

## Long Term Stock Picks for 2025

*Chantal Marx, Head of Investment Research at FNB Wealth and Investments*

Last year was a strong year in global equity markets, with the perennially underperforming JSE also delivering a decent showing. The S&P 500 had a bumper year after a very strong 2023 as the AI revolution continued to give impetus to the technology sector and embedded the "Magnificent Seven" as the clear winners in the AI race. The Chinese market showed some improvement despite continued uncertainty around the structural constraints facing that economy and what has to date been an underwhelming response by authorities to reignite growth.

South Africa company valuations are less attractive this year relative to the start of last year, although we still see upside in certain sections of the SA Inc basket and, notably, the rand hedge counters seem to offer very good value. While there is still very strong thematic thrust behind the US-based technology stocks, these companies now look expensive, and this has prompted us to look for better value elsewhere.

The market has readjusted its interest rate expectations for the US Federal Reserve and by extension, interest rates globally. It is now expected that we will only see a further two cuts of 0.25% each in the US. The shallower than initially anticipated cutting cycle will likely be negative for risk assets. The dollar is expected to remain strong as President Donald Trump's policies gain traction, and this, together with possible disruptions to global trade, is generally regarded to be a further negative for emerging markets. As such, we enter the year with some trepidation around overall market returns and believe that this could be a good year for "stock pickers".

In 2024, our stock picks delivered 29.5% on a total return basis in rands (measured from the day of publication, being 22 January). Our best performers were Nvidia (+117.4%), African Rainbow Capital (+95.8%) and KAL Group (+31.9%). Our worst picks were CVS (-35.2%), Bidcorp (-1.9%) and Cybersecurity ETF BUG (+5.0%).

### Local

Bidcorp is a market-leading food service product distributor across several geographies including the United Kingdom, Europe, Middle East, South America, the Asia-Pacific region, and South Africa. The company's business units operate across the food and ingredient manufacturing sectors, such as catering, hospitality, leisure, baked products, poultry, meat, seafood, and processing. The strategy is to grow organically in existing regions and acquisitively in new ones, with improvements in the customer mix and value add opportunities providing further upside potential.

- The group has a well-diversified client base and businesses at different life cycles across developed and emerging geographies.
- Bidcorp is not overly exposed to any specific client or category, boasting healthy diversification across the portfolio.
- The company's dual strategy of targeting organic (primary focus) and acquisitive growth spreads risk, with the flexible balance sheet offering room for further bolt-on acquisitions, which are under consideration across the group both in geographic expansion opportunities as well as value-add product development.
- The group's market leading position in many countries of operation provides some pricing power in a low-margin industry.

While consumer demand remains subdued as the cost-of-living crisis continues to impact spending in most countries, the group continued to deliver record levels of growth according to the recent four-month update (ended October 2024) amid a resilient performance across divisions – management continued to focus on growth in preferred sectors of the market. Margins also held up well and came in ahead of the comparative period, assisted by a slight improvement in the UK and despite many other businesses sacrificing some gross margin to grow sales. Looking ahead, the company remains financially strong, with relatively low levels of gearing and a robust business model with solid diversification and defensive characteristics. In addition, management remains flexible, nimble, and highly adaptive in maintaining reputable service levels and relevance to targeted markets.

Bidcorp is trading on a forward PE of 16.9 times, below its long-term average of 20 times. We maintain a favourable long-term view on the counter.

### **Naspers (NPN)/ Prosus (PRX)**

Naspers (NPN) is a prominent multinational media group which has, over the last two decades, evolved from a traditional print media business in just one country to a broad-based e-media company operating across multiple regions and markets. Naspers' most notable asset is Prosus (PRX), which in turn, has a significant shareholding (~26%) in Chinese internet giant, Tencent (known for its social media, gaming and cloud service offerings). Prosus is essentially the international internet assets division of Naspers, focused on e-Commerce, Food Delivery, and Classifieds.

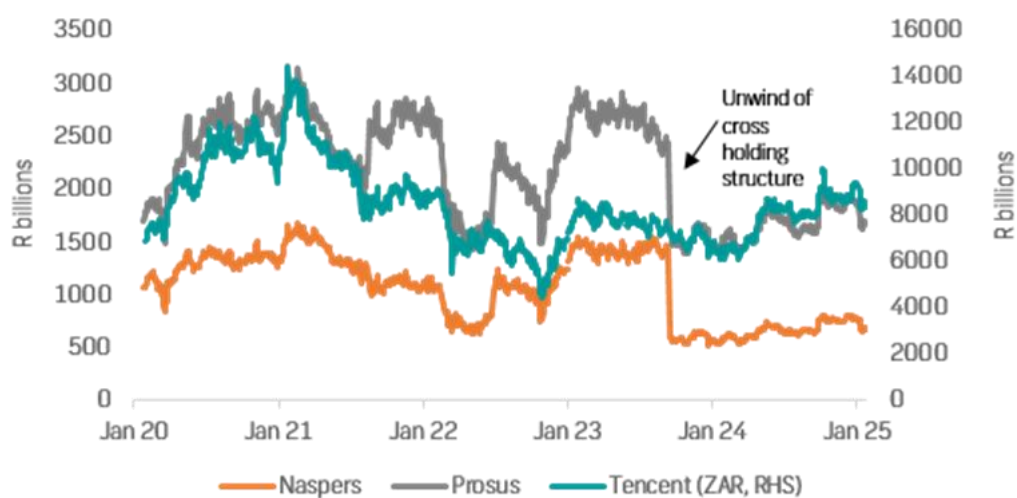
- Prosus is the largest consumer-internet company in Europe and among the largest technology investment companies in the world, operating across a variety of platforms and geographies. In addition to Tencent, some of its largest investments include Delivery Hero, Swiggy and Udemy, as well as OLX and PayU, which are fully owned.
- Despite persistent regulatory risk and current macroeconomic weakness in China, we remain positive on Tencent's near- and long-term growth prospects, particularly in spaces like fintech, cloud computing and AI. Growth in advertising should also remain supportive of the company's valuation.
- We believe there are significant growth opportunities for several of the group's assets, as was the case previously with Tencent and Delivery Hero, which have since lived up to their potential.
- Recent acquisitions in the payments space in India and travel sector in Latin America could be a catalyst for better diversification and growth in the future. The group's focus on high-growth sectors (such as fintech and edtech) within emerging markets (such as Latin America, Asia, and Eastern Europe), is particularly encouraging.
- The group has a history of strong financial performance as well as robust balance sheet fundamentals and is managed with a clear long-term vision – the e-Commerce businesses recently became profitable and food delivery. in particular. has started to contribute meaningfully to the bottom line.
- The management team (which boasts a proven track record) is actively taking steps to address the size of the respective discounts.

Prosus, Naspers and Tencent share prices came under pressure early in January after Tencent was placed on the US Department of Defence or DOD's Section 1260H blacklist, which includes companies suspected of doing business with the Chinese military. For reference, unlike the CCMC/CMIC lists, which have strict trade and investment bans due to national security concerns, the Section 1260H list does not have a direct bearing on

Tencent's operations or relationship with suppliers/consumers. Tencent's inclusion in the DOD's Section 1260H list does not pose a direct risk to the demand/supply fundamentals of the group, nor does it restrict trade in its shares.

While Tencent has denied any business dealings with the Chinese military, this may place a negative overhang on the name, at least in the short term. We think that following the sell-off in the three counters, they are offering even better value in our view. We expect the performances of Prosus and Naspers to be supported by an eventual recovery in Tencent's share price, better profitability in the other investments, and a continued narrowing of their respective discounts (i.e. significant upside in their share prices), supported by ongoing share repurchases and further portfolio management and corporate activity.

### Market Capitalisation of Tencent, Prosus and Naspers



Source: Bloomberg, FNB Wealth and Investments

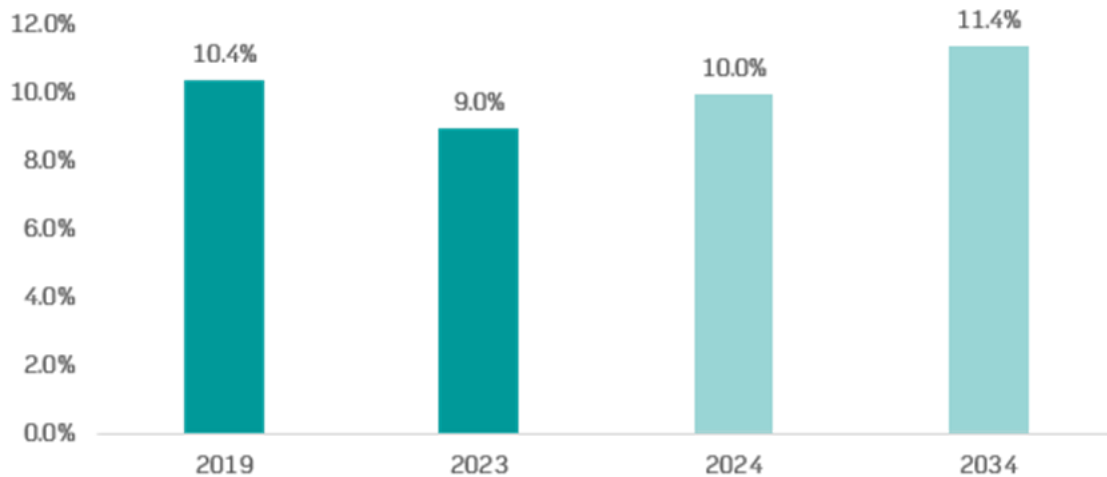
### Sun International (SUI)

Sun International develops, invests in, and manages properties in the gaming and hospitality industry. Sun International's operations include resorts, luxury hotels and casinos in South Africa (SA), Zambia, Botswana, Namibia, Lesotho, Nigeria, and Eswatini. Locally, the group's best-known operation is the Sun City resort, and its gaming interests include prominent casinos such as Time Square, Grand West Casino, Carnival City, and the Wild Coast Sun.

- The group's simplification and streamlining of its operations post-Covid-19 continues to bear fruit.
- Sun International stands to benefit from buoyant international travel and local tourism, considering that the number of foreign travellers as well as business travel patterns have not yet normalised to pre-pandemic levels. Travel and Tourism in SA takes on a vital role for the economy, with the contribution to GDP from travel and tourism at ~7% pre-pandemic and dropping to a low of ~3% in 2020 and 2021, according to Statista. As the industry continues to recover, an annual growth rate of 5.9% is expected through 2029.
- In 2023, per the World Travel and Tourism Council (WTTC), travel and tourism's direct contribution to gross domestic product (GDP) globally was ~\$9.9 trillion or

9.1% of total global GDP. This is expected to grow in 2024 and beyond, constituting 11.4% of global GDP in 2034. This is beyond the contribution prior to Covid-19 and highlights that the sector is expected to grow more than average industry growth over the next decade.

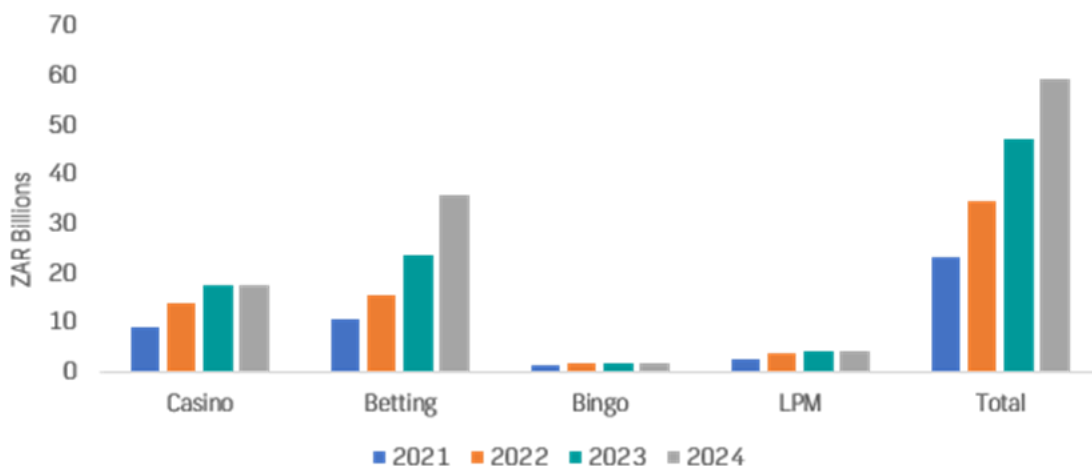
**Share of travel and tourism’s total contribution to GDP worldwide in 2019 and 2023, with a forecast for 2024 and 2034**



Source: Statista

- While tourism and hospitality are one facet for the group (Urban Casinos: ~55% of revenue; Resorts and hotels: ~25% of revenue), gambling is another major element. Casinos were scaled down during the pandemic and many gamblers turned to online betting. Sun International’s online platform, SunBet, continues to soar, while the recovery in Casinos has been slightly bumpier. SunBet accounts for just under 10% of revenue, while Casinos makes up ~55% of revenue, although we think that SunBet may hold a heavier weighting over time.

**SA Betting Gross Gambling Revenue (GGR) continues to skyrocket, casino GGR remains sluggish post-pandemic**



Source: South African National Gambling Board

- In December 2023, Sun International announced the acquisition of Peermont Holdings for R3.2 billion. Historically, Sun International has paid off debt relatively quickly and managed gearing levels quite well. That said, Sun International is in a solid position to implement value accretive acquisitions at a good point in the cycle. Peermont boasts well-established gaming and hospitality assets of significant scale and quality, and there are meaningful synergy and scale benefits to be realised.

While the Peermont deal attaches some risk to Sun International (the Competition Commission does not recommend the acquisition, but approval is pending and may still be granted), we think that some of this downside price risk has already been factored in. The share price has trended slightly downward since this announcement in October 2024 and the current levels serve as an attractive entry point. Additionally, if the deal does not take place, Sun International will be cash flush and we would anticipate increased and attractive cash returns to shareholders in the short-to-medium term.

Sun International is trading on an undemanding 12-month forward PE of ~9.0 times, with reasonable near-term growth to come.

### **The Foschini Group (TFG)**

The Foschini Group is an investment holding company with a core business focus in retail and financial services. The group comprises several brands trading throughout southern Africa offering a prominent lifestyle range of household name brands including Foschini, @Home, Sterns, Totalsports, Sportscene and Jet, among others. The group also owns Phase Eight and Whistles in the UK, and RAG in Australia.

- Despite pressure on consumer spending power prior to the past few months, the group sustained positive revenue development supported by the expansion of the brand portfolio, and further growth in online retail turnover in South Africa via the Bash platform.
- While recent results have been relatively soft, they have highlighted an improving trading environment. The group's keen focus on gross margin expansion has been paramount, with all regions persistently gaining impressive traction.
- Online platform sales have continued to grow, with the group highlighting that there were more than 245 million engagements with its online platforms in 1H25. The group's loyalty programme is also supportive of its customer retention, with over 38.8 million members it continues to grow by the high-single digits.
- We expect earnings growth to be underpinned by an improved macro environment and increased consumption as lower inflation and continued rate cuts should yield higher disposable income, which, coupled with cheaper credit, will likely spur consumer appetite.
- TFG's diversified portfolio across LSM segments, product categories, and geography, better positions the group relative to peers, in this context.
- The company is the market leader locally in "quick response" given its local manufacturing capability, which is a clear competitive edge for the group.
- Given that the group's approach to managing the debtors has been tight and more on the conservative side (FY24 average acceptance rate: 17.7%, FY23: 19%), continued monetary easing and improvements in consumer sentiment and general economic conditions support a gradual increase in the extension of credit as well as the quality of the book. According to the National Credit Regulator, retailers made 4.6 million enquiries on consumer records in 3Q24 for consumers seeking credit, which was an increase of 11.72% q/q and of 18.9% y/y, signalling strong demand for store credit accounts, all while rejection rates remain elevated.

- Lower interest rates should also offer lower finance costs for the group going forward, which, together with continued robust cash generation, provides a positive underpin for further deleveraging over time, particularly paying down the debt associated with the acquisition of Tapestry in 2022.

Continued business investment into key strategic initiatives to further strengthen its differentiated business model, seek out strategic adjacencies and high-quality acquisitions, and work towards improving its balance sheet and capturing market share, provide a positive base for the group's longer-term growth prospects.

TFG is trading on a forward PE of 12.9 times, which is still regarded as attractive from a longer-term perspective and is currently trading at a 6% discount to its sector average, which is below the 4% longer term average discount and well below the post-Covid premium it demanded through 2021.

### **TFG forward PE discount to peers over time**



Source: Bloomberg

### **Coronation Fund Managers (CML)**

Coronation is one of the largest independent asset managers in South Africa, with ~12% market share. The company launches and manages equity, fixed income and balanced mutual funds, and provides services to pension and provident funds, medical schemes, unit trusts, banks, insurers and other fund managers, international retirement funds, endowments and family offices. The firm invests in public equity and fixed income markets across the globe, employing fundamental analysis with a bottom-up stock picking approach.

- Coronation is a well-established asset manager and has built a trusted brand over time.
- As one of the largest asset managers in SA, the firm enjoys economies of scale as it has a relatively small fixed-cost base.
- Coronation has a strong management team with a solid track record of strategy execution.
- The name boasts a long track record of strong cash generation and provides an attractive dividend yield for income-seeking investors. The resolution of the tax matter with SARS not only yielded a well-received special dividend but removes uncertainty around the group's regulatory compliance in terms of its international

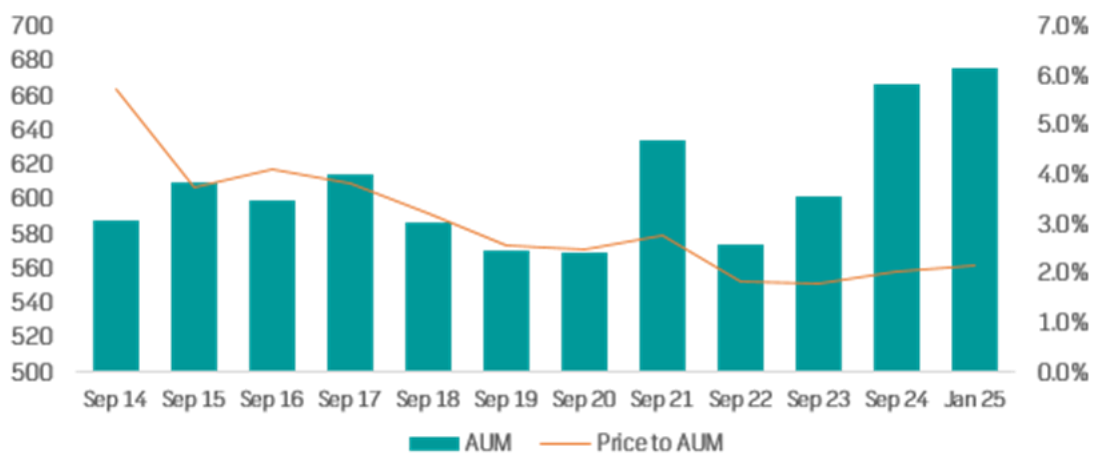
operations and tax structures, setting a significant legal precedent regarding interpretation of tax laws for other asset managers with global operations.

- The establishment of the two-pot system in retirement savings presents a short-term headwind in terms of increased investment outflows across the sector. However, this is expected to be a relatively small impact overall— initial estimates are for withdrawals to be between R50 billion to R100 billion in the first few months following implementation. According to our calculations, this translates to ~1.1% of CML’s total AUM of R667 billion as at 30 September 2024, at the midpoint. This should be a one-off major impact, with lower withdrawals over time implying improved outflow trends over the longer-term, as consumers now have more flexibility and access to savings (resulting in smaller withdrawals on aggregate).
- Based on our valuation estimates, we expect 30% upside from current levels

Asset management companies trade in line with market cycles, and while the market could remain volatile amid prevailing global geopolitical risks, we anticipate an improvement in the macro environment will bolster earnings growth and in turn positive returns from risk assets, which should support AUM growth as well. In the same breath, easier economic pressures on consumers will likely support improved saving and investment dynamics, and therefore lower outflows– notwithstanding increased fund flows to offshore allocations.

Coronation is trading on a 2.2% P/AUM, currently below its long-term historic average P/AUM of 3.0%, and a current dividend yield of ~11.1%.

### **Coronation price to AUM over time**



Source: Bloomberg

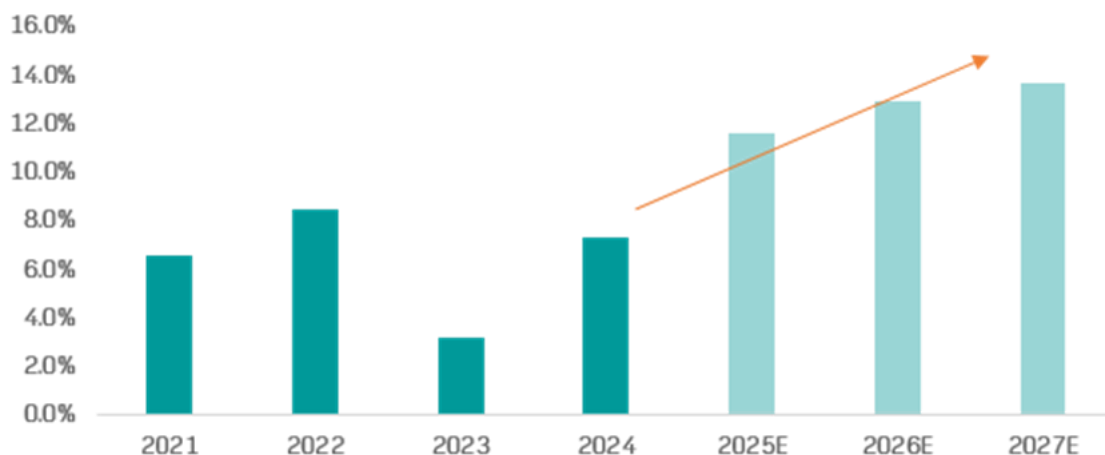
## **International**

### **Birkenstock (BIRK US)**

Birkenstock is a German shoe manufacturer known for its sandals and other shoes notable for contoured cork footbeds (“fussbett”), made with layers of latex and jute, which conform to the shape of their wearers’ feet. Top quality leathers and synthetic materials ensure a premium-level all-around product. The company was founded in 1774 by Johann Adam Birkenstock and in 1896, the fussbett was designed, by 1925, Birkenstocks were sold all over Europe and entered the US market in the late 1960’s.

- Casualisation has been a structural tailwind for Birkenstock. Pre-Covid-19 the company benefitted to a certain extent from the rise in athleisure-like dressing outside of the office, and post-Covid-19 work attire has also taken a notable shift. From a fashion standpoint, the emphasis on comfort has only intensified over the last decade and is centred around soft fabrics, stretchy materials and comfortable footwear.
- Off the fustbett technology, the company has developed a broad, unisex portfolio of footbed-based products anchored by its Core Silhouettes, the Madrid, Arizona, Boston, Gizeh and Mayari. The Birkenstock silhouettes are iconic and have become more agnostic to fashion-cycles.
- The company boasts a vertically integrated manufacturing base, with 95% of all products assembled in Germany. This ensures consistent quality control and execution using the highest quality inputs (this also shields the company from possible Trump-tariff impacts – although Europe may not be immune).
- Management sees good opportunity for further growth in retail and wholesale channels. It has major scope to grow its own retail footprint – the company only has 64 stores and just eight in the US.
- The company has a history of strong revenue growth (ten-year CAGR of 20%, with ~18% CAGR expected over the next four years). Margins are expected to expand over the medium term as revenue grows ahead of costs. The goal is also to pay down debt to zero (the company was highly indebted coming out of private equity when it listed in 2023) – this will provide a further earnings uplift over time.

**ROE is expected to increase substantially**



Source: Bloomberg

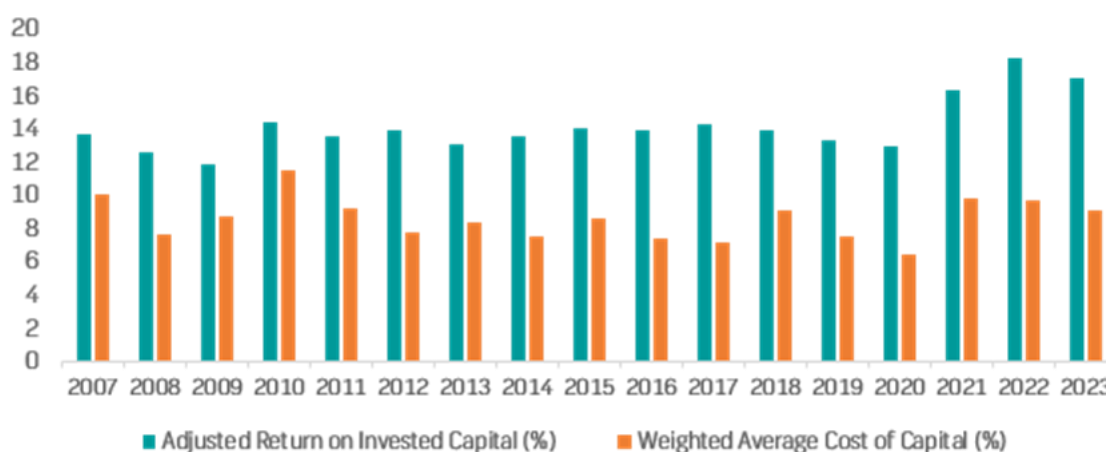
The stock has rerated recently and is currently trading in line with its average multiples since listing. However, we think that earnings, cash flow, and returns metrics are still conservative, which gives us comfort to invest in the company at “fair value” multiples.

**L’Oréal (OR FP)**

L’Oréal is a French multinational personal care corporation. It is the world's largest beauty/cosmetics company, with activities spanning skin care, sun protection, make-up, perfume, hair care and hair colour. L’Oreal reports across four segments being Consumer Products (with brands like L’Oreal, Garnier and Maybelline in the stable); Professional Product (which includes Kerastase and Redken); Luxe (with brands like Lancome, Urban Decay and Mugler); and Dermatological Beauty (including Vichy, SkinCeuticals, and CeraVe).

- L’Oreal holds market leading positions in various categories and is a proven innovator over time – animating the market and driving demand for new and additional products.
- The sector is quite defensive – per the well documented “lipstick effect” theory where consumers tend to indulge in small luxuries like make-up, fragrance and skin and haircare, even when economic conditions are challenging. While the sector is not immune to broader downturns, it does tend to be impacted less than other areas of the market.
- The company is very optimistic on continued strong growth in dermatology products over the next decade. Indeed, this market is expected to grow at a compounded annual growth rate (CAGR) of 7.0% over the next decade. The company has several well-known brands in this category and its major market segments currently contribute roughly equal value in revenue (being the US, Europe and Emerging Markets).
- Perfumes currently make up approximately 13% of revenue for L’Oreal and the company still foresees high growth in this category going forward. Being more indexed to fragrance is positive and adds defensiveness from a volume and price/mix perspective. Fragrance only tends to decline in big cyclical downturns and customers rarely trade down.
- Nearshoring has been a strategy for the company for some time. This makes it less exposed to tariffs and trade war-related disruptions. For example, in the US only 15% of what is sold is imported – these are mainly Luxe products that, by design, are made in their origin markets.
- The company boasts superior margins and has a proven track record of generating high returns on assets, equity, and returns on invested capital (ROIC). The ROIC has consistently been well above the company’s weighted average cost of capital (WACC) over time. L’Oreal boasts a rock-solid balance sheet and is highly cash generative, with leverage expected to continue trending lower over time.

### **L’Oreal ROIC versus WACC**



Source: Bloomberg

L’Oréal has derated over the past year. On a 12-month forward PE basis it is currently trading at a much smaller than usual premium to its peers and close to two standard deviations below its average rating over the last five years. While there are still risks on the horizon near term, we believe this high-quality counter will recover strongly over the next few years.

## **Novo Nordisk (NOVOB DC)**

Novo Nordisk is a global leader in healthcare that develops, produces, and markets pharmaceutical products. The company focuses on diabetes care and obesity treatment and offers insulin delivery systems and other diabetes products. Novo Nordisk also works in rare disease areas such as haemostatis management, growth disorders, and hormone replacement therapy.

- The group has a very focused portfolio, which underpins its leadership in the diabetes care market. Some of the group's best-known drugs include Ozempic (diabetes), Saxenda and Wegovy (obesity management) as well as Rybelsus (oral diabetes treatment), and other essential insulin therapies including Tresiba and NovoRapid.
- Novo has been highly acquisitive since its inception. Most recently, the proposed acquisition of US-based drug manufacturer Catalent for \$16.5 billion received regulatory approval in December 2024 and marks an important step towards enhancing Novo's production capabilities and accelerating therapy and drug innovations.
- The addressable market for diabetes and weight-loss drugs is vast. This market was estimated to be worth \$32 billion in sales in 2022 and is expected to grow to around \$70 billion by 2032. According to the World Health Organisation (WHO), the number of people living with diabetes has increased four-fold over the past three decades. Prevalence has been rising more rapidly in low- and middle-income countries than in high-income countries, while treatment access remains persistently low (~60% of all adults remain untreated). Total diabetes prevalence is expected to increase.
- The group's focus on expanding applications for GLP1s beyond diabetes presents a significant diversification and growth opportunity, specifically cardiovascular benefits such as reducing the risk of cardiovascular death, heart attack, and stroke in overweight or obese patients (Wegovy) and the risk of developing Alzheimer's disease (Ozempic).
- Over the past five years, Novo has shown a strong performance in several key areas - particularly consistent revenue growth - driven by the success of its diabetes care and the introduction of its weight loss drugs to the market. The company has maintained a strong commitment to R&D, to discover new therapeutic products and improve existing ones, investing billions annually to fuel its pipeline of future drugs. Novo continues to post sector-leading margins underpinned by its strong top-line growth, dominant market position, and subsequent pricing power

Overall, the group has not only maintained their market lead across both diabetes and weight loss but has outpaced its strategic aspiration of strengthening the Diabetes care leadership— specifically, reaching a global value market share of more than one-third in 2025. The growth outlook is strong, underpinned by management's focus on expanding the company's pipeline, improving operational efficiencies, making significant investments to develop new therapies for chronic conditions beyond diabetes, label expansions for its metabolic drugs, and heightening barriers to entry for competitors.

With recent weakness in the share price, the stock is trading on a PE multiple of 20.7 times, which seems undemanding relative to its own history (34% below its average rating over two years and is 27% below its five-year average rating).

### ***Novo Nordisk 12-month forward PE over time***



Source: Bloomberg

### **BlackRock Inc. (BLK US)**

Blackrock is one of the world's leading providers of investment, advisory, and risk management solutions, offering both institutional and retail investors a wide range of financial products and services.

- Blackrock is an asset management global market leader that boasts a solid track record with a very attractive service offering.
- The company has shown that it can produce decent fund flows, revenue, and margins regardless of the environment, and offers defensive exposure in any market environment.
- The company saw a strong close to FY24, with record client cash inflows (>100% y/y) being a key highlight.
- BlackRock remains well positioned to benefit from continued strong global investor demand for exchange traded funds (ETFs), evidenced by the majority of long-term inflows going into passive mandates.
- The current rate cutting cycle (while less pronounced than initially expected) continues to draw investors to the stock market and we expect this thematic to be present at least near term.
- Key M&A transactions, specifically the full integration of the private infrastructure investment company, Global Infrastructure Partners (GIP), during the year also added to the positive outcome. This, together with the planned acquisition of other high-growth businesses Preqin (expected to close in 1Q25) and HPS Investment Partners (1H25), is interesting and expected to drive further growth, particularly amid growing allocations into the unlisted space.

Although slightly lower than consensus expectations, assets under management (AUM) for FY24 climbed to a new record. This was underpinned by a further uptick in equity markets and robust fee income growth amid heightened client activity— driving organic base fee growth (+7%). Management expressed confidence and looks ahead to the year citing “more growth and upside potential than ever.”

BlackRock is trading on a price to AUM of 1.4%, which still seems undemanding. We believe the higher rating is justified by the company's scale and robust growth outlook.

### **L3Harris Technologies (LHX)**

L3Harris Technologies is an aerospace and defence technology innovator. The company designs, develops, and manufactures radio communications products and systems, including Single-Channel Ground and Airborne Radio Systems (SINCGARS). The company also provides advanced defence and commercial technologies across air, land, sea, space, and cyber domains.

- The group operates through three diverse defence segments: Integrated Mission (~41%), Space and Airborne Systems (~36%), and Communication Systems (~24%).
- LHX is one of the top six largest defence contractors in the US. Appetite for defence solutions remains robust, underpinned by strong domestic and international government spend.
- US defence spending remains near record lows, ~2.7% of GDP in 2024 from as high as 4.5% in 2010. President Trump's stance to "strengthen and modernise the military" could further boost defence and cybersecurity spending during his second term. In his first term, Trump established the US Space Force and increased defence spending to shore up the nation's military prowess.
- The threat of prevailing geopolitical conflicts, particularly in Ukraine and the Middle East (notwithstanding the recent cease-fire agreement between Israel and Hamas), evolving into a bigger global conflict remains a risk and as such presents an opportunity for companies within the defence sector.
- Continuous innovation. L3Harris has partnered with the US Navy to deliver the first Autonomous Undersea Vehicles (AUVs) powered by advanced lithium-ion batteries approved for submarine use.
- The company remains well positioned to benefit from expected offshore growth, post-merger synergies (following its acquisition of Aerojet Rocketdyne in 2023), and its continued focus on operational excellence and innovation.

The group's 3Q24 results showed a resilient performance, underscored by solid organic growth, the contribution from the integration of Aerojet Rocketdyne, a higher book-to-bill ratio reflecting increased demand, and steady margin development. Cash flow generation was robust, with double-digit growth y/y, driven by higher net income and lower transaction costs relative to the base period. In terms of the outlook, management updated its full-year guidance for target cost savings to exceed previously marked \$400 million, to at least \$600 million, which bodes well for further margin improvement.

Downside risks to our view include President Trump's planned tariffs on all imported goods which could place financial pressure on defence contracts. Moreover, the company remains susceptible to general economic headwinds and operational challenges, which could further weigh on sales and earnings. Other headwinds include lower-than-expected defence budgets, softer funding for operations and maintenance (O&M).

### ***L3Harris forward PE over time***



Source: Bloomberg