



# Richard Cluver Predicts

In our 30th year of service to the investing public of South Africa



Volume: 30

08 December 2017

Issue: 36

**This is the last issue of Predicts until Friday January 19.**

**PLEASE ALSO NOTE THAT WE HAVE TERMINATED OUR 031 764 7845 PHONE LINE. CLIENTS SHOULD NOW ONLY USE OUR 031 940 0012 LINE.**

I cannot recall a time when South African share market investors were as jittery as this, understandably in the light of the Steinhoff affair this week which, in the absence of any effectively reassuring official statement from the company, has locals grasping at straws.

So, let me start by noting that while most active fund managers were happy to jump on board the Steinhoff band wagon, apparently without crunching the balance sheet numbers, because they bought the Christo Wiese magic, the company never entered ShareFinder's Blue Chip list.

The popular view was that, Wiese, South Africa's third wealthiest man and number 269 on the world's wealthiest list...before he lost R37-billion in one week, was so smart t5hat he would make money for everyone. And while the fun lasted he did! So, the first point to make is that there is NEVER any excuse for following the herd if you want to be a long-term winner on the share market.

Steinhoff managed to make half way up our Rising Stars list but with a graph that had been falling steadily in price for well over a year, it never looked a healthy situation; note my graph below. At its closing price of R10 last night and having touched R6 this morning compared with a peak price of R95.80 at the end of March 2016, the company has been a massive destroyer of investor's money.



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However, when the marketplace becomes infected with rumour and scandal, everyone gets tainted and one share that has been in the topmost sectors of the ShareFinder Quality List has been EOH about which we published a cautionary in October drawing readers' attention to a report by amaBhungwane linking the company to corruption. So far as we can determine, EOH remains a sound and, especially following the damage done to its price recently because of the report, a cheaply priced opportunity.

In that light FNB released the following report today:

*"The **EOH** share price has come under immense pressure in the last year (From R170 down to an intra-day low of R37.99 on 7 December). This has largely been on the back of rumors alleging to corrupt relationships/contracts between the company and certain Government related entities.*

*We have engaged with management as well as leveraged off other areas within FirstRand Group and have felt comfortable at this stage that there has been no endemic breakdown of corporate governance. Supporting this view, amaBhungwane retracted their original allegations in late October, resulting in a short relief rally to R110 a share. In our view, earnings have turned below expectations due to a tough macroeconomic environment and less appetite to utilise undervalued equity for continued acquisitions.*

*However, shortly thereafter further allegations surfaced relating to suspicious transactions between Keith Keating, the MD of Forensic Data Analysts and individuals with suspicious relationships with the former acting Police Commissioner, Khomotso Phahlane. Forensic Data Analysts is a company that was acquired by EOH in Nov 2015.*

*On 7 December, it was confirmed that the former acting Police Commissioner's houses were raided along with Keith Keating's house.*

*EOH management later issued a voluntary announcement stating that they have reached an agreement with the former shareholders of Grid Control Technologies(PTY), Forensic Data Analysts (PTY) and Investigative Software Solutions, to unwind the transaction effective 31 October 2017.*

*At a meeting with the EOH management team two weeks ago, the CFO took us through their investigation into the alleged irregular cash transfers between Keith Keating and the related conduit with the Police Commissioner. The CFO confirmed that they were comfortable that any payments between the two parties related to a personal purchase of a game farm and the running costs related to the game farm before transfer was completed.*

*It is our opinion that the accounting irregularities and implosion of the Steinhoff share has had a significant impact on the psyche of investors and that the large move in the share price on 7 December may be an expression of investor unease with any company that has questions (whether fair or not) around corporate governance issues.*

*From what we know at present, EOH is relatively inexpensive on a historic PE multiple of 5 times."*



EOH shares, as the graph above illustrates, are very significantly underpriced and investors might be tempted to take a punt at these levels. We would, however, urge you to be cautious because, although a rebound from a vastly oversold position is probable, it would be wise in this unsettled market to exercise a little patience. We are, after all, looking to an entire market re-valuation in the foreseeable future led by a grossly overpriced Wall Street where the market is today only a few points below its pre Dot Com bubble burst level. I publish the latest Cape Ratio graph on the right



## The next month:

**New York's SP500:** I correctly predicted a brief pull back which I expect to last until Wednesday before a run up to the end of December and then a January retraction.

**London's Footsie:** I correctly predicted a brief up-tick which could continue, but with much volatility, into the first week of January. But then it is down all the way!

**JSE Industrial Index:** I correctly predicted a weakening trend likely to bottom at the beginning of December and I still see gains from now into mid-January.

**Top 40 Index:** I correctly predicted things would go down-hill. Now I foresee a brief recovery starting which could run until the middle of January depending upon the outcome of the ANC elective conference. But if Cyril fails to get the nod then it will be downhill from then.

**ShareFinder Blue Chip Index:** I correctly predicted a down-trend. Now I see a recovery until Christmas and possibly the first week of January. But after that it is likely to be downwards until the middle of the year.

**Gold shares:** I correctly predicted a short-term decline. Now I see gains until Christmas and then it's down-hill until mid-year.

**Gold Bullion:** I correctly predicted the beginning of a decline and I see it continuing until mid-January whereafter a fairly sustained recovery could last until March.

**The Rand:** I correctly predicted a short-term very strong recovery but that is probably over until the end of the year. However fresh gains are possible in the New Year.

***The Predicts accuracy rate on a running average basis over the past 642 weeks has been 84.36%. For the past 12 months it has been 90.36%.***

**Richard Cluver**