EXECUTIVE SUMMARY

Recent results released by leading hoteliers point towards improving occupancies, RevPARs and ADRs locally. We expect this positive earnings outlook to continue, given the positive outlook for the tourism sector. Our range of scenarios for RevPAR growth is xx, given the limited supply growth until 2013.

With occupancies recovering towards peak levels we could see room supply coming at a premium. Prospects for discount business with corporate transient customers.

Tight supply environment an important tailwind for African Sun

An increase in local salaries should boost local consumer spent while investment interest in the country should boost foreign business visitors

An improvement in the global economy will also support the tourism industry.

Better earnings visibility for Cresta Hospitality and Meikles, because of their simpler more defensive business model. Business travel and tourism is less fickle than leisure travel so the group’s profits are likely to show defensive qualities.

We also like African Sun because it has already expanded regionally, and is more diversified.

Operating cost inflation, and subdued consumer and corporate profits. The lack of incremental costs on new management contracts should buoy results for African Sun

Not cash generative because of capex projects.

Prospects for hotels have strong longer term drivers, Economic growth and varied and unique tourist offering.

Delta Corporation Limited - Fundamentals show up in numbers

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       +263 772 265 454
Fundamentals show up in numbers

Delta continues to post a strong operating performance propelled by sturdy volume recovery across the group and margin expansion. The volume growth is on the back of strong economic growth underscoring the fundamental macro-economic changes which have taken place. Delta plans to disinvest from the remaining non-core businesses namely Megapak (51%) and Food & Industrial (49%) by end FY 2013.

- **Dominant position**
  Delta enjoys a dominant position in Zimbabwe, commanding approximately 96% of the beer market and about 92% of the sparkling beverages market. The group aggressively markets its brands, and in so doing stimulates volume growth. Marketing costs are approximately 2% of revenues.

- **Progressive margin expansion**
  Operational efficiencies have been enhanced with investment in new equipment setting the scene for sustained growth. Margins are expected to further expand on improved efficiencies, reduced maintenance costs, supply chain savings and an enhanced product mix.

- **Pristine balance sheet and strong cash generation**
  Delta generates excellent cash flow, with approximately 60% of sales being for cash. As a consequence, the balance sheet continues to strengthen.

- **Robust profit growth at low risk**
  The outlook for the group remains closely aligned with that of the country at large. Our two valuation methodologies, DCF and EV/HI production point to a fair value for the group of US$ 1.3bn). *BUY.*

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**STRENGTHS**
- Dominant position
- No exchange risk
- Resurging volumes
- Strong parent company
- Leading brands, volumes up

**WEAKNESSES**
- Low disposable incomes
- Weak macro economy
- Frequent energy disruptions

**OPPORTUNITIES**
- Stabilising economy
- Recovery in public finances
- Aid inflows
- Growth in local premium brands

**THREATS**
- Increase in excise taxes
- Commodity price shocks
- Disruptions to utilities
- More aggressive competition
Imara Edwards Securities

FY 2012 results overview

Strong volume momentum maintained
Delta posted a sturdy set of results showing attributable earnings of US$ 73.7m, up 39% y-o-y for eps of 6.03 US cents. The strong performance was driven by solid volume growth, margin expansion and a stronger performance by associates. Overall beverage volumes grew 19% to 6.9m hl, supported by growth in lager (+23% to 2.0m hl), sparkling beverages (+26% to 1.5m hl), sorghum (+15% to 3.4m hl) and maheu (+4%). Malting tonnages jumped 51% to 34,904 tonnes. Plastic tonnage increased by 24% to 7,196 tonnes anchored by the strong beverage volume growth. The strong volume growth was supported by investments in machinery, brands and capacity. Sales value grew ahead of volume growth at 36% to US$ 554.8m, anchored by a 34% growth in lager gross sales, a 26% jump on SBs gross sales as well as a 24% increase in sorghum beer gross sales.

Beverages revenue contribution

<table>
<thead>
<tr>
<th>Beverage Type</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sorghum</td>
<td>9%</td>
</tr>
<tr>
<td>SBs</td>
<td>42%</td>
</tr>
<tr>
<td>Lagers</td>
<td>49%</td>
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</table>

Source - IES, Company

Lager volumes were aided by aggressive brand building and increasing contribution from the local “worth-more” offerings. Sorghum beer volumes recovered on improved execution and the company’s “Go To Market” strategy. The premium lager beer’s volume contribution increased to 15.6% of total lager volumes from 11.3% in FY 2011. Sales volume for convenience packs (PET and cans) for SBs increased to 28.6% of total SB volumes from 20.9%. The PET market is estimated at 5% and is expected to grow as the economy recovers.

Sustained margin expansion
Operating margins widened to 20.5% from 19.5% driving EBITDA growth of 45%. This was on the back of improved efficiencies, competitive pricing, improved product mix and supply chain management. Nonetheless, margin growth was constrained by the repairs and maintenance on re-commissioning of some decommissioned machinery due to the strong volume growth.

A final dividend of US1.25c per share was declared implying a dividend cover of 3.0x and an annualised dividend yield of 3.0%. The LDR is Friday 01 June 2012.

Highly profitable business and strong generator of cash
Cash generation remained strong with cash generated from operations of US$ 121.4m. Net cash inflow of US$ 90.2m represented a cash interest cover of 34x. The balance sheet strengthened through this very strong operating performance. Capital expenditure of US$ 74.0m (mainly for capacity enhancement) resulted in a significantly expanded balance sheet, with shareholders funds up 27%. Delta closed the period with debt of US$ 81.4m of which US$ 60.0m was long term at an all in cost of approximately 7.4% (three year money). Net gearing remained manageable at 9.8% (9.1% FY 2011).

Outlook

Strong fundamentals to sustain sturdy operating performance
Per capita consumption of circa 14 litres p.a. (for beer excluding sorghum beer) and 11 litres p.a. for sparkling beverages are low in Zimbabwe by developing world standards suggesting tremendous growth potential off a low base. We estimate that total beverage volumes will reach approximately 7.9m hl in FY 2013. As the group increases the total volume sold it further increases its efficiencies allowing it to keep competitive pricing on its products. The company states that for every 1% growth in GDP the company’s volumes can grow by a factor of 2x-4x. According to the Ministry of Finance GDP is expected to grow at 9.3% and 8.0% in 2011 and 2012 respectively.

Generally, volume growth in sorghum beer declines when lager volumes are increasing on the back of rising disposable incomes as consumers trade up - and vice
versa when times are harder. As the economy grows it is expected that lager volumes will grow more quickly than sorghum beer volumes and in the longer-term sorghum volumes are expected to decline.

Sustainable volume recovery

![Graph showing sustainable volume recovery]

Source - IES, Company

Long term profit drivers remain in place

We believe the company has solid opportunities to expand margins as a result of the combination of a favourable mix shift to high end products, improved efficiencies, competitive pricing, reduced maintenance costs and supply chain savings. We note that any reduction in excise duty on clear beer (from the current 40% to say 30% - in line with the region) could also significantly impact margins.

The group continues to invest heavily in its brands

In efforts to retool the business a total of approximately US$ 69.0m in capex is planned for FY 2013 (to replace plant and equipment and containers) and the group will have spent US$ 200.0m for the years 2009 to 2013. Delta targets a medium to long-term capex/EBITDA of between 30% and 50%. The capex programmes will not only increase capacity but also improve production facilities and reduce costs. The recently commissioned SB returnable glass bottle (RGB) packaging line increased available capacity to 2.0m hl. The line resolved the constrained capacity on the 300ml bottles (which account for approximately 70% of the business). The US$ 4.0m “Maheu” plant was commissioned and this unit can potentially add US$ 1.6m to group EBITDA. Given the strong demand for lagers, Delta has decided to accelerate the commissioning of a new beer packaging line for Southerton to July/August 2012 from July/August 2013. This will add an additional 600,000hl to the current lager available capacity of 2.0m hl.

Delta is investing in new product development with the possibility of a longer shelf life for sorghum beer, a venture into hot beverage and diary products i.e. production of Coke’s coffee brands. The local production and packaging of Castle Lite in cans and NRG (non-returnable glass) is planned for FY 2013. Delta also plans to introduce NRBS for the main stream portfolio during the current financial year and to gradually migrate to new packs for 375ml and 750 ml RGB.

With the canning line having been upgraded and capacity now at 320,000 hl a year, the cans contribution is estimated to improve to 12% of total volumes from the 10% recorded in FY 2012. The canning line can handle 440ml cans which management indicate are good for promotional activities.

Improved free cashflows

Capex for FY 2013 is expected at US$ 79.0m and capex/EBITDA is anticipated to recede to between 30% and 50% in the medium to long term as the company focuses on sweating the existing assets. We expect Delta to generate higher cash flows from operations over the next few years. In our view, the declining capex will enable the company to increase its dividend payout. The dividend cover is expected to drop from the current 3.0x to between 1.5x and 2.0x. The capex programmes will not only increase capacity but also improve production facilities and reduce costs.

Raw materials are secure

Generally, the group’s raw materials are secure and the drive to localise suppliers has intensified (although the local suppliers have to meet quality, price and reliability). The major supply constraints relate to water and electricity.

Delta owns 100% of the maltings entity, Kwekwe Maltings, which has capacity to produce 40,000mt p.a. of malt. The group contracted for 8,500ha of barley, for which yields are expected to average at least 4.0t per ha. The company expects to receive at least 30,000 tonnes of barley against a national requirement of 26,000 tonnes p.a. Delta is the sole customer for barley malt in Zimbabwe, and any excess production is exported regionally.

Associates to remain strong

Schweppes Zimbabwe (49% owned) witnessed strong volume growth to December 2011 and EBIT of US$ 9.0m is expected to December 2012. The local production of Minute Maid juice is expected in 2013.

Afdis is expected to return to profitability in FY 2012 (to June) and cidars have witnessed strong volume growth. With excise duty having been changed in August 2011 to a specific rate from ad valorem, the revival of local production has continued.
Valuation and Recommendation

Our revised firm value to hectoliters (production), values Delta at US$ 1.2bn - based on the peer average EV/hl.

Our DCF model values the company at US$ 1.4bn (US$ 1.13 a share) - using a 15% discount rate and a 4% terminal growth rate. An average of the two valuation methods, point to a fair value of approximately US$ 1.3bn (US$ 1.10 a share).

Delta has a compelling story with its pristine balance sheet, strong cashflows and solid brands. There are high barriers to entry in this industry and Delta is virtually a monopoly and has a solid distribution network. Per capita consumption (addressable market) of approximately 25 litres p.a. (including sorghum beer) is low in Zimbabwe by developing world standards suggesting tremendous growth potential off a low base.

Ratings are undemanding at PER+1 of 9.5x and EV/production of US$ 125 versus PER of 20.0x and EV/production of US$ 250 for our comparative sample. Delta remains the ZSE's bellwether. We maintain our BUY recommendation.

PORTER’S FIVE FORCES MODEL

Power of Suppliers
Low & Stable
Sorghum growers are abundant and have little power over their buyer
Delta’s strength affords it strength with suppliers
Coca-cola is very powerful and it is both supplier as well as a partner

New entrants
Low & Falling
Huge capex requirements - biggest barrier to entry
Strong brands loyalty
Volume oriented industry
Distribution muscle

Rivalry
Low & Stable
Dominates local market
Competitors have little market share

Substitute products
Low & Increasing
Competition from traditional beer
Fruit juices are alternatives to SB but do not have dominant brands and are not readily available

Power of customers
Stable
Fragmented customer base
Delta controls the distribution and hence the final outlets
# Financial Summary

## DELTA - 5 YEAR COMPARISON

<table>
<thead>
<tr>
<th>31 MARCH (US$m)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013F</th>
<th>2014F</th>
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<td>184.7</td>
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<td>467.1</td>
<td>554.4</td>
<td>654.4</td>
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<td>77.4</td>
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<td><strong>Total Assets</strong></td>
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<td>467.1</td>
<td>554.4</td>
<td>654.4</td>
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<td>Associate income</td>
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<td>(0.6)</td>
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<td>2.1</td>
<td>3.0</td>
<td>4.2</td>
<td>6.1</td>
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<td>Sales growth (%)</td>
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<td>1.6</td>
<td>(14.5)</td>
<td>169.9</td>
<td>45.0</td>
<td>36.0</td>
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<td>15.9</td>
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<td>Pre-interest profit growth (%)</td>
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<td>33.8</td>
<td>(80.1)</td>
<td>214.8</td>
<td>75.8</td>
<td>44.0</td>
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<td>Earnings growth (%)</td>
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<td>82.1</td>
<td>(94.7)</td>
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<td>36.1</td>
<td>39.1</td>
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<td>Gross margin incl finance chgs (%)</td>
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<td>62.0</td>
<td>60.0</td>
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<td>56.4</td>
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<td>132.0</td>
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<td>17.9</td>
<td>18.1</td>
<td>19.0</td>
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*Note: Financial figures for 2007 to 2009 were derived using the Old Mutual Implied Rate (OMIR), which may not reflect a true account due to variability of exchange rates during that period.*
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