

Weekly Update: 23/08/2021

Merchantec Capital Small Cap Index Major Movers

Company Name	Close (cents)	Weekly %chg	Market Cap (Rm)
OneLogix	201	-11.8%	526
EOH	502	-11.9%	886

Top story

Workforce Holdings Limited (JSE: WKF) released interim results for the six months ended 30 June 2021, which demonstrates a significant improvement from that of H1FY20. Group revenue increased by 29.2% to R1.6bn while HEPS is positive at 11.2 cents (FY20: headline loss of 8.5cps). We expect the Group to continue on this upwards trajectory, benefitting from its diverse portfolio of investments and improved activity from the sectors to which it caters. The Group is therefore on track to meet our FY21 HEPS forecast of 33 cents.

While activity levels have not yet returned to that of pre-pandemic levels, the Staffing and Outsourcing and Training segments delivered strong double digit increases in both revenue and EBITDA. The Healthcare segment maintained its strong performance, delivering a 13.6% increase in revenue and a marginal improvement in EBITDA. The Financial Services cluster took a 12.8% knock in revenue, owing to reductions in lending and difficulties in debt collections, but managed to significantly improve its negative EBITDA figure as a result of the measures put in place to return the segment to profitability.

Cost containment measures have made great strides and the remaining six months look promising, with the outlook on most segments looking up.

Merchantec Capital will be hosting Ronny Katz, CEO of Workforce, and Willie van Wyk, Financial Director, via a webinar on the 25th of August at 12h00 to discuss the Group's most recent set of interim results and expectations for the remainder of the financial year. Our full report will follow shortly thereafter.

Core equity updates

Metair Investments Limited (JSE: MTA) released a resilient set of interim results, indicative of improved demand and a recovery in operational activity. Revenue increased by 52.9% to R5.9bn while HEPS increased to 170 cents (H1FY20: headline loss of 56cps). With strong performance expected to continue, the Group is on track to meet our FY21 HEPS forecast of 319 cents.

The performance of both the Automotive Components and Energy Storage verticals exceeded management's expectations, due to higher volumes and stronger demand from the segments to which the Group caters. The Automotive Component vertical delivered an 87.7% increase in revenue, with OEM production volumes increasing by ~54%. The segment delivered operating profit of R253.9m (H1FY20: R47.7m loss) and an operating margin of 7.3%, slightly hindered by inflated shipping costs, manufacturing inefficiencies and the costs associated with planned new model launches.

The Energy Storage vertical saw revenue increase by 32.0% due to increased volumes. The segment experienced strong local aftermarket, OEM and export demand in all regions and its recovery was largely aided by improved export volumes from Mutlu Akü in Turkey which performed extremely well. Operating profit increased significantly to R327.9m, with the operating margin sitting at 10.1% (H1FY20 3.0%).

Our short-term view on MTA has shifted to a more bullish stance due to an improvement in activity in the automotive industry and improved demand from OEM's as export volumes improve. In the long-term, MTA has secured major contracts with OEMs including Ford, Isuzu, VW and Mercedes which represents an opportunity to expand market share and benefit from the new vehicle launch projects planned for South Africa over the next few years. The Group is currently in an intensive capital expansion phase, with total capital funding of ~R1.6bn planned for FY21. An additional R272m was approved for H1FY21.

Previously, management was in the midst of a strategy review and assessed the best options to unlock shareholder value, including keeping the Energy Storage business as a separate vertical or potentially selling it. However, the process was postponed upon the arrival of Covid-19. The strategy review is set to resume in H2FY21 and, although no specific decision has been taken at this point, the strong performance and quick recovery in the Energy Storage business, combined with growth opportunities ahead for the Automotive Components Vertical is providing impetus for Metair to refresh its strategic approach around the Energy Storage Vertical.

Our full report will follow shortly.

Cashbuild Limited (JSE: CSB) released a further trading statement indicating that HEPS is expected to be between 2788.6 and 2902.4 cents, representing an increase of between 145% and 155% from FY20 HEPS of 1138.2 cents. Our HEPS FY21 forecast of 2900 cents corresponds with the upper boundary of the HEPS range given.

In addition, the Group gave an update on the impact of the recent civil unrest episode and the ongoing Covid-19 pandemic. A total of 36 stores were looted and subsequently damaged in July 2021. The Group has insurance cover in place and has begun assessing the damages and obtaining approval from insurers to begin rebuilding and restocking the affected stores, with one already having been repaired and returning to trade.

The Group's FY21 results will be released on or about the 1st of September 2021.

Invicta Holdings Limited (JSE: IVT) shareholders are advised that all the conditions precedent to the transaction in which the Group disposed of an effective 51.19% shareholding in the Kian Ann Group (KAG) have been fulfilled. Included in the transaction was the subsequent acquisition of the outstanding interests in Kunshan Kensetsu Buhin Co. Ltd (KKB) and Modesty Investment Holding Pte. Ltd (MIH) by KAG. The transaction took effect on the 1st of August 2021.

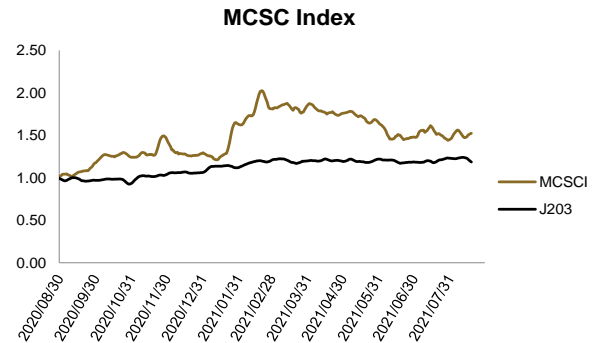
The Merchantec Capital Small Cap Index

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 lacklustre 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 ~1.5% loss over the past month and a ~2.3% gain over the past week in comparison to the ALSI (~2.1% 1-month loss and ~4.1% 1-week loss). On a PE basis, the index is trading at a forward PE of ~8.2x, which is relatively overvalued in comparison to the JSE All Share index which is trading at a forward PE of ~7.5x.



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	145	613	-3	51	68	0.0	-50.0	5.4	312	115%	45%	313	116%
EOH	502	892	-505	-35	66	0.0	-1.0	6.2	920	83%	70%	1446	188%
Nu-World	2775	632	636	695	781	7.0	4.4	5.6	4392	58%	40%	3625	31%
Balwin	373	1772	71	89	116	9.6	5.2	5.3	539	45%	35%	500	34%
Alviva	1534	1891	149	214	317	1.0	10.3	6.4	2121	38%	35%	1804	18%
Santova	360	510	47	53	60	0.0	7.6	7.5	478	33%	45%	414	15%
Vunani Limited	295	478	7.2	42	46	4.2	40.8	8.6	378	28%	60%	406	38%
Quantum Foods	550	1107	81	60	84	1.8	6.8	8.4	687	25%	35%	693	26%
OneLogix	201	530	22	16	26	0.0	9.1	8.7	244	21%	30%	534	166%
Cognition	66	152	2	8	9	0.0	28.3	7.7	73	11%	35%	86	30.6%
Rhodes Food Goup	1120	2961	87	103	125	2.6	12.9	10.1	1241	11%	45%	1440	29%
Adapt IT	679	941	67	69	94	0.0	10.2	7.2	700	3%	40%	1172	73%
Cashbuild	27880	7010	1139	2900	1726	3.6	24.5	17.9	27817	0%	35%	26819	-4%
Metrofile	322	1405	25	30	33	4.3	13.0	9.5	320	0%	30%	352	9%
Adcorp	647	716	34	89	107	0.0	18.9	4.1	629	-3%	40%	645	0%
Invicta	2800	3141	316	288	317	2.1	8.9	8.8	2636	-6%	45%	3131	12%
Mustek	1230	817	124	297	183	2.1	9.9	5.3	886	-28%	35%	1058	-14%



Prepared by: The Merchantec Mid Cap Research Team

Tel: 011 325 6363

Email: research@merchantec.co.za

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