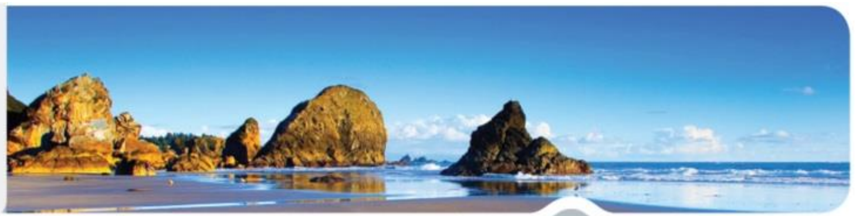
PRIVATECLIENT HOLDINGS



Perspectives | Monthly Market Review

November 2020

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Market Report

The October Effect

While August was unmistakably positive for equity investors and September similarly negative, October was a game of two halves. In the first half of the month global indices rose healthily on the back of September momentum before handing back all their gains and more in the second half, buffeted by COVID-19 surges and political uncertainty. Even so, the MSCI All-Countries World Index failed to break its September low, which provides some foundations for optimism. Safe haven assets such as government bonds and precious metals did little to provide a counterbalance this time.

In addition, the high-flying, large-cap tech stocks, which had led markets higher after the start of the pandemic in March, released earnings reports which were lower than what was expected, resulting in the share prices of big tech names such as Facebook, Apple, and Amazon to dip its head. The three major US indices all recorded Month on Month declines, the S&P 500 ended lower for a second straight month (-2.8%), with the tech sector the worst performer among the S&P 500's 11 sectors. However, Year-To-Date the S&P 500 is still up 1.2%. The Dow Jones Industrial Average closed October 4.6% lower, its worst month since March 2020. More than 70% of S&P 500 companies reported their third quarterly earnings during October, with aggregate earnings down 6.5% since the same period last year and with large industrial companies such as Boeing and Raytheon reporting some of the largest yearly declines out of the index. Banks were also amongst the companies with the biggest earnings declines as they struggled with low rates and massive provisions for potential credit losses. Nevertheless, despite the negative aggregate earnings, the earnings numbers were still significantly ahead of expectations for some sectors. The sectors that were able to eke out a positive return for October were utilities companies and the Communication Services sector.

Developed markets fell for a second consecutive month in October (MSCI World -3.1%) as COVID-19 cases surged in the US and Europe. European stocks were amongst the worst performers last month as the Eurostoxx 50 fell by 7.3%, with the news of many countries that make up the EU imposing new restrictions. UK equity markets were also under pressure, with the FTSE 100 Index dropping 4.9% last month (-26.1% since the start of the year). Germany's Dax plummeted 9.4% (-12.8% Year-To-Date), while France's CAC fell by 4.4% (-23.1% Year-To-Date). On the economic data front, euro area GDP and US GDP grew by 12.7% and 7.4% quarter on quarter – a sharp rebound from the second quarters 11.8% and 9% decline albeit from a low base as the second quarter of 2020 was the quarter when we saw COVID-19 related business closures. Still, expectations remain that the full-year growth numbers will show a contraction. At its meeting last week, the European Central Bank kept rates unchanged but said that the region's economic outlook had deteriorated significantly, with ECB President Christine Lagarde signalling that further monetary easing was likely to be announced at the December meeting. EMs, particularly China, where the economy has benefitted from a lack of a resurgence in COVID-19 cases and the People's Bank of China also gave a boost to exporters with currency interventions to mitigate recent renminbi strength. China's Shanghai Composite Index rose by 0.2% for the month (up 5.7% Year-To-Date) and Hong Kong's Hang Seng jumped 2.8% (-14.5% Year-To-Date). The official NBS Manufacturing PMI for China stood at 51.4 in October 2020, little-changed from a six-month high of 51.5 in the previous month and compared with market expectations of 51.3. The latest reading pointed to the eighth straight month of growth in factory activity, amid ongoing recovery in the economy from the COVID-19 shock.

All Share

Time Period: 2019/11/01 to 2020/10/31

FTSE/JSE All Share TR ZAR

Resources

Time Period: 2019/11/01 to 2020/10/31

FTSE/JSE Resources 10 TR ZAR | FTSE/JSE All Share TR ZAR

Industrials

Time Period: 2019/11/01 to 2020/10/31

FTSE/JSE Indl 25 TR ZAR | FTSE/JSE All Share TR ZAR

Financials

Time Period: 2019/11/01 to 2020/10/31

FTSE/JSE Financial 15 TR ZAR | FTSE/JSE All Share TR ZAR

Index	Value	Oct (%)	YTD (%)
All Share	51,685	▼ 4.7%	▼ 7.1%
S&P 500	3,270	▼ 2.7%	▲ 2.8%
FTSE 100	5,577	▼ 4.7%	▼ 24.0%
Rand/USD	16.25	▼ 2.6%	▲ 16.2%
Rand/GBP	21.01	▼ 2.6%	▲ 13.4%
Gold ($)	1,877	▼ 0.5%	▲ 23.6%
Plat ($)	845	▼ 6.3%	▼ 13.1%
Brent ($)	37	▼ 8.5%	▼ 43.2%

Medium-term budget policy statement and government's economic reconstruction and recovery plan

The SA market had a third consecutive negative month in October (FTSE JSE All Share Index -4.7%), as the JSE was not spared the global risk-off sentiment. Among the index's large-cap constituents, Bidcorp (-13.8%), BAT's (-13.4%), BHP (-13%), and Richemont (-9.9%), recorded significant share prices drops. However, the rand managed to buck the trend, ending the month 3.1% stronger against the greenback at R16.24/$. The stronger rand was a contributing factor in a poor month for locally listed stocks with foreign earnings, which were down 11% and miners down 9% in aggregate. However, Naspers and Prosus were able to more than outperform the currency headwind and ended the month up 6.5% in aggregate. Stocks with domestically geared earnings had a mixed month, with decent results by some of the local retailers (Pick 'n Pay +9.1% and Clicks +6.1%). Capitec (+9.9%) was the only local bank to end the month higher and the Insurance sector took a huge knock (Discovery -16.4%, Momentum -16.1% and Old Mutual -9.5%).

Finance Minister Tito Mboweni delivered the much-anticipated Medium-Term Budget Policy Statement towards month-end. The Finance Minister laid out a plan to curb spending on the government's wage bill, avoiding the temptation to embark on a debt-fuelled spending spree, highlighting the need for fiscal consolidation and stabilising the country's debt-to-GDP ratio in the medium term as well as categorically ruling out prescribed assets and debt-funded spending to try and stimulate the economy. While encouraging, the plan has high execution risk as was very evident in the announcement of a R10.5bn bailout for failing state-owned airline SAA (largely funded by cuts to the allocations for police, tertiary education, basic schooling and public health care), which, along with other state-owned enterprises, has been a large drag on the fiscus. The MTBPS has not been well received in the markets despite offering no surprises and few new insights. The country's debt trajectory is, however, substantially worse than reflected in the Supplementary Budget. The MTBPS reiterates the need to make difficult choices to stabilise debt, stressing that failing to do so will lead to a fiscal crisis. The fiscal policy path presented will be a further drag on SA's recovery, with higher taxes and spending constraints likely to weigh on incomes, earnings and growth.

Prior to the MTBPS, President Cyril Ramaphosa announced government's Economic Reconstruction and Recovery plan, which Treasury expects to help raise growth to c. 3% on average over the next decade. Very little of what he said was new and, in part, there were no strong positive takeaways but at the same time no strong negative takeaways either. Over the last few years there have been several economic revival plans and the market is likely asking whether this latest plan will get any more traction than its heap of predecessors. The consensus view is that the renewed energy and focus being created by the Presidency should see this plan being better executed than we have experienced in the past. Unfortunately, market commentators remain unconvinced that it will spark the necessary sustainable uptick in SA's economic growth.

While the aim is to fast-track the implementation of the plan, the Special COVID-19 Grant has been extended by a further three months to alleviate immediate pressure on the poorest households. The main areas of the plan are:

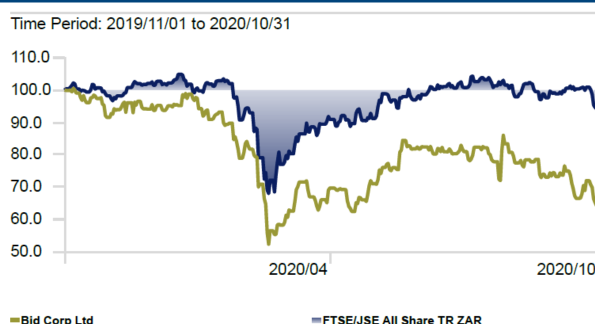
1. To create jobs, primarily through infrastructure investment and mass employment programmes. A total of 800 000 job opportunities are targeted in the immediate term and R1 trillion in infrastructure investment is planned over the next four years.
2. To reindustrialise the country and focus on growing small businesses. This includes removing regulatory barriers, improving energy availability, and an intensive localisation drive.
3. To accelerate economic reforms to unlock investment and growth.
4. To fight crime and corruption. The so-called "construction mafia" was specifically mentioned. The revenue service has also identified significant areas of tax evasion and tax fraud.
5. To improve the capability of the state.

Fiscal consolidation was emphasised and SOEs were briefly mentioned as well. The state is intensifying efforts to stabilise strategic companies, accelerating the rationalisation of SOEs and, where appropriate, identifying strategic partners. In the live broadcast, the president mentioned that government could explore listing certain SOEs although this was not included in the published speech. Overall, this plan did not veer off previous plans proposed by government, however, it did include shortened timelines which could be viewed as encouraging.

Company Results

Bid Corporation Ltd. – Results for the financial year ending June 2020

Earnings per share	**R6.93**
Historical PE	**77.8**
EPS growth	**-48.2%**
Turnover growth	**-6.3%**
ROE	**5.5%**
Debt/Equity	**68.1%**
NAV per share	**R82.79**
Dividend yield	**-**
Share price	**R283.50**



Nature of Business

Bid Corp. Ltd. is a holding company, which engages in the foodservice business. It operates through the following segments: Australasia, United Kingdom, Europe, Emerging Markets, and Corporate. It is the largest food service distributor outside the US, and has the biggest geographical footprint of its peers, with operations in the UK (25% of FY19 EBIT), Europe (28%), Australasia (32%) and Emerging Markets (15%). The company was founded by Brian Joffe on March 1, 1988 and is headquartered in Johannesburg, South Africa.

Latest Results

Bidcorp has delivered a resilient performance for the year which has been significantly impacted by the catastrophic economic and social consequences of the COVID-19 pandemic (COVID) which took hold across every operating geography from late January 2020 onwards. The group's resilience is a testament to the decentralised operating model.

Headline earnings per share (HEPS) from continuing operations, post the introduction of IFRS 16 Leases, decreased by 48,2% to 741,3 cents per share (F2019: 1 443,6 cents). Performance across the business up until February remained pleasing and in line with expectations, however, with the onset of COVID in each operating geography, demand in the discretionary spend sectors, particularly across hotels, restaurants, pubs, leisure and travel-related segments initially plummeted as lockdowns and restrictions were implemented, but towards the beginning of June started improving from a very low base.

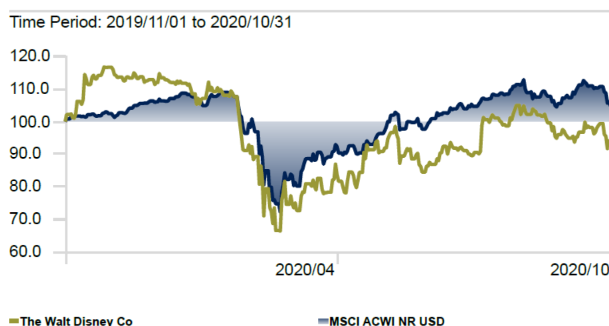
The group opportunistically pivoted into new channels, such as home delivery and supply to other retail related channels, however, the overall contribution of these initiatives was small and remains non-core and temporary. Bidcorp's strong balance sheet (total debt to assets is c.26%) and relatively high margins going into the COVID-19 crisis position it favourably vs. competitors in what remains a fragmented market ripe for consolidation. The group's likely competitors will exit the industry and vendor valuation expectations will moderate, meaning Bidcorp is likely to 1) gain market share and 2) pursue earnings-accretive acquisitions once the crisis has passed.

Dividend

Bidcorp has not declared a final dividend, meaning the total dividend for the year of 330,0 cents per share represents a 48,4% decline against F2019, similar to the decline in HEPS for continuing operations in F2020 and in line with our overall distribution policy.

Walt Disney Company – Results for the financial year ending September 2020

Earnings per share	$-1.58
Historical PE	-79.5
EPS growth	-123.9%
Turnover growth	-5.8%
ROE	-3.3%
Debt/Equity	70.1%
NAV per share	$46.93
Dividend yield	0.7%
Share price	$124.08



Nature of Business

The Walt Disney Co. is a diversified international family entertainment and media enterprise. It operates through the following segments: Media Networks, Parks, Experiences and Products, Studio Entertainment and Direct-to-Consumer and International (DTCI). The Media Networks segment includes cable and broadcast television networks, television production and distribution operations, domestic television stations, radio networks and stations. The Parks, Experiences and Products segment owns and operates the Walt Disney World Resort in Florida; the Disneyland Resort in California; Aulani, a Disney Resort & Spa in Hawaii; the Disney Vacation Club; the Disney Cruise Line; and Adventures by Disney. The Studio Entertainment segment produces and acquires live-action and animated motion pictures, direct-to-video content, musical recordings and live stage plays. This segment distributes films primarily under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm and Touchstone banners. The DTCI segment licenses the company's trade names, characters and visual and literary properties to various manufacturers, game developers, publishers and retailers throughout the world. It also develops and publishes games, primarily for mobile platforms, and books, magazines and comic books. The Walt Disney was founded by Walter Elias Disney on October 16, 1923 and is headquartered in Burbank, CA.

Latest Results

Results in the quarter and fiscal year ended October 3, 2020 were adversely impacted by the novel coronavirus (COVID-19). The most significant impact was at the Parks, Experiences and Products segment where since the second quarter of the fiscal year, parks and resorts have been closed or operating at significantly reduced capacity and cruise ship sailings have been suspended. EPS from continuing operations for the year was a loss of $1.57 compared to income of $6.26 in the prior year.

However, Disney's early success in transitioning its business to a digital platform will likely award the stock a higher multiple as it increases conviction in its longer-term success and path to profitability. Management expect to see ongoing subscriber updates on quarterly reports to be uneven but ultimately a positive driver to shares. The real bright spot has been the direct-to-consumer and International (DTCI) business, which is key to the future of the company, and on this anniversary of the launch of Disney+ management reported that, as of the end of the fourth quarter, the service had more than 73 million paid subscribers – far surpassing expectations in just its first year.

The hit from COVID-19 will be specific to F2020 with some lingering impact to attendance at the Parks and some disruption in the slate of films as an issue that may run into F2021.

Dividend

Management has released a comment that the company will not distribute the semi-annual dividend in January but is likely to resume it later in 2021 as the company remains committed to a dividend in a normal economic backdrop.

Snippets

PCH Insights Vol 26

PCH proudly presents our most recent newsletter - **PCH Insight Vol 26**. This edition encapsulates the PCH multi-Family Office offering and we are proud to introduce you to new members of our team.

Private Client Financial has launched its new stand-alone website www.privateclientfinancial.co.za that focuses on our Tax and Accounting services

Corporate Cash Manager Rates

FUND	BALANCE	RATE
CALL ACCOUNT	0.00 – 9 999.99	3.15
	10 000 – 24 999.99	3.15
	25 000 – 49 999.99	3.15
	50 000 – 99 999.99	3.15
	100 000 – 249 999.99	3.15
CALL MONEY FUND: *Individuals*	250 000 – 999 999.99	4.05
	1 000 000 – 9 999 999.99	4.05
	10 000 000 upwards	4.05
CALL MONEY FUND: *Non-Individuals*	250 000 – 999 999.99	3.85
	1 000 000 – 9 999 999.99	3.85
	10 000 000 upwards	3.85

Dividends Payable

Dividends in LDT order

Company	Decl	LDT	Pay	Amt	Curr
AfroCentric Investment Corporation Ltd. (AFRO-C)	14-Sep	10-Nov	16-Nov	17	ZARc
Allied Electronics Corporation Ltd. (ALTRON)	22-Oct	10-Nov	16-Nov	33	ZARc
Alviva Holdings Ltd. (ALVIVA)	28-Sep	10-Nov	16-Nov	15	ZARc
Remgro Ltd. (REMGRO)	28-Sep	10-Nov	16-Nov	50	ZARc
Investec Australia Property Fund (IAPF)	29-Oct	17-Nov	04-Dec	4.39	AUDc
London Finance & Investment Group PLC (LONFIN)	21-Sep	17-Nov	02-Dec	0.6	GBPp
MiX Telematics Ltd. (MIXTEL)	29-Oct	17-Nov	23-Nov	4	ZARc
Spear REIT Ltd. (SPEARREIT)	30-Oct	17-Nov	23-Nov	29.34	ZARc
Afrimat Ltd. (AFRIMAT)	29-Oct	24-Nov	30-Nov	36	ZARc
Afrimat Ltd. (AFRIMAT-A2X)	29-Oct	24-Nov	30-Nov	36	ZARc
Cartrack Holdings Ltd. (CARTRACK)	14-Oct	24-Nov	30-Nov	87	ZARc
Invicta Holdings Ltd. (IVT PREF)	09-Nov	24-Nov	30-Nov	314.88	ZARc
Invicta Holdings Ltd. (IVT PREF-A2X)	09-Nov	24-Nov	30-Nov	314.88	ZARc
Naspers Ltd. (NASPERS-N)	29-Jun	24-Nov	30-Nov	580	ZARc
Naspers Ltd. (NASPERS-N-A2X)	29-Jun	24-Nov	30-Nov	580	ZARc

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