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NASPERS CAPITALISATION ISSUE: SHAREHOLDER ELECTION OPTIONS

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Global technology and media giant Naspers has moved the expected listing date of its international internet assets, to be named Prosus, on the Euronext Amsterdam stock exchange to **Wednesday, 11 September 2019.** There will also be a secondary, inward listing on the JSE.

The transaction will involve the transfer of the non-South African assets (which we estimate to constitute around 99% of the total value of Naspers' assets) to a new entity, Prosus, which will have a primary listing in Amsterdam and a secondary listing on the JSE. Naspers will retain at least 73% of Prosus and distribute the remainder to its shareholders by way of a capitalisation issue.

Shareholders will be given the opportunity to vote on the transaction at the company's annual general meeting to be held on 23 August 2019. We expect it will receive the necessary shareholder approval. We've discussed our views on the transaction in a recent article – we believe it should be beneficial to shareholders.

To accommodate the different tax circumstances of shareholders, Naspers will offer one of two election options on the capitalisation issue:

- Naspers N shareholders will be issued with newly-created Naspers M ordinary shares which, post-listing, will be exchanged for Prosus shares (the default option)
- Shareholders can elect to be issued with additional Naspers N ordinary shares instead of receiving Prosus shares.

While there should be no tax event for investors choosing Naspers N shares, there may well be tax implications for South African tax residents receiving Naspers M shares converting to Prosus shares.

Further information around the two election options:

(The information below assumes shareholders are South African tax residents, holding Naspers N shares on the JSE as a capital asset (i.e. not in a scheme of profit-making or short-term trading). Given that the transaction extends across borders, non-resident clients are advised to consult their professional advisers for assistance.)

1. M capitalisation option

The first (and default) option is the receipt of 1 Naspers M share for every 1 Naspers N share currently held. The M share will immediately and automatically be exchanged for 1 Prosus share. Effectively, a shareholder will therefore end up with 1 Prosus share and 1 Naspers N share for every 1 Naspers N share previously owned.

Prosus is a company incorporated and tax resident in the Netherlands (and therefore a 'foreign company' for South African tax purposes). Prosus will house Naspers' global consumer internet portfolio (including its holding in Tencent). Prosus will have its primary listing on the Euronext Amsterdam, with a secondary listing on the JSE.

South African resident shareholders electing the M capitalisation will receive their Prosus shares via STRATE and will trade those shares on the JSE in ZAR.

We expect the Naspers N share price to decline by about the same rand amount as the value of the Prosus share received when Prosus lists on 11 September 2019. This should leave shareholders in a similar financial position in aggregate if we exclude any potential tax consequences or subsequent market movements (which we'll address below).

From a tax perspective, it's important to note that a tax event will be triggered when the M shares are exchanged for Prosus shares under this option. The M shares are considered to be received for a nil-base cost and then disposed of for the fair value of the Prosus shares. In other words, the full value of the Prosus shares received will be considered a taxable gain and subject to capital gains tax (CGT). The taxable gain is expected to be around 27% of the original Naspers N value (which is the expected market value of Prosus shares to be received).

For taxable investors, the M capitalisation option could therefore result in a tax liability, which will have to be funded out of the investor's pocket, as the transaction will not result in any other cash receipts. However, the base cost of the original Naspers N shares won't be adjusted downward, giving rise to a lower future taxable gain as the Naspers N share price declines by the value of the Prosus share received. It could therefore be seen as an accelerated tax payment.

2. N capitalisation option

The second option, which will require an active election by investors, is the receipt of an additional 0.36986 Naspers N share for every 1 Naspers N share held. If for example, an investor held 100 Naspers N shares, he or she would be entitled to an additional 100 x 0.36986 = 36.986 Naspers N shares. In this case, the actual number of shares received will be rounded down to 36, with the remaining fraction paid in cash, according to the JSE rules.

The ratio of additional N shares under this option has been calculated to compensate investors for a 27% dilution arising from the combination of the issue of the Prosus shares and additional N shares elected by shareholders (deducting 27% from 1.36986 equals 1.0).

Under this option, there should be no immediate tax event for investors. The additional N shares will be deemed to have been received for a nil-base cost. The weighted average base cost of an investor's old and new Naspers N shares will therefore reduce by 27%, in line with the per-share dilution of the transaction.

The two election options have been designed to provide shareholders with equal underlying assets at the outset. Ignoring tax effects, the benefit of M versus N options will therefore depend on the relative market price movements of Prosus versus Naspers N shares in the future. Theoretically, Prosus should trade on a 0.36986 times ratio relative to Naspers N shares. However, our read of the market dynamics leads us to believe that given expected investor flows, Prosus should trade at a relative premium to Naspers (i.e. a ratio above 0.37 times).

In a nutshell:

In summary, for an investor for whom tax won't be an issue (for example, in the case of a retirement fund or where offsetting CGT losses is possible), we believe the default M share option will be more beneficial by around 1%-5%, based on the original Naspers value (this assumes a relative discount of between 5% and 15% of Naspers versus Prosus post the transaction).

For tax-affected investors, the election becomes more complex as the 'accelerated' tax liability resulting from the M share option could more than offset the benefit from a higher Prosus price relative to Naspers N. An investor's applicable tax rate and available tax losses will play a factor here. Investors should also consider the cash flow implications of the tax liability.

Given the unique circumstances of each investor, we recommend that investors contact their Sanlam Private Wealth portfolio manager to discuss the most suitable option.

Investors should indicate their elections to their portfolio manager by no later than Wednesday, 4 September 2019.

Illustrative example:

Assume a Naspers share price of R3 500 on 10 September 2019 (the day before the listing date of Prosus). An investor owns 100 Naspers shares (100 Naspers N shares @ R3 500 = R350 000).

On the listing date of Prosus, 11 September 2019 (Naspers N starts trading 'ex' capitalisation issue entitlement):

- Theoretical share price of Naspers N share = R 3 500 less 27% = **R2 555**
- Theoretical share price of Prosus = R3 500 x 27% = R945. To this we add a 10% assumed premium value unlock = **R1 040.**

Option 1 (default): M share option

100 Naspers N shares @ R2 555	= R255 500
100 Prosus shares @ R 1 040	= R104 000
Total:	**= R359 500**
Taxable gain (if applicable) on R104 000 multiplied by effective CGT rate:	
• 7.2%-18% for individuals =	**R7 488 to R18 720**
• 22.4% for companies =	**R23 296**
• 36% for other trusts =	**R37 440**
No adjustment is made to the original Naspers N share base cost, while the base cost of Prosus is recorded as the listing market value. The 27% lower Naspers N share therefore reduces the unrealised gain for future tax purposes.	

Option 2: N share option

100 Naspers N shares @ R2 555	= R255 500
36 Naspers N shares @ R2 555	= R91 980
Fractional cash payment (0.986 x R2 555)	= R2 520
Total:	**= R350 000**
No tax event.	

DIVIDEND WITHHOLDING TAX (DWT) (BOTH IN SOUTH AFRICA AND THE NETHERLANDS):

N capitalisation option

1. Dividends tax on the additional N shares will be the same as that on current N shares held.

DWT on Prosus shares trading on the JSE

1. Dividends received from Prosus shares trading on the JSE would be subject to South African DWT at the rate of 20% to the extent that the beneficial owner of the dividend is not exempt (e.g. South African companies or pension funds).
2. The dividend should also be subject to Dutch DWT of 15% in the hands of a South African resident shareholder (regardless of whether the entity is exempt from South African DWT). South African tax resident shareholders should, however, qualify for a reduced rate of 10% in terms of the South Africa-Netherlands tax treaty.
3. Where applicable South African resident shareholders may, however, claim the Dutch DWT suffered as a rebate from, and limited to, the South African DWT due on the dividend.

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