ALIGN
RESEARCH

Obtala Limited – price target 30.52p

10th May 2017

Undervalued African forestry and agriculture business fully funded to unlock the deep value embedded within its asset base

Obtala Limited is an Africa focussed forestry and agriculture company with a goal of becoming one of East Africa's largest sustainable food and timber producers.

New management streamline strategy and raise funds for expansion

Since the appointment of a new senior management team in April 2016 Obtala has streamlined its strategy to focus on developing its latent forestry and agriculture assets. The sterling equivalent of c.£18.3 million has been raised since December last year to invest in building towards meaningful and sustainable levels of production in both divisions.

Forestry

In Mozambique Obtala has an effective 58% stake in Argento Limited, which owns 312,465 hectares of natural forestry concessions on 50-year licences. Funds from a recent preference share issue position the division to rapidly expand its operations towards full production in the coming years.

Agriculture

In Tanzania Obtala owns 1,735 hectares of farmland on long-term leases. The operations have so far had $10 million of investment spent upon clearing land, developing infrastructure and planting initial crops. Revenues are now being earned, with Obtala planning to significantly increase the amount of planted hectares and focus on high value orchards and exports.

Shares undervalued on a number of metrics

Obtala shares now trade at only a small premium to the value of the stake in Argento alone, priced per the recent fundraise. This implies the agriculture business, net cash & potential for expanding the timber business are being valued at just £1.2 million. **Our DCF model suggests fair value of 30.52p, hence we initiate coverage with a Conviction Buy stance.**

Table: Financial overview. Source: Company & Align Research

Year to end Dec	2015A	2016E	2017E	2018E
Revenues (£m)	3.69	0.8	6.05	23.6
PBT (£m)	(10.4)	(6.0)	1.05	11.9
EPS (p)	(5.44)	(2.3)	0.25	3.1

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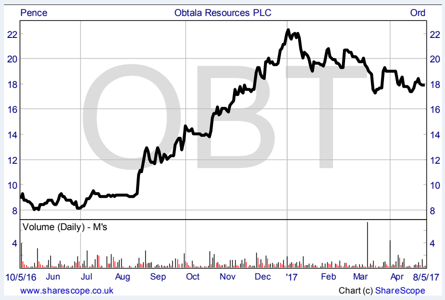
CONVICTION BUY

OBTALA
African Agriculture & Forestry

Key data

EPIC	OBT
Share price	18p
52 week high/low	22.25p/8p
Listing	AIM
Shares in issue	277,637,768
Market Cap	£49.97m
Sector	Agriculture & Forestry

12 month share price chart



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IMPORTANT: Obtala is a research client of Align Research. Align Research holds an interest in the shares of Obtala. For full disclaimer information please refer to the last page of this document.

Background & History

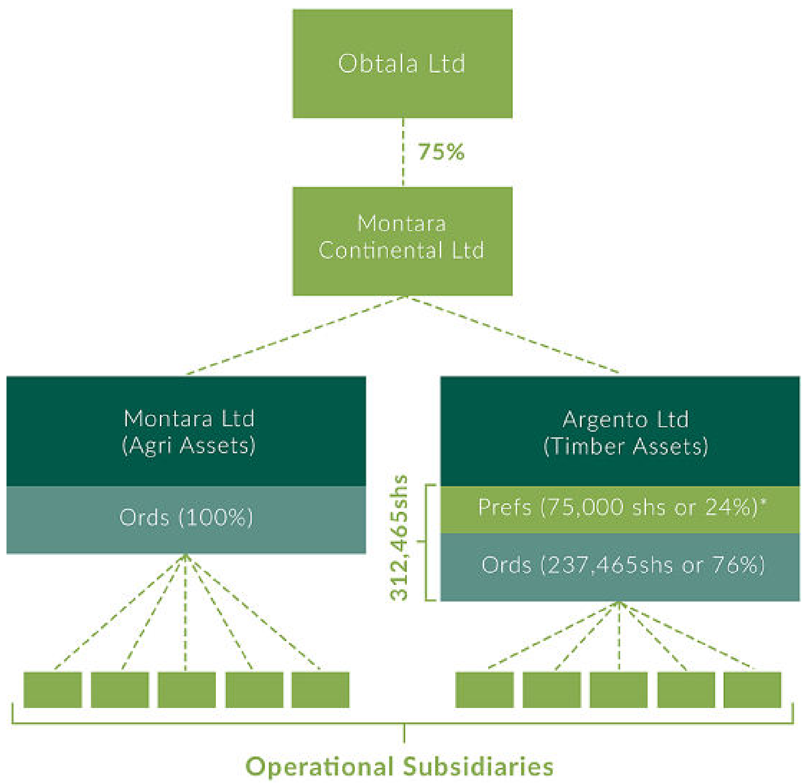
Obtala Limited began life as an AIM listed company in April 2008, initially having a focus upon mineral exploration and development opportunities in Tanzania. Soon after listing the company (then known as Obtala Resources) widened its interests outside of the resources sector via an interest in agricultural farm land in Tanzania and a forestry operation in Mozambique in July 2011.

Following a number of new hires to the senior management team in 2016 and a subsequent strategic review, Obtala is now focused very specifically upon developing its expanded forestry and agriculture operations towards meaningful and sustainable levels of production. The new team includes Miles Pelham as Chairman, Paul Dolan as CEO and, based in Dar es Salaam, Tanzania, Warren Deats as Chief Operating Officer – see page 16 for detailed director biographies. Several new hires at the operational level have also been made in order to position the business for growth.

Since Pelham became Chairman in April last year Obtala shares have risen from 6.25p to the current 18p as investors have welcomed the new strategy. The new management team has disposed of all interests considered to be non-core, with all mineral exploration activities discontinued and interests in other resources companies sold and the group's loss making retail division having been disposed of for a nominal sum at the end of 2016**. In addition, a total of £18.3 million (sterling equivalent) has been raised since December last year, putting the company on a sound footing towards building its operations towards meaningful levels of production and through to cash flow positivity and beyond.**

Operations

The current operational structure sees Obtala Limited own 75% of Montara Continental Limited, which in turn owns 100% of **Montara Limited** - holder of the agriculture assets, and 77.5% (see more below) of **Argento Limited** - owner of the timber/forestry assets. Both Montara and Argento in turn own various operational subsidiaries.



Forestry - Mozambique

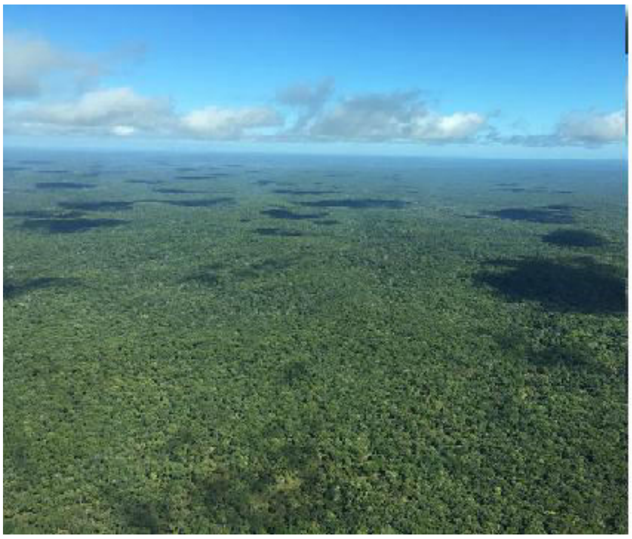
Obtala's subsidiary Argento Limited owns a variety of 50-year licences over four blocks and ten concessions totaling 312,465 hectares of natural forestry in northern Mozambique. This makes the company one of the largest forestry operators in the country. Following a recent preference share financing (see funding section for more details) Obtala Limited currently has an effective c.58% stake in the business.

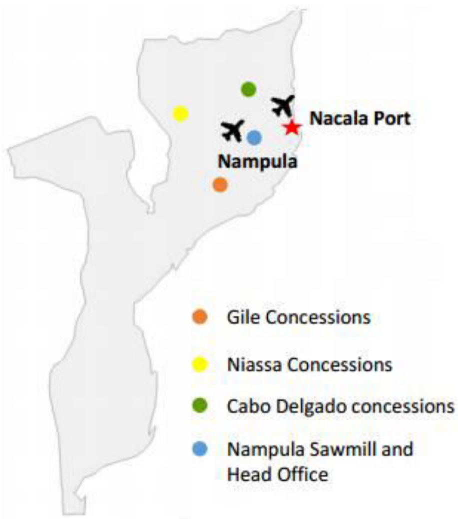
The division is overseen by Patrick Green, with day-to-day operations run by Forestry Chief Operating Officer Ivan Muir who started in March this year. Muir, a South African national who is based in Mozambique, has 25 years of experience in forestry production and management having worked in 27 African countries, including 4 years harvesting forestry concessions in Northern Mozambique.

TABLE: OBTALA FORESTRY CONCESSIONS

Concession	Block	Hectares
Lingonha Timber - Zamebezia/Alto Mólocuè	Alto Mólocuè	20,000
Montara Mozambique - Zambezia/Alto Mólocuè	Alto Mólocuè	20,000
Niassa Florestal Plantation	Alto Mólocuè	20,000
Baia Branca 1 - Zambezia/Alto Mólocuè	Alto Mólocuè	20,000
Baia Branca 2 - Zambezia/Alto Mólocuè	Alto Mólocuè	20,000
Montara Forest - Cabo Delgado/Montepuez	Cabo Delgado	53,965
Madeiras SL - Zambezia/Gile	Gile	50,000
Jardim Zambézia (1) - Zambezia/Gile	Gile	20,000
Jardim Zambézia (2) - Zambezia/Gile	Gile	23,500
Argento Mozambique - Niassa/Mandimba	Mandimba	65,000
	TOTAL	**312,465**

Source: Company





Madeiras concession and Forestry operations locations in Mozambique. Source: Company

Timber species – varied and high value

The concessions give Obtala access to a large and sustainable supply of over 20 different species of exotic hardwood. **The company estimates these can derive revenues from $630 per m³ up to $10,000 per m³ for the valuable African blackwood which is used in high value sectors including the manufacture of musical instruments and fine furniture**.

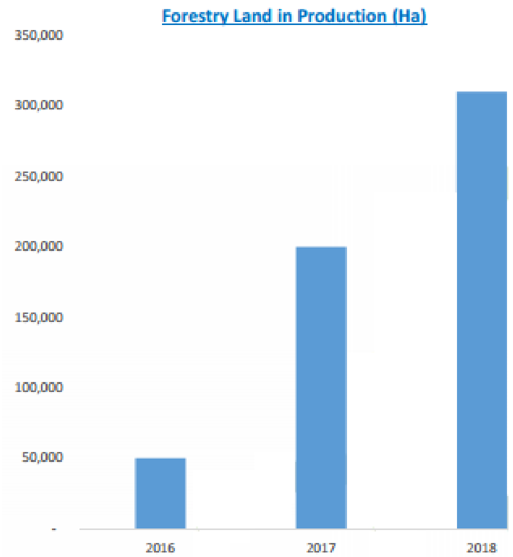
Selection of hardwoods across the forestry concessions

Forestry strategy – expand hectares under production, profitably and sustainably

Forestry has a relatively simple underlying business model - cut the tree down, chop it up, put it in a container and send it to the buyer.

To date, production across Obtala's concessions has been mainly from a single site, with current utilisation levels less than 5% of the available permitted cut. Current infrastructure includes a leased 1,000 cubic metre warehouse in the city of Nacala, Nampula Province, with equivalent storage for 100+ containers, along with a sawmill in Uape, Zambezia Province.

So far, sales of sawn timber have primarily been made into the domestic market for use in national infrastructure projects - mainly wooden railway sleepers. But following the recent financing Obtala has the ambition of growing revenues from the low six figure levels seen over the past few years to become the largest producer of sawn timber in Mozambique. The current target is to expand to c.200,000 hectares in production by the end of 2017, rising to all currently leased land in 2018 (see chart).



Source: Company presentation

At the end of December 2016 two concessions were operational and the immediate target is to take that to five. Human capital required to operate these new concessions are being identified and recruited and additional equipment and vehicles required have been placed on order, with delivery expected by end of Q2 2017. The required management plans for the concessions (which determine the annual permitted cut) are either agreed on or in advanced stages of being agreed upon with Mozambican government and local authorities.

New sawmill provides capacity to meet expansion targets

Obtala's current sawmill is located in Uape, Zambezia province, and generated an average of $9m^3$ per day in the first quarter of 2017. Two further band resaws were delivered in March and once operational are expected to increase productivity by c.20%.

However, in order to provide capacity for the planned ramp up in production, and to allow all concessions to come into production, a new centrally located sawmill is being built by Obtala, with a site in Nampula having been identified and the land usage agreements expected to be finalized this April. Construction has commenced, with building expected to be completed during Q4 2017. **Once fully operational the sawmill will have production capacity of c.100m³ per day, capable of handling 100% of the annual permitted cut from the concessions as well as material from third-parties. The company believes that this will be one of the largest sawmills in Sub-Saharan Africa.**

The new mill will enable Obtala to drive its strategy of increasing its export orders. On that front, in February 2016 the company entered into a sales and marketing agreement to supply timber to Asia (including Russia) and the Middle East with Hong Kong based Basic Materials. The company's first international orders were fulfilled to Durban, South Africa in 2016, with the buyer placing repeat orders, with orders also received from Asia and the Middle East.

With a quarter of the tree typically being lost in the production process Obtala is also looking at options to derive value from the waste product including selling as biofuel, plywood and charcoal manufacturing. The potential to move up the value chain, for example through a joinery or furniture factory, will also be looked at in the medium-term.

CPI award

In October last year Argento was awarded Centro De Promocao de Investments (CPI) status by the Mozambican authorities. This entitles it to a range of tax benefits and others perks including insurance services to offset investment risk, VAT exemption on domestic acquisitions, and legal protections and compensation against expropriation with international bodies. In order to qualify for CPI status Argento is required to implement a phased investment plan of $3 million over a 5 year period, which we believe should not be an issue given the preference share raise.

The award covers all operations within Mozambique and has allowed Argento to apply for Industrial Free Zone (IFZ) status with Mozambique's Office for Accelerated Development Economic Areas (Gazeda). Gazeda established a duty free zone located in the district of Nacala in 2007, which services the company’s export of timber via the Nacala Port. Achieving IFZ status, which is expected in the first half of this year, would lead to further enhanced tax incentives.

No cutting season and export ban provide restrictions but opportunities for Obtala

According to the Food and Agriculture Organization of the United Nations (U.N. FAO), 49.6% or c.39 million hectares of Mozambique is forested. However, between 1990 and 2010, 10% of forest cover, around 4,356,000 hectares was lost. Demonstrating perhaps the major cause of the problem, a report by pressure group Environmental Investigation Agency (EIA) has suggested that 93% of logging in Mozambique during 2013 was illegal, driven by ongoing demand from China.

While the Mozambique government recognises the importance of forestry to the national economy it has implemented several restrictions on activities in order to combat deforestation and create a sustainable industry.

There is a prescribed no cutting season which runs from January to March every year and during this time Obtala is able to focus on repairing and maintaining its equipment. No harvesting is permitted of trees with trunks less than 40cm or the largest 5% of trees and there is an annual permitted cut granted by the government on its leased concessions. In addition, applications for the long-term, 50-year licences, such as those which Obtala holds, has been temporarily stopped until February 2018. This provides the company with a crucial competitive advantage.

Another measure recently implemented, but this time also focusing on economic growth, came into effect in January this year, with the government banning the export of all timber in log form. That means timber must be processed within Mozambique, thereby creating demand for jobs in processing industries and creating a higher value product. While being restrictive to some operators, Obtala sees a good opportunity here given it will soon have excess capacity in its new sawmill. Rival loggers may be willing to pay Obtala to process their logs or sell timber directly to the company which will be put towards fulfilling its own order-book.

Q1 update

Sales of timber for railway infrastructure continued in Q1 2017, with 1,500 Messassa sleepers produced and delivered during February. The update also reported a 15% year-on-year price increase in the local market for fully registered and traceable logs, driven by short supply of certain species, a fall in the value of the Mozambique metical (see chart below) making exports more attractive to foreign buyers, along with the government clampdown on illegal logging.

1 year MZN to USD chart. Source: xe.com

Agriculture - Tanzania

Via the Montara Limited subsidiary Obtala own 1,735 hectares of arable land on long-term leases near Morogoro in Tanzania which over the past three years have been developed into a small but growing and aspiring farming enterprise. The operations, namely the Magole and Wami farms, are located c.230km by tarmac roads from the economic centre of Dar es Salaam and its export port facilities and air cargo routes.

Facilities & Infrastructure

Since the first land was acquired in 2013 Obtala has invested over $10 million into developing Morogoro, clearing it from overgrown brush into productive farmland. To date only c.80 hectares of land have been cleared and used for agricultural production, based on a two crops per annum set up. However, the amount of prepared and planted land is expected to increase rapidly over the coming years as Obtala rolls out its expansion strategy.

The currently producing fields operate using an efficient drip irrigation system. This method significantly cuts down on wasted water and fertilizer by allowing them to slowly drip onto the root system or soil of individual plants. Water for the system is supported by three reservoirs which source their water via a pipeline coming from nine boreholes.

Morogoro reservoir

Creating a vertically integrated agribusiness operation, other facilities at the Morogoro farm include a plant nursery, dried fruit processing facility (capable of processing 20 tonnes of fruit per day), pack house and cold storage facility. These are connected to the Tanzanian national power grid and supported by backup generators. Completing the integrated agriculture operations, a sales office was established in the local Dar Es Salaam market in 2016, led by a new hire, Sophie Hunter, in the position of Head of Sales, Marketing & Distribution.

The division is led on an operational basis by Graham Impey, Head of Agriculture, who has been farming for nearly 30 years having worked in a number of African countries, and has a strong background in export orientated horticulture and pack-house management. Since joining the business in April 2016 he has overseen a complete overhaul of systems and processes.

Morogoro farm. Source: Company

Produce & sales strategy

The farm is now at the stage of early crop production, with harvested varieties to date being mainly sweet melons and various other fruits including pineapples, mangoes and bananas, tomato, cabbage, chilies, sweet potato and butternut squash. In Q4 2016 the first melon harvest was completed, with higher than anticipated yields achieved. Exports were sent by road to Kenya and by sea to Dubai, with initial samples of butternuts also sent to Dubai. Encouragingly, the buyers in both Kenya and Dubai praised the quality of the produce and repeat orders have subsequently been sent to Nairobi.

The Middle East especially provides an attractive target market for Obtala due to its proximity to Tanzania, low costs of shipping and higher prices which can be achieved. In particular, the melon planting season has been timed in order to take advantage of the fruit becoming less available locally in the Middle East from July to November. **The long-term target is to derive around 70% of total sales from international exports, 20% from regional East African markets and the remaining 10% from the local Dar Es Salaam market.**

Increasing the firm's routes to market and expanding its international distribution chain, in November 2015 an agreement was signed with a division of Mexican food giant Grupo Cabal, to establish a marketing and sales entity based on a revenue split basis. The partner deals in agricultural commodities from the Americas to the European and Middle Eastern market and will provide its expertise to Obtala for its fresh produce division. The deal will see Obtala providing them with fresh produce for distribution through their supply and distribution chain and the planned creation of a banana plantation.

This agreement was added to in July last year when a Sales Agency Agreement was signed for the agriculture business with Basic Materials, further expanding its agreement on the forestry side of the business.

Internationally recognised certifications boost the potential for export growth

During 2015 Obtala received two important internationally recognized standards for its agriculture operations. In July, the **GLOBALG.A.P. Certification** which is an internationally recognised standard for farm production, was awarded to the farming operations. This is a significant achievement for the company as it shows full compliance with required international food safety standards which are focused on maintaining safe and sustainable agricultural production to benefit farmers, retailers and consumers throughout the world. The award removes a barrier to doing business with the many international food groups who demand this standard is met.

Further, in November 2015, the drying and processing unit achieved the "AA" grade from the BRC Global Standard for Food Safety. This comes following increased capital investment in the facility including improved infrastructure, staff training and project management. Adding to the GLOBALG.A.P. certification, receipt of this standard allows Obtala to market its produce to a larger range of potential customers for whom BRC compliance is a mandatory requirement.

During Q4 2016 the business was audited for the renewal of both GLOBALG.A.P. and BRC accreditation and these inspections were passed successfully.

EPZ Approval

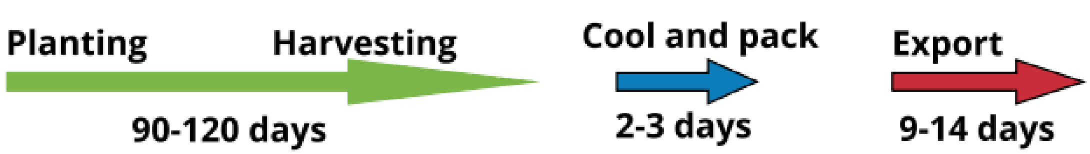
In October 2014 an Export Processing Zone (EPZ) certificate was awarded to the Morogoro farm by the Tanzanian authorities. This is a scheme operated by the Ministry of Industry and Trade in order to promote Special Economic Zones in Tanzania with the aim of transforming Tanzania into a globally competitive country. Amongst other benefits the certificate gives the agriculture business a 10 year holiday on corporation and withholding tax and duty and VAT exemption on raw materials and capital goods.

Expansion Strategy – Long-term focus on high value orchards, complemented by cash generative annuals

Total productive land usage remains low at the Morogoro operations but Obtala has plans to significantly expand its planted areas over the coming years. **While only 25 hectares were planted and harvested in 2016, around 125 hectares are expected to be used in 2017, with this being ramped up to 500 hectares in 2018.**

With the existing cold storage and pack house facilities expected to be operating at close to maximum capacity (around 150 hectares worth) during the 2017 harvest, larger facilities are currently being built, with the first stage of a purpose built modular facility expected to be complete in time for the Q4 2017 harvest.

In the short-term the efforts of the agriculture operations will be to continue deriving revenues from fresh and dried produce. The focus will continue to be on melons, which grow well on the land and produce high margins. After two melon crop cycles a rotation is required with the land intended to be moved into mango orchards. **The medium to long-term plan is to develop large scale, higher-value orchards focused on produce including such as mango, avocado, pineapple and banana.** Soil analyses and hydrological surveys on the current leases have confirmed a minimum of 900 hectares of orchards can be supported.



Melon Cash Crop Cycle: Source: Company

While the orchards are expected to take around 6-7 years to reach maturity, high EBIT values of above 50% are expected to be achieved in the long-term. In order to offset the capital costs and negative cash flow in the early, non-productive years, a "hybrid" agricultural model is being adopted, with the cash crops, or "annuals" providing cash-flow to fund the orchard expansion.

Mama Jo's

Moving further up the value chain to capture additional margins, Obtala has developed the Mama Jo's retail brand, under which a number of products are sold including dried fruits, tinned tomatoes and sauces, along with fresh fruit produce. Products are processed on-site using the company's fruit dehydrator and packing facilities. Initial target markets have been the Middle East, UK and Africa, with a distribution and sales network being established in Dar es Salaam to market and sell fresh Mama Jo's produce.

Select Mama Jo's produce. Source: Company

2017 planting

In 2017 80 hectares of high value annuals are expected to be planted. These will mainly be melons - Caribbean King variety for the Dubai market and yellow honey dew for the local African market - along with butternut, onion and 30 additional hectares of feed maize for the purpose of rotation. A "market garden" of 14 hectares will test multiple varieties of crops such as tomato to assess suitability to soil and climate, as well as demand from the local market in Dar Es Salaam. An initial 50 hectares of orchards containing mango and pomegranate will also be planted this summer, with feasibility studies carried out to assess the viability of avocado, cashew, cocoa and banana plantations.

Focus on Sustainability

Operating in areas which are subject to scrutiny from a social responsibility and ethical perspective Obtala has paced sustainability at the heart of its operations. This is recognised in the international accreditations obtained by the Agriculture division, with the Forestry business seeking Forest Stewardship Council (FSC) certification – this helps consumers to identify, purchase and use wood, paper and other forest products produced from well-managed forests and/or recycled materials.

Further verifying its credentials in this area, Obtala has been a member of the Social Stock Exchange (SSX) for the past two years. The SSX is a London based venture which helps businesses making a positive social impact to connect with ethically driven investors who are looking for a financial return. Only companies who meet a strict set of criteria are able to join the market. The company's main social policies are focused upon creating jobs, training opportunities and education for communities in the areas in which it operates.

Demonstrating its intentions Obtala recently signed a letter of intent with the **Grow Africa Partnership**, a body founded jointly by the African Union (AU), The New Partnership for Africa's Development (NEPAD) and the World Economic Forum to encourage private sector investment in agriculture. Under the letter Obtala has conditionally committed to investing $10 million over five years into the infrastructure of the Tanzania agriculture operations subject to matched funding from donors, development finance houses and impact investors.

Funding

To support the expansion of its operations Obtala has raised the sterling equivalent of c.£18.3 million over the past five months (assuming an exchange rate of £1:$1.28). This adds to an additional $4.6 million raised earlier in 2016. The latest balance sheet, as at 30th June 2016, showed cash of £547,000, with Obtala having no debt.

Preference share issue raises $17.25 million cash proceeds

In December 2016 Obtala raised **$14.25 million** via issuing 40,728 preference shares in forestry subsidiary Argento Limited at a price of $350 each to a mix of high net worth and institutional investors and international trading houses. This followed a long period of due diligence on behalf of the investors, with many visiting the company's operations on the ground in October and November. Demonstrating a significant vote of confidence from the new management team, Miles Pelham, Paul Dolan and Warren Deats (along with NED Frank Scolaro) subscribed for $2.15 million worth of the shares. The funds are being received over three settlement periods up to June 2017, with $5.525 million having been received by 25th January.

As part of the raise 15,308 preference shares were issued to investors in three special purpose vehicles (known as Meradell) which raised c.$3.7 million during 2016, by way of a conversion of their interests. An additional 4,391 preference shares were issued as consideration for introducer commissions.

The main terms of the preference shares see investors earn a 5% preferred dividend on their holdings. The other major feature is that the preference shares are convertible from 30th August 2017 (in perpetuity) either into Argento Limited ordinary shares on a 1 for 1 basis or into Obtala ordinary shares on a 1 for 1,435 basis at a price of 20p per share. Investors could hold the shares in perpetuity and continue to earn the preferred dividend and any ordinary dividends.

An additional **$3 million** was raised in March under the same terms, with 8,573 additional preference shares being issued to six investors, taking the total subscribed for to date to 69,000. A total of 75,000 preference shares have been made available by the company, leaving 6,000, to a value of $2.1 million, available to be issued to raise further funds.

Use of proceeds

As a result of the successful fundraisings Obtala has been able to plan for a more aggressive expansion than previously envisaged. Of the first $10 million raised, $7.5 million has been allocated to Argento Limited in order to develop its forestry operations. The proceeds will primarily be used for working capital and capital expenditures including the:

- Purchase of land, plant and machinery for the new sawmill in Nampula.

- Lease of a substantial warehouse facility to be used for timber finishing operation located near Nacala port.

- Purchase of plant and machinery required to bring all existing concessions into production.

- Purchase of fleet of trucks to transport timber between concessions, sawmill and port.

The remaining funds will primarily be used to invest in expanding the agriculture operations, including for land clearance, irrigation and agronomic feasibility studies.

Warrants exercise boosts funding and £4 million fundraise completed at a premium to the share price

On 16th February Obtala announced that institutional investor Weiss Asset Management has exercised warrants to the value of **£812,390.50** which were issued as part of previous financing round in 2013.

Obtala revealed a further boost to its balance sheet on 28th March when a **£4 million** subscription agreement was announced with Wealth Rank Limited, a British Virgin Islands incorporated company beneficially owned by a high net worth investor based in Hong Kong. However, the terms of the deal were amended slightly on 2nd May, namely the registered investor name and certain timings.

Under the amended deal, 20 million new shares will be issued at a price of 20p per share – a 13.4% *premium* to the closing price on 27th March, with the shares expected to be admitted to trading on 5th July. It is conditional upon receipt of the monies and certain administrative conditions, including Obtala shares not being suspended in the 30 days prior to close. The new investor is China registered timber trading company - Jiangsu Dolphin International Trading Co Ltd.

Obtala will also issue 20 million warrants upon completion which each give the right also to subscribe for 1 new share at a price of 20p. The warrants will be exercisable immediately upon issue until 1st November 2018 but only in multiples of 5 million (equating to £1 million).

Acquisitions and secondary listing also being investigated following capital injection

With significant funds now available Obtala is considering making acquisitions within the value chain of both businesses but only ones which are of sufficient quality and can provide it with a competitive advantage and maximize returns on capital. A number of opportunistic third parties have approached the company since December and while most opportunities have been rejected due to not being suitable certain relevant opportunities are being reviewed.

Given that a significant amount of investors in the recent capital raises are domiciled in Asia Obtala is also looking at a potential dual-listing of its shares, we suspect on the Hong Kong Stock Exchange, especially given Miles Pelham's experience and connections in that market. However, any such move is not expected to be finalised before the end of 2017 but if it does happen, given the higher multiples ascribed to such companies in HK this could provide an see through value that re-rates the UK list.

Key Risks

Execution risk

In order to move up to a level where meaningful revenues and profits are being earned Obtala must complete a number of tasks at its operations. These include but are not limited to building up the infrastructure to meet desired levels of production, putting in place adequate supply chains and successfully delivering on its production plans.

We believe good progress is being made so far, with a clear operational strategy in place and the recent fundraisings providing the financial resources to take the firm through to break-even and into meaningful levels of cashflow.

Agricultural & Environmental risks

By operating in the forestry and agriculture sectors Obtala is exposed to crop failure resulting in lower than expect yields being achieved. This could be caused by a range of factors including unfavourable weather conditions, lack of nutrients, disease and pest risks. In additional, with the traditional rainy season in Tanzania only lasting from February to May the availability of water for its irrigation systems pose a risk to the crops. These risks are managed by implementing sound farm operating procedures including pest analysis, soil surveys and reservoir management.

Elsewhere, long lead times are required for certain produce such as timber and orchards. Some trees such as the high value African black wood can take up to 60 years to mature, with orchards only reaching full maturity several years after being planted. Also, Obtala will be exposed to fluctuations in the price it can achieve for its timber and agriculture produce.

Political and country risk

The political backdrop for Obtala's operations in Mozambique and Tanzania is currently favourable, with the respective governments having agendas to encourage economic growth and sustainable production of biological assets. While the two countries are not the most unstable in Africa The World Bank's 2015 political stability index ranks Tanzania as -0.45 for stability, with Mozambique at -0.58 - the range being from -2.5 (weak) to 2.5 (strong). As such, there is an ever present risk that governments may change their political attitude towards forestry (where stopping illegal deforestation is high on the agenda) and agriculture.

Exchange rate risk

Obtala's reporting currency is sterling but its operations deal in a range of currencies including US dollars, South African rand, Mozambique metical and Tanzanian shilling. Movements in these currencies against sterling will have an effect on Obtala's accounts on translation into sterling and with the shares priced in sterling forex movements may affect the value placed on upon them by investors.

Management

Miles Pelham, Chairman

Miles Pelham originally joined Obtala as a non-executive director in August 2015, having been an investor in the company for several years, before being appointed as Chairman in April 2016. He is Hong Kong based and has worked in finance for 2 decades, during which time he has held senior investment banking positions at some of the world's largest financial institutions. His experience ranges from running trading desks to bond and financial instrument management.

Paul Dolan, Chief Executive Officer

Paul Dolan has almost 30 years' experience in investment banking and finance, where he consistently built award winning, world-class teams and managed global portfolios in excess of $10 billion across asset classes. Paul worked in London and Tokyo, and from 2007- 2012 in Hong Kong, as Nomura's Global Head of Convertible Bonds, Co-head of Equities APAC and Chairman of the committee for Corporate Social Responsibility. In 2014 he founded Dolan Sports Management with the goals of managing the careers and wealth of elite athletes, improving the visibility of female sporting role models and financing sports facilities for the underprivileged.

Warren Deats, Chief Operating Officer

Warren Deats has 15 years' of investment banking experience in Europe and Asia, having worked for Goldman Sachs in London and Barclays in Hong Kong. His management skills are complimented by 5 years' experience developing a successful citrus and pomegranate farm in South Africa. Deats is based in Tanzania from where he oversees the African operations.

Philippe Cohen, Finance Director

Philippe is a Switzerland based multilingual executive with over 30 years' of expertise in the natural resources and commodities sectors, with a wealth of experience in Africa. Philippe has an extensive network with financial institutions, the commodities trading community and emerging markets governments. Philippe worked for 14 years in Commodities and Structured Finance at BNP Paribas as well as Vitol. Philippe now works as a consultant specialising in originating, structuring, negotiating and managing transactions in the metals and mining sector as well as oil and gas ranging from exploration and production to downstream trading and services. Philippe is a graduate of the Ecole Supérieure de Commerce de Paris.

Frank Scolaro, Non-Executive Director

Frank Scolaro is an active investor in publicly quoted companies in the resource, leisure and property sectors. Frank was Non-Executive Chairman of Regal Petroleum plc from October 2006 to November 2007, in which time he was instrumental in the successful resolution of local litigation issues in the Ukraine. Until March 2008 he was a non-executive director of Regal Petroleum plc.

Kevin Milne, Non-Executive Director

Kevin is a Chartered Fellow of the CISI, with over 30 years' experience in Global Financial Services, covering both developed and developing economies. Kevin has extensive experience operating in highly regulated environments including being a member of the Executive Committee of the London Stock Exchange Group. Kevin has held a number of leadership and senior management positions in the financial sector in the UK, Europe, Asia and Australia and has built a wealth of contacts in Global Financial Markets.

Jessica Camus, Non-Executive Director

Jessica Camus brings extensive experience facilitating public private partnerships working with leaders from private sector, government and civil society globally, and across Sub-Saharan Africa. Jessica specialises in accelerating growth and impact for socially responsible business in frontier markets.

She was previously an Associate Director at the World Economic Forum, developing numerous initiatives and programmes on building entrepreneurship ecosystems, innovation and gender and former Financial Market Executive at Thomson Reuters. Jessica holds an MA from the Graduate Institute of International Relations & Development Studies, Geneva and an MBA from the IE Business School, Madrid.

Valuation

As a starting point of demonstrating the upside potential in Obtala shares we can look at the recent preference share issues, which placed an up-to-date and market validated price on the whole of Argento Limited of $107.26 million (£83.8 million). Obtala's effective stake in the business of just over 58% is therefore valued at £48.7 million at current exchange rates. **This is only marginally under the current market cap of £49.97 million and effectively values the remaining agriculture operations and net cash at less than £1.2 million.**

The current market cap also prices in no potential for expanding the timber business. Remember that the recent investors that have come into the co are a mix of high net worth's and professional trading houses who did detailed due diligence on the business and will, by extension, be looking for a substantial increase in the value of the forestry assets.

Argento current share structure		
Preference	69,000	22.5%
Ordinary	237,465	77.5%
Total	**306,465**	

Argento total value	
- at $350 per preference share	$107,262,750
- value in £ at £1:$1.28	£83,799,023
Obtala effective stake via 75% holding in Montara Continental	0.581
Obtala effective value	£48,698,877
Value per share (p)	**17.54**

DCF preferred over peer analysis

We choose not to use a detailed peer analysis to value Obtala given that many listed companies within the African agribusiness and forestry sectors are loss making. This, combined with a lack of available market forecasts, means that carrying across a relevant and meaningful earnings multiple to Obtala is a difficult, if not fruitless, task. **However, we do note several interesting points from the firm's close London listed peers.**

On the forestry side of things, **Phaunos Timber Fund (PTF),** the profitable timber investment company, is being valued by the market at a current price of c.£1,582 per hectare. In comparison, Obtala's current market cap to hectares valuation of just £150 reflects the early stage nature of its operations but provides plenty of room for valuation upside once the forestry concessions start moving towards full production.

On the agricultural side of the business we highlight that the agriculture division of **Camellia (CAM),** which has over 45,000 mature hectares in countries including Kenya and Malawi, made revenues of £207 million and trading profit of £29.9 million in the last financial year, delivering a return on capital of 10%. In addition, **Zambeef (ZAM),** the agri-business with operations in Zambia, Nigeria and Ghana, has a profitable stockfeed and row crops business and has managed to successfully build up operations with integrated retail, agriculture and processing units.

DCF Analysis

We value Obtala using a 10 yr DCF model covering the forestry and agriculture operations. We assume an exchange rate of £1:$1.28 and to reflect the execution risk we use a very high (conservative) discount rate of 15% with a terminal growth rate of 3% used.

Forestry

In 2014 Obtala commissioned a report from forestry valuation specialist Honour Capital to value 279,965 hectares worth of concessions which it held at the time. Using a discount rate of 12% the report valued the concessions at $161.8 million, or £126.4 million at current interest rates. Since then an additional 35,000 hectare block has been valued at £8.6 million using a 15% discount rate to reflect higher operational risk.

We take guidance from the above valuation reports, along with management plans, to develop our assumptions for the forestry model. Our main assumptions are:

- estimated 71,348 m^3 annual permitted cut across all the concessions.

- 66% actual cut of the annual permitted cut and a 55% industry standard recovery rate.

- capacity at the new sawmill of 36,500 m^3 which will be filled by own and bought in timber.

- full production hit in 2018 and the first full year of production is 2019.

- sales rising from $800 per m^3 in 2017 steadily up to an average of $1,677 m^3 in 2020 as the higher value blackwood comes on line. No additional sales from waste product. $308 per m^3 production cost and 32% Mozambique corporation tax.

- accelerated capex requirements in the first two years with maintenance capex spread out equally over the remaining 8 years accounting for Honour Capital's total estimated capex requirements, increased by 12% to reflect the increased licence area.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
TOTAL TIMBER REVENUES	**2,452,588**	**16,139,237**	**30,152,082**	**37,838,411**	**37,838,411**	**37,838,411**	**37,838,411**	**37,838,411**	**37,838,411**	**37,838,411**
COGS	944,246	4,910,827	7,555,462	8,638,275	8,638,275	8,638,275	8,638,275	8,638,275	8,638,275	8,638,275
GROSS PROFITS	**1,508,341**	**11,228,411**	**22,596,619**	**29,200,136**	**29,200,136**	**29,200,136**	**29,200,136**	**29,200,136**	**29,200,136**	**29,200,136**
Admin expenses	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077	707,384
OPERATING PROFITS	**1,208,341**	**10,898,411**	**22,233,619**	**28,800,836**	**28,760,906**	**28,716,983**	**28,668,668**	**28,615,521**	**28,557,060**	**28,492,752**
Tax	302,085	2,724,603	5,558,405	7,200,209	7,190,227	7,179,246	7,167,167	7,153,880	7,139,265	7,123,188
NET INCOME	**906,256**	**8,173,808**	**16,675,214**	**21,600,627**	**21,570,680**	**21,537,738**	**21,501,501**	**21,461,641**	**21,417,795**	**21,369,564**
CAPEX	3,603,950	1,312,500	997,413	997,413	997,413	997,413	997,413	997,413	997,413	997,413
NET INCOME LESS CAPEX	-2,697,694	6,861,308	15,677,802	20,603,215	20,573,267	20,540,325	20,504,089	20,464,228	20,420,382	20,372,152
DISCOUNT FACTOR	1.15	1.3225	1.520875	1.7490063	2.0113572	2.3130608	2.6600199	3.0590229	3.5178763	4.0455577
NET PRESENT VALUE	-2,345,821	5,188,135	10,308,409	11,779,955	10,228,550	8,880,149	7,708,246	6,689,793	5,804,747	5,035,684
TOTAL NPV	69,277,848									
TERMINAL VALUE PV	43,222,957									
NPV + TERMINAL PV	**112,500,804**									

Table: Forestry division forecasts overview. Source: Align Research

Agriculture

The key assumptions in our agriculture model are:

- for modelling purposes we split the crops into melons, orchards and "other" cash crops.

- planted hectares are estimated as per the company's recent statements, with cash crops peaking at 350 hectares by 2019 and orchards rising to 900 hectares by 2024. The growth rate will be similar to 2019 going forward but Obtala may scale this up depending on how test crops perform and when it sees additional demand for certain crops.

- melon yield of 37.5 tonnes per ha, orchards first yield in 2023 at 20 tonnes per hectare and other cash crops yielding 10 tonnes per hectares. Melon average price per tonne of $1,400, orchards of $1,072 and other cash crops of $1,000.

- capex of $10 million (as committed by the recent statement with Grow Africa) over the first 5 years, weighted more heavily to the first 3 years, reducing to a maintenance level of $0.54 million thereafter.

- gross margins of 30% for exported melons and 50% for orchards and other cash crops.

- no corporation tax due to EPZ status.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
TOTAL AGRICULTURE REVENUE	**3,593,750**	**7,486,979**	**10,481,771**	**10,481,771**	**10,481,771**	**10,481,771**	**11,319,271**	**12,156,771**	**14,669,271**	**17,181,771**
COGS	2,453,125	5,110,677	7,154,948	7,154,948	7,154,948	7,154,948	7,573,698	7,992,448	9,248,698	10,504,948
GROSS PROFITS	**1,140,625**	**2,376,302**	**3,326,823**	**3,326,823**	**3,326,823**	**3,326,823**	**3,745,573**	**4,164,323**	**5,420,573**	**6,676,823**
Admin costs	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077	707,384
OPERATING PROFITS	**840,625**	**2,046,302**	**2,963,823**	**2,927,523**	**2,887,593**	**2,843,670**	**3,214,105**	**3,579,708**	**4,777,496**	**5,969,439**
Tax	0	0	0	0	0	0	0	0	0	0
NET INCOME	**840,625**	**2,046,302**	**2,963,823**	**2,927,523**	**2,887,593**	**2,843,670**	**3,214,105**	**3,579,708**	**4,777,496**	**5,969,439**
CAPEX	2,852,555	2,059,063	2,059,063	421,875	421,875	421,875	421,875	421,875	421,875	421,875
NET INCOME LESS CAPEX	-2,011,930	-12,760	904,760	2,505,648	2,465,718	2,421,795	2,792,230	3,157,833	4,355,621	5,547,564
DISCOUNT FACTOR	1.15	1.3225	1.520875	1.7490063	2.0113572	2.3130608	2.6600199	3.0590229	3.5178763	4.0455577
NET PRESENT VALUE	-1,749,504	-9,649	594,895	1,432,612	1,225,898	1,047,009	1,049,703	1,032,301	1,238,139	1,371,273
TOTAL NPV	7,232,677									
PV OF TERMINAL VALUE	11,770,092									
NPV + TERMINAL VALUE PV	**19,002,769**									

Table: Agriculture division forecasts overview. Source: Align Research

Total valuation

To derive a per share value for Obtala we assign a net value to the company's interests in each division, thus accounting for minority interests. We then remove the present value of estimated corporate costs and add in net cash. For valuation purposes we assume that all cash raised under recent fundraises for which shares have been issued has been received, even though the payment schedule for the preference share issue extends to 30th June 2017. **Divided by the current 277,637,768 shares in issue returns a value per share of 30.52p implying upside of 70% from the current 18p.**

Asset/liability	**Value (£m)**
Forestry net interest	65,362,967
Agriculture net interest	14,252,077
Plus net cash	13,448,954
Less NPV of corporate costs	(8,333,333)
Total value	84,730,664
Value per share	**£0.3052**

Table: Obtala estimated value per share. Source: Align Research

As the company successfully delivers on its expansion plans, and thus reduces execution risk, we expect to reduce our discount rate accordingly. **We note that should the discount rate be reduced to 12% the current value would equate to 42.41p per share**.

We initiate coverage of Obtala with a Conviction Buy stance.

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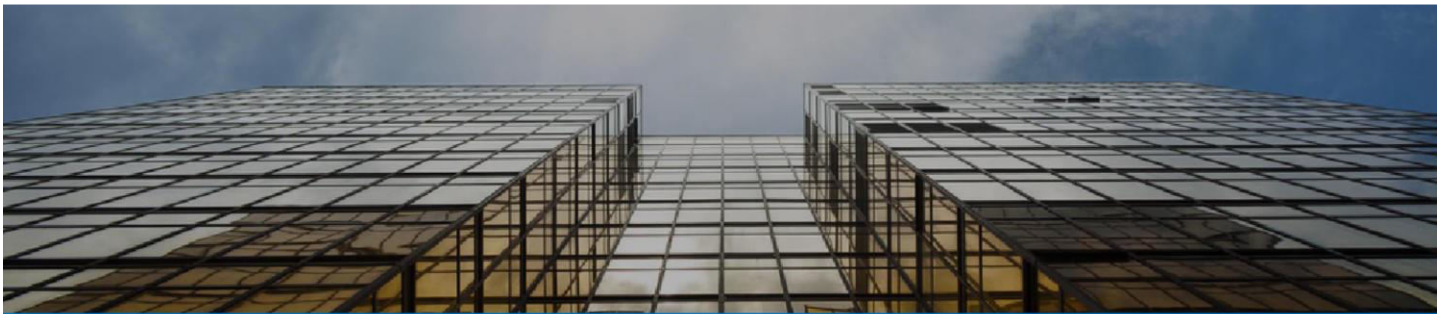

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