

## Shipshape Cartrack upbeat as it plans to duplicate local telematics success abroad

**B**esides being a leading player in the South African telematics industry, Cartrack is also represented in 23 other countries.

CEO Zak Calisto sees a very bright future for global telematics and believes Cartrack and other industry players should thrive. Global information technology consultancy Gartner predicts 20% average annual growth in this segment over the next five years to \$55bn in revenue. With all players experiencing good growth, Calisto cautions about Cartrack's August interim results in which headline earnings per share grew 20%. "If anyone thinks we're doing great, we're not. We're just doing what the market's doing," he says.

SA is the global leader in telematics, unsurprising in a country where car theft and hijacking are rife. It has the highest telematics penetration of any country, at 30% to 35% of total vehicle fleet. SA accounts for about 85% of Cartrack's business, with the other geographic jurisdictions not yet a material force in the group.

For the interim period to August 2017, Cartrack subscriber growth of 21% took its worldwide total subscribers to



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660,000. Since period end, that has increased to about 685,000. Dividend cover was increased, resulting in the dividend per share falling from 20c to 18c comparative. This was done to help reduce debt and invest back into the business.

The highlight of the results was Asia, with subscriber growth well more than 100%.

"We're getting very close to breakeven in Asia," Calisto says.

Singapore, in particular, is driving growth at a very rapid rate as it is a highly regulated, highly tech-savvy country and there is a great desire by the authorities to monitor every

aspect of driver behaviour. Cartrack's prisoner-tracking contract in Singapore has just been renewed for five years.

Africa was flat, carrying on from the currency problems reported at full year to February 2017, but in local currencies, it is still doing very well. Europe experienced 24% subscriber growth but profit growth was low due to continued investment in distribution channels.

There appear to be two main sources of growth for this business: by tapping into the vast, uninsured vehicle market in SA, with the high-end insured market being largely saturated in terms of telematic usage, as insurers insist on installation of tracking devices; and by extracting far greater revenue and profit from geographical regions outside SA.

The lower-end, uninsured market in SA offers great potential. Most of the uninsured are so because they cannot afford costly monthly insurance premiums of at least a few hundred rand. But at only about R100 a month for a telematics service, tracking is an affordable and appealing option, especially with the Cartrack recovery rate of about 94%.

Always having a vehicle is more of a priority for this cus-

tomers segment than having cover for repair and liability costs arising from accidents.

The international strategy of the company looks at markets where telematics is in nascent stages, as well as countries in Africa that should experience upside as the bottoming commodity cycle – it is hoped – heads towards a slow upturn.

Calisto says that telematics is not a cyclical business and that at some time in the future, all vehicles will have a device installed. "We can't train people fast enough to deal with demand out there," he says.

"Our biggest risk is that we don't grow fast enough, and we then become an insignificant player in the market."

Small-cap analyst Keith McLachlan likes the stock.

"Cartrack beat my expectations. While they play in a commoditised space and are more of a service company than one built on defensible technology, the efficiency of their operations is apparent," McLachlan said.

"They are running a tight ship and managing to grow their routes to markets and, indeed, markets in total. These are all impressive things."

● Chris Gilmour is an investment analyst.

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