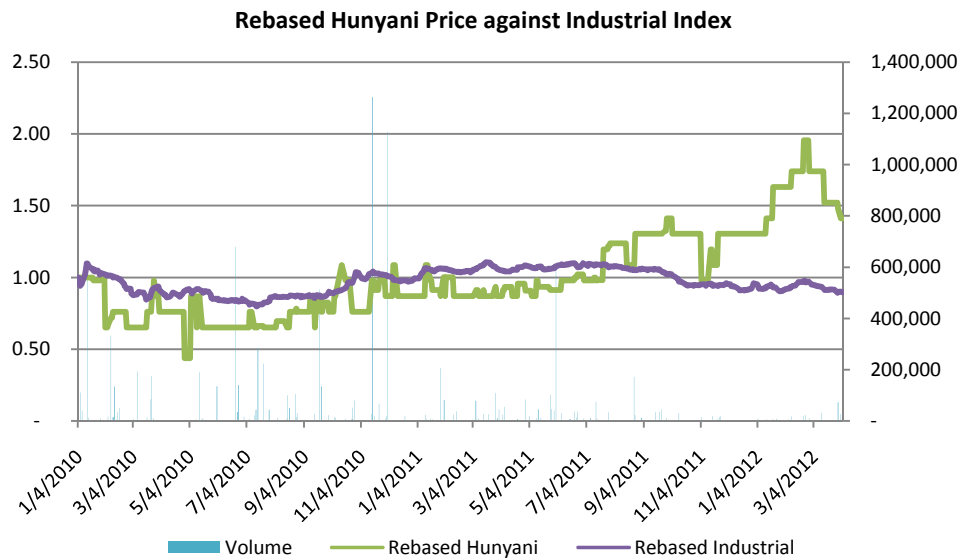
Flexible Products: significant volume growth is forecast driven by commercial and agricultural markets, though margins are under pressure from entry of competition. At Printopak, the group expects significant volume growth and increased market, though competition on pricing remains high. Profit growth at Softex is forecast to exceed the prior year whilst Forests and Forest Products were now leased and revenues were contributing meaningfully to group profits.

Turning to the performance in F12, the company expects volumes growth to exceed GDP growth forecast and pretax profit and EPS growth to exceed inflation. Performance for the half year is in line with last year due to delayed tobacco orders. The group will remain borrowed to fund working capital requirements and projects approved under the Corporate Capital Plan.

Investment Rationale

Hunyani’s investment rationale vests in their status as one of the leading packaging solutions providers in Zimbabwe. With most manufacturing companies yet to hit acceptable optimal operational capacities the scope for even great growth in packaging products demand remains for the group. Similarly their main customer industry the agricultural sector is also set on a growth trajectory while the tobacco farmers who have been their predominant customers are yet to get to previous peak levels. Further Hunyani’s strategic relationship with TSL offers some synergistic benefits from the subsidiaries of the latter that if properly utilized can offer great rewards to all stakeholders. It is with this in mind that we believe Hunyani’s financial performance is likely to track patterns in Zimbabwe’s economic recovery path which on a long run basis should be a steady upward movement.

Hunyani Price Volume Trends - Technical Analysis



Source: ZSE/EFE Database

Hunyani has generally trailed the industrial index for the greater part of the last two years as weighed down by generally depressed financial performance, however improved performance in 2011 after the release of interims saw Hunyani outperform the industrial index since July 2011. YTD the stock is up 8.33% which would suggest better performance relative to the main stream industrial index that is down -6.70% year to date

Valuation**Price to Earning:**

At current market price of 6.5c, Hunyani is trading at a twelve months trailing PER(x) of 18.78x. Based on our FY12E per share earnings of 0.64USc, derived from Revenue and PAT of \$53.5m and \$2.2m, over FY12E, we set price targets of 9.62USc. As the group is underpinning growth on industry growth we applied growth forecast of 15% which should see the group Turnover \$53.5m and achieve after tax profits of \$2.2m (4.1% PAT margins) translating to a forward P/E of 10.13x.

Recommendation.

Hunyani's operations are showing signs that the company has turned around. As profits increased by a higher proportion to revenue growth we believe it is a sign that the company efforts towards cost containment coupled with the spreading of overheads on better capacity is paying off. Based on the long run average ZSE P/E of 10x Hunyani appears fully valued for those short term investors. With better returns likely to accrue in 2013 after the bulk of the initial retooling exercise we expect strong performance driven by better efficiencies improving margins and of course general recovery in industry. We see highly attractive forward P/E's for 2013 and 2014 at 5.68c and 3.14x at which time we expect Hunyani to trade at 11.44c and 16.56c respectively prompting a rating of an attractive medium to long term asset.

31 October (US\$m)	2009	2010	2011	2012F	2013F	2014F
Income Statement						
Turnover	23.3	35.3	46.6	53.6	58.9	64.8
Gross profit	5.5	8.0	11.5	14.4	17.7	22.7
EBITDA	0.7	0.7	2.2	3.7	5.9	9.8
EBIT	0.7	0.6	2.3	3.7	5.9	9.8
Net finance income	(0.1)	(0.4)	(0.7)	(0.7)	(0.8)	(0.7)
Profit before Tax	0.6	0.2	1.6	2.9	5.1	9.1
Taxation	(0.2)	(0.2)	(0.4)	(0.8)	(1.3)	(2.3)
Profit after Tax	0.4	0.0	1.2	2.2	3.8	6.7
Balance sheet						
Shareholders' equity	21.92	20.03	21.00	23.17	26.96	33.69
Total shareholders' funds	21.92	20.03	21.00	23.17	26.96	33.69
Interest Bearing Debt	0.61	1.96	3.98	7.71	5.06	1.06
Trade creditors	3.80	5.07	5.77	5.77	5.77	4.86
Current Liabilities	4.76	8.02	10.98	10.98	10.98	7.08
Total Liabilities and equity	32.34	32.79	36.73	42.64	43.78	45.61
Fixed Assets	22.70	19.12	19.65	24.89	26.14	27.96
Investments	0.32	0.00	0.00	0.00	0.00	0.00
Debtors	5.44	7.22	8.27	8.27	8.27	8.27
Cash at bank	0.77	0.74	2.17	2.17	2.17	2.17
Current Assets	9.64	13.67	17.08	17.08	17.08	17.08
Total Assets	32.34	32.79	36.73	41.97	43.22	45.05
Weighted shares	317.21	319.71	319.71	319.71	319.71	319.71
Income Statement						
EPS (USc)	0.11	0.04	0.34	0.6414955	1.1451389	2.0668169
DPS (USc)	0	0.0	0.0	0.0	0.0	0.0
NAV per share (USc)	8.69	7.67	7.91	7.25	8.43	10.54
Growth Ratios						
Sales growth (%)		51.54	31.92	15.00	10.00	10.00
Pre-interest profit growth (%)		(18.82)	302.38	58.44	61.05	64.67
Earnings growth (%)		(98.28)	19982.51	78.39	74.01	77.84
Margins						
Gross margin (%)	23.67	22.67	24.67	26.81	30.00	35.00
EBITDA margin (%)	3.05	1.93	4.73	6.87	10.06	15.06
Pre-interest margin (%)	3.05	1.64	4.99	6.87	10.06	15.06
Interest cover (times)	1.59	0.03	2.87	2.87	2.87	2.87
Pre-tax profit margin (%)	2.47	0.58	3.53	5.48	8.67	14.01
PAT Margins	1.52	0.02	2.62	4.06	6.43	10.39