NEWSLETTER

JULY 2022 | www.vegacapital.co.za

IN THIS MONTH'S NEWSLETTER

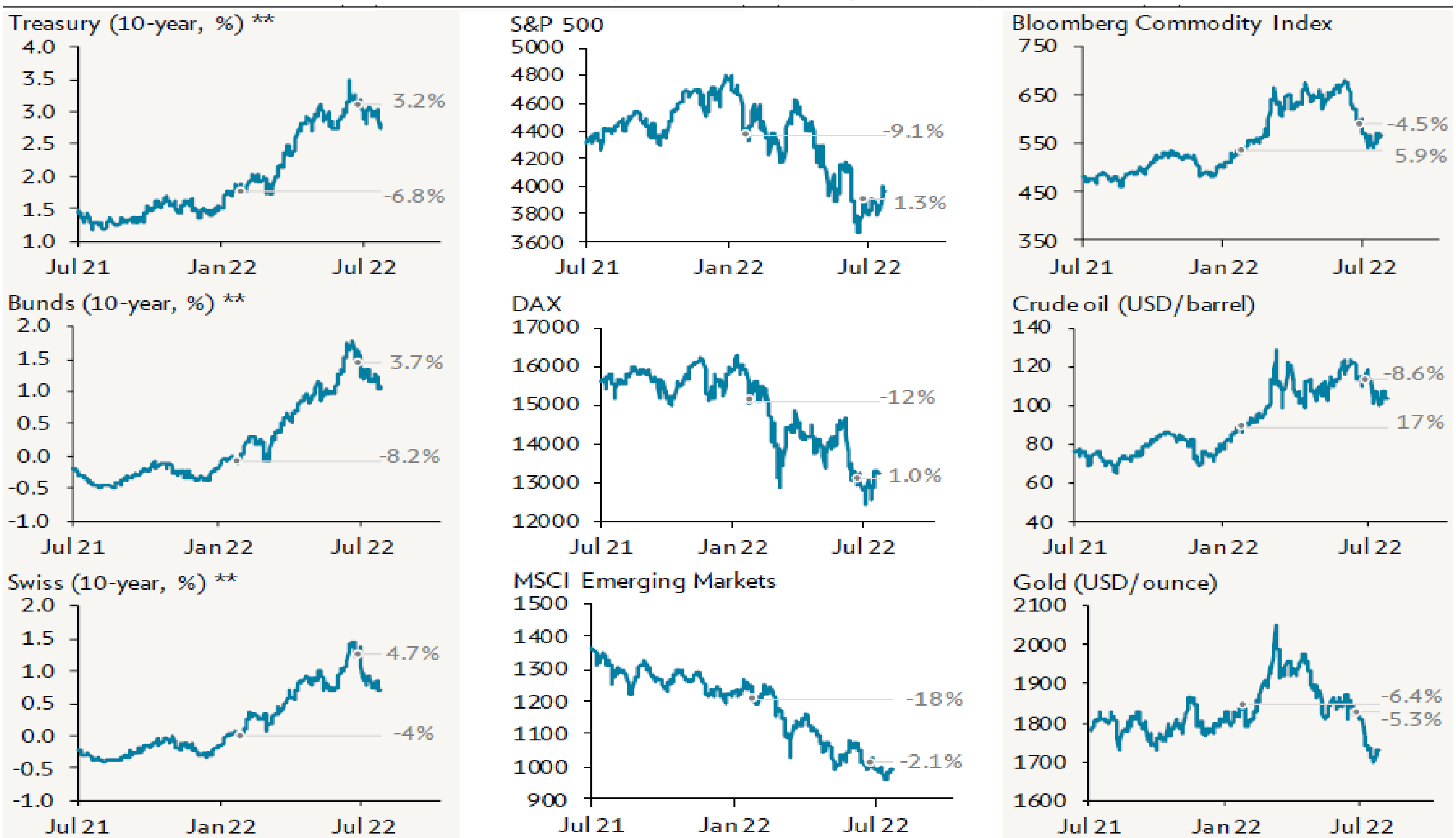
- Market overview
- Share focus: Renergen
- Graph of the month

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair"

- Sam Ewing

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 25/07/2022

INTERNATIONAL

	Last	Month %	YTD %	5Y ann. %
MSCI World	2749	7.90	-13.94	9.31
S&P 500	4119	9.10	-12.55	12.69
NASDAQ 100	12369	12.60	-24.41	15.31
EURO STOXX 50	3707	7.40	-11.21	4.53
MSCI EM	995	-0.70	-17.56	1.24
HANG SENG	19638	-7.80	-11.42	-3.46
US Equities Volatility Index (VIX)	21.33	-25.70	-5.62	10.28

Source: Edmond De Rothschild

After an extremely difficult first half of the year markets started to recover in July. At the Federal Open Market Committee (FOMC) meeting on the 27th of July US interest rates were hiked by another 75 bps. The Federal Reserve also indicated that the future policy rate path will be more data dependent, with the focus no longer being inflation but also on the labor market and economic growth.

During July a large number of companies reported Q2 results. US technology giants supported the improved market mood with positive earnings surprises. Second quarter earnings have not turned out as bad as many had feared, contributing to an overall strong performance of US equities for July.

European equities were also driven higher, but with a more subdued performance due to the European energy crisis concerns that weighs on sentiment. European natural gas prices spiking 30% over the last few days sparked fears over a sharper economic slowdown in Europe.

The rebound in quality growth stocks, predominantly technology stocks, suggests that recession fears now exceed inflation risk. Currently two opposing forces are dominating the market with investors polarized between recession fears and inflation risk. Globally central banks continued to hike interest rates to curb stubbornly high inflation. These interest rate hikes should slow inflation, but it will also slow down economic growth in the longer term.

Expectations of slower growth resulted in downward pressure on commodity prices in general. Oil is currently trading at lower levels than before hostilities between Russia and the Ukraine have escalated into war. The WTI crude oil price has pulled back 23% from its 2022 highs. The wheat price has corrected by 40% since March '22. The decrease in these prices will have a deflationary effect. Economic indicators are also signaling a decline in economic activity. There is now growing confidence that the pace of monetary policy tightening has reached its peak and that it will slow from here and that all of these interest rate hikes are priced into the market.

Summary of recent company earnings:

Amazon: Q2 revenues beat estimates. US e-commerce and Amazon Web Services were the main contributors to the growth in earnings. This was partly offset by softer international e-commerce. Amazon Q3 revenue guidance of 15% is also quite remarkable considering the slowdown in economic growth. The shares are currently trading on an attractive forward P/E of 34.5. Amazon's average forward P/E over the last 5 years is 53.

Apple: Earnings reported beat estimates. Apple iPhone still delivered growth, albeit at a much slower pace to 5% (19% in Q1). Mac and Wearables came in lower than expected and Services also missed consensus estimates.

Microsoft: Reported year on year EPS growth of 16%. Their cloud computing business (Azure) reported revenue growth of 46%, which is an excellent result considering the difficult macro environment. Guidance did however fall short of expectations across all segments. The strong dollar continues to weigh on earnings. Microsoft's current forward P/E (Price to Earnings) is 26.5, which is in line with the long-term historical average.

LVMH: Reported revenue growth of 28% (Q1 +29%), driven by favourable exchange rates. The key driver was once again the largest and most profitable division, Fashion & Leather. Profitability also increased and the outlook is confident. These results confirm the unrivalled strength of their brands. Valuations look attractive with the share trading on a forward P/E 22.5, which is 14% lower than the 5-year average.

Alphabet (Google): Reported a 13% increase in revenue year on year. Cloud revenue increased by 35% year on year. This was marginally below expectations but still a respectable achievement, given the economic challenges and very strong comparable results of the previous year. Alphabet's forward P/E 16.7 is currently 20% lower than its 5-year average forward P/E.

Figure 1: June 2022 Top 5 best and worst performing international shares

Best performing	%	Worst performing	%
Tesla	+32%	Snap	-24%
Netflix	+29%	Alibaba	-21%
Amazon	+27%	Tencent	-13%
Hermes	+25%	AT&T	-10%
ASML	+23%	AbbVie	-6%

Source: FactSet

SOUTH AFRICA

	Last	Month %	YTD %	5Y ann. %
JSE All Share	68934	4.10	-6.50	4.24
JSE Resources	5034	0.81	-6.93	18.76
South Africa 10Y Bond	10.42%			
Net Foreign Equity Flow	-R23.9bn			
Net Foreign Bond Flow	-R27.2bn			
USDZAR	16.5087	2.12	4.31	-4.47
EURZAR	16.8454	0.50	6.45	-1.31

Source: RMB

South African equities rebounded by 4% after June's 8% slump. Non-residents remain net sellers of SA Inc. The cumulative equity market outflow for the last 12 months is R130bn and the cumulative bond outflow for the last 12 months to R309bn (according to Bloomberg data). South African miners were under pressure as commodity prices falter and cost pressures increase.

During the month the SARB raised the repo rate by 75 basis points taking the repo rate to 5.5% (pre-Covid levels). The prime lending rate was subsequently raised to 9%. South Africa's inflation rate touched 7.4% and thus it seems unlikely that this rate increase will be the last.

The main contributors to the annual inflation rate rise were food, housing and utilities and transport. Another headwind for local rates is the steep upward trajectory of US rates. The ZAR will be under more pressure against the greenback if the interest rate differential between South Africa and the US widens further.

Summary of the JSE listed earnings:

Richemont: Yet another strong set of numbers. Richemont reported 1Q23 sales growth of 20% which was above analysts' expectations. Growth was again driven by the Americas and Europe with Japan having had a very strong run. As expected, trading in Asia suffered from Chinese lockdowns.

Anglo American Platinum: The mining company reported a 20% decrease in half year revenue against that posted in the corresponding period. Despite all of the current challenges, the group announced a special cash dividend of R40 per share resulting in a gross R81 per share or R21.5bn.

Mr Price Group Limited: The retail company reported a 7% increase in retail sales year on year. Total retail sales grew 6% to R6.6bn and other income increased 25% to R270 million. The group has achieved a significant milestone in its retail modernisation programme by implementing its new Enterprise Resource Planning (ERP) system on 4 April 2022.

Shoprite Holdings Limited: The supermarket retail company reported a 10% increase in revenue year on year. The group's core business, Supermarkets RSA, contributed 80% to group sales in achieving sales growth of 10%.

Kumba Iron Ore Limited: The mining company reported a 32% decrease in revenue year on year. Their performance was adversely impacted by heavy rains in the first part of the year and a safety intervention at the Kolomela operation in the second quarter, which the company did not provide details about.

Karooooo: Reported yet another solid set of results throughout. Total revenue increased 28% year on year. Total subscribers' growth came in at 1.5 million which is 16 800 additions lower than expected. However, the company's website is showing that the current subscriber base for this quarter is already gaining momentum with 50 000 new additions. Growth in Asia Pacific is 25% up year on year which is seen as a key metric for long term growth.

Figure 2: June 2022 Top 5 best and worst performing South African shares

Best performing	%	Worst performing	%
Hammerson PLC	+33%	Anglo Platinum	-11%
Textainer	+29%	Afrimat	-9%
Thungela	+26%	African Rainbow Capital	-8%
Telkom	+19%	British American Tobacco	-7%
Tiger Brands	+16%	Murray & Roberts	-7%

Source: FactSet

Company Overview

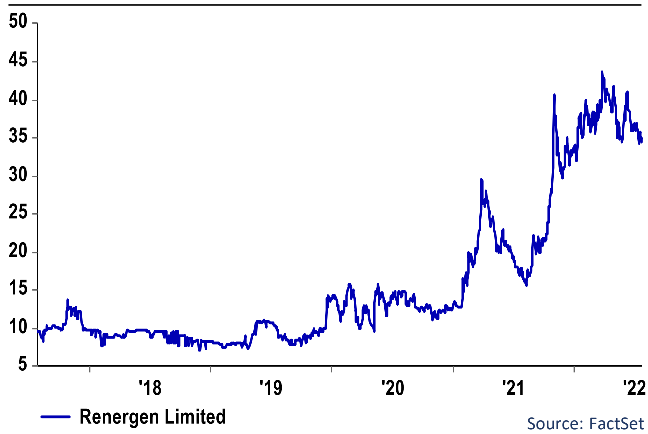
Renergen (market cap R4.36bn) began its operations in 2014 to build a small 1.5MW gas-fired generator to supply power to the nearby mine. Needless to say, plans to invest in renewable energy, powered by methane gas, were abandoned (it would destroy the helium) and all efforts were focused on commercializing what is known as the Virginia Gas Project, which spans 187,000 hectares.

The Virginia Gas Project is home to living microbial organisms that produce a constant, renewable source of gas, which also contains exceptionally high helium concentrations as a result of significant uranium and thorium deposits deep underground. This renders the site a potential major global helium resource. Renergen's strategy is to expand the Virginia Gas Project to produce liquid helium and LNG. The expansion will take place in stages. The first stage (PH1) will include connecting existing wells to a new gas pipeline and the second stage (PH2) will be constructing a new helium and LNG plant.

RENERGEN

FUTURE ENERGY, TODAY

Performance



Source: FactSet

	PHASE 1	PHASE 2*
	On track to commence commissioning in March 2022 with commercial operation in April 2022	Remaining milestones: • Finalisation of debt package • Award of EPC contracts and construction contracts • Anticipated first gas to plant by 2025
Helium Capacity	350kg/day	5,000kg/day
LNG Capacity	2,700GJ/day	24,000GJ/day
Power Generated from Gas	None	60MW
Cost to Build	$60m	$900m

Source: Renergen

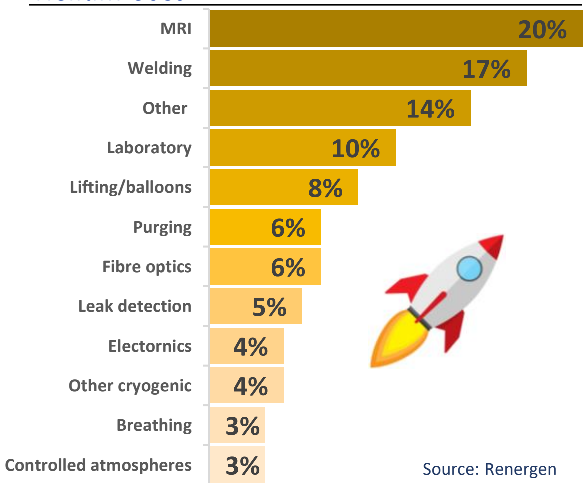
LNG is primarily being targeted towards substituting diesel for heavy-duty trucks in South Africa, as well as replacing liquefied Petroleum Gas (LPG) in the industrial sector and potentially the power sector in the medium term. Helium is not just used to fill party balloons, but it is also used in the making of semiconductors, the powering of rockets, to cool nuclear power stations, and in air-bags. Furthermore, the group has developed Cryo-Vacc as a nitrogen/helium cold storage solution for the transport of vaccines for periods of up to 30 days.

Renegen is still in the ramp-up phase and is not yet profitable, but has delivered on its milestones and signed several agreements for the offtake and sale of both the LNG and the helium. When Phase 1 comes to production, funds will flow immediately as Renergen has an agreement in place to supply Consol Glass's operations with gas over the next few years. Total Energies will also market and distribute the LNG from its fuel stations located on major highways. On the helium side, it has an off-take agreement with Afrox parent Linde Plc, for 80% of the gas. The plans for phase 2 is significantly larger in scale with commercial operation anticipated in 2023.

- Helium is a strategic commodity in high demand
- Helium is a rare commodity with typical concentrations between 0.01% and 0.5%
- Renergen's helium concentration averages 3%, with wells up to 12%
- The Virginia project will be South Africa's first commercial onshore LNG plant and will reduce the county's carbon footprint by substituting diesel in truck and for commercial users
- In 2018 the US government declared helium as one of 35 mineral commodities critical to the economic and national security of the US.

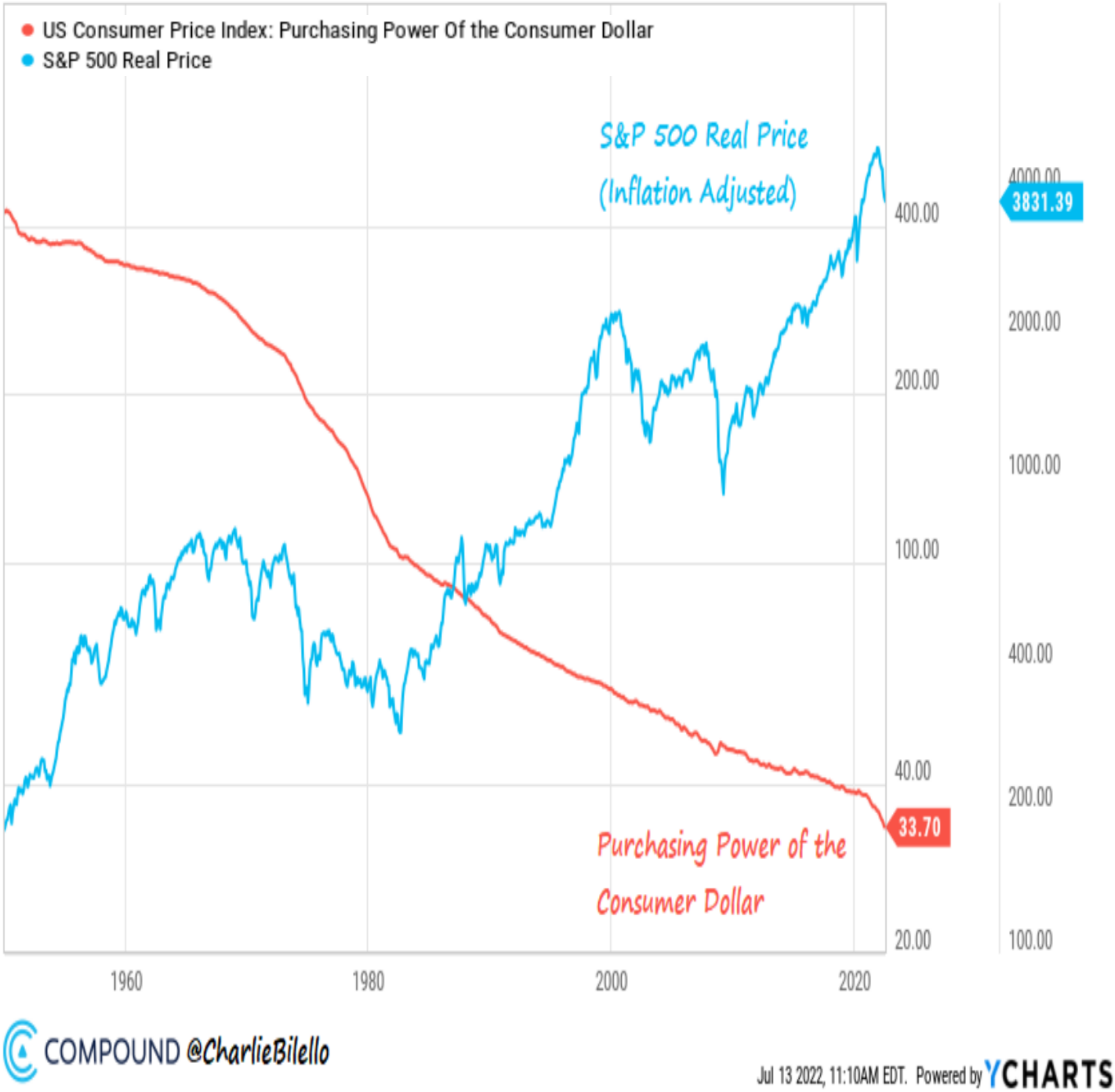
Source: Renergen

Helium Uses



Source: Renergen

GRAPH OF THE MONTH



Source: Y-charts, 13/07/2022

CONTACT US

Francois Du Plessis, CFP

082 492 9199

fduplessis@vegacapital.co.za

Louis Storm

083 552 2343

lstorm@vegacapital.co.za

Abrie Smit

082 087 0883

asmit@vegacapital.co.za