


 Analyst: Orin Tambo, CFA
 Email: otambo@Intellidex.co.za

The Company: PSG Konsult Ltd

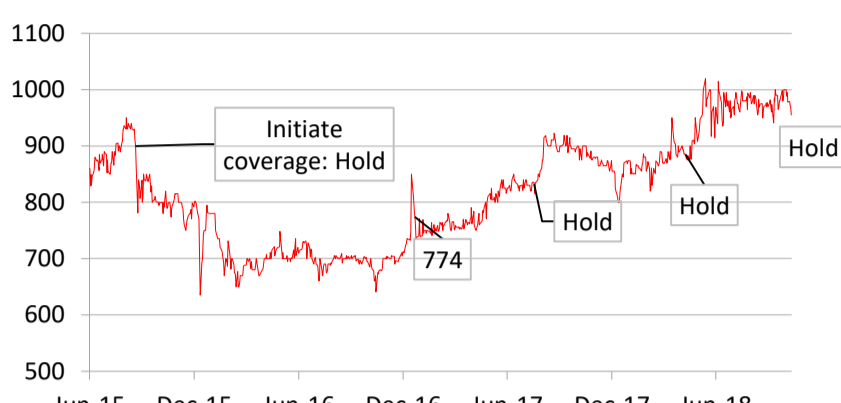
Exciting growth prospects but shares look fully valued

Our call

Hold

 Intellidex estimate of fair value: **980c**
 Spot price: 970c
 Potential move: **1%**

PSG Konsult share price graph and Intellidex's previous calls



Background

PSG Konsult is a financial services provider operating largely in southern Africa and Namibia. The group presents an integrated offering to clients' financial requirements, from asset and wealth management to insurance.

PSG Konsult continued its impressive run in 1H19, posting double-digit growth in earnings and assets under management (AUM). The performance was delivered during a period when capital markets were down: most asset managers are battling to grow funds and stem outflows in the weak economy.

The strong first-half performance means PSG Konsult has grown its AUM and assets under administration at average annual rates north of 20% over the past 10 years, which is commendable.

We expect PSG Konsult to continue on that growth trajectory. With a small market share in all the segments in which it operates, a solid reputation and a burgeoning advisor network, the group is well positioned to continue winning

market share from competitors. All its flagship funds are delivering above-market returns, which should also help in enticing new clients.

PSG's other competitive advantage is that it is advice-led not product led. That facilitates its ability to develop strong relationships with clients. It is also heavily oriented towards retail clients who are often sticky and offer higher margins.

What is also comforting is that its growth over the years has been driven mainly by growth in base management fees, which are recurring and stable. During 1H19, only 4.6% of its earnings came from performance fees.

Management has also shown increased appetite for acquisitions lately. Last year it concluded the

Sensitivity analysis – discounted cash-flow valuation

Terminal growth	1%	3%	5%
8.7%	1,245	1,475	1,956
10.7%	989	1,105	1,303
11.7%	894	980	1,116
13.7%	756	807	881
14.7%	701	741	798

This reflects the sensitivity of our forecasts to assumptions of the terminal growth rate and the weighted average cost of capital (WACC). The highlighted cell shows our target price in cents.

Investment thesis

acquisition of retail stockbroker 28E Capital and Absa Insurance and Financial Advisors (Aifa), which expanded its online trading platform and its commercial and industrial short-term insurance brokerage capabilities. It also concluded some smaller adviser acquisitions.

While there seems to be no intention by management to go on a full-blown acquisition spree, we expect the group to continue making small, measured acquisitions to supplement organic initiatives and expand offerings and capabilities.

While we have no doubt that PSG Konsult will continue delivering strong earnings growth – we are projecting annual growth of 15.2% in the medium term – we think that its growth promise is well anticipated by the market. For the share price to

rise, firms must exceed the growth expectations already embedded in their stock prices. PSG Konsult is on a hefty price:earnings ratio of 22, the highest in the sector, which shows investors already have very high expectations for its performance. However, it is a share worth holding.

The other issue we have with PSG Konsult is the small float in its shares. PSG Group owns 60% of PSG Konsult, directors and management own 9% and Coronation and the Public Investment Corporation, who are typically buy-and-hold investors, hold another 10%. This means the public is left to share 19% of the shares, which we think is problematic from a liquidity and price discovery point of view. But that should not be a hindrance for investors intending to make small investments.

Analysis of results

PSG Konsult delivered strong results on the back of decent fund inflows and growth in the market value of its managed assets.

Recurring headline earnings grew 18%, with the growth made up of: 7% growth from PSG Wealth; 53% from PSG Asset Management; and 11% from PSG Insure.

Total AUM increased to R230bn. These consist of assets managed by PSG Wealth of R182bn (1H18: R157bn) and PSG Asset Management of R48bn (1H18: R36bn), while PSG Insure's gross written premium grew 25% to R2bn. PSG Wealth recorded positive funds inflows of R7bn, ahead of R4.1bn recorded by PSG Asset Management.

The board declared a dividend of 7c/share (1H18: 5.7%).

Prospects

The performance of asset managers is linked to the

performance of the overall market. They thrive when markets are bullish. Their AUM will grow, bolstering both performance and base management fees. Over the past five years local capital markets, particularly equities, have been rough for fund managers. The JSE top 40 index has barely grown, which is obviously making it hard for local managers, whose funds are concentrated in the top 40 index, to grow. With local growth expected to remain depressed even until 2020, equity markets are also likely to remain subdued. Global equity markets remain attractive with growth in most developed economies poised to remain firm.

PSG Wealth, which contributes about 60% of the group's revenue, will remain key to PSG Konsult's performance because of its high base management fees. The success of this division is underpinned by its formidable adviser network. This network of advisers is driving growth in client inflows and with the group planning

to continue investing in it, we expect it to continue defying the subdued market conditions. As AUM grows, profit margins should widen.

Prospects for PSG Asset Management are also dependent on equity markets. We expect decent client inflows driven by the division's increased focus on retail sales efforts and marketing campaigns. Management says the company is going to invest significantly in selling its brand, which does not enjoy widespread brand awareness.

The insurance division supplements earnings and provides good diversification. PSG Insure continues to make inroads into the highly competitive short-term insurance market and is gaining further benefits from economies of scale. The acquisition of Aifa bodes well for the group's strategy to shift away from commoditised personal lines to commercial lines, which requires specialised adviser expertise.



Bull Factors

- Diversified earnings stream reduces risk profile without compromising returns
- High level of annuity income cushions company in market downturns
- Solid balance sheet and cash-flow position



Bear Factors

- Performance linked to general movements of equities market
- Relatively high PE ratio

Key statistics

Share details – JSE Code: KST
Sector: Investment services

Market cap: **R12.8bn**
 Net debt:equity ratio: **0%**
 Price:earnings ratio: **22.21**
 Forward PE ratio (FY19): **19.4**
 Dividend yield: **1.88%**
 Forward dividend yield: **2%**
 Risk: **High**

12-month high: **R10.20**
 12-month low: **R7.89**
 Ave monthly volume: **1.19-million**
 Financial year-end: **31 July 2018**
 Latest event: **Final results**
 Date announced: **10 October 2018**

RESULTS IN BRIEF*	1H19	Change (%)	1H18	FY17
Total income	2,306	9%	2,107	204
Operating profit (R'm)	455	13%	404	908
Operating margin (%)	19.7%	3%	19.2%	21.6%
Attributable earnings (R'm)	282	18%	239	566
Heps (cents)	21.5	18%	18.2	43.0

Intellidex Disclaimer:

This research report was issued by Intellidex (Pty) Ltd. Intellidex aims to deliver impartial and objective assessments of securities, companies or other subjects. This document is issued for information purposes only and is not an offer to purchase or sell investments or related financial instruments. Individuals should undertake their own analysis and/or seek professional advice based on their specific needs before purchasing or selling investments. The information contained in this report is based on sources that Intellidex believes to be reliable, but Intellidex makes no representations or warranties regarding the completeness, accuracy or reliability of any information, facts, estimates, forecasts or opinions contained in this document. The information, opinions, estimates, assumptions, target prices and forecasts could change at any time without prior notice. Intellidex is under no obligation to inform any recipient of this document of any such changes. Intellidex, its directors, officers, staff, agents or associates shall have no liability for any loss or damage of any nature arising from the use of this document.

Remuneration:

The opinions or recommendations contained in this report represent the true views of the analyst(s) responsible for preparing the report. The analyst's remuneration is not affected by the opinions or recommendations contained in this report, although his/her remuneration may be affected by the overall quality of their research, feedback from clients and the financial performance of Intellidex (Pty) Ltd. Intellidex staff may hold positions in financial instruments or derivatives thereof which are discussed in this document. Trades by staff are subject to Intellidex's code of conduct which can be obtained by emailing mail@intellidex.co.za. Intellidex may also have, or be seeking to have, a consulting or other professional relationship with the companies mentioned in this report.

Guide to recommendations:

A buy recommendation is made where the target price is 10% above the current price, a sell when it is 10% below the current price, and a hold recommendation when it is within 10% of the current price. The risk measure is a subjective determination guided by the beta of the share price. We also examine the financial and operating leverage of the business. ©This document is copyrighted by Intellidex (save for information contained in this document provided by third parties which may be copyrighted to them) and may not be distributed in any form without the express prior written permission of Intellidex.

Absa Stockbrokers and Portfolio Managers disclaimer:

This research note is prepared for Absa Stockbrokers and Portfolio Managers(Pty) Ltd ("SPM") by Intellidex (Pty) Ltd, a company registered in South Africa, registration number: 2008/005881/07 ("Intellidex"). Intellidex is an independent company contracted to Absa.

The views expressed in this note are those of Intellidex and/or its analysts and are not necessarily the views of SPM or any officer or agent thereof. The information contained in this communication does not constitute an offer or the solicitation of an offer to enter into any transaction for the sale or purchase of any security, nor does it constitute any recommendation, guidance or proposal to enter into any transaction for the sale or purchase of any security. The information is provided for illustrative purposes only and is not guaranteed. SPM does not represent or warrant that the information contained in this report is true or accurate and no undertaking (express or implied) is given and no responsibility or liability is accepted by any member of SPM, its employees and agents, or any other person or company affiliated to SPM, as to the accuracy of the information contained herein. Past performance is no indication of future performance. SPM does not accept any liability or responsibility for any loss, damage or expense incurred in relying on the above information or in the use thereof, nor makes any representation as to the accuracy or completeness of the above information. All opinions, estimates and findings contained in this document may be changed after distribution by Intellidex at any time without notice.

This document has been prepared in accordance with local regulations which may differ from the requirements in other jurisdictions. In distributing this research to you, SPM does not hold this out to be impartial (objective) as it may have been prepared by persons who may be exposed to conflicts of interest.

You should be aware that this document might have been originally disseminated by Intellidex to its clients other than SPM. As such, employees and clients of Intellidex and any persons connected with it may have had the opportunity to act upon the information contained in this document. The recipients of this document are urged to seek independent advice with regard to the securities and investments referred to in this document.

FAIS Notice and Disclaimer:

This brochure/document/material/report/communication/commentary ("this commentary") has been prepared by Absa Stockbrokers and Portfolio Management ("SPM"). SPM has issued this commentary for information purposes only and you must not regard this as a prospectus for any security or financial product or transaction. We do not expressly, tacitly or by implication represent, recommend or propose that the securities and/or financial or investment products or services (the "Products") referred to in this commentary are appropriate and/or suitable for your particular investment objectives or financial situation or needs. This commentary is not, nor is it intended to be, advice as defined and/or contemplated in Financial Advisory and All Risks Services Act, 37 of 2002 ("FAIS"), or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever ("advice"). The material and significant issues related to or associated with the Products are not disclosed herein and therefore, prior to entering or transacting, you should fully understand the Products and any risks and significant issues related to or associated with them. This commentary is neither an offer to sell nor a solicitation of an offer to buy any of the Products, which shall always be subject to our internal approvals and the execution of all requisite documentation.

You have to obtain your own advice prior to making any decision or taking any action based hereon and we, our affiliates, officers, directors, partners, or employees (in whose favour this constitutes a stipulation on behalf of another) do not accept any liability whatsoever for any direct, indirect or consequential damages or loss arising from any use of or reliance on this publication or its contents, and irrespective of whether or not you have obtained independent advice. Should you be a consumer in terms of the Consumer Protection Act No 68 of 2008, as amended, (i.e. a natural person or an entity with an asset value and annual turnover below R2m), then the above provisions limit and exclude the liabilities which we will have towards you and also place obligations on you.

Absa Stockbrokers and Portfolio Management (Pty) Limited is a member of the JSE Equity Market, Registered Credit Provider Reg. No. NCRCP68, and an Authorised Financial Services Provider with FSP No 45849. Absa Stockbrokers and Portfolio Management (Pty) Ltd is a wholly owned subsidiary of Absa Group Ltd ("Absa") and complies with Absa's privacy and security policies. However, business is conducted directly with Absa Stockbrokers and Portfolio Management (Pty) Ltd.