



JSE Power Hour

"SA Inc" Thematic

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Agenda for the evening



- Who & How
- South Africa – Context
- What next?
- Two-Pot Tailwinds
- Tourism Tailwinds
- Other “SA Inc” Ideas
- Summary & Conclusion
- Q&A



Who we are

How we invest

Who & How



Rockwood Holdings (Pty) Ltd

Element Investment Managers (Pty) Ltd

Integral Asset Management (Pty) Ltd

Philosophy

Fundamental Investor:

Quality-bias
+
Valuation-sensitive

Investment Committee

Focus on "Building Blocks"

Macro-economics

Experienced & engaged team

Track performance

Portfolios

Built from "Building Blocks"

Benchmark- & mandate-cognizant

Diversification

- Unit Trusts (Onshore)
- Unit Trusts (Offshore)
- Segregated Portfolios / PSPs
- AMCs / Forex / Other
- Private Clients
- Wealth Mngmnt

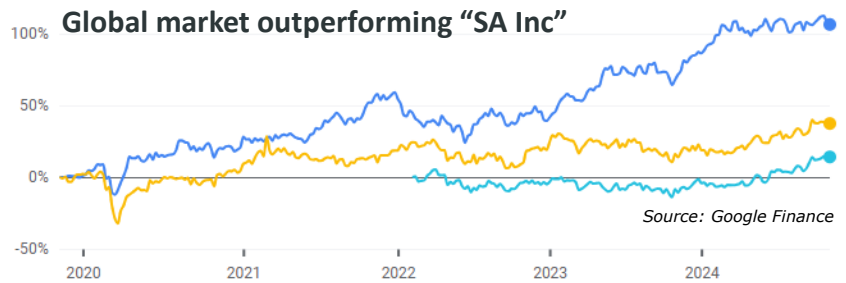


South Africa

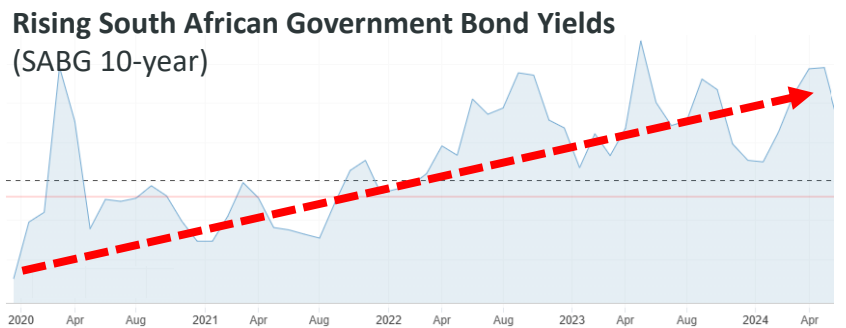
Important context



South Africa – Before the Election



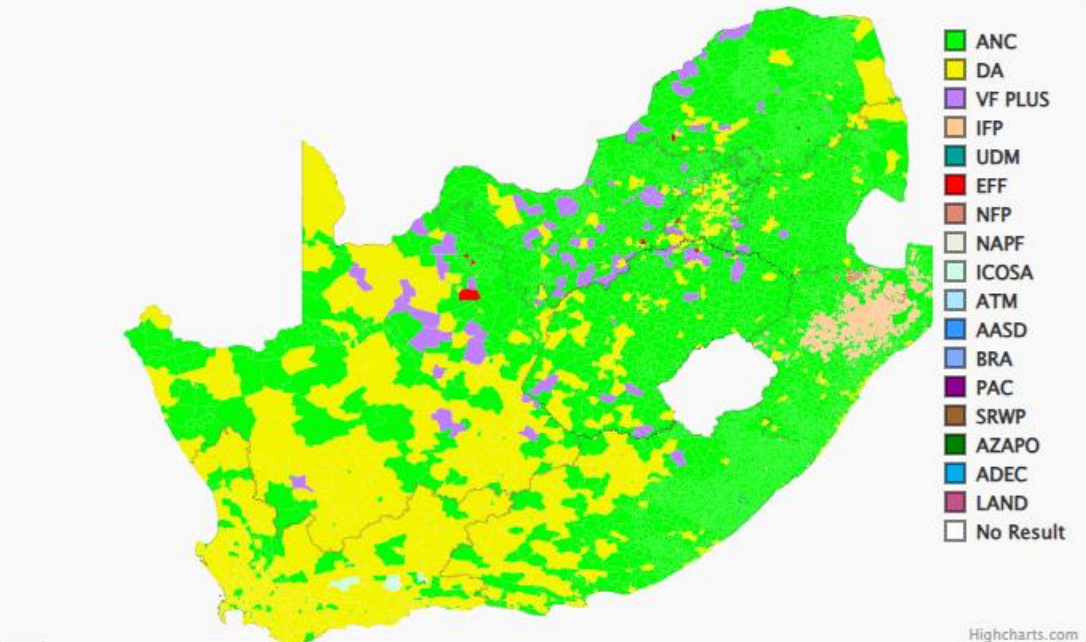
Satrisc MSCI World ...	ZAC 9,232.00	+ZAC 4,760.00	↑ 106.44%
Satrisc SWIX Top 40...	ZAC 1,471.00	+ZAC 400.00	↑ 37.35%
FNB MIDCAP ETF	ZAC 925.00	+ZAC 114.00	↑ 14.06%



National Election Outcome – Watch the Green... (2019)

Leading party by voting district (voting station)

ANC	Support 57.50%	DA	Support 20.77%	EFF	Support 10.80%
	Votes 10,026,475		Votes 3,622,531		Votes 1,882,480

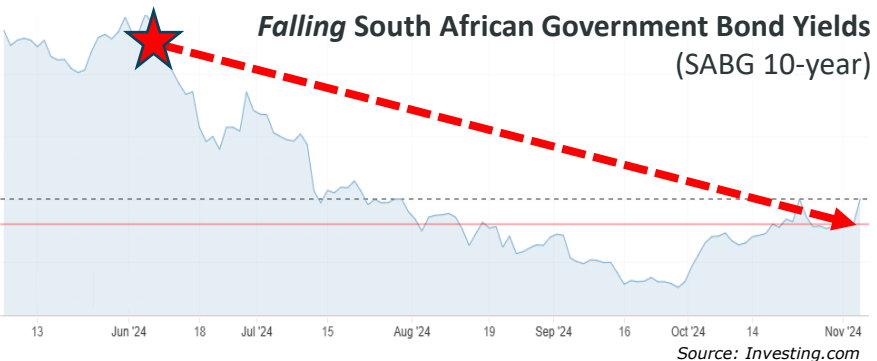
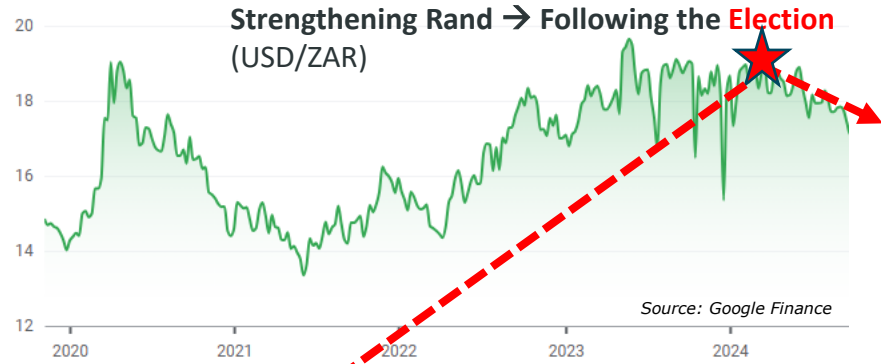


Source: IEC

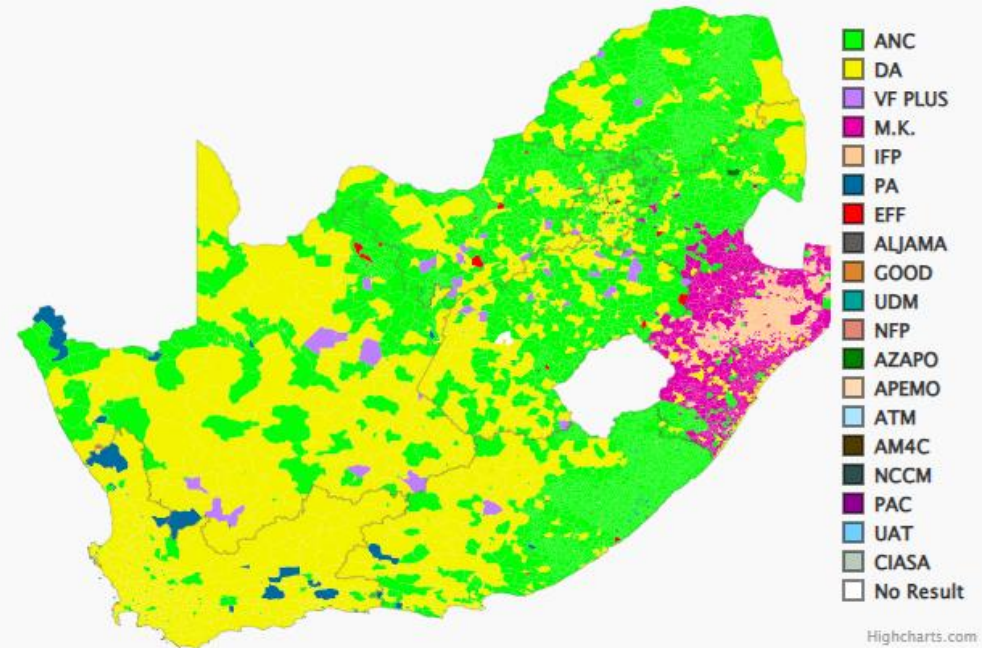




South Africa – After the GNU



National Election Outcome – Lot Less Green = (Ironically) Green for SA (2024)



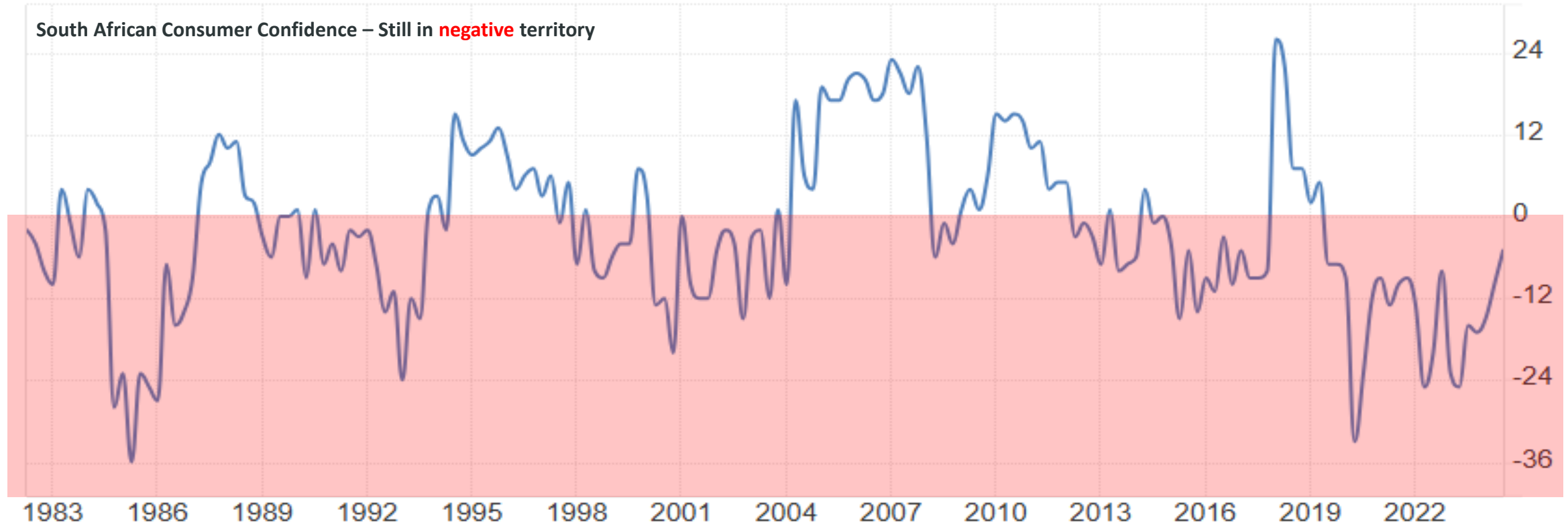
Source: IEC



What Next for South Africa



Always harder & slower to (re)build than to destroy



Source: Bureau for Economic Research (BER)

"[The] *Green shoots of confidence are yet to result in economic growth, and positive sentiments had not materialised in terms of spending in this reporting period.*"

– Famous Brands, H1:25 results commentary (23/10/2024)





Two-Pot Tailwinds

South Africa's Two-pot pension system



Two-pot Withdrawals Occurring

Some real figures starting to emerge

How much:

- **SARS (14 October 2024):** R21.4bn had been reported in gross lump sum payments
 - “Gross”, so take taxes out, &
 - “So far...”, I.e. continuing to come in.

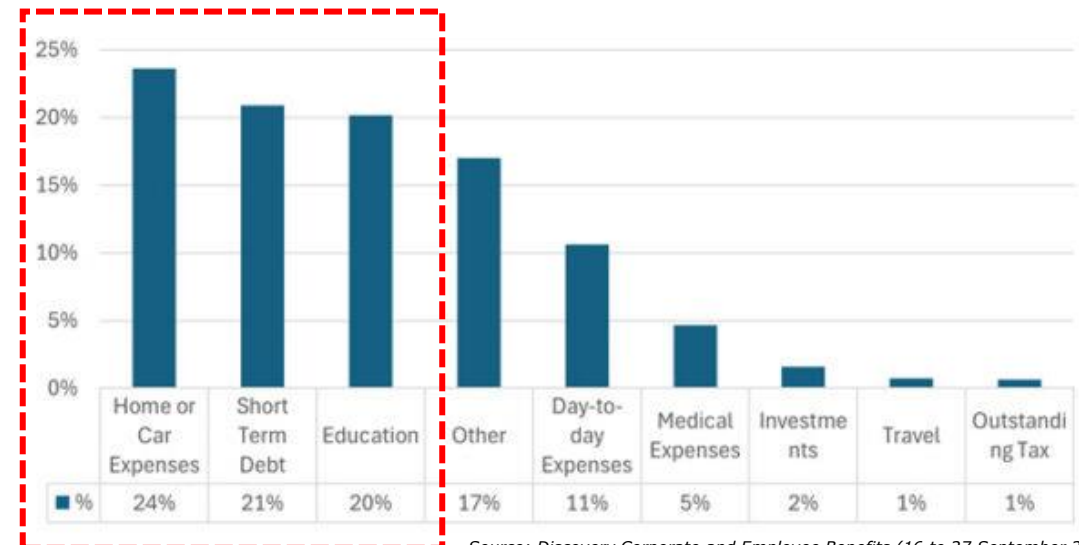
(Latest anecdotal: R35bn has been taken out. All workings herein based on c.R21.4bn.)

- Full estimates of available capacity is c.R40bn ~ R100bn++
 - As pension inflows keep up, this amount is likely to rise

Where to:

- Top three reasons for a withdrawal appear to be:
 - “**Home or car expense**” I.e. Cost of living crisis → Retailers
 - “**Short-term debt**” I.e. Repaying back expensive debt → Lenders/debt collectors
 - “**Education**” → Schools & varsities

Reasons why claimants withdrew from their two pot savings component (using WhatsApp)



Source: Discovery Corporate and Employee Benefits (16 to 27 September 2024)

Makes up c.65% of all withdrawals:

- $65\% \times R21.4bn = R13.65bn$
- **c.R4.5bn for short-term debt**
- **c.R4.3bn for education**

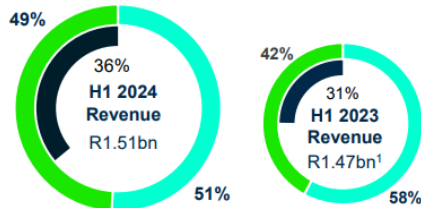
Transaction Capital (code: TCP) → "Nutun Limited"

c.R4.5bn⁺⁺ potential windfall in local debt collection industry



Transaction Capital: H1:24 results presentation

Revenue contribution highlights



Foreign currency
contributing R543m
(36% of total revenue)
(H1 2023: R457m)

CX revenue
↑ 19% to R739m
(H1 2023: R619m)

■ CX revenue
■ Foreign currency revenue
■ CE revenue



Source: Transaction Capital

Other considerations:

- Post-WeBuyCars unbundling: Net cash R120m
- Post-NCH exit: +c.R510m cash
- Post-Nutun Australia exit: +c.R600~650m cash
- **Group balance sheet: +c.R1~1.3bn in cash**
- **SA Taxi/Mobalyz:**
 - Potential solution via latest deal
 - CP's outstanding & longstop date extended
 - Assume worth zero (free optionality)

- **CX:** BPO being won in offshore markets
- **CE:** Debt collection (51% of Nutun revenues)
 - If c.R4.5bn of two-pot redemptions going to paying off debt,
 - CE stands to benefit from these funds
 - H1:24 – Carrying value of purchased book debt: R4.9bn attaching to c.R7.9bn of estimated remaining collections on this debt
 - H1:24 revenue: R770m
 - H2:24 ended September 2024 (behind us)
 - Thus, windfall to turn-up in FY 25E

How much? > than zero upside...?

	Price Earnings (x)
Concentrix Corp (CNXC)	13.4x
TTEC Holdings Inc (TTEC)	-0.8x
Cognizant Technology Solutions (CTSH)	16.7x
ExlService Holdings Inc (EXLS)	37.8x
Genpact Ltd (G)	11.0x
Majorel Group Lux SA (MAJ)	19.9x
Average Price Earnings (x)	16.3x
Nutun Core Profits (FY 24^E)	c.R300m
Transaction Capital – Market Capitalisation	R2.29bn
Less: Net cash (see above)	(R1.0bn)
Market Capitalisation attributable to Operations	R1.29bn
If Mobalyz = zero, Nutun Price Earnings (x)	= c.4.3x

If c.4.5% of R4.5bn windfall flows to Nutun, profits could jump +50%

Education Stocks

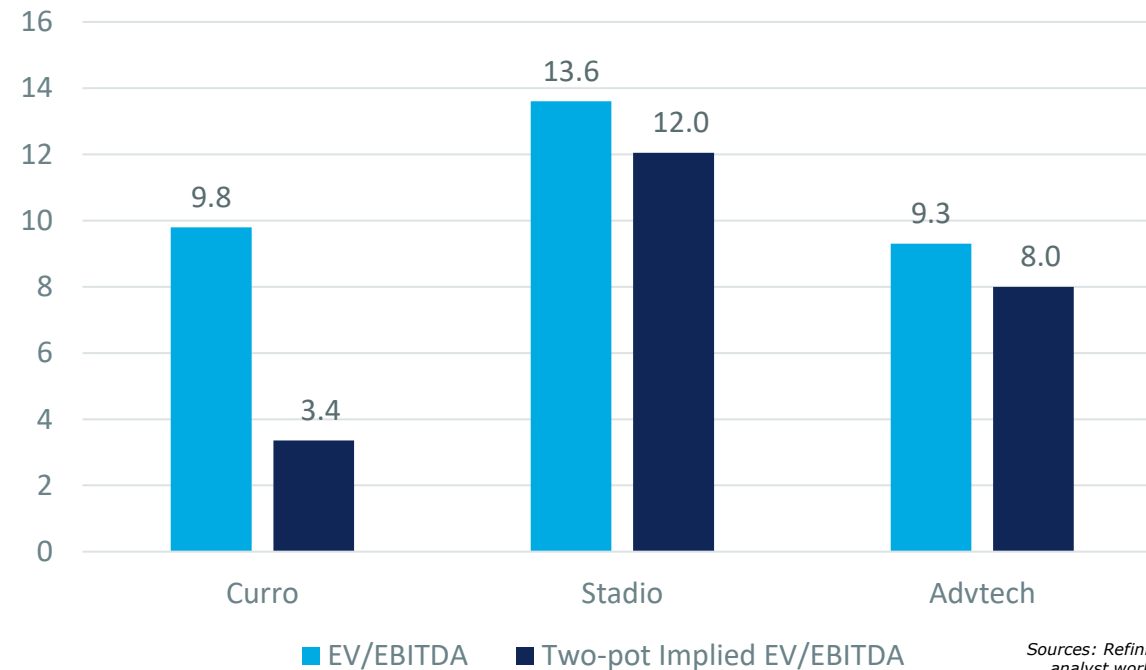


c.R4.3bn⁺⁺ potential windfall in local education industry

- Public education *not* the most likely beneficiary of additional R4.3bn inflow here
- Private education should benefit more than Public:**
 - Matchbox workings of private education tailwinds
 - Private education gets majority of this via “more students + lower bad debts”
 - Listed education stocks are collectively c.10%* of the private education market
 - All private providers benefit proportionally according to their relative size
 - Limited variable costs in their business models, thus (after tax) falls to bottom-line

* Curro c.10% of private schooling market (c.72k learners versus c.700k market size), Advtech c.40% of tertiary market (93k of 232k market size), Stadio c.20% market size; thus, c.10% of market share likely conservative ~ We have assumed a flat 10% market share which is likely conservative.

Trailing 12m & Two-Pot Forward EV/EBITDA (x)



Sources: Refinitiv & analyst workings

	Latest TTM Revenue	Two-pot Boost to Revenue (Relative c.10%* trickle of R4.3bn)	Latest TTM PAT	Potential %-addition to PAT
Curro (COH)	R4 937 000 000	+R144 757 955 (more fees &/or less bad debts)	R55 000 000	+192.1% (double to triple)
Stadio (SDO)	R1 526 139 000	+R44 747 976 (more fees &/or less bad debts)	R253 442 000	+12.9% +(5~25%)
Advtech (ADH)	R8 202 100 000	+R240 494 069 (more fees &/or less bad debts)	R1 078 000 000	+16.3% +(5~25%)

Two-pot Summary



- Two-pot capital flowing to:
 - Expenses,
 - Debt payments, &
 - Education.
- Lots of beneficiaries but two sets stand out:
 - **Transaction Capital** (Nutun):
 - c.4.5% more debt collected could +50% HEPS
 - Education stocks (**Curro**, **Advtech** & **Stadio**):
 - c.10% more revenue/less bad debt could add c.13~192% more HEPS



CURRO

STADIO
— HOLDINGS —

ADTECH
GROUP



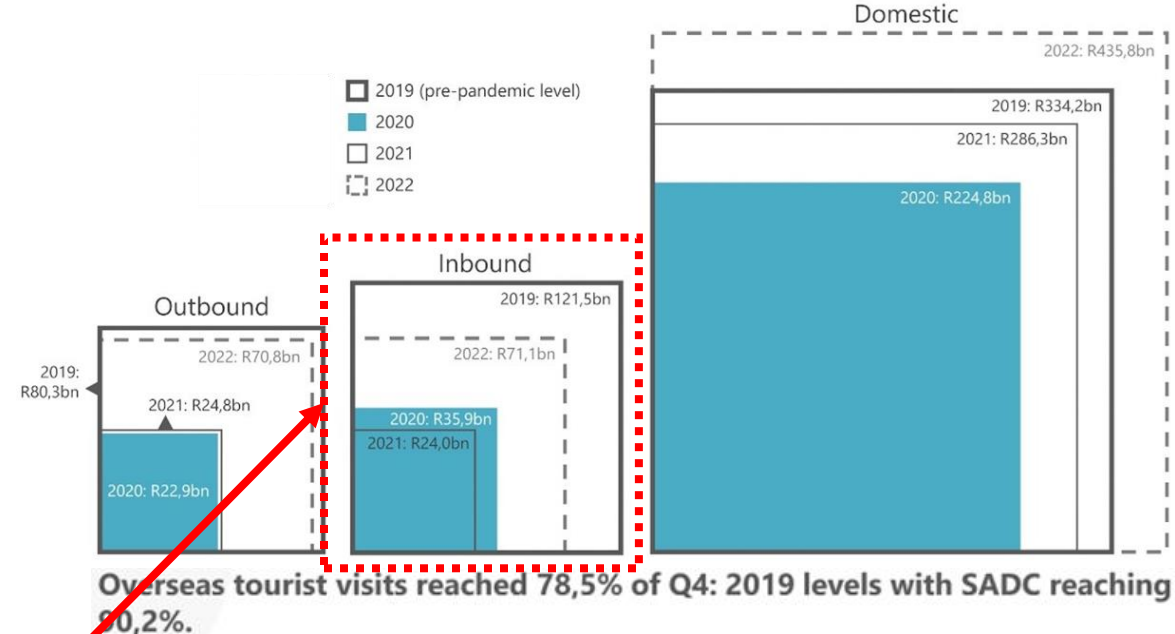


eVISA Tailwinds

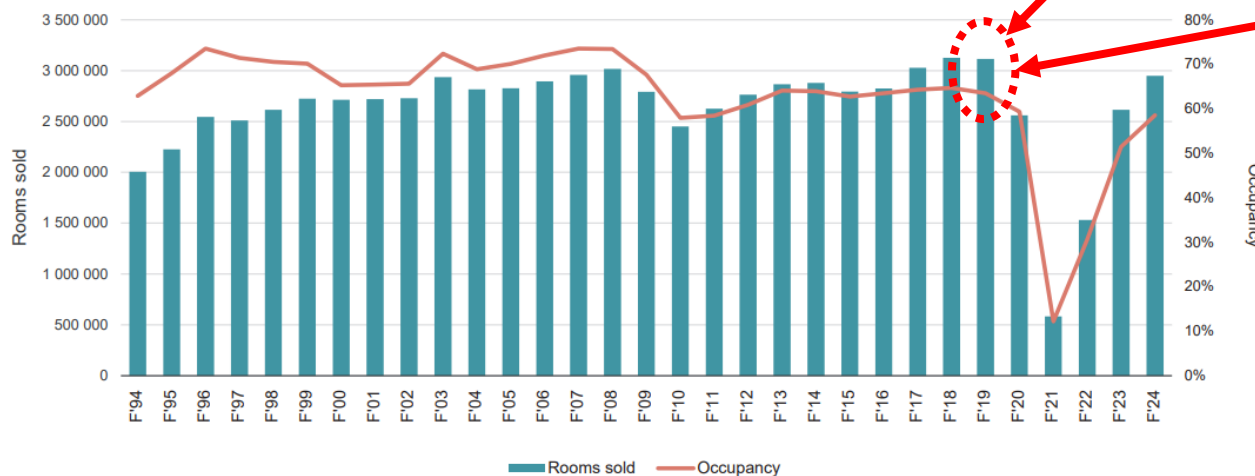
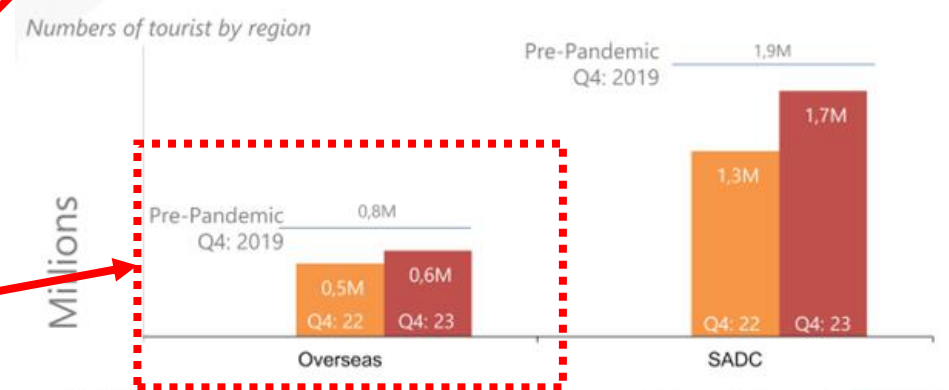
Travel & tourism sectors are easy wins

Tourism has *huge* potential

- Minister Schreiber has made significant tourist VISA changes for the better:
 - Lowering frictional costs:** eVISA's for 34 countries, &
 - Boosting appeal:** Added remote-working eVISA's for the post-COVID world.
- Pre-pandemic "norms" of tourism:**
 - c.R121+bn market with c.60~70% capacity utilized (see below)
- Post-pandemic, VISA rehaul & growth:**
 - c.R121bn / 70% X 5yrs of inflation...
 - ~>R200bn potential (*only* inbound foreign tourists growing by c.200,000~400,000⁺⁺).
 - Incremental direct revenue: c.R100~120m per annum from tourism industry alone!**
- Potential: A lot more if Average Room Rates (ARR) normalize to global, some capacity growth occurs, and we take secondary spending of tourists into account.**



Overseas tourist visits reached 78,5% of Q4: 2019 levels with SADC reaching 80,2%.



"Southern Sun's ARR for FY2024 was R1 388. Using the average exchange rate of FY2024, this translates to US\$74. Hotels in comparable nations enjoy higher ARR's of US\$120 to US\$150."

- Allan Gray ("Putting heads in beds: Checking in on the hospitality sector")

Source: Southern Sun (May 2024)

Sources: StatsSA (Tourism & Migration), various reports from December 2023 to March 2024; Allan Gray

Southern Sun (code: SSU)



c.R100bn⁺⁺ potential uplift in direct tourism

Southern Sun came out of pandemic *better*:

	FY 20	FY 24	Change
Occupancy	59.3%	58.6%	-0.7pp
AHEPS	26.2cps	56.4cps	+115% p/p
Net debt	R3.3bn	R1.0bn	-70% p/p

But stock is valued the *same-to-cheaper* than before the pandemic:

	01/03/2020	Today	Change
EV/EBITDA (x)	13.0x	5.0x	>halved
EV/Rooms	c.R710,000*	R766,876	+8% p/p

*Inflation adjusted applying c.25% cumulative inflation to base EV/Room for comparison purposes

- **Relative tailwind size:** big potential...
 - SSU's FY 24 revenue was (only) R6bn
 - **Occupancy c.57.1% (H1:25) ~ could reach 70~75%:**
 - **+13% occupancy at flat ARR's could add c.R2~3bn to revenue,**
 - **+30% ~ +50% to revenues, &**
 - **Assuming 20% of costs variable (rest are fixed), an added +R2bn revenue for Southern Sun would approximately double the Group's profits for the year.**

2/3rds of rooms

	Total Hotels	Total Rooms
Western Cape	17	3 352
KwaZulu-Natal	14	2 869
Gauteng	30	5 167
Eastern Cape	5	772
Mpumalanga	8	675
Other	6	715
South Africa	80	13 550
Mozambique	3	527
Zambia	3	414
Tanzania	1	152
Seychelles	1	80
UAE	1	353
Offshore	9	1 526
Marriott	1	483
Radisson	2	397
Other	3	986
Third party managed	6	1 866
Total Portfolio	95	16 942

Source: Southern Sun

Other Travel & Tourism Stocks



Just not as good...

Diluted exposure:

- **Sun International (SUI):**
 - Hotels are a only c.25% of revenues and c.20% of Group EBITDA
 - Gaming *much* more important
 - Gaming more dependent on local consumer disposable income
- **Tsogo Sun (TSG):**
 - Hotels largely out of the Group (now called **Southern Sun!**)
 - Gaming much more important
 - Gaming more dependent on local consumer disposable income



Other issues:

- **City Lodge (CLH):**
 - More business travel aligned, i.e. need growth in local GDP to facilitate
 - Remote Working also fundamentally lowered demand here
 - Massively diluted rights issue makes past hard to compare



Tourism Summary



- Improving VISA regime should boost tourism.
- South Africa remains a cheap global destination for tourism.
 - *Lots* of space to absorb increase in tourism.
 - *Lots* of space to hike tourism prices before South African becomes expensive
- **Southern Sun** stands out as a beneficiary:
 - Better quality than *before* COVID,
 - Same-to-cheaper valuation than *before* COVID, &
 - If Occupancy rises from current 57% to c.70~75%, ARR remains flat, **Southern Sun** could *double* HEPS



Other "SA Inc" Ideas

Lots of quality to choose from

High Quality Local Equities

Lots to choose here

Great Rebuild:

- **Afrimat (code: AFT):**
 - Great management team
 - Aggregates & building materials offer excellent optionality of (re)building South Africa
 - LaFarge (now "Afrimat Cement") adds to this exposure + large tax loss benefit
 - Forward EV/EBITDA 6.7x

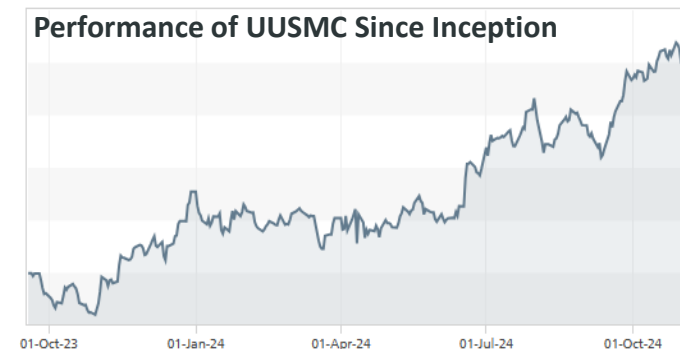
National Healthcare Insurance Blocked:

- **Netcare (code: NTC):**
 - 100%-South African hospital operator
 - Any blocking of NHI will benefit local healthcare businesses, namely hospitals
 - EV/EBITDA of 7.3x (HCA Healthcare Inc. on a 9.3x but Apollo Hospitals (Indian) on 41.3x)

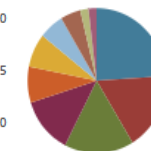


Just buy the "basket":

- **UUSMC** AMC: South African small/mid caps
 - Some of the top holdings:
 - **Momentum Group**
 - **Hudaco Industries**
 - **Spur Corp**
 - **Southern Sun**
 - **Advtech**
 - **Transaction Capital**
 - **Afrimat**
 - **Stadio Holdings**
 - **Tsogo Sun Gaming**



Equities Weighted Sector



Basic Resources	23.99 %
Industrial Goods and Services	17.32 %
Financial Services	16.24 %
Travel and Leisure	12.55 %
Consumer Products and Services	8.03 %
Insurance	7.53 %
Real Estate	5.81 %
Banks	4.71 %
Retail	1.94 %
Energy	1.89 %

Summary & Conclusion

- **South Africa:**
 - *Macro is turning the corner, but*
 - *Still work to be done.*
- **Two-pot system tailwinds:**
 - *Benefits credit businesses/debt collectors (**Nutun**), &*
 - *Educational stocks (**Curro**, **Stadio** & **Advtech**).*
 - *Amongst others.*
- **Tourism tailwinds:**
 - *Benefits **Southern Sun***
 - *Amongst others*
- *Rebuilding South Africa (**Afrimat**) and blocking negative legislation (**Netcare**) also potential (medium-term) winners.*





Q & A

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