

FTX1005S

Group Investment Project



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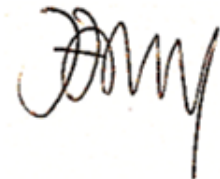
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September 26, 2023

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Chapter 1

Introduction

Investing in the stock market is a journey marked by both opportunities and challenges. It requires a keen understanding of financial markets, a strategic approach to risk, and a commitment to informed decision-making. In the world of finance, where fortunes can be made or lost in the blink of an eye, the ability to navigate these waters is a skill worth honing.

Stock trading, the backbone of financial markets, is the process of buying and selling shares of publicly traded companies. These shares represent ownership in a company, and their value can fluctuate based on a multitude of factors. Factors such as economic conditions, company performance, global events, and investor sentiment all play a role in influencing stock prices.

This report chronicles our investment journey, a simulated endeavor into the dynamic world of stock trading on the Johannesburg Securities Exchange (JSE). Armed with an initial endowment of R100,000, we embarked on a mission to not only grow our capital but also to gain valuable insights into the intricacies of stock market investing.

Our approach to this investment project was twofold: to craft a strategy that maximized returns while managing risks and to provide a comprehensive analysis of our investment decisions using financial ratios, risk and return evaluations, and portfolio management techniques.

In the following chapters we will delve into the rationale that underpinned our investment choices, tracing the trajectory of our portfolio's evolution. We will discuss the sectoral considerations, market conditions, and financial health of the companies that guided our decisions. Moreover, we will analyze the financial ratios to shed light on the performance of our best investments.

Ultimately, our aim was to not only maximize returns but also to gain a deeper understanding of the complexities of stock market investing. This report serves as a reflection of our journey, providing insights, lessons, and a comprehensive analysis of our investment decisions.

Chapter 2

Investment Decisions Overview

In crafting our investment strategy, our team employed a thoughtful and prudent approach with the goal of achieving diversification and mitigating unwarranted risks. The initial endowment of R100,000 bestowed upon us entailed both opportunities and responsibilities. Within this chapter, we shall elucidate the fundamental principles that guided our investment choices, shedding light on the rationale that underscored our allocation strategy.

We acknowledged the pivotal importance of diversification in our investment endeavor. Consequently, we made a conscious decision to allocate our accessible funds across multiple sectors within the Johannesburg Securities Exchange (JSE). Our reasoning behind this strategic choice was twofold: firstly, it aimed to cultivate a versatile portfolio capable of navigating the vicissitudes of the market, and secondly, it functioned as a bulwark against significant losses in the event of an adverse downturn in any single sector.

Nonetheless, we also made a deliberate determination to withhold a portion of our initial capital, totaling R31 600, in the form of an uninvested reserve. This financial reserve was earmarked to endow us with the agility to respond to unforeseen market developments, particularly during the formative phases of our investment journey.

In the forthcoming pages, we shall embark on a more in-depth exploration of our investment odyssey, illuminating the rationale underpinning our sectoral allocations, tracing the trajectory of our reserve strategy's evolution, and situating our investment decisions within the broader financial context.

2.1 Trades Made

2.1.1 Initial/1st Trade (01/08/2023)

As part of our initial trade on August 1, 2023, we carefully considered our investment choices and opted to diversify our portfolio by investing in three distinct stocks on the Johannesburg Securities Exchange (JSE). These choices were informed by an analysis of the market, sectoral prospects, and the financial health of the selected companies. Our investments included British American Tobacco PLC in the Tobacco sector, Shoprite Holdings Ltd. in the Food & Drug Retail sector, and Investec PLC in the Financial Services sector.

Why British American Tobacco PLC?

British American Tobacco (BAT) products, considered as 'staple goods,' historically exhibit stable demand during economic uncertainties, primarily due to their addictive nature. However, the evolving regulatory landscape in South Africa, driven by market disruptors like e-cigarettes, poses a significant challenge. The government's move to implement a flat excise duty rate on nicotine-substitute solutions, effective from June 1, 2023, reflects a shift towards taxing emerging smoking methods [1]. BAT and the Vapour Products Association have expressed concerns that this tax hike, potentially leading to a 138% price increase, might drive consumers towards the illicit market [2]. Furthermore, pending legislation, such as the Tobacco Products and Electronic Delivery Systems Control Bill, underscores the government's intent to tighten regulations on smoking and related industries, including e-cigarettes. These regulatory changes can impact BAT's stock price as investors assess how the evolving landscape might affect the company's revenue and market position.

Why Shoprite Holdings Ltd.?

Shoprite Holdings Ltd. presents an enticing investment opportunity in our portfolio due to several compelling factors. Africa's consumer spending is on a remarkable trajectory, poised to reach a staggering \$2.1 trillion by 2025 [3]. This surge in consumer activity bodes well for companies operating in the retail sector, and Shoprite stands as a prominent player in this arena.

Shoprite's long-standing and well-established brand image, coupled with its highly efficient supply chain, positions it favorably to capitalize on the impending increase in consumer spending [3]. Moreover, the company has demonstrated consistent revenue growth year after year, with noteworthy improvements in its Earnings Before Interest and Taxes (EBIT). This robust financial performance not only reflects a resilient business model but also signifies potential for further expansion and profit generation. In light of these factors, we consider Shoprite Holdings Ltd. to be an opportune buy at its current valuation.

Why Investec PLC?

Our decision to invest in Investec PLC is rooted in our strategic objective of fortifying our investment portfolio with stability and resilience. While the stock market is frequently influenced by various market forces and fluctuations, the financial sector, especially banking institutions, has demonstrated a noteworthy degree of resistance to macroeconomic volatility. Investec PLC, being a well-established financial institution, aligns perfectly with our pursuit of portfolio stability.

Historical trends have shown that bank stock prices tend to be less vulnerable to sudden market shifts compared to other industries, offering a dependable shield against the more volatile aspects of our portfolio. Furthermore, Investec PLC experienced a notable 16.1% decrease in its share price during March, followed by a gradual recovery. This price movement presents an enticing opportunity to capitalize on the stock's upward momentum.

2.1.2 2nd Trade (11/08/2023)

Over the past 10 days, we vigilantly monitored our portfolio and observed a gradual increase in the value of British American Tobacco shares. Recognizing an opportunity for strategic expansion and in

line with the project's emphasis on aggressive investing, we decided to allocate a portion of our reserve funds to purchase an additional 40 shares of British American Tobacco. This move not only aligns with our commitment to seizing promising opportunities but also underscores our intention to optimize portfolio growth. Following this transaction, we retained R6,843.09 in our reserve.

2.1.3 3rd Trade (21/08/2023)

Subsequent to our previous trade, Investec PLC experienced a notable decline in its share price, as evidenced by Figure 2.1. In response to this market movement, we made a strategic decision to sell half of our Investec PLC shares, generating total proceeds of R10,183.05. This action was aimed at safeguarding our portfolio against further losses. In hindsight, it might have been advantageous to hold onto these shares for an additional week to potentially recover more of our initial investment.



Figure 2.1: 3-month view of Investec PLC share price as taken on Sep 20, 2023

Simultaneously, we identified an upward trend in the share price of Anheuser-Busch InBev SA NV. This observation prompted us to allocate our proceeds from the sale of Investec PLC shares and our uninvested reserve into Anheuser-Busch InBev SA NV, a decision that would prove to be valuable, as demonstrated in Figure 2.2. Following this investment, we had invested R99,414.59 out of our initial R100,000 starting capital.



Figure 2.2: 3-month view of Anheuser-Busch InBev SA NV share price as taken on Sep 21, 2023

2.1.4 4th Trade (31/08/2023)

In the wake of our previous trade, we noticed that Shoprite Holdings Ltd. appeared to have reached a peak at around R263.83 per share. Taking a calculated risk, we decided to liquidate our entire holding in Shoprite Holdings Ltd., realizing a total of R22,161.72 and a gain of R430.92. These proceeds were added to our uninvested reserve, increasing it to R22,747.13. Figure 2.3 illustrates the peak in Shoprite's share price between August 21st and August 31st.



Figure 2.3: 3-month view of Shoprite Holdings Ltd. share price as taken on Sep 21, 2023

Our decision to sell Shoprite shares proved astute, as the company experienced a 7.4% decrease in its share price over the subsequent five days, followed by a continued decline.

2.1.5 5th Trade (11/09/2023)

With R22,747.13 available in our uninvested reserve, we made the strategic choice to allocate the entire reserve to our highest-performing share, British American Tobacco. Consequently, we acquired

an additional 35 shares of British American Tobacco, amounting to R22,120.29 in expenses. After this transaction, we had invested a total of R99,373.16 of our capital and proceeds, leaving R626.84 uninvested.

2.1.6 Final/6th Trade (19/09/2023)

To conclude our investment project and facilitate an accurate assessment of overall profitability, we opted to liquidate all our shares. As the investment period neared its end, Investec PLC exhibited a decline in value, while British American Tobacco reached a peak. Throughout the investment period, we invested a total of R99,373.16. After divesting all shares, we possessed R100,410.40, resulting in a total profit of R1,037.24, excluding our uninvested reserve of R626.84.

Chapter 3

Analysis of Excel Spreadsheet

| 1st Trade | | | | | | | | |
|------------|--------------------------|---------|-------------------|-------------------|-------------------------|-----------------|---------------|----------------------|
| | | | (D x 1%) | (D - E) | | (F / G) | (G x H) | |
| Date (D.M) | Name of company | Sector | Total investing | 1% Management fee | Total allowed to invest | Price per share | Number bought | Value of investments |
| 1.8 | Investec PLC | Banking | R22 113,25 | R221,13 | R21 892,12 | R112,25 | 195 | R21 888,75 |
| 1.8 | British American Tobacco | Tobacco | R24 297,20 | R242,97 | R24 054,23 | R607,43 | 40 | R24 297,20 |
| 1.8 | Shoprite Holdings Ltd. | Retail | R21 989,50 | R219,90 | R21 769,61 | R258,70 | 84 | R21 730,80 |
| | | | R68 399,95 | R684,00 | R67 715,95 | | | R67 916,75 |

Figure 3.1: Initial/1st Trade on 01/08/2023

In our initial trade on August 1, 2023, we diversified our portfolio by investing in three different stocks. We invested a total of R68399,95, allocating amounts to British American Tobacco, Shoprite Holdings Ltd., and Investec PLC. We retained R31,600.05 in our uninvested reserve. This trade marked the beginning of our investment journey.

| 2nd Trade | | | | | | | | | | | | | | | |
|------------------------------|--------------------------|---------|-------------------|-------------------|-------------------------|-----------------------------|---------------|----------------------|-------------|-----------------|---------------------|-------------|----------------|-------------|-------|
| Existing share investments | | | | | | | | | Shares Sold | | | | | | |
| Date (D.M) | Name of company | Sector | Total investing | 1% Management fee | Total allowed to invest | New Price per share on 11.8 | Number hold | Value of investments | Date (D.M) | Name of company | NEW price per share | Number sold | Total proceeds | Gain / Loss | |
| 11.8 | Investec PLC | Banking | | | | R114,33 | 195 | R22 294,35 | | | | | | | |
| 11.8 | British American Tobacco | Tobacco | | | | R611,41 | 40 | R24 456,40 | | | | | | | |
| 11.8 | Shoprite Holdings Ltd. | Retail | | | | R257,76 | 84 | R21 651,84 | | | | | | | |
| | | | | | | | | | | | | | R68 402,59 | R0,00 | R0,00 |
| New share investments bought | | | | | | | | | | | | | | | |
| Date (D.M) | Name of company | Sector | Total investing | 1% Management fee | Total allowed to invest | Price per share | Number bought | Value of investments | | | | | | | |
| 11.8 | British American Tobacco | Tobacco | R24 756,96 | R247,57 | R24 509,39 | R611,41 | 40 | R24 456,40 | | | | | | | |
| | | | R24 756,96 | R247,57 | R24 509,39 | | | R92 858,99 | | | | | | | |

Figure 3.2: 2nd Trade on 11/08/2023

During the 2nd trade on August 11, 2023, we invested a further R24,756.96 in British American Tobacco, allocating additional funds to this stock. After this trade, we retained R6,843.09 in our uninvested reserve.

In our 5th trade on September 11, 2023, we allocated our uninvested reserve of R22,747.13 to British American Tobacco PLC. This investment allowed us to acquire additional shares, amounting to R22,120.29 in expenses, leaving us with R626.84 uninvested.

| 6th Trade | | | | | | | | | | | | | | |
|----------------------------|-----------------|--------|-----------------|-------------------------------|------------------------------------|--|------------------------|---------------------------------|-------------|----------------------------|---------------------|-------------|---------------------------|-------------|
| Existing share investments | | | | | | | | | Shares Sold | | | | | |
| Date (D.M) | Name of company | Sector | Total investing | (D x 1%) 1% Management fee | (D - E) Total allowed to invest | (F / G) New Price per share on 19.9 | (G x H) Number hold | (G x H) Value of investments | Date (D.M) | Name of company | NEW price per share | Number sold | (L x M) Total proceeds | Gain / Loss |
| | | | | | | | | | 19.9 | Investec PLC | R105,59 | 100 | R10 559,00 | -R666,00 |
| | | | | | | | | | 19.9 | British American Tobacco | R639,32 | 115 | R73 521,80 | R3 667,35 |
| | | | | | | | | | 19.9 | Anheuser-Busch InBev SA NV | R1 088,64 | 15 | R16 329,60 | R315,90 |
| | | | | | | | | R0,00 | | | | | R100 410,40 | R3 317,25 |

Figure 3.6: Final/6th Trade on 19/09/2023

To conclude our investment project on September 19, 2023, we liquidated all our shares. After divesting all shares, we possessed R100,410.40, resulting in a total profit of R1,037.24, excluding our uninvested reserve of R626.84.

*Note: **R100,410.40** is the current value of our investments at the time of completing the investment portion of the project.*

Chapter 4

Financial Ratios of the Best Investments

In this section, we will analyze the financial ratios of our two best investments, British American Tobacco (BAT) and Shoprite Holdings Ltd. These ratios provide valuable insights into the financial performance and health of these companies.

The 2023 financial statements for BAT [4] can be found in Appendix A, and the 2023 financial statements for Shoprite Holdings Ltd. can be found in Appendix B [5].

4.1 Liquidity

The current ratio measures a company's ability to cover its short-term liabilities with its short-term assets. The acid test ratio, also known as the quick ratio, is a more stringent measure of liquidity that excludes inventory from current assets.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

4.1.1 British American Tobacco

| | June 2023 | June 2022 |
|---------------------------------|------------------|------------------|
| Current Assets (£m) | 15 092 | 14 709 |
| Current Liabilities (£m) | 16 191 | 16 726 |
| Current Ratio | 0.932 | 0.879 |
| Inventory (£m) | 5 634 | 5 952 |
| Acid test ratio | 0.584 | 0.524 |

Table 4.1: Current Ratio and Acid Test Ratio for British American Tobacco

4.1.2 Shoprite Holdings Ltd.

| | July 2023 | July 2022 |
|--------------------------|--------------|--------------|
| Current Assets (Rm) | 47 871 | 39 673 |
| Current Liabilities (Rm) | 37 416 | 32 488 |
| Current Ratio | 1.279 | 1.221 |
| Inventory (Rm) | 25 090 | 21 879 |
| Acid test ratio | 0.609 | 0.548 |

Table 4.2: Current Ratio and Acid Test Ratio for Shoprite Holdings Ltd.

4.2 Asset Management

Return on Assets after Tax (ROA) measures a company's ability to generate profits from its assets. It is calculated as follows:

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

4.2.1 British American Tobacco

| | June 2023 | June 2022 |
|-----------------------------|--------------|--------------|
| Net Income (£m) | 3 375 | 3 221 |
| Total Assets (£m) | 146 072 | 151 871 |
| Return on Assets (%) | 2.311 | 2.121 |

Table 4.3: Return on Assets after Tax (ROA) for British American Tobacco

Note:

- *In the 'Group Cash Flow Statement' for BAT in Appendix A, net income is labelled 'Net cash generated from operating activities.'*

4.2.2 Shoprite Holdings Ltd.

| | July 2023 | July 2022 |
|-----------------------------|--------------|--------------|
| Net Income (Rm) | 5 901 | 5 740 |
| Total Assets (Rm) | 102 356 | 91 455 |
| Return on Assets (%) | 5.765 | 6.276 |

Table 4.4: Return on Assets after Tax (ROA) for Shoprite Holdings Ltd.

Note:

- In the ‘Condensed consolidated statement of comprehensive income’ for Shoprite Holdings Ltd. in Appendix B, Net income is labelled ‘Profit for the year.’

4.3 Debt (Leverage)

The debt to equity ratio indicates the proportion of a company’s financing that comes from debt compared to equity.

$$\text{Debt to Equity Ratio} = \frac{\text{Long term liabilities (Interest bearing liabilities)}}{\text{Ordinary shareholder's equity}} \times 100\%$$

4.3.1 British American Tobacco

| | June 2023 | June 2022 |
|------------------------------------|---------------|---------------|
| Long term liabilities (£m) | 37 140 | 39 724 |
| Ordinary shareholder’s equity (£m) | 70 613 | 72 070 |
| Debt to Equity Ratio (%) | 52.597 | 55.119 |

Table 4.5: Debt to Equity Ratio for British American Tobacco

Note:

- In the ‘Group Balance Sheet’ for BAT in Appendix A, Ordinary shareholder’s equity is labelled ‘Owners of the parent’, and Long term liabilities is labelled ‘Borrowings.’

4.3.2 Shoprite Holdings Ltd.

| | July 2023 | July 2022 |
|------------------------------------|---------------|---------------|
| Long term liabilities (Rm) | 5 770 | 4 500 |
| Ordinary shareholder’s equity (Rm) | 26 130 | 25 484 |
| Debt to Equity Ratio (%) | 22.082 | 17.658 |

Table 4.6: Debt to Equity Ratio for Shoprite Holdings Ltd.

Note:

- In the ‘Condensed consolidated statement of financial position’ for Shoprite Holdings Ltd. in Appendix B, Ordinary shareholder’s equity is labelled ‘Capital and reserves attributable to owners of the parent’, and Long term liabilities is labelled ‘Borrowings.’

4.4 Profitability

Return on Equity (ROE) measures a company's profitability and how efficiently it generates its profit by comparing its net income to shareholder's equity.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100\%$$

4.4.1 British American Tobacco

| | June 2023 | June 2022 |
|-----------------------------------|------------------|------------------|
| Net income (£m) | 3 375 | 3 221 |
| Shareholder's equity (£m) | 70 613 | 72 070 |
| Return on Equity Ratio (%) | 4.780 | 4.469 |

Table 4.7: Return on Equity (ROE) for British American Tobacco

Note:

- *In the 'Group Balance Sheet' for BAT in Appendix A, Shareholder's equity is labelled 'Owners of the parent.'*
- *In the 'Group Cash Flow Statement' for BAT in Appendix A, net income is labelled 'Net cash generated from operating activities.'*

Net profit after tax is the company's profit after all expenses, including taxes, have been deducted.

$$\text{Net Profit after Tax} = \text{Net Income}$$

This can be found in Table 4.3 in subsection 4.2.1 and Table 4.7 above.

4.4.2 Shoprite Holdings Ltd.

| | July 2023 | July 2022 |
|-----------------------------------|------------------|------------------|
| Net income (Rm) | 5 901 | 5 740 |
| Shareholder's equity (Rm) | 26 130 | 25 484 |
| Return on Equity Ratio (%) | 22.583 | 22.524 |

Table 4.8: Return on Equity (ROE) for Shoprite Holdings Ltd.

Note:

- *In the ‘Condensed consolidated statement of financial position’ for Shoprite Holdings Ltd. in Appendix B, Shareholder’s equity is labelled ‘Capital and reserves attributable to owners of the parent.’*
- *In the ‘Condensed consolidated statement of comprehensive income’ for Shoprite Holdings Ltd. in Appendix B, Net income is labelled ‘Profit for the year.’*

Net profit after tax is the company’s profit after all expenses, including taxes, have been deducted.

$$\text{Net Profit after Tax} = \text{Net Income}$$

This can be found in Table 4.4 in subsection 4.2.2 and Table 4.8 above.

4.5 Market Performance

The Price Earnings (PE) Ratio compares a company’s stock price to its earnings per share (EPS) and indicates whether a stock is overvalued or undervalued.

$$\text{PE Ratio} = \frac{\text{Market price of share at specific date}}{\text{Earnings Per Share (EPS)}}$$

4.5.1 British American Tobacco

| | June 2023 | June 2022 |
|-----------------------|---------------|---------------|
| Share price (£) | 26.2 | 36.0 |
| Earning per share (£) | 1.77 | 0.81 |
| Price Earnings | 14.802 | 44.444 |

Table 4.9: Price Earnings (PE) Ratio for British American Tobacco

4.5.2 Shoprite Holdings Ltd.

| | July 2023 | July 2022 |
|-----------------------|---------------|---------------|
| Share price (R) | 226.23 | 199.0 |
| Earning per share (R) | 10.843 | 10.483 |
| Price Earnings | 20.864 | 18.983 |

Table 4.10: Price Earnings (PE) Ratio for Shoprite Holdings Ltd.

Chapter 5

Written Report on the Best Investments

5.1 British American Tobacco

British American Tobacco (BAT) is a global tobacco company with a presence in approximately 180 countries [6]. It is one of the world's largest tobacco companies, manufacturing and selling a wide range of tobacco and nicotine products, including cigarettes, smokeless tobacco, and e-cigarettes. In this section we will discuss our investment in BAT.

5.1.1 Investment Decision

Our investment in British American Tobacco (BAT) was a strategic move executed in three stages. It commenced on the 1st of August 2023 when we initiated our investment by purchasing 40 shares of BAT at a price of R607.43, amounting to R24,297.20. Recognizing an opportune moment, we expanded our holdings on the 11th of August 2023, adding another 40 shares at R611.41 per share. The final acquisition took place on the 11th of September 2023, where we purchased an additional 35 shares of BAT at R625.75 per share. This phased approach allowed us to strategically build our position in BAT over time.

Our investment decision was substantially influenced by a meticulous analysis of BAT's historical share price trends. Notably, BAT's share price had recently experienced a local minima, dropping to R594.39, its lowest point in over a year. This moment presented a compelling entry opportunity. As we closely monitored the market, it became evident that BAT's share price was on an upward trajectory, steadily recovering from its low. Our confidence in the stock continued to grow as the share price exhibited consistent positive momentum.

The culmination of this upward trend occurred on the 19th of September 2023 when BAT's share price reached its peak. At this juncture, we made the strategic decision to divest all 115 shares we held, capitalizing on the favorable market conditions. This divestment translated into a significant profit of R3,667.35, underscoring the success of our investment strategy. Our decision to carefully monitor and capitalize on the share price trend allowed us to maximize returns on our investment in BAT.

5.1.2 Financial Ratios

Financial ratios serve as crucial indicators of a company's financial health and performance. In our analysis of BAT, we considered several key ratios:

1. **Current Ratio:** As of June 2023, BAT's current ratio stood at 0.932:1. This ratio signifies

the company's ability to meet its short-term obligations with its current assets. A current ratio above 1 indicates the company's capacity to cover its short-term liabilities fully. Compared to the previous year's current ratio of 0.879:1, this improvement suggests that BAT's liquidity position has strengthened.

2. **Acid-Test Ratio:** In June 2023, BAT's acid-test ratio was 0.584. Notably lower than the current ratio, this is due in part to the tobacco industry's inventory challenges, which arise from regulatory constraints, taxation, and the limited shelf life of tobacco products.
3. **Return on Assets (ROA):** BAT's ROA for June 2023 was 2.311%. ROA measures a company's ability to generate profit from its assets. This indicates that BAT generated a 2.311% return on its total assets during that period. While it showed a slight increase from the previous year's 2.121%, it suggests that BAT's asset utilization improved.
4. **Debt to Equity Ratio:** The debt to equity ratio as of June 2023 was 52.597%. This indicates a moderate reliance on debt for funding, which is generally manageable. High debt levels can pose risks, but BAT's ratio suggests a balanced capital structure.
5. **Return on Equity (ROE):** BAT's ROE for June 2023 was 4.780%. ROE evaluates a company's profitability in relation to its shareholders' equity. The slight increase from the previous year's 4.469% indicates that BAT delivered a higher return to its shareholders in the given period.
6. **Price Earning Ratio (P/E):** The P/E ratio for BAT was 14.802, showing a significant decrease from 44.444 in the previous year. This ratio reflects the market's expectations for a company's future earnings growth. The decline in P/E suggests that the market may have revised its expectations downward, potentially indicating a lower valuation or decreased growth prospects.

5.1.3 Conclusion

Our investment decision in British American Tobacco was based on a comprehensive evaluation of the company's financial health, historical share price performance, and market conditions. Our analysis of BAT's financial ratios, including liquidity, profitability, and leverage, indicated a positive overall financial outlook. Furthermore, the observed upward trend in BAT's share price in conjunction with improving financial metrics supported our decision to invest. Ultimately, this investment strategy resulted in a profitable outcome.

5.2 Shoprite Holdings Ltd.

Shoprite Holdings Ltd. is a leading retail group based in South Africa, with operations spanning across 15 countries in Africa and the Indian Ocean Islands [7]. It is one of the largest retail chains in Africa, specializing in grocery and general merchandise retail. In this section, we will discuss our investment in Shoprite Holdings Ltd.

5.2.1 Investment Decision

Our investment strategy for Shoprite Holdings Ltd. involved a two-stage process, closely tied to our analysis of the company's share price trends. Initially, on the 1st of August 2023, we initiated our

investment by purchasing 84 shares of Shoprite Holdings Ltd., amounting to R21,989.50, at a share price of R258.70. This decision was motivated by our observation of the company's historical share price stability and a modest upward trend over the past year.

As we closely monitored the share price, we became concerned that it had reached a peak. Consequently, on the 31st of August 2023, we made the decision to sell all 84 shares. Our theory was later confirmed when the share price dropped significantly over the next week. This well-timed sale realized a profit of R430.92.

Our investment decision, therefore, was a result of both our initial analysis of the share price trends and our ability to react to market conditions, ultimately resulting in a profitable outcome.

5.2.2 Financial Ratios

Financial ratios play a crucial role in assessing a company's financial health and performance. In our analysis of Shoprite Holdings Ltd., we considered several key ratios:

1. **Current Ratio:** As of June 2023, Shoprite Holdings Ltd.'s current ratio stood at 1.279:1. This ratio indicates the company's ability to meet its short-term obligations with its current assets. A current ratio above 1 signifies a healthy liquidity position, and Shoprite's ratio reflects its capability to cover short-term liabilities comfortably. This indicates that the company is well-positioned to meet its immediate financial obligations.
2. **Acid-Test Ratio:** In June 2023, Shoprite Holdings Ltd.'s acid-test ratio was 0.609, which is less than half the current ratio. This indicates that a significant portion of the company's current assets consists of inventory, which is typical in the retail industry. This acid-test ratio highlights that inventory plays a substantial role in the company's current asset composition.
3. **Return on Assets (ROA):** Shoprite Holdings Ltd.'s ROA for June 2023 was 5.765%. This metric measures the company's ability to generate profit from its assets, and an ROA of 5.765% suggests efficient asset utilization. Compared to the previous year's 6.276%, this slight decrease may indicate a marginally less efficient use of assets in the current period.
4. **Debt to Equity Ratio:** The debt to equity ratio as of June 2023 was 22.082%, indicating a relatively low reliance on debt for funding. This conservative capital structure is favorable as it reduces financial risk. Compared to the previous year's 17.658%, this increase in the ratio may signify a slightly higher reliance on debt for financing in the current period.
5. **Return on Equity (ROE):** Shoprite Holdings Ltd.'s ROE for June 2023 was 22.583%, indicating a solid return for shareholders. In comparison to the previous year's 22.524%, this negligible increase suggests that the company has continued to provide a favorable return to its equity investors.
6. **Price Earnings Ratio (P/E):** The P/E ratio for Shoprite Holdings Ltd. was 20.864, which reflects the market's expectations for future earnings growth. In comparison to the previous year's P/E ratio of 17.983, the current ratio indicates that the market may have higher expectations for the company's future earnings growth.

5.2.3 Conclusion

Our investment decision in Shoprite Holdings Ltd. was based on a comprehensive evaluation of the company's financial health, historical share price performance, and market conditions. The analysis of key financial ratios, including liquidity, profitability, and leverage, indicated a positive overall financial outlook for the company. Additionally, the stability and modest growth observed in Shoprite Holdings Ltd.'s share price, coupled with its strong position in the African retail sector, supported our decision to invest. We anticipate continued growth and profitability in this investment.

Chapter 6

Conclusion

The investment decisions made in this project were guided by careful analysis and strategic thinking. We aimed to maximize returns while managing risks, and the outcome of our investment journey reflects our commitment to these principles.

Our investment strategy was characterized by diversification, with investments made across multiple sectors within the Johannesburg Securities Exchange (JSE). This approach allowed us to spread our risk and benefit from potential opportunities in different industries. Additionally, we maintained an uninvested reserve to adapt to unforeseen market developments, demonstrating our agility in responding to changing circumstances.

In our initial trade, we invested in British American Tobacco PLC, Shoprite Holdings Ltd., and Investec PLC. Each of these investments was grounded in a thorough analysis of market conditions, sectoral prospects, and the financial health of the selected companies. For example, our decision to invest in British American Tobacco was influenced by its historical stability, while our investment in Shoprite was based on the growing consumer spending in Africa.

We then made subsequent trades based on market dynamics and the performance of our existing holdings. We strategically expanded our positions in promising stocks, such as British American Tobacco, and made timely decisions to divest from stocks that had reached their peak, like Shoprite Holdings Ltd.

The financial ratios we calculated provided valuable insights into the companies we invested in. For British American Tobacco, we noted improving liquidity and profitability. Shoprite Holdings Ltd. demonstrated a strong current ratio and efficient asset utilization.

In conclusion, our investment journey was marked by a thoughtful approach to risk and reward. We used financial analysis, sectoral considerations, and market trends to inform our decisions. As a result, we achieved a profitable outcome, with our investments generating a total profit of R1,037.24, excluding our uninvested reserve. This project has deepened our understanding of investment strategies, financial ratios, and market dynamics, providing valuable lessons for future investment endeavors.

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Appendices

A. British American Tobacco Financial Statements

Interim Financial Statements (unaudited)

Group Income Statement

| | Six months ended 30 June | | Year ended 31 December |
|---|-----------------------------|---------|---------------------------|
| | 2023 | 2022 | 2022 |
| | £m | £m | £m |
| Revenue¹ | 13,441 | 12,869 | 27,655 |
| Raw materials and consumables used | (2,251) | (2,250) | (4,781) |
| Changes in inventories of finished goods and work in progress | 7 | 97 | 227 |
| Employee benefit costs | (1,389) | (1,329) | (2,972) |
| Depreciation, amortisation and impairment costs | (480) | (659) | (1,305) |
| Other operating income | 239 | 42 | 722 |
| Loss on reclassification from amortised cost to fair value | (3) | (1) | (5) |
| Other operating expenses | (3,629) | (5,091) | (9,018) |
| Profit from operations | 5,935 | 3,678 | 10,523 |
| Net finance costs | (921) | (817) | (1,641) |
| Share of post-tax results of associates and joint ventures | 289 | 200 | 442 |
| Profit before taxation | 5,303 | 3,061 | 9,324 |
| Taxation on ordinary activities | (1,268) | (1,123) | (2,478) |
| Profit for the period | 4,035 | 1,938 | 6,846 |
| Attributable to: | | | |
| Owners of the parent | 3,959 | 1,859 | 6,666 |
| Non-controlling interests | 76 | 79 | 180 |
| | 4,035 | 1,938 | 6,846 |
| Earnings per share | | | |
| Basic | 176.6p | 81.2p | 293.3p |
| Diluted | 176.0p | 80.8p | 291.9p |

All of the activities during both years are in respect of continuing operations.

The accompanying notes on pages 28 to 42 form an integral part of this condensed consolidated financial information.

1. Revenue is net of duty, excise and other taxes of £18,721 million and £18,190 million for the six months ended 30 June 2023 and 30 June 2022, respectively, and £38,527 million for the year ended 31 December 2022.

Figure 1: Group Income Statement for British American Tobacco

Interim Financial Statements (unaudited)

Continued

Group Cash Flow Statement

| | Six months ended 30 June | | Year ended 31 December |
|--|-----------------------------|----------------|---------------------------|
| | 2023 | 2022 | 2022 |
| | £m | £m | £m |
| Cash flows from operating activities | | | |
| Cash generated from operating activities (page 33) | 4,522 | 4,330 | 12,537 |
| Dividends received from associates | 202 | 171 | 394 |
| Tax paid | (1,349) | (1,280) | (2,537) |
| Net cash generated from operating activities | 3,375 | 3,221 | 10,394 |
| Cash flows from investing activities | | | |
| Interest received | 78 | 28 | 85 |
| Purchases of property, plant and equipment | (110) | (99) | (523) |
| Proceeds on disposal of property, plant and equipment | 22 | 13 | 31 |
| Purchases of intangibles | (21) | (52) | (133) |
| Proceeds on disposal of intangibles | — | — | 3 |
| Purchases of investments | (433) | (174) | (257) |
| Proceeds on disposals of investments | 543 | 81 | 128 |
| Investment in associates and acquisitions of other subsidiaries net of cash acquired | (38) | (5) | (39) |
| Net cash generated from/(used in) investing activities | 41 | (208) | (705) |
| Cash flows from financing activities | | | |
| Interest paid on borrowings and financing related activities | (855) | (746) | (1,578) |
| Interest element of lease liabilities | (14) | (11) | (25) |
| Capital element on lease liabilities | (80) | (71) | (161) |
| Proceeds from increases in and new borrowings | 2,054 | 3,162 | 3,267 |
| Reductions in and repayments of borrowings | (1,050) | (1,087) | (3,044) |
| (Outflows)/inflows relating to derivative financial instruments | (429) | 253 | (117) |
| Purchases of own shares - share buy-back programme | — | (1,256) | (2,012) |
| Purchases of own shares held in employee share ownership trusts | (110) | (80) | (80) |
| Coupon paid on perpetual hybrid bonds | — | — | (60) |
| Dividends paid to owners of the parent | (2,479) | (2,476) | (4,915) |
| Capital injection from and purchases of non-controlling interests | — | (1) | (1) |
| Dividends paid to non-controlling interests | (59) | (80) | (158) |
| Other | (1) | 4 | 6 |
| Net cash used in financing activities | (3,023) | (2,389) | (8,878) |
| Net cash flows generated from operating, investing and financing activities | 393 | 624 | 811 |
| Transferred from/(to) held-for-sale | 4 | (240) | (368) |
| Differences on exchange | (171) | 371 | 431 |
| Increase in net cash and cash equivalents in the year | 226 | 755 | 874 |
| Net cash and cash equivalents at 1 January | 3,337 | 2,463 | 2,463 |
| Net cash and cash equivalents at period end | 3,563 | 3,218 | 3,337 |
| Cash and cash equivalents per balance sheet | 3,681 | 3,568 | 3,446 |
| Overdrafts and accrued interest | (118) | (350) | (109) |
| Net cash and cash equivalents at period end | 3,563 | 3,218 | 3,337 |

The accompanying notes on pages 28 to 42 form an integral part of this condensed consolidated financial information. The net cash flows relating to the adjusting items within profit from operations on pages 29 to 31, included in the above, are an inflow of £56 million (30 June 2022: £155 million outflow; 31 December 2022: £466 million outflow).

Figure 2: Group Cash Flow Statement for British American Tobacco

Interim Financial Statements (unaudited)

Continued

Group Balance Sheet

| | As at 30 June | | As at 31 December |
|--|----------------|----------------|-------------------|
| | 2023 | 2022 | 2022 |
| | £m | £m | £m |
| Assets | | | |
| Intangible assets | 122,126 | 128,026 | 129,075 |
| Property, plant and equipment | 4,521 | 4,728 | 4,867 |
| Investments in associates and joint ventures | 2,061 | 2,055 | 2,020 |
| Retirement benefit assets | 1,027 | 1,219 | 1,000 |
| Deferred tax assets | 720 | 619 | 682 |
| Trade and other receivables | 284 | 224 | 241 |
| Investments held at fair value | 111 | 55 | 121 |
| Derivative financial instruments | 130 | 236 | 131 |
| Total non-current assets | 130,980 | 137,162 | 138,137 |
| Inventories | 5,634 | 5,952 | 5,671 |
| Income tax receivable | 160 | 145 | 149 |
| Trade and other receivables | 4,219 | 3,649 | 4,367 |
| Investments held at fair value | 451 | 571 | 579 |
| Derivative financial instruments | 413 | 270 | 430 |
| Cash and cash equivalents | 3,681 | 3,568 | 3,446 |
| | 14,558 | 14,155 | 14,642 |
| Assets classified as held-for-sale | 534 | 554 | 767 |
| Total current assets | 15,092 | 14,709 | 15,409 |
| Total assets | 146,072 | 151,871 | 153,546 |
| Equity – capital and reserves | | | |
| Share capital | 614 | 614 | 614 |
| Share premium, capital redemption and merger reserves | 26,629 | 26,627 | 26,628 |
| Other reserves | (1,721) | 2,329 | 2,655 |
| Retained earnings | 45,591 | 42,558 | 44,081 |
| In respect of assets held-for-sale | (500) | (58) | (295) |
| Owners of the parent | 70,613 | 72,070 | 73,683 |
| Perpetual hybrid bonds | 1,685 | 1,685 | 1,685 |
| Non-controlling interests | 330 | 314 | 342 |
| Total equity | 72,628 | 74,069 | 75,710 |
| Liabilities | | | |
| Borrowings | 37,140 | 39,724 | 38,726 |
| Retirement benefit liabilities | 881 | 1,108 | 949 |
| Deferred tax liabilities | 17,389 | 18,361 | 18,428 |
| Other provisions for liabilities | 469 | 418 | 434 |
| Trade and other payables | 944 | 998 | 944 |
| Derivative financial instruments | 430 | 467 | 502 |
| Total non-current liabilities | 57,253 | 61,076 | 59,983 |
| Borrowings | 5,029 | 5,151 | 4,413 |
| Income tax payable | 905 | 888 | 1,049 |
| Other provisions for liabilities | 483 | 863 | 1,087 |
| Trade and other payables | 9,217 | 8,823 | 10,449 |
| Derivative financial instruments | 251 | 462 | 427 |
| | 15,885 | 16,187 | 17,425 |
| Liabilities associated with assets classified as held-for-sale | 306 | 539 | 428 |
| Total current liabilities | 16,191 | 16,726 | 17,853 |
| Total equity and liabilities | 146,072 | 151,871 | 153,546 |

The accompanying notes on pages 28 to 42 form an integral part of this condensed consolidated financial information.

Figure 3: Group Balance Statement for British American Tobacco

B. Shoprite Holdings Ltd. Financial Statements

16  SHOPRITE HOLDINGS LTD Reviewed results for the 52 weeks ended 2 July 2023

Condensed consolidated statement of comprehensive income

| | Notes | Change % | Reviewed 52 weeks 2023 Rm | Restated* audited 52 weeks 2022 Rm |
|---|-------|----------|------------------------------------|--|
| Revenue | 5 | 17.1 | 219 530 | 187 528 |
| Sale of merchandise | 5 | 16.9 | 214 856 | 183 868 |
| Cost of sales | | 17.6 | (163 250) | (138 846) |
| Gross profit | | 14.8 | 51 706 | 45 022 |
| Other operating income | 5 | 25.4 | 3 809 | 3 116 |
| Interest revenue | 5 | 22.2 | 665 | 544 |
| Share of profit of equity accounted investments | 12 | 20.7 | 251 | 208 |
| Depreciation and amortisation | | 17.1 | (5 306) | (5 384) |
| Employee benefits | | 15.3 | (17 027) | (14 767) |
| Credit impairment losses | | | (264) | (173) |
| Other operating expenses | | 21.6 | (21 019) | (17 289) |
| Trading profit | | 5.7 | 11 916 | 11 278 |
| Exchange rate gains/(losses) | | | 384 | (260) |
| Profit on lease modifications and terminations | | | 60 | 66 |
| Items of a capital nature | | | (16) | (29) |
| Operating profit | | 11.7 | 12 344 | 11 055 |
| Interest received from bank account balances | | | 453 | 270 |
| Finance costs | 6 | 22.5 | (3 665) | (2 983) |
| Profit before income tax | | | 9 132 | 8 332 |
| Income tax expense | | 10.1 | (2 812) | (2 553) |
| Profit from continuing operations | | 9.4 | 6 320 | 5 779 |
| Loss from discontinued operations (attributable to owners of the parent) | 7 | | (419) | (39) |
| Profit for the year | | 2.8 | 5 901 | 5 740 |
| Other comprehensive (loss)/income, net of income tax | | | (1 847) | 2 879 |
| Items that will not be reclassified to profit or loss | | | | |
| Re-measurements of post-employment medical benefit obligations | | | 2 | 2 |
| Items that may subsequently be reclassified to profit or loss | | | | |
| Foreign currency translation differences from continuing operations | | | (1 719) | 2 845 |
| Foreign currency translation differences from discontinued operations | | | (9) | (48) |
| Release of foreign currency translation reserve on disposal of discontinued operations | | | — | 18 |
| (Loss)/profit on effective net investment hedge, net of income tax | | | (121) | 62 |
| Total comprehensive income for the year | | | 4 054 | 8 619 |
| Profit attributable to: | | | 5 901 | 5 740 |
| Owners of the parent | | | 5 886 | 5 711 |
| Non-controlling interest | | | 15 | 29 |
| Total comprehensive income attributable to: | | | 4 054 | 8 619 |
| Owners of the parent | | | 4 039 | 8 590 |
| Non-controlling interest | | | 15 | 29 |
| Total comprehensive income attributable to owners of the parent arises from: | | | 4 039 | 8 590 |
| Continuing operations | | | 4 467 | 8 659 |
| Discontinued operations | | | (428) | (69) |
| Earnings per share for profit from continuing operations attributable to owners of the parent: | | | | |
| Basic earnings per share from continuing operations (cents) | 8 | 10.0 | 1 161.4 | 1 055.5 |
| Diluted earnings per share from continuing operations (cents) | 8 | 10.1 | 1 154.6 | 1 048.6 |
| Headline earnings per share from continuing operations (cents) | 8 | 9.6 | 1 166.2 | 1 063.9 |
| Diluted headline earnings per share from continuing operations (cents) | 8 | 9.7 | 1 159.4 | 1 056.9 |
| Earnings per share for profit attributable to owners of the parent: | | | | |
| Basic earnings per share (cents) | 8 | 3.4 | 1 094.3 | 1 048.3 |
| Diluted earnings per share (cents) | 8 | 3.5 | 1 077.9 | 1 041.5 |
| Headline earnings per share (cents) | 8 | 3.7 | 1 095.3 | 1 056.3 |
| Diluted headline earnings per share (cents) | 8 | 3.8 | 1 088.9 | 1 049.4 |

* Restated for the classification of the Group's DRC operations as discontinued operations in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations and the reclassification of the Group's share of profit of equity accounted investments. Refer to notes 2 and 3 for details of the adjustments recognised for each individual line item.

Figure 4: Statement of Comprehensive Income for Shoprite Holdings Ltd.

Condensed consolidated statement of financial position

| | Notes | Reviewed 2023 Rm | Audited 2022 Rm |
|--|-------|------------------------|-----------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 54 485 | 51 782 |
| Right-of-use assets | 11 | 16 601 | 16 816 |
| Intangible assets | | 26 781 | 23 725 |
| Equity accounted investments | 12 | 4 225 | 3 561 |
| Convertible loans | 13 | 2 312 | 2 240 |
| Investment in insurance cell captive arrangements | | 22 | — |
| Government bonds and bills | 14 | 128 | 131 |
| Loans receivable | | 716 | 1 051 |
| Deferred income tax assets | | 847 | 1 510 |
| Trade and other receivables | | 2 875 | 2 520 |
| | | 178 | 228 |
| Current assets | | | |
| Inventories | | 47 871 | 39 673 |
| Trade and other receivables | | 25 090 | 21 879 |
| Current income tax assets | | 5 697 | 4 988 |
| Investment in insurance cell captive arrangements | | 441 | 769 |
| Government bonds and bills | 14 | 289 | 157 |
| Loans receivable | | 421 | 286 |
| Restricted cash | | 1 346 | 509 |
| Cash and cash equivalents | | 650 | 300 |
| | | 12 548 | 10 665 |
| Assets classified as held for sale | 10 | 46 482 | 39 553 |
| | | 1 389 | 120 |
| Total assets | | 102 356 | 91 455 |
| Equity | | | |
| Capital and reserves attributable to owners of the parent | | | |
| Stated capital | 15 | 7 516 | 7 516 |
| Treasury shares | 15 | (2 624) | (2 583) |
| Reserves | | 21 238 | 20 551 |
| | | 26 130 | 25 484 |
| Non-controlling interest | | 148 | 143 |
| Total equity | | 26 278 | 25 627 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Lease liabilities | 16 | 38 662 | 33 340 |
| Borrowings | 17 | 32 482 | 28 488 |
| Deferred income tax liabilities | | 5 770 | 4 500 |
| Provisions | | 10 | 8 |
| | | 400 | 374 |
| Current liabilities | | | |
| Trade and other payables | | 37 416 | 32 488 |
| Contract liabilities | | 25 081 | 21 477 |
| Lease liabilities | 16 | 1 023 | 991 |
| Borrowings | 17 | 3 100 | 3 165 |
| Current income tax liabilities | | 598 | 1 012 |
| Provisions | | 796 | 661 |
| Bank overdrafts | | 224 | 184 |
| | | 6 604 | 4 988 |
| Total liabilities | | 76 078 | 65 828 |
| Total equity and liabilities | | 102 356 | 91 455 |

Figure 5: Statement of Financial Position for Shoprite Holdings Ltd.