Monitor Deloitte.

FSDMo
INVESTINDO EM INCLUSÃO FINANCEIRA

Investment Opportunities in Mozambique

Agribusiness Edition

October 2016

MESSAGE FROM **THE EDITOR**

The Financial Sector Deepening – Moçambique and Monitor Deloitte are proud to partner to produce this first edition of Investment Opportunities in Mozambique.

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

This first edition focuses on agribusiness in a broad sense, including agricultural production and support services, food processing and forestry.

Agribusiness has so far been severely constrained by a lack of access to credit and under-investment which has hampered the sector with the largest share in GDP (more than 20%) and the largest contribution to employment.

However, Agribusiness is a sector that holds great potential given the extent of Mozambique's unused arable land (85% according to the Centre for Agriculture Promotion, CEPAGRI) and its agro-ecological conditions, specially conducive to surpluses in the northern and central provinces.

Promoting the good performance of SMEs in agribusiness is essential to develop endogenous growth opportunities that strengthen the economic fabric of the country, decreasing its dependence on foreign aid and food imports, as well as making it more resilient to exogenous shocks.

Most importantly, since agribusiness is the main source of employment in the country and SMEs are labour intensive, unlocking growth opportunities for SMEs can generate much-needed employment opportunities for current and future generations.

João Machado

Country Managing Partner
Deloitte Mozambique

Anne-Marie Chidzero

Chief Executive Officer
FSDMoçambique

Executive Summary

The Financial Sector Deepening – Moçambique and Monitor Deloitte are pleased to partner to produce the publication Investment Opportunities in Mozambique. This first edition focuses on sound investment opportunities in small and medium sized companies (SMEs) within the agribusiness sector in Mozambique. Its aim 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 suffer from 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 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 due to the forthcoming development of large natural gas projects in the Rovuma Basin. Private equity firms have therefore located to 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 and investments by development finance institutions). In 2015 Mozambique recorded 42 impact investments deals, the third highest number of deals in the Southern Africa region [1] .

The Agribusiness Sector in Mozambique

Agribusiness as a sector has generally been constrained by underinvestment, resulting in low productivity and a lack of infrastructure which hinders access to markets. The sector has great potential due to its agro-climatic conditions, the current low utilisation of arable land and its advantageous location conducive to exports to South Africa, Asian and Middle Eastern markets. Agro-processing in particular offers a key opportunity due to many value chains having limited domestic value addition. As the largest contributing sector to GDP and employment, investing in agribusiness offers great opportunities to contribute to economic and social development.

Pre-Due Diligence Framework

The companies featured are from a variety of agribusiness-related sub-sectors (including agricultural production, support services, food processing, and forestry) and locations across Mozambique. The companies are mainly start-up or at the growth stage of the business lifecycle and cover various parts of their sector's value chain. The size of the featured investment opportunities spans USD 50 000 to USD 5 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.

FINANCIAL ANALYSIS

- Profitability (Gross profit margin and EBITDA margin)
- Efficiency (asset turnover ratio)
- Liquidity (acid test ratio)
- Levarage (debt ratio)

COMPETITIVE POSITION

- Strategy
- Competitive advantages
- Constraints of the business
- Future growth and expansion plans
- Certifications
- Market
- Management

SOCIAL IMPACT

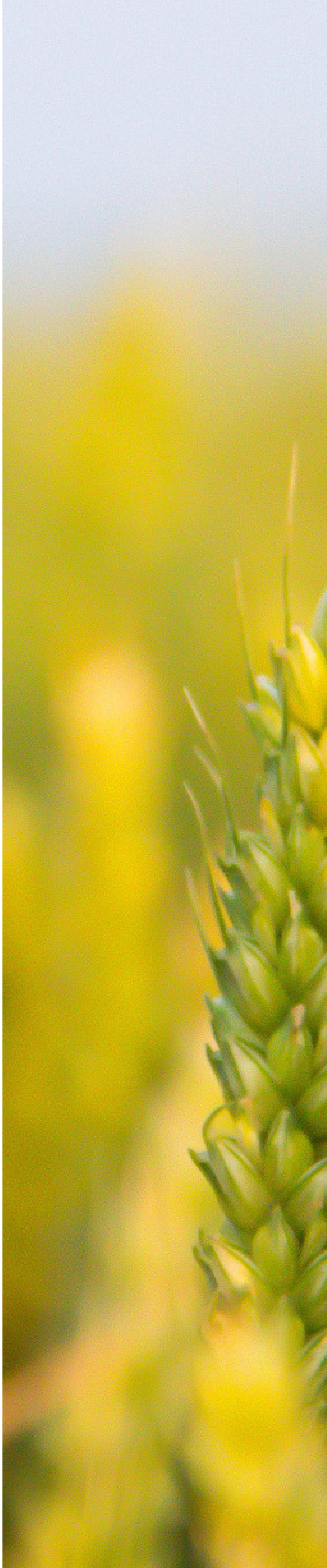
- Social and environmental objectives
- National participation
- Employment
- Training
- Linkages to the domestic economy including to smallholder or SMEs

INVESTMENT OPPORTUNITY

- Type of Investment
- Investment project
- Size of investment Interest in having partners
- Technical assistance required

Acronyms

ACA	African Century Agriculture
AMRU	Autonomous Mobile Refining Unit
CDM	Cervejas de Mozambiaue
CLUSA	Cooperaiton League of the USA
COGS	Cost of Goods and Services
CSR	Corporate Social Responsibility
DADTCO	Dutch Agricultural Development & Trading Company
DFI	Development Finance Institution
DMM	DADTCO Mandioca Mozambique
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
FSC	Forest Stewardship Council
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
Ha	Hectare
IFC	International Finance Corporation
IFDC	International Fertiliser Devlopment Corporation
INE	National Statistics Institute
ISO	International Organisation of Standardisation
KPC	Kuriname Ne Povo
MRU	Mobile Refining Unit
NCBA	National Cooperation Business Association
PEDSA	Agricultural Strategic Development Plan
SME	Small and Medium Enterprise
TAFC	The African Food Company



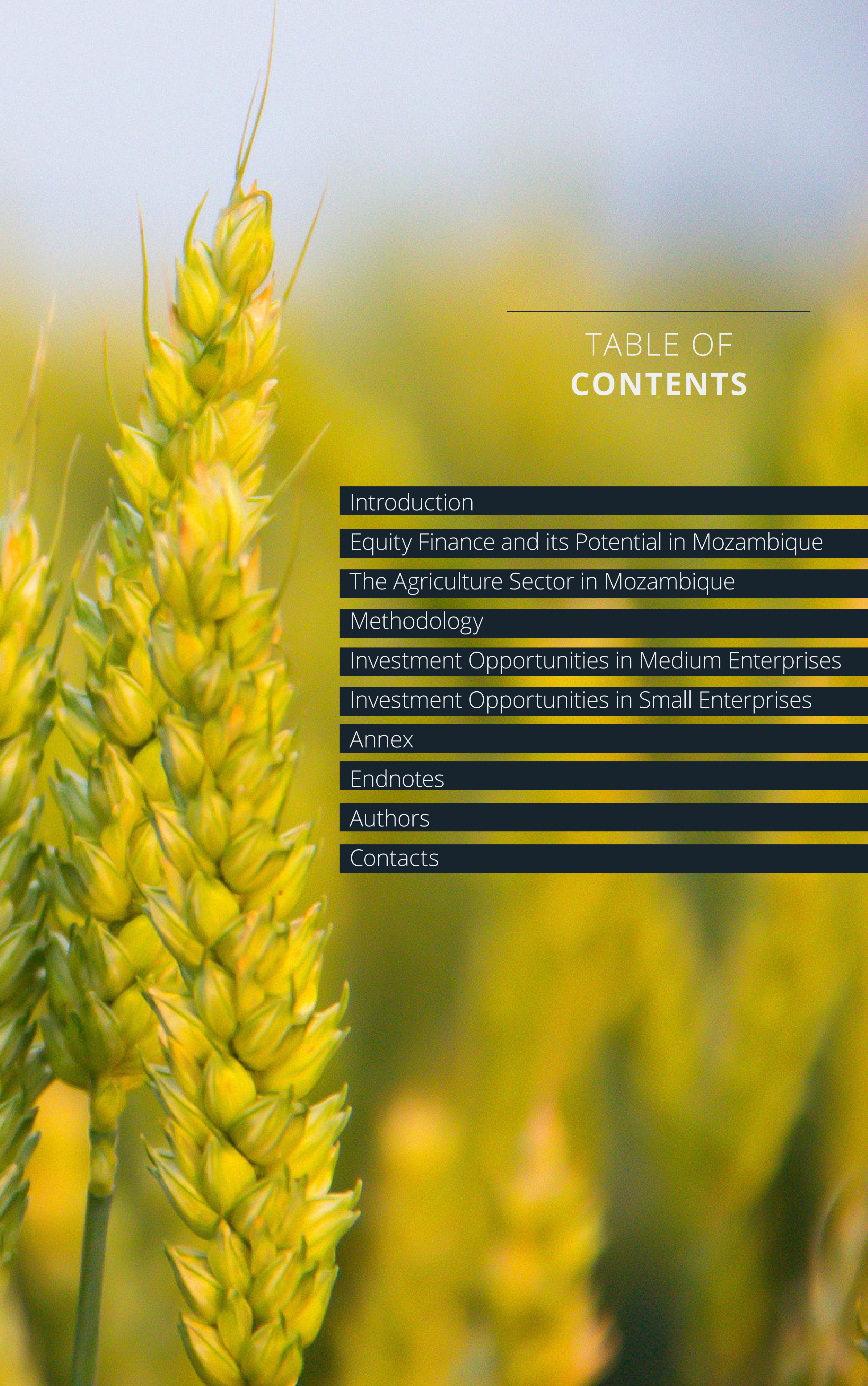


TABLE OF **CONTENTS**

Introduction

Mozambique offers abundant opportunities for private equity investors. In the past decade it has had high and sustained GDP growth rates mainly due to foreign direct investment in several mega-projects in the manufacturing, natural resource and energy sectors. It has abundant natural resources which are in an early phase of exploration. Its middle class is growing, and it is in close proximity to major markets such as South Africa with good shipping access to Asia and the Middle East. Agriculture, in particular, offers great potential as Mozambique has excellent agro-climatic conditions and only 15 percent of arable land is currently utilised. Furthermore private equity offers benefits to Mozambique by filling a financing gap which severely constrains local companies as well as bringing expertise and value addition to businesses.

This publication aims to showcase sound investment opportunities found in the agribusiness 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, as well as small companies that had attractive projects and/or strong social visions. The companies featured in the publication (summarised in Table 1) and are from a wide range of agri-business sub-sectors and locations across Mozambique.

Nº	Company Name	Year Established	Sector	Areas of Operation
	Medium Companies			
1	AC Matama Lda	2012	Maize and soya bean production (seed, potatoes, vegetables smaller lines).	Niasssa
2	Alif Quimica Industrial Lda	1999	Soya and sunflower oil processing.	Zambezia
3	Kuriname Ne Povo Lda	2012	Land clearing and agricultural land preparation, corporate social responsibility (CSR) consultancy, commercial agriculture and eucalyptus forestry	Manica, Tete, Nampula, Cabo Delgado
4	Phoenix Seeds	2011	Seed production, agricultural extension services, maize and soya production.	Manica
5	The African Food Company Lda	2010	Banana production	Gaza
	Smaller Companies			
6	Agro Servicos Lda	2010	Food processing (liquor, jam, chilli and pickle).	Maputo, Inhambane
7	DADTCO Mandioca Mocambique Lda	2012	Cassava processing.	Nampula, Inhambane
8	Frutimel Lda	2003	Beekeeping consulting, honey production, plant nursery.	Maputo, Inhambane
9	Mozambican Honey Company	2011	Honey processing.	Manica

Investment Project	Required amount of Financing
Consolidate performance of row crops and increase value-added lines, e.g. seed, potatoes etc.	USD 1 million for capital development and USD 500 000 for working capital
Increase production by buying more sunflower seeds as well as import higher quality oliec seeds to give to smallholders to produce.	USD 1.5 million
Forestry: Eucalyptus, 2 000 to 5 000 hectares. Plantation Crops: Litchis (100 ha) Macadamia nuts (200 ha) Lemon (400 to 500 ha) Advocado (180 ha) Commercial Agriculture: Maize (2000 ha), soya (8000 ha), sesame (800 ha)	USD 5 million
Working capital and capital to expand the production and processing base.	USD 500 000
1.An expansion of the current farm and packhouse facilities. 2.Addition of value added product lines e.g. banana flour.	1.USD 500 000 2.USD 200 000
1. Capital investment for two manufacturing facilities in Maputo: One facility for local people to make for local consumption under hygienic conditions. One for 70% export, 30% domestic market. 2. Working capital for Inhambane factory.	1. USD 1.7 million 2. USD 150 000
To produce cassava flour to enter into the bread market. Requires a capital investment of an autonomous mobile units (AMPU), one mobile refining unit (MRU) and a dryer.	USD 4 million
To commercialise grape and date production in Inhambane.	USD 50 000
To expand honey supply at higher quality.	USD 60 000 25-30 000 working capital loan 30 000 capital equipment

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.[2] 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 percent in 2010 to 3 percent of total credit in 2015) [3].

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 [4].

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 [5].

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 Africa [6] , Kenya and Nigeria.[7] 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 USD 8.1 billion, a rise of 90 percent from 2013, despite investors shifting back in favour of developed countries that had begun to show growth. [8]

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. [9]

More recently, private equity has taken an interest in the agriculture sector, with several funds being raised with the specific mandate to invest in agriculture and/or agribusiness.[10] Since 2008, Sub-Saharan African focused funds have accumulated USD 1.3 billion and 21 countries have received investment in the agriculture sector.[11]

These investments can enable greater access to inputs and markets, driving down their prices, and can act as a stepping stone for the development of smallholder and emerging farmers of Africa.[12] Hanlon and Smart in their book Chickens and Beer: A Recipe for Agricultural Growth in Mozambique point out that in Mozambique, after the failure of many large plantations usually made under the aim of short-term investment gains, there has been a trend of longer- term investment projects working with smallholders through contract farming or out-grower schemes. This is where a company will under a contract agree to buy a certain quantity from smallholders. Often the contract company will provide inputs on credit as well technical support. Although not without many challenges such as the need to develop a relationship and build trust with the farmers, these are proving to be more successful than the large plantation investments. Mozambique has experience of successful contract farming in the tobacco and cotton sectors, however Hanlon and Smart point to chickens and cassava as successful newer examples of inclusive value chain approaches.

Increased private equity investments in agribusiness therefore have the potential to bring forth important economic benefits in terms of market linkages, financing and managerial capabilities, as well as contribute to social development through community support, technical assistance and food security

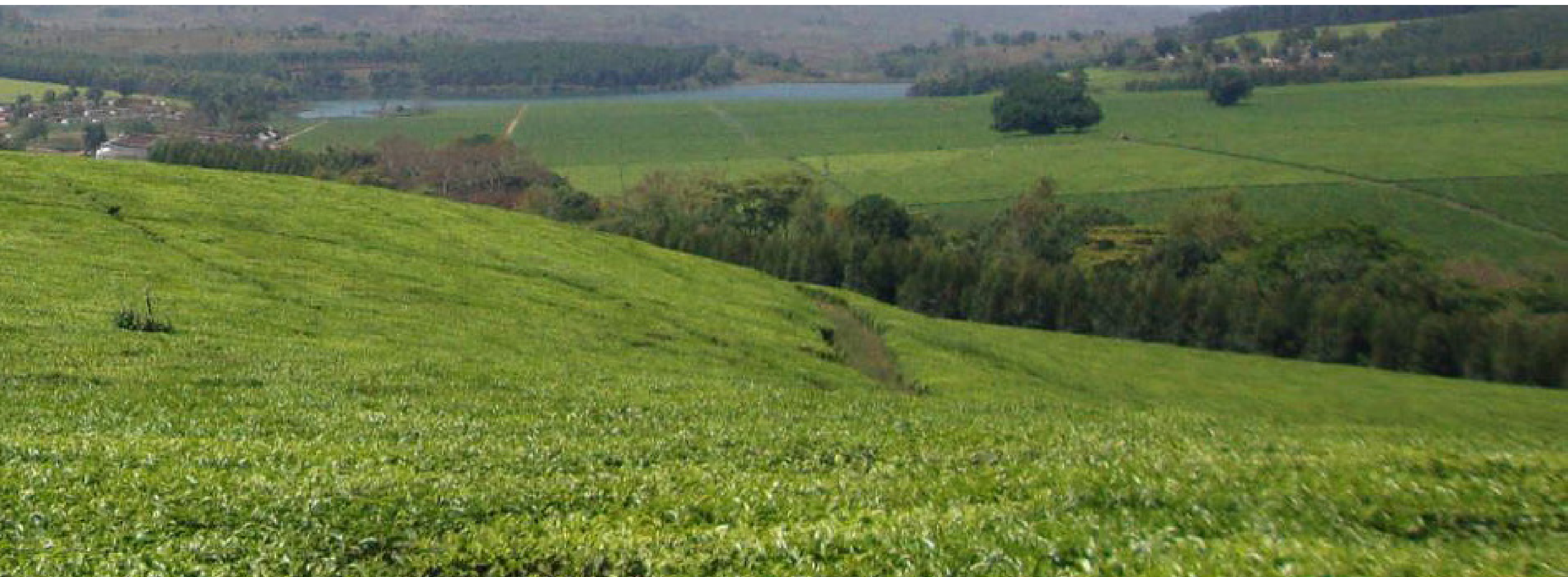
Private Equity in Mozambique

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.[13] 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.[14] GIIN finds that Mozambique received the third highest in the Southern Africa region after South Africa and Zambia (95 deals with USD 1.385 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).[15] 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).[16] SMEs, therefore, are still mainly being bypassed by this type of financing.[17]

In the agribusiness sector, private equity has already entered into a diverse range of sectors such as input production, fruit and vegetables, fruit processing, sugar manufacturing, honey production and livestock.



The Agriculture Sector in Mozambique

The publication reveals there is great potential for agribusiness invesments in Mozambique: both from an economic development and social perspective. The sector has had strong growth rates, averaging 5.3 percent annually between 2005 and 2015 and is still the sector with the largest contribution to GDP (22.6 percent in 2015). [18]

Mozambique has excellent agro-climatic conditions that can result in year-round production, with several large rivers offering extensive waterways. There is significant potential as only 15 percent of 36 million hectares of arable land is currently being utilised. It also has large export potential being situated advantageously to reach Asian and Middle Eastern markets. Agro-processing in particular offers a key opportunity due to many value chains having limited domestic value addition.

Agriculture has so far been constrained by underinvestment, resulting in low productivity and a lack of infrastructure which hinders access to markets. The agriculture sector also significantly suffers from lack of access to finance, due to the majority of banks lacking expertise in Agriculture financing.

The Government's Agricultural Strategic Development Plan (PEDSA) 2011-2019 identifies 15 strategic value chains, the first six of which are priorities: horticulture, rice, beans, cassava, chicken, red meat, maize, banana, sugar, sesame, potato, cashew nuts, cotton, soya and wheat.

In the agribusiness sector, private equity has already entered into a diverse range of sectors such as input production, fruit and vegetables, fruit processing, sugar manufacturing, honey production and livestock.

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: ethicical behaviour, financial performance, competitive position, investment opportuntiy and social impact.[19] 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. [20]

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 in Medium Enterprises

Below follows profiles of the companies and their investment opportunities.[21]

AC Matama Lda

AC Matama is a large scale farming operation growing mainly soya and maize based in Lichinga in Niassa province, Mozambique. Established in 2012, AC Matama has two shareholders: African Century Agriculture (ACA) and the Malonda Foundation. ACA has had experience in agriculture in Mozambique, working with contract farmers in the soya sector in Zambezia with the Frango King operation that they have recently divested from.[22] ACA has now chosen to focus on their large-scale crop operation, AC Matama in Niassa.

Matama Farm is a former state farm measuring 3 800 hectares, 90 per cent of which is arable and is largely cleared. AC Matama has transformed the land quickly since 2012, currently using 1 200 hectares with 100 hectares under irrigation and 3 000 tons of produce in the 2014/15 season. Its production mix is roughly 50 percent maize and 50 percent soya in terms of hectares under crop, as well as producing sugar beans, potatoes and vegetables in smaller quantities.

Niassa province is one of the most underdeveloped, poorest and remote provinces in Mozambique. The local government has identified agriculture as a key economic driver, targeting improved food security, agricultural beneficiation and the promotion of agricultural exports. AC Matama aims to contribute to this policy by selling produce to the local market and through an outreach programme with local smallholders. The government has fully supported AC Matama's operations and has also granted it seed production certification enabling them to expand in the area of soya, dry beans, maize and potato seeds.

Financial Performance

As a large scale farming operation still in its start-up phase, AC Matama has been performing well, with its EBITDA margin and gross profit margin already turning positive in its third year (13 per cent and 27 per cent respectively) showing that it can already cover its fixed and variable costs. The company's projected EBITDA margin and gross profit margin show continued growth projected to reach 23 percent and 37 percent respectively in 2018.[23] Asset turnover has improved, tripling in value between 2014 and 2015 reaching 0.74, however still shows room for further improvement. AC Matama also scores well on the acid test with a ratio of 2.39, showing that the company is in a healthy position to pay its current liabilities. 2015 was a good year for AC Matama, showing over 200 percent growth in revenue and healthy growth in gross profit and EBITDA values. Projected figures also show continued robust growth.

Competitive Position

AC Matama's main crops are maize and soya. Maize is the most important food crop in Mozambique and throughout Southern Africa. Domestic and regional markets are therefore large and growing sources of demand Soya has become a significant market in Mozambique in recent years as increased chicken production has provided a market for increased soya production. Soya cake is a key input as a feedstock in poultry production: feedstock is the largest cost in producing poultry (74 per cent), of which soya cake accounts for 37 percent. [24]

Poultry demand is set to increase as the middle income class grows and poultry production is estimated to expand at 13 per cent a year for the next decade.[25] Domestic soya cake could be a key driver of domestic substitution of imported chicken. It will allow poultry producers to shift away from expensive imported soya cake thereby improving competitiveness of the domestic poultry industry. The government is aware of this and is actively encouraging the growth of the domestic soya industry. Furthermore, there are also opportunities to process soya into higher value added products such as oil, milk, flour etc.

AC Matama benefits from costs advantages as they have 3 800 hectares of land in an area with good soil and rainfall, thus reducing the cost of farming per hectare. The farm is also ideally located for irrigation with two rivers running on either side each with a 50km2 catchment area, a canal system built thirty years ago through the middle of the farm which offers low cost water distribution and large blocks of open flat land which are suitable for pivot irrigation.[26] Apart from two other larger farms in the country, their main competitors are small scale producers who are not able to reach the scale that is available to AC Matama due to the large land concession it holds.

Although still at the beginning of the operation, crops have shown strong yields, reaching an expected stable yield of 2.5 tons per hectare for soya and 5.8 tons per hectare for maize. Their costs per ton are also on the low side for the industry. Future growth is likely to come from stable prices and costs, an increase in hectares under irrigation and attractive yields. They aim to consolidate the performance of soya and maize and increase value in their added lines of seed production, potatoes etc. AC Matama will also benefit from infrastructure soon to be developed in the province, particularly with improved rail and road links to Cabo Delgado. AC Matama is a well governed company with strong governance structures and externally audited financial statements. They have a business plan and also have projected financials.

Social Impact

AC Matama has social objectives which are to provide food security in the region, work with local farmers through an outreach programme and provide education for farm workers and the local community. The outreach programme currently extends to 36 farmers with an aim to reach 50 farmers over 50 hectares.[27] In the future this outreach programme could be extended to 500 farmers. Smallholders have benefited through this scheme from an uplift in income of USD 250 per family per annum.[28]

Although being a highly automated business, the farm employs 180 people, 95 percent of which are from the local area and from low income backgrounds. Employees receive wages 50 percent over the minimum wage as well as training and education through a night school for farmworkers and outgrowers to learn best agronomic practices.

AC Matama has helped to contribute to food self-sufficiency in the region as around 95 per cent of sales goes to the domestic market with the other 5 per cent being exported to Malawi.[29]

Investment Opportunity

AC Matama is looking to continue expanding irrigation and storage facilities for their farming operations. They are seeking a mix of private equity (USD 1million for capital development) and bank lending (USD 500 000 for short-term working capital) and an investment partner that can bring technical assistance in marketing, customer relationship management and supply management.

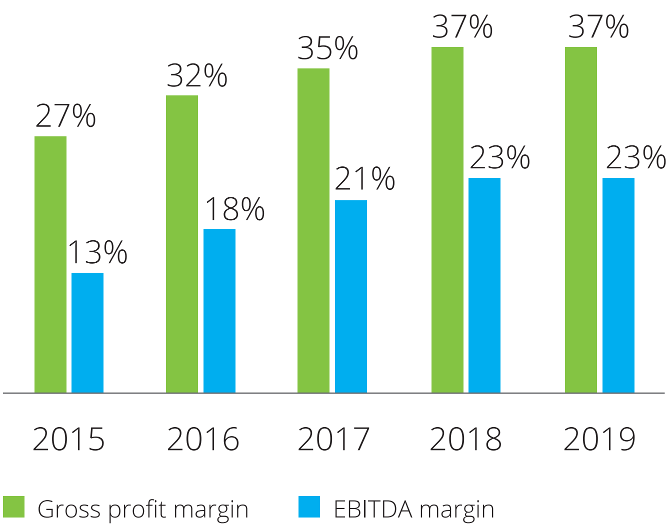


Fig. 01- AC Matama Profitability Analysis
Source- AC Matama Management

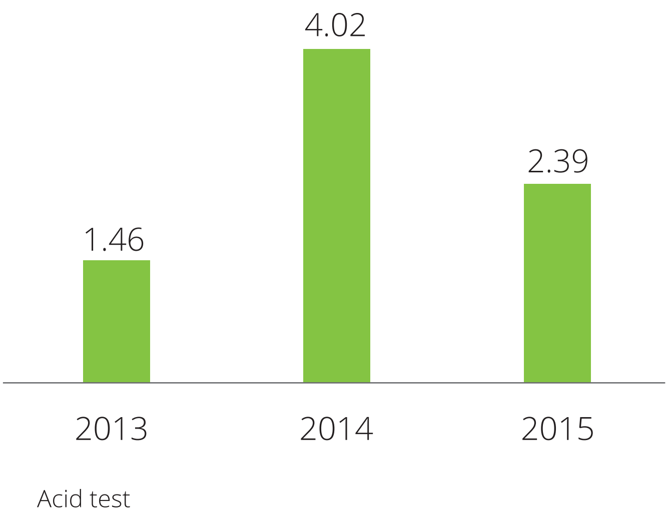


Fig. 02- AC Matama Liquidity Analysis
Source- AC Matama Management

Alif Química Industrial Lda

Alif Química is a large established company (since 1999) based in Quelimane, Zambezia province that processes sunflower and soya bean oil.

Alif Química took land control of a company abandoned during the war. It has since worked under a contract system with the smallholders that were present on the plot, helping them to cultivate the land and providing ploughing and seeds for soybean and sunflower. It also allowed other farmers to produce on their land under an outcropping system. Alif Química then buys the seeds back from the smallholders, in order to crush them to produce crude oil and cake.

Financial Performance

From 2013 to 2014 Alif Química's revenues grew by approximately 30 per cent, however, variable costs grew even faster at 48 percent. As a result the firm saw its gross profit margin decline from 36 percent to 28 percent and EBITDA margin decline from 15 percent to 5 percent across the same period, implying the firm retained only 5 cents for every dollar generated in revenue after paying its fixed and variable costs.

Alif Química's overall asset turnover in 2014 improved from 0.72 to 0.98, implying 98 cents was generated for every dollar invested in assets. While this improved, a ratio less than one is considered below par and there could be room for further improvement.
Liquidity was high in 2014 and overall debt was low accounting for only 11 percent of total assets in 2014.

Competitive Position

Alif Química can currently process 5 000 tons of seeds and produces 3 800 tons of oil a year (75 per cent of which is sunflower and 25 per cent is soya) and 6 000 tons of cake (split 50:50 between sunflower and soya). It also has a refinery and so can produce either crude or refined oil.

There is high market demand for sunflower and soybean oil in Mozambique and export markets. Alif Química is already at the standard of exporting to Europe, which accounts for 50 percent of their sales. Due to high demand and limited production capacity, Alif Química's domestic sales are only within Zambezia province to SMEs and individual buyers. Alif Química could easily increase production and have no problems finding domestic demand for their product.

As one of the few companies in Mozambique that processes seeds to make oil, they benefit from cost advantages by having lower costs through domestic suppliers and a cheap raw product, compared to their competitors that must pay custom duties to import the crude oil to refine here.

As a by-product of producing oil from soya beans, Alif Química also produces soya cake which is a key input into poultry production. Poultry production has been growing recently and poultry producers have been looking to switch to domestic soya cake. Alif Química's secondary product therefore also has high demand. Soya can be further processed to produce higher value added goods such as soya milk, flour and Asian soy foods.

Alif Química currently has the capacity to press 15 000 tons of sunflower seed, however it is only at 5 000 tons capacity due to a lack of financing that has constrained their ability to increase their supply of seeds (to sell to smallholders). Future growth will therefore come from an expansion in seed supply and possible future expansion in capacity.

As Alif Química uses organic seeds, they are considering obtaining the Fair Trade certification, which would increase the value of their product. Alif Química is externally audited with a formalised business plan.

Social Impact

Alif Química has social and environmental objectives formalised in their corporate strategy. They have a significant impact on the local economy through value creation as domestic processers, and through working with 4 000 smallholders as their suppliers. They also employ 280 people from the local area and 50 percent of their sales are to SMEs and individuals. Apart from machinery, all their inputs are also sourced domestically. They also support local schools and communities.
Following the investment project outlined below, Alif Química can increase the number of suppliers it works with to 8 000 smallholders on the 1 800 hectare land it owns.

Investment Opportunity

Alif Química is currently operating below full capacity; they can increase the number of seeds they can crush by 10 000 tons. They are looking for an investment grant of USD1.5 million dollars to expand their seed supply, both domestically and from higher quality imported oleic seeds to sell to smallholders under the contract system. With the investment to reach full capacity, Alif Química can produce at least 5 400 tons of oil per annum.

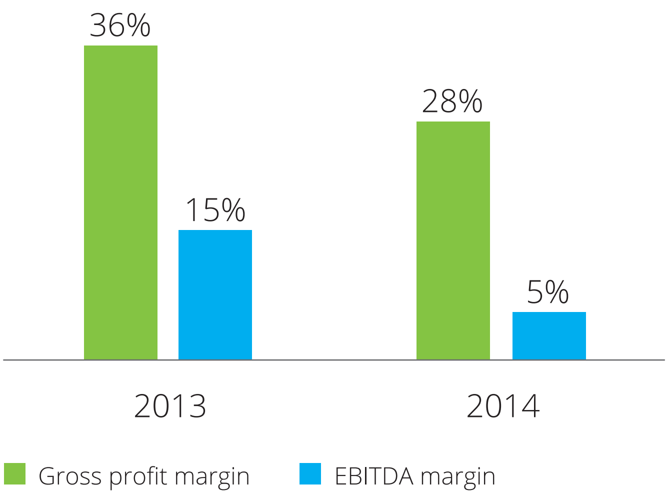


Fig. 03- Alif Quimica Profitability Analysis
Source- Alif Quimica Management

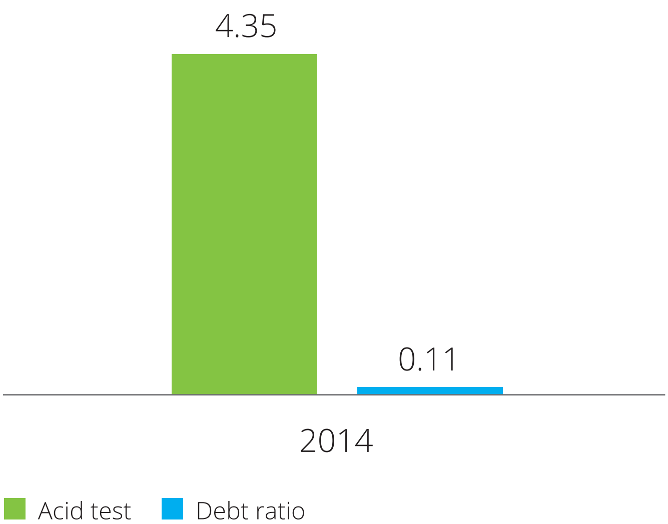


Fig. 04 - Alif Quimica´s Liquidity and Leverage Analysis
Source- Alif Quimica Management

Kurimane Ne Povo Lda

Kuriname Ne Povo (KPC) is a company established in 2012 in Vanduzi, Manica Province. Its services are land clearing and agricultural land preparation, earth moving, agricultural and corporate social responsibility (CSR) consultancy, commercial agriculture and eucalyptus forestry.

Financial Performance

KPC's financial performance from 2014 and 2015 indicate a company with positive future prospects. The firm saw both its gross profit and EBITDA margin increase significantly from 49 percent to 69 percent and 22 percent to 46 percent respectively. Firm revenue increased by 154 percent in 2015. The increased positive margins demonstrate that KPC is able to manage both its variable (COGS) and fixed (operating) costs efficiently.

Worth noting, the asset turnover of the firm increased from 1.43 in 2014 to 1.70 in 2015, indicating the firm earned 27 cents more per dollar invested in assets.

The overall performance of KPC has been strong and the level of gearing is relatively low, as debt in 2015 only accounted for 34 percent of total assets. Based on two years of financial analysis the firm potentially represents a lucrative investment opportunity.

Competitive Position

KPC's business strategy is to capitalise on the vast amount of agricultural and natural resource opportunities that Mozambique has to offer by providing a wide range of agricultural services.

KPC has been doing land clearing and preparation for Portucel, the Portuguese forestry company that has two land concessions in Zambezia and Manica with a total of 356 000 hectares, for two years and plan to continue expanding this side of the business. Working with a company that has such a large land concession has ensured that KPC has grown at more than 100 percent per year in terms of profit.

KPC is in a competitive position as they already have one of the largest companies (in terms of a land concession) as a client and there are significant barriers to entry in the land-clearing industry due to high capital costs. Their flexible pricing geared to adapt to different conditions offers them a competitive advantage over other companies operating in the sector.

Currently reliant on one large customer, Portucel, they aim to increase their client base for land clearing and earth moving by targeting other large corporate companies as well as adding large scale agriculture projects to their portfolio. Portucel has an expansion programme which ensures that KPC will continue to expand with them.

Social Impact

KPC contributes to the local area by hiring 700 seasonal workers which all come from low-income backgrounds. They also have 56 permanent employees, 100 percent of their spending on inputs is domestic and 50 percent of their suppliers are smallholders or SMEs.

Their other CSR work involves conservational agriculture outgrower programs, nutrition, hygiene and community enhancement in disadvantaged communities, adding value to farmers' produce and women empowerment.

Investment Opportunity

KPC is seeking an investment of USD5 million for the development of three projects:

1. Forestry: KPC has the opportunity to implement a large scale 2 000 to 5 000 hectare eucalyptus programme where the wood will be supplied to the Middle Eastern steel industry and a wood-chipping factory in Beira.

2. Plantation Crops (fruit or macadamia nuts): With the rise of world prices particularly of citrus fruits, KPC would like to develop a long-term investment in plantation crops to complement their month-to-month liquidity that their land clearing side of the business brings. KPC are expecting a production mix of: 100 hectares of litchis, 200 hectares of macadamia nuts, 400 to 500 hectares of lemon production and 180 hectares of avocados.

3. Commercial Agriculture: Due to droughts and population increases, crop commodity prices are at record highs. The owner and managing director of KPC has 30 years of experience in agriculture and with KPC's wide range of agricultural equipment already on hand, they have the capacity to implement a large-scale agricultural project with the right investor. The project will be 2 000 hectares of maize, 8 000 hectares of soya bean and 800 hectares of sesame.

All the above projects will involve neighbouring employment and community production of between 5 000 and 8 000 families.

KPC has access to large tracks of land in Manica and Sofala suitable for all of the projects above with land use rights[30] finalised within the next two months. They are seeking an investment partner to develop at least one of these projects that can also bring technical assistance in the area of corporate strategy, marketing, supply-chain management and finance.

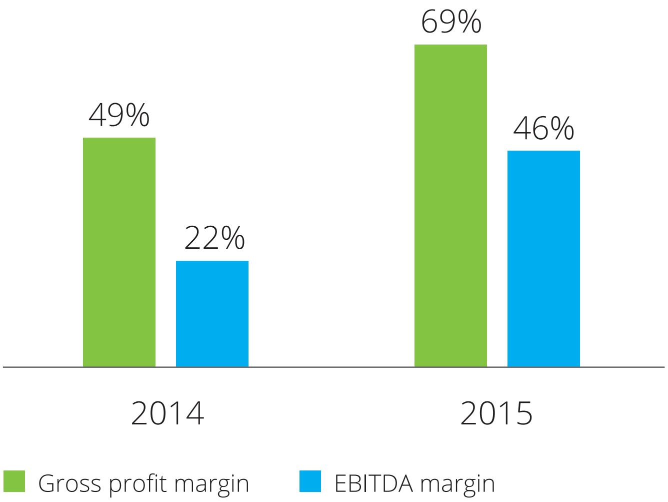


Fig. 05 - KPC Profitability Analysis
Source- KPC Management

Fig. 06 - KPC Efficiency Analysis
Source- KPC Management

Phoenix Seeds Lda

Phoenix Seeds is a seed supply company that also offers agricultural extension services. It was established in 2011 and is based in Vanduzi in Manica Province. It is the first Mozambican seed company to both produce and register seed with the aim of providing access to good quality seed at affordable prices to Mozambican farmers.

Mozambican farmers suffer from low productivity due to the low use of external inputs, including improved seeds due to the low availability and accessibility of quality seed. The agricultural census by the National Statistics Institute (INE) in 2010 showed that only 10 percent of smallholder farmers used improved seed varieties. Use of improved seeds by famers is one of the fastest mechanisms to improve agricultural productivity. Well-chosen seed varieties can enhance resistance to droughts and diseases, and can increase the efficiency of agro-industrial processing and the quality of processed products. Increasing improved seed variety available to smallholders has an important social impact allowing them to produce higher yields and is an important step in moving beyond subsistence.

Financial Performance

Based on the firm's financial statement analysis, Phoenix Seeds has posted positive EBITDA margins from 2012 to 2015 with the exception of 2014. The firm has also managed to maintain a positive gross profit margin since 2012. In 2015 the firm recorded a 2 percent EBITDA margin recovering from a - 105 percent EBITDA margin in 2014 largely driven by strong growth in revenues.

From an efficiency perspective, Phoenix Seeds has seen a steady improvement. The asset turnover ratio doubled from 0.28 in 2012 to 0.49 in 2015. However, a ratio less than one is still considered sub-optimal and there is further room for improvement as in 2015 the firm only earned 48 cents per dollar invested in assets.

The firm has shown a significant surplus of liquidity as current assets (excluding inventory) have exceeded current liabilities by more than six times. Overall Phoenix Seeds displays strong financial performance which has been slightly volatile but with a positive trajectory.
Competitive Position

Phoenix, with support from AgDevCo and the Africa Enterprise Challenge Fund, has been making gains in the seed sector. An investment of USD 707 000 from AgDevCo allowed them to increase seed production from 71 to 142 hectares and build a processing facility. AgDevCo also provides important strategic and operational support to the management team and has raised further financing from the Africa Enterprise Challenge Fund. They have produced a hybrid seed that is more drought tolerant and more suitable to the climatic conditions of Manica province.

Phoenix benefits from cost advantages by having an integrated seed production and processing operation and access to lower seed prices. They have a strong client base of around 30 clients, with nine big companies accounting for around 85 percent of sales.

Their business strategy is to focus on increasing production through outgrowers, increasing sales to smallholder farmers, agro dealers and NGOs through the use of agents and to introduce maize hybrid and export orientated crops. They also plan to begin exporting to Zimbabwe and Malawi.

Phoenix Seeds is well governed, with management accounts and governance policies. Its financial statements are reviewed externally and it has a business plan and financial model with projections.

Social Impact

Phoenix Seeds has the social objective of ensuring small-scale local famers can access high quality seed that is needed to improve their income by increasing their productivity. So far, 33 437 farmers have benefited from access to affordable and improved seed varieties, increasing yields by 30 percent. Phoenix Seeds also provides technical advice, and through a joint venture with NCBA Clusa , agro-dealers receive help in marketing their seeds and establishing demo sites to teach improved crop management and conservation farming practices. Two outgrowers have also been contracted to produce seed, and this will expand through increased production. 90 per cent of Phoenix Seeds' spending is domestic and nearly all sales to go the domestic market with 80 percent ultimately going to smallholders.

Investment Opportunity

Phoenix Seeds are seeking a minimum investment of USD 500 000 to finance working capital and capital expenditure to expand production and the processing base with the ultimate goal of expanding the business into the leading seed producer in Mozambique. They are seeking an investment partner to provide technical assistance particularly in the area of seed marketing.

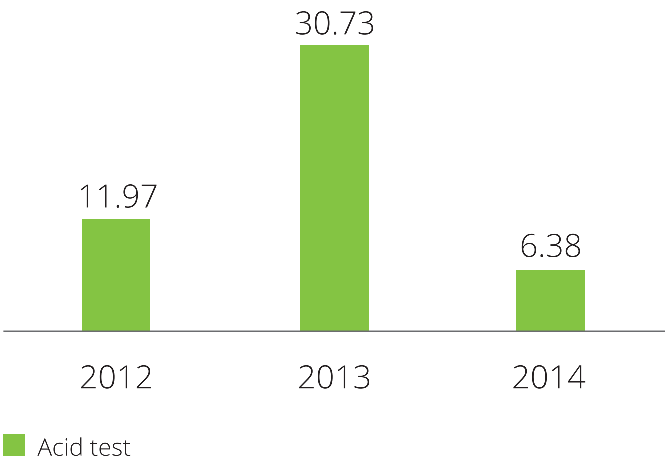


Fig. 7 - Phoenix Seeds Liquidity Analysis
Source - Phoenix Seeds Management

The African Food Company Lda

The African Food Company (TAFC) is an environmentally sustainable and socially responsible banana plantation in Mozambique. It was established in 2010 and has a 300 hectare plantation in Gaza province. It was set up to meet the growing demand for premium organic farmers and uplift the community through job creation, skills training and the introduction of new technologies. It primarily exports its bananas to South Africa.

Financial Performance

Since 2013, TAFC has recorded healthy gross-profit margins displaying the firm's ability to manage its variable costs. The gross profit margin grew from 30 percent in 2013 to 67 percent in 2015. The increase in the margin was entirely driven by revenues increasing tenfold. TAFC's EBITDA margin has been negative since 2013, however, it has been improving and based on the current trajectory it will most likely turn positive in medium term.

The firm is just able to meet its current liabilities with an acid test ratio of 1:1. Total debt of the firm accounts for 74 percent of total assets which indicates a highly leveraged position. However, taking into consideration the market value of the plantation asset, leverage is lower. While the financials of the firm appear to be loss making, the overall trajectory is positive. Should revenues continue to expand, the future prospects appear positive.

Competitive Position

Bananas are the world's most popular fruit and one of the world's most important staple foods.[36] There is a strong demand for high quality standard compliant bananas from developed countries; Europe currently has the greatest demand growth and there are large demand imbalances in the Middle East, the Mediterranean and to a lesser extent in Southern Africa.[37] Mozambique is well situated to benefit from both its geographical position and costs advantages. It has a lower export tariff advantage (USD3 per box) as an African country over Latin American countries (which are the largest exporters), as well as low operational and dredging costs.[38] Mozambique also offers year-round production and high productivity.

uplift the community through job creation, skills training and the introduction of new technologies. It primarily exports its bananas to South Africa.

TAFC is the only certified commercial producer of organic bananas in Mozambique. Their bananas are certified by BCS Öko-Garantie, a German agency authorised to certify organic products worldwide according to international organic agricultural standards. TAFC is also in the process of obtaining the Global Good Agricultural Practices (GAP) certification, an international nongovernmental organisation which certifies agricultural products or suppliers whose practices match its voluntary standards for good and sustainable agriculture.

At full capacity on their current farm, they aim to be producing 16 000 tons of organic bananas per year.[39] In 2015 they finished planting 288 hectares of bananas, growing rapidly from 30 hectares in 2012. They have invested in a distribution unit which comprises three depots with cold rooms, trucks for both retail and wholesale, irrigation, and have also introduced quality improvements that are absent in most of Africa, such as a cableway used with an air tractor.

TAFC benefits from cost advantages compared to their Mozambican competitors as they have access to waterways and have been able to irrigate using water from the Limpopo River. In comparison to their South African competitors they benefit from a better climate for bananas, cheaper labour costs, and better land rights.

They are currently finalising a project with grant funding worth a total 400 000 Euros to distribute and market fresh fruit and vegetables on the local market in Mozambique. The project will involve the distribution of their bananas and locally produced fruits and vegetables using cold containers at points of sale in Chokwe, Xai Xai and Maxixe, and the import of South African fruit and vegetables using the vehicle trailer that will export their bananas. This project will help expand access to markets for locally produced vegetables and fruits helping to raise local farmers' incomes.

Social Impact

The social impact of TAFC is significant. They currently employ about 400 people from the local community, of which half are women and pay over the minimum wage (25 percent higher). Employees also benefit from skills training and technology transfer focusing on organic crop husbandry practices, organic fertilisation, cultivation hygiene and prevention of pests and diseases, and organic banana planting, irrigation, harvesting and post-harvesting techniques. The local community further benefits from support by TAFC in the form of improved healthcare, access to education, the electrification of the village and improved water access. TAFC also sells 10 percent of its bananas domestically, which is mostly bought by individuals who go on to sell within Mozambique. Their latest project of distributing fresh fruit and vegetables domestically will also help local growers find markets for their produce.

Investment Opportunity

TAFC has plans of expanding the plantation area with an additional 150 hectares of bananas in neighbouring lands and hand-in-hand adding another three packing lines (making six in total) to cope with

the higher volumes. TAFC has also identified that they can reduce wastage by turning the 10 percent of their production which is defective or small bananas into value added products, mainly organic banana flour which has a high demand in Europe. This requires additional investment in drying, grinding and packaging lines.

In total the planned investments total USD2 million, where plantation expansion is USD1.5 million, packhouse expansion is USD300 000 and production of a value added line is USD 200 000. Investment into TAFC can be done either through a capital increase or secondary investment (minority/majority equity share or taking over existing loans).

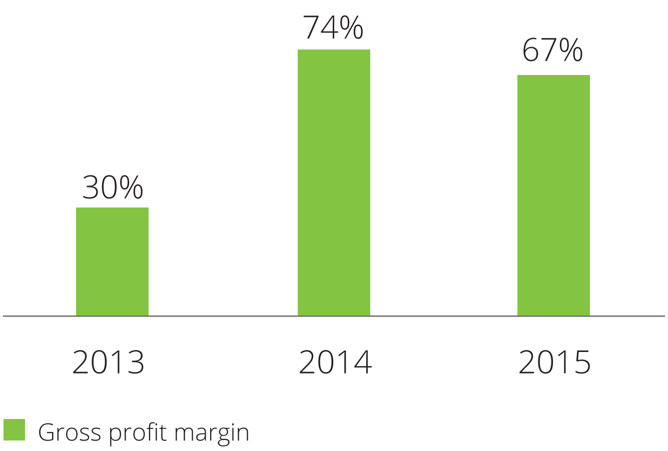


Fig. 08 - TAFC Profitability Analysis
Source - TAFC Management

Investment Opportunities in Small Enterprises

Agro Serviços Lda

Agro Serviços is a small family company which began commercial operations in 2010 and is based in Maputo Province. It buys locally produced fruits or picked wild fruits from smallholders, processing them to make fruit liqueurs, jams, chilli and pickles under its Gutsamba brand.[40] It has a strong social vision believing that an inclusive value chain approach, where the company buys from smallholders or SMEs along the entire value chain, is the best way to spread economic gains.

Competitive Position

Agro Serviços is well managed, reports all financial statements, and has a five year business plan with projected financials. Its business strategy is to produce 100 percent natural healthy products targeting medium- to high-income customers, an emerging class seeking healthy products.

Agro Serviços has a strong understanding and emphasis on branding and marketing, having a segmentation strategy that targets different types of customers. Due to limited local knowledge about liqueurs, they attract customers through a promoter that gives out samples. They have also sent samples to 15 countries from all continents and have received good feedback.
They currently only sell in Maputo City and Province, but already sell to two supermarket chains and other specialised shops such as delis and bottle stores. Due to a low cost base in local fruits but high value products selling at comparable prices to other liqueurs, Agro Serviços is able to maintain a high mark up on its products.

Social Impact

Agro Serviços has a corporate vision and business strategy aligned with its social objectives which is to work with domestic producers along the value chain. Given their small scale, they work with 20 smallholders [41] but estimate that following their investment project as outlined below, the operation of the Inhambane factory will shortly add another 60 smallholders to their total suppliers and the factory in Maputo Province would add 150, making about 230 in total. Potential employment at the two factories could total 120 employees.

Investment Opportunity

Agro Serviços requires investment for its two operation locations in Inhambane and Maputo Provinces.

They would like USD 1.7 million to build one manufacturing facility in Maputo province that will produce Agro Serviços's products (liqueurs, wild-fruit jams and peri-peri sauce), 70 percent of which is destined for the export market following the expansion plan outlined below. They would also operationalise another facility in Inhambane province with an additional processing room where a local association of farmers will process products for the local market under good hygienic conditions alongside Agro Serviços's products (Mango and lime pickles and orange marmalade).

As for the Inhambane factory, Agro Serviços already has equipped it, however the company is still in the process of finding financing to fund its operations. It requires debt financing of USD 150 000 to fund working capital.

They have a five year expansion plan following the investment injection which will be to initially sell to large supermarkets in Maputo, then expand to other provinces in year two particularly focusing on areas that have mega projects and therefore a likely customer base (e.g. the gas projects in Pemba in Cabo Delgado) before beginning exports to South Africa and other SADC countries and eventually Portugal. They aim to obtain ISO 9001 certification to increase sales in the domestic market and all other certifications for their exports. Agro Serviços predicts that following this strategy, in its fifth year it will be producing 370 000 liqueur bottles (375 ml size) generating 2.2 million dollars in annual revenue, which would be complemented by another 1.1 million in revenue from jams and chillies.

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

Agro Serviços
Agroprocessamento • Formação Agrária • Consultoria • Serviços

Gutsamba


AMARULA

DADTCO Mandioca Moçambique Lda

DADTCO Mandioca Moçambique (DMM) is a for-profit company that has as its corporate vision: poverty alleviation through working primarily with smallholders. Its focus is the cassava sector and has operations in Ghana, Mozambique and Nigeria. Established in 2012 in Mozambique, their operations are in Nampula and Inhambane provinces.

Competitive Position

Cassava is the major starchy food crop in sub-Saharan Africa and is the most consumed crop in Mozambique. Its broad agro-ecological adaptability and its ability to produce reasonable yields where most crops cannot, makes it a key staple for food security at the household level and an important source of dietary energy. Africa is the biggest producer of cassava but has not yet developed any cassava processing industry because the fast perishing cassava roots need to be processed within 24 hours of harvesting. Mozambique produces on average between five and six million tons per year and is ranked the 8th in the world and 5th among African countries as a producer but had a post-harvest loss of 43 percent due to the crop's perishability, inefficient harvesting and storage methods, poor infrastructure and limited access to markets.

Smallholder farmers produce 99 percent of Mozambique's cassava, almost exclusively for subsistence and basic processing for consumption as traditional foods. Less than 1 percent of cassava produced in Mozambique is used for commercial purposes. On the other hand, the country depends on the import of large volumes of wheat, starch and ethanol, much of which could be replaced by cassava derivatives.

The main hurdle in the transition from subsistence to market-oriented growing of cassava concerns the sourcing of cassava roots. The highly perishable cassava roots must be processed within a maximum of 48 hours. High transportation costs (roots contain 70 percent water) and poor road networks in the rural areas make sourcing cassava from smallholders logistically and economically challenging. As a consequence, the majority of Africa's industrial cassava processing facilities operate at below 10 percent of their capacity. Indeed, linking farmers to markets is the key challenge to unlocking the potential of cassava.

Social Impact

In response to the cassava sourcing challenges, DADTCO developed the Autonomous Mobile Processing Unit (AMPU) as an innovative mobile solution to process roots in the cassava sourcing areas within close range of the growers. The output of the AMPU is cassava cake, which has a long-shelf life and reduced water content. Dadtco Mandioca Mozambique (DMM) has a memorandum of understanding with Cervejas de Mocambique (CDM) (owned by SAB miller which owns all the breweries in Mozambique) to process cassava cake for use by CDM in its cassava based larger, Impala. DMM manages the processing of cassava cake and the supply chain with smallholder farmers.

In 2015, DADTCO realised several important technological breakthroughs. First of all, it developed the Mobile Refinery Unit (MRU) and the Mobile Drying Unit (MDU), which can be added to the AMPU, to produce Cassava Starch Flour. Cassava Starch Flour is easier to handle and therefore much more readily accepted by the food industry and bakery sector than cassava cake. "Bringing the factory to the farmers" translates in tremendous savings and increased security of supply. Cassava Starch Flour represents less than a quarter of the roots volume and can be stored for over a year.

Another breakthrough was the development of an enzymatic treatment process that guarantees complete removal any residual cyanide from the product, as required by the food industry. Based on these new developments, DADTCO is able to produce food-grade Cassava Starch Flour in the sourcing area, which is a very persuasive proposition for Mozambique – and for most of Africa for that matter. A single mobile processing plant, rotating between three areas to source roots from some 4 500 smallholder farmer families, can produce up to 20 tons of Cassava Starch Flour per day, i.e. roughly 6 000 tons per year.

Investment opportunity

A potentially very large market for Cassava Starch Flour is Mozambique's bakery sector. Mozambique imports around 700 000 tons of wheat annually, all of which is processed into wheat flour for the bakery sector. Given a milling ratio of 75 percent, Mozambican's bakery sector requires around 525 000 tons of flour annually. Bakers can reduce the cost price of bread by replacing part of the wheat flour by food grade cassava flour. Easily 20 percent of wheat flour can be replaced by cassava flour, which suggests a cassava flour market potential of 105 000 tons. DADTCO's cassava Starch Flour gives a much improved bread compared to HQCF when included in composite flour and therefore will enjoy greater acceptance by the bakery sector.

DMM will add a MRU and Mobile Dryer to an already existing AMPU to establish a mobile starch plant. The concept of the mobile starch plant is identical to the single AMPU and will rotate between three sites to source roots from some 4 500 to 6 000 smallholder farmers. However, instead of producing cake it will produce cassava starch flour. The plant can process up to 80 tons of roots per day and will have an annual output of around 7 200 tons cassava starch flour. DADTCO has already identified excellent sourcing areas in

Inhambane and Nampula where it has been in operation since 2011 to produce cassava cake for CDM. The new business case for DADTCO in Mozambique is premised on two markets: (1) the already existing beer market, notably CDM, to replace malted barley and (2) bakery sector to reduce wheat imports.

The main international source of wheat for the bakery sector is the USA. In Mozambique, the current wholesale price of wheat flour paid by bakers equals USD 600 per ton. For their business case they have assumed a wholesale price of Premium cassava starch flour of USD 520 per ton which is 15 percent lower and allowing for the development of a national food grade cassava flour industry. The business case has analysed the scenario in which the company sells 50 percent of its output to breweries and 50 percent to bakers. For this scenario, the financial analysis shows an attractive internal rate of return (10 years) of 15 percent. The financing requirement of DADTCO's new cassava starch flour venture in Mozambique is estimated at €2.4 million, to be funded by a mix of equity, debt and grants.

· DADTCO ·

Frutimel Lda

Frutimel is a family business that does beekeeping consulting (it has consulted for the Zambeze Agency, IFC and Portucel [45]), small scale honey production and also runs a plant nursery. The owner and director is a fruit and honey technician. It began operations in 2003 and is based mainly in Maputo province with some honey production in Inhambane.

Financial Performance

Frutimel has shown stable financial performance from 2012 to 2014 recording increasing and positive gross profit and EBITDA margins. In 2014 the firm had a gross profit margin of 76 percent i.e. for every dollar earned in revenue 76 cents was retained after paying variable costs. While the EBITDA margin was 15 percent i.e. 15 cents of revenue was retained after paying both fixed and variable costs as shown in the figure below. Worth noting is that firm revenues have been declining since 2012 at approximately 20 percent per annum.

While profitability remains healthy, the firm displays a high level of leverage amounting to 114 percent of total assets and both liquidity and asset turnover remain low within the firm indicating room for optimisation and a greater need for working capital.

Social Impact

Frutimel has social and environmental objectives of ensuring good social conditions for workers and sustainability through reducing its impact on the environment by limiting the use of pesticides and chemicals, and teaching smallholders about sustainable honey production.

A small company, the majority of their employees are from the local area and low-income backgrounds. They work with around 150 smallholders in Inhambane to produce high quality honey, and have also worked with Portucel and IFC to establish nurseries in communities near the Portucel plantations.

Investment Opportunity

Frutimel is looking to expand into larger-scale fruit production and has identified an investment project of producing dates and grapes in Inhambane province. Grapes and dates aren't produced domestically and are imported. Dates have high demand due to the large domestic Muslim population.
They have already begun working with the Food and Agriculture Organization of the United Nations (FAO) on different plant varieties and are looking for an investment of USD 50 000 to commercialise production. They are seeking an investment partner that can also provide technical assistance in the areas of corporate strategy and operations.

Inhambane has areas which are suitable for grape and date production which require high levels of sunlight and water at root level. As these areas aren't suitable for horticulture, there is a lack of knowledge of what can be grown there with most land remaining empty. There is therefore a lot of land available for expansion.
Inhambane and Nampula where it has been in operation since 2011 to produce cassava cake for CDM. The new business case for DADTCO in Mozambique is premised on two markets: (1) the already existing beer market, notably CDM, to replace malted barley and (2) bakery sector to reduce wheat imports.

The main international source of wheat for the bakery sector is the USA. In Mozambique, the current wholesale price of wheat flour paid by bakers equals USD 600 per ton. For their business case they have assumed a wholesale price of Premium cassava starch flour of USD 520 per ton which is 15 percent lower and allowing for the development of a national food grade cassava flour industry. The business case has analysed the scenario in which the company sells 50 percent of its output to breweries and 50 percent to bakers. For this scenario, the financial analysis shows an attractive internal rate of return (10 years) of 15 percent. The financing requirement of DADTCO's new cassava starch flour venture in Mozambique is estimated at €2.4 million, to be funded by a mix of equity, debt and grants.

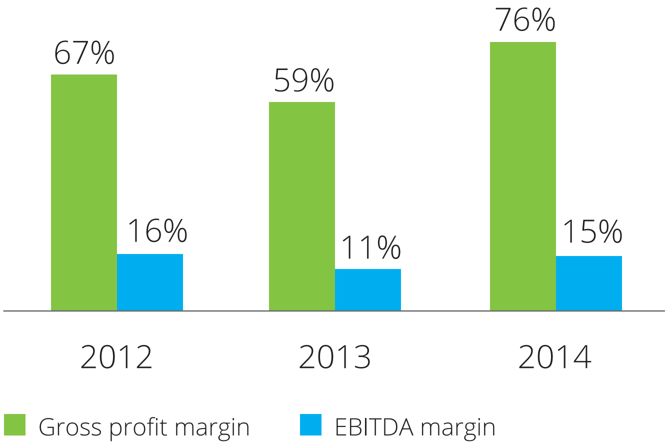


Fig. 09 - Frutimel Profitability Analysis
Source - Frutimel Management

Mozambican Honey Company Lda

The Mozambican Honey Company (MHC) is a socially inclusive business established in 2011 and based in Chimoio in Manica Province. It is managed by Eco-MICAIA Ltd, the social enterprise sister company of MICAIA Foundation. Its aim is to meet fast-growing demand in formal markets for good quality honey and link local beekeepers to these formal markets. MHC is a honey processing company producing honey and wax which it sells both in bulk and in retail. It has had investments of USD 305 000 from AgDevCo.

Competitive Position

Mozambique has great potential for producing organic honey due to the vast areas of forest and woodlands where pesticides are rarely used. The formal market is dominated by imports, while the majority of local production only reaches the informal market. MHC aims to grow and formalise the domestic honey sector through the professional processing, packing, and marketing of honey working with smallholders.

MHC is a small business and has been growing steadily. MHC partners with MICAIA Foundation to provide technical assistance to smallholder honey producers, then the Company buys their raw honey and processes it to sell to retailers. It has recently signed a contract with Tropigalia, one of the largest distributors in Mozambique to supply them with honey. With this contract they hope to raise revenues to around 2.8 million meticais this year.

They are currently the only honey company that operates nationally. They currently supply 70 to 80 shops and are present in every provincial capital. They have few competitors as there are only about four or five other honey producers in Mozambique which mostly operate on a small scale. Competition mainly comes from cheaper imports, however they are competitive only on price rather than quality.

Their business strategy is to expand production, buying more honey at a better quality while keeping their margins down. Buying better quality honey will require technical assistance to beekeepers and will involve working with their partners to give more training. They hope to expand their customer base to include other larger-scale retail chains and distributors.

MHC has three own-brand products which target different market segments. A lighter coloured honey, packed in high quality glass jars with a distinctive modern label targets the middle- and higher-income markets. A darker stronger-tasting honey packed in plastic squeeze bottles targets the mass market. MHC is also introducing honey in 25 gram plastic sachets.

They are a well governed company, with a formalised corporate vision and strategy, governance policies and formalised business plan. They have organised financial reporting which is reviewed by their board of directors, and have financial projections based on various growth scenarios.

Social Impact

Despite being a small business, MHC has had a strong social impact. It is an inclusive business aiming to create opportunities for beekeepers to understand their industry's value chain as well as participate as owners. The beekeepers have 8 percent of shares in MHC and this will increase in return for good environmental practices.

MHC and its partners at MICAIA have so far supplied hives to 1 200 beekeepers, provided technical assistance and beehive management and harvesting advice to 1 152 beekeepers and in 2015 bought honey from 392 beekeepers at a price consistently at the top end of the local market. Environmental objectives are to improve beehives and sustainability while avoiding degradation. MHC has strong links with the domestic economy. It works with around 450 smallholder suppliers which receive 75 percent of all payments to suppliers, all sales are to the domestic market and about 35 percent are sold to SMEs.

Investment Opportunity

MHC is seeking social venture capital to enable them to access working capital (about USD 25 000 - 30 000) and capital investment (USD 30 000) to invest in new equipment.

Annex

FINANCIAL ANALYSIS

- Profitability (Gross profit margin and EBITDA margin)
- Efficiency (asset turnover ratio)
- Liquidity (acid test ratio)
- Levarage (debt ratio)

COMPETITIVE POSITION

- Strategy
- Competitive advantages
- Constraints of the business
- Future growth and expansion plans
- Certifications
- Market
- Management

SOCIAL IMPACT

- Social and environmental objectives
- National participation
- Employment
- Training
- Linkages to the domestic economy including to smallholder or SMEs

INVESTMENT OPPORTUNITY

- Type of Investment
- Investment project
- Size of investment Interest in having partners
- Technical assistance required

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 .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 asked 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 percentage 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] Banks control approximately 95 percent of total assets in the financial sector (87 percent of which is concentrated in the country's five largest banks). (GIIN and Open Capital, 2016)

[2] Bank of Mozambique data.

[3] AVCA, 2014, AVCA: Guide to Private Equity in Africa.

[4] Patient capital are investments made with gains expected in the long term

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

[6] Deloitte, 2016, Africa Private Equity Confidence Survey.

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

[8] AVCA, 2014, AVCA: Guide to Private Equity in Africa.

[9] Thomas, 2012, Technical Report: Study on Private Equity in Agribusiness in Southern Africa.

[10] Credit Suisse, 2015, Private Equity and Emerging Markets Agribusiness: Building Value through Sustainability.

[11] Thomas, 2012, Technical Report: Study on Private Equity in Agribusiness in Southern Africa.

[12] Examples are Eaglestone Asset Management, MDCC Holdings, Strongeagle, Maris Capital.

[13] DFIs investment here describe all donors' private sector investments (multilateral aid, direct loans togovernments, pure development programmes and loans to individuals are excluded) 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.

[15] GIIN and Open Capital, 2016, The Landscape for Impact Investing in Southern Africa.

[16] This interviews in this study revealed that there is quite an appetite for private equity investments, with many companies in the agribusiness sector being interested in having an investment partner.

[17] Data from the National Statistics Institute.

[18] The financial analysis methodology is explained in more detail in the Annex.

[19] In total we conducted financial analysis on 11 companies.

[20] Companies are in alphabetical order.

[21] They also have a pan African fish-farming business within their agricultural businesses.

[22] Based on management's projections.

[23] Soya cake is also known as soya meal.

[24] IData is from Ministry of Agriculture and Food Security, 2016, Mozambique: Investment Opportunities in Agribusiness.

[25] Pivot irrigation is a method of crop irrigation in which equipment rotates around a pivot and crops are watered with sprinklers.

[26] 18 percent of smallholders are women.

[27] AgDevCo website: http://www.agdevco.com/our-investments/by-investment/AC-MATAMA

[28] Data from AgDevCo's website http://www.agdevco.com/our-investments/by-investment/AC-MATAMA shows that 2100 tonnes in 2015 went to local markets. Source:

[29] In Mozambique land use rights are called Direito do Uso e Aproveitamento de Terra (DUAT)

[30] Agricultural extension services are the application of scientific research and knowledge to agricultural practices through farmer education.

[31] SPEED Report, 2014, Brief Review of Mozambique Seed Market..

[32] Hanlon & Smart, 2013, Small Farmers of Big Investors? The Choice for Mozambique.

[33] Data from AgDevCo http://www.agdevco.com/our-investments/by-investment/PHOENIX-SEEDS.

[34] The Cooperative League of the USA (CLUSA) is the international arm of the National Cooperative Business Association (NCBA) which provides technical assistance to develop cooperatives internationally.

[35] State of Sustainability Initiative, 2014, The State of Sustainability Initiatives Review 2014: Standards and the Green Economy.

[36] Ministry of Agriculture and Food Security, 2016, Mozambique: Investment Opportunities in Agribusiness.

[37] Ministry of Agriculture and Food Security, 2016, Mozambique: Investment Opportunities in Agribusiness.

[38] They are currently producing 8 000 tonnes per year.

[39] Liqueurs and chilli are their best selling products.

[40] Including 4 suppliers of baobab and tamarind from Tete.

[41] Deloitte, 2015, Reducing Post-Harvest Loss Through a Market-Led Approach; DADTCO website http://www.dadtco.nl/.

[42] FAO, Cassava: International Market Profile.

[43] Deloitte, 2015, Reducing Post-Harvest Loss through a Market-Led Approach.

[44] Portucel is a Portuguese pulp and paper company which has a large eucalyptus concession (356 000 hectares) in the provinces of Zambezia and Manica.

[45] Micaia Foundation is a non-profit that works in Mozambique.

[46] MHC did not want to share their financial statements.

[47] Figures from AgDevCo http://www.agdevco.com/our-investments/by-investment/MOZAMBIQUE-HONEY-COMPANY-MHC.

[48] 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.

Authors

Santiago Goicoechea
Senior Manager, Monitor Deloitte
Maputo

Santiago has led several corporate strategy and investment strategy projects in various African countries including Mozambique, South Africa, Tanzania, Kenya, Zambia, Zimbabwe, Angola and Somalia.

sgoicoechea@deloitte.co.mz

Shezaad Sunderji
Senior Consultant, Monitor Deloitte
Nairobi

Shezaad has worked in corporate strategy and investment strategy projects in various African countries including South Africa, Kenya, Mozambique, Zambia, Namibia and Rwanda.

ssunderji@deloitte.co.mz

Lindsey Allwright
Consultant, Monitor Deloitte
Maputo

Lindsey has participated in economic modelling projects in various economic sectors in Mozambique.

lallwright@deloitte.co.mz

Contacts

Monitor
Deloitte.

A Leader in Global Strategy Consulting and Methodology

Monitor's expertise in strategy is world-renowned and we are recognized as global intellectual leaders. Not only has The Monitor Group served 74 of the top 100 companies worldwide, but – according to the Harvard Business Review – seven of the 16 most influential business books over the past 25 years have been written by Monitor authors. Michael Porter, one of Monitor's founding members who wrote the book Competitive Strategy, changed the way organizations think.

Deloitte & Touche (Moçambique) Lda
Predio Jat IV, 5 Andar, Maputo, Mozambique
Phone: +258 21 320 955

Funded By:

FSDMoç
INVESTINDO EM INCLUSÃO FINANCEIRA

UKaid
from the British people

The Financial Sector Deepening Moçambique is a facility for financial sector development with a focus on expanding levels of inclusion. We direct our investments and insights to address constraints in the financial market, helping the diversification of Mozambique's economy and bringing prosperity and economic resilience to Mozambique's people. At the core of our strategy, are women, youth and the rural low-income population, as well as small businesses that lack access to appropriate and accessible financial services. We support our key stakeholders to both innovate and expand financial services, using technical expertise and targeted funding to boost their capacity and the people they serve.

Avenida Armando Tivane, no. 849, Maputo, Moçambique
Phone: +258 21 485 95

Monitor
Deloitte.