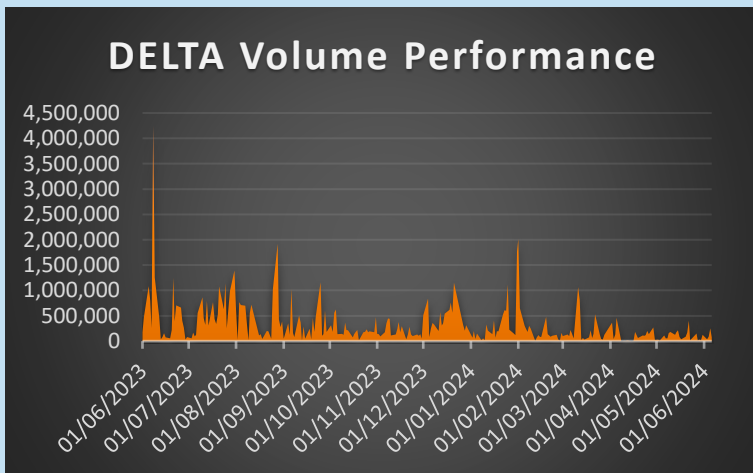


Sector	Beverages
Company Name	Delta
<b>Stock Data</b>	
Current Price (ZIG\$) (as at 06/06/2024/)	8.2069
Price Performance YTD (as at 06.06.2023)	56.19%
Shares Outstanding (millions)	1,310
Market Capitalisation (ZIG\$ trillion ) (as at 19.05.2023)	2.91
PER +1 (X)	10.75
Average (20 day) Daily Value (ZIG\$)	682,823
Average (20 day) Daily Volume (m)	97,507
Target Price	US\$0.80

Financial Data		
	FY23	FY24
Gross Sales(000HLS)	11,222	12,532
Revenue (US\$m)	563.92	767.87
Operating Income (\$000)	99.79	152.34
Profit before tax	87.33	104.39
PAT	63.14	100.53
EPS (ZWL\$)	0.0484	0.0771
Dividend Per Share (\$)	0.03	0.03
PAT margin	11.76%	13.09%
RoE	26.36%	45.25%
P/E (X)		7.38
Closing Share Price		12.3
EFE Target Price		US\$0.80



## DELTA FULL YEAR EARNINGS UPDATE 2024

### Delta's Strategic Capacity Investments Drive Solid Operational performance...

Delta's substantial capacity investments, totaling around US\$100 million over the past two years, have empowered the company to achieve robust operational execution, steering it through the turbulent economic landscape marked by currency fluctuations and soaring inflation. Group revenue soared by 43% to \$767.87m mainly driven by sustained consumer demand emanating from various sectors of the economy. Operating income soared 53% to US\$152 million, propelled by its strategic investments in expanding production capacity therefore enhancing operational efficiencies. In the same vein, the operating margins were marginally higher at 20% from 18% in the prior comparable period. The group was profitable in the period under review as profitability increased by 59% to \$100.54m, implying earnings per share of \$0.0772 and rewarded shareholders with a total dividend of US3 cents. The group's balance sheet stood at \$403.46m with 222.18m of the funding being shareholders' funds. The group closed with a positive balance of \$9.67m which was a 31% drop from prior comparable period.

### Operating Activities

#### Sorghum beer

Sorghum beer intake continued to surge in the year under review as the amount of beer consumed surged by 7.01% to 6.87m HLS. The Zimbabwean segment mainly benefited from increased product supply and political activities leading to elections and post-election period. The Chibuku category continued to record steady demand in the period under review. The company launched new flavors for ginger and pineapples and this is to provide the market with many alternatives. Sorghum beer consumption in South Africa marginally rose by 2.79% to 1.51m HLS while, in Zambia volumes increased by 33% to 1.16m HLS as compared to the prior comparable period. In South Africa UBA is reported that strides have continued to penetrate into more trade channels using Chibuku super. Zambia volumes recovered in the year under review anchored mainly by penetration into new markets coupled with increase in retail footprint.

### Lager beer.

Lager beer volumes rose by 13% to 2.46m (HLS) anchored by improved supply emanating from the new packaging line that became operational in July 2023. The company also benefited from continued injection of new glass bottles and improved glass circulation. Delta recorded monthly run rates in the 2023 peak season signifying that demand for the company's products is nearly at an all-time high. Noteworthy, was the performance of the Carling Black Label brand that achieved sales of 1m hectolitres.

### Sparkling beverages

Sparkling beverages volume charged 29% to close the period under review at 2.05m (HLS) as the segment continues to record steady recovery in volume and market share gains throughout the year. The segment fell shy by 2.19% to reach the historical peak achieved in 1999 of 2.09m (HLS). The sparkling beverages segment is benefiting from improved supply and range of PET packs following commissioning of new plant in the first quarter. Improved pricing and marketing strategies have contributed to the segment's positive performance. The segment volumes were also buoyed by relaunch of sprite and zero sugar range. Market share for sparkling beverages improved from 65% to 67%. AFDIS volumes grew by 1.25% to 161,000(HLS) which is the new all-time high from the 2023 historical peak. AFDIS mainly benefited from ciders that grew by 5% underpinned by expansion of route to market channels and increased local production. However, the AFDIS segment is mainly being affected by grey imports and proliferation of home brewed spirits.

### Challenges

Delta Corporation grapples with severe economic headwinds across its operating markets, pose significant impediments to its operations. Rampant hyperinflation has distorted cost structures, fueled by exchange rate volatility and tight liquidity constraints stemming from an unstable macroeconomic environment. This has culminated in higher input costs, foreign currency shortages, and adverse impacts on the group's financial performance. Pricing distortions resulting from hyperinflation further complicated the trading landscape, making it arduous to establish optimal pricing strategies. Inflated costs throughout the value chain exacerbate this challenge, compounded by exchange rate fluctuations that affect both inputs and outputs.

Infrastructure deficits, including erratic electricity supply, water shortages, and a dilapidated road network in Zimbabwe, have

disrupted Delta's production and distribution capabilities. Electricity challenges, in particular, have necessitated the company to incur costs three times higher when running alternative power sources, straining profitability.

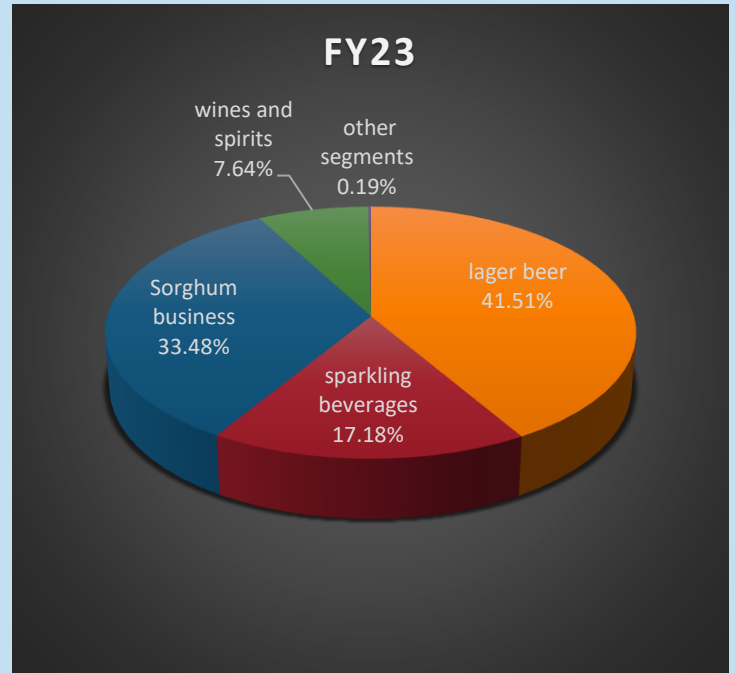
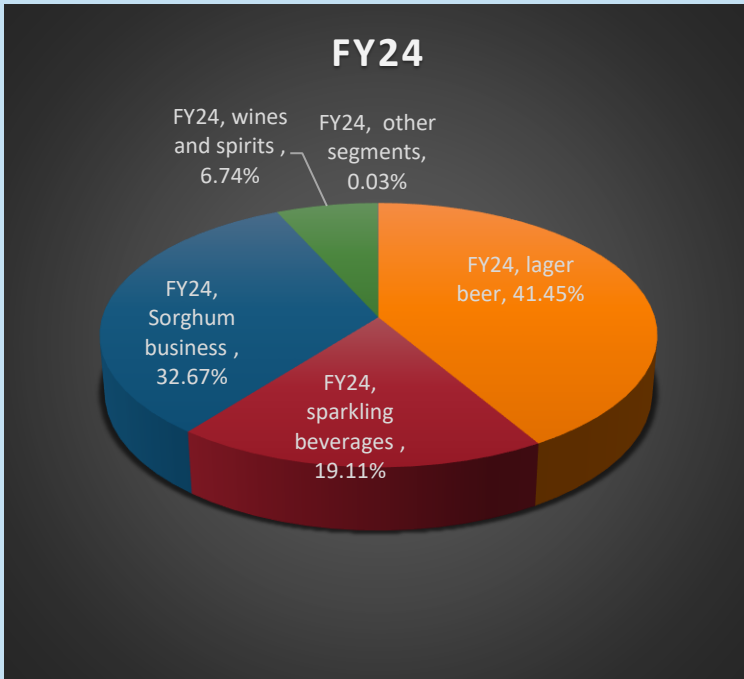
Regulatory complexities also pose additional hurdles. Disputes with tax authorities over foreign currency tax assessments reflect the intricacies of Zimbabwe's multi-currency regime, creating uncertainties and potential financial implications for the group.

Competitive pressures have intensified as consumer spending power has diminished. The proliferation of informal markets and gray imports in the spirits segment indicates that consumers are seeking lower-cost alternatives amid economic hardships. Delta must adapt its route-to-consumer approach to navigate this landscape effectively. Furthermore, shortages and high prices of maize in Zambia have adversely affected the volumes attainable in the sorghum beer segment, hampering growth prospects. Delta Corporation's resilience is being tested as it contends with these multifaceted challenges, requiring strategic agility and operational excellence to sustain its market position and drive long-term growth

### Developments and Outlook

Despite the considerable challenges, Delta Corporation has opportunities to consolidate and potentially expand its market leadership in the beverage sector. Its strategic initiatives to enhance competitiveness, optimize costs, and leverage regional diversification could unlock growth. Further investments to boost production capacities and product ranges may be pursued, building on the recent packaging line upgrades. Distribution could be broadened by deepening penetration of the informal sector through creative route-to-consumer models. Adapting pricing and packaging to serve a range of consumer segments will be important. There is also potential to grow the spirits category by checking gray imports and improving brand equity. However, Delta's outlook remains contingent on stability and reforms in the Zimbabwean economy. Managing inflation, fostering competitiveness, addressing infrastructure deficits, and continued re-engagement with global partners will be essential to shore up consumer spending power and the policy environment. If economic fundamentals improve, Delta Corporation could see higher revenues and profitability over the medium-term. But volatility and macroeconomic fragility in Zimbabwe pose risks.

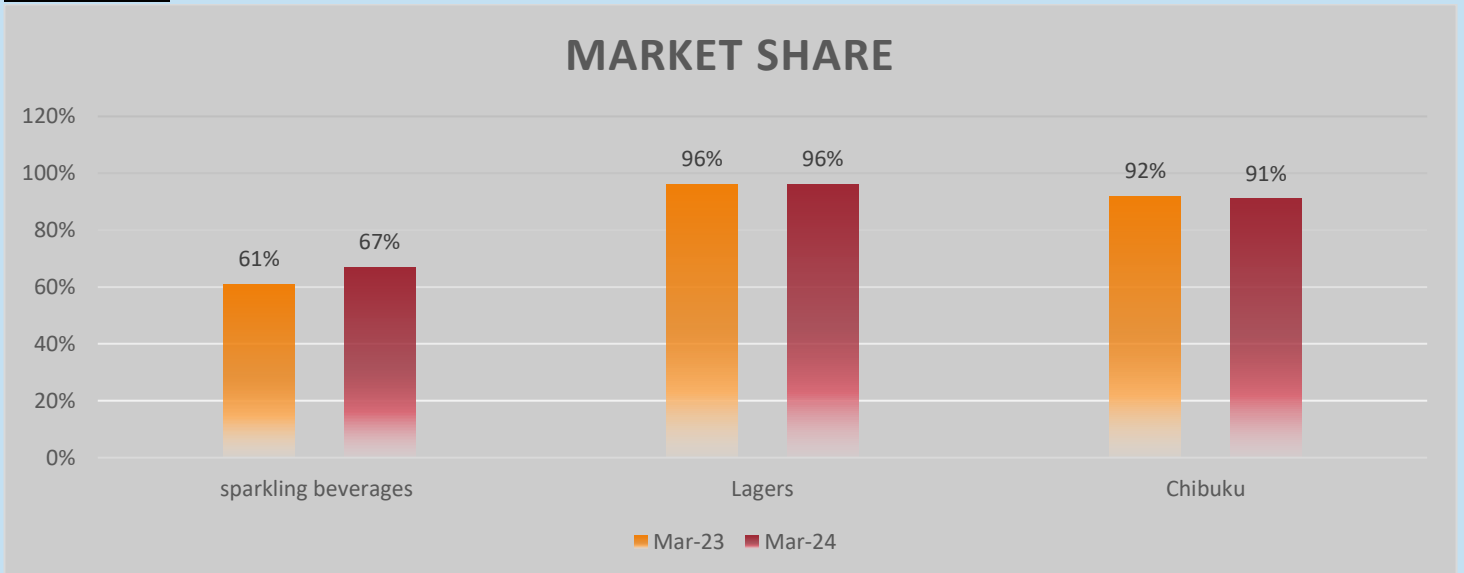
**Delta revenue contribution HY23 & HY24**



Source:Delta

Lager beers were the major revenue contributor with a whopping 41.45% contribution despite a mere decline of 0.06% as compared to FY23, trailed by sorghum beer segment that claimed 32.67% of the revenue despite having dropped 0.81%. Sparkling beverages and wines & spirits segments had respective contributions of 19.11% and 6.74%. Other segments dropped in the year under review as their contribution fell from 0.19% to 0.03%.

**Market Share**



Source:Delta

Market share for Chibuku declined from 92% in March 2023 to 91% in March 2024 as new entrants begin to enter into the market. Sparkling beverages’ market share went up by 6% to 67% as lagers’ market share was stable at 96% with the group investing more in injection of new glass bottles and improved glass circulation.



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### **Valuation**

Delta Corporation has showcased remarkable resilience, posting an impressive 12% volume growth across its beverage portfolio in the year 2024, despite the challenging operating environment. This upward volume trajectory is expected to continue, with Delta targeting growth ahead of historical trends. The commissioning of new packaging lines and plants will further boost production capacity. Based on the group's robust volume growth in 2024, we anticipate 2025 volumes to reach 14.85 million hectoliters. Applying Delta's revenue per hectoliter outturn from the year 2024, we forecast Delta to achieve a total revenue of US\$875.68 million for the year ending 2025. At EBITDA, operating profit and PAT margins (from the year 2023) of 21.8%, 19.8% and 13.1%, we forecast EBITDA of US\$190.9m, operating income of US\$173.4m and PAT of US\$114.7m. With these projections, Delta Corporation's forward Price-to-Earnings Ratio (PER+1) stands at 10.75x, relative to the average P/E for selected African breweries of 15.7x. Applying the industry average P/E multiple to our projected PAT yields a target price of US\$0.80 per share, representing a 31% upside potential.

With a target price of US\$0.80 per share, Delta Corporation presents an attractive investment opportunity for investors seeking exposure to the beverage industry in Southern Africa. The company's well-diversified product portfolio, spanning lager beer, sorghum beer, sparkling beverages, wines and spirits provides a hedge against changing consumer preferences influenced by economic cycles. When economic conditions are favorable, investors can benefit from the growth in premium lager beer and sparkling beverage segments. Conversely, during periods of economic strain, the company's sorghum beer and value-driven offerings cater to cost-conscious consumers, ensuring resilience in revenue streams. This versatile portfolio enables Delta Corporation to adapt to evolving market dynamics, positioning the company as a defensive investment option within the beverage industry. **BUY**



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## EFE RESEARCH – Delta Earnings Update Release Date-07.06.2024

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