PRIVATECLIENT HOLDINGS

Perspectives | Monthly Market Review

January 2019

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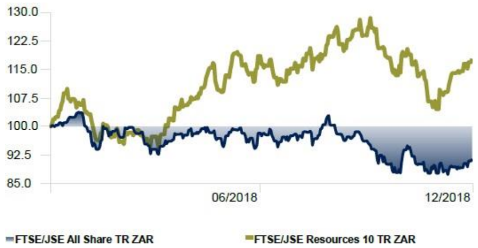
All Share

Resources



Industrials

Financials

Index	Value	Dec (%)	YTD (%)
All Share	52,737	▲ 4.3%	▼ 8.5%
S&P 500	2,507	▼ 9.0%	▼ 4.4%
FTSE	6,728	▼ 3.5%	▼ 8.7%
Rand/USD	14.39	▲ 3.7%	▲ 16.2%
Rand/GBP	18.32	▲ 3.6%	▲ 9.4%
Gold ($)	1,278	▲ 4.8%	▼ 2.1%
Plat ($)	796	▼ 0.3%	▼ 14.8%
Brent ($)	53.80	▼ 8.4%	▼ 19.5%

Market Report

A challenging year

Global equity markets experienced their worst performance in 2018 since the global financial crisis, despite strong corporate earnings and above-trend GDP growth. Rising interest rates, the implementation of trade tariffs, Brexit concerns and the desynchronization of global growth turned investor sentiment negative. While the carnage spread far and wide, it was hardest felt in emerging markets and developed markets outside of the US. However, even the US market gave up all its gains in December after the S&P 500 ended the month 9% lower.

The negative investor sentiment also impacted currencies and treasuries, with yields rising in response to tighter monetary policy conditions emanating from the US. Given this backdrop, the US dollar gained ground against major currencies as dollar liquidity dried up.

US Fed turns dovish

The US Fed turned “dovish” (easier monetary policy) by year-end in response to a weaker external environment. Seen as a departure from its previous communication, the US Fed Chair Jerome Powell indicated that it is willing to temper its rate hiking path to protect growth. What is more puzzling is that the Fed effectively reversed increases made to its neutral rate estimate and projected one less rate hike in 2019. This is seen as a departure from its “wait-and-see” approach. Communication is seen as an important monetary policy tool for central banks, but the Fed’s “dovish” tone has caused potential headaches for itself in the future. Fed policy uncertainty will remain elevated in the near term, which could keep market volatility higher for longer.

Markets likely to remain on edge for now

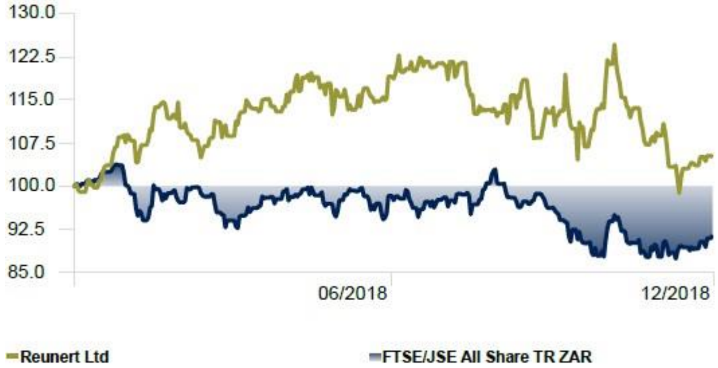
While the IMF has already revised its growth expectations lower for 2019 (3.7% from 3.9%), further downward revisions are still possible. Risks cited include trade tariffs, Brexit’s impact on regional trade and political climate, and rising interest rates. The UK is facing the prospect of a disorderly Brexit, or a no-deal Brexit, which would be detrimental not only for its own economy, but it would impact regional trade as well. Furthermore, the effects of protracted “trade wars” could have a lasting effect on the global economy, impacting export-oriented economies such as Germany and Japan especially.

SA ends technical recession

SA ended its technical recession after it reported better than expected GDP growth for the 3rd quarter of 2018. The local economy grew 2.2% quarter-on-quarter in Q3, and the growth for Q2 was revised upwards to -0.4% from -0.7%. The manufacturing sector contributed the most to growth, adding 0.9 percentage points. The primary sector was a drag on growth as mining and agri output declined while the tertiary sector continued to show its resilience. High-frequency economic data points to a solid start to the final quarter of 2018. Mining production surprised on the upside, sales of mineral goods continue to grow, and trade activity improved as exports rose 5.8% for the 3-month period ending November.

Company Results

Reunert Ltd – Year-end results for the period ending September 2018	
Earnings per share	7.03
Historical PE	10.1
EPS growth	3.5%
Operating Income Growth	3.0%
ROE	15.9%
Debt/Equity	3.9%
NAV per share	46.17
Dividend yield	7.0%
Share price	70.82



Nature of Business

Reunert Ltd. is a South African-based industrial group in the industrial goods and services sector. It manages a number of businesses focused on electrical engineering, information and communication technologies and applied electronics. Reunert's employees are highly qualified and experienced engineers, technicians, research and development experts and field support staff. Reunert supports well-known brands such as Nashua, CBI-electric and Reutech.

Latest Results

Reunert achieved positive growth in the 2018 financial year with group revenue increasing by 7% to R10 492 million. Pleasingly, in a volatile Rand environment, operating profit grew by 3% from R1 497 million to R1 542 million. This was achieved despite a sharp decline in Electrical Engineering's profitability, driven by improved earnings in both the ICT and Applied Electronics segments.

Electrical Engineering's decline in profitability resulted from the recessionary pressures in the key infrastructure markets serviced, reflecting as reduced demand from key state institutions, and the poor results of Zamefa (the Zambian power cable manufacturer). Zamefa was adversely impacted by Zambia's liquidity constraints and the 27% devaluation in the Zambian currency to the US Dollar.

The ICT and Applied Electronics segments performed well, particularly in the second half of the year. The ICT segment improved sales in high category multi-functional printers and had good growth in new total workspace solution sets. Applied Electronics growth was driven by record export sales, the benefit of a weakening Rand in the second half and the rapid expansion of the renewable energy business.

This improvement in profitability, combined with the reduction in the number of shares in issue (due to the continuation of the share buyback programme) resulted in headline earnings per share growing by 4%.

Dividend

A gross final cash dividend of 368,0 cents per ordinary share has been declared by the directors for the year ended 30 September 2018.

Prospects

The recent government commitments to increase infrastructure investment bode well for a recovery in the Electrical Engineering segment although uncertainty as to the timing and extent prevails. The Applied Electronics segment has solid order books in most business units and Reunert anticipates good growth in their renewable energy business. However, the fuze factory's profitability will reduce in the coming financial year due to the product mix in its export contracts. The ICT segment is anticipated to continue to deliver a good performance as its strategy execution continues and the SkyWire acquisition bolsters the growth of the segment.

Subject to no significant changes in local socio-economic conditions, the implementation of GST, as planned, in Zambia and moderate currency volatility, the group should deliver another solid performance in the 2019 financial year.

Naspers Ltd – Interim results for the period ending September 2018	
Earnings per share	$3.78
Historical PE	36.0
EPS growth	9.9%
Operating Income Growth	255%
ROE	58.7%
Debt/Equity	12.2%
NAV per share	$62.06
Dividend yield	0.0%
Share price	2 892.27

Nature of Business

Naspers is a global internet and entertainment group and one of the largest technology investors in the world. Operating in more than 120 countries, it runs or invests in some of the world's leading platforms in internet, video entertainment, and media, including companies such as Avito, Delivery Hero, eMAG, Flipkart, iFood, letgo, Media24, Movile, MultiChoice, OLX, PayU, Showmax, Tencent, Mail.ru and MakeMyTrip Ltd.

Latest Results

Naspers executed well in the first half of the 2019 financial year, generating group revenue, measured on an economic-interest basis of US$11.0bn. Driven by ecommerce and Tencent, this represents growth of 23% (or 29% in local currency and adjusted for acquisitions and disposals). On a similar basis, group trading profit of US$2.0bn reflects growth of 22% (or 34% in local currency and adjusted for acquisitions and disposals). Profitability in ecommerce improved on the back of strong contributions from the classifieds and business-to-consumer (B2C) units. Tencent's contribution further boosted trading profit growth. Core headline earnings, the board's measure of operating performance, was up a healthy 39% at US$1.7bn.

Ecommerce reduced trading losses materially. The classifieds business (excluding letgo), which turned profitable in the 2018 financial year, continued to show strong profit growth and is now profitable, including letgo. Trading-loss margins in etail (online retail) and payments narrowed considerably as the businesses accelerated revenue growth and continued to scale.

Acquisitions in the period totalled over US$700m as we continued to invest in existing and new businesses in classifieds, payments and food-delivery verticals, as well as progressing our growth strategy through Naspers Ventures. Following a US$2.2bn offer from US-based Walmart, we sold our 12% interest in Indian ecommerce company Flipkart in August 2018, realising an internal annual rate of return of approximately 29%.

Dividend

The company did not declare an interim dividend.

Prospects

Over the remainder of the financial year, the group will maintain its focus on driving profitability in its ecommerce units. Its strong balance sheet provides a basis for driving growth across the portfolio and unlocking new opportunities that fit their criteria. Containing costs and weathering challenging macro conditions will remain a priority for the group’s more mature assets.

Snippets

The US will lose its crown as world’s top economy

By Will Martin – Business Insider US

The US could lose its position as the world's biggest economy as soon as next year, and once that happens, will likely never regain the top spot as developing Asian economies power ahead.

According to research released this week by Standard Chartered Bank, China will most likely become the world's biggest economy by some point in 2020, when measured by a combination of purchasing power parity (PPP) exchange rates and nominal GDP.

Using PPP alone, China is already considered the world's largest economy, but on a nominal basis, the US remains in the lead for the time being.

Not only will China likely overtake the US in 2020, but by 2030 it will be joined by India, Standard Chartered said in its report, with annual GDP growth set to accelerate from around 6% now to almost 8% in the coming decade.

"India will likely be the main mover, with its trend growth accelerating to 7.8% by the 2020s partly due to ongoing reforms, including the introduction of a national goods and services tax (GST) and the Indian Bankruptcy Code (IBC)," Standard Chartered said.

India's rise will also reflect a growing trend of Asia becoming the dominant region of the planet economically speaking as the size of its output starts to match the size of its population.

"Our long-term growth forecasts are underpinned by one key principle: countries' share of world GDP should eventually converge with their share of the world's population, driven by the convergence of per-capita GDP between advanced and emerging economies," a team of economists from the bank wrote in a note to clients.

By 2030, the bank said, Asian GDP will account for roughly 35% of global GDP, up from 28% last year, and just 20% in 2010. This will be equivalent to the output of both the eurozone and the US combined.

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: *Individuals*	250 000 – 999 999.99	7.08
	1 000 000 – 9 999 999.99	7.18
	10 000 000 upwards	7.28
CALL MONEY FUND: *Non-Individuals*	250 000 – 999 999.99	6.88
	1 000 000 – 9 999 999.99	6.98
	10 000 000 upwards	7.08

Dividends Payable

Dividends in LDT order

Company	Decl	LDT	Pay	Amt	Curr
Barloworld Ltd. (BARWORLD)	19-Nov	08-Jan	14-Jan	317	ZARc
Omnia Holdings Ltd. (OMNIA)	27-Nov	08-Jan	14-Jan	75	ZARc
Rhodes Food Group Holdings Ltd. (RFG)	20-Nov	08-Jan	14-Jan	20.3	ZARc
Sappi Ltd. (SAPPI)	15-Nov	08-Jan	14-Jan	17	USDc
Tiger Brands Ltd. (TIGBRANDS)	22-Nov	08-Jan	14-Jan	702	ZARc
BHP Group plc (BHP)	18-Dec	08-Jan	30-Jan	102	USDc
Astral Foods Ltd. (ASTRAL)	19-Nov	15-Jan	21-Jan	1050	ZARc
Pepkor Holdings Ltd. (PEPKORH)	26-Nov	15-Jan	21-Jan	27.8	ZARc
Reunert Ltd. (REUNERT)	20-Nov	15-Jan	21-Jan	368	ZARc
Stenprop Ltd. (STENPROP)	22-Nov	15-Jan	08-Feb	3.38	GBPp
Clicks Group Ltd. (CLICKS)	25-Oct	22-Jan	28-Jan	277.5	ZARc
Netcare Ltd. (NETCARE)	19-Nov	22-Jan	28-Jan	100	ZARc
Pioneer Food Group Ltd. (PNR FOODS)	19-Nov	29-Jan	04-Feb	260	ZARc

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