

Weekly Update: 12/04/2021

Merchantec Capital Small Cap Index Major Movers

Company Name	Close (cents)	Weekly %chg	Market Cap (Rm)
Adapt IT	640	+54.2%	927
EOH	843	+12.4%	1488
Datatec	2968	+10.1%	5979
Cartrack	5551	-21.5%	16653

Story of the week

Adapt IT Holdings Limited (JSE: ADI) advised shareholders last week that Volaris, a wholly owned division of TSX-listed company Constellation Software Inc, has made a firm cash offer for 100% of ADI's issued shares. Volaris is offering R6.50 per share, a 56.3% premium on the closing price on 1 April 2021, the date of the offer agreement. ADI share price surged 53.8% since the agreement. With ~145m shares in issue, the offer values Adapt IT at ~R942m, compared to the lesser offer by Huge Group valuing ADI at ~R800m.

Irrevocable undertakings have been given by management, who collectively holds 21.6% of ADI shares, to vote in favour of the deal. Shareholders can decide to accept the general offer or can elect to become an unlisted subsidiary of Volaris. The general offer will be proposed by 30 June 2021 and implemented by no later than 28 February 2022.

The deal supports ADI's global reach and diversification plan, being backed by a well-capitalised global tech firm with various synergies on the table as Volaris specialises in a software portfolio of companies in communications, financial services and education.

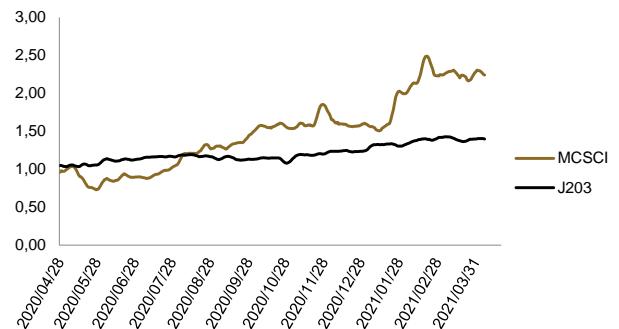
As indicated in the PE table below, our current valuation on ADI reflects a price of exactly R6.50, hence our belief that the offer price is fair in the current market. Using our 12-month rolling forward HEPS forecast, the deal appears to be based on a generous PE of 7.4x whilst ADI is on a current forward PE of 7.2x.

Merchantec ICT	Price	Mkt cap (m)	1 year fwd PE
Adapt IT	6,40	933	7,2
EOH	8,43	1497	6,9
Huge Group	5,77	997	9,0
Mustek	9,64	679	4,6
Alviva	12,40	1547	4,2
Datatec	29,68	5979	12,1
Average			7,4
*consensus forecast used			-2%
Adapt IT	6,40	933	7,2
Premium (Discount) applied to average:			0%
Adapt IT: Implied current gain/(loss):	6,50	1,6%	7,4

Our DCF valuation (see ranking table), which indicates a more longer-term value, places ADI on a price of R12.34 with the prospects of an economic recovery and ADI's cash generative model supporting the bullish DCF price.

A circular will be published on or before 30 April 2021 which will contain the opinion of an independent board. We advise shareholders to be cautious when dealing in shares until further details are given.

MCSC Index



The Merchantec Capital Small Cap Index

The Merchantec small cap index assumes an equal weighting into each of the stocks within our coverage to track performance against the larger JSE and to identify opportunities to buy (after major sell-offs) and opportunities to sell (after major rallying). The index highlights investor sentiment toward the small cap space, which has been characterised by the recent lackluster economic environment.

Over the past 12 months there has been a noticeable reversal in the performance of mid and small-caps, which we believe has created an opportunity for investors to capitalise on mispricing in the market.

MCSC Indices outlook over the past week

The Merchantec Capital Small Cap Index (MCSCI) yielded a ~2.7% loss over the past month and a ~3.8% loss over the past week in comparison to the ALSI (~2.3% 1-month loss and ~0.07% 1-week loss). On a PE basis, the index is trading at a forward PE of 9.19x, which is relatively undervalued in comparison to the JSE All Share index which is trading at a forward PE of ~ 10.5x.

Merchantec Research Small & Mid Cap Ranking Table

Company Name	Close (c)	Mcap (Rm)	EPS historic	EPS +1 year	EPS +2 year	Dividend Yield	historic pe	Implied fwd pe	Implied pe price (c)	Gain (Loss)	EPS Risk	DCF Value (c)	Prem (Disc)
Wescoal	117	494	-33	7	43	0,0	-3,6	4,5	199	70%	45%	426	264%
Nu-World	2640	602	636	694	808	7,4	4,2	5,6	4293	63%	40%	3420	30%
Alviva	1240	1547	149	214	317	1,2	8,3	6,4	1887	52%	35%	1920	55%
Santova	260	422	41	52	57	0,0	6,4	6,7	388	49%	45%	333	28%
Calgro M3	186	263	2	-17	28	0,0	105,1	5,7	248	33%	35%	250	34%
Adcorp	624	690	-6	72	147	0,0	-100,6	4,5	827	33%	40%	1276	105%
Vunani Limited	248	402	0,6	39	50	2,0	413,3	6,3	320	29%	60%	370	49%
EOH	843	1497	-505	59	72	0,0	-1,7	8,7	1070	27%	70%	1246	48%
Cartrack	5551	16756	148	184	228	2,5	37,5	24,9	6896	24%	25%	6500	17%
Afrimat	4500	6617	348	403	498	2,6	12,9	11,0	5587	24%	30%	4905	9%
Invicta	2002	2246	58	244	263	0,0	34,5	9,1	2396	20%	45%	2437	22%
Balwin	470	2233	87	56	77	4,1	5,4	6,9	549	17%	35%	462	-2%
Mustek	964	679	124	297	183	2,7	7,8	5,3	1109	15%	35%	1121	16%
Rhodes Food Goup	1161	3070	87	108	124	2,5	13,4	11,2	1306	12%	45%	1480	27%
Metrofile	295	1344	25	30	33	4,7	11,9	10,1	330	12%	30%	370	25%
Quantum Foods	600	1208	81	71	84	2,7	7,5	8,4	654	9%	35%	733	22%
Argent	950	579	133	124	188	0,0	7,2	5,4	1034	9%	40%	1624	71%
Cashbuild	30917	7774	1139	2900	1726	3,2	27,2	16,8	33228	7%	35%	32356	5%
OneLogix	275	735	22	16	26	0,0	12,4	12,1	295	7%	30%	475	73%
Insimbi	92	407	10	7	17	0,0	9,1	5,2	96	5%	40%	96	5%
Adapt IT	640	933	67	69	94	0,0	9,6	7,4	650	2%	40%	1234	93%
Sephaku	140	358	-8	-7	5	0,0	-17,2	16,6	122	-13%	45%	61	-57%
Datatec	2968	5979	87	111	170	0,0	34,2	9,5	2321	-22%	35%	2499	-16%



Prepared by: The Merchantec Mid Cap Research Team

Contact: Brian Rainier, CFA
 Tel: +2721 534 1244
 Email: brian@merchantec.co.za

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