

21/6/18

Chagala Group* (CGLO.L)

Corporate

Unconditional Cash Offer from AIMS

Note on AIMS Offer

An unconditional Cash Offer for the share capital of Chagala was received on 20 June 2016 from existing shareholder Asian Investment Management Services Limited (“AIMS”). The offer price of US\$1.55 is at a substantial discount to our previous estimated NAV of the Group of US\$3.54. Outstanding litigation against the Group by a member of a concert party which attempted to gain board control two years ago seems to be at the heart of the Offer which may be designed as a way of ending the dispute.

Suspension price	US\$1.25
Offer price	US\$1.55
Offer value	US\$32.9m

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

- Chagala has received a Cash Offer of US\$1.55 per share from AIMS, valuing the Group at US\$32.9m: AIMS already owns a total of 2,350,418 Depository Interests, 11.26% of the shares in the Company outstanding (excluding shares held by the Company in treasury).
- The Offer is unconditional and is open for acceptance for 21 calendar days from 20 June 2018: the directors of Chagala are not making any recommendation to shareholders in regards to the Offer.
- The accounts of Chagala have yet to be published for 2017 and its shares were consequently suspended for late publication: our forecasts (below) since the last published interim results in October 2017 are therefore unchanged.

Current Forecasts following 2017 interims

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

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Source: Company Data, Argento Capital

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- Chagala has received a Cash Offer of US\$1.55 per share from AIMS, valuing the Group at US\$32.9m.
- AIMS already owns a total of 2,350,418 Depositary Interests, 11.26% of the shares in the Company outstanding (excluding shares held by the Company in treasury).
- AIMS previously announced on 21 October 2016 that it had acquired an additional 6.02% of the Company's shares at a price of US\$1.55 taking its shareholding then to 11.31%.
- AIMS appears to be a BVI registered company owned or controlled by Mr. Crichton-Watt who already has investments in Kazakhstan, including a significant investment in the Kazak based company Steppe Cement, in which Mr. Del Ser Perez is the Chief Executive Officer. Mr Del Ser Perez is a non-executive director of Chagala.
- The offer is unconditional and is open for acceptance for 21 calendar days from 20 June 2018.
- The directors of Chagala are not making any recommendation to its shareholders in regards to the Offer.
- The Company is still subject to litigation in the BVI in relation to an attempt by a group of shareholders (the "Concert Party") to take board control of Chagala which led to the issue of a direction notice by the Company under its Articles of Association to a number of shareholders and the suspension of their shares' voting rights. TIPP Investments PCC (one of those shareholders issued a direction notice) joined AIMS in an action along with the directors of Chagala, Computershare Company Nominees Limited, Portola Group Limited, and Halfmoon Bay Capital Limited, alleging unfair prejudice.
- As this litigation has been going on for two years so far, it seems that the Offer being made by AIMS could be a way of settling the dispute, providing the Concert Party agrees acceptance.
- The accounts of Chagala have yet to be published for 2017 and its shares were consequently suspended for late publication, so there is no update on that figure. The shares are very thinly traded, if at all and have remained around the US\$1.25 level for some considerable time. Our expectation of PBT for FY17 was US\$2.9m (up from US\$1.6m in FY16) and an adjusted EPS of 9.6 US cents (up from 3.3 US cents). A dividend of 2.5 US cents per share was paid in July 2017 and an additional dividend of 2.5 US cents per share was paid in December 2017. An underlying annualised figure of 5 US cents per share could therefore be assumed providing a yield of 3.2% at the Offer price of US\$1.55.
- Most importantly, our estimated NAV per share was US\$3.54 (a NAV of approximately US\$73.9m against an Offer valued at US\$32.4m) such that the Offer would be at a discount of 56% to our estimate. That is a large discount, which it would be difficult for the directors to recommend, such that the only reason for acceptance of the offer (from the point of view of shareholders other than the Concert Party), would be due to the illiquidity of the shares, risk factors

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attached to a frontier market such as Kazakhstan (though relationships with major oil companies ameliorate that to an extent) and whether shareholders could have an expectation that the NAV discount could not be reduced significantly in time.

- From the tenor of the AIMS Offer Letter and the comment from the Company in its Letter to Shareholders that “it has been performing well in difficult markets”...and that the “Directors continue to believe that there is significant value in the Company that the Directors believe ought be reflected in higher prices for its shares and/or depositary interests over the long term” it would appear this may be an offer designed to address the issue of litigation rather than designed to acquire the entire company and take it private.

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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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