

■ OPINION

TAKING STOCK

Chaotic markets help make JSE Ltd an attractive investment

The value of equity trades on the exchange has risen by as much as 20% so far this year because of volatility

🔒 BL PREMIUM

10 SEPTEMBER 2020 - 18:03 by SANELISIWE TOFILE



Picture: MICHAEL ETTERS HANK

The year 2020 has been characterised by extreme, unprecedented and unpredictable events, which have taken a toll on many aspects of our lives.

The year started off on a solid footing with hopes of a new decade bringing growth and prosperity. Green shoots were sprouting everywhere, and everyone was rushing to water them. But this optimism was brought to an abrupt end by a new virus, Covid-19.

The virus emerged in China and because of our connected world spread rapidly across the globe. The resulting lockdowns around the world brought the global economy to a standstill.

Countries and companies are not designed to stop, and the lockdowns have had a devastating impact on many industries. From a relatively optimistic start we have reversed and face big challenges, especially in SA.

ADVERTISING



Nowhere can this roller-coaster be more clearly observed than in financial markets. After modest gains in equity indices in the first two months of the year, the global pandemic and economic shutdown resulted in these markets crashing by as much as 30% in late February and early to mid-March. Panic selling meant other asset classes were sold off as well, including oil (partly due to the Opec price war).

Once again in a crisis all asset classes became correlated, worsening the panic. The downturn did not last long as markets globally rebounded from their March lows on the back of slowing Covid-19 infection rates and expectations that the real economy will be reopened. The JSE all share index has rallied almost 45% from the March lows and is now only 7% off this year's high in January.

One company that stands to benefit from this volatility is our own listed stock exchange, the JSE. The JSE's revenue depends heavily on trading activity, especially in equity and derivative markets. The

recent seesaw in equity markets and the concomitant volatility has seen the value of equity trades done on the JSE increase by as much as 20% to more than R4-trillion in the year to date.

This resulted in the JSE reporting a 22% increase in revenue and profit at its half-year results. With volatility in equity markets continuing and further macropolitical events on the horizon, including the US elections and Brexit, the second half of the year promises to be just as prosperous for the JSE.

The JSE has emerged as one of very few companies that can be expected to grow revenues and profits this year. In addition, the JSE is a highly fixed-cost business and it has been working to reduce this cost base in recent years. This means that a meaningful portion of this revenue growth is going to flow into profits, further boosting the company's earnings for the year.

Another feature that attracts us to the JSE is the high cash generation and very healthy balance sheet. In the first six months of the year, the JSE generated an impressive R525m in cash and has a healthy R2.2bn cash pile on the balance sheet with no debt.

This gives the JSE a lot of optionality to make acquisitions to grow the business, such as the recently concluded Link Market Services business transaction. Furthermore, this means the JSE is one of very few companies expected to maintain their dividend payout.

The company's new CEO, Leila Fourie, is expected to breathe new life into the JSE by increasing the product offering and expanding the company into new markets through organic growth and acquisitions.

The valuation of the JSE is undemanding with a likely price to earnings multiple of 12 and dividend yield of 7%. A strong business model, a company that benefits from volatility, an ability to cut costs, small bolt-on acquisitions and the ability to grow revenues when the revenue stream of other companies is compressed make us conclude that the JSE is a buy.

- *Tofle is an equity analyst at All Weather Capital.*