Weekly Investment Update
12 April 2016

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Market moves

Performace: 02/04/2016 to 08/04/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	-0.80
Ind/Financials TR ZAR	-2.28
Ind/Industrials TR ZAR	-1.34
Financials&Indl 30 TR ZAR	-0.97
Ind/Basic Materials TR ZAR	-0.80
Gold Mining TR ZAR	5.12
SA Listed Property TR ZAR	-0.47
Beassa ALBI TR ZAR	-0.72
Commodities	
Oil Price Brent Crude PR	8.46
LBMA Platinum AM PR USD	-2.65
Gold London AM Fixing PR USD	0.24

The week ahead

Domestic

14 Mining Production

18 Retail Sales

International

14 EU: Inflation Rate

15 China: Fixed Asset Investment

Macro

ZA

South Africa's manufacturing production (MP) increased unexpectedly in February, preliminary figures from StatsSA showed. MP rose 1.9% YoY in February, while it was expected to fall by 2.1%. In January, production had dropped 2.6%.

UK

Industrial production in the UK decreased by 0.50% YoY in February, from a downwardly revised 0.1% increase in the previous month and below market expectations. It was the largest fall since August 2013.

China

Consumer prices in China rose 2.3% YoY in March, the same pace as in February and below market consensus. Politically sensitive food prices increased by 7.6% while non-food cost rose at a slower 1.0%. Cost of consumer goods gained 2.5% and those of services advanced 1.9%.

Markets

Best performer

For the week was food producer Illovo with a 16% return after AB Foods increased its offer to buy a stake that it doesn't already own in the African producer for R5.6 billion ($370 million) to expand the UK company's agriculture business. Trustco Group Holdings, the Namibian based banking and insurance group, followed with a 13% return for the week.

Worst performer

Assore and Mpact, one of the largest paper and plastics packaging businesses in southern Africa, both dropped 8% for the week. Followed by African Rainbow Minerals and Invicta with a 7% loss for the same period.

Sectors

Industrial Metals, with companies Kumba Iron Ore, was the best performing sector for the second consecutive week with a 6.2% return. The worst performing sector was Banks with a loss of 3.8% for the week.

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Macro note

SA: Private-sector activity slumps, while manufacturing production climbs unexpectedly

Private-sector activity declined to its lowest in almost two years in March, as Africa's most advanced economy lost output and shed jobs at a record pace, the Standard Bank Purchasing Managers' Index (PMI) showed last week. In the meantime, recent data from Statistics South Africa showed that manufacturing production increased unexpectedly in February – it rose 1.9% YoY in February, while it was expected to fall by 2.1%. In January, production had dropped 2.6%. Production increases in the petroleum (4.2%), food (3.8%) and wood manufacturing (4.7%) sectors underpinned the overall manufacturing increase, data showed. Economists however warn that a majority of manufacturers still expect operating conditions to deteriorate over the next year. Weak demand, rising operating costs and infrastructure constraints have been the main drivers inhibited manufacturing production. One would also like to think that the upturn in manufacturing reflects the benefits of the lower rand in boosting exports and encouraging import replacement. However, cumulative manufacturing production was still down 0.3% YoY for 2016. Due to soft demand and a struggling mining sector, no drastic changes are however expected in the manufacturing sector. PMI data released last week mirrored this sentiment – PMI fell to 47.0 in March from 49.1 in February, its lowest since July 2014. These figures provides an early indication of operating conditions, with readings below 50 signalling reduced economic activity. Output by private-sector companies declined in March for the 11th straight month. Companies cited a slump in global commodity prices, a recent drought and poor market conditions as constraints on both output and new orders. With pressure to avoid credit downgrades mounting and analysts believing a recession is on the cards, the South African Reserve Bank expects the country to grow by only 0.8% this year.

Standard Bank Purchasing Managers' Index (PMI)

Febr 49.1 → March 47

Readings below 50 signals reduced economic activity

Manufacturing Production

Jan ↓ 2.6% YoY

Febr ↑ 1.9% YoY

Manufacturing production measured by StatsSA

Bottom line

Be patient, be conservative. Do the right things…

- Budget….don't overspend.
- Repay debt….reduce your interest burden.
- Maintain your savings program…make use of good buying opportunities.
- Reduce risk….diversify.
- Secure your job….make yourself indispensable.

Market note

Gaming stocks restructure business models for growth

The growth in casino gross gaming revenue (GGR) in the decade after gaming was formalised in South Africa averaged about 17% per annum. This was mainly due to a buoyant economy, confident consumers and new casinos opening.

However, since the 2008 financial crisis, casino growth has slowed to an average of just 4% as the industry matured and slower economic growth ate away at consumer's discretionary income.

The weak economic conditions prevailing in the country has now forced these travel and leisure companies to become creative. Slow economic growth combined with a decrease in government travel spending is also affecting the revenues of the hotel industry.

Companies like Sun International and Tsogo Sun are adjusting their business models to address the changing economic environment, while aiming to sustain growth through corporate actions. Sun International and Tsogo Sun Holdings are the largest JSE-listed local casino operators. While both companies are also large hotel operators, the casino businesses are core to their operations, contributing over 75% of both groups' Ebitdar.

Last week Sun International, announced that further into its third tranche of its acquisition of Grand Parade Investment (GPI) slots, the company will acquire 19.9% stake for a total consideration. This purchase consideration will be based on an equity value of GPI Slot determined by applying a 7.5 times EBITDA multiple to the actual GPI Slots EBITDA achieved for the year ending 30 June 2016. The transaction is expected to take place on 1 July.

Sun International also abandoned its proposed buyout of Peermont. The agreement between the two parties stated that in event that this transaction falls through, Menlyn Main has the obligation to issue Peermont with a five year note with a face value of between R700 and R900 million.

While Sun International's strategy is one of cooperation with competitors, Tsogo Sun is broadening its operations to include an investment in a hospitality-focused Real Estate Investment Trust ("REIT"). Last week this gaming and leisure group announced that the shareholders of the Hospitality Property Fund (HPF) would vote in favour of a new capital structure and a share deal that would see it become the hotel arm of Tsogo Sun. According to the deal, Tsogo will sell some of its hotel properties (valued at R1.8bn) to Hospitality in receipt of Hospitality shares, where after Tsogo will become the controlling shareholder of Hospitality. Management is reviewing the potential split of the hotel business into two separate divisions, namely Opco and Propco. Opco will manage the hotels and utilise variable leases on the properties.

Tsogo Sun has also revived a plan to acquire stakes in Sunwest International and Worcester Casino. The company will acquire a 20% interest in Sunwest International and Worcester Casino for R1.3 billion. The proposed transaction will provide Tsogo with an interest in quality casino assets in the Western Cape, an area where Tsogo has limited exposure.

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Previous publications

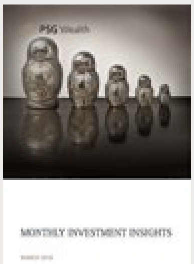
Daily

Published on a daily basis

Weekly

5 April
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

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