fm

investors MONTHLY

September 2023

Available to Financial Mail readers on the last Thursday of the month, and on **www.businesslive.co.za/investing/investors-monthly/**

TOP SECURITIES BROKERS

All this year's winners

pg 8

Good and bad news for investors

MARC HASENFUSS
email Marc on hasenfussm@fm.co.za

I REALLY LOVE THE STOCKBROKER rankings edition. Krutham (formerly Intellidex) has once again outdone themselves to research and compile an authoritative guide to finding the securities broker that best suits particular needs.

I hugely appreciative of the efforts by Colin Anthony and his team at Krutham for delivering great copy within our tight production deadlines. Congratulations to Rand Swiss ... that's a helluva track record in recent years!

Even with most of the magazine dedicated to our special project, we still managed to bring you a slab of investment copy. Some of it's quite contentious too – covering Murray & Roberts, Calgro and Mahube (all companies where I think the jury is still out). Maybe next month we'll have a deep dive into developments at Transaction Capital?

But returning to the Top Securities Brokers Awards, I am, in particular, relieved to see the smaller outfits still doggedly trading blows with far bigger entities. Long may this continue.

Readers with longer memories will probably recall the cloistered stockbroking world before JSE deregulation. Names like Fleming Martin, Simpson McKie, Mathison & Hollidge, Frankel Pollak, Ivor Jones Roy & Co and SMK Securities should ring a bell.

The latest research suggests a dynamic and vibrant sector with a good deal of intense competition – which is obviously great for us investors.

It would be great for the broking community if the JSE was slightly more vibrant – or at least vibrant enough to bring the retail investors back in droves.

There is still so much scepticism around small caps, and I don't see any meaningful push in new listings activity on the JSE until the economy finds that elusive traction (perhaps don't hold your breath).

As the election draws closer, I suspect the market might tread ever more cautiously. That's not going to help me move up the rankings in the 2023 Cristal Challenge – where, last I looked, I was down by 0.43% with what I thought might be a prudent combination of Reunert, Brait, RCL Foods, Zeda and Orion Minerals.

The last 15 rungs, at September 8, in the Cristal Challenge reflect losses of -20% to almost -60%. The damage has mainly been hewn by Transaction Capital, ArcelorMittal, Murray & Roberts, Aveng and Spar.

Come to think of it, mid-table anonymity might actually not be the worst place to end this year. ●

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Printed by Novus Print Gauteng

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Distributed with the Financial Mail on the last Thursday of every month except December and January

ARENA HOLDINGS

Contributors: Anthony Clark, The Finance Ghost, Marc Hasenfuss, Warwick Lucas, Shawn Stockigt, Joshua Viljoen, Jaco Visser

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Cover: VUYO SINGISWA

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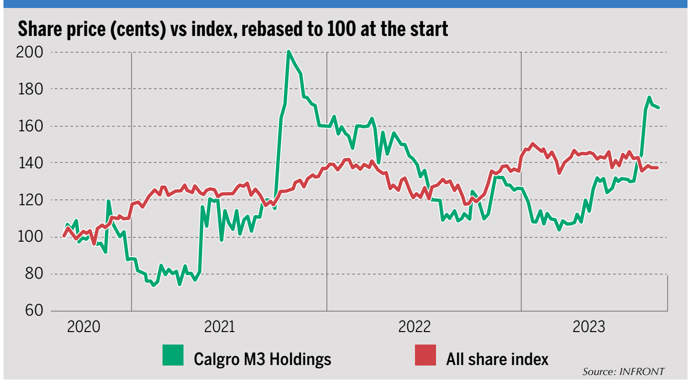
PICK of the MONTH

Share:	CALGRO M3 HOLDINGS
JSE share code:	CGR
Share price:	416c
Average volume traded:	2.84-million (monthly)

CALGRO M3 HOLDINGS VS FTSE-JSE ALL SHARE INDEX



Small-cap property developer Calgro M3 has turned empty plots into a full house of achievements in 2023. Shares in the company are up more than 36% year to date and have risen more than 57% on a 12-month basis.

Calgro's business model is centred on developing low-cost integrated residential developments. The aim is create affordable housing communities close to schools, public transport, shops and medical facilities. Developments usually offer communal features such a sports fields, clubhouses, playgrounds and braai areas.

Think of the developments as Balwin lifestyle estates on a budget. But Calgro should not be underestimated; while Balwin has tried to attract Capetonians by building a beach in Pretoria East, Calgro has stuck to its core strategy of filling the growing demand for affordable housing without compromising on quality. And while Calgro's share price has been building upwards towards 52-week highs, Balwin seems to be stuck on the ground floor, with the share price close to 52-week lows and down 20% year to date.

Besides integrated residential developments, which are its core revenue driver, Calgro also develops mid- to high-end retirement estates. In addition, it owns and operates five memorial parks (a more glamorous term for private cemeteries). This segment appears to be in grave danger, with revenue down 32% year on year. In the most recent financial year revenue from residential property developments contributed R1.5bn to group revenue, while memorial parks contributed only R36m.

If you have listened to any analyst presentations about Calgro or flipped through the marketing material, you may wonder why the memorial parks segment seems to get so much coverage relative to its small contribution to total revenue. Management says the division is meant to provide cash flow that can be used to cover group overheads and interest obligations, due to the consistent and predictable nature of its collections. Cash flow from the sale of residential developments is more sporadic and "lumpy" given the less consistent pace at which they are completed and units are handed over to residents.

The company has been able to maximise project returns when focusing on properties at a lower price, as banks are more likely to grant a 100% bond with no down payment for these properties. They typically cost less than R700,000.

The dependence on banks granting 100% bonds is a material risk for Calgro, as a lower-income person buying a R700,000 apartment is unlikely to have R70,000 saved up for a down payment. So it could have a severe effect on Calgro's ability to sell new developments if banks should begin tightening credit policies and start rejecting applications for 100% bonds. Large local banks such as Absa have already flagged widening credit loss ratios in recent earnings reports.

> "The company has been able to maximise project returns when focusing on properties at a lower price, as banks are more likely to grant a 100% bond with no down payment for these properties. They typically cost less than R700,000

Despite macroeconomic headwinds, the 2023 financial year was one of the greatest for the company. The most recent integrated annual report is not short of significant financial highlights. The company reports a 15.4% increase in group revenue, and profit after tax rose 40.8% to R186m, the highest in Calgro's history. Notable efforts to shore up the balance sheet have been made, and the net debt to equity ratio has dropped from 0.71 to 0.62, a 10-year low.

In addition, management exhibited some astute capital allocation skills, repurchasing 9.27% of the shares outstanding at an average price of 234c, roughly 45% below the current share price. The buyback took place after the February 2023 financial year-end, and thus the benefit of the reduced share count would not have been reflected in the 153c a share headline earnings delivered in the 2023 financial year.

The future revenue pipeline is estimated at 22,000 residential opportunities, expected to generate R15.9bn in revenue. The company completed 3,186 units in 2023 and at this rate it would take roughly seven years for the future developments to be finalised.

Calgro released a trading statement early in September giving an update on the performance for the first six months of the financial year. But management kept its cards close to its chest. The update was thin on details; it indicates only that earnings per share are expected to be at least 20% higher than in the prior year. Investors will have to wait until October 16 for management to show its hand. ●

Joshua Viljoen

Other companies analysed in this issue: Cashbuild, Murray & Roberts, Mahube, RCL Foods, Woolworths, CA Sales

See Pages 28-33 for these share analyses

TRADE of the MONTH

Food service is a business model investors shouldn't ignore. Feeding people is a good way to generate cash flows, and within the various ways to do that, helping people have a great time outside the home is a solid choice.

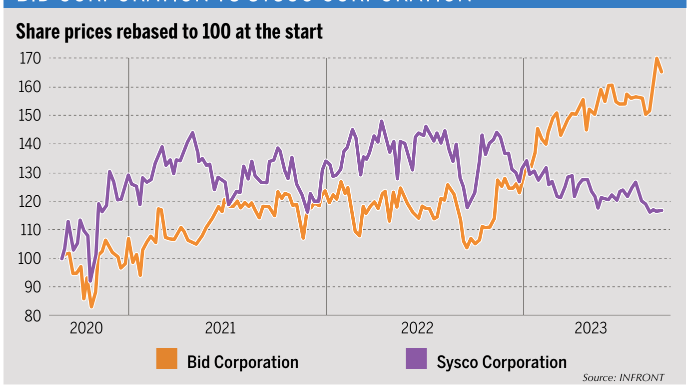
But instead of buying a specific restaurant group, you can be the shovel in the gold rush and rather own the food service companies, such as Bidcorp or global leader Sysco.

Over the past 10 years, Sysco has delivered a compound annual growth rate (CAGR) in the share price of 8% on the nose. That's not as strong as the 10.1% CAGR in the S&P 500 over the same period, with the index helped along greatly by performance in the tech sector. The index performance over the past three years is almost identical to the 10-year view, whereas Sysco only managed a 4% CAGR over three years.

It's not hard to see when the underperformance happened, as we need to remember that the pandemic was a wonderful time for tech companies (a major contributor to the index) and a horrible time for hospitality. If we look at the 10 years leading up to the pandemic, Sysco was good for a CAGR of 11.7% and the index managed 11%. The index returned a dividend yield of 1.9% and Sysco was 100 basis points higher at 2.9%. So, with dividends included, this business model was an index beater before the pandemic. That's important, as the pandemic hasn't done lasting damage to this model as it has done to so many others.

The trick here for the likes of Sysco and Bidcorp is that they fulfil a critical role in the value chain. A chef cannot go to five different stores every day to source ingredients or even napkins for the table. Restaurants must focus on execution of the menu, which means procurement must be efficient and completely reliable. Sysco calls itself a relationship business and it isn't wrong, as the trust between restaurant owner and suppliers needs to be extremely strong. If a truck doesn't arrive, customers can't eat and they won't come back. It's that simple.

BID CORPORATION VS SYSCO CORPORATION



There's more to the relationship than just the logistics. The sales force is a big part of the story, as Sysco hires culinary experts and restaurant owners to work in sales. The value-added service is assistance with menu design, as most of the customers are mom-and-pop shops that greatly benefit from the expertise of a company like Sysco. Of course, if the restaurants do well, Sysco sells more food and groceries.

The strength in the model is that Sysco and Bidcorp have literally thousands of customers, so there's no reliance on individual clients. This gives them supplier power, which in turn means pricing power if they build a relationship of trust. At the intersection of technology, sales strategies and great execution in the delivery network, we find successful food service companies like these that do a great job of growing over time.

To give you an idea of how huge Sysco is, the company services more than 725,000 customer locations from 330 distribution facilities. With a market cap of $35bn, it's also more than four times the size of Bidcorp (R150bn) in terms of value. At a recent investor conference, the Sysco management team called its business "the only player at scale from a global perspective", which is a bit like Americans calling their baseball competition the World Series because it includes Canada.

Leaving aside that rather narrow view of themselves, the reality is that Sysco is certainly the world leader, with a No 1 market position in most of the countries of operation and a No 2 position in the rest. Ignoring Bidcorp is foolish, though.

We don't have many years of data for Bidcorp, as it was unbundled from Bidvest in May 2016. The IPO was expensive (as so many are), so a CAGR of 7% over that period is uninspiring. The performance in 2023 tells a very different story, up 36.4%. In stark contrast, Sysco is down 7.9%. Even in rand, Sysco is only up 2.7%. Perhaps Sysco does have competition, after all?

Sysco traded on a p:e of 24-25 before the pandemic. It's now on 20. Bidcorp trades at fairly similar levels, which reflects the global nature of the business despite it being listed on the local market.

The bigger story is operating margin, which has made Bidcorp pull miles ahead of Sysco. They had similar margins back in 2016. Today, Bidcorp has more than double the operating margin of Sysco.

Though both companies have strong prospects, local is lekker in this case. Bidcorp's listing may be local, but the underlying revenue certainly isn't. Sysco is looking for growth internationally and that's where Bidcorp has always played. ●

The Finance Ghost

ANTHONY CLARK

Solid choice for patient investor

This astute family-owned business can adapt to any adversity

As I write this column, we are well into September, when markets are traditionally jittery and underlying market performance tends to be weaker.

Global market trends are always dictated by price action in the US and, despite swathes of the JSE small- to mid-cap sector being in value territory, nobody is going to stick their heads above the parapet and buy until at least September and October are done and dusted.

This could create opportunity for investors who don't trade on short-termitis. In this issue of IM, I have written a feature on the private education sector. The three listed stocks AdvTech, Curro and Stadio all released solid trading updates backed by great results and prospects into the second half.

Investors have seen that private education is indeed sticky with consumers and results have demonstrated that, as has the rally in the share prices. There may be more to go.

I am nearly done with the current reporting season and to date I have engaged with 34 corporates. I will be up to 50 by the end.

I tried to think what the standouts were to date. Education as a sector was one, with laggard Curro still my preferred play. Ongoing prospects for the fishing sector, especially Oceana, are robust – the weak rand and surging fishmeal price will power earnings into 2024. I have an R85 target on Oceana and can see that being easily attained in 2024.

An unexpectedly upbeat update came from small-cap packaging specialist Bowler Metcalf. As I write, the stock is trading at 800c with a modest market valuation of R598m, with the illiquid stock down 14% year to date.

I went to the sparsely attended results presentation at its Ottery head office in Cape Town. I have covered Bowler consistently since 1996 and management is adept at being thrifty with shareholders' money, eschewing head office extravagance in favour of investing in human capital and the underlying business. I am always comforted that the family-owned business remains as frugal as ever.

There is something reassuring as an analyst to see shabby furniture and a lack of office frippery; it shows management's true priorities lie in the operating business.

With engineering excellence and a skill set unrivalled in the packaging sector, Bowler has carved a niche for itself with an astute ability to adapt to any adversity. At the moment, it's having to contend with a weak economy and rising input and energy costs alongside load-shedding.

This came to bite in the 2023 results, which were a tale of two halves. The first half was challenging as a calamitous economy and failing state infrastructure hit the business. However, Bowler adjusted and clawed back much of the slump.

Revenue rose 6.6% to R717m, but higher operating costs and a lag in recovery meant profit for the year declined 17% to R69m with the packaging division diving 38%. Headline earnings per share for the period, aided by share buybacks, dipped 11% to 103c a share with a 13% trim in dividend to 40.4c a share. This places Bowler Metcalf on a p:e of 7.8 times.

The company sits on R208m cash, or 300c a share, and owns property of R202m, or 292c a share. It's a solid and conservative little business.

Despite a challenging 2023, CEO Friedel Sass, not known for his exuberance, was positively sparkling at the results presentation, saying: "Bowler's time has come, with the company now very fertile for growth." Encouraging.

"A substantial investment of R154m is planned in energy supply projects and new machinery

This may seem counterintuitive to expectations for the fast-moving consumer goods packaging sector, but Bowler is expert at what it does and it is this technical expertise customers are now seeking to offset supply chain and reliability issues in packaging supply. Bowler is becoming a preferred partner with material new contracts won and has pushed through, with no issues, significant price increases that will aid its 2024 results.

A substantial investment of R154m is planned in energy supply projects and new machinery to contend with expected growth in customer activity as many enterprises seek to localise supply. Bowler is benefiting.

The share price has gone nowhere for years despite hefty special dividends and business resilience. I can ascribe this price lethargy to its illiquid nature and tight shareholding, with the company also doing share buybacks.

At 800c, there is clear value in Bowler Metcalf. To me, the stock is a solid option for the conservative and patient investor who subscribes to investing alongside family ownership and management. I place a buy on Bowler with a target of R10.50 (+31%). ●

WHERE'S THE EMERGENCY EXIT?

Concerns over global factors have receded somewhat in the past year, but deteriorating conditions locally are keeping retail investors awake at night, writes **Colin Anthony**

Retail investors are increasingly anxious about poor market conditions in South Africa – markedly more so than last year.

As part of the Top Securities Brokers survey, we ask brokers about the most pressing concerns of their clients and gauge the brokers' opinions on topical issues. South Africa's faltering economy was also causing distress in last year's survey but, equally, clients were also perturbed about international conditions.

That was when global inflation was surging and geopolitical tensions were rising, not only because of Russia's invasion of Ukraine but also due to trade conflicts between the US and China, as well as China's crackdown on big tech firms.

While those factors still weigh on markets (global inflation appears to have peaked in 2022 at 8.73% and is forecast to average below 7% this year), they have receded somewhat and almost every broker responded that local conditions were the primary cause of concern.

"Clients are concerned with their investment exposure to the South African economy and the subsequent weak returns for locally domiciled assets," says Independent Securities CEO Rudi Britz.

"Inflation has been a key consideration as [it] has increased the cost of living and decreased the real value of their savings."

He points out that these concerns have intensified over the past year as severe

TOP OVERALL BROKER

Rank	Firm	Overall Score
1	Rand Swiss	8.98
2	Herenya Capital Advisors	8.80
3	PSG Wealth	8.70
4	Trive Investments	8.57
5	Sasfin Securities	8.44
6	IG	8.39
7	Unum Capital	8.23
8	FNB Stockbroking and Portfolio Management	8.22
9	Standard Online Share Trading/Stockbroking	8.19
10	Independent Securities	8.17

Awards

Rand Swiss put in another stellar performance in this year's Top Securities Brokers survey, which combines client ratings from an online survey with a Krutham assessment of brokers' responses to a questionnaire.

The firm is the Top Overall Broker, proving itself as an exceptionally strong contender, having also won this award in 2019, 2021 and 2022.

"Our focus is unchanged: to be the best broker possible for our clients. Every day we put the clients' needs above our own. I still do not believe anyone else in the market works as hard for their clients as the team at Rand Swiss," says director Gary Booysen.

Herenya Capital Advisors moves up from fifth position last year to take second place, while PSG Wealth takes third position. Rand Swiss also took this year's Top Full-Service Broker Award, beating PSG and Herenya – two competitive contenders – which took second and third place respectively.

Herenya is the Top Self-Service Broker of the Year, edging out last year's winner, Rand Swiss, while PSG and Trive Investments, a newcomer to the survey, tie for third.

Winning the People's Choice Award is significant because it is based solely on client ratings, and this year Herenya scoops the prestigious accolade. Rand Swiss secures second place, while Trive is in third place.

In our two other main awards, Herenya is the Top CFD Provider and Rand Swiss the Most Improved Broker. IG is in second position in both these award categories.

Winners of the archetype awards, which identify the firms that cater best to particular client segments, are: young investor – Rand Swiss; lump-sum investor – Rand Swiss; traditional investor – Herenya; active trader – Herenya; executive – PSG; and social investor – Sanlam Private Wealth.

SELF-SERVICE BROKER

Rank	Firm	Score
1	Herenya Capital Advisors	9.02
2	Rand Swiss	8.89
3	PSG Wealth	8.59
3	Trive Investments	8.59
5	IG	8.49
6	Unum Capital	8.35
7	Standard Online Share Trading/Stockbroking	8.27
8	FNB Stockbroking and Portfolio Management	8.26
9	Sasfin Securities	8.09
10	Nedbank Private Wealth	8.08

FULL-SERVICE BROKER

Rank	Firm	Score
1	Rand Swiss	9.06
2	PSG Wealth	8.80
3	Herenya Capital Advisors	8.68
4	Sasfin Securities	8.65
5	Nedbank Private Wealth	8.28
6	FNB Stockbroking and Portfolio Management	8.26
7	Independent Securities	8.22
8	Unum Capital	8.19
9	Standard Online Share Trading/Stockbroking	8.19
10	Afrifocus Securities	7.99

load-shedding has dampened investor sentiment towards South African assets, especially at a time when developed markets are performing well.

"Clients are very focused on moving a significant portion of their investable assets out of South Africa," says Britz. "They are looking to protect their investments from rand depreciation and exposure to poor-performing South African assets and their associated risks, given the volatile political environment and collapsing infrastructure."

"Where clients can afford to do so, they are hedging against the rand by offshoring funds and making international investments

INVESTMENT IMPACT

Sasfin's Ricki Tatz and Flynn Robson say the political economy has had a far-reaching impact on clients' investment decisions.

"The heightened uncertainty has led to clients externalising as much of their funds into hard currency investments as possible," they say.

"There has also been an element of clients raising cash from their domestic investments for emergency funding for their water, electricity or health needs.

"The infrastructure issues, the weak level of domestic growth and the political instability, corruption and poor choice of international bedfellows have weakened already-battered investor confidence and driven clients to seek out avenues to protect the real value of their wealth in international terms."

What's really keeping clients awake at night is the impact of increasing living costs on their retirement investments. "Some are finding it difficult," said one broker.

But the shrinking domestic market is also alarming for retail investors. Grant Meintjes, head of trading at Nedbank Private Wealth, says clients are concerned about the quantum of investment instruments available in South Africa.

"How do you establish a diverse portfolio locally when the market continues to shrink and market performance is primarily dictated by a handful of shares?"

The political economy, as ever, offers little in the way of relief, with the brokers almost unanimously expressing little faith in the government's ability to turn things around.

Those factors are driving more and more investors to move as much out of the country as they can – and they are leaving themselves. "The emigration trend of high net worth South African clients continues unabated," says Rand Swiss director Gary Booysen.

One direct consequence of the faltering economy is the weakness of the rand, and that is an obstacle to investing more offshore. Meintjes says: "Clients are concerned about domestic revenue generators. Can clients invest offshore given the rand level?"

He says clients are asking a lot of questions about views of the currency 12 months out and investigating high-yielding products/income.

Standard Online Share Trading executive Mark Humphreys says clients are favouring savings products over investment products. "Where clients can afford to do so, they are hedging against the rand by offshoring funds and making

SPECIAL MENTION: MOST IMPROVED BROKER

RAND SWISS SCOOPS the Most Improved Broker Award this year. IG is in second place while FNB Stockbroking and Portfolio Management takes third place.

The Most Improved Broker Award recognises improvements and new developments that firms implemented over the past year. Scores are determined by a combination of client feedback and firms' responses in the firm questionnaire.

Every year we are impressed by the level of innovation that firms introduce. These include cutting-edge technology, improved websites and trading platforms, inventive products and apps, and insightful research and trading ideas.

MOST IMPROVED BROKER

Rank	Firm	Score
1	Rand Swiss	8.29
2	IG	7.72
3	FNB Stockbroking and Portfolio Management	7.62
4	PSG Wealth	7.48
4	Unum Capital	7.48

international investments."

Herenya Capital Advisors CEO Petri Redelinghuys says that while the climate in South Africa is deteriorating, "we see a rather big shift to interest in investing and trading offshore as liquidity in the local market dries up and sociopolitical risks increase. Even our own investors are leaving our market and investing offshore instead."

For those who want to move more investments offshore, Booysen says concern over the weak rand is accompanied by the perception that popular developed-market counters are too expensive.

"The idea seems to be that markets are starting to price in rate cuts alongside the potential gains from artificial intelligence technology, and this has moved prices too far. As a result of the first concern, our clients continue to diversify away from the local market with discretionary money.

"The second worry is being addressed in various ways. Some clients are opting to move funds down the risk spectrum and are using our contingent payoff structured notes, and other hedging techniques. Others are opting to remain on the sidelines."

What needs to be done? Asked what the government's priorities should be, one broker was blunt: "A change of government is needed – the incumbents are inept."

Others pointed to entrenched corruption as a major obstacle to overcoming the country's problems, which are not limited to economic factors. "Rampant and blatant corruption and extreme levels of crime need to be addressed to subdue social unrest and restore confidence in South Africa," says Redelinghuys.

PSG Wealth CEO Etienne de Waal lists corruption, Eskom/power supply and the dysfunctional Transnet as the three main issues that the government needs to address.

First on the list for Britz is the infrastructure challenges. "Electricity generation and transport infrastructure, such as ports and rail, are paramount for investor sentiment."

He also calls for investor- and business-friendly policies to be implemented. "These policies will make a big difference.

> "The government needs to significantly improve consumer, business and investor confidence

should provide incentives for businesses to grow and invest in the economy while promoting trade and foreign investment, all the while reducing red tape and business friction."

His third priority is for the government to enhance political stability and governance at all levels to tackle corruption while promoting transparency and the rule of law.

Tatz and Robson also stress the need to root out corruption and bring corrupt officials to book, but list other areas where the right government actions and

The government needs to significantly improve consumer, business and investor confidence, they say. "Only then will the country raise its potential and actual growth rates to a level that will attract foreign capital, support the currency, reduce unemployment, reduce the size of the budget deficit, halt the increase in public debt and begin the long process of reducing sovereign debt from public debt trap levels."

It needs to "embrace a very willing private sector to help alleviate infrastructure problems and poor service delivery and look to any areas where the private sector or public-private partnerships can simply get things done in a more efficient and cost-effective manner – and with the expertise of the private sector".

They say the government also needs to address the country's pariah status on the global stage. It should "vigorously pursue all avenues to clean up our act and our image – expedite actions to get off the grey list, denounce

TOP RELATIONSHIP MANAGER OF THE YEAR

RAND SWISS'S GARY BOOYSEN wins the Top Relationship Manager of the Year Award while Christo Krog, also from Rand Swiss, is in second place together with Harold de Kock from Independent Securities.

Andrew Padoa from Sasfin Securities takes the third spot.

This award recognises individual excellence in the securities broking sector and has proven to be a highly competitive category. All firms that perform well in this survey have to be effective in maintaining high levels of client satisfaction but, when it comes to individual relationship managers, clients are highly effusive in their praise for the good ones.

TOP RELATIONSHIP MANAGER

Rank	Firm	Relationship Manager	Rating
1	Rand Swiss	Gary Booysen	9.95
2	Rand Swiss	Christo Krog	9.91
2	Independent Securities	Harold de Kock	9.91
3	Sasfin Securities	Andrew Padoa	9.83
4	Afrifocus Securities	Fernando Moreira	9.78

One of Booysen's clients says: "Gary is always available, measured and well informed. He is also able to explain transactions in a simple, patient and digestible manner. I love working with Gary and his hyper efficient team. Best guys in the business by far."

Krog's clients are equally satisfied, and one reports: "Christo goes beyond the call of duty when dealing with my queries. He maintains the highest degree of professionalism when dealing with requests, while being efficient and extremely responsive in communicating with me."

De Kock also keeps his clients extremely happy, and one says: "Harold is dedicated and ensures open and transparent communication, keeping abreast not only of my own portfolios but also on relevant market news and trends. He makes regular efforts to connect in person, gain an understanding of my current and future financial plans, and how best to ensure my continued financial success."

The winner is determined by client nominations and the ratings they provide, weighted according to firm size and client base.

warmongering, choose our allies more carefully and support initiatives that will attract positive international attention and investment".

SOME TAILWINDS

It's not all bleak, however. Britz says that while there are many headwinds there are still many opportunities for traders within the local market.

"These may not necessarily be long-term investments but certainly short-term opportunities. There is also an increasing number of products available on the JSE allowing traders and investors to gain unique exposures both locally and offshore."

He says the improvement in technology and the breadth of products available to traders in South Africa are major advantages and go a long way to ensure that investors can access the markets and securities they want in a way that meets their needs.

> "The improvement in technology and the breadth of products available to traders in South Africa are major advantages

Tatz and Robson say most clients understand that markets ebb and flow and are subject to periods of strength and weakness.

"During the market softness of 2022, the vast majority of clients were accepting that better days would come and that sitting on your hands and not panicking during the uncertain times was the appropriate response. With the strong market performance in 2023, mostly from the offshore markets, clients have become more concerned about whether the equity market rally is sustainable.

"The higher level of local and global interest rates has also meant that cash and bonds have become a more viable investment alternative. Clients have looked to these other asset classes as concerns around the sustainability of the equity market rally have increased."

Of course, it is in such turbulent times that the brokers earn their keep, providing strong guidance on investment options and ensuring clients make rational decisions.

Research manager:
Heidi Dietzsch
Senior data analyst:
Everton Muberekwa
Editorial:
Janice Roberts and **Colin Anthony**

METHODOLOGY

THE TOP SECURITIES BROKERS survey is conducted annually by specialist financial capital markets research house Krutham.

This is the 14th year that we have assessed South Africa's retail securities brokers. This year 12,741 retail clients (2022: 5,649) completed an online client survey, ranking their brokers on a range of products and services. The high number of client votes entrenches the credibility of the survey findings. While 12 brokers officially entered the competition, client participation roped in 41 brokers, with 23 of these seeing at least 20 of their clients participating in the survey.

The structure and approach of the project has been informed by our experience built up over past years, as well as feedback from industry participants and their clients. Overall, we aim to blend qualitative client feedback with data provided by the firms and the assessment from the judges.

The awards recognise firms in two main categories: Top Self-Service Broker (formerly Top Online Broker) and Top Full-Service Broker (formerly Top Advice Broker). This division recognises the two main types of brokers and similar financial service providers that operate in the market and the types of services in which clients are interested.

We define full-service brokers as brokers that provide clients with a wide range of financial services, including a relationship manager who provides direct advice, research and other investment support to clients and who often has discretion to place buy and sell orders and execute trades for the client. Self-service brokers provide online facilities for "do-it-yourself" traders and execute buy and sell orders placed by the client. These two awards as well as the Most Improved Broker Award are based 40% on the judging panel's assessment and 60% on client ratings.

The Top Full-Service and Self-Service scores are incorporated into the overall award, the Top Overall Broker of the Year. There is also an award based purely on client feedback, the People's Choice Award, and we recognise the top brokers that provide contracts for difference (CFDs).

This year our archetypes reflect six client segments to recognise excellent service delivered in each. Krutham believes these awards, which are based purely on client rankings, are particularly useful for new clients seeking a firm that meets their particular needs. These awards are:

- Young investor (younger than 35, saving regularly from income);
- Lump-sum investor (retiree/recipient of large-sum payout that will be invested in a broker account);
- Traditional investor (older than 35, contributing regularly to a portfolio);
- Active trader (day-trading as main source of income);
- Executive (has complex equity structuring requirements); and
- Social investor (has complex equity structuring requirements).

We also specify which firms excel in different categories, such as value for money and range of instruments available.

Finally, there is an award that recognises individual excellence: the Top Relationship Manager of the Year. The winner is determined by client nominations and the ratings they provide, weighted according to firm size and client base.

The firms we cover come in two types: registered stockbrokers and registered financial services providers (FSPs) that offer stockbroking-like services. Registered stockbrokers tend to be older firms focused on personal relationships with clients, while FSPs tend to be more execution focused. Only registered stockbrokers are allowed to call themselves "stockbrokers" in terms of legislation, though it has become common usage to refer to everyone who supplies stockbroking-like services as stockbrokers. Because our priority is to provide a useful service to members of the public, for whom the difference is often irrelevant, we incorporate both registered stockbrokers and FSPs in our survey.

The research has two pillars. First, a comprehensive questionnaire is sent to brokers asking for details of their products, pricing and market positioning. Second, a major online survey is undertaken in which clients of brokers participate. Clients rate their brokers on numerous factors. These these scores determine the important People's Choice Award and feed into the other scoring categories where relevant.

The Self-Service and Full-Service scores reflect a combination of Krutham's views and client feedback. For the Full-Service Broker Award, the client input consists of ratings for advice on investment decisions, quality of fundamental research, buy and sell recommendations, macroeconomic analysis, quality and service levels of telephone-based trading, advice on corporate actions and value for money. For the Self-Service Award, client input includes service with IT queries; help with understanding the trading platform; educational assistance; ease of use of the online trading platform; satisfaction levels with the platform and app; and access to data.

The Top Overall Broker Award is informed both by client input and a Krutham assessment. The assessment takes into account six equally weighted dimensions: cost of trading; responsiveness and transparency; available instruments and trading tools; client support and education tools; online services; and offline services. The client input is a consolidation of the client input used for the Full-Service and Self-Service categories.

The People's Choice Award is based on client feedback on several factors where clients rank their brokers on satisfaction levels on specific services and products, value for money, overall satisfaction levels and on their likelihood of recommending the broker to family or friends.

The Top CFD Provider is also determined from a mix of client feedback and a Krutham assessment of the online capability, trading costs and credit riskiness of the provider. Client opinions on CFD research are also considered. Better scores for risk are given for firms where the counterparty for CFDs is clear and has a large balance sheet. Small or obscure balance sheets receive lower scores.

The methodology will continue to evolve to stay abreast of industry changes and as we receive further feedback.

Contracts for difference

Herenya the top CFD provider of the year

TOP CFD PROVIDER

Rank	Firm	Score
1	Herenya Capital Advisors	9.07
2	IG	8.65
3	Trive Investments	8.51
4	Rand Swiss	8.32
5	Afrifocus Securities	8.06

Herenya Capital Advisors is the top contracts for difference (CFD) provider of the year, with IG taking second place and Trive Investments in third place.

All Herenya's South African CFDs are traded through and written by Nedbank Corporate & Investment Banking, while Interactive Brokers is used for offshore CFDs.

IG prides itself on being the largest provider of CFDs in the world by published financial statements, excluding foreign exchange, and writes its own CFDs.

Trive Investments acts as an agent for a CFD provider through Velocity Trade.

Scores for this award are derived from a combination of client feedback both on the CFDs and research offered, combined with a Krutham assessment of the online capability, trading costs and credit riskiness of the provider.

Better scores for risk are given for firms where the counterparty for CFDs is clear and has a large balance sheet. Small or obscure balance sheets receive lower scores. Firms with a minimum of 40 clients who responded to the CFD questions qualified for the award.

Satisfaction levels are assessed from CFD-trading clients' opinions on the range of CFD products offered, the quality of their brokers' interaction with them and the support they offer. We use those rankings, costs and our own investigations to determine scores.

CFDs are useful for shorter-term traders as they are generally cheaper to trade in and out of than normal shares, but they become more expensive the longer the holding period.

CFDs can now be traded on the JSE – which eliminates credit risk as it guarantees settlement – or "over the counter" between broker and client. The latter type has been going for longer and still makes up the majority of CFD trades.

CFDs imply credit risk because brokers can end up owing traders money if the underlying asset prices change. That should be no problem for brokers who are managing their risk correctly, but it can become a big issue if they are not. While we assess this risk as comprehensively as possible, without conducting a full systems audit it remains difficult to do.

> It is important to clients that CFD trading facilities are easy to use and costs are low

We asked brokers to identify which balance sheet was the counterparty to the CFD contracts they wrote, and to explain how they segregate clients' money from the firm's. We score brokers highly if there is a clear and substantial balance sheet standing behind the contracts, and mark them down if the balance sheet is small or hard to assess.

It is also important to clients that CFD trading facilities are easy to use and costs are low. Costs can be assessed directly but have two sources: the charges for CFD transactions and the implied leverage in transactions. Often, low fees are paid for by charging high interest rates for leverage, or by paying low interest rates for short exposures. We measured the difference between these, which is known as the spread.

PEOPLE'S CHOICE AWARD

Herenya proves to be the people's choice

HERENYA CAPITAL ADVISORS surges into first place from second place last year to win this award on the back of an improvement in ratings from its clients.

The firm also wins the Self-Service Broker Award and the Top CFD Provider Award.

Rand Swiss moves into second place this year from third place previously, while also winning the Top Overall Broker Award, the Full-Service Broker Award and the Most Improved Broker Award.

Trive Investments finishes in third place.

The People's Choice Award is highly coveted as it is based purely on client opinions. This year 12,741 clients participated in our online survey, ensuring a high degree of credibility for this award. Clients rank their brokers according to various factors, including satisfaction levels for a range of products and services, value for money, overall satisfaction and the likelihood of recommending the broker to others.

Overall, the standards are exceptionally high across the industry, with all firms highly regarded by most of their clients. Almost half the clients are "extremely likely" to recommend their brokers to others while the majority of clients indicated that they are "very unlikely" to switch to another broker in the next few years.

Clients do not nearly reflect the demographics of the country. However, the percentage of black clients has increased substantially — from 25% to 35%. Clients are typically well educated — more than 50% have a degree — and 40% earn more than R500,000 a year.

PEOPLE'S CHOICE AWARD

Rank	Firm	Score
1	Herenya Capital Advisors	9.18
2	Rand Swiss	8.92
3	Trive Investments	8.90
4	Independent Securities	8.81
5	Unum Capital	8.62
6	Sasfin Securities	8.43
7	IG	8.35
8	Afrifocus Securities	8.34
9	PSG Wealth	8.29
10	Nedbank Private Wealth	7.91

R10,000 winner

The lucky winner of the R10,000 cash prize for completing the Top Securities Brokers online client survey is **Martiens Barnard**, a client of FNB Stockbroking and Portfolio Management. The R10,000 will be deposited into his broking account.

Two new experts join the judges

Two external, independent judges, Raazia Ganie (right) and Wayne Hiller van Rensburg (far right), joined the judging panel for the 2023 Top Securities Brokers survey.

Ganie heads the investment team at NMG Benefits. She has extensive experience locally and abroad in dealing with institutional funds ranging from retirement funds and medical aids to beneficiary funds and trusts. Ganie has experience in both the advisory business as well as asset management and private wealth.

She is focused on ensuring clients receive the best advice, while maintaining good governance and improving member outcomes in the process.

Ganie has a BCom in information systems from the University of Cape Town. She is a CFA charterholder and serves on the board of the CFA Society South Africa. She has 25 years of investment experience spanning South Africa and the UK. She has worked for local and international investment consultants including Alexander Forbes and Willis Towers Watson. She gained invaluable experience at UK asset manager Poalim.

Hiller van Rensburg is well known in the South African and Sub-Saharan retirement sectors, renowned for his advocacy and governance expertise. As the executive officer of the Institute of Retirement Funds Africa, he champions improved retirement outcomes. He also serves as principal officer for major South African retirement funds.

In addition to his retirement sector leadership, Hiller van Rensburg possesses in-depth knowledge of wealth management. His active memberships in various professional organisations reflect his exceptional skills and commitment to comprehensive financial services.

Which broker is right for you?

DIFFERENT FIRMS HAVE DIFFERENT AREAS OF STRENGTH while clients have unique needs. The archetype rankings are designed to match client needs with the most suitable brokers. The results are determined purely by client rankings and we present the top firms in each archetype category. In some instances, firms were not eligible due to insufficient client participation.

krutham
Top Securities Brokers South Africa 2023 Awards

YOUNG INVESTOR

Younger than 35, saving regularly from income

Rank	Firm	Score
1	Rand Swiss	9.58
2	Trive Investments	9.28
3	Unum Capital	9.22
4	PSG Wealth	8.81
5	Herenya Capital Advisors	8.79

Young Investor: under 35, saving regularly from income
Largely self-directed, such clients will interact mostly online, requiring some educational guidance and low-cost trading for relatively small monthly investments.

EXECUTIVE

Complex equity structuring requirements

Rank	Firm	Score
1	PSG Wealth	9.08
2	Sanlam Private Wealth	8.74
3	EasyEquities	8.49
4	FNB Stockbroking and Portfolio Management	8.23
	*too few votes for other firms to qualify for this award	

Executive: a client with complex equity structuring requirements
Executive clients often have complex needs such as large, concentrated equity exposures, requiring financial engineering skills as well as financial advice.

SOCIAL INVESTOR

Stokvels, credit unions, group saving schemes

Rank	Firm	Score
1	Sanlam Private Wealth	8.53
2	PSG Wealth	8.46
3	FNB Stockbroking and Portfolio Management	8.34
4	RMB Private Bank	8.24
5	EasyEquities	8.02

Social investor: stokvels, credit unions, group saving schemes
Stokvels and other group saving schemes are well established in SA and they are increasingly moving into mainstream investing.

TRADITIONAL INVESTOR

Older than 35, contributing regularly to a portfolio

Rank	Firm	Score
1	Herenya Capital Advisors	9.50
2	Trive Investments	9.23
3	Rand Swiss	9.20
4	Unum Capital	9.10
5	Afrifocus Securities	9.06

Traditional investor: older than 35, contributing regularly to a portfolio
Typically mid-career investors who have surplus income that they regularly invest on the stock market.

ACTIVE TRADER

Day-trading as main source of income

Rank	Firm	Score
1	Herenya Capital Advisors	9.60
2	IG	8.80
3	RMB Private Bank	8.79
4	PSG Wealth	8.61
5	FNB Stockbroking and Portfolio Management	8.44

Active trader: day-trading as main source of income
These clients largely use index futures, CFDs or single-stock futures to trade. The priority is efficient execution and low trading costs.

LUMP-SUM INVESTOR

Retiree or recipient of large sum payout that will be invested in a broker account

Rank	Firm	Score
1	Rand Swiss	9.28
2	Sasfin Securities	8.97
3	PSG Wealth	8.93
4	Sanlam Private Wealth	8.60
5	Investec Wealth and Investment	8.45

Lump-sum investor: Recipient of large sum payout to be invested in a broker account
Such clients have received a large sum to invest, for example, from an inheritance or retirement savings.

What they're good at

We assess each broker on core measures, and the top performers are listed in the tables here

There are many elements to being a great broker. Some focus on niche areas while others cater to clients across all archetypes.

In this section we list excellent brokers on four different measures to help readers recognise the ones that would suit them.

> Investors can access training on just about any type of trading and investment concept online or at numerous live events

CLIENT SUPPORT, INCLUDING RESEARCH AND EDUCATIONAL TOOLS

Rank	Firm	Score (out of 5)
1	Rand Swiss	4.62
1	Independent Securities	4.62
3	Unum Capital	4.61
4	Trive Investments	4.60
5	Herenya Capital Advisors	4.59
6	Sasfin Securities	4.44
7	Afrifocus Securities	4.43
8	PSG Wealth	4.34
9	Sanlam Private Wealth	4.17
10	Investec Wealth & Investment	4.14

Client support, including research and educational tools
The range as well as the quality of educational support and research provided by brokers pretty much across the market is extraordinary. Clients are well catered for in South Africa. From basic trading concepts to the more sophisticated derivatives-linked investment options, investors can access training on just about any type of trading and investment concept online or at numerous live events offered by brokers.

VALUE FOR MONEY

Rank	Firm	Score (out of 5)
1	Trive Investments	4.83
2	Herenya Capital Advisors	4.58
3	Rand Swiss	4.51
4	Unum Capital	4.49
5	IG	4.36
6	Nedbank Private Wealth	4.24
7	Sasfin Securities	4.08
8	FNB Stockbroking and Portfolio Management	3.93
9	Standard Online Share Trading/Stockbroking	3.78
10	PSG Wealth	3.77
11	Independent Securities	3.31
12	Afrifocus Securities	3.07

Value for money
Krutham uses the information submitted by the brokers on the total cost of performing a single equity, ETF and CFD buy execution of five amounts (R11,000, R51,000, R101,000, R501,000 and R1,001,000). We give a higher weighting to costs for brokerage fees on equities trading but also look at charges for trading of CFDs, including the cost of leverage. We also include monthly admin costs. We also include client feedback from the online survey to determine these scores.

RESPONSIVENESS AND TRANSPARENCY

Rank	Firm	Score (out of 5)
1	Herenya Capital Advisors	4.60
2	Independent Securities	4.57
3	Rand Swiss	4.48
4	Trive Investments	4.45
5	Afrifocus Securities	4.34
6	Unum Capital	4.32
7	IG	4.28
8	PSG Wealth	4.21
9	Sasfin Securities	4.18
10	EasyEquities	4.11

Responsiveness and transparency
Transparency levels are generally excellent across the industry. Clients rate their brokers on transparency on fees and responsiveness to queries, among other factors.

AVAILABLE INSTRUMENTS AND TRADING TOOLS

Rank	Firm	Score (out of 5)
1	Rand Swiss	4.89
1	Standard Online Share Trading/Stockbroking	4.89
3	FNB Stockbroking and Portfolio Management	4.61
4	Nedbank Private Wealth	4.59
5	PSG Wealth	4.56
6	Sasfin Securities	3.81
7	Unum Capital	3.59
8	Herenya Capital Advisors	3.40
9	Afrifocus Securities	3.32
10	Independent Securities	3.29

Available instruments and trading tools
We assess this category using information garnered from the brokers' submissions as well as our own investigations into their offerings. The tools assessed, among others, are: direct market access; ability to view market depth; live prices; charting; stop-loss orders; and limit orders. The range of investible instruments on offer is also assessed.

The broker scores

AFRIFOCUS SECURITIES	Score
Client support, including research and educational tools	4.43
Available instruments and trading tools	3.32
Trading costs	1.60
Offline services	3.61
Online services	4.22
Responsiveness and transparency	4.34
Value for money	3.07

FOUNDED IN 2000, AFRIFOCUS SECURITIES is 80% black owned and offers both personalised stockbroking and financial advisory services including offshore investments, retirement and savings products, structured products, full discretionary portfolio management, advisory portfolio management and foreign exchange services.

Over the past year the firm has updated its trading platform while new investment analysts have joined its team. For young investors, tax-free savings accounts using low-cost ETFs as building blocks are offered as well as a debit order facility for monthly savings. This group also has access to competitive interest rates via the Nedbank Corporate Savings account.

For traditional and lump-sum investors a full-discretionary as well as a nondiscretionary portfolio option is provided. There is a money-market offering which provides corporate rates, which are higher than the individual can negotiate with a financial institution. The firm also assists these investors into multifund managers listed on the Allan Gray platform.

As top executives want a full-service stockbroking offering and personalised service, the firm provides warehousing of strategic shares, facilitating the ongoing payments of income generated via dividends or interest into their personal bank accounts. Client education assistance is through investment research that is provided for free on the firm's website as well as through access to portfolio managers.

FNB STOCKBROKING AND PORTFOLIO MANAGEMENT	Score
Client support, including research and educational tools	4.09
Available instruments and trading tools	4.61
Trading costs	3.71
Offline services	4.57
Online services	4.00
Responsiveness and transparency	3.99
Value for money	3.93

FNB STOCKBROKING AND PORTFOLIO MANAGEMENT caters for investors who wish to trade independently but also rely on its supporting material and platform tools. It also has a range of clients who leave investment decisions solely to its team.

Between these two groups there is a range of clients who prefer a hybrid model, whereby they want to be in control of their trade decisions but like to discuss their trade opportunity with an expert.

As a result, FNB's online share trading and portfolio management solutions, which encompass both FNB Stockbroking and Portfolio Management as well as FNB Share Investing, include investment and trading solutions that cater for varying levels of active and passive management with or without advice.

Through its affiliation with the FirstRand group, FNB is able to deliver institutional products to retail clients through RMB and RMB Morgan Stanley, including private equity and structured products.

FNB has developed numerous products that are well suited to each client archetype and presents a strong, all-round offering.

In May 2023 FNB launched its Investment Insights portal, which brings together the latest economic and market information together with thought leadership articles from experts across FirstRand. It has also introduced three new educational e-books on investing as well as live webinars.

Its FNB ETN range has been extended to cover environmental, social and governance factors while it has set up a Section19 programme to enable its clients to trade in structured products.

HERENYA CAPITAL ADVISORS	Score
Client support, including research and educational tools	4.59
Available instruments and trading tools	3.40
Trading costs	4.32
Offline services	3.64
Online services	4.45
Responsiveness and transparency	4.60
Value for money	4.58

THE MAJORITY OF HERENYA CAPITAL ADVISORS' CLIENTS are active traders and it provides strong support services for them. This includes market commentary throughout the trading day, research on local and international stocks, local and international macroeconomic developments, trade ideas and coaching and guidance. Instruments offered include local and international equities, ETFs, CFDs and futures.

A strong client community has been created that adds value for active traders. This community allows clients to take part in active and ongoing discussions about what is happening in markets, as well as sharing ideas and building friendships with other traders.

It has also structured products to keep costs down – clients who trade more than R9m a month are put onto a low-cost intraday or low-cost overnight CFD trading account. These accounts are available only to experienced and highly active traders but have a cost structure of 0.06% and 0.12% brokerage with no minimum charge per trade, no monthly fees, level 2 market data and Iress ViewPoint as a trading platform.

The specialised brokerage does not really cater to smaller accounts, though it believes that with the knowledge and guidance available in its client community there is likely no better place for young investors to learn real investing skills and gain a deep understanding of financial markets.

While Herenya has some creative ideas on how to provide a better service for the smaller account segment of the market (and especially for beginners), these are still in the development phase and have not yet been launched.

IG	Score
Client support, including research and educational tools	4.12
Available instruments and trading tools	3.10
Trading costs	4.40
Offline services	3.45
Online services	3.92
Responsiveness and transparency	4.28
Value for money	4.36

IG PRIDES ITSELF ON HAVING THE MOST COMPREHENSIVE offering for CFD/derivatives traders, its global operations adding muscle to the local business.

IG was founded in the UK in 1974 and is a member of the FTSE 250. It is the largest provider of CFDs in the world by published financial statements and offers investors the opportunity to trade in 17,000 global markets. IG also provides tailored offerings to hedge funds, family offices, banks, brokers and asset managers.

The strengths of its four trading platforms ensures an innate competitive advantage, including an advanced DMA platform for sophisticated traders. In addition, there are two third-party trading platforms for clients. The majority (75%) of IG's clients are active traders while it also caters to executive clients. It provides up-to-the-minute news, data and analyses from its global team of more than 30 analysts, including DailyFX, a portal for forex trading news, charts, indicators and analysis. IG also offers a range of educational resources tailored to all trading skill levels.

Developments to IG's service offering over the past year include the introduction of its trading analytics tool that provides an overview of clients' trading history as well as a deeper insight into their winning and losing trades. Equity options are now available while Tipranks – a stockscreener plug-in on the trading platform – provides clients with analyst consensus, financial data, upcoming events, technical analysis and fundamental ratios.

INDEPENDENT SECURITIES	Score
Client support, including research and educational tools	4.62
Available instruments and trading tools	3.29
Trading costs	1.80
Offline services	4.25
Online services	3.87
Responsiveness and transparency	4.57
Value for money	3.31

A JSE MEMBER SINCE 1998, INDEPENDENT SECURITIES has built its reputation on providing quality personalised service. Clients have direct access to portfolio managers and a professional back-office team.

It provides full discretionary and advisory portfolio management services for local and global segregated share portfolios and manages a local and offshore global equity collective investment scheme. The firm offers discretion and advice on compulsory portfolios including retirement annuities, preservation funds and living annuities, as well as voluntary wrapped products such as endowments. It also provides investment management and prime broking services to qualified investor hedge funds.

Independent Securities works hard to keep costs down with low monthly administration fees and no performance fees. The bulk of the firm's clients are executives, but it also has a sizeable amount of lump-sum and traditional investors and it has a range of products suited to each, while also catering to young investors.

NEDBANK PRIVATE WEALTH	Score
Client support, including research and educational tools	4.08
Available instruments and trading tools	4.59
Trading costs	4.26
Offline services	4.60
Online services	4.04
Responsiveness and transparency	4.03
Value for money	4.24

OFFERING THE FULL RANGE OF PRODUCTS AND SERVICES while being able to draw on the resources of the wider bank makes Nedbank Private Wealth a competitive player in the stockbroking sector. It offers advice and full discretionary services, with its online share trading website featuring strong research and educational support.

With its client base well spread between archetypes, the bank presents products suited to each and has recently beefed up its young investor offering with a product without monthly administration fees, no minimum transaction fee and a competitive transaction fee of 0.25% for listed equities.

Lump-sum investors have access to a range of investment products that meet their specific needs, such as balanced ETFs, unit trusts, bonds, enhanced income funds and uniquely structured capital guaranteed notes.

Traditional investors can trade directly on the online share trading platform or leverage the dedicated branch services for their more customised trading requirements where a comprehensive suite of products is provided, including ETFs, local and international equities, CFDs, warrants and asset swaps.

For executives with complex equity structuring requirements, solutions include protection strategies and structured products. Services provided to active traders include a good trading platform with real-time market data, charting tools and order execution capabilities, as well as low-cost trading and education and trade ideas.

> It provides up-to-the-minute news, data and analyses from its global team of more than 30 analysts, including DailyFX, a portal for forex trading news, charts, indicators and analysis

PSG WEALTH	Score
Client support, including research and educational tools	4.34
Available instruments and trading tools	4.56
Trading costs	3.12
Offline services	4.54
Online services	4.49
Responsiveness and transparency	4.21
Value for money	3.77

PSG WEALTH IS ONE OF THE BIGGEST PLAYERS in the market that is not linked to a bank. The firm has a substantial number of both self-trading clients and those who pay for advice, supported by extensive research and educational products.

The self-service clients also have access to investment specialists who are able to direct them to the appropriate PSG products based on their investment objectives and needs. Four traders are available telephonically or via email to assist with trade execution, chart analysis or corporate action analysis.

Fully-managed clients enjoy a personalised, bespoke portfolio management service via their financial adviser. Clients have direct market access to all JSE-listed securities (including ETFs and ETNs), 19 offshore exchanges, 13 currencies and a range of derivative products. The ViewPoint Plus trading platform is provided free of charge to clients, enabling them to view their portfolios, trade and have access to market data and charting tools.

For clients wishing to gain leveraged access to local markets, PSG offers the ability to trade in CFDs and single-stock futures referencing the top 100 JSE stocks or Satrix ETFs as well as interest rate and currency futures.

PSG is introducing a new, vastly improved mobile trading application and it continues to invest in its website including regular research updates to enhance user experience. Weekly engagement Q&A sessions are gaining in popularity and a new series known as The Full Picture has been launched, featuring an in-depth perspective and insight into select companies listed on the trading platform.

RAND SWISS	Score
Client support, including research and educational tools	4.62
Available instruments and trading tools	4.89
Trading costs	4.32
Offline services	4.91
Online services	4.67
Responsiveness and transparency	4.48
Value for money	4.51

RAND SWISS IS ESTABLISHING ITSELF AS THE PREMIER firm in our survey, winning the Top Overall Broker award for the third consecutive year in a row. This year the firm also wins the Top Full-service Broker award, the Most Improved Broker award and two archetype awards – young investor and lump-sum investor.

The firm believes its achievements flow from its strong focus on putting client needs first while striving constantly to improve its offerings to generate better results for clients.

Rand Swiss has consolidated its business into three units: securities broking (active trading accounts, private broking and forex dealing); managed solutions (model portfolios and structured products); and wealth & advisory (investments, estate planning, risk and assurance). The firm has expanded its team of certified financial planners, offering for the first time an end-to-end service around investment structuring including pre- and post-retirement planning, with a focus on tax efficiency. It has also extended its services to include fiduciary services for estate planning, advice around offshore trust and pensions products, as well as the drafting of simple local and international wills. As part of the holistic planning processes, it includes analysis and recommendations around risk products.

Rand Swiss's restructuring led to a full relaunch of its website which entailed an entire rebuild on new servers with enhanced security features. In addition, a full compliance review and rework of the compliance processes with the product shift was carried out.

SASFIN SECURITIES	Score
Client support, including research and educational tools	4.44
Available instruments and trading tools	3.81
Trading costs	3.65
Offline services	4.32
Online services	4.05
Responsiveness and transparency	4.18
Value for money	4.08

SASFIN SECURITIES OFFERS BOTH SELF-SERVICE TRADING and advice but it continues to deal primarily with affluent and high-net-worth individuals in creating and implementing bespoke global solutions with a high-touch personal relationship with a dedicated portfolio manager.

The portfolio manager can consult and include other professionals in the firm as required to cater for the holistic needs of the client.

It has also partnered with global service providers to address specific geographical and jurisdictional requirements for clients.

The firm is a comprehensive wealth and investment institution servicing private, corporate and institutional clients – as well as intermediaries – through several appropriately licensed and wholly owned subsidiaries.

Sasfin offers clients facilitated full-service solutions that require an in-depth analysis of the clients' circumstances and aspirations by a qualified professional, as well as access to online financial needs analysis tools. Product selection interfaces are offered to self-service clients and they receive limited advice and model solutions.

STANDARD ONLINE SHARE TRADING/STOCKBROKING	Score
Client support, including research and educational tools	3.90
Available instruments and trading tools	4.89
Trading costs	3.58
Offline services	4.49
Online services	4.21
Responsiveness and transparency	4.02
Value for money	3.78

STANDARD OST'S ADVISORY AND DISCRETIONARY service offerings rely on its independent investment process, high-quality research sourced through the wider Standard Bank group and other third-party providers, and its experienced portfolio managers.

The bank has both a self-directed offering for those clients who wish to manage their portfolios themselves, and a fully discretionary and advisory service for those clients who want to take a more hands-off approach. These offerings are available for local and offshore markets. It caters extremely well to all client segments.

The recently launched Shyft Shares cater for novice and small-scale investors who want to invest offshore. On the local side, there is a low cost offering available through Standard Bank Internet Banking. The young saver can open an AutoShare Invest or tax-free investment account which allows them to invest as little as R250 into a select list of shares or ETFs at a 0.15% brokerage rate. Free educational courses are available.

The senior executive with complex financial needs has access to the Platinum Service Desk where they can set up various bespoke structures to protect their capital if they have large equity exposures. They will be able to get advice if they wish to self-manage their portfolio, otherwise they can opt for a discretionary or advisory account with one of the portfolio managers.

For the active trader, the bank has reduced brokerage rates for intraday trading of CFDs and has a low-cost structure per contract for index futures. Webtrader gives active traders the ability to trade CFDs on more than 5,600 different stocks and ETFs on 26 international exchanges as well as 15 international indices. The platform also allows active traders to trade more than 160 FX crosses (including spot precious metals).

TRIVE INVESTMENTS	Score
Client support, including research and educational tools	4.60
Available instruments and trading tools	3.18
Trading costs	4.94
Offline services	3.62
Online services	4.18
Responsiveness and transparency	4.45
Value for money	4.83

WITH THE BULK OF ITS CLIENTS BEING SELF-SERVICE traders, Trive Investments has worked hard since its inception in October 2022 to build a competitive offering. That now includes a range of multi-asset investment offerings including local and offshore equities, local and offshore CFDs, access to 18 exchanges globally, tax-free saving accounts, high interest-bearing interest accounts and FX treasury solutions.

Trive's trading and investment platform provides access to more than 2,800 JSE shares, US shares and other global markets. A variety of low-risk investment options are available such as high-quality bonds, fixed-income securities and dividend-paying stocks, with a focus on capital preservation. Risk management strategies are emphasised to shield the lump sums of retirees from significant market declines.

A variety of income-generating investments such as bonds with regular interest payments, dividend-paying stocks, real estate investment trusts and annuities are available to assist retirees in maintaining a steady income.

Trive offers access to structured products that can be tailored to suit the executive investor's specific risk-return requirements or provide exposure to unique investment themes while investment strategies for tax efficiency are optimised to help minimise the executive's tax liabilities and preserve wealth. Family office services may be provided to address the executive's broader wealth management needs.

Trive's high-performance trading platforms with advanced charting tools, real-time data and fast execution speeds are suitable for active traders. Commission rates are competitive and trading fees low to minimise trading costs as active day traders execute multiple trades per day. Specialised group investment accounts are offered to allow members of a stokvel or savings group to pool their resources and invest collectively, providing a unified investment approach and ensuring that everyone benefits equally.

UNUM CAPITAL	Score
Client support, including research and educational tools	4.61
Available instruments and trading tools	3.59
Trading costs	4.31
Offline services	3.84
Online services	4.29
Responsiveness and transparency	4.32
Value for money	4.49

UNUM CAPITAL IS A RELATIVELY YOUNG BROKER that was formed in a breakaway from Vunani Private Clients in 2015. It offers one-on-one trading advice for local and offshore shares, indices, ETFs, commodities, cryptocurrencies and forex.

To assist traders, it offers daily market research, thought pieces, technical flash notes (including key trading levels) and trading strategies. The firm has developed automated (robo) market advice including analysis, sentiment and trading levels, which is generated through the day.

Its asset management services include local and offshore personal share portfolios and tax-free savings accounts which combine shares, bonds, listed property, forex and commodities. It also offers actively managed, alpha-centric, absolute, skilled-based hedge funds and segregated portfolios while investment opportunities into private assets are on an invitation-only basis.

Over the past year Unum increased AI-assisted trade ideas. It also improved automated research notes and its research robo-adviser. The firm has a new website, and it has applied for a crypto asset service provider licence. In addition, it has started building a multi-asset, digital asset platform that will launch in the fourth quarter of this year.

WARWICK LUCAS

Equity risk premiums — how do they work?

Investors need to be aware of this to have a realistic view of the additional returns they can expect to receive above what a risk-free rate will yield

In my maiden column in May 2021 I wanted to touch on risk premiums, but enthusiasm exceeded column length. And last month in Beyond Shares I suggested markets were investable, without touching on this topic.

This is an omission I would like to address, both in this column and in several future ones, because it is absolutely critical in the investment process to set your expectations correctly upfront.

I am also going to keep the discussion in this column fairly superficial, as the topic can get both controversial and complicated. As a matter of fact, the issue is still not settled since Robert Shiller first flagged in 1982 that there was a large gap between actual returns and expected returns from stock markets.

The simplistic definition of equity risk premium (ERP) is that it's an attempt to quantify the extra return obtained from holding risky assets instead of risk-free assets.

Straight out of the gate, one area of difference is that of how you might establish what a risk-free asset is. Is it a short-term bill or money market instrument which is guaranteed now but bears absolutely no relation to the longer time horizon implicit in holding risk assets such as shares? Or is it a longer-dated bond, which carries a sovereign guarantee by the end of its lifespan, but can contain its own volatility due to the vagaries of the interest rate cycle?

By just looking at the short problem discussion I've raised above, we can see that the ERP is going to mean different things to different people or entities. An example of this would be private individuals vs institutions. Someone who pays marginal tax is going to have a much bigger problem with both cash deposits and long-dated bonds than a life insurance institution.

Accordingly, the high net worth private individual is forced into equity investment almost whether they like it or not, whereas an institutional pension fund theoretically has a degree of latitude.

Another factor is that ERP is used to describe the return that investors might have expected, as well as the return that they actually got. Straight away then, this means that this kind of benchmarking can be a bit of a nebulous exercise, in the sense that it fairly and squarely fails the definition of being a science.

Nevertheless, for the purposes of setting expectations and keeping a pulse on market valuations, there is merit in even quite simple exercises.

S&P 500 EARNINGS YIELD (E/P) MINUS 10-YEAR TREASURY YIELD

Source: SHILLER DATA

One such exercise (kindly provided to me by Amrita Roy of Vancouver) is the following for the S&P 500. Had I invested in a 10-year US bond on August 28 2023, I would earn a risk-free rate of 4.2%. So I am not going to settle for a risk-free rate of return if I choose to invest in risk assets. Risk assets need to offer me additional return (ERP) on top of the risk-free rate, so I have the incentive to invest in them.

The S&P 500 was trading on August 28 2023 at a projected p:e of 20.1 or an earnings yield of 4.9%. The difference between the two implies an ERP of 0.7% for the US.

Looking at the graphic we can see the US is not bargain basement, but we must remember a huge part of this year's rally relates to tech stocks. The ERP is not fixed and can be driven by many factors, including economic uncertainty, inflation and interest rates, earnings growth, natural disasters, government policy, monetary policy and debt rating.

Turning to South African equities, we should consider South Africa Pty (in other words, ignore Naspers and Richemont) only against our bond market of 10-year rates of 10.4%. An ERP of, say, 3.5% equals total yield of 14% or a p:e of seven. Allowing for escape from load-shedding a year out, that's more or less where we are.

Fair value, but not screaming buy.

Nampak's worn tyre warning

Returns haven't been fantastic overall, driving a need to pick stocks carefully in the packaging business, writes **The Finance Ghost**

With a market cap of R630m at time of writing, Nampak is officially a small cap.

Long-term shareholders are feeling a lot smaller, too. It's been a truly horrible story of value destruction, highlighting the perils of laying a risky funding structure on top of an equally risky operational footprint.

This is a bit like how front tyres work in motorsport. They can turn a corner, or they can accelerate and brake, or they can do a bit of both. If you ask them to do too much of both, then the resultant force is too large and the tyres lose grip. This is why racing drivers try very hard to do all their braking and accelerating when the tyres are pointing straight ahead or as close to straight as possible.

Corporates should do the same thing, instead of using complicated balance sheet structures to fund endeavours in Africa. If the underlying business operates in a volatile economy and faces substantial macroeconomic headwinds, such as lack of foreign currency to enable repatriation of funds, then funding those operations with debt is practically financial suicide. Of course, we all know this now. It wasn't so obvious 10 years ago. First prize is to foresee these problems. Second prize is to at least learn from them.

The key difference is that in racing, the driver and the car both spin out. But in corporate life, the shareholders land in the barriers and the executives continue on their merry way, collecting bonuses and heading off into the sunset with vastly improved bank accounts. It can take a while for management in these businesses to be changed and there is no recourse in terms of remuneration paid during a period of terrible underperformance. It's no wonder that investors sometimes get frustrated and that remuneration proposals are finding it harder to gain approval at AGMs.

Nampak has been a financial widowmaker of note, but that's not been the case for the broader sector. The packaging industry has enjoyed growth in consumerism, as products need to be packed into boxes or plastic packaging and then often put into a box yet again to be shipped to an online customer. Packaging can range from the relatively mundane (brown cardboard boxes) through to more specialised applications, such as fruit exports to Europe.

We are a country with a strong agricultural sector that manufactures food and beverage products for the domestic and export markets. We have a growing e-commerce industry that has been spearheaded by brands such as Takealot in general merchandise and Checkers Sixty60 in groceries, yet it remains in its infancy relative to online penetration in global markets. But with more scooters on our roads by the day, the trajectory for online shopping is clear.

On paper, South Africa should be a great place in this sector. In practice, our relative lack of economic growth opportunities is what drove the likes of Nampak to look at faster-growing countries for returns. There was a time on the JSE when institutional investors wouldn't even look at you unless you had a "rand hedge" strategy with offshore diversification. Time has taught us that offshore acquisitions are difficult, so now institutional investors won't look at practically any growth capital raises on the local market; they are terrified that local management teams don't have exciting enough opportunity sets to justify the investment.

> Raw material input prices in plastic and paper are volatile and cyclical

While some management teams were chasing large transactions and opportunities in faraway lands, others were focusing on organic growth opportunities in the good ol' fashioned way: by allocating capital and doing those NPV calculations they taught you in Finance 101 at varsity. Instead of paying premium prices for offshore opportunities or trying to build from scratch in unfamiliar markets, they considered the risks of South Africa and still decided that the risk-reward prospects of some projects made them appealing. It's amazing how the spreadsheet can look so much better when the starting point is the cost of building a factory in a familiar city rather than paying a premium to acquire an existing operation somewhere else. Patience gets rewarded; swashbuckling M&A often doesn't.

Mpact is a good example of playing the long game, with an ongoing capital investment programme in South Africa that has been supported by early adoption of renewable energy. Though that strategy looks obvious in hindsight, it was not seen that way several years ago when Nampak was getting the attention for doing fancy things in other countries.

Corporate investment activity aside, this sector dishes up plenty of challenges for day-to-day operations. The first challenge is also the most obvious one: Eskom. Our electricity supply and the cost thereof is a huge headache for our manufacturing industry. It's one thing to run a retail store with some backup lights, a POS machine with a battery and perhaps even fridges on a generator. It's quite another to run a factory with a production line.

Large companies have the ability to execute load curtailment agreements with Eskom, with solar power helping to make up the gap. At Mpact, this largely nullifies the impact of load-shedding.

Aside from demand-side challenges such as consumer pressures and a resultant drop in volumes as inflation has taken hold, there are also supply-side challenges that can have a material impact on gross margins. Raw material input prices in plastic and paper are volatile and cyclical, putting packaging companies under pressure to make the right strategic decisions around buying raw materials and hedging out risks. Depending on the underlying products and agreements, there might be enough pricing power to smooth that out over time. This doesn't help the short-term fluctuations that are a feature of this sector.

This is why returns haven't been fantastic overall, driving a need to pick stocks carefully in the packaging business or avoid it altogether.

Looking at specific players, Nampak has a new sheriff in town in the form of Phil Roux. As a highly respected FMCG executive, his appointment has played a significant role in the lenders agreeing to Nampak's continued existence. Shareholders also needed to come to the party, with a R1bn equity raise to shore up the balance sheet. Underwriters and anchor shareholders have signed up for R950m, so that raise looks set to be a success. Whether the group delivers a decent performance for those investors remains to be seen. It won't be easy.

With a market cap of R4.5bn, Mpact has come through as the mid-cap stalwart. It's been a bumpy ride if you look back 10 years, with the share price still way below the heady days of 2016. The price has recovered to 2018 levels and has gone sideways on a one-year view. With limited liquidity despite the market cap, there are opportunities for patient investors to sit on the bid and get in below R28 when the broader SA market is taking strain.

The other way to play Mpact is via Caxton & CTP Publishers & Printers (market cap R3.7bn). With a 34% stake in Mpact and a share price that trades at roughly half of its net asset value per share, Caxton (name abbreviated for our collective sanity) is the value investor's choice in the sector. Depending how you look at it, you're either getting Mpact at a deep discount or the rest of Caxton's business interests practically for free. With 51% of Caxton's core business in the packaging and stationery market, you're getting more diversified exposure to the packaging industry with a single investment.

Over five years, there's no debate about the winner of the two. Mpact is up 23% and Caxton barely increased 2%. Over the past 12 months, both have underperformed, but Caxton is ahead with growth of 6.5% vs Mpact up just 1%.

The smaller players in this sector are Transpaco (market cap R1bn) and Bowler Metcalf (market cap R650m). The incredible thing is that Bowler Metcalf's market cap is ahead of Nampak's, something that even the bravest betting enthusiast wouldn't have believed possible a few years ago. That situation will change after the Nampak rights issue.

Bowler Metcalf's share price is flat over five years. Profit margin is a serious concern, with net profit lower in absolute terms in 2023 than in 2019 despite revenue being 32% higher in 2019. Net profit margin has fallen from 13.3% to 9.6% over that period. The only thing that has kept the share price steady is the company's commitment to share buybacks, with 15% fewer shares in issue in 2023 than in 2019. As it's the worst performer in the sector over the past year, it's hard to make much of a case here to own Bowler Metcalf shares.

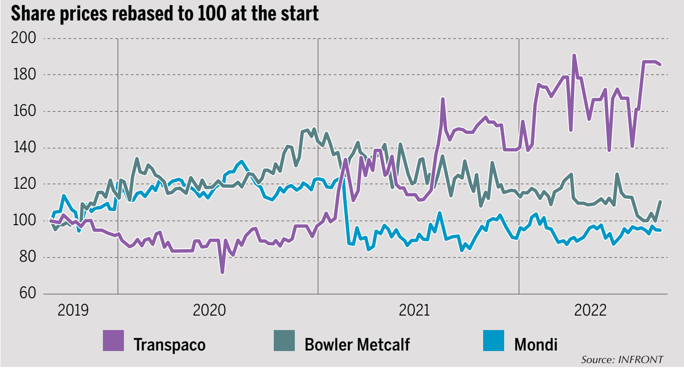
This brings us neatly to Transpaco, up about 15% over 12 months and nearly 38% over five years, beating all its peers. Off high single digit revenue growth, the company has managed low double digit HEPS and dividend growth over several years. The company manufactures in South Africa and distributes into Africa. There are only a few facilities and the beauty of the business lies in its simplicity.

On a dividend yield of 7.7%, Transpaco is a lot cheaper than Mpact on a yield of roughly 4% or even Bowler Metcalf on 4.6%. Even Caxton's dividend yield of 5.8% doesn't come close. When that valuation is compared with the recent growth trajectory, it's not difficult to choose Transpaco as the most interesting local player in the sector with a short- to medium-term view. In South Africa, having a long-term view on anything is difficult anyway.

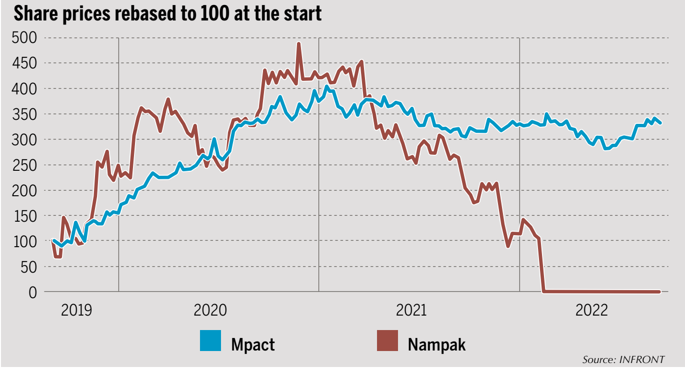
The one we haven't talked about yet is Mondi, with a gigantic market cap of R150bn and numerous global operations. Such is the gap in market cap to the rest of the sector that the annual dividend at Mondi (on a yield of 4.5%) is enough to buy Mpact, Transpaco, Bowler Metcalf and have change left over. Sadly, the Russian exposure ruined the Mondi share price story, down nearly 24% over five years.

The trouble with global groups is they face global risks. Sometimes, it's better to just own a factory in Brakpan and operate it to a high standard. ●

TRANSPACO VS BOWLER METCALF VS MONDI



MPACT VS NAMPAK



Picking a star pupil in private education

As state schools continue to slide, parents dig deep in bid to give children a good start, writes **Anthony Clark**

For the past three years IM has written an annual special feature on the private education sector.

The three main JSE-listed stocks in this field are AdvTech (market cap R11.8bn), Curro Holdings (market cap R5.9bn) and Stadio Holdings (market cap R4.7bn). Curro is a pure private primary and secondary schools business; Stadio is a tertiary education business with a significant online learning division; and AdvTech is a blend, combining schooling and tertiary with an African education offshoot.

AdvTech is the largest and most mature player of the three, having listed on the JSE in 1987. The company operates 26 brands in total over 18 education brands, encompassing more than 152 education, training and recruitment sites mostly in South Africa but with campuses also in Botswana and Kenya. It has 88,631 students in its schools and tertiary offerings. Among its education brands are Crawford College, Trinityhouse, Varsity College and Rosebank College.

Curro was founded in 1997. Then came a 50% acquisition by PSG Group, which drove its growth and expansion. Curro listed on the JSE in 2011 and has expanded to have a nationwide primary and secondary schools footprint of 76 campuses, 182 schools and 72,385 pupils.

In 2017 the company decided to spin off its tertiary education division into a separate listing, Stadio. The business has grown fast and most of its students are on an online platform though the company has campuses in Gauteng and Cape Town for contact learners. Its brands include Milpark, Afda, Embury and Southern Business School.

Unlike Curro, which has spent R15bn to establish its footprint on maturity – this is mostly equity and debt funded – Stadio is asset-light and has self-funded its growth model. IM does not forecast any equity funding scenario.

Looking back over the previous three years of IM sector recommendations, IM believes giving itself a B+ report card would be a fair reflection.

In April 2020, IM recommended Stadio as its top pick at 112c. In February 2021 IM selected AdvTech at R11.35 and in September 2022, Stadio was again IM's preferred sector play at 362c.

We were too early with choosing Curro as our top pick at 927c in 2022; however, we did warn that "if you had to own only one share in the private education sector for the long term, our choice would be Stadio".

At the time of writing, AdvTech is trading at R21.40, Curro at R10 and Stadio at 540c. Our faith in Stadio in 2020 and 2022 has been well rewarded, as has our 2021 selection of AdvTech. Curro has only recently started to come right after a prolonged period of sector underperformance. IM believes Curro has turned a corner, having posted two consecutive growth periods in earnings.

After a period of market lethargy towards the sector, enthusiasm for private education was only reignited recently, after the AGMs from all three listed counters indicated they were operating at a far more robust and profitable level than the market was envisioning. The sector started to rally.

The market had been concerned that the weakness in the underlying economy and the stretched nature of consumers' finances would lead to weakness in private education sector demand. That was dispelled by the AGMs' feedback and reinforced by the sterling interim results to June, as reported by all three counters.

It is clear that as the state education system continues to buckle and take strain with scant resources, many more parents are deciding to educate their children privately. All three counters reported organic growth in the number of pupils, ranging from 3%-9%, with fee increases of up to 14% being accepted by the market.

It is clear from results seen in FY2022 and H1 2023 that private education has become, to many parents, a necessity rather than a luxury.

With the sector having had a negative performance since the start of 2023, the AGM season in May and June shone a fresh spotlight on all three counters. Year to date, as IM writes, AdvTech is up 17%, Curro up 11% and Stadio up 16% against a -0.1% dip in the JSE small cap index and a -4.9% loss from the JSE mid-cap index. Overall, the sector gets a gold star for market performance.

The first interim results for 2023 were from Curro, on August 21. It was once the private education sector darling, with a market capitalisation at its peak of R20bn in 2015. That zenith was followed by several years of lacklustre earnings that disappointed the market. Ever-demanding equity raises necessitated a sixth cash call in August 2020, to raise R1.5bn at a subscription price of 807c to settle burgeoning debt levels. The market balked at this last rights issue, with 14.6% of the issue left with the underwriter, PSG.

From its 2015 peak, Curro's stratospheric p:e rating deflated as the market worried that its rapid expansion was failing to deliver the requisite earnings to justify the valuation. The

> IM sees Stadio offering a highly attractive growth runway

weak corporate performance jaundiced the share price and this was exacerbated when PSG Group unbundled its 64% stake in Curro in 2022, leading to material stock digestion.

Curro only started to recover after its FY2022 year-end results, when the counter reported headline earnings per share (HEPS) rising 50.1% to 61.4c and a dividend of 11.08c. This positive result was followed recently by H1 2023 earnings, with HEPS rising 26% to 34.6c.

The market was cheered by more rigorous financial disciplines, tighter control of debtors, reduced capex and a rise in ancillary revenue alongside an ability to push through hefty fee increases. Student growth was a modest 3% but Curro has materially improved the payment ability of its base and thus its customer quality. The stock rose 10.25% over interim results with the p:e now at 16.2.

Following hot on the heels of Curro was AdvTech, with sparkling results on August 28. Strong growth from schools in South Africa and elsewhere in Africa, alongside continued robust performance from the resourcing division, saw revenue rise 16% to R3.9bn with margin enhancement throughout the company as operating leverage flowed, leading to profit before tax increasing 26% to R669m.

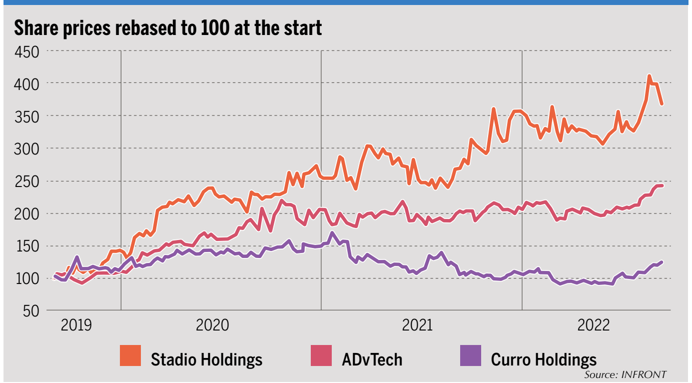
AdvTech is a strong cash generator, with HEPS for the six months rising 24% to 84.3c. On the back of the results, AdvTech rallied 8.6% and trades on a p:e of 14.6.

All divisions got top marks from the market, with the standout features being the schools in Kenya, where profits rose 73% to R47.7m, and the resourcing unit continuing its power run, delivering growth in profit of 44% to R49.7m.

CEO Roy Douglas said the inherent underlying demand for quality education, especially given AdvTech's various price point offerings, strongly positioned the company for continued growth.

Last out of the playground was Stadio, releasing results on August 30. For the six months there was a surge in the number of students seeking the wide range of Stadio's professional qualifications, with revenue rising 16% to R714m and profit before tax increasing 15% to R176.8m. HEPS rose 22% to 13.5c. For the six months, new student count rose 13% with the overall student base up 9% to 41,865.

STADIO HOLDINGS VS ADVTECH VS CURRO HOLDINGS



Source: INFRONT

The key to Stadio's growth has been the expansion of the number of professional qualifications on offer, now at 91. CEO Chris Vorster said a further 47 are in the accreditation pipeline.

Stadio has funded all of its expansion from internal resources, and cash on hand in the period stood at R175m. The company has pushed the button on plans to build a large campus in Durbanville, Cape Town, to meet expected demand. Campuses in Krugersdorp and Centurion continue to attract new students, extending Stadio's reach.

In the period, distance learners made up 86% of all students enrolled, with a year-on-year growth of 10% against 3% for contact learners. To date, Stadio has spent a cumulative R2.2bn to attain these results and is confident its pro forma listing target of 56,000 students and R500m in profit by 2026 will be attained. On these impressive results the market rewarded Stadio with a 13.4% hike, with the counter trading on a p:e of 27.

In assessing the IM report card and the results from the three counters, IM has to recommend one as its prefect. That stock is Stadio. IM remains impressed with its growth vector and since its JSE listing, Stadio has been consistent with its objectives and results. IM sees the counter offering a highly attractive growth runway for any investor over the longer term, and its asset-light, scalable format is an advantage.

Ongoing demand for quality tertiary education, given the inability of the state to meet requirements, alongside the crumbling of the once excellent Unisa campus, adds to the Stadio assessment and growth trajectory. With its own growth targets within reach, an ability to self-fund and a desire to pay fat dividends on maturity, Stadio remains IM's star pupil.

Mahube

The green energy challenge

Fancy a long-term bet on South Africa's burgeoning renewable energy sector? Then pray for wind and sunshine, and consider Mahube Infrastructure – a small-cap player in the green energy market.

First, though, take a look at the sector in South Africa. In 2010, the government realised that it needed to tap into the country's vast renewable energy sources, especially sunlight and wind. The renewable independent power producer procurement programme (REIPPPP) started.

Solar farms across the arid Northern Cape and wind farms in the Western and Eastern Cape sprang up. As bidding round followed bidding round, the contracting prices plummeted as the cost of the technology dropped, while globally, inflation (also of the price of inputs into renewable electricity infrastructure) remained in the low single digits.

Six bidding rounds later, the most recent REIPPPP round stalled in its tracks because the sums didn't add up any more. Inflation had caught up with the equipment manufacturers, and the offtake tariffs they offered the government now seemed too generous.

Luckily for the financiers of these projects – which included the big four banks and some fund managers – there was a saving grace: the government's about-turn on power generation last year, when it basically freed the renewable energy market to all participants. The banks, whose renewable energy portfolios had been stagnant resumed their lending to clean power installers.

Standard Bank, for example, aims for a generous R250bn renewable energy portfolio by 2025. It is well on its way to achieve this, says CEO Sim Tshabalala.

But the structure of renewable energy projects has changed. Whereas the REIPPPP allowed for single projects in the tens of megawatts to be constructed and tied to the power grid, new projects are smaller – in the order of 10MW. And whereas the former REIPPPP businesses were single-purpose enterprises, the drivers of the demand for renewable energy funding are now companies that trade in anything from soya beans to platinum.

Enter Mahube Infrastructure. It holds a portfolio of investments in what can almost be called "legacy" renewable energy projects. These include stakes in the 100MW Dorper wind farm outside Molteno, the 73.8MW Noblesfontein wind farm outside Victoria West, the 75MW Jasper solar farm near Postmasburg, the 75MW Lesedi solar farm, also outside Postmasburg, and the 75MW Letsatsi solar farm outside Bloemfontein. All these projects have almost reached the half-life of their 20-year power purchase agreements with Eskom.

Judging from Mahube's latest annual results to end-February, the company does not appear to be on the prowl for further investments in the renewable energy space. It seems more like a close-ended private equity fund than an aggressive player in the field. It was listed as a special purpose acquisition vehicle by associated folk from Gaia Fund Managers back in 2015 to raise R500m to deploy in renewable energy projects.

Mahube did well with that R500m, and says that at the end of February its stakes in the five clean energy projects were worth R534m. The market, unfortunately, doesn't share this valuation. Mahube's market cap was half its NAV at R262m on August 18.

The return on Mahube's investments, measured as a dividend, has been modest, to say the least. Between May 29 2017, when the first dividend was paid, and January 9 2023, when the last one was distributed, investors would have received a combined R3.64 before tax. Since listing in 2015, the share price has halved from R9.51 to its current R4.75 – a net loss of R1.11 since listing. And worryingly, the company didn't declare a final dividend after the end-February results.

This was due to two events: the redeeming of preference shares in the two underlying funds that hold Mahube's renewable energy assets and, interestingly, the absence of sufficient wind at its wind farm holdings. The latter hit the amount of electricity sold to Eskom and subsequently the dividend that could be paid to shareholders.

The issue of inadequate wind isn't new. In Europe, fears have now emerged that climate change affects wind speeds.

In addition to windy challenges locally, Mahube's lack of guidance about what it will do over the next 10 years is worrying. Whether the stock will regain market trust is also up in the air.

The company seems to have two options.

First, it could use some cash – when the wind does blow – to invest in the surge of non-REIPPPP power projects in South Africa. This way, Mahube will ensure a cash flow pipeline for longer than 10 years.

Second, it could try to convince shareholders (especially pension funds) that it will start a strategy of continuous investment in new renewable projects and raise R1bn or so. And that may mean ring-fencing the legacy projects and ensuring that its cash flows are divvied out to those shareholders. ●

Jaco Visser

MAHUBE INFRASTRUCTURE

It is an infrastructure investment company that has minority stakes in two wind farms and three solar photovoltaic farms with a collective power generation capacity of about 400MW

Financial year-end: **February**
Final results: **November 30**

RECOMMENDATION

Sell | **Accumulate slowly** | **Buy**

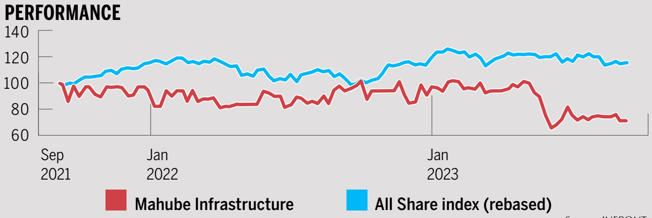
RISK

Low | **Medium** | **High**

Market cap	R250m
Forward PE	N/A
Current price	**455c**
1-year high	650c
1-year low	405c
Key indicators (FY23)	
Heps	-54c
Div/share	45c
PE ratio	N/A
Total revenue	-R14m
Attributable revenue	-R30m
Total assets	R547m
Equity	R546m

Target price: 480c **Upside: 5%**

PERFORMANCE



Source: INFRONT

Murray & Roberts

Opportunity — for those with patience

MURRAY & ROBERTS HOLDINGS

It is a construction and engineering conglomerate with specialist interests in South Africa and Australia

Financial year-end: **June**
Interim results: **March 2024**

RECOMMENDATION

Sell | **Nervous hold** | Buy

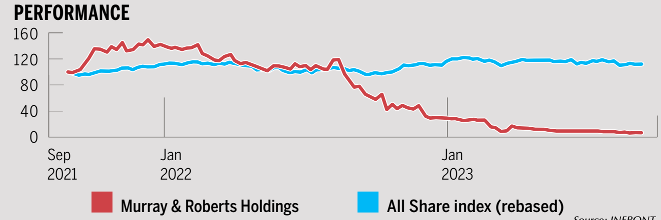
RISK

Low | **Medium** | High

Market cap	R289m
Forward PE	1.05x
Current price	**65c**
1-year high	838c
1-year low	58c
Key indicators (FY23)	
Heps	-71c
Div/share	–
PE ratio	–
Total revenue	R12.5bn
Attributable revenue	-R3.2bn
Total assets	R8.4bn
Equity	R1.84bn

Target price: 85c **Upside: 30%**

PERFORMANCE



The construction sector of the JSE looks a lot different from the glory days when it was propelled by the 2010 Soccer World Cup.

The share prices of those companies that have survived show the dismal performance of the domestic economy from 2010 until now, with prices of the survivors down as much as 90% over this period.

The share price of Murray & Roberts (M&R) is now trading at a paltry 65c at time of writing, with a market capitalisation of just R289m. Many long-term investors in this business will now be wishing they could turn back the clock to 2018, when German-based Aton made a R17 a share offer for M&R. Unfortunately, time moves on and the question now is whether all hope is now lost for this once global leader. The group's recently released set of financials makes for some brutal – yet honest – reading.

Group liquidity, as indicated in the results for the year ended June 2023, is under pressure and there is now limited margin for error. This is not a great position for any business to be in, given global economic uncertainty. Time will tell if M&R needs to increase its debt levels and/or approach the market for fresh capital. But, for now, management is hoping to trade through what it refers to as "the most challenging period since the 2008 global financial crisis". It does, however, believe cash flow forecasts in the medium term should meet the group's commitments.

On the plus side, debt levels have been reduced from R1.1bn to R300m from the proceeds of the disposal of its investment in the Bombela Concession Company (operating as the Gautrain). But even this reduced debt level is still more than its market capitalisation, and further focus may be needed on this area of the balance sheet.

It does seem though that the group is aware that action is needed here. Most of its debt is held by lenders in South Africa, whereas from a cash flow perspective the group is only somewhat cash generative in the country. The majority of cash is generated in Canada and the US; as a result, the group is looking to reduce its debt exposure to South African lenders and offset this in regions where interest rates are potentially lower and where the majority of its cash is generated. This should hopefully reduce future debt costs.

After selling off its Southern African building and infrastructure business in 2016, the business's main focus has been on providing engineering and contracting services to underground and open pit mining and, to a lesser degree, providing the same services to the power and water economic sectors. Due to Covid-related pressure on its business, its holding company in Australia and Clough Group were both placed under voluntary administration.

> For now, management is hoping to trade through what it refers to as 'the most challenging period since the 2008 global financial crisis'

Despite this, M&R still has significant global exposure in its mining services-related business in the Americas and Africa. The group has lost control of its RUC cementation business in Australia, but is hoping to regain it to maintain a presence in the Asia-Pacific region. Should this not happen, other plans are afoot to maintain trading in the region.

Its business servicing the power, industrial and water sectors remains small and predominantly in Sub-Saharan Africa. There is, however, strong potential upside in these areas, especially in its power-related business as a result of South Africa's constrained power transmission, which is in urgent need of infrastructure investment. This should benefit M&R if the South African public sector buys local instead of looking to imports from China. The group is also benefiting from infrastructure spend in the renewable energy (wind) sector.

So though the recently released set of results paints a grim picture, the group's order book at the time of the June results release was R15.4bn. This is not too bad compared with the R17.6bn reported in June 2022, considering all the recent turmoil. The group is also confident that R10.6bn of revenue for the 2024 financial year has been secured and that revenue is expected to exceed R13bn, slightly more than the R12.5bn reported this year. All the company needs to do now is pull this through to the bottom line.

There is opportunity at the present share price, but shareholders may need patience and a strong stomach to endure the ride. ●

Shawn Stockigt

Woolworths

Retailer with a very woolly outlook

The Woolworths share price is 7% higher year to date at the time of writing. That's behind stalwart Shoprite at 11.4% but well ahead of the rest of the retail sector (except Truworths with a blowout performance this year – up 33%). Woolworths is a mix of food, clothing and homeware, so there isn't really a perfect comparison on the local market.

The post-Ian Moir era has been vastly better for Woolworths than the disastrous period after the David Jones acquisition. That story has come full circle, with David Jones now out of the system and the new management team (led by Roy Bagattini) able to focus on the core business. This still includes Country Road in Australia and New Zealand.

The latest annual results at Woolworths include a brilliant seven-year review of financial metrics, making it easy to understand the pre- and post-pandemic performance. When it comes to retail, the metrics that IM believes deserve the most attention are revenue growth and margin trends. These tell a story about strategy execution across pricing and procurement, and the response by customers.

Woolworths Food contributed 48.5% of group revenue in financial 2023 and 40% of profit before tax. This is the largest division, with a pretty even split in remaining group revenue across fashion, beauty and home (FBH), Country Road Group and David Jones in the last set of results.

Woolworths Food is a Covid before-and-after tale; pre-pandemic, it dominated premium food retail but now consumers are trading lower in search of value, which has put the brakes on its ability to drive price increases ahead of food inflation, and it's battling the competitive force of Checkers.

Between 2017 and 2019, Woolworths Food grew revenue at a compound annual growth rate (CAGR) of 9%. Between 2021 and 2023, that slowed to 6.2%. Most concerning about this trend is that inflation in the latter period has been high, which is why the CAGR of profit before tax was 8.7% between 2019 and 2017 (below revenue growth but still impressive) vs -1.1% between 2021 and 2023; revenue growth hasn't outpaced inflationary pressure on costs.

The share price performance over the past couple of years clearly hasn't come from Woolworths Food. There was a time a few years ago when nobody would believe it possible, but the clothing businesses can take some credit for this. There has been a reasonable recovery in David Jones, though that doesn't matter any more as this ship has sailed. Country Road has shown growth in turnover (helped by a weak rand, as Woolworths reports in our beloved currency), but profit margins have been under pressure with a dip from 12.2% in financial 2021 to 10.4% in the last financial year. The real story lies right here at home, where FBH has more than doubled profit before tax between 2021 and 2023.

FBH lost its way before the pandemic, as the focus was firmly on Woolworths Food, with the results to show for it. But such was the nature of the previous management team that the R359m in additional profit before tax in Woolworths Food between financial 2017 and 2019 was more than offset by the R432m decrease in profitability at FBH over the same period. For context, David Jones suffered a R8.6bn negative swing during that awful time for Woolworths. The only positive story back then was in food and it was nowhere near tasty enough to make a difference, as the share price halved in value over a few years.

Without simultaneously breaking the food business, FBH has improved its profit before tax margin from 5.5% in a Covid-hungover financial 2021 to 10.9% in the last financial year. There's still a lot of work to do though, as the margin was 15.6% in 2017.

On a p:e of 14.1 times and dividend yield of 4.3% (with a dividend identical to 2017), Woolworths isn't cheap. Food is under plenty of pressure. If you're investing here, it's because you believe that FBH can continue a recovery towards pre-pandemic levels. But during that period, the prime rate was 150-175 basis points lower and the fuel price was about R14/l, not almost R25/l.

Despite the strong management team in place at Woolworths, half the business (food) is trading sideways thanks to Eskom and FBH has already made up a lot of ground in an environment of consumer pressures. The upside potential vs risk of underperformance isn't appealing enough here. ●

The Finance Ghost

> Woolworths Food is a Covid before-and-after tale; pre-pandemic, it dominated premium food retail but now consumers are trading lower in search of value

WOOLWORTHS HOLDINGS

It is a leading food, fashion, beauty and homeware retailer with operations in South Africa and in Australia and New Zealand under the Country Road Group banner

Financial year-end: **June**
Interim results: **December**

RECOMMENDATION

Sell | **Hold** | Buy

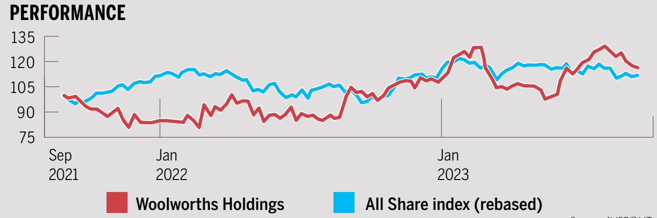
RISK

Low | Medium | **High**

Market cap	R71.7bn
Forward PE	19.5x
Current price	**R72.50**
1-year high	R81.13
1-year low	R58.24
Key indicators (FY23)	
Heps	514.7c
Div/share	313c
PE ratio	14.1x
Total revenue	R87.9bn
Attributable revenue	R5bn
Total assets	R39.2bn
Equity	R12bn

Target price: R75 **Upside: 3.4%**

PERFORMANCE



Source: INFRONT

Cashbuild

Tough times as consumers struggle

Cashbuild operates as a mass retailer of building materials, selling mainly in cash directly to the end consumer. The company trades through 318 stores under the Cashbuild (266 stores) and P&L Hardware brands (52 stores).

The economic environment over the past three years has been particularly tough, especially for those businesses operating in this sector.

Construction-related company results often act as a good yardstick for the health of an economy. This is reflected in Cashbuild's relative and absolute share performance over the past three years. Cashbuild's share price has underperformed the JSE all share index by quite a wide margin over the past three years but has performed in line with the lacklustre performance of the JSE construction & materials index over the same period.

Judging from the comments from Cashbuild at the release of its latest year-end results (for the year ended June 2023) things are not looking brighter. The group expects that the markets it trades in will remain tough as economic conditions continue to deteriorate. These comments from a company management team at the forefront of the economy are worth noting when investing in consumer-related businesses.

Though in its recent results Cashbuild's revenue declined by only 4% from the previous year (helped mainly as a result of opening new stores), pressure was felt further down the income statement at the operating profit level as well as at the headline earnings per share level which, when compared with the previous year, fell 73% and 37% respectively. Operating margins were slashed from 7.9% to a paltry 2.2%, the lowest margin the company has reported in the past five years.

Owners of Cashbuild shares would have felt some of this pressure from the tough trading environment in the form of a greater than 42% cut in the dividend for this financial year against the previous year. So Cashbuild shareholders have experienced a double whammy – having to digest this cut in dividends together with a more than 15% fall in the share price over the past 12 months (as at the time of writing).

With interest rates remaining elevated together with recent fuel price increases, there is an expectation that consumer wallets are going to continue to feel the pinch for a while longer. This all means consumers are likely to be reluctant to start big renovation projects or build new homes and this will put further pressure on Cashbuild's profits over the short to medium term. This can already be seen when analysing the economic indicators for some of Cashbuild's core products, with downward pressure evident in cement, brick and timber sales. And as confirmation of this sales pressure, Cashbuild has indicated that the first six weeks of the new financial year have already experienced declines in sales against the same period in 2023.

> “Consumers are likely to be reluctant to start big renovation projects or build new homes

CASHBUILD

It is a retailer of quality building materials and associated products that targets a cash-paying customer base through a chain of 318 stores

Financial year-end: **June**
Interim results: **March 2024**

RECOMMENDATION

Sell — **Hold** — Buy

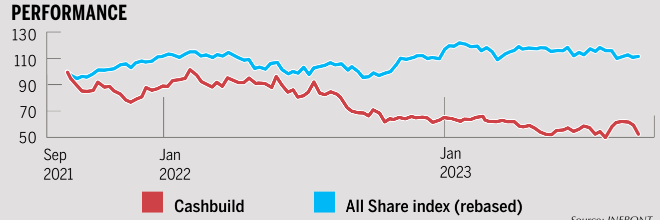
RISK

Low — Medium — **High**

Market cap	R4.2bn
Forward PE	13.3x
Current price	**R177.50**
1-year high	R221.56
1-year low	R147.66
Key indicators (FY23)	
Heps	R12.21
Div/share	732c
PE ratio	14.5x
Total revenue	R10.6bn
Attributable revenue	R106m
Total assets	R6.3bn
Equity	R1.94bn

Target price: R175 **Upside: 0%**

PERFORMANCE



Source: INFRONT

On a revenue basis, Cashbuild has about 10% of the estimated total market share of the sector in which it trades. The competitor landscape of this sector is diverse, with a combination of corporate competitors including Pepkor's BUCO, Massmart's Builders and Spar's Build-It, together with an array of independent operators such as Jack's Hardware and Mica, among others. With all these competitors vying for a slice of the consumer spend in this area, Cashbuild will need to proactively protect its market share in this increasingly competitive environment.

One way the group is doing this is to continue to focus on new store rollouts. It has indicated it intends to roll out at least 10 new stores across the two brands per year. Opening new stores comes with initial costs, however, and this may put further pressure on operating margins until these stores start contributing meaningfully to the bottom line.

The trick for investors, when reading bad news (and good news), is always to try to understand just how much of that negative or positive news is already reflected in the share price, relative to the estimated value of the business.

Addressing the question of how much of the negative environment is reflected in the share price is challenging for the Cashbuild investment case. If the economic environment takes longer than expected to improve, the company may take longer to get back to more normalised margins. This means the share price may just trade sideways until there is clearer evidence of a turnaround in consumer spending. ●

Shawn Stockigt

RCL

Looking like a dead duck

RCL Foods has a market value of R8.7bn and – aside from its diverse area of business ranging from chickens and groceries to bread and sugar – the distinction of being the worst-performing stock in the JSE food producers index for nearly 20 years.

In that time, the counter has more than halved in value and generated a capital return loss of 3%, versus a gain of 288% for AVI and 401% for Tiger Brands.

RCL has been trying to shake off the shadows of its original incarnation for two decades.

Originally known and still largely recognised by its original name Rainbow Chicken, the company started from a single stall in downtown Durban in 1960 and quickly rose to become the largest chicken producer in South Africa. It listed on the JSE in 1989.

Post listing, with the powerful backing of the Rupert family and then Rembrandt (now Remgro), Rainbow diversified away from the cyclical and volatile chicken sector.

In 2004, Rainbow bought Vector Logistics for R455m as it took its largest cold chain and frozen distribution agent in-house. In 2012, Rainbow bought 64% of groceries business Foodcorp for R1.037bn to move the company into branded mainstream foods.

In 2013 Rainbow went on a spending spree, acquiring the minority of Foodcorp and acquiring Transvaal Sugar (now Selati) from Remgro for R4bn. To reflect the now diverse nature of the foods company, the Rainbow Chicken name was changed in September 2013 to RCL Foods.

All this corporate activity aimed at mitigating the volatility of chicken came at a cost. The wider market has failed to understand much of the Remgro rationale in melding these disparate assets together. This has seen the stock price stagnate.

To hammer home the underperformance and mishmash, in 2007 Remgro tried to acquire the minority of Rainbow it did not own for R16 a share. This valued the 38% minority stake at R1.72bn and the entire company at R4.5bn.

Here we are in 2023 and RCL Foods, in its larger acquisitive iteration, is now trading at 980c.

Back in 2007 then Remgro CEO Thys Visser said the company "would be more successful as an unlisted company because it would be better able to manage the volatile external factors affecting the company". That 2007 statement is as apt today as it was then.

The market sits patiently awaiting a minority buyout, though IM does not believe any material premium will be paid. But IM is heartened by the fact that as RCL Foods has a net asset value of R13.17 a share, there could be some upside for the ultra-patient.

Despite the recent sale of Vector Logistics to a private equity firm backed by shipping giant AP Moller for R1.25bn, the volatility that remains within Rainbow Chicken and TSB Sugar continues to hamper any earnings continuity within RCL.

Rainbow is already slated for a carve-out, but that may take some time given the tribulations affecting the poultry sector. Sugar has its own problems with its cyclicality and the effects of the domestic sugar levy.

Of course, most punters are making a meal of the fact that Remgro now owns the oils, fats and spread business of Unilever, now renamed Siqalo Foods. This deal was inked in 2018 in a swap of assets and cash valued at R11.9bn. Many market analysts have long believed that RCL should remove its chicken and sugar business; leaving just the groceries assets would facilitate a merger with Remgro's Siqalo.

The possible merger of the Flora, Rama and Stork brands into a basket containing brands such as Yum Yum, Nola, Ouma Rusks, Bobtail, Dogmor and Sunbake would make a powerful, focused foods company. IM can only hope and dream.

Recent RCL year-end numbers to June again highlighted the underlying inconsistent nature of results due to the disparate levers that can skew the profit profile.

Despite a 17% rise in revenue to R37.8bn, a R312m slide in the profitability of Rainbow Chicken and weakness in groceries and baking (despite a strong showing from sugar) saw operating profit slump 46% to R787m. Headline earnings declined 45.7% to 61c a share, and the final dividend was also passed (like the interim).

It was a tough period, beset by R158m of load-shedding costs and the impact of having to pay an extra R234m into the sugar fund to cover the demise of the Gledhow mill and Tongaat Hulett.

IM believes RCL – at its own glacial pace directed by Remgro – is slowly reorganising the business. However, investors may have to wait an aeon for any conclusion. IM can see some recovery value in RCL as well as a special situation play. But sitting on dead money is not a prudent philosophy, so we would veer away from RCL as a holding.

IM prefers the fishing sector via Oceana and Astral Foods as a direct play on poultry. ●

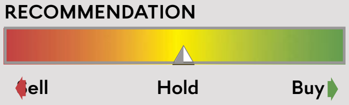
Anthony Clark

RCL FOODS

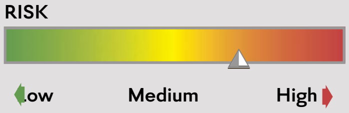
It is a consumer brands conglomerate that owns well known household names like Nola mayonnaise, Ouma rusks, Epol pet food and Yum Yum peanut butter

Financial year-end: **June**
Final results: **September**

RECOMMENDATION



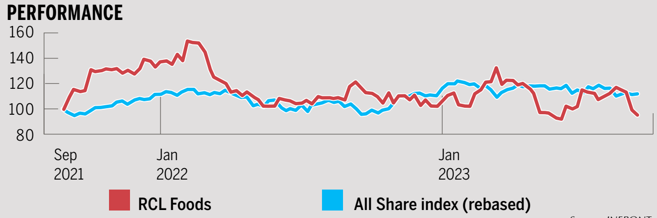
RISK



Market cap	R8.7bn
Forward PE	–
Current price	**980c**
1-year high	R13.75
1-year low	895c
Key indicators (FY23)	
Heps	60.6c
Div/share	–
PE ratio	16.1x
Total revenue	R37.8bn
Attributable revenue	R616m
Total assets	R25bn
Equity	R11.7bn

Target price: R10 **Upside:** –

PERFORMANCE



Source: INFRONT

CA Sales

Succeeding where others fear to tread

Mid-cap fast-moving consumer goods (FMCG) counter CA Sales Holdings (CA&S) was listed on the JSE after migrating from the Cape Town Stock Exchange in June 2022. This was part of the unbundling process from PSG Group, which was CA&S's majority shareholder with 47% of the shares.

In October 2022, IM recommended the counter at 545c, lauding the group's expertise in the marketing and wholesaling of branded goods on behalf of global brands in South Africa and neighbouring territories. IM set a target price of 850c, which was recently attained on the release of sparkling interim results.

Despite CA&S's legacy of operating in the domestic and Southern African FMCG sector, the market was unsure about what the company does and what rating should be ascribed to the stock. After the listing and the PSG liquidity event, there was a period of uncertainty from the market towards the business.

So, what does CA&S do? It is a collective of well-established FMCG service businesses operating throughout Southern Africa and anchored by a strong operation in Botswana, Namibia and South Africa. It represents the top 200 local and international blue-chip consumer packed goods brands and has a distribution network of more than 35,000 points of sale.

The company offers a full spectrum of services, from warehousing, logistics, data services and product marketing to brand positioning, to leading brands such as Tiger Brands, Nestlé and Diageo. To put it simply, CA&S is an expert at operating in the informal and formal retail channels in Southern Africa, where others do not have the expertise or network to function as effectively.

After a sparkling financial 2022, when headline earnings rose 31% to 78.2c a share, recent interim results to June 2023 continued the trend.

CA&S has a second-half seasonal bias given the increase in consumer activity in the run-up to the festive period.

The latest interim results showed that revenue rise rose by 22.5% to R5.2bn, with operating profit ahead by 75.5%, to R387m, as the benefits of improved trading and an acquisition filtered into the group. Headline earnings for the six months increased 21.5% to 36.5c a share. The share ran 20% in the results period to hit a 52-week high of 888c; at the time of writing the counter is trading at 820c.

In the period, 50% of sales and 54% of revenue was gained from Botswana, where the economy continues to be robust, unlike in South Africa. Botswana reported a 15% rise in sales to R2.6bn with earnings before interest and tax (ebit) ahead 9% to R107m. With rapid urbanisation and consumerism in the economy CA&S believes growth will continue as it expands its basket and channels its

> Further expansion into Zambia via organic growth offers potential

CA SALES HOLDINGS

It facilitates the movement of fast-moving consumer goods (FMCG) in southern Africa — with a traditional core market in Botswana

Financial year-end: **December**
Final results: **March 2024**

RECOMMENDATION

Sell | Hold | **Buy**

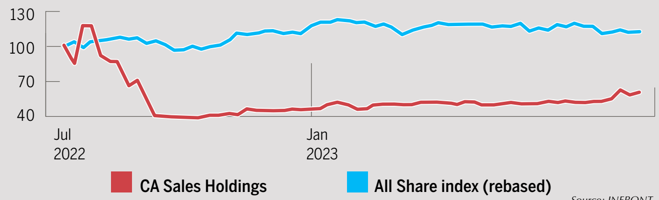
RISK

Low | **Medium** | High

Market cap	R3.89bn
Forward PE	–
Current price	**820c**
1-year high	895c
1-year low	522c
Key indicators (23 interim)	
Heps	36.45c
Div/share	–
PE ratio	10.5x
Total revenue	R5.25bn
Attributable revenue	R300m
Total assets	R4.55bn
Equity	R2.44bn

Target price: R11.50 **Upside: 40%**

PERFORMANCE



Source: INFRONT

offering of products into the market.

Namibia is CA&S's second-largest territory, and its fastest growing. In the period, benefiting from the January acquisition of Taeuber & Corssen for R123.6m, revenue rose 15% to R759m, with ebit rising 57% to R63m. Management says that as the No 2 in the market, CA&S has material headroom to expand its revenue base.

The company had an ambitious five-year target from its JSE listing of attaining revenue of R20bn. Its 2022 base was R9.5bn.

IM met the CA&S management after the results announcement, and CEO Duncan Lewis was confident of attaining and even exceeding that target. Much of the company's growth has been organic. Lewis believes CA&S can gain a further R3.5bn of business just from taking existing clients into existing territories. An example is winning the Nestlé business in Namibia, which was worth R300m a year. CA&S has also won new business from Diageo and Premier Milling.

Further expansion into Zambia via organic growth also offers potential, as the economy is transforming after recent government changes. CA&S also wants to expand into Kenya and Tanzania in due course, again piggybacking on long-standing client relationships to enter those markets. These are some of the future growth touch points.

The underlying plan is to extend the marketing and distribution business, where profit margin is far sweeter than in wholesaling. Only 30% of CA&S profit now comes from the former, and the plan is to get the division to 50:50 in the coming years.

Despite the IM's October 2022 target having been attained, we see the recent profit taking as an opportunity to continue to own and hold CA&S. On a historic p:e of 10.5, with management's confidence about ongoing growth and a further unwinding of the rating, IM maintains its buy recommendation for CA&S. ●

Anthony Clark

Some stocks are only for the brave

The nature of clinical trials makes the risk of unrecoverable capital loss a constant danger in the biotechnology sector, writes **Warwick Lucas**


123RF — TOTOJANG1977

There has been a recovery in stock market indices, but it has largely been very narrow, with most of the running going to gigantic capitalisation (and artificial intelligence-tilted) infotech stocks.

One of the implications of this is that previous high-flyers that came down very hard in the crash of 2022 remain flat on the ground they plummeted to. While the interest rate cycle is incomplete, it seems pretty much to be flattening out, which will surely provide relief for such stocks when certainty about discount rates increases.

One example of such a stock I have previously discussed is Scottish Mortgage. This company persistently ran at a premium for many years, but is now at an unbelievable 19% discount.

It is noteworthy that in many areas there are concerns about any portfolio that includes private equity, and Scottish Mortgage does have about 30% such instruments in its portfolio.

The company has been good about maintaining up-to-date and market relevant valuations of that portfolio. There have, however, been transactions around several components of its portfolio that have reconfirmed the mark-to-market values applied. Considering its growth record and that discount, I even loaded up for some very risk-averse family members. Use it, don't use it.

The US markets are absolutely chock-full of options for biotechnology, clearly overwhelming for a country bumpkin such as me. Biotech investing is potentially very risky, highly specialised, and not something a bog-standard investor or portfolio manager should try on their own.

You might very well counter: "If you don't know the sector, why get involved at all?" My reply is that when you have a sector that is so hi-tech, has such high

> It has been a difficult time for biotech over the past two years, as there has been a hangover period after the post-Covid IPO boom

potential and trades with such large cash balances, it doesn't seem like so much of a dumb bet.

In any case, I feel the biotech options are a nice feature of the London Stock Exchange (LSE) investment trust scene, as it allows a smaller universe, which simplifies choices. Scottish Mortgage does have biotech but is not exclusively exposed to it.

There are three specific funds in the biotech and life sciences board. My favourite, which has also given the best return over 10 years (213%), is International Biotechnology Trust (IBT). This fund, with its mandate and managers (Ailsa Craig and Marek Poszepczynski), will be moving to Schroders. I am indebted to Numis Securities for its in-depth commentary about this fund. The fund will continue to be run with the same approach as before, including its 4% of NAV dividend policy, and should benefit from the marketing and distribution heft of Schroders.

This should be well received by investors, who almost invariably prefer continuity. That the discount has narrowed from about 10% to 6% certainly is suggestive of interim support for these changes. This, along with an uptick in share buybacks and a positive outlook for the sector given cheap valuations, is a positive tailwind.

How handy is this feature of investment companies? Being managed as a corporate allows funds that run high-growth companies with limited free cash flow to use capital proceeds to generate dividend cash flow for investors who need both growth and money to live off. Former finance minister Trevor Manuel did South Africa no favours when he killed off the JSE's investment trust sector in 1996 with the stroke of a pen.

Numis describes its management approach as follows: it combines bottom-up stock picking with top-down macro, market and scientific views. The focus is on companies delivering novel treatments for unmet medical needs that command powerful competitive positions and have strong balance sheets or access to capital to support their growth, as well as high-quality management teams.

The portfolio is diversified by stage: profitable stage (48%), revenue growth stage (29%) and early stage (23%). The largest exposures, by therapeutic area, are oncology (28%), rare diseases (25%) and the central nervous system (20%).

Risk management is at the heart of the approach. The portfolio seeks to minimise the risk of unrecoverable capital loss in a sector where the binary nature of clinical trials makes this an ever-present risk. Both science and sentiment are considered to generate an attractive risk-adjusted return, in particular by reducing exposures in advance of clinical trial results (that's when prices tend to reflect overoptimism, leading to excessive potential downside). In addition, the managers are happy to invest after a positive trial "pop", as investors tend to underestimate a drug's long-term potential.

Impressively, IBT has outperformed its benchmarking index over one, three, five and 10 years, with lower volatility over the long term. This performance has not been matched by its closest listed peer, Biotech Growth, which is focused more on emerging biotech.

It has been a difficult time for biotech over the past two years, as there has been a hangover period after the post-Covid IPO boom. Now that some certainty is returning to the interest rate cycle and the weak hands have been cleared out, key drivers of returns are coming back to the fore. These are strong innovation and an uptick in approvals by the US Food & Drug Administration, an ageing population, a rising middle class and attractive valuations – which may be firmed up by M&A activity as big pharma seek to fill holes in their portfolios from patent cliffs by acquiring innovative drugs.

The financing environment will remain tough for early-stage companies, and many "story" stocks of the 2021 IPO boom won't survive. That said, this provides ample potential for active managers to stand out. IBT makes it onto the hair-raising spec buy list.

THE PERSHING ACTIVIST MISSILE

I have previously written about hedge funds in the South African sphere but have not touched on international offerings. I will address that by looking at an investment company hedge fund.

Pershing Square is an LSE-listed US equities hedge fund and founded by Bill Ackman, who is known as an activist investor. This means that the frequent scope of activity is to purchase a shareholding and then engage (which often means fight) with management to effect changes that will boost returns. Ackman's success has made him a something of a legend, though so have his frequent scraps with another even more famous activist investor, Carl Icahn.

> "Impressively, IBT has outperformed its benchmarking index over one, three, five and 10 years

Anyway, quirky stories aside, Pershing Square underperformed in the first half of the year. The £6.4bn FTSE 100-listed investment firm generated a total underlying return of 10% in the first six months of 2023, behind the US stock market, with the S&P 500 index gaining 16.9% over the same period.

Before you get too despondent about that, it's worth noting that the fund is well ahead of the S&P 500 over the past five years, as its total 206% return on net assets is a compound annual return of 23% vs the US benchmark's 84% total return and 12.1% annual compound.

This excellent result has not come for free, with price volatility more than double a traditional stock market index. Nevertheless, this is more than enough to provide a highly positive (so-called) Sharpe ratio. (A Sharpe ratio is used to calculate whether a fund's higher or lower risk assumption or restraint against a widely accepted benchmark was worth it).

Part of the reason for the poor result against the benchmark for the first half of this year was the cost of maintaining interest rate hedges, as Ackman was concerned about the effect of higher long-term interest rates against equity valuations.

The portfolio is mostly concentrated high-conviction equity bets, with a long portfolio of only eight stocks. This is obviously very aggressive, which leaves some players cold, as evidenced by the firm's incredibly wide discount to NAV of 35%. This prompted the board to buy back shares worth $55.4m, but with the discount slippage shareholders only received a 5.4% return. Furthermore, according to Numis Securities, the fund is said to have bought back about $1.2bn of its shares since May 2017 at an average discount of 28.7%, despite which the discount has persisted.

You could choose to decide that the portfolio was silly (as opposed to just eclectic), and the past performance a figment of your imagination, but even then, it's hard to ignore that the fund has diversification merit (for your own portfolio) and is trading at a huge discount to a fairly well disclosed and mostly publicly traded portfolio. It's like backing a scrappy version of Johann Rupert.

There is a lot to be said for backing high-conviction concentrated portfolios, with the caveat that you must look to your own risk management processes to mitigate the potential fallout of a drawdown.

This is certainly no fund for crybabies! It is, however, almost certainly worth a speculative buy.