

Sabvest Capital Ltd
Better than Expected

Share Code: SBP – Market Cap: R2.9bn – Dividend Yield: 1.0%

12m Target Price	10511cps
Share Price	7300cps
Implied Return	44%

Financials | [South Africa](#)

H1:22 Results: Better than expected

- Sabvest's Net Asset Value (NAV) grew +10.9% p/p and +26.1% y/y to 10388cps (FY 21: 9371cps) driven by strong performances almost across all its investments that beat our full-year estimates.
- The Group concluded investments in ARB Holdings and Halewood International South Africa during the period.
- Despite this investment activity, the Group received good dividend flows, remains relatively lowly geared and management have declared a +50% y/y growth in dividend to 30cps (H1:21 – 20cps).

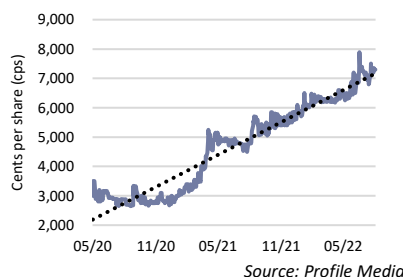
Thoughts: H1:22 growth likely to continue in H2:22E

- ARB Holdings and Halewood are currently being carried at cost. While we expect operational growth in ARB to carry this investment value upwards, Halewood's investment price appears quite conservative, and we expect *both* operational and re-rating to lift this valuation going forward.
- Likewise, DNI-4PL, Masimong & Apex are all growing quickly, ITL Holdings' global group has recovered strongly and SA Bias' Flowmax appears to be on the front foot for acquisitions.
- Finally, coupled with Sabvest's superb capital allocation, relatively lowly-geared centre and its ability to buy-back its own shares below NAV, and it is likely that the good growth rate in H1:22 carries comfortably into H2:22E (and beyond).

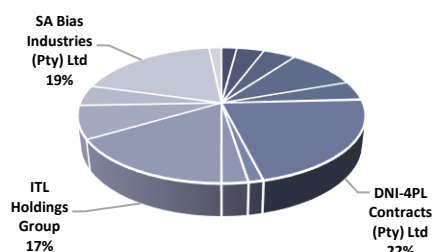
Valuation, 12m TP & Implied Return: Lots of value available

- 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 8894cps (previously: 7487cps) or +22% *higher* than the current share price.
- Rolling this fair value forward at our Cost of Equity, we see the Group's 12m TP as 10511cps (previously: 8825cps) with an implied return of +44%.
- Refer to our [Initiation of Coverage](#) for more background.

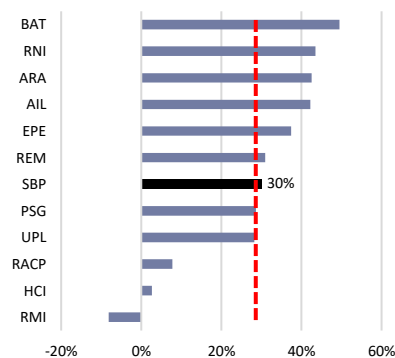
Sabvest Capital – Share Price



Sabvest Capital – Portfolio Major Weightings



JSE-listed HoldCo Shares' Discounts to NAV



Financial Summary	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	H1:22	Now*
Net Asset Value (cps)	3,719cps	3,646cps	5,085cps	5,852cps	6,648cps	7,444cps	9,371cps	10,388cps	10,429cps*
Growth (%)	39%	-2%	39%	15%	14%	12%	26%	26%	-
HEPS (cps)	1,004cps	9cps	1,517cps	531cps	917cps	709cps	1,690cps	1,001cps	-
Growth (%)	126%	-99%	16389%	-65%	73%	-23%	>100%	26%	-
DPS (cps)	50cps	55cps	61cps	68cps	75cps	25cps	75cps	30cps	-
Growth (%)	16%	10%	11%	11%	10%	-67%	200%	50%	-

Sources: Sabvest various reports & Blue Gem Research assumptions & workings; *Using market prices on 12 August 2022 & Blue Gem Research workings



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Table 1: Sabvest: Sum-of-the-Parts (SOTP)	Short Description	Interest (%)	Valuation Notes	Valuation	NAV (%)
Listed Investments	-	-	-	R469m	11%
Corero Network Security Plc	LSE-listed DDOS-focussed cyber security group on the cusp of profitability.	50m	Market price of shares (GBP11.3ps)	R95,6m	2%
Metrofile Holdings Ltd	JSE-listed group offering secure & digital storage, document solutions & related services.	56m	Market price of shares (330cps)	R170,8m	4%
Transaction Capital Ltd	JSE-listed group offering taxi financing, credit services & has recently acquired WeBuyCars.	5m	Market price of shares (4533cps)	R202,7m	5%
Unlisted Investments	-	-	-	R4,184,6m	102%
Apex Partners	An industrial group with a portfolio of controlling interests in distribution, engineering and manufacturing businesses in South Africa.	44.8%	Normalized EBITDA x 5.5x (Previously: 4.5x)	R443,4m	11%
ARB Holdings (Pty) Ltd	A distributor of electrical, lighting and related products to the mining, industrial, construction, parastatal, retail and domestic markets in Southern Africa. See our previous coverage on ARB for more details here: LINK .	18.5%	Historic cost of transaction during this period.	R207,9m	5%
Classic Food Brands (Pty) Ltd	A food manufacturer specializing in crumbed chicken products distributed through retail outlets.	40.0%	(Normalized EBITDA x 5,0x) - Net Debt & impairment	R9,4m	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) - Net Debt (Previously: Unchanged)	R1,014m	25%
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 (Previously: Unchanged)	R66,1m	2%
Halewood Int. SA (Pty) Ltd	A manufacturer of a wide range of premium award-winning alcoholic, non-alcoholic and RTD (Ready-To-Drink) beverages including brands such as Belgravia, Whitley Neill, Red Square, Caribbean Twist and Buffelsfontein	19.0%	Historic cost of transaction during this period.	R116,5m	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 around the world and supplies to the clothing industry world-wide through multiple international retail group accreditations.	34.4%	(Normalized EBITDA x 9,0x) - Net Debt (Previously: Unchanged)	R768,8m	19%
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, Winfield United SA, amongst other investments (note the ARB & Halewood acquisitions during the period).	10.0%	Valued by Masimong management using a Discounted Free Cash Flow approach (Previously: Unchanged).	R365,8m	9%
Rolfes Holdings (Pty) Ltd	A specialist provider of agricultural, food, industrial and water chemical solutions and services.	25.1%	(Normalized EBITDA x 5,5x) - Net Debt (Previously: 6.0x)	R228,9m	6%
SA Bias Industries (Pty) Ltd	A Group that holds Flowmax & Narrowtex. In the UK and Europe, Flowmax manufactures, imports, services & distributes medium technology fluid handling equipment & systems, and solutions for heat control. Narrowtex is a South African manufacturer and exporter of narrow fabric products.	85.2%	(Normalized EBITDA x Multiple) - Net Debt with Floxmax & Narrowtex on 6,0x & 4,5x (Previously: Unchanged)	R885,1m	22%
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 (Previously: Unchanged)	R78m	2%
Other Items	-	-	-	-R537,2m	-
Offshore Investment Funds	Per balance sheet disclosure	-	Per balance sheet disclosure	R43,4m	1%
Deferred Tax Liabilities	Per balance sheet disclosure	-	Per balance sheet disclosure	-R244,4m	-6%
HoldCo Net Debt	Per balance sheet disclosure	-	Per balance sheet disclosure	-R336,2m	-8%
Net Asset Value	-	-	-	R4,116m	
Less: "Investment Holding Discount"	The cost of maintaining & running Sabvest Capital Ltd	-	Net Present Value of estimated costs	-R606m	-15%
Sum-of-the-Parts (SOTP)	-	-	-	R3,510m	
<i>Ordinary shares</i>	-	-	-	<i>39,5m</i>	
Fair Value per share (cps)	-	-	SOTP/shares	8,894cps	
Discount to share price (%)	-	-	-	22%	
12m Target Price (cps)	-	-	SOTP rolled-forward by Cost of Equity	10,511cps	
12m Implied Return (%)	-	-	-	44%	

Sources: Sabvest various reports, Iress, Profile Media, JSE & LSE share prices, & Blue Gem Research workings & assumptions (12 August 2022 Closing Prices)

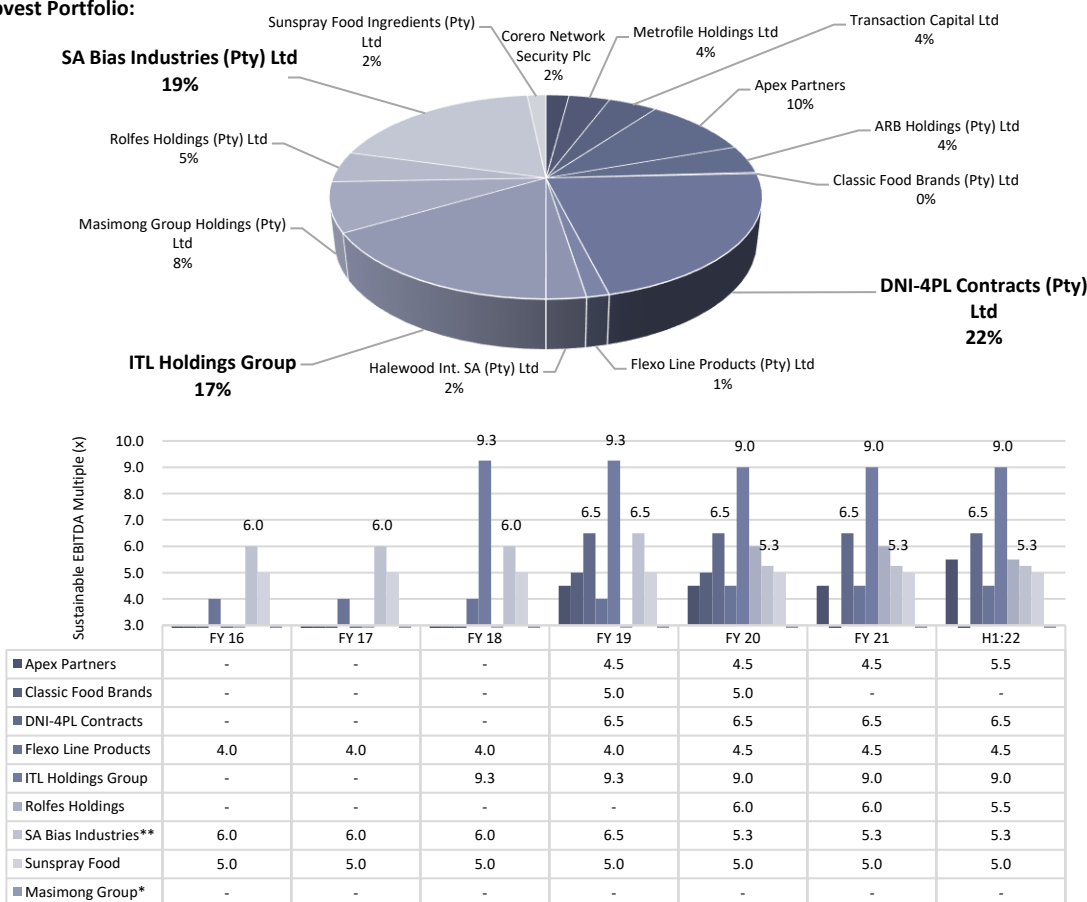
H1:22 Results

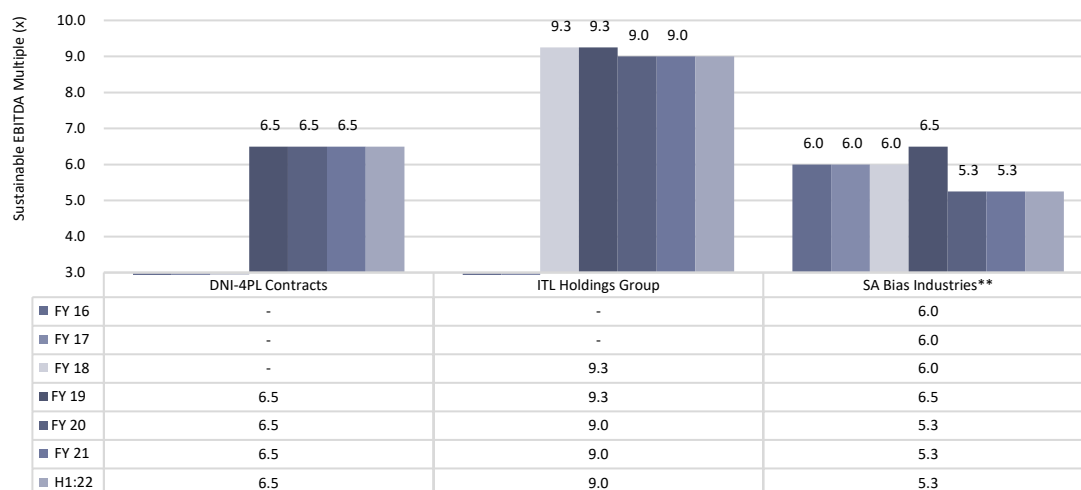
Sabvest Capital (code: SBP) continued building on its long-running track record with an excellent set of H1:22 results beating even our full-year expectations:

- The Group’s key Net Asset Value (NAV) grew +10.9% p/p and +26.1% y/y to 10388cps (FY 21: 9371cps) driven by strong performances almost across *all* its investments that beat our full-year estimates.
- The Group concluded investments in ARB Holdings (an 18.5% effective stake) and Halewood International South Africa (an 18.95% effective stake) while slightly increasing existing investments in Metrofile Holdings, Corero Network Security Plc and Classic Food Brands. The only disposal during the period was 1m shares in Transaction Capital.
- Despite the levels of investment activity, the Group’s centre received good dividend flows, remains relatively lowly geared and management have declared a +50% y/y growth in dividend to 30cps (H1:21 – 20cps). R4.0m (FY 21: R66m) of shares were bought back in the market below NAV.
- The growth across the portfolio was more than we had anticipated for the *full* FY 22E year, thus we have been forced to hike our own expectations.

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

Sabvest Portfolio:





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; ARB & Halewood not included in this comparison as both carried at historical cost as acquisition occurred during this reporting period.

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



Valuation Summary	H1:22	FY 21	FY 20
%-held	19.1%	19.1%	19.4%
Equity investment	R1014.5m	R907.7m	R839.4m
EBITDA Multiple	6.5x	6.5x	6.5x
Debt investment	-	-	-
Total Investment	R1014.5m	R907.7m	R839.4m
Ordinary dividends received	R24.1m	R45m	-*
Special dividends received	R8.5m	R5.5m	-*
Total dividend received	R32.7m	R50.5m	-*
Dividend Yield (DY %)	6.4% (or 4.8% ex. special div.)	5.6%	-*
Vodacom Group - DY (%)**	6.1%	-	-
MTN Group - DY (%)**	2.0%	-	-
Telkom SA SOC - DY (%)**	0.0%	-	-
Blue Label Telecoms - DY (%)**	0.0%	-	-

* Not disclosed; ** As of intra-day 17 August 2022 on the JSE Stock Exchange

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 (has more than 4.5m SIMs in its portfolio).
- 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.

H1:22 Financial Results & Changes:

DNI-4PL continues to perform excellently with cash-backed growth while paying large dividends to its investors. The Group sold its tower leasing business at the end of June 2022 and its other divisions are performing well. This is in line with good results from the broader telcos sector in South Africa.

Valuation:

While Sabvest has kept DNI’s multiple flat at 6.5x, steady dividends from DNI to Sabvest create a strong underpin for the Group’s valuation of this investment. While this measure has many flaws (for example, DNI could do a large acquisition and then skip its dividend), the Dividend Yield (DY) of Sabvest’s investment in DNI is 6.4% (or 4.8%, if we exclude special dividends received during the period). This compares reasonably against the other JSE-listed telcos groups (ranging from a DY of 0% to 6.1%). This is especially true if we consider the effective annualized growth rate in this investment of 23.5% y/y during this reporting period (well in excess of the other JSE-listed telcos groups over this period with only Blue Label Telecoms share price rising +25% over a 12m-period at the date of writing this).

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



Valuation Summary	H1:22	FY 21	FY 20
%-held	34.4%	34.0%	30.0%
Equity investment	R164.5m	R26.1m	R103.5m
EBITDA Multiple	9.0x	9.0x	9.0x
Debt & Preference share investment	R604.2m	R585.1m	R551.6m
Total Investment	R768.8m	R611.2m	R655.0m

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.

H1:22 Financial Results:

Given its exposure to global retail and China, ITL Group has had a difficult couple of years of trading. While initial shocks to its business have subsided, China’s “Zero COVID” policy drove global clients to shift orders to other geographies in ITL’s global group. While the Group did not lose volumes due to this, the shifting geographic mix has put pressure on the Group’s margins due to geographic cost-base differences.

Despite this, trading in H1:22 exceeded the prior year, the Group’s global and operational advantages against its competitors remain strong and the Group’s RFID business solution continues to grow.

Finally, Sabvest’s percentage effective shareholding in ITL Group increased from 34.0% to 34.4% due to share buy backs from retiring executives, though management expects to reissue these shares in the future.

Valuation:

ITL’s multiple has remained in the 9.0x-range for years and, thus, over a period where profits faced headwinds, the valuation has reacted how we expected and declined. Likewise, from its COVID-lows, the Group has recovered coming out of COVID and the valuation has responded accordingly. Given the Group’s global reach, blue chip client-base, and large and sustainable competitive advantages, we remain comfortable regarding ITL’s valuation and *particularly* excited regarding its prospects.

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

Valuation Summary	H1:22	FY 21	FY 20
%-held	85.2%	85.1%	59.9%
Equity investment	R885.1m*	R906.3m	R768.6m
EBITDA Multiple	Flowmax at 6.0x, & Narrowtex at 4.5x	Flowmax at 6.0x, & Narrowtex at 4.5x	Flowmax at 6.0x, & Narrowtex at 4.5x
Debt & Preference share investment	-	-	-
Total Investment	R885.1m	R906.3m	R768.6m

* Note the comments below regarding the strengthening of the ZAR against the GBP. This has negatively affected Flowmax's valuation conversion to ZAR.

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.

H1:22 Financial Results:

SA Bias performed satisfactorily during FY 21 &, importantly, achieved levels higher than FY 19 (i.e. pre-COVID) with good cash generation. The Group's balance sheet remains liquid with Flowmax seeking further acquisitions in the UK (we expect news flow in this area within the next reporting period or two).

Despite this, the reporting date valuation was negatively affected by a weaker sterling translation rate for the Flowmax division than at the prior year end. Pointedly, at the date of conversion for FY 21 the GBP/ZAR was c.R21.57 versus the exchange rate at 30 June 2022 of c.R19.81 (i.e. a -8.2% weakness in GBP that lowered this investment's Rand-value).

In our discussions with management, particularly Flowmax is well-positioned, has a liquid balance sheet and—following the prior period's restructuring—management are keenly looking and have identified value enhancing acquisitions.

Valuation:

Given the recovery in the Group's performance against prior period, its relatively low multiple, and a 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	H1:22	FY 21	FY 20
Number of shares held	50,000,000	50,000,000	47,000,000	36,250,000
Corero share price (GBP)	9.74	10.75	12.5	10.0
Fair value (GBP)	GBP4.8	GBP5.3m	GBP5.8m	GBP3.6m
Fair value (ZAR)	R95.6m	R106.9m	R126.1m	R72.8m

- **Performance & Commentary:** As mentioned in our last report, the cybersecurity tailwinds (escalated by geopolitics) have been enjoyed by Corero and it reported strong FY 21 results (ahead of market expectations). A key relationship in the business is Juniper Networks, which gained further traction over the period. Despite these positives, the share price has remained under pressure and Sabvest acquired a further 1m shares in the market (an effective interest of 10.1% in the Group).

- **Valuation:** As this follows the LSE-listed share price—translated into Rands—we are comfortable with the valuation. The share’s revenue is growing quickly (5-year CAGR of +19% y/y), thus its high Price Earnings of 45x can be justified (particularly when compared to, for example, Fortinet’s 5-year CAGR of +21% y/y yet its Price Earnings of 64.8x).

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	H1:22	FY 21	FY 20
Number of shares held	56,000,000	56,000,000	55,000,000	50,147,662
MFL share price (cps)	305cps	330cps	345cps	279cps
Fair value (ZAR)	R170.8m	R184.8m	R189.7m	R139.9m

- **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. We expect to publish a results note on the Group after their coming results.
- **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	H1:22	FY 21	FY 20
Number of shares held	5,000,000	5,000,000	6,000,000	10,000,000
TCP share price (cps)	4054cps	3671cps	4503cps	2489cps
Fair value (ZAR)	R202.7m	R183.5m	R270.1m	R248.9m

- **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.

Apex Partners: Apex has now evolved into a decentralized domestic industrial group. The Group’s Distribution segment consists of Letaba Pumps, TGS, Elephant Lifting and ELB Equipment. Its Engineering segment includes ET-X Projects and Clyde Bergemann Africa (renamed CBZ Solutions). Finally, its Manufacturing segment includes Gabriel SA. The Group is currently exploring opportunities in the UK and aims to follow its same acquisitive model in this (and the EU) territory.

Valuation Summary	H1:22	FY 21	FY 20
%-held	44.8%	44.8%	44.8%
Equity investment	R443.5m	R303.7m	R88.5m
<i>EBITDA Multiple / Valuation Method</i>	5.5x	4.5x	<i>At Net Asset Value</i>
Debt & Preference share investment	-	-	R40m
Total Investment	R443.5m	R303.8m	R128.5m

- **Performance & Commentary:** While the diverse spread of businesses in the Group have been affected differently by COVID and related impacts, on average the Group’s businesses are trading well with strong cash flows. Indeed, consolidated revenues are approaching the R2bn annualized level. Management remains extremely active and we expect continued corporate activity here.
- **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 Apex. The previously used 4.5x multiple was lifted to 5.5x during the period as Apex’s consolidated annualized revenue approaches R2bn. JSE-listed industrial conglomerates like Reneurt (RLO), Hudaco (HDC) and Invicta (IVT) with R9bn, c.R7bn & R7bn respective revenues all trade at EV/EBITDAs of 6.8x, 5.4x & 4.8x respectively, thus Apex’s valuation moves it more in line with listed peers. Furthermore, the R9m dividends that Sabvest has received

from Apex over the last six months puts the investments value of R443.5m on an annualized Dividend Yield (DY) of 4.0% and provides an underpin to this investment value (RLO's DY is 5.8%, HDC's DY is 5.6% & IVT's DY is 3.3%), though note the same limitations to this DY comparison as DNI above.

ARB Holdings: ARB is a distributor of electrical, lighting and related products to the mining, industrial, construction, parastatal, retail and domestic markets in Southern Africa. ARB Electrical Wholesalers is one of Southern Africa's largest distributors of electrical products in three main categories: power and instrumentation cable; overhead line equipment and conductors; and general low-voltage and solar products. Eurolux and Radiant are leading distributors of energy-saving; LED; halogen and fluorescent lamps; light fittings; electrical accessories; cut cable and ancillary products, including fans and lighting components. We covered ARB while it was listed and encourage you to read our detailed body of research on the Group ([LINK](#)).

Valuation Summary	H1:22	FY 21
%-held	18.50%	-
Equity investment	-	-
Valuation methodology	Historic cost	-
Investment loans	R207.9m	-
Total Investment	R207.9m	-

- **Performance & Commentary:** Once again, we have written in detail about ARB's latest set of results in Blue Gem Research's coverage: [LINK](#).
- **Valuation:** Given the recency of the transaction, Sabvest management has kept ARB's valuation at its historic cost.

Classic Food Brands: A food manufacturer specializing in crumbed chicken products distributed through retail outlets and major supermarket and food chains in South Africa. Sabvest's shareholding in the Group rose to 40% due to a shareholder restructure.

Valuation Summary	H1:22	FY 21	FY 20
%-held	40%	25%	25%
Equity investment	-	-	-
Valuation methodology	At Net Asset Value of investment	At Net Asset Value of investment	At Net Asset Value of investment
Investment loans	R9.5m	R15m	R13.3m
Total Investment	R9.5m	R15m	R13.3m

- **Performance & Commentary:** Previously, Classic Food Brands had been badly affected by both COVID waves and the domestic riots. The latter saw their factories closed, but luckily nothing was damaged. Sales volumes were negatively affected but returned to projections by Q2:22. In the current period, Classic Food Brands traded profitably and management state that the fair value will be reconsidered on a maintainable earnings basis at year-end (i.e. we expect a coming write-up of the nil equity value).
- **Valuation:** The equity value has been fully impaired but Sabvest carries its loan into the business at net asset value. Note that we are expecting a write-up of the investment during H2:22E.

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

Valuation Summary	H1:22	FY 21	FY 20
%-held	47.5%	47.5%	47.5%
Equity investment	R26.5m	R29.9m	R29.8m
EBITDA Multiple	4.5x	4.5x	4.5x
Investment loans	R39.7m	R79.8m	R65.2m
Total Investment	R66.2m	R109.6m	R95.0m

- **Performance & Commentary:** Trading conditions were difficult for the first half of the calendar year with revenues and profitably adversely affected due to decreased household demand after the worldwide pandemic, international logistical issues and the impact of load shedding on production.

Importantly, demand returned to normal during June 2022 and the business recently merged its production facilities and installed power backup solutions. These facts imply a better H2:22E and management are optimistic that demand will increase from mid-August 2022.

- **Valuation:** While the equity valuation and its multiple are flat, Sabvest’s loans into the business reduced by R40m following a debt restructure.

Halewood South Africa: Established in 1999, Halewood South Africa is a manufacturer of a wide range of premium award-winning alcoholic, non-alcoholic and RTD (Ready-To-Drink) beverages including brands such as Belgravia, Whitley Neill, Red Square, Caribbean Twist and Buffelsfontein. It is also an importer of finished goods brands from the UK, France, Italy and Mexico.

Valuation Summary	H1:22	FY 21
%-held	18.95%	-
Equity investment	-	-
Valuation methodology	At Historic Cost	-
Investment loans	R116.5m	-
Total Investment	R116.5m	-

Halewood South Africa Brands:



Source: Halewood.co.za

- **Company detail:** Halewood South Africa *manufactures* c.95% of its own products (a key point underpinning the growth potential here) and, in the disinvestment from its UK-based parent, it has retained evergreen rights to its brands (exclusive in South Africa, and non-exclusive for export to anywhere except the UK).
- **Investment detail:** We believe that, following the Russian invasion of Ukraine, Halewood South Africa’s parent company was forced to sell Halewood South Africa as their Russian exposure created pressure on their capital structure. Sabvest has an effective interest in Halewood South Africa of 18,95% through 41,03% of Masimong Beverage Holdings (Pty) Ltd which indirectly owns 46,19% of Halewood South Africa through a Special Purpose Vehicles (SPV).
- **Valuation:** Due to the recency of the deal, the investment is being carried at cost. That said, the deal was done a relatively low single-digit EBITDA multiple, which feels conservative against current branded alcoholic beverage groups’ listed EV/EBITDA multiples (ranging from 10x to mid-20x’s and upwards). Especially the evergreen non-exclusive rights to *export* (which Halewood South Africa did *not* previously have) hold potential to build a materially larger business in the future.

Masimong Group Holdings: An empowered investment company holding investments interests in Seriti Coal, Seriti Power and Lephalale Coal and Power, and its agricultural interests in Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings (which owns grape and date farms) and Winfield United South Africa (which is a provider of specialist crop input products and services including crop protection, plant nutrition, soil conditioning, fumigation and seeds). The Group It also holds diversified interests including Rolfes and Anchor Capital and, more recently, invested in ARB Holdings (see our earlier note on this) and Halewood South Africa (see our earlier note on this).

Valuation Summary	H1:22	FY 21	FY 20
%-held	10.0%	10.0%	10.0%
Equity investment	R365.9m	R296.2m	R172.1m
Valuation Methodology	At Net Asset Value	At Net Asset Value	At Net Asset Value
Total Investment	R365.9m	R296.2m	R172.1m

- **Performance & Commentary:** Masimong has had a fantastic year so far and, if the returns from the listed commodity group are anything go by, this has been driven by the Group’s coal businesses (consider record profits reported from [Exxaro](#) and [Thungela Resources](#) on the JSE as good reference points for Seriti Coal). While the ARB and Halewood acquisitions occurred during the period, more recently Seriti has announced a move into renewable energy ([LINK](#)).
- **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	H1:22	FY 21	FY 20
%-held	25.1%	25.1%	25.1%
Equity investment	R228.9m	R201.6m	R145.5m
EBITDA Multiple	5.5x	6.0x	6.0x
Investment loans	-	-	-
Total Investment	R228.9m	R201.6m	R145.5m

- **Performance & Commentary:** Rolfes has had a *fantastic* trading period with results ahead of budget and showing significant real growth.
- **Valuation:** In discussion with management, a lot of the growth in Rolfes has occurred in the lower margin side of the business and, thus, the feeling was that a multiple reduction was appropriate. Hence, the previously used 6.0x EBITDA multiple was lowered 8.3% to 5.5x. Given our prior knowledge of Rolfes (before it was delisted from the JSE), we remain comfortable with this multiple, though we would argue that if these levels of profits are maintained, the product and margin mix is secondary to the bottom line and the investment could well demand a slightly higher multiple.

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

Valuation Summary	H1:22	FY 21	FY 20
%-held	27.7%	27.7%	27.7%
Equity investment	R72.5m	R73.3m	R73.5m
EBITDA Multiple	5.0x	5.0x	5.0x
Investment loans	5.4m	R5.2m	R4.9m
Total Investment	R78m	R78.5	R78.4m

- **Performance & Commentary:** While Sunspray was affected by operational and supply chain disruptions during the prior year, these relaxed and the business resumed its growth in earnings

during H1:22. This is inline with management’s prior period expectations and, indeed, they appear optimistic with regards to the future.

- **Valuation:** With a flat, undemanding multiple (5.0x), we remain comfortable with this valuation, particularly as the business has returned 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. 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, since the original seed funding rounds (which was when Sabvest invested), Revix has successfully concluded two additional funding rounds and is busy with a third – all at successively *higher* valuations. Sabvest has elected not to follow the last two rounds and saw dilution in its interest, although it retains certain rights and protections as a seed investor. New investors include 21 Finance in Europe and The Qatar Investment Bank. The funding rounds plus a 10% allocation of equity to management has resulted in Sabvest’s shareholding reducing to 11,0% at the reporting date.

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, accumulated deferred tax on its investments 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

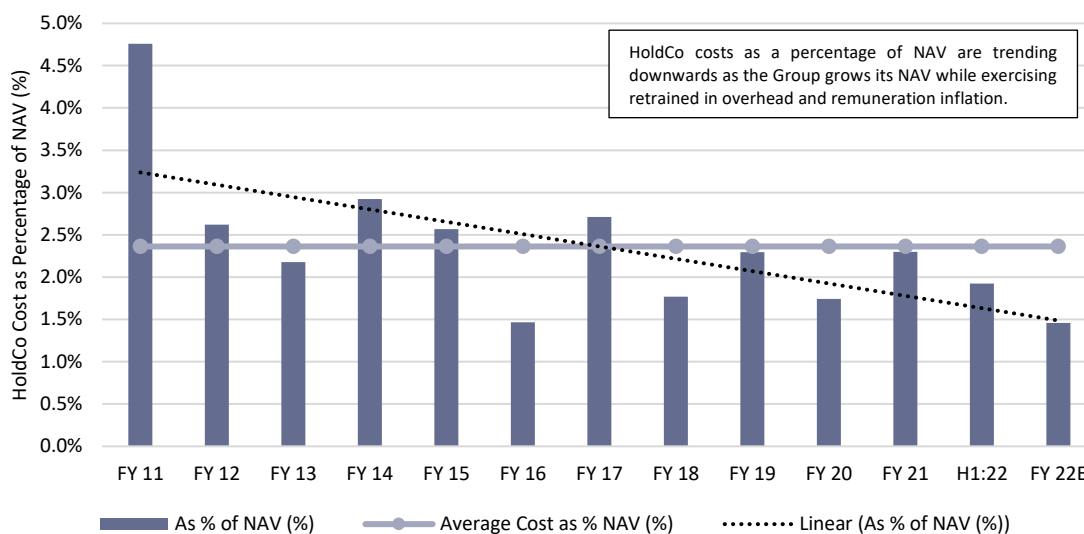
Refer to Table 1 earlier in this report for a detailed breakdown of the Group’s NAV, updated for current spot prices. We estimate Sabvest Capital’s current NAV to be R4.1bn or 10429cps, implying a current discount in the share price of c.30%.

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).

While some incentives (boosted by the Group’s good performance) create some short-term distortions, the Group averages HoldCo costs of c.2.0~2.5% of its NAV (depending on the time frame used). This agrees with management’s target of maintaining expenditure *under* 2,0% per annum of assets over a rolling three-year period (from FY 21 to H1:22, Sabvest indeed averages costs of c.2.0% of its NAV) and, thus, we have lowered our expected H2:22 costs somewhat and normalized them to arrive at our HoldCo discount net present value.

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 (18.2%; Rf = 9.93%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R606m (previously: R993m) or c.15% (previously: 25%) of the Group’s NAV. The large swing in the discount is partly due to higher interest rates in the market (which, ironically, benefit HoldCo discounts as *future* costs becomes a *lower* NPV now), partly due to portfolio growth outstripping HoldCo overhead growth and partly due to some normalizing assumptions we have applied.

The average JSE-listed HoldCo discount is c.28% (Figure 3) but includes a wide dispersion of discounts from an 8% *premium* to NAV to a 49% *discount*. Likewise, the underlying various portfolios have seen vastly different performance *and* a range of HoldCo’s have/intend to unbundle, delist and/or unlock various values in some degree that also distort market discount comparisons.

I.e. Not all HoldCo’s are the same, and thus an argument for this lower discount to Sabvest’s NAV is the following:

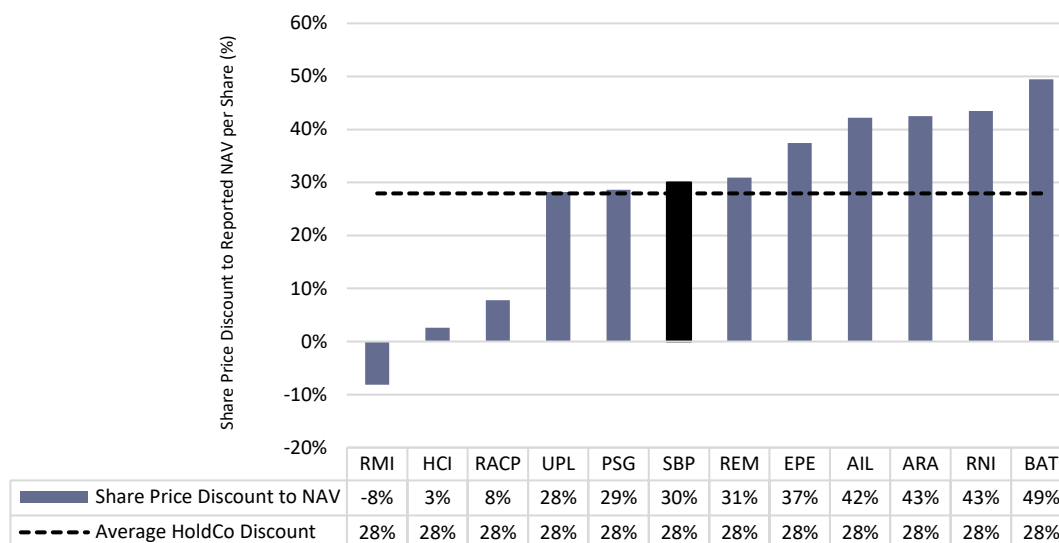
1. Sabvest’s exceptionally strong, long-term track record of NAV growth (better than many of its peers),
2. Sabvest’s steadily declining central cost as a percentage of NAV (Figure 2) as its NAV growth is translating into returns to scale for shareholders, &
3. The entire JSE-listed HoldCo sector is arguably undervalued at a 28% 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 (this excludes dividends, which if they were reinvested would lift this to +18.6% CAGR) *and* its share’s 15-year price return is +16.0% CAGR.

I.e. Discount aside, if Sabvest continues growing its NAV, its share price should *at least* track that NAV growth.

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 8894cps (previously: 7487cps) or that it should be trading +22% *higher* than its current 7300cps 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 10511cps (previously: 8825cps) for Sabvest Capital. This implies an attractive +44% 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 investments and their own underlying businesses,
- Any corporate actions across the Group’s portfolio (buying, selling or restructuring underlying investments), &
- The quantum, timing and price achieved in the Group’s share buy-back programme (we have confirmed with management that they intend to keep applying excess capital through this channel when and where appropriate).

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 12 August 2022.*

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