

RANDSWISS 

JSE Power Hour:  
Recession-proof  
stocks



# JSE Power Hour: Recession-proof stocks

We all have our own opinions on the fate of South Africa

How do we invest in recession?

*Should we invest in recession?*

*How does a recession affect investors?*

*Should a recession influence your investing decisions?*

*Should a recession change the way you think about investing?*

*What can you do to improve your performance?*

*Is it still safe to invest at all?*



## Before we start: Is it safe to invest at all?

It all depends on how you measure risk:

- Country risk
- Systemic risk
- Risk to return or downside risk
- Market risk
- Credit risk
- Volatility
- Standard deviation
- Modern Portfolio Theory



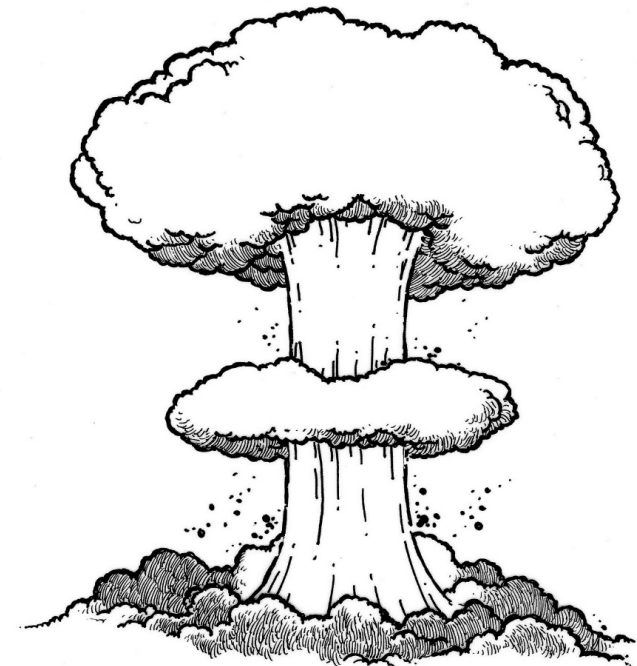
## Before we start: A quick look at systemic risk

When investing on the JSE you should know:

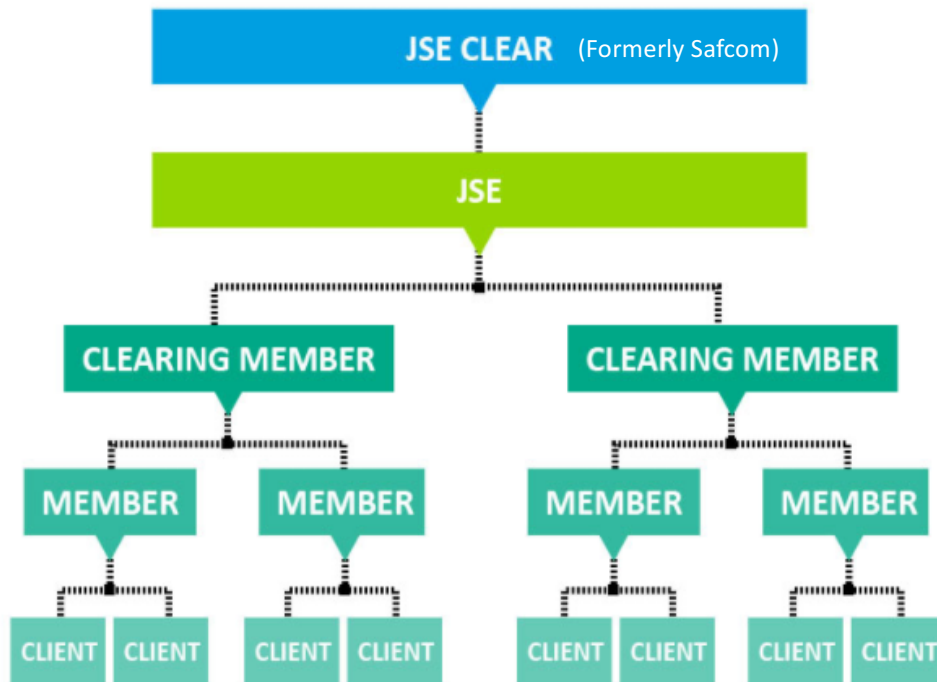
- Self-regulating organisation
- Overseen by the FSB
- Additional protection to OTC trade and settlement
- Things might change significantly in future with twin-peaks

### Out of 138 countries South Africa 2017 GCI report:

 8th pillar: Financial market development	11	5.2	
8.01 Financial services meeting business needs	2	6.0	
8.02 Affordability of financial services	27	4.6	
8.03 Financing through local equity market	1	5.9	
8.04 Ease of access to loans	12	5.2	
8.05 Venture capital availability	53	3.0	
8.06 Soundness of banks	2	6.6	
8.07 Regulation of securities exchanges	3	6.2	
8.08 Legal rights index 0-10 (best)	68	5	



## Before we start: Are your funds safe?



- Regulated by the Financial Services Provider FSP 45837
- A "financial institution" as defined in the Financial Institutions (Protection of Funds) Act 28 of 2001.
- Client funds are held separately from the financial institutions in trust.
- Required capital adequacy requirement.
- Certain admission requirements, including balance sheet.
- Insurance requirements.
- FSB oversight, ongoing compliance and stress testing.
- JSE Guarantee fund, BESA Guarantee Fund, Derivatives Fidelity Fund in case of member default.
- Client funds held in trust or with a product provider.
- Multiple providers in multiple markets.
- **Rated the most "transparent and responsive" broker in South Africa by *Financial Mail* Top Stockbrokers Survey.**

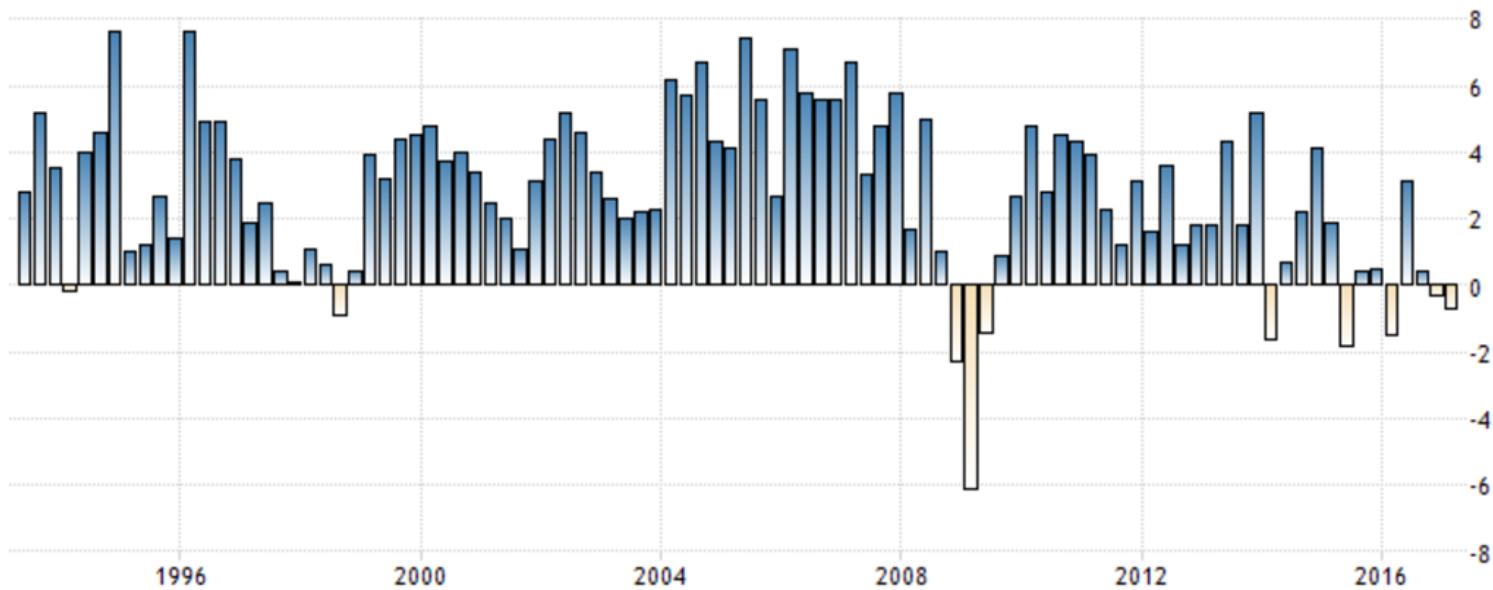
## JSE Power Hour: What is a recession?

“In economics, a recession is a business cycle contraction which results in a **general slowdown in economic activity**. Macroeconomic indicators such as GDP (gross domestic product), investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise. It is **defined as a negative economic growth for two consecutive quarters.**”



# While you're still fresh... A few numbers...

SOUTH AFRICA GDP GROWTH RATE



**GDP growth rate**

Two quarters of negative growth:

Q1: -0.3%

Q2: -0.7%

Source: StatsSA

# How bad is unemployment?

SOUTH AFRICA UNEMPLOYMENT RATE



## SA unemployment rate

Steadily increasing post global financial crisis:

Q3: 27.1%

Q4: 26.5%

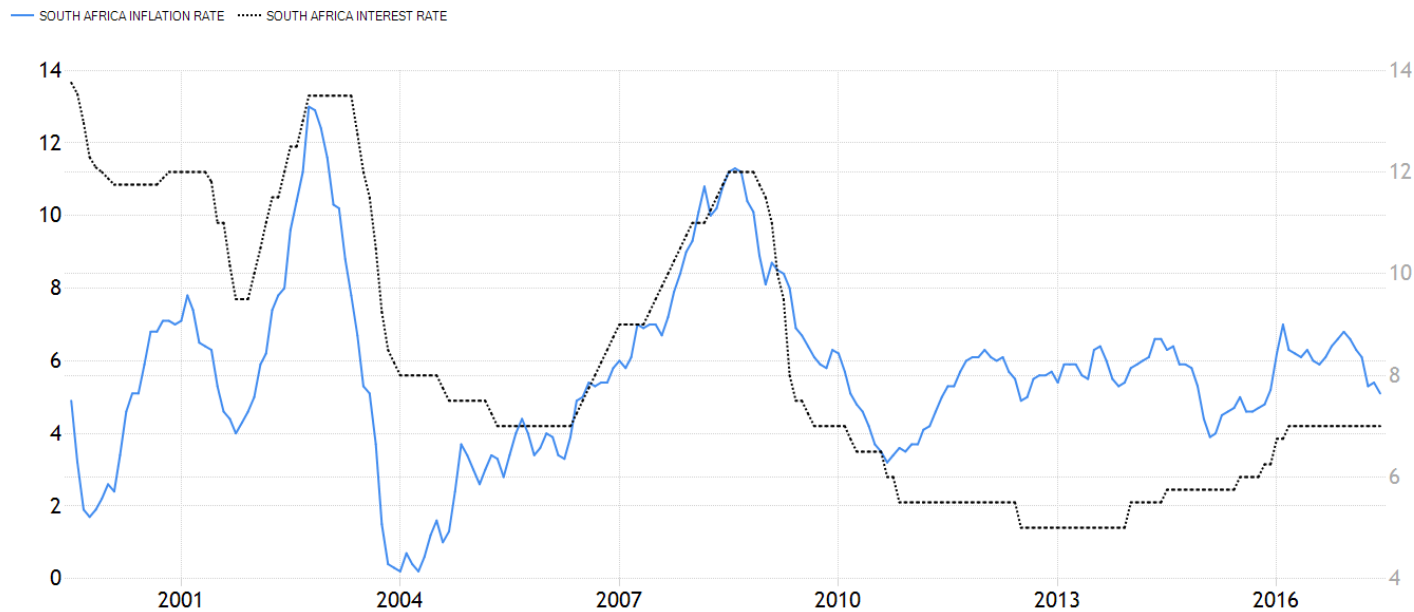
Q1: 27.7%

**Most other nations reversed financial crisis issues, but structural unemployment in SA remains.**

Source: StatsSA



# What about inflation?



**Fairly stable**

Inflation has largely been steady post 2008 as :

June: 5.1%

**Inflation targeting and SARB independence have worked to maintain the value of our currency.**

Source: StatsSA

## But somehow these numbers don't tell the whole story...

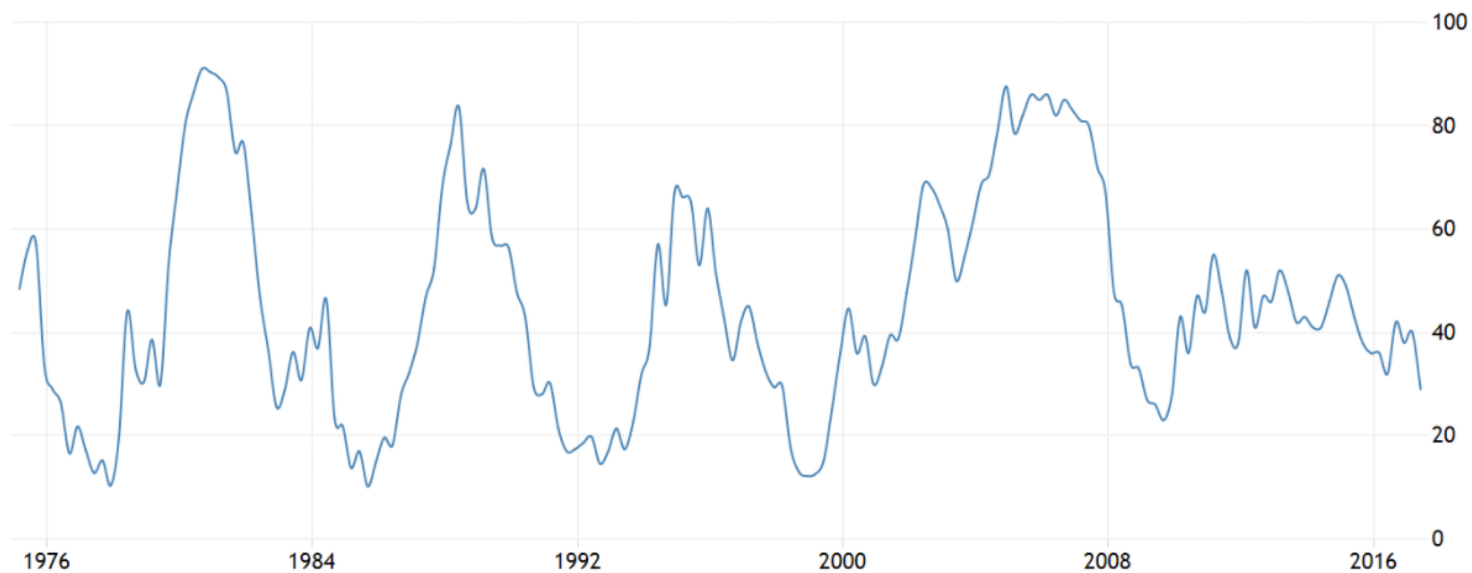
SOUTH AFRICA GOVERNMENT DEBT TO GDP



Maybe government debt-to-GDP?

## Maybe business confidence numbers?

SOUTH AFRICA BUSINESS CONFIDENCE

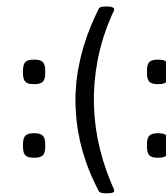


**Business confidence in South African business confidence hits the worst level since the global financial crisis.**

**And perhaps the BER number gets to the heart of it...**



Because investing is about confidence and certainty and markets are driven by sentiment.



## 5 Things to consider when investing in a recession

**#1: Recession isn't everywhere. You don't have to invest in a recession.**



**JSE stocks with little or no exposure to SA:**

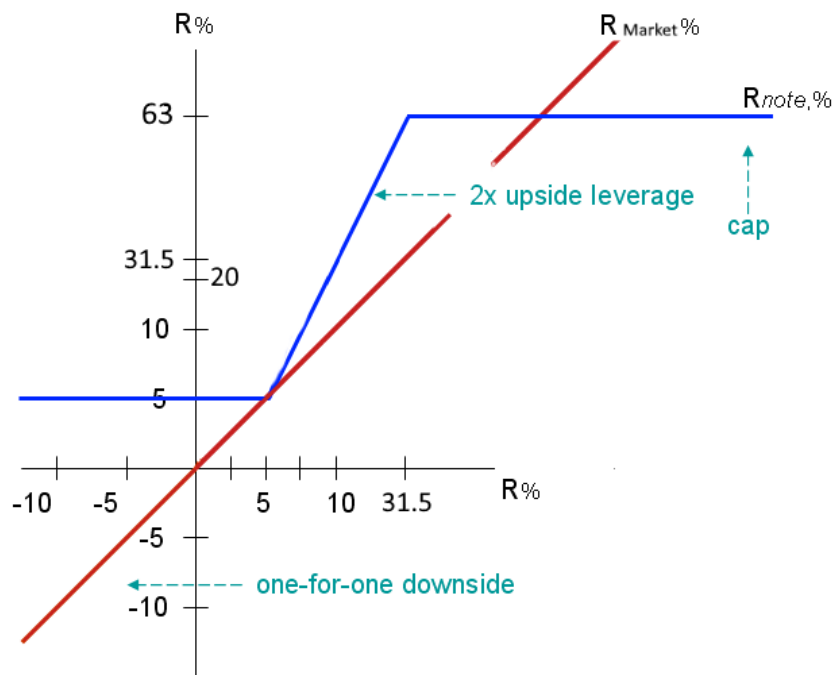
Capital and Counties (CCO)

Richemont (CFR)

New European Property (NEP)

# 5 Things to consider when investing in a recession

## #2: You don't have to invest in stocks!



That's a strange thing for me to say but it's true...

Lots of other listed investment vehicles that can bring down your risk:

- Bonds
- Pref shares
- Property stocks
- Structured products
- Derivatives to bring down exposure

Try a bond ETF: NewFunds Govi ETF (NFGOVI)

## 5 Things to consider when investing in a recession

### #3: Don't try to time the turn. Take a long-term portfolio approach.

- Markets are forward looking and can generally see further than you.
- Equity markets are a leading indicator. Don't use them as a gauge of what will happen economically.
- Focus on buying good quality at reasonable prices.
- Have recession stocks even in good times, and buy cyclicals in bad times too.

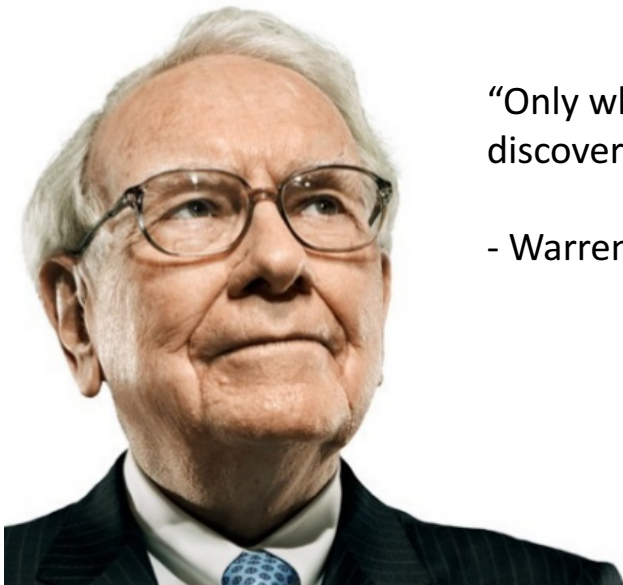
### Stock survival checklist

1. Lower gearing for survivability.
2. Good cash flows.
3. Lower PE compared to history.
4. Diversification for stability.
5. Low cost provider.
6. Even better, if it supplies substitute products.
7. Take advantage of people buying down.
8. Inelastic demand for its product.



## 5 Things to consider when investing in a recession

**#4: Recession is the time when companies get hurt for inefficiency. It's also the time you can more easily identify who will outperform in future.**



“Only when the tide goes out do you discover who’s been swimming naked.”

- Warren Buffet, Investor

**Sectors which do well in recession:**

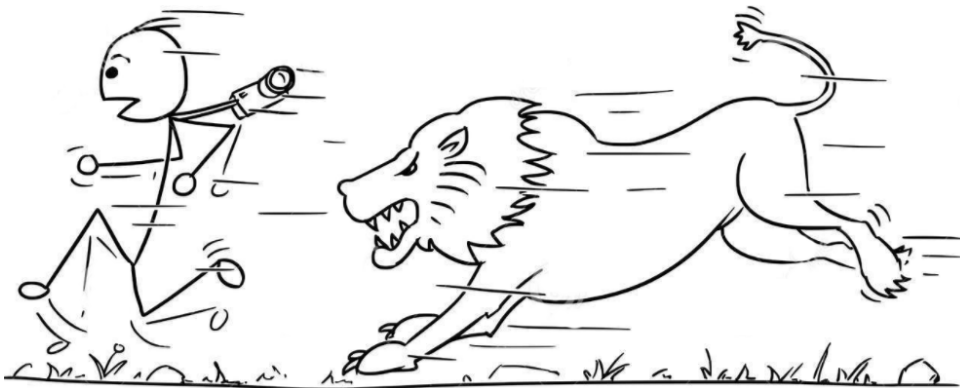
1. Consumer staples
2. Discount retailers (WMT but maybe AMZN)
3. Pharmaceutical and healthcare
4. Sin stocks (ANH, BTI but not gambling)
5. Utilities
6. Service companies





## 5 Things to consider when investing in a recession

**#5: Be a contrarian and look for value and remember investing in equity is 3-5 years at least... and everything is on sale!**



**What should be on your shopping list?**

**Companies:**

1. That are using the environment to grab market share.
2. That are buying other companies.
3. Market is punishing unfairly.
4. Companies that are still investing for the future.

# Stock picks



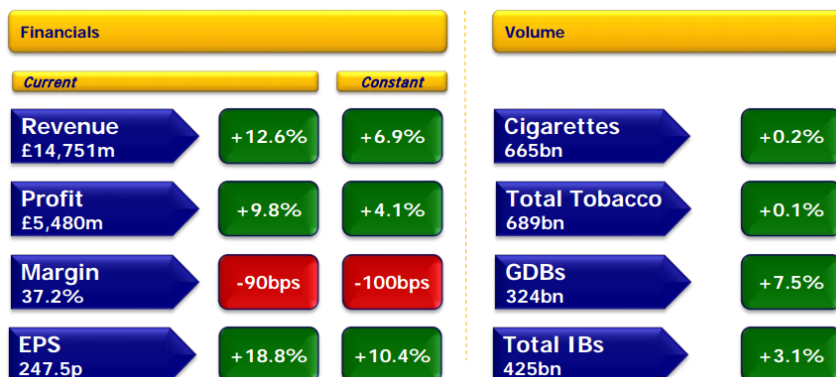
## Stock Pick #1: British American Tobacco

British American Tobacco p.l.c. is a tobacco and next generation products company. The company's tobacco product range includes cigarettes, fine cut (roll-your-own and make-your-own tobacco) and Swedish-style snus. Its segments include Asia-Pacific, Americas, Western Europe, and Eastern Europe, Middle East and Africa (EEMEA). The Asia-Pacific segment includes its operations in various countries, including Australia, Pakistan, Malaysia, Vietnam, Japan, South Korea, Indonesia, New Zealand and Bangladesh. The Americas segment includes its operations in various countries, including Brazil, Mexico, Canada, Colombia, Argentina, Chile and Venezuela. The Western Europe segment includes its operations in various countries, including Germany, Denmark, Switzerland, Belgium, France, the United Kingdom, Romania, Spain, Italy, Poland and Croatia/Balkans. The EEMEA segment includes its operations in various countries, including Russia, Ukraine, South Africa, Turkey, Egypt, Nigeria and Algeria.



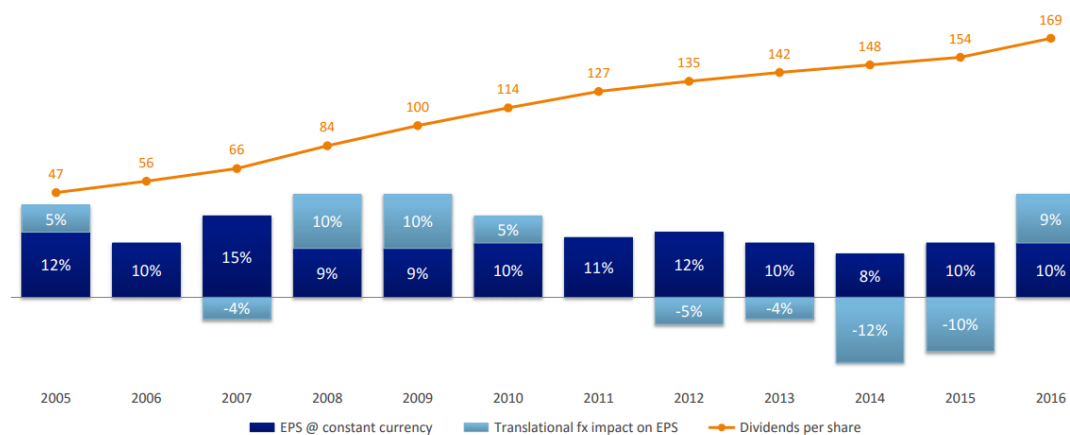
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Fundamental Metrics	
PE:	21.22
5yr Total Return:	103.72% vs Jalsh 57.74%
Dividend Yield:	3.02%
Mcap:	R1,66 tn
CEO:	Nicandro Durante



**Earnings per share growth**  
Average growth 2005 - 2016: 11% p. a.\*

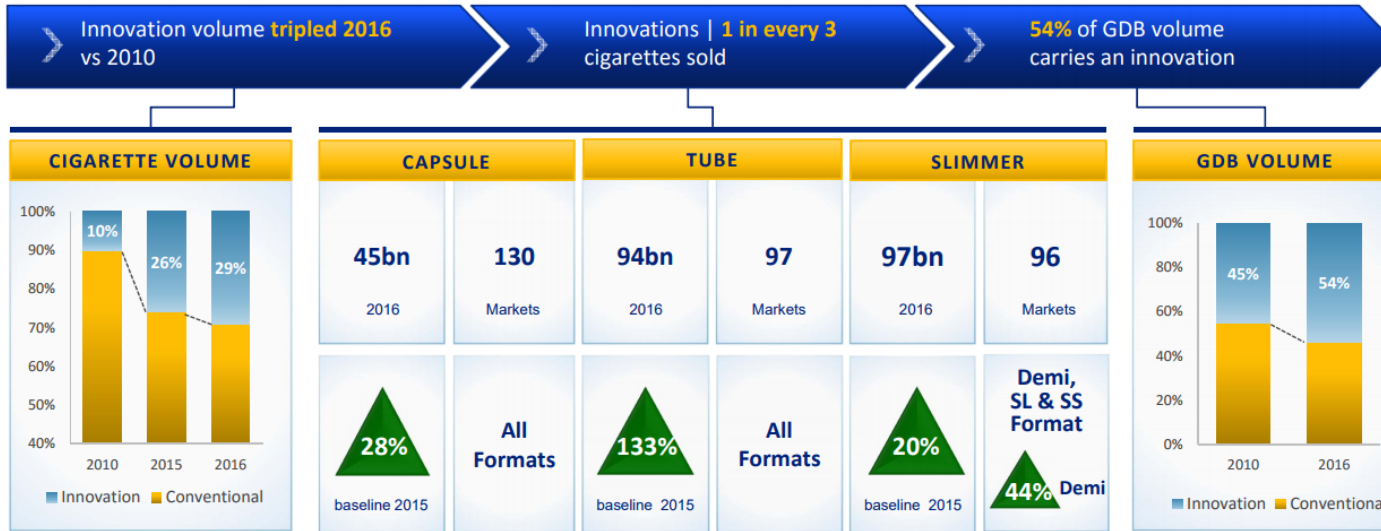
**Dividends per share**  
CAGR:12%



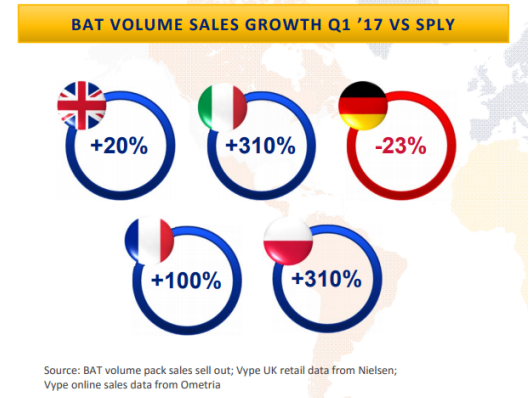
\* Growth @ constant currency

# Stock Pick #1: British American Tobacco

## Next Gen Products versus Global Drive Brands (GDBs)



Vype is present in 10 markets globally



Market	SOM FY16 (%)	Movement (ppt)	Market	SOM FY16 (%)	Movement (ppt)	Market	SOM FY16 (%)	Movement (ppt)	Market	SOM FY16 (%)	Movement (ppt)
Argentina	23.7	(0.1)	France	17.7	0.3	New Zealand	70.2	0.2	Spain	10.7	0.0
Australia	39.8	0.1	GCC	28.6	(1.8)	Pakistan	70.6	1.8	Switzerland	37.9	(0.5)
Bangladesh	61.8	2.6	Germany	19.4	0.0	Philippines	0.9	0.1	Taiwan	10.0	(0.2)
Belgium	30.7	(0.3)	Indonesia	6.9	0.2	Poland	28.3	1.2	Turkey	21.7	1.0
Brazil	76.2	(1.8)	Italy	18.8	(0.4)	Romania	54.4	1.3	UK	9.6	(0.4)
Canada	48.2	(0.9)	Japan	13.0	0.3	Russia	22.5	1.4	Ukraine	25.8	4.3
Chile	95.4	0.8	Kazakhstan	16.8	2.7	South Africa	80.0	(1.3)	Vietnam	30.5	(0.1)
Colombia	48.5	0.6	Malaysia	57.1	(3.8)	South Korea	14.2	(0.8)			
Czech	20.6	0.5	Mexico	36.4	0.2						
Denmark	72.8	(0.8)	Netherlands	25.8	(0.7)						

SMA(200) 840.13920 SMA(50) 910.41320  
Open: 883.00 High: 896.17 Low: 880.83 Close: 895.00 Additional info Bar #: 0 Date: 19/07/2017 Time: 08:30:00 Change,% 1.36 Ticks: 3472 Volume: 675 963



SSD(10) 32.36500 41.35486  
RSI(7.5) 47.01550 44.81978  
MACD(12,26,9) -3.31774 -2.49214 -0.82560

Y 2011 M April M August Y 2012 M May M August Y 2013 M May M August Y 2014 M April M August Y 2015 M May M August Y 2016 M August Y 2017 M April M July M October Y 2018

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My Templates

BATS.L 983.91 Monthly



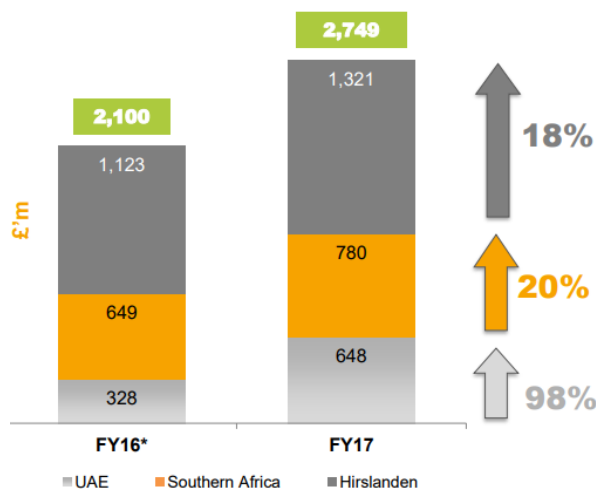
## Stock Pick #2: Mediclinic International



Mediclinic International plc is an international private healthcare provider. The Company's segments include Mediclinic Southern Africa, Mediclinic Switzerland, Mediclinic Middle East, United Kingdom and Corporate. It focuses on providing acute care and multidisciplinary healthcare services. It has interest in Spire Healthcare, a United Kingdom-based private healthcare company. It has approximately 70 hospitals and over 40 clinics across its operating platforms. Mediclinic Southern Africa operates approximately 50 hospitals and over two day-clinics across South Africa, and over three hospitals in Namibia with approximately 8,000 in-patient beds. It has interest in Hirslanden AG, which operates over 20 private acute care facilities and approximately four clinics in Switzerland with over 1,600 in-patient beds. Mediclinic Middle East operates over five hospitals and approximately 40 clinics with over 600 in-patient beds in the United Arab Emirates.

2017 FULL YEAR GROUP RESULTS			
Revenue*	EBITDA*	Operating profit*	CASH CONVERSION
↑ 31% ↑ 15% (incl. Al Noor FY16 pro forma revenue)	↑ 17%	↑ 7%	101% of underlying EBITDA
	EBITDA* margin	EPS*	FINAL DIVIDEND
	18.2%	↓ 19%	4.70 pence per share

\*Underlying measures presented



- Hirslanden (48% of Group)**
  - Strong growth particularly in outpatient activity
  - Up 3% in constant currency
- Southern Africa (28% of Group)**
  - Good organic growth
  - Up 7% in constant currency
- Middle East (24% of Group)**
  - Addition of Al Noor
  - Revenue growth in Dubai offset by Abu Dhabi weakness
  - Up 72% in constant currency

### OPERATIONAL OVERVIEW

HOSPITALS	16	CLINICS	4
BEDS	1,677	EMPLOYEES	9,402
OPERATIONAL OVERVIEW			
HOSPITALS	52	BEDS	8,095
EMPLOYEES	16,848	DAY CLINICS	2
OPERATIONAL OVERVIEW			
HOSPITALS	6	CLINICS	31
BEDS	714	EMPLOYEES	6,375

Fundamental Metrics	
PE:	23.60
12M Total Return:	-39.04%
Dividend Yield:	1.04%
Mcap:	R90 bn
CEO:	Danie Meintjes

\*Underlying and includes Al Noor's results consolidated from the effective date of the acquisition (15 Feb 2016)





## Stock Pick #3: Steinhoff International



Steinhoff International Holdings NV is a Germany-based company that is active in the retail of household goods, apparel, as well as in the automotive industry. The household goods business area includes the retail of furniture, building materials and consumer electronics through the Company's subsidiaries Lipo Einrichtungsmaerkte, Poco and Conforama. In the apparel business area the Company operates, among others, through Pepco and is engaged in retailing of women's, men's and children's wear, shoes, and accessories. The Automotive business area includes car rental activities through its subsidiary Hertz, as well as logistics services, warehousing and distribution, agricultural services, supply chain consulting, mining services and passenger transport through its subsidiary Unitrans. The Company operates as a holding company and is present in Europe, Asia, Africa and Australia.

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### Fundamental Metrics

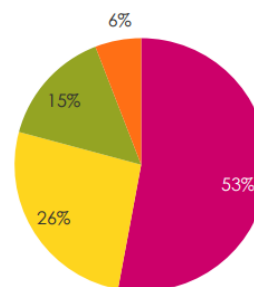
PE:	16.64x
12M Total Return:	-3.2%
Dividend Yield:	1.93%
Mcap:	R293.70bn
CEO:	Markus Jooste

HOUSEHOLD GOODS		
Gross revenue €8 645 million		
Operating profit €1 110 million		
REGION	BRANDS	
Europe	ABRA, Conforama, Emmezeta, LIPO, POCO, kika-leiner	
United Kingdom	Bensons for Beds, Harveys	
Australasia	Freedom, Snooze, POCO, Fantastic, Plush, OMF	
United States of America	Mattress Firm	
Africa	BUCO, Hardware Warehouse, Hi Fi Corp, Incredible Connection, JD furniture brands, POCO, The Tile House, Timbercity	

GENERAL MERCHANDISE		
Gross revenue €3 600 million		
Operating profit €361 million		
REGION	BRANDS	
SA, incl BLNS	Pep, Ackermans, Shoe City, John Craig, Dunns, Refinery, Tekkie Town	
Africa	Pep, Power Sales	
Europe and United Kingdom	Pepco, PEP&CO, Poundland, GHM!	
Australasia	Best&Less, Harris Scarfe, Mozi, Store & Order, Postie	

AUTOMOTIVE		
Gross revenue €1 182 million		
Operating profit €39 million		
REGION	BRANDS	
Southern Africa	Unitrans, Hertz	

H1FY17: GEOGRAPHIC SEGMENTS



- Europe and UK
- Africa
- USA
- Australasia

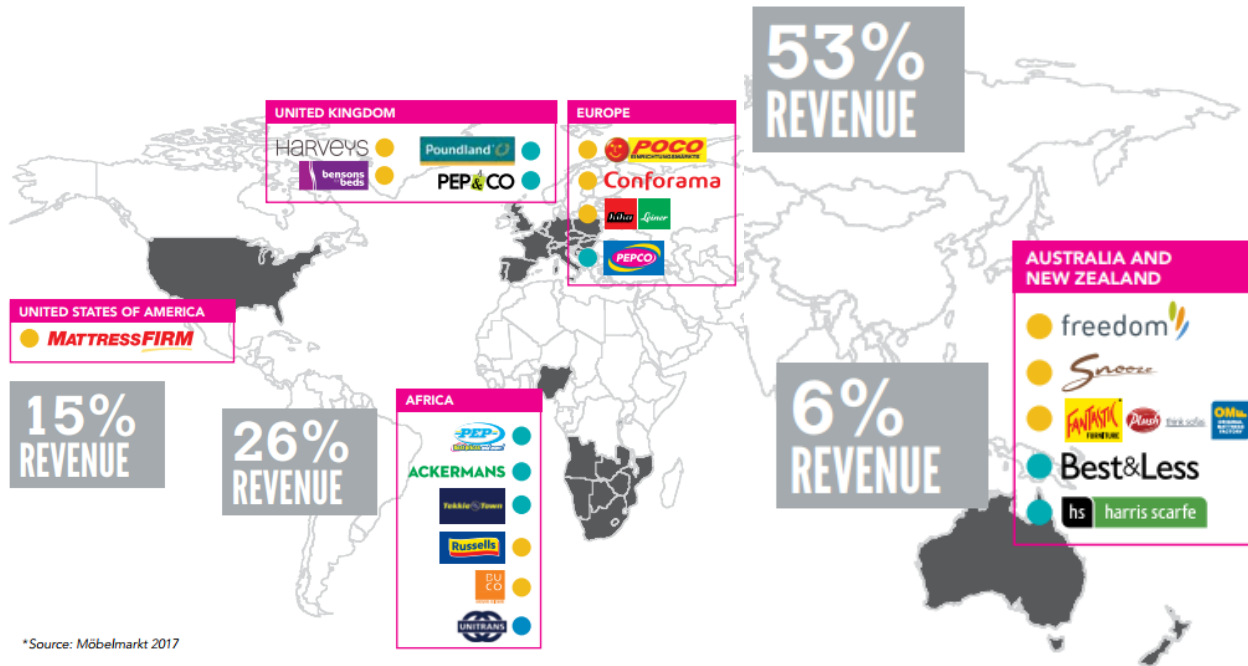
H1FY17: OPERATING SEGMENTS

AUTOMOTIVE		
Gross revenue €1 182 million		
Operating profit €39 million		
REGION	BRANDS	
Southern Africa	Unitrans, Hertz	

- Household goods
- General merchandise
- Automotive

## Investment case

- Second largest furniture retailer in Europe
- Consolidation of recent acquisitions.
- Very good in reconfiguring low end businesses into high end retail outlets e.g. Conforama in France
- Integrated centralised business model of manufacturing, distribution and selling through retail stores
- Manufactures in soft currencies and sells in hard currencies
- The company is now well diversified, and will benefit from the European recovery.
- World's third largest integrated household goods retailer by turnover.



\*Source: Möbelmarkt 2017

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### Consensus Recommendation

BUY



### Key Risks

- Slowing retail sales across global markets
- Subject to currency fluctuations
- Tax investigation
- Makes the wrong acquisitions
- Mattress Firm underperformance

SMA(200) 69.07980 SMA(50) 68.27460  
Open: 67.30 High: 68.13 Low: 67.21 Close: 67.92 Additional info Bar #: 0 Date: 19/07/2017 Time: 08:30:00 Change,% 0.92 Ticks: 4724 Volume: 5 002 670



SSD(10) 46.35417 51.06747  
RSI(7.5) 52.22420 52.84007  
MACD(12,26,9) 0.09381 0.10935 -0.01554  
Y 2015 Y 2016 M March M April M May M June M July M September M November Y 2017 M March M April M May M June M July M August M September

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# Questions

Thank you for attending  
our presentation!

For more information please visit our  
website at

[www.randswiss.com](http://www.randswiss.com)

Or contact us on +27 11 781 4454

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- We are a private boutique broker.
- Registered Financial Services Provider FSP 45837.
- We offer private client stockbroking, online trading, research, bespoke portfolios, portfolio and wealth management.
- Network and partnership with major local and international banks.
- Rated the most “transparent and responsive” broker in South Africa by **Financial Mail Top Stockbrokers Survey**.

glacier  
bv Sanlam

RANDSWISS

BD TV

JS

SAXO  
CAPITAL  
MARKETS

RADIO  
2000  
97.2 – 100 FM Nationwide

momentum



Investec

CNBC  
AFRICA

702

NEDBANK

SABC



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KIPS  
KNOWLEDGE INNOVATION PROGRESSION SOLUTION

VELOCITY  
TRADE

## How to become a client



### Step 1: Sign your Investment Mandate

- Complete the T&Cs. Either apply online at [www.randswiss.com](http://www.randswiss.com).
- Or request a application pack from [info@randswiss.com](mailto:info@randswiss.com) or +27 11 781 4454.
- Or fax it to: +27 86 272 2047.

### Step 2: Gather the required FICA

- A certified copy of your ID
- Proof of residential address (utility bill, lease agreement, etc.)
- Proof of bank account (Statement no older than three months.)
- Proof of a tax number (Any letter from SARS with your tax number.)

### Step 3: Link and fund your account

- Once we have all your documents you'll receive an approval email with your log in, password and details on how to fund your account.
- As soon as your funds are cleared, they'll be loaded and you'll be ready to start trading!

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