

# Cambria Africa plc

Update  
27th May 2014

## Acquisition of Malawi chemicals distributor and key new distribution agreements

Cambria Africa has announced that its value added chemical distribution subsidiary, Millchem, has acquired Chemicals & Marketing Company ("C&M"), a leading Malawi chemicals distributor, for £302,500, in Cambria shares. The acquisition is expected to increase Millchem's top-line by 50%. The Southern Africa-focussed investment company has also recently announced that Millchem has secured several key regional supply and distribution agreements with a number of blue-chip companies. We see these announcements as testament to the cost and time benefits that Millchem provides and evidence that Cambria's strategy of growing the scale, scope and regional presence of its investments is beginning to take shape. We prefer to be prudent and keep our forecasts unchanged, and reiterate our stance of buy, with a target price of 14.63p.

### ■ Acquisition of Leading Chemicals Distributer

With branches in Blantyre, Lilongwe and Mzuzu, C&M provides immediate national distribution coverage in Malawi. In addition, C&M owns warehouses and industrial land, providing a strong asset base for logistics and production that is particularly ideal for further development of bulk storage, de-bulking, mixing and blending. For CY13, C&M reported EBIT of \$177k on sales of \$2.5m. The potential synergies include enhanced sourcing, cost efficiencies as well as the addition of new suppliers, product lines and value-added services.

### ■ Key Distribution Agreements

The signed-up companies include Sealed Air Corporation, MEKZ Limited, Centlube and Donau Carbon Corporation. The agreements will see Millchem cover the Southern Africa region - including Zimbabwe, Zambia, Malawi, Namibia and Botswana. Interestingly, the latter two countries may suggest where Millchem's regional expansion may take it next, as it has no presence in those countries yet.

### ■ Financial Forecasts

With Cambria investing in top-line growth, we remain of the belief that it may turn EBITDA positive in FY17, reaching margins of c.15% soon after. Additional funding will be required, but we expect that this should come from the sale of the Leopard Rock Hotel asset.

### ■ Valuation

Using the DCF valuation, we have derived a target price of 14.63p. We have associated no value for the Jet claims settlement - which has been estimated to exceed \$10m or 6.15p/share - and its Southerton properties, which have been valued at up to \$1m or 0.62p/share.

## Buy

**Target price** **14.63p**

### Key data

Share price	5.50p
52 week high/low	10.00p/5.25p
Primary exchange	AIM
EPIC	CMB
Shares in issue	99,155 m
Market Cap	£5.45 m
Sector	Equity Investment Instruments

### Share price chart



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Table: Financial overview

Year to 31st Aug	2012A	2013A	2014E	2015E
Revenue (\$000)	7,721	8,487	11,640	18,375
EBITDA* (\$000)			(2,543)	(1,882)
PBT* (\$000)	(8,267)	(4,810)	(3,470)	(2,378)
EPS (cents)	(18.6)	(7.6)	(4.18)	(2.40)

Source: GECR and company.

Notes: \* Continuing operations

## Acquisition Of Leading Chemicals Distributer

Providing a significant step forward in its regional roll-out strategy, Cambria Africa has announced that its value added chemical distributor, Millchem, has acquired Chemicals & Marketing Company (“C&M”), a leading Malawi chemicals distributor, for £302,500.

With branches in Blantyre, Lilongwe and Mzuzu, C&M provides immediate national distribution coverage in Malawi. In addition, C&M owns warehouses and industrial land, providing a strong asset base for logistics and production that is particularly ideal for further development of bulk storage, de-bulking, mixing and blending. For CY13, C&M reported EBIT of \$177k on sales of \$2.5m and thus provides an immediate 50% growth to Millchem’s top-line.

All of C&M’s sales are generated in Malawi and we understand that approximately half of its sales represent new and appealing additions to Millchem’s product mix. Accordingly, Cambria has estimated that a third of Millchem’s sales will now be generated in Malawi, with sales from new product lines representing around 15% of total sales.

The potential synergies include enhanced sourcing, cost- efficiencies as well as the addition of new suppliers, product lines and value-added services.

The acquisition was made through the issuance of 5,500,000 shares.

## Key Distribution Agreement

Cambria Africa has also recently announced that Millchem has secured several key regional supply and distribution agreements with a number of blue-chip companies.

Millchem has signed distribution agreements with i) Sealed Air Corporation, the global leader in the food safety and security, facilities hygiene, and product protection, supplying their well-known Diversey care range of sustainable cleaning, sanitation and hygiene products to such companies as The Carlsberg Group; ii) MEKZ Limited, the London based chemicals trader which specialises in supply into Africa and has built up a leading position in the paints and coatings market, with such products as Crystal Titanium Dioxide, Shin-Etsu Tylose and Eagle Alkyds; iii) Centlube, the South African license holder and blender for AGIP lubricants for Italian oil giant ENI; and iv) Donau Carbon Corporation, a leading global player in the activated carbon business.

The agreements will see Millchem cover the Southern Africa region - including Zimbabwe, Zambia, Malawi, Namibia and Botswana. Interestingly, the latter two countries may suggest where Millchem’s regional expansion may take it next, as it has no presence in those countries yet.

## Forecasts

While the acquisition of C&M is expected to increase Millchem’s top-line by 50%, we prefer to be prudent and keep our forecasts unchanged for the time being until progress from other areas of the business become clearer. Combining both its Millchem and Payserv investments together, we are forecasting group revenues of \$11.64m in FY14, rising to \$18.37m in FY15 and then \$28.78m in FY16. Similarly, we are forecasting group EBITDA of negative \$2.54m in FY14, falling to negative \$1.88m in FY15 and then negative \$50k in FY16. Cambria has announced that it requires funding for the expansion of Millchem and Payserv as well as for the group’s working capital, and we expect that this additional funding should come from

the sale of its non-core assets, including the Leopard Hotel and certain industrial properties, as well as settlement of its aircraft dispute, and the raising of additional equity and/or debt capital. Its net cash position was last reported as \$4.81m (year ending 31<sup>st</sup> August 2013), but it since raised \$4.00m of equity in an oversubscribed placement (on 19<sup>th</sup> February 2014).

## Valuation

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Based on our preferred method of valuation, being the Discounted Cash Flow (DCF), we have derived a target price of 14.63p. We feel that our assumptions are conservative, particularly given that we have associated no value for the Jet claims settlement - which has been estimated to exceed \$10m, well more than Cambria's current market capitalization, its Southerton properties - which have been valued at up to \$1m, and the high cost of equity and low market share assumptions that we have used in our model. When considering the uniqueness of the company's investments, as well as the current and potential market for its offerings, we see its investments as potential acquisition targets.

The principal risk of any investment in Cambria Africa is that its investment strategy is contingent on an improvement in the macro-economy of the Southern Africa region and it is therefore possible that a significant period of time may elapse before an investment by the company will produce any returns. Other company specific risks relate to the execution of Cambria's growth plan and expansion into other regions.

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