**Pick of the month:** Afrimat pg 5

**Unit trusts:** Options for flexibility pg 33

**Companies inside:** Grindrod, Santova, Pepkor, Ninety One, Famous Brands & Coronation

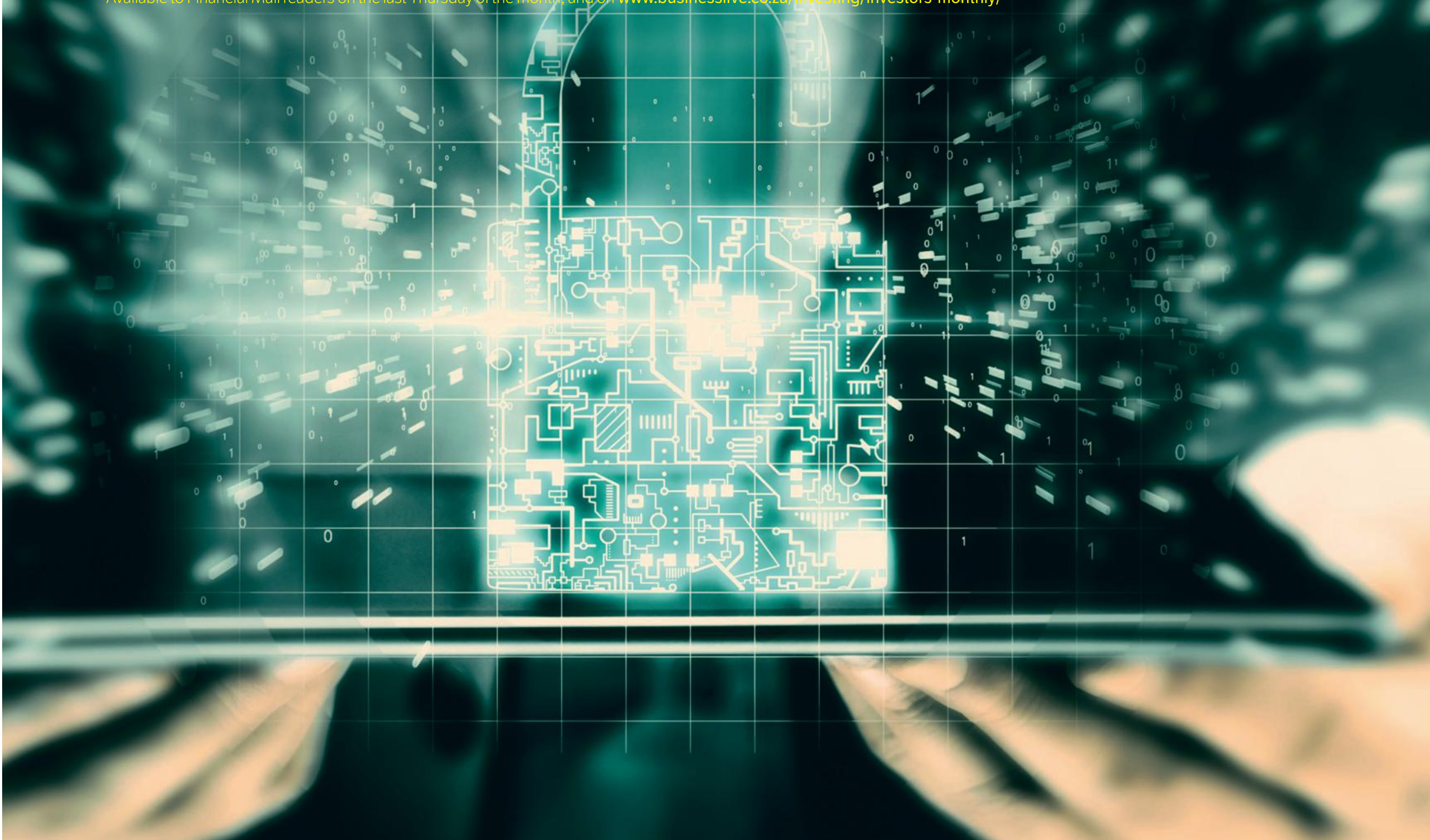
fm

June 2024

# investors MONTHLY

Certain stocks for uncertain times pg 21

Available to Financial Mail readers on the last Thursday of the month, and on www.businesslive.co.za/investing/investors-monthly/



# BEST OF THE BEST

The top **PRIVATE BANKS** and **WEALTH MANAGERS** for 2024 pg 6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# After the GNU declaration — dare we hope?

MARC HASENFUSS
email Marc on hasenfussm@fm.co.za

**FOR A MARKET STEEPED** in cynicism for the past 36 months, the rally brought on by the announcement of a government of national unity (GNU) in mid-June was quite something to behold.

Hopefully it's sustainable and investors don't look back in a few months and say: "That was fun while it lasted."

Who would have thought that bitter and twisted investors on the JSE could have mustered so much enthusiasm for a second bout of Ramaphoria? Maybe South Africa Inc stocks had been beaten down so damned long that just the glimpse of responsible government custodianship of the economy was enough to spark at least a most convincing relief rally.

More jaundiced observers will caution against too much optimism, which seems fair enough when the brittle nature of such a disparate political coalition still needs to play out.

If level heads – and a spirit of compromise – prevail, there is not a helluva lot of radical change needed to accelerate the sluggish growth trajectory in the economy. We already seem to have made some tangible progress in achieving a more reliable energy supply. Can the same be done to get the rail network humming efficiently and the ports unclogged?

While an interest rate cut does not seem to be on the cards in the short term, might constructive government tinkering in economic infrastructure make the Reserve Bank relinquish its tight hold?

The sprightlier economy, with development policy certainty more clear, would do wonders for company earnings, with so many counters having slimmed down to their leanest, meanest forms after the Covid reset and the subsequent economic grind.

Quite possibly, a clearer line of the economic horizon might also prompt a fresh bout of corporate action, and there will be smaller companies slow to rerate in a more conducive GNU scenario.

The big plays have certainly run hard already. At the time of writing, some popular stocks, especially in the retail, food manufacturing and financial services sectors, had moved up 10%-15% in the space of two days. It feels a little surreal ... a little too good to be true. Hopefully my trepidation is misplaced.

This edition's special focus is on the burgeoning private banking and wealth management sector. Krutham – formerly Intellidex – has again provided some incredible research and valuable insight into the various offerings. It's certainly reassuring to note the vibrancy and competitiveness in this sector.

I hope you enjoy the read.

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Picture: 123RF — CDPIC

## Opening Bell



## Cover Story
Page 6

Cover: VUYO SINGISWA

## Analysis




Picture: 123RF — GIOIAK2

## Feature

# PICK of the MONTH

| | |
|---|---|
| Share: | AFRIMAT |
| JSE share code: | AFT |
| Share price: | R68 |
| Average volume traded: | 3.3-million (monthly) |


Afrimat appears to be back in favour with the market warming to recently released results for the year ended February 2023.

The stock hit a 52-week high of R71.01 on June 4 as investors started to acknowledge the benefits of the group's diversification away from iron ore towards anthracite, and more recently cement and construction materials courtesy of the R1bn Lafarge acquisition.

On a 12-month perspective, Afrimat's share price is ahead 29% and by 8% year to date. Recent financial 2024 results saw group revenue rise 24% to R6.1bn, with operating profits almost 20% higher to R1.152bn. Profitability within iron ore rose just 3% to R789m, but the business still dominates Afrimat's income profile by contributing 68% of group operating profit. Construction materials contributed 24% and Nkomati accounted for 15%.

The main kicker to results and profitability was the continuing solid demand of construction materials. Revenue for this subsidiary rose 22% with a 720bps leap in operating profit margin to 12.4%. That led to a 116% rise in operating profit to R273m. Nkomati anthracite experienced a weak first half due to some mining difficulties, though it roared back in the second half to report higher year-on-year operating profit of R169m.

Group headline earnings rose 24% to 567c a share, with a 154c final dividend. Prospects for the business remain resolute for the year ahead.

Nkomati has started to see an uplift in profitability. Capital expenditure has been sunk and as the mine increases its output – given a majority of production is sold to Glencore at a fixed price – profitability will double from here.

The delayed Lafarge acquisition was finalised in April 2024. Due to a delay in handover, the business is now loss-making after reporting a R331m profit in 2021. The recovery potential is significant, though. Afrimat has an excellent track record of restructuring and improving the operational profit performance of its acquisitions. Lafarge should be no different.

Iron ore's percentage of profitability will trim in 2024 and into 2025 as an increase in contributions from Nkomati kicks in with an accelerating rate of mine towards production of 540,000t-600,000t a year.

The pinch point in the year ahead will be iron ore. Failings by Transnet on the export line to Saldanha hit the entire industry in the past year. Derailments and poor performance led to lower export volumes. That is not expected to change into financial 2025.

About 710,000t of iron ore were exported in financial 2024, 9% lower than in 2023. Afrimat has an export allocation of 870,000t on the Saldana line, but that hasn't been utilised as a result of Transnet's problems. Should the state-owned port and rail operator up its game, Afrimat, as part of the junior miners' coalition, could benefit from Transnet's desire to uplift this important sector.

By 2026 and into 2027, Afrimat aims to secure a 2Mt export allowance, which would remove much of the risk associated with ArcelorMittal. Afrimat, via its Jenkins iron ore mine, is beholden to ArcelorMittal for its inland iron ore sales. Domestic sales to ArcelorMittal rose 76% to 882,200t with good sales between September 2023 and January 2024.

Sales to ArcelorMittal have been absent since then, and weakness within the domestic steel market is well known. Volume and pricing negotiations with ArcelorMittal are under way, but the market may need to keep in mind sales volumes may be tighter. Should that transpire, iron ore within Afrimat will take a hit, though there may be an eventual silver lining if Afrimat's export allocation is increased.

As IM writes, citizens and investors await the outcome on which parties will form the national government. That will determine the control of economy policy and the direction of the rand. Any uplift in infrastructure spend will further benefit Afrimat's construction materials business.

The group has many areas of growth in the next two years, including Nkomati, Lafarge and Glenover phosphate, though iron ore weighs heavily. The commodity is trading at $107.02t, having taken a knock latterly. It has sunk further as concerns about China's economy, and its property sector specifically, weigh on the key steel ingredient. China is the world's biggest buyer.

Afrimat realised an average of $121/t in financial 2024. At about R68, IM recognises the potential within Afrimat – but has to highlight the iron ore risk. On balance, the positives remain with Nkomati and Lafarge as profit kickers and Glenover phosphate to come into 2025.

IM maintains its R80 price target – a 17% increase from the mid-June price range.

**The writer holds shares in Afrimat**

"Iron ore's percentage of profitability will trim in 2024 and into 2025 as an increase in contributions from Nkomati kicks in with an accelerating rate of mine towards production of 540,000t-600,000t a year

**Other companies analysed in this issue:** Pepkor, Santova, Famous Brands, Grindrod, Coronation, Ninety One
See Pages 27-32 for these share analyses

# INVESTING IN ANXIOUS TIMES

In a country with serious macroeconomic challenges and a faltering economy plagued by high levels of political uncertainty, the role of wealth managers and private bankers in protecting investor wealth is highly appreciated by clients, writes **Colin Anthony**

Revenue at private banks and wealth managers that participated in the 2024 Top Private Banks & Wealth Managers survey climbed 16% over the past year – and investors are showing higher levels of appreciation for the world-class service they receive.

Satisfaction ratings, determined from 12,317 clients of private banks and wealth managers who participated in the online survey this year, shot up after a drop in 2023, surpassing the previous high of post-Covid 2021. While the economy since 2021 has made for a poor investment environment, this survey was conducted from March 6 to April 24 this year, a period of heightened political uncertainty ahead of the elections.

Individual investors have much to worry about and the risks are flowing locally and internationally. Wealth managers note that internationally there is escalating global conflict and geopolitical uncertainty which accelerated inflation and pushed up global interest rates. Locally they worry about political instability coupled with the breakdowns in service delivery by municipal bodies and SOEs, the far-reaching impact of electricity shortages, water supply disruptions and the general neglect of infrastructure in various regions. Underlining their concerns are the socioeconomic consequences linked to these issues, with the risk of higher taxes targeting the wealthy.

In such precarious times, the role of wealth managers becomes ever more important and this has possibly contributed to the strong revenue growth. Assets under management at the 13 participating wealth managers have grown slower at 4%, though assets under advisement climbed 10%.

But the interesting story lies in returns – where the 12.6% growth in offshore investments far outstrips local growth of 6.9%. Over five years – a period which includes the Covid pandemic lockdowns – onshore returns are a more respectable 9.5% versus 10.3% internationally.

In the context of the changes to regulation 28 of

krutham
Top Private Banks & Wealth Managers South Africa 2024

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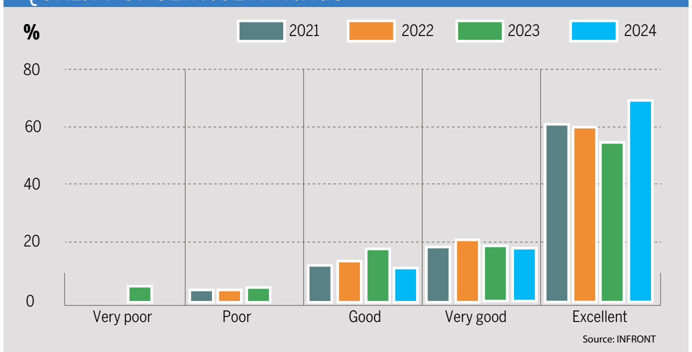
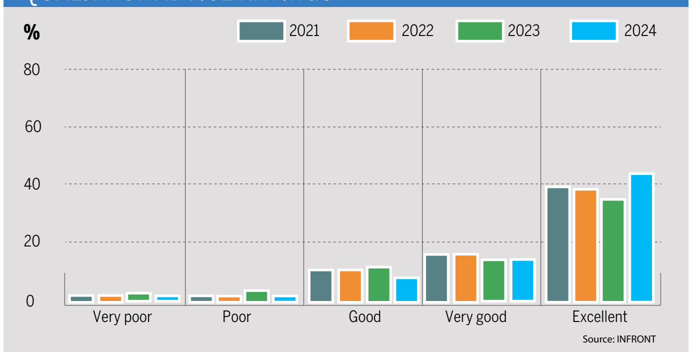
**Data analysts:**
Rumbi Pamacheche and Rudzani Nndwa
**Editorial:**
Janice Roberts and Colin Anthony

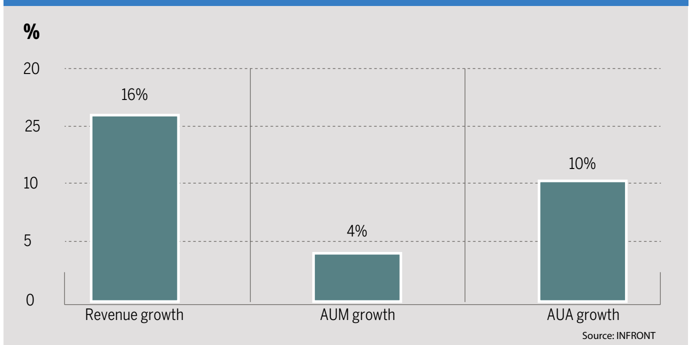
## QUALITY OF SERVICE RATINGS



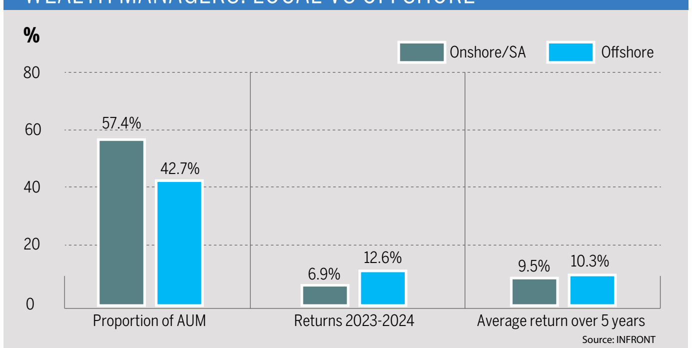

## QUALITY OF ADVICE RATINGS



## WEALTH MANAGERS: 2023-2024




## WEALTH MANAGERS: LOCAL VS OFFSHORE




the Pension Funds Act in January 2023, which raised the offshore threshold to 45% from 30%, the proportion of AUM held offshore at 42.7% means there is scope for this figure to rise – though many of the portfolios at these wealth managers are straight investments not linked to a pension fund.

**AWARDS**

Against such a troubled political and economic backdrop, PSG Wealth is the Top Wealth Manager of the Year: Large Institutions. The firm dominates this year's Top Private Banks & Wealth Managers Awards, also taking the lump-sum investor, young professional, entrepreneur and retiree archetype awards while sharing the top spot in the executive archetype award with Gradidge-Mahura Investments.

Taking top honours as Top Wealth Manager of the Year: Boutiques, is Private Client Holdings. The firm also ranks second in the wealthy family, entrepreneur and retiree archetypes.

FNB Private Wealth wins the Top Private Bank Award and also scoops the lump-sum investor, young professional, entrepreneur and retiree archetypes awards for private banks.

Garrioch & Ellse, a newcomer to the survey, wins the wealthy family archetype award this year. For this award, rankings are based solely on judges' scores for the firms' responses to a case study, while the other five archetypes are determined purely by client rankings.

**POLITICAL RISK**

The push for offshore investments has long been a feature of the South African environment – the main reason being that there are so many internal factors encouraging it. The firm message to the new government is that it needs to do more to improve the attractiveness of SA as an investment destination.

Here's BDO's Andries Kotzee's priority wish list: "Protect property rights; act against corruption; review labour laws; repair and maintain infrastructure (roads, railways, electricity and water supply); and promote the enormous benefits that will follow if we all stop littering. This, incidentally, does not cost citizens a thing, and we'll have a neat country."

On the flip side, there is a fear of bad policy choices, which would inflict particularly bad damage on an economy as precariously poised as SA's.

"Policy changes can affect both equity markets and currencies quickly, especially in those economies where government borrowing is already high and the need for presenting a credible economic strategy is paramount," says Gradidge-Mahura Investments COO Cyril Chetty.

Any shifts in fiscal policy, trade agreements and sanctions, he says, could hit the currency, stock, commodity and other financial markets.

Almost unanimously, firms state that political risk is higher this year than last – perhaps expectedly so with clients heading into the first election in which they expected the ANC was likely to lose its majority vote. But the outcome of the US elections in November is also repeatedly listed as a concern, along with the elections taking place in multiple other countries this year.

Edward Gibbens, CEO of distribution at PSG Wealth, says internationally, political risk has remained unusually high as a result of escalating global tensions.

"Subsequent sanctions remain of great concern to investors, as not all the resultant global implications – economic and otherwise – are seen to be fully understood, leaving investors uncertain. 2024 is a year marked by multiple national elections. US and South African national elections are stand-out events, and markets are monitoring the lead-up to these events for an indication of policy direction and governments' ability to address prevailing concerns."

Jane Downing-Kift, head of Absa Wealth, lists numerous factors that hit investor

## TOP WEALTH MANAGER: LARGE INSTITUTIONS

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.07 |
| 2 | RMB Private Bank | 7.38 |
| 3 | Absa Wealth | 7.37 |
| 4 | Nedbank Private Wealth | 7.36 |
| 5 | FNB Private Wealth | 7.28 |

## TOP WEALTH MANAGER: BOUTIQUES

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | Private Client Holdings | 8.56 |
| 2 | Gradidge-Mahura Investments | 8.43 |
| 3 | Centric Wealth Advisory | 8.31 |
| 4 | BDO Wealth Advisers | 8.20 |
| 5 | Sterling Wealth | 8.08 |
| 6 | Brenthurst Wealth Management | 7.69 |
| 7 | Carrick Wealth | 7.45 |
| 8 | Efficient Wealth | 7.44 |

## TOP RELATIONSHIP MANAGER AND PRIVATE BANKER OF THE YEAR

**RENEE EAGAR FROM BRENTHURST WEALTH MANAGEMENT** is the 2024 Individual Relationship Manager of the Year.

She has been in the financial services industry since 1998 and has worked for institutions such as TMA and Investec Asset Management.

Her clients are highly complimentary. One says: "Friendly, always available and knowledgeable, she goes the extra mile and has patience in explaining in detail when she advises of the reason to take a certain decision; I like her manner."

In second and third places are Brian Butchart and Sonia du Plessis respectively; both are also from Brenthurst Wealth Management.

Last year, following requests from the market, we introduced a similar award for the Top Private Banker. The 2024 Top Private Banker is Louise Davies of Nedbank Private Wealth. Clients are delighted with the service of this achiever. "Louise is exceptional, helpful and extremely efficient and I would recommend her to anyone looking for a private banker."

Carla Alcock from Absa Private Banking is in second place and Hannalie van der Nest, also from Absa and who was a joint winner of the award last year, is in third.

*Note: These scores are not comparable to previous years as we have changed the methodology to attain a fairer balance between number of nominations and the scores submitted by clients.*

### INDIVIDUAL WINNERS: WEALTH MANAGERS

| Rank | Relationship manager | Firm |
|---|---|---|
| 1 | Renee Eagar | Brenthurst Wealth Management |
| 2 | Brian Butchart | Brenthurst Wealth Management |
| 3 | Sonia du Plessis | Brenthurst Wealth Management |

### INDIVIDUAL WINNERS: PRIVATE BANK

| Rank | Private banker | Bank |
|---|---|---|
| 1 | Louise Davies | Nedbank Private Wealth |
| 2 | Carla Alcock | Absa Private Banking |
| 3 | Hannalie van der Nest | Absa Private Banking |

confidence, including social discontent exacerbated by economic hardships and weaknesses in key institutions such as law enforcement agencies, which pose challenges in upholding the rule of law and combating corruption.

"Key economic indicators such as GDP growth, inflation and unemployment levels have deteriorated, exacerbated by internal factors such as load-shedding and external forces such us cost-push pressures on inflation."

Downing-Kift emphasises that policy implementation of government intervention measures to address these "political and other issues" will assist in alleviating the impact of these risks to investments and overall investor confidence.

The message for the new government is clear: to get the economy on a sustained growth path and build investor confidence in the country, it needs to accelerate the implementation of the reforms to those parts of the economy and state institutions that are dysfunctional, while rooting out corruption at all levels. Gibbens reminds us that "the potential of the rand to strengthen from very depressed levels (and the associated impact on investment returns) should not be forgotten".

However, Private Client Holdings director Andrew Ratcliffe notes that there is also a fear that the government will implement populist but economically destructive measures, including a wealth tax and expropriation of assets without compensation.

### DEFENSIVE PORTFOLIO PLAYS

In such an environment, clients are being defensive with their investment decisions. The firms tell us that clients are focused on the preservation of wealth rather than growth and they fear that their investment returns will not keep up with inflation. Strategies include de-risking portfolios and favouring capital guarantees.

BDO Wealth Advisers MD Allan Heynen says the concerns extend to clients needing to grow their wealth in an international context while living in SA.

"This concern has increased over the past year as the performance of the South African economy, currency and equity markets fall behind many other countries."

BDO highlights another, more specific, area of concern: "The impact of unrealised capital gains tax is beginning to show up on the wealth balance sheet as a material future liability to Sars."

Heynen says that over the 23 years that CGT has been in effect in SA, "we are now dealing with the cash flow impact of CGT on wealth creation". In response, BDO is focusing on tax planning strategies to maximise the use of CGT exemptions and tax allowances available.

"In addition, recognising the value of future CGT liabilities in cash-flow modelling has helped significantly in planning for the cash-flow impact of CGT."

Diversification is also a growing theme, says Centric Wealth Advisory executive director Charles McAllister, as clients "increasingly seek greater diversification of wealth in favour of global geographies and into alternative asset classes".

### WEALTH MANAGER STRATEGIES

In shoring up the defensiveness of portfolios, wealth managers use numerous strategies.

### TOP PRIVATE BANK

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | FNB Private Wealth | 7.13 |
| 2 | Nedbank Private Wealth | 6.78 |
| 3 | RMB Private Bank | 6.57 |
| 4 | Absa Private Banking | 6.50 |
| 5 | Standard Bank Private | 6.44 |

Absa Wealth has designed structured products that provide capital protection but are also tax efficient and have the potential for enhanced returns. These include onshore and offshore investment products.

BDO emphasises the importance of diversification of asset portfolios in response to concerns over the weak performance in SA. Heynen says: "While concerned about South African 'performance' in a global context, South African clients still have mainly rand-based liabilities and require the best available rand growth to meet those ongoing expenses and liabilities. Diversification of asset classes, together with regularly updated cash flow modelling, addresses client concerns that their personal wealth will meet their specific personal requirements."

Centric Wealth Advisory has been increasing clients' global exposure, not only through their annual allowances but also through special applications and asset swap facilities, both personally and within local structures (living annuities, trusts, etc).

All firms focus on communicating with clients, often to reassure them that their portfolios are based on solid investment principles with the aim of long-term growth, but also to alert them if they believe their portfolio requires some attention.

PSG's Gibbens believes keeping clients informed and managing client expectations are a critical part of ongoing client advice. "Where appropriate, focused client communications on specific topical matters become even more important."

The firm runs numerous client seminars on topical events to supplement its client newsletter and webinar series.

### GROW, DON'T DESTROY

It is much easier for politicians to destroy an economy than grow it, as South Africans have painfully learned, particularly, since 2010. With our economy severely battered from exogenous factors including Covid-19 and Russia's invasion of Ukraine, both of which drove up global inflation, as well as by self-inflicted internal crises (particularly state capture but too many others to mention here), the new government needs to keep a laser-like focus on simply continuing with the reforms already under way.

Those reforms have not come easily, particularly because there were so many factions within the former government that were opposed to them, often on spurious ideological grounds.

The role of organised business in supporting government to develop the right policies has been important, but the previous government did make massive strides in getting some important legislation through parliament and in some areas policy implementation has begun. Deviating from that path will be devastating for the economy. ●

*Anthony heads Krutham's media projects. This article was written after the elections but before finalisation of the new government.*

**TO IMPROVE THE CREDIBILITY** of the judging process, two independent assessors joined the Krutham judging panel.

**Dr Musimuni Dowelani,** CFA, is the head of department at the University of Johannesburg's Department of Finance and Investment Management (DFIM), located in the College of Business and Economics. She is a trustee of the UJ pension fund, as well as an investment committee member.

Dowelani has worked as an equity analyst and an academic in several prestigious South African universities, including the University of Pretoria. She is involved in volunteer work with the CFA Institute and CFA Society South Africa.

Her extensive involvement includes serving as a juror for the CFA Society South Africa — Young Analyst Awards, highlighting her commitment to nurturing new talent in the financial industry.

Dowelani's research, as demonstrated in her PhD thesis, titled "Blockchain Technology Adoption in the Securities Clearing and Settlement Industry in South Africa", focuses on the implementation of fourth industrial revolution (4IR) solutions in the asset management industry.

She is concentrating on retirement planning among black business owners in South Africa and part of her research in this field received funding from INSETA. In addition, Dowelani is a member of the International Conference on Financial Services (ICFS) — scientific member.

**Kirsty Scully,** CFP®, serves as the chairperson of the board for the Financial Planning Institute of Southern Africa (FPI). She is also a CERTIFIED FINANCIAL PLANNER® at Core Wealth Advisory Services in Cape Town, specialising in advising high-net-worth individuals.

Scully is a frequent speaker on international radio and TV and was a finalist in the Businesswomen's Association Regional Achiever Awards.

She is dedicated to mentoring young financial planners, helping them navigate the profession and effectively advise clients. Additionally, she is committed to empowering her female clients to achieve financial independence.

As an experienced judge for the FPI's Financial Planner of the Year competition, Scully has interacted with the nation's top financial planners as they strive for excellence in their field. Furthermore, she represents the FPI on the Financial Planning Standards Board (FPSB) Council, the global organisation that owns the CERTIFIED FINANCIAL PLANNER® designation outside the US.

Krutham judges:
- Colin Anthony
- Heidi Dietzsch

# METHODOLOGY

Krutham Top Private Banks & Wealth Managers South Africa 2024

**The Top Private Banks and Wealth Managers survey is researched and prepared by Krutham, a specialist financial services research house. This is the 13th anniversary of the survey, which we develop every year to ensure that it best reflects the dynamics of the wealth management industry and that we are delivering a product that meets the needs of clients who make use of such firms.**

**Format**

The survey has two main prongs: a questionnaire completed by participating firms and a comprehensive online client survey. Krutham judges allocate points to the firms in certain categories, but client rankings generally contribute the most to the overall scores.

The questions we ask clients are wide-ranging and are designed to assess the different strengths and weaknesses of the private banks and wealth managers.

The main areas of focus, though, are on satisfaction levels with products and services as well as with investment returns, whether clients believe they are getting value for money and whether clients would recommend their service providers to others. We also ask questions relating to why clients use private banks and wealth managers and whether their specific needs are being met.

Clients add comments on aspects not covered by our multiple-choice format of questions. Here we receive some valuable insights that are used to inform the judging process. All firms respond to one case study while those that participate in the top end of the spectrum, the wealthy family archetype, respond to another case study specific to that archetype.

This year a record number of 12,317 clients of private banks and wealth managers participated in the online survey.

**Judging**

In terms of the overall judging, it is understood that firms have different areas of focus. Thus, in the minds of those running the survey, the individual archetype winners are at least as important as the overall awards.

If a firm is the best in the industry in its specific area of focus and does not pretend to be all things to all people, it deserves recognition for that area of excellence. If a firm does not compete in a particular market segment, it is not penalised for not having an offering for that archetype.

There are two individual awards, the Top Relationship Manager of the Year for wealth management and Top Private Banker for private banking, chosen from nominations and ratings from clients.

**Awards**

There are two overall awards, one for big firms that are part of a larger financial institution and a separate one for boutique operators. The top firm in each archetype is also honoured. The awards are:

**Top Wealth Manager:**
Large Institutions
**Top Wealth Manager:** Boutiques
**Archetype awards for wealth management and private banking:**
Lump-sum investor; young professional; entrepreneur; executive; retiree and wealthy family
**Top Private Bank**
**People's Choice: Wealth Managers**
**People's Choice: Private Banks**
**Top Relationship Manager**
**Top Private Banker**

> The questions we ask clients are wide-ranging and are designed to assess the different strengths and weaknesses of the private banks and wealth managers

**MIX OF METHODOLOGIES USED TO SCORE FIRMS FOR THE AWARDS**

| | | Methodology mix | | |
|---|---|---|---|---|
| | Award name | Clients votes | Judges' subjective assessments | Peer ratings |
| 1 | **Top Wealth Manager of the Year:** Large Financial Institutions | ✓ | ✓ | |
| 2 | **Top Wealth Manager of the Year:** Boutique Firms | ✓ | ✓ | |
| 3 | Top Private Bank | ✓ | ✓ | |
| 4 | Lump-sum investor | ✓ | | ✓ |
| 5 | Young professional | ✓ | | ✓ |
| 6 | Entrepreneur | ✓ | | ✓ |
| 7 | Executive | ✓ | | ✓ |
| 8 | Retiree | ✓ | | ✓ |
| 9 | Wealthy family | | ✓ | |
| 10 | People's Choice Awards (one for private banks and one for wealth managers) | ✓ | | |
| 11 | Top Individual Relationship Manager | ✓ | | |
| 12 | Top Private Banker (individual) | ✓ | | |

# PEOPLE'S CHOICE AWARDS

krutham Top Private Banks & Wealth Managers South Africa 2024

## How clients rate their wealth managers and private banks

**THIS YEAR CENTRIC WEALTH ADVISORY AND GRADIDGE MAHURA INVESTMENTS** share top honours in the People's Choice Award for Wealth Managers, while Investec Private Bank wins the award for Private Banks.

Winners of this award are selected purely by clients through a comprehensive online questionnaire. This year a record number of 12,317 clients of private banks and wealth managers participated in the online survey. The large number enhances the credibility of the survey findings.

We ask clients about their service providers and their rankings across a range of questions, determining satisfaction levels in numerous categories which are extremely important to the participating firms, and the process forms an integral part of the overall survey.

Responses to certain questions are drawn out to determine the People's Choice winner, while other responses feed into the judging process for many of the other awards.

The questions that feed directly into the rankings for this award relate to:

- Quality of service and advice;
- Likelihood of recommending the firm;
- Perceptions of value for money;
- Extent to which advice meets individual needs; and
- Scope to improve offerings

### PEOPLE'S CHOICE: WEALTH MANAGEMENT

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | Centric Wealth Advisory | 9.60 |
| 1 | Gradidge-Mahura Investments | 9.60 |
| 2 | BDO Wealth Advisers | 9.37 |
| 3 | Private Client Holdings | 9.34 |
| 4 | Brenthurst Wealth Management | 9.31 |
| 5 | Efficient Wealth | 9.07 |

### PEOPLE'S CHOICE: PRIVATE BANK

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | Investec Private Bank | 7.60 |
| 2 | Nedbank Private Wealth | 7.44 |
| 3 | FNB Private Wealth | 6.74 |
| 4 | Absa Private Banking | 6.58 |
| 5 | RMB Private Bank | 6.26 |

**All those who completed the online client questionnaire for the People's Choice awards are entered into a random draw to win R10,000 in cash to be deposited into their private bank or wealth management account. CONGRATULATIONS to our R10,000 cash winner: Eleuterio Pestana. He is a Standard Bank Private client.**

> This year a record number of 12,317 clients participated in the online survey

# Winners per archetype

**WE PRESENT SIX CLIENT ARCHETYPES** and assess how firms cater to each in both the wealth management and private banking categories.

The archetypes cover the spectrum of client market segments and many wealth managers use them in their own market segmentation of clients.

Winners for the first five archetypes are determined through two processes. First, in the client survey, certain questions are designed to elicit specific information about their service provider's capabilities in each archetype.

Second, we ask the firms themselves to rank their peers in each archetype. The two sets of rankings feed into the final score.

For the wealthy family, however, the rankings are based solely on judges' scores for the firms' responses to a case study.

## LUMP-SUM INVESTOR

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.65 |
| 2 | Brenthurst Wealth Management | 7.78 |
| 3 | Efficient Wealth | 7.54 |
| 4 | FNB Private Wealth | 7.03 |
| 5 | Carrick Wealth | 6.93 |

**Private banking**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | FNB Private Wealth | 7.00 |
| 2 | RMB Private Bank | 6.60 |
| 3 | Standard Bank Private | 6.40 |
| 4 | Nedbank Private Wealth | 6.30 |
| 5 | Absa Private Banking | 5.70 |

## YOUNG PROFESSIONAL

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.11 |
| 2 | Brenthurst Wealth Management | 8.10 |
| 3 | Efficient Wealth | 7.67 |
| 4 | Carrick Wealth | 7.03 |
| 5 | Absa Wealth | 6.95 |

**Private banking**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | FNB Private Wealth | 6.50 |
| 2 | RMB Private Bank | 6.11 |
| 3 | Nedbank Private Wealth | 6.07 |
| 4 | Standard Bank Private | 5.96 |
| 5 | Absa Private Banking | 5.80 |

## EXECUTIVE

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.48 |
| 1 | Gradidge-Mahura Investments | 8.48 |
| 2 | Efficient Wealth | 8.10 |
| 3 | Brenthurst Wealth Management | 7.78 |
| 4 | Absa Wealth | 7.47 |
| 5 | Nedbank Private Wealth | 7.23 |

**Private banking**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | RMB Private Bank | 6.40 |
| 2 | Nedbank Private Wealth | 6.30 |
| 3 | Standard Bank Private | 5.70 |
| 4 | FNB Private Wealth | 5.60 |
| 5 | Absa Private Banking | 5.50 |

## ENTREPRENEUR

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.19 |
| 2 | Private Client Holdings | 8.07 |
| 3 | BDO Wealth Advisers | 8.05 |
| 4 | Centric Wealth Advisory | 8.04 |
| 5 | Carrick Wealth | 7.69 |

**Private banking**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | FNB Private Wealth | 7.17 |
| 2 | Nedbank Private Wealth | 6.59 |
| 3 | RMB Private Bank | 6.29 |
| 4 | Standard Bank Private | 5.53 |
| 5 | Absa Private Banking | 5.29 |

## RETIREE

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | PSG Wealth | 8.69 |
| 2 | Private Client Holdings | 8.25 |
| 3 | BDO Wealth Advisers | 8.18 |
| 4 | Sterling Private Wealth | 8.10 |
| 5 | Brenthurst Wealth Management | 7.87 |

**Private banking**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | FNB Private Wealth | 5.90 |
| 2 | RMB Private Bank | 5.80 |
| 3 | Nedbank Private Wealth | 5.70 |
| 4 | Absa Private Banking | 5.60 |
| 5 | Standard Bank Private | 5.50 |

## WEALTHY FAMILY

**Wealth management**

| Rank | Firm | Weighted score (out of 10) |
|---|---|---|
| 1 | Garrioch & Ellse | 8.33 |
| 2 | Private Client Holdings | 8.00 |
| 3 | Carrick Wealth | 7.63 |
| 4 | Nedbank Private Wealth | 7.10 |
| 5 | PSG Wealth | 6.78 |

# How they fare

## ABSA WEALTH/ ABSA PRIVATE BANKING

| Archetype | Absa Wealth (out of 10) | Absa PB (out of 10) |
|---|---|---|
| Lump-sum investor | N/A | 5.70 |
| Young professional | 6.95 | 5.80 |
| Entrepreneur | 7.18 | 5.29 |
| Executive | 7.47 | 5.50 |
| Retiree | 6.76 | 5.60 |
| Wealthy family | N/A | N/A |

Absa Wealth provides several solutions, from private banking and investment management to succession planning. As a fully local and global wealth management company, it has an integrated, full-service offering that combines the best of local and global expertise. Its client-centric mandate embraces both the scientific elements of investment and the emotional comfort required to accompany it.

Absa Wealth's value proposition is evolving from predominantly providing investment solutions for single needs, resulting in divergent outcomes for clients in the same risk buckets. It has modelled tailor-made, outcome-based, client-centric solutions that are built on a fundamental basis – using the same risk bucket models. This entails utilising adaptive multi-asset strategies that can modify the asset allocation automatically to enable precise dynamic diversification, risk control and tail-risk management.

Absa Private Banking is a full-service financial institution offering a full range of banking and non-banking solutions with onshore and offshore capabilities. Last year it successfully concluded its stabilisation phase, with the business posting stronger customer and revenue growth than previously. This positive momentum is being leveraged to shift up the gears on coverage optimisation and ongoing customer value proposition improvements, as well as service and experience elevation in addition to people and culture shifts within the organisation.

> This positive momentum is being leveraged to shift up the gears on coverage optimisation and ongoing customer value proposition improvements, as well as service and experience elevation

## BDO WEALTH ADVISERS

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | N/A |
| Young professional | N/A |
| Entrepreneur | 8.05 |
| Executive | N/A |
| Retiree | 8.18 |
| Wealthy family | N/A |

Conscious that the wealth management space is cluttered with competitors saying the same thing, BDO Wealth Advisers has embarked on a journey to establish a clear brand strategy aimed at differentiating it from its competitors.

The firm's key differentiator lies in its ability to guide people through every life stage, including marriage, parenthood, buying property and major career and business events.

Over the past year, the firm has been evolving its value proposition to highlight this feature, emphasising that it is there for its clients' "everyday money moments". It now refers to itself as a financial guide, and since adopting this tone it has experienced a strong resonance with its clients' understanding of how it works and what it does.

Proof that its value proposition is working is the fact that BDO's Allan Heynen is placed first in the Top Individual Relationship Manager Award category.

The firm offers a wide range of professional services, including financial planning, legal and fiduciary advisory, trust administration, estate administration, employee benefit consulting, accounting, tax compliance and corporate finance.

## BRENTHURST WEALTH MANAGEMENT

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | 7.78 |
| Young professional | 8.10 |
| Entrepreneur | 7.43 |
| Executive | 7.78 |
| Retiree | 7.87 |
| Wealthy family | N/A |

Celebrating its 20th anniversary this year, Brenthurst Wealth is well established as a significant player in the wealth management sector.

The firm follows an integrated, holistic approach in formulating financial plans for clients, ensuring that the various constituent parts complement each other to achieve a result that provides financial peace of mind.

It has nine offices in South Africa and an international office in Mauritius. Since 2015, when the offshore investment allowance was increased to R10m per person per year, the firm has accelerated its advice for clients to move money offshore, a move that is bearing fruit, with offshore investments having outpaced local ones.

To improve the financial planning solutions that it offers high-net-worth clients who are more globally mobile, Brenthurst Wealth has partnered with leading global financial service providers focused on increasing its specialist expertise, improving technology-driven tools, upskilling its advisers and providing clients with multiple tools and platforms to keep track of their financial plans.

The firm also offers international wealth management and trust management services for certain clients via its new companies, Brent Wealth and Brent Consulta in Mauritius.

It has also concluded a service-level agreement with an international tax specialist to assist clients with complex tax, emigration, corporate and international structuring to ensure the most appropriate and tax-compliant advice to high-net-worth individuals.

# CARRICK WEALTH

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | 6.93 |
| Young professional | 7.03 |
| Entrepreneur | 7.69 |
| Executive | 6.78 |
| Retiree | 7.16 |
| Wealthy family | 7.63 |

Carrick Wealth's solutions include onshore South African wealth, offshore wealth, international property, foreign tax and currency, as well as impact solutions.

The firm has a client-centric, agile approach to wealth management that prioritises innovation, independence and strategic partnerships.

A recent milestone was the integration of its fiduciary division, Carrick Consult, into its suite of wealth management services, enabling it to offer a more comprehensive approach to estate planning and wealth management.

Another recent change to Carrick's value proposition is its strategic partnership with UK fund manager Marlborough Group through a minority share sale.

This partnership gives Carrick Wealth exclusive access to distribute Marlborough Group's Irish UCITS funds in South Africa.

By forging this alliance, Carrick Wealth has expanded its investment offerings, providing clients with access to a broader range of investment opportunities.

In addition, Carrick Wealth has introduced Carrick Athena, a division dedicated to providing advice for women by women.

# CENTRIC WEALTH ADVISORY

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | N/A |
| Young professional | N/A |
| Entrepreneur | 8.04 |
| Executive | N/A |
| Retiree | 7.74 |
| Wealthy family | N/A |

Centric Wealth Advisory is a lifestyle financial planning business specialising in multi-jurisdiction wealth management. It believes that its key differential is that clients and client values are at the centre of everything it does.

This year, the Cape Town-based firm takes joint first place in the People's Choice: Wealth Manager Award. This is the fourth consecutive year that Centric has won this award.

The firm has seen phenomenal growth in its business, which it attributes to its outspoken stance on issues in the financial services industry and its commitment to clients. It continues to attract high-net-worth families from client referrals as well as referrals from professional service providers in the industry – law firms and accountants, as well as directors of financial services/asset management firms themselves.

Centric Wealth Advisory has been elevated to an institutional advisory firm with various LISPs, which means it can achieve lower admin fees for its clients. It has also set up the Centric Wealth Family Office, which is headed up by the former 10X CEO, Steve Nathan.

# EFFICIENT WEALTH

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | 7.54 |
| Young professional | 7.67 |
| Entrepreneur | N/A |
| Executive | 8.10 |
| Retiree | 7.62 |
| Wealthy family | 5.60 |

Efficient Wealth provides a host of personal/business-related financial services and value-added benefits via its internal resources and in partnership with several specialist financial services providers. These include financial planning, healthcare, cash management, fiduciary services, investment management, life assurance, short-term insurance and stockbroking.

Through the Efficient Private Clients and Heimdall Family Office, the firm facilitates offshore accounts for savings and investments, combining different legal entities across multiple jurisdictions to structure a client's estate in the most cost-, tax- and regulatory-efficient manner.

Efficient Wealth has successfully expanded its client base by attracting institutional clients. The firm believes that these institutions, such as retirement funds and big corporate companies, are a sustainable source of new clients as they represent members and employees from all walks of life, and, at some point, all these members and employees will require financial advice.

Through strategic initiatives and targeted marketing efforts, the firm has been able to showcase its value and expertise to more than 40,000 members and employees.

## FNB PRIVATE WEALTH

| Archetype | Wealth Mngmt (out of 10) | Pvt Banking (out of 10) |
|---|---|---|
| Lump-sum investor | 7.03 | 7.00 |
| Young professional | 6.79 | 6.50 |
| Entrepreneur | 7.42 | 7.17 |
| Executive | 6.19 | 5.60 |
| Retiree | 6.57 | 5.90 |
| Wealthy family | 6.10 | N/A |

FNB Private Wealth provides an extensive range of services to wealth management and private banking clients. This year FNB Private Wealth is the winner of the Top Private Bank Award. It is also ranked first in the Lump-Sum and Retiree Archetype Awards for Private Banks.

> "The app has been redesigned to offer more intuitive help through a user-friendly and safer digital experience

FNB's comprehensive approach to wealth management considers its clients, their families and their future generations, ranging across key life stages and across multiple jurisdictions. Its services include financial planning, investment management, risk management, succession planning, cross-border wealth management, retirement planning, tax planning, education planning, client education and market analysis, as well as charitable planning and philanthropy.

The years 2022-2023 saw big updates in FNB's digital channels as part of its strategy to become an integrated advice partner, connecting the dots between clients' day-to-day activities and their aspirations and goals.

The FNB app has been redesigned to offer more intuitive help through a user-friendly and safer digital experience. It also leans more into personalisation – ensuring that clients' digital banking experience remains suited to them.

## GARRIOCH & ELLSE

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | N/A |
| Young professional | N/A |
| Entrepreneur | N/A |
| Executive | N/A |
| Retiree | N/A |
| Wealthy family | 8.33 |

Garrioch & Ellse, founded in 2022, is a multi-family office offering comprehensive family wealth planning, including services such as local and offshore investments, tax optimisation, retirement (pre- and post-), estate, legacy and succession, risk management, debt and gearing as well as family business and corporate services.

In its debut year of participation in this survey, the firm takes first place in the Wealthy Family Archetype Award category.

Garrioch & Ellse works closely with world-class asset management and risk insurance consultants to ensure that the financial products it selects are appropriate. It believes that effective wealth planning is a journey and not an event, and prefers to manage tasks systematically using an approach rooted in ideas from behavioural coaching literature.

## NEDBANK WEALTH MANAGEMENT SOUTH AFRICA

| Archetype | Wealth Mngmt (out of 10) | Pvt Banking (out of 10) |
|---|---|---|
| Lump-sum investor | N/A | 6.30 |
| Young professional | N/A | 6.07 |
| Entrepreneur | 6.85 | 6.59 |
| Executive | 7.23 | 6.30 |
| Retiree | 6.78 | 5.70 |
| Wealthy family | 7.10 | N/A |

Nedbank Wealth Management South Africa has provided wealth management advice to clients since 1834. It combines institutional knowledge, financial strength, geographic reach, expertise and networks to achieve these long-term relationships.

Its globally integrated advisory services are supported by digital services to provide the convenience that high-net-worth clients expect. Professional advisers provide coordinated, tailored personal and business financial planning advice for different client segments, supported by the breadth and depth of in-house teams of technical specialists across private banking, structured products, short- and long-term insurance, fiduciary services, collaborative investment capabilities, stockbroking and philanthropy.

This year Nedbank takes second place in both the Top Private Bank Award and the Executive Archetype Award: Private Banks. It is also runner-up in the People's Choice Award: Private Banks. Nedbank's private banker, Louise Davies, is placed third in the Top Private Banker Award: Private Bankers.

## PRIVATE CLIENT HOLDINGS

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | N/A |
| Young professional | N/A |
| Entrepreneur | 8.07 |
| Executive | N/A |
| Retiree | 8.25 |
| Wealthy family | 8.00 |

Private Client Holdings is the winner of the Top Wealth Manager Award: Boutiques, which it also won in 2021.

Since 1990, the firm has been helping clients define and implement strategies for managing their wealth, taking on tasks associated with a traditional family office, including investment and portfolio management, tax and accounting services, consolidated reporting, cash management, estate planning and fiduciary services.

The firm has developed its Corporate Stewardship offering that provides a central collaborative point to support any organisation across all its wealth management needs, from long-term planning to routine transactions, administration and reporting.

Another addition to the firm's value proposition was the merger of its financial services division with the accounting and tax practice of FMG Chartered Accountants. This provides Private Client Holdings' wealth management team with access to a greater client base and adds three highly skilled chartered accountants to the team.

## PSG WEALTH

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | 8.65 |
| Young professional | 8.11 |
| Entrepreneur | 8.19 |
| Executive | 8.48 |
| Retiree | 8.69 |
| Wealthy family | 6.78 |

For the sixth consecutive year, PSG Wealth wins the Top Wealth Manager Award: Large Institutions. It also wins five archetype awards: Lump-Sum Investor, Young Professional, Entrepreneur, Executive and Retiree. A worthy overall winner with strong all-round capabilities.

The firm offers a comprehensive suite of discretionary and contractual investment products and an extensive choice of underlying investments (both local and offshore) to ensure suitable implementation of clients' financial plans. PSG Wealth also offers a full fiduciary service and can advise on and implement employee benefit solutions for employers.

Ongoing enhancements to PSG Wealth's internal systems facilitate a more efficient and effective review of its clients' affairs in line with their goals. Its customer relationship management system and advice process facilitate multiple ways for its advisers to review clients' financial plans, each method designed to fit in with the adviser's specific approach, considering client segmentation and client preference.

The firm has also been working on an ideal fiduciary advice model, as well as the ideal model for the administration of deceased estates, with a focus on quality of advice and client engagement.

> Ongoing enhancements to PSG Wealth's internal systems facilitate a more efficient and effective review of its clients' affairs in line with their goals

## RMB PRIVATE BANK

| Archetype | Wealth Mngmt (out of 10) | Pvt Banking (out of 10) |
|---|---|---|
| Lump-sum investor | N/A | 6.60 |
| Young professional | N/A | 6.11 |
| Entrepreneur | N/A | 6.29 |
| Executive | N/A | 6.40 |
| Retiree | N/A | 5.80 |
| Wealthy family | 6.10 | N/A |

RMB Private Bank is the runner-up in this year's Top Wealth Manager Award: Large Institutions and the winner in the Executive Archetype Award for private banks.

The bank has expanded its engagement model by doubling its accredited private advisers and increasing its wealth managers by 50%. It also launched the Fiduciary Institute, which offers in-depth research and analysis to guide product house views for fiduciary solutions and assists in new product development based on consumer market research, industry developments and the competitor landscape.

RMB Private Bank introduced its first self-issued and distributed structured products, with one ZAR-denominated and two USD-denominated products on offer as enhancements to investors' liquidity strategies, providing capital guarantees and leveraged positive exposure to the MSCI World Index. This provides its wealth managers with additional capability to deliver contextual solutions to clients, leveraging off the brand and internal structuring capabilities.

## STANDARD BANK PRIVATE

| Archetype | Private Banking (out of 10) |
|---|---|
| Lump-sum investor | 6.40 |
| Young professional | 5.96 |
| Entrepreneur | 5.53 |
| Executive | 5.70 |
| Retiree | 5.50 |
| Wealthy family | N/A |

Standard Bank Private offers a comprehensive range of financial solutions tailored to meet the diverse, evolving needs of its clients. Its wealth management services encompass a wide array of offerings aimed at growing and safeguarding clients' assets, including general wealth management, estate planning and executorship services. It also provides legal services to ensure the protection of its clients' interests and fiduciary capabilities.

Additionally, its debt products, including mortgages and asset finance, are designed to help clients achieve their financial goals effectively. Standard Bank Private also offers stockbroking and insurance broking services and, with its in-house property management capabilities, it provides seamless solutions for managing real estate investments.

Client megatrends indicate that the global impact of digitalisation and artificial intelligence has spurred market changes and has changed client preferences, particularly within the affluent segment. The bank has significantly enhanced accessibility to services through digital platforms and facilitated mobile payments. Its digital and e-commerce teams are working to create an omnichannel experience offering clients various options for transactions and service access.

## STERLING PRIVATE WEALTH

| Archetype | Wealth management (out of 10) |
|---|---|
| Lump-sum investor | N/A |
| Young professional | N/A |
| Entrepreneur | N/A |
| Executive | N/A |
| Retiree | 8.10 |
| Wealthy family | N/A |

Sterling Private Wealth offers local investments across the spectrum of asset classes, including specialised portfolios such as hedge fund products and structures. It also offers investment products, including retirement funds, preservation funds and structured wrappers.

Estate planning, wills, trusts and tax are part of its services, as well as personal and business risk management (including assessment and analysis of existing life policies and benefits). It offers direct offshore investments utilising either offshore allowances or additional offshore transfers through negotiated asset swaps, as well as offshore portfolio management of funds held in overseas jurisdictions. It also assists clients with establishing offshore trusts or managing/advising existing offshore trust assets.

Sterling Private Wealth's client base is deliberately constrained, and no wealth manager will look after more than 80 clients.

> The bank's digital and e-commerce teams are working to create an omnichannel experience


123RF — NIPHONSUBSRI

# ANTHONY CLARK

# Picks for uncertain political times

## Afrimat, Grindrod, KAL Group and Novus Holdings offer some security and growth regardless of the next government

As I write this June column, the elections are over but the uncertainty in the wider market remains. The rand has been volatile as everyone awaits the form of the next government. Will the ANC put country before self-interest or opt for self-preservation? The market prays for the former and fears it may be the latter.

There was a general sell-off in the small- to mid-cap market in the week leading up to the May 29 elections and domestic-facing JSE small-to-mid caps remain jittery a week later.

I've noticed the entire private education sector, comprising AdvTech, Curro and Stadio, all started selling off in mid-March. Could this just be market concerns over the slower growth in the private schooling sector as the domestic economy buckles under a constrained consumer?

Perhaps there is also an element of concern given the president's rush to sign NHI into law before the elections. The private health-care sector has been battered by the thought of NHI.

Likewise, there has been some leftist tattle that private education in South Africa is elitist and readers will surely know the private sector consistently shows up the crumbling state system. Could the education sector be under target by the uber-socialists within the ANC?

That would be unlikely as private education is enshrined in the constitution. Furthermore, as one example, more than 80% of Curro's 73,000 learners are from previously disadvantaged backgrounds. Target private schools and you target the masses at your peril.

As it stands, AdvTech (R26.37) is 10% below its March high and would be my quality sector pick.

So, in these uncertain times where do investors go for some form of security and growth regardless of which camp the ANC falls into? I have four ideas here – Afrimat, Grindrod, KAL Group and Novus Holdings.

Elsewhere in this issue I have written on the glowing prospects for general mining stock Afrimat. It has successfully navigated the struggling economy for years, picking up badly managed but great assets and turning them into highly profitable businesses.

> Novus throws off wads of cash and I expect it will continue to pay fat dividends

Demaneng iron ore and Nkomati anthracite are just two examples, and they are likely to do the same with Lafarge.

Grindrod, whose share, like Afrimat, has recently hit 52-week highs, is benefiting from the state dysfunction within ports and rail. Prospects for the third-party rail initiative by the government and open borders with Mozambique, enabling rail stock to travel seamlessly to Maputo port, all provide a significant growth opportunity.

The recent AGM detailed robust growth vectors and despite the stock rising 21% year to date to R13.68, it's still off its recent best. I have a standing target of R16 (+17%).

Two other stocks I like – and have moved higher in the past weeks – are KAL Group and Novus Holdings, both in my top stocks of 2024 and performing well above market.

There was a cover on KAL Group several weeks ago in the FM, as the bargain retailer on the JSE. KAL is a stock I've consistently recommended for years. A site visit to institutions in mid-May after the recent interim results was well received, and the price has moved higher.

As I write, KAL is trading at R46.99. Interim results saw HEPS rise 7.3% to 408.74c. Prospects into 2025 remain fair with several growth touch points. Management have an ambitious R1bn profit target for FY2025. At interims they said they may now miss that by a touch. However, on the site visit, if winds aid them in a few key areas and with acquisition debt declining, they seemed more confident they would make the forecast. I have a target price of R54 on KAL (+15%).

Printing, publishing, packaging and education stock Novus Holdings (516c) is ahead 16% year to date and paid a 50c special dividend in January.

On my X page @smalltalkdaily in early June, I highlighted the stock at 471c as results for the year ended March were ahead of expectations and I expected a bumper trading update. Novus popped to 550c on the tweet, and though it's come back the prospects remain unchanged.

The MMS education books business is performing well, as is the packaging division. Printing and publishing has recovered from the pandemic problems. Novus throws off wads of cash and I expect it will continue to pay fat dividends.

I expect the company will beat its FY2022 HEPS peak of 53.2c in results due on June 18. By the time this issue is on the shelf, results will be out – let's see if my crystal ball remains true. I have a target of 600c (+16%) for Novus and the share can easily justify 750c.

**I own shares in Afrimat, Grindrod, KAL Holdings and Novus**

# Cruising back to pre-pandemic levels

The world is on the move again, and punters can't ignore this part of the investment universe, writes **The Finance Ghost**


123RF — DENISFILM

A recent McKinsey report suggests that travel is on its way to a full recovery to pre-pandemic levels by the end of 2024.

Another fun fact from the report is that travel is roughly 9% of global GDP. For investors, this sector is difficult to ignore.

Domestic travel represents about 75% of global travel spending, above the pre-pandemic level of 70%. The world is still recovering from borders being closed, suggesting there is further upside for businesses focused on attracting visitors from across the world rather than within the same country.

The world's largest domestic travel markets are the US and China, followed by Japan, Mexico and India. When you read the list of most popular destinations for international travel, you'll see places such as China, France, Turkey, Thailand and even Saudi Arabia.

Often driven by airline network infrastructure and levels of government support, countries are effectively competing with one another for market share in this sector. This is why South African tourism businesses are so beholden to the broader trends in the country. We have gorgeous attractions, but our infrastructure needs to work and tourists need to feel safe; crime is of particular concern.

The report highlights other important trends, such as growth in travel in Asia and particularly in intraregional travel, with more Asian travellers behaving the way European travellers do and focusing on neighbouring countries vs travelling across the globe.

Southeast Asia is expected to become an increasingly important source of outbound travellers, as are places such as India and Eastern Europe. For South African tourism to grow, there cannot just be a focus on attracting UK visitors with sunshine and Germans with wine.

And, of course, don't forget generational trends. The Instagram generation absolutely loves travel, with spending on "experiences" being prioritised over "things" – perhaps a direct result of the sustainability-driven thinking that has been beaten into Gen Z. Houses are increasingly unaffordable and fancy cars aren't very cool among these consumers, with trends such as working vacations and digital nomad lifestyles being far more desirable to 20-somethings.

The growth in a business like Neighbourgood in Cape Town, which has been built entirely around digital nomads, is a testament to how important this trend is. Covid changed how people think about the viability of remote working.

As another example, Thailand has just introduced a visa aimed at digital nomads and remote workers that will be valid for five years. Tourism authorities are responding to these trends and tourism businesses would do well to do the same.

This doesn't mean that traditional tourism is being ignored. Far from it, in fact.

Carnival Corp's share price chart may have a profile reminiscent of the type of waves that lead to seasickness, but the underlying story is one of records in the latest quarter: record revenues, bookings and customer deposits in the March earnings release, with the next quarter's numbers due for release soon. On that basis, investors might be forgiven for thinking that the share price has sailed past pre-pandemic levels. Alas, it remains 70% down over five years, as does the share price of competitor Norwegian

> "From old-fashioned travel to new-age platforms, no consideration of the hospitality sector is complete without Airbnb

Cruise Line Holdings. The charts are so closely correlated that there's no reason to pick between the two.

The problem can be found on the balance sheet, where Carnival Corp moved from debt of \$9.7bn at the end of November 2019 to almost \$32bn at the end of November 2022. The enterprise value, which is the market cap plus net debt, has been ahead of pre-pandemic levels for a few years. In other words, the underlying assets are being valued above pre-pandemic levels. The issue lies in how the pie is split between debt and equity holders, with the banks laying claim to far more of the economic value than before.

The journey to investment-grade credit at Carnival Corp is expected to take until 2026, so it's going to be difficult regain more of the economic value from the banks. These asset-heavy tourism models were hurt so severely by the pandemic that a full recovery isn't guaranteed over any reasonable period.

Investors may be licking their wounds here, but it's possible to still use the company as a way to identify underlying trends like mid-single-digit price increases and growth in occupancies, suggesting that old-school travel experiences such as cruises are still on the list for those who are excited to get back out there after the pandemic.

It's also rather funny to read a comment from the Carnival Corp management that North American brand customers "naturally spend more on board than their European counterparts". Clearly, if you're going to sell a cruise, you should be targeting Americans who arrive with strong gees, ready to party.

Speaking of Americans, it's worth touching on the parks and experiences business in Disney. Though it has

> For South African tourism to grow, there cannot just be a focus on attracting UK visitors with sunshine and Germans with wine

operations in many countries these days, the underlying driver of growth is content creation in Disney that produces the characters used in the theme parks. There are exceptions, like Pirates of the Caribbean, which was actually based on a ride at Disney rather than the other way around.

Though the troubles in the content creation side of Disney could eventually affect attendance at the parks, the good news is that the parks are able to trade off a long-standing content slate that draws crowds based on movies and characters that have been around for decades. For now, this is where Disney is making its money.

Financial performance varies across the various parks due to factors such as the cost of delivering the experiences, but the common thread is that pricing increases are being put through across the board. In most cases, the hospitality sector doesn't need to absorb cost pressures. There is sufficient demand among travellers for the price increases to go through without too much trouble at Disney's parks. This is in line with what we've seen at Carnival Corp.

123RF — JSHANEBUTT

From old-fashioned travel to new-age platforms, no consideration of the hospitality sector is complete without Airbnb. The group may have a presence across 220 countries, but the trick with these platforms is that they can always focus on growing market penetration, not just reach. There are still many travellers who haven't even tried Airbnb, let alone used it multiple times.

At an investor conference at the end of May, Airbnb CFO Ellie Mertz commented that 2024 is the first year since the pandemic that is looking like a return to normal. Within this normality, there are Covid-related trends that have stuck, like demand for non-urban travel and long-term stays, both of which talk directly to the digital nomad trend.

The pricing trend at Airbnb for the properties on the platform isn't in line with what we've seen at the cruise ships and theme parks, or at most hotels, for that matter. By its very design, Airbnb attracts properties to the platform and creates an increasingly competitive market within an area, which is great for travellers and not so great for property owners.

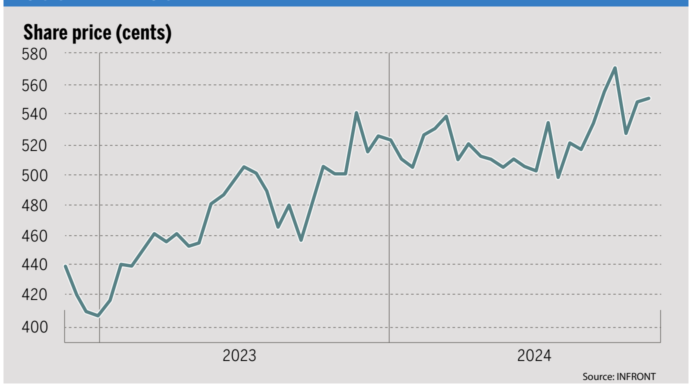
The dynamic pricing tools to assist property owners will often lead to downward moves in pricing in an effort to drive occupancy. That is, of course, how free markets work, but hotel groups tend to be stickier on pricing and manage to get away with it because of the strength of their brands and the feeling of security that travellers get by booking a hotel rather than an Airbnb.

An element of travel normality that is highly applicable to hotels is, of course, business travel. Companies have realised that Teams meetings only get you so far, which is why business travel is making quite the comeback.

At Hyatt Hotels Corp, business travel was up 21% year on year in April. Along with solid growth in leisure travel, the group is feeling confident about the industry outlook. This is evidenced by a record pipeline of 129,000 rooms, representing about 40% of the existing room base. And in case you're wondering, the Hyatt share price is well ahead of pre-pandemic levels, with the same being true for Hilton and Marriott.

## CITY LODGE HOTELS


## SOUTHERN SUN




In fact, comparing those three hotel groups with the share price performance of Airbnb since the start of 2021 (shortly after the IPO), investors were way better off in the hotel groups. Hyatt has doubled over that period and Airbnb has returned exactly nothing. This is a cautionary tale about valuations.

> Though there are exciting new trends to respond to, there is also plenty going on in both leisure and business travel

So, a whirlwind overview of some global names in travel suggests solid pricing power in traditional travel businesses and excellent demand coming through to support the pricing increases. Though there are exciting new trends to respond to, there is also plenty going on in both leisure and business travel.

This is useful context for the local players such as Southern Sun and City Lodge. South Africa cannot rest on its laurels as a country because tourism is a globally competitive market. But South Africa remains a highly appealing destination for international tourists. Domestic travel is also encouraged by rand weakness and inflation offshore, as global destinations are simply unaffordable for most South Africans. These are great tailwinds for growth.

City Lodge has generated plenty of interest from the market with hopes of a strong uptick in the share price, but even management's best efforts haven't given post-capital raise punters what they were hoping for. In stark contrast, Southern Sun is now trading above pre-pandemic levels, having delivered a return of 13% in the past year alone.

Though the return of business travel will do wonders for City Lodge, it's likely that pricing pressure in that form of travel will always be an issue. With a Teams call as a viable alternative for all but the most important trips, this is a completely different purchasing decision vs taking the family on that dream local holiday.

Southern Sun is perfectly positioned for the less price-sensitive form of travel: leisure. South Africans who might have gone to Europe or Asia are in many cases taking a sho't left and enjoying local alternatives, with most of Southern Sun's properties being luxury or full service in nature rather than cheap.

And, of course, for international travellers coming here with strong currencies, City Lodge won't be on the radar compared to the more upmarket offerings at Southern Sun.

As commendable as the efforts by City Lodge have been, the reality for investors is that Southern Sun has a far easier time of things. The massive jump in adjusted headline earnings of 88% in the latest period might reflect the base effect of the hangover from the pandemic, but there are also good reasons to believe that the share price can keep growing from here along with earnings.

# WARWICK LUCAS

# AI: fad, bad or rad?

## You will no longer have to be a programmer to get useful answers from a computer

Everyone knows that Gen X -ers are a grumpy lot, but for a number of years I have been particularly cantankerous because I was concerned about the future pressures that the demographics of an ageing population held for the world.

In particular, an ageing population means a higher dependency ratio which would undermine the benefits of productivity growth, and mean that we all retire poorer.

I'm pleased to say I believe the world will avoid this Malthusian outcome, by virtue of tech-driven GDP growth.

Popular views on AI vary from "it's interesting but only moderately useful" to "this stuff will take over the world". I will present economic arguments from both sides of the coin toss, but will use an anecdotal example for my first point.

In 1997 IBM's Deep Blue computer first beat world champion Garry Kasparov in chess. Fast forward to today and at chess tourneys humans combined with machines will persistently beat machines playing on a standalone basis. The point is that AI is just a tool like anything else and may be used or abused.

People who know me well know I get testy with a lot of tech, though they never seem to get my point that tech needs to be filtered.

AI can be clever but it's not infallible. Defective training data or processing errors lead to mistakes. AI can't detect nuance or context very well, so biases creep in. Humans better understand the accountability pertinent to sensitive areas such as health care, legal judgments and financial advice. AI lacks human intuition, common sense, creativity and humans are better at handling real-world dynamics. Combining AI with human judgment leads to more robust outcomes.

The open debate between Daron Acemoglu of MIT and Goldman Sachs's James Pethokoukis offers a wide range of perspectives. Acemoglu has Total Factor Productivity (TFP) rising only 0.7% over 10 years, and Pethokoukis has it rising 15% in that period, leading to boosts in annual GDP (simplistically) of 0.07% for the former and 1.5% for the latter. Interestingly, both McKinsey and the BIS have even higher TFP growth (in the 20s) over the next decade.

> The huge potential kicker for AI will be to potentially smash normal, everyday crime

I must admit I have been extremely sceptical about the ability of economists to model structural societal changes, ever since I listened to a number of clever South African economists in the late 1990s and 2000s opine that the effect of HIV would be macroeconomically net neutral. Yeah right.

McKinsey noted the TFP annual boosts that came from steam, robotics and the internet as 0.3%, 0.4% and 0.6% respectively. However, these game changers took a long time to implement. AI should be scalable at speed, and I think there is a failure of imagination when it comes to the application of AI to business problems.

The key implication of AI is that you will no longer have to be a programmer to get useful answers from a computer. Additionally, this will not throw programmers out of jobs. Rather, they will become better at what they do. Of course, ask a stupid question and you'll get a stupid answer.

Without giving away any secret sauce, I am aware of a number of small businesses using AI for some rather smart modelling. For the first time, a computer can understand what you actually want. A dummkopf Luddite can easily get really erudite help out of a computer. This kind of smarts combined with the huge acceleration that will be provided by the development of quantum computing will see AI go seriously parabolic by 2030 (especially for companies).

I note the development of some police units in the US which process camera and radio feed through AI-powered software from Axon, and a near-perfect report awaits the returning patrol person back at the station. Because report writing consumes more than an hour a day for the average American cop, this is a huge productivity booster.

However, to my mind the huge potential kicker for AI will be to potentially smash normal, everyday crime. Ordinary criminal activity is the biggest single hurdle to growth in just about every economy in the world. Ask any business person how many good ideas get put to one side because of distrust issues.

In the near future, your security system will be able to tell the difference between a cat and a burglar. The benefits of AI won't just accrue to the "Mag 7". ●

** The author works at Vunani Securities. Opinions are strictly personal.*

## Pepkor

# Pinning its hopes on fintech growth

Fashion retailing conglomerate Pepkor released its results for the six months ended March 2024 in May.

Highlights included gross margins improving by 2% to a healthy 38.1%, revenue increasing by 9.5% to R43.3bn and operating profit (on a normalised basis) growing 13% to about R5.1bn.

These metrics reflect a decent set of results, especially considering the challenging retail environment, with consumers unable to reach deep into their pockets due to high living costs and unemployment.

On top of this, retail companies that import goods have had to deal with supply chain disruptions resulting from delays caused by inefficiencies at local port terminals.

In the past, Pepkor has focused mainly on cash sales. This has traditionally reduced the group's risk profile relative to its peers, with a heavier credit sales focus during periods of increasing interest rates. These results were no different, with cash sales making up 87% of income generated.

But what is highlighted is that the group grew credit sales by 34%, compared with cash sales growth of a meagre 3.8%. This growth seems to have resulted from a well-targeted strategy and strong investment in its retail credit book.

Increasing credit sales is not necessarily bad, but it does add an extra layer of risk which investors will need to keep a beady eye on in future.

For now, the group is managing credit sales quite well, considering that nonperforming loans have not spiralled despite the challenging economic environment and the growth in the retail credit book.

Despite group debt being well under control and remaining flat compared with last year, a potential negative from the results is the slight increase in finance costs. This is predominantly due to higher interest rates and should ease on the back of a potential lowering of net debt, as well as the possibility that the interest cycle has peaked and interest rates could come down in the near future.

In February, the group announced the sale of The Building Co. This will strengthen the balance sheet, as the expected proceeds of R1.2bn will reduce debt and fund growth opportunities. The sale is still subject to approval by the Competition Commission.

With the exit of the building materials segment, the group now operates under two broad segments: traditional retail and fintech. The business has a broad footprint through its various brands, with about 5,900 stores across nine African countries and in Brazil.

Traditional retail is the group's biggest segment (87% of group revenue and 90% of operating profit) and it trades across the clothing, general merchandise, furniture, appliances and electronics sectors through strong household brands such as Pep, Ackermans, JD Group, Russells, HiFi Corp, Incredible Connection and Avenida (its Brazil business).

Pepkor's fintech division continues to perform well, achieving 24.5% in revenue growth over the past six months. Though still relatively small in the bigger group (13% of revenue and 10% of operating profits), this business segment is considered a high-growth area.

Its FoneYam business continues to see strong demand and has about 200,000 active cellular handset rentals. The group's insurance business, Abacus – which used to be housed in the JD Group – now operates across Pepkor brands and has underwritten about 650,000 insurance policies. These two businesses, together with the other fintech businesses, generate good annuity income for the group long after customers leave the store.

It's no surprise then that looking ahead, growth for the group can be expected to come from its fintech businesses and possibly Avenida in Brazil. Thanks to the success of its operations in Brazil and considering the group's strength in emerging markets, it could expand into other South American markets.

Investing in retail stocks over the past five years has been very stock specific, with companies such as Shoprite and Clicks performing well, while Pepkor and Mr Price, for example, may have disappointed investors.

On most valuations Pepkor does not appear overly expensive, but it may need local economic variables to pick up before any major rerating. ●

*Shawn Stockigt*

> Thanks to the success of its operations in Brazil and considering the group's strength in emerging markets, it could expand into other South American markets

### PEPKOR HOLDINGS

It is a conglomeration of retail entities mostly involved in fashion retailing to the lower end of the market, but with an intriguing and fast growing fintech twist

Financial year-end: **September**
Final results: **November**

**RECOMMENDATION**

Sell | Hold | Buy

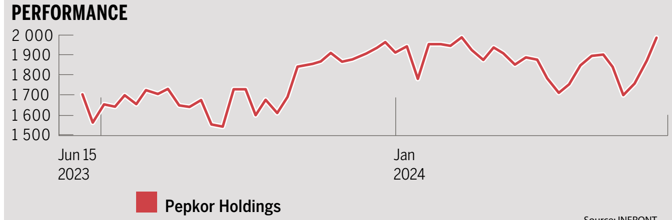
**RISK**

Low | Medium | High

| | |
|---|---|
| Market cap | R65bn |
| Forward PE | – |
| **Current price** | **R17.24** |
| 1-year high | R20.10 |
| 1-year low | R15.02 |
| **Key indicators** (24 interim) | |
| Heps | 67.4c |
| Div/share | – |
| PE ratio | 12.7 |
| Total revenue | R43bn |
| Attributable revenue | R2.47bn |
| Total assets | R110bn |
| Equity | R60bn |

**Target price: R18.95** **Upside: 10%**

**PERFORMANCE**




Source: INFRONT

## Santova

# Hold on tight until seas are calmer

Moving finished goods from one country to another is not a simple task. As well as needing a truck and driver, there's a ship or flight to book, customs, insurance and a host of other hurdles to jump.

And that's where JSE-listed small cap Santova comes in, offering a one-stop solution. With the rise of digital ordering of goods and advances in technology, people might forget that the physical underpinnings of moving goods around the globe are rather more mundane – but crucial.

The fee levied by such service providers seems modest for the many permutations involved in moving goods, alongside sudden risks such as a ship blocking the Suez Canal or rebels targeting ships in the Red Sea. These global geopolitical issues often have benefits; as shipping costs rise, the percentage charged by freight forwarders rise, though it slumps as rates dive.

Santova boomed during the pandemic. The global crisis led to a surge in freight rates and online product ordering. The share price ran from 120c in March 2020 and topped out at 980c in June 2023. Since then Santova is down 22% as the world returned to normal and shipping rates slumped.

This was the main cause of recent results weakness: a 20.1% reduction in earnings to 124c a share; a drop in revenue, including net interest income, of 4.5% to R638m; and a fall in operating profit of 35.7% to R184m. NAV rose 27% to 611c a share. No dividend was declared as the company decided to keep its cash for possible acquisitions and fund share buybacks. Cash on hand sits at R477m.

Santova is not an easy company to understand. It operates in a logistics sector dominated by global titans such as DSV, Kuehne + Nagel and CH Robinson, as well as the shipping lines. All are vast enterprises; Santova is a specialist minnow by comparison.

Offshore revenue is 71% of the mix, giving Santova a rand hedge quality. The company operates in several territories, with its largest revenue contribution being the UK and South Africa at 37% each. In the UK, the corporate tax rate rose from 19% to 25%, hitting profits. Additionally, lower freight rates, less project work and general softening in client demand all contributed to a challenging year in all operating jurisdictions.

The company has a wide and varied client base with no one customer or sector dominating, aiding its overall positioning. Looking at the key areas of operation, in the UK profits declined 13.7% to R50.6m, the EU slumped 30.8% to R38.7m and Africa fell 19.4% to R50.9m. The biggest hit came from the Asia-Pacific region, where profits slumped 73.9% to R11.1m.

Santova managed the difficult period by reducing its debt and liabilities. It also picked up R30.6m of new business across its territories and has a strong cash position. Santova is continually looking for acquisitions, but comments that, given the low share price, the best use for the cash is buybacks rather than deals.

The sector continues to have challenges. Global freight rates are well off their pandemic best and during the shipping profit boom vast profits were recycled into new shipbuilding – these new vessels are now set to come online, further capping global freight rates.

The move to try to limit China as the global manufacturing hub has resulted in global companies moving production to new countries. Logistics companies thus have to set up new networks, at a cost. Santova says it is moving into Vietnam to adapt, as one example.

IM noted many calls from investors during the results presentation on May 16 for share buybacks to continue – and for management to unlock value by selling the entire company. IM notes management's cautious stance of hoarding cash and skipping the dividend as Santova hunkers down during tough times for the global freight forwarding sector.

IM likes the stock – trading at 765c and a p:e of 6.1 – and the tenacious management, but has to recommend a hold until seas are calmer.

*Anthony Clark*

The company has a wide and varied client base with no one customer or sector dominating

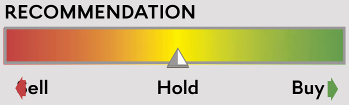
Global freight rates are well off their pandemic best and during the shipping profit boom vast profits were recycled into new shipbuilding

## SANTOVA

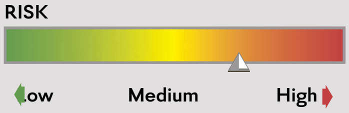
It is a technology enhanced logistics company with a growing global presence across numerous niche markets

Financial year-end: **February**
Interim results: **October**

**RECOMMENDATION**



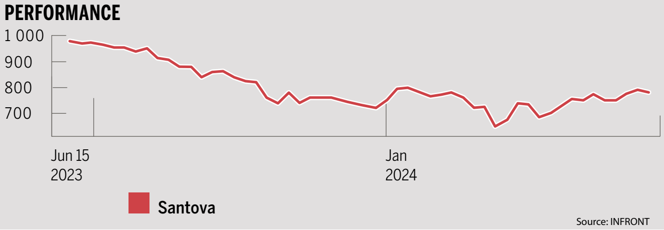

**RISK**




| | |
|---|---|
| Market cap | R1bn |
| Forward PE | 5 |
| **Current price** | **765c** |
| 1-year high | 980c |
| 1-year low | 615c |
| **Key indicators (FY23)** | |
| Heps | 124c |
| Div/share | – |
| PE ratio | 6.2 |
| Total revenue | R637m |
| Attributable revenue | R148m |
| Total assets | R1.8bn |
| Equity | R1.6bn |

**Target price: 800c** **Upside: 5%**

**PERFORMANCE**




Source: INFRONT

## Famous Brands

# Too much uncertainty, too many variables

Famous Brands is Africa's largest restaurant franchiser. That statement expresses perhaps the group's greatest strength as well as its most obvious weakness.

For a market leader to keep growing at a lucrative rate, it has to keep acquiring new brands to inject growth into the group as the existing brands mature. This becomes more and more difficult over time as opportunities that really move the dial for the group aren't easy to find.

With a network of 2,914 restaurants, Famous Brands can't just buy your neighbourhood pizzeria. The group needs to find scalable formats with the right management team in place. For added complexity, historically there was pressure on Famous Brands to expand offshore, though the pain experienced in the UK has perhaps addressed that issue. Famous Brands has a presence in 18 countries, but performance in many of them is patchy, to say the least.

In many ways, Famous Brands has a business model that competes with the likes of Bidcorp. The difference is that the manufacturing and logistics side of Famous Brands services only restaurants that are either owned or franchised by the group, whereas Bidcorp happily sells to any food business.

Bidcorp isn't really exposed to whether a particular restaurant succeeds or not, as the replacement restaurant in that space would also need to buy ingredients and Bidcorp has a good chance of retaining that revenue, albeit with a different restaurant name as the end customer. However, Famous Brands is exposed to whether the restaurant is a success. This makes Bidcorp a much easier group to scale than Famous Brands, especially internationally, so it trades at a much higher multiple.

Rival Spur must be referenced here. Spur has only a handful of restaurant formats and has proved to have an ability to scale a business in the form of RocoMamas. It will now look to do so again with Doppio Group.

As for Famous Brands, the market lost confidence after the disastrous foray into Gourmet Burger Kitchen. In a group this diverse, the market needs to believe that the management team will allocate capital to the right places. It's not as easy to understand Famous Brands as it is to assess a more focused business such as Spur. So believing in management and giving the group a premium valuation is a leap of faith.

Famous Brands has dropped 23% in the past year and is trading slightly above the 52-week low. The market isn't queuing up for these burgers. In an astonishing display of relative outperformance, Spur has risen 28% over the same period. On a five-year view the gap is even more severe, with Famous Brands down 41% and Spur up 29%.

The latest results for the year ended February 2024 reflect a period of extreme load-shedding and great pressure on consumers. Though Famous Brands is surely enjoying a far better trading environment over the past few months, the absence of load-shedding doesn't solve other pressures such as consumer spending. One of the features of the past year was the conversion of some restaurants in its Signature Brands category to Leading Brands, which are generally at lower menu price points. The return of electricity also doesn't solve the exposure to marginal regions that are either making losses or reporting flat profit growth.

The earnings from the restaurants is only one part of the Famous Brands operation. The supply chain side of the business contributed R397m in operating profit in the past financial year vs R480m from Leading Brands. This is a key part of the story. Operating profit margins have been under significant pressure in the supply chain from costs such as insurance and fuel.

The overall flavour at Famous Brands is one of caution and uncertainty, with the 2024 dividend down 17% to 302c a share despite headline earnings being down only 5% to 465c a share. Cash generated from operations was up 13%, but the group is looking to reduce debt rather than pump dividends.

Famous Brands and Spur are trading on near-identical trailing earnings multiples at the time of writing – both of about 10.4. For its appealing simplicity and track record of execution, Spur is the pick of the two.

Though the absence of load-shedding will help Famous Brands in South Africa, there are just too many variables at play that make it difficult to form a high-conviction view of growth. At least the dividend yield of 6.3% pays you to take a chance on an upswing. ●

*The Finance Ghost*

> It's not as easy to understand Famous Brands as it is to assess a more focused business such as Spur

### FAMOUS BRANDS

It has a portfolio of 16 restaurant brands and a presence in 18 countries, making it Africa's largest restaurant franchisor

Financial year-end: **February**
Interim results: **August**

**RECOMMENDATION**

Sell Hold Buy

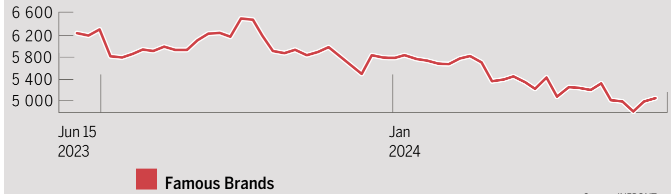
**RISK**

Low Medium High

| | |
|---|---|
| Market cap | R4.8bn |
| Forward PE | 9.9 |
| **Current price** | **R48.11** |
| 1-year high | R66.66 |
| 1-year low | R46.00 |
| **Key indicators (FY24)** | |
| Heps | 465c |
| Div/share | 302c |
| PE ratio | 10.3 |
| Total revenue | R8bn |
| Attributable revenue | R458m |
| Total assets | R3.6bn |
| Equity | R1.1bn |

**Target price: R50.50** **Upside: 5%**

**PERFORMANCE**




Source: INFRONT

## Grindrod

# There's no stopping this train

Grindrod has been an astonishing growth stock in the JSE mid-cap sector. It's rallied nearly 300% over the past three years as the wider market eventually saw the underlying potential of the slimmed-down group and its prospects in rail transport.

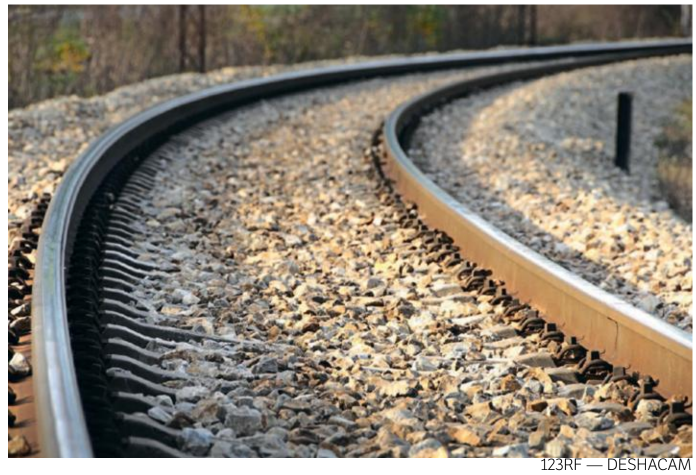
As superfluous assets that had been accumulated over the years were exited – such as Grindrod Bank, the agricultural assets and much of the private equity interests – a renewed focus on logistics, ports and rail has powered investor interest in the stock and the share price.

Further growth vectors have emerged with the willingness of the government to open up state-owned assets to the private sector under public-private partnerships (PPPs). With South Africa's ports and rail system in dire need of operational upgrades for goods to be moved more efficiently, companies such as Grindrod, with expertise, assets and experience in this area, are set to benefit from this participation.

At R13.51, with Grindrod ahead 19% year to date, is there more to come?

Recent engagements at the AGM and results presentation lead IM to set a target price of R17.50. In the year-end results to January, headline earnings from core operations surged 29% to R1.4bn. Headline earnings from continuing operations rose 36% to 151.7c a share, with NAV ahead 13% to R13.68 a share.

Record port volumes went through Grindrod's Maputo and Matola terminals in Mozambique as customers bypassed Transnet's ports to get goods to market. Grindrod has extended that operational lease to 2058 – providing certainty with plans to expand the operations with its partner DP World.



123RF — DESHACAM

On the logistics and rail side, Grindrod recorded a record earnings performance, and underlying volumes through its operations remain robust.

As the coal price has fallen, volumes through terminals have slumped, but there has been a strong uplift in chrome and magnetite. With the repair of the conveyor at the Richards Bay Coal Terminal, more trains have moved back to the port, offsetting slower truck volumes. Sulphur volumes have also risen.

The key area of expansion has been rail. Industry research shows that 120Mt of goods and freight want to move from road to rail, mostly ore. Lower cost is the main feature once private operators gain rail slots. Grindrod has bought some second-hand sets which it has refurbished. This is cheaper than buying new – $6m vs $1.5m for a refurb – and the lead time on a new loco can be 18 months.

Grindrod now directly owns 40 locomotives, with the old joint venture owning the balance. Grindrod also has five locomotives that have been recently refurbished but are not yet in service. A further 150 wagons are awaiting implementation.

Thanks to its low gearing, solid balance sheet and buoyant share price, Grindrod is well positioned to power into the PPP segment – especially in rail. With discussions under way with the government and Transnet over open rail access, all participants await the final cost per ton per kilometre. It has to be worthwhile to get much-needed sector investment, and the government knows this.

The open-access agreement that will allow for the seamless transition of trains from South African rail through the border to ports in Maputo will increase volumes and reduce time and costs.

Further opportunity in rail comes from the copper boom in Zambia. Grindrod is looking at that link to port. Another link through Zimbabwe that skirts the Kruger National Park to get to Maputo also offers promise.

The real area of growth for Grindrod is rail – and this is where institutional confidence in the company comes from. IM believes Grindrod could, in future, be split into distinct separate rail and ports listings. This will clearly unlock further value as the business evolves into those growing platforms.

IM expects a first-half update by end-June and believes the market should be pleased with the narrative on current trading and prospects, if the feedback from the AGM is anything to go by.

*Anthony Clark*

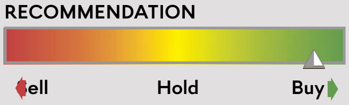
*** The writer owns shares in Grindrod**

### GRINDROD

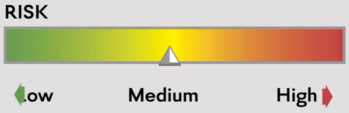
It was founded on the shipping industry but – after spinning off its marine assets – has a specialist focus on logistics

Financial year-end: **December**
Interim results: **August**

**RECOMMENDATION**



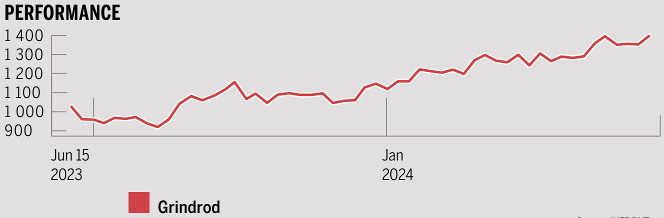

**RISK**




| | |
|---|---|
| Market cap | R9.5bn |
| Forward PE | 8.3 |
| **Current price** | **R13.51** |
| 1-year high | R14.30 |
| 1-year low | 910c |
| **Key indicators (FY23)** | |
| Heps | 152c |
| Div/share | 74.4c |
| PE ratio | 8.9 |
| Total revenue | R4.85bn |
| Attributable revenue | R988m |
| Total assets | R14.6bn |
| Equity | R9.9bn |

**Target price: R17.50** **Upside: 29%**

**PERFORMANCE**




Source: INFRONT

## Coronation

# Simple and steady wins the race

CEO Anton Pillay says the business does not need capital. It has a very different strategy from rivals Ninety One and Allan Gray. It does not distribute third-party products as it doesn't own a linked product service provider or "platform".

Coronation has 341 staff, well below its main competitors, which each have more than 1,000 staff. But people are still the largest component of the firm's fixed expenses, increasing by 8% to R260m, or 52% of the total.

Coronation has offices overseas, but primarily to retain key members of the investment staff who have chosen to move to the UK, notably former chief investment officer Louis Stassen and the head of the emerging-markets (EM) equity team, Gavin Joubert. They aren't too shabby either, just a stone's throw from Piccadilly Circus. The group also has offices in Dublin.

Pillay says that despite trends which have worked against it, such as the negligible growth in the South African savings market, and the growth of low-cost index funds, assets under management (AUM) increased by 5% to R631bn. It has R194bn, or 31%, of its AUM invested in international strategies, but this is primarily for South African clients. "Genuine" global clients account for R50bn of AUM.

The only product to have got significant traction in the institutional market internationally is its global EM fund. Its developed-market global equity funds have had "challenges", the industry term for indifferent performance. The global EM product has been volatile, but it cannot be accused of being a closet index tracker. It has given a 4.8% annualised return since July 2008, which doesn't sound exciting, but it is almost double the abysmal 2.6% return from the MSCI global EM index.

Over the six months from October 1 2023 to March 31 2024, net client ouflows for Coronation overall totalled 4.4% of the total book, with 1.7% accounted for by local retail (unit trusts), 1.9% by local institutional – segregated mandates and pooled products – and 0.8% by global institutional clients.

In the year to September 2023, there were total outflows of almost 10% of opening assets, indicating that the company is in the mature cash cow phase of its life cycle. For the past 18 months, the weighted average fixed fee on the AUM has been 0.53%. There is still some gravy from performance fees, which was a further four basis points – or R216m in revenue – a 39% increase from the six months to March 2023.

Coronation's average fee of 57 basis points compares favourably with Ninety One's 45 basis point average fee. But it would have been even higher in the halcyon days of financial 2021, when performance fees added a further 16 basis points to Coronation's revenue. Pillay points out that there is still the "matter" of the dispute with the South African Revenue Service (Sars) on the taxing of its international operations. He says the matter was heard at the Constitutional Court on February 13 and it is awaiting the outcome.

Coronation has loaded a R148m obligation payable onto the balance sheet in the event that it loses the case, though this doesn't take account of potential penalties. If it wins the case, Pillay says shareholders will be rewarded either through a special dividend or share buybacks, or possibly both.

Asset management was considered an exciting industry by many investors as it is capital-light and annuity-based. The client base of a top-performing fund manager such as Coronation is stable. It is quite unusual internationally for a large player to be such a strong performer. According to the interim results for March 31, 2024, 95% of its funds with at least a 10-year track record, on an asset-weighted basis, have outperformed their benchmarks since inception.

Its flagship South African global balanced product has had annualised alpha (outperformance) of 1.9% since inception in September 2023 – 15.1% against 13.2% for its proprietary balanced benchmark.

The houseview equity strategy, which has been around since October 1993, has had annualised alpha, against the JSE, of 2.4% with a 15.6% return. The house started its standalone bond product a little later, in August 1997, and this has had alpha of 1% – respectable enough in the fixed income industry, with an annualised 11.4% return.

Coronation has attracted talent as it is an independent manager, rather than a division of a bank or a life office. It is known for a generous remuneration structure, with relatively low fixed pay and a high upside. It prides itself on a no-frills approach with fund managers and executives usually flying economy. It is now 29% employee-owned, so they are incentivised to keep costs low. Its total operating expenses increased by 5% to R1.07bn, excluding the Sars tax liability.

Coronation is a simple business with one main aim – to increase the long-term wealth of its clients. There is certainly key man risk if there was a walkout. But the investment team has been stable since a mini walkout in 2005. And the senior staff are well rewarded, so they have little incentive to move on. ●

*Stephen Cranston*

### CORONATION FUND MANAGERS

It is one of the JSE's largest asset management companies with operations in SA as well as the UK

Financial year-end: **September**
Final results: **November**

**RECOMMENDATION**

Sell — Hold — Spec Buy

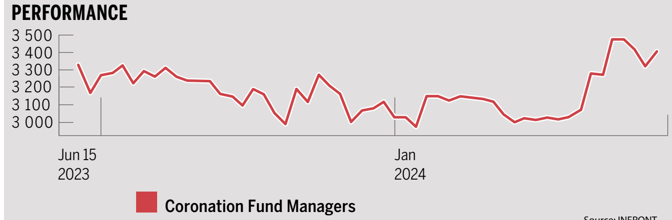
**RISK**

Low — Medium — High

| | |
|---|---|
| Market cap | R10.9bn |
| Forward PE | – |
| **Current price** | **R31.11** |
| 1-year high | R40.58 |
| 1-year low | R28.68 |
| **Key indicators (FY22)** | |
| Heps | 366c |
| Div/share | 172c |
| PE ratio | – |
| Total revenue | R3.74bn |
| Attributable revenue | R1.28bn |
| Total assets | R58.9bn |
| Equity | R2bn |

**Target price: R37.75** **Upside: +20%**

**PERFORMANCE**




Source: INFRONT

## Ninety One

# Holding its own in a tough environment

Ninety One, previously known as Investec Asset Management, has a very different profile from the other major listed asset manager, Coronation Fund Managers. It is an internationally credible midsized fund manager, with £126bn under management.

The businesses are rivals on balanced and domestic equity mandates for pension funds in South Africa. But Ninety One has a much wider international spread. Its client base is almost evenly split between emerging markets (EM) and developed markets.

Its EM client base is still predominantly in Southern Africa; the continent as a whole accounts for 41% of it. The only other country in which it has a sizeable presence in the retail market – what it prefers to call the adviser market – is the UK, which accounts for 18% of assets.

But unlike its former parent, Investec, Ninety One has a significant presence throughout the world. Of its assets, 16% are in Asia Pacific, including the Middle East – which strictly speaking is also in Asia – and a further 12% each are in the Americas and continental Europe.

Ninety One CEO Hendrik du Toit is one of the top financial services entrepreneurs of his generation, a peer of Discovery founder Adrian Gore.

Like Gore, Du Toit has been CEO since inception. The businesses were founded at almost exactly the same time and it is hard to imagine anyone else in the CEO's chair.

In the results presentation, the company talks of building the next generation, though the upper echelons are dominated by executives of a similar age to Du Toit, such as CFO Kim McFarland, joint chief investment officers Domenico Ferrini and John McNab, and head of global distribution John Green. But no doubt careful thought has been put into succession planning.

It has been a tough time for active fund managers globally, as index funds and private market funds such as private equity have been growing. As Du Toit puts it, there is a low appetite for "risk-on" public strategies.

But Ninety One has held its own, with assets under management down a modest 3%. There were net outflows of £9.4bn, which was a marginal improvement on the year to March 2023, when £10.6bn was withdrawn. Basic earnings increased by 1% to 18.4p and the full-year dividend was down 7% to 12.3p.

Ninety One considers its differentiator to be its organically developed track record. It hasn't made a significant acquisition since it bought the London-based boutique manager Guinness Flight in 1998, which was its bridgehead into global markets. The business is increasingly owner-managed; staff now own 30.6% of the equity.

Ninety One has an EM heritage, having been set up as a self-governing subsidiary of the Investec Group. To assert its independence it operates from Cape Town while Investec Bank is based in Joburg.

South Africa is the only country in which Ninety One covers the whole "waterfront". It has high market shares in all the domestic sectors, multi-asset, balanced and fixed income, and it has a large platform (linked investment service provider) which offers third-party unit trusts to advisers.

Du Toit says that in other jurisdictions it focuses on global and international (global ex-US) equities, EM equities and EM fixed income, which includes specialist credit and sustainability and impact products.

Du Toit says there is an "addressable market" of £10-trillion with its core investment competencies. It also has global reach, with offices on all continents except Antarctica – though given Du Toit's ambition, watch this space.

Fund managers live and die by their investment performance. Since the inception of each portfolio/fund, 73% of them have outperformed their benchmarks. But Ninety One has built up a brand (though arguably not as powerful as the Investec brand, which it ditched) and client trust, particularly in South Africa. Its reputation would have been useful in retaining business in the short term. Over three years only 43% of its funds have outperformed their benchmarks.

In some products outperformance brings in performance fees, and in a year in which management fees fell 8% to £558m (the weakening of the rand against the pound didn't help) performance fees were up 58% to £31m.

Du Toit says he is confident Ninety One can regain growth momentum as it has a clear, focused strategy, competitive investment performance and deep long-term relationships.

Ninety One has the same structure as Investec; Ninety One Ltd has a primary listing on the JSE and Ninety One Plc has a primary listing in London. Both shares, however, have the same underlying assets – the Ltd company is not invested in the South African operations on a standalone basis but is invested in the entire business.

The two trade at a similar price – recently the Ltd share was trading at R39.85 and the Plc share at R40.78. This puts them on earnings multiples of about 10 and dividend yields of 7.5%, which is cheap for a share with a solid franchise and strong annuity income. ●

*Stephen Cranston*

### NINETY ONE

It is an institutional and retail asset manager with its main operations in Cape Town and London evenly split between developed and emerging markets

Financial year-end: **March**
Interom results: **November**

**RECOMMENDATION**

Sell — **Hold** — Buy

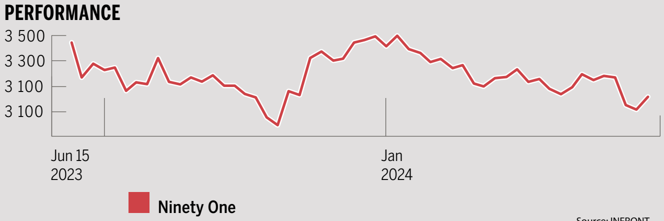
**RISK**

Low — **Medium** — High

| | |
|---|---|
| Market cap (Ninety One plc) | R25.1bn |
| Market cap (Ninety One Ltd) | R11.3bn |
| **Current price** | **R37.55** (plc) |
| 1-year high | R44.42 |
| 1-year low | R35.87 |
| **Key indicators (FY24)** | |
| Heps | 15.9p |
| Div/share | 12.3p |
| PE ratio | 10.2 |
| Total revenue | £596m |
| Attributable revenue | £164m |
| Total assets | £11.2bn |
| Equity | £368m |

**Target price: R40** **Upside: 6%**

**PERFORMANCE**




Source: INFRONT

# Flexible approach to investing

When picking a fund in this category, be sure you have the same risk appetite as the fund manager, writes **Stephen Cranston**

123RF — DENPHUMI

Many fund managers will consider flexible funds to be their shop windows.

In this category there are no constraints on the investment approach. The high equity, medium equity and low equity funds are all subjected to regulation 28 of the Pension Funds Act, which means that there is a 75% ceiling on equities in high equity funds, 60% in medium equity funds and 40% in the low equity category.

The domestic flexible category isn't wholly unconstrained as it is still subjected to the 45% maximum international assets. But as Peter Brooke of the Old Mutual Investment Group points out, "domestic" is by no means limited to South Africa Inc shares as it includes all shares on the JSE. Some of these have a very limited exposure to the South African economy, such as Prosus, Richemont and British American Tobacco.

I would argue that these businesses aren't top of their class – many might prefer in an unconstrained portfolio to invest in Alibaba, LVMH or Phillip Morris – but at least they provide "free" offshore exposure on top of the 45% allowance.

Brooke says that most of the exposure in the Old Mutual Flexible Fund, which he runs, is in international markets with a combination of "genuine" offshore exposure and dual-listeds on the JSE, which are considered to be "domestic" by the regulator.

Brooke also runs the Old Mutual Maximum Return Fund in the worldwide flexible category which can be wholly invested in offshore assets – though he will invest in domestic assets when appropriate.

Why not externalise the funds instead of keeping it in a rand-denominated fund? Brooke isn't licensed to give financial advice, but he can answer in generic terms.

"Many of the clients of this fund aren't super-rich. They might need access to their funds for emergencies such as an operation, or if they need a new car. It is quite a procedure taking money offshore – which includes tax clearance – and bringing it back."

There are very few flexible funds internationally, in any case, as the wealth manager, in the UK and US, for example, will typically take charge of both strategic and tactical asset allocation and won't buy one-stop shop balanced or flexible funds.

Flexible funds come in various shapes and sizes. One of the first big hits in the category was Coronation Optimum Growth, started by the maverick stock picker Walter Aylett, who now runs a fund in the same category called Nedgroup Bravata.

Aylett's track record shows he is a highly intuitive equity manager in the tradition of Peter Lynch, who had such success with the Fidelity Magellan Fund in the US in the 1980s.

Optimum Growth is still in the Coronation arsenal as an equity-centric fund. The Coronation Market Plus Fund, run by Neville Chester, is also in the worldwide flexible category and it's more of a genuine multi-asset fund, a souped-up version of Coronation Balanced Plus – Coronation gives quite a few of its funds a "Plus" rating.

But given the strong long-term track record of the Coronation team, Market Plus wouldn't be a bad place to park your money, but please run this past your adviser.

A very different fund is Foord Flexible, run by the veteran Dave Foord. He has been chief investment officer of Foord Asset Management since the firm was started in 1981. Foord is best known as a top-down fund manager – he rarely talks about his "successful" stock picks and never about 10-baggers (equities in which the share price has grown 10 times since they were purchased.)

He tells IM that what matters to clients is that their savings outperform inflation. As a champion yachtsman, Foord wants to avoid the catastrophic losses that often happen at sea. That could mean holding just 15% or 20% in shares if the markets are overvalued, and theoretically even zero in equities.

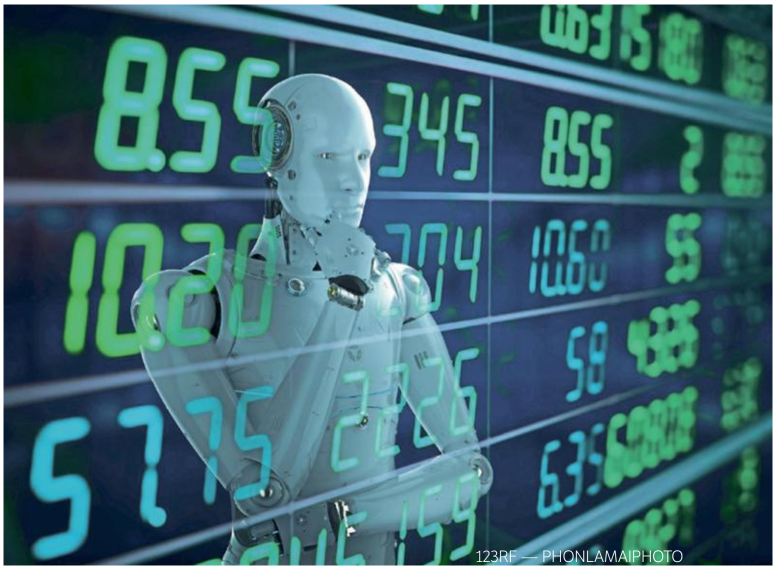
"I can feel the pain when our clients lose money," says Foord.

There is more of a peer group approach in the Foord Balanced Fund, which only in very extreme circumstances would go below 50% in equities. It can lose money but live to fight another day so long as it outperforms the mean of the 10 large managers in the Alexforbes Large Manager Watch – which is not to say Foord doesn't also feel pain when its Balanced clients lose money.

Do not pay too much attention to past performance, particularly for periods of less than three years, when choosing a flexible fund. Rather be sure that you have the same risk appetite as the fund manager. High-octane funds such as Nedgroup Bravata are unlikely to provide a smooth ride but should provide higher returns than a vanilla equity or balanced fund.

Funds that aim for absolute returns such as Foord Flexible might superficially be much duller, but they add value in the long term as they keep drawdowns low when markets crash. Asset allocation is the largest contributor to returns for investors over time, not the ability to spot 10-baggers, even though this seems much more exciting. ●

# The discomfort of value investing


123RF — PHONLAMAIPHOTO

What does a value investor do in a world dominated by the magnificent seven and AI? asks **Warwick Lucas**

The one thing any value investor comes to appreciate over a long time of practising their faith is that value investing is an extremely uncomfortable style.

This is because the largest component of returns often occurs in fairly short bursts.

However, one of the biggest mental errors value investors make is in observing what is happening somewhere else and looking for it to blow up – just because it is expensive. Unfortunately, investors such as Netscape's Jim Clark made that even more uncomfortable by bringing tech companies to market at the mezzanine stage, when they have virtually no cash flows or earnings, and making it fashionable.

The truth, of course, is that these scary new listings can work because of the sheer velocity of revolutionary change in the tech sector and at these companies.

This is the position they find themselves in right now, with fairly high ratings on big tech (particularly AI-themed stocks) and not a whiff of bad news about the pace of development in sight. Of course, sooner or later adversity does arrive; it just doesn't seem very constructive to hang around wringing one's hands and waiting for the balloon to go up when one of the most seismic technological shifts in decades is playing through.

Of all listed equity sectors, tech is now easily the largest, with about 2,500 listed companies adding up to a market cap of about $36-trillion.

The 2022/2023 rate-hiking cycle would normally have severely pricked a bubble. This is because tech stocks' growth stock-style expected cash flow profiles mean that the biggest component of their valuation is derived from long-term outcomes. These are inevitably hardest hit by rate hikes, in the same way that long-dated bonds are harder hit than short-dated bonds by rate hikes.

> “Of all listed equity sectors, tech is now easily the largest, with about 2,500 listed companies adding up to a market cap of about $36-trillion

Now, the carnage in the market from February 2022 to July 2023 was messy, but it was far from terminal. Clearly there was lots of juice left in many lemons, as evidenced by the recovery in share prices and earnings. Interest rate cut expectations are certainly being firmly pushed to the flat side of things, but resumption of the pain of two years ago seems remote.

Moreover, if rate hikes do re-emerge, they should do so off a much higher base and they will likely lack the leveraged venom of those first equity smacks. Because valuations are a discussion point (whether one is about "value" or "growth at a reasonable price") I note that on a measure of enterprise value to revenue tech indices are at half the levels of the dot-com and pandemic peaks, but, say, 30% above a stable(ish) long-term average. So, high, but certainly not peak, in an environment of sustained positive news.

Once again I found myself at Citywire's annual conference of offshore fund managers, held at Fancourt. Specialist fund industry follower Citywire played host to 15 offshore managers meeting South African multimanagers. Sometimes these were first-time exposures to the local market, making the meetings relatively fresh.

At this event Guinness showcased its Global Innovators Fund. This company was founded in 2003 by Tim Guinness (who founded the original Guinness Flight Global Asset Management in 1987, which was sold to Investec in 1998). Both fund managers are MSc-plus physicists – something the engineer in me appreciates.

The portfolio tends to have 30 equal weighted stockholdings on entry, with a global spread quite similar to the MSCI all country world index (ACWI). This fund has seven stocks in common with the Guinness Equity Income Fund I covered last year. The fund has a beta of 1.1 times against the ACWI, which means it is more volatile and sensitive to macro factors than the index; however, the relative performance seems to be worth it.

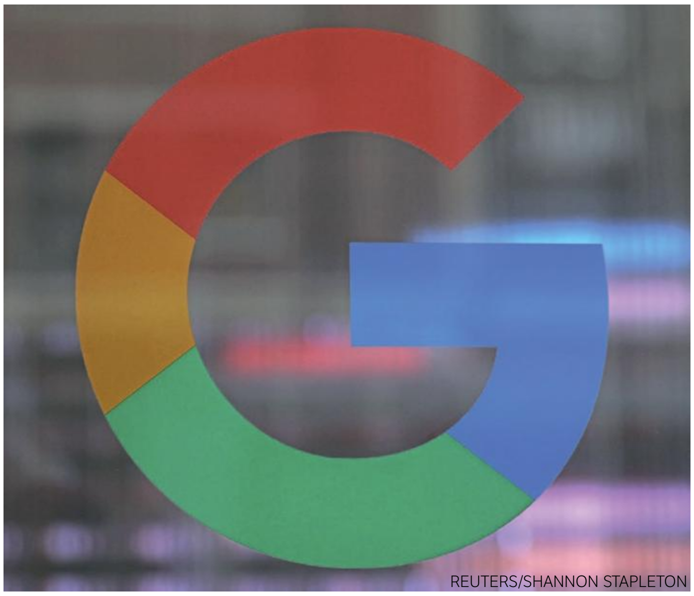
In terms of the holdings, the average five-year sales compound annual growth rate is triple that of the ACWI; forward earnings growth and return on capital are both 2½ times higher than the ACWI; and debt equity is only a third. The practice of equal weighting tends to lead to a position-sizing risk management benefit.

The fund managers pick from a 1,000-strong universe of large-cap stocks in these defined growth areas: advanced health care; AI and big data; clean energy and sustainability; cloud computing; internet and media and entertainment; mobile technology and the internet of things; next-gen consumer (e-commerce, everything-as-a-service, healthy living); payments and fintech; and robotics and automation. They claim to have held Nvidia since inception, and indeed held six stocks that form part of the magnificent seven (Mag7).

The fund managers observed that a significant outperformance run in 2023 in the Mag7 was sparked by the release of ChatGPT, but not all was AI-related; there were different drivers of performance across the group. The common attributes of the successful six (excluding Tesla, in other words) were: improving top-line growth; high and (improving) margin profile; and compounding earnings growth. The fund managers argue that the valuations of the six appear reasonable and near-term competitive threats appear low.

As an aside, I note comments from Bridgewater that the big five tech shares (Amazon, Alphabet, Meta, Apple and Microsoft) are sitting on a cash pile of \$400bn, or 1.5% of US GDP. However frothy markets may seem, these certainly aren't the kind of gunge that blew up the internet boom in 1998 and 2000. Anyway, the firm passed some useful Mag7 observations.

Nvidia had huge growth in revenues from AI/data centres, which has higher margins than the graphics segment and so led to faster


REUTERS/SHANNON STAPLETON

earnings growth. Demand remains strong and competition far behind, and the high earnings reduced the p:e. The growth of Amazon Web Services improved already high group margins and profitability, and e-commerce returned to profitability.

Valuation derated on strong earnings growth. Alphabet is still dominated by Google search and advertising, a very high-margin business, while Google is No 3 in cloud and growing quickly. Though well placed to benefit from AI, it recognises that AI is a potential threat to the search business. For Meta, 2023 was announced as a "year of efficiency" and focused on improving financials.

There are "compelling investment opportunities" within AI to improve core businesses in the near term (better-served advertising) and the use of generative AI in the longer term. Apple has not been rewarded as a big AI winner, but the App Store is well placed to capture whichever app "wins" in AI, without the risk of trying to pick the winner. China iPhone sales remain a key driver.

> "Alphabet is still dominated by Google search and advertising, a very high-margin business, while Google is No 3 in cloud

The most controversial Mag7 stock at the conference was Tesla. The Guinness team was concerned about the deterioration in several financial ratios. Other teams argued that the Tesla AI could still be the "one to rule them all"!

I recall Peter Lynch of Fidelity's Magellan Fund fame writing in one of his books that the users of technology were ultimately bigger beneficiaries than the vendors. Perhaps that was true once; these days the tech giants seem like standalone oligarchies rather than companies.

Nevertheless, the adoption of steam, electricity and the internet was widely beneficial, and there is no reason that should not be so in the case of AI. So I think the wisdom of Lynch will eventually come to pass.

I raised the question of these trickle-down benefits at the conference; the most satisfactory answers came from Sands Capital. Another participant nudged my memory to the effect that in previous years, Sands had banged the drum very loudly on the potential offered by Nvidia. Another spot-on comment from the firm last year was the observation that ChatGPT is an "iPhone moment" for AI, suggestive of a vast secular growth story in its applications.

Fairly obviously, you can distinguish between those that make AI, those that sell AI and those that use (or repackage) AI. The firm points out that growth cycles, when they get going, can be stronger and last longer than anyone expects. This leads me to point out that a possible way to play this if you are a skittish investor is by using the trend-following approach that I described in April.

Sands offered a fairly short-term scenario where global AI spend could get to \$1-trillion in fairly short order. Part of this is predicated on computing availability being up by a factor of 75 by 2030. The PC and internet eras were already very good for corporate profitability, but the firm expects even more from AI. Smarter apps are going to drive shorter upgrade cycles for the devices that will run them.

It was Sands's commentary that prompted me to investigate the total factor productivity implications of AI, covered in this month's Middle Road column, and also its example of the law-and-order benefits of Axon camera sets that piqued my interest in the policing and general productivity benefits of AI.

Accordingly, they have earned the last word. Long-term quality investing works over time – not all the time.

*The author works at Vunani Securities. Opinions are strictly personal*