Tiso Blackstar Group

Seasoned African investor at a wide discount

Investment companies

Tiso Blackstar Group (TBGR) is an Africa-focused, London-quoted investment company with a 10-year track record of investing in sub-Saharan Africa. The company's key investments in South Africa provide cash flows to invest in other African markets. The managers aim to take controlling stakes in their investments and to be active shareholders, investing in companies with exposure to consumer growth in the region, which is likely to be strong. With two key investments following a transformative deal in June 2015 underpinning the growth strategy and strong cash flow available at a considerable discount, TBGR is a potentially attractive vehicle to gain exposure to economic development in sub-Saharan Africa.

12 months ending	Total share price return (%)	Total NAV return (%)	JSE All-Share (%)	MSCI Emerging Markets (%)	FTSE All-Share (%)
30/06/12	(12.6)	(5.1)	(8.1)	(14.3)	(2.8)
30/06/13	4.1	5.8	3.1	6.6	18.3
30/06/14	(8.6)	(6.8)	9.2	1.8	11.8
30/06/15	0	1.8	(0.5)	3.8	2.0

Note: 12-month rolling discrete £-adjusted total return performance.

Investment strategy: Long-term African growth

TBGR is a permanent capital vehicle with a long-term investment horizon. Management seeks to use its experience and connections to provide investors with access to economic development in Africa. Given the relatively small number of listed companies, private companies are likely to play a larger role in the development of the region; TBGR aims to provide both capital and expertise to such companies, giving them direction and helping them take advantage of their opportunities. The investment portfolio is anchored by significant investments in the South African media and industrials sectors. The company holds the large majority of its value in four investments, in which it has control or significant influence.

Market outlook: Looking beyond near-term worries

Market sentiment towards Africa has been mixed over the last year, reflecting general emerging market concerns surrounding China's growth and the impact of US monetary policy. However, on a longer view (see page 13) growing prosperity in the sub-Saharan region is set to create a large middle class, providing a market for consumer goods and services. Specifically, TBGR appears well-placed to navigate near-term uncertainty and long-term growth opportunities given its seasoned management team and the established position and cash generation of its largest investment, TMG, the leading newspaper publisher in South Africa.

Valuation: Widest discount may narrow

TBGR's wide discount to intrinsic NAV provides a possible opportunity to invest in its well-established, cash-generative core portfolio. The basis of management's valuation of assets appears conservative and in the company's 10-year existence no asset has been sold below carrying value. The discount currently stands at 39.5%, well above the five-year average of 22% up to the announcement of the TMG acquisition in December 2014.

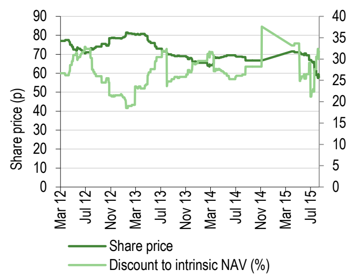
5 October 2015

Price	**52p**
Market cap	**£139m**
	ZAR21.3/£
Intrinsic NAV*	£230m
Intrinsic NAV per share	86p
Discount to intrinsic NAV	39.5%

*See page 8 for detailed explanation of Intrinsic NAV.

Yield	N/A
Ordinary shares in issue	266.7m
Code	TBGR
Primary exchange	AIM
AIC sector	N/A

Share price/discount performance



52-week high/low	73p	51p

Gearing

Gross*	10%
Net*	9.5%

*As at 30 June 2015.

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Edison profile page

Tiso Blackstar Group is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Strategy and investment approach

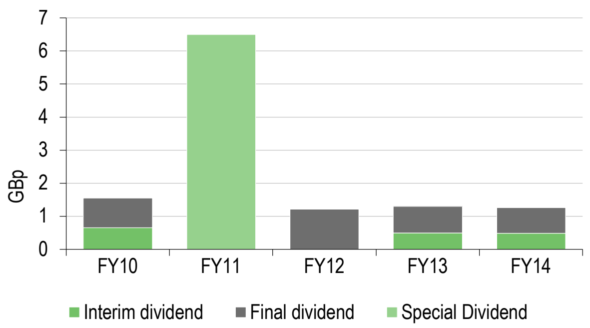
Tiso Blackstar (TBGR) invests in African companies in the media, financial services, FMCG, infrastructure and support services sectors with leading market positions and strong cash generation. The majority of investments will be in four to six large holdings where it has board control to influence strategy and growth.

Recent developments

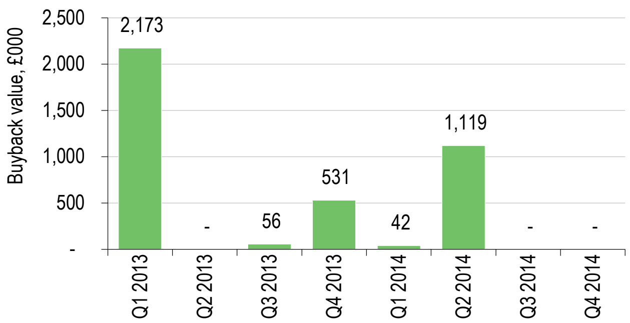
- 8 June 2015: Acquired 100% stake in TMG and 22.9% effective interest in KTH.
- 30 July 2015: announced intention to increase stake in Robor from 19.4% to 51% for ZAR29.6m (£1.5m) in shares.

Forthcoming		Capital structure		Fund details	
Final results	September 2015	Ongoing charges	None	Inv manager	Tiso Blackstar SE
	July	Net gearing	None	Inv adviser	Tiso Blackstar Group Proprietary
Year end	30 June (recently changed)	Annual mgmt fee	None	Address	Avantech Building 3rd Floor, St Julian's Road, San Gwann, SGN 2805 Malta
Dividend paid	See page 12	Performance fee	None		
Launch date	2006	Company life	Permanent	Phone	+356 2137 3360
Continuation vote	N/A	Loan facilities	ZAR1.05bn	Website	www.tisoblackstar.om

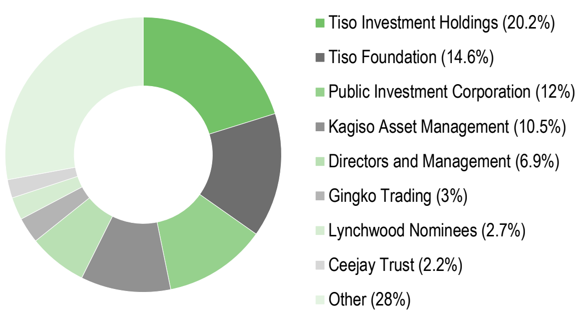
Dividend policy and history – conforming to June year end



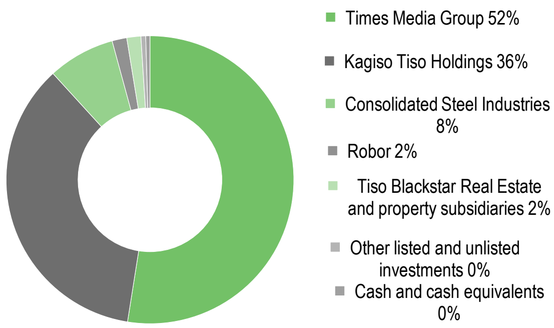
Share buyback history



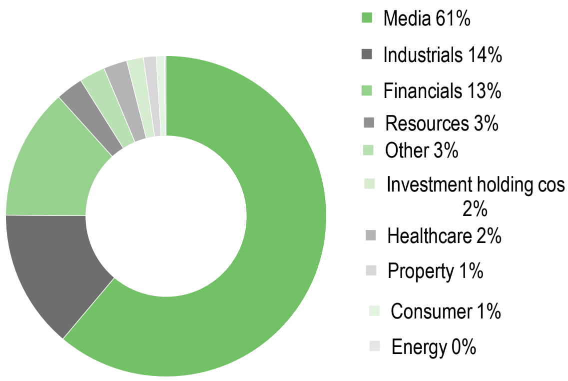
Shareholder base (as at 30 June 2015) – see p. 11 for shareholders' details



Distribution of portfolio excluding debt (as at 30 June 2015)*



Holdings by sector (as at 31 July 2015) including KTH's holdings by sector*



Source: Tiso Blackstar, Edison Investment Research. Note: *Takes account of KTH's sectoral holdings. Debt is equivalent to 9% of the portfolio.

Company profile: Established core plus growth

Tiso Blackstar Group (TBGR) seeks to provide investors with exposure to a portfolio of assets that are positioned for growth in sub-Saharan Africa based on a core of South African holdings. The current South African assets are well-established companies with stable cash flows that are diversifying into higher-growth markets elsewhere in Africa. TBGR is dual-listed in London and Johannesburg and intends to move to the main list of both exchanges (and transfer its registered office from Malta to London), providing transparency and high standards of governance, as well as access to private African companies in which investors would otherwise not be able to invest. In particular, TBGR seeks to present its investments transparently and to disclose valuation metrics to give confidence in their financial performance. The company's investment objectives and criteria are clear, bringing a longer-term investment horizon and more collaborative approach to investments than a private equity fund typically would. The company's management are significant shareholders, aligning their interests with those of other owners of the stock. The management and directors have significant experience investing in and running African companies, both at TBGR, where the management team has worked together for 10 years, and previously in their careers. The company's key performance metric is the growth in NAV per share and it aims to achieve a 15% CAGR in NAV per share in any three-year period. Costs are rigorously controlled with a target of <1.5% of NAV and cash constituting less than 25% of NAV, and the company aims to return to paying a dividend as soon as is practicable.

Company history

Tiso Blackstar is the name adopted by Blackstar Group after the recent acquisition of all the outstanding shares of TMG (formerly Times Media Group), a media company listed on the Johannesburg Stock Exchange, and 22.9% of Kagiso Tiso Holdings (KTH), a private South African investment company.[1] The recent transaction increased the intrinsic NAV of TBGR from £84m in December 2014 to £230m (ZAR5bn) in July 2015 and is explained in Appendix 2. The transactions also increased TBGR's reach by introducing highly respected African partners into the shareholder base and the board. Since then TBGR has significantly increased its stake in another company, Robor, details of which are given on page 8. Blackstar Group was formed by Andrew Bonamour in 2006 and listed on AIM as Blackstar Investors by reversing into a shell company with a mandate to invest in South African BEE companies.[2] Blackstar Managers was employed as the investment manager, also set up by Mr Bonamour. In 2009, after the global financial crisis struck, Blackstar Investors bought Blackstar Managers, bringing the management function inside the company and reducing the management fee. The name was subsequently changed to Blackstar Group and a secondary listing on the JSE's junior market, AltX, was established in 2011.

Investment policy

The company's investment policy is to generate capital and income returns by investing in listed and unlisted African companies (particularly focused on South Africa) with an investment horizon that can be more than 10 years. TBGR intends to have four to six majority investments making up the bulk of the portfolio to have influence over strategy and growth, and to ensure transparency of investees' earnings. The company aims to take advantage of the opportunity provided by Africa's growing middle class by continuing to invest in five key sectors that will benefit from the

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[1] Details of the history of those two investments can be found in the Investments section.

[2] BEE or Black Economic Empowerment was a policy of the post-apartheid government intended to distribute wealth across the South African population, especially to those who were disadvantaged under apartheid. It has now been widened to Broad-Based BEE and includes employment (direct and indirect), ownership, management and development requirements.

demographic change: media, infrastructure, support services, financial services and fast-moving consumer goods (FMCG). Investment selection criteria for investee companies are to include:

- a leading market position;
- highly cash-generative;
- strong and aligned management;
- historic growth, as well as the ability to pursue growth in other African countries;
- operate in one of five key sectors: media, services, infrastructure, financial services and consumer;
- a minimum investment of £10m, ideally £25-50m;
- at least a 50% stake or path to control; and
- TBGR's own management team will seek to influence investee companies' strategies and become actively involved.

Once invested, TBGR will hold assets indefinitely, but is also prepared to exit opportunistically.

Investments

The current portfolio is dominated by the 100% holding in TMG, a leading South African media group, which makes up 52% of the portfolio's intrinsic NAV. The investment in TMG is exemplary of TBGR's strategy.

TMG – substantial Southern African media player

Blackstar first acquired an 11.5% interest in TMG in September 2012, having previously had an interest in the company through a stake in an investment company called Mvela Holdings. At the same time as the acquisition of the first 11.5%, Andrew Bonamour was appointed to TMG's board and assumed the role of CEO in January 2013 to drive the repositioning of the company. The stated aim was to use TMG's cash flows to reduce its debt, to divest non-core businesses, move further into digital media and to monetise the large amount of content owned by the company. Around ZAR100m of costs (annualised) were taken out of TMG between January and June 2013, mainly by reducing costs at TMG's head office. Some of the printing subsidiaries have been moved out of TMG and report as part of TBGR's industrial investments.

TMG, formerly Times Media Group, was the second largest media company in South Africa by market cap until it de-listed, when TBGR acquired the remainder of the company. It owns several of South Africa's most widely read newspapers including The Sunday Times, The Times, Financial Mail, the Sowetan and Business Day, as well as their corresponding websites. Its broadcasting and content division comprises television and radio broadcast businesses; music production, licensing and publishing; television production and distribution and mobile digital solutions (software, apps and analytics). The retail solutions business includes Hirt & Carter, which produces marketing content (photography) and provides marketing management software services; and UniPrint, which is a printing and services business focused on FMCG marketing (labels and advertising). Since TBGR first invested, TMG's business portfolio has been actively managed and the books, cinema and mapping businesses, as well as other printing businesses, have been divested. Exhibit 2 shows acquisitions and disposals in the period.

Exhibit 2: TMG acquisitions and disposals under TBGR leadership

Year	Month	Acquisition	Disposal
2012	September	Remaining shares in Avusa acquired.	
2013	May		51% Map It stake sold for R37m, 50% Three Groups Cinemas stake sold for ZAR18m.
	June	Remaining 50% of BDFM publishers (including I-Net Bridge) bought for ZAR20m.	51% interest in Monte Cinemas sold for ZAR20m.
	July		Struik Christian Media sold for R10m, 40% interest in Warner Music Gallo Africa sold back to WMGA for ZAR13m.
	August	Typesetting and Repro Services bought.	Plant and equipment from web printing sold for ZAR59m.
	September	32.3% interest in Ghanaian company Multimedia Group acquired for ZAR144m.	
	October		East London properties sold for ZAR10m.
	November	Bates Printing bought for ZAR70m, 50% of Acceleration Media bought for ZAR4m.	51% share in Mega Digital sold for ZAR4m, I-Net Bridge sold to MacGregor BFA (Naspers subsidiary) for ZAR113m, 51% interest in Random House Struik sold for ZAR34m, Nu Metro Cinemas sold for ZAR75m.
	December	65% interest in M-Power FM, rebranded Rise FM and relaunched on 3 March 2014.	Exclusive Books sold for R88m, Ponte advertising site sold for ZAR15m, Van Schaik Bookstore sold for ZAR15m.
2014	January	60% interest in Vuma FM.	
	March	50% of Smartcall Technology Solutions.	
	May		51% stake in Boo Media sold for ZAR3m.
	June	Ferroprint bought by UniPrint for ZAR25m, 49% interest in Kenyan company Radio Africa.	Map Studios sold for ZAR9m.
	July	Future publishing acquired (publishing and events), 30% interest in Capacity Holdings for ZAR5m.	New Holland Publishing's Australian and NZ operations sold for c ZAR20m.
	August		Bedfordview property sold for ZAR60m.
	September	30.7% minority holding in Learning Channel bought out.	PA Junction & PA Group Media sold for ZAR7m, Industria property sold for ZAR5m.

Source: Company reports

In short:

- the cinema business and books division were sold;
- underperforming printing businesses were sold and earnings-enhancing businesses bought;
- non-core advertising and property assets were sold;
- the broadcasting division was diversified into radio and abroad into Ghana and Kenya. Further radio broadcast investments in Namibia, Nigeria and Uganda are anticipated; and
- new digital media expertise was acquired in the form of Acceleration, SmartCall and Capacity, and TMG is also expanding into events.

Now that TMG's repositioning is complete, no further major acquisitions or disposals are planned, but there has been continued focus on operational performance: three new executives were hired in July 2015 to head the digital, group editorial and broadcasting divisions, the first coming from Media24, TMG's biggest media competitor.

There was a year-on-year decline of ZAR60m (15%) in EBITDA on broadly flat revenues (see Exhibit 3), ZAR33m of which was due to restructuring costs in the media division as the business is realigned from print to a digital-first model. Other factors included investment in new radio stations in South Africa, as well as broadcast businesses in other parts of the continent and the managed wind-down of the physical home entertainment business (DVDs), which incurred a stock write-down, as well as an operating loss. Positively, both Hirt & Carter and UniPrint in the printing and retail solutions division perfomed well, increasing EBITDA by 16% and 23% respectively.

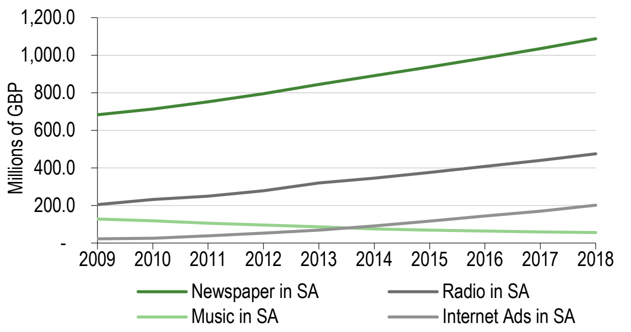
Exhibit 3: TMG revenue and profit for the year to 30 June 2015

ZARm	FY15	Margin (%)	FY14	Margin (%)
Revenue	3,946		3,984	
EBITDA	344	8.7	404	10.1
EBIT	228	5.8	297	7.5

Source: TBGR reports

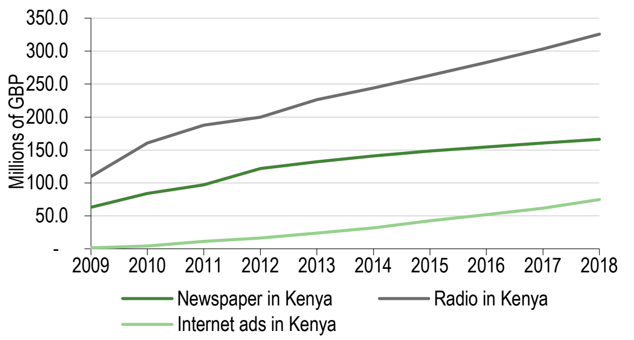
Economic headwinds in South Africa in particular make the business environment difficult in the near term, but if the company can navigate the transition to digital successfully, the long-term outlook for newspaper revenue, both advertising and subscription, radio and internet in South Africa and Kenya is better: literacy, connectivity and spending power (and therefore advertising spend by suppliers) are rising. Exhibits 4 and 5 show South African and Kenyan media revenue trends according to data from PWC and Ovum. TMG has a leading position in radio and newspaper in both countries and is developing its digital media presence rapidly.

Exhibit 4: Revenue estimates for selected media markets in South Africa



Source: PWC and Ovum, September 2014

Exhibit 5: Revenue estimates for selected media markets in Kenya



Source: PWC and Ovum, September 2014

Through TMG, TBGR now has a significant media portfolio in South Africa, which has already begun to provide the basis for growth into other parts of the continent. Two investments, 49% of Radio Africa Group (RAG) in Kenya and 32% of Multimedia Group Ghana (MGG), have met with initial success, although the weak Ghanaian cedi has hampered MGG to some extent. Further investments are being made in two Ugandan radio stations and entry to the Nigerian and Namibian radio sectors is also being explored.

To summarise, in line with TBGR's investment strategy, TMG is a leading South African media business with strong cash generation and exposure to consumer markets through media, FMCG and support services. Although TBGR's stake was initially relatively small, strategic control was established early and used to redirect TMG. Three years since the initial investment, the business has been focused and cash generated by TMG has been deployed to support TBGR's broader strategy, notably the diversification into Ghana and Kenya and to pay down the debt raised to acquire the company. Management continues to invest in the company and is addressing the need to adapt its business model from print to digital. TMG comprises 52% of TBGR's portfolio.

Kagiso Tiso Holdings (22.9% owned)

Kagiso Tiso Holdings (KTH, 36% of TBGR's intrinsic portfolio NAV) is one of South Africa's largest black-owned investment holding companies with its roots in Tiso Group and Kagiso Trust. Tiso Group was established in 2001 by David Adomakoh (chairman of TBGR) and Nkululeko Sowazi (a director of TBGR) and was one of South Africa's leading black-controlled and managed investment companies. It was 54% owned by management and staff, but gave 18% of its shares to a foundation established by its founders for the benefit of disadvantaged South African youth, the Tiso Foundation. Other shareholders included four major South African financial institutions: Standard Bank, Investec, Rand Merchant Bank and Liberty Group, which owned 27% between them. Kagiso Trust was founded in 1985 (by Archbishop Desmond Tutu among others) to help eradicate poverty in South Africa. It established Kagiso Trust Investments (KTI) to generate long-term financial support for its projects. KTI and Tiso Group effectively merged on 1 July 2011 by selling their holdings into a new entity, KTH.

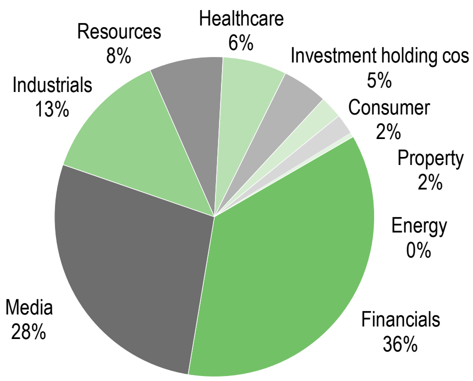
One of the charitable foundations associated with the two parent companies, Kagiso Trust, makes up 37% of the shareholder register, with Remgro owning a further 34.7%. Remgro is one of the JSE's biggest companies and the biggest JSE-listed investment company; having it on the share register could be viewed as positive for KTH's (and TBGR's) regional reputation. TBGR applies a discount of 9% to KTH's own intrinsic NAV to account for head office costs and capital gains tax liability, which may be incurred on realised assets, giving a value at 30 June 2015 of £92.9m.

The company invests in a wider range of sectors than TBGR itself, but shares some investment criteria: looking for companies with strong management teams and aspiring to become active shareholders through board membership. KTH invests in high-growth or highly cash-generative companies in Africa. Like TBGR, the directors take a long-term view and will hold investments through economic cycles. Its intrinsic NAV (calculated in a similar way to TBGR's) was ZAR9.4bn at 30 June 2015, making it one of South Africa's largest BEE investors, and its strong balance sheet and history may provide it with a competitive advantage in sourcing deals.

A breakdown of KTH's investments by sector is shown in Exhibit 6, with financials and media together accounting for over 60% of intrinsic value. Larger investments include radio company Kagiso Media (broadcasting, 100% owned); South African financial services company MMI (7% owned), Fidelity Bank Ghana (retail banking, 15%), Exxaro (mining, 4.2%), Actom (electro-mechanical equipment manufacture and repair, 18.6%) and Kagiso Asset Management (50.1%). The portfolio is focused on South Africa, but includes Nigerian and Ghanaian investments, and the directors intend to grow the ex-South African exposure further. 39.2% of the portfolio is listed.

KTH uses the same standards as TBGR to calculate its own intrinsic NAV (see page 8) and applies a 9% discount to itself after having valued its investments. TBGR applies a further 18% discount to account for head office costs and the potential capital gains tax liability that could arise on the sale of assets.

Exhibit 6: KTH's investments by sector at 31 July 2015



Source: Company information, Edison Investment Research

KTH is expected to distribute a minimum dividend of 30% of consolidated post-tax profits each year. The chairman of KTH, Nkululeko Sowazi, and one of its non-executive directors, David Adomakoh, are non-executive directors of TBGR. They and the other directors of KTH sit on the boards of 10 JSE-listed companies and hold numerous other directorships.

Consolidated Steel Industries (100% owned)

Consolidated Steel Industries (CSI, 7.5% of the portfolio's intrinsic NAV) is comprised of Global Roofing Solutions (GRS) and Stalcor (50.1% holding). Stalcor is South Africa's third-largest supplier of steel and aluminium and GRS is one of the continent's largest manufacturers of metal roofing. Almost 40% of GRS's revenues came from outside South Africa in 2014 and it has operations in Botswana, Ghana, Mozambique, Namibia and Zimbabwe. Both companies have benefited from TBGR's expertise in restructuring their operations, making earnings-accretive acquisitions and applying strategic direction. In FY15 CSI managed to beat its budget despite a challenging economic environment, with annualised sales growth of 31.8%.

Robor (19.4% owned)

Robor (1.7% of the portfolio's intrinsic NAV) manufactures steel tubes and pipes used in the construction, mining, energy, automotive and utility sectors. The company recently entered the telecoms and electricity markets with the acquisition of Tricom Structures, which designs, develops and manufactures steel structures such as masts and pylons. 20% of Robor's revenues are generated outside South Africa; Robor generated a profit of £3.8m before tax and extraordinary items in the year to 30 September 2014. TBGR is in the process of increasing its stake in Robor from 19.4% to 51% (subject to competition commission approval) for £1.5m in new TBGR shares at intrinsic NAV of ZAR17 or 85p each, representing a significant discount to the company's intrinsic NAV. TBGR's controlling position is expected to facilitate Robor's African expansion and its shift from being a commodity supplier to a value-added engineering company supplying the African infrastructure sector. TBGR's reported intrinsic NAV as at 30 June 2015 included in Exhibit 7 shows Robor's value before the increase in the shareholding to 51%; it will constitute 2.6% of TBGR's portfolio when and if the deal is done.

Other investments

TBGR has divested its other subsidiaries and investments, including an asset management company, a special opportunities fund and a real estate company, to pay down debt from the TMG and KTH acquisitions. This leaves it with four core investments in its chosen sectors. Further opportunities are frequently presented to TBGR, which is not only well networked throughout its target region, but also has permanent capital, unlike a private equity company, allowing for longer-term flexible investments, and is able to invest in smaller companies than PE companies typically do. Its investment in KTH is also a potential source of new opportunities given its broad portfolio.

A summary of intrinsic NAV is shown below.

Exhibit 7: Intrinsic NAV as at 30 June 2015, £m

Times Media Group	133.0
Kagiso Tiso Holdings	90.5
Consolidated Steel Industries	19.1
Robor	4.2
Tiso Blackstar Real Estate and property subsidiaries	4.0
Other listed and unlisted investments	1.4
Cash and cash equivalents	1.2
Access facility	-23.0
Intrinsic NAV	230.4

Source: Company data

TBGR's valuation approach

Intrinsic net asset value

TBGR calculates the value of its assets depending on several variables in accordance with international financial reporting standards (IFRS) and International Private Equity and Venture Capital (IPEVC) guidelines, the former taking precedence in cases of conflict. A detailed account of these is beyond the scope of this report, but in summary, methods and factors taken into account include those set out below.

Available market prices

Quoted securities are ascribed the value given by the closing bid price at the date of valuation, usually the end of the reporting period. Discounts are applied only where there are restrictions on the sale of the securities. BEE lock-ins fall into this category and discounts vary according to the length of lock-in and option valuation methods are used in more complex cases.

Price of recent acquisition

A private investment may be held at the acquisition price if the directors deem it recent enough. Third-party offers may be used but are typically only indicative because of conditions in relation to the possible transaction and the relative strengths of the parties, which may both affect the price.

Capitalisation of maintainable earnings

Where a company has stable long-term cash flows, EV/EBITDA or EV/EBIT multiples comparable to its peers may be used. In some industries accepted valuation benchmarks are applied.

Discounted cash flows (DCF) of the underlying business or from the investment

A trading business's free cash flows (net operating profit after tax less operating expenses, capital expenditure and working capital) are discounted according to the weighted average cost of capital (WACC). Alternatively, where the cash flows to TBGR from the investee company are contractually agreed, the same method is applied to those.

Net asset value (NAV)

Used for non-trading businesses whose value is in the underlying assets (such as real estate) rather than earnings, or where the methods above result in a value below NAV (ie where NAV underpins the value of the business). A similar method is applied to holdings in funds, but may be adjusted if the cash TBGR would receive by redeeming the holding would be different from the attributable portion of the fund's NAV, or would be affected if the fund had to liquidate its holdings.

Discounts and premiums

TBGR applies discounts where appropriate for **minority holdings**, **illiquid holdings and holdings in small companies**. Minority discounts are inherently present in market multiples and so are usually applied to DCF valuations or the price of a recent investment. A **control premium** may be applied to investments valued according to market multiples if (and depending on the extent to which) TBGR controls the investee business.

On top of these, KTH applies a further **investment holding company discount** to itself of 9%, which takes account of similar but listed companies' discounts to NAV, debt and head office costs, among other factors. Moreover, TBGR discounts its holding in KTH by another 9%, increasing the overall discount to 18% as a minority holder of a potentially illiquid asset.

Directors and management

The directors and management have extensive experience of running and investing in African businesses. Their ability to identify promising investee companies and to contribute to their commercial success is a key feature of TBGR's investment case.

David Adomakoh, non-executive group chairman: Mr Adomakoh was a director of Chase Manhattan in London, head of Chase Manhattan Bank Southern Africa and head of Africa Corporate Finance at JPMorgan. He is currently a non-executive director of Travant Capital Partners, a Nigerian private equity fund, Nedbank Group, Vanguard Group (Ghana) and KTH. He and Mr Sowazi founded Tiso Group and the Tiso Foundation and own Tiso Investment Holdings, a major shareholder in TBGR. He holds a diplome de langue et de civilisation from the Sorbonne and a BSc from the London School of Economics.

John Mills, non-executive group deputy chairman: Mr Mills is a qualified solicitor in England and Wales and a director at Maitland Group, which administers c $70bn of private client assets, as well as $45bn for fund management clients. He is also on the investment committee of Cofinance Group, a Europe-based real estate investor. He has extensive experience in structuring private equity investments and was educated at the University of Stellenbosch in South Africa.

Nkululeko Sowazi, non-executive director: Mr Sowazi is the chairman of KTH and co-founded Tiso Group with Mr Adomakoh. He is a non-executive director of JSE-listed Grindrod (c £500m market cap) and formerly of Litha Healthcare (Blackstar sold its stake to Paladin Labs over 2012 and 2013). He is also a non-executive director of Actom Holdings and Idwala as well as a variety of not-for-profit organisations. He has a BA and MA from UCLA.

Andrew Bonamour, non-executive director: Mr Bonamour founded Blackstar in 2006 and is CEO of TMG and Blackstar. He held senior roles in investment banking, principal investment and corporate finance at Brait, a Luxembourg- and JSE-listed private equity company with a market capitalisation of c £3.5bn. He holds a degree from the University of South Africa.

Marcel Ernzer, non-executive director: Mr Ernzer is an independent consultant in the financial sector. He trained at Price Waterhouse Luxembourg and was an auditor there, before setting up and managing Unico Financial Services, owned by Credit Agricole, and five other leading European banks. He is a director of Insinger de Beaufort, a private bank, Pro-Funds SICAV, the Italy-Luxembourg Chamber of Commerce and several private commercial companies.

Richard Thomson Wright, non-executive director: Mr Thomson Wright was a fixed income trader at Kidder Peabody, Bank of Amercia and SG Warburg before running capital protected funds for Credit Suisse Private Bank. He then worked for a private hedge fund trading futures and equities. He is the resident Maltese director for the company and holds Maltese and American citizenship. He graduated from Cornell University.

Shareholders

Tiso Investment Holdings (TIH), 20.2%: David Adomakoh and Nkululeko Sowazi founded the company in 2001 and its investment holding company, Tiso Group, merged with Kagiso Trust to form KTH. TIH supports the Tiso Foundation, which Adomakoh and Sowazi also founded – they own 100% of TIH.

Tiso Foundation, 14.6%: the Tiso Foundation is a self-sustaining public benefit organisation that aims to help young South Africans through academic and leadership development. Along with TIH, Tiso Foundation was a founding shareholder in Tiso Group and still holds 7.5% of KTH.

Public Investment Corporation (PIC), 12%: PIC is owned by the South African government and invests funds on behalf of public sector entities. The Minister of Finance is the shareholder representative for these and each mandate is set by the relevant entity and approved by the Financial Services Board. PIC manages assets worth over ZAR1.6tn (£79bn).

Kagiso Asset Management, 10.5%: 50.1% of Kagiso Asset Management is owned by KTH and the remainder by its staff. It is a specialist fund investment management firm that runs seven retail funds with ZAR2.2bn under management (£109m) at 31 July 2015 and four institutional funds with ZAR36.3bn under management (£1.8bn) at 30 June 2015.

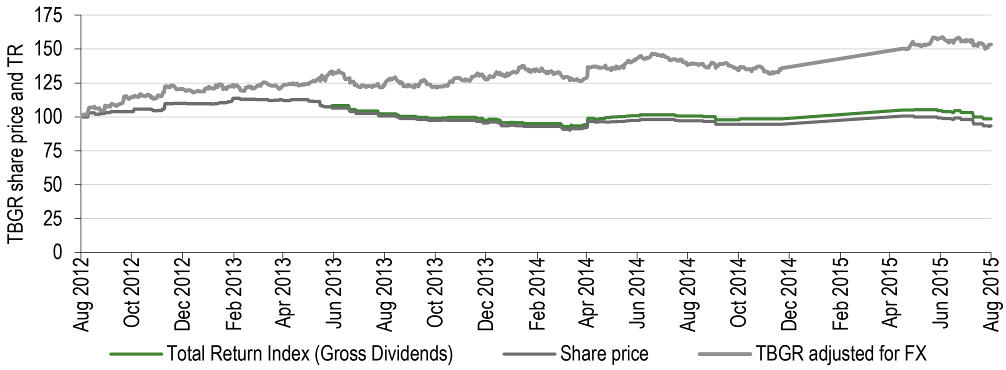
Other directors and management, 6.9%: As well as the holdings through TIH mentioned above, Andrew Bonamour holds 3.3% of the shares, with other directors and management hold a further 3.6%.

The remaining 35.8% of the shares is the free float.

Performance: Positive rand returns dampened by FX

TBGR's shares were suspended from AIM and the JSE's AltX from 8 December 2014 until 30 April 2015 during the offer period for TMG and pending a potential move to the Main List of both exchanges. Total return over the three years to 31 July 2015 was +47% in rand terms, although the currency adjustment means it was slightly negative in sterling at -1.6%. The chart below shows the AIM share price and sterling total return, as well as an adjustment to show how the company performed in rand terms (as if holding the AltX shares).

Exhibit 8: Share price performance and total return

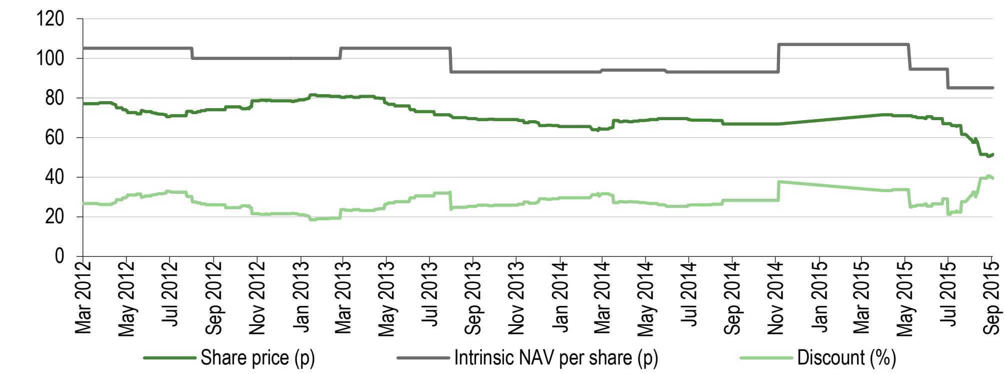


Source: Bloomberg

Discount: Trading at the wider end of historical range

As TBGR's investee companies are private, management calculates intrinsic NAV for the interim and annual reports. Listed investments are valued using bid prices and unlisted investments are valued by the directors using DCF methodology, as described above. The directors are cautious in their valuations and have a track record of selling private investments at prices above the calculated intrinsic value (for instance, Cadiz Holdings was attributed an intrinsic value of £1.16m at 31 December 2014, but was sold for £2m shortly thereafter). The current discount of 39.5% is above the historical average over the five years until the final TMG acquisition of 22%. Given the strengthening of the portfolio and removal of a layer of ownership between TBGR shareholders and TMG, there is scope for it to narrow further.

Exhibit 9: Share price discount to intrinsic NAV over three years (%)



Source: Bloomberg, Tiso Blackstar, Edison Investment Research

Capital structure

The company has one class of shares with 267m shares in issue and has used share buybacks in the past to manage the share price discount to NAV. The buyback limit was formerly a specific number of shares, equivalent to 14.99% of the total. It is expected that the board may seek similar authority in future. Under the AIM Note for Investing Companies, TBGR is treated as an operating company because of the proportion of its assets made up by TMG and the crossover between the management of the two companies. This has no practical effect on the company's investment strategy, but may mean that some future investments require shareholder approval.

TBGR may use gearing and so may its investee companies. There is no set limit to gearing for the company or its investees, but the board reviews gearing levels four times a year. In terms of TBGR's accounts, the treatment continues to be as an independent entity, so certain subsidiaries (including the main investments) are accounted for at fair value through the profit and loss account, as opposed to consolidating and equity accounting. Net debt as a proportion of equity values in the main investments at the year-end was 34% for TMG, 12% for KTH, 5% for CSI and 15% for Robor. At the TBGR level, year-end debt stood at ZAR440m (10% of intrinsic NAV), a reduction of ZAR94m from the time of the TMG/Tiso transaction (see page 17) reflecting a ZAR60m dividend from TMG and disposal proceeds. TBGR aims to have debt reduced to ZAR330m by 31 December 2015.

Dividend policy and discount management

As noted above, for as long as the acquisition financing remains in place, before a declaration of a dividend, written consent is required from RMB and Standard Bank, as referred to on page 6, so the company is concentrating on paying down debt. Dividends have been paid historically (see Exhibit 1), including a special dividend following a disposal. The board has also used its mandate to buy back shares in the past to manage the discount to NAV and increase NAV per share. Since January 2013 TBGR has purchased 5.3m of its own shares, 6% of the total number in issue.

Peer group comparison

TBGR is not classified as an investment company according to AIM rules and neither the Association of Investment Companies in the UK (AIC) nor the Closed-End Fund Association in the US (CEFA) lists any Africa-specific listed investment companies. The peers of its largest investee company also vary widely in size and valuation, so comparison is difficult. However, as Exhibit 10 below shows, TMG's P/E ratio before the 8 June 2015 acquisition by TBGR was at the bottom end of the range, even allowing for the 10% premium paid by TBGR for the remaining shares.

Exhibit 10: JSE-listed media and printing companies at 31 December 2014

	Mkt cap £m	Revenue £m	Dividend (p)	EPS 2014 (p)	P/E 2014 (x)	EV/revenue 2014
TMG	176.0	199.8	3	15.6	10.6	0.8
Naspers	36,262.1	3,654.6	23.5	70.9	84.6	10.3
Caxton and CTP	410.9	269.5	2.75	5.2	15.4	1.4
African Media Entertainment	41.3	12.7	17.5	26.2	14.0	2.8
Average	**1,063.6**	**1,034.1**	**8.6**	**29.5**	**31.2**	**3.6**

Source: Bloomberg. Note: Prices as at 31 December 2014.

For TBGR as a whole, although neither is an ideal comparator, we have looked at the LPX Composite Index, covering all global listed private equity companies above a certain level of liquidity, UK Global Emerging Market Investment Companies and UK Private Equity Investment Companies. These had an average discount to NAV of 12.2%, 11.5% and 17.9% respectively versus 39.5% for TBGR.

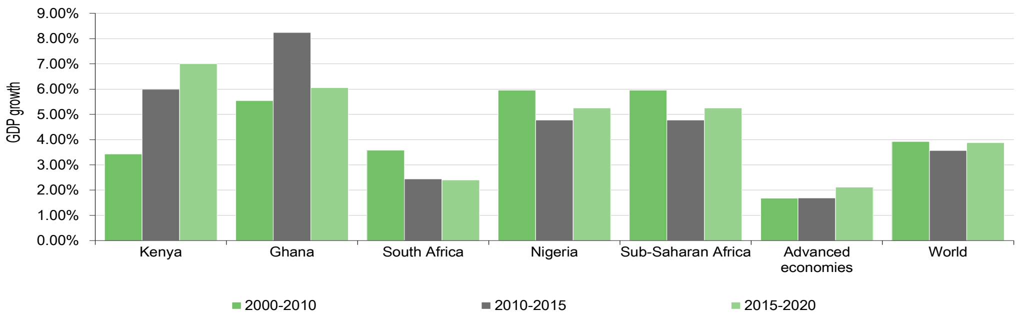
Appendix 1

African market outlook: Continental shift

The challenges of African development are well-documented: conflict and corruption have affected almost the whole continent and the latter persists in much of it.[3] Poor infrastructure is also a factor: only 24% of people in sub-Saharan Africa have access to electricity and manufacturers experience 56 days of blackouts a year on average,[4] road and rail networks are generally poor quality and limited given the size of the region.

However, Africa has potential for substantial and sustained economic growth given its reserves of minerals, land and people. The potential demographic dividend is the main reason for the positive GDP projections enjoyed by almost all sub-Saharan African countries. If governments in the region can facilitate improved governance and infrastructure, there should be good opportunities for well-managed private sector companies to grow and generate good returns.

Exhibit 11: Compound annual GDP growth, past and predicted, selected countries



Source: IMF WEO database, Edison Investment Research

The World Bank projects that the regional population will grow by 438 million people between 2015 and 2030 and that only 3.5% of the 1.4 billion sub-Saharan Africans in 2030 will be over 64. By comparison, in 2030 China is expected to have slightly fewer people than sub-Saharan Africa and 16% of them will be over 64. Exhibit 11 highlights how Sub-Saharan growth in the economically active age bracket (15-64) substantially outpaces OECD countries in World Bank projections; this is the source of the potential demographic dividend in the region. Importantly, Africans are set to be healthier, better educated and richer than previous cohorts: Sub-Saharan African countries tend to score low on the UN's Human Development Index, but they are improving quickly.[5]

By adding to both the labour force and the consumer population, these demographic trends contribute to positive GDP predictions for the region and the diversification of the economy away from extractive industries. New markets are appearing and, as a consequence, Nigeria, Ghana and Kenya have had to rebase their GDP estimates in the last three years to take account of industries that were not previously included. In Nigeria's case these included telecoms, information technology, e-commerce, film production, airlines and music, all largely focused on consumers.

A wide range of studies shows evidence of the rise of a middle class in sub-Saharan Africa: in 2013 67% of Kenyan adults used formal financial services, up from 27% in 2006, an increase of more than 12 million people (FinAccess Report 2013) and in 2014 Nigeria had 188m mobile phone lines

[3] African countries score badly on the Global Corruption Index, with only four countries making the top 50. Note that the index measures perceptions of corruption rather than corruption itself.

[4] World Bank: Factsheet: the World Bank and Energy in Africa.

[5] United Nations Development Programme: Human Development Index, which measures health, education, standard of living and wealth.

compared with 32m in 2006 (NCC). These trends seem likely to continue: McKinsey[6] estimates that by 2020 there will be 128m households in sub-Saharan Africa with income over $5,000 a year, against 84m in 2008 and Euromonitor expects pan-African consumer spending to reach $2.1tn in 2020 versus $1tn in 2010, a CAGR of 7.7%. Consumer businesses are taking advantage of this growth already; South African supermarket group ShopRite has 307 shops in other African countries and a competitor, Pick ‘n Pay, opened 127 new stores across Southern Africa in FY15. Interestingly, African consumer habits are developing differently from other parts of the world. For instance, mobile and internet banking (such as M-Pesa in Kenya) have seen rapid uptake by people who previously had no bank account at all and mobile internet connections have arrived before fixed-line access in most houses in Nigeria. The telecommunications network has developed better than other infrastructure, especially in South Africa; although fixed-line networks are limited, mobile telephony and the internet have good coverage of towns in sub-Saharan Africa and growing 2G and 3G networks. The number of internet users in Africa overtook the US last year and still only 26.5% of Africans are connected.[7]

Exhibit 12: Regional development data

Country	GDP CAGR 2015-20e (%)	GDP per capita, 2014 (US$)	CPI 2014, y-o-y	Unemployment 2013 (%)	Pop. 2014 (m)	Pop. CAGR, 2015-20 (%)	Household final consumption expenditure growth, 2013 (%)	Mobile subscriptions, 2009-14 (CAGR)	Mobiles per 100 people, 2014
South Africa	4.8	6,483	5.3	25	54.0	1.6	1	10.5%	150
Kenya	11.0	1,416	6.0	9	42.9	2.6	8	8.6%	74
Ghana	8.3	1,474	17.0	5	26.2	2.6	8	12.4%	115
Sub-Saharan Africa	7.1	1,796	6.2	8	963.3	2.6	10	20.5%	71
OECD	4.4	38,400	1.3	8	1269.7	0.5	1	1.9%	110

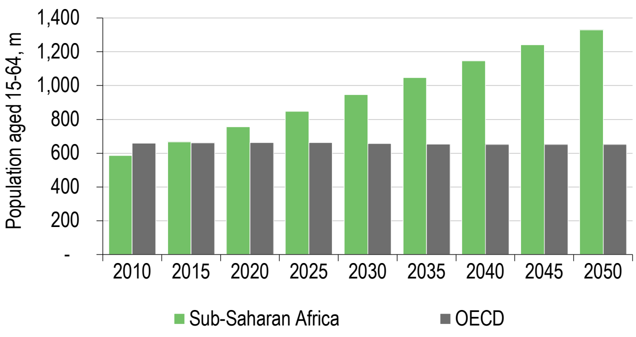
Source: WEO 2014 statistics, World Bank DataBank, International Labour Organisation

The development of domestic consumption should lessen the region’s reliance on raw materials exports by providing a larger domestic market. The growth in private consumption will also drive corporate demand; sectors such as construction, telecoms and banking in particular, as well as their suppliers, are likely to benefit.

[6] McKinsey Global Institute, *Lions on the move: The progress and potential of African economies*, June 2010.

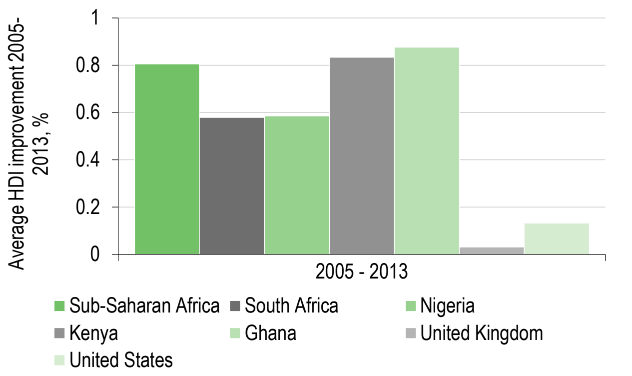
[7] Internet World Stats.

Exhibit 13: Comparing population growth



Source: World Bank, populations of Sub-Saharan Africa and OECD countries aged 15-64

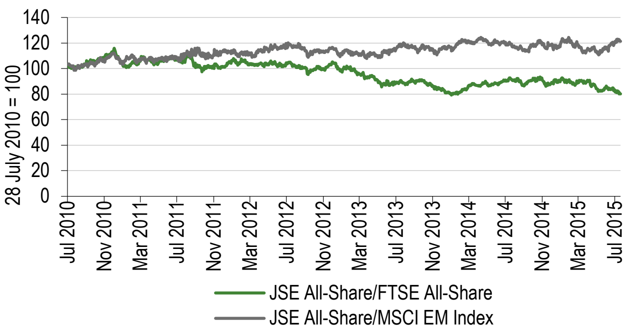
Exhibit 14: Comparing human development



Source: UN Human Development Index, Edison Investment Research. Note: Average annual HDI score gain, Sub-Saharan Africa and selected countries.

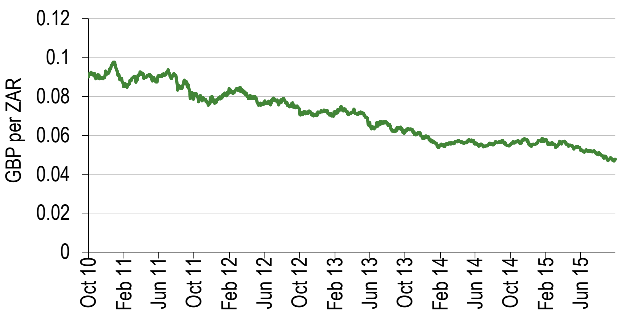
TBGR's portfolio is currently heavily geographically weighted towards South Africa: the region's most advanced economy and the one with the highest GDP per capita. Although it invests in private as well as listed companies, they operate in the same economic climate, so we have used the JSE All-Share for illustration.

Exhibit 15: JSE All-Share relative to MSCI Emerging Markets and FTSE All-Share



Source: Bloomberg. Note: Adjusted for FX.

Exhibit 16: Rand/sterling exchange rate

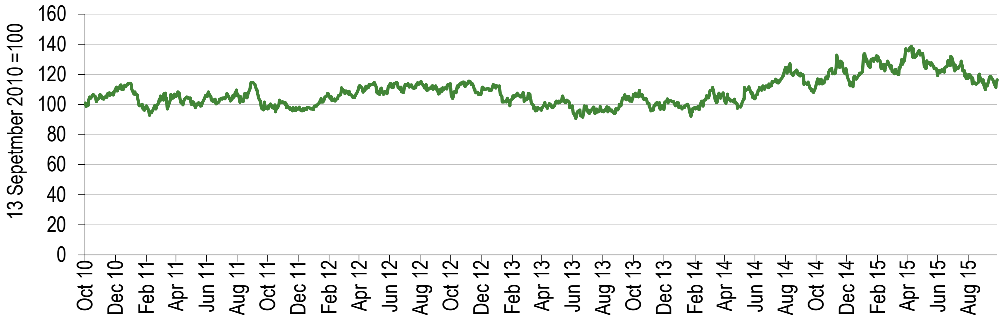


Source: Bloomberg

For an investor in the rand-priced AltX shares, TBGR has performed well but the exchange rate has held it back in sterling terms: the rand has depreciated against the pound by over 50% since January 2011, reflected in the AIM shares' performance. This has partly been driven by the commodity cycle: mining exports averaged 28.7% of all South Africa's exports in 2005-13 and the Bloomberg commodities Index has halved since March 2011. Continued concerns about the Chinese economy are likely to keep pressure on emerging market currencies and major commodity exporting nations. However, the failure to invest properly in South African transport and energy infrastructure in the past may have helped insulate the economy from the downturn in Chinese growth; according to the IMF, China accounted for less than 10% of South Africa's exports in 2014 but over 30% of Australia's. More positively for TBGR, South African consumer price inflation has fallen from 10% on an annual basis in 2008 to an average of 5.3% in 2014, mitigating the effect of the exchange rate for domestic consumers to some extent. The differential between South African and UK inflation, and hence the downward pressure on the exchange rate, is expected to diminish further as UK inflation rises and South Africa's continues to fall. Trading Economics estimates an average annual CPI of 3.57% to 2020 for South Africa and 2.38% for the UK, a much narrower gap than at present. While commodities stocks have weighed on the JSE All-Share, especially in sterling terms, other sectors have performed well. The MSCI South Africa Consumer Discretionary

Index has performed better over the same period than the UK equivalent, even allowing for the exchange rate. This sector is where the majority of TBGR's current portfolio is focused.

Exhibit 17: South Africa vs UK Consumer Discretionary index, GBP



Source: Bloomberg

In summary, Sub-Saharan Africa has potential for substantial long-term growth based on favourable demographics and a low starting point in terms of GDP per capita. GDP growth across the region is strong and a significant middle class is emerging. Risks clearly remain, in particular the ability of regional governments to manage change, improve infrastructure and provide good governance. Local expertise and influence over an investee company's strategy are therefore vital, as is the freedom to make a long-term investment. Against this backdrop, a company with an actively managed portfolio run by a highly experienced team could be appealing to investors seeking exposure to a potentially rewarding market.

Appendix 2

The TMG scheme and the Tiso transaction

On 8 December 2014, Blackstar Group, Times Media Group (TMG) and Tiso Investment Holdings (TIH) issued a joint announcement proposing that:

- Blackstar acquired the 67.5% of TMG it did not already own for up to ZAR500m in cash and shares up to the value of the remainder of the company (the TMG scheme);
- TIH sold its 22.9% interest in Kagiso Tiso Holdings (KTH) to Blackstar for cash and shares (the Tiso transaction, effectively a reverse takeover for AIM purposes);
- Blackstar would be renamed Tiso Blackstar Group; and
- Tiso Blackstar Group moved to the main lists of the LSE and JSE.

At the time of the announcement, TMG was listed on the JSE and had a market capitalisation of ZAR2.6bn (£147m at the 8 December 2014 exchange rate); TBGR owned 32.5% of the shares.

The transaction was implemented on 8 June 2015, although it had been decided by then that TBGR would remain listed on AIM and AltX. The acquisitions were paid for with a total of ZAR985m in cash and 183.6m shares, increasing the total number of shares to 266.7m. Blackstar Group was renamed Tiso Blackstar Group (TBGR) and readmitted to AIM on 9 June 2015. The owners and founders of TIH, David Adomakoh and Nkululeko Sowazi, became directors of TBGR at the same time. After the transaction, Blackstar, the investment advisory company, became a wholly owned subsidiary of TBGR and continues to provide investment advisory services to the group (the fees for this service amounted to £0.5m in 2014).

The cash consideration and transaction costs were funded with ZAR1.05bn in new debt, of which ZAR500m was incurred by TMG and not consolidated within TBGR. TBGR took on ZAR534m of debt, of which ZAR94m was paid off by 30 June 2015, and now has a gearing ratio of 9%. TMG is now 19% geared against its intrinsic NAV of ZAR2.6bn.

The debt was issued by Rand Merchant Bank and Standard Bank and was drawn in three tranches:

1. ZAR534m (£28m) drawn by TBGR under a senior secured loan facility to be repaid in 36 months incurring interest at three-month JIBAR (Johannesburg Interbank Agreed Rate) plus 5%. Three-month JIBAR was 6.3% at 26 August 2015.
2. ZAR400m drawn by TMG under a senior secured sculpted (ie at variable rates) amortising loan repayable over 60 months and incurring interest at JIBAR plus 3%.
3. ZAR400m drawn by TMG under a senior secured loan facility to be repaid in 60 months at interest of three-month JIBAR plus 3.4%. ZAR300m will be used to refinance existing term debt, leaving ZAR100m incurred at the TMG level.

Under the debt covenant the banks must provide written permission for TBGR to pay dividends as long as the acquisition financing remains in place. TBGR has prioritised repayment of the more expensive TBGR debt and reduced it to ZAR440m by 30 June 2015, aiming to pay it down to ZAR330m by 31 December 2015. To expedite this process, TBGR has realised its non-core investments in property, Blackstar Fund Managers and Navigare Securities.

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