

Speculative Buy**Price: 7.25p – 7.75p****Price target: 15p/share****EPIC:CMB.L (AIM)****Sector: Investment Company****Share price performance**

Source: Proquote

Key Data

1 Year Hi/Lo:	10.25p- 7.875p
Mkt. cap:	£5m
No. of shares:	66.7m
Website:	cambriafrica.com

Analyst

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In January 2014 Cambria Africa issued a Trading Update. A strategy update will be issued in February with the Final figures to 31 August 2013.

Formerly known on LonZim, Cambria is continuing the disposal of its remaining non-core assets, completion of which will mark the re-alignment away from multiple investments operating in a single country, to a select number of investments operating regionally. It is the Board's conviction this strategy marks the best route towards maximising shareholder value and ensuring continued future growth.

As a result of this strategy, the Company is now solely focused on Payserv Africa (Payserv) and Millchem Holdings (Millchem), growing their scale and scope, and pursuing their regionalization.

A multi-year, regional and product roll-out strategy for both Millchem and Payserv has been developed and there is expectations about the return prospects offered by these two investments. Initial steps have successfully been made. Millchem now has a warehouse and offices in Zambia, where it is commencing operations, and is opening the same in Malawi. Payserv has received its National Payments Licence in Zambia, signed its first customers and is processing payments.

Cambria anticipates strong organic growth for both investments and may make smaller acquisitions to accelerate their regionalization strategy.

During the year ended 31 August 2013, Payserv Africa and Millchem Holdings combined organically grew revenues and gross profit by 10% (\$8.5m) and 6% (\$4.3m) year-on-year, respectively.

Cambria's central costs were reduced by 54% when compared to the equivalent period last year and the EBITDA loss for the period for continuing operations for the year ended 31 August 2013 was US\$ 3.6 million, a 52% reduction when compared to 2012.

The Company expects to report a group loss of approximately \$5m for the year ending 31 August 2013 for its continuing operations. Discontinued operations, including write downs of property and assets, generated a loss of US\$ 6.9 million.

The Company added:

'Our pursuit of scale for both Payserv and Millchem, together with the prudent strategy to regionalise, has meant Cambria continued to invest for the future throughout this period. We are confident that the positive impact of regional expansion into Zambia (and subsequent entry into Malawi for Millchem), together with the launch of various new products, will yield results in the coming periods.'

Payserv Africa

Paynet provided Electronic Data Interchange (EDI) services to all 22 banks and building societies in Zimbabwe, as well as to over 1,500 corporates. Paynet processed 15.2 million transactions (2012: 12.3 million) during the period under review, a 24% increase.

Autopay, provided payroll services to 150 customers, processed over 303,000 pay slips (2012: 286k) during the period under review, a 6% increase.

Tradanet processed approximately 66,000 (2012: 55,000) loans during the period, representing a value of US\$ 131 million (2012: US\$ 140 million), a 19% increase and a 6% decrease respectively. At the end of the period the loan book under management stood at US\$ 110 million (2012: US\$ 100 million), an increase of 10%.

Over the period, Payserv has invested significantly into product upgrades, new offerings, entry into the Zambian market, as well as exploration of other geographic markets. These investments have not been capitalised and have therefore directly impacted the income statement during the period under review.

New Paynet products recently launched include, among others, eSchedules and PayZIMRA. It is also launching PayFT, a joint venture with South African based BankServ. Geographically, Paynet has established a presence in Zambia, received its Zambian National Payments Licence during December 2013, signed its first customers in that country, and has commenced processing payments. Moreover, Autopay now has a presence in Zambia as well, processed its first payslips in Uganda, and reached agreement with a trial customer regarding processing payslips in Botswana.

The bottom line effect of these investments should come through in the coming periods through enhanced revenue growth as well as diversification of revenue streams.

There was an exceptional item of a US\$ 294,000 adjustment to Payserv (and group) EBITDA resulting from a multi-year VAT liability related to Tradanet dating back to March 2010 that was paid in one tranche during 2013.

Payserv Results to 31 August 2013

(US\$ '000)	2013	2012	Growth
Revenues	4,164	3,951	5%
Gross profit	3,811	3,614	5%
Gross margin	91%	91%	0%
SG&A	(3,369)	(2,274)	48%
EBITDA	442	1,340	-67%
EBITDA margin	11%	34%	-69%

Millchem Holdings

Millchem is a value-added chemicals distributor with leading market positions in Zimbabwe. It recently established a presence in Zambia, and is working towards a presence in Malawi.

In general, chemicals distribution tends to outpace economic growth, but it also tends to shrink faster when an economy stagnates. Millchem was thus strongly affected by the uncertain business environment during FY2013. During some weeks over the period it was generating 50% less gross profit when compared to equivalent weeks during the prior year. Importantly, despite decreased revenue Millchem

did not lose market share or customers over the period, in fact new customers were added as competitors were struggling.

Despite the challenging environment in Zimbabwe, the Millchem team, under new leadership after the appointment of Matthijs Mulder as the CEO of Millchem Holdings, remained focused on the long term and continued to launch new products as intended, opened up a branch in Bulawayo, opened up warehouse space and offices in Zambia, made its first steps towards opening of a warehouse and offices in Malawi, established buying entities in the Netherlands and South Africa, and was able to add relationships with various attractive new suppliers (e.g. BASF, ENI (Cent-Lube), Sasol and others). Moreover, Millchem Africa is now also a member of the FECC*, as it seeks to position itself as a Responsible Distributor in this territory.

Alongside a new CEO, Millchem also appointed two Non-Executive Directors to the Millchem Board. Bernard West and David Edgington, who jointly bring over 80 years of chemicals industry experience, as well as extensive industry relationships.

Investments required for this geographic expansion have not been capitalised and have therefore directly impacted the income statement during the period under review.

*FECC is the European Association of Chemical Distributors

Millchem Results to 31 August 2013

US\$ '000	2013	2012	Growth
Revenues	4,323	3,770	15%
Gross profit	770	712	8%
Gross margin	18%	19%	-6%
SG&A	(840)	(920)	-9%
EBITDA	(70)	(208)	66%
EBITDA margin	-2%	-6%	71%

Legacy Issues and Lonhro Plc Settlements

Historically, LonZim cost became unsustainable and although paired back considerably, 2013 still carried substantial legal and audit costs. The target for central costs is US\$2m which could be achieved after the Hotel Sale, with the then closure of the Harere office.

The Leopard Rock Hotel

During the period under review, the Leopard Rock Hotel was classified by Cambria as held for sale. During the period, the Leopard Rock Hotel generated US\$ 2.3 million in sales and negative US\$ 671 thousand in EBITDA, before write downs recognised in the Income Statement of US\$2.8 million.

The Leopard Rock Hotel is a four star, 58-room hotel, resort and casino set in the Bvumba Mountains in the Eastern Highlands of Zimbabwe. The resort boasts a 6164 meter, Peter Matkovich-designed golf course, recognized as one of the best and most picturesque in Africa, if not the world. It also includes a 450-hectare private game park where you can enjoy viewing Giraffe, Zebra, Impala, Wildebeest, and Eland, either by foot or from observation platforms. The game park also includes the rare Blue Duiker, Bushbuck, Nyala and Sykes Samango monkeys. Included on hotel's property is some of the last pristine ('old growth') forest in Zimbabwe's Eastern Highlands, including rare flora and fauna and, indeed, a large number of leopards.

<http://www.cambriafrica.com/core-investments/leopard-rock/about>

The hotel is highly regarded in Zimbabwe and internationally, with an impressive history of accommodating VIP guests and hosting significant events. Royal Guests have included Princess Diana in 1995 and Her Royal Highness Queen Elizabeth the late Queen Mother. LonZim paid \$8.5m in 2009 and spent a 7 figure sum on renovations.

<http://www.investegate.co.uk/lonzim-plc--cmb-/rns/lonzim-buys-leopard-rock-hote/200904171612497842Q/>

LonZim Air (B.V.I.) Limited

Through LonZim Air (BVI) Limited Cambria previously owned three aircraft. Over the years a number of disputes arose in relation to these aircraft and certain associated contracts. At this point, in summary, Cambria will pursue recovery of claims related to these disputes that are now estimated to be in excess of US\$ 10 million. These amounts relate to, inter alia, maintenance reserve and lease charges and related contractual interest, payment of insurance proceeds, deterioration in market value of the aircraft, and the significantly lower amount the Company was able to obtain through a sale, due to the poor condition the aircraft were found to be in. LonZim Air incurred US\$ 205 thousand in operating losses for the period under review, largely related to extra-ordinary legal expenses related to the above mentioned claims.

Settlement with Lonrho

On 19 July 2013 Cambria reached final settlement with Lonrho Plc with regards to all on-going disputes, loan assets, and management contracts related to Lonrho, other than claims related to three aircraft previously owned by Cambria and leased to subsidiaries of Lonrho. As a result of this settlement, Cambria received from Lonrho US\$ 2.7 million. The settlement agreed related to, among others, the Aldeamento Turistico de Macuti, S.A.R.L loan, the Churchill Estates (1995) (Private) Limited loan, the Lonrho Management Services Agreement, and the Hotel Refurbishment and Management Agreement.

Strategy going forward

Cambria is continuing the disposal of its remaining non-core assets, completion of which will mark the re-alignment away from multiple investments operating in a single country, to a select number of investments operating regionally. It is the Board's conviction this strategy marks the best route towards maximising shareholder value and ensuring continued future growth.

As a result of this strategy, the Company is now solely focused on Payserv and Millchem, growing their scale and scope, as well as, importantly, their regionalisation.

A multi-year, regional and product roll-out strategy for both Millchem and Payserv has been developed and Cambria is excited about the growth and return prospects of the two investments.

Initial steps in the regional expansion have been made successfully. For example, Millchem now has warehouse and offices in Zambia, has commenced operations there, and is in the process of opening the same in Malawi. In Zambia, Payserv has received its National Payment Licence, signed on its first customers, and commenced the processing of payments.

In the coming years, both Millchem and Payserv will continue to expand in additional geographies in a careful and coordinated manner. Moreover, Cambria anticipates growth for both investments will include smaller acquisitions, which may or may not be made using Cambria shares.

The Company requires funds for the expansion of Millchem and Payserv, as well as for the group's working capital. The Company is reviewing its options regarding funding in this regard and this may include funds realised from the disposal of its non-core operations and assets as well as the raising of additional equity or debt capital.

Fund Raise (RNS Announcement, 19th February 2014)

Cambria announces it has raised \$4.06 million via the placement of approximately 33 million new ordinary shares at 7.5 pence per Ordinary Share (the "Placing")

- The over-subscribed Placing has received support from Directors and management, who jointly subscribed for 12% of the offering
- Existing shareholders supported the Placing by subscribing for 24% of the offering

The Placing will provide working capital to support the Company's expansion strategy for Millchem Holdings (Millchem) and Payserv Africa (Payserv) as outlined in its recent Trading Update. In line with this strategy, a multi-year, regional and product roll-out strategy for both Millchem and Payserv has been developed and Cambria is excited about the return prospects offered by these two investments.

The Company has received acceptances in respect of the Placing Shares. Following issue of the Placing Shares, the Company's issued share capital will be 99,155,162 ordinary shares. The Placing Shares will represent approximately 33% of the Company's enlarged issued share capital.

Full RNS announcement:

<http://www.investegate.co.uk/cambria-africa-plc--cmb-/rns/issue-of-new-shares/201402190713334079A/>

Conclusion

This is a new chapter in the life of Cambria, with many of the legacy issues resolved, the company can now focus on executing its strategy with two exciting businesses in Africa, namely Payserv and Millchem. It is to the company's credit that the cost base has reduced considerably*, and with a firm focus on Payserv and Millchem, could see developments move apace. As the company has indicated, its continued investment in the two companies will begin to prove fruitful in the coming months. A successful sale of the magnificent hotel alone could be equal to the current market cap of Cambria. Despite the Speculative nature of a BUY, an early investment could prove worthwhile and we initiate coverage with a target price, which could prove conservative, of 15p.

* Full details of the Board are given in the Appendix, below

Strengths and Weaknesses

Strengths

- Focussed specialist businesses;
- Regional development, not reliant on single territory;
- New management at board and subsidiary levels.

Weaknesses

- Final legacy issues need resolving;
- Political risk in emerging African nations;
- Hotel sale will bring in much needed cash, but may take time.

Sources: Company website, Company RNS, ProQuote

Appendix

The Board

Ian Perkins, Non-Executive Director and Chairman

Ian Perkins has over 40 years' London City experience. Until 1991 he was at James Capel & Co. where he was a Director and Head of Fixed Income. Between 1991 and 1996, Ian was Director and later Chief Executive Officer (CEO) of listed bank King & Shaxson Holdings plc. When Gerrard Group acquired King & Shaxson in 1996, Ian became a Director of Gerrard Group plc and Chairman of the Gerrard & King bank. Following Gerrard Group's takeover by the Old Mutual Group in 2000, he became a Director of Old Mutual Financial Services plc, and the CEO and later Chairman of GNI Limited until 2003. Thereafter until 2010, Ian was Chairman of fixed income and inter-dealer broking firm King & Shaxson Limited.

Paul Turner, Non-Executive Director and Deputy Chairman

Paul Turner is a Past President of the Institute of Chartered Accountants of Zimbabwe. He is a highly respected and knowledgeable member of the Zimbabwean business community. Paul was previously a Senior Partner at Ernst & Young in Harare, Zimbabwe for over thirty years and brings an unparalleled level of experience in the structure and operation of businesses in Zimbabwe. Paul is a qualified Chartered Accountant, registered both in Zimbabwe and South Africa.

Edzo Wisman, Director and Chief Executive Officer

Prior to joining Cambria in 2010, Edzo Wisman was Managing Director of Stuart Lammert & Co., a Toronto and New York based corporate advisory firm that he founded in 2003. Prior, Edzo was a Vice President; Investment Banking with Toronto based CCFL Advisory Services. Previously, he was with Wilshire Associates; first with the consultancy practice in Amsterdam, servicing some of Europe's largest institutional investors; and then with the Private Markets Group at Wilshire's Santa Monica, California headquarters, seeking opportunities in the leveraged buyout markets. Edzo has also worked with the investment department of the pension funds of KLM Royal Dutch Airlines. He holds a Doctorandus degree in Business Economics from the University of Groningen. He has published a number of papers on the buyout markets and corporate governance issues.

Nyaradzo Mudzamiri, Strategy and Corporate Development

Prior to joining Cambria, Nyaradzo Mudzamiri was with KPMG Corporate Finance in Johannesburg (South Africa) and Harare (Zimbabwe), focusing on Mergers & Acquisitions, Valuations and Restructuring. She has gained valuable experience across multiple sectors, working for local and international clients with operations in Zimbabwe, Zambia, Namibia, Malawi and South Africa. Nyaradzo holds a Bachelor of Science Honours degree in Economics from the University of Zimbabwe and a banking diploma awarded by the Institute of Bankers (Zimbabwe).

Fred Jones, Non-Executive Director

Fred Jones is the Chairman of Jutland Group; a private Hong Kong based investment management and commodity firm which he founded in 2006 to manage portfolios of foreign exchange, precious metals and international debt. Fred also founded Jaramcor International, a commodity supply-chain manager and supplier of pulp/paper, chemicals and agricultural products. He was previously Vice President, Private Client Services, at Bear Stearns Global Wealth Management. Fred was also with the International Private Client Group of Merrill Lynch. He holds a BSc in Accountancy and an MBA in Finance from Florida A&M University.

Itai Mazaiwana, Non-Executive Director

Itai Mazaiwana started his career in research and education at the Institute of Mining Research at the University of Zimbabwe as an Analytical Geochemist. During his subsequent career in the private sector, Itai held senior positions in the mining and chemicals industries at ZISCO Steel, Anacal Laboratory, Ardington Exploration, and Polokwane Chemicals (South Africa). Itai is currently a director of Jeune Zimbabwe, Mining and Infrastructure Development Corporation, a joint venture between Jeune and the Government of Zimbabwe and Pan-African Energy Resources, a

consortium of European and Zimbabwean engineers and scientists developing a 2000MW power station. In recent years, Itai has acted as a technical adviser to, Orange Advisory Alliance (South Africa), Lineband/Scores Mining, and New Frontier Partners Zimbabwe. The latter organisation promotes local participation in Zimbabwe's mining and energy sectors. Itai holds a BSc in Chemistry and Geology and an MSc in Analytical Chemistry, both from the University of Zimbabwe. He has published a number of papers on low level detection of gold.

Rhonda Wells, Group Financial Controller

Prior to joining Cambria, Rhonda spent seven years at Mecom Group plc, latterly as the Group Financial Controller. Before that Rhonda held increasingly senior positions in her ten years at KPMG, most recently as Audit Senior Manager in London, working primarily with listed companies and their subsidiaries. Rhonda is a Chartered Accountant, holds a BA (Hons) degree in Accounting and an Executive MBA. Rhonda spent a significant part of her youth in Zambia and South Africa.

Recommendations

During the three months to end-January 2014, the number of stocks on which Beaufort Securities has published recommendations was 238, and the recommendations were as follows: Buy - 58; Speculative Buy - 130; Hold - 43; Sell - 7.

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