IJG

Securities (Pty) Ltd.
Member of the NSX

BIDVEST NAMIBIA LIMITED

1H17 Results Review

May 2017

Bidvest Namibia

1H17 Results Review

Target Price (c)	630
Current Price (c)	778

Year End 30 June	2014	2015	2016	F2017	F2018
Revenue (N$m)	3,703	3,535	3,859	3,762	3,828
EBITDA (N$m)	501	415	295	105	115
Net profit (N$m)	343	412	235	80	88
HEPS (c)	116.0	103.2	86.2	19.2	25.4
HEPS growth (%)	-10.4	-11.0	-16.5	-77.8	32.4
DPS (c)	63	56	38	9	11
P/E (x)*	8.9	7.5	11.8	40.6	30.6
DY (%)	6.1	5.5	3.7	1.1	1.5

Recommendation	SELL
NSX Code	BVN
Market Cap (N$m)	1,649
Shares in Issue (m)	212
Free float (%)	24
52 week high (c)	1050
52 week low (c)	778
Expected Total Return (%)	-18.7

Source: BVN, IJG
**Based on current share price*

1H17 Results

Bidvest Namibia delivered poor results for the first half of FY17. As we expected, the firm's results reflect the difficulties the fishing division finds itself in. EPS decreased by 79.2% to 9.6 cents per share, while HEPS fell 78.1% to 9.7 cents per share. At N$1.958 billion, revenue is up 6.2% from the comparable period of last year, mainly due to the acquisition of Novel Motor Company during the financial year, which added N$391.9 million to revenue. However, BVN's trading profit shrunk 81.7% to N$21.8 million, primarily as a result of significantly lower horse mackerel quota available to Namsov (the high margin business). An interim cash dividend of 4 cents per share was declared, thus the company cut dividends by 80.0% when compared to the 20 cents paid out in 1H16.

Fishing

The fishing segment's revenue increased by 10.8% to total N$530.9 million in 1H17, up from N$479.1 billion reported for the corresponding period. Revenue for the fishing division was up despite the fact that lower horse mackerel quota was allocated directly to BVN by the Ministry of Fisheries and Marine Resources and that the hard currency prices of horse mackerel fell 11.2% year on year. Fishing revenue was up as BVN managed to buy more quota from other quota holders, however this negatively affected profit margins. Trading profit generated by the division fell 113.8% year on year, down from N$66.9 million in 1H16 to a loss of N$9.2 million for the reporting period.

Freight and Logistics

Lower activity in the oil and gas industry, as mining and oil exploration slowed in the country, is one of the main reasons for lackluster performance in this division. Given the integrated nature of the Freight and Logistics business, projects have spin-offs to all areas in the division, and therefore all entities in this division are facing challenges. There are currently no projects underway for the next few months, therefore no expectation of an improved result for FY17 and possibly the full financial year thereafter.

Food and Distribution

The 1H17 results for T&C and therefore the entire division were poor due to slowed consumer spending and operational challenges affecting the bottom line. According to management costs in this division are too high and need to be reduced. Management also highlighted that claims with regards to returnable products is a major problem for this division.

Commercial and Industrial Products and Services

Various high-frequency indicators, such as new vehicle sales and private sector credit extension, are already illustrating a slowdown in consumer spending in Namibia. Growth is therefore not to be expected in the Commercial and Industrial Products and Services division for FY17, unless in the form of acquisitions or expansion.

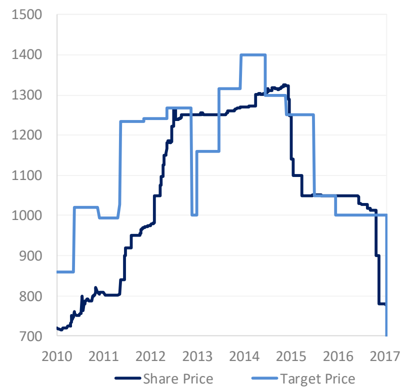
Automotive

We saw exceptionally strong vehicle sales growth through 2014 and 2015, fueled by a strong consumer base supported by expansionary fiscal policy and real wage growth. However, figures show that this trend turned circa mid-2015. We expect to see a decrease in vehicle sales as purchases of vehicles by Government will be reduced this year as well as stricter lending conditions imposed by Bank of Namibia reducing private sector purchases. Further downside risks to this are rising interest rates which may limit marginal lenders from qualifying for financing as well as banking sector liquidity which may limit the availability of loans to finance vehicle purchases. In our view the acquisition of Novel Motors was a positive development to reduce risk as the company was heavily weighted towards the fishing Industry, although purchased at the top of the cycle and low margin in nature.

Valuation and Recommendation

The stock is currently trading on a FY17 dividend yield of 1.1% based on expected full year dividends of 9 cents per share at an assumed 45% payout ratio. This is well below its average yield of 6.9% over the last five years, and is relatively unattractive to cash yields that are currently on the rise. We have adjusted our earnings forecast and target price following a detailed analysis of the half year results. Traditionally, we used a dividend discount model to calculate the target price for BVN. However, given the drastic fall in earnings due to the difficulties that the fishing division finds itself, we decided to base the valuation on a combination of the residual income method and the dividend discount method. We forecast **FY17 earnings of 19.17 cents per share** and calculate a **price of N$2.85 per share** based on a **justified PE ratio of 14.86x**. Using the residual income method, we calculated a **price per share of N$9.76**, based on a **residual income of -N$234,999** and the company's **equity capital** of **N$2.304 billion**. Therefore, we set our **target price** for BVN at **N$6.30** based on an equally weighted ratio of two. We are concerned about the possibility of dividends being cut further 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 with acquisitions such as Novel Motors. Due to the current challenges faced by the company and limited earnings visibility, we maintain our **SELL** recommendation.

BVN Share Price



Dividends

Notice is hereby given that an interim cash dividend of 4 cents per ordinary share was declared for the period ended 31 December 2016.

- Last day to trade cum dividend: Friday, 3 March 2017
- First day to trade ex-dividend: Monday, 6 March 2017
- Record date: Friday, 10 March 2017
- Payment date: Tuesday, 28 March 2017

Analyst

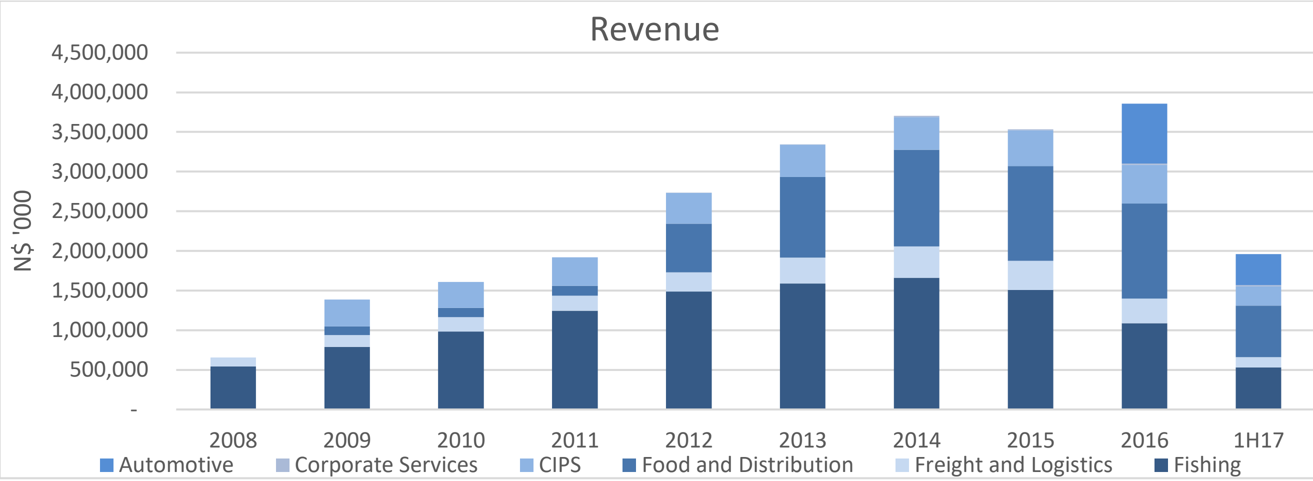
Jan-Hendrik Conradie
+264 61 383 523
janhendrik@ijg.net

1H17 Results Review

Overall Performance

Revenue

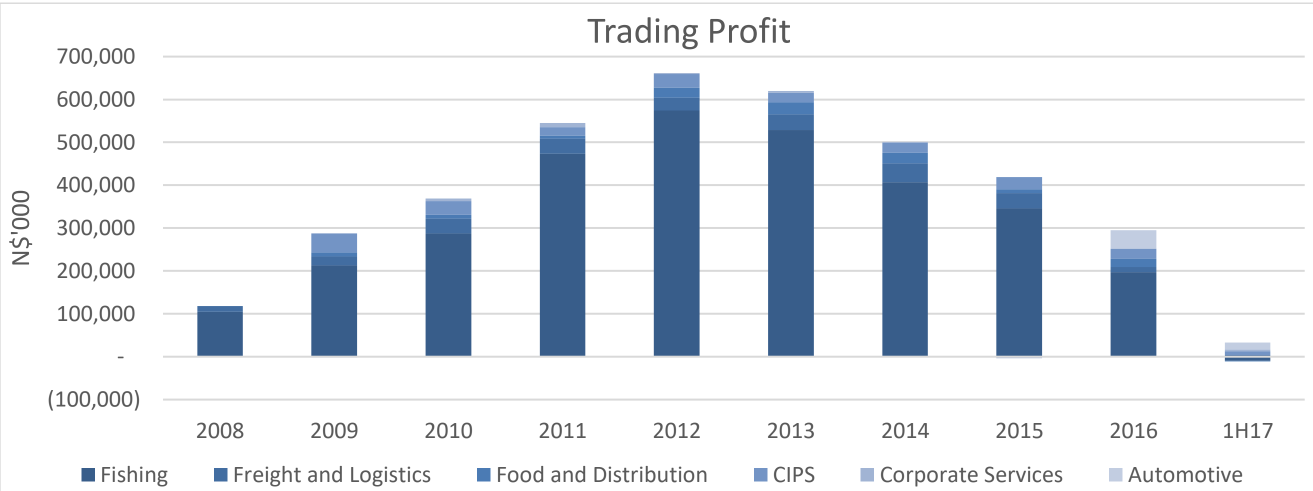
Revenues generated by BVN increased by 6.2% year on year, to N$1.958 billion in 1H17. This increase was largely attributed to income generated by the automotive division, with the acquisition of Novel Motors during 1H16. Revenue composition is now weighted towards the food and distribution division, rather than the fishing division as has always been the case. The fishing division contributed 27% towards revenue for this set of results, down from the peak of 65% contribution in FY11. Food and distribution added 33% to total revenue, followed by the automotive division with 20%, commercial and industrial products and services with 12% and then freight and logistics with 7%.



Source: BVN, IJG

Trading Profit

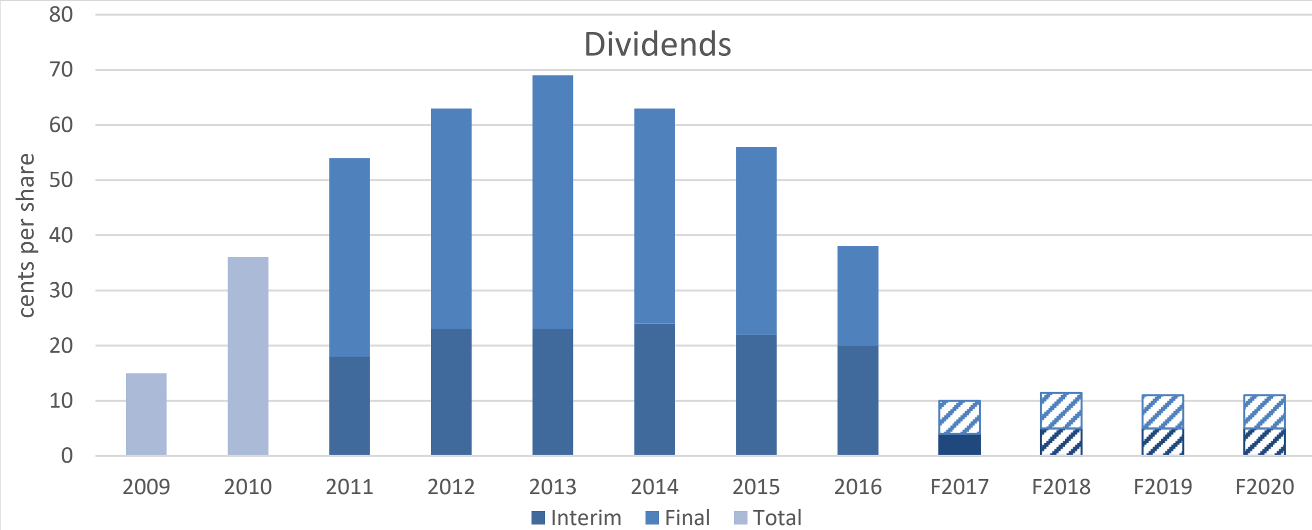
Trading profit shrunk to N$21.8 million in 1H17 from N$118.9 million in 1H16, down 81.7% year on year. This decrease was attributed to a slowdown in all the segments except for a trading profit from the corporate services division which made a loss in 1H16. The decrease in total trading profit is largely attributed to poor performance in the fishing division, which posted a loss for the first time since the company listed on the stock exchange. The food and distribution business also made a trading loss for the period. Trading profit composition is now weighted towards the automotive division rather than the fishing division, as has always been the case. The 113.8% decrease in the fishing divisions trading profit reflects depressed margins resulting from lower quota allocation from the Ministry of Fisheries and Marine Resources and higher quota purchase costs. Operating expenses increased by 26.8% to N$264.8 million in 1H17 from N$208.8 million in 1H16. The automotive division made up the largest portion of trading profit, contributing 76% towards profit for this set of results. The loss posted by fishing division for this set of results, compares to an average contribution of 79% to trading profit since FY09. Commercial and industrial products and services ended up adding 42% to total trading profit, followed by the freight and logistics division at 18% and then corporate services at 16%.



Source: BVN, IJG

Earnings and dividends

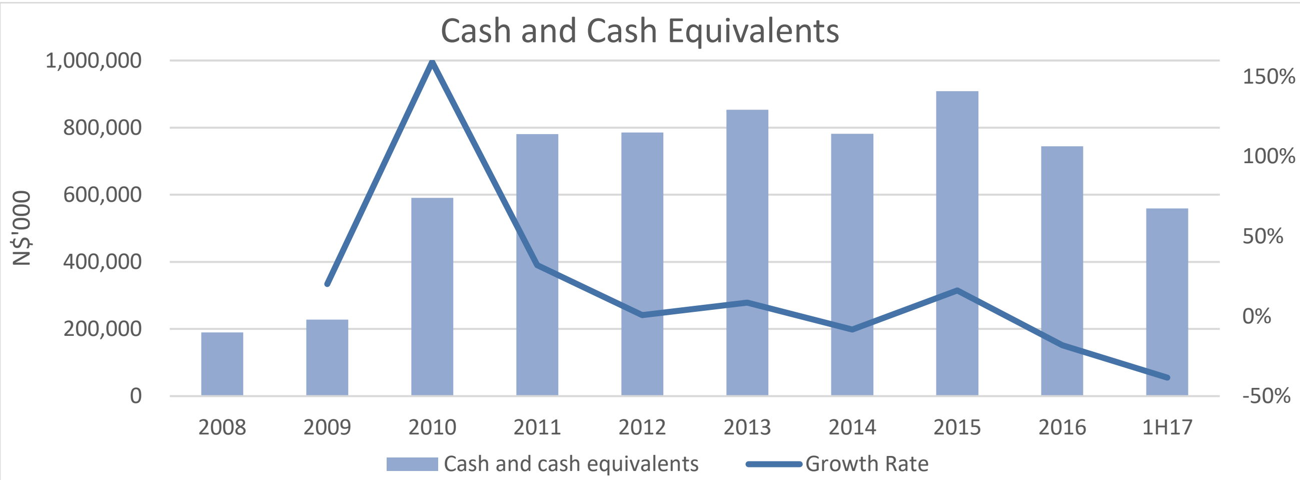
Basic EPS decreased 79.2% to 9.6 cents per share for this reporting period from 46.1 cents per share in 1H16, while HEPS fell 78.1% to 9.7 cents per share, from 44.2 cent per share previously. An interim cash dividend of 4 cents per share was declared compared to 20 cents per share for. Thus the company cut dividends by 80.0% when compared to 1H16, decreasing the dividend payout ratio to 41% from 45% before.



Source: BVN, IJG

Cash Position

BVN's cash position as reported on the balance sheet has grown significantly over the last seven years, up N$718.6 million from N$189.8 million reported at the end of FY08, having peaked at N$908.4 million at the end of FY15. However, the cash position has been decreasing since FY15, contracting by 38.4% from the end of FY15 to N$559.4 million as at the end of 1H17. This decrease was due to a number of acquisitions made during the period under review, such as the Novel Motors acquisition which amounted to N$238.8 million and Namibia Bureau de Change acquired for N$8.5 million, as well as the general poor performance across the various segments, forcing BVN to employ cash reserves.



Source: BVN, IJG

Segmental Highlights

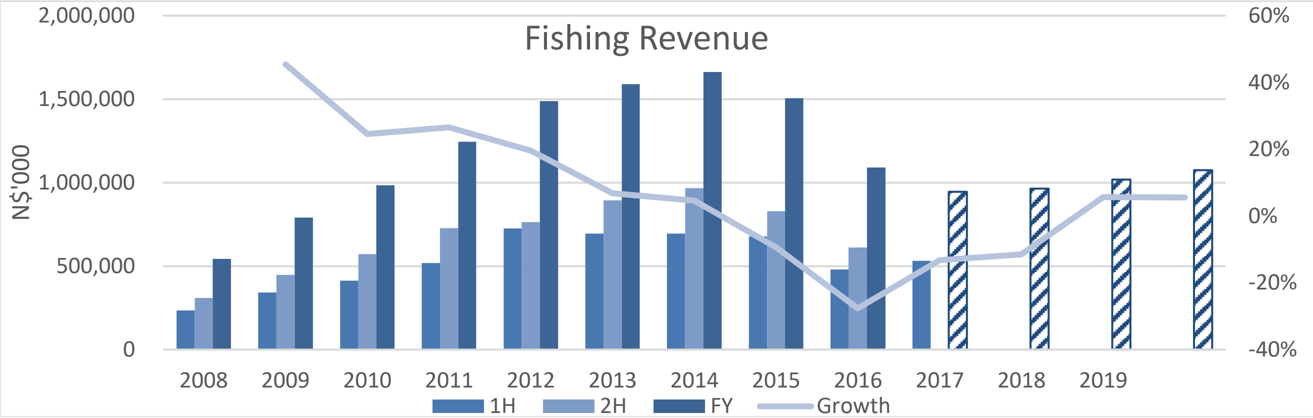
Segment analysis	Revenue		change (y/y)	Trading Profit		change (y/y)	Trading Profit Margin	
	1H16	1H17		1H16	1H17		1H16	1H17
Fishing	479,124	530,956	10.8%	66,853	(9,214)	-113.8%	14.0%	-
Freight and Logistics	141,962	128,440	-9.5%	4,312	3,878	-10.1%	3.0%	3.0%
Food and Distribution	625,523	650,616	4.0%	16,287	(2,134)	-113.1%	2.6%	-
Commercial and Industrial Products and Services	238,418	242,804	1.8%	13,538	9,233	-31.8%	5.7%	3.8%
Corporate Services	7,316	13,216	80.6%	(2,314)	3,547	253.3%	-	26.8%
Automotive	350,391	391,859	11.8%	20,265	16,493	-18.6%	5.8%	4.2%
Total	**1,842,734**	**1,957,891**	**6.2%**	**118,941**	**21,803**	**-81.7%**	6.5%	1.1%

Source: BVN, IJG

Segmental Review and Outlook

Fishing Division

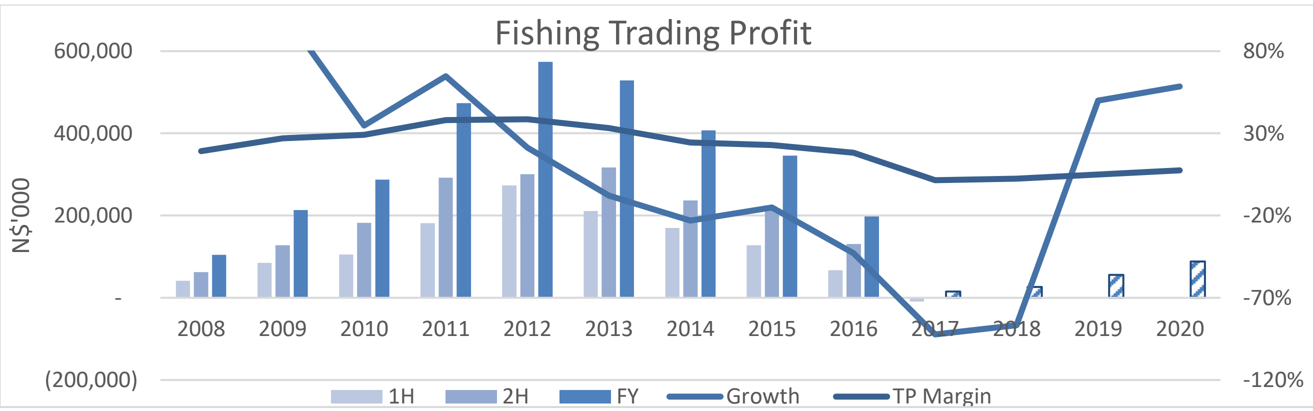
The fishing segment's revenue increased by 10.8% to total N$530.9 million in 1H17, up from N$479.1 billion reported for the corresponding period. Revenue for the fishing division was up despite the fact that lower horse mackerel quota was allocated directly to BVN by the Ministry of Fisheries and Marine Resources and that the hard currency prices of horse mackerel fell 11.2% year on year. Fishing revenue was up as BVN managed to buy more quota from other quota holders, however this negatively affected profit margins.



Source: BVN, IJG

Total Allowable Catches (TAC)'s are set by the Ministry of Fisheries and Marine Resources (MFMR) at the start of every calendar year and the bulk of the TACs are then allocated for that year, with the Ministry holding back a percentage of the TACs in reserve, to be allocated as the year progresses. As such, BVN usually run operations at full capacity during the first half of the calendar year i.e. the second half of BVN's financial year. This is why the second half of the financial year usually outperforms the first half.

On average, the fishing division contributed 79% of total trading profit since FY09. The fishing division posted a loss for the first time since the company listed on the stock exchange and trading profit composition is now weighted towards the automotive division, rather than the fishing division as has always been the case. Therefore the fishing division is no longer the backbone of the company and the challenging operating environment prevalent during 1H17 resulted in subdued performance for the whole group. Trading profit generated by the division fell 113.8% year on year, down from N$66.9 million in 1H16 to a loss of N$9.2 million for the reporting period. This was on account of margin contraction, with margins decreasing from 14.0% to loss making in 1H17. The reduced margins come as a result of the company having to purchase quota on the secondary market, as the primary allocation to Namsov and the Trachurus joint venture by the MFMR has declined. The fishing segment was put under further pressure through fishing vessels that were idle on dock due to overcapacity, smaller catch sizes, and lower fish prices. However, this was partially offset by a weakening Namibia Dollar and the fall in oil prices, which is a significant operating expense.



Source: BVN, IJG

Namibian Sea Products (Pty) Limited (Namsea)

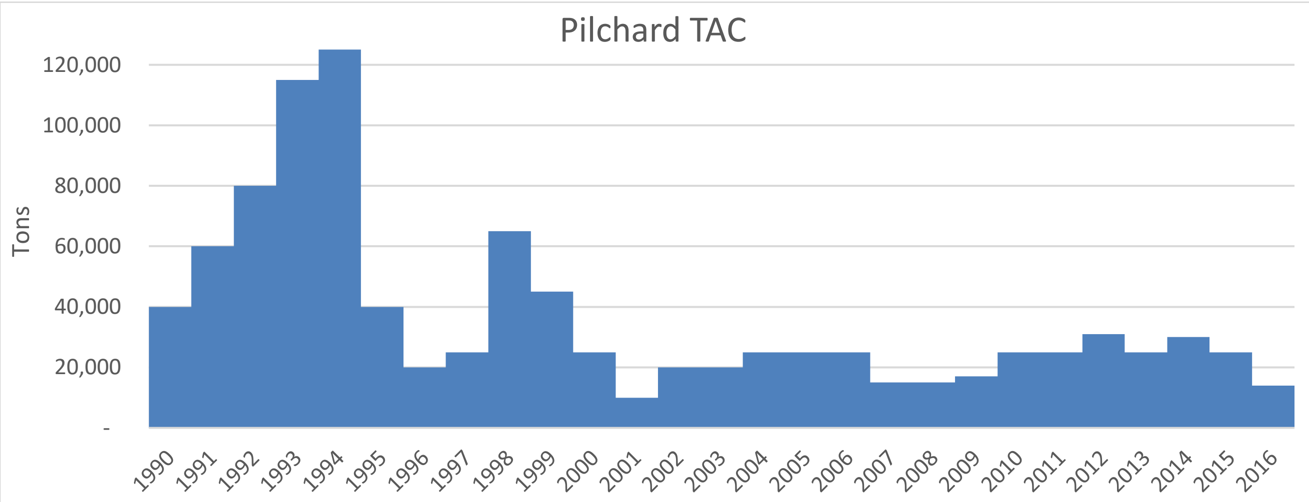
United Fishing Enterprises, which is the main operating entity in the Namsea Group of Companies, is active in the inshore small pelagic fishing industry with canning, fishmeal and fish oil processing facilities. Canned pilchards and other canned products, including beans are marketed under the Ocean Fresh and Ekunde labels, as well as the recently acquired Glenryck brand which is fully owned by BVN.

Small pelagic fish refers to those fish that live near the surface of the sea, mostly pilchard, anchovy and immature horse mackerel. These fish are caught using the purse-seine fishing method which involves using nets to encircle large schools of fish and then hauling the net on board. Small pelagic fish are either ground up for fishmeal and fish oil or if the catch is of sufficient quality, the fish is processed at BVN's factory in Walvis Bay. BVN has four purse-seine vessels at its disposal for small pelagic fishing, of which two are used for fishing in Angola.

BVN inshore products exported are mainly canned pilchard in tomato and chili sauce; fishmeal; canned hake and horse mackerel; canned smoked snoek and fish oil. According to export data released by the Namibian Statistics Agency, South Africa remains the main importer of Namibian canned pilchard taking up about 95% of total exports every year. The products are then distributed from South Africa within the region such as Mozambique, Zambia, Ghana, Cameroon, etc. The other products such as frozen cutlets are exported to Thai and Malaysian markets. Fishmeal goes to Japan, China, South Africa, Chile and Turkey; while fish oil is exported to Turkey.

Pilchard and other canned products

Prospects for pilchard are not positive as pilchard stocks remain of great concern to BVN and the entire industry. The pilchard population was seriously reduced due to negative environmental conditions, known as the Benguela Nino, in 1993 and 1995, and due to massive over-fishing in the 90's. This resource has never recovered from this over-fishing, and as such only very minor quota's, just to keep the fishery open and industry players active, are assigned each year. 2015 biomass assessments showed a decrease in pilchard numbers and plankton levels, which is a food source for pilchard. Based on that, the Marine Advisory Council recommended a TAC of 14,000 tons for 2016, down from 25,000 tons in 2015. The Ministry of Fisheries and Marine Resources is yet to announce the pilchard quota for 2017.



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

Given the decrease in TAC and the strain on the pilchard resource which put the industry and operations under severe pressure, it was not feasible for Walvis Bay's two canneries to both open during last year's pilchard season. Therefore, an agreement was reached between Etosha Fishing and United Fishing Enterprise, whereby Etosha Fishing canned and United Fishing caught the pilchard. Horse mackerel will also be canned, to keep the cannery occupied, preventing closure and job losses.

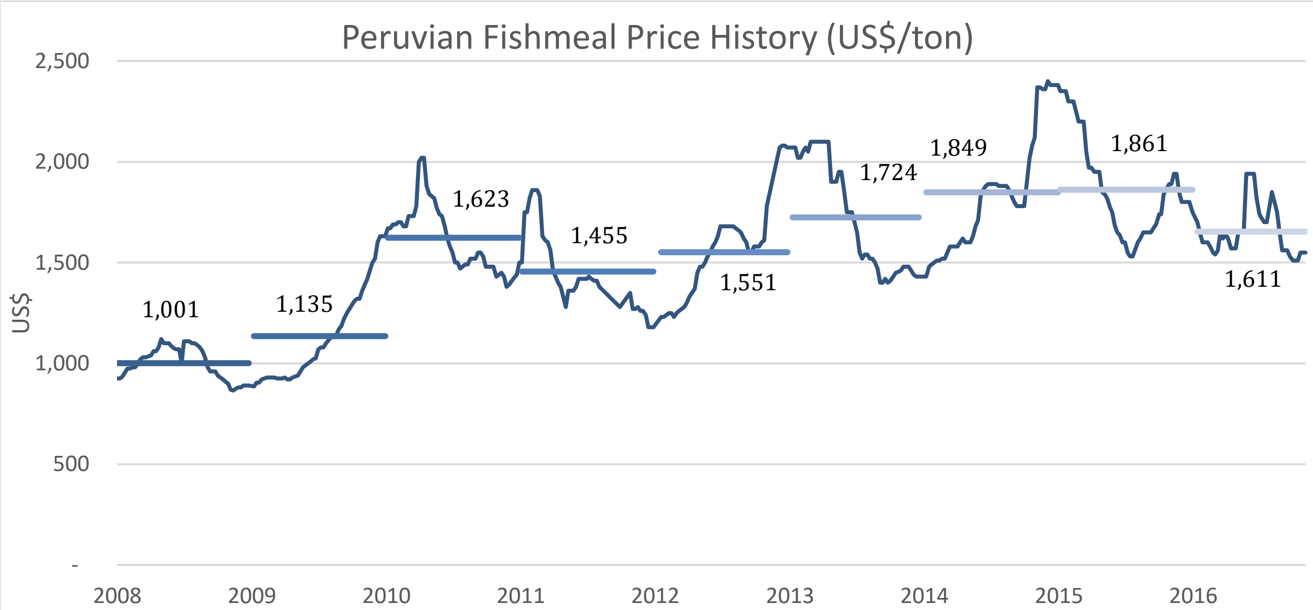
Nonetheless, Pilchard remains a sought-after resource both on domestic and international markets, with canned pilchard and fishmeal, particularly, in constant demand. Competition for BVN's canned pilchard has been posed by the availability of fresh and frozen horse mackerel products in the domestic market, however, its main competition stems from the Oceana products, under the Lucky Star brand.

We estimate that canned products price inflation is expected to remain strong and our forecasts also anticipate a widening of trading profit margins due to rand weakness. However, in our view, margin pressure could potentially be seen should a reduction in pilchard quotas allocated to BVN occur.

Fish Meal and Fish Oil

About 75% of the world's pelagic fish resources are processed into fishmeal and fish oil. The price of fishmeal is set on the world market and imposed on local producers. The variability of fishmeal prices on the world market is fully related to fluctuations of aggregate supply and demand, but interdependencies with other markets and speculative activities play a role in the variability.

In 2015 and 2016, fishmeal was in short supply due to the cancelation of the second Peruvian fishing season, which was linked to an El Nino weather phenomenon. In the long run, prices are expected to rise as the global demand for fishmeal is expected to increase, driven by growth in the aquaculture industry, while supply is declining. The decline in supply has been driven by both lower wild catch of small pelagic fish and, more importantly, increasing direct human consumption of these species.



Source: Bloomberg

The fish oil market has experienced a dramatic increase in demand for feed or human consumption. This demand is due to its source of omega-3 unsaturated fatty acids, which is a unique feature of fish oil compared to other oils. The aquaculture industry is the main buyer of fish oil globally, consuming some 75% of available supply, primarily for use in salmon feed. We believe that the growth lies to the upside for our fish meal and fish oil forecast and we estimate operating margins to widen between FY17 and FY18.

Trachurus

Trachurus is a joint venture between Namsov Fishing and Atlantic Harvesters with Kuiseb Fishing, Gendev Fishing and Emeritus Fishing as external partners. However, all three external partners have withdrawn from the joint venture during the previous financial year. Only Atlantic Harvesters, which is owned by United Fishing, effectively Namsov, remains.

The company is engaged in deep-sea fishing or mid-water trawling, beneficiating and processing of fish products as well as the transport and marketing thereof. It also services, charters and leases vessels with the main aim of developing fishing infrastructure, and engages in any other business which may seem directly or indirectly conducive to any of the objects of the company.

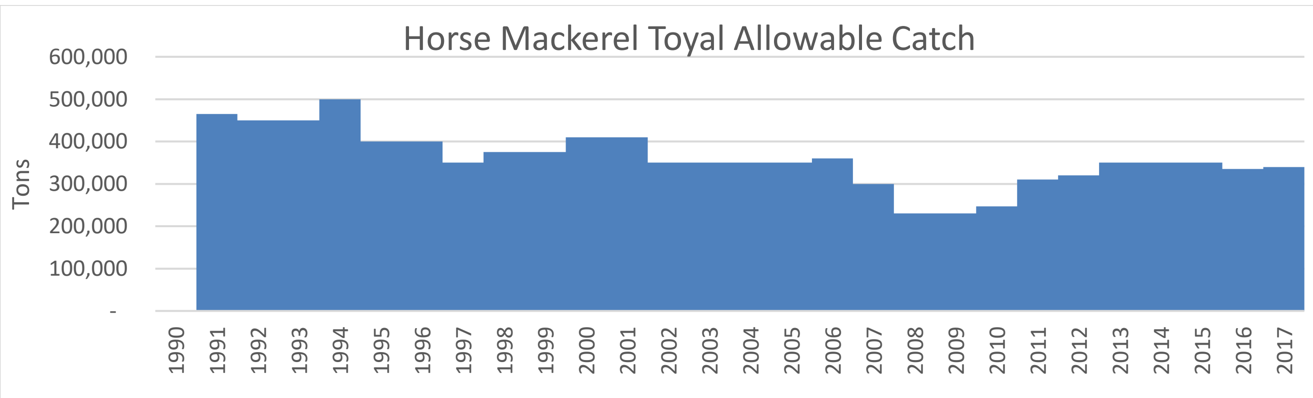
The mid-water fishery consists of those fish that live at various depths between the seabed and the surface, which is overwhelmingly horse mackerel. Horse mackerel is a vague vernacular term in the English dictionary for a range of species of fish. It is commonly applied to pelagic fishes, especially of the Carangidae family, most commonly those of the genera Trachurus or Caranx. Mid-water fish are caught by trawlers which use large nets to drag the fish up to the vessel where the fish are processed. BVN mainly freezes the horse-mackerel whole at sea with limited value addition taking place. However, small amounts are processed or canned onshore at BVN's factory in Walvis Bay. For horse mackerel fishing, BVN currently owns three midwater trawlers as well as having a 25% share in Carapau which owns one midwater trawler.

Namibian horse mackerel is mainly exported to African markets, with the DRC being the main importer. Domestic demand for horse mackerel has been good, however, despite the popularity of the fish, the proportion sold domestically is significant lower than that which is exported to the SADC region. Namibian horse mackerel competes with that of Chile and Mauritania, the larger world suppliers of horse mackerel. Competition is posed through the size of the fish as well as the fat content. In terms of tonnage landed and revenue, the mid-water fishery is still the largest part of BVN's business. According to management the fish resource is healthy, however the fish landed are reported to be small in size and prospects for the horse mackerel division is not positive given various challenges faced by BVN.

Total Allowable Catches

The TAC for horse mackerel has declined since the early 1990s and was considerably higher than landings for most of the 1990s. In recent years the TAC has stablised between 300,000 and 350,000 tons. The 1991 White Paper on fisheries estimated that the long-term sustainable off-take of horse mackerel was between 400,000 and 450,000 tons, and the conservative approach of managing the resource by the Ministry of Fisheries and Marine Resources has proven to be effective in recent years, with the resource showing recovery.

However, Angola re-introduced mid-water trawling in 2013, allowing midwater trawling in Angola to the same levels as in Namibia, with 350,000 of horse mackerel tons per annum. This effectively means the effort and extraction allowed on the shared horse mackerel resource has doubled since the re-introduction by Angola. Fisheries in the industry highlighted that this does not bode well for the resource. The TAC for horse mackerel, set by the Ministry of Fisheries and Marine Resources, was lowered to 335,000 tons in 2016 after the biomass assessment done by Marine Advisory Council indicated lower fish stock. The TAC set for 2016 compares to a 350,000 ton level set for each of the preceding 3 years, but the TAC for horse mackerel was increased to 340,000 tons for 2017 by the Ministry.



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

BVN Fishing Quota

BVN's annual fishing capacity was estimated at 160,000 tons per annum at the end of 2014, however, BVN sold one of five vessels to Carapau during FY15 and another vessel was used to buy out minority shareholders in Trachurus during 1H16. The most obvious reason for this was to down scale on the back of reduced quota allocations and the fact that quota contributing partners exited the joint venture. Also, it is becoming more and more difficult to get hold of quota from third parties as the other quota holders are becoming operational, a requirement by the Ministry of Fisheries and Marine Resources should they wish to continue receiving quota allocations. BVN's fishing capacity of horse mackerel is currently 100,000 tons per annum for the remaining three vessels. In the FY16 annual report a vessel was reported as held for sale on the balance sheet. If this vessel is sold it would decrease their fishing capacity to 60,000 when sold, which is still in excess of BVN's expected quota allocation.

Over the last few years, the share of the Total Allowable Catch allocated directly to BVN has fallen. In 2011, the Ministry of Fisheries and Marine Resources allocated 41.3% of the total quota directly to BVN; 25.0% of the CY12 total quota; 24.4% of the CY13 total quota and 20.4% of the CY14 total quota. The number of concession holders has increased over time, as such, BVN's share of TAC has decreased. To make matters worse, the amount of quota BVN acquires indirectly from other quota holders has decreased as well. Quota contributing partners exited from the Tracharus joint venture, which according to management, was due to fear of contamination through being associated with Bidvest Namibia (who took government to court over quota allocation).

Management indicate that the direct quota allocated to Namsov for 2015 was 33,615 tons and that quota allocation for 2016 was more or less in line with 2015. BVN managed to acquire approximately 35,000 tons of additional quota from other quota holders, taking their total quota for 2016 to 70,000 tons. For 2017, the Ministry of Fisheries and Marine Resources only allocated a portion of the Total Allowable Catch (TAC), while the rest of the TAC will be allocated by the Minister as the year progresses. So far a quota of 8,000 tons has been allocated to BVN and management also highlighted that most other quota holders were not willing to engage with Namsov or are in structures with other foreign vessels. However, Namsov have managed to acquire approximately 8,000 tons of quota from other quota holders, taking their total quota for 2017 thus far to 16,000 tons. According to management, as some of quota are not allocated yet, this could mean that some quota tonnage could potentially be acquired for the last segment of 2H17 and 1H18. By the time of releasing this report, these have not been allocated.

	2011	2012	2013	2014	Estimated 2015	Estimated 2016	Estimated 2017
Direct Quota Allocation	127,905	79,906	85,483	71,446	45,000	35,000	35,000
% of total BVN TAC	*77.3%*	*57.3%*	*58.4%*	*57.2%*	*50.0%*	*50.0%*	*38.9%*
Indirect Quota acquired	37,568	59,482	60,809	53,401	45,000	35,000	35,000
% of total BVN TAC	*22.7%*	*42.7%*	*41.6%*	*42.8%*	*50.0%*	*50.0%*	*38.9%*
BVN Total TAC	165,473	139,388	146,292	124,847	90,000	70,000	70,000
Total TAC	310,000	320,000	350,000	350,000	350,000	335,000	340,000
% of total TAC	*53.4%*	*43.6%*	*41.8%*	*35.7%*	*25.7%*	*20.9%*	*20.6%*

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

Along with the lower direct quota allocation, the amount paid to secure additional quota has risen, from N$1,500 per ton in 2011 to the latest price of approximately N$3,500. The prices have increased dramatically over the last 5 years. This said, we do not foresee the quota rental fees increasing as dramatically going forward as Namibian fees have normalised with those of Mauritania at approximately N$3,300 per ton at present. This price appears to be a point beyond which quota demand tails off as the marginal unit of profit on this quota undermines viability. However, management noted that losses are greater when vessels are idle on dock and as BVN has surplus capacity, it still makes sense to BVN to purchase quota to keep vessels running at breakeven or smaller losses.

Tetelestai (Pty) Limited

Tetelestai is an oyster producing company based in Walvis Bay, supplying fresh and frozen oysters under the brand name Tetelestai to regional markets and markets in the Far East. Management highlighted difficulties faced by the oyster farm with meager growth expectations due to excess cadmium levels in the water and export restrictions to the east which is limiting sales. However, from a contribution perspective, revenue generated from oysters make up a small percentage of the total fishing division revenue at less than 1%.

Pesca Fresca Limitada (Pesca Fresca)

Namsov invested in Angola in March 2008 by securing a meaningful stake in the company Pesca Fresca. This company is engaged in the small pelagic industry, catching and processing mainly sardinella and horse-mackerel. Fresh and frozen fish is sold to the local market and fishmeal and fish oil is exported to the Far East and Southern Africa. The profitability of the Angolan fishing division has been delayed compared to initial management expectations, however, BVN resolved a number of legal issues regarding shareholders and the business is now under BVN management control. Pesca Fresca faced some operational challenges during the first half of 2016, with the fishing vessel only back in the water in December after being out of order for almost six months. Management also noted that the declining exchange rate affected revenue negatively.

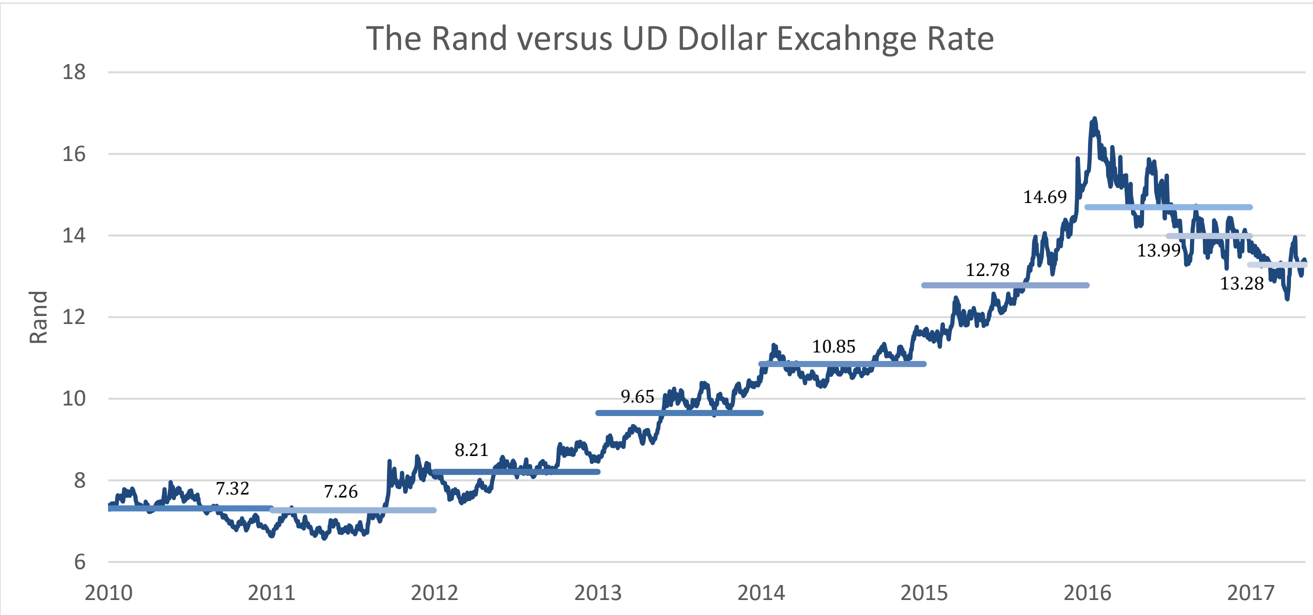
In addition, Angola re-introduced mid-water trawling in 2013, allowing midwater trawling TAC's in Angola to equal those in Namibia, at 350,000 of horse mackerel tons per annum. This effectively means the effort and extraction allowed on the shared horse mackerel resource has doubled in recent years. Fisheries in the industry highlighted that this does not bode well for the fish resource. The current state of fish stocks seems to be healthy, with fishing companies reporting fair landings, but small sized fish. The Namibian TAC for horse mackerel was reduced to 335,000 tons for 2016 by the Ministry, from 350,000 tons for the previous three years following a biomass survey done by the Ministry of Fisheries and Marine Resources of Namibia. The TAC for 2017 has been increased slightly to 340,000 tons.

Prospects for BVN's Angolan business, Pesca Fresca, are positive despite headwinds. Management seem to be more positive on the Angolan business given a stable resource, favourable local market prices and satisfactory demand.

Currency

Currency movements present a perpetual risk to BVN, as much of the fishing division's expenditure and production is hard currency priced. In this regard, the vast majority of the main fish products produced by BVN are sold abroad, with Horse Mackerel largely sold into central Africa, priced in US Dollars. Many of the other smaller ocean products, such as oysters are sold into Asia, also priced in hard currency.

However, the exchange rate boosted fishing revenues over recent years, as the US dollar strengthened more than 100.0% vis a vis the Namibia Dollar since 2011. The average exchange rate was N$8.8, N$10.4, N$11.5 and N$14.51 to the US Dollar in FY13, FY14, FY15 and FY16 respectively. During the first half of the 2017 financial year, the Namibia Dollar averaged N$13.99 to the US Dollar, somewhat lower than in FY16, but still offsetting the lower US dollar horse mackerel price effect.



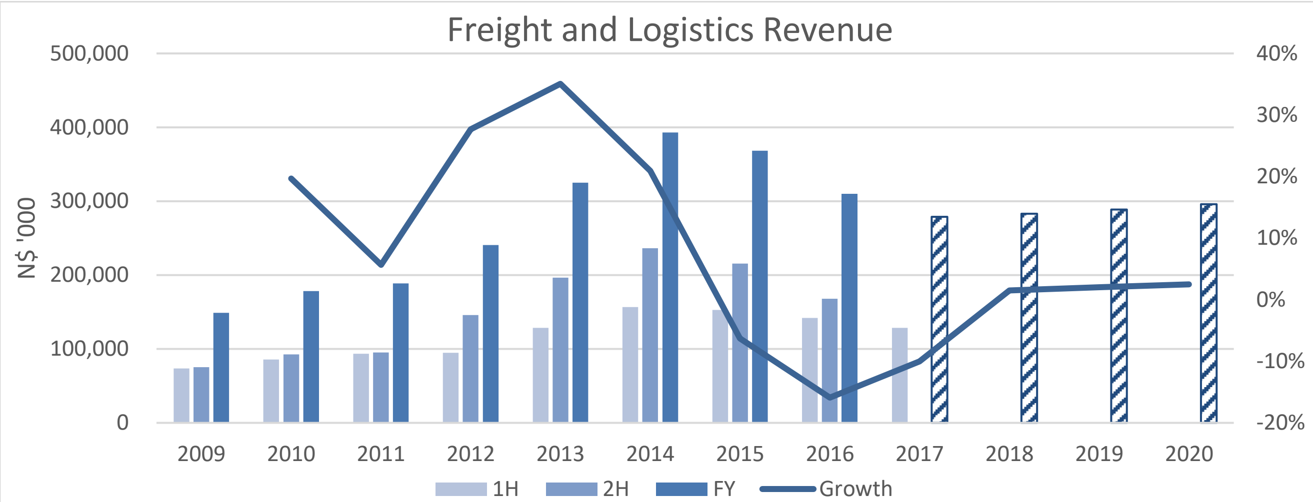
Source: Bloomberg

For the three months ending March 2017, the Namibian Dollar averaged at N$13.22 to the US dollar, however weakening somewhat by the end of April. Given that we are already more than halfway into the second half of the financial year, we derived our FY17 and FY18 BVN estimates using an exchange rate of N$13.25 to the US dollar. This may prove to be conservative should the rand weaken against the US dollar given the economic outlook for South Africa and the credit ratings downgrade to junk status.

At the same time, fishing regulations in the Democratic Republic of Congo and the general oversupply in the traditional markets for Namsov products following restrictions implemented by the Nigerian government, led to a decline in the average realised horse mackerel price in US dollar. According to management, the average hard currency price achieved per ton of horse mackerel during 1H17 was 11.2% less than during FY16. However, the weaker Namibian Dollar offset the lower US dollar price effect on revenue to some extent, but this also had a significant impact on costs.

Freight and Logistics

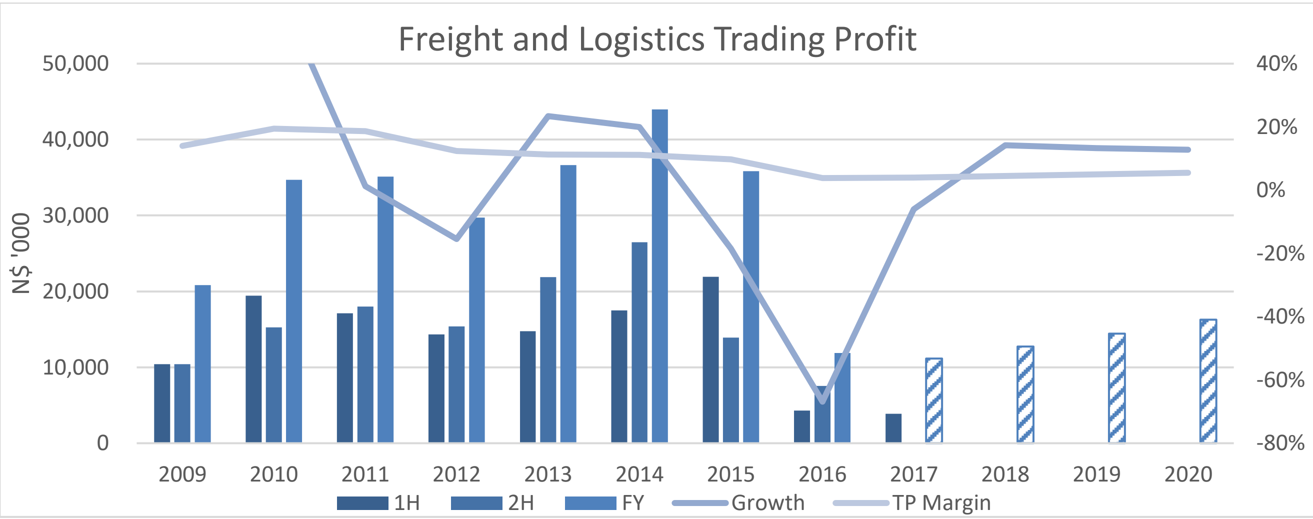
In the case of Freight and Logistics, revenue decreased by 9.5% year on year to N$128.4 million for 1H17. Trading profit also decreased for the period, reporting a drop of 10.8% year on year. Trading profit decreased from N$4.3 million to N$3.9 million, with the trading profit margin contracting slightly by 2 basis points to 3.0% for 1H17. Freight and Logistics performed poorly due to no project activity during the period under review.



Source: BVN, IJG

Manica Group Namibia provides freight and integrated logistics solutions. Given the integrated nature of the freight and logistics business, projects have positive spin-offs to all areas within the division, therefore all entities in this division are facing challenging times during this zero project year.

Lower activity in the oil and gas industry as mining and oil exploration slowed down in the country is one of the main reasons for the poor performance relative to previous years. The global interest in offshore Namibian oil stems from the fact that Namibia's coastal shelf mirrors that of Brazil across the Atlantic and Angola bordering to the north, Africa's second-biggest oil producer. However, the recent plunge in crude oil prices has curbed oil and gas explorers' plans for drilling in Namibia.

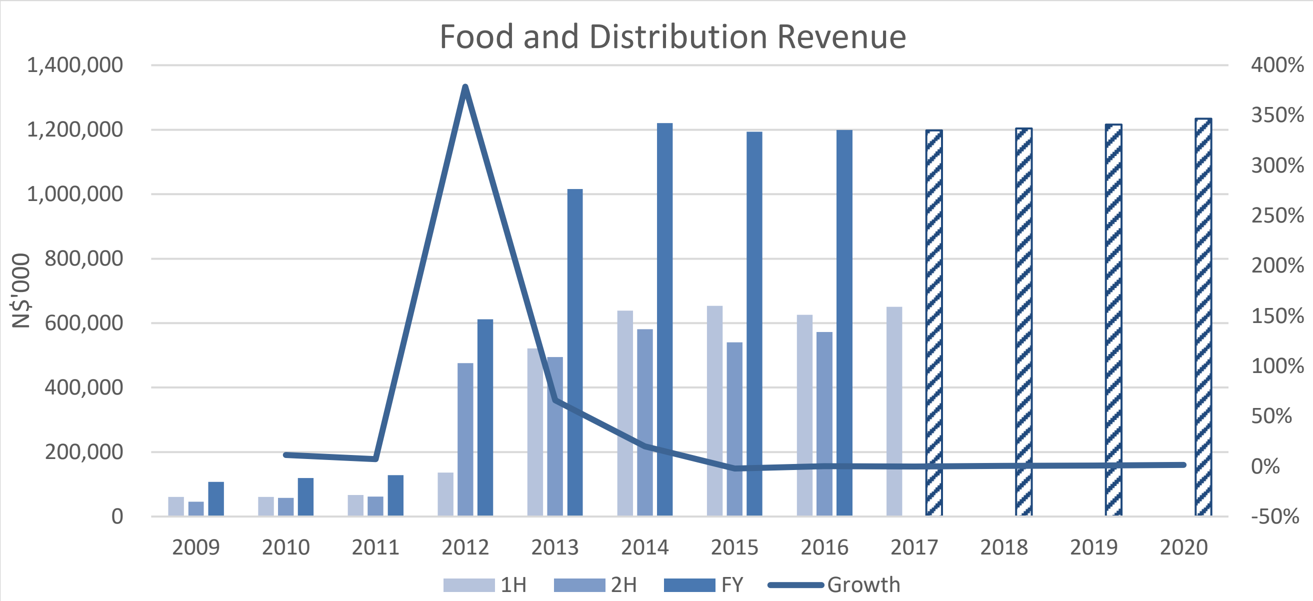


Source: BVN, IJG

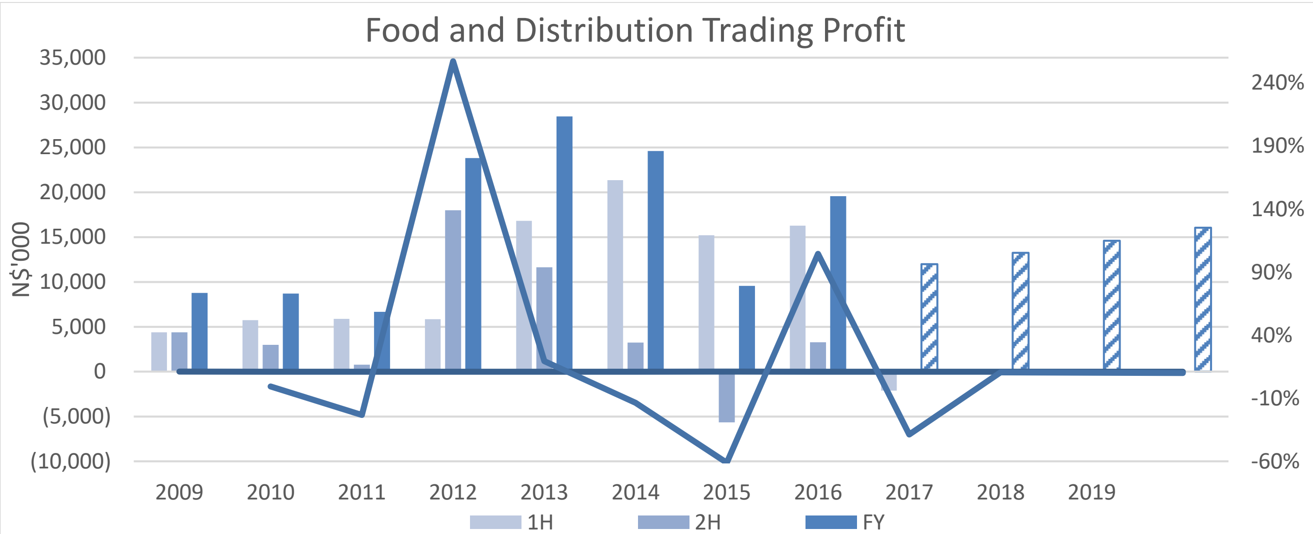
The division has been trying to compact its business to cut down on costs and to streamline all areas down to a core business orientated focus since the decline in project activity. It seems that this has been successful to some extent given the small decrease in profit margins. Mr Mike Samson has been appointed as the new MD of the segment. He has extensive experience in the logistics industry. There are currently no projects underway for the next few months therefore no expectation of an improved result. The focus is on containing costs and to make structural changes within the division in order to align cost structures and to focus on areas of greater potential and simultaneously drive to secure projects.

Food and Distribution

The food and distribution division reported revenue of N$650.6 million, up by 4.0% from 1H16, while trading profit fell significantly, down 113.1%, to a loss of N$2.1 million from a profit of N$16.3 million in 1H16. N$7.0 million of the N$16 million profit in 1H16 was attributable to the settlement of the legal dispute with Namibia Poultry Industry in 1H16. The profit margin for this division decreased from 0.6% reported for 1H16 to loss making in 1H17. Food and distribution contributed 33% of total revenue, up from 31% in FY16, while the contribution to total trading profit decreased from 8% in FY16 to loss making in 1H17.



Source: BVN, IJG



Source: BVN, IJG

Taeuber & Corssen

The Taeuber & Corssen (T&C) group of companies is an established business in Namibia and has been operating in the country for more than 95 years. T&C is a sales and distribution company based in Windhoek, distributing a wide variety of premium fast-moving consumer goods product brands in the retail, hospitality and other sectors on behalf of a broad spectrum of South African and International principals and manufacturers such as Unilever, County Fair and Nestlé, to name a few. T&C delivers to retailers such as Pick 'n Pay, Shoprite, Spar and various other retail chains in Namibia. BVN acquired T&C during December 2011.

Additionally, BVN acquired Pro Trade Agencies in March 2013 which they integrated with T&C. Pro Trade Agencies was a small business and comprised a single outlet in Windhoek initially, distributing non-food products. However, it grew significantly with the consolidation with the T&C distribution network nationwide. The additional profits from Pro Trade filtered through to the bottom-line from FY14 onwards.

The 1H17 results for T&C and therefore the entire division were poor for various reasons, these being depressed consumer spending, and operational challenges affecting the bottom line. According to management, costs in this division are too high and need to be reduced. Management also highlighted that claims with regard to returnable products is a major problem for this division.

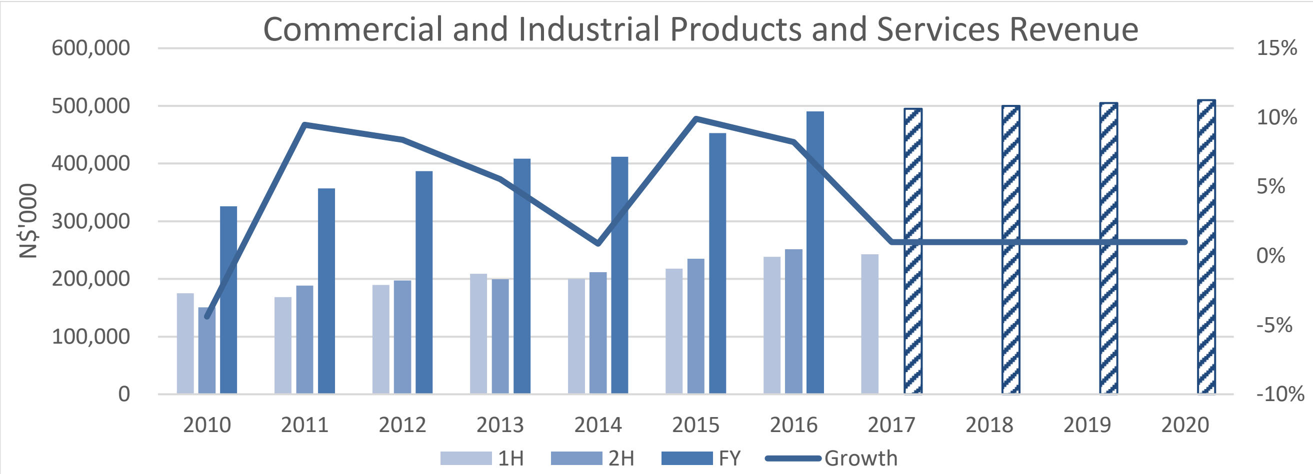
T&C is actively implementing its turnaround strategy and if successful, should deliver better performance during the second half of the financial year. According to management, initiatives include inter alia reducing stock shortages, finding new principals, boosting sales through promotions as well as active stock and credit control.

Caterplus

Caterplus is the distributor of perishable foods to the hospitality, leisure, foodservice, wholesale and retail industries. Lackluster performance by Caterplus during the period under review was mainly due to stock shortages in the frozen seafood category, fierce competition of frozen vegetables, and the loss of a principal for franchised products. Effort is being made to regain market share in the franchised product business and in obtaining other principals. Management also highlighted the fact that the business is striving to reduce claims from customers.

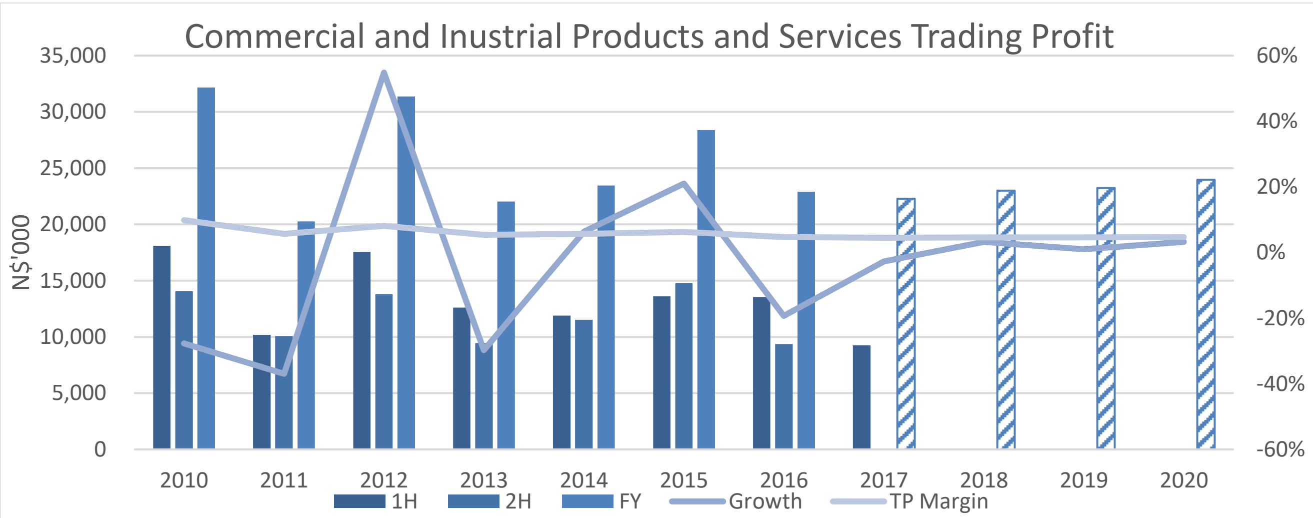
Commercial and Industrial Products and Services

The Industrial and Commercial Products and Services division delivered a stable performance in terms of revenue, on par with the corresponding period last year. This division's revenue increased by 1.8% to total N$242.8 million, up from N$238.4 million reported for the corresponding period in 1H16. Increased sales initiatives and effective implementation of strategies proved to be profitable, however, management noted a slowdown in the Namibian economy and that the drought impacted consumer spending, especially in the northern areas of Namibia.



Source: BVN, IJG

Trading profit for the period declined to N$9.2 million in 1H17, down 31.8% year on year, as the trading profit margin narrowed to 3.8% from 5.7% reported for FY16 and 6.2% for 1H16. Management advised that the economic slowdown has had an impact on the entire division.



Source: BVN, IJG

Cecil Nurse

Cecil Nurse is a South African furniture retail brand, with 8 stores located across South Africa, and one store in Namibia and Botswana each. BVN's local branch had an excellent FY16, with large contracts signed with SME's. However, given the spending cuts by government, putting many projects on hold, performance for Cecil Nurse is expected to be flat. The largest competitor in Namibia is Lewis Group Ltd, which has been operating in Namibia since the early 1970's. Lewis lately increased its presence in Namibia with the acquisition of 62 Ellerines and Beares stores in southern Africa, which means it now owns 27 stores in both urban and rural areas of the country.

Kolok and Minolco

Kolok is a distributor of office accessories, appliances, printer consumables and commodities, data media, computer hardware and other peripherals. Kolok faces a difficult trading environment given high levels of competition, therefore thin profit margins. Minolco is a licensed distributor of Konica Minolta branded copiers, printers, etc. According to management, Minolco delivered a good set of results for the period under review given a significant rise in the number of copy-clicks and increased business from internal rentals of products rather than outright sales.

Rennies Travel Namibia

Rennies Travel is a travel service provider with more than 60 years of experience specializing in a range of travel services. Rennies Travel performed well during the first half of the year despite a very competitive market which is mainly due to a strong customer orientated service and long standing relationships with travel agents.

Namibia Bureau der Change

BVN acquired 49% shareholding in Namibia Bureau de Change for N$8.5 million, with the deal being effective as off 16 July 2015. The Namibian Bureau de Change is complimentary to BVN’s other businesses, especially that of Rennies Travel, allowing currency exchange services to its customers.

Steiner

Bidvest Steiner specialises in providing hygiene rental equipment and related services to a wide spectrum of businesses and institutions across all industries in Namibia. Steiner has branches in South-Africa and in Namibia. Management highlighted the Namibian branches have done well during the period under review given growth in the hygiene rental customer base and the addition of pest control services.

Voltex

Voltex is a leading stockist and reseller of a comprehensive range of electrical, lighting products and energy-saving products, including national and international suppliers and their brands. Voltex is divided into specialised supply and distribution business units. The fourteen supplier divisions provide a wide range of products, while the distribution division distributes the product directly into the retail industry. According to management, Voltex performed poorly during 1H16 as it continued to struggle in a very competitive market. A strict view on credit control which was necessary to be implement had a negative impact on the business and the effects are felt on the bottom line.

Waltons

Waltons Namibia is a commercial business and retail and wholesale stationary brand that has operated in Namibia since 1979. It provides items such as paper products, school and office stationary and supplies. It also operates as an office furniture and corporate gifts retailer. Management reported that revenues increased over the prior period and profit margins widened due to active price management, however paper margins remain under pressure due to consumers becoming more digital orientated.

Commercial and Industrial Products and Services Outlook

BVN's management noted that the weak economic environment experienced in Namibia at the moment is felt throughout all businesses, especially in the commercial and industrial products and services division. The exceptional economic growth seen in Namibia prior to 2016 was largely on account of unusually high levels of government spending, personal income tax cuts and low interest rates for a long period in the country, which placed the consumer in a very favourable position. However, going forward, there appears to be a high likelihood that growth will remain lackluster compared to an exceptionally high base that was created over recent years.

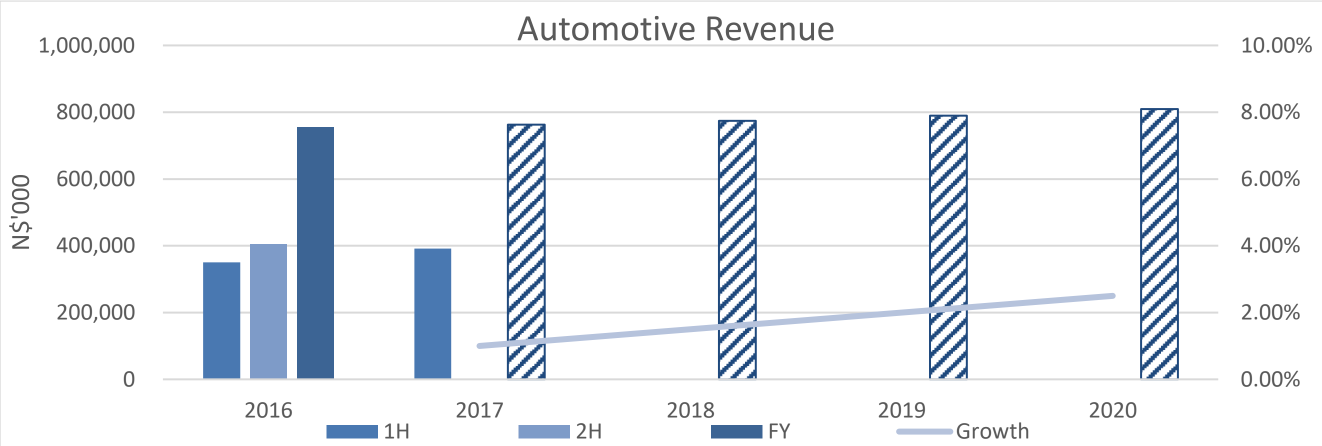
Various high-frequency indicators, such as new vehicle sales and private sector credit extension, are already illustrating a slowdown in consumer spending. Growth is expected to be severely dampened by a weak exchange rate, which is likely to force down demand for consumables as the price of such consumables increases at the same time as the local economy is slowing and household disposable incomes come under pressure. This is likely to be further exacerbated by increasing interest rates and fiscal consolidation by the government, which will put further pressure on the economy and the consumers, further reducing the growth in demand for consumables, thus driving down growth in this division. In addition, a major slowdown in the Angolan economy has resulted in a notable decline in retail businesses in the northern areas of Namibia, a situation that is expected to continue for the foreseeable future.

Major growth is therefore not to be expected in the in the Commercial and Industrial Products and Services division for FY17.

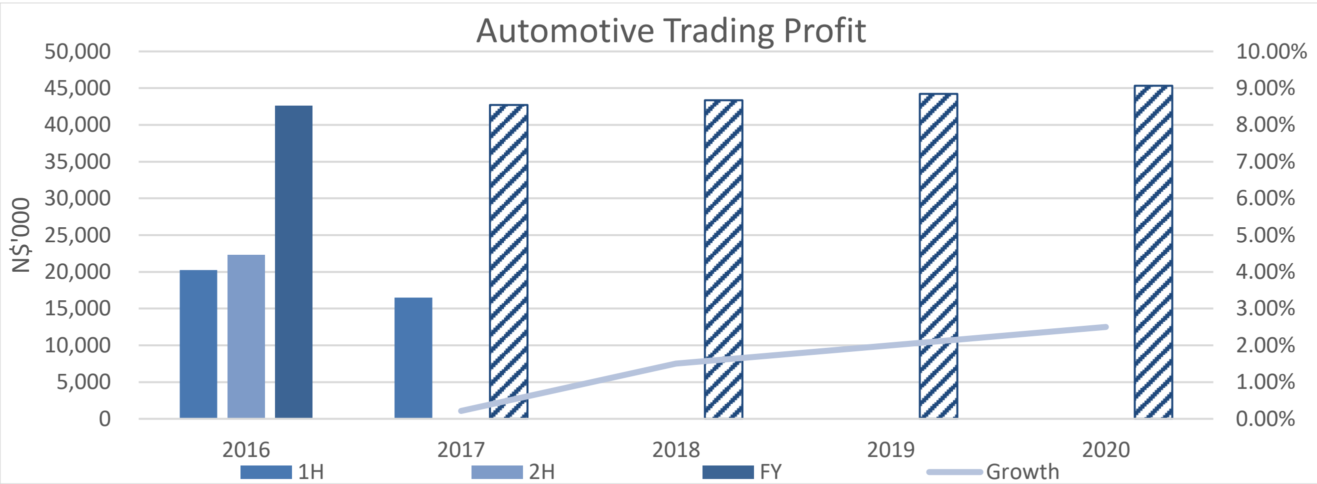
Automotive

BVN has, through wholly owned subsidiaries, acquired the entire issued share capital of International Capital Investments (Pty) Ltd, trading as Novel Motor Company ("Novel Motors") and Lenkow (Pty) Ltd, which owns the Windhoek showroom and service center premises from where Novel Motors operates, for N$231.8 million. Novel Motors operates two dealerships in Namibia and is the main representative of Ford and the sole representative of Jaguar, Land Rover, Volvo and Mazda vehicles in Namibia. Novel Motors offers the sale of new and pre-owned vehicles, financing and insurance products, parts and accessories and after-sales service. During the period under review, management reported that Novel Motors Company Windhoek sold the Swedish brand, Volvo. Novel Motors Marketing Manager, Hayley Allen confirmed that they no longer sell, nor service the Volvo brand, however, no further information was shared.

The automotive division reported revenue of N$391.9 million for 1H17, with an accompanying trade profit of N$16.5 million. This translates to a profit margin of 4.2%, slightly less than the profit margin of 5.8% recorded in 1H16. Despite the fact that the automotive division includes results for the full six months, as opposed to five months in the corresponding period, trading profit for this division decreased from N$20.3 million in 1H16 and N$22.4 million in 2H16. From a contribution perspective, the automotive division made up 20.0% of total revenue and contributed 76% to total trading profit, making it the third largest contributor to revenue and the largest division in terms of trading profit.

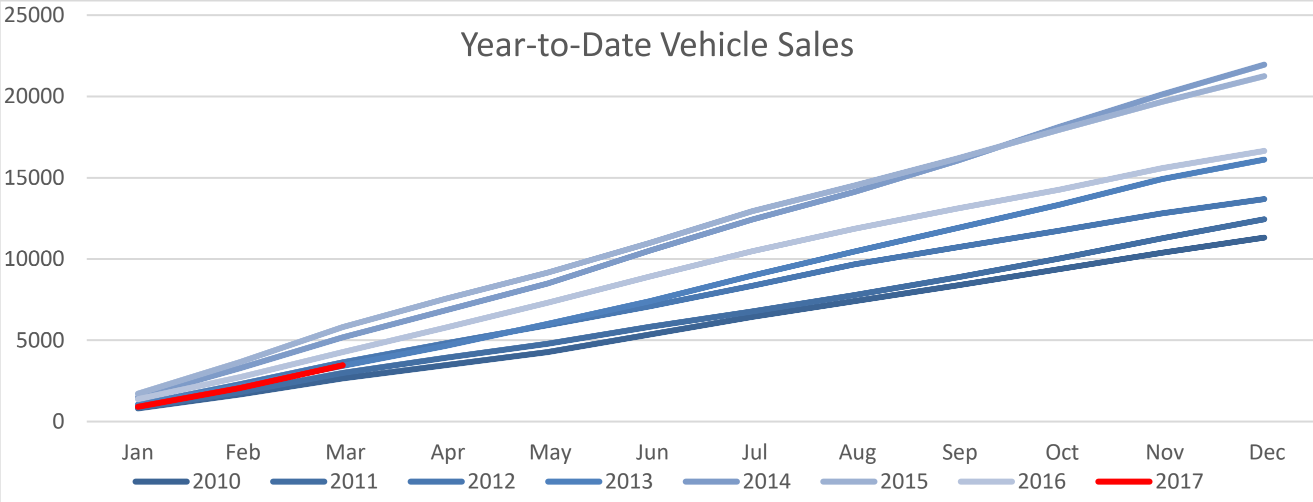


Source: BVN, IJG



Source: BVN, IJG

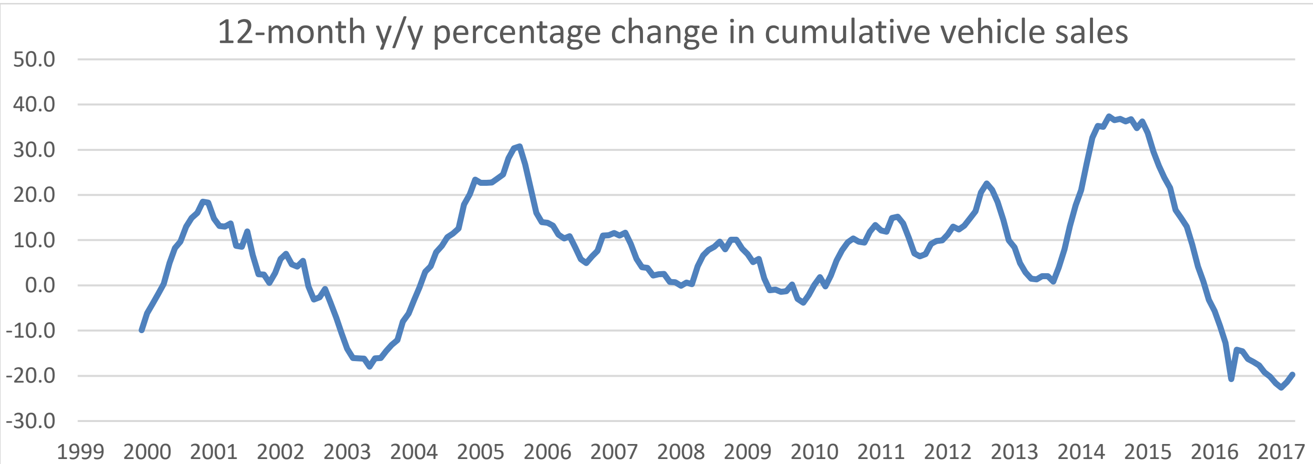
Automotive Outlook



Source: Lightstone

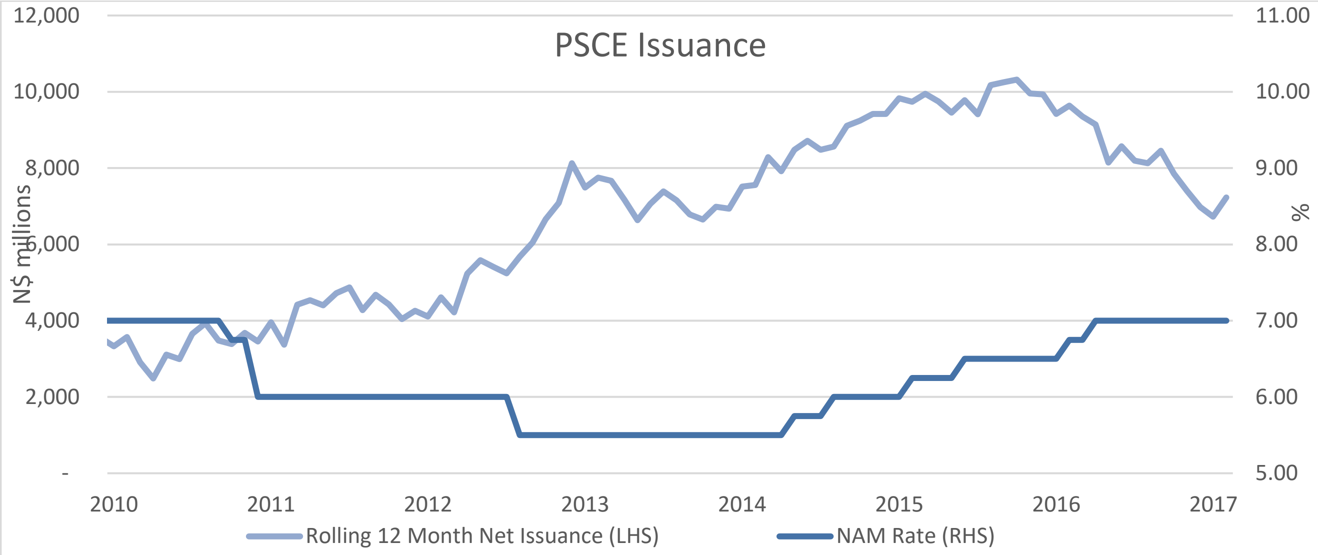
Since January this year, 3,463 vehicles have been sold, of which 1,635 were passenger vehicles, 1,683 light commercial vehicles, and 145 medium and heavy commercial vehicles. Compared to the first quarter of previous years, this is below the numbers for the last five years.

Vehicle sales have been contracting on a year on year basis since mid-2015 and this trend continued unabated in March. Although the last month saw a month on month uptick in the number of vehicles sold, cumulatively 2017 is still off to a very slow start. The slowdown is evident in both the passenger and commercial segments, the former having contracted 5.5% y/y while the latter is down by 13.2% y/y. On a twelve-month cumulative basis, vehicle sales are down 19.7%. It is quite concerning that the heavy and extra heavy commercial segments have seen some of the lowest first quarter sales in nearly ten years, which would indicate that businesses are not investing in new equipment.



Source: Lightstone

From mid-2015, the new vehicle market in Namibia has been in a state of decline and it seems this trend will continue into 2017. This is due to four main factors. Firstly, Lower government spending, specifically on capital assets, will have a direct effect on the number of vehicles sold. The latest budget confirms that this will be the case as only N$45.1 million has been budgeted for the purchase of vehicles in the 2017/18 fiscal year's development budget, a large cut from the N$382.2 million spent in 2015/16. Secondly, slower economic growth means that consumers will have lower disposable incomes on which to spend on capital assets. Thirdly, the Bank of Namibia has implemented the Credit Agreement Act, which requires a deposit of 10% on all vehicle loans and limits repayment periods to 54 months. This has reduced the number of people eligible for credit to purchase vehicles. Lastly, the possibility of higher interest rates following the credit downgrade in South Africa, might deter long term borrowing.



Source: BoN, IJG

Going forward we expect to see little growth in government spending for the next fiscal year as well as a prolonged freeze on new hires by the state. Further downside risks to this are rising interest rates which may limit marginal lenders from qualifying for financing as well as banking sector liquidity which may limit the amount of loans available to finance vehicle purchases. Interest rates may rise further affecting banking sector liquidity. As well as this the probability of a Namibian credit ratings downgrade to sub-investment grade is still relatively high. These factors along with a weakening Rand are likely to put further pressure on vehicle sales going forward.

Valuation and Recommendation

The stock is currently trading on a FY17 dividend yield of 1.1% based on expected full year dividends of 9 cents per share at an assumed 45% payout ratio. This is well below its average yield of 6.9% over the last five years, and is relatively unattractive to cash yields that are currently on the rise. We have adjusted our earnings forecast and target price following a detailed analysis of the half year results. Traditionally, we used a dividend discount model to calculate the target price for BVN. However, given the drastic fall in earnings due to the difficulties that the fishing division finds itself, we reverted to using a combination of the residual income method and the dividend discount method. We forecast **FY17 earnings of 19.17 cents per share** and calculate a **price of N$2.85 per share** based on a **justified PE ratio of 14.86x**. Using the residual income method, we calculated a **price per share of N$9.76**, based on **residual income of -N$234,999** and the company's **equity capital** of **N$2.304 billion**. Therefore, we set our **target price** for BVN at **N$6.30** based on an equally weighted ratio of two. We are concerned about the possibility of dividend being cut further going forward should fish quota issues not be resolved, however remain cognizant of the large cash balances on the company's balance sheet, providing space to weather the current storm through acquisitions such as Novel Motors. In addition, we do not expect the stock to trade much lower from current levels given the expected change in regulation with regards to the Pension Funds Act and the Long-Term Insurance Act 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 maintain our **SELL** recommendation.

TEAM NAMIBIA MEMBER

IJG Holdings

Group Chairman
Mathews Hamutenya
Tel: +264 (61) 256 699
mathews@millennium-invest.com

Group Managing Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Group Financial Manager
Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

IJG Securities

Managing Director
Lyndon Sauls
Tel: +264 (61) 383 514
lyndon@ijg.net

Sales and Research
Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Equity & Fixed Income Dealing
Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

Settlements & Administration
Annetjie Diergaardt
Tel: +264 (61) 383 515
anne@ijg.net

Dylan van Wyk
Tel: +264 (61) 383 521
dylan@ijg.net

IJG Wealth Management

Managing Director
René Olivier
Tel: +264 (61) 383 522
rene@ijg.net

Portfolio Manager
Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Money Market & Administration
Tashiya Shekutamba
Tel: +264 (61) 383 511
tashiya@ijg.net

IJG Capital

Managing Director
Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

Portfolio Manager
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

Business Analyst
Mirko Maier
Tel: +264 (61) 383 500
mirko@ijg.net

IJG Advisory

Director
Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

Business Analyst
Jason Hailonga
Tel: +264 (61) 383 529
jason@ijg.net