

Backgrounder pre latest full year results: Naspers - Trend setter among South African media companies: 28 June 2010-07-01

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Multinational media company Naspers has been at the forefront of identifying trends in the global media sector, particularly from 1986 onwards, and yet has managed not to bet the company in the process - instead managing cash flows from existing businesses to fund its foray into new ventures

Naspers was founded as “Die Nasionale Pers” in 1915 and is therefore the oldest media group in South Africa. It has a wide range of operations across Africa, Europe and Asia in electronic media (pay-television, internet and instant-messaging subscriber platforms and related technologies) as well as in print media (publishing, distribution and printing of magazines and newspapers).

The group started out as a 100% print business, focused on newspapers and magazines. It made a breakthrough in 1986 under the helm of Koos Becker when, in joint ventures with a number of other South African media companies, it ventured into digital media, forming electronic pay-television media business M-Net, which listed on the JSE Securities Exchange (JSE) in 1990. In 1993 M-Net was split into two companies with M-Net becoming a pure pay television station while the group’s subscriber management, signal distribution and cellular telephone activities were formed into a new company called MultiChoice, later to be re-named MIH Holdings.

Naspers itself listed on the JSE in 1994 and in 1997 formed internet service provider business M-Web Holdings, which traded as a linked unit with MIH Holdings.

Naspers was also instrumental in the formation of MTN, with both M-Net and MTN examples of the entrepreneurial spirit of Naspers management and their skill in seeing companies through the initial “J-curve” years (when a company makes a loss) to the period when a company makes a profit.

The media company has made a point of using cash flows from its mainstay print businesses to fund its forays into new ventures with the bulk of acquisitions in internet or in online businesses across the world. Key to the Naspers business strategy is that a significant amount of value comes from its pay tv businesses as well as its entertainment, media and digital businesses.

Following Naspers’ listing on the JSE and the formation of M-Web, the media company made a number of acquisitions across the globe, including an initial 46.5% stake in Tencent Holdings, owners of the highly successful QQ instant messaging platform based in China. Tencent currently contributes around 35% of Naspers’ core earnings and just over 70% of its market capitalisation.

One of the biggest strategic mistakes Naspers has made since 1986 – a big milestone year in the media company’s life as it marked the foray into digital media - was to move out of telecommunications, selling its stake in MTN to other local media partners at the time in exchange for stakes in M-Web. It therefore significantly underestimated the mobile penetration potential of MTN. However, management would argue that they were taking a much longer-term approach, recognising that mobile telephony would ultimately become a commoditised business, whereas the internet provided better opportunities to leverage of the group’s content businesses.

In conclusion, Naspers’ evolution from a printing company into a globally diversified, digital media business has unlocked substantial value for shareholders and, given the early life stage of some of the recent internet–related acquisitions, Kagiso Asset Management believes the future remains bright.

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