EQUITY RESEARCH 5 July 2021

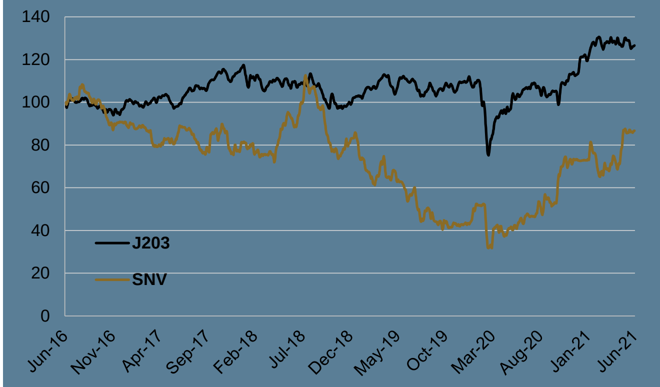
SNV – Santova Limited FY21 Results Equity Update

Valuation: Undervalued

SNV released full year results on 18 May 2021 for the period ended 28 February 2021

Price (R)			**3.34**
PE Fair Value (R)			**4.33**
DCF Value (R)			**4.31**
Upside(Downside) to DCF (%)			29.1%
DY %			0.0%
Price Performance			**Relative**
		Absolute	**to JALSH**
1 month		-0.3%	4.5%
3 month		26.5%	-5.9%
YTD		19.3%	-4.1%
12 month		**High**	**Low**
(SA Rands)		3.48	1.61
No. of shares (m)	161	Price (R)	3.34
NAV per share	4.39	Mkt cap (Rm)	465
EV (Rm)	557	Price/Book (x)	0.76

Financial Year	**2020**	**2021**	**2022F**	**2023F**
Turnover (Rm)	414	442	474	511
EBITDA	114	124	133	146
EBIT	90	97	106	117
PAT	65	70	79	90
HEPS (cents)	40.8	47.1	52.9	60.2
Dividend (cents)	7.5	0.0	8.1	9.3
P/E ratio	4.9	7.1	6.3	5.6
EV/EBITDA	4.3	4.5	3.8	3.0
EBITDA margin (%)	27.6%	28.1%	28.1%	28.7%
EBIT margin (%)	21.7%	22.0%	22.4%	23.0%
ROCE (%)	10.8%	12.2%	11.3%	10.9%
ROE (%)	12.2%	11.8%	12.2%	12.4%



RESULTS COMMENTARY

SNV released a strong set of results which saw robust earnings growth from offshore operations offset subdued performance from African operations.

- Group revenue grew by 6.9% to R442.2m. Revenue from offshore operations grew by 17.5% in contrast to a decline of 13.7% recorded by African operations.
- Net profit for the period increased 7.3% to R69.7m, driven by offshore earnings growth in Asia Pacific and European operations of 70.6% and 21.0%, respectively.
- The Group has a healthy interest cover of 22.4x. Debt-to-equity improved to 14.0% (FY20: 23.9%).
- HEPS grew by 15.4% to 47.1 cents, falling slightly short of our FY21 forecast of 52 cents. No dividend was declared in order to preserve cash resources.

OUTLOOK FOR NEXT REPORTING PERIOD

The Covid-19 pandemic has fundamentally changed the landscape of the logistics industry. Heightened global e-commerce adoption, accelerated automation of manual processes and increased demand for "end-to-end" supply chain specialists now characterise the industry's "new normal". SNV, an international technology-based trade solutions specialist, successfully repositioned its business model to leverage this shift in its favour which resulted in a strong set FY21 results.

Whilst SA continued to regress economically, improved performance in SNV's offshore businesses, specifically the Asia Pacific and Europe, offset the impact of the decline in SA. SNV's strategy to build a globally diversified portfolio of companies has provided a strong hedge against the economic downturn in South Africa, as offshore earnings now contribute 91% of total earnings.

SNV has integrated new software packages, including a cargo insurance portal and a client mobile-app to add more e-commerce clients to the portfolio. The Group is integrating to be fully automated (no human intervention required) which can mitigate the corresponding increase in costs as turnover grows and significantly improves operating margins as they shift into fully automated systems.

The Group's balance sheet strengthened during the period with cash on hand increasing by 41.4% to R190.0m and total interest-bearing debt, excluding lease liabilities, decreasing 36.4% to R32.5m. This base provides a degree of strategic flexibility for the Group should it decide to expand its portfolio or ramp up operations to fill the space left in the market by competitors who succumbed to supply chain pressures brought on by Covid-19.

While the Rand mostly weakened against the Group's basket of currencies (GBP, EUR, AUD, SGD) with the exception of the HKD, the exchange rate movements weren't as great as that of FY20. Forex gains, classified as other income net of tax and added to foreign exchange reserves, amounted to R16.3m compared to R22.3m in FY20. Fewer forex gains are expected during FY22 given the recent strengthening of the Rand, however, we do believe SNV will experience an exceptional year in terms of offshore earnings.

While global volumes shipped may have decreased during the period, SNV's growth was predominantly driven by significantly higher shipping rates, owed to limited container capacity and higher demand. Freight rates are expected to remain volatile and abnormally high for the remainder of 2021 as slow vaccine rollouts and mobility restrictions are a reality in many countries.

The rollout of vaccine programmes and easing of lockdown measures are expected to result in a rebound in global economies, with the global GDP expected to expand by ~4% in 2021. Due to Santova being a technology-based business, it is likely to benefit from increased e-commerce trends while competitors with traditional logistics and supply chain models struggle to capture this market.

Overall, revenue is expected to increase by 7.2% to R473.9m in FY22 and a further 7.7% to R510.6m in FY23. Operating profit is expected to grow by 9.1% in FY22 and 10.8% in FY23 to R106.0m and R117.5m, respectively. The operating margin is expected to improve by 40bps to 22.4% in FY22 and a further 60bps to 23.0% in FY23.

HEPS is forecast at 52.9 cents in FY22 and 60.2 cents in FY23.

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SEGMENTAL PERFORMANCE

The Group has three segments: logistics services, financial services and head office costs. Financial services and head office costs comprises less than 2% of revenue. Therefore, the logistics segment will be analysed on a geographical basis. SNV operates in 10 countries with offices throughout Africa, Asia Pacific, United Kingdom and Europe.

African operations, predominantly based in South Africa, was the only region to report a decrease in both revenue and operating profit. The hardship brought on by the Covid-19 pandemic coupled with an already struggling economy saw revenue decrease by 13.7% to R120.8m and operating profit more than halve to R9.5m (FY20: R21.4m). The operating margin declined to 7.8% from 15.3% in FY20.

The hard lockdown period in South Africa had an adverse effect on operations. Strict restrictions on the movement of goods resulted in a 20.3% decline in volumes while the closure of a low margin-high volume customer was largely responsible for the decline in revenue. However, while the circumstances surrounding FY21 created several obstacles for the region, it also created ample opportunity upon which recovery can be built. Management's restructure of the region, triggered by Covid-19, coupled with the closure of several competitors saw a record number of new clients being acquired.

The economic environment is expected to remain deflated in the short-to-medium. However, efforts made by management to better align the region with the Group's enhanced technological environment are expected to contribute to revenue growth of 4.0% in FY22 and 4.2% in FY23 to R125.6m and R130.9m, respectively. Operating profit is expected to grow by 6.2% to R10.0m in FY22 and a further 6.8% to R10.7m in FY23. The operating margin is expected to improve by 20bps to 8.0% in FY22 and a further 20bps to 8.2% in FY23.

The **Asia Pacific** region had a banner year, benefiting from increased trade of goods to and from developing economies in East Asia, driven by trade tensions between China and the United States. Revenue grew by an impressive 29.5% to R62.0m, while operating profit soared to R23.4m, a 69.2% increase from FY20. The operating margin improved to 37.8% from 28.9% in FY20.

Strong performance from operations in Hong Kong drove the region's performance. Hong Kong benefitted from the surge in global trade, specifically in personal protective equipment ("PPE") related supply out of China. Operating margins benefited from spare capacity in the Hong Kong offices, which meant an increase in volumes with minimal additional costs. The control tower in Hong Kong has proven to be an essential strategic resource for the Group as it has the necessary capabilities to ensure that buy rates out of China are highly competitive.

Revenue from Australian operations remained flat, while earnings in local currency increased 78.7%, benefiting from cost management and the optimisation initiatives along with Covid-19 relief from the Australian Government. Operations in Singapore recorded an 8.1% decrease in earnings, prompted by increased staff costs and foreign exchange losses.

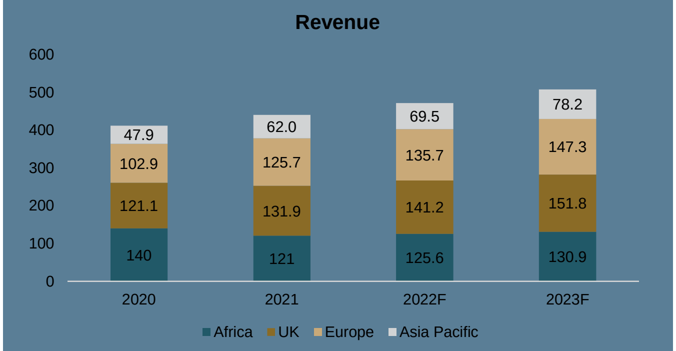
Strong performance is expected from the Asia Pacific region, with revenue expected to grow by 12.0% to R69.5m in FY22 and a further 12.5% to R78.2m in FY23. Operating profit of R26.4m is expected in FY22 along with R30.1m in FY23, representing increases of 12.7% and 14.0%, respectively. The operating margin is expected to improve by 20bps to 38% in FY22 and a further 50 bps to 38.5% in FY23.

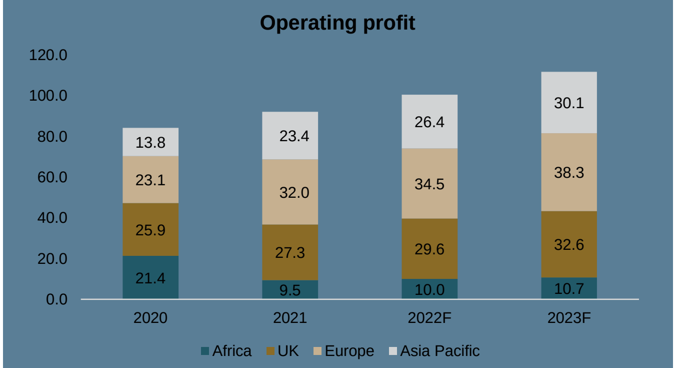
Despite the **United Kingdom** recording their largest annual fall in GDP on record of 9.9%, the region delivered satisfactory results. Revenue and operating profit increased by 8.9% and 5.4% to R131.9m and R27.3m, respectively. The operating margin contracted by 70bps to 20.7%

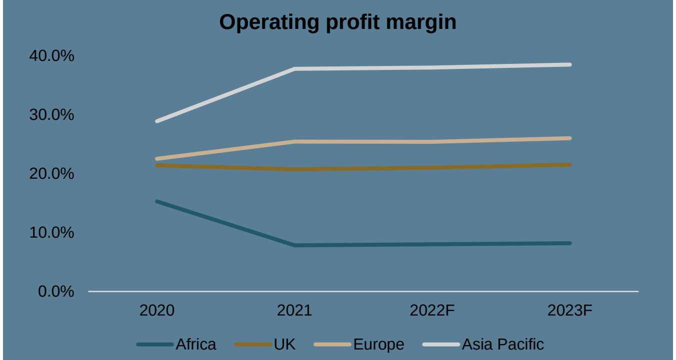
Despite a challenging first half brought on by Covid-19 restrictions, the Tradeway shipping business, which specialises in the export of scrap products and second-hand garments to the Middle East and Africa, made a turnaround in H2. As a result, losses were minimised, and full year revenue was only down 11% on FY20. The W.M. Shipping business managed to reverse the loss it recorded in FY20 by widening its service offering.

Revenue is expected to increase by 7.0% to R141.2m in FY22 and a further 7.5% to R151.8m in FY23. Operating profit is expected to increase 8.5% in FY22 and 10.1% in FY23 to R29.6m and R32.6m, respectively. The operating margin is expected to improve by 30bps to 21.0% in FY22 and a further 50bps to 21.5% in FY23.

European operations, led by the Netherlands, grew revenue and operating profit by 22,2% and 38.1% to R125.7m and R32.0m, respectively. The segment benefited from its operations in the Netherlands, which serves as Europe's 2nd largest importer and exporter. High levels of activity through this gateway resulted in strong earnings growth in this region. Furthermore, streamlined operations in Germany resulted in improved performance from the division. The operating margin grew by 290 bps to 25.4%.







Strong performance from operations in the Netherlands is expected to drive revenue growth of 8.0% to R135.7m in FY22 and a further 8.5% to R147.3m in FY23. Operating profit is forecast at R34.5m in FY22 and R38.3m in FY23 representing an increase of 7.9% and 11.1%, respectively. The operating margin is expected to remain flat at 25.4% in FY22 before improving by 60bps to 26.0%.

VALUATION

The Group delivered an impressive set of results in FY21, buoyed by strong performance from its offshore operations. The Group is well-positioned to capitalise on increased e-commerce trends due to its aforementioned streamlined technology-based operating model. Moreover, its robust balance sheet, with little to no interest-bearing debt, provides a degree of strategic flexibility which can be used to drive growth, whether it be organic or acquisitive.

Our DCF and relative P/E valuations indicate that the share is currently **Undervalued**.

With reference to the DCF table, we have considered a discounted cash flow analysis with cash flows forecast to FY24. To yield the sensitivity table on the right, a terminal growth of 6% is used along with a discount rate of 22.4%[1]. A value of R4.31 is returned.

With reference to the relative PE table, we have compared SNV to other logistics businesses in the industry and applied the peer group average PE. The implied forward PE of 6.9x places the share at a valuation of R4.33.

Growth rate	DCF Discount rate 18.4%	20.4%	22.4%	24.4%	26.4%
0%	4.20	3.76	3.41	3.11	2.86
2%	4.59	4.07	3.65	3.30	3.02
4%	5.09	4.45	3.94	3.54	3.21
6%	5.76	4.93	**4.31**	3.83	3.44
8%	6.68	5.58	4.78	4.18	3.71
10%	8.05	6.47	5.40	4.64	4.06
12%	10.27	7.79	6.27	5.24	4.50

Logistics	**Price**	**Mkt cap (m)**	**1 year fwd PE**
OneLogix	2.00	531	7.5
Santova	3.34	465	5.3
Imperial*	46.94	9524	8.7
Super Group*	30.79	11439	9.1
Average			**7.7**
*consensus forecasts used			-30%
Santova	**3.34**	465	5.3
Premium (Discount) applied to average:			-10%
Santova: Implied current gain/(loss):	4.33	29%	**6.9**

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[1] The discount rate is based on the average implied discount rate obtained from cash flow forecasts for companies with market capitalisations ranging from R301m to R10bn in our research universe