30 September 2014

Bidvest Namibia

FY14 Results Review

Target Price (c)	1300
Current Price (c)	1304

Year End 30 June	2012	2013	2014	2015F	2016F
Revenue (N$m)	2,702	3,355	3,703	3,698	4,117
EBITDA (N$m)	647	601	501	483	519
Net profit (N$m)	461	427	343	344	370
HEPS (c)	140.3	129.5	116.0	109.5	121.4
HEPS growth (%)	16.9	-7.7	-10.4	-4.4	6.8
DPS (c)	63.0	69.0	63.0	60.0	64.0
P/E (x)	9.14	10.06	11.25	11.91	10.75
DY (%)	4.8	5.3	4.8	4.6	4.7

Source: BVN, IJG

Recommendation	HOLD
NSX Code	BVN
Market Cap (N$m)	2,76
Shares in Issue (m)	212
Free float (%)	24
52 week high	1304
52 week low	1250
Expected 12 m return (%)	4.3

FY14 Results

BVN released its results for the year ended 30 June 2014. The firm posted reasonable results in light of the difficulties the fishing division finds itself in. EPS fell 10.6% to 129.6cps and HEPS decreased 10.4% to 129.5cps.

Costs almost sunk the ship

While BVN managed to grow revenues by 10.4% y/y to N$3.7bn, mainly attributed to the commercial businesses, cost of sales grew at 13.8% and operating costs by 36.9% to N$385.3m from the N$281.4m reported for FY13. The main reason for the witnessed cost increase was a sizable increase inquota rentals fees, following a reduction in direct quota allocation to BVN from the Ministry. Trading profit shrunk by 16.7% y/y to total N$501.3m. As usual, the fishing division supplied the largest chunk of trading profit, coming in at N$407.1m or 81%. This figure is 23.0% lower than the N$528.5m seen in FY13, despite the division's individual revenue increasing by 4.6% y/y, reflecting depressed margins.

Price pressure

Price regulations in the Democratic Republic of Congo, coupled with artificially reduced demand from Nigeria following import restrictions, resulted in an oversupply in the company's traditional markets, leading to a 18.6% decline in average realised selling price in US$ for horse mackerel. The weaker Namibian Dollar offset the lower US Dollar price effect on revenue, but also had a significant impact on costs. The weaker N$ is expected to remain the silver lining for this division, amidst cloudy conditions that prevail.

Uncertain outlook for Bidfish

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 satiable demand. The urgent application by Namsov against the Ministry of Fisheries and Marine Resources as well as the Government over reductions in fishing quotas will be heard in the High Court on 9 October 2014, and the outcome of this courts decision will have a significant impact on the performance of the fishing division, especially in the first half of the 2015 financial year.

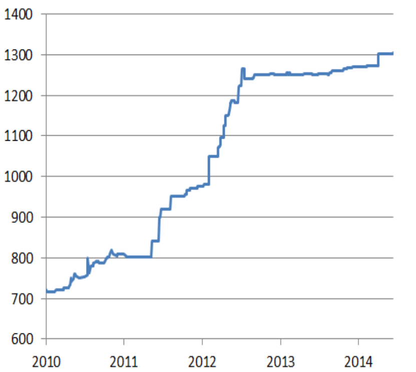
Valuation and Recommendation

The stock is currently trading on a FY16 yield of 4.68% based on full year dividends of 61cps at an assumed 54% payout ratio. This compares negatively to its average yield of 4.8% since listing, but remains a good yield in general.

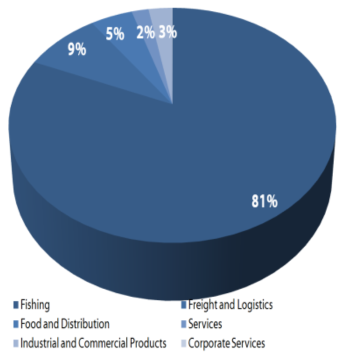
The positive economic environment bodes well for the revenue growth in the commercial businesses, however weaker selling prices of horse-mackerel and lower quota allocations add strain torevenue growth in the fishing division, while the cost of securing additional quota will negatively affect the company's bottom line, thus revenue and trading profit margins are expected to contract further through FY15 and decrease earnings visibility.

We have adjusted our earnings forecast and target price following a detailed analysis of the full year results. We forecast FY16 earnings of N$1.10 per share and calculate a warranted price of N$12.30 per share based on a justified PE ratio of 11.2 times. We are concerned about the possibility of a dividend cut given the outlook of the company, however we do not expect the stock to trade lower from current levels given the illiquidity of the stock and the possibility that once sold units may be difficult to rebuy in future, thereforewe change our **BUY**recommendation to a **HOLD** recommendation.Based on our target price of N$13.00, the 12m total return is expected to be 4.3%.

Share Price (c)



Contribution to Trading Profit



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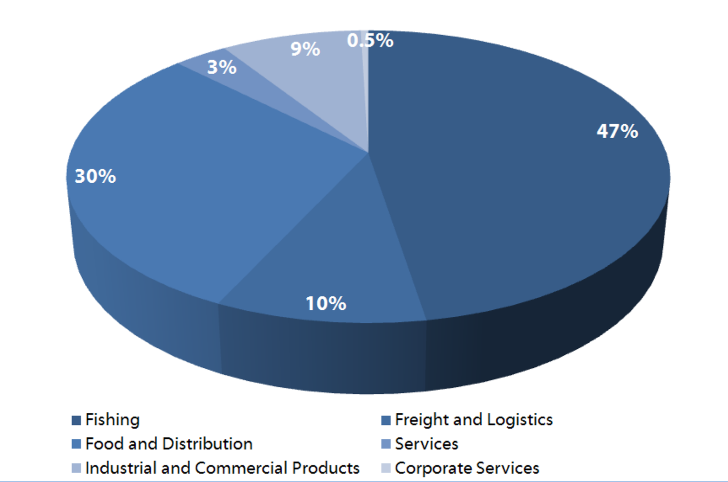
Operational performance

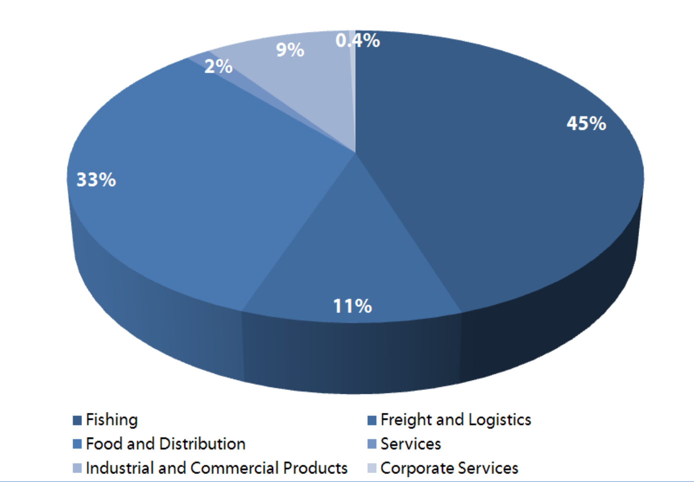
Revenue

BVN grew revenues by 10.4% y/y to N$3.7bn, mainly attributed to growth in the majority of the commercial businesses, while performance by the fishing division was somewhat sluggish. Revenue composition, however, remained weighted towards the fishing division, contributing 44.9% towards revenue, down from the 47.4% contribution in FY13. Food and distribution ended up adding 32.9% to the revenue pie, up from the 30.3% contributed during the previous period.

FY13 Revenue composition



FY14 Revenue composition



Source: BVN, IJG

Trading Profit

Trading profit shrunk by 16.7% y/y to total N$601.5m. As usual, the fishing division supplied the largest share of trading profit, coming in at N$407.1m or 81.2%. This figure is 23.0% lower than the N$528.5m seen in FY13, despite the division's individual revenue increasing 4.6% y/y, reflecting depressed margins resulting from the quota rental fees – FY14 trading profit margin fell to 24.5% from 33.2% reported in FY13. Food and Distribution contributed 4.9% of total trading profit. Food and Distribution trading profit rose 15.8% y/y to report a trading profit of N$24.6m, despite a drop in poultry sales. Freight and Logistics made up 8.8% of trading profit, up from 6.1%, in the previous year, as project activity in the oil and gas industry supported the freight division.

Earnings and dividends

EPS fell 10.6% to 129.6cps and HEPS decreased 10.4% to 129.5cps, missing our forecast. However revenue came in exactly inline with our forecast at N$3.7bn, thus the earnings miss is attributed to weaker than forecasted margins on the back of the difficult trading environment the fishing division finds itself in. A final cash dividend of 39cps was declared, meaning a total dividend of 63cps for the year was declared following the interim dividend of 24cps. Thus, the company cut dividends by 8.7% in FY14 when compared to FY13, with the payout ratio increasing to 54% from 53% before.

Segmental Highlights and Outlook

Segment analysis	Revenue		change	Trading Profit		change	Trading Profit Margin	
	FY13	FY14	(y/y)	FY13	FY14	(y/y)	FY13	FY14
Fishing	1,589,450	1,662,183	4.6%	528,469	407,061	-23.0%	33.2%	24.5%
Freight and Logistics	325,163	393,174	20.9%	36,658	43,958	19.9%	11.3%	11.2%
Food and Distribution	1,016,055	1,220,032	20.1%	21,224	24,579	15.8%	2.1%	2.0%
Services	113,173	59,737	-47.2%	10,627	9,966	-6.2%	9.4%	16.7%
Industrial and Commercial Products	295,309	352,351	19.3%	11,414	13,475	18.1%	3.9%	3.8%
Corporate Services	15,837	16,018	1.1%	(6,895)	2,247	132.6%		14.0%
Total	**3,354,987**	**3,703,495**		**601,497**	**501,286**			

Source: BVN, IJG

BidFish

At 81.2% of trading profit, although down from 87.9% in FY13, this division remains the backbone of the firm. As such, the challenging operating environment prevalent during FY14 resulted in the subdued performance for the whole group.

Segmental revenue increased by 4.6% to total N$1,662.2bn from N$1,589.5bn reported for FY13, as the weaker currency offset the effect of a lower price for horse mackerel, however the weaker N$ also had a significant impact on cost. The trading profit generated by the division fell 23.0% y/y from N$528.5m in FY13 to N$407.1m for the reporting period, showing margin contraction from 33.2% in FY13 to 24.5% in FY14. The reduced margins come as a result of higher cost of securing quota indirectly, as less quota was allocated to Namsov and the Trachurus joint venture by the Ministry of Fisheries and Marine Resources. The fishing segment was put further under pressure through a standstill in the Angolan operations.

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 environmentfor the fishing companies, which are required to make long term investments in PPE, without long term guarantees of quota.

Over the last few years, while the TAC has increased, so havethe number of concession holders, and as such, the BVN slice of the pie (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.

Adding further concern, not only has the BVN slice of the pie fallen, the amount of direct allocated TAC has also fallen from 2011 levels. BVN secured about 41.3% of the CY11 total quota directly; 25.0% of the CY12 total quota; and 24.4% of the CY13total quota. Management reported that the Ministry allocated only 1.0% of the Ministry's 102,200t reserve quota, bringing the TAC directly allocated to BVN for CY14 to 20.4% of the total TAC of 350,000t.

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

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 in1H12to N$1,850 inFY12 and N$3,000 per ton in 1H14 and N$3,250 in 2H14. 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.

A factor that boosted fishing revenues came in the form of a strong US$ exchange rate, that averaged N$10.32 to the Rand over the period, up a substantial 16.5% from N$8.86 averaged in FY1. At the same time, fishing regulations in the Democratic Republic of Congo and the general oversupply in the traditional markets of Namsov following restrictions implemented by the Nigerian government, led to a decline in the average realised horse mackerel price of 18.6%.However, the weaker Namibian Dollar offset the lower US$ price effect on revenue, and although it resulted in a positive impact of N$180.1m in the fishing division's revenue, this also had a significant impact on costs.

We forecast the average exchange rate for 4Q14 to be N$10.85 and N$10.80 for 2015,up notably from the FY13 average rate of N$9.80. Thus, the weaker N$ is expected to remain the silver lining for this division, amidst cloudy conditions that prevail.

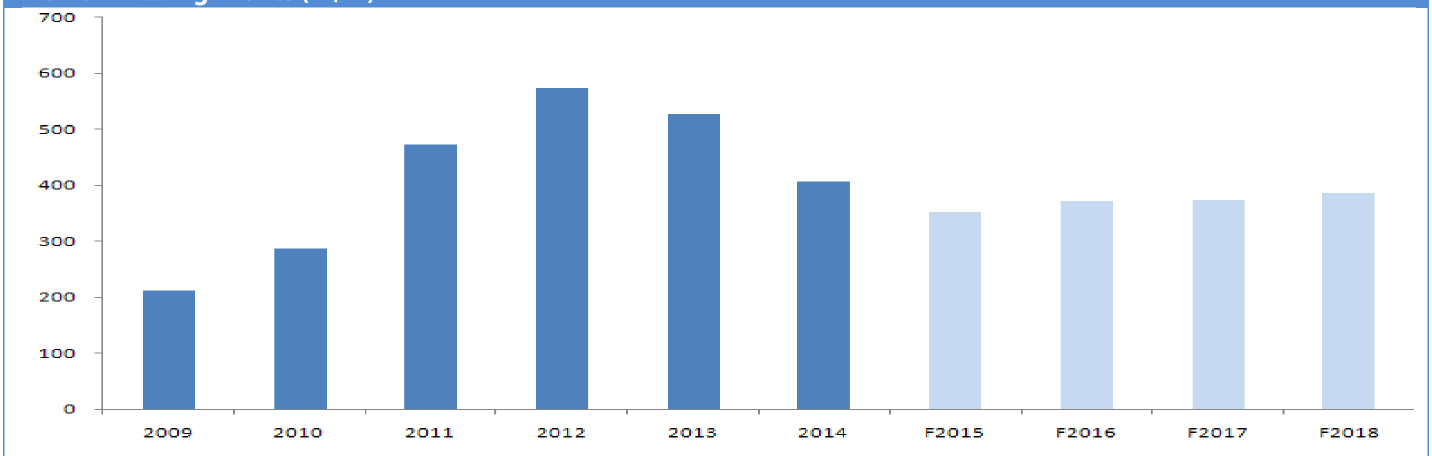
BVN’s outlook for the fishing division is described by management as set to remain challenging in the medium term, however, they remain positive about the long-run prospects. We foresee the market price for horse-mackerel remaining low or continuing to decline over coming years, however fundamental demand is likely to remain strong over the long term. Over the short term, the Nigerian Government plans to further reduce fish imports by 25% per annum via quota, or by significantly increasing duties on the commodity, so as to reduce imports. However, with present local production at 600,000 tons from the sea and inland lakes, farmed catfish production of 200,000 tons and imports of 700,000 tons per year, the total fish supply in the country is only 1.5 million tons, whilst demand exceeds 2.2 million tons. Thus there remainsa significant shortfall in Nigeria, which is expected to result in a revision of current import restriction policies in the long term.

With regards to quota, Namsov and two other local fishing companies launched an urgent court application on 4 September 2014 against the Ministry of Fisheries and Marine Resources as well as the Government over reductions in fishing quotas. Namsov Fishing Enterprises, Emeritus Fishing Limited and Atlantic Harvesters of Namibia Limited launched the application in an attempt to ensure that quota they felt had previously been awarded to them would be ultimately allocated, following delays and confusion emanating from the Ministry of Fisheries and Marine Resources. The urgent application was prompted by the laying off of 120 workers from Trachurus Fishing, a subsidiary of Namsov, as two of the group's fishing vesselshad to remainidle as expected quota failed to materialise.

Namsov is demanding that the Minister of Fisheries be ordered to implement and take whatever measures are necessary to ensure that his decision to award the quotas from the 2014 TAC to the applicants is given immediate effect.Namsovis demanding 13,337 tons; Emeritus Fishing Limited, 2,238 tons; and the third applicant, Atlantic Harvesters of Namibia Limited, 2,555 tons.The urgent application will be heard in the High Court on 9 October 2014 and the outcome of this courts decision will have a significant impact on the performance of the fishing division, especially in the first half of the 2015 financial year.

On the other hand, prospects for the pilchard operations and the Angolan business, Pesca Fresca,are positive. BVN resolved a number of legal issues regarding shareholders and the Pesca Fresca business is now under management control and fully operational. Pesca Fresca is expected to contribute to operating profits as of FY15.

BidFish Trading Profits (N$m)



Source: BVN, IJG

BidCom

The BidCom companies managed to grow revenues, and almost all businesses within the commercial portfolio showed improvements in trading profit margins.

Increased sales initiatives and effective implementations of turnaround strategies by the Industrial and Commercial Products divisions during the reporting periodexplains the 19.3% increase in revenue, to N$352.4m. Although the trading profit margin shrunk to 3.8% from the 3.9% reported for FY13, trading profit for the period came in at N$13.5m, up 18.1% y/y. Management advises that most of the companies in these segments are performing well, with the exception of Minolco, whose revenues declined, however, operating profit increased as a result of internal rentals and not finance leases as in previous years. Services however, reported a trading profit of N$9.9m, down 6.2% y/y while trading profit margin widened from 9.4% reported in FY13 to 16.7% as at Fy14. This was mainly due to Budget Rent-a-Car being sold, effective 1 July 2013, for N$86.0m.

In the case of Freight and Logistics, trading profit increased 19.9% y/y to N$43.9m for FY14 after revenue rose by 20.9% y/y to N$393.2m. However, the trading profit margin shrunk somewhat, from 11.3% reported for FY13 to the current figure of 11.2%. 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 areexpected to be significant once construction starts.

Lastly, Food and distribution reported revenue of N$1.2bn and an accompanying trading profit of N$24.6m, resulting in a trading profit margin of 4.9%, up from 3.5% in FY13. T&C's overall performance was above expectations despite significantly lower sales volumes of poultry products as a result of reduced demand for poultry on the back of notable price increases due to import restrictions and infant industry protection. Quantitative import restrictions imposed on dairy products also affected milk and yogurt sales negatively, in addition to cheese products shortfalls experienced in South Africa.

Valuation and Recommendation

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