

Keep calm during uncertain political periods

- pg. 2

Main structural drivers for listed telecoms companies

- pg. 3

### Market moves

Performance: 24/03/2017 to 30/03/2017	Return (Cumulative)
<b>Local Markets</b>	
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
<b>Commodities</b>	
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

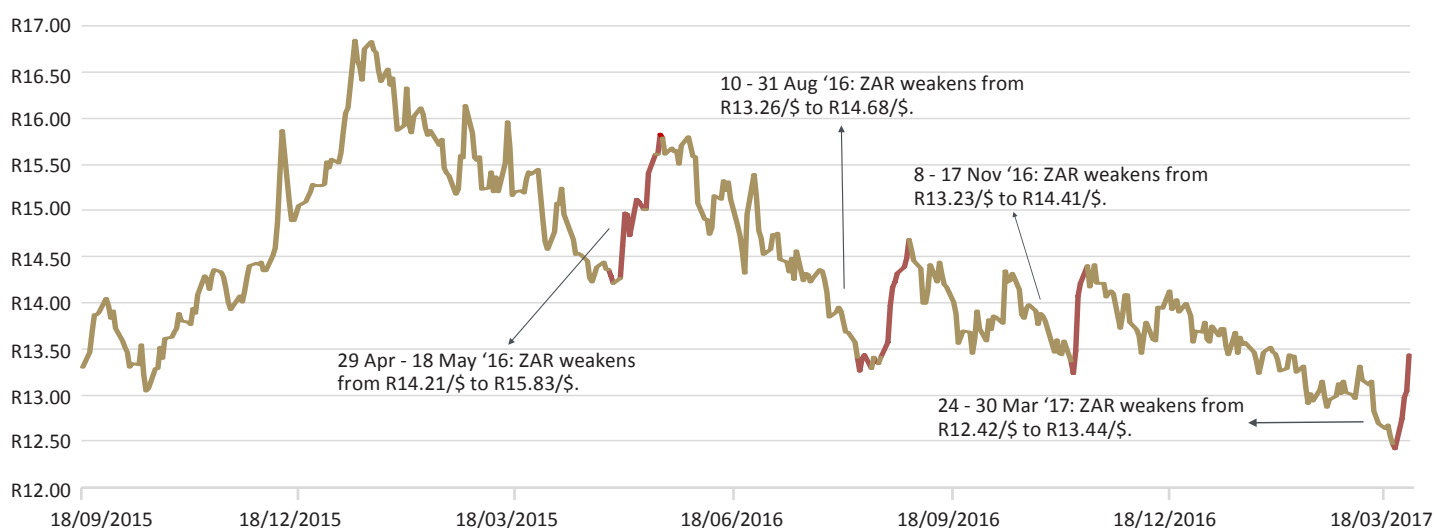
In the week that President Jacob Zuma recalled and replaced former Finance Minister Pravin Gordhan the rand weakened with about 7.60% against the dollar (From 24 – 30 March). When Zuma wanted to replace former Finance Minister Nhlanhla Nene in December 2015 the rand weakened with 11.67% (9 Dec -11 Jan 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

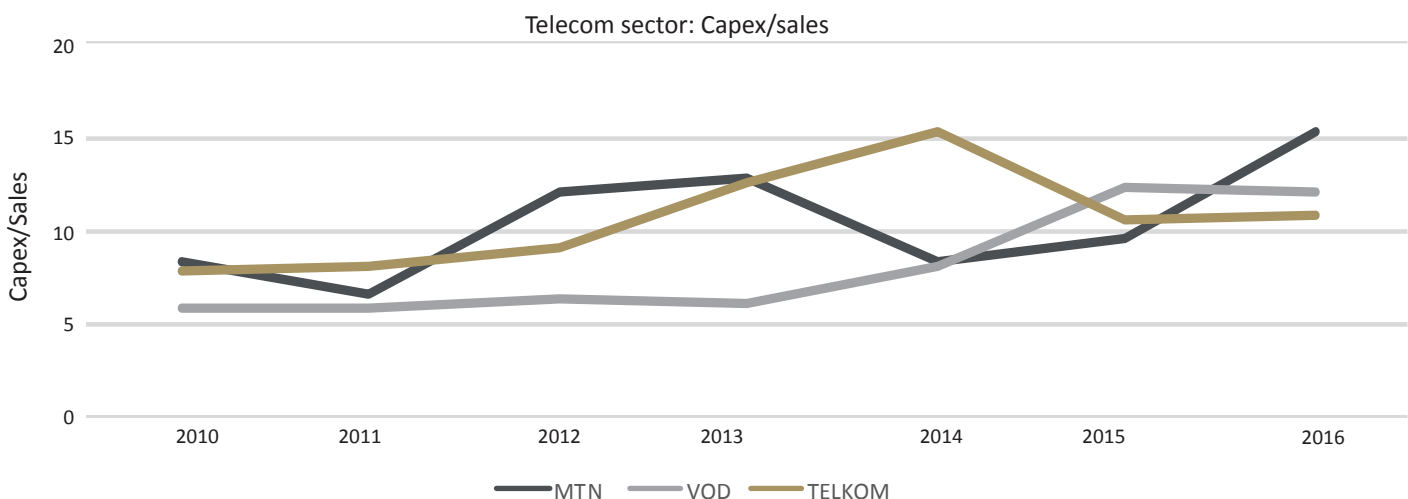
Adverse macro-economic conditions and stringent regulations have placed pressure on the top-line growth of the telecoms-sector. Volatile African currencies paired with USD-denominated expenses have also created forex losses which remain a headwind for the sector. Growing expenses to adapt to a change 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

## Previous publications

### Daily

5 April 2017



### Weekly



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

### Monthly



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

### Quarterly



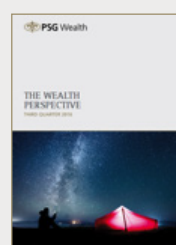
Summer 2017
Spring 2016
Winter 2016
Autumn 2016
Summer 2016
Spring 2015

### 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

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