BIDVEST NAMIBIA LIMITED

1H18 Results Review

May 2018

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Bidvest Namibia Limited

1H18 Results Review

Target Price (c)	***645***
Current Price (c)	779

Year End 30 June	2016A	2017A	F2018	F2019	F2020
Revenue (N$m)	3.858	3.776	3.591	2.653	2.693
EBITDA (N$m)	295	92.5	59.7	36.8	46.8
Net profit (N$m)	235	61.8	49.5	34.6	43.2
HEPS (c)	86.2	22.4	16.3	12.7	15.64
HEPS growth (%)	-16.5	-74	-27.4	-22.2	23.6
DPS (c)	38	10	0	4	7
P/E (x)*	8.96	32.6	47.9	61.6	49.9
DY (%)	3.7	1.3	0	0.6	1

Recommendation	SELL
NSX Code	BVN
Market Cap (N$m)	1,651
Shares in Issue (m)	212
Free float (%)	24
52 week high (c)	787
52 week low (c)	778

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

1H18 Results

Bidvest Namibia (BVN) released interim results for the period ended 31 December 2017 and the group's performance continues to disappoint. Total revenue fell by 9.8%, with four of the six trading divisions posting declines in revenue. The group is still reeling from the ongoing difficulties in the fishing division and from operational challenges in the food and distribution division which continue to compound the poor performance. EPS is up 31.3% to 12.6 cents per share, due in large to the profit realized on the sale of a fishing vessel. HEPS however, fell a colossal 130% to -2.9 cents per share. Trading profits shrunk by 80% to N$4.4 million, largely due to the decline in revenue from the food and distribution, and fishing divisions.

Fishing

Performance of the fishing division remains poor. BVN continues to align capacity with the limited quota made available to them. BVN sold another vessel and realized a capital profit of N$48.8 million and in the process right-sized the horse mackerel fleet. Another vessel has been marked as held for sale. Pilchard catches have been declining and the ministry of fisheries and marine resources, in a bid to preserve the species, placed a three-year moratorium on pilchard catches. As a result, the cannery remains closed. Currency volatility proved challenging, with a strengthening rand leading to a decline in hard currency earnings. The fishing division reported losses of N$8.5 million, which is slightly lower than the loss of N$9.2 million incurred during 1H17.

Food and Distribution

The Food and Distribution division reported a concerning increase in losses for 1H18. Trading losses increased to N$16 million during the review period from a loss of N$2.1 million reported during the corresponding period a year ago. Reduced consumer spending in the wake of the recessionary environment contributed to the negative earnings in food and distribution. Additionally, the distribution agreement with Parmalat was effectively terminated in August 2017. This entity generated revenues of around N$100 million annually, however, inefficiencies relating to the transport of perishable goods resulted in losses and damages claims. New management has been put in place to address these challenges.

Freight and Logistics

Freight and logistics reported improved results with trading profits up 106% to N$8 million compared to N$4 million reported during the previous six-month period. The divisions improved trading profits were buoyed by activity in the southern coastal town of Lüderitz, which has been the focus of renewable energy projects. BVN states that it remains well poised to pursue oil and gas opportunities should any be forthcoming.

Commercial and Industrial Products and Services

Commercial and Industrial Products and Services delivered improved results, despite revenues being flat for the period under review. Trading profits were up 20%, increasing to N$11.1 million for the period compared to N$9.3 million during the comparable period a year ago.

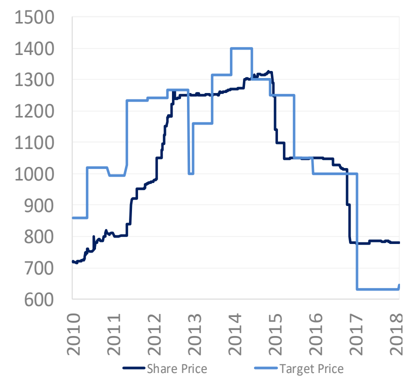
Automotive

The automotive division produced rather worrying results. Revenue was down 20% and trading profits declined by 74.2% for the period under review. BVN is looking to diversify the revenue generating streams, having pointed out that the company's over-reliance on new vehicle sales have been to its detriment. Tighter credit controls on vehicle financing, slowing private credit sector credit extension, and reduced government and consumer spending have put a dent in the financial performance of the automotive division. Management is set to give greater priority to second-hand vehicle sales and after sales offerings where the real value add is.

Valuation

We've changed our valuation model following BVN's announcement that there won't be a dividend paid for the period under review. We have thus deemed it appropriate to value the stock using a discounted cash flow valuation, applying a free cash flow to firm approach. We use a weighted average cost of capital of 14.2% which we calculated using BVN's cost of debt of 10.3% (based on the IJG Generic 10-year bond yield). Cost of equity is computed as 14.9%, based on the same risk-free rate and an equity premium of 4.6%. Furthermore, a long-term growth rate of 3% is applied and based on these assumptions and our projected cash flows for BVN, we have set a target price of N$6.45. At the current share price of N$7.79 the stock is trading 17% above our target price and as such **we maintain our SELL recommendation**.

BVN Share Price



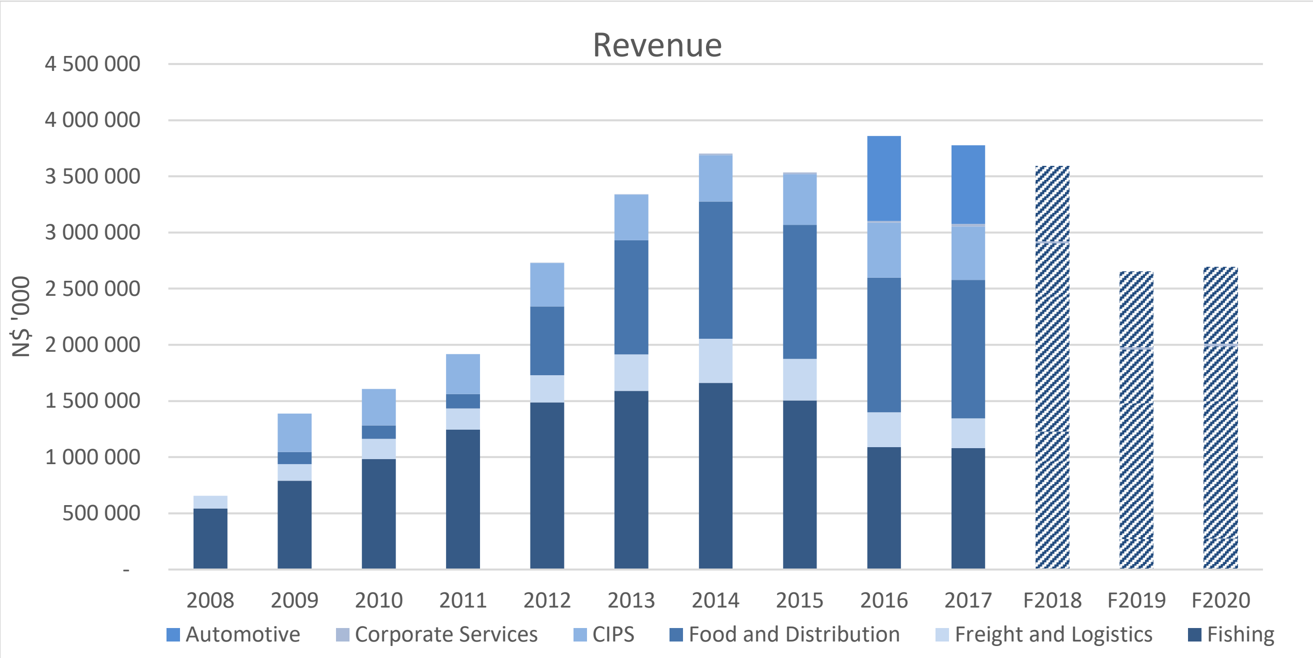
Dividends

No interim dividend has been declared.

Overall Performance

Revenue

BVN generated revenues of N$1.77bn for the period under review, which represents a 9.8% deterioration in revenue when compared to the N$1.9bn collected in 1H17. This follows on from the 2.13% decline in revenue for FY17 compared to FY16. The majority of the BVN stable, with the exception of the Corporate Services (CS) and Commercial and Industrial Products and Services (CISP) divisions, recorded disappointing declines in revenue. The largest decline for the period was driven by the automotive division at 19.5%, followed by the fishing division netting 12.3% less revenue than it did in 1H17. As it was in 1H17, the food and distribution division remained the biggest contributor to the group's revenue, accounting for 34.4% of what the group raked in. The fishing division, which continues to face challenges, contributed 26.4% towards revenue, down from the 27.12% recorded in 1H17.

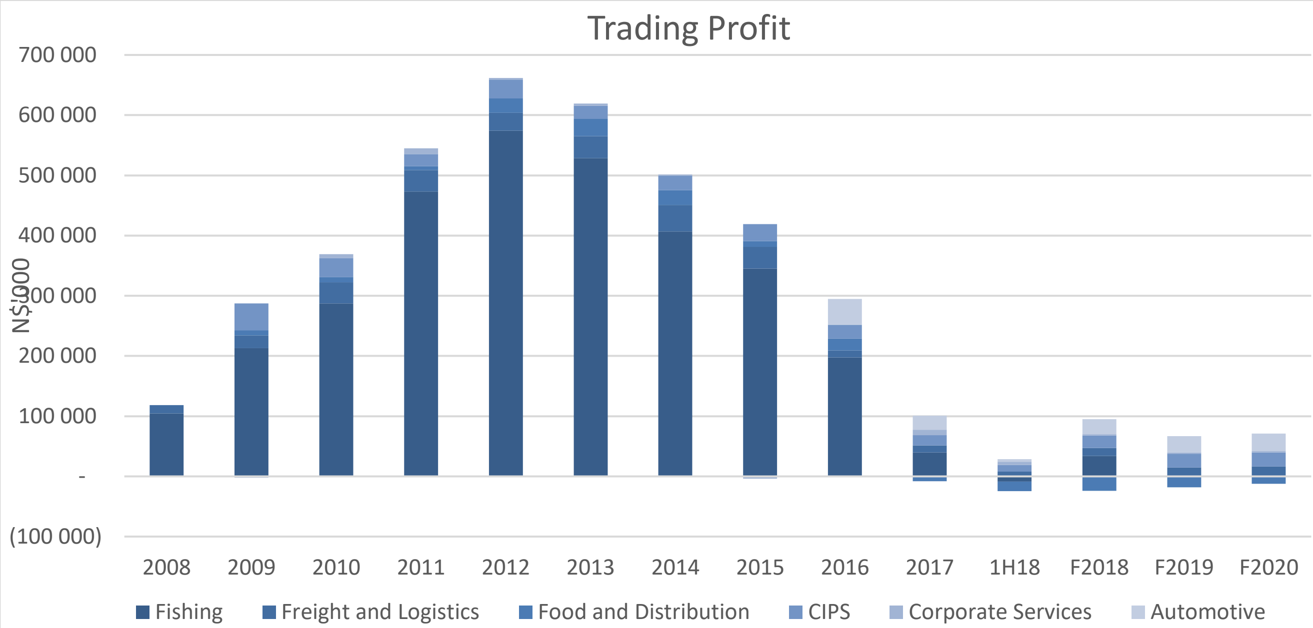


Source: BVN, IJG

Trading Profit

The group's dismal first half results are further accentuated by the deterioration in its trading profits to N$4.4m. This represents a worrying decline of 79.9% compared to the corresponding six months in 2016. Three of the divisions were responsible for ensuring the group's trading profits for the period under review weren't negative, while the remaining half caused the decay in trading profits for 1H18. The food and distribution division, which has been contributing the largest portion of revenues since FY16, was the largest contributor to the decrease in trading profits. This division, already trading at a loss of N$8.2m during FY17, incurred further trading losses of N$16.0m for the period under review. Margins for this division have been depressed for three consecutive six-month periods at -0.3%, -0.6% and -2.6% for 1H17, FY17 and 1H18 respectively. The fishing division reported trading losses of N$9.2m for the six-month period ending 31 December 2016. The division was able to reduce losses to N$8.5m or 8.3% during the period under review.

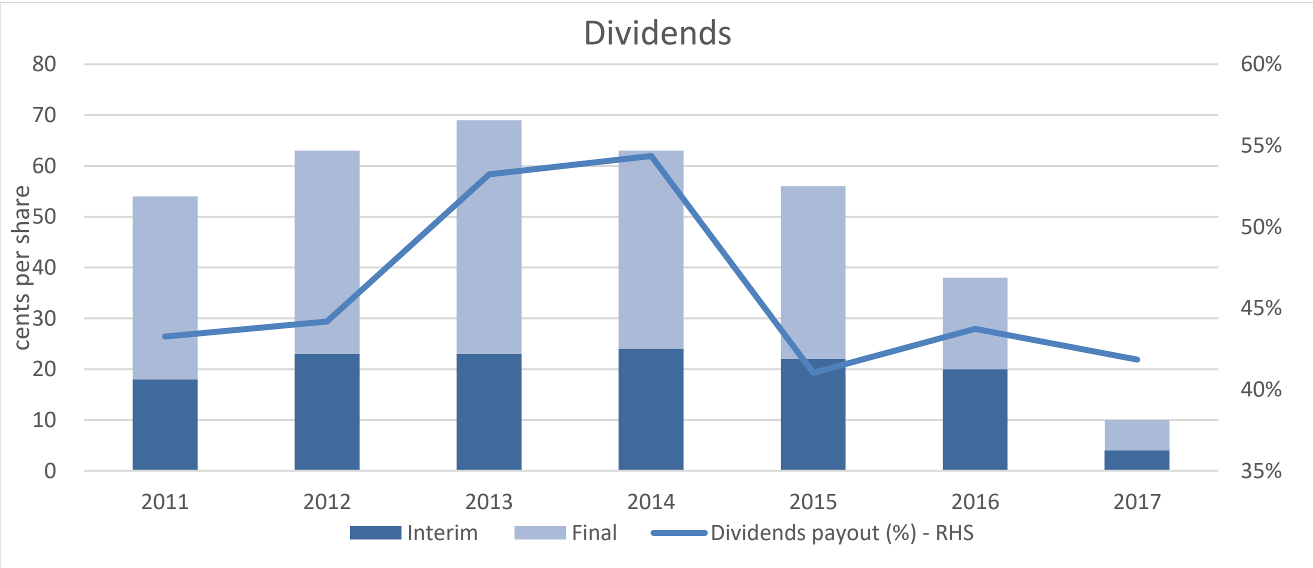
The automotive division's trading profits slumped to N$4.3m in 1H18 from N$16.5m recorded in 1H17, representing a decrease of 74.2% in trading profits for the period under review. The negative trading performance from food and distribution, fishing and automotive were offset by improvements from the remaining three divisions. The charge was led by freight and logistics which recorded trading profits of N$7.9m representative of a 105.8% increase from 1H17. Corporate services increased trading profits to N$5.5m or 55.1% from the N$3.5m reported in the corresponding period a year ago. Commercial and industrial products and services increased trading profits during the 1H18 period by 19.9%, contributing N$11.1m worth of trading profits to the group.



Source: BVN, IJG

Earnings and dividends

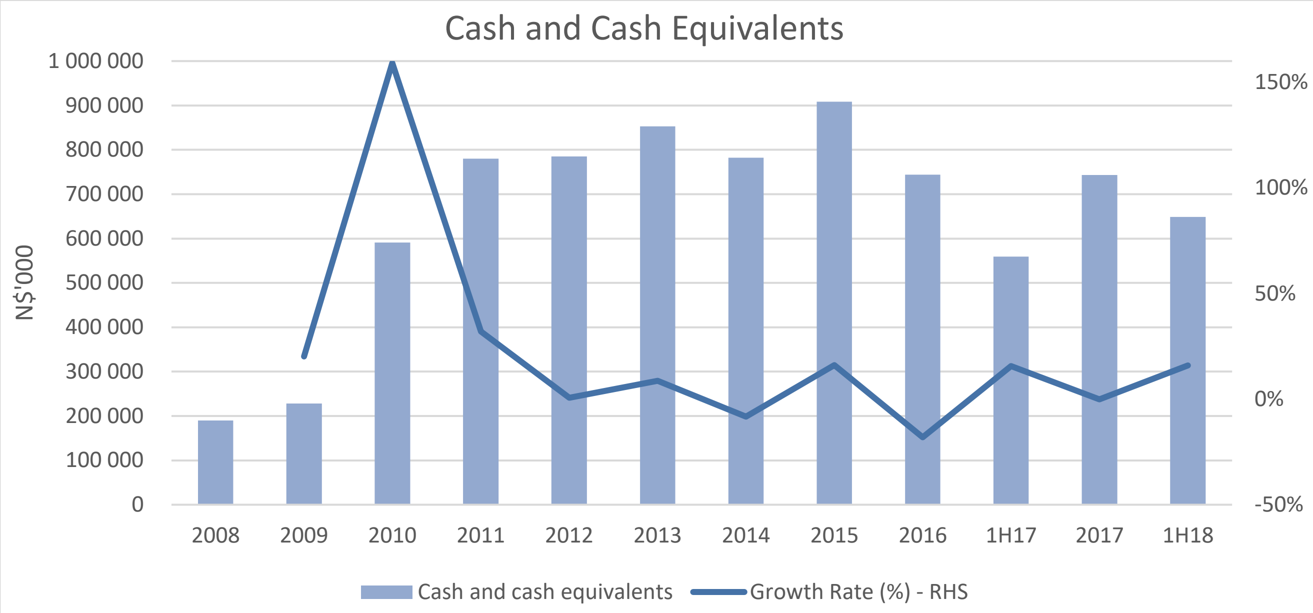
Basic EPS increased by 31.3% to 12.6 cents per share for the period under review from 9.6 cents per share in 1H17. Basic EPS would have been depressed for the period had it not been for the capital gain realized on the sale of the fishing vessel. To put this into greater perspective, HEPS fell considerably by 130% to -2.6 cents per share from 9.7 cents per share in 1H17. The negative HEPS have resulted in BVN not declaring an interim dividend, and with the enduring challenges faced by the fishing division and other divisions, it remains uncertain whether there will be a final dividend.



Source: BVN, IJG

Cash Position

BVN still maintains an elevated cash position which has increased by 16.0% to N$648.8m in 1H18 from N$559.1m reported in 1H17. However, the group's cash balance has declined by 13% from the N$742.9m balance reported in the FY17 results. There were no new acquisitions made during the period under review, and the decrease can largely be attributed to dividend payments to the group's shareholders and to minority shareholders of N$12.7m and N$106.7m, respectively.



Source: BVN, IJG

Changes to the Board of Directors

The BVN board announced that Ms. Theresa Wietz had resigned from her role as Financial Director with effect 6 March 2018. This would bring an end to a seven-year career at BVN. Ms. Wietz also served on the acquisitions, risk and remuneration committees of BVN. While no further information was available at time of this report, management mentioned that the process of finding a replacement for Ms. Weitz was well underway and that they might have identified a suitable candidate.

Segmental Review

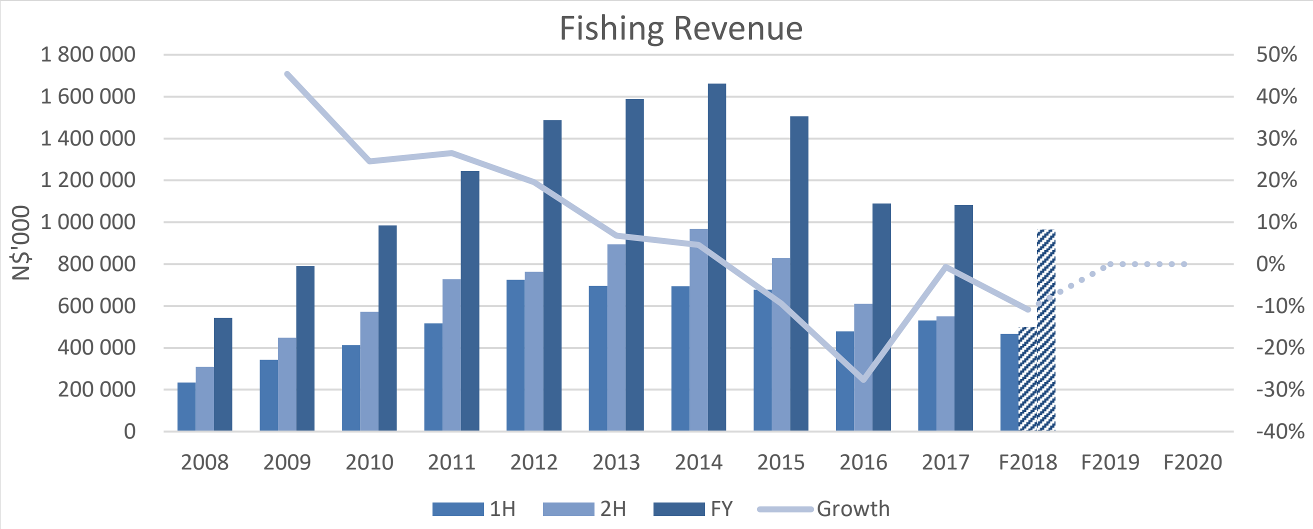
Highlights

Segment analysis	Revenue 1H17	Revenue 1H18	change (y/y)	Trading Profit 1H17	Trading Profit 1H18	change (y/y)	Trading Profit Margin 1H17	Trading Profit Margin 1H18
Fishing	530 956	465 783	-12.3%	(9 214)	(8 452)	-8%	-1.7%	-1.8%
Freight and Logistics	128 440	120 307	-6.3%	3 878	7 981	106%	3.0%	6.6%
Food and Distribution	650 616	608 377	-6.5%	(2 134)	(15 975)	649%	-0.3%	-2.6%
CIPS	242 804	242 829	0.0%	9 233	11 073	20%	3.8%	4.6%
Corporate Services	13 216	13 790	4.3%	3 547	5 501	55%	26.8%	39.9%
Automotive	391 859	315 508	-19.5%	16 493	4 255	-74%	4.2%	1.3%
Total	**1 957 891**	**1 766 594**	**-9.8%**	**21 803**	**4 383**	**-80%**	1.1%	0.2%

Source: BVN, IJG

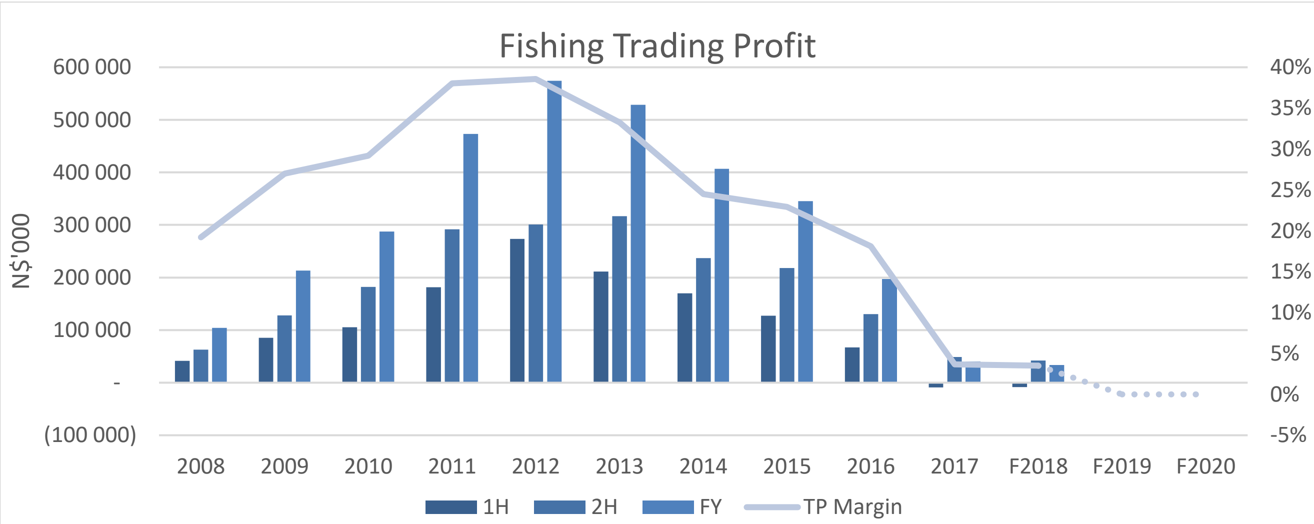
Fishing Division – You never know what you're going to catch

The fishing division generated revenues of N$465.8m for the six months ended December 2017. This translates to 12.1% lower than revenue of N$531m reported for the comparative period in 2016. The division continues to endure a particularly difficult operating environment, this is accentuated by the trading loss of N$8.5m reported for the period. Although this is marginally lower than the N$9.2m loss incurred in the corresponding period a year ago. Continued poor performance coupled with the perennial deterioration in trading profits, vindicates BVN's decision to dispose of the division in our view.



Source: BVN, IJG

The division faced several storms during the review period, which came in the form of currency volatility, rising oil prices, declining catch rates as well as smaller catch sizes and of course, the continued pressure on margins as a result of reduced quota allocations. Horse mackerel fishing is the divisions biggest catch and for the 2017 calendar year BVN was allocated quota of 33,609 metric tons out of the 340,000mt allowed catches for the season. The division purchased additional quota of 13,000mt from other rights holders, a practice that has proven to be costly and unsustainable in the long-run. A three-year moratorium on pilchard species from 2018 to 2020 will put further pressure on the division that had been struggling to haul in decent catches of the species as is.



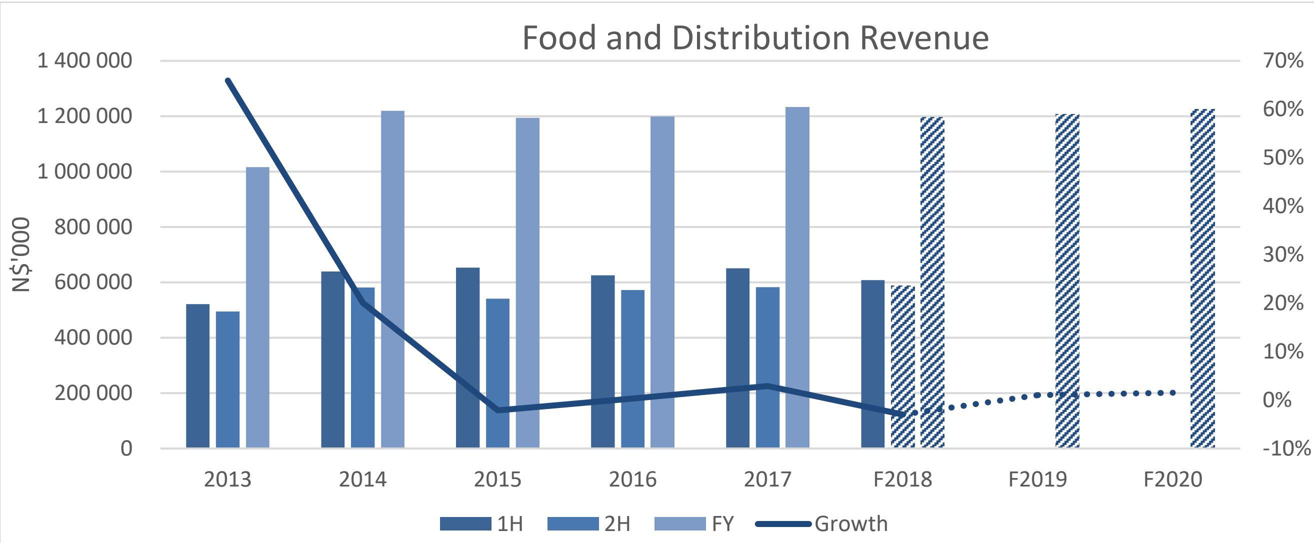
Source: BVN, IJG

The division continued efforts to downsize fishing operations in order to right-size the fleet in line with the direct horse mackerel quota allocation. This saw BVN sell another vessel during the review period, the second vessel sold during the 2017 calendar year. Two more vessels remain which form part of the Angola joint-venture commissioned to catch sardinella. The operations in Angola continue to be plagued by continuous vessel breakdowns, with vessels having to be decommissioned and sent to Namibia for repairs. Currency fluctuations and the devaluation of the Kwanza added further headwinds and repatriation of profits were particularly challenging. This venture, however, did render strong fishmeal sales, and the sardinella market share for Prescca Fresca is stable at present. BVN is considering disinvesting from this venture, along with its Mozambican distribution associate.

The bone of contention is that BVN wants to sell its shareholding in Namsov. This 69.5% stake in Namsov grants BVN effective shareholding in Namsov's subsidiaries which are Carapau Fishing (17.4%), Namsea Products (69.5%), Pesca Fresca (34.1%), Twafika Fishing (52.2%), Tetelestai Mariculture (69.5%), the Mozambique JV (27.8%) and Glenryck South Africa (51%). The results presentation indicated that management is positive regarding the prospects of the Glenryck brand with its operations in South Africa and Mauritius having reached break-even by FY2017, expectations are for a return to profit in the near term. Management further stated that they intend to keep the Glenryck business post restructuring of the division. The oyster farm operated by Tetelestai has since moved from open ocean farming to salt pan farming to reduce the environmental threat that has been the main cause of high mortality rates. Further downsizing of this business is expected to stabilize in the medium term. Which leads us to conclude that the operations to be disposed of are Carapau, Namsea, Pesca Fresca, Twafika and Mozambique.

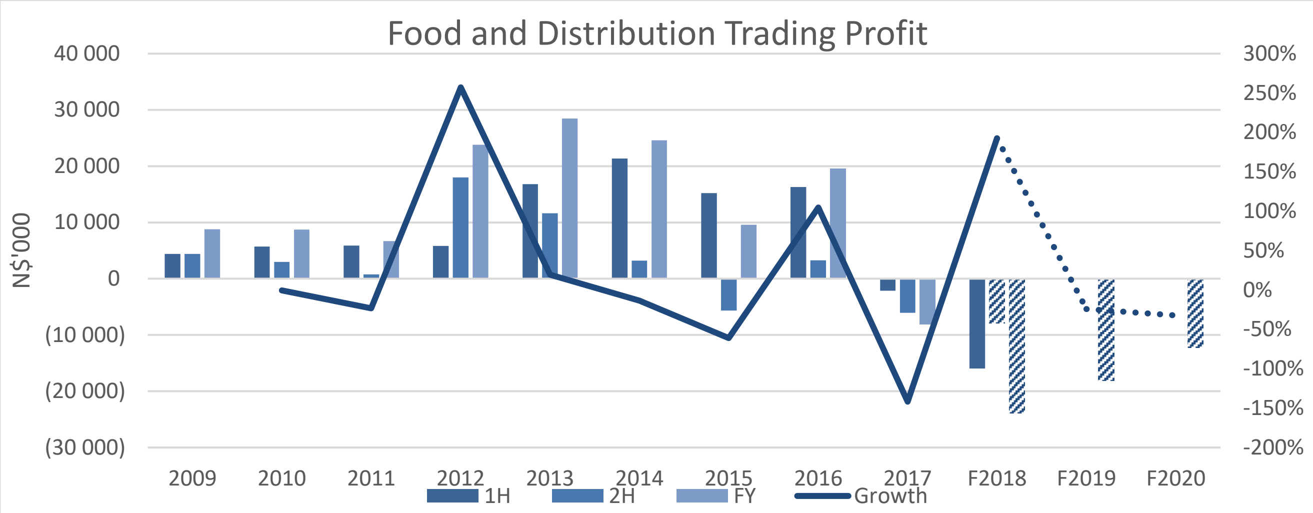
Food and Distribution

The food and distribution division generated revenues of N$608.4m during the period under review, this represents a 6.5% decrease in revenues compared to the corresponding period ended December 2016. The division has been the largest contributor of revenue for the group since overtaking the fishing division in 2016. However, trading losses to the value of N$15.9m were reported for the period, compared to the N$2.1m loss reported in 1H17. When compared to the FY17 results, trading losses further worsened from the N$8.2m loss reported end of June 2017.



Source: BVN, IJG

Reduced consumer spending played its part in contributing towards the depressed financial performance from food and distribution. Downtrading became more prevalent and was not surprising given the recessionary economic environment during, and prior to, the review period. The division's main cause for concern, however, has been internal. Operational inefficiencies in the distribution chain have been squeezing profit margins, to a point where they have turned negative. In the FY17 results BVN attributed these inefficiencies to inventory control, or a lack thereof. Recurring damages to inventory and mounting claims from clients severely affected the division's profitability. In an attempt to contain escalating costs and rein in the inefficiencies BVN looked to streamline operations, removing four distribution trucks from the vehicle fleet after having introduced "smarter scheduling and routing systems".

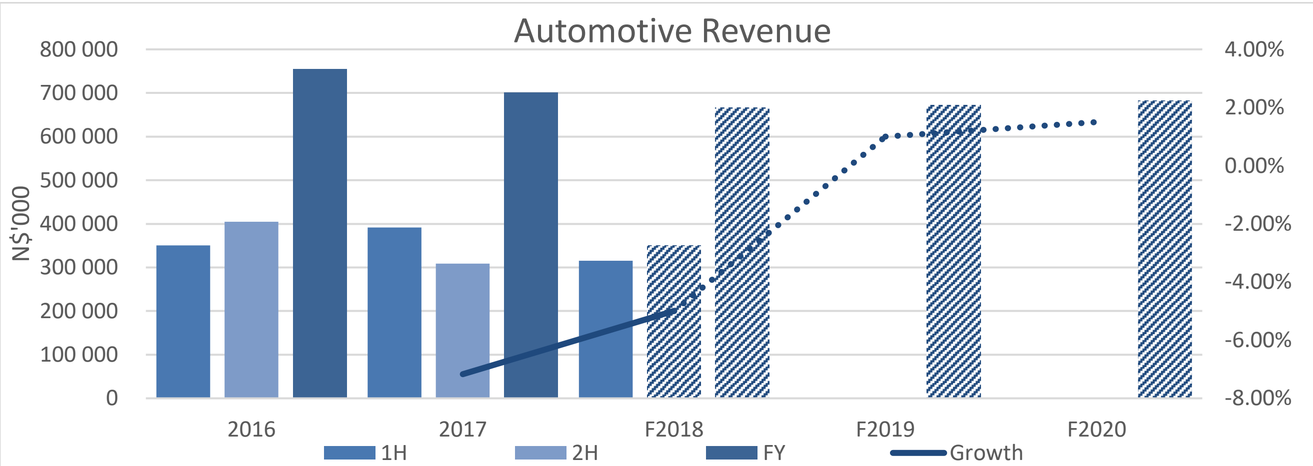


Source: BVN, IJG

BVN additionally invested in a new stock management system that would aid in optimizing inventory levels. The benefits expected from these new measures were projected to be fully realized during the FY18 period. However, the 95.4% increase in losses in 1H17 indicates no such relief has been forthcoming, with management stating at the results presentation that the inefficiencies and costs have continued to escalate. New management has been put in place to address the inefficiencies experienced within the division and have been tasked with restructuring the business and its processes to eliminate the slack. Furthermore, to add to the already dire state of affairs, Parmalat ended its distribution agreement with BVN with effect 1 August 2017, resulting in a loss of potential revenues to the value of N$100m per annum.

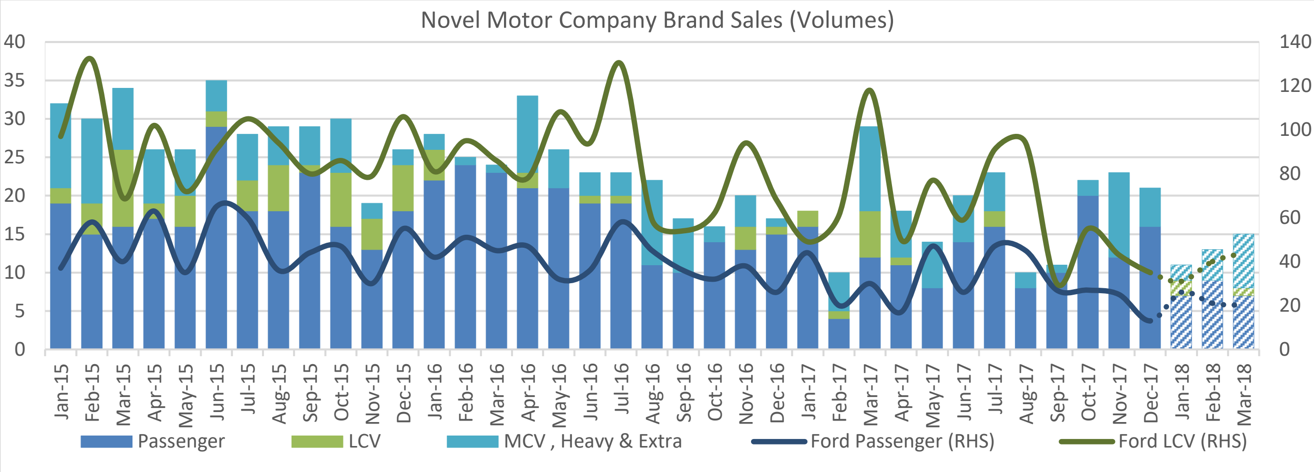
Automotive

The automotive division contributed 17.9% of the revenue generated by the group during the period under review, making it the third largest contributor of revenue. The division generated revenues of N$316.0m during 1H18, representing a 19.5% decline in revenue compared to 1H17. The FY17 results for the group showed a 7.2% decline in revenue to N$701m compared to the N$755.1m generated in FY16. Trading profits for the division are severely depressed, barely commanding a margin of 1.35% (N$4.2m) during the review period. This in turn also represents a 74.2% decrease in trading profits compared to N$16.5m in trading profits reported in 1H17.



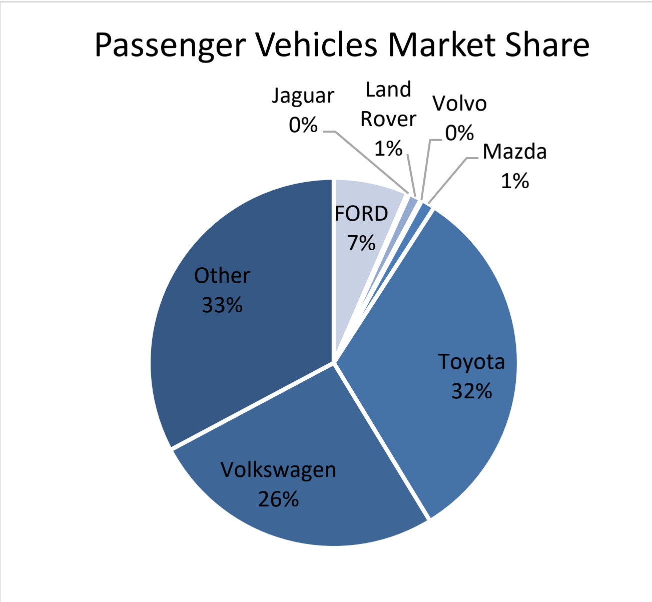
Source: BVN, IJG

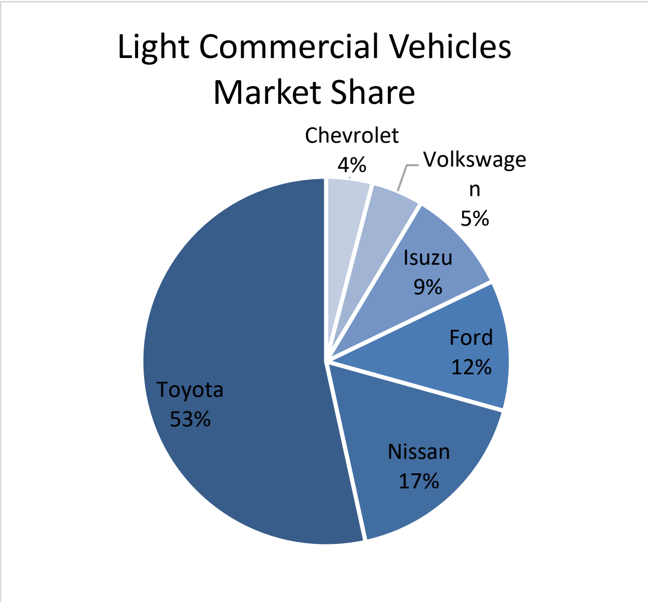
The automotive division's subdued sales revenue is largely attributable (and by BVN's own admission) to the division's over-dependency on new vehicle sales. The acquisition of The Novel Motor Company coincided with a period where new vehicles started slowing. 12-month cumulative new vehicle sales started registering negative growth since December 2015 where the cumulative number of new vehicles sold were 21,246. As at the end of December 2017 the cumulative 12-month number of new vehicles sold was 13,201, a 37.9% decline compare to the December 2015 period. Countrywide new vehicle sales have been adversely affected by the reduction in government spending, suppressed consumer and business confidence. Furthermore, amendments to the National Credit Act requiring a 10% deposit on all vehicle finance and a shortened repayment period of 54 months have dampened sales since its August 2016 enactment.



Source: Lightstone

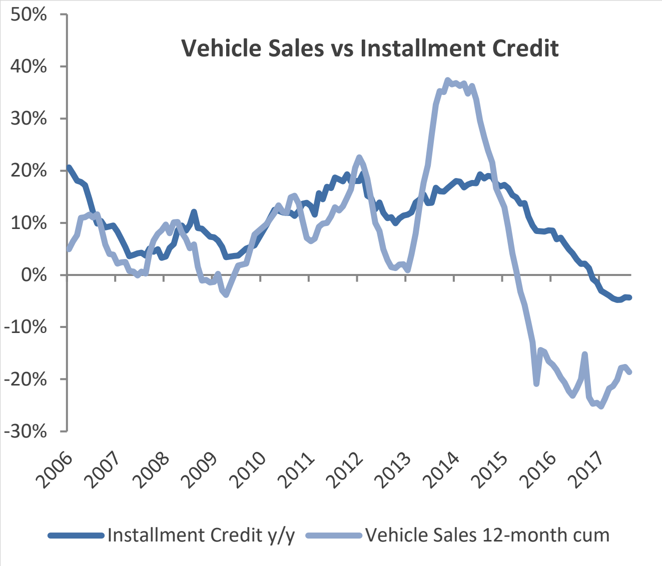
The automotive division of BVN holds a 100% shareholding of the Novel Motor Company and as such is the sole representative of Jaguar, Land Rover, Volvo, Mazda and its flagship brand, Ford. Combined sales volumes in the passenger vehicle category for Jaguar, Land Rover, Volvo and Mazda have contracted by 31% from a rolling 12-month perspective. These three brands sold a combined 147 new vehicles during 2017 compared to 212 sold in 2016. The Ford brand accounted for 71.5% of the total passenger vehicle sales of the five brands in 2017 with a total of 368 new vehicles sold, which represents a contraction of 25.0% from the 488 Fords driven off the lot in 2016. In the light commercial vehicles (LCV) space, Ford sold 762 LCV's in 2017 which is 24.4% less than 1,009 Ford LCV's sold in 2016. Ford was outpaced by the likes of Toyota and Nissan commanding greater market share in that arena.

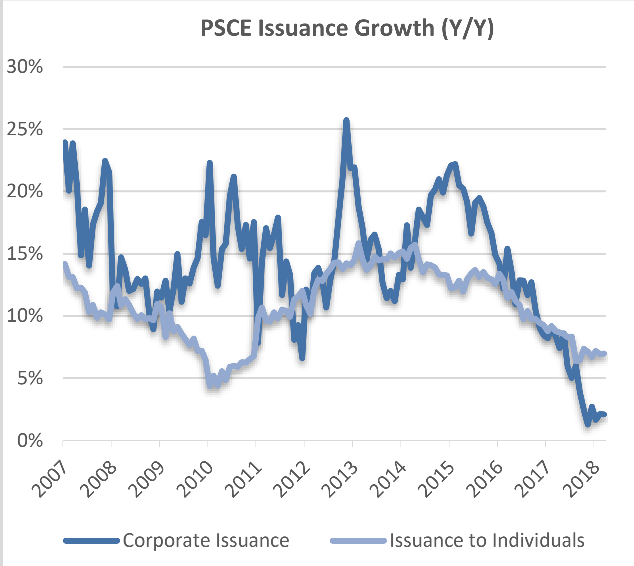




Source: Lightstone

With economic activities still depressed we don't expect significant growth over the next year or two in new vehicle sales and neither does BVN. Private sector credit extension (PSCE) slowed markedly during 2017 to 5.0% y/y at the end of December 2017. Instalment credit, which is largely used in financing new vehicle purchases, has contracted since June 2017 and ended the year with a contraction of 4.7% y/y. Management's focus has shifted towards driving sales in the used vehicle market and increasing productivity at service centers.

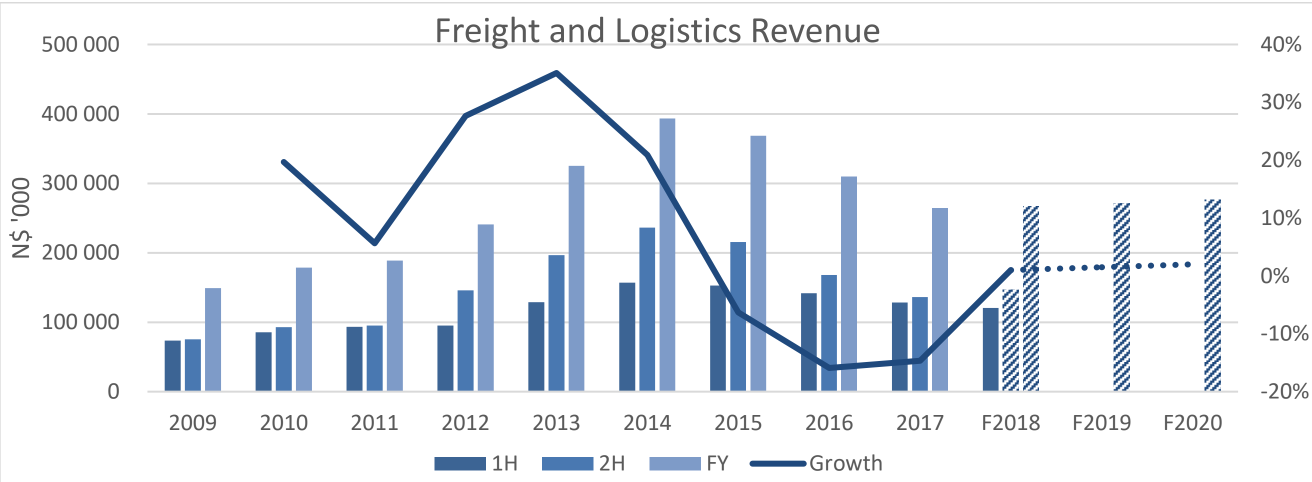




Source: IJG

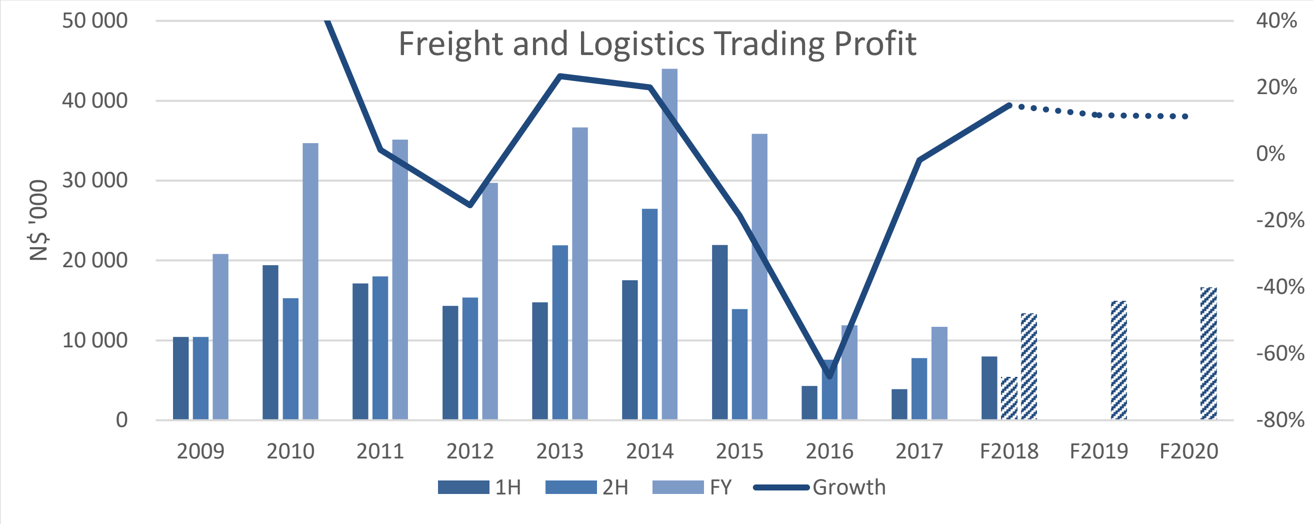
Freight and Logistics

The freight and logistics division reported revenue of N$120.3m during the period under review, a decline of 6.3% compared to N$128.4m in revenue generated during the corresponding period a year ago. Despite the contraction in revenue, the division was able to widen profit margins to 6.6% to realize trading profits of N$8m in the review period, compared to the 3% margin achieved during 1H17. While this was an improvement in trading profits for the review period, it is still depressed from the N$35.8m in trading profits from FY15.



Source: BVN, IJG

Muted activity in the oil and gas industry has limited the division's prospects for growth and there were no new projects undertaken during the review period. The same can be said for mining activity, which is however expected to pick up during the course of 2018 on the back of increasing commodity prices. The division was able to leverage from the installation of renewable energy resources which is ongoing in the coastal town of Lüderitz. A redirected focus on efficiencies and cost cutting is largely attributable for the increased trading profit for the review period considering the decline in revenue.

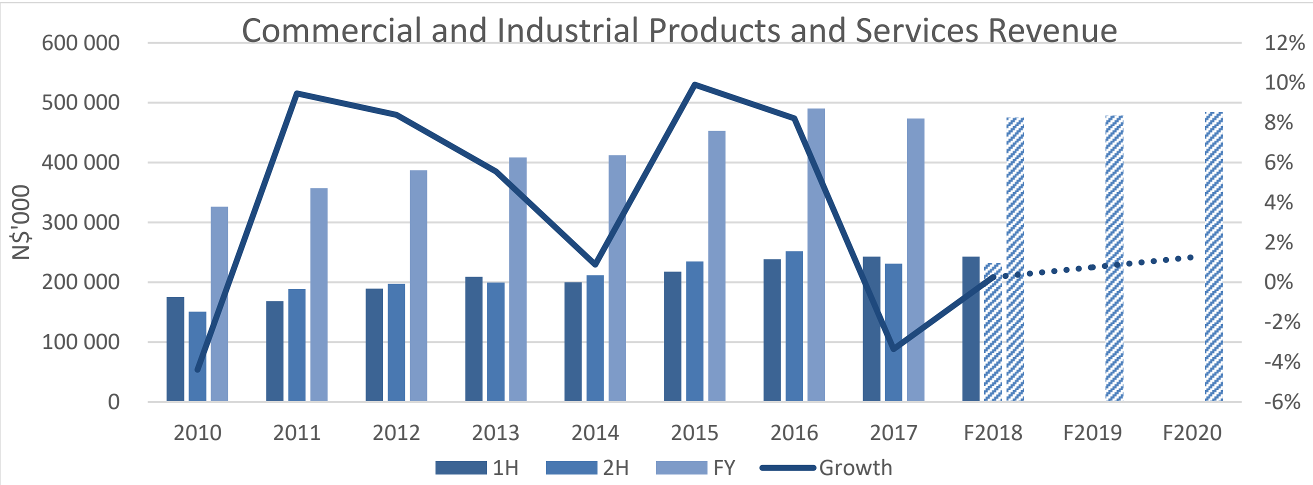


Source: BVN, IJG

Commercial and Industrial Products and Services (CIPS)

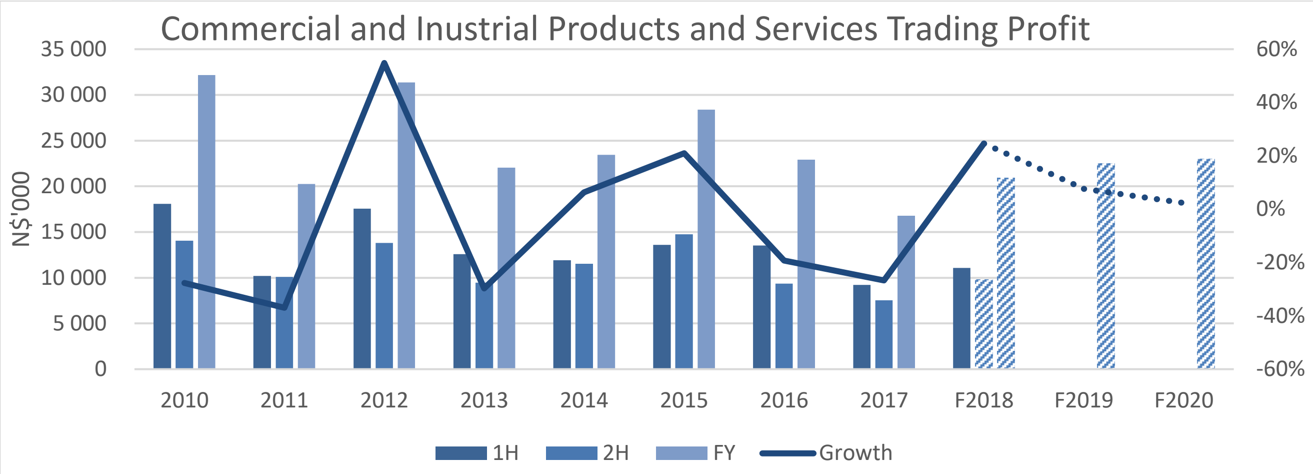
Revenue for the CIPS division printed flat, once again amassing N$242.8m for the period under review. Trading profit, however, increased by 20% to N$11.1m compared to N$9.2m in 1H17. The division contributed the largest portion of the group's trading profit for the period and its revenue represents 13.8% of the total revenue generated by the group. The subsidiaries within the CIPS division were all directly affected by the slowdown and subsequent contraction from the secondary and tertiary industries that they operate in. Preliminary National Accounts for 2017 released by the Namibia Statistics Agency (NSA) show that the Namibian economy is estimated to have contracted by 0.8% in 2017. With the recession being attributed to contractions in the secondary and tertiary industries of 6.7% and 1.1% respectively.

The wholesale and retail sector contracted by 7.1% affecting entities like Kolok, Minolco, Steiner, and Waltons. As per management's presentation, entities from the CIPS division managed to produce fair results with some even showing some improvement. Entities such as Steiner were able to grow their customer base and Plumblink extended its offering coastal customers by opening a branch in Swakopmund. However, Cecil Nurse and Voltex are still struggling as a result of the 25.6% contraction in the construction sector. The protracted payments of invoices from government further exacerbated the situation, causing liquidity problems in the process.



Source: BVN, IJG

The half year results for the division also include Prestige Cleaning Services, which was a late FY17 acquisition. BVN's FY17 annual report stated that Prestige was a loss-making entity at time of acquisition as well as prior to acquisition and that the rationale behind the acquisition was its nationwide customer reach. Management further endeavors to turn Prestige into a profitable business by FY18. The increase in trading profits given flat revenues for the CIPS division as a whole indicates BVN's focus and efforts towards cost cutting that at least in this sense are yielding dividends. However, specifics on whether management have been successful regarding Prestige were lacking in these results.



Source: BVN, IJG

Valuation

We've changed our valuation model following BVN's decision not to declare an interim dividend. We have thus deemed it appropriate to value the stock using a discounted cash flow valuation, applying a free cash flow to firm approach. The projected cash flows applied in our valuation model span over a five-year period and is a summation of each division's explicitly projected cash flows, factored in with a terminal value.

BVN's capital structure is comprised of 91% equity and debt accounting for the remaining 9%. We use a weighted average cost of capital of 14.2% which we calculated using BVN's cost of debt of 10.3% (based on the IJG Generic 10-year bond yield). BVN's cost of equity is computed as 14.9%, based on the same risk-free rate and an equity risk premium of 4.6%.

Our model makes use of a long-term growth rate for BVN, which we have set at 3%. We believe this rate reflects the company's abilities to find and add value to the business in the short and medium term. Disposing of the fishing division alone is part of addressing one of the many failings of BVN in our opinion. BVN's track record is tainted with the acquisition of low margin generating acquisitions, and it will require management's redirected focus on significantly reducing inefficiencies and curbing escalating costs to improve margins going forwards in our view.

Based on these assumptions and our projected cashflows for BVN, **we have set a target price of N$6.44**. At the current price of N$7.79 the stock is trading 17% above our target price and as such **we maintain our SELL recommendation** on **BVN**.

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