

Tiso Blackstar Group

Moving to become a single-sector investor

H1 results and strategy

Investment companies

20 April 2016

Price **39p**

Market cap **£105m**

ZAR22.195/£ (for dividend calculation)

Intrinsic NAV* £193.4m

Intrinsic NAV per share £0.72

Discount to intrinsic NAV 47%

Yield 0.44%

Ordinary shares in issue 268.3m

Code TBGR

Primary exchange AIM

AIC sector N/A

*See page 8 of our [initiation](#) for details of intrinsic NAV calculation.

Tiso Blackstar Group (TBGR) announced that it intends to focus solely on the media sector in future and dispose of all its non-media assets, almost half of the current portfolio. This move should, in due course, see the company transition from being valued on an NAV basis to an earnings basis. It should crystallise value for shareholders from the industrial assets and may lead to a re-rating for the media assets. TBGR's results showed its investments performing steadily against a difficult economic background in South Africa.

12 months ending	Total share price return (%)	Total NAV return (%)	JSE ALL-Share (%)	MSCI Emerging Markets (%)	FTSE All-Share (%)
30/06/13	4.1	5.8	3.1	6.6	18.3
30/06/14	(8.6)	(6.8)	9.2	1.8	11.8
30/06/15	0	1.8	(0.5)	3.8	2.0
31/12/15	(36.2)	(32.7)	(19.7)	(12.2)	(2.5)

Note: 12-month rolling discrete £-adjusted total return performance.

Move to single sector strategy should unlock value

TBGR's management team has been effectively running TMG (formerly Times Media Group), its largest investment, for over two years now. Maintaining profitability at all the print titles bar one in the current climate is a strong performance and management has decided to focus solely on its media investments in future. Assets now deemed non-core will be sold in the short to medium term. Consequently, TBGR will have a clearer investment strategy and a stronger balance sheet, and may be easier for investors to value, using earnings rather than intrinsic NAV.

Market outlook: Cloudy with patches of sun

The continued difficulties faced in South Africa are likely to lead to several players in the media exiting, either by consolidation or failure, as efficiencies need to be sought and competition for advertising spend grows. Operational problems for several established Kenyan broadcasters have given challengers a lead in set-top boxes and the wider media market continues to grow in East Africa as a whole. TBGR's investments in Ghana and Nigeria are supported by strong fundamentals (a growing population and increasing prosperity) but face near-term headwinds linked to the oil price and economic performance generally.

Valuation: Possible change in valuation method

Management provides an intrinsic NAV figure for TBGR, based on market values for quoted investments (held through its investment in Kagiso Tiso Holdings) and on conservative estimates for unquoted investments (see our [initiation note](#) for details). This rose 0.2% to ZAR4,413m at 31 December 2015, but fell 16.1% in sterling terms to £193.4m (30 June 2015: £230m). The AIM shares currently trade at a discount to NAV of 47% (48% for the JSE-listed shares). Once the non-media assets have been sold, TBGR will effectively be a media company. The average P/E multiple of a basket of media peers is 13.8x, vs TBGR's current multiple of 1.7x.

Share price performance



%	1m	3m	12m
Abs	1.3	(7.1)	(41.6)
Rel (local)	(1.7)	(14.3)	(37)
52-week high/low		71.5p	37.5p

Business description

TBGR is an AIM- and JSE-listed investment company with a portfolio of investments in sub-Saharan Africa, in both quoted and private companies. The biggest investment, at 53% of the portfolio is TMG, owner of several of South Africa's highest-circulating newspapers and news sites. It also has several non-core industrial holdings.

Next event

Year end 30 June 2016

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Transformation continues

TBGR's strategy has undergone significant change in the last year, including a major transaction in June 2015, which gave the portfolio its current composition of African media and industrial holdings, both quoted and private. Management has identified media as an attractive and high-value sector in Africa and intends to make that the sole focus of TBGR in future. It believes TBGR is well-placed to take advantage of early-stage participation in potentially high-growth markets, particularly in broadcasting in Kenya, Ghana and Nigeria. The profitable core media holdings in South Africa operate in a more mature market and have a leading position there, especially in print newspapers. Bolt-on opportunities remain in South Africa as well as scope to reduce overheads at TMG, TBGR's largest single holding. The intended disposals of the now non-core holdings, valued at ZAR2.25bn (c £100m) at 31 December 2015 would enable the group to pay back all its debt (ZAR419m at group level and ZAR765m within TMG or £20m and £37m respectively at 23 March 2016) and leave significant funds for investment. It would also fundamentally change the company, making it a media group and possibly encouraging a re-rating as the basis for valuation moves from assets to earnings.

Company description: AIM- and JSE-listed investment company

TBGR is an AIM- and Johannesburg-listed investment company with a portfolio largely composed of media (53%) and industrial investments, including a holding in another South African investment company, Kagiso Tiso Holdings (KTH). A transformative deal in June 2015 saw TBGR acquire the outstanding shares of TMG, South Africa's second biggest listed media company, and increase its stake in Robor, a specialist steel manufacturer, from 19% to 51%. The steady cash flows from well-established businesses in the industrial and media sectors underpin a portfolio that is focused on finding value in the growing African media market. The portfolio contains a mix of quoted and private investments and the key performance metric is intrinsic NAV, which is calculated conservatively by management and the company's auditors according to IFRS and International Private Equity and Venture Capital (IPEVC) guidelines.

Portfolio

TBGR has not made any new investments or disposals (other than real estate sales that were already planned at year end) since our [initiation note](#) in October 2015. However, management has continued to reduce debt arising from the acquisitions of the Robor and TMG stakes.

Exhibit 1: Portfolio at 31 December 2015

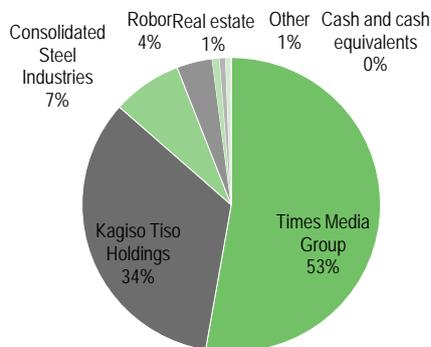


Exhibit 2: Sterling/rand exchange rate



Source: Company data, Edison Investment Research

The portfolio is valued at ZAR4.8bn before debt of ZAR422m (31 December 2014: ZAR5.1bn and ZAR560m), a decline of 5.1% due largely to a fall in the market values of KTH's listed investments of 5.6%. In sterling terms, the weak rand has reduced the portfolio by 25.1% from £283m to £212m

before debt of £18m (31 December 2014 debt: £31m). More positively, TMG remained profitable in a difficult South African economic climate and both Robor and Consolidated Steel Industries (CSI) (each now deemed non-core) performed well. Robor posted ZAR13m of EBITDA in Q216 vs a loss of ZAR10m a year earlier and CSI increased revenues slightly over the period, on track to beat the target of ZAR2.1bn revenues for the year.

Exhibit 3: Portfolio breakdown (intrinsic NAV) as at 31 December 2015

	£000s	ZAR000s	%
Times Media Group	111,796	2,550,327	52.8
Kagiso Tiso Holdings	71,605	1,633,484	33.8
Consolidated Steel Industries	16,004	365,100	7.6
Robor	8,147	185,844	3.8
Real estate	1,713	39,080	0.8
Other	1,375	26,858	0.6
Cash and cash equivalents	1,280	29,208	0.6
Total	211,920	4,829,901	100

Source: Company data

New strategy – single sector focus on media

Tiso has confirmed its strategy change to a single sector focus on Media and has consequently identified non-core assets to be sold. The key investments for disposal comprise KTH, Consolidated Steel and Robor, which are earmarked for sale in the short to medium term, which we interpret as being in the next year, although naturally no firm timetable can be given. Proceeds will be applied to strategic acquisitions in the media sector, and are likely also to be applied to debt reduction and share buybacks. The rationale for the strategy shift is that management has identified the media sector as high-value, and given the company's existing expertise, sees opportunity in the relatively immature markets available and the early-stage entry TBGR could make into many of them. In South Africa the sector is under great pressure and it is expected that opportunities for growth will arise in the coming months as weaker players struggle. Opportunities in other markets are also being evaluated. All possible additions will be assessed in terms of their growth prospects, the value TBGR's management can add (including by leveraging existing assets) and how they can benefit existing investments too.

Highlights of H116 results

TBGR's interim report showed flat intrinsic NAV over the six months to 31 December 2015 in the face of considerable headwinds in the South African economy. All the operating companies in the portfolio were profitable, offsetting a decline in the value of listed assets held through the stake in KTH. Most importantly, the company announced the change of strategy to become a single sector investment company, focused on media. Once the shift has been executed the share price is expected to be driven by earnings rather than by NAV. We highlight some key points from the results below.

- **Refinement of strategy:** in expanding its media investments through the TMG acquisition, TBGR has identified a core focus and intends to exit other investments in the short to medium term. While the timing of disposals of the largest assets (KTH, CSI and Robor) is dependent on market conditions, management has indicated that one of the investments could be sold in the near term, which we take to mean before the year end on 30 June 2016. No timeframe for the other disposals is available, but their execution will mean TBGR becomes essentially a media company and is likely to be valued according to its earnings rather than its assets, which we discuss further on page 5.
- **Financials:** acquisition finance has been reduced from ZAR534m at the group level at the time of the acquisition of TMG in June 2015 to ZAR422m at the half year. TBGR debt was 9.6% of

equity at 31 December 2015, down from 12.3% a year earlier. Cash and equivalents are up ZAR9.5m to ZAR29.2m. TBGR realised a loss of ZAR0.4m on disposals of smaller investments and had an unrealised net loss of ZAR17.3m on investments, including gains of ZAR86.5m and ZAR10m on Robor and CSI and losses of ZAR96m on KTH and ZAR24.1m on real estate assets. The company repurchased 1m shares for ZAR9.5m in the six months to 31 December and has declared a dividend of 3.74 South African cents to be paid on 13 June 2016; JSE shares go ex-dividend on Monday 16 May and AIM shares on Thursday 19 May. For AIM shares the exchange rate used will be ZAR22.195/£, giving 0.16851p per share.

Exhibit 4: TBGR cash flows in H116

Cash flows	ZARm	£m
Dividends and interest	74.7	3.6
Realisations	33.1	1.6
Investments	(45.8)	(2.2)
Debt repayments	(43.3)	(2.1)
Share repurchases	(9.5)	(0.5)
Net cash flow	9.5	0.2

Source: Company data. Note: Sterling figures do not sum as a result of exchange rate movements.

- **Intrinsic NAV was steady:** despite difficult trading conditions for media and industrial companies, TBGR's direct investments performed well. Net assets were ZAR4,413m at the half year vs ZAR4,402m at 30 June 2015.
- **KTH** was held back by three of its listed holdings in particular: AECI (AFE) was down 20% in the period, Exxaro Resources (EXX) lost 50% and MMI was down 25% in the period, contributing to a 5.6% decline in the value of KTH's portfolio. All three have recovered somewhat in 2016.
- **CSI** gained market share and maintained margins. It is focusing on working capital management and expects to start using a new working capital facility provided by a major South African bank in the near future. **Robor** has only reported one quarter since the increase in TBGR's holding from 19% to 51%. Gross margins improved on lower input costs and activity in the power, solar, telecoms and transmission sectors is promising.
- **TMG Media division:** the newspaper, magazine and digital businesses of TMG had reduced earnings but all the titles bar one were profitable. The business added events to its revenue-generating activities and saw digital advertising revenue rise 15% year-on-year. Further cost reductions are expected and the update of workflows, design and content continues. The division contributed EBITDA of ZAR72m vs ZAR102m in the previous six months (-29.4%). Overall TMG reported EBITDA of ZAR209m.
- **TMG Broadcasting and Content division:** television grew earnings by 44% and the investment-stage radio division reduced losses by 12%. Divisional EBITDA was ZAR16.4m vs ZAR17.1m in the prior six months (-4.1%).
- **Hirt & Carter:** the design software and printing business increased its focus on its key retail customers. It also launched a data and analytics business called Silo. EBITDA grew 3.9% to ZAR88.3m (H215: ZAR85m).
- **Uniprint:** a project linked to the Tanzanian elections offset pressure from a weakening rand and lower volumes in Labels and Packaging. EBITDA was ZAR49.3m vs ZAR38.8m in the previous six months, a rise of 27%.
- **African media:** TMG has a 49% stake in Radio Africa Group (RAG), a Kenyan media company with a strong presence in radio, print news, online and TV broadcasting and a 32% interest in Multimedia Group (MGG) in Ghana. In October 2015 Tiso Blackstar and RAG together acquired a 49% stake in Cooper Communications in Nigeria.
- **RAG:** incumbent Kenyan television market leaders were wrong-footed by the Kenyan government sticking to its digitisation timetable. National Media Group, Standard Group and

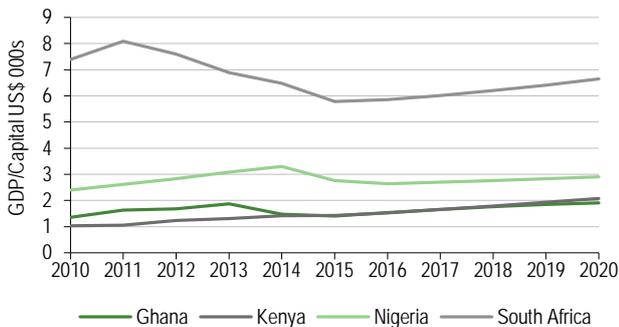
KTN were taken off the air for several weeks when the government turned off their analogue signals in March 2015. RAG's Bamba Television set top box business was ready in time and KTN has subsequently bought a 50% stake in Bamba, despite being a member of a consortium that competes with Bamba. KTN's move could be seen as a vindication of Radio Africa Group's freemium strategy to capture audience share. As an indication of the competition, Bamba's leading competitors GOtv and StarTimes have 41% and 24% of the market respectively according to Geopoll. Reelforge, a Kenyan media and advertising intelligence company, estimated 2014 TV advertising spend in Kenya to have been KSH48.1bn, around £340m. RAG's revenues grew 17% in the period although investment in Bamba reduced EBITDA by 9%. Exact figures have not been made public.

- **MGG** started from a low level and faced considerable headwinds in Ghana, caused by electricity shortages and a weakening economy. Nevertheless, revenues grew 20% in the year to December and EBITDA was up 58%.
- **Cooper Communications'** television channel, *Lagos Talk*, launched in March 2016 and it holds Lagos's only remaining FM radio licence. TBGR expects to execute a larger transaction in Nigeria in future for which work with Cooper will provide market experience and connections.

Outlook

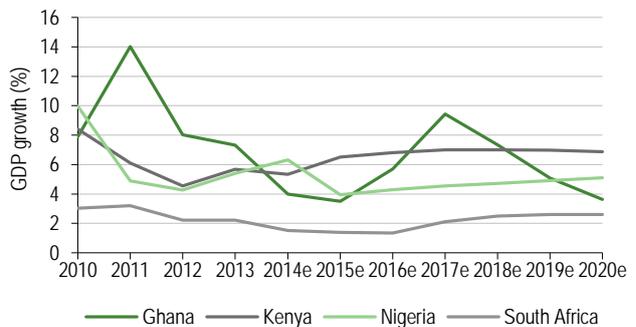
While the South African economy continues to face challenges related to commodity prices, power supply, unemployment and government spending, TMG's established business seems well-placed to weather the storm. It has remained profitable, moved early to digital, cut costs and maintained high print circulation. Management expects that either consolidation or failure of weaker players will thin out the competition in the South African print sector. Meanwhile in TBGR's newer markets the International Monetary Fund (IMF) projects strong GDP growth, which should be of benefit to TBGR's investments there. Reelforge's estimate for 2014 advertising spend in Kenya, quoted above, was 10% higher than that for 2013. Figures for 2015 are not yet available.

Exhibit 5: GDP per capita, US\$000s



Source: IMF WEO October 2015. Note: All statistics for Ghana are estimates, as are statistics for Kenya from 2013, for Nigeria from 2012 and for South Africa from 2014.

Exhibit 6: GDP growth per annum



Source: IMF WEO October 2015

TBGR continues to seek opportunities in sub-Saharan Africa and we would expect to see developments in Nigeria as *Lagos Talk* is launched and in Kenya as RAG continues to grow. The disposal of assets now considered to be non-core will be a key development. While there can be no certainty at the time of writing over the details of any sales, management says it will conduct them in such a way as to maximise value. These disposals, if they are executed at intrinsic NAV, as management expects, would enable TBGR to significantly reduce debt (a process already underway) and provide funds for future investment in the company's chosen sector of focus. It has been reported in the [press](#) that Brait (BAT), a South African investment company, intends to sell its 25% stake in Prime Media, one of the country's biggest radio broadcasters. Prime Media has a

variety of businesses that might be complementary to TMG's and we understand that TBGR's management is assessing the potential opportunity.

The company continues to prepare to move its headquarters to the UK from Malta.

Valuation: Underlying value unchanged

With intrinsic NAV nearly unchanged in rand terms, having risen 0.2% since June 2015, but fallen 16.1% in sterling as the rand has depreciated, the share price discount to NAV has widened to 42% in sterling (5 October sterling discount: 39.5%, current ZAR discount 48%) despite a sustained share buyback programme. NAV per share is now ZAR16.50 or 72p. Management is confident that the disposals of its non-core holdings in KTH, Robor and CSI, along with the remaining real estate portfolio, will be achieved at above estimated intrinsic NAV for those assets. The cash from those transactions would more than offset existing debt and would remove any market uncertainty as to the value of the assets. More importantly, TBGR would effectively become an operating company and likely to be valued as such, rather than as an investment company.

Given TBGR's presence in media we show P/E ratios for African media companies in Exhibit 7 below to illustrate valuation metrics in the sector. This is not currently an appropriate metric for TBGR and no earnings value is available for TMG alone. We have excluded Naspers, Africa's most valuable company, because it is very highly rated partly as a result of substantial holdings in Tencent, a Chinese social network, and Mail.ru, an online service provider in Russia. Nation Media Group and Standard Group are both listed in Nairobi and have interests in newspapers and broadcast media. A lack of estimates available for some of the companies below means we have used trailing EPS figures. As the table shows, TBGR is rated well below its South African and Kenyan peers and still would be even at 1x NAV or a share price of 72p. However, transitioning to earnings-based valuation comparisons will only come over time as the company executes its disposals and reorients specifically to media.

Exhibit 7: African media company valuations

Company	Market capitalisation (£m)	Dividend yield (%)	Trailing P/E (x)
Caxton & CTP	282	4.38	14.1
African Media Entertainment	30	4.55	12.5
Nation Media Group	232	3.80	14.7
Standard Group	16	N/A	34.5
Average*	140	4.24	19.0

Source: Bloomberg at 11 April 2016. Note: *Trailing P/E ratio excluding Standard Group = 13.8x.

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