IF YOU WANT TO BE TAKEN SERIOUSLY, BE CONSISTENT.

Small Talk Top Stocks for 2018

Anthony Clark
Financial & Industrial Small & Medium Market Cap Analyst
Food Producers & Agriculture Analyst

Follow me on Twitter @SmallTalkDaily
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2017 started well.....then politics upset the applecart...then lethargy & corporate complacency.....But, after a great Q1, and a terrible Q2 & Q3...Q4 saw a revival

My call early in 2017 that a huge maize crop would assist food stocks...came true...though it all depended how you were hedged

In this 2018 list, I am updating the food recommendations I made in late-November 2017 (when I went on record for my 2018 selection)....and add in some smaller stocks which I believe could see (1) earnings recovery (2) more NAV unlock (3) upside earnings surprises

Having has a return of +17.5% in 2017, I am hoping year 7 of this product shows my stock selection trend...in my long-standing sector...remains consistent & worthy of support in a new operating environment for research analysts
Consistent JSE benchmark outperformance selection (mostly) past 6 years

- 2012 Return +28.1%
- 2013 Return +39.6%
- 2014 Return +56.6%
- 2015 Return +51.4%
- 2016 Return -17.7%
- 2017 Return +17.5%
How my 2017 selection did

<table>
<thead>
<tr>
<th>SmallTalk Top Stocks 2017</th>
<th>As Selected Dec 23 2016</th>
<th>29 December 2017</th>
<th>% Chg</th>
<th>Dividends</th>
<th>Total % return YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaap Agri</td>
<td>3700</td>
<td>4950</td>
<td>33,8%</td>
<td>112</td>
<td>36,8%</td>
</tr>
<tr>
<td>Zeder Investments</td>
<td>652</td>
<td>660</td>
<td>1,2%</td>
<td>11</td>
<td>2,9%</td>
</tr>
<tr>
<td>Astral Foods</td>
<td>12450</td>
<td>26790</td>
<td>115,2%</td>
<td>1055</td>
<td>123,7%</td>
</tr>
<tr>
<td>Pioneer Foods</td>
<td>15375</td>
<td>13708</td>
<td>-10,8%</td>
<td>365</td>
<td>-8,5%</td>
</tr>
<tr>
<td>AEEI</td>
<td>370</td>
<td>660</td>
<td>78,4%</td>
<td>7,5</td>
<td>80,4%</td>
</tr>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>2348</td>
<td>378</td>
<td>-83,9%</td>
<td>0</td>
<td>-83,9%</td>
</tr>
<tr>
<td>Ansys</td>
<td>130</td>
<td>92</td>
<td>-29,2%</td>
<td>0</td>
<td>-29,2%</td>
</tr>
<tr>
<td>% Return on selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSE Small Cap Index</td>
<td>60535</td>
<td>60971</td>
<td>0,7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>74904</td>
<td>80245</td>
<td>7,1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Overall cumulative return for the year was +17,5%
- My ‘play’ in maize proved correct (if) you hedged correctly; Astral did.
- AEEI as a value unlock delivered
- CIL (for 2nd year) was an Annus Horribilis
How my **2016** selection did

<table>
<thead>
<tr>
<th>My top 5 for 2016</th>
<th>Jan 11th</th>
<th>Dec 31st</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>3010</td>
<td>2398</td>
<td>-20,3%</td>
</tr>
<tr>
<td>Torre Industries</td>
<td>374</td>
<td>179</td>
<td>-50,7%</td>
</tr>
<tr>
<td>Stellar Capital</td>
<td>225</td>
<td>150</td>
<td>-33,3%</td>
</tr>
<tr>
<td>Sygnia Holdings</td>
<td>1344</td>
<td>1798</td>
<td>37,6%</td>
</tr>
<tr>
<td>Astoria</td>
<td>1799</td>
<td>1080</td>
<td>-40,0%</td>
</tr>
<tr>
<td>Santova</td>
<td>430</td>
<td>350</td>
<td>-17,5%</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review **-17,7%**

**Benchmarks**

<table>
<thead>
<tr>
<th>JSE Small Cap Index</th>
<th>51411</th>
<th>61613</th>
<th>19,8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE Mid Cap Index</td>
<td>65186</td>
<td>77395</td>
<td>18,7%</td>
</tr>
</tbody>
</table>

- Overall cumulative return for the year was **-14,9%**
- Only Sygnia shone. My selections of some past ‘successes’ literally showed how poor their ‘core’ franchise was when the ‘shit hit the economic fan’….and the market became jaundiced them.
How my 2015 selection did

<table>
<thead>
<tr>
<th>My top 5 for 2015</th>
<th>Jan 2nd</th>
<th>31-Dec</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>2865</td>
<td>3185</td>
<td>11.2%</td>
</tr>
<tr>
<td>Torre Industries</td>
<td>401</td>
<td>400</td>
<td>1.6%</td>
</tr>
<tr>
<td>Curro Holdings</td>
<td>2882</td>
<td>5779</td>
<td>100.5%</td>
</tr>
<tr>
<td>Anchor Capital Group</td>
<td>715</td>
<td>1740</td>
<td>146.6%</td>
</tr>
<tr>
<td>Quantum Foods</td>
<td>320</td>
<td>300</td>
<td>-3.1%</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review 51.4%

Benchmarks

| JSE Small Cap Index | 57920 | 53152 | -8.2% |
| JSE Mid Cap Index   | 69789 | 62709 | -10.1% |

• Overall cumulative return for the year was 51.4%.
• Happy to continue to own (most) stocks; I’d take profits in Curro Holdings as I can’t see significant upside in 2016. Quantum is TOO CHEAP but market does not understand the drivers.
How my 2014 selection did

<table>
<thead>
<tr>
<th>My top 5 for 2014</th>
<th>Jan 6th</th>
<th>02-Jan</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSG Holdings*</td>
<td>174</td>
<td>210</td>
<td>23.0%</td>
</tr>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>2280</td>
<td>2875</td>
<td>26.1%</td>
</tr>
<tr>
<td>Torre Industries</td>
<td>190</td>
<td>407</td>
<td>114.2%</td>
</tr>
<tr>
<td>Hudaco*</td>
<td>10500</td>
<td>9670</td>
<td>-3.5%</td>
</tr>
<tr>
<td>ConvergeNet</td>
<td>100</td>
<td>223</td>
<td>123.0%</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review 56.6%

Benchmarks

| JSE Small Cap Index | 50106 | 57920 | 15.6% |
| JSE Mid Cap Index   | 60192 | 69789 | 15.9% |

- Overall cumulative return for the year was 56.6%.
- Happy to continue to own (most) stocks; I’d switch Hudaco into Invicta though for the impending special dividend & discounted rights issue
How my **2013** selection did

<table>
<thead>
<tr>
<th>My top 5 for 2013</th>
<th>Feb 5th</th>
<th>Dec 31st</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curro Holdings**</td>
<td>1520</td>
<td>2780</td>
<td>90.0%</td>
</tr>
<tr>
<td>Cons Infrastructure Group</td>
<td>1670</td>
<td>2280</td>
<td>36.5%</td>
</tr>
<tr>
<td>Ellies Holdings</td>
<td>856</td>
<td>556</td>
<td>-35.0%</td>
</tr>
<tr>
<td>Rainbow* (RCL Foods)</td>
<td>1520</td>
<td>1750</td>
<td>15.1%</td>
</tr>
<tr>
<td>Torre Holdings</td>
<td>115</td>
<td>220</td>
<td>91.3%</td>
</tr>
</tbody>
</table>

**Average performance of top 5 in review** 39.6%

* chosen pre 80 : 100 rights @ 1420 cents
** includes rights issue share entitlement

<table>
<thead>
<tr>
<th>Benchmarks</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE Small Cap Index</td>
<td>42366</td>
<td>49909</td>
<td>17.8%</td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>54881</td>
<td>60149</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

- Overall cumulative return for the year was 39.6%. (if Ellies sold at my fundamental sell in April 2013 at 940c the return would have been 48.6%).
How my 2012 selection did

<table>
<thead>
<tr>
<th>My top 5 for 2012</th>
<th>March 1st</th>
<th>Dec 31st</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curro Holdings</td>
<td>1004</td>
<td>1635</td>
<td>62.8%</td>
</tr>
<tr>
<td>Cons Infrastructure Group</td>
<td>1150</td>
<td>1640</td>
<td>42.6%</td>
</tr>
<tr>
<td>Super Group</td>
<td>1445</td>
<td>1680</td>
<td>16.3%</td>
</tr>
<tr>
<td>Astral Foods</td>
<td>12399</td>
<td>10350</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Pinnace Holdings</td>
<td>1360</td>
<td>1837</td>
<td>35.1%</td>
</tr>
<tr>
<td>Average performance of top 5 in review</td>
<td></td>
<td></td>
<td>28.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmarks</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE Small Cap Index</td>
<td>35235</td>
<td>40967</td>
<td>16.3%</td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>47121</td>
<td>54998</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

- Overall cumulative return for the year was 28.1%. (if Astral sold at my fundamental sell in June 2012 at 11400c the return would have been 29.7%).
- Curro & CIL are stocks I’d own in any long-term growth portfolio
Running with the winners but watching my back....
How the 2017 Top Stocks fared; a mixed bag.....with some outstanding gains & a dismal loser

What an awful year. In fact a disaster (much) of its own making due to Conco complacency. Delays in renewable energy compounded. Slowdown in oil hit Angolan AES (but still profitable) Conlog & other non-Conco divisions remain highly profitable. BUT HEPS plunged to -77cps, share dived -84%, bond holders unhappy and lots of work ahead to rebuild some confidence and appease markets. H1 will be challenging. CIL hopes to be HEPS positive for FY18.

Solid performance of a very high base in telecommunications as fibre optic network expansion slowed with economy. H1 HEPS fell by 19% as revenue fell 23% but higher margin biz saved a similar profit fall (-17%). Company repositioning towards more of its own tech and IP software Acquisition of cyber security LAWTrust for PE6x a sweet little deal.

Awful fear. HEPS plunged as bad maize procurement, poor raisin crop, weak African division all hit. CEO changes and overall margin plunged to 6.5% from normalised 11%. Share price was -12% for the year. Off its lows. I expect recovery in 2018

Zeder Investments is basically a Pioneer Foods proxy @56% SOTP & @66% Market Cap. So if Pioneer is weak Zeder is weak

Had a strong run from R30 in December to a high of R64 post listing in June 2017. HEPS +18% year-on-year was in line with my expectations. Market concerned on Western Cape drought. Will impact, not know how much (yet) but other businesses and diversification will counter. Strong growth in fuel led by acquisitions to come.

Listing of two unlisted entities saw the share price rise over 80% as the market started to see the transparency coming through to AEEI. Premier Fishing then AYO added value but AYO has not fully been recognised. I see SOTP >1700c

What a great year. Profits doubles, HEPS surged, share price rose from my recommendation 120% and 2018 promises to be a fair year too as the maize crop (despite weather issues) exceeds domestic needs & there is a large stock carry-over. A stock I chose in 2017 at R124.50 which I stick with for 2018
PLEASE SIR
I WANT SOME MORE
2018’s selection: some rolling on….some (new)

*Zeder 606c – Nice discount, looking to ‘do something’, PFG recovery, re-valuation potential in ZAAD & Capespan. Years of ‘doing little corporate wise’…could (we) see Zeder surprising in 2018?

AEEI 750c – Premier Fishing (listed) giant ICT AYO (listed quietly on 21st Dec), AEEI stuffed with cash, probable SOTP >1700c. Big special dividend play. Had strong 2017; 2018 could also see good upside.

*Astral Food 20365c / *Pioneer Foods 11550c – More of the same in 2017 with (in Pioneer’s case) a recovery in margin and better procurement of basic inputs.

*Senwes 1250c – well-priced, undervalued business which continues to perform. Could have another good earnings year given maize harvest stocks 2017 & prospects 2018. Unlock ‘potential’ & on hunt for ‘deals’

AYO 4300c – Quiet R14,8bn listing raised (oversubscribed) R4.3bn. ICT biz is best BEE compliant in sector. PLS forecasts ‘do-able’. PE 14x, big cash generator & lots ‘news’ to come on deals & contracts.

Grand Parade Investments 260c – deeply unfashionable with HUGE NAV discount. BUT, Chairman Hassen Adams (on record) saying value unlock & a period of value creation is ahead. Burger King could uplift.

Ellies Holdings 34c – Chosen in Aug (29c) Ellies ran to my 45c target. Its now fallen back. Don’t overlook its recovery. This is speculative, but I can easily see this stock moving back towards a Rand in due course.

* Chosen on November 23rd 2017, as published, as my top food stocks of 2018
<table>
<thead>
<tr>
<th></th>
<th>Nov 23 2017</th>
<th>March 12 2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Astral Foods</td>
<td>20365c</td>
<td>30832c</td>
<td>+51.4</td>
</tr>
<tr>
<td>Pioneer Foods</td>
<td>11550c</td>
<td>13150c</td>
<td>+13.9</td>
</tr>
<tr>
<td>Senwes</td>
<td>1250c</td>
<td>1180c</td>
<td>-5.6</td>
</tr>
<tr>
<td>Zeder Investments</td>
<td>606c</td>
<td>662c</td>
<td>+9.2</td>
</tr>
</tbody>
</table>

**J357 Food Producers Index**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+17.3%</td>
<td>+4.4%</td>
</tr>
</tbody>
</table>
Pioneer Foods had a terrible 2017; a real Annus Horribilis

- Share price –12.3% since start of 2017 (was higher R188 & lower R111)
- CEO left & replaced (by competent insider)
- 2017 Revenue -5%, Op Profit -44%, HEPS -50% to 442c & margin 6.5% (11%)
- Main cause was disastrous maize hedge which only unwound in May thus PFG could not benefit from materially lower inputs costs (which I thought it would given I chose stock in 2017)....who would have known it could not hedge !!!
- Better maize pricing now in system, margin recovering across categories
  - BUT, west of SA (dry) a concern next 2 weeks. Will be a good crop BUT not bumper BUT more than enough carry over. Hovering @R2000/t
  - Consumer volumes also a risk in a more competitive landscape
- Real potential for Pioneer is to see an material improvement in the margin back towards normalised levels. Reducing reliance of basics towards branded is also a key strategy. New ‘boy’ at helm will want to prove his worth
Discount at time of completion -12.5% with 800cps Sum of the Parts
R2,4bn of ‘free assets’ in the pot (Pioneer, Capespan + ZAAD = Zeder market cap) of R12bn
Pioneer (57,4% of SOTP & 65,7% SOTP) -20% for Zeder in 2017
  ▪ I’m expecting earnings & margin recovery in stock in (mostly) 2H 2018
  ▪ Real ‘swing’ to Zeder is Pioneer…this is the **KEY DRIVER** to my recommendation
    ▪ Its up from its R112.50 low by +21%
    ▪ White maize a concern; watching VERY closely
    ▪ AGM on February 9th will be ‘telling’
Capespan (16,5% & 18,9%) & Kaap Agri (10,5% & 12,0%) could have tough year due to Western Cape drought impacting their operations; Kaap better diversified
Swing could be ZAAD again
  ▪ Saw 33% revaluation year-on-year to R2,043m (14,8% & 16,9%)
  ▪ This business unit in 2013 was worth only R369m ; its +550% in value
What a year. A year of two distinct halves; H2 was plump & ‘bootyful’
Sharply lower maize & soya prices and some positive sector fundamentals doubled the profit and saw the share price rise +120%
My early 2017 estimate (and thus my selection of Astral at R124.50) of a bigger maize crop AIDED ARL as it hedged properly (soya also assisted)
  ▪ Share broke 3 price targets; R160, R200 & R260
FY HEPS +97% to 1899cps total dividend 1055c
2018 looking good
  ▪ Expectation (again) that post festive Kg realisation will be ‘managed’
  ▪ Maize crop looks sound (in yellow) and holding @R2,000/t plenty carry-over
  ▪ Huge soya crop expected as plantings up over 20%
  ▪ Avian flu in Europe not going away anytime soon. Imports remain a threat but local supply/demand balance gives big players a mild edge if they continue to ‘play ball’
  ▪ Should be a very strong results period for Astral and its one I maintain
Senwes had a good results year despite the drought after effects; 2018 should be better given the crop (storage) carry-over

FY17 HEPS 108,4cps with 45cps dividend (best ever period 153cps 2013)
- H1 results to October, PBT +50% to R257m, HEPS +81,4% to 97,8cp (90% of FY17) with 27cps interim dividend. NAV at H1 1227,5cps
- Mcap R2.18bn (1290c) with cash on hand R304m = 14%

Big interim swing was +167% rise in grain profits. Financial services flat & retail side -45%.

Ongoing share buy-back reduced float from 181m to 169m

Potential for ‘deal’ (could) see Senwesbel unbundled (sits on huge discount to Senwes)...& (possibly) move (then) from ZAR-X to JSE
- If a JSE move (does) eventually occur I can see value to R22 – R24

Financially strong, conservative management...moving ahead BUT 2-3 years behind sector leader Kaap Agri. But the ‘change’ train has left the station.
Update on Maize; the market (like last year) may gotten it wrong...slide 1 of 4

- After a record 17.7mt in 2017 harvest (after 7.7mt in drought 2016) the market is forecasting a maize crop in 2018 of 12.5mt (-28%); they (may) be clutching too high!
- At the beginning of the season, farmers intended to plant 2.47million hectares of maize, down by 6% from the 2016/17 production season. About 57% was set to be white maize, with 43% being yellow maize
- The CEC is due to issue its first report on January 30th; watch closely but more so the February crop report
- Yellow maize (grown in East of SA) are in good condition. White maize (grown mostly in West of SA) is a mixed profile and has been planted LATE due to dry soil moisture conditions & heat; only 50% - 85% is planted & time to plant is running out. The West needs rain urgently.....OR (cont...)
Update on Maize; the market (like last year) may have gotten it wrong...slide 2 of 4

White maize mainly grown in west
Crop planted LATE due to dry, hot weather
On av -25% down

Yellow maize mainly grown in east
Crop is 100% planted and is in good condition
Update on Maize; the market (like last year) may gotten it wrong...slide 3 of 4

- The maize crop (accords Senwes) could be **10.5-11mt**...perhaps even 10mt if rains do not fall in the West
  - This will HURT the white maize crop principally...yellow maize will be ok
- This will have an impact to selected agri stocks BUT NOT FOOD STOCKS...why?
  - Due to the large harvest in 2017
    - White maize carry-over stocks are @3mt
    - Yellow maize carry over stocks are @1.5mt
- SA needs @10.5mt for domestic consumption
- There is sufficient carry-over to keep SAFEX maize prices benign & enough white maize to meet any harvest shortfall from a lower yield & hectares planted...SAFEX remains @R2,000/t (or less)
  - Thus the carry-over will assist animal rearing & milling stocks (Astral & Pioneer Foods) by keeping prices of inputs stable or benign.
Update on Maize; the market (like last year) has gotten it wrong...slide 4 of 4

- BUT...a lower maize crop & a benign SAFEX maize price will HIT farmers incomes....*this (could) be WORSE than the 2015/16 drought (worst case scenario)*
- Farm incomes from maize in drought 2016 was @R27bn (7.7mt)
- Farm incomes from maize in record year 2017 was R30bn (17mt)
- IF the maize crop is as (forecast) in 2018 farm income will crash -50% to R20bn
  - This will have severe repercussions to selected agri businesses
    - NWK, Suidwes, OvK
    - Requisites suppliers, tractors, fertilisers etc (Invicta, Omnia)
- The bigger, diversified agri businesses (Kaap Agri, TWK & Senwes) will be affected
  BUT are far more diverse, have stronger balance sheets & a wider presence
- DON’T BE ALARMED AT THE POSSIBLE HEADLINES ON MAIZE...THE CARRY-OVER IS SUFFICIENT & FOOD STOCKS SHOULD NOT BE AFFECTED.
Raising market consciousness on (events) that may have passed them by

AEEI, AYO, Grand Parade Investments & Ellies Holdings
<table>
<thead>
<tr>
<th></th>
<th>Jan 12</th>
<th>Mar 13</th>
<th>% Change</th>
<th>2018 High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anchor Group</td>
<td>328c</td>
<td>393c</td>
<td>+19,8</td>
<td>433c</td>
</tr>
<tr>
<td>AEEI</td>
<td>750c</td>
<td>700c</td>
<td>-6,7</td>
<td>780c</td>
</tr>
<tr>
<td>AYO</td>
<td>4300c</td>
<td>4100c</td>
<td>-4,7</td>
<td>4500c</td>
</tr>
<tr>
<td>Ellies</td>
<td>34c</td>
<td>39c</td>
<td>+14,7</td>
<td>45c</td>
</tr>
<tr>
<td>Grand Parade</td>
<td>260c</td>
<td>237c</td>
<td>-8,8</td>
<td>280c</td>
</tr>
<tr>
<td>J202 Small Cap</td>
<td>61,108</td>
<td>60,397</td>
<td>-1,2</td>
<td>+2,9</td>
</tr>
<tr>
<td>J201 Mid Cap</td>
<td>78,442</td>
<td>78,536</td>
<td>+0,01</td>
<td></td>
</tr>
</tbody>
</table>
AEEI (true to its word) listed two entities onto the JSE

Premier Fishing is R1.4bn listed at 450cps (raised R526m) in March 2017 and AYO at R43,00 in December 2017

- PFB beats PLS with HEPS 35cps & 15cps dividend
- AYO raised R4.3bn at HIGH end of range & was oversubscribed to value ICT business (formally BT & AEEI interests) at R14,8bn

Despite rising by +92% in past year, I still see upside value in AEEI. Its market cap remains at R3.76bn (AYO is alone worth R7.2bn to AEEI & PFB R523m yet alone stakes in Pioneer Foods, Sygnia & other assets worth @R700m

- Net cash on hand (R1bn) could see fat special dividends; 100cps?
- Most of portfolio now in JSE listed assets (better transparency). On a simple look through, AEEI it trades on a >50% discount with a fat cash component & future potential for generous dividends

AEEI ‘theoretical’ SOTP is >1700cps. Thus I can see more upside in the stock
Listed (in a hurry) onto the JSE on December 21st 2017 at 4300 cents AYO, for AEEI, raised R4.3bn which was oversubscribed. AYO is currently valued at R14,8bn.

AEEI post the listing will own 49% & AYO will be the most empowered large ICT company in South Africa – this is the key to its growth and the PLS forecasts.

This ‘festive’ listing (thus) was off the radar for most institutions. As AYO’s platform & business starts to gain market consciousness...and its earnings & deals start to flow...I see the stock gaining upside traction in 2018.

PLS shows aggressive targets on P43-46. In interrogating forecasts;

- FY18 revenue R4.4bn, PBT R659m, earnings 209,08cps – 16x PE
- FY19 revenue R7.7bn, PBT R872m, earnings 251,85cps (post dilution) – 17x
- FY20 revenue R9.3bn, PBT 1,16bn, earnings 326,19cps (post dilution) -13x
- Expects to pay @50% earnings back in dividends

I see key to this stock being (1) market understanding (2) BEE leading to (3) larger client contacts & (4) bolt on ICT deals as AYO leverages the BT network of clients.
An investment vehicle which has failed to ‘deliver’ real value as it sits on a massive discount to NAV (498cps or -48% to current share price)

But is this about to change? The AGM I attended & the ‘promises’ by Chairman Hassen Adams (could) see action – in some form – in 2018

What could occur? Only wants to be in cash generative businesses.
  - Fast food made fat losses –R61m in 2017; market unhappy & wary. This strategy by GPI is changing
    - Adams being “ruthless on costs...HQ down 50%, no excess money spent”
    - Burger King will meet its 80 store target (now 61) “rising like a phoenix” Adams comment could be 100 stores by 2019 with revenue R1.4bn
    - Dunkin Donuts & Baskin Robbins will NO LONGER get expansion capital
    - GPI wants to take Spur stake to 25% (17.5%) & get 2 board seats (they see benefits but Spur is unsure)
  - Adams “we are an investment company...everything (could) be sold...at a price”
Selected this stock in August 2017 at 29 cents and it quickly rallied to my target of 45 cents (then) slipped back. Gives 2nd ‘bite at the cherry’

- H1 results saw Ellies move back into profit.
  - Profit +159%, HEPS 3,05cps
- Long standing CEO Wayne Samson exited, CFO in (temp) CEO role & seeking suitable candidate
- Cost cutting as agreed by banks well in hand (R60m) p.a
  - Perhaps a bit (more) to squeeze here @R10m
  - Initial supply chain logistics (delays) but getting there
- 2H ‘better than internal budget’...both key November & December months. They (hope) some consumer confidence will reappear (CR17) for Jan-April & YE
- Worst is over, they see so trouble on the horizon (business wise)
- If, as I expect, the 2H HEPS improve on H1 (then) Ellies starts to look very appealing as a recovery play and earnings play into 2019
You (may) all think I’m mad….but then (most) of you did when I issued a STRONG BUY when I ‘banged the drum’ on Sygnia in mid-October 2017 (820-890c) and it’s now 1450 cents. I’d certainly monitor Anchor Group. But Why?

- Market value has -63% plunged in past year to (current) R675m at 328 cents
- H1 HEPS profit warning shocked market. H1 HEPS 22cps & passed dividend. Range of 34c – 45c for FY17. Taking mid 40c PE is 8,2x or <6x (strip out cash)
  - AUM R52.7bn as at Sept 2017(+15,1%)
  - FY16 HEPS 64,7cps
  - Cash & liquid assets on hand at last disclosure R198m (29% of market cap)
  - Been undertaking share buy-backs
  - Strip out cash from market value & you can buy >R50bn of assets for R480m or >1%
- Whispers of record AUM inflows in Nov & Dec 2017 with better performance overall from Capricorn (though no performance fees expected)
- AUM should see good like-on-like growth but strong R vs $ +10% will hit
- 2017 will be Anchor’s Annus Horribilis Capricorn/Steinhoff/Rand year…utter lack of interest in stock. If market performance (turns) in CR17 mood….ACG’s earnings will turn and its current rating will seem penny cheap.
Thank you
Follow me on Twitter @SmallTalkDaily

(contact me) 083 300 7009
Anthonyc@vunanisecurities.co.za