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SECURITIES



## Small Talk Top Stocks for 2017

Hoping to make a better year

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What I said at the start of 2016 & my Top 5 roadshow.

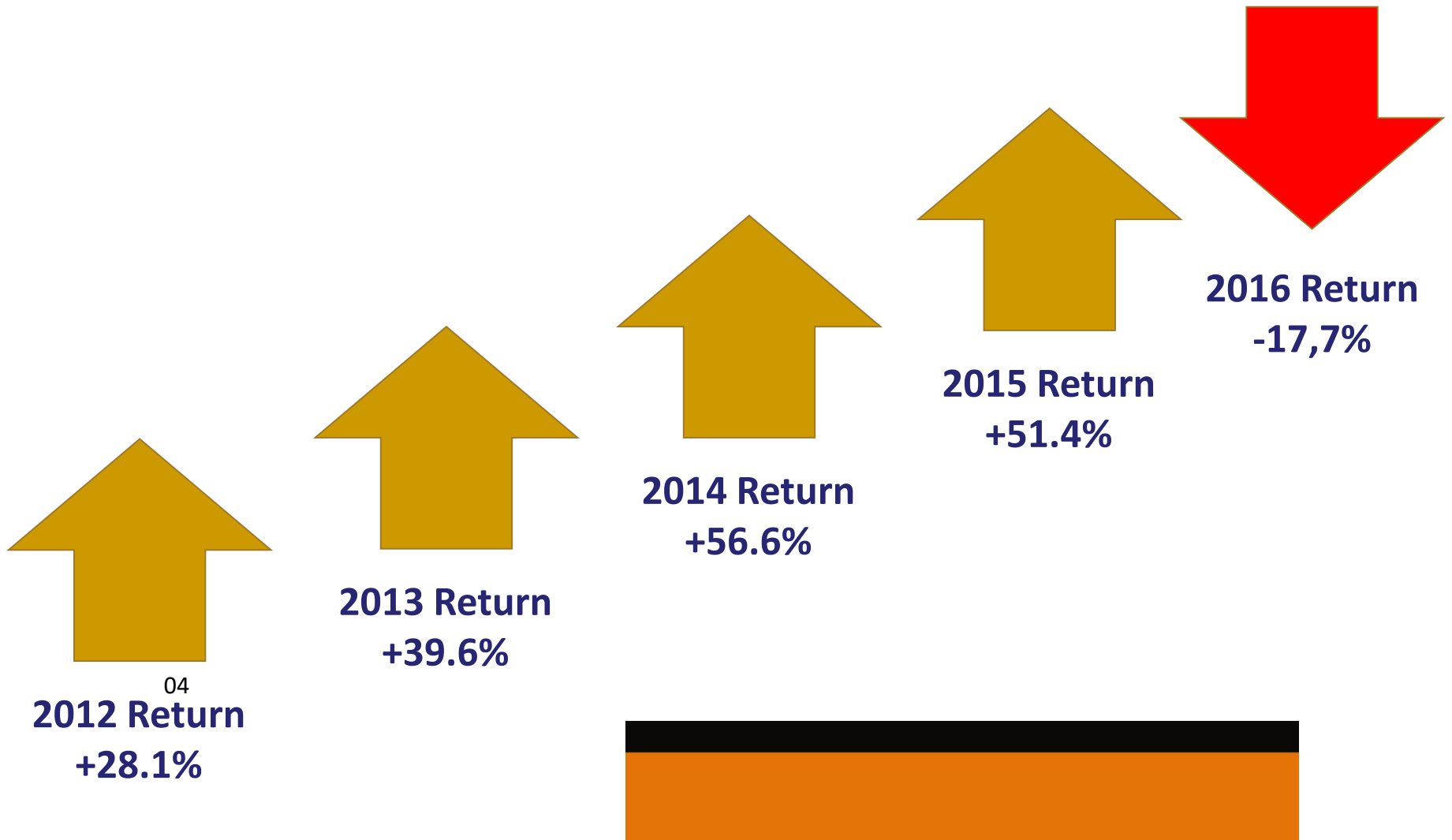
***“After a great performance in 2015 (+51.4%) I’m expecting a tough 2016”.***

**It was a tough year. Only Sygnia shone. Overall my Top 5 of 2016 was down -17,7%**

***“I’m avoiding huge swathes of my traditional stock base given the impact of (1) drought (2) Rand weakness (3) rising interest rate environment (4) impact on the already embattled consumer and (5) the Zuma risk to economic & fiscal policy”***

**That was the mostly the right move. Food stocks were hit hard due to the drought & consumer malaise as were most industrial counters with a volatile Rand and general economic weakness**

Consistent benchmark outperformance selection (mostly) past 5 years



## How my 2016 selection did

My top 5 for 2016	Jan 11th	Dec 31st	% Chg
Consolidated Infrastructure C	3010	2398	-20,3%
Torre Industries	374	179	-50,7%
Stellar Capital	225	150	-33,3%
Sygnia Holdings	1344	1798	37,6%
Astoria	1799	1080	-40,0%
Santova	430	350	-17,5%
Average performance of top 5 in review			<b>-17,7%</b>
<b>Benchmarks</b>			
JSE Small Cap Index	51411	61613	19,8%
JSE Mid Cap Index	65186	77395	18,7%

- Overall cumulative return for the year was -14,9%
- Only Sygnia shone. My selections of some past 'successes' literally showed how poor their 'core' franchise was when the 'shit hit the economic fan'....and the market became jaundiced them.

## How my 2015 selection did

My top 5 for 2015	Jan 2nd	31-Dec	% Chg
Consolidated Infrastructure Group	2865	3185	11.2%
Torre Industries	401	400	1.6%
Curro Holdings	2882	5779	100.5%
Anchor Capital Group	715	1740	146.6%
Quantum Foods	320	300	-3.1%
Average performance of top 5 in review			51.4%
Benchmarks			
JSE Small Cap Index	57920	53152	-8.2%
JSE Mid Cap Index	69789	62709	-10.1%

- Overall cumulative return for the year was 51.4%.
- Happy to continue to own (most) stocks; I'd take profits in Curro Holdings as I can't see significant upside in 2016. Quantum is TOO CHEAP but market does not understand the drivers.

## How my 2014 selection did

My top 5 for 2014	Jan 6th	02-Jan	% Chg
CSG Holdings*	174	210	23.0%
Consolidated Infrastructure Group	2280	2875	26.1%
Torre Industries	190	407	114.2%
Hudaco*	10500	9670	-3.5%
ConvergeNet	100	223	123.0%
Average performance of top 5 in review			56.6%
Benchmarks			
JSE Small Cap Index	50106	57920	15.6%
JSE Mid Cap Index	60192	69789	15.9%

- Overall cumulative return for the year was 56.6%.
- Happy to continue to own (most) stocks; I'd switch Hudaco into Invicta though for the impending special dividend & discounted rights issue

## How my 2013 selection did

My top 5 for 2013	Feb 5th	Dec 31st	% Chg
Curro Holdings**	1520	2780	90.0%
Cons Infastructure Group	1670	2280	36.5%
Ellies Holdings	856	556	-35.0%
Rainbow* (RCL Foods)	1520	1750	15.1%
Torre Holdings	115	220	91.3%
<b>Average performance of top 5 in review</b>			<b>39.6%</b>
* chosen pre 80 : 100 rights @ 1420 cents			
** includes rights issue share entitlment			
<b>Benchmarks</b>			
JSE Small Cap Index	42366	49909	17.8%
JSE Mid Cap Index	54881	60149	9.6%

- Overall cumulative return for the year was 39.6%. (if Ellies sold at my fundamental sell in April 2013 at 940c the return would have been 48.6%).



## How my 2012 selection did

My top 5 for 2012	March 1st	Dec 31st	% Chg
Curro Holdings	1004	1635	62.8%
Cons Infastructure Group	1150	1640	42.6%
Super Group	1445	1680	16.3%
Astral Foods	12399	10350	-16.5%
Pinnacle Holdings	1360	1837	35.1%
Average performance of top 5 in review			28.1%
Benchmarks			
JSE Small Cap Index	35235	40967	16.3%
JSE Mid Cap Index	47121	54998	16.7%

- Overall cumulative return for the year was 28.1%. (if Astral sold at my fundamental sell in June 2012 at 11400c the return would have been 29.7%).
- Curro & CIL are stocks I'd own in any long-term growth portfolio



- **My Top 5 Selection for 2017 (Prices as selected on December 23<sup>rd</sup> 2016)**

How have my Top 5 for 2015 fared and what are my current views on each  
(for transparency, my pension fund has owned CIL & Curro since IPO and owned Kaap Agri  
for the past five years)





It has turned out to be an annus  
horribilis.

— *Queen Elizabeth II* —

AZ QUOTES

## How the 2016 Top 5 fared – pretty dismal (mostly) as conditions for selection changes FAST



Had a good year in terms of business performance and earnings but on-going misconceptions on parts of the physical business and a lack of basic understanding hampered the stock.



Saw a steady growth in AUM in challenging market. AUM ended R158bn (+16%) with a swathe of new products launched which galvanise the company in 2017/18.



From a poorly executed results release & overvalued NAV early on in 2016...SCP and its wheeler dealer making attitude simply lost the confidence of the market



Unlike its competitors IVT & HDC, Torre's business model was harder hit in 2016 and earnings plunged as did its ability to do deals. A 'cheap' minority buy-out failed but a division sell-off (Kanu) saw a year end fillip....which failed to last



Performed well with solid earnings growth in H1 of +18%. But with BREXIT concerns on its Euro & Pound earnings hit sentiment. On-going selling & limited ownership saw stock stall



Well times IPO at height of Rand scare but normalisation in currency & lethargic investment performance saw sentiment evaporate and a fat premium turn to fat discount



## 2017's selection

**Kaap Agri 3700c / Zeder 652c** – Likely listing of OTC Kaap Agri on JSE. Uplift to Zeder + PFG recovery.

**AEEI 370c / Premier Fishing** – Listing of fully BEE compliant fishing business (R1.4bn) undervalues AEEI as it plans to list its technology interests in 2018.

**Astral Food 12450c / Pioneer Foods 15375c** – recovery from horrific 2015/16 as bumper maize crop & thus lower input costs lead to margin recovery.

**Consolidated Infrastructure Group 2348c** – highly undervalued business which continues to outperform. Conlog deal adds significant upside as does AES valuation.

**Ansys 130c** – small cap tech business transforming itself via new leadership & direction. Losses now into solid earnings growth & stock looks 'cheap' on two-year view.





SmallTalk Top Stocks 2017	As Selected Dec 23 2016	March 15 2017	% Chg
Kaap Agri	3700	4480	21,1%
Zeder Investments	652	771	18,3%
Astral Foods	12450	15000	20,5%
Pioneer Foods	15375	17716	15,2%
AEEL / Premier Fishing	370	385	4,1%
Consolidated Infrastructure Grou	2348	2260	-3,7%
Ansys	130	128	-1,5%
			10,5%
JSE Small Cap Index	60535	64262	6,2%
JSE Mid Cap Index	74904	78843	5,3%



- OTC listed Kaap Agri is a solid, well-managed agricultural / retail business
- Earnings consistently grown CAFGR +15% over past 5 years
- On track to make R500m in profit by 2020...may make target a year early!
- Retail & fuel service station side powering growth & earnings
- Historic PE of 10x...expecting a good 2-year earnings run
- Zeder owns @40% of Kaap Agri
  - Likely that opposition to its JSE move is now lessened
  - Kaap board will, I believe, investigate a JSE listing move
  - If occurs, given its retail platform it will be rated at far higher than a HPE of 10x...its FPE is 8.5x
  - I can see Kaap upside value to 4800 cents on any listing move
- Uplift to Zeder from Kaap move will not be 'game changing' (Kaap @8% of Zeder) but will aid sentiment as will expected recovery in its stake in Pioneer Foods (74% of Zeder M.Cap). If you can't buy Kaap....buy Zeder.

- AEEI plans to list its main divisions onto the JSE
  - Premier Fishing is R1.4bn in listable value from its R1.7bn market cap or @350 cents a share to AEEI
  - Its technology interests are planned to list in 2018 (BT, SAAB/Grinaker) these also worth @300 cents per share conservatively
- Thus AEEI has 'look through' value towards 650 cents – 700 cents as the listed value starts to become visible from its portfolio
- Premier Fishing IPO March 2017. Pricing yet to be finalised @500 cents places the stock on a PE @12x to 2018
- Well placed and fully empowered business ahead of FRAP changes in 2020....recent spat on quota has NO impact on Premier
- Only 5% allocation quota currently; recently gained initial 800t horse mackerel catch worth R15m – R25m in revenue...shows potential of its BEE credentials
- Sector consolidation opportunities due to BEE status





- My choice of these two iconic food stocks is based on the impact of the maize price to their 2016 earnings.
  - Astral saw HEPS y-o-y decline -52% as poultry 'slaughtered'...sector 'plucked'
  - Pioneer saw HEPS y-o-y of +6% as staples profit 'flat lined'
- From a harvest of 7.5mt in 2016, early estimates are a 2017 harvest of 11mt to 13mt with material recovery in white maize. Jan 26<sup>th</sup> key date for CEC.
- If this is the case...as I have commented for the past months, expect some Q3 benefit to input costs but more so in Q4 and into H1 2018 as better hedging contacts roll in
  - Astral will see an a more pronounced margin swing on its feed costs. Poultry profit -91% in FY16.
  - Pioneer's essential foods/staples business (54%) saw margin pressures
- This will be a difficult year as H1 input pressures will remain high...the market will start to anticipate margin recovery and move counters accordingly I believe



- After four excellent years of returns....in 2016 CIL (perversely) even given strong growth in revenue, profits and earnings...floundered.
  - Market simply does not understand the nature of its AES oil business, the unit does not have any linkage to the oil price (proven in many sets of results)
  - CIL is repatriating strong cash profit from AES, US\$20m in 2016 and an expected US\$35m in 2017 (US\$2,2m was as an example taken in Oct 16)
  - Working capital has been an issue but with @R1bn in cash & facilities and the expected strong cash flow from the Conlog deal, this should be less of a concern in 2017/18. Conlog (R850m) is trading above warranty (R200m)
- With a R5bn order book and near 70% export earnings, I'm expecting another good year of earnings growth from the 255cps reported in FY16.



- I've been monitoring this little stock since 30cps as Chairman revitalises & repositions the business. Market value now @R700m.
- Miniscule institutional ownership, I'm only analyst covering the counter...it literally has no profile...that is about to change led by earnings growth
- After pronounced losses, corner turned. H1 HEPS of 7,57cps (+472%). I pencilled in 17cps placing stock on PE of 7x to March 2017
  - H1 Revenue R409m +164%, PBT R35m +710%
- Chairman & CEO confident of 2 – 3 years of continued growth
- Transformed company into a more of an I.P biz using own internal engineering & technology to aid innovation, design, development & distribution
  - Player in fibre optic, major industry spend. Moving into more value added product supply & maintenance. Telkom's fastest growing division
  - Good track record of IP (Discovery Insurance)
  - High end, high margin defence biz (I.T security, embedded solutions) big growth



## Strong reserve candidate...torn on its inclusion

- I've been covering Curro (4810 cents) since pre-IPO & have followed the stock more closely than any other sell-side analyst
- Counter has been 'in & out' successfully of my Top 5 for years
- H1 2016 revenue +24%, learners +15% (41,393), PBT +49%, HEPS +51% to 22cps
- Stock has been trapped in a R40 – R50 band for months....*"I feel it wants to break higher....I can see its +R60 as we head into latter 2017"*
  - Catalyst, FY16 results, possibility that no 'annual' rights issue after cash raise
  - Better institutional following & shareholding...becoming 'accepted'
  - Land banking & more aggressive school openings in 2017/18
  - Curro said it will probably exceed its 2020 schools target....early
  - Still expecting a dividend in 2018...tipping point to become self-funding
  - Expanding into parts of Africa & tertiary education adds new growth tack



## What I left out & why

- **Rolfes**: stock has had a staggering run from its @4x PE value and my recommendation <285cps. Now @500cps and easy money made
- **Senwes**; was OTC listed now ZAR-X. Even in recent devastating drought, SA's largest agri business only saw H1 2016 HEPS -6% to 57.4cps. (FY15 HEPS 73.3cps). NAV 1140c vs share price 1045c. I'm expecting a better 2017/18 as rains have been good in its area but I see more uplift in direct food stocks and OTC Kaap Agri
- **Anchor**; counter has been battered by market relative to its listed competitors (Coronation, Sygnia). Ongoing AUM growth and new ventures aid HEPS, however, sentiment on Capricorn (having torrid time) and @24% earnings has hit counter. A better equity market in 2017/18 should see material 'bounce' but market 'jaundiced'

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