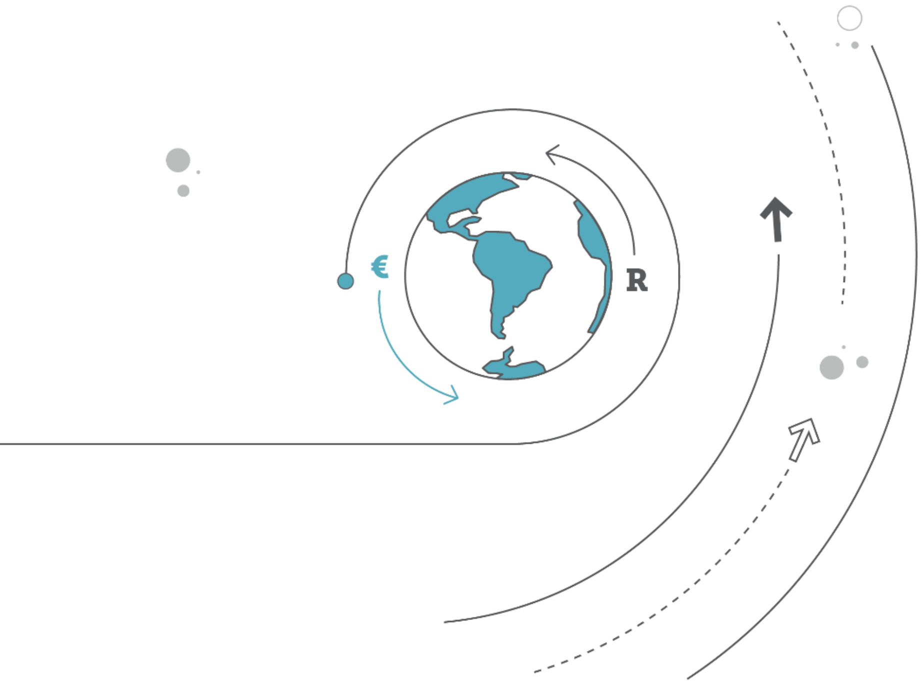
Nick's Global Newsletter

JUNE 2021



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About me

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I joined Sasfin in 2016 as a Global Equity Analyst, focused primarily on analysing technology and consumer shares.

I am currently a Portfolio Manager at Sasfin's Cape Town branch, managing offshore portfolios for private clients, and the Assistant Fund Manager on the Sasfin Global Equity Fund. I'm particularly interested in innovative and disruptive global companies that are transforming the world.

I hold a Bachelor of Business Science in Mathematical Statistics and Economics as well as a Master of Commerce in Financial Markets from Rhodes University.

Recommended Videos

Samsung – Bigger than you know
The company that you probably know best for their cell phones and other consumer electronics is much bigger than you may realize. This video attempts to convey the size of Samsung while highlighting their different segments.

How Apple's iPhone and Apps Trap You in a Walled Garden
Apple's hardware, software and services work so harmoniously that it's often called a "walled garden." The idea is central to recent antitrust scrutiny and the Epic vs. Apple case. WSJ's Joanna Stern went to a real walled garden to explain it all.

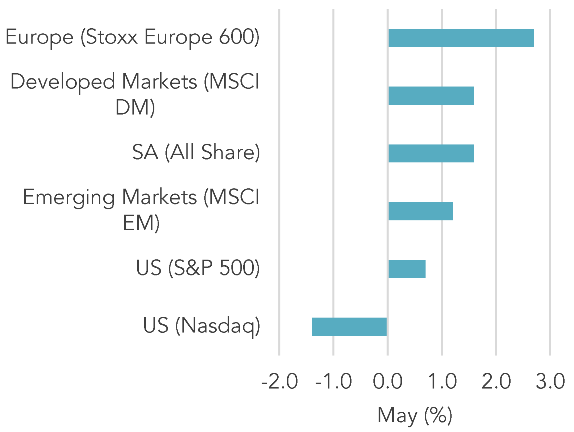
How Tesla's Battery Mastermind Is Tackling EV's Biggest Problem
Former Tesla CTO and Elon Musk's right-hand man, JB Straubel, started Redwood Materials in 2017 to help address the need for more raw materials and to solve the problem of e-waste. The company recycles end-of-life batteries and then supplies battery makers and auto companies with materials in short supply as EV production surges around the world.

Nike - The Rise and Fall...And Rise Again
This video talks about how Nike lost their number one spot and the unusual way they gained it back.

Market Commentary

The U.S. is well on its way to "reopening". Over 40% of the U.S. population have been fully vaccinated and more than half have received at least one dose. Following various bureaucratic delays, the rollout across Europe has begun to gather steam, though in many parts of Asia the rollout remains somewhat behind.

The 9th of November, the day on which news of the Pfizer vaccine broke and what some refer to as "vaccine Monday", was a turning point for markets. Investors began to shift their focus onto the reopening of economies and stocks that were best positioned to benefit. This led to a change in market leadership whereby those that prospered during a stay-and-work-from home environment, such as technology stocks, were replaced by those that were beaten down during this period such as energy, financial and industrial stocks. The new leaders, which typically prosper during periods of economic growth, have since outperformed the broader market in anticipation of such growth. This trend continued in May with the previously beaten down sectors driving global markets higher once again as the MSCI All Country World Index, a broad measure of global equity markets, gained 1.6% in May.



Besides economic growth prospects, another factor that could be influencing the outperformance of the new leaders is inflation, specifically investors seeking ways to protect their portfolios against it. In fact, inflation is likely to be the biggest talking point for a while. U.S. inflation for the month of April shot up to 4.2% when compared to the same month last year, the largest increase in more than a decade. Across the board, prices of goods and services have been climbing higher, be it food prices or even the price of used cars which surged 10% in April, the largest increase ever recorded. During periods of higher inflation (say more than 2%) stocks that tend to perform better are more cyclical in nature and include the likes of energy, financials and industrials. Equities that fall into these categories could be considered "value stocks" in that they offer on a relative basis limited future earnings growth and more near-term cash flows, specifically dividends. Growth stocks on the other hand are characterised by future earnings growth and tend not to offer dividends. As a shield against higher inflation, investors have been turning towards these value stocks as evidenced by the outperformance of the MSCI AC World IMI Value Index relative to its growth index counterpart.

To further protect against inflation, it has been suggested by some that cryptocurrencies such as bitcoin would serve as a viable vehicle. Those that "HODL" (bitcoin terminology for hold) bitcoin endured a wild ride during the month following a series of negative developments. In China, which is believed to be the world's largest hub in terms of bitcoin mining, regulators warned off financial institutions from accepting cryptocurrencies as payments or offering related services. One of bitcoin's biggest champions, Elon Musk, announced that Tesla will no longer accept bitcoin as payment due to its impact on the environment as mining bitcoin is incredibly energy-intensive. The U.S. Treasury Department has also announced that it would employ stricter compliance through the IRS requiring businesses to report on crypto transactions that exceed $10,000 in an effort to clamp down on tax evasion. The combination of the above saw bitcoin plummet from nearly $60,000 to under $35,000 in a single month.

Inflation and related expectations are likely to run hotter going into the second half. Fuelled by excess savings and pent-up consumer and business demand which are both likely to remain strong for the foreseeable future. As the economic recovery gains momentum and inflation heats up another word that may soon become more prominent is "tapering". In the context of markets tapering refers to the reduction of support that markets receive from central banks. The U.S. Federal Reserve ("Fed") has recently raised the prospect of tapering its monthly $120 billion bond buying program. A reduction in bond purchases by the Fed is likely to lead to higher short-term yields and conversely lower economic activity. This could be regarded as the first step to tightening monetary policy. Eventually, the tapering will begin but the timing thereof will be hotly debated. Some, including the Fed, believe the pickup in inflation is transitory (temporary) and it only expects to start hiking rates in the next year or two. Others believe we may see higher interest rates sooner than that

Commentary by Jonathan Wernick, CFA

Company News

Alibaba (BABA)

As at 2021/6/17		
Market Cap (bn)	$	567.1
Share Price	$	209.32
1-month return	%	-0.1
1-year return	%	-6.0
YTD return	%	-10.1
52-wk high	$	319.32
52-wk low	$	204.39

Source: Factset

Alibaba reported a net loss of Rmb5.5bn ($836m) on Rmb187bn in revenues for the quarter from January to March as regulators hit Alibaba with a record $2.8 billion fine in April for abusing its dominant position over rivals and merchants on its e-commerce platform. Revenues rose 64%, boosted by the acquisition of a supermarket chain last year, and came in ahead of analyst expectations.

China's reigning ecommerce leader also outlined a large investment plan aimed at competing with upstart rivals such as Pinduoduo, which overtook Alibaba in annual shoppers at the end of last year, in part by offering them massive discounts. Alibaba has also invested in taking on rival Meituan in food delivery.

Alibaba's results showed that its fintech arm, Ant Group, posted record profits in the fourth quarter of last year, the first indication of the condition of its business after Chinese authorities cancelled its $37bn initial public offering in early November.

Sources: Company results, Financial Times, Wall Street Journal

Why I like the share

Alibaba operates China's most-visited online marketplaces, through Taobao (consumer-to-consumer) and Tmall (business-to-consumer). It is also the leading online payment provider and the biggest cloud service provider in China. The core commerce business has historically driven earnings higher, but future growth is expected to come from new initiatives including: payments (Alipay), cloud services, the expansion of international e-commerce and its new online-to-offline initiative.

Home Depot (HD)

As at 2021/6/17		
Market Cap (bn)	$	321.9
Share Price	$	302.78
1-month return	%	-5.9
1-year return	%	23.9
YTD return	%	14.0
52-wk high	$	345.69
52-wk low	$	234.31

Source: Factset

Home Depot's sales jumped 31% in the first quarter as the fresh round of government stimulus checks in March also added to resilient demand for home improvement products.

The company was classified as an essential retailer, accelerating sales for the company's do-it-yourself supplies as consumers tackled new projects while stuck at home. A booming housing market has also helped fuel growth, although soaring lumber prices and higher interest rates have dampened sales of newly built homes in recent months. "The current shortage of new housing clearly is helping to drive improvements in the home values, which is a good thing for spending in the home," CEO Craig Menear said on the conference call.

However, management cautioned it was difficult to predict how its business would be impacted by a potential change in shopping habits in the coming months as the reopening of the U.S. economy threatens to slow a pandemic-fuelled sales boom.

Sources: Reuters, Company results

Why I like the share

The Home Depot was founded in 1978 and is the world's largest home improvement retailer with over 2200 stores across the United States, Canada and Mexico. The company sells more than one million building and home improvement products to both do-it-yourself (DIY) customers and professional contractors. Their stores average nearly one hectare in size, which is more than twice the industry norm. The company has the opportunity to increase its share of the US$600bn US home improvement market, and should continue to benefit from a healthy housing market.

Medtronic (MDT)

As at 2021/6/17		
Market Cap (bn)	$	168.2
Share Price	$	125.02
1-month return	%	-0.2
1-year return	%	33.8
YTD return	%	6.7
52-wk high	$	132.30
52-wk low	$	87.68

Source: Factset

Medical device maker Medtronic beat quarterly Wall Street estimates, aided by a recovery in its core business as more people opted for non-urgent procedures such as knee and hip replacements.

U.S. medical device makers now expect more people to sign up for the procedures, shaking off their hesitancy for hospital visits during the pandemic, as restrictions ease and the vaccination drive gathers steam.

Medtronic is fast approaching its pre-pandemic level and most of the company's business has reached nearly 85%-100% recovery, CEO Geoff Martha told Reuters. Sales from emerging markets, which includes China, surged 47% to $501 million during the quarter. Business in China, one of Medtronic's large markets is back to normal, Martha said.

Sources: Reuters

Why I like the share

Medtronic is one of the world's largest medical technology companies, operating across more than 150 countries. The company's device-based medical therapies and services are used to treat nearly 40 medical conditions. Medtronic has a strong pipeline across all businesses, including next-generation technologies such as a spinal cord stimulator to be used for pain therapy as well as a nerve monitoring system. It is also focused on its robotic surgical systems.

Nvidia (NVDA)

As at 2021/6/17		
Market Cap (bn)	$	443.8
Share Price	$	712.41
1-month return	%	25.1
1-year return	%	96.6
YTD return	%	36.4
52-wk high	$	721.58
52-wk low	$	348.13

Source: Factset

Nvidia reported record quarterly revenue and profit, propelled by demand for videogaming and cryptocurrency and despite a broad-based shortage of semiconductors.

Nvidia specialises in graphics processors that have flown off shelves as people flocked to videogaming for entertainment during the coronavirus pandemic. The way those graphic chips work has also made them popular for other applications, including performing artificial-intelligence calculations and mining cryptocurrencies, further inflating demand.

The company's latest generation of graphics cards sold so quickly that a secondary market emerged where sellers offered them at inflated prices. To help alleviate shortages of cards intended for videogamers, Nvidia has taken the unusual step of adding software to cap their cryptocurrency mining performance. Nvidia hopes the move spurs miners to instead buy new hardware targeted at them.

Sources: Wall Street Journal, Company results

Why I like the share

Nvidia is the largest chip company in the US and provides investors with exposure to some of the fastest-growing themes and areas within the technology sector: Artificial intelligence, machine learnings, 3D/augmented reality and autonomous driving.

Salesforce.com (CRM)

As at 2021/6/17		
Market Cap (bn)	$	224.5
Share Price	$	242.39
1-month return	%	11.4
1-year return	%	34.3
YTD return	%	8.9
52-wk high	$	284.50
52-wk low	$	171.27

Source: Factset

Salesforce.com raised its full-year forecast for revenue as well as profit, and reported quarterly revenue that beat analysts' estimates, following increased demand for its cloud-based software due to a pandemic-led shift to remote work.

"Our performance in the first quarter was strong across all financial metrics," chief financial officer Amy Weaver said in a press release. "We saw record levels of new business and strength across all products, regions, and customer sizes."

Sources: Reuters

Why I like the share

The company revolutionised the Customer Relationship Management (CRM) software industry in 1999 with its cloud-based CRM solution, now known as Sales Cloud. Since then, it has evolved into one of the world's most innovative companies, engineering cloud-computing/software-as-a-service (SaaS) solutions for more than 150 000 companies worldwide. It is the largest cloud-based CRM solution provider and pure-play SaaS vendor in the world, producing subscriptions revenue several times larger than its peers.