



EFE Research – RTG Interim Results 2013 Review **BUY**

Thursday, August 29, 2013

Rainbow Tourism Group

Current Price	1.21
52 Week High	2.60
52 Week Low	1.10
20 Day VWAP	1.60
P/E	(9.08)
D/Y	-
PBV	1.43
EV/EBITDA	(89.37)
Issued Shares (m)	1,870
Market Cap (m)	22.63

Financial Data

	Actual	Forecast	Forecast
	Jun-13	Dec-13	Dec-14
Revenues	13,230	30,326	40,096
EBITDA	1,644	6,121	7,709
PBT	29	2,757	5,258
PAT	212	2,058	4,207
NAV	15,851	13,327	17,534
EPS (US cents)	(0.17)	0.11	0.22
NAVPS	0.96	0.71	0.94
RoE	1.54	18.26	31.56
P/E (X)	(7.73)	11.00	5.38
EV/EBITDA	37.07	9.96	7.91
Earnings Yield	(12.94)	9.09	18.59
Closing Share Price	1.35		
EFE Target Price		1.65	3.37
Recommendation			BUY

FINANCIAL REVIEW

Revenue increased by 4% to \$13.2m relative to the corresponding interim period last year on the back of a 10% improvement in occupancies, whilst the average room rate grew from \$81 in 2012 to \$84. The company EBITDA improved 982% to \$1.6m from \$152,000 attained in the corresponding period last year. Interest expense declined 47% to \$851,000 buoyed by the retirement of much of the short term loans. The Group's continuing operations achieved a profit before tax of \$29,049 compared to a loss of \$2.2m recorded in the prior period. The total debt reduced by 14% from \$24.5m at 31 December 2012 to \$21.1m at 30 June 2013 resulting in gearing coming down to 57% from 69% at Dec 2013.

OPERATING ENVIRONMENT

Occupancy increased 10% to 43% as the group's market share went up 17% to 27% compared to a fair share of 25% and similarly Revpar saw a 13% jump to \$36. The group saw a 27% contribution by the foreign business which anchored the 4% revenue growth recorded in the period while domestic business activity was affected by liquidity challenges, rising costs of key inputs and intense competition. They operated at 12% EBITDA margins (LY 1%) on the back of cost reduction measures embarked on in November 2012 that addressed core cost impact items with the intention of creating a long term sustainable efficient system. Funding wise, part of the short term loans were restructured to long term reducing the average cost of borrowing to 11% and they have a target to reduce cost of borrowing to 7% by year end.

REFURBISHMENTS

Rainbow Towers Hotel and Conference Centre - works resumed in Q2 2013 and the first 60 rooms that had been taken out for refurbishment now back into circulation while the project is expected to be completed by January 2014.

Beitbridge Hotel Project - Construction is now complete and funding for equipment, furniture and fittings has been secured and the remaining works will be completed in Q3 while opening is set for 1 November 2013. The full impact to the Group operations will be felt in 2014. This will add 140 rooms to RTG's current room stock. Beitbridge is expected to open at occupancies of \$23 and to operate initially at a concessionary ADR of \$50

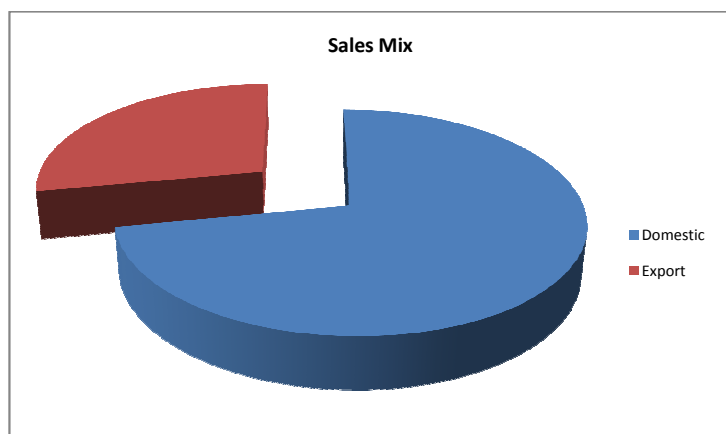
Bulawayo Rainbow Refurbishment – Completed work includes rooms carpeting, hot water system and lifts having been done. Focus is now on public areas including reception, bar and restaurants targeting to complete by first quarter of 2014.

RTG Price Volume Trends



Source: EFE Securities

RTG INTERIM RESULTS 2013 REVIEW



Source RTG

Company	Market	PER	Source
African Sun	ZSE	6.42	ZSE
City Lodges	JSE	19.86	JSE
Wilderness	JSE	18.73	JSE
Average		15.00	

OUTLOOK

The company forecast the improving occupancy trend to continue in the second half of the year. Strategic focus will be to intensify sales and marketing efforts to grow revenues as well as the RTG Brand.

Valuation and Recommendation

As RTG's strategic thrust going forward will be on the completion of the refurbishment of their hotel properties and the completion of correction of the group's capital structure to enable the betterment of the group's operations. As the rightsizing is likely to be completed in 2013 we believe full benefits are likely to accrue in 2014. Against this background we determined 2014 forecasts based on the increased number of rooms under management of 1520 rooms or the back of the addition of the Beitbridge hotel to their portfolio later this year. Applying the group's current occupancy of 48% and an ARR of \$84 we forecast the group to attain revenues of \$30m and \$40m for FY2013 and FY2014 respectively. Based on EBITDA margins of 20% the group should post EBITDA's of \$6.1m and \$7.7m for the respective years. This should translate into bottom lines of \$2.06m for FY2013 and \$4.21m for FY2014. Applying this to the current prices, RTG is trading at PE+1 and PE+2 of 11.0x and 5.38x which compares favorably with the current average PE of its peers of 15.00. (Target Prices FY'13: 1.65c; FY'14: 3.37c)

We have always believed that investment in the group should be seen as a long term investment with potential attractive long run returns that are contingent on the completion of the restructuring further uptake of more rooms into their room stock. As the completion of the rationalization and right sizing of operations and refurbishment of major properties draws closer we re-rate the stock from a LTBUY to a straight BUY. AS the tourism industry in Zimbabwe recovers on the back of fairly stable environmental performance is likely to continue improving. With the capital structure challenges now out of the way the ensuing year should see less pressure from financing costs and a fairly optimal working capital framework to achieve desirable results. It is our considered opinion that the group's ownership of strategic properties particularly in their main Zimbabwe Market further increases their allure as they have the potential to sweat their property portfolio and drive performance higher. BUY.

Contacts:

EFE Securities Pvt Ltd, 26 Cork Road, Belgravia, Harare

Edgeton Tsanga	edgetont@efesecurities.co.zw	0772 277 153
Christopher Masendeke	christopherm@efesecurities.co.zw	0772 135 234
Phenias Mandaza	pheniasm@efesecurities.co.zw	0772 144 334
Coreen Madanha	coreenm@efesecurities.co.zw	0772 144 333
Respect Gwenzi	respectg@efesecurities.co.zw	0773 782 392

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