

Weekly update for 26/04/2021

Merchantec Capital Small Cap Index Major Movers

Company Name	Close (cents)	Weekly %chg	Market Cap (Rm)
Cognition	72	+10.8%	165
Onelogix	250	-10.4%	664

Core equity updates

Cashbuild Limited (JSE: CSB) released their Q3 operational update which showed improved performance with revenue up ~21% on the same quarter in the last financial period. The increase in revenue was largely due to growth in existing stores which contributed ~19% of the year-to-date growth. CSB South Africa, which makes up 81% of total Group revenue, grew by ~25% for Q3 with all other operating segments showing solid growth apart from P&L Hardware South Africa which saw a contraction in revenue of ~5% due to the closure of 6 P&L Hardware stores during H1. Despite this, the Group managed to grow the total number of stores by 18 stores from H1.

Cashbuild is on track to meet our previous revenue growth forecast of 23.7% in FY21.

Workforce Holdings Limited (JSE: WKF) announced the completion of 4 acquisitions with effect from 1 June 2021 from Blackbird Group Proprietary Limited (Blackbird). The acquisition companies include, GetSavvi Health, GetSavvi Consult, FeelBetterFast and Arnocure which specialize in the provision of affordable, quality health insurance and other specialized short term insurance products. The Group see GetSavvi as a complimentary offering to the existing short-term insurance financial services cluster with the added benefit that the companies are profitable on a normalised level.

The purchase consideration for the acquisitions is R25.6m, which includes an up-front cash payment of R13.7m and further future payments depending on profit warranties. The value of the net assets of the GetSavvi Health at 31 May 2020, is R2.7m after normalisation adjustments for income and costs incurred in Blackbird. WKF is currently trading at a PE of ~9.6x and the businesses will be acquired on a PE of ~10.0x indicating the deal to be earnings neutral, however should be accretive on a cash basis assuming finance costs are lower than the expected yield of ~20%.

Afrimat Limited (JSE: AFT) expects headline earnings per share ("HEPS") to be between 424cps and 459cps representing an increase of between ~22% and ~32%, compared to HEPS of 348cps reported for the year ended 29 February 2020. These figures exceed our previously revised HEPS growth forecast of 15.8% to 403cps in FY21.

The Group has made a decent turnaround after a challenging start to the year. Its Construction Materials and Industrial Minerals segments returned to profitability after the implementation of the national lock-down in response Covid-19 during the first half of the financial year. In the second half of the year, the Industrial Minerals segment delivered satisfactory results, while the Construction Material segment achieved good growth compared to the corresponding period in the previous year. The Bulk Commodities segment benefitted significantly from favourable iron ore pricing, which contributed to exceptional growth in profits during the year.

The Group's financial results are expected to be released on or about 27 May 2021.

Nu-World Holdings Limited (JSE: NWL) share price grew 9.3% after releasing interim results for the six months ended 28 Feb 2021. Revenue declined by 8.9% to R1.4bn, with robust growth in SA operations offset by lower revenue from offshore subsidiaries. Sales came under pressure in Q1FY21, however improved in Q2FY21 when lockdown restrictions were eased.

Consumer Electronics came under pressure as the continued increase on LED panel prices, higher freight rates and supply shortages impacted the visual sector. Both the Hi-Tech and Audio sectors sales were also impacted by supply shortages worldwide and higher selling prices.

Seasonal products were also impacted by supply shortages in the summer season range between November and December, however this recovered in January. Winter season stock was bought in early to prevent supply issues reoccurring.

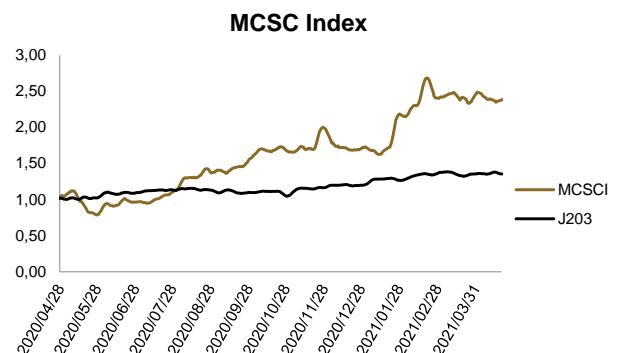
Appliances – Small domestic appliances (SDA) and White Goods benefited from a strong uptake in new product ranges and are expected to further widen product ranges in H2. The company will increase home furnishing offerings on the back of the increased demand for home office equipment given global pandemic and an increased number of employees working from home. The restrictions of the sale of liquor had an adverse impact on Liquor sales. The offshore operations were also negatively impacted by travel restrictions and increased cost of LED TV leading to certain pricing points no longer being achieved.

NAV per share increased by 4.6% to R60.04 per share while NWL currently trades at a ~51% discount to the NAV. Going forward management expects consumer spending to remain constrained and challenging trading conditions to persist. The Group will continue to focus on the growing global market share in consumer electronics and branded consumer durables sectors.

Our in-depth report will be released soon.

Adapt IT Holdings Limited (JSE: ADI) shareholders are reminded that the Huge Offer opened on Monday 19 April 2021 and closes on Friday 23 July 2021. Shareholders are urged not take any action until they have received the opinions of the Independent Board and the Independent Expert, as to whether or not the Huge Offer consideration is fair and reasonable. The response circular will be issued on or about 17 May 2021.

Shareholders are also reminded that on 7 April 2021 Adapt IT announced an alternative offer from Volaris Group Inc, at R6.50 per Adapt IT share by way of a scheme of arrangement. It is expected that the circular containing the Volaris Offer will also be distributed in May 2021, well before the closing of the Huge Offer and with sufficient time for shareholders to consider it before the Huge Offer closes.



The Merchantec Capital Small Cap Index

The Merchantec small cap index assumes an equal weighting into each of the stocks within our coverage to track performance against the larger JSE and to identify opportunities to buy (after major sell-offs) and opportunities to sell (after major rallying). The index highlights investor sentiment toward the small cap space, which has been characterised by the recent lackluster economic environment.

Over the past 12 months there has been a noticeable reversal in the performance of mid and small-caps, which we believe has created an opportunity for investors to capitalise on mispricing in the market.

MCSC Indices outlook over the past week

The Merchantec Capital Small Cap Index (MCSCI) yielded a ~1.3% gain over the past month and a ~0.1% gain over the past week in comparison to the ALSI (~3.9% 1-month gain and ~1.2% 1-week loss). On a PE basis, the index is trading at a forward PE of 11.73x, which is relatively overvalued in comparison to the JSE All Share index which is trading at a forward PE of ~ 10.3x.

Merchantec Research Small & Mid Cap Ranking Table

Company Name	Close (c)	Mcap (Rm)	EPS historic	EPS +1 year	EPS +2 year	Dividend Yield	historic pe	Implied fwd pe	Implied pe price (c)	Gain (Loss)	EPS Risk	DCF Value (c)	Prem (Disc)
Alviva	1235	1529	149	214	317	1,2	8,3	6,3	1890	53%	35%	1878	52%
Santova	288	464	41	52	57	0,0	7,1	6,5	376	31%	45%	349	21%
Adcorp	638	700	-6	72	147	0,0	-102,9	4,5	827	30%	40%	1271	99%
Calgro M3	200	280	2	-17	28	0,0	113,0	5,6	248	24%	35%	262	31%
Balwin	452	2130	87	56	77	4,3	5,2	6,9	553	22%	35%	432	-4%
Invicta	1980	2203	58	244	263	0,0	34,1	9,2	2418	22%	45%	2395	21%
Insimbi	84	370	10	7	17	0,0	8,3	5,4	102	22%	40%	101	20%
Vunani Limited	270	434	0,6	39	50	1,9	450,0	6,3	321	19%	60%	389	44%
Afrimat	4826	7039	348	403	498	2,4	13,9	11,0	5622	17%	30%	4573	-5%
OneLogix	250	663	22	16	26	0,0	11,3	11,7	291	16%	30%	497	99%
Mustek	953	666	124	297	183	2,7	7,7	5,3	1073	13%	35%	1099	15%
Quantum Foods	600	1198	81	71	84	2,7	7,5	8,4	660	10%	35%	720	20%
Cashbuild	30778	7676	1139	2900	1726	3,2	27,0	16,9	32751	6%	35%	30435	-1%
Argent	960	578	133	124	188	0,0	7,2	5,3	1021	6%	40%	1593	66%
Metrofile	293	1324	25	30	33	4,8	11,8	9,5	310	6%	30%	364	24%
Rhodes Food Goup	1217	3191	87	108	124	2,4	14,0	10,8	1270	4%	45%	1480	22%
Adapt IT	670	969	67	69	94	0,0	10,0	7,6	677	1%	40%	1212	81%
Sephaku	139	353	-8	-7	5	0,0	-17,1	16,6	124	-11%	45%	61	-56%
Datatec	2810	5661	87	111	170	0,0	32,4	9,4	2311	-18%	35%	2499	-11%
Mix Telematics	739	4466	27	22	27	2,2	27,4	17,7	595	-20%	30%	739	0%
Cognition	72	165	2	8	9	0,0	30,8	6,0	54	-26%	35%	79	9,4%



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