Small Talk Top Stocks for 2016
All about capital preservation & gain
Fourth year of exceeding benchmark

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After a great performance in 2015 (+51.4%) I’m expecting a tough 2016.

It’s more about capital preservation and specific stock selection – based on expected deal flow & special situations rather than out and out capital gain. The stocks chosen (should) be resilient to the headwinds below.

I’m avoiding huge swathes of my traditional stock base given the impact of (1) drought (2) Rand weakness (3) rising interest rate environment (4) impact on the already embattled consumer and (5) the Zuma risk to economic & fiscal policy.

Having (more) than beaten my benchmarks in the past four years I am confident that year 5 (may) prove to be another fair year (if) my views hold.
Consistent benchmark outperformance selection for past four years

2015 Return
+51.4%

2014 Return
+56.6%

2013 Return
+56.6%

2012 Return
+28.1%
How my 2015 selection did

My top 5 for 2015 | Jan 2nd | 31-Dec | % Chg
--- | --- | --- | ---
Consolidated Infrastructure Group | 2865 | 3185 | 11.2%
Torre Industries | 401 | 400 | 1.6%
Curro Holdings | 2882 | 5779 | 100.5%
Anchor Capital Group | 715 | 1740 | 146.6%
Quantum Foods | 320 | 300 | -3.1%

Average performance of top 5 in review | 51.4%

Benchmarks

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>31-Dec</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE Small Cap Index</td>
<td>57920</td>
<td>-8.2%</td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>69789</td>
<td>-10.1%</td>
</tr>
</tbody>
</table>

- Overall cumulative return for the year was 51.4%.
- Happy to continue to own (most) stocks; I’d take profits in Curro Holdings as I can’t see significant upside in 2016. Quantum is TOO CHEAP but market does not understand the drivers.
How my 2014 selection did

<table>
<thead>
<tr>
<th>My top 5 for 2014</th>
<th>Jan 6th</th>
<th>02-Jan</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSG Holdings*</td>
<td>174</td>
<td>210</td>
<td>23.0%</td>
</tr>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>2280</td>
<td>2875</td>
<td>26.1%</td>
</tr>
<tr>
<td>Torre Industries</td>
<td>190</td>
<td>407</td>
<td>114.2%</td>
</tr>
<tr>
<td>Hudaco*</td>
<td>10500</td>
<td>9670</td>
<td>-3.5%</td>
</tr>
<tr>
<td>ConvergeNet</td>
<td>100</td>
<td>223</td>
<td>123.0%</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review 56.6%

Benchmarks

<table>
<thead>
<tr>
<th>Benchmarks</th>
<th>Jan 6th</th>
<th>02-Jan</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE Small Cap Index</td>
<td>50106</td>
<td>57920</td>
<td>15.6%</td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>60192</td>
<td>69789</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

• Overall cumulative return for the year was 56.6%.
• Happy to continue to own (most) stocks; I’d switch Hudaco into Invicta though for the impending special dividend & discounted rights issue
% Cumulative Returns (2014)
How my **2013** selection did

<table>
<thead>
<tr>
<th>My top 5 for 2013</th>
<th>Feb 5th</th>
<th>Dec 31st</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curro Holdings**</td>
<td>1520</td>
<td>2780</td>
<td>90.0%</td>
</tr>
<tr>
<td>Cons Infrastructure Group</td>
<td>1670</td>
<td>2280</td>
<td>36.5%</td>
</tr>
<tr>
<td>Ellies Holdings</td>
<td>856</td>
<td>556</td>
<td>-35.0%</td>
</tr>
<tr>
<td>Rainbow* (RCL Foods)</td>
<td>1520</td>
<td>1750</td>
<td>15.1%</td>
</tr>
<tr>
<td>Torre Holdings</td>
<td>115</td>
<td>220</td>
<td>91.3%</td>
</tr>
<tr>
<td><strong>Average performance of top 5 in review</strong></td>
<td></td>
<td></td>
<td>39.6%</td>
</tr>
</tbody>
</table>

* chosen pre 80 : 100 rights @ 1420 cents
** includes rights issue share entitlement

<table>
<thead>
<tr>
<th>Benchmarks</th>
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</tr>
</thead>
<tbody>
<tr>
<td>JSE Small Cap Index</td>
<td>42366</td>
<td>49909</td>
<td>17.8%</td>
</tr>
<tr>
<td>JSE Mid Cap Index</td>
<td>54881</td>
<td>60149</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

• Overall cumulative return for the year was 39.6%. (if Ellies sold at my fundamental sell in April 2013 at 940c the return would have been 48.6%).
% Cumulative Returns (2013)
How my 2012 selection did

<table>
<thead>
<tr>
<th>My top 5 for 2012</th>
<th>March 1st</th>
<th>Dec 31st</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curro Holdings</td>
<td>1004</td>
<td>1635</td>
<td>62.8%</td>
</tr>
<tr>
<td>Cons Infrastructure Group</td>
<td>1150</td>
<td>1640</td>
<td>42.6%</td>
</tr>
<tr>
<td>Super Group</td>
<td>1445</td>
<td>1680</td>
<td>16.3%</td>
</tr>
<tr>
<td>Astral Foods</td>
<td>12399</td>
<td>10350</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Pinnace Holdings</td>
<td>1360</td>
<td>1837</td>
<td>35.1%</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review 28.1%

Benchmarks

| JSE Small Cap Index      | 35235     | 40967    | 16.3% |
| JSE Mid Cap Index        | 47121     | 54998    | 16.7% |

- Overall cumulative return for the year was 28.1%. (if Astral sold at my fundamental sell in June 2012 at 11400c the return would have been 29.7%).
- Curro & CIL are stocks I’d own in any long-term growth portfolio
• My Top 5 Selection for 2015 (Prices as selected on January 11th 2016)

• How have my Top 5 for 2015 fared and what are my current views on each

(For utter transparency independently managed funds owned by me have holdings in SYG, TOR, SCP, ARA, CIL)
How the 2015 Top 5 have fared since selection; where too in 2016?

Had a fair year, even though it nearly made my 3600c target price. A lack of understanding on its Angolan oil unit (AES) hit the company BUT strong revenue and profit growth soon saw a bounce back. 2016 will be much of the same with a solid order book and 60% Rand hedge qualities.

More than doubled in the year as the ADH vs. COH deal battled and derailed. A firm interest in ‘recession proof’ private education and its ‘J’ curve effect means the stock soared and flew through my 3800c target to hit 6000c. I see good business progress in 2016 BUT the share price is too full....and the company knows it.

Torre has been a good solid 3-year performer. Stock ran to 550c in the year then sector issues (unfairly) hit the counter and saw it end flat on the year. With ongoing organic and acquisitive growth, cash on hand for deals and the chance of a (takeout by Stellar) its one I keep in 2016.

My star performer rising over 150% as astute marketing, a slew of deals and great positioning saw the stock catch fire with investors. I like the business and model but after such a fantastic 2015 I cannot see 2016 being as great and thus remove the stock and I maintain it a core hold.

Uncovered, misunderstood agri/feeds business has done much to de-risk itself from volatile segments of industry. Ran to 429c then gave it all back as the maize price soared. Stock looks utterly cheap, has huge cash pile BUT as long as market does not understand it, it will languish. I still rate the counter a BUY.
2016’s selection; CIL, SYG, (SCP/TOR), ARA, SNV
If my target prices are attained I see a return of +35.7%

<table>
<thead>
<tr>
<th>My top 5 for 2015</th>
<th>Jan 11th</th>
<th>Target Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Infrastructure Group</td>
<td>3010</td>
<td>3800</td>
</tr>
<tr>
<td>Torre Industries</td>
<td>374</td>
<td>500</td>
</tr>
<tr>
<td>Stellar Capital</td>
<td>225</td>
<td>350</td>
</tr>
<tr>
<td>Sygnia Holdings</td>
<td>1344</td>
<td>1800</td>
</tr>
<tr>
<td>Astoria</td>
<td>1799</td>
<td>2250</td>
</tr>
<tr>
<td>Santova</td>
<td>430</td>
<td>600</td>
</tr>
</tbody>
</table>

Average performance of top 5 in review 35.7%

Benchmarks
- JSE Small Cap Index 51411
- JSE Mid Cap Index 65186
Consolidated Infrastructure Group (CIL) 3010 cents

• For the fifth successive year I select CIL in my Top 5
• Recent ‘weakness’ affords good opportunity to get in
• FY15 HEPS at 221cps with another +25% expected FY16 – 60% Rand hedge. CEO very ‘upbeat’.
• Organic growth remains the main thrust, 2014/15 was all about ‘positioning to cope with growth’;
  • Conco continues to me main growth driver. Muni’s & Eskom are spending; unprecedented tender activity currently being seen as Gov’t upgrades the reticulation network.
  • AES services in Angola has undertaken aggressive expansion to cope with new legislative demands on the oil sector and onshore drilling. Legislation now in place.
  • (REFIT) going well, Phase 3 – 4 underway with more to come and on-going O&M initiatives
  • Building materials remains a good cash cow with stable prospects.
• My year end target price for CIL is 3800 cents implying a return of 26%. My mid-cap bell weather.
Sygnia Holdings (SYG) 1344 cents

• A new entrant as I let the ‘Anchor’ loose. Was a tough call.
• As a recently listed business, Sygnia drew much attention but has not YET garnered the ‘rara’ that the formidable PR, marketing and cult CEO personality that Anchor has....that may be about to change in 2016 as the ambitious CEO uses her listed platform to grow.
  - Fat cash war chest (R250m) post IPO with ‘whispers’ of deals in the pipeline
  - Legislative changes that could invigorate Sygnia’s low cost index tracking platform
  - Umbrella funds, hedge funds and Private Clients are all major growth drivers in 2016.
• The IPO has raised Sygnia’s profile, especially on the (higher margin) private client side; I understand inflows are x3 the pre-IPO flows. This made 19% of profit in FY15 and is growing fast.
• My year end target price for Sygnia is 1800 cents implying a return of 34%.
Stellar Capital (SCP) 225 cents

• Stock back in after a year’s break. Was top stock in 2013
• R1bn of new capital recently raised with significant cash (via prefs) pumped in by owner MANCO – they are incentivised to succeed and grow this business.
• Recent management update meetings lead me to be confident of a slew of accretive deals in 2016 and my view that this business could become an ‘English PSG/Rembrandt’ remains.
• With the CEO having undertaken a slew of ‘roll-up’ deals to create Torre and now his management (and stake) in SCP needs to be taken seriously.
• I’m a believer in “follow the money’. Manco moved from TOR to SCP. I expect plenty of deals in 2016 as CEO Charles Pettit ‘moves up a gear’ in SCP and my 350c target price implies a return of +56%
Torre Holdings (TOR) 374 cents

• Like the star sign Libra...TOR is co-joined to SCP so I include as a joint Top 5 selection. The two (I believe) are now interlinked.

• Stocks ‘deal’ potential in 2016 means it has to be re-included as I feel its undervalued nature (FPE to June on my forecast of 38cps is <10x) means it will either re-rate OR majority shareholder SCP may just take it out. Either way I see upside in Torre in 2016. H1 earnings will show growth but 2H will be better.

• Recent management update on prospects;
  • After a year of deals...all are bedding down & performing (cost cuts & efficiency gains) building solid (and scalable) business units. Most units performing to expectations. Whispers of a sizable new deal underway could move TOR into the ‘next league’. The ‘roll-up’ continues.
  • Capital structure can support growth...balance sheet can fund R800m in cash deals.

• My year end target price for Torre is 500c implying a return of 34%. I can ‘smell a deal’.
Santova (SNV) 430 cents

• New stock inclusion and SmallTalk plans to initiating coverage.
• A stock I have been watching for most of 2015.
• At R678m its a small cap but with an impressive management team building a solid and international logistics business with recurring Rand hedge qualities and innovative supply chain software solutions.
• The group reported HEPS up by 47.7% on the back of some particularly strong performances in its offshore logistics operations (Hamburg, Ghana & Mauritius), amplified by the weakening of the rand, which shows starkly the benefits of currency diversification in the earnings streams. Profits rose 60%
• The acquisitive flurry in 2015 will pay dividends in 2016 esp given where the R vs. Euro/US$ is.
• Proper coverage and ‘marketing’ of the counter could see its becoming ‘mainstream’; that’s my aim. The stock has had a good run and is starting to gain (some) institutional traction but I feel 2016 ‘could be its year’.
• I’m choosing the counter as my small cap ‘speculative’ play to see ‘what I can do with it’.
• On my initial analysis and ‘look see’ I can see a YE target price of 600c implying a return of 40%.

020
Astoria (ARA) 1799 cents

• New stock inclusion and may be a contentious choice to many as its an offshore fund.
• Listed in late 2015 at 1423cps (and managed by Anchor) the counter converted its raised R1,8bn in new cash at R14.39 to US$1. The return since IPO is 26% and I expect much more as the Rand continues its slide. It trades at a premium to NAV presently.
• So why do I chose it? Most of the fund can be replicated BUT lots can’t...and that’s the edge it has.
  • 60% international equities (easily replicated) but the remaining 40% in specialised private equity funds & country funds (at judicious rates) cannot.
  • The formidable marketing machine of Anchor is behind the stock and Astoria is the default offshore asset class for Anchor clients; as Anchor AUM grows so does its push to ARA.

Given the current political, economic and Rand issues in SA...ARA is ‘the fund of the moment’ and I see a minimum target price of 2250c implying a return of 25%....it may surprise!
My ‘little black book’ of ideas at the start of 2015....they fared pretty well....

• Kaap Agri. With OTC trading resumed this ‘gem’ of an agri business continues to look like a compelling holding. With excellent recent FY14 earnings and (my) forecast increased for FY15 (265-275cps) I can easily justify a 1-year target price of 3500 cents. Perhaps Zeder will make a tilt at buying it out (for a 4th time) but they will have to pay up...but what is certain is they will ‘creep’ their stake higher. At 2900c stock a core own.

• Zeder Investments. The stocks has had an astonishing 2014 with the share price surging as the rally in Pioneer Foods fed into its 31% stake in Pioneer. But at the current share price (to me) it looks fully priced. So could there be more deals in 2015? An issue which will cross shareholders minds post the February YE is the truly ‘vast’ fee they will pay PSG (+R250m)...this may lead to ructions...and perhaps lower fees in future.

• The Food Sector, due to low soft commodity inputs/energy, should have a great 2015 with poultry (ARL, QFH, SOV) and the OTC agri stocks (Kaap, Senwes, NWK, BKB) coming up top trumps.
My ‘little black book’ of ideas at the start of 2016....time will tell....

• **PSG Group.** Having raised an opportunistic R2.2bn at R245 per share (a discount to the then share price but a fat premium to its then SOTP)...PSG is a stock I like for the longer term given its investments. BUT, in 2016 I fear for the underlying valuation of its big assets. Capitec is going to come under strain like all the banks in SA, I see Curro going nowhere, Zeder has dived...as has its piggy bank fee income to PSG; its 24% premium is now at an 11% discount to SOTP. Little to get excited about here.

• **Zeder Investments.** Having slammed Zeder for the past three months (justifiably) and the share price having slumped....there will be minimal fee income to PSG Group from Zeder so shareholders will save a bundle. But with the asset base at a high discount and further weakness expected from Pioneer....I still see little need to get excited on Zeder. What could I see? Perhaps PSG increasing their stake....they can buy R1.00 of asset currently for @66cps...seems like the type of deal they’d do to line their own pockets.

• **The Food Sector,** reversing the glory year on H1 2015 is in for a torrid year. Drought, a slumping Rand and a weak consumer base will see contracting volumes, tighter margins and if the maize crop is as bad as ‘whispered’ (5m tons)...then the poultry sector and milling sector will bleed. I’m avoiding all.
My ‘little black book’ of ideas at the start of 2016....time will tell....

- **Torre Holdings.** This is a counter I have covered for many years since its metamorphosis under CEO Charles Pettit from a 30c stock to a counter that in mid-2015 reached 550c. The current 374c share price (on my FPE to June of 38cps (+26%) means the counter is on a 9.8x PE and a 2.2% DY. With ongoing earnings accruing from past acquisitions (Control Instruments, SetPoint & Elephant Lifting) the counter stands out from similar industrial counters as it has the ability to deliver positive HEPS growth from its nimble, ‘roll-up’ deal strategy. With a @R2bn market value and majority shareholder Stellar owning @35%...I can see a take-out of TOR coming if the market continues to ignore Torre’s unique operating mantra. Whatever happens in 2016....there will be action in Torre one way or another thus I see meaningful upside appreciation.
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