

Obtala Resources plc

Sales Desk Note

22 October 2015

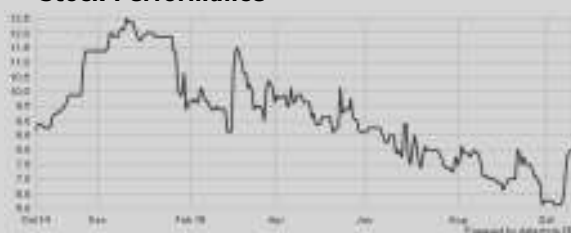
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Obtala Resources: The Times They Are A-Changin'

Key Statistics

Code	: OBT
Listing	: AIM
Sector	: Technology
Market Cap	: £21.06m
Share in issue	: 263.26m
Current Price	: 7.76p
12 month High/Low:	: 12.75Pp/5.81p

Stock Performance



Financials

£'m	2014	2013	2012	2011
Revenue	1.69	0.30	0.93	0.73
PBT	-24.13	74.81	14.36	-0.83
Profit	-13.93	40.45	10.56	-3.97

Source: Obtala Resources Annual Results

Company description

Obtala Resources Limited actively invests in and is developing a fully vertically integrated business solution. The Group is working towards building an integrated trading platform with an emphasis on agriculture, food production and processing with direct market access through owned retail and wholesale outlets. In the most simple of terms this is the "Farm to Fork" model - to plant a seed and produce a finished marketable branded product. The initial geographic focus is within sub-Saharan Africa, with projects currently operational in Tanzania, Mozambique and Lesotho. Obtala has also built up a substantial portfolio of natural forest timber concessions in Mozambique where it operates a sustainable, business model.

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Obtala Resources to some looks like your average run of the mill mining company on AIM. This couldn't be further from the truth as upon closer inspection one can find a fully functioning vertically integrated agribusiness, timber and retail business. Kevin Milne, Executive Deputy Chairman was appointed to the Board in August 2015 as part of a wider push to strengthen the management team and to refocus the business going forward. The interim results announced in September portrayed a strong platform for growth reporting revenues of £2.3m, net profit of £3.02m with net assets of £95.8m.

The company's three core businesses cover farming, retail and timber and are purely focused on Africa which is set to take advantage of the continent's unprecedented rates of growth fuelling growth in domestic consumer demand.

The farming division operates a "seed to fork" strategy from horticulture to branded product ranges including dried fruit and chilli based sauces taking advantage of the whole value chain in food production. In Tanzania, 530 Ha are held under long lease agreements with 80 Ha currently cultivated with up to four crops per year per hectare. Earlier this year Obtala received the internationally recognised farm GLOBAL.G.A.P certification which allows them to overcome significant barriers to entry with many international food groups. GLOBAL.G.A.P is the internationally recognised standard for farm production which will support the company in broadening their partnerships with various trade partners as they look to develop more land.

The retail division looks to capitalise on Africa's emerging middle class, grown to some 400 million people. Six multi product department stores are currently operating in Lesotho with further in-country expansion planned for additional three to four units over the next 12 months. The division is well established and currently embarking on further improvements with enhancements to their ordering systems, stock management and cost control. There is future scope to roll out in Southern and East Africa where Obtala has an already existing presence.

Under the company's recent strategic review, there is a proposed spin out of their forestry division to be quoted on AIM. Africa accounts for 17% of Global forest cover but only 4% of global round wood and less than 2% of global sawn wood production. The company is, subject to local Government approval, completing the acquisition of 50 year leases for two new timber concessions totalling 35,000 Ha in Mozambique to bring the total forestry area to 314,965 Ha. Honour Capital prepared a valuation report in June 2014 which attributed a NPV to Obtala's timber business of US\$161m at a 12% discount based on a ten year cash flow model. The 2014 valuation was based on eleven concessions with a total land area of 279,965 Ha. This puts Obtala in a strong position to become a leading supplier in a market that is facing increasing global demand for high quality timber with new suppliers being curtailed by strict environmental and conservation laws.

Obtala Resources has successfully repositioned itself as a socially responsible company which is debt free and diversified both geographically and by sector. It is trading at a deep discount to NAV and we believe the current management team in place are executing a strategy which will bring rapid improvements in the operational performance of their portfolio.

For disclosures, refer to the Disclosure Section

Statement of Comprehensive Income Six Months to 30 June 2015

	Six months to 30 June 2015 (Unaudited) £'000	Six months to 30 June 2014 (Unaudited) £'000	Year to 31 December 2014 (Audited) £'000
Continuing operations			
Turnover	2,257	1,157	1,690
Cost of Sales	-1,585		-855
Gross profit	672		835
Operating costs	-584	-320	-1,191
Administrative expenses	-1,220	-759	-2,616
Gain/(loss) on investments	-1,601	235	(-)
Gain/(loss)Loss on derivative financial instruments	45	-	-736
Depreciation	-100	(-)	-294
Operating profit/(loss)	-2,788	253	-4,002
Revaluation of Biological asset	8,600	-	-
Loss on disposal of associate	-	-	-20,987
Gain on Fair Value of Investment	-	-	749
Finance income/(costs)	-44	30	109
Profit/(loss) before tax	5,768	283	-24,131
Taxation	-2,752	-	10,198
Profit/(loss) for the period/year from continuing operations	3,016	283	-13,933
Discontinued operations			
Loss for the year from discontinued operations	-	-502	-
Total profit/loss for the period/year	3,016	-219	-13,933
Attributable to:			
Owners of the parent	1,707	-239	-13,392
Non-controlling interests	1,309	20	-541
	3,016	-219	-13,933
Other comprehensive income:			
Exchange differences of re-translation of foreign operations	-513	-1,807	-752
Total comprehensive income for the period:	2,503	-2,026	-14,685
Attributable to:			
Owners of the parent	1,194	-1,630	-14,144
Non-controlling interests	1,309	-396	-541
	2,503	-2,026	-14,685
Earnings/(loss) per share			
From continuing and discontinued operations	0.65	-0.09	-5.09
Basic and diluted (pence)			

Source: *Obtala Resources Half yearly Report*

Balance Sheet As at 30 June 2015

	30 June 2015 (Unaudited) £'000	30 June 2014 (Unaudited) £'000	31 December 2014 (Audited) £'000
ASSETS			
Non-current assets			
Available for sale investments	53	-	90
Intangible exploration and evaluation assets	16,080	54,329	16,080
Biological asset	112,432	107,379	103,832
Derivative financial asset	-	611	-
Plant and equipment	2,447	2,674	2,555
Total non-current assets	131,012	164,993	122,557
Current assets			
Trade and other receivables	1,181	1,049	830
Inventory	1,169	334	1,351
Financial investment assets	-	687	3,938
Cash and cash equivalents	1,409	1,431	3,269
Total current assets	3,759	3,501	9,388
TOTAL ASSETS	134,771	168,494	131,945
LIABILITIES			
Current liabilities			
Trade and other payables	-2,245	-1,442	-2,260
Financial investment liabilities	-700	-2,578	-2,960
Current tax liabilities	-2	-2	-2
Total current liabilities	-2,947	-4,022	-5,222
Non-current liabilities			
Deferred tax	-35,978	-43,018	-33,226
Loans	(-)	-73	-155
Site restoration provision	(-)	-113	(-)
Total non-current liabilities	-35,978	-43,204	-33,381
TOTAL LIABILITIES	-38,925	-47,226	-38,603
NET ASSETS	95,846	121,268	93,342
EQUITY			
Share capital	2,633	2,633	2,633
Share premium	11,528	11,528	11,528
Merger reserve	28,543	28,543	28,543
Foreign exchange reserve	971	-953	1,515
Share based payment reserve	1,014	1,975	1,014
Revenue reserve/(deficit)	32,779	34,507	31,072
Equity attributable to the owners of the parent	77,468	78,233	76,305
Non-controlling interests	18,378	43,035	17,037
TOTAL EQUITY	95,846	121,268	93,342

Source: *Obtala Resources Half yearly Report*

Cash Flow Statement For the period from 1 January 2015 to 30 June 2015

	Six months to 30 June 2015 (Unaudited) £'000	Six months to 30 June 2014 (Unaudited) £'000	Year to 31 December 2014 (Audited) £'000
OPERATING ACTIVITIES			
Operating profit/(loss)	5,768	-219	-24,131
Adjustment for non-cash items:			
(Gains)/loss on investments	-589	99	794
Foreign exchange (gains)/losses	-	-8	2,402
Valuation of biological asset	-8,600	-	-
Depreciation of plant and equipment	100	-	294
Share based payments	-	77	-
Loss on disposal of subsidiary	-	-	20,987
Decrease/(increase) in trade and other receivables	-351	856	-
(Decrease)/increase in trade and other payables	-2,244	275	332
Decrease/(Increase) in inventory	182	-257	387
Finance expense/(income)	44	30	-109
Losses on investments	1,601	-	736
Cash outflow from continuing operations	-4,089	-859	149
Income taxes paid	-	-	-
Net cash flow from operating activities	-4,089	-859	149
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	-8	-	-40
Expenditure on exploration licences	-	-182	(-)
Proceeds from disposal of financial assets	-	327	-
Net cash inflow/(outflow) from investing activities	-8	-145	-40
FINANCING ACTIVITIES			
Proceeds from sale of investments	2,237	-	-
Proceeds from sale of subsidiary	-	50	1,022
Finance expense	-	-30	-
Net cash inflow from financing activities	2,237	20	1,022
(Decrease)/Increase in cash and cash equivalents	-1,860	-694	1,131
Cash and cash equivalents at start of period	3,269	2,138	2,138
Effect of foreign exchange rate variation	-	-13	-
Net cash and cash equivalents at end of period	1,409	1,431	3,269

Source: *Obtala Resources Half yearly Report*

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