Tomorrow, Today

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TOL GASES LIMITED

Recommendation:	BUY	Current Price (TZS):	500	Stock Exchange:	Dar es Salaam Stock Exchange (DSE)
Ticker:	DSE: TOL	Target Price (TZS):	1,111	Sector:	Manufacturing
Valuation Date:	15th July 2021	Upside/ (Downside) (%):	55.0%	Industry:	Chemicals

Market Data (in TZS, except per share data)	
Latest Fiscal Year	31-Dec-21
LTM as of	30-Jun-21
Closing Price (TZS 15-Jul-2021)	500
52-Week High (24-Jan-2021)	600
52-Week Low (09-May-2021)	500
Market Cap (TZS'000')	28,752,982
Share Outstanding ('000')	57,506
Adjusted Beta	1.19
EV/EBITDA	8.11x
P/E	16.5x
EPS	40
Pay-out Ratio	43%
Dividend Yield	2.63%

Latest Capitalization ("000" except share price)	
Currency	TZS
Share Price	500
Shares Outstanding	57,506
Market Capitalization	28,752,982
Cash & Short-Term Investments	604,357
Total Debt	11,258,663
Enterprise Value (EV)	**39,407,288**
Book Value of Common Equity	22,975,455
Total Debt	11,258,663
Total Capital	**34,234,118**

Method	Implied value	Weight
FCFF	909	50.0%
DDM	1,312	50.0%
Implied share price	**1,111**	100.0%
Current stock price		500
Premium/(Discount)		(611)
Upside/(Downside)		55.0%
Expected DPS		35

Established in 1950 as a branch of the African Oxygen and Acetylene Company (AFROX) of South Africa. TOL Gases Limited is currently the leading manufacturer and distributor of industrial and medical gases in Tanzania.

Investment Recommendation

We issue a BUY recommendation on TOL Gases limited with a 12-month target price of **TZS 1,111** per share offering an upside of **55.0%** with expected total return of 129.1% from its July 2021, closing price of TZS 500 per share. Our valuation is based on equal weighting of FCFF approach and DDM approach. Our recommendation is driven by our:

Investment Thesis and Outline

In the midst of a global pandemic, TOL Gases Linted is well positioned for growth and market penetration of its products. Using the above-mentioned methods and current market view of TOL shares, results suggests that the company is highly undervalued. The undervaluation of the TOL shares represents an opportunity to invest in a growing business in the Tanzanian chemicals industry. After evaluating the company's financials, meeting with TOL management to gain understanding of various investment risks and subsequent impacts on valuation, we arrived at a **BUY recommendation.**

Investment rationale (upside)

- Strong market leader of industrial and medical gas.
- The installed new Air Separation Unit to replace the aged and oversized Aspen 1000 plant opens opportunities for further growth.
- Well-diversified customer base.

Investment risks (downside)

- Uncertainties in the context of global trade and surrounding regulatory environment remains a concern
- Indirect exposure to macroeconomic shocks could negatively impact TOL's profitability.
- Electricity challenges could also impact TOL performance of its machines and hence profitability

TSL
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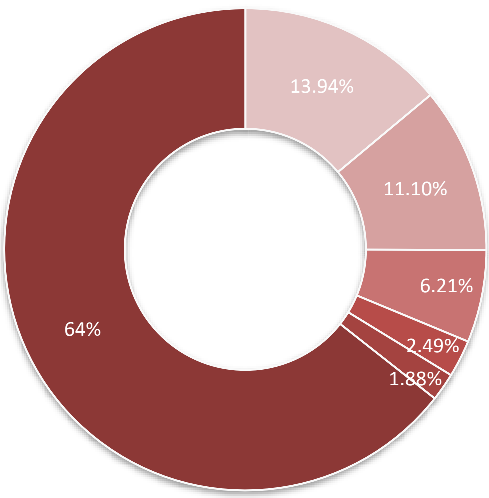
Income statement Analysis	Vertical
Revenue	100%
Cost of sales	(56%)
Gross profit	44%
Other income	2%
Operating expenses	(22%)
Trade receivables impairment release	0%
Operating profit	24%
Finance costs	(6%)
Profit before tax	18%
Income tax expense	(4%)
Profit for the year	14%

Shareholding Structure



Business Description

TOL Gases Limited formerly known as Tanzania Oxygen Limited is the leading manufacturer and distributor of industrial and medical gases in Tanzania. It is a public company with shares listed in the Dar es Salaam Stock Exchange.

TOL Gases Limited was established in 1950 as a branch of the African Oxygen and Acetylene Company (AFROX) of South Africa. In 1965 the Company became the branch of East Africa Oxygen Limited of Kenya which was a part of BOC gases Group. In 1986 BOC offered its stake to the Government who sold majority of its shares through Dar es Salaam stock exchange in 1998 as part of its policy to disengage from running the economy (Privatization policy).

Then name changed to TOL Limited and finally TOL Gases Limited. Headquartered in Dar es Salaam, Tanzania, TOL Gases currently employs 116 people and serves its' customers from four country branches which are situated in Dar es Salaam (an office and plant), Mwanza (a plant), Mbeya (a plant) and Arusha (an outlet shop) plus a distribution network in all regions in Tanzania. TOL Gases also offers its products to countries within the EAC and SADC region.

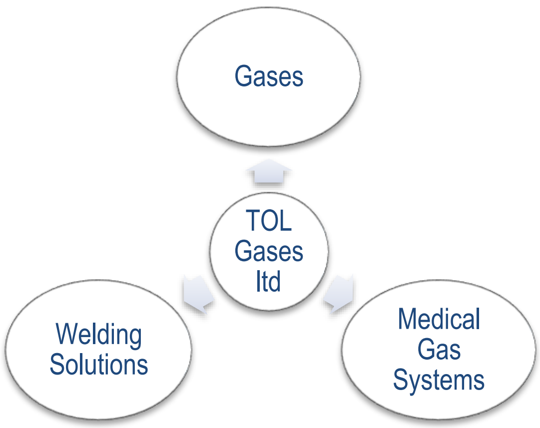
Historically, the company generated over 96% of its revenue from sale and distribution of industrial gases while accessories and Installation, rental and services contribute 2% each respectively. The company reported total revenue of TZS 19,816 million in FY2020, representing 5-year CAGR of 5.3% increase in total revenue.

Shareholding Structure

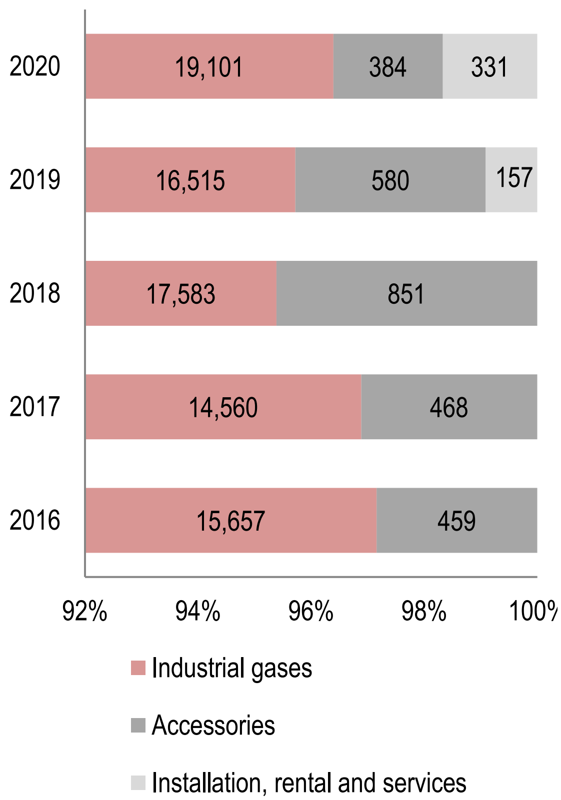
TOL Gases Limited has 57,505,963 ordinary shares of TZS 100 each issued and paid-up capital. Top five institutional investors own 35.62% of the total shares. Top five individual investors holding higher percentage hold 28.89% with two of them being board members.

Products, Services & Geographic Reach

TOL Gases Ltd engages in 3 business lines, namely industrial gas (production and trading), Accessories, and installation, rental, and services. Besides producing its own gas products, TOL Gases also trades other companies' gases and gas related products in the market such as welding spare parts (Manufactured only by ESAB - Elektriska Svetsnings-Aktiebolaget, Sweden) and is the sole authorized GCE distributor throughout Tanzania (for medical gas equipment).



Total Revenue per business line (TZS million)



In distribution of industrial gas products, the company uses bulk, cylinder package and pipelines to ensure it can service customers in all sizes, industries, and geographic locations across Tanzania. TOL Gases Ltd currently serves various industries including the Mining, Food and Beverage, Healthcare, Chemicals, Glass and Minerals, Manufacturing, Energy, Water and Waste, Construction, Paints and Coatings industries.

TOL Gases Ltd has many global customers augmenting its global manufacturing capabilities. The broad geographic diversification of customers helped the company to avoid major supply chain hold-up during the Covid-19 pandemic. The company exports to countries such as Mozambique, Kenya, Zambia, Zimbabwe, Democratic Republic of the Congo and Malawi.

The Company conceits itself in producing and supplying safe and high quality Medical and Industrial Gases, Supplying of Welding Products and Accessories and Medical Equipment. The company has an ASU plant that has a capacity of producing 7 tons of Oxygen/Nitrogen per day, an Acetylene Plant that can produce 45 cubic meters per hour and a CO_2 plant that can produce 2.8 tons per hour.

Gases: TOL Gases Ltd produces and supplies industrial and medical gases and medical consumables. The gases produced by the company include compressed Carbon Dioxide (Dry Ice), Oxygen (industrial and medical), Nitrogen, Acetylene and Argon while gases like Nitrous Oxide, Helium, hydrogen, Argon shield and Ammonia are imported.

Welding Solutions: TOL Gases Ltd provides products and services that support welding, cutting and related processes. These include welding equipment, welding automation, and welding spare parts.

Medical Gas Systems: TOL Gases Ltd are leading medical gas pipeline installation specialists, providing expertise in handling all design, engineering and installation systems for hundreds of medical sites and health facilities across the region.

Company Strategies

The company's corporate strategy is to maintain its position as a leading industrial gas manufacturer. Most Important to this goal the company will continue to invest more in modern Plants and technology than its rivals and to stay ahead of competition. We see the future R&D being directed at capturing the excess demand for carbon dioxide that the company is unable to meet at present within the country and from foreign clients.

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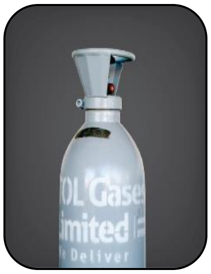
Industrial Gas	Selected Applications	Selected Major Clients
Nitrogen 	• It is used to make fertilizers, nitric acid, nylon, dyes, and explosives • As a preservative (freshness of packaged or bulk foods) • In fire suppression systems • Steel manufacturing • Used to cleanse pipe in the oil and gas industry • Used in transporting drugs and specimens	Barrick; bam international; twiga cement (HeidelbergCement Group); Simba Cement
Oxygen 	• Steel manufacturing • Provide a basis for modern anesthetic techniques • Assist in treating conditions such as Cyanosis, shock, severe hemorrhage, carbon monoxide poisoning, major trauma, cardiac/respiratory arrest aid resuscitation. • Metal fabrication (metal cutting and welding) • Used in Gold and petroleum extraction	Hospitali ya Taifa Muhimbili; Temeke Hospital; The Aga Khan Hospital; Mwananyamala Hospital; Acacia
Carbon Dioxide 	• Food and beverage such as carbonated drinks • Used for welding, it reacts to oxidize most metals • Used in agriculture in greenhouses • Wastewater treatment • Fire suppression as it is used in fire extinguishers • Enhanced oil recovery for oil and gas • Refrigeration • Carbon dioxide (CO_2) lasers used to treat cancer • Dry Ice (CO_2) used for transportation	azam; pepsi; Coca-Cola; Tanzania Breweries; Delta Corporation Limited; Heineken; Bralima; Sayona Drinks Ltd; Precision Air
Acetylene 	• Used for welding and cutting	simba trailers

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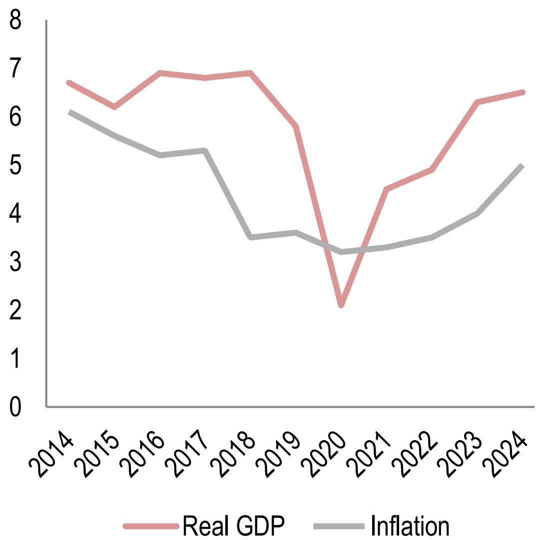
Industry Overview and Competitive Positioning

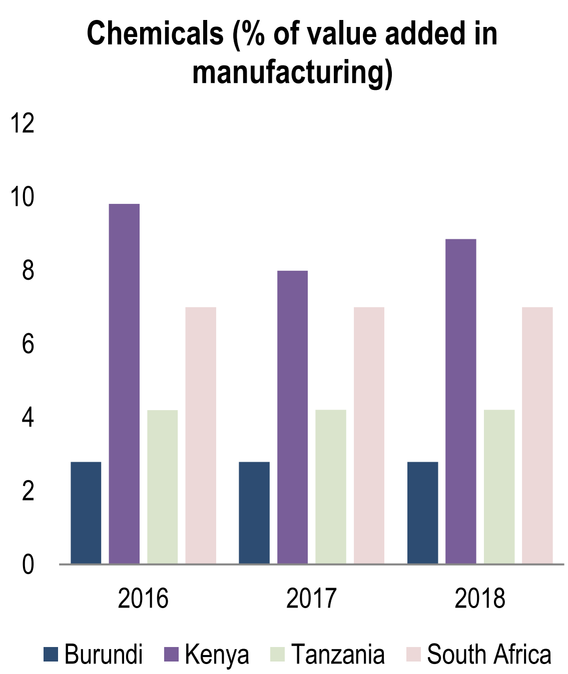
Macroeconomic Review



Following two decades of sustained growth, Tanzania reached an important milestone in July 2020, when it formally graduated from low-income country to lower-middle-income country status, thus reflecting sustained macroeconomic stability that has supported growth. The World Bank projects annual GDP growth to rise to 4.5% in 2021, but this forecast hinges on a strong and consistent recovery in global economic activity.

In December 2020, the **annual inflation rate** hovered around 3.2%, its lowest level since the 2000s and below the 2018-19 average of 3.5%. IMF projects a Twelve-month headline inflation rate of 3.3% for the year 2021. Tanzania's **exchange rate risk** continues to benefit from a favorable economic outlook coupled with an adequate foreign reserves buffer. From December 2019 to December 2020, the shilling depreciated by 0.4% t against the U.S. dollar. Volatility increased during the second quarter of the year, as capital inflows to developing economies sharply declined, but Bank of Tanzania (BOT) interventions through its monetary policies stabilized the shilling.

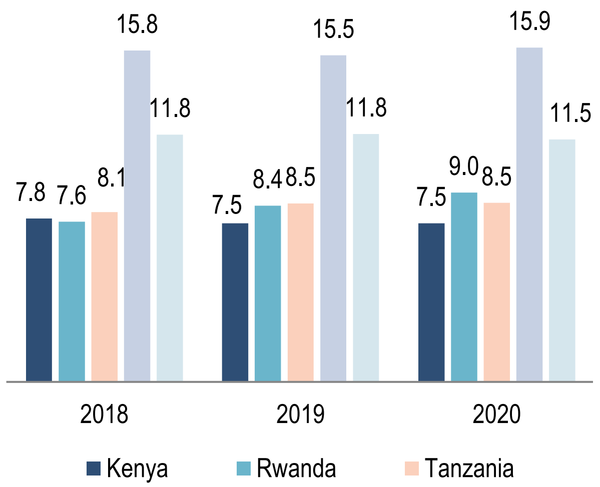
Industry Overview



The chemicals industry has grown over the years but at a slow rate. Its contribution to the total manufacturing sector is 4.2% which is relatively lower than other industries such as the food, beverages and tobacco which contributes 67.4% to the manufacturing sector. This is caused by few numbers of companies producing chemicals in the country and especially fewer companies producing industrial and medical gases. Comparing to other countries, the Tanzanian industry is still lacking in not only participants, but output as contribution in other countries is well above 5%. The industry is largely influenced by growth of sectors such as the manufacturing, construction, and health sectors.

The industrial gas market in Tanzania is an industry with few suppliers with top big player being TOL Gases Ltd. The oligopolistic nature of the industry comes from high barriers to entry such as long-term contracts nature of the business, high capital investment and constant updates of technology which require only experienced players. Nitrogen is by far the most used industrial gas in Tanzania, followed by Carbon dioxide and oxygen.

Manufacturing, value added (% of GDP)



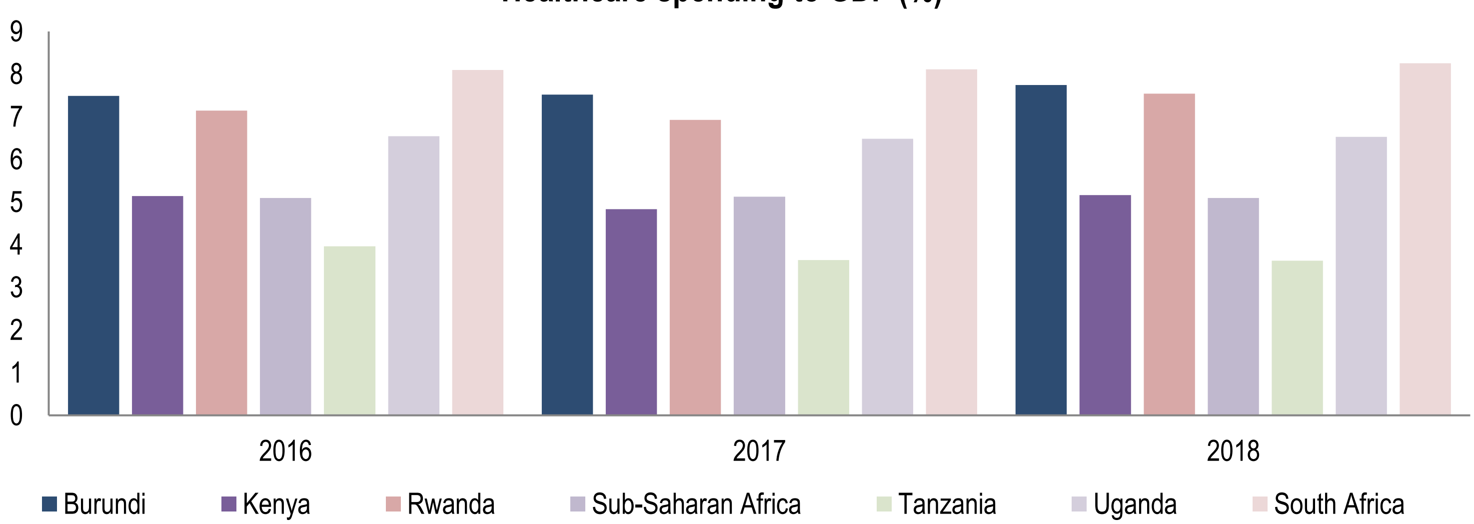
Riding the growth of manufacturing and construction sectors

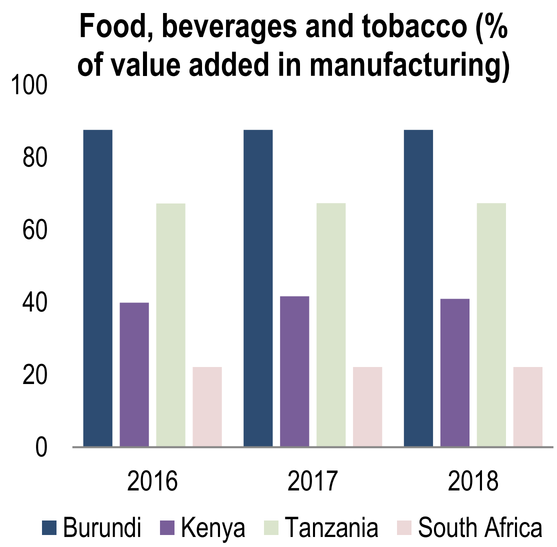
The story of growing manufacturing and construction sectors in Tanzania is also a story of TOL Gases Ltd as the biggest supplier of industrial gas in the country. Following the Tanzania policy of the Government of increasing production in the manufacturing industry (Tanzania ya viwanda), meant the growing need for gas used in the sector such as wielding, steelmaking and other metals refining and fabrication processes. There are several on-going and new construction projects that the Government is still focusing on finishing which pose as an opportunity for the TOL Gases Ltd. The latest available data shows that the manufacturing sector has been contributing to the GDP at a growing rate, from 7.9% in 2015 to 8.5% in 2020. The company also has an opportunity in exploring external markets as manufacturing activities in neighboring countries has been growing and take up a comparatively higher percentage of their respective GDP than Tanzania.

Beneficiary of improving healthcare

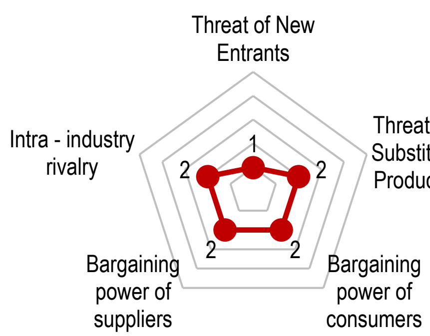
The potential growth of the health sector in Tanzania is still huge as the country. In terms of healthcare spending, Tanzania is also relatively low with only 3.8% healthcare spending to GDP. The need of better-quality healthcare facilities is an opportunity, and many private companies are beginning to go aggressive in deciphering this need. The government is also committed to implement the quality healthcare services in public and private hospitals as seen when they built oxygen plants in seven hospitals to address the current COVID 19 pandemic. However, there is still opportunity for the company as a major producer and supplier of medical gases, a leading medical gas pipeline installation specialist and supplier of gas accessories to curb the needs of hospitals as they combat COVID 19 and other diseases.

Healthcare spending to GDP (%)





Porters Five Forces Analysis



Legend

1 Very low threat to TOL Gases
2 Low threat to TOL Gases
3 Moderate threat to TOL Gases
4 High threat to TOL Gases
5 Very High Threat to TOL Gases

The potential growth of food & beverages as another major driver

Industrial gas has wide applications and one of them is in the production process of food and beverages products. For example, nitrogen is used as the gas that fill snacks packages and carbon dioxide is used in every carbonated drink. Industrial gas is also extensively used in the freezing of fishery products. The food, beverages and tobacco have the largest contribution to the manufacturing sector of 67.4% posing a large opportunity for TOL Gases Ltd as gases are widely used in the industry.

Competitive Positioning

Favorable Position in Competitive Environment

With a massive experience and large asset base in terms of plants and facilities, the Company is positioned well in the whole supply chain. Market dominance is influenced by the wider geography covered by the company throughout the country. The company has plants in Dar es Salaam, Mwanza and Mbeya and an outlet shop in Arusha plus a distribution network in all regions in Tanzania. TOL Gases Ltd also offers its products to countries within the EAC and SADC region. TOL Gases Ltd are also the leading gas pipeline installation specialists, providing expert teams to handle all design, engineering and installation systems for hundreds of medical sites and health facilities across the region.

Relative high entry barriers and economies of scale

The high barrier of entry and economies of scale works in favor of the company and limits new entrant into the market. The company owned property, plant, and equipment worth TZS 20,556 million in 2019 and TZS 25,392 million in 2020. TOL Gases Ltd has established itself as a market leader, which creates barrier that outside competition might not be able recreate.

High purity oxygen and nitrogen produced by ASU Plant

In production of gases, the company prides as a manufacturer of high purity oxygen, nitrogen and argon through the possession of large Air Separation Units (ASU) plant that ensures purity of gases up to 99.99% a distinction from its competitors as they can only guarantee purity of gases to 80% since they use Pressure swing adsorption (PSA) Plants instead of ASU Plants. TOL Gases is likely to continue to differentiate itself from peers in the country through this due to the high acquisition cost of ASU plants creates barrier for peers.

SWOT ANALYSIS

Strengths:

- Industry leadership and brand identity
- Stable financial performance
- Extensive network across Tanzania
- Very long experience in the sector since 1950

Weaknesses

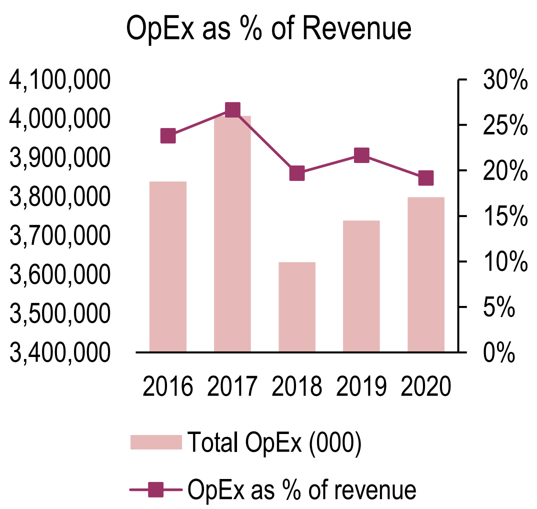
- Relatively undercapitalized relative to global competitors
- Low exports
- Board gender diverse (no women)

Opportunities

- High growth potential in the medical sector now and post pandemic
- Growth potentials in the food and beverage industry as population increases alongside consumer spending

Threats

- Global competitors could decide to be more aggressive in widening network into the country which will initiate price wars



Investment Summary

We issue a Hold Recommendation on TOL Gases with a target price of **TZS 1,111**. This valuation is supported by numerous merits, as outlined below, as well as concerns taken into consideration:

Merits

The installed ASU plant opens opportunities for TOL Gases

The Company managed to procure a brand-new Air Separation Unit to replace the aged and oversized Aspen 1000 plant in 2020. Installation plant was completed on 1st July 2021. This move will save the Company considerable amount of cost, improve the Company's cash position but most importantly will end the lack of reliability of supplies for oxygen and nitrogen gases in the Tanzanian market as well as the neighboring countries. The company is planning to commission and install another plant at Mbeya by October 2022. The plant will open opportunities to capture the excess demand for carbon dioxide within and outside the country.

Customer base is well diversified

In addition to its dominant market share in industrial gas industry, TOL Gases Ltd also enjoys a well-diversified customer base covering several industries which diminishes their risks. This is very advantageous, as the company does not have the problem of strong bargaining power of customer that could adversely affect profitability. The company works also with the government and is faced with an opportunity of partnering with the government in maintaining their acquired oxygen plants in hospitals that need expertise that can be offered by the company.

Efficient Cost Management

Operating cost for TOL Gases Ltd decreased in 2018 and has been growing at a slower rate since then. Even if the company's value proposition contemplates to provide quality service, they still have managed to reduce the operating costs percentage of revenue. Their investments have been allocated in lower cost maintenance assets, such as the new ASU Plant, expected to produce at lower electricity expense and more electrical efficient when the power cuts.

Possible investment concerns

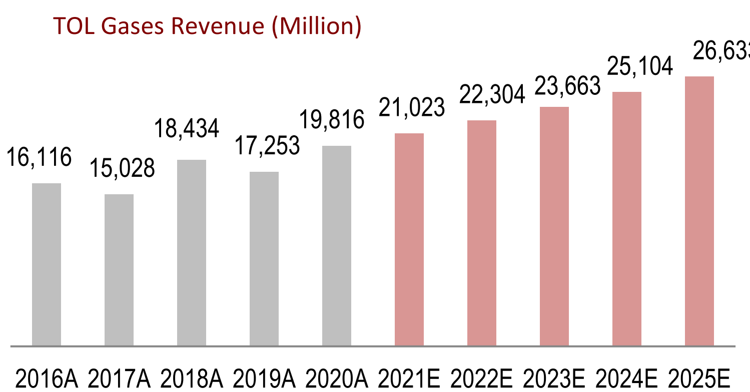
Besides the influence of market risk, investors should be aware of other possible adverse influences: high share of fixed costs in the production process, Uncertainties in the context of global trade and surrounding regulatory environment, risks arising during transporting gases to clients and inability to reach certain clients due to limitations in transporting oxygen.

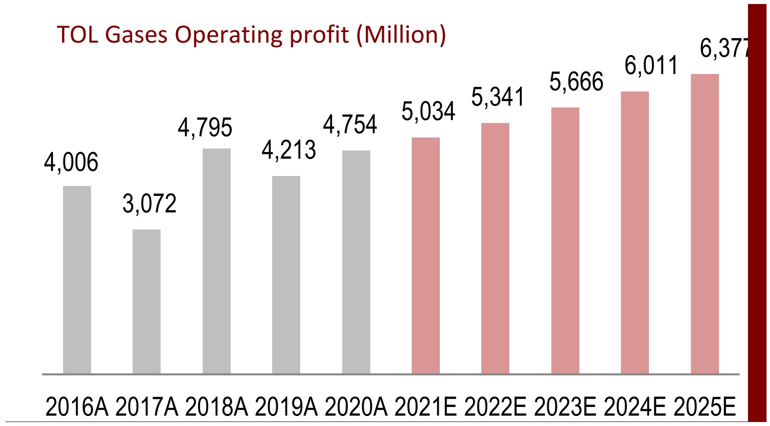
Financial Analysis

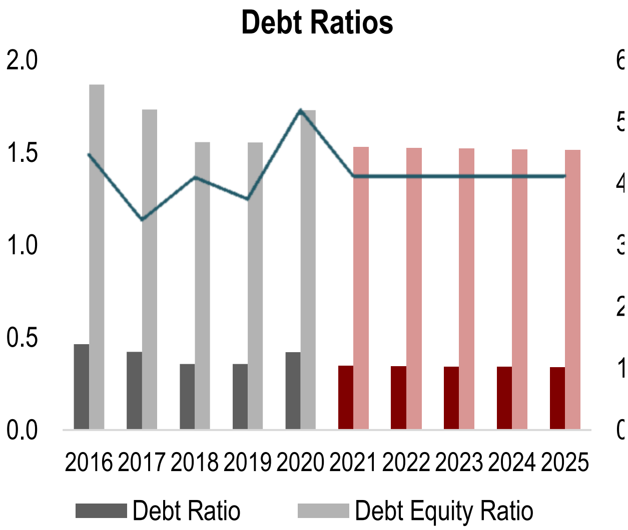
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Liquidity Ratios										
Current Ratio	0.77	0.77	1.23	1.64	1.61	1.03	1.46	1.44	1.43	1.42
Quick Ratio	0.41	0.63	0.90	0.75	0.60	0.76	0.76	0.75	0.75	0.74
Profitability Ratios										
Gross Profit Margin	42.7%	45.8%	45.3%	44.9%	42.6%	44.3%	44.3%	44.3%	44.3%	44.3%
Operating Profit Margin	24.9%	20.4%	26.0%	24.4%	24.0%	23.9%	23.9%	23.9%	23.9%	23.9%
Net Margin	17.1%	14.4%	14.2%	13.1%	11.8%	12.7%	12.7%	12.7%	12.7%	12.7%
ROA	9.5%	7.0%	8.2%	6.7%	5.9%	6.2%	6.1%	6.0%	5.9%	5.8%
ROE	17.7%	12.1%	12.8%	10.4%	10.2%	9.5%	9.3%	9.1%	8.9%	8.7%
ROCE	9.5%	7.0%	8.2%	6.7%	5.9%	6.2%	6.1%	6.0%	5.9%	5.8%
Debt Ratios										
Debt Ratio	0.46	0.42	0.36	0.36	0.42	0.35	0.34	0.34	0.34	0.34
Debt Equity Ratio	1.87	1.73	1.56	1.55	1.73	1.53	1.53	1.52	1.52	1.51
Interest Coverage	-4.46	-3.40	-4.09	-3.74	-5.19	-4.12	-4.12	-4.12	-4.12	-4.12
Operating Performance Ratios										
Fixed Assets Turnover	75%	68%	84%	84%	76%	67%	65%	64%	62%	61%
Shareholders Ratios										
Earnings per share (TZS)	48	38	45	39	40	46	49	52	55	59

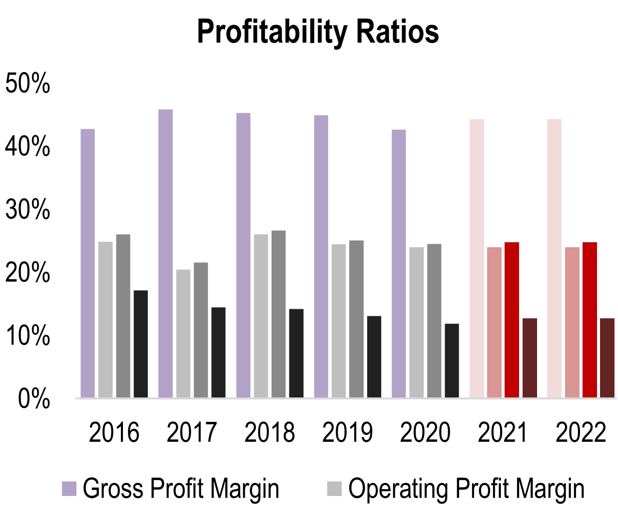
Strong revenue generation

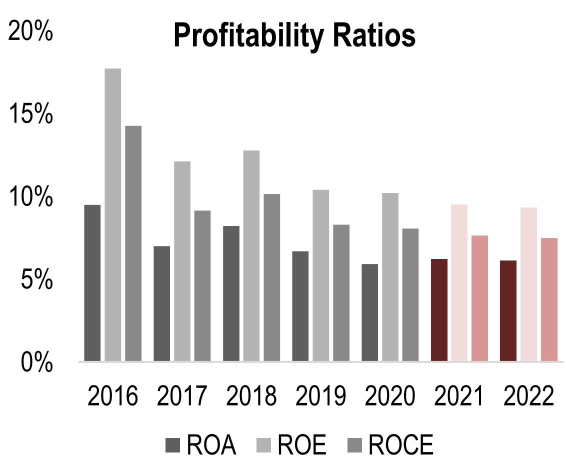
TOL Gases' strong position in the growing industrial and medical gas market enables the company to deliver consistent strong revenue growth. On a historical basis, revenue grew from TZS 16,116 million in 2016 to TZS 19,816 million in 2020 or a 5.3 CAGR. We expect revenue to cross TZS 26,6333 million mark in 2025, delivering 6.1% CAGR from 2021 to 2025. With strong cost saving efforts, we expect TOL Gases' operating profit to also grow significantly by 6.1% CAGR during the same period from a previous 4.4% CAGR from 2016 to 2020. As of financial year 2020, TOL Gases' 96% of revenue came from sale and distribution of industrial gases while accessories and Installation, rental and services contribute 2% each respectively. We expect the revenue proportion would be stable going forward as accessories and services business are supporting business to help growing the gas products business.









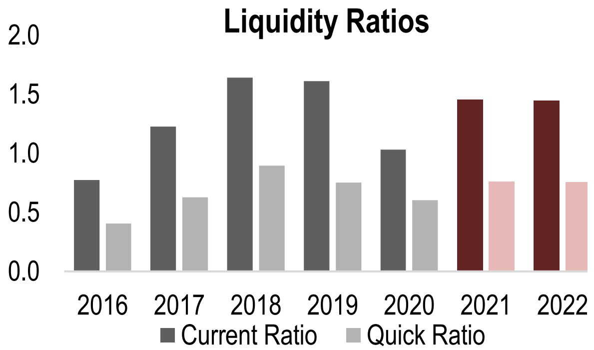


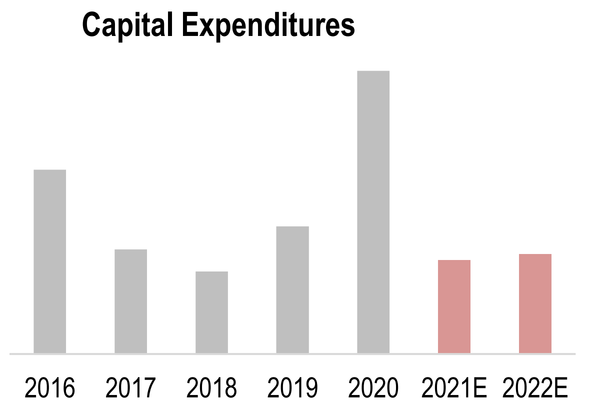
Revenue Growth: Future revenue growth for TOL Gases' is based primarily on expected increase in revenue following commissioning of the new air separation plant, expected recovery of supply of dissolved acetylene considering that oxygen will be constantly available and an additional production capacity for carbon dioxide. The Company is also expecting to resume development of the Kenyan market for liquid nitrogen as well as liquid oxygen. Alongside these factors, favorable future industry supply and demand characteristics, along with strong competitive positioning in numerous undersupplied areas throughout East Africa, we forecast the company will be able to grow it revenues by 5-year revenue CAGR of 6.1%.

High leverage and interest coverage: TOL Gases' interest coverage ratio of 5.19x illustrates its ability to meet its interest payments and debt obligations. The company's high Debt/Equity ratio of 173% in 2020 shows that TOL Gases has been aggressive in financing its growth with debt. We forecast the company will maintain a debt/Equity ratio of 152% for the coming five years to facilitate the purchase of new ASU plants and improving the distribution fleet for CO2 in addition to other investment areas. The company's Debt/Equity ratio is well above its market peers, whereas African Oxygen Ltd, BOC Kenya Plc, Les Gas Industries ltd and BOC Gases Nigeria Plc had Debt/ Equity ratio of 62.76%, 29.96%, 42.84% and 70.80% respectively. This reflects that, if growth opportunities arise, there is not enough room for leverage.

Margin and profitability improvement: TOL Gases' margin had been relatively volatile especially the net profit margin as the result of higher financing expenses that the company had to bear. Net profit for financial years 2016 to 2020 has been growing at a CAGR of -4.01% and at a 4.0% Y.O.Y. According to company's forecasts it is expected that the net profit will grow at a CAGR of 6.09% backed by higher revenue growth.

With a ROCE of 8.1%, ROE of 10.2% and ROA of 5.9% the company recorded a relatively low Returns as compared to other listed companies dealing with industrial and medical gas manufacturing and distribution in Africa such as African oxygen limited which has a ROCE of 16.3% and BOC Kenya Plc that had a ROCE of 8% and ROA of 6.1%. the company returns to investors has been reducing from 2016 to 2020, with average of 7.5%, 12.6%, and 10% for return on assets, return on equity and return on capital employed respectively, its shows that the company is not efficient in utilizing its allocated investment in asset, equity and capital employed to maximize profits. However, the company is expecting an increase in profitability following commissioning of the new air separation plant which will improve the returns.





WACC (Using Comparable Capital Structure)	
Target Capital Structure	
Debt to Total Capitalization	34.6%
Equity to Total Capitalization	65.4%
Debt / Equity	52.8%
Cost of Equity	
Risk Free Rate	11.44%
Size and Specific risk premium	1.5%
Equity Risk Premium	4.5%
Adjusted Beta	1.19
Cost of Equity	18.2%
Cost of Debt	9.1%
Tax Rate	30.0%
After Tax Cost of Debt	6.4%
WACC	14.2%

Liquidity: The Company current ratio remained at high level implying that the company can pay its short-term obligations from current assets. However, liquidity concerns arise as the company's most liquid assets (near cash assets) cannot sufficiently cover short term obligations since in all five years historical data, the ratio has not reached 1.

Capital expenditures: Capital expenditures are mainly comprised of acquisition, expansion and maintenance of property, plant, and equipment. A total of TZS 7,267 million was invested in capital expenditure during the year 2020 compared to TZS 3,278 million invested in year 2019. We estimate the company will incur capital expenditure in the years 2021 and 2022 as the company is expecting to inject fund for the purpose of acquiring new plant and improving the distribution fleet for CO_2 in Mbeya.

Valuation

Our target price is based on a mix of the Discounted Free Cash Flow to Firm ("FCFF") with a target price of TZS 909 per share and Dividend Discounting Model with a target price of TZS 1,131 per share. We respectively attributed weights equally to each methodology which yielded a target price of **TZS 1,111** per share.

Discounted Cash Flow Method with a 5-Year FCFF Model

Weighted Average Cost of Capital ("WACC"): With the assumption that the company finances its operation using equity and debt finance, we apply a risk-adjusted cost of capital of 14.2% to discounting the expected future cash flows for firm. The computation of cost of equity is based on the CAPM using the following inputs: (i) We determined TOL Gases' beta using industry raw beta re-levered using TOL Gases' current capital structure resulting in a TOL Gases' Beta of 1.19. (ii) risk-free rate taken from weighted average yields of a 10-year Tanzania government bond from the most recent auction held on December 30, 2020 (iii) market risk premium of 4.5% based on Damodaran estimates for matured equity market adjusted for country risk premium and default spread (iv) size and specific risk premium 1.5%. Furthermore, we have used a marginal tax rate of 30% and averages of comparable companies' capital structures as the target capital structure for TOL Gases Ltd.

Terminal Value

EBITDA Method		
	Exit Year EBITDA	6,591,551
	Multiple	15.9x
	Terminal Value	104,952,995
	Net Present Value	62,083,745
Perpetuity Method		
	Unlevered Free Cash Flow	201,272
	Growth Rate	6.5%
	Terminal Value	2,801,952
	Net Present Value	**1,657,462**

Discounted Cash Flow Valuation

Discounted Cash Flow Total Valuation	EBITDA Method	Perpetuity Method
Total of PV of Cash Flows	3,671,264	3,671,264
Present Value of Terminal Value	62,083,745	1,657,462
Total Enterprise Value	**65,755,009**	**5,328,727**
Total Debt	11,258,663	11,258,663
Cash and cash equivalents	604,357	604,357
Equity Value	55,100,703	17,191,747
Share Count (000)	57,506	57,506
Estimated Equity Value per Share	**958**	**299**
Weights	93%	7%
Weighted Average		**909**

Dividend Discounting Model

Year	Cash Flow	Factor	Discounted CF
2021	34.78	1	34.78
2022	49	0.88	43.08
2023	70	0.77	53.35
2024	98	0.67	66.08
2025	139	0.59	81.84
DCF			279.13
Terminal value			1,754
TOL implied Share price			**1,312.41**
Current stock price			500
Premium/(Discount)			(812)
Upside/(Downside)			61.9%

Terminal value: The terminal value was calculated using a combination of the terminal growth and exit multiple methods. We relied on long-term GDP growth projections of TOL Gases' main geographical market (Tanzania) to calculate the terminal growth rate. This resulted in a terminal growth rate of 6.5%, basing on June 2020 IMF forecasts for 2024 GDP growth rate, which is slightly higher than TOL Gases' sustainable growth rate of 5.8%. We believe that this rate reflects the overall macroeconomic environment and the growth rate of the specialty chemicals industry in mature markets (industrial and allied sector). We applied the terminal multiple method and used a LTM EV/EBITDA multiple of 15.9x, based on a review of the trading multiples over time of TOL Gases' public comparable companies peer set in the chemicals industry.

Dividend Discounting Model

Although TOL Gases does not have a strong history of returning cash to shareholders through dividends the company has announced a TZS 34.78 in 2021 a 100.23% increase from that of previous year which was TZS 17.37. We therefore used the DDM method to compute the intrinsic value of the stock applying forecasted Divided with a payout of 50%.

Sensitivity Analysis

We performed a sensitivity analysis to determine the impact of changes in key modeling assumptions on the implied share price and the 12-month target price indicated by the FCFF model. Our key inputs are the terminal growth rate, exit multiple and the WACC. A higher GDP growth of 18.5% and higher estimated WACC of 26.2% reduces the price to TZS 570 which is still higher than the current market price.

A higher GDP growth (12.5%) and lower estimated exit multiple (11.9 %) reduces the price to TZS 634 which is still higher than the current market price. The lower GDP (2.5%) and lower WACC (21.9%) results to and implied target price of TZS 1,311 which is further from the current TZS 500 per share.

Given that TOL Gases is well positioned in domestic market and is less sensitive to systematic risk, we see no foreseeable GDP-related event that may weaken TOL Gases' share price.

Terminal Growth

WACC	909	0.05%	2.5%	6.5%	10.5%	14.5%	18.5%
	8.2%	1160	1152	1109	1262	1205	1194
	10.2%	1072	1068	1051	2895	1122	1103
	14.2%	915	913	909	896	2541	953
	18.2%	782	781	779	776	766	2230
	22.2%	670	669	668	667	664	657
	26.2%	574	574	573	573	572	570

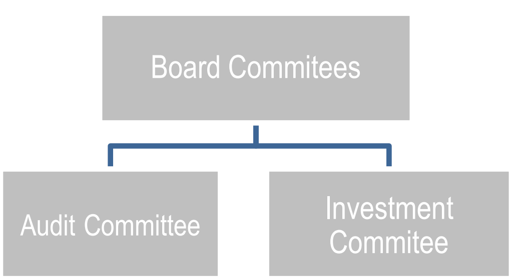
Terminal Growth

Exit Multiple	909	2.5%	4.5%	6.5%	8.5%	10.5%	12.5%
	11.9x	653	651	650	647	642	634
	13.9x	782	781	778	775	768	753
	15.9x	913	911	909	904	896	875
	17.9x	1045	1043	1040	1035	1025	1000
	19.9x	1178	1176	1172	1167	1156	1126
	21.9x	1311	1308	1305	1299	1287	1254

Corporate Governance and Social Responsibilities

Key Highlight	No.
Number of Board Members	6
Number of Non-Executive Directors	6
Number of Executive Directors	0
Number of women on the Board	0
Number of financial experts on Audit Committee	1
Number of financial experts on Investment Committee	2

We believe TOL Gases Limited has an exemplary governance structure facilitating future growth. The Board of TOL Gases Limited consists of six Directors. The Board composition has a diverse and experienced industrial and sector-wise expert focused on delivering operational excellence. Mr. Michael Shirima, Chairman of the Board, has been with the company since 2005. None of the Directors hold executive positions in the company hence provide an objective, independent and constructive view of the plans and decisions of the executives. 100% of the board members are men; a gender ratio which we think can be improved.



In supporting Tanzanian society over the years, the company participated in various projects such as the rehabilitation of the Katumba Bridge in Rungwe district, the construction of two classrooms at Itaga secondary school in Rungwe district and one classroom at Mpata primary school in Busekelo district. The company values the quality of products produced; hence it is essential that the air and environment be kept clean. With all operations being monitored closely, products are tested in company laboratory, Airbone labs International USA and with Tanzania Bureau of Standards. The Company has an environment policy and takes appropriate pollution control measures to comply with various environment and pollution related statutes in Tanzania. TOL Gases complies with the National Environmental Management Council (NEMC) requirements as well as all local rules and regulations to protect and minimize the impact on environment and workers.

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Hold: The stock is correctly valued with little upside or downside pricing

Sell: The stock is currently overpriced; its total return is expected to underperform; it has weak fundamentals and challenging operating environment.

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