Santova's growth is not over and the shares are a steal at present

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Amelia Morgenrood

LOGISTICS companies in South Africa are not exactly the flavour of the day. Most investors shy away, since a few big names came with terrible results. Unfortunately, Santova is a victim of this perception, and the share price is down 15 percent from 12 months ago. It was as low as 300 cents, but did recover a bit in the last month. Santova also has the challenge of the low growing local economy and the effects of Brexit. Then there is also intense global completion and the generally weak state of the logistics industry.

Santova is a specialist international trade solutions business listed on the JSE since 2002, with offices throughout South Africa, Ghana, Mauritius, Australia, Germany, The Netherlands, United Kingdom, Hong Kong and China.

They have strategic partners throughout the world. Santova does not own any trucks or ships; they only facilitate freight forwarding and logistics. They focus on the movement and storage of raw materials, work-in-progress, inventory, and all finished goods from origin to point-of-consumption. Thanks to globalisation companies continuously seek worldwide sourcing and distribution of their products in multiple markets; they require extensive, sophisticated operational and logistics solutions across the world.

Diversified

Chief executive of the last 14 years Glen Gerber said: "We are well diversified. A bad year in one location is countered by a good year in others. Santova's diversification spans five offices in SA, seven in the UK, two each in Germany and The Netherlands, and one in each in Australia, Mauritius and Hong Kong.

"The Hong Kong office is also responsible for 19 representative offices in China. I am looking at the US. It is quite possible that we will eventually grow to at least 200 offices. 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", he said.

"Foreign earnings are growing apace, reaching 62 percent of total taxed profit in Santova's latest financial year. This was up from 35 percent only four years earlier, a "huge differentiator" for the company is its ability to manage its clients' entire supply chain, from suppliers to end customers". 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. 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.

Low staff turnover

"Finding staff with specialised skills is not a problem facing the business either, 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."

Santova has a diversified client base of 4 605 clients, with the biggest generating 3.3 percent of revenue, and the top 20 clients are generating only 18 percent of net revenue. They have no concentration in a specific industry.

In the year to February 2017, they grew their profit before tax by 31.9 percent. Since 2011 they grew headline earnings per share from 10c to 40c per share – a fourfold increase. Their operating profit margin of 30.7 percent is well ahead of the margins of their competitors, which is usually a maximum of 12 percent.

According to Gerber the Santova growth story is far from over. They are growing above their expectations.

The price to earnings ratio is only 8.7 and if they can report decent growth this share is a steal at 330c.

■ Amelia Morgenrood is PSG Wealth regional director.