

## Prosus

### JE Shows PRX is About Growth, Not Just Value

23 October 2019

#### Key Takeaway

**Contrary to bulls we encounter, viewing PRX as a value-maximising, discount/tax minimising, buy-back oriented play, the JE bid confirms PRX is all about growth and the investment needed to build three pillars to rival its Tencent success. Rising bids for JE will likely overshadow the PRX price into 1Q20. Buyers will need to accept that PRX is a growth investor - with plans/complexity which tend to widen the discount MT, not narrow it. Remain Underperform.**

**Expect a JE battle:** As our colleague Giles 'Delivery' Thorne [notes](#) JE holders choose between PRX's cash exit and Takeaway's management and continued participation. We assume that PRX has a business case and thus an upper bid limit, this seems unlikely to be it: we also suspect that there will be a 'now or never' aspect here. With Takeaway also able to pay up without diluting its own metrics, uncertainty is likely to overhang PRX for the rest of the year. We note as an aside, that PRX+JE would make any takeover of DHER problematic: JE success could start the clock ticking on an eventual divestment of (or perhaps asset swap with?) Delivery Hero. Finally, the conference call suggestion that PRX colluded with DHER in its sale of Takeaway stock (depressing the bid value) seems unlikely - it would be a serious and easily proven breach if it were true, but highlights the awkwardness of sharing best practice (as PRX aims to do) between food delivery businesses owned wholly or partially, publicly listed and private.

**Discount Implications Doubly Negative:** Unfortunately, despite NPN/PRX's good investment and operating record (albeit somewhat lacking disclosure), the market continues to apply a discount to NAV or SotP. We view PRX primarily through the discount lens. We believe that anything that makes the NAV less transparent/easy to agree upon, tends to widen the discount (see our [previous Altaba to Softbank spectrum argument](#)): swapping cash for a larger private opaque food business does exactly that: we can't see investors awarding a higher and rising value to JE or PRX's food ops (divided as they are between wholly owned, part owned and 22% in DHER) within the PRX holding versus the relatively simpler current position where as below, listed stakes and net cash account for 89% of NAV. And secondly as below, the deal, as confirmed on the call, confirmed PRX's preference for growth/investment over returns of capital - so no buybacks to keep the discount in check.

**A growth tiger not a value/buyback pussycat:** We think many investors didn't take Prosus seriously/literally when it restated its goal of growing its food, classified and payments poles into \$10s of bns of value, as it did with its internet investments (Tencent, Mail.ru). Many we have spoken with saw the Prosus listing mainly as a way to access bigger (index) funds and avoid tax on buybacks - a simple value maximization exercise. JE shows that PRX is deadly serious about growth, and is choosing to expend much of its capital to buy, and then heavily invest, in JE. Far from resting on its Tencent laurels and meekly buying back stock to control the discount, investors need to buy into PRX's search for more growth elephants (too many animals? OK).

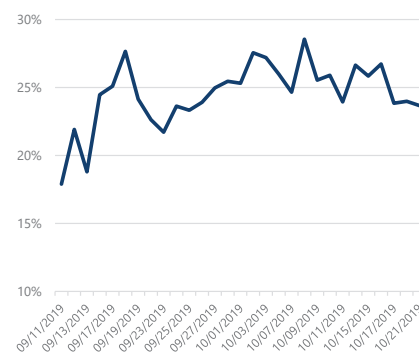
#### FLASH NOTE

Netherlands | Internet

RATING	UNDERPERFORM
TICKER	PRX NA
PRICE	€66.42 <sup>^</sup>
PRICE TARGET (PT)	€61.00
MARKET CAP	€108.1B / \$120.5B

<sup>^</sup>Prior trading day's closing price unless otherwise noted.

#### Exhibit 1 - Prosus NAV discount



Source: Factset, Jefferies

Ken Rumph \*  
Equity Analyst  
+44 (0) 207 029 8692  
krumph@jefferies.com

Lyra Li \*  
Equity Associate  
+44 (0)20 7029 8609  
lyra.li@jefferies.com

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\* Jefferies International Limited

## Company Description

### Prosus

A global consumer internet group created by Naspers (NSPN)'s listing of its global internet businesses, with stakes in Tencent, Mail.ru, Delivery Hero, C-trip as well as ecommerce businesses across classifieds, Payment, Fintech, Food Delivery, Etail, Travel and others.

## Company Valuation/Risks

### Prosus

We base our valuation and rating against the current estimated NAV - 'should i buy Prosus vs. Tencent'? is the core question of most investors. Taking current Tencent and other values, our NAV for Prosus is €142bn, or €87.5/share - probably below consensus on e-commerce activities (minorities, disclosure, excluding holding's revenue shares) at €11bn. We expect PRX to trade towards the previous Naspers discount as index-flow buying subsidies - a 30% discount implies €61 PT. Risks incl. narrowing of the discounts and higher ecommerce valn.

### Delivery Hero AG

Valuation: DCF based, supported by multiples. Risks: aggressive competition, gig economy regulation.

### Just Eat plc

Valuation: DCF based, supported by multiples. Risks: aggressive competition, gig economy regulation.

### Takeaway.com NV

Valuation: DCF based, supported by multiples. Risks: aggressive competition, gig economy regulation.

### Tencent Holdings Ltd.

We have a Buy rating and PT HKD455 based on SOTP valuation approach. We use SOTP in order to capture valuation of different segments which include (1) HKD145.2 and HKD70.9 for online games and online advertising respectively based on 28x 2020F PE, which represents about 20% premium to historical sector average PE on its social ecosystem; (2) HKD62.1 for VAS (ex-games) based on 10% premium to to historical sector average PE on its social ecosystem; (3) HKD32.7 for cloud based on 10x 2020 price to sales with reference to global peers ; (4) HK\$104.0 for fintech benchmarking against peers valuation; (5) HKD38.9 for investees; (6) HKD1.6 net cash

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## Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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**Buy** - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**Hold** - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

**Underperform** - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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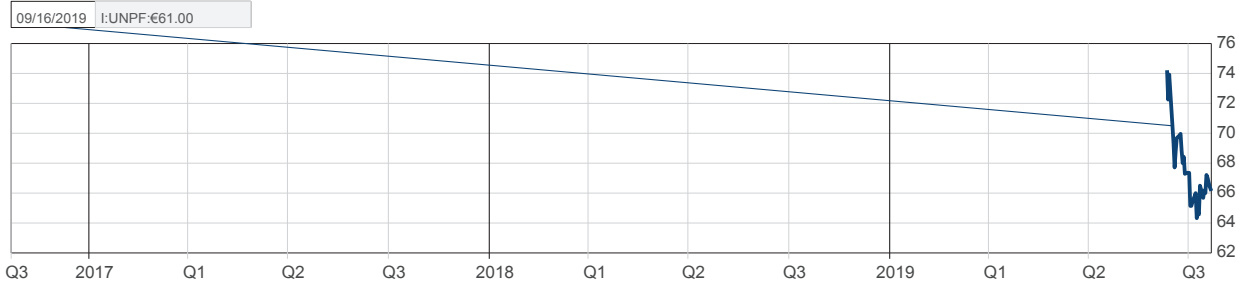
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## Other Companies Mentioned in This Report

- Delivery Hero AG (DHER GR: €43.96, BUY)
- Just Eat plc (JE/ LN: p732.00, BUY)
- Takeaway.com NV (TKWY NA: €72.55, HOLD)
- Tencent Holdings Ltd. (700 HK: HK\$327.60, BUY)

Rating and Price Target History for: Prosus N.V. (PRX NA) as of 10-21-2019



Rating and Price Target History for: Tencent Holdings Ltd. (700 HK) as of 10-21-2019



Rating and Price Target History for: Delivery Hero AG (DHER GR) as of 10-21-2019



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Rating and Price Target History for: Just Eat plc (JE/ LN) as of 10-21-2019



Rating and Price Target History for: Takeaway.com NV (TKWY NA) as of 10-21-2019



**Notes:** Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

**Legend:**

- I: Initiating Coverage
- D: Dropped Coverage
- B: Buy
- H: Hold
- UP: Underperform

**Distribution of Ratings**

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1205	53.63%	85	7.05%	12	1.00%
HOLD	889	39.56%	22	2.47%	3	0.34%
UNDERPERFORM	153	6.81%	1	0.65%	0	0.00%

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