From SONA to the year ahead, an equity perspective

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Outlook for 2021

- Growth of 3.2% after -7.3% last year. Growth of 2.7% next year.
- Will not be to second half of 2023 that return to 2019 output. Per capita income never recovers
- Long term potential growth at 1.7% - upside risks from reforms coming through, downside risks if they don't

- Inflation broadly under control – around centre of target
- Slow pace of rate hikes only from SARB in 2022 onwards

- **Third wave of covid from May**
- Expect electricity problems to persist
- Big step up in **inequality**
- Political noise!

Events ahead

- **January**: ANC anniversary; Eskom USD bond redeems (21 Jan); SAA appropriation; Grant step-ups stop?
- **February**: SONA; Magashule court case; Budget; REIPPP Bid-Window 5 RfP due
- **March**: Spectrum auction due to conclude; Zondo commission mandate expires; Q1 cabinet reshuffle?
- **April**: Change into new fiscal year
- **May**: ANC NGC meeting
- **October**: MTBPS
- **November**: Municipal elections; Investments conference

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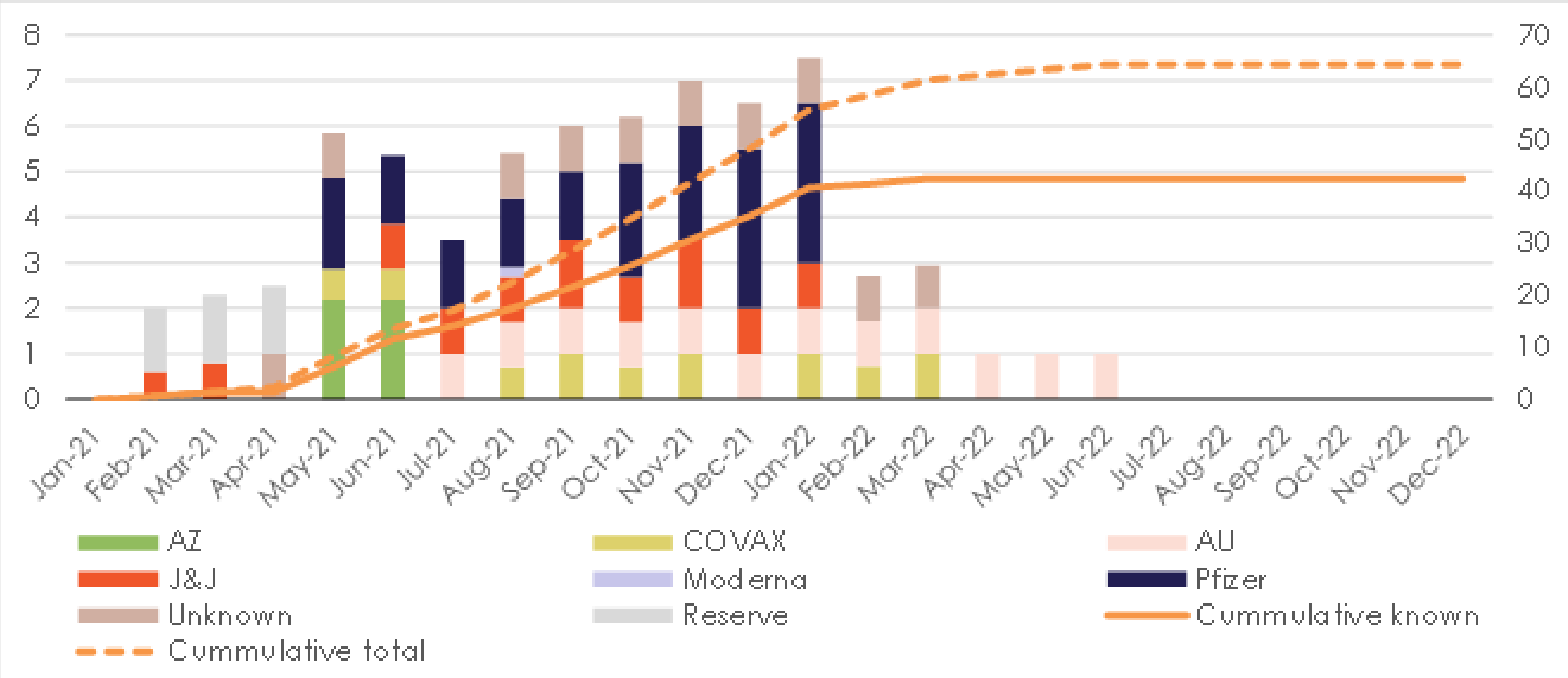
Outlook for 2021



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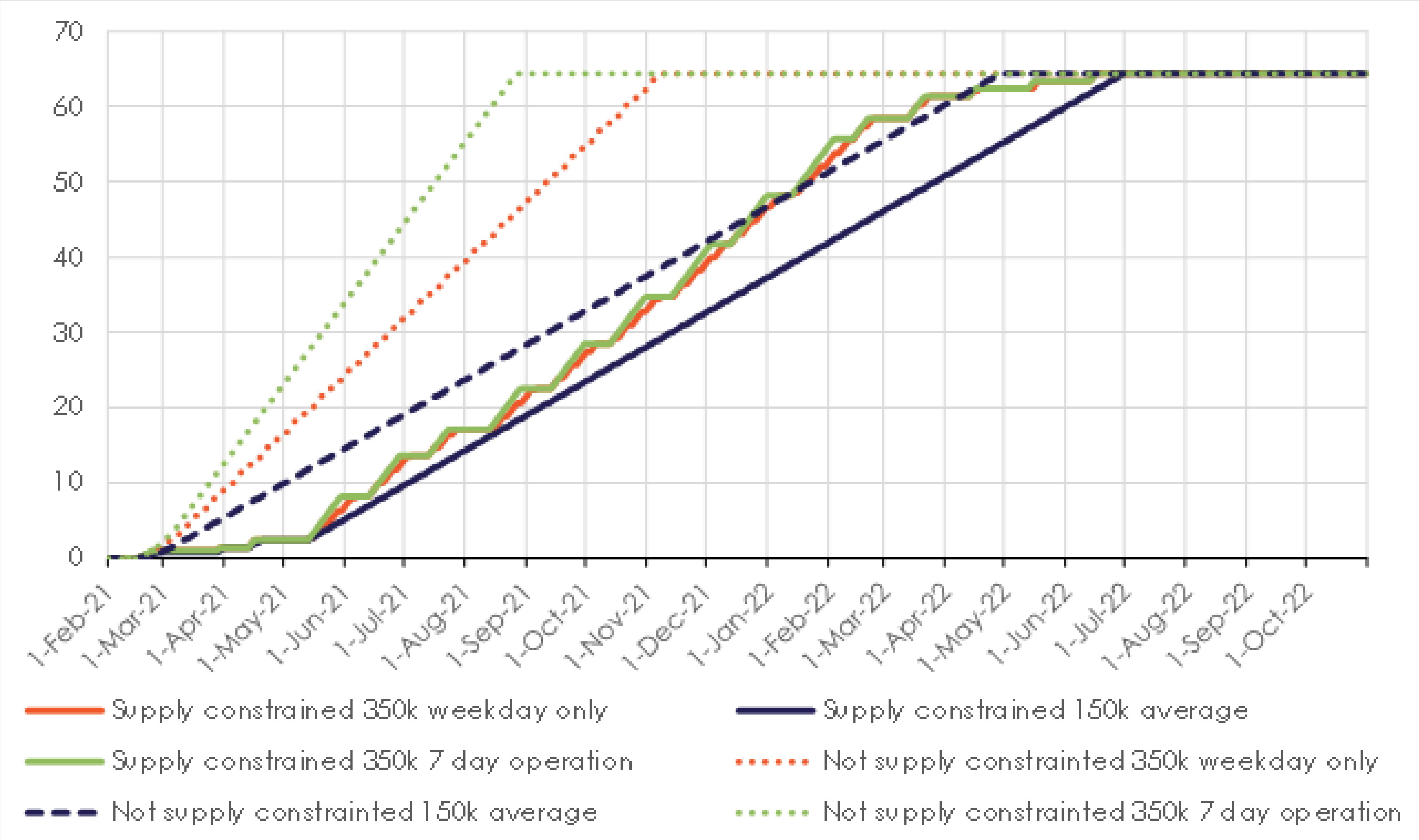
Outlook for 2021



Outlook for 2021

	2018	2019	2020	2021	2022	2023	Long term
GDP (% yoy)	0.8	0.1	-7.3	3.2	2.7	1.5	1.7
CPI (HL, % yoy)	4.6	4.1	3.3	4.0	4.6	4.5	4.5
CPI (Core, % yoy)	4.3	4.1	3.3	3.2	4.3	4.4	4.4
Budget (% GDP*)	-4.0	-6.4	-15.9	-11.9	-10.4	-9.0	-7.5
Primary (% GDP*)	-0.3	-2.7	-10.2	-6.1	-4.4	-2.8	-1.1
Gov Debt (% GDP)	56.6	63.5	82.3	87.0	92.0	95.8	>100
CA (% GDP)	-3.6	-3.0	2.0	0.5	-0.8	-1.4	-2.0
Repo (%)	6.75	6.50	3.50	4.00	4.75	5.75	6.00
Unemployment	27.1	28.7	32.2	34.0	34.5	34.5	35.0

SONA review

- Operation Vulindlela making some progress on reforms but at a low level
  - Water
  - Visas
- Wider infrastructure rollout ongoing but failing to gain pace to lift potential growth
  - PPP/PFMA/MFMA problems that won't be addressed
  - Bankability and capacity problems
  - Lanseria important proof of concept to watch
  - Renewables will push forwards (but solving what problem)
  - Liberalisation of self-generation in doubt? Would be radical change
- Issue of what commitments government makes in COP26 (November) on **net zero carbon emissions**
  - Crucial for Eskom, Just Energy Transition

Budget Preview

- Treasury trying to keep everything broadly 'unchanged' for fear of opening pandora's box.
- No major tax hikes – ZAR5bn, small changes to inheritance tax, bracket creep, no wealth tax?
- On expenditure side – Land Bank, Vaccines (ZAR10bn?), marginal slowing of other cuts
- Wage bill using unrealistic assumptions still – ie flat wages into new year

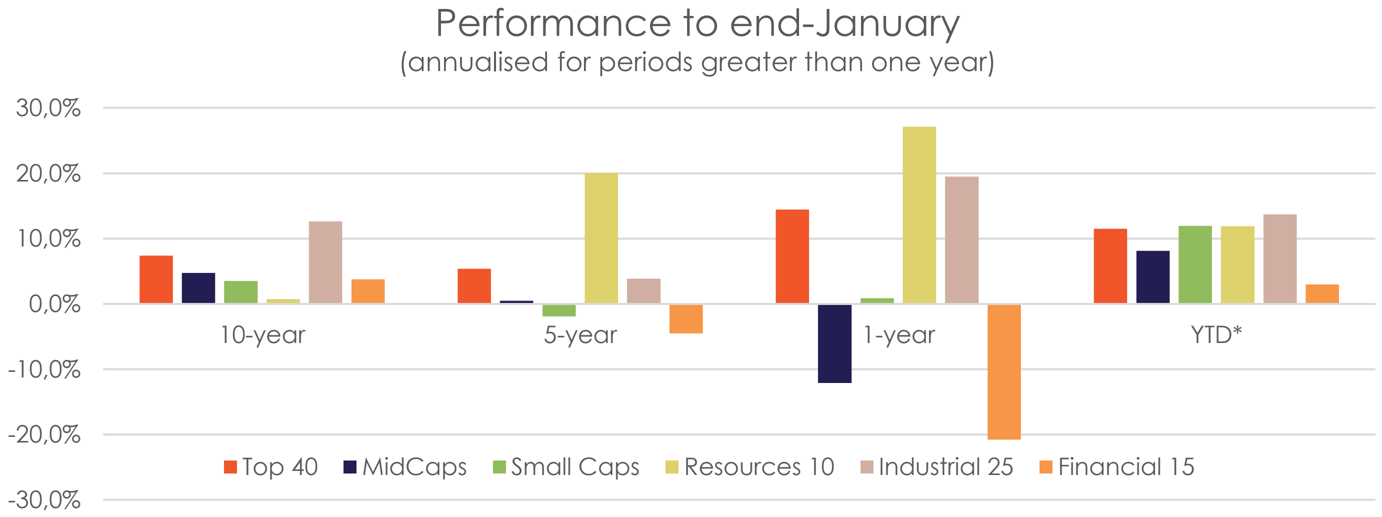
- Debt still expected to climb towards 100% in 5years
- NT risk aversion – saving most of the cash from better revenues this year.

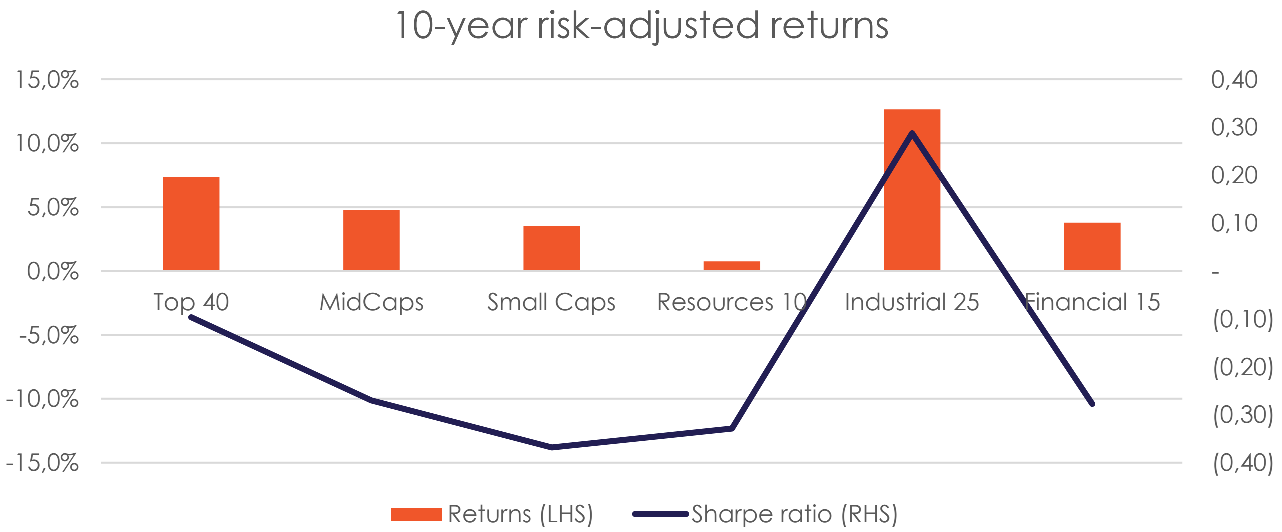
- **Bond markets crowd out investments?**

Phibion Makuwerere, CFA

Senior Financial Analyst

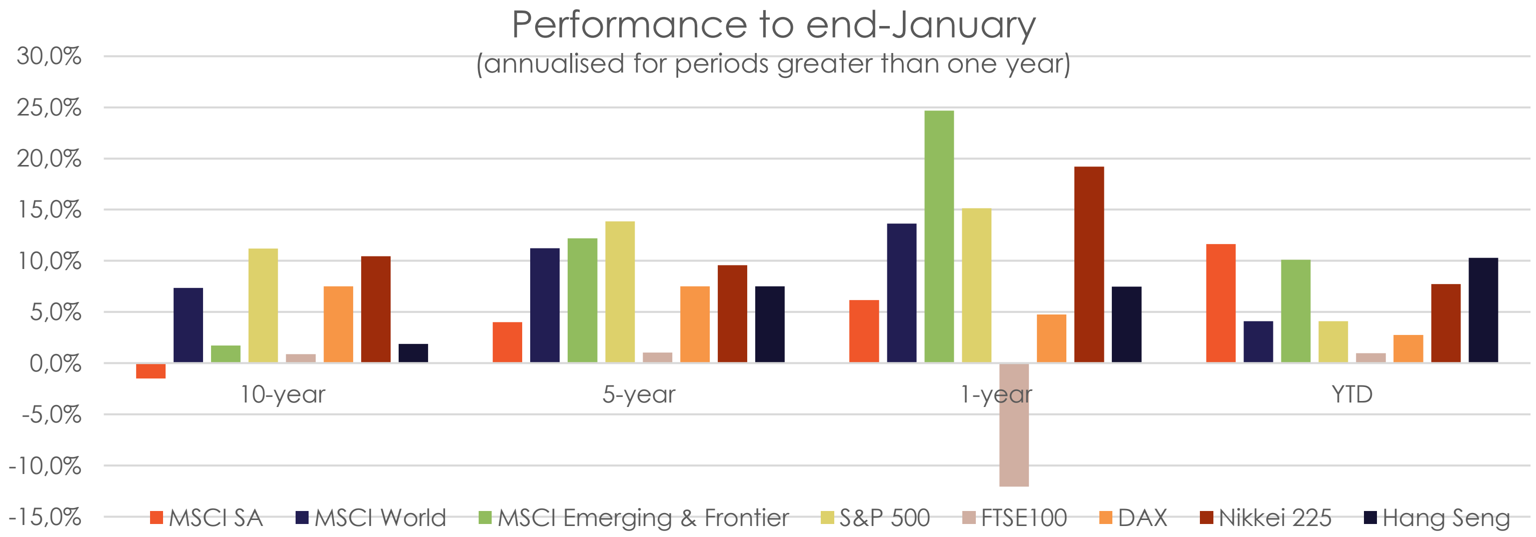
Overview: Local equities

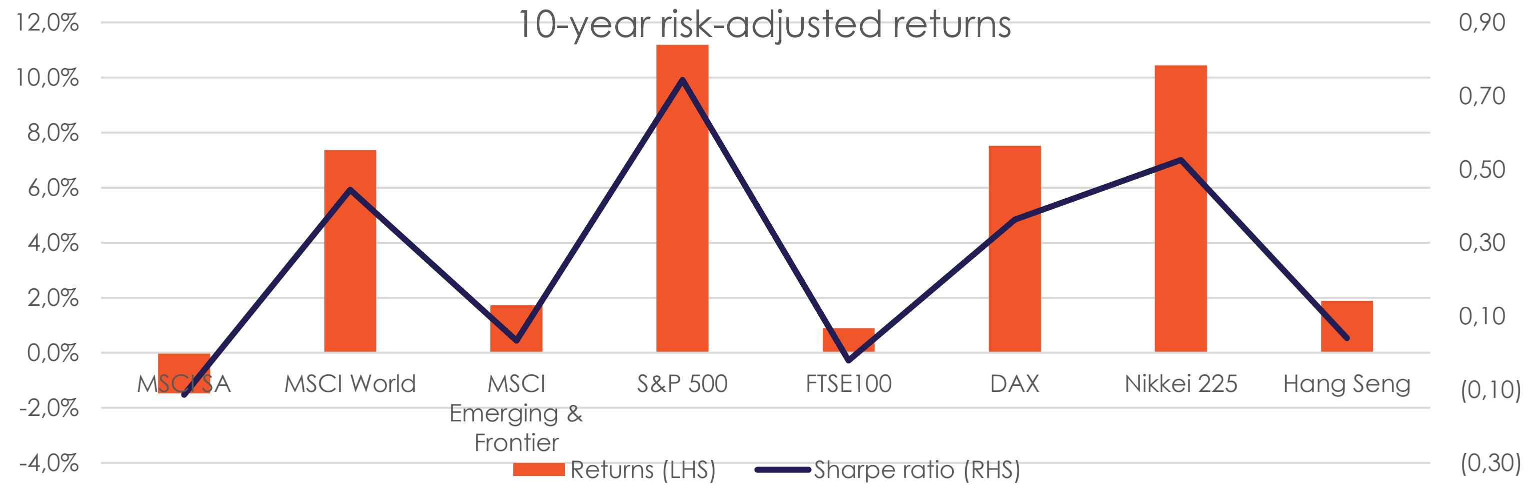




- The top 40 has done considerably better than SA-focused stocks (mid and small caps)
- While resources have resurrected in the last five years, they are still disappointing over a ten period
- Risk-adjusted returns are more telling. Industrials led by Naspers/Prosus have outperformed
- BOTTOM LINE: To invest in SA Inc stocks (Mid and small caps) you will need to search carefully for potential individual performers

Overview: local vs offshore





- In real (dollar) terms we have performed poorly in a global context in the last 10 years, albeit great start to 2012
- The poor performance was more pronounced in President Zuma's second term in office characterised by a fast depreciating rand
- Also, severe capital flight in the last few years
- Negative risk-adjusted returns graph encapsulate the meaning of the "lost decade"
- For the record, there is a strong case for offshore investing
- Again the main takeaway is if you want to invest in SA you need to look carefully

Looking ahead

- Resource: A robust recovery but don't see any meaningful investments until we have a better enabling policy environment. We see the sector doing well on profits but generally returned as dividends to investors, as price rather than volumes drive the outlook.
- Financial: We see low SARB rates for a long time but a sharp step up in unemployment meaning the industry will be driven much more by innovation and competition for limited market.
- Industrial: It will be a key focus for DTIC and local content which may stymie it in the long run, but a key source of innovation is required for things like green hydrogen and green synthetic fuels.
- High-end manufacturing can benefit from AfCFTA though this will be a slow burn growth story

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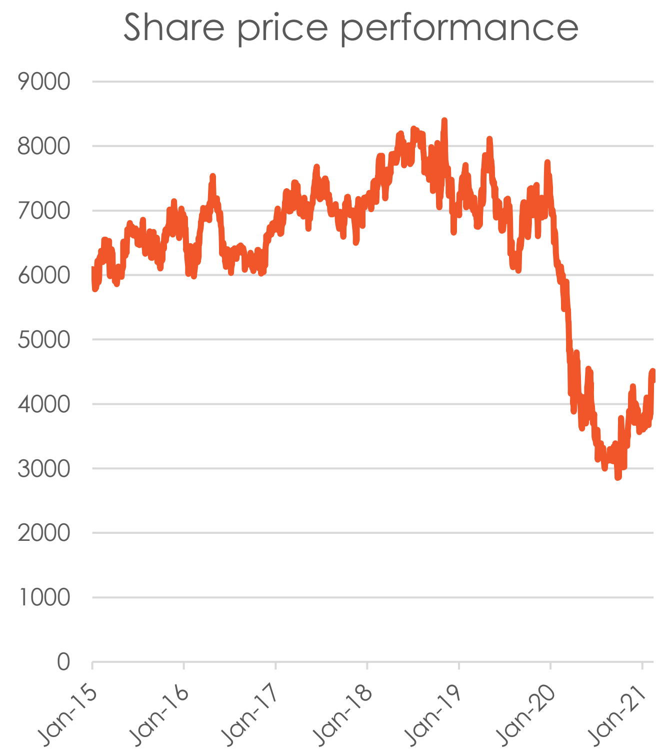
- Overall, the bar for local equities has been set so low given the low economic growth expectations – SA Inc stock showing value attributes but at the risk of "value trap"
- Upside risk of rerating on performance that is not worse than feared
- A major tailwind and investment theme, also espoused in SONA: renewable energy and just energy transition augmented by a global ESG focus; spectrum allocation
- Also, global "risk on" sentiment and portfolio flows – already witnessed this year. But can also work in reverse
- Bearish on consumer demand – widening inequality caused by the lockdowns last year, combined with a low jobs intensity recovery

Stock pick: Reunert (RLO)

- SECTOR: Electrical Components & Equipment sector
- TAILWINDS
  - REIPPP & localisation
  - renewable and distributed generation play
  - As a supplier to the telecoms sector it also stands to benefit from the imminent spectrum allocation and subsequent 5G rollout by the sector
- HEADWINDS: Further delays of Bidding Window 5 due to disagreements on localisation
- It is the only one among its peers with decent R&D spend
- Liquid scrip, commands 88% of market capitalisation and 62% of sales in the sector
- 70% of group sales are in the energy and telecoms value chains
- Low debt levels, better RoE and RoCE relative to peers



Stock pick: Netcare (NTC)

- SECTOR: Health care
- TAILWINDS:
  - Defensive: demand for health care services is fairly stable throughout market cycles
  - The resumption of elective surgery is imminent on the back of vaccines
  - A pure SA play, least favoured and more discounted than its peers
- HEADWINDS: pricing pressure from health care funders
- Strongest balance sheet among its peers
- Focusing on initiatives that increase return on investment since exiting the UK
- On average, better RoE and RoCE relative to peers in the last three years

Lerato Matibidi, CA (SA)

Equity Research Analyst

Sector themes: Tertiary sectors

Telecommunications

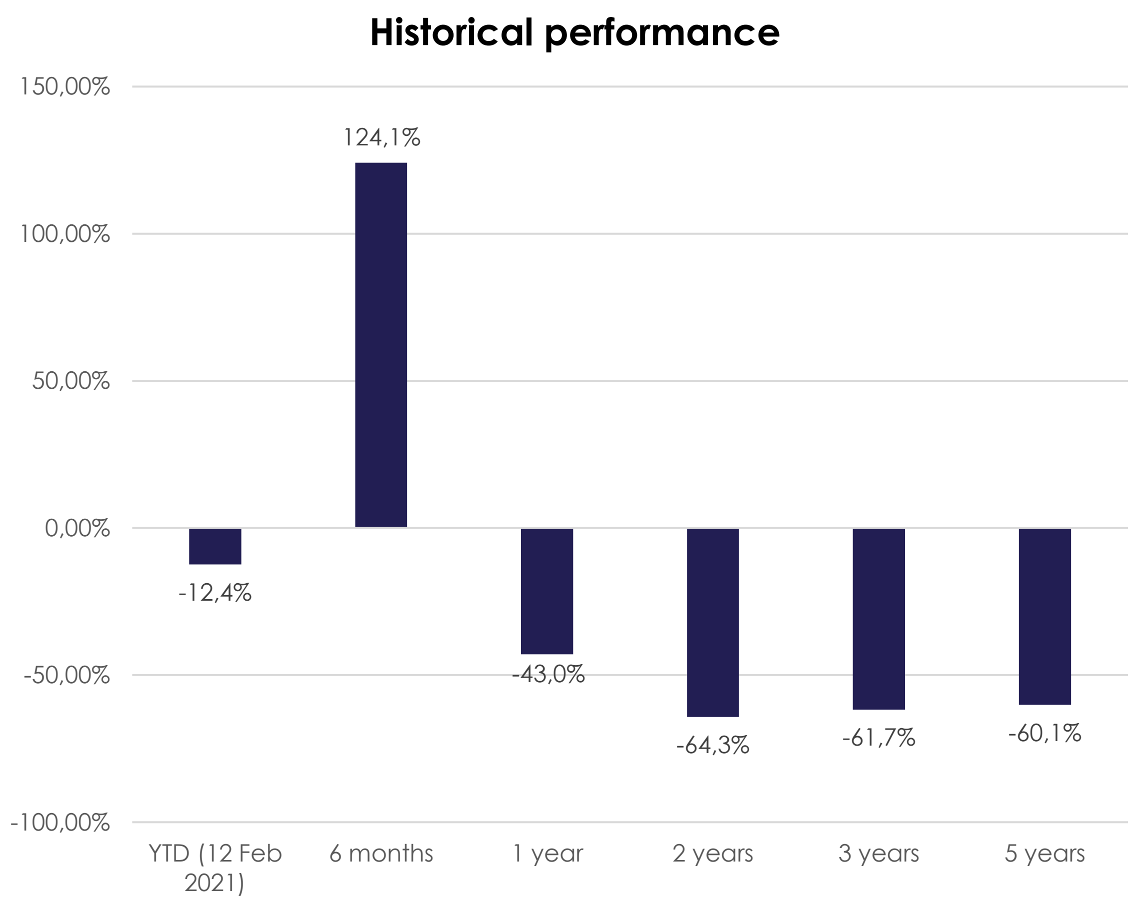
- Part of the infrastructure plan is the allocation of the much awaited spectrum allocation
- Remedy for high data costs
- Gateway for the introduction of 5G

Agriculture

- Sugar Master Plan
- Poultry Master Plan

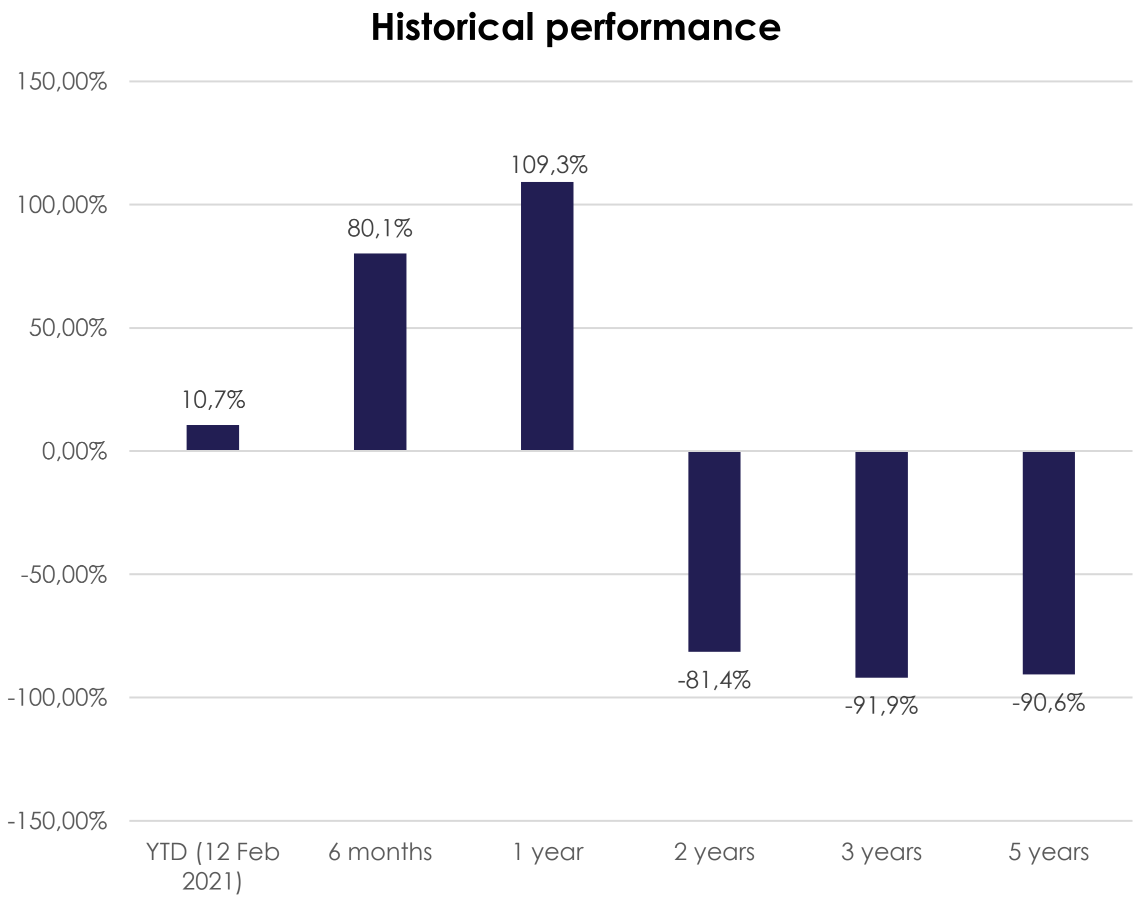
Tourism

- Covid-19 impact
- VISA relaxation
- Tourism Equity Fund



Historical performance
150,00%
100,00%
50,00%
0,00%
-50,00%
-100,00%
124,1%
-12,4%
-43,0%
-64,3%
-61,7%
-60,1%
YTD (12 Feb 2021)
6 months
1 year
2 years
3 years
5 years

TongaatHulett
Est. 1892



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Gershwyn Benjamin
Junior Equity Research Analyst

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Retail and construction sectors

Retail

- Extension of the TERS benefit and Covid-19 grant

Construction

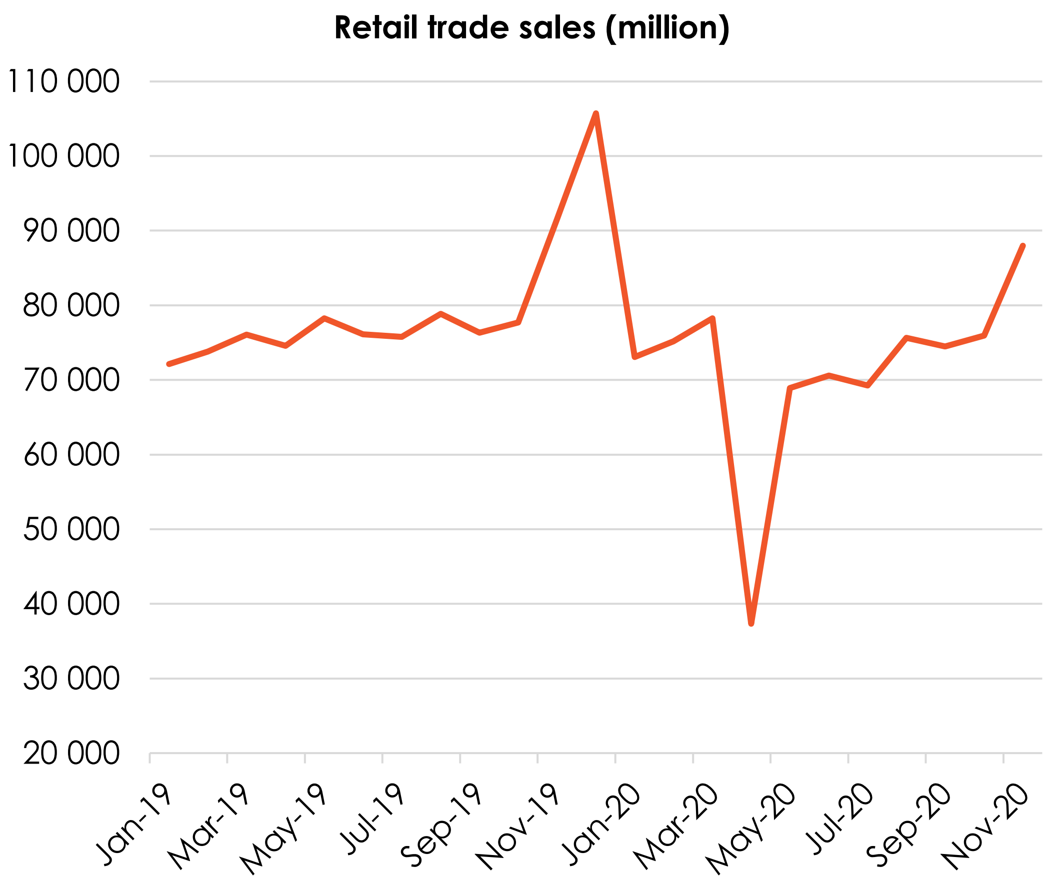
- R340-billion infrastructure pipeline
- Infrastructure development for IRP 2019

- Major themes in 2020

- Expectations for 2021

- Stock picks

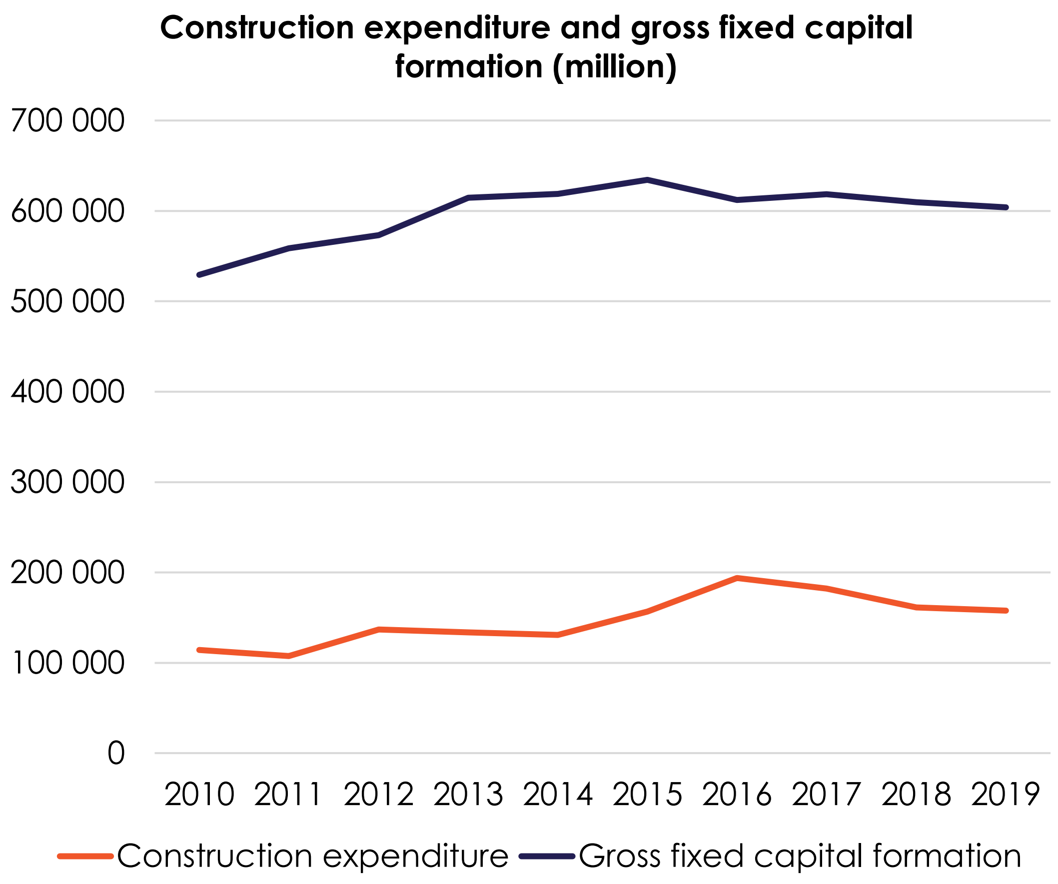
Sector themes: Retail sector



Source: Statistics South Africa

- Extension of the TERS benefit and Covid-19 grant
- Retail sales may not exceed the three-year average of R120bn in December 2020 (adjusted-lockdown level 3)
- Broad recovery in earnings expected for 2021

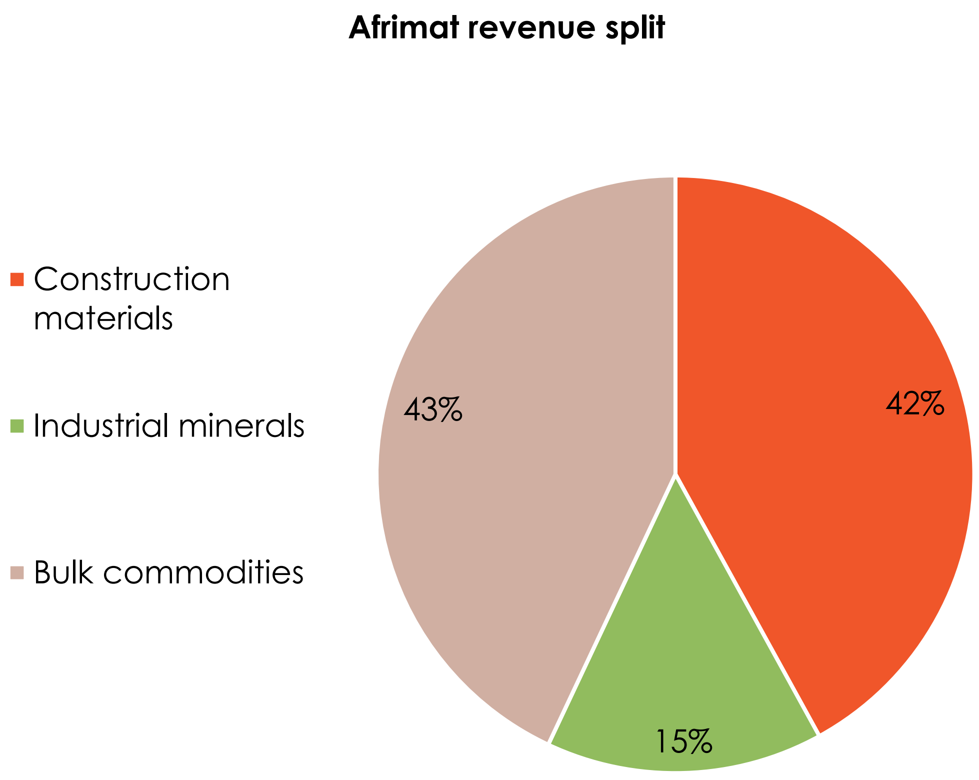
Sector themes: Construction

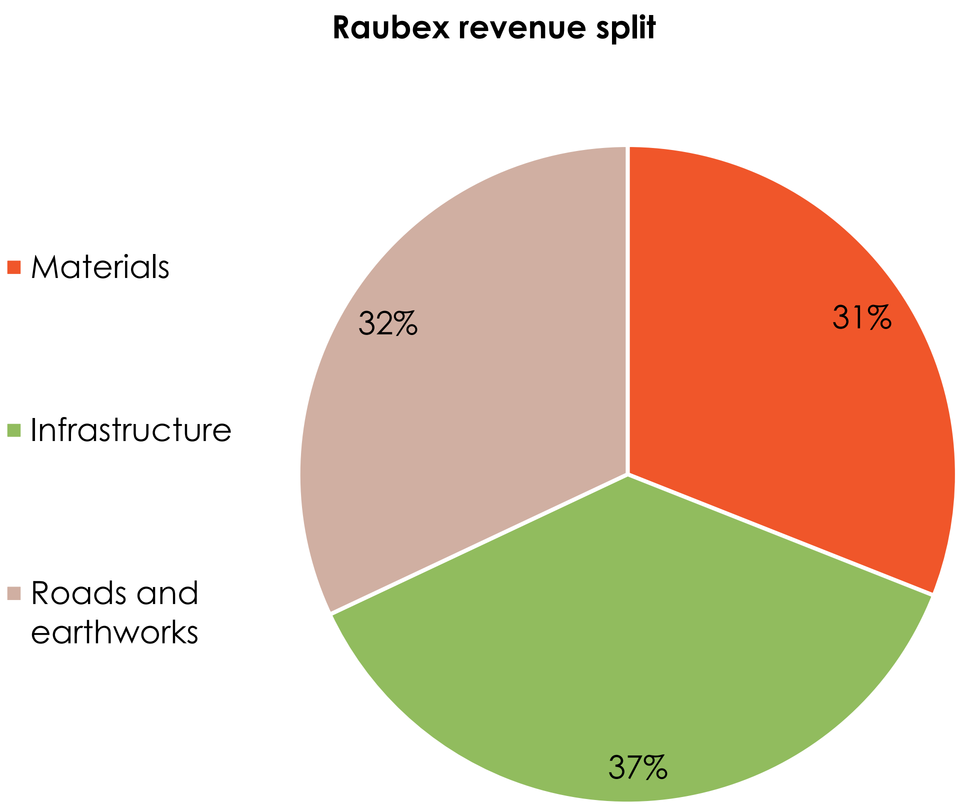


Source: Statistics South Africa

- Since a peak of R193bn in 2016, construction expenditure has declined by 6.6%
- Coincides with a decline in gross fixed capital formation of 0.4% over the same period
- Highlights the importance of government's R340bn infrastructure spending pipeline

Stock Picks: Afrimat and Raubex





Source: Company reports

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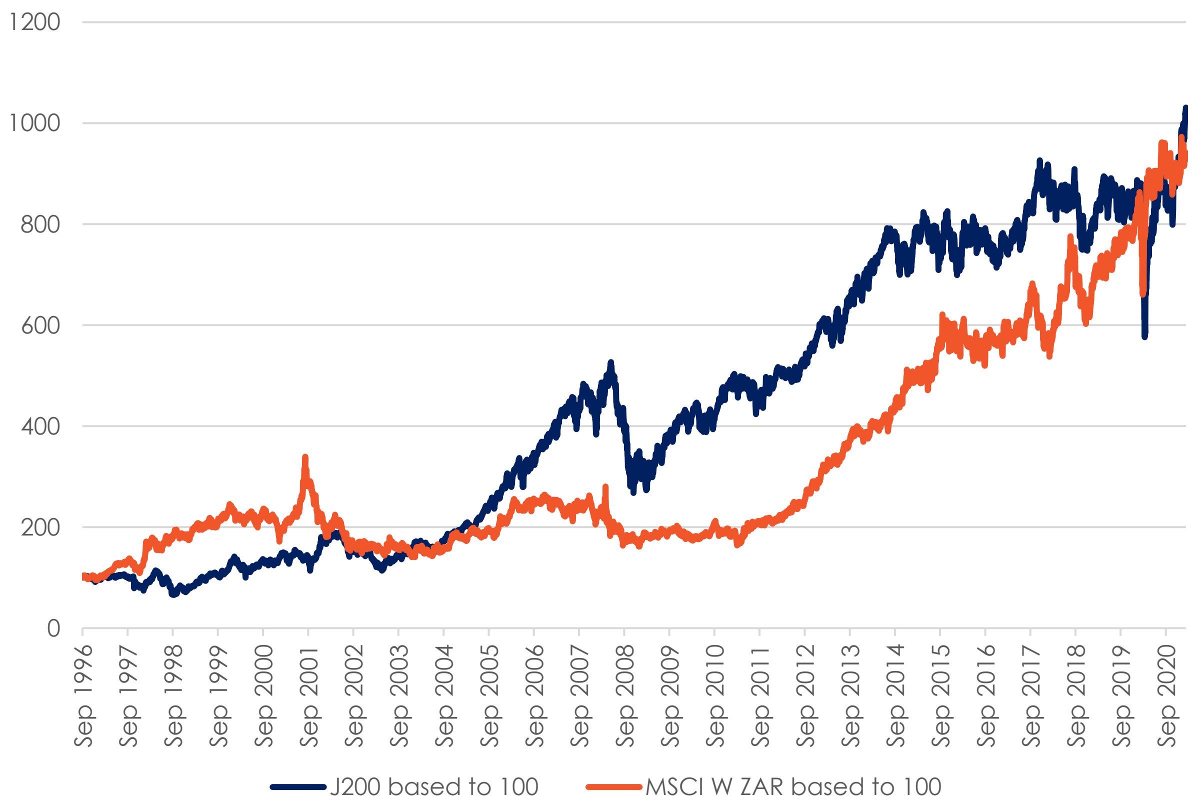
Stuart Theobald, PhD, CFA

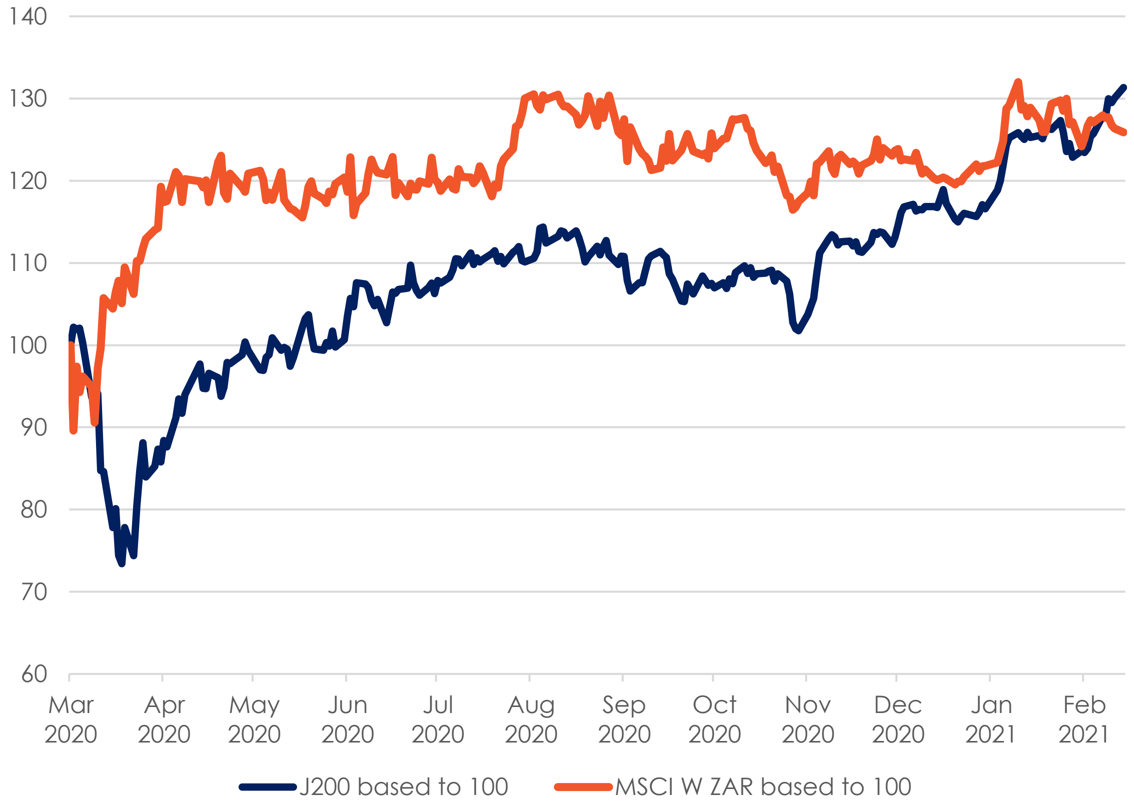
Chairman

Don’t dismiss SA markets too quickly

Both in long and short run, JSE returns compete with global equity yields

All Share Index vs MSCI World
Based to 100 at start, both in ZAR





Any questions?

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