Unit trusts

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The most popular smaller stocks

Which stocks are fund managers picking outside of the Top 40?

Orapa – Last week we looked at the most popular and least popular top 40 stocks amongst local fund managers. This analysis provided an interesting picture of how local unit trusts view the large cap sector of the local bourse.

But what about the rest of the JSE? Which mid- and small-cap stocks are in favour with local fund managers?

The below table lists the ten most popular stocks outside of the Top 40 by the number of local unit trusts that include them in their portfolios.

Share	Number of funds at 30 June 2012
Redefine Properties	127
Netcare	122
MMI Holdings	103
Capital Property Fund	103
Emira Property Fund	93
Coronation Fund Managers	89
Liberty Holdings	87
Hyprop Investments	85
Mr Price Group	85
Omnia Holdings	85

Source: ProfileData

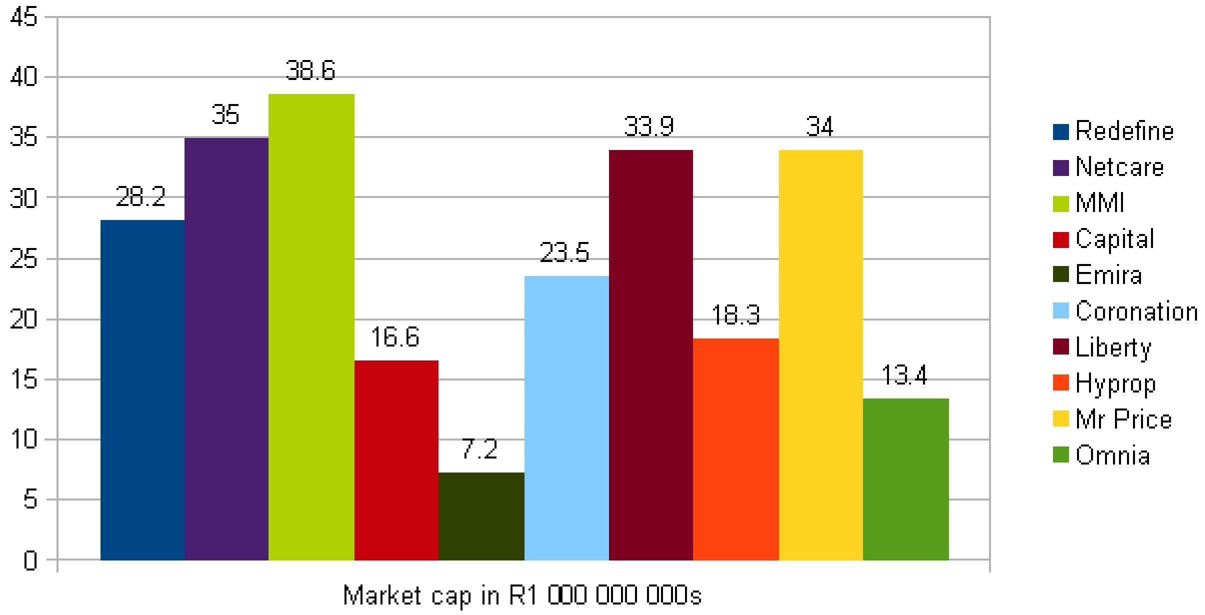
The first thing that stands out is that four of these counters are listed property stocks – Redefine, Capital, Emira and Hyprop. This is a similar story to last year, where three of the top ten were from the property sector. Then it was Redefine, Capital and Fountainhead.

After Growthpoint, which is part of the Top 40 and easily the biggest property stock on the JSE, Redefine, Capital and Hyprop are three of the next four largest local real estate counters. Resilient is the one missing from that list. For its part, Emira is less than half the size of Hyprop, but is nevertheless within the top 10.

This clear bias for listed property has persisted despite the sector's poor performance over the last six months. This could suggest that fund managers still value the high yield listed property is able to offer, particularly in a low interest rate environment.

The remaining six stocks on the list are all from different sectors, apart from the two insurers – MMI and Liberty. But while there is no obvious preference for a particular sector, it is apparent that these are all high quality businesses.

A look at their respective market capitalisations takes this argument further:



Source: ProfileData

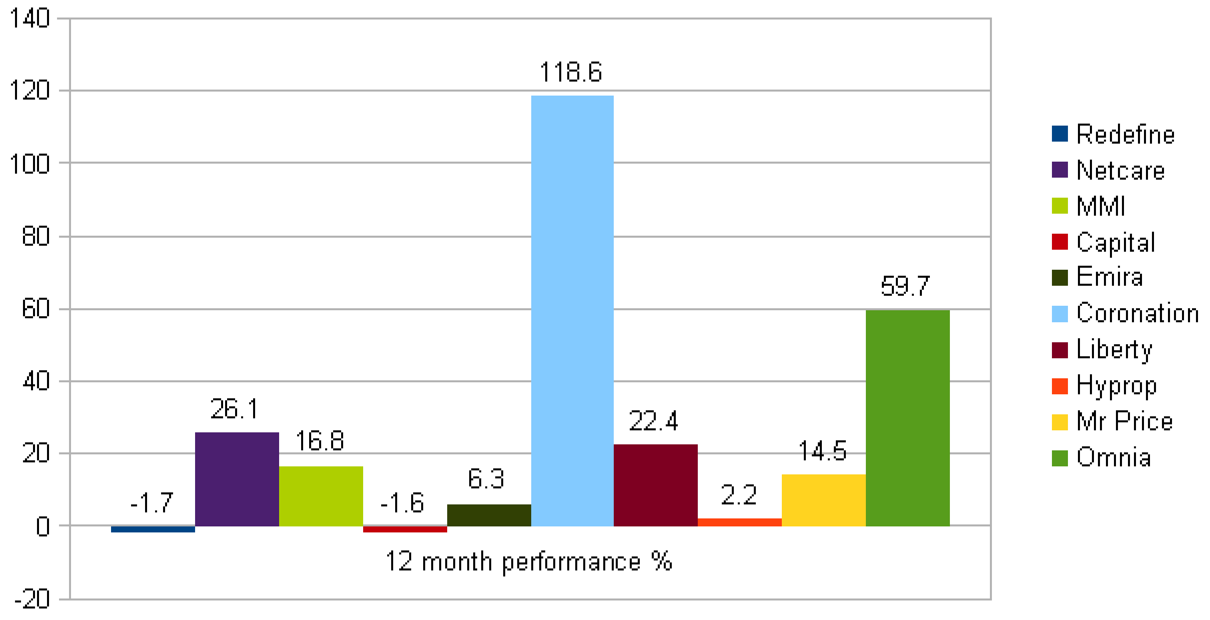
This appears to be a fair spread, but something does become clear when one scratches the surface a little. If one excludes the four property stocks, four of the remaining six businesses are at the very top of the mid-cap range.

MMI is only just outside the Top 40. Its market cap is currently more or less on par with the smallest of the Top 40 stocks, Massmart. Netcare, Mr Price and Liberty are also not that far shy of the large-cap sector.

That only leaves Coronation and Omnia as “smaller” companies.

As with the large-cap stocks discussed last week, fund managers appear to currently be showing a preference for well-established, high quality companies. In uncertain market conditions, this stability is highly sought after.

So where do Coronation and Omnia fit into this picture? The below graph, which illustrates the performance of these shares over the last year, answers that question:



Source: ProfileData

Coronation's performance has been one of the highlights of the JSE over the last two and a half years. Since the start of 2011, its share price has more than tripled.

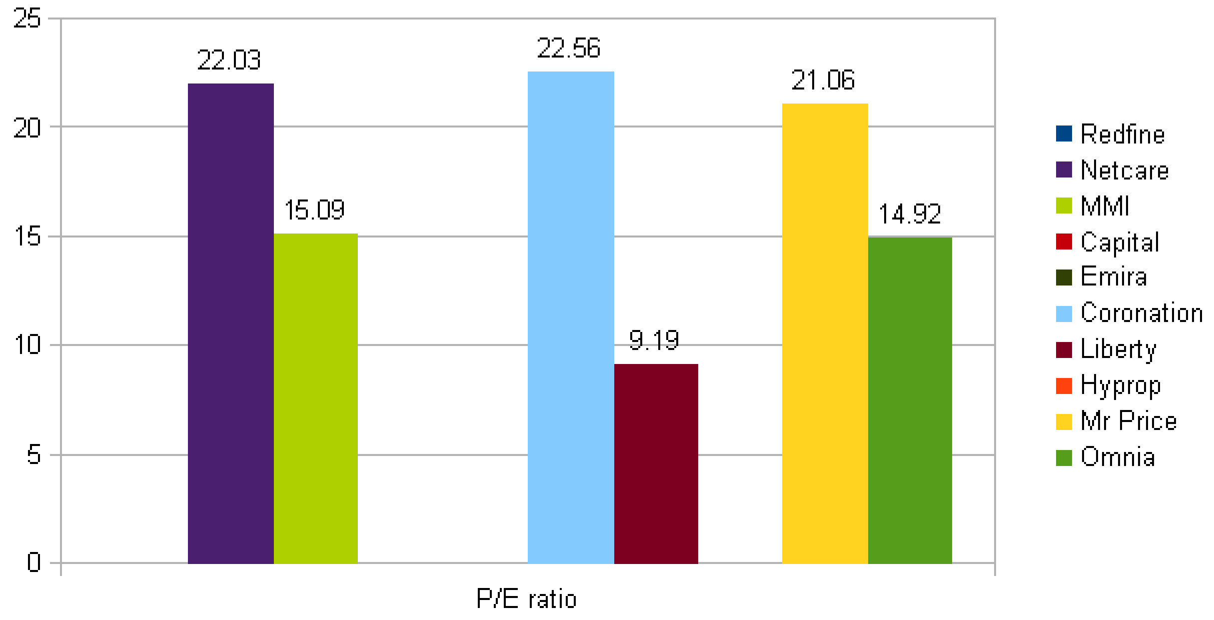
Omnia's run has not been quite as spectacular, but its share price has almost doubled over the same period.

So these have been two top-performing stocks and fund managers have not been oblivious to this.

For the others, the returns from Netcare and Liberty have been more than solid. MMI and Mr Price are not as prominent, but MMI has been a steady performer pretty much since it listed, and Mr Price did enjoy a remarkable run from 2009 until mid-2012 when nothing could hold it back. It has suffered a correction since then, but there is obviously still appetite for its particular business model.

Looking at the property stocks, the performances of all four have been subdued, which is in line with the sector's performance over the last 12 months. Emira has been the slight out-performer.

The P/E ratios of these counters are shown in the graph below:



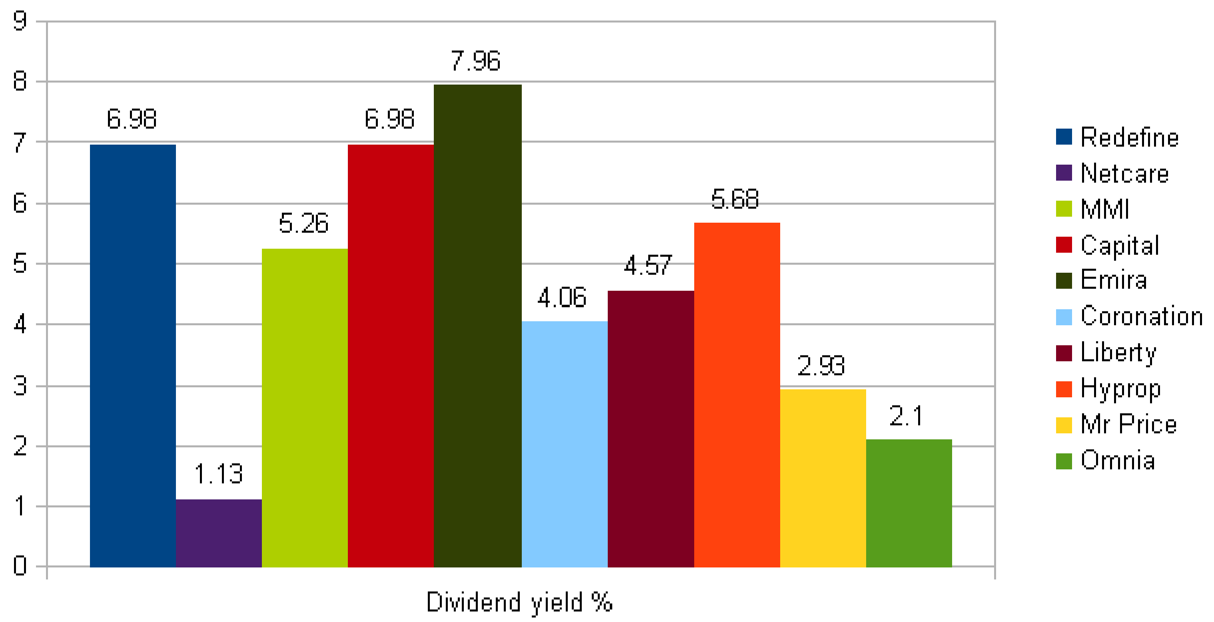
Source: ProfileData

The price-to-earnings ratios of the property stocks are excluded, as this is not a useful measure of their value.

In this company, Omnia doesn't look too steeply priced despite how well it has performed. Only Liberty is cheaper. MMI is also in a similar range.

Netcare, Coronation and Mr Price do however look quite expensive. These are however the sorts of prices investors have been willing to pay for quality companies in this market.

To conclude the picture, the below graph shows the yields on these ten counters:



Source: ProfileData

For the property stocks, the yield represented here is obviously not dividends, but distributions.

As one would expect, the four real estate counters are offering the most generous payouts, with Emira on top of that pile. Its high yield has central to its increased popularity in the last year.

MMI, Coronation and Liberty also all come in at yields of over 4%, which only reinforces their appeal.