WH Ireland Est 1872

5 March 2014

UK EQUITY RESEARCH

FINANCIALS

Speculative Buy

Price	**6.5p**
Target Price	14p

Reuters/BBG	CMB.L / CMB LN
Index	FTSE AIM
Sector	Diversified Financials
Market Cap	£6.4m
Shares in Issue	99.2m
NAV	9.6p
Gearing	nm
Interest Cover	nm

Performance	**Absolute**	**vs AIM**
1 month:	-20.0%	-24.2%
3 months:	-28.8%	-37.6%
12 months:	-34.2%	-54.9%
High/Low	10.3p / 5.5p	

Key Data:	
EPS CAGR 3-year	nm
ROCE	nm
Free Cashflow Yield	nm

Last Results	2013 FY
Next Results	2014 H1

Source: Fidessa

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*WH Ireland acts as Broker and Nomad to this company
#WH Ireland makes a market in this company

Marketing Communication
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Cambria Africa*#

New regional strategy has strong long term potential

Cambria was originally called LonZim and the objective was to invest in promising businesses exposed to the Zimbabwe economy. New management took over in 2012 and completely rationalised what had become an unwieldy portfolio with an unsustainable cost base. New management has decided to focus on the two most promising businesses, Millchem and Payserv, and roll them out into neighbouring economies to create a regional growth proposition. The first steps of this rollout have been made successfully over the last 12 months.

Key risks, in our view, relate to the execution of the growth plan and the short-term health of the Zimbabwe economy. We rate the shares a Speculative Buy.

Today, Cambria Africa comprises two core businesses: Payserv is an established bank-to-bank, B2B and B2C payments processor and business process outsourcer, expanding across the sub-Saharan region. Millchem is a value-added chemicals distributor to businesses in sub-Saharan Africa. The business invests in a wide range of stock and associated logistics to supply a diverse range of manufacturing and construction companies with raw materials.

Both businesses originated in Zimbabwe but both are highly applicable to neighbouring markets: Zambia is the initial roll-out country and, in our view, is a stand-out economy in terms of economic potential and should form a solid basis from which to grow. Recent growth in GDP and GDP per capita has been remarkable, interest rates and inflation have been falling and the exchange rate has been stable versus the US Dollar. We believe this market offers very significant potential for Cambria's businesses.

FY2014E will be a year of transition for Cambria: all expansion costs associated with rolling out into new markets will be expensed in the Income Statement so we do not see the Group as being materially profitable until FY2017E. However, we expect a jump in revenue to US$11.5m as traction is achieved in Zambia, plus the sale of Leopard Rock Hotel and the settlement of Lonrho aircraft claims to drive a very significant cash in-flow. The longer term potential is very significant: we see group EBITDA of US$15m by FY2020E.

Year End: August	**2012**	**2013**	**2014**	**2015**	**2016**
US$m	**A**	**A**	**E**	**E**	**E**
Revenue	12.0	8.5	11.5	20.2	32.3
EBITDA	-3.1	-3.6	-3.2	-1.9	0.7
PBT - adjusted	-6.7	-4.8	-4.1	-2.3	0.2
EPS - adjusted (US$ cents)	-12.5	-7.7	-4.9	-2.4	0.2
DPS (US$ cents)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	0.2	0.1	0.2	0.3	-0.7
P/E - adjusted (x)	-1.5	-2.1	-2.6	-4.6	53.2
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Net cash/(debt)	-3.6	-4.9	5.6	1.8	-0.8

source: WH Ireland

Investment Summary

A sub-Saharan growth strategy

- Cambria Africa started life as LonZim which was entirely focused on investing in the Zimbabwe economy.
- Under new management since 2012 and renamed Cambria Africa, the business is now much more rationalised and is focused on the sub-Saharan roll-out of two promising businesses, Payserv and Millchem.
- Payserv is an established bank-to-bank, B2B and B2C payments processor and business process outsourcer, expanding across the sub-Saharan region.
- Millchem is a chemicals distributor to businesses in sub-Saharan Africa. The business invests in a wide range of stock and associated logistics to supply a diverse range of manufacturing and construction companies with raw materials.

Sub-Saharan Africa offers many growth opportunities

- In our view, much of sub-Saharan Africa is on a sustainable growth path thanks to the end of conflicts, installation of reform-orientated, democratic governments and the taming of inflation.
- Of particular relevance to Cambria is Zambia as it forms the first stage of the roll-out for both of its businesses. In our view Zambia is a stand-out economy in terms of economic potential and should form a solid basis from which to grow.
- GDP has been growing at 5%+ for the last decade, interest and inflation rates have collapsed with the latter now in the 5-7% range and the exchange rate has been relatively stable against the US$ for the last decade. The net result is GDP per capita trebling since the turn of the century.
- Other development metrics show impressive progress: AIDS deaths and prevalence rates are in steady decline while crime and corruption have collapsed in the last decade.

Much scope to generate long-term value

- This is a tricky point in CMB's history to value the business. As the two core businesses are being transformed into regional players (and the costs of doing so are expensed through the income statement) we cannot value the business on a profit basis. We do not forecast material positive net profit or free cash flow until FY2017E.
- In our view, there are two ways to look at the value of the business: **Today**: the value one could ascribe to Millchem and Payserv based on FY2014E expectations is largely overwhelmed by the ongoing central cost. However, the value of assets held for sale, other property and claims results in an asset-based value of 14p per share – 100%+ higher than the current level. In our view this strongly underwrites the current share price;
  FY2020E: working on the basis that the regional expansion has been successful, we ascribe realistic exit multiples to FY2020E EBITDA, then discount the resulting enterprise value back to today at 20% per annum. This results in a potential value several times the current level (figure 2).
- Key risks, in our view, relate to the execution of the growth plan and the short-term health of the Zimbabwe economy, which is going through challenging times.

Valuation Summary

Fig 1: Summary Valuation Metrics and Ratios

Valuation Ratios Year End: August	Units	2012 A	2013 A	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	2020 E
Share Price	p		6.5							
number of shares in issue	m		99.2							
market capitalisation	£m		6.4							
market capitalisation	**US$m**		**10.6**							
add debt/(cash)	US$m		0.9							
add other liabilities/(assets)	US$m		-12.0							
enterprise value	**US$m**		**-0.5**							
EV/Sales	x	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	x	0.2	0.1	0.2	0.3	-0.7	-0.1	-0.1	0.0	0.0
EV/EBIT	x	0.1	0.1	0.1	0.2	-1.3	-0.1	-0.1	0.0	0.0
EV/CE	x	-0.02	-0.03	-0.03	-0.03	-0.03	-0.02	-0.02	-0.01	-0.01
P/E	x	-0.5	-2.1	11.6	-4.6	53.2	2.1	1.5	1.0	0.9
P/E (adjusted)	x	-1.5	-2.1	-2.6	-4.6	53.2	2.1	1.5	1.0	0.9
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-96.8%	-26.3%	6.9%	-35.8%	-24.9%	21.4%	36.5%	67.8%	84.4%
Book Value per share	p	26.1	9.8	9.6	8.2	8.3	11.4	15.7	21.9	29.2
Price/Book	x	0.25	0.66	0.68	0.79	0.78	0.57	0.41	0.30	0.22
Return on Equity	%	-28.8%	-45.8%	-26.0%	-17.4%	1.5%	27.3%	27.0%	28.4%	25.1%

Source: WH Ireland research

Fig 2: FY2020E sum of the parts (exit multiples valuation)

Division US$m	ownership %	Revenue 2020E	EBITDA 2020E	exit multiple (x)	Valuation US$m	Comments
Industrial Chemicals	100%	77.5	5.6	6.0	33.9	
Outsource & IT Services	68%	32.7	12.2	8.0	66.3	Nisela own balance
Head Office	100%	n/a	-2.5	6.0	-15.0	6yrs HQ costs to reach exit
Enterprise Value 2020E					**85.2**	
Enterprise Value 2014E					28.5	discounting at 20%
subtract debt/add cash					-0.9	2013A plus recent capital raise
add businesses held for sale					12.0	2013A net assets held for sale
add other items					5.0	Various claims
Market Capitalisation					**44.7**	
shares in issue (m)					99.2	post 2014 capital raise
US$/£					1.65	
Implied share price (p)					**27.3**	
upside / (downside)					*320%*	

Source: WH Ireland research

Fig 3: Cambria Africa Summary Forecasts

Income statement (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Net Revenue	12.0	8.5	11.5	20.2	32.3
Gross Profit	6.8	4.6	5.7	9.2	14.4
EBITDA	-3.1	-3.6	-3.2	-1.9	0.7
EBIT	-6.4	-4.1	-3.5	-2.2	0.4
Financial Charge	-0.7	-0.7	-0.6	-0.2	-0.2
Other	0.0	0.3	0.0	0.0	0.0
Exceptionals	-12.2	-0.3	5.0	0.0	0.0
Pre-tax profit (stated)	-19.0	-4.8	0.9	-2.3	0.2
Pre-tax profit (adj)	**-6.7**	**-4.8**	**-4.1**	**-2.3**	**0.2**
Tax paid	-0.5	-0.2	0.0	0.0	0.0
Net Profit (stated)	-5.0	0.9	-2.3	0.2	5.1
Net Profit (adj)	**-7.2**	**-5.0**	**-4.1**	**-2.3**	**0.2**
minorities	-1.6	-0.1	0.0	0.0	0.0
yr end shares (m)	58.1	66.7	99.2	99.2	99.2
EPS - stated (US$ cents)	-33.6	-7.8	1.1	-2.4	0.2
EPS - adj (US$ cents)	**-12.5**	**-7.7**	**-4.9**	**-2.4**	**0.2**
DPS (US$ cents)	0.0	0.0	0.0	0.0	0.0

profitability & returns (%)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Gross margin	57%	54%	50%	46%	45%
EBITDA margin	-26.1%	-42.0%	-28.0%	-9.3%	2.2%
EBIT margin	-53.1%	-47.9%	-30.4%	-10.8%	1.2%
Net profit margin	-60.3%	-58.4%	-35.6%	-11.6%	0.6%
Tax rate	nm	nm	0%	0%	0%
Return on Equity	nm	nm	-26.0%	-17.4%	1.5%
ROCE (post-tax)	nm	nm	-20.6%	-14.9%	2.7%

growth (y-o-y, %)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Revenue	48%	-29%	35%	76%	60%
EBITDA	45%	-33%	24%	62%	56%
Net profit	nm	nm	nm	nm	nm
EPS - adjusted	nm	nm	nm	nm	nm
Dividend	nm	nm	nm	nm	nm
Capital Employed	-49%	-35%	-5%	-14%	1%

Cash Flow statement (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
EBIT	-6.4	-4.1	-3.5	-2.2	0.4
depreciation & amortisation	3.2	0.5	0.3	0.3	0.3
change in working capital	-2.0	0.3	-0.2	-1.4	-2.8
cash financial charges	-0.4	-0.7	-0.6	-0.2	-0.2
cash tax	-1.0	-0.2	0.0	0.0	0.0
other	3.9	2.4	5.0	0.0	0.0
Net Cash Flow	**-2.6**	**-1.8**	**1.0**	**-3.5**	**-2.3**
Capital Expenditure	-1.5	-0.4	-0.3	-0.3	-0.3
Group Free Cash Flow	**-4.1**	**-2.2**	**0.7**	**-3.8**	**-2.7**
Acquisitions / Disposals	5.9	-0.3	5.8	0.0	0.0
Dividends	-0.3	-0.2	0.0	0.0	0.0
Shares Issued	1.5	1.4	4.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Change in Net Cash/(Debt)	**3.1**	**-1.3**	**10.5**	**-3.8**	**-2.7**
Year End Net Cash/(Debt)	-3.6	-4.9	5.6	1.8	-0.8

cash conversion & capital intensity metrics

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Fixed Assets/Sales (%)	211%	34%	25%	15%	9%
Working Capital/Sales (%)	6%	5%	5%	10%	15%
Working Capital (days)	22	18	18	37	55
Inventory (days)	28	40	37	46	55
Receivables (days)	80	35	37	46	55
Payables (days)	86	57	55	55	55
CAPEX/Depreciation (%)	121%	100%	110%	110%	110%
Free Cash Flow/Sales (%)	-34%	-25%	6%	-19%	-8%
Dividend Cover (x)	nm	nm	nm	nm	nm

balance sheet & leverage ratios

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Net Debt/Equity (%)	14%	45%	net cash	net cash	6%
Net Debt/EBITDA (x)	-1.2	-1.4	net cash	net cash	1.2
Net interest cover (x)	nm	nm	nm	net cash	2.0

Balance Sheet (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Tangible Fixed Assets	25.3	2.9	2.9	2.9	3.0
Intangible Assets	2.3	0.9	0.9	0.9	0.9
Other non-current assets	3.3	0.4	0.4	0.4	0.4
Working Capital	0.7	0.4	0.6	2.0	4.8
Other Assets	0.4	16.2	6.2	6.2	6.2
Other Liabilities	-5.1	-5.1	-0.9	-0.9	-0.9
Cash & Cash Equivalents	0.5	2.1	6.9	3.1	0.4
Capital Employed	**27**	**18**	**17**	**15**	**15**
Gross Debt	4.1	7.0	1.2	1.2	1.2
Shareholders Equity	25.1	10.8	15.7	13.4	13.6
Minorities	-1.8	-0.1	-0.1	-0.1	-0.1
Capital Employed	**27**	**18**	**17**	**15**	**15**

Source: WH Ireland research

Fig 4: Cambria Africa Company Overview

Company Overview

Company Activities & Operations

Cambria Africa is a holding company which invests in promising businesses operating in sub-Saharan Africa. Cambria has two core businesses, Millchem and Payserv, both of which were originally established in Zimbabwe but are now in the early stages of a regional roll-out strategy. Millchem is a distributor of industrial chemicals to the building, construction, food & beverage, textiles and mining industries. Payserv is a bank-to-bank, bank-to-business and business-to-business payments processor and business process outsourcer.

Company Strategy

Cambria was originally called LonZim and the objective was to invest in promising businesses exposed to the Zimbabwe economy. New management took over in 2012 and completely rationalised what had become a diverse portfolio. They have decided to focus on the two most promising businesses, Millchem and Payserv, and roll them out into neighbouring economies to create a regional growth proposition.

Key Products/Services

Product	Description
Hotels	Leopard Rock resort and casino in Bvumba Mountains. 58 room iconic hotel with one of the best golf courses in Africa. Currently held for sale
Millchem	Leading distributor of industrial solvents and metal treatment products
Payserv	Payments and Business Process Outsourcing services targeted at financial and related sectors

Management and Board

Name	Description
Ian Perkins	Chairman. Previously with James Capel, King & Shaxson, Gerrard Bank
Paul Turner	Deputy Chairman. Ex-senior partner Ernst & Young, Zimbabwe
Edzo Wisman	Chief Executive. Joined in 2010. Previously various investment banking roles
Rhonda Wells	Group Financial Controller. Previously at Mecom plc

Company's stated objectives

Timing	Description
Near term	Potential disposal of Leopard Rock hotel
Near term	Expansion of Millchem and Payserv into Zambia
Medium term	Broadening activities into all neighbouring countries
Medium term	Acquisition of further promising businesses in Southern Africa
Long term	Ongoing realisation of assets and reinvestment in the region

Share Price Drivers

Probability	Description
High	Disposal of Leopard Rock Hotel
High	Settlement of Aircraft claims with Lonrho
Medium	Evidence of growth traction in new regional markets
Medium	Evidence of recovery in Zimbabwe economy

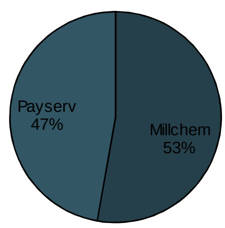
Upcoming Events

Date	Description
FY2014E	Disposal of Leopard Rock Hotel
FY2014E	Settlement of Aircraft claims with Lonrho

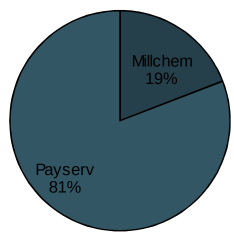
Recent Corporate Action

Date	Description
19-Feb-14	Issue of 33m new shares at 7.5p to raise circa US$4m
25-Jul-13	Disposal of Celsys Printing business for US$1
01-May-13	Extension of maturity of Consilium debt financing

split of 2014E Revenues:



split of 2014E Gross Profit:



Major Shareholders

Name	%
Russell Investments	21.4%
Consilium	9.2%
Contrarian Capital	7.3%
Management	4.0%
HSBC Asset Management	1.6%
Trans Africa Invest	0.2%
Advance Emerging Capital	0.2%

Other Information
Website: www.cambriaafrica.com
Location of HQ: London, UK

Source: WH Ireland research

Evolution of Cambria Africa

- **Cambria Africa started life as LonZim which was entirely focused on investing in the Zimbabwe economy.**
- **Under new management since 2012 and renamed Cambria Africa, the business is now much rationalised and is focused on the sub-Saharan roll-out of two promising businesses, Payserv and Millchem.**

Company History: LonZim to Cambria Africa

In our view, Cambria now has a clearly articulated strategy and a management team that can deliver on the plan. It has been a turbulent ride to get to this position.

The business was established in 2007 as LonZim. The business was set up by Lonrho plc as a vehicle to invest in promising businesses purely in Zimbabwe (and the ‘Beira corridor’ in Mozambique), thereby ring-fencing the risks associated with investing in that economy. Lonrho itself was a vehicle to invest in promising businesses across sub-Saharan Africa and Lonrho granted LonZim territorial exclusivity in return for a 20% shareholding, seats on the board and an ongoing management fee. Simultaneously, LonZim was admitted to AIM as a cash shell, raising circa £30m. Admission occurred on 11 December 2007.

Initial acquisitions came quickly. LonZim acquired Blueberry (a mini conglomerate that included what is now Millchem) in January 2008 (from Lonrho), a dilapidated hotel in Beira in February (from Lonrho), Paynet in March, a messaging software business in April and, in June, it was announced that LonZim would launch Fly540 (Lonrho’s regional airline) into the Zimbabwe market. Significantly, the Leopard Rock Hotel was acquired in April 2009, which would be operated by Lonrho Hotels in return for management fees.

With Zimbabwe’s economy failing to take off in the way that Lonrho might have imagined, LonZim shares performed badly and shareholders demanded a shake-up. In February 2012, all Lonrho directors left the LonZim board, Edzo Wisman was made CEO, Ian Perkins joined as Chairman and the company’s name was changed to Cambria Africa.

Subsequently, the extensive portfolio of Zimbabwe-focused businesses has been substantially rationalised into two promising divisions (Millchem and Paynet) focussed on regional growth. In our view this leaves Cambria with a strong growth outlook and, just as importantly, the divisional managers in place to deliver on the plan.

Much of the previous relationship with Lonrho has now been unwound (including the Lonrho shareholding in Cambria). The remaining item is a dispute over aircraft which we expect to be resolved in the current financial year, to the financial benefit of Cambria.

Current Management: can deliver the new strategy

Ian Perkins (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 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.

Edzo Wisman (CEO)

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 to this, 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.

David Kuwana (Managing Director – Payserv)
David Kuwana has approximately thirty years' experience in the banking sector, mostly on senior international assignments. Originally a human resources specialist, who developed into a commercial banker, David successfully ran three banks over a ten year period as Managing Director in developing countries. He spent nine years with Standard Chartered Bank in the UK and on international assignments. More recently, David was based in London as a consultant working for CDC, ACTIS Capital, and other London based private equity funds, focusing on due diligence, strategy development, organisational development, transformation management, and people development in their investee companies. David holds a BA (Honours) in Public Administration from Leicester Polytechnic College.

Matthijs Mulder (CEO – Millchem)
Matthijs has over 25 years' experience in the chemical industry, with specific emphasis on frontier and emerging markets. His experience ranges from trading in the late 80's with COMECON countries and China, to resident Managing Director for HCI subsidiaries (the fifth largest chemical distributor globally) in various countries in North and Latin America, Indonesia, West and Central Europe during the 1990's. When HCI was acquired by Brenntag in 2000, forming the world's largest chemical distributor, Matthijs founded a new chemical distributor in Romania. Upon sale of this company in 2007 he became Managing Director for the acquirer's Central European region. The last 25 years yielded him hands-on experience in frontier, emerging as well as mature markets, and with start-ups as well as established chemical distributors and a vast network within the global Chemical Industry.

Attractiveness of Sub-Saharan Africa

- **In our view, much of sub-Saharan Africa is on a sustainable growth path thanks to the end of conflicts, installation of reform-orientated, democratic governments and the taming of inflation.**

- **Of particular relevance to Cambria is Zambia as it forms the first stage of the roll-out for both of its businesses. In our view Zambia is a stand-out economy in terms of economic potential and should form a solid basis from which to grow.**

The region enjoys sustainable, strong growth

Much has been reported in the press in recent years of the growth of sub-Saharan Africa (SSA). There are many good reasons why this has happened after decades of minimal progress and there are many reasons to believe the growth is sustainable well into the future as many economies start from a very low base. In our view (and mindful of making sweeping generalisations across very disparate countries) some of the primary reasons for accelerating economic development are the end of political and military conflicts, installation of (generally) democratically elected governments who prioritise economic development, relief of sovereign debt and the taming of inflation.

Cambria is fortunate in having two scalable businesses (Payserv and Millchem) that have proved themselves in a tough operating environment (Zimbabwe) and have the potential to roll out into neighbouring countries, some of which are the most promising economies in SSA. We would highlight Zambia, Mozambique, Tanzania, Kenya and Uganda in particular.

Zambia case study

The first move for business will be into Zambia, a country which we believe has some of the greatest growth potential and benign operating environments of all the countries in the region. As such, we have singled this out for a more detailed analysis to highlight how conditions have improved. In summary:

- Zambia has been something of an economic hero over the last decade but its quiet progress and political stability means it does not get the headlines of its more notorious neighbours.
- GDP is growing steadily at high-single digits, interest and inflation rates are falling and the exchange rate has stabilised.
- AIDS deaths and prevalence rates are in steady decline while crime and corruption have collapsed in the last decade.
- Strong GDP per capita growth over the last decade has resulted in strong growth in demand for goods and services.

Zambia: a 60 second history

Zambia became the British colony of Northern Rhodesia towards the end of the 19th Century. In 1964, the country declared independence from the UK and Kenneth Kuanda became the inaugural president – a position he held until 1991. Under Kuanda's decades of misguided socialist economic policies, and exacerbated by an over-reliance on the Copper industry, Zambia fell into poverty. GDP per capita fell by 33% during this period, measured in constant US Dollars.

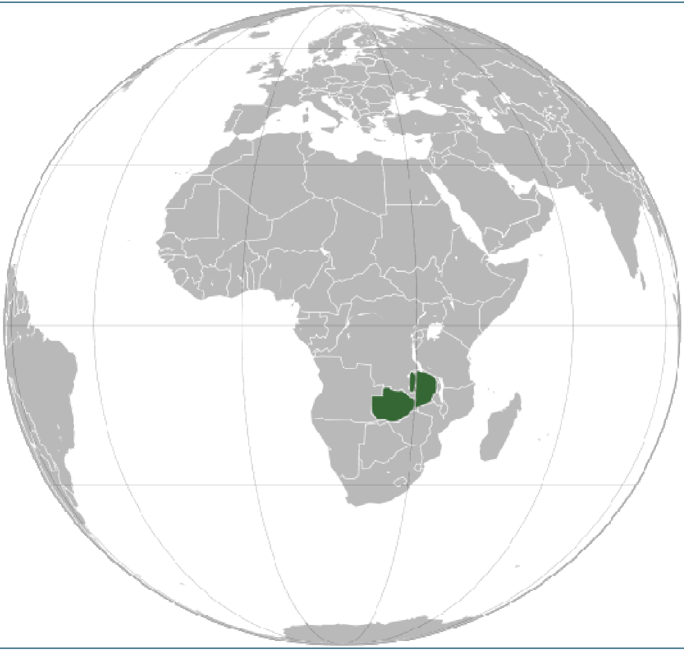
Kaunda was succeeded by Frederick Chiluba of the Social-Democratic Movement as the country entered multi-party democracy for the first time. Decentralisation and privatisation efforts began in this period and a lot of the foundations for future growth were laid.

Chiluba was prevented from taking an unconstitutional third term by mass protests and was replace by Levy Mwanawasa in January 2002, until his death in August 2008. It was in this period that GDP growth started to accelerate, inflation started to be reined in and crime and corruption were clamped down upon. Rupiah Banda was the next president but was defeated at the next election by Patriotic Front leader Michael Chilufva Sata, in 2011.

The World Bank named Zambia one of the world's fastest economically reformed countries in 2010, in recognition of the dramatic achievements of that decade. And all of this was achieved peacefully.

Zambia: key facts overview

Fig 5: African Continent highlighting the location of Zambia



Source: WikiMaps

Fig 6: Map of Zambia highlighting neighbouring countries, main cities, towns, lakes and rivers

Source: WikiMaps

Fig 7: Key Country Metrics

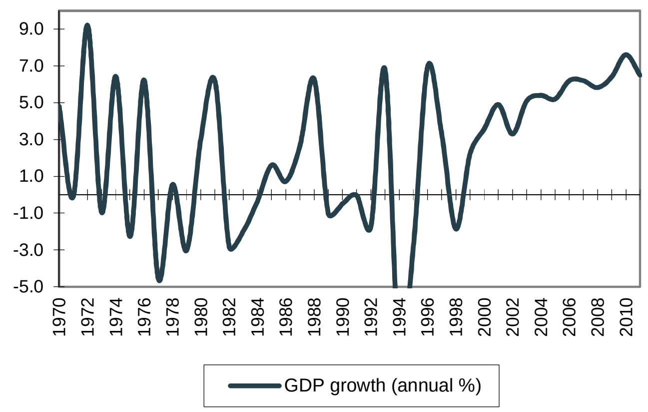
Measure	Value	Measure	Value
2011 GDP (US$bn)	19.2	Land Area (sq km)	743,000
GDP growth (average 2001-2011)	7.0%	*global rank*	*39th*
2011 GDP per capita (US$)	1,425	Population (m)	12.9
Currency	Kwatcha	*global rank*	*71st*
Ethnic groups (approx)	72	Population density (per sq km)	17.4
Main ethnic group	Bantu	*global rank*	*191st*

Source: WH Ireland research, World Bank and others

Some Zambian economic metrics in pictures

Fig 8: Annual GDP growth (%)

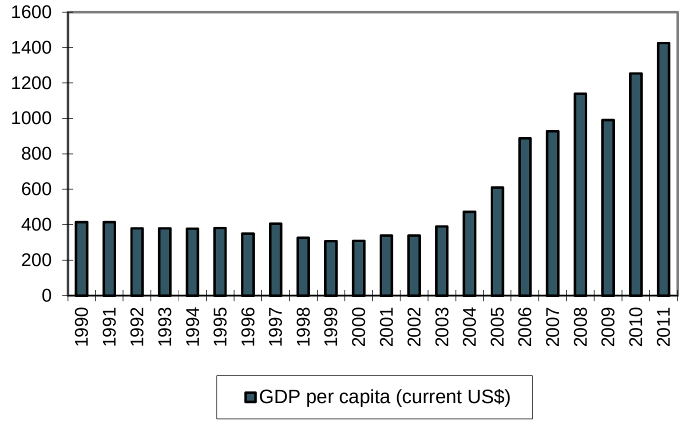
Under Kenneth Kuanda and the dogma of Marxist-Lenninism (1964 – 1991), the economic consequences were disastrous and GDP growth was extremely volatile. 1991 – 2000 saw a painful transition to market economics but this has laid the foundations for an impressive and sustained economic growth from 2000 onwards.



Source: World Bank

Fig 9: GDP per capita (current US$)

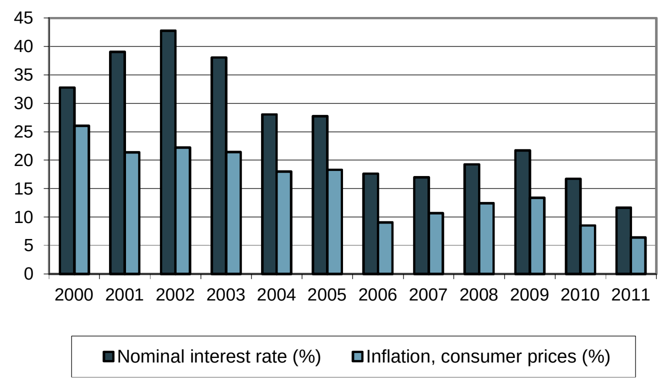
With a GDP per capita of $1,425 in 2011, Zambia is still considered a lower income country but this measure has doubled in five years and returned a 10 year CAGR of 14%. Any underlying progress in previous years was eroded by chronic inflation and a very weak currency.



Source: World Bank

Fig 10: Nominal Interest Rates and Consumer Inflation (%)

As a result of chronic economic management, Zambia was always dogged by very high inflation and consequently high nominal interest rates. The radically improved economic policies of the last decade have reaped considerable rewards with inflation steadily declining. Inflation is now generally in single digits – it was 7.2% in December 2013.

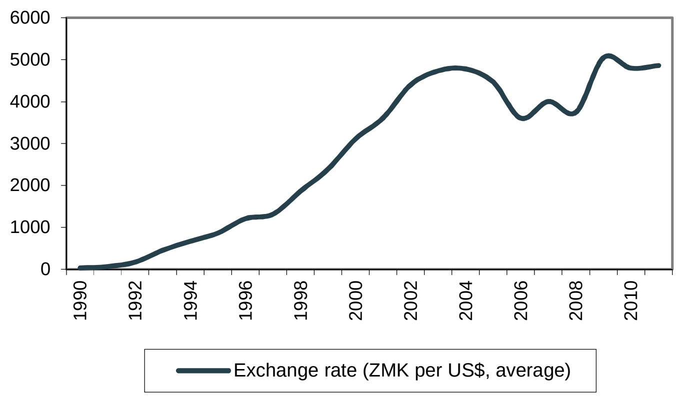


Source: World Bank

Fig 11: Exchange rate, Zambian Kwatcha to US Dollar

Weak economic growth and massive inflation resulted in a currency that completely collapsed. In 1980, US$1 bought ZMK0.8. In 2000, US$1 bought ZMK3110, a depreciation of nearly 400,000%. As the economy has moved to growth and falling inflation, the currency has considerably stabilised – a significant driver now is movements in Copper prices, of which Zambia is a significant producer and exporter.

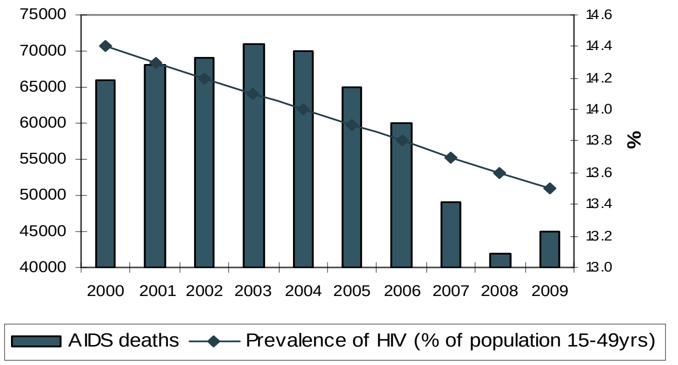
Note: exchange rate has subsequently been rebased by a factor of 1,000. The current rate is US1.00 = ZMK5.47



Source: World Bank

Fig 12: Prevalence of AIDS and AIDS deaths in decline

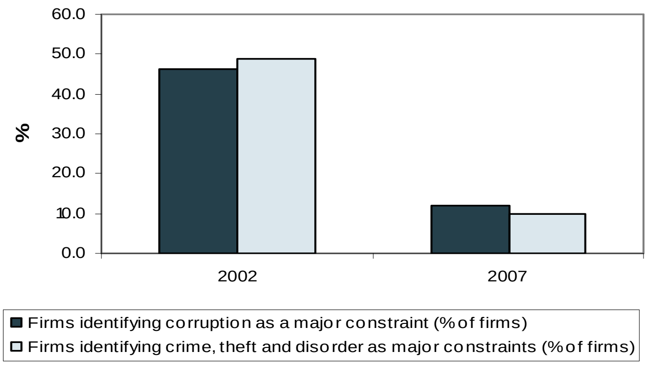
The African AIDS pandemic is well known. What is less well known is that in some countries it is coming under control and actually in decline. Zambia is a good case in point. AIDS deaths peaked in 2003 and have been in steady decline ever since. The AIDS prevalence rate in 15-49 year olds has been in steady decline for more than a decade, now standing at 13.5%. These issues have special significance for agricultural and mining businesses (both mainstays of the Zambian economy): these businesses employ a lot of manual labour and a high incidence of AIDS severely restricts the productivity of this labour.



Source: World Bank

Fig 13: Corruption and Crime in rapid decline

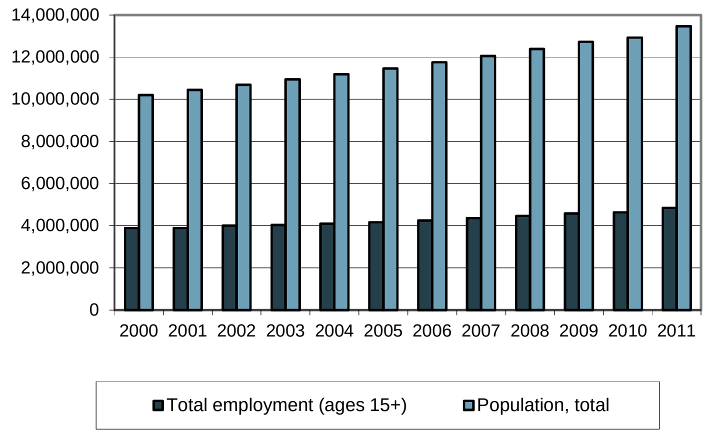
Sadly Africa is generally associated with crime and corruption and there are numerous incidences where this is undoubtedly true. However, along with its rapidly improving economic situation, Zambia can boast a transformed environment in which to do business over the last decade. Surveys conducted in 2002 highlighted that nearly 50% of firms in Zambia saw crime and corruption as a major constraint to doing business. By 2007 the survey reported a collapse to circa 10%, a dramatic improvement that has given businesses further confidence to continue investing in growth. Later data is not available, but anecdotal evidence suggests the situation is similar, if not better than, the 2007 survey.



Source: World Bank

Fig 14: Population and number in formal employment

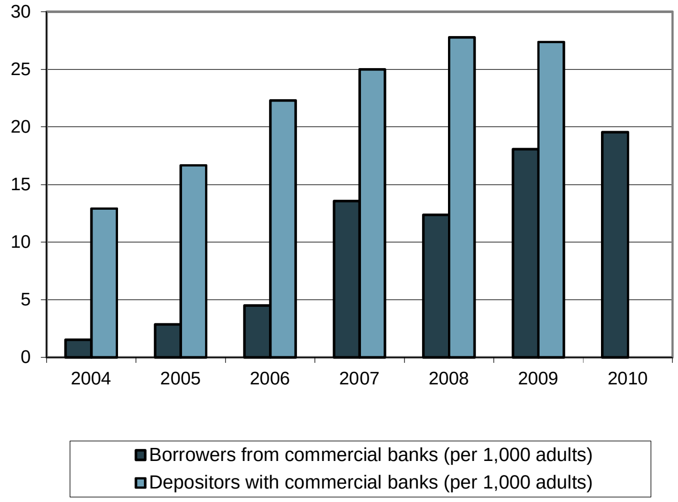
Both population and employment levels have been growing strongly over the last decade; the former has increased by 24%, the latter by 32%. It is also a young population, with 45% under the age of 14 years. This guarantees an increasing working age population for the next several decades, which is likely to be a source of GDP growth in its own right.



Source: World Bank

Fig 15: Growth of the banked sector

Of significant relevance to Payserv is the number of the population that have bank accounts and are able to receive electronic payments. 10 years ago, only 1.2% of adults had deposits in a bank and that figure had more than doubled by 2009 (latest data available). We would expect this to continue to grow strongly going forward.



Source: World Bank

Payserv Operational Overview

Business model

Payserv is an established bank-to-bank, B2B and B2C payments processor and business process outsourcer, expanding across the sub-Saharan region. The main product range of Payserv consists of:

- **Paynet**: an EDI (electronic data interchange) switching service offering corporate electronic payments which is currently expanded with 'value adds' such as PayZIMRA (automatic payments to Zimbabwe Revenue Authority) and straight through debit orders. In addition Paynet offers an EDI switch for insurance, medical, pension and municipal sectors through its eSchedule offering.
- **PayFT**: just being launched, this is an EFT (Electronic Funds Transfer) switch product, which is currently in trials with the majority of banks in Zimbabwe. The product was jointly developed from the Paynet product with BankSERV (the main South African payments processor).
- **Autopay**: a salary payments bureau and HR administration platform offered to banks and companies.
- **Loanserv**: outsourced back office loan processing.

In future, we would expect Payserv to launch a mobile payments platform and a card-based switching platform, servicing ATM's (Automated Teller Machines) and POS's (Points of Sale) in addition to the above services.

The nature of the industry results in very high gross margins (80-90%) but there is a significant requirement for administration functions and robust IT, incorporating an ability to deal with unreliable power and data networks. Despite this, once running at full capacity, EBITDA margins can average circa 35%. With capital requirements limited to IT, payments processing businesses can be highly cash generative and a business operating across sub-Saharan Africa seamlessly linking countries is likely to be a valuable asset.

Nisela Capital, based in Johannesburg, have understood this potential and invested $2m into Payserv by way of a convertible bond in May 2013. The transaction valued Payserv at $8m (excluding property valued at $2.2m) and the bond will convert into 21% of Payserv equity within three years. Nisela have the option to invest a further $1m into Payserv in January 2014, which would take them to 32% ownership on conversion.

The payment processing industry is very fragmented and immature across sub-Saharan Africa and Payserv has a real opportunity to develop its platform to include mobile and cards and push the service into new countries.

Current scope of operations and trading environment

The Paynet businesses originated in Zimbabwe, so the business model has been well tested in a difficult operating environment. It has successfully operated through turbulent times (violent elections, local currency collapse and dollarisation) to grow into a business with revenues currently annualising circa $4.5m. The economy has remained subdued following elections last year, but we still expect some growth based on the introduction of new products.

All Payserv products make use of the Paynet platform which is linked in to all 22 banks and building societies in Zimbabwe, as well as to over 1,500 companies. It is believed that there is not much scope to grow further in the Zimbabwe economy. To that end, Zambia has been identified as the next market for Payserv. An office has been established with five initial staff and the national payments licence was granted by the Bank of Zambia in December 2013. With first customers being contracted now, breakeven is anticipated midway through calendar 2014.

Regional roll-out growth plan

Paynet has a strong position in the Zimbabwe market and we agree with the management assertion that there is not a great deal of scope to continue to grow the business, especially while the economy remains rather subdued. Management has determined that the best way to create value is to roll-out the business model into neighbouring countries, all of which (with the exception of South Africa) have poorly developed payment systems and highly fragmented competition. We believe this is a logical strategic development which could over time build a valuable regional business that would be attractive to larger financial groups or private equity investors.

As detailed above, Paynet has already begun its regional expansion with its move into Zambia. We believe the country offers much potential for Paynet as the business environment is benign and economic growth is strong and we expect steady increases in formal employment which, in turn, increases the potential market for Paynet. We have modest expectations for the current financial year (circa $500k revenue) but expect revenues to step up to $2.5m in FY2015E and believe that, over time, Zambia will be Paynet's largest market. By FY2020E, revenues could be in the order of $10m.

During FY2015E and FY2016E, we expect Paynet to launch in Malawi, Botswana, Tanzania and Uganda. While Malawi and Botswana are likely to be quite small markets (circa $1m revenue potential by FY2020E, each), we see Uganda as a 'mid-sized' market, with the potential of revenues approaching $5m by FY2020E. The big prize, however, is Tanzania. The country has the largest and most developed economy in the regions being considered and the largest addressable market in terms of formalised employment. On very conservative market share assumptions, we can see this country generating $8m revenue by FY2020E, with the potential to ultimately be the largest in the region.

We have worked on the basis that the Zimbabwe business model will work in the other countries such that 85-90% gross margins are achievable, with 35% EBITDA margins once scale has been achieved. On this basis, we see the potential for circa $33m revenues in FY2020E and EBITDA of $12m. At this stage, we see Zimbabwe as being less than one third of revenues.

Clearly execution risks exist with a regional roll-out strategy although having operated in Zimbabwe means the business has a strong sense of how to operate in a difficult and fluctuating environment which should serve it well as moves into arguably more stable countries. The key execution risks were perceive are as follows:

1. **IT infrastructure**: the whole Paynet platform requires strong and dependable IT systems and data connections with robust back-up and power outage protection. Teething problems in establishing such systems could damage the brand in the respective country;
2. **Achieving in-country scale**: the payments business model requires high transaction volumes to achieve operating profitability. Achieving that volume in a new country will heavily depend on the marketing of the proposition to local financial institutions and companies and, ultimately, individuals. This is turn will heavily depend on the quality of people Payserv is able to attract to its platform;
3. **Technology**: this is an industry that is developing quite rapidly, especially as mobile technology acts as an enabler, especially at an individual level. For Payserv to penetrate new markets and retain share will, to some extent, depend on its ability to stay at the front of the development curve.

Millchem Operational Overview

Business model

Millchem is a chemicals distributor to businesses in sub-Saharan Africa. The business invests in a wide range of stock and associated logistics to supply a diverse range of manufacturing and construction companies with raw materials. Examples of industries served and products supplies include:

- **Construction**: supply of bitumen, paints, coatings and sealants for road building;
- **Home and Personal Goods**: emollients, preservatives, fragrances, surfactants, emulsifiers, waxes, silicones and sequestrants;
- **Food and Beverage**: preservatives, stabilisers, sweeteners, acidity regulators, antioxidants, thickeners and extractive solvents;
- **Leather and Textile**: raw materials, semi-finished oils, concentrated syntans, chromic salts, acids, lyes and sulphides;
- **Water Treatment**: water softeners, sanitisers, algicides, biocides, oxidisers, pH and mineral balancers, flocculants, ion exchange resins and regeneration salts;
- **Metal Treatment**: chemicals used in the process of casting, anodising, electroplating and galvanising;
- **Extractive Industries**: activated carbon, cyanides, leaching and neutralising agents.

Millchem sources chemicals from producers around the world and aims to bring the latest developments and formulations to its African customers. Backing up this massive range of products is warehousing and delivery solutions enabling supply of goods in bulk or very small quantities. Further the business can offer mixing, blending and formulation services.

While asset-light and easily scalable, this is a business that needs investment in working capital to enable the best level of service to its customers. Demand for these products tends to be very GDP driven and experience suggests that chemicals distribution is highly cyclical, with growth outpacing economic growth (and decreases faster when an economy stagnates). Gross margins are typically in the high teens, with high single digit EBITDA margins being achievable.

Outside of South Africa, chemicals distribution is a fragmented and an immature market with lots of small-scale traders offering very limited services. There is no regional, coast-to-coast supplier that we are aware of.

Current scope of operations and trading environment

Millchem's business started in Zimbabwe so is well versed in dealing with a volatile and uncertain economic environment. The company HQ is currently in Harare while the business operates out of warehouses in Harare and a new Bulawayo branch. 2013 saw the establishment of a warehouse and office in Lusaka, Zambia.

In addition, Millchem has purchasing entities in South Africa and The Netherlands. MSA Chemical Ltd in South Africa enables various VAT exemptions and other efficiencies while MSA Sourcing BV in The Netherlands enables European vendor terms and the ability to provide vendor financing to the operating units.

While regional growth will diminish the influence of the Zimbabwe economy on trading performance, it is currently the predominant driver. Elections in 2013 saw the expected slowdown in the economy but, despite this, Millchem managed to grow revenues by nearly 15%. We think this is a very creditable performance and was the result of new products becoming available and winning new customers.

Following the election, and moving into CMBs 2014 financial year, trading at Millchem has slowed somewhat as the Zimbabwean economy appears to have stagnated or is more likely shrinking. Millchem revenues are currently running circa 10% below FY2013A levels which may reflect a lack of liquidity in the economy, the closing of some businesses and exacerbated by some high profile customers pulling out of Zimbabwe (eg: Reckitt and Benckiser).

Regional roll-out growth plan

The incumbent management of CMB have recognised that there is significant value to be created through the development of a regional chemicals distribution business in the countries near to, or neighbouring, Zimbabwe such as Zambia, Malawi, Tanzania and Mozambique. This is a market that is currently very fragmented and largely served by traders rather than full-service operations like Millchem. We agree with management that the building of the first coast-to-coast (Namibia to Tanzania) business would be highly valuable and ultimately very attractive to big global players like Brenntag, IMCD and Univar.

Millchem is now in the execution phase of the region roll-out strategy. As noted above, the Zambian operation is ready to go and is likely to generate some (US$1-2m) revenue in FY2014E. Once into its stride from FY2015E onwards, we believe Zambia could rapidly develop into the largest African market for Millchem, with revenues above US$20m by FY2020E. It is worth noting that being in Zambia will enable Millchem to service the Congo mining industry as well.

The next market to be tackled will be Malawi with a local office and warehouse, the site of which has been identified. First revenues are also expected in FY2014E, although Malawi is expected to remain one of the smaller markets, with a longer-term revenue potential of less than US$5m per annum. Botswana and Namibia also fit into the category of smaller markets and both regions will be entered in FY2015E, but with Botswana initially physically served from Zimbabwe, with the opening of a branch coming at a later date.

After Zambia, we believe Tanzania is the next most sizeable opportunity for Millchem. We expect Millchem to have established operations in this market by the end of FY2016E, with a material revenue contribution in the following year. By FY2020E, we believe this market could be generating US$16m of revenue, with longer term potential well in excess of this level.

Following Tanzania, we would expect Millchem to establish a foothold in Uganda, Mozambique and Kenya, all of which could be material markets for the company. By FY2020E, we forecast Millchem will be operating in 9 markets with revenue approaching US$80m and EBITDA approaching US$6m. Significantly, we believe that the model established in Zimbabwe (gross margins near to 20%, high single-digit EBITDA margins) will be achievable in other markets. Further, by FY2020E, we would anticipate Zimbabwe making up less than 20% of Millchem revenues.

Clearly there are many execution risks to a roll-out of this magnitude in eight new countries. Arguably, though, Millchem has grown up operating in one of the more difficult markets and has weathered hyper-inflation, failure of the Zimbabwe Dollar and shift to the US Dollar and several turbulent election periods. Millchem now has an international management team with considerable experience of setting up and operating chemicals businesses in emerging and frontier markets so while we are wary of the risks, Millchem is probably as well placed as any business to attempt this roll-out.

In Millchem's favour, this is a fixed asset-light business making establishment of operations that much simpler. The significant risk to the roll-out plan is having sufficient amounts of working capital to enable the envisaged revenue growth rates. On average, Millchem needs to hold 45 days inventory, putting the peak working capital requirement at circa US$8m in FY2019E.

Group Forecasts & Valuation

FY2013A results and current trading

FY2013A was always going to be a tricky period for CMB. Firstly, the core businesses had to deal with the economic uncertainties created by a looming election towards the end of the financial year. Secondly, the management team were busy trying to sell non-core businesses and unwind various disputes and management agreements with Lonrho.

Against this backdrop, we believe management have delivered a creditable performance as follows:

1. Despite the economic slowdown, the core businesses (Millchem and Payserv) delivered 10% organic revenue growth with stable gross margins;
2. Central costs were reduced by 59% to $4m, with the scope to cut further, probably to $2.5-3.0m;
3. Celsys successfully exited;
4. Leopard Rock hotel management contract with Lonrho terminated;
5. New strategy developed to turn CMB into a regional growth story based around Millchem and Payserv, rather than a pure-play on Zimbabwe.

Issues that remain outstanding to be dealt with in FY2014E include:

1. Aircraft claims: CMB still has $10m outstanding claims against Lonrho. Discussions with Lonrho are ongoing and we believe there is a strong likelihood of a resolution being achieved during FY2014E;
2. Sale of Leopard Rock hotel: we believe the sale process is well advanced with completion likely during FY2014E. We believe the book value has been written down to $11m in FY2013A.

In terms of FY2014E current trading and outlook, we would make the following comments:

1. Contrary to expectations, the Zimbabwe economy seems to have stagnated somewhat, or may in fact be shrinking, since the elections and as a result the business environment remains tough;
2. As a result, Millchem Zimbabwe is currently trading down circa 10-15% y-o-y. This has been exacerbated by some high profile companies leaving Zimbabwe, such as Reckitt & Benckiser;
3. Payserv Zimbabwe is still growing as a result of new product launches, but y-o-y growth is currently at the low-single-digit level;
4. Growth in FY2014E will be driven by the recent expansion into Zambia. Both businesses are now present on the ground with promising initial signs.

Group Forecasts

CMB is at a major turning point in its history. It is rapidly transitioning from a complete focus on the Zimbabwe economy to rolling out its most promising businesses across SSA. As such, this makes it a particularly difficult point to forecast group performance, as the rate of progress of each business in a new market is, at this stage, unproven.

We have studied detailed management roll-out plans for each business and believe they have made quite reasonable assumptions. The real risk is in the execution, which we have discussed earlier in the report.

Growth forecasts for Millchem

For FY2014E, we assume that Zimbabwe revenues are flat y-o-y (circa $4.5m) and that Zambia generates an incremental $1.5m revenue, resulting in $6m revenue for the year and an EBITDA loss of $0.6m. For FY2015E, we expect Zimbabwe to show some recovery, Zambia to have a step change to $4.5m revenue plus small contributions from Malawi, Namibia and Botswana. This results in revenue of $11.5m and a small EBITDA loss of $0.1m.

Note that CMB have the policy of expensing all set up costs in a new country directly through the Income Statement. On this basis, we expect a slightly better than EBITDA breakeven result in FY2016E with a ramp up in EBITDA to circa $5.5m by FY2020E.

Growth forecasts for Payserv

In FY2014E, we do expect some growth in the Zimbabwe market as a result of the launch of new products (eg: PayFT), plus an incremental $0.5m revenue from the initial entry into Zambia. On this basis we are forecasting $5.4m revenue and $0.4m of EBITDA. Note all costs of expanding into new markets are directly expensed in the Income Statement.

In FY2015E, we expect a step change in Zambia revenues to $2.5m and some very small contributions from Botswana, Tanzania and Uganda plus solid growth in Zimbabwe, resulting in revenues of $8.7m and EBITDA of $0.7m. With Payserv fully established in the key target markets from FY2016E onwards, we expect a ramp up in EBITDA to circa $12m by FY2020E.

Group Overhead and other issues

CMB management are getting a firm grip on central costs, which previously could have been described as excessive. There is still much rationalisation to do and we expect central costs to fall from $4m in FY2013A to $3m in FY2014E. Longer term, central costs should remain at about $2.5m

CMB goes into FY2014E with a few ‘legacy’ issues to resolve, namely the disposal of the Leopard Rock Hotel and settlement of claims with Lonrho relating to disputes over aircraft. While the timing of the resolution of these issues is impossible to predict, we definitely expect them to be resolved within the current financial year. We believe that the book value of Leopard Rock currently stands at $11m and the value of the claim against Lonrho stands at $10m. Assuming these issues are resolved, coupled with the recent US$4m fund raise, we do not expect CMB returning to the markets for more capital based on the current business plan. Key risks, in our view, relate to the execution of the growth plan and the short-term health of the Zimbabwe economy.

Fig 16: Group Divisional Forecasts

Group Revenues		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Year End: August		**A**	**A**	**E**	**E**	**E**	**E**	**E**	**E**	**E**	**E**
Industrial Chemicals	US$m	1.7	3.8	4.3	6.1	11.5	18.4	29.4	44.2	59.6	77.5
Outsource and IT Services	US$m	3.0	4.0	4.2	5.4	8.7	13.9	21.5	26.8	30.9	32.7
Hotels	US$m	2.1	2.5	-	-	-	-	-	-	-	-
Printing	US$m	1.3	1.8	-	-	-	-	-	-	-	-
Group Revenues	**US$m**	**8.1**	**12.0**	**8.5**	**11.5**	**20.2**	**32.3**	**50.9**	**71.0**	**90.5**	**110.2**

Group Gross Profit		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Year End: August		**A**	**A**	**E**	**E**	**E**	**E**	**E**	**E**	**E**	**E**
Industrial Chemicals	US$m	0.4	0.7	0.8	1.1	2.1	3.3	5.3	7.9	10.7	13.9
Outsource and IT Services	US$m	2.2	3.6	3.8	4.6	7.1	11.1	17.2	21.5	24.7	26.2
Hotels	US$m	1.0	1.9	-	-	-	-	-	-	-	-
Printing	US$m	1.1	0.6	-	-	-	-	-	-	-	-
Group Operating Profit Before Tax	**US$m**	**4.7**	**6.8**	**4.6**	**5.7**	**9.2**	**14.4**	**22.5**	**29.4**	**35.4**	**40.1**

Group EBITDA		**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Year End: August		**E**	**E**	**E**	**E**	**E**	**E**	**E**	**E**
Industrial Chemicals	US$m	-0.1	-0.6	-0.1	0.0	0.9	2.1	3.9	5.6
Outsource and IT Services	US$m	0.4	0.4	0.7	3.2	7.2	9.5	11.7	12.2
Central Costs	US$m	-4.0	-3.0	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Group EBITDA	**US$m**	**-3.6**	**-3.2**	**-1.9**	**0.7**	**5.6**	**9.1**	**13.1**	**15.3**

Source: WH Ireland research

Group Valuation – regional growth strategy to create value

As with making forecasts for the business, this is a very difficult point in CMB's history to value the business. As the two core businesses are being transformed into regional players (and the costs of doing so are expensed through the income statement) we cannot value the business on a profit basis. We do not forecast material net profit or free cash flow until FY2017E. Further, it is too early to show a successful track record of expanding into new countries.

In our view, there are two ways to look at value of the business:

1. **Today**: the value one could ascribe to Millchem and Payserv based on FY2014E expectations is largely overwhelmed by the ongoing central cost. However, the value of assets held for sale, other property and claims results in an asset-based value of 14p per share – 100%+ higher than the current level (figure 17);
2. **FY2020E**: working on the basis that the regional expansion has been successful, we ascribe realistic exit multiples to FY2020E EBITDA, then discount the resulting enterprise value back to today at 20% per annum. This results in a potential value several times the current level (figure 18).

Fig 17: Sum of Parts FY2014E basis

Division US$m	ownership %	Revenue 2014E	EBITDA 2014E	Valuation	Comments
Industrial Chemicals	100%	6.1	-0.6	6.1	1x Revenues
Outsource & IT Services	100%	5.4	0.4	16.2	3x Revenues
Head Office	100%	n/a	-3.0	-15.0	DCF of HQ costs
Enterprise Value				**7.3**	
subtract debt/add cash				-0.9	2013A plus recent capital raise
add businesses held for sale				12.0	2013A net assets held for sale
add other items				5.0	Various claims
Market Capitalisation				**23.4**	
shares in issue (m)				99.2	post 2014 capital raise
US$/£				1.65	
Implied share price (p)				**14.3**	
upside / (downside)				*120%*	

Source: WH Ireland research

Fig 18: Sum of Parts based on FY2020E exit multiples

Division US$m	ownership %	Revenue 2020E	EBITDA 2020E	exit multiple (x)	Valuation US$m	Comments
Industrial Chemicals	100%	77.5	5.6	6.0	33.9	
Outsource & IT Services	68%	32.7	12.2	8.0	66.3	Nisela own balance
Head Office	100%	n/a	-2.5	6.0	-15.0	6yrs HQ costs to reach exit
Enterprise Value 2020E					**85.2**	
Enterprise Value 2014E					28.5	discounting at 20%
subtract debt/add cash					-0.9	2013A plus recent capital raise
add businesses held for sale					12.0	2013A net assets held for sale
add other items					5.0	Various claims
Market Capitalisation					**44.7**	
shares in issue (m)					99.2	post 2014 capital raise
US$/£					1.65	
Implied share price (p)					**27.3**	
upside / (downside)					*320%*	

Source: WH Ireland research

Fig 19: Income Statement Forecasts

P&L Year End: August	Units	2011 A	2012 A	2013 A	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	2020 E
Revenue											
Total Revenue	US$m	8.1	12.0	8.5	11.5	20.2	32.3	50.9	71.0	90.5	110.2
Intra Group Revenue	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Revenue	**US$m**	**8.1**	**12.0**	**8.5**	**11.5**	**20.2**	**32.3**	**50.9**	**71.0**	**90.5**	**110.2**
revenue growth	*%*	*7.4%*	*48.4%*	*-29.2%*	*35.1%*	*75.8%*	*60.0%*	*57.9%*	*39.5%*	*27.4%*	*21.8%*
Gross Profit											
Cost of Goods Sold	US$m	-3.4	-5.2	-3.9	-5.8	-10.9	-17.9	-28.4	-41.6	-55.1	-70.1
Group Gross Profit	**US$m**	**4.7**	**6.8**	**4.6**	**5.7**	**9.2**	**14.4**	**22.5**	**29.4**	**35.4**	**40.1**
gross margin	*%*	*57.9%*	*56.6%*	*54.0%*	*49.6%*	*45.7%*	*44.6%*	*44.2%*	*41.4%*	*39.2%*	*36.4%*
Operating Costs (SG&A)	US$m	-9.0	-9.9	-8.1	-8.9	-11.1	-13.7	-16.9	-20.3	-22.3	-24.8
Depreciation and amortisation	US$m	-4.1	-3.2	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4
EBIT	**US$m**	**-8.4**	**-6.4**	**-4.1**	**-3.5**	**-2.2**	**0.4**	**5.3**	**8.8**	**12.8**	**15.0**
EBIT margin	*%*	*-103.9%*	*-53.1%*	*-47.9%*	*-30.4%*	*-10.8%*	*1.2%*	*10.3%*	*12.4%*	*14.1%*	*13.6%*
add back depreciation	US$m	1.0	1.2	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4
add back amortisation	US$m	3.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**US$m**	**-4.3**	**-3.1**	**-3.6**	**-3.2**	**-1.9**	**0.7**	**5.6**	**9.1**	**13.1**	**15.3**
Financial Charge	US$m	-0.7	-0.4	-0.7	-0.6	-0.2	-0.2	-0.2	-0.1	-0.1	0.0
Other (inc. FX gains or losses)	US$m	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring / Exceptional	US$m	-0.3	-12.2	-0.3	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	**US$m**	**-9.3**	**-19.0**	**-4.8**	**0.9**	**-2.3**	**0.2**	**5.1**	**8.7**	**12.7**	**15.0**
Adjusted PBT	US$m	-9.1	-6.7	-4.8	-4.1	-2.3	0.2	5.1	8.7	12.7	15.0
Tax	US$m	0.1	-0.5	-0.2	0.0	0.0	0.0	0.0	-1.7	-2.5	-3.0
tax rate	*%*	*1%*	*nm*	*nm*	*0%*	*0%*	*0%*	*0%*	*20%*	*20%*	*20%*
Net Profit	**US$m**	**-9.3**	**-19.5**	**-5.0**	**0.9**	**-2.3**	**0.2**	**5.1**	**6.9**	**10.2**	**12.0**
Adjusted Net Profit	US$m	-9.0	-7.2	-5.0	-4.1	-2.3	0.2	5.1	6.9	10.2	12.0
minorities	US$m	1.0	-1.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
operations held for sale	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
discontinued operations	US$m	-0.9	-6.2	-6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable Net Profit	**US$m**	**-9.2**	**-27.3**	**-12.0**	**0.9**	**-2.3**	**0.2**	**5.1**	**6.9**	**10.2**	**12.0**
Year End shares in issue	m	54.1	58.1	66.7	99.2	99.2	99.2	99.2	99.2	99.2	99.2
Average shares in issue	m	48.2	58.0	64.6	83.0	99.2	99.2	99.2	99.2	99.2	99.2
Earnings per Share (EPS)	US$ cent	-19.2	-33.6	-7.8	1.1	-2.4	0.2	5.1	7.0	10.3	12.1
EPS growth	*%*	*nm*	*nm*	*-77%*	*-114%*	*-314%*	*-109%*	*2451%*	*36%*	*47%*	*18%*
Adjusted Earnings per Share (Adj EPS)	**US$ cent**	**-18.6**	**-12.5**	**-7.7**	**-4.9**	**-2.4**	**0.2**	**5.1**	**7.0**	**10.3**	**12.1**
Adj EPS growth	*%*	*nm*	*nm*	*-38%*	*-36%*	*-52%*	*-109%*	*2451%*	*36%*	*47%*	*18%*
Dividend per Share	**US$ cent**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
DPS growth	*%*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*

Source: WH Ireland research

Fig 20: Cash Flow Forecasts

Cashflow	Units	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Year End: August		A	A	A	E	E	E	E	E	E	E
Cash from operating activities											
Attributable Net Profit	US$m	-10.2	-25.7	-12.0	0.9	-2.3	0.2	5.1	6.9	10.2	12.0
Depreciation & Amortisation	US$m	4.1	3.2	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Share based compensation	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non cash interest expense	US$m	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non cash income tax	US$m	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in accounts receivable	US$m	0.3	-1.8	1.8	-0.3	-1.4	-2.3	-2.8	-3.0	-2.9	-3.0
Change in inventories	US$m	-0.3	-0.2	0.0	-0.2	-1.4	-2.3	-2.8	-3.0	-2.9	-3.0
Change in accounts payable	US$m	-0.2	-0.1	-1.5	0.4	1.3	1.8	2.8	3.0	2.9	3.0
Other	US$m	0.0	16.2	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	**US$m**	**-5.6**	**-8.8**	**-2.4**	**1.0**	**-3.5**	**-2.3**	**2.6**	**4.3**	**7.6**	**9.4**
Purchase of property plant & equipment	US$m	-1.7	-1.5	-0.4	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Acquisition / Sale of businesses	US$m	0.0	0.3	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition / Sale of short term investments	US$m	0.1	5.6	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow from investing activities	**US$m**	**-1.5**	**4.5**	**-0.7**	**9.7**	**-0.3**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Net cash flow before financing	**US$m**	**-7.1**	**-4.4**	**-3.1**	**10.7**	**-3.8**	**-2.7**	**2.3**	**3.9**	**7.2**	**9.0**
Financing											
Proceeds from issue of shares	US$m	7.6	1.5	1.4	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans (repaid)/received	US$m	-0.1	2.2	3.6	-10.0	0.0	0.0	0.0	0.0	0.0	0.0
Lease finance (repaid)/received	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	US$m	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow from financing	**US$m**	**7.6**	**3.5**	**4.7**	**-6.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Increase in cash and cash equivalents	**US$m**	**0.5**	**-0.9**	**1.6**	**4.7**	**-3.8**	**-2.7**	**2.3**	**3.9**	**7.2**	**9.0**
FX changes impact on cash	US$m	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at beginning of year	US$m	0.4	1.1	0.1	2.1	6.9	3.1	0.4	2.7	6.6	13.8
Cash and cash equivalents at end of year	US$m	1.1	0.2	1.7	6.9	3.1	0.4	2.7	6.6	13.8	22.7

Source: WH Ireland research

Fig 21: Balance Sheet Forecasts

Balance Sheet	Units	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Year End: August		A	A	A	E	E	E	E	E	E	E
ASSETS											
Goodwill & Intangibles - closing	**US$m**	**14.9**	**2.3**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
PP & E - net book value closing	**US$m**	**32.7**	**25.3**	**2.9**	**2.9**	**2.9**	**3.0**	**3.0**	**3.0**	**3.1**	**3.1**
Biological assets	US$m	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	US$m	0.0	3.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Deferred tax asset	US$m	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**US$m**	**49.0**	**30.8**	**4.1**	**4.2**	**4.2**	**4.2**	**4.3**	**4.3**	**4.3**	**4.4**
Current assets											
Inventories	US$m	0.7	0.9	0.9	1.1	2.5	4.8	7.6	10.7	13.6	16.5
Trade and other receivables	US$m	4.5	2.6	0.8	1.1	2.5	4.8	7.6	10.7	13.6	16.5
Short term investments	US$m	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Assets held for sale	US$m	3.5	0.4	16.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Cash & cash equivalents	US$m	1.1	0.5	2.1	6.9	3.1	0.4	2.7	6.6	13.8	22.7
Current assets	**US$m**	**9.9**	**4.4**	**20.1**	**15.4**	**14.3**	**16.3**	**24.2**	**34.1**	**47.1**	**62.0**
Total assets	**US$m**	**58.9**	**35.3**	**24.2**	**19.5**	**18.5**	**20.5**	**28.4**	**38.4**	**51.5**	**66.4**
EQUITY & LIABILITIES											
Capital & Reserves											
Share capital	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share premium	US$m	75.9	77.4	78.8	82.8	82.8	82.8	82.8	82.8	82.8	82.8
Retained earnings	US$m	-20.7	-47.3	-59.8	-58.8	-61.2	-61.0	-55.9	-48.9	-38.8	-26.8
Other reserves	US$m	-2.6	-5.0	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2
sub total	US$m	**52.6**	**25.1**	**10.8**	**15.7**	**13.4**	**13.6**	**18.7**	**25.6**	**35.8**	**47.8**
Non-controlling interest	US$m	-0.5	-1.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital & Reserves	**US$m**	**52.1**	**23.3**	**10.7**	**15.7**	**13.3**	**13.5**	**18.6**	**25.6**	**35.7**	**47.7**
Non-current liabilities											
Interest bearing liabilities	US$m	0.0	2.1	6.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Obligations under finance leases	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	US$m	1.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Deferred tax liability	US$m	1.3	4.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Non-current liabilities	**US$m**	**2.3**	**6.3**	**7.3**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Current liabilities											
Interest bearing liabilities	US$m	1.5	2.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current tax liabilities	US$m	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Trade and other payables	US$m	2.7	2.8	1.3	1.7	3.0	4.8	7.6	10.7	13.6	16.5
Liabilities held for sale	US$m	0.0	0.5	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	**US$m**	**4.5**	**5.6**	**6.2**	**1.9**	**3.2**	**5.0**	**7.8**	**10.8**	**13.8**	**16.7**
Total equity and liabilities	**US$m**	**58.9**	**35.3**	**24.2**	**19.5**	**18.5**	**20.5**	**28.4**	**38.4**	**51.5**	**66.4**

Source: WH Ireland research

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Disclosures

WH Ireland Recommendation Definitions

Buy
Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform
Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform
Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform
Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell
Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy
The stock has considerable level of upside but there is a higher than average degree of risk.

Share Price Target
The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution
As at the quarter ending 31 Dec 2013 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	41	62	23
Speculative Buy	13	20	12
Outperform	4	9	4
Market Perform	7	7	2
Underperform	0	0	0
Sell	1	2	0
Total	66	100	41

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

Conflicts of Interest Policy
This research is classified as being "non-independent" as defined by the FCA's Conduct of Business Rule 12.3. Please refer to www.wh-ireland.co.uk for a summary of our conflict of interest policy.

*WH Ireland acts as broker and/or Nomad to Cambria Africa
#WH Ireland makes markets in this company

WH Ireland has acted as manager in the underwriting or placement of securities of this company within the last 12 months.

Within the past 12 months, WH Ireland has received compensation for investment banking services from this company.

Analyst Certification
The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

Share Price Date/Time

Company Name	Recommendation	Price	Price Date/Time
Cambria Africa	Speculative Buy	6.5p	4 March 2014, 16:30

Summary of Company Notes

Headline	Date
New regional strategy has strong long term potential	5 March 2014

Summary of Security Recommendations

Recommendation	From	To	Analyst
Speculative Buy	05/03/2014		CA
Speculative Buy	28/06/2012	31/08/2013	PA

Current Analyst (CA), Previous Analyst (PA)

WHIreland Est 1872

Fig 22: Cambria Africa summary forecasts

Income statement (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Net Revenue	12.0	8.5	11.5	20.2	32.3
Gross Profit	6.8	4.6	5.7	9.2	14.4
EBITDA	-3.1	-3.6	-3.2	-1.9	0.7
EBIT	-6.4	-4.1	-3.5	-2.2	0.4
Financial Charge	-0.7	-0.7	-0.6	-0.2	-0.2
Other	0.0	0.3	0.0	0.0	0.0
Exceptionals	-12.2	-0.3	5.0	0.0	0.0
Pre-tax profit (stated)	-19.0	-4.8	0.9	-2.3	0.2
Pre-tax profit (adj)	**-6.7**	**-4.8**	**-4.1**	**-2.3**	**0.2**
Tax paid	-0.5	-0.2	0.0	0.0	0.0
Net Profit (stated)	-5.0	0.9	-2.3	0.2	5.1
Net Profit (adj)	**-7.2**	**-5.0**	**-4.1**	**-2.3**	**0.2**
minorities	-1.6	-0.1	0.0	0.0	0.0
yr end shares (m)	58.1	66.7	99.2	99.2	99.2
EPS - stated (US$ cents)	-33.6	-7.8	1.1	-2.4	0.2
EPS - adj (US$ cents)	**-12.5**	**-7.7**	**-4.9**	**-2.4**	**0.2**
DPS (US$ cents)	0.0	0.0	0.0	0.0	0.0

profitability & returns (%)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Gross margin	57%	54%	50%	46%	45%
EBITDA margin	-26.1%	-42.0%	-28.0%	-9.3%	2.2%
EBIT margin	-53.1%	-47.9%	-30.4%	-10.8%	1.2%
Net profit margin	-60.3%	-58.4%	-35.6%	-11.6%	0.6%
Tax rate	nm	nm	0%	0%	0%
Return on Equity	nm	nm	-26.0%	-17.4%	1.5%
ROCE (post-tax)	nm	nm	-20.6%	-14.9%	2.7%

growth (y-o-y, %)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Revenue	48%	-29%	35%	76%	60%
EBITDA	45%	-33%	24%	62%	56%
Net profit	nm	nm	nm	nm	nm
EPS - adjusted	nm	nm	nm	nm	nm
Dividend	nm	nm	nm	nm	nm
Capital Employed	-49%	-35%	-5%	-14%	1%

Cash Flow statement (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
EBIT	-6.4	-4.1	-3.5	-2.2	0.4
depreciation & amortisation	3.2	0.5	0.3	0.3	0.3
change in working capital	-2.0	0.3	-0.2	-1.4	-2.8
cash financial charges	-0.4	-0.7	-0.6	-0.2	-0.2
cash tax	-1.0	-0.2	0.0	0.0	0.0
other	3.9	2.4	5.0	0.0	0.0
Net Cash Flow	**-2.6**	**-1.8**	**1.0**	**-3.5**	**-2.3**
Capital Expenditure	-1.5	-0.4	-0.3	-0.3	-0.3
Group Free Cash Flow	**-4.1**	**-2.2**	**0.7**	**-3.8**	**-2.7**
Acquisitions / Disposals	5.9	-0.3	5.8	0.0	0.0
Dividends	-0.3	-0.2	0.0	0.0	0.0
Shares Issued	1.5	1.4	4.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Change in Net Cash/(Debt)	**3.1**	**-1.3**	**10.5**	**-3.8**	**-2.7**
Year End Net Cash/(Debt)	-3.6	-4.9	5.6	1.8	-0.8

cash conversion & capital intensity metrics

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Fixed Assets/Sales (%)	211%	34%	25%	15%	9%
Working Capital/Sales (%)	6%	5%	5%	10%	15%
Working Capital (days)	22	18	18	37	55
Inventory (days)	28	40	37	46	55
Receivables (days)	80	35	37	46	55
Payables (days)	86	57	55	55	55
CAPEX/Depreciation (%)	121%	100%	110%	110%	110%
Free Cash Flow/Sales (%)	-34%	-25%	6%	-19%	-8%
Dividend Cover (x)	nm	nm	nm	nm	nm

balance sheet & leverage ratios

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Net Debt/Equity (%)	14%	45%	net cash	net cash	6%
Net Debt/EBITDA (x)	-1.2	-1.4	net cash	net cash	1.2
Net interest cover (x)	nm	nm	nm	net cash	2.0

Balance Sheet (US$ m)

Year End: August	2012 A	2013 A	2014 E	2015 E	2016 E
Tangible Fixed Assets	25.3	2.9	2.9	2.9	3.0
Intangible Assets	2.3	0.9	0.9	0.9	0.9
Other non-current assets	3.3	0.4	0.4	0.4	0.4
Working Capital	0.7	0.4	0.6	2.0	4.8
Other Assets	0.4	16.2	6.2	6.2	6.2
Other Liabilities	-5.1	-5.1	-0.9	-0.9	-0.9
Cash & Cash Equivalents	0.5	2.1	6.9	3.1	0.4
Capital Employed	**27**	**18**	**17**	**15**	**15**
Gross Debt	4.1	7.0	1.2	1.2	1.2
Shareholders Equity	25.1	10.8	15.7	13.4	13.6
Minorities	-1.8	-0.1	-0.1	-0.1	-0.1
Capital Employed	**27**	**18**	**17**	**15**	**15**

Source: WH Ireland research

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