

## Sabvest Capital Ltd Great Performance with More to Come

Share Code: SBP – Market Cap: R2.4bn – Dividend Yield: 0.6%

12m Target Price	8825cps
Share Price	6290cps
Implied Return	40%

Financials | [South Africa](#)

### FY 21 Results: Strong NAV growth, large hike in dividend

- Sabvest's FY 21 Net Asset Value (NAV) per share grew by +26% y/y to 9371cps (FY 20: 7444cps), adding to the Group's fantastic track record as it has compounded NAV per share (excluding dividends) at +16.9% CAGR for a decade & a half!
- Updating this NAV (keeping unlisted valuations flat), we see the current share as trading at a c.37% discount. This is despite JSE-listed HoldCo's average discount-to-NAV being c.30%, and despite most of these other HoldCo's having a worse track record than Sabvest. Using this peer-average discount, Sabvest shares should be trading closer to 7000cps.
- Sabvest hiked its dividend to 75cps (FY 20: 25cps) as its balance sheet remains comfortably capitalized.

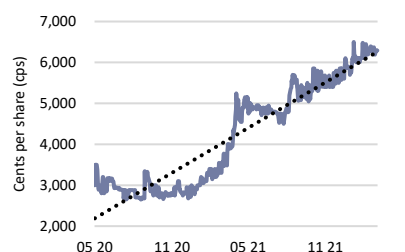
### Thoughts: "Quality" growth in NAV, more likely to come...

- As most of Sabvest's investments are unlisted (c.86% of NAV), it is important to emphasise that the growth in NAV is *not* due to rising valuation multiples (all valuation multiples are flat from FY 20). The growth in NAV was driven by *earnings* growth &, therefore, we consider it "quality growth".
- As investee companies are trading at-or-better than 2019 pre-COVID levels, we expect continuing NAV growth in FY 22E.

### Valuation, 12m TP & Implied Return: Lots of value available

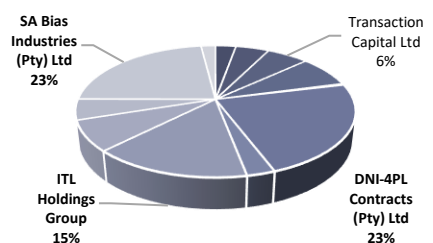
- Updating the Group's NAV for the latest market prices & taking out our present valued "HoldCo discount", we arrive at defensible (post-discount) fair value for Sabvest Capital shares of 7487cps (previously: 6826cps) or +19% higher than the current share price.
- Rolling this fair value forward at our Cost of Equity, we see the Group's 12m TP as 8825cps (previously: 8000cps) with an implied return of +40%.
- All these measures *exclude* the potential upside from [the ARB Holdings delisting](#), [Apex's Ascendis Medical deal](#) & any Rand weakness going forward that will lift hard currency valuations.
- Refer to our [Initiation of Coverage](#) for more background.

Sabvest Capital – Share Price



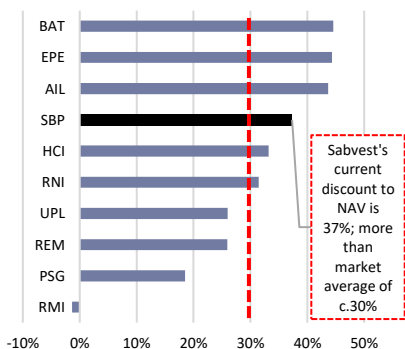
Source: Profile Media

Sabvest Capital – 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

Financial Summary	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	Now*
Net Asset Value (cps)	3,719cps	3,646cps	5,085cps	5,852cps	6,648cps	7,444cps	9,371cps	9,999cps
Growth (%)	+39%	-2%	+39%	+15%	+14%	+12%	+26%	c.+6%
HEPS (cps)	1,004cps	9cps	1,517cps	531cps	917cps	709cps	793cps	-
Growth (%)	126%	-99%	16389%	-65%	73%	-23%	>100%	-
DPS (cps)	50cps	55cps	61cps	68cps	75cps	25cps	75cps	-
Growth (%)	16%	10%	11%	11%	10%	-67%	200%	-

Sources: Sabvest various reports & Blue Gem Research assumptions & workings; \* Using Closing Prices 16 March 2022 & Blue Gem Research workings



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BLUE GEM RESEARCH

<b>Table 1: Sabvest Sum-of-the-Parts (SOTP)</b>	<b>Short Description</b>	<b>Shares/%-shares</b>	<b>Valuation Methodology / Comment</b>	<b>Valuation</b>	<b>% of NAV</b>
<b>Listed Investments</b>	-	-	-	<b>R520,116,000</b>	<b>13%</b>
Corero Network Security	LSE-listed DDOS-focussed cyber security group on the cusp of profitability.	50,000,000	Market price of shares (GBP11.3ps)	R110,966,000	3%
Metrofile Holdings Ltd	JSE-listed group offering secure & digital storage, document solutions & related services.	55,000,000	Market price of shares (330cps)	R181,500,000	5%
Transaction Capital Ltd	JSE-listed group offering taxi financing, credit services & has recently acquired WeBuyCars.	5,000,000	Market price of shares (4533cps)	R227,650,000	6%
<b>Unlisted Investments</b>	-	-	-	<b>R3,430,078,000</b>	<b>86%</b>
Apex Partners	An industrial company with businesses in distribution, manufacturing and infrastructure businesses in South Africa, the latest being Ascendis Medical (when the deal closes).	44.8%	Normalized EBITDA x 4.5x (previously at NAV)	R303,760,000	8%
Classic Food Brands (Pty) Ltd	A food manufacturer specializing in crumbed chicken products distributed through retail outlets.	25.0%	NAV of net debt investment	R15,091,000	0%
DNI-4PL Contracts (Pty) Ltd	A telcos-orientated group offering technology, logistics and distribution services to the telecoms and related industries and to all network operators in RSA, including sim card starter packs, airtime and handset distribution, tower leasing and technology platforms.	19.1%	Normalized EBITDA x 6.5x (Unchanged)	R907,682,000	23%
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 4.5 less company net debt) + debt investment (Unchanged)	R109,611,000	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.	34.0%	(Normalized EBITDA x 9.0 less company net debt) + debt investment (Unchanged)	R611,239,000	15%
Masimong Group Holdings (Pty) Ltd	An empowered investment company holding Seriti Coal, Lephalale Coal & Power, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Winfield United SA. It also holds a number of smaller diversified interests including Rolfes and Anchor Capital (both delisted off the JSE).	10.0%	Valued by Masimong using a Discounted Free Cash Flow (Unchanged).	R296,197,000	7%
Rolfes Holdings (Pty) Ltd	A specialist provider of agricultural, food, industrial and water chemical solutions and services.	25.1%	Normalized EBITDA x 6.0x less company net debt (Unchanged)	R201,594,000	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.	85.2%	(Normalized EBITDA x Multiple) less net debt with Floxmax & Narrowtex on 6,0x & 4,5x (Unchanged)	R906,348,000	23%
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 less company net debt (Unchanged)	R78,556,000	2%
<b>Other Items</b>	-	-	-	<b>R2,408,000</b>	<b>0%</b>
Offshore Investment Funds	-	-	Per balance sheet	R75,138,000	2%
HoldCo Net Debt	-	-	Per balance sheet	-R114,030,000	-3%
Disposals post-period	Disposed of 1m Transaction Capital shares	-	Per commentary	R48,700,000	1%
Acquisitions post-period	Acquired 3m Corero Network shares	-	Per commentary	-R7,400,000	0%
<b>Net Asset Value</b>	-	-	-	<b>R3,952,602,000</b>	<b>100%</b>
Less: "Investment Holding Discount"	The cost of maintaining & running Sabvest Capital	-	Net Present Value of estimated HoldCo costs	-R993,185,732	-25%
<b>Sum-of-the-Parts (SOTP)</b>	-	-	-	<b>R2,959,416,268</b>	
Ordinary shares	-	-	Net of shares bought back	39,530,000	
<b>Fair Value per share (cps)</b>	-	-	<b>SOTP / issued shares</b>	<b>7,487cps</b>	
<b>Discount to share price (%)</b>	-	-	-	<b>+19%</b>	
<b>12m Target Price (cps)</b>	-	-	<b>SOTP x Cost of Equity</b>	<b>8,825cps</b>	
<b>12m Implied Return (%)</b>	-	-	-	<b>+40%</b>	

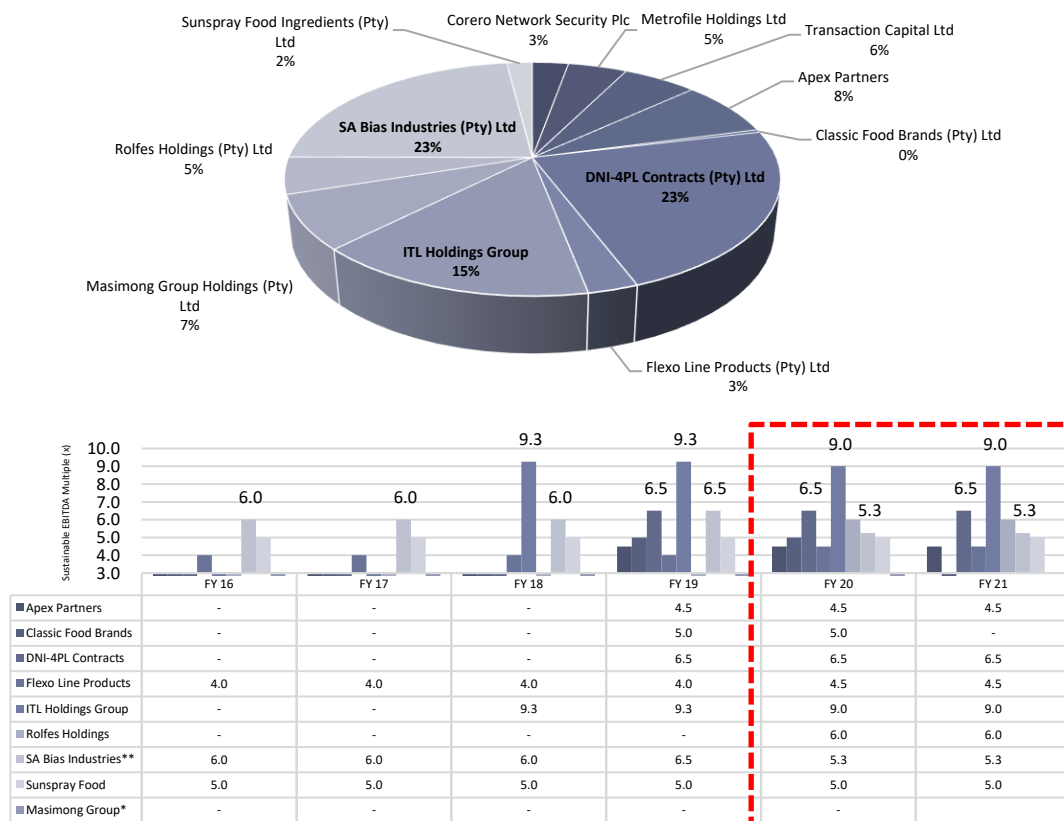
Sources: Sabvest various reports, Iress, Profile Media, JSE & LSE share prices, & Blue Gem Research workings & assumptions (16 March 2022 Closing Price)

## FY 21 Results

Sabvest Capital (code: SBP) followed a strong interim period with better-than-expected final FY 21 results:

- Net Asset Value (NAV) per share grew by +26% y/y to 9371cps (FY 20 – 7444cps) to the end of 31 December 2021. This adds to the Group’s fantastic record of growth having compounded NAV per share (excluding dividends) at 16.9% CAGR for a decade and a half!
- As most of Sabvest’s investments are unlisted (c.86% of NAV), it is important to emphasise that the growth in NAV is *not* due to rising valuation multiples. *All* the Group’s unlisted investment valuation multiples remained unchanged from FY 20 (Figure 1). Thus, the NAV growth was driven by *earnings* growth &, therefore, we consider it “quality growth”.
- We have updated this NAV post-results (but kept unlisted valuations static) and see current NAV at c.9999cps (+6% from 31 December 2021), placing the share on a c.37% discount to the current estimated NAV (versus an average JSE-listed HoldCo discount-to-NAV of c.30%).
- **Two facts keep us bullish on the Group’s and its portfolio’s prospects:**
  - *All* the Group’s unlisted investment valuation multiples remained unchanged from FY 20. Thus, **NAV growth was driven by earnings growth, &**
  - *All* of the Group’s investee companies are now trading at-or-better than their 2019 pre-COVID levels, i.e. **In FY 22E, we can expect underlying earnings growth.**
  - **The combination of the two facts underpins our comfort in Group NAV & its prospects, and we expect FY 22E NAV to continue its growth trajectory.**
- The Group increased its dividend to 75cps (FY 20 – 25cps) as its balance sheet degeared, leaving plenty of capacity for the coming year’s delisting and investment in ARB Holdings.
- Long-time CFO, Ray Pleaner, has retired from this position (though remains a Group executive), paving the way for an internal appointment, Kyle De Matteis, who has been with the Group from 2020.

Figure 1: Sabvest Portfolio – Updated Prices (16 March 2022) & Unlisted Valuation Multiples (31 December 2021)



Sources: Sabvet, Iress, Profile Media, various company reports, & Blue Gem Research workings & assumptions; \*Valuation performed by Masimong management predominantly based on Discounted Free Cash Flow methodology. \*\*Average between subsidiary multiples of 4.5x and 6.0x

DNI-4PL Contracts (Pty) Ltd – [Website](#) – [Management](#) – [Subsidiaries](#)

Valuation Summary	FY 21	FY 20
%-held	19.1%	19.4%
Equity investment	R907.7m	R839.4m
EBITDA Multiple	6.5x	6.5x
Debt investment	-	-
<b>Total Invested</b>	<b>R907.7m</b>	<b>R839.4m</b>

**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):

1. **Airtime Distribution:** Wholesaler and retailer of airtime.
2. **SIM Distribution:** Distributor of SIM cards that generate annuity-like income (has more than 4.5m SIMs in its portfolio). The Group is Cell C's exclusive distributor of SIMs.
3. **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).
4. **Technology:** A range of technology-enabled mobile and app businesses with back-end platforms.

**FY 21 Financial Results & Changes:**

DNI-4PL continues to perform excellently with cash-backed growth while paying large dividends to its investors. Anecdotally, this is backed up by good results from the other listed domestic telcos-aligned businesses (e.g. Blue Label Telcoms) as growing mobile and data *per capita* remain consistent tailwinds.

One Thousand and One Voices (1K1V) and Jason Goodall took minority stakes in Digico, and Goodall was appointed chairman.

During FY 21, Sabvest's effective shareholding in DNI-4PL was slightly diluted as DNI-4PL issued some shares to lift its BEE shareholding to 30%. While slightly dilutive, we consider this empowerment deal as aiding DNI-4PL's sustainability.

**Valuation:**

If we control for the dilution of Sabvest's stake in DNI from 19.4% to 19.1% and then annualize the growth in DNI's valuation, the investment grew by c.9.8% over this. We consider this reasonable due to the following:

- The multiple remains static at 6.5x, thus this growth was driven by the tangible earnings growth.
- As a near-comparative, Blue Label Telecoms (code: BLU) saw its share price rise +34% in 2021. Vodacom Group (code: VOD) saw its share price rise +9.2% over this period too. Likewise, both groups have reported positive financial performance during 2021. This gives us comfort that this growth is not outside of the bounds of the sector. (For this comparison, we have ignored MTN Group (code: MTN) as it has a larger pan-African presence and more asset- & debt-specific drivers affecting its performance and share price.)

ITL Holdings Group (Pty) Ltd – [Business Snapshot](#) – [History](#)

Valuation Summary	FY 21	FY 20
%-held	34.0%	30.0%
Equity investment	R26.1m	R103.5m
EBITDA Multiple	9.0x	9.0x
Debt & Preference share investment	R585.1m	R551.6m
<b>Total Investment</b>	<b>R611.2m</b>	<b>R655.0m</b>

**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](#). With the rapid growth in eCommerce, RFID is becoming increasingly demanded by global apparel and fashion groups and requires increasingly sophisticated implementations that create attractive barriers to entry for competing, smaller and less sophisticated substitutes.

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.

Importantly, the Group does *not* have exposure to Russia or Ukraine and is currently unaffected by the war in that region. We have confirmed this with management.

**FY 21 Financial Results & Changes:**

ITL Group's operations around the world were badly affected by COVID lockdowns. Only by Q3:21 had all the Group's factories reopened and, only in late FY 21, had order levels reached or surpassed FY 19 levels. Not just this, but geographic and product mix shifted somewhat to lower blended margins. The above led to a USD-based valuation decline in the business, but indications are that this will reverse quickly. Trading in the first two months of FY 22E is already above the prior year and budgets while the Group remains well-positioned longer-term for labelling and eCommerce tailwinds (see our comments around RFID above).

During the period, Sabvest increased its shareholding in ITL Group to 34% (FY 20: 30%). Its investment was then reduced by a net R63,2m when the R112m preference share held by it in the Mandarin/ITL SA structure was redeemed and R48,8m reinvested on loan account to fund its share of the redemption.

**Valuation:**

Excellent disclosure by Sabvest shows the shift in investment from equity & preference shares to equity & investment loans (interest-free shareholder loans that allow capital to be returned tax-efficiently), while the equity valuation has lowered, Sabvest %-stake has risen, but the overall total capital invested is only about -6% lower than FY 20.

With regards to ITL's valuation:

- ITL's multiple has remained in the 9.0x-range for several years and, thus, over a period where profits faced headwinds, the valuation has reacted how we expected and declined.
- The rebound in the order book implies higher forward earnings with the traction RFID is gaining implying some exciting blue sky *and*, thus, implies upside to this valuation.

Thus, we remain comfortable regarding ITL's valuation and particularly excited with regard to its prospects.

**SA Bias Industries (Pty) Ltd** – [Website](#) – [History](#) – [Subsidiaries](#)



Valuation Summary	FY 21	FY 20
%-held	85.1%	59.9%
Equity investment	R906.3m	R768.6m
EBITDA Multiple	Flowmax at 6.0x, & Narrowtex at 4.5x	Flowmax at 6.0x, & Narrowtex at 4.5x
Debt & Preference share investment	-	-
<b>Total Investment</b>	<b>R906.3m</b>	<b>R768.6m</b>

**Business:**

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

- **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 with 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 21 Financial Results & Changes:**

SA Bias performed satisfactorily during FY 21 &, importantly, achieved levels higher than FY 19 with good cash generation. The Group’s balance sheet remains liquid with Flowmax seeking further acquisitions in the UK.

During the period, an extensive restructuring of the shareholding in the Group occurred. Essentially, while Sabvest previously held 59.9% of SA Bias and SA Bias held 99% of Flowmax and 100% of Narrowtex, shareholders agreed to lift Sabvest’s holding in SA Bias to 85.15% in return for increasing outside minority stakes directly in the subsidiaries. This means that SA Bias now holds 75% of Narrowtex and 73.87% of Flowmax. In summary, this restructuring has achieved the following two things:

- Increases Sabvest’s look-through shareholding in the subsidiaries from 59.9% to 62.9% & 63.86% in Flowmax and Narrowtex respectively, &
- Aligns key management as a shareholder at an *operational* level (in line with Sabvest’s key ‘[Partnership Principle](#)’).

Thus, we consider this restructuring as a win-win deal for Sabvest and its shareholders.

**Valuation:**

Controlling for the uptick in effective shareholding and the good results produced by SA Bias coupled with the lack of multiple expansion in the valuation methodology, we remain comfortable with the valuation of this investment.

**Corero Network Security Plc:** LSE-listed DDOS-focussed cybersecurity group.

Valuation Summary	At date of this report	FY 21	FY 20
Number of shares held	50,000,000	47,000,000	36,250,000
Corero share price (GBP)	11.3	12.5	10.0
Fair value (GBP)	GBP5.6	GBP5.8m	GBP3.6m
<b>Fair value (ZAR)</b>	<b>R110.9m</b>	<b>R126.1m</b>	<b>R72.8m</b>

- **Performance & Commentary:** Corero’s revenue grew in line with market expectations and its EBITDA is likely to be ahead of these same expectations. The Group expects to report a maiden pretax profit.

The Group’s key relationship with Juniper Networks continues to gain traction and, particularly in a world where demand for cyber security (even at a geopolitical level) is rapidly increasing, the Group remains well-positioned to capture its share of the market growth.

- **Valuation:** As this follows the LSE-listed share price—translated into Rands—we are comfortable with the valuation. Note that Sabvest acquired 3m more shares post-period end. We have accounted for this in the Group’s SOTP by taking it out of cash and adding it to this valuation.

**Metrofile Holdings Ltd:** JSE-listed group offering secure & digital storage, document solutions & related services. [See our research on the Group here.](#)

Valuation Summary	At date of this report	FY 21	FY 20
Number of shares held	55,000,000	55,000,000	50,147,662
Metrofile share price (cps)	330cps	345cps	279cps
<b>Fair value (ZAR)</b>	<b>R181.5m</b>	<b>R189.7m</b>	<b>R139.9m</b>

- **Performance & Commentary:** Metrofile put out commendable results for its H1:22 period ([results note here](#)), particularly from a digital strategy perspective. Digital now makes up 20% of the Group’s revenues and this will likely grow quickly in the years to come.
- **Valuation:** As this follows the JSE-listed share price, we are comfortable with the valuation.

**Transaction Capital Ltd:** JSE-listed group with taxi financing, credit services & WeBuyCars businesses.

Valuation Summary	At date of this report	FY 21	FY 20
Number of shares held	5,000,000	6,000,000	10,000,000
Transaction Capital share price (cps)	4553cps	4503cps	2489cps
<b>Fair value (ZAR)</b>	<b>R227.6m</b>	<b>R270.1m</b>	<b>R248.9m</b>

- **Performance & Commentary:** The Group has more than recovered from the effects of COVID and is trading strongly. Its WeBuyCars acquisition is generating strong growth and offering blue sky for synergies in the Group (vehicle finance and related services).
- **Valuation:** As this follows the JSE-listed share price, we are comfortable with the valuation. Post-period, Sabvest sold a further 1m TCP shares (realizing R48.7m), which we have added to the Group’s cash balance in our SOTPs and taken out of this investment line item.

**Apex Partners:** While originally an opportunistic holding company with a portfolio of controlling interests in distribution, manufacturing and infrastructure businesses in South Africa, this strategy has evolved into a decentralized industrial conglomerate driven by both organic and acquisitive growth.

Valuation Summary	FY 21	FY 20
<i>%-held</i>	44.8%	44.8%
Equity investment	R303.7m	R88.5m
<i>EBITDA Multiple / Valuation Method</i>	4.5x	<i>At Net Asset Value</i>
Debt & Preference share investment	-	R40m
<b>Total Investment</b>	<b>R303.8m</b>	<b>R128.5m</b>

- **Performance & Commentary:** While some of Apex’s operations were affected by COVID, all businesses are now trading at-or-above FY 19 levels. Interestingly, Apex is looking at expanding its strategy into the UK. Finally, the Group has moved to acquire Ascendis Medical ([see our note on this](#)).
- **Valuation:** As Apex has evolved into a decentralized holding company, its accounting has changed to consolidation-based IFRS (previously it fairly valued its subsidiaries). This means that its fair value in Sabvest’s NAV is via Sabvest’s valuation of it. The selection of a 4.5x multiple is not out of line with other listed valuations, Sabvest’s other investments, & is hardly demanding. Thus, we are comfortable with Apex’s current valuation and will look with interest as this Group expands.

**Classic Food Brands:** A food manufacturer specializing in crumbed chicken products distributed through retail outlets and major supermarket and food chains in South Africa

Valuation Summary	FY 21	FY 20
%-held	25%	25%
Equity investment	-	-
Valuation methodology	At Net Asset Value of investment	At Net Asset Value of investment
Investment loans	R15m	R13.3m
<b>Total Investment</b>	<b>R15m</b>	<b>R13.3m</b>

- **Performance & Commentary:** During the period, Classic Food Brands was affected by both COVID waves and the domestic riots. The latter saw their factories closed, but luckily nothing was damaged. Sales volumes were badly affected but are expected to return to projections by Q2:22E.
- **Valuation:** The equity value has been fully impaired but Sabvest carries its loan into the business at net asset value. Especially if volumes return to normal, we consider this quite conservative.

**Flexo Line Products:** A manufacturer of high-quality injection moulded plastic products primarily for the spice and food industries locally and internationally.

Valuation Summary	FY 21	FY 20
%-held	47.5%	47.5%
Equity investment	R29.9m	R29.8m
EBITDA Multiple	4.5x	4.5x
Investment loans	R79.8m	R65.2m
<b>Total Investment</b>	<b>R109.6m</b>	<b>R95.0m</b>

- **Performance & Commentary:** Flexo Line has continued to grow during the period and remains highly cash generative. Management believes that prospects for the business to grow are good.
- **Valuation:** While the equity valuation and its multiple are flat, Sabvest loaned further capital into the business as per a revised arrangement with co-shareholders.

**Masimong Group Holdings:** An empowered investment company holding investments in Seriti Coal and Lephalale Coal & Power, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Intelichem. It also holds several smaller diversified interests including Rolfes and Anchor Capital.

Valuation Summary	FY 21	FY 20
%-held	10.0%	10.0%
Equity investment	R296.2m	R172.1m
Valuation Methodology	At Net Asset Value	At Net Asset Value
<b>Total Investment</b>	<b>R296.2m</b>	<b>R172.1m</b>

- **Performance & Commentary:** Masimong has had a fantastic year and, if the returns from the listed commodity group are anything go by, this has been driven by the Group’s coal businesses. That said, soft commodity prices have been rising strongly and its agri-businesses are also likely well-aligned to these tailwinds. During the year, the Group did a rights issue, which Sabvest followed, investing a further R8.7m while keeping its shareholding percentage flat.
- **New acquisition:** After year-end, a subsidiary of Masimong (owned 50,1% by Masimong & 49,9% by Sabvest) made an offer of R697m for 37,1% of [ARB Holdings Limited \(code: ARH\)](#) through a scheme of arrangement and a delisting with the founding Burke family retaining its 62,9% holding and management control. See [our note on this announcement here](#), and [our prior research on ARB Holdings over here](#).
- **Valuation:** Masimong’s portfolio is independently fairly valued (including minority & liquidity discounts, and after CGT liabilities are raised) and Sabvest accounts for this at NAV. We consider this independent valuation robust and arms-length and, thus, are comfortable with its value in Sabvest’s SOTP.



**Rolfes Holdings:** A specialist provider of agricultural, food, industrial and water chemical solutions and services.

Valuation Summary	FY 21	FY 20
%-held	25.1%	25.1%
Equity investment	R201.6m	R145.5m
EBITDA Multiple	6.0x	6.0x
Investment loans	-	-
<b>Total Investment</b>	<b>R201.6m</b>	<b>R145.5m</b>

- **Performance & Commentary:** Most of Rolfes divisions grew satisfactorily in FY 21. It is noteworthy that the Group’s trading in the first half of FY 22 has been at record levels and ahead of both the prior year and budgets. This agrees with the figures coming out of listed chemicals groups (namely, Omnia and AECI), and bodes well for this Group’s prospects.
- **Valuation:** Rolfes valuation multiple remained flat at 6.0x. Given our prior knowledge of Rolfes (before it was delisted from the JSE), we remain comfortable with this multiple.

**Sunspray Food Ingredients:** Offers food ingredient solutions to South African manufacturers by supplying spray-dried & blended powdered food & drink products & services.

Valuation Summary	FY 21	FY 20
%-held	27.7%	27.7%
Equity investment	R73.3m	R73.5m
EBITDA Multiple	5.0x	5.0x
Investment loans	R5.2m	R4.9m
<b>Total Investment</b>	<b>R78.5</b>	<b>R78.4m</b>

- **Performance & Commentary:** Sunspray was affected by operational and supply chain disruptions during FY 21. This led to the first drop in earnings in this business for many years, but management expect it to return to growth in FY 22E.
- **Valuation:** With a flat, undemanding multiple (5.0x), we remain comfortable with this valuation, though will watch in FY 22E for this business to return to its normal trajectory.

**Revix Group:** The Revix Group offers an investment platform for retail investors to obtain access and ownership to several cryptocurrencies, bundles of these currencies and, more recently, crypto-based yielding instruments. The Group also intends to expand its product offering to AI, biotech, 5G and eSports. Revix is currently loss-making and, thus, Sabvest with an earnings-based valuation approach to unlisted investees currently carries its valuation at zero in its NAV. Despite this, Revix is growing and subsequent funding rounds have been successfully concluded at rising valuations, therefore implying that this “zero investment” in Sabvest’s NAV may, sooner or later, get written up creating “free” NAV upside. Either way, we are watching this “free option” embedded in Sabvest’s portfolio with interest.

## Valuation and 12m TP

### Methodology

Our selected valuation methodology remains unchanged and 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 (Rand-based) market price, and then to understand and assess the reasonableness of the unlisted investments and their respective valuations.

Finally, we aim to carve 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

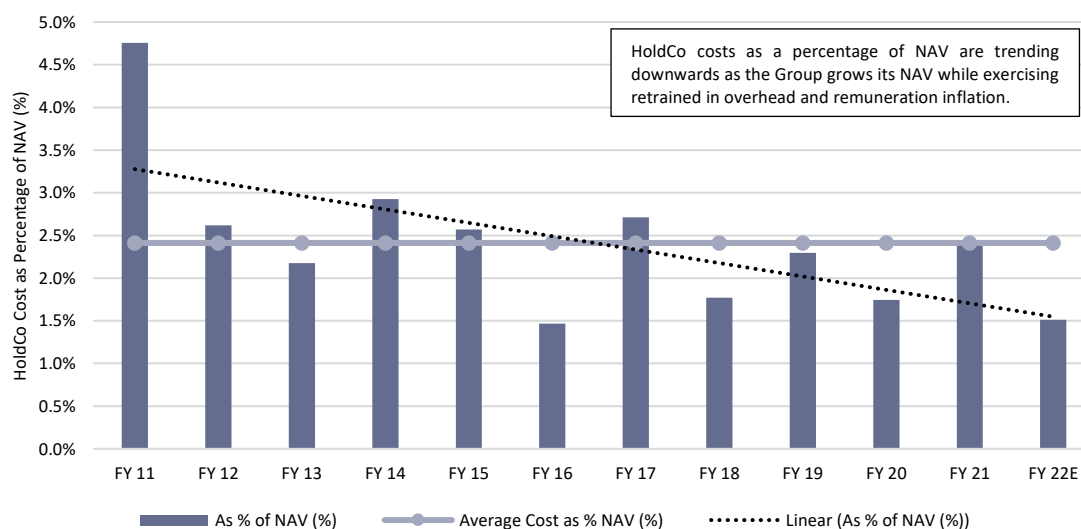
Refer to Table 1 earlier in this report for a detailed breakdown of the Group’s NAV, updated for current spot prices. We estimate Sabvest Capital’s current NAV to be R3.9bn or 9999cps, implying a current discount in the share price of c.37%.

### Appropriate “HoldCo Discount”

Figure 2 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 trended down (i.e. returns to scale of a small HoldCo growing its asset base while controlling its costs).

In FY 21, central costs did spike, but this was due to the normalizing of incentive provisions, expansion of the executive team and use of outsourced services. Particularly the latter we expect to lower in coming years as the Group’s portfolio settles, the ARB Holdings delisting and Apex’s Ascendis Medical deal are not repeated, and, thus, we expect forward central costs to lower to a more normal target range of c.2% (management target is for costs to average between 1.5% and 2.0% of NAV across a rolling 3-year period).

Figure 2: 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 (17.9%; Rf = 9.63%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R993m (previously: R675m) or c.25% (previously: 20%) of the Group’s NAV. This is very conservative, but we would prefer to leave room to lower this discount than the alternative.

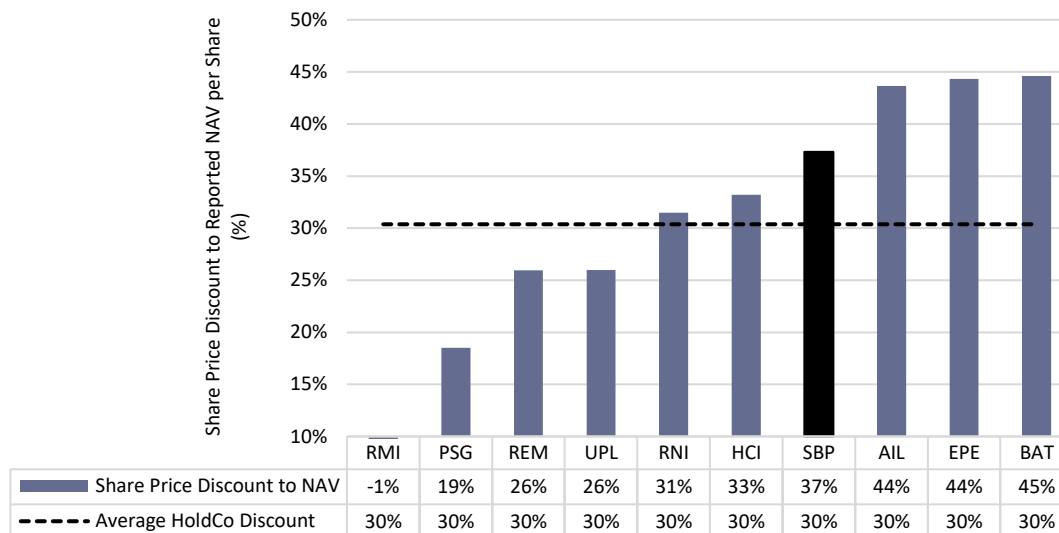
The average JSE-listed HoldCo discount is c.30% (Figure 3), thus the 25% discount is not too far out of line.

Not all HoldCo’s are the same, and thus an argument against our conservative discount to Sabvest’s NAV is the following:

1. Sabvest’s exceptionally strong, long-term track record of NAV growth (better than many of its peers),
2. Sabvest’s steadily declining central cost as a percentage of NAV (Figure 2) as its NAV growth is translating into returns to scale for shareholders (as opposed to some of the JSE-listed HoldCo’s that have external ManCo’s that earn off of their NAVs and, thus, will never see returns to scale), &
3. The entire JSE-listed HoldCo sector is arguably undervalued at a 30% average discount to NAV and, thus, this could be a misleading comparative.

Even if the discount does not change, point (1) above should drive investor returns, i.e. If the NAV keeps growing and the discount remains flat, then the share price on the JSE should grow *along* with the NAV. This logic is backed up by the fact that Sabvest’s 15-year NAV growth is +16.9% CAGR *and* its share’s 15-year price return is +16.0% CAGR.

Figure 3: JSE-listed HoldCo Discounts



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

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

Sabvest Capital’s (updated) NAV less our discount implies that the share is worth 7487cps (previously: 6826cps) or that it should be trading +19% *higher* than its current 6290cps share price.

### 12m TP and Implied Return

Using our assumed Cost of Equity and applying it to the post-discounted fair value, we arrive at a 12m TP of 8825cps (previously: 8000cps) for Sabvest Capital. This implies an attractive +40% return.

### Key Risks to our Valuation

The key risks to our above valuation methodologies are:

- We urge you to read our [Initiation of Coverage](#) for more detail on Sabvest Capital, its management, target mandate and our baseline analysis of the company.
- 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 are predominantly set to closing prices reported on 16 March 2022.*

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