



Prudential Investment Managers  
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## **“SA Inc” stocks pay off in December**

December saw a continued reversal of fortunes for “SA Inc” stocks, which recorded some strong gains after being beaten down for much of the year. This was due to both the higher global “risk-on” sentiment, and investors recognising the excellent value available in the local market. Consequently, investors benefited from exposure to locally-oriented companies and sectors, such as the SA banking sector. Prudential has had a long-standing preference for this sector.

While the COVID-19 shutdown resulted in significant concern around the potential for higher bad debts in the banking sector, we believe that the associated share price falls have provided a substantial risk premium. Our preference for this sector, particularly banks such as ABSA, Standard Bank and Investec, is informed by the relative value that we see in the sector. Most certainly, the major South African banks went into this crisis with very strong provisioning and capital positions, and we think that these buffers have placed them in a good position to absorb significant potential losses that could arise. The Price/Book (PB) value measures of the banks are at exceptionally low levels, and in our view are pricing in a very negative outcome from the pandemic.

South Africa's media companies also gained good ground in December, and Prudential has held the Multichoice Group in an overweight position across several of our equity and multi-asset funds for some time. Multichoice is the dominant Pay-TV operator in sub-Saharan Africa, and its South African business has demonstrated exceptionally strong and stable cash generation. We rate the local business highly and think that it will continue to generate strong and growing cash flows. The group's African subsidiaries have been making losses, however, largely due to unfavourable currency moves, and Multichoice is addressing these by lowering costs through a number of initiatives. We find its valuation very compelling, as we think that over the medium term the company will be able to return its African businesses to profitability, and we do not think that we are paying for these businesses in the current valuation. Over the last quarter, we also witnessed Canal +, owned by Vivendi, starting to acquire shares in Multichoice. They have managed to buy a 12% stake in the company and clearly also see value in it. Canal + operate the dominant Pay-TV operator in French-speaking Africa.

Investors with Platinum sector exposure have also enjoyed strong portfolio gains. Platinum group miners have experienced a

resurgence in the last year, supported by substantially higher palladium and rhodium prices which are mined with platinum. This sector's fortunes have rapidly improved after many years of earning margins which on average were not high enough to even compensate the mines for ongoing maintenance capex. This situation could not exist for a long period of time, as it would mean a slow death of the platinum industry. Today, margins in the sector are nearing record highs and cash generation is very strong. Once-indebted companies have been able to substantially pay down or pay off all the debt they had accumulated. The most highly indebted companies such as Northam Platinum and Sibanye Stillwater have recently seen very strong price performance as the risk associated with their debt levels has disappeared.

While it's difficult to predict what the future might hold, the exceptionally cheap valuations of most South African stocks mean that, over time, our market is likely to deliver above-average returns. SA equity valuations (as measured by the PB value ratio of the FTSE/JSE Capped SWIX Index) were trading at around 1.6X as at the end of December, up from around 1.4X at the beginning of the quarter, but still very attractive compared to the market's long-term P/B average of around 2.1X. Within SA equities we continue to prefer large, global companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Anglo American and MTN.

For more information on our investment views and fund positioning and performance, please visit the Insights page of our website. Alternatively, for more information, please contact our Client Services Team on 0860 105 775 or email us at [query@prudential.co.za](mailto:query@prudential.co.za).

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