

Investment Opportunities in Mozambique

Manufacturing Edition

October 2017



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MESSAGE FROM THE EDITORS

The Financial Sector Deepening – Moçambique (FSD Moç) and Monitor Deloitte are proud partners of this second edition of Investment Opportunities in Mozambique.

The mission of the joint Monitor Deloitte – FSD Moçambique publication is to showcase investment opportunities in Small and Medium enterprises, with the aim of reducing informational asymmetries thus promoting access to capital to unlock growth and employment opportunities.

This second edition focuses closely on the manufacturing in a broad sense, including the metals, chemicals, construction, industrial products and services, forestry, paper and packaging sub-sectors.

The production of aluminium, agro-processing and cement plants have been highlighted as the main drivers of the continuous growth in the manufacturing sector in recent years.

The Government plans to double the manufacturing sector's share in the country's GDP, to 21% in 2019, with its current 5-year programme. The ultimate goal is to increase the modernization of the country's economy and exports in the framework of promotion of employment, productivity and competitiveness.

Around the world, manufacturing is a high value-adding sector which often brings opportunities for long-term employment, skills development and technology transfer. It is therefore the cornerstone of a dynamic economy.

Mozambique combines large availability of natural resources, an affordable labour force with high demand of certain manufactured products (like pharmaceutical drugs) and proximity to large sources of demand in South Africa, SADC and COMESA regional hubs and direct sea link to the Indian sub-continent.

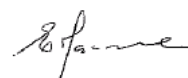
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Executive Summary

The Financial Sector Deepening – Moçambique (FSD Moç) and Monitor Deloitte are pleased to produce the second edition of their joint publication Investment Opportunities in Mozambique. This second edition focuses on sound investment opportunities in small and medium sized companies (SMEs) within the manufacturing sector in Mozambique. Its main objective is to increase information to investors and therefore promote financing opportunities while also highlighting that private equity is a relevant alternative source of financing of SMEs in Mozambique.

Equity Finance and its Potential in Mozambique

Many small and medium sized companies in Mozambique are challenged by a lack of access to finance. This constrains private sector growth having knock-on effects on economic development and employment generation.

Private equity investment is a financing vehicle that could help alleviate the financing gap: it offers a more flexible alternative to bank lending. Equity investment has broadened in recent years with the rise of impact investing which seeks to create social and/or environmental as well as financial returns and often uses a wider range of financial instruments.

Equity finance is still in its infancy in Mozambique yet is growing helped by the forthcoming development of large natural gas projects in the Rovuma Basin. Private equity firms have located in Mozambique targeting areas such as real estate, transport, infrastructure and financial services.

Apart from foreign direct investment in mega-projects, investments in Mozambique have historically been through the development sector (overseas development assistance of roughly \$2Bn per year). In 2015 Mozambique recorded 42 impact investments deals, the third highest number of deals in the Southern Africa region 1.

The Manufacturing Sector in Mozambique

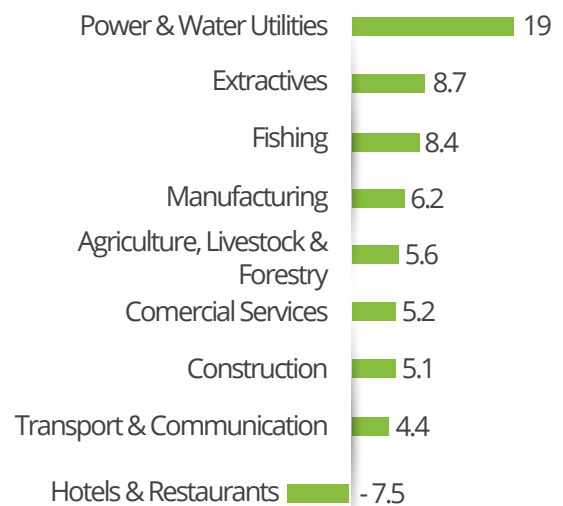
The Mozambican manufacturing sector has recorded positive growth in the last few years, highlighted as one of the most dynamic sectors in the economy in the third quarter of 2015, with a growth rate of 6.2% (Figure 1). Challenges such as competition from foreign imports, unreliable electricity and a costly and bureaucratic business environment are cited as contributors for the sector's underperformance.

Despite this, the sector has favourable growth aspects due to its good transport linkages to neighbouring countries, competitively priced supply of labour and a wealth of natural resources that present opportunities for processing. High growth opportunities for the sector also exist due to the boosts in the extractives industry, as it offers a guaranteed source of demand for large quantity orders of goods and services.

Pre-Due Diligence Framework

The companies featured in this publication are from a variety of manufacturing sub-sectors (including metals, chemicals, construction, industrial products and services, forestry, paper and packaging sectors) and locations across Mozambique. The companies are mainly start-up or at the growth stage of the business lifecycle and cover various parts of the sector value chain. The size of the featured investment opportunities spans USD 150 000 to USD 8 million. The companies were assessed through a pre-due diligence framework and selection was based on a funnel approach that filtered out companies according to: ethical behaviour, financial performance, competitive position, investment opportunity and social impact. Sampling of companies was selective through research to ensure that companies with potential were targeted for interviews.

Figure 01: Most Dynamic Sector Growth Rates in 3rd Q in 2015



Source: National Statistics Institute (INE)

Acronyms

API	American Petroleum Institute
BAA	Beluluane Agro Alfa
CMAM	Central de Medicamentos e Artigos Medicos
COGS	Cost of Goods Sold
CPI	Centre of Investment Promotion
EBITDA	Earnings Before Interest, axes, Depreciation and Amortisation
FDI	Foreign Direct Investment
DRC	Democratic Republic of Congo
GDP	Gross Domestic Product
HAP	Household Air Pollution
HSAW	Helical Submerged Arc Welded
INE	National Statistics Institute
INNOQ	National Institute of Standards and Quality
ISO	International Standards Organisation
IV	Intravenous
LSAW	Logitudinal Submerged Arc Welded
MISAU	Ministry of Health
MSME	Micro, Small and Medium Enterprise
NDT	Non Destructive Testing
PET	Polyethylene Terephthalate
PMC	PM Civil
SME	Small and Medium Enterprise
SMM	Sociedade Mocambicana de Medicamentos
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation

Introduction

The development paths of other countries have shown the manufacturing sector to be the engine of economic development. The sector is a key driver of structural change, and provides valuable contributions to employment generation, sector diversification, export promotion and productivity enhancements ¹.

The manufacturing sector has a unique potential to expand value and supply chains, create secure jobs and diffuse wealth throughout a society ².

As reported by the World Bank, manufacturing has been a focus sector of low income countries due to the fact that it provides unskilled employment, helps increase productivity and fosters economic growth. However, only a limited number of countries have experienced success in manufacturing and their corresponding global value chains, especially high-income countries. In 2015, high-income countries produced 55% of the global manufactured goods ³.

So far, much of Mozambique's economic development has been led by FDI (mega-projects) in the manufacturing (aluminum and power) and extractives sector (coal, gas and heavy sands). These projects have brought, foreign exchange, employment, tax revenue as well as some degree (albeit limited) of market linkages with local firms.

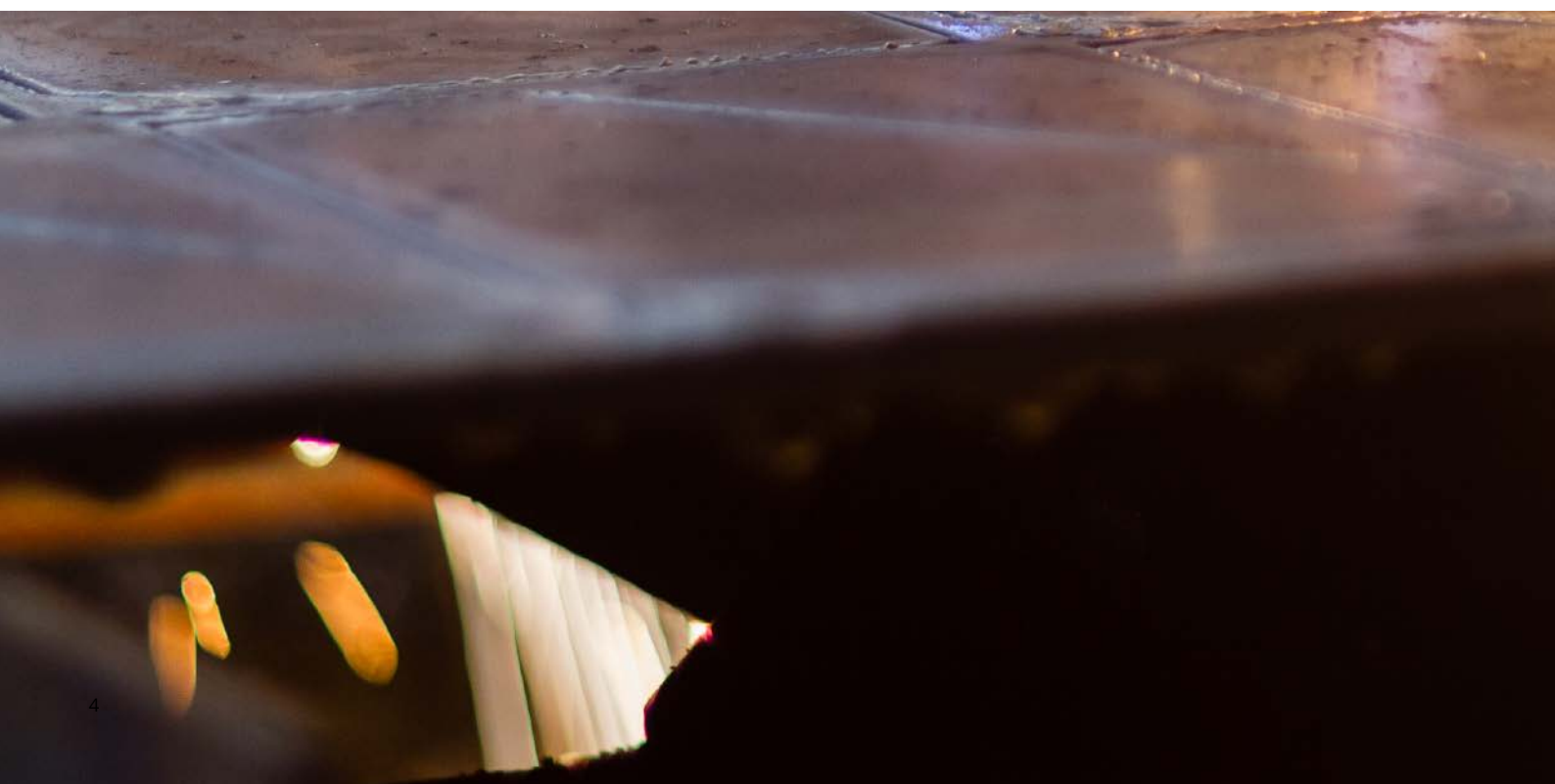
According to some institutions like UNCTAD, the current regulatory environment has disproportionately benefited mega-projects as compared to SMEs.⁴

However, there is promising evidence of business linkages established between large corporations and SMEs, such as the case of the aluminium smelter Mozal (owned by Australian giant South 32), Coca-Cola, and more recently Brazilian mining group Vale. Investment in the northern natural gas fields is expected to start in 3-4 years which will result in demand for a large quantity of goods and services.

This publication aims to showcase sound investment opportunities found in the manufacturing sector in Mozambique in order to attract national and international investors and show that private equity is a relevant alternative source of financing for smaller companies.

Deloitte used a pre-due diligence methodology that assessed companies' financial performance, strategic position, social impact and the nature of their investment opportunities. The methodology was designed to accommodate the nature of Mozambique's business environment and therefore allowed companies that had strong social projects to participate but did not share their financial statements.

The companies featured in the publication (summarised in Table 1) are mainly based in the Maputo and Sofala Provinces of Mozambique. Manufacturing is defined in the broad sense including construction, metal works, packaging products and industrial products and services.





No.	Company Name	Year Established	Sector	Areas of Operation
Medium Companies				
1	Beluluane Agro Alfa	2015	Industrial maintenance, metal work manufacturing, electromechanical assembly	Maputo Province
2	Facobol	1942	Rubber and plastic	Maputo Province
3	Canol Construções	1987	Civil construction	Maputo Province
4	Topack	1995	Plastic packaging	Maputo Province
5	PM Civil	2013	Civil works	Sofala Province
6	Tatos Botão	2007	Construction and maintenance	Sofala Province
Smaller Companies				
7	Afrifence	2013	Fencing	Maputo Province
8	Sociedade Moçambicana de Medicamentos	2008	Pharmaceutical production, HIV/AIDS drugs	Maputo Province
9	ZOE Enterprise	2006	Ethanol cooking fuel	Maputo Province

Investment Project	Required amount of Financing
Construction of a new workshop in Beluluane Industrial Park and investment in upgrading the technological capabilities of their technicians	USD 1 million for the workshop USD 500 000 for training of technicians
Capital investment for a recycling and plastics Factory in Nampula Province.	USD 300 000
Working capital and capital to buy construction materials for existing projects.	USD 330 000
1. Addition to their product line: woven plastic bags and raffia bags.	USD 5 million
To expand the plant and equipment resource of PMC	USD 1.6 million
1.Acquisition of heavy railway maintenance equipment. (which requires an investment of USD 2million) 2. Acquisition of equipment for NDT and construction in the Oil & Gas industry. (requiring an investment of USD 300.000) 3. Real Estate development, business center (requires USD 3 million) 4. Steel Refurb Technology (requires 500.000 USD)	USD 5.8 million for total for the development of 4 projects
Construction of a new branch in the North of Mozambique	USD 150 000 for the new workshop
Capital investment for the Intravenous(IV) fluids and penicillin solids plant	USD 8 million for IV fluids plant USD 3 million for penicillin solids
Expand their client base by selling more stoves, raising awareness of their product and developing their distribution network.	USD 550 000 in total USD 350 000 to buy stock USD 100 000 marketing of cooking fuel USD 100 000 for expansion of their distribution network

Equity Finance and its Potential in Mozambique

Limited access to finance is a recognised constraint in Mozambique. The majority of domestic capital comes from bank lending, however it is underutilised due to high interest rates, high collateral requirements, and poor knowledge of the real operating environment for businesses in Mozambique.⁵ Other sources of finance (such as stock exchange, corporate debt financing, asset capital, invoice discounting) are also not well developed leaving many companies, particularly small- and medium-sized enterprises (SMEs) constrained by a lack of start-up, working and investment capital. The agriculture sector suffers considerably. The share of lending to agriculture has fallen from 6 per cent in 2010 to 3 per cent of total credit in 2015).⁶

Private equity generally adds value to the business, through strategic management support, productivity improvements, identification of growth opportunities, promotion of business sustainability etc. In Africa, private equity investment has typically been in the form of growth capital where value is created through expansionary strategies, such as capturing a greater part of the value chain or capitalising on increasing distribution channels, which can contribute significantly to the development of the economy.⁷

Private equity investment is a financing tool that could help alleviate the financing gap; offering a more flexible alternative to bank lending, is well suited to the current business operating environment and aligns well with Mozambique's development goals. Equity investment has broadened in recent years with the rise of impact investing which seeks to create social as well as financial returns and often uses a wider range of financial instruments. The Global Impact Investing Network (GIIN), with regards to impact investing, describes Mozambique as an area with limited activity but abundant potential. For agriculture, due to its nature, patient capital may be more applicable.⁸

Regional Trends in Private Equity

Private equity in Africa was pioneered through development finance institutions (DFIs) but has spread through private funds mainly focused on South Africa⁷, Kenya and Nigeria.⁸ Private equity in Africa has been growing exponentially and is very much still in the inception phase. Investors have been attracted by strong long-term growth fundamentals, particularly a rising middle class population and abundant natural resources. In 2014, the aggregate deal value of completed African transactions was USD8.1 billion, a rise of 90 percent from 2013, despite investors shifting back in favour of developed countries that had begun to show growth.⁹

Due to the combination of emerging industries and the demographic trajectory, private equity in Africa has so far been characterised by growth capital, minority stakes, smaller sized investments, and longer holding periods compared to the leveraged buyouts by firms operating in mature markets.¹⁰

Private Equity in Mozambique

Equity finance in Mozambique is still in its infancy yet is growing particularly due to the excitement of the development of large natural gas resources in the Rovuma Basin. This has caused several private equity firms to move into Mozambique targeting areas such as real estate, transport, infrastructure and financial services.¹¹ Furthermore, the government has been seeking more private investment, private-public partnerships and privatisations of state companies' are likely following the recent debt crisis.

Apart from foreign direct investment in mega-projects, investments in Mozambique have historically been through the development sector. Mozambique is one of the highest beneficiaries of overseas development assistance in Southern and Central Africa. DFIs defined as government funded institutions that provide finance to the private sector for investments that promote development can therefore be considered the first active impact investors. They have been one of the largest sources of investment in the country investing mainly in manufacturing and infrastructure.¹² GIIN finds that Mozambique received the third highest in the Southern Africa region after South Africa and Zambia (95 deals with USD1.385 billion of capital dispersed).

In terms of impact investments, not counting DFIs, Mozambique has also received the third highest number of deals but received a lower ranking in capital disbursed (42 deals and USD 52 million disbursed).¹³ Non-DFI investors have tended to invest more in the agriculture sector (of the 15 active non-DFI investors in Mozambique, over 80 percent of investments have been in agriculture).¹⁴ SMEs, therefore, are still mainly being bypassed by this type of financing.

The Manufacturing Sector in Mozambique

The manufacturing sector in Mozambique is fairly incipient. It currently contributes about 9 percent to GDP and 0.8 percent to employment. It has shown stronger growth in the last few years: average growth rate of 5.1 percent between 2013 and 2015 with a high of 8.5 percent in 2015, higher than the GDP growth rate of 6.6 percent.

The sector is mainly comprised of micro companies, with few small and medium sized firms and are mainly involved with low technology intensity.¹⁶ Large firms are mostly dominated by foreign companies and are generally more capital intensive.

Significant subsectors are metals, chemicals, construction, industrial products and services, forestry, paper and packaging sectors, textiles, paint, soap, food and drink products, furniture and wood products, leather and shoes.

Like the agriculture sector, manufacturing faces a number of challenges such as competition with South African imports, unreliable electricity and a costly and bureaucratic business environment. As much of the production in the sector involves imports, i.e. most manufacturing companies process imported goods (e.g. by processing imported steel coil to make roof sheets) or require imported complementary goods such as packaging, products processed domestically are often more expensive than imports.

Interest rates on loans are prohibitively high, financial products offered are often inflexible. MSMEs often quote lack of access to financing as a key barrier to their development.¹⁷

By contrast, private equity, which often results in value addition to businesses, offers strategic management support, productivity improvements, identification of growth opportunities and promotion of business sustainability, offers a more flexible financing tool that could help alleviate the current financing gap as well as providing technical support to businesses.

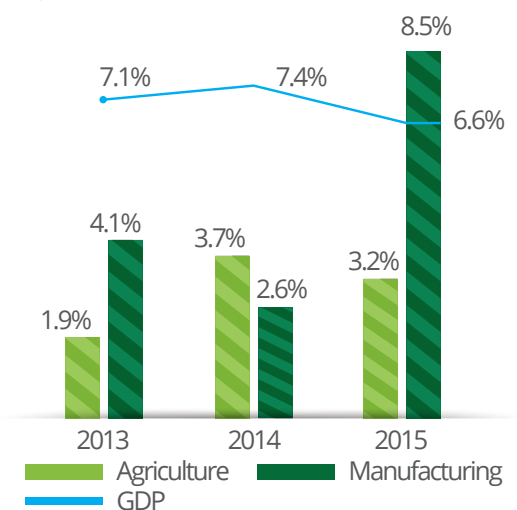
The Potential of the Manufacturing Sector

Although the manufacturing sector is still underdeveloped, Mozambique has several advantages that give the sector a favourable outlook. Mozambique has good transport linkages to South Africa (the Maputo Corridor), Malawi and Zambia (the Nacala Corridor), Zimbabwe, Malawi, Zambia and DRC (the Beira Corridor), competitively priced supply of labour and a wealth of natural resources that present opportunities for processing.

In addition there is little domestic competition in most manufacturing sub-sectors, and close proximity to higher income African countries like South Africa, Tanzania, Zimbabwe, Zambia, Malawi and Swaziland.

The future development of the gas and other extractives industries also offers many opportunities for the manufacturing sector, offering a guaranteed source of demand for large quantity orders of goods and services.

Figure 02: Sector and GDP Annual Growth Rates



Source: National Statistics Institute (INE)

Methodology

The companies were assessed through a pre-due diligence framework and selection was based on a funnel approach that filtered out companies according to: ethical behaviour, financial performance, competitive position, investment opportunity and social impact.¹⁸ Sampling of companies was selective through research to ensure that companies with potential were targeted for interviews. Our work approach followed these steps:

1. Companies were firstly assessed on their ethical behaviour; if any company was reported to be involved in unethical behaviour they were eliminated at this stage.
2. A questionnaire was then completed with all companies that created a profile of the company, its investment need and opportunity, competitive position, management and social impact. If companies did not want to share financial statements, a few questions on financial performance were asked.
3. Financial statements were examined using ratio analysis to determine companies with a good financial performance.¹⁹
4. If a company was assessed to have a good financial performance, we next examined their competitive position and investment opportunity and consequently decided whether they were a good investment opportunity.
5. Social impact was assessed as a separate component in the analysis.
6. If companies did not share their financial statements, we based our analysis only on the questionnaire to judge whether they were an interesting investment opportunity.



Investment Opportunities

Below follows profiles of the companies and their investment opportunities.²⁰

Beluluane Agro Alfa SA

Beluluane Agro Alfa (BAA) is a company that provides industrial maintenance, metal work manufacturing and electromechanical assembling that is located in the Beluluane Industrial Park where it services the Mozal aluminium smelter.²¹ The company was previously part of Agro Alfa SA, an old and established Mozambican firm, but in 2015 became an independent company.

Financial Performance

BAA has performed well in past recent years. BBA's 2014 and 2015 financial statements showed healthy profit margins indicating that BAA can cover both its variable and fixed costs comfortably (gross profit margin was 86% and EBITDA margin was 23%), while revenue growth was 26 percent between 2014 and 2015.

BAA's asset turnover ratio has improved significantly in recent years, from 0.58 in 2014 to 1.11 in 2015, which implies that the firm is efficient in the use of its assets, generating 1.11 dollars for every dollar invested.

Competitive Position

BAA have solid experience of working as a Mozal supplier for more than ten years. Through continuous learning and exposure to international standards they have upgraded their technical capacity and developed quality management systems. They are currently the second biggest supplier to Mozal in terms of mechanical and electrical maintenance. BAA expects their work with Mozal to continue to grow as the aluminium plant ages and requires increasing maintenance: revenue from Mozal is projected to reach double its current value.

Maintenance is a profitable business as the client prefers to retain current providers and national firms with a local labour base are ideally positioned. With long term projects, the company is better able to plan to meet its budget and competitiveness between firms is not just at the margins which is the case with suppliers of goods.



Figure 03: BAA 'S Profitability Analysis

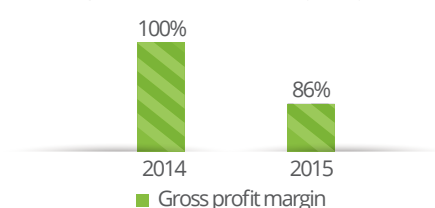


Figure 04: BAA 'S Profitability Analysis

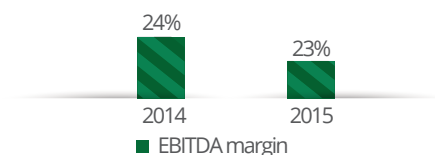
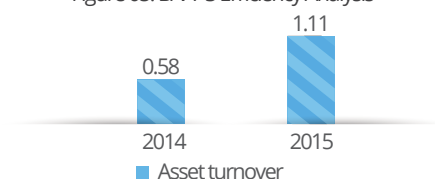


Figure 05: BAA 'S Efficiency Analysis



BAA's business strategy and future growth will come from two main areas: an upgrade in its technology and technical capabilities and an expansion of clients in other industries such as the oil and gas sector.

After the restructuring of the new company, BAA are currently in the process of upgrading their management systems and processes, training their staff and managers, and improving their working conditions to become a first class organisation. By investing in technology, BAA hope to differentiate themselves to their competitors by providing higher value-added services. They aim to move away from basic work services and a reliance on manual labour to highly trained labour that can offer their clients technological solutions.

To reduce their dependence on Mozal as a client, they have begun to increase their work with other large international clients such as Coca Cola, Stema, and the Port of Maputo. A further part of this strategy is to prepare the company for providing services to the gas industry. They have commenced the process for ISO 9001, 2007, 14001 and OSHO 8001 certifications to ensure their standards meet the high international standards of the gas industry. They will also begin working with Sasol as a client in the next year gaining exposure to working in the gas industry. BAA will therefore be well positioned once the investments in the Rovuma gas basin start.

Social Impact

BAA understand that to be a first class company in industrial maintenance, they need to have high quality employees. As part of this, they have learnt that workers also need to raise their standards of living at home and therefore BAA tries to also contribute to an uplift in standards in the society. As part of this initiative they have made bank accounts compulsory for all staff, have ensured that all staff and their family have IDs and passports. They also provide loans to staff so that they can make necessary improvements to their houses. The management at BAA also visit all their employees' homes to ensure they are living in suitable conditions.

BAA has also continuously invested in work safety with the aim that it becomes an integral part of their operation and culture. Employees also benefit from continuous technical training to ensure that standards are maintained and built-on. Management staff own 26 percent of the company which has increased their commitment to the company's development. Training their staff to higher technical capabilities means they are supplying higher quality workers to the national economy as well as providing higher quality jobs.

Investment Opportunity

BAA are currently seeking an investment partner to assist them in financing a new workshop and the technical capability upgrade of their staff.

BAA's operations are currently limited by high logistic costs due to the need to transport their fabricated structures 20 kilometres from Maputo City to the Beluluane Industrial Park using a highly congested road. BAA require an investment of USD 1.5 million to build a workshop in the industrial park thereby significantly reducing their transport costs.

In following their business strategy, they also require an investment of USD 500 000 in upgrading the technological capabilities of their technicians with the aim of certifying them to international standards.



FACOBOL – Fábrica Continental de Borracha, SARL

FACOBOL is a factory that manufactures rubber and plastic products. It is an established company, founded in 1942. Their sales are mainly focused on the Southern region of Mozambique: Maputo, Gaza and Inhambane represent 90 percent of their sales.

Financial Performance

Since 2011 FACOBOL has recorded healthy profit margins displaying the firm's ability to manage its variable costs. While revenue has remained fairly stable, it is however unable to cover its fixed costs. The firm is fairly efficient with an asset turnover ratio of 1.18 in 2015 and is little gearing as liabilities only account for 33 percent of total assets.

Competitive Position

FACOBOL has four business areas: 1) rubber manufacturing, 2) recycling plastic for use in their plastics division, 3) plastic pipe manufacturing and 4) real estate of 14 000 square metres.

They produce 4 tons of rubber products a month and can produce about 1 000 different rubber products. These products are for industrial use such as cement factories, water suppliers, small businesses and general products. Originally only a rubber manufacturer that produced high value rubber products, they have recently been scaling down the rubber division of their business due to a stagnant market. The majority of their sales goes to 10 large customers in the cement and water industry.

The plastic pipe division is supplied by their own recycled plastic division and supplemented by virgin plastic. They supply pipes for agriculture, construction (piping and electric wiring) and for informal houses. 50 percent of sales goes to 4 big customers while the remaining sales goes to 100 medium to small retailers and a large quantity of small clients.

FACOBOL's strategy is to stay close to its customers thereby reducing transport costs, expand their product range slowly and continue with steady growth. They have cost advantages as they don't pay rent and receive rent through their real estate business, they are able to spread their overheads over the 4 business divisions and they are an established factory which is already equipped with all the machinery.

FACOBOL has also entered the UNIDO – INNOQ certification programme and will start to certify their plastic pipes products as soon as INNOQ has the capability to certify.

Social Impact

FACOBOL employs about 70 people and has linkages with the local economy as 100 percent of its sales are to the domestic market and in the plastics division, 50 percent of sales goes to SMEs or the informal market.

Investment Opportunity

FACOBOL have identified an expansion opportunity and require a capex investment of USD 300 000 to set up a recycling and plastics factory in Nampula province. FACOBOL have identified Nampula as a location with high potential as it is one of the most populous provinces (population of 5.1 million ²²) in Mozambique and has high margins as the high costs of transporting products to the province cause consumer prices to be much higher than in the South of Mozambique. Following the business strategy of being close to its customers, FACOBOL intends to set up a new division there to take advantage of the high margins, lack of competition and demographic demand. FACOBOL already have clients in Nampula and so have a good understanding of the market there. They are seeking an investment partner that could bring technical expertise in the area of operations to improve the quality and quantity there machines can produce.

Figure 06: FACOBOL Profitability Analysis

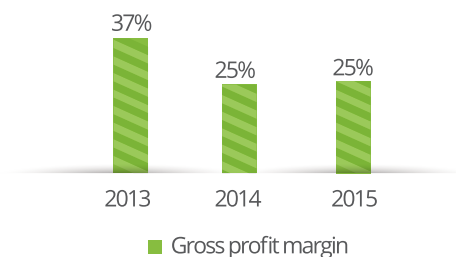


Figure 07: FACOBOL Efficiency Analysis

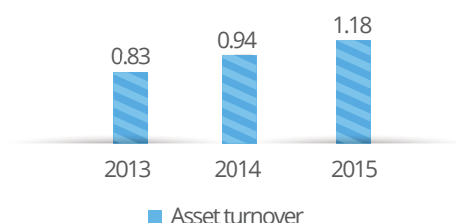
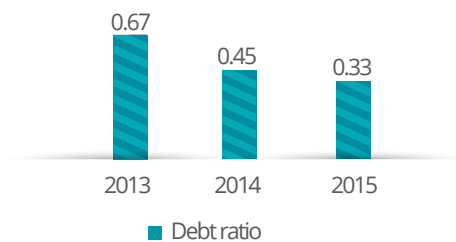


Figure 08: FACOBOL Leverage Analysis



Source: FACOBOL Management

Canol Construções, Lda

Canol Construções Lda (Canol) is a civil construction company committed to safely delivering quality civil construction services including brickwork, metal works, plumbing, carpentry, painting and electricity. Established in 1987 and based in Maputo with a representation in Inhambane, Canol operates nationwide.



Financial Performance

In 2015, Canol performed very well displaying a 21% gross profit margin. Managing to contain cost of goods sold (with a growth rate of 5% in 2015). While the EBITDA margin has increased to 11%, meaning that the firm retained 11 cents of every dollar generated in revenue after paying its costs. It is worth noting that the asset turnover has had significant improvement, tripling its value between 2013 and 2015, reaching a high of 6.76, showing that the firm is effectively using its assets to generate revenue. The overall debt accounts for 69% of the total assets.

Competitive Position

Canol has preserved a constant positioning in the construction industry, maintaining its focus on serving the public sector which accounts for more than 95% of its total sales.

Over the years, Canol has upheld a positive performance along with maintaining a good reputation and relationship with its biggest client. Canol's main strategy is delivering quality work to its clients and as a result has been awarded with several government projects, most of which are projects with a large dimension and budget.

Canol remains optimistic in that they are interested in expanding their operations in the foreseeable future. They have operations quality certifications. Canol has also identified the need for a national stone quarry, as this would lower their cost of production significantly since they would cut import costs. Their supplier base consists of more than 10 suppliers (combination of local and foreign) for key inputs.

Canol's main competitors range from leading multinationals to national SMEs who also serve the public sector. Given the size of their company, they have a small organisation structure, with some people occupying more than one key position.

They report their financials statements on an annual basis and have financial projections.

Social Impact

With a workforce of 73 permanent employees, Canol ensures that it employs people from the local area which come from low-income backgrounds, that way the workers are not taken away from their place of residence and contributes 100% of its sales to the domestic market. Canol offers the employees at the construction sites the opportunity to attend health and safety trainings.

Figure 09: Canol Profitability Analysis

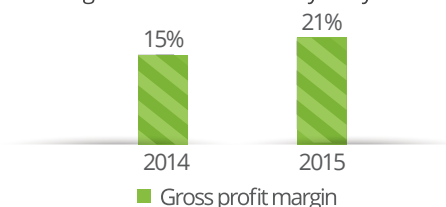


Figure 10: Canol Profitability Analysis

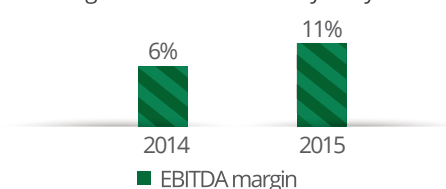


Figure 11: Canol Efficiency analysis

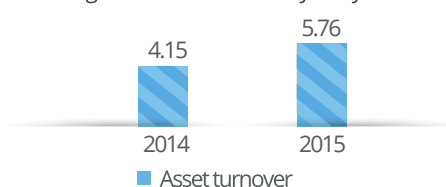
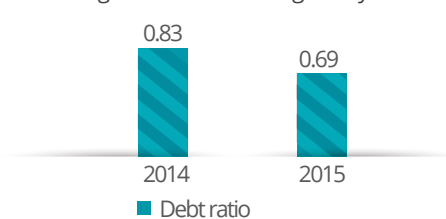


Figure 12: Canol Leverage Analysis



Source: Canol Management

Topack Moçambique - Instustria de Pláscctico, SARL

Started in 1995 in Mozambique, Topack is today a group of growing manufacturing companies dedicated to produce and trade packaging plastic products. Topack manufactures in Portuguese-speaking countries (Mozambique, Portugal and Angola) with a commercial branch in South Africa. Besides supplying for the local market, exports to several SADC countries (Zambia, Swaziland Zimbabwe).

Financial Performance

Topack's financial performance from 2014 to 2015, shows that the company has made significant improvements, with a considerable increase in its gross profit margin from 33 per cent to 46 per cent and EBITDA margin turning a positive 24 per cent in 2015. These increases were largely driven by the increase in total revenue in 2015 (40 per cent growth rate) and the company's ability to manage its variable costs.

Topack's overall asset turnover in 2014 improved significantly from 0.38 to 0.62 in 2015, indicating that the company generated 62 cent for every dollar invested in assets. Although this may be promising, a ratio less than 1 is considered to be below the expected level and therefore there is further room for improvement.

Competitive Position

Topack's operations are divided into 5 main areas: injection moulding (including beer crates, buckets for industrial use, garden equipment and other products for domestic use), plastic film extrusion (including industrial plastic film and plastic bags) insuflation (watering cans, jerrycans), and PET (bottle pre-forms).

Annually, Topack manufactures 2,54 thousand tons of plastic packaging in total, 80% of which is for crates which is their best-selling product. Topack has expanded its product line to include plastic pallets and is building a new production facility in the north region (Nampula) to supply the local brewery factory.

Topack's main business strategy is to replace the imports by supplying quality products at competitive prices, which will only be possible by achieving economies of scale with high volumes. Topack is a well governed company, with a formalised business plan that includes a risk assessment and analysis, and its functional strategies: human resources, marketing and sales.

Topack benefits from cost advantages compared to their competitors as they have infrastructure which generate cost synergies, when implementing new product lines. Topack's sales to the domestic market account for 80% and 20% for exports.

Committed to delivering its customers with the best quality, Topack is certified to ISO 22000 for food safety and ISO 9001 for processes. Future growth is likely to come from the plastic pallets, preforms and other household items.



Figure 13: Topack Profitability Analysis

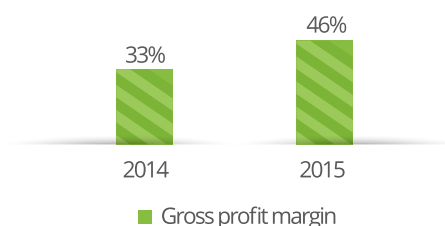


Figure 14: Topack Profitability Analysis

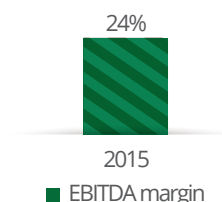
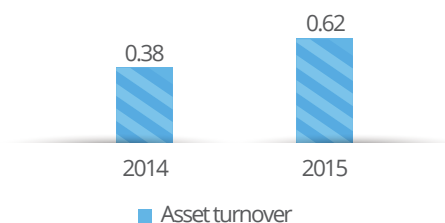


Figure 15: Topack Efficiency Analysis



Source: Topack Management

Social Impact

Topack currently employs 120 people from the local area. Topack is aware that maximising use of recycled material not only has environmental but also economical benefits. Topack has a unique recycling department as an indication that the company is concerned about the environment.

The plastics production chain makes a decisive contribution to sustainable development, helping with the conservation of natural resources, improving people's quality of life and contributing to economic growth. Competitive costs, ease of installation and low maintenance make plastics perfectly suitable to meet basic needs: housing, sanitation, water supply and health.²³

Investment Opportunity

At the moment, plastics manufacturing takes up roughly 5% of global oil production—and as oil prices drop, so does the cost of plastics manufacturing. The plastics industry is providing promising prospects for private equity firms with an interest in the sector.²⁴

Topack is seeking an investment partner to assist them in financing the expansion of their product line to include PP woven bags (sugar, maize, fertilizers and others). Topack's financing requirement amounts to USD 5 million which can be done through private equity investment.



PM Civil, Lda

In 2008, PM Civil Lda (PMC) began operating in Mozambique. The company was established shortly after Praysa Cívils, a Civil Engineering contractor focused on town development infrastructure, was awarded a major project in Mozambique to de-bush, do land preparation for a sugar cane plant to produce bio-fuels.

PMC's mission is to create successful partnerships with their clients and to complete every project on time and on budget. They aim to maintain the highest level of professionalism, integrity, honesty and fairness in relationships with their suppliers, professional associates and clients.

From 2015 to 2016, PMC's revenue grew by approximately 40% and the company was able to lower their COGS by 23%. The firm recorded improvements as regards to its profit margins, with its gross profit margin increasing from 48% in 2015 to 73% in 2016 and its EBITDA also increasing from 8% in 2015 to 27% in 2016.

The level of gearing decreased by roughly 50% from 2015 to 2016, as debt in 2016 only accounted for 56% of total sales.

Competitive Position

After PMC participated in a major agricultural development, the company continued with civil construction works, and targeted construction of mining process plants, structural steel, platforms stabilisation and other developments in the sector.

Since 2013, PMC specialises in structural concrete, soil stabilisation, turnkey warehousing projects and other civil works related to petro-chemical plant erection and the expansions and maintenance of such depots. PMC forms part of a professional technical team, in design, contractual management, consulting and development.

PMC's surveyors are proficient in a range of survey methods, from large scale GPS surveys to highly accurate construction set-out. PMC has acquired Trimble's surveying equipment together with their field level system. Performing a topographic survey, enables them to precisely match their land levelling equipment to the survey data when it is time to level. With an integrated display they can run "autopilot" for accurate passes to further maximize the efficiency of our equipment.

The topographic survey enables the calculation of a best-fit levelling design using the Trimble software to design complex scenarios and import the design into the levelling equipment. When levelling the field, the self-level system automatically raises and lowers the blade on the scrapers based on the tractors location, the field is then levelled in accordance to the design.

PMC competes in the civil construction industry, with a few specialists in the field of civil engineering, but have some solid partnerships at certain occasions with our competitors, depending on the demands of certain projects. PMC benefits from cost advantages by having edge on overhead cost structure. They have a strong client base with around 20 clients, including 7 large companies who account for 90% of their sales.

They have certificates for product quality, for various products installed in their civil projects. Their main market is Mozambique, in particular Beira, Pemba and Nacala in the areas of petro-quimical and logistics development. They keep management accounts and have key positions filled by separate people. Their existing organogram, is important, as they have recently implemented a program and are very optimistic that PM Civil will benefit by systems and cost controls, implemented.



Figure 16: PMC Profitability Analysis

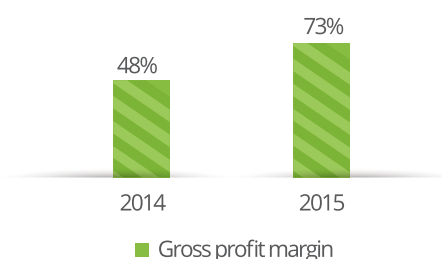


Figure 17: PMC Profitability Analysis

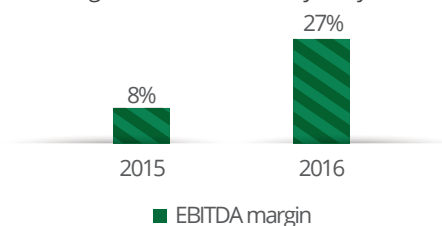


Figure 18: PMC Liquidity Analysis

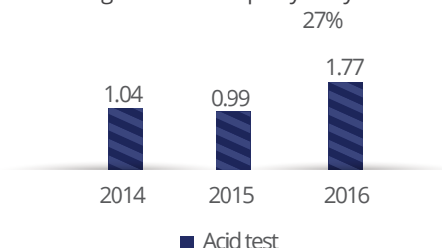
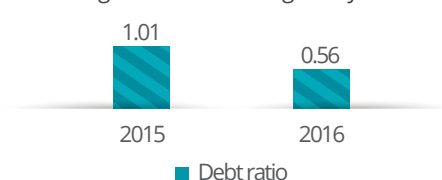


Figure 19: PMC Leverage Analysis



Source: PMC Management

Social Impact

PMC believes in training its staff to standards of ISO 9001/SABS. The concentration on developing personal skills benefits PMC standard of works and gives us a positive edge in the construction industry. PMC manages a permanent team of 36 people, ranging from professionals, technical, support/operators, to administrative. The project driven appointments of labour varies according to demands of different sites. They also have health and safety trainings which form part of their daily procedures on site.

Investment opportunity

PMC believes that future growth is likely to come from logistics development and petro-chemical expansion. PMC has plans of expanding by establishing in the North of Mozambique.

PMC is looking to expand its plant and equipment resource (i.e motor graders, compaction equipment, and earthmoving equipment). They are seeking an investment partner that can provide a balance between equity and asset capital, specifically equity held by an investor in operating in the same sector, which can also contribute with civil engineering know-how. PMC is currently negotiating new construction works with 4 investors in Mozambique and foresee the demand for about \$1.6 million.

They are looking for a private equity investor that could also provide technical assistance in the area of civil engineering.



Tatos Botão, Lda

Tatos Botão Lda (Tatos) is a civil engineering company that offers construction and maintenance services, in railway, real estate, and Oil and Gas as well as Non- Destructive Testing (NDT) and development and management of real estate. Tatos Botão, a pioneering Mozambican company operating in the railway industry, started its activities in 2008, maintains its focus on rendering services of international standards to its clients at competitive prices, continuously developing its technical and resource capacity as well as generating local capacity. Tatos, winner of the “Top 100 SMEs” award in 2015, holds the “Made in Mozambique” certification and has been nominated in various categories in Frankfurt, London, Monaco and Rio de Janeiro.²⁵

Tatos is headquartered in Beira, in Sofala province, with other facilities in Tete, Nampula and Niassa provinces.

Financial Performance

Tatos’ financial analysis from 2013 to 2015, indicates a strong financial performance, with an increasing and positive gross profit margin, going from 97% in 2013 to 100% in 2015, implying that for every dollar earned in revenue, the firm retained 76 cents after paying its variable costs. Higher revenue and good COGS control are responsible for these growths. There has been an expansion of service operations and it is worth mentioning that 2015 had no COGS incurred.

The firm’s asset turnover ratio has doubled from 0.81 in 2013 to 1.58 in 2015. In other words, Tatos has been able to manage its assets efficiently, by extracting 1.58 dollars from every dollar invested in assets.

Another strong aspect of the firm, is its liquidity. As current assets had a slight increase and current liabilities have remained relatively stable, as well as an acid test ratio increase, from 1.40 in 2013 to 1.52 in 2015. This indicates that the firm is able to meet its current obligations.

There has been a positive trend with regards to the firm’s leverage, as debt ratio has been continuously decreasing since 2013, from 0.70 to 0.66 in 2015, should this trend continue it will give the company a little more room to breathe as it will be better positioned to pay off its debt in the future.

Competitive Position

Tatos positions itself as a company with integrated offerings such as: 1) Construction and maintenance of railways 2) Construction and maintenance in the Oil & Gas industry 3) NDT 4) Development and management of real estate. Currently, the railway industry accounts for 95% of its revenue, with the other areas continuing to grow year after year.

Besides marketing partnerships, Tatos is in the process of establishing strategic partnerships with companies specialized in supply of NDT equipment for the Oil & Gas industry and restoring of rails and switches for the railway industry. Tatos has formalised a business plan with some functional strategies. Their business strategy is to participate in the construction and rehabilitation of infrastructure (particularly railway and Oil & Gas) sectors. Tatos aims to collaborate and learn from multinational constructors on the pursuit of becoming the leader of the infrastructure sector maintenance.

Tatos’ main competitors are multinational companies operating in the same industry. They benefit from cost advantages by having a board structure which is less bureaucratic compared to multinational competitors which allows Tatos Botao to reduce fixed costs.

Tatos has a client base of 5 clients, including large companies and a multinational operating in the Oil & Gas, railway, mining, and logistics industries which account for 100% of their total sales. Tatos has many



Figure 20: Tatos Profitability Analysis

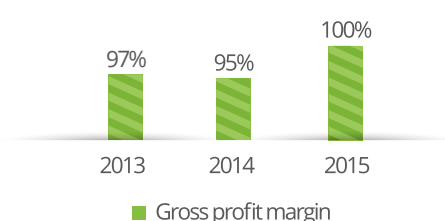


Figure 21: Tatos Efficiency Analysis



Figure 22: Tatos Liquidity Analysis

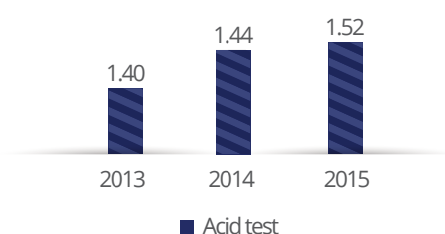
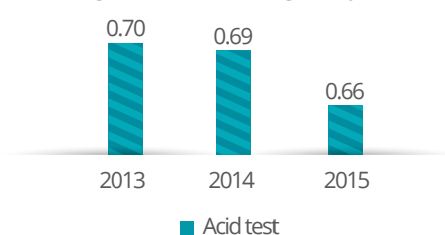


Figure 23: Tatos Leverage Analysis



Source: Tatos Management

suppliers for different key inputs which are: Tools (3), Rails welding materials (2), track side equipment (3), NDT equipment (1), construction equipments (3), and construction material (3).

Start-up companies in this industry are constrained by relatively high capital required to invest as well as strong financial and bargaining power of other industry players. Tatos' main market consist of: railway, Oil & Gas industries from central and northern Mozambique. So far, they sell to Sofala, Tete, Nampula and Niassa provinces.

Tatos is a well governed company, with a formalised corporate vision and strategy as well as governance policies outlining the distribution of rights and responsibilities. Their organisational structure consists of 9 key positions which are filled by separate people.

Social Impact

Tatos has social and environmental objectives covering 3 key areas, including education, environment and local community support.

Tatos contributes to the local area by hiring 113 people (94 are temporary employees) from the local area, accounting for 97% of its workforce of which 52% are from low income backgrounds.

The firm has 4 types of training programs available to its employees, including management, usage of technology and tools, maintenance techniques and personal development and professional. The number of hours of training an employee receives over an average tenure are: Management (12-20 hours/per annum); Technicians (50 hours/per annum); Operational workers (80 hours/per annum).

They also have a significant impact on the local economy,as 100% of its sales to the domestic market with 80% ultimately going to SMEs and 80% of their spending on inputs is domestic (including tools and construction material).

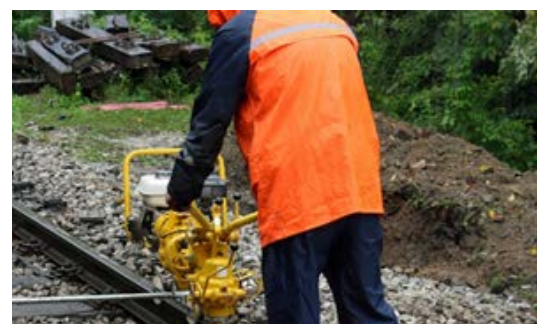
Investment opportunity

Future growth is expected to come from testing NDT, maintenance of pipelines and tanks in Oil & Gas industry; restoration of railway materials and development of real estate. Tatos plans on expanding its business, initially, at a national level (Cabo Delgado and Zambezia) and then internationally to Malawi, Zambia, Zimbabwe and South Africa.

Tatos is seeking an investment partner to assist in financing a total investment of USD 5.8 million for the development of four projects:

1. Acquisition of heavy railway maintenance equipment. (which requires an investment of USD 2million)
2. Acquisition of equipment for NDT and construction in the Oil & Gas industry. (requiring an investment of USD 300.000)
3. Real Estate development, business center (requires USD 3 million)
4. Steel Refurb Technology (requires 500.000 USD)

They are looking for an asset capital investor that could also provide technical assistance in the areas of marketing and customer relationship management and operations, particularly management of infrastructure maintenance operations.



Sociedade Moçambicana de Medicamentos, SA

Sociedade Moçambicana de Medicamentos,SA (SMM), is the first national pharmaceutical factory in the pharmaceutical sector in Mozambique. Established in 2008, SMM is a wholly-owned subsidiary of IGEPE (Instituto de Gestão de Participações de Estado). SMM is the outcome of a partnership between the governments of Brazil and Mozambique, whose main objective is to manufacture antiretroviral drugs and other essential drugs. SMM is devoted to the production of safe, effective, high quality pharmaceuticals which will contribute to the improvement of quality of life and public health²⁸. The factory is based in Matola, in Maputo Province.

Competitive Position

SMM intends to position itself as a reliable manufacturer of pharmaceuticals “Made in Mozambique” with the global quality standards. They have 2 distinct production areas, namely an IV fluids product line and an oral solid drugs product line which consists of antiretrovirals and multi-products. They currently have a sum total of 18 products in their product base. SMM has equipment and specific areas and utilities that enable the implementation of the different stages of the production process. Aiming at leveraging synergies between their products, SMM is currently reviewing its product portfolio which will eventually create cost advantages as compared to its competitors

SMM has a nominal capacity of producing a total of 370 million units of solid oral drugs, with a single shift, which can be increased up to 1 billion units by adding more shifts.

Highlighted in last year’s annual achievements were the Board’s decision of conducting a restructuring process by implementing changes in the company’s organisational structure with the aim of achieving its strategic objectives and that SMM has managed to obtain an environmental certification. SMM has also rolled out an equipment installation process for tablet film coating, which is essential for the manufacturing of coated tablets which is expected to be finalised this year.

SMM has signed a contract with the Ministry of Health (MISAU) for the supply of IV fluids, in which it was agreed that all of their IV fluids production would be bought by MISAU. SMM operates on a direct procurement approach and do not take part in tenders. SMM appoints one of the leading distributors, Medis, to distribute to the private sector and CMAM for the public sector.

SMM is a well governed, reporting all financial statements with projected financials, including projections for the IV fluids and penicillin antibiotics plant projects.

Social Impact

SMM has a workforce of 49 workers of which 78% are operational staff and 22% are support staff. Last year the firm provided a total of 129,546 man hours of training and capacity building of Standard Operating Procedures (SOP) and other personal development activities. SMM views this an important factor considering the current focus of the company on institutional capacity building. SMM managed to offer training in the areas of: Good Production Practices, Corporate Governance and Administrative related processes to their employees.

Although most of their inputs are imported, SMM contributes all its sales to the domestic market and most of it ultimately goes to smallholders and SMEs. Due to the shortage of pharmaceuticals, all of their production is for local consumption.



Investment opportunity

SMM is looking to expand its product portfolio after the transfer of technology of the following products: 1) Paracetamol 500mg; 2) Hydrochlorothiazide 25mg; 3) Folic acid 5mg; 4) Glybenclamid 5mg; and 5) Metformin 500mg.

SMM is seeking capital investment for the development of 2 projects. Due to the current state of the existing IV fluids plant and unable to allow production of IV fluids, SMM has developed a project including financial and production projections for a new IV fluids plant. The IV fluid plant project requires a capital investment of USD 8million. Following the expansion plan mentioned above and considering the complexity of pharmaceutical manufacturing processes, SMM is also looking for a capital investment of USD 3 350 000 for the new penicillin antibiotics plant.



AFRIFENCE, Lda

Afrifence Lda manufactures and installs a wide range of quality and affordable fencing products. Its factory is located in Matola, Maputo province. Afrifence has served in excess of 2,000 clients, 1000 deliveries across 5 countries. It has been awarded 7 excellence prizes in Mozambique.²⁶

Afrifence has a diverse retail and wholesale client base to which they offer high quality products at competitive prices. Afrifence imports raw materials and manufactures a range of quality fencing products. They also advise their clients on the optimal fence solutions.

Financial Performance

Based on Afrifence's financial analysis from 2014 and 2015, the firm displays healthy future prospects. Over these years, Afrifence has recorded positive results as regards gross profit margin, which increasing from 18 per cent in 2014 to 31 per cent in 2015. This rise reflects the company's ability to efficiently control its COGS. EBITDA margin was 8% in 2015.

Afrifence's asset turnover ratio has doubled since 2013, from 1.82 to 3.49 in 2015. (I.e the firm is able to produce 3.49 dollars for every dollar invested in assets.) Since 2013, the company's acid test ratio has been increasing gradually, reaching 1.31 in 2015. This reveals that the company has been improving its liquidity position.

Looking forward, the company has been reducing its gearing with a decreasing debt ratio year on year, from 0.97 in 2013 to 0.76 in 2015. This reflects that the company's debt level has reduced though there is still further room for improvement.

Competitive Position

Afrifence is one of the leading providers of fencing supplies in Mozambique. Its product base includes a wide range of fencing, barbed wire, razor wire, and fencing poles.

As defined in Law No. 43/2009, of 21 August, tax benefits are granted to newly established investment projects whose proposals are submitted to the Centre of Investment Promotion (CPI) and the authorising and tax benefit decisions are of CPI, public entities and tax authority²⁷. Thus benefiting from cost advantages by having lower costs as compared to their competitors, allowing them to provide their products at competitive prices to their valued clients. Afrifence's main competitors consist of local SMEs and Chinese companies. The nearest substitute for their products are wood products and products imported from China.

As a commitment to deliver quality products, Afrifence is in the process of obtaining a "Made in Mozambique" certification, which will contribute to adding value to its products. This also reinforces their vow to adhere to manufacture goods that adhere to global quality standards.

Afrifence has a client base of 15 clients, its biggest clients consist of both local and foreign small, medium and large companies and they account for 60% of their total sales. Their main market is the domestic market, although the majority of their clients are based in Tete, Nampula, Maputo and Manica.

Although still fairly small, Afrifence has an adequate organisational structure with key positions filled by separate people. They have a corporate vision and strategy, and keep management accounts such as the monthly company cost.



Figure 24: Afrifence Profitability Analysis

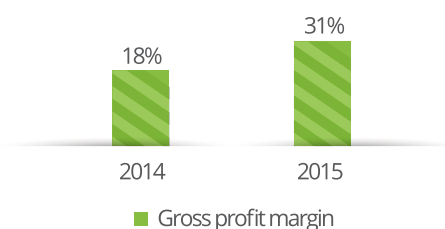


Figure 25: Afrifence Efficiency Analysis

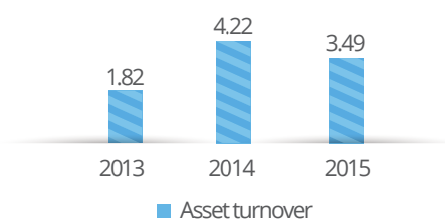


Figure 26: Afrifence Liquidity Analysis

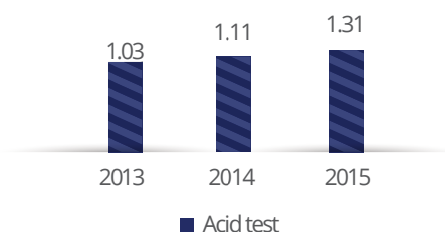
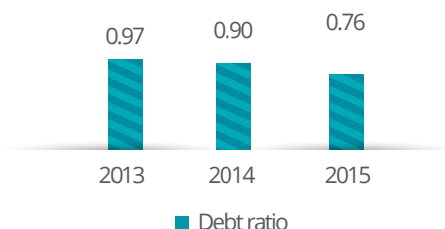


Figure 27: Afrifence Leverage Analysis



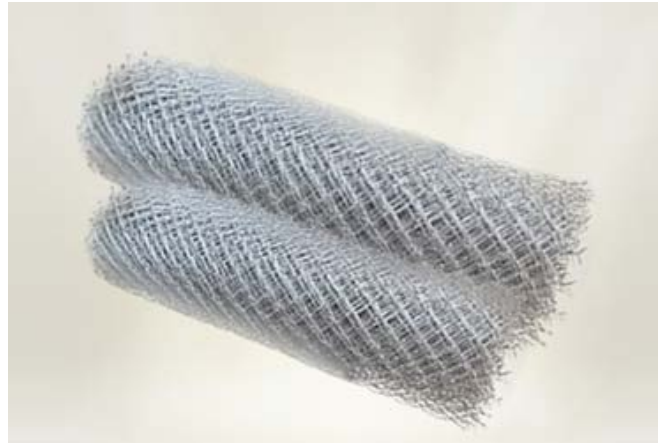
Source: Afrifence Management

Social Impact

Afrifence contributes to the domestic economy by employing 95% of its staff from the local area. For the heavy machinery imported from abroad, Turkey and South Africa, Afrifence ensures that workers operating these machines benefit by receiving operational training directly from the suppliers. Furthermore, the company ensures that all its workers are covered by an occupational diseases and accidents insurance scheme.

Investment opportunity

Afrifence believes that having greater proximity to mega-projects in Northern Mozambique will be an advantage, as they will be able to. Although the nature of this business is not one that has daily or constant sales, they believe future growth is likely to come from welded wire fence and barbed wire. Therefore Afrifence is seeking an investment of USD 150 000 to finance the opening of a new branch in the North of Mozambique.



ZOE Enterprise, Lda

ZOE Enterprise Lda promotes clean and sustainable cooking in Mozambique through the production of an ethanol-based cooking fuel sold under the brand NDZiLO (meaning fire/flame in the local language, Changana) and the sale of cooking stoves that are powered by the NDZiLO fuel.

ZOE's vision is to create an innovative, profitable and environmentally restorative business that empowers low income women in Mozambique and other developing countries to improve the health and living conditions of their families through the supply and retail of an affordable, clean and modern cooking solution.

Competitive Position

ZOE Enterprise is uniquely positioned in Mozambique as the only domestic producer of an ethanol based fuel. They have a wide customer base and a large potential domestic market. Currently they focus their sales on the cities of Maputo and Matola, of which 70 percent of their population of 2 million people is low income and their target market.

ZOE's strength lies in its understanding of their target market, the strong relationships it has with the local community, its unique product and innovative distribution network. Once customers switch to their fuel they are reluctant to switch back to charcoal due to its Fast, Clean and Safe features and the initial investment of the stove. ZOE prices the NDZiLO fuel as close as they can to the equivalent of one months cost of charcoal for a household. Apart from the health benefits, this provides an added incentive for customers to switch from charcoal fuel.

ZOE has invested substantially in marketing and raising awareness of the health and environmental dangers of using charcoal as fuel. They have built up a strong brand image with NDZiLO that is differentiated, locally relevant and easily recognizable. Teams of promoters visit different neighbourhoods in Maputo and Matola to teach the residents about the environmental and health benefits of using the fuel. They use door to door demonstrations, sms, roadshows, cooking days in the community, community theatre, songs, radio adverts, TV and outdoor advertisements.

ZOE capitalises on the existing retail network by selling to small retail outlets in the neighbourhoods (commonly known as "barracas"). They currently work with 145 retail outlets directly and one large distributor which distributes to another 100 retail outlets. NDZiLO therefore already has an established retail network. They are able to control the price of their fuel to ensure that it stays affordable to their target market by placing price control stores in each neighbourhood. These stores, often managed by their trusted promoters, sell the fuel at an affordable price determined by ZOE, therefore if any of the retail outlets raise the price, they are undercut by the price control store.

Social Impact

The most common fuel Mozambicans use is charcoal. To produce 1 kilogram of charcoal, 7 to 10 kilograms of wood needs to be burned. Deforestation is the leading cause of the degradation of soils and floods which contributes to reduced food production and higher natural disasters. It is also a major source of CO2 emissions. Charcoal stoves have low energy efficiency, are dirty and unsafe and take time and effort to light and extinguish. The smoke given off by burning charcoal causes huge amounts of household air pollution (HAP). A report by the Lancet in 2014 finds HAP to be one of the biggest causes of deaths through respiratory infections, cancer and chronic lung disease: in 2010 over 3 million people globally died from HAP. Unsurprisingly the most at risk are poorer households, particularly women and children which do most of the cooking and spend more time in the home.



ZOE is a company based on strong social and environmental values of providing a clean, easy to use and safe fuel for low income households, thereby reducing household air pollution the rate of deforestation and their consequent negative health and climate effects.

They also provide a product to low income consumers (their client base currently consists of 20 000 families which are returning customers) and work with 245 microenterprises. It therefore contributes to the local economy by providing jobs and income to their distributors.

Investment Opportunity

ZOE's growth strategy is to achieve a critical mass of customers who generate sufficient demand for the NDZiLO fuel for ZOE to produce it with healthy margins. ZOE is currently constrained in growth due to the high cost of the stove that is imported. Its cost has risen lately due to the depreciation in the exchange rate. ZOE's business model is to subsidise the cost of the stove to their clients which acts as a catalyst for the sale of the NDZiLO fuel. ZOE requires financing of USD 550 000: USD 350 000 to buy 10 000 stoves, USD 100 000 for marketing and USD 100 000 for operational costs and expansion of their distribution network.



Annex

FINANCIAL ANALYSIS	COMPETITIVE POSITION	SOCIAL IMPACT
<ul style="list-style-type: none"> ▪ Profitability (Gross profit margin and EBITDA margin) ▪ Efficiency (asset turnover ratio) ▪ Liquidity (acid test ratio) ▪ Leverage (debt ratio) 	<ul style="list-style-type: none"> ▪ Strategy ▪ Competitive advantages ▪ Constraints of the business ▪ Future growth and expansion plans ▪ Certifications ▪ Market ▪ Management 	<ul style="list-style-type: none"> ▪ Social and environmental objectives ▪ National participation ▪ Employment ▪ Training ▪ Linkages to the domestic economy including to smallholder or SMEs

Pre-Due Diligence Framework

The following diagram shows the variables that were examined within the key components of the framework.²⁹

Financial Analysis

In order to select viable investment opportunities, Deloitte conducted financial statement analysis for selected companies. The framework selected, assessed each company on four particular areas of performance;

- 1. Profitability** – assessed the profit margins of the companies. Deloitte calculated two measures of profitability which included:
 - a. Gross profit margin** – shows the percentage of revenues retained after the firm has covered its Cost of Goods Sold (COGS), also known as variable costs. A firm with a 100 percent gross profit margin retains all its revenue and has no variable inputs in its production process. The higher the margin the more profitable a firm is.
 - b. Earnings Before Interest, Depreciation and Amortisation (EBIT-DA) margin** – shows the percentage of revenues retained after the firm has paid its operating/fixed costs (i.e. rent and salaries). The higher the margin the more profitable a firm is.
- 2. Efficiency** – assessed the ability of the firms to extract value from their assets. This is measured using the asset turnover ratio. This ratio shows the amount of revenue generated per dollar invested in assets. E.g. a firm with an asset turnover ratio of 1.5 implies that for every dollar invested in assets the firm generated USD .5 in revenues. A ratio of greater than one indicates an efficient firm. This ratio is calculated by dividing the firm's revenue by the total assets.
- 3. Liquidity** – assessed the ability of the firms to pay their current liabilities (obligations) using their current assets. This is measured using the acid test ratio which shows the number of times current assets less inventory can cover current liabilities. It shows if the firm's current assets (with the exception of inventory) were liquidated today how many times it would be able to pay the current obligations. A ratio of one and above is generally preferred.
- 4. Leverage** – assessed the overall gearing of the firms and appetite for additional debt. It is measured using the debt ratio i.e. what percentage of assets debt accounts for. A ratio of less than one is generally preferred to ensure the business is not overgeared.

Deloitte utilised the above measures to determine the financial strength of the businesses analysed. However, a greater importance was placed on profitability and asset turnover to determine which companies represented the most attractive investments. The ultimate measure of a firm's financial strength is its profitability. If the firm is able to meet its variable costs i.e. positive gross profit margin and also meet its fixed costs i.e. positive EBITDA margin, then the firm is likely to remain a going concern in the future and represents a sound investment opportunity.

Additionally the asset turnover displays how well the firm is able to generate revenue from its assets. A higher asset turnover indicates that a firm uses its assets efficiently and additional investment in assets could yield higher revenues.

Over and above a ratio analysis, the team also assessed growth in revenues and costs of each of the firms on a standalone basis to determine overall trends and financial stability. This analysis coupled with the ratio analysis aided in selecting the preferred investment candidates. The analysis was conducted over multiple time periods.

Competitive Position

To assess the competitive position of the company, Deloitte analysed several aspects of the company's business:

- 1. Strategy** assessed whether the company had a business strategy, could articulate it and whether it was formalised in a document. Also assessed whether the company had functional strategies (e.g. marketing, HR, supply chain) and whether they were formalised in a document.
- 2. Competitive advantages.** Using Porter's five forces, Deloitte analysed the competitive position of the company.
 - a. Competitive rivalry** examined whether the company was aware of their biggest competitors and who they were.
 - b. Threat of new entrants** examined the difficulty in entering the company's market by assessing the market's barriers to entry. It also assessed what the company's cost advantages were in relation to its competitors.
 - c. Threat of substitutes** examined what the nearest substitute was for the product(s) that the company produced.
 - d. Buyer power** examined the concentration of the company's customers by assessing how many customers they had, what percentage of



total sales their biggest customers accounted for and whether these were international customers.

- e. **Supplier power** assessed the concentration of the company's suppliers by understanding how many suppliers per key input the company had.
3. **Constraints of the business** assessed whether and what the bottlenecks of the business are and how they may affect future performance of the company.
4. **Future growth and expansion plans** examined where the company felt future growth will come from and whether the company had expansion plans.
5. **Certifications** assessed whether the company had certifications for product quality and operations (e.g. ISO certificates), and whether they had plans to obtain any in the near future.
6. **Market** looked at the company's geographical location of their client markets, whether they were just within Mozambique or also included export markets. If the latter, what percentage of sales exports counted for.
7. **Management** examined the maturity of management capabilities of the company. This included understanding whether they used management accounts to make decisions, and whether they had formalised the key positions (e.g. Chief Executive Officer, Chief Operations Officer and Chief Financial Officer) of the company between different people. It also assessed whether the company had a corporate vision and strategy and whether it was formalised in a document, whether the company had governance policies which described the distribution of rights and responsibilities among key persons in the company and the rules and procedures for making decisions on corporate affairs. Finally it examined whether the company had a human resources strategy.

Social Impact

To assess the social impact of the company, Deloitte examined these aspects:

1. **Social and environmental objectives** examined whether the company had social and environmental objectives, what they were if they had them and if they were formalised into the corporate strategy. We also looked at whether the company had a social responsibility plan.
2. **National participation.** This examined various features: whether

employees held shares in the company, the hierarchical position these employees had, including the number of Mozambican managers. This also included a consideration of how many and the percentage of employees the company employed from the area where the company is based and how many employees the company employed that were from low income backgrounds.

3. **Employment** examined the number of permanent and temporary employees the company employed.
4. **Training** examined whether the workers received training, the type of training and the number of hours of training the employee received during an average tenure.
5. **Linkages to the domestic economy** examined which inputs are supplied domestically and the percent of the company's supplier payments that was domestic. It also examined the number of SMEs or smallholders that were suppliers of the company and the percentage of supplier payments they received. Deloitte also examined the percent of the company's sales that went to the domestic market as well as the number and percentage of buyers that were smallholders or SMEs.

Endnotes

¹ UNIDO (2016) Inclusive and Sustainable Industrial Development Working Paper Series - The Importance Of Manufacturing In Economic Development: Has This Changed?

² Deloitte (2016) Emerging market insights: The coming emerging market demand shock

³ World Bank Trouble in the Making? The future of manufacturing-led development

⁴ Bank of Mozambique data.

⁵ AVCA, 2014, AVCA: Guide to Private Equity in Africa.

⁶ Patient capital are investments made with gains expected in the long term.

⁷ South Africa attracts more than half of the continent's private equity transaction activity.

⁸ Deloitte, 2016, Africa Private Equity Confidence Survey.

⁹ AVCA data from Ernst and Young, 2015, Private Equity Roundup Africa (refers to Sub-Saharan Africa).

¹⁰ AVCA, 2014, AVCA: Guide to Private Equity in Africa.

¹¹ Examples are Eaglestone Asset Management, MDCC Holdings, Strongeagle, Maris Capital.

¹² DFIs investment here describe all donors' private sector investments (multilateral aid, direct loans to governments, pure development programmes and loans to individuals are excluded) GIIN and Open Capital, 2016, The Landscape for Impact Investing in Southern Africa.

¹³ GIIN and Open Capital, 2016, The Landscape for Impact Investing in Southern Africa.

¹⁴ GIIN and Open Capital, 2016, The Landscape for Impact Investing in Southern Africa.

¹⁶ Schou and Cardoso (2014) in their paper How Many Manufacturing Firms are there in Mozambique? Estimate that 91 percent of manufacturing firms are micro-sized, 8 percent are small and 1 percent are medium or large.

¹⁷ For example, factoring and invoice discounting are largely absent from the market, and leasing products offered here are more similar to loans rather than leasing products available in more developed financial markets.

¹⁸ More detail on the variables considered within each component of the framework as well as the financial analysis methodology can be found in the Annex.

¹⁹ In total we conducted financial analysis on 11 companies.

²⁰ Companies are in alphabetical order.

²¹ Mozal aluminium smelter is a joint venture between BHP Billiton (South 32), Mitsubishi Corporation of Japan, Industrial Development Corporation of South Africa and the Government of Mozambique. It was one of the first megaprojects in Mozambique and was opened in 2003.

²² Data from INE population projections for 2016.

²³ Topack's website. Available at: www.topack.net/reciclagem

²⁴ Perspective in manufacturing (2016). Potter & Company. Available at: www.gotopotter.com/2016/04/perspective-in-manufacturing-spring-2016/

²⁵ Tatos Botao website. Available at: www.tatosbotao.com/sobre-nos/

²⁶ Afrifence website. Available at: www.afrifence.co.mz

²⁷ Data from National Tax Authority website.

Available at: <http://www.at.gov.mz/por/Perguntas-Frequentes2/Beneficios->

Fiscais

²⁸ SMM's website. Available at: www.smm.co.mz

²⁹ The selection of companies is not necessarily exhaustive of the full set of Mozambican SMEs with potential in the agribusiness sector. Therefore the selection does not imply that those SMEs not included do not have growth potential.

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