Weekly Investment Update

18 May 2016

Plunge in output shows malaise - pg. 2

Two healthcare providers release interim results - pg. 3

Market moves

Performace: 11/05/2016 to 17/05/2016	Return (Cumulative)
Local Markets	
All Share TR ZAR	1.26
Ind/Financials TR ZAR	-1.13
Ind/Industrials TR ZAR	-3.89
Financials&Indl 30 TR ZAR	0.24
Ind/Basic Materials TR ZAR	7.76
Gold Mining TR ZAR	9.90
SA Listed Property TR ZAR	-0.84
Beassa ALBI TR ZAR	-1.03
Commodities	
Oil Price Brent Crude PR	8.26
LBMA Platinum AM PR USD	0.38
Gold London AM Fixing PR USD	0.42

The week ahead

Domestic

19 Interest rate

19 Prime overdraft rate

International

19 UK: Retail sales

24 US: Markit Manufacturing PMI

Macro

ZA

Industrial production dropped by 2% in March, mainly due to a decrease of 18% YoY in mining production and a drop of 2% in manufacturing production for the same period. The 18% drop in mining production is the lowest level in almost 40 years.

China

Fiscal expenditure in China increased by 4.5% YoY in April 2016, compared to the 20.1% surge in March. Fiscal revenues expanded by 14.4%, accelerating from 7.1% a month earlier. Considering the first four months of 2016, fiscal spending grew by 12.4% YoY and revenues went up 8.6%.

Germany

The German economy advanced a seasonally-adjusted 0.7% in the first quarter of 2016, accelerating from a 0.3% growth in the previous two quarters. It is the strongest expansion since the first quarter of 2014.

Markets

Best performer

For the week was Sappi and Raubex both with a 15% return. Followed by Calgro with an 11% return for the week.

Worst performer

Exxaro Mining was the worst performer for a second consecutive week with a loss of 14%. Followed by African Rainbow Minerals with a 13% drop for the same period.

Sectors

The best performing sector was fixed line communications, which includes Telkom, with a return of 7.5% for this sector for the week. Industrial metals, with companies like ArcelorMittal, was the worst performing sector for the second consecutive week with an 11.1% loss.

PSG Wealth

Macro note

Plunge in output shows malaise

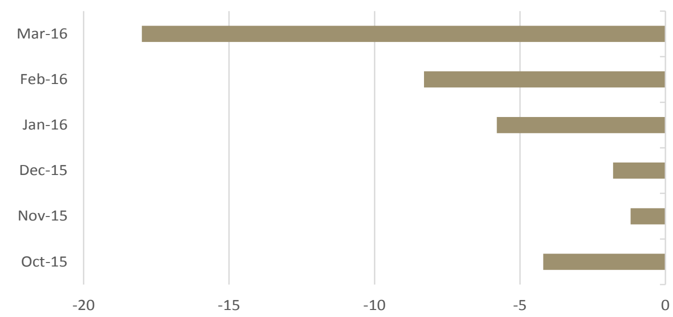
Two major sectors that make up 20% of our economy are stuck in a slowdown, latest data from Statistics SA showed. Mining production plummeted 18% to its lowest in almost 40 years, and manufacturing fell 2% after a modest 2.2% rise in February.

Statistics SA data out last week also showed that unemployment, at 26.7%, was at its highest level in almost eight years, with manufacturing having shed a staggering 100,000 jobs, while mining lost 10,000 jobs in the first quarter. The unexpected plunges in mining and manufacturing in March were blamed on planned safety stoppages and on low global commodity prices and demand.

The biggest drops were in platinum group metals, coal and iron ore.

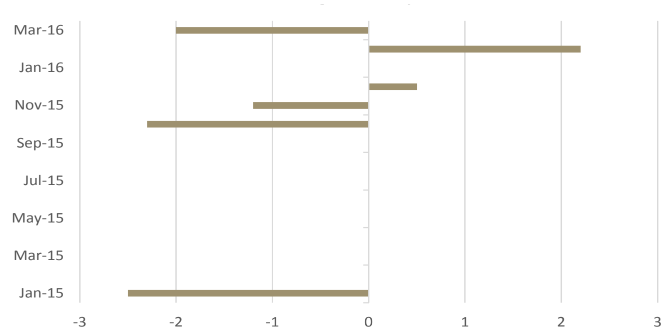
Despite the poor mining data, mineral sales were up, supported by gold, but offset by lower iron ore sales as Chinese demand waned. Lower production of steel and metal products, furniture, vehicles and food contributed to the decline in manufacturing. The manufacturing of wood, petroleum and chemical products rose. This data does not just underscored the persistently poor state of the economy, but according to economist it could also mean a pause in rate hikes when the monetary policy committee meets this week. Rates have gone up 200 basis points since January 2014.

Mining production - March 2016
YoY % change, unadjusted



Source: Statistics South Africa Mining production and sales March 2016

Manufacturing production - March 2016
YoY % change, unadjusted



Source: Statistics South Africa Manufacturing production and sales March 2016

Bottom line

Investment markets are driven by economic factors. Fix-interest securities are mainly driven by inflation and interest rates which are both in a rising trend. Equity prices, on the other hand, are mainly driven by future company earnings. Though the outlook for the industrial production remains poor, some companies have already discounted this bad news, while others have not. Actively managed products, like the PSG Wealth solutions , have the best potential to reduce exposure to companies whose prices have not discounted the poor outlook, and to increase the exposure to those which have already discounted it. Even sectors with a poor outlook will always offer some good investment opportunities and investors should be wary of portfolios that avoid a specific sector. They should make sure that the portfolios in which they invest remain well diversified between all sectors and markets.

PSG Wealth

Market note

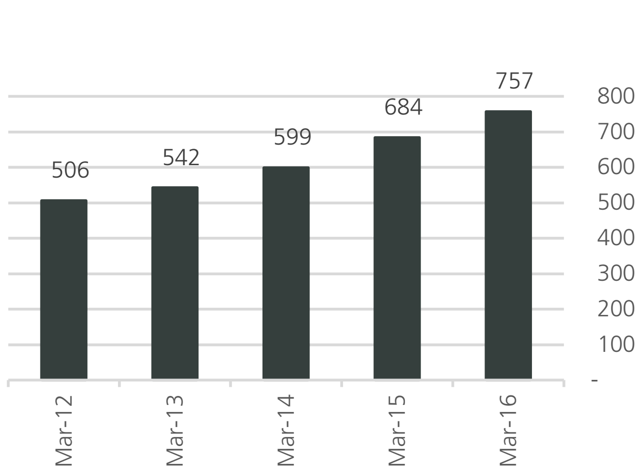
Two healthcare providers release interim results

One of the leading private hospital operators in South Africa, Life Healthcare delivered an improved set of interim results ending March, driven by an aging population and higher disease burdens as medical scheme growth remained muted given weak employment growth. The group's revenue increased by 11% to R7.9 billion, supported by a 2.7% growth in pay patient days (PPD). A total of 91 additional beds were added during the period, however, occupancy rates was slightly lower at 69.9% (2015: 70.7%).

According to these results, the group will continue to drive operational efficiencies in South Africa through optimising cost of sales and procurement; streamlining administrative processes and improving hospital occupancies to enable the leveraging of its fixed cost base. The PSG Wealth investment division believes, however that above average growth in earnings off this high base is going to be difficult. To this end, the expansion into other territories and an improvement in Max healthcare efficiencies and occupancy rates may prove essential to sustain the groups' earnings growth.

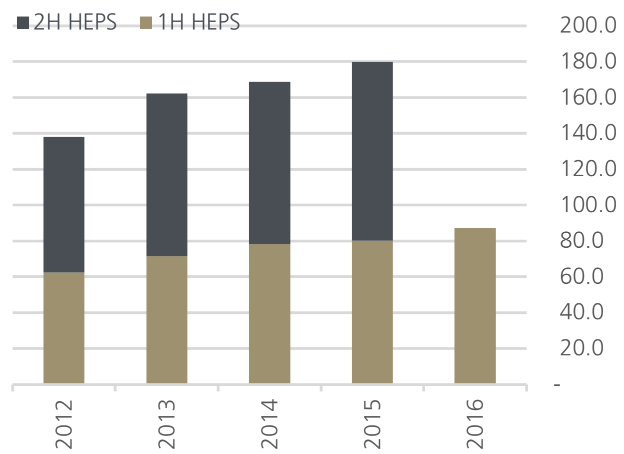
Investments in the hospital industry are normally lower risk investments due to the high barriers to entry. Life Healthcare is a quality company boasting high operating margins, a good return on equity (ROE) and consistently strong cash generation. Legislative uncertainty, however, remains a risk. Life healthcare currently trades at a forward P/E of 19.17 times. The company is valued higher than Netcare which recently produced results below market expectations. Netcare's revenue increased to R18.81 billion from R16.30 billion posted in the corresponding period of the previous year. Its headline diluted EPS rose 10.9% from the same period of the prior year to 90.30c. Netcare is currently trading on a forward P/E of 15.5 times following a material decline in its share price. Mediclinic International remains the highest rated share in the sector trading on a forward PE of 24.2 times.

Life Healthcare revenue per share



Source: PSG Wealth investment division

Headline earnings per share



Source: PSG Wealth investment division

Previous publications

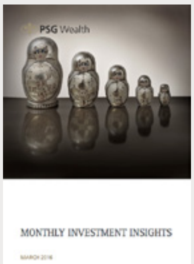
Daily

Published on a daily basis

Weekly

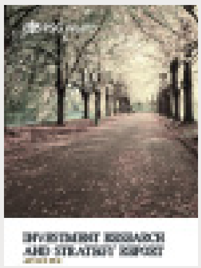
11 May
4 May
26 April
20 April
12 April
5 April
23 March
16 March
9 March
1 March
23 Feb
11 Dec
20 Nov
16 Nov

Monthly



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

Quarterly



Autumn 2016
Summer 2015
Spring 2015

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