

Are all opportunities abroad, or do SA stocks offer enough value for the SA investor?

In a panel discussion at the Glacier Investment Summit 2022 held in Parys, Free State, representatives from Fairtree and Anchor Capital detailed some of the local opportunities that exist for investors in the context of a war abroad and commodity supply disruption.

We're on the up

"Yes, there is sufficient upside to SA equities to warrant inclusion in clients' portfolios", was the agreement by both participants in the discussion.

If we use January 2020 as the base point, notice that the JSE only started to outperform in September 2021, which occurred off of a rebound of suppressed valuation levels. Even now, eight months later, we feel there is good relative value. While some managers had a relatively neutral stance to global equities coming into the second quarter of 2022, there has been a constructive, positive stance on local equities, which has now been pulled back somewhat.

Local commodity producers

In recent times, SA has been a commodity-driven story. Commodity producers account for one-third of our market and in this context, Naspers and domestic property counters both deserve discussion.

We emerged from the pandemic with monetary and fiscal support, which has strongly supported the demand side. Also, the global supply chain has been under pressure due to disruption which created a demand/supply imbalance in favour of the demand side. The global demand for physical goods has placed upward pressure on the global commodity basket – a favourable scenario for local commodity producers.

Fanning the flames of this fire is the Russia-Ukraine conflict, a dynamic which will sustain for a while. Although this is cyclical, it could hold for the next 12 to 18 months. However, when it rolls over, it will roll over quickly.

Tech savvy

Looking at Naspers in the context of Chinese technology shares, what we're seeing now is not representative of the fundamentals of that particular space. If we exclude Tencent as a portfolio from Naspers, the latter trades at forward earnings multiples of between 12 to 13 times and with a possible double-digit growth profile over the next few years.

On top of that, if Naspers were to unbundle from Tencent, their share price could double in minutes! We can't ignore this attractive equation for investors.

Banking and property

The banking sector represents an attractive investment equation at the moment. ABSA, for example, is trading at a forward earnings multiple of around eight times with a low, double-digit growth equation. This stock could easily produce between 15% and 20% growth per annum in an investment portfolio.

SA property is also very interesting. There may be low distribution growth going forward but double-digit potential per annum.

Going global

There is an interesting opportunity developing regarding global equities. We are six months or 10% away from relative bargains in the global equities environment.

There have been drawdowns in various high-profile stocks, and we have to pay attention – PayPal, Netflix and Meta (Facebook), in particular. We have to be aware that global growth is slowing down (the prediction of 4% this year has changed to 3%), and everything around this has to do with China. This situation will feed through to the earnings growth forecast, which at the moment is strong according to consensus, but this will soften.

We're seeing a rotation from the tech sector to value stocks, and we need to pay more attention to valuation going forward. Global equities markets have fallen by about 20%, and markets are around 40% cheaper. While the global economic outlook is worsening, this is priced in.

As always, it's not about local versus global equities. Diversification truly is the key to a successful investment portfolio and patience rewards with opportunity.

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