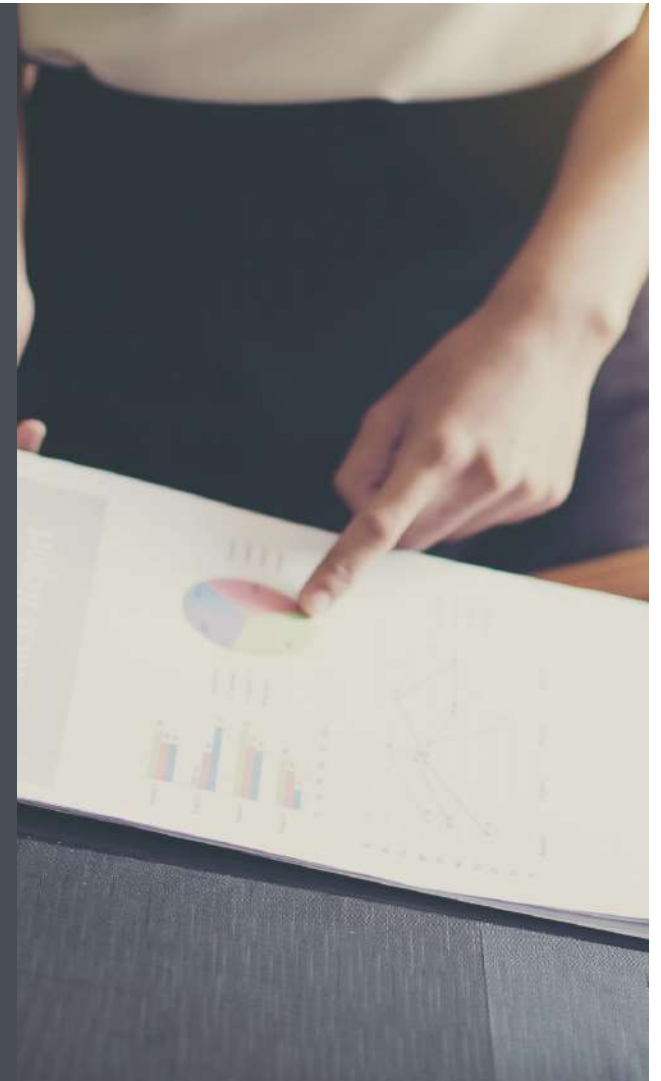




AVI LIMITED

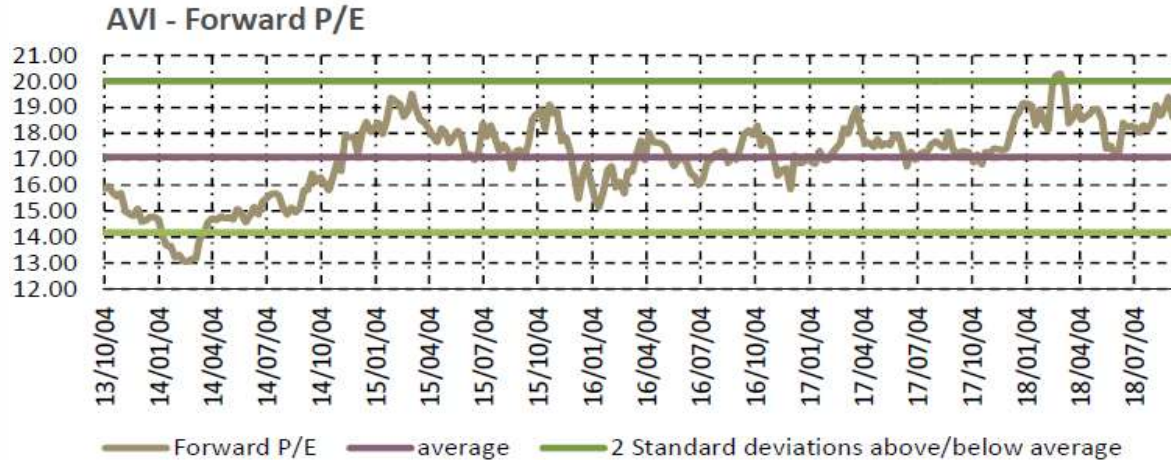
8 October 2018

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Recommendation

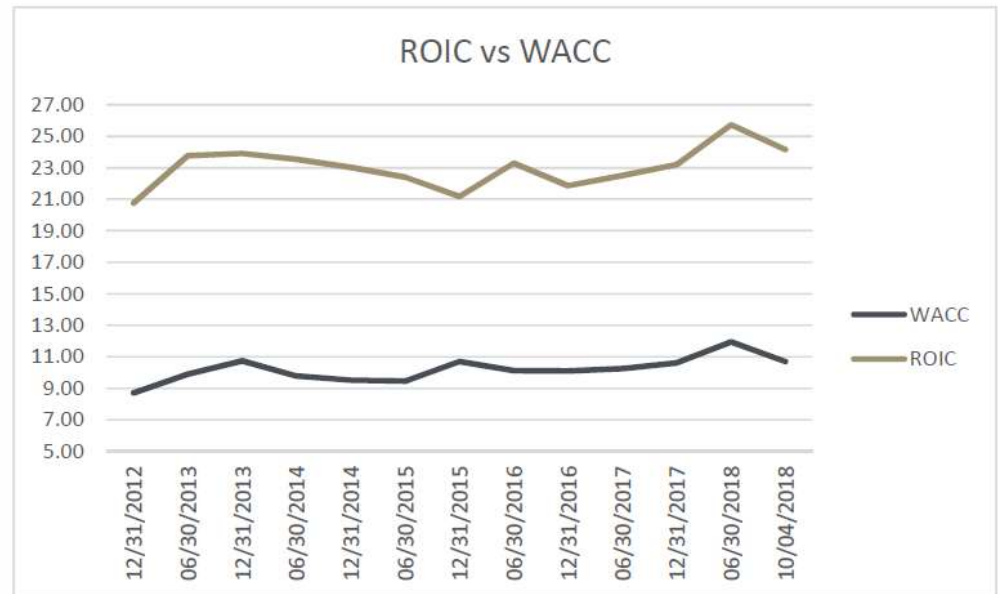
- Bleak operating environment in the short-term
 - Muted volume growth and impacts recovery of fixed factory costs
- Sustained currency weakness impacts beverage and footwear divisions given import costs
- Improving margins will become increasingly difficult to sustain as weak economic conditions will lead to a fight for market share in a saturated market
- AVI fully valued trading at a forward P/E of 17.8 times, slightly ahead of its longer-term average
 - Retain underweight recommendation.



Financial Highlights

Debt

- Net debt decreased by 12% to R1.27bn.
- The net debt/ebitda ratio was lower at 0.43, further from the covenant ratio of 2.5
- Interest coverage improved 29% to 20.1x
- WACC increased to 12%
- ROIC increased to 26%
- EVA of 14% indicating investments are generating sufficient earnings to recover the cost of capital used.



Source: Bloomberg



Financial Highlights

Earnings

- Revenue increased by 1.9% to R13.44bn for the year
- Adjusted operating profit increased 7% to R2.5bn
- Operating margin increased 90bps to 19%
- Diluted HEPS increased 7.2% to 540 cents per share
- Declared a final dividend of 260cps, up 7%
 - Full-year dividend up 7% to 435 cents per share
- Board approved special dividend of 250 cents per share



AVI Highlights

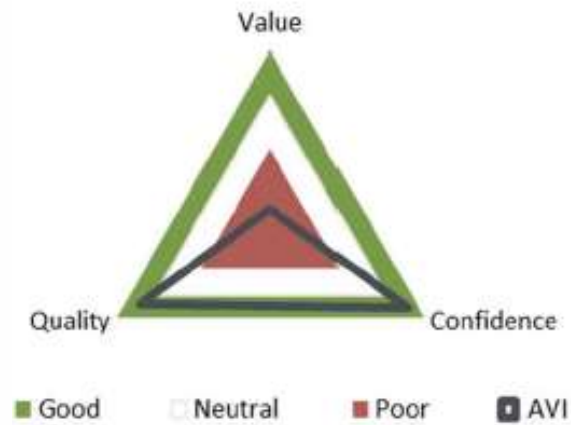
Prospects

- Trading environment expected to remain difficult in next financial year
- Expected low or negative growth in many of the Group's categories until improvement in the economy
- Most of the new FY's imports have been covered at rates that support good levels of profit.
- Management is confident that AVI remains well positioned to compete effectively, prudently manage fixed and variable costs and be alert for acquisition opportunities

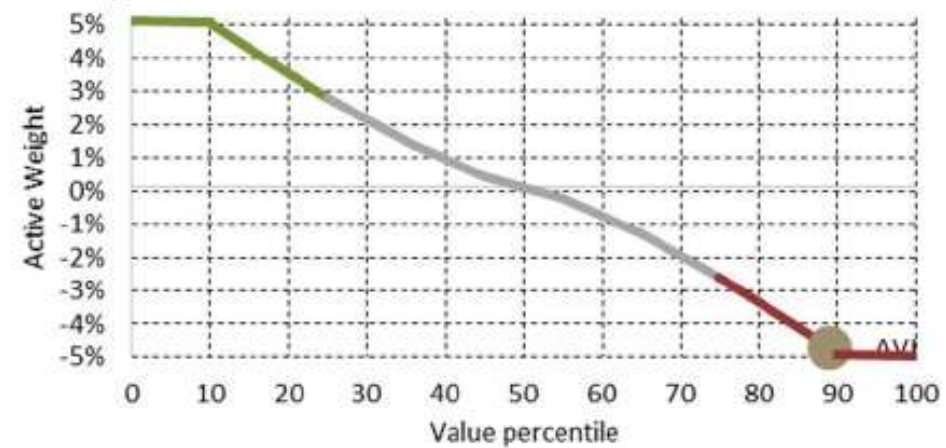


Portfolio Guidance

- Capped SWIX weighting of 0.72%
- Recommended portfolio exposure of 0.00%



Value profile



Place a trade

To place a trade please speak to your financial adviser or contact our dealing desk.



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