



OLDMUTUAL

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PROSPERITY

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ECONOMIC UPDATE

The focus of this year's Budget Speech was not just on fiscal policy, but also on the electricity crisis. Loadshedding is significantly impacting the economy, as evidenced by the unexpectedly large contraction (-1.4%) in gross domestic product in the fourth quarter of 2022.

The emphasis on reforms to tackle the electricity crisis and raise SA's growth potential generally permeates the Budget documents, and this is important. In recent years, Treasury has taken a much more active role in these reforms through Operation Vulindlela and this is starting to bear fruit.

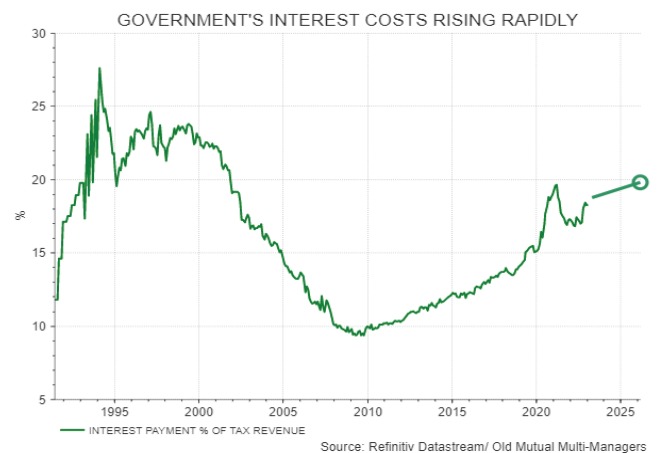


The most notable attempt to support economic growth in the short term is the tax break for rooftop solar installation, with businesses being able to reduce taxable income by 125% of the cost of solar panels. While the tax incentive for households is less generous, it may still encourage widespread adoption of rooftop solar. As bad as loadshedding is for the economy, there is a way out. The electricity market is increasingly being liberalised and private entities can tap into alternative energy sources. The scale of the crisis has forced the government to release its grip on electricity generation and let the private sector step in.

The debt relief for Eskom was the headline-grabbing announcement and was widely expected, though it was eventually somewhat overshadowed by Andre de Ruyter's dramatic exit. In a nutshell, government will take over Eskom's interest and capital repayment commitments over the next three years to the tune of R186 billion, and thereafter absorb R70 billion of Eskom's debt directly. This will substantially improve the beleaguered utility's cash flow position and allow

it to invest in its transmission and distribution network. The lack of grid capacity currently limits the rollout of renewable power projects in the solar and wind-rich Northern and Eastern Cape.

In terms of growth forecasts, Treasury expects real economic growth of 0.9% this year, 1.5% in 2024 and 1.8% in 2025. These are broadly in line with the forecasts of private sector economists. While the commodity boom bailed out government finances over the past two years, resulting in tax revenue overruns, Treasury wisely does not bank on this continuing. Commodity prices have already declined as the pandemic and war-related interruptions ease.



Crucially, the commitment to fiscal consolidation remains. Treasury understands that government borrowing was getting out of hand, and that associated interest payments are squeezing out other important spending areas. By next year, almost 20 cents of each tax rand will go towards interest payments. The government will therefore run a primary surplus from this year onward, meaning that non-interest spending will be below revenues for the first time since 2008. The surplus is projected to rise over the medium term, such that the overall deficit is made up entirely of interest payments. This will see the debt-to-GDP ratio peak at 73.6% in the 2025/26 fiscal year.

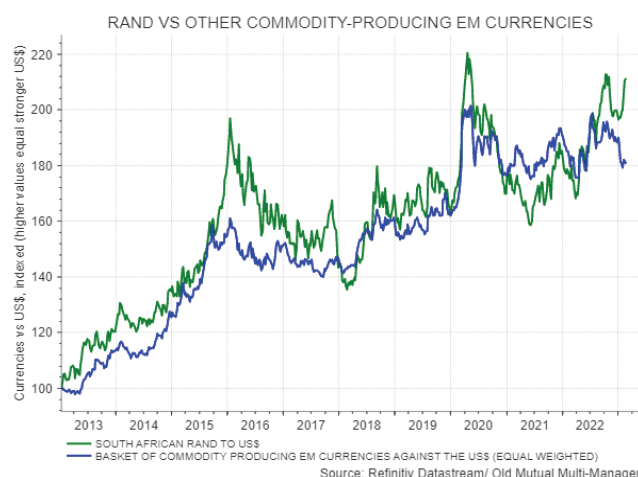
Despite the many competing spending priorities, no new tax increases were tabled, apart from the usual sin tax hikes on tobacco products and alcoholic beverages. Rather, the focus at SARS has been on rebuilding internal capacity to increase compliance with existing taxes, and this seems to be working well.

Elsewhere, the global Financial Action Task Force (FATF) placed SA on the list of “Jurisdictions under Increased Monitoring” – the so-called grey list. Local markets wobbled on the news, but it coincided with the release of US inflation data, which sent global markets lower. In practical terms, it means that foreign entities will have to do enhanced due diligence on any dealings with South Africans. The government has promised to address the eight identified shortcomings and it is key to demonstrate effective implementation of the laws that have been enacted to combat financial crimes. Doing so will not only get SA off the grey list (as many countries have managed to do) but will also benefit the local economy.

MARKET UPDATE

After starting the year on a solid footing, February saw most equity markets sliding lower. The MSCI World was down 2.4% over the month. All three major US indices ended February lower, with the Dow Jones (-4.2%), S&P 500 (-2.6%) and the NASDAQ (-1.1%) showing losses. The UK’s FTSE-100 managed to buck the trend and gained 1.3%.

In Asia, the Hang Seng plummeted 9.4% in February, while the Shanghai Composite Index rose marginally (+0.7%). This was a clear indication that investors were taking profits after a three-month rally in Chinese markets. The Nikkei was up 0.4% in February.



In SA, the JSE All Share Index ended the month 2.2% lower, as gains across Industrials (+1.7%) and Financials (+2.5%) were insufficient to offset the 13.2% decline across Resources. With rising concerns about the economic impact of SA’s ongoing power crisis, the rand weakened by 5.2% against a strong US dollar in February. Brent crude oil was down 0.7% and ended the month at US\$83.21/bbl. The gold price declined by 5.3%, platinum fell 5.8% and iron ore (+0.8%) was marginally higher.

GLOBAL EQUITIES

HONEYWELL

In its 2022 full year results, US industrial manufacturer, Honeywell reported resilient performance in a difficult operating environment characterised by supply chain disruptions, the forced wind-down of Russian operations and cost inflation. Organic revenue growth at 6% (to US\$35.5bn) was in line with management's guidance, while adjusted earnings per share grew 9% to US\$8.76. Despite inflationary pressures, the group reported a 70bps expansion in operating margins, driven by proactive pricing action and strong demand for the group's diverse portfolio of products and services.

Looking ahead, the outlook is mixed. Management expect the Aerospace segment to be the strongest performer over the medium term as commercial flight hours recover to pre-pandemic levels. Demand in the Performance Materials & Technologies segment (which was severely impacted by the sudden loss of Russian business in 2022) is expected to accelerate. This will be driven by investments to reduce emissions as well as policies such as the US Inflation Reduction Act. Sales within Honeywell's Safety and Productivity Solutions segment are expected to remain weak due to reduced investment in warehouse automation and productivity solutions. Overall, the group expects to generate 2% - 5% organic revenue growth in full year 2023, with earnings expected to grow by 0% - 5%.

AMAZON

After two years of elevated e-commerce penetration and accelerated investment by corporates in digital transformation, 2022 was a year of normalisation in demand for Amazon as economies re-opened and customers returned to physical store formats. For full year 2022, the group reported sales of US\$514bn (+13% in constant currency). Strong demand for the group's third-party seller services on the Amazon e-commerce platform and cloud services offered by Amazon Web Services (AWS) drove sales. Operating profit was down 51% to US\$12.2bn, as investments into operational capacity drove an increase in expenses. This was compounded by severance costs and impairments related to the group's recent efforts to reduce the cost base and improve operational efficiencies.

Management are expecting a slowdown in growth over the first half of 2023 as volumes in the retail market and the quantum of data processed at AWS came under pressure during the fourth quarter of 2022. For the first quarter of 2023, management have guided for revenue growth of 4% - 8% including a 2.1% foreign currency headwind, while operating profit is expected to be in the range of US\$0 - US\$4bn.

ALPHABET

Alphabet reported 2022 results that, while showing growth on a full-year basis, were impacted by a continued slowdown in digital spending and a stronger US dollar over the period. Revenues grew 10% (+14% in constant currency) for the year, with Google Search (+9%) doing the heavy lifting. These growth rates are in stark contrast to those seen last year when group revenue grew 32% and Google Search was up 43%. This high base along with a challenging economic backdrop, which saw companies significantly reduce their advertising and IT budgets, affected Alphabet's results. Group operating income declined 4.9% as higher employee costs in research and development offset meaningfully lower losses for the Cloud segment. Taken together with a net loss on equity and debt instruments (versus a gain in the prior period), earnings per share declined 18.7% to US\$4.56.

Google's advertising businesses (Search, YouTube and Network) missed market expectations, particularly during the fourth quarter. The slowing advertising cycle, which management expect to persist through 2023, prompted Alphabet to focus on restructuring its cost base. Consequently, the group will prioritise profitability within its hardware products like the Pixel line; ramp up Cloud profitability; use AI to improve productivity; optimise its real estate footprint; and carefully manage employee headcount. Supporting this will be various monetisation initiatives with particular priority placed on YouTube Shorts. Management also described their intentions to start rolling out AI-supported products more explicitly, which will take place over the next few months. These will include AI-services for specific sectors, AI integration into Google Workspace, Gmail and Docs, and language models built on Alphabet's existing AI services, which are particularly useful at composing, constructing and summarising, much like ChatGPT.



WALT DISNEY

Media and entertainment giant, Walt Disney, reported first quarter 2023 results that were overshadowed by returning CEO, Bob Iger's, revamped strategy for Disney, which includes a reorganisation and cost saving initiative. Iger announced that, effective immediately, Disney would be reorganised into three divisions, Entertainment, ESPN and Parks, Experiences and Products. This reorganisation places the decisions regarding content creation and distribution back in the hands of content creators. Furthermore, the splitting out of ESPN into a stand-alone division emphasises the importance of the sports brand to Disney and provides a renewed focus on the network's growth outlook. Disney also announced that 7 000 employees will be retrenched as part of a cost-cutting exercise targeting US\$5.5bn in cost savings over the next few years.

Iger confirmed that his priority is on the future of Disney, its streaming capabilities and vowed to end the "race for subscribers" by focusing on the quality (of both content and subscribers) as opposed to quantity. On the topic of succession, the group has formed a succession planning committee consisting of four prominent CEOs lead by former NIKE CEO, Mark Parker.

On the outlook, management remain optimistic about the strong demand experienced for Parks and the recovery of the Box Office, with Avatar 2 achieving US\$2.2bn globally thus far. The dividend may be reinstated by the end of the year after being suspended during the COVID-19 pandemic. As the pandemic headwinds fade, Disney is positioning itself for an acceleration in growth and profitability once again.

L'ORÉAL L'ORÉAL

Global beauty leader, L'Oréal reported a record full year 2022 performance, with like-for-like sales growth of 10.9%. This was driven by a strong rebound in makeup sales and continued market share gains in fragrances, skin care and active cosmetics. Price increases implemented during the year were insufficient to offset raw material price inflation, resulting in a gross margin contraction of 150bps. However, strong cost control drove a 40bps improvement in the operating margin, with operating profit increasing by 21%. Diluted earnings per share grew 29%, supported by increased Sanofi dividends.

Geographically, emerging markets (+22%) (including South Asia Pacific, Middle East, North Africa and Sub-Saharan Africa) reported strong organic sales growth, followed by developed markets, North America (+10.4%) and Europe (+11.6%). Looking forward, management are optimistic that L'Oréal's diversified portfolio and vast geographic presence will see it continue to outperform the overall beauty market in 2023 and drive strong revenue and earnings growth. Management have proposed a dividend of €6, representing a 25% year-on-year increase.

S&P GLOBAL


S&P Global's 2022 full year results reflected the tough global macroeconomic environment and decline in debt issuance, which significantly impacted revenue in the company's Ratings segment. Group adjusted revenue declined 4% (-3% in constant currency), driven by a dramatic decrease in debt issuance. Despite the decline in revenue in the Ratings segment (-29%), S&P's diversified nature saw 6% revenue growth in the other segments. Despite effective cost management, the adjusted operating profit margin decreased by 250bps to 44.9%, primarily due to a decline in Ratings transaction revenue in addition to increases in technology, compensation and strategic initiatives expenses.

In 2022, S&P Global concluded its acquisition of IHS Markit, a collection of relatively wide moat data-driven businesses with a recurring revenue model. Its revenue consists of 41% financial services, 27% transportation, 21% resources, and 11% consolidated markets & solutions. Additionally, plans to divest the Engineering Solutions segment were announced. Looking ahead, management expect revenue growth of between 4% - 6% and diluted earnings per share in the region of US\$12.35 – US\$12.55 in 2023.


ZOETIS

Zoetis' diverse portfolio and global scale saw the company delivering another set of strong annual results during 2022. Total revenue increased by 4% (including currency impact), driven by strong performance from the companion animal segment in both their US and international businesses. While the strong US dollar weighed on the international business' performance over the period, operationally the results were very good. Operating income increased 7% (to US\$2,7bn) and adjusted diluted earnings per share (DEPS) rose 4% to US\$4.88 per share over the period.

Zoetis remains well positioned due to the durability of its global portfolio and a steady pipeline of new products, as they continue to invest in new products with a focus on driving innovation. A number of risks in the current environment were highlighted, including the potential margin pressure from customers purchasing their products from sources other than veterinarians. Supply chain issues are expected to ease in 2023, however, there may continue to be lagging issues. Competition from generics is another headwind that the business continues to face. Despite these challenges, management remain confident in the business' resilience, its ability to navigate the environment and continue to deliver solid results in the coming year. Management have guided for revenue growth (excluding currency movements) of 6% - 8% during FY 2023, with adjusted net income of 7% - 9%. Adjusted DEPS are expected to be in the US\$5.34 - \$5.44 range, representing a 9.4% - 11.4% increase.


NESTLÉ

Nestlé, the world's largest food company, reported solid 2022 full year results, with sales growth of 8.4% largely in line with market expectations and at the mid-point of management's guidance. Sales growth was almost entirely driven by pricing, reflecting significant cost inflation. Volume and mix effects were materially weaker, adding just 0.1% to sales growth following strong volume growth in the prior period as well as intentional portfolio rationalisation.

Sales growth was broad-based from a geographical perspective, with strong pricing dynamics evident across North America, Latin America and Asia Oceania Africa. Overall, emerging markets outgrew developed markets, 10% vs. 7.1%, highlighting the benefits of a diversified portfolio with products offered across both premium and affordable price points both contributing to the result. High input commodity costs remained a headwind to profitability, with the gross margin contracting by 260 bps. Positively, well managed marketing and distribution costs limited the impact to the operating margin, which contracted just 30bps, leaving the underlying trading operating margin still within management's guided 17% - 17.5% range. Underlying earnings per share (on a like-for-like and constant currency basis) increased 9.4% to CHF 4.80. Reported earnings per share decreased by 43.5% to CHF 3.42, mainly reflecting the 2021 gain on the disposal of L'Oréal shares.

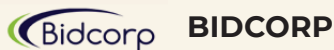

BERKSHIRE HATHAWAY
HomeServices

BERKSHIRE HATHAWAY

In Warren Buffett's words, Berkshire had a good year in 2022, with the company's operating earnings setting a record at US\$30.8bn. This result was despite foreign currency losses and rising interest rates putting pressure on earnings in the fourth quarter. Operating earnings excludes capital gains and losses made by equity holdings and is viewed as a truer reflection of how the business performed. Equity holdings had a capital drawdown of US\$53.6bn, however, this is merely a book loss and not a realised loss.

From a holistic point of view, the 2022 results were a bit of a mixed bag. While the fourth quarter was challenging as alluded to above, the full year operating results show some challenges with the current environment. Several segments showed signs of deceleration into the second half of the year, which will likely continue into the 2023 financial year. Share repurchases continued in 2022, with the company buying-back 1.2% of the outstanding shares. While this is down from previous years, it does highlight that Buffett and Munger still view Berkshire Hathaway shares as a very good investment in the current environment. Share repurchases have continued into 2023.

LOCAL EQUITIES



BIDCORP

With overall activity levels across all regions returning to pre-pandemic levels, Bidcorp reported its strongest set of interim results to date. Revenue increased by 25% (in constant currency), while headline earnings per share rose 45.5% to R9.71. The diversified food services group has grown market share by over 20% in real terms since before the COVID-19 pandemic. Management attribute growth over the past half year to real volume growth and market share gains. The board announced a dividend of R4.40 per share, in line with the group's dividend cover policy of 2.2 times.

Sales were strong across all regions except China, which was still operating under lockdown conditions over the period. The group reported margin gains across all regions, with slightly lower margins in the UK due to short-term inflation pressures. The positive sales trend informs management's optimism that the group remains well positioned as one of the world's largest food services groups.



BHP GROUP

BHP Group reported resilient interim results against a challenging operating backdrop of lower commodity prices, environmental headwinds and substantially higher input costs. While supply-chain issues largely receded over the period, higher energy and fuel costs persisted and, combined with adverse weather in Australia as well as civil unrest in Chile, negatively affected production volumes and undermined profitability.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 28% at a margin of 51.5%. Lower selling prices across copper and iron ore were the major drivers of the decline, however, this should be viewed in the context of a very strong pricing environment last year. Coal prices, on the other hand, remained supported, offsetting some of the decline from copper and iron ore. Taken together, underlying earnings per share grew 32% to 130.3 US cents.



MONDI

Mondi reported another set of strong full year results, benefitting from markets characterised by tight supply, higher market prices and significantly higher input costs. Mondi grew revenue by 28% due to higher selling prices and volume growth across containerboard, kraft paper and pulp sales. This performance was somewhat offset by weaker volumes for corrugated solutions, which experienced heightened demand from elevated e-commerce sales in the prior year.

All operating segments grew well, with notable strength from Uncoated Fine Paper, which recovered from the impact of flooding in Durban last year and was able to introduce price increases that more than offset materially higher input costs. While input costs outgrew revenue, the contraction in Mondi's gross margin was limited to 1% at 38.5%. Furthermore, excellent operating cost management resulted in an 80% increase in earnings before interest, tax, depreciation and amortisation (EBITDA). Taken together with a higher forestry value, earnings per share increased 118% to 244.5 euro cents per share. Net operating cash flow was up 26% and together with the proceeds of the PCC disposal, were channelled towards growth projects, repayment of debt and an 8% increase in the full year dividend.



ANGLO AMERICAN

Against a challenging economic and operating backdrop characterised by higher input prices (particularly energy), extreme weather events, rising socio-political issues and a moderation in commodity prices versus the highs experienced in 2021, Anglo American reported full year results that were mostly in line with expectations. At US\$35.1bn, revenue declined by 15% year-on-year, while underlying earnings before interest, tax, depreciation and amortisation (EBITDA) fell 30% to US\$14.5bn. Higher costs and lower volumes across key commodities PGMs, iron ore and copper were the main contributors to the declines. Furthermore, lower commodity prices, had a material impact on results, with Anglo's average commodity basket price down 6% over the period. Price declines across copper, iron ore and PGMs were partially offset by higher steelmaking coal (+52%) and diamond prices (+35%).

Production was down 2% at a portfolio level as adverse weather in Brazil, South Africa and Australia impacted iron ore production at Minas-Rio and Kumba. Lower volumes and higher input costs, particularly energy, drove a 15% increase in production costs across the portfolio. Together with higher inventory on hand, cash flow from operations declined to US\$11.9bn from US\$20.6bn in the prior period. The board proposed a final dividend of US\$0.74 per share, equivalent to 40% of underlying earnings on a full year basis.

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