

# money&investing

## ELECTRONIC CLASSIFIEDS

# Not a Facebook friend

Naspers, through its Amsterdam-listed subsidiary Prosus, holds unlisted e-commerce assets valued at \$39bn. That is more than four times the size of Sasol's market cap. This article on electronic classifieds is the second in a series on the business segments Naspers is betting hundreds of billions of rands on for the future

TJ Strydom

● The classifieds section of newspapers was a decent source of cash flow for Naspers before the digital era. With readers of Beeld, Die Burger or Volksblad happy to sell anything from second-hand microwave ovens to personal services, the company provided the platform and pocketed the advertising fees.

But then the internet killed the newspaper star.

Transactions happen much quicker online than in print. And scrolling through pictures on a smartphone just feels more like shopping than paging through columns of ink.

But despite the decline of newspapers, Naspers, through Prosus, is now raking in more from classifieds than ever before, with a sprawling portfolio of online businesses. Platforms such as OLX, which operates in many countries, OfferUp in the US, letgo in Turkey and Avito in Russia generated \$1.6bn in revenue in the year to end-March, 25% more than the previous year.

That's big money. However, the top line and the bottom line are two different animals; the segment managed to turn a trading profit of only \$9m. Hardly the best return, if you consider that Naspers and Prosus have ploughed \$6.4bn into those ventures since they went big with online classifieds.

Prosus's Romain Voog, the executive who runs the segment, argues that many parts of the business have not reached maturity yet, and until they do, plenty of cash will continue to be

fed into marketing and will be spent to scale up some of the platforms.

The market, for now, is willing to give them the benefit of the doubt.

"In classifieds Prosus seems to have latched onto a good business model, and it is possible to make a lot of money from these platforms," says Aeon Investment Management chief investment officer Asief Mohamed.

Even though the segment is not exactly churning out profits, sell-side analysts value it at \$13bn. At about R200bn, it is roughly the size of Sanlam and Old Mutual put together.

**Still, you might** have a better shot at predicting next year's Barclays Premier League winners than the tastes of consumers on the internet. And despite boasting 322-million monthly active users, Prosus knows only too well that competition in online classifieds is tough. It's tougher still when some of the other players have deep pockets and instant access to more than 2-billion users.

The big gorilla here is Facebook, whose introduction of Marketplace in 2016 pulled the digital rug from under many classifieds businesses.

Not for nothing did Naspers chair Koos Bekker say at last year's AGM that you underestimate Facebook at your peril.

Marketplace's impact on Prosus differed from country to country, says Voog. It was quite a blow to places such as Indonesia and Latin America, where Facebook's social network was already entrenched. But in Russia, for example, the impact was minimal, he says.

Analysts often single out Avito as a thoroughbred in the classifieds stable. It rakes in the roubles and represents more than a quarter of the entire segment's revenue.

But in most markets, Marketplace's arrival prompted a rethink, as "horizontal" classifieds – an endless range of products flogged in peer-to-peer transactions – became too difficult to make money from.

In some markets Prosus pivoted away from horizontal classifieds, opting instead to go deeper into "verticals" such as fixed property and vehicle sales, says Voog. Think souped-up versions of AutoTrader and Property24, but aimed at hundreds of millions of users.

"Prosus has done very well with its classi-

fieds businesses in Eastern Europe. The company found some niches in property and the online vehicle trade, where there is money to be made," says All Weather Capital portfolio manager Jarred Houston.

In Poland, Prosus's biggest classifieds market in Europe, it has built an entire car ecosystem. Besides the OLX classifieds platform, the company now also has an online showroom, a site that leases new cars, a marketplace called Otomoto and even a bricks-and-mortar dealer named 3-2-1 Sprzedane!

"Choosing autos seems to have been a good move, as it is a business where you can backward-integrate and capture more of the value chain," says Houston.

Voog calls it a business where consumers face "friction". Second-hand car dealers don't have the best of reputations, and buying a car is a big transaction for middle-class consumers, whether they are in Turkey, Brazil or Romania. So Prosus brings more structure and security to the process.

OLX Autos is also making serious moves in second-hand car sales across 10 countries in Asia and Latin America. And in Turkey, letgo is investing heavily to create a car ecosystem of its own.

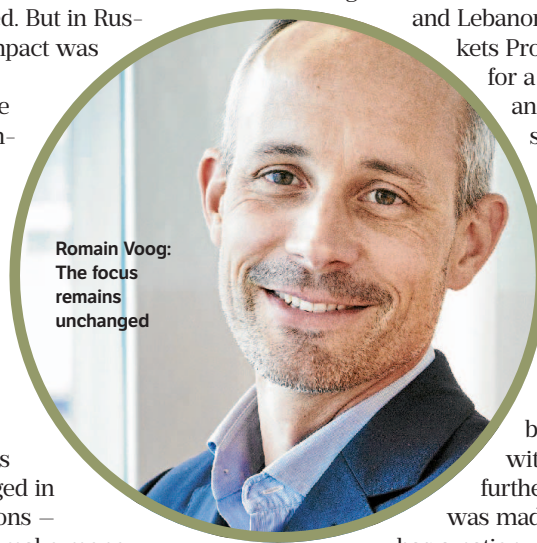
A benefit in dealing cars is the possibility of making some money from the transactions themselves and not only off listings and promotions, as in the case of classifieds.

In real estate Prosus has been busy too, folding businesses in Pakistan, the UAE, Egypt and Lebanon into the Emerging Markets Property Group in exchange for a minority stake. In Brazil and Poland Prosus subsidiaries are pushing deeper into fixed property. The company likes emerging markets, where a growing consumer base is a lucrative prospect.

Naspers started backing letgo in 2017, but the US part of the business has been merged with rival OfferUp, and a further investment of \$100m was made in it. Now the platform has a nationwide reach; it is primed to take on Craigslist and others for a bigger share of the world's largest consumer market.

But the US is very tough, says Houston. "There are still questions about the long-term viability of the tie-up between letgo and OfferUp and how much value it ends up creating," he says.

Whether it bolts on new businesses or



Romain Voog:  
The focus remains unchanged



invests in current assets, it needs money – and loads of it.

“Being part of Prosus, is, for sure, an advantage as we look at mergers and acquisitions. It means we can think big, and our ambitions are not limited by access to capital,” says Voog.

But some shareholders will query whether it is the right move to sell off slivers of China’s Tencent in order to fund glitzier versions of second-hand car dealers and estate agents.

Nevertheless, a certain amount of bulk is required for classifieds businesses to make sense, says Houston.

A possibility of adding muscle to the portfolio flew by last year when a bid to acquire eBay’s classifieds assets failed. Prosus was prepared to pay \$8bn for a cluster of businesses that Naspers CEO Bob van Dijk knows well from his days at eBay. The deal, however, went to Sweden-based Adeventa, which is now a rival worth more than \$20bn.

Voog shrugs off what happened. “We have more than enough opportunity ahead of us in our existing portfolio of brands and markets, and our focus remains unchanged: to shape the future of trade to unlock the hidden value in everything,” he says.

Still, stitching eBay’s classifieds into OLX and friends could have had the benefit of unlocking value on another level. It would have been a strong step in the direction of achieving the scale needed to list Prosus’s classifieds segment separately, says Houston.

When Naspers spun out MultiChoice in 2019 it hardly moved the parent’s share price, but it ended up creating more than \$5bn in value for shareholders.

Naspers, and to some extent Prosus, still trade at a huge discount to their stake in China’s Tencent. As much as R1-trillion worth of value is trapped somewhere between Shenzhen, Cape Town and Amsterdam.

Floating each of the Prosus business segments on its own could unleash billions for shareholders, if you believe analysts’ numbers.

However, Aeon portfolio manager and analyst Zaid Paruk cautions against relying too heavily on current valuations.

“With bond yields at or near historic lows, there is a lot of capital floating around and possibly inflating the valuations of many tech businesses that have yet to prove themselves,” he says.

Though the vicious fight for market share still has to play out and plenty of consolidation lies ahead, proving that online classifieds will not go the way of their newspaper-based predecessors is what Voog is setting out to do.

Many things are still up in the air, but one thing is certain: Facebook won’t be sending a friend request. ✘

## OFFSHORE PROPERTY

# Nepi execs out, but buyers in

**The impending departure of Nepi’s CEO and CFO won’t diminish the investment case for this rand hedge, say its backers**

Joan Muller [mullerj@fm.co.za](mailto:mullerj@fm.co.za)

● It seems mall owner Nepi Rockcastle hasn’t lost any of its lustre as one of the JSE’s most popular rand hedge bets – despite the impending departure of its top management.

This week, the share price touched a one-year high of R112 following the release of a fairly solid set of interim results.

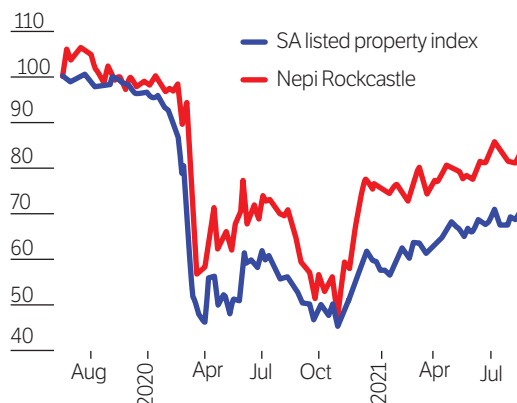
That’s nearly double the record low of R57 at end-October and comes in the wake of a surprise announcement last month that Romania-based CEO Alex Morar and CFO Mirela Covasa will make way for a new executive team at the end of December.

Both have been with the company since it was co-founded by former SA banker Martin Slabbert and Resilient Reit CEO Des de Beer in 2007. Morar and Covasa, both in their early 40s, have said only that they are leaving to pursue other opportunities.

Nepi Rockcastle, which owns a portfolio of more than 50 shopping centres across nine

## BEATING THE PACK

Nepi Rockcastle vs SA listed property index Weekly – based to 100



Source: Infront



Standard Bank Group

# FINANCIAL RESULTS

for the six months ended  
30 June 2021

**IT CAN BE™**

