

Obtala Limited[#]

BBG Ticker: OBT LN

Price: £17.5p

Mkt Cap: £51m

BUY

Year to Dec	Revenue (US\$m)	EBITDA (US\$m)	PBT (US\$m)	EPS (US\$c)	DPS (US\$c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)	Div Yield (%)
2015A	0.9	(4.4)	(3.3)	(9.8)	0.0	149.0	n/a	n/a	0.0%
2016A	0.6	(3.8)	(5.3)	(1.8)	0.0	205.3	n/a	n/a	0.0%
2017E	13.7	(1.3)	(2.0)	(1.4)	0.0	9.4	n/a	n/a	0.0%
2018E	47.1	12.4	9.9	1.1	0.0	2.7	10.4	22.8	0.0%

SOURCE: Company data, VSA Capital estimates.

2016: A Year of Strategic Change

On Friday 30 June 2017, African forestry and agriculture business **Obtala Limited (OBT LN)[#]** released its results for the year ended 31 December 2016. Since then, OBT has made a number of additional announcements, which we cover in this note. 2016 was a year of strategic review and change for OBT, with a new chairman arriving in the middle of the year with a mandate to effect change and transform the company into a leading agriculture and forestry company in Africa. Shareholders have shown considerable support since then, providing the group with cUS\$27m in various funding rounds.

WoodBois Acquisition Complete

OBT now has to execute its plan successfully, with the first stage being the successful integration of its US\$14.6m acquisition WoodBois International into the group, the completion of which was announced on 3 July. As a reminder, WoodBois operates a significant wood trading business headquartered in Copenhagen with a trading hub in Côte d'Ivoire, a forestry concession in Gabon with a sawmill, as well as a veneer factory under construction, which is scheduled for completion in H2. This acquisition should provide the business with an opportunity to significantly expand its sub-Saharan African forestry business.

Agriculture Profit Share Increases

On 4 July, OBT made a complex announcement concerning ownership of the land, processing assets and economic benefit on its two farms in Tanzania – Magole and Wami. The end result is that OBT's economic ownership of Magole has increased to 71.2% from 60% and has increased to 67.5% from 52.5% for Wami. In addition, OBT's effective economic stake of the processing assets at Magole is now 75%, up from 60% previously.

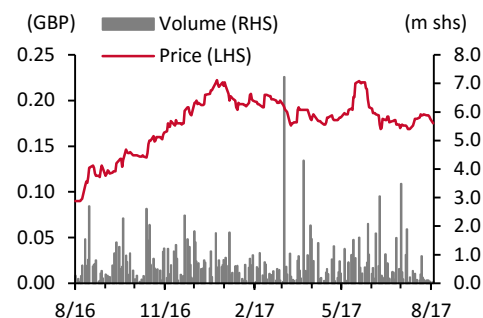
Recommendation and Target Price

We have made a number of changes to our forecasts, including converting them to US dollar from British pound, reflecting the company's decision to switch its presentational currency to the former. **We maintain our BUY recommendation and DCF-derived target price of 36p.**

Company Description

Obtala is developing sustainable agriculture and forestry operations in sub-Saharan Africa.

One Year Price Performance



Price % chg	1mn	3mn	12mn
	+1.4%	-6.0%	+94.4%
12mn high/low:			22.3p/9.0p

SOURCE: FactSet, as of 15/08/17 close.

Market:	LSE AIM
Sector:	Agriculture & Forestry
Location:	Africa
Shares in issue:	293.2m
Price target:	36p

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[#]VSA Capital acts as Paid-for Research Provider to Obtala Limited.

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FY 2016 Results Summary

On Friday 30 June 2017, African forestry and agriculture business **Obtala Limited (OBT LN)**[#] released its results for the year ended 31 December 2016.

- **Revenue:** US\$0.6m (FY 2015: US\$0.9m); VSA forecast US\$0.9m
- **Pre-tax loss from continuing operations:** US\$5.3m (FY 2015: US\$14.8m); VSA forecast US\$5.9m
- **Total assets:** US\$181.1m (FY 2015: US\$179.7m)
- **Cash and cash equivalents as of 31 December 2016:** US\$3.4m (31 December 2015: US\$1.0m)
- During 2016, OBT secured US\$18.25m through the issuance of preference shares into its forestry subsidiary Argento, with a further US\$3.0m secured in March 2017. In addition, OBT announced a US\$5m equity subscription in May 2017.
- Given the strong involvement of Asian investors in recent fundraises, OBT is now investigating the potential of a dual-listing in Asia.
- Presentational currency switched to US\$ from GBP

A Transformative Year

2016 was a transformative year for OBT, with its new Chairman carrying out a comprehensive review of the business that resulted in disposal of certain non-core operations and a renewed focus on the twin sectors of forestry and agriculture in Africa.

To support this new strategy, OBT carried out a number of fundraises, largely involving the issuance of preference shares in its forestry subsidiary, raising more than US\$25m in 2016 and H1 2017. We view this as an extremely significant achievement, considering the financing difficulties that many other companies operating in similar sectors and countries have experienced.

2016/2017 Fundraising Activity

	US\$m
New Preference Shares - December 2016	14.25
New Preference Shares - March 2017	3.00
Total Preference Share Raise	17.25
Meradell - Conversion to Argento Preference Shares	3.70
Meradell - Conversion to OBT Ordinary Shares	0.90
OBT Equity Raised - March 2017	5.00
Total 2016/2017 Raise	26.85

SOURCE: Company Data.

OBT continues to advance its new strategy, with key staff now in place across its businesses. Deploying the recently raised funds into its existing operations, as well as through acquisitions, such as the US\$14.6m **WoodBois International** acquisition, should help the new management team quickly build OBT into an African agriculture and forestry business with the required scale to successfully operate on the continent.

WoodBois Acquisition Completes with Improved Assumptions

On 3 July, OBT also announced the completion of the recently announced acquisition of **WoodBois International (WBI)** by its 75%-owned forestry subsidiary Argento. As a reminder WoodBois operates a significant wood trading business headquartered in Copenhagen with a trading hub in Côte d'Ivoire, a forestry concession in Gabon with a sawmill, as well as a veneer factory under construction, which is scheduled for completion in H2. In 2016 it recorded revenues of

US\$13.8m, an EBIT of US\$0.5m and a PAT of US\$0.3m. Total assets as of 31 December 2016 stood at US\$8.5m. A recent trading update from OBT revealed that WoodBois recorded total revenues of US\$9.15m in H1 2017.

The main contributor to revenues is the wood trading business and at the time of the acquisition OBT announced its intention to rapidly increase the volumes traded in this operation. OBT hopes to achieve this through the securing of increased levels of trade finance.

Given OBT's management team have already proven their ability to attract significant levels of investment into the group, we have confidence that this will be possible over the short to medium-term. Even prior to this deal closing, OBT management met with WBI's bank to secure a 36% increase in the credit facilities available for the trading operation to support higher timber trading volume in H2 2017, which also suggests that the possibility of OBT securing further credit to expand this business seems high.

Having successfully completed its due diligence, OBT has revealed that a number of its initial assumptions about the business actually understated its current position. The total consideration has also reduced slightly to US\$14.6m from US\$14.8m due to the deal having a fixed number of shares component, whose value has reduced as OBT's share price has fallen slightly since the deal was announced.

- The Gabon forestry concessions actually cover 96,851ha vs. 41,278ha initially assumed, with OBT and an independent forestry consultant concluding that OBT's initial annual harvest estimate of 71,280m³ can be readily achieved with existing equipment. With the potential annual permitted cut much higher (given the density of the forest), OBT could harvest significantly more from this concession with additional investment in harvesting capacity. All concessions are located within 70km of WoodBois' sawmill. The more than doubling of total concession size occurred during the due diligence process as permits were consolidated from two WBI subsidiaries.
- The Gabon sawmill actually has a production capability of 42,000m³ of sawn timber vs. 24,000m³, once new equipment, already purchased by WoodBois, has been installed. The YTD sawn timber recovery rate was confirmed at 57.5%.
- Year-to-date cost of production of sawn timber was found to be US\$249/m³, slightly below WBI's initial guidance of US\$260/m³.

Increase of Profit Share in Agriculture Operations

On 4 July, OBT made an announcement concerning ownership of the land, processing assets and economic benefit on its two farms – Magole and Wami - in Tanzania.

- **Magole Farms:** The 195ha (60 irrigated hectares currently prepared) currently leased to OBT's 75%-owned Montara Continental subsidiary by a local partner, has been acquired by a new joint venture, Magole Land, 49% owned by Montara Continental for US\$492k (paid for by OBT). This land will then be subject to a new lease to a company 90% owned by Montara Continental and 10% owned by Magole Land. As part of the transaction, Montara Continental will now own 100% of the processing assets, up from 80% previously.

Therefore, OBT's effective economic stake in the Magole farms will now increase to 71.2% from 60% previously, with the processing assets now 75% owned, from 60% previously.

- **Wami Farms:** OBT has renegotiated a shareholder agreement with its existing local partner, which will see its 75%-owned Montara Continental subsidiary increase its economic interest to 90% from 70% for a nominal cash consideration. The operation leases over 1,200ha of farmland near Morogoro (60ha currently prepared) from the local partner.
- **Therefore, OBT's effective economic stake in the Wami farms will now increase to 67.5%, from 52.5% previously.**

Land Ownership in Tanzania: An Explanation

Like many African countries, ownership of land by foreign parties in Tanzania is a complex and sensitive issue. On a practical simplified level, there are three ways in which a foreign company can access land in Tanzania:

- **Via a derivative land right:** The Tanzania Investment Centre (TIC) registers land under its name for the purpose of investment. It then has the right to issue derivative land rights to investors that meet certain requirements under Tanzanian law. Companies can either use land already registered for investment or agree to purchase land from a Tanzanian national, which is then transferred to the TIC and derivative land rights issued to the foreign investor. TIC can reacquire assigned land should a foreign investor fail to meet the specified conditions of investment. Although a certain level of compensation is then payable to the investor, this condition (and the derivative nature of the land right) can make it difficult to attract external financing.
- **Via a long lease:** Local land owners are permitted to enter into leases with foreign investors for up to 99 years with an option for renewal. OBT has put this in place with a local landowner at its Wami farm.
- **Via a local company JV:** As OBT now has in place at Magole, foreign investors can enter into a 49% joint venture with a local entity. As OBT has done, shareholder agreements can then be put in place to determine the economic rights of the operations carried out by said joint venture.

Board Changes

On 3 July, OBT announced the immediate retirement of Frank Scolaro (Non-Executive Director) and Philippe Cohen (Finance Director) from its Board of Directors. The recruitment of a new Chief Financial Officer is currently underway with Paul Dolan (CEO) and Group Accountant Carnel Geddes covering the role in the interim. Frank Scolaro remains a significant shareholder in the company, controlling more than 25% through his Grandinex International vehicle and direct holdings.

Major Shareholders as of 8th August 2017

Company	Holding	Percent
Grandinex International	70,000,000	23.88%
HSBC Global Custody Nominee (UK)	22,589,600	7.71%
Basic Materials	21,042,500	7.18%
Spreadex	17,579,900	6.00%
HSBC Client Holdings Nominee (UK)	14,112,330	4.81%
BNY (OCS) nominees	12,325,000	4.20%
James Capel (nominees)	12,034,228	4.10%
Nomura Custody nominees	10,299,959	3.51%

SOURCE: Company Data.

Directors Shareholdings as of 8th August 2017

Company	Holding	Percent
Paul Dolan	13,300,000	4.54%
Miles Pelham	12,800,000	4.37%
Warren Deats	5,135,000	1.75%
Kevin Milne	122,252	0.04%

SOURCE: Company Data.

Q2 2017 Business Update

On 19 July, OBT provided an update on its operations for Q2 2017. The most relevant new information for us was:

- Six forestry management plans have now been approved over 153,500ha of its concessions in Mozambique
- The cutting season has begun, after a delay, but with better productivity due to new equipment, processes and procedures (250 logs per day vs. 90-180 logs per day last year). This is expected to increase even further as the season progresses
- The land has been purchased for OBT's larger sawmill at Nampula and construction has now started
- The company has continued to make a number of important hires, including an experienced sawmill manager, Henning Visser, who will oversee production at Uape and the new development at Nampula.
- In Tanzania, the group has planted melons and its market garden. The packhouse renovation is now complete, which has increased its capacity and improved the cold room technology
- OBT has decided to plant mangoes for its first orchard crop

We saw this as a positive operational update from OBT and continue to be impressed by the speed at which the company is progressing a number of separate, but related, operations, given the challenging countries in which it operates.

We also believe that the Mozambique government's continued efforts to restrict illegal logging, evidenced by the delay in issuing logging licences for this season and the recently announced first project under the Mozambique Forest Investment Project (MozFIP) framework agreement with the World Bank and the Food and Agriculture Organization of the United Nations (FAO), is positive for OBT, given its core focus on sustainability and its ability to produce and export added-value forestry products, not just unprocessed timber, from the country.

This first project will see the FAO providing technical support to develop a 20-year national strategy for the forestry sector, a revision of institutional frameworks for forest concessions to ensure greater transparency, accountability, equity and sustainability of forest production, and the establishment of 'model' concessions that implement best practices.

For FY 2017, our forecasts should be supported by the consolidation of WoodBois' H2 results, an operation which recorded total revenues of US\$9.15m in H1.

Updated Financial Forecasts

As the company has changed its presentational currency to US dollar from British pound, we have republished our forecasts in US\$ below. For 2017, we have reduced our expectations for the Mozambique forestry business, given the late start to the cutting season, and the Tanzanian agriculture business, given the recent heavy rains.

We have also slightly changed the way we have dealt with the various financing rounds carried out in 2016. With all settlement occurring in 2017, incoming cash from these financing rounds will now all be recorded in OBT's 2017 cash-flow statement, not split across 2016 and 2017, as we had previously assumed. US\$9.2m was actually received by the company in 2016 but was recorded as an 'other payable' liability on the balance sheet in 2016. We have reversed this in our 2017 forecast and this is offset by the full financing amount coming through as cash from financing.

Profit & Loss (US\$m)

Profit & Loss (US\$m)	Dec-15A	Dec-16A	Dec-17E	Dec-18E	Previous Forecasts (converted into US\$)			
					Dec-17E	Change	Dec-18E	Change
WoodBois International	-	-	9.5	22.4	9.5	0.0%	22.4	0.0%
Mozambique Forestry	-	-	3.0	18.1	4.0	-25.9%	18.1	0.0%
Tanzania Agriculture	-	-	1.2	6.6	2.7	-54.9%	6.6	0.0%
Total Revenue	0.9	0.6	13.7	47.1	16.2	-15.6%	47.1	0.0%
Cost of Sales	(0.2)	(0.1)	(10.0)	(29.0)	(11.4)		(29.0)	
Gross Profit	0.7	0.5	3.7	18.1	4.8	-23.0%	18.1	0.0%
<i>Gross Profit Margin</i>	77.8%	77.6%	27.1%	38.4%	29.8%		38.4%	
SG&A Expenses	(3.4)	(4.3)	(5.1)	(5.7)	(5.1)		(5.7)	
Loss on derivative financial instruments	(1.7)	0.0	0.0	0.0	0.0		0.0	
EBITDA (adj)	(4.4)	(3.8)	(1.3)	12.4	(0.2)	-472.7%	12.4	0.0%
Depreciation	(0.5)	(0.9)	(0.6)	(2.5)	(0.6)		(2.5)	
EBIT (adj)	(4.9)	(4.7)	(2.0)	9.9	(0.9)	-129.2%	9.9	0.0%
Exceptionals	(11.5)	0.0	0.0	0.0	0.0		0.0	
EBITDA (rpt)	(15.8)	(3.8)	(1.3)	12.4	(0.2)		12.4	
EBIT (rpt)	(16.3)	(4.7)	(2.0)	9.9	(0.9)		9.9	
Gain on Disposal of Investment	1.6	0.0	0.0	0.0	0.0		0.0	
Finance Income	0.0	0.0	0.0	0.0	0.0		0.0	
Finance Expense	(0.1)	(0.5)	0.0	0.0	0.0		0.0	
PBT (rpt)	(14.8)	(5.3)	(2.0)	9.9	(0.8)		10.0	
PBT (adj)	(3.3)	(5.3)	(2.0)	9.9	(0.8)	-131.9%	10.0	-0.1%
Tax Rebate (Expense)	(6.9)	0.0	(1.6)	(3.0)	(1.6)		(3.0)	
PAT (rpt)	(21.7)	(5.3)	(3.5)	7.0	(2.4)		7.0	
PAT (adj)	(10.2)	(5.3)	(3.5)	7.0	(2.4)	-46.3%	7.0	-0.1%
Loss from Discontinued Operations	(1.1)	(0.4)	0.0	0.0	0.0		0.0	
Total Profit/(Loss) for the Year	(22.8)	(5.6)	(3.5)	7.0	(2.4)		7.0	
Attributable to (rpt):								
Equity Holders	(25.7)	(4.8)	(4.0)	3.4	(3.2)		3.4	
Minority Interests	2.9	(0.8)	0.5	3.6	0.8		3.6	
<i>Ordinary Shares at Year End (m)</i>	263.3	273.6	313.5	313.5	313.5		313.5	
<i>Diluted Shares at Year End (m)</i>	263.3	273.6	428.2	428.2	428.2		428.2	
Basic Wtd Av Shs (m)	263.2	263.8	290.5	313.5	290.5		313.5	
Basic EPS (rpt, US\$c)	(9.8)	(1.8)	(1.4)	1.1	(1.1)		1.1	
Basic EPS (adj, US\$c)	(9.8)	(1.8)	(1.4)	1.1	(1.1)		1.1	
Estd dilutive shares	0.0	0.0	114.7	114.7	114.7		114.7	
Wtd Av Dil Shs (m)	263.2	263.8	405.2	428.2	405.2		428.2	
Diluted EPS (rpt, US\$c)	(9.8)	(1.8)	(1.0)	0.8	(0.8)		0.8	
Diluted EPS (adj, US\$c)	(9.8)	(1.8)	(1.0)	0.8	(0.8)		0.8	
Dividend per share (US\$c)	0.0	0.0	0.0	0.0	0.0		0.0	

SOURCE: Company Data, VSA Capital Estimates.

Balance Sheet (US\$m)

Balance Sheet (US\$m)	Dec-15A	Dec-16A	Dec-17E	Dec-18E
Assets				
Cash & Equivalents	1.0	3.4	3.8	6.3
Trade and Other Receivables	0.4	0.2	0.8	2.6
Inventories	0.9	1.0	0.8	2.4
Current Tax Receivable	0.0	0.0	0.0	0.0
Total Current Assets	2.3	4.7	5.4	11.2
Net PPE	2.8	1.9	19.3	20.9
Biological Asset	174.5	174.5	174.5	174.5
Goodwill & Intangibles	0.0	0.0	4.6	4.6
Available for Sale Investments	0.1	0.0	0.0	0.0
Total Long-term Assets	177.5	176.5	198.4	200.0
Total Assets	179.7	181.1	203.8	211.2
Liabilities + Equity				
Short-Term Debt	0.0	0.0	0.0	0.0
Trade Payables	(3.3)	(0.5)	(1.4)	(4.0)
Accruals & Other Payables	0.0	(9.4)	(0.2)	(0.2)
Financial Investment Liabilities	0.0	0.0	0.0	0.0
Current Tax Liabilities	0.0	0.0	0.0	0.0
Total Current Liabilities	(3.3)	(9.8)	(1.5)	(4.1)
Long-Term Debt	0.0	0.0	0.0	0.0
Deferred Tax	(55.8)	(55.8)	(55.8)	(55.8)
Deferred Consideration	0.0	0.0	(5.0)	(4.0)
Total Long-term Liabilities	(55.8)	(55.8)	(60.8)	(59.8)
Total Liabilities	(59.1)	(65.7)	(62.4)	(64.0)
Share Capital (ord. shares of 1p par value)	4.1	4.2	3.1	3.1
Share Capital (pref. shares of US\$350 par value)	0.0	0.0	21.9	21.9
Share Premium	18.0	18.0	27.8	27.8
Reserves	44.0	44.3	44.3	44.3
Retained Earnings (Deficit)	25.1	20.6	15.4	17.7
Minorities	29.5	28.4	28.9	32.4
Total Equity	120.6	115.4	141.4	147.2

SOURCE: Company Data, VSA Capital Estimates.

Cash Flow Statement (US\$m)

Cash Flow Statement (US\$m)	Dec-15A	Dec-16A	Dec-17E	Dec-18E
<u>Cash From Operations</u>				
EBIT (rpt)	(16.3)	(4.7)	(2.0)	9.9
Depreciation & Amortisation	0.5	0.9	0.6	2.5
EBITDA (rpt)	(15.8)	(3.8)	(1.3)	12.4
Biological Adjustment	(13.2)	0.0	0.0	0.0
Impairment of Assets	24.6	0.0	0.0	0.0
Loss on Derivative Financial Instruments	1.7	0.0	0.0	0.0
Loss on Disposal of Subsidiary	0.1	0.4	0.0	0.0
Other Non-Cash	(0.1)	0.0	0.0	0.0
<u>(Increase) decrease in assets:</u>				
Trade and Other Receivables	7.0	0.2	(0.5)	(1.8)
Inventories	1.2	(0.2)	0.2	(1.6)
<u>Increase (decrease) in liabilities:</u>				
Trade and Other Payables	(11.2)	6.8	(8.3)	2.6
Cash From Operations	(5.7)	3.4	(10.0)	11.6
Income Tax Paid	0.0	0.0	(1.6)	(3.0)
Net Cash From Operations	(5.7)	3.4	(11.5)	8.7
<u>Cash From Investments</u>				
Purchase of PPE	(0.0)	(0.5)	(8.0)	(4.1)
Acquisition of WoodBois	0.0	0.0	(6.0)	(1.0)
Cash From Investments	(0.0)	(0.5)	(14.0)	(5.1)
<u>Cash From Financing</u>				
Proceeds from Issue of Ordinary Shares (net)	0.0	0.0	5.2	0.0
Funds Raised by Subsidiary (net)	0.0	0.0	21.9	0.0
Preference Dividends Paid	0.0	0.0	(1.1)	(1.1)
Proceeds from Sale of Investments	1.6	0.0	0.0	0.0
Proceeds from Loans	0.0	0.0	0.0	0.0
Repayment of Loans	0.0	0.0	0.0	0.0
Finance Income	0.0	0.0	0.0	0.0
Finance Costs	(0.1)	(0.5)	0.0	0.0
Cash From Financing	1.6	(0.5)	25.9	(1.1)
Change in Cash	(4.1)	2.4	0.4	2.4
Cash and cash equivalents at the beginning of the year	5.1	1.0	3.4	3.8
FX Adjustments	0.0	0.0	0.0	0.0
Cash and cash equivalents at the end of the year	1.0	3.4	3.8	6.3

SOURCE: Company Data, VSA Capital Estimates.

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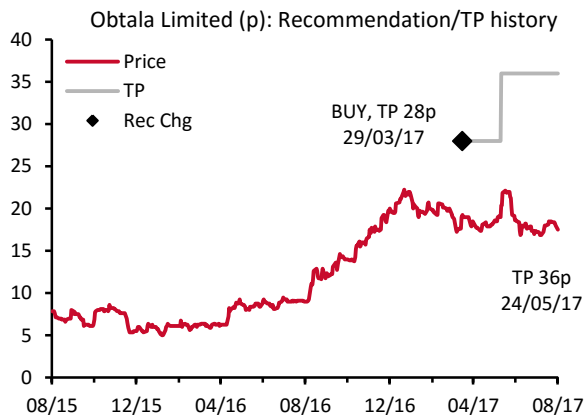
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Equities breakdown: 31 December 2016	Spec. BUY	BUY	HOLD	SELL
Overall equities coverage	25.0%	75.0%	0.0%	0.0%
Companies to which VSA has supplied investment banking services	25.0%	75.0%	0.0%	0.0%

Recommendation and Target Price History



Valuation basis

We have valued OBT using a 10-year discounted cash flow valuation.

Risks to that valuation

The main risks to the OBT business model are political, commercial and climate-related.

This recommendation was first published on 29 March 2017.

SOURCE: FactSet data, VSA Capital estimates.