Tanzania Securities Limited

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MEMBER OF THE DAR ES SALAAM STOCK EXCHANGE

EQUITY RESEARCH
CEMENT SECTOR
LOCAL LISTED COMPANIES

Research Analysts

Magabe Kibiti Maasa and Moremi Marwa

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+ 255 22 211 2807	+ 255 22 211 2807
+ 255 788 633 677	+ 255 782 007 785
magabe@tanzaniasecurities.co.tz	moremi@tanzaniasecurities.co.tz

Recommendation: MEDIUM TERM BUY

We recommend **a Medium Term BUY** on shares of both (cement companies listed on the DSE) - Tanga Cement Company Limited (SIMBA) and Tanzania Portland Cement Company Limited (TWIGA).

The two companies (TWIGA and SIMBA) under this study have respective P/Bs valuations of 2.00x and 1.30x. They are also trading on respective **trailing** P/Es of 8.60x and 6.91x.

The two also have respective EV/EBITDAs of 4.72x and 4.42x. We forecast a 3 year CAGR in Revenue, EPS, and DPS of 15%, 24%, and 34% respectively for the sector.

Our projections are supported by favorable energy prices (projected), strong demand, and improving infrastructure/transportation network in the country over the medium term.

Our recommendations are also supported by strong production and export growth in the medium term, entrance of new producers, growing economies of neighbor countries (cement importers) and a relative prevailing social and political stability.

Relative Statics

PER (x)	TWIGA	SIMBA
2011A	7.40	6.91
2012E	7.06	5.46
2013E	5.75	4.42
2014E	4.58	3.78
Div. Yield		
2011A	8.7%	3.6%
2012E	9.9%	7.3%
2013E	13.0%	10.2%
2014E	16.4%	13.2%
P/NAV (x)		
2011A	2.00	1.30
2012E	2.03	1.19
2013E	1.83	1.13
2014E	1.70	1.08

Source: TWIGA Cement & SIMBA Cement Financials, & Tanzania Securities Estimates

Sector Key Statistics

Key Statistics	TWIGA	SIMBA
Price	2,080	2,380
Number of shares	179,923,100	63,671,045
Market Cap (Tshs.bn)	374	152
EPS (Tshs.)		
2011A	281.26	344.41
2012E	347.11	435.71
2013E	434.93	542.90
2014E	556.71	640.08
DPS (Tshs.)		
2011A	180.00	86.00
2012E	242.98	174.29
2013E	326.20	244.31
2014E	417.54	320.04
NAV (Tshs.mn)		
2011A	186,876	116,592
2012E	217,373	127,633
2013E	245,704	135,451
2014E	270,531	142,253

Source: TWIGA Cement & SIMBA Cement Financials, & Tanzania Securities Estimates

The current production capacity in Tanzania of 3.25 mtpa is expected to double in the next three years to 6.75 mtpa in 2015. Consumption is also projected to increase from the current 2.25 mtpa to 3.75 mtpa in 2015.

We project that Tanzania will become a net exporter of cement in two years - fully supported by projected strong demand from its (import dependent) neighbor countries of Burundi, Rwanda, and East DRC.

We project that residential and commercial housing will continue to dominate local cement demand (at around 85%) in the medium term. Construction and housing sectors will continue (per same projections) to be the main driver of cement consumption in the country.

Consumption per capital in Tanzania is expected to remain over 70kg this year (higher than 60kg for the EAC). Our projections show that consumption is

Relative Valuations

EV/EBITDA (x)	TWIGA	SIMBA
2011A	4.72	4.42
2012E	4.55	4.04
2013E	3.74	3.36
2014E	3.01	2.94
EV/Sales (x)		
2011A	1.81	1.12
2012E	1.86	1.02
2013E	1.64	0.91
2014E	1.42	0.82
Market Cap / Sales (x)		
2011A	1.72	0.94
2012E	1.79	0.84
2013E	1.58	0.74
2014E	1.38	0.66

Source: TWIGA Cement & SIMBA Cement Financials, & Tanzania Securities Estimates

and a decline in prices due to the expected entrance of new players (Lake Cement and Arthi River).

Factoring projected falling prices, we expect revenue growth to be largely driven by volume, riding on the expected increase in demand (internal and external) especially from neighbor countries of Rwanda, East DRC, and Burundi.

The two companies have a trailing combined market cap of TZS 587 bn – equal to 23% of TZS 2,536 bn domestic market capitalization of the Dar es Salaam Stock Exchange (DSE) – a relatively very impressive figure on its own.

We acknowledge a fact that, the cement industry in the country will face challenges (falling prices, stiff external competition, etc) in the short term. Our mid-long term projections on the other hand, point to the industry with lower energy prices, efficiency gains, improved scales, improving demand, and improving infrastructure network.

Having noted that, and with a forward looking based projection, we therefore recommend **a medium term ACCUMULATE** for both counters – Simba and Twiga cement.

expected to maintain a CAGR 10% in the medium term.
We however continue to remain cautious of the fact that Sub-Saharan Africa (SSA) economies are unpredictable and subject to swings. Factoring this fact, we hold our projections to be true Ceteris Paribas.

Some of the factors we will be closely monitoring in the medium term are cost of energy, oversea import costs (freight and tariff), over capacity, infrastructure conditions, local clinker capacity and availability, and currency stability.

Even though our projections show a diminishing role of the mining sector (mine construction) in increasing demand for cement in the country, we still foresee an uptick of activities in other sectors (infrastructure and residential housing in particular).

We project a decline in production costs (supported by falling energy costs and improving energy supply),

Selected Key Ratios

Gross Margin (%)	TWIGA	SIMBA
2011A	46%	32%
2012E	48%	33%
2013E	51%	35%
2014E	53%	35%
Operating Margin (%)		
2011A	33%	21%
2012E	36%	22%
2013E	39%	24%
2014E	43%	25%
Net Margin (%)		
2011A	23%	14%
2012E	25%	15%
2013E	27%	17%
2014E	30%	17%
Debt / Total Capital (%)		
2011A	18%	26%
2012E	16%	28%
2013E	18%	31%
2014E	19%	33%

Source: TWIGA Cement & SIMBA Cement Financials, & Tanzania Securities Estimates

We are therefore projecting TPs of **TZS 2,400** (5% variation) and **TZS 2,500** (10% variation) respectively for Simba Cement and Twiga Cement.

Changes in Shares Prices

Company	Current Prices	1 month ago	3 months ago	6 months ago	1 year ago
TWIGA	2,420	2,400	2,400	2,080	1,920
SIMBA	2,380	2,380	2,380	2,380	2,040

Company	Current Prices	% Change	% Change	% Change	% Change
TWIGA	2,420	8.3%	8.3%	16.3%	26.0%
SIMBA	2,380	0.0%	0.0%	0.0%	16.7%

Source: DSE & Tanzania Securities Analysis – as of June 30th 2012

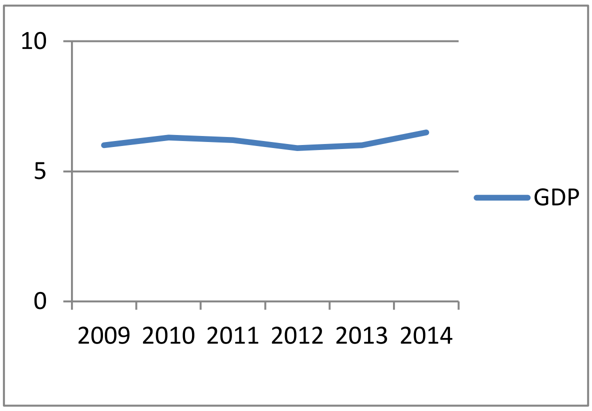
Macroeconomic Update

Economic Growth Outlook

Strong domestic demand should support growth through 2012 despite double-digit inflation and power outages. We are expecting domestic demand to remain the main driver of growth in 2012 in spite of higher than normal food prices.

In addition, gold production has increased substantially since the opening of the Buzwagi mine in June 2009, and, mining is likely to continue to underpin GDP growth despite the power rationing imposed by state-owned utility Tanesco in 2011.

GDP Movement (%)



We expect fiscal and monetary policy to remain on the stimulative side in 2012 although the authorities are likely to gradually move towards rebalancing economic policy in tandem with rising inflation.

We are expecting economic growth that slowed to around 6% in 2011 to pick up somewhat in 2012. GDP data for the first half of 2011 indicate that economic activities slowed more radically than expected. This was particularly the case with agricultural growth, which slowed to 3.2% in the first half of 2011 after a strong 5.7% expansion in the second half of 2011.

The manufacturing sector has also slowed down in the first half of 2012 to 5.5%, from 11.9% in the second half of 2011. The National Bureau of Statistics partly attributes this slowdown to an unreliable power supply in the second quarter. Projections for the rest of the year will be the same as we continue to expect power cuts resulting from poor water levels in hydropower reservoir.

Even as most of users are switching to alternative sources of energy (thermal power and likes), the situation will continue to be affected by higher oil and gas prices in the country. This scenario was one of the factors considered in the reduction of the GDP growth forecast for 2012 from 6.3 to 5.9.

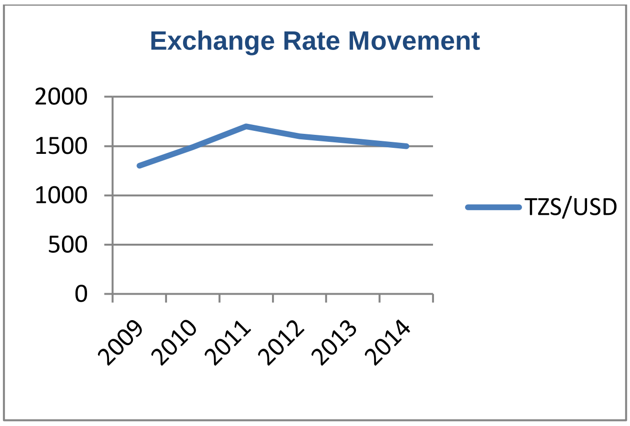
While the near-term growth picture remains robust, we caution that Tanzania faces challenges in maintaining its current growth rates (GDP growth averaged 6.5% over 2000–11). These are primarily found in removing the constraints on economic growth found in infrastructure, mainly power generation and distribution. Tanzania also needs to do more to raise its economic competitiveness through improving governance and the business environment.

If these issues are not sufficiently addressed, which is our base-case scenario; we then expect a slowing in economic growth in the coming years. We are currently forecasting GDP growth to average 6.1% in 2011 through 2015, roughly a percentage point lower than the expansion rate in 2001–10. However, limited integration with global financial markets and Tanzania's status as an oil importer and a gold exporter make it fairly well insulated to another downturn in global economic growth.

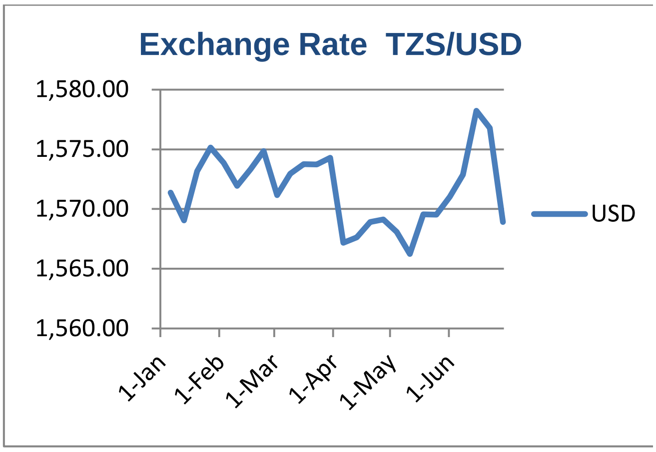
Exchange rates

The Tanzanian shilling, like its regional peers, came under pressure in the first half of 2012 due to political unrest in the Middle East and North Africa, raising risk aversion and the global oil prices.

The situation has recently started (especially in the second quarter of 2012) to improve as the shilling has been gaining against various foreign currencies (including the dollar).



While the shilling has historically held up well compared with some of its emerging market peers, it remains vulnerable to shifts in investor appetite due to Tanzanian's high current-account deficit, which is likely to increase in tandem with the higher oil price, and higher dependence on the unreliable/unpredictable farming based economy.



We expect the Tanzanian shilling to hold steady for the remainder of 2012. We believe that, the slight downtick movement in the prices and inflation in a whole in recent months will continue to hold for the rest of the year.

The current account deficit however, remains a weakness to the overall economic performance, leaving Tanzania reliant on foreign aid and investment inflows.

We are expecting Tanzania's current-account deficit to remain above 10% of GDP in both 2012 and 2013, which will mean that the Tanzanian shilling will remain vulnerable to interruptions in aid and investment inflows. Investment into the mining and energy sector should bolster the balance of payments in the medium term.

Monetary Policy

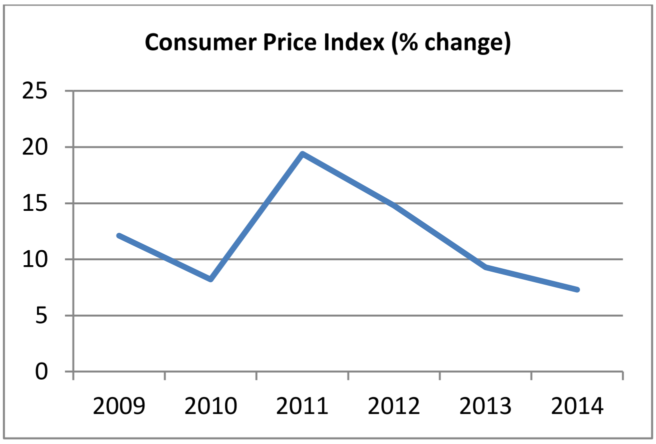
The Central Bank of Tanzania continued to pursue broad-based monetary measures trying to curb the higher than normal inflation rates, and easy out liquidity squeeze that affected the economy and financial/credit markets for most of the Q1 2012. Even though some might argue that these measures have done little to help out the situation, but, there seems to be improvements of the economy as a whole.

Even though, the International Monetary Fund has stated that it will support the external sector's stability, which should help ease some concerns about the shilling and economic outlook, the medium-term trend for Tanzanian shilling will be determined by the maintenance of a positive outlook for the external sector and the steady return of foreign direct investment and aid flows to emerging markets, as well as good performance in the tourism, mining, and agricultural sectors. In addition, Tanzania's stable political environment and reform program should bolster the long-term currency outlook.

Effectiveness of these measures is still limited and minimal, given the nature of the financial structures in the country, in addition to the underdeveloped structure of the banking sector. Monetary policy remains focused on managing liquidity conditions to decrease the volatility resulting from inflows and outflows of foreign exchange. However, the development of a commercial banking sector over the past two decades has considerably improved credit availability for the private sector and underpinned the strong economic growth rates experienced in recent years.

Inflation

We expect consumer price inflation to remain in double digits well into 2012. With projections from the Bureau of Statics showing stronger-than-expected impetus to food prices, expectations are higher that consumer price inflation would very likely fall in December.



While seasonal factors should see food-price inflation ease out over the coming months, we expect consumer price inflation to remain in the high teens on the back of the pricing-in of higher utility prices and sustained demand-side pressures.

The consumer price index (CPI) slightly fell to 18.2% in May 2012. This was slightly down from the yearly high of 19.2 in March 2012. The inflation rate for April 2012 was 18.9%. **The National Bureau of Statistics (NBS) switched its methodology from a simple-average to a geometric-means method as of October 2010,** which should see consumer price inflation come in at lower and less-volatile rates in the medium term. The collective change in consumer price index calculation is aimed at harmonizing and improving statistical methods across the East African Community as part of a wider move toward regional integration.

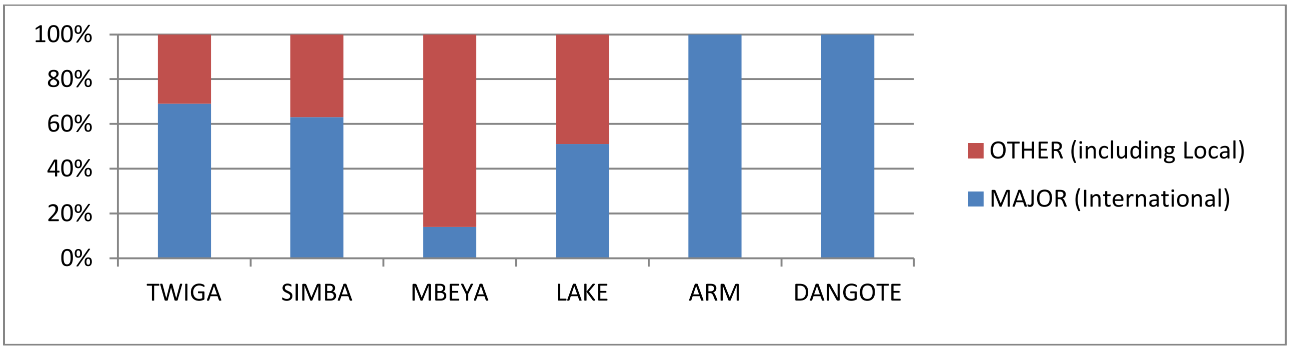
This also included changing the index's weights, base prices, and sub-index baskets to align them more with modern consumption preferences and patterns. The new method is likely to facilitate monetary policymaking for the Bank of Tanzania going forward.

Overall, we expect consumer price inflation to improve towards the end of the year. We are expecting oil and energy prices to hold steady or slightly fall as we are expecting food prices to go down as the spring harvest continue to come to market. Food-supply conditions acted as a disinflationary force during most of the second half of 2010 and 2011 on the back of good rains during the summer harvest period will continue to help out the situation.

Industry Overview

As cement consumption in the country (and Sub-Saharan Africa) continues to remain the lowest in the world (averaging around 70 kg per capita v/s global average of 2,000 kg per capita), a substantial room for growth therefore arises to offer special opportunities (growth and consolidation) for cement producers in the country.

Knowing this, international cement-producing companies have been flocking the region in the past 20 years to take ownership/partnership in the cement industry. Currently, there are three international companies with significant ownership stake in local cement-producing companies.



Source: VARIOUS

The German based Heidelberg Cement owns 69% of TWIGA Cement, the Swiss Holcim Cement owns 63% of SIMBA Cement, and the French Lafarge owns 14% of Mbeya Cement. In the next three years, three more international producers are set to enter the market – ARM, Dangote, and Banco (through Lake Cement).

As of the end of 2011, Twiga Cement had most of cement market share in the country – 43% of the market share. Simba and Mbeya cement on the other hand, had 36% and 12% respectively.

Imported cement held almost 10% of the market share; this was mainly due to cheap import costs and tariffs. Most of the imported cement came from Kenya, India, and Pakistani.

With the entrance of new players in the market, and improving production cost, imported cement market share is projected to drop to 4% in 2014.

Market Share - current and projections

Company	2011A	2012F	2013F	2014F
Twiga	43%	40%	37%	35%
Simba	36%	34%	32%	30%
Mbeya	12%	10%	9%	8%
ARM	-	8%	14%	20%
Lake	-	-	2%	3%
Dangote	-	-	-	-
Imports	9%	8%	6%	4%

Twiga Cement's market share is also projected to drop to 35%, while Simba and Mbeya Cement dropping to 30% and 8% respectively. Kenya's ARM will be the main beneficiary of all this – the company is projected to hold 20% of Tanzania's cement market in year 2014.

It should also be noted that one of the Tanzanian cement companies, SIMBA Cement, has made a first step towards an international expansion by building depots in Rwanda and Burundi. The company has recently been positioning itself to become one of the major players in the region at large.

Production Capacity & Expansion (mtpa)

Company	2011	2012	2013	2014	2015	Total
Twiga	1.4	-	-	-	-	**1.4**
Simba	1.25	-	-	-	-	**1.25**
Mbeya	0.6	-	-	-	-	**0.6**
ARM	-	0.75	0.75	-	-	**1.5**
Lake	-	-	0.5	-	-	**0.5**
Dangote	-	-	-	-	1.5	**1.5**
Total	**3.25**	**0.75**	**1.25**	**-**	**1.5**	**6.75**

Source: VARIOUS

Tanzanian cement production in the next three years is expected to be more than double of its current size.

By year 2015, cement production in the country will be 6.75 mtpa, due largely to entrance of big players in the market.

Arthi River Mining (ARM) is currently building what is expected to be the largest cement producing (by output) plants in the country when completed.

By 2H13, ARM plants (based in Tanga and Dar es Salaam), will produce up to 1.5 mtpa in Tanzania.

Dangote Cement from Nigeria is in the construction process of an equal magnitude (1.5 mtpa) plant in southern Tanzania – to be completed in year 2015. Lake cement is also constructing a plant (expected to be completed in 2013) to produce 0.5 mtpa.

Observations

The improving performance of Tanzania's economy will continue to push for a strong growth in cement demand in the country. Tanzania continues to enjoy the construction boom (both residential and commercial housing, and infrastructure) that usually accompanies economic growth. Cement producers will consequently benefit from new investments in residential and commercial property, in infrastructure projects such as roads and schools, and, in mining and hotel construction for the growing tourism industry.

Favorable retail prices in the country will continue to favor Tanzanian cement producers over its competitors throughout Africa. We consider the Tanzania's prevailing price of USD 120 per tonne to be competitively very low (v/s West Africa's USD 200 per tonne). Our projections show that prices will continue to fall down to between $ 90-105 per tonne in the medium term and translate into higher export levels to available markets (of Rwanda, Burundi, DRC or Zambia (with a $ 200 per tonne price)) with higher prices.

The country's new focus on developing the underdeveloped mortgage industry in the country will very likely push for more housing construction. An improving middle class in the country as a result of an improving economy, continues to indicate that demand for new housing construction is likely to accelerate in coming years as a result of rising disposable incomes and improved access to credit – lead to more demand

We see an improvement in energy supply, introduction of new sources of energy, and a stabilization of energy prices in the country as a special opportunity for cement producers. In the last two years, the industry (known for high energy consumption) experienced power rationing, higher energy prices, and unreliable power supply for most part of their production circles. Recently, cement producers have linked their plants with available alternative sources of energy (coal and gas). Energy supply has also improved in the past few months

Abundant source of high quality limestone deposits in Tanzania will continue to provide unrivaled and competitive advantages for local cement producers over their competitors in the region.

Tanzania Portland Cement Company ("TWIGA")

Recommendation: MEDIUM TERM BUY

SHARE STATISTICS	
Price (Tshs)	2,080
Issued Shares (mn)	179.92
Market cap (Tshs. bn)	374.24
Year end	12/31
Trailing Price (Tshs)	2,420
P/E (x)	7.40
EV/EBITDA	4.72
EPS (Tshs)	281

We recommend a **MEDIUM TERM BUY** of TWIGA at a price of Tshs. 2,500 with up/down side of 10%. We see a growing company in terms of revenue and profit despite potential losses of market share to incoming new players.

With 2011A EPS of TZS 281, PER of 7.40x, EV/EBITDA of 4.72x, and a 3 year Revenue and EPS CAGR of 16% and 27% respectively, TWIGA continues to command a buy status in our projections in the medium term.

The investment case for Twiga Cement is mostly based on its current and future positions – production, distribution, and sales. Twiga produces a substantial portion of clinker locally (comparatively cheaper than imports). Twiga is located in Dar es Salaam (where majority of its customers are), making its distribution costs to be relatively cheaper. Twiga has also mostly phased out the use of Tanesco provided source of power.

We project a 2012 y/y growth of revenue, sales costs, operating costs and net profit before Tax of 14%, 9%, 8% and 23% respectively.

Growth	2012F	2013F	2014F	CAGR
Revenue	13.6%	15.3%	16.7%	16%
Cost of sales	9.2%	9.7%	10.3%	10%
Operating Cost	8.3%	8.5%	9.1%	9%
NPB Taxation	22.6%	25.3%	28.0%	27%

We accordingly project a 3 year CAGR of 16%, 10%, 9%, and 27% respectively for revenue, sales costs, operating cost, and profit before Tax.

With advantages on production and distribution costs over its competitors, Twiga cement is still poised to weather the oncoming falling prices and market share reduction (due to competition) in the medium term.

Key Statistics

TWIGA CEMENT	FY2007	FY2008	FY2009	FY2010	FY2011	CAGR
Number of shares	179,923,100	179,923,100	179,923,100	179,923,100	179,923,100	
Pre-tax profit (Tshs. Mn)	43,582	50,193	68,788	71,929	72,774	14%
Profit after Tax (Tshs. Mn)	30,112	34,962	47,993	50,205	50,605	14%
Dividend (Tshs. Mn)	7,740	12,595	23,390	25,101	32,386	43%
Market Capitalization (Tshs. Mn)	205,110	287,880	303,066	323,860	374,240	16%
Net Assets value (Tshs Mn)	78,890	106,116	141,514	168,329	186,876	24%
Price per share (Tshs.)	1,140	1,600	1,640	1,800	2,080	16%
Book value per share (Tshs.)	438	590	787	936	1,039	24%
Earnings per share (Tshs.)	168	194	267	279	281	14%
Dividends per share (Tshs.)	43	70	130	140	180	43%
Price Earnings Ratio	6.81	8.23	6.15	6.45	7.40	2%
Dividend Yield	4%	4%	8%	8%	9%	23%
Dividend Payout Ratio	26%	36%	49%	50%	64%	26%
Price book value	2.60	2.71	2.09	1.92	2.00	-6%

Source: TWIGA Financials and TSL Analysis

We project a 3 year CAGR on EPS and DPS of 27% and 31% to Tshs. 557 and Tshs. 418 respectively. Our projections point to an impressive 16% dividend yield in three years (28% CAGR). We also project a 9% CAGR reduction in P/B to 1.70 in three years.

TWIGA CEMENT	FY2012E	FY2013E	FY2014E	CAGR
Number of shares	179,923,100	179,923,100	179,923,100	
Pre-tax profit (Tshs. Mn)	89,220	111,792	143,094	27%
Profit after Tax (Tshs. Mn)	62,454	78,255	100,166	27%
Dividend (Tshs. Mn)	43,718	58,691	75,124	31%
Market Capitalization (Tshs. Mn)	440,812	449,808	458,804	2%
Net Assets value (Tshs. Mn)	217,373	245,704	270,531	12%
Price per share (Tshs.)	2,450	2,590	2,750	8%
Book value per share (Tshs.)	1,208	1,366	1,504	12%
Earnings per share (Tshs.)	347	435	557	27%
Dividends per share (Tshs.)	243	326	418	31%
Price Earnings Ratio	7.06	5.75	4.58	-19%
Dividend Yield	9.92%	13.05%	16.37%	28%
Dividend Payout Ratio	70%	75%	75%	4%
Price book value	2.03	1.83	1.70	-9%

Source: TSL Analysis Estimates

High margins, underlying sales growth, strong cash flow, above average yields, profits reinvestment for future opportunities and dividend payouts provides a compelling case for a medium term investment in Twiga Cement.

Valuation and Ratios

Valuation/Ratio	2011A	2012F	2013F	2014F
Gross Margin	46%	48%	51%	53%
Operating Margin	33%	36%	39%	43%
Net Margin	23%	25%	27%	30%
Debt/Cap	18%	16%	18%	19%
EV/Sales	1.81	1.86	1.64	1.42
EV/EBITDA	4.72	4.55	3.74	3.01
Market Cap / Sales	1.72	1.79	1.58	1.38
PER	7.40	7.06	5.75	4.58
Div Yield	8.7%	9.9%	13.0%	16.4%
Payout Ratio	0.64	0.70	0.75	0.75
P/B	2.00	2.03	1.83	1.70

We continue to be impressed by the Twiga Cement operating business model, its management, strategic business plan and location, and financial performance. We continue to regard these factors as very key for the company's future performance. We therefore have used these factors and the overall positive outlook for the cement industry in Tanzania to recommend a medium term buy for TWIGA cement in the medium term.

Selected Financial Statements:

TPCP (Twiga) Cement	2007	2008	2009	2010	2011	CAGR
Non-current Assets	60,201	122,153	142,383	138,879	152,495	26%
Current Assets	42,766	46,513	49,953	78,291	100,174	24%
Total Assets	102,967	168,666	192,336	217,170	252,668	25%
Capital and Reserve	78,890	106,116	141,514	168,329	186,876	24%
Total Liabilities / Debt	24,077	62,550	50,822	48,841	65,792	29%
Cash	20,653	18,882	10,141	26,865	46,245	22%
D&A	2,907	3,321	7,496	9,976	10,349	37%
Taxes	13,470	15,231	20,795	21,724	22,169	13%
Interests	356	358	666	533	365	1%

	2007	2008	2009	2010	2011	CAGR
Revenue	119,765	148,710	178,999	199,601	217,259	16%
Cost of sales	60,648	80,049	86,555	97,774	117,211	18%
Gross Profit	59,117	68,661	92,444	101,827	100,048	14%
Operating Cost	13,877	15,501	20,461	25,945	27,276	18%
Operating Profit	45,240	53,160	71,983	75,882	72,772	13%

		2012	2013	2014		
Revenue		246,806	284,568	332,090		16%
Cost of sales		127,994	140,410	154,872		10%
Gross Profit		118,812	144,158	177,218		22%
Operating Cost		29,540	32,051	34,967		9%
Operating Profit		89,272	112,107	142,251		26%

Source: TWIGA Financials and TSL Analysis

Tanga Cement Company Limited ("SIMBA")

Recommendation: MEDIUM TERM BUY

We recommend a **MEDIUM TERM BUY** of SIMBA at a price of Tshs. 2,400 with up/down side of 5%. We see a company positioning itself to take advantage of a growing cement export market in the neighbor countries of DRC, Rwanda and Burundi.

SHARE STATISTICS	
Price (Tshs)	2,380
Issued Shares (mn)	63.67
Market cap (Tshs. bn)	151.54
Year end	12/31
Trailing Price (Tshs)	2,380
P/E (x)	6.91
EV/EBITDA	4.42
EPS (Tshs)	344

With 2011A PER of 6.91x, EV/EBITDA of 4.72x, and with a 3 year Revenue and EPS CAGR of 14% and 21% respectively, Simba continues to command a buy status in our projections in the medium term.

Our historical data, industry trends, and interviews with the management, suggest that the (below average) 2011 financial performance was just an anomaly. Management point to inadequate power supply coupled with expensive alternative energy sources (the company faced throughout the year) as the main culprit. We also see strong competition from imported cheaper cements as a cause of concern for the company.

Growth	2012F	2013F	2014F	CAGR
Revenue	11.2%	14.7%	13.4%	14%
Cost of sales	10.3%	11.4%	12.1%	12%
Operating Cost	9.7%	10.3%	10.9%	11%
NPB Taxation	11.8%	24.6%	17.9%	21%

We project a 2012 y/y growth of revenue, sales costs, operating costs and net profit before Taxation of 11%, 10%, 10% and 12% respectively.

We accordingly project a 3 year CAGR of 14%, 12%, 11%, and 21% respectively for revenue, sales costs, operating cost, and profit before Tax.

We consider Simba Cement's presence in the countries of Burundi and Rwanda as the right and major step to becoming a major player in the region and hence, replace projected local market share loses.

Key Statistics

SIMBA CEMENT	FY2007	FY2008	FY2009	FY2010	FY2011	CAGR
Number of shares	63,671,045	63,671,045	63,671,045	63,671,045	63,671,045	
Pre-tax profit (Tshs. Mn)	34,422	43,219	43,835	44,696	35,449	1%
Profit after Tax (Tshs. Mn)	23,591	30,253	30,420	32,194	21,929	-2%
Dividend (Tshs. Mn)	11,779	7,641	11,397	15,727	5,476	-17%
Market Capitalization (Tshs. Mn)	205,110	287,880	303,066	323,860	374,240	16%
Net Assets value (Tshs Mn)	50,514	61,407	91,882	107,692	116,592	23%
Price per share (Tshs.)	1,220	1,860	1,740	1,900	2,380	18%
Book value per share (Tshs.)	793	964	1,443	1,691	1,831	23%
Earnings per share (Tshs.)	371	475	478	506	344	-2%
Dividends per share (Tshs.)	185	120	179	247	86	-17%
Price Earnings Ratio	3.29	3.91	3.64	3.76	6.91	20%
Dividend Yield	15%	6%	10%	13%	4%	-30%
Dividend Payout Ratio	50%	25%	37%	49%	25%	-16%
Price book value	1.54	1.93	1.21	1.12	1.30	-4%

Source: Simba Financials and TSL Analysis

We project a 3 year CAGR on EPS and DPS of 21% and 36% to Tshs. 640 and Tshs. 320 respectively. Our projections point to 13% dividend yield in three years (an impressive 34% CAGR). We also project a 4% CAGR reduction in P/B to 1.08 in three years.

SIMBA CEMENT	FY2012E	FY2013E	FY2014E	CAGR
Number of shares	63,671,045	63,671,045	63,671,045	
Pre-tax profit (Tshs. Mn)	39,632	49,381	58,221	21%
Profit after Tax (Tshs. Mn)	27,742	34,567	40,755	21%
Dividend (Tshs. Mn)	11,097	15,555	20,377	36%
Market Capitalization (Tshs. Mn)	151,537	152,811	154,084	1%
Net Assets value (Tshs. Mn)	127,633	135,451	142,253	6%
Price per share (Tshs.)	2,380	2,450	2,520	5%
Book value per share (Tshs.)	2,005	2,127	2,234	6%
Earnings per share (Tshs.)	436	543	640	21%
Dividends per share (Tshs.)	174	244	320	36%
Price Earnings Ratio	5.46	4.42	3.78	-17%
Dividend Yield	7.32%	10.18%	13.22%	34%
Dividend Payout Ratio	40%	45%	50%	12%
Price book value	1.19	1.13	1.08	-4%

Source: TSL Estimates

Improving economies of neighbour countries of Rwanda and Burundi (and subsequent increase in demand for cement) will, if utilized well by Simba Cement, provide a major alternative to the soon to be oversaturated cement market in Tanzania.

Valuation and Ratios

Valuation/Ratio	2011A	2012F	2013F	2014F
Gross Margin	32%	33%	35%	35%
Operating Margin	21%	22%	24%	25%
Net Margin	14%	15%	17%	17%
Debt/Cap	26%	28%	31%	33%
EV/Sales	1.12	1.02	0.91	0.82
EV/EBITDA	4.42	4.04	3.36	2.94
Market Cap / Sales	0.94	0.84	0.74	0.66
PER	6.91	5.46	4.42	3.78
Div Yield	3.6%	7.3%	10.2%	13.2%
Payout Ratio	0.25	0.40	0.45	0.50
P/B	1.30	1.19	1.13	1.08

We therefore continue to believe that Simba Cement is better positioned to face the coming competition from major international cement producers like Dangote and ARM. We continue to be impressed by the operating business model, its management, strategic business plan and location, and projected financial performance.

We continue to regard these factors as very key for the company's future performance. We therefore have used these factors and the overall positive outlook for the cement industry in Tanzania to recommend a **medium term buy** for SIMBA cement in the medium term.

Selected Financial Statements:

Tanga (Simba) Cement	2007	2008	2009	2010	2011	CAGR
Non-current Assets	41,327	59,286	84,990	102,141	105,401	26%
Current Assets	27,460	29,544	31,156	40,546	50,687	17%
Total Assets	68,787	88,830	116,146	142,687	156,088	23%
Capital and Reserve	50,515	61,407	91,882	107,691	116,592	23%
Total Liabilities / Debt	18,272	27,423	24,264	34,996	39,496	21%
Cash	6,553	3,804	10,170	8,183	9,761	10%
D&A	2,025	2,207	2,451	5,489	5,001	25%
Taxes	10,831	12,966	13,414	12,502	13,520	6%
Interests	123	281	(58)	728	561	46%

	2007	2008	2009	2010	2011	CAGR
Revenue	93,784	121,349	119,898	149,181	161,436	15%
Cost of sales	51,058	68,872	63,828	89,466	109,401	21%
Gross Profit	42,726	52,477	56,070	59,715	52,035	5%
Operating Cost	8,347	9,678	10,921	15,656	17,705	21%
Operating Profit	34,379	42,799	45,149	44,059	34,330	0%
Net Profit Before Taxation	34,422	43,219	43,835	43,997	35,449	1%
						9%
		2012	**2013**	**2014**		
Revenue		179,517	205,906	233,497		14%
Cost of sales		120,669	134,426	150,691		12%
Gross Profit		58,848	71,480	82,806		19%
Operating Cost		19,422	21,423	23,758		11%
Operating Profit		39,425	50,057	59,048		22%
Net Profit Before Taxation		39,632	49,381	58,221		21%

Source: SIMBA Financials and TSL Analysis

Analyst' stock ratings are defined as follows:

Outperform/Buy: The stock is of good value, is currently underpriced and have strong fundamentals

Neutral/Hold: The stock is correctly valued with little upside or downside pricing

Underperform/Sell: The stock is currently overpriced, its total return is expected to underperform; it has weak fundamentals and challenging operating environment

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