

Sabvest Capital Ltd Growth Despite Tougher Period

Share Code: SBP – Market Cap: R2.8bn – Dividend Yield: 1.3%

12m Target Price	11920cps
Share Price	6900cps
Implied Return	73%

Financials | [South Africa](#)

H1:23 Results: Fully Invested

- Sabvest grew its Net Asset Value (NAV) by +10.4% y/y to 11465cps (H1:23 10388cps) and maintained its interim dividend at 30cps (H1:22 – 30cps).
- The Group is fully invested and, indeed, has several investment disposals in progress. With net debt at c.10% of gross assets, we expect realizations to be applied (somewhat) to degearing.
- Management expects moderate growth in NAV per share for the full FY 23E period.

Thoughts: More Nuanced Performances from Investees

- While H1:23 was generally a tougher trading period for underlying businesses, particularly **Apex**, **ARB** and **SA Bias** all performed *strongly* and saw good growth in their earnings and, thus, resulting valuations.
- Somewhat offsetting this, **Halewood** saw a cyclical adverse product mix and **ITL** continued to be buffeted by macro headwinds in the global apparel supply chain causing both to underperform. Both these businesses are good quality, and, in time, we expect these headwinds to abate, normal growth to continue and their respective contributions to Sabvest's NAV to rise accordingly.

Valuation, 12m TP & Implied Return: 40% discount to NAV

- Updating the Group's NAV for the latest market prices we arrive at a defensible (post-discount) fair value for Sabvest's shares of 10060cps (previously: 9227cps), which still includes a HoldCo c.13% discount against this NAV.
- Rolling our post-discount fair value forward, we see the Group's 12m TP as 11920cps (previously: 10906cps) with an implied return of +73%, excluding dividends.
- Beyond the above numbers and implied returns, the fact is that the Group's share price (6900cps) is currently at a large c.40% discount to what we estimate its current NAV is (11534cps). We find this strange, given the Group's track record, quality of NAV and prospects.
- Refer to our [Initiation of Coverage](#) for more background.

Financial Summary	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	H1:23	Now *
Net Asset Value (cps)	3,646cps	5,085cps	5,852cps	6,648cps	7,444cps	9,371cps	11,017cps	11,465cps	11,534cps
Growth (y/y %)	-2%	39%	15%	14%	12%	26%	18%	10%	1%**
HEPS (cps)	9cps	1,517cps	531cps	917cps	709cps	1,690cps	1,591cps	279cps	-
Growth (%)	-99%	16389%	-65%	73%	-23%	>100%	-6%	-72%	-
DPS (cps)	55cps	61cps	68cps	75cps	25cps	75cps	90cps	30cps	-
Growth (%)	10%	11%	11%	10%	-67%	200%	20%	0%	-

Sources: Sabvest various reports & Blue Gem Research assumptions & workings; *Intraday/closing prices on 24 August 2023; ** Versus H1:23



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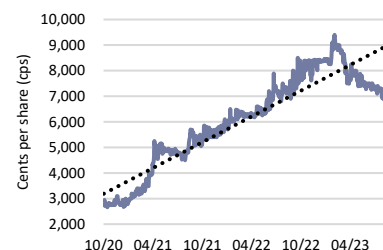
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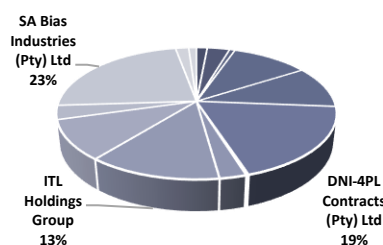
BLUE GEM RESEARCH

Sabvest Capital: Share Price



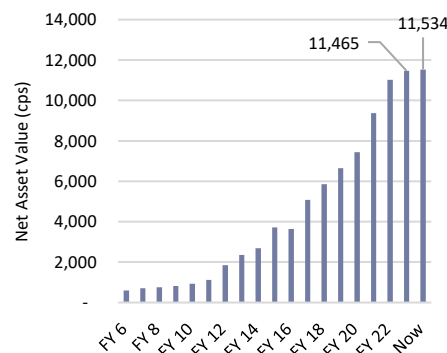
Source: Profile Media

Sabvest Capital: Portfolio Major Weightings



Sources: Sabvest & Blue Gem Research workings

Track Record: Sabvest's Net Asset Value per Share



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

Table 1: Sabvest: Sum-of-the-Parts (SOTP)					
	Short Description	#/%	Valuation Methodology	Valuation	% of NAV
Listed Investments				R280,215,300	6%
Corero Network Security Plc	LSE-listed DDOS-focussed cyber security group.	50m	Market price of shares (GBP6.62ps)	R78,215,300	2%
Metrofile Holdings Ltd	JSE-listed group offering secure physical & digital storage, document solutions & related services.	56m	Market price of shares (290cps)	R162,400,000	4%
Transaction Capital Ltd	JSE-listed group offering taxi financing, credit services & controlling WeBuyCars (two-way second-hand car market).	6m	Market price of shares (660cps)	R39,600,000	1%
Unlisted Investments				R4,989,766,000	110%
Apex Partners	An industrial group with a portfolio of controlling interests in distribution, engineering and manufacturing businesses in South Africa.	45.3%	Normalized EBITDA x 5.5x (Previously: 5.5x)	R559,893,000	12%
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%	Normalized EBITDA x 6.5x (Previously: 6.5x)	R544,706,000	12%
Classic Food Brands (Pty) Ltd	A food manufacturer specializing in crumbed chicken products distributed through retail outlets.	40.0%	Fair value after impairment provision	R0	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 and technology platforms.	19.7%	Normalized EBITDA x 6.5x (Previously: 6.5x)	R984,219,000	22%
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)	R12,569,000	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: 7.25x)	R138,049,000	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 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: 9.0x)	R684,863,000	15%
Masimong Group Holdings (Pty) Ltd	An empowered investment company holding investments in Seriti Green, Seriti Coal and Lephale 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%	NAV based on Masimong internal valuation (Previously: NAV)	R513,573,000	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: 5.5x)	R181,370,000	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)	R1,218,422,000	27%
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: 5.0x)	R95,064,000	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 through their distribution centres.	39.3%	Normalized EBITDA x 6.0x - Net Debt (Previously: Cost)	R57,038,000	1%
Other Items				-R726,850,000	-16%
Finance advances (current & non-current)	-	-	Per balance sheet	R55,668,000	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	-R221,692,000	-5%
HoldCo Net Debt	-	-	Per balance sheet	-R560,826,000	-12%
Net Asset Value				R4,543,131,300	100%
Less: "Investment Holding Discount"	The cost of maintaining & running Sabvest Capital Ltd	-	Net Present Value of estimated HoldCo costs	-R580,373,066	-13%
Sum-of-the-Parts (SOTP)				R3,962,758,234	
<i>Ordinary shares</i>				<i>39,390,000</i>	
Fair Value per share (cps)			SOTP divided by the shares	10,060cps	
Discount to share price (%)			-	+46%	
12m Target Price (cps)			SOTP x (1 + Cost of Equity)	11,920cps	
12m Implied Return (%)			-	+73%	

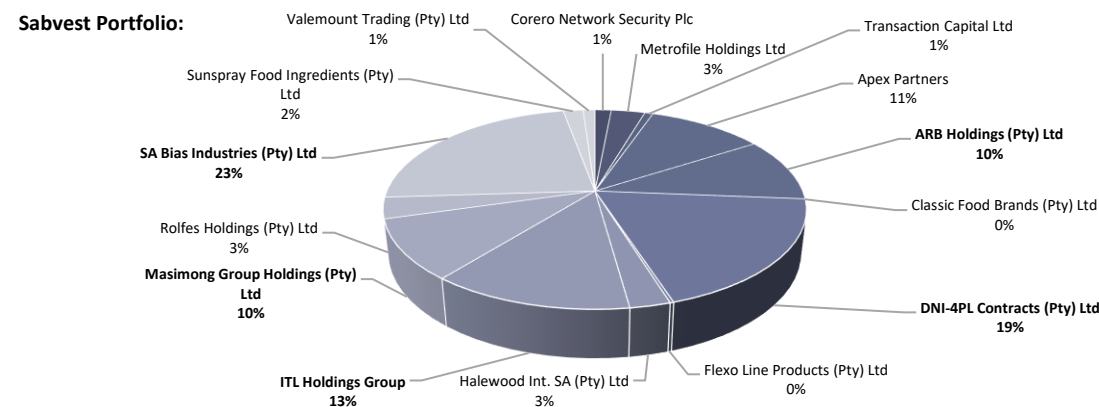
Sources: Sabvest various reports, Iress, Profile Media, & Blue Gem Research workings & assumptions (24 August 2023 Intra- & Closing Prices)

Sabvest Capital H1:23 Results

Sabvest Capital (code: SBP) published their H1:23 results with key highlights being:

- The Group grew its Net Asset Value (NAV) by +10.4% y/y to 11465cps (FY22: 11017cps; H1:23 10388cps) and maintained its interim dividend at 30cps (H1:22 – 30cps):
 - While this was generally a tougher period for underlying businesses to trade through, particularly Apex, ARB and SA Bias all performed strongly, grew their earnings and, thus, saw resulting growth in their valuations within Sabvest’s NAV, &
 - Somewhat offsetting this, Halewood saw a cyclical adverse product mix and ITL continued to be buffeted by macro headwinds in the global apparel supply chain causing both to underperform.
- While Sabvest did acquire 1m more Transaction Capital shares, reorganise its ARB investment stake, and funded an equity top-up in Valemount, the weight of investment activity occurred in the investee companies, which we detail later in this report in each investees’ respective section.
- Unlisted valuation multiples remained consistent with no expansion occurring (Figure 1), highlighting the quality nature of the Group’s reported growth in NAV.

Figure 1: Sabvest Portfolio – Updated Prices (24 August 2023) & Unlisted Valuation Multiples (30 June 2023)



Unlisted Investment	Valuation Multiple				
	FY 19	FY 20	FY 21	FY 22	H1:23
Apex Partners	4.5x	4.5x	4.5x	5.5x	5.5x
ARB Holdings	-	-	-	6.5x	6.5x
Classic Food Brands	5.0x	5.0x	-	-	-
DNI-4PL Contracts	6.5x	6.5x	6.5x	6.5x	6.5x
Flexo Line Products	4.0x	4.5x	4.5x	4.5x	4.5x
Halewood South Africa	-	-	-	7.3x	7.3x
ITL Holdings Group	9.3x	9.0x	9.0x	9.0x	9.0x
Masimong Group*	*	*	*	*	*
Rolfes Holdings	-	6.0x	6.0x	5.5x	5.5x
SA Bias Industries**	6.5x**	5.3x**	5.3x**	5.3x**	5.3x**
Sunspray Food	5.0x	5.0x	5.0x	5.0x	5.0x
Valemount Trading	-	-	-	-	6.0x

Sources: Sabvest, 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 subsidiaries’ multiples (4.5x and 6.0x).

- Sabvest is fully invested and, indeed, has net debt at c.10% of gross assets. While there are no near-term solvency or liquidity concerns, management does note that a number of investment disposals are in progress, and we expect the proceeds to be used to both degear the balance sheet (and to fund some existing commitments at investee companies).
- Anecdotally we note a growing alternative energy theme in Sabvest’s portfolio with the Group already exposed through Masimong (Seriti Green) and ARB Holdings (solar). In an energy starved country with a long runway for growth, we expect to see some further investment into this space.
- Sabvest’s share price of 6900cps is currently at a largely unjustified c.40% discount to what we estimate its current NAV is (11534cps). We find this strange, given its track record and prospects.

Investee Company Updates & Analysis

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

NARROWTEX

FLOWMAX

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	85.2%	85.2%	85.1%	59.9%
Equity investment	R1,218.4m	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	Flowmax at 6.0x, & Narrowtex at 4.5x
Debt & Preference share investment	-	-	-	-
Total Investment	R1,218.4m	R1,018.9m	R906.3m	R768.6m
Ordinary dividend received	R35.8m	R35.8m	R32.4m	-
Special dividend received	-	R8.5m	R88.2m	-
Total dividends received	R35.8m	R44.3m	R120.6m	-
Annualized Dividend Yield (%)	5.9%	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.

H1:23 Financial Results:

The Group's two divisions traded well with Floxmax growing in Pound-terms and Narrowtex's export division recovering prior period(s) lost ground to grow substantially. Management remains acquisitive and Floxmax's balance sheet has ample ungeared capacity to take advantage of opportunities in the UK and Europe.

Valuation:

While SA Bias holds a complex and nuanced set of businesses, we simplistically compare its divisional valuations to what we believe are the reasonable listed comparatives:

- **Flowmax:**
 - Alfa Laval Corporate AB (Sweden): EV/EBITDA of 15.8x.
 - Flowserve Corporation (United States of America): EV/EBITDA of 12.4x.
 - This peer set's average EV/EBITDA is 14.1x.
 - Thus, Flowmax's 6.0x multiple appears materially discounted to these listed valuations.
- **Narrowtex:**
 - While we cannot find compelling comparatives for Narrowtex's valuation, an EV/EBITDA of 4.5x inverted provides an implied yield of c.22% (=1 / 4.5). This is sufficiently higher than the South African 10-year Government Bond (i.e., domestic risk-free rate; currently yielding 10.24%) that we are comfortable adequate margin of safety is built into the valuation.

With the above context, we remain comfortable with SA Bias's divisional valuation and highlight the consistency with which its valuation multiple has been applied in Sabvest's NAV (unchanged from prior year).



Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	19.7%	19.9%	19.1%	19.4%
Equity investment	R984.2m	R1,028m	R907.7m	R839.4m
EBITDA Multiple	6.5x	6.5x	6.5x	6.5x
Debt investment	-	-	-	-
Total Investment	R984.2m	R1,028m	R907.7m	R839.4m
Ordinary dividends received	R28.3m	R52.2m	R45m	.*
Special dividends received	R7.8m	R50.2m	R5.5m	.*
Total dividend received	R36.1m	R102.4m	R50.5m	.*
Annualized Dividend Yield (%)	7.3% (or 5.7% ex. special div.)	10.0% (or 5.1% ex. special div.)	5.6%	.*
JSE-listed comparatives**:	Dividend Yield (%)	EV/EBITDA (x)	-	-
Vodacom Group (JSE:VOD)	6.1%	6.2x	-	-
MTN Group (JSE:MTN)	2.6%	3.3x	-	-

* Not disclosed; ** As of intra-day 24 August 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, primarily through the Sim Group. The Sim Group has over 4m active subscribers and over 15,000 points of presence, making it one of the largest independent telcos distributors in South Africa.
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); predominantly operating through 3G Mobile and Evercomm.
3. **Technology (Digico):** A range of technology-enabled mobile and app businesses with back-end platforms, including M4Jam, Paymenow, Paytime, Digitata and an investment in Neem.
4. **Value-added Services:** A range of telcos-enabled valued-added services.

H1:23 Financial Results:

While DNI's Digico business performed well, a softer consumer landscape coupled with continuing supply chain problems (for hardware) created a drag on growth. However, the Group remains highly cash generative (see the dividend declared during this period) and management assert that prospects for growth remain strong. Given the defensive nature of the Group's products and service range, management's great track record of execution and some potential weakness in competitors noted during the period, we tend to agree with management's confidence in the Group.

Interestingly, the Group has made investments into Australia (47.2% of Paytime) and Pakistan (convertible note for 7% of Neem) as extensions of the Group's fast-growing Paymenow franchise. The Group also increased its stake in the Sim HoldCo to 95% and acquired 20% in Vagle (security solutions provider), 23% of Sebenza Wi-Fi (eservices platform for taxis and busses) and Vocall (a sim card and mobile product distributor).

Valuation:

Vodacom and MTN are poor listed comparatives for DNI, but they *are* representative of most of the South African mobile telcos sector and, thus, underpin sectoral multiples/valuation. We believe that Blue Label Telecoms (JSE:BLU) share price reflects more its underperforming investment into Cell C than its mobile distribution business, and, thus, we have excluded it from our relative comparison.

While DNI has an EBITDA multiple in line to higher than both Vodacom and MTN, DNI also does not carry the capex intensity that these Group’s do while its dividend flow and resulting Dividend Yield is more attractive than both mobile telcos groups. MTN’s discounted valuation is furthermore likely due to its large exposure to geopolitical risk, particularly, in Nigeria (which DNI does not have).

Thus, on a balance of evidence, we remain comfortable with the valuation of DNI because it is:

1. Stable with the prior year,
2. Underpinned by an attractive dividend flow, &
3. Not vastly out of line with the domestic sectoral multiples exhibited by Vodacom and MTN (however incomparable they are).

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



Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	34.4%	34.4%	34.0%	30.0%
Equity investment	R2.9m	R167.6m	R26.1m	R103.5m
EBITDA Multiple	9.0x	9.0x	9.0x	9.0x
Debt & Preference share investment	R682m	R618.9m	R585.1m	R551.6m
Total Investment	R684.9m	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.

H1:23 Financial Results:

Following disruptions in COVID and lockdowns, China’s extended Zero COVID policy and, more recently, due to logistical issues and geopolitically motivated changes in global supply chains, ITL’s H1:23 period saw poor trading conditions. While some customers moved their supply chains away from China/Asia, this demand was filled domestically there, but at lower margins. Likewise, a shift to lower margin product mix in the Northern Hemisphere (likely to manage end price points for pressured regional consumers) further exasperated the challenges in the Group. Finally, wholesale stock pressures likely pushed upstream dampened ITL’s apparel client demand over the period through reduced volumes. That said, demand for RFID and new contract wins secured during (and after) the period bode well for the future.

Conceptually, the global label-making industry has been in flux and, particularly, small, regional players have felt immense pressure. Given ITL’s size and geographic reach, the Group arguably stands to gain from smaller competitors struggling (or, even, going under) and, indeed, has won some material wins with key customers

over the period that bode well for the future. For this reason and despite these weak results, we still view ITL as an immensely attractive business with strong prospects.

Valuation:

While difficult to find a neat comparison for ITL’s valuation, we are comfortable with regards to it for three key factors:

1. The multiple has remained flat over the period (consistency) and, indeed, this drove down the equity leg of the valuation as one would expect over a period of tough trading,
2. A set of fashion-orientated, predominantly apparel listed stocks currently trade on a basket EV/EBITDA multiple of 15.3x (Burberry Group PLC, Kering SA, Moncler SpA, Hermes International SCA, & Prada SpA) and, while they are quite different to specialised label manufacturing, they are somewhat representative of the apparel fashion-orientated market and shows a degree of confidence in the underlying fundamentals (at a 15.3x EBITDA multiple, this is clearly positive), &
3. ITL’s multiple is at a discount to the above noted peer set, thus, offering a margin of safety on its valuation.

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. More recently, the Group acquired a 19.3% stake in DRA Global Ltd (Code: DRA) – [see their corporate website here](#).

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	45.3%	44.8%	44.8%	44.8%
Equity investment	R559.9m	R504.0m	R303.7m	R88.5m
EBITDA Multiple / Valuation Method	5.5x	5.5x	4.5x	At Net Asset Value
Debt & Preference share investment	-	-	-	R40m
Total Investment	R559.9m	R504.0m	R303.8m	R128.5m
Ordinary dividends received	R18.1m	R17.9	-	-
Annualized Dividend Yield (DY %)	6.5%	3.6%	-	-
	Code	Dividend Yield (%)*	EV/EBITDA (x)*	Market Capitalisation*
Barloworld Ltd	BAW.JSE	5.7%	4.3x	R16.5bn
Bidvest Ltd	BVT.JSE	2.9%	9.0x	R94.7bn
Hudaco Industries	HDC.JSE	6.0%	4.9x	R4.9bn
Invicta Holdings	IVT.JSE	3.8%	4.2x	R2.6bn
KAP Industrial Holdings	KAP.JSE	11.5%	4.0x	R6.3bn
Reunert Ltd	RLO.JSE	5.2%	6.9x	R11.0bn

* As of intra-day 24 August 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. It is also worth noting that Sabvest increased its stake in Apex from 44.8% to 45.3% as a result of a buyback of shares.
- **Valuation:** Given Apex’s implied c.R1.2bn equity fair value, the Group is nearing some of its listed peers’ in size (for example, Invicta Holdings’ R2.6bn market capitalization). Thus, this peer set’s average EV/EBITDA of 5.6x compares reasonably against Apex’s 5.5x valuation multiple in Sabvest’s NAV. One could argue an unlisted discount here, but, Apex’s clear above-peer growth, ungeared balance sheet (per discussion with management) and Sabvest’s significant stake in it all could be argued to demand a premium against this peer set as well. Given the consistency of Sabvest’s

valuation multiple here since FY 22, we are at least comfortable that the growth is reflective of growing profits and, that in and of itself, adds weight to Apex’s contribution to Sabvest’s NAV.

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	H1:23	FY 22	FY 21	FY 20
%-held	10.0%	10.0%	10.0%	10.0%
Equity investment	R513.6m	R452.5m	R296.2m	R172.1m
Valuation Methodology	At Net Asset Value	At Net Asset Value	At Net Asset Value	At Net Asset Value
Total Investment	R513.6m	R452.5m	R296.2m	R172.1m
Ordinary dividends received	-	R10.9m	-	-
Dividend Yield (%)	-	2.4%	-	-

- **Performance & Commentary:** Most of Masimong’s holdings performed well over the period, particularly its Seriti interests. Note that post-period, though, the spot coal price has fallen substantially, and we think that the coal business is likely to be a forward drag on Masimong’s short-term growth. Beyond this, though, Seriti has signalled a move into renewable energy (Seriti Green) that may, in the long-term, counterbalance the traditional thermal coal investments.
- **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, remain comfortable with its value in Sabvest’s NAV.

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 and encourage you to read our detailed body of research on the Group ([LINK](#)).

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	18.5%	18.5%	-	-
Equity investment	R415.4m	R13.9m	-	-
EBITDA Multiple	6.5x	6.5x	-	-
Investment loans	R129.3m	R236.3m	-	-
Total Investment	R544.7m	R250.2m	-	-
Dividends	R1.3m*	-	-	-
Annualized Dividend Yield (%)	0.2%*	-	-	-

* If we consider the look-through dividend from MEH as well, Sabvest received the equivalent of R5.9m from ARB or a c.1.3% Dividend Yield.

- **Performance & Commentary:** ARB Holdings has performed strongly over the period, particularly from the (large & growing) contribution from its solar business (we estimate that this has grown from zero to c.20~30% of Group sales). The Group cleared out minorities in its lighting investment, Eurolux, and acquired 67% of Cable Feeder Systems that will fit neatly into its Electric Division. During the period, Sabvest reorganised its effective interest of 18,5% in ARB by way of a series of transactions, which resulted in a reduction of its holding in Masimong Electrical Holdings (MEH) to 35,27% and the acquisition of a direct stake of 8,38% in ARB, investing a net amount of R50,8m.

- Valuation:** Given our long history of covering ARB while it was listed, Sabvest’s consistency of multiple in valuing the Group and ARB’s fantastic growth through solar during the period, we remain comfortable with the 6.5x multiple and note that uplift in the valuation of the investment being driven by profit growth.

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)	6.62	9.25	12.5	10.0
Fair value (GBP)	GBP3.3m	GBP4.6m	GBP5.8m	GBP3.6m
Fair value (ZAR)	R78.2m	R94.5m	R126.1m	R72.8m

- Performance & Commentary:** Corero is an LSE-listed group operating in the cybersecurity sector (specifically overing DDOS attack protection), which offers it good exposure to long-term growth tailwinds. In the Group’s latest results ([LINK](#)), the Group reported 32 new customers, +13% recurring revenue growth and +13% order intake. There remains net cash of \$4.4m on the Group’s balance sheet. Management assert that the Group is “...*positioned for growth in 2023 with strong operational team and platform*”.
- Valuation:** Sabvest’s valuation of the investment follows the LSE-listed share price, translated into Rands. Thus, we are comfortable with 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 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)	290cps	350cps	345cps	279cps
Fair value (ZAR)	R162.4m	R196.0m	R189.7m	R139.9m

- Performance & Commentary:** Metrofile put out commendable results for its H1:23 period ([results note here](#)), particularly from a digital strategy perspective. We are expecting their FY 23 results out soon and intend to publish a results note thereafter.
- 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	6,000,000	5,000,000	6,000,000	10,000,000
TCP share price (cps)	660cps	3310cps	4503cps	2489cps
Fair value (ZAR)	R39.6m	R165.5m	R270.1m	R248.9m

- Performance & Commentary:** Following a tumultuous period triggered by continued pressure in the domestic taxi sector forcing a hike in provisioning in SA Taxi and a restructuring process, Transaction Capital reported a complex set of H1:23 results ([LINK](#)) that saw the market hammer its share price down. The share price is yet to recover and certain key variables and risks in SA Taxi are yet to be resolved.
- 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.

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	H1:23	FY 22	FY 21	FY 20
%-held	40%	40%	25%	25%
Equity investment	-	-	-	-
Valuation methodology	Net Asset Value less impairment	At Net Asset Value of investment	At Net Asset Value of investment	At Net Asset Value of investment
Investment loans	-	R8.2m	R15m	R13.3m
Total Investment	-	R8.2m	R15m	R13.3m

- **Performance & Commentary:** Classic Foods continued to experience difficult trading. Despite this, management reiterate their confidence in achieving consistent profit by Q4:23.
- **Valuation:** Sabvest conservatively carries its equity investment here at an impaired value of zero and, in this period, further impaired its loans here to zero too. Given the uncertainty in this business and its prospects, we are comfortable with this approach.

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

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	47.5%	47.5%	47.5%	47.5%
Equity investment	-	-	R29.9m	R29.8m
EBITDA Multiple	4.5x	4.5x	4.5x	4.5x
Investment loans	R12.6m	R7.0m	R79.8m	R65.2m
Total Investment	R12.6m	R7.0m	R109.6m	R95.0m

- **Performance & Commentary:** The pull-forward of household kitchen demand experienced at the start of COVID further reversed over the current trading period, and revenue and profitability remained under pressure. Logistical issues and loadshedding both added further challenges to this period, though management assert that prospects for higher profitability and growth in Q4:23 are satisfactory.
- **Valuation:** Sabvest’s equity investment here is carried at zero while an impairment provision has been raised against capital invested here. As with Classic Foods, we are comfortable with this conservative approach.

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	H1:23	FY 22	H1:22
%-held	19.0%	19.0%	19.0%
Equity investment	-	-	-
Valuation methodology	EBITDA valuation multiple: 7.5x	EBITDA valuation multiple: 7.5x	COST
Investment loans	R138m	R165.6m	R116.5m
Total Investment	R138m	R165.6m	R116.5m

- **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). While Halewood is focussing on getting its domestic market right first, this export optionality remains attractive from a long-term perspective.
- **Performance:** Halewood’s revenues and profitability for H1:23 was adversely affected by domestic macroeconomic factors and an adverse product mix. The latter is due to the cyclical nature of the

liquor industry and management expect it to reverse back over time. Halewood is budgeting for improved performance in FY24.

- **Valuation:** While Halewood was carried at cost in the H1:22 results, Sabvest decided to value it on a 7.5x EBITDA multiple with their FY 22 results. Sabvest has kept this multiple flat with the H1:23 results. If we consider larger, global branded alcoholic beverage multiples (EV/EBITDA Ratios: Diageo Plc 14.8x, Brown-Forman Corporation 26.0x, Heineken N.V. 12.3x & Anheuser-Busch InBev SA/NV 10.7x), we are comfortable for Halewood’s inclusion in Sabvest’s NAV at a 7.5x multiple.

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

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	25.1%	25.1%	25.1%	25.1%
Equity investment	R181.4m	R189.3m	R201.6m	R145.5m
EBITDA Multiple	5.5x	5.5x	6.0x	6.0x
Investment loans	-	-	-	-
Total Investment	R181.4m	R189.3m	R201.6m	R145.5m
Ordinary dividends received	R18m	R18m	-	-
Annualized Dividend Yield (%)	19.9%	9.5%		

- **Performance & Commentary:** Following sharp corrections in many chemical and commodity prices, Rolfes’ trading was challenging in H1:23. While costs and prices will be generally passed on over time, for chemical trading and distribution businesses *sharp* corrections typically eat into shorter-term margins and Rolfes was no exception. In the longer-term, though, we would expect the business to reprice appropriately and customers to accept this. The chemical and commodity markets appear to have nearly fully corrected and, in Rolfes’ case, the underlying business remains attractive, well-run and is expecting higher profitability in the next financial year.
- **Valuation:** The combination of a consistent and low multiple backed by an attractive implied dividend yield all give us comfort in Rolfes’ valuation as part of Sabvest’s NAV.

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

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	27.7%	27.7%	27.7%	27.7%
Equity investment	R89.0m	R80.9m	R73.3m	R73.5m
EBITDA Multiple	5.0x	5.0x	5.0x	5.0x
Investment loans	R6.0m	5.7m	R5.2m	R4.9m
Total Investment	R95.0m	R86.6m	R78.5	R78.4m

- **Performance & Commentary:** Sunspray completed a large capex project in its Industria facility at the end of 2022, materially expanding its spray drying capacity and, in particular, for dairy products. The new facility will come online in Q3:23 and is expected to facilitate a material increase in revenues and profitability. Management assert that prospects for continued growth are satisfactory here.
- **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. Given Sabvest’s statements around being fully invested and the gearing on the Group balance sheet, we get the sense that some or all of this value may be unlocked through corporate action over time.

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

Valuation Summary	H1:23	FY 22	FY 21	FY 20
%-held	27.7%	39.3%	-	-
Equity investment	R32.0m	R19.5	-	-
Valuation methodology	EBITDA Multiple: 6.0x	At cost	-	-
Investment loans	R25.0m	R25.2m	-	-
Total Investment	R57.0m	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, piggybacking 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). During H1:23, Valemount acquired the pet food and products business of Drover Investments.
- Valuation:** NYSE-listed Chewy Inc (NYSE:CHWY) is an online pet food business, but in reality it is actually a unique, non-discretionary and annuity-like *logistics* platform and currently demands a EV/EBITDA of c.47.3x in the market. Sabvest's decision to fairly value Valemount at a 6.0x multiple appears conservative to this comparison, but does provide a large margin of safety in its inclusion in Sabvest's NAV.

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. Adding to this, the freezing of crypto withdrawals by one of its service providers, Haru Invest in South Korea, required Revix to place a withdrawal reserve on a percentage of client crypto balances. Despite this, Revix projects to break-even by the end of 2023. If it does, Sabvest's currently fully impaired valuation may need to be revisited upwards (at some point), though we do not price this in at all.

JSE-listed HoldCo Sector Snapshot

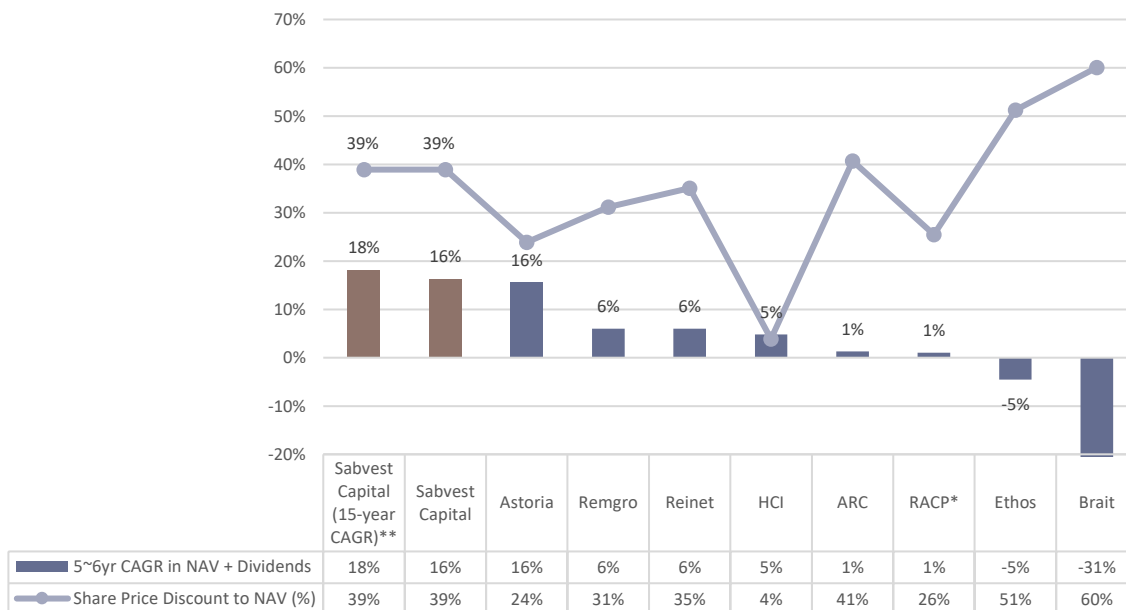
While many aspects of HoldCo's are incomparable due to the diversity of their underlying investment portfolios, their legal structures and their management strategy, there *are* several criteria that we think are worth zooming into for the purposes of placing Sabvest Capital into context on the JSE.

We believe that three key variables stand out as both important and comparable for the purposes of a HoldCo listed on the JSE:

1. **Cost:** The cost of the HoldCo structure relative to its size (i.e. Cost as % of NAV),
2. **Discount:** What discount the share price is trading relative to its underlying NAV, &
3. **Track record:** What track record management have in growing the NAV of the HoldCo.

Figure 4 attempts to (admittedly in some cases, crudely) track the NAV CAGR of each relevant JSE-listed HoldCo (including fair representation of their distributions over the period) across the last 5~6 years. It furthermore compares this against their current implied discounts to (latest reported) NAV.

Figure 4: JSE-listed HoldCo’s Estimated Medium-term Growth in NAV (including distributions) & Discount Relative to NAV (%)



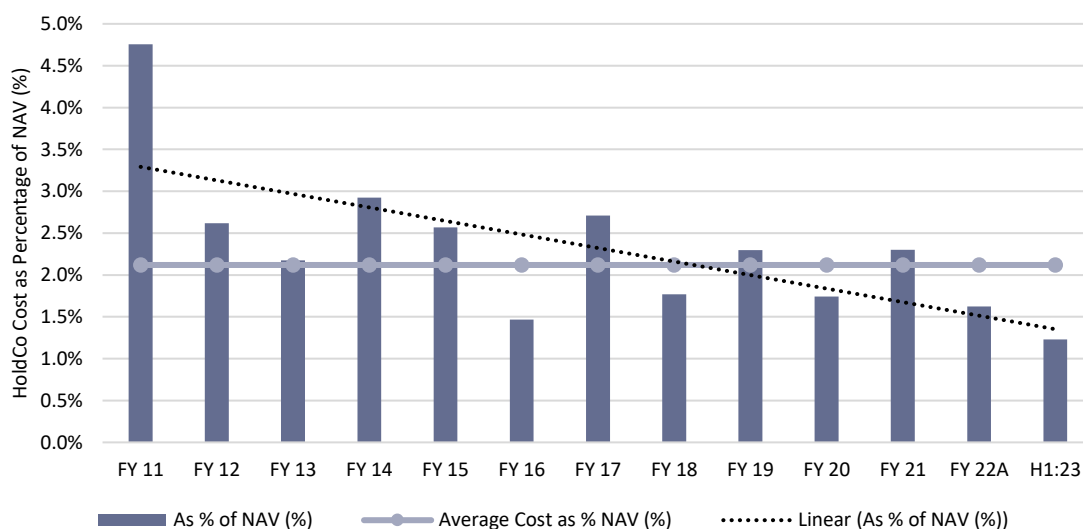
Sources: Various company results and reports, Refinitiv, Iress, Profile Media, and Blue Gem Research workings and assumptions (as per latest published data and/or closing prices on 18 August 2023 – we have kept this date static to provide better like-for-like comparisons, even though share prices and exchange rates are moving); Using latest published NAV and best estimate of costs, dividends and distributions for each HoldCo; * RACP NAV takes into account market values of Astoria shares distributed as of management disclosure (implied aggregate NAV would be 2941cps); ** Per Sabvest disclosure in H1:23 results.

While our use of the last 5~6 years for NAV growth is arguably arbitrary, it does provide some context against which to measure the growth Sabvest Capital has generated. The Group ranks well against its peers on this measure.

For background to understand Sabvest Capital’s structure and costs, we refer you back to our [Initiation of Coverage](#) report on Sabvest Capital.

Over the H1:23 period, costs as percentage of NAV decreased (largely due to lower incentive provisions) and, if we look longer-term, this trajectory is a continuation of a long-term trend. Simplistically, Sabvest has grown its NAV faster than its costs (i.e. Returns to Scale):

Figure 5: Sabvest HoldCo Costs as Percentage of NAV over time



Sources: Sabvest various reports, and Blue Gem Research workings and assumptions; H1:23 costs annualized to make annual comparison relevant.

In this regard, we believe that Sabvest is relatively efficiently managed and should *not* demand an overly large relative discount against its NAV.

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 R4.5bn (Previously: R4.3bn) or 11534cps (Previously: 10796cps), implying a current discount in the share price of c.40% (Previously: 25%).

Appropriate "HoldCo Discount"

Figure 5 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.2.1% of its NAV (Previously: 2.2%). Over a shorter period, Sabvest's HoldCo costs average closer to c.1.8% (5-year average), which 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.

We have taken our estimate of central costs and present valued it at a reasonable listed small cap Cost of Equity (18.5%; Rf = 10.24%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R580m (previously: R617m) or c.12.8% (previously: 14.5%) of the Group's NAV. Some of the lowering of this HoldCo implied discount is due to lower costs and some of it is due to a rise in the South African risk-free rate (10-year bond yield).

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

Sabvest Capital's (updated) NAV less our discount implies that the share is worth 10060cps (previously: 9227cps) or that it should be trading +46% *higher* than its current 6900cps 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 11920cps (previously: 10906cps) for Sabvest Capital. This implies an attractive +73% 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 intraday prices reported on 24 and 25 August 2023, or closing prices on the 25 August 2023.*

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