

Sabvest Capital Ltd Returning to Growth

Share Code: SBP - Market Cap: R2.9bn - Dividend Yield: 1.2%

12m Target Price	12616cps
Share Price	7450cps
Implied Return	69%

Financials | [South Africa](#)

H1:24 Results: NAV Returns to Growth

- Sabvest's Net Asset Value (NAV) grew +3% y/y to 11786cps (H1:23 – 11465cps), management hiked the Group's dividend to 35cps (H1:23 – 30cps), and bought-back a further R51.7m shares during the period (average price of c.6893cps versus the NAV of 11786cps and the current share price of 7450cps).
- Many of the Group's underlying businesses recovered/grew nicely: Apex, Flexo and ITL all performed well while Corero's share price more than doubled, and Transaction Capital unbundled We Buy Cars Holdings (JSE code: WBC).
- On a balance, the Group's portfolio outlook is good, its valuations are proving to be on the conservative side (see 'Thoughts' below) and management is steadily degearing as cash is realized and/or flows centrally.

Thoughts: Exits Underscore Conservative Valuations

- Sabvest has (1) agreed to exit Metrofile in two tranches at an above-market price (301cps), (2) received an initial R80.6m from its exit of Sunspray (at above-book at the time), & (3) concluded an exit from Rolfe that should be at a premium to its previous value in the Group's NAV.
- This is c.6% of assets being realized at *above-book* prices (proceeds should go into degearing) and it goes to evidence Sabvest's conservative unlisted valuations.

Valuation, 12m TP & Implied Return: Discounted

- The share is 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 10754cps (previously: 9817cps), which still includes a HoldCo c.10% *discount* against this NAV (unchanged from prior period).
- Rolling our post-discount fair value forward, we see the Group's 12m TP as 12616cps (previously: 11675cps) with an implied return of +69%.
- Refer to our [Initiation of Coverage](#) for more background.

Financial Summary	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	H1:24	Now
Net Asset Value (cps)	5085cps	5852cps	6648cps	7444cps	9371cps	11017cps	10936cps	11786cps	11948cps
Growth (%)	39%	15%	14%	12%	26%	18%	-1%	3%	9%
HEPS (cps)	1517cps	531cps	917cps	709cps	1690cps	1722cps	(11)cps	826cps	-
Growth (%)	>100%	-65%	73%	-23%	>100%	2%	-101%	63%	-
DPS (cps)	61cps	68cps	75cps	25cps	75cps	90cps	90cps	35cps	-
Growth (%)	11%	11%	10%	-67%	200%	20%	0%	17%	-

Sources: Sabvest various reports & Blue Gem Research assumptions & workings; *Closing prices on 23 August 2024



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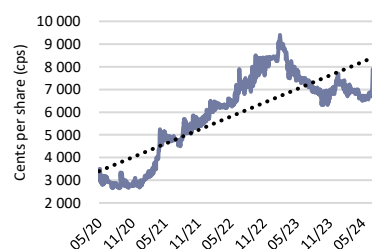
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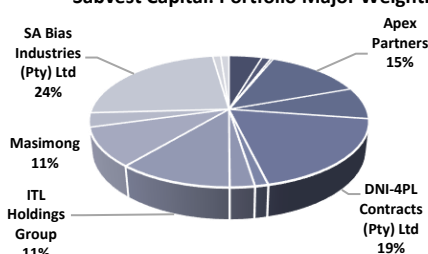
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Sabvest Capital: Share Price



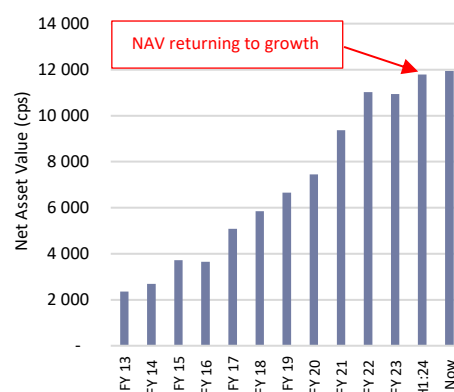
Source: Profile Media

Sabvest Capital: Portfolio Major Weightings



Sources: Sabvest & Blue Gem Research workings

Sabvest Capital: NAV History – Returning to Growth



Sources: Sabvest & Blue Gem Research workings

Table 1: Sabvest: Sum-of-the-Parts (SOTP)	Short Description	Holding	Valuation Methodology	Valuation	% of NAV
Listed Investments	-	-	-	R315,404,200	7%
Corero Network Security Plc	LSE-listed DDOS-focussed cyber security group.	52m	Market price of shares (GBP19.25ps)	R234,434,200	5%
Metrofile Holdings Ltd	JSE-listed group offering secure physical & digital storage, document solutions & related services: LINK .	21m	Put/call option price (301cps)	R63,210,000	1%
Transaction Capital Ltd	JSE-listed group offering taxi financing & credit services. Unbundled We Buy Cars Holdings Ltd (code: WBC).	6m	Market price of shares (296cps)	R17,760,000	0%
Unlisted Investments	-	-	-	R4,829,563,000	105%
Apex Partners	An industrial group with a portfolio of controlling interests in distribution, engineering and manufacturing businesses in South Africa.	46.4%	Normalized EBITDA x 5.5x (Previously: 5.5x)	R686,294,000	15%
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)	R403,388,000	9%
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)	R973,642,000	21%
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)	R66,338,000	1%
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)	R124,036,000	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)	R575,939,000	13%
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, Halewood & KWV).	9.0%	NAV based on Masimong internal valuation (Previously: NAV)	R489,897,000	11%
Rolfes Holdings (Pty) Ltd	A specialist provider of agricultural, food, industrial and water chemical solutions and services.	24.7%	Agreed-upon sales price (Previously: 5.5x)	R179,546,000	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.	86.0%	(Normalized EBITDA x Multiple) - Net Debt with Floxmax & Narrowtex on 6.0x & 5.0x (Previously: 6.0x & 4.5x)	R1,214,288,000	26%
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: LTR)	R57,558,000	1%
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 centers.	39.3%	Normalized EBITDA x 6.0x (Previously: 6.0x)	R58,637,000	1%
Other Items	-	-	-	(R548,443,000)	-12%
Finance advances (current & non-current)	-	-	Per "Investment Holdings" disclosure	R19,564,000	0%
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 "Investment Holdings" disclosure	(R138,069,000)	-3%
HoldCo Net Debt	-	-	Per "Investment Holdings" disclosure	(R429,938,000)	-9%
Net Asset Value	-	-	-	R4,596,524,200	100%
Less: "Investment Holding Discount"	The cost of maintaining & running Sabvest Capital Ltd	-	Net Present Value of estimated HoldCo costs	(R459,652,420)	-10%
Sum-of-the-Parts (SOTP)	-	-	-	R4,136,871,780	
<i>Ordinary shares</i>	-	-	<i>Net of shares bought back</i>	<i>38.47m</i>	
Fair Value per share (cps)	-	-	SOTP divided by the issued shares	10754cps	
Discount to share price (%)	-	-	-	44%	
12m Target Price (cps)	-	-	SOTP rolled-forward by Cost of Equity	12616cps	
12m Implied Return (%)	-	-	-	69%	

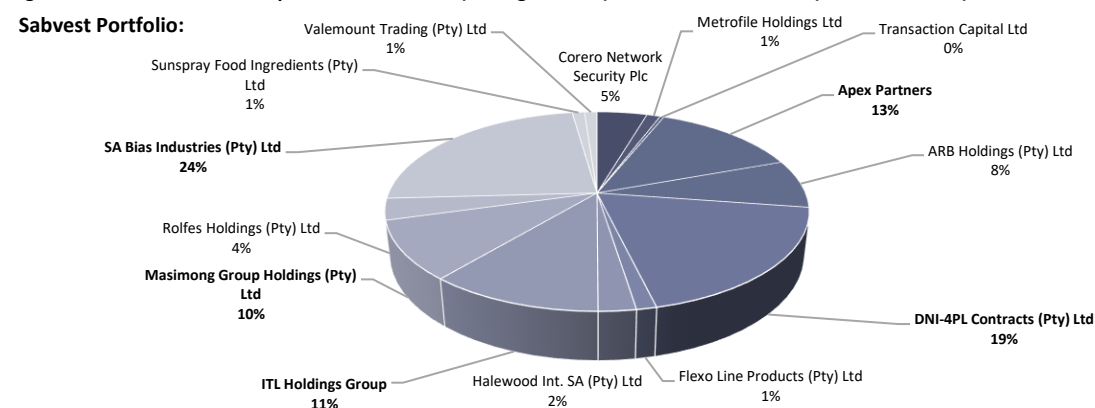
Sources: Sabvest various reports, Iress, Profile Media, & Blue Gem Research workings & assumptions (23 August 2024 Closing Prices)

Sabvest Capital H1:24 Results

Sabvest Capital (code: SBP) published its H1:24 results showing a return to its long history of growth:

- Sabvest's Net Asset Value (NAV) grew +3% y/y to 11786cps (H1:23 – 11465cps) with HEPS and EPS both increasing to 826.1cos (H1:23 – 506.3cps), a 5cps increase in the Group's dividend to 35cps (H1:23 – 30cps), and a further R51.7m shares bought-back during the period (average price of c.6893cps versus the NAV of 11786cps and the current share price of 7450cps).
- Following cost-cutting during the last couple reporting periods of disrupted global trade, many of the Group's underlying businesses recovered nicely and generated good results; Apex, Flexo and ITL all performed well while Corero's share price more than doubled, and Transaction Capital unbundled We Buy Cars Holdings (code: WBC) in stoic realization of value (Sabvest sold their We Buy Cars shares at an average price of c.2300cps but has kept their Transaction Capital shares).
- From the start of the year, the average unlisted investment grew its fair value by c.14% in Sabvest's portfolio with strong growth seen particularly in Flexo Line (+117% p/p) and Halewood (+35% p/p) while Corero's share price rallied from c.9.01p to its current c.19.25p.
- Sabvest has (1) also agreed to exit its Metrofile investment in two tranches at an above-market price (301cps), (2) received an initial R80.6m from its exit of Sunspray (at above-book at the time), and (3) concluded an exit from Rolfes (contingent on some conditions) that should also garner a premium to the prior period valuation of the investment (it is now being carried at this implied transaction price in the Group's NAV) ~ This is equivalent to c.6% of assets being realized at *above-book* values for cash.
- These realizations will degear the Group's balance sheet and, in these results, net debt dropped to R430m (FY 23: R572m), though management may be opportunistic with future share buy-backs too.

Figure 1: Sabvest Portfolio – Updated Listed Prices (23 August 2024) & Unlisted Valuations (on 30 June 2024)



Unlisted Investment	Valuation Multiple (predominantly EV/Sustainable EBITDA)					
	FY 19	FY 20	FY 21	FY 22	FY 23	H1:24
Apex Partners	4.5x	4.5x	4.5x	5.5x	5.5x	5.5x
ARB Holdings	-	-	-	6.5x	6.5x	6.5x
DNI-4PL Contracts	6.5x	6.5x	6.5x	6.5x	6.5x	6.5x
Flexo Line Products	4.0x	4.5x	4.5x	4.5x	4.5x	4.5x
Halewood South Africa	-	-	-	7.25x	7.25x	7.25x
ITL Holdings Group	9.3x	9.0x	9.0x	9.0x	9.0x	9.0x
Masimong Group*	*	*	*	*	*	*
Rolfes Holdings	-	6.0x	6.0x	5.5x	5.5x	Latest transaction price
SA Bias Industries**	6.5x	5.3x	5.3x	5.3x	5.5x**	5.5x**
Sunspray Food	5.0x	5.0x	5.0x	5.0x	Latest transaction price	Latest transaction price
Valemount Trading	-	-	-	-	6.0x	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).

- Sabvest's portfolio outlook is improving, its valuations are proving to be on the conservative side (evidenced by the above-book exits it is realizing) and its growing NAV remains on offer at a relatively large discount in the current market share price of c.37%.

Investee Company Updates & Analysis

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

NARROWTEX

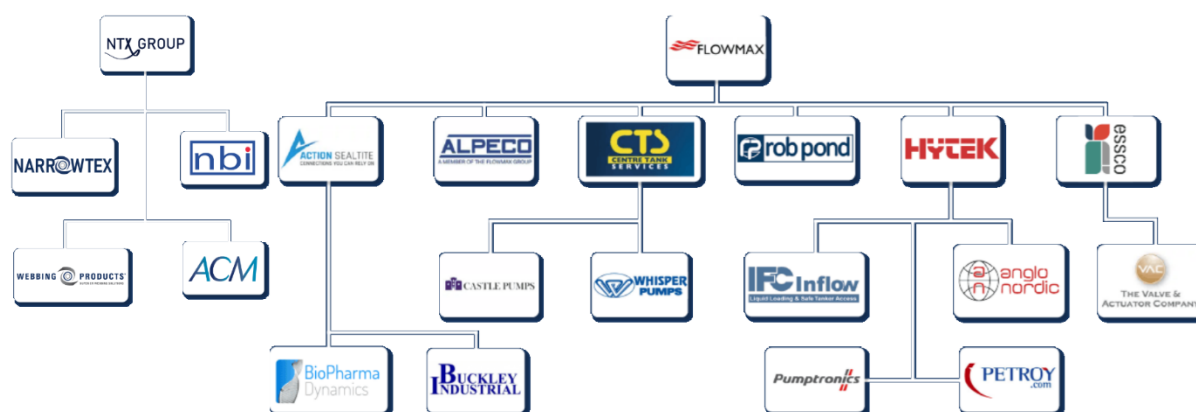
FLOWMAX

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	86.0%	85.2%	85.2%	85.1%	59.9%
Equity investment	R1,214m	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 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	R1,214m	R1,270m	R1,018.9m	R906.3m	R768.6m
Ordinary dividend received	R35.4m	R39.2m	R35.8m	R32.4m	-
Special dividend received	-	-	R8.5m	R88.2m	-
Total dividends received	R35.4m	R39.2m	R44.3m	R120.6m	-
Annualized Dividend Yield (%)	c.5.8%	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:

- **NTX Group (“Narrowtex”)**: 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.



Source: SA Bias website

H1:24 Financial Results:

Flowmax traded well during the period despite pressure in the broader UK economy. Narrowtex, though, saw lower profitability as the change in ownership of a major customer saw this customer move its international sourcing away from South Africa (our understanding is that this was moved back to the USA but issues from this decision imply that there is a chance that Narrowtex could win back, at least some, of this supply).

The Group still has liquid balance sheet with surplus funds held in US Dollars and British Pounds. This balance sheet should provide a good platform for Flowmax’s continued acquisitive growth in the UK and EU economies.

Valuation:

While SA Bias holds a complex and nuanced set of businesses, we simplistically compare its divisional valuations to what we believe are 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 10.9x (Previously: 12.1x)
 - Alfa Laval Corporate AB (Sweden): EV/EBITDA of 15.9x (Previously: 15.3x)
 - Flowserve Corporation (United States of America): EV/EBITDA of 11.8x (Previously: 14.3x).
 - This peer set's average EV/EBITDA is 12.9x (Previously: 13.9x).
 - Thus—despite some multiple compression in this peer set over the period—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 9.07%) 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	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	19.7%	19.7%	19.9%	19.1%	19.4%
Equity investment	R973.6m	R990.5m	R1,028m	R907.7m	R839.4m
EBITDA Multiple	6.5x	6.5x	6.5x	6.5x	6.5x
Debt investment	-	-	-	-	-
Total Investment	R973.6m	R990.5m	R1,028m	R907.7m	R839.4m
Ordinary dividends received	R36.8m	R64.2m	R52.2m	R45m	.*
Special dividends received	-	-	R50.2m	R5.5m	.*
Total dividend received	R36.8m	R64.2m	R102.4m	R50.5m	.*
Annualized Dividend Yield (%)	c.7.5%	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)	—	5.6x	-	-	-
Vodacom Group (JSE: VOD)	5.2%	4.6x	-	-	-
MTN Group (JSE: MTN)	3.4%	3.6x	-	-	-
Pepkor Holdings (JSE: PPH)***	2.3%	7.3x	-	-	-

* Not disclosed; ** As of Close 23 August 2024 on the JSE Stock Exchange via Profile Media & Koyfin; *** 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 in emerging markets (though, currently predominantly South Africa), 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 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.
4. **Value-added Services:** A range of telcos-enabled valued-added services.

H1:24 Financial Results:

Firstly—to provide context for the South African telcos sector—the below summarizes the two largest telcos' latest results with a specific focus on their South African segments:

- In the quarter ended 30 June 2024, **Vodacom's (JSE: VOD)** South African segment delivered a resilient performance but service revenue only grew by +1.8% y/y to R15.3 billion, supported by improved prepaid performance and price adjustments. Contract subscribers grew +2.0% (to 6.9m) and the prepaid subscribers were +10.6% y/y higher (to 42.1m), thus total subscribers were +9.3% y/y (to 48.9m).
- In Q1:24 ended 31 March 2024, **MTN Group's (JSE: MTN)** South African segment's also reported Service revenue that grew by +3.0% y/y and subscribers grew by +3.3% y/y (to 37.1m). MTN noted the headwinds facing it and consumers from inflation to loadshedding.

While subscriber churn likely flatters some of the subscriber growth in both MTN and Vodacom, it is notable how slow revenue growth is as pressure appears to remain in this sector while consumer disposable income headwinds abound. It is interesting to see that, particularly Vodacom, is trying to reverse the deflationary pricing dynamic in the industry and push through price increases and time will tell how successful that is.

Within this context, it is no surprise that DNI's growth slowed down as it felt the softer demand within the industry. At a static multiple (and adding back the dividends paid in the current and prior period), DNI's EBITDA appears to have gone fractionally backwards. But, despite this, the Group's cash generation remains strong and its dividend flow back to shareholders (including Sabvest) remains attractive (c.7.5% annualized implied yield on Sabvest's valuation of the Group).

During the period, DNI sold PayMeNow to subsidiaries of EWA Group Ltd (which has substantially the same shareholders as DNI, making this transaction more a "restructure" than a divesture) and the proceed will be declared as a special dividend. In our discussion with management, this corporate action was taken to repackage PayMeNow for a larger global play that could unlock significant value in the future.

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. (These four stocks trade at an average EV/EBITDA of 5.3x.)

While DNI has an EBITDA multiple 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 relatively cheaply versus these dominant domestic telco stock (i.e. at a higher annualized Dividend Yield of 7.5% vs. 5.2%).

Thus, on a balance of evidence, we remain comfortable with the valuation of DNI and we do like the consistency of the using the same multiple (thus investment fair value moves are driven by changes in profit and not valuation discretion).

Apex Partners – [Website](#)



Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	46.4%	45.3%	44.8%	44.8%	44.8%
Equity investment	R686.3m	R584.6m	R504.0m	R303.7m	R88.5m
EBITDA Multiple / Valuation Method	5.5x	5.5x	4.5x	4.5x	At Net Asset Value
Debt & Preference share investment	-	-	-	-	R40m
Total Investment	R686.3m	R584.6m	R504.0m	R303.8m	R128.5m
Ordinary dividends received	R18.6m	R27.2m	R17.9	-	-
Annualized Dividend Yield (DY %)	c.5.4%	4.7%	3.6%	-	-
JSE-listed Industrial Groups	Code	Dividend Yield (%)*	EV/EBITDA (x)*	Market Capitalisation*	52-week stock movement (%)**
Barloworld Ltd	BAW	5.4%	3.8x	R18.0bn	+10%
The Bidvest Group Ltd	BVT	3.2%	8.5x	R340.2bn	+3%
Hudaco Industries	HDC	5.5%	5.9x	R5.7bn	+24%
Invicta Holdings	IVT	3.2%	4.4x	R3.2bn	+31%
KAP Industrial Holdings	KAP	-	6.1x	R8.2bn	+33%
Reunert Ltd	RLO	4.4%	7.6x	R14.1bn	+28%

*As of close 23 August 2024 on the JSE Stock Exchange & sources being Profile Media, Iress and Koyfin; **As of close 23 August 2024 (Google Finance)

Business:

Apex is 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. More recently, the Group has been increasing its stake in DRA Global Ltd (JSE: DRA) to 22.1% (Previously: 19.3%) – [see their corporate website here](#).

Performance & Commentary:

Apex's performance appears to have been sound over the period and, with a static valuation multiple and taking into account dividends, the profits have grown in line with most of the 52-week JSE-listed industrial stock movements (c.+14% y/y versus the JSE-listed peer set average 52-week movement of +21.5% y/y). Particularly given the positive developments following the recent National Election in South Africa, we are increasingly positive on Apex's potential in an environment where local economic growth starts to rise. It is likely that the positive performance of the JSE-listed industrial's reflects this same sentiment.

Valuation:

Given Apex's implied c.R1,479bn implied equity fair value, the Group is nearing some of its more closely aligned listed peers' in size (for example, Invicta Holdings' R3.2bn market capitalization). Thus, comparing Apex's 5.5x multiple to Hudaco's (5.9x) and Invicta's (4.4x) offers some context as to its reasonableness.

ITL Holdings Group (Pty) Ltd – [Website](#)

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	34.4%	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	9.0x
Debt & Preference share investment	R575.9m	R499m	R618.9m	R585.1m	R551.6m
Total Investment	R575.9m	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](#).

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.

H1:24 Financial Results:

As we have written in previous notes, several factors significantly impacted ITL Group's trading in 2023. The lingering effects of COVID lockdowns in China, disruptions to global supply chains, and geopolitical tensions caused northern hemisphere retailers to shift production to other regions, where efficiencies and margins were lower. Additionally, retailers (and, indeed, wholesalers) faced excess inventory and weaker consumer demand, leading to reduced order volumes and a shift toward lower-cost, lower-margin products.

However, and importantly for ITL, trading began to recover in Q4 of FY23 and continued improving into H1:24 as macroeconomic conditions stabilized and retail demand strengthened. ITL secured a promising global supply agreement for traditional labels and RFID at the end of FY23, with sales expected to grow through the latter half of FY24 and into FY25.

In the first half of 2024, management successfully implemented a comprehensive repositioning strategy, focusing on significant cost reductions (notably in South Africa) and margin and efficiency improvements across the globe as the Group adjusts to its new geographic mix.

Importantly, ITL remains strategically, geographically, and operationally well-positioned against its competitors. Not just due to this, but also due to its current low base, we expect good upside in this business in the medium-term (indeed, management noted a very strong July 2024 month when we spoke post-results).

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 flat multiple has remained consistent across years, &
2. This flat multiple is quite reasonable against a set of global branded apparel companies (**Table 2**);

While **Table 2**'s comparisons is arguably weak for valuation purposes of ITL (who would, typically, supply *into* these businesses as opposed competing *with* them), this exercise does show the market multiples placed on the global apparel sectors and how ITL's 9.0x multiple remains below broader average market multiples (c.11.7x is the average EBITDA multiple of this peer group).

Table 2: Global Apparel Stock EV/EBITDA Multiples

	EV/EBITDA
Burberry Group plc	4.9x
Dr. Martens plc	5.6x
Ermenegildo Zegna N.V.	7.3x
Levi Strauss & Co.	8.3x
Nextracker Inc.	8.4x
Kering SA	8.6x
ITL Group (Sabvest's valuation)	9.0x
Mulberry Group plc	9.5x
Prada SpA	10.3x
Moncler SpA	12.5x
Brunello Cucinelli S.p.A.	19.8x
Hermes International	33.5x
Average	11.7x
Median	8.6x

Sources: Koyfin and Blue Gem Research workings

Masimong Group Holdings: An empowered investment group holding interests in (mining) Seriti Coal, Seriti Power and Lephalale Coal and Power, and (agricultural) Mouton Citrus, Carmien Tea, Southern Cross Investment Holdings (which owns grape and date farms) and Winfield United South Africa (which is a provider of specialist crop input products and services including crop protection, plant nutrition, soil conditioning, fumigation and seeds). It also holds diversified interests including Rolfes, ARB, Halewood South Africa, Anchor Capital and Chemfin. More recently, Masimong has acquired an interest in KWV.

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	9.0%	9.0%	10.0%	10.0%	10.0%
Equity investment	R489.9m	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	At Net Asset Value
Total Investment	R489.9m	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 in the prior period, and Masimong acquired a look-through interest in KWV during the period. KWV may be complimentary with Halewood South Africa (both are in branded liquor), though we will wait to see if this leads to any corporate action. Sabvest reports that Masimong's holdings performed satisfactorily during the period, though we still believe that the results are dominated by the coal mining business (Seriti Coal), where both Transnet underperformance, higher mining costs and a lower coal price have put this sector under pressure.
- **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 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 with stable, good management and see no indication that this has changed since delisting.

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	18.5%	18.5%	18.5%	-	-
Equity investment	R213.0m	R228.0m	R13.9m	-	-
EBITDA Multiple	6.5x	6.5x	6.5x	-	-
Investment loans	R190.4m	R129.3m	R236.3m	-	-
Total Investment	R403.4m	R357.4m	R250.2m	-	-
Dividends	R2.6m	R5.2m	-	-	-

- **Performance & Commentary:** The loadshedding-induced ramp-up in solar business that ARB enjoyed in the first half of the prior year did not carry into the second half and further deteriorated into the first half of this year as loadshedding receded and PV and battery prices dived. Besides this base effect in the solar side, the rest of the Group remains trading well and increasingly (especially if the unbundling of Eskom’s distribution business takes place) prospects are looking reasonably good.
- **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 7.6x (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	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	24.7%	24.7%	25.1%	25.1%	25.1%
Equity investment	R179.6m	R160.8m	R189.3m	R201.6m	R145.5m
EBITDA Multiple	Recent transaction price	5.5x	5.5x	6.0x	6.0x
Investment loans	-	-	-	-	-
Total Investment	R179.6m	R160.8m	R189.3m	R201.6m	R145.5m
Ordinary dividends received	R12m	R30m	R18m	-	-
Annualized Dividend Yield (%)	c.13.3%	18.7%	9.5%		

- **Performance & Commentary:** Management reports that Rolfes’ trading was satisfactory—despite depressed commodity prices and the effect on margins—with profitability higher than in the prior period. Rolfes is budgeted to achieve continued higher profitability in the next financial year.
- **Exit of Investment:** An offer for 100% of Rolfes (which includes Sabvest’s 24.7%-stake) was accepted by shareholders. This will realize R179.5m in cash for Sabvest, though final proceeds may vary depending on the outcome of certain claims, contingency provisions and the disposal of a property asset. Importantly, though, this realizes the investment at a price *higher* than what Sabvest was carrying it in its fairly valued NAV, further substantiating our view that Sabvest’s various unlisted businesses’ valuations are quite reasonable. Management intends to pay down debt on Sabvest’s balance sheet with these proceeds.
- **Valuation:** Given the arms-length offer (and assuming no adjustment to its final price), it is logical to value Rolfes in Sabvest’s NAV at this transaction price.

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

Valuation Summary	At date of this report	H1:24	FY 23	FY 22	FY 21
Number of shares held	21,000,000	21,000,000	57,000,000	56,000,000	55,000,000
MFL share price (cps)	301cps	301cps	300cps	350cps	345cps
Fair value (ZAR)	R63.2m	R63.2m	R171m	R196.0m	R189.7m

- **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. We are looking for their FY 24 results to be out soon, though we do expect this pressure to reflect during the H2 period too.

- **Exit of Investment:** During H1:24, Sabvest sold 36m Metrofile shares for an aggregate consideration of R108,3m (before dealing costs) or c.301cps. As part of this transaction, Sabvest's subsidiary has granted a call option to the holding company of the acquirer to acquire the remaining 21m Metrofile shares. Sabvest's subsidiary has also been granted a put option by the holding company of the acquirer to sell the remaining 21m Metrofile shares to the holding company of the acquirer. Both the call option and put option are at 301cps, resulting in an aggregate cash consideration of R63,21m (increased by any Metrofile dividend relating to the six months prior to the period which the call option is exercised and which has not vested to Sabvest). Similar to Rolfes' exit above, this exit from Metrofile is at a wonderful premium to the current market price of 240cps.
- **Valuation:** Given the existence of a Put/Call on the shares with a defined price, it is logical to value Metrofile in Sabvest's NAV at this exercisable price.

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

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	11.1%	11.1% & 16.6% held-for-sale	27.7%	27.7%	27.7%
Equity investment	R57.6m	R57.6m + R74.2m held-for-sale	R80.9m	R73.3m	R73.5m
EBITDA Multiple	Recent transaction price	Recent transaction price	5.0x	5.0x	5.0x
Investment loans	-	R6.4m held-for-sale	5.7m	R5.2m	R4.9m
Total Investment	R57.6m	R138.2m	R86.6m	R78.5	R78.4m

- **Valuation:** Sabvest received R80.6m relating to this investment's partial exit, and has valued the remaining stake here at recent transaction price (based on rights and formulate in the new shareholders agreement). Once again, similar to Rofles and Metrofile, Sabvest's realization of this investment has been at a premium to the pre-transaction valuation and further evidences our confidence in Sabvest's unlisted investments values and the firmness of its underlying NAV.

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

Valuation Summary	At date of this report	H1:24	FY 23	FY 22	FY 21
Shares held	52,000,000	52,000,000	51,000,000	50,000,000	47,000,000
Corero share price (GBP)	19.25	14.50	8.25	9.25	12.5
Fair value (GBP)	GBP10.0m	GBP7.54m	GBP4.2m	GBP4.6m	GBP5.8m
Fair value (ZAR)	R110.1m	R173.9m	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 note the more than doubling of the share price over the last year as an exciting development.

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

Valuation Summary	H1:24	FY 23	FY 22	H1:22
%-held	19.0%	19.0%	19.0%	19.0%
Equity investment	-	-	-	-
Valuation methodology	EBITDA valuation multiple: 7.25x	EBITDA valuation multiple: 7.25x	EBITDA valuation multiple: 7.25x	COST
Investment loans	R124.0m	R91.6m	R165.6m	R116.5m
Total Investment	R124.0m	R91.6m	R165.6m	R116.5m

- Performance:** Following on from FY 23—and tracking international spirits and alcoholic beverage company trends—Halewood South Africa continued to trade into headwinds against its product mix. Management do note, though, that this mix and the business’s volumes have stabilized and, indeed, we are optimistic on its medium-term growth trajectory. Indeed, Masimong’s acquisition of an interest in KVV creates some interesting potential actions for this business that we will be watching closely.
- 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 13.4x, Brown-Forman Corporation 18.9x, Heineken N.V. 11.5x & Anheuser-Busch InBev SA/NV 10.5x), we are comfortable for Halewood’s inclusion in Sabvest’s NAV at a 7.25x multiple.

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



Valuation Summary	H1:24	FY 22	FY 22	FY 21
%-held	39.3%	39.3%	39.3%	-
Equity investment	R33.6m	R30.5m	R19.5	-
Valuation methodology	EBITDA Multiple: 6.0x	EBITDA Multiple: 6.0x	At cost	-
Investment loans	R25.0m	R25.0m	R25.2m	-
Total Investment	R58.6m	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.55.9x 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 remain optimistic regarding this investment’s prospects.

Transaction Capital Ltd: JSE-listed group with SA Taxi & Nutun businesses. Note the recent corporate activity whereby We Buy Cars Holdings (JSE: WBC) has been unbundled from the Group into a separate JSE listing.

Valuation Summary	At date of this report	H1:24	FY 23	FY 22	FY 21
Number of shares held	6,000,000	6,000,000	6,000,000	5,000,000	6,000,000
TCP share price (cps)	296cps	290cps	798cps	3310cps	4503cps
Fair value (ZAR)	R17.8m	R17.4m	R47.8m	R165.5m	R270.1m

- Performance & Commentary:** Transaction Capital unbundled We Buy Cars Holdings (JSE: WBC) during the period which included a bookbuild and, ultimately, allows the Group to degear into a net cash position. This leaves the Group with time to grow Nutun’s CE and CX businesses while engaging with creditors and stakeholders at SA Taxi for a turnaround. Sabvest sold its We Buy Cars shares during the

period at c.2300cps, but management clearly see value still be unlocked at Transaction Capital and the Group has kept its shareholding at this level.

- **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.

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

Valuation Summary	H1:24	FY 23	FY 22	FY 21	FY 20
%-held	47.5%	47.5%	47.5%	47.5%	47.5%
Equity investment	R6.6m	-	-	R29.9m	R29.8m
EBITDA Multiple	4.5x	4.5x	4.5x	4.5x	4.5x
Investment loans	R59.8m	R30.5m	R7.0m	R79.8m	R65.2m
Total Investment	R66.3m	R30.5m	R7.0m	R109.6m	R95.0m

- **Performance & Commentary:** FlexoLine was the star performer during H1:24 for Sabvest and strong trading from increased demand, greater customer and product diversification, a new patented tamper proof spice grinder, and a new bottling plant all enhanced volumes, margins, profits and, ultimately, fair value in Sabvest's NAV.
- **Valuation:** While Flexo Line's equity now has value in Sabvest's NAV, this value is materially lower than a couple years ago. That said, the consistent multiple and the strong trading performance all line up and do point so some equity value here. We remain comfortable with this investment's valuation.

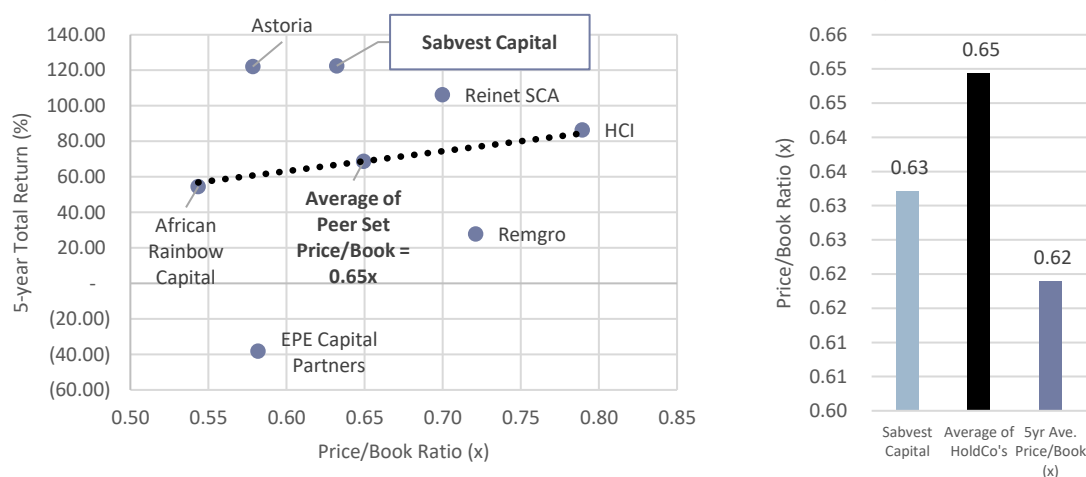
Versofy & Altify: Both are considered start-ups and carried at zero. Versofy operates in the solar/PV space for large homes and SMEs while Altify is offers an investment platform for cryptocurrency. Given their tenuous prospects and unproven track record, we consider a nil value in Sabvest's NAV as likely appropriate.

JSE-listed HoldCo Sector Snapshot

We encourage you to read our previous Sabvest reports for more background on the JSE-listed HoldCo sector: [LINK](#).

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 often do not change materially over short periods of time. 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 Sector – Price-to-Book versus Total Return with a Line-of-Best-Fit (Linear Regression)



Sources: Various company reports, Iress, Profile Media and Blue Gem Research workings and assumptions (as of 23 August 2024)

You will note that we have excluded certain HoldCo's on the JSE from the above comparison. This is because we consider them to be distortions to the "clean" peer group set average we are trying to generate: namely, we consider **Brait Plc (code: BAT)** an outlier given that it is in the process of being wound-up; **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)** through a risky "VIE" structure that distort their discounts; finally, **Universal Partners (code: UPL)** stock lacks liquidity and makes its share price deeply inefficient and hard to separate the liquidity discount from the HoldCo discount.

Thus—via a process of elimination—**Reinet Investments SCA (code: RNI)**, **Hosken Consolidated (code: HCI)**, **Remgro (code: REM)**, **African Rainbow Capital (code: AIL)**, **EPE Capital Partners (code: EPE)** and **Astoria Investments (code: ARA)** may be the more comparable HoldCo's for purposes of comparing to **Sabvest Capital (code: SBP)**.

This peer set's average Total Return of 69% over the last 5 years is about half Sabvest Capital's Total Return (c.122%) and yet its current Price/Book is below the peer group average (0.63x versus 0.65x). This may appear marginal, but with Sabvest's superior Total Return/NAV growth and great track record, we do think there may be an argument for it to demand a *premium* valuation to the sector (i.e. move its P/B right towards the linear regression that implies a much higher P/B ratio or much lower discount to NAV for Sabvest).

Also, (noted at each entry earlier in this report) where Sabvest has exited an investment, the Group's various exits have all been at *premiums* to their stated fair value in its NAV, thus implying that even its NAV may be somewhat understated.

Thus, against this peer set, with Sabvest's higher Total Return attributes *and* with the fact that Sabvest's unlisted investments' fair values may hold upside, it does appear that the market has somewhat overly discounted the Group against its stated 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

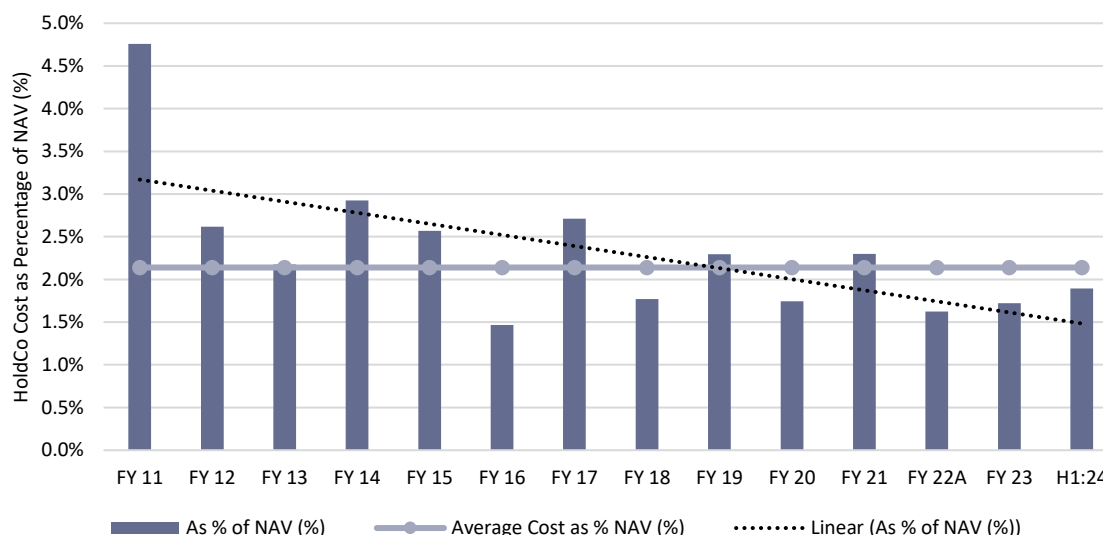
Refer to **Table 1** earlier in this report for a detailed breakdown of the Group's NAV, updated for current spot prices.

We estimate Sabvest Capital's current NAV to be R4.6bn (Previously: R4.3bn) or 11948cps (Previously: 10907cps), implying a current discount in the share price of c.37% (Previously: 37%).

Appropriate “HoldCo Discount”

Figure 3 shows Sabvest Capital’s estimated central costs over time as a percentage of its NAV (we have annualized H1:24’s period for this comparison). Importantly, note how this ratio is trending downwards over time as the Group’s NAV growth outstrips any HoldCo central-cost inflation.

Figure 3: 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, the Group’s average HoldCo costs are c.2.14 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 (17.3%: $R_f = 9.07\%$, Equity Risk Premium = 5.5%, & Beta 1.5x) on a perpetuity basis. This NPV comes to a cost of R459m (previously: R340m) or c.10% (previously: 8%) of the Group’s NAV.

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

Sabvest Capital’s (updated) NAV less our discount implies that the share is worth 10754cps (previously: 9817cps) or that it should be trading +44% *higher* than its current 7450cps 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 12616cps (previously: 11675cps) 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

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** Unless otherwise noted, market prices in this report are predominantly set to closing prices on 23 August 2024.*

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