Weekly Investment Update

5 April 2017

PSG Wealth

Keep calm during uncertain political periods
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Main structural drivers for listed telecoms companies
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Market moves

Performance: 24/03/2017 to 30/03/2017	Return (Cumulative)
Local Markets	
All Share TR ZAR	0.68
Ind/Financials TR ZAR	-1.31
Ind/Industrials TR ZAR	0.64
Financials&Indl 30 TR ZAR	0.00
Ind/Basic Materials TR ZAR	3.22
Gold Mining TR ZAR	1.72
SA Listed Property TR ZAR	-1.25
Beassa ALBI TR ZAR	-1.20
Commodities	
Oil Price Brent Crude PR	4.75
LBMA Platinum AM PR USD	-0.62
Gold London AM Fixing PR USD	0.24

The week ahead

Domestic

7 Apr Foreign exchange reserves

11 Apr Business confidence

International

6 Apr EA: ECB Draghi speech

7 Apr US: Non-farm payrolls

Macro

South Africa

S&P Global Ratings cut SA's long-term foreign currency sovereign credit rating to below investment grade ('junk status'). The move was prompted by the cabinet reshuffle announced late on 31 March. S&P's decision stems from concerns that the changes indicated that 'policy continuity' had been put at risk and that SA's economic outlook could be at risk. Ratings agency Moody's, has also put South Africa on downgrade watch.

UK

Construction growth slowed in March. The Markit/CIPS UK Construction PMI dropped to 52.2 in March, from 52.5 in February, missing expectations of 52.4. The reading pointed to a slowdown in growth across the construction sector due to a weaker rise in residential building activity while both commercial and civil engineering activity rebounded.

Markets*

Best performer

For the week was African Rainbow Minerals, South32 and Sasol who all returned 12% for the week. Assore was second, with an 11% return for the same period.

Worst performer

Group Five was the worst performer for the week with a loss of 18%. Followed by Choppies Enterprises with a 14% drop for the week.

Sectors

The chemicals sector was the best performing sector for the week with a return of 10.8%. The healthcare sector was the worst performer with a 7% loss.

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

Macro note

Keep calm during uncertain political periods

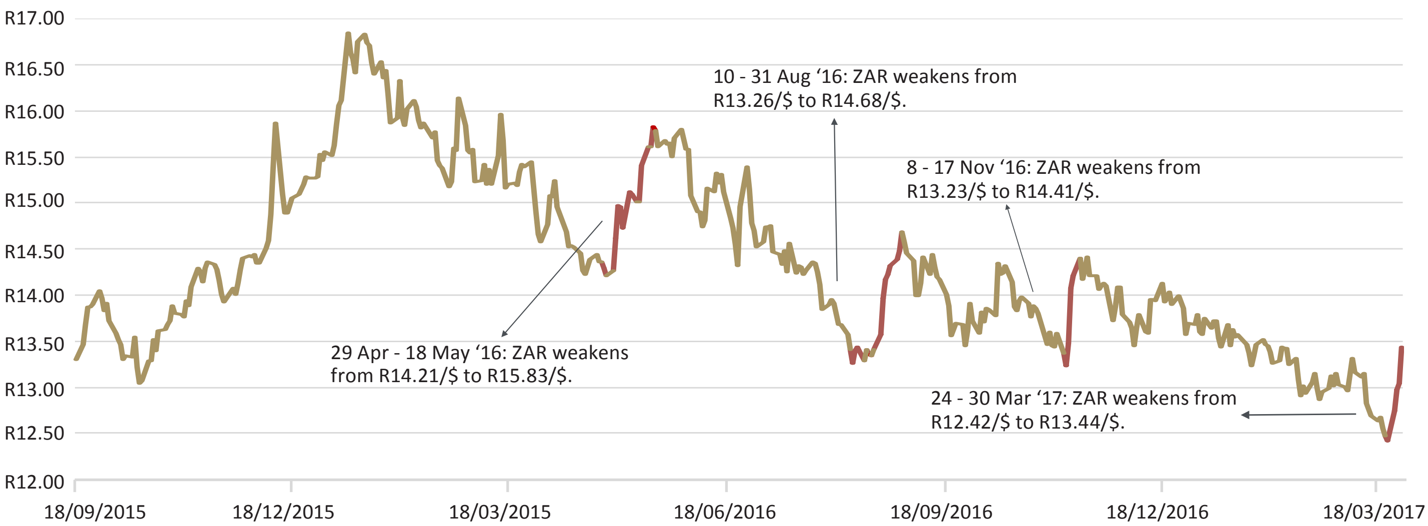
In the week that President Jacob Zuma recalled and replaced former Finance Minister Pravin Gordhan the rand weakened with about 7.60% against the dollar (From 24 – 30 March). When Zuma wanted to replace former Finance Minister Nhlanhla Nene in December 2015 the rand weakened with 11.67% (9 Dec -11 Jan 2016). However since the rand reached an historical weak point of R16.84 on 11 January 2016, a few weeks after 'Nene-gate', the local currency steadily strengthened against the greenback.

There were other periods from December 2015 till date when the rand weakened with more than 7.60% against the dollar. At the start of May 2016 the rand weakened by 10.26% against the dollar.

Here the main drivers were a stronger dollar due to expectations of an interest rate hike by the Federal Reserve(Fed); expectations of a ratings downgrade in June 2016 and rumours that Gordhan faced charges for espionage by the Hawks.

Then in the middle of August 2016 the rand weakened by 9.71% against the dollar. Main drivers in this period were the stronger dollar due to hawkish comments by the Fed and news that again broke of the Hawks investigating Gordhan. For eight days in the middle of November 2016 the rand weakened by 8.18% against the dollar. Here the main drivers were President Donald Trump's shock victory and the risk of a possible credit downgrade in December.

Volatility in the rand since September 2015



Source: I-Net, PSG Wealth research and team

Bottom line

While political uncertainty will cause short-term volatility in the local currency, other events such as the strengthening of major currencies, market expectations and the release of economic data can have an equally volatile effect on the rand. As such it is never recommended to base ones investment decisions on the short-term volatility of the rand.

Market note

Main structural drivers for listed healthcare providers

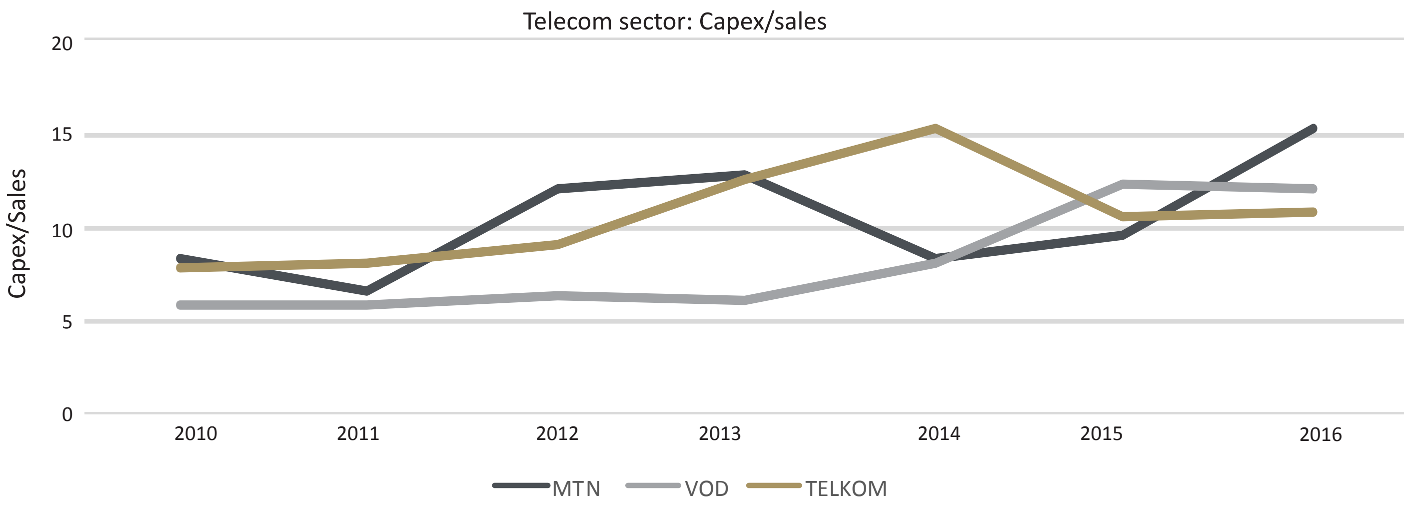
Adverse macro-economic conditions and stringent regulations have placed pressure on the top-line growth of the telecoms-sector. Volatile African currencies paired with USD-denominated expenses have also created forex losses which remain a headwind for the sector. Growing expenses to adapt to a change in consumer demand, from fixed-line to data-dominated services, have also caused structural pressures for providers.

Data remains a pillar to this sector's revenue stream, although competition remains tough with networks contending to provide affordable data-bundle packages and out-of-bundle rates, which adds pressure on their margins. Digital services have significantly contributed to data growth and a large scope for development still exists for this area. Capital expenditure is expected to remain high for all networks due to a focused spend on LTE rollouts, fibre infrastructure and maintenance of existing tower structures. In-market consolidations or changes of ownership of major players could positively change the pricing dynamic of the sector.

If Telkom succeeds in its proposed merger with CellC, a formidable number three player could be created in the local market. As a consequence of the highly competitive market and tough trading environment, churn management, competitive rates and value-added services will remain key factors in maintaining market share.

The below graph shows the capex/sales intensity of telecoms providers from 2010 to 2016. Telkom's capex/sales intensity peaked in 2014 after the group increased investment spend on upgrading their network. Vodacom's capex/sales intensity remained fairly stable over this period. MTN's capex/sales intensity increased between 2015/2016 after an aggressive capex expansion plan was pursued to regain lost market share through an improved customer experience and the quality of their data network. This necessary increase in capex, however, threatens the sustainability of its dividend given its strained capital structure.

The Capex/sales intensity of listed telecoms providers from 2010-2016



Source: PSG Wealth research team, Bloomberg

PSG Wealth

Previous publications

Daily

5 April 2017

Weekly

22 Mar
15 Mar
08 Mar
01 Mar
15 Feb
06 Feb
18 Jan
11 Jan
14 Dec
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28 Sep
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Monthly

Mar 2017
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Jul 2016
Jun 2016
May 2016
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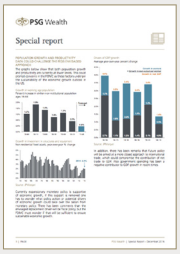
Mar 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015
Sep 2015
Aug 2015
July 2015

Quarterly

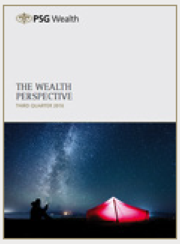
Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2016
Spring 2015

Special Reports



Research provided
Fed hike inevitable?
S&P 2 Dec review
US election
Market PE's
Domestic local government elections
Brexit vote
Cash vs Long-term instruments
S&P June 2016 rating decision explained
Fed Dec 2015 interest rate hike
Impact of political moves on investments
FoF fees small compared to actual gains
SARB hikes rates
Weak PMI support foreign diversification

Wealth Perspective



Mar 2017
Dec 2016
Sep 2016
Jul 2016
Apr 2016
Jan 2016
Oct 2015
Jul 2015