

Prosus (AMS:PRX)

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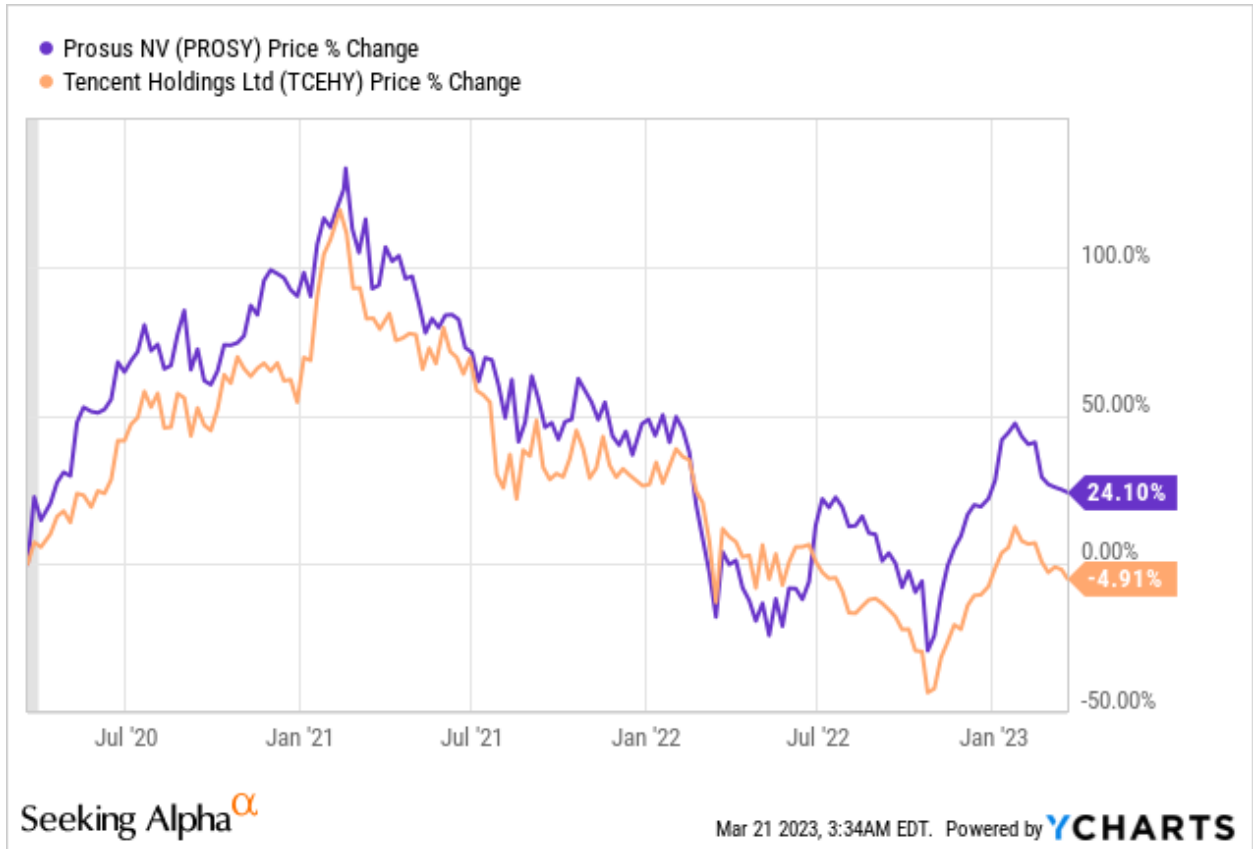
Updated Analysis - Mar 21, 2023

<https://ishfaqpeerally.teachable.com/courses/662813/lectures/14168088>

After an updated analysis of Tencent, where we saw that Tencent was overvalued but with economic recovery in China, it could still go up in the short-term.

Let's have a look at Prosus and see if the market inefficiencies we saw earlier are still here.

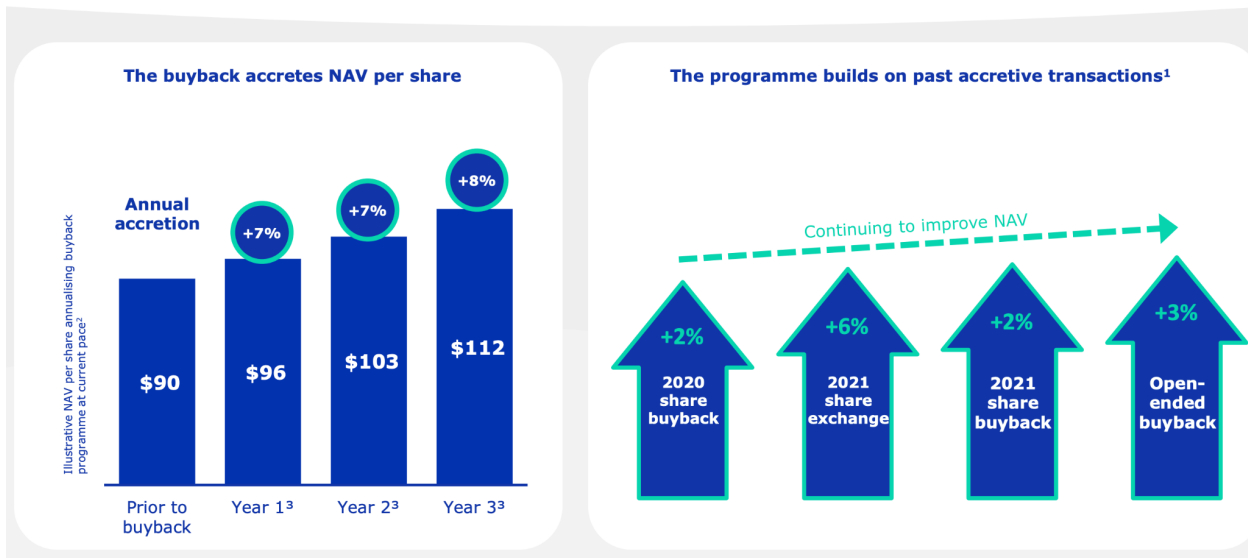
When analyzing Prosus, we have to focus on Tencent and ignore the rest of the investments as they have minimal effects on the portfolio and the stock.



The reason why Prosus is outperforming Tencent are the share buybacks

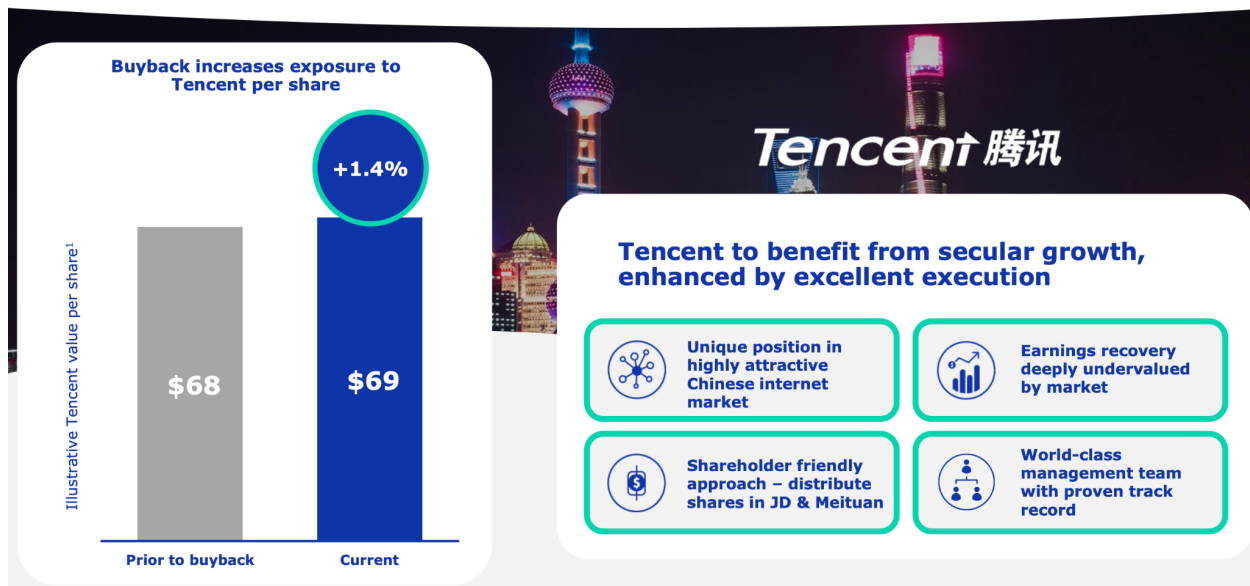
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We will continue the open-ended repurchase programme



What we will need to look for is whether financial engineering at Prosus will be enough to sustain higher stock prices, regardless of what happens to Tencent stocks.

We expect a strong recovery from Tencent



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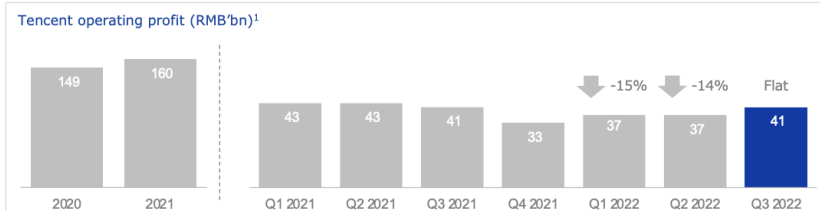
Economic Interest¹ Results from Continuing Operations

US\$m	Revenue		Adjusted EBITDA		Trading profit/ (loss)	
	1H FY22	1H FY23	1H FY22	1H FY23	1H FY22	1H FY23
Ecommerce	3 858	5 217	(439)	(879)	(522)	(998)
- Classifieds	988	1 339	(22)	(133)	(42)	(159)
- Food Delivery	1 261	1 911	(281)	(333)	(312)	(381)
- Payments & Fintech	359	480	(27)	(93)	(31)	(97)
- Edtech	120	334	(42)	(167)	(48)	(178)
- Etail	1 029	852	10	(14)	(11)	(38)
- Other	101	301	(77)	(139)	(78)	(145)
Social Networks and Internet	12 463	11 309	4 012	3 142	3 385	2 497
- Tencent	12 250	11 309	3 969	3 142	3 373	2 497
- VK ²	213	-	43	-	12	-
Corporate	-	-	(75)	(78)	(78)	(81)
Economic interest	16 321	16 526	3 498	2 185	2 785	1 418
Less: Equity-accounted investments	(13 568)	(13 286)	(3 767)	(2 654)	(3 103)	(1 949)
Consolidated operations	2 753	3 240	(269)	(469)	(318)	(531)

Tencent maintains stable top line and drives recovery in earnings



Tencent 腾讯



¹ Financial information as per Tencent's financial year ending December, detailed results available at www.tencent.com. Equity-accounted investments are included on a 3-month lag basis in Prosus's results. Operating profit reported on a non-IFRS basis, which reflects Tencent's core earnings. Growth represents YoY growth rates.

- Tencent held its revenue relatively stable while it navigated macro and sectoral challenges in the first nine months of 2022.
- For the nine months ended 30 September 2022, fintech and business services (+4% YoY) supported Tencent's revenue as industry challenges impacted both value-added services (-1% YoY) and online advertising (-14% YoY).
- Tencent executed cost efficiency initiatives, re-focused on core activities and controlled cost growth, which realized a recovery in non-IFRS earnings in the third quarter of 2022.
- Tencent achieved encouraging progress in new revenue initiatives, including the activation of in-fee ads in Video Accounts, to support revenue recovery and sustainable growth.

Tencent had a significant impact on Prosus's EPS, HEPS and Core HE



US\$m	1H FY22	1H FY23	Delta	%
Tencent's net profit at our share ¹	4 131	2 017	(2 114)	-51%
- Impairments	443	675	232	
- Gains on acquisitions and disposals	(1 075)	(1 822)	(747)	
Contributions to HEPS:	3 499	870	(2 629)	-75%
- Amortisation of intangibles	229	236	7	
- Fair value adjustments	(1 284)	280	1 564	
- SBC equity settled	533	712	179	
Contributions to Core HE	2 977	2 098	(879)	-30%
Excluding FX and the impact of our reduced ownership				-24%

- Tencent share of equity accounted results decreased by US\$2.1bn driven by lower operating profits and significantly lower fair value adjustments (mark-to-market gains) in Tencent's.
- Under IFRS we are obliged to take material gains and losses during the 3-month lag period into account.
 - Therefore, 1H FY23 includes a US\$483m adjustment related to gains and losses and FV adjustments which were included in 2H FY22's reporting and \$743m related to gains and losses for the period June 2022 to September 2022 also relating to such accounting items. These adjustments do not impact core headline earnings.

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Prosus share capital update



Prosus ('000)	31 March 2022	30 September 2022	18 November 2022	Net total shares in issue ¹	Economic interest
Prosus N ordinary shares					
Shares in issue	2 073 644	2 003 818	2 003 818		
Free float & treasury	893 394	827 179	842 400		
Owned by Naspers	1 180 250	1 176 639	1 161 418		
N shares held in treasury	(69 826)	(53 991)	(87 464)		
Cross-holding shares ²	(584 373)	(596 010)	(594 901)		
Net N shares in issue	1 419 444	1 353 816	1 321 453	1 321 453	
Free float	823 568	773 187	754 936	754 936	57%
Naspers participative shares	595 877	580 629	566 517	566 517	43%
Prosus A ordinary shares					
Shares in issue	4 457	4 457	4 457	351	0%
Prosus B ordinary shares					
Shares in issue	1 128 508	1 128 508	1 128 508	1	0%
Prosus total ordinary shares	2 552 409	2 486 781	2 454 418	1 321 805	

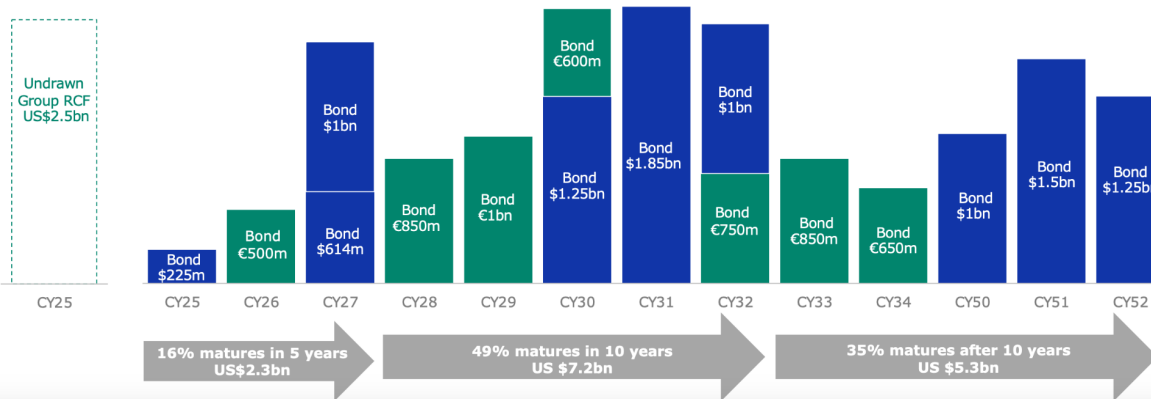
- Prosus repurchased 87m and Naspers has sold 19m Prosus N shares since the launch of the open-ended share repurchase programme in June 2022, which decreased the net total N shares in issue by 7% to 1 322m.
- The cross-holding shares represent the Prosus N shares held by Prosus through its interest in Naspers. The cross-holding shares are calculated by multiplying Prosus N shares owned by Naspers with the ratio of Naspers N shares owned by Prosus as a proportion of all Naspers shares in issue (net of treasury shares held at a Naspers level)².
- Naspers participative shares are equal to total Prosus N shares owned by Naspers less Prosus cross-holding shares.
- In calculating the net total shares in issue, the Prosus A and B shares are adjusted with their economic participation rights to calculate their equivalent number of N shares¹.
- The economic interest column represents the interest held by each group of shareholders in the underlying value of Prosus.
- Prosus N shares held in treasury at 31 March 2022 were cancelled in June 2022.

Long-dated debt maturity profile



A strong balance sheet is supporting in this environment

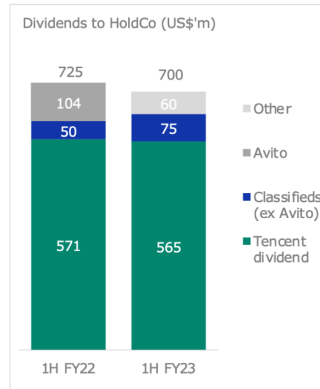
Debt maturity profile (US\$'bn)



Prosus company sources of cash and commitments



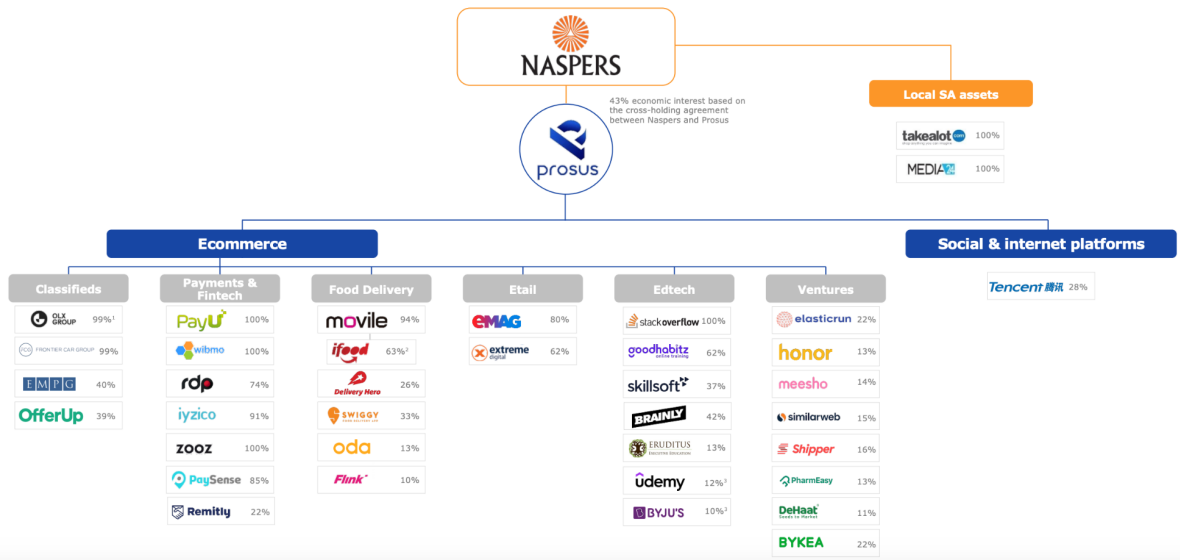
US\$m	LTM Sep 21	LTM Sep 22
Cash remitted to/generated at Holdco level:		
Tencent dividend	571	565
Classifieds portfolio	263	196
Other dividends	-	60
Interest income earned on central cash	28	105
Total inflows	862	926
Commitments:		
Holdco – operating costs	(335)	(27)
Available for interest/dividends	527	899
Holdco interest cost (12 months)	(297)	(431)
Interest cover¹	1.8	2.1
Gross Loan to value²	5.0%	12.1%
Net LTV²	-1%	0%



- Prosus did not receive any dividends from Avito (Russia) in 1H FY23. Dividends from Classifieds excluding Avito increased 50%.
- Special dividends include a dividend of US\$54m from JD.com before we sold our stake in June 2022.
- On a like-for-like-basis (excluding Avito and special dividends) dividends decreased 3%.
- Interest income on our cash and short-term investment balances increased as short-term interest rates rose.
- Interest costs increased 45% as we raised additional EUR and US\$ denominated bonds in July 2021 and January 2022.
- HoldCo operating costs decreased driven by lower SBC fair value adjustments to cash-settled SARs.
- The loan to value ratio increased with the addition of ~US\$5bn EUR and US\$ denominated bonds in January 2022 and the lower value of our Tencent stake driven by a lower share price and marginal reduction in our Tencent stake.

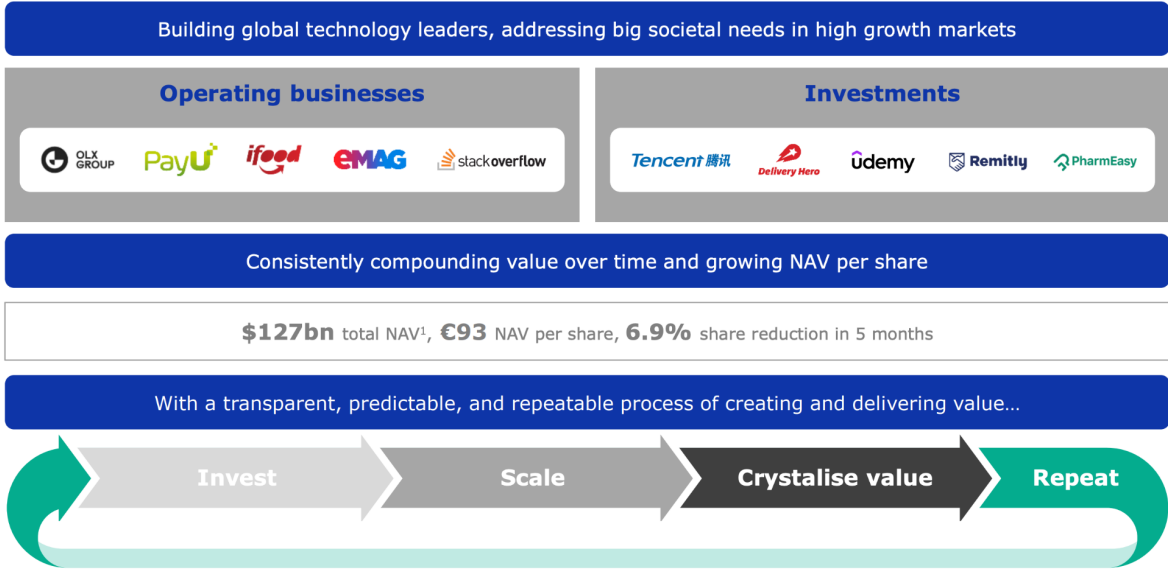
Group portfolio

pro



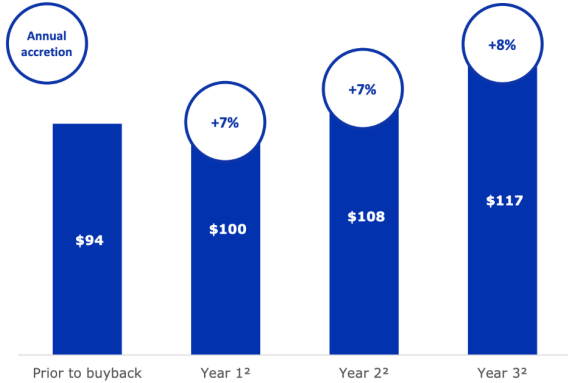
<https://presspage-production-content.s3.amazonaws.com/uploads/2658/resultscallpresentation1hfy23.pdf?10000>

Our strategy is a strength in this period of increased volatility ...



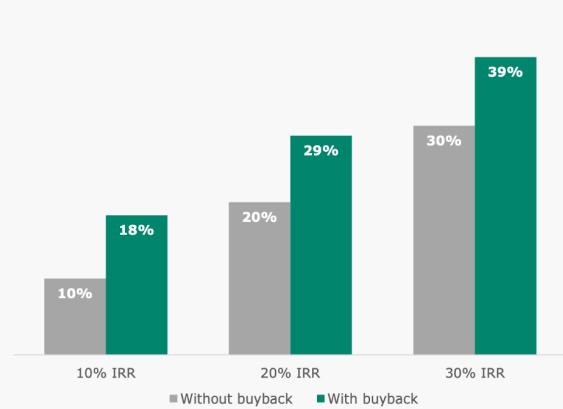
The buyback accretes NAV per share ...

Illustrative NAV per share annualising buyback programme at current pace¹



... and enhances our returns

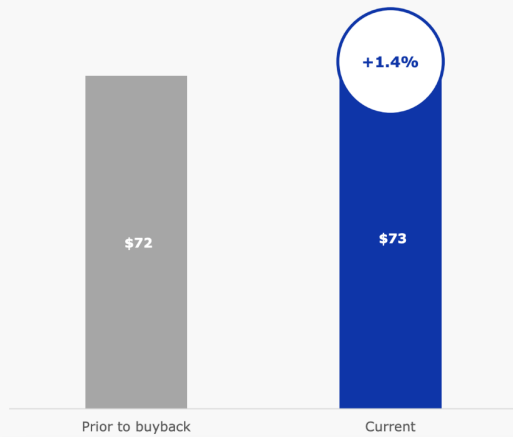
NAV per share IRR with and without buyback at various portfolio IRRs³



The valuation discount provides opportunity to permanently enhance shareholders' NAV per share

Buyback increases our exposure to Tencent ...

Illustrative Tencent value per share¹



... which should benefit from strong secular tailwinds

Tencent 腾讯



Diverse revenue streams in growth businesses



Inherent profitability augmented by cost control



Solid track record in capital allocation



World-class management

<https://nav.prosus.com/>

Prosus Net Asset Value Summary (US\$'bn) - 20 March 2023

Asset value	144.2
Net cash	0.7
Net asset value	144.9
Net asset value per share (EUR)	103.8

Prosus has a NAVPS of \$103 with a stock price of \$65, therefore, the discount is still here.

Net Asset Value Calculation for Prosus - 20 March 2023

Investment	Shares held (m)	Share price - Local currency	Value (US\$'bn)
Listed assets¹			118.6
Tencent	2 574.6	334.8	109.9
Shares to be received: Meituan ²	257.5	128.9	4.2
Delivery Hero	68.5	30.2	2.2
Trip.com	32.9	36.4	1.2
Remitly	37.3	16.1	0.6
Udemy	17.1	8.7	0.1
Skillssoft	61.3	1.9	0.1
SimilarWeb	11.2	5.6	0.1
Other ³			0.05
Unlisted assets - analyst consensus / post-money valuations⁴			25.6
Classifieds			5.3
Food Delivery			7.7
Payments & Fintech			4.0
Edtech			3.5
Etail ⁵			2.8
Ventures			2.2
Other ⁶			0.1
Asset Value			144.2
Net cash / (debt)⁷			0.7
Pro-forma cash			15.5
Debt			(14.8)

Net asset value (\$'bn)	144.9
Net asset value (EUR'bn)	134.7
Net asset value per share (EUR)	103.8
Net asset value (ZAR'bn)	2 674.5
Net asset value per share (ZAR)	2 060.5
Net total shares in issue as at 04 January 2023 (m)⁸	<u>1 298.0</u>
Segmental summary (Listed + Unlisted assets)	144.2
Social & Internet Platforms	109.9
Ecommerce	29.9
Classifieds	5.3
Food Delivery	10.0
Payments & Fintech	4.6
Edtech	3.8
Etail ⁵	2.8
Ventures	2.3
Ecommerce other	1.2
Naspers's assets outside of Prosus	0.1

We are still buying Tencent at a discount through Prosus, even if we give a \$0 value to the other businesses.

Valuations

We said that the intrinsic value of Tencent was around \$150 billion. 28% of Tencent is \$42 billion. Let's say the intrinsic value of Prosus should be \$45 billion when we add the other investments.

That's an intrinsic value of \$35/share.

Prosus is overvalued. Even if it gives us Tencent at a discount, Tencent itself is overvalued. So is Prosus.

Exit Multiples

Let's use the exit multiples of Tencent

		2027 Price to FCF Ratio				
2027 FCF/S		15	20	25	30	35
Bull	\$ 2.68	\$ 40.14	\$ 53.52	\$ 66.90	\$ 80.28	\$ 93.66
Base	\$ 2.23	\$ 33.45	\$ 44.60	\$ 55.75	\$ 66.90	\$ 78.05
Bear	\$ 2.01	\$ 30.11	\$ 40.14	\$ 50.18	\$ 60.21	\$ 70.25
Returns @	47	-36%	-5%	19%	42%	99%
CAGR		-9%	-1%	3%	7%	15%
Probability		15%	15%	30%	20%	20%
Expectation	4%	-1%	0%	1%	1%	3%

Prosus bought back 9% of shares outstanding in 9 months.

Prosus has 1 298 021 404 shares in issue

Prosus ('000)						
	31 March 2022	30 September 2022	04 January 2023	Net total shares in issue ³	Economic interest ⁴	
Prosus N ordinary shares						
Shares in issue	2 073 644	2 003 818	2 003 818			
Free float & treasury	893 394	827 179	848 729			
Owned by Naspers	1 180 250	1 176 639	1 155 089			
Prosus shares held in treasury ¹	(69 826)	(53 991)	(109 595)			
Cross-holding shares ²	(584 373)	(596 010)	(596 550)			
Net N shares in issue	1 419 444	1 353 816	1 297 672	1 297 672		
Free float	823 568	773 187	739 134	739 134		57%
Naspers participative shares ⁵	595 877	580 629	558 539	558 539		43%
Prosus A ordinary shares						
Shares in issue	3 512	4 457	4 457	348		0%
Prosus B ordinary shares						
Shares in issue	-	1 128 508	1 128 508	1		0%
Prosus total ordinary shares	1 422 956	2 486 781	2 430 637	1 298 021		

Notes

- Prosus N shares held in treasury at 31 March 2022 were cancelled during June 2022. Prosus initiated an open-ended share repurchase in June 2022, through which Prosus has repurchased 109 595 021 Prosus N shares and bought 4 152 285 Naspers N shares. Naspers also initiated a repurchase programme funded by regular sales of Prosus N shares, through which Naspers has sold 25 161 201 Prosus N shares.
- Relates to Prosus N shares held by Naspers that are excluded due to having no entitlement to any distributions from Prosus.
Cross-holding shares calculation = Prosus N shares owned by Naspers x Naspers N shares owned by Prosus / (Naspers N shares in issue - Naspers N shares in treasury excluding Naspers N shares held by Prosus + 20% x Naspers A shares in issue). The current calculation: 1 155 088 811 x 217 552 704 / (435 511 058 - 14 460 167 + 20% x 961 193) = 596 550 250.
- Each Prosus A share is equivalent to 1/5 of the value of a Prosus N share adjusted by the free float percentage (free float percentage equals the portion of issued Prosus N shares, net of treasury shares, not held by Naspers as a percentage of issued Prosus N shares).
Each Prosus B share is equivalent to 1/1 000 000 of the value of a Prosus N share.
- Economic interest in the underlying value of Prosus.
- Net Prosus N shares owned by Naspers are equal to total Prosus N shares owned by Naspers less Prosus non-participative shares.

Let's assume the company buys back 8% of shares outstanding a year.

The expected returns can be around 12%, which is pretty good.

If we take a margin of safety considering the risks in China, it looks less attractive.

Conclusion

Prosus is Tencent at a discount but it is overvalued, given that Tencent is overvalued.

In the short-term the buy backs and recovery in China can be advantageous to the stock.

I will give it a HOLD rating.

<https://www.prosus.com/news/investors-shareholder-information/>

Updated Analysis - Nov 11, 2023



PRX has been falling since our last analysis. We took profits. Is it time to buy again?

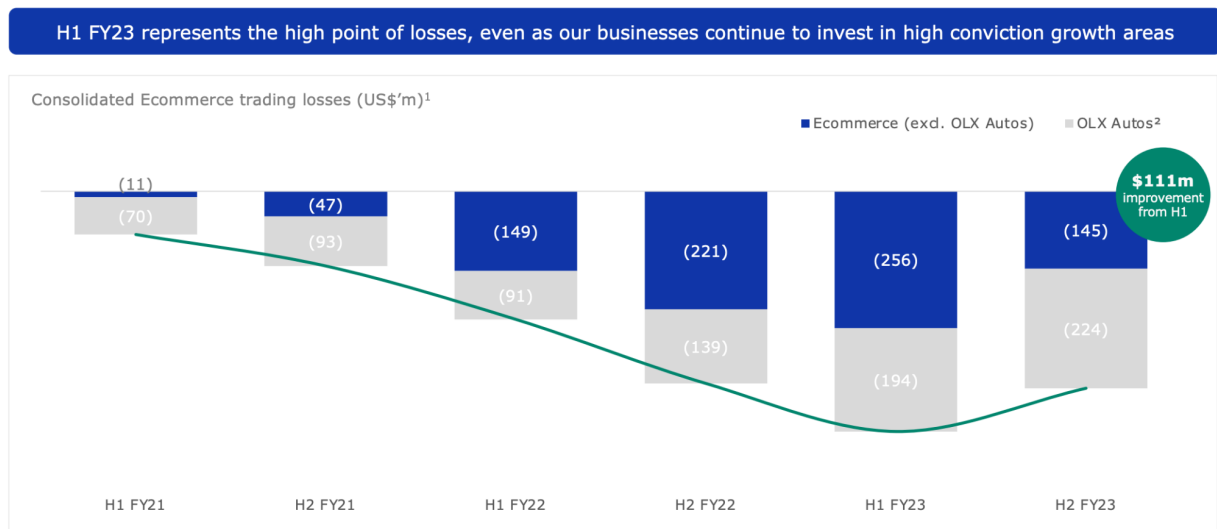
<https://www.prosus.com/~media/Files/P/Prosus-CORP/investors/full-year-results-2023/latest-financial-results/fy23-results-call-presentation-2007232.pdf>

Our strategy is a strength in this period of increased volatility ...



They are still buying back shares at a fast rate.

... and we remain on track to deliver profitability during H1 FY25



¹ Consolidated trading losses of majority owned and managed businesses.

² Total OLX Autos operations. Prior period OLX Autos trading losses have been adjusted to reflect revised intra-segmental Classifieds corporate cost-allocations on a like-for-like basis following the exit from OLX Autos.

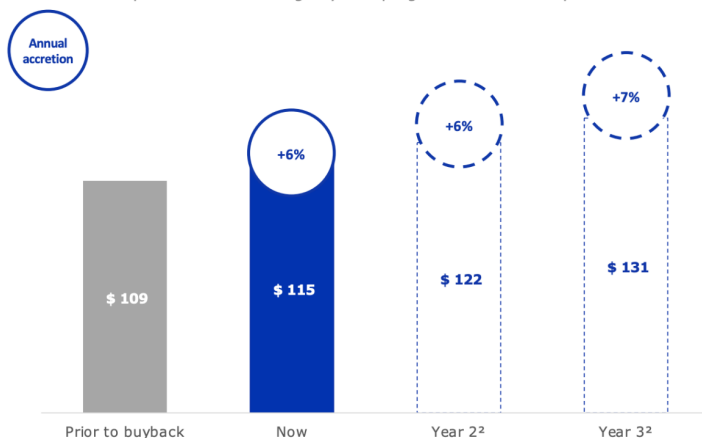
The operating businesses are losing money though.

Our share repurchase program is permanently enhancing NAV/share

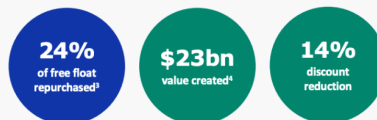


Program has improved NAV/share by 6% in 12 months and will continue to compound over time

Illustrative NAV per share annualising buyback programme at current pace¹



Priced at 23 June 2023



As long as the valuation discount remains elevated, we remain committed to the share repurchase program and envision no change in its parameters.

¹ NAV per share prior to buyback based on NAV on 23 June 2023 adjusted for Tencent shares sold. Assumption that NAV was unchanged except for the impacts of the buyback on number of Tencent shares owned.
² NAV per share in year 2 and 3 calculated by applying the annualised buyback impact across each year and assuming the discount remains constant.
³ Net of impact of Prosus N shares sold by Naspers and Naspers share repurchase.
⁴ Priced at 23 June 2023. Calculated as the sum of the impact of the discount narrowing and the total value of the NAV per share increase after applying the current discount.

Buying back shares is a good idea but selling Tencent at such low prices might not be.

Prosus Net Asset Value Summary (US\$'bn) - 10 November 2023

Asset value	123.5
Net cash	0.3
Net asset value	123.8
Net asset value per share (EUR)	45.1

The NAV is \$45.1, which means that PRX is trading at a 37% discount.

Investment	Shares held (m)	Share price - Local currency	Value (US\$'bn)
Listed assets¹			101.0
Tencent	2 394.2	302.8	92.8
Meituan	257.5	110.7	3.6
Delivery Hero	79.6	27.0	2.3
Trip.com ²	30.0	33.9	1.0
Remitly	37.3	21.3	0.8
Udemy	17.1	13.0	0.2
SimilarWeb	11.2	5.2	0.1
Skillsoft	3.1	18.2	0.1
Other ³			0.1
Unlisted assets - analyst consensus / post-money valuations⁴			22.5
Food Delivery			7.4
Classifieds			4.5
Payments & Fintech			3.9
Edtech			2.5
Etail ⁵			2.1
Ventures			2.1
Asset Value			123.5

PRX owns 25% of Tencent, which is 75% of its portfolio.

From our analysis of Tencent,

<https://research.ishfaqpeerally.com/courses/662813/lectures/14168088>

The 25% position with a 20% MOS is worth \$73B.

Let's give a 40% MOS for all the other assets, that is, a value of \$18B.

The intrinsic value of Prosus would be \$91B or EUR 35/share.



Owning Prosus is a proxy for owning Tencent.

