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SMALL CAP

Cartrack: Keeping it lite

BY WARREN DICK

The lofty valuations being seen on the JSE are inducing a mini-listings boom. It began in the listed property space (has anyone seen how many listed property companies there are now?) and is now being extended to include financial and industrial companies.

The bad news is that companies tend to list when the market is expensive – or overpriced. (There, I said it.) The good news is that listings at the beginning of the boom tend to perform much better than the ones that appear towards the end. This doesn't mean that you should be reckless. Rather, when comparing the listing company to the valuations of its peers, pause to consider where the market as a whole is trading. Longer-term perspective is needed.

An interesting opportunity: Cartrack is due to list on 11 December, with an anticipated listing price of R10-R15/share. It looks like an impressive business. From a standing start 10 years ago, the company – which specialises in vehicle tracking and fleet management – now enjoys a scale similar to that of listed peer DigiCore.

To sketch the size of the business: the company's projected revenue for financial year end February 2015 is R848m, with anticipated profit before tax of R285m. Cartrack is currently operating in 14 different countries (many of which are outside the continent) and derives more than 70% of its revenue from subscriptions. As at August 2014, it had a subscriber base of 386 000, which is expected to grow to 429 000 by the end of February next year, an increase of 11%. Subscriber growth has averaged 16% per annum over the last few years.

What is particularly appealing about the business, as pointed out in a note by Anchor Capital, is the capital-lite nature of the business model. It uses less capital than its peers, resulting in higher returns on equity, higher margins and stronger cash flows. As evidence Anchor cited the company's return on equity for the 2014 financial year, which was in excess of 80%. Also, Cartrack's earnings before interest and tax margin of 32.1% was far superior to both Digicore (2.3%) and Mix Telematics (13.5%).

With these sorts of metrics, it's no surprise Cartrack pays out a large portion of its income in the form of dividends. The company expects to achieve a 70% payout ratio in the future. Using a discount dividend model to value Cartrack, Anchor estimates a fair value of R12/share. So if you are going to hold the share long term (instead of trying to punt at listing), stay disciplined and don't get carried away in the euphoria. The company warrants attention at the right price. ■

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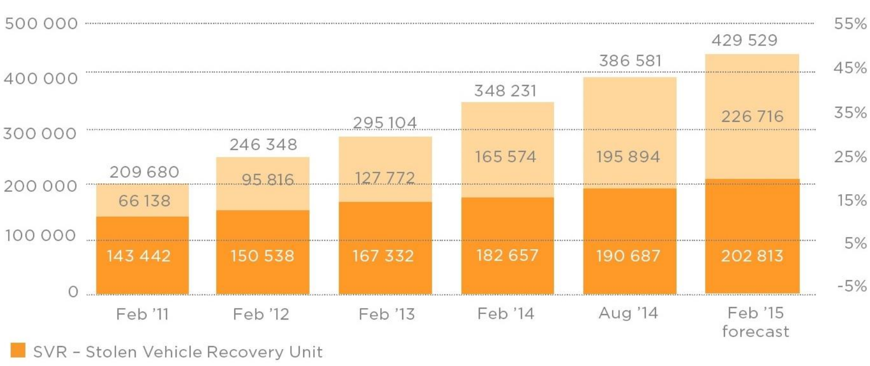
Cartrack historical and forecast subscriber growth



SOURCE: Cartrack: Pre-listing statement