Afrifocus PERSONAL WEALTH
MEMBER OF THE JSE AND ZAR X

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All that glitters

July 2019

Dear Investor,

The gold price has at long last broken out of a largely sideways pattern stretching back to 2013.

Figure 1 – Gold price

Our view is that investors are anticipating another round of Quantitative Easing, with the European Union indicating lower interest rates going forward and the US President tweeting about a too strong dollar impacting US competitiveness.

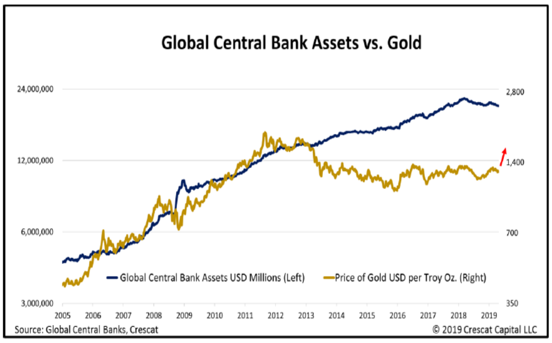

Figure 2 – Gold as a currency

Gold as a currency has lagged the Central Bank assets, as displayed above. Any further QE programme will be a continued gold catalyst, in our view. We maintain our gold exposure in full discretionary portfolios.

South African government bonds are attractively priced compared to their developed market counterparts. Given that the South African Government has never defaulted on a bond repayment, and given the attractive valuation especially compared to developed Europe, we should see continued foreign investment into our bond market, which should provide support for the local currency especially against the Euro.

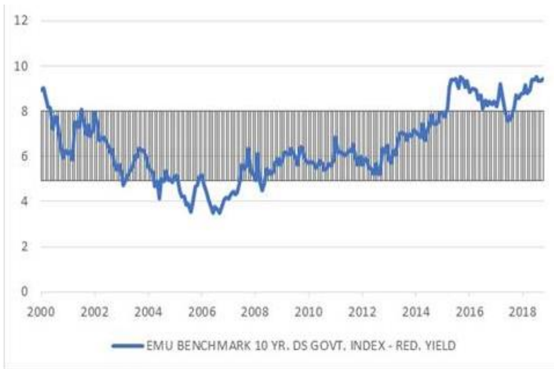

Figure 3 – SA Government Bonds compared to developed EMU equivalents

This currency stability should provide the impetus for the SARB to cut interest rates. We anticipate the first cut of 25bps at the 16-18th July 2019 meeting, with the FRA curves pricing in a potential further 25bps cut within a six month period.

Investors can duplicate our bullish view on Government Bonds in their TFSAs with one of the listed Bond ETFs – NFGOVI provides the lowest TER.

Global equities

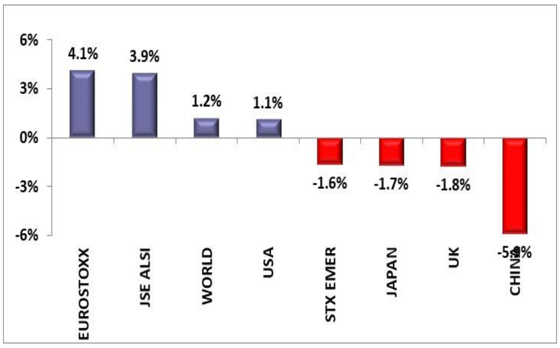

Figure 4 – 2019Q2 equity market performance, ZAR

The past quarter was a mixed bag for global equities from a ZAR perspective. Emerging markets and particularly China continues to suffer from the trade wars, with the current indications that the US is willing to compromise on some of its demands, as the recent announcement with Huawei indicates.

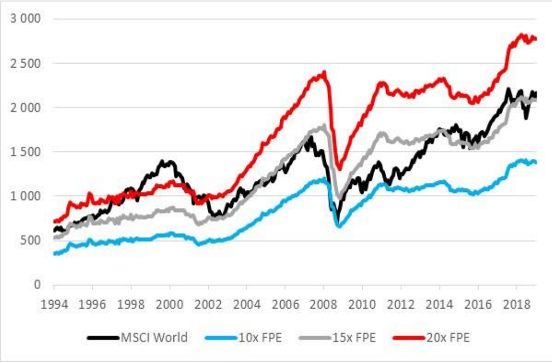

Figure 5 – Global equities at 15x FPE

Global equities are most likely fairly priced to undervalued at 15x FPE, given low discount rates and benign inflation. Our preference remains for European equities and Emerging market equities from a valuation point, shying away from US. Our only concern with Europe is a lack of inflation, which impacts pricing power. Whereas we hold the SYGEU ETF in our full discretionary portfolio, the fear is always one of a value trap.

In an earlier communication we highlighted a Chinese media company, IQIYI (NASDAQ: IQ). The stock is touted to be the NETFLIX (NASDAQ: NFLX) equivalent. Within a period of 5 years it has grown to more than 100million subscribers.

Figure 6 – IQIYI – 100m subscribers reached

Massive upside potential on a multi-year view exists.

Speak to your Afrifocus Portfolio Manager on how to invest in international equities via the DMA platform.

Local equities

Market sentiment for the JSE ALSI has subsided from the elevated levels of a quarter ago.

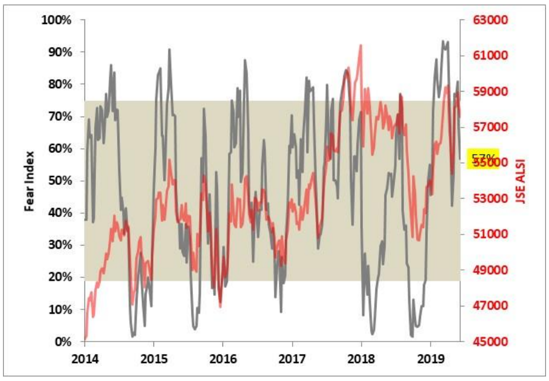

Figure 7 – JSE Fear Index

Year-to-date performance of the JSE ALSI of 12.2% is in the middle of our 2019Q1 forecast of 10-15% total return for the index.

We are struggling to find catalysts for the JSE ALSI for the remainder of 2019, with compounded dividend growth forecast at a paltry 4% p.a. for the next 24months. We would recommend banking some profits on the year-to-date performance.

Compared to the MSCI Emerging market index, South African equities remain overvalued at a 14% premium on a forward PE basis.

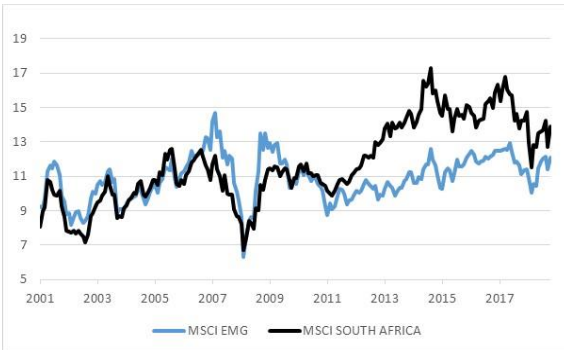

Figure 8 – South Africa trading at a 14% FPE premium to the MSCI EMG

Going forward into 2019, we await the partial unbundling and offshore listing of NASPERS-N's (JSE: NPN) international assets. With NASPERS volumes contributing substantially to the value traded on the JSE, the offshore listing will add to the declining volumes on the JSE. We will remain underweight the JSE share (JSE: JSE).

Figure 9 – The JSE Group, breaking uptrends

The second interesting unbundling will be Investec's (JSE: INL/INP) spin-off of its global asset management business, with over R1trn of assets under management. We believe that value will be unlocked on the unbundling. At a FPE of 8.6x we look forward to the event.

DATATEC (JSE: DTC) remains bullish with the recent announcement of a second special dividend post the sale of its Westcon division. We have noted that analysts have increased their target price to R50 a share. For long-standing (and suffering shareholders) this could provide some further upside relief.

Figure 10 – DATATEC uptrend intact

Local income assets

If our interest rate view is correct, cash should continue underperforming other income assets.

	DY(0)	GROWTH	DY(+12m)	RETURN
JSE PREFERENCE SHARE	9.6	-1%	9.1	13%
CASH	6.9			7%
ALL BOND	9.0		8.7	11%
SA PROPERTY	8.9	4%	8.8	14%

Figure 10 – Income asset return expectations

We are cognisant that dividends on listed property could surprise to the downside – stick to the quality counters in the sector.

We are seeing the continued delisting of preference shares – we will remain overweight the sector given both corporate action as well as the valuation of the asset class relative to cash.

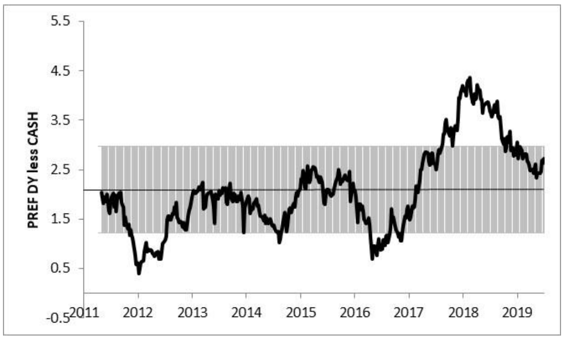

Figure 11 – Preference shares favoured over cash

As per Figure 3, our government bonds remain the wildcard asset class. It may just be the best performer for the next year or two.

Communication with Afrifocus

Our preferred stocks, ETFs and income assets can be discussed with our Portfolio Managers. They will also provide you with information on Afrifocus Personal Wealth and all our investment products.

Regards

Afrifocus Personal Wealth