FESTIVE SEASON STOCKING 2019

see money differently

Nedbank Private Wealth offers something for everyone in this year's stockbroking stocking, with a selection of investment ideas across the risk spectrum and asset classes. As we head into 2020, we wish our clients a merry festive season and all the best for the new year.

ANHEUSER-BUSCH INBEV (JSE: ANH)

Following weakness in Anheuser-Busch Inbev's (ABI's) share price in recent months, our view is that this is the right time for investors to increase their holding given the attractive valuation. ABI is the largest beer brewer in the world and gives investors access to a defensive earnings stream and strong cashflows. Given ABI's leading market position, this business is likely to benefit from growth in global beer markets, as it aggressively grows its higher margin premium category, particularly in highgrowth markets. These expected growth dynamics, combined with a gradual reduction in ABI's gearing levels, should be supportive of an upward trend in its future earnings. ABI is an ideal Xmas gift as it is likely to deliver positive returns for investors in 2020.

LIBSTAR (JSE: LBR)

We selected Libstar as an investment opportunity last year and, despite the share price now being ~25% higher, we don't believe there is any reason to cash in yet. Libstar is a diversified food producer with exposure to a wide range of products and sales channels. One of Libstar's distinguishing features relative to other listed food producers is its comparatively larger exposure to the private-label category. Although near-term trading conditions are expected to remain challenging, the group is well positioned to capitalise on emerging health, wellness and convenience trends. After weaker than anticipated results shortly after listing resulted in significant share price pressure during 2018, more resilient results of late have helped investors regain confidence in management's ability to execute on the group's opportunity set. However, in our view, at a 10x forward price-to-earnings multiple, Libstar's valuation remains undemanding. So add some Libstar to your shopping basket and enjoy the festive cheer!

UNITED TECHNOLOGIES (NYSE: UTX)

United Technologies is an industrial holding company that owns several high-quality businesses; namely Otis, Carrier, Pratt & Whitney and Collins Aerospace. These businesses are on track to be listed separately on the New York Stock Exchange into three distinct companies, which are still trading at a conglomerate discount to their sum of the parts valuation. Post separation in H1 2020 you will be the owner of some of the highest-quality names in the industrials space, where you can buy long-term visibility and growth at a relatively modest price. The company has recently completed a multiyear investment cycle where it has developed new aircraft engines that feature on the fastest-growing commercial and military aircraft programmes. These engines will require servicing and spare parts for approximately three decades. Multiyear backlogs of $127,7 billion and long-term service contracts on its large installed base of products provide recurring cashflows, high visibility and moderate cyclicality. Fly high into the festive season with UTX!

PEPKOR (JSE: PPH)

During these difficult economic times consumers (and investors) are looking for value and Pepkor offers just that. Pepkor's core businesses, discounter PEP and value retailer Ackermans, stand out for their unique positioning in a crowded apparel market.

Pepkor's discount/value model is virtually unrivalled and the focus on delivering basic essentials at the lowest prices underpins its defensive quality. With no relief expected for the constrained SA consumer in the short term, we expect Pepkor to continue to demonstrate its resilience and for 2020 to be the year in which the market rewards this undervalued quality retailer for its robust growth profile.

GLD EXCHANGE TRADED FUND

The role of gold in a portfolio is well documented, albeit hotly contested. One of the textbook reasons for holding a modest allocation to gold has been as a hedge against inflation. Unfortunately, the metal hasn't delivered the goods in this department over time. So why now? We are of the view that the global macro picture looks increasingly uncertain, and so it is as a hedge against heightened geopolitical risk that we would advocate for a position in the metal. There are clearly more geared plays on the outlook for gold instead of GLD, however many of our preferred entry points into financially sound gold miners are not listed on the JSE. Merry Christmas.

CIGNA (NYSE: CI)

With the US market at all-time highs, few remaining pockets of value exist. Healthcare is one of the exceptions. This is due to policies such as Medicare for All being touted by democratic presidential hopefuls in the lead up to the US presidential election in 2020. We believe that it will be highly improbable for these politicians to get the 60% majority required to change legislation. We prefer to invest in those who help to alleviate the problem of rising healthcare costs. Using its scale as one of the largest commercial insurers and pharmacy benefit managers, Cigna has had the lowest medical cost inflation over the past six years among its US peers. While a recent rally has removed the margin of safety we've liked in the share, Cigna's valuation is still attractive relative to the overall market. In our view, the market is discounting the company's strong cash generation and long-term growth profile, and focusing too much on political rhetoric.

ADAPT IT (JSE: ADI)

The phrase 'South African small caps' is enough to engender extreme levels of fear and loathing among equity investors at the moment. A number of smaller companies have seen their share prices derate substantially over the past three years, while others have either delisted or even filed for business rescue. The cycle at play in SA at the moment is such that it takes an investor with the necessary resilience to see it through or, even less common, to go fishing with new money in an environment of seemingly abject discomfort.

On a free cashflow yield of 20%, we are of the view that software group Adapt IT provides an opportunity for the patient contrarian investor over the medium term. We are also aware of technical selling pressure that has added to the current share price weakness, which will abate in due course. Management have engaged in aggressive share buybacks over the past 18 months and this programme is likely to resume in 2020. With clients spread over six independent industries and a growing non-SA source of earnings, we think current prices are discounting an extremely penal outlook across each of its verticals. So if you have what it takes to invest against the herd, here's to you ... Merry Christmas!

NETCARE (JSE: NTC)

Netcare offers a fairly defensive earnings stream and, combined with a renewed focus capital discipline, presents an attractive opportunity for capital returns to investors. Netcare has let go of its UK business and is for now entirely focused on its SA operations, while the acquisition of Akeso (mental health) provides further diversification to the group. Netcare guides for total patient day growth of 0,8–1,2% and that margins for acute hospitals will be stable for FY20. Expansion projects include the completion of the new 427-bed Netcare Alberton, a new 36-bed Akeso facility in Richards Bay, the start of construction of a 72-bed Akeso facility in Port Elizabeth and the expansion of St Augustine's hospital. The ongoing efficiency programmes and digitisation strategy over the medium term are expected to continue to be positive for margins. Cash generation and a healthy financial position suggest upside to capital returns (dividends or share buybacks) to investors. The current estimated dividend yield is a healthy 5,7%.

RESILIENT (JSE: RES)

Given the macro backdrop, a resilient share portfolio is what will make your Christmas merry this year. Resilient is the perfect gift for investors looking for safety in an uncertain world given its defensive assets and healthy balance sheet. It currently trades on a 8,3% forward yield, which is an attractive entry point for a stock that offers investors fairly good visibility on expected returns. The distribution is expected to grow at 5% over the next year. Why sit on cash when you can earn a decent yield and achieve inflation-like growth on your assets? Resilient is the ideal gift this Christmas!