



**Investment Opportunities
in Mozambique**
Tourism Edition

June 2018

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Message from the editors

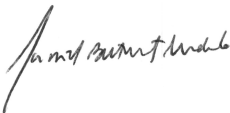
The Financial Sector Deepening – Moçambique (FSDMoç) and Monitor Deloitte are proud to collaborate to produce this third edition of Investment Opportunities in Small and Medium Enterprises (SMEs) in Mozambique, in the tourism Sector.

The objective of the joint Monitor Deloitte & FSD Moçambique publication is to exhibit investment opportunities in Small and Medium Enterprises (SMEs), with the intention of reducing informal asymmetries thus promoting access to capital, growth opportunities and, above all, job creation.

Using tourism as a mechanism for diversifying and growing the economy provides many benefits, including increased tax revenues, job creation, opportunities for SMEs, development of skills necessary in the market, environmental sustainability and local economic development, especially when goods and services are produced locally. Given the exceptional natural and cultural resources of Mozambique,

there is no doubt that tourism is one of the most realistic and viable options for diversifying the economy over the next decade and for mitigating the potential challenges emanating from the current resource expansion.¹

Considering that the tourism sector is labour intensive, this is an excellent opportunity to contribute to the reduction of relative poverty.



João Machado

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Executive Summary

The Financial Sector Deepening – Moçambique and Monitor Deloitte are pleased to collaborate to produce the third edition of the publication “Investment Opportunities in Mozambique”. This third edition focuses on sound investment opportunities in SMEs within the Mozambican tourism sector. It aims to increase information to investors and, therefore, promote financing opportunities while also highlighting that private equity is a relevant alternative source of financing for SMEs in Mozambique.

Equity finance and its potential in Mozambique
In Mozambique, SMEs are challenged by lack of access to finance. This is a constraint to the growth of private sector, having knock on effects on economic development and employment generation.

Private equity investment is a financing vehicle that could help reduce the financing gap: it offers flexible alternative to bank loans. 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.

Venture capital is in its initial phase in Mozambique. Private non-bank financing has identified key sectors in the country to support the development of real estate, agribusiness and tourism sectors.

Tourism Sector in Mozambique
The tourism sector has enormous potential

in developing countries such as Mozambique and has contributed to the combat against poverty through promoting the appreciation of the country's natural resources, its historical and cultural heritage which in turn promotes investments and employment as well as the generation of foreign currency and tax revenues.

Its transversal nature encourages activities in other sectors, thus, contributing to the efforts of diversifying the economy. Tourism in Mozambique is gradually regaining its place in the national economy. The increase of investments over the last few years (2% contribution to GDP in the last 3 years - see figure 3) which resulted in the expansion of tourist accommodation capacity and related services as well the improvement in product quality. These factors testify to the encouraging future of this industry in the country and its growing and highly competitive international business.

As an economic sector, tourism can contribute to the growth and supply of jobs on a necessary scale to make a difference in Mozambique, as it is linked to numerous economic sectors such as transport, agriculture, food and beverages, financial services, construction and art, wildlife preservation, among others.

Pre-due diligence framework
The companies featuring in this publication present investment opportunities of different amounts, ranging from USD 100 000 to USD 3 500 000. 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 done through a research process to ensure that only appropriate companies were selected for interviews.

During the study, 26 companies were contacted. 7 were analyzed, of which 5 were selected (because they met all selection criteria)

Acronyms

ANAC	National Administration of Conservation Areas
API	American Petroleum Institute
CCS	Center for Collaboration in Health
COGS	Chief Executive Officer
CEO	Public Integrity Center
CIP	Development Finance Institutes
DFI	Foreign Direct Investment
ENH	National Hydrocarbons Company
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FSDMoç	Financial Sector Deepening - Mozambique
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
INAC	National Civil Aviation Institute
INE	National Statistics Institute
ISO	International Organization for Standardization
MBL	Macaneta Beach Lodge
SMEs	Small and Medium Enterprise
UNCTAD	United Nations Conference on Trade and Development
ONUDI	Organização das Nações Unidas para os Desenvolvimento Industrial
OBL	Ossimba Beach Lodge
UNESCO	United Nations Educational, Scientific and Cultural Organization

Introduction

Mozambique offers many opportunities for venture capital investors. Over the last decade, its Gross Domestic Product (GDP) has shown high and sustainable growth rates, mainly due to foreign direct investment in various megaprojects in sectors such as production, natural resources and energy.

In terms of tourism, Mozambique has a vast coastline, beautiful beaches, good climate and exuberant flora and fauna. It has a rich culture, including its gastronomy.²

Due to the exceptional natural and cultural resources that Mozambique brings, there is no doubt that tourism is one of the most realistic and viable options to diversify the economy over the next decade and to mitigate the potential challenges emanating from current resource expansion.³

To elaborate the present publication, Deloitte used the methodology of a pre-determined diligence to evaluate the financial performance of companies, strategic position, social impact and the nature of their investment opportunities.

The companies highlighted in this publication (summarized in Table 1) are based in following Mozambican provinces: Maputo, Inhambane, Nampula and Cabo Delgado. This publication defines Tourism in a broader sense to also include accommodation, catering and other related services. Furthermore, it also highlights the great tourism potential of Mozambican culture and natural resources.



Table 1: Summary of companies featured in this publication

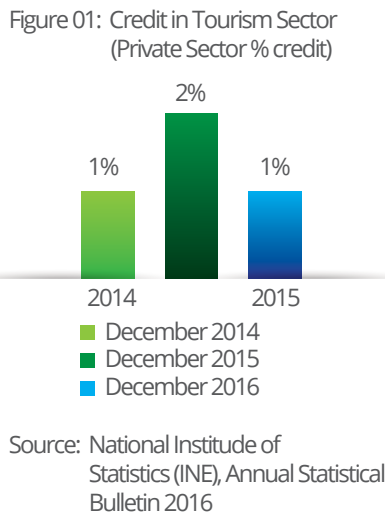
No.	Name of Company	Year	Sector	Area of Operation	Investment Project	Value of financing required
1	Coral Lodge	2010	Tourism	Nampula Province	<ol style="list-style-type: none"> 1. In 2/5 years build 7 different villages; 2. Build a helipad; 3. Build a bridge for pedestrians. 	EUR 1 000 000 /1 500 000
2	Hotel Dona Ana	2008	Tourism	Inhambane	<ol style="list-style-type: none"> 1. Construction of an executive conference center with a capacity of up to 200 people; 2. Building a gym; 3. Construction of a massage center and beauty salon; 4. Acquisition of 2 boats and equipment for activities developed at sea level and others; 5. Construction of the second phase of the hotel; 6. Construction of 15 beach houses. 	USD 3.5 Million
3	Macaneta Holiday Resort	1972	Tourism	Maputo Province	<ol style="list-style-type: none"> 1. Rehabilitation of resort facilities 	USD 250 000
4	Ossimba Beach Lodge	2012	Tourism	Nampula Province	<ol style="list-style-type: none"> 1. Sale of lodge 	USD 2.8 Million
5	Ulala Lodge	2010	Tourism	Cabo Delgado Province	<ol style="list-style-type: none"> 1. Sale of lodge 	EUR 900 000

Risk Capital Financing and its Impact

Limited access to credit is a recognized constraint in Mozambique. Due to high interest rates, high collateral requirements and lack of sufficient knowledge about the reality of the business environment, most of the national capital comes from bank loans.⁴ Other sources of finance (such as stock exchanges, corporate debt financing, asset capital, invoice discounting) are not well developed. This leaves many companies, particularly SMEs, constrained by a lack of start-up capital, working capital and investment capital. As Figure 1 shows, access to credit in the tourism sector has remained very low between 1% and 2% of private sector credit in the period 2014 to 2016. 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.⁵ Private equity is a financing tool that could help reduce the financing gap as it is appropriate for the current business environment, providing a flexible alternative to bank financing.

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) describes the impact investment in Mozambique as an area with limited activity but abundant potential.



Regional Trends in Risk capital financing

Risk capital financing in Africa has been growing exponentially and is still at an inception stage. Investors were attracted by the fundamentals of long-term growth, mainly due to the high number of middle-class populations and abundant natural resources. In 2014, the sum of African completed transactions was USD 8.1 billion, an increase of around 90% comparing to 2013 even though investors backtracked to favour developed countries that had already begun to show signs of growth.⁶

Due to the combination of emerging industries and the demographic trajectory, risk capital financing in Africa has so far been characterised by growth capital, minority stakes, smaller sized investments, and longer holding periods as compared to the leveraged buyouts by firms operating in mature markets.⁷

Risk capital financing in Mozambique

The risk capital financing in Mozambique is still in its initial phase. Many risk capital financing companies come to Mozambique with the target set

for certain areas, such as real estate and agribusiness.⁸

The government has been looking for more investment on private and public-private partnerships as a way to develop the most diverse business sectors. In addition to foreign direct investment in megaprojects, investments in Mozambique tend to obtain official support funds for development. Mozambique is one of the largest beneficiaries of international development assistance throughout Southern and Central Africa.

DFIs, defined as development financial institutions that make use of public funds to support development-promoting investments have been the largest source of investment in the country, investing mainly in building infrastructures (roads and bridges). According to GIIN, in the Southern Africa region, Mozambique received 95 deals with about USD 1,385 billion which puts the country as the third largest beneficiary from the DFIs in the Southern Africa region.

In terms of impact investments, excluding DFIs, Mozambique is also in third place in terms of transactions, but with a low ranking in terms of mobilized capital (42 deals and USD 52 million mobilized).⁹ Non-DFI investors tend to invest more in the agricultural sector (of the 15 non-DFI investors in Mozambique, more than 80 percent of investments went to agriculture). SMEs, in turn, are still circumvented in this type of financing.

Regarding the investment projects approved by APIEX (Agency for the Promotion of Investment and Export) for the tourism sector, figure 2 demonstrates that these have grown in recent years, which is encouraging for venture capital investors.

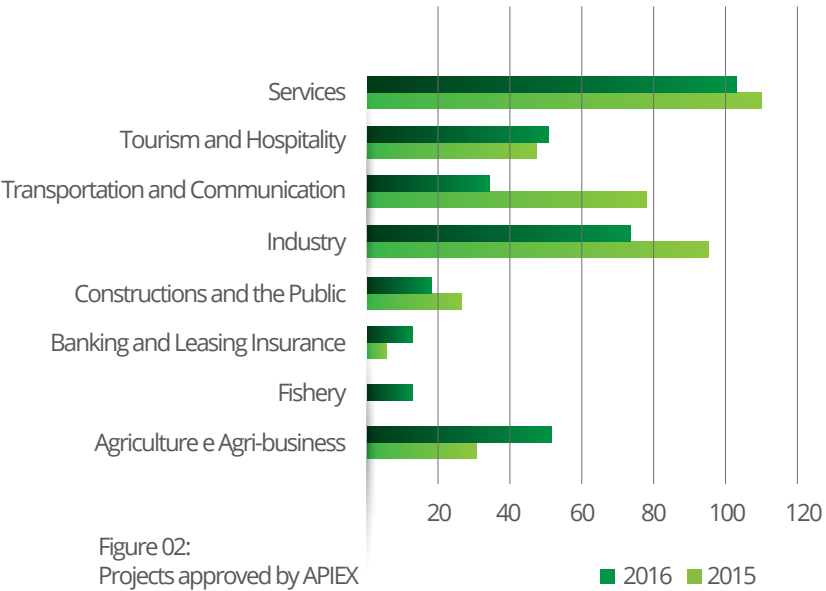


Figure 02: Projects approved by APIEX
Source: INE- Statistical Yearbook 2016

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.¹⁰ 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.
3. Financial statements were examined using ratio analysis to determine companies with a good financial performance.
4. If a company was assessed to have a good financial performance, we then 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.

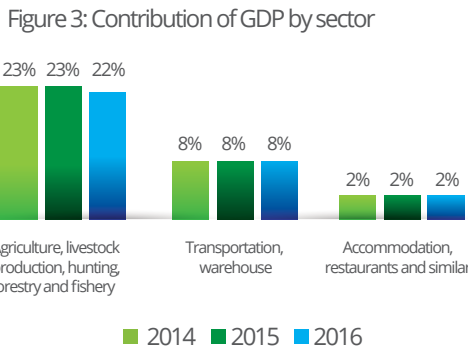


The Tourism Sector in Mozambique

According to the Minister of Tourism, Silva Dunduro, tourism revenues ranged 150 million dollars in 2017. For medium-term, the Ministry of Tourism set a goal of \$ 2.8 million in foreign tourism revenues and \$ 4 billion in domestic tourism revenues. The new tourism plan is expected to create 83,000 direct jobs and 242,000 total jobs in tourism, in medium-term.¹¹

Currently the tourism sector in Mozambique contributes 3% of GDP and employs more than 63 000 people.

As shown in the graph below, the contribution of the sector to the national economy has contributed with about 2% in the last 3 years.



Source: INE - Statistical Yearbook 2016

Tourism is a growing and highly competitive international business. As an economic sector, tourism can contribute to the growth and supply of jobs on a scale to make a significant difference in Mozambique.

Tourism also increases the employment posts, contributing with about 9.5% of all formal employment registered in the national economy, generated mainly by the activities of Road Transport and Lodging.¹²

As can be seen in table 1 below,

Mozambique has a total of 105 hotel units, 68 guesthouses and 33 hostels. These totalling a turnover of 3 740 035 000 Meticaís. The city of Maputo has the largest number of establishments, number of people and services and also a greater value of business compared to the other provinces.

In order for tourism to leverage the countries infrastructure, the critical success factors is to ensure the availability of transport in order to open the rich natural and cultural resources of Mozambique to the world tourism market. The high prices of air travel to and from Mozambique are a direct result of insufficient competition of airlines and the protection of Mozambique Airlines (LAM) on key routes.

The aviation market recently opened up in Mozambique, not only with the introduction of airline Fast Jet,

which broke the monopoly of LAM on domestic routes, but especially with the entry of large international companies introducing direct flights from Maputo to Nairobi (Kenya), Dar-es-Salaam (Ethiopian Airlines), Doha (Qatar Airways) and Istanbul (Turkish Airlines).

The entry of these four international companies has allowed the country to receive international tourists from the Middle East and Asia, while reducing the cost to European tourists and Americans who now have more alternatives

besides the typical routes via Lisbon and Johannesburg.

The company Fastjet started its activity in Mozambique (2017), with domestic flights with lower costs than the national flag company. National routes to Ethiopian Airlines and Malawi Airlines were also awarded in the country, which are the first international companies to

Table 2: Number of hotel establishments, pensions and hostels, numbers of persons and services (NPS) and turnover (VN)

Region	Hotels			Pensions			Hostels		
	Unit	NPS	VN (10^3 Mt)	Unit	NPS	VN (10^3 Mt)	Unit	NPS	VN (10^3 Mt)
Mozambique	105	4 653	3 562 119	68	453	124 659	33	155	53257
Niassa	4	64	6006	13	42	33557	4	20	127
Cabo Delgado	6	344	141126	5	18	2560	4	0	12075
Nampula	8	213	57908	6	81	15272	4	0	6474
Zambézia	7	136	50339	7	75	15343	4	48	756
Tete	3	167	45372	3	35	5484	3	20	31
Manica	5	231	110342	11	65	19882	3	17	5165
Sofala	8	237	91060	4	27	7382	3	11	3686
Inhambane	19	370	96240	...	..	...	5	30	9534
Gaza	15	446	107499	4	12	1949	3	10	15408
Maputo	...	...	...	...	...	...	...	...	...
Provincia	5	282	53038	3	7	847	...	...	...
Maputo	...	...	...	...	...	...	...	...	...
Cidade	25	2162	2803189	12	92	22383	...	...	...

Source: National Statistics Institute (INE) Statistical Yearbook (2016)

operate domestic flights.

With the introduction of these new companies in Mozambique, it is expected that there will be additional price competition. According to the CEO of the National Civil Aviation Institute (INAC) João Abreu, additional operators that appear in the market result in lower structural costs, improve the service and lower the ticket prices.¹³

Another facilitating aspect was the introduction of border tourism visas that allows any citizen of another nationality to obtain the visa at the border (airport or road border). It is important to note that the price of the visa has also been revised, for a standard regional price.¹⁴ The provision of tourism-related infrastructure is a critical success factor in this sector. Although almost 80% of primary roads are paved, they constitute only about 20% of all roads at national level.

Several planned roads provide a direct link to the tourism focal areas. These include: the Maputo circular road, the Maputo-Catembe bridge, the Ponta do Ouro road and the Matola-Namaacha road will significantly improve access to South Africa. In the provinces of Manica and Sofala, we have the Beira-Machipanda corridor which links Beira, Gorongosa and Chimanimani. In the province of Nampula there will be several sections linking Lumbo, Matibane and Nacala Velha. In Cabo Delgado road construction to the north of Pemba to Palma, Namoto, and connections to the south with the corridor of Nacala.¹⁵

Maputo Catembe Bridge is under construction, and the public opening was expected to happen later this year. Located in the Bay of Maputo area, this bridge will provide a link between the center of Maputo City and the Municipal

District of Katembe. A joint tourism concept with the South African province of KwaZulu-Natal and the Kingdom of Swaziland will lead more and more visitors to southern Mozambique.

The potential of tourism sector

Mozambique is a country strategically located on the Eastern coast of Southern Africa, bounded to the North by Zambia, Malawi and Tanzania, to the East by the Mozambique Channel and Indian Ocean, to the South by South Africa and to the West by Swaziland and Zimbabwe. Therefore, it is the gateway to 6 countries in the interior of Africa. It has a land area of 799,390 km2 and a population of 28,861,863 habitants.¹⁶

Mozambique has great tourism potential based on its natural and cultural resources. With its 2700km of coastline (with highlights to the beaches of Ponta do Ouro, Tofo, Wimbe and Bazaruto Archipelago Islands), about 15% of the country is classified as “protected areas” and has a wide range of cultural assets and experiences, as such the country has all the elements to become one of the top tourist destinations in sub-Saharan Africa.¹⁷

Additionally, Ilha de Moçambique, the first capital of Mozambique which was declared a World Cultural Heritage by UNESCO in 1991, is undoubtedly a tourist destination due to its rich and diverse material and immaterial cultural heritage.¹⁸

The country is extensive, and as a result, the government has defined five priority areas where the focus will be on promotion, investment, marketing and training. According to Silva Dunduro, the main investment destinations are Maputo (Maputo City, Maputo Special Reserve and Ponta do Ouro), Vilanculos (Inhassoro and Bazaruto Archipelago),

Gorongosa (Gorongosa National Park, Marromeu Reserve, Chimanimani National Reserve, Cabeça do Velho and Savana), Quirimbas (Pemba Bay, Quissanga district, Macomia district, Palma district, Mocímboa da Praia district and Ibo Island) and Niassa (Lichinga, Metangula and Niassa National Reserve).¹⁹

According to the World Economic Forum report²⁰, regarding the competitiveness in travel and tourism, Mozambique is in the 122nd position of the 140 countries evaluated, having increased by 8 in recent years.

Mozambique has increased its popularity by means of improvements in the readiness of Information and Communication Technologies (ICTs), resulting from increased use of digital booking platforms such as Trip Advisor, booking.com, use of social networks for advertising, tax reduction and taxes on air transport and the valorization of natural resources. Mozambique’s protected areas have slightly increased and this has raised awareness of its exceptional natural resources from safari parks to beaches and islands.²¹

In developing countries such as Mozambique, tourism has made a major contribution to the fight against poverty through the valorisation of natural resources and the historical and cultural heritage that promotes investment and employment as well as generation of revenues in foreign currency. Its transversal nature encourages other sectors, thus contributing to efforts to diversify the economy. Tourism in Mozambique is gradually recovering its place in the national economy. The growth of investments over recent years that have resulted in the expansion of accommodation capacity and similar services and the improvement of the quality of product are factors that

testify to the encouraging future of this industry in the Country.²²

The highest number of International arrivals in Mozambique was from African countries, followed by Europe, America, then Asia and then the rest of the world (Figure 4).

Each province has its specific tourism products and differentiating factors. Only Inhambane province accounts for 60% of international tourist visits, which demonstrates the high value of sun and beach tourism.²³

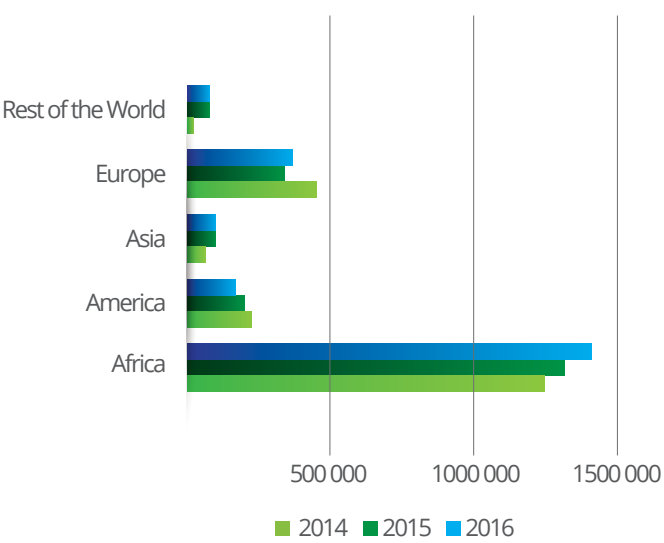
Regarding the number of international arrivals due to the visits, it was analysed that in 2015 there were 1,63 million visitors in Mozambique (tourists & hikers). With that being said, from the registered entries, 78.0% come from the African continent. South Africa is the country that provides more tourists with around 64.0%.²⁴

The flow of internal tourism expenditure in 2015 corresponds to 89.0% of Receiving Tourism and the remaining 11.0% is Domestic Tourism.

As illustrated in the graphic (Figure 5), there were more entries in the country for leisure and vacations purpose and less visits for health and religious reasons.

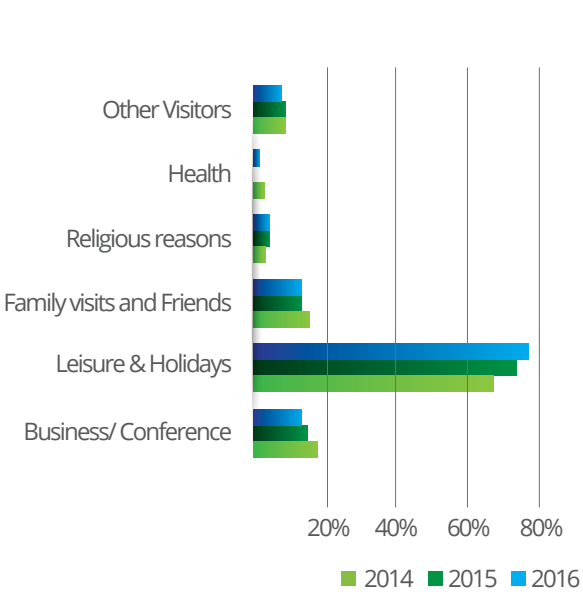
Leisure and recreation tourism in Mozambique is predominantly based on natural resources, with a strong focus on sun and beach tourism along the 2,700 km coastline.

Figure 4 – Number of International arrivals in Mozambique



Source: Strategic Plan for the Development of Tourism in Mozambique 2016-2025

Figure 5 - Reason to visit



Investment Opportunities

Bellow follows profiles of the companies and their investment opportunities.²¹

Coral Lodge Island Mozambique



Located in Mussoril, in the province of Nampula, 30 minutes from the Island of Mozambique, Coral Lodge is a secluded property situated at the tip of a peninsula in the varanda region, a privately owned nature reserve in northern Mozambique. Built in 2010, Coral Lodge moved to a new administration and ownership in April of last year. The Lodge is currently owned mostly 90% by Coral Lodge (International).

Every year since 2014 the company is awarded, by TripAdvisor, with a certificate of excellence. Since 1991, the lodge is the only place in Mozambique considered as a World Heritage Site by UNESCO.

This beach sanctuary comprises 10 luxury villas, of which 5 are located in front of the sea and the others in front of the sea lagoon. These are luxurious and comfortable villas with the authentic feel of Mozambican style and simplicity. The design uses a mixture of wood and textiles to ensure that the lodge harmoniously blends with its surroundings while incorporating the vivid colors of the area.

The Lodge intends to enter value its assets in order to ensure an adequate market valuation.

Financial Performance

The financial analysis reflecting the period from 2014 to 2015 shows that in this period Coral Lodge achieved a sales volume with an average of 10.8 million Meticaís. In 2016 the lodge doubled its sales, from about 8.8 million Meticaís

registered in 2015 to 15.9 million Meticaís in 2016.

Sales growth was accompanied by an improvement in direct costs management, which resulted in an increase in gross profit margins, with a 10% increase in 2014, 30% in 2015 and 41% in 2016.

This improvement in financial performance is the result of the investments made by the company in 2015 and 2016, which also culminated in an increase in the efficiency of the lodge. In 2014 the lodge made 0.25 in each dollar unit invested and in 2016 started to make about 0.54.

Competitive Position

Due to its privileged location, this Lodge is ideal to explore the local culture with a visit to the Island of Mozambique. This Old Portuguese capital of Mozambique is more than 300 years old and is rich in characters and history. The region offers a rare view of the local Macua people and allows the visitor to become specialized in negotiating in the local market or visiting a family in their home as well as learning about the traditional life in the villages.

One of its competitive advantages is that this Lodge is crossed by a private lake, which makes it possible to provide a greater variety of services to its guests. The lodge has a natural saltwater pool which is located where the lagoon and the ocean meet. The saltwater pool allows guests to dive and engage in other sea activities.

In recent years, there has been a considerable increase in the occupancy rate of the lodge. The Lodge has received several clients from different geographies, both national and international clients. Due to its level of business the lodge does not consider that it has competitors. However, its direct competitors are Sentidos Beach Retreat, White Pearl, Ibu and Mecufe. In a period of 5 years, Coral Lodge intends to be energetically self-sufficient, to consume electricity produced from renewable sources, namely: solar and wind power. As part of its projects, the Lodge aims to install a hybrid wind system linked to the already installed network.

Social Impact

Coral Lodge has about 70 employees in various areas, from marketing, gastronomy / kitchen, carpentry, etc, thereby contributing to the national economy. About 35% of its staff are women, ensuring greater gender inclusion. About 95.8% of the Coral staff are permanent and recruited locally, which also contributes to local development.

The Lodge has a good relationship with the surrounding communities and recognizes and values the history and important cultural value linked to the the location, making it an even more attractive and inspiring tourist destination. The villages are populated by Macua people.

Investment Opportunities

Coral Lodge intends to expand its services and to achieve this it aims to develop 3 new projects, namely:

- 1) In 2/5 years build 7 different villages
- 2) Build a helipad
- 3) Build a bridge for pedestrians.

Following the expansion initiatives mentioned above, Coral Lodge needs a venture capital investment of EUR 1 000 000/ 1 500 000. Coral Lodge is also open to possible development partnerships.

Figure 06: Coral Lodge Turnover Analysis

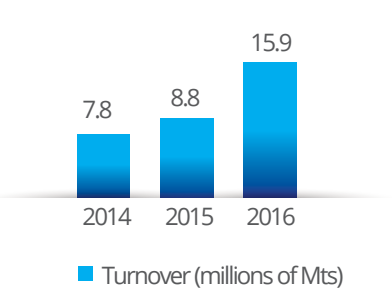


Figure 07: Coral Lodge Profitability Analysis.

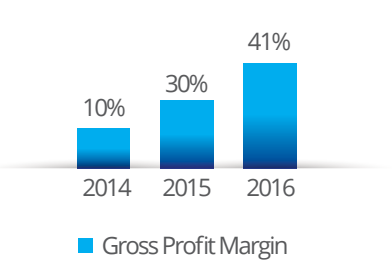
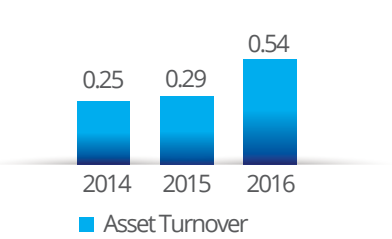


Figure 08: Coral Lodge Efficiency Analysis.



Source: Coral Lodge Management



Hotel Dona Ana



Hotel Dona Ana, was rehabilitated in April 2008, it is a company focused on the tourism sector, which provides accommodation, bar and restaurant services with the shareholder structure of a limited company and its headquarters in England.

The hotel is located next to the port of Vilanculos, Inhambane province, 15 minutes from Vilanculos International Airport. Surrounded by the Indian Ocean, the view from Hotel Dona Ana overlooks the Bazaruto Archipelago, Cape San Sebastian, Bengueria Island and is opposite to Magaruque Island.

The Original Art Deco building has been restored with a fusion design of the classic and contemporary concepts, offering business travellers and tourists a unique accommodation experience of a fusion of Portuguese and African traditions.

Financial Performance

The financial analysis of Hotel Dona Ana, for the period from 2014 to 2016, shows that during this period the hotel achieved a sales volume with an average of 27 million Meticaïs, ranging from 22.4 million Meticaïs in 2014 to 30.9 million Meticaïs in 2016. In contrast, with the increase in Mozambican inflation in the review period, the hotel recorded a reduction in gross profit margins. The gross profit margin declined from 44% in 2014 to about 25% in 2016.

The hotel was counting on a net investment of capital goods of 162 million Meticaïs in 2014. Although the hotel maintained the level of its investments, it improved its ability to generate revenue. The hotel's asset turnover ratio has improved significantly in recent years from 0.14 in 2014 to 0.21 in 2015, which shows the hotel's trend in improving the efficient use of its assets.

Competitive Position

Hotel Dona Ana has formalized its business plan for 2014 - 2018 with some functional strategies in terms of marketing, human resources, supply chain, etc. The Hotel also has quality certification for its products and services.

One of the biggest competitive advantages of Hotel Dona Ana is Magaruque Island, located in front of the hotel and currently under hotel management. It has a non-operational establishment that has 5 houses, 20 rooms, kitchen, 5 swimming pools and dining rooms.

The coastal town of Vilanculos provides visitors with easy access to the Bazaruto Archipelago and a marine reserve protected by the World Wildlife Trust. The Vilanculos International Airport has undergone a substantial upgrade and has daily flights to various destinations including Johannesburg and Maputo. The airport has attracted international and local commercial airlines to this remarkable destination, making it more convenient for both business and leisure travellers.

The hotel has received clients from various parts of the world including Mozambique, Zimbabwe, South Africa and Portugal. Mozambican customers account for around 50% of total sales.

The hotel has direct competitors such as Bahia Mar, Casa Rex, Pescador, Águia Negra, Beach Lodge, Hotel Massunguine, Hotel Central, Nhafudo Complex and Hotel Berna.

In terms of market penetration, the Hotel's current share is low. Given that that the government is interested in developing the tourism sector, it should ensure better facilitation.

Figure 09: Hotel Dona Ana Turnover Analysis

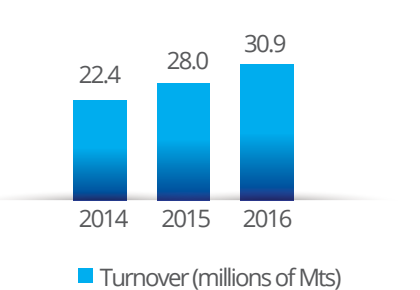


Figure 10: Hotel Dona Ana Profitability Analysis

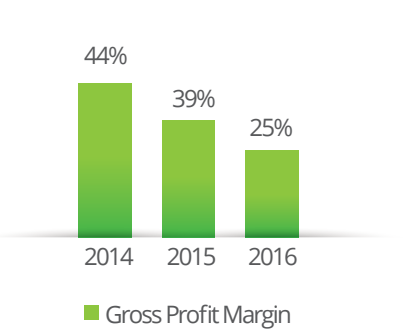
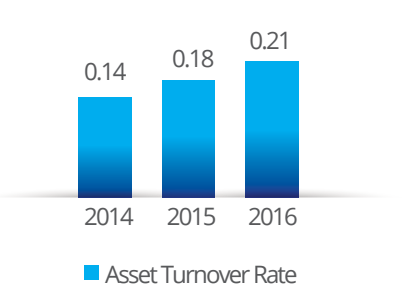


Figure 11: Hotel Dona Ana Efficiency Analysis



Source: Hotel Dona Ana Management

Social Impact

The Hotel employs around 78 permanent employees, whereby 99% are Mozambican nationals and recruited at regional level, of these, 95% have low income indices. The hotel has 8 national managers.

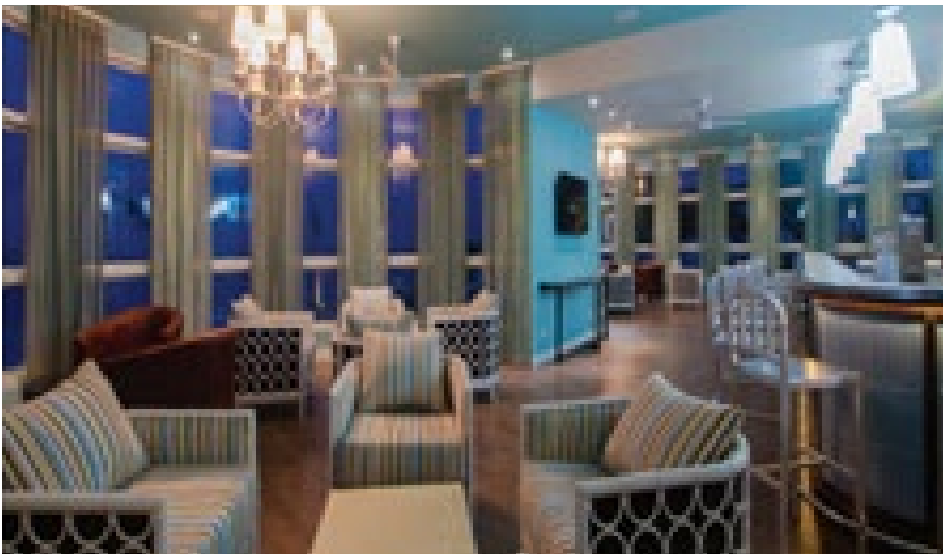
Within the scope of the hotel's Human Resources strategy, the employees receive training in the areas of gastronomy, accounting and human resources.

Hotel Dona Ana promotes environment conservation by engaging in sustainability activities which encourage the preservation of the environment. The hotel uses animal waste as fertilizer and has conducted good management of solid waste (garbage) through recycling programmes.

Investment Opportunities

In order to leverage tourism and enhance customer satisfaction by improving its services and diversifying its activities, the hotel plans to develop the following projects:

- 1) Construct an executive conference center with capacity for 200 people;
 - 2) Build a gym;
 - 3) Construct a massage center and beauty salon;
 - 4) Acquisition of 2 boats and equipment for sea activities;
 - 5) Construct the second phase of the hotel;
 - 6) Construct 15 beach houses.
- For the implementation of the above projects, the hotel needs an investment of about USD 3.5 Million. Additionally, it needs technical assistance in the area of Marketing, Customer Management and management of the company.



Macaneta Holiday Resort



Macaneta Holiday Resort is a resort that provides accommodation and catering services. Founded in 1972, the family business began with a bar and restaurant and over time developed the accommodation facilities, thereby becoming the first tourist beach resort in Macaneta, Maputo Province. Its shareholders are of Mozambican nationality.

The resort is situated in Macaneta Beach (access is by Marracuene Village), and offers the best of both worlds - the serenity of Incomati river and the beautiful Indian Ocean around Mozambique.

Financial Performance

By 2015, Macaneta Resort had a stable business volume of around 2.9 million Meticaïs. With the increase in demand (resulting from the development of access infrastructure), in 2016 the resort reached a significant increase of 41% (equivalent to 2 million Meticaïs) in its sales, reaching a total of around 4.9 million Meticaïs which resulted in an increase in asset turnover from 0.37 to 0.55.

Over these years, the resort has enjoyed a gross profit margin between 35-42% which has been enough to cover administrative costs and generate positive returns.

Competitive Position

The resort has well-equipped conference rooms with capacity for 40 people and 80 people, which can be used for various purposes including lectures, seminars, meetings and workshops.

One of the biggest competitive advantages of the Macaneta Beach Resort in terms of cost is that it offers

local products and can be bought in-house (raw material). The resort offers a typical Mozambican cuisine consisting of fresh seafood and tasty local dishes. Macaneta's biggest competitors are TanBik, Lugar do Mar and Sunrise. In terms of market penetration, Macaneta has a medium penetration level.

Social Impact

Macaneta Holiday Resort employs about 15 people, of whom 10 are from low-income families of the local communities. The resort also offers health care opportunities for their employees. Most of the items and materials used in the resort are bought in the national market, which is a major contribution to the development of the community.

Investment opportunities

Macaneta Holiday Resort aims to improve its services in order to meet the needs of its customers and to adapt to the current trends of this sector. To do so, the resort needs a complete rehabilitation and seeks an investment of approximately USD 250 000.

Figure 12: Macaneta Holiday Resort Turnover Analysis

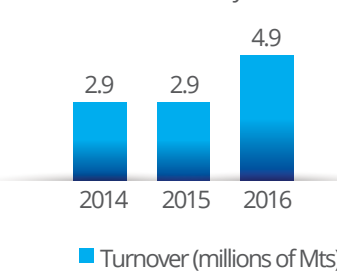


Figure 13: Macaneta Holiday Resort Profitability Analysis

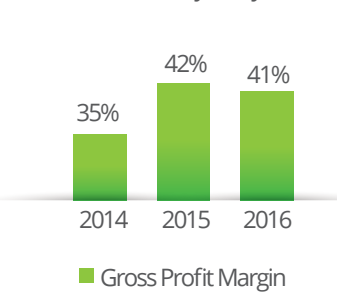
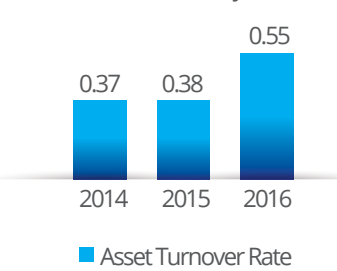


Figure 14: Macaneta Holiday Resort Turnover Analysis



Source: Macaneta Holiday Resort Management



Ossimba Beach Lodge



Ossimba Beach Lodge is an Eco-Lodge which was registered in 2012 and started operating in March 2016. The Lodge is located at the entrance of Nacala Bay, in northern Mozambique, stretching for about 1.5 km of the beach.

This lodge offers a rare combination of luxury, sophistication and sustainability. It has eight private villas built in brick and mortar, with an area of 110 square meters each. These villas offer a soothing hideaway to spend the day exploring the ocean, mangroves and surrounding forests.

All villas are equipped to meet the comfort standards required for a pleasant stay.

Competitive Position

In terms of sustainability, Ossimba Beach Lodge is committed to preserving and respecting the environment. For this reason, this Eco-Lodge is powered entirely by solar energy and makes use of its own drinking water.

The lodge is surrounded by 50 acres of indigenous forest, and the beach is surrounded by a protected marine coral reef, exclusively available to guests of Ossimba Beach Lodge. The nearby forest is home to a variety of indigenous trees, including Baobab, as well as a variety of local and migratory bird life which makes the lodge very attractive and competitive.

Due to its location and proximity to the new Nacala International Airport (35 minutes from the lodge), the lodge is well positioned to supply products and has expanded its services internationally, including SADC countries.

The fact that the lodge is new makes it a

good investment opportunity.

Social Impact

Ossimba Beach Lodge has social and environmental objectives to guarantee good social conditions for the employees, to maintain a sustainable relationship with the surrounding societies and to preserve the natural resources (mainly energy and marine).

Although it is a small hotel business, Ossimba Beach Lodge has had a strong social impact through the creation of jobs, with approximately 18 trained employees, of which 17 are Mozambican. Most of local employees are low-income residents of the village near Chivato.

Investment Opportunities

The lodge is currently looking for an equity investor who is interested in purchasing the lodge worth USD 2.8 million.



Ulala Lodge

Ulala means “sleeping” in “Kimwani”, the local language of Quirimbas Islands, very close to Swahili. Ulala. The Eco-lodge operates since 2007 and is located on one of the most beautiful beaches in Mozambique, the Murrébué beach. Ulala is located outside the city, 20 minutes from the airport and 30 minutes from Pemba city.

The lodge is located on a private beach, away from the villages which allows the guests to enjoy its tranquillity.

There is an unexplored coral reef about 15 km long located in front of the lodge (2 km away from the beach). Behind the reef, humpback whales appear from July to October, and throughout the year dolphins of five different species and sea turtles can also be seen.

The architecture and style were made carefully with local materials combining delicately with modern amenities.

Financial Performance

During 2014 and 2016, Ulala recorded a turnover of between 3.3 million Meticaïs and 4.6 million Meticaïs, reaching a peak of 4.8 million Meticaïs in 2015. The lodge recorded gross margins of over 73% period under review.

Competitive Position

The land of the lodge has a surface of 9 hectares, with a flat land, clean, full of coconut trees and a great dune of 10 meters height in the back. The lodge produces its own electricity, through solar panels, turbines and batteries coupled to a generator to supply its energy needs when required. The groundwater is drinkable and water provided by the city is available. There is also an electric power line in less than 1 km away.

Ulala faces great difficulties in penetrating the market as the tourism sector is not growing as expected. One of the challenges for this sector in Pemba is the challenges around procurement goods – this has been a major barrier for the lodge.

Social Impact

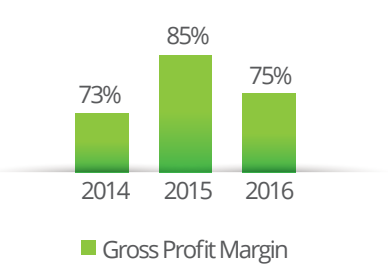
In order to contribute to the growth of the Muitua region, Murrébué, in Pemba, Ulala Lodge hires employees that live there. The lodge contributes to the local community by employing 17 staff (under contract), most of whom have been hired for at least 5 years. The employees have constant training and are currently graduating in hotel and tourism subjects.

As an eco-lodge, Ulala is concerned with the environment and strives to preserve it as much as possible through socialization in use of local materials in its construction and use of solar systems to produce power and hot water.

Investment Opportunities

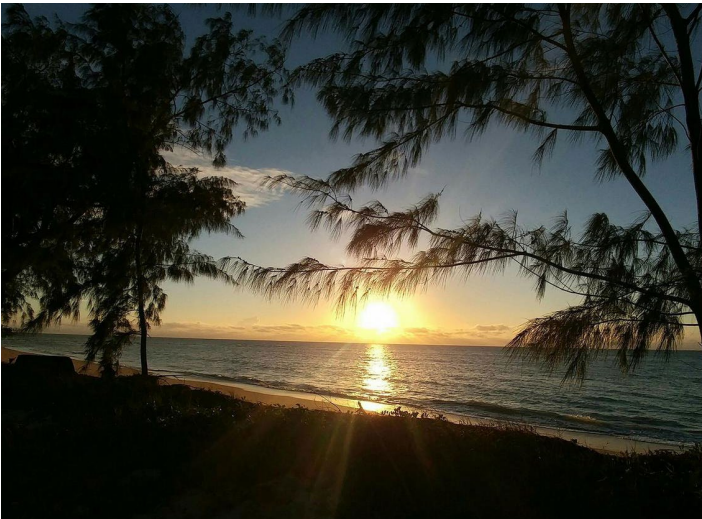
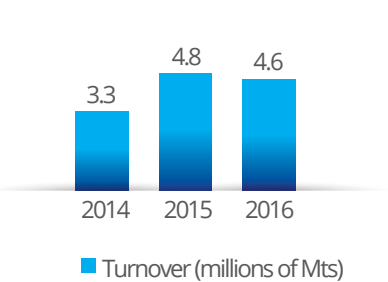
Ulala Lodge is seeking a private equity investor who is interested in purchasing the Lodge for EUR 900,000 and is ready to provide assistance in the first few months after the acquisition.

Figure 15: Hotel Dona Ana Profitability Analysis

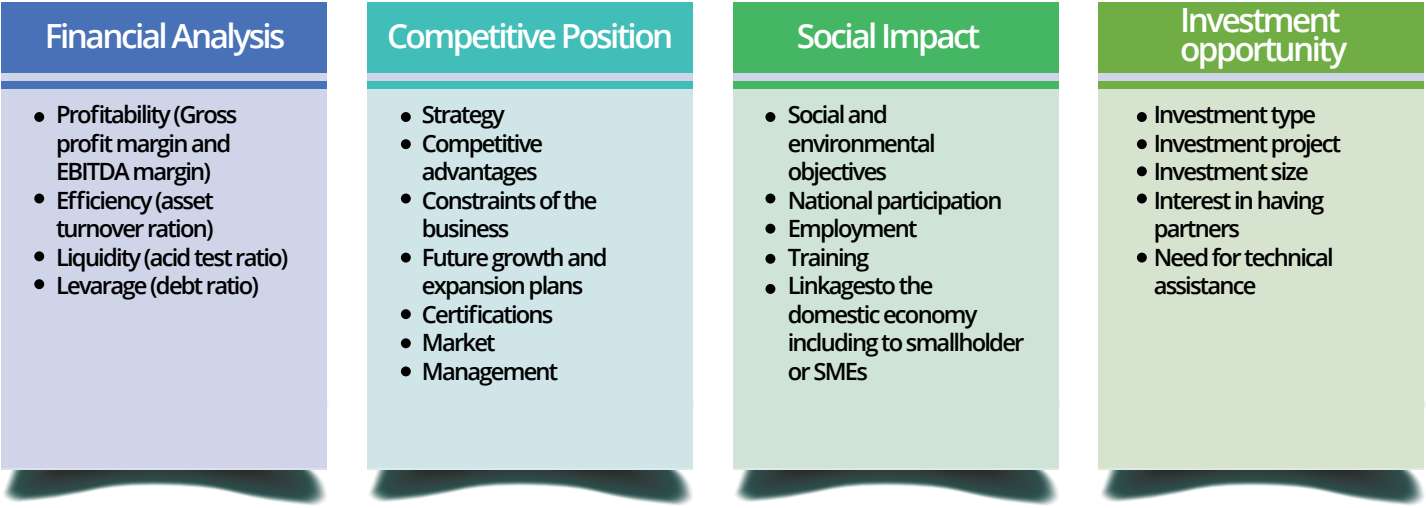


Source: Ulala Lodge Management

Figure 16: Ulala Lodge Turnover Analysis



Annex



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 (EBITDA) 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 1.5 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.

5.Other - in cases where this is of interest, the size of revenue was also shown 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 continue to grow and represents a great 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 invest-

ment in assets could lead to higher revenues.

Over and above the 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, if it 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 also 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 business 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 for the product(s) that the company produced.

d.Buying power examined the value 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.Supply power assessed the value 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 are the bottlenecks of the business 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 the usage of management accounts to make decisions, and how key positions are formalised (e.g. Chief Executive Officer, Chief Operations Officer and Chief Financial Officer) of the company between different people. It also assessed the corporate vision, strategy, policies, rules and procedures, and whether these have been formally documented or not.

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

1.Social and environmental objectives examined company social and environmental objectives if they were formalised into the corporate strategy. We also looked at whether the company had a social responsibility plan.

2.National participation examined a variety of features which includes: employees held shares in the company, the hierarchical position these employees including the number of Mozambican managers. This also included the number and percentage of local employees and the income level backgrounds.

3.Employment examined the number of permanent and temporary employees the company had.

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 Strategic Plan for the Development of Tourism in Mozambique (2016-2015)

²FEMOTUR (2016) Private Sector View - Constraints Tourism Sector

³Strategic Plan for the Development of Tourism in Mozambique (2016-2015)

⁴Banks control nearly 95 percent of total financial sector assets (of which 87 percent are concentrated in the top 5 banks in the country). (GIIN and Open Capital, 2016)

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

⁶AVCA data from Ernst and Young, 2015, Private Equity Roundup Africa (refers to Sub-Saharan Africa).

⁷AVCA, 2014, AVCA: Guide to Private Equity in Africa.

⁸Examples: MDCC Holdings, Strongeagle, Maris, Whatana Investments, Kaizen Capital.

⁹GIIN and Open Capital, 2016, The Landscape for Impact Investing in Southern Africa

¹⁰Further details on the variables considered in each component of the table as well as the financial analysis methodology can be found in Annex.

¹¹Online newspaper, Macau Hub. Available in:

<https://macauhub.com.mo/pt/2018/06/12/pt-mocambique-anuncia-cinco-destinos-prioritarios-para-investimentos-no-sector-do-turismo/>

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<http://www.micultur.gov.mz/index.php/turismo/370-conta-satelite-do-turismo>

¹³Online newspaper, Moz News, 11/12/2017.

¹⁴Xonguila Magazine (Sente Moçambique), 2018, 3rd edition

¹⁵Strategic Plan for the Development of Tourism in Mozambique 2016-2025

¹⁶National Statistics Institute, Census 2017

¹⁷Online newspaper, Macau Hub, 13/06/2018

¹⁸Strategic Plan for the Development of Tourism in Mozambique 2016-2025

¹⁹Online newspaper, online, Macau Hub. Available in:

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²⁰World Economic Forum, Travel and tourism Competitiveness Report 2017

²¹World Economic Forum, Travel and tourism Competitiveness Report 2017

²²MITUR (2004): Strategic Plan for the Development of Tourism in Mozambique 2004-2013.

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Contacts

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