

CORPORATE SA SHEDS VIRUS-DRIVEN TEARS

PETER ARMITAGE
CEO AND CO-CIO



ANCHOR

NAVIGATING
CHANGE

WE HAVE BECOME BALANCE SHEET DETECTIVES

- Overriding perspective – Buy great businesses at good prices
- SA company profits ex Naspers down >50% in 2020
 - Might take to 2022 to return to 2019 levels
- SA dividends down >70% in 2020? Richemont halved dividend
- Bond market the only place to get yield
- Predictions of 12-36 months to reach normality
- Differing experience across sectors – clients strive for more variable cost bases
- Underlying consumer trends accelerated – largely search for price and value and embracing e-commerce
- This crisis will pass, like all others have, but the world will change and have to service more debt

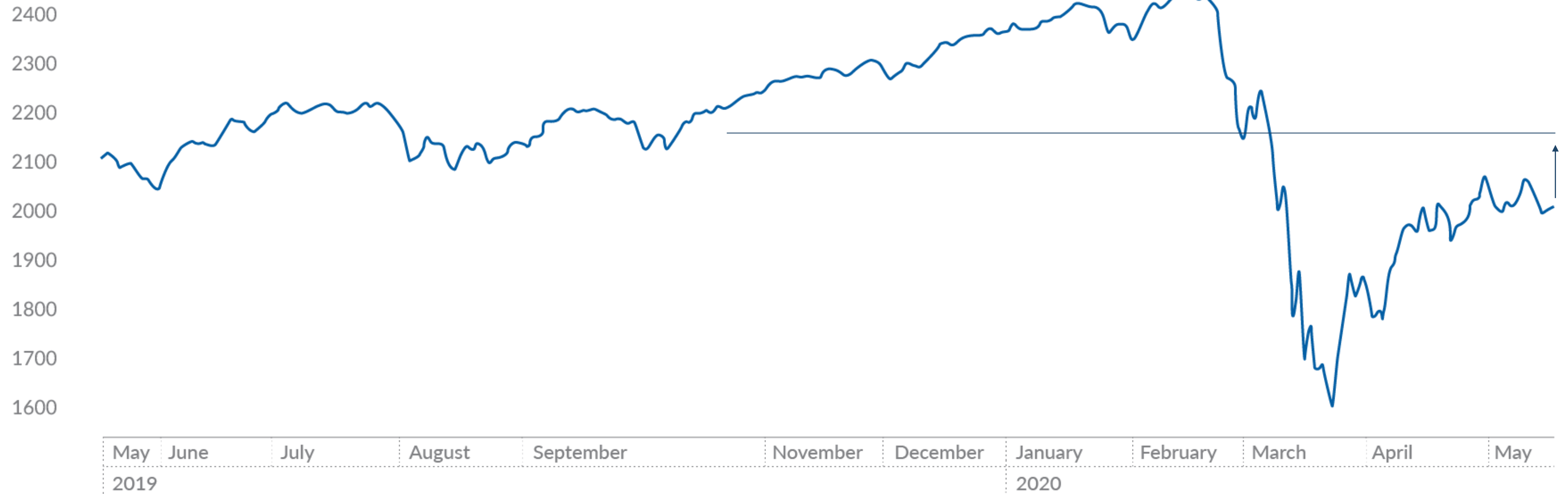
Corporate SA reacting quickly





WORLD MARKETS “IGNORING” THE GLOOM

MSCI WORLD EQUITY INDEX



MSCI World index now down “only”

15% for the year

But lots of shares still down

30%+ so opportunities,
US has been the star

SA JOB PROFILES – EVERYTHING CHANGES

- If you are a 23-year-old honours graduate in SA, after 4 years of study and an energy to start your career there are is no job for you. Anywhere. Unless your dad has contacts, its zero. Don't bother going overseas, as it will be the same. This could spur you on to great things if you are an entrepreneur, as opportunities abound in chaos. You are privileged, this is your time to take risk without a family and overheads.
- If you got a poor or no matric, there is no job.
- If you are over 50 and have been retrenched there is no job.
- If you have a job, put your head down and prove you are worth it. In the US 35 million of 150 million employable people are unemployed. 30 million have been fired in the last 2 months (estimates of 20% permanently).
- This will all change again – but this is the reality for now.



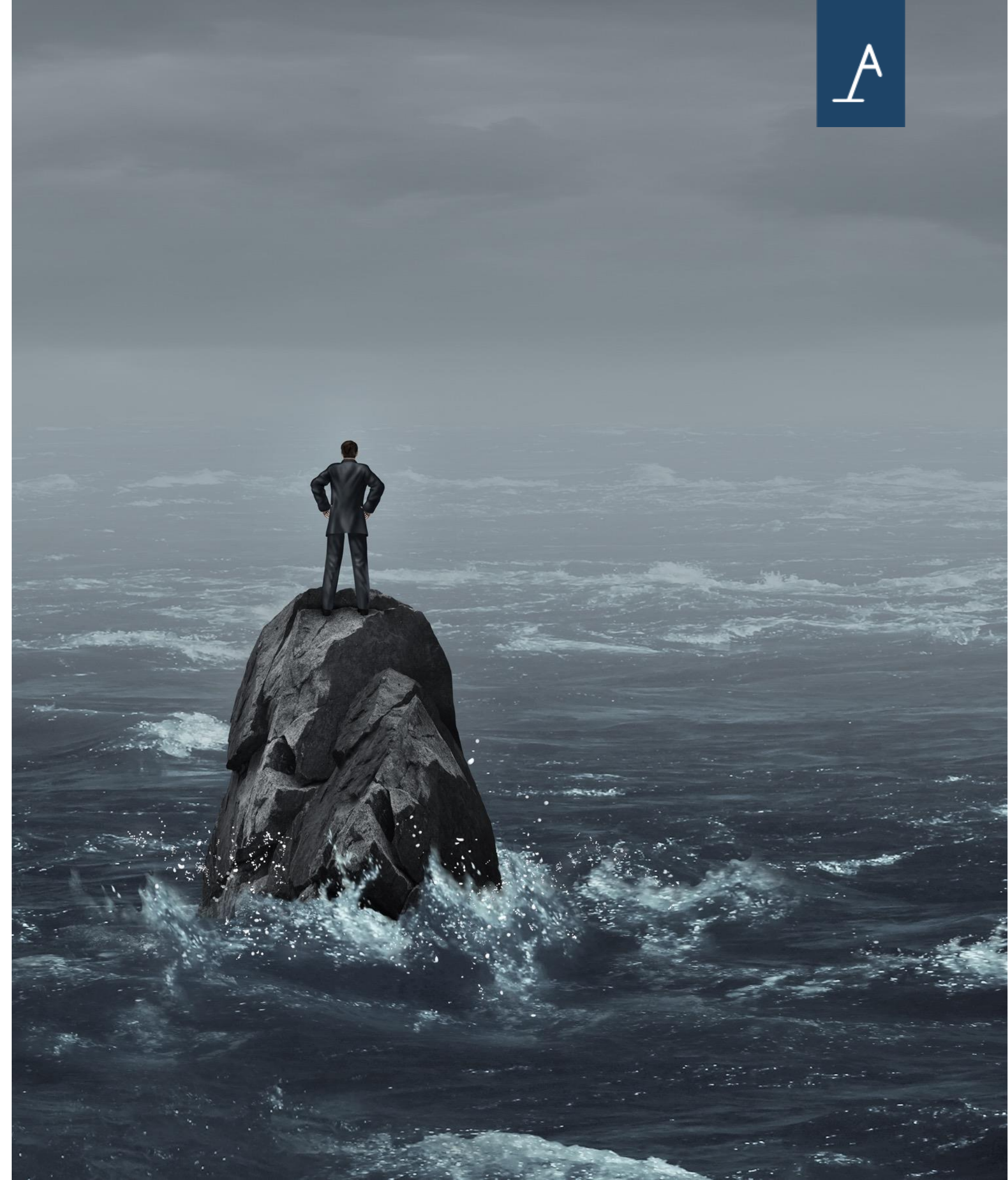
MOST COMPELLING QUOTES

- “Prepare for the worst and hope for the best” – Brian Joffe, Long4Life
- “The COVID-19 pandemic has driven two years' worth of digital transformation in two months" - Microsoft CEO Satya Nadella
- “A strong balance sheet puts you in charge of your own destiny” – Johann Rupert, Richemont
- CEO of the world’s no 1 pork producer Smithfields, “During this pandemic, our entire industry is faced with an impossible choice: continue to operate to sustain our nation’s food supply or shutter in an attempt to entirely insulate our employees from risk”.
- “I have experienced many challenging events during my 50-year working career, but nothing comes close to the experiences of the first few months of 2020 following the outbreak of the COVID-19 pandemic. This extraordinary time will shape a new future. It will forever be known as the period in which we changed paradigms, changed ways of working and changed the way we relate and interact with one another ” – Brian Joffe, Long4Life
- “The data traffic increase is 110% year over year. So yes, we have seen an increase in customer revenue even though we’ve taken the impact of the price decreases. That said I think we must not get overly carried away from that because it’s early days still.” - Shameel Josub, CEO Vodacom

WHERE ARE WE NOW?



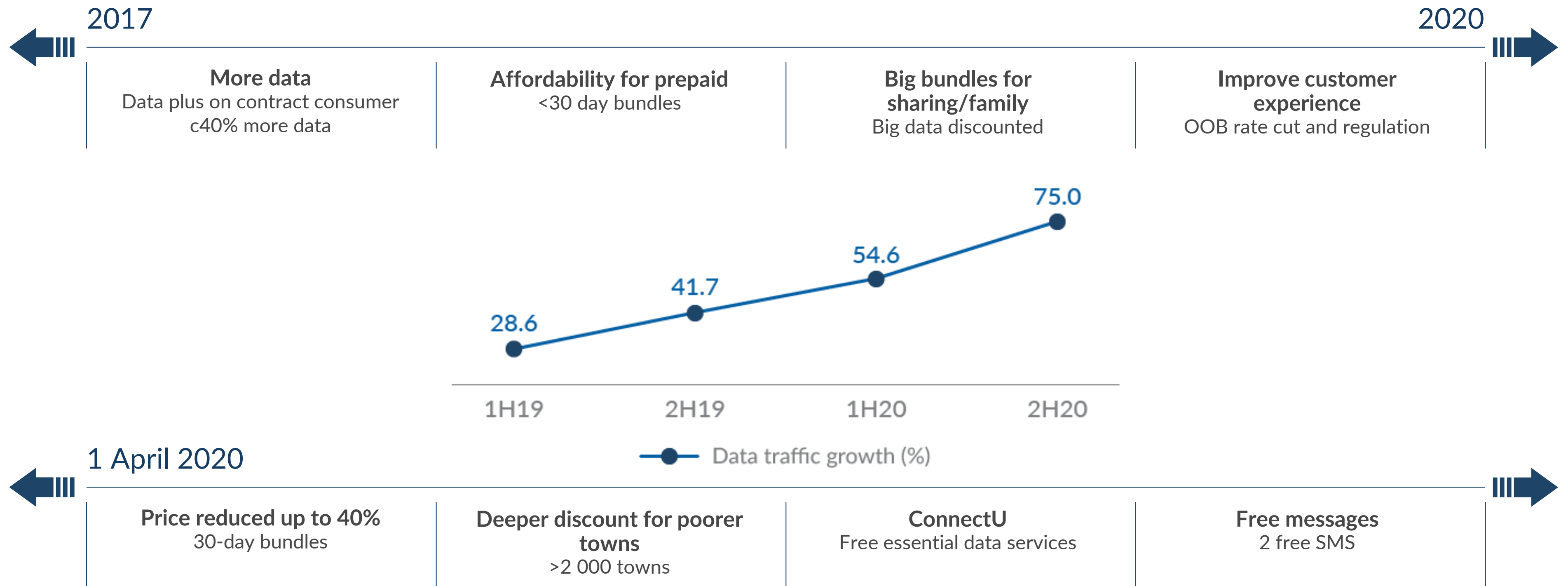
- 2020 GDP down 6-18%; 2021 +5-7%??
- March results are irrelevant, its about prospects
- Business rescue or liquidation: SAA, Comair, Edcon, Phumulela and its only just begun
- Focus on cash flow and survival mode. Costs cut. Capex slashed. Retrenchments or at least hiring freezes. **Not one job for new entrants.**
- Manage for cash flow, not accounting profit.
- The dividend bellwethers have stopped dividends – even Clicks and Pick 'n Pay!!!! No income from equities. SA dividends could be down >70% this year.
- But some offsets: Money 35% cheaper (Prime 7%?), Fuel 30% cheaper
- Could we have deflation? House prices could be flat for 10 years – 5 years historically and 5 years forward
 - Who would build a new house?
 - But surely property rates must come down???





VODACOM DATA EXAMPLE

Pricing transformation evolution | Elasticity shaping recovery



THE MATHS OF LOW / NO REVENUE

	Based to 100	Turnover down 20%	Turnover down 50%	Turnover down 100%
Turnover	100	80	50	0
COS	70	56	35	0
Gross profit <i>GP% margin</i>	30 30%	24 30%	15 30%	0 <i>n/a</i>
Expenses	14	14	14	14
Operating profit	16	10	1	-14
Decline in profit		-38%	-94%	-188%

For many companies a

20-50%

Decline in turnover means a loss

This depends on the operating margin and the extent of variable costs/the ability to cut costs

FOUR CATEGORIES OF COMPANIES

1. Companies who are positively / neutrally impacted
E.g. Naspers, British American Tobacco, Aspen, Asset management, Vodacom
2. Companies who will have temporarily lower profits/small losses, but emerge in good shape
E.g. MTN, Bidvest, Bidcorp, Clicks, banks, food retailers
3. Companies who will have lower profits / losses, but losses create big impact post crisis (e.g. balanced sheet weakened)
E.g. Netcare, Anheuser Busch, Barloworld, Geared retailers, Property companies
4. Companies who may not survive or need rights issue
E.g. Comair, Sun International, Invicta, Sephaku, Sasol

Safe

Where opportunities lie

Wary, but depends what is priced in

Wary





ZOOM BOOM – HOW VALUE HAS SHIFTED



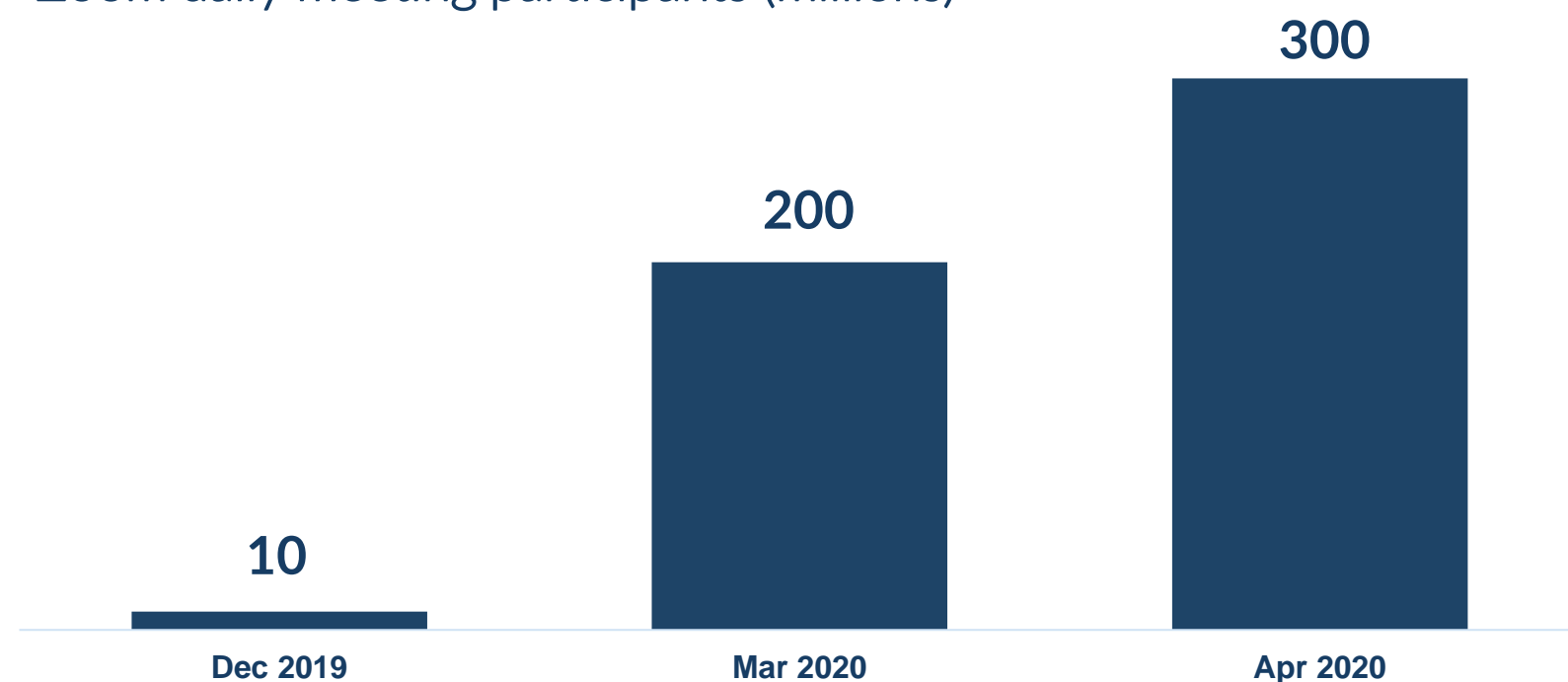
Zoom is now worth more than the top seven airlines combines

MARKET CAPITALIZATION OF ZOOM VS. TOP AIRLINES

Market Capitalization of Zoom:

\$48.78 billion

Zoom daily meeting participants (millions)



Southwest

\$14.04bn

Delta

\$12.30bn

United

\$5.87bn

IAG

\$4.11bn

Lufthansa

\$3.87bn

American Airlines

\$3.89bn

Airfrance KLM Group

\$2.14bn

Total Airlines

\$46.21bn

FROM FRESH SALMON TO BULLY BEEF

- Protein behaviour:
 - Sandton housewives stocked up on tinned food pre lock-down
 - A client cattle farmer can't sell his cattle – lower end of market switching to cheaper protein (boost for chicken?)
 - A client Spar owner has seen butchery sales up 80% - higher end of the market can't dine out
 - A client high end seafood retailer has seen sales up 300% for the same reason
- Twitter announced that their staff can work from home indefinitely – demand for Office space??
- Price and value is key – challenge to branded consumer goods
- Company internet presence becoming a key survival factor



GLOBAL SECTORAL VIEWS

Consumer Goods

Safe harbour in COVID-19, co's need to adapt to LT channel fragmentation

Oil & Gas

Too much uncertainty – demand shock, LT carbon problems

Global Tech

Positive, but prices have recovered sharply, fewer opportunities now

US Financials

Well capitalized, reasonable value here so long as pandemic is not extended

UK Car Insurance

Resilient in tougher times, prefer those that are well provisioned

Pharma

Safe harbour in COVID-19, modest valuations, but need to improve returns on R&D

Restaurants

Under pressure but strong business models, digital competence NB to face shift to digital on demand

Payments / Card

Strong secular trends in card industry, but a recession will hurt, and multiples remain high

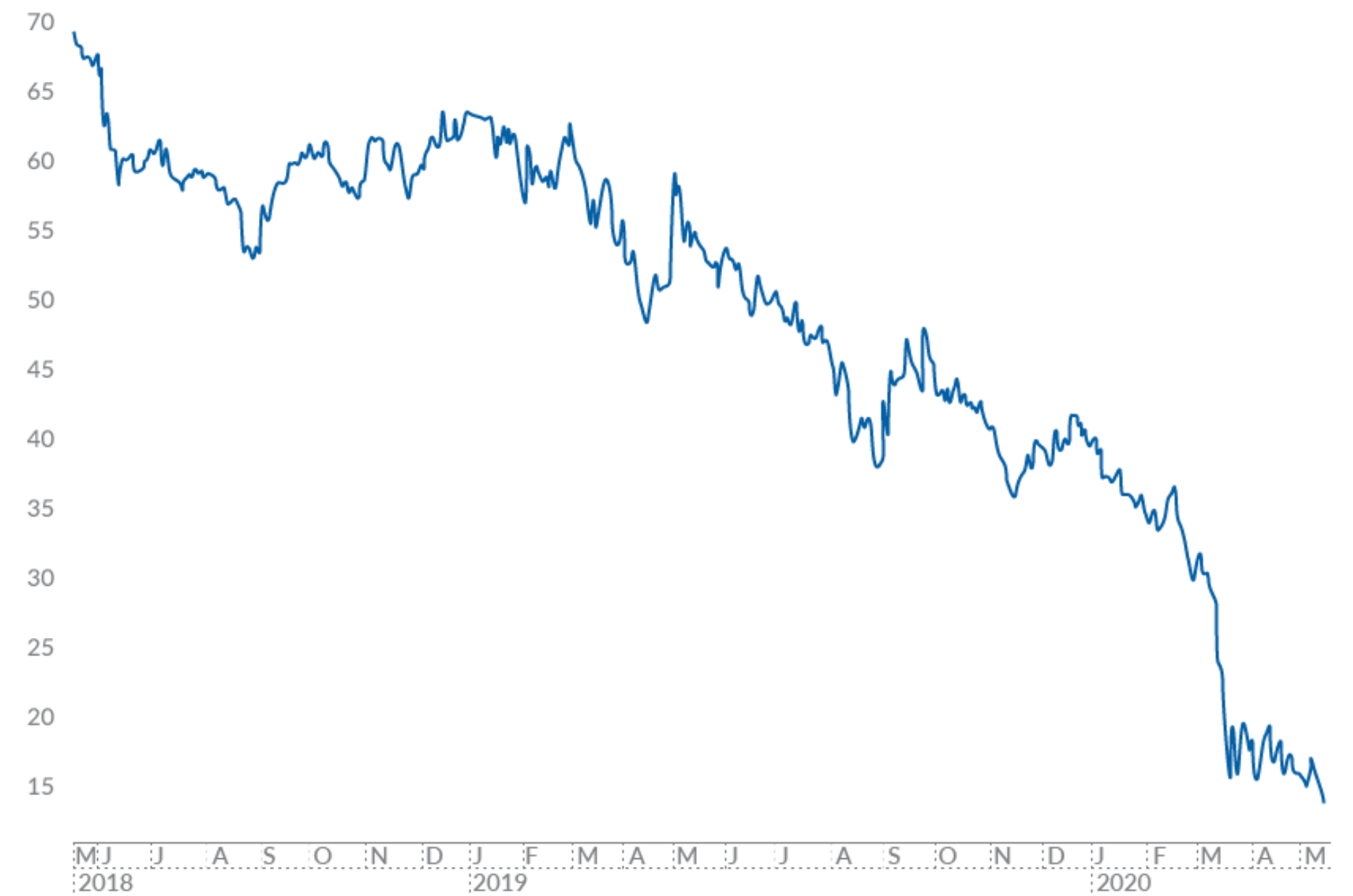
Industrial / Aero Manu

Negative on airline industry and suppliers especially long haul, green energy has great prospects

THE SUPPLIERS

- Booking.com April revenue down >100% !
- Vodacom data traffic up 110% in April, but voice down
- Life Healthcare – occupancies of 40%; no March 2020 dividend
- Netcare: suspended non-essential elective surgery, *but only 58 COVID patients in the whole of Gauteng (107 hospitals)*
- Distell profits to June 2020 down 65%
- Spark ATM: Cash down 50% in April and 40% in May
- SA mines: some operating at 50% capacity
- Impala: 19 Covid cases at Marula; 6% of production which is suspended from 17 May
- Richemont surviving, but Rupert projects 12-36 months before normality
- Tourism and hospitality a disaster: E.g. Sun International in the eye of the storm: **R13bn debt, R2bn market cap – 2.5x historic PE**. Now making massive losses
- Debt-laden companies in the hands of the banks

Sun International share price:

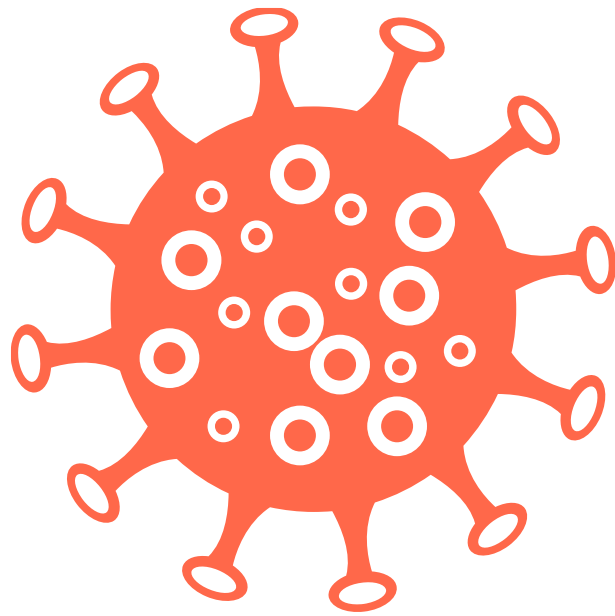


Source: Iress

ALTRON EXAMPLE

ALTRON

COVID-19 Impact



Combined initiatives:
estimated savings of
c.R500m in 2021



Cost savings initiatives

- Postponing cash absorbing projects
- Decreasing variable costs



Salary and employee initiatives

- Reversing FY2020 salary increases
- Freezing salary increases and head count
- FY2020 top management bonuses halved

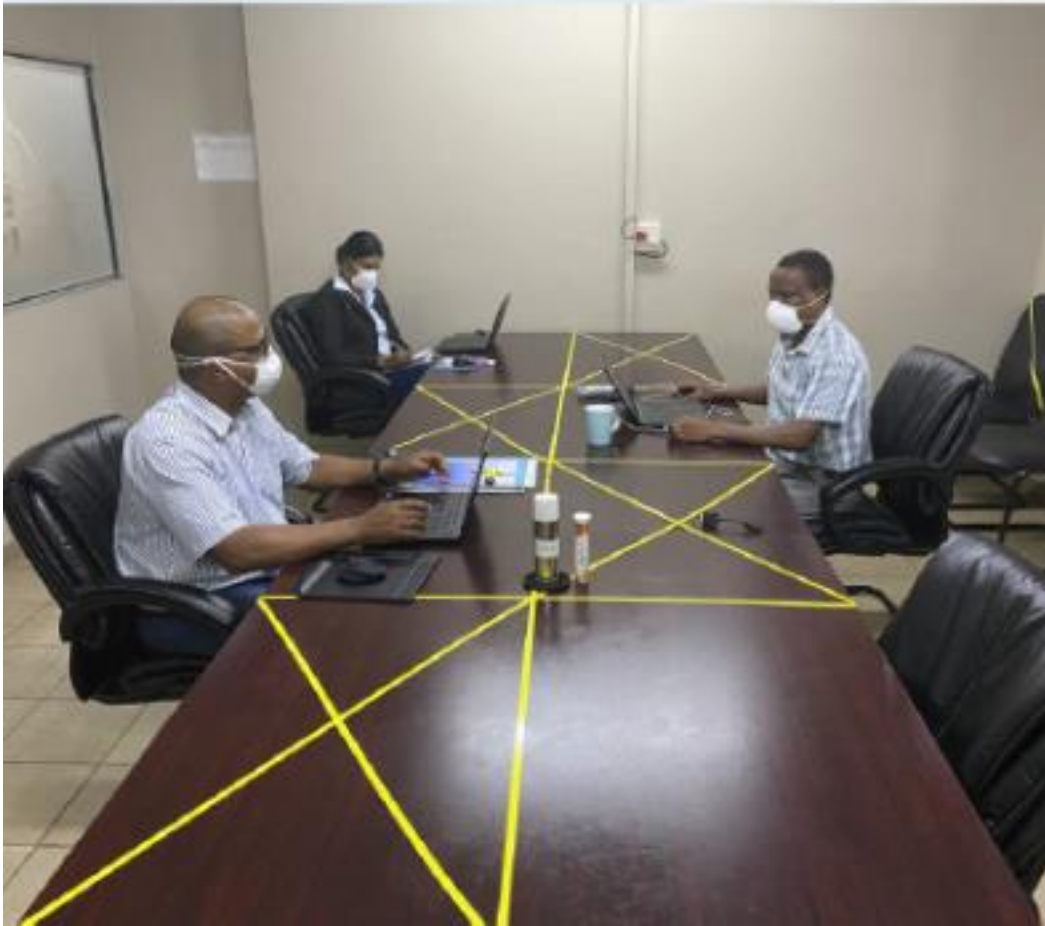


Non-executive director's fees

- Reduced by 30% for 3 months



EXAMPLE OF ASTRAL WORKPLACE

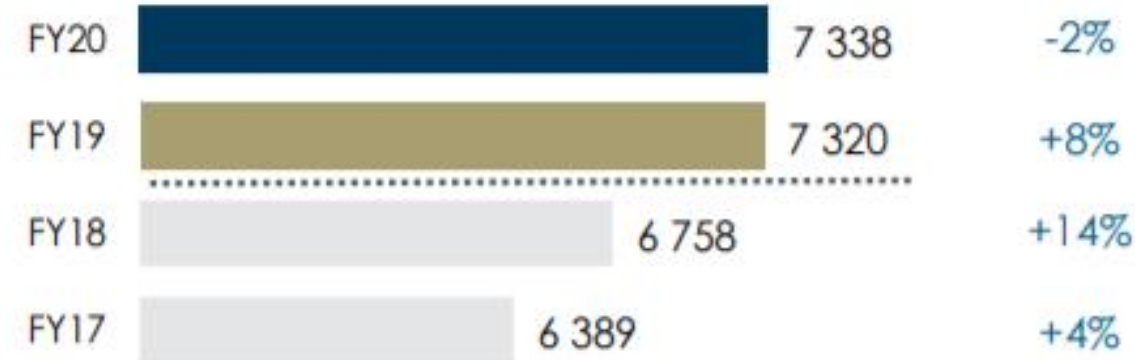


SALES HIGHLIGHTS (CHANNEL)



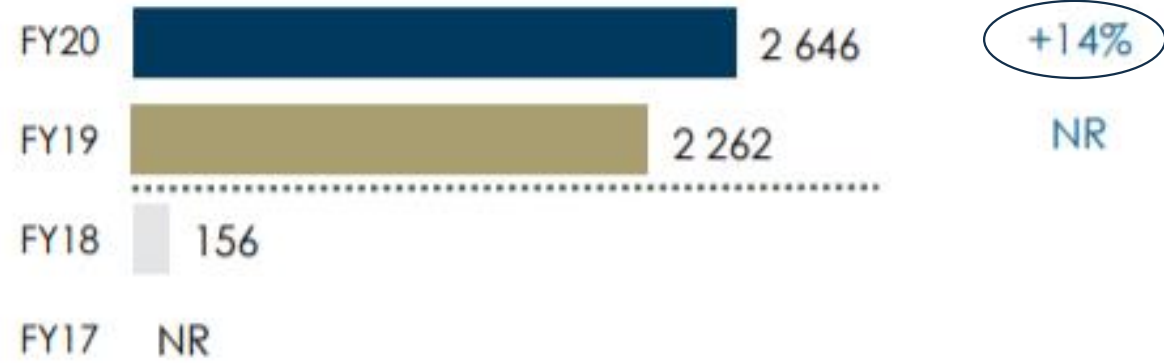
Retail

€ million



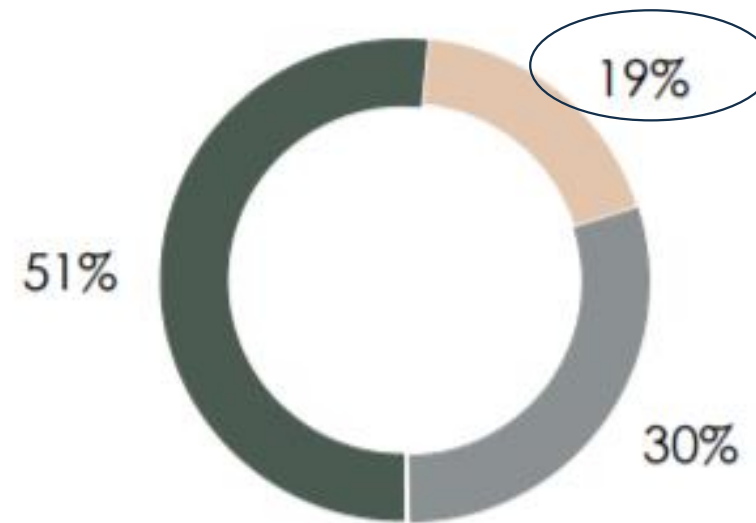
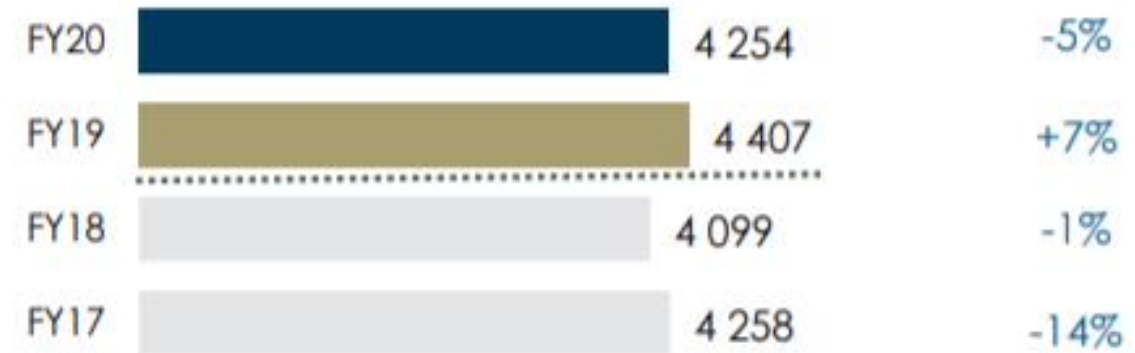
Online retail

€ million



Wholesale*

€ million



- Retail
- Online retail
- Wholesale*

* includes royalty income



THE LANDLORDS – WHAT LEASE?

- Softbank values WeWork at US\$2.9bn, down from US\$49bn a year ago.
- Reset of the sector required – new regimes (turnover rentals?)
- Forget dividends
- Delaying capex, renegotiating debt covenants with banks
- Uncertainty and impasses with retail clients – many smaller tenants just not paying – *is a lease is a piece of paper now?*
- Period of re-negotiation – national retailers offering 20% in April/May
- Balance sheets *and liquidity* are key
- Namibia: 4 May malls reopened and trading well. Sit down restaurants not allowed.
- Poland an interesting comparison (especially given SA exposure)
 - From Nepi update: “On 4 May 2020, Poland ended the temporary trading restrictions on the stores located in shopping centres larger than 2,000 square metres, and all the Group’s malls in Poland have resumed normal trading. Restaurants currently provide only take-away food. Entertainment facilities remain closed.
- Nepi: As of today, tenants representing 43% of the Group’s GLA are open, and the number is expected to increase progressively over the next weeks. The first trading indications in Lithuania and Poland are positive.

Recent announcements

Local property shares	April rent collected in May
Investec Property	71% of April rent collected
Redefine	73%, no dividend
Tower	56% but progressing
Equites	93% in SA
Fairvest	>60%

Global property shares

Sirius	>75%
Lighthouse	>90%
Stenprop	81%
Redefine International	83% excluding hotels
Nepi Rockcastle	90% of that invoiced

Growthpoint release 18 May

APRIL 2020	ALL SECTORS	Retail	Office	Industrial	Healthcare
Billings (R)	1,035,644,209	381,844,470	439,107,803	187,744,639	26,947,297
Collections (R)	735,478,230	178,291,296	403,478,283	153,261,916	26,915,709
Collections %	71%	47%	92%	82%	100%
Total relief (R)	(99,218,437)	(38,643,784)	(31,022,707)	(29,551,947)	-

MAY 2020	ALL SECTORS	Retail	Office	Industrial	Healthcare
Billings (R)	951,662,856	377,819,562	389,731,718	158,197,668	25,913,908
Collections (R)	665,098,710	203,948,959	314,219,901	122,940,767	13,582,759
Collections %	70%	54%	81%	78%	52%
Total relief (R)	(100,834,639)	(26,330,405)	(29,720,024)	(29,520,904)	(15,263,307)

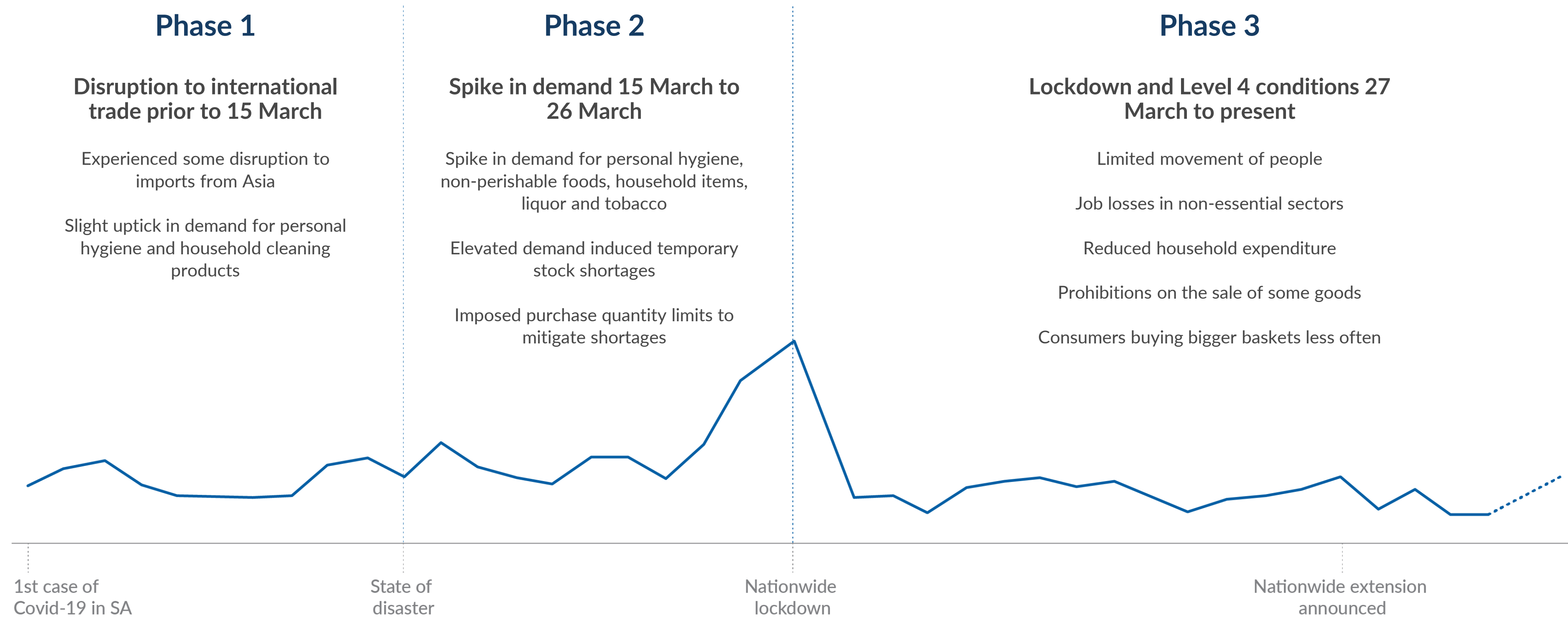
THE RETAILERS – ANALYSTS NOT BRAVE ENOUGH TO PREDICT REALITY

- Depends on product range – sector in turmoil, but loosening now
- Turnover, GP% and operating margins under pressure
- But sales **down 10%** (??) after all has settled ... in 3-6 months
- Retail facing big changes: formats, online, locations
- April new vehicle sales **574** vehicles vs **36 787** in April 2020
- Sportsman’s Warehouse can sell **50%** of their products, and in Level 4 sales of those products are up on last year
- Foschini will lose > **R1.5bn** per month gross profit with lockdown; last year profit was **R3.6 billion**
- Pick ‘n Pay turnover **can’t sell 20%** of product (at higher margin) – losses?
- Spar: Strong results in SA. Theme of franchisees outperforming
- Spur: **155 out of 559** restaurants open for takeaways
 - Staff received full salaries for April and May, but the group will implement a 20% salary reduction from 1 June, in line with a reduced work week.





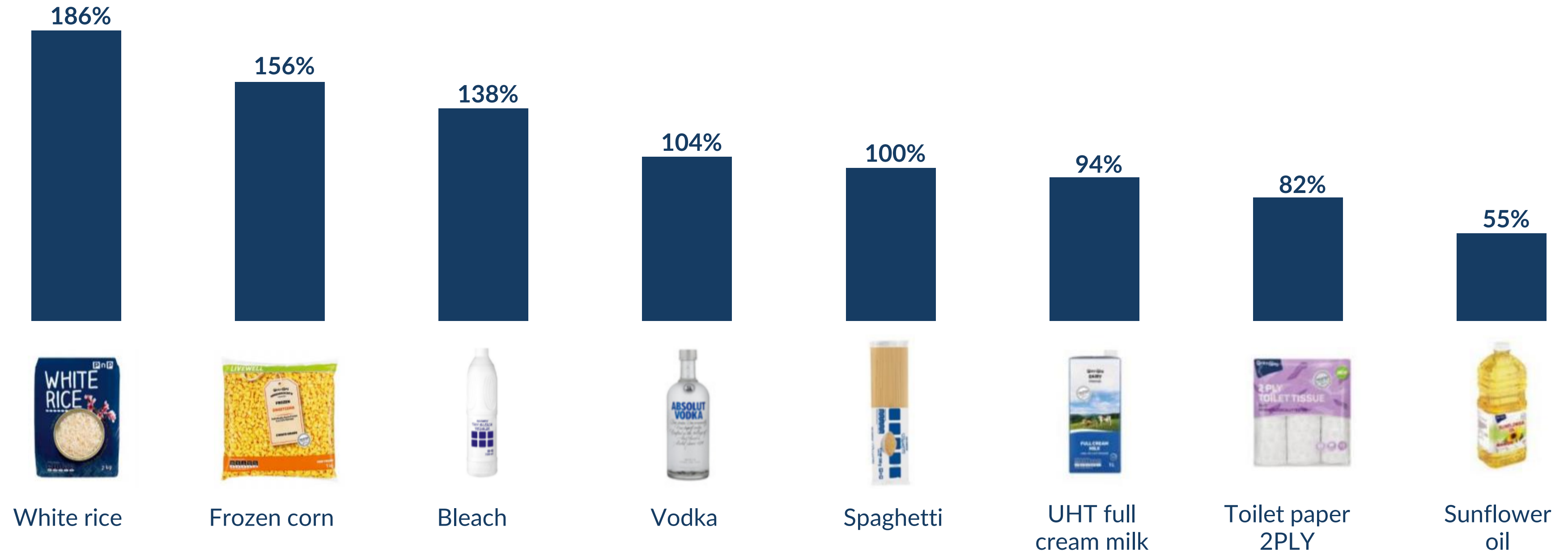
CURRENT TRADING IMPACTED BY COVID-19



CUSTOMERS STOCKPILED ON ESSENTIALS



Customers stockpiled on groceries, household items and alcohol leading into lockdown
Sales volume growth



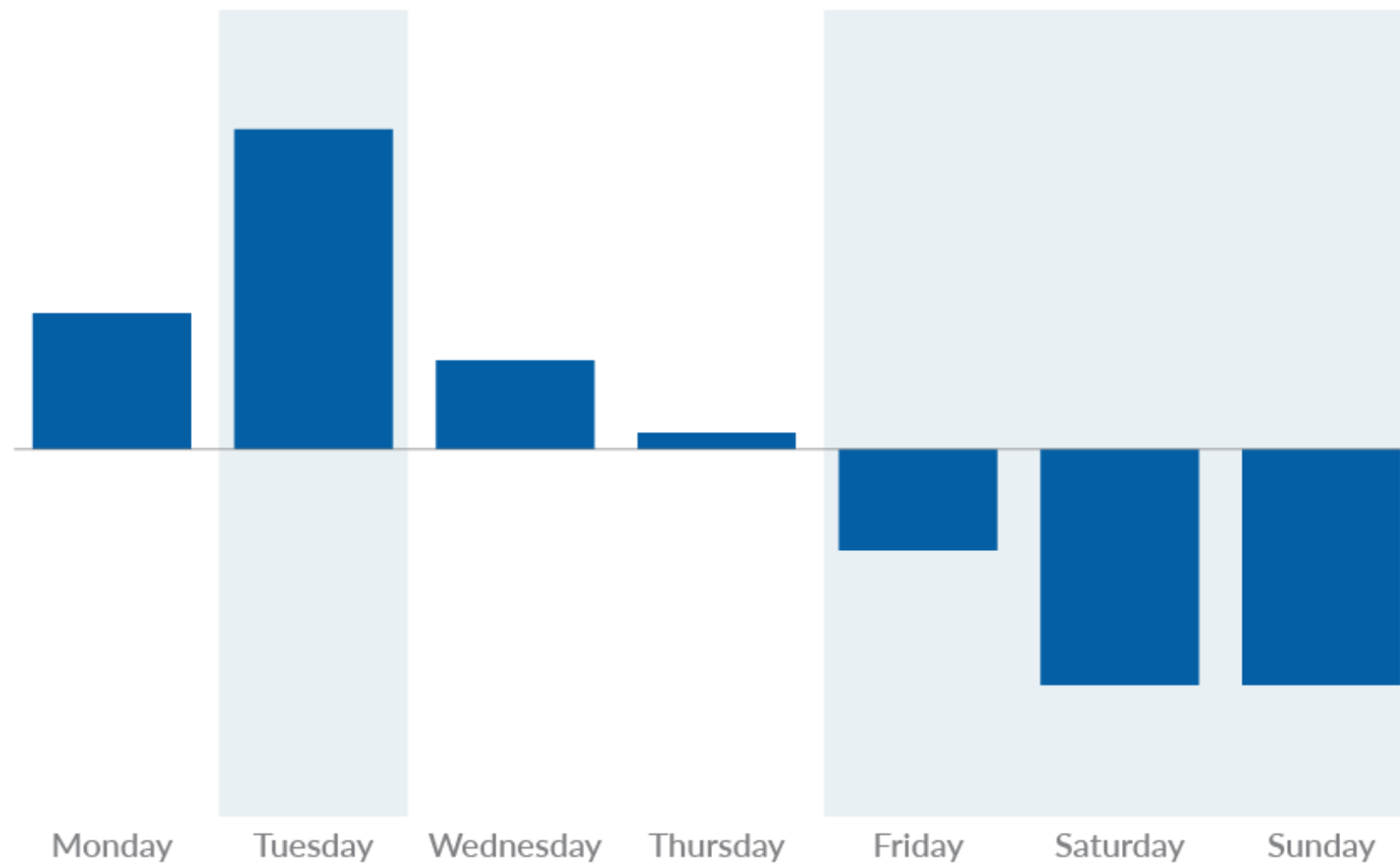


CUSTOMER BEHAVIOUR SHIFTED DURING LOCKDOWN

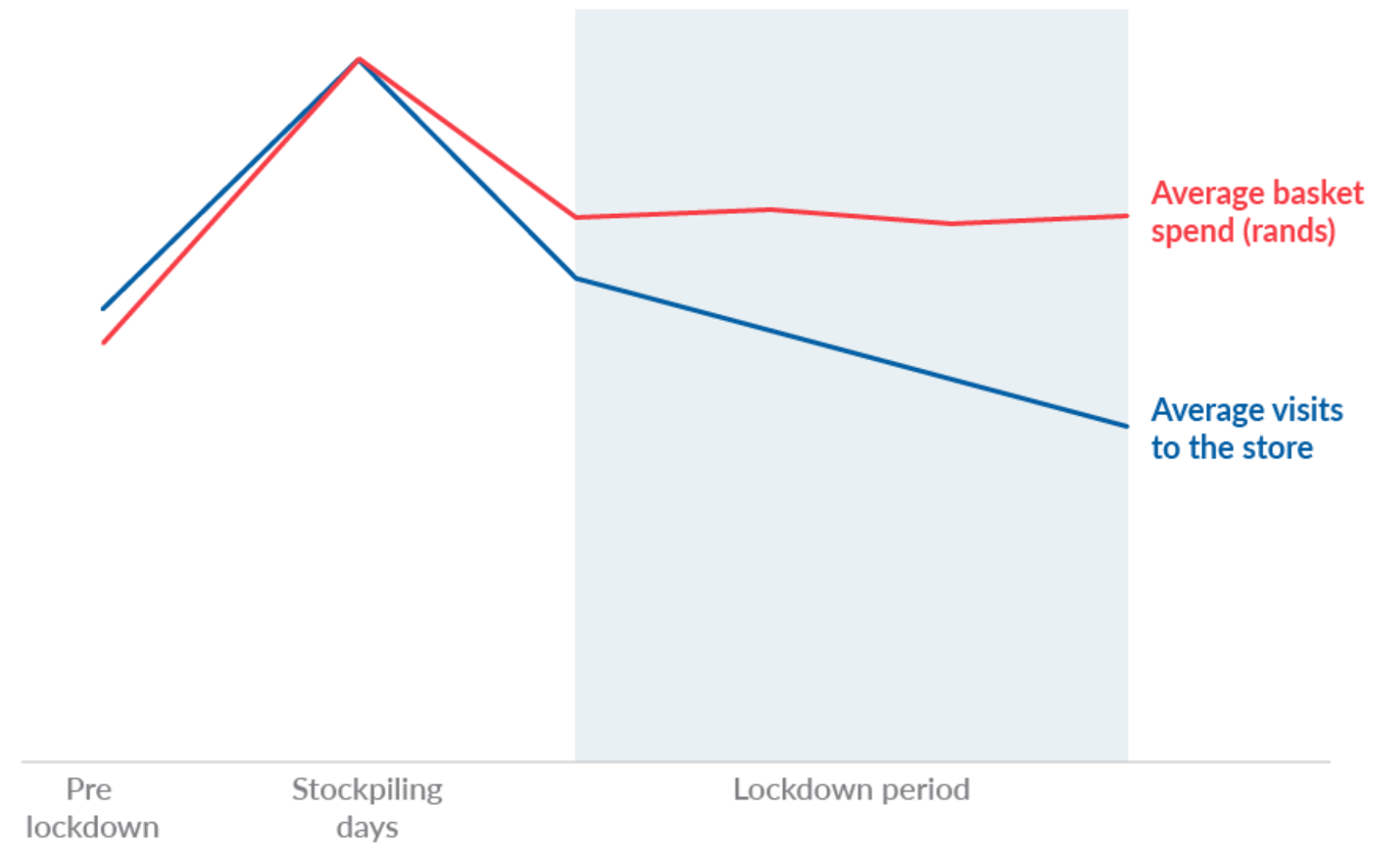


During lockdown, customers are spending more on Tuesdays and less over the weekend

Variance in % spend: lockdown vs typical week:



Shoppers are visiting stores less often but buying more per visit

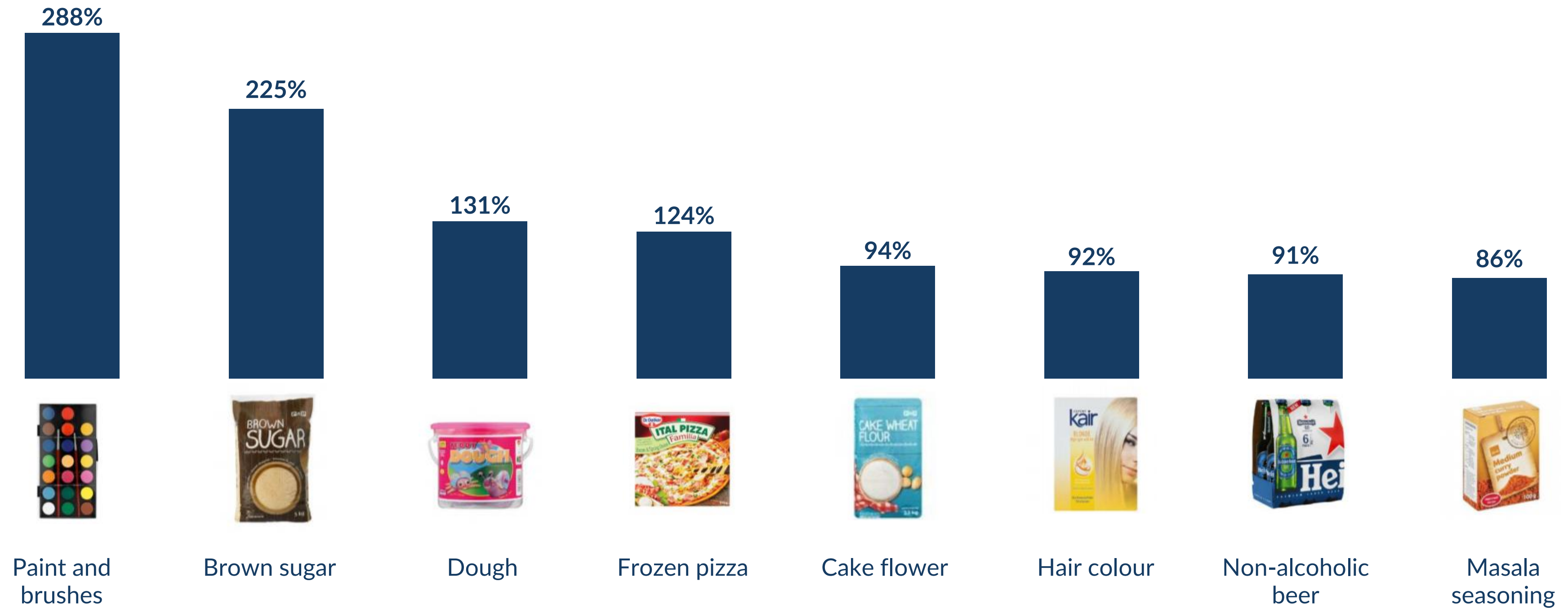


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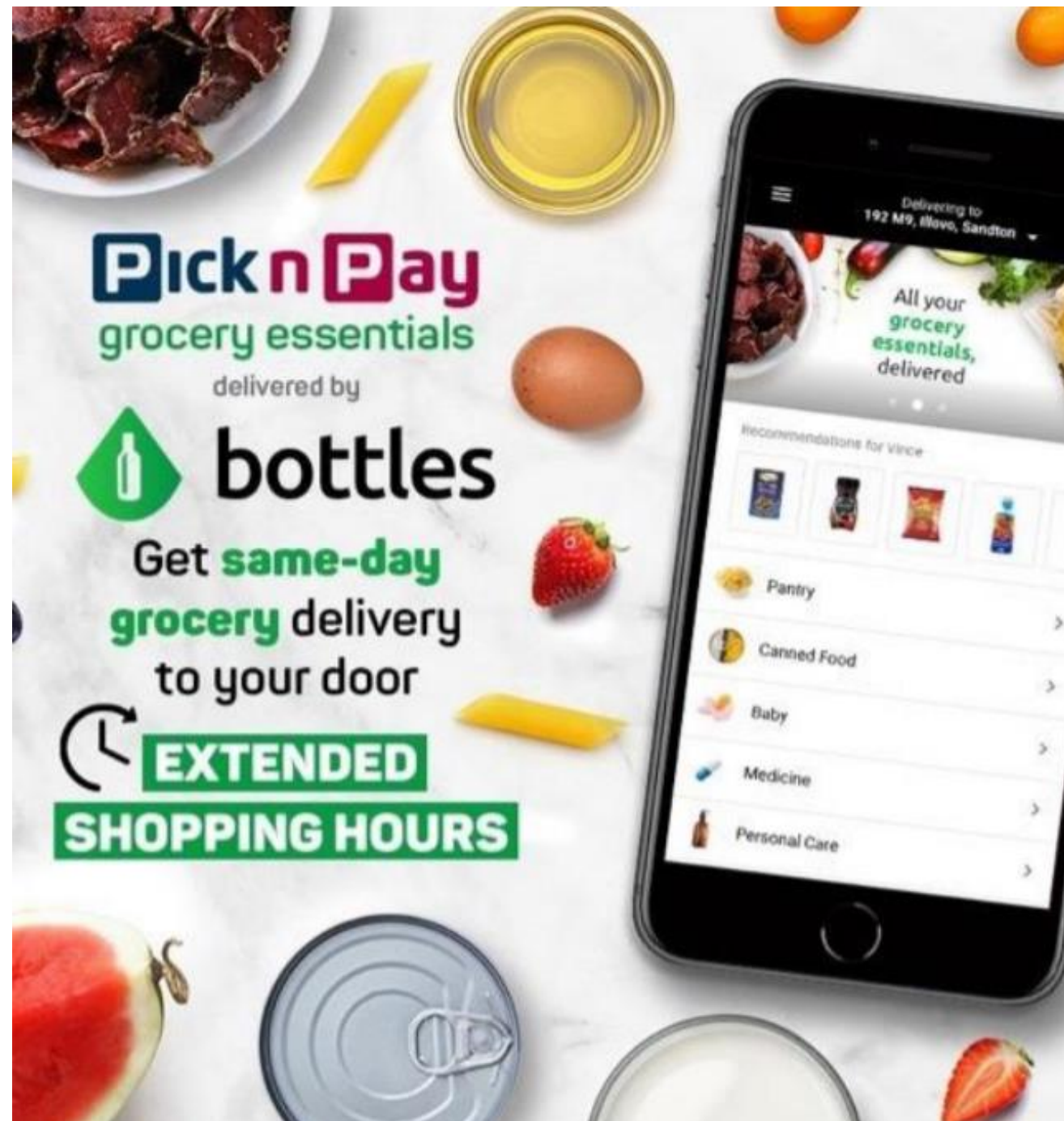


Surge in demand for baking and luxury goods during lockdown

Sales volume growth



DEMAND FOR GROCERY HOME DELIVERIES INCREASED

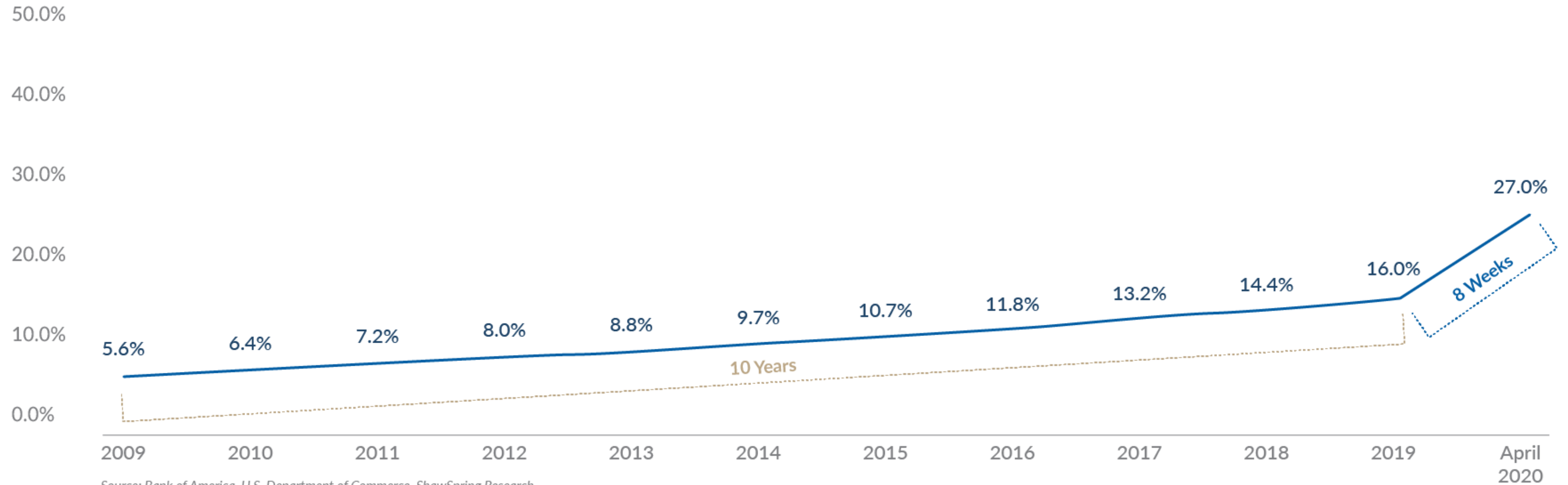


Since the declaration of national state of emergency:

- More than 144 000 new customers registered online – this is 8X more registrations than the previous year
- 200% increase in active transacting customers
- 1 000% growth in first time customers vs last year
- Our dedicated online facilities and in-store click and collect platforms delivered a growth of over 150%
- Resultant turnover growth was over 100% year-on-year

THE CUSTOMERS

U.S. ECOMMERCE PENETRATION (% OF RETAIL SALES)



Chinese retail sales down

8% YOY in April – the best case

Change in paradigm

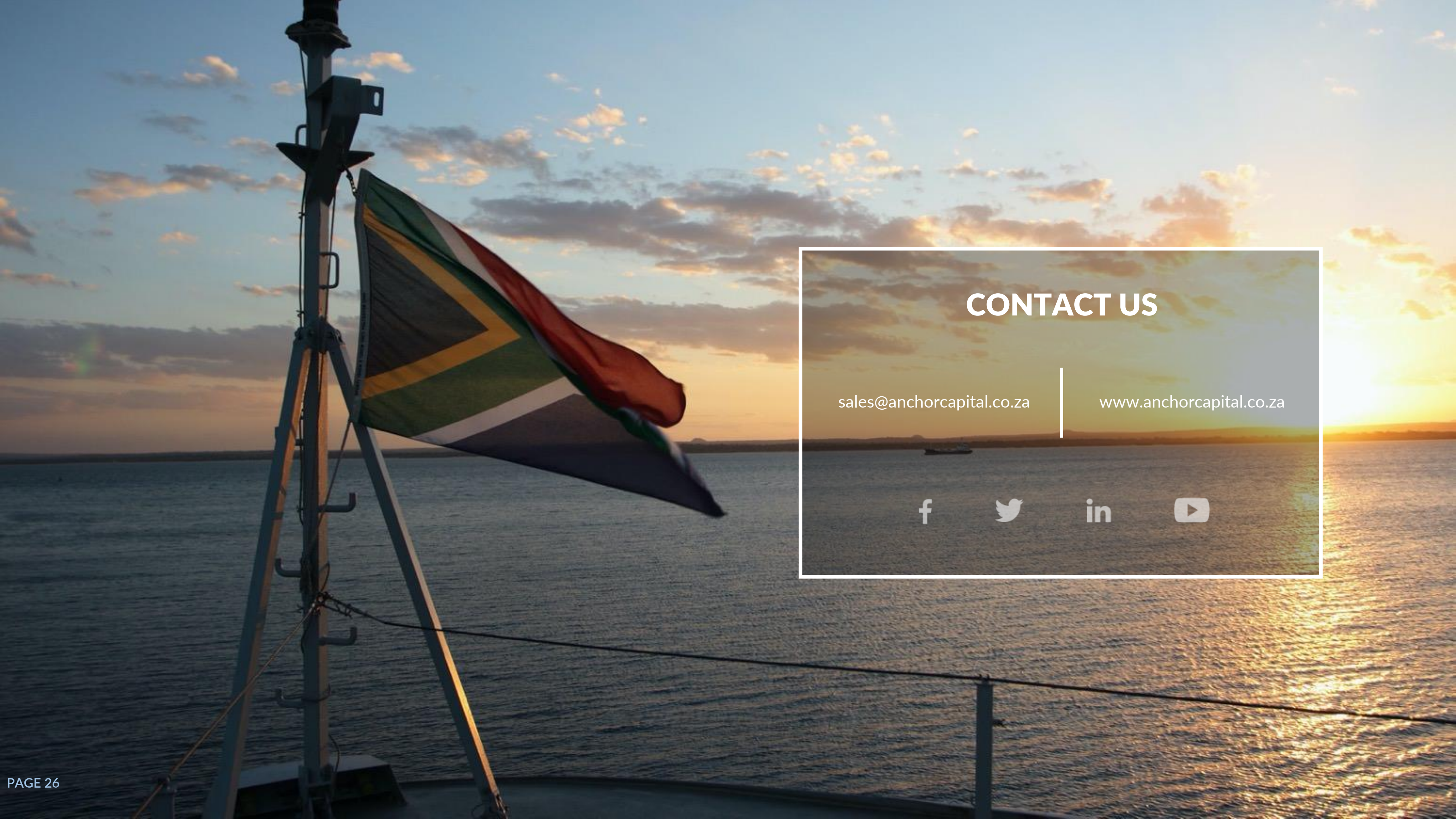
Convenience, price, employed have more cash

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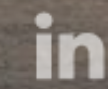




CONTACT US

sales@anchorcapital.co.za

www.anchorcapital.co.za



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