PSG Wealth

Weekly Investment Update

5 April 2016

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Market moves

Performace: 26/03/2016 to 01/04/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	-1.41
Ind/Financials TR ZAR	0.98
Ind/Industrials TR ZAR	0.23
Financials&Indl 30 TR ZAR	-1.67
Ind/Basic Materials TR ZAR	-3.00
Gold Mining TR ZAR	-1.88
SA Listed Property TR ZAR	1.34
Beassa ALBI TR ZAR	1.61
Commodities	
Oil Price Brent Crude PR	-8.66
LBMA Platinum AM PR USD	-1.47
Gold London AM Fixing PR USD	-3.25

The week ahead

Domestic

7 Manufacturing Production

13 Retail Sales

International

8 China: Imports & Exports

12 Japan: GDP Growth Rate

Macro

ZA

South Africa's trade deficit decreased sharply to R1.07 billion in February 2016 compared with an upwardly revised R17.96 billion gap in the previous month, staying below market consensus of a R4.65 billion deficit.

US

The number of Americans filling for unemployment benefits was 276,000 in the week ended March 26th, an increase of 11,000 from the previous week's level of 265,000. Figures came above market expectations of 265,000, reaching the highest figure in eight weeks.

UK

The Markit/CIPS UK Manufacturing PMI came in at 51 in March 2016, slightly up from 50.8 in February, but below market expectations of 51.2. Output growth was unchanged from February's seven-month low, employment declined for the third straight month and price pressures remained on the downside.

Markets

Best performer

Holding company for Sportmans Warehouse and Outdoor Warehouse, Holdsport was the best performer last week with a 19% return, following a strong trading statement of EPS expected to be between 15% and 23% higher. Followed by Assore with a 17% return for the week.

Worst performer

Pallinghurst Resources was the worst performer with a drop of 12% for the week. Followed by Harmony with a 9% loss for the week.

Sectors

Industrial Metals, with companies like Assore and Kumba Iron Ore, was the best performing sector for the week with a 12.7% return. The worst performing sector was Beverages, representing companies like SAB Miller and Distell, with a loss of 4.4% for the week due to the rand/GBP exchange rate.

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Macro note

Current rising trend in private sector credit not problematic

Private sector credit in South Africa increased by 9.02% YoY in February from 8.54% in January. This was above market forecasts data from South African Reserve Bank (SARB) showed.

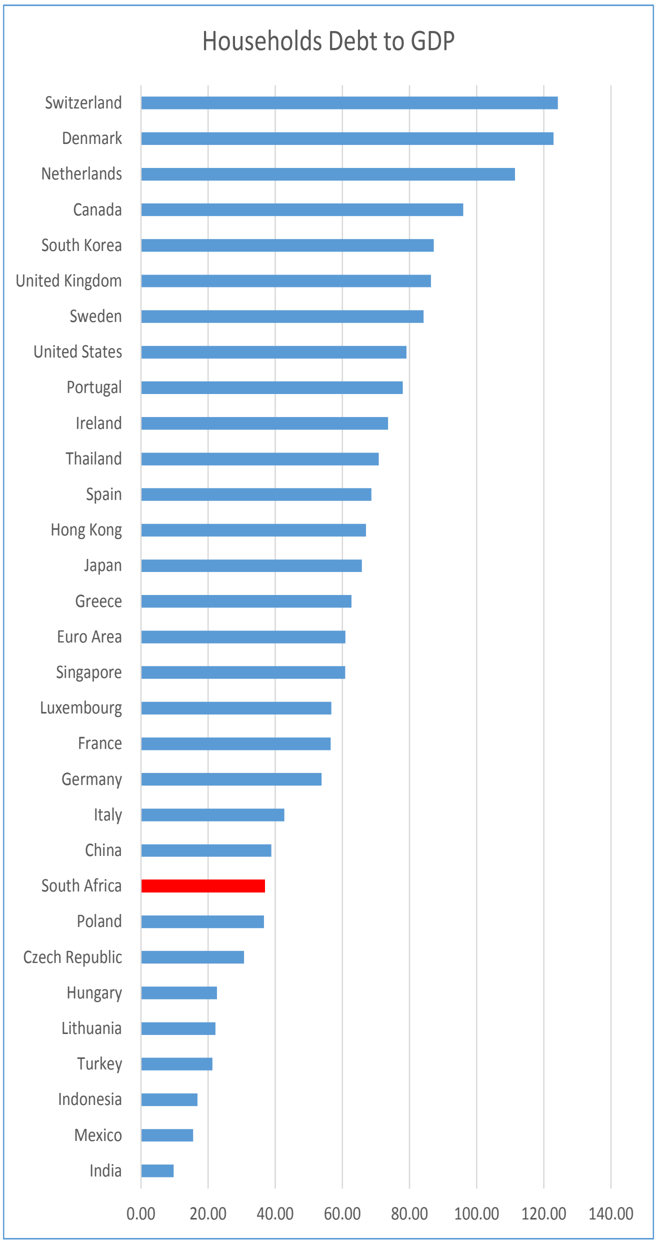
Meanwhile, data released last week showed that M3 money supply grew by 10.25% in February, compared to a 10.28% rise the month earlier.

When compared to household debt, the rising trend in private sector credit, which measures YoY change in the central bank lending to the domestic private sector, is not problematic.

Especially because household debt decreased to 78% of gross income in 2015 from 86.4% in 2008. Similarly household debt to GDP reduced from 44% in 2008 to 36.9% at the end of 2015.

This shows that the South African consumer is in a better position today, because consumers most likely used the previous low interest rate cycle to pay off debts.

In this regard South Africa fairs better than countries like Switzerland and Hong Kong with household debt to GDP percentages of 124.2% and 67% respectively. (See next table).



Source: www.tradingeconomics.com

Bottom line

PSG has always recommended investors to hold a long-term investment plan – and not to deviate from this plan. However, during higher interest rate cycles, investors with a higher debt burden normally have little room to save.
Data seen by the PSG Wealth Investment Division indicates that consumers might currently not suffer under such a huge debt burden during this high interest rate cycle.
Therefore investors should continue with their regular savings. It is after all the difficult times that offer the best buying opportunities.

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Market note

Retailers find higher valuations abroad

Higher valuations in the domestic market, have driven local retailers, over the last year, to shift their focus to acquisitions in developed markets. One of the latest of these transactions was when SPAR Group Ltd announced last week that the conditions for its acquisition of 60% of the ordinary shares in SPAR Holding AG in Switzerland for R690.4 million was fulfilled on 1 April.

According to the group this acquisition is an opportunity to invest in a stable market with growth potential. It will also complement the Group's recent purchases in Ireland and South West England. It's important to note that SPAR Switzerland will continue to operate under the current management, especially because their CEO is well-known to the group's management.

The local SPAR will also have the opportunity to buy the remaining 40% of the issued ordinary share capital of SPAR Switzerland in five years for R873.4 million.

The acquisition should be earnings enhancing given the significantly lower acquisition multiple relative to the multiple at which the bookbuild (BB) was done.
The R2.2 billion-BB was oversubscribed, at a price of R185 per BB share. The issue price represents a discount of 0.18% to the 30-day volume weighted average price (VWAP) of R185.33 of ordinary shares (close of trade on 29 March). The Spar Group is trading at normalised profit after tax (PAT) multiples of 21.5, while SPAR Switzerland was bought on PAT multiples of 13.6.

Research from the PSG Wealth Investment division shows that five South African retailers made acquisitions of retailers in developed markets in the last 18 months. (See table below). This shows a growing trend among local retailers who have seen growth opportunities in similar operations in developed, rather than developing markets.
Mimicking the SPAR Group's rationale of finding better value in developing markets than on domestic level, while taking advantage of the premium ratings assigned to their stocks in local markets.

Acquisitions in developed markets by local retailers over past year

Local Company	Purchase date	Foreign company	Price in base currency	Price in ZAR
Brait	26-Jun-15	New Look	£783m	R14.4bn
Foshini	15-Jan-15	Phase Eight	£238m	R4.3bn
	24-Mar-16	Whistles Limited	Not disclosed	
Truworths	04-Dec-15	Office Retail	£256m	R5.6bn
Woolworths	01-Aug-14	David Jones	A$2.1bn	R21.4bn
Spar	01-Apr-16	SPAR Holding AG	CHF44.5m	R690.4m
	27-Jun-15	ADM Londis		R317.0m
	01-Aug-14	BWG Group	€55m	R798.6m

Source: PSG Wealth Investment division

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Previous publications

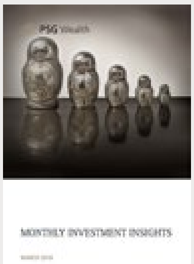
Daily

Published on a daily basis

Weekly

30 March
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



March 2016
Feb 2016
Dec 2015
Nov 2015
Oct 2015
Sept 2015
Aug 2015
July 2015
June 2015
May 2015

Quarterly

Summer 2015
Spring 2015