MARKET WATCH: On the right road

by Marc Hasenfuss, 18 December 2014

A press release issued by Cartrack Holdings suggests that the soon to be listed company — which specialises in fleet management, stolen vehicle recovery and insurance telematics — has successfully raised R510m in a private placement of 60m shares at 850c/share.

Well, perhaps the accuracy of the description "successfully" is debatable. It looks as if Cartrack has now backed down somewhat on its original pre-listing pitch, no doubt taking into account the current state of the JSE. I heard that Cartrack initially pencilled in an offer price range of R10-R15/share in a bid to raise R600m.

To be fair to Cartrack, the pre-listing placement is not a bad effort. Market sentiment has turned very jittery of late, and the two vehicle telematics companies listed on the JSE — Digicore and MiX Telematics — are hardly being tracked with any vigour by punters. In fact, Cartrack's pitch to investors more or less coincided with a marked reversal in MiX's share price.

Though market sentiment might not be revving for Cartrack when it lists later this week, the lower than expected pre-listing placement price could offer some upside for sharp investors in the next few weeks. In short, Cartrack boasts strong historical cash flows, which is something that needs to be seen in the context of its having no gearing or need for external funding for organic growth. It also earns a chunk of annuity income, is gradually internationalising operations and has committed to a generous dividend policy.

The pre-listing presentations that I perused show that Cartrack's top-line growth has accelerated much faster than its more established listed rivals. Its compound annual growth rate (CAGR) for revenue for the past five years is an impressive 22% compared with a more geographically diversified MiX (12,8%) and a restructured Digicore (7,8%). The net profit CAGR for the past five years is even more impressive, at almost 36%, which is comfortably ahead of MiX's 28,5%.

What is really appealing is that Cartrack's forecast figures for the year to February 2015 show a fat operating profit margin of 33% of predicted revenue of R848m.

But the margin does require some interrogation, especially now that Cartrack has expanded its profitable SA core to 18 countries across Africa, Europe and Asia in the past three years. The forecast operating margin on the SA business, which should still account for the bulk of revenue, is around 32%. African markets look awfully lucrative too, and directors have set that margin at close to 40%. But the company's fledgling presence in Europe sits at around 10% and Asia is still incurring start-up losses.

Noting how local vehicle telematics companies have battled for profitable traction in offshore markets, I would want to watch that Cartrack resists the temptation of veering wildly into new markets to build an offshore empire that ultimately detracts from a high-margin core business in SA and elsewhere in Africa.

Other than that, the numbers certainly do stack up for Cartrack. The subscriber base topped 400000 units at the end of October, with, more importantly, an annuity revenue base of close to 75% and fleet management contracts accounting for more than 50% of subscribers. Directors aim to have the fleet management composition stretching to 75% over the next four years, which I think is a more critical short-term goal than trying to push too quickly to grow foreign currency earnings (which comprise 24% of revenue at present).

Cartrack might be a worthwhile share to track in the silly season. With most of the professional traders on holiday in their remote hideaways there may, at times, be a lack of drive in Cartrack's price. If stags quickly exit, be ready to buy during bouts of weakness.

Keep in mind that the company has committed to paying a 27c/share dividend off forecast earnings of 63c/share, offering a dividend yield of 3% off the pre-listing placement price. That's really not too shabby for a company that believes it still has plenty of growth opportunities.

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