Advanced technology and high profitability

The Santova growth story is far from over.

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29 June 2017 - 09:47 Stafford Thomas

Mention logistics services providers (LSP) and most investors shy away, rattled by horrific results being turned in by industry players such as Grindrod and Trencor.
Regrettably, international LSP Santova, one of the JSE’s small-cap gems, is being tarred with the same brush.

Santova has had to face challenges which have led to investor concerns. They include SA’s embattled, no-growth economy, the British pound’s sharp fall in the wake of the Brexit vote and the generally weak state of the intensively competitive global logistics industry.

"Santova has more than adequately dealt with these concerns," says Glen Gerber, the group’s CEO for the past 14 years. He has every reason to be pleased with Santova’s resilience. In its year to February it lifted profit before tax by 31.9% to R88m.

At the headline EPS (HEPS) level a R51m share issue in late 2015 to fund the acquisition of UK firm Tradeway for £5.6m reduced growth to a still solid 15.4%. In the previous five years HEPS grew at an annual average of 26%.

"We are well diversified," says Gerber. "A bad year in one location is countered by a good year in others."

SANTOVA

It is an international logistics services provider serving more than 4,600 clients through 19 offices in seven countries and 19 representative offices in mainland China

Financial year-end: **February**
Final results: **May 15**

RECOMMENDATION

Sell — Hold — Buy

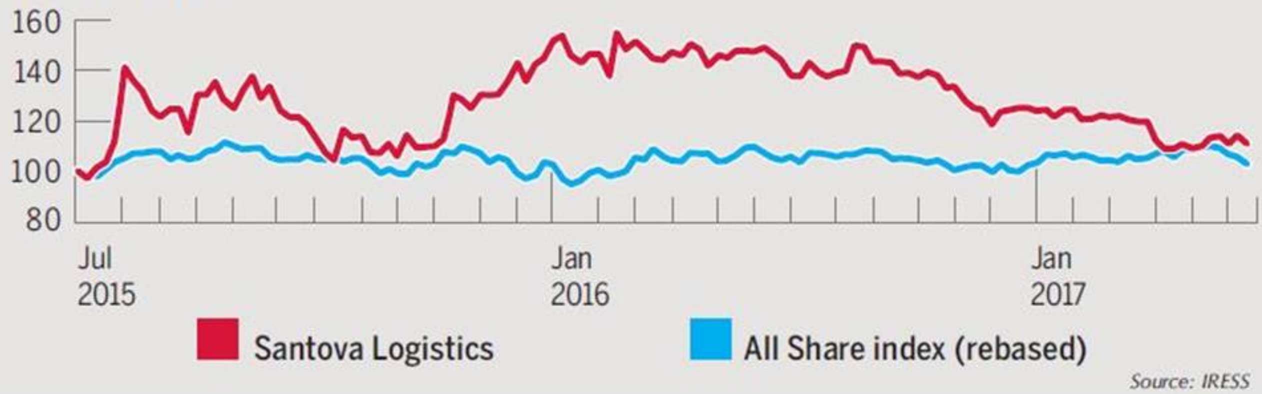
RISK

Low — Medium — High

Market cap	R503m
Forward PE (FY)	6.8
Current price	**R3.20**
1-year high	R6.09
1-year low	R2.96
Key indicators (FY17)	
Heps	39.89c
Div/share	6.25c
PE ratio	8.3
Total revenue	R299m
Attributable revenue	R62.8m
Total assets	R896m
Equity	R358.4m

Target price: R4.70 **Upside: 47%**

PERFORMANCE



From a geographic perspective Santova's diversification spans five offices in SA, seven in the UK, two in each of Germany and the Netherlands, and one in each of Australia, Mauritius and Hong Kong.

The Hong Kong office is also responsible for 19 representative offices in mainland China. "I am looking at the US. It is quite possible we will eventually grow to at least 200 offices," says Gerber.
From a profitability perspective offices outside SA are also far more attractive. "Return on investment offshore is seven to eight times higher than in SA," says Gerber.

Foreign earnings are growing apace, reaching 62% of total taxed profit in Santova's latest financial year. This was up from 35% only four years earlier.

Client wise, Santova is also well diversified. "We have 4,605 clients, with the largest accounting for only 3.3% of our revenue. There is also no concentration in one industry." Gerber says a "huge differentiator" for the company is its ability to manage its clients' entire supply chain, from suppliers to end customers.

From a prevention of disruptions perspective and as another differentiator, Santova has turned to predictive analytics. This enables it to warn a client that stock being shipped to it will not be arriving on time, for example.

Finding staff with specialised skills is not a problem facing the business either, says Gerber. "We employ a lot of graduates in fields such as industrial engineering. We are the preferred employer in our industry and have a low staff turnover."

The high calibre of Santova's staff and its cutting-edge technology are reflected in a huge rise in productivity. "We have the same number of staff as we had in 2006 but are around 15 times bigger," says Gerber.

Success is also reflected in Santova's high level of profitability. In its latest financial year it achieved an operating profit margin of 30.7%, up from 25.4% in the previous year and 12.7% in 2010. It is way ahead of its competitors.

"Most players achieve an operating margin of 4%-8%; the best I have seen is 12%."

Nevertheless, Santova has been hammered by the market, which over the past 12 months has wiped almost 50% off its share price. It has left it sporting a less than flattering 8.3 p:e.

The Santova growth story is far from over. "We are doing well this year and growing above our expectations," says Gerber. "I am confident we will keep growing well. We operate in a vast market which is always presenting opportunities for us." For investors on the hunt for a bargain, this looks like a sitter.

Source: https://www.businesslive.co.za/investing/investors-monthly/2017-06-29-the-santova-growth-story-is-far-from-over/