



ALIGN
RESEARCH

Obtala Limited

24th May 2017

Acquisition of WoodBois adds a potential 13.4p upside to our current base case valuation of 30.52p

Obtala Limited is an Africa focussed forestry and agriculture company with a goal of becoming one of East Africa's largest sustainable food and timber producers.

■ Acquisition of WoodBois International ApS

Obtala has announced that 75% owned forestry subsidiary Argento Limited is to acquire WoodBois International for a total consideration of \$14.8 million (c.£11.4 million) in a mixture of cash and shares, subject to satisfactory due diligence. Completion is targeted for 30th June 2017.

■ Sawn timber trader expanding into higher value verticals

WoodBois is engaged in the global trading of sawn timber which it sources from producers throughout Africa. The business also produces sawn timber planks from its concessions in the country of Gabon and is moving up the value chain by completing constructing a veneer making facility.

■ Obtala applies its financial strength towards WoodBois expansion

Obtala now has plans to rapidly expand the timber trading business, which to date has been constrained by a lack of access to capital. The immediate plan is to expand the sawmill from its current annual capacity of 24,000m³ sawn timber and upgrade the veneer facility to a planned annual capacity of 18,000m³ of veneer in 2017. Expansion of both business lines is estimated to cost c.\$0.5 million in capex.

■ Target price of 30.52p retained but WoodBois potential value is clear

With the WoodBois deal still subject to due diligence we retain our 30.52p DCF based fair value target price. However, having analysed the base financial case for the deal using a similar DCF approach to our core valuation, **we believe that WoodBois could add further value to Obtala shareholders of around 13.4p per share. Conviction Buy stance reiterated.**

Table: Financial overview. Source: Company & Align Research

Year to end Dec	2015A	2016E	2017E	2018E
Revenues (£m)	3.69	0.8	6.05	23.6
PBT (£m)	(10.4)	(6.0)	1.05	11.9
EPS (p)	(5.44)	(2.3)	0.25	3.1

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CONVICTION BUY



Key data

EPIC	OBT
Share price	19p
52 week high/low	22.25p/8p
Listing	AIM
Shares in issue	277,637,768
Market Cap	£52.7m
Sector	Agriculture & Forestry

12 month share price chart



Analyst details

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Acquisition

As we flagged in our initiation of coverage note released on 10th May, Obtala has been looking at making strategic acquisitions within its core areas of forestry and agriculture over the past few months, following on from its recent fundraisings. The company has now announced that 75% owned forestry subsidiary Argento Limited is to acquire WoodBois International ApS, a global trader and producer of sawn timber, for a total consideration of \$14.8 million (c.£11.4 million). A period of due diligence on the business is now in progress, with completion being targeted for 30th June 2017.

WoodBois operations

Domiciled in Denmark but with operations focused in Africa, WoodBois International is engaged in the global **trading** of sawn timber which it sources from a range of producers throughout Africa. Founded in 2004, the company has its headquarters in Copenhagen, along with trading operations in Abidjan, Ivory Coast, where warehouse space is leased to store inventory sourced from African suppliers.

WoodBois also produces **sawn timber planks** from its concessions in the country of Gabon, with it currently producing between 1,200-1,500m³ a month. The company is further moving up the value chain by constructing a **veneer** making facility, a move which should also help it to obtain further concessions in the country as the government encourages higher value production activities. Current buyers of the company's produce are located around the world, with sales in 2015 being divided into the Middle East (33%), Europe (17%), USA & Canada (15%), Africa (14%), South America (13%) and Asia (9%).

The Gabon forestry concessions total 41,278 hectares, with an annual permitted cut of 70,000 m³, working on a 20 year cutting cycle. **This will effectively double the annual permitted cut of Obtala's forestry operations** – we estimated an annual permitted cut of 71,348 m³ in our initiation note on the existing 312,465 hectares of concessions in Mozambique, with the Gabon concessions having a similar sized cut on fewer hectares due to more dense forest.

The main hardwood species in the Gabon concessions is the native Okoume, which is mainly used in the manufacture of plywood. The concession rights have no expiration date and are all located within 70km of the company's sawmill (annual capacity of 24,000 m³ sawn timber) and veneer facility in the town of Mouila, 425km from capital city Libreville. In line with Obtala's social responsibility strategy, WoodBois is committed to sustainable forestry management and intends to apply for Forest Stewardship Council (FSC) certification in the next 1-2 years.



Abidjan warehouse. Source: Company

Growth strategy

For the year to December 2015 WoodBois reported earnings before interest and tax of DKK 2.54 million (then equivalent to approximately £247,000) on revenues of DKK 106.8 million (c.£10.4 million). Obtala now has plans to rapidly expand the timber trading business, which to date has been constrained by a lack of access to funds for working capital, with historic investment in production mainly coming from internally generated funds and small lines of credit.

The immediate plan is to use Obtala's financial resources and its access to the capital markets in order to accelerate growth in the business. This will focus on the expansion of WoodBois' sawmill by investing in a range of capital equipment. For example, drying kilns are planned to be bought to improve margins and logistics by drying wood on site as opposed to via a third party in Libreville. An upgrade of the veneer facility to a planned annual capacity of 18,000 m³ veneer is also planned for completion in 2017. Expansion of both business lines is estimated to cost c.\$0.5 million in capex.

As the sawmill and veneer operations in Gabon move towards full production over the next year or so the WoodBois founders have forecast revenue of \$19 million for 2017, rising to \$26.8 million in 2018, with respective profits increasing from \$1.5 million to \$6.4 million.

Acquisition terms

Argento is to acquire 100% of WoodBois' share capital along with all land, fixed assets, inventory and forestry concessions in Gabon. Total consideration will amount to c.\$14.8 million and will be paid via three tranches in a mix of cash and new ordinary Obtala shares.

Tranche 1. Within 5 business days of completion of due diligence - cash of \$3 million and 15,641,499 new Obtala ordinary shares. The shares are subject to a 24 month lock-in, with any disposal subject to Obtala's consent and orderly market provisions.

Tranche 2. The earlier of 30th September 2017 and 120 days following completion - cash consideration of \$3 million.

Tranche 3. Commencing 30th September 2017 - deferred cash consideration of \$5 million payable over five years in equal quarterly payments.

WoodBois' founder directors, Zahid Abbas and Jacob Hansen, who are both former DLH Group executives with over 20 years' experience in African timber sales and procurement, have committed to remain with Obtala for a minimum of 5 years following completion of the transaction. Further, tranches 2 and 3 above are conditional on the continued employment of Abbas and Hansen. Hadi Ghossein, a former diplomat and Gabonese citizen who manages operations in Gabon, has committed for a minimum of 3 years.

Assessment

For us, this transaction demonstrates the intentions of exactly what Obtala is looking to do for its shareholders - use its financial power and management knowledge to grow businesses which have under-developed assets in the forestry and agriculture sectors. We like the way the deal has been structured, with c.80% of the total consideration being in the form of equity or being deferred and the deferred consideration being spread out over several years and dependent on the founders staying with the business.

Valuation

In our initiation of coverage note we set a fair value target price for Obtala shares of 30.52p which was based on a detailed 10-year DCF analysis of the company's existing forestry and agriculture assets in Mozambique and Tanzania.

We retain that valuation for now as the WoodBois deal still has to go through the due diligence process. However, having analysed the base financial case for the deal, and applying a similar DCF approach to our core valuation, **we believe that WoodBois could add further value to Obtala shareholders of around 13.4p per share.** As ever, the main risk for the company is execution risk, with a number of tasks still to be completed at its operations before meaningful levels of revenues and profits are being achieved.

We will update on the transaction in due course but for now retain our Conviction Buy stance on Obtala, with our 30.52p fair value target implying upside of c.60% from the current 19.0p.

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