

# Pricey industrial stocks 'no darlings' of JSE

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Large industrial stocks on the JSE, considered "a market darling" over the past few years, have become expensive, some analysts say.



South African stocks are over-valued and expensive according to some analysts. Image: pipi [Fotolia](#)

The JSE's index of the 25 largest industrial stocks - which includes shares from other sectors including healthcare and retail - has risen by about 88% over the past two years.

In comparison, the top-10 resources shares index is unchanged over the same period, while the top-15 financial stocks index is up about 52%.

The JSE all share index has risen by 44%.

Imara SP Reid said last week industrial stocks were overpriced. "We have the caveat that in a 'funny money' bull market, over-valuation is not necessarily a hurdle to higher prices," Imara said.

The stockbrokers' firm said resource shares could be stabilising and there were "bargains" in the sector, adding that financials were still well priced and these stocks were easily the best way to play the 'funny money' bull market.

## Most expensive market

According to Cannon Asset Managers' chief executive Geoff Blount, if local large-cap industrial stocks were a stand-alone

market, it would be "the most expensive market in the world".

Such a market would also be the most expensive in its own history, which, he says, represents high investment risk.

Cannon Asset Managers has little exposure to local large-cap industrial shares, although Blount said mid-and small-cap industrial stocks are attractive.

The company's assessment of relative value is based on cyclically adjusted price:earnings (PE) ratios. Blount said the market's infatuation with large-cap industrials had created opportunities elsewhere on the JSE, but had also made the JSE expensive compared with other markets.

Most offshore markets were cheaper than SA and were also near the bottom of their historical valuation ranges. Blount said if investors owned local large-cap industrial shares, then they would be the logical shares to sell in order to fund cheaper offshore equities.

E-commerce and media group Naspers has the highest PE ratio among the JSE's industrial index counters, at 60.6.

Retail groups also stand out in the index, with Massmart Holdings' PE ratio at 23.1, Pick n Pay's at 44.1 and Shoprite Holdings' at 23.9. Brewing giant SABMiller's PE ratio is 27.5.

Mike Brown, managing director of [etfSA.co.za](http://etfSA.co.za), wrote in his monthly newsletter that the Satrix INDI 25 exchange-traded fund (ETF) had been the best-performing long-term index-tracking fund.

Brown said the Satrix INDI 25 ETF, which tracks the FTSE/JSE industrial 25 index, remains the long-term champion.

"The industrial index contains no mining, nor financial shares, so has relatively low volatility, and some 70% of companies in the index earn the bulk of their revenue outside of SA, imparting high rand-hedge qualities to this index.

"As I have been reiterating for some years, the industrial index and the Satrix INDI 25 ETF are the real benchmarks for the South African equity market," Brown said.

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