

EQUITY INSIGHTS

Naspers Limited: Expecting Long-term Delivery to Continue

Issue date: 8 August 2018

COMPANY OVERVIEW

Holding Naspers gives investors exposure to a vast array of technology businesses. In the Naspers stable this includes: global leadership in classifieds through Avito and OLX; global food delivery businesses ifood and Delivery Hero; payments business PayU and e-commerce businesses Takealot and eMAG. Naspers also has US\$10 billion in net cash. Naspers' largest investment and 81% of the 'sum of its parts' is its 31% stake in Tencent, which is worth \$132 billion.

TECHNOLOGY GIANT TENCENT

Tencent has progressively increased its leadership in China's gaming, video and music market, now with a 52% market share of China's 600 million user gaming market, twice the US population. Cash flow from operations, typically equivalent to 140% of earnings was US\$17 billion in 2017. This accrues an enormous advantage to Tencent, as they are able to acquire the best content in gaming, music and video. The business also has a strong pipeline of games, through its network of owned and partnered developers. Mobile ad-revenues from the music and video segments constitute a major growth driver. Through dominant mobile platforms WeChat and QQ, Tencent has built a growing ecosystem of internet services from ride hailing to food delivery, smart retail and mobile money. These are being monetised through payment platforms.

In addition, Tencent has used its prodigious cash flow generating ability to build a US\$50 billion investment portfolio spanning leading technology businesses across the economy, largely in China but increasingly global. This has resulted in periodic Tencent-linked listings, such as China Literature and more recently Pinduoduo. Martin Lau, the president of Tencent stated that over 600 investments have been made over the past 6 years.

NASPERS

Over the last decade Naspers has deployed approximately US\$9 billion into technology investments, generating a total internal rate of return on these investments of ~25% (this is excluding their investment in Tencent). We believe Naspers' strong balance sheet; highly focused investment strategy targeting food delivery, ecommerce and payments verticals; and existing investment portfolio of largely market leading technology investments in growing markets positions Naspers well for further delivery on this impressive track record of investment returns.

Following the full year results in late June 2018, Naspers has made further mention of a potential listing of certain ecommerce investments in international markets, a development we believe will be positive for Naspers insofar as it could catalyse a further narrowing of the so-called discount at which Naspers trades relative to its 31% stake in Tencent.

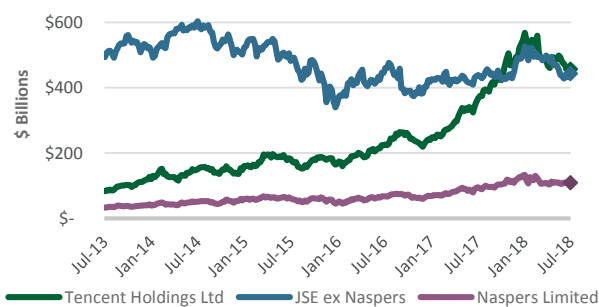
We value Naspers at R4,046 per share on a sum-of-the-parts basis using peer-based multiples for the unlisted business and market prices for listed businesses, with the exception of Tencent which we value separately on a discounted cash flow basis. We apply a 28% holding company discount, which is equivalent to the average discount on Naspers over the last 10 years.

Industry
Media & Technology
Industry View
Constructive
Current Recommendation
ADD

	NPN
Market Capitalisation	R1,451 billion
Share Price	R3,307.35
Consensus Rating	Overweight
52w Low-High Range	R2,680 – R4,143
Estimated Forward PE	23.9x
Estimated Forward DY (Ordinary)	0.26%
Next Reporting Date (Period)	31 September 2018

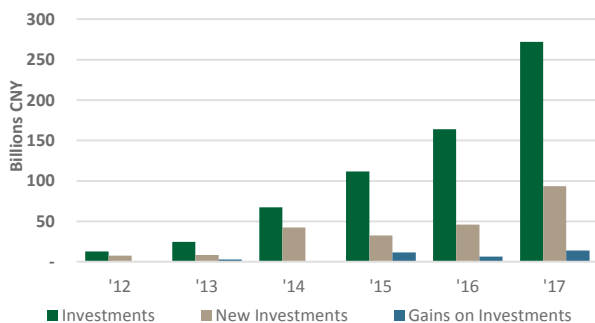
Source: Factset

TENCENT & NASPERS MARKET CAP VS JSE ALL SHARE



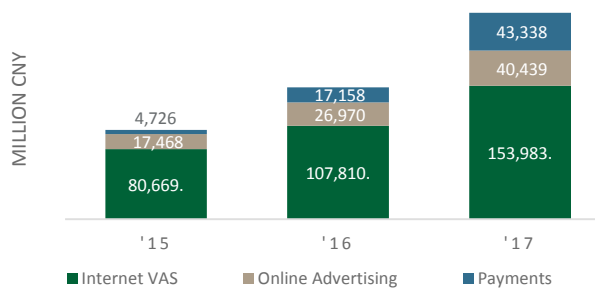
Sources: Factset, Aug 2018

TENCENT INVESTMENT PORTFOLIO



Sources: Tencent Annual Reports

TENCENT'S DIVERSIFYING REVENUE



Sources: Tencent Annual Reports

FOR MORE INFORMATION PLEASE CONTACT:

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