Umthombo Wealth Equity Report for Quarter ended 30 June 2025

UMTHOMBO
WEALTH

Contents

Market Mood and a Shifting World Order

The stock market is often seen as a barometer of economic conditions. Much like people glance at the weather to decide how to dress, many look at market movements to gauge the state of the economy. But this practice overlooks a deeper truth: markets, though numeric and seemingly mechanical, are ultimately driven by people—for people —and shaped as much by psychology as by fundamentals.

Markets reflect more than just profits and growth—they mirror emotion, fear, greed, and the shifting collective mood. It is one of the purest manifestations of group behaviour in the modern world. Consequently, the market becomes not just a measure of economic output, but a mirror into the mood of society.

One of the most powerful examples of this was the COVID-19 pandemic. Nothing reflected the panic and uncertainty of the early days more vividly than the sharp market sell-off in March 2020. It wasn't just about supply chains or GDP forecasts—markets were reacting to fear, confusion, and the unknown.

As long as investors have hormones and nervous systems, markets will remain human-driven. They will reflect our hopes, our fears, our instincts to flee or fight. The sharp movements may appear irrational at times, but they often reveal something true: the sentiment of the age.

In this way, markets aren't cold mechanisms—they are alive. They are one of the greatest sociological instruments we have for understanding ourselves.

A recent example of this is thus year's Brent Crude price rising more than 15% before quickly reverting to pre-conflict levels. Even the fallen former market darling Sasol was able to catch wind of the oil trade as the stock was up over 10% for the day coinciding to the time that the US struck Iran and the stock was able to rise by almost 90% from its April lows.

A Recovery in Markets But not in Moods

We're halfway through the year, and markets have held up surprisingly well—despite a global backdrop that reads more like a geopolitical thriller than a recovery. Still, global equity markets have continued climbing. The bear market hit in the first quarter of the year, triggered by Trump's tariff announcements, but since then the S&P 500 and Nasdaq have rebounded to record highs as of July 1st. Even the JSE has shown resilience, up 15.% year-to-date (at the time of writing), led by gold and PGM miners. Gold broke above $3,000/oz—a sign of geopolitical anxiety rather than inflation alone.

Holders of the Nasdaq have good reason to be happy however the state of the average US consumer paints a different picture where US consumer sentiment has recently seen its second lowest reading-ever. This decline is attributed to rising inflation expectations and concerns about the impact of tariffs on the economy. US 12-month inflation expectations (from the same survey) spiked to 7.3% (oddly specific number, we know) this is the highest level since 1981.

These fears have mostly been ignited by tariffs. We don't purport to be the oracles of future inflation to come but we defiantly are not assuming US inflation will be north of 7%.

Simultaneously while we can't predict the long term of effects Trump's tariffs, we do believe that their potential effects on the direction of inflation are far from straight forward. In theory they could even be deflationary as they could hinder demand push inflation, in short, Inflation could potentially surprise to the downside. Our greatest concern are US home prices. Over long periods of time, there's been a high correlation between changes in overall inflation and changes in home prices. On a national basis, US home prices have surged by 53% in the past 5 years, more than double the increase in average wages. Leading to the lowest housing affordability on record (rivalling that of the 2000s housing bubble). Given these facts, we believe housing is a longer threat to US inflation than tariffs as implicit as it seems.

The 2% Inflation Target: A Relic of Another Era

While the Fed continues to cling to its long-standing 2% inflation target, that benchmark feels increasingly outdated—like business travel in a post-Zoom world. In an era where the U.S. debt load has ballooned to over $34 trillion, a slightly higher inflation rate may no longer be a policy failure, but rather a fiscal necessity. Whether politicians admit it or not, a 3% inflation target appears more realistic—and potentially more sustainable—given the need to erode debt in real terms. The 2% ideal made sense in the low-debt, low-volatility world of the 2000s. Today, that world is gone.

The Balance of Power Is Shifting

Some of you may be old enough to remember the optimism in the West as the Berlin Wall came down—a powerful symbol of American-led global dominance and the start of a new world order. What we're witnessing now is the emergence of another shift in power, though this time it hasn't arrived with the spectacle of falling concrete and global fanfare. Instead, it has crept in gradually, almost imperceptibly at first. The United States held a commanding position in global trade as recently as the year 2000. But in less than three decades, China has overtaken it. The current wave of U.S. anxiety over its diminishing trade dominance might seem abrupt, but it's anything but. The truth is, America has been complacent in its own decline—failing to take the rise of the East seriously until the balance of power had already begun to tip. Consequently, globalisation will likely recede and resultingly central banks have been fulling their vaults with gold at a record pace as they try to position themselves in a world with trade wars, a reversal of globalisation and a shifting world order.

Europe Awakens

From Germany to Italy, governments are finally loosening the purse strings, and the European Central Bank is signalling greater monetary support. The eurozone remains structurally complex, but economically, the sleeping giant is stirring. Years of underinvestment and cautious policymaking may finally be giving way to a more assertive and growth-oriented Europe

And based on our assessment, it's about time. Economically, Europe has fallen well behind its global peers. In the past 50 years, not a single EU company founded from scratch has reached a market cap of $100 billion. By contrast, all six of the world's $1 trillion-plus companies were born in the United States. When it comes to innovation, Europe also lags: the continent produces around 200,000 patent applications annually—less than half the U.S., and a fraction of China's 1.6 million. For a region that once led the Industrial Revolution, Europe is no longer at the forefront of the world's technological or economic frontier.

Against this backdrop, Europe's renewed focus on infrastructure, innovation, and defence is a theme worth watching. Germany is preparing to spend over €500 billion on infrastructure—its most ambitious programme since reunification—while EU-wide initiatives like the European Chips Act and Invest EU signal a pivot toward digital sovereignty and industrial resilience.

On the defence front, the war in Ukraine has triggered a wave of military spending, with Germany alone pledging more than €100 billion, and the EU exploring joint borrowing to strengthen its armed forces.

These shifts represent more than just policy adjustments. They signal a fundamental shift in Europe's fiscal stance, with meaningful market implications—from increased bond issuance and rising yields to new opportunities in European industrials, defence, and high-tech infrastructure. After years of stagnation, the continent may finally be laying the foundations for a more economically competitive future.

South Africa: Missed Momentum

By contrast, South Africa remains far from implementing the structural reforms needed to spark real economic momentum. In 2025, much of the progress made under the GNU-led coalition has already been undone. Following last year's elections, domestic equities initially rallied on hopes of an earnings recovery and improved policy direction. But that optimism has since faded. Many companies are now trading back at pre-GNU levels, with valuations reflecting a market that has stopped pricing in a sustained economic turnaround.

Unfortunately, South Africa's GDP growth remains capped at most 2% due to a persistent lack of investment. Despite an urgent need for capital inflows to stimulate the economy, the government continues to maintain a stance perceived by both local private sector participants and foreign investors as hostile. Understandably, capital only flows where it feels welcome and valued. Nevertheless, South Africa still retains one major lever to provide the economy with an immediate boost — lowering interest rates. We believe that interest rates remain above optimal levels. In a move some may consider conservative, the SARB continues to hold real rates at 20-year highs, despite inflation remaining well within target, leaving ample room for meaningful cuts.

Beneath the Surface, Flows Matter

The U.S. equity market commands a dominant position globally, comprising about 64% of total market capitalisation. To put this into perspective, a mere 1% shift of U.S. equities—equating to approximately $500 billion—redirected into emerging markets would be substantial. Considering South Africa's weighting of around 3.2% in the MSCI Emerging Markets Index, the country could stand to receive a meaningful share of that capital. If such flows begin to reverse in favour of emerging markets, investors will need to be positioned ahead of the move to fully capture the upside. For South Africa, this could represent a rare opportunity to benefit from a global reallocation of capital—one that could materially impact asset prices and sentiment.

Conclusion

But even in the absence of global flows, we continue to find value here at home. Many "SA Inc." stocks trade at deep discounts—cheap in absolute terms, cheap versus peers, and cheap relative to history. We favour companies offering strong fundamentals, sustainable dividends, and a high margin of safety.

Self-help stories are plentiful. Liquidity may have dried up and risk premiums widened, but that's exactly when long-term opportunity tends to surface. South Africa may be priced for no growth and no hope—but that's often where the best returns begin. By focusing on quality and valuation, we believe portfolios can still be positioned for meaningful long-term outcomes.

Equity fund range performance

Umthombo Wealth Equity funds breakdown

Umthombo Wealth has four equity offerings that accommodate a range of client risk/return solutions. Our offerings include low tracking error benchmark cognisant funds and non-benchmark cognisant high tracking error funds.

Fund name	Conservative Fund	Moderate Fund	Best House View Fund	Unconstrained Fund
Type of fund	Benchmark cognisant	Benchmark cognisant	Non-benchmark cognisant	
	High IR	With constraints	High conviction	No constraints
Number of shares	50 to 75	30 to 60	20 to 30	10 to 25
Tracking error	< 3%	3% to 5%	> 5%	> 5%

1. Moderate Fund

Our Moderate offering represents our constrained best house view active positioning relative to any specific benchmark. The share count ranges between 30 and 60, targeting a tracking error of less than 5% over a rolling three-year period. The Moderate offering is ideal for clients seeking an actively managed solution with certain constraints. It provides a balanced approach that aims to capture opportunities while managing risk.

Fund Information

Portfolio Managers:	Alexander Duys, CFA, CAIA, Matthew Zunckel, CFA, Nomtha Ngumbela
Benchmark:	CAPPED SWIX Total Return
Inception date:	1st January 2016
Investment vehicle:	Segregated only
Fund size:	R7.13bn (invested within the Moderate offering)

Umthombo Wealth Equity composite performance. (net of fees)

Performance	Client Equity Portfolios		
	Composite	Benchmark*	Alpha
Inception Date		1st Nov 2016	
1 Month	2.58%	2.35%	0.23%
3 Months	8.80%	10.15%	-1.35%
6 Months	11.49%	16.70%	-5.21%
1 Year	24.57%	25.18%	-0.61%
2 Years	15.94%	17.24%	-1.31%
3 Years	15.87%	16.14%	-0.28%
4 Years	13.42%	12.67%	0.75%
5 Years	14.82%	14.44%	0.38%
6 Years	10.86%	9.87%	0.99%
7 Years	9.97%	8.58%	1.39%
8 Years	9.72%	8.53%	1.19%
Number of years	8.58		
Since Inception	118.35%	99.55%	18.80%
Since Inception (Ann)	9.52%	8.38%	1.14%
Downside Risk	2.11%	2.38%	
Volatility	3.78%	4.14%	
Sortino Ratio	1.20	0.58	
Sharpe Ratio	0.67	0.33	
Tracking error (inception)	3.05%		
Information ratio	0.38		

**Benchmark: Capped SWIX Total Return (TR) from 1st November 2016 until 30th of November 2019. 1st December 2019 until current is SWIX Total Return (TR).*

WHENEVER YOU SEE A SUCCESSFUL BUSINESS,
SOMEONE ONCE MADE A COURAGEOUS DECISION.

Peter F. Drucker

2. Conservative Fund

Our Conservative offering represents our most cautious active positioning relative to any specific benchmark. The share count ranges between 50 and 75, targeting a tracking error of less than 3% over a rolling three-year period. The aim is to achieve a high information ratio. Our Conservative offering is ideal for clients seeking a core-satellite approach.

Fund Information

Portfolio Managers: Alexander Duys, CFA, CAIA, Matthew Zunckel, CFA, Nomtha Ngumbela

Benchmark: CAPPED SWIX Total Return

Inception date: 1st January 2016

Investment vehicle: Segregated only

Fund size: R727m (invested within the Conservative offering)

Performance	Client Equity Composite		
	Composite	Benchmark*	Alpha
Inception Date		1st April 2020	
1 Month	2.34%	2.15%	0.19%
3 Months	8.66%	9.70%	-1.04%
6 Months	12.21%	16.11%	-3.91%
1 Year	21.49%	24.56%	-3.07%
2 Years	14.77%	17.08%	-2.31%
3 Years	14.52%	15.86%	-1.34%
4 Years	12.26%	12.46%	-0.20%
5 Years	13.72%	14.28%	-0.56%
Number of years	5.25		
Since Inception	128.73%	137.93%	-9.21%
Since Inception (Ann)	17.07%	17.95%	-0.88%
Downside Risk	1.52%	1.61%	
Volatility	3.76%	3.92%	
Sortino Ratio	6.61	6.81	
Sharpe Ratio	2.67	2.79	
Tracking error (inception)	2.07%		

**Benchmark: SWIX Total Return (TR) from 1st April 2020 until 31st of July 2022. 1st August 2022 until the current Capped SWIX Total Return (TR).*

YOUR MOST UNHAPPY CUSTOMERS ARE YOUR GREATEST SOURCE OF LEARNING.

Bill Gates, co-founder of Microsoft

3. Best House View Fund (BHVF)

Our Best House View Fund (BHVF) offering represents our most convicted active positioning relative to any specific benchmark. The share count ranges between 20 and 30, with all positions being overweight compared to the benchmark, without any positions at neutral or underweight. The offering does not have a specific tracking error target but is expected to exceed 5% without a cap. Our BHVF offering showcases our capability to add value when minimal limitations are in place. It provides an opportunity for clients who seek a high conviction approach with the potential for significant outperformance.

Fund Information

Portfolio Manager:	Alexander Duys, CFA, CAIA
Benchmark:	CAPPED SWIX Total Return
Inception date:	1st January 2016
Investment vehicle:	Segregated only
Fund size:	R254m (invested within the BHVF offering)

Performance	Client Equity Portfolios		
	BVHF Composite	Capped SWIX TR	Alpha
Inception Date		1st October 2021	
1 Month	4.61%	2.15%	2.46%
3 Months	9.72%	9.70%	0.02%
6 Months	9.27%	16.11%	-6.85%
1 Year	23.81%	24.56%	-0.74%
2 Years	16.91%	17.08%	-0.17%
3 Years	15.73%	15.86%	-0.13%
Number of years	3.75		
Since Inception	67.07%	61.19%	5.88%
Since Inception (Ann)	14.67%	13.58%	1.09%
Downside Risk	1.34%	1.81%	
Volatility	3.15%	3.70%	
Sortino Ratio	5.72	3.64	
Sharpe Ratio	2.43	1.78	
Tracking error (inception)	5.24%		
Information ratio	0.21		

SEE THINGS IN THE PRESENT, EVEN IF THEY ARE IN THE FUTURE.

Larry Ellison, co-founder of Oracle

4. Unconstrained Fund

Our Unconstrained offering represents our most strongly held conviction on an absolute basis. The Unconstrained fund incorporates our best and highest conviction ideas. The share count ranges between 10 and 25, providing greater flexibility in portfolio construction compared to the Best House View Fund (BHVF). The offering does not have a specific tracking error target but is expected to have a tracking error higher than 5%, without a cap. Our Unconstrained offering exemplifies our ability to add substantial value when no limitations are in place.

Fund Information

Portfolio Managers: Matthew Zunckel, CFA
Benchmark: CAPPED SWIX Total Return
Inception date: 1st January 2019
Investment vehicle: Segregated only
Fund size: R1.06m (invested within the Unconstrained offering)

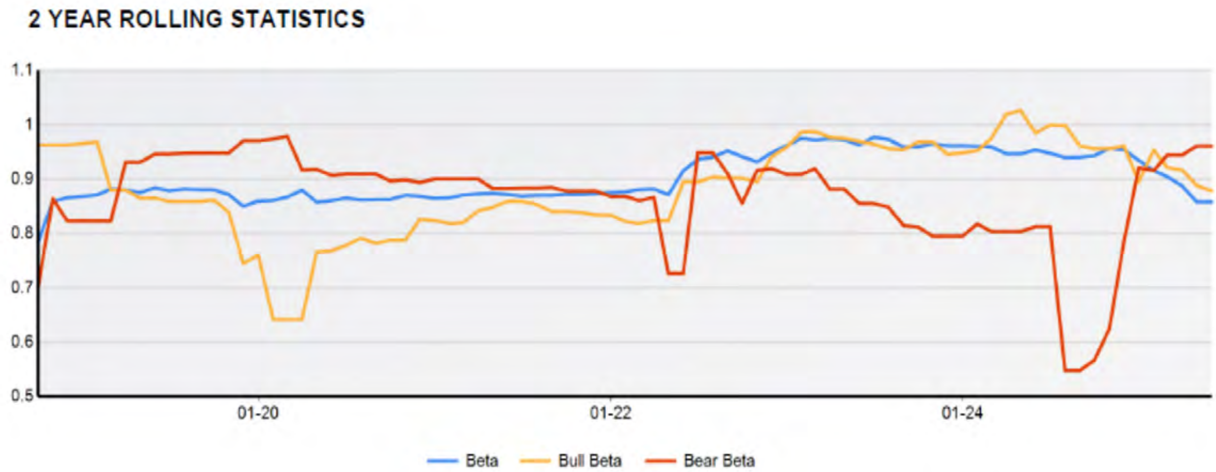
Umthombo Wealth Equity Model performance

	Model Equity Portfolios							
Performance	Best House View	Benchmark	Moderate	Benchmark	Conservative	Benchmark	Unconstrained	Benchmark
Inception Date	1st Jan 2016		1st Jan 2016		1st Jan 2016		1st Jan 2019	
1 Month	4.68%	2.15%	2.46%	2.15%	2.23%	2.15%	2.33%	2.15%
3 Months	10.12%	9.70%	8.59%	9.70%	8.63%	9.70%	8.07%	9.70%
6 Months	9.79%	16.11%	11.10%	16.11%	12.54%	16.11%	7.04%	16.11%
1 Year	24.95%	24.56%	24.58%	24.56%	22.35%	24.56%	22.36%	24.56%
2 Years (Ann)	18.02%	17.08%	16.51%	17.08%	15.80%	17.08%	19.22%	17.08%
3 Years (Ann)	17.04%	15.86%	16.54%	15.86%	15.85%	15.86%	16.89%	15.86%
4 Years (Ann)	15.37%	13.56%	15.16%	13.56%	14.12%	13.56%	15.71%	13.56%
5 Years (Ann)	18.20%	16.24%	17.47%	16.24%	16.38%	16.24%	18.42%	16.24%
6 Years (Ann)	15.59%	11.23%	13.05%	11.23%	11.86%	11.23%	15.51%	11.23%
7 Years (Ann)	13.95%	9.72%	11.83%	9.72%	10.71%	9.72%		
8 Years (Ann)	13.67%	9.96%	11.69%	9.64%	10.60%	9.64%		
Number of years	9.50	9.50	9.50	9.50	9.50	9.50	6.50	
Since Inception	203.87%	129.98%	168.30%	124.66%	151.08%	124.66%	167.96%	102.34%
Since Inception (Ann)	12.41%	9.16%	10.95%	8.89%	10.18%	8.89%	16.37%	11.45%
Downside Risk	1.70%	2.31%	2.04%	2.31%	2.10%	2.31%	1.77%	2.59%
Volatility	3.46%	4.13%	3.79%	4.13%	3.87%	4.13%	3.49%	4.51%
Sortino Ratio	3.18	0.94	1.93	0.82	1.51	0.82	5.30	1.72
Sharpe Ratio	1.56	0.52	1.04	0.46	0.82	0.46	2.69	0.99
Tracking error (inception)	5.38%		3.07%		1.95%		7.01%	
Information ratio	0.60		0.67		0.66		0.70	

Portfolio insights

Given a tough past 6 months for our funds, we have sharpened our pencils in understanding the key drivers of portfolio performance.

Markets have experienced a classic beta rally, driven by lower quality cyclical shares. This has been especially the case for South African equity markets, where the gold shares, and more recently the PGM shares, have driven performance in the market. From experience, we know our funds, which hold lower beta, higher quality shares, tend to underperform during times like these. We usually tend to more than recoup that underperformance once that cycle ends.

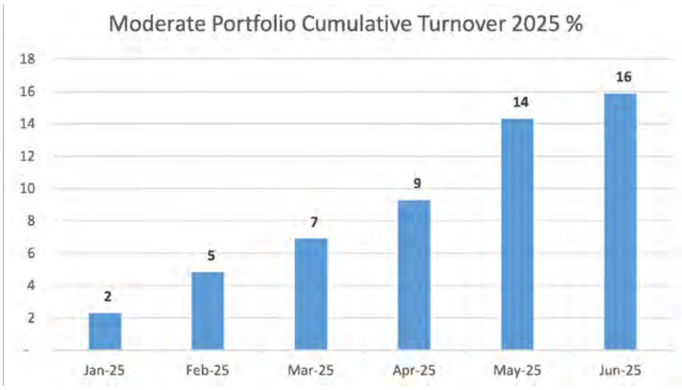


MARKET SENSITIVITY

	Beta	Capture Ratio	Correlation	Covariance	Mean Return
Bull-Market	0.88	0.96	0.94	5.74	3.45
Bear-Market	0.90	0.82	0.96	8.15	-2.61

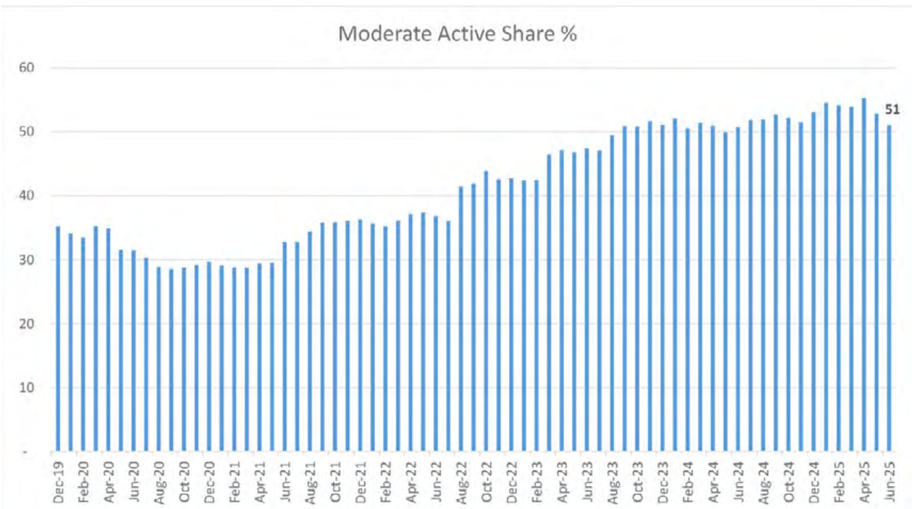
Source: Statpro

This phenomenon is clear when looking at the beta breakdown for our Moderate fund. The fund has a beta of 0.86X. The fund's bull beta is 0.88X, which implies the fund lags when markets are moving upwards. The bear beta is 0.9X, however, going beyond beta, a crucial metric to monitor is the bear market capture ratio. This ratio explains how much the fund reduces for every 1% drop in the benchmark. Ideally, we want this ratio to be as low as possible. Moderate's bear market capture ratio at 82% implies that for every 1% drop in the benchmark, the fund will tend to only drop 82 bps. The bull market capture ratio is at 96%, meaning the fund only captures 96% of the upside movement in markets. This means that the fund tends to outperform in aggregate through an up and down cycle.



Source: Umthombo

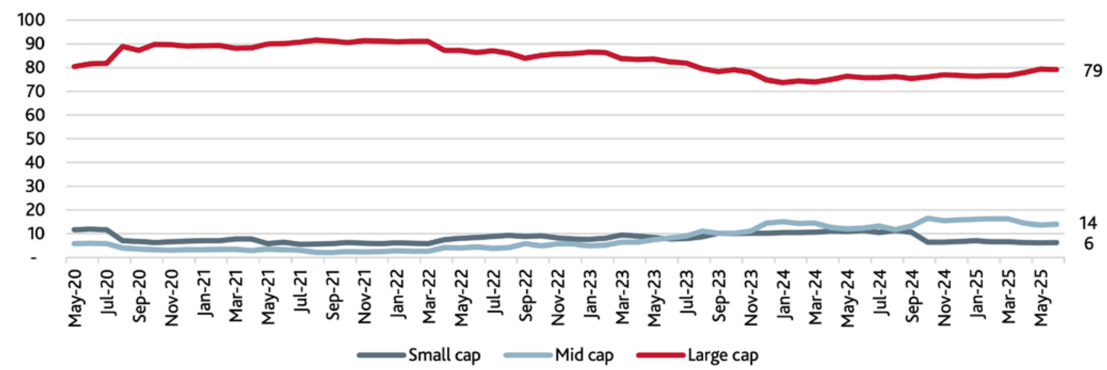
Despite the tough past 6 months, we continue to adhere strictly to our investment process and philosophy, determined not to chase price movements and fall prey to emotions, which can run high during times like this. We prioritise investment in our best ideas, where we have conviction, and plenty of evidence to suggest mispricing. This is borne out in our turnover statistics, where we continue to trade the fund in line with historical levels. We have not made wholesale changes to our portfolio to try and chase short term performance during this market cycle. We have turned our portfolio 16% year to date, which implies an annual turnover of 32%. This is relatively in line with historical annual turnover levels for the fund.



Source: Umthombo

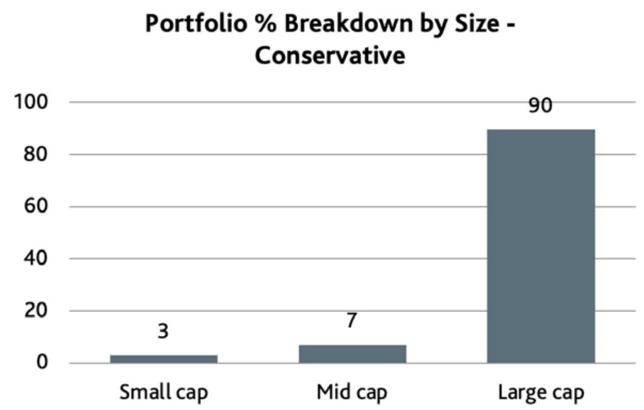
Our active share for Moderate remains above 50%, a level well above historical averages and indicative of the fact that we are putting capital to work in our best ideas, to deliver returns more than the benchmark over time. This is a balancing act at times as we also need to be prudent in our risk management, and in this regard, we did manage our underweight positions in the Gold and PGM sectors during the quarter. This has resulted in a slight decline in our active share over the past few months.

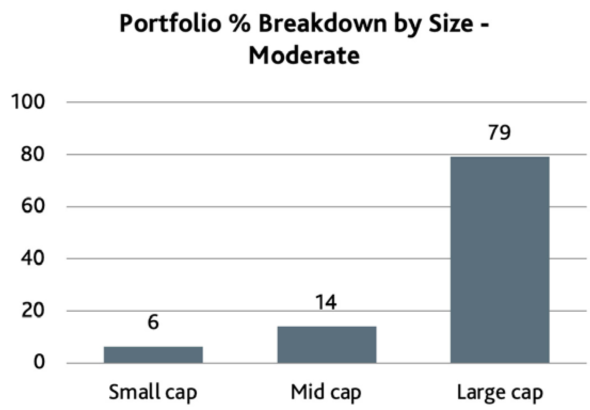
Size Time Series - Moderate

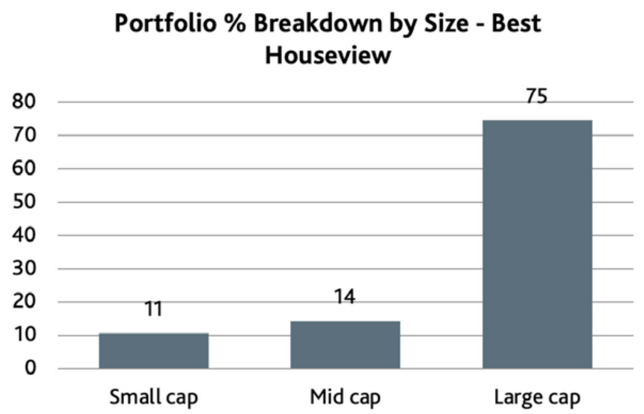


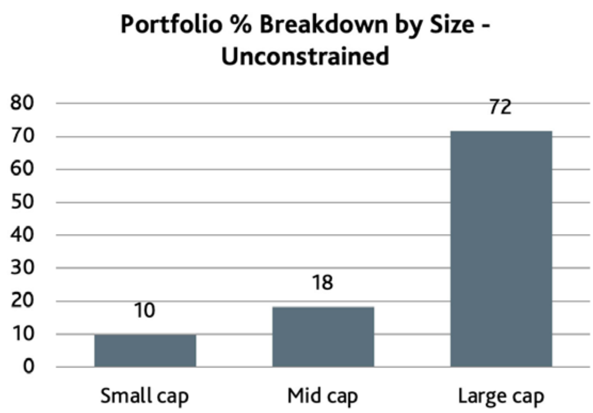
Source: Umthombo estimates

Monitoring size exposure in our funds is a crucial metric for us to monitor, as we believe we have a competitive edge in stock picking particularly in the small and midcap space. We thus want to make sure we consistently have a reasonable portion of the portfolio invested in these size factors, balanced against the liquidity risk taken on by investing in these stocks. The Moderate fund presently has 20% of the fund invested in small and midcaps. We believe this is an appropriate level, as this level can certainly move the needle on fund performance, while ensuring we do not strain the portfolio's liquidity too much.









Source: Umthombo estimates

However, for investors looking to take greater advantage of our track record in picking small and midcap stocks, our fund range offers greater exposure than is the case for Moderate. Our Best Houseview fund, and Unconstrained fund, offer small and midcap exposure of 25% and 28% of each fund, respectively. This is expected to result in greater alpha prospects over time, as has been the case historically when looking at our performance record. Our Conservative fund lies at the opposite end of the spectrum, with only 10% of the fund invested in small and mid-cap stocks. This Fund tracks the benchmark more closely than our other funds, with small and mid-cap stocks expected to be "alpha kickers" over time. However, all our funds are active management funds, the differences between them being the level of active management employed.

Selected stock insight

ALTRON

We have been following Altron closely since Werner Kapp was appointed CEO on 1 October 2022. Despite our high expectations for the group, it has consistently outperformed them. Following the release of the very strong FY25 results, we have reassessed our investment thesis and believe Altron is well positioned to continue delivering outperformance over the medium term.

Investment Thesis

Our positive view of Altron is underpinned by the following key factors:

- Strong platform-driven earnings growth potential.
- Transformation of margins is supported by a growing share of high-quality, annuity-based revenue.
- Exceptional and sustainable cash generation.
- Upside risk to earnings estimates, with potential to continue surprising consensus expectations.
- A strong balance sheet that provides ample capacity to fund both organic and inorganic growth initiatives.
- A high-calibre management team with a strong track record of execution.
- An undemanding valuation, which does not yet reflect the group's earnings quality or growth potential.

Altron offers a compelling investment case, having successfully repositioned its business toward platform-led growth. Its key platforms, Netstar and FinTech, not only benefit from robust underlying growth but also present substantial cross-selling opportunities with existing clients.

In addition, Altron is uniquely positioned to gather and monetise vast quantities of data, leveraging the power of artificial intelligence and analytics. This data advantage is a differentiator in a market increasingly driven by automation, predictive intelligence, and scalable digital infrastructure.

We remain particularly constructive on Netstar, where growth prospects are strong:

- The Australian division is likely to recover from a low base, presenting upside optionality.
- A change in accounting policy regarding the depreciation of devices could lead to a material uplift in reported earnings — a move we believe is justified given the group's historically strong cash conversion.

Such a change could:

- Unlock further valuation upside via a step change in accounting earnings,
- Improve return metrics like ROE,
- Support a re-rating of the stock, especially when combined with Altron's consistent and attractive dividend profile.

We view Altron as a high-quality compounder with:

- Scalable platforms,
- Strong financial discipline,
- Structural margin expansion potential, and
- An underappreciated growth trajectory.

We are buyers of Altron at current levels and expect to remain invested for at least the medium term, as the group continues to execute against its well-defined strategic roadmap.

Sun International

Sun International has undergone a significant transformation over the past few years, emerging as a leaner, more profitable and better-capitalised gaming, and hospitality group. With exposure to both traditional land-based casino operations and high-growth digital platforms like SunBet, the group now offers a diversified revenue base, strong cash generation, and a highly attractive valuation. We believe Sun International offers a compelling investment opportunity for medium- to long-term investors seeking yield, quality, and structural growth.

1. Earnings Momentum Underpinned by Operational Leverage

Sun International's FY24 results marked a clear inflection point: Group revenue rose by 5.1% to R12.57 billion, supported by strong contributions from urban casinos and exceptional performance from SunBet. Net profit grew 54% to R1.86 billion, showing clear margin expansion.

EBITDA increased to R3.35 billion, driven by cost efficiencies, operating leverage in core casinos, and margin growth in SunBet (EBITDA margin of over 30%).

This strong financial performance was achieved despite a tough macroeconomic backdrop and speaks to the quality of the underlying assets and management's execution.

2. Digital Acceleration Through SunBet

The standout growth engine within the group is SunBet, which grew revenue by 60% to over R1.2 billion in FY24. EBITDA margins in the segment expanded materially as customer acquisition, repeat play, and broader product offerings (sports betting, casino games, etc.) gained traction.

SunBet's strategic advantage lies in its ability to: Leverage the Sun International brand and loyalty ecosystem. Operate as part of an omni-channel strategy, connecting land-based customers to digital platforms.

Benefit from low capital intensity and scalable infrastructure, allowing rapid margin expansion as volumes rise. SunBet has already exceeded its initial 5-year growth targets, indicating that online gaming could soon account for a much larger share of group EBITDA.

3. Robust Free Cash Flow and Capital Allocation

One of Sun International's standout features is its strong cash flow generation. In FY24: Free cash flow exceeded R2.1 billion, more than sufficient to cover dividends and reduce leverage.

Capex was kept at sustainable levels (~R720m), mostly for maintenance and selective upgrades (solar PV, property refurbishment). The balance sheet improved significantly, with net debt-to-EBITDA down to ~1.6x, providing ample headroom for future investments or returns to shareholders.

Dividend payout increased to R4 per share, translating into a dividend yield of over 9.5%, one of the most attractive yields in the JSE consumer/leisure space.

4. High-Quality Physical Assets with Defensive Characteristics

Sun International owns and operates urban casino assets that are strategically located, high-margin, and cash generative. These include: GrandWest (Cape Town), Sun City, Boardwalk (PE), Sibaya (KZN).

These assets serve as defensive earnings anchors:

- High market shares in core regions.
- Strong pricing power and brand loyalty.

5. Attractive Valuation & Re-Rating Potential

Sun International currently trades at a valuation well below our assessment of intrinsic value, particularly when viewed through a cash earnings and free cash flow lens.

The current share price does not fully reflect:

- The growth optionality embedded in SunBet,
- The group's strong and improving cash generation profile, or
- Its capacity to return meaningful value to shareholders.

Sun International offers an extraordinary investment opportunity at current levels. The group's structural transformation, growing digital presence, and strong operational execution position it well to deliver superior shareholder returns. We believe the market will increasingly recognise this value in the near term, making Sun International a compelling buy for quality-conscious, yield-seeking investors.

CAPITAL APPRECIATION

Capital Appreciation (CTA) is a fast-growing, South African-based FinTech investment holding company that has successfully transitioned from a passive investment vehicle at its 2015 listing into a fully integrated, growth-oriented FinTech platform. The company provides a combination of digital infrastructure, payment technologies, and advanced financial software services to a broad client base, including major banks, retailers, telcos, and corporates.

CTA's strategic value lies in its ability to operate across multiple high-growth verticals within the digital economy, while maintaining a disciplined approach to capital allocation, balance sheet strength, and consistent dividend payments. The group is highly cash generative, has a proven track record of earnings growth, and continues to offer an attractive valuation—providing a rare blend of growth, income, and strategic optionality.

Outlook and Strategic Initiatives

CTA has a solid growth pipeline across both its payments and software businesses, with significant orders already secured for FY26. Management has highlighted a number of strategic initiatives that are expected to support sustained momentum. In particular, two recently awarded bank contracts are seen as material contributors and may be underappreciated by the market.

The focus on cost optimisation within the Software division, while temporarily dilutive, should yield improved scalability and profitability over time.

Investment Thesis

We believe Capital Appreciation represents a compelling investment for those seeking:

- Earnings growth underpinned by structural digital transformation trends,
- Attractive dividend income supported by strong cash flows,
- Exposure to high-growth segments of the fintech and software economy,
- Strategic agility and optionality across multiple scalable platforms.

CTA's disciplined capital deployment, strong balance sheet, and market leadership across its verticals create a robust platform for sustained shareholder value creation. The stock remains attractively valued relative to its growth potential.

Conclusion

We have built a material position in Capital Appreciation over the past few years and remain confident in its return potential over the medium to long term. The combination of scalable growth, strong cash generation, and high strategic relevance makes CTA one of South Africa's most promising FinTech platforms.

General observations

MAS REAL ESTATE INC

We are currently not shareholders of MAS Real Estate (MAS) but have followed the company closely due to its historically concerning corporate governance practices—which, unfortunately, appear to be deteriorating further.

At the recent extraordinary general meeting (EGM), Prime Kapital (PK) proposed a strategy to dispose of MAS's property assets in an orderly manner and to distribute proceeds via special dividends. While this strategy seems logical and potentially value-accretive at face value, it is accompanied by a number of binding legal commitments that PK seeks from MAS. This is particularly problematic given that the resolutions shareholders are being asked to vote on are non-binding.

We believe this inconsistency raises serious governance and control concerns.

While we acknowledge that MAS owns a high-quality portfolio and that the current share price materially undervalues its underlying assets, we are cautious. The proposed value unlock strategy appears sensible, but in light of governance weaknesses and opaque related-party arrangements, we cannot be confident that value will be equitably unlocked for all shareholders.

For now, we will continue to monitor developments closely, but we do not believe the current risk-reward is compelling enough to justify an investment. We will reassess our stance as further clarity emerges around MAS's governance, financial disclosures, and the handling of its joint venture with Prime Kapital.

REINET INVESTMENTS S.C.A.

In our Q1 FY25 equity report, we highlighted the potential for corporate restructuring at Reinet following the announced disposal of its stake in British American Tobacco (BATS). However, the pace of developments has significantly exceeded our expectations.

On 3 July, Reinet confirmed market speculation that it was in discussions to sell its stake in Pension Insurance Corporation Group (PIC) and formally announced the sale of its 49.5% interest for approximately £2.8 billion.

While the deal is undoubtedly a major milestone, our initial optimism has been tempered by a few key factors:

- Valuation Disappointment: We had internally assessed the value of Reinet's PIC stake above the final sale price, which has somewhat reduced the perceived value uplift from the transaction.
- No Special Dividend: The lack of a special distribution announcement has further dampened expectations, especially given the scale of proceeds.

Strategically, Reinet has not yet communicated clear plans for how the proceeds will be deployed. While some well-regarded sell-side analysts have speculated a 50% probability of an asset wind-down, we view that probability as lower. Instead, our base case is that Reinet is positioning for a new, potentially material investment, in keeping with its historically opportunistic and concentrated investment style.

That said, these uncertainties around capital allocation, strategic direction, and governance transparency introduce a degree of complexity to the investment case. Despite this, we plan to remain invested, monitoring the situation closely as more information becomes available.

AFRIMAT

Afrimat delivered disappointing FY25 results, which came in well below our expectations and can only be described as an annus horribilis for the group. While the extent of the underperformance is clearly frustrating, we believe it is important to view this within the context of Afrimat's cyclical nature. Even with its historically disciplined capital allocation and strong leadership, setbacks during commodity and construction cycles are inevitable.

The share price decline in 2025 reflects clear capitulation from certain shareholders, and we understand the sentiment. However, we believe that selling at current levels would likely be realising losses near the cycle low and could mean missing out on the recovery upside.

Looking ahead, we remain confident in the management team's ability to restore performance.

In particular, we see upside from:

- Value extraction from the Lafarge acquisition, which offers longer-term integration and scale benefits.
- Improved operational efficiency at Nkomati, the group's anthracite asset.
- Stronger domestic iron ore sales, which could support earnings despite commodity price volatility.

While we acknowledge that commodity price forecasting is inherently uncertain, we believe that factors within management's control point to a stronger FY26, with the potential for operational recovery and renewed investor confidence.

We are material shareholders in Afrimat and have felt the full impact of this year's performance. That said, we remain pragmatic and constructive on the company's medium- to long-term prospects, particularly as its diversified portfolio and operational leverage begin to play through in a more supportive environment.

Company and sector insights

Dis-Chem

The fall of the Mom- and-Pop stores

In 2003, new legislation came into effect in South Africa allowing non-pharmacists and corporates to own pharmacies—something previously reserved for qualified pharmacists only. This opened the door to the mass corporatisation of the pharmacy industry. Clicks, founded in 1968, and Dis-Chem, founded in 1978, jumped at the opportunity. Over the next two decades, they completely transformed the landscape—from a market made up of small, independent pharmacies where the pharmacist probably knew your name, to one dominated by branded, high-traffic stores powered by national scale and slick supply chains.

Both companies grew aggressively—often by acquiring independents and converting them into Clicks or Dis-Chem stores. Today, they dominate industry, together with controlling over 50% of South Africa's retail pharmacy market. Dis-Chem has the edge in the dispensary space, holding around 52% of that market, while Clicks leads slightly on overall retail share, supported by its larger footprint of over 900 stores (vs. Dis-Chem's ~330). Clicks also owns UPD, one of the largest pharmaceutical wholesalers in the country—giving it a meaningful leg up on vertical integration.

Clicks tend to attract a younger, price-sensitive customer base, while Dis-Chem performs better in higher-income areas, with bigger baskets and more frequent spending. Between the two of them, they've effectively squeezed out the traditional pharmacy model—making it increasingly difficult for smaller players to survive.

From Retail Floor to Portfolio Darling

Anyone who's ever stepped into a South African mall knows: Clicks and Dis-Chem are the go-to anchor tenants. As these businesses scaled and proved how profitable and resilient the pharmacy model could be, they didn't just take up more retail floor space—they started occupying more space in investors' portfolios too. In a market that's often volatile and short on reliable compounders, pharmacy retailers have come to be seen as about as safe as house defensive, cash-generative, and consistently profitable.

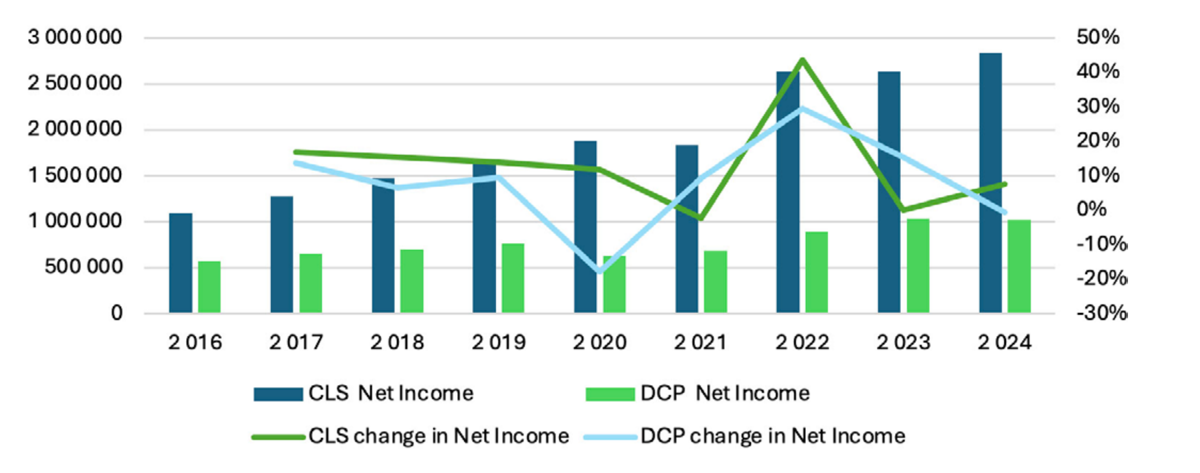
A Tale of Two Premiums

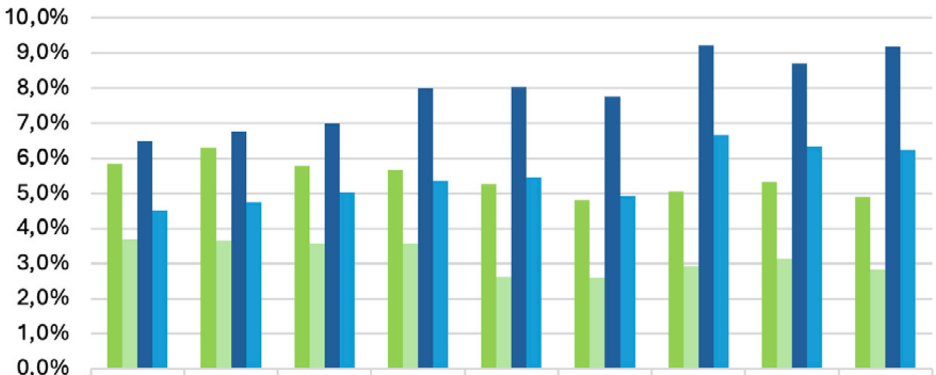
Dis-Chem is up around 75% since its IPO in 2016 and currently trades at a P/E of 23 and a P/B of 5.3 (at the time of writing). While that's not cheap by JSE standards, it still looks reasonable next to Clicks, which trades on a P/E of 29 and a P/B of 13.67—a premium the market continues to pay for its scale, vertical integration, and unbroken track record of delivery.

So why the divergence between two businesses that, to the average consumer, might seem almost interchangeable?

Clicks Leads, Dis-Chem Holds Its Own

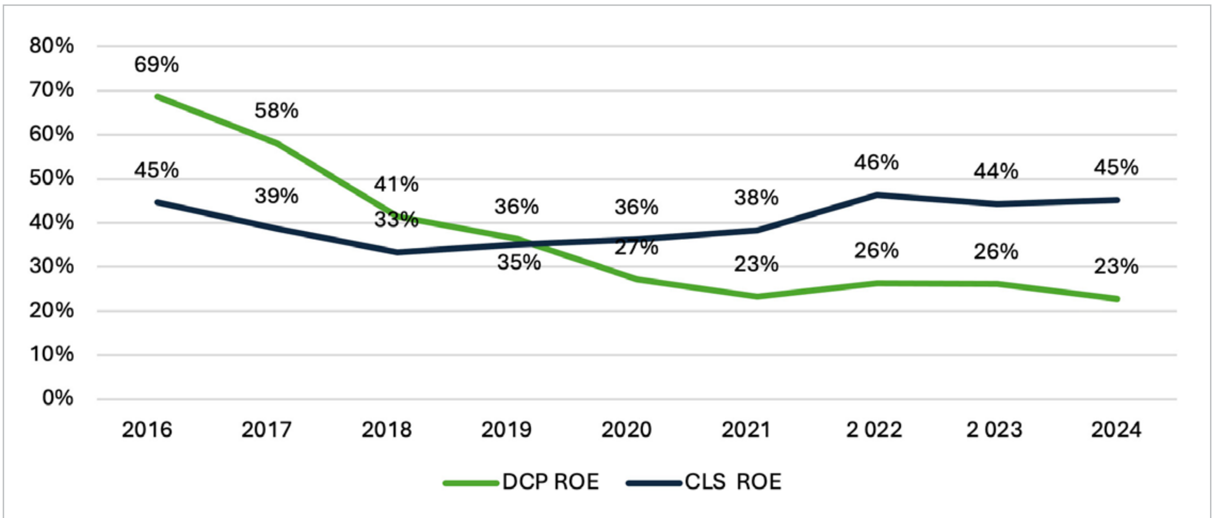
Both companies trade on demanding valuations—but the gap is justified. While Dis-Chem and Clicks both boast strong margins, healthy ROEs, and solid cash generation, Clicks clearly lead the pack (as shown in the graphs below). Its margins aren't just good, they're among the best on the JSE, full stop. That said, Dis-Chem still holds its own and continues to deliver solid financials that support its premium rating, just not quite at Clicks' level.





	2016	2017	2018	2019	2020	2021	2 022	2 023	2024
DCP Operating margin	5,8%	6,3%	5,8%	5,7%	5,3%	4,8%	5,1%	5,3%	4,9%
DCP Net Income margin	3,7%	3,7%	3,6%	3,6%	2,6%	2,6%	2,9%	3,1%	2,8%
CLS Operating margin	6,5%	6,8%	7,0%	8,0%	8,1%	7,8%	9,2%	8,7%	9,2%
CLS Net Income margin	4,5%	4,8%	5,0%	5,4%	5,5%	4,9%	6,7%	6,3%	6,2%

DCP Operating margin · DCP Net Income margin · CLS Operating margin · CLS Net Income margin



Source: Umthombo Wealth, Company Financial

Dis-Chem's Growth Strategy: Beyond the Aisles

Founded in 1978 by Ivan and Lynette Saltzman, Dis-Chem has grown into a national chain with over 330 stores. It's clearly a successful business—but success alone doesn't justify its current valuation. With a P/E of 23 and P/B of 5.3, the market isn't just buying a defensive story, it's paying up for future growth. And that's the challenge: Dis-Chem needs to grow meaningfully to earn its rating.

Dis-Chem's Growth Strategy: Beyond the Aisles

Pharmaceutical and medical spend in South Africa has grown at a 7.4% CAGR over the past decade. And while pharma is naturally resilient to economic downturns, the real profits are made at the front of the store—cosmetics, vitamins, supplements, and "wellness" products. Yes, all the things you don't really need but somehow end up wasting your money anyway. That's where the margins live.

Dis-Chem's engine has historically been driven by acquisitions and new store rollouts. Management is targeting an additional 137,000m² of retail space over the next three years—that's roughly the size of OR Tambo International Airport or Canal Walk Mall.

Gauteng remains the stronghold but Dis-Chem has been gaining ground in KwaZulu-Natal, the Eastern Cape, and the Western Cape.

More Than a Pharmacy: The Healthcare Ecosystem Play

But the strategy is no longer just about store count. In 2024, founder Ivan Saltzman stepped down as CEO, handing the reins to Rui Morais. Under his leadership, Dis-Chem is pushing beyond physical expansion and into integrated healthcare. The group has entered the life insurance market via a 50% stake in Dis-Chem Life, with policies already sold. It also owns Kaelo Holdings, which provides gap cover, primary health insurance, occupational health, and runs AskNelson, a digital mental wellness platform.

Backing this broader push is X, bigly labs—Dis-Chem's internal innovation hub, expected to double in size as it develops projects across tech, data, and customer experience.

In short, Dis-Chem isn't just growing shelves, it's building a healthcare ecosystem. But with Clicks still trading at even loftier multiples, it's clear the market rewards consistency over potential. Dis-Chem might be on the right path—but it still needs to prove it can deliver.

Conclusion: Waiting for the Right Dose

At Umthombo Wealth, we clearly see the value in pharmaceutical retail—but admittedly, not in the current price. We are not shareholders of either Dis-Chem or Clicks at this stage, but we continue to work tirelessly to determine an appropriate target price. With the right entry point and a sufficient margin of safety, we would be open to investing in Dis-Chem.

mr price group limited

Mr Price is top of mind for South Africans when it comes to retail, with the company's ubiquitous stores known for affordable apparel, homeware, and sporting goods. While consumers might look to the retailer for a stylish skirt, decent bed sheets, or relatively affordable soccer boots, investors see Mr Price as a solid thanks to its debt-free balance sheet, defensive margins, and high returns on equity (ROEs).

Mr Price is widely regarded as the darling of cash retail among local investors, and it's easy to see why. Their fundamentals remain best in class—not just among direct competitors but within the broader JSE universe. This is reflected in consistently high ROEs, decent top- and bottom-line growth, and a pristine, cash-flush balance sheet that remains debt-free despite material capital expenditure investments.

That said, the share price has been a roller coaster over the past 18 months. Whether that ride was exciting or terrifying largely depended on when investors bought and sold. Mr Price ended 2023 on a downbeat note, weighed down by a mix of pre-election jitters ahead of May 2024, a depressed consumer environment, and the operational drag of relentless load-shedding. It's also fair to say the company dropped the ball operationally in 2023, with poor execution and underwhelming results denting investor confidence. Since the GNU rally of 2024, however, the share has bounced back. In our view, this was likely due to improving sentiment towards consumer-facing stocks combined with Mr Price's underlying quality fundamentals.

Based on the financial year 2025 (FY25) results, it looks like Mr Price has finally put its load-shedding struggles firmly behind it. The numbers were solid—credible, even—especially given the sluggish retail environment. Headline earnings per share rose 10.1%, supported by sales growth of 10.5% (like-for-like +3.4%) and a neat 60bps gross margin expansion.

Management highlighted ongoing market share gains across divisions, with April and May sales up 11.6%, signaling a strong start to FY26. Cash generation remains healthy, boosting reserves, while the team maintains discipline on acquisitions—no empire-building here. Expenses grew 10%, in line with guidance, and planned capex nearly doubles to R1.6 billion, focusing on tech, logistics, and long-term growth, not quick fixes.

Apparel and Homeware margins both improved, with Power Fashion driving impressive sales growth and even Miladys showing signs of life. Acquisitions like Studio 88, Power Fashion, and Yuppiechef now make up nearly 30% of group sales and are growing faster than legacy Mr Price. Overall, it's not a flashy result, but it's stable, growing, and mostly on track credible performance that earned a nod of approval from the markets.

Over the past five years, Mr Price has spent over R5 billion trying to break out of its traditional identity as the go-to for affordable basics. The group kicked things off with Power Fashion, a discount clothing retailer catering to the ultra-price-sensitive market—think mass-market, high-volume, low-margin. It's all about functional, affordable clothing for households where the budget is king.

Then came the big one: Studio 88. At R3.3 billion, it was the most expensive deal Mr Price has ever done. Studio 88 is a branded fashion retailer—Nike, Adidas, Puma—you name it. It targets a more aspirational customer, someone who might not be flush with cash but still wants to look the part. This isn't the traditional Mr Price shopper; this is someone buying image and identity, not just value.

And they didn't stop there. Mr Price also bought Yuppiechef, a high-end kitchenware and homeware brand that started as a pure e-commerce play before opening boutique stores in wealthier suburbs. It's a completely different beast—selling Le Creuset pots and artisanal gadgets to people who probably aren't hunting for bargains.

Together, these acquisitions show a clear strategy: Mr Price is trying to cover the full LSM spectrum. They're pushing down with Power Fashion, climbing up with Studio 88 and Yuppiechef, and moving away from their core mid-market offering. It's all in service of their rather bold goal to become the most valuable retailer in Africa—an ambitious, maybe even unrealistic vision, but one they're clearly backing with real money

That said, the latest FY25 results suggest this multi-pronged strategy is starting to pay off. Mr Price has put its load-shedding–laden struggles behind it, delivering solid earnings growth and steady sales gains across divisions. With acquisitions now making up nearly 30% of group sales and continued market share gains, the group looks well positioned for growth.

Like any savvy shopper, we're always looking to buy at the right price—and sell at the right price. That's especially true with Mr Price. We were fortunate to catch the share's momentum last year, selling in the final quarter of 2024 when we felt the stock had overheated.

Now, with the highs of the GNU rally mostly behind us, we think Mr Price was sold off a bit too harshly going into 2025, so we've stocked up again. We know this share can be volatile, with valuations swinging quickly from cheap to expensive. That's why we keep a close eye on the counter and stay ready to buy or sell based on where we see value.

PEPKOR

Pepkor recently reported a reasonable set of interim results, with a 12% increase in earnings. The key aspect of the result that garnered interest from the market is the Fintech business within the Group.

The Fintech business is exhibiting substantial growth; revenue grew 34% compared to Group revenue growth of only 13%. The Fintech business is moving the needle for Pepkor however it is still relatively small in the Group mix, at 16% of Group revenue and 16% of Group EBIT.

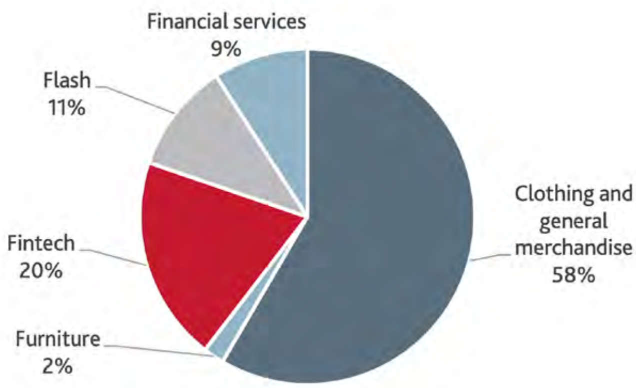
The rest of the stable, comprising mostly of clothing, performed relatively well, generating like for like sales growth in South Africa of 10%. Outside of South Africa, the Group has interests in Avenida in Brazil, and Pep Africa.

The jewel in the crown remains Pep. The business continues to power ahead, with like for like growth of 12% in South Africa. The offering in Rest of Africa remains very attractive to consumers, with Pep Africa growing like for like sales by 21%. There likely remains plenty of growth runway for the Pep Africa business.

We do have some concerns over capital allocation, particularly the Avenida acquisition management concluded in 2022 in Brazil. Momentum in this business seems to have slowed somewhat, with like for like sales down 2% in the results most recently reported.

Also of concern, is that store rollout is slowing, which is not consistent with the growth expectations of the asset. Management indicated that the trading environment remains very tough.

Pepkor Valuation Breakdown



Source: Company financials, Umthombo estimates

In terms of the investment case, we struggle to see value in Pepkor from a traditional valuation approach. The business trades on a PE of 18X, rich for a business generating a ROE of only 9%. Moreover, the cash generation of the business is lacklustre, a key concern for us given we prioritise quality of earnings in all our investment cases. The free cash flow yield is only 3%.

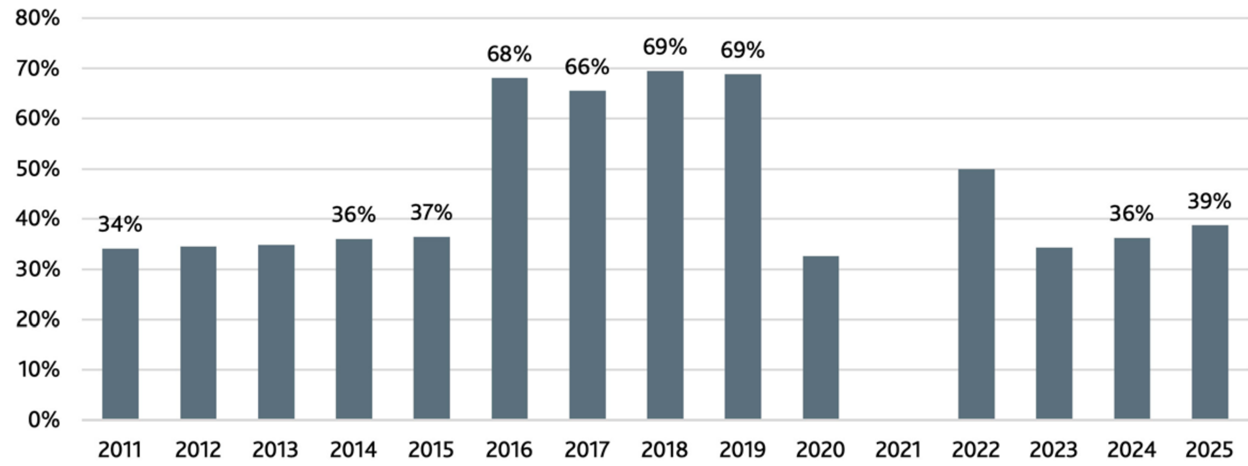
The investment case hinges on growth. We separate the Fintech operations from the traditional merchandise businesses to value them independently. This approach enables us to apply a higher growth multiple (above 20x) to the Fintech segment — primarily Flash payments and insurance — while assigning a more conservative multiple to the clothing and general merchandise divisions, which lack similar growth potential.

On this basis, our valuation aligns broadly with the current share price. As such, we believe there is limited margin of safety, and while the Fintech business offers growth optionality, we view this as already reflected in the current valuation.

Pre-2020, The Foschini Group's dividend story was one of consistency, anchored by steadily growing earnings and a solid cash flow profile. In fact, from 2011 to 2019, the payout ratio grew phenomenally from 34% all the way to 69% before Covid-19 put an end to a very return accretive party for shareholders.

While headline earnings move closer toward 2019 highs, dividends have not followed suit. On examination of several of Foschini's trends, we note that management have taken a fundamental shift of their broader capital allocation strategy, signaling that the group is no longer optimising for dividend returns but rather digital expansion, and an aggressive vertical integration strategy.

Foschini Pay-out ratio trends



Source: The Foschini Group Annual Report, Umthombo Wealth estimates

The Group's DNA has only been an acquisitive one with the likes of UK brands Phase Eight, and Whistles between 2015 and 2016 and Retail Apparel Group in Australia and Hobbs just a year later. The company initiated a capital raise in July 2017 of R2.5 billion, with management at the time assuring the market that the global diversification strategy would yield positive earnings momentum in the long term. This was especially important in an environment where the performance of the South African consumer was strained, and other growth avenues needed to be explored.

By 2019, the group's superior topline growth was undeniable, with a 5-year CAGR in excess of 19% against a peer group during the same period of 10.4%.

Earnings continued to tick up, albeit slower and more measured than expected given so many acquisitions. Despite this, a decision was taken to increase the pay-out ratio by management. However, Covid-19 would be an unexpected but transformative turning point for the group.

The post lockdown period was difficult, with sales in TFG Africa, Australia and the UK plummeting at the same time that global supply chains were disrupted. Stringent cost consolidation was implemented, and the dividend was suspected to preserve liquidity. By July 2020, Foschini's stock price was down 60%, and from a valuation perspective, the pullback had resulted in a Price/ Earnings multiple as low as 6x—well below its pre-Covid average of 12.1x.

Against this backdrop, management began considering a rights offer, which would amount to roughly 27% of the group's market capitalisation at the time. The motivation was clear: with operations under pressure across all regions and liquidity preservation top of mind, TFG needed to shore up its balance sheet and position itself for flexibility. In August 2020, the group proceeded with a ZAR 3.95 billion renounceable rights offer—both a precautionary move amid Covid-related uncertainty and a strategic one, enabling the company to weather near-term volatility and pursue selective acquisitions.

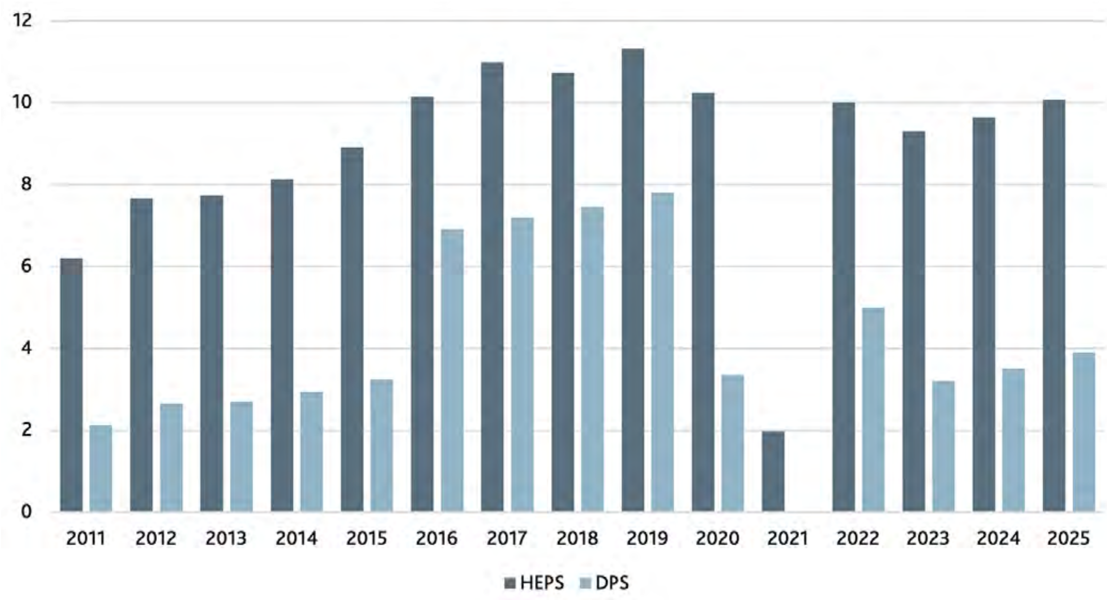
Source: Moneyweb

Amid this turbulence, management took the decision to reduce its retail credit exposure and intensified operating cost consolidation to improve margins. The broader South African apparel and fashion retail sector was facing immense strain, with consumer discretionary spending reducing and global supply chains distributing inventory levels. Yet in 2021, in a move that surprised the market, TFG's management leaned into the crisis. They seized an opportunity to acquire Jet, one of South Africa's most recognized brands for a song during Edcon's business rescue. This marked the beginning of a new era in capital allocation strategy in the post-Covid-19 landscape.

Between 2021 and 2023 the Group built on this momentum by acquiring House of Monatic, TCI Apparel, Radeen Fashion, Playtex and Tapestry Home Brands. Then, in 2024, the geographic diversification strategy resurfaced with the acquisition of UK based, White Stuff.

While these bolt-on acquisitions have expanded TFG's brand portfolio and distribution reach, the earnings contribution has ramped up more slowly than anticipated. Moreover, although dividend payments have resumed, growth has remained modest, leading us to believe that a structural shift toward a sub-40% payout ratio may be the new normal.

Foschini HEPS and DPS



Source: Source: The Foschini Group Annual Report, Umthombo Wealth estimates

Our internal valuation models continue to support double-digit earnings growth as margins recover toward pre-pandemic levels. However, we remain cautious on the pace and scale of future acquisitions, favouring greater emphasis on organic growth across both domestic and international operations.

The Foschini Group's dividend story is no longer defined by high payout ratios. Instead, management has taken deliberate steps to prioritise growth initiatives that enhance long-term competitiveness in an increasingly digital retail landscape.

As investors recalibrate their expectations, we believe the question is no longer how much cash Foschini will return to shareholders, but how effectively it can reinvest it.

Telkom

Telkom has proved to be a remarkable turnaround story over the past two years. Management has been successful in streamlining the portfolio, selling off non-core assets, and shifting focus to a core portfolio comprised of Telkom Consumer, Openserve and BCX.

Within Telkom Consumer, Telkom Mobile has seen significant success, showing above market growth as the business has continued to take share from incumbents Vodacom and MTN. There remains a legacy business in the Telkom Consumer segment, which relates to the old copper voice telephone lines, as well as the ADSL business, both of which are in structural decline. Positively, this legacy business continues to reduce as a percentage of the overall business, thus the negative impact diminishes as time goes on.

While there have been plenty of moving parts, the primary driver of value unlock for the Group has been the Swiftnet transaction, a transaction which saw Telkom disposing of its Masts and Towers business to a private equity business, for a consideration of R6.6bn, a very material sum considering Telkom's current market cap of R27bn, and even more considerable given Telkom's market cap at the time the transaction was announced was only R13bn.

Receipt of these proceeds allowed management to substantially de-gear the balance sheet. At one stage we had concerns around the sustainability of the balance sheet, as the dividend had already been cut to 0, and free cash flow generation was poor. Thus, there was possibility of a rights issue. However, with the Swiftnet proceeds paying down debt, management was also able to restore the dividend. This has been enormously positive for the stock, which is up over 100% over 1 year.

Additionally, the performance of the core operations has improved, and free cash flow generation has been positive. As per the last results released, for financial year 2025, Telkom generated R2.4bn of free cash flow. This also enabled management to declare a special dividend, placing Telkom on a dividend yield of 6% at the time of announcement.

Since results, the share has continued to re-rate and is up another 30% over the past month. We still see upside to the share, about 14% on our valuation, derived from a sum of the parts perspective. A sum of the parts valuation remains the most appropriate valuation methodology given some lingering non-core assets in Gyro (Properties) and substantially different businesses in different growth cycles, such as Telkom Mobile and the legacy ADSL and voice businesses.

We suspect the easy money has been made, however within the telcos space on the JSE, Telkom remains the most favourably positioned telco. From this base, we expect management to deliver continued good cash generation, with earnings growth supported by a continued strong performance from Telkom Consumer.

Habitat destruction

Introduction – The Bigger Picture

When we talk about environmental risk, climate change tends to dominate the conversation. Carbon footprints, greenhouse gas emissions, and net-zero targets fill sustainability reports and shareholder updates. Yet, a quieter crisis is unfolding — one that threatens life on Earth even more immediately and tangibly: habitat destruction. While climate change is a significant stressor, the primary driver of species extinction is habitat loss — not warming temperatures.

Mainstream ESG discourse often narrows in on Scope 1–3 emissions, energy transitions, and climate resilience. While these are critical, they risk overshadowing localised and immediate issues like biodiversity loss. Habitat destruction is often invisible on the balance sheet — absent from sustainability metrics and investor dashboards. Yet the loss of ecosystems can directly erode long-term shareholder value, raise reputational risk, and threaten companies' social licence to operate. ESG isn't just about net-zero. It's about net impact.

What is habitat destruction

So, what exactly is habitat destruction? At its core, it's the removal or degradation of the natural environments that species — including humans — rely on to survive. While climate change gradually alters the atmosphere, habitat destruction removes the ground from under our feet. It's driven primarily by human activity: clearing land for farming, mining, and urban sprawl; building roads through untouched ecosystems; and introducing invasive species that displace native ones.

Unlike climate risks, which can often be modelled and mitigated over time, habitat loss tends to be abrupt — and, in many cases, irreversible. Once a wetland is drained or a forest is paved over, that ecosystem — along with the services it provides — is gone for good. These impacts are particularly acute in land-intensive sectors like agriculture, forestry, and property development, where the loss of biodiversity can translate into operational risk, regulatory pressure, and community opposition. As one observer put it: "Without habitat — or in degraded habitats — life's existence itself is threatened."

To put it in local terms: greenhouse gas emissions are like building a factory in the Kruger National Park — damaging, but at least the park remains. Habitat destruction, on the other hand, is like paving over the entire Kruger to make way for a parking lot. One pollutes the air, the other erases the entire ecosystems.

And the Kruger is just one of many. South Africa is home to a remarkable range of biodiversity hotspots — from the fynbos-covered mountains of the Western Cape to the wetlands of iSimangaliso, and the grasslands of the Highveld. Our natural environments aren't just home to wildlife — they also provide food, water, and income for many rural communities. Alarmingly, South Africa has already lost 20% of its natural habitat in the last 50 years.

Case Studies:

Mining Industry

As a culprit for habitat destruction, mining is indubitably suspect number one on that list. By its nature, mining is extractive, land-intensive, and often irreversible. Open-pit and surface mining operations can raze entire ecosystems, displace wildlife and disrupt soil and water systems in the process. In South Africa, the legacy of mining is visible in degraded landscapes, polluted rivers, and ghost towns left behind when resources are exhausted. Rehabilitation is often slow, underfunded, or superficial — with biodiversity rarely restored to its original state.

Given its environmental footprint, the mining industry is already under significant regulatory pressure. In South Africa, operations are subject to Environmental Impact Assessments (EIAs) and other environmental management requirements. Authorities are watching closely — and not just locally.

In 2024, Chilean regulators ordered Gold Fields, a JSE listed South African-headquartered miner, to halt activities at part of its Salares Norte site after endangered chinchillas were discovered in the area. The response? A costly and tightly monitored relocation campaign dubbed Operation Chinchilla, which delayed progress and drew global media attention. It was a clear demonstration of just how seriously environmental protections can be enforced — and how even the best-prepared mining houses can find themselves at the mercy of ecological red flags.

Mining might be the poster child for habitat destruction, but it's far from the only culprit. Across the JSE, industries like property and agriculture (through food producers and retailers) are also land-intensive — and their environmental footprint often flies under the radar.

Property Sector

Property companies have made great strides in energy efficiency, from solar panels to water-saving innovations. However, biodiversity can't be fully restored with rooftop PVs alone. New developments often encroach on untouched land, clearing indigenous vegetation, fragmenting wildlife corridors, and altering natural water systems.

To mitigate this, real estate developers can integrate ecological design — preserving green belts, protecting local plants, and conducting thorough environmental assessments. Brownfield developments, which refurbish urban areas, can also ease pressure on natural habitats.

Incorporating green roofs and vertical gardens (living walls) is a simple yet effective solution. These features promote biodiversity, support pollinators and birdlife, and help manage stormwater — as seen in iconic developments like Menlyn Maine, the V&A Waterfront, and the Cape Town International Convention Centre.

Agriculture and Food Producers

Farmland expansion is a major driver of habitat loss, both globally and in South Africa. On the JSE, companies in food production, food retail, and investment holding are often part of supply chains that rely on land clearing for crops and grazing. While not all directly own farmland, many contribute to deforestation or habitat degradation.

To mitigate these impacts, agricultural businesses can adopt sustainable practices like regenerative farming, which focuses on soil health and biodiversity, or agroforestry, where trees and crops coexist. Additionally, promoting sustainable sourcing and traceability in supply chains can reduce the pressure on natural ecosystems.

Leading examples like Tiger Brands and Pick n Pay are increasingly focusing on sourcing sustainably and reducing their environmental footprints. By embracing these strategies, agriculture and food producers can drive growth while safeguarding the environment.

Conclusion

We've previously worked with an ecologist to create a framework for engaging mining companies on habitat destruction and rehabilitation. This helps guide our questions — from the quality of ecological assessments to post-closure land use — and encourages better disclosure and accountability.

We believe this approach shouldn't stop at mining. We plan to extend it to other land-intensive sectors on the JSE, including property, agriculture, and food production — where environmental impacts are often just as significant, yet less scrutinised.

As custodians of South Africans' capital, we believe there is both an ecological and social imperative to protect our natural assets. This includes engaging with companies — particularly in land-intensive sectors — to ensure habitat preservation becomes a visible, measurable part of their sustainability strategies.

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