

Business Valuation Report

Inland Africa Logistics Limited

Prepared by: FCPA Mohamed Abdulla Ebrahim, BA (Hons), MBA, MCSI



Web: www.mohamedebrahim22.com

Email: mohamed@mohamedebrahim22.com

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To whom it may Concern

4th June 2021

Re: Valuation of Inland Africa Logistics Limited


I have been engaged to estimate the fair market value of Inland Africa Logistics Limited for the purpose of offering the 35% of the Ordinary shares of the company for sale, by Mr Karim Dharamshi, a shareholder of the company.

I have provided a valuation report, which is advisory in nature and intended to be used for offering the subject shares for sale. Please refer to the statement of limiting conditions contained in the report. For the purposes of valuation of the shares, **fair market value** is defined as the expected price at which the subject business would change hands between a willing buyer and a willing seller.

We have valued the business using the average of two valuation methods, namely the Asset value – Adjusted book value method and the capitalisation of earnings method (5 years), which would give the range of the valuation of the company, and our recommended valuation being an average of the two. Based on the information contained in the report that follows, it is our estimate that the fair market value per share excluding the shareholders loan of Inland Africa Logistics Limited without debt is between Kshs. 1,501 and Kshs 1,105. Hence, for 70,000 ordinary shares the value is between Kshs 105,070,000 and Kshs 77,371,000 plus the shareholder's loan amounting to Kshs 24,906,800. The valuation per the synthesis of valuation is Kshs 116,118,667 inclusive of debt. The valuation is subject to the information available, as well as the assumptions, data and figures computed which appear in the body of the report and the appendix 1 and 2.

Attention, should be drawn to the fact that the wholly owned subsidiary Masai Carriers Limited, results and assets have not taken into account in this valuation report, and are stated in the balance sheet at initial investment cost for 51% shareholding, with the balance 49% held by the current shareholders in their shareholding ratio in the company. Hence following the substance over form concept, it is a wholly owned subsidiary. Subsequent, to the financial year ended 31st December 2020, the shareholders have transferred the shares held as individuals to the company. If this was incorporated the value would be significantly higher, hence the values stated above are at a significant discount.

Yours Faithfully,

A handwritten signature in blue ink, appearing to read 'Mohamed', is written over a horizontal line. A vertical line extends downwards from the right end of the horizontal line.

FCPA Mohamed Ebrahim, BA, MBA (Manchester), MCSI

Scope and Description of the Valuation Assignment

I have been retained by Mr. Karim Dharamshi of Mombasa, Kenya to estimate the fair market value of 35% of Inland Africa Logistics Limited, as of date, based on the financial statement for the company as at 31st December 2020.

The purpose of this valuation is solely to provide an independent valuation opinion in order to assist them in offering 35% of the company's shares being 70,000 ordinary shares of Kshs. 100 each held by Mr Karim Dharamshi, as such, this valuation report is intended for use by him to negotiate a fair price for his intended sale of shares.

Standard and Premise of Value

This valuation report relies upon the use of fair market value as the standard of value, net of expected liabilities. For the purposes of this valuation, fair market value is defined as the expected price at which the subject shares would change hands between a willing buyer and a willing seller, neither being under a compulsion to conclude the transaction and both having full knowledge of all the relevant facts.

The figures in the statement of financial position (balance sheet) would be adjusted for the value of the land, purchased almost 10 years ago and included in property, plant & equipment and Investment Property at historical cost, and whose value has increased substantially. The option value for holding a Sugar importer's license from Kenya Sugar board, which being an intangible asset not being reflected in the balance sheet and the option value to develop the plots held as investment property, one which is held in an up-coming residential cum commercial area, off the Mombasa-Malindi Highway, where high-end, high rise apartments building could be developed, and three other plots which have potential to be re-developed for commercial use, on Mombasa-Nairobi highway. The figures on the Income statement (profit and loss account) have been adjusted for directors bonus, which is a discretionary item.

Assumptions of the Report

During the preparation of this report we have made certain assumptions as follows:

- 1) We have relied on the Financial Statement of Inland Africa Logistics Limited, for the book values, earnings and cash flows figures for the year ended 31st December 2020.
- 2) The values of the land holdings have not been independently valued. We have estimated the land value increase based on the HASS Land Index <https://hassconsult.co.ke/real-estate/hass-index/13-the-hass-land-index?typ=2&layout=2> Change From April 2011: 2.47 Fold. For Mombasa prices, we shall estimate 2 fold increase in prices.
- 3) Risk free rate is taken the 90 day treasury bill rate, and risk premium is the country risk.

Company Description

Inland Africa Limited, is a private limited company incorporated in Kenya with company registration number C119318 and registered office address at Plot No. 1066, New Canon Towers, Moi Avenue, P.O. Box 3457-80100, Mombasa, Kenya. Kenya Revenue Authority PIN P051176602S

The principal activity is that of a diversified, clearing and forwarding company, long distance transport company (through a wholly owned subsidiary Masai Carriers Limited. Which owns a fleet of vehicles). The company has also entered into commodity trading (holding a licence to import sugar from the Kenya Sugar Board) and investment property holding company by owning a couple of plots on the Mombasa-Nairobi highway, and a vacant plot on Mombasa-Malindi road in the vicinity of the Somak and/or Pollman's building, which can be developed into high end residential apartment for sale.

The company has links throughout the East and central African region, which is controlled from its head office in Mombasa. It also has an office in Nairobi and intends to open an office in Naivasha soon.

The current shareholders of the company being:-

Mrs. Zainab Diwan	35%
Mr Roy Mwanthi	30%
Mr Karim Dharamshi	35%

Financial Statement Reconstruction and Forecasts

Accurate estimation of business value depends upon the subject business financial performance. While historical financials are important, business value relies upon the ability of the business to continue producing desired economic benefits for its owners. Many closely held companies are managed to minimize taxable income. To determine the business value accurately, the company's historic financial statements, such as its Income Statements and Balance Sheets, generally require certain adjustments. The objective of these adjustments is to reconstruct the historic financial statements in order to reveal the true economic potential and earning power of the subject business.

Business Valuation Approaches and Methods

There are three fundamental ways to measure the value of a business:

- Asset approach.
- Market approach.
- Income approach.

Under each approach, a number of methods are available which can be used to determine the value of a business enterprise. Each business valuation method uses a specific procedure to calculate the business value. No one business valuation approach or method is definitive. Hence, it is common practice to use a number of business valuation methods under each approaches which would give a range of values. The average business value then is determined by reconciling the results obtained from the selected methods. Typically, a weight is assigned to the result of each business valuation method, in this case the weighting assigned is 50%. Finally, the sum of the weighted results is used to determine the value of the subject business, this our case would be the asset and income valuation methods. This process of concluding the business value is referred to as the business value synthesis. However, in certain cases a particular approach is preferred to others due to the peculiar, circumstances of the business like in this valuation where due to the limitation of the availability of data to calculate the Weighted Average of Capital or Capital Asset pricing model, and comparative stock exchange data for the market value and sector multiples to apply. In our case we shall not use the market valuation approach as in the Nairobi Stock Exchange, does not have a similar company, whose data can be benchmarked, to carry out a market based valuation.

Asset Approach

The asset approach to business valuation considers the underlying business assets in order to estimate the value of the business. This approach relies upon the economic principle of substitution and seeks to estimate the costs of recreating a business of equal economic utility, i.e. a business that can produce the same returns for its owners as the subject business. Under this method are Net book values, **adjusted net book values** are common.

Market Approach

Under the Market Approach to business valuation, one consults the market place for indications of business value. Most commonly, sales of similar businesses are studied to collect comparative evidence that can be used to estimate the value of the subject business. This approach uses the economic principle of competition which seeks to estimate the value of a business in comparison to similar businesses whose value has been recently established by the stock market. Under the market approach the capitalisation of EPS and industry Price earning ration are common. The business valuation methods under the Market Approach are:

- Comparative private company transaction method. (Limited Market data available)
- Comparative publicly traded company transaction method. (Not applicable)

Due to lack of availability of data, this method will not be considered.

Income Approach

The Income Approach to business valuation uses the economic principle of expectation to determine the value of a business. To do so, one estimates the future returns the business owners can expect to receive from the subject business. These returns are then matched against the risk associated with receiving them fully and on time. The returns are estimated as either a single value or a stream of income expected to be received by the business owners in the future. The risk is then quantified by means of the so-called capitalization or discount rates.

The methods which rely upon a single measure of business earnings are referred to as direct capitalization methods. Those methods that utilize a stream of income are known as the discounting methods. The discounting methods account for the time value of money directly and determine the value of the business enterprise as the present value of the projected income. This method is not appropriate as the data to carry out a forecast of revenue streams is not available.

The methods under the Income Approach include:

- Discounted cash flow method. (key limitation is estimating periodic cash flow's)
- Multiple of discretionary earnings method.(key limitation is estimating multiple period earnings)
- **Capitalization of earnings method (to be used)**

Business Value and Selling Price Considerations

A number of consideration affect the price a business sells for. Ideally, the seller can command the highest selling price if the business sale is timed when the business financial performance is at its peak and market conditions for the business sale are best. In reality, circumstances may compel the seller to put the business on the market when the conditions are less than optimal, thus affecting the actual selling price. The market conditions are currently on an upward rebound, and the sale is timed for post COVID-19 pandemic, business resurgence.

Asset-Based Business Valuation Results

The value of the subject business under the Asset Approach, workings in appendix 1

	Kshs
Value of the Operating Business	<u>300,150,669</u>
200,000 Ordinary Shares issued.	
One (1) Ordinary Shares – Value per share	<u>1,501</u>
Value of 70,000 Ordinary Shares	<u>105,052,734</u>
Plus value of debt_acquired – Karim Loan	<u>24,906,800</u>
Total value of shares sold	<u>129,959,534</u>
Value of equity plus debt – per share	<u>1,856.60</u>

Capitalisation of earnings - Business Valuation Results

The value of the business under the Capitalisation of Earnings Approach, workings in appendix

	Kshs
Value of the Operating Business	<u>221,066,540</u>
200,000 Ordinary Shares issued.	
One (1) Ordinary Shares – Value per share	<u>1,105.30</u>
Value of 70,000 Ordinary Shares	<u>77,371,000</u>
Synthesis of Valuation (average of two methods)	
Adjusted book value method	105,052,734
Capitalisation of earnings method	<u>77,371,000</u>
	<u>182,423,734</u>
Average value of 35% of Inland Africa Logistics Ltd	<u>91,211,867</u>
Plus value of debt_acquired – Karim Loan	<u>24,906,800</u>
Total value of investment	<u>116,118,667</u>

Statement of Limiting Conditions

This business appraisal relies upon the following contingent and limiting conditions:

1. I assume no responsibility for the legal matters including, but not limited to, legal or title concerns. Title to all subject business assets is assumed good and marketable.
2. The business interest and subject business assets have been appraised free and clear of any liens or encumbrances unless stated otherwise. No hidden or apparent conditions regarding the subject business assets or their ownership are assumed to exist.
3. All information used is believed to be accurate.
4. Unless stated otherwise in this report, we have assumed compliance with the applicable National and County laws and regulations.
5. We have assumed that no hazardous conditions or materials exist which could affect the subject business or its assets. However, we are not qualified to establish the absence of such conditions or materials, nor do we assume the responsibility for discovering the same.

Business Valuer Credentials and Certification

FCPA Mohamed Ebrahim, ACMA/CGMA, MCSI

Master of Business Administration, Manchester Business School, The University of Manchester.

Professional Affiliations

- Practicing, Fellow, of the Institute of Certified Public Accountants of Kenya R. No 4069
- Member Chartered Institute of Securities and Investments –UK (MCSI)
- Chartered Global Management Accountant (CGMA-ACMA).
- Member - Chartered Institute of Arbitrators
- Member – Institute of Internal Auditors
- Fellow of the Chartered Institute of Corporate Treasurers,
- Fellow of the Institute of Financial Accountants and Institute of Public Accountants of Australia (FFA/FIPA).

MOOC Courses

- The World Bank Group's MOOC on Financing for Development.
- Financial Markets: Course authorized by Yale University
- Principles of Valuation: Time Value of Money authorized by University of Michigan

Certification Statement

I certify that, to the best of my knowledge and belief, the statements of fact contained in this report are true and correct; the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. My engagement in this assignment was not contingent upon developing or reporting predetermined results. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. My analyses, opinions, and conclusions were developed, and this report has been prepared independently.



Signed,

Appendix 1 – Asset based Valuation workings – Adjusted book value

Inland Africa Logistics Limited

Annual report and financial statements (Extract)

STATEMENT OF FINANCIAL POSITION (Balance Sheet)

2020

KShs

EQUITY

Share capital 20,000,000

Retained earnings 131,250,669

Equity attributable to the shareholders of the company 151,250,669

Borrowings - Shareholders loans 68,320,173

Total Capital Employed by shareholders of the company 219,570,842

REPRESENTED BY

Non-current assets

Property, plant and equipment 15,951,070

Investment property 22,736,502

Investment in subsidiary 1,530,000

Deferred tax 2,528,009

42,745,581

Current assets

Trade and other receivables 98,497,440

Clients disbursement recoverable 6,703,912

Cash and cash equivalents 84,938,017

Current tax recoverable 15,258,902

205,398,271

Current liabilities

Trade and other payables 28,573,010

Net current assets 176,825,261

Net assets represented by shareholders funds 219,570,842

Valuation	Kshs	Kshs
Equity attributable to the shareholders of the company		151,250,669
Adjustment for Under PPE used by subsidiary as Yard for parking trucks		
Leasehold land - cost purchased in 2011	12,895,032	
Appreciation factor 2.5 from 2011 to 2021 (10 years)		
Estimated value in 2021	32,237,580	
Net Increase in Leasehold land value	19,342,548	19,342,548
Investment property - cost purchased in 2013	22,736,502	
Appreciation factor 2.3 from 2013 to 2021 (8 years)		
Increase in Value in 8 years	52,293,954	
Net Increase in Investment land value	29,557,452	29,557,452
Option values -estimated		
Arising from Kenya Sugar Board licence – expanded trading		30,000,000
Arising from developing investment property (see details below)		70,000,000
Adjusted Asset value		300,150,669
Value per share - 200,000 shares		1,501
Value for 70,000 ordinary share -35%		105,056,000
Add Karim Dharamshi Loan under Shareholders Loan		
* This will be taken over by the purchaser, as it is debt capital contributed by all members		<u>24,906,800</u>
Total Value of the 35% shares, including debt		<u>129,962,800</u>

Details of Plots

1. Property, plant and equipment – leasehold land at cost.

Leasehold land relates to land, plot No. CR. 20735, leased by the Republic of Kenya to Inland Africa Logistics Limited, it is for a period commencing for 99 years from 1st February 1988. This was Purchased on 28th February 2011, for Kshs **12,895,032**. This is currently used by the subsidiary to park its long distance vehicles.

2. Investment Property

	Kshs
Plot No. 7042 Sec. I M/N	8,804,892
Plot No. 7063 Sec. I M/N	4,681,140
Plot No.B95 & 410 Kilifi/Kawala	<u>9,250,470</u>

Total value of plots held as investments, which gives the company the option to redevelopment to realise their value.
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22,736,502

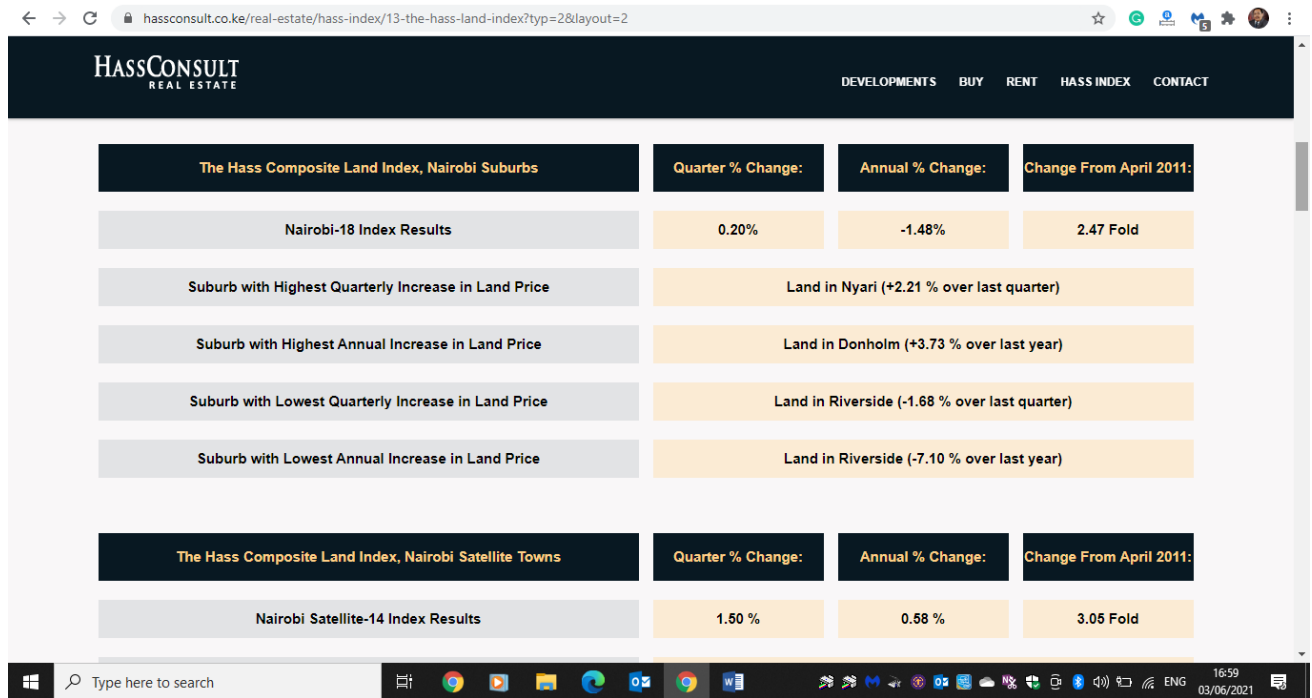
NB Plots Purchased in 2013

3. Factor used to revalue property

Kenya does not have an official real estate index. The only publicly real estate index is the HASS Index, however it is Nairobi and surrounding area's, which serves as the proxy for the entire country.

Link <https://hassconsult.co.ke/real-estate/hass-index/12-about-the-hass-index>

We have used a factor of 2.5 for 10 year appreciation and reduced by 0.10 for each year reducing.



The screenshot displays the HassConsult Real Estate website. The header includes the company logo and navigation links: DEVELOPMENTS, BUY, RENT, HASS INDEX, and CONTACT. The main content area is divided into two sections: 'The Hass Composite Land Index, Nairobi Suburbs' and 'The Hass Composite Land Index, Nairobi Satellite Towns'. Each section contains a table with three columns: 'Quarter % Change', 'Annual % Change', and 'Change From April 2011:'. The Nairobi Suburbs section lists 'Nairobi-18 Index Results' with a 0.20% quarterly change, -1.48% annual change, and 2.47 fold increase. It also lists the highest and lowest quarterly and annual increases in land price for various suburbs. The Nairobi Satellite Towns section lists 'Nairobi Satellite-14 Index Results' with a 1.50% quarterly change, 0.58% annual change, and 3.05 fold increase.

The Hass Composite Land Index, Nairobi Suburbs			
	Quarter % Change:	Annual % Change:	Change From April 2011:
Nairobi-18 Index Results	0.20%	-1.48%	2.47 Fold
Suburb with Highest Quarterly Increase in Land Price	Land in Nyari (+2.21 % over last quarter)		
Suburb with Highest Annual Increase in Land Price	Land in Donholm (+3.73 % over last year)		
Suburb with Lowest Quarterly Increase in Land Price	Land in Riverside (-1.68 % over last quarter)		
Suburb with Lowest Annual Increase in Land Price	Land in Riverside (-7.10 % over last year)		

The Hass Composite Land Index, Nairobi Satellite Towns			
	Quarter % Change:	Annual % Change:	Change From April 2011:
Nairobi Satellite-14 Index Results	1.50 %	0.58 %	3.05 Fold

Appendix 2 – Capitalisation of earnings - Valuation workings

Inland Africa Logistics Limited
Annual report and financial statements (Extract)

Valuation using Income approach Capitalisation of Earnings

STATEMENT OF PROFIT OR LOSS				2020
				Shs
Profit/(loss) before tax				14,541,647
Adjustments for discretionary items				
Directors Bonus				20,000,000
Adjusted Profit Before Tax				34,541,647

Earning figure capitalised	34,541,647
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Capitalisation multiple used 6.4	221,066,540
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Value per share (200,000 ord. shares)	1,105.30
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Value for 70,000 shares (35%)	77,371,000
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NB: Directors bonus is shared in accordance with the shareholding ratio, and is only payable every year. This is to be distinguished from the directors remuneration, in the financial statement which is for Mr Roy Mwathi, who serves as an Executive director on a full time basis.

Add Karim Dharamshi Loan under Shareholders Loan or withdrawn by him and replaced by the incoming shareholder	24,906,800
NB: This will be taken over by the purchaser, as it is debt capital contributed by all shareholders	
Total Value of the 35% shares, including debt	<u>102,277,800</u>

NB: The income approach does not take into account the option value for developing the investment property plots, and fully utilising the quota allocated for importing sugar under the licence from Kenya Sugar Board.

Capitalisation rate – being Kenya Risk free rate plus Country risk premium

Risk free rate proxy being 91 day treasury bill rate in Kenya – 7.14 %

Country Risk Premium 8.51 %

Discount rate used in capitalisation 15.65 %

Capitalisation multiple being inverse of rate $100/15.65\% = 6.4 \text{ times}$

Sources of information

Treasury bill rate <https://www.centralbank.go.ke/bills-bonds/treasury-bills/> **7.137%**



CENTRAL BANK OF KENYA

Treasury Bills

Treasury Bills on Offer

91-DAY

Issue Number: 2425/091 Auction
Date: 10th June 2021 Previous
Average Interest Rate: 7.137%
Value Dated: 14th June 2021

182-DAY

Issue Number: 2398/182 Auction
Date: 10th June 2021 :Previous
Average Interest Rate 7.818%
Value Dated: 14th June 2021

364-DAY

Issue Number: 2348/364 Auction
Date: 10th June 2021: Previous
Average Interest Rate: 8.973%
Value Dated: 14th June 2021

Countries With the Highest CRP

Country	Total Equity Risk Premium	Country Risk Premium
Angola	31.78%	25.77%
Zambia	24.84%	18.83%
Nigeria	17.84%	11.83%
Iraq	17.82%	11.81%
Ukraine	16.00%	9.99%
Rwanda	15.56%	9.55%
El Salvador	15.15%	9.14%
Kenya	14.52%	8.51%
Oman	14.28%	8.27%
Pakistan	14.08%	8.07%

Source: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html