PSG Wealth

Weekly Investment Update

2 November 2016

GDP growth of two largest economies positive - pg. 2

Dis-Chem reveals listing date on the JSE - pg. 3

Market moves

Performance: 21/10/2016 to 27/10/2016"	Return (Cumulative)
Local Markets	
All Share TR ZAR	-0.55
Ind/Financials TR ZAR	0.47
Ind/Industrials TR ZAR	-0.93
Financials&Indl 30 TR ZAR	-0.49
Ind/Basic Materials TR ZAR	-0.73
Gold Mining TR ZAR	-6.34
SA Listed Property TR ZAR	0.30
Beassa ALBI TR ZAR	-0.89
Commodities	
Oil Price Brent Crude PR	-1.77
LBMA Platinum AM PR USD	2.13
Gold London AM Fixing PR USD	0.01

The week ahead

Domestic

03 Nov — Standard bank PMI

07 Nov — Foreign exchange reserves

International

04 Nov — US: Nonfarm payroll

07 Nov — China: Inflation rate

Macro

South Africa

The trade account switched from a deficit amounting to R8.89bn in August to a R6.70bn surplus in September. This brought the cumulative deficit for the first nine months of the year to R9.95bn compared with R37.19bn over the same period in 2015.

China

The Caixin Manufacturing PMI in China rose to 51.2 in October, from 50.1 in September and beating estimates of 50.2. It was the fourth straight month of expansion and the highest reading since July 2014.

United States

Consumer spending in the US increased 0.5% in September, following a 0.1% fall in the previous period. It is the biggest gain in three months, and in line with market expectations.

Markets*

Best performer

For the week was Assore Ltd. with a return of 13%. Trustco Group Holdings and Telkom SA was both second with an 8% return for the week.

Worst performer

Sibanye Gold was the worst performer for the week with a loss of 13%. Followed by Murray & Roberts with a 12% drop for the same period.

Sectors

The best performing sector for the week was fixed line communication with a return of 8% for the week. The sector representing media was the worst performing sector for the week with a 6% loss.

*Disclaimer: Total weekly returns based on closing values from Monday to Monday.

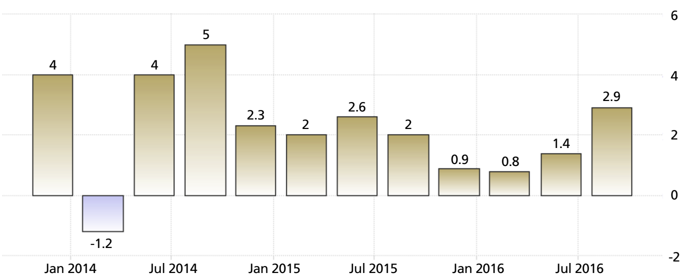
Macro note

GDP growth of two largest economies positive

The world's two largest economies released their gross domestic product (GDP) growth rate figures. The largest economy in the world in terms of nominal GDP is still the US, according to IMF figures. The $18.5 trillion US economy is approximately 24.5% of the gross world product. Their economy expanded by 2.9% qoq in the third quarter of the year. This was more than the 1.4% in the previous period and beat market expectations of a 2.5% rise. It is the strongest growth rate since the third quarter of 2014, as exports grew the most in nearly three years boosted by soybeans and inventories recovered, although personal consumption slowed.

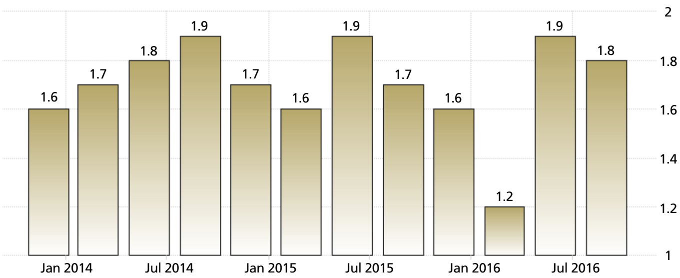
The second largest economy in the world, China, grew by 1.8% qoq in the third quarter of 2016, compared to an upwardly revised 1.9% growth in the previous three months and in line with estimates. Meanwhile, the National Bureau of Statistics said in a statement on its website that many uncertain factors still remain present in this Asian economy. It also acknowledged that the foundation for sustained growth is not solid. The Chinese economy overtook the US economy in terms of GDP based on PPP. However, the difference between the economies in terms of nominal GDP remains large with China boasting an $11.3 trillion economy in nominal terms.

USA GDP growth rate



Source: Trading Economics

Chinese GDP growth rate



Source: Trading Economics

Bottom line

The improvement in economic growth in the US, and the stabilising of economic growth in China, is good news for the world in general and specifically for emerging markets (EM), including South Africa. It may result in an increased demand for commodities from EMs to meet the higher demand for consumer goods. It also signals the normalisation of the world economy and financial markets. Investors should remember that economies go through different cycles, but that they have a general tendency to grow. Recessions are the exception to the rule and investments should be a well-defined long-term strategy to benefit from the general tendency to grow. The only way to maximize the returns on your investments is to invest with respected active managers such as those used in the PSG Wealth Solutions.

PSG Wealth

Market note

Dis-Chem reveals listing date on the JSE

Pharmacy group, Dis-Chem, says it will list on the Johannesburg Stock Exchange (JSE), in the food and drug retailers sector on 18 November 2016.

The company will offer up to 238 405 268 shares, which represents 27.5% of the total issued share capital at listing, at a price of R16.25 to R20.25 per share. Net proceeds received from the offer will be used for the repurchase of shares from the existing shareholders, the repayment of existing indebtedness; and general corporate purposes, Dis-Chem said.

By way of comparison, Clicks, which has 511 stand-alone, including 400 pharmacies, this week reported revenue of R25.53 billion. The group's share price traded at R121.51 in the morning session on Friday, giving it a market cap of approximately R30 billion.

Dis-Chem, meanwhile, said it has more than doubled its store base since 2010 and tripled since 2008. It currently has 101 stores in South Africa and two partner stores in Namibia after adding 30 stores over the past three financial years. The group added that it has already agreed lease terms for 29 new stores since the financial year ended February 2016, comprising three stores which were opened during the six months ended 31 August 2016, a further eight stores to be opened during the six months ending 28 February 2017 and at least 18 stores expected to open during the financial year ending 28 February 2018.

The market cap of Dis-Chem is expected to range between R14 billion to R15.8 billion, depending on the listing price. Dis-Chem, through its wholly-owned subsidiary CJ Distribution, also has a wholesale business serving third party pharmacy retailers and Dis-Chem's own retail pharmacies. In the 2016 financial year, Dis-Chem generated revenue of R15.5 billion and EBITDA of R1.1 billion. The retail business and CJ Distribution accounted for approximately 90% and 10%, respectively, of Dis-Chem's EBITDA excluding inter-group amounts. The PSG Wealth research team found that Clicks operates at a higher retail EBITDA margin of 9.2% compared to Dis-Chem's retail EBITDA margin of 8.3%.

Drug retailers are traditionally attractive investment propositions given the resilience of their operating performance during trying economic periods. The industry is highly regulated and investors need to remain aware of the impact that regulatory changes can have on prospects. While the two counters are similar, our research teams highlights the poor cash generating ability of Dis-Chem compared to Clicks. This complicates a direct comparison of the different investment propositions.

Dis-Chem key financials

	Feb 2014	Feb 2015	Feb 2016
Total turnover	R10 320 999	R12 910 594	R15 061 293
EBITDA	R715 702	R798 827	R1 057 452
EBITDA margin	6.9%	6.2%	7.0%

Source: Dis-Chem prelisting statement

Previous publications

Daily

2 November 2016

Weekly

26 Oct	02 Aug	25 May	23 Mar
12 Oct	27 Jul	18 May	16 Mar
05 Oct	13 Jul	11 May	09 Mar
28 Sep	06 Jul	04 May	01 Mar
14 Sep	29 Jun	26 Apr	23 Feb
07 Sep	22 Jun	20 Apr	11 Dec
31 Aug	15 Jun	12 Apr	20 Nov
17 Aug	08 Jun	05 Apr	16 Nov
10 Aug	01 Jun	30 Mar	

Monthly

Oct 2016	Nov 2015
Sep 2016	Oct 2015
Aug 2016	Sep 2015
Jul 2016	Aug 2015
Jun 2016	July 2015
May 2016	Jun 2015
Apr 2016	May 2015
Mar 2016	
Feb 2016	
Dec 2015	

Quarterly

Spring 2016
Winter 2016
Autumn 2016
Summer 2015
Spring 2015

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