

EQUITY INSIGHTS

Naspers to List NewCo on the Euronext Amsterdam

Issue date: 19 June 2019

Disclaimer: In this insight, we include our interpretation of how each of the two election options are treated for tax purposes. Please consult your tax adviser for advice regarding your personal circumstances.

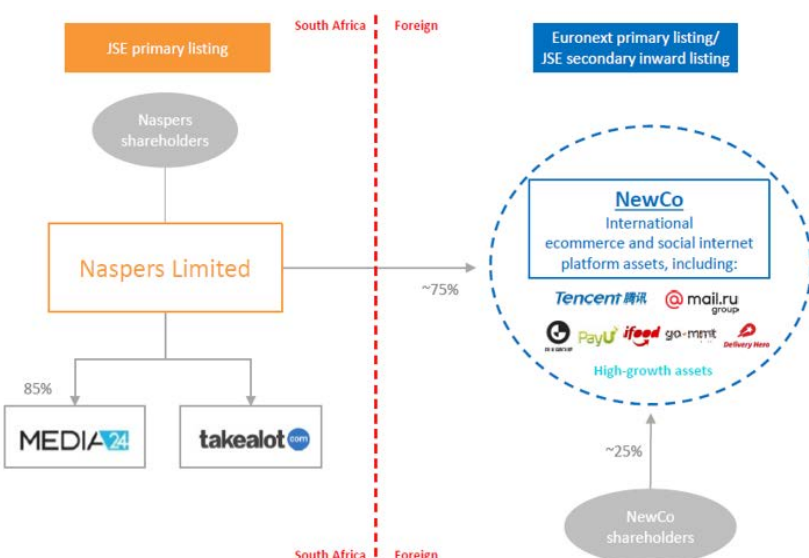
EXECUTIVE SUMMARY

- Naspers intends to list its international ecommerce and social internet businesses, accounting for more than 99% of its assets, under a new company temporarily called 'NewCo' on the Euronext Amsterdam exchange.
- Naspers shareholders will elect to receive either NewCo shares or additional Naspers N shares.
- We view the listing of NewCo on the Euronext as a positive step toward unlocking value for shareholders through reducing the discount between the holding company and the underlying assets.
- Naspers currently trades at a market capitalisation of \$102 Bn, a 33% discount to its assets which are worth an estimated \$152 Bn.
- Our base case expectation for NewCo is a market value of \$114 Bn, a 25% discount to assets of \$152 Bn, and a 12% value uplift to the market value of Naspers today. We expect Naspers N shares to continue trading at the present 33% discount to assets.
- An election of NewCo is forecast to be value accretive to the Stonehage Fleming SCI Equity Fund and shareholders exempt from capital gains tax, with the value of the current position increasing by 3%. An election of additional Naspers N shares instead would likely have a neutral effect on the current position.
- For South African resident shareholders who are not exempt from capital gains tax, including individuals, companies and trusts, electing NewCo will create a capital gains tax event in the current tax year, with the full value of NewCo stock taxable. Electing Naspers N Shares will not create a capital gains tax event. Under both options, no additional investment is required from shareholders, however capital gains on the NewCo shares will be payable out of the shareholders pocket.
- In terms of process, electing NewCo requires no action and electing Naspers N shares requires an election form which we will complete on behalf of discretionary and advisory clients where necessary.
- The Naspers share price is likely to fall in the order of R900 on the 17th July 2019, as the stock trades ex the capitalisation issue. This is due to Naspers' stake in NewCo and therefore underlying assets reducing to an estimated 75% post the distribution. The total value of a shareholder's position on aggregate is expected to remain similar to present, regardless of their election.

BACKGROUND TO THE LISTING

The primary objective of the listing is to reduce the discount between Naspers' share price and the value of the underlying assets through gaining exposure to greater passive and active market participation in NewCo, reducing the weighting of Naspers on the JSE and creating the opportunity for arbitrage between NewCo and Naspers. Naspers intends to own a minimum of 73% of NewCo and create a maximum 27% free float by distributing NewCo shares to Naspers shareholders via a capitalisation issue of NewCo shares. For shareholders that would prefer not to own NewCo, they will have the option of electing additional Naspers N shares instead to avoid dilution. The proposal will be tabled at the Naspers extraordinary general meeting on the 28th June 2019. Approval is likely given the control structure. There will be an election period from 1 July until 19 July 2019, with the default choice being NewCo shares.

STRUCTURE



- NewCo's board, management, operating team and governance structures will mirror that of Naspers.
- The Operating and Investing principles will remain the same.
- Naspers remains domiciled in South Africa, with its primary listing in South Africa.
- NewCo's primary listing will be on the Euronext Amsterdam, and there will be a secondary inward listing on the JSE.
- Naspers A shareholders will retain control of NewCo through an effective dual class shareholder structure in NewCo which mirrors that at Naspers today.
- Management will be incentivised at the Naspers level to generate shareholder returns.

KEY DATES

- Naspers Extraordinary General Meeting to approve the transaction on 28 June 2019.
- Election period runs from 1 July 2019 until 12:00 19 July 2019. Last day to trade to participate: 16 July 2019.
- NewCo will begin trading in Amsterdam and on the JSE on 17 July 2019. Naspers N Shares trade ex the entitlement on 17th July 2019.
- Elected NewCo or Naspers N shares will be received on 22 July 2019.

NASPERS' DISCOUNT TO UNDERLYING ASSET VALUE

- At present, Naspers trades at a market capitalisation of \$102 billion, a 33% discount to the value of its underlying assets which we estimate to be worth \$152 billion. 91% of assets consist of the market value of listed equities plus net cash. The remaining 9% consists of Naspers' internet businesses, including Classifieds (OLX and Avito), Payments (PayU), Food (iFood) and Ecommerce (eMAG). The Tencent stake alone is worth \$131 billion.
- Over time, the discount to underlying assets has widened considerably, which has correlated with the increased weight of Naspers on the JSE, up from 5% of the JSE All-Share SWIX index in 2013 to 23% today. Management believe forced selling due to single stock weighting limitations is largely to blame.

POTENTIAL BENEFIT OF THE EURONEXT LISTING

Naspers management believe the transaction has the potential to create value for shareholders through;

1. NewCo and Naspers trading at a lower discount to the value of their assets due to reduced index concentration and forced selling.
2. Longer-term value unlock for shareholders through a platform for future growth and potential future listings and spin-offs.

Possible reasons for an improved valuation relative to assets

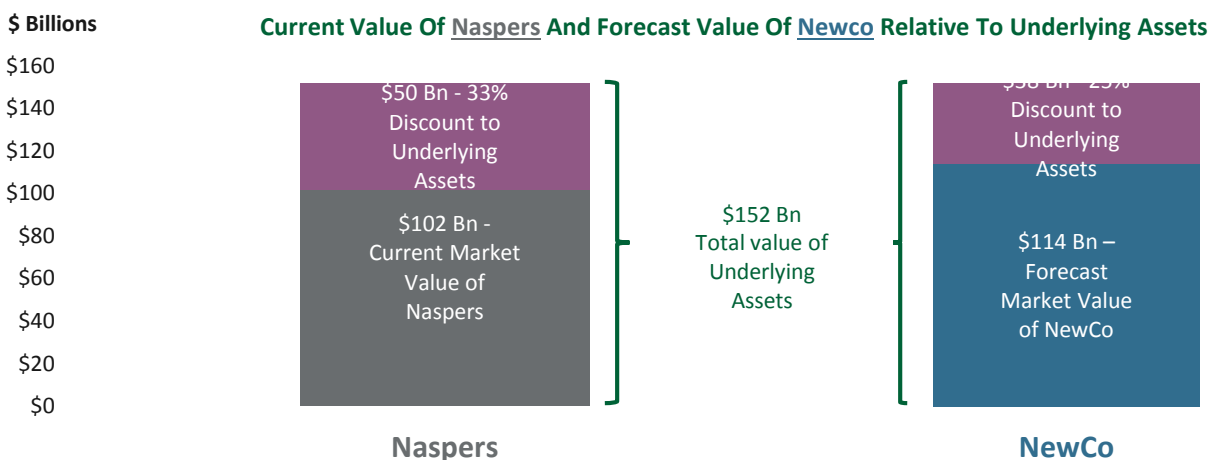
- The Euronext is an amalgamation of seven major European exchanges, including Paris, Amsterdam, Brussels, Lisbon, Dublin and from 2019, Oslo. It is the 6th largest exchange in the world with over 1,300 listed companies. The Euronext gives NewCo access to a broad and deep investor base with trading volumes of \$174bn per month, exceeding the JSE's \$29bn per month by 6X.
- Naspers management estimate that NewCo will benefit from an estimated \$2-\$3 billion worth of passive flows from index trackers, including AEX 25, Stoxx Europe 600, Stoxx Technology, MSCI DM, MSCI EM, FTSE DM and FTSE EM.
- Substantial active manager interest is likely, with NewCo amongst the Euronext top 3 by market cap and top 10 by share weighted indexation. NewCo is being positioned as the largest listed global consumer internet company in Europe. Many of the group's investments operate across greater Europe, including OLX, Avito, Delivery Hero, PayU, Mail.Ru, Ctrip (closing H2'19) and Tencent.
- NewCo's assets will have minimal exposure to South African country risk, and its assets will be owned outside of South Africa. The Multichoice Group has been spun off, and both Takealot.com and Media24 (<1% assets) will be owned directly by Naspers.
- Ability to arbitrage will be created through three listed stocks; NewCo in Amsterdam, NewCo on the JSE (secondary inward listing) and Naspers on the JSE. This is intended to assist in narrowing the discount given almost identical asset makeup.
- Management will be incentivised at the Naspers level, providing a strong incentive to continue to address the discount.
- The weighting of Naspers on the JSE will reduce by a maximum of 27%, alleviating some of the forced selling pressure, and possibly providing headroom for increased buying.

Possible reasons for a deterioration in valuation relative to assets

- Naspers will continue to have a concentration issue on the JSE, as a hypothetical 25% reduction in its JSE weighting would still see it making up 16% of the index' free float, with continued issue around concentration limits. The most recent example of this, is news relating to pressure by unions on the Government Employees Pension Fund to reduce their exposure to Naspers.
- NewCo's listing will turn Naspers into a holding company of a holding company. Given the structural issues present on the JSE it is likely that Naspers will trade at a discount to the value of NewCo. If NewCo's discount is much greater than expected, it is possible that Naspers discount to assets may increase. Although possible, we view this scenario as unlikely, and point out that even if it occurs, NewCo is likely to have an overall lower discount to underlying assets.
- The voting control structure used is unfavourable to minority investors.

OUR VIEW ON THE DISCOUNT

We forecast NewCo to trade at a discount in the region of 25% to its assets (\$114bn), with our bull and bear cases being discounts of 15% (\$129bn) and 35% (\$99bn). Given the structural issues on the JSE, we expect Naspers to continue to trade at its current value of \$102bn, a 32.5% discount to its assets, with bull and bear cases being attached to the discount attracted by NewCo.

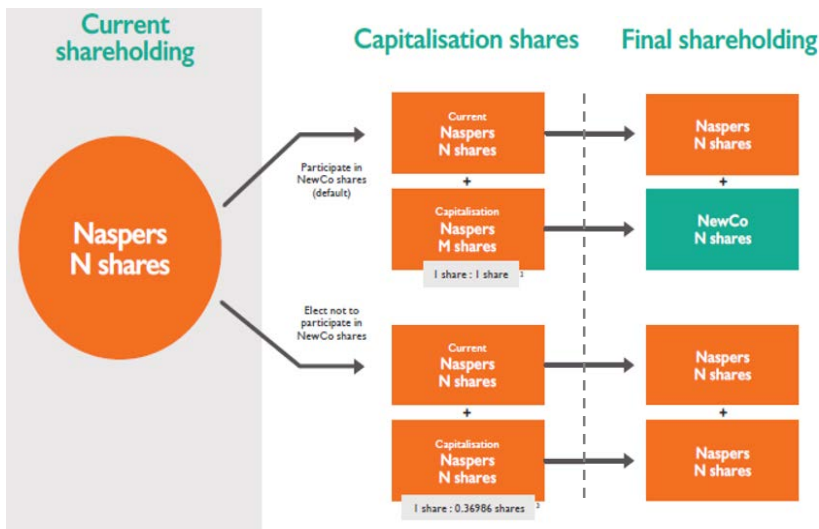


SHAREHOLDER ELECTION

Shareholders will be given two choices:

- **Option 1 – NewCo Shares:** For each **Naspers N Share** owned, receive 1 **Naspers M Share** which will convert into 1 **NewCo Share**.
- **Option 2 – Naspers N Shares:** For each **Naspers N Share** owned, receive 0.36986 additional **Naspers N Shares**. There is a limit of 61m new Naspers N Shares, after which shareholders would receive a pro rata allocation of NewCo shares.

Each choice leaves the investor owning the same proportion of the underlying \$152 billion in assets. However, we expect there to be a difference in value between the NewCo and Naspers discounts as highlighted previously, and as we point out below that depending on the investor and the option elected, there may be capital gains tax implications to consider.



CAPITAL GAINS TAX IMPLICATIONS

South African Tax Resident Shareholders

Option 1 – NewCo Shares:

- According to Naspers management and our in-house tax specialists, electing NewCo shares **does** create a taxable event, as the transaction is viewed as a distribution to shareholders with a zero base cost for tax purposes.
- The **full value of NewCo** stock received is subject to capital gains tax during the current tax period, at the shareholders applicable rate, unless the shareholder is exempt from capital gains tax.
- The capital gains tax is payable regardless of whether the shareholder has unrealised gains or losses attributable to their Naspers position before the listing of NewCo.
- Example: Assuming the value of NewCo stock received is R10 million, and a maximum capital gains tax rate for a South African resident individual of 18%, capital gains tax worth R1.8 million is payable during the current tax period.
- For shareholders electing NewCo, there are potential avenues available to enhance the tax effectiveness of the election. Please contact us should you wish to discuss further.

Option 2 – **Naspers N Shares:** No taxable event.

EXTERNALISING CAPITAL

- If a shareholder is a South African resident, the NewCo shares issued will be listed on the JSE, and **will not be externalized** for exchange control purposes. As such, no SARB approval will be required, and there will be no use of the shareholders foreign investment allowance. NewCo dividends will attract the same South African withholding tax rate as Naspers. In addition, they may also attract Dutch withholding tax, which can be claimed back from the Dutch tax authority at the onus of the shareholder.
- If a shareholder is not a resident and is designated an international shareholder, electing NewCo shares will result in that shareholder being granted shares which are listed directly on the Euronext Amsterdam.
- Note: Please contact us directly to discuss how best to pursue externalizing capital.

CONCLUSION

We view the listing as a positive step toward unlocking value for shareholders through reducing the discount between the holding company and the underlying assets. Our base case expectation is for a 3% value uplift for the fund and shareholders exempt from capital gains tax, based on a 25% discount of NewCo to underlying assets. With a bull case upside of 17% and a bear case downside of 10%, we believe the NewCo listing provides net positive optionality. Importantly, whatever the NewCo discount, we are of the view that Naspers will trade at a discount to NewCo, and as such, NewCo would be our selection under the majority of scenarios.

Notwithstanding the potential for capital gains implications in the current tax year, we are of the view that over the longer-term, shareholders electing NewCo shares will experience greater after-tax returns. We respect that a substantial capital gains tax payment in the present tax year may not be appropriate or desirable for clients given differences in tax rates, unrealised gains and losses and unique circumstances. Hence, we refrain from offering a standard recommendation to taxable clients.