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## Local Share Portfolio House View – June/July 2017

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### Important Notice:

This is not advice. The views expressed in this report reflect the views of Vista Wealth team in our review of multiple analyst reports of the South African equity market. The portfolio strives to provide a balance exposure between domestic, offshore and multiple underlying asset classes. We derive no compensation from views in this report. Even though Vista Wealth reviews this house view monthly, the portfolio is intended for investors with long term investment views (minimum 5 years). We hope you find it useful and merely as a guide to assist in your self-managed share portfolio decision making process.

## 1. Local share portfolio

### 1.1 This month's House View

| Sector                              | Code | Share Name                          | Max % in Portfolio | Reasoning   |
|-------------------------------------|------|-------------------------------------|--------------------|---|
| Equity investment instruments       | REI  | Reinet Investments SCA              | 10.0%              | Specialised investment fund<br>BTI at a discount and interesting portfolio of private equity. BTI acquisition of Reynolds in US<br>Large cash holding allows for more future acquisitions   |
| Banks                               | CPI  | Capitec Bank Holdings Limited       | 7.5%               | Innovative business model and value-added customer proposition through a simple transacting and savings product at low cost<br>Best growth prospects of all SA banks with currently still small market share. High P/E but also higher earnings growth<br>SA downgrade can effect SA Banking sector negatively in the long run                                |
| Media                               | NPN  | Naspers Limited                     | 7.5%               | Strong earnings growth from TenCent and the fact that it was recently valued more than the entire market cap of NPN. This implies investors are getting great assets for free (the so called "rump")<br>The analysts think Tencent is now at full valuation, so chances of a pullback bigger than upside potential hence our reduction in exposure this month |
| Household goods & home construction | SNH  | Steinhoff International Holdings NV | 7.5%               | Market under estimate high quality Pepkor earnings and defensiveness of Poco and Conforama. Also market confidence will return post abandoned Shoprite deal and French election<br>Turn around opportunities exists with Mattress Firm and Poundland<br>Mattress Firm and Serta Simmons strategic partnership still to be proved                              |
| General industrials                 | BVT  | The Bidvest Group Limited           | 5.0%               | Holding company for a group of companies operating in a diverse range of industries<br>Well-managed company that should continue to deliver solid organic growth at stable margins, generating above cost of capital returns<br>Dependent on SA economy growth  |
| Forestry & Paper                    | SAP  | Sappi Limited                       | 5.0%               | Sappi's paper categories is also not just normal printing paper but also packaging and specialty papers, dissolving wood pulp (DWP), etc. Solid   |

| Sector              | Code | Share Name                     | Max % in Portfolio | Reasoning   |
|---------------------|------|--------------------------------|--------------------|---|
|                     |      |                                |                    | management team with most revenue earned outside South Africa. Last but not least, it is cheaper with a P/E of ≈11 compared to Mondi's P/E of ≈16   |
| Chemicals           | SOL  | Sasol Limited                  | 5.0%               | International integrated chemicals and energy company that leverages technologies and the expertise of their massive work force<br>Their world-scale ethane cracker and gas-to-liquids facility in the US will add significant return through economies of scale.<br>Increase in oil price and weakening rand could both benefit SOL  |
| Food Producers      | TBS  | Tiger Brands Limited           | 5.0%               | Manufacturer and marketer of fast-moving consumer goods (FMCG)<br>Great house hold brands which could be relatively inelastic should the recent downgrade reduce the disposable income of South Africans<br>With reduced food inflation food producers will be showing good profit margins  |
| General Mining      | AGL  | Anglo American PLC             | 4.0%               | Globally diversified mining business of of diamonds (through De Beers), platinum and other precious metals, copper, nickel, iron ore and coal<br>Increased commodity demand and a weakening rand could both benefit AGL   |
| Investment Services | BAT  | Brait SA                       | 4.0%               | Investment holding company with excellent management team<br>Investments in logistic and unlisted companies like New look (biggest investment), Virgin Active, Premier foods, Consol glass, Primedia. BAT is currently trading at a discount to its net asset value thanks to the poor performance of New Look.   |
| General Mining      | BIL  | BHP PLC                        | 4.0%               | The world's biggest broad based miner recently dropped the name "Billiton" from its name. Billiton was added to the name during a merger with a SA company that bore that name back in 2001.<br>High dividend yield with a low P/E  |
| Luxury goods        | CFR  | Compagnie Financiere Richemont | 4.0%               | Business model evolution: product mix focused more on jewellery; increasing control of distribution. Online luxury is underpenetrated, especially watches/jewellery. Recently bought 5% of Dufry (world's largest duty-free retailer) in order to increase distribution and capture the Chinese tourist.<br>Unbelievable brands, management team that thinks long term<br>High PE but also 10% of market cap is in cash ensuring div growth |
| Life insurance      | DSY  | Discovery                      | 4.0%               | Diversified financial services company well established in health and wellness also looking to expand into banking  |

| Sector                       | Code | Share Name                      | Max % in Portfolio | Reasoning   |
|------------------------------|------|---------------------------------|--------------------|---|
|                              |      | Limited                         |                    | Unique business model that can't be easily replicated<br>Vitality rewards model in multiple countries and if they can get it right in China there could be a massive upside   |
| Industrial Metals & Mining   | S32  | South32 Limited                 | 4.0%               | Globally diversified metals and mining company with high-quality and well maintained operations which mine and produce bauxite, alumina, aluminium, energy and metallurgical coal, manganese, nickel, silver, lead and zinc in Australia, Southern Africa and South America.<br>Strong balance sheet with an impending share buyback provides opportunities |
| Food & drug retailers        | SHP  | Shoprite Holdings Limited       | 4.0%               | Experienced management team and arguably best retailer in Africa. Others want to get into Africa, Shoprite is already there<br>Higher oil price could have positive impact on consumer spend in Nigeria and Angola where SHP is investing heavily<br>With no repo rate cuts consumers might be under pressure   |
| Beverages                    | DST  | Distell                         | 3.0%               | Investment holding company with interest in liquor related companies<br>Has greatest growth prospects of liquor companies, solid track record<br>Great brands in wine, spirits, ciders and ready-to-drink segment   |
| Real estate investment trust | GRT  | Growthpoint Properties Limited  | 3.0%               | property portfolio includes approximately 467 owned and managed properties in industrial, office and retail sectors in SA<br>Also diversified into Australia<br>Owns and manages one of the most sorted properties in SA namely the V&A Waterfront in Cape Town   |
| Real estate investment trust | RES  | Resilient REIT Limited          | 3.0%               | Owns a portfolio of dominant regional malls and shopping centres tenanted predominantly by national retailers in South Africa<br>Well diversified offshore with good dividend growth  |
| Foreign property company     | CCO  | Capital & Counties Property PLC | 3.0%               | UK-based property company. The Company's principal activity is the development and management of property<br>Share price badly affected by Brexit which was overdone<br>Great rand hedge  |

| Sector                   | Code | Share Name                  | Max % in Portfolio | Reasoning   |
|--------------------------|------|-----------------------------|--------------------|---|
| Foreign property company | GRP  | Greenbay Properties Limited | 3.0%               | Mauritius based global real estate company with assets and listed companies, predominantly in the retail sector<br>High dividend yield growth. Still small and not overly geared  |
| Small caps               | MDI  | Master Drilling Group       | 2.0%               | Investment holding company that offers specialized drilling services to blue chip, major and mid-tier companies in the mining, civil engineering, building construction and hydro energy sectors, across various commodities. It operates in four geographical areas: Africa, Latin America and Other Countries   |
| Small caps               | TCP  | Transaction Capital         | 2.0%               | A non-deposit taking financial services company. It provides financial and allied services in selected higher risk and under-served segments of the financial services sector in SA. The business segments include Asset-backed lending and risk services. Its asset-backed lending includes SA Taxi, which is an asset-backed lender and short-term insurer, focusing on servicing independent SMEs mainly in the fixed route minibus taxi industry. |

## 1.2 Changes from previous house view

1. Sappi – We welcome Sappi to our portfolio. Doomsday prophets has been warning us that we’re moving to a paperless society. In fact we’ve been using more and more paper. Sappi also has a lower P/E compared to competitors like Mondi.
2. Mining – Our portfolio has always been light on the mining side. We’ve added Anglo American and BHP to compliment S32 which was already in the portfolio. With the recent pullbacks in both Anglos and BHP, it might be a good time for investors to include these mining companies in their portfolios.
3. Brait – After lots of debate we decided to keep Brait in the portfolio but with a reduced allocation. It’s trading at a discount to its net asset value, thanks to the poor performance of New Look. In our decision we included the performance of other investments in the stable like Virgin Active, Premier and Iceland Foods, which is now proportionally larger than Brait’s New Look holding.

### 1.3 On our watch list for the Vista domestic share house view

1. Standard Bank – Successes in Africa...
2. Old Mutual – Breakup value but Brexit could hamper this value unlock...
3. PSG Group – Watching closely as it's currently trading slightly below the sum of its parts. In other words trading at a discount...  
<http://psggroup.co.za/sotp/>

### 1.4 Having cash in your trading account is also a strategy

Having 10% cash in your trading account will allow the investor to take advantage of opportunities that might arise. Also, your cash in your trading account is safely deposited at the JSE Trustees (JSET) and attracts a reasonable interest.

Related to the above point, the percentages in our house view portfolio indicate the maximum that we would include of a specific share in our portfolio. The investor can decide a percentage with what he or she is comfortable with.

## 2. Exchange Traded Products

### 2.1 Exchange Traded Funds (ETFs)

| Code   | Share Name                         | Max % in Portfolio | Reasoning  |
|--------|------------------------------------|--------------------|--|
| STXRAF | SATRIX RAFI 40 ETF                 | 25%                | This ETF tracks the FTSE/JSE RAFI 40 Index which represents 40 shares listed on the JSE based on four equally weighted fundamental factors: Sales, Cash Flow, Book Value and Dividend. All dividends and other income automatically reinvested |
| DBXUS  | db x-trackers USA ETF              | 25%                | The MSCI USA Index is recognised as a barometer of the USA economy and as the holder of db x-trackers MSCI USA Index ETF, an investor will essentially track the USA equity markets  |
| PTXTEN | CoreShares Proptrax Ten ETF        | 15%                | This ETF tracks the top ten listed property companies on the JSE, as measured by investable market capitalisation in the FTSE/JSE SAPY Index, and are held in equal weightings of 10.0% each   |
| GLPROP | CoreShares S&P Global Property ETF | 15%                | This ETF tracks the S&P Global Property 40 Index which consists of the largest 40 property companies in developed markets that have earnings and dividend stability  |
| STXRES | Satrix RESI 10 ETF                 | 10%                | This ETF tracks the of the top 10 mining and resource counters on the JSE. Anglo American, BHP Billiton, Mondi and Sasol making up more than 75% of the underlying exposure  |
| DBXWD  | db x-trackers World ETF            | 10%                | The MSCI World Index is recognised as a barometer of the world's developed economies and as the holder of db x-trackers MSCI World Index ETF, an investor will essentially track the developed world's equity markets                          |

## 2.2 Exchange Traded Notes (ETNs)

| Code   | Share Name                       | Max % in Portfolio | Reasoning   |
|--------|----------------------------------|--------------------|---|
| NEWUSD | NewWave USD Exchange Traded Note | N/A                | This ETN tracks the performance of the spot price of US dollar versus the rand and can be used by discerning investors wanting to hedge the Rand /Dollar exposure of their investment<br>Each note equals a fixed principal amount of \$1 and will accrue interest on a daily basis at the overnight LIBOR rate minus a 0.10% interest rate spread. |

## 3. Derivative pair trade idea

We have a trade idea for our speculators making use of Single Stock Futures (SSF) or Contract for Difference (CFD). We think the gap between Tiger Brands (TBS) and AVI is too big and will narrow. As previously stated in our Vista house view, we suspect TBS has better house hold brands which should proof to be inelastic should the downgrades reduce the disposable income of South African citizens. We would therefore go long TBS and short AVI.





#### 4. Contact details

If you would like more information or to **open a trading account** with us, please contact Vista Wealth Management on the details below:

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