Two sides to Naspers, Avusa story

Declining profits in the JSE's media sector have meant different things to Naspers and Avusa. Though both report a decline in operating profit for the financial year to March, their share prices have moved in opposite directions. In the past year Avusa's share price has declined 2,8%, to R24, while Naspers's has increased 18%, to R446,96.

For Avusa, which owns the *Sunday Times* and *Sowetan* and 50% of *Business Day* and the *Financial Mail*, things could have been worse had it not been for the announcement on June 12 that Richtrau intended to acquire the company, which caused its share price to rise sharply.

Richtrau, a subsidiary of the Mvelaphanda Group which owns 21,29% of Avusa, aims to take over the share capital it does not already own. The plan is for Avusa to delist and Richtrau to list as the holding company of the media company.

Richtrau's initial offer was R24/share, but minority shareholders have the option of swapping one Avusa share for 1,48 listed shares in Richtrau.

According to Standard Bank, though 65% of Avusa shareholders have signed irrevocable undertakings in support of the deal, they have not indicated whether they will take the cash or the share offer.

Increased operating costs take their toll

"We believe the outcome of the transaction will result in Avusa continuing to operate its current assets in a new listed entity. The Richtrau offer does not indicate any significant business divestitures, in our view," Standard Bank says.

Avusa reported a 15,7% decline in operating profit, to R273m, and a 36% decrease in diluted HEPS, to 126c, for the period under review.

Acting CEO Mike Robertson attributes shrinking profits to increased operating costs in the traditional businesses of media, entertainment and music. Operating costs increased by 10,1% to R1,6bn during the period.

The inclusion of industrial printing company Universal Hirt & Carter (Retail Solutions), which was acquired at the end of last year, to the bottom line, shored things up somewhat.

"Our 12% revenue increase was mainly as a result of the inclusion of the Retail Solutions business unit," Robertson says. "Though our diluted HEPS declined, it was a marked improvement on the halfyear results to September, when profits dropped 90% from the year before.

"We need to maintain our vigilance on costs . the full benefits of most of the interventions are expected to be realised in the current financial year," he says.

The company has been implementing cost-cutting measures, mainly in the form of retrenchments.

Revenue growth

Naspers CEO Koos Bekker is quoted on Sens as saying his company experienced revenue growth across most of its businesses, including the pay-TV, media and Internet assets Tencent China and Russia's Mail.ru.

Internet revenue grew substantially by 59% to R19,2bn, while trading profit increased by 9% to R3,8bn.

Pay-TV revenue rose 15% with an increase in the subscriber base of 648 000. The subscriber base is now 5,6m.

Print media revenue grew by 15% to R12,1bn. This was largely due to more printing contracts for the commercial print business, Paarl Media, rather than an increase in its print title circulations, as well as a 10% increase in revenue from the Brazilian-based Abril.

Consolidated revenue increased by 19%, to R39,5bn, mainly from an increase in revenue from the fast-growing Internet segment. Adjusted operating profit grew only 8%, to R6,3bn, due to consolidated development costs increasing significantly by 87%, to R2,8bn, mainly due to e-commerce. Diluted HEPS grew 15% to R17,89.

Naspers offers high margins, a return on equity of 16,5%, and its core operations remain cash-generative. It has a diversified portfolio of mature businesses but Tencent and Mail.ru, now responsible for 98% of the group's market cap, remain the key drivers of future growth. Analysts feel the share is fairly valued and recommend it as a hold.

Avusa has traditionally been a good generator of cash. Operating margins, however, have been in decline for the past few years, affected by technological shifts in the marketplace. Analysts feel the share is fairly valued and that the Richtrau offer is fair.

Source: *Financial Mail* via I-Net Bridge