NEWSLETTER

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IN THIS MONTH'S NEWSLETTER

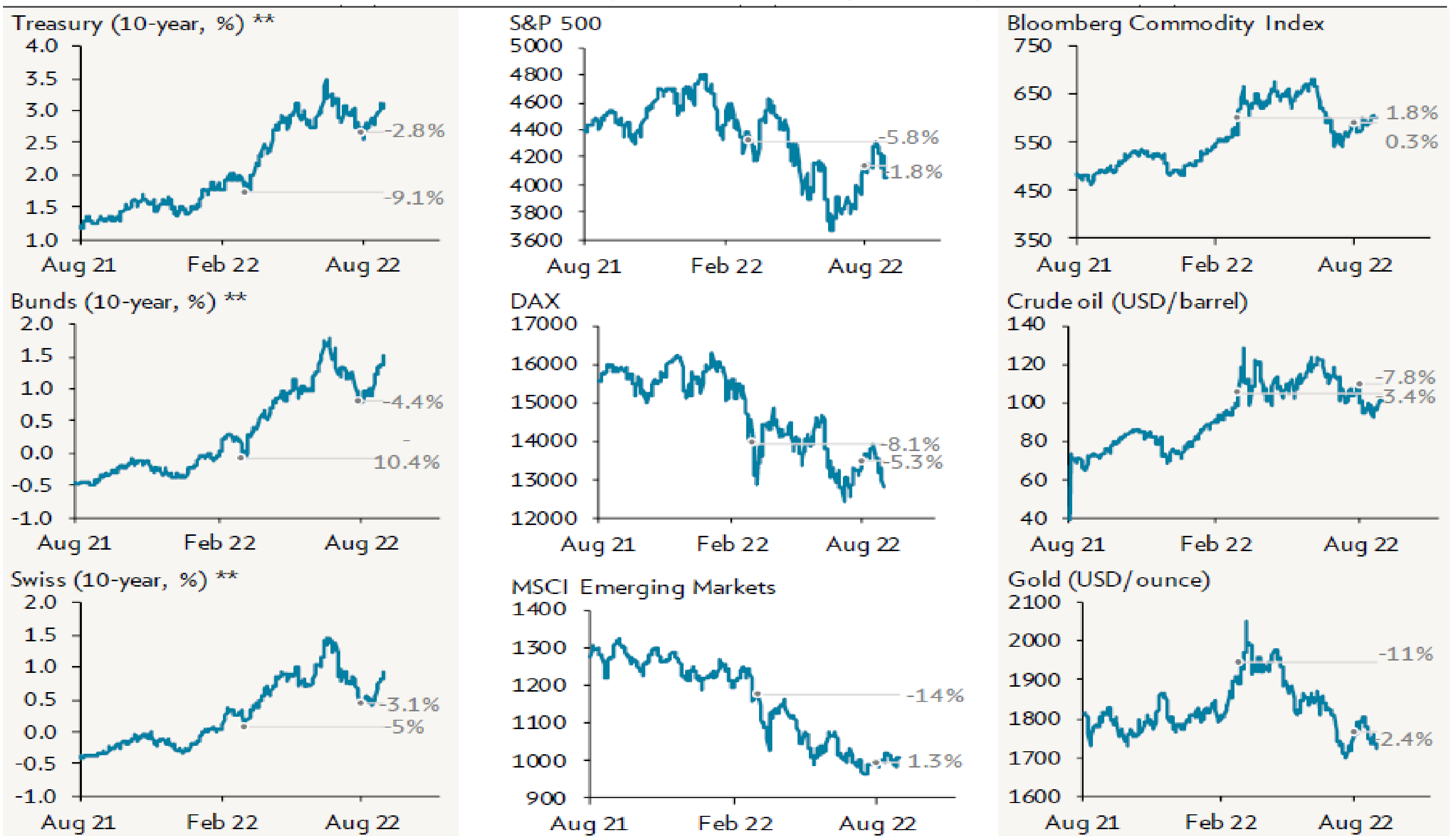
- Market overview
- Share focus: LVMH
- Graph of the month

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price."

\- Warren Buffett

MARKET OVERVIEW

Review (1-month and 6-month performance)



Source: Julius Bear, 25/07/2022

INTERNATIONAL

	Last	Month %	YTD %	5Y ann. %
MSCI World	2267	-3.70	-17.49	9.43
S&P 500	3955	-4.20	-16.15	11.80
NASDAQ 100	11816	-5.20	-24.06	14.02
EURO STOXX 50	3517	-5.10	-15.73	3.76
MSCI EM	994	-0.10	-17.30	0.86
HANG SENG	19672	-2.01	-13.63	-3.74
US Equities Volatility Index (VIX)	22.87	-3.03	-8.65	10.13

Source: Edmond De Rothschild

At the end of August, 95% of the MSCI World index and 96% of the S&P 500 constituents reported results. Blended Q2 '22 revenue and earnings per share growth for the MSCI World index came in at +17% and +7.3% (vs. expectations for +3.9%), respectively. Two thirds of MSCI World companies reported better than expected results – both in terms of revenue and earnings growth. It seems that many companies managed to cope with the challenging macroeconomic environment and elevated inflation levels. However, the litmus test still lies ahead.

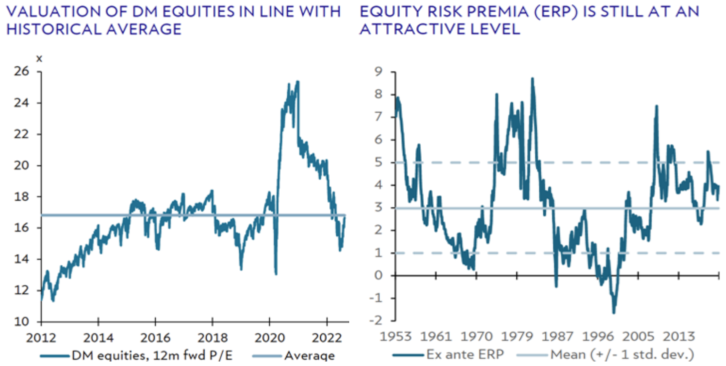
The **People's Bank of China** cut its one-year northern loan prime rate by 5 bpts to 3.65% and reduced the five-year prime rate by 15bpts to 4.3%. China is pumping trillions of yuan into infrastructure investment. Deserts in north China are set to host an unparalleled build-up of renewable energy. The first phase, with about 100 gigawatts of turbines and solar panels, is due to be completed by next year, with another 450GW phase started this year. Markets are questioning whether the benefits of this economic stimulus will outweigh the negative effects of China's zero tolerance Covid policy.

The Bank of England raised rates by 50bpts to 1.75% and said it expects to start reducing its balance sheet shortly after its September meeting with active sales of around GBP10bn a quarter. Surging inflation, the rising cost of government debt and Liz Truss's promises on tax cuts and increased defence spending will blow a £60bn hole in the public finances by the middle of the decade.

The **European energy** share of GDP rose to about 18.5%, way worse than that of the U.S. which is under 6%. German electricity price soared to EUR980MWh, up 11-fold on last year's average. The Euro remains under pressure after testing its worst level against the USD in two decades.

In the **US**, investor sentiment reversed sharply at the end of August due to concerns about the economic impact of tighter US monetary policy. US Federal Reserve members delivered messages with an extremely hawkish tone. Signs of an accelerated correction in American house prices do not bode well for upcoming economic data releases.

Figure 1: Developed market's 12-month forward PE



Source: Julius Bear

Company news

Walt Disney reported solid 2Q results. Earnings and subscriber growth were higher than expected. The company will increase the price of its Disney+ streaming platform by 38%. Management indicated that they have not seen any signs of weakening consumer demand yet.

During Q2 **Siemens'** order intake was very strong for all segments, particularly in industrial automation and smart infrastructure. Revenues were strong and above consensus, while profit performance partly missed consensus. The write down of their energy business and exit from Russia, are two once-off factors that affected earnings negatively. The share is currently 38% down YtD and is trading on a forward PE of 20x.

AstraZeneca reported strong results for Q2, partly boosted by a once-off lower tax rate. Revenues increased by 31% over the last year. The company expects revenue to grow between 20% and 25%. AstraZeneca is currently trading on a forward PE of 17x.

Summary

Given the deteriorating macro and geopolitical climate earnings forecasts are still being downgraded. We maintain a preference for sectors with a history of margin, earnings resilience and solid cash-flow generation such as software and healthcare. Structured notes have unique features that can be used to diversify portfolios and lower volatility. We are incorporating structured notes in portfolios to provide some downside protection, while still participating in the upside.

Figure 2: August 2022 Top 5 best and worst performing international shares

Best performing	%	Worst performing	%
EPAM Systems	+22%	SolarEdge	-24%
Constellation Energy	+21%	Match Group	-23%
ConocoPhillips	+13%	DXC Technology	-12%
Devon Energy	+13%	Fortinet	-18%
Albemarle	+12%	Moderna	-17%

Source: FactSet

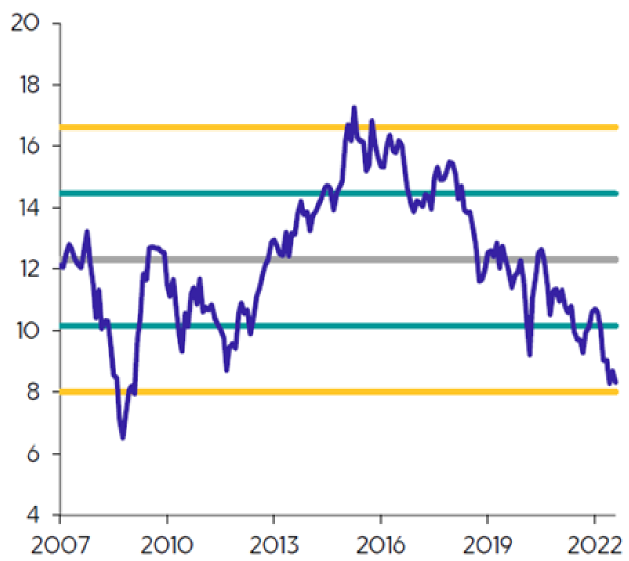
	Last	Month %	YTD %	5Y ann. %
JSE All Share	67256	-1.84	-6.18	7.20
JSE Resources	4826	-4.13	-10.78	16.72
South Africa 10Y Bond	10.43%			
Net Foreign Equity Flow	-R7.6bn			
Net Foreign Bond Flow	-R8.9bn			
USDZAR	17.0250	-3.03	4.38	-4.98
EURZAR	17.0455	-1.17	5.28	-1.37

Source: RMB

South African equities remained resilient until a late selloff near the end of the month. The JSE All Share Index ended 1.84% down for the month. South African miners came under pressure as commodity prices falter and cost pressures increase. The resource sector was the most impacted ending 4.13% down for the month. Non-residents remain net sellers of SA Inc. The cumulative equity market outflow for the last 12 months is R108bn and the cumulative bond outflow for the last 12 months to R304bn (according to Bloomberg data).

South Africa's inflation rate touched a 13-year high of 7.8% (7.4% in June). The main contributors to the annual inflation rate rise were food, housing and utilities and transport. The introduction of higher electricity rates from municipalities also contributed to this higher number. South Africa's unemployment rate decreased marginally from 34.5% in 1Q22 to 33.9%. However, this rate remains one of the highest recorded in the world (Bloomberg).

Figure 3: The JSE All Share Index 12-month forward PE



Source: RMB, 01/09/2022

Company news

Massmart was August's best performing share on the JSE (↑57%). Massmart's US parent Walmart announced an offer to buy out minorities. If this R6.4bn deal is approved, shareholders will receive R62 a share in cash. Massmart will then join the growing list of de-listings from the JSE. Massmart own brands such as Game, Makro, Builders Warehouse and Cambridge Foods.

BHP reported strong results for 1H22. Revenues increased by 173% over the last year. The company's earnings per share stood at 610 cents per share which is 173% up compared to the previous year.

Exxaro reported better than expected 1H22 results with headline earning of R34.26 a share. Exxaro is currently trading on a forward PE of 3x which is a 55% discount compared to the sector and its peers.

Sasol Limited: The energy and chemical company, in its FY22 results, stated that its turnover increased to R276bn from R202bn posted in the previous year. Diluted EPS came in at R61.36, compared with R14.39 recorded in the previous year (↑30% YtD).

Finally, **Kumba Iron Ore** was this month's worst performing share (↓23%). Kumba reported a 51% YoY drop in profit to R15bn. Expectations of lower Chinese demand put pressure on the iron ore spot price. Iron ore price dropped below US$100/tonne (↓17% YtD).

Figure 4: August 2022 Top 5 best and worst performing South African shares

Best performing	%	Worst performing	%
Massmart	+57%	Kumba Iron Ore	-23%
Montauk Renewables	+47%	Capco	-21%
HCI	+23%	Harmony Gold	-18%
Grindrod	+21%	Sappi	-17%
Sun International	+18%	Sirius Real Estate	-17%

Source: FactSet

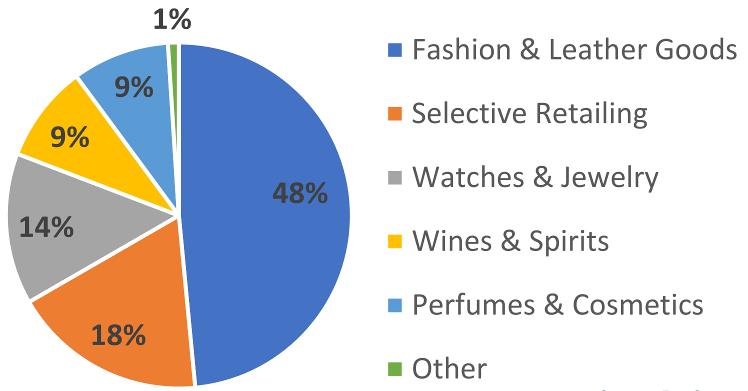
Company Overview

Louis Vuitton Moët Hennessy (LVMH), the world's largest luxury goods company is well diversified by region and product. The Fashion & Leather Goods (F&LG) division is the main sales and profit driver, representing 55% of operating profits. Owing to the company's scale and large marketing budget, LVMH is gaining market share from smaller luxury peers and is a key beneficiary of consumer up trading and rising tourism in China. It recently expanded into luxury travel to address the growing demand for exclusive life experiences. We see LVMH as a structural winner in the luxury goods industry. Its business mix focused on leather goods and accessories is less cyclical compared the luxury industry overall. The group has strong pricing power.

Valuation

Results for 1H22 came in far above consensus estimates. The company reported organic growth of 21% y/y which confirms the unrivalled strength of its brands, and a broad geographic mix absorbed the impact from lockdowns in China. LVMH's profitability increased from the previous year and management communicated a confident outlook. The share is trading on a an attractive forward EV/EBITDA multiple of 13x and a forward PE of 21x.

Figure 5: LVMH's Sales by segment:



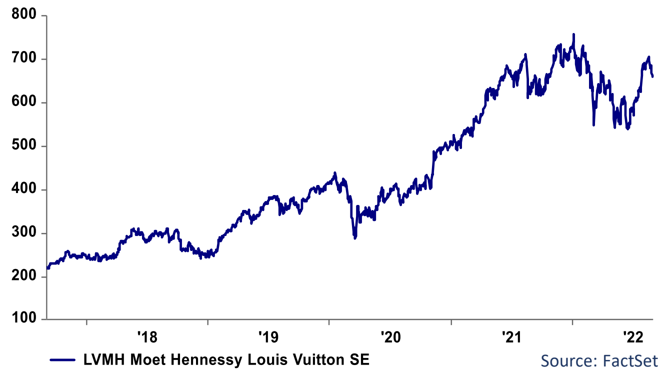
Source: FactSet

Did you know?

LVMH operates 60 subsidiaries and 75 brands across 5,500 worldwide stores and owns the following brands:

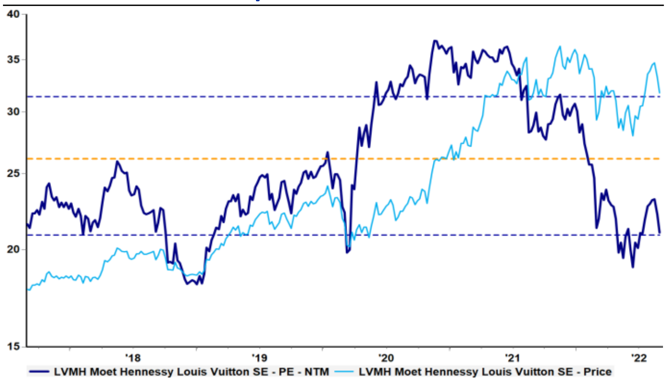
- Fashion & Leather Goods: Louis Vuitton, Givenchy, Céline, Dior, Berluti, Kenzo, Loewe, Marc Jacobs, Fendi, Emilio Pucci, Loro Piana, Rimowa
- Perfume & Cosmetics: Perfumes Loewe, Acqua di Parma, Bvlgari Parfums, Maison Francis Kurkdjian, Make Up For Ever, Laflachère, Bvlgari Cosmetiques, Christian Dior Perfumes
- Watches & Jewelry: Dior Watches, TAG Heuer, Zenith, Hublot, Fred, Chaumet, De Beers LV, Bulgari, Tiffany
- Wine & Spirits: Moët & Chandon, Ruinart, Mercier, Dom Pérignon, Veuve Clicquot, Krug, Hennessy, Glenmorangie.

Performance



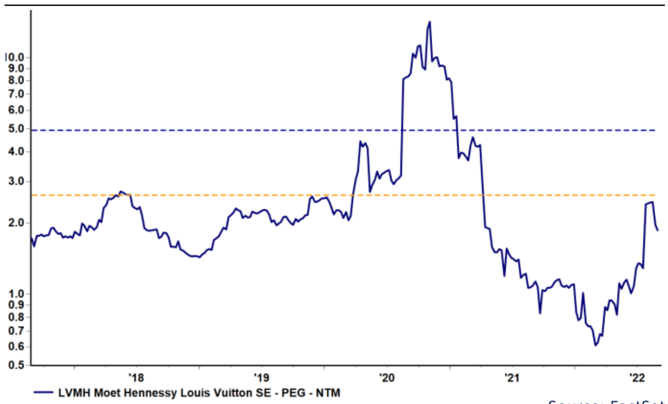
Source: FactSet

12-month forward P/E



Source: FactSet

12-month forward PEG



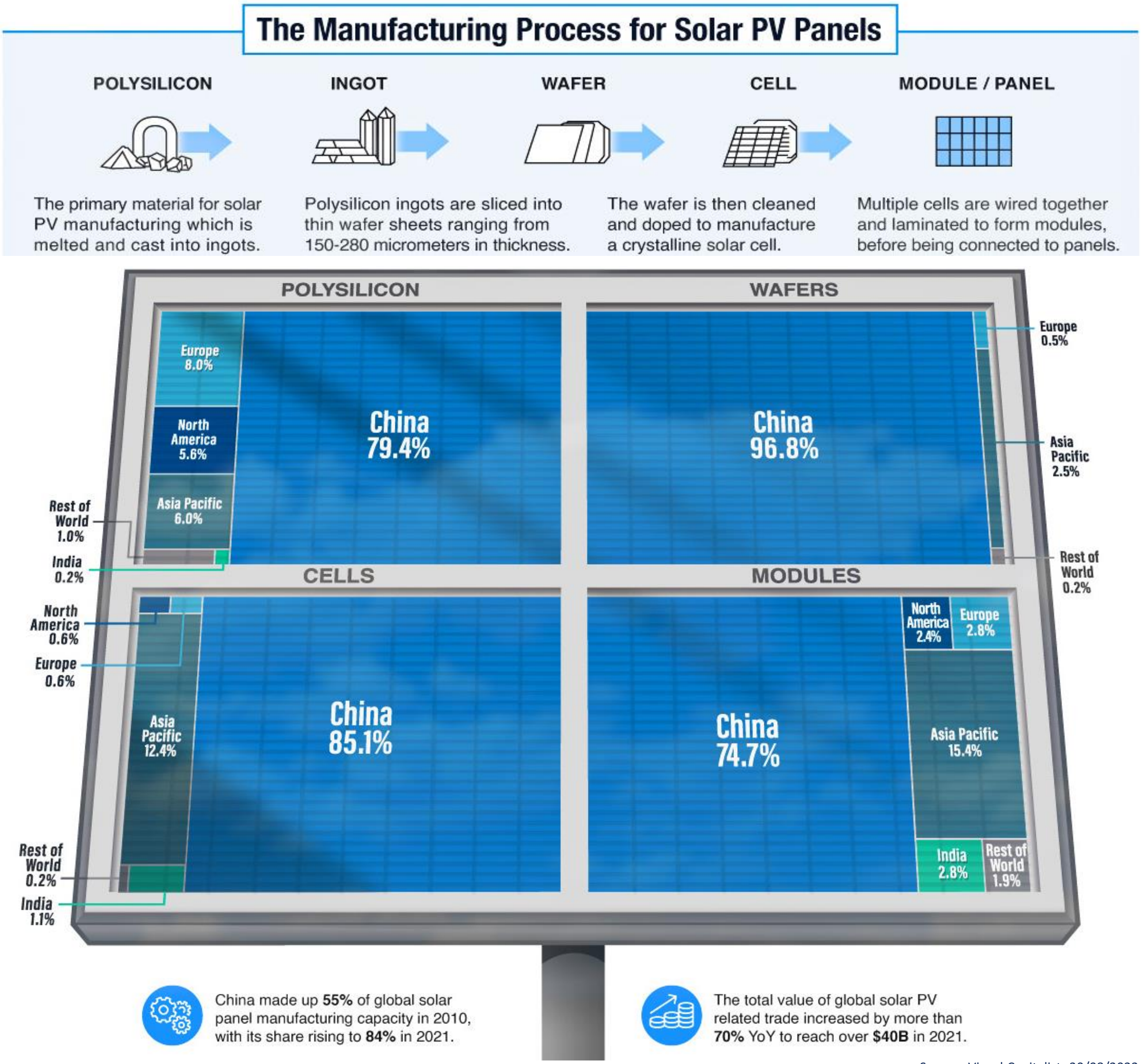
Source: FactSet

Financials

	2020	2021	2022E*	2023E*
Sales (EURm)	44,651	64,215	76,040	82,569
EBIT (EURm)	8,305	17,151	20,850	22,922
EBIT Margin (%)	18.60	26.71	27.42	27.76
EV/EBITDA (x)	21.13	16.93	12.49	11.12
Adjusted EPS (EUR)	9.33	23.89	27.80	30.89
EPS growth (%)	-35.38	-	16.37	11.14
P/E (x)	43.14	26.37	22.55	20.29
P/B (x)	6.88	7.76	-	-
Dividend yield (%)	1.17	1.38	1.89	2.09
Net debt/equity (%)	44.82	50.70	-	-

Source: FactSet

Who Controls the Solar Panel Supply Chain?



China made up **55%** of global solar panel manufacturing capacity in 2010, with its share rising to **84%** in 2021.

The total value of global solar PV related trade increased by more than **70%** YoY to reach over **$40B** in 2021.

Source: Visual Capitalist, 30/08/2022

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