Prosus NV (AMS:PRX)

Ishfaaq Peerally
eToro Elite Popular Investor
(Approved Value Investor)

Trading Statistics (EUR)

|					
Market Cap (bb)	106	**LTM EPS**	5.01	**Update Date**	8 Jun 2022
Current Price	51	**LTM P/E**	4	**Recommendation**	BUY
52 Wk L - H	40 - 86	**EV / EBITDA**	6.7	**Price Target**	NONE

Business Description

- Holding company formed as a spinoff from Naspers in 2019
- 41% of Prosus still owned by Naspers through a cross-ownership
- Largest shareholder of Tencent (28% ownership)
- Owns other companies such as OLX and PayU
- Has investments in companies such as Udemy and Stackoverflow
- Net Asset Value of $171 billion

Financial Summary (USD)

	FY18	FY19	FY20	FY21	TTM
Revenue (mm)	2,985	2,654	3,330	5,116	6,008
EBITDA (mm)	11,320	4,709	4,013	7,594	20,665
Margins	379%	177%	121%	148%	344%
Net Income (mm)	11,560	4,307	3,824	7,449	20,325
Margins	387%	162%	115%	146%	338%

Investment Thesis

Business Description:
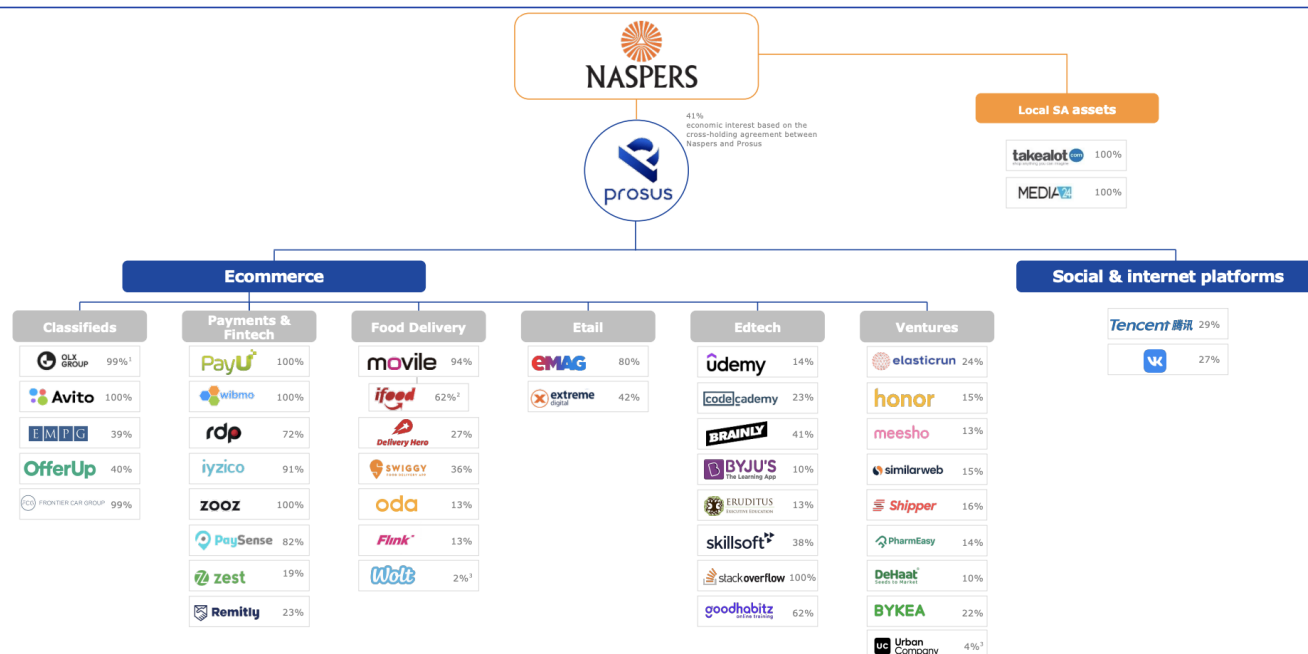
Organogram depicts effective interest percentage in major entities at 30 September 2021 for Prosus where applicable
[1] OLX owns 50% of operations in Brazil
[2] Movile holds 67% of iFood
[3] Investment not included in segmental analysis as classifieds as "Investment at FV thought other comprehensive income"

- Sold VK and Avito after the Russian invasion of Ukraine
- Innitially owned 30% of Tencent but reduced the position to 28% in April 2021

Net asset value calculation for Prosus – 31 March 2022

Investment	Shares held ('m)	Share price (LC[2])	Value (US$'bn)
Listed assets[3]			**141.2**
Tencent	2 769	374	132.3
JD.com	132	234	3.9
Delivery Hero	68	40	3.0
Trip.com	33	23	0.8
Remitly	37	10	0.4
Skillsoft	50	6	0.3
Udemy	17	12	0.2
SimilarWeb	11	13	0.1
Sinch	15	64	0.1
Silvergate	0.1	151	0.01
Bakkt	2	6	0.01
Unlisted assets[3]			**31.4**
Classifieds (ex Avito)[4]			7.5
Food Delivery			8.3
Payments & Fintech			4.0
Edtech			4.3
Etail[8]			3.6
Ventures			1.9
Other[5]			1.8
Asset value			**172.6**
Net cash / (debt)			**(1.7)**
Pro-forma cash[6]			14.1
Pro-forma debt[7]			(15.7)
Net asset value ($'bn)			**171.0**
Net asset value (€'bn)			**154.5**
Net asset value per share (€)			**108.8**
Net asset value (ZAR'bn)			**2 498**
Net asset value per share (ZAR)			**1 759**
Net total shares in issue as at 31 March 2022 (m)			1 419.8
Asset value segmental summary (Listed + Unlisted assets)			**172.6**
Social & Internet Platforms			**136.2**
Ecommerce			**36.2**
Classifieds			7.5
Food Delivery			11.4
Payments & Fintech			4.4
Edtech			4.8
Etail[8]			3.6
Ventures			2.1
Ecommerce other			2.4
Other (ex Ecommerce other)			**0.2**

Catalysts:
- Exposure to Tencent and other mostly established tech businesses gives the company a stability that many venture firms lack
- Can make further investments and buyback shares through Tencent dividends or sale of stocks

Risks:
- 78% of the portfolio is Tencent, offering low diversification
- Same risks as Tencent such as government crackdown on Big Tech in China and VIE structures
- Stock price is correlated with that of Tencent

Valuations:
- My personal Biases:
  - Bullish on China and Tencent long term

- Assumptions:
  - Net income of Tencent is $39.4 Billion in the TTM, giving Prosus $9.8 billion exposure
  - Assume total net income of all the investments are $10 billion (real earnings and not earnings according to accounting principles)
  - Annual growth rate of 15% over the next 5 years (annual growth rate of 34% for Tencent)
  - Terminal growth rate of 5%
  - Discount rate of 18%, considering all the risks associated with investing in China

Year		Net Income	Disounted NI
TTM	$	10.0	
Year 1	$	11.5	$ 9.7
Year 2	$	13.2	$ 9.5
Year 3	$	15.2	$ 9.3
Year 4	$	17.5	$ 9.0
Year 5	$	20.1	$ 8.8
Terminal Value			$ 67.7
Intrinsic Value			$ 114.0
Per share (EUR)			$ 55.0
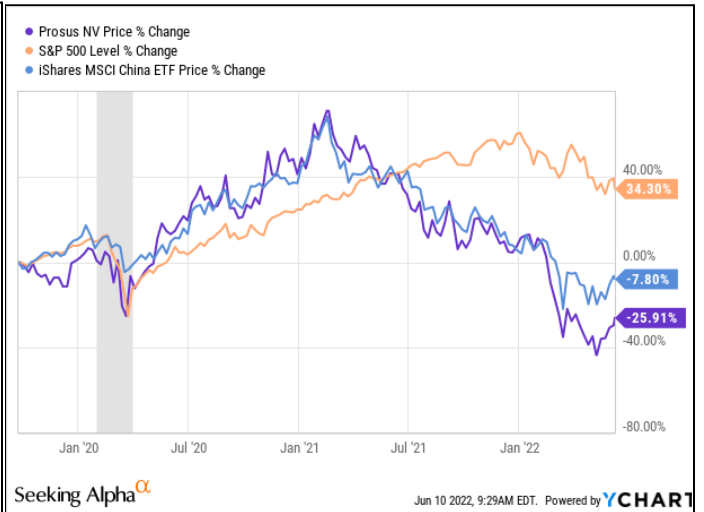
- Exit Multiples based on PE Ratio
- Earnings 20% higher in bull case and 20% lower in bear case
- No change in the shares outstanding

			2026 Price/Earnings Ratio				
2026 Net Income/share			5	10	15	20	25
Bull	$	11.57	$ 57.84	$ 115.68	$ 173.52	$ 231.36	$ 289.20
Base	$	9.64	$ 48.20	$ 96.40	$ 144.60	$ 192.80	$ 241.00
Bear	$	7.71	$ 38.56	$ 77.12	$ 115.68	$ 154.24	$ 192.80
Returns @	$	48.00	-20%	101%	201%	302%	503%
CAGR			-4%	15%	25%	32%	43%
Probability			10%	20%	40%	20%	10%
Expectation		23%	0%	3%	10%	6%	4%

Conclusion
- Prosus is undervalued based on both earnings and NAV (40% discount)
- Expected annual returns of 23%