UP

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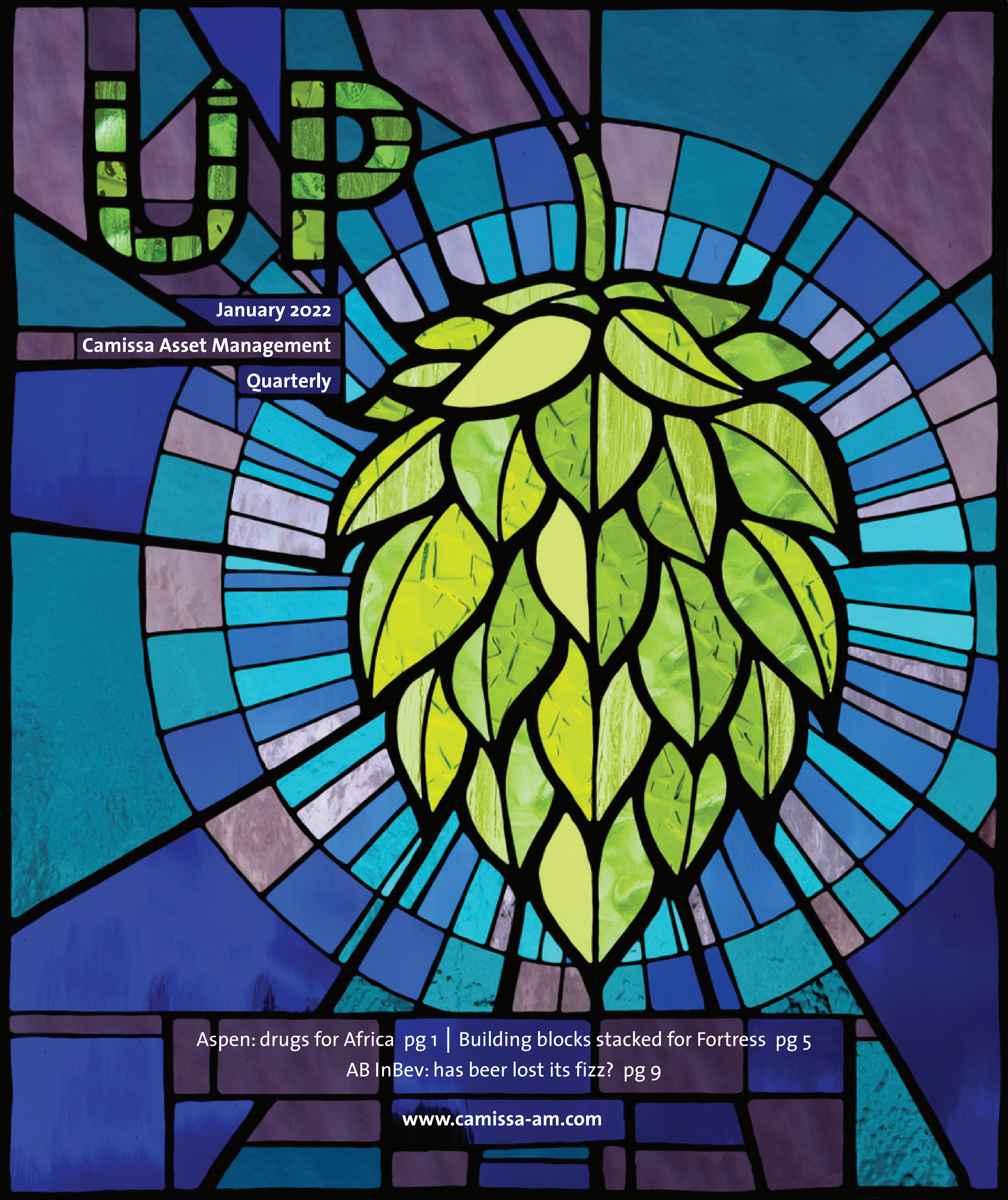
Camissa Asset Management

Quarterly



www.camissa-am.com

Aspen: drugs for Africa

Mohamed Mitha - Investment Analyst

Aspen Pharmacare began trading in 1997 from a converted suburban house in Durban. 25 years on and through sheer ambition and bold deal-making, this company is now the largest pharmaceutical manufacturer in Africa, operating in 150 countries across six continents. Aspen's rise is one of South Africa's foremost corporate success stories, with co-founder and CEO Stephen Saad still at the helm.

Aspen: drugs for Africa

As Africa lags well behind much of the rest of the world regarding COVID-19 vaccination rates (partly due to a prolonged period of vaccine supply shortages), Aspen has been identified as a potential role player in solving this need. We explore the business model and COVID-19 vaccine opportunity.

The pharma cycle

Pharmaceutical companies typically invest heavily in research and development (R&D) for new drugs. If the drug passes clinical trials it can be sold at a relatively high price - free from competition, while being patent-protected - to recoup the R&D costs and to make a suitable return on the capital deployed in its development. Upon the expiry of the patent, the price of the drug tends to drop steeply as generic manufacturers enter the market and replicate its formulation - selling it for much less. The original pharmaceutical company would then aim to replace the lost revenue with a new patented drug from their R&D pipeline, thereby continuing the cycle.

Aspen differs from this in that they perform very little in-house R&D. Instead, they have chosen to position themselves solely as a manufacturing company rather than a development-based business. To refresh their product portfolio as older drugs reduce in profitability, they rely on: the purchase of older niche drug formulations, the rights to distribute them in particular markets and sometimes existing manufacturing facilities. They purchase (from other large pharmaceutical companies) the commercial and production rights to "tail-end" products that have fallen off-patent, with the intent to manufacture these products more cost effectively to enhance profitability and to distribute them more widely via their existing network. They achieve this by in-sourcing production to their own cost-efficient facilities (cost synergies) and using their existing sales force to market the products (revenue synergies). There is also value added at times by efficient tax planning and lower financing costs.

Diverse lines of business

Aspen groups its disclosed revenue into the following categories and territories (*charted on following page*):

- **Sterile brands:** incorporates the anti-coagulant (blood clot prevention) franchise and anaesthetic products, of which Aspen is now the second largest supplier outside of the USA.
- **Regional brands:** is a portfolio of consumer, prescription and well-known over-the-counter products, such as Flutex and Mybulen.
- **Manufacturing:** comprises raw inputs used in the production of pharmaceutical products and contract manufacturing on behalf of other pharmaceutical companies.

Opportunity from the pandemic

Currently, only 15% of Africa's population has received a COVID-19 vaccine versus over 70% in the rest of the world. Despite the promises made to supply Africa with sufficient vaccines during 2021, better resourced nations hoarded the initial surges of supply for their own use during the height of the pandemic, leaving Africa to wait.

Recognising this, Aspen reached a deal with Johnson and Johnson (J&J) to manufacture the J&J COVID vaccine under a licensing agreement, using their own brand called Aspenovax. The deal[1] is significant in that it enables Aspen to control the manufacturing process, selling price and distribution of the vaccine - with supply reserved exclusively for Africa's population of 1.3 billion people. In addition, the company aims to increase the production of Aspenovax to 700 million doses per annum by December 2022 (from an initial 300 million doses).

As Aspen began speaking about the vaccine licensing opportunity in September 2021, their share price increased materially (up by 38% at its peak). It therefore appears that investors began to ascribe significant value to this opportunity.

Not the only players in town

While Aspen could play a role in addressing the vaccine requirements of the African continent, we have reservations about the potential size and profitability of the opportunity. There is likely to be substantial alternative vaccine supply reaching Africa from elsewhere, and new vaccine manufacturing capacity installed on the continent.

With populations already substantially vaccinated in many of the wealthier nations, a new round of vaccine supply is

[1] Aspen previously had an agreement with J&J to complete the final stage of manufacture (fill-and-finish) only. They would have had no control over the selling price and distribution, receiving a fixed fee per dose for manufacturing the vaccine on J&J's behalf.

scheduled to arrive in Africa. The USA, China and India have pledged a total of 3.7 billion vaccine doses to support lower income countries, including those in Africa. Supply has already begun to arrive. Furthermore, post the emergence of the Omicron variant, China has committed to donating an additional 600 million doses of vaccines to African countries. Relative to Africa's population, this is material and will likely dilute the opportunity for Aspen as they ramp up their own production by the end of 2022.

Additionally, African nations are not obliged to purchase Aspenovax and pricing, availability and politics would undoubtedly be factors that will influence what is actually purchased.

The addressable market in Africa may be lower than the current population as 41% of people are below 15 years of age[2]. Together with the prioritisation of older, more vulnerable citizens, this implies a smaller addressable market for the vaccine over the short term. Also, vaccination efforts may be further curtailed by Africa's low rate of urbanisation[3] (47%), undeveloped health systems and pervasive levels of hesitancy and apathy towards the vaccine among certain groups of people. There is a low vaccination take-up rate in South Africa, despite no supply constraints being experienced at present.

Boosting the long-term opportunity

A key reason for the initial shortfall in vaccines was due to global pharmaceutical manufacturing capacity constraints. As *indicated on the follow page*, global vaccine manufacturing capacity is expected to increase exponentially, potentially reaching close to 41 billion doses per annum - up from just 8.5 billion doses in 2021. Theoretically, with a global population of around 8 billion, this suggests sufficient capacity to vaccinate the world many times over.

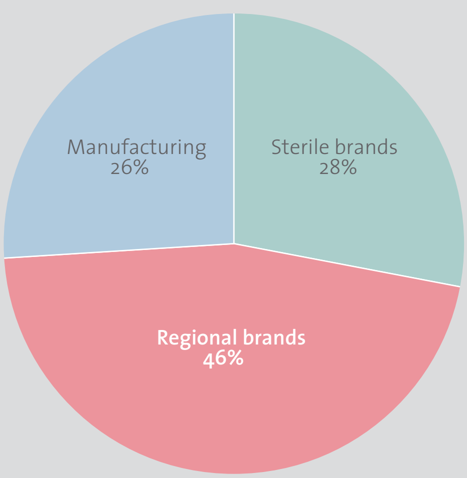
Africa has long lagged other developing nations regarding having their own mass-scale pharmaceutical production capability, however this is not being addressed by Aspen alone. Several initiatives have been announced to improve the overall manufacturing capabilities on the continent, over and above Aspen's newly built facility in Gqeberha. Developments may push the market into oversupply, for example:

- Egypt plans to manufacture 1 billion doses per annum of China's Sinovac COVID vaccine at their state-owned facility (potentially becoming the Middle East and Africa's biggest vaccine producer);

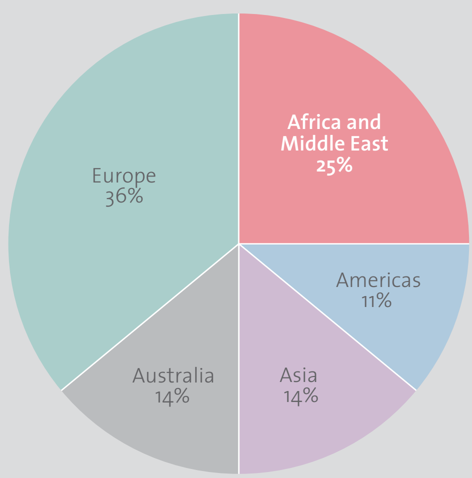
2 Studies have shown that children are less likely to contract severe illness with existing COVID-19 strains and are therefore a lower priority for being vaccinated.
3 Studies highlight low rates of urbanisation as a key barrier towards childhood immunisation in Africa.

Aspen revenue split (2021)

Revenue split by category



Revenue split by geography



Source: Aspen, Camissa Asset Management estimates

Aspen: drugs for Africa

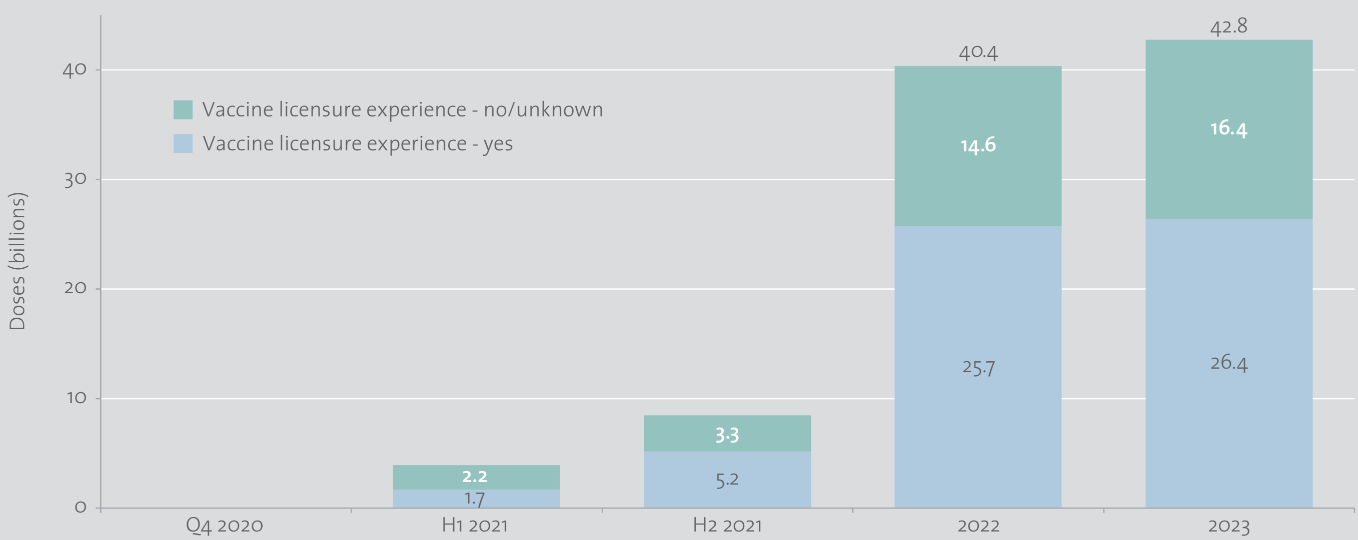
- Moderna has announced their intention to open a plant in Africa to manufacture up to 500 million vaccine doses per annum; and
- BioNTech (who collaborated with Pfizer to develop their COVID vaccine) aims to build a vaccine manufacturing facility in Rwanda in mid-2022, followed by a second facility in Senegal.

While there is much uncertainty around how COVID-19 will play out over time, the possibility exists that ongoing booster shots will be required, which should absorb some of this new production.

Costing will remain a pivotal factor for the success of sales volumes and ultimate profitability for Aspen. They will compete against formidable global suppliers. One example is the Serum Institute of India (the largest vaccine producer in the world), which has among the lowest costs of production of any pharmaceutical manufacturer due to economies of scale and access to low-cost labour.

Given the above, we do not believe very material economic value will flow to Aspen from vaccine production. UP

Reported COVID-19 vaccine production capacity by licensure experience*



*This encompasses reported production capacities from developers who have at least one vaccine in their current portfolio that has been licensed for use by a National Regulatory Authority

Source: UNICEF, Absa research

Building blocks stacked for Fortress

Meyrick Barker - Investment Analyst

"Fortress Real Estate Investment Trust (REIT) originally listed on the JSE Securities Exchange in October 2009, with a market capitalisation of R1.8 billion and a primary focus on South African retail assets. We discuss how the property portfolio has been reconfigured over the years and why we believe that it is well positioned today to deliver shareholder value."

Building blocks stacked for Fortress

The portfolio has been refocused

As the Fortress board and management team have changed, so too has the strategic focus of the property portfolio. Supported by multiple capital raises, the asset base has increased 15-fold since listing.

The period leading up to 2016 was characterised by much investor optimism and some questionable earnings recognition policies within the South African property sector. The previous Fortress management team actively traded in various listed property stocks and made use of complex financial transactions to temporarily and unsustainably inflate earnings and thus, "income" distributions. This eventually resulted in the failure of numerous company BEE deals and destroyed value.

Since then, the primary focus has also shifted from directly owning rural and CBD retail properties, to owning large-scale, modern logistics warehouses. Directly held South African retail assets and an indirect stake in Central and Eastern European shopping centres are a secondary focus - with the day-to-day management of the properties being outsourced to external property managers. The *chart below* demonstrates how the portfolio composition has changed over time.

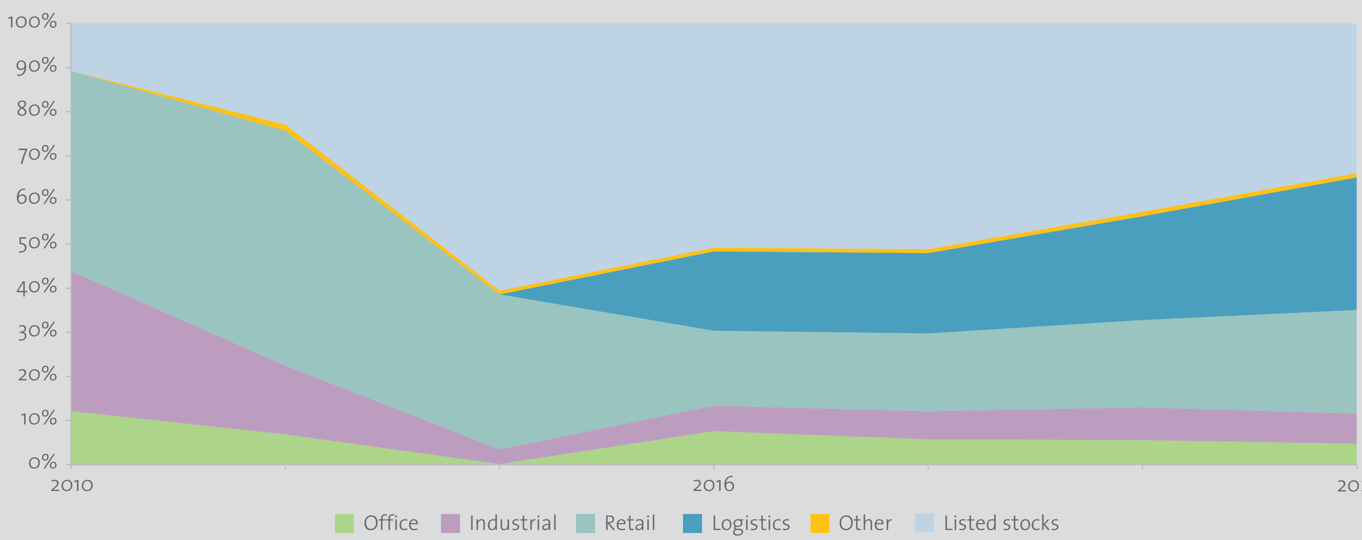
Capitalising on the shift to centralised distribution and e-commerce

Over the last decade, retailers have transitioned their supply chains from direct-to-store delivery by their suppliers to their own distribution of products from large, centralised, modern warehouses. These technologically advanced warehouses reduce the need for expensive inventory storage space at the shopping centre, provide efficiencies of scale, improve stock availability and ultimately enable lower prices if these savings are shared with consumers. The ongoing shift towards e-commerce is adding to the need for efficient, low-cost, centralised distribution networks.

To benefit from the evolving retail landscape and ongoing centralisation of supply chains, Fortress began purchasing land tracts in 2016. In the same year, Capital Property Fund was acquired, significantly shifting their property exposure by end use - diluting retail assets and increasing industrial property holdings.

The acquisition of strategically located land parcels in Gauteng, Durban and Cape Town favourably positioned Fortress to develop logistics warehouses. Subsequently, the company has grown into the largest owner and developer of premium-grade

Property sector exposure (by value)



Source: company reports

logistics real estate in South Africa. They recently signed on a 36-hectare modern distribution facility for Pick n Pay - their largest warehouse development to date (see *below rendering*). This will be developed at their Eastport Logistics Park in Gauteng and will be the fifth largest distribution center in the world. Due for completion in 2023, it will encompass 165 000 m² under roof and span 27 rugby fields in length.

At present, about R3 billion worth of Fortress-owned land is effectively a drag on earnings, absorbing debt funding costs and generating no cash flow until it is developed. The continued rollout of their development pipeline is therefore accretive to earnings and, once the existing land is fully developed, approximately two thirds of directly held property will be in logistics. The balance will comprise convenience and commuter retail centres. Management continues to sell down their smaller office and old industrial property portfolio, recycling this capital into the development of logistics warehouses.

Laying the groundwork in Eastern Europe

The Central and Eastern European (CEE) region remains a low cost manufacturing and servicing hub for Western Europe. Ongoing development of the CEE region's infrastructure, funded by European Union contributions, is enhancing its integration with wealthier neighbours. Growth in this region is bolstered by nearshoring[1] from China into the EU. This strong growth background, together with the evolving retail use of centralised distribution, is generating strong warehouse demand.

By applying their South African expertise, Fortress have established a local team to acquire and develop logistics warehouses in the CEE region, having made their first acquisitions in Poland and Romania last year. While still in the early stages, this organic approach appears to be a sensible allocation of capital, especially in contrast with other South African property companies that are acquiring pre-existing properties at reasonably full prices.

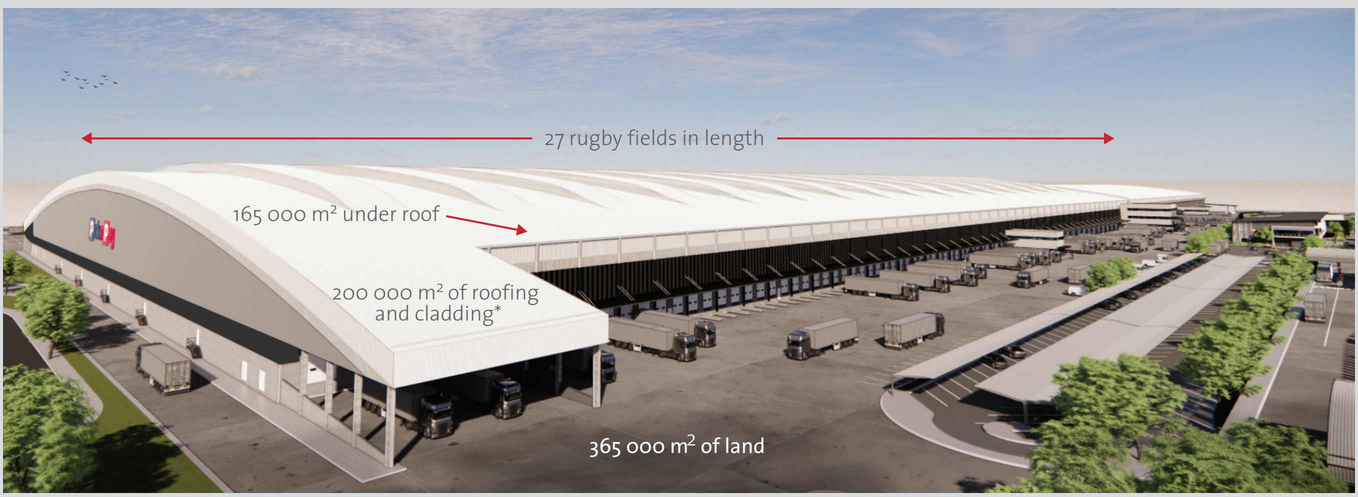
NEPI Rockcastle: dominant CEE mall owner

NEPI Rockcastle (NEPI) is Fortress' sole remaining listed equity investment, having originally acquired a stake in New Europe Property Investment (which subsequently merged with Rockcastle Global Real Estate).

NEPI comprises approximately a third of Fortress' total property assets, with a €5.8 billion portfolio of high-quality, dominant shopping centres and convenient retail parks across nine countries in the CEE region, concentrated in Romania,

[1] The transferring of business operations closer to the customer market that they serve, with the aim of improving service levels.

New Pick n Pay distribution facility



*World record for the longest roof sheet ever installed at 284 metres long
Source: Fortress

Poland and Hungary. In addition, it has the potential to develop a further €1.2 billion of property assets, which should ultimately translate into higher earnings for Fortress.

COVID-19 and the ensuing lockdowns have temporarily suppressed NEPI's earnings, however, both the property portfolio and balance sheet are resilient. Growing employment levels and strong economic growth resulted in buoyant demand for CEE retail space in the period leading up to the pandemic. New global consumer brands entering the CEE region support positive rental growth and high occupancy levels. Disposable income in the region is likely to grow more strongly than in both Western Europe and South Africa over the coming years, which should translate into robust retail spending growth.

While increasing e-commerce penetration will no doubt slow retail landlords' ability to grow rentals, the shopping centre installed base is comparatively low and NEPI is taking actions to mitigate this by positioning their malls to accommodate an evolving interactive omnichannel-based shopping experience and sustain a loyal shopping base.

Trading levels maintained at South African retail centres

Fortunately, Fortress do not own any of the large super-regional shopping centres that have been particularly hard hit by the COVID-induced change in shopping behaviour towards more local shopping venues. Instead, they own smaller centres situated mainly in rural, township and CBD areas - close to transport nodes with high volumes of pedestrian traffic. While these commuter-orientated centres undoubtedly came under pressure, trading levels have bounced back quickly and are already generating higher sales than pre-pandemic.

Their catchment areas benefit from increased government social support initiatives, which offset some of the pressure from South Africa's low-growth economy. Given the target market of Fortress' centres and their predominantly non-metropolitan location, e-commerce is unlikely to materially disrupt sales.

Value beyond uncertainty

Fortress has A- and B-shares, offering investors two very different risk and reward propositions. A-shares receive a preferred dividend that grows at the lower of inflation or 5% per annum. Any remaining distributable income accrues to B shareholders. The two share classes' claims on the assets of the company on dissolution also differ. If a minimum earnings level is not met, all earnings are retained by Fortress, unless their shareholders grant a special concession to do otherwise.

Over the last two years, Fortress have taken actions that enable the business to better navigate a weak economic environment and more closely align their dividend payouts to the cash they earn. Compounded by the pressures of COVID-19, this has reduced their distributable income and introduced uncertainty as to whether their minimum earnings thresholds (for payouts to A-shares) will be met.

Corporate tax becomes payable if a REIT retains any earnings. If more than 25% of its earnings are retained in a year, the tax concessions granted to a REIT can temporarily be removed. Retained earnings can, however, be put to many long-term value-enhancing uses, including accelerating the roll-out of new logistics warehouses or repurchasing shares when appropriate. Given that a large portion of Fortress's earnings is generated by way of dividend income from NEPI, their effective tax rate would be lower than that of the average corporate if they lose their REIT status.

By adopting a long-term outlook, being cognisant of the property development pipeline in both NEPI and Fortress and aware of the value-enhancing capital allocation decisions management can take with retained capital - we believe Fortress (particularly the B-shares) make for an undervalued investment proposition. UP

AB InBev: has beer lost its fizz?

Dirk van Vlaanderen - Portfolio Manager

The recipe for beer has remained unchanged for thousands of years. Water, barley, hops and yeast continue to be combined in breweries all over the world to create this popular, refreshing beverage. However, industry trends suggest that consumers young and old are drinking less beer, demanding a greater variety of beverage products and migrating to other beverage categories (ie spirits or wine). This is placing downward pressure on beer volumes, particularly in mature markets.

AB InBev: has beer lost its fizz?

Focusing on the world's largest brewer, Anheuser-Busch InBev (ABI), we explore how the world of beer is evolving, how this could test the traditional industry fundamentals and how brewers are adapting to these trends.

Beer growth outlook is fizzling out

The size of the global beer market is often analysed as the number of people of legal drinking age and the per capita consumption (PCC) of these drinkers. The PCC of a market is typically influenced by the income level of its consumers and their age. Consumption tends to rise as income levels increase and younger consumers (18 to 35 years of age) tend to drink more.

As indicated *below left*, global beer volumes have averaged around 2% growth per annum for the past 140 years, with only one 10-year period (coinciding with the First World War) showing negative growth. Colonial expansion in the late 1800s brought beer to all corners of the globe and the rapid economic and population boom in Europe and North America from 1950 to 1970 helped reignite volumes worldwide. The baton then passed to Eastern Europe and China as primary regions of growth in the late 1990s and early 2000s.

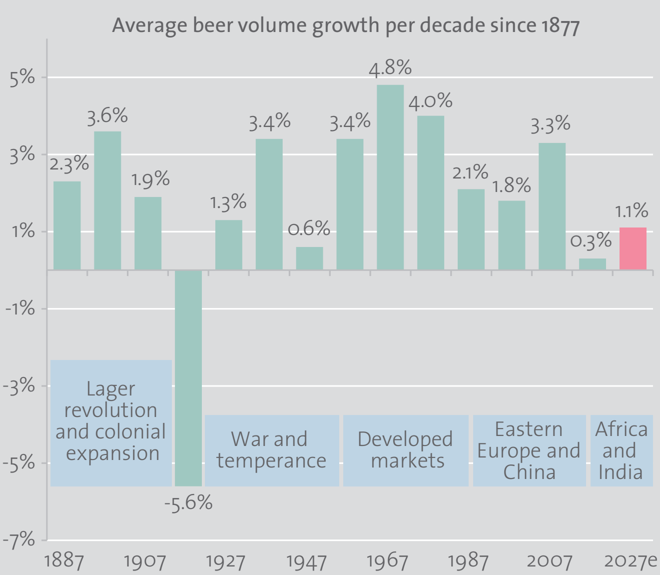
Large market contributors to global beer volume growth over the past 50 years have now matured. PCC levels have been dropping from their peak in 2007 (*below right*). Since the 1980s, the declining trend in North America and Western Europe was largely offset by significant PCC increases in emerging markets (particularly South America, Eastern Europe and China), but now these regions have also mostly matured and, in the case of Eastern Europe, have seen strong PCC declines.

Africa and South-East Asia are the last bastions of strong volume growth resulting from young and growing populations and a rising PCC. This will help deliver some volume growth, but at rates well below those enjoyed since Charles Glass first opened the Castle Brewery in Johannesburg in the 1880s.

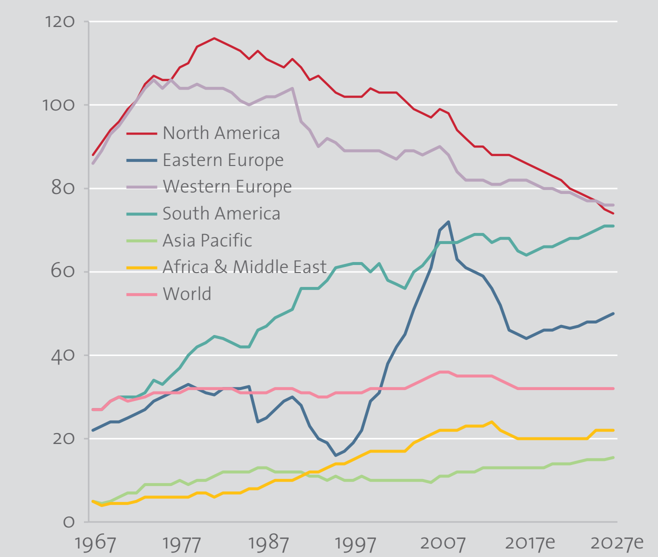
Despite beer volumes in mature markets either declining or having plateaued, there are pockets of growth in the overall market. Key trends offering opportunity and risk to incumbent brewers include some of the following:

Premium beer: The beer market can be stratified into differing product price points, with economy as the cheapest, followed by mainstream and then premium or super-premium beers. Typically, the cost of producing beer across the price points is not materially different and therefore selling beer at a higher price is more lucrative for the profit margins of the brewers (premium beer is 50%-70% more profitable per liter than mainstream). Unsurprisingly, as volumes have slowed or

Beer volume growth has averaged 2% pa for 140 years



Per capita beer consumption age 15+ (litres)



Source: Redburn

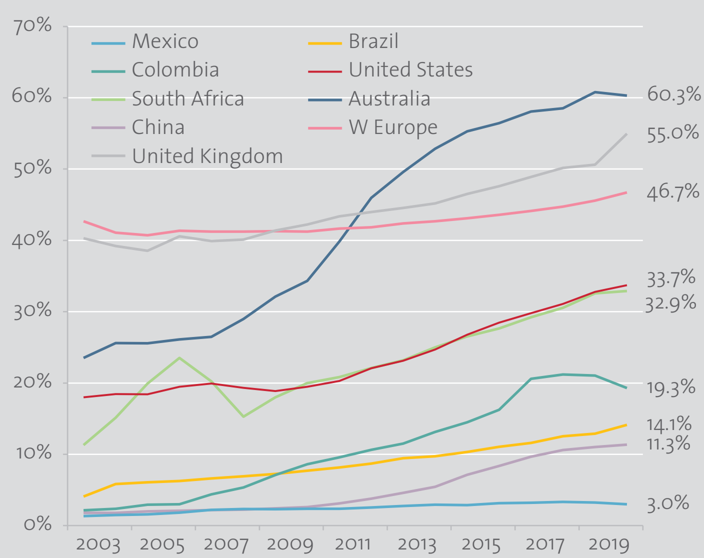
declined, brewers have sought to trade the consumer up into a more premium beer bracket to improve profits.

As *charted below*, this strategy has worked well in mature markets like the USA and Europe, where premium beer consumption is now above 30% of the market. It has also been increasingly employed in maturing emerging markets (Latin America, China and Eastern Europe). While beer is traditionally a local-brand business, brewers have been using their global brands to attract higher price premiums - Heineken, Budweiser and Corona are examples of this in practice.

The generational shift away from beer: As people get older, they tend to consume less alcohol and change their preferences towards wine and spirits, resulting in a declining beer PCC. Interestingly, young people are choosing to drink less beer in more mature markets, opting for spirts or other types of popular alcoholic beverages instead. This is demonstrated by the USA, a very mature market where beer's share of alcohol has reduced from 63% to 47% in just 10 years. This has mainly been to the benefit of spirits, although there has also been a rapid increase in ready-to-drink beverages over the last two years.

The move to near beer: For many years now, brewers have creatively opted to launch "near beer' offerings, such as radlers[1] in Europe or flavoured beers like Flying Fish in South Africa.

Premium share of lager category



Source: Euromonitor, SBGS analysis

More recently, low- or non-alcoholic beer has gained market share, with Heineken Zero leading the charge. Low alcohol beers are extremely profitable as they don't attract any excise tax but are priced the same as alcoholic beers.

The last three years have largely been characterised by the rise of hard seltzers[2] in the ready-to-drink category, most pronounced in the USA with the initial success of the White Claw brand (owned by Mark Anthony Brands) and competitors following suit. Hard seltzers have stolen more than a 10% share from the beer market in under four years, which is a considerable feat. While of the same alcohol content as beer, hard seltzers are significantly lower in calories and have, therefore, resonated with the younger, more health-conscious consumers. Near beer innovations are also increasingly targeted at the female segment of the market, which has traditionally not been well enough addressed by the brewing industry. These types of beverage innovations are allowing brewers to sell more profitable products to offset volume declines in their core, less-profitable mainstream brands.

All hail the king

ABI is the world's largest brewer, formed through several sizable acquisitions - most recently acquiring SABMiller for $107 billion in 2016 - creating a truly global brewing behemoth. Large brands manufactured by ABI include Budweiser, Stella Artois, Corona, Becks and Hoegaarden, however the bulk of their volumes and profits are generated through the significant market shares enjoyed from the portfolio of local brands.

Contributing 25% of operating profit, the USA is ABI's largest region. Mexico presents a significant market at 12% of profit, followed by a portfolio of Central and South American markets that make up a combined profit of 37% (the largest being Brazil at 14%). The brewer also has a profitable and growing Chinese business and a good footprint in Africa, which although small in profit contribution, is an area for future growth (*left chart on next page*).

One deal too many?

Buoyed by the success of integrating previous acquisitions and the significant cost savings generated from applying ABI's 'Zero Based Budgeting' approach, the SABMiller deal was

[1] This is similar to a shandy.
[2] Fruit-flavoured sparkling water beverage with an alcohol content similar to that of beer.

earmarked to incorporate several high-growth markets (ie Africa and Latin America) and provide access to SABMiller's legendary brand building DNA. The reality has, however, proved very different to expectations.

The $107 billion price tag was mostly funded through hard currency debt and, consequently, the significant post-deal currency devaluation in several of ABI's emerging markets (particularly Africa and South America) has constrained the company's ability to reduce this debt. The forced sale of the Australian business, the sale of 50% of the US packaging business and the partial listing of the Asian business has brought in $19 billion in cash. However, $76 billion of net debt[3] remains (four times their cash operating profit). In summary, the absolute level of the 2021 cash operating profit for the group is likely to be only marginally ahead of the 2014 level - despite the contribution of profits from the acquired SABMiller business - with an additional debt pileup (*right chart below*).

Currency woes have been exacerbated by poor in-country performances, once the effect of the SABMiller deal cost cutting measures wore off. This was particularly evident in several African markets and South Africa, where margins have collapsed from post deal highs and market share has been lost at a frightening rate - mostly to Heineken. Heineken's imminent purchase of Distell will likely result in further market share pain for ABI locally and in surrounding markets.

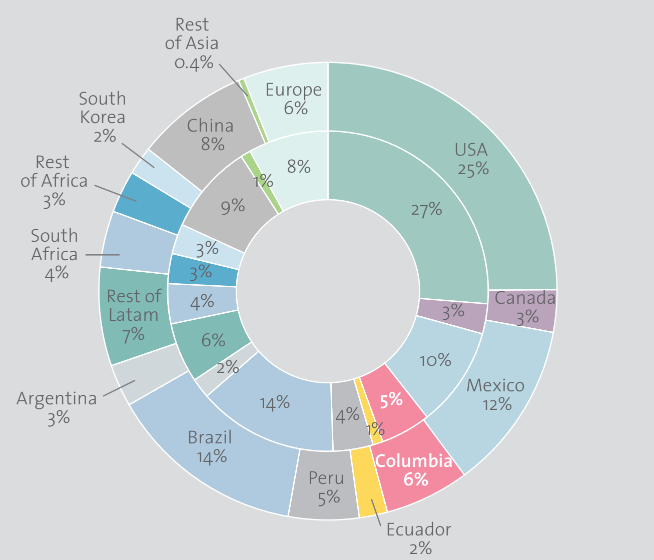
[3] Gross financial debt less cash and cash equivalents.

Adapt or die

The cash generation and cost control abilities of ABI is indisputable, but the company needs to shift strategy to focus more on sustainable revenue, which requires patience and time. While the business has been adapting to the trends discussed, this adds a level of complexity (and cost) that essentially detracts from the traditional high volume/low-cost operating model for beer. The near beer opportunity also comes with the risk of new entrants as seen in the USA (with White Claw) and breaks down beers' traditionally large competitive moats.

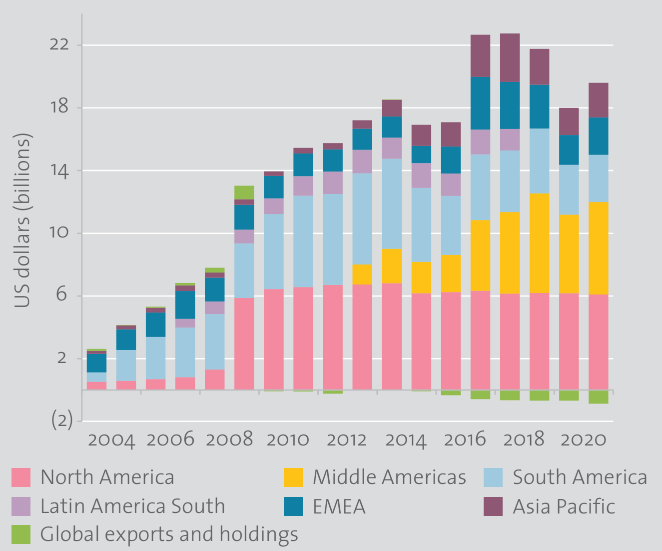
The world of beer as we have known it for centuries is clearly changing. Consumers are demanding greater choice, the lines of beer versus other beverages are blurring and key growth engines are slowing. While ABI is adapting to developments and increasing their focus on revenue, the jury is still out as to whether the much-lauded brand-building culture of SABMiller remains within the group, along with the patience needed to allow this to shine through. Currently, our clients do not have exposure to ABI. UP

ABI's diversified geographic footprint*



*FY20E revenue (inside) and cash operating profits (outside) split
Source: company data, Goldman Sachs global investment research

Group cash operating profit



Source: company reports, Camissa Asset Management estimates

The mobile money opportunity

Aslam Dalvi - Portfolio Manager

"Mobile money" encompasses a set of financial services (and to a lesser extent other commercial services) provided to consumers through their mobile telephones. At the core of the service is usually a mobile wallet that is either directly linked to a bank account or to a customer identity, with funds held in trust at a bank on behalf of the customer. We set out the backdrop to where mobile money services stand today and the opportunity for MTN.

The mobile money opportunity

Mobile money moves in

Mobile money adoption has grown meaningfully over the last decade, particularly within developing economies where financial inclusion, with regards to formal banking, is low. Supported by rising mobile telephone penetration and an undeveloped banking industry context, the demand for mobile money services continues to grow. Accessible, affordable mobile money financial services benefit consumers through lower transaction costs, the smoothing of expenditure via credit and by encouraging saving. Mobile money has also aided the growth of small businesses that can now access credit and working capital financing more easily.

With their existing infrastructure, large customer footprint and regular billing relationship with customers, telecommunication companies have emerged as key competitors to traditional banks and have been successful in servicing the previously unbanked consumer.

Global mobile money transaction value and subscribers has grown at over 50% per annum since 2015 and the outlook is still strong (*charted below*). In 2020, there were 310 live mobile money services across 96 countries, with an annual transaction value of more than $767 billion. Sub-Saharan Africa is the largest mobile money region accounting for over half of the 300 million active users globally. East and South Asia are the second and third largest markets, with 49 million and 37 million subscribers respectively.

Mobile money models

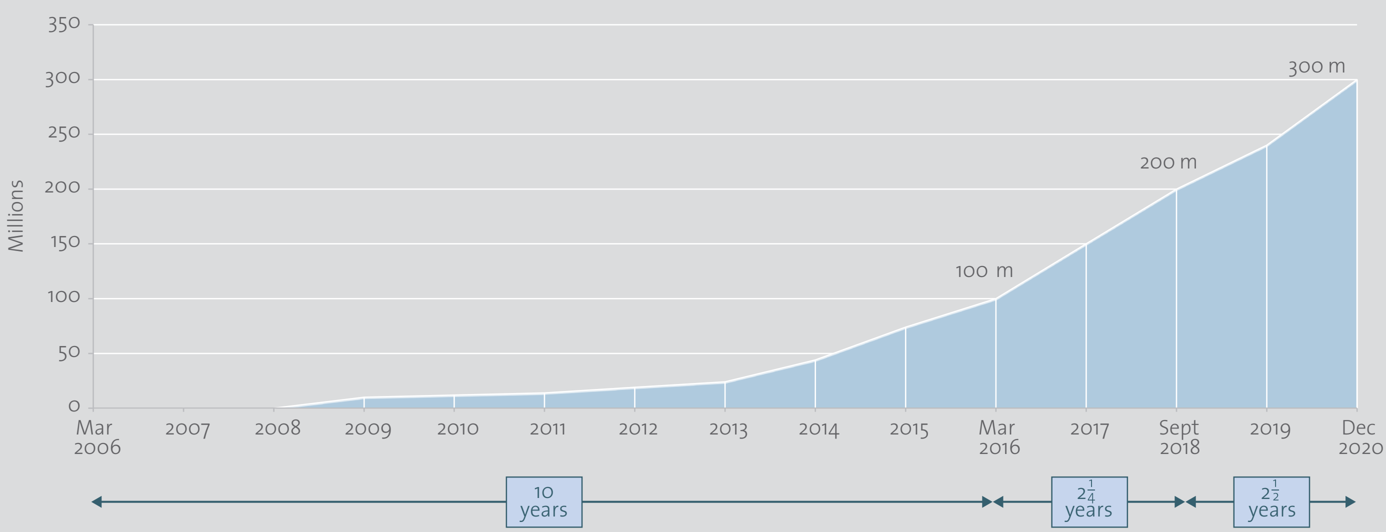
There are two distinct mobile money models:

- the **bank-led** model, whereby the bank is licensed or permitted by the regulator to provide mobile money services that may be executed in partnership with other non-bank or mobile service providers; and
- the **telecom-led** model, whereby mobile operators or non-banks can launch their services as a stand-alone business without a bank partnership.

The latter has proven most successful as telecommunication companies are able to leverage their large mobile subscriber base and established network infrastructure. Bank-led models have been less successful as traditional banks are often reluctant to support the growth of competing financial services that will erode their existing profit pools.

We find that mobile money markets are generally competitive in the early stages of development, with many participating players. As a platform scales, competitive moats are created through a virtuous cycle of user growth, increasing transaction

Monthly active mobile money accounts



Source: GSMA

value, improving economics for agents and further agent growth. This enables additional network expansion, ultimately attracting new users. At maturity, we would expect only two to three profitable players with the requisite scale to remain in any market - given this powerful network effect.

Mobile money economics

Revenues are derived primarily from transaction fees charged for person-to-person or person-to-bank transfers, for the purchase of goods or services and for moving cash into and out of the mobile money ecosystem.

The fee structure changes over time and is linked to the maturity of the platform. Deposit fees are low in the early stages, while operators often limit transfer and payment fees to encourage the use of these services and to ensure a growing deposit base. Fees for outgoing transactions are typically high to discourage payments to parties outside of the system and to incentivise subscription by all parties in a transaction.

Initially, mobile money businesses make significant losses (as administrative and technology expenses are borne upfront), but profitability grows rapidly as scale is achieved and fixed costs are spread, with mature businesses delivering profit margins of 30%-35%.

A high-return business model

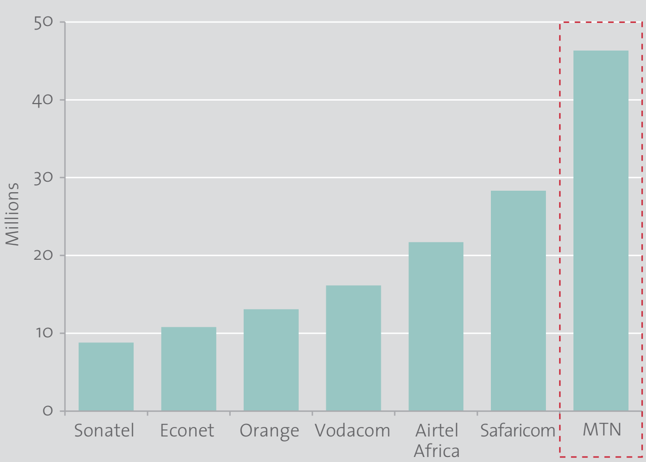
Unlike traditional mobile telecommunication services that require heavy investment into cellular infrastructure, mobile money is an over-the-top service requiring internet access only. Returns for mobile money businesses are robust because incremental capital requirements are low and the scale of revenues generated can be very high. These platforms benefit from interest earned on a growing deposit base and from a positive working capital cycle as payments to agents and other creditors usually happen at month end, while customers are charged immediately for services rendered.

At scale, a successful mobile money business also delivers several indirect advantages that can materially improve the return profile of the mobile voice and data business. These include (i) lower acquisition costs as customers are more sticky, (ii) lower distribution fees as airtime purchases are made on the network rather than through agents, and (iii) a moderate rise of voice and data spend, typically after a customer becomes an active mobile money user.

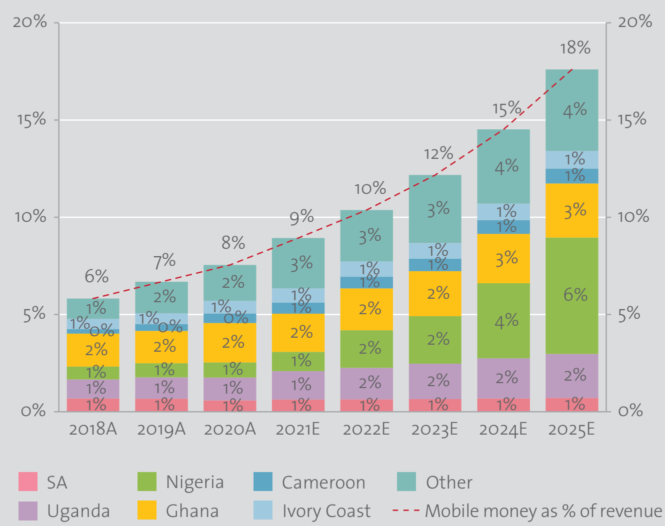
The success of mobile money

While the demand for mobile money services continues to grow, the rate of mobile money adoption has varied

Mobile money subscribers (by operator)



MTN mobile money as a % of group revenue (by region)



Source: company reports

substantially across markets. The following factors are common in markets where the service has grown rapidly and are important for success:

- Low access to formal financial services and a high unbanked population. The financial inclusion rate across Africa (ex South Africa) is low at around 35%-40% and explains the relatively strong demand for mobile money services across the region.
- A light touch and supportive regulatory framework that allows mobile operators to efficiently roll out the service with limited cost and administrative overheads. Low initial capital requirements are also important to support growth as upfront losses are high.
- A large starting market share improves the chance of success. Dominant telecommunications service providers have a strong brand and a well established airtime agent network that enables them to leverage their existing telecommunications user base and infrastructure.
- The first player to establish a deep and trusted agent network is likely to be the winner. Mobile money agents range from large retail outlets to corner shops or kiosks in informal areas. This creates a decentralised, low-cost agent network that cannot be matched by traditional banks.

Key players in Africa

Being the largest mobile money region globally, sub-Saharan Africa's 145 million subscribers currently generate more than $3.2 billion in revenue. As *charted previous page left*, MTN is the largest mobile money service provider on the continent followed by Safaricom, who pioneered the service in Kenya in 2005. The Orange Group is the third largest player followed by Vodacom (excluding Safaricom) and Airtel Africa.

MTN is particularly well positioned

MTN's mobile money operations have grown by more than 30% per annum since 2015, yet are still considered nascent, with a sizeable runway for growth.

We estimate that the addressable market for mobile money services across MTN's territories is over $23 billion per annum. This is far larger than their current revenue base of around $1.5 billion per annum.

MTN has a much more diverse revenue base than other operators, with no single country contributing more than 25% of mobile money revenue. Their mobile money penetration, measuring the extent to which their existing customers have converted to using mobile money services, is only around 8% - indicating a large growth opportunity ahead (*previous page right*).

MTN recently received approval for a mobile money banking license in Nigeria, its largest market in terms of mobile subscribers. This license provides the opportunity to launch new services without relying on banks (who have historically been reluctant to support the growth of these services). This is a hugely positive development and will materially accelerate growth in this market. We expect MTN to more than double its mobile money subscribers over the next few years, with the service growing from 8% of group revenue to just under 20% by 2025.

A growing contribution to value

The mobile money business model is powerful and lucrative, with the potential to be a material contributor to the value of mobile telecommunication companies in the long run. These businesses should command higher valuation ratings relative to traditional telecommunications businesses, given the attractive growth outlook and far superior business model. This has been confirmed by recent transactions on the African continent, with Airtel having sold a minority stake in its mobile operation at a rating twice its own. Of the South African mobile service providers, MTN is best positioned to capitalise on the opportunity and we expect its mobile money businesses to be material value contributors over the medium term. The recognition of this future value has resulted in MTN being one of the best performers in our market over the last two years and our clients have benefitted materially. UP

Camissa Asset Management Funds

Performance to 31 December 2021	1 year	3 years[1]	5 years[1]	10 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]								
Equity Alpha Fund	31.0%	18.6%	13.0%	11.7%	16.4%	Apr-04	2.10%	0.50%
SA Equity General funds mean	27.0%	11.9%	7.5%	9.1%	12.4%			
Outperformance	4.0%	6.7%	5.5%	2.6%	4.0%			
Global Equity Feeder Fund#	16.4%	-	-	-	10.4%	Nov-19	2.15%	0.29%
FTSE World Index[8]	31.3%				22.6%			
Outperformance	-14.9%				-12.2%			
Balanced Fund	22.1%	13.9%	10.6%	10.0%	9.9%	May-11	1.55%	0.37%
SA Multi Asset High Equity funds mean	20.3%	11.5%	8.0%	9.1%	8.9%			
Outperformance	1.8%	2.4%	2.6%	0.9%	1.0%			
Protector Fund	20.6%	12.3%	10.1%	8.7%	10.0%	Dec-02	1.61%	0.29%
CPI + 4%	9.3%	8.1%	8.5%	9.6%	10.1%			
Outperformance	11.3%	4.2%	1.6%	-0.9%	-0.1%			
Stable Fund	23.1%	10.0%	8.9%	8.7%	8.7%	May-11	1.50%	0.42%
CPI + 2%	7.3%	6.1%	6.2%	5.9%	5.9%			
Outperformance	15.8%	3.9%	2.7%	2.8%	2.8%			
Institutional funds[5]								
Managed Equity Fund	33.2%	18.9%	12.8%	11.6%	12.3%	Sep-06		
FTSE/JSE Capped SWIX Index	27.1%	11.7%	8.3%	11.2%	11.3%			
Outperformance	6.1%	7.2%	4.5%	0.4%	1.0%			
Domestic Balanced Fund[6]	27.9%	16.1%	12.4%	10.1%	9.6%	May-07		
Peer median	22.2%	10.4%	7.6%	9.5%	9.1%			
Outperformance	5.7%	5.7%	4.8%	0.6%	0.5%			
Global Balanced Fund[7]	24.0%	15.5%	12.2%	-	11.0%	Jul-13		
Peer median	21.9%	12.5%	9.2%		9.9%			
Outperformance	2.1%	3.0%	3.0%		1.1%			
Bond Fund	12.6%	10.0%	10.1%	-	9.3%	Aug-15		
BESA All Bond Index	8.4%	9.1%	9.1%		8.3%			
Outperformance	4.2%	0.9%	1.0%		1.0%			
Money Market Fund	5.7%	6.9%	7.6%	7.1%	7.7%	Jan-04		
Alexander Forbes STeFI Composite Index	3.8%	5.5%	6.3%	6.2%	7.0%			
Outperformance	1.9%	1.4%	1.3%	0.9%	0.7%			
Sharia unit trust funds[4]								
Islamic Equity Fund	37.9%	17.1%	12.7%	11.0%	12.4%	Jul-09	1.52%	0.20%
SA Equity General funds mean	27.0%	11.9%	7.5%	9.1%	10.6%			
Outperformance	10.9%	5.2%	5.2%	1.9%	1.8%			
Islamic Global Equity Feeder Fund#	19.1%	-	-	-	14.3%	Jan-19	2.01%	0.15%
Global Equity General funds mean	22.0%				22.0%			
Outperformance	-2.9%				-7.7%			
Islamic Balanced Fund	27.1%	14.9%	10.7%	9.6%	8.8%	May-11	1.51%	0.14%
SA Multi Asset High Equity funds mean	20.3%	11.5%	8.0%	9.1%	8.9%			
Outperformance	6.8%	3.4%	2.7%	0.5%	-0.1%			
Islamic High Yield Fund#	10.3%	-	-	-	7.8%	Mar-19	0.59%	0.05%
Short-term Fixed Interest Index (STeFI)	3.8%				5.4%			
Outperformance	6.5%				2.4%			

Highest and lowest monthly fund performance	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	7.9%	-2.8%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%	12.6%	-21.6%
Global Equity Feeder Fund	6.9%	-2.2%	-	-	-	-	-	-	18.1%	-15.6%
Balanced Fund	4.7%	-0.7%	9.1%	-15.7%	9.1%	-15.7%	9.1%	-15.7%	9.1%	-15.7%
Protector Fund	3.6%	-0.3%	7.4%	-13.9%	7.4%	-13.9%	7.4%	-13.9%	9.5%	-13.9%
Stable Fund	3.7%	-0.6%	6.1%	-11.4%	6.1%	-11.4%	6.1%	-11.4%	6.1%	-11.4%
Islamic Equity Fund	5.9%	-1.2%	9.6%	-14.3%	9.6%	-14.3%	9.6%	-14.3%	9.6%	-14.3%
Islamic Global Equity Feeder Fund	7.9%	-3.8%	-	-	-	-	-	-	14.6%	-8.4%
Islamic Balanced Fund	4.9%	-0.5%	8.0%	-9.3%	8.0%	-9.3%	8.2%	-9.3%	8.2%	-9.3%
Islamic High Yield Fund	1.8%	0.2%	-	-	-	-	-	-	2.7%	-2.4%

Footnotes and disclaimer follow overleaf.

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Footnote: [1] Annualised (ie the average annual return over the given time period); [2] TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 31 December 2021; [3] Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 December 2021; # over 12 months to 31 December 2021. [4] Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5] Source: Camissa Asset Management; gross of management fees; [6] Median return of Alexander Forbes SA Manager Watch: BIV Survey; [7] Median return of Alexander Forbes Global Large Manager Watch. [8] Benchmark changed with effect from1 January 2021 from "Average performance in Global Equity unit trust universe".