Quarterly Bulletin Q1 -2019

Absolutely Positive Performance

"When the first primitive man decided to use a bone for a club instead of eating its marrow that was an investment"

-Anonymous-

Invest Wisely

Market Performance

Market Performance Summary (YTD) 31 March 2019								
Equity Indices	**Spot**	**% Change**	**JSE Top Gainers**	**Spot (c)**	**% Change**	**JSE Top Losers**	**Spot (c)**	**% Change**
JSE All Share	56463	7.1% ↑	Lonmin PLC	1434	70.9% ↑	EOH Holdings Ltd	1040	-66.3% ↓
JSE RESOURCES	46884	14.2% ↑	Impala Platinum Holdings Ltd	6100	66.3% ↑	Tongaat Hulett Ltd	2156	-61.4% ↓
JSE FINANCIALS	16262	-0.7% ↓	Sibanye Gold Ltd	1573	57.0% ↑	Delta Property Fund Ltd	175	-61.1% ↓
JSE INDUSTRIALS	68916	8.2% ↑	Kumba Iron Ore Ltd	43030	52.0% ↑	Montauk Holdings Ltd	4340	-45.8% ↓
NAMIBIA (NSX)	1324	1.3% ↑	Northam Platinum Ltd	6350	46.8% ↑	Omnia Holdings Ltd	5090	-39.8% ↓
ZAMBIA (LUSE)	5600	6.7% ↑	Anglo American Platinum Ltd	73615	36.8% ↑	Trustco Group Holdings Ltd	1047	-33.6% ↓
ZIMBABWE (ZSE)	122	-16.6% ↓	Royal Bafokeng Platinum Ltd	3300	32.7% ↑	Rebosis Property Fund Ltd	179	-33.5% ↓
DOW JONES	25929	11.2% ↑	Clover Industries Ltd	2365	30.0% ↑	Aspen Pharmacare Holdings Ltc	9298	-31.0% ↓
S&P 500	2834	13.1% ↑	Assore Ltd	37400	29.0% ↑	Blue Label Telecoms Ltd	375	-30.7% ↓
NASDAQ	7729	16.5% ↑	British American Tobacco PLC	59787	27.4% ↑	Fortress REIT Ltd	1078	-25.7% ↓
FTSE 100	7279	8.2% ↑	Grindrod Ltd	765	24.4% ↑	Massmart Holdings Ltd	7950	-23.2% ↓
GERMAN DAX	11526	9.2% ↑	DataTec Ltd	3324	21.5% ↑	Mr Price Group Ltd	18952	-23.0% ↓
FRENCH CAC	5351	13.1% ↑	Capitec Bank Holdings Ltd	134999	20.8% ↑	Truworths International Ltd	6939	-21.2% ↓
NIKKEI 225	21206	6.0% ↑	Anglo American PLC	38582	19.7% ↑	PPC Ltd	470	-20.3% ↓
SHANGHAI	3091	23.9% ↑	African Rainbow Minerals Ltd	16970	19.2% ↑	JSE Ltd	13213	-20.2% ↓
HANG SENG	3898	13.0% ↑						
AUSSIE ALL ORDS	6262	9.7% ↑						
Bond Yields	**Spot**	**BPS Change**	**Currencies**	**Spot**	**% Change**	**Commodities**	**Spot**	**% Change**
SAGB 2 Year	6.93	-0.07 ↑	R / $	14.50	-1.1% ↓	Gold ($/oz)	1292	0.8% ↑
SAGB 5 Year	8.01	-0.11 ↑	R / €	16.27	1.1% ↑	Platinum ($/oz)	849	6.8% ↑
SAGB 10 year	8.60	-0.28 ↑	€ / $	1.1218	2.2% ↑	Palladium ($/oz)	1385	9.8% ↑
SAGB 30 Year	9.71	-0.20 ↑	$ / ¥	110.86	-1.1% ↓	Silver ($/oz)	15	-2.4% ↓
US 10 Y	2.41	-0.28 ↑	Pula	10.75	-0.3% ↓	Brent Crude ($/barrel)	68	27.1% ↑
US 30 Y	2.81	-0.20 ↑	Kenya	100.80	1.0% ↑	Copper ($/ton)	6487	9.0% ↑
UK 10 Year	1.00	-0.28 ↑	Kwacha	12.12	-2.1% ↓	Aluminium ($/ton)	1900	4.3% ↑
German 10 Year	-0.07	-0.31 ↑	Naira	360.23	0.7% ↑	Iron Ore ($/ton)	83	14.1% ↑

Source: Bloomberg

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JM BUSHA FUND RETURNS	
Fund	**5 year Return**
Cash Plus	7.24%
Bond Plus	9.03%
Real Return	6.24%
Absolute All Class	6.90%
Absolute Aggressive	6.38%
Diversified Equity	4.55%
*Afro Fund	6.24%
*same as real return	

Investment Market Review and Outlook.
By Cleopatra Mtembu and Farai Mapfinya

Market Review

The JSE All Share index rebounded a decent 7.97% on a total return basis during the first quarter of 2019, with most sectors broadly up with the exception of the retail sector which had a disastrous quarter losing 14.2%. Platinum shares were the best performers giving a total return of 49.3%. Of the main indices, resources led the gains rising 16.2%, with all its subsectors returning a positive return. Industrial stocks also rebounded from the lacklustre performance of last year returning a modest 8.80% despite the decline in retail. Financials shed 0.44% on the back of poor returns from life insurers and banks which returned -5.50% and -0.80% respectively.

Over the quarter, the JSE All Share re-rated significantly to a 17.2x price to earnings (PE) on the 31st of March 2019 from 14.8x as at 31 December 2018. The underlying drivers of this rating are remain markedly different. Resources shares de-rated from 15.11x to 14.26x PE and despite the sharp rise in prices. Meanwhile, financial shares de-rated from 13.5x to 10.31x PE. Financial companies reported broadly good earnings. The de-rating is a clear indication of investors pricing in higher earnings than was reported. Industrials de-rated further in the quarter, a reflection of both an unwillingness to pay up higher and also a function of earnings catching up into the valuation, as was the case in the last quarter of 2018. From a price to book perspective, financials remain the cheapest at 1.55x price to book, followed by resources at 1.80x price to book while industrials remain elevated at 2.57x price to book.

Pure valuations still favour financials and industrials. We aim to deliver superior performance by maximising after tax, risk adjusted total return. And by that measure, we still like financial shares over industrials and resources shares. We are finding opportunities to increase some financial shares in our portfolios and remain cautiously optimistic about the underlying fundamentals. The weakness in retail shares has not closed the valuation differential just yet, but we are keeping a close eye on that gap to pick opportunities which may present themselves to us.

Economic Review and Outlook.
By Simbarashe Chimanzi

1st Quarter 2019 South Africa Economics Review

Tito Mboweni's budget speech was arguably the most important macroeconomic event in the first quarter. Many economic analysts and pundits alike labelled it as the most challenging budget in post-apartheid South Africa (SA), on the backdrop of huge fiscal imbalances, mounting sovereign debt, dawdling economic growth and demanding bail out requests from State Owned Entities (SOEs).

The budget itself was broadly convincing with medium term spending reductions amounting to R50.3 billion, 54% of which comes from compensation budget adjustments. The consolidated budget deficit is expected to narrow from 4.5% of GDP to 4% in 2021/22. Gross debt is also expected to stabilize at 60.2% of GDP in 2023/24.Eskom, (the big elephant in the room) received a sizeable allocation of R 69 billion over the next three years. The contingency reserve was also raised by R 6bn to accommodate bail out requests from other SOE's (i.e. SA Post Office R1.5bn).

Expenditure on social development, community development, learning and culture is expected to average 8.10% over the next 3 years making it the second fastest growth apart from debt service costs which are expected to grow at 10.7% over the next 3 years.

Despite rolling black outs from Eskom in March, it seems like the budget statement did just enough keep ratings agency Moody's at bay at least "for now".

In the broader economics, we saw business activity slowing down at the beginning of 2019 with February's ABSA's manufacturing PMI coming through at 46.2 down from 49.9 in January.

The decline was driven mainly by a sharp decline in output and new sales orders.

Figure 1: Lower output and demand drive PMI lower in February

	Wgt.	Nov-18	Dec-18	Jan-19	Feb-19
Manufacturing PMI*		42.4	49.5	50.7	46.2
Business activity*	0.25	40.3	49.2	53.8	42.3
New sales orders*	0.30	39.0	50.3	54.3	42.9
Employment*	0.20	44.2	43.5	40.5	48.1
Suppliers' performance*	0.15	51.3	55.7	53.2	52.5
Inventories*	0.10	41.4	50.2	48.5	52.8
Purchasing commitments	-	43.8	54.3	42.8	50.0
Expected business conditions	-	41.7	48.6	51.4	65.9
Backlog of sales orders	-	36.6	43.5	39.0	43.4
Prices	-	42.4	49.5	50.7	69.6

Source: ABSA Research

We expect a recovery in the short term as highlighted by the expected business conditions trajectory shown above.

We expect consumer pressure to continue moving into Q2 2019 and beyond as the national energy regulator (NERSA) approved a 13.87% tariff increase for 2019/20.This is coupled by increasing fuel costs on the backdrop of rising global oil price. CPI is expected to moderate around 4.5% but we believe there is some strong upward pressure on that number as we move into the second quarter and will move towards the 4.7% level. We don’t expect it to cross the 5.0% level at any point in 2019 and we also expect the SARB to keep rates steady in the following MPC meetings.

In March the Minerals Council of South Africa (MCSA) came out and said that up to 90 000 jobs could be lost in the sector due to electricity tariff hikes , and that an additional 11 000 jobs were at risk from the carbon tax, which takes effect this year.

Total direct employment in the mining sector as a whole is about 456 000. This highlighted SA’s slow progress in implementation initiatives of renewable energy across industries.

Looking at industries, the civil construction sector recorded its lowest ever confidence levels down 8 points to 10 index points.

This is reflected by how listed construction companies have performed, with construction and materials index down 60% in the last 5 years.

Governments' inability to drive large scale infrastructure projects has been the main contributing factor of this pitiable performance. We don't believe it is a sunset industry but we don't expect a recovery in the short term looking at the state of the public sector balance sheet.

The quarter came to an end with the announcement by national treasury of Edward Kieswetter as the new head at SARS. He enters the hot seat after being the former deputy of the entity from the 2004 to 2009.The former Alexander Forbes CEO is expected to bring the entity back to its pre 2009 glory days before Mr Moyane took over.

SA heads to the polls in May but from an economic perspective, the country is not in the best of shape. Time for excuses is over and robust economic policy reform is required to get the most developed economy on the continent back on its feet.

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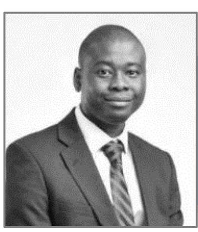


SADC Debt Capital markets: Opportunities and Constraints

By Patrick Serere

We analyse the debt capital markets in the SADC region and discuss the opportunities and constraints available with a focus on monetary policy and taxation and where applicable, the derivatives market.

Fixed Income and Money Markets

Term	Angola	Botswana	Malawi	Mozambique	Tanzania	Zambia	Zimbabwe
Money Market							
91 day	12.63%	1.64%	9.62%	18.16%	4.05%	15.25%	12.00%
182 Day	16.30%		10.50%	18.82%	5.32%	15.00%	
364 Day	18.42%		11.50%	19.67%	9.08%	24.00%	
Inflation rate	17.96%	3.30%	7.90%	3.72%	3.00%	7.50%	59.39%
Fixed Income							
2 Year	7.00%	3.65%	17.32%		11.38%	24.00%	
5 Year	7.75%	3.90%	14.77%		12.70%	25.50%	
7 Year		4.45%	24.00%		13.22%	23.98%	
10 Year					15.10%	25.85%	
20 Year					17.44%		
Credit Rating							
Fitch Rating	B	-	NR	-	NR	B-	NR
Moody Rating	B3	A2	NR	Caa3	NR	Caa1	NR
S&P rating	B-	A-	NR	-	NR	B-	NR

Source: Central Banks, JMBUSHA

Local African bond markets have benefited in large part to a more dovish Federal Reserve Bank which resulted in a somewhat weaker dollar that has ultimately fuelled the search for yield in emerging markets. Our commentary will focus on Angola, Botswana, Tanzania and Zambia looking at opportunities and constraints arising from monetary policy direction, taxation and specific country tail-winds and head-winds.

Angola

Monetary Policy

The Central Bank, Banco Nacional de Angola (BNA), is responsible for implementing monetary policy and managing FX reserves. The significant oil export revenues have resulted in inflationary pressures that require the Central Bank to intervene frequently to maintain the monetary base at the required level. The rediscount rate and reserve requirements are the BNA's preferred policy tools. Recently the BNA relaxed its requirements by allowing the use of Government bonds as reserves for both domestic and foreign currency deposits.

Taxation

There is a withholding tax of 10% charged on interest payments to residents and non-residents.

Tailwinds and headwinds

Angola is projected to emerge from recession with real GDP growth of 1.2% in 2019 and 3.2% in 2020. The recovery will be driven mainly by the production and export of diamonds (growing by 8.2%), agriculture (5%), and construction (2.1%). Changing to a floating exchange regime in 2019 could eventually eliminate the gap between the official and parallel market exchange rates. A 14% value added tax to be introduced in July 2019 will also mobilize domestic resources. Despite being a Lusophone country sandwiched between Anglophone and Francophone countries, Angola plays a vital role in Southern Africa. It is a member of the Community of Portuguese Language Countries and the Southern African Development Community and is a signatory to the African Continental Free Trade Agreement. To attract foreign investment, a new private investment law approved in June 2018 reduces the minimum capital requirement, facilitates repatriating capital, and eliminates a requirement that local investors must have a 35% stake. Angola's economic outlook is also linked to implementing two medium-term plans: The Macroeconomic Stability Program addressing macroeconomic imbalances and the National Development Plan fostering stronger governance, sustainable and inclusive growth, and competitiveness in the nonoil sector.

Botswana

Monetary Policy

The Central Bank of Botswana (BoB) is responsible for implementing monetary policy. The bank's role is all encompassing and includes the supervision of the financial system, safeguarding public confidence in the national currency, and advising the Government on economic and financial matters.

The Bank targets a low and sustainable inflation level, by using open market operations to influence interest rates and restrain excessive liquidity. In recent years, the significant growth of private pension funds has led to an increase in liquidity in the domestic market. This has required the BoB to intervene more frequently.

Derivatives Market

The main derivatives activity consists of over-the-counter foreign exchange forwards and hard currency swaps. Both forwards and currency swaps markets are liquid, with tenors of up to 6 months and 3 months, respectively. Currency swaps are mostly against the USD, but can be crossed against any hard currency.

Taxation

Withholding tax on interest is 15% and 10% for non-residents and residents respectively. There is a 25% capital gains tax applicable to both residents and non-residents. Securities issued by domestic public companies are exempt from capital gains tax. Botswana has double taxation treaties with France, Mauritius, Russia, South Africa, Seychelles, Sweden and the United Kingdom.

Tailwinds and headwinds

Growth prospects for the medium term are favorable, with real GDP growth projected at 3.8% in 2019 and 4.1% in 2020. The outlook for the mining sector is positive due to an anticipated increase in demand for Botswana's rough diamonds (diamonds account for three-fourths of Botswana's total exports). The non-mining sectors are expected to pick up further, driven by structural reforms, including an amended immigration law that ensures expeditious processing of work and residence permits and a move that provides utilities at reasonable prices to encourage domestic manufacturers. Construction is expected to continue benefiting from the ongoing fiscal stimulus. But growth prospects are clouded by high unemployment (particularly youth unemployment) and income inequality. Downside risks associated with weak global demand for diamond exports remain elevated in light of the threat to global growth from escalating trade tensions. Other notable risks include persistent drought affecting livestock and agricultural production and lower Southern African Customs Union revenues if South Africa's economic conditions remain unfavourable.

Tanzania

Monetary Policy

The Bank of Tanzania (BOT) conducts monetary policy by targeting monetary aggregates, with the aim of achieving price stability. The policy instruments used are open market operations, refinancing policy, cash reserve requirements and foreign exchange intervention. Open market operations are the priority monetary policy tool used by the BOT.

The Central Bank holds consultations with the Government on policy and reports twice a year on developments to the Finance Minister and to Parliament. Monetary policy on a day-to-day basis is managed by the Liquidity Management Committee while the Monetary Policy Committee deals with the more long-term monthly perspective.

Derivatives Market

Several OTC transactions have taken place in the market. Short-term forward currency transactions and interest rate swaps can be structured by banks for their clients.

Taxation

Government securities attract withholding tax on interest income at a rate of 10%. Interest income earned from investment in 2-year Treasury bonds is subject to withholding tax, while income on investment in 5-, 7 and 10-year bonds is exempt from withholding tax. Likewise, corporate bonds with maturities extending to three years and above are exempt from withholding tax on interest income. All bonds listed on the DSE are exempt from capital gains tax.

Tailwinds and headwinds

The medium-term outlook is positive, with growth projected at 6.6% in both 2019 and 2020, supported by large infrastructure spending. Headline inflation is projected to marginally increase to 5.2% in 2019 and 5.1% in 2020 due to increased government spending. But the positive outlook faces several downside risks: growing private sector concerns about economic policy uncertainty and increased domestic arrears that could derail the government's fiscal consolidation and harm the private sector.

Zambia

Monetary Policy

The Bank of Zambia (BOZ) has a principal monetary policy objective of bringing the inflation rate down to 5%. The BOZ relies on market-based instruments, specifically open market operations (OMO) and the sale of foreign exchange, to limit the growth in reserves and broad money.

Derivatives Market

There are a few derivative contracts in foreign exchange which are mostly short-term, with tenors not exceeding 12 months.

Taxation

Under the current legislation, the income earned on Treasury bills and Government bonds is subject to 15% withholding tax. The taxes are deducted at source upon maturity of the security. There is no capital gains tax on fixed income investments. Non-residents whose countries have signed double taxation agreements are eligible to claim their tax paid with the Zambia Revenue Authority.

Tailwinds and headwinds

The medium-term outlook remains positive, with growth projected at 4.2% in 2019 and 4.3% in 2020. Agricultural production declined in 2018 due to poor rain distribution but is expected to rebound in 2019. Mining output is expected to increase by 4%–5% in 2019, benefiting from improvements in electricity generation associated with the replenishment of the Kariba Dam due to good weather conditions.

However, lower demand from China associated with escalating trade tensions is expected to further dampen the copper price, which fell by more than 18% in 2018. To raise tax revenue, the government is planning to change the mining tax regime, raising royalties by 1.5 percentage points and removing mineral royalty tax deductions from corporate taxes.

On the downside, tax reforms might reduce Zambia's competitiveness in attracting mining companies and could discourage mineral exploration. Another key downside risk to the outlook arises from the slow pace of fiscal consolidation, though a debt default is unlikely in the short term, given the probability of China extending tenure on Zambian debt.

Multichoice Investment Case: Analysis and Valuation

By Justice Ndou

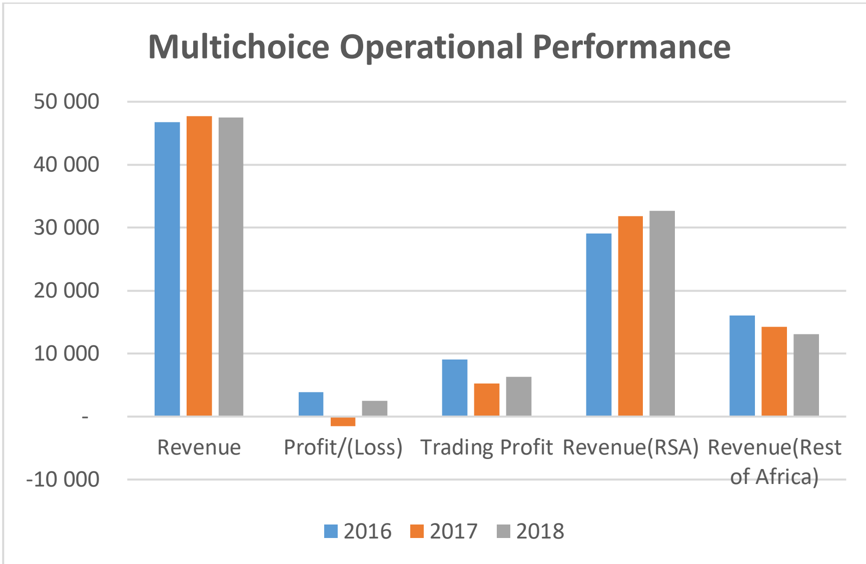
Multichoice: Too early to make a Choice?

Multichoice started in 1995 as an offshoot of Mnet, which was a subsidiary of Naspers using the thriving Pay TV model adopted from the US. Multichoice enjoyed a monopolistic position in South Africa and in return generated cash that supported Naspers investments in technological companies diversifying it from being dominantly a print media company. The most successful of these early investments is Tencent which turned Naspers into the biggest JSE listed company.
The exponential growth of Tencent saw a significant drop of Multichoice' s impact on the revenue of Naspers but a growing liability on the group's balance sheet.

The 27th of February 2019 saw the final unbundling of Multichoice from Naspers, cited as a way of unlocking value for investors. Listing at R95.50, the Share had a good reception and at the end of March it was up more than 26%.
The Bloomberg consensus overwhelmingly sways to buy with the Share trading at a Price to Book of more than 6, which is considerably more than the Price to Book of Naspers of about 4.

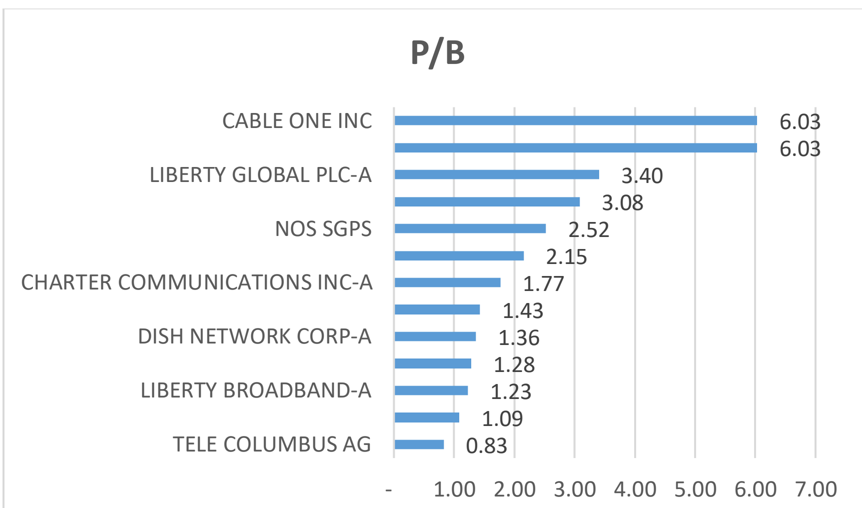
However, given the elevated share price it would be wise for investors not to succumb to the Multichoice euphoria. Despite pedestrian operational performance for the past 3 years (Figure 3), Multichoice looks more expensive than its global peers (Figure 4).

Figure 3. Multichoice Operational Performance (2016-2018)



Source: JM BUSHA, Multichoice financial statements

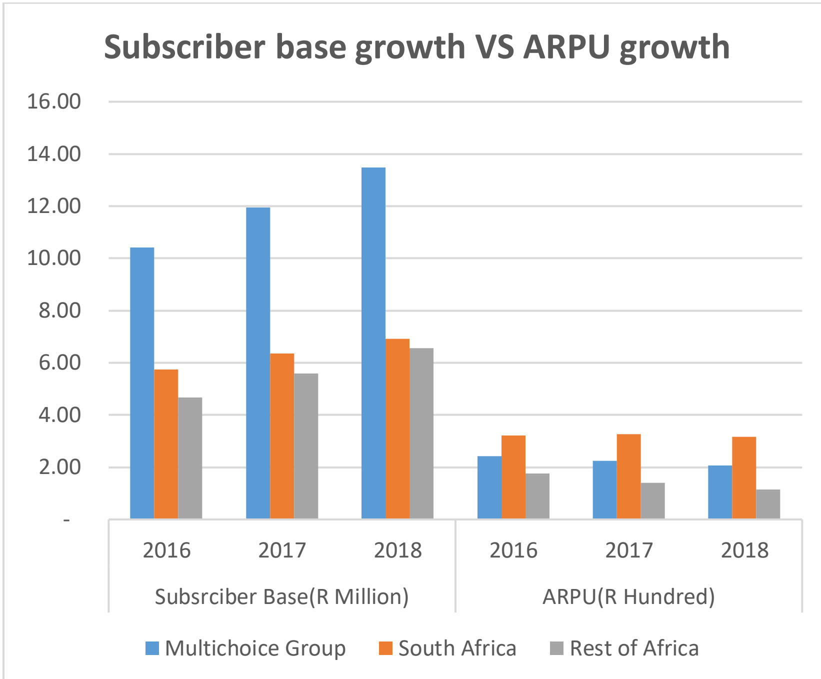
Figure 4. Multichoice Price to Book VS Peers



Source: JM BUSHA, Bloomberg

Revenue growth for the past 3 years has been uninspiring with the Rest of Africa division decreasing rapidly due to a massive drop in Average revenue per user (ARPU), which fell 38% in 3 years with the subscriber base increasing 40% (Figure 5 below).

Figure 5. Subscriber base growth VS ARPU growth

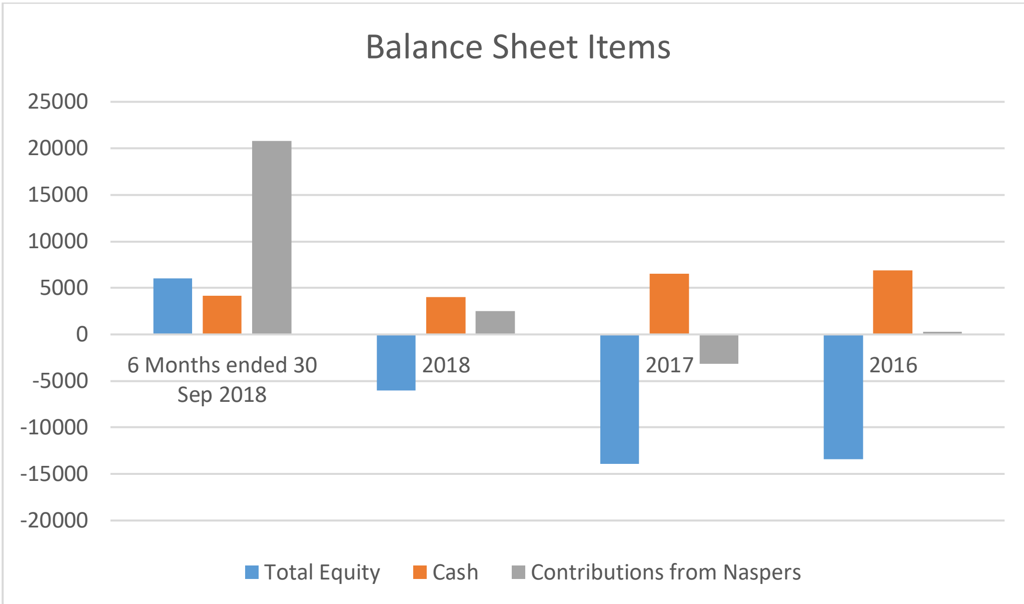


Source: JM BUSHA, Multichoice financial statements

On the Balance sheet (Figure 6 below) things look rather bleak, the Group had a negative book value from 2016 to 2018 and only showed a positive book value after receiving about R21 Billion from the parent company (Naspers).

This indicates that the company has been heavily dependent on Naspers group for liquidity. Also the cash reserves have been dwindling despite the business model being cash generative.

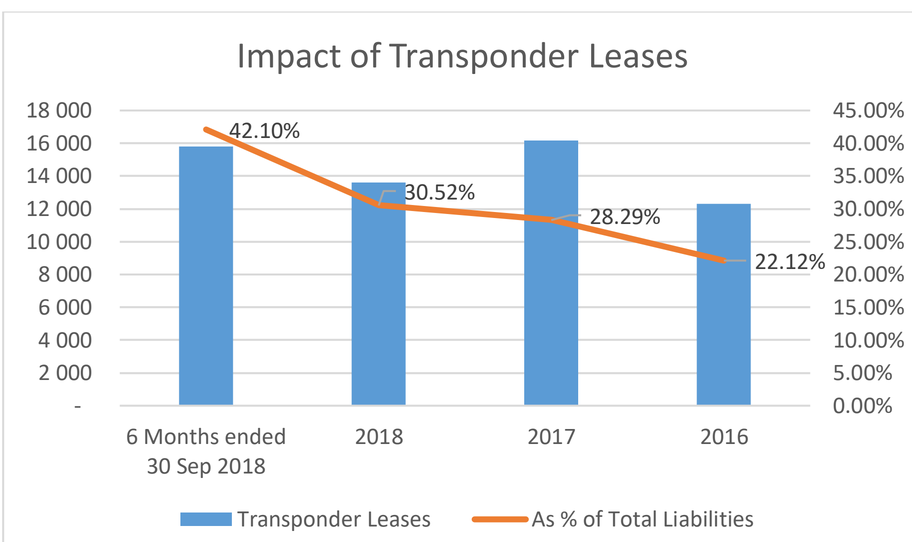
Figure 6. Balance Sheet Items



Source: JM BUSHA, Multichoice financial statements

The other worrying factor is the transponder costs. Transponder costs include the interest and depreciation on capitalised transponder leases utilised to broadcast the group's satellite services. The transponder leases are long term and the company leases four transponders with 2 leases ending in 2025 and the rest in 2013. Transponder leases have a material impact on the company and pose the biggest risk on the sustainability of this business model. This impact has been growing for the past 3 years (Figure 7).

Figure 7. Impact of Transponder Leases



Source: JM BUSHA, Multichoice financial statements

In conclusion, the market overall is highly speculating on the underlying value of Multichoice. It is yet to be known how sustainable and profitable the company is outside of the Naspers group. The stunted revenue growth for the group and the plummeting revenue in the rest of Africa is a cause for concern. The operational glitches may be exacerbated by the growing threats of online streaming which is a deviation from set-top box models(Multichoice model and contributes more than 10% on operational expenses). The move from set-top boxes may increase capital expenditure in the long run and put more pressure on the company's growing cash constraints. With Naspers out of the way as a parent company, it is yet to be seen who will rescue a frail Multichoice. The old good days may be over and staying away from Multichoice may prove to be a wise choice in the long term.

South Africa's Banking landscape: Analysis of new entrants, By Simbarashe Chimanzi

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Digital Banking in South Africa

2018 was the year of a "new dawn"" in South Africa (SA) with the nation hoping President Cyril Ramaphosa inspires hope with his drive to renew the nation. This was not the only new dawn that the country was to experience. The banking sector also had its new dawn, with the new "digital banks" making claim that they have arrived and are here to stay. It was literally unheard of that a trio of banks enter the market within the same year. The new players, Discovery Bank, Tyme Bank and Bank Zero arrived and immediately made the long standing incumbents very uncomfortable. The entry of these 3 players, is probably South Africa's first taste of the so called "fourth industrial revolution" with advanced digitization and artificial intelligence. We take a look at some banking aspects and how the new entrants are challenging the status quo and disrupting the incumbents.

Customer Experience

With over 20 million adults in SA owning a smart phone, clients are digitally empowered to take active control of their social and financial decisions through these devices. Digital banks offer support to achieve particular goals through leveraging on technologies for example, Discovery Bank will offer preferential interest rates depending on its behavioural analytics model which is linked to Vitality. Convenience is another big advantage for the new entrants.

TymeDigital's competitive advantage lies in its in-house 'customer due diligence (CDD)' accreditation solutions used to authenticate and verify customer details at the money transfer kiosks. This system allows customers to easily open a simple bank account using their mobile phone within minutes.

Automation

Standard Bank recently announced that they will be shutting down 91 of its branches in SA. This is undoubtedly in response to the pressure that the digital players are giving the incumbents. The traditional banks are deploying a lot resources into innovation and decommissioning of legacy systems and processes. Digital banks push the boundaries on process automation as far as possible enabling it to beat costs, expand the business network and avoids having a workforce that does mundane repetitive tasks. The anywhere, anytime delivery of bank services is the key client acquisition tool for these banks which is enabled by virtual touch points rather than physical branch banking.

Distribution Network

The distributed, decentralized and disintermediated environment that digital banks work in also allow the banks to interface with other networks and services to both extend the reach of its business and acquire new capabilities. Tyme Bank has a partnership with Pick n Pay, a major retailer and it allows its banking clients to also benefit on non-financial products through these frictionless collaborations.

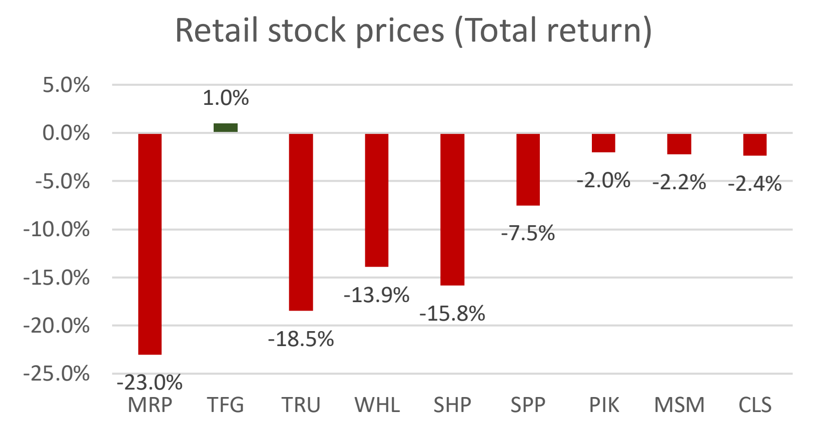
The entrance of the digital banks into a sophisticated and significantly red taped environment offers prospects for enhancing efficiencies and reducing costs within the financial sector. The main impediment for the new players is the adaptability of clients to the digital platforms especially with regard to the older populace. New products and services are also likely to take time to adopt and growing the client base may be a challenge for the digital banks.

At the moment, the structure of these banks act as a complement to the incumbents' offerings, but in the medium to long term as they increase their product offerings they will surely be competitive rivals.

The low down on the massive decline of the JSE Retailers.
By Cleopatra Mtembu

Retailers have had a tough first quarter for the year 2019, we saw major retail stocks both apparel and food plummeting by 11% on average, (see figure 8.). TFG has been the only retailer that remained resilient in an overall tough trading environment, remaining pretty much on the green, slightly at 0.98%, on a total return basis. This stock has proved to be defensive in the past 2 years, especially relative to the rest of the major apparel retailers, who have seen more than 10% decrease in total return basis, individually for the quarter.

Figure 8. Retail share prices in Quarter 1, 2019.



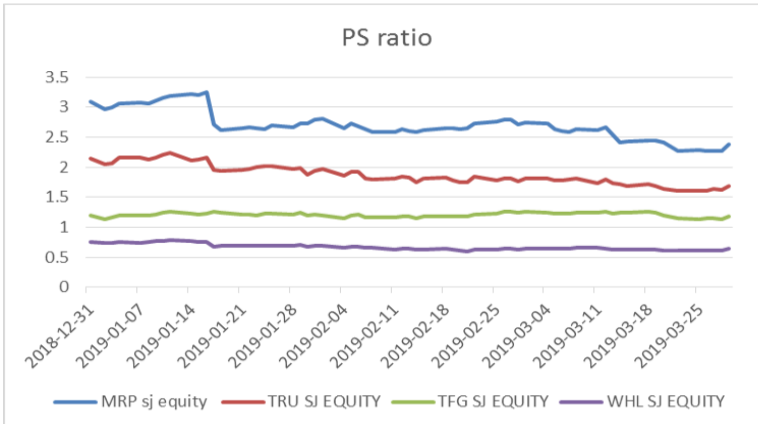
Source: JM BUSHA, Bloomberg

With focus more on the apparel retailers, some of the factors which contributed towards these substantial stock price decreases include the prevailing poor economic and retail environments in which these stocks trade, the largest market being South Africa, which has seen a drop in consumer confidence coming into the year 2019 and forecasted to further decrease for the first quarter of 2019 to -6 from 7.

Reduced consumer spending power has been affected by the following factors: continuing rising unemployment further heightened by the digital revolution, inflation levels, a VAT rate increase, higher average fuel prices and an interest rate increase.

Many of these apparel retailers saw a sharp downward bend on their price to sale ratio (P/S ratio), post influx release of company trading updates in between the 7th and the 21st of January 2019 (see figure 9.), and that was mainly due to the poor results.

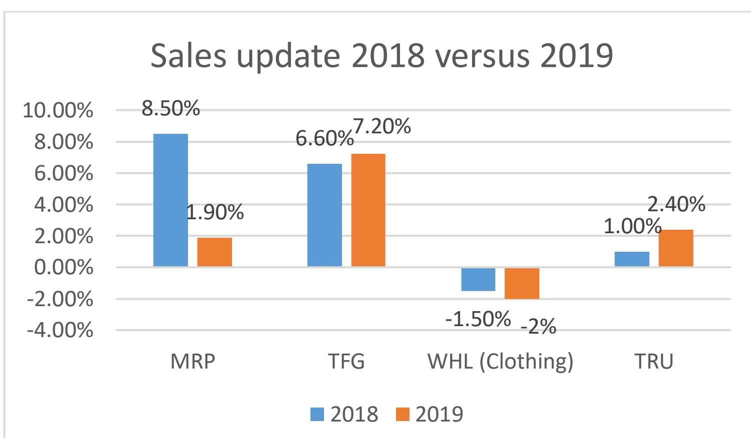
Figure 9. Retail Price to sales ratios



Source: JM BUSHA, Bloomberg

The 2019 festive season sales updates (see figure 10.) reported by these stocks have been poor relative to the 2018 sales updates resulting in the stock prices self-correcting, the market kept the same sentiment for the remainder of the quarter. We see how Mr Price was the biggest loser during the festive season sales and this is reflected on the move in P/S ratio.

Figure 10. 2018 Retail sales growth



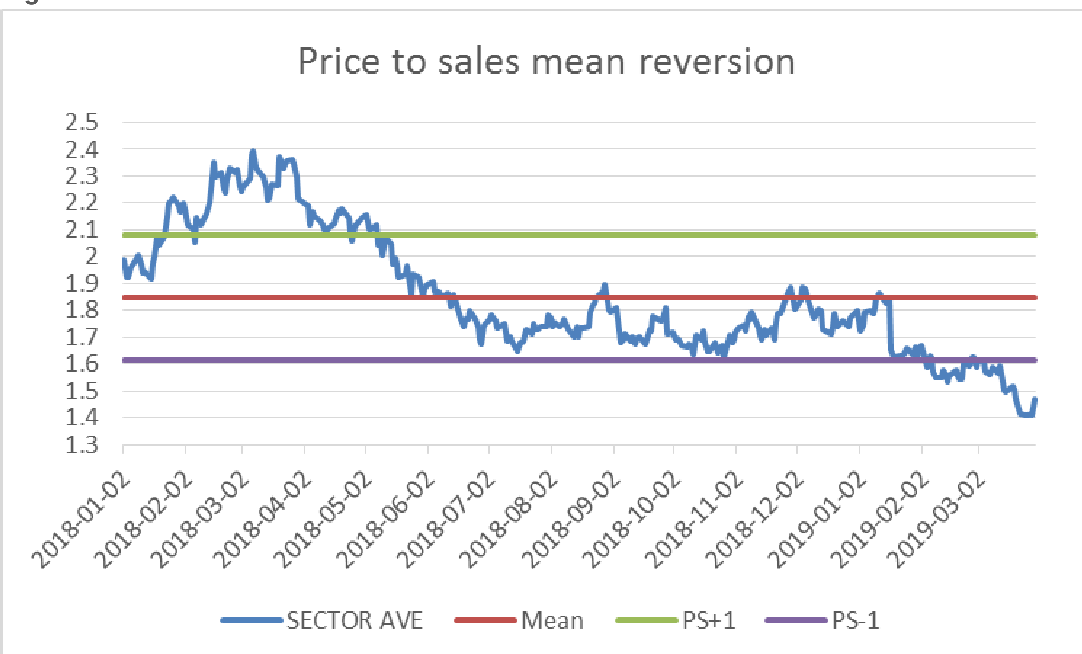
Source:company trading updates

Outlook

The P/S ratio is a good indicator for cyclical companies that are sensitive to business cycles i.e companies that tend to flourish in economic expansion and have a down turn when the economy is contracting. The retail sector is one of those sectors that is sensitive to the business cycle, due to its heavy reliance on the position of the consumer, who is in turn heavily reliant on the well-being of the economy.

This makes the Price to sale ratio a good metric to evaluate the sector. On average for the four apparel retailers the PS ratio has been plummeting in the past 3 months indicating the overall economic contractionary state.

Figure 11. Sector valuation mean reversion



Source:company trading updates

Moving forward we found through sector average mean reversion (see figure 11.), that the sector average Price to Sales ratio has plummeted to levels lower than the sector's mean minus standard deviation of 0.23, which indicates that the sector's average P/S ratio is currently at cheaper levels since beginning of 2018.

With this we could deduce that any positive macroeconomic move would impact the retail sector positively and we may see the retail stocks picking up momentum again.

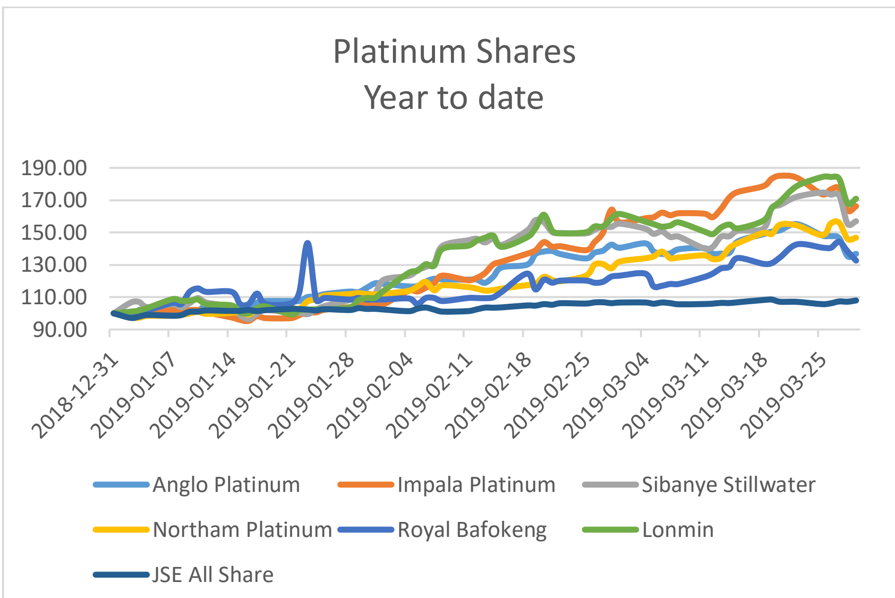
Platinum Sector Review and Outlook

By Farai Mapfinya

Platinum shares performance vs market return 2019

Platinum shares continued their stellar performance over the 1st quarter of 2019. We analyse the rally and give our view on whether it is sustainable.

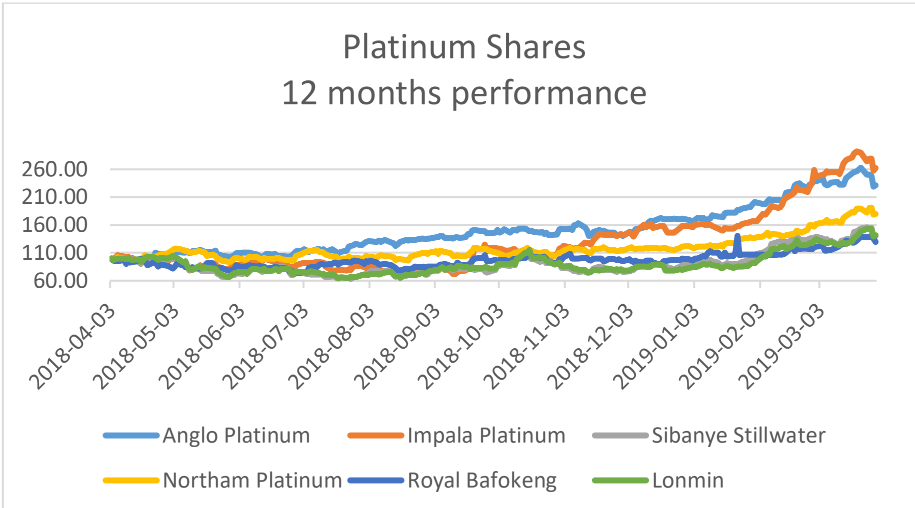
Figure 12: Platinum shares year to date performance



Source: JM BUSHA, Bloomberg

Year to date (YTD) the JSE All Share Index has returned a modest 7.06%, in contrast to platinum counters that have soared a massive 49.7%, outperforming the general market by a factor of over 7 times.

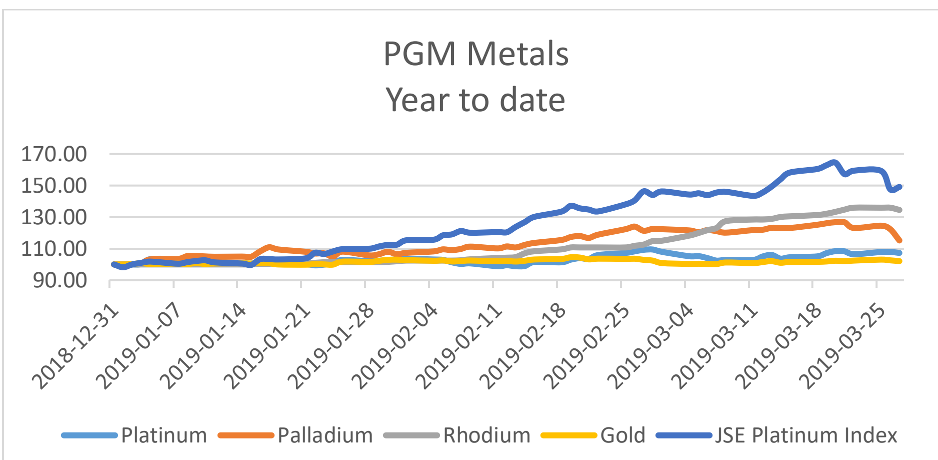
Figure 13: Platinum shares 12 months performance



Source: JM BUSHA, Bloomberg

Over a 12 month period, the JSE All Share has returned a 5.04% on a total return basis while the JSE platinum index has more than doubled in price, rising a massive 118%. One could argue that the sector was unloved and came a very low base and has subsequently been too loved to unsustainable proportion. We illustrate the divergence of the share returns in contrast with the underlying in the graph below.

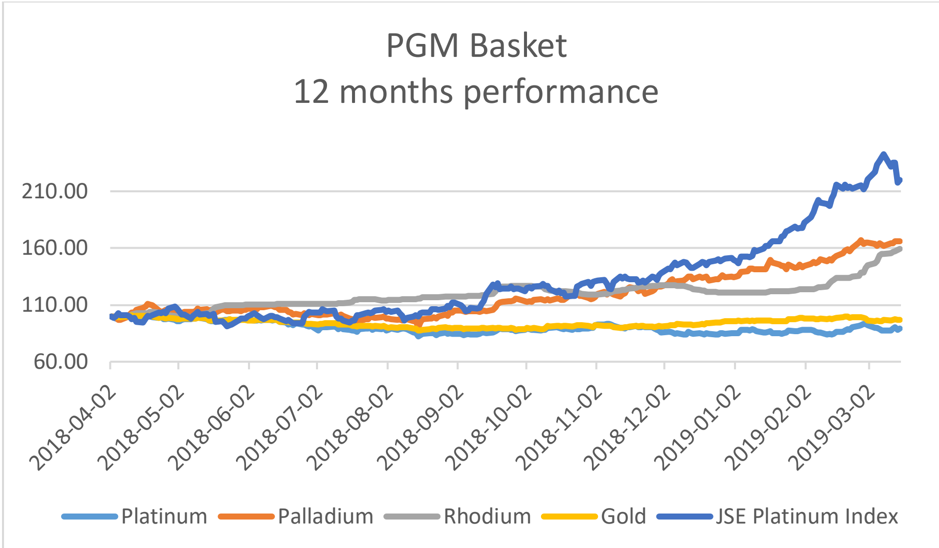
Figure14: PGM Basket versus JSE Platinum Index



Source: JM BUSHA, Bloomberg

YTD, the best performing metal is rhodium which is up 35%, hardly a material feature on the prill split South Africa's platinum miners contributing between 5 and 8% of the PGM split. Palladium is up 15% while platinum has returned a modest 7.5% as at 9 April 2019.

Figure 15: PGM Basket 12 months performance



Source: JM BUSHA, Bloomberg

On a 12 month basis, the dis-connect between the share prices and underlying commodity prices is even more jaw dropping. Platinum shares have soared 118% whilst platinum is down just over 10% over the same period. The palladium price has been the key driver of the surge in the counters yet accounting for a smaller proportion of the PGM basket for the SA platinum plays as shown below.

Figure 16: Platinum companies' prill splits (%)

PGM Metal	Anglo Platinum	Impala Platinum	Sibanye Stillwater	Northam Platinum	Royal Bafokeng	Lonmin
Platinum	57.2%	58.4%	47.3%	61.3%	66.9%	63.2%
Palladium	35.8%	33.9%	46.9%	29.8%	27.4%	28.1%
Rhodium	7.0%	7.8%	5.8%	8.9%	5.7%	8.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: JM BUSHA, Company Reports.

What we learnt over the years is that 'high prices lead to low prices and vice versa'. The Palladium price has doubled from its lows as recent as Q2 2018. Mining assets with higher palladium prill splits which were mothballed and not profit making at lower prices, as well as supply from recovery will suddenly be back in production putting pressure on prices which will lead to normalised.

Shares bouncing off lows

Figure 17: Performance from one year low and over 12 months

	Year to Date Total Return	Change from 52W Low	12 months
Anglo Platinum	55.6%	177.4%	155.8%
Impala Platinum	73.6%	307.8%	170.4%
Sibanye Stillwater	71.0%	151.2%	51.4%
Northam Platinum	54.2%	110.8%	83.6%
Royal Bafokeng	38.7%	144.8%	42.0%
Lonmin	83.1%	136.3%	50.6%
JSE All Share	11.1%	12.5%	8.1%

Source: JM BUSHA, Bloomberg

Platinum stocks have bounced materially on 12 months basis but performed poorly during some short periods within the 12 month period, illustrating the volatility of single commodity counters over short periods of time.

Our portfolio positioning

Figure 18: Platinum shares valuation

Share	PE Ratio	ROE	ROE + 1	Price to Book	Dividend Yield
Anglo Platinum	28.65	15.38	21.86	4.73	1.91
Impala Platinum	39.79	-18.96	5.59	1.17	0.00
Sibanye Stillwater	-	-10.47	26.27	1.63	0.44
Northam Platinum	-	-6.41	9.76	3.18	0.00
Royal Bafokeng	146.90	1.18	3.29	0.49	0.00
Lonmin	7.34	5.83	12.23	0.41	0.00
JSE All Share	17.62	14.78		1.91	3.96

Source: JM BUSHA, Bloomberg

Price is what you pay and value is what you get. We believe the rally in the platinum counters has been over cooked and the valuations unjustifiably expensive. None of the counters in our view, with the exception of Sibanye Stillwater, trades a justifiable multiple both on historic and forward looking basis.

Fair value metrics

Figure 19: Our share fair value metrics

Share	Market Cap (R'bn)	Spot	Fair Value	Upside/(Downside)
Anglo Platinum	223.50	82881	58837	-29.0%
Impala Platinum	46.78	6366	5568	-12.5%
Sibanye Stillwater	38.92	1713	1554	-9.3%
Northam Platinum	34.01	6671	5126	-23.2%
Royal Bafokeng	8.88	3450	3093	-10.3%
Lonmin	4.34	1536	851	-44.6%
JSE All Share TRI	14 000	8587.85		

Source: JM BUSHA, Bloomberg

We compute fair value metrics for the sector as above and conclude that the shares have overrun fair value ranges by a material margin and consequently we are not buyers of the sector at current prices and valuation.

Performance Review: Periods Ending 31 March 2019

	ABSOLUTE RETURNS FUNDS			
Fund	**JM BUSHA CashPlus**	**JM BUSHA Real Return Fund**	**JM BUSHA Absolute AllClass**	**JM BUSHA Absolute Aggressive**
Fund Description	Actively managed cash fund. Invested in 0-12 months quality paper. Highly liquid fund.	Unit trust medium-risk balanced multi-class fund suitable for both private & institutional clients. Min R1000 monthly	Multi-asset class fund managed on the core-satellite style. Capital preserved. Invests in equities/cash/bonds	Multi-asset class fund managed on the core-satellite style. Capital preserved. Invests in equities/cash/bonds
Fund Objectives	Outperform Short-term Fixed Interest (STeFi) by 0.5%pa	Outperform Inflation (CPI) plus 4% pa	Outperform Inflation (CPI) plus 5% pa	Outperform Inflation (CPI) plus 6% pa
Fund Benchmark	STeFi	Inflation +4% pa	Inflation + 5% pa	Inflation + 6% pa
Asset Class Allocation	100% Cash	15.87% Cash, 44.92% Bonds, 39.22% Equities	12.96% Cash, 43.10% Bonds, 43.94% Equities	18.09% Cash, 29.84% Bonds, 52.07% Equities
Fund Performance	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)
- **1** Year	**8.61%** (7.20%)	**4.99%** (8.69%)	**4.19%** (9.73%)	**2.37%** (9.67%)
- **3** Years	**8.33%** (7.40%)	**7.84%** (8.99%)	**6.88%** (10.04%)	**6.54%** (10.71%)
- **5** Years	**7.74%** (6.98%)	**6.24%** (9.13%)	**6.90%** (10.17%)	**6.38%** (11.00%)
- 7 Years	**7.19%** (6.51%)	**8.07%** (9.44%)	**9.44%** (10.49%)	**8.64%** (11.38%)
-Inception	**7.88%** (7.31%)	**9.68%** (9.85%)	**11.20%** (10.58%)	**8.60%** (12.08%)
Volatility/Risk	**0.49%** (0.46%)	**6.23%** (1.52%)	**6.62%** (1.55%)	**7.11%** (1.57%)
Sharpe Ratio	**1.13 (**0.00)	**0.74** (3.22)	**0.93** (3.62)	**0.50** (0.00)
Sortino Ratio	**0.84** (0.00)	**1.35** (0.00)	**1.50**(0.00)	**0.91** (0.00)
Start Date	2 Feb 2004	1 Oct 2006	1 August 2003	6 July 2007
Fund Size	ZAR**71.269** million	ZAR**114.773** million	ZAR**212.339** million	ZAR**1.508** billion

The returns indicated are historical annualized returns. Benchmark performance and statistics are shown in brackets. **Note** - the same performance is not guaranteed for the equal holding periods in the future.

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	RELATIVE RETURN FUNDS			
Fund	**JM BUSHA BondPlus**	**JM BUSHA Risk Averse**	**JM BUSHA Diversified Equity**	
Fund Description	Actively managed bond fund performance relative to the All Bond Index (ALBI).	A multi-asset class fund structured to give positive returns annually regardless of markets conditions	This is an equity fund that invests in globally diversified stocks with distinct income streams	
Fund Objectives	Outperform All Bond Index by 1% pa	Outperform cash by 1% pa, 2-year rolling	To outperform the JSE SWIX by 3% pa	
Fund Benchmark	ALBI	Cash (STeFI Index) + 1% pa	FTSE/JSE All Share Index	
Fund Allocation	6.03% Cash, 93.97% Bonds	62.87% Cash, 36.91% Bonds, 0.21% Equities	1.43%Cash, 98.57% Equities	
Fund Performance	**Fund** (Benchmark)	**Fund** (Benchmark)	**Fund** (Benchmark)	
- **1** Year	**5.32%** (3.39%)	**8.11%** (7.20%)	**2.44%** (0.43%)	
- **3** Years	**10.99%** (10.09%)	**8.61%** (7.40%)	**4.92%** (3.73%)	
- **5** Years	**9.03%** (8.32%)	**6.78%** (6.98%)	**4.55%** (7.30%)	
- **7** Years	**8.58%** (8.01%)	**7.96%** (6.50%)	**10.05%** (10.79%)	
-**Inception**	**8.39%** (8.21%)	**8.76%** (6.40%)	**10.16%** (10.78%)	
Volatility/Risk	**6.22%** (7.16%)	**3.66%** (0.24%)	**11.22%** (10.57%)	
Sharpe Ratio	**0.53** (0.44)	**1.02** (0.00)	**0.45** (0.51)	
Sortino Ratio	**0.88** (0.73)	**0.00** (0.00)	**0.94** (1.00)	
Start Date	31 Dec 2004	1 July 2010	29 March 2011	
Fund Size	ZAR**1.027** billion	**ZAR363.025** million	ZAR**182.746** million	

ABSOLUTELY POSITIVE PERFORMANCE

Invest Wisely

FOR MORE INFORMATION ON OUR SCES OR PRODUCTS CONTACT JM BUSHA INVESTMENT GROUP

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