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## Share Portfolio House View – August/September 2017

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## **1. Important Notice**

This is not advice. The views expressed in this report reflect the views of Vista Wealth, compiled from sources believed to be reliable. None of Vista Wealth directors, employees or contractors accepts liability for any loss arising from the use hereof or reliance hereon or for any act or omission by any such person, or makes any representations as to its accuracy and completeness. We derive no compensation from views in this report. Even though Vista Wealth reviews this house view bimonthly, the portfolios are 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. The local portfolio strives to provide a balance exposure between domestic, offshore and multiple underlying asset classes.

## **2. Having cash in your trading account is also a strategy**

Current market conditions are quite fully priced in our opinion, and we advise investors to only invest between 40% - 60% of their capital, depending on whether the investor sees themselves as conservative or aggressive. That being said, we don't pretend to know where the market top is, so we will be invested, but very cautiously. In addition, we feel there might be a shift back to safer-haven assets such as the US Dollar & Gold for a number of reasons: one being that the Rand has struggled to fulfil recent technical moves down lower against the greenback and has started making more consistent weekly moves higher; also the fact that the influx into riskier assets over the past few years seems to be slowing.

It is also important to note 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.

Lastly and related to the above points, having cash in your trading account will allow investors to take advantage of opportunities that might arise. Remember the cash in your trading account is safely deposited at the JSE Trustees (JSET) and attracts a reasonable interest.

### 3. Local share portfolio

Sector	Code	Share Name	Max % in Portfolio	Reasoning
Equity investment instruments	REI	Reinet Investments SCA	10.0%	Specialised investment fund consisting mainly of British American Tobacco (BTI) and Public Insurance Corporation UK (PIC). Big attraction of REI is that investors get BTI at a discount. BTI recently acquired Reynolds in US. The performance of Glo (heated tobacco product) continues to exceed expectations with encouraging early signs. BTI is great rand hedge and has large cash holding that allows for more future acquisitions. BTI recently had a massive drop after the US Food and Drug Administration planned to lower nicotine levels in cigarettes to non-addictive levels.
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. Best growth prospects of all SA banks with currently still small market share. High P/E but also higher earnings growth. 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") 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%	After the merger between Shoprite and SNH was called off, SNH moved to list its African retail assets separately on the JSE (in an entity called STAR) in order to unlock value for investors. Market also under estimate high quality Pepkor earnings and defensiveness of Poco and Conforama. Turn around opportunities exists with Mattress Firm and Poundland. 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. Well-managed company that should continue to deliver solid organic growth at stable margins, generating above cost of capital returns. Bidvest Bank recently received an improved rating from Moody's and also

Sector	Code	Share Name	Max % in Portfolio	Reasoning
				acquired 100% of First Data Resources South Africa (FDRSA). Bidvest is unfortunately dependent on SA economy growth.
Luxury goods	CFR	Compagnie Financiere Richemont	5.0%	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. Unbelievable brands, management team that thinks long term High PE but also 10% of market cap is in cash ensuring div growth
Forestry & Paper	SAP	Sappi Limited	5.0%	Sappi's paper categories do not only include normal printing paper but also packaging and specialty papers, dissolving wood pulp (DWP), etc. Solid management team with most revenue earned outside South Africa. Last but not least, it is cheaper with a P/E of $\approx 11$ compared to Mondi's P/E of $\approx 17$
Chemicals	SOL	Sasol Limited	5.0%	International integrated chemicals and energy company that leverages technologies and the expertise of their massive work force Their world-scale ethane cracker and gas-to-liquids facility in the US will add significant return through economies of scale. 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) Great house hold brands which could be relatively inelastic should another downgrade reduce the disposable income of South Africans With reduced food inflation food producers will be showing good profit margins
Investment Services	BAT	Brait SA	4.0%	Investment holding company with excellent management team Investments in logistic and unlisted companies like New look (biggest investment), Virgin Active, Premier foods, Consol glass, Primedia. BAT is currently trading at a $\approx 30\%$ discount to its net asset value. New Look management expects trading conditions to remain challenging for the year ahead.
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. AGL recently surprised the market resuming dividend payments six months early after their focus on cost-cutting combined with higher commodity prices had

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				cut debt and increased cash flow and underlying earnings. Increased commodity demand and a weakening rand could both benefit AGL
General Mining	BIL	BHP PLC	4.0%	The world's biggest broad based miner recently dropped the name "Billiton" from its name and is now only known as BHP. Great management focusing on cash flow, capital discipline and value creation should allow significant increase in future returns. They also recently concluded that their loss making US shale assets are now non-core. BHP has a high dividend yield with a low P/E.
Life insurance	DSY	Discovery Limited	4.0%	Diversified financial services company well established in health and wellness also looking to expand into banking Unique business model that can't be easily replicated 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. Strong balance sheet with an impending share buyback provides opportunities
Food & drug retailers	SHP	Shoprite Holdings Limited	4.0%	Experienced management team and best retailer in Africa. SHP customers are best representative of SA demographic. 1/3 of every supermarket product in SA is bought from SHP. Others want to get into Africa, Shoprite is already there. Higher oil price could have positive impact on consumer spend in Nigeria and Angola where SHP is investing heavily. With no more repo rate cuts consumers might continue to be under pressure
Beverages	DST	Distell	3.0%	Investment holding company with interest in liquor related companies Has greatest growth prospects of liquor companies, solid track record 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 Also diversified into Australia Owns and manages one of the most sorted properties in SA namely the V&A

Sector	Code	Share Name	Max % in Portfolio	Reasoning
				Waterfront in Cape Town
Real estate investment trust	RES	Resilient REIT Limited	3.0%	Owens a portfolio of dominant regional malls and shopping centres tenanted predominantly by national retailers in South Africa 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 Share price badly affected by Brexit which was overdone Great rand hedge
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 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.

## 2. Offshore share portfolio

Sector	Code	Share Name	Max % in Portfolio	Reasoning
Technology	AAPL	Apple Inc	10.00%	The world's largest consumer electronic company with a cult following, a huge cash pile and one that has proven to stay innovative. The company sells over 200 million iPhones a year. At an 18 P/E, we feel the stock still has legs in the current market environment, as well as being a company that, due to its strong following, should be resilient in even tougher market conditions.
Financials	BK	Bank of New York Mellon Corp	10.00%	A diversified financial company with \$30 trillion assets under custody and \$1.6 trillion under management makes it one of the more established players in the market. Currently trading at a low P/E of 15. Management is of the opinion that a rising rate scenario will positively impact margins.
Financials	GS	Goldman Sachs	10.00%	More of a discount play, GS is a well-diversified financial company trading at a discount to its peers. This stock has had a lot of headwind this year that kept it from performing with the market, meaning it can still be picked up at an 11 P/E.
Cyclical Consumer Goods & Services	GM	General Motors	10.00%	GM provides exposure in the auto sector, a sector that has lagged behind this whole year and trading at low multiples. The company already has its foot in the door with the electric movement, sharing its platform across multiple of its entry-level vehicles which should help it become a competitive force in the new sector. Trading at a P/E of 5.6, it doesn't make sense not to have it in your portfolio.
Basic Materials	MON	Monsato	10.00%	The company is a provider of agricultural products for farmers, providing seeds, herbicides and digital agricultural tools that assist farmers in making decisions. The company has a strong presence among multiple seed brands and develops biotechnology traits that assist farmers in controlling insects

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				and weeds. The company also has a presence in the retail market through its lawn-and-garden product range.
Technology	FB	Facebook	10.00%	A social media company that is on our list because it has redefined the way companies advertise. Using user-input data such as interests and likes, the company is able to offer advertisers the ability to directly reach their target market in a more effective way than arguably any of the current internet giants. With a quarter of the world's population already signed up, we see the company's ability to successfully monetise their user base as a very attractive feature.
Healthcare	SNY	Sanofi	10.00%	A healthcare company involved in research, development, manufacture and marketing of therapeutic and rare-disease solutions. The company is also involved in speciality care, consumer healthcare and generic vaccines. We like the company because of its well diversified structure, ensuring a stable revenue stream, but also because it works on finding cures for rare diseases which are both profitable and in the human survivals' best interest.
Non-Cyclical Consumer Goods & Services	PG	Procter & Gamble	10.00%	The company provides branded consumer goods in its widest description through brands such as Old Spice, Head & Shoulders, Pantene, Mach3 & Dawn, to name a few. With a presence in approximately 180 countries and territories and its well established distribution networks, the company is a global player in the every-day product market, which is why it's on our list.
Consumer Discretionary	COE	China Online Education	5.00%	Think "Uber" or "AirBnB" of the Chinese education market. The company subcontracts freelance English teachers on a per hour basis, connecting them with all ages of Chinese students wishing to learn English from native English speakers. Having been listed for little over a year, we believe the stock has bottomed out and is starting to find a base. Conservative investors should

Sector	Code	Share Name	Max % in Portfolio	Reasoning
				stay away, as this is a speculative play in a new industry which can either be huge, or be nothing at all.
Financial	SYF	Synchrony Financial	5.00%	A financial services company that offers a range of credit products such retail credit, credit cards, consumer loans and credit care protection. The company also offers depository products such as IRA's, certificates of deposit, money market & savings accounts. It does all this through its well established network of national and regional US retailers, local merchants, industry associations and healthcare service providers. We like this share because its model focuses on a range of small fees offered to a big-number clientele.
Basic Materials	USG	USG Corp	5.00%	The company is a manufacturer and distributor of residential housing building materials. It produces a range of products for use in new residential & non-residential construction, as well as a range of remodeling products for the same markets. It has presence in the US, Canada, Mexico, Latin America, Asia, Australia & the Middle East.
Financials	USB	U.S. Bancorp	5.00%	A multi-state financial services company with products and services primarily in general banking services such as lending & depository, cash management, capital markets, mortgage banking, insurance, brokerage and leasing. As of December 31st 2016, the company had a loan book of \$273 billion and deposits of \$334 billion, which makes it a very well capitalised financial services company trading at a P/E of only 15.
Chemicals	PSX	Phillips 66	5.00%	An energy manufacturing and logistics company with midstream, chemicals, refining, marketing and specialties businesses. The chemical segment consists of its investment in Chevron Phillips Chemical Co. which manufactures and markets petrochemicals and plastics in the US and Europe. We like this company in current market conditions because its raw material

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				costs are low (crude oil) and should continue to be low for the foreseeable future, while petrochemicals are reigning in huge margins.
Financials	WFC	Wells Fargo	5.00%	The company has three operating segments namely community banking, wholesale banking and wealth & investment management. It has a presence in 50 US states, the District of Columbia and other countries, where it's engaged in various businesses including consumer finance, equipment leasing, agricultural finance, investment banking and venture capital investment to name a few. Current P/E is at 13.
Non-Cyclical Consumer Goods & Services	KHC	Kraft Heinz Co.	5.00%	A food and beverage company consisting of brands such as Heinz, Kraft & Philadelphia. Throughout its worldwide presence it offers home and restaurant products such as sauces, cheese & dairy, meals, meats, refreshment beverages, coffee and other grocery products. At the lower range of the last year's performance, we like to add it to our portfolio.

### 3. 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

#### 4. Derivative trade ideas

##### 4.1 Woolworths derivative trade idea

The South African retail sector has taken a lot of pain over the last 12 - 18 months but it seems, at least for the moment being that the trend has started to turn. We take a look at Woolworths this week as it stays one of our preferred players due to its higher-end local footprint as well as having the rand-hedge effect coming from its international operations. Although the stock is well off its lows, we believe there is still plenty of room to move higher. Entry is set at R65.00 with the target price almost 10% higher at R71.00. Stop-loss is at a daily-close below R63.00.



## 4.2 Rand/Dollar derivative trade idea

The rand-dollar has started making higher and higher weekly lows which might be an early indicator that the longer term trend is starting to turn. As can be seen from the chart below, current support at the R13.15-level is holding quite strongly, however we believe there will be one last move lower to the triangle support before we ultimately see a move higher back to the top end of the triangle. We recommend going long at R13.05 for a move higher to the R13.43-level. Stop-loss is set at a 240m-close below R13.00



## 5. 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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