

Weekly update for 31/08/2020

Weekly Update

Merchantec Capital Small Cap Index Major Movers			
Company Name	Close (cents)	Weekly %chg	Market Cap (Rm)
AFT	3776	+14.4%	5409
SNV	208	+12.4%	336
WKF	95	+10.5%	232
OLG	210	+10.0%	558

Core equity changes

Adcorp Holdings Limited (JSE: ADR) released a trading update informing shareholders of Covid-19's effect on operations. Management stressed that all divisions have been negatively impacted by national lockdowns in both South Africa and Australia.

The entire labour broking sector has seen an expected decline in demand for permanent and temporary workers especially in the hospitality, motor and beverage industries. Hiring freezes have been implemented in white-collar industries, however, IT resourcing revenues have remained stable throughout the lockdown period. This supports our assumption that more companies have accelerated the digital transformation of their operations and are automating previously manual tasks which may reduce the need for additional staff even after the pandemic has passed.

Australia has seen low margin operations remain stable as restrictions on domestic travel increased utilisation rates. However, there has been a reduction in high and mid-margin project work and permanent placement fees which has pressured margins.

Management continues to focus on cash preservation and has implemented cost-saving initiatives. They assured shareholders that the business is still a going concern with sufficient liquidity to meet short-term obligations. It is our opinion that ADR are just focusing on surviving and will need to rebuild with a much leaner business once the pandemic has run its course.

Afrimat Limited (JSE: AFT) share price reached an all-time high mainly as a result of the favourable USD/ZAR exchange rate and the strong iron ore price above \$120 a tonne.

While AFT currently trades well above its NAV, we do expect a strong share price to persist as the Group recently acquired more mines and has an excellent acquisition track record.

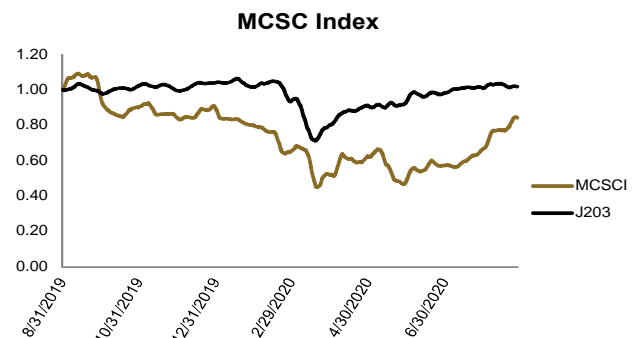
The Merchantec Capital Small Cap Index

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.

MCSC Indices outlook over the past week

The Merchantec Capital Small Cap Index (MCSCI) yielded a ~ 26.2% gain over the past month and a ~ 0.2% gain over the past week in comparison to the ALSI (~ 0.6% 1 month gain and ~ -1.0% 1 week loss). On a PE basis, the index is trading at a forward PE of 7.8x, which is relatively undervalued in comparison to the JSE All Share index which is trading at a forward PE of ~ 11.8x.



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)
Alviva	540	716	297	91	226	5.6	4.5	5.0	1259	133%	35%	1646	205%
EOH	469	806	-1352	-458	115	0.0	-0.9	4.1	871	86%	35%	688	47%
Nu-World	2150	474	756	474	720	13.4	1.5	5.1	3897	81%	35%	1834	-15%
Adapt IT	134	189	56	19	41	0.0	26.6	5.0	226	69%	35%	180	34%
Wescoal	68	278	-33	2	19	0.0	-30.7	4.8	106	56%	35%	310	356%
OneLogix	210	543	38	12	31	5.2	35.4	8.5	295	40%	35%	426	103%
Balwin	301	1383	87	57	82	8.7	11.4	4.6	395	31%	35%	298	-1%
Mustek	686	467	139	82	143	4.4	6.9	5.7	882	29%	35%	208	-70%
Metrofile	211	929	21	20	24	5.2	84.6	10.7	270	28%	35%	195	-8%
Datatec	2174	4262	87	169	256	0.0	10.3	10.2	2775	28%	35%	3910	80%
Vunani Limited	240	376	1	30	43	0.0	20.0	6.7	302	26%	35%	262	9%
Jasco	13	29	-11	-5	1	0.0	-40.4	10.7	16	22%	35%	38	190%
Santova	208	327	41	30	38	0.0	24.5	6.2	248	19%	35%	117	-44%
Grand Parade	202	924	9	-7	19	0.0	86.7	9.4	224	11%	35%	185	-9%
Anchor Capital	390	823	44	48	57	4.1	23.4	8.7	422	8%	35%	416	7%
Argent	575	361	133	130	139	0.0	5.8	4.3	604	5%	35%	705	22.5%
Cashbuild	18896	4595	1910	1104	1447	4.5	0.6	12.9	19430	3%	35%	12211	-35%
Quantum Foods	600	1168	93	63	79	3.5	12.2	7.3	597	-1%	35%	570	-5.0%
Cartrack	2939	8580	148	162	203	2.5	6.7	13.7	2874	-2%	35%	2204	-25%
Rhodes Food Goup	1290	3299	94	121	143	2.2	12.2	8.4	1234	-4%	35%	713	-45%
Cognition	73	163	9	4	8	13.7	172.4	7.4	67	-8%	35%	66	-9.7%
Afrimat	3776	5264	348	275	327	3.1	2.9	10.1	3379	-11%	35%	2386	-37%
Calgro M3	275	394	2	6	29	0.0	260.4	7.3	239	-13%	35%	181	-34%
Mix Telematics	649	3797	27	22	27	2.5	20.0	15.8	446	-31%	35%	498	-23%
Adcorp	270	289	-6	16	26	0.0	-1.8	6.5	182	-33%	35%	319	18%



Prepared by: The Merchantec Mid Cap Research Team

Contact: Brian Rainier, CFA

Tel: +2721 534 1244

Email: brian@merchantec.co.za

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