investing in alternative gaming, such as sports betting and online gambling, prior to Covid-19. Though small in the revenue mix, an acceleration of this strategy could provide growth.

IM reckons that unless there's a second hard lockdown, the worst is behind Sun. This is reflected in monthly revenue from gaming; in July only 39% of the revenue for the prior year, but 56% in August. With a lifting of restrictions, as well as the re-opening of destinations such as Sun City, trading will likely improve ... albeit from a low base.

Though Sun management has acted proactively, debt levels are still too high and many risks remain.

A serious non-Covid related risk is a potential change to GrandWest's exclusivity zone. The recent draft amendments to Western Cape legislation on gambling and racing would mean, if implemented, that GrandWest's zone would be reduced from 75km to 25km. Sun has submitted comments on the bill, but if the draft is passed the result could be the entrance of a competitor uncomfortably close to the important GrandWest asset.

Despite the risks, Sun's share price has been under strain this year and may now have reached levels where investors with some risk appetite may consider placing money on the table. ●

Shawn Stockigt

Libstar

Food counter's potential stays intact

Mid-cap food counter Libstar has been an IM favourite for some time. Its market prospects appear sound and management is trying hard to rebuild trust following its disastrous May 2018 listing and subsequent profit warning, which saw the stock halve from its initial 1,250c listing price.

Management has continued to refine the business model and extend relationships with key clients allied to a rapid roll-out of new products under well-known brands such as Lancewood and Denny.

The stock responded well to these moves in 2019, recovering to a high of 950c. As the weakening economy and softness in consumer demand started to envelop the food sector in late 2019, the entire sector derated and Libstar's share price retreated.

Libstar, to its December 2019 financial year-end, held up well, with headline earnings rising 14% to 85.1c a share. However, as the company and food sector entered 2020 there was an early softening of consumer demand that was compounded by the pandemic.

The lockdown resulted in disruption to normal retail supply channels and product import and export issues. The progress made by Libstar in the first quarter of the current financial year was dashed.

Interim results to end-June recorded a 17.7% drop in headline earnings to 24c a share, with revenue rising a modest 1.9% to R4.7bn. IM believes this was a commendable achievement gives the material business disruption.

Much of the profit crunch was caused by extraordinary charges and costs associated with the pandemic. These amounted to R44m. Libstar's food service sales fell of a cliff during the lockdown as demand for products such as cheese, meat patties and tortilla wraps dived. In the second quarter food service sales fell 63.2% and exports 26.3%.

But the pandemic also resulted in changing food sales as consumers had to cook more at home, and the baking trend took off.

The retail and wholesale division recorded growth in the Covid period of 14.2%. Libstar had products at hand and consumers stocked up on favourites at Woolworths and Checkers. Libstar also landed some new lines inside Spar.

With schools being closed, children's favourites – such as Kiri and Laughing Cow cheese – saw weaker demand, but this was offset by the home cooking trend, which saw a surge in demand for pasta. The baking trend saw demand for pricey imported Lurpak butter double.

Mushroom sales via Denny exceeded expectations and the in-home snacking boom aided Libstar's range of nuts as well as its Pringles manufacturing arm.

Management indicated that the second half of the financial year has started strongly. The weak rand and the reopening of export channels have resulted in surging demand for Libstar's range of spices and wet condiments from the US, Japan and Australia. Even new listings in the UK were secured.

Retail channels are recovering as consumers and businesses are able to operate in a new normal environment. Sales in the first two months of the second half have been good and Libstar is more than satisfied with progress – though there's uncertainty over a second Covid-19 wave and the festive trading period.

Despite these encouraging statements by Libstar on a second-half recovery, the stock has yet to respond, with the counter holding steady at 673c.

On a year-to-date basis Libstar's stock is down 11% – slightly outperforming sector competitor Rhodes Foods. IM believes Libstar's potential remains intact, and has a "buy" recommendation with a target price of 850c. ●

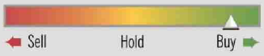
Anthony Clark

LIBSTAR

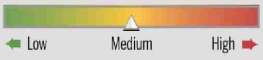
It is a diversified food player with a sweet spot in the dairy niche. The group also supplies in-house brands to a number of large retailers – which is a growing business

Financial year-end: **December**
Final results: **March**

RECOMMENDATION



RISK



Market cap	R4.7bn
Forward PE	7.4
Current price	**673c**
1-year high	860c
1-year low	516c
Key indicators (12-mnth)	
Heps	24c
Div/share	N/A
PE ratio	11
Total revenue	R4.7bn
Attributable revenue	R99m
Total assets	R10.7bn
Equity	R5.3bn

Target price: 850c **Upside: +26%**

PERFORMANCE