

## Perspectives | Monthly Market Review

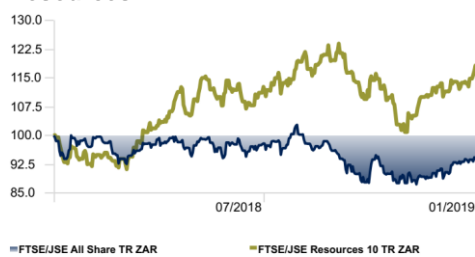
February 2019

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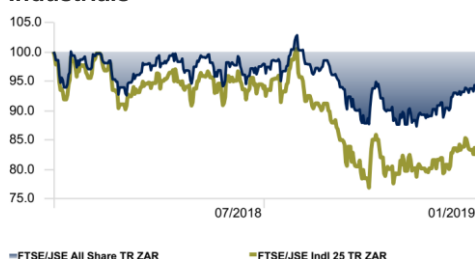
### All Share



### Resources



### Industrials



### Financials



Index	Value	Jan (%)	YTD (%)
All Share	54,157	▲ 2.8%	▲ 2.8%
S&P 500	2,704	▲ 8.0%	▲ 8.0%
FTSE	6,969	▲ 3.6%	▲ 3.6%
Rand/USD	13.27	▼ 7.8%	▼ 7.8%
Rand/GBP	17.46	▼ 4.7%	▼ 4.7%
Gold (\$)	1,320	▲ 3.2%	▲ 3.2%
Plat (\$)	821	▲ 3.1%	▲ 3.1%
Brent (\$)	61.89	▲ 15.0%	▲ 15.0%

## Market Report

### January proved to be the best in 30 years

After a tumultuous 2018, which offered few asset classes to hide from rising interest rates, trade “wars” and the desynchronization of global growth, the first month of 2019 proved to be the best January in 30 years for equities. Concerns that the Fed’s actions might meaningfully slow down growth dissipated in January as the Fed turned dovish.

Global inflation rates have also trended lower, aided by lower energy, commodity and raw material costs. Inflation rates in developed markets are now below central banks targets. Geopolitical concerns took a back seat as the US corporate earnings season kicked off in January, with strong results from several big names. Investors were overly concerned about the effects of the fading US tax-cut boost and slowing global growth on corporate earnings, which set the bar quite low going into 2019.

### Rand bolts on improving sentiment

Emerging markets, including the JSE, outperformed developed markets in US dollar terms in January, underpinned by a weaker dollar and improving risk appetite. The JSE’s strong dollar performance comes as the rand outperformed other currencies after it gained 8.4% against the dollar in January. The JSE All Share Index was up 11.4% in dollar terms, outperforming the MSCI Emerging Markets Index’s 8.4% gain.

Naspers rallied as Chinese regulators ended a year-long freeze on gaming, with two games from Tencent being approved.

### SARB keeps rates unchanged

As expected, the SARB kept rates unchanged at 6.75% in January after hiking it from 6.5% previously. The decision is accommodative and monetary policy actions will continue to focus on anchoring inflation near the mid-point of the target range (4.5%). Furthermore, the SARB noted that international developments including oil prices and currency movements improved the inflation outlook. As a result, inflation projections for 2019 and 2020 were lowered to 4.8% and 5.3% from 5.5% and 5.4% respectively. Nevertheless, the committee assesses inflationary risks as tilted to the upside amid uncertainty over higher administered prices, volatility in the oil price, rising food prices, fluctuating emerging market risk appetite, as well as a softening in the global growth cycle.

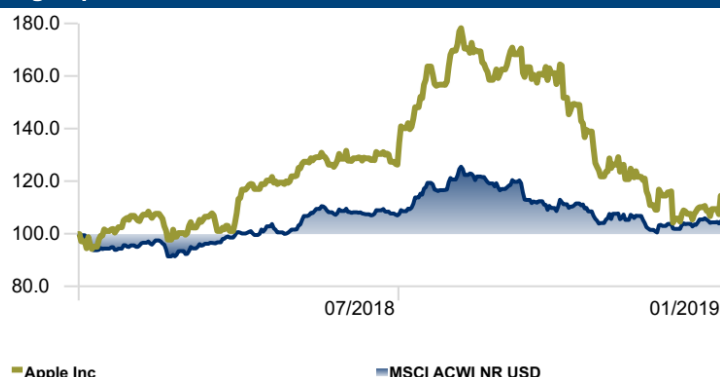
### US Fed reaffirms cautious stance

The Federal Reserve held the target range for the federal funds rate at 2.25-2.5 percent during its first policy meeting of 2019 and reaffirmed its position to be patient about further policy tightening considering recent global economic and financial developments and muted inflation pressures. Fed Chair Jerome Powell indicated that the Fed would consider using all monetary policy tools if the economy slows sharply, including adjusting the pace of balance sheet contraction and raising or reducing interest rates. The futures market now sees a 25% probability of a rate cut by the Fed in January 2020.

## Company Results

### Apple Inc – First quarter results for the period ending September 2019

Earnings per share	4.18
Historical PE	13.7
EPS growth	7.5%
Operating Income Growth	-11.1%
ROE	46.1%
Debt/Equity	97.3%
NAV per share	24.93
Dividend yield	1.7%
Share price	166.44



#### Nature of Business

Apple Inc is engaged in designing, manufacturing and marketing mobile communication and media devices, personal computers, and portable digital music players. The Company's products and services include iPhone, iPad, Mac, iPod, Apple TV, a portfolio of consumer and professional software applications, the iOS and Mac OS X operating systems, iCloud, and a range of accessory, service and support offerings. It sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers. Apple Inc. is headquartered in Cupertino, California.

#### Latest Results

Apple reported first-quarter earnings of \$4.18 per share ahead of consensus estimates and representing a 7.5% growth year-on-year. Net sales decreased 4.5% year-on-year (3% when adjusted for currency movements) to \$84.31 billion, which was marginally ahead of expectations.

Product sales (iPhone, iPad, Mac, and other) which account for nearly 90% of sales were 7.2% lower at \$73.44 billion. This while services revenue continued to impress after it increased 19.1% year-on-year. As anticipated earlier, Apple's Greater China region reported a sales decline of 26.7%. Moreover, European and Japanese revenues declined 3.3% and 4.5% respectively while its Americas and Rest of Asia-Pacific regions grew sales by 5% and 1.1% respectively.

iPhones sales (61.7% of sales), which the company says was negatively impacted by extended lifecycles on older models due to its battery replacement program along with lower carrier subsidies, declined by 15% year-on-year. This while the global active installed base of iPhones surpassed 900 million.

Services – including revenues from cloud services, App store, Apple Music, AppleCare, Apple Pay, and licensing and other services – increased 19.1% year over year to \$10.88 billion and accounted for 12.9% of sales. Of the 900 million iPhone users, 360 million are paid subscribers across Apple's service portfolio.

#### Dividend

The company declared a gross dividend of 73 cents per ordinary share for the period ended 31 December 2018.

#### Prospects

For second-quarter fiscal 2019, revenues are projected between \$55 billion and \$59 billion. Apple expects \$1.3 billion of foreign exchange headwinds to negatively impact top-line growth. Gross margin is expected to be 37-38% while operating expenses are projected to be \$8.5-\$8.6 billion. Other income is estimated to be \$300 million, while the tax rate is expected to be 17%. Apple expects the number of paid subscribers to surpass 0.5 billion by 2020.

### Microsoft Corp – Second quarter results for the period ending June 2019

Earnings per share	1.08
Historical PE	24.2
EPS growth	- %
Operating Income Growth	18.2%
ROE	39.4%
Debt/Equity	85.1%
NAV per share	12.0
Dividend yield	1.7%
Share price	104.43



## Nature of Business

Microsoft develops and licenses consumer and enterprise software. It is known for its Windows operating systems and Office productivity suite. The company is organized into three overarching segments: productivity and business processes (legacy Microsoft Office, cloud-based Office 365, Exchange, SharePoint, Skype, LinkedIn, Dynamics), intelligence cloud (infrastructure- and platform-as-a-service offerings Azure, Windows Server OS, SQL Server), and more personal computing (Windows Client, Xbox, Bing search, display advertising, and Surface laptops, tablets, and desktops). Through acquisitions, Microsoft owns Xamarin, LinkedIn, and GitHub. It reports revenue in product and service and other revenue on its income statement. The company was founded by William Henry Gates III in 1975 and is headquartered in Redmond, WA.

## Latest Results

Microsoft Corporation delivered second-quarter fiscal 2019 earnings of \$1.10 per share (1.08 diluted), which beat consensus estimates by a penny. The figure jumped 14.6% on a year-on-year basis.

Revenues of \$32.47 billion increased 12% from the year-ago quarter (up 13% in constant currency or cc). Robust execution and better-than-expected demand from customers for hybrid cloud offerings drove the quarterly results. Commercial bookings increased by 18% (22% at cc). Commercial unearned revenues were \$25.32 billion, up 19.6% year over year at cc. Commercial revenue annuity mix was 89%, up 3 percentage points year-on-year.

Microsoft is benefiting from a growing user base of its different applications like Microsoft 365 and Teams. Both solutions continue to witness strong adoption. Microsoft 365 has been chosen by the likes of Neiman Marcus to Brooks Running to global biopharmaceutical leader, Sanofi in recent times. Microsoft Teams is now used by roughly 420,000 organizations, including 89 of the Fortune 100.

Microsoft's gross margin of 61.7% remained flat year over year, as higher cloud margins were fully offset by unfavourable sales mix. This while its operating margin expanded 160 bps on a year-over-year basis to 31.6% as operating expenses grew at a slower pace due to operational efficiencies.

## Dividend

The company declared a gross dividend of 46 cents per ordinary share for the period ended 31 December 2018.

## Prospects

For the third quarter of fiscal 2019, commercial unearned revenues are expected to decline 2-3%, sequentially, while commercial cloud gross margin is expected to improve at a moderate pace. For fiscal 2019, operating expenses are expected to grow roughly 8%, driven by continuing investments in GitHub, commercial cloud, LinkedIn, gaming and AI. Nevertheless, management expects operating margin to increase slightly on a year-over-year basis. Microsoft expects the GitHub deal to be minimally dilutive to fiscal 2019 and 2020 earnings per share on a non-GAAP basis and accretive to fiscal 2020 operating income on a non-GAAP basis.

## Snippets

### Take action this financial year end...

The financial year end is approaching fast. Now is the time to take advantage of the 2018 / 2019 tax exemptions. These transactions need to be made before the 28th of February 2019. These efficient tax planning and investment considerations include, but are not limited to:

#### 1. Annual donation tax exemption

The annual donations tax exemption for individuals is currently R100 000 per annum. Any natural person can make the donation, so if both you and your spouse make a donation the annual amount would be increased to R200 000. If you wish to reduce your loan account to a trust using your annual donations tax exemption, please be sure to inform your accountant, to enable them to account for the necessary paper work.

#### 2. Retirement Annuity (RA) contributions

Retirement annuity contributions made before the tax year-end may be tax-deductible within the legislative limit. Contributions to all retirement funds (Pension, Provident and Retirement Annuities) are deductible up to 27.5% of the greater of remuneration or taxable income, capped at an annual limit of R350 000. RA's are only accessible at retirement (under normal circumstances), and you need to buy an annuity with at least a part (currently two-thirds) of the accumulated value. Contribution amounts must reflect in the product bank account on or before 28 February 2019.

#### 3. Tax-Free Saving Account (TFSA) contributions

TFSA's provide South African investors with a flexible way to save towards a specific goal or supplement their retirement savings. As TFSA's are not subject to income or capital gains tax, they can be a useful instrument to grow savings over the long-term. The current annual contribution limit is R33 000 (if by debit order, then a maximum of R2750 per month) and the lifetime contribution limit is R500 000. You can withdraw from a TFSA at any time, and there is no tax on withdrawals. Remember while an RA will not form part of your estate, a TFSA will.

It is generally considered good practice to use the TFSA to supplement retirement savings, even if you have not reached your maximum allowable contribution to an RA.

**Should you be interested in taking advantage of any of the above exemptions please urgently contact a Private Client Holdings Wealth Manager Tel: 021 671 1220. To learn more about the Private Client Holdings Wealth Managers log onto [www.privateclient.co.za](http://www.privateclient.co.za)**

## Corporate Cash Manager Rates

FUND	BALANCE	RATE
CALL ACCOUNT	0.00 – 9 999.99	4.80
	10 000 – 24 999.99	5.30
	25 000 – 49 999.99	5.55
	50 000 – 99 999.99	5.80
	100 000 – 249 999.99	5.95
CALL MONEY FUND: <i>Individuals</i>	250 000 – 999 999.99	7.17
	1 000 000 – 9 999 999.99	7.27
	10 000 000 upwards	7.37
CALL MONEY FUND: <i>Non-Individuals</i>	250 000 – 999 999.99	6.97
	1 000 000 – 9 999 999.99	7.07
	10 000 000 upwards	7.17

## Dividends Payable

### Dividends in LDT order

<u>Company</u>	<u>Decl</u>	<u>LDT</u>	<u>Pay</u>	<u>Amt</u>	<u>Curr</u>
Stenprop Ltd. (STENPROP)	22-Nov	15-Jan	08-Feb	3.38	ZARc
Nampak Ltd. (NAMPAK 6.5)	30-Nov	29-Jan	04-Feb	6.5	ZARc
Pioneer Food Group Ltd. (PNR FOODS)	19-Nov	29-Jan	04-Feb	260	ZARc
Nu-World Holdings Ltd. (NUWORLD)	23-Oct	05-Feb	11-Feb	327.5	ZARc
Peregrine Holdings Ltd. (PERGRIN)	21-Nov	05-Feb	11-Feb	85	ZARc
Hosken Passenger Logistics and Rail Ltd. (HPLR)	29-Jan	12-Feb	18-Feb	80	GBPp
Kaap Agri Ltd. (KAAP AGR)	29-Nov	12-Feb	18-Feb	84.7	ZARc
Tharisa plc (THARISA)	24-Jan	12-Feb	27-Feb	2	ZARc
FirstRand Ltd. (FIRSTRAND-B-P)	01-Feb	19-Feb	25-Feb	381.68	ZARc
MiX Telematics Ltd. (MIXTEL)	31-Jan	19-Feb	25-Feb	3	ZARc
Hudaco Industries Ltd. (HUDACO)	31-Jan	26-Feb	04-Mar	380	ZARc
The Foschini Group Ltd. (TFG PREF)	08-Nov	12-Mar	18-Mar	6.5	ZARc
British American Tobacco plc (BATS)	22-Feb	21-Dec	07-Feb	48.8	USDc

### Disclaimer

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