



## The Quintessential Recovery Play...

6<sup>th</sup> July 2006

### Dawn Properties

#### Property

#### Based on Year-End to 31<sup>st</sup> March 2006

- The property group produced sound results for FY06 in which turnover grew, ahead of average y-o-y inflation of 427%, by 692% to Z\$45,8 billion. The bulk of the revenue (80%) was derived in the second half, as the group benefited from enhanced revenues from foreign arrivals due to considerable weakness in the local currency.
- Operating expenses rose 533% ahead of average inflation to Z\$23,5 billion, however the cost to income ratio fell to 51% from 62% in the prior period.
- Fair value adjustment on the properties amounted to Z\$13,3 trillion, reflecting a 5978% increase on the prior period. Thus at FY06 the group's properties were valued at Z\$13,6 trillion. At FY06 the replacement values of the properties were estimated at Z\$47,5 trillion, and depreciated replacement value at Z\$23,9 trillion.
- Group's balance sheet remains debt free; cash resources at FY06 were Z\$12 billion. A point of concern is the increasing nature of the deferred tax liability due to the nature of unrealised income. At FY06 this amount stood at Z\$4,1 trillion.
- Despite the continued negative perceptions on the country, thus depressing tourist arrivals the outlook for the group remains positive; rental income derived from food & beverage sales are set to augment rental income following a lease restructure, two potential acquisitions (real estate provider & 1,100 stands of 550 sq. metres each in New Marlborough) are being pursued which should diversify the group's property portfolio.

Recommendation:

**Accumulate**

**Z\$3,700 (US\$0.01)**

#### Key Data

Reuters Code	DAWN.ZI
Market Cap (Z\$m)	8,347,688
(U\$m)	26.500
Implied OM Rate Z\$315,006.84:1US\$	
Inter-Bank Rate Z\$101,145: 1US\$	
Shares in Issue	
(000's)	2,256,131
Mkt Weighting	1.43%
Year High	Z\$5,000
Year Low	Z\$165
EPS	Z\$4,129
PER	0.9x
Sector PER	2.4x
NAV per share	Z\$4,201.60
PBV	0.88x
Operating Cash	
Flow Per Share	Z\$10.70
EV/Operating	
Profit	0.62
Dividend	-
Dividend Yield	-

#### Key Ratios & Efficiencies

Rental Yield	-%
Av. Occupancy	36%
ROA	69%
ROE	98%
ROCE	98%
Net Gearing	0%

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## SWOT Analysis

### Strengths

- Leading leisure/tourism property company; group's properties cover every major tourist location in the country, with 1,078 rooms.
- Group deals exclusively with one tenant Zimsun.
- Net gearing ratio of 0% highlights a strong balance sheet.
- Low administrative costs.
- The group's lease with Zimsun does not involve carrying out maintenance; thus Dawn enjoys savings on operational costs.

### Opportunities

- The company is pursuing two acquisitions in a bid to diversify the group's portfolio. Company is currently in negotiations to purchase a leading real estate agency with a regional presence, and to acquire a 1,100 stands each measuring 550 sq. metres.
- Performance of the group's share price will ensure that, management will better able to use their shares in consideration for acquisitions.
- Recent adjustments to lease agreement to include collections based on food & beverage income set to enhance rental income.

### Weaknesses

- The group's property portfolio at present is heavily concentrated in the tourist/leisure sector.
- Given the inflationary environment; the present rental yields do not compensate the opportunity costs of alternative investments.

### Threats

- Continued negative perceptions internationally, thus affecting tourist arrivals, average occupancy levels amounted to 36% at FY06.

**Property Portfolio & Values (as at FY06)**

	<b>Gross Replacement Cost Z\$trillions</b>	<b>Land plus Depreciated Replacement Cost Z\$trillions</b>	<b>Market Value Z\$trillions</b>	<b>Rooms</b>
<b>Express By Holiday Inn</b>	2.5	1.515	0.9	104
<b>Hwange Safari Lodge</b>	3.3	0.6	0.3	106
<b>Crowne Plaza Monomotapa</b>	13.3	6.1	4.1	245
<b>Lake View Inn</b>	N/A	N/A	0.025	42
<b>Carribea Bay</b>	2.2	0.6	0.5	83
<b>Carribea Bay Marina</b>	0.3	0.09	0.09	N/A
<b>Great Zimbabwe Hotel</b>	1.3	0.7	0.35	56
<b>Holiday Inn - Mutare</b>	2.7	1.01	0.6	96
<b>Troutbeck Inn &amp; Estate</b>	4.5	1.6	0.9	70
<b>Elephant Hills Hotel</b>	17.4	11.7	5.8	276
<b>TOTAL</b>	<b>47.5</b>	<b>23.9</b>	<b>13.7</b>	1,078

**Structure of Lease Agreement with Zimsun**

The lease is structured as such that Dawn receives 10% of all accommodation revenue excluding certain operational costs of Zimsun. In December the group restructured the lease so that Dawn would receive a percentage of food & beverage revenues which currently stands at 5%; except Holiday Beitbridge (10%), Hwange Safari Lodge (6%) and Crowne Plaza (6%). The release is FRI (full repairing & insuring) thus the company is only liable for structural issues associated with the buildings. By October 2008 the group should receive 10% of food & beverage income across all its properties.

## 3IA Investment Advisory

### Earnings Forecast

<b>Z\$000's</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>
<b>Turnover</b>	<b>5,774,016</b>	<b>45,750,000</b>	<b>446,062,500</b>
Operating Expenses(incl. Depreciation)	(3,704,882)	(22,937,000)	(267,637,500)
Fair Value Adjustment	161,720,000	13,341,704,000	163,661,725,000
<b>Operating income</b>	<b>163,789,134</b>	<b>13,364,517,000</b>	<b>163,840,150,000</b>
Interest	93,414	4,493,000	12,000,000
Pretax Profit	163,882,548	13,369,010,000	163,852,150,000
Taxation	(58,723,276)	(4,052,892,000)	(50,794,166,500)
<b>Attributable earnings</b>	<b>105,159,272</b>	<b>9,316,118,000</b>	<b>113,057,983,500</b>
EPS	\$142.91	\$4,129.25	<b>\$50,111.44</b>
Target Price			<b>\$100,222.89</b>
P/E			<b>0.1</b>
DPS	-	-	-
Div. Yield	0.0%	0.0%	0.0%
Cover	-	-	-
Shares in issue '000s	735,832	2,256,131	2,256,131
<b>Ratios</b>			
Turnover growth	1742.0%	692.3%	875.0%
Cost to Income	64.2%	50.1%	60.0%
Operating margin	35.8%	49.9%	40.0%
Net Profit Margin	1821.3%	20363.1%	25345.8%
Tax Rate	35.8%	30.3%	31.0%
EPS Growth	69142.0%	2789.4%	1113.6%

### Effects of Inflation on EPS at FY07

<b>Y-o-Y Inflation at FY07</b>	<b>EPS at FY07</b>
900%	Z\$27,293.99
1000%	Z\$29,368.30
1500%	Z\$39,789.87
2000%	Z\$50,111.44
2500%	Z\$60,483.02

**Weighted Gross Replacement US\$ Value of Properties at 30/06/06**

	<b>Gross Replacement Values</b>	<b>Inflation-adjusted Values</b>	<b>OM Exchange Rate (Z\$:US\$)</b>	<b>Change %</b>	<b>Exchange Rate Adjusted Values</b>
At FY06 to September		47,500,000,000,000	156,100		47,500,000,000,000
M-o-M Inflation April	21%	57,522,500,000,000	167,193	7%	50,875,527,706,598
M-o-M Inflation May	28%	73,628,800,000,000	216,418	29%	65,854,356,021,781
M-o-M Inflation June (est.)	30%	95,717,440,000,000	315,006	46%	95,853,843,689,942
Exchange Rate					
	315,006	US\$233,737,770 Weight 50%			US\$209,057,466 Weight 50%
<b>Weighted US\$ Valuation</b>	<b>221,397,618</b>				
<b>Value per share</b>	<b>US\$0.10</b>				
<b>Present Price per share</b>	<b>US\$0.01</b>				

**Recommendation**

While the real value of Dawn is unlikely to be realised in the near future given the depressed tourist arrivals, we believe the counter does offer a hedge against inflation. Part of the appeal of the counter is the simplicity of the business model. Going forward management has taken steps to ensure that the portfolio becomes more diversified, with two potential acquisitions on the cards. While yields are unlikely to match other asset classes, the quality of the group's assets should hold it in good stead. We, thus recommend investors **BUY** into the stock.

**Peer Analysis**

	<i>Year End</i>	<i>Price (ZWD)</i>	<i>Price US\$</i>	<i>Market Cap (USD)</i>	<i>Market Weighting</i>	<i>P/E Ratio</i>	<i>DY</i>	<i>PBV</i>	<i>Net Gearing Ratio</i>	<i>ROE</i>	<i>ROA</i>
<b>Dawn</b>	March	3700	0.01	\$26.500	1.43%	0.9	0%	0.88	0%	98%	69%
<b>Mash</b>	September	5260	0.02	\$30.635	1.66%	4.2	0.1%	3.86	-1%	93%	65%

We believe the relatively more attractive valuations for Dawn emanate from their more aggressive fair value adjustments. Both counters trade at similar discounts to the replacement values of their property portfolios. We continue to **overweight** the sector.

## Technical Analysis Dawn Relative to Index (Daily)



- **In a well-supported uptrend; has just broken short term bearish resistance to confirm bullish outlook on security.**

## Dawn Relative to Implied OM Rate (Daily) US\$0.01



- **The broad trend remains positive; key resistance lies at US\$0.02 & US\$0.04.**

**Official Website:**  
[www.dawnproperties.co.zw](http://www.dawnproperties.co.zw)

**Picture Gallery**  
***Elephant Hills Intercontinental, Victoria Falls***



***Insured to the value US\$45 million.***

***Holiday Inn Crowne Plaza, Harare***



***Insured to the value of US\$30 million.***

***Hwange Safari Lodge, Hwange National Park***



**Key:**

<b>Black Line-</b>	<b>Security</b>
<b>Red Line-</b>	<b>30 Day Moving Average</b>
<b>Dotted Red Line-</b>	<b>90 Day Moving Average</b>
<b>Blue Lines-</b>	<b>Trendlines</b>

**Explanation of Recommendations**

<b>Trading Buy;</b>	implies gains within the short term.
<b>Buy;</b>	expect out-performance in short and medium term.
<b>Accumulate;</b>	expect out-performance in medium to long term.
<b>Reduce;</b>	Bearish short term outlook also implies taking profit.
<b>Sell;</b>	Bearish short and long term outlook on security.

Comments and Recommendations are based on technical analysis may contradict with fundamental recommendations.

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