

SA Equity Strategy

Local investor feedback; constructive end-'24

Equity Strategy

Economics: fewer power cuts could improve GDP in 2024

Investors on our recent roadshow were concerned with the global and domestic macro-outlook. They pushed back on our US softer landing (slowing US growth, a negative fiscal impulse and a likely Fed cutting cycle) igniting material USD dollar weakness, with our euro-dollar at 1.15 at year-end 2024. Granted, some investors believe there could still be a bout of dollar strength in 1H'24. There is consensus on bearish domestic macro views, despite some upside potential to 2024 GDP growth (BofA to 1.5% from 0.7% in 2023) with fewer power cuts. Growth in 2023 has stagnated due to binding constraints from Transnet and Eskom. Fiscal concerns continue into 2024, despite some likely marginal improvements (additional revenues and moderated expenditure growth). However, we see default as unlikely and limited near term rating downgrades from the BB category, making high real yields attractive for local government bonds. We think that upcoming general elections in May 2024 are likely to produce no winners given that opinion polls suggest that ANC could get <50% while opposition parties are likely to be fragmented, potentially dividing the vote. In our view, a potential ANC coalition with a small party, could imply status quo on economic policy- a slow pace of reforms and weak economic growth.

Strategy: investors fade rally near term; see better 2H'24

Investors fear a global slowdown amid slower Fed/ECB cutting cycles but also fear missing out on potential upside returns in 2024. Despite Eskom/Transnet woes, South Africa consensus expects (Bloomberg) growth to be better in 2024 with more private sector involvement. Investors had no qualms with a choppy 1H due to key risks: credit event, harder landing, South Africa Budget, and elections. We see a 2024 re-rating of the All-Share, driven by a 'weaker-than-consensus' dollar and higher commodity prices (back-ended, 2H). EPS growth should follow in 2025. We had far less pushback on our 'double whammy' view (post the Fed pivot), but our strong return expectations raised eyebrows. There was no pushback on expected bank returns > retail +12 months (>20% old guard bank re-rating); retailers > banks +24 months; local > offshore (until returns unlocked).

Banks: waiting on a new (rates) regime

Akin to our Equity Research view of a difficult but still net-positive 2023 for the SA banks, investors we spoke to had a sanguine bank outlook given earnings resilience (Exhibit 3/Exhibit 4). With positive credit indicators from FirstRand, investors seemed to agree that the impact of improving credit losses could outweigh declining interest rates in 2024 (Exhibit 5). We received more pushback on stock preferences. Faster-than-market retail growth since **Absa's** 2018 strategy created concerns on structurally, not just cyclically, higher credit losses. Whether **FirstRand** was under-promising/over-delivering was asked. Investors wondered whether Mr. Quinn's appointment to **Nedbank** would be impactful. On growth, discussions ranged from if **Investec** has more to go to if **Standard Bank's** strong 2023 creates a tough 2024 base.

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ANC: African National Congress

ECB: European Central Bank

NI: Net interest income

SA: South Africa

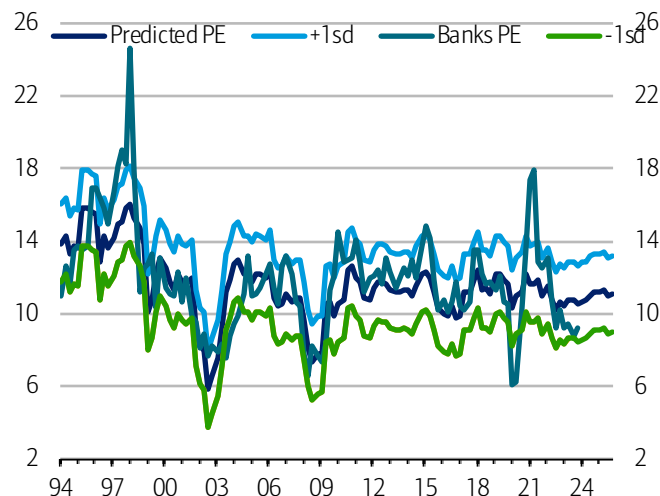
SARB: South Africa Reserve Bank

Key charts: All-Share re-rating 2024 (2H)

Strategy key charts

Exhibit 1: Bank sector trailing PE versus fair value PE model (11x +12M)

Bank PE now 9x. Rising fair value PE ahead, amid steady EPS/DPS growth

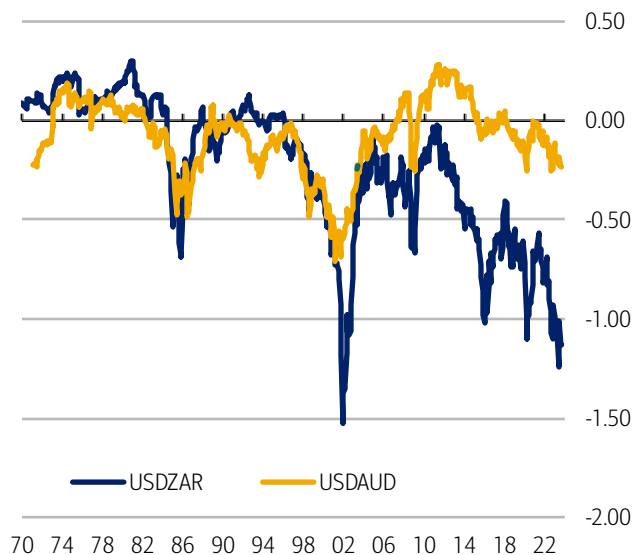


Source: BofA Global Research Strategy, IRESS, JSE, SA CPI and USDZAR used as proxy inputs. The PE model identified above is intended to be indicative metrics only. It may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This PE indicator was not created to act as a benchmark

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Exhibit 2: ZAR & AUD (commodity currencies) versus USD adjusted for inflation differentials

Mind the gap: ZAR beyond China hard landing and Covid-19 levels

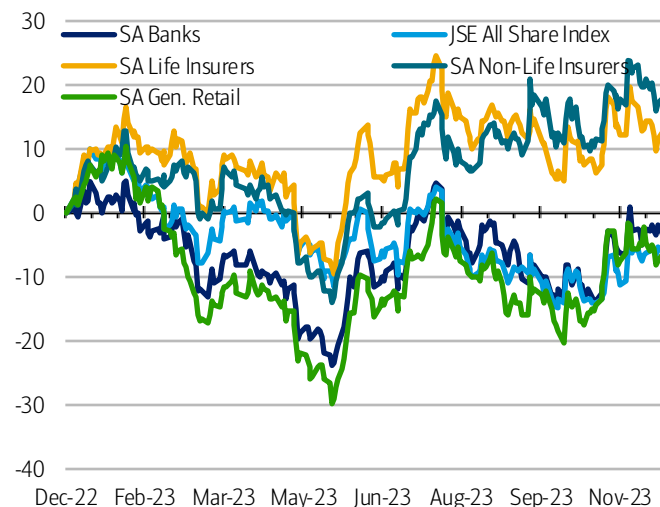


Source: BofA Global Research, Bloomberg, IRESS, Refinitiv. Currencies pinned at 1990 levels BofA GLOBAL RESEARCH

Banking key charts

Exhibit 3: Banks have staged a recovery in 2H23

Banks (-4.4%) have clawed back performance versus JSE All Share/General Retail Indices (-7.4/-7.3%), but not SA Life/Non-life insurers (11/16.2%)

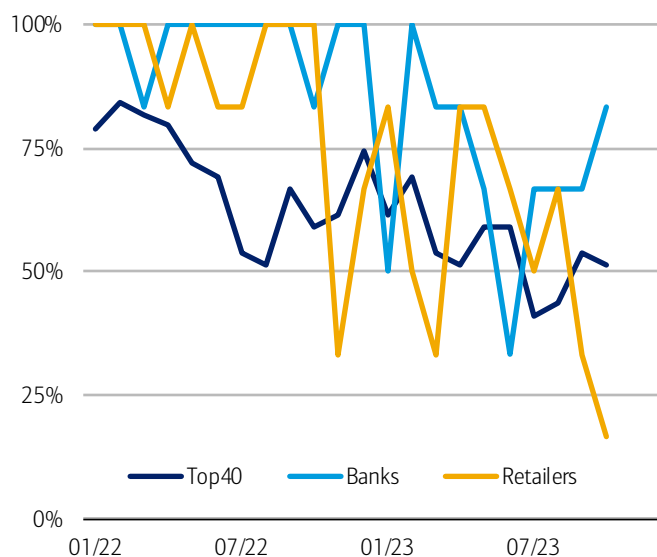


Source: BofA Global Research, Bloomberg, notes: indices set to 0 as of 1 Jan 2023 and in USD

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Exhibit 4: EPS pressure, rebound in 2025E

% of stocks/sector +12-month EPS upgraded

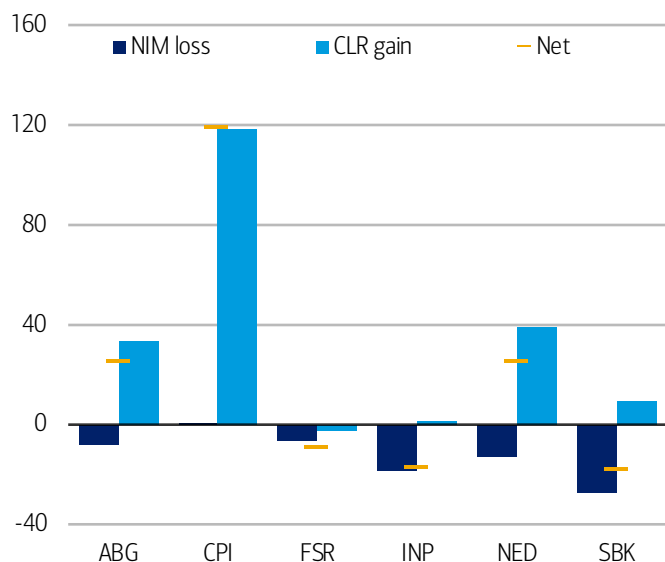


Source: BofA Global Research, Bloomberg, Refinitiv

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Exhibit 5: We see benefits from a return to (mid-point) of TTC CLR on lower rates, as beneficial for ABG, CPI and NED

Assumed spot impact of the cost of 125bp worth of interest rate cuts versus gains

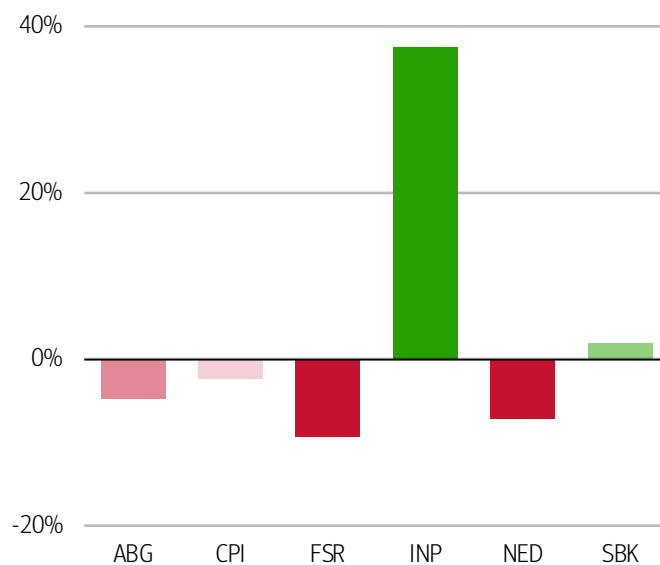


Source: BofA Global Research estimates. ABG = Absa, CPI = Capitec, FSR = FirstRand, INP = Investec, NED = Nedbank, SBK = Standard Bank

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Exhibit 6: Valuations are 5% below COVID-depressed 5-year average for the SA banks outside of Investec

Current P/B versus 5-year average level



Source: BofA Global Research, DataStream

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Macroeconomic forecasts

Exhibit 7: BofA Global Research Economics South Africa macro forecasts

Fewer power cuts could provide upside to economic growth

	2019	2020	2021	2022	2023e	2024f
Real GDP growth (% yoy)	0.3	-6.0	4.7	1.9	0.7	1.5
CPI average (% yoy)	4.1	3.3	4.6	6.9	5.9	5.0
Policy rate (% end of period)	6.5	3.5	3.8	7.0	8.3	7.8
Fiscal Bal (% of GDP)	-6.1	-9.8	-5.1	-4.5	-6.1	-6.0
Primary Bal (% of GDP)	-2.5	-5.7	-0.8	0.1	-1.1	-0.8
Debt (% of GDP)	57.2	70.2	68.0	71.1	75.3	76.0
Current Account Deficit % of GDP	-2.6	1.9	3.7	-0.5	-1.9	-2.4
Exchange rate (USD/ZAR end period)	14.0	14.7	15.9	17.0	19.0	17.8
Exchange rate (USD/ZAR average)	14.5	16.5	15.0	16.5	18.6	18.2

Source: BofA Global Research

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