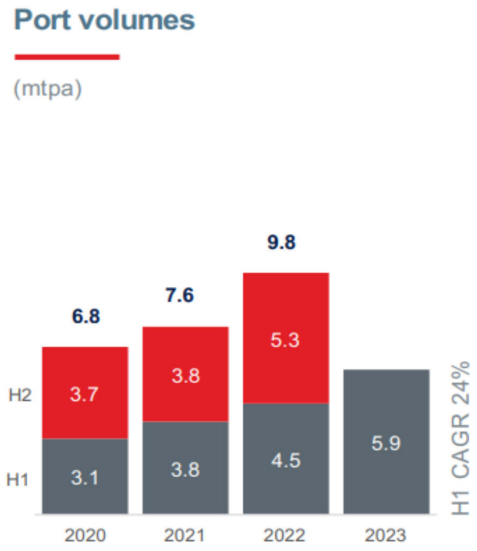
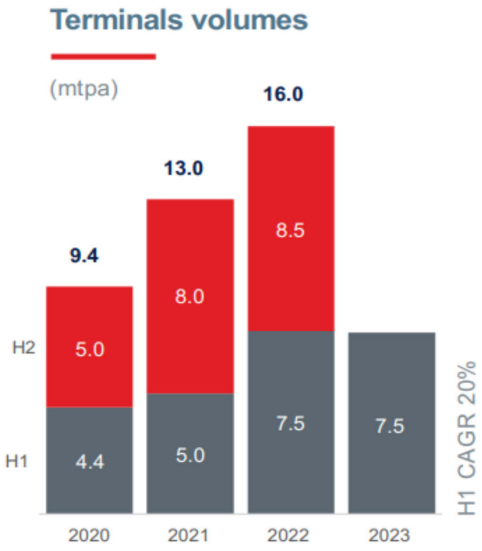
Founded in 1910 by the British couple Mr. and Mrs. Grindrod, this company has over a century of expertise in rail tracks, ports, and terminals. Grindrod offers a comprehensive range of cost-effective integrated solutions for commodities cargo flow, diverse freight solutions for the maritime, offshore, oil, and gas sectors, and ship agency services to customers across 41 countries spanning five continents. Moreover, the group provides tailored logistics solutions throughout the supply chain for the end-to-end delivery of diversified cargo, including freight forwarding, customs brokerage, and other related logistics solutions across the world. In brief, just think ships and trains.

Growth opportunities

Grindrod is benefiting from the promising economic growth in East Africa and the SADC regions. The rare public-private partnership (PPP) opportunity with Transnet for infrastructure upgrades is a game-changer, given Grindrod's expertise in rail and freight services. Transnet has identified 400 locations in need of upgrades with third-party assistance, and despite Transnet's financial challenges, progress on refinancing opportunities and a partial sale of loss-making corridors instills confidence in the successful tender process. This opportunity also requires private sector bidders with strong balance sheets. Grindrod, with its expertise and financial strength, is well-suited to undertake these infrastructure upgrades. Despite a net debt position of R241 million (excluding JV debt), Grindrod's current cash resources, totaling R3.5 billion with R1.6 billion utilized, provide financial flexibility.





Source: Company interim presentation (June 2023)

Results

Grindrod delivered an impressive 19% return on common equity (ROE) for the interim period, surpassing its 15% target and the cost of equity. This success translates into tangible benefits for shareholders, with a 34-cent base interim dividend, covering 2.1 times the 73-cent adjusted headline earnings per share (HEPS).

The strong ROE is primarily attributed to ongoing business restructuring and remarkable volume performance at the Maputo and Matola ports and terminals. Mozambique's economy is showing resilience and growth, registering a 4.7% increase in Q2 2023, despite elevated inflation at 5.7% during the same period.

Notably, Maputo port volumes surged by an impressive 30% to reach a record 5.9 million tons, while Matola volumes expanded by 10% to 4.2 million tons, even in the face of the impact of Cyclone Freddy. The Maputo terminal also stood out with a remarkable 38% increase in volume handling compared to the previous period.

This robust performance across Grindrod's port and terminal operations culminated in a substantial 28% growth in EBITDA, reaching a record R1.1 billion, with JV operations contributing significantly, representing 50% of the EBITDA.

Capital allocation

We are encouraged by the management's prudent approach to capital allocation, which reflects Grindrod's disciplined approach to investing. The company has set a high hurdle rate of over 15% for new projects and is resolute in not pursuing opportunities that fall short of this internal rate of return. Notably, Grindrod is committed to maintaining a base dividend, ensuring a ~40% payout ratio, unless compelling projects arise. This underscores management's commitment to creating and sustaining value for shareholders by prudently utilizing their investments.

Investment case:

Grindrod stands as a compelling investment opportunity with the company boasting a robust balance sheet and prudent management as its foundation. Moreover, foreign opportunities, coupled with the narrative of failing logistics infrastructure in South Africa, provide the company with an excellent platform for organic growth. The investment case becomes even more compelling when one considers how attractively it's valued; currently, Grindrod trades at lower multiples compared to other import terminal businesses in Africa. Given this combination of factors, we believe that Grindrod represents a strong medium-term investment opportunity.