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Investment Management

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Why Naspers is (still) a poor investment idea

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Naspers' market cap has declined by 37% from its peak on November 21st, 2017, of R1,861tn, to R1,164tn today. In billions, the market cap decline is R697bn. Putting this in perspective, it is like losing 3 ½ Steinhoffs altogether!

Naspers is a massive market cap in relation to the rest of the JSE, so its weightings in the various indices and investment management industry benchmarks is very significant, in some cases 20% or more. As a result, this particular price decline is an incredibly painful one for many South African savers. This is no laughing matter.

Anyways, here are at least 4 reasons why I reason Naspers is (still) a poor investment idea;

1. Its dominant asset, Tencent, after declining by 45%, is still overvalued, even naively assuming (a) revenue growth rates several times long-term forecasts for Chinese GDP growth, (b) no further deterioration in operating profit margins and (c) eye-watering exit valuation multiples.
2. It is not widely known, but, put plainly, Naspers owns their stake in Tencent in partnership with the wholly unpredictable Chinese government. Heaven forbid if that dragon ever caught a cold.
3. A sellside analyst published a report in January 2018 wherein he calculated Naspers' management issued rewarded themselves in shares to the tune of R426bn over the past 15 odd years. Yup, I'm afraid that value is not a typo.

4. Due to a dual-voting share class structure, minority investors in Naspers, even collectively, have no power.

Concluding, as much as I respect and admire what Messrs Vosloo & Bekker have achieved and the past successes of the company, what matters most to our co-investors is that we have not owned any Naspers shares since our funds' inception in September 2017.

Our work continues...

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