

Sabvest Capital Ltd Superb Capital Allocator at Unjustified Discount

Share Code: SBP – Market Cap: R1.6bn – Discount-to-SOTP: 64%

12m Target Price	7542cps
Share Price	3900cps
Implied Return	93%

Financials | [South Africa](#)

Group & Portfolio Overview: Majority Unlisted Investments

- Sabvest Capital offers a unique entry-point into a portfolio of majority unlisted investments that have demonstrated strong growth, dedicated management teams (often co-investors) and that are carried at reasonable valuations.
- The Group's three largest investments (all unlisted) are (1) DNI-4PL, a cash-generative last-mile telcos distribution group, (2) ITL Holdings, a global labelling & technology-enabled tagging business, & (3) SA Bias, an exporter of narrow textiles/strapping from South Africa and group offering process-critical fluid handling solutions in the United Kingdom.

Investment Case: Better than the Best (Fund Manager) & Cheaper

- Management has grown Group NAV (+18.6% CAGR y/y for fifteen years, *excluding* dividends) faster than the best-of-the-best general equity fund managers across South Africa *and* they have done so at a lower cost-to-NAV than these leading unit trusts.
- Finally, this performance is currently priced at a c.51% discount to NAV on the JSE (relative to our estimated fair discount of only c.19% and the peer-group average discount of 42% currently applied to listed HoldCo's > R1bn market cap).
- The key competitive advantages that have helped Sabvest generate this growth (permanent capital & alignment of interest/'Partnership Principle') remain intact and, thus, we see no non-macro factors why the Group could not continue performing as it has done in the past.

Valuation, 12m TP & Implied Return: Cheap Against All Measures

- We have formed a view that the Group's unlisted investments are reasonably valued. Importantly, most of them have seen trading recover strongly following the impact of COVID.
- Furthermore, updating the Group's NAV for the latest listed price, inserting post-period corporate actions and taking out our fairly-valued "HoldCo discount" of 19%, we arrive at defensible (post-discount) fair value for Sabvest Capital shares of 6402cps or +64% *higher* than the current share price.
- Rolling this fair value forward at our Cost of Equity, we see the Group's 12m TP as 7542cps with an implied return of +93%.

Financial Summary	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Net Asset Value (cps)	1120cps	1855cps	2358cps	2683cps	3719cps	3646cps	5085cps	5852cps	6648cps	7444cps
Growth (%)	21%	66%	27%	14%	39%	-2%	39%	15%	14%	12%
HEPS (cps)	178cps	308cps	608cps	445cps	1004cps	9cps	1517cps	531cps	917cps	709cps
Growth (%)	16%	73%	97%	-27%	126%	-99%	>100%	-65%	73%	-23%
DPS (cps)	24cps	32cps	40cps	43cps	50cps	55cps	61cps	68cps	75cps	25cps
Growth (%)	41%	33%	25%	8%	16%	10%	11%	11%	10%	-67%

Sources: Sabvest various reports & Blue Gem Research assumptions & workings

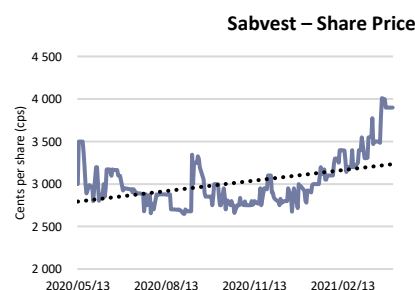


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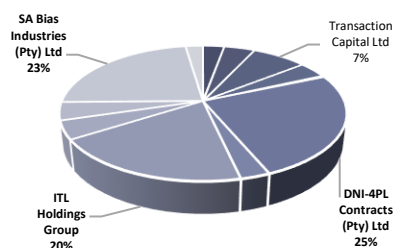
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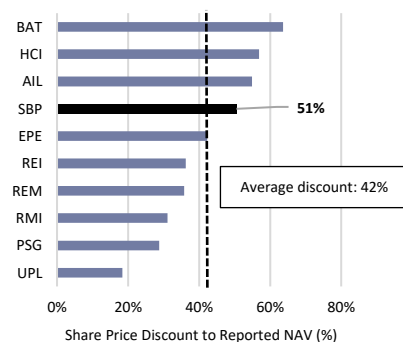
Source: Profile Media

Sabvest – Portfolio Major Weightings



Sources: Sabvest & Blue Gem Research workings

JSE-listed HoldCo Shares' Discounts to NAV



Sources: Various company reports & Blue Gem Research workings & assumptions



BLUE GEM RESEARCH

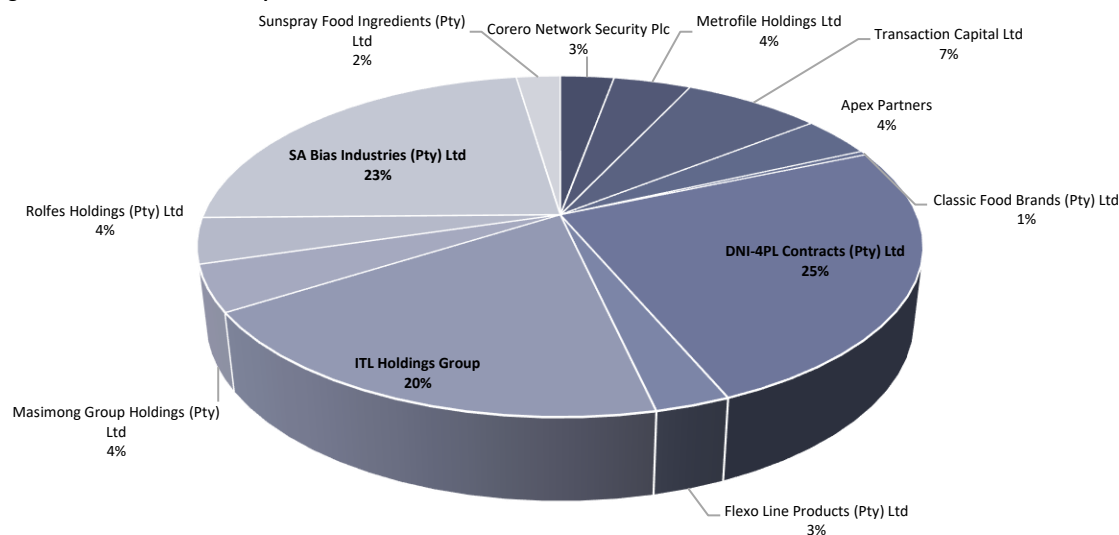
Table 1: Sum-of-the-Parts	Description	Shares / %-shareholding	Valuation Methodology / Comment on Calculation	Valuation	% of NAV
Listed Investments				R481 285 547	15%
Corero Network Security Plc	LSE-listed DDOS-focussed cyber security group.	36 250 000	Market price of shares (GBP12,16ps)	R95 758 000	3%
Metrofile Holdings Ltd	JSE-listed group offering secure & digital storage, document solutions & related services.	50 147 662	Market price of shares (280cps)	R138 407 547	4%
Transaction Capital Ltd	JSE-listed group offering taxi financing, credit services & has recently acquired WeBuyCars.	8 000 000	Market price of shares (3089cps)	R247 120 000	8%
Unlisted Investments				R2 870 803 000	89%
Apex Partners	An opportunistic holding company with a portfolio of controlling interests in distribution, manufacturing and infrastructure businesses in South Africa. The business may also offer advisory, investing and lending solutions which may include taking proprietary positions in distressed entities or group restructures.	44,8%	Valued by Apex management on Maintainable Earnings across their portfolio on 4,0x~4,5x multiples	R128 484 000	4%
Classic Food Brands (Pty) Ltd	A food manufacturer specializing in crumbed chicken products distributed through retail outlets in KwaZulu-Natal and Gauteng (& nationally from Q1 2021 after signing with Shoprite Checkers).	25,0%	Look-through-NAV	R13 290 000	0%
DNI-4PL Contracts (Pty) Ltd	A telcos-orientated group offering technology, logistics and distribution services to the telecoms and related industries and all network operators in RSA, including sim card starter packs, airtime and handset distribution, tower leasing and technology platforms.	19,4%	(Normalized EBITDA x 6,5x) - Net Debt	R839 376 000	26%
Flexo Line Products (Pty) Ltd	A manufacturer of high-quality injection moulded plastic products primarily for the spice and food industries locally and internationally.	47,5%	(Normalized EBITDA x 4,5x) - Net Debt	R95 008 000	3%
ITL Holdings Group	Intelligent Labelling Solutions (ITL) is an international designer, manufacturer & distributor of apparel labelling & identification products, & supply chain management solutions including RFID. It has factories & marketing offices in the USA, Canada, China, India, Sri Lanka, Turkey, Bangladesh, Vietnam, Hong Kong, Mexico, Ethiopia, Mauritius, Madagascar, Germany, UK & South Africa for supply to the clothing industry worldwide through multiple international retail group accreditations.	30,0%	(Normalized EBITDA x 9,0x) - Net Debt	R655 073 000	20%
Masimong Group Holdings (Pty) Ltd	An empowered investment company holding investments in Seriti Coal and Lephalale Coal & Power, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Intellichem. It also holds several smaller diversified interests including Rolfes and Anchor Capital	10,0%	Valued by Masimong management using a Discounted Free Cash Flow approach.	R147 100 000	5%
Rolfes Holdings (Pty) Ltd	A specialist provider of agricultural, food, industrial and water chemical solutions and services.	25,1%	(Normalized EBITDA x 6,0x) - Net Debt	R145 452 000	5%
SA Bias Industries (Pty) Ltd	A Group that holds Flowmax & Narrowtex. In the UK and Europe, Flowmax engages in the manufacture, import, servicing & distribution of medium technology fluid handling equipment, consumables & measurement systems, and solutions for heat control. Narrowtex is a South African manufacturer and exporter of a range of narrow fabric products including webbings, strapping, tapes and braids, and a manufacturer of lingerie components, elastics and accessories.	59,9%	(Normalized EBITDA x Multiple) - Net Debt with Floxmax & Narrowtex on 6,0x & 4,5x	R768 590 000	24%
Sunspray Food Ingredients (Pty) Ltd	Offers food ingredient solutions to South African manufacturers by supplying spray-dried & blended powdered food & drink products & services.	27,7%	(Normalized EBITDA x 5,0x) - Net Debt	R78 430 000	2%
Other & Post-period-end Transactions				-R126 664 856	-4%
Offshore Investment Funds			Per balance sheet disclosure	R56 295 000	2%
Net proceeds (Transaction Capital share sale)			Per JSE SENS (25 March 2021).	R59 160 000	2%
Net proceeds (Brait Bond sale)			Per FY 20 narrative disclosure.	R48 200 000	1%
Net proceeds (Rolfes call option)			Per FY 20 narrative disclosure.	R35 500 000	1%
HoldCo Net Debt			Per FY 20 narrative disclosure.	-R309 000 000	-10%
Accrued Dividend Paid	15cps final dividend x issued share capital			-R6 138 599	0%
Share buy-back during Closed Period			Per FY 20 narrative disclosure.	-R1 062 897	0%
Net Asset Value				R3 235 042 051	100%
Less: "Investment Holding Discount"		Net Present Value of estimated HoldCo costs		-R615 261 966	-19%
Sum-of-the-Parts (SOTP)				R2 619 780 085	
<i>Ordinary shares</i>		<i>Net of recent share buybacks</i>		40 923 994	
Fair Value per share (cps)		SOTP divided by the issued shares		6 402cps	
Discount to share price (%)				-	64%
12m Target Price (cps)		SOTP rolled-forward by Cost of Equity		7 542cps	
12m Implied Return (%)				-	93%

Sources: Sabvest various reports, Bloomberg, Profile Media, JSE & LSE share prices, & Blue Gem Research workings & assumptions (all spot and share prices based on 1 April 2021 Closing Price)

Investment Case

[Sabvest Capital Ltd \(code: SBP\)](#) has a unique portfolio (Table 1 & Figure 1) that is actively run with management that has a demonstrable track record of growth (Figure 2). This track record not only outperforms the best-of-the-best equity fund managers (5-, 10- & 15-year periods) but does so at a *lower* cost than them (Table 2). Finally, Sabvest’s current market price offers a deeply discounted entry point into this vehicle. This discount is not just wide against any measure thereof but, when compared to the other HoldCo’s on the JSE, it is also *relatively* wide versus their discounts.

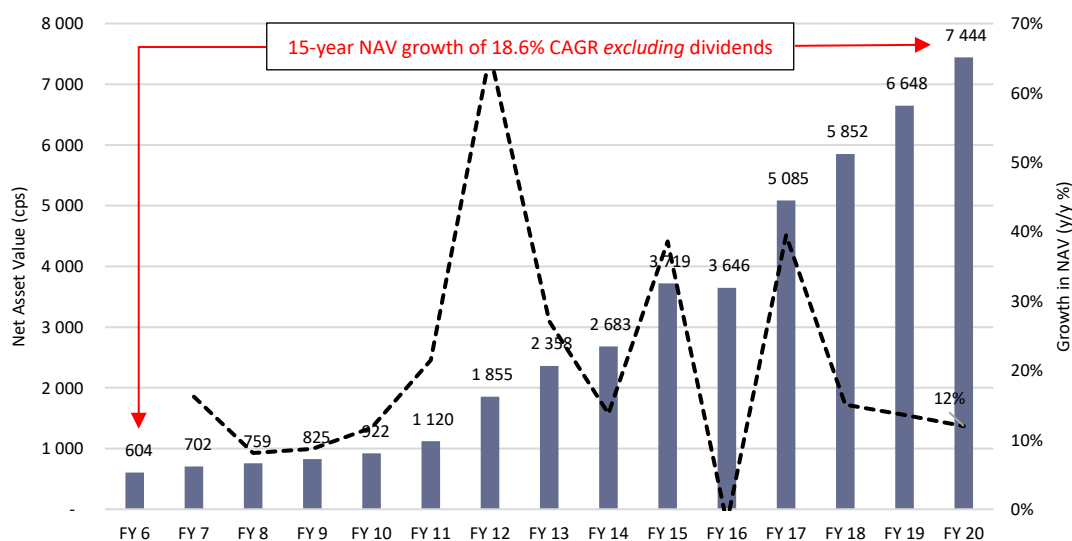
Figure 1: Sabvest Portfolio Snapshot



Sources: Sabvest & Blue Gem Research workings

[DNI-4PL](#), [SA Bias](#) & [ITL Holdings](#) make up c.68% of Sabvest’s gross asset value. Each one of these businesses has a history of growth, invested management/partners and is not aggressively priced per Sabvest’s assessment of their fair values and our reasonableness tests.

Figure 2: Sabvest Net Asset Value History & Growth Rate (Excluding Dividends)



Sources: Sabvest & Blue Gem Research workings

Sabvest has grown its Net Asset Value (NAV) by 18.6% y/y CAGR over the last fifteen years (*excluding* dividends). As an effectively discretionary manager of capital, we can compare this growth rate to the best performing general equity unit trust over each period (*including* their distributions). Sabvest does not just beat the best-of-the-best general equity manager over 5, 10 and 15 years, but the Group does so at a lower cost. Add to this fact that unit trusts issue their units at NAV (i.e. zero discount) but an investor could potentially buy Sabvest shares on the JSE at a c.51% discount to their NAV, and a very compelling investment becomes clear around this unique investment company.

Table 2: Sabvest Compared to the Top Performing General Equity Unit Trust (For Each Period)

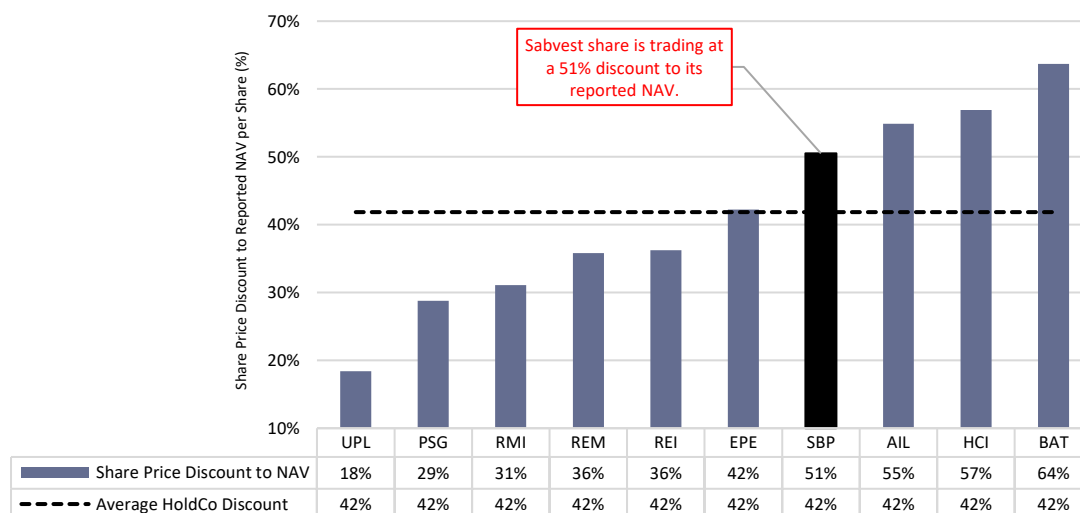
Returns Analysis: Sabvest versus General Equity Unit Trust Champions	5 year	10 year	15 year
Industry-best General Equity Unit Trust for Each Time Period (CAGR % <i>including</i> distributions)	-1,1%	+12,6%	+13,1%
Sabvest Net Asset Value (CAGR % <i>excluding</i> dividends)	+14,9%	+19,7%	+18,6%
Alpha Generated by Sabvest over-&-above Unit Trust (outperformance per year)	+16,0%	+7,1%	+5,5%
Cost Analysis: Sabvest versus General Equity Unit Trust Champions	5 year	10 year	15 year
Industry-best General Equity Unit Trust for Each Time Period (Total Investment Cost Ratio*)	2,50%	4,72%	4,72%
Sabvest (HoldCo 5 & 10-year Costs Averaged as % of NAV)**	2,00%	2,50%	2,77%
How much cheaper has Sabvest been than the respective Unit Trust? (Saving per year as % of NAV)	0,50%	2,22%	1,95%
<i>* Per latest MDD of Fund Manager; ** Per Blue Gem Research workings</i>			
Valuation Analysis: Sabvest versus General Equity Unit Trust Champions			
Industry-best General Equity Unit Trust***			0%
Discount of Sabvest share price to Fairly-valued NAV (%****)			51%
Sabvest Discount Relative to Unit Trusts			51%

*** Unit Trusts issued at daily NAV by ManCo's with no discount; **** Share price relative to the latest reported NAV
Sources: ASISA, Profile Media & Blue Gem workings & assumptions

Our calculations imply Sabvest's cost structure should only attract a c.19% discount to NAV. Ignoring this argument and comparing the Group to other JSE-listed HoldCo's, Sabvest still appears overly discounted against its NAV. Looking only at HoldCo's with market caps greater than R1bn, a peer-group average discount to reported NAV of 42% is still less than Sabvest's current 51% discount. Hence, from every angle we consider, Sabvest's share price appears cheap.

Indeed, management's shrewd capital allocation sees them continuing to buy back the Group's shares in the market, which is an action we cannot fault given how NAV accretive it likely to be at these prices. Further capital has been committed to buying back more of the Group's shares in the current financial period.

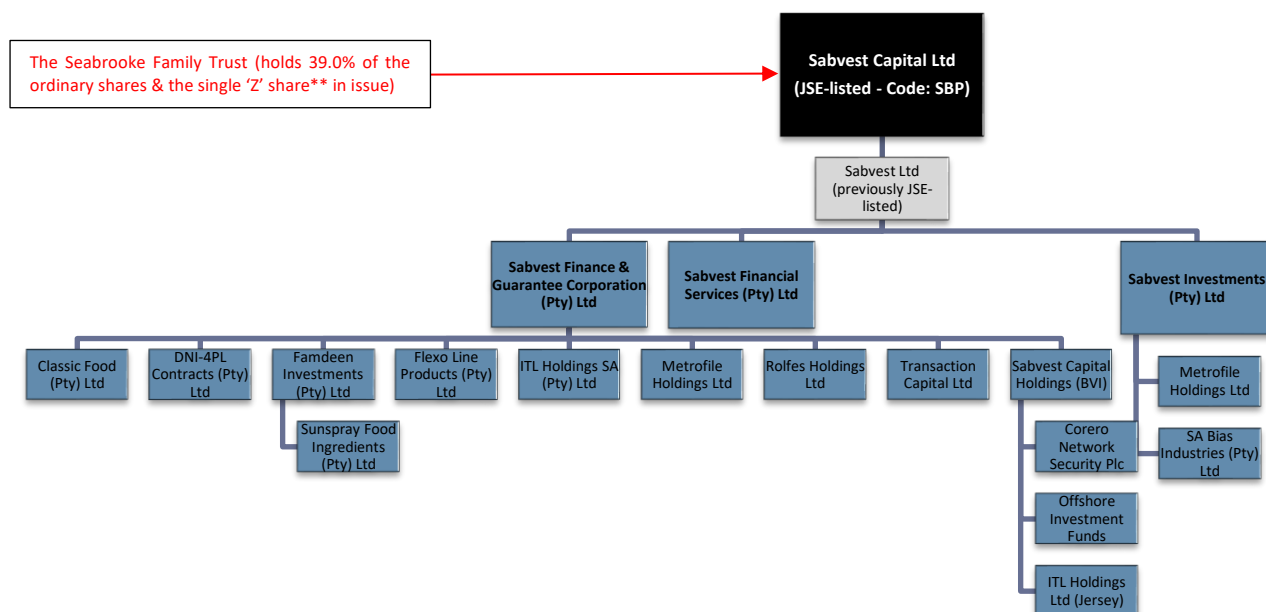
Figure 3: JSE-Listed "HoldCo" Discounts (Market Capitalisations > R1bn)



Sources: Various company reports, Bloomberg, Iress, Profile Media & Blue Gem Research workings & assumptions

Group Overview, Investment Policy & Governance

Figure 4: Summarised Group Structure*



Sources: Sabvest & Blue Gem representation; Refer to Table 1 for % shareholding in each investment; * Excluding dormant subsidiaries & other holdings; ** 'Z' share in issue creates a controlling vote for The Seabrooke Family Trust.

While Sabvest Capital Ltd is a newly listed company, its listing was the result of the restructuring of Sabvest Ltd (where its 'N' and ordinary share structure was collapsed). The latter was listed on the JSE in 1988 and, since listing, has been run and controlled by The Seabrooke Family Trust (SFT).

The Group has a primary investment focus of maintaining and growing a portfolio of significant equity interests in listed and unlisted companies with sound growth records or potential for growth that are expected to earn above-average returns over a period.

Investment Policy & Key “Partnership Principle”

In Sabvest’s own words, its investment policy is as follows:

- *Our [i.e. Sabvest Capital Ltd’s] aim is to maintain and grow a portfolio of equity interests in a spread of industries with sound growth records or potential for growth, that will generate cash and earn above-average returns on capital over a period.*
- *Our interests in unlisted companies will usually be large minority holdings with sizeable interests held by management, or financial or family shareholders with whom we interact as partners.*
- *We also hold listed investments where we are represented on the boards and/or where directors or material shareholders are known to us, or in special situations.*
- *We may hold equity investments that are small in percentage terms, but where we are able to exert influence through Board representation or shareholder agreements. Conversely, we may hold majority or joint controlling interests but without direct management responsibility. Accordingly, we participate in good businesses with first-class management without being restricted by a required size of holdings.*

- *Our approach to our investments is similar to that of a diversified holding company. However, each business in which we are invested is free standing in financial terms, ring-fenced as to risk and separately assessed.*
- *We wish to hold a meaningful level of investments in international currencies directly or indirectly.*
- *We do not follow a trading approach to our primary holdings. We do not acquire or dispose of investments in accordance with a private equity philosophy, nor are we constrained by any required balance between listed and unlisted holdings. We hold our investments on a long-term basis subject only to continual review of the quality of the underlying businesses, and to any constraints or obligations in shareholder agreements or JSE closed periods.*
- *We will, when necessary, make changes to our holdings or within the businesses in which we are invested notwithstanding any short-term accounting consequences.*
- *We do not issue shares for acquisitions or investments, or for the purposes of raising funds unless the value received meaningfully exceeds the value given.*
- *In addition to our long-term portfolio of equity investments, we also hold cash, bonds and other investments and debt instruments from time to time.*

Management has the following growth targets:

- **NAV by CPI + 10% y/y:** Achieved with a 15-year +18.6% y/y CAGR in NAV.
- **Dividends by CPI + 5% y/y:** Achieved with a +16% y/y CAGR in DPS from FY 6 ~ 19.

Two key elements have both helped Sabvest's capital allocation and related growth in NAV:

- **Permanent capital:** Due to investing permanent capital, Sabvest has a more flexible (i.e. longer) time horizon than competing institutional and private equity investors. This has allowed management the room to maximise long-term returns over shorter-term liquidity requirements. In turn, this has aided the Group's ability to compound its capital returns and grow its NAV. This competitive advantage remains in place and we do not see it changing going forward.
- **Partnership Principle:** Each of the Group's major underlying investments has a strong and invested management team/partner in place. Through its respective shareholdings, Sabvest views itself as going into "partnership" with each of these respective management teams as they grow their businesses. This alignment of interest is key across the Group: i.e. Sabvest's management is directly invested into Sabvest Capital, and this is true down to the respective investee company where they have management/partners that are co-invested with the Group into their respective businesses. This excellent alignment of interests remains in place and we do not see it (or the overarching "Partnership Principle") changing going forward.

Management & Governance

Christopher Stefan Seabrooke - Chief Executive Office

BCom, Bacc, MBA, FCMA

Seabrooke founded the Group and has run it since 1987. He has been a director of over 25 listed companies over the years and is currently Chairman of Transaction Capital Limited and Metrofile Holdings Limited. He is also a director of numerous unlisted companies. He is the former Chairman of the State Theatre of South Africa and Deputy Chairman of the inaugural National Arts Council of South Africa.

Raymond Pleaner – Chief Financial Officer

BCompt (Hons), CA(SA)

Pleaner joined the Group in 1985 and, subsequently, was appointed to the Board in 1996.

Leon Rood – Executive Director

B.Com, LLB

Rood was previously a senior director of Werksmans and held various positions with Cliffe Decker Hofmeyr and KPMG.

Table 3: Summarised Corporate Governance Checklist

Corporate Governance Aspect	In Place?	Comment
External ManCo?	No	Sabvest is managed internally with no external ManCo earnings fees. Refer to Table 2 for our analysis of costs (and how they favourably stack up against high performing general equity unit trusts as a yardstick of industry comparisons).
External auditors?	Yes	Deloitte & Touche
Internal audit function?	Yes, outsourced	KPMG Services (Pty) Ltd
Appropriate management incentives?	Yes	Short-term and long-term incentives are aligned with growth targets, key performance metrics and lowering the discount that the share price trades relative to its NAV. Added to these incentives is the large management shareholding in the Group. Finally, if you refer to Figure 7, the Group's overheads can be seen to be minimal relative to its balance sheet and capital base.
Independent non-executive Chairman?	Yes	Kuben Pillay is the Group's Independent Non-Executive Chairman.
Balance of non-executives on the Board?	Yes	The Board is composed of four non-executives and three executives.

Sources: Company website, FY 19 AFS and Blue Gem Research

We regard management highly and believe that the above evidence shows the high standards of governance and appropriate alignment of interest across the Group.

Analysis of Underlying Investments & Reasonableness of Valuations

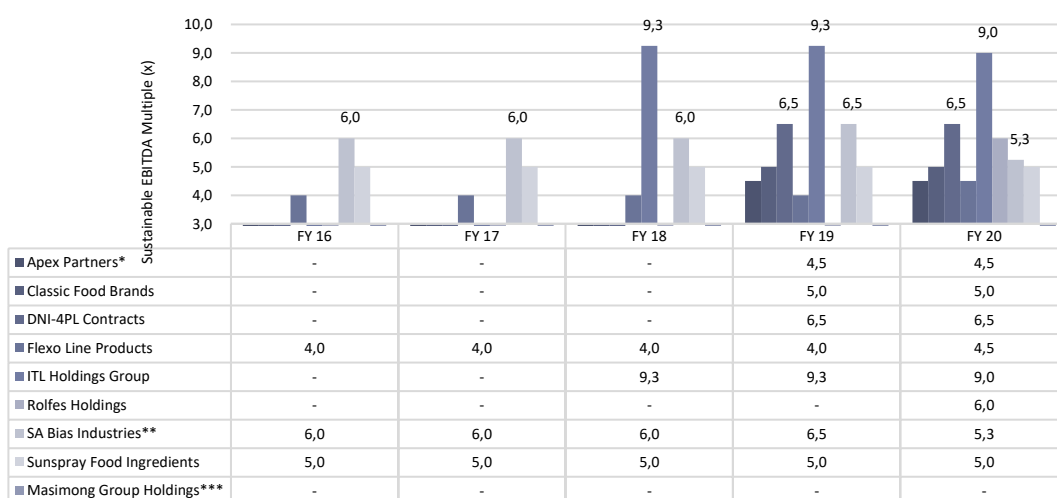
Refer to Figure 1 for a representation of the weightings of each respective underlying investment in Sabvest's portfolio.

While the Group's listed investments are valued per market prices and its investments into other investment companies (i.e. Apex Partners and Masimong) reflect those company's own NAV's, the rest of the Group's investments (i.e. unlisted investments into operating companies) are valued using a normalized EBITDA methodology where an appropriate multiple is applied. The resulting Enterprise Value is then adjusted for net debt/cash and, where appropriate Capital Gains Tax, to arrive at IFRS 10 compliant carrying value on the Group's balance sheet.

While all valuations involve a degree of subjectivity and, thus, can be considered a risk (either to the downside or upside), there are several reasons why we have a high level of comfort around the Group's unlisted investment's valuations:

1. **No multiple creep:** Figure 5 shows each respective investment’s valuation multiple across time. This reveals that the Group’s growth in assets (and, hence, NAV) has *not* occurred due to valuation multiple expansion (which would make this *low*-quality growth) but the growth has come from flat multiples being applied to *growing profits* (making this growth of much *higher* quality).
2. **Third-party involvement:** There is a wide range of third parties across the businesses that offer a wide range of checks and balances on the underlying valuations, namely, as follows:
 - a. **DNI-4PL Contracts:** After Sabvest invested in this group, a range of other investors have invested implying third-party comfort with the group and its valuation.
 - b. **ITL Holdings Group:** A major bank is both a co-investor in parts of this business and a provider of some lines of financing into Sabvest Capital. The ability for both line-of-sight into the underlying and the comfort for lending into the HoldCo implies a comfort around the Group’s investments and, thus, its valuation of these investments. Finally, a prior period private equity bid for this group generated the multiple that is currently being applied by management and applicable for the major bank co-investor.
 - c. **Rolfes Holdings:** Phatisa was the lead investor that took the business private with their valuation and subsequent delisting of this group generating a robust third-party valuation. Sabvest’s use of a 6.0x multiple here is in line with the delisting price.
 - d. **SA Bias Industries:** Private UK and RSA company transactions have generated third-party valuation multiples that have been used in the valuation of this Group’s respective businesses in each of the respective geographies.
 - e. **Apex & Masimong:** Both groups have valued their own underlying and, in many instances, used their own range of external valuers to arrive at defensible NAVs.
3. **Finance facilities renewed:** Sabvest Capital has financing facilities at HoldCo-level from ABSA, FNB, Standard Bank and RMB. The renewal of these facilities by these major banks adds a degree of comfort in the underlying asset base of the Group as each respective bank would independently consider the Group’s valuations of its portfolio.
4. **No direct incentive to overstate NAV:** While management is a large shareholder in Sabvest Capital, the share price’s detachment from its NAV (evidenced by its large discount – Figure 3) partially offsets any incentive to overstate NAV. HoldCo’s with *external* ManCo’s often have *every* incentive to over-value their NAV’s as their ManCo fees are probably based on this NAV. Importantly in Sabvest Capital’s case, the Group is *internally* managed and, thus, this material incentive does not exist for Sabvest management and, thus, adds further comfort to our confidence in the Group’s NAV.

Figure 5: Sabvest’s Underlying Unlisted Portfolio Valuation Multiples Over Time

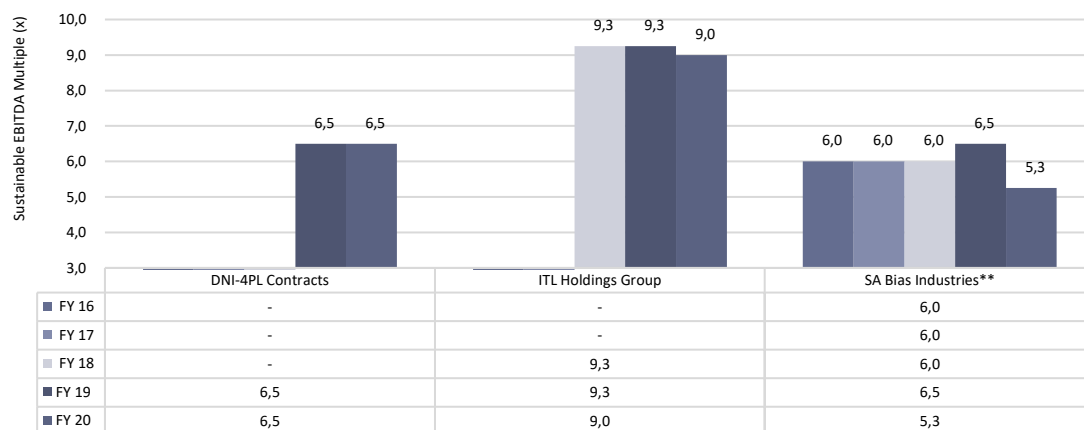


Sources: Various Sabvest reports & Blue Gem Research assumptions; *Average across Apex management valuations; **Average between subsidiary multiples of 4.5x and 6.0x; ***Valuation performed by Masimong management predominantly based on Discounted Free Cash Flow methodology.

Finally, we have zoomed into the three key underlying investments to show their valuation multiples over time (Figure 6). These three unlisted investments make up c.70% of the Group’s gross NAV.

Once again, it is clear that multiple expansion has *not* occurred. Indeed, ITL Holdings and SA Bias, multiple *contraction* has happened in the FY 20 reporting period.

Figure 6: DNI-4PL, ITL Holdings & SA Bias Respective Valuation Multiples Over Time



Sources: Various Sabvest reports & Blue Gem Research assumptions; **Average between subsidiary multiples of 4.5x and 6.0x

DNI-4PL Contracts (Pty) Ltd (19,4%-held stake valued at R839m)

[Website](#) – [Management](#) – [Subsidiaries](#)



Business:

DNI provides technology, logistics and distribution services to the telecoms and related industries and all network operators in RSA, including sim card starter packs, airtime and handset distribution and technology platforms.

The Group has four main segments (spread across a range of subsidiaries):

- Airtime Distribution:** Wholesaler and retailer of airtime.
- SIM Distribution:** Distributor of SIM cards that generate annuity-like income (currently has 4.5m SIMs in its portfolio). The Group is Cell C’s exclusive distributor of SIMs.
- Hardware:** Imports, warehouses, distributes, and can preload with apps all manner of name phones (e.g. Apple, Samsung & Nokia) and white label cellphones (e.g. built for Pepkor and other retailers).
- Technology:** A range of technology-enabled mobile and app businesses with back-end platforms.

<p>Strengths:</p> <ul style="list-style-type: none"> Ownership of <i>true</i> last-mile distribution across much of its offering. Non-exclusivity across networks across most of its portfolio de-risks the Group’s exposure, offers it flexibility and allows it to generate returns to scale across its cost-base. Highly cash generative. Ownership of most of the parts in the telcos eco-system allows preloading of key apps onto cellphones that may mitigate disintermediation risks. 	<p>Weakness:</p> <ul style="list-style-type: none"> A range of minorities in a range of subsidiary businesses potentially create complexity in extracting synergies across the Group. While not purely exposed to Cell C, DNI does exclusively distribute their SIMs. Thus, any collapse in the former may have a (short-term) negative impact on the Group.
<p>Opportunities:</p> <ul style="list-style-type: none"> Rising consumer digitisation, (mobile) data 	<p>Threats:</p> <ul style="list-style-type: none"> A SIM-less mobile phone technology may

<p>demand & general consumption of (mobile) technology creates industry-wide tailwinds.</p> <ul style="list-style-type: none"> • A major airtime wholesaler has recently collapsed leaving potential market share gains for remaining players. 	<p>disintermediate some of the Group’s SIM-based offerings.</p> <ul style="list-style-type: none"> • The ability for telcos to go directly to the consumer (albeit, without the same returns to scale as DNI given that the telcos will only be selling <i>their</i> products to consumers).
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FY 20 Financial Results & Subsequent Trading:

DNI has been largely unaffected by COVID and has increased trading volumes in some of its product and service categories. This agrees with results and trading updates we have seen out across the (domestic and global) telcos sector and the various operators through its supply chain (e.g. Blue Label Telecoms Ltd – See their latest results [here](#)).

Conclusion:

DNI is a well-positioned, well-run Group that operates in a defensive industry that has and should continue to experience tailwinds. We are comfortable with its operating performance and the range of pedigree investors (each having done their own due diligence with a satisfactory outcome) makes us comfortable with this as Sabvest Capital’s single largest investment.

ITL Holdings Group (Pty) Ltd (30,0-held stake valued at R655m)

[Business Snapshot](#) – [History](#)



Business:

ITL Group (Intelligent Labelling Solutions) is a market-leading international designer, manufacturer and distributor of apparel labelling and identification products and supply chain management solutions including RFID.

The Group has factories and marketing offices in the United States, Canada, China, India, Sri Lanka, Turkey, Bangladesh, Vietnam, Hong Kong, Mexico, Ethiopia, Mauritius, Madagascar, Germany, UK and South Africa for supply to the clothing industrial worldwide through multiple international retail group accreditations.

<p>Strengths:</p> <ul style="list-style-type: none"> • Being a small-but-vital part of an end-product makes the Group’s revenues both defensive and its clients less price-sensitive than most parts of the retail supply chain (i.e. brands needs a label with a brand on it, or else it is <i>not</i> brand name fashion; likewise, the COVID-induced boost to online retail has grown the demand for RFID tagging technology). • The Group’s global footprint allows it to deal with large, global fashion houses and retailers in offering an efficient solution. • The Group holds retail accreditations with major retailers. 	<p>Weakness:</p> <ul style="list-style-type: none"> • Due to COVID-19, most of the Group’s worldwide factories were shut down during April and May in 2020. • Perhaps, more broadly, the Group’s is ultimately exposed to the same underlying risks that its fashion retailers are exposed to and—despite having a diversified customer base—it, thus, has an <i>industry</i> concentration in its client base (i.e. fashion retail).
<p>Opportunities:</p> <ul style="list-style-type: none"> • The COVID-induced downturn in the fashion industry has seen a range of smaller, more fragile competitors go under and ITL should naturally gain (some of) this market share. 	<p>Threats:</p> <ul style="list-style-type: none"> • The ability for retailers to insource these services. • The ability for new competitors to enter this industry (even if they only do so regionally).

FY 20 Financial Results & Subsequent Trading:

COVID-19 forced most of the Group's worldwide factories to shut in April and May (and some even in June). This had a severe impact on the Group's FY 20 results. Indeed, Chain store retail demand for the northern hemisphere winter season was weak and, in most instances, it is still not back to pre-COVID levels.

Despite this, ITL's profitability is recovering quicker than the sector's due to less competition (see 'Opportunities' above), new retail accreditations, successful cost-cutting and the success of its new RFID offerings.

Conclusion:

While COVID-19 may have negatively impacted ITL over 2020, we believe that the Group may now be in a *stronger* position with better prospects. This is partially due to less regional competition and partially due to a large boost in the demand for RFID tagging solutions feeding into a much higher online fashion retail base-demand.

SA Bias Industries (Pty) Ltd (59,9%-held stake valued at R769m)

[Website](#) – [History](#) – [Subsidiaries](#)



Business:

SA Bias is a holding company for the following two segments:

- **Narrowtex Group:** A South African-based manufacturer and exporter of narrow fabric products including webbings, strapping, tapes and braids, and a manufacturer of lingerie components, elastics and accessories in South Africa through its Apparent Components division (ACM).
- **Flowmax Group:** A United Kingdom-based industrial holding company of a range of businesses manufacturing, importing, and distributing fluid handling equipment, consumables, spares and service, and measurement systems and solutions for other industrial variables such as heat control.

FY 20 Financial Results & Subsequent Trading:

COVID-19 affected **Flowmax** through a drop in sales (Q2). But the nature of the Group's products are typically essential in the processes they are used in (fluid handling equipment and parts), thus these sales appear to have been merely *deferred* and the Group has subsequently had a strong rebound in its trading.

While **Narrowtex/ACM** was also severely affected with operations being forced to shut in April and May, it has *not* seen such a strong rebound in its sales. More pertinently, the Group has lost a major customer when this period saw their business go under. Sabvest management has taken this into account in both lowering this Group's multiple (Figure 6) and factoring in a lower normalized EBITDA in their valuations of it.

Conclusion:

While Narrowtex/ACM has suffered, their valuations in Sabvest's NAV have lowered. On the other hand, Flowmax has demonstrated the quality of its business. Overall, we are comfortable with the underlyings within SA Bias and see its valuation as reflecting the lower multiple created by Narrowtex/ACM's de-rating over this period.

Other Investments

- **Listed investments:** Valued using closing share prices and spot exchange rates.
 - **Corero Network Security Plc:** LSE-listed DDOS-focussed cybersecurity group.

- **Metrofile Holdings Ltd:** JSE-listed group offering secure & digital storage, document solutions & related services.
- **Transaction Capital Ltd:** JSE-listed group offering taxi financing, credit services & has recently acquired WeBuyCars.
- **Unlisted investments:** Refer to Table 1 for commentary on individual valuation methods and multiples.
 - **Apex Partners:** An opportunistic holding company with a portfolio of controlling interests in distribution, manufacturing and infrastructure businesses in South Africa. The business may also offer advisory, investing and lending solutions which may include taking proprietary positions in distressed entities or group restructures.
 - **Classic Food Brands:** A food manufacturer specializing in crumbed chicken products distributed through retail outlets in KwaZulu-Natal and Gauteng (& nationally from Q1 2021 after signing with Shoprite Checkers).
 - **Flexo Line Products:** A manufacturer of high-quality injection moulded plastic products primarily for the spice and food industries locally and internationally.
 - **Masimong Group Holdings:** An empowered investment company holding investments in Seriti Coal and Lephale Coal & Power, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Intelichem. It also holds several smaller diversified interests including Rolfes and Anchor Capital.
 - **Rolfes Holdings:** A specialist provider of agricultural, food, industrial and water chemical solutions and services.
 - **Sunspray Food Ingredients:** Offers food ingredient solutions to South African manufacturers by supplying spray-dried & blended powdered food & drink products & services.

In Sabvest's FY 20 results management write that *"At the date of this report we are confident that most of our investees have returned to 2019 levels of trading or higher which will reflect in their results for the 2021 calendar year."*

Our above work on the Group's underlying portfolio and the reasonableness of its valuations leaves us with confidence in the quality of the Group's underlying NAV. The above management confirmation of the recovery in the underlying operations of the numerous businesses the Group is invested in lends further confidence in the value of the portfolio and, more subtly, implies a degree of likely *profit-driven* growth in the *forward* valuation of this portfolio and, thus, a likely *higher* NAV for the Group.

Valuation and 12m TP

Methodology

Our selected valuation methodology is to build up an appropriate and fairly valued Sum-of-the-Parts (SOTP) for Sabvest Capital. The starting point of this is to update any listed investments to their current market price, and then to understand and assess the reasonableness of the unlisted investments and their respective valuations. Finally, we aim to cake out the Group's central net debt and then calculate an appropriate discount (for the added HoldCo costs) to arrive at our view of *fair value* (i.e. not just NAV).

Net Asset Value of Sabvest

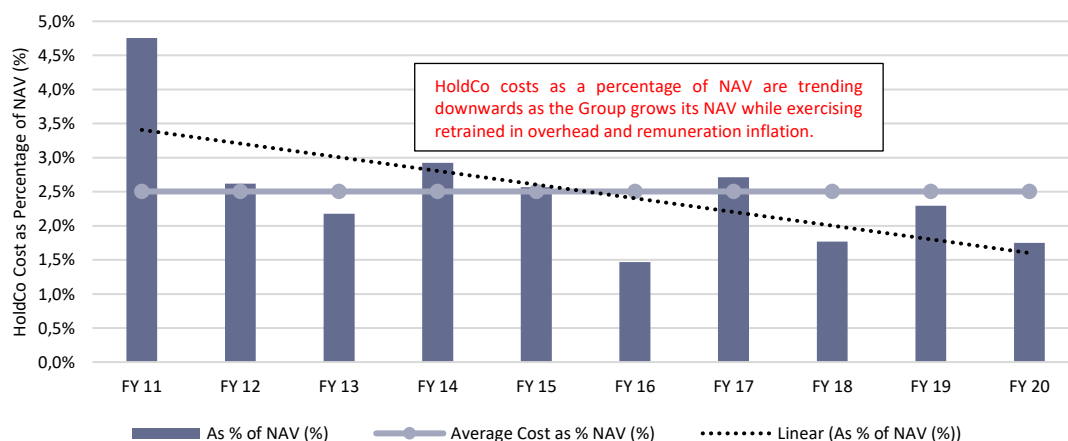
Refer to Table 1 earlier in this report for a detailed breakdown of the Group's NAV, updated for current spot prices, post-period end transactions (net of any estimated costs and taxes).

We estimate Sabvest Capital’s NAV to be R3.235bn or 7905cps. This slightly higher than the reported NAV at the end of December 2020 of 7444cps, partially due to the movement in share prices of the Group’s listed investments.

Appropriate “HoldCo Discount”

Figure 7 shows Sabvest Capital’s estimated central costs over time as a percentage of its NAV. While it is worth noting that as the Group has grown its NAV, its central costs as a percentage of this have come down (i.e. returns to scale of a small HoldCo growing its asset base).

Figure 7: Sabvest’s HoldCo Costs as a Percentage of Net Asset Value Over Time



Sources: Various Sabvest reports & Blue Gem Research workings & assumptions

We have taken our estimate of central costs and present valued it at a reasonable listed small cap Cost of Equity (17.8%; Rf = 9.57%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R615m or c.19% of the Group’s NAV.

While an implied 19% discount to NAV is only half what the peer group average is (Figure 3 – 42% discount), both are materially smaller than the current c.51% discount that the Group’s share price trades at relative to its NAV. It may be worth noting that the peer group average discount of 42% is could be too wide for HoldCo’s in general and a fair argument can be made of widespread undervaluation in the JSE-listed HoldCo sector.

Alternative view of an Appropriate “HoldCo Discount”

In a recent Financial Mail article (“Remgro and Sabvest’s mission impossible” – 1 April 2021), Sabvest Capital’s Founder and CEO, Seabrooke, is quoted as saying that “Sabvest has never sold an unlisted asset below the valuation reflected on its financial statements.” In the same article he goes on to explain that “Sabvest is not a family dynasty ... there must be a date by which I can realise value in the business. But I can assure you that I will not take anything below NAV.”

While all capital allocation is essentially opportunistic in nature, the above highlights a track record of tangibility to the Group’s NAV and points towards a conscious strategy for a “final value unlock” in the future.

If we assumed that this “final value unlock” occurs in five years’ time, the perpetuity of the HoldCo cost-base that generates our discount to 19% drops to a negative NPV of only R335m or only a 10% discount to NAV. Alternatively, another view would be to assume that NAV was realized and take Dividend Withholding Tax out of the gross distribution (i.e. implying a DWT-determined 20% discount to NAV).

What all the above views unwaveringly agree on is that Sabvest’s current 51% discount to its NAV is likely to be quite unjustified.

Fairly Valued Sum-of-the-Parts (NAV less HoldCo Discount)

Sabvest Capital's (updated) NAV less a 19% discount implies that the share is worth 6402cps or that it should be trading a surprising +64% *higher* than its current 3900cps share price.

12m TP and Implied Return

Using our assumed Cost of Equity and applying it to the post-discount fair value of 6402cps, we arrive at a 12m TP of 7542cps for Sabvest Capital. This implies an attractive +93% return.

Key Risks to our Valuation

The key risks to our above valuation methodologies are:

- The accuracy, reasonableness and ongoing performance of the Group's unlisted investments,
- The performance of the Group's listed investments (particularly their share prices),
- Any corporate actions across the Group's portfolio (buying or selling underlying investments), &
- The quantum, timing and price achieved in the Group's share buy-back programme.

Disclaimer

Confused by this report? View our [methodology](#), [FAQ](#) and [this disclaimer](#).

** Market prices in this report predominantly set to closing prices reported on 1 April 2021.*

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