Tencent pushes Naspers shares to new high

By Thabiso Mochiko and Maarten Mittner

2 Aug 2013

Shares in Naspers have risen 13.10% since the beginning of July and closed at R825.90 on Wednesday, 31 July, having reached a new high of R837 on Tuesday, 30 July.

The company's value has been rising steadily since the beginning of the year and its shares had gained 52.04% since January. Analysts are attributing this to Chinese-based associate company Tencent in which Naspers owns 34%.

Alexander Duys, portfolio manager at Mvunonala Asset Managers, said Tencent recently reported very good first quarter, after which the share price rose substantially. Tencent comprises a large portion of Naspers's valuation.

"As a result the Naspers share price will be highly correlated to Tencent's share movement especially in the short-term. The weak rand has also helped Naspers's share performance during the course of the year and as a result this performance has been nothing short of stellar for the year to date," he said.

Some analysts say it is risky for Naspers to be so heavily exposed to the Chinese instant-messaging, entertainment and online advertising market.

According to Duys the higher share price does not increase the risk for the group, however it does for shareholders.

"If new capital is allocated at existing prices the potential to earn good risk-adjusted returns is lower, thus the key risk for shareholders is the low margin of safety from a valuation perspective."

Tencent pushes up value

The value of Naspers's assets has increased 600 times since the initial investment in Tencent in 2001.

While it is the main driver of Naspers's value, some analysts say Tencent remains an opaque company with competitors effectively debarred from entering its lucrative market due to regulatory preferences. It has hugely benefited from Chinese government policies to ensure greater competition in the market, but eventually restricting it to only two or three main players. Western global internet companies, notably Google, are struggling to operate in the country.

Effectively this means Tencent gets a cut of the downloading of any game on a cellphone or personal computer from millions of Chinese consumers. Instant messaging also works on this principle, which requires little investment by Tencent. Effectively acting as a pure cash cow to Naspers, Tencent's main success has been in securing the right to payment from authorities for these products.

Coronation Fund Management analysts have dubbed Tencent a complex stock to value. Naspers's reliance on Tencent has forced management to look at new alternatives, with the focus now falling strongly on e-commerce. But those are still loss-making assets. Its e-commerce divisions have reported a loss of R2.1bn in the year to March on revenues of R11.4bn.

Prospects remain strong

Duys said it was difficult to assess how Naspers's share price would perform in the near future.

"But we still remain confident of its medium- to long-term prospects. Besides Tencent we also like the potential of Naspers Pay TV business in Africa."

If Tencent's share price continues to rise, coupled with weaker rand, the possibility of Naspers reaching R1,000 in the foreseeable future "cannot be dismissed," he said.

In June Naspers reported a 27% rise in full year revenue to R50.2bn, and core headline earnings rise of 20%, at R22.1bn. Together with revenue from Tencent and Russia's Mail.ru, total revenue from the Internet was up 80% at R34.5bn, surpassing pay-TV revenue of R30.2bn for the first time in the history of the company.

Imara SP Reid analysts believe the current valuation of Tencent and Mail.ru makes the company fully valued now. The historic price:earnings ratio of 43 is high, but the rest of the interests imply a ratio of 18 times, which is reasonable.