

## EQUITY INSIGHTS

### Naspers: Weakness Provides Attractive Entry Point

Issue date: 16 April 2018

#### INTRODUCTION

Naspers has been a core holding for many years, occupying a meaningful position in both segregated client portfolios and the Stonehage Fleming SCI Equity Fund. We review the investment case in light of the recent share price weakness that has seen Naspers dip from just above R4000 to just below R3000 per share over the past five months.

#### RECENT DEVELOPMENTS

In our view there are number of factors that help explain this recent share price weakness. The first quarter of 2018 has been particularly weak for global markets as increasing geo-political tensions and rising concerns around a potential slowdown in global trade flows saw markets sell off aggressively. Global tech stocks have borne the brunt of this pull-back, with Naspers and Tencent being no exceptions. We see nothing untoward in the recent pullback and associated uptick in volatility and remain constructive on specific global technology names, specifically in the context of sustained global growth and robust economic data coming out of both the US and China.

On 21 March, Tencent reported their financial results for the financial year ended 31 December 2017. Tencent delivered revenue and earnings growth of 56% and 41% respectively. While some analysts have been concerned with a slowdown in the fourth quarter of 2017, our assessment of the results and Tencent's longer term strategy and prospects was largely positive. Tencent is the dominant operator in the mobile platform space, which is the fastest growing channel for accessing the internet in China. China's rising mobile penetration rate (~56%) suggests that there is room for Tencent to continue growing, and management have committed to continue to invest to strengthen their long-term competitive positioning across this space. With US\$2.6 billion in net cash, operating margins at c30%, three-year (adjusted) earnings growth prospects of ~30%, and an improving cash flow profile as monetisation ticks up across their portfolio, Tencent remains highly attractive in our view.

Finally, in March Naspers announced a partial sale of their stake in Tencent, reducing their ownership from 33% to 31%. Naspers have commented that they will be using the US\$10 billion raised to strengthen their balance sheet and further invest in "core" assets i.e. those outside of Tencent. The market appears to have been disappointed by i) management's decision to sell down their position in their best asset and ii) the fact that they have not considered a potential share buy-back scheme to return value to shareholders. From our perspective the Tencent sale has at least demonstrated that there is liquidity in their Tencent holding, and management have also committed to not selling down their stake for a further three years. With regards to the potential for share buy-backs, we were somewhat disappointed although also concede that management need to continue investing in their core assets to bring them to scale and so will be looking to hold management accountable on this basis in the coming reporting periods.

#### OUTLOOK AND RECOMMENDATION

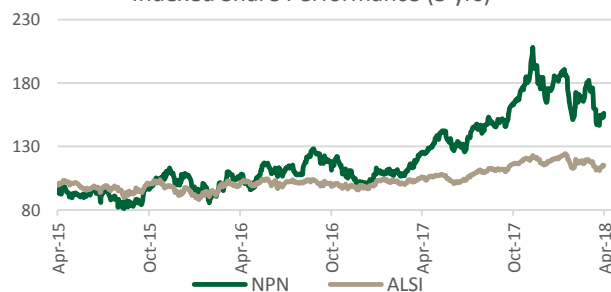
As investors limited to companies trading on the JSE, we view Naspers' recent weakness as an attractive opportunity to gain exposure to the dominant Chinese internet/technology player. At current levels Naspers trades at a discount of 41% to the value of its 31% shareholding in Tencent alone. ADD Naspers.

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	<b>NPN</b>
Market Capitalisation	R1,3 trillion
Share Price	R2,995.00
12m Consensus Target Price	R4,628.40
52w Low-High Range	R2,432.32 – R4,142.99
Estimated Forward PE	26.3x
Estimated Forward DY	0.3%
Next Reporting Date (Period)	Jun-18 (FYE Mar-18)

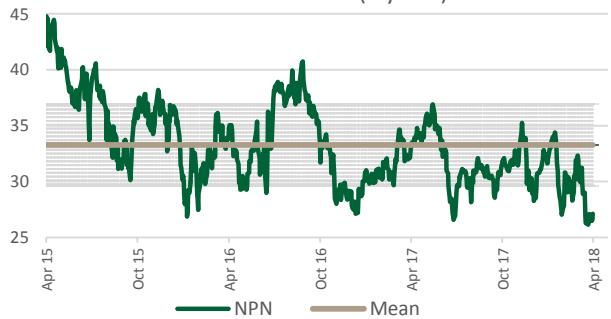
Sources: Factset 13/04/18

Indexed Share Performance (3 yrs)



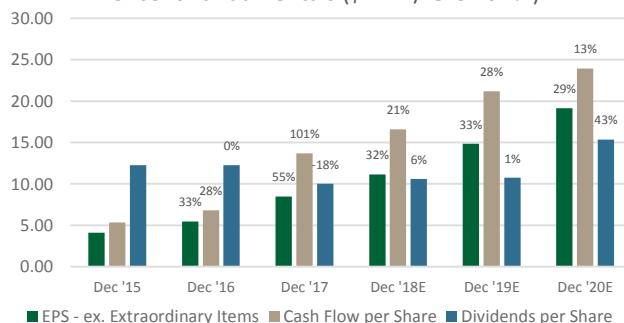
Sources: Factset 13/04/18

12m Forward PE (3 years)



Sources: Factset 13/04/18

Tencent Fundamentals (\$HKD / Growth %)



Sources: Factset 13/04/18

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