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Nedbank's 10 shares for Xmas

LAST YEAR'S PICKS: *Generated over 34% return*

AN investing "family" which chose to slip Nedbank Private Wealth's eight share picks into their Christmas stockings last year would have generated a festive 34.7% across the portfolio. As a collective, the family would have seen only two shares out of the eight not matching the index return.

There were some spectacular performances from RMI (+75%), Aspen (+68.2%), Metrofile (+64.9%) and Richemont (+61.8%); some good returns from MTN (+24.1%) and the Eskom Bond (ES18) (+16%); while the two poor performers were Sasol (+4.2%) and Harmony (-36.8%).

For the year ahead we will be coming off a high base in terms of the share market in a period where there are still some serious headwinds on the global and local fronts. In this environment stock picking becomes important. We list our stock picks for the family members below.

■ Foschini – for your savvy niece

Fulfil your niece's investment needs with a few The Foschini Group (TFG) shares. With 18 store brands in its portfolio, TFG has most malls well covered. TFG is a few years behind Mr Price and Truworths in terms of store optimisation and supply chain management. There is room to improve the trading densities and wring more efficiency from the supply chain. These are key drivers of future margin improvement and are at the crux of the positive investment case for TFG. Also there is space growth on the cards, with 7% planned for FY13. TFG has communicated its desire to reduce its stake in RCS. The group is in discussions with potential buyers and private-equity firms evaluating all options. An exit from this business could result in a positive re- rating.

■ Pan African Resources – for your son with a gleam in his eye

Picking Harmony last year turned out to be a dud. However, we still recommend holding gold or gold shares for those investors with a higher risk profile but not every gold investment is a winner. Gold ETFs have outperformed gold shares on average over the past year. However, select gold shares can outperform the gold price due to their gearing to the gold price as a result of expansion projects. We recommend Pan African Resources (PAN) as an ideal gift. PAN is a low cost gold producer and is finalising the acquisition of Evander GM. Management is expanding the dump treatment operations at Barberton to add a further low cost operation to the group. Both of these transactions should positively impact earnings over the next few years.

■ ELLIES – for your aunt

Giving your aunt Ellies as a Christmas gift for this year will help achieve some of her desired needs and minimise the risks. Ellies services local and African markets through the distribution of consumer goods, renewable energy, power, and telecommunication infrastructure. Ellies's focus is on energy saving and energy renewables going forward and we believe aunty will benefit as consumers migrate to energy saving products. Ellies has shown strong growth in the past year, which was enhanced by the strong performance of the Megatron division. We expect the company to continue delivering a good performance next year, as a result of new product launches and expansion into new markets. The benefits from Eskom's power saving initiative should contribute positively this year.

■ MTN – for your daughter

MTN operates in 21 countries, with its main operations in SA and Nigeria. With MTN's focus on smartphone and data accessibility, your daughter will enjoy surfing the Internet and checking out her status on social networks. In its 3Q12 trading update, MTN reported solid subscriber growth numbers, leading to an increase in guidance of MTN's subscribers for FY12e. MTN should continue to show strong growth from its diverse mobile operations and will continue to pay an attractive dividend of over 5%, something to 'like'.

■ Clover - for mom

Although Clover is a relative newcomer to the JSE, the company has been around for 114 years. The business is transforming from a milk cooperative to a business focusing on higher value-added consumer products. While milk is still an important part of Clover, the capital raised in its recent listing has enabled the company to diversify into higher margin products and services. We expect a strong year ahead for Clover, with a healthy increase of over 30% in dividends.

■ Dipula – for your nephew

Dipula Income Fund Limited (Dipula) is a property loan stock company operating across SA. The fund has a dual unit structure: the A-units receive a preferential claim on income and 5% guaranteed growth until August 2017; the B-units receive all residual income generated by the assets. Management announced an acquisition that improves the portfolio's quality and increases income for investors. The B-unit returns promise to be mouth-watering if all goes well.

■ Ascension A - for granny

We think that we need to provide gran with some secure income. Ascension has a dual listed unit structure with the A-units designed to give a guaranteed 5% annual distribution growth to its unit holders. Of all the A-units, Ascension A's distribution has the highest cover ratio, estimated at 3.44 times for FY13; which makes it extra safe. At an initial forward yield of 9%, plus guaranteed 5% distribution growth until June 2018, granny can rest assured her daily needs will be met for the year ahead. Slip granny AIA units into her Xmas stocking!.

■ Iliad - for your workshop uncle

The uncle in the family is looking for value on the JSE by steering clear of high profile industrial counters. Among the out of favour stocks which have come to his attention is building material supplier Iliad Africa. At first glance, Iliad looks fully priced on a trailing PE basis, but uncle is not put off by historic metrics. He knows that recently reported operating margins are severely depressed and a margin recovery to 4% over the next three years is sufficient to unwind Iliad's forward PE to low single digits. Iliad is now rationalising its brands by rolling out its new single general building materials brand, Buco. Add to this margin recovery story the prospect of corporate action promised by JSE-listed Invicta Holdings in the building materials sector, and the market is likely to sharpen its pencil regarding the lowly R700m market cap accorded to Iliad. And while he waits, how about a 4.5% dividend yield to add to uncle's festive cheer!

■ Mpact – for your daughter-in-law

For your daughter-in-law we have chosen Mpact which is a packaging company that operates in SA, Mozambique, Namibia and Zimbabwe. It was demerged from Mondi in 2011 and is a leader in corrugated and carton board packaging; it specialises in recycling of cardboard packaging and paper, makes plastic (PET) beverage bottles and other packaging products. Mpact continues to focus on optimising its businesses and growing its market leading positions in Sub-Saharan Africa. Your daughter-in-law is a shopaholic and understands packaging is integral to almost every product she buys. Knowing that the SA (and African) consumer's buying power continues to rise, she realises an innovative company like Mpact is a likely beneficiary of this trend. Mpact is a company which has the ability to expand its markets while ensuring improving customer service and product innovation. The shares trade at more than 30% discount to their main competitor, Nampak, which we think is too large a valuation gap. With its defensive characteristics, drive to increase market penetration and solid balance sheet, this investment will give her more shopping options this time next year!

■ Bidvest - for prudent dad

We know dad is a bit risk averse and therefore Bidvest is the ideal share for him. Bidvest is a globally diversified company with broad interests in food businesses, freight operations and financial services – primarily banking, foreign exchange and corporate vehicle and asset leasing. The company has a highly regarded entrepreneurial management team led by Brian Joffe who started the company in 1988, and which has a market capitalisation of close to R70bn. We believe the company will continue to deliver steady earnings growth, earnings which are diversified and relatively defensive. In addition, the prospect of future corporate action by way of unbundling and a separate listing of the major components of the group remains a medium term possibility. This unbundling, we believe, would be value enhancing. So, this is a share that dad can safely tuck away and wait for the rewards.

■ *This article was prepared by Nedbank Private Wealth.*