

Story of the week

Rhodes Food Group Holdings Limited (JSE: RFG) recently released a trading update which speaks to the weak macroeconomic and consumer environment experienced in South Africa and the rest of Africa. Despite this, the Group saw turnover increase by 9.6% over the 10 month period ended July 2019.

The Group's Regional long life turnover grew by 10.8%, with volume growth of 6.4%. Canned meats, fruit juice and dry foods saw pleasing growth. Fresh foods turnover increased by 5.8% with unchanged volumes.

The International segment saw turnover increase by 13.4%, driver by higher volumes, a favourable shift in product mix towards higher margin products and the 9.7% depreciation of the Rand against RFG's major trading currencies. This contributed to improved margins.

Our full report will be released soon.

Alviva Holdings Limited (JSE: AVV) recently released preliminary results for the year ended 30 June 2019. The Group saw revenue increase by 16.9% to R15.9bn despite difficult trading conditions. The difficult trading conditions contributed to margin squeeze which resulted in the EBIT margin decreasing from 5.1% to 4.2%. HEPS increased by 8.7%, from 273cps to 297cps, in line with our HEPS forecast of 297cps.

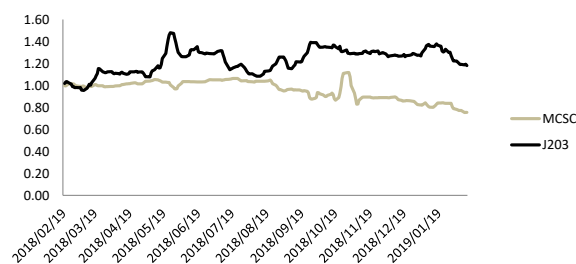
Quantum Foods Holdings Limited (JSE: QFH) released a trading update. The update should be considered in the context of the exceptional 2018 year the Group had resulting from inflated egg prices in the wake of Avian Influenza. The Group expects HEPS to be at most 93.4cps, in line with our forecast of 87.7cps as a result of normalised conditions and lower egg prices.

EOH Holdings Limited (JSE: EOH) released a trading statement for the year ended 31 July 2019 which warns investors to expect a HEPS loss of at least 1800cps. This loss is greater than the loss of 993cps we forecast. The Group continues to deleverage its balance sheet but sales and margins remain under pressure.

Cognition Holdings Limited (JSE: CGN) released results which saw revenue increase by 36.1% to R215m, below our forecast of R220m. The Group saw operational costs increase which resulted in margin deterioration, from 14.2% to 8.6%. The Group was negatively impacted by trading conditions in throughout Africa which deteriorated drastically. The Group's challenges now revolve around decreasing operational expenditure and improving margins.

Our full report will be available soon.

MCSC Index



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 lackluster 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.

Ranking Table Update

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)
Ecsponent	15	162	7.0	8.9	14.4	0.0	2.3	4.3	67	349%	60%	60.1	301%
Jasco	22	50	-2	4	6	0.0	-15.7	5.7	38	72%	45%	120	447%
Nu-World	4200	749	869.5	973.3	1079.3	9.9	3.7	6.3	6890	64%	60%	7847	87%
Quantum Foods	378	756.1	164.0	88.7	92.9	20.6	3.0	6.3	584	54%	60%	398	5.3%
Adapt IT	551	840	67	76	103	3.1	8.2	7.0	769	40%	25%	863	57%
Calgro M3	470	691	-19	84	108	0.0	-24.8	6.3	623	32%	50%	751	60%
Santova	190	307	45	38	45	4.0	5.1	5.8	246	30%	60%	236	24%
Invicta	2000	2170	112	227	334	2.5	17.9	8.9	2473	24%	40%	2834	42%
Vunani Limited	255	411	55	45	54	2.9	4.8	6.2	311	22%	60%	324	27%
EOH	1353	2385	23	-993	153	0.0	-1.3	6.5	1622	20%	60%	n/a	
Afrimat	2956	4219	234	292	347	2.8	12.7	10.8	3479	18%	40%	3808	29%
Argent	587	471	104.4	120	128	0.0	5.6	5.5	685	17%	60%	500	-15%
Balwin	280	1365	96	100	110	5.0	3.0	3.0	321	15%	30%	293	5%
Cartrack	1945	5835	116	143	177	1.5	16.8	13.7	2222	14%	40%	2688	38%
Wescoal	158	708	46	18	30	0.0	7.8	7.3	174	10%	60%	633	301%
OneLogix	300	872	44	47	58	3.6	8.3	6.5	330	10%	40%	561	87%
Insimbi	113	484	14	17	22	3.5	8.7	5.9	117	4%	60%	122	8%
Sephaku	158	329	21	17	20	0.0	7.5	9	162	3%	60%	96	-39%
Mix Telematics	790	4764	36	44	54	1.7	17.5	10.4	683	-14%	30%	757	-4%
Datatec	3471	7367.0	10.0	129.2	288.9	2.9	370.4	9.5	2938	-15%	60%	3251	-6.3%
Adcorp	2070	2386	245	301	334	4.4	9.5	5.0	1448	-30%	45%	2637	27%
Rhodes Food Goup	1698	4156.9	63.0	65	84	1.3	25.7	13.2	1109	-35%	60%	609	-64.2%

Prepared by: The Merchantec Mid Cap Research Team

Contact: Brian Rainier, CFA

Tel: +2711 325 6363

Email: brian@merchantec.co.za

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