# Naspers 'head and shoulders above its rivals'

By Nick Hedley

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JSE-listed Naspers is now less of a media company and more a diversified technology investor - becoming one of few global conglomerates to achieve this feat.

While this strategy places the company ahead of many of its rivals, it also carries some risks, including its significant exposure to Chinese internet company Tencent, analysts say.

Last month, Naspers - which owns South African online retailer Kalahari and online shopping comparison engine PriceCheck - reported that during the six months to September, revenue from its internet operations rose 70% to R14.1bn.

The group's strategies, which focus little on its traditional media operations, come at a time when the media industry is under pressure from declining revenues.

BDFM Publishers, the owner of *Business Day* and *Financial Mail*, this month offered voluntary retrenchment packages to its more than 200 employees in a bid to cut costs.

Caxton, which generates 95% of its revenue from publishing, printing and distribution, said in August it expected to achieve modest growth in earnings next year as advertising migrated from print to other platforms.

Naspers' strategy to diversify away from traditional media is deliberate and clear. "Quite soon the internet will be the largest contributor to the managed revenue base," says CEO Koos Bekker.

"Internet operations have been the group's major driver of revenue growth.

Over the six months to September, the internet operations contributed 41% of group revenue, just behind pay-TV at 42%. Print operations accounted for 17% of revenue.

In June, the group acquired a 79% interest in Netretail, an online retailer with operations in the Czech Republic, Poland, Hungary, Slovakia and Slovenia.

Last month, Naspers further acquired a stake in Dubai-based online retailer Souq.com. Its other internet businesses include a significant investment in Russia's Mail.ru.

## Tencent exposure 'too large'?

Jefferies analyst David Reynolds says the group's exposure to and reliance on Tencent seems too large.

Tencent makes up more than 70% of Naspers' earnings line and more than 80% of market capitalisation.

Reynolds says Naspers' move to diversify across geographies and different areas of digital media has allowed it to have winners and some losers. Tencent has been a major winner to date.

Naspers has no strategic control in Tencent and is only an investor, Reynolds says. While the probability of "a Tencent disaster" is low, the effect of this could be big on Naspers.

"Given the sheer scale of Tencent within the Naspers portfolio, I can't help but come to the conclusion that it must be appropriate for them to take some profit and reduce their exposure," he says.

Many of Naspers' investments, including its pay-TV business which faces challenges from increasing internet access, carry risks. The internet moves so quickly "that you have to be constantly appraising your investment portfolio".

## The changing face of Naspers

Professor of journalism at the University of the Witwatersrand, Anton Harber, says Naspers is now "less of a media company and more of a technology investor". Its market value was highly inflated because of its Tencent investment.

"It is eager to diversify these investments, which is why it is throwing money at 20-30 new opportunities a year, hoping that one will pay off as Tencent did," Prof Harber says.

He adds that Naspers stock is too dependent on Tencent, whose fortunes are tied to the goodwill of the Chinese government, which "can be arbitrary in its treatment of media and is jumpy about the political threat of the internet".

"So Naspers employs the 'spaghetti strategy', where it throws a lot of expensive pasta at the wall in the hope that some will stick."

Prof Harber believes that traditional media is now peripheral to the group's strategy and Media24 will eventually be "spun off from the group".

"Naspers is a bold and exciting company, but that comes with big risks," Prof Harber says.

"Koos Bekker is more willing than most to take risks and so far it has paid off for him, which is why so many people put their faith in him. They are way ahead of any other South African media company."

## A 'trailblazer' - Bizcommunity's Chris Moerdyk

Media analyst and CEO of Bizcommunity Chris Moerdyk says Naspers has "made the massive mind shift that every media group needs to make" by capitalising on the conversations it has with consumers and focusing on e-commerce for growth.

The group was "a trailblazer not only in SA but also worldwide" in terms of identifying opportunities and understanding what the online environment is all about.

"All media companies need to understand that their greatest asset is the conversation they are having with hundreds of thousands of people on a regular basis through different platforms - it is a question now of capitalising on that asset," Moerdyk says.

Avior Research senior analyst Kevin Mattison says while Naspers spent R1bn in e-commerce development in the six months to September, which resulted in a trading loss of R767m for the period, the division is probably "a couple of years away from profitability".

"They have grown it up very quickly over the past 10 years and clearly their largest investments are going into e-commerce," Mattison says.

"Naspers has acquired a very good long-term growth outfit in countries where e-commerce is at a very early stage of its lifecycle."

The aim was clearly to become influential players as the sector started to mature.

Naspers is also focusing on rolling out digital terrestrial TV services in a number of markets across Africa.

The pay-TV base saw net growth of 393,000 subscribers in the six months to September and now reaches just over 6-million homes across Africa.

Revenue for the segment was up 19% to R14.4bn.