BIDVEST NAMIBIA LIMITED
Acquisition of Namsov Shares
Disposal of Bidfish
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Bidvest Namibia Limited

Update: Namsov shares acquisition and disposal of BidFish

Target Price (c)	***645***
Current Price (c)	777

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)	777

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

Key points:

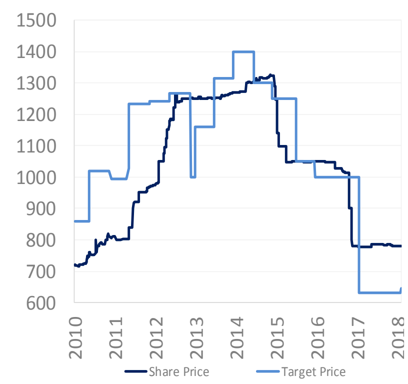
BVN acquisition of the remaining Namsov shares in NIP and UFE

- Bidvest Namibia Holdings released SENS on 12 July announcing that it had concluded an acquisition of the remaining share capital in Namsov Industrial Properties (Pty) Ltd (NIP) and United Fishing Enterprises (Pty) Ltd (UFE).
- BVN concluded the acquisition through its subsidiary Bidvest Namibia Property Holdings (Pty) Ltd (BidProp).
- BVN held an effective 69.55% shareholding in NIP and UFE through subsidiary Namsov Fishing Enterprises (Pty) Ltd (NFE).
- This 69.55% holding was transferred to BidProp as part of the restructuring.
- BVN, through the 30.45% acquisition, now effectively owns 100% of NIP and UFE under BidProp.
- The acquisition of shares in NIP and UFE is effective 30 June 2018.
- The acquisition serves as an internal restructuring, enabling Namsov to convert certain assets to cash.
- Total purchase consideration was N$75m, N$69.8m for UFE and N$5.2m for NIP.

Sale of BidFish to Tunacor

- Subsequent to the above restructuring BVN sold the entire BidFish holdings to Tunacor.
- Sale consideration is unknown at present.
- Cash consideration to be paid will be **equal** to the NAV of BidFish as at 30 June 2018.
- The NAV will exclude certain assets, namely the Angolan operations and the Mozambique associate.
- The sale consideration is to be confirmed upon finalisation of audited annual financial statements for BidFish.
- BVN will actively seek to dispose of the excluded assets.
- Tunacor will manage the excluded assets in the interim.

BVN Share Price vs Target Price



Setting the scene

BVN, late last year announced its intention to exit the fishing industry, a decision taken following years of declining revenue and shrinking profit margins. BVN's misfortunes in the fishing business came as a result of reduced fishing quota allocations from the ministry of fisheries and marine resources. The subsequent purchase of quota on the secondary market followed, a practice that proved too costly and unsustainable in the long-term. The year 2018 also serves as a year where many Namibian fishing rights expire. The ministry of fisheries has set new rules that would have made it even harder for BVN to carry on the operations of its fishing business. One such rule bars companies listed on stock exchanges from being awarded new rights to fish in Namibian waters. Stipulations such as these bode well for Namsov's new majority shareholder, Tunacor. Tunacor fisheries is a wholly-owned subsidiary of Tunacor Group Limited, an unlisted entity with 100% Namibian shareholding.

Consolidation and subsequent disinvestment

BVN announced on 12 July that it, through its wholly-owned subsidiary Bidvest Namibia Property Holdings (BidProp), concluded the acquisition of the minority interest in Namsov Industrial Properties (NIP) and United Fishing Enterprises (UFE). BVN through Bidvest Namibia Fisheries Holdings (BidFish) previously held an effective 69.55% shareholding in NIP and UFE. This holding was transferred to BidProp from BidFish according to the 12 July SENS announcement. The acquisition of the minority interest thus means that BidProp now owns 100% of NIP and UFE. The announcement does not mention that Atlantic Harvesters of Namibia is a wholly owned subsidiary of UFE and as such should fall under the effective control of BidProp following the share acquisition. Atlantic Harvesters is largely involved in horse mackerel fishing activities (reliant on quota allocation) which makes the exclusion of what is to happen to this entity surprising. Prior guidance (BVN to exit fishing industry) suggests that BVN should be looking to offload Atlantic Harvesters along with other less productive fishing assets. As no mention of Atlantic Harvesters was made we assume for now that it remains in the BidProp portfolio to be disposed of seperately. News of the minority share acquisition in NIP and UFE was followed by the announcement that BVN concluded the transaction to sell its 100% shareholding in BidFish to Tunacor Fisheries Limited.

NIP, UFE Shares transfer and the minority shares buy-out

The minority share acquisition of NIP and UFE will see BVN part ways with N$75m in a cash settlement paid to Namsov, which Namsov will distribute to its minority shareholders in the form of a dividend. N$5.2m is earmarked for the remaining share capital of NIP while N$69.8m will pay for the minority share in UFE. The acquisition effectively allows BVN full control of the assets of NIP and UFE in what the company described as an internal restructuring process that would enable Namsov to sell certain less productive assets. The assets most likely being referred to here are the assets that have directly been affected by government's three-year moratorium on pilchard fishing. UFE owns a canning factory in Walvis Bay that has been closed since 2016, and purse seine fishing vessels that we believe form part of the assets that BVN is looking to offload. Industrial property at the harbor town of Walvis Bay which is owned by NIP completes the pool of assets BVN has under its control (now under BidProp and no longer BidFish), which then sets the scene for the Tunacor transaction. It is our view that these assets could have been moved out of BidFish to facilitate the transaction with Tunacor as Tunacor may not have found them attractive.

Sale of BidFish to Tunacor

Following the restructuring and acquisition transaction that sees BidProp own 100% of NIP and UFE (we assume this includes Atlantic Harvesters), BVN proceeded to sell its entire shareholding in BidFish to Tunacor with effect 30 June 2018. Namsov Fishing Enterprises (Pty) Ltd (NFE) and a selection of its remaining subsidiaries now form part of the pool of companies that will be 69.55% owned by Tunacor. NFE's 30.45% minority shareholders are Khomas Fishing and Packaging, Henties Bay People Fishing, Prestige Fisheries Holdings and the Namsov Community Trust. Tunacor (69.55%) along with the minority shareholders (30.45%) will thus own NFE and its subsidiaries Twafika, Tetelestai, Carapau, Comet Investments, Namibian Sea Products and Glenryck South Africa. According to the announcement regarding the sale of BidFish to Tunacor, the Angolan and Mozambican operations, as well as other "Excluded Assets", will not form part of the transaction.

NFE owns 47% of Pesca Fresca (Angolan operations) and the group exercises control over the company through a management agreement. Pesca Fresca owns two mid-water trawlers and fishing operations in Angolan waters have yielded profits. However, BVN has previously bemoaned the challenges associated with repatriation of these profits and frequent vessel breakdowns. These vessels at times must be sent to Namibia for repairs given the very limited repair facilities in Angola. We believe it has been for these reasons that the Angolan operations did not form part of the Tunacor sale. The Mozambican associate, bought for its distribution channel, has been struggling due in large to currency fluctuations which have impacted the operation's profitability. BVN had previously mentioned that it was pursuing options to disinvest from this business. Tunacor, as per the sale agreement, will not bring aboard the Mozambican associate but will manage both the Angolan and Mozambique operations.

Another area of uncertainty regarding the sale to Tunacor is the position of the Glenryck South Africa brand. The SENS announcement is silent on this, however, management meetings post the 1H18 results indicated that BVN was very positive regarding the future prospects of the Glenryck brand. Management further expressed that BVN intends to keep the brand following the restructuring of the fishing business. FY18 results are bound to shed more light on this in conjunction with our management consultation that is set to follow.

The total sale consideration for the shares of BidFish is unknown at this point. However, BVN has advised that the value of the shares will be calculated using a net asset value approach. The NAV of BidFish will exclude the Angolan operations and the Mozambican associate, as well as certain vessels and plant and equipment, which are classified as "Excluded Assets" as per the SENS announcement. Tunacor and BVN have agreed for Tunacor to manage these assets on behalf of BVN while BVN is actively looking to dispose of them. The sale consideration is set to be confirmed once BidFish's audited annual financial statements have been finalized. This could be as early as September when BVN's results are usually released.

Valuation and forecasts

Our FY18 forecast was for BVN to have disposed of the fishing division by the end of the 2018 financial year. We expect that the fishing division traded at a loss as the end of FY18 and as such our model and forecasts are little changed by the two announcements. In order to maintain consistency in the absence of information regarding full year dividends, we will continue to value BVN using a discounted cash flow valuation. We used 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%. Based on these assumptions and our projected cashflows for BVN, **we have set a target price of N$6.45**. At the current price of N$7.77 we maintain our **SELL recommendation** on BVN.

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