Bidvest Namibia

FY15 Results Review

BVN released disappointing results for the 2015 financial year. As we expected, the firm’s results reflect the difficulties the fishing division finds itself in. FY15 Basic EPS increased by 17.8% y/y to 136.5 cents per share, which was due to the sale of one of the fishing vessels at approximately N$100.0 million, while the severe margin pressure contributed towards an 11.0% y/y fall in HEPS to 103.2 cents per share. At N$53.535 billion, revenue is down 4.6% from last year, however, trading profit shrank 17.1% to N$415.6 million. A final cash dividend of 34cps was declared, taking the total dividend to 56cps for the year, thus the company cut dividends by 11.1% when compared to FY14.

Margin Pressure
Trading profit shrank by 17.1% y/y to total N$415.6 million. Of this N$85.7 million decrease, N$61.6 million is attributed to a decrease in trading profit in the fishing division. As usual, the fishing division supplied the largest share of trading profit, coming in at N$345.5 million or 83.1%. This figure is 15.1% lower than the N$407.1 million seen in FY14, reflecting depressed margins resulting from lower quota allocation from the Ministry of Fisheries and Marine Resources (MFMR) and higher quota rental fees. The FY15 trading profit margin for the fishing division fell to 22.9% from 24.5% reported in FY14.

Freight and Logistics performed poorly, with lower project activity in the oil and gas industry as mining and oil exploration slowed down in Namibia. This division reported an 18.5% decrease in trading profit and made up 8.6% of trading profit, down from 8.8% in the previous year.

Food and Distribution contributed 2.3% of total trading profit, down from 4.9% last year as trading profit fell 61.1% y/y to N$9.5 million, highlighting a very poor second half as BVN reported trading profit for this division of N$15.2 million during the first half of the year. Trading profit was largely affected by the loss of the contract for distribution of Namibia Poultry Industry products.

Uncertain outlook for Bidfish
The outlook for the fishing division remains challenging according to company uncertainty for quota allocations and regulatory changes. Additionally, we expect the market price for horse-mackerel to remain depressed over the next year, as supply continues to outstrip sustainable demand. However, fundamental demand is likely to remain strong over the long term.

Valuation and Recommendation
The stock is currently trading on a FY16 dividend yield of 5.5% based on expected full year dividends of 59cps, due to expected earnings per share of 106.8c and an assumed 55% payout ratio. This is in line with its average yield of 5.8% over the last five years, but is relatively unattractive to cash yields that are currently on the rise.

The weaker selling prices of horse-mackerel and lower quota allocations have put pressure on revenue in the fishing division, while the cost of securing additional quota and regulatory changes will negatively affect the company’s bottom line, thus revenue and trading profit margins are expected to contract further through FY16. In addition, quota and price uncertainty have notably decreased earnings visibility beyond 2016.

We have adjusted our earnings forecast and target price following a detailed analysis of the full year results. We forecast FY16 earnings of N$1.07 per share and calculate a target price of N$10.50 per share based on a justified PE ratio of 9.8x. We are concerned about the possibility of a dividend cut going forward should fish quota issues not be resolved, however remain cognizant of the large cash balances on the company’s balance sheet, allowing them space to weather the current storm with acquisitions such as Novel Motors. In addition, however we do not expect the stock to trade much lower from current levels given the illiquidity of such and the possibility that once sold stock may be difficult to rebuy in future. Nevertheless, due to the current challenges faced by the company and limited earnings visibility, we have maintained our recommendation on SEL.
Key points

- After legal action was taken by Bidvest against The Ministry and Minister of Fisheries and Marine Resources, the Ministry have rushed to change the regulation surrounding the issuance of quota, particularly so as to give more power and discretion to the Minister in the allocation of quota.

- The outlook for the fishing division remains challenging with uncertainties surrounding quota allocations and regulatory changes.

- We foresee the market price for horse-mackerel remaining depressed over the next year, as supply continues to outstrip demand due to import restrictions in key markets. However, fundamental demand is likely to remain strong over the long term.

- In the case of Freight and Logistics, spin-offs from the expansion of the Walvis-bay harbour are expected to be significant, however, on the back of the recent oil price declined, future exploration activity in Namibia is expected to continue to slow or stop completely.

- BVN has acquired the entire issued share capital of International Capital Investments (Pty) Ltd, trading as Novel Motor Company (“Novel Motors”) and Lenkow (Pty) Ltd, which owns the Windhoek showroom and service centre premises from where Novel Motors operates, for N$231.8 million.

- We have seen exceptionally strong vehicle sales growth through 2014, fuelled by a strong consumer base supported by expansionary fiscal policy and real wage growth. Strong vehicle sales in 2014 have elevated the base substantially which has led to lower percentage growth figures, although the number of vehicles sold is still strong. Following these abnormally high sales in 2014, we may start to see vehicle sales normalising somewhat through 2015 and 2016. Downside risks to this are rising interest rates which may limit marginal lenders from qualifying for financing as well as banking sector liquidity which may limit the banking sectors willingness to continue to make loans available to finance vehicle purchases.
Operational performance

Revenue
Revenues generated by BVN decreased for the first time in FY15 when looking at the past ten years, falling by 4.6% y/y to N$3.535 billion. This decrease was attributed to a slowdown in all the segments except for the industrial and commercial products division, which reported growth of 9.9%. Performance by the fishing division was particularly disappointing. Revenue composition, however, remained weighted towards the fishing division, contributing 42.6% towards revenue, down from the 44.9% contribution in FY14. Food and distribution ended up adding 33.8% to total revenue, up from the 32.9% contributed during the previous period, followed by industrial and commercial products at 12.8% and then freight and logistics at 10.4%.

Trading Profit
Trading profit shrunk by 17.1% y/y to total N$415.6 million. Of this N$85.7 million decrease, N$61.6 million is attributed to a decrease in trading profit in the fishing division. As usual, the fishing division supplied the largest share of total trading profit, coming in at N$345.5 million or 83.1%. This figure is 15.1% lower than the N$407.1 million seen in FY14, however, reflecting depressed margins resulting from lower quota allocation from the MFMR and higher quota rental fees. The FY15 trading profit margin for the fishing division fell to 22.9% from 24.5% reported in FY14.

Freight and Logistics performed poorly, with lower project activity in the oil and gas industry as mining and oil exploration slowed down in Namibia. This division reported an 18.5% decrease in trading profit and made up 8.6% of total trading profit, down from 8.8% in the previous year.

Food and Distribution contributed 2.3% of total trading profit, down from 4.9% last year as trading profit fell 8.6% of total trading profit, down from 8.8% in the previous year.

Earnings and dividends
FY15 Basic EPS increased by 17.8% y/y to 136.5 cents per share, which was due to the sale of one of the fishing vessels at approximately N$100.0 million, while the severe margin pressure contributed towards an 11.0% y/y fall in HEPS to 103.2 cents per share. A final cash dividend of 34 cents per share was declared, taking the total dividend for the year to 56 cents per share, a decrease of 11.1% compared to 63 cents per share last year. The company decreased the payout ratio to 41% from 54% before, in light of the challenging operating environment.
Segmental Highlights

<table>
<thead>
<tr>
<th>Segment analysis</th>
<th>Revenue FY14</th>
<th>Revenue FY15</th>
<th>change y/y</th>
<th>Trading Profit FY14</th>
<th>Trading Profit FY15</th>
<th>change y/y</th>
<th>Trading Profit Margin FY14</th>
<th>Trading Profit Margin FY15</th>
<th>change y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fishing</td>
<td>1,662,183</td>
<td>1,505,753</td>
<td>-9.4%</td>
<td>407,061</td>
<td>345,472</td>
<td>-15.1%</td>
<td>24.5%</td>
<td>22.9%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Freight and Logistics</td>
<td>393,174</td>
<td>368,467</td>
<td>-6.3%</td>
<td>43,985</td>
<td>35,845</td>
<td>-18.5%</td>
<td>11.2%</td>
<td>9.7%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Food and Distribution</td>
<td>1,220,032</td>
<td>1,193,985</td>
<td>-2.1%</td>
<td>24,580</td>
<td>9,555</td>
<td>-61.1%</td>
<td>5.7%</td>
<td>6.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Industrial and Commercial Products</td>
<td>412,088</td>
<td>452,903</td>
<td>9.9%</td>
<td>23,441</td>
<td>28,370</td>
<td>21.0%</td>
<td>5.7%</td>
<td>6.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>16,018</td>
<td>13,660</td>
<td>-14.7%</td>
<td>2,247</td>
<td>(3,631)</td>
<td>-261.6%</td>
<td>14.0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>3,703,495</td>
<td>3,534,768</td>
<td>-4.6%</td>
<td>501,314</td>
<td>415,611</td>
<td>-17.1%</td>
<td>13.5%</td>
<td>11.8%</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>

Source: BVN, IJG

BidFish

At 83.1% of trading profit, up from 81.2% in FY14, this division remains the backbone of the firm. As such, the challenging operating environment prevalent during FY15 resulted in the subdued performance for the whole group.

Segmental revenue decreased by 9.4% to total N$1.506 billion, down from N$1.662 billion reported for FY14. Trading profit generated by the division fell 15.1% y/y, down from N$407.1 million in FY14 to N$345.5 million for the reporting period. This was on account of margin contraction, with margins decreasing from 24.5% to 22.9% in FY15. The reduced margins come as a result of the company having to purchase quota on the secondary market, as the primary allocation to Namsov and the Trachurus joint venture by the Ministry of Fisheries and Marine Resources has declined. The fishing segment was put under further pressure through experimental fishing in Gabon and Angola earlier in the year in attempt to utilize idle vessels, along with softer price for horse-mackerel in the market. However, this was partially offset by a weakening Namibia Dollar.

Brief Background - Quota and Rights

Namibia’s 200 nautical miles Exclusive Economic Zone (EEZ) has a biomass containing about 20 different species. Out of the 20 species commercially exploited in Namibia, 8 species are regulated through the assignment of fishing rights and total allowable catches (TAC’s), set by the MFMR, in accordance with Namibia’s Marine Resource Policy towards Responsible Development and Management of the Marine Resources Sector.

Fishing rights are allocated by species based on a metric of company merit. Fishing rights are assigned for a number of years, usually between seven and 20. TACs are annually determined, based on fish stock (biomass) assessments, and the level of sustainable off take that the stocks can withstand. This is done with a view to long term sustainability. The TACs are then allocated to corporates and individuals, who receive a share of the TAC in the form of a quota. The quota determines the volume of fish the individual or corporate is able to catch, should they have the right to catch.

Over recent years, quota has also been allocated to small players or individuals that have no fishing infrastructure or fishing rights. This resulted in them selling such quota to the established industry. In order to continue to receive quota from the Ministry, quota holders are required to be involved in the activities of the companies to which their quota is sold. This led to the formation of joint ventures with the fishing companies.

TAC for Horse mackerel are set by the Ministry of Fisheries and Marine Resources at the start of every calendar year (CY) and the bulk of the TACs are then allocated for that year; with the Ministry holding back a percentage of the TACs in reserve, to be allocated as the year progresses. As such, the concession holders do not know exactly how much they will be allocated once the year starts, creating a challenging planning environment for the fishing companies, which are required to make long term investments in PPE, without long term guarantees of quota.
BVN Ltd>>FY15 Results Review  
26 October 2015

BVN Fishing Quota
Over the last few years, while the TAC has increased, so have the number of concession holders, as such, the share of the TAC to which BVN has access (including both direct allocation and indirect acquisition of TAC) has fallen, going from 41.8% of total TAC (350,000t) in CY13, to 35.7% of 350,000t in CY14 and 34.3% estimated for CY15.

A major concern is that the amount quota directly allocated to BVN has decreased over recent years. In 2011, the MFMR allocated about 41.3% of the total quota directly to BVN; 25.0% of the CY12 total quota; 24.4% of the CY13 total quota and 20.4% of the CY14 total quota. According to management, quota allocations and volumes no longer form part of the public information domain as the standard circulation there-off through the MFMR ceased. However they have indicated that the initial direct quota allocated to BVN for CY15 is more or less in line with CY14, however, the portion of the reserve TAC is not known. 84,000 tons has been kept in reserve by the Ministry for CY15. In our valuation, we used an estimate of quota received from the MFMR of 70,000 tons and 50,000 tons bought from other quota holders. This is a total of 150,000 tons, only 34% of the total CY15 TAC. The MFMR has announced that TAC for the CY16 fishing season has been reduced following a decision taken by Cabinet. The TAC for horse mackerel is to be set at 335,000 tons for CY16, with horse mackerel stock at 350,000 tons over the last four years. This does not bode well for BVN.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Quota Allocation</td>
<td>127,905</td>
<td>79,906</td>
<td>85,483</td>
<td>71,446</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>% of total BVN TAC</td>
<td>77.3%</td>
<td>57.3%</td>
<td>58.4%</td>
<td>57.2%</td>
<td>58.3%</td>
<td></td>
</tr>
<tr>
<td>Indirect Quota acquired</td>
<td>37,568</td>
<td>59,482</td>
<td>60,809</td>
<td>53,401</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>% of total BVN TAC</td>
<td>22.7%</td>
<td>42.7%</td>
<td>41.6%</td>
<td>42.8%</td>
<td>41.7%</td>
<td></td>
</tr>
<tr>
<td>BVN Total TAC</td>
<td>165,473</td>
<td>139,388</td>
<td>146,292</td>
<td>124,847</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>Total TAC</td>
<td>310,000</td>
<td>320,000</td>
<td>350,000</td>
<td>350,000</td>
<td>350,000</td>
<td></td>
</tr>
<tr>
<td>% of total TAC</td>
<td>53.4%</td>
<td>43.6%</td>
<td>41.8%</td>
<td>35.7%</td>
<td>34.3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BVN, Ministry of Fisheries and Marine Resources, IJG

Along with the lower direct quota allocation, the amount paid to secure additional quota has risen, from N$1,500 per ton in 2011 to the latest price of N$3,250 in 2015. The prices have increased dramatically over the last 4 years. This said, we do not foresee the quota rental fees increasing as dramatically going forward, as Namibian fees have normalised with those of Mauritania, approximately N$3,300 per ton at present, which price appears to be a point beyond which quota demand tails off, as the marginal unit of profit on this quota undermines viability.
Currency
The exchange rate boosted fishing revenues over recent years, as the US dollar strengthened more than 100.0% since 2011 vis a vis the Namibia Dollar, averaging at N$8.8, N$10.4 and N$11.45 to the US$ for FY13, FY14 and FY15 respectively. At the same time, fishing regulations in the Democratic Republic of Congo and the general oversupply in the traditional markets of Namsov following restrictions implemented by the Nigerian government, led to a decline in the average realised horse mackerel price. However, the weaker Namibian Dollar offset the lower US dollar price effect on revenue, but this also had a significant impact on costs.

![Graph of US$/N$ Exchange Rate]

Source: Bloomberg

As at the end of the third quarter for 2015, the Namibia Dollar averaged at N$12.3 to the US$. We forecast the average exchange rate for the 4Q15 to be N$14.00 and N$13.87 for 2016, up notably from the FY15 average rate of N$11.45. Thus, the weaker Namibia Dollar is expected to remain the silver lining for this division, amidst the cloudy domestic conditions that prevail.

Oil Prices
With regards to input costs, one of the primary costs incurred by the industry is fuel, therefore the price of oil has a significant impact on the performance of fishing companies. The price of Brent Crude Oil from 2011 to mid-2014 averaged US$110.00 per barrel. However over the last 12 months, the price of the commodity has fallen as much as 62.7% to a low of US$40.7 per barrel in 2015. At this point of the year, the average price of oil is US$56.6 per barrel, which has a significant, positive, impact on the operating costs of the vessels. We should see operating costs to decrease in the FY16 results.

![Graph of Brent Crude Oil Price per Barrel]

Source: Bloomberg
Regulatory Change
In 2014, legal action was taken by Bidvest, BidFish against the Minister of Fisheries and Marine Resources, following an illegal quota allocation for additional quota in the 2014/15 fishing season. Following financial difficulties with the Government hake fishing company, the Minister decided to allocate the company part of the annual additional quota of horse mackerel. As this quota is usually issued to the horse mackerel companies, and as the TAC was not changed, a zero-sum game meant that the horse mackerel companies received lesser allocations of additional quota than was normally the case. As such, they had to buy back the lost quota from the Government fishing company, meaning that the change in allocation did not change the volumes the horse mackerel companies were able to catch, but simply increased the cost of this quota. Thus, the horse mackerel companies effectively ended up bailing out the Government hake company. Through this process, the Minister allocated horse mackerel quota to the Government hake company, which does not have a fishing right for the species. This was deemed unlawful by the industry, which resulted in the BidFish company taking the Minister to court.

BidFish was successful in the legal challenge, however, in the meantime, the Minister of Fisheries and Marine Resources, have decided to change the regulation surrounding the issuance of quota, particularly, so as to give more power and discretion to the Minister in the allocation of quota, ensuring that he cannot again be sued for his decision as to allocation. This change in regulation forms a major threat to the industry, as it reduces certainty (on which investment is based) as well as accountability of the Ministry to due process.

At the time of writing, this Regulatory change had been passed by cabinet, but not yet signed into law by President.

Prospects and Challenges
The outlook for the fishing division remains challenging according to company management with uncertainties surrounding quota allocations and regulatory change. Additionally, we foresee the market price for horse-mackerel remaining depressed over the next year, as supply continues to outstrip sustainable demand. However, fundamental demand is likely to remain strong over the long term as global population growth and increased disposable income, together with urbanization and changes with regards to diet, are expected to create additional demand for proteins, including fish, in developing countries.

Over the short term, the Nigerian Government plans to further reduce fish imports via quota, or by significantly increasing duties on the commodity. The current state of fish stocks are healthy, with fishing companies reporting fair landings. However, Angola re-introduced mid-water trawling in 2013, allowing midwater trawling in Angola to the same levels as in Namibia, with 350,000 of horse mackerel tons per annum. This effectively means the effort and extraction allowed on the shared horse mackerel resource has doubled in the last two years. Fisheries in the industry highlighted that this does not bode well for the fish resource.

On the other hand, prospects for the pilchard operations and the Angolan business, Pesca Fresca, are positive as the business is now under BVN management control and fully operational. The pelagic operations is expected to performed well, despite the total pilchard quota for 2015 being reduced by 5,000 tons to 25,000 tons, following unfavorable research results on the pilchard resource. Management highlighted the success and performance of the onshore canning operations and they noted a strong increase market share regarding their canned products.

Management have also concluded the initial feasibility study to convert the current horse mackerel fishing operations to a shore based facility. The board has resolved to proceed with environmental impact assessment and civil and detailed work, with the first phase of the project that will include a jetty at the UFE premises.

BVN sold one of five vessels during the year. The most obvious reason for this was to down scale on the back of reduced quota allocated. Also, it is becoming more and more difficult to get hold of quota from third parties as the other quota holders are becoming operational. Going forward, we should see a decline in operating expenses, as these vessels will no longer be sitting idle.

The horse mackerel resources appears healthy and catch rates remain in line with previous years, however, much uncertainty remains about the quota allocation in following years, therefore, our forecasts for this division is negative and we expect to see growth to contract further during FY16. A possible growth opportunity comes in the form of the Angolan fishing operations that could prove to be quite profitable. The profitability of the Angolan fishing division has been delayed compared to initial management expectations, nevertheless we have factored growth coming from it into our valuation. Further, we do not expect to see rental fees for quota increasing much above current levels and along with a weaker Namibian currency forecast, margin contraction is limited. The oil price that has fallen significantly over the last few months and which is expected to remain at these levels for the rest of 2015 will decrease transportation costs which form a major part of operating expenses. We use this as our base case scenario to forecast trading profits.
BidCom

All the BidCom companies reported lacklustre performance during the financial period under review, except for the industrial and commercial products division showing growth in revenues and widening of profit margins.

Increased sales initiatives and effective implementations of strategies by the industrial and commercial products divisions explains the 9.9% increase in revenue, to N$452.9 million. Trading profit for the period came in at N$28.4 million, up by a substantial 21.0% y/y, as the trading profit margin widened to 6.3% from the 5.7% reported for FY14. Management advises that most of the companies in these segments are performing well, with the exception of Voltex, which is experiencing tight margins, as competition remains strong, dragging down profitability.

In the case of Freight and Logistics, revenue decreased 6.3% y/y to N$368.5 million for FY15 and trading profit decreased significantly for the period, reporting a slowdown of 18.5% y/y to N$35.8 million as the trading profit margin contracted from 11.2% reported for FY14 to the current figure of 9.7%. Freight and Logistics performed poorly, with lower project activity in the oil and gas industry as mining and oil exploration slowed down in the country. Spin-offs from the expansion of the Walvis-bay harbour are expected to be significant, however, on the back of the recent oil price declined, future exploration activity in Namibia is expected to continue to slowdown.

Lastly, Food and distribution reported revenue of N$1.19 billion and an accompanying trading profit of N$95.8 million, highlighting a very poor second half as BVN reported trading profit for this division of N$152.2 million during the first half of the year. Food and Distribution contributed 2.3% of total trading profit, down from 4.9% as trading profit fell 61.1% y/y. Trading profit was largely affected by the loss of the contract for distribution of Namibia Poultry Industry products. The Windhoek High Court, however, on 4 March 2015 ruled that Namibia Poultry Industries had violated a distribution agreement it reached in 2012 with National Cold Storage, a subsidiary of Bidvest Namibia. The court ruling, however, has been appealed by NPI and therefore these proceeds from the contract is not taken into consideration of the valuation until the case has been finalized.

Novel Motors Acquisition

BVN has, through wholly owned subsidiaries, acquired the entire issued share capital of International Capital Investments (Pty) Ltd, trading as Novel Motor Company (“Novel Motors”) and Lenkow (Pty) Ltd, which owns the Windhoek showroom and service centre premises from where Novel Motors operates, for N$231.8 million. Novel Motors operates two dealerships in Namibia and is the main representative of Ford and the sole representative of Jaguar, Land Rover, Volvo and Mazda vehicles in Namibia. Novel Motors offers the sale of new and pre-owned vehicles, financing and insurance products, parts and accessories and after-sales service. It employs almost 200 people.

Bidvest Namibia has acquired the shares for a total consideration of N$231.8 million, which was effective 31 July 2015, thus should reflect in the financial results as of the 1H16. Management indicated at the results presentation that the PE on the project was in line with previous acquisitions at around 6.5%. The consideration has been funded from internal cash resources, however at time of releasing the report, no further details regarding the deal were given. According to management the acquisition is seen as a continuation of Bidvest Namibia’s objective to broaden its business base and will strengthen the Commercial portfolio. In our view this is a positive development to reduce risk as the company is heavily weighted towards the fishing industry.

Vehicle Sales in Namibia

Novel Motors is the main representative of Ford and the sole representative of Jaguar, Land Rover, Volvo and Mazda vehicles in Namibia. The total market share, including the passenger vehicles and light commercial vehicle sales of these brands in Namibia is 9.8% since 2010. The average number of vehicles sold on an annual basis since 2010 exceeds 15,000 cars, with the number surpassing the 20,000 mark in 2014 for the first time in the history of the data collected. As at the end of August the year-to-date figure for 2015 already exceeds the figure recorded over the same time last year.

![Market Share Chart](Source: Lightstone)
Passenger and Light Commercial Vehicle Market
The passenger market includes all five brands, with Ford being the most popular brand with regards to monthly sales numbers followed by Land Rover. Please refer to appendix A for a description of vehicle shapes and sizes for passenger and light commercial vehicles.

The light commercial vehicles only include Ford, Land Rover and Mazda, with Ford reporting the highest monthly sales numbers in this category of the market as well. Light commercial vehicles by body shape definition includes pickup trucks (bakkies) which is popular under Namibian customers, especially the Ford brand.
Total New Vehicle Sales in Namibia

We have seen exceptionally strong vehicle sales growth through 2014, fuelled by a strong consumer base supported by expansionary fiscal policy and real wage growth, as well as purchase of vehicles by Government, with The Ministry of Finance that has allocated N$984.5m to vehicle purchases in the 2014/15 National Budget, this is N$517.8m or 111.0% more than what was spent on vehicles during the previous financial year. However the latest figures show that this trend is losing momentum.

Strong vehicle sales in 2014 have elevated the base substantially which has led to lower percentage growth figures, although the number of vehicles sold is still strong. Thus we may see vehicle sales normalising somewhat at the levels seen this year. Downside risks to this are rising interest rates which may limit marginal lenders from qualifying for financing as well as banking sector liquidity which may limit the amount of loans available to finance vehicle purchases.
Valuation and Recommendation

The stock is currently trading on a FY16 dividend yield of 5.5% based on expected full year dividends of 59cps, due to expected earnings per share of 106.8c and an assumed 55% payout ratio. This is in line with its average yield of 5.8% over the last five years, but is relatively unattractive to cash yields that are currently on the rise.

The weaker selling prices of horse-mackerel and lower quota allocations have put pressure on revenue in the fishing division, while the cost of securing additional quota and regulatory changes will negatively affect the company's bottom line, thus revenue and trading profit margins are expected to contract further through FY16. In addition, quota and price uncertainty have notably decreased earnings visibility beyond 2016.

We have adjusted our earnings forecast and target price following a detailed analysis of the full year results. We forecast FY16 earnings of N$1.07 per share and calculate a target price of N$10.50 per share based on a justified PE ratio of 9.8x. We are concerned about the possibility of a dividend cut going forward should fish quota issues not be resolved, however remain cognizant of the large cash balances on the company's balance sheet, allowing them space to weather the current storm with acquisitions such as Novel Motors. In addition, however we do not expect the stock to trade much lower from current levels given the illiquidity of such and the possibility that once sold stock may be difficult to rebuy in future. Nevertheless, due to the current challenges faced by the company and limited earnings visibility, we have maintained our recommendation on SELL.
Appendix A

<table>
<thead>
<tr>
<th>Description</th>
<th>Weight Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td>3,500kg</td>
</tr>
<tr>
<td>Light Commercial Vehicle</td>
<td>3,500kg</td>
</tr>
<tr>
<td>Medium Commercial Vehicle</td>
<td>3,501-8,500kg</td>
</tr>
<tr>
<td>Heavy Commercial Vehicle</td>
<td>8,501-16,500kg</td>
</tr>
<tr>
<td>Extra Heavy Commercial Vehicle</td>
<td>&gt; 16,500kg</td>
</tr>
<tr>
<td>Bus</td>
<td>&gt; 8,500kg</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Passenger market Bodyshape</th>
<th>Lightstone Auto Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sedan</td>
<td>A four door closed body with a boot; four or five seats</td>
</tr>
<tr>
<td>Coupe</td>
<td>A fixed roof closed body with two doors; two or four seats.</td>
</tr>
<tr>
<td>Cabriolet</td>
<td>An open-top body with two or four doors; two or four seats.</td>
</tr>
<tr>
<td>Estate</td>
<td>A four door closed body with a rear carrying area and rear loading door with five seats.</td>
</tr>
<tr>
<td>Hatch (3-dr or 5-dr)</td>
<td>A four door closed body with a rear carrying area and rear loading door with five seats.</td>
</tr>
<tr>
<td>SUV (Sport Utility Vehicle)</td>
<td>A raised fixed roof closed body with three or five doors including rear door; five to seven seats; varying degrees of off-road capabilities.</td>
</tr>
<tr>
<td>MPV</td>
<td>A closed body with four to five doors, typically one or two sliding on side panels; five to seven seats, typically removable.</td>
</tr>
<tr>
<td>Crossovers</td>
<td>A closed or open-top body with two to five doors; built on a passenger car-based platform incorporating a mixture of features from Sports Utility Vehicles; Estates; Hatchbacks; MPV's; Sedans etc.</td>
</tr>
<tr>
<td>Minibus (Passenger)</td>
<td>A closed body with four to five doors, typically one or two sliding on side panels; more seats than a multi-purpose vehicle, but fewer seats than a full-size bus. Not used for commercial transport purposes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Light Commercial market Bodyshape</th>
<th>Lightstone Auto Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility</td>
<td>A four door closed body with an extended rear section incorporating a carrying area; four to seven seats; 4x4.</td>
</tr>
<tr>
<td>Minibus</td>
<td>A closed body with four to five doors, typically one or two sliding on side panels; more seats than a multi-purpose vehicle, but fewer seats than a full-size bus. Usually used for commercial transport purposes.</td>
</tr>
<tr>
<td>Pickup:</td>
<td>A body with an enclosed cab and elongated uncovered loadbay.</td>
</tr>
<tr>
<td>Single Cab</td>
<td>Single Cab with two doors; two or three seats.</td>
</tr>
<tr>
<td>Extra Cab</td>
<td>Extended Cab with two doors; two or three seats with extra space behind the front seats.</td>
</tr>
<tr>
<td>Double Cab</td>
<td>Double Cab with four doors; five seats.</td>
</tr>
<tr>
<td>Panel Van</td>
<td>A closed body with a rear door and sliding doors on the side panels; without rear side windows; two seats.</td>
</tr>
</tbody>
</table>
Managing Director
Rome Mostert
Tel: +264 (61) 383 520
rome@ijg.net

Sales and Research
Rowland Brown
Tel: +264 (61) 383 513
rowland@ijg.net

Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Money Market & Administration
Leon Maloney
Tel: +264 (61) 383 521
leon@ijg.net

Tashiya Shekutamba
Tel: +264 (61) 383 511
tashiya@ijg.net

Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Financial Manager
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

IJG Direct
Naïke Burger
Tel: +264 (61) 383 515
naïke@ijg.net

Equity & Fixed Income Dealing
Nigel Mubita
Tel: +264 (61) 383 514
nigel@ijg.net

Stuart Main
Tel: +264 (61) 383 512
stuart@ijg.net

No representation is given about, and no responsibility is accepted, for the accuracy or completeness of this document. Any views reflect the current views of IJG Securities (Pty) Ltd. The views reflected herein may change without notice. IJG Securities (Pty) Ltd provides this document to you for information purposes only and should not be constructed as and shall not form part of an offer or solicitation to buy or sell securities or derivatives. It may not be reproduced, distributed or published by any recipient for any purposes.