Bidvest Namibia

1H14 Initial Impression

BVN released its results for the first six months ended 31 December 2013. The firm posted reasonable in light of the difficult trading environment the fishing division finds itself in. EPS and HEPS increased to 55.4 cps.

While BVN managed to grow revenues by 9.0% y/y to N$1.7bn, mainly attributed to the T&C business and Freight and Logistics, cost of sales grew at 13.1% and operating costs by 10.3% to N$158.2m from the N$143.4m reported for 1H13. The main cost booster came in the form of the quota rentals fees BVN had to pay up in order to counter the impact of their lower direct quota allocation.

Trading profit shrunk by 11.6% y/y to total N$21.5m. As usual, the fishing division supplied the largest chunk of trading profit, coming in at N$170.0m or 76.8%. This figure is 19.6% lower than the N$211.4m seen in 1H13, despite the division’s individual revenue falling by only 0.1% y/y, reflecting depressed margins resulting from the quota rental fees – 1H14 trading profit margin fell to 24.5% from 30.4% reported in 1H13. Additional fishing woes come in the form of the standstill of the Angolan operations and the benefits as a result of the weaker currency was offset by softer selling prices for horse mackerel.

Food and Distribution showed 9.6% of total trading profit (while contributing 37.7% to total revenue) and rose 27.0% to report a trading profit of N$21.4m, despite a drop in poultry sales as a result of price pressure caused by restrictions on imports. BVN reports that almost all businesses in the Industrial and Commercial Products divisions showed improvement in trading results. Projected activity in the oil and gas industry supported the Freight division.

The cash generated by operations increased by 44.2% to N$249.8m, with the decrease in operating profit being more than offset by a smaller N$4m investment in working capital (N$115m working capital outflow previously). The smaller working capital investment was on account of lower payables offsetting the increase in receivables. Although not much changed from a year ago, the final cash position increased by 13.6% or N$95.2m to N$792.8m during the interim period with the firm increasing reserves.

An interim cash dividend of 24 cps was declared, up 4.3% declared in 1H13, as the company increased the payout ratio to 54% from 44% before in order to increase dividends. As we have forecasted, if the company tries to keep dividends flat in FY14 it may need to increase its dividend payout to approximately 50% for the full year, the implied full year dividend is forecasted at 75 cps.

The total TAC for horse mackerel for 2013 was announced at 350,000t, unchanged from 2012, though the ministry is reportedly yet to award 102,200t thereof. The firm highlights that efforts are being made towards finding a sustainable plan of action that will satisfy the players in the horse mackerel arena, where the firm is pursuing strategic engagements to compliment its current quota allocation.
Valuation and recommendation

The announcement regarding the higher quota allocation for pilchard and unchanged quota for horse-mackerel might be favourable for BVN and a weaker local currency could provide some support, however softer prices and increased quota costs could prove otherwise.

We are currently reviewing our BVN valuation model; and as such have left our forecasts and target price unchanged and retain our HOLD recommendation, we do however take note of the attractive dividend yield of 5.9%. We will release a detailed report following management discussions.
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