



Kaap Chairman “Anthony’s nagging”...they announce JSE listing

OTC price: 4000 cents

MCap: R2,964m

NAV: 1995 cents



Having been chivvying PSG/Zeder to “set Kaap Agri free” since the start of 2016 and written several research comments to my view, including a Financial Mail article entitled as such in July 2016, yesterday at the Kaap Agri Annual General Meeting I attended, the Kaap Chairman George Steyn...using my “nagging” in his commentary...stated that the Western-Cape agricultural and retail business plans to move its OTC listing to the main board of the JSE.

In speaking the MD Sean Walsh and FD Graeme Sim post the meeting, they indicated that as no capital was being raised the mechanism for the move should be speedy and expected the listing to be undertaken by the end of June.

Kaap Agri is currently trading at 4000 cents on the bid with no offers; hardly surprising given the impending JSE move. With HEPS to its September 2016-year end of 298.46cps placing the counter on a historic PE of 13.4x and a dividend yield of 2.4%. On my forecast FY17 HEPS of 352cps (+18%) the counter is on an undemanding PE of 11.4x.

Listing Kaap Agri on the main board of the JSE, presumably in the same category as its relevant compatriots Cashbuild (PE 20.1x Home Improvement Retailers) and Massmart (PE 25.1x Breadline Retailers) as I have long commented would lead to a re-rating in Kaap Agri.

Given its diversity, agricultural focus but with a fast growing retail element within many general merchandise categories such building materials, fuel retailing & distribution, I long have argued that a JSE-sector PE re-rating to 14x – 16x would not be beyond the realms of probability. This suggests a forecast share price to September 2017, on my earnings, of between 4900 cents to 5600 cents. Given the counters current operational performance and capex growth initiatives, this re-valuation could be considered conservative.

A secondary benefit of the JSE listing is the residual benefit to 39.9% majority shareholder Zeder Investments where Kaap comprises 8.5% of its market capitalisation and 7.8% of its SOTP; Zeder rose 1.7% yesterday on the news to 766 cents. Whilst not sufficient to move the SOTP needle too far, Kaap’s move does signal that, at long last, Zeder is prepared to create some value. **I maintain my current BUY’s on Kaap Agri and Zeder Investments.**



I have covered Kaap Agro for many years and am probably the only analyst that has consistently commented and given opinion on the Western Cape-based agricultural counter, much to the chagrin of some I am sure, who would prefer I keep quiet on this gem of a business.

I nicknamed the stock in the media many years ago the “Boere Massmart” as the business, even given its agricultural and rural roots, is now firmly establishing itself as a hybrid retailer servicing not just its traditional agricultural base but a widening sphere of consumers through swathes of South Africa.

In July 2016, in an article written in the Financial Mail’s monthly supplement ‘Investors Monthly’, I openly called for Kaap Agri to be “set free from Zeder Investments” which currently owns just shy of 40% of Kaap Agri.

I argued that the company and its low valuation, given its size and profitability, was being hamstrung by its (now) antiquated and difficult trading Over The Counter (OTC) platform and a more equitable solution needed to be considered.

I further commented that underlying strong earnings momentum and thus the low PE – due to the OTC platform - (it’s on a historic 13.4x and a forward to September of 11.4x based on my HEPS estimate of 352cps) would see a sharp-re-rating if it were to be listed on the retail board of the JSE; its natural home.

In Early-January 2017, I selected Kaap Agri as one of my top stocks of 2017 at 4000 cents as I had a broad thematic in my selection on the food and agricultural sector. In Kaap Agri’s case I had another rationale; value unlock and share re-rating potential. This has now been realised



In reviewing the Kaap Agri’s 2016 Annual Report for its results year end of September 2016, those results detailed;

From its 180 operating points across Provinces in South Africa and into Namibia, total group revenue rose by a modest 5.8% to R5,653m with Operating profit increasing by 16.1% to R338.1m with Profit before Tax rising 13.3% to R290.8m.

- General trade & mechanization rose by 5.8% to R4,919m
 - Profit rose by 15.9% to R240.6m
- Wesgraan (the wheat handling & storage unit) declined by 15% to R558m due to lower harvest in the Western Cape
 - Profit declined by 8% to R30.7m
- Irrigation, manufacturing & retail rose by 30.4% to R169m due to traction and market share gains in selected products specifically in specialized water irrigation.
 - Profit rose by 69% to R18.1m

- HEPS rose by 15.1% to 298.46cps
- Dividend for the year rose by 15.2% to 94.5cps
- Net Asset Value ended the financial; year at 1995cps (1781cps)

In reviewing results with management, they were pleased with the business performance during 2016, notwithstanding dry conditions in parts of the Western Cape that impacted the wheat harvest.

Segment income and results	Segment income		Segment results	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Trade and mechanisation	4 919 856	4 547 114	240 615	207 556
Wesgraan	558 610	658 874	30 785	33 497
Irrigation: manufacturing and retail	169 405	129 954	18 163	10 889
Total for reportable segments	5 647 871	5 335 942	289 563	251 942
Corporate	4 972	5 460	(80 170)	(68 761)
Treasury	–	–	81 405	73 585
Total external income	5 652 843	5 341 402		
Profit before tax			290 798	256 766
Income tax			(80 376)	(67 572)
Profit after tax			210 422	189 194

Segment assets and liabilities	Segment assets		Segment liabilities	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Trade and mechanisation	1 396 213	1 169 794	676 714	619 210
Wesgraan	63 312	75 400	17 274	17 442
Irrigation: manufacturing and retail	71 000	52 518	27 653	17 305
Total for reportable segments	1 530 525	1 297 712	721 641	653 957
Corporate	231 586	175 770	128 641	102 381
Trade debtors	1 364 756	1 206 264	–	–
Short-term borrowings	–	–	871 058	669 980
Deferred taxation	6 008	5 932	5 858	4 138
	3 132 875	2 685 678	1 727 198	1 430 456

A lower crop saw lower volumes passing through the business, hence the decline in Wesgraan; costs were controlled in this division which alongside better operational efficiencies mitigated a greater fall in profitability.

However, high wheat prices assisted farming revenues overall which aided other aspect of Kaap Agri's business.

The retail operations under Agri Mart performed exceptionally well with ongoing investment in the network and the roll-out of the ExpressMark fuel stations. 30 ExpressMark's are currently operational with a planned 6 to open by mid-2017. A plan to expand to 50 sites are underway.

Five-year review of performance

	GROUP				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Income statement					
Revenue	5 652 843	5 341 402	4 874 579	4 007 807	3 211 637
Direct business	1 993 219	1 740 560	1 653 859	1 521 911	1 308 364
Value of transactions	7 646 062	7 081 962	6 528 438	5 529 718	4 520 001
Profit before tax	290 798	256 766	214 563	174 930	141 659
Income tax	(80 376)	(67 572)	(56 350)	(45 876)	(39 001)
Profit after tax	210 422	189 194	158 213	129 054	102 658
Headline earnings adjustment	(118)	(6 472)	(355)	(288)	(169)
Headline earnings	210 304	182 722	157 858	128 766	102 489
EBITDA	367 975	310 843	263 199	219 095	183 188
Dividends paid	66 586	57 779	45 800	35 231	24 661
Interim	18 672	16 911	13 388	9 865	6 341
Final (2016: declared)	47 914	40 868	32 412	25 366	18 320
Statement of financial position					
Non-current assets	807 695	653 954	529 658	454 567	408 381
Current assets	2 325 180	2 031 724	1 840 595	1 664 015	1 464 031
	3 132 875	2 685 678	2 370 253	2 118 582	1 872 412
Liabilities and loans	(1 727 198)	(1 430 456)	(1 254 885)	(1 122 694)	(977 469)
Total shareholders' equity	1 405 677	1 255 222	1 115 368	995 888	894 943
Net interest-bearing debt	854 986	647 331	520 928	497 360	425 736
Statement of cash flows					
Cash flow from operating activities	100 462	106 708	139 034	69 190	69 310
Cash profit after tax from operations	304 966	241 138	210 000	178 319	160 841
Working capital changes	(204 504)	(134 430)	(70 966)	(109 129)	(91 531)
Cash flow from investment activities	(213 746)	(158 423)	(102 516)	(90 443)	(45 830)
Cash flow from financing activities	106 765	53 206	(32 537)	25 226	(24 273)
Net cash flows	(6 519)	1 491	3 981	3 973	(793)
Ratios					
Total shareholders' equity : Total assets employed	45,7%	46,9%	47,0%	47,4%	47,1%
Net interest-bearing debt : Total assets employed	25,8%	23,1%	22,7%	23,1%	24,1%
Headline earnings : Shareholders' interest	15,8%	15,4%	14,9%	13,6%	12,3%
EBITDA: Net assets	24,4%	23,2%	22,1%	20,6%	19,4%
Interest cover (times)	8,1	8,7	9,0	8,1	7,1
Per share					
Shares issued (number – '000)	70 462	70 462	70 462	70 462	70 462
Weighted average shares issued (number – '000)	70 462	70 462	70 462	70 462	69 226
Headline earnings per share (cents)	298,46	259,32	224,03	182,75	148,05
Dividend per share (cents)	94,50	82,00	65,00	50,00	35,00
Net asset value per share (rand)	19,95	17,81	15,83	14,13	12,70

Ratios calculated on average balances.

Kaap Agri does indeed plan to list on the JSE...and its 2020 growth plan is more than a year ahead of schedule...

Kaap Agri has had a solid and consistent growth expansion averaging 15% CAGR per annum and is well on target to meet its internal objective of attaining a R500m Operating Profit by 2020; in fact, given current expansion plans and internal growth...that target 'may' be attained by 2019. This was re-affirmed at the Kaap Agri AGM yesterday by the MD Sean Walsh.

With such a sizable business in the general agricultural and growing non-agricultural sector, I was flummoxed why such a growth business was being kept under wraps when any rational decision can clearly see that given its operational and managerial performance a materially higher market valuation could be attained if the business was 'set free' and listed on the JSE. This is now the case and a JSE listing will be undertaken by June.

Looking into FY17 where is growth coming from?

Kaap's FY17 has started strongly and my forecast earnings is 352cps (+18%)...I may even be a touch light...

After delivering HEPS growth of 15.1% in FY16 to 298.46cps, my forecast earnings for FY17 is 352cps (+18%).

The new financial period has started positively for Kaap Agri with the retail business, especially the non-agri component, performing exceptionally well. I expect strong growth in the coming year from fuel stations and building materials within Kaap Agri.

In the agricultural space, silo's, seeds and mechanisation will be expanded in the period.

Looking at the key divisions;

Trade: 86% of revenue & 82% of PBT in 2016

In the year ahead, as part of Kaap's R306m capex initiative, some R130m will be spent upgrading AgriMark. Eight to fourteen branches will be refurbished to match the new format at the flagship Paarl facility, which has seen dramatic rises in sales post its realignment to a more modern retail environment. Management comments this investment should start to bear fruit in the final two months of 2017 and into 2018.



Kaap's big growth push in the coming 3 years is building materials..and fuel stations...AND Kaap gains rights to New Holland equipment...which was terminated from Invicta...

Building materials, paints, DIY and hardware are performing well and Kaap Agri is a leading player in this segment in the Western Cape via its branch footprint and buying power and is winning market share as stores are re-focused, refurbished and upscaled. As an aside, Kaap is one of the largest re-sellers of cement in the Province. Cashbuild would love to get its scale in the Western Cape.

Another area of possible expansion, following the success of the upgraded Paarl flagship store is perhaps garden centres. Garden plants and requisites have proven to be strong category sellers at the flagship branch. Could a GardenMark brand be the next offering – a chain of Kaap Agri garden centres?

At the AGM yesterday. MD Sean Walsh stated that the internal plan was to grow the building materials business by 300% over three years to a R900m revenue.

Capex in the coming year of R306m with another R120m to be finalised...is the largest ever such investment made...

The mechanisation division of Kaap Agri also gained a boost. At the AGM Sean Walsh commented that Kaap had gained an agreement to distribute New Holland agricultural equipment. This is interesting, as recently Invicta – which had the exclusive agency – was given a 12-month termination notice by New Holland's parent company CNH. Invicta stated the impact of the loss of its business was 5% of revenue and 2% of profit.

The New Holland agreement is allied to Kaap's initiative to enhance their agricultural mechanisation offering, spare parts into a more cohesive business to enable them to compete with sector leader John Deere.

Management is upgrading the businesses supply chain and improving distribution and software upgrades are underway to further optimize the business; all sound retailing strategy



The ExpressMark fuel stores are also profitable, and one must consider that five years ago this business was not even in existence, but now contributes over R40m in profit to Kaap Agri and is growing rapidly.

ExpressMark's sold 181m litres of fuel in its prior financial period and sold 225m litres (+24%) in FY16. The unit employs over 250 people. At the AGM, it was commented that Kaap makes more profit from selling coffee & pies at its ExpressMark's than it does from selling cement. Eight Fego cafés have been opened within the convenience stores with another 5 planned.



There are 34 ExpressMark's currently operational at Kaap's September 2016 year-end. Presently there are 40 outlets with a further 5 planned to open by the end of 2017. A further 8 to 12, accords MD Walsh, will be opened in 2018.

Kaap is on the hunt to acquire service stations in key Provinces as most of its own sites have or will have been converted into ExpressMark's. Establishing a new greenfield fuel & convenience location can take up to three years due to planning & EIA requirements, thus Kaap wished to acquire existing operations and convert the formats and utilise its buying power and distribution logistics to enhance, said, acquired sites.

Trade: 10% of revenue & 11% of PBT in 2016

The wheat harvest, accords management, still an important consideration to the business is the best in 11 years in the Western Cape. That will aid recovery in Wesgraan and improve farm incomes.

125,000 tons more wheat was gained in the past financial year than envisaged, given the serious drought experienced in parts of the Western Cape.

This proved positive for the grain and silo division and results in 2017.

The medium term plans are to build a new wheat silo outside Malmesbury which will aid efficiency to the farmers who currently have to come into the town to deliver and handle grain. The existing town wheat silo will be converted in to other grain storage facilities. Such capex will be costly.

Overall

To meander back to my July 2016 Financial Mail article (2900 cents) and my Top stocks recommendation on January 10th 2017 in Kaap Agri (at 3700 cents), I maintain my bullish stance on the operational performance of Kaap Agri. The confirmation of a JSE listing, a cause I have campaigned for, cements & confirms my valuation.

After a moribund two-years, Zeder Investments needed some positive news. Perhaps freeing Kaap Agri will send a positive signal that Zeder is now looking for value appreciation in its stagnant portfolio. Kaap's listing will not move Zeder's SOTP needle that much, its 8.5% of its market value and 7.8% of its Sum of the Parts, but it does send a positive signal that change is underway....that alone is a good thing.

I maintain both my Top stocks buys on Kaap Agri and thus Zeder.



The Kaap listing...adds upside to Zeder where Kaap is currently 8.5% of its market cap and 7.8% of its SOTP...

VUNANI

SECURITIES

Institutional Team

Johan Rossouw	CEO / Strategy	021 481 6205 011 263 9535	johan@vunanisecurities.co.za
----------------------	-----------------------	--------------------------------------	-------------------------------------

Research

Hurbey Geldenhuys	Head of Research / Platinum	011 263 9579	hurbey@vunanisecurities.co.za
Anthony Clark	Small Caps / Food producers	021 481 6225	anthonyc@vunanisecurities.co.za
Arnold Werbeloff	Diversified Industrials	011 263 9516	arnold@vunanisecurities.co.za
Hugo Pienaar	Economist & Bonds (BER)	021 887 2810	hugop@sun.ac.za
Irnest Kaplan	Information Technology	083 325 7799	irnest@KaplanEquity.com
Noluthando Zulu	Gold & Other Mining	011 263 9598	noluthando@vunanisecurities.co.za
Precious Monareng	Retail	011 263 9576	precious@vunanisecurities.co.za
Lofthy Mmola	Mining	011 263 9587	lofthy@vunanisecurities.co.za

Trainee Analysts

Anda Teke	Retail	011 263 9580	anda@vunanisecurities.co.za
Shirley Mabasa	Hotels & Leisure	011 263 9581	shirley@vunanisecurities.co.za

Administrative Staff

Shamina Moodley	Compliance Officer	011 263 9550	shamina@vunanisecurities.co.za
Nadine Knight	Operations Manager & Settlement	011 263 9528	nadine@vunanisecurities.co.za
Charlene Goto	Head of Finance	011 263 9525	charlene@vunanisecurities.co.za
Dijana Wasserfall	Personal Assistant / Research co-ordinator	021 481 6206	dijana@vunanisecurities.co.za

Dealing

Jonathan Feigin	Head: Equities Trading	011 263 9509	jonathan@vunanisecurities.co.za
Anthony Hughes	Senior Equity Trader	011 263 9509	anthony@vunanisecurities.co.za
Oupa Madonsela	Senior Equity Trader	011 263 9509	oupa@vunanisecurities.co.za
Meshack Mokobane	Senior Equity Trader	011 263 9509	meshack@vunanisecurities.co.za
Kamal Parbhoo	Senior Derivative & Equity Trader	011 263 9509	kamal@vunanisecurities.co.za
Lunga Bhengu	Sales Trader	011 263 9509	lunga@vunanisecurities.co.za
Zizo Maraule	Junior Equity Trader	011 263 9509	zizo@vunanisecurities.co.za

Sarel Pretorius	*Head: Fixed Income Sales & Trading	011 326 5198	sarel@vunanicm.co.za
Dan du Toit	Senior Bonds Dealer	011 326 5198	dan@vunanicm.co.za
Marten Banninga	Senior Bonds Dealer	011 326 5198	marten@vunanicm.co.za
Percy Mathebula	Bonds Trader	011 326 5198	percy@vunanicm.co.za
George Shaw	Money Market Trader	011 326 5198	george@vunanicm.co.za
Raymond Papenfus	Money Market Trader	011 326 5198	raymond@vunanicm.co.za

*Fixed interest and money market trading conducted in Vunani Capital Markets (Pty) Ltd

Disclaimer

Vunani Securities (Pty) Ltd is a registered financial services provider. The above material was produced by one of the companies in the Vunani Group. A Group Company and/or persons connected with it may effect or have effected a transaction for their own account in the investments referred to in the above material or any related investments before the material is published to any Group Company's customers. A Group Company, persons connected with it and their respective directors and/or representatives and/or employees may have a position in the securities or any related investment and may make a purchase and/or sale, or offer to make a purchase and/or to buy any securities. The information and opinions contained in this document have been compiled or arrived at by the relevant Group Company's judgment as of the date of this document and are subject to change without notice. The information contained in this document is published for the assistance of recipients, but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. No Group Company accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.