GECR

Cambria Africa plc

Update
2nd June 2014

Interim Results – Progress in challenging environment

Cambria Africa has announced interim results for the six months to February that reflect the (expected) continuing weakening of the Zimbabwean environment. Nevertheless, we note that Cambria is currently in the midst of executing its strategic plan that will see it expand into neighbouring regions, thereby diversifying away from the difficult Zimbabwe economy. Indeed, Cambria has only recently secured several key regional supply and distribution agreements with a number of blue-chip companies that will see it cover the wider Southern Africa region. In addition, it has recently acquired the leading Malawi chemicals distributer, Chemicals & Marketing Company - and the acquisition is expected to increase Millchem's top-line by 50% - and we expect to see further smaller acquisitions going forward. Accordingly, we keep our forecasts unchanged and maintain our stance of buy, with a target price of 14.63p.

Interims

For the 6-months ended 28th February 2014, total revenues from continuing operations decreased by 3% to $4.18m (H1 FY13: $4.29m), primarily impacted by the expected continuing weakening of the Zimbabwe economy. Overall gross profits decreased by 1% to $2.34m (H1 FY13: $2.35m), but margins improved by 1.28 percentage points to 56.03% (H1 FY13: 54.75%), driven by the Payserv Africa subsidiary. Operating expenses increased by 10.26% to $3.78m (H1 FY13: $3.43m), as both subsidiaries ramped up their investment in long-term growth and central costs remained unchanged. Including net finance costs of $635k (H1 FY13: $266k) and taxes of $161k (H1 FY13: $151k), the loss from continuing operations increased by 49% to $2.23m. Net debt increased to $5.81m (H1 FY13: $4.44m). Cambria Africa added that since period-end, it has once again started to deliver year-on-year growth in gross profit, with Millchem delivering growth of 25%, despite ongoing weakness in the Zimbabwe economy.

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 a 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.

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*

Buy

Target price 14.63p

Key data

Share price	5.5p
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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Interims

For the 6-months ended 28th February 2014, total revenues from continuing operations decreased by 3% to $4.18m (H1 FY13: $4.29m), primarily impacted by the expected continuing weakening of the Zimbabwe economy. The Payserv Africa subsidiary was the best performing of the two subsidiaries, achieving revenues growth of 2% and now representing 52% of total revenue. Milchem's revenues decreased by 7% to $2.00m (H1 FY13: $2.15m).

Overall gross profits decreased by 1% to $2.34m (H1 FY13: $2.35m), but margins improved by 1.28pp to 56.03% (H1 FY13: 54.75%), driven by the Payserv Africa subsidiary, which grew gross profits by 6%.

Operating expenses increased by 10.26% to $3.78m (H1 FY13: $3.43m), as both subsidiaries ramped up their investment in long-term growth and central costs remained unchanged. Accordingly, the operating loss increased by 33% to $1.44m (H1 FY12: $1.08m). Including net finance costs of $635k (H1 FY13: $266k) and taxes of $161k (H1 FY13: $151k), the loss from continuing operations increased by 49% to $2.23m.

Net debt increased to $5.81m (H1 FY13: $4.44m), but as mentioned below, we expect additional funding to come from its non-core assets, including the Leopard Hotel and certain industrial properties, as well as settlement of its aircraft dispute. Held-for-sale assets were reported on the balance sheet at $16.22m.

Cambria Africa added that since period-end, it has once again started to deliver year-on-year growth in gross profit, with Millchem delivering growth of 25%.

Forecasts

While the decline in revenues is disappointing, we note that (i) the fact Cambria was able to keep revenues relatively flat despite significant issues in the operating environment provides confidence in the underlying businesses; and, (ii) Cambria is currently in the midst of executing its strategic plan that will see it expand into neighbouring regions, thereby diversifying away from the beleaguered Zimbabwe economy. Indeed, Cambria has only recently secured several key regional supply and distribution agreements with a number of blue-chip companies that will see it cover the wider Southern Africa region. In addition, it has recently acquired the leading Malawi chemicals distributer, Chemicals & Marketing Company - and the acquisition is expected to increase Millchem's top-line by 50% - and we expect to see further smaller acquisitions going forward.

Accordingly, we are keeping our forecasts unchanged for the time being. 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.

Valuation

Based on our preferred method of valuation, being based on a Discounted Cash Flow (DCF) analysis, 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, 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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