

Sabvest Capital Ltd
Exciting Prospects

Share Code: SBP – Market Cap: R3.2bn – Dividend Yield: 1.1%

12m Target Price	10906cps
Share Price	8100cps
Implied Return	35%

Financials | [South Africa](#)

FY 22 Results: Better than Expected

- Sabvest Capital's NAV grew 17.6% y/y to 11017cps beating our expectations, the Group's HEPS was firm at 1591.2cps (FY 21: 1689.7cps) and management has materially lifted the dividend to 90cps (FY 21: 75cps). This was a busy period with a range of new investments from ARB Holdings, Halewood to Valemount Trading.
- The Group's investee companies executed a range of underlying investments from Apex buying into DRA Global to SA Bias' Flowmax acquiring YG Prefab in the UK.

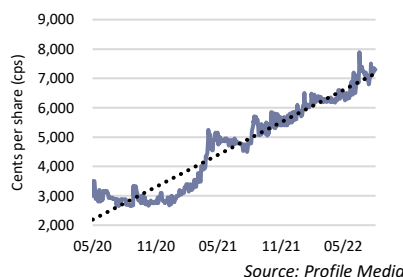
Thoughts: Exciting Portfolio Prospects

- While ITL's may be the only duller spot in Sabvest's portfolio (longer-term, though, we are very optimistic about this group's prospects), DNI-4PL is firing all cylinders, SA Bias is performing strongly, and Apex Partners is fast growing into a material investment for the Group.
- ARB Holdings is benefitting from the boom in solar, Halewood and Valemount Trading both hold immense potential for profitable expansion from their positions in the RTD/beverage and pet industries respectively.

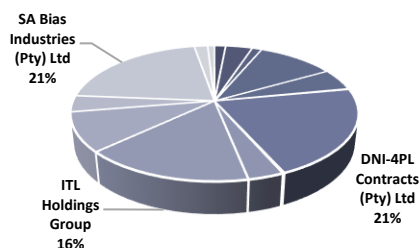
Valuation, 12m TP & Implied Return: Cheap & Growing

- Updating the Group's NAV for the latest market prices we arrive at a defensible (post-discount) fair value for Sabvest's shares of 9227cps (previously: 8894cps), which still includes a HoldCo c.14.5% discount against this NAV.
- Importantly, the underlying NAV appears to be conservatively valued and management's track record at growth is well above average. These two factors combine favourably to form the Group's investment appeal, particularly when offered at a discount (we estimate the share price currently offers a c.25% discount to NAV).
- Rolling our post-discount fair value forward, we see the Group's 12m TP as 10906cps (previously: 10511cps) with an implied return of +35%, excluding dividends.
- Refer to our [Initiation of Coverage](#) for more background.

Sabvest Capital – Share Price

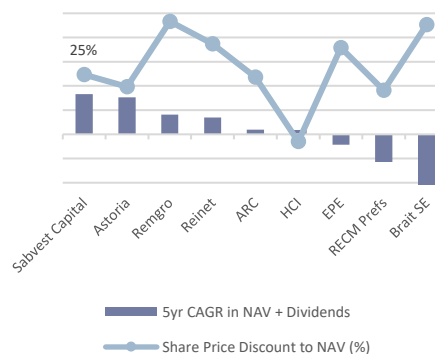


Sabvest Capital – Portfolio Major Weightings



Sources: Sabvest & Blue Gem Research workings

JSE-HoldCo's: 5-yr Growth in NAV vs. Discount 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	FY 22	Now*
Net Asset Value (cps)	3,719cps	3,646cps	5,085cps	5,852cps	6,648cps	7,444cps	9,371cps	11,017cps	10,796cps*
Growth (%)	39%	-2%	39%	15%	14%	12%	26%	18%	-2%
HEPS (cps)	1,004cps	9cps	1,517cps	531cps	917cps	709cps	1,690cps	1,591cps	-
Growth (%)	126%	-99%	16389%	-65%	73%	-23%	>100%	-6%	-
DPS (cps)	50cps	55cps	61cps	68cps	75cps	25cps	75cps	90cps	-
Growth (%)	16%	10%	11%	11%	10%	-67%	200%	20%	-

Sources: Sabvest various reports & Blue Gem Research assumptions & workings; *Closing Prices on 24 March 2023



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BLUE GEM RESEARCH

Table 1: Sabvest: Sum-of-the-Parts (SOTP)	Short Description	Shares / %	Valuation Methodology / Comment on Calculation	Valuation	% of NAV
Listed Investments	-	-	-	R323,614,500	8%
Corero Network Security Plc	LSE-listed DDOS-focussed cyber security group on the cusp of profitability.	50m	Market price of shares (GBP6.30ps)	R70,024,500	2%
Metrofile Holdings Ltd	JSE-listed group offering secure & digital storage, document solutions & related services.	56m	Market price of shares (323cps)	R180,880,000	4%
Transaction Capital Ltd	JSE-listed group offering taxi financing, credit services & WeBuyCars.	5,5m*	Market price of shares (1322cps)	R72,710,000	2%
Unlisted Investments	-	-	-	R4,541,649,000	107%
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)	R504,023,000	12%
ARB Holdings (Pty) Ltd	A distributor of electrical, lighting, solar and related products to the domestic markets.	18.5%	Normalized EBITDA x 6.5x (Previously: Cost)	R250,256,000	6%
Classic Food Brands (Pty) Ltd	A food manufacturer specializing in crumbed chicken products.	40.0%	Fair value after impairment provision	R8,205,000	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.	19.9%	Normalized EBITDA x 6.5x (Previously: 6.5x)	R1,028,087,000	24%
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: 4.5x)	R7,033,000	0%
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%	Normalized EBITDA x 7.25x (Previously: Cost)	R165,586,000	4%
ITL Holdings Group	Intelligent Labelling Solutions (ITL) is an international designer, manufacturer & distributor of apparel labelling & identification products, & supply chain management solutions including RFID.	34.4%	(Normalized EBITDA x 9,0x) - Net Debt (Previously: 9.0x)	R786,454,000	18%
Masimong Group Holdings (Pty) Ltd	An empowered investment company holding investments in Seriti Coal and Lephalele Coal & Power, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Winfield United SA, amongst other investments.	10.0%	NAV based on Masimong internal valuation (Previously: NAV)	R452,510,000	11%
Rolfes Holdings (Pty) Ltd	A specialist provider of agricultural, food, industrial and water chemical solutions and services.	25.0%	(Normalized EBITDA x 5,5x) - Net Debt (Previously: 6.0x)	R189,289,000	4%
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: 6.0x & 4.5x)	R1,018,861,000	24%
Sunspray Food Ingredients (Pty) Ltd	Food ingredient solutions; supplies spray dried & blended powdered food & drink products & services.	27.7%	(Normalized EBITDA x 5,0x) - Net Debt (Previously: 5.0x)	R86,624,000	2%
Valemount Trading (Pty) Ltd	Valemount is the largest manufacturer and distributor of bird seed and related feeder products in the country while offering outsourced logistical services to independent pet product suppliers.	39.3%	Cost (Previously: -)	R44,721,000	1%
Other Items	-	-	-	-R611,796,750	-14%
Finance advances (current & non-current)	-	-	Per balance sheet disclosure	R57,189,000	1%
Deferred Tax Liabilities	CGT raised on Sabvest's own balance sheet to offset the implied taxable gains on its investments (where applicable & not provided for by the individual investments themselves).	-	Per balance sheet disclosure & management discussion	-R206,089,000	-5%
HoldCo Net Debt	*Excluding the extra 500,000 Transaction Capital shares acquired post-reporting period.	-	Per balance sheet disclosure less additional R5m TCP investment	-R462,896,750	-11%
Net Asset Value	-	-	-	R4,253,466,750	100%
Less: "Investment Holding Discount"	The cost of maintaining & running Sabvest Capital Ltd	-	Net Present Value of estimated HoldCo costs	-R617,984,179	-15%
Sum-of-the-Parts (SOTP)	-	-	-	R3,635,482,571	
<i>Ordinary shares</i>	-	-	-	<i>39,4m</i>	
Fair Value per share (cps)	-	-	SOTP / # of shares	9,227cps	
Discount to share price (%)	-	-	-	14%	
12m Target Price (cps)	-	-	Fair value x (1 + CoE)	10,906cps	
12m Implied Return (%)	-	-	-	35%	

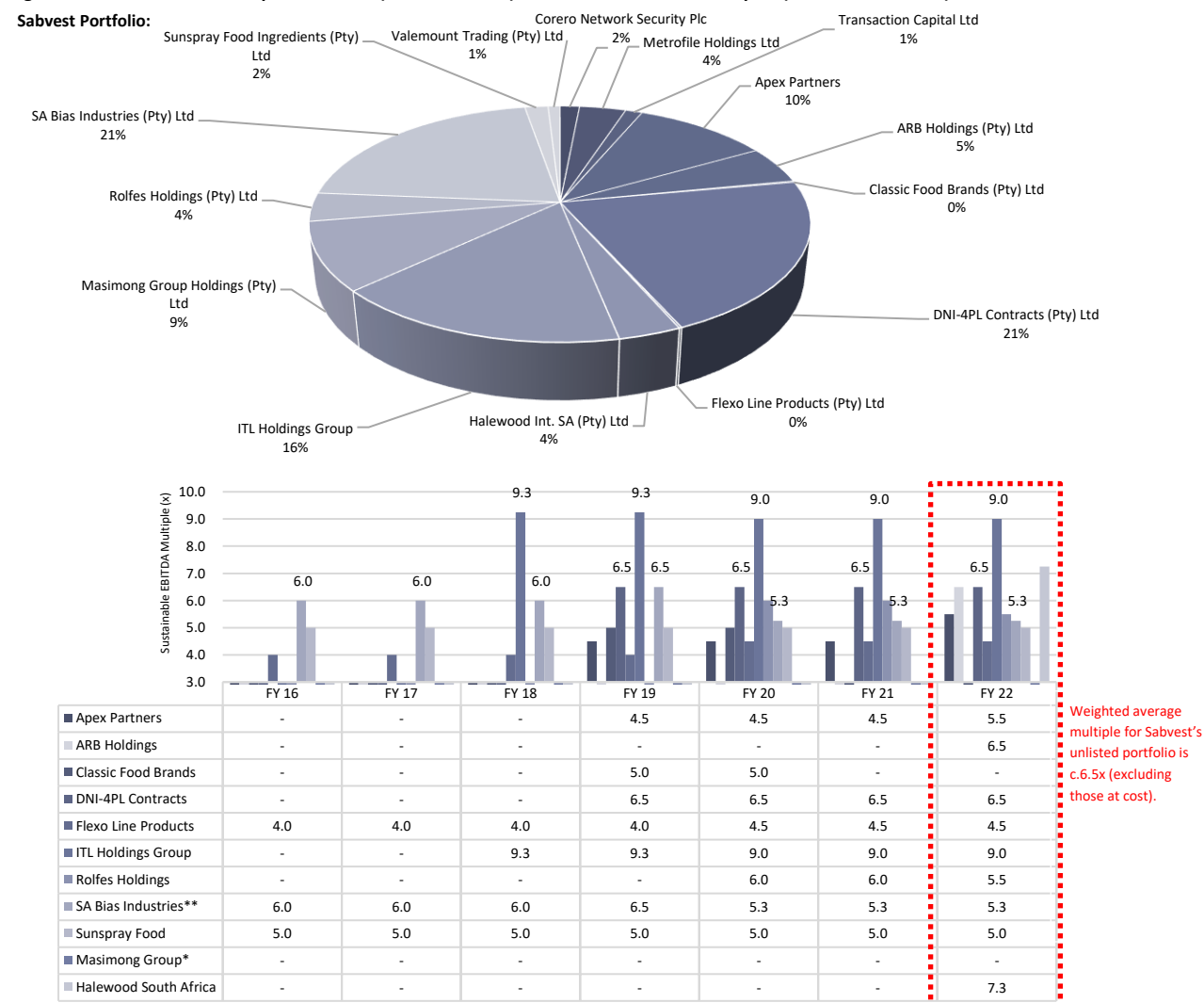
Sources: Sabvest various reports, Iress, Profile Media, JSE & LSE share prices, & Blue Gem Research workings & assumptions (24 March 2023 Closing Prices)

FY 22 Results

Sabvest Capital (code: SBP) put out another strong set of results showing good growth in the Group’s underlying NAV:

- The Group’s NAV grew 17.6% y/y to 11017cps beating our expectations, the Group’s HEPS was firm at 1591.2cps (FY 21: 1689.7cps) and management has materially lifted the dividend to 90cps (FY 21: 75cps).
- This was a busy period where management made several investments, most materially investing in ARB Holdings, Halewood International South Africa, Valemount Trading, increasing its shareholding in DNI-4PL by +0.8% and buying back 130,000 of its own shares in the market (well below NAV).
- Likewise, the Group’s investee companies also had a busy period with Apex Partners acquiring an interest in DRA Global, ARB buying out the minorities in Eurolux, DNI finessing its portfolio, SA Bias acquiring in the UK and Masimong acquiring interests in ARB Holdings and Halewood.
- Management believe that the Group is now fully invested and the focus will be on growth of the existing going forward, though we may see some recycling or realizing of the smaller, tail-end of the Group’s portfolio as opportunities present themselves.

Figure 1: Sabvest Portfolio – Updated Prices (24 March 2023) & Unlisted Valuation Multiples (31 December 2022)



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.

Investee Company Updates & Analysis

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



Valuation Summary	FY 22	FY 21	FY 20
%-held	19.9%	19.1%	19.4%
Equity investment	R1,028m	R907.7m	R839.4m
EBITDA Multiple	6.5x	6.5x	6.5x
Debt investment	-	-	-
Total Investment	R1,028m	R907.7m	R839.4m
Ordinary dividends received	R52.2m	R45m	-*
Special dividends received	R50.2m	R5.5m	-*
Total dividend received	R102.4m	R50.5m	-*
Dividend Yield (DY %)	10.0% (or 5.1% ex. special div.)	5.6%	-*
Vodacom Group - DY (%)**	6.2%	-	-
MTN Group - DY (%)**	2.4%	-	-
Telkom SA SOC - DY (%)**	0.0%	-	-
Blue Label Telecoms - DY (%)**	0.0%	-	-

* Not disclosed; ** As of intra-day 17 March 2023 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 and value-added platforms and services.

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

1. **Mobile Distribution:** Wholesaler and retailer of airtime.
2. **Hardware Distribution:** 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).
3. **Technology:** A range of technology-enabled mobile and app businesses with back-end platforms.
4. **Value-added Services:** A range of telcos-enabled valued-added services.

For more detailed information on the underlying businesses in these segments, it is worth working through the Group's subsidiaries on its company website: [LINK](#).

FY 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. Our sense is that the Group's positioning and offering is gaining its key market share and justifies what has likely been and should remain above-industry growth. It gives us comfort (particularly how fast changing this industry is) that this growth is being balance against real-cash returns via its progressive dividend policy (see above implied Dividend Yield and below commentary on this).

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 10.0% (or 5.1%, if we exclude special dividends received during the period). This compares quite favourably against the other JSE-listed telcos groups (ranging from a DY of 0% to 6.2%). This is especially true if we consider the effective annualized growth rate in this investment of 8.7% y/y over this period when the +0.8% rise in Sabvest's shareholding is reversed into the Group's valuation of the investment. It is notable that this

growth has massively outperforming the other JSE-listed telcos groups over this period with Vodacom share price falling -20% y/y, MTN -37% y/y, Telkom -28% y/y and Blue Label Telecoms -35% y/y (till close on 17 March 2023).

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



Valuation Summary	FY 22	FY 21	FY 20
%-held	34.4%	34.0%	30.0%
Equity investment	R167.6m	R26.1m	R103.5m
EBITDA Multiple	9.0x	9.0x	9.0x
Debt & Preference share investment	R618.9m	R585.1m	R551.6m
Total Investment	R786.5m	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. While setup costs for each customer are expensed in the period they are incurred (depressing short-term profits), the long-term opportunity to earn more embedded profits effectively compounds into the Group’s base as it wins more and more customer contracts with this unique offering.

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

FY 22 Financial Results:

Given the Group and its industry’s exposure to China, the Chinese “Zero COVID” policy lockdown negatively effected the Group’s customers and its own operations during the period. After the year-end, China lifted its COVID restrictions and normal trading is expected by the end of Q1 2023. Importantly, ITL is budgeting for significantly improved results in FY 23E and has *already* met revenue targets for the first two months of the year. Given look-through’s across a range of global apparel and fashion groups gives us confidence that the industry is normalizing and its fundamentals—and ITL’s unique and highly-competitive place in it—remain robust, albeit the current recovery may not be linear and there is still a lot of volatility in global supply chains.

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 (equity) valuation has reacted how we expected and declined. Likewise, from its COVID-lows, the Group has recovered coming out of COVID—despite Zero COVID in China during the period, the rest of the world has steadily recovered—and the (equity) 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 (see the above RFID solution that embeds the Group deeply into its customers operations).

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

Valuation Summary	FY 22	FY 21	FY 20
%-held	85.2%	85.1%	59.9%
Equity investment	R1,018.9m	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	R1,018.9m	R906.3m	R768.6m
Ordinary dividend received	R35.8m	R32.4m	-
Special dividend received	R8.5m	R88.2m	-
Total dividends received	R44.3m	R120.6m	-
Dividend Yield (%)	4.3% (3.5% ex-special dividend)	13.3% (3.6% ex-special dividend)	-

Business:

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

- **Narrowtex Group:** A South African-based manufacturer and exporter of a range of narrow fabric products including webbings, strapping, tapes and braids, and of lingerie components, elastics and accessories.
- **Flowmax Group:** A United Kingdom-based industrial holding company with a range of businesses engaged in the manufacture, distribution and servicing of medium technology fluid handling equipment, consumables and measurement systems, and solutions for other industrial variables such as heat management and control.

FY 22 Financial Results:

SA Bias has continued to recover and, indeed, outperform pre-COVID (as noted at interim stage & continuing in the H2 period). Narrowtex has seen a strong recovery in its export market while Flowmax made an acquisition of YG Prefab in the UK.

The Group retains a liquid balance sheet is currently trading well.

The above shows continued execution on previous management guidance and gives us comfort that their view of the Group's good prospects for growth (aided by export in Narrowtex, and organic and acquisitively fuel in Flowmax) can be relied on.

Finally, Rand-weakness has further provided a tailwind here.

Valuation:

Given the Group's performance, Sabvest's relatively low multiple on it, and a lack of multiple expansion in the valuation methodology, we remain comfortable with the valuation of this investment. The underpinning of its comfortable (and steady ex-special) Dividend Yield adds further comfort.

Finally, given Flowmax's GBP-based valuation, the Rand weakness is worth noting in trying to extrapolate current and future fair value changes here. The GBP/ZAR ended year c.R20.51 but is now trading closer to R22.23 or c.8% weaker, implying some positive translation effect in this Group's fair value.

Apex Partners: An industrial group with controlling interests in distribution, engineering and construction businesses in South Africa. The distribution segment comprises Letaba Pumps, TGS, Elephant Lifting and ELB Equipment. The construction and engineering segment comprises ET-X Projects and CBZ Solutions. It also holds special situation financial assets.

Valuation Summary	FY 22	FY 21	FY 20
%-held	44.8%	44.8%	44.8%
Equity investment	R504.0m	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	R504.0m	R303.8m	R128.5m
Ordinary dividends received	R17.9	-	-
<i>Dividend Yield (DY %)</i>	3.6%	-	-
	<i>Dividend Yield (%)*</i>	<i>EV/EBITDA (x)*</i>	<i>Market Capitalisation*</i>
<i>Barloworld Ltd</i>	5.6%	3.4x	R15.5bn
<i>Bidvest Ltd</i>	2.9%	8.5x	R86.9bn
<i>Hudaco Industries</i>	5.8%	4.8x	R4.9bn
<i>Invicta Holdings</i>	3.3%	4.6x	R2.7bn
<i>KAP Industrial Holdings</i>	9.0%	4.3x	R7.6bn
<i>Reunert Ltd</i>	4.9%	7.8x	R11.2bn

* As of closing 17 March 2023 on the JSE Stock Exchange & sources being Profile Media, Iress and Koyfin, EV/EBITDA unadjusted for IFRS 16 leases

- **Performance & Commentary:** This Group is growing and made an investment into DRA Global during the period (19.3%-stake) while establishing Apex UK to follow the Group’s acquisitive model in the UK and Europe.
- **Valuation:** As Apex has evolved into a decentralized holding company, its accounting changed in the H1:23 period 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 FY 22 multiple of 4.5x was lifted to 5.5x during H1:23 as Apex’s consolidated annualized revenue approaches R2bn. JSE-listed industrial conglomerates (see above) average an EV/EBITDA of 5.6x, thus placing Apex more in line with listed peers. One could argue an unlisted discount but this can also be balanced against Apex’s likely higher growth profile. We are comfortable that the valuation more or less in line with the environment and peers, and we will watching this increasingly important investments in Sabvest’s portfolio closely.

Masimong Group Holdings: An empowered investment group with mining interest in Seriti Resources, and agricultural interests in Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings and Winfield United South Africa. Seriti Resources has established Seriti Green and acquired a portfolio of large-scale, renewable development projects through the acquisition of Windlab’s South African business. Masimong also holds interests in Rolfes (see later in this report on this business) and Anchor Group. Finally, Masimong is co-invested with Sabvest in ARB Holdings (see later in this report on this business) and Halewood South Africa (see later in this report on this business).

Valuation Summary	FY 22	FY 21	FY 20
%-held	10.0%	10.0%	10.0%
Equity investment	R452.5m	R296.2m	R172.1m
<i>Valuation Methodology</i>	<i>At Net Asset Value</i>	<i>At Net Asset Value</i>	<i>At Net Asset Value</i>
Total Investment	R452.5m	R296.2m	R172.1m
Ordinary dividends received	R10.9m	-	-
<i>Dividend Yield (%)</i>	2.4%	-	-

- **Performance & Commentary:** As a diversified Group, Masimong’s holdings performed well during the period and in particular its interests in Seriti (from the energy market’s tailwinds created by Russia’s invasion of Ukraine). A weak spot, though, was the Group’s agricultural interests that were affected by economic conditions, logistical challenges and load shedding.
- **Valuation:** Masimong’s portfolio is independently fairly valued (including minority & liquidity discounts, and deferred CGT tax) and, therefore, 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.

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

Valuation Summary	At date of this report	FY 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)	6.51	9.25	12.5	10.0
Fair value (GBP)	GBP3.3m	GBP4.6m	GBP5.8m	GBP3.6m
Fair value (ZAR)	R72.5m	R94.5m	R126.1m	R72.8m

- Performance & Commentary:** Corero is a LSE-listed group operating in the cybersecurity sector (specifically overing DDOS attack protection), which offers it good exposure to long-term growth tailwinds. The Group’s key Juniper Networks relation continues to gain traction and is translating into higher volumes and revenues. Despite this, the Group’s share price (probably due to its small cap status and the pressure in this sub-sector on the LSE market) remains under pressure and has dropped notably. Sabvest acquired a further 1m shares in the Group over this period that lifted its interest in the Group to 10.1%.
- 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 +18.96% y/y), thus its low Price Earnings of 15x may well be understating its intrinsic value in the market (particularly when compared to, for example, Fortinet’s 5-year CAGR of +24.2% y/y that the market has valued on a rather elevated Price Earnings of 56.5x!).

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 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)	310cps	350cps	345cps	279cps
Fair value (ZAR)	R173.6m	R196.0m	R189.7m	R139.9m

- Performance & Commentary:** Metrofile put out commendable results for its FY 22 period ([results note here](#)), particularly from a digital strategy perspective. Digital now makes up c.27% (H1:22 – c.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 SA Taxi, Nutun & WeBuyCars businesses.

Valuation Summary	At date of this report	FY 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)	1155cps*	3310cps	4503cps	2489cps
Fair value (ZAR)	R62.7m	R165.5m	R270.1m	R248.9m

** Intra-day share price of TCP on the 17 March 2023 and, given the stock current elevated volatility, this may well differ materially from the date this note is published. Assuming no other changes, every 100cps change in TCP’s share price on the JSE changes Sabvest’s NAV by c.0.1%.*

- Performance & Commentary:** Two of the three key subsidiaries of the Group has recovered from the effects of COVID and is trading strongly. Unfortunately, the recovery in the historically resilient South African taxi sector has not materialized and management have been forced to right-size the Group’s SA Taxi business, triggering a raft of provisions and impairments that negatively affect the Group’s current earnings (Core earnings is expected to be between 20% to 50% down for their H1:23 period, & somewhat recovering in H2:23E before returning to growth in FY 24E). This update triggered a massive sell-off in the Group’s share price and this investment’s market value has dropped materially since the reported 31 December 2022 valuation number. We disclose the change above in our table,

including the added 0.5m more shares that Sabvest has now bought in the market (post-sell-off) but we also note its relative immateriality to Sabvest’s much larger NAV and portfolio.

- **Valuation:** As this follows the JSE-listed share price, we will use the current TCP share price as an arms-length guide for the valuation. We do, though, note the high levels of volatility here and are uncertain about how true the current share price is as a reflection of the underlying as opposed the mere mechanics of one or more large sellers attempting to exit a low liquidity investment in an environment with limited buyers (i.e. a materialization of an illiquidity discount).

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 (more recently and more excitingly) solar power 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 an encourage you to read our detailed body of research on the Group ([LINK](#)).

Valuation Summary	FY 22	FY 21	FY 20
%-held	18.50%	-	-
Equity investment	R13.9m	-	-
EBITDA Multiple	6.5x	-	-
Investment loans	R236.3m	-	-
Total Investment	R250.2m	-	-

- **Performance & Commentary:** The core distribution performed well and, particularly, the addition of solar and alternative power solutions has met a huge ramp-up in demand and contributed strongly to the Group’s performance. Given our previous long-standing coverage of the Group, we are comfortable that the Group is well run, and management have reiterated that its prospects for growth remain strong. Finally, the Group acquired the minorities in its Eurolux subsidiary, likely bolstering the parents’ bottom line (at a comfortable valuation).
- **Valuation:** This is the first time that Sabvest has adjusted ARB’s investment value to reflect a fair multiple (as opposed “cost”). While there are no good comparatives on the JSE, a 6.5x multiple does not look bad when compared to similar peer set as Apex’s that averages 5.6x (which also appears reasonable against JSE-listed industrials). Unlike many of these peers, ARB has no manufacturing fixed cost base hampering it in the current environment while it is benefitting from domestic solar demand and has a fantastic branch network to leverage these volumes.

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	FY 22	FY 21	FY 20
%-held	40%	25%	25%
Equity investment	-	-	-
Valuation methodology	<i>At Net Asset Value of investment</i>	<i>At Net Asset Value of investment</i>	<i>At Net Asset Value of investment</i>
Investment loans	R8.2m	R15m	R13.3m
Total Investment	R8.2m	R15m	R13.3m

- **Performance & Commentary:** 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. Classic Food Brands is now trading profitably and management state that the fair value may be reconsidered on a maintainable earnings basis in the next financial year (i.e. we expect a coming write-up of the nil equity value), albeit that we caution that the environment remains difficult and may deteriorate during the year.

- **Valuation:** The fair value is stated after an impairment provision based on tangible NAV.

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 22	FY 21	FY 20
%-held	47.5%	47.5%	47.5%
Equity investment	-	R29.9m	R29.8m
EBITDA Multiple	-	4.5x	4.5x
Investment loans	R7.0m	R79.8m	R65.2m
Total Investment	R7.0m	R109.6m	R95.0m

- **Performance & Commentary:** Unfortunately, the prior period’s restructuring and backup power installations has not helped the current period’s trading. The business’s trading conditions have remained difficult with revenues and profitability adversely affected by decreased household demand after the pandemic (as consumptions patterns swung heavily away from eat-from-home), logistical issues and the impact of load shedding on production. Unfortunately, these challenges echo many food or food-related businesses reporting in the domestic market.
- **Valuation:** Sabvest’s fair value of this investment is stated after an impairment provision that gives equity a nil value. Given the challenges experienced over the period, this prudence is logical and appears reasonable.

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. It was established in 1999.

Valuation Summary	FY 22	FY 21
%-held	18.95%	-
Equity investment	-	-
Valuation methodology	EBITDA valuation multiple: 7.5x (Previously: Cost)	
Investment loans	R165.6m	-
Total Investment	R165.6m	-

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 – also a key point in the growth potential).

- Investment detail:** Reiterating what we said at the interim period, we believe that, 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:** While this investment was carried at cost at interim period, Sabvest has now decided to value it on a 7.5x EBITDA multiple. If we consider larger, global branded alcoholic beverage multiples (EV/EBITDA Ratios: Diageo Plc 15.8x, Brown-Forman Corporation 27.7x, Heineken N.V. 12.0x & Anheuser-Busch InBev SA/NV 10.7x) while domestically, even Distell Group Holdings trades on a 9~10.0x EV/EBITDA. While management does not expect to lift this valuation multiple in the short-term, we do note its conservatism and, over time, if Halewood’s growth potential is unlocked, we naturally would expect some re-rating upwards here. That said, we are comfortable to keep Halewood in our SOTPs at Sabvest’s stated 7.5x multiple.

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

Valuation Summary	FY 22	FY 21	FY 20
%-held	25.1%	25.1%	25.1%
Equity investment	R189.3m	R201.6m	R145.5m
EBITDA Multiple	5.5x	6.0x	6.0x
Investment loans	-	-	-
Total Investment	R189.3m	R201.6m	R145.5m
Ordinary dividends received	R18m	-	-
Dividend Yield (%)	9.5%		

- Performance & Commentary:** Rolfes had a *fantastic* trading period during 2022 with results ahead of budget and showing significant real growth. The dramatic drop in commodity prices, though, has seen the 2023 period feel significant pressure on margins.
- Valuation:** We have previously noted the derating of Sabvest’s multiple for valuing Rolfes from 6.0x to 5.5x. Given our prior knowledge of Rolfes (before it was delisted from the JSE), we remain comfortable with this multiple but note the encouraging yield generated by the Group over the period (9.5% dividend yield) as comforting underpin to the valuation.

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

Valuation Summary	FY 22	FY 21	FY 20
%-held	27.7%	27.7%	27.7%
Equity investment	R80.9m	R73.3m	R73.5m
EBITDA Multiple	5.0x	5.0x	5.0x
Investment loans	5.7m	R5.2m	R4.9m
Total Investment	R86.6m	R78.5	R78.4m

- Performance & Commentary:** Sunspray’s earnings grew reasonably during the period and, importantly, the Group also completed a large capex project in its Industria facility, materially expanding its spray drying capacity (particularly for dairy products). The facility will come online in Q1:23 and management expect to facilitate materially increased revenues and profitability in the period ahead. If the multiple remains flat and this hold true, we expect a reasonable uplift in its fair value in Sabvest.
- Valuation:** With a flat, undemanding multiple (5.0x), we remain comfortable with this valuation, particularly as the business is expecting good growth from its operations.

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 crypto-market’s crash during late 2022 and into 2023 has seen the sector’s eco-system under pressure. Despite this, Revix actually projects to break-even by the end of 2023, and Sabvest’s currently fully-impaired valuation may need to be revisited upwards (at some point).

Valemount Trading: [Website](#) – [History](#)



Valuation Summary	FY 22	FY 21	FY 20
%-held	39.3%	-	-
Equity investment	R19.5	-	-
Valuation methodology	At cost	-	-
Investment loans	R25.2m	-	-
Total Investment	R44.7m	-	-

- Business:** Valemount Trading is a pet food and product manufacturer and supplier to leading retail chains, specialist pet stores and major co-ops domestically. Through its Westerman and Animal Zone brands, Valemount is the largest manufacturer and distributor of bird seed and related feeder products in the country. The expansion of its range of products supplied to the wider pet market is supported by its international partners, M-PETS, Beeztees and Pet Rebels. Finally, piggy-backing off its existing infrastructure, operations and market neutrality, Valemount’s distribution centres provide outsourced logistical services to numerous independent pet product suppliers. This last point is seen as a material opportunity going forward (see our comments on Chewy Inc below).
- Commentary:** With regards to strategy, management state that several acquisitions are being considered to augment existing organic growth and to widen its product range with Sabvest having committed to increase its Rands-invested to facilitate this expansion. It is also worth noting that the initial purchase consideration will be adjusted relative to a top-up formula, calculated based on 28 February 2023 audited financial statements once finalised.
- Valuation:** Given its recency, Sabvest is carrying this investment at cost. Looking forward, though, we are particularly excited to see how this investment grows. Not just does the pet-related sector have fantastic tailwinds, Valemount’s positioning in the domestic sector makes it particularly attractive to generate above-sector growth going forward. For example, look to the NYSE-listed Chewy Inc (NYSE:CHWY) that, at face-value, is an online pet food business, but in reality is actually a unique, non-discretionary and annuity-like *logistics* platform and demands a EV/EBITDA of c.68.3x in the market! We are quietly excited about Valemount Trading and are keen to see how its plays out.

JSE-listed HoldCo Sector Snapshot (as of 17 March 2023)

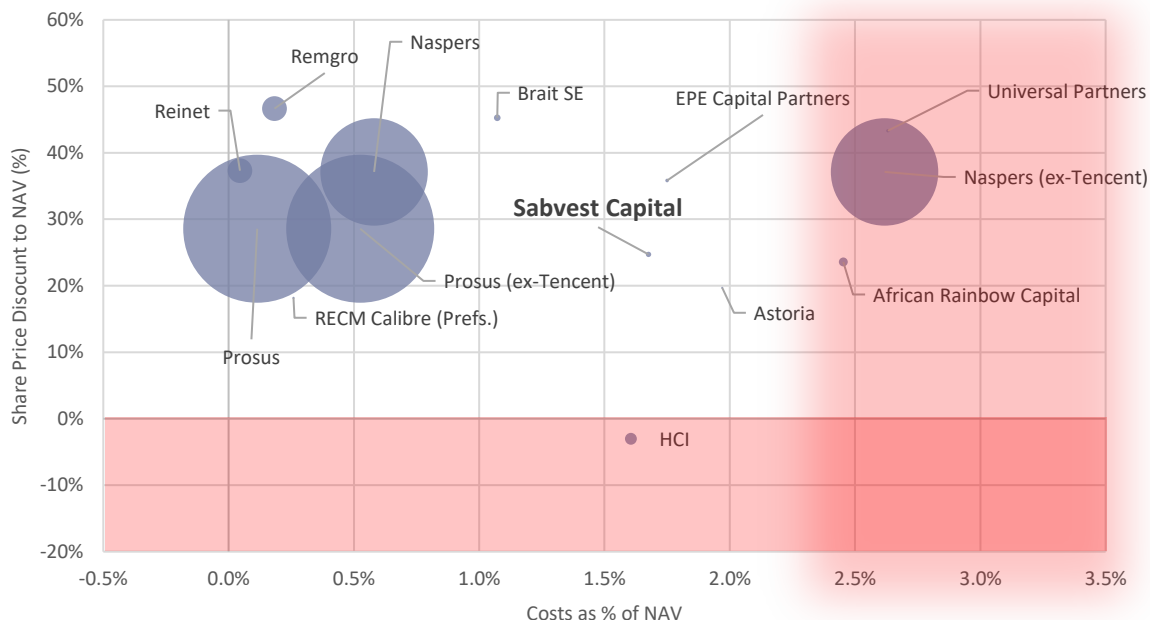
We have decided to zoom out and compare the JSE-listed HoldCo sector and the peers listed here to each other. Given the large amount of data necessary to do this analysis, we have used the latest data for Sabvest but only the data up until 17 March 2023 for the rest of the JSE-listed HoldCo sector. Without going into the nuances of these HoldCo’s structures, underlying investments and management teams, we have compared them based on three key ratios:

- Growth:** Cumulative Average Growth Rate (CAGR) of Net Asset Value (including dividends) over time,
- Costs:** Our best estimate of total HoldCo costs as a percentage of Net Asset Value (NAV), &
- Valuation:** Share price discount to NAV (as of closing prices 17 March 2023, excluding Sabvest whom we have updated for the latest and use the Closing Price on 24 March 2023).

Finally, a note on the JSE’s largest HoldCo, the Naspers/Prosus complex. Given the two groups’ cross-shareholding loop, Tencent’s dominance in their NAV despite their lack of active control there (should HoldCo costs be compared against their total NAV, in which case these HoldCo’s are quite efficient. Or, should they be

compared against only the non-Tencent portfolio that they *actually* manage? In the latter case, these HoldCo’s are absurdly expensive.) and the fact that this asset is held through a Variable Interest Entity (“VIE”), we exclude its measure from some graphs and comparisons. In others we show it *cum*-Tencent and *ex*-Tencent and allow for you to arrive at your own conclusion.

Figure 2: JSE-listed HoldCo Costs (as % of NAV) versus Share Price Discounts (as % of NAV) – Bubble size = Market Cap.

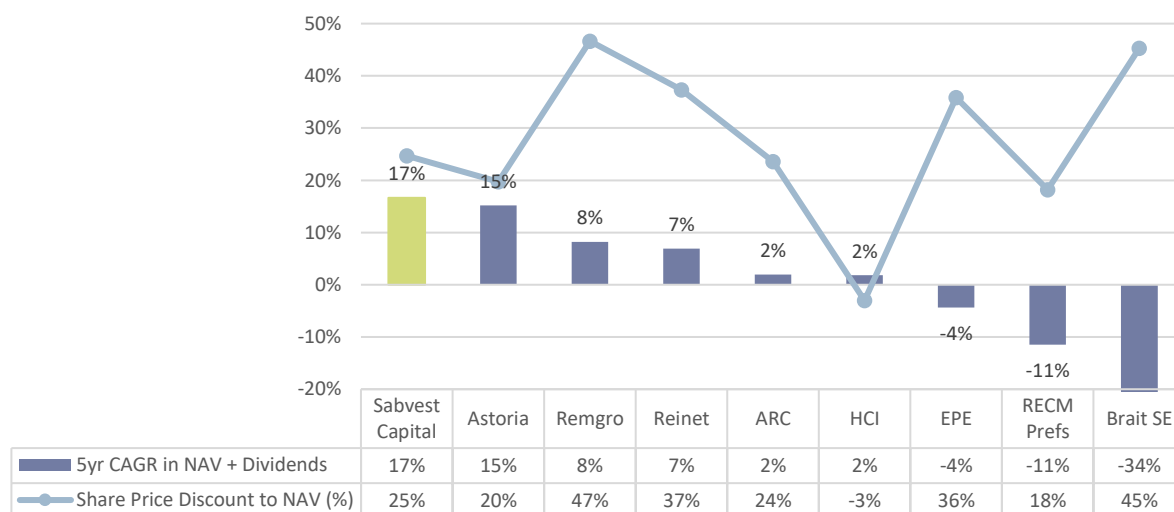


Sources: Refinitiv, Iress, Profile Media, various listed company disclosures, and a range of assumptions and simplifications by Blue Gem Research (NAV’s, latest disclosure and share prices as per 17 March 2023, Sabvest NAV and share price per Closing Price on 24 March 2023)

In Figure 2, we have highlighted red blocks where discounts are negative against NAV and where operating costs for the HoldCo are starting to get prohibitive (in our opinion). Sabvest is comfortably positioned within the “good zone” as being both efficiently run while offering a healthy discount against its NAV.

In Figure 3, we have calculated the running 5-year CAGR of growth in NAV (trying to include all dividends as well) and stacked it from top to bottom quartiles (ignoring the Naspers/Prosus complex). This is contrasted with the discount to NAV.

Figure 3: JSE-listed HoldCo NAV Growth (5-yr CAGR including dividends) versus Share Price Discount (as % of NAV)



Sources: Refinitiv, Iress, Profile Media, various listed company disclosures, and a range of assumptions and simplifications by Blue Gem Research (NAV’s, latest disclosure and share prices as per 17 March 2023, Sabvest NAV and share price per Closing Price on 24 March 2023)

While Figure 2 does not highlight any red flags against peers for Sabvest, Figure 3 shows that vast superiority in its growth over time. Against this latter measure, Sabvest truly outshines the pack.

Finally, (much like Sabvest Capital) EPE Capital Partners Ltd (code: EPE) also has mostly unlisted portfolio. Its HoldCo costs/NAV are similar (if we assume EPE's NAV is correctly valued) but its discount to NAV is materially higher.

EPE Partners unlisted portfolio is valued on an average 8.2x EV/EBITDA multiple. Ignoring those valued at cost, NAV or DCF methodologies, we calculate that Sabvest's unlisted portfolio's valuation is a weighted average EBITDA multiple of only c.6.5x. Thus, c.25~30% of the EPE share price's discount to NAV can be explained by the market valuing the Group's underlying businesses on a multiple closer to 5.5~6.0x (which would agree more with Sabvest's view of what a basket of reasonably diversified unlisted equities may be worth).

Is EPE valuing its unlisted investments expensively or is Sabvest valuing theirs conservatively? Or both? We believe that it is probably a little bit of both, but there are many nuances as the two portfolios look quite different and, thus, one would expect them to attract different valuations.

Still, it is worth pointing out that *if* Sabvest's unlisted portfolio was valued at EPE Partner's multiples, Sabvest's NAV would likely be c.20~25% *higher* than it is currently disclosed and, thus, its share price's discount to NAV would be closer to c.40~45%!

In conclusion, this analysis gives us comfort that Sabvest is efficiently managed relative to its peers (particularly those of equivalent size) and, more importantly, its management's ability to *grow* its portfolio (and NAV) is far superior than other JSE-listed HoldCo's with similar opportunity sets. This latter point is even truer when one considers that Sabvest's unlisted portfolio is conservatively valued versus what some peers value their unlisted portfolios at.

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 R4.3bn (Previously: R4.1bn) or 10796cps (Previously: 10429cps), implying a current discount in the share price of c.25% (Previously: 30%).

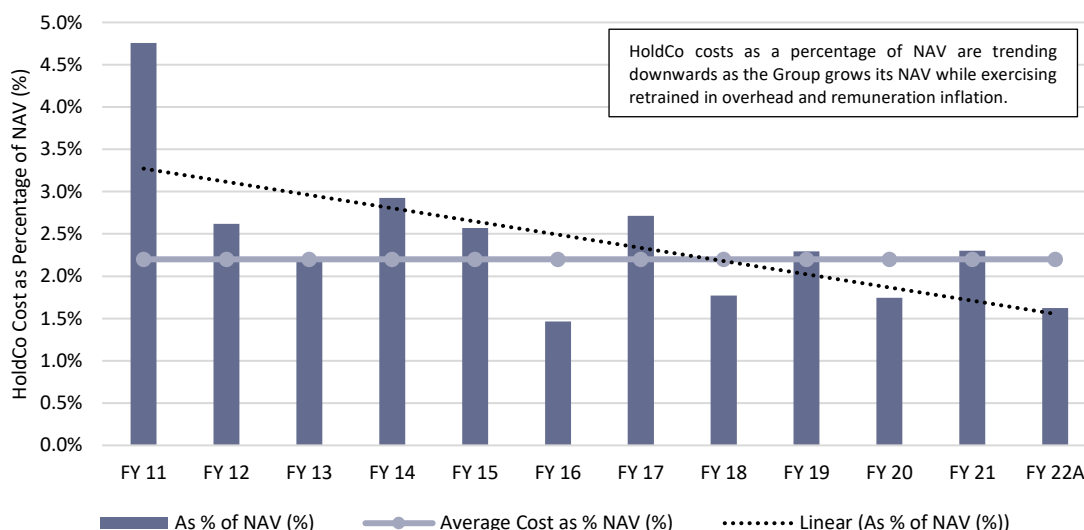
Appropriate "HoldCo Discount"

Coupled with the industry-wide view in Figure 2, Figure 4 shows Sabvest Capital's estimated central costs over time as a percentage of its NAV. Importantly, note how this ratio is trending downwards over time.

While some incentives (KPI's are Profit After Tax and NAV per share growth) can create some short-term distortions, the Group averages HoldCo costs of c.2.2% of its NAV. This ratio is lower the *nearer* to the present we look as the NAV has grown and “returns to scale” in the HoldCo have materialized (i.e. A 5-year rolling average HoldCo costs as % of NAV is only 1.9%).

Importantly, this running average agrees with management’s target of 1.5% to 2,0% per annum of gross assets over a rolling three-year period and forms a key basis for our HoldCo discount calculation below.

Figure 4: 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 = 9.94%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R617m (previously: R606m) or c.14.5% (previously: 15.0%) of the Group’s NAV.

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

Sabvest Capital’s (updated) NAV less our discount implies that the share is worth 9227cps (previously: 8894cps) or that it should be trading +14% *higher* than its current 8100cps 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 10906cps (previously: 10511cps) for Sabvest Capital. This implies an attractive +35% 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 &/or any share buy-backs).

Disclaimer

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

** Unless otherwise noted, market prices in this report are predominantly set to closing prices reported on 24 March 2023. Other HoldCo's are using data available at 17 March 2023 (including their NAV's at that point).*

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