ECONOMIC COMMENTARY

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Newsletter

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AN ECONOMIC NOTE ON NASPERS

Last week we had our monthly wrap-up of March but before we get into April, there is one important story I just quickly want to touch on. For a long time, Naspers has been trying to unlock the value of their Tencent discount and it seems plausible that the company may finally succeed. Many rumours have gone around about a possible listing in Hong Kong, but a tough Chinese environment has given way to the possibility of listing in the Netherlands– a move that might, albeit a conservative estimate, unlock R600 per share.

Just a brief explanation to bring everyone up to speed. An easy way to determine whether a company is trading at a discount or a premium is to sum up the parts (the assets which the company owns) and divide it by the market capitalization (cap). Currently, the market cap of Naspers is smaller than the value of their ownership stake in Tencent. This discount is often around 15% and is driven by a couple of factors: some of the Naspers assets are making losses, so if you sum up the parts the total value is a bit less. Also, the business is messy. But, the most important reason for the discount is because of the selling pressure caused by the relatively large size of Naspers on the JSE. In terms of the JSE's total market cap, Naspers is almost 25% of the entire index. For risk and diversification reasons, no local asset manager can hold 25% of any one share. As a result, if the share price of Naspers increases, asset managers sell the share to reduce its size in the portfolios they manage. This ultimately places downward pressure on the share price of Naspers, that is, it increases the discount at which Naspers is trading relative to its ownership share in Tencent.

So, to unlock the value of the Tencent discount management at Naspers, they have started to implement some creative measures. First, they stripped out Multichoice as a separate listing on the JSE. Second, they plan on selling OLX Africa. And finally, they intend to strip out most of their American, European and Asian (Tencent) assets and listing these in the Netherlands. However, to do so they will need the clearance from the South African Reserve Bank (SARB). By implication, only Takealot and Media24 will be left on the JSE. Amsterdam will, therefore, become the primary listing and the JSE the secondary listing. However, just like the Multichoice separation, each shareholder of Naspers will receive their share's worth of each new listing. The New Company listed in the Netherlands will then have less loss-bearing assets, be less messy, and no longer be subject to selling pressures. Because of this, expectations are that the share price will appreciate by roughly R600 per share, as markets remove the current discount. However, this may take some time as the New Company will initially only float 25% of the market cap, and later the rest of the 75%.

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