



Five (global) stock picks for 2021

It is customary to pick a handful of favourite stocks at the start of a new year. While your investment horizon should stretch over years rather than 12 months, we can also look back at how last year's published picks performed.

For 2020, our five stock picks (and their dollar returns) were A2 Milk (-12.3%), SalMar (-18.5%), Air Canada (-51.5%), Ferguson (+36.4%) and Meituan Dianping (+182%).

The average return of this five-stock portfolio, in dollars, was +34.6%.

I can already hear our investors grudgingly ask why we didn't just buy these five stocks at the start of 2020 and do nothing else.

Mea culpa.

Though, if we hadn't bought Meituan Dianping, the average return would have been negative. Diversification cuts both ways, protecting against negative surprises but also diluting the impact of positive surprises.

There were many surprises in 2020, reminding us that the future is uncertain. While it is futile to even attempt to predict what the stock prices of our five picks for 2021 will be in 12 months' time, we expect the following businesses to do well over the long term:

AutoZone Inc

Not to be confused with the local chain of the same name (which is privately owned), US-listed AutoZone is the largest car parts retailer in North America by number of stores.

Its core market is cars older than six years which are no longer under dealership warranty. When your car breaks down, you generally want it fixed as soon as possible, and you or your appointed repairer are not in a position to quibble too much about the price of the required parts.

This gives AutoZone pricing power, as evidenced by its gross margin of

more than 50%. Just be aware that electric vehicles might be a long-term threat to AutoZone's continued growth, since they use fewer parts than vehicles with internal combustion engines.

Fiserv

On January 1, SA said a final farewell to cheques.

Cash might be next. Fiserv is one of the world's largest payment processors, working behind the scenes to make sure that the global financial plumbing works without a hitch.

Every time you use your credit or



debit card, make an online banking payment or use your phone app to transfer funds, payment processors like Fiserv take a tiny cut, charged to your bank. With trillions of rands of payments done electronically every year, that tiny cut adds up – Fiserv is expected to comfortably exceed \$1bn in net profit in the coming year.

With the successful integration of the 2019 acquisition of First Data, Fiserv has cemented its place as a fintech leader.

Pandora A/S

Most humans tend to have a strong urge to collect things.

Pandora, the global jeweller founded in Copenhagen in 1982, cottoned on to this with its unbelievably successful charm bracelets. There are a multitude of collectable charms that can be easily attached to a bracelet, making each one unique.

Pandora's jewellery is relatively affordable, with its low-cost manufacturing hub in Thailand giving it a cost advantage over other jewellers. After some strategic missteps a few years ago, Pandora launched its turnaround plan in late 2018, which is putting it back on a sound footing.

Norwegian Finans Holding

This is the listed holding company of Bank Norwegian, a digital bank focused on consumer lending in Scandinavia.

The bank is very efficient, with fewer than 100 full-time employees servicing more than 17-million clients. The bank was launched in 2007 out of the airline-branded credit card business of Norwegian Air Shuttle, which is teetering on the edge of bankruptcy after the Norwegian government refused it further financing.

Luckily, Bank Norwegian had diversified away from serving just the airline's customers to include the broader consumer markets in Denmark, Sweden and Finland. Further expansion to Spain and Germany is planned for this year.

JD.com

JD.com is China's largest online retailer, with a fulfilment network covering 99% of China's population.

The company's shares are listed in New York and Hong Kong, with Tencent owning 17.1% and Walmart roughly 12% of the business.

China's online retail penetration is only about 23%, so there is a long runway for continued strong growth. JD.com recently spun out JD Health, its online pharmaceutical and health-care subsidiary, as a separate listing in Hong Kong. It might spin out other business units in the near future too. It would be particularly interesting if JD.com decides to list JD Logistics separately – that business owns and operates the largest drone delivery network in the world. x

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