

EQUITY INSIGHTS

Remgro: RMB Holdings Unbundling

Issue date: 21 May 2020

In November 2019, RMB Holdings announced their intention to distribute their entire holding in FirstRand to shareholders. At the same time, Remgro announced that they would be investigating the distribution of, in full or in part, the company's shareholdings in RMB Holdings and FirstRand.

Remgro has a 3.9% shareholding in FirstRand and a 28.2% shareholding in RMB Holdings. With a 34% shareholding, RMB Holdings is the largest shareholder of FirstRand, with a relatively small additional investment in commercial property. At current market values, Remgro's investments in FirstRand and RMB Holdings are worth R7.8billion and R19billion respectively, together constituting around 26% of Remgro's net asset value.

The rationale behind Remgro's decision was that RMB Holdings and FirstRand had evolved into large, mature and independently managed businesses with an overweight contribution to Remgro's investment exposure. Remgro is of the opinion that the portfolio rebalancing provides the remaining investments a greater opportunity to have a more meaningful impact and drive shareholder value creation. Remgro believes that the transaction will reduce the underlying discount to net asset value that Remgro shares trade at by reducing the listed exposure in the portfolio.

Subsequent to the initial announcement, Remgro confirmed that they would proceed to distribute all their RMB Holdings shares to shareholders as a dividend in specie. Remgro shareholders will receive 0.69939 unbundled RMB Holdings shares for every 1 Remgro share held.

Remgro also announced that they had decided to retain their direct 3.9% shareholding in FirstRand in order to provide balance sheet capacity that will support growth in the remainder of Remgro's investment portfolio. It should also be noted that the unbundling of the FirstRand stake would have likely had tax implications for Remgro shareholders.

From a tax perspective the unbundling will be implemented in terms of Section 46 of the Income Tax Act, which allows for a tax neutral implementation from an income, capital gains and dividend tax point of view.

The key impact of the transaction from a tax point of view will be an adjustment of Remgro shareholder's base costs. Shareholders existing Remgro base cost will be apportioned between the unbundled RMB Holdings shares and the Remgro shares. This ratio will be determined based on the closing prices of each company on the 3rd June.

The last day to trade in Remgro shares on the JSE to participate in the unbundling will be 2 June with Remgro shares trading ex entitlement on 3 June. Remgro will distribute its RMB Holdings shares on 5 June.

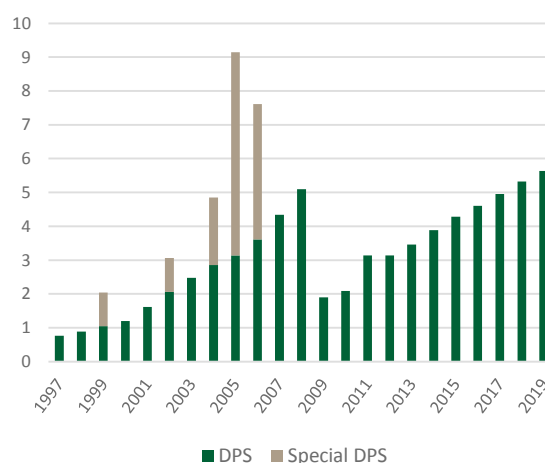
RMB HOLDINGS UNBUNDLING OF FIRSTRAND

Following the Remgro unbundling of RMB Holdings, RMB Holdings will then proceed with the unbundling of their FirstRand shares to RMB Holdings shareholders. RMB Holdings' shareholders will receive 1.31189 FirstRand shares for every 1 RMB Holdings share. From a tax perspective the distribution will be implemented in the same manner as the preceding Remgro/RMB Holdings unbundling. RMB Holdings will trade ex-entitlement on the 24th June with shareholders receiving their FirstRand shares on 29 June. The apportionment ratio of base costs will be calculated based on closing prices on 24 June.

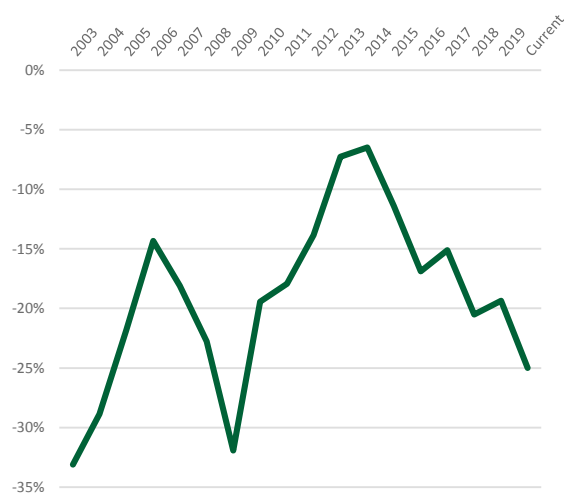
	Remgro Limited
Market Cap	R 74.4bn
Current Share Price	R 135.00

Dividend History (R/share)

BAT unbundled in 2009



Discount to NAV



Sources: FactSet, Company Reports, May 2020

RMB Holdings will remain listed with RMB Properties as the sole remaining asset. Through the sale of a tranche of FirstRand shares and the withholding of FirstRand dividend receipts, RMB Holdings has settled existing debt such that after the unbundling (and all related transaction costs are settled), RMB Property will be in a net cash position with a net asset value of R4.9billion (based on management estimations). The largest investment in the property portfolio is Atterbury Europe.

The table illustrates the implications for a Remgro investor holding 100 shares using current share prices (19 May 2020). The current intrinsic net asset value used is based on current market values for listed investments and, reflective of current economic and market conditions, a 15% discount to management's disclosed valuations for the unlisted investments as at 31 December 2019. Given that the JSE listed property sector has declined by approx. 50% since 31 December, and the likelihood of an initial overhang, we have also applied a 50% discount to management valuations of the RMB Properties portfolio.

Under our current base case scenario, which assumes the discount to net asset value remains in line with current levels, there is a marginal value unlock for shareholders.

CONCLUSION

Post the completion of the unbundling, Mediclinic will become Remgro's largest investment, comprising some 23% of Remgro's net asset value, with RMI Holdings making up 13%. Remgro's direct investment in FirstRand will make up 9% of the estimated net asset value. Unlisted investments will constitute approximately 35% of the investment portfolio versus 29% prior to the transaction.

Besides being Remgro's biggest investment at approx. 18% of net asset value, RMB Holdings has also accounted for 30% of Remgro's dividend receipts over the past 2 years (prior to Covid 19 and resulting impact on the banking sector).

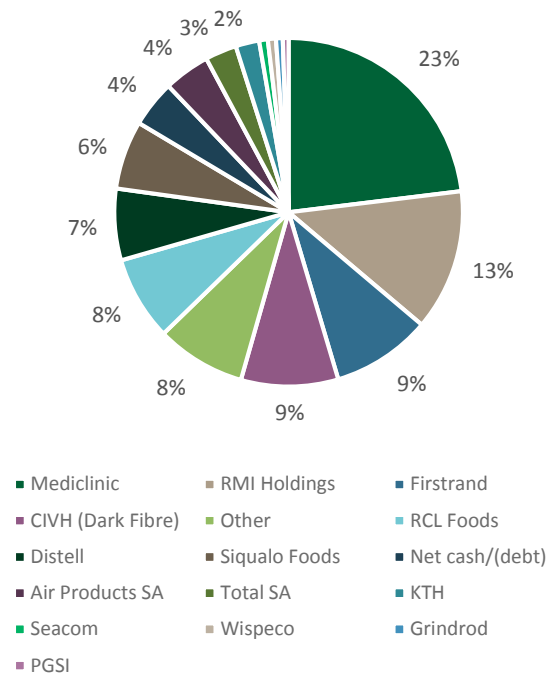
We are reviewing our investment case for the 'new' Remgro given the importance the unbundling will have on potential future shareholder returns. With clients already holding FirstRand shares, we are also cognisant of position sizing in FirstRand post the unbundling. In basic terms, should a client hold a 5% portfolio position in Remgro, they will be receiving an additional 1.25% FirstRand exposure post the unbundling.

No action is required from clients and shareholders in order to participate in the respective unbundlings.

Current			
	Current	No of Shares	Value
Remgro	R 135.00	100	R 13,500.00
Total			R 13,500.00
Post Remgro Unbundling of RMB Holdings			
	Share price	No of Shares	Value
Remgro	R 107.00	100	R 10,700.00
RMB Holdings	R 49.00	69.939	R 3,427.01
Total			R 14,127.01
Post RMB Unbundling of FirstRand			
	Share price	No of Shares	Value
Remgro	R 107.00	100	R 10,700.00
RMB Holdings	R 1.67	69.939	R 116.80
FirstRand	R 36.25	91.75	R 3,325.94
Total			R 14,142.74

Information shown for illustrative purposes only. Actual values may vary.

Net Asset Value Composition (Post Unbundlings)



Sources: Internal, FactSet, Company Reports, May 2020

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