09/10/17

Chagala Group* (CGLO.L)

Corporate

1H17 results

Interim profits boosted by 2016 refinancing

Chagala reported an 8% rise in interim pre-tax profits, on the back of lower interest costs following the debt refinancing last year and foreign exchange gains, as the local currency strengthened. Although EPS fell 8%, NAVPS was up 5% to US$3.75. Positive free cash flow reduced net debt further at the period end, so the net LTV was just 11%. As the company is on target to meet our 2017 forecasts, we have not revised our numbers. The stock remains on a wide discount to NAV and with a forecast dividend of USc2.5, the yield is 2%.

- **Results boosted by forex gains:** Chagala reported an 8% increase in pre-tax profits to US$1.6m for the interim period. Profits were boosted by US$0.35m of foreign exchange gains and lower interest costs, following the stronger local currency and debt refinancing in 2016. A more than doubling of the tax charge depressed earnings, which fell 8% to US$1.2m and US$0.057 per share. NAV increased 5% to US$80m or US$3.75 per share, on the back of the retained earnings. Chagala paid a divided of USc2.5 in July, after the period end.
- **Stronger balance sheet:** The balance sheet benefited from the refinancing at the end of last year, with total debt dropping below US$12m. The LTV also fell to just 14.5%. Operating cash flow was lower, but was still over US$3m in the first half, sufficient to cover investing and financing and increase the cash balance to nearly US$3m, before a US$0.5m dividend was paid.
- **Forecasts unchanged:** We have not made any changes to our forecasts following the results. The interims leave the company ahead of our run rate for the year for cash flows and profits, so we feel more confident of Chagala meeting our numbers.
- **Valuations remain attractive:** The stock is currently trading on a discount of 65% to NAV. With a FY18 yield of 3.8% this seems hard to reconcile, now that the operational backdrop has stabilised and the short-term debt has been refinanced.

Dec Year End	FY14	FY15	FY16	FY17E	FY18E
Total revenues (US$m)	28.2	23.5	20.3	20.2	20.6
EBITDA (US$m)	9.2	8.0	7.7	7.7	7.8
PBT (US$m)	2.0	2.6	1.6	2.9	3.7
Reported EPS (USc)	6.8	8.8	3.0	9.6	12.4
Adj EPS (USc)	4.3	4.9	3.3	9.6	12.4
DPS (USc)	5.9	-	2.5	2.5	4.8
Free cash flow (US$m)	3.32	(1.54)	2.25	3.33	3.82
Net (debt)/cash (US$m)	(17.7)	(12.6)	(10.3)	(7.5)	(4.2)
Net LTV (%)	15%	15%	12%	9%	5%
NAVPS (US$)	4.78	3.56	3.57	3.54	3.66
EV/EBITDA (x)	4.8	4.9	5.7	4.4	3.9
P/NAV (x)	0.26	0.35	0.35	0.35	0.34
Dividend Yield (%)	4.7	-	2.0	2.0	3.8

Source: Company Data, Argento Capital

Closing price	US$1.25
Target price	N/A
Market cap	£20m
Enterprise value	£27m
Share price as at	(close) (09/10/17)

Residential and commercial property provider to the oil & gas majors operating in Kazakhstan

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1H17 Results

Higher profits, despite 5% fall in revenues

- Chagala reported an 8% increase in pre-tax profits to US$1.6m for the interim period. Profits were boosted by US$0.35m of foreign exchange gains and lower interest costs, following the stronger local currency and recent debt refinancing.
- Turnover fell 5% to US$9.5m, mainly as a result of a 5% drop in room and rent income to US$7.4m. There were also slight falls in food and beverage and other revenue, in line with the room and rent.
- Nevertheless, operating profit was just 3% lower at US$2.1m, on the back of lower depreciation charges, despite higher admin expenses. EBITDA was also 8% lower at US$3.5m. The margin also slipped to 37% from a peak of 38% last year.
- A 34% fall in interest expenses and the foreign exchange gains boosted pre-tax profits, despite litigation costs of US$0.28m. However, a more than doubling of the tax charge weighed on earnings, which fell 8% to US$1.2m and US$0.057 per share.
- NAV increased 5% to US$80m or US$3.75 per share, on the back of the retained earnings, although there were no revaluation gains to boost the asset values.
- The balance sheet benefited from the refinancing at the end of last year, with total debt dropping below US$12m and net debt falling 19% YoY to US$8.8m. The LTV also fell to just 14.5% from nearly 17% last year.

Interim results (US$'000)

	1H16	1H17	Change
Room and rent	7.78	7.41	-4.7%
Food & Beverage	1.23	1.19	-3.5%
Other revenue	1.02	0.95	-6.2%
Total Revenue	**10.03**	**9.55**	**-4.7%**
Utilities, cleaning & maintenance	(1.65)	(1.73)	4.9%
F&B	(0.39)	(0.37)	-6.9%
Salaries & employee benefits	(2.84)	(2.57)	-9.5%
Gross profit	**5.14**	**4.89**	**-5.0%**
Administrative expenses	(1.31)	(1.35)	3.5%
Depreciation	(1.68)	(1.45)	-14.0%
Operating profit	**2.15**	**2.09**	**-3.1%**
EBITDA	**3.84**	**3.53**	**-7.9%**
Impairments/Disposals/Recovery of PP&E	0.00	(0.01)	N/A
Other income and expenses	0.01	(0.33)	N/A
Net financial income and expenses	(0.67)	(0.13)	-81.0%
Profit before tax	**1.49**	**1.62**	**8.4%**
Tax charge	(0.14)	(0.31)	122.0%
Profit after tax	**1.35**	**1.31**	**-3.4%**
Minority interest	0.05	0.11	116.0%
Attributable profit	**1.30**	**1.20**	**-8.0%**
Average number of shares outstanding (m)	20.77	20.87	0.5%
EPS (US$)	**0.063**	**0.057**	**-8.4%**
Adjusted EPS (US$)	**0.063**	**0.058**	**-7.7%**
Gross margin	51.3%	51.2%	0%
Operating margin	21.5%	21.8%	2%
EBITDA margin	38.3%	37.0%	-3%

Source: Company Data

Financial summary

Dec Year End	FY14	FY15	FY16	FY17E	FY18E
P&L (US$m)					
Total revenues	28.2	23.5	20.3	20.2	20.6
Gross profit	13.2	11.2	10.6	10.5	10.6
EBITDA	**9.2**	**8.0**	**7.7**	**7.7**	**7.8**
Depreciation	(5.3)	(4.2)	(3.3)	(3.4)	(3.4)
Operating profit	**3.9**	**3.8**	**4.4**	**4.3**	**4.4**
Revaluations/Impairments	(0.9)	2.8	(0.1)	-	-
Associates/Disposals	1.5	(0.9)	(0.0)	-	-
Net financial expense	(2.4)	(2.1)	(1.5)	(0.9)	(0.7)
Other / Foreign exchange loss	(0.1)	(0.9)	0.2	(0.5)	-
PBT	**2.0**	**2.6**	**1.6**	**2.9**	**3.7**
Adjusted PBT	**1.2**	**1.5**	**1.6**	**3.4**	**3.7**
Average shares outstanding (m)	20.6	20.7	20.8	20.9	20.9
Reported EPS (USc)	**6.8**	**8.8**	**3.0**	**9.6**	**12.4**
Adj EPS (USc)	**4.3**	**4.9**	**3.3**	**9.6**	**12.4**
Balance sheet (US$m)					
PP&E/Investment property	106.3	77.1	78.9	75.4	74.7
Other LT assets	8.5	6.0	4.7	4.7	4.7
Current assets	10.8	9.7	8.5	8.3	8.8
Long term borrowings	16.1	6.1	10.0	7.5	5.0
Other long term liabilities	7.0	8.6	8.1	7.9	7.8
Short term borrowings	4.2	8.3	2.5	2.7	2.5
Other current liabilities	3.7	2.0	3.3	2.6	2.8
Net assets	**94.6**	**68.0**	**68.2**	**67.6**	**70.1**
Closing net debt	**17.7**	**12.6**	**10.3**	**7.5**	**4.2**
Cashflow (US$m)					
Operating cash flow	9.3	5.7	8.0	7.1	7.5
Interest & tax	(2.4)	(1.7)	(1.3)	(1.7)	(1.7)
Capex / Acquisitions	(3.6)	(5.5)	(4.5)	(2.0)	(2.0)
Dividends	(0.4)	(1.2)	-	(0.5)	(0.5)
Equity	-	0.1	0.0	-	-
Net proceeds from borrowings	(2.5)	2.2	(2.0)	(2.3)	(2.7)
Change in cash	**0.4**	**(0.5)**	**0.3**	**0.6**	**0.6**
Closing cash	**2.5**	**1.8**	**2.2**	**2.8**	**3.4**
Growth rates (%)					
Revenues	(16.1)	(16.5)	(13.7)	(0.5)	2.0
EBITDA	(13.2)	(14.3)	(23.9)	4.9	3.0
Adj EPS	35.2	12.7	(32.1)	189.2	29.2
NAVPS	(12.4)	(25.6)	0.3	(0.8)	3.3
Operating ratios					
Gross margin	47.0%	47.7%	52.0%	51.9%	51.4%
EBITDA margin	32.5%	34.2%	31.8%	38.1%	38.0%
OP margin	13.9%	16.3%	15.3%	21.2%	21.5%
Adj EPS/DPS	74%	N/A	133%	384%	259%
Leverage					
Net debt/equity	19%	19%	15%	11%	6%
Pre-revaluation interest cover (x)	1.6	1.8	2.0	4.7	6.2
Net LTV (%)	15%	15%	12%	9%	5%

Source: Company data, Argento Capital Markets

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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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