

## Weekly Update for 11/10/2021

### Merchantec Capital Small Cap Index Major Movers

Company Name	Close (cents)	Weekly %chg	Market Cap (Rm)
Wescoal	195	+12.1%	819
Vunani	299	+10.7%	482

### Top Story

**Vunani Limited's** (JSE: VUN) share price climbed 10.7% last week upon the release of an improved set of interim results, which saw revenue and operating profit from continuing operations increase by 18.5% and 32.4% to R321.5m and R54.4m, respectively. HEPS increased by 10.2% to 21.7 cents. Provided the Group maintains its current performance during H2, it is on track to meet our previous FY22 HEPS forecast of 41.6 cents. An interim dividend of 6.5cps has been declared.

The Group reported both revenue and profit after tax increases across its Fund Management, Asset Administration, Insurance and Advisory Services segments, with tough markets resulting in the Institutional Securities Broking segment being the only one to report the opposite.

Vunani Fund Managers (VFM), which forms part of the Fund Management segment, saw assets under management (AUM) grow by 11.3% to R57.3bn, indicative of the business's scope for growth. Vunani Fund Managers Botswana (VFMB) experienced 6.8% decrease in AUM due to the withdrawal of funds by investors to deal with the impact of Covid-19. Shareholders are reminded VFMB was selected by the Botswana Public Officers Pension Fund (BPOPF), the largest retirement fund in Botswana, as the preferred service provider for a R3bn fund. Management previously advised that the deal, which was still subject to further due diligence by the BPOPF at FY21-year end, would result in a significant increase in AUM which could potentially start pushing through in H2FY22. The Fairheads business, which forms part of the Asset Administration segment, reported a R1.6bn increase in assets under administration (AUA) as a result of the acquisition of the Nedbank beneficiary administration book in July 2021.

The Group's balance sheet remains robust with little interest-bearing debt. This solid base provides a degree of strategic flexibility which allows the Group to increase gearing where necessary to encourage organic growth and take advantage of possible acquisition opportunities.

The Group's unbundling of its Private Equity segment is proving to be beneficial, the extent of which will be discussed in our full report to follow shortly.

### Core equity updates

**EOH Holdings Limited** (JSE: EOH) released a trading statement for the year ended 31 July 2021, in which the headline loss per share is expected to be between 7 and 37 cents, representing an improvement of between 92.5% and 98.6% from the headline loss per share of 495 cents in FY20. Our forecast headline loss per share of 35 cents falls within this range.

EOH expects to report a total operating profit of between ~R125m and ~R175m, a significant improvement from the operating loss of R1.3bn in FY20. The Group has continued to narrow the gap between adjusted EBITDA and normalised EBITDA following the reorganisation of its operating structure. The Group's turnaround strategy has gained traction, seeing the adjusted EBITDA margin move closer to management's long-term goal of 10% at between 7.6% and 9.3%.

The gross debt balance remains largely unchanged at ~R2bn, owing to the delay of its disposal of Sybrin, which is expected to be concluded in December 2021. The proceeds of R334m will be used to reduce debt.

EOH will publish its annual results on or about 28 October 2021.

**Invicta Holdings Limited** (JSE: IVT) has acquired a majority shareholding (78.03%) in Dartcom SA Proprietary Limited, a distributor of communication and renewable energy technology equipment and solutions in South Africa and across the African continent, from Tuludi Capital Group, an investment vehicle managed by New GX Capital Group and Kgalauwane Properties Holdings.

The acquisition forms part of IVT's strategy to diversify from its industrial base in South Africa and establish a diversified telecommunications, renewable energy and related battery storage technologies solutions provider that has growth potential in South Africa and the rest of Africa.

The purchase consideration of R565.7m will be funded from the issue of 16.5m Invicta shares in terms of an asset-for-share transaction valued at R450.8m, subject to the repurchase of 5.2m shares, and the remaining portion out of cash resources.

The portion of Dartcom's FY21 earnings attributable to Tuludi was R14.2m, which was negatively impacted by the challenging trading conditions caused by Covid-19 pandemic. However, profits are expected to increase significantly going forward. As such, the parties have agreed to a profit warrantee in which the sellers guarantee that Dartcom Group will deliver cumulative consolidated net profit after tax of at least R349m over a 3-year period, commencing from the first business day of the month following the month in which the last of the conditions precedent set are fulfilled.

**Datatec Limited** (JSE: DTC) released a trading statement for the interim period ended 31 August 2021 in which HEPS is expected to be between 6.1 and 6.4 US cents, representing an increase of between 281.3% and 300.0% from H1FY21 HEPS of 1.6 US cents.

The Groups interim results will be released on or about 28 October 2021.

**RFG Holdings Limited's** (JSE: RFG) acquisition of Pioneer Foods Wellingtons Proprietary Limited has been approved by the Competition Commission and has thus become unconditional. The effective date of the Acquisition is 1 December 2021.

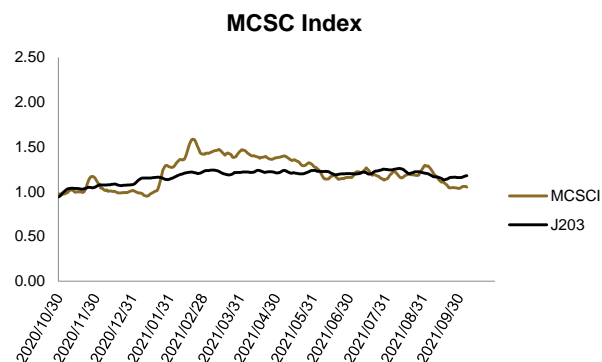
## The Merchantec Capital Small Cap Index

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 lacklustre 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 ~14.1% loss over the past month and a ~0.8% loss over the past week in comparison to the ALSI (~1.7% 1-month gain and ~1.7% 1-week gain). On a PE basis, the index is trading at a forward PE of ~8.6x, which is relatively overvalued in comparison to the JSE All Share index which is trading at a forward PE of ~7.6x.



### 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)
Wescoal	195	820	-3	51	68	0.0	-67.2	5.5	331	70%	45%	323	66%
Nu-World	2780	631	636	695	781	7.0	4.4	5.3	4224	52%	40%	3727	34%
Balwin	379	1972	71	89	116	9.4	5.3	5.4	572	51%	35%	514	36%
Workforce	135	330	12	31	40	0.0	11.3	3.8	202	50%	40%	171	27%
EOH	776	1372	-505	-35	66	0.0	-1.5	7.1	1139	47%	70%	1397	80%
Santova	380	536	47	53	60	0.0	8.1	7.9	512	35%	45%	427	12%
Quantum Foods	545	1092	81	60	84	1.8	6.8	8.5	721	32%	35%	671	23%
Adcorp	590	650	34	89	107	0.0	17.2	4.5	715	21%	40%	668	13%
Rhodes Food Goup	1250	3290	87	103	125	2.3	14.4	10.8	1352	8%	45%	1440	15%
Cognition	67	154	3	8	8	0.0	22.3	8.0	64	-4%	35%	95	41.8%
Invicta	3000	3350	316	288	317	2.0	9.5	9.1	2772	-8%	45%	3203	7%



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