

A call to (f)arms

Jun 23 2008 7:09AM

Marc Hasenfuss

AFTER the typically entertaining and enlightening PSG AGM in Stellenbosch on Friday it was not long before the post-meeting chatter turned from rugby to investment matters.

I was put on the spot by one PSG executive, who asked which part of the PSG Group I liked best at this rather delicate juncture in the market cycle.

I gathered from the conversation that most people are intrigued with Capitec Bank, which is perhaps understandable considering how the share has retreated from its highs of over 4 000c near the end of last year.

Now don't get me wrong; I like Capitec Bank's business model (very much), and I think the company has a superb management team. But I am much more enamoured with PSG's agri-business subsidiary, Zeder Investments.

On Friday, Zeder retreated to an annual low of 230c on the JSE - which is below the stated net asset value (NAV) of 260c/share as at the end of May this year.

In other words there is roughly (noting the latest movement in the shares of JSE listed Pioneer Foods) a 10% discount between Zeder's market price and its NAV.

Now some readers may argue that such a discount is quite acceptable for what really is an investment holding company with passive stakes in a wide array of interests.

I beg to differ and - although I am not a shareholder in Zeder (yet) - reckon the company should actually trade at a premium to its net assets.

I say this because - even though it's still early days - Zeder looks increasingly like having the ability to unlock substantial value in its underlying investments.

Unlocking buried value

However, I suspect that Zeder at the moment is a "victim" of its investments. Because of the composition of the investment portfolio Zeder is perhaps being seen as mainly a Pioneer Foods and KWV Limited play.

Zeder's 33.6% stake in Kaap Agri (which owns nearly 30% of Pioneer Foods) is worth over R700m while the 22% stake in KWV is worth around R440m.

Collectively Kaap Agri/Pioneer and KWV account for around 190c/share of Zeder's NAV. This means if you buy Zeder shares at the current price you are paying for the Kaap/Pioneer and KWV as well as the available cash. The rest of the portfolio you get gratis...

Aside from Kaap Agri/Pioneer, the major investments (at least the ones that are equity accounted) are MGK Business Investments (29.8%), KLK Landbou (10%) and Agricol Holdings (20%).

Smaller stakes are held in Tuinroete Agri (5.9%), OVK (8.1%), NWK (4.4%), SuidWes Investments (15.5%) and BKB (3.3%). The latest investment is an effective 8% stake in fruit exporting company, Capespan, which produced headline earnings of R81m in its last financial year.

To some these old co-op businesses might not have too much appeal, but every single one is profitable, conservatively managed and - more importantly - most pay good dividends. Some hold valuable property portfolios - like Tuinroete Agri, which owns valuable tracts of land in Plettenberg Bay, Knysna, George and Mossel Bay.

North West-based NWK, for example, generates annual turnover of almost R3bn - which means the company is more than twice the size of KWV Limited in terms of sales.

Obviously as Zeder builds its stakes in the respective companies it may be reasonable to

expect a degree of influence over the investments - especially in terms of unlocking buried value.

In a presentation on Friday, Zeder CEO Antonie Jacobs stressed agribusiness was a long term play but reiterated that the aim was to unlock substantial value over time. "The secret is to identify and buy early..."

Next big push

Zeder has already seen some success in unlocking value when the group played a major role in convincing BKB (which was merged with Grainco) to get rid of their share ownership restrictions.

Jacobs noted: "The BKB shares have shifted from 230c to 400c after getting rid of its share restrictions."

Possibly the next big push for Zeder will be to convince fast improving KWV Limited to list on the JSE. But with an array of agri-business stakes Zeder could also be a kingmaker and a catalyst for wide ranging corporate action.

Zeder clearly will also cull when necessary. For instance, Zeder's 5.8% holding in Senwes has been sold off because - as Jacobs put it - "it was difficult to achieve our goals" (ie: equity account Senwes' earnings).

Admittedly not all investors can perceive agribusiness as anything but dusty old assets with cranky executives that are slow to adapt to fast changing markets. Punters that hold such a view would then believe Zeder faces a frustrating future in terms of attempting to unlock value.

These detractors, of course, may then be amazed to see the calibre of international and local investors that are backing Zeder's efforts - most notably Fidelity, the Bank of New York, Sanlam, Coronation and Allan Gray.

PSG chairman Jannie Mouton also spoke enthusiastically about Zeder at Friday's AGM, and at times he battled to restrain himself from giving away juicy details.

He joked: "We have more tricks at Zeder, but I see Piet Viljoen and Thys du Toit (two well known asset managers) sitting here, and they may copy us. We have to keep some secrets..."

Mouton's strident tone certainly suggests there might be one or two significant changes to Zeder's portfolio when the group publishes its quarterly in September. I wonder where share price will be then?

- Fin24.com