EFE Research –Innscor Africa Limited HY14 Results Review
Tuesday, 25 March 2014

STOCK DATA			
Price:			65.00
52 Wk High:			115.00
52 Wk Low:			65.00
20 Day VWAP:			73.34
P/E:			10.21
D/Y:			0.02
PBV:			2.51
EV/EBITDA:			7.68
Issued Shares:			565.05
Market Cap:			367.28
	30-Jun-13	**31-Dec-13**	**30-Jun-14**
	$000	**$000**	**$000**
Revenue	656,332	525,204	1,020,337
EBITDA	67,397	47,311	91,914
EBIT	50,691	37,525	77,091
Net Interest	(3,069)	(3,549)	(3,714)
Equity Earnings	11,747	916	1,808
PBT	59,369	34,892	75,185
PAT	48,599	26,735	57,610
OCI	(520)	(317)	(446)
TCI	48,079	26,418	57,164
Equity holders Earnings	38,954	16,250	35,015
Non Controlling Interests	9,645	10,486	22,595
Total non-current assets	203,754	237,622	237,622
Total current assets	144,821	274,289	305,163
Total assets	348,576	511,911	542,785
Net Asset Value	157,427	168,108	186,873
Long Term liabilities	19,608	42,100	37,890
Current liabilities	136,162	206,168	210,378
NAVPS(cents)	1.76	1.88	2.09
Basic EPS	7.19	3.00	6.46
Diluted EPS	7.19	3.00	6.46
Headline EPS	6.36	2.75	5.93
Price at Date	91.02	80.00	65.00
EBITDA Margins	10.27	9.01	9.01
EBIT Margins	7.72	7.14	7.56
PBT Margins	9.05	6.64	7.37
PAT Margins	7.40	5.09	5.65
P/E	14.31	14.55	10.97
PBV	51.73	42.58	31.12
Target Price			78.27

Financials

Innscor interim revenue grew 55% to $525.2m over the prior period while EBITDA came in at $47.3m which is 38% up on last year. Operating income at $36.6m was 38% ahead of last year. However operating margins shrunk slightly by a percentage point to 9% from 10% in 2013. PBT rose 9% to $34.9m while PAT declined by 30% to $26.7m translating to an EPS of 3.01c. The balance sheet grew by 53% to $512m as at the reporting date. Borrowings were up 34% to $65.1m while cash from operations improved 76% to $51m from that achieved in 2012.

Review of operations

The tight operating environment which has seen a dearth in overall demand in the economy has been cited as a major constraint in performance of the group's various operations. Margins have been further suppressed due to competition and low spend while a lax in overheads control in some sections of the business has compounded performance depression.

Sectorial Performance

Bakeries & Fast Foods

Volumes declined 10% over the comparative period. Customer head count in the fast foods operations in Zimbabwe remained the same as last year while profitability was dampened by lower margins and increased overheads. Product pricing revision undertaken in the latter part of the year resulted in improved margins. Regionally customer head counts improved by 50% resulting in similar growth in revenue and profitability.

In a bid to reign in overheads under current depressed demand, bakeries production will now be consolidated at the Graniteside facility in Harare. Additionally the group is undertaking an extensive overhead cutting exercise.

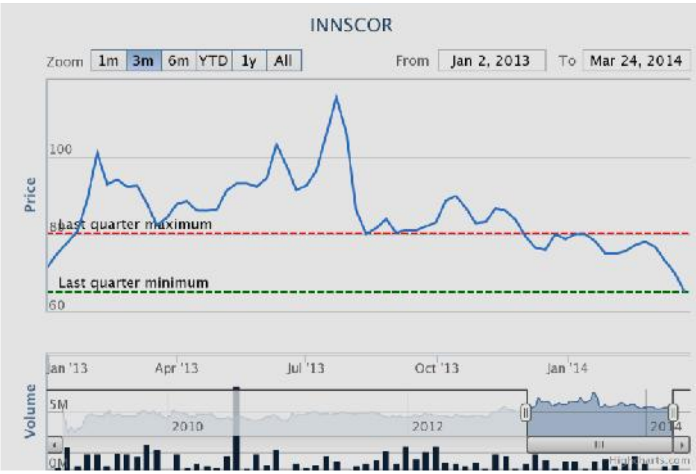
Milling and Protein

257metric tonnes of produce were sold which is 7% up on last year. Profitability was marginally lower due to comparative numbers including profits on disposal of none core assets. Colcom registered a 17% increase in overall volumes while the Pork operations suffered a 33% decline in volumes. The decline was mainly due to a rationalization of the product lines. However the dearth was offset by improved volumes in Associated Meat Packers (AMP). Irvines recorded a strong growth in both revenue and profitability.

Distribution Group Africa

Recorded an 18% increase in volumes however resulting in a 6% growth in revenue. Subdued margins resulted in similar profitability to the comparative period last year.

Overall head count improved by 33%. Spar distribution operations disappointed as revenue declined by 5%. Margins also reduced significantly resulting in the unit posting a loss for the period



Source: EFE

Household Goods

TV sales and Home recorded a 15% growth in revenue as 4 additional stores were opened as well as introduction of a revised instalment credit offering.

Outlook and Valuation

The fast foods expansion program is still underway with 6 counters having been opened in Harare, 3 counters in Chegutu and 1 in Mutare. Additional outlets are planned in the second half of 2014 in Harare, Mvuma and Masvingo. A new pork processing plant was commissioned in February which will result in improved product quality and efficiencies. The poultry business will continue to invest in new feeding, drinking and processing equipment. Going forward the group will seek to reign on overheads costs through centralization of expenses.

While the current macroeconomic environment poses a threat to future prospects with regards to aggregate demand we envisage the group to stay the course leveraging mainly on its diversified operations. The group's strong cash generation capability equally set it on a platform for growth while reducing leverage on hot money. We expect the improvement in margins to lessen the effect of constrained demand resulting in a 55% growth in full year revenues to $1b assuming that we hold the first half growth rate constant. From these we expect PBT and PAT to come in at $77.1m and $57.6m respectively which is 27% and 19% up on prior year and this will translate to a basic EPS of 6.51c. Applying a peer group trailing PER of 12.2x will result in a target price of 78.27c.**BUY**

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