

■ OPINION

COBUS CILLIERS: SA's 2024 turnaround quadfectas

Year to date Pick n Pay, Spar, Tiger Brands and Nampak shares outperform the JSE all share total return index by 8.5%-101.8%

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by COBUS CILLIERS



The SA investment landscape has changed dramatically over the past year, says the writer. Picture: 123RF/GORODENKOFF

As 2024 draws to a close many fund managers start the absorbing process of analysing their respective holdings on a line-by-line basis, to ensure the correct positions are held as they gear up to enter 2025.

The SA investment landscape has changed dramatically over the past year. There has been a seismic positive shift in the political landscape, providing the much-needed impetus for improved consumer confidence and a positive outlook for the economy. “Confidence is the cheapest form of stimulus,” to quote former US treasury secretary Larry Summers.

In their year-end rebalancing process, investment experts tend to look at the geographic, currency, asset class, stock specific and/or investment style preference exposures. They are looking to see if the

exposure still aligns to the house view and the investment mandate. All of this is done to do a basic rebalancing exercise, but it is an important process.

An investment theme that has delivered exceptionally well, is that of the classic turnaround. Many good investors' returns have died upon the turnaround-investment hill, yet the allure of significant returns for deep fundamental analysis makes value investors behave like a moth to a flame.

The historic performance of turnarounds has been hit-and-miss (mostly miss). This patchy track record for turnarounds is sometimes likened to catching a falling knife, yet turnarounds as an investment theme can be derisked by following a few simple steps and can reward the diligent investor handsomely.

Examples for this year that display these steps include Pick n Pay, Spar, Tiger Brands and Nampak, the "quadfecta" for turnaround investors in SA for 2024. Year-to-date performance of these shares is in the 25.4%-118% range, handsomely outperforming the FTSE JSE all share total return index by 8.5%- 101.8%. These turnarounds have been so successful for investors in 2024 due to the following:

- The companies have all recently replaced their CEOs.
- They all have a credible plan for their turnaround process.
- Balance sheet worries have been addressed head-on by the management teams.
- The macroeconomic environment is considerably more forgiving.

A wartime president is different from a peacetime president, which is a good analogy when looking at turnaround. Despite these companies being in different stages of their turnaround journeys each made excellent choices in who should lead this process.

Pick n Pay brought back a seasoned executive, Sean Summers. Spar decided on Angelo Swartz, a company insider with intimate knowledge of the business and its processes. Tiger Brands brought in Tjaart Kruger, another seasoned fast-moving consumer goods (FMCG) executive, and Nampak decided to go with Phil Roux, a turnaround specialist of sorts and another seasoned FMCG executive.

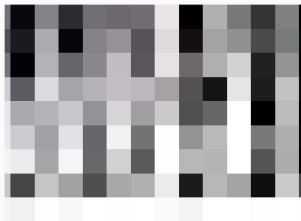
These four CEOs are quite different individuals regarding their experience, backgrounds, qualifications and approach to the turnaround. Yet they are exactly what these struggling companies needed. They all oversaw the creation, implementation and execution of highly credible turnaround plans for their companies.

All of them have also remedied their respective balance sheets (Tiger Brands being the exception, as it started with a strong balance sheet).

The improved macro environment provides not only substantial support, but also a far higher probability of these CEOs succeeding in their respective goals.

Thus, as we enter 2025 the continued success of the turnaround investment theme will be interesting to watch. We still believe outsize returns remain to be captured.

• *Cilliers is a senior equities analyst at All Weather Capital.*



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