

Prosus

Buy Europe, Get China: at 30% Discount to Rising NAV, PT €64, Up to Buy

19 March 2020

Key Takeaway

We still value PRX on a ~30% discount to JefE €91 NAV, for its activist/takeover-proof nature, lack of FCF, discount-accepting governance. We update listed values and apply a 20% haircut to private ecommerce (although some may thrive) but 92% of NAV comes from cash, other listed and esp. rising Tencent (86%). The implied PT of €64 (from €59) drives a move to Buy from Hold. A European play on Tencent gaming/online China post virus (we assume/hope) appeals.

NAV est rises to €91/sh on Tencent strength, despite Cautious Unlisted Write-downs: The main driver of NAV continues to be Tencent, as the Chinese online giant and Jefferies top pick (Thomas Chong, Buy, [latest](#)) sees its mobile gaming and social media business gain through the virus (and its western gaming interests likely to follow). With 92% of NAV from liquid listed businesses and cash, the asset part of the valuation equation continues to be mostly transparent.

Caution on Owned/Private Holdings: Although many of the owned operations and holdings may benefit from the current virus crisis (food delivery, edtech, e-payments, e-commerce), we choose to be cautious. We apply a 20% haircut to the valuation of PRX's private businesses, from €14bn to €12bn (reducing NAV by €2). MT we see all of these businesses as not just survivors (not least with PRX's support) but likely winners.

Cash - better saved for portfolio than used for buybacks? Despite our past enthusiasm for buybacks as proof of a desire to manage the discount as well as grow the NAV, we suspend this view. The current environment might actually penalise exhausting cash on buybacks, whose effectiveness in a volatile market isn't certain. Supporting the winners in the portfolio through the coming funding winter (and we generally think PRX's businesses are winners/leaders with viable business plans) and even being able to obtain good value if others (not just Softbank) struggle to follow their money could be a better use of cash. Supporting companies to squeeze out weaker peers may be smart, if not too expensive.

PRX underperforming Tencent, Wider Discount - Move to Buy: We haven't changed our view over a reasonable discount for an activist/takeover proof Prosus. 30% versus our updated NAV sets a PT of €64, and upside of 21% justifies a Buy on current prices, independent of our positive view 12m on Tencent, as we think a narrowing to 30% is reasonable. In addition to the wider discount, what has changed is our sense that the opportunity to gain exposure to one of the world's leading tech groups, Tencent, with its favoured gaming/social/payment online model, which is moreover in the only (probably) post virus economy, through a liquid European vehicle could look increasingly attractive. Our Tencent PT of HKD483 would add €20 or 35% to our PT. Liquidity may have made PRX a selling target, but over coming months, we're more positive that it can attract interest. Upgrade to Buy.

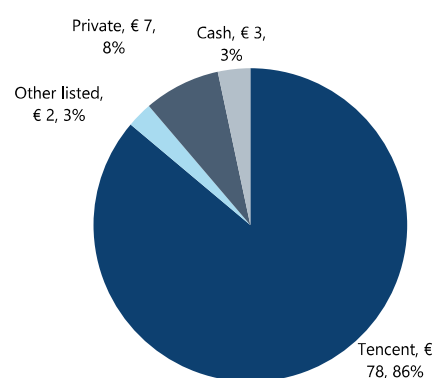
Rating | Target Change

Netherlands | Internet

RATING	BUY (FROM HOLD)
PRICE	€52.74 [^]
MARKET CAP	€85.9B / \$93.0B
PRICE TARGET (PT)	€64.00 (FROM €59.00)
UPSIDE SCENARIO PT	€84.00
DOWNSIDE SCENARIO PT	€44.00

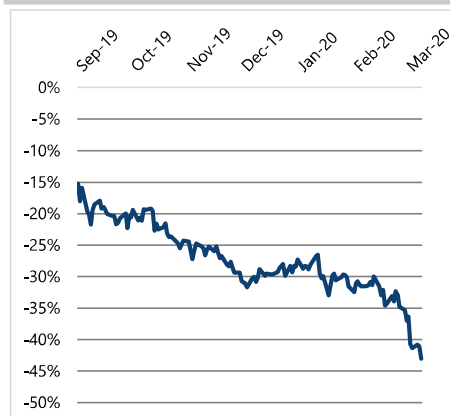
[^]Prior trading day's closing price unless otherwise noted.

Exhibit 1 - Breakdown of EUR91 NAV



Source: Jefferies estimates

Exhibit 2 - PRX discount to NAV since IPO



Source: Jefferies from Factset prices

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Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 8 to 14 of this report.

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PROSUS (PRX NA)

Estimates			
USD	2018A	2019A	2020E
Rev. (MM)	\$2,303.0	\$2,654.0	\$3,048.2
<i>Previous</i>			\$3,052.6
Operating Profit (MM)	(615.0)	(418.0)	(443.7)
<i>Previous</i>			(444.2)
NAV	-	87.5	115.4
<i>Previous</i>			

Valuation			
	2018A	2019A	2020E
EV/Rev	38.1x	33.1x	28.8x
P/Rev	40.4x	35.0x	30.5x
P/NAV		0.6x	0.5x
FY P/E	52.6x	24.4x	22.2x

Market Data	
52-Week Range:	€77.40 - €46.75
Total Entprs. Value	€81.1B
Avg. Daily Value MM (USD)	115.77
Float (%)	26.9%

The Long View

Scenarios

Base Case

We base our valuation and rating against the current estimated NAV - 'should I buy Prosus vs. Tencent?' is the core question for most investors. Taking current Tencent and other values, our NAV for Prosus is €148bn, or €91/share - after a haircut on e-commerce activities at €11bn (from €14bn).

We continue to expect PRX to trade towards the previous Naspers discount: a 30% discount implies €64 PT, 21% upside.

Upside Scenario

Our scenarios each have two strands - one considers the upside/downside PTs for Tencent etc., how that would impact the Prosus NAV and hence likely performance at a stable discount. The other considers the e-commerce assets and discount.

Using our Jef colleague Thomas Chong's Tencent upside target of HKD550 and likewise for DHER, CTRP and MAIL gives a NAV on a 12m view of EUR118, on which a 30% discount would give an €83 PT.

A narrower discount of 10% vs our base case, plus a higher value for e-commerce ops would imply a PT of €85. Our averaged upside PT is thus €84, 67% upside.

Downside Scenario

Using the downside scenario PTs for Tencent (HKD300) and other holdings, and our base-case discount of 30% would give a PT of €45. Alternatively, using current holding values, a lower \$5.4bn e-commerce value and \$1bn for central cost NPV and a wider discount of 45% would give a €43 PT. Averaging these gives a downside PT of €44, downside of 14%.

Investment Thesis / Where We Differ

We see Naspers' discount as having been only partly South-African driven, and hence Prosus' post index/flow discount as likely to move closer to the NPN range of 30%-40%.

Clearly moves in Tencent are the main NAV driver - our thesis is discount-driven against current Tencent and other stake values.

Cash is a protection against operating losses/investment needs at the (relatively small) non-listed portfolio and operations.

Catalysts

NAV is driven (Exhibit 3) by Tencent (85%) followed by other listed holdings and private ops performance (updated half-yearly in November and June).

Deployment of cash would also drive discount sentiment - net buybacks would be an unexpected positive, while using up cash on acquisitions would reduce comfort pending market perception of the deals. Amid the virus, conserving cash may be the more reassuring option.

Valuation is about NAV not operating results

We have tweaked our financial estimates for Prosus here (small changes due to current FX rates) - which are in any case largely irrelevant to the valuation of the business, which, as we set out in detail in our [initiation](#), is about the asset value (NAV or SotP however described) and discount to that. And the NAV depends mainly on large liquid listed Tencent. Variations in the private stakes and owned operations are comparatively minor, as is cash (more important as a safety cushion given negative FCF ex Tencent dividends and funding/operating threats to these businesses amid the virus).

Caution on Owned Operations and Private Stakes: 20% Haircut

As above, the bulk (92%) of PRX's value lies in Tencent, and other listed assets and cash. However, we have chosen to haircut our previous €14bn valuation for the owned, JV and venture stakes owned by PRX that account for 8% of our NAV. Clearly market values have fallen widely, and private values should not be immune - however, PRX's businesses are close to profitability or have been profitable prior to recent investment ramps, and a majority of them could be considered to be positively impacted by the current virus scenario - food delivery in India and Brazil, e-payments in India and elsewhere, e-commerce in CEE and edtech businesses could all gain from stay-home virus conditions, if not NT then MT.

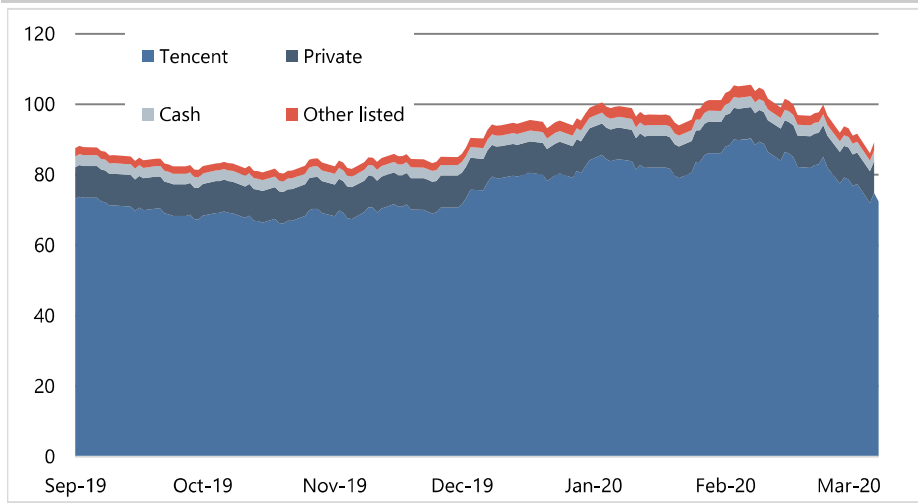
So our 20% haircut across this group (which we expect to continue to grow well into DDs,, ought to be a cautious figure.

Exhibit 3 - Prosus SotP or NAV breakdown, Valuation Methodology

Valuation Summary (in €m)					
	PRX stake	Current price (local)	PRX Current valn (in €m)	NAV/share €	% of total NAV
Listed assets					
Tencent	31.0%	HK\$367.0	€ 127,803	€ 78.5	86.1%
Mail.ru	28.0%	\$13.0	€ 726	€ 0.4	0.5%
Delivery Hero	21.8%	€ 60.8	€ 2,462	€ 1.5	1.7%
C-Trip	5.6%	\$24.0	€ 785	€ 0.5	0.5%
Total			€ 131,776	€ 80.9	88.8%
Unlisted assets - Ecommerce excl. Travel (Ctrip & DHER)					
		FY19A Rev	PRX Current valn		
Classifieds		€ 791	€ 7,220	€ 4.4	4.9%
Payments		€ 332	€ 3,142	€ 1.9	2.1%
Food Delivery (ex. DHER)		€ 169	€ 2,031	€ 1.2	1.4%
Etail		€ 1,411	€ 1,443	€ 0.9	1.0%
Ventures		€ 221	€ 775	€ 0.5	0.5%
Total Ecommerce		€ 2,924	€ 14,612	€ 7.2	7.9%
Private holdings haircut			20%		
Net Cash	100%	€ 4,966	€ 4,966	€ 3.1	3.3%
Total NAV			€ 148,432	€ 91.2	100%
Shares outstanding			1628		
NAV/share			€ 91.2		
Jef assumed discount			-30%		
PT			€ 64		
	Current price	03-19-2020	52.7		
	Discount		-42%		

Source: Jefferies estimates, Factset prices close 19/3/20 and company filings

Exhibit 4 - NAV per share components since PRX IPO



Source: Jefferies estimates from Factset prices

Exhibit 5 - Prosus income statement

YE March, \$m	FY17	FY18	FY19	FY20E	FY21E
Revenue	1,835.0	2,303.0	2,654.0	3,048.2	3,487.3
<i>yoy growth %</i>		26%	15%	15%	14%
<i>Ecommerce</i>	2551	3342	3596	4,466	5,465
<i>yoy growth %</i>		31%	8%	24%	22%
<i>Social & Internet platform</i>	7,692	12,281	14,744	18,162	22,498
Tencent	7,506	12,024	14,457	17,838	22,111
Mail.ru	186	257	287	324	387
<i>Corporate Services</i>	0	0	0	0	0
Total economic interest	10,243	15,623	18,340	22,628	27,963
(-) Equity accounted investments	(8,375)	(13,320)	(15,686)	(19,579)	(24,476)
	82%	85%	86%	87%	88%
(-) eliminations	-33	0	0	0	0
Total from discontinued operations	327	0	0	0	0
COGS	(1,136)	(1,384)	(1,596)	(1,803)	(2,027)
<i>as % of sales</i>	62%	60%	60%	59%	58%
SG&A	(1,492)	(1,507)	(1,436)	(1,649)	(1,887)
<i>as % of sales</i>	81%	65%	54%	54%	54%
Other gains/(losses)	(25)	(27)	(40)	(40)	(40)
Operating loss	(818.0)	(615.0)	(418.0)	(443.7)	(466.9)
Trading (loss)/profit	(679)	(386)	(300)	(316)	(324)
<i>% margin</i>	-37%	-17%	-11%	-10%	-9%
<i>Ecommerce</i>	(866)	(652)	(552)	(601)	(721)
<i>Social & Internet platform</i>	2,761	3,726	3,952	5,264	6,156
Tencent	2,701	3,675	3,929	5,256	6,132
Mail.ru	60	51	23	8	25
<i>Corporate Services</i>	-14	-14	-17	-3	-3
Total (economic interest)	1,881	3,060	3,383	4,660	5,433
(-) Equity accounted investments	(2,560)	(3,446)	(3,683)	(4,976)	(5,757)
Eliminations	0	0	0	0	0
Depreciation	20	24	25	35	49
Amortization	104	97	94	91	88
EBITDA from continuing operations	(651)	(354)	(259)	(279)	(289)
<i>% EBITDA margin</i>	-35%	-15%	-10%	-9%	-8%
Interest income	17	34	265	265	265
Interest expense	(200)	(195)	(200)	(200)	(200)
Other finance income/costs	(638)	(330)	114	114	114
Share of equity-accounted results	1,857	3,292	3,408	4,605	5,327
(impairment)/reversal of impairment of equity-accounted investments	1	-46	-88	0	0
Dilution (losses)/gains on equity accounted investments	-119	9224	-182	0	0
Net gains on acqn and disposals	249	30	1610	20	0
PBT	349	11,394	4,509	4,360	5,039
Tax	(11)	(39)	(258)	(249)	(288)
implied tax rate	3%	0%	6%	6%	6%
Profit from continuing operations	338	11,355	4,251	4,111	4,751
Profit from discontinued operations	2,062	0	0	0	0
Profit for the period	2,400	11,355	4,251	4,111	4,751
non controlling interest	(206)	(130)	(55)	(148)	(148)
Equity holder	2606	11485	4307	4,259	4,899
Headline earnings	448	1,766	3,808	4,265	4,905
Core headline earnings	1,499	2,506	3,094	5,142	5,853
Headline earnings per share (US cents)	27.57	108.68	234.34	262.44	301.84

Source: Jefferies, company data

Exhibit 6 - Prosus Balance Sheet

YE March, \$m	FY17	FY18	FY19	FY20E	FY21E
Asset					
Non current assets	14,102	20,087	22,881	29,002	34,897
PP&E	55	96	143	165	182
Goodwill	2,147	2,181	2,035	2,894	2,894
Other intangibles	1,038	958	794	576	293
Investments in associates	10,691	16,669	19,746	25,176	31,300
Investments in JVs	66	74	95	124	161
Investments and loans	49	62	47	47	47
Other receivables	32	21	6	6	6
Derivative financial instruments	-	1	1	1	1
Deferred taxation	24	25	14	14	14
Current assets	3,780	11,493	9,982	9,236	8,229
Inventory	94	139	148	176	176
Trade receivables	138	169	135	162	186
Other receivables	213	348	496	595	673
Related party loans & receivables	24	26	19	19	19
Derivative financial instruments	-	2	-	-	-
Short term investments	-	-	7,037	6,739	6,739
cash and cash equivalent	3,209	10,809	2,131	1,545	436
Asset classified as held for sale	102	-	16	-	-
Total asset	17,882	31,580	32,863	38,238	43,127
Equity & liabilities					
Equity	11,573	24,356	27,249	32,240	37,035
Capital and reserves attributable to group entities	11,254	24,082	27,117	32,108	36,903
Net parent investment	11,845	23,307	27,345	32,336	37,131
Other reserves	(591)	775	(228)	(228)	(228)
Non controlling interests	319	274	132	132	132
Non current liabilities	4,176	4,460	4,034	4,297	4,297
Long term liabilities	2,198	3,216	3,244	3,244	3,244
Other non-current liabilities	1,710	869	540	803	803
Related party loans & payables	5	4	2	2	2
Cash settled SBP liabilities	28	37	36	36	36
Provisions	5	6	3	3	3
Derivative financial instruments	2	123	33	33	33
Deferred taxation	228	205	176	176	176
Current liabilities	2,133	2,764	1,580	1,701	1,795
Current portion of LT debts	723	68	22	55	55
Provisions	20	23	14	14	14
Trade payables	254	290	244	268	295
Accrued expenses & other current liabilities	1,088	2,343	1,237	1,299	1,364
Related party loans & payables	22	27	37	39	41
Taxation payable	4	11	13	13	13
Derivative financial instruments	22	1	3	3	3
Bank overdrafts	-	1	8	8	8
Liabilities classified as held for sale	-	-	2	2	2
Total equity & liabilities	17,882	31,580	32,863	38,238	43,127
Net cash	-	-	5,894	4,977	3,868

Source: Jefferies, company data

Exhibit 7 - Prosus Cash Flow Statement

YE March, \$m	FY17	FY18	FY19	FY20E	FY21E
Cash flow from operating activities					
Profit before tax	349	11,394	4,509	4,360	5,039
Loss on sale of assets	1	1	1	1	1
D&A	124	121	119	126	137
Retention option expense	1	6	11	11	11
SBP expenses	94	162	111	111	111
Net finance costs	821	491	(179)	(179)	(179)
Share of equity-accounted results	(1,857)	(3,292)	(3,408)	(4,605)	(5,327)
Impairment on equity accted investments	(1)	46	88	-	-
Gains on acqn & disposals	(264)	(43)	(1,628)	(20)	-
Dilution on equity accounted investments	119	(9,224)	182	-	-
Net realisable valn adj on inventory	-	3	1	-	-
Impairment losses	28	27	7	-	-
Others	(38)	3	(6)	-	-
Discontinued operations	127	-	-	-	-
Operating cash flow adj. for non cash	(496)	(304)	(192)	(193)	(205)
Working Capital					
Change in trade & other receivables	7	(29)	(50)	(126)	(102)
Change in payables & accruals	164	50	2	88	94
Change in inventories	(28)	(28)	(28)	(28)	(28)
Cash from operations	(353)	(311)	(268)	(260)	(241)
Dividends received from investments	192	248	343	436	436
Cash from operating activities	(161)	(63)	75	176	194
Interest income received	17	33	198	265	265
Interest costs paid	(201)	(180)	(202)	(200)	(200)
Taxation paid	(61)	(69)	(94)	(212)	(216)
Net cash from operating activities	(406)	(279)	(23)	29	43
Cash flow from investing activities					
PPE acquired	(42)	(65)	(90)	(57)	(66)
Proceeds from PPE sales	1	4	1	-	-
Intangible asset acquired	(13)	(8)	(11)	(218)	(283)
Proceeds from sale of intangible	1	-	-	-	-
Acqn of subsidiaries , net of cash	(140)	(39)	(102)	(150)	(150)
Disposals of subsidiaries and businesses	3,358	-	17	5	5
Acqn of associates	(216)	(707)	(544)	(250)	(250)
Investments in existing associates	(15)	(1,217)	(733)	(600)	(500)
Partial disposals of associates	-	9,763	4	4	4
Disposal of associates	-	-	1,930	196	196
Acqn of JV	(12)	-	-	-	-
Investments in existing JVs	(14)	(17)	(18)	(29)	(37)
Disposal of JVs	-	138	34	-	-
Maturity of short term investments	-	-	-	-	-
Acqn of short term investments	-	-	(6,967)	298	-
Cash movement in other investments and loans	(3)	(6)	(2)	-	-
Net cash from investing activities	2,905	7,846	(6,481)	(800)	(1,081)
Cash flow from financing activities					
Proceeds from loans	428	1,013	62	263	-
Loan repayments	(413)	(706)	(51)	-	-
Proceeds from related party funding	339	239	181	-	-
Repayments of related party funding	(579)	(410)	(754)	-	-
Investments in existing subsidiaries	(103)	(98)	(1,603)	-	-
Repayments of capitalised finance lease liabilities	(1)	(1)	(1)	(2)	(2)
Transactions with non-controlling shareholders	102	(43)	58	(52)	(52)
Dividend paid to holding companies	-	-	-	-	-
Other	-	-	-	-	-
Dividends paid to non controlling shareholders	(15)	(25)	(16)	(16)	(16)
Net cash from financing activities	(242)	(31)	(2,124)	193	(70)
Net movement in cash and cash equivalents	2,257	7,536	(8,628)	(578)	(1,108)
FX adjustments	(10)	63	(57)	-	-
BoP cash	962	3,209	10,808	2,123	1,545
CCE classified as held for sales	-	-	-	-	-
EoP cash	3,209	10,808	2,123	1,545	436

Source: Jefferies, company data

Company Description

Prosus

A global consumer internet group created by Naspers (NPN)'s listing of its global internet businesses, with stakes in Tencent, Mail.ru, Delivery Hero, C-trip as well as ecommerce businesses across classifieds, Payment, Fintech, Food Delivery, Etail, Travel and others.

Company Valuation/Risks

Prosus

We base our valuation and rating against the current estimated NAV - 'should I buy Prosus vs. Tencent?' is the core question of most investors. Taking current Tencent and other values, our NAV for Prosus is €148.4bn, or €91/share - probably below historic consensus on e-commerce activities (minorities, disclosure, excluding holding's revenue shares) at €12bn. Risks incl. widening of the discount and lower ecommerce valuation.

Delivery Hero AG

Valuation: DCF based, supported by multiples. Risks: aggressive competition, gig economy regulation.

Mail.Ru

Valuation: DCF based. Risks: emerging market risk, competition, regulation.

Naspers

We value Naspers based on a 12m NAV estimate and discount estimate. Former is dominated by Tencent, 85% of NAV and we expect to grow by c.23%. Although we allow for the discount widening to 40%, drives ZAR3,845 PT. Key risks are Tencent price plus discount widening as cash is reinvested.

Tencent Holdings Ltd.

We have a Buy rating and a PT of HKD483 based on SOTP valuation approach. We use SOTP in order to capture valuation of different segments which include (1) HKD139.7 and HKD69.4 for online games and online advertising respectively based on 29x 2020F PE, which represents about 20% premium to historical sector average PE over the past 10 years factoring in the strengths of social ecosystem in game distribution and advertising; (2) HKD72.0 for VAS (ex-games) based on 10% premium to historical sector average PE on its social ecosystem; (3) HKD30.6 for cloud based on 10x 2020 price to sales ratio with reference to global peers; (4) HK \$130.0 for fintech benchmarking against peers valuation; (5) HKD40.5 for investees; (6) HKD0.8 net cash. Risks include (1) slower-than-expected growth in gaming; (2) weaker-than-expected ad outlook on macro-headwinds; (3) aggressive investment in fintech and Cloud drag overall profitability.

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(Article 3(1)e and Article 7 of MAR)

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Risks which may impede the achievement of our Price Target

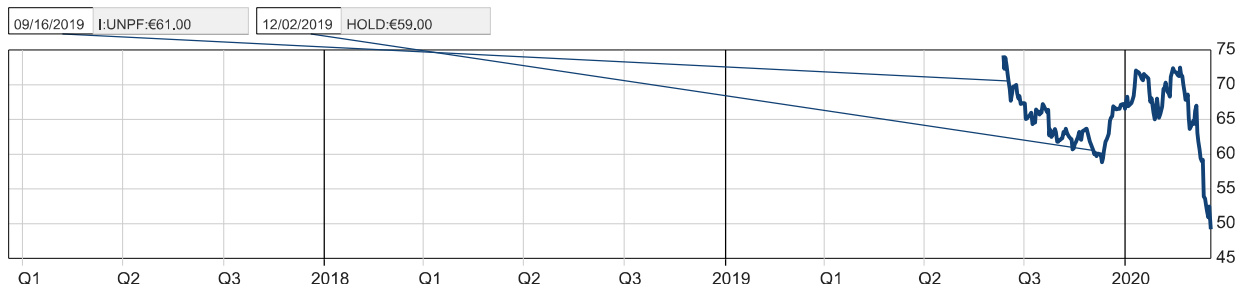
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Other Companies Mentioned in This Report

- Delivery Hero AG (DHER GR: €60.76, BUY)
- Mail.Ru (MAIL LJ: \$13.01, HOLD)
- Naspers (NPN SJ: ZAc2,049, BUY)
- Tencent Holdings Ltd. (700 HK: HK\$343.00, BUY)

Rating and Price Target History for: Prosus N.V. (PRX NA) as of 03-18-2020



Rating and Price Target History for: Tencent Holdings Ltd. (700 HK) as of 03-18-2020



Rating and Price Target History for: Delivery Hero AG (DHER GR) as of 03-18-2020

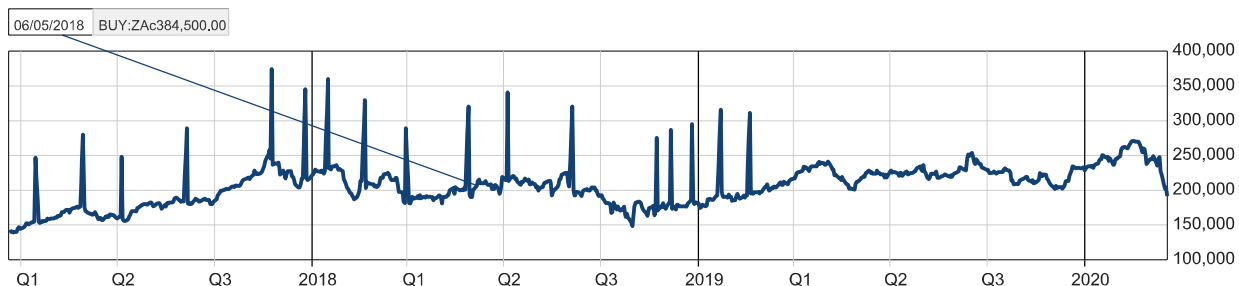


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Rating and Price Target History for: Mail.Ru (MAIL LI) as of 03-18-2020



Rating and Price Target History for: Naspers (NPN SJ) as of 03-18-2020



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

- I: Initiating Coverage
- D: Dropped Coverage
- B: Buy
- H: Hold
- UP: Underperform

Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1273	53.69%	113	8.88%	10	0.79%
HOLD	937	39.52%	35	3.74%	5	0.53%
UNDERPERFORM	161	6.79%	1	0.62%	0	0.00%

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