THE BUSINESS UPDATE

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INVESTING IN THE WORLD'S TECH GIANTS

Tech companies like Amazon, Apple, Google and Facebook have changed the way we work, shop, live and play. Equity investors in South Africa tend to think they are limited to the few hundred shares trading on the JSE. In fact, they can invest in any share on any major exchange in the world.

The most alluring and obvious offshore investment options are the fast-growing big tech stocks such as Amazon, Apple, Alphabet (Google) and Facebook. As one of the only local options is to invest indirectly in Chinese internet group TenCent via Naspers.

These are all rapidly growing companies with inherently high margins.

The tech sector is hugely disruptive and it is important to understand the effect on other industries like retail. It may not be as evident in SA, but in the US, "the rate of store closure is phenomenal at the moment."

AMAZON

Share price $ 946.94
Price-to-earnings ratio: 178

Leading the charge is Amazon which in the fourth quarter to December increased revenue by 22% to $ 43.7bn while operating income grew 13%.

In just one example of its ability to innovate, it launched an Amazon Go store in Seattle, where there is no checkout, with sales taking place using the same types of technologies used in self-driving cars: computer vision, sensor fusion, and deep learning.

Finweek says, "What we really like is that it has the leading infrastructure for online delivery. With 95 warehouses in the US, delivery times are much shorter and delivery more reliable than competitors. It is such a superior experience and this is a multi-year lead that they have."

FACEBOOK

Share price $ 152.05
Price-to-earnings ratio: 46.6

Aside from its social media platform, Facebook also owns WhatsApp and Instagram. It reported a 57% rise in revenue to $ 27bn and a 177% rise in net income to $ 12.4bn in 2016. Daily active users increased 18% to 1.23bn people.

Facebook's entire business model is attention focused. The more attention, the more time users spend on the platform, the more ads they see and the more revenue Facebook generates, Talpert says.

Despite its already massive user base, it still has so many more potential users.

Founder Mark Zuckerberg has always maintained that the platform has evolved in line with the evolution of the internet: "Now video is the biggest thing, next could be virtual reality, or augmented reality, and each time Facebook becomes more engaging. "Talpert adds that there are a huge number of people who rely on some of its other platforms like WhatsApp, with some even running their businesses on it, which has yet to be monetised.

APPLE

Share price $145.86
Price-to-earnings ratio: 17.3

Apple reported revenue of $ 52.9bn for the March quarter, reflecting a year-on-year increase of 4.5%. CEO Tim Cook said the "strong quarter" saw continued robust demand for the iPhone 7 Plus.

"Apple has 300 engineers working on virtual reality and augmented reality, the resources it has committed to artificial intelligence are massive".

Apple has a base of 1bn phones - that is a powerful metric itself. Add things like the app store and subscription services and Apple has built a big 'ecosystem'. People who have bought into an ecosystem are less likely to switch to another brand. "In our view the potential for the Apple ecosystem to account for a much larger share of profits in the future via the Services division, which should drive a re-rating given the higher annuity nature of profits."

ALPHABET

Share price $ 920.67
Price-to-earnings ratio: -

Alphabet, which owns Google and YouTube, grew revenues by 22% in the fourth quarter of 2016 to over $ 21bn, and reported margins of 31% while still spending billions of dollars developing everything from self-driving cars and other artificial intelligence applications to researching a cure for ageing.

At the end of the last quarter, Alphabet had cash and marketable securities of $ 86.3bn.

Coronation's survey says there are still big opportunities to increase advertising spend. "People are spending a lot more time online but advertising hasn't quite caught up."

"Google is the dominant search platform, it owns the leading video platform, and advertising is becoming more targeted and measurable."

THIS AND THAT – SOME FACTS

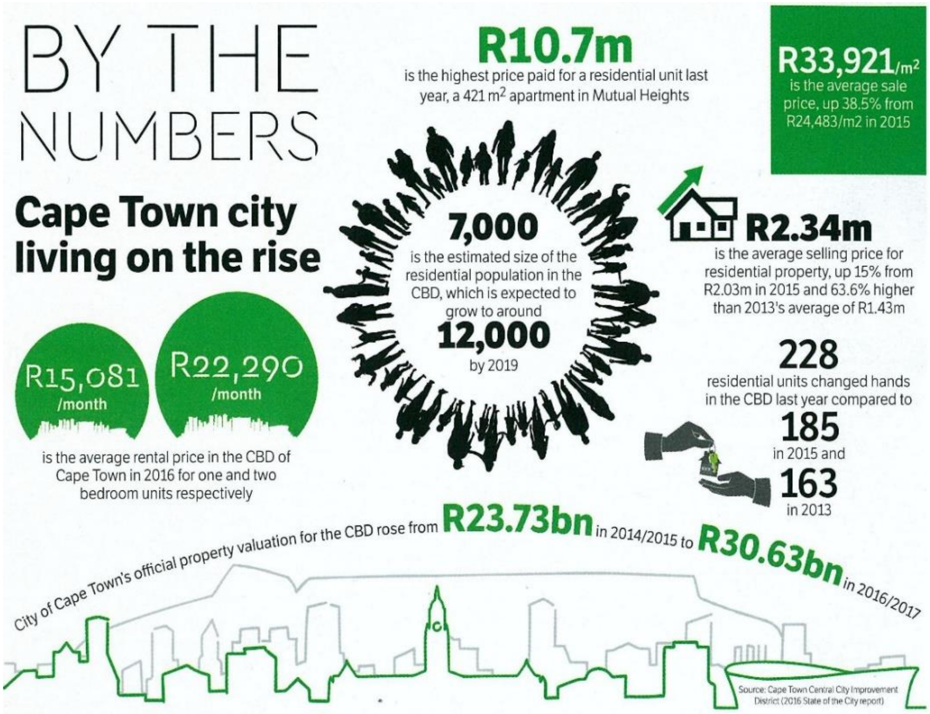
Investec South Africa are of the opinion that at some point the **S&P500** will have a move lower. Emerging markets look good long-term but are becoming a near-term crowded trade.

LONDON - A growing amount of unoccupied older properties caused the overall office vacancy rate to climb to 5.8 percent at the end of the first quarter from 3.9 percent a year earlier. That was the biggest increase since 2009. The amount of office space available to rent climbed 36 percent in 2016 and by a further 19 percent in the first quarter, **Deloitte** said in a published report.

U.S. RETAILERS – this is a situation that needs to be watched globally as retailers are more and more under threat by online competitors. This has also a big negative impact on retail space owners and ultimately for property funds and banks that finance the space.

TENCENT – BI comment today: China's internet titans are set to supply ample evidence that online spending continues to defy a slowdown in the world's second largest economy. **Tencent Holdings Ltd** and **Alibaba Group Holding Ltd**. -- the dominant forces in Chinese online gaming and shopping, respectively -- should both report 40 percent-plus sales growth when they deliver quarterly earnings this week, outstripping **Amazon.com Inc**. and **Alphabet Inc**.

CLICKS/DISCHEM – not a threat yet, but overnight **Amazon** said it considers entry into pharmacy business. Hired Mark Lyons from **Premera Blue Cross** in March to build internal pharmacy benefits for Amazon staff; may later be scaled out.



A recent seminar held in St. Francis Bay highlighted some important information on Estates and Wills. Pictured from left: Richard Arderne (Pam Golding Properties) Natalie Dillon (guest Speaker) and Gavin Harvey (PW Harvey & Co)

Exchange Traded Funds or ETFs are listed investment products that track the performance of a group or "basket" of Shares, Bonds or Commodities. These "baskets" are known as indices. An example of an index is the FTSE/JSE Top 40 Index. An ETF can be bought or sold in the same way as an Ordinary Share. Investors save time and money as ETFs enable an investor to invest in a variety of asset classes through a single listed investment product.

The purpose of an ETF is to match a market index, leading to a fund management style known as passive management. Passive management is the chief distinguishing feature of ETFs, and it brings several advantages for investors in index funds. Essentially, passive management means the fund manager makes only minor, periodic adjustments to keep the fund in line with its index.
For these reasons, ETFs mitigate the element of "managerial risk" that can make choosing the right fund difficult.
Because an ETF tracks an index without trying to outperform it, it incurs fewer administrative costs than actively managed portfolios. Typical ETF administrative costs are lower than an actively managed fund.

ETF shares trade exactly like stocks. Unlike index mutual funds, which are priced only after market closings, ETFs are priced and traded continuously throughout the trading day. They can be bought on margin, sold short, or held for the long-term, exactly like common stock. Yet because their value is based on an underlying index, ETFs enjoy the additional benefits of broader diversification than shares in single companies.

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