JM BUSHA
Investment Group

Absolutely Positive Performance

Quarterly Bulletin - Q3 2018

"***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.

Lesotho ● Namibia ● South Africa ● Swaziland ● Zambia● Zimbabwe

Market Performance Summary (YTD)								
Equity Indices	**Spot**	**% Change**	**JSE Top Gainers**	**Spot (c)**	**% Change**	**JSE Top Losers**	**Spot (c)**	**% Change**
JSE All Share	55708	-6.4% ↓	Montauk Holdings Ltd	9088	66.8% ↑	Blue Label Telecoms Ltd	524	-64.9% ↓
JSE RESOURCES	43205	19.0% ↑	Murray & Roberts Holdings Ltd	1659	37.0% ↑	Fortress REIT Ltd	1523	-63.9% ↓
JSE FINANCIALS	16576	-7.3% ↓	Allied Electronics Corp Ltd	1635	35.3% ↑	DataTec Ltd	2315	-59.5% ↓
JSE INDUSTRIALS	68662	-13.2% ↓	Anglo American Platinum Ltd	46200	30.7% ↑	Resilient REIT Ltd	5813	-57.1% ↓
NAMIBIA (NSX)	1303	0.3% ↑	Sasol Ltd	54753	27.9% ↑	Steinhoff International Holdin	230	-50.5% ↓
ZAMBIA (LUSE)	5468	2.6% ↑	Anglo American PLC	31979	25.1% ↑	Stadio Holdings Ltd	420	-47.8% ↓
ZIMBABWE (ZSE)	118	13.4% ↑	BHP Billiton PLC	30941	23.5% ↑	Greenbay Properties Ltd	135	-47.1% ↓
DOW JONES	26458	7.0% ↑	Santam Ltd	32900	23.2% ↑	EOH Holdings Ltd	3771	-44.1% ↓
S&P 500	2914	9.0% ↑	Mondi PLC	38863	21.7% ↑	Sibanye Gold Ltd	857	-43.7% ↓
NASDAQ	8046	16.6% ↑	Mondi Ltd	38850	21.7% ↑	Tiger Brands Ltd	26502	-42.4% ↓
FTSE 100	7510	-2.3% ↓	Lewis Group Ltd	3211	21.4% ↑	Ascendis Health Ltd	1025	-42.1% ↓
GERMAN DAX	12247	-5.2% ↓	EPP NV	2055	20.9% ↑	Lonmin PLC	832	-40.9% ↓
FRENCH CAC	5493	3.4% ↑	South32 Ltd	3965	16.6% ↑	Trencor Ltd	2852	-40.6% ↓
NIKKEI 225	24120	6.0% ↑	Clover Industries Ltd	1507	15.0% ↑	NEPI Rockcastle PLC	12854	-39.8% ↓
SHANGHAI	2821	-14.7% ↓	PSG Konsult Ltd	1000	14.4% ↑	Pan African Resources PLC	146	-39.2% ↓
HANG SENG	3755	-9.3% ↓						
AUSSIE ALL ORDS	6326	2.6% ↑						
Bond Yields	**Spot**	**BPS Change**	**Currencies**	**Spot**	**% Change**	**Commodities**	**Spot**	**% Change**
SAGB 2 Year	7.56	0.27 ↑	R / $	14.14	-14.2% ↓	Gold ($/oz)	1191	-8.6% ↓
SAGB 5 Year	8.37	0.48 ↑	R / €	16.41	-10.5% ↓	Platinum ($/oz)	816	-12.1% ↓
SAGB 10 year	8.99	0.40 ↑	€ / $	1.1604	3.3% ↑	Palladium ($/oz)	1075	1.1% ↑
SAGB 30 Year	9.92	0.21 ↑	$ / ¥	113.7	-0.9% ↓	Silver ($/oz)	15	-13.5% ↓
US 10 Y	3.06	0.66 ↑	Pula	10.59	-7.7% ↓	Brent Crude ($/barrel)	83	23.7% ↑
US 30 Y	3.21	0.47 ↑	Kenya	100.80	2.3% ↑	Copper ($/ton)	6264	-13.1% ↓
UK 10 Year	1.57	0.38 ↑	Kwacha	12.01	-20.4% ↓	Aluminium ($/ton)	2056	-9.0% ↓
German 10 Year	0.47	0.04 ↑	Naira	362.79	-0.8% ↓	Iron Ore ($/ton)	70	-5.8% ↓

Source: Bloomberg

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JM BUSHA FUND RETURNS	
Fund	**5 year Return**
Cash Plus	7.46%
Bond Plus	7.78%
Real Return	6.63%
Absolute All Class	6.53%
Absolute Aggressive	7.27%
Diversified Equity	5.83%
Communities Fund	8.94%
*Afro Fund	6.63%
*same as real return	

Investment markets review and outlook.
By Cleopatra Mtembu and Farai Mapfinya.

The JSE All Share index shed 2.17% on a total return basis during the quarter, with industrials total return being the main driver of the negative performance with the INDI25 coming down 8.25%. Returns on resources and financials gave some support to the market, albeit not enough to translate into the JSE all share index total return, with FINI15 up 4.2% on the back of positive insurance and life assurance returns of 16.62% and 12.41% respectively. The resources returns soared up with RESI20 up 4.61% for the quarter, mainly underpinned by platinum miners which soared by 25.47%.

On a sub-sector basis, telecoms and media came down substantially returning negative 11.85% and 12.25% respectively. Telecoms was mainly affected by MTN Nigeria news, the leading mobile operator was ordered by the Nigerian government to pay back taxes of $2billion just days after the government ordered it to repatriate $8.13billion, which resulted in the stock price losing 19.08%. Media returns where driven by Naspers on its depreciated share price post the news of it continuing to shrink its Tencent stake and listing its pay-tv unit Multichoice on the JSE.

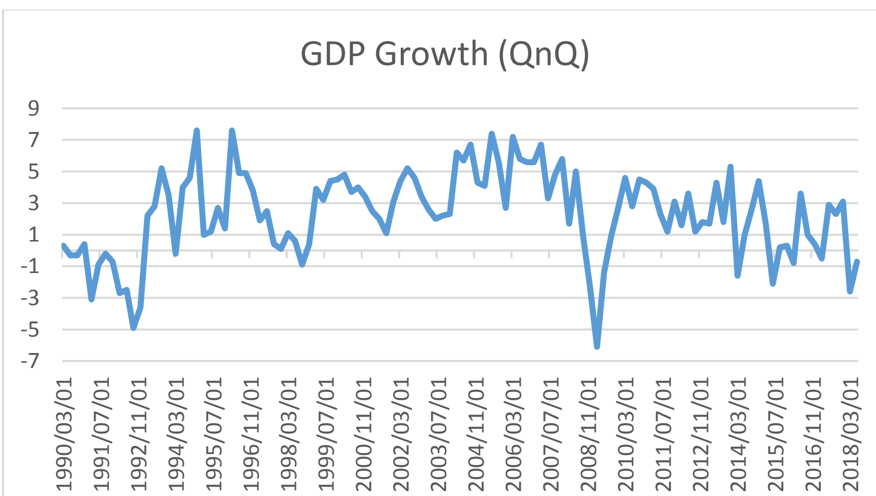
Using an earnings multiple approach, South African equity valuations de-rated by 33% since the beginning of the year. About 10% of that re-rating is attributable to the drop in price levels and the rest as a result of company earnings growth of about 23%. From a price-to-book perspective, the market de-rated by 14%, showing a slower than earnings book value growth. This is as expected because of the dividend pay-out effect.

The market is now trading at a 16.9x earnings multiple and a price-to-book value of 1.89x. This is the cheapest that the market has been in the last 3 years and we believe this bodes well for the equity market outlook. We are therefore at full weight in terms of equity exposure and positive the asset class for the medium to long horizon. In the short term, we do not expect any material catalysts to cause a major re-rating.

Economic review and outlook.
By Simbarashe Chimanzi.

The trade war between the United States of America and China intensified at the beginning of the 3rd quarter (Q3) after the Trump administration slapped a further US$200 billion worth of tariffs on Chinese goods. Beijing then retaliated by announcing a counter US$60 billion worth of tariffs on US goods with the focus being mainly on liquefied natural gas. The Chinese economy has so far been able to absorb these tariffs but there is an expectation of a 0.5%-1% impact on growth next year. This will undoubtedly have an impact on South Africa and other emerging market players as China remains a key trading partner.

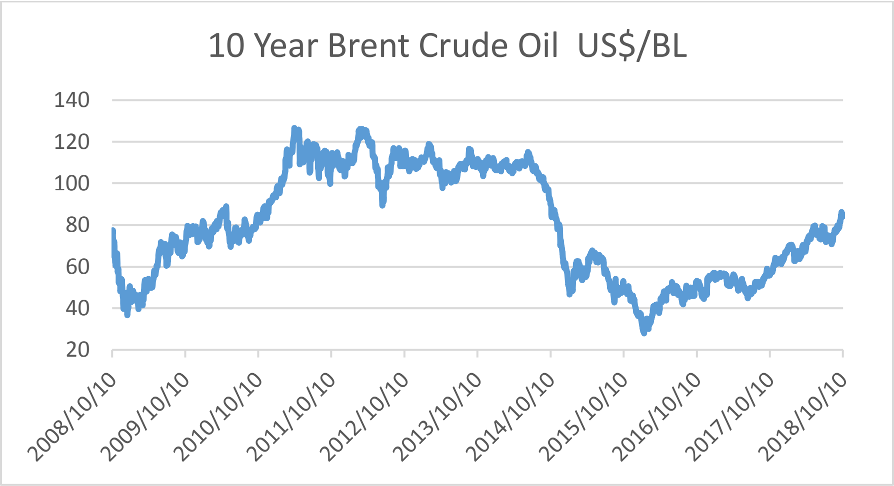
Locally, the economic climate has not been better. South Africa entered its first technical recession since 2009 following a 0.7% decline in Q2 which followed a Q1 decline of 2.6%.



Source: Bloomberg, JM BUSHA

Agriculture was the main casualty with production falling by over 29% in Q2 largely driven by a decline in the production of horticultural products. The drought has definitely had a major impact on production especially in the Western Cape and the Land Reform Debate has not helped either with Investment in agriculture dwindling as uncertainty around the issue continues. We don't believe the recession has continued into Q3 and we expect a recovery Quarter on Quarter of between 20-50 basis points.

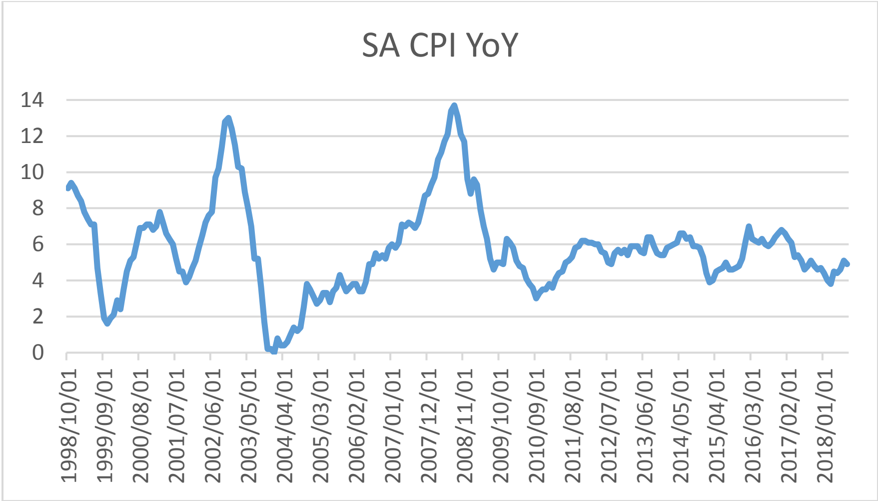
Looking at commodities, Brent crude oil has had a strong rally this year, up 4% in Q3 and 24% Year-to-Date.



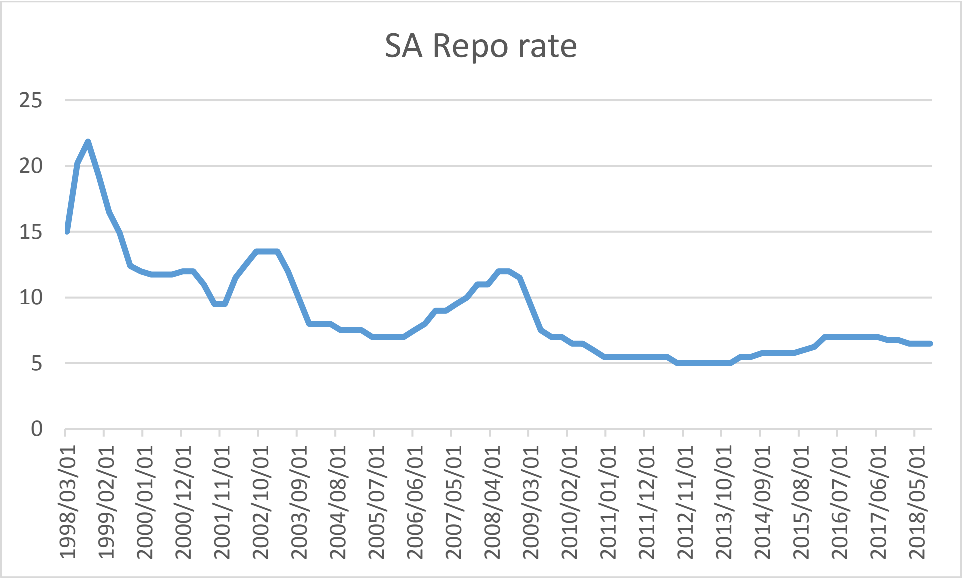
Source: Bloomberg, JM BUSHA

Consumers have their backs pinned against the wall as they have to absorb the petrol price which has hit a record high R 17 /Litre. Sasol, a petro -chemical company of which its share performance has a strong positive correlation with Brent crude oil price is up 28% this year alone. Proposed US sanctions on Iran posed the biggest risk to the oil price in Q3 as they are expected to lead to tighter global crude supplies. Expectation is that Brent will reach the US$100/barrel mark at the end of Q1 2019.

Despite a rise in fuel prices over the last months, SA inflation YOY came in surprisingly lower for September at 4.9% from 5.1% .Even though Inflation is comfortably within the SARBs target band of (3%-6%), the MPC has been forward looking and just like the Federal Open Market Committee (FOMC) in the US, they increased the repo rate by 25 basis points with an expectation of a strong uptick of CPI in the next 3 months of the year. The FOMC is widely expected to hike again for the 4th time in December but we expect the MPC to leave rates unchanged when they meet in November.



Source: Bloomberg, JM BUSHA



Source: Bloomberg, JM BUSHA

***Material events have unravelled since the quarter end. President Ramaphosa accepted Nhlanhla Nene's resignation as Finance Minister amidst State Capture Enquiry revelations about his interactions with the infamous Gupta family. The President has since appointed former Reserve Bank Governor, Mr Tito Mboweni as the new Finance Minister, a move we have welcomed. We are hopeful Mr Mboweni will successfully tackle the titanic task ahead of him and wish him and his team all the best.*

The curious case of the MTN Group.
By Simbarashe Chimanzi and Farai Mapfinya.

1. **MTN – The early beginnings.**

   The dawn of democracy in 1994 came with it new opportunities, and new horizons for businesses to exploit, such as new markets and new technologies. At the time, South Africa had a telecommunications installation base of only four million landlines, with only 1% of black South Africans owning a phone. Technology evolution and the market structure presented an opportunity for new operators to exploit.

   MTN Group was born with the intention to offer mobile telephony to South Africans in June of 1994. In the same year, M- CELL was officially incorporated, owning 25% of the MTN Group. In 1995, M-Cell become a public company listed on the JSE with a 25% holding in MTN and 60% of M-Tel, then SA's biggest service provider, creating the blueprint for the network owned service provision, MTN service provider . This was the beginning of an aggressive expansion in South Africa which included acquisition of Transtel Cellular, a communications service provider, among others.

2. **Defining moments - Expansion beyond South African borders.**

   With feet firmly on the ground in its home market, and the turn of the millennium beckoning, MTN set out to venture into other markets beyond South Africa culminating in the establishment of MTN International in 1998. This was swiftly followed by the acquisition of licenses in Uganda, Rwanda and Swaziland. M-CELL also increased its holding in MTN to 72% following the decision by Naspers to exit its stake and use the capital to expand its Pay TV business. Transnet diverted soon after with M-Cell scooping that stake, at the time the business added Cameroon into its portfolio.

3. **Defining moments – Entry into Nigeria.**

   In January 2001, the seeds of material intent of a trans-continental business were sown. Through an auction bidding process, MTN acquired 1 of 3 GSM licenses in the continent's most populous country, Nigeria. The price tag? A hefty US$285million or approximately R2.2billion at the dollar-rand cross of R7.50/US$. Investors in listed vehicle M-Cell, then parent company of MTN, gave the deal a resounding thumbs down, feeling the bidding had been heated and overhyped and the price being paid just way too much.

Paul Edwards, the then Chief Executive of M-Cell's majority shareholder Johnnic Group, had to calm the market, noting that "The market is looking at the GDP figures, and yes they are low, but our on the ground research shows that the informal market is substantial and that the GDP is grossly understated. I am happy in the fact that we will make our money back on the price that we have paid for the license. "He further added that "the market does not fully appreciate the value that the Nigerian market could unlock for shareholders in the long term."
Nigeria is currently the biggest market for MTN with a subscriber base of 52 million.
Annus mirabilis and a master stroke? Only time would tell.

4. **Defining moments – Iran and Middle East expansion.**
   In mid- 2005, MTN announced that it would be establishing a presence in Iran, having won a license to operate a second cellular network, through its 49% holding in MTN-Irancell. For an asking price of €300 million, (R2.34bn at prevailing euro-rand cross), the company had access to a population of 70 million people, most of whom young and tech –savvy.

   In May 2006, under the leadership of then Chief Executive, Phuthuma Nhleko, the company announced that it would be acquiring, Dubai based telecommunication operator Investcom for a whopping US$5.5 billion (R33billion) in a cash and share based deal. The conclusion of the deal led to the culmination of a geographically diversified, emerging markets telecommunications operator with a presence in 21 Countries in the fast growing regions of Africa and the Middle East.

5. **MTN Today.**
   MTN remains a pure play emerging markets mobile telecommunication operator. It has embraced technologies and digital changes as core to its strategy. The company still has presence in 21 countries, having gone to 22 countries following the secession of South Sudan, and back to 21 again following the company's exit from Cyprus in 2018.

The countries of operation ranked by number of subscribers is listed below.

Country	Subscribers ('m)	Origin
Nigeria	52.30	Greenfield License
Iran	43.30	(operates under the MTN Irancell brand)
South Africa	29.50	Greenfield License
Ghana	15.70	(formerly Areeba)
Uganda	10.70	Greenfield License
Ivory Coast	10.90	Greenfield License
Cameroon	7.10	Greenfield License
Sudan	7.58	(formerly Investcom)
Afghanistan	6.40	(formerly Areeba)
Syria	5.61	(see MTN Syria, formerly Investcom)
Zambia	5.49	Greenfield License
Yemen	4.34	(formerly Investcom, now Spacetel brand)
Benin	4.36	(formerly Investcom)
Rwanda	3.41	20% owned by Crystal Telecom Rwanda
Guinea	2.65	(formerly Investcom)
Republic of Congo	2.53	Greenfield License
Botswana	1.75	(operates under the MASCOM brand)
Liberia	0.88	(operates under the Lonestar Cell brand)
Swaziland	0.98	Greenfield License
Guinea Bissau	0.74	(formerly Investcom)
South Sudan	0.66	(formerly Investcom)
Cyprus	0.42	(formerly Areeba - sold to Monaco Telecom July 2018)
	217.23	

Source: MTN 2017 Annual Report.

The company remains listed on the Johannesburg Stock Exchange with a market capitalisation of R162billion as at 10/10/2018. The brand is among the most recognisable brands as well as among the most valuable in Africa. **But for all its successes, it has not been plain sailing.**

6. Perennial headwinds in the sails.

The Bombshells

i. **Turkcell and the Iran license saga (US$4.2 billion).**

In 2012, Turk cell, a Turkish Telecommunication operator alleged that MTN bribed Iranian officials to acquire the second network operator License. They filed a lawsuit in the Washington Federal Court under the Alien Tort Statute claiming damages to the tune of US$4.2billion.

MTN then Chairman and now President of the Republic of South Africa, Cyril Ramaphosa, constituted an external and independent commission chaired by the retired British judge Lord Leonard Hoffman PC GBS, to investigate the allegation. The committee dismissed the allegations; labelling it “a fabric of lies, distortions and inventions”. Turk Cell subsequently dropped the case a year later, citing a precedent setting US Supreme court ruling that hurt its case. But that was not the end of it The Company has since instituted legal proceedings in the High Court of South Africa. The case is still pending.

ii. **Nigeria: Episode One – Customer registration fine (US$1.7 billion)**

In October 2015, the Nigerian Communications Commissions fined MTN US$5.2 billion (R71billion) for failing to de-active 5-2 Million unregistered customers. This was calculated as per regulation provision of $1000 for each unregistered customer.

MTN acknowledged the infringement, pleaded for mercy and set about to negotiate a reduced fine. The Company made a good faith payment of $250million and eventually settled for a fine of around US$1.7billion, payable of over a 3 year period. *Heads rolled over the debacle but governance weaknesses and operational lapse had been exposed and laid bare.*

iii. **Nigeria: Episode Two – Illegal funds repatriation and unpaid tax (US$8.13bn & US$2bn)**

In August 2018, the Central Bank of Nigeria ordered MTN to refund $8.13billion that it alleged was illegally repatriated over a period of years. MTN pleaded innocence over the matter.

A few days after the bombshell, Nigeria’s Attorney General gave a notice of intention to recover US$2bn in unpaid tax from MTN Nigeria. This is a potential liability of US$10.13bn (R147bn), which is 91% of MTN’s total market value on the JSE of US$11.2b or R162bn as at 10/10/2018. Both matters have not been resolved yet.

7. **Is the risk worth it investing in MTN?**

   While MTN has an attractive portfolio of operating assets, it has to be acknowledged that it is very high risk. The company has to be on the ball to comply with 21 different regulatory regimes and unfortunately they have dropped the ball on many occasions and incurred avoidable penalties at a huge cost which has destroyed shareholder value.

   At JM BUSHA, we aim to outperform the market on a risk–adjusted real basis, therefore when valuing MTN we apply a material regulatory and political risk discount on top of the normal implied required rate of return. We therefore believe at the current dividend yield of 7.5% and the price of R86.00, the share offers material upside with the risk priced in and consequently we have exposure to the share in our existing portfolio.

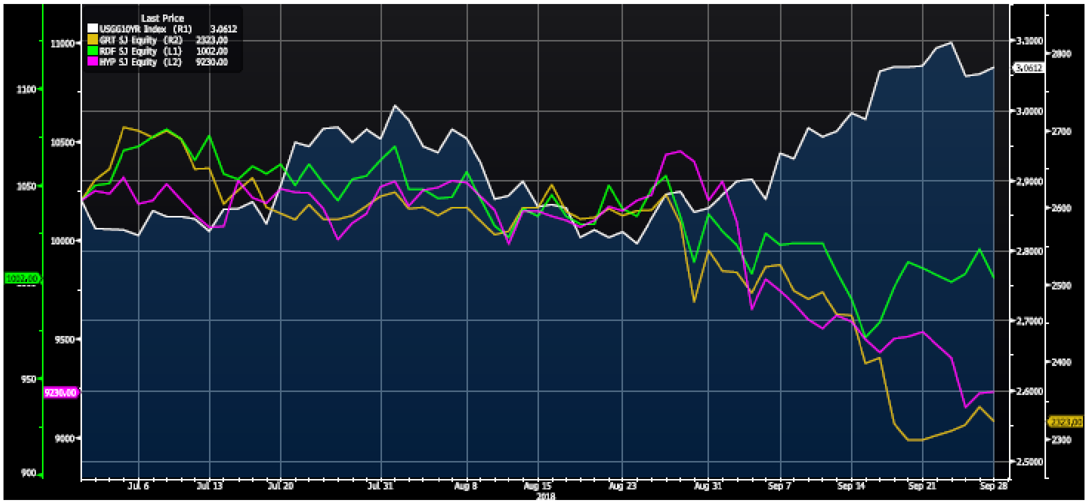
The low down on the South African property Sector
By Cleopatra Mtembu.

The South African Property Index (SAPY), which is a 6% constituency of the FTSE/JSE All Share Index, with shares such as Resilient and Growthpoint making up 2% of this 6%, has been under pressure since the beginning of the year. Stocks such as Resilient and its sister companies Fortress, Nepi Rockcastle and Greenbay took a massive knock on a year to date basis. Resilient came down 61.63%, Nepi Rockcastle down 39.81, Greenbay 45.88% and Fortress B coming down 63.63%. Looking into the quarter there has been marginal changes in these stocks that have had massive downfalls, with Resilient and Nepi only gaining back 3.22% and 7.58% respectively in the quarter. However Growthpoint, which has been quite a defensive stock pre-quarter relative to all other mentioned property stocks fell by 12.96% this quarter.

This calls for us to evaluate how and why property stocks react to bond yields in the way they do. A clear relationship between bond yields and property stocks exists, since many financing instruments in the property sector are linked to global bond yields. We notice how a rise in these international bond yields have a debilitating effect on the South African market. Another aspect to look into is the property stocks relationship with the rand, since property stocks have about 40% of properties offshore.

Source: Bloomberg, JM BUSHA

In the above figure we see the direct relationship that exists between rand exchange rate and the prices of some of the major property stocks such as Growth point represented by the yellow line, Redefine by the green line and purple being Hyprop. What is clearly depicted in the graph is how as the rand against the dollar weakens the Property stock prices goes down. This is mainly influenced by the fact of property stocks owning international properties, Growthpoint has 23% of its revenue contributed by its international property portfolio and redefined has 29.4% of its net income from international property portfolio. These non-SA operations are driven and affected by the rand movement.



Source: Bloomberg, JM BUSHA

The figure above shows the movement of the US treasury 10 year bond vs property stock prices for the quarter ending September. Contrary to the ZAR relationship with property stock prices, which have a direct relationship, global bonds have an inverse relationship with property stock prices. Rising US10 year bond yield has a negative effect on stock prices, causing them to fall.

Conclusion

Bond yields and USD/ZAR are some of the important macroeconomic factors one looks into when evaluating property counters. Going forward there seems to be a lot of local political uncertainty which may impact the USD/ZAR negatively and therefore weaken property stock prices. The bond yields are expected to remain at around 3% -3.19% in the short term according to forecasts, which implies a negative impact on the South African Market.

The risk-return relationship on the JSE.
By Simbarashe Chimanzi.

As the economic climate continues to toughen, the thought of “risk” can give individuals, corporates, governments and investors sleepless nights. Unfortunately, Risk is something we have to encounter on a daily basis regardless of occupation, gender, race etc. Our daily mandate however is to manage this risk, be it crossing a rail track or protecting national borders.

In finance and economics, risk management is a fundamental element in decision making and future planning. The process of finding a balance between risk and return is the primary mandate of any Investment management professional. Every investor has a desire to maximize their return, whilst on the other hand minimizing risk. Some investments are undoubtedly riskier than others, but certainly no investment is risk free. We take a look at equities as an asset class and the risk return dynamics. We use the standard deviation as a model to determine risk and use simple percentage analysis to determine returns. We have broken down the top 150 stocks on the JSE into 5 portfolios of 30 stocks each, namely

- Very Low Risk
- Low Risk
- Moderate Risk
- High Risk
- Very High Risk

The aim of the exercise is to determine the relationship between risk and return for listed equities on the JSE in the short to medium term (1-3Years).

Portfolio	Average Risk	Annualised Return
Very Low Risk	5.12%	3.98%
Low Risk	6.29%	7.44%
Moderate Risk	7.37%	3.48%
High Risk	8.92%	7.53%
Very High Risk	15.33%	36.47%
CASH	**0.50%**	**7.31%**

From the table above, it is clear that in the short to medium term there is no risk-return balance for all equity portfolio types with the exception of the Very High Risk portfolio. Investing in cash at an average risk of 50 basis points over 3 years will reward an Investor similar returns as to the Low Risk and High Risk portfolios and actually return more than the Very Low Risk and the Moderate Risk portfolios that all offer substantially higher risk.

Based on how the JSE has performed, it is prudent to assume that any investor who is looking to Invest for a period of no more than (1-3) years, is better off investing in Cash than pure equities unless they have a very high risk preference.

Aspen Mountain: How long will the avalanche go on?
By Justice Ndou.

Aspen Pharmacare Holdings' share price went on crushing days after it announced that it is divesting from its global infant nutritionals business and selling it to Lactalis Group for net proceeds estimated at R11.2 billion. Not bad considering that the business contributed 8% to Group Revenue and was largely made up of businesses that Aspen bought from Nestle between 2013 and 2014 for just over R3.7 billion?

Aspen was a darling of the market until it reached an all-time high of R443 in 2015 (Figure 1) after making a series of acquisitions amounting to R37 billion in 8 years (Figure 2).

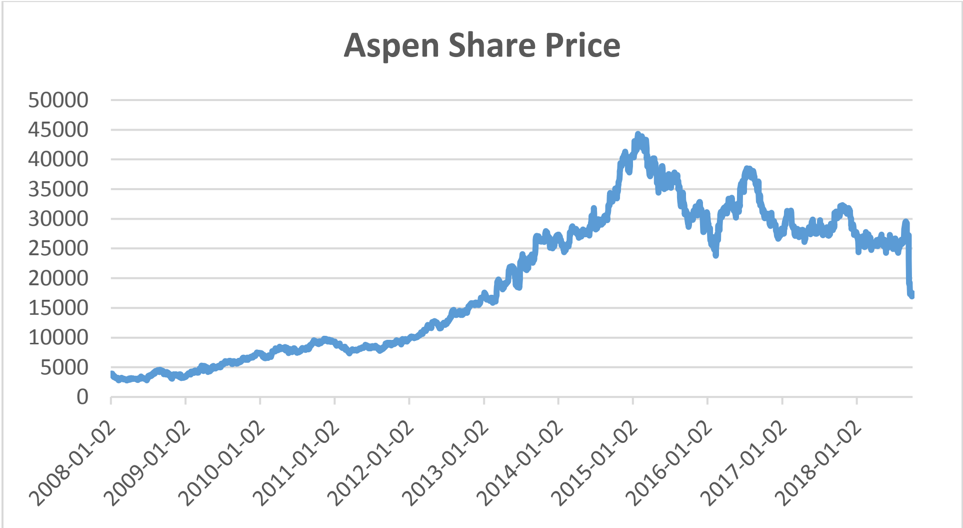


Figure1: Aspen Share Price History.

Acquisition	Country of Incorporation	Shareholding % Acquired	Date of Acquisition	Fair Value of Assets Acquired(R'000)	Cash Paid(R'000)
PharmaLatina	Cyprus	50.00%	01 March 2008	591 355	1 068 311
Onco Therapies	India	49.00%	31 December 2007	111 269	67 858
Onco Laboratories	India	49.00%	01 January 2008	176 318	122 791
Shelys	Tanzania, Kenya and Uganda	60.00%	01 May 2008	131 433	231 455
PharmaLatina	Cyprus	1.00%	01 July 2008	591 600	21 900
FCC	South Africa	50.00%	31 May 2009	99 000	189 400
GSK(SA distribution)-Issued 68 Million Shares to GSK at R66.80	Germany	100.00%	01 December 2009	4 514 200	4 575 800
Sigma Pharmaceuticals	Australia	100.00%	31 January 2011	1 922 300	6 055 600
AHN	South Africa	100.00%	01 June 2011	45 400	45 400
Formule Naturelle	South Africa	100.00%	01 July 2010	37 000	35 000
Shelys	Tanzania, Kenya and Uganda	40.00%	14 April 2012	141 800	141 800
Brimpharm	South Africa	42.50%	31 May 2012	39 800	39 800
Nestle Infant nutritionals Asia Pacific	Australia	100.00%	29 April 2013	1 352 100	1 578 600
API	Netherlands	100.00%	01 October 2013	1 712 700	1 712 700
MSD	Netherlands	100.00%	31 December 2013	6 062 800	5 600 100
GSK Thrombosis	Germany	100.00%	30 April 2014	11 880 800	12 045 100
Nestle Infant nutritionals Latin America	Mexico	100.00%	28 October 2013	1 709 400	1 765 500
Nestle Infant nutritionals South Africa	South Africa	100.00%	27 January 2014	242 200	394 100
Kama	Ghana	65.00%	01 May 2015	46 900	54 400
Florinef and Omcilon	Japan,UK and Brazil	100.00%	01 November 2014	433 100	446 500
Mono-Embolex	Switzerland	100.00%	20 February 2015	1 610 200	1 660 000

Figure 2: Aspen's Acquisitions

However these acquisitions were mostly funded by debt, unsurprisingly the current debt is sitting at over R57 billion and the net proceeds from the sale of the global infant nutritionals business is aimed at reducing this debt. The company's acquisitions strategy has come under a lot of scrutiny recently and calls into question its sustainability. The reliance on debt to induce growth has been putting a lot of strain on the balance sheet (Figure 3).

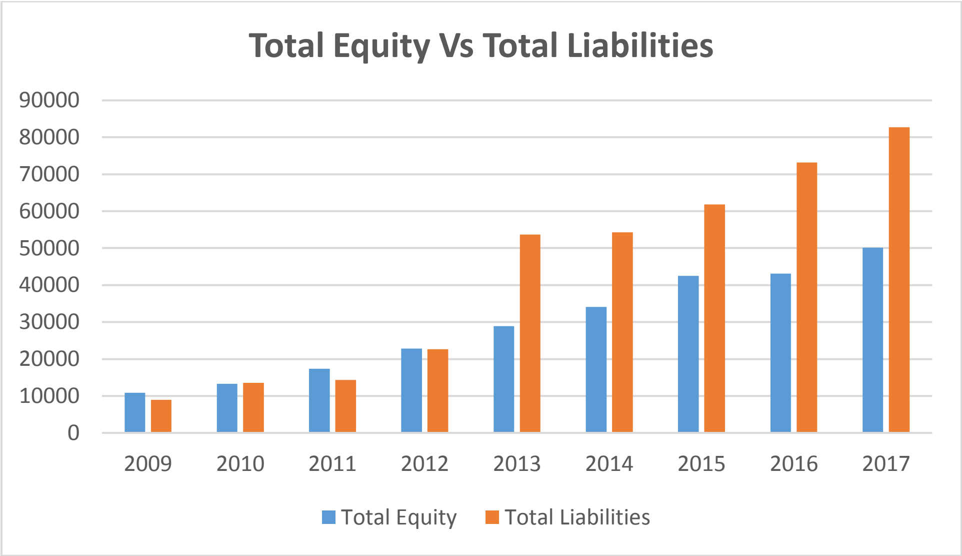


Figure 3: Total Equity Vs Total Liabilities

The other concern is the growing amount of intangible assets (Figure 4), which has been having a negative impact on the growth of Net Assets.

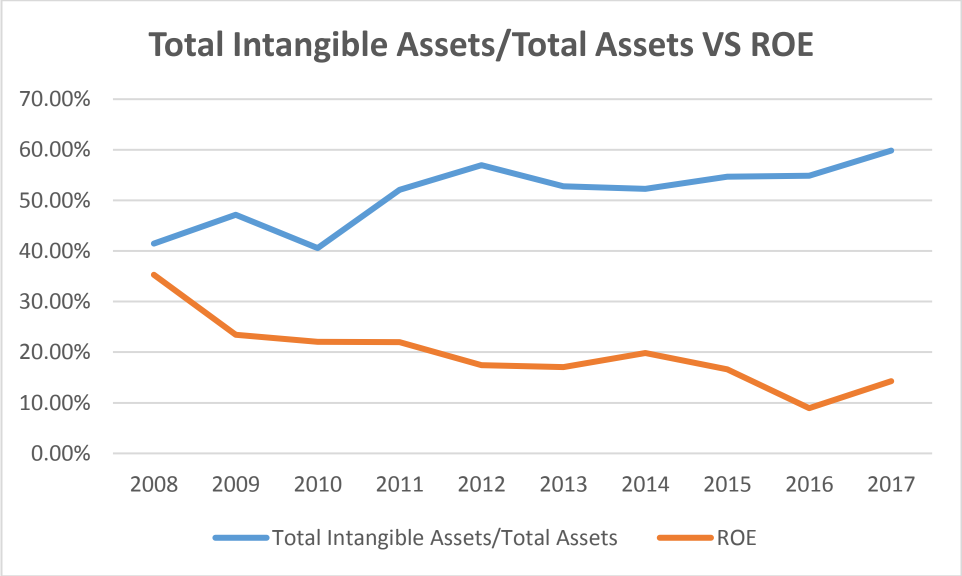


Figure 3: Total Intangibles/Total Asset vs Return on Equity.

Aspen sits in a very difficult situation where it needs to balance growth with debt repayment while attempting to reassure investors that its acquisition strategy will pay dividends and create value for investors. With a majority of its assets in the form of intangible assets which are not easy to convert into cash, then impairment risks will continue to be a cause for concern. Once thing is certain, the market has begun to question whether Aspen's debt-financed growth is sustainable and whether its operations are generating enough cash to meet its debt obligations.

Analysis of SADC region markets: By Patrick Serere.

	Sector	YTD	P/E	P/BV	DY%
Zimbabwe					
Delta	Beverages	37.50%	30.47	5.45	3.27%
Econet	Telecoms	34.11%	21.31	3.88	1.90%
Innscor	Manufacturing	35.00%	22.54	3.43	1.60%
Seedco	Agro Industrial	-5.00%	21.13	2.45	2.33%
Natfoods	Agro Industrial	-13.08%	22.50	3.72	2.22%
Padenga	Manufacturing	13.32%	25.83	5.45	1.34%
Hippo	Agro Industrial	-4.55%	29.37	1.37	1.19%
Ok Zim	Retail	14.80%	16.17	2.79	3.09%
TSL	Agro Industrial	8.55%	33.33	1.73	1.13%
Zambia					
ATEL	Telecoms	0.00%	10.00	7.84	11.43%
CEC	Electricty	-7.64%	4.71	0.62	11.68%
Lafarge	Construction	-21.97%	51.55	0.65	5.12%
Natbrew	Beverages	-1.60%	0	7.07	0.00%
SCBL	Banking	-2.53%	15.8	5.15	5.56%
Zambrew	Beverages	31.58%	22.25	2.54	2.22%
ZANACO	Banking	-10.31%	11.01	1.23	0.51%
ZSUG	Agro Industrial	0.00%	0	0.91	0.00%
Malawi					
FMB	Banking	135.81%	14.62	3.56	0.00%
ILLOVO	Agro Industrial	0.00%	24.18	4.68	0.00%
NBM	Banking	16.63%	7.68	1.82	6.13%
NBS	Banking	5.76%	0	2.09	0.00%
NICO	Insurance	52.94%	4.88	2.41	2.88%
PCL	Manufacturing	41.67%	2.58	0.81	2.94%
Standard	Banking	9.84%	12.93	2.18	1.59%
TNM	Telecoms	100%	22.21	9.99	2.07%

SADC Stock Valuations
Source:MSE,ZSE,LuSE,JMBUSHA

External shocks on the rise.

A stronger dollar, rising oil prices and rising short-term US interest rates have shaken the faith across emerging markets with investors dumping stocks. The risks are even more pronounced in smaller frontier markets.

With question marks already raised about the end of the road for the global equity rally, investors are pulling in their horns and peripheral trades like emerging markets are feeling the strain.

The flood of cheap money generated by global super stimulus cooked up a sumptuous economic recovery, but also channelled a wave of buying into higher risk-return emerging market trades, with investors encouraged by better-looking fundamentals, amid much-improved risk-taking conditions in 2016 and 2017.The joy ride seems to be finally coming to an end.

In Zimbabwe the top traded stocks have returned a YTD performance of +13.40% with an average P/E ratio of 24.7x. Investment Interest rates range from 5%-9% with official inflation below 5%. However, the bond note has lost 80% of its value so far this year and excessive money creation will continue to push local investors to hedge their balance sheets through the stock market and resultantly pushing the P/E multiples further into expensive territory.

In Zambia the local currency return for the top traded stocks was -1.55% YTD and the kwacha lost 17.25% against the USD in the same year to date period. The policy interest rate remains at 9.75% with a bias to increase in response to the debt challenges and limited fiscal space. Top traded listed stocks are trading at a P/E ratio of 14.41x and will likely rerate downwards in expectation of a tighter monetary policy.

In Malawi the Malawi Kwacha retained its strength with only a 0.5% volatility in the YTD period. The Bank rate closed at 16% and the Stock market produced a stellar +45.23% for the top traded stocks. Shares are still cheap relatively at a P/E of 11.13x.

Macroeconomic Outlook

Zimbabwe

Zimbabwe's growth trajectory is primarily being driven by two sectors which are agriculture and mining. Authorities foresee the 2018 growth rate coming in at 6.3% however that growth trajectory faces the following risks and challenges; severe foreign currency and cash shortages; Unsustainable high budget and current account deficits; Emerging inflation pressures; Slow moving re-engagement process; Infrastructure deficiencies and Weak social service delivery.

At the centre of the above challenges, is the unsustainable high budget deficit. The financing of the deficit was mainly through domestic borrowing with the use of instruments such as Treasury bills, overdraft with the Central Bank, cash advances from Central Bank, arrears and loans from the private sector.

In mitigation of the mentioned challenges the authorities in the outlook period propose an agenda to lengthen the duration of the existing domestic debt and introduce an auction system for the issuance of treasury bills. They also propose to increase the pace on concluding External debt Arrears resolution with the "Paris Club". Reforming the State-owned enterprises will be combined with a punitive 2% tax on all money transfers in an effort to reduce the budget deficit.

Zambia

Recent data suggests that the economy entered a downturn in the third quarter. Reduced overseas sales of copper drove the monthly decline in merchandise exports in July, exacerbated further by lower copper prices which were hit by the intensifying U.S.–China trade dispute. At the end of August, S&P Global

Ratings downgraded Zambia’s credit rating from B to B– owing to the country’s rapid accumulation of external debt. The governments recently unveiled Medium-Term Expenditure Framework sets the fiscal course until 2021, with a view to improving fiscal metrics, and projects an increase in mineral royalties and mine-profit tax revenue.

Headwinds

Fiscal consolidation will be the key driving force for spending in 2018 as the government strives to meet its targets. The International Monetary Fund’s (IMF) October 2017 reclassification of the country as being at high risk of debt distress in October 2017 will pose challenges for the government in the coming years. The reclassification is expected to add upward pressure on lending rates, although the more positive growth outlook is likely to push interest rates downward. Agreeing to a fiscal stabilization program with the IMF in 2018 would help offset some of the effect. The government needs to prioritize lending in the coming years as it tries to regain market confidence, leading up to the rolling over of the 2022 Eurobond. Contractor-financed projects, with no clear tendering process, increased the cost of projects, leading Zambians to question whether their taxes are achieving value for money.

Malawi

Tailwinds

Higher rainfall in 2016/17 was a key contributor to the overall macroeconomic situation in Malawi. First, domestic production of maize increased 36%, which eliminated the fiscal pressures of maize importation. The government is implementing fiscal reforms and improving accountability and transparency systems, which are starting to bring back development partners that withdrew budget support following the Cash Gate Scandal. Earlier in 2017, the government received $80 million in general budget support to strengthen policy and institutional reforms in agriculture and to enhance public financial management systems.

Headwinds

Economic performance depends largely on weather conditions, which are expected to be more variable due to climate change. The country’s economic outlook is greatly influenced by agricultural performance, government economic management programs, global commodity prices, and donor support. Although the electricity supply improved during the rainy season, the flows in the Shire River—the source of 95% of Malawi’s electricity production—are insufficient for generation at full capacity. Elections in 2019 are expected to increase pressure on fiscal spending as the current administration strengthens efforts to win re-election. Maintaining financial sector stability is a key priority. Efforts are under way to strengthen capitalization of banks, but the sector remains exposed to high concentration risk due to the limited number of large creditworthy borrowers.

PRODUCT FOCUS: JM BUSHA REAL RETURN FUND

Introduction
Life presents many challenges and opportunities. Central to all is money – i.e., money required to manage one's life. Two questions arise immediately. First, how can money be saved e.g.,for education ,housingand retirement expenses? Second, how much should be saved? The JM BUSHA Real Return Fund, an absolute return unit trust investment product presents a vehicle for saving money in order to meet future financial needs. You choose what you want to save for! The minimum is R1000 per month.

Product Description
The JM BUSHA Real Return Fund is an actively managed and low risk savings fund fully invested in liquid assets. This is a long term investment product suitable for any person, association, trust or legal entity.

Investment Assets
The Fund invests in listed equities, bonds, money market instruments, derivatives and other allowable securities. Equities' dividend income improves after tax free returns.

Product Accessibility
No minimum investment period is required. Although not advisable, clients can withdraw their investments at any time at no cost that's investment banking for you.

Investment Objectives
To produce a real return of 4% pa over 3 year rolling terms

Investment Strategy
As a medium risk balanced fund that seeks real return with capital protection, the strategy is to invest in secure, high yield instruments in order to meet investment objectives on a risk adjusted basis. The portfolio is managed on a core satellite approach.

Asset Allocation
Discretionary portfolio structured as a medium risk balanced fund. Asset allocation varies from time to time.
Current:Cash:22.94%, Bonds:37.83%, Equities 39.23%.

How to invest?
There are 3 ways to invest:
(1)Direct lump sum deposits,
(2)Monthly automatic debit order,
(3)Lump sum deposits and monthly debit orders.
Banking Details - please see application form

Salient Features

Target Return:	Inflation +4%
Minimum monthly contribution:	R1000
Minimum lump sum:	R25000
Initial fees:	0.00
Exit fees:	0.00
Management fees (inc VAT):	1.44% p.a
Total Expense Ratio:	1.61% p.a
Income declaration dates:	30Jun / 31 Dec
Income payment dates:	07 Jul / 07 Jan
Fund inception date:	1 Oct 2006
NAV (CPU) as at 30/9/2018:	140.48cpu
Fund size:	R112.2m
Fund Classification:	Domestic AA
Reg. 28 Compliant:	Yes

To Invest with JM BUSHA call ***+ 27 861 6000 60*** or email us at: ***invest@jmbusha.com***

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