MMC CAPITAL RTG HY13 RESULTS REVIEW

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(Members Of The Zimbabwe Stock Exchange)

The Market Making Corporation

FINANCIAL RESULTS REVIEW
RTG: Half Year ended 30 June 2013
"A restructuring with results"
21 August 2013

Market Moving Insights!

Rating	BUY
Date	27-Aug-13
Reuters code	RTG.ZI
Bloomberg code	RTG:ZH
Current Price US c	1.2
Target Price US c	1.3
Potential upside	7%
Shares in issue 'm	1,870.55
Market Cap US$m	22.63
52 week range ©	1.1c-3.0c
Book Value US$m	13.56
Book Value per share -c	0.72
Price/Book (x)	1.67

	HY2013	HY2012	FY2012
Revenue $m	13.2	12.7	27.60
EBITDA	12.4%	1.2%	2.2%
Finance costs	-6.4%	-12.6%	-13.2%
PBT	0.2%	-17.3%	-16.6%
Net profit	1.6%	-17.1%	-12.4%

Market cap $m	22.63

Metric	RTG	Sector
EV $m	40.39	
P/E (+1)	38.08	
PBk	1.47	
EV/EBITDA	19.17	

Nature of Business- Hotel Management

Hoteliers Rainbow Tourism Group Limited (RTG) posted an improved set of numbers for the half year ended 30 June 2013.

Revenues buoyed by rising occupancies

Group turnover rose by 4% to US$ 13.2m over the prior period as occupancies improved to 48% from 43% in 2012. The average room rate (ARR) also improved from US$81 to US$84 over the same period. The improved ARR and occupancies led to a 13% growth in revenues per available room (RevPAR) to US$36 for the six month period. The growth in the top line was also boosted by other revenue generating strategies that the group implemented over the period and these include the injection of new personnel, centralisation of the sales function, acquisition of new accounts, launching of the Rainbow Virtual and RainPower programs.

EBITDA margins thickening on improved efficiencies

The cost reduction strategies which the group implemented in November 2012 yielded positive results as mirrored by the thickening of EBITDA margin to 12% from 1% in the prior period. The group targeted utilities (water and electricity); cost of goods, administration costs and financing charges.

Water challenges were addressed by sinking boreholes, a move which generated a 64% saving on water bills. On electricity costs, energy saving bulbs were purchased and gas stoves were installed resulting in a 13% reduction in electricity costs. All these initiatives had the effect of reducing operating expenses by US$1.6mln at a time when revenues were growing hence the thicker EBITDA margins in the period under review.

Towards an optimal capital structure

The group has been haemorrhaging profits due to a huge interest burden that arose from increased gearing. The increased gearing had resulted in an inefficient balance sheet that required restructuring. In the period under review short term loans amounting to US$10mln were converted into long term loans, saving US$0.746mln in financing costs.

Consequently the cost of borrowing retreated from 24% to 11% against a target of 7% by December 2013. The group's interest expense reduced by 47% to US$0.85mln following the retirement of short term debt. The decrease in the interest expense will improve cash flows going forward. Overall gearing declined to 57% from 69% in 2012. The group's capital structure is now close to optimal and will impact profitability positively.

Key Forecasts	FY10A	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue ' USm	20.7	27.32	27.6	31.3	34.5	37.9
EBITDA Margin %	-2%	10%	2%	13%	12%	12%
EBITDA 'USm	(0.35)	2.79	0.61	4.08	4.14	4.55
Operating Income %	-6%	7%	-3%	7%	7%	7%
Operating Income	(1.3)	1.8	(0.9)	2.2	2.4	2.7
EPS - cents	(0.06)	0.03	(0.21)	0.02	0.04	0.04
DPS - cents	-	-	-	-	-	-

Broadening the hotel portfolio through RTG Virtual

The group has had a challenge of limited representation in terms of its hotel geographical distribution. In response to this challenge of limited properties in Zim against customer broader demands, RTG launched the RTG Virtual programme. The RTG virtual is a platform through which various partnerships are formed with other hotel and resort partners in places where RTG has no property. The product has to date attracted 13 hotel partners such Golden Peackock, Leopard Rock, Inn on Rupurara and Sable Sands. The business is commission based with commissions ranging from 10% -15%. This partnership arrangement brings the total RTG grouping to twenty (20) and further diversifies revenue streams.

Management is forecasting a contribution of US$100,000 from this new initiative per year. Our view is that the new product is likely to increase customer numbers and satisfaction as the group widens its product base. With the refurbishments that the group is undertaking to improve the ambiance of the hotels, revenues will be boosted further. The construction of Beitbridge hotel is now complete and is set to open on the 1st of November 2013. Our view is that the Beitbridge hotel may suffer from competition considering that there are rooms that already in existence and the additional rooms may be priced lower. RTG is leading the pack in the local tourism industry by introducing co-operation instead of competing in areas where it lakes a competitive advantage. This level of innovation will take the RTG brand to higher level and increase visibility and profitability.

Outlook, Valuation and Recommendation

UNWTO forecast global tourism arrivals to increase by 4% driven by Asia, Pacific and African countries. Zimbabwe is also likely to continue benefiting from the increased inbound travel trade and with the political unrest that has besieged the northern and western sides of the continent, Southern Africa including Zimbabwe is also likely to benefit.

The Zim market will be RTG's major contributor to the top line, channeling more than 90% to the total group's revenues. Competition in Mozambique is likely to persist in the medium term as new players enter the market and room supply increases to the detriment of price. The UNWTO that the country is co-hosting with Zambia this August is also likely to yield positive results for the Tourism sector in the medium term. Given that the half year revenue accounts for 40% of the full year total revenues, based on management guidance, our model projects a 14% increase in turnover to US$31.35 million for the full year 2013, translating into an EPS of 0.02 cents.

RTG is currently commanding a market share that is above its budgeted 25% at 27% and management is of the view that market share will end the year at 28%. The group will continue to optimise its cost structure and capital structure so that it lowers its average cost of debt to 7% from the current 7%. The group's break-even RevPAR declined to US$36 from the prior levels of US$47 and a break-even occupancy rate of 41% from 47%. Occupancies are expected to rise to 50% and average room rates (ARR) at US$87 RevPAR is likely to reach US$43.50 hence the growth in revenues. Our estimated fair price for the group is US1.29c using an average peers EV/EBITDA multiple of 10x thus presenting 7% upside potential at the current price. We place a **HOLD** tag on the hotel management group.

Disclosure appendix

Analyst Certification

The following analyst(s) who is (are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: **Tawanda Mazorodze and Kudzanai Samudzi.**

Important disclosures

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Additional disclosures

1 This report is dated as at 27 August 2013

2 All market data included in this report are dated as at close of t 27 August 2013, unless otherwise indicated in the report.

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