

Zeder Investments Limited ('Zeder')

By Jaco Scholtz, 28 July 2022

Capicraft's funds have been invested in Zeder since April 2021. Zeder listed on the Johannesburg Exchange in December 2006. Originally Zeder's strategy was to patiently acquire undervalued minority stakes in South African agribusinesses. As time passed, and as it acquired ever-larger stakes, Zeder became a strategic and (in some cases) controlling shareholder in these agribusinesses. Some of its investee companies — Pioneer, Kaap Agri, and Quantum Foods — eventually listed on the Johannesburg Exchange.

In March 2020, Zeder not only sold its 28,6% stake in Pioneer Foods, but it also paid all its debts and declared a special dividend. In June 2020, Zeder sold its 32,1% stake in Quantum Foods. Questions about Zeder's strategy started surfacing. On 9 September 2020, the Zeder board announced that it was considering changing the company's strategy, *'including one of value unlocking in a responsible way'*. The board added that *'Zeder has excellent investee companies that can benefit from African expansion and further investment. Such companies are well positioned to continue to play a meaningful role and expand their footprint locally and on the continent.'* No further news was forthcoming until 14 April 2021 when Zeder released its results for the year ended 28 February 2021, issued a cautionary statement, and declared a dividend of 20c per share. It is instructive to note Zeder's sum-of-the-parts valuation at various times:

<i>R - million</i>	28 February 2021	28 February 2022	9 May 2022
Zaad	2 010	2 037	2 367
The Logistics Group	1 325	1 571	-
Capespan	1 117	1 053	1 053
Kaap Agri	1 102	1 603	-
Agrivision Africa	146	146	146
Other assets	86	250	136
Cash	876	508	440
Total net asset value (NAV)	5 724	7 168	4 142
Net shares in issue (million)	1 538	1 538	1 538
NAV <i>per share</i> (R)	4,33	4,66	2,69
Market price (R)			1,87

Capicraft started investing in Zeder on 14 April 2021. Our initial investment was made at approximately R2,70 per share, a discount of 37,6% to Zeder's reported NAV of R4,33/share. (Of course, Capicraft later added to

its initial position.) Following our original investment, Zeder paid a dividend of R0,20/share in May 2021; unbundled its stake in Kaap Agri in March 2022 (valued at the time at R1,03 *per Zeder share*); and paid a special dividend of R0,925/share in early May 2022 (after disposing of The Logistics Group).

When these “corporate events” happen, our investment position partially de-risks. For example, Capicraft has recouped about 80% of its original investment in the form of dividends in cash and dividends *in specie* (i.e., Kaap Agri, which Zeder unbundled). These “special events” provide opportunities to reconsider the scenario from scratch. If it makes sense, Capicraft may well reinvest.

On 9 May 2022, the remaining investments held by Zeder included Zaad, Capespan, Agrivision Africa, other assets, and cash — all amounting to approximately R2,69 per Zeder share. Should we remain invested in Zeder? Different scenarios may be considered, some more likely than others. For example, Zeder could quite easily unbundle and separately list Capespan without tax leakages. Or Zeder could sell Capespan. Other scenarios exist.

Assume that Capespan is somehow disposed of at Zeder’s latest valuation (being R1 053 million) and that any tax leakage is negligible. If so, and using Zeder’s valuations on 9 May 2022, the following is implied for the valuation of Zaad:

Zeder shares in issue, net (million)	1 538
Market price (Rands)	1,87
Market capitalisation (R million)	2 876
Less: Dispose of Capespan (R million)	(1 053)
Less: Cash (R million)	(440)
Less: All other assets (R million)	(282)
Implied valuation of Zaad (R million)	1 101

Given the above scenario, the implied valuation of Zaad is R1 101 million. Is this cheap? Yes, it is. For starters, it is 53,5% lower than Zeder’s own valuation of Zaad (being R2 367 million). But we also believe Zeder’s valuation of Zaad (R 2 367 million) is unusually conservative. We look forward to reviewing Zaad’s annual results for the year ended June 2022.

Capicraft’s funds are still invested in Zeder. We believe more value will be unlocked.