overberg asset management

WEEKLY REPORT

OVERBERG MARKET REPORT

Tuesday 18th May 2021

IN THIS WEEK'S BOTTOM LINE

Contributed by Gielie Fourie

- We recently invested in the JSE listed container leasing company, Textainer. We regard Textainer as a strong growth stock in a growing industry. It also has a stunning history. Read more in the Bottom Line.

SOUTH AFRICA ECONOMIC REVIEW

Contributed by Nick Downing

- Mining production surged higher in March by 21.3% year-on-year. Although benefitting from the base effect of last year's pandemic induced slowdown, the data is nonetheless encouraging. On a month-on-month basis, mining production increased by a solid 4.5%. Platinum group metals contributed 11.6 of the annual percentage point gain, followed by iron ore with 4.1 percentage points. In the first quarter (Q1), mining production grew by 3.8% compared with Q4 last year, providing a substantial expected contribution to Q1 GDP growth. Rising commodity prices and improved production volumes will also continue to boost national tax receipts, providing much needed respite to the Treasury's finances. Authorities should make the most of the windfall from elevated global commodity prices, by enticing foreign direct investment into the industry, and facilitating infrastructure and uninterrupted power supply.

- Manufacturing production increased in March by a solid 4.6% year-on-year. Although benefiting from last year's low base when manufacturing came to a standstill at the outset of the pandemic, the data is encouraging, especially the 3.4% month-on-month increase, its highest in eight months. The annual recovery is attributed mainly to increased manufacture of food and beverages and motor vehicles and parts. Manufacturing had been expected to detract from first quarter (Q1) GDP growth after February's reading, which showed an annual contraction of 2.5%, but the latest figures now indicate a positive GDP contribution for the quarter. The outlook for Q2 is also improving, as indicated by the forward-looking Absa manufacturing purchasing managers' index, which registered 56.2 in April, well above the expansionary 50-level.

SOUTH AFRICA: THE WEEK AHEAD

Contributed by Ingrid Breed

- Consumer Price Inflation, due Wednesday 19 May. Consensus forecast is that consumer price inflation ticked up from 3.2% year-on-year and 0.7% month-on-month in March to 4.3% and 0.5%, respectively in April, due to rising fuel and food prices and the low base from last year. Core inflation, which excludes food and fuel, is expected to have increased only marginally from 2.5% to 2.8% year-on-year.

- Retail Sales, due Wednesday 19 May. The recovery in the retail sector is expected to have continued in March helped by low interest rates and an increase in consumer confidence. The consensus forecast is that retail sales increased 1.9% year-on-year and 4% month-on-month, compared with respective February readings of 2.3% and 6.9%.

- Interest Rate Decision, due Thursday 20 May. The South African Reserve Bank is likely to keep interest rates unchanged this week. Despite the anticipated increase in consumer price inflation, it is forecast to remain comfortably within the SARB's target range of between 3%-6%.

NORTH AMERICA

Contributed by Nick Downing

- The April consumer price inflation (CPI) data far exceeded expectations. Year-on-year CPI accelerated from 2.6% in March to 4.2% with a month-on-month increase of 0.8%. Core CPI, excluding food and energy prices, gained 3% on the year and 0.9% on the month, their highest readings since 1995 and 1981. Yet, financial markets took the shock inflation data in their stride. The US 10-year Treasury bond yield spiked briefly to 1.7% but then drifted back to 1.6%, below its level two months ago. The breakeven rate between the conventional 10-year Treasury bond and same maturity Treasury Inflation Protected Securities remained unchanged at 2.5%. The breakeven rate indicates the market's expected average annual inflation rate over 10 years and is similar to the Federal Reserve's own forecasts. The Fed, which is targeting an "average inflation rate" of 2% with some overshoot to make up for previous years of undershoot, expects the inflation jump to be transitory. Surging demand attributed to Covid vaccination, reopening of businesses, and massive fiscal and monetary stimulus, will fade over time. Meanwhile, supply chain disruptions should also be temporary. It will take a brave investor to fight the Fed and buy into the argument of an inflationary paradigm shift. The ageing global population and technological innovation, which have contributed to global disinflation over the past 30 years, are arguably even more relevant than ever. However, US consumers are starting to feel the inflationary pinch. The University of Michigan consumer sentiment index unexpectedly dropped in May from 88.3 to 82.8. Survey respondents regarded buying conditions for durable goods, cars and homes as the most negative since 1980. Richard Clarida, the Fed's vice chairman perhaps said it best, "Honestly, we need to recognise that there's a fair amount of noise right now, and it will be prudent and appropriate to gather more evidence."

- April's economic data remained upbeat. Industrial production gained by 0.7% month-on-month. Manufacturing increased by 0.4% on the month despite being held back by a 4.3% decline in motor vehicle and parts production due to a global shortage in semiconductors. Retail sales remained unchanged on the month perhaps due to the fading effect of once-off cheque payments to households in March. While spending in restaurants and bars increased 3%, declines were reported for sales of clothing, accessories and furniture. Initial jobless benefit claims maintained their downward trend, dropping over the past week from 507,000 to a new post-pandemic low of 473,000 alleviating some of the recent disappointment over the April nonfarm payroll report. Moreover, job openings surged higher by 600,000 in March to a record 8.1 million. The evident mismatch between job openings and nonfarm payrolls should be resolved when schools reopen, the fear of Covid subsides and enhanced unemployment benefit payments of $300 per week expire. Benefit payments are due to expire in September. Expected employment growth over coming months should compensate for fading fiscal support in propping up consumer spending.

CHINA

Contributed by Nick Downing

- After languishing in negative territory for most of last year, producer price inflation (PPI) is accelerating. On a year-on-year basis PPI increased from 4.4% in March to 6.8% in April, attributed mainly to the surge in commodity prices. While there is little sign yet that rising producer prices are spilling over into consumer price inflation (CPI), there are concerns that pandemic disruptions to supply and demand will lend extra pricing power to producers. So far though CPI remains moderate at just 0.9% on the year, well below the People's Bank of China's (PBOC) 3% target. Core CPI, excluding food and energy prices, is even lower at 0.7%. The PBOC is likely to maintain its accommodative monetary settings in the belief that the surge in PPI will prove temporary.

- Economic data appeared to lose momentum in April, with the base-effect boost from last year's pandemic induced slowdown starting to fade. Industrial production gained in April by 9.8% year-on-year but down from the 14.1% increase in March. Fixed-asset investment slowed from 25.6% in the January-March period to 19.9% in the January-April period. Retail sales growth slowed from 34.2% in March to 17.7% in April, although recent short-term data from the 5-day holiday at the start of May signal an upcoming improvement. Nonetheless, the retail sales data is especially disappointing and will concern authorities who were hoping that household spending would take over as the main driver of economic growth following the lead taken last year by manufacturing and exports. The 10-year census released this week will do little to assuage those concerns. China is suffering from an ageing population, which on aggregate means a greater reluctance to spend. The percentage aged 60 and older increased from 13% in 2010 to 19% in 2020. Population growth is slowing despite the relaxation of the one-child policy in 2015. After a short-term boost, the birth rate has been decreasing for four straight years, falling in 2020 by 18% year-on-year. The fertility rate is just 1.3% even lower than Japan's at 1.4 and well below 1.7 in the US. Beijing will be under increasing pressure to boost its fertility rate and remove restrictions on immigration, not just to shore-up household spending but also to protect productivity, which depends in large part on a healthy working age population.

JAPAN

Contributed by Carel la Cock

- Business conditions in Japan have turned a corner according to the latest Business Conditions indices for March. The Cabinet Office changed its assessment of the coincident index, a measure of current business conditions, from "Signalling a possible turning point" to "Improving" indicating favourable business conditions for the first time since August 2018. All three composite indices; Leading (+4.3), Coincident (+3.2) and Lagging (+2.2) improved, whilst the diffusion indices, a measure of the proportion of indicators improving, Leading (88.9), Coincident (88.9) and Lagging (66.7) were all significantly above the key 50-level. Although showing improved conditions in March, it was not enough the offset the damage to the economy by the resurgence of covid-19 cases at the start of the year. Economic growth figures for the first quarter showed that the economy performed worse than analysts expected, contracting 1.3% quarter-on-quarter and at an annualised 5.1% compared to an expected 1.2% quarter-on-quarter fall in output. The much-criticised slow roll-out of vaccines to date is expected to hamper a rapid recovery. Further restrictions in April, which were again extended and expanded last week, have thus far failed to bring rising covid-19 cases under control. In a recent opinion poll, more than 80% of people opposed the hosting of the postponed 2020 Olympics, as fears of a further spread of infections rise. The Olympics were meant to boost tourism and kickstart consumption in the economy, but with no foreign spectators and localised lockdowns, the impact from the games on the economy could be minimal.

EUROPE

Contributed by Carel la Cock

- **The European Commission has drastically improved its economic outlook for the next two years, supported by increased vaccination rates and improved exports as global demand returns.** The European economy is expected to grow by 4.3% this year followed by a 4.4% expansion next year and a return to pre-pandemic levels for all member states by the end of 2022. Much of the improved outlook also stems from the impact of the now fully incorporated €800bn Next Generation EU recovery fund. Many of the EU's larger economies have submitted plans on their recovery spend and it is expected that the first pay-outs will be approved later this year. Analysts at Morgan Stanley predict the recovery fund could boost economic growth by as much as 3.5% over the lifetime of the project. Europe also stands to benefit from the stronger global economic growth resulting from the stimulus in the US and stronger growth in China, lifting export sectors, the traditional economic drivers of the EU. Unemployment will ease from 7.6% this year to 7% by 2022. Amongst member states, Spain, the hardest hit nation last year, will rebound by 5.9% this year followed by a 6.8% expansion next year, according to the forecast, while Italy will see a more modest 4.2% economic recovery this year and 4.4% in 2022. The overall eurozone deficit will rise by 8% of GDP this year and the debt as a percentage of GDP will remain above 100% for at least the next two years. The EC are wary of nations pairing back fiscal support too soon and have blocked any fiscal reforms until 2023.

UNITED KINGDOM

Contributed by Carel la Cock

- **The UK's strong economic growth in March partly offset the damage done by lockdown measures earlier in the year and contained the economic contraction for the first quarter of the year to 1.5% quarter-on-quarter.** The economy is still 8.9% smaller than prior to the covid-19 pandemic at the end of 2019 and 6.1% smaller than the first quarter of last year, but the outlook has improved markedly with the success of the vaccine roll-out and the gradual opening of the services sector. The first quarter also saw more resilience from companies that adapted to the restrictions in January and consumers spending more online. Despite the relatively mild first quarter contraction, the UK still finds itself trailing other developed nations in its economic recovery but is expected to catch up in the second half of the year building on the momentum brought on by the successful vaccination program. Some analysts now expect the UK economy to make a full recovery to pre-pandemic levels as early as the end of this year. Looking at the economic drivers for the first quarter, government spending partly offset lower consumer spending and business investment due to lockdown measures. March saw a drastic recovery as the economy opened, which saw the services sector rise by 1.9% whilst manufacturing rose 1.8%. Construction was another key driver expanding 5.8% as new work grew rapidly. Both imports (+6.5%) and exports (+9.3%) recovered in March compared to February although for the quarter both imports and exports were significantly down compared to the last quarter of 2020. Worryingly, trade with European nations is on the decline, impacted by tougher border controls and higher shipping costs. Anecdotal evidence suggest that companies are delaying or cancelling foreign direct investment in the UK because of the extra friction in trade between the EU, further reflected by the comparatively lower foreign direct investment in the UK compared to the EU and USA over the past 5 years. Economists are concerned that it could lead to the UK becoming less competitive in international markets and could further hamper job creation at home.

KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

JSE All Share	+ 13.14	67217
JSE Fini 15	+ 4.57	12611
JSE Indi 25	+ 7.81	83982
JSE Resi 20	+ 22.73	70663
R/$	+ 4.17	14.11
R/€	+ 4.77	17.13
R/£	+ 0.73	19.93
S&P 500	+ 10.84	4163
Nikkei	+ 1.39	27824
Hang Seng	+ 3.54	28194
FTSE 100	+ 8.86	7032
DAX	+ 12.23	15396
CAC 40	+ 14.70	6367
MSCI Emerging	+ 1.56	1311
MSCI World	+ 9.08	2934
Gold	- 3.76	1823
Platinum	+ 14.91	1229
Brent oil	+ 31.81	68.28

BOTTOM LINE

Contributed by Gielie Fourie

- A recent Moneyweb article described Textainer as "something of an oddity on the JSE. It is one of the world's largest intermodal container lessors; is headquartered in Bermuda; also listed on the New York Stock Exchange; and has a Belgian economist as its CEO. It might seem odd to many, but it has nevertheless worked out well for its shareholders." (Moneyweb 29 Mar 2021).

- Today Textainer is the joint second largest intermodal container lessor in the world. Intermodal refers to containers that can be used across different modes of transport – from ship to rail to truck – without unloading and reloading their cargo. The three biggest container leasing companies in the world are Triton, Florens and Textainer. Triton owns 26% of the world's container fleet, while Florens and Textainer own 17% each. The most remarkable oddity is that Textainer has its roots in South Africa, far from the sea, in Springbok, in arid Namaqualand. Textainer listed on the JSE when its holding company, Trencor, which held 47.5% of its shares, spun it out in December 2019.

- THE 1920s: Jowells, later renamed Trencor, has its origins in 1929 in Springbok, then a town of 2,000 people. JD du Plessis & Co, later named Jowells Garage & Transport, started as a General Motors dealership in the midst of the Great Depression and a major drought. When the government withdrew its road transport service to the area in the arid North Western Cape in 1930, the founders, Joe Jowell and Jaap du Plessis, converted a Buick car to a truck and started a road transport service for the Namaqualand community. This in due course became a nationwide carrier operating as Jowells Transport and Stuarts Transport.

- THE 1950s and 1960s: The company's history under the Jowells is fascinating. In 1955, the company changed its name to Transport and Engineering Investment Corporation (subsequently Trencor) and listed on the Johannesburg Stock Exchange. Joe Jowell's two sons, Cecil and Neil, joined their father in the business in 1958 and 1956, respectively. After Joe's death on 16 January 1973, Neil succeeded his father as chairman of Trencor and Cecil took over the chairmanship of Mobile Industries Ltd, which had a 47% interest in Trencor. THE 1960s: The first effort at diversity took place in the late sixties when the traditional road transport business was enhanced by road trailer manufacturing through the acquisition of Henred Trailer Manufacturing Company. This company was later merged with Fruehauf South Africa to form Henred-Fruehauf Trailers.

- THE 1970s: The group expanded further by acquiring TrenTyre and, in 1977, joint control of Mastertreads to become the major tyre business (excluding international manufacturers) in South Africa. In the late seventies the manufacturing scope was broadened to incorporate freight marine cargo containers for mainly the export market. This was later expanded to stainless-steel tank containers. With the arrival of courier services in South Africa it formed CrossCape Express and Skynet Worldwide Express. In 1979 Trencor took arguably its most important strategic step when it started financing the sale of containers on long-term credit. Textainer was founded in 1979 and listed on the New York Stock Exchange the same year. This saw some brisk financial service business as the aggregate sales value of containers exported from South Africa exceeded US$1bn. The dawn of the new South Africa (along with increased globalisation) meant Trencor increasingly focused on its current core activities in the marine container industry. Today Textainer has a primary listing on the New York Stock Exchange) and a secondary listing on the JSE.

- 2016: In 2016 Neil and Cecil Jowell retired after more than six decades at Trencor. As a family-controlled business, Trencor was never as well-known as other Cape Town-based family enterprises like Remgro (the Rupert family), Pick n Pay, (the Ackerman family) or Foschini (the Lewis family). Trencor has always preferred to trundle quietly away.

- 2019: Textainer was a 47.5% subsidiary of Trencor until 2019. During 2019 and 2020 Trencor unbundled Textainer to its shareholders. Today Trencor is a cash shell and will delist in 2022. Textainer listed on the JSE in December 2019 at R133.00. It is now trading at around R400.00. Textainer operates via a network of almost 500 independent depots worldwide. It manages a container fleet of approximately 2.4 million containers. Having such a big container stock is a competitive advantage. It has containers all over the world and can quickly make containers available to customers anywhere in the world. 99.5% of the containers are “working” – only 0.5% are idle. Old containers are sold off – they are popular for use as shops, offices, houses and even bomb shelters. This provides an extra income stream. The container industry is growing - there is a global shortage of containers. The outlook for Textainer is very positive. The only way you can invest in the container industry on the JSE is through Textainer. We are not aware of any South African research on Textainer. In the US at least 405 analysts are following Textainer - 97% of them are positive on Textainer. Analyst, Daniel Day, described Textainer as a "monster stock". Textainer is included in the Russell 2000 index. The Russell 2000 is widely regarded as a bellwether of the U.S. economy.

- SUMMARY: The Jowells had an uncanny ability to adapt to changing economic times. They started and exited ventures at just the right moment. From a Springbok garage in the arid Namaqualand to a global footprint. From Springbok to Bermuda. From a Buick car converted to a truck to the New York Stock Exchange. The Jowells were always thinking “out of the box”. Textainer came from (what appeared at the time) an innocuous investment in a small container leasing business – a corporate move that, at the time, shareholders might even have overlooked. Trencor will continue life as Textainer. That is the stunning story of Textainer.

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