Business Maverick's 2024 stock

We look at how the team's shares fared in 2023, and give their choices for the year ahead and their reasons for picking them. Compiled by **Neesa Moodley, Tim Cohen, Ed Stoddard, Ray Mahlaka** and **Georgina Crouth**

Each year, the Business Maverick team put their heads together to choose a selection of stocks they think are worth investing in over the next year. Though we are by no means investment experts, it is usually interesting to see how our portfolio performs.

Our 2023 portfolio is down 13% year on year, which isn't great compared with the JSE All Share Index, which fell 2.56%, but we didn't do too badly compared with the JSE Resources 10, which fell 29% over the same period. You win some, you lose some.

Although the blue chips such as Richemont and Naspers performed, along with Capitec and retail star Shoprite, the portfolio was dragged down by dramatic falls in the resources and mining sector. Ed Stoddard called it last year when he noted that "the big risk is that Transnet's port and rail operations might continue to deteriorate, leading to Exxaro and Thungela not being able to take advantage of coal export opportunities".

As recently reported by Ray Mahlaka: "A big problem with the freight business is that Transnet does not have enough locomotives that move through its rail network. About 370 locomotives – the heavy haul ones that are supposed to pull the coal and iron ore wagons – are idle." The knock-on effects on the resources and mining sector are glaring, to say the least. Thanks for nothing, Transnet.

And before you read further, as all the investment managers in the field say: please note that past performance is not an indicator of future performance!

For the exercise, we assumed an investment of R100, with R10 invested in each stock. (See the table on this page.)

Company	Opening price 11/12/2022	Closing price 11/12/2023	YTD change	End rand amount
Exxaro	R221.39	R190.21	-14%	R8.60
Thungela	R286.23	R146.66	-49%	R5.10
Sibanye-Stillwater	R48.45	R22.47	-54%	R4.60
Glencore	R115.85	R105.28	-9%	R9.10
Capitec	R1 863.11	R1 940.14	+4%	R10.40
Richemont	R2 310	R2 540.22	+10%	R11
Naspers	R2 792.07	R3 435.72	+23%	R12.30
Anglo American	R682.19	R436.75	-36%	R6.40
Shoprite	R236.79	R259.63	+10%	R11
Return				R78.50
Invested				R90
Total return				-13%

The Business Maverick team's 2023 portfolio.

Stock picks at the end of 2023

Who picked the winners and losers?

Losers

Exxaro – Ray Mahlaka
Thungela – Ray Mahlaka
Sibanye-Stillwater – Ed Stoddard
Glencore – Tim Cohen
Anglo American – Ed Stoddard

Winners

Capitec – Neesa Moodley
Richemont – Ray Mahlaka
Naspers – Georgina Crouth
Shoprite – Neesa Moodley

Stock picks for 2024:

Capitec (R1,940.14) – Neesa Moodley

This is the biggest bank in the country, with client numbers at a whopping 21.1 million as at the end of August, and it was one of the success stories in our portfolio during 2023. Once a disruptor in the market, Capitec has diversified, growing its non-interest income streams through product diversification and digitalisation, insurance licensing and broadening payment services. Under the auspices of a new campaign, "Better Never Rests", the bank seems set to continue improving.

Radebe Sipamla, an investment analyst at Mergence Investment Managers, says Capitec is the most efficient bank in South Africa across multiple metrics, as well as among emerging market challenger banks.

"The evolution to a universal bank will be accelerated through its business banking offering, which will replicate the phenomenally successful retail banking blueprint to provide innovative services to small and medium enterprises. Recent results for the first half of the 2024 financial year reveal the strength in the Capitec business model, [particularly if] you consider the fact that despite the increase in impairments, it was able to deliver a return on investment [ROE] of 24%, albeit slightly light of what management targets when pricing its credit products at 25%."

The increase in stage one and two impairments was muted, but the big increase was within stage three loans, particularly loans that are more than three months in arrears, in legal status or have applied for debt review. However, this is a reflection of a difficult macro environment in which, despite trends of consumer deleveraging over time, debt affordability has become challenged given the sharp increases in interest rates coupled with higher inflation and cost pressures on consumers because of higher food and transport costs.

Sipamla says the trends imply that credit losses are likely to have peaked for Capitec and that the second half will show improvements in impairments that will be supportive to earnings and ROE, which he believes will be above 25% for the financial year ended February 2024.

Further to this, he adds that Capitec's innovation and ability to monetise its large retail client base meant that it generated 48% of its operating income from transactional revenue, with 15% of that coming from new initiatives that have been recently launched, such as its funeral product. "This is what supports Capitec generating a cost-to-income ratio of 38%, as it increasingly generates a higher proportion of capital-light revenue that effectively allows the bank to fund operating costs from non-interest revenue. This is what many banks in SA and globally strive towards but find challenging to achieve given their reliance on net interest income, which requires capital for generation compared with capital-light non-interest revenue from transactional banking activities and value-added services such as airtime and electricity purchases," he explains.

Shoprite (R259.63) – Neesa Moodley

I picked this stock last year, and I'm sticking with it because I think there is still an upward trajectory. The group has continued to shoot the lights out – sales up 16.9% and a market share gain of R8.1-billion. Even more impressive in the current punishing consumer environment, Shoprite managed to win over customers with its combo deals, private label brands and the Xtra Savings loyalty programme – all while managing to produce a 24.1% gross margin and growing gross profit by 14.7% to R51.7-billion.

And as our regular columnist the Finance Ghost points out, Shoprite is doing an exceptional job of growing volumes, with further market share gains that look especially impressive when compared with a competitor like Woolworths.

MTN (R107.56) – Tim Cohen and Ray Mahlaka; Vodacom (R99.30) – Ray Mahlaka

The share prices of Vodacom and MTN have each been down by more than 15% in 2023. Investors have been nervous about the growth prospects of the big telecommunications companies over the past three years. The earnings of both companies have taken a big knock because of Eskom blackouts and the need to spend billions of rands on backup electricity measures to keep their cellphone towers going when there are electricity disruptions.

However, both companies are nearing the end of their capital deployment programmes to make their networks more resilient to blackouts. Vodacom and MTN are forecasting higher earnings (profits each growing by at least 20% over the next few years) and hopefully higher dividend payouts to shareholders. These growth prospects should feed into higher share valuations.

Peter Takaendesa, head of equities at Mergence Investment Managers, agrees. "For both Vodacom and MTN, there are structural growth drivers in their rest of Africa operations and those include mobile money and mobile data. The penetration of these services

picks; 2023's winners and losers

into their total subscriber bases is still quite low and demand remains very strong despite the tougher current economic environment in most of those countries. Vodacom is targeting high single-digit growth mid-term for the group, while MTN expects low-to-mid-teens growth mid-term in constant currency," he says.

Takaendesa says Vodacom shares are now looking "fairly attractive" for a two- to five-year investment horizon, although the risk profile has also increased with the expansion into the rest of Africa, where it is difficult to upstream cash. However, he adds that MTN is looking more attractive for a two- to five-year investment horizon, even though the group has to navigate a challenging key Nigerian economic and regulatory landscape over the next six to 12 months.

Sun International (R40.25) – Georgina Crouth

The hotel and leisure sector is enjoying a welcome return to growth. Sun International has seen a sharp return of leisure, bleisure (business and leisure) and business guests, with a jump in occupancy and expenditure, which bodes well for the industry, in particular in Cape Town, where planeloads of international tourists are arriving daily.

An expert in experiential travel, Sun International has just launched the revamped Grand West Hotel and opened its new luxury Lefika timeshare units at Sun City. Room rates are up and gamers are back. On 27 November, it issued a cautionary announcement to shareholders about a possible acquisition, saying negotiations with the unnamed entity are still ongoing. But the smart money is on an expansion of its sports or online betting interests, which is likely to increase value for shareholders.

British American Tobacco (R548.22) – Georgina Crouth

The tobacco industry might be on its last legs, but judging by the growing popularity of e-cigarettes there's still hope for companies like British American Tobacco. You needn't be bullish about BAT – its recent trading update or the lack of growth in its share price over the past decade – to see the potential in vaping products, with countries like the UK, New Zealand and others witnessing a sharp shift away from combustibles in recent years. South Africa's Tobacco Bill might seem like a slam-dunk, but even regressive approaches to e-cigarettes won't change the direction many parts of the world are moving in, and that's the acceptance that they're an effective mechanism to help get adults off cancer sticks. You can't stop people feeding their habits but you can make it safer – and more profitable.

Takaendesa adds that although there are continuing regulatory risks in most global tobacco markets and competition from illicit products, Mergence believes the risk-reward profile of BTI shares remains attractive and fits perfectly into its "high-quality cheap bucket" supported by a 2023 dividend yield of more than 10% in hard currency, and low-mid single-digit earnings/dividend growth mid-term.

"Value is likely to be unlocked through consistent dividend payments, with the potential for shares to re-rate towards leading peer valuation levels as balance sheet gearing reduces further and [there is the] potential for accretive share buybacks to resume from late 2024. Our scenario analysis shows that BTI's higher exposure to the potential impact of the now well-known US menthol regulation and execution risk on the business transformation to new generation products are already more than reflected in the depressed valuation, while the bull case has potential to double the share price if we are right on the potential for a re-rating and more so if combined with a weaker rand mid- to longer term," he notes.

Harmony Gold (R115.35) – Ed Stoddard

Harmony Gold has two key things going for it: a red-hot gold price and a faltering rand currency. Gold reached new record highs above $2,100 an ounce and has also smashed records in rand terms, a combination that flows directly to the bottom line of Harmony, which gets about 90% of its production from South Africa.

As of early December, Harmony's share price was over 90% higher in 2023. And the key drivers behind gold's bull run – expectations that US interest rates have peaked, geopolitical trends, global debt worries and central bank buying – are not about to evaporate in 2024.

However, Vaughan Henkel, head of equities and research at PSG Wealth, warns that although Harmony is the cheapest out of SA gold producer peers (GFI and ANG), it has the highest exposure to South Africa, where electricity is unreliable and labour costs are unstable.

"It also has a high cost relative to peers due to its underground mines. Harmony has had an impressive run over the past year, but our view is that gold has a limited runway from current prices and the performance of South African gold producers is unlikely to continue as tailwinds run out," he cautions.

Gold Fields (R268.61) – Ed Stoddard

Gold Fields, like Harmony, has reaped the benefit of record gold prices, and its share price as of early December 2023 was up about 55% in the year to date. The company should continue to be lifted by gold's bull run, which shows little sign of running out of steam. Gold Fields has a geographically diverse production base, which reduces risk, and it is mechanised and relatively low-cost.

Resilient REIT (R42.53) – Tim Cohen

All South Africa's big real estate investment trusts are languishing, and really haven't recovered after the Covid shock, so this is a turnaround bet. And since it's a turnaround bet, Resilient edges out Growthpoint and Redefine because it fell the most as Covid-19 hit.

The idea of a real estate turnaround is somewhat speculative, because it's somewhat dependent on the economy turning around as a whole. But what does seem more likely is that interest rates will turn around sometime towards the end of 2024. That should boost real estate investments. Investors also want to see how the move to working from home is going to affect the REITs, but that seems to be more or less clear by now, and is probably priced in. REITS are cheap by historical standards, so it's a sector looking for upside, and it's possible Resilient will prove true to its name.

Investec PLC (R120.67) – Tim Cohen, Neesa Moodley

Sipamla says that, before the appointment of Fani Titi and Hendrik du Toit as joint CEOs in 2018, Investec was historically viewed by investors as an opaque and overly complex entity that was not mindful of how it allocated capital and was not conscious of generating returns for shareholders.

Since then, the strategy and the targets that Investec management introduced in 2018 and executed from 2020 have resulted in Investec disposing of and exiting operations that fail to generate sufficient returns.

"Examples of this include the ongoing disposal of the private equity portfolio, significant capital returns to shareholders in the form of share buybacks, improved shareholder return measures such as return on equity within the mid-point of the 13-16% target range offset by management and M&A transactions to scale up and de-risk the UK Wealth operations by combining the UK Wealth and Investment business with Rathbones," Sipamla elaborates.

He says these actions have resulted in the stock re-rating significantly and outperforming peers. **DM**

Capitec, MTN, Vodacom, Gold Fields, Resilient, British American Tobacco, Investec, Shoprite, Sun International and Harmony Gold. Photos: Bloomberg via Getty Images, Gallo Images and Supplied