Chagala Group (CGLO.L) Share placing appears crucial for bond refinancing

Price: US$1.25

Market cap: £20m

- **Placing to raise US$5.75m:** On 6th September Chagala announced a placing and open offer to raise gross proceeds of US$5.75m (US$5.5m net) at a price of US$1.00, a 50% discount to the closing price before the announcement. The funds will be used to finance the repayment of the group's outstanding bonds and strengthen the balance sheet. The placing and open offer close on 23rd September.

- **Bonds due to be repaid in December:** Chagala has outstanding KZT denominated bonds totalling US$6.6m, which are due to be repaid on 1st December 2016. In fact, the group will need to show that it has the funds available to repay the bonds by 15th October, to avoid being in default. However, the ongoing shareholder dispute has severely limited the group's refinancing options, given the timetable of most banks' credit approval process; hence the need for the placing and open offer.

- **Potential loss of revenue:** Additionally, the majority of Chagala's rental contracts and accommodation agreements require the group to be financially solvent to avoid defaulting on its leases as well. As a result, if the placing and open offer do not proceed it is likely that the group would also suffer a significant fall in ongoing revenue, on top of the negative cash impact of the bond refinancing and become effectively insolvent.

- **Injunction filed by TIPP Investments:** Chagala announced on 19th September that TIPP Investments has filed an application for an injunction in the High Court of the British Virgin Islands, to suspend the placing and open offer until 27th October. This is the date of a hearing filed by TIPP, against the company and its board. TIPP claims the placing and open offer "would prejudice TIPP's rights as a shareholder". This is being contested by Chagala in a hearing likely to take place on 22nd September, the day before the placing and offer close.

- **Stronger balance sheet and higher dividends post placing:** However, if the group is able to proceed with the proposed fundraise it will have the cash proceeds to be able to repay the bonds on maturity, thereby avoiding default on the leases as well. With a significantly strengthened balance sheet it would also be able to increase the dividend payout. We are currently assuming that total dividends remain flat at US$1.2m in 2017-18, but with free cash flow of US$3m forecast for this year and US$5m in 2017, even without the bonds being refinanced, we would expect to see a significant increase in the payout.

- **Dividend yield could rise sharply:** The shares have barely traded in the past few months, partly due to the current lack of free float and partly the ongoing shareholder dispute. However, if the fundraise were successful and the dividend payout were increased, the yield could potentially double from the current level of c.5%. However, in the absence of the placing and open offer, it is difficult to see how the group would be able to refinance its bonds and remain a going concern.

Dec Year End	FY13	FY14	FY15	FY16E	FY17E
Total revenues (US$m)	33.6	28.2	23.5	20.7	20.9
EBITDA (US$m)	11.1	9.2	8.0	8.2	8.4
PBT (US$m)	1.1	2.0	2.6	2.6	3.0
Reported EPS (USc)	2.63	6.84	8.76	8.80	9.92
Adj EPS (USc)	3.21	4.33	4.89	8.80	9.92
DPS (USc)	1.88	5.88	5.88	5.88	5.88
Free cash flow (US$m)	8.54	3.32	(1.54)	3.44	4.98
Net (debt)/cash (US$m)	(24.8)	(17.7)	(12.6)	(10.4)	(6.6)
Net LTV (%)	19%	15%	15%	12%	8%
NAVPS (US$)	5.46	4.78	3.65	3.83	3.91
EV/EBITDA (x)	4.6	4.8	4.9	4.5	4.0
P/NAV (x)	0.23	0.26	0.34	0.33	0.32
Dividend Yield (%)	1.5	4.7	4.7	4.7	4.7

Source: Company (actual), Argento Capital Markets (forecasts);

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HOLD	Share price appreciation or depreciation of less than 10% in absolute terms over 12 months
SELL	Share price depreciation of 15% or more in absolute terms over 12 months
SPEC BUY	Share price appreciation of 15% or more in absolute terms over 12 months, but with an unusual level of risk relative to return

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