

■ OPINION

Buy, buy Tencor — then bye bye

Acquire Tencor shares, but do not continue to support this board

BL PREMIUM

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Picture: BLOOMBERG/KRISZTIAN BOCSI

It is not often that we find ourselves recommending shares in a company with a dismal track record. It is even more difficult to recommend shares if the board and senior management fail to meet expectations and have perennially underperformed.

These incontrovertible truths are worsened by the company's demonstrated wilful disregard for the moral and commercial imperatives that underpin the need to transform. But occasionally the potential upside in a share is so great that the negatives are more than compensated for in the share price.

Tencor is such a company. The company is voluntarily liquidating and returning cash to shareholders. Its assets are primarily constituted by cash in US dollars. The net asset value of this company is 1,225c per share and the share is trading at 755c per share. Essentially an investor is buying \$1 and paying US60c. Our calculations indicate that from now until the final liquidation, an internal rate of return (IRR) of 27% in dollars is likely.

“ It is difficult to comprehend what expenses of this size can be incurred if the asset is a bank account. ”

Investors in Tencor can expect at least three future distributions. Imminently, the unbundling of the remaining 3-million Textainer shares (worth 258c per share), followed by a cash payment of 181c per share in June 2021 and the least 660c per share in June 2024 (based in current rand and doll

is likely to be further cash available for a final liquidation dividend.

Management have retained R117m for operating expenses to 2024. Incomprehensibly, they have also retained a further \$10m (or 106c per share) for “unforeseeable expenses”. It is difficult to comprehend what expenses of this size can be incurred if the asset is a bank account.

Against the above facts, it is necessary to objectively examine the performance of a Trencor management team that has continually failed to deliver share price has underperformed materially. Its primary asset, until recently, Textainer in the US, has likewise proved a spectacular disappointment

The price of Textainer (which until recently Trencor controlled) is 50% below the price when it listed in 2007. Over that period, the Dow Jones Ind doubled, the average US company outperforming Textainer by 300%. The Trencor share price itself underperformed.

The price is down about 50% over the past five years, well underperforming the JSE. Despite these shocking returns, the management team rewarded themselves handsomely. The CEO who fortunately does not own a single share in the company earned more than R6m in 2019, including an unnecessary retention bonus.

Despite the dividend flow that will eventuate over time, the delay in receiving this cash is caused by the inexplicable decision of management to provide multiple indemnities. While Trencor management describe the possibility of any claim under these indemnities as “remote”, the fact is that these indemnities are onerous and not properly explained. There is no mention of how the quantum of these indemnities was determined, nor why they were given if management cannot even identify the event that they are indemnifying against. There is an AGM in June, which can hopefully enlighten shareholders in this regard.

A further material issue is the Trencor board’s composition. On December 31 2019 the board consisted of seven white males, all over 60. There is not a single black or female person on either the board or in senior management. Trencor was already listed on the JSE when Nelson Mandela was released from prison in 1990. Shockingly, they have failed to transform in the past 31 years. It is incomprehensible that the big shareholders have allowed this situation to persist. The next AGM of Trencor is due to be held on instructive to see if big institutional investors allow this unconscionable position to persist.

My thoughts on this matter are simple. Buy the share. Capture the upside. But do not continue to support this board or the management, who ine support.



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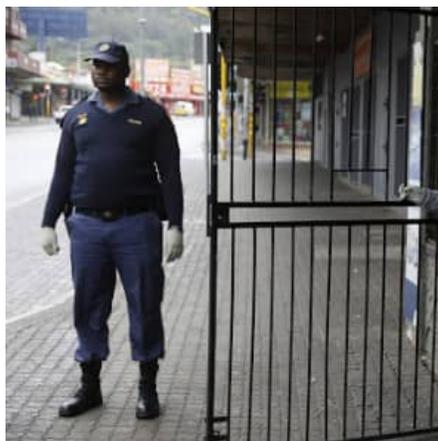
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