

Mwana Africa

EGM: 9 June 2015

Board recommends rejection of EGM resolutions

Mwana has called an EGM for 9 June 2015 in response to a requisition by shareholders representing 5% of the share capital of the company. *Inter alia*, the requisition seeks to remove Ngoni Kudenga, Herbert Mashanyare, Stuart Morris and Johan Botha as directors of Mwana and to replace them with Scott Morrison, Mark Wellesley-Wood, Olivier Barbeau and Anne-Marie Chidzero. None of the proposed directors have been subject to due diligence by Peel Hunt, and such a peremptory change could, in our view, result in its concluding that its position as Nomad is untenable.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/13	109.2	11.5	1.38	0.0	2.1	N/A
03/14	142.5	18.3	0.86	0.0	3.4	N/A
03/15e	153.6	10.8	0.34	0.0	8.7	N/A
03/16e	165.5	9.2	0.34	0.0	8.7	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Adequate Zimbabwean representation?

The requisition effectively seeks to replace two Zimbabwean directors with one (Anne-Marie Chidzero). Ms Chidzero's father was Zimbabwe's finance minister from 1985 to 1995. She herself was born in Ethiopia and is based in South Africa. By contrast, Ngoni Kudenga is founder and managing partner of BDO Zimbabwe (one of the government's principal auditors) and sits on a number of boards (including Bindura Nickel Corporation), while Herbert Mashanyare is a metallurgist of over 30 years' experience, having worked at Zimasco and Rio Tinto Zimbabwe (among others). Both are said to have provided "invaluable advice" during the recent successful launch of BNC's US\$20m bond issue.

Forward to the past

The board currently comprises two executive (Kalaa Mpinga and Yim Chiu Kwan) and six non-executive directors (of whom four are independent). Of the eight, two are Zimbabweans, two South Africans, two Chinese, one Congolese and one Canadian. In the board's opinion, the removal of all four independent NEDs would deprive Mwana of valuable industry experience. Moreover, none of the proposed directors are said to be known to senior management, with the exception of Mark Wellesley-Wood (who was unanimously asked to resign by the board in February 2014). Note that, from July 2013 to March 2014, the existing NEDs elected to take a 50% reduction in their fees. Despite the requisition, Stuart Morris and Johan Botha have indicated their intention to retire from the board at or before the EGM.

Valuation: 12.8c (8.3p)

Our discounted dividend-based valuation of the company remains 12.8c (using a 10% discount rate) plus optionality of at least 0.7c/share if BNC can conclude an agreement to fill its smelter to capacity with third-party material (at our long-term metals' prices).

Metals & mining

27 May 2015

Price **1.9p**
Market cap **£27m**

US\$1.5491/£

Net cash (US\$m) at September 2014 1.0

Shares in issue 1,397.8m

Free float 75%

Code MWA

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.0	4.1	10.1
Rel (local)	7.9	(2.5)	3.2
52-week high/low		3.9p	1.6p

Business description

Mwana Africa is an AIM-listed pan-African and multi-commodity resource company, which looks to connect projects with appropriate managements. It has two producing assets in Zimbabwe (FRGM and Trojan) and two significant exploration prospects in the DRC (Zani-Kodo and SEMHKAT).

Next events

EGM 9 June 2015

FY15 results July 2015

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com
[Edison profile page](#)

Exhibit 1: Financial summary

	US\$000s	2011	2012	2013	2014	2015e	2016e
Year-end 31 March		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		43,717	81,313	109,159	142,460	153,622	165,533
Cost of Sales		(63,709)	(77,388)	(92,614)	(116,910)	(132,746)	(141,928)
Gross Profit		(19,992)	3,925	16,545	25,550	20,876	23,604
EBITDA		(19,992)	3,925	16,545	25,550	20,876	23,604
Operating Profit (before amort. and except.)		(22,020)	53	10,894	17,919	11,069	10,640
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		18,828	(42)	(43,692)	25,680	(283)	0
Other		26	0	83	0	24	0
Operating Profit		(3,166)	11	(32,715)	43,599	10,810	10,640
Net Interest		(2,928)	(1,221)	651	341	(288)	(1,430)
Profit Before Tax (norm)		(24,948)	(1,168)	11,545	18,260	10,781	9,210
Profit Before Tax (FRS 3)		(6,094)	(1,210)	(32,064)	43,940	10,522	9,210
Tax		(5,387)	(5,498)	(11,397)	6,655	(3,683)	(3,224)
Profit After Tax (norm)		(30,309)	(6,666)	231	24,915	7,123	5,987
Profit After Tax (FRS 3)		(11,481)	(6,708)	(43,461)	50,595	6,840	5,987
Minority interests		8,037	6,014	14,820	(13,990)	(2,403)	(1,257)
Net income (norm)		(22,272)	(652)	15,051	10,925	4,720	4,730
Net income (FRS3)		(3,444)	(694)	(28,641)	36,605	4,437	4,730
Average Number of Shares Outstanding (m)							
		508.0	688.3	1,093.7	1,266.3	1,397.8	1,397.8
EPS - normalised (c)		(4.38)	(0.09)	1.38	0.86	0.34	0.34
EPS - normalised and fully diluted (c)		(4.38)	(0.09)	1.38	0.86	0.32	0.32
EPS - (IFRS) (c)		(0.68)	(0.10)	(2.62)	2.89	0.32	0.34
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		-45.7	4.8	15.2	17.9	13.6	14.3
EBITDA Margin (%)		-45.7	4.8	15.2	17.9	13.6	14.3
Operating Margin (before GW and except.) (%)		-50.4	0.1	10.0	12.6	7.2	6.4
BALANCE SHEET							
Fixed Assets		115,711	127,266	111,353	166,650	178,316	196,929
Intangible Assets		32,546	42,932	58,262	62,986	62,986	62,986
Tangible Assets		75,086	80,070	49,283	81,355	93,021	111,634
Investments		8,079	4,264	3,808	22,309	22,309	22,309
Current Assets		30,095	31,765	39,311	40,915	33,326	32,282
Stocks		7,370	8,072	11,206	12,994	13,966	15,048
Debtors		15,363	16,997	12,911	18,832	19,361	17,234
Cash		7,362	6,696	15,194	9,089	0	0
Other		0	0	0	0	0	0
Current Liabilities		(45,429)	(47,078)	(36,421)	(39,473)	(26,156)	(23,426)
Creditors		(45,429)	(47,078)	(36,421)	(39,473)	(26,156)	(23,426)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(29,594)	(33,989)	(42,209)	(39,171)	(49,725)	(64,037)
Long term borrowings		(3,077)	(5,927)	(4,273)	(2,446)	(13,000)	(27,312)
Other long term liabilities		(26,517)	(28,062)	(37,936)	(36,725)	(36,725)	(36,725)
Net Assets		70,783	77,964	72,034	128,921	135,761	141,747
Minority interests		(2,487)	3,527	10,793	(3,284)	(5,687)	(6,944)
Shareholder equity		68,296	81,491	82,827	125,637	130,074	134,803
CASH FLOW							
Operating Cash Flow		(11,826)	771	14,330	11,548	6,083	21,919
Net Interest		(700)	(2,285)	(743)	(1,033)	(288)	(1,430)
Tax		(16)	0	(9,784)	(4,421)	(3,683)	(3,224)
Capex		(18,673)	(18,801)	(33,720)	(18,005)	(21,755)	(31,577)
Acquisitions/disposals		2,952	1,535	(18,813)	368	0	0
Financing		7,414	14,152	55,716	7,415	0	0
Dividends		0	0	(1,462)	(150)	0	0
Net Cash Flow		(20,849)	(4,628)	5,524	(4,278)	(19,643)	(14,312)
Opening net debt/(cash)		(25,134)	(4,285)	(769)	(10,921)	(6,643)	13,000
HP finance leases initiated		0	0	0	0	0	0
Other		0	1,112	4,628	0	0	0
Closing net debt/(cash)		(4,285)	(769)	(10,921)	(6,643)	13,000	27,312

Source: Company accounts, Edison Investment Research

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