Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

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If you took my advice in the latest issue of my Prospects newsletter and bought both Naspers and Prosus on the dip this week you would be 21.3 percent richer now. Both shares increased in value by over a fifth following a 23 percent rise in the price of their holding in Chinese tech giant Tencent on Wednesday.

On Monday and Tuesday, Naspers and Prosus lost more than R430-bn in value before they came roaring back on Wednesday as across the board gains were made on the Chinese bourse following China's easing of its stringent lock-down amidst one of the worst Covid infection rates since the original outbreak of the virus. More to the point, however, over 1.8-million Naspers shares traded in South Africa on Wednesday and 2.08-million on Tuesday in the latest rout which saw the price of Naspers fall from R1 833.67 to R1 392.50 before rising to R1 811.13 by Wednesday evening and peaking at R1 850.80 on Thursday before falling back to R1 768.55.

Simply stated, people who panicked and sold lost a pile of money because they misunderstood the most basic rule of stock exchange trading. It's a simple two-word rule: "Don't panic." In my 68-year active experience of the markets, I have seldom seen examples when it has paid to sell a well-researched holding and, even more so in times of global stress such as the present war in the Ukraine.

Of course, it's quite another thing to have carefully researched the company you are invested in and already taken a disposal decision. But even then I have NEVER seen an example where panic-selling paid off because there is another simple rule about share markets which argues that "Bear markets are V-shaped while Bull markets end in an inverted U.

What that means is that you usually have weeks of topping-out numbers to warn you that the end of a bull market is approaching and those weeks are usually filled with informed comment from a host of commentators such as, for example, all the discussion around the probability of a US Federal Reserve interest rate hike which happened this week following probably a year of discussion.

Conversely, even the most inexperienced trader can sense madness when a share which has long enjoyed Blue Chip status suddenly plunges in price because of some almost extraneous trigger. Even the dodgiest of company shares will probably bounce back somewhat after a steep fall. That's why at such times traders leap in with a series of small buying orders, each a few cents lower than the previous one in the hope of averaging around the lowest price point.

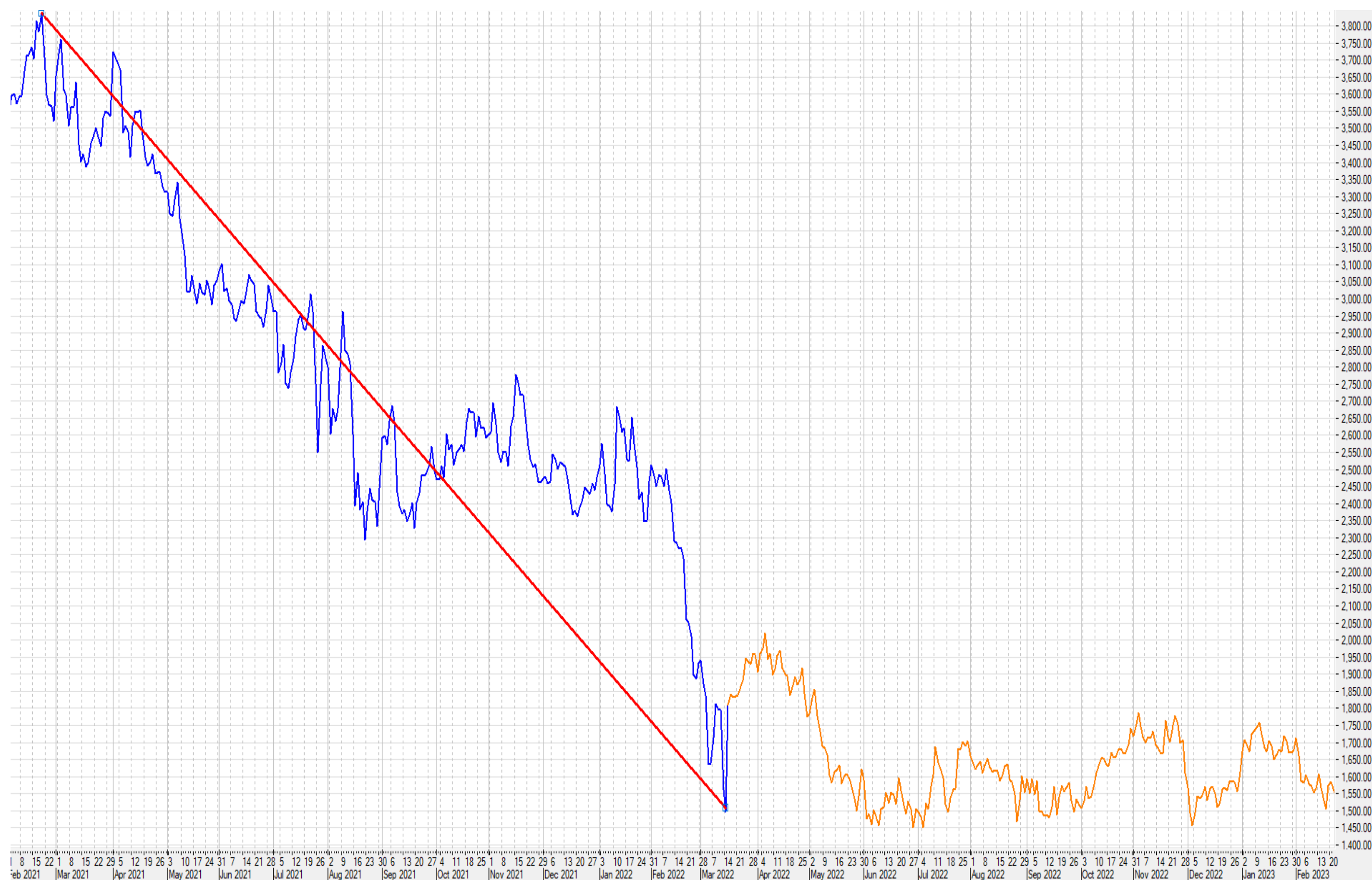
None of this, of course, changes the fact that Naspers and Prosus are in an uncomfortable place right now having, as astute commentator Ann Crotty wrote this week in the Financial Mail, "*If you truly want to bend your mind, consider that the value lost in Naspers and Prosus over the past year — even after Wednesday's recovery — comes to a giddying R2.376-trillion in total, as both companies have tumbled 47%. Put that in context: it's far more than the R1.5-trillion that SA's*

government raised in taxes from the entire country during the past year, and more than a third of the combined R6.2-trillion in SA's entire GDP for 2021."

More to the point, both shares massively discount the sum of the parts valuation. Calculating the total value of the various Naspers assets varies depending on who does the calculation. However one thing is very clear to investors. It is that if Naspers were to distribute its holdings in Tencent alone, shareholders would be at least 50 percent better off. And that is even before one even takes into account the multi-billion rand investments in a series of other ventures from the Food Hero delivery chain to a Russian classified advertising platform.

So it should be no surprise that powerful portfolio management groups have recently been piling pressure upon a very reluctant board. However, since there is a twin-share structure which is something of an antique concept which falls short of King Commission rules and gives a handful of powerful shareholders 1 000 times the votes attributable to ordinary Naspers shares holders like you and I, the board is able to comfortably ignore the wishes of the general public. Yet, as highlighted by the recent very painful decision by PSG to disband itself, holding companies like Naspers are becoming an anachronism. At some point, even the A shareholders must see the point of realizing their hidden wealth!

Moreover, as the graph below illustrates, investors have been voting with their feet since February 2021 during which time Naspers has lost 61 percent of its market capitilisation.



That's a massive R2.376-trillion impact upon, among others, South Africa's pensioners' wellbeing which demands more than the board's arrogant comment in its latest interim that, "Our goal is to build a business that will deliver sustainable value creation over the long term for all stakeholders."

Shareholders will also not be filled with confidence by the fact that director Basil Sgourdos recently sold R26 872 330 worth of Naspers shares!

Finally, this Twitter comment should resonate with most ordinary South Africans.

The month ahead:

New York's SP500: I correctly predicted fresh weakness. Now the long-awaited recovery has begun and should last until late June.

Nasdaq: I correctly predicted the market would bottom. Now I see gains until late June.

London's Footsie: I correctly predicted a brief recovery. Now I see further losses until early April ahead of a two-month recovery.

Germany's Dax: I correctly predicted the start of a down-phase but failed to anticipate the current brief recovery which should last until the end of this month ahead of a five-week decline and then a recovery from early May until mid-August.

France's Cac 40: I correctly predicted gains within a yo-yo phase until early-June when the next down-phase is likely. But this is a hugely volatile market.

Hong Kong's Hangsen: I am still watching for the delayed recovery. Now, however, I anticipate five weeks of modest gains followed by four down-weeks, then four up-weeks, another three down until early June offers a two-month recovery.

Japan's Nikkei: I correctly predicted weakness which I still see lasting until late April when a sharp two-month recovery appears likely. Then I expect it to be down again in July until mid-November.

Australia's All Ordinaries: I correctly predicted the brief recovery. But I don't see it lasting beyond this Friday ahead of a year of further declines.

JSE Top 40 Index: I correctly predicted the decline would slow but continue until late April ahead of a three-month recovery until the end of July ahead of declines for the rest of the year.

ShareFinder JSE Blue Chip Index: I did not expect this week's gains to occur before today but at most I think they will continue to April 20 before heading down until late August.

Rand/Dollar: I correctly predicted a recovery which I continue to expect to last until the end of June.

Rand/Euro: I correctly predicted gains which I now see lasting until late next week ahead of a fortnight of weakness and then another two months of gains.

Predicts accuracy rate on a running average basis since January 2001 has been 86.56 percent. For the past 12 months it has been 94.51 percent.

Behind the giddying swings in Naspers

BY ANN CROTTY **BL PREMIUM**

On Monday and Tuesday, Naspers and Prosus lost more than R430bn in value, hurting the vast majority of SA pension funds. On Wednesday, both stocks came roaring back, gaining 20% on the day. These wild swings would be tough to stomach at the best of times. But these are not the best of times for Naspers; it's fighting fires on every front. And it's not just China and Russia — the hefty gamble on food delivery is also causing sleepless nights

If you're one of the millions of South Africans whose pensions were battered on Monday and Tuesday by the bloodletting in the shares of Naspers (-16.7%) and Prosus (-16.8%), you'll be pleased to know this brought at least some good news with the bad.

On the face of it, the numbers are terrifying. On Monday and Tuesday, the value that vanished from Naspers and Prosus — partly due to threats of a new Chinese crackdown on technology companies, and partly because of the Russian invasion of Ukraine, where Naspers holds a stake in the social media site VK and owns classified ads business Avito — amounted to R432bn.

With equally giddying force, both stocks roared back on Wednesday, climbing 20% after the Chinese authorities reportedly provided assurance that they'd keep the stock market "stable", and that the crackdown on technology companies would end soon.

This was a vital fillip for Naspers and Prosus — but it still only recovered part of the losses of the past year. If you truly want to bend your mind, consider that the value lost in Naspers and Prosus over the past year — even after Wednesday's recovery — comes to a giddying R2.376-trillion in total, as both companies have tumbled 47%.

Put that in context: it's far more than the R1.5-trillion that SA's government raised in taxes from the entire country during the past year, and more than a third of the combined R6.2-trillion in SA's entire GDP for 2021.

It'll help soothe the nerves that Koos Bekker, Naspers former CEO and now chair, has been here before. In November 2000, the bursting of the dot-com bubble wiped out most of the value in Bekker's share-based remuneration.

But thanks to his visionary $32m investment in Tencent a year later, his shares bounced back into the stratosphere — making him one of the richest men in the country. This will probably give him the stoicism to withstand the current stock turmoil.
So how, you ask, could this week's plunge ever be good news? Well, for a start, Naspers no longer dominates the JSE indices, as it once did.

Remember how big a problem that was back in 2018 and 2019? So big, that Naspers CEO Bob van Dijk reckoned it was a major factor in the yawning value gap between it and Tencent. At the time, Naspers was valued at about 30% less than just its stake in the Chinese social media powerhouse.

One sure way to address this discount, argued the board, was to shift as much of the Naspers asset base out of SA as possible, and put it into a listing on a global stock exchange where it wouldn't be a dominant player. This would free up fund managers to buy as many Naspers shares as they wanted without fear of unbalancing their funds. This would inevitably push up the Naspers share price and close the discount with Tencent, Naspers argued.

This was the rationale behind the creation, in September 2019, of Prosus, which was listed on Amsterdam's Euronext exchange. Prosus would hold the all-important 29% stake in Tencent as well as the international businesses Naspers had spent several billion dollars accumulating. At that stage, Naspers still held onto 73% of Prosus.

And it's true that Naspers's dominance on the JSE had created concerns. In 2013, the group accounted for 4.2% of the market value of the entire JSE, but this grew to an unprecedented 24.9% in mid-2019. (For context, consider that Anglo American, at the peak of its dominance in the 1980s, only managed to hit the 10% mark.)

For a month or two it looked as though the Prosus listing, for which Van Dijk was paid a bonus, had done the trick. The weighting eased back to 20.7%.

But then, proving yet again that Naspers/Prosus is the tail being wagged by the powerful Tencent dog, the weighting began tilting in the wrong direction. In the first six months of 2020, the combined weighting of Naspers and Prosus surged to a high of 30.7% as the shares were dragged behind a raging Tencent. The Chinese tech giant's stock soared 43% in the first six months of 2020, as tech stocks benefited from the fact that people were confined to their houses during the pandemic.
However, since that 2020 peak the weighting has nose-dived to a more manageable 12%.

The not-so-good news is that this problem has been fixed largely because of the shellacking that Naspers and Prosus have taken on the markets, which will have taken a sliver off the top of most SA pension funds.

Inevitably, this dive was led by Tencent — whose share price slumped from HK$757 in February 2021 to HK$300.40, as reports gained traction this week that the Chinese authorities would fine Tencent.

The Wall Street Journal reported: "Tencent is facing a potential record fine for the violating of some central bank regulations by its WeChat Pay mobile network, as Beijing toughens regulations for fintech platforms."

It said regulators had discovered that WeChat Pay had "flouted China's anti-money-laundering rules and … allowed the transfer and laundering of funds with illicit transactions such as gambling". The fines, it said, could be in the hundreds of millions of yuan.

Jeremy Goldkorn, editor in chief of the China-based investment newsletter SupChina, tells the FM that while Tencent got hammered, other tech stocks also took a beating. "I think a few things came together: Covid spreading in Shanghai and Shenzhen, the Ukraine news, and more threats to Chinese companies listed in the US," he says.
But the worst news is that, as critics like hedge fund manager Albert Saporta argued beforehand, at no stage in the past three years has the Amsterdam listing had a discernible impact on the discount.

In fact, by early this week, the discount between Naspers and its indirect Tencent stake had widened to nearly 70%. And there was now a growing discount affecting Naspers, which trades at 24% less than the value of its stake in Prosus.

The rationale for creating Prosus, and listing in Amsterdam, now lies in tatters.

Doubling down, destroying value

Initially, when the share prices began to weaken last year, Naspers doubled down. The company seemed to believe something bolder would do the trick. So in 2021 it launched a second bid to restructure its way out of the dark shadow of the discount.

This involved a complicated share swap. Prosus would issue new shares to hike its stake in Naspers to 49%, while Naspers's stake in Prosus would drop to 57%.

After this was completed in August 2021, a pleased Van Dijk said this "increases the size of the Prosus free float and more than doubles its ownership of the group's outstanding global consumer internet portfolio".

By "offshoring" a chunk of Naspers, it would also help to rebalance the oversized weight of the group on the JSE, said Van Dijk.

No prizes for guessing what happened next: in the following months the combined discount moved above 40%, and settled there.

Had any CEO set out with a plan specifically to annoy investors, they'd have struggled to do better than that August 2021 share swap.

It led 36 SA asset managers to put aside their traditionally fractious relationship and pen a sharply worded letter to Van Dijk and Bekker.

The asset managers, which included Naspers's single largest shareholder, the Public Investment Corp, represented total assets of more than R3.6-trillion. Significantly, three of the country's largest asset managers — Allan Gray, Coronation and Ninety One — didn't sign the letter. It was hardly surprising that Ninety One wasn't a signatory, given that its CEO, Hendrik du Toit, remains on the Naspers board.

The asset managers said the transaction "introduces elements which serve to increase complexity in the overall company structures, thereby reducing the likelihood of further value unlock, whether immediate or longer-term".

Perhaps more damagingly, the asset managers said they had already told Naspers about their concerns, but "have been unable to obtain a clear understanding for how these views are being heard".

The more demure Allan Gray wrote its own letter to Naspers, saying: "We do not think the deal will be successful in addressing the discount. Complex structures are often counterproductive."

And then there was the bill. That transaction, which many thought was pointless anyway, cost $144m — exceeding Prosus's free cash flow for the year to March 2021. It was, to many, an unconscionable waste of money.

As it turned out, those 36 asset managers were right. Prof Brian Kantor, head of the research institute at Investec Wealth & Investment, remains perplexed at how Bekker's board ever believed the Prosus listing would be the silver bullet.

Today, with the discount at nearly 70%, one frustrated fund manager tells the FM that investors would be better off taking the tax hit on an unbundling of Tencent, just to escape the value-destroying clutches of Prosus.

In February, Bloomberg Intelligence analysts said the share swap was "unlikely to bring long-term success", while the Prosus listing hasn't fixed the discount issue at all.

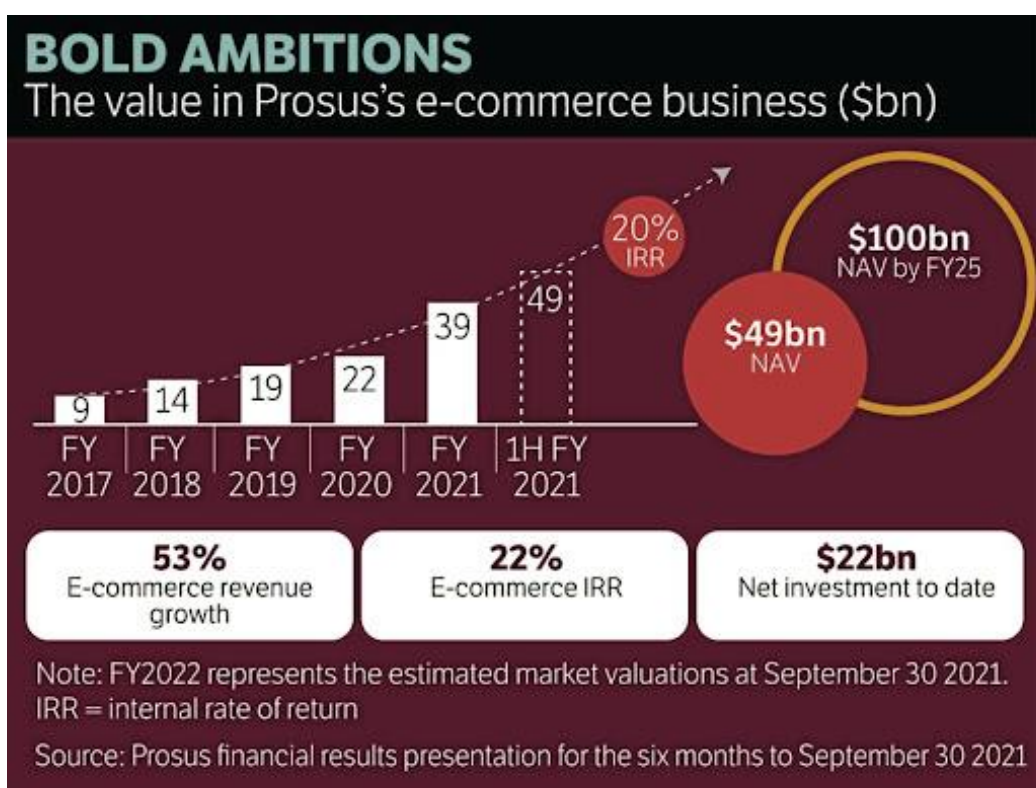
"The plan also doesn't address the wider issue, which is that the share price implies that any cash raised from selling Tencent shares will be invested at a loss. Naspers's best fix is necessarily long-term, based on a solid investment track record," it said.

Call it quits, or stick it out?

The question for many investors is: should they cut their losses and sell Naspers and Prosus? For many, this seems anathema, as the experts remain gung-ho, even as the value withers away.

Even today, 13 of 14 analysts who cover Naspers rate it a "buy", and have an expected target price for the share of R3,681 — 146% above its current level. It's the same for Prosus, where 20 of the 23 analysts rate it a "buy" with a target price of R1,769 — 146% above its current level.

Last week, analysts at JPMorgan cut their target price for Naspers and Prosus by 18%, saying "geopolitical tensions and the recent de-rating in consumer tech" have led to an unavoidable cut in the value of its assets.



If Tencent's profit remains unaffected, then there may be an argument for gritting your teeth and sticking it out.

Brokerage Vestact believes things will come right. "Tencent is a global champion, so Beijing won't want to clip their wings too much."

It says that at some stage Naspers will separate Tencent from its other assets — which will cause the Naspers share price to jump 40% overnight — but that could take years. And in the meantime, there's still much that can go wrong at the companies.

While the reports of Tencent's "fine" for breaching Chinese money-laundering rules are behind the recent wave of skittishness, investors are also nervous about Naspers's direct and indirect exposure to Russia.

The direct exposure is easy to identify: last week Naspers wrote its R12bn investment in VK down to zero, and it may need to do the same with Avito.

But the indirect exposure isn't so easy to spot. In part, this circles back to China in the form of growing concerns that Chinese tech platforms — including Tencent — are being used to promote a pro-Russia perspective of the war.

If the world continues on its bipolar trajectory, a squeeze on disinformation networks could make things very uncomfortable for Naspers in the coming months.

This week, Naspers told the FM its Russian assets represent less than 5% of its total NAV.

"At this point it is unclear what the impact of sanctions will be on consumer and advertiser spend in Russia, but Avito does not have meaningful cross-border commerce," the company says.

But it does concede that the sanctions would limit its ability to extract dividends.

Already fund managers with an environmental, social and governance (ESG) bent are taking a closer look at investments exposed to Russia. It’s a complicated picture: some fund managers argue that rejecting all Russian assets risks cutting off good companies, including tech firms trying to provide transparency in defiance of President Vladimir Putin.

Philippe Zaouati, CEO of $30bn sustainable investing fund Mirova, told Bloomberg that the Ukraine war makes it impossible to avoid the issue of investing in autocratic regimes.

For Mirova this means not just excluding Russia but also China.

Felix Boudreault, managing partner at research firm Sustainable Market Strategies in Montreal, agreed, saying he’s been warning clients to stay out of Russia since 2018 — and is now giving the same advice about China.

"As an investor, you have to consider not just the company but the environment in which they operate," said Boudreault. China, he added, is "un-investable" from any ESG perspective.

"By a stroke of a pen, a bureaucrat in Beijing can really kind of wipe out an entire sector like they did with education technologies recently," he said.

So what does this mean for Tencent — and, indirectly, Naspers and Prosus?

Despite an increasingly adversarial relationship with the Chinese government, Goldkorn reckons Tencent will do just fine.

He acknowledges that like all big Chinese companies, Tencent has been battered by the government, with China’s President Xi Jinping using his "common prosperity" campaign to cajole capitalists into improving working conditions and giving more back to society.

"All of this will certainly take a toll on profitability. However, these companies are survivors, and the government will really need them in the coming year to achieve their target of 5.5% GDP growth," Goldkorn tells the FM.

But that’s only one of the threats.

The other lurking possibility is that China could activate the VIE switch: declaring these "variable interest entities" that underpin most international investment in Chinese equities to be contrary to the spirit of the law that blocks foreigners from investing in Chinese industries. Prosus’s investment in Tencent is held through exactly this structure.

As if that weren’t enough to chill the most enthusiastic of China bulls, let’s not forget the risk that comes from the other side of the world. As Russian soldiers were stomping across Ukraine, the US Securities & Exchange Commission (SEC) identified five Chinese companies that could soon be removed from US stock exchange markets for failing to meet audit requirements.

That list didn’t include the big names — but it reminded investors of what could lie ahead if the US and Chinese regulators can’t come to an agreement to allow US auditors to examine audit papers currently under lock and key in mainland China.

So much for food delivery …

And it turns out it wasn't just the Russians, the Chinese and the Americans ganging up on Naspers and Prosus. In February, European investors went on the attack too, dumping one of Prosus's favourite investments: Delivery Hero.

In early February the Delivery Hero share price plunged more than 30% in a single day when the food delivery service announced worse-than-expected forecast figures for the coming year.

A few days later the share price shed another 12% after analysts at JPMorgan and Barclays cut their price targets.

By mid-March the Delivery Hero share price was back down at 2019 levels, having plunged from a November 2021 high of €128.30 to €40.32. It was scant comfort that Just Eat and Deliveroo suffered just as much from investors' impatience with continual losses.

It's a dramatic switch in fortunes for a company that had been a beneficiary of the pandemic. Across the globe, food delivery stocks had benefited from the assumption that consumers would continue to dial out for food even after lockdowns were lifted — and companies pumped billions into creating unassailable networks with the promise of profits far off on the distant horizon.

Only, they hadn't reckoned with rising inflation, possible interest rate hikes or the evidence that no food delivery service is unassailable. Investors woke up to this and started looking for profits elsewhere.

Renier de Bruyn, senior equity analyst at Sanlam Private Wealth, tells the FM the tech sell-off is the market's signal that it prefers near-term profit, over long-term hope. Yet he believes Prosus is right to continue expanding the food delivery business, even at the expense of short-term profits.

If sentiment recovers, Prosus may recover the $1bn loss it is now showing on its investment in Delivery Hero. It first poured $1.2bn into Delivery Hero in 2017, but in March last year, it bought another $2.6bn of shares at €103 apiece.

Prosus may even see this weakness as a chance to buy more shares. As one analyst says, the company "is not afraid of short-term losses to grow a business".

Alternatively, Prosus may consider another tilt at Just Eat — rumoured to be susceptible to a takeover bid — after its 2019 offer of £5.5bn was rejected.

But it is precisely this thinking that terrifies the Prosus naysayers. The critics argue that since the Tencent dividends come so easily, Van Dijk's team thinks nothing of pouring billions into loss-making ventures because they believe so fundamentally in the prowess of their capital allocation. But while this belief may have resulted in higher turnover, it certainly isn't yielding profit.
For some, this is a worthwhile investment in the long term.

De Bruyn says focusing on short-term profit is a narrow way of looking at it. "The point isn't about growing earnings per share — it's about growing the value per share."

This is evidently how Van Dijk sees things. And it is certainly how the generous remuneration committee judges management's performance.

If you were to glance through any commentary on the group's non-Tencent results, you'd think Prosus and Naspers were in excellent shape.

In response to questions from the FM, Naspers rejects the view that the e-commerce assets have performed poorly. "The e-commerce portfolio has performed strongly over time, more than doubling in value over the past few years," it says.

The story is all about "solid growth" and "strong performances", with revenue increases of between 44% and 101%. What's not to like?

Those who looked closer would notice that only one part of the business — classifieds — actually produced a trading profit. After several years and billions of dollars chasing the next big thing, the question of a return on that investment hangs heavy.

It's why some shareholders have pushed Naspers to abandon its expensive pretensions to be a leading consumer internet group in its own right, and become simply a conduit for Tencent dividends.

But this isn't how Naspers sees itself. "Through Prosus, [Naspers] operates and invests globally in markets with long-term growth potential, building leading consumer internet companies that empower people and enrich communities," it says.

Scepticism over Naspers's management

In theory, there's much to be said for Naspers/Prosus acquiring an attractive collection of assets. In the event that politics trumps economic growth and Tencent tumbles off its growth trajectory, or if China pulls the VIE switch, it would be good for Naspers shareholders to have something to hold onto.

Sadly for Van Dijk, the discount suggests investors don't believe he can pull it off.

"The discount is even bigger today," says Kantor. He points out that if Naspers/Prosus were liquidated, it would be worth more to shareholders.

"The market is very sceptical of the value of management's investment programme and it's taking it out in the share price."

It's not just the lack of profit weighing on the company; it's the exorbitant head office costs, and juicy salaries for the top brass.

"Investors do more than count the value of the listed and unlisted assets. They estimate the future cost of running the head office, including the cost of share options [running to tens of millions of shares] and other benefits provided to managers," he says.

Zwelakhe Mnguni, chief investment officer at Benguela Fund Managers, describes the group's remuneration as an "enrichment scheme".

Mnguni argues that the Tencent stake should be unbundled entirely to Naspers shareholders, so that Van Dijk and his team could be assessed entirely on what they're doing, without the cushion of the Chinese dividends.

"They keep Tencent as a windshield to protect them from the cold wind coming from their investments," he says.

Mnguni is particularly critical of the large size of the board — Prosus has 17 directors — which is overkill, given the comparatively small asset base ($50bn) that they oversee.

While the unlisted assets are valued at $39bn, Mnguni says the food delivery business has few barriers to entry. The classifieds business looks attractive, but is also vulnerable on this front. That $39bn valuation, he says, could turn out to be too optimistic.

In its research report last week, JPMorgan slashed its estimated value of Prosus's unlisted assets by 51% to $26.1bn. The analysts said the prospect of value being unlocked in those assets "has most likely been significantly delayed by current market conditions and geopolitical developments".

Jean Pierre Verster, CEO of Protea Capital Management, is also unconvinced about the food delivery business.

"Covid encouraged the view that it could be profitable but now it looks as though the market is much smaller than initially thought," he says. "This means the economics don't actually work, so it was the wrong investment as well as the wrong price."

While more optimistic about classifieds than Mnguni, Verster agrees that the education technology business is still an uncertain proposition.

The fourth pillar of Naspers's future is payments and fintech.

Last August, Prosus a hefty $4.7bn for the India-based BillDesk, which provides an online payment platform. It does already have scale and, according to some reports, accounted for 70% of online billing transactions by 2015 already.

But Prosus investors will have to wait until the release of results in a few months to see if the steep price — nearly one-third of what they got from selling a chunk of Tencent shares — was worth it.

Some shareholders have pushed Naspers to abandon its expensive pretensions and become simply a conduit for Tencent dividends

An archaic structure protecting the bosses

The big T-junction in the road for Naspers is whether to unbundle Tencent.

Verster says the tax implications of doing so suggest it should rather hold onto Tencent — and unbundle everything else.

But as things stand, there would seem to be zero chance of the Naspers board unbundling anything, or liquidating the company and distributing the proceeds to investors.

"This is a management-controlled company," says Kantor. "If it was an ordinary company there would be some prospect of a shake-up and sale."

Here, Kantor refers to the fact that Naspers has two sets of shares: the ordinary N shares which trade on the JSE, and the A shares, which have 1,000 times the vote of the ordinary shares, and so control 68% of the votes.

As a result, Naspers is controlled by its chair, Bekker, former director Cobus Stofberg and Sanlam. (Though it's a signatory to the UN Principles for Responsible Investment, Sanlam has no intention of curbing its enabling role in this structure.)

But this means that no matter what resolution is tabled at an AGM, the outcome depends on the whims of just a few key men. It is, ironically, an autocratic governance structure eerily similar to the Russian and Chinese political systems.

Kantor says the control structure hampers the efficient working of the market. But he adds: "These are capitalist acts between consenting investors who knew what they were getting into when they bought Naspers shares."
This archaic structure ensured that the much-disliked "share swap" was approved last year, but it also renders the votes at the annual Naspers AGM largely irrelevant.

At last year's AGM, for example, 66% of the N shareholders opposed the group's remuneration policy and the implementation report — but the A shares meant this was pretty much an irrelevance.

Whether this disappointed Naspers's remuneration committee chair Craig Enenstein is unclear. In a patronising 2021 report, Enenstein explained to the apparently parochial SA investors that the whopping big payments to the executives were necessary because Naspers/Prosus was a global company operating in a highly competitive international environment.

"Our competitors are not listed in Johannesburg or included in the JSE index," he said. "Our remuneration practices are aligned within a global technology landscape and may differ from what is customary in an SA context. Executive talent comes from other international, often leading US-listed companies in the consumer internet sector, which forms the basis of our executive remuneration benchmarking."

However, as one frustrated fund manager tells the FM: "The remuneration might be more palatable if the executive team included anyone who'd demonstrated success in capital allocation. Sadly the genius who found Tencent left the company almost two decades ago."

Asked this week by the FM if Naspers plans to cut its executive pay, given the widening discount, the company ignored the question. Instead, it argues that its management gets share options, which "directly exposes them to the discount" in the same way as shareholders.

But with Naspers and Prosus more vulnerable than ever before, perhaps shareholder pressure could finally force the company's hand. Who knows — maybe even Naspers's A shareholders might feel it's time for a few changes.

WHAT IT MEANS:

Had any CEO set out specifically to annoy investors, they'd have struggled to do better than that August 2021 share swap

Behind the sums

Naspers/Prosus is far from being alone in suffering a discount to the combined value of its underlying assets or, in analyst lingo, the sum of the parts (SOTP).

The share price of most holding companies reflects a discount to the SOTP, frequently by as much as 30%, reflecting investors' belief that holding companies do not add any value to the underlying assets.

But they do add head office costs. Recently, PSG Group, which has long traded at a hefty discount to its SOTP, announced it would unbundle its assets to unlock that value.

In the case of Naspers/Prosus, the discount — touching almost 60% recently — means investors believe they would be significantly better off if the company were wound up and the assets distributed.

** This story was prepared for the the FM print edition dated March 17-24 under the headline "The big R430bn Naspers and Prosus meltdown". It has been updated to reflect the recovery in the stock prices on March 16.*