

Sabvest Capital Ltd NAVigating a Challenging Period

Share Code: SBP – Market Cap: R2.7bn – Dividend Yield: 1.3%

| | |
|------------------|----------|
| 12m Target Price | 11675cps |
| Share Price | 6920cps |
| Implied Return | 69% |

Financials | [South Africa](#)

FY 23 Results: Rare period of pressure

- Sabvest saw its Net Asset Value (NAV) per share slip fractionally lower to 10936cps (FY 22: 11017cps) as headwinds of higher inflation, higher interest rates and higher raw materials costs coincided with logistics challenges across the businesses held in its portfolio.
- Most of the Group's businesses performed good-to-well, though ITL Group & Halewood continued to trade through difficult respective structural and cyclical headwinds.
- Management expects to resume satisfactory growth in NAV per share in FY 24, & we tend to agree.

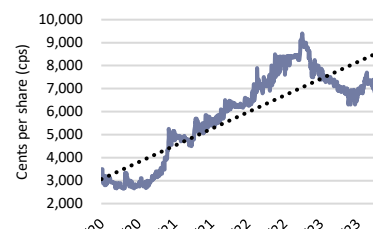
Thoughts: Today's Underperformers = Tomorrow's Upside

- Over the last couple of years, ITL's contribution to NAV has fallen from 20% to 10%, but the business (& indeed, the entire global apparel sector) has restructured & could end up gaining from this period of disruption. Equity here is currently valued at zero but we suspect that this will not remain so & provides future upside optionality.
- Likewise, Halewood's current difficult trading period belies the value of the underlying that—in our opinion—management is valuing conservatively. As headwinds turn to tailwinds here, earnings should follow mix, & we see upside in this investment's contribution to NAV too.
- Finally, SA Bias is performing excellently & Apex, DNI, Valemount & Masimong all have healthy prospects.

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

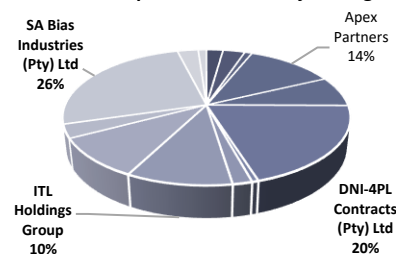
- The share is currently trading at a c.37% discount to NAV.
- Using our updated NAV (with the latest market prices) we arrive at a defensible (*post*-discount) fair value for Sabvest's shares of 9817cps (previously: 10060cps), which still includes a HoldCo c.10% *discount* against this NAV.
- Rolling our post-discount fair value forward, we see the Group's 12m TP as 11675cps (previously: 11920cps) with an implied return of +69%.
- Refer to our [Initiation of Coverage](#) for more background.

Sabvest Capital: Share Price



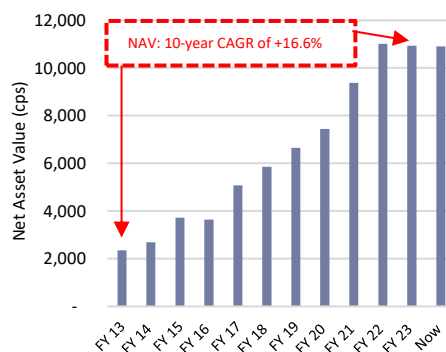
Source: Profile Media

Sabvest Capital: Portfolio Major Weightings



Sources: Sabvest & Blue Gem Research workings

Sabvest Capital: 10-year History of NAV per Share



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

| Financial Summary | FY 16 | FY 17 | FY 18 | FY 19 | FY 20 | FY 21 | FY 22 | FY 23 | Now* |
|-----------------------|----------|----------|----------|----------|----------|----------|-----------|-----------|------------|
| Net Asset Value (cps) | 3,646cps | 5,085cps | 5,852cps | 6,648cps | 7,444cps | 9,371cps | 11,017cps | 10,936cps | 10,907cps* |
| Growth (%) | -2% | 39% | 15% | 14% | 12% | 26% | 18% | -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; *Closing prices on 22 March 2024



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NOTE: THIS IS COMMISSIONED RESEARCH – www.BlueGemResearch.co.za – View our [methodology](#) and [FAQ](#). Please [refer to disclaimer](#) at the end of this document and [on website](#)



BLUE GEM RESEARCH

| Table 1: Sum-of-the-Parts (SOTP) | Short Description | # / % | Valuation Methodology | Valuation | % of NAV |
|--|---|--------------|---|-----------------------|-----------------|
| Listed Investments | - | - | - | R304,094,547 | 7% |
| Corero Network Security Plc | LSE-listed DDOS-focussed cyber security group. | 51m | Market price of shares (GBP9.01ps) | R110,144,547 | 3% |
| Metrofile Holdings Ltd | JSE-listed group offering secure physical & digital storage, document solutions & related services. | 57m | Market price of shares (255cps) | R145,350,000 | 3% |
| Transaction Capital Ltd | JSE-listed group offering taxi financing & credit services. Has/will unbundle WeBuyCars. | 6m | Market price of shares (810cps) | R48,600,000 | 1% |
| Unlisted Investments | - | - | - | R4,653,650,000 | 109% |
| 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) | R584,590,000 | 14% |
| 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, see Blue Gem's historic research: https://www.bluegemresearch.co.za/?cat=50 | 18.5% | Normalized EBITDA x 6.5x (Previously: 6.5x) | R357,357,000 | 8% |
| DNI-4PL Contracts (Pty) Ltd | A telcos-orientated group offering technology, logistics & distribution services to the telecoms and related industries & to all network operators in RSA, including sim card starter packs, airtime & handset distribution and platforms. | 19.7% | Normalized EBITDA x 6.5x (Previously: 6.5x) | R990,446,000 | 23% |
| Flexo Line Products (Pty) Ltd | A manufacturer of high-quality injection moulded plastic products primarily for the spice and food industries locally and internationally. | 47.5% | (Normalized EBITDA x 4.5x) - Net Debt (Previously: 4.5x) | R30,526,000 | 1% |
| Halewood International 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) | R91,637,000 | 2% |
| 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) | R499,147,000 | 12% |
| Masimong Group Holdings (Pty) Ltd | An empowered investment company holding investments in Seriti Power, Seriti Coal and Lephalale Coal, Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings, Winfield United SA, amongst other investments (e.g. ARB, Rolfes). | 9.0% | NAV based on Masimong internal valuation (Previously: NAV) | R475,805,000 | 11% |
| Rolfes Holdings (Pty) Ltd | A specialist provider of agricultural, food, industrial and water chemical solutions and services. | 24.7% | (Normalized EBITDA x 5.5x) - Net Debt (Previously: 5.5x) | R160,770,000 | 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 & 5.0x (Previously: 6.0x & 4.5x) | R1,269,671,000 | 30% |
| Sunspray Food Ingredients (Pty) Ltd | Offers food ingredient solutions to South African manufacturers by supplying spray dried & blended powdered food & drink products & services. | 11.1% | Latest Transaction Price (Previously: 5.0x) | R138,189,000 | 3% |
| 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 (Previously: 6.0x) | R55,512,000 | 1% |
| Other Items | - | - | - | -R679,843,000 | -16% |
| Finance advances (current & non-current) | - | - | Per "Investment Holdings" disclosure | R39,069,000 | 1% |
| Deferred Tax Liabilities | CGT raised to offset the implied taxable gains on its investments (where applicable & not provided for by the individual investments themselves, e.g. Masimong). | - | Per "Investment Holdings" disclosure | -R147,249,000 | -3% |
| HoldCo Net Debt | - | - | Per "Investment Holdings" disclosure | -R571,663,000 | -13% |
| Net Asset Value | - | - | - | R4,277,901,547 | 100% |
| Less: "Investment Holding Discount" | The cost of maintaining & running Sabvest Capital Ltd | - | Net Present Value of estimated HoldCo costs | -R427,790,155 | -10% |
| Sum-of-the-Parts (SOTP) | | | | R3,850,111,392 | |
| <i>Ordinary shares</i> | | | <i>Net of buy-backs</i> | <i>39,220,000</i> | |
| Fair Value per share (cps) | | | SOTP divided by the issued shares | 9,817cps | |
| Discount to share price (%) | | | - | 42% | |
| 12m Target Price (cps) | | | SOTP rolled-forward by Cost of Equity | 11,675cps | |
| 12m Implied Return (%) | | | - | 69% | |

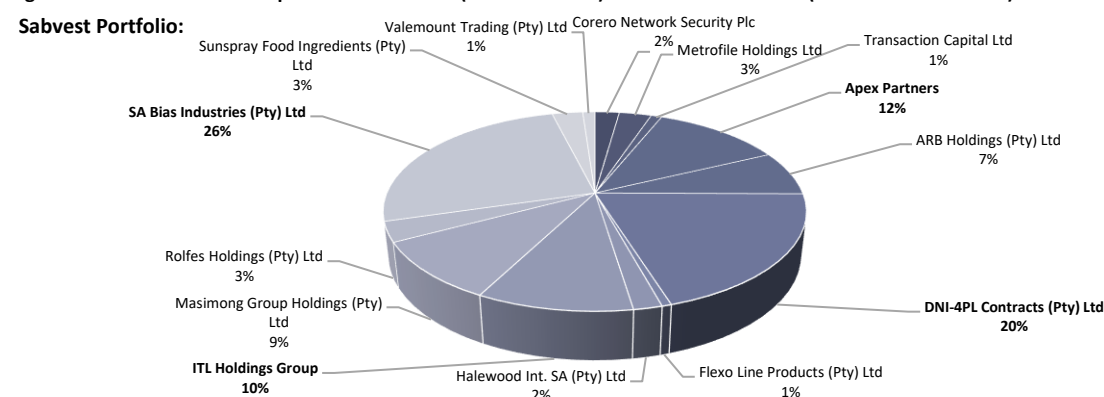
Sources: Sabvest various reports, Iress, Profile Media, & Blue Gem Research workings & assumptions (22 March 2024 Closing Prices)

Sabvest Capital FY 23 Results

Sabvest Capital (code: SBP) published its FY 23 results with the key highlights being:

- For the first time in over twenty years (or forty reporting periods), Sabvest saw its Net Asset Value (NAV) per share slip fractionally lower to 10936cps (FY 22: 11017cps) as headwinds of higher inflation, higher interest rates and higher raw materials costs coincided with logistics challenges across the businesses held in its portfolio:
 - Apex Partners, ARB Holdings, Masimong, SA Bias Industries (Flowmax in the UK and Narrowtex in South Africa) and Sunspray Food Ingredients all performed well,
 - Corero Network, DNI 4-PL, Flexo Line Products, Metrofile Holdings ([see here](#)), Rolfes Holdings and Valemount Trading all performed satisfactorily, &
 - Halewood and ITL Holdings Group both were under pressure during the period.
 - Classic Foo Brands was sold during the period for nominal amount, Sunspray was partially realized in an attractive restructure and a 3.75% indirect stake was invested into Versofy (one of the largest home and SME solar installation groups in South Africa).
- Importantly, other than the recovery of the previously de-rated 4.5x EV/EBITDA to a 5.0x multiple in Narrowtex (part of SA Bias Industries), none of the underlying valuation ratings were lifted and, thus, the Group’s underlying NAV remains underpinned by predominantly earnings-based valuations.

Figure 1: Sabvest Portfolio – Updated Listed Prices (22 March 2024) & Unlisted Valuations (on 31 December 2023)



| Unlisted Investment | Valuation Multiple (predominantly EV/Sustainable EBITDA) | | | | |
|-----------------------|--|-------|-------|-------|--------------------------|
| | FY 19 | FY 20 | FY 21 | FY 22 | FY 23 |
| Apex Partners | 4.5x | 4.5x | 4.5x | 5.5x | 5.5x |
| ARB Holdings | - | - | - | 6.5x | 6.5x |
| 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 | 5.5x** |
| Sunspray Food | 5.0x | 5.0x | 5.0x | 5.0x | Latest transaction price |
| 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 (5.0x & 6.0x in FY 23).

- Following the last couple years’ global turmoil, ITL Holdings’ recovery is proving longer and harder than we expected but its portion of Sabvest’s NAV has dropped from 20% at the date of our [Initiation of Coverage](#) to 10% at present. As a global, quality business that is increasingly embedded into its customers businesses (via RFID), we like the upside optionality this offers in the Group’s forward NAV.
- On a balance, the rest of the Group’s portfolios is underpinned by good fundamentals and likely near-to long-term earnings growth (implying positive earnings-based valuation uplifts going forward).
- Management “...expect to resume satisfactory growth in NAV per share in 2024.” We tend to agree.

Investee Company Updates & Analysis

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

NARROWTEX

FLOWMAX

| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| %-held | 85.2% | 85.2% | 85.1% | 59.9% |
| Equity investment | R1,270m | R1,018.9m | R906.3m | R768.6m |
| EBITDA Multiple | Flowmax at 6.0x, & Narrowtex at 5.0x | 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 | R1,270m | R1,018.9m | R906.3m | R768.6m |
| Ordinary dividend received | R39.2m | R35.8m | R32.4m | - |
| Special dividend received | - | R8.5m | R88.2m | - |
| Total dividends received | R39.2m | R44.3m | R120.6m | - |
| Annualized Dividend Yield (%) | 3.1% | 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:** Flowmax is a group of sixteen companies in the United Kingdom and Europe that manufacture, distribute and service fluid handling equipment, consumables and include heat management and control.

FY 23 Financial Results:

Both Flowmax and Narrowtex traded well during the period and profitability was higher than expected. SA Bias has a very liquid balance sheet (most surplus funds are held in US Dollars and GB Pounds) and we expect this to be applied towards acquisitive growth in Floxmax in the UK and EU zones.

On this note, Flowmax acquired 100% of [Rob Pond](#) (a distributor of fluid handling products and solutions in the UK) and increased its shareholding in [Essco Controls](#) from 68.7% to 78.7%. Essco Controls is a company that designs green-energy focused products for the heating, ventilating, air conditioning and process industries with market leading energy efficient products and systems.

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:**
 - Some listed peers show what relative valuation multiples are in this rather heterogenous part of the market:
 - IMI Plc (United Kingdom): EV/EBITDA of 12.1x
 - Alfa Laval Corporate AB (Sweden): EV/EBITDA of 15.3x.
 - Flowserve Corporation (United States of America): EV/EBITDA of 14.3x.
 - This peer set's average EV/EBITDA is 13.9x.
 - 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 5.0x inverted provides an implied earnings yield of c.20% (=1/5). This is sufficiently higher than the South African 10-year Government Bond (i.e., domestic risk-free rate; currently yielding 10.68%) that we are comfortable adequate margin of safety is built into the valuation.

Given the degree of discount to relatives noted above, we remain comfortable with the multiples applied to SA Bias’ two segments and, thus, comfortable with SA Bias’ own valuation in Sabvest’s NAV.

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



| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|-----------------------------------|---------------------------|-------------------------------------|----------------|----------------|
| %-held | 19.7% | 19.9% | 19.1% | 19.4% |
| Equity investment | R990.5m | R1,028m | R907.7m | R839.4m |
| EBITDA Multiple | 6.5x | 6.5x | 6.5x | 6.5x |
| Debt investment | - | - | - | - |
| Total Investment | R990.5m | R1,028m | R907.7m | R839.4m |
| Ordinary dividends received | R64.2m | R52.2m | R45m | -* |
| Special dividends received | - | R50.2m | R5.5m | -* |
| Total dividend received | R64.2m | R102.4m | R50.5m | -* |
| Annualized Dividend Yield (%) | 6.5% | 10.0% (or 5.1% ex. special div.) | 5.6% | -* |
| JSE-listed comparatives**: | Dividend Yield (%) | EV/EBITDA (x) | - | - |
| Blue Label Telecoms (JSE: BLU) | — | 4.9x | - | - |
| Vodacom Group (JSE: VOD) | 6.6% | 4.2x | - | - |
| MTN Group (JSE: MTN) | 3.7% | 2.6x | - | - |
| Pepkor Holdings (JSE: PPH)*** | 2.6% | 8.6x | - | - |

* Not disclosed; ** As of Close 22 March 2024 on the JSE Stock Exchange; *** While the majority of Pepkor’s group is retail, it owns FLASH which is amongst the largest telcos domestic distributors and, thus, imperfectly does offer us a glimpse at a comparative EV/EBITDA.

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 (which DNI increased its shareholding in during this period). 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 a range 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.

FY 23 Financial Results:

During 2023, DNI’s founder-CEO, Andrew Dunn, became the Group’s Executive Chairman and Dr Ryan Noach was appointed the Group CEO. [Here is the full announcement](#), though in summary, Noach hails from being the CEO of Discovery Health and brings a wealth of experience and track record to DNI.

In 2023, Vodacom’s South African Q4 segment reported service revenue slowing down to only +1.9% y/y growth while MTN’s South African segment also saw revenue growth under pressure at the last reported

Q3:23 date showing only +2.6% y/y growth. This compares to the same revenue growth rate of c.3.0% y/y and +3.5% y/y for Vodacom and MTN respectively exactly one year ago. In both periods, if we take domestic inflation out of these revenue growth rates, the domestic telcos sector has shrunk in real terms over these years. Not just from general competition and deflation in this sector, but (more recently) we believe that this slowdown in the domestic telcos industry is likely caused by the pressure the current South African consumer is under as they are wedged between stagnant growth and high unemployment on one side and high interest rates and sticky inflation on the other side.

Operating in this industry, it is natural that DNI would have felt this pressure and, during this period, reported softer demand. Using its valuation with a flat EV/EBITDA multiple as our yardstick, DNI's earnings appear c.5~10% lower over this period. Despite this, Digico performed strongly, the Group remained strongly cash generative, paid healthy dividends and has continued to apply capital into a range of investments for future growth:

- Increased its interest in Sim HoldCo to 95%,
- Acquired 20% of Vagle and Associates, 45.6% of Sebenze Wi-Fi and all of Vocall,
- Increased its interest in AtCommerce to 100%,
- Increased its shareholding in the Digital Ecosystems technology division from 61.9% to 68.4%, &
- Increased its interests in PayMeNow to 71,5% and in Mobile Content International to 60,5%, acquired 47,2% of Paytime (an earned wage access technology solution provider in Australia), acquired a note convertible into a minimum of 7% of Neem (an early-stage Bank-as-a-Service technology platform in Pakistan), and acquired 75% of Digitata Limited (a provider of intelligent pricing, subscriber engagement and mobile network management solutions).

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 Pepkor Holdings is predominantly a retail group and, thus, much less comparable to a pure telcos distribution business.

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).

Perhaps DNI's after-tax, after-capex ability to pay out *dividends* is more reflective of its valuation. When we compare DNI's valuation to Vodacom's based on Dividend Yield basis, DNI is valued in line with this dominant domestic telco stock.

Thus, on a balance of evidence, we remain comfortable with the valuation of DNI.

Finally, we will not that the Group's various investments (some of them quite early-stage) and its movement offshore are all intriguing. We will be watching these closely in future periods for signs of upside or downside.

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 ETX Projects and CBZ Solutions. It also holds special situation financial assets. More recently, the Group increased its 19.3% stake in DRA Global Ltd (Code: DRA) to 22.1% – [see their corporate website here](#).

| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|------------------------------------|----------------|---------------------|----------------|------------------------|
| %-held | 45.3% | 44.8% | 44.8% | 44.8% |
| Equity investment | R584.6m | R504.0m | R303.7m | R88.5m |
| EBITDA Multiple / Valuation Method | 5.5x | 4.5x | 4.5x | At Net Asset Value |
| Debt & Preference share investment | - | - | - | R40m |
| Total Investment | R584.6m | R504.0m | R303.8m | R128.5m |
| Ordinary dividends received | R27.2m | R17.9 | - | - |
| Annualized Dividend Yield (DY %) | 4.7% | 3.6% | - | - |
| | Code | Dividend Yield (%)* | EV/EBITDA (x)* | Market Capitalisation* |
| Barloworld Ltd | BAW.JSE | 8.2% | 3.3x | R11.6bn |
| Bidvest Ltd | BVT.JSE | 3.7% | 7.6x | R82.4bn |
| Hudaco Industries | HDC.JSE | 6.5% | 5.1x | R4.5bn |
| Invicta Holdings | IVT.JSE | 3.8% | 4.1x | R2.6bn |
| KAP Industrial Holdings | KAP.JSE | - | 5.5x | R6.5bn |
| Reunert Ltd | RLO.JSE | 5.0% | 6.4x | R10.5bn |

* As of close 28 March 2024 on the JSE Stock Exchange & sources being Profile Media, Iress and Koyfin

- **Performance & Commentary:** Apex’s performance has been good over the FY 23 year that aligns with similar performances from particularly, Hudaco and Invicta. Kap Industrial is less comparable here having large forestry, logistics and chemical interests.
- **Valuation:** Given Apex’s implied c.R1.2bn equity fair value, the Group is nearing some of its more closely aligned listed peers’ in size (for example, Invicta Holdings’ R2.6bn market capitalization). Thus, comparing Apex’s 5.5x multiple to Hudaco’s (5.1x) and Invicta’s (4.1x) may offer some insight as to its reasonableness, particularly given some of the corporate activity, for example with DRA Global, that we expect to further drive value uplift in the future.

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



| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|------------------------------------|--------------|----------------|----------------|----------------|
| %-held | 34.4% | 34.4% | 34.0% | 30.0% |
| Equity investment | - | R167.6m | R26.1m | R103.5m |
| EBITDA Multiple | 9.0x | 9.0x | 9.0x | 9.0x |
| Debt & Preference share investment | R499m | R618.9m | R585.1m | R551.6m |
| Total Investment | R499m | 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 23 Financial Results:

In retrospect, the combination of COVID disrupting global supply chains and geopolitical tension between the USA and China forcing regionally concentrated supply chains to be redesigned have created several reporting periods of change for ITL Group. (A build up of apparel wholesale inventories across the world that needed to be unwound merely added to the short-term pressure in this sector.)

Traditionally, global apparel companies would concentrate their supply chains in China and, thus, the bulk of ITL's regional mix was supplied from here. Given the low cost-base of China, this had the added benefit of offering ITL good margins.

In recent years, ITL's customers have shifted their production away from China that has necessitated other factories in other countries that ITL operates in to pick up this supply mix. And, while ITL has been successful in this, different regions have different cost-bases and, thus, different margins.

That said, ITL has used this opportunity to negotiate improved volume commitments from customers. Some of these improved volumes should come onstream in the coming year. While a somewhat lower gross margin is a result of the negative change in regional mix, the positive operating leverage of higher volumes should drive bottom-line earnings back up to (and hopefully) beyond what it was pre-pandemic.

This recovery is what we expect in the future but, during FY 23, ITL's performance remained under the pressure reported at mid-year as global supply chains reorganize themselves and the Group's factories and operations adjust to the current geographic mix.

Valuation:

While difficult to find a neat comparison for ITL's valuation, we are comfortable with regards to it for two key reasons:

1. The multiple has remained flat over the period (consistency) and, indeed, this has resulted in the equity sliver of its valuation dropping to nil (FY 22: R168m) in Sabvest's books. After extensive discussion with management around how the Group aims to adjust to the new regional mix demanded by customers and its early successes here, we think that there is significant upside optionality in this valuation and expect it to look somewhat different in a year (or two's) time, &
2. See Table 2 below as a set of global branded apparel companies revealing a mix of ratings whose EV/EBITDA averages 15.5x with a median of 11.9x. While these are poor comparisons for ITL (who would, typically, supply *into* these businesses as opposed competing with them), this does show the market multiples placed on the global apparel sectors and how ITL's 9.0x multiple remains below broader market multiples.

Table 2: Global Apparel Stock EV/EBITDA Multiples

| Apparel Group's: | EV/EBITDA |
|---------------------------|--------------|
| Mulberry Group plc | 9.2x |
| Burberry Group plc | 5.6x |
| Dr. Martens plc | 5.8x |
| Levi Strauss & Co. | 8.9x |
| Kering SA | 9.0x |
| Prada SpA | 11.9x |
| Ermenegildo Zegna N.V. | 13.4x |
| Moncler SpA | 15.6x |
| Brunello Cucinelli S.p.A. | 23.0x |
| Nextracker Inc. | 31.1x |
| Hermes International | 36.6x |
| Average EV/EBITDA | 15.5x |
| Median EV/EBITDA | 11.9x |

Source: Koyfin and Blue Gem Research workings

Masimong Group Holdings: An empowered investment group with mining interest in Seriti Coal and Lephalale Coal, Seriti Power, and agricultural interests in Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings and Winfield United South Africa. Masimong also holds interests in Rolfes (see later in this report on this business), Anchor Group and Chemfin. 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 23 | FY 22 | FY 21 | FY 20 |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| %-held | 9.0% | 10.0% | 10.0% | 10.0% |
| Equity investment | R475.8m | 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 | R475.8m | R452.5m | R296.2m | R172.1m |
| Ordinary dividends received | - | R10.9m | - | - |
| Dividend Yield (%) | - | 2.4% | - | - |

- Performance & Commentary:** Sabvest's 10% stake in Masimong dropped to 9.0% following a share buy-back and Masimong acquired a look-through interest in Chemfin (a manufacturer and distributor of enamels, plastics, coatings and resins, and importer/distributor of chemicals and ingredients). While Masimong's results are still dominated by Seriti (which remains the majority of the Group's NAV), this has again counted in its favour as Seriti performed strongly in FY 23. On balance, the rest of the Group's businesses also performed well and Masimong updated its own valuations of these businesses (less tax) that forms the NAV that Sabvest accounts for.
- Valuation:** As mentioned above, 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 did cover ARB while it was listed and encourage you to read our detailed body of research on the Group ([LINK](#)). We consider it a well-run, high-quality business and see no indication that this has changed since delisting.

| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|-------------------------|----------------|----------------|-------|-------|
| %-held | 18.5% | 18.5% | - | - |
| Equity investment | R228.0m | R13.9m | - | - |
| EBITDA Multiple | 6.5x | 6.5x | - | - |
| Investment loans | R129.3m | R236.3m | - | - |
| Total Investment | R357.4m | R250.2m | - | - |
| Dividends | R5.2m | - | - | - |

- Performance & Commentary:** The loadshedding-induced ramp-up in solar business that ARB enjoyed in the first half of the year did not carry into the second half, implying a softer trading period in H2:23. Loadshedding is likely here to stay and, thus, we expect a base level of demand for alternative power solutions to remain. Anecdotally, there may be some green shoots in the cabling industry (possibly pre-Election spending by the Government) but we remain cautious on the general outlook given the low domestic fixed capital formation occurring in the South African economy. Despite this, though, ARB remains a well-run, cash generative group and, particularly across several of their product ranges, they remain well positioned for long-term tailwinds. The Group further acquired a 67% interest in Cable Feeder Systems during the period.
- Valuation:** Given our long history of covering ARB while it was listed and Sabvest’s consistency of multiple in valuing the Group, we remain comfortable with the 6.5x multiple. Furthermore, comparing ARB’s 6.5x multiple to Reneurt’s 6.4x (see the “Apex Partners” section earlier in this report) highlights its reasonableness (Reneurt is a local peer comparison due to its large cabling exposure, albeit with defence, IT and renewable interests also included).

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

| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|-------------------------------|----------------|----------------|----------------|----------------|
| %-held | 24.7% | 25.1% | 25.1% | 25.1% |
| Equity investment | R160.8m | R189.3m | R201.6m | R145.5m |
| EBITDA Multiple | 5.5x | 5.5x | 6.0x | 6.0x |
| Investment loans | - | - | - | - |
| Total Investment | R160.8m | R189.3m | R201.6m | R145.5m |
| Ordinary dividends received | R30m | R18m | - | - |
| Annualized Dividend Yield (%) | 18.7% | 9.5% | | |

- Performance & Commentary:** Rolfes’ peak results in the prior year retreated in the face of a substantial drop in commodity prices and the resulting effect on its margins. This aligns with the performance of the chemicals segments in Omnia Holdings (code: OMN) and AECL (code: AFE) that both also experienced pressure during 2023. We do expect better (i.e. more *normal*) trading in the year ahead with a positive profit trajectory from there. There was an issue of shares to management that lowered Sabvest’s effective shareholding in the Group.
- 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.

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 23 | FY 22 | FY 21 |
|-------------------------|------------------------|--------------|----------------|----------------|
| Number of shares held | 57,000,000* | 57,000,000 | 56,000,000 | 55,000,000 |
| MFL share price (cps) | 255cps | 300cps | 350cps | 345cps |
| Fair value (ZAR) | R145m | R171m | R196.0m | R189.7m |

*Metrofile has reported that Sabvest has sold 181,388 of its shares at 257cps on 26 March 2024. This is NAV neutral for Sabvest in the short-term and we have not yet taken this trade into account in our model. It will be included in the next result’s period’s update.

- Performance & Commentary:** Metrofile experienced a tougher H1:24 period than we expected (see our [results note here](#)) but its cash flows and underlying business remain robust. Digital initiatives are

starting to bear fruit and the Group’s Middle Eastern and African operations are growing in importance.

- **Valuation:** As this follows the JSE-listed share price, we are comfortable with the valuation. We do note that in our research and separate valuation of this stock, the fair value figure we arrive at is above the current share price.

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

| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|-------------------------|-------------------------------|---------------|--------------|---------------|
| %-held | 11.1% & 16.6% held-for-sale | 27.7% | 27.7% | 27.7% |
| Equity investment | R57.6m + R74.2m held-for-sale | R80.9m | R73.3m | R73.5m |
| EBITDA Multiple | Recent transaction price | 5.0x | 5.0x | 5.0x |
| Investment loans | R6.4m held-for-sale | 5.7m | R5.2m | R4.9m |
| Total Investment | R138.2m | R86.6m | R78.5 | R78.4m |

- **Commentary:** Sabvest partially realized its investment in Sunspray during the period (at an attractive multiple), this necessitating the split between investment %-held and held-for-sale in the above fair value disclosure. Subsequent to year end, Sabvest has received the amounts due to it.
- **Valuation:** Given the recent arms-length transaction price, it is logical for Sabvest to value its remaining investment in Sunspray at the transaction price. We are comfortable with this.

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

| Valuation Summary | At date of this report | FY 23 | FY 22 | FY 21 |
|--------------------------|------------------------|---------------|---------------|----------------|
| Number of shares held | 51,000,000 | 51,000,000 | 50,000,000 | 47,000,000 |
| Corero share price (GBP) | 9.01 | 8.25 | 9.25 | 12.5 |
| Fair value (GBP) | GBP4.6m | GBP4.2m | GBP4.6m | GBP5.8m |
| Fair value (ZAR) | R110.1m | R99.0m | R94.5m | R126.1m |

- **Performance & Commentary:** Corero is an LSE-listed group operating in the cybersecurity sector (specifically overing DDOS attack protection) that reported FY 23 revenue increasing by 11% to \$22.3 million (FY22: \$20.1 million). The Group’s order intake rose by 3.8% to \$24.8 million, compared to \$23.9 million previously, its cash on balance sheet improved and it has announced a partnership with Akamai Technologies that is expected to aid growth.
- **Valuation:** Sabvest’s valuation of the investment follows the LSE-listed share price, translated into Rands. Thus, we are comfortable with this valuation. We do note that the share price has risen +46% in the last twelve months and take this as market confirmation that the Group’s strategy is starting to work.

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 23 | FY 22 | H1:22 |
|-------------------------|----------------------------------|----------------------------------|----------------|
| %-held | 19.0% | 19.0% | 19.0% |
| Equity investment | - | - | - |
| Valuation methodology | EBITDA valuation multiple: 7.25x | EBITDA valuation multiple: 7.25x | COST |
| Investment loans | R91.6m | R165.6m | R116.5m |
| Total Investment | R91.6m | R165.6m | R116.5m |

- **Performance:** In the financial year ending June 2023, Halewood experienced challenges due to macroeconomic factors in RSA and (what we believe is cyclical) shifts in product demand caused by the nature of the liquor industry. The company is optimistic about improved performance in FY 24.

We are less certain about the timing of the product mix in the short-term, but the business does hold some valuable brands and good distribution and, thus, the upside optionality inherent in this rather conservative valuation on “trough” results does imply forward upside.

- **Valuation:** Sabvest has kept Halewood’s multiple flat at 7.25x. If we consider larger, global branded alcoholic beverage multiples (EV/EBITDA Ratios: Diageo Plc 13.9x, Brown-Forman Corporation 20.7x, Heineken N.V. 10.8x & Anheuser-Busch InBev SA/NV 10.6x), we are comfortable for Halewood’s inclusion in Sabvest’s NAV at a 7.25x multiple. If anything, this multiple might be too low, but we would want to wait for a recovery in the Group’s cyclical product mix to driven earnings before starting to argue for a higher multiple here.

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



| Valuation Summary | FY 23 | FY 22 | FY 21 | FY 20 |
|-------------------------|-----------------------|---------------|-------|-------|
| %-held | 39.3% | 39.3% | - | - |
| Equity investment | R30.5m | R19.5 | - | - |
| Valuation methodology | EBITDA Multiple: 6.0x | At cost | - | - |
| Investment loans | R25.0m | R25.2m | - | - |
| Total Investment | R55.5m | 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. The business performed satisfactorily over the period and is starting to look at potential acquisitions to add product to its distribution backbone.
- **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 an EV/EBITDA of c.33.2x 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. We are optimistic regarding this investments prospects.

Transaction Capital Ltd: JSE-listed group with SA Taxi, Nutun & WeBuyCars businesses. Note the recent corporate activity whereby WeBuyCars will be unbundled from the Group into a separate JSE listing.

| Valuation Summary | At date of this report | FY 23 | FY 22 | FY 21 |
|-------------------------|------------------------|---------------|----------------|----------------|
| Number of shares held | 6,000,000 | 6,000,000 | 5,000,000 | 6,000,000 |
| TCP share price (cps) | 810cps | 798cps | 3310cps | 4503cps |
| Fair value (ZAR) | R48.6m | R47.8m | R165.5m | R270.1m |

- **Performance & Commentary:** While Nutun and WeBuyCars continued to trade well, SA Taxi’s ongoing troubles and the necessary capital restructurings have negatively impacted Transaction Capital’s share price. A management change and decisive actions appear to be starting to work in the Group, though, and particularly the recently announced (and bookbuilt) WeBuyCars unbundling should help to unlock value in this investment.
- **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, though we tend to share management’s view that the share price is not yet reflective of the value implicit in the underlying. We expect the WeBuyCars unbundling and finalisation of the SA Taxi restructure to be key moments in unlocking this value.

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 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 | R30.5m | R7.0m | R79.8m | R65.2m |
| Total Investment | R30.5m | R7.0m | R109.6m | R95.0m |

- Performance & Commentary:** FlexoLine’s trading faced challenges during Q1:23 to Q3:23 due to reduced household demand post-pandemic, logistical hurdles, and load shedding impacts on production. However, Q4:23 showed improvement, driven by increased demand and diversification of customers and products. This positive trend is expected to continue into the 2024 calendar year. Notably, the company’s newly patented tamper-proof spice grinders and bottling operations are poised to boost volumes and margins moving forward.
- Valuation:** Sabvest’s equity investment here is carried at zero while an impairment provision has been raised against other capital invested here.

Versofy: Versofy was acquired in December 2023. The business offers home and SME solar installations and power solutions that include Solar-as-a-Service and rent-to-buy solutions. Sabvest acquired a 3.75% stake through its 25.0% interest in a consortium which purchased an initial 15%-stake in Versofy. The consortium has proved R16.6m finding as part of the deal terms. At this point, though, Sabvest has valued this investment at zero as it waits for the business to mature (management anticipate exploring various alternative strategies and funding structures in the upcoming financial year).

Altify (formerly “Revix Group”) & Country Food Brands: Altify has been classified as a held-for-sale investment, and management are exploring suitable exit strategies. Management disposed of Country Food Brands for a nominal value during the period.

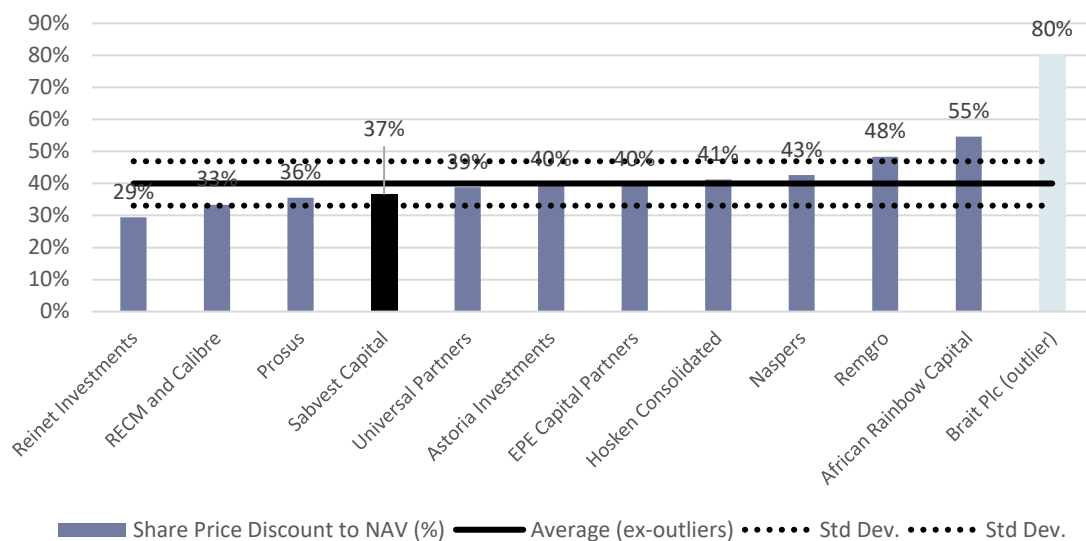
JSE-listed HoldCo Sector Snapshot

We encourage you to read our previous Sabvest reports for more background on the JSE-listed HoldCo sector: [LINK](#). That report also contains our general view of this sector and the key variables to compare one HoldCo against another (i.e. valuation of NAV, track record of NAV growth, HoldCo costs & share price discount to NAV).

We believe that comparing the actual underlying investments across the JSE-listed HoldCo sector would add little to this report and the prior written about cost structures and long-term track records remain relevant but largely unchanged.

Thus, we have decided to rather focus on the market’s pricing of these HoldCo stocks. An interestingly heterogeneous mix of discounts and returns appears if we compare HoldCo’s across the sector (Figure 2).

Figure 2: JSE-listed HoldCo Discounts

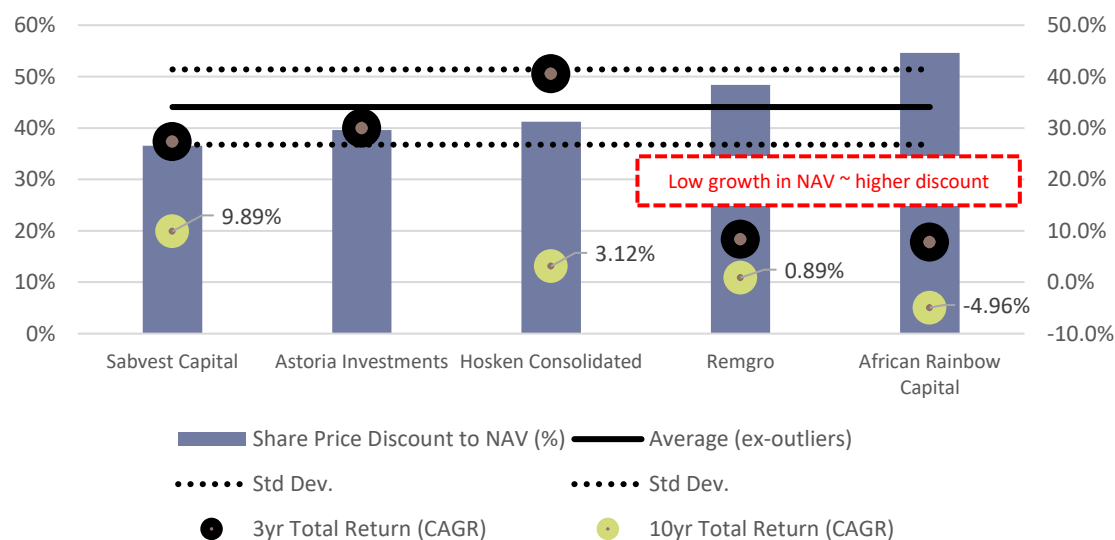


Sources: Various company reports, Iress, Profile Media and Blue Gem Research workings and assumptions

We consider **Brait Plc (code: BAT)** an outlier given that it is in the process of being wound-up by **EPE Capital Partners (code: EPE)**/Ethos Private Equity, who in turn also is looking increasingly likely to “unlock” its own value in a similar fashion. **Reinet Investments SCA (code: RNI)** is really structured offshore with offshore investments and **RECM and Calibre (code: RACP)** holds predominantly a single asset (Goldrush Group) which makes its valuation less NAV-orientated and more operationally focussed on how the Goldrush Group is performing. **Naspers (code: NPN)** and **Prosus (code: PRX)** are just a convoluted vehicle that holds a significant stake in **Tencent (code: 0700)**. Finally, **Universal Partners (code: UPL)** stock’s near complete lack of liquidity makes its share price deeply inefficient and hard to separate the liquidity discount from the HoldCo discount.

Thus, **Hosken Consolidated (code: HCI)**, **Remngro (code: REM)**, **African Rainbow Capital (code: AIL)** and **Astoria (code: ARA)** may be the more comparable HoldCo’s to Sabvest Capital (however imperfect the comparisons).

Figure 3: HoldCo Peer Group Set (also see Table 3)



Sources: Various company reports, Refinitiv, Iress, Profile Media and Blue Gem Research workings and assumptions; Astoria’s significant management change and resulting change in strategy a few years ago makes its 10-year track record irrelevant for purposes of this comparison.

In Figure 3, there appears to be a strong (negative) correlation between the return the market has rewarded shareholders with and the discount to the various HoldCo’s Net Asset Values. The higher the return, the lower the discount.

Looking deeper into these HoldCo’s NAV growth, **Sabvest’s** 15-year NAV per share CAGR is +17.2% *and* its 15-year CAGR in share price is +18.0% y/y. While **Astoria (code: ARA)** and **African Rainbow Capital (code: AIL)** do not yet have such long track records, **Hosken Consolidated Investments (code: HCI)** and **Remgro (code: REM)** have similar correlations (NAV CAGR versus Share Price CAGR). A simple comparison between them reveals the strong long-term correlation between these data points:

Table 3: Long-term HoldCo NAV Growth & Share Price Growth

| HoldCo: | Long-term NAV (CAGR %) | Long-term Price Return of Share (CAGR %) |
|---------------------------------|--------------------------|--|
| Sabvest Capital | 15-year NAV CAGR of +17% | 15-year share price return of +18% |
| Hosken Consolidated Investments | 14-year NAV CAGR of +14% | 14-year share price return of +6% |
| Remgro Ltd | 15-year NAV CAGR of +4% | 15-year share price return of 6% |

Sources: Various company reports, Refinitiv Total Return Function & Blue Gem Research workings and assumptions

Thus—anecdotally from this data—it appears that the higher the HoldCo’s NAV *growth*, the higher the Total Return the market has rewarded its shareholders with *and* the lower the discount the market demands on the HoldCo’s NAV to form its share price. These factors are all related and, thus, for example, a large Remgro or African Rainbow Capital discount may *not* be more attractive than Sabvest’s current discount, especially if Sabvest’s NAV is likely to grow faster than Remgro and African Rainbow Capital’s NAV.

While in our valuation section we attempt to present value a reasonable discount to NAV for Sabvest, we do highlight the above to show that the share’s discount is more or less in line with the JSE-HoldCo sector’s range of discounts while at the same time highlighting that in the *long-term* the discount is (perhaps) less relevant than the *growth* in NAV for shareholder returns.

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).

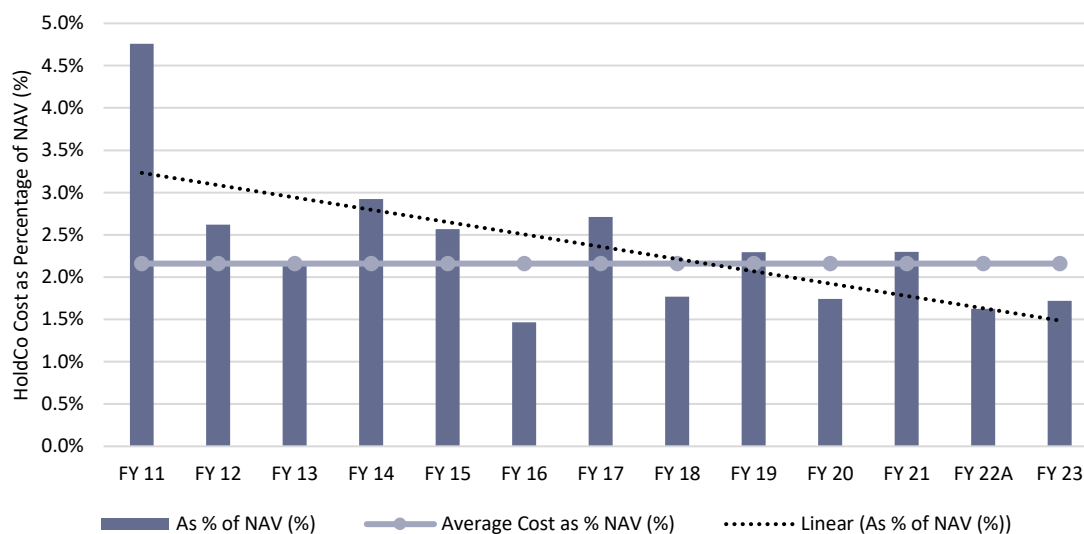
Net Asset Value of Sabvest

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: R4.5bn) or 10907cps (Previously: 11534cps), implying a current discount in the share price of c.37% (Previously: 40%).

Appropriate “HoldCo Discount”

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.

Figure 4: Sabvest Estimated Central Costs as % of NAV



Sources: Sabvest (various reports) and Blue Gem Research workings and assumptions

While some incentives (KPI's are Profit After Tax and NAV per share growth) can create some short-term distortions (as they did in the current period), the Group's average HoldCo costs are c.2.2% of its NAV (Previously: 2.2%). Over a shorter period, Sabvest's HoldCo costs average closer to c.1.9% (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 (18.9%; Rf = 10.68%, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R340m (previously: R580m) or c.7.9% (previously: 12.8%) of the Group's NAV.

Given that the FY 23 period showed below average NAV performance, some of Sabvest's variable costs (i.e. incentives) are lower than normal in the current period. We consider this temporary and should reverse in future period(s). Thus, we have set a "floor" discount against NAV of 10% and use this in our SOTPs valuation (instead of the 7.9% discount implied by our above calculation).

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

Sabvest Capital's (updated) NAV less our discount implies that the share is worth 9817cps (previously: 10060cps) or that it should be trading +42% higher than its current 6920cps 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 11675cps (previously: 11920cps) for Sabvest Capital. This implies an attractive +69% 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

NOTE: THIS IS COMMISSIONED RESEARCH – 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 on 22 March 2024 and/or 28 March 2024.*

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