2020 Memorandaum Group Assignment

MZANZI PLC BACKGROUND INFORMATION

(50 marks)

30 Mzanzi plc operates in the oil and gas industries. Its shares are listed on the Johannesburg Stock Exchange (JSE). It operates a number of retail outlets throughout South Africa. In the past few years the price of petrol has been skyrocketing. As a result the company found it difficult to compete on the price of petrol alone. They decided to concentrate on providing high quality services and facilities at service stations. It provides car wash and retail services at the convenience stores throughout the country. About 60 % of its revenue and 50% of its profits comes from petrol and diesel sales. The remaining sales and profits come from other services provided at its convenience stores which are at its service stations.

Sasol plc has been the major supplier of Mzanzi plc's petroleum products. Some of the products are bought on the open market. Over the past few years Sasol plc has experienced an increase in production costs because of environmental regulations compliance costs. The profit margins of Mzanzi plc have also come under pressure because of increased prices from Sasol plc and increased competition in the market. Mzanzi plc has short term supplier agreements with Sasol plc.

Future strategy: The company is considering possible ways of increasing its profit margins and non-petroleum revenues. The management is considering three possible acquisitions to alleviate the current situation.

Case 1: Vaal oil and Gas owns thirty service stations around Gauteng. The service are of poor image. In the past the company attempted to sell diesel and petrol at the lowest possible prices. As a result little was left in the way of other services. The sites are however in good locations and they are suitable for development and renovations. Institutional investors in Vaal oil and Gas are dissatisfied with the recent performances of the company. As a result they can support the bid if the terms are favourable. The service stations of Vaal oil and Gas are considered too small for major petroleum companies to want to buy. This means that Vaal oil and Gas is unlikely to face a lot of competition from alternative buyers. Sasol plc has indicated to Mzanzi that it will be willing to finance 50 % of the acquisition cost at 9 % interest per annum. The loan will be repaid over 10 years. This would mean that Vaal oil and Gas would enter into a long term supply agreement with Sasol plc for all the thirty service stations.

Case 2: Blue Diamonds specialises in oil distribution. It transports oils from the depots of major oil companies in South Africa. It has been listed on the Johannesburg stock exchange (JSE) since two years ago. It operates a well maintained and managed fleet of oil tankers. Some of these tankers are owned and others are leased. Mzanzi plc has used the services of blue diamonds in the past. 40% of the shares of Blue diamonds are owned by directors and their families. Consequently, a successful bid is not assured as it might be considered hostile.

Case 3: Maemo Motors owns and operates 15 car showrooms in upmarket areas in Gauteng. It operates the Mercedes Benz franchise. Maemo motors is a family owned business. It is not listed on a stock exchange. The major shareholder is planning to retire in the near future. His family is showing no interest in taking over the business. The major shareholder has approached the Mzanzi plc management, asking if they would be interested in buying Maemo Motors.

The financial managers of Mzanzi plc have produced the following estimates of expected Net present values (NPV) and post-merger earnings for a full year of Mzanzi with each of the acquisition targets.

Estimates of expected net present values and post-merger earnings

	Estimated earnings 1 year after merger (R million)	**Estimated Net Present Value of combined entity (R million)**
Mzanzi plus Vaal oil and Gas	64	1,024
Mzanzi plus Blue Diamonds	70	1,190
Mzanzi plus Maemo motors	46	736

Financial and other information for Mzanzi and the possible acquisition targets

Extract from the statement of financial position of Mzanzi plc as at 31 December 2019 (R million)		
Long term assets (NBV)		R 280
Current assets:		
Inventory	R 80	
Debtors	R 160	
Cash and cash equivalents	R 160	
		R 400
		R 680
Ordinary Share Capital (R1 each): Authorised 60 million		
Issued		40
Retained income		360
8% 8 year bonds (long term loan redeemable in 8 years)		100
Short term liabilities		180
		680

Summary of financial indicators

Summary of financial indicators	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Year ended	**31/12/2019**	**31/12/2019**	**31/12/2019**	**31/12/2019**
Issued Share Capital (million)	40	20	24	1
Earnings Per Share (Cents)	206	150	170	360
Dividends Per Share (Cents)	62	110	84	224
Share price (Cents)	3296	1350	3060	
Nett Asset Value (millions)	500	120	130	12
Debt ratio (%)	7	15	8	0
Expected annual growth rate (%)	12	6	15	10
Beta co-efficient (Index)	1.4	0.8	1.5	1.45

Additional information:

1. The beta coefficient provided for Maemo motors is an equity beta of a larger quoted company. The company conducts business which is in the same line as Maemo. The larger quoted company has a gearing ratio (debt: debt +equity) of 20%. Assume that the debt has a beta coefficient of zero;
2. The forecasted growth rates are based on publicly available information;

3. Ignore taxation issues when answering this question; and
4. Assume that the return on the market is 12%, and the risk-free rate is 6%.

Solution

1 Question 1

1.1 Question 1(a): Calculate, where relevant, the current market value and the Price per Earnings (P/E) ration for Mzanzi, and for each of the three acquisition targets.

(3 marks)

Table 1.1 Financial indicators converted from cents to Rands

Summary of financial indicators	**Mzanzi**	**Vaal oil and Gas**	**Blue Diamond**	**Maemo**
Year ended	**31/12/2019**	**31/12/2019**	**31/12/2019**	**31/12/2019**
Issued Share Capital (million)	40	20	24	1
Earnings Per Share (Rands)	2,06	1,5	1,7	3,6
Dividends Per Share (Rands)	0,62	1,1	0,84	2,24
Share price (Rands)	32,96	13,5	30,6	
Nett Asset Value (R million)	500	120	130	12
Debt ratio (%)	7	15	8	0
Expected annual growth rate (%)	12	6	15	10
Beta coefficient (Index)	1,4	0,8	1,5	1,45

The current market value was calculated by multiplying the share price with the number of shares issued by the company in question.

Also, the price per earnings (P/E ratio) was calculated by dividing the share price with the latest earnings per share.

Table 1.2 Current market value and price per earnings ratio of the four companies

Company	**Mzanzi**	**Vaal oil and Gas**	**Blue Diamond**	**Maemo**
Current Market Value (R million)	1,318 (0.5)	270(0.5)	734(0.5)	N/A
Price per earnings Ratio	16,0(0.5)	9,0(0.5)	18,0(0.5)	N/A

Note that Maemo Motors is a family-owned business which is not listed on the Joburg Stock Exchange. As a result, the current market value and the Price per Earnings ratio for Maemo Motors was not calculated as the share price is not publicly available.

1.2 Question 1(b): Use the capital asset pricing model (CAPM), where relevant, to determine the cost of equity for Mzanzi, and each of the three acquisition targets.

(3 marks)

The capital asset model is as follows:

$$Cost\ of\ Equity = Risk - Free\ Rate + (Beta \times (Market\ Rate\ of\ Return - Risk - Free\ Rate))$$

The risk-free rate was given as 6%. In addition, the return on the market was given as 12%. The risk-free rate and the return on the market remain constant irrespective of the company in question. As a result, the Cost of Equity depends on the beta of each respective company.

The equity beta for Mzanzi, Vaal oil & gas and Blue Diamond were given. However, the equity beta for Maemo was given as a larger quoted company which conducts business in the same line as Maemo. Additionally, the larger quoted company had a debt ratio (calculated by dividing the total debt by the sum of debt and equity) of 20%. As a result, the debt was assumed to be 20% and the equity to be 80%.

The asset beta of Maemo Motors was calculated by the following formula:

$$Beta\ of\ asset = \left(\frac{Debt}{Debt + Equity} X\ Beta\ of\ debt\right) + \left(\frac{Equity}{Debt + Equity}\ X\ Beta\ of\ equity\right)$$

Table 1.3 Reflecting the corrected beta factor as well as the cost of equity calculated as outlined above.

Company	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Beta factor	1.4	0.8	1.5	1.16(1)
Cost of equity (%)	14.40(0.5)	10.80(0.5)	15.00(0.5)	12.96(0.5)

1.3 Question 1(c): Use the constant growth dividend model, where relevant, to determine the prospective market value for Mzanzi, and for each of the three acquisition targets.

The constant growth dividend valuation model, also known as the Gordon Growth Model's formula, is as follows:

$$Share\ Price = \frac{Next\ year's\ dividend\ per\ share}{Cost\ of\ equity - Constant\ growth\ rate}$$

In addition, next year's dividend per share was calculated by multiplying the current share price with (1 + constant growth rate) as follows:

$$Share\ Price = \frac{This\ year's\ dividend\ per\ share(1 + Constant\ growth\ rate)}{Cost\ of\ equity - Constant\ growth\ rate}$$

The total market capitalisation is indicated in the table below:

Table 1.4 Prospective market values calculated as outlined above.

Company	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Next Year's Dividend (Rand)	0,69	1,17	0,97	2,46
Value per share (Rands)	28,93	24,29	Undefined because of division by zero: This model becomes meaningless when the Expected Growth Rate is similar to the Cost of Equity.	83,24
Issued Share Capital (million)	40	20	24	1
Total Prospective market value (R Million)	1157(1)	485(1)	Undefined(1)	83(1)

2 **Question 2: In Question 1, you calculated the current market values and the prospective market values using the constant growth dividend valuation model. You are also given the net asset value in the scenario. Discuss the limitations and usefulness of each of these three company valuation methods to Mzanzi's acquisition decision.**

(12 Marks)

Table 2.1 Summary of the current market value, prospective market value and the net asset value

	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Nett Asset Value (R Million)	500	120	130	12
Current Market Value (R Million)	1,318	270	734	N/A
Prospective Market Value (R Million)	1,157	485	Undefined	83

1.4 The current Market value approach

The current market value shows the value of each of the listed companies to its existing shareholders. The efficient market hypothesis (semi-strong form) implies that the market value of each company is the best estimate of its fundamental value, based on public information. Despite criticisms of the EMH, there is a large body of knowledge which shows that the semi strong form is substantially correct. However, making an acquisition decision, Mzansi is concerned with the value of each target company to itself, not to the existing shareholders. Adjustments may therefore be needed.

During price negotiations, one should have full knowledge of the target company's financials. If however, some information which is not in the public domain does emerge, necessary adjustments to the initial assessments need to be done accordingly. To outbid other competing buyers, it may be necessary to offer a price higher than the current market price. 1 mark However, if there is no competition an offer, less than the market price can be proposed. Private companies like Maemo are, however, exempt from this valuation method as there is usually no market value available to the public. 4 marks

1.5 Net asset value (NAV)

An asset-based approach is a type of business valuation focussing on a company's net asset value. The net asset value is the difference between the total asset and liabilities of an organisation and may be based on historical or current cost data.

The current costs also referred to as the replacement value, is an indicator of how much it costs to start the business from scratch but ignores things like goodwill and liabilities. The best indicator of business value is the net realisable value (NRV). The NRV is s the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with the eventual sale or disposal of the asset. NRV is conservative in its valuation of assets because it calculates the actual value that the seller would get net of costs if the asset were to be sold.

The strengths if a NAV included: Valuations are readily available, and it provides a minimum value of the company. Weaknesses include: The NAV, ignores future profitability expectations, as well as challenging to allow for the value of intangibles/intellectual property. 4 marks

1.6 Constant growth dividend valuation model

This method assumes that dividends will grow at a constant rate to perpetuity. It does not provide for rapid growth and becomes invalid when growth exceeds the cost of equity. This Model assumes the life of a company is infinity and pays dividends per share which increase at a constant rate. The growth model's key limitation lies in its expectation of a steady dividend growth per share.

Because of business cycles, and unforeseen financial woes or successes, it is very uncommon for companies to show constant growth in their dividends. Another shortcoming is that if the required rate of return is the same as the growth rate, the value per share approaches infinity as was the case of Blue Diamond where the market value could not be computed as growth rate was equal to the cost of equity. 4 marks

3 Question 3: Suppose you are working as the financial manager for Mzanzi plc. Write a report to the managing director; In this report, you must discuss the following issues that are pertinent to the acquisition decision:

(i) The price that may be offered to the shareholders of the target company. Please note that you must also recommend a range of terms that Mzanzi is prepared to negotiate.

(ii) The most appropriate method of financing the bid

(iii) The implications for the business

State any assumptions you make in offering credible advice. There is no single correct answer.

The price that may be offered and range of terms

We have assumed that the current market values of the three publicly traded entities are the same as the company's true values as separate companies. We also assumed that the perspective market value of Maemo is a true indication of its current value. However, we know proceed to look at the prospective values of the different mergers with Mzanzi:

Table 3.1 Summary of financial indicators

Summary of financial indicators	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Year ended	31/12/2019	31/12/2019	31/12/2019	31/12/2019
Issued Share Capital (Million)	40	20	24	1
Share price (Rands)	32,96	13,5	30,6	0
Current Market Value (R million)	1 318,4	270	734,4	83,2

Table 3.2 Projected change in value after the merger

Company	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Total equity earnings (R million)	82,4	30	40,8	3,6
Current "True" value of each company (R million)	1 318,4	270	734,4	83,2
Company combination	Mzanzi	Merger with Mzanzi	Merger with Mzanzi	Merger with Mzanzi
Sum of current "True" individual values of the two companies that merged (R million)		1 588,4	2 052,8	1 401,6
Sum of existing earnings (R millions)	82,4	112,4	123,2	86
Estimated post-merger earnings (R millions)	82,4	64	70	46

Company	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Additional earnings projected (R millions)		-48,4	-53,2	-40
Estimated NPV of combined organisations (R millions)		1 024	1 190	736
Change in value form the combination: (Before versus after the merger) (R millions)		-564,4	-862,8	-665,6

It can be seen from the projections merger will greatly reduce the value of each of the combined companies, for instance the NPV of the merger between Mzanzi and Vaal oil and Gas is only R1 024 million after the merger, compared with their combined values before the merger of R1 588,4 million! This mean that the merger destroyed 35.5 of their combined value! This applies to all three mergers.

This means that these mergers actually negatively impact these businesses abilities to make money. Therefore under normal circumstances, this would mean that these mergers should absolutely not happen! However, if we can devise improved strategies of running these merged companies it should be possible to make the mergers profitable. Therefore, some insightful strategies have been included below that can help to yield value out of these mergers.

Price and terms of the offer for Vaal oil and Gas:

The absolute maximum amount which can be paid for Vaal and Gas will be 50% of the market value which is R135 million. It should also be noted that going into a deal with Vaal will be a horizontal integration. Sasol has offered an option to finance 50% of the acquisition at an interest of 9% per annum, and taking this offer would help reduce Mzanzi's cost of capital. However, loaning from the company that Mzanzi is acquiring from comes with a number of implications such as the expected 9% interest, and the business strategy will need to be reviewed for that reason. Mzanzi can reduce costs by issuing shares to the shareholders of Vaal oil and Gas, which adds value to the firm. The share to share swaps will be an excellent derivative instrument to utilise as this will reduce the interest rates on debt and the input costs. The share prices for Mzansi are going for R32,96 per share versus that of Vaal oil and Gas which are selling for R13,50, and from this ratio, Mzanzi can sell their share at one share for every two shares that Vaal oil and Gas has on offer. One positive aspect about this transaction is that Vaal oil and Gas are trading in the same commodity as Mzanzi and this would mean that Vaal oil and Gas will still have a stack in the oil sector which will make it more attractive for them to accept the shares transaction. 6 marks

Implications of the Vaal oil and Gas acquisition on the business:

Mzanzi will increase its market share in the petroleum sector leading to a horizontal integration expansion by acquiring Vaal oil and Gas. This will result in a scale-up in Mzanzi's operations due to the alignment of the two companies before the merging into one company. Mzansi can either adopt the Vaal oil or Gas facilities, but one thing that needs to be taken into consideration is that Mzanzi is operated in an upmarket whereas Vaal oil and Gas has a low price strategy. If these facilities are to be used, then there is a need for them to be upgraded to match the Mzanzi standards and growth strategies need to be implemented to enable the new acquisition to run profitably. The Vaal oil Gas acquisition is not a very attractive deal since Mzanzi is going to lack variety in the products that they specialise in, which is a vertical integration move. The share prices are a bit lower than those of Mzanzi, given these facts the price needs to be negotiated more inferior than the current value of Vaal oil and Gas. 2 marks

Price to be offered for Blue Diamond:

Blue Diamond's market value is R734.4 million with a share price of R30,60, the market price is too huge to rise, and the implications of financing this amount by cash or borrowing would be an increased gearing. However, the erosion of value generated by the meger needs to be taken into account (see calculations). The offer price may need to reflect this potential erosion. 3 marks

Terms of the offer for Blue Diamond

One million new shares can be issued from the share prices since Mzanzi shares are going for R32.96 versus R30,60 for Blue Diamond which translates to a share swap of 1:1. There are only 24 million shares to be issued, therefore authorised share capital would need to be increased and this, in turn, would signal the market as though something significant is about to happen. The company could offer a choice of shares or a cash alternative; however the option is usually less than equivalent to the share value because it is risky, this helps prevent the rise in the share capital. The other challenge with issuing large shares is that Blue Diamond shareholders may dominate the merger and therefore diluting the present Mzanzi share ownership. 3 marks

Implications of the Blue Diamond acquisition on the business:

The Price/Earnings ratio for Blue Diamond is 18 times which is relatively high, and this indicates that this firm has strong growth prospects, (please refer to the table below). The acquisition is also going to be a vertical integration just like with Vaal oil and Gas since Blue Diamond is a distributor of oil from depot to depot, which makes them a supplier to Mzanzi. However, there will be diversification in the Blue Diamond acquisition because they are more focused on logistics.

Table 3.3 Current “True” value, i.e market value (or prospective market value for Maemo value) and price per earnings ratio

Company	Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Current “True” Value (R millions)	1 318,4	270	734,4	83,2
Price per earnings Ratio	16	9	18	23

The challenge faced with diversifying by acquiring this type of business is that Mzanzi Directors might be lacking experience in managing such kind of business in the case of decision making the shareholders will always back the existing management. If Mzanzi is diversifying for the sake of reducing risks, then the chances are that these shareholders are already holding a wide range of portfolios and they might even be holding shares at Mzanzi and Blue Diamonds since these two organisations are likely to have a working hand in hand already. The management is expected to leave the company if this merger succeeds, and this translates to a loss of critical skill sets because these managers understand the day to day running of the business better. Additionally, the merger might result in the creation of factions between the directors of the Blue Diamond and Mzanzi director’s. Counter bidding of shares may result in the two sides opposing each other, which will require the need to decide on which directors should head the combined group. 3 marks

Price to be offered for Maemo:

The absolute maximum amount that could be paid for Maemo is R 83,2 million based on a prospective market value calculated in question 1(c). Interaction generated by the merger between Mzanzi and Maemo will result in a net present worth of 736 million.

The urgency of the sale will determine the price to be paid for the Maemo acquisition by these shareholders. Competition from other car dealerships may be stiff, especially if they decide to merge for this acquisition and as a result of this Mzanzi needs to do thorough research about the Maemo before jumping into buying it. Cash can be used for the purchase of Maemo, and the existing managing directors can be lured to stay on by doing a share to share exchange which eliminates the possibility of hiring a new managing director who will have to learn the latest business from scratch as this will also secure the client base of the company. 3 marks

Implications of the Maemo acquisition on the business:

Complete diversification will be achieved with Maemo, and the company will be able to maintain the prestige location. The earnings per share calculations in the table below indicates that Maemo is projected to be a very profitable merger with Mzanzi. Even though there is no interaction between Mzanzi and Maemo, this will be made possible through marketing in the long run.

Table 3.4 Earnings per share for each company after the merger with Mzanzi (Earnings per share)

	Vaal oil and Gas	Blue Diamond	Maemo
Net Income (Year 1) (R Million)	64	70	46
Issued Share Capital (Million)	20	24	1
Add Mzanzi (Million)	40	40	40
Total Shares (Million)	60	64	41
Earnings Per Share (Rand per share)	1,07	1,09	1,12

Since Maemo is a totally different portfolio from what Mzanzi is dealing in, there is a severe need to have a Managing Director who is well versed with that business sector. The Mzanzi directors need to appreciate that the success of Maemo also depends on the success of the motor manufacturers. However, there is potentially an erosion of value as indicated by the fall in the post-merger earnings. This acquisition might not be good for the Mzanzi group. 2 marks

Conclusion 4 marks

Despite Mzanzi's wish to diversify, I feel on balance that the opportunity of expanding the existing business by the acquisition of the three **targets** under the present projections, Mzansi should absolutely not buy these companies, therefore we cannot offer them anything. If we can find models under which these mergers can be operated profitably, the amounts of profit that can be made should dictate prices we can pay for these companies. So, the first step will be to create such improved models and to refer them back to our bookkeepers so that they can make accurate estimates of the NPV is of each of these mergers. In the absence of such detailed calculations we can now give only brought indications of what might be paid for each company. The absolute minimum condition for the merger that managers should not destroy any value. This would mean that, at the minimum, the NPV of each merger should be equal to the compliant values of the two companies before the merger.

We should also take note that no sane company bought will accept an offer for less than its current market value. So if the value of a company to Mzanzi's less than its current market value, we can simply assume that the board of that company will reject our offer. Therefore we should assume that the minimum amount we can offer any company is its current market value, or for Maemo its calculated perspective market value.

ANNEXURE B: CALCULATIONS A

	Estimated earnings one year after the merger	Estimated Net Present Value of combined entity
Mzanzi plus Vaal oil and Gas	R 64 000 000,00	R 1 024 000 000,00
Mzanzi plus Blue Diamonds	R 70 000 000,00	R 1 190 000 000,00
Mzanzi plus Maemo motors	R 46 000 000,00	R 736 000 000,00

Extract from the statement of financial position of Mzanzi plc as at 31 December 2019		
Long term assets (NBV)		R 280 000 000,00
Current assets:		
Inventory	R 80 000 000,00	
Debtors	R 160 000 000,00	
Cash and cash equivalents	R 160 000 000,00	
		R 400 000 000,00
		R 680 000 000,00

Ordinary Share Capital (R1 each): Authorised 60 million		
Issued		40
Retained income		360
8% 8-year bonds (long term loan redeemable in 8 years)		100
Short term liabilities		180
		680

ANNEXURE C: CALCULATIONS B

Summary of financial indicators		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
	Year ended	31/12/2019	31/12/2019	31/12/2019	31/12/2019
Issued Share Capital		40 000 000,00	20 000 000,00	24 000 000,00	1 000 000,00
Earnings Per Share (Cents)		206	150	170	360
Dividends Per Share (Cents)		62	110	84	224
Share price (Cents)		3296	1350	3060	N/A
Nett Asset Value (millions)		R 500 000 000,00	R 120 000 000,00	R 130 000 000,00	R 12 000 000,00
Debt ratio (%)		7%	15%	8%	0%
Expected annual growth rate (%)		12%	6%	15%	10%
Beta coefficient (Index)		1,4	0,8	1,5	1,45

Summary of financial indicators		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
	Year ended	**31/12/2019**	**31/12/2019**	**31/12/2019**	**31/12/2019**
Issued Share Capital		40 000 000,00	20 000 000,00	24 000 000,00	1 000 000,00
Earnings Per Share (Rands)		2,06	1,5	1,7	3,6
Dividends Per Share (Rands)		0,62	1,1	0,84	2,24
Share price (Rands)		32,96	13,5	30,6	#VALUE!
Nett Asset Value (Rands)		R 500 000 000,00	R 120 000 000,00	R 130 000 000,00	R 12 000 000,00
Debt ratio (%)		7%	15%	8%	0%
Expected annual growth rate (%)		12%	6%	15%	10%
Beta coefficient (Index)		1,4	0,8	1,5	1,45

Company		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Current Market Value		R 1 318 400 000,00	R 270 000 000,00	R 734 400 000,00	#VALUE!
Price per earnings Ratio		16	9	18	#VALUE!

Company		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Beta factor		1,4	0,8	1,5	1,16
Cost of equity		14,40%	10,80%	15,00%	12,96%

Company		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Next Year's Dividend (Rand)		R 0,69	R 1,17	R 0,97	R 2,46
Value per share		R 28,93	R 24,29	#DIV/0!	R 83,24
Outstanding shares		40 000 000	20 000 000	24 000 000	1 000 000
Prospective market value (Total market capitalisation)		R 1 157 333 333,33	R 485 833 333,33	#DIV/0!	R 83 243 243,24

Company		Mzanzi	Vaal oil and Gas	Blue Diamond	Maemo
Total equity earnings		R 82 400 000,00	R 30 000 000,00	R 40 800 000,00	R 3 600 000,00
Existing value of shares		R 1 318 400 000,00	R 270 000 000,00	R 734 400 000,00	R 83 243 243,24
company combination		Mzanzi	Merger Mzanzi	Merger Mzanzi	Merger Mzanzi
Sum of existing earnings		R 82 400 000,00	R 112 400 000,00	R 123 200 000,00	R 86 000 000,00
Estimated post-merger earnings		R 82 400 000,00	R 64 000 000,00	R 70 000 000,00	R 46 000 000,00
additional earnings projected			-R 48 400 000,00	-R 53 200 000,00	-R 40 000 000,00
Sum of existing valuations		R 1 318 400 000,00	R 1 588 400 000,00	R 2 052 800 000,00	R 1 401 643 243,24
Estimated NPV of combined organisations			R 1 024 000 000,00	R 1 190 000 000,00	R 736 000 000,00
Change in value form the combination			-R 564 400 000,00	-R 862 800 000,00	-R 665 643 243,24
Change in value after the merger			-R 294 400 000,00	-R 128 400 000,00	-R 582 400 000,00

Summary of financial indicators		**Mzanzi**	**Vaal oil and Gas**	**Blue Diamond**	**Maemo**
	Year ended	**31/12/2019**	**31/12/2019**	**31/12/2019**	**31/12/2019**
Issued Share Capital		40 000 000	20 000 000	24 000 000	1 000 000
Share price (Rands)		32,96	13,5	30,6	0
Current Market Value		R 1 318 400 000,00	R 270 000 000,00	R 734 400 000,00	R 83 243 243,24

	Mzanzi	**Vaal oil and Gas**	**Blue Diamond**	**Maemo**
Nett Asset Value	R 500 000 000,00	R 120 000 000,00	R 130 000 000,00	R 12 000 000,00
Current Market Value	R 1 318 400 000,00	R 270 000 000,00	R 734 400 000,00	#VALUE!
Prospective Market Value	R 1 157 333 333,33	R 485 833 333,33	#DIV/0!	R 83 243 243,24

	Vaal oil and Gas	**Blue Diamond**	**Maemo**
Net Income (Year 1)	64 000 000,00	70 000 000,00	46 000 000,00
Issued Share Capital	20 000 000,00	24 000 000,00	1 000 000,00
Add Mzanzi	40 000 000,00	40 000 000,00	40 000 000,00
Total Shares	60 000 000,00	64 000 000,00	41 000 000,00
Earnings Per Share	1,07	1,09	1,12