

MultiChoice

Enriching lives through entertainment

WHY WE LIKE MULTICHOICE?

With a 30-year track record, MultiChoice Group is one of the fastest growing pay-TV broadcast providers globally. The company's leading local and international sports content has proven to offer a strong competitive advantage. In addition to globally procured content, the business produces locally tailored entertainment to meet their differing customer needs. MultiChoice is a high fixed cost business with a large subscriber base which benefits from economies of scale as more subscribers are added.

WORLD CLASS INFRASTRUCTURE WITH MULTIPLE VIEWING PLATFORMS FOR CUSTOMERS

Providing entertainment to approximately 14 million households across 50 countries in Africa, MultiChoice Group is Africa's leading entertainment company. With world-class technology and well-invested infrastructure, the Group delivers entertainment through Direct-To-Home (DTH), Digital-Terrestrial-Television (DTT) and online video entertainment services. MultiChoice offers a mixture of scheduled television, on-demand features and movie rental services. Dependent on location and product package, viewers can watch local and international content through the DStv, GOtv, BoxOffice, Showmax and DStv Now platforms, however an internet connection is needed to access DStv Now and Showmax.

SOUTH AFRICAN BUSINESS IS HIGHLY CASH GENERATIVE, WHILE AFRICA PRESENTS GROWTH OPPORTUNITIES

The South African segment has entered the mature stage of its lifecycle and has established a strong subscriber base that generates strong free cash flow for the business. Despite the challenging economic environment, this segment has performed well. Disposable income of SA consumers has been under considerable pressure and as a result, some consumers have moved to lower cost subscription packages. Management have and will continue to focus on cost-savings initiatives to ensure margins remain stable in this highly profitable market.

The rest of Africa continues to offer a substantial market opportunity for the MultiChoice Group, with approximately 16 million addressable households. Pay-tv penetration in Africa is significantly lower than that of other emerging and developing countries. As the population grows and the availability to electricity and technological services increases, their footprint in the African market will increase. With MultiChoice already investing significant capital to ensure that they are able to provide pay-tv services to this market, Africa could well become a profitable business as they gain scale by attracting new customers.

SUPERSPORT A KEY ADVANTAGE

Consumer appetite is an important factor to consider when determining the sustainability of a business. The SuperSport business model works for the business as sports-mad South Africans aren't willing to give up their sports viewing and MultiChoice holds exclusivity rights to many major international and local sporting events. Hence, consumers who highly value watching live sports in their homes are likely to remain loyal MultiChoice customers for the time being.

WHAT DOES NEW COMPETITION MEAN FOR THE PAY-TV INDUSTRY?

Although competition from global companies such as Netflix, Amazon Prime and Apple TV+ has increased, the biggest question is whether DStv customers will substitute one product for the other. This is generally determined by the closeness of the competition. MultiChoice has rights to a significant portion of content (exclusive contracts, locally produced scripted and sports) that on-demand media entertainment services like Netflix do not have access to.

Access to broadband internet at an affordable price is also a barrier for competing on-demand services. With an under-developed pay-TV market and very little access to broadband internet in Africa, MultiChoice's satellite subscription and digital terrestrial television infrastructure remains a strong competitive advantage.

INVESTMENT CASE FOR MULTICHOICE

In terms of the Cadiz investment philosophy, we look for quality businesses with low financial risk and capable management, which are trading at an attractive price. MultiChoice has an ungeared balance sheet and generates strong free cash flow. The South African segment is above average quality, with a history of consistently earning return on capital greater than its cost of capital. Although the rest of Africa operations is yet to report a trading profit, this operation is expected to break even in the medium term. Due to the high fixed cost nature of the business, as the number of subscribers increase so should its economy of scale advantage, therefore allowing the African operation to earn a superior return on invested capital.

MultiChoice is a high-quality business with a solid balance sheet that we believe is attractively priced compared to what we believe the business is worth. This discount offers investors the opportunity to generate above market returns over the long-term with low risk of permanent capital loss. We look forward to not only being entertained by great content, but also enjoy a superior return on this investment.

by Kirsten Campbell