EQUITY RESEARCH

2nd September 2019

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

Simonds Farsons Cisk p.l.c.

Farsons

Executive Summary:

We maintain our Sell recommendation on Simonds Farsons Cisk plc ("SFC" or the "Group"). After updating our expectations and reflecting the FY 2019 results we increased our 12-month price target from €7.30 to €9.59. The increase in our price target is attributable to the Group's recent year-on-year improved financial performance and outlook of measured growth, in line with the expectations for a mature company. Over recent years, SFC has included the addition of new branded beers and spirits to their beverage portfolio, which has brought success in terms of revenue growth.

The difference between our price target and today's share price relates to the Group's limited growth potential moving forward. Although the Group is currently undertaking significant investments aimed towards enhancing SFC's operational efficiencies, while simultaneously implementing the necessary measures in order to boost its export segment, we feel that the Group has reached its maturity stage. We do not see any catalysts for abnormal growth in revenue at present.

However, the current P/E levels (20.4x) at which the Group is trading at, is considered to be relatively attractive in comparison to other companies within the local market.

The Group has unutilised tax credits amounting to €57 million. Out of this amount, €29.2 million relate to investments tax credits which have no expiry date while €27.9 million relate to conversion tax credits which expire in 2020. Given that such tax credits will all be eventually utilised by the Group going forward, the terminal year within our model does not capture the benefits arising from such tax credits. Nonetheless, all unutilised tax credits were factored in within our valuation model.

The Group's dividend payment of €0.13 per share for FY 2019 translates into a net dividend yield of 1.3%, which is below average. On a tax-adjusted basis, the current dividend payout ratio equates to 43.7%. This is comparable with other mature companies both locally and abroad. Given that we do not expect SFC to experience abnormal growth in the short term, we therefore deem the shares overvalued.

On a positive note, SFC registered a strong record of accomplishment over recent financial periods. The Group is continuing to invest heavily within the food and beverage industry in Malta, which should keep momentum going in the right direction.

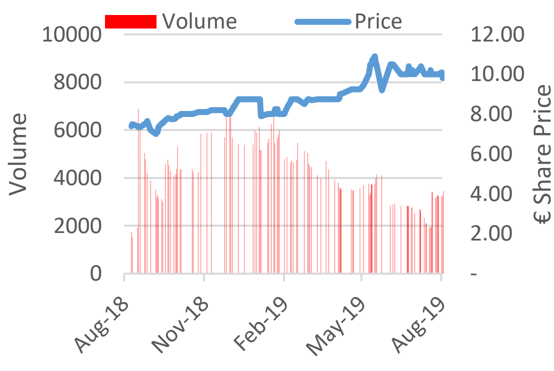
However, upon taking all of the above factors into consideration, we are of the opinion that the Group's limited growth potential justifies a Sell recommendation given the level at which the companies' shares are currently trading.

Stock Rating	**Sell**
Price target (1Yr)	**€9.59**

Country	Malta
Industry	Food and Beverage
Ticker Symbol	SFC
Price (as at 30/08/2019)	€10.30
Price Target (1 Year)	€9.59
Upside / downside to PT	-6.9%
Market Cap	€309 million
Shares Outstanding	30 million
Free Float	20.7%
Net Dividend Yield	1.3%
Current P/E*	20.4x
Forward P/E	20.9x

* Based on the results for January 19

1-Year Range:	Exchange: Malta Stock Exchange ("MSE")
Price Movement and Volume Movement (20 day moving average)	Lowest Price: €7.00 Highest Price: €10.90



Source: Bloomberg

Market Research

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Company Overview:

SFC is engaged in the brewing, production, sale and distribution of branded beers and beverages, the importation, wholesale and retail of food and beverages, including wines and spirits, and the operation of franchised food retailing establishments.

The Group produces and distributes its own brands - Kinnie™, Cisk™, Blue Label Ale™, Hopleaf Pale Ale™, Classic Brews™, Shandy™, Lacto™ and San Michel™ and is the exclusive franchise in Malta to PepsiCo, Budweiser and Carlsberg. The 'importation, wholesale and retail of food and beverages' is performed through Farsons Beverage Imports Company Limited and Quintano Food Limited, 100% owned by the Group. SFC also engages in the operation of fourteen franchised food retailing establishments via its subsidiary Food Chain Limited, which include KFC™, Burger King™ and Pizza Hut™. The Group has invested in a state-of-the-art brewing and beverage production facility to ensure that the Group increases its production capacity, has room for further growth and is in a position to obtain economies of scale.

During FY 2019 the Group embarked on the restoration and rehabilitation project of the Farsons Old Brewhouse. This project is expected to cost in the region of €10 million is scheduled to be completed in the first quarter of 2021.

Company Update:

- *Dividends*

In 2019, the Board declared the payment of a final net dividend of € 4,000,000 or €0.13 per share. (2018: €3,600,000 or €0.12 per share).

- *Upgrades to existing production and logistics facilities*

During the year under review, the Group invested in a new packaging plant for the filling of kegs and water bottles. The new plant comprises of two robotic arms to handle the palletising and de-palletising of kegs and plastic bottles. This development led to reduced operating costs, reduced energy and water consumption. The new packaging plant was implemented during Q1 2019.

Further investments were carried out on the PET packaging lines to enhance operational efficiency and provide upgrades for the launch of the new Kinnie PET bottles launched during the summer. Other developments which were implemented during 2019 included the extension to the logistics warehouse together with a new truck depot.

These investments form part of the Group's ongoing growth strategy aimed at boosting productivity, while simultaneously safeguarding the environment. During 2018/19 the Group invested a further €6.6 million to complement the major plant investments carried out in previous years.

Upcoming projects:

Further upgrades to the Group's existing production and logistics facilities

As part of SFC's focus on improving its overall operational efficiency, the following developments have been identified to be implemented by the Group going forward:

- The addition of an environmentally friendly refrigeration plant and a boiler plant
- The addition of an environmentally friendly sales force car fleet and a Euro 6 truck fleet
- Improvement and further upgrades to the process block control system, which is related to the production line
- Investments aimed at reducing sugar consumption through the reformulation of existing products
- The introduction of new products together with additional investments targeted at promoting drinks with no or reduced sugar content.

The extent of capital expenditure required to fund these developments has not been disclosed by the Group.

The Group's continuous persistence to enhance its overall operational efficiency is in line with SFC's vision to also grow its business internationally, with the aim to achieve a greater regional presence in the food and beverages sectors. To date, "Cisk" beer and other beverages are exported to a growing number of countries, including European markets such as the United Kingdom and Italy, Middle East markets such as Israel and other continents such as Australia. However, management confirmed that no major breakthrough has yet been achieved in this regard.

Restoration of Farsons Old Brewhouse

During 2019, the Group embarked on the restoration and rehabilitation project of the Farsons Old Brewhouse.

Covering over 7,000 square meters of Grade 2 listed, industrial space, the project is regarded to be an important milestone in the Group's history. The Old Brewhouse project will comprise a microbrewery, a brew pub, a visitor attraction depicting Farsons history and story, a cafeteria/ bistro and other amenities. Given that upon completion this development will be in the vicinity of Trident Park, the old brewery building will be transformed into a location housing many different businesses and activities. It is key to note that this project is intended to be more of marketing exercise rather than a profit maker.

The timing for the opening of the Old Brewhouse is being coordinated with the Trident Estates plc Business Park Project, whereby management envisage the whole project cost in the region of €10 million and to be completed by Q1 2021.

Beverage Container Refund Scheme[1]

The Beverage Container Refund Scheme (BCRS) which is due to become operational by December 2019, necessitates producers and consumers to be responsible for their packaging waste. The BCRS incentivises the return of used beverage containers by applying a refundable deposit to beverage sales. The implementation of this scheme intends to increase national efforts in reaching recycling targets, reduce littering and create a privately-funded infrastructure for the collection of empty beverage containers.

The beverages which the Group produced fall under the scheme. The Farsons Group is fully aligned with the environmental objectives of the scheme and is actively working with the authorities to help ensure that it is a success. However, at this stage the Group has not yet provided an indication as to what level of capital expenditure is involved in order to be fully compliant with this scheme.

[1] Typically, a small deposit is added to the purchase price of beverages where the cycle commences by the beverage companies initiating the deposit movement by paying it into a specific deposit account. This deposit is then charged to retailers at the wholesale stage who subsequently transfer it to consumers.

SWOT Analysis

Strengths

- ✓ Malta's positive economic trend, the sustained growth of the tourism industry, the favourable weather conditions together with major crowd events hosted during the year all have contributed positively to the performance of the beverage and food segments.
- ✓ The Group has over recent years maintained a steady growth in both revenue and profitability, whilst continuing to invest in its operational assets and human resources.
- ✓ The investments made by the Group over the past 10 years ensured that SFC is well equipped to increase operational efficiency and to respond to the ever-changing local and export market conditions.
- ✓ Both net profit and dividends paid to shareholders have constantly increased during the last 5 years.
- ✓ The Group possesses ownership of strong, reputable beverages brand names within the Maltese market such as Cisk and Kinnie. The Group also operates internationally-renowned franchises such as KFC™, Burger King™ and Pizza Hut™.

Weaknesses

- × High dependency on the Maltese economy
- × The food and beverage industry is highly competitive, thus increasing pressure on margins.
- × The projects that the Group is undertaking have limited revenue increasing potential, but require a significant cash outflow.
- × From a clients' perspective, switching costs to other products are low.

Opportunities

- o The positive economic performance of the Maltese market is expected to continue to positively impact the Group's profitability and growth potential.
- o The Group's management expect the upgrades to the Group's existing production and logistics facilities to boost efficiency.
- o In response to the increasing demand of low sugar beverages, SFC is committed to reformulate its existing products and introduce new products with no or reduced sugar levels.
- o The Group is committed to ongoing innovation and further internationalisation through exports in order to overcome the limited size of the Maltese economy.
- o The Old Brewhouse project, which will comprise a microbrewery, a brew pub, a visitor attraction, and other amenities, is expected to increase the visibility of the Group's products.

Threats

- ! Aggressive competition experienced in the food and beverage market.
- ! Legislative changes, such as the proposed 'Beverage Container Refund Scheme' (BCRS) may negatively impact the Group's operations.
- ! Continuous spotlight on obesity and sugar consumption, together with the introduction of an excise duty payable on soft drinks, dampened the consumption of soft drinks.
- ! Changes in trends on alcoholic beverages consumption.
- ! A potential downturn in the Maltese economy, especially the tourism industry.

Investment Stance

We have reviewed our model and maintain our Sell recommendation on Simonds Farsons Cisk plc. After updating our expectations and reflecting the FY 2019 results we increased our 12-month price target from €7.30 to €9.59.

The difference between our price target and today's share price relates to the Group's limited growth potential moving forward. Although the Group is currently undertaking significant investments aimed towards enhancing SFC's operational efficiencies, while simultaneously implementing the necessary measures in order to boost its export segment, we feel that the Group has reached its maturity stage. We do not see any catalysts for abnormal growth in revenue at present.

The increase in our price target is attributable to the Group's recent year-on-year improved financial performance and outlook of measured growth, in line with the expectations for a mature company. Over recent years, SFC has included the addition of new branded beers and spirits to their beverage portfolio, which has brought success in terms of revenue growth.

However, the current P/E levels (20.4x) at which the Group is trading at, is considered to be relatively attractive in comparison to other companies within the local market.

As at 2019 the Group has unrecognised tax credits in the form of investment tax credits and conversion tax credits amounting to €57 million. Out of this amount, €29.2 million relate to investments tax credits which have no expiry date while €27.9 million relate to conversion tax credits which expire in 2020. Given that such tax credits will all be eventually utilised by the Group going forward, the terminal year within our model does not capture the benefits arising from such tax credits. Nonetheless, all unutilised tax credits were factored in within our valuation model.

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Valuation

Our one year price target is €9.59. The price target is calculated using a Free Cash Flow to Firm ("FCFF") model and a discount rate (WACC) of 7.0%.

The applied WACC reflects mainly the Group's high exposure to the Maltese economy. The implied WACC also accounts for the high degree of competition experienced within the food and beverage market in Malta, together with a potential decline in the consumption of the Group's products in line with a possible downturn within the tourism industry, which is the current driver of revenue growth.

We applied a 2% terminal growth rate, mainly reflecting recent domestic and international economic growth trends.

For the years ending 31st January	FY 2017	FY 2018	FY2019	FY2020P	FY2021P
	€'000	€'000	€'000	€'000	€'000
Revenue	88,119	94,980	99,798	103,700	106,811
Adjusted cost of sales[2]	(48,151)	(52,807)	(54,867)	(57,111)	(58,824)
Gross Profit	**39,968**	**42,173**	**44,931**	**46,589**	**47,987**
Adjusted selling & distribution expenses	(9,263)	(8,895)	(9,985)	(10,464)	(10,778)
Adjusted administrative expenses	(10,022)	(11,167)	(11,726)	(12,651)	(13,031)
Other operating expenses	(21)	-	-	-	-
EBITDA	**20,662**	**22,111**	**23,220**	**23,474**	**24,178**
Depreciation & amortisation	(6,698)	(6,900)	(7,348)	(7,730)	(8,049)
Inventory write-down adjustment[3]	(1,112)	(549)	(538)	(538)	(538)
EBIT	**12,852**	**14,662**	**15,334**	**15,206**	**15,591**
Finance Income	5	-	-	-	-
Finance Costs	(1,470)	(1,207)	(1,239)	(1,168)	(1,046)
Profit Before Tax	**11,387**	**13,455**	**14,095**	**14,038**	**14,545**
Income tax income	471	949	1,036	750	750
Profit Available to Ordinary Equity holders	**11,858**	**14,404**	**15,131**	**14,788**	**15,295**
(Loss)/ profit for the year from discontinued operations	274	(642)	-	-	-
Profit for the year	**12,132**	**13,762**	**15,131**	**14,788**	**15,295**
Earnings Per Share	*0.404*	*0.459*	*0.504*	*0.493*	*0.510*

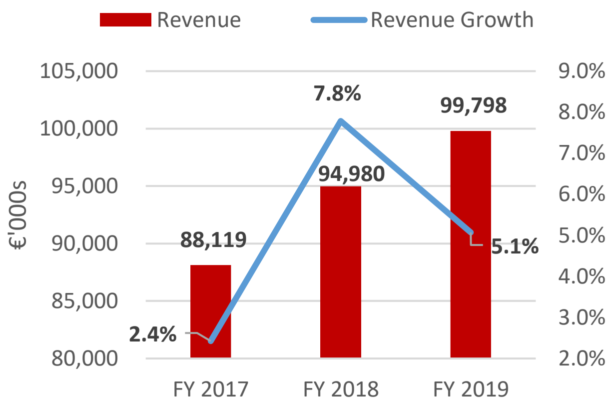
Source: Audited Financial Statements and CC estimates

Investment Thesis Variables

- **Revenue**

Brewing, production and sale of branded beers and beverages

The 'brewing, production and sale of branded beers and beverages' segment is the largest contributor towards the Group's revenue, consisting of activities conducted by Simonds Farsons Cisk plc and EcoPure Limited. The Group's own brands, primarily Cisk™ and Kinnie™ were two principal contributors towards the Group's growth in revenue under this segment.



Source: Audited Financial Statements

During 2019, the Group's beer portfolio registered a strong performance, with SFC recording a growth in sales of beer and water, while experiencing a marginal decrease in the sale of non-alcoholic beverages, primarily arising from the increased awareness on obesity and sugar consumption.

The new automated water filling line which was implemented during 2018, resulted in increased production and operational efficiencies within the area. Overall, revenue derived from the 'brewing, production and sale

[2] All of the Group's operating expenses, mainly referring to cost of sales, selling & distribution costs, together with administrative expenses, are adjusted accordingly in line with the depreciation and amortisation charge incurred by the Group in the respective year.

[3] The Group provides for an annual charge to write down the costs over the useful life of its inventory.

of branded beers and beverages' segment during 2019 increased by 4.5% from €50.5 million in 2018 to €52.8 million in 2019. In line with management's expectations, we are projecting revenue under this segment to further increase to €55.0 million in 2020. We are anticipating revenue under this division to further increase by 3% in 2021, in line with Malta's continuous strong economic performance.

Importation, wholesale and retail of food and beverages, including wines and spirits

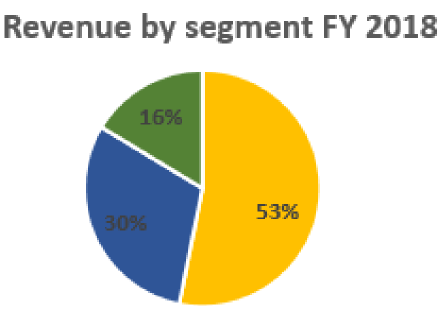
The addition of new branded beers and gins to the Group's beverage portfolio, together with an increase in the level of unit sales, have been the main drivers towards an increase in revenue derived from the 'imports of food and beverage' segment.

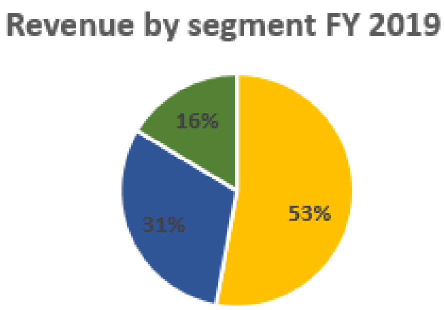
During 2019, revenue generated under this line of business increased by 5.8% to €30.6 million. Management is anticipating a further growth in revenue of 3.5% under this segment, reaching a total level of €31.7 million for 2020. We are projecting a further increase of 3% for 2021, in line with Malta's economic trends.

Operation of franchised food and retailing establishments

Under this segment the Group engages in the operation of fourteen franchised food retailing establishments in Malta via its subsidiary Food Chain Limited, which include KFC™, Burger King™ and Pizza Hut™. Although revenue generated under this division only encompasses approximately 16% of total revenue, these outlets have reported consistent growth over recent years, whereby KFC™ is regarded to have registered the largest sales growth. In fact, during 2019 revenue under this segment increased by 5.4% over the previous financial year.

Revenue (€'000s)	FY 2017	FY 2018	FY2019	FY2020P	FY2021P
Brewing, production and sale of beers and beverages	46,146	50,494	52,780	54,961	56,610
Importation, wholesale and retail of F&B	27,516	28,960	30,649	31,732	32,684
Operation of franchised food retailing establishments	14,457	15,526	16,369	17,007	17,517
Total Revenue	**88,119**	**94,980**	**99,798**	**103,700**	**106,811**
% Growth - Brewing, production and sale of beers	-0.2%	9.4%	4.5%	4.1%	3.0%
% Growth - Importation, wholesale and retail of F&B	0.4%	5.2%	5.8%	3.5%	3.0%
% Growth - Operation of franchised food retailing	16.6%	7.4%	5.4%	3.9%	3.0%
Total Growth	**2.4%**	**7.8%**	**5.1%**	**3.9%**	**3.0%**

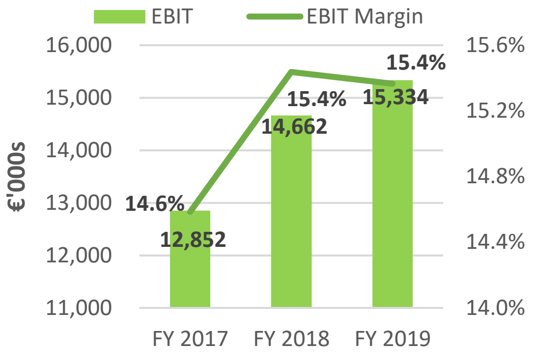




Brewing, production and sale of branded beers and beverages
Importation, wholesale and retail of food and beverages
Operation of franchised food retailing establishments

Source: Audited Financial Statements

- **EBIT** – EBIT in 2019 increased by 4.6% to €15.3 million, from €14.7 million in 2018. Although the Group registered an increase in revenue during 2019, EBIT margin remained unchanged from the previous financial year at 15.4% due to an equivalent upsurge in the operating expenses, albeit highlighting that the Group has reached a maturity stage. In line with the anticipated increase in employment costs, we expect EBIT margin to marginally taper down to 14.7% in 2020 and to 14.6% in 2021 respectively.

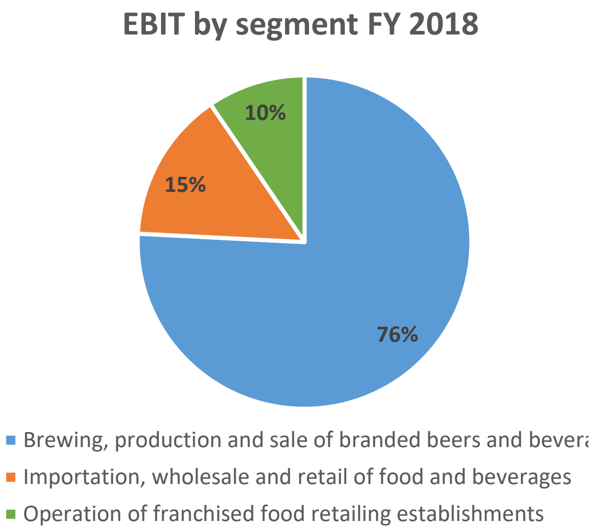


Source: Audited Financial Statements

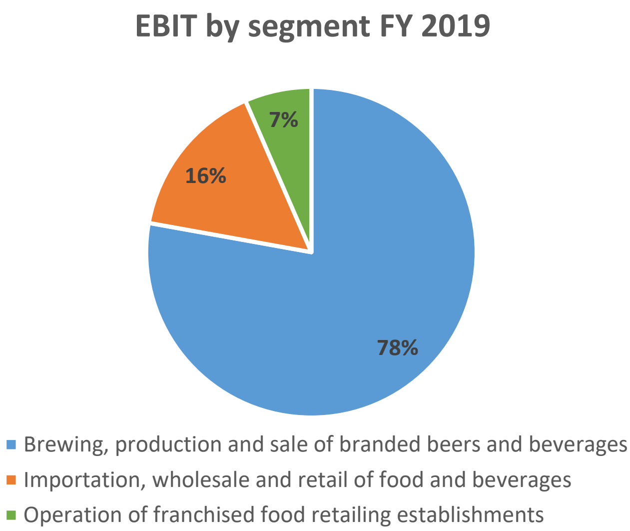
Given that the Group operates in several divisions within the food and beverage business, it is crucial to identify that the 'brewing, production and sale of branded beers and beverages' segment is the major contributor towards the Group's total operating profit (2019: 77.8%). A detailed analysis depicting the contribution each segment has towards SFC's operating profit is presented in the table and charts presented below.

EBIT (€'000s)	FY 2018	FY 2019
Brewing, production and sale of branded beers and beverages	11,115	11,935
Importation, wholesale and retail of food and beverages	2,152	2,396
Operation of franchised food retailing establishments	1,395	1,003
Total EBIT	**14,662**	**15,334**

Source: Audited Financial Statements



Source: Audited Financial Statements



Source: Audited Financial Statements

- **Operating expenses** – These mainly consist of cost of sales, selling & distribution costs together with administrative expenses. Cost of goods sold incurred during 2019 increased by 3.9% to €54.9 million, in line with the increase in revenue experienced in the year under review. We expect cost of goods sold to increase to €57.1 million in 2020 and to €58.8 million in 2021, reflecting the increase in revenue which is anticipated to be generated by the Group going forward.

  During 2019, SFC also incurred an increase in selling & distribution costs and in administrative expenses. Although general market economic indicators remained broadly positive, mounting employment costs are placing more pressures on the Group to further improve productivity levels across all areas of engagement. In this regard, we expect selling & distribution costs and administrative expenses to reach €10.5 million and €12.7 million respectively in 2020.

- **Depreciation –** Annual depreciation charge is incurred on the Group's land and buildings, assets in the course of construction and on plant, machinery and equipment. In line with the Group's planned capital expenditure for the coming years, we expect annual depreciation to increase to €7.7 million in 2020 and to €8.0 million in 2021.

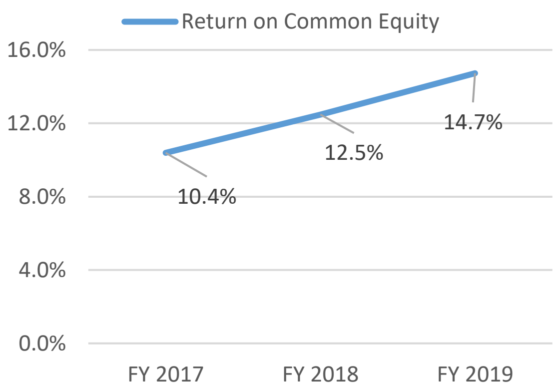
- **Inventory write-down adjustment –** The Group provides for an annual charge to write down the costs over the useful life of its inventory.

- **Finance costs –** During 2019, the Group incurred finance costs amounting to €1.2 million and are mainly composed of interest payable on bank loans and overdrafts and on the Group's €20 million bond. Consequently, we expect the Group to incur finance costs amounting to €1.2 million in 2020 and €1 million in 2021. The expected decline in finance costs relates to the fact that the Group is expected to utilise its cash reserves to repay and settle portions of its existing loans and overdrafts on a yearly basis. Interest payable on bank loans and bank overdrafts vary from fixed to variable rates, whereby during 2019 the average interest payable on bank overdrafts stood at 4.15%, whereas the average interest payable on bank loans amounted to 2.11%. Otherwise, interest payable on the Group's bond is of 3.5%.

  It is key to note that in the year under review, the Group was granted a net subsidy amounting to €0.5 million from Malta Enterprise relating to previous investment loans undertaken by the Group.

- **Taxation –** The Group is subject to a corporate tax rate of 35% on its profit before tax. However, as at year end 2019 the Group has unrecognised tax credits in the form of investment tax credits and conversion tax credits amounting to €57.02 million. Of note, €29.2 million relate to investments tax credits which have no expiry date while €27.9 million relate to conversion tax credits which expire in 2020.

- **Net Profit and Earnings per Share –** Net profit increased from €14.4 million in 2018 to €15.1 million in 2019. This translates to an EPS of €0.46 in 2018 compared to an EPS of €0.50 in 2019. In line with the increase in both selling & distribution expenses and administrative expenses which is anticipated to be incurred by the Group going forward, we expect net profit to taper down to €14.8 million in 2020, translating to an EPS of €0.49. As demonstrated in the chart, return on common equity increased from 10.4% in 2017 to 14.7% in 2019 in line with the Group's recent year-on-year improved financial performance.



Source: Audited Financial Statements

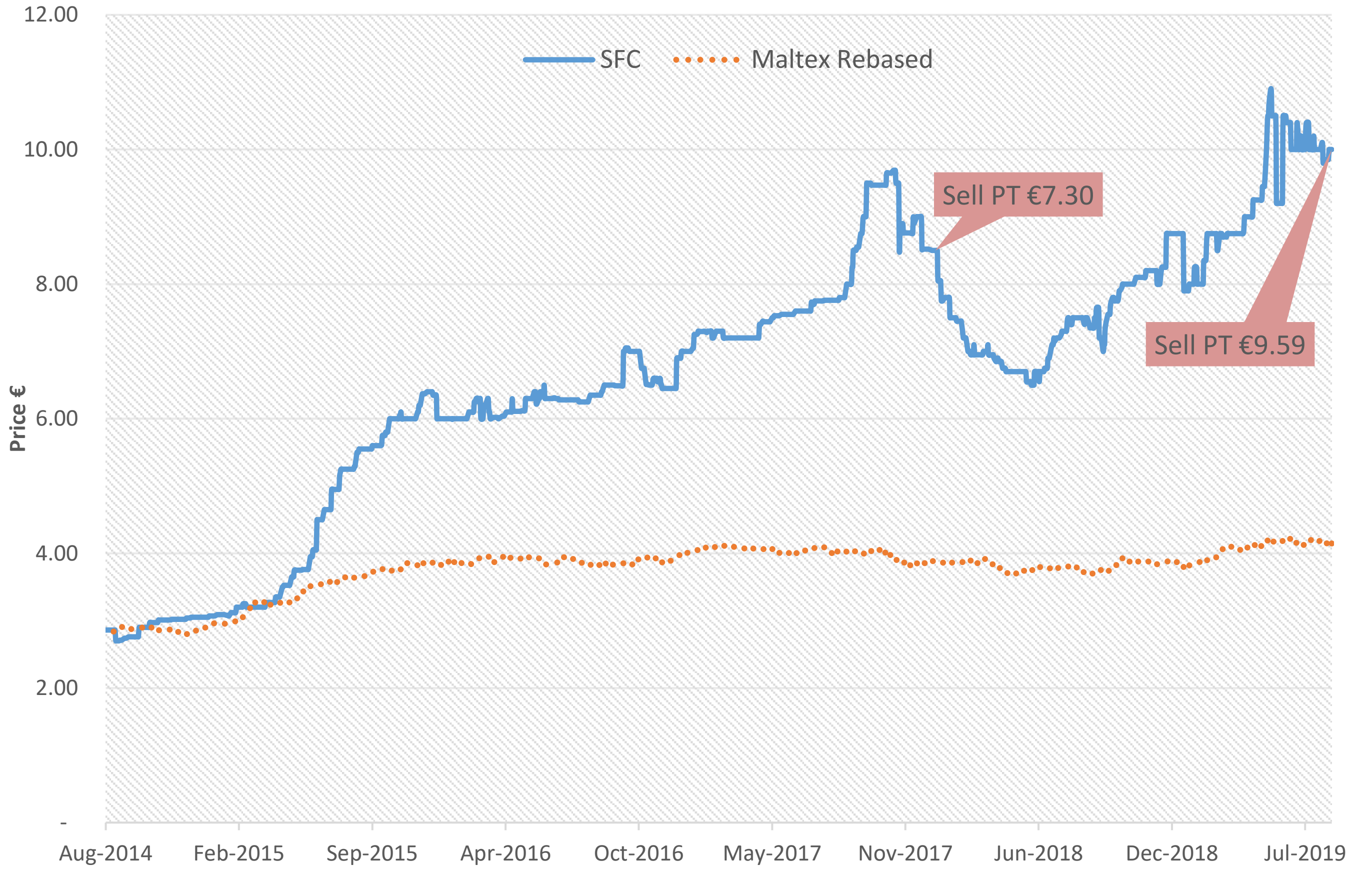
Key Financial Indicators

For the years ending 31st January	2017 €'000	2018 €'000	2019 €'000
Income Statement			
Revenue	88,119	94,980	99,798
Growth in Revenue (YoY)	2.4%	7.8%	5.1%
EBITDA	20,662	22,111	23,220
EBITDA Margin (EBITDA / Revenue)	23.4%	23.3%	23.3%
Operating Income (EBIT)	12,852	14,662	15,334
Operating (EBIT) Margin (EBIT / Revenue)	14.6%	15.4%	15.4%
Net Income	12,090	13,720	15,091
Net Margin (Net Income / Revenue)	13.7%	14.4%	15.1%
Earnings per Share (EPS)	0.40	0.46	0.50
Growth in EPS (YoY)	8.9%	13.5%	10.0%
Sustainable Growth Rate in Dividends	7.5%	9.2%	10.9%
Balance Sheet			
Cash and Cash Equivalents	768	3,720	7,578
Inventories	14,569	15,165	13,652
Current Assets	64,948	163,528	170,996
Non-Current Assets	117,993	127,100	127,553
Total Assets	182,941	290,628	298,549
Current Liabilities	26,434	32,444	26,637
Non-Current Liabilities	33,236	34,452	36,086
Total Liabilities	59,670	66,896	62,723
Total Financial Debt	35,963	42,834	40,695
Total Equity	123,271	96,632	108,273
Net Debt	122,503	92,912	100,695
Shares Outstanding	30,000	30,000	30,000
Cash flow			
Cash Flow from Operating Activities (CFO)	13,135	20,893	16,200
Capex	(20,070)	(15,204)	(6,602)
Free Cash Flow (FCF)	(6,935)	5,689	9,598
Cash Flow from Investing Activities	(19,714)	(21,407)	(6,587)
Cash Flow from Financing Activities	4,091	(656)	(1,402)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	10.4%	12.5%	14.7%
Return on Assets (Net Income / Total Assets)	6.6%	4.7%	5.1%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	99.4%	96.2%	93.0%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	32.6%	23.0%	21.0%
Net Debt / EBITDA	5.9x	4.2x	4.3x
Current Ratio (Current Assets / Current Liabilities)	2.5x	5.0x	6.4x
Quick Ratio (Acid Test Ratio)	1.9x	4.6x	5.9x
Interest Coverage Ratio (EBITDA/Cash Interest Paid)	14.1x	18.3x	18.7x
Cash from Operations / EBIT	1.0x	1.4x	1.1x

Source: Audited Financial Statements

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
SFC	08.01.2018	€8.50	€7.30	Simon Psaila & Elisabetta Gaudiano	Sell
SFC	02.09.2019	€10.30	€9.59	Simon Psaila & Andrew Fenech	Sell



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.

Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Group/Company owns which can de further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Group/Company owes which can de further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer