

Remgro – Democratising Internet access in South Africa

Remgro's management prides itself in its innate ability to identify and invest in business opportunities which have proved over the decades to unlock shareholder value, time after time. This involves the acquisition of meaningful interests in both listed and unlisted companies over which management can have significant influence. Remgro offers broad exposure to the South African economy and falls squarely within our "Pockets of Excellence" theme. Founder Anton Rupert, the father of Johan (current Chairman and 2nd richest man in Africa), established Rembrandt in 1948 and it was listed on the JSE in 1956. In 1988, its offshore luxury assets were spun out to form CF Richemont and likewise, in 2008, British American Tobacco was successfully unbundled, illustrating early on the patience and timing it takes to create value. Remgro was also an initial investor in SA's first cellular company, Vodacom, back in 1993. Despite disposing of its stake in 2006, the companies' paths are set to cross yet again, this time on an exciting journey within the fibre internet industry in South Africa. This article will explore the rationale behind Remgro's investment in fibre internet, how Vodacom's new strategy will benefit both parties as well as touch briefly on other notable investments like Mediclinic & Distell.



**Nick
Rogers**

In September 2009, News24 reported an intriguing story about a homing pigeon called Winston. To prove how poor the internet connection was at the time, Telkom were challenged to see who could deliver 4GB of data between Howick and Hillcrest (75km) the quickest. The pigeon couriered a 4GB data stick which was downloaded in an overall time of just under 2hrs 7mins by which time Telkom's ADSL router

had only uploaded 4% of the data! Today, one can download 4GB in just 4 seconds in many towns and cities across SA where fibre is available. How are these speeds possible? Fibre internet works by splitting files, like movies and emails, into binary (zeros and ones) data packets, making use of light rather than high-voltage electrical transmitters over expensive copper wires. A laser then flashes morse code-type signals down a plastic or glass filament (about as thick as a human hair) within a specialized cable. The mirrored walls enable refraction allowing the light (data) to bounce along the thin fibre tubes at around 200,000 km/sec. To put this in context, a call between Sydney and New York (a distance of 16,000 km) will have a minimum delay of 1/12 of a second! The internet is a tremendous, undisputed force for economic growth and social change, one that has not missed the attention of Remgro's astute management.

In 2018, Remgro's gained a foothold in the fibre industry

SPEED READ

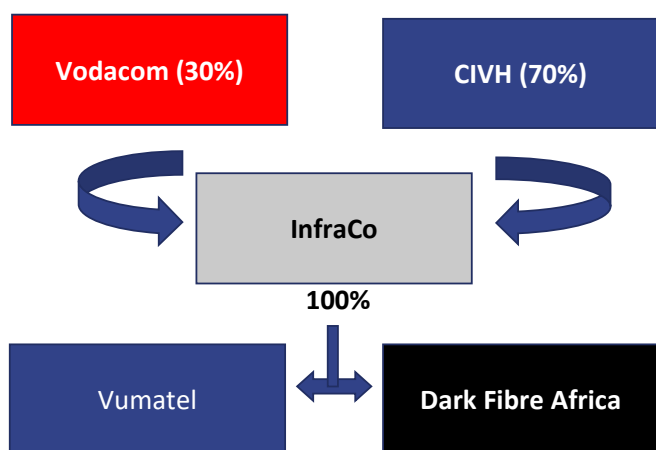
- Remgro's 57% stake in CIVH places it at the forefront of the exciting, high growth fibre internet opportunity available in SA.
- Every mobile operator in the world is trying to add fibre to its portfolio due to the imminent adoption of 5G and the advantages of fibre to handle the ensuing increase in data traffic.
- Data travels at 200,000 km/sec down fibre optic cables as thick as a strand of human hair.
- Remgro currently trades at an attractive c30% discount to the sum-of-its-parts or NAV.

through a multi-billion rand stake in Community Investment Ventures Holdings (CIVH), which owns operators Vumatel and Dark Fibre Africa (DFA). At the time other industry players questioned the rationale. Just over 3 years later and having recently invested a further R3.7 billion via a rights issue, Remgro's holding stands at 57%. Let's examine the opportunity. Vumatel is now the largest South African fibre-to-the-home (FTTH) operator with a 39% market share. Having deployed over 31,000km of fibre infrastructure across SA, it currently passes 1.2 million homes. Yet, Vumatel states it has only addressed about 60% of SA's core potential fibre customers of a potential 2 million homes. Furthermore, a big part of this fibre rollout strategy is Vuma Reach, which provides affordable, uncapped, prepaid fibre to low-income areas like Mitchells Plain and Alexandra.

Here, there are a potential further 3.8 million homes, of which Vumatel currently passes just 300,000. DFA has 13,200 km of fibre assets in the ground and provides fibre-optic services in and between the country's cities. Since duplicating FTTH networks in neighbourhoods is very costly for competitors, Vumatel now has a huge advantage in most areas, but scaling up further requires fresh capital. That is where Vodacom comes in.

In an interesting turn of events, Vodacom, who were also searching for their next growth lever, announced last November that it had agreed on terms to acquire a 30% co-controlling stake in Vumatel and DFA in a deal worth R13.2 billion. To replicate these assets will cost billions and take many years so Vodacom is willing to pay a premium to accelerate its fibre ambitions alongside Remgro.

THE STRUCTURE OF INFRACO

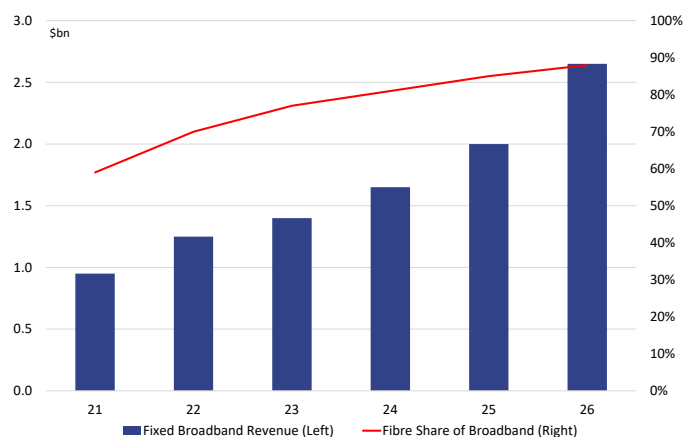


Vodacom and Remgro re-unite in a potential game-changer for SA internet access and prices

The deal, if passed by the regulators, will see Vodacom transfer cash and all its fibre assets to InfraCo. Vodacom will then own 30% with CIVH owning the remainder. This deal values CIVH at approximately R44 billion – significantly higher than Telkom's market cap of R25 billion. The cash injection will reduce debt fast and provide funding for further expansion. In 2021 Vumatel increased its revenues and profits by 50% and 60% respectively, thanks to economies of scale since additional households who sign up will be connected to the same cable infrastructure with virtually no additional cost. Remgro hopes that CIVH will be profitable by the 2023/2024 financial year which is not far off. Remgro's Chief Investment Officer, Pieter Uys, believes that Vodacom's cash and resources would help enable CIVH to further expand fibre into places where it's never been before – such as townships and rural areas. He said, "We have a big dream for Vumatel and DFA to make a difference in South Africa. With fibre, you can have true

uncapped internet. What we've been focusing on in the last couple of years is to make fibre affordable to the masses. I've personally been to places like Mitchells Plain where we rolled out the Vuma Reach and to walk into someone's house and see them, in the backroom, start a business from home – it's just amazing to experience." Remgro is therefore playing a big part in democratizing internet access in South Africa. This low-LSM angle also fits well into our "Supported Consumer" theme with ongoing social grants providing an underpin. With the fibre investment having doubled in value over 3 years, it has been an astute business decision. Within a highly competitive environment, Vumatel's aggressive expansion last year helped it win the MyBroadband Award for the Best Fibre Provider in SA. Furthermore, fibre lines are estimated to grow from 59% of total fixed broadband lines in 2021 to 88% by 2026, highlighting the enormous potential for Remgro to benefit over the medium term.

FIBRE GROWTH



"Fibre is estimated to represent 88% of total fixed broadband in SA by 2026"

A perennial problem for investment holding companies like Remgro is that the share price very rarely reflects the underlying sum-of-the-parts or NAV of each underlying investment. Remgro's discount has widened materially in recent years to a range of between 20-40% versus its long-term average of 18%. This week, PSG Group, another successful holding company, announced that it will unbundle all its investments to shareholders, a move that will realise the full 30% discount at which it traded. The focus will naturally turn to the likes of Remgro which currently trades at an attractive 30% discount to NAV. Having recently unbundled its 28.2% interest in RMB Holdings, management has indicated that they are not rushing to unlock further value prematurely but are well aware of mounting pressure from shareholders. Often, this pressure is released

by external events. For example, last year, Dutch brewing giant, Heineken, offered Distell Group (owner of brands such as Savanna, Hunter's Gold & Klipdrift) shareholders R180 per share (a 35% premium) for a controlling stake. Remgro, which owns 30% of Distell, has voted in favour of Heineken's deal but will remain invested in the new unlisted merged entity. Management is focusing on ways to increase its holding in unlisted assets which allow them to exert more influence than more regulated listed entities. This transaction with Heineken will contribute to this goal and increase the unlisted portion of the portfolio from 36% to 46%. Finally, it is worth mentioning its stake in Mediclinic which contributes 19% to NAV. The share has risen +35% from multi-year lows, benefitting most recently from the rise in oil prices, which is positive for its Middle Eastern hospitals as well as a long-overdue recovery in its

Swiss hospitals.

In conclusion, Remgro offers shareholders access to a very well-diversified suite of quality SA assets at a large discount. The company has a few options to tackle the discount including share buybacks, taking a larger stake in some of the more attractive parts of the investment portfolio, paying down part of the outstanding debt and/or unbundling underperforming assets. There are exciting opportunities in CIVH and many of the unlisted investments whilst

“A perennial problem for investment holding companies like Remgro is that the share price very rarely reflects the underlying sum-of-the-parts or NAV”

we expect the listed investments to continue their recovery – both of which bode well for NAV growth. We have kept the faith in management over the years and are happy to accumulate shares at current levels for the long-term value unlock.



Dutch beer giant Heineken has bid for Distell, the drinks company, one of Remgro's key investments.



Topic: **Taming Inflation**

Natal Midlands

Date:	17th March 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	15 March 2022 (<i>Revised Date</i>)
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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