



**BIDVEST NAMIBIA LIMITED**  
**1H15 Results Review**  
**MARCH 2015**

|                            |                   |      |
|----------------------------|-------------------|------|
| <b>Bidvest Namibia</b>     | Target Price (c)  | 1250 |
| <b>1H15 Results Review</b> | Current Price (c) | 1323 |

| Year End 30 June  | 2012  | 2013  | 2014  | F2015 | F2016 | Recommendation            | SELL |
|-------------------|-------|-------|-------|-------|-------|---------------------------|------|
| Revenue (N\$m)    | 2,702 | 3,355 | 3,703 | 3,613 | 3,833 | NSX Code                  | BVN  |
| EBITDA (N\$m)     | 647   | 601   | 501   | 434   | 463   | Market Cap (N\$m)         | 2,76 |
| Net profit (N\$m) | 461   | 427   | 343   | 309   | 331   | Shares in Issue (m)       | 212  |
| HEPS (c)          | 140.3 | 129.5 | 116.0 | 108.6 | 118.3 | Free float (%)            | 24   |
| HEPS growth (%)   | 16.9  | -7.7  | -10.4 | -5.2  | 8.9   | 52 week high (c)          | 1328 |
| DPS (c)           | 63.0  | 69.0  | 63.0  | 60.0  | 65.0  | 52 week low (c)           | 1267 |
| P/E (x)*          | 9.28  | 10.21 | 11.42 | 12.18 | 11.18 | Expected Total Return (%) | -1.2 |
| DY (%)            | 4.8   | 5.3   | 4.8   | 4.5   | 4.9   |                           |      |

Source: BVN, IJG

\*Based on current share price

**1H15 Results**

BVN released its results for the six months ended 31 December 2014. As expected, the firm's results were poor reflecting the difficulties currently being experienced by the fishing division. EPS fell 10.3% to 49.7cps and HEPS decreased 10.4% to 49.6cps. At N\$1.707bn, revenue was in line with last year, however, trading profit shrunk 18.9% to N\$179.6m on account of increased costs.

**Margin Pressure**

Trading profit shrunk by 18.9% y/y to total N\$179.6m, down N\$41.8m of which N\$39.2m is attributed to a decrease in trading profit in the fishing division. However, as usual, the fishing division continued to supply the largest share of trading profit, coming in at N\$130.8m or 72.8%. This figure is 23.1% lower than the N\$170.0m seen in 1H14, reflecting depressed margins resulting from lower quota allocation and higher quota rental fees being demanded in the secondary market. In addition to lower allocations to BidVest directly, secondary market supply has been declining as new quota holders have been coming under pressure from Government to become operational, rather than retail their allocation.

Food and distribution reported revenue of N\$653.5m and an accompanying trading profit of N\$15.2m. Food and Distribution contributed 2.3% of total trading profit, down from 3.3% as trading profit fell 28.8% y/y. Trading profit was largely affected by the loss of the contract for distribution of Namibia Poultry Industry products. The cancellation of the agreement came with a loss of N\$60m in turnover. The Windhoek High Court, however, on 4 March 2015 ruled that Namibia Poultry Industries had violated a distribution agreement it reached in 2012 with National Cold Storage, a subsidiary of BVN.

**Uncertain outlook for Bidfish**

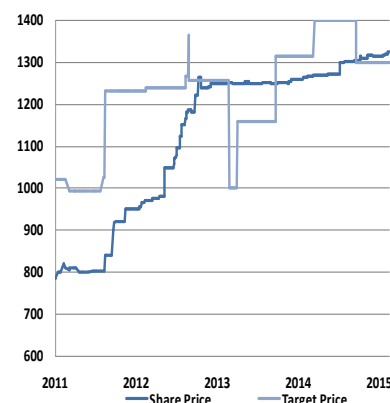
The outlook for the fishing division remains challenging according to company's management, given uncertainties surrounding quota allocations. Additionally, we expect the market price for horse-mackerel to remain depressed over the next year, as supply continues to outstrip sustainable demand. However, fundamental demand is likely to remain strong over the long term.

**Valuation and recommendation**

The stock is currently trading on a FY16 dividend yield of 4.5% based on expected full year dividends of 60cps due to expected earnings per share of 109c and an assumed 55% payout ratio. This is in line with its average yield of 4.7% over the last four years, but is relatively unattractive to cash yields that are on the rise.

The positive economic environment bodes well for the revenue growth in the commercial businesses, however weaker selling prices of horse-mackerel and lower quota allocations have put pressure on revenue in the fishing division, while the cost of securing additional quota will negatively affect the company's bottom line, thus revenue and trading profit margins are expected to contract further through FY15. In addition, quota and price uncertainty have notably decrease earnings visibility beyond 2015.

We have adjusted our earnings forecast and target price following a detailed analysis of the interim results. We forecast FY15 earnings of N\$1.09 per share and calculate a target price of N\$12.50 per share based on a justified PE ratio of 11.0 times. We are concerned about the possibility of a dividend cut going forward should fish quota issues not be resolved, however remain cognizant of the large cash balances on the company's balance sheet, allowing them space to weather the current storm. In addition, however we do not expect the stock to trade much lower from current levels given the illiquidity of such and the possibility that once sold stock may be difficult to rebuy in future. Nevertheless, due to the current challenges faced by the company and limited earnings visibility, we have revised our HOLD to a SELL recommendation.

**BVN Share Price****Dividends**

Notice is hereby given that an interim dividend of 22 cents per ordinary share was declared on 27 February 2015 for the period ended 31 December 2014.

- Last day to trade cum dividend: 6 March 2015
- First day to trade ex-dividend: 9 March 2015
- Record date: 13 March 2015
- Payment date: 27 March 2015

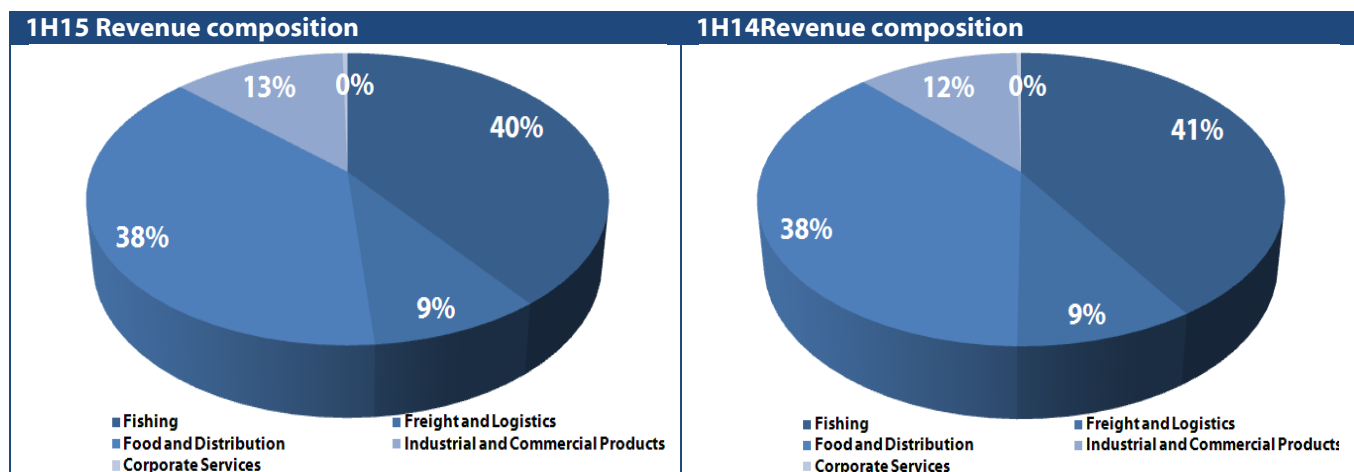
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## Operational performance

### Revenue

BVN managed to increase revenues slightly, by 0.7% y/y to N\$1.7bn in 1H15, mainly attributed to growth in the majority of the commercial businesses, while performance by the fishing division was somewhat disappointing. Revenue composition, however, remained weighted towards the fishing division, contributing 39.7% towards revenue, down from the 40.9% contribution in 1H14. Food and distribution ended up adding 38.3% to total revenue, up from the 37.7% contributed during the previous period.



Source: BVN, IJG

### Trading Profit

Trading profit shrunk by 18.9% y/y to total N\$179.6m. Of this N\$41.8m decrease, N\$39.2m is attributed to a decrease in trading profit in the fishing division. As usual, the fishing division supplied the largest share of trading profit, coming in at N\$130.8m or 72.8%. This figure is 23.1% lower than the N\$170.0m seen in 1H14, reflecting depressed margins resulting from lower quota allocation and higher quota rental fees. The 1H15 trading profit margin for the fishing division fell to 19.3% from 24.5% reported in 1H14. Food and Distribution contributed 2.3% of total trading profit, down from 3.3% as trading profit fell 28.8% y/y to N\$15.2m. Trading profit was largely affected by the loss of the contract for distribution of Namibia Poultry Industry products. Freight and Logistics performed well, reporting a 25.1% increase in trading profit and made up 14.3% of trading profit, an increase from 11.2%, in the previous year. Despite lower project activity, this division was supported by the oil and gas industry.

### Earnings and dividends

EPS fell 10.3% to 49.7c per share in 1H15, compared to 1H14, and HEPS decreased 10.4% to 49.6c per share. An interim cash dividend of 22c per share was declared. Thus, the company cut dividends by 8.3% in 1H15 when compared to 1H14, with the payout ratio increasing to 44% from 33% before.

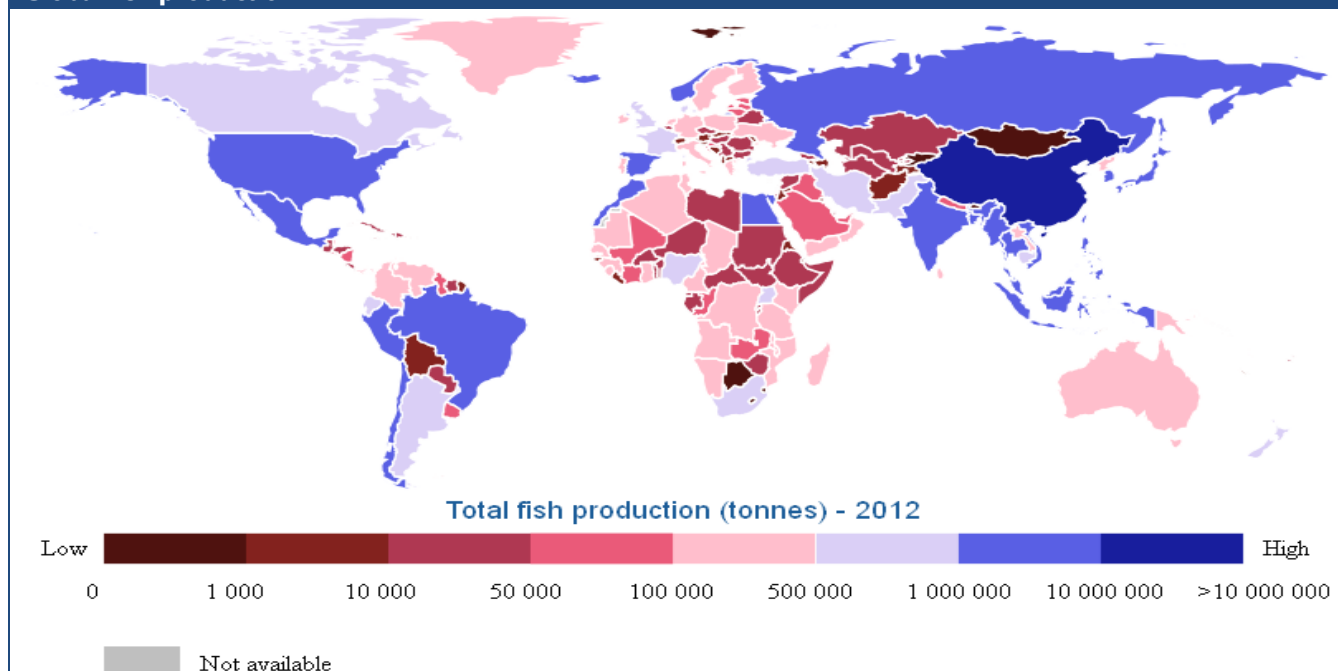
### Segmental Highlights and Outlook

| Segment analysis                   | Revenue          |                  |              | Trading Profit |                |              | Trading Profit Margin |              |
|------------------------------------|------------------|------------------|--------------|----------------|----------------|--------------|-----------------------|--------------|
|                                    | 1H14             | 1H15             | change (y/y) | 1H14           | 1H15           | change (y/y) | 1H14                  | 1H15         |
| Fishing                            | 694,733          | 677,255          | -2.5%        | 170,034        | 130,803        | -23.1%       | 24.5%                 | 19.3%        |
| Freight and Logistics              | 156,798          | 152,888          | -2.5%        | 17,517         | 21,921         | 25.1%        | 11.2%                 | 14.3%        |
| Food and Distribution              | 639,205          | 653,521          | 2.2%         | 21,352         | 15,199         | -28.8%       | 3.3%                  | 2.3%         |
| Industrial and Commercial Products | 200,102          | 217,887          | 8.9%         | 11,903         | 13,611         | 14.3%        | 5.9%                  | 6.2%         |
| Corporate Services                 | 5,706            | 6,262            | 9.7%         | 662            | (1,912)        | -388.8%      | 11.6%                 | -30.5%       |
| <b>Total</b>                       | <b>1,696,544</b> | <b>1,707,813</b> | <b>0.7%</b>  | <b>221,468</b> | <b>179,622</b> | <b>-19%</b>  | <b>13.1%</b>          | <b>10.5%</b> |

Source: BVN, IJG

## Snapshot of the Global Fishing Industry

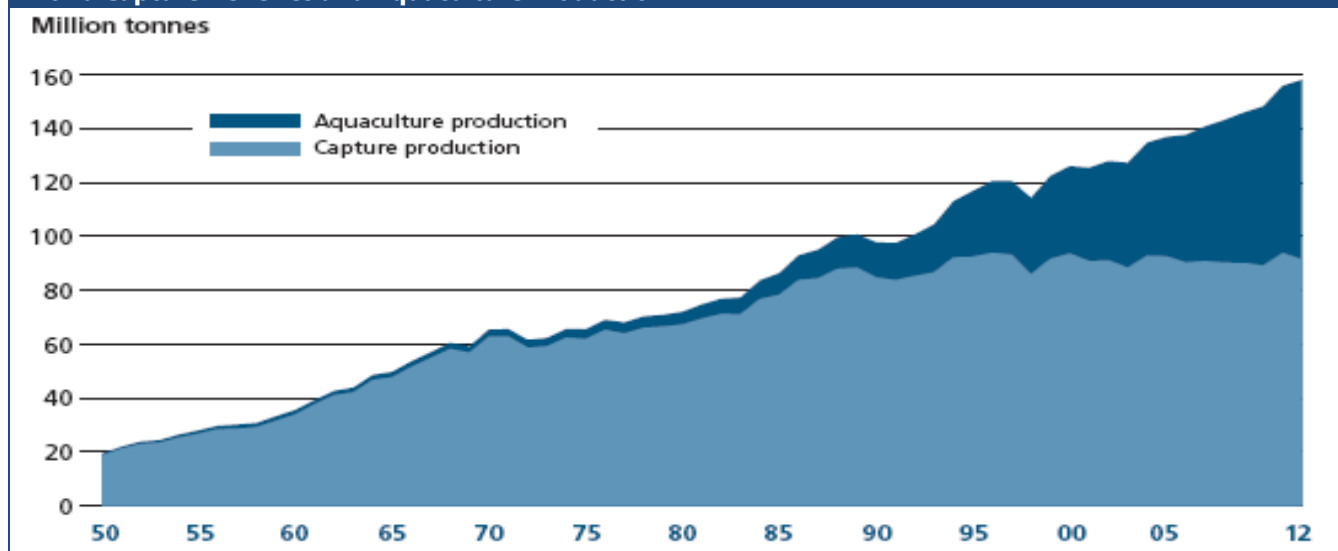
### Global fish production



Source:FAO

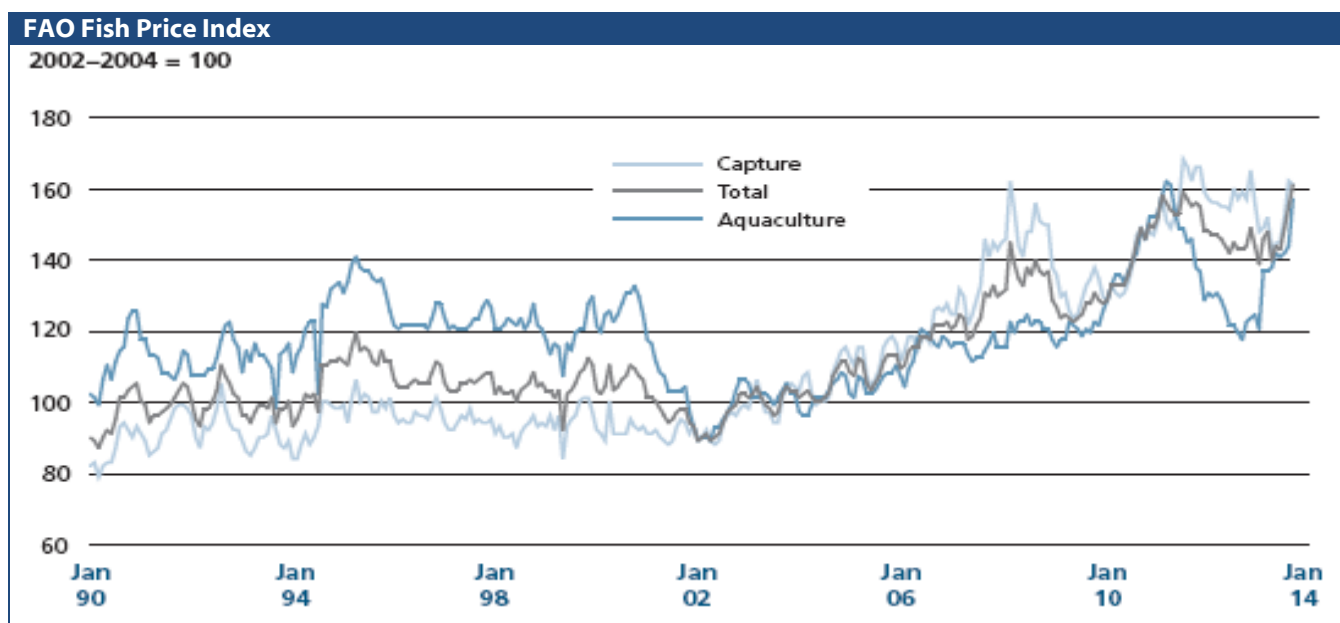
According to latest Food and Agriculture Organisation (FAO) State of World Fisheries and Aquaculture report, Namibia produced 468,678 tons of fish in 2012 and is ranked 39<sup>th</sup> globally in terms of output. Global fish production has grown steadily in the last five decades as seen on the figure below, with fish supply increasing at an average rate of 3.2% per year, outpacing world population growth of 1.6% per annum. According to preliminary estimates, world per capita fish consumption increased from an average of 9.9 kg in the 1960s to 19.2 kg in 2012. The main driving force behind this impressive surge has been a combination of population growth, rising incomes, and urbanization interlinked to the strong expansion of fish production and modern distribution channels.

### World Capture Fisheries and Aquaculture Production



Source:FAO

Fish prices, like those of most goods and services, are influenced by supply and demand factors, including operating expenses, costs of production and transporting costs, but also that of alternative commodities, such as meat and vegetables. At the same time, the heterogeneous nature of the fish sector, with hundreds of species to choose from and thousands of products available on an international scale, makes it challenging to estimate and forecast prices for the sector as a whole. According to the aggregate FAO Fish Price Index, levels have increased significantly from 2002 and after some fluctuations, the index reached a record high in October 2013.



Looking forward, the future of the fishing sector will be influenced by its capacity to address strategic interconnecting challenges of global and local relevance. The global population growth and disposable income changes, together with urbanization and changes with regards to diet, are expected to create additional demand for proteins, including fish in developing countries. Thus, the future of the fishing sector in Namibia and that of BVN will be a result of social changes, in its ecological, social and economic contexts, both locally and internationally.

### BidFish

At 72.8% of trading profit, albeit down from 76.8% in 1H14, this division remains the backbone of the firm. As such, the challenging operating environment prevalent during 1H15 resulted in the subdued performance for the whole group.

Segmental revenue decreased by 2.5% to total N\$677.3m from N\$694.7m reported for 1H14, while the trading profit generated by the division fell 23.1% y/y from N\$170.0m in 1H14 to N\$130.8m for the reporting period, on account of margin contraction from 24.5% to 19.3% in 1H15. The reduced margins come as a result of the company having to purchase quota on the secondary market, as the primary allocation to Namsoy and the Trachurus joint venture by the Ministry of Fisheries and Marine Resources has declined. Landings of horse mackerel decreased by 35.0% when compared to the same period last year. The fishing segment was put under further pressure through experimental fishing in Gabon and Angola in attempt to utilize idle vessels, along with softer price for horse-mackerel in the market. However, this was partially offset by a weakening Namibian dollar.

Total Allowable Catches (TAC) are set by the Ministry of Fisheries and Marine Resources at the start of every calendar year (CY) and the bulk of the TACs are then allocated for that year; with the Ministry holding back a small percentage of the TACs in reserve, to be allocated as the year progresses. As such, the concession holders do not know exactly how much they will be allocated once the year starts, creating a challenging planning environment for the fishing companies, which are required to make long term investments in PPE, without long term guarantees of quota. This was the case for BVN during the year, where the firm was fishing close to maximum capacity during 2H14 (financial year), but the subsequently lower than anticipated CY14 reserve allocation resulted in strained 1H15 performance.

Over the last few years, while the TAC has increased, so have the number of concession holders, and as such, the share of the TAC to which BVN has access (including both direct allocation and indirect acquisition of TAC) has fallen, going from 41.8% of total TAC (350,000t) in CY13, to 35.7% of 350,000t in CY14 and 34.3% estimated for CY15.

Adding further concern, not only has the total quota accessible to BVN fallen, but the amount quota directly allocated has done so too. In 2011, BVN secured about 41.3% of the total quota directly; 25.0% of the CY12 total quota; 24.4% of the CY13 total quota and 20.4% of the CY14 total quota. According to management, the initial direct quota allocated to BVN for 2015 is more or less in line with 2014, however, the portion of the reserve TAC is not known. 84,000 tons has been kept in reserve by the Ministry for 2015.



|                         | 2011           | 2012           | 2013           | 2014           | 2015           |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Direct Quota Allocation | 127,905        | 79,906         | 85,483         | 71,446         | 70,000         |
| % of total BVN TAC      | 77.3%          | 57.3%          | 58.4%          | 57.2%          | 58.3%          |
| Indirect Quota acquired | 37,568         | 59,482         | 60,809         | 53,401         | 50,000         |
| % of total BVN TAC      | 22.7%          | 42.7%          | 41.6%          | 42.8%          | 41.7%          |
| <b>BVN Total TAC</b>    | <b>165,473</b> | <b>139,388</b> | <b>146,292</b> | <b>124,847</b> | <b>120,000</b> |
| Total TAC               | 310,000        | 320,000        | 350,000        | 350,000        | 350,000        |
| % of total TAC          | 53.4%          | 44.9%          | 41.8%          | 35.7%          | 34.3%          |

Source: BVN, Ministry of Fisheries and Marine Resources, IJG

Along with the lower direct quota allocation, the amount paid to secure additional quota has also risen, from N\$1,500 per ton in 1H12 to N\$1,850 in FY12, N\$3,000 in 1H14 and to N\$3,250 in the current period. This said, we do not foresee the quota rental fees increasing as dramatically going forward, as Namibian fees have normalised with those of Mauritania (N\$3,300 per ton at present), which price appears to be a point beyond which quota demand tails off, as the marginal unit of profit on this quota undermines viability.

Some support to fishing revenues, however, came in the form of a strong US\$ exchange rate, that averaged N\$10.99 to the Rand over the period, up a substantial 9.1% from N\$10.08 averaged in 1H14. At the same time, fishing regulations in the Democratic Republic of Congo and the general oversupply in the traditional markets of Namsof following restrictions implemented by the Nigerian government, led to a decline in the average realised horse mackerel price. However, the weaker Namibian Dollar offset the lower US\$ price effect on revenue, but this also had a significant impact on costs.

We forecast the average exchange rate for the second half of 2015 to be N\$12.00 and N\$11.50 for 2016, up notably from the 1H14 average rate of N\$10.99. Thus, the weaker Namibia Dollar is expected to remain the silver lining for this division, amidst the cloudy conditions that prevail.

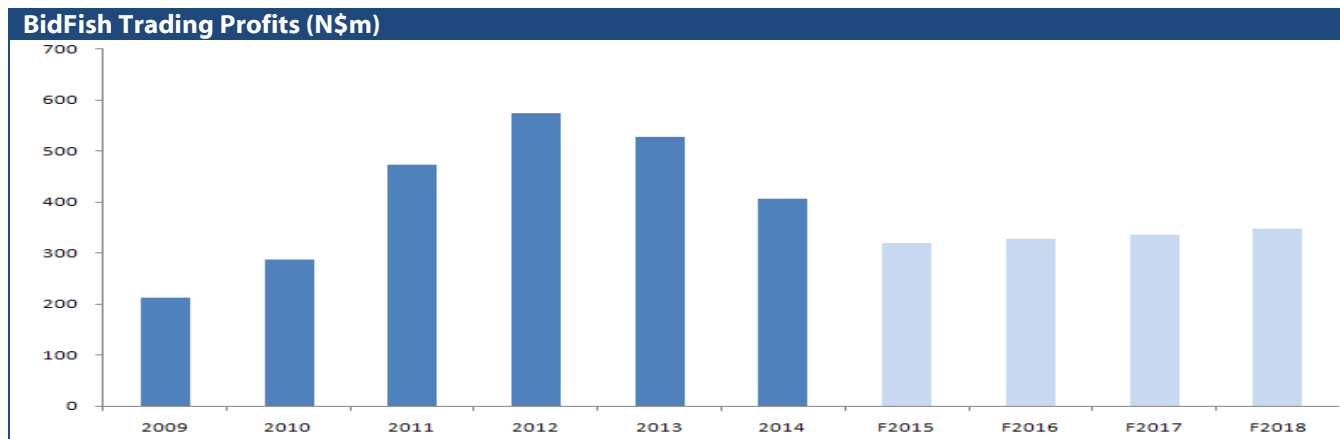
The outlook for the fishing division remains challenging according to company management with uncertainties surrounding quota allocations. Additionally, we foresee the market price for horse-mackerel remaining depressed over the next year, as supply continues to outstrip sustainable demand, however fundamental demand is likely to remain strong over the long term. Over the short term, the Nigerian Government plans to further reduce fish imports via quota, or by significantly increasing duties on the commodity. Angola also reintroduced midwater trawling, increasing supply to the market, which may effect the horse mackerel prices.

On the other hand, prospects for the pilchard operations and the Angolan business, Pesca Fresca, are positive as the business is now under BVN management control and fully operational. The pelagic operations is expected to performed well, despite the total pilchard quota for 2015 being reduced by 5,000Mt to 25,000Mt, following unfavorable research results on the pilchard resource. Management highlighted the success and performance of the onshore canning operations and they noted a strong increase market share regarding their canned products.

BVN sold one of five vessels during the period under review. The most obvious reason for this was to down scale on the back of reduced quota allocated. Also, it is becoming more and more difficult to get hold of quota from third parties as the other quota holders are becoming operational. Going forward, we should see a decline in operating expenses, as these vessels will no longer be sitting idle.

The horse mackerel resources appears healthy and catch rates remain in line with previous years, however, much uncertainty remains about the quota allocation in following years, therefore, our forecasts for this division is negative and we expect to see growth to contract further during the second half of the year. A possible growth opportunity comes in the form of the Angolan fishing operations that could prove to be quite profitable. The profitability of the Angolan fishing division has been delayed compared to initial management expectations, nevertheless we have factored growth coming from it into our valuation. Further, we do not expect to see rental fees for quota increasing much above current levels and along with a weaker Namibian currency forecast, margin contraction is limited. The oil price that has fallen significantly over the last few months and which is expected to remain at these levels for the rest of 2015 will decrease transportation costs which form a major part of operating expenses. We use this as our base case scenario to forecast trading profits.





Source: BVN, IJG

## BidCom

Almost all the BidCom companies managed to grow revenues during the quarter under review, however mixed results were recorded within the commercial portfolio with regards to trading profit margins.

Increased sales initiatives and effective implementations of strategies by the Industrial and Commercial Products divisions explains the 8.9% increase in revenue, to N\$217.9m. Trading profit for the period came in at N\$13.6m, up slightly, by 0.3% y/y, as the trading profit margin widened to 6.2% from the 5.9% reported for 1H14. Management advises that most of the companies in these segments are performing well, with the exception of Kolok, whose experiencing tight margins, as competition remains strong, dragging down profitability.

In the case of Freight and Logistics, revenue decreased 2.5% y/y to N\$152.9m for 1H15, however trading profit increased significantly, reporting growth of 25.1% y/y to N\$21.9m as the trading profit margin expanded from 11.2% reported for 1H14 to the current figure of 14.3%. Management advises that investments made in oil and gas have paid off, and the Manica business in this segment is expected to support trading profits with the continuation of the oil and gas exploration opportunities and spin-offs from the expansion of the Walvis-bay harbour are expected to be significant. However, on the back of the recent oil price declined, future exploration activity in Namibia may be somewhat.

Lastly, Food and distribution reported revenue of N\$653.5m and an accompanying trading profit of N\$15.2m. Food and Distribution contributed 2.3% of total trading profit, down from 3.3% as trading profit fell 28.8% y/y. Trading profit was largely affected by the loss of the contract for distribution of Namibia Poultry Industry products. The cancellation of the agreement came with a loss of N\$60m in turnover. The Windhoek High Court, however, on 4 March 2015 ruled that Namibia Poultry Industries had violated a distribution agreement it reached in 2012 with National Cold Storage, a subsidiary of Bidvest Namibia. The court ruling, however, has been appealed by NPI and therefore these proceeds from the contract is not taken into consideration of the valuation until the case has been finalized.

## Valuation and Recommendation

The stock is currently trading on a FY16 dividend yield of 4.5% based on expected full year dividends of 60cps due to expected earnings per share of 109c and an assumed 55% payout ratio. This is in line with its average yield of 4.7% over the last four years, but is relatively unattractive to cash yields that are on the rise.

The positive economic environment bodes well for the revenue growth in the commercial businesses, however weaker selling prices of horse-mackerel and lower quota allocations have put pressure on revenue in the fishing division, while the cost of securing additional quota will negatively affect the company's bottom line, thus revenue and trading profit margins are expected to contract further through FY15. In addition, quota and price uncertainty have notably decrease earnings visibility beyond 2015.

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