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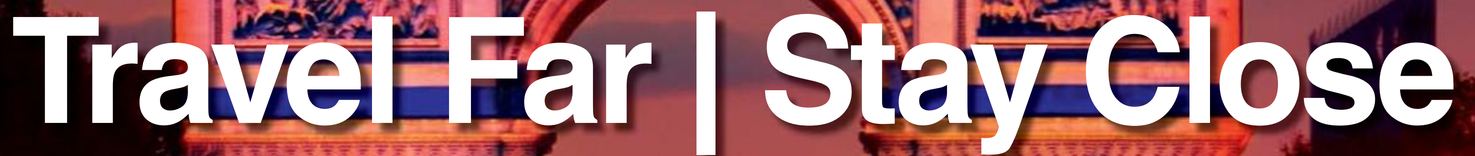

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from the editor

JANA MARAIS

Regardless of what happens on 2 December – and the odds seem in favour of a ratings downgrade to junk by Standard & Poor's – we have to give credit where it's due: organised business, civil society and Treasury have put up a phenomenal defence since Nhlanhla Nene was axed as finance minister last December.

Civil society organisations like Freedom Under Law and the Helen Suzman Foundation have been crucial in getting the National Prosecuting Authority (NPA) to back off from Pravin Gordhan, who hasn't skipped a public speaking opportunity over the past few months to sell the vision of a more inclusive South Africa.

We've also seen organised business pull together in ways I've certainly not seen in my 10-odd years as a financial journalist. One example is the CEO Initiative, which has led to companies from across the economy pull together with the establishment of an SME Fund of R1.5bn, and further announcements are expected before the end of the year about learnerships and support for students.

Another is the recent decision by Business Leadership South Africa (BLSA) to appoint Jabu Mabuza as its new chairperson. Mabuza, a sharp shooter who doesn't shy away from highlighting business's own shortcomings, importantly also serves as the president of Business Unity South Africa (Busa), thereby demonstrating clearly that SA Inc. is aligned on the big issues.

This is no mean feat. As Bobby Godsell, former chairman of BLSA, once explained – it's much easier to unite labour under a slogan (*An injury to one is an injury to all!*) than it is to get organised business – whose members are by nature one another's competitors – to sing from the same hymn sheet.

Therefore it should also not be a surprise that not all business organisations are approaching government with a unified voice, even in this hour of need. The Black Business Council, for example, has been vocal in its support of President Jacob Zuma. And while we're hearing positive noises from the Chamber of Mines, whose members have seemingly found their backbones and are standing up against investment-killing and probably unlawful regulatory proposals by the department of mineral resources, it has opposing views on crucial regulatory matters such as the Mining Charter to the South African Mining Development Association (Samda).

This may all be too little, too late to pacify the ratings agencies (see page 24) – but I get the feeling the fightback is just getting started. ■

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By Tumisho Grater

GLOBAL TRADE

Inside the shift towards protectionism

Lower-skilled workers in the First World, who have been under pressure as a result of competition from the Third World, are supporting a potential move towards trade tariffs to protect their livelihoods.

Even as far back as prehistoric times, humans understood the value of trade. Increased global trade has created remarkable benefits over the past few decades. As countries forged ahead with global trade deals, according to the International Monetary Fund, global trade saw a steady growth of 7% annually between 1980 and 2000. It was also during this time that trade propelled economic growth and helped raise incomes across the globe.

Global trade saw a steady growth of 7% annually between 1980 and 2000.

Although trade does increase overall wealth, and the move towards making global trade more accessible was appropriate, the rise of globalisation resulted in shifts in the labour market. In the developed world, the gains were concentrated among capital owners and skilled workers, leaving the under-educated and lower-skilled workers competing against their lower-cost emerging-market counterparts.

The inability of displaced workers to transition to other industries has resulted in many low-skilled workers being faced with chronically poor job prospects. It has become apparent that some have not been able to take advantage of the benefits of global trade due to the costs involved. Those who lose from trade are often easier to identify than those who gain; this visibility has exposed the societal inequalities that have fuelled social unrest, influenced public perceptions and the political process. It has rattled the foundations of many developed economies as voters revolt and push for extreme policy changes.

Today's political situation evolved because of past events and trends – some of which are economic while some are political. There is growing discontent regarding accessibility, interconnectedness and globalisation. Even though the political developments in 2016 have been a roller-coaster ride for investors, one may be inclined to deduce that the Brexit vote (which certainly caught markets off-guard), as well as the surprise Donald Trump victory exposed the inefficient transition to increased global trade.

The emerging world has a wealth of low-skilled workers; this has reduced the costs of labour-intensive manufacturing and assembly processes. While this comparative advantage has enabled the likes of China and Mexico to build global manufacturing hubs, it has also been to the detriment of jobs in the developed world. Since the formation of the North American Free Trade Agreement (Nafta) in 1994 and the World Trade Organization (WTO) in 1995, the number of manufacturing jobs in the US and other major advanced economies has fallen sharply. This became even more pronounced after China joined the WTO in 2001.

In addition, the employment rates among under-educated and low-skilled workers have deteriorated and according to academic research, this is one of the reasons that trade restrictions have received such a high endorsement among respondents with the lowest education levels.

During the US presidential campaign, Trump pledged to relook trade deals such as Nafta. His reasoning behind this was to do away with what has been viewed as unfair trade practices by China through imposing tariffs. However, the implementation of a tariff comes at a substantial cost. Domestic consumers end up paying a higher price for the goods and services. Meaning that for the potential to recapture some of the jobs, the local population needs to be willing to experience a meaningful reduction in their discretionary incomes.

Another negative to consider is that other countries could retaliate with their own tariffs and trade barriers by removing much of the comparative advantage that many US businesses and European businesses may hold. As a result, trade and economic growth can be affected negatively.

There has been a lot of focus on the role that an interconnected world has played in the creation of inequalities in our societies, but we also need to reflect on the fact that some of the frustration and dissatisfaction comes partially because many people in the US and Europe lost a great deal as a consequence of the global financial crisis, be it through investment or jobs. Another important factor is, of course, the role that technological advancement has played in displacing workers. Technology will continue replacing what people used to do indefinitely, an advancement that would have happened with or without globalisation. ■

Gallo Getty Images/iStockphoto

For the potential to recapture some of the jobs, the local population needs to be willing to experience a meaningful reduction in their discretionary incomes.

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By Peter Fabricius

INTERNATIONAL RELATIONS

Has SA foreign policy been 'captured' too?

The president of the Democratic Republic of Congo (DRC), Joseph Kabila, seems to be clinging to power and South Africa is apparently not bothered, despite the DRC being the country's largest foreign policy investment to date.

Are the private business interests of people close to the ruling party driving South Africa's foreign policy in the DRC?

Does this explain Pretoria's apparent reluctance to persuade President Joseph Kabila that after serving his constitutionally-limited two terms in office it's now time to go?

Kabila has been stalling for many months, trying to find a plausible excuse not to vacate office.

His latest ruse has been to claim that the voters' roll is out of date and has to be updated before elections can be held. That would take many months. Meanwhile he would stay in power.

This sparked street protests, climaxing on 19 September, the day Kabila was supposed to proclaim the elections, when over 50 people were killed in Kinshasa.

A month later an alarmed African Union (AU) brokered a deal between Kabila and the more pliable – and probably buyable – opposition parties and civil society groups, to postpone the elections until April 2018. In the meantime a transitional government of national unity, led by Kabila, would govern.

But the main opposition leaders and parties – including the veteran Etienne Tshisikedi, the rising political star Moise Katumbi and the Rassemblement movement – rejected the deal. So did the influential Catholic bishops.

They all said the deal left Kabila in office too long and did not oblige him not to run for president again in April 2018. They also want a level political playing field, including the lifting of spurious legal charges laid against Katumbi, the removal of restrictions on media and ensuring the electoral authority is properly independent.

Regional governments nonetheless endorsed the postponement deal.

Western powers have been more ambivalent. Tom Perriello, the US special envoy to the Great Lakes, told *finweek* that it was "a positive step" but also that "there was still work to be done in making it more inclusive".

It's clear that will require, at the very least, Kabila publicly declaring he will not run for president again.

Perriello said it was a "very positive step" that Kabila had recently asked the moderate Catholic bishops to continue with the dialogue.

Every effort had to be made to reach an urgent, broad consensus among key stakeholders over the next few weeks to avoid the "possibility of serious clashes on the street when Kabila's mandate ended on the 19th of December", he said.

Is South Africa throwing its full weight behind these efforts? Apparently not, despite the DRC being Pretoria's largest foreign policy investment to date. It has poured billions of rand and man-hours into diplomacy, peacekeeping and development aid in the country over the past 20 years in an effort to stabilise it.

Joseph Kabila
President of the Democratic Republic of Congo

Yet the DRC's neighbours are engaging Kabila more actively than SA seems to be doing.

Stephanie Wolters, a DRC expert at the Institute for Security Studies (ISS) in Pretoria, is greatly encouraged that the DRC's influential southern neighbour Angola – despite officially endorsing the October deal – is actively trying to avert a crisis by quietly trying to persuade Kabila to make further concessions.

Luanda is doing this not out of a great love of democracy but to ensure stability in the neighbourhood and avoid a situation that would see refugees pouring across the common border.

Western diplomats say that regional countries are either turning a blind eye to the crisis, leaving Kabila to make no concessions and forcefully put down the inevitable protests, or they are trying to persuade Kabila to "bully or buy off" the opposition, or they are backing a sustainable deal where he makes real concessions and allows fully democratic elections.

And they believe "South Africa is in the first camp", i.e. is happy to leave Kabila to do what he feels he must to stay in power.

Why? Some Western governments suspect this is because people close to the presidency have personal business interests in the DRC that only Kabila can protect, so they need him to stay in power indefinitely.

Western diplomats believe South Africa is happy to leave Kabila to do what he feels he must to stay in power.

What they have in mind, among others, are reports that emerged from the leak of the Panama Papers and follow-up news reports earlier this year that Kabila had given President Jacob Zuma's nephew Khulubuse Zuma a stake in two oil fields in eastern DRC, estimated to be worth billions.

As a result, the Presidency is at odds with the wider South African business community, which backs a longer-term solution to the DRC problem, with Kabila stepping down to allow a peaceful, orderly and fully democratic transfer of power.

That should create a transparent and conducive business environment in which all businesses has an equal shot at prosperity.

Sound familiar? Do we detect a whiff of "state capture" of foreign policy too? ■

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Peter Fabricius was foreign editor of the Independent Newspaper group for 20 years, writing on African and global issues. He has been writing weekly columns for the Institute for Security Studies (ISS) since 2013.

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in brief

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"IF INSATIABLE GREED IS GOING TO GOVERN OUR ECONOMIC CONDUCT, THEN THE MORAL COMPASS LEFT BY THE LIKES OF MADIBA IS LOST. WE NEED TO DECIDE WHAT KIND OF COUNTRY WE WANT TO BE."

Gallo/Getty Images

– **Finance minister Pravin Gordhan** speaking at the 2016 Discovery Leadership Summit in Johannesburg on 14 November.

"WE HAVE A LOT OF MONEY IN DRY POWDER, AND THEN WE HAVE A LOT OF MONEY IN EMERGING MARKETS BECAUSE THEY ARE THE BEST OF A BAD BUNCH. NOTHING LOOKS CHEAP."

– **Boston-based asset manager GMO's James Montier** explains in an interview with ft.com why nearly 40% of the firm's $27bn flagship fund sits in cash. Montier said emerging markets are cheap "on a relative basis", while GMO sees government bonds and most US stocks as too expensive. It continues to hold stakes in a small group of global companies, notably Microsoft, Johnson & Johnson, and Alphabet, ft.com reported.

"The most common misconception is that the US election was determined by race. 'Whitelash' is a troubling theory. White America certainly seems to have elected Trump, and his victory has emboldened some idiots. But 29% of Hispanics; 29% Asians; and 37% of all other racial groups (other than white) – and even 1 in 12 African Americans – voted Trump."

– **Niall Ferguson, Harvard historian, economist and author,** speaking about the rise of populism in international politics at the recent Discovery Leadership Summit.

THE GOOD

Despite expectations that inflation would range between 6.2% and 6.4% for October, in breach of the Reserve Bank's target range, economists expect the bank to keep interest rates unchanged on 24 November, *Business Day* reports. The volatile currency, fuelled by uncertainty over US president-elect Donald Trump's policies, the prospect of an interest rate increase by the US Fed in December, food inflation and the prospect of a credit ratings downgrade will be key issues under discussion, the paper said.

THE BAD

About 25% of municipality-supplied water is being lost through leaking pipes and dripping taps, according to Chris Herold, president of the South African Institution of Civil Engineering. Herold says SA has lost 1.1bn cubic metres of water through leakage since the start of the current drought two-and-a-half years ago, compared with the 610m cubic metres that had been lost as a direct result of the drought, *Engineering News* reported.

THE UGLY

Sports minister Fikile Mbalula, who also chairs the energy committee in Parliament, has made a sudden U-turn on his committee's handling of government's planned nuclear build, which critics say may bankrupt the country. Where Mbalula previously pushed for more transparency from the department of energy on the programme, he has now decided that any briefings from the department to the committee will be conducted behind closed doors, *Business Day* said. Given current concerns over questionable deals involving government, one cannot help but criticise Mbalula's sudden change of tack.

TELKOM'S RESULTS SURPRISE

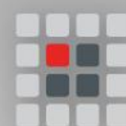
20%

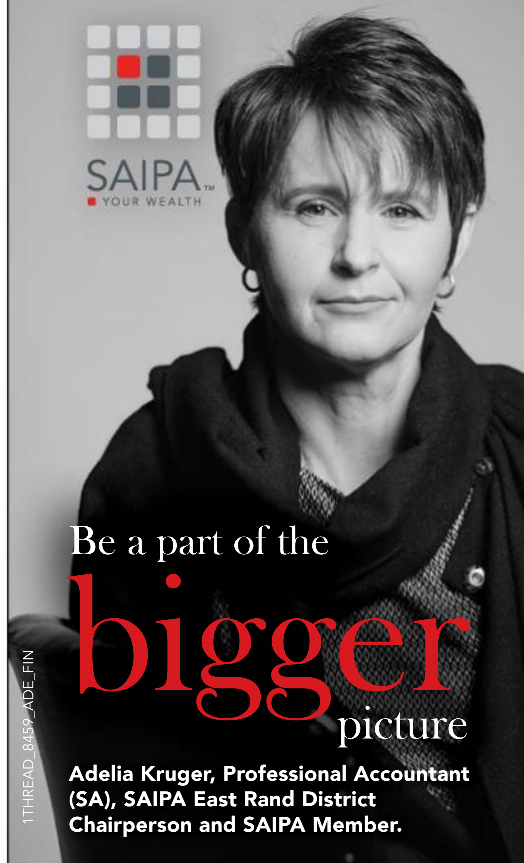
Telkom, in which government is the biggest shareholder, grew headline earnings per share by 20% to R3.36 in the six months to end September, while its mobile business recorded its first earnings before interest, tax, depreciation and amortisation (ebitda) of R214m (compared with a loss of R37m in the corresponding period in 2015). The results, which surprised the market and sent its share price up more than 5% on 15 November, also saw Telkom declare its maiden interim dividend. The group's new dividend policy will see it pay out 60% of headline earnings as annual dividends, *Business Day* reported.

SABC BOARD IMPLOSION

1

The number of directors left on the SABC board at the time of writing on 16 November, ahead of Parliamentary hearings to investigate the board's ability to discharge its fiduciary duties. The only remaining member is chairman Mbulaheni Maguvhe. Parliament's ad-hoc committee tasked with holding the inquiry into the SABC said it will continue with the hearings. The witnesses include eight journalists who brought a Constitutional Court case against the SABC after being suspended for challenging the broadcaster's editorial policy, *Business Day* reported. Reports of intimidation and death threats against the so-called SABC 8 were published in the *Sunday Times*.





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YOUR WEALTH

By Glenneis Kriel

Is SA ready for a new era in wine trade?

You can buy futures contracts for various commodities these days, ranging from maize to beef carcasses on the JSE. But what is the potential of South Africa having its own wine trading platform, similar to the *en primeur* system for Bordeaux wines?

Back in the 1970s, it used to be an accepted wine-trade belief that you could double your money in as little as two to three years by buying Bordeaux wine futures. While prospects are not as bright these days, Roland Peens, director of the fine wine merchants and cellars company Wine Cellar, believes Bordeaux wine futures still provide a good opportunity for South African investors to hedge against the rand.

The *en primeur* system allows investors from all over the world to buy premium quality Bordeaux wines six months after the harvest and two years before the bottled wines become available in the market, says Peens. "The sale benefits include a boost in cash flow for farms, while securing availability early and theoretically allowing consumers to buy fine wine at a more favourable price."

Return on investment used to be around 20%, depending on the quality of the vintage, but positive returns, as with any investment, are not guaranteed. In fact, the *en primeur* system has been under a lot of strain since the start of the global financial crisis in 2008, with five of the last eight campaigns not making any money. Peens feels that this is a way of the market correcting itself.

Peens believes that *en primeur* could also provide South African producers with an opportunity to hedge against a depreciation in the rand. "The Château Pichon Longuevill Comtesse de Lanlande 2005, for example, sold in South Africa for R900 per bottle in 2006. Since then its price has increased by 90% to R1 700 per bottle. The price for this wine in euro terms, nevertheless, remained pretty flat over this period."

Roland Peens
Director of Wine Cellar

South African application

Wine Cellar is busy developing an online trading platform through which premium quality wines can be traded in real time, says Peens. While investment in South African wine is still relatively new, the huge strides South African wines have made in quality over the past decade, along with the depreciation of the rand in comparison with other major currencies and the growing global demand for fine wines, is promising.

> **Wine Cellar is busy developing an online trading platform through which premium quality wines can be traded in real time.**

Wine Cellar's platform would be different from the *en primeur* system, as wine would only be sold once bottled: "Until demand ferociously exceeds supply and the fine wine market is more developed, it will not make economic sense to sell wine while still in the barrel."

Johann Krige, co-owner of Kanonkop Wine Estate, agrees that the time is not yet ripe for a full *en primeur* platform in South Africa. "Kanonkop sold wine *en primeur* style between 1986 to 1992. We called it wine futures at the time, as that was a more familiar concept in the South African market. The wine was sold six months after it was barrelled and then aged for another 18 months in the barrel before it was bottled. The bottled wine was released to the market two to three years after the harvest," Krige explains.

The system yielded huge financial benefits as it provided a counter for inflation (about 20% at the time) and helped to improve farm cash flow. The estate only paid taxes two to three years later when the bottled wine was released.

Johann Krige,
Co-owner of Kanonkop Estate

Unclaimed wine

The Kanonkop system failed because investors did not collect their wine upon release. Some buyers wanted Kanonkop to keep the wine longer to age, some lost their certificates and some disappeared. "This put serious strain on our cellar space, since we ended up with about 12 000 cases of wine that didn't belong to us. It was a logistical and administrative nightmare," Krige recalls.

They charged cellar storage fees for keeping the wine, but almost 5 000 cases of wine were never claimed, and were later sold a second time. "Buyers could still on presentation of their certificates claim their money back for those cases. But the problem with wine futures is that the people who buy these wines are wine lovers. They want the wine, and wine is not like a car that can be replaced," says Krige.

In 2008 Kanonkop ventured to sell its Kanonkop Black Label Pinotage *en primeur* style, but decided against this after seeing the impact of the financial crisis on the French system. "The thing with *en primeur* is that you need to have a long-term vision with the wine and that means that you have to operate in a relatively stable financial environment, especially when you start out."

The economic environment has not been conducive for another attempt up until now. "The problem is that South African buyers would end up paying a lot of money for a bottle of wine that would sell for cheap in real terms overseas [due to a depreciated rand]," Krige explains.

If Kanonkop was ever going to sell wine shares again, they would use wine marketers or *négociants*, as they are called in France: "We don't have the time or capacity to market these wines or follow up sales, so would prefer that some form of middle man come and collect the wine from the cellars when it is released and they would then have to manage the distribution or storage on behalf of buyers." ■

editorial@finweek.co.za

Supplied

Image: Glenneis Kriel

By David McKay

Diamond sector getting ready to shine

In the near term meaningful price increases in the diamond market are unlikely, but zoom out and the prospects look quite different due to a significant dearth in new diamond finds.

Another "sight", another decent showing for De Beers, which said earlier this week diamond sales for its ninth cycle had amounted to $470m compared with $494m at the same time last year. De Beers holds 10 "sights" a year, meetings between it and its customers – the hand-picked cutters and polishers to whom De Beers supplies its "rough" stones. The signs this year are that the diamond market has stabilised, albeit off a low base.

"Encouragingly, the ninth sales cycle of 2016 showed continued good demand for De Beers rough diamonds with sales in line with expected seasonal demand patterns," said Bruce Cleaver, CEO of De Beers, in a company statement. The final sight of the year is planned for 5 to 9 December.

There are two ways of looking at the diamond market presently. On a short-term basis, conditions are still delicate. "There are some encouraging signs with rough trade through Antwerp and rough imports into India picking up in September," said Myles Allsop, an analyst for UBS. Overall, however, the market is fragile as "...meaningful price increases appear unlikely near-term".

Investors should also consider the share-picking opportunities of Firestone Diamonds, Petra Diamonds and by extension of the luxury goods theme, Gemfields in which the JSE's Pallinghurst Resources has a 47.5% stake.

The other perspective is the long-sighted lens where the prospects of the diamond industry have long been trumpeted owing to a significant dearth in new diamond finds. Diamonds are discovered either near rivers where they have been cast aside through erosion, or near the throats of old volcanoes, known as kimberlites. While there are hundreds of volcanoes, there are very few kimberlites containing diamonds of sufficient quality to warrant cutting and polishing.

Analysts think that around 2018 to 2020 the lack of new discoveries will start to exert a positive influence on diamond prices. "Our proprietary global model confirms the attractive long-term dearth of new supply of diamonds post 2018," said Macquarie Bank in a recent report. "There is a real shortage of natural stones post 2020 as exploration success hitherto has been poor," said another analyst.

This is tremendous news for Anglo American, which owns 85% of De Beers, although it should be noted that the UK group's participation in the diamond business is not entirely reflective of this shareholding as its 15% partner, Debswana, takes a disproportionate share of the stones produced from its mines in line with an agreement between them.

Nonetheless, diamonds are expected to give Anglo American's restructuring a boost as it seeks to focus on them, along with platinum and copper. It's also worth noting that its rival BHP Billiton has left the diamond market while Rio Tinto's diamond operations are winding down.

Naturally, there are risks to this high optimism.

One is the extremely fickle nature of the so-called "mid-stream"; the diamond cutters and polishers to whom De Beers sells its diamonds. The mid-stream normally operates on wafer-thin margins and adds an element of volatility to the sector, especially when credit is hard to secure. This has increasingly been the case and although the mid-stream is currently looking good, conditions can change rapidly.

Second, there's the consumer. The US has long been the largest market for diamond jewellery – accounting for 40% to 50% of consumption – an eggs-in-one-basket phenomenon that worries analysts. The US market has recorded 11 straight quarters of growth in diamond jewellery sales, which has helped to soften shrinkage elsewhere, but world diamond jewellery sales still fell 2% to $79bn last year.

Gallo Getty Images/Reuters

The US market has recorded 11 straight quarters of growth in diamond jewellery sales, which has helped to soften shrinkage elsewhere, but world diamond jewellery sales still fell

2% to **$79bn** last year.

It's for this reason that De Beers has over the last decade pushed marketing campaigns for bridal diamond jewellery hard in China. As the Chinese economy converts from investment to consumer and services driven, diamond sales should flourish, but this hasn't been the case lately.

"In China, jewellers continue to report dismal results," said Macquarie, although it added there were "nascent signs of recovery" with a recent increase in total diamond imports. "Overall, our luxury goods research team expects modest market growth of 4% over the medium term from 8% over 2005 to 2015," it said.

From an investor perspective, Anglo remains the leader in diamond mining. But Macquarie Bank thinks investors should also consider the share-picking opportunities of Firestone Diamonds, Petra Diamonds and by extension of the luxury goods theme, Gemfields in which the JSE's Pallinghurst Resources has a 47.5% stake. These are companies that have emerged and will fill the void left by the likes of BHP Billiton.

Firestone is ramping up production from its Liqhobong mine in Lesotho to some 1m carats a year with potential for a 62% increase in net asset value, said Macquarie. Gemfields, meanwhile, is nearly doubling production of ruby and emerald mines over the next three years while Petra Diamonds – after nearly 10 years of investment – could lift free cash flow yield 20% in its 2018 and 2019 financial years. ■

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Bruce Cleaver
CEO of De Beers

By Lucas de Lange

What the stronger copper price could mean for SA

The continued recovery in commodity prices could spark economic growth.

This month, the price of copper increased dramatically for the first time since 2009/10, which has fuelled hope that this important industrial metal will experience a bull market based on new investment in infrastructure. Copper is regarded as one of the more reliable indicators of international expectations for investment in infrastructure, which of course stimulates growth.

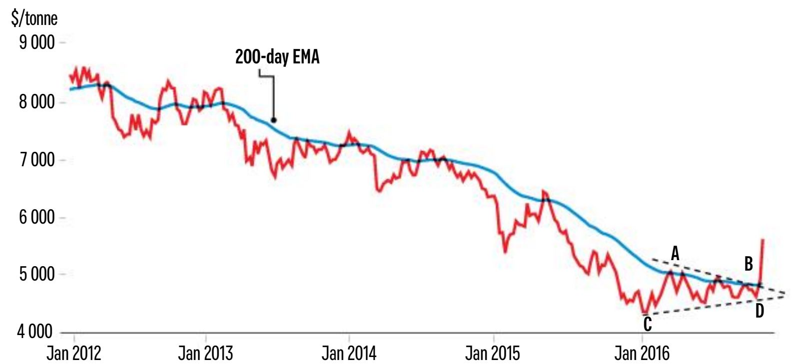
The copper market is also regarded as a leading indicator for bull markets in other industrial metals, which benefits producers such as South Africa. In the past, bull markets in metals and minerals have often provided the spark for economic growth in SA.

The copper price has experienced a blood bath since 2012, which led to a drop in its price of about 56% since reaching its high of close on $10 000/tonne in 2011. The strong run in the price this month can largely be ascribed to Donald Trump winning the US presidential election. During his campaign, he emphasised the need for new investments in American infrastructure. Market commentators are quoting figures that vary from $500bn to $1tr that could be invested during his presidency to build and repair roads, bridges, airports, hospitals, schools etc.

In fact, copper has been building a base for some time as is apparent from the symmetrical triangle (marked AB and CD) on its price chart, which has been developing since the beginning of the year. Ivan Glasenberg, CEO of Glencore – a major copper producer – pointed out that the production of commodities (such as copper) has been widely curtailed owing to, among other things, mine closures to reduce the supply in line with a lower demand. Glencore's share price also shot up in tandem with the copper price. At the time of writing, it showed an improvement of some 210% compared to its low in January.

The picture changed completely this month.

INTERNATIONAL COPPER PRICE



The copper price increased so dramatically that even its 200-day exponential moving average (EMA) has started to rise – something that only happens when strong market players are prepared to buy.

Several well-informed market commentators, such as Capital Economics in London, have, however, warned that the price has escalated too quickly and that a major pull-back could occur even in the face of a marked reduction in copper supplies on the London Metal Exchange. Capital Economics points out that statistics emanating from China, which uses more than half of the world's production, indicate that the Chinese demand is not great. And Robert Bhar of Société Générale also warns that there has not really been a noticeable fundamental change in demand.

An increase in the demand in the US could, however, have a major impact on the market as large-scale investment in the broad infrastructure, as promised by Trump, historically accounts for about 44% of the country's copper usage. ■

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The copper market is also regarded as a leading indicator for bull markets in other industrial metals, which benefits producers such as South Africa.

Glencore's Altonorte copper smelter in Northern Chile

Ivan Glasenberg
CEO of Glencore

Images: www.glencore.com; Supplied

By Petri Redelinghuys

The markets in Trump's uncertain world

The world as we know it didn't come to an end when Donald Trump won the US presidential election as so many predicted. In fact, the market surged higher with a ferocity it has not shown in a long time. Or did it?

Gallo Getty Images/Reuters

Before the US elections came to their surprising conclusion on 9 November, the world was awash with opinion as to what would happen if Donald Trump was elected the next US president. If you exposed yourself to even just some of the predictions that were circulating, you would have been as convinced as everyone else that the moment Trump was declared the winner, the world would, in that very moment, simply catch fire.

Well… it didn't. The polls, the experts, the visionaries – they all got it wrong. Again. Much like Brexit, nobody thought it would happen, and yet it did. Interestingly, before the election was held, there was a lot of chatter in financial media about a possible "Brexit-like" market reaction to a Trump victory.

Donald Trump
President-elect of the USA

That was at least one prediction that was spot on. Sure, instead of playing out over a span of four days before the Dow Jones Industrial Average (DJI) started breaking the pre-Brexit highs as we saw in June, it took all of 24 hours for the pre-Trump highs to be taken out and two days before the DJI started making new record highs.

Market reaction

So despite all the doom and gloom predicted by the polls

and expert guessers, the market surged higher with a ferocity it has not shown in a long time. Well, sort of. Yes, the DJI has gone on to print new record highs, but the overall US market as a whole has not. If we consider the NYSE Composite Index, then not only will we see that it has in fact not gone on to print new record highs post-Trump, but we can also observe that market breadth is really very, very low (see graph).

Using data supplied by McClellan Financial Publications, we can construct a market breadth indicator that shows us the difference between the number of shares that are advancing versus those that are declining on any given day on the NYSE Composite Index. This can be a helpful indicator as it attempts to show us how much of the overall market is participating in any given move.

For example, on 7 November, when the world thought Hillary Clinton would win, the NYSE Composite Index rose by some 2.03% while advancing shares outnumbered declining shares by two thirds (approx. 2 000) of the 3 000-odd total shares that make up the NYSE Composite Index. In other words, 2 500-odd shares rallied that day, while only 500-odd shares declined (breadth is then determined by calculating the difference between advancing and declining shares).

Conversely, after it became clear that Trump had won, the NYSE Composite Index had risen a further 2.84% between 8 and 14 November; however, this time market breadth was only an average of 178 over the span of the entire rally. This means that advancing shares only outnumbered declining shares by an average of 178 shares over those five trading days. Meaning that significantly fewer (only just over half) of the shares that make up the NYSE Composite Index were taking part in the rally. So in other words, we can deduce that it was only the large caps and index heavyweights that were driving the market.

So all right, the Trump rally is not all that it appears then. What else is going on? Well, looking at the reaction

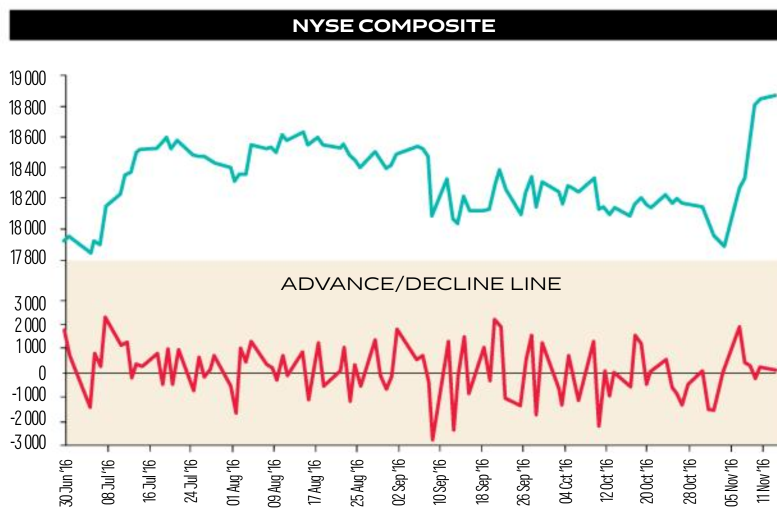
Hillary Clinton
Democratic loosing candidate

If [Trump] was serious and he does somehow manage to force the company to move its manufacturing plants to the US, the impact on Apple would be massive. It is estimated that it will cost Apple as much as

$58

for every iPhone it manufactures if it was to move its manufacturing operations to the States.

Gallo Getty Images/iStockphoto



we've seen in the US bond markets, we note that 10-year yields have jumped higher by about 40 basis points (bps) since the election. This is an indication that the market is expecting an uptick in inflation in the coming months and years. So much so, in fact, that Oxford Economics expects medium-term US inflation rates to be as much as 30 bps higher. Resources, most notably copper and iron ore, rocketed higher after the election as well. The market is pricing in a delivery of Trump's promise to "make America great again".

Trump's plans

To explain some of these moves it might help if we took a high-level overview of some of Trump's proposed policies and plans. There is a great focus on domestic infrastructure spending and redeveloping the American industrial complex, which will likely create jobs, but moreover, create demand for basic materials and metals. Thus we see a push coming from commodity prices as well as resources stocks.

The theme of US economic dominance and "bringing home production" does not sit well with all sectors though. The FANGs (Facebook, Apple, Netflix, Google/Alphabet) and the Nasdaq Index overall have come under severe pressure.

Tech stocks are, even at the best of times, high-risk investments and when there is some uncertainty floating around they tend to take a hit. Trump represents nothing but uncertainty about everything from foreign policy to the continued participation of the US in multilateral trade agreements.

Nothing is certain, and neither is whether or not he was serious about forcing Apple to manufacture its products in the US. If he was serious and he does somehow manage to force the company to move its manufacturing plants to the US, the impact on Apple would be massive. It is estimated that it will cost Apple as much as $58 for every iPhone it manufactures if it was to move its manufacturing operations to the States. That would not only erode its profits, but also make its product uncompetitive globally.

At the end of the day it is unlikely that Trump will forge ahead with this threat, but at this stage the market feels very uncertain about exactly what his administration is going to do to the likes of Silicon Valley.

On the more positive side of the coin, there is speculation that the Trump administration could do away with the Dodd-Frank regulation that currently holds US banks in check when it comes to how much risk they are allowed to take and how much reserves they require in order to do so. If this regulation is removed, you can imagine that Wall Street will be a big, big winner. Banks are expecting the best. As are biotechnology and pharmaceutical companies, although perhaps it's more about being relieved that Clinton lost than being happy that Trump won.

Would Trump have been willing to negotiate to resolve the matter to the same extent the Obama administration did, or would he simply kick SA out of Agoa when disputes arise?

Trade relations

Let's assume that Trump manages to renegotiate the North American Free Trade Agreement (Nafta), as he said he wanted to during his campaign, and let's assume that he does manage to withdraw the US from the Trans-Pacific Partnership, and that he does impose 45% import taxes on products from China, which he sees as a "currency manipulator" – what will all of this mean?

Some commentators believe Trump's impact on the US economy can be similar to that of Ronald Reagan in the 1980s – rebuild the US as an industrial powerhouse and (perhaps as a side-effect) draw thicker lines between the US and the rest of the world.

His planned infrastructure bonanza should have a positive impact on commodity exporters like South Africa, but there are concerns about the impact of higher trade barriers on emerging markets.

For SA, the main concern is the continued inclusion as a beneficiary of the African Growth and Opportunity Act (Agoa), which gives SA duty- and quota-free access to the US for over 7 000 product lines, without having to provide any reciprocal market access for US exporters. Several US lawmakers have already lobbied for SA to be removed from Agoa, which is really aimed at helping poor African countries, and especially while SA still maintained high import restrictions on US chicken, beef and pork products. Would Trump have been willing to negotiate to resolve the matter to the same extent the Obama administration did, or would he simply kick SA out of Agoa when disputes arise?

US President Barack Obama at a reception celebrating the reauthorisation of the African Growth and Opportunity Act (Agoa) at the White House last year.

Gallo/Getty Images

These are all questions that we cannot answer now, nor will we have a solid grasp on the type of president Trump will be until at least a year or so has passed. What we do know now is that there are some really big businesses that are very happy that he won the election, and thus markets have risen. However, there is also an undercurrent of worry and uncertainty.

Looking at the way the 10-year yields have reacted, I would hazard a guess that we will likely see an interest rate hike out of the US Federal Reserve before year-end. Beyond that is murky and impossible to see. At the very least we can say that history was made with this past US election, and that the next four years are going to be very interesting. ■

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Petri Redelinghuys is the founder of Herenya Capital Advisors.

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By David McKay

Lonmin in recovery, but will a questionable deal haunt it?

While the platinum miner's share price is looking healthier again, the white metal's ailing price is of concern. Many are also sceptical whether its recently acquired stake in the Pandora joint venture will be beneficial.

Lonmin, the Johannesburg-listed platinum producer, ended its 2016 financial year in a far better position than it began, with net cash increasing to $173m, which took total liquidity including bank debt to $537m.

Remember that in October last year – the first month of its financial year – the company was facing the prospect of going bust. Grudgingly, shareholders backed a $400m rights issue, its third in about five years.

Some didn't though, which resulted in the Public Investment Corporation (PIC) having to mop up unwanted new shares, which now means the government-owned asset manager is Lonmin's largest shareholder with just under 30% of the shares.

The share price is also in better fettle. On a year-to-date basis Lonmin is worth 70% more. It has restructured its operations, cutting about 6 800 jobs, and has slashed capital spending to preserve the balance sheet. By Lonmin's standards, relative calm has been restored.

The government-owned asset manager is Lonmin's largest shareholder with just under **30%** of the shares.

However, the share is still 95% less valuable than three years earlier, a deterioration that demonstrates the impact of the 34% decline in the platinum price over the same period. And it's the platinum price, even in rand terms, that continues to concern analysts, especially in respect of Lonmin.

The worry with Lonmin today is that platinum prices have not revived. Lonmin's financials for 2016 may have received a positive bump with the release of metal locked up in its refinery inventory, but this is only a temporary boost. Analysts think Lonmin will start losing money again at current prices, especially as it has announced a higher capex bill for the 2017 financial year of some R1.8bn versus R1.2bn last year.

Dominic O'Kane, an analyst for JP Morgan Cazenove, said that while the balance sheet was "comfortable for now", the company would turn free cash-flow negative at current basket price for platinum group metals (PGMs). "At all-in cash costs of R12 400 per ounce [which includes its capex and opex] we calculate Lonmin will lose about $100m of free cash flow in its 2017 financial year," he said. The spot price was R11 140/ounce at the time of writing.

Earlier this month, Lonmin also announced the purchase of Anglo American Platinum's (Amplats') 42.5% stake in the Pandora joint venture, an acquisition that has raised eyebrows given the state of the market and the fact that Lonmin had acknowledged that its operating costs remained under pressure.

Pandora was loss-making in the second half of Lonmin's financial year, although Ben Magara, Lonmin CEO, makes the point that its shallow, high-grade reserves are easily accessible from its Saffy shaft and would defer up to R3bn in capex that Saffy would have to shoulder in order to access its own replacement platinum ounces. Yet O'Kane asked how long it would be before Pandora became cash-flow positive.

Ben Magara
CEO of Lonmin

Johann Steyn, an analyst for Citi, said the sale of Pandora was positive for Amplats because it was a cash-burning mine and owing to the fact that the PGM market might take "longer to recover than most". He added: "From a Lonmin point of view, we question the consolidation of its position in a loss-making asset."

As for PGMs, there appears little sign of immediate relief. Johnson Matthey, a platinum semi-fabricator and market research house, concluded that platinum would be in surplus in 2017, partly owing to new production following the ramping up of Impala's Rustenburg operations, Platinum Group Metals' WBJV project and Styldrift, a project owned by Royal Bafokeng Platinum, which will be accelerated.

"This, coupled with the fact that 40% of the total demand [for platinum] comes from diesel vehicles – a segment which remains challenged especially post the Volkswagen controversy – means that the market is set up to be in a significant surplus," said Goldman Sachs in a recent report. "We remain cautious on the space and have sell ratings on Amplats and Lonmin," it added. ■

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The E2 shaft at Lonmin's Marikana platinum mine.

Gallo/Getty Images

market place

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>> **Simon Says:** Views on the healthcare sector, Volkswagen, Woolworths, Sappi, Trump's victory *p.19*
>> **Invest DIY:** Investing is not a get-rich-quick scheme *p.20*
>> **Pro Pick:** Local tech minnow striking it big *p.21*
>> **Investment:** Pharmaceutical stocks may provide a safe haven *p.22*

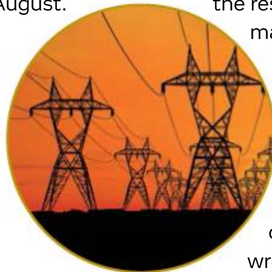
CONSOLIDATED INFRASTRUCTURE GROUP — BUY SELL **HOLD**

By Simon Brown

Looking very good

Revenue was up 25%, headline earnings per share (HEPS) up 15%, and 68% of the company's earnings came from outside of South Africa in the year to end August.

The newly acquired rail division was perhaps the one disappointment as it produced only R12m profit after tax. I would have expected a lot more, but all the other sections did very well. The oil and gas business in Angola performed well, but the year ahead could prove tougher than the last, in part due to currency moves.



Currency fluctuation is the flipside of 68% of earnings being beyond our borders. It does mean that profits will be lumpy as the different currencies move around, but over time that smooths itself out. Importantly, the rest of its Africa business is being managed very well. We have seen a number of companies head off into the rest of Africa only to come very unstuck and return home after being humbled.

Power generation and distribution is central to our continent's needs and I wrote last week that I thought shareholders should take up their rights when the company does the rights issue and I would be happy to even buy in the open market. ■

Last trade ideas

- **BUY** Facebook — *17 November issue*
- **HOLD** Famous Brands — *10 November issue*
- **BUY** CoreShares S&P Global Property ETF — *3 November issue*
- **WAIT** Taste Holdings — *27 October issue*

SASOL — BUY SELL **HOLD**

By Moxima Gama

Wait for the transformation

The Brent crude oil price dropped to its lowest level since August, with declines driven by a strengthening dollar and concerns that the Organization of Petroleum Exporting Countries (Opec) will fail to agree on output cuts when its members meet in Vienna on 30 November. The dollar has rallied on expectations that US president-elect Donald Trump's economic stimulus and protectionism plans may stoke growth and lead to higher inflation.

Trump has also vowed to support the US oil industry, likely through easing regulation and opening up federal lands for drilling, ft.com reported. This would lead to increased supply in an industry that has been under immense price pressure for the past two years due to oversupply. While oil prices have rallied from lows of below $30 a barrel in January, they remain significantly below the highs of nearly $123 seen in 2012.

Petrochemical giant Sasol's fortunes are closely tied to the oil price, as well as the rand/dollar exchange rate. The lower oil prices have hurt Sasol, which has fallen towards its key support at 35 400c/share – a level it has held since 2012. The group is also under pressure from unhappy shareholders over the steep increase in the cost of its Lake Charles chemicals project in the US, which is now estimated to be $11bn, up from previous guidance of $8.9bn.

I maintain a bullish long-term call on Sasol. Once the project is complete, Sasol will transform from a developing market oil company to a global chemicals giant. However, trading along its key support at 35 400c/share is concerning for the near term, as breaching that level could spur a rapid sell-off to 30 050c/share – go short with a fair stop-loss. But because Sasol has held at 35 400c/share a few times before, it could hold. Upside above 39 200c/share would trigger a near-term long. ■

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Last trade ideas

- **BUY** Nampak — *17 November issue*
- **HOLD** Clicks Group — *10 November issue*
- **BUY** Redefine Properties — *3 November issue*
- **SELL** Steinhoff International Holdings — *27 October issue*

While oil prices have rallied from lows of below **$30** a barrel in January, it remains significantly below the highs of nearly $123 seen in 2012.

Gallo Images/iStock

By Moxima Gama

NETCARE

Still a good defensive buy?

While its share price has fallen by almost 13% over the past 12 months, Netcare recently managed to secure a beneficial deal with Clicks.

The term "defensive stocks" is synonymous with non-cyclical stocks. It means a company's performance and sales are not highly correlated with the larger economic cycle – making such stocks a good investment when the economy sours. The healthcare sector is generally known to be a good defensive investment – unlike with luxury goods, for example, people will continue to spend money on healthcare even if the economy is struggling.

But JSE-listed private hospital groups have been under pressure in recent months, in part due to concerns over future regulation. Health minister Aaron Motsoaledi has been very outspoken about the cost of private healthcare and the exclusion of the poor from health services, and uncertainty also remains about the proposed National Health Insurance (NHI), its costs, and implications for private healthcare.

Over the past 12 months, Netcare's share price is down 12.6%, Mediclinic has declined 32.9%, and Life Healthcare is down 11.5%, according to INET BFA data.

Netcare, which will be releasing its results for the year to end August on 21 November, said in a trading statement that the margins of its hospital and emergency services business in South Africa have been under pressure, partly due to low increases in tariffs and above-inflation increases in wages. The group has also seen an "unusually large shift" in the surgical to medical admissions mix. The revenue earned from medical admissions is "substantially less" than from a surgical admission, thereby diluting the rate of growth in revenue per patient day, Netcare said.

52-week range:	R29.90 - R34.79
Price/earnings ratio:	18.7
1-year total return:	-6.21%
Market capitalisation:	R50.14bn
Earnings per share:	R1.83
Dividend yield:	2.7%
Average volume over 30 days:	6 173 436

SOURCE: INET BFA

In the UK, Netcare's subsidiary BMI Healthcare is currently negotiating a rent reduction transaction with its major external landlord, with the bulk of the funding required for the transaction to be raised through a new debt facility. The transaction, should it go through, will lead to an accounting charge that will lead to headline earnings per share (HEPS) declining by between 30% and 32.5% year-on-year, it said.

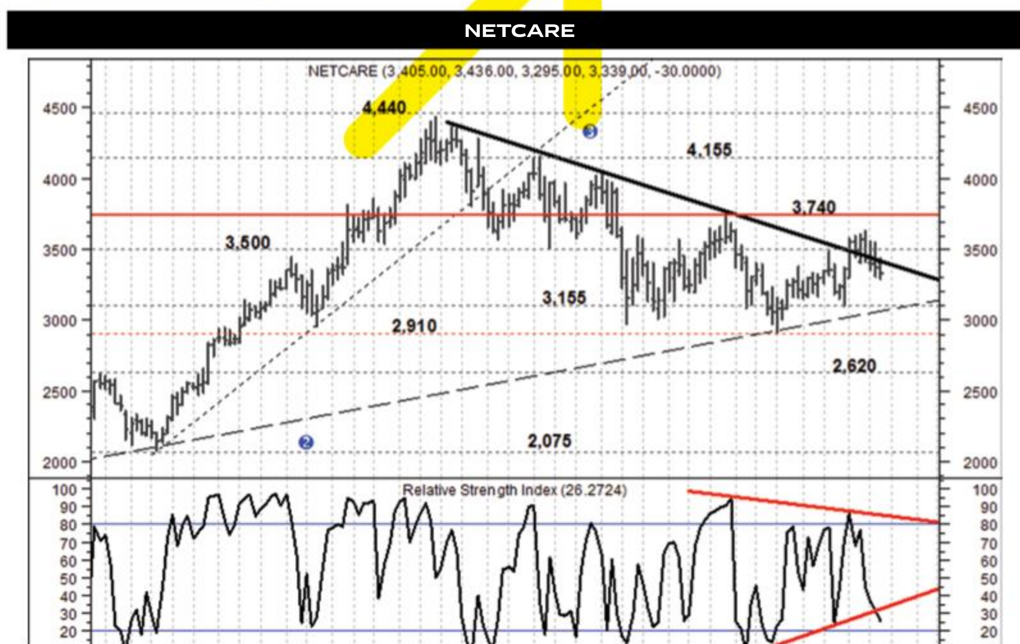
Currently trading at a fair price-to-earnings ratio (P/E) of 18.7, breaking out of its long-term bear trend on the weekly chart will make Netcare a good investment

On a more positive note, its recent deal to outsource its 37 Medicross pharmacies and 45 hospital retail outlets to Clicks, which came under fire from independent pharmacists and trade unions, has been approved by the Competition Tribunal.

On 1 December, Clicks will assume control of all Medicross pharmacies and from 1 February 2017 take over 45 front shops of the Netcare Hospital division. In terms of the agreement, the dispensing of prescriptions in Netcare's hospital pharmacies will continue to fall under Netcare's hospital operations. There will also be no job losses and Netcare staff will move to Clicks at their current conditions of employment.

Currently trading at a fair price-to-earnings ratio (P/E) of 18.7, breaking out of its long-term bear trend on the weekly chart will make Netcare a good investment in the medium to long term at a reasonable price.

NETCARE



SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: Netcare is currently teetering on the resistance trendline of its long-term bear trend. A positive breakout, confirmed above 3 740c/share, should prompt a recovery back to the 4 440c/share all-time high. Above that level a new bull phase would commence towards 6 105c/share in the long term.

Alternative scenario: A reversal below 2 910cps would mark defeat. The current bear trend would extend to 2 620c/share. If support fails to hold there, downside to 2 075c/share could ensue. ■

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

HEALTHCARE SECTOR

Regulatory issues take toll

Results from Life Healthcare and Mediclinic both disappointed with respective growth in headline earnings per share (HEPS) being up 7% for Life Healthcare and down 15% for Mediclinic. Mediclinic commented that "the regulatory environment in the Middle East has had a significant impact on the group's performance". This is exactly what my concerns are around healthcare stocks. Life Healthcare has also had regulatory issues with its acquisition in Poland. These hurdles will continue to crop up in various regions at different times. The one saving grace being that by operating in different regions, the companies are unlikely to experience regulatory challenges in all regions at once. In other words, these issues will only affect a part of the operations at any one time, but in the longer term they will dent earnings overall.

VOLKSWAGEN

Gallo Images/Getty Images

Scandal fallout

In contrast to the situation at Woolworths, the other side of the overly optimistic coin is when things go very wrong, as happened with Volkswagen in September last year with the emission scandal. At the time the company set aside $7.3bn for any fines, an amount I said would be far too small. The first fine, back in June, was for $14.7bn. And the automaker still faces both civil claims and potentially more fines for breaches of the US Clean Air Act, with new reports that it is being investigated again for more cheating. At the end of the day, the $7.3bn is going to be way short of the final cost, and the share continues to trade some 60% off the highs from just before the scandal broke. Management will always be optimistic, but as investors we should be very sceptical and remember the BP Deepwater Horizon spill that BP thought would cost around $2bn, but has so far cost it some $70bn.

WOOLWORTHS

Taking knocks

The Woolies* trading update for the 19 weeks to 16 November confirms what we've been seeing from the other retailers – consumers are under increasing pressure. But Woolies has an extra issue: the recently acquired David Jones is not doing great. This should be of no surprise to anybody – as I wrote at the time of the deal, it will take a while before we see any positive outcomes. As expected, the costs would be higher than forecast while the synergies would be lower. This is what always happens after a large merger or acquisition, and this one is no different – over-promise and under-deliver. I hold Woolies and I'm not selling; it's in a tough space but this will pass and the share price will recover in time.

This is what always happens after a large merger or acquisition, and this one is no different – over-promise and under-deliver.

SAPPI

Still impressive

One of the first rules of investing that was ever taught to me was that you never buy a paper stock as a long-term investment as it will always disappoint. Sappi* (which I hold in my momentum portfolio) is proving that old adage wrong with another decent quarter of results. What is really working for the company is that it has finally got its debt under control. The Sappi debt-to-equity ratio was above 3 times in recent years and is now just above 2 times. (The higher the debt-to-equity ratio, the heavier the company is leaning on debt to finance its growth, and can be seen as an indication of risk.) Interest cover, which is calculated by dividing the company's earnings before interest and tax (ebit) by its interest expense, was as low as 0.1 in the 2013 financial year and is now 4.5. The bottom line is the debt pile is no longer killing any attempts at making profits and this has enabled Sappi to pay its first dividend in eight years.

TRUMP VICTORY

Assumptions

I have a lot to say about a Trump victory, but will keep it to one comment. A 75% chance of Clinton winning also means that Trump has a 25% chance of winning. Put another way, if we had the election four times, Trump would win once, and he did. Far too often we assume a 75% chance favouring one side means it is assured to happen, but this is not the case. ■

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**The writer owns shares in Woolworths and Sappi.*

By Simon Brown

EDUCATION

What the stock market does and doesn't offer

For both traders and investors, it takes a lot of patience to acquire the skills needed to reap the benefits of the stock market.

The stock market, through trading or investing, has given me two very important things. First, an ability to earn an income, be it a passive income via investing or a more active income via trading. Importantly, I can do this from anywhere with a laptop and internet connection. Second, it has ensured that I will be able to retire well. That retirement may not include a private island with a luxury yacht, but it will offer me a standard of living that meets my desired minimum level of comfort.

It took me a long time and required a lot of skill sets in order to get these two benefits from the stock market. I got involved in the market as a 12-year-old boy when I inherited nine De Beers shares from my grandmother. That prompted my grandfather to offer to teach me about investing.

In truth, his knowledge was limited as he'd really only been a jobber in the bucket shops of Durban in the 1920s. But it got me started, and importantly, it got me started with the only intention being to learn. I had no desire to be rich in a hurry or retire by next weekend. I just wanted to learn, so I read everything I could, tried ideas, pretended I had money to invest and started a paper portfolio that I ran for almost 10 years.

This point about the desire to learn is critical. These days, people ask me to teach them about the stock market constantly, but they always come from a bad space and they are in a rush. They hate their jobs or their bosses. They have huge piles of debt or just generally hate their lives, and they're hoping that trading can solve their problems, and quickly.

It can't and it won't.

If you hate your job, get another one.

Re-skill yourself for a new career, or ask to be moved to a new department. I know this is easier to say than do. But don't think you'll learn to trade while on leave for a week and then quit your job and trade from that luxury yacht.

If you have a pile of debt, make a plan to pay it down. Seek debt relief, and just as importantly, change your habits so that you don't just get straight back into debt when these debts are cleared.

In other words, trading is not going to solve the problems you have in your life right now. You need to solve your problems. Sure, the stock market can play a part in this in the longer term, but only if you're first prepared to make the hard steps to get your life on track.

I got a message recently from a reader who commented that "Wish I had this 15 years ago. It is the missing piece of the puzzle." Aside from appreciating the comments, it got me thinking that knowledge needs to come to us at the right time. How often do we learn something and wish we'd known it years before? But would that knowledge have been of any use years before? Or would we have walked past it without even realising its significance?

So while the stock market is a truly empowering thing to be involved with, it does not solve your life problems in the short term. You need to solve your problems yourself, and recognise that mastering the stock market will take time before it rewards you in many different ways, including financially. This is not an overnight process; you have to be prepared for the hard work. ■

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[People] hate their jobs or their bosses. They have huge piles of debt or just generally hate their lives, and they're hoping that trading can solve their problems, and quickly.

Getty Images/iStock Images

By Daniel Spoormaker

ANSYS

Don't underestimate this micro-cap tech business

Local company Ansys, which is active in the telecoms, rail and industrial sectors, has managed to avoid disaster with a recent restructuring. Now the future looks bright for this small player.

Ansys is a black-owned and -controlled technology company specialising in the design and development of engineering solutions for the defence and information security, mining and industrial, rail and telecommunications industries. The group develops, produces, distributes and integrates niche world class technology-driven engineering solutions for harsh environments within South Africa.

Ansys was founded in 1987 and listed on the JSE AltX in 2007. Since July 2012, it has undergone a hugely successful restructuring under the astute stewardship of Teddy Daka and the rest of the management team. Historically, Ansys concentrated on rail, mining and defence, however the business now has additional arrows in its quiver. The acquisition of Tedaka Technologies in 2013 and Parsec in 2014 added telecommunications as a further segment within the business. Both acquisitions were significant steps for Ansys to become an intellectual property (IP) led provider of technological solutions.

The rail segment includes both trackside systems and on-board systems. Trackside systems include those such as vehicle identification, hot bearing detection and load profile monitoring. While on-board systems provide integrated display systems, train communication systems and asset tracking. Clients include Prasa, Transnet and Botswana Rail. The mining and industrial segment comprises rope monitoring for mines, gas detection instruments and collision awareness systems, as well as software for equipment & management software. This segment counts the Anglo American stable among its clients. The defence segment consists of information security systems, weapon integration and control systems, embedded solution and mission computers along with bespoke electronic hardware and software development. Denel is amongst this segment's client base.

Tedaka Technologies is a supplier of transmission and networking products and services to the telecommunications industry covering wireline, wireless and enterprise networks. Tedaka Technologies' products and services perform critical functions that ensure the quality and reliability of fixed-line, mobile and broadband networks throughout sub-Saharan Africa. Parsec operates in the outsourced development and manufacturing market. The company develops and produces customised electronic subsystems and products for clients in the defence, industrial and telecommunication sectors.

Ansys' competitive advantage lies in the fact that its technology is developed in-house by its own IT engineers. As a result, the IP belongs to the business. Recent technological developments that highlight the IP include the on-board systems on trains, allowing trains to be piloted by a single driver as opposed to two. These systems are currently being rolled out across South Africa. Vehicle identification systems are a further example of a product that is developed within the train segment. These systems are being developed for train carriages and, although this does not sound like innovative technology, one needs to bear in mind that train carriages have no power. Therefore, these systems need to be self-sufficient, distinguishing them from traditional car-tracking systems. The list of innovative technologies goes on.

The company's share price has risen from 16c up to **105c** today and the current market cap is just shy of R500m.

Prior to the restructure, Ansys endured a number of loss-making years. At the time, the company's market capitalisation fell below R30m, and bankruptcy looked inevitable. Following a recapitalisation and the two acquisitions mentioned above, the company's share price has risen from 16c up to 105c today and the current market cap is just shy of R500m.

However, Ansys is not done yet. Considering the recent interim trading update, indicating that earnings will have grown a number of multiples over the same period last year, one can conclude that there is scope for further growth. With headline earnings per share (HEPS) for the first six months of the 2017 financial year coming in at least at 6c, if one anticipates a similar number for the second half of the year, then Ansys trades on a forward price-to-earnings ratio (P/E) of well below 10 times, which is highly attractive for a business that is generating the kind of earnings growth that the market has become accustomed to. The company would be considered a micro-cap business, which comes with the perception of being risky, yet we do not subscribe to that view. It is in this space that tomorrow's stars are born.

The balance sheet is very healthy, further reducing the risk profile, while the business is backed up by a capable management team with a proven track record.

A further key consideration is that management eats its own cooking: it owns a large stake in the business. The balance sheet is very healthy, further reducing the risk profile, while the business is backed up by a capable management team with a proven track record. We believe that Ansys provides an excellent opportunity for investors who appreciate that micro caps may be more volatile than larger listed businesses, yet do not misconstrue that as risk. ■

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Daniel Spoormaker is an equities trader at BayHill Capital.

By Schalk Louw

SAFE HAVENS

Find shelter in pharmaceuticals

The unthinkable has happened – Donald Trump has been elected president of the United States. Besides cash and gold, biotech companies might now hold some opportunity for investors.

As I was writing this week's article, the announcement was made that Donald Trump had officially been elected as the new president of the USA. As shocking and unanticipated as the outcome of the election may be for many, it is also final, and investment decisions will have to be made on a brand new playing field where Trump captains as the 45th US president.

Speculation made the rounds leading up to the election – considering what may happen should Trump become president, the probability that the US dollar may come under pressure if that happened and the possibility that it will result in a stronger rand against the US dollar.

Another view was that investors may seek their salvation in gold in fear of the effect that Trump's new policies may have on the economy. But the reality is that most of these events had an effect on the market long before Trump was announced as the new president. So aside from hiding in cash, are there any other investment options available in current market conditions?

Gallo Getty Images/iStockphoto

Before I attempt to answer that question, I would like to turn back the clock to September 2015 when Hillary Clinton was still standing strong as the favourite to become the next US president, and she openly protested against biotech companies on Twitter by saying that "price gouging like this in the specialty drug market is outrageous. Tomorrow I'll lay out a plan to take it on." This resulted in a lot of pain and suffering for biotech shareholders, with the Nasdaq Biotech Index falling by 10% in dollar terms in the week that followed her remarks, and by more than 26% in dollar terms in total until shortly before the US elections.

In the year to date (up until the time of writing on 8 November), the Biotech Index has already declined by almost 23% in dollar terms, while the S&P 500 Index has increased by 5% over the same period. This is the same Biotech Index that grew by nearly 300% in dollar terms in the five years leading up to Clinton's tweet. Clearly this index was close to boiling point and in need of a correction even before Clinton's remarks. But one cannot ignore the fact that there were shares within this sector that suffered the same fate, despite not necessarily being as close to boiling point as the index itself.

This resulted in a lot of pain and suffering for biotech shareholders, with the Nasdaq Biotech Index falling by **10%** in dollar terms in the week that followed her remarks, and by more than **26%** in dollar terms in total until shortly before the US elections.

NASDAQ BIOTECH INDEX VS S&P 500 INDEX

(YEAR-TO-DATE 2016)

SOURCE: MarketWatch.com

In my opinion, there are three shares that can be seen as investment opportunities for those who feel these sales were somewhat exaggerated, especially in light of the fact that Clinton was not elected president:

Gilead Sciences, Inc. (listed on the Nasdaq)

Gilead Sciences, Inc. is a research-based biopharmaceutical company that discovers, develops, and commercialises therapeutics to advance the care of patients suffering from life-threatening diseases. The company's primary areas of focus include HIV, Aids, liver disease, and serious cardiovascular and respiratory conditions. At the time of writing on 8 November the company was trading at a historical price-to-earnings ratio (P/E) of only 6.6 times and a dividend yield of 2.5%. At its current trading price of $74/share, it has fallen by 30% in dollar terms since Clinton's remarks.

Roche Holdings (listed on the Swiss Ex)

Roche Holding AG develops and manufactures pharmaceutical and diagnostic products. The company produces prescription drugs in the areas of cardiovascular, infectious, auto-immune and respiratory diseases, dermatology, metabolic disorders, oncology, transplantation, and the central nervous system. This company is currently trading at a historical P/E of 22.3 times and a high dividend yield of 3.4%. At its current trading price of CHF224.90/share, it is down 10% in Swiss franc terms since Clinton made her statements.

Sanofi (listed in Paris)

Sanofi is a global pharmaceutical company that researches, develops, and manufactures prescription pharmaceuticals and vaccines. The company develops cardiovascular, thrombosis, metabolic disorder, central nervous system, internal medicine and oncology drugs, and vaccines. At the time of writing, it was trading at a historical P/E of 24.1 times and a high dividend yield of 3.9%. At its current trading price of €72.89/share, it has fallen by 13% in euro terms since Clinton commented on the sector. ■

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DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ACSION	K Anastasiadis	7 November	Purchase	30,000	700	210,000	9 November
AFRIMAT	F du Toit	7 November	Sell	300,000	2750	8,250,000	8 November
ANCHOR	O Khan	7 November	Purchase	33,000	995	328,350	9 November
BIDVEST	LP Ralphs	30 October	Exercise Options	148,743	10854	16,144,565	8 November
BRIMSTONE	T Moodley	10 November	Exercise Options	170,578	1312	2,237,983	15 November
BRIMSTONE	F Ratheb	10 November	Exercise Options	8,300	1312	108,896	15 November
CALGRO M3	WJ Lategan	10 November	Purchase	13,970	1575	220,027	11 November
CAPITEC	GM Fourie	4 November	Exercise Options	6,875	20983	1,442,581	9 November
CAPITEC	GM Fourie	8 November	Sell	6,875	67686	4,653,412	9 November
GAIA INFRAST	PB Schabort	31 October	Purchase	344	840	2,889	8 November
GAIA INFRAST	PB Schabort	8 November	Purchase	10,000	840	84,000	9 November
MIXTEL	ML Pydigadu	7 November	Exercise Options	750,000	246	1,845,000	11 November
MONTAUK	BS Raynor	8 November	Purchase	10,000	2000	200,000	9 November
MR PRICE	SB Cohen	14 November	Purchase	15,385	13008	2,001,280	16 November
NUWORLD	H Savadier	4 November	Sell	700	3100	21,700	8 November
NUWORLD	H Savadier	7 November	Sell	2,994	3100	92,814	8 November
PSG	PJ Mouton	7 November	Purchase	750	20407	153,052	8 November
PSG	PJ Mouton	7 November	Purchase	750	20407	153,052	8 November
PSG	PJ Mouton	7 November	Purchase	760	20407	155,093	8 November
PSG	PJ Mouton	7 November	Purchase	360	20407	73,465	8 November
PUTPROP	BC Carleo	4 November	Purchase	9,391	560	52,589	10 November
SAPPI	FCS Marupen	10 November	Purchase	4,406	7690	338,821	11 November
STANDARD BANK	A Daehnke	7 November	Sell	19,000	14600	2,774,000	8 November
STANDARD BANK	MJD Ruck	3 November	Sell	5,000	14405	720,250	8 November
STANDARD BANK	MJD Ruck	7 November	Sell	15,000	14476	2,171,400	8 November
TRANSCAP	JM Jawno	11 November	Purchase	1,125,940	1165	13,117,201	11 November
TRANSCAP	JM Jawno	11 November	Sell	82,207,393	1350	1,109,799,805	11 November
TRANSCAP	MP Mendelowitz	11 November	Sell	82,207,393	1350	1,109,799,805	11 November
TRANSCAP	MP Mendelowitz	11 November	Purchase	1,125,940	1165	13,117,201	11 November
TRANSCAP	R Rossi	11 November	Purchase	1,125,940	1165	13,117,201	11 November
TRANSCAP	R Rossi	11 November	Sell	82,207,393	1350	1,109,799,805	11 November
TREMATON	A Groll	14 November	Exercise Options	550,000	307	1,688,500	16 November
TREMATON	SA Litten	14 November	Exercise Options	57,500	307	176,525	16 November
TREMATON	AJ Shapiro	14 November	Exercise Options	550,000	307	1,688,500	16 November
TREMATON	J Vos	14 November	Exercise Options	115,000	307	353,050	16 November
TREMATON	AL Winkler	14 November	Exercise Options	172,500	307	529,575	16 November
TRUWORTHS	DN Dare	11 November	Exercise Options	22,134	6777	1,500,021	15 November
TRUWORTHS	C Durham	11 November	Exercise Options	2,214	6777	150,042	15 November
TRUWORTHS	S Furlong	11 November	Exercise Options	11,067	6777	750,010	15 November
TRUWORTHS	MS Mark	11 November	Exercise Options	61,975	6777	4,200,045	15 November
TRUWORTHS	DB Pfaff	11 November	Exercise Options	22,134	6777	1,500,021	15 November
TRUWORTHS	S Proudfoot	11 November	Exercise Options	5,534	6777	375,039	15 November
VALUE	IM Groves	14 November	Sell	70,000	2902	2,031,400	15 November
WOOLIES	SD Ngumeni	7 November	Sell	21,983	7296	1,603,879	10 November
WOOLIES	SD Ngumeni	7 November	Sell	9,135	7291	666,032	10 November
WOOLIES	SD Ngumeni	7 November	Sell	7,153	7248	518,449	10 November
WOOLIES	SD Ngumeni	8 November	Sell	18,567	7293	1,354,091	10 November

All data as at 12:00 on 16 November 2016. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Frontier	1999	66.58
Tharisa	2800	64.71
Hwange	45	50.00
Astrapak	559	28.21
Middle East Diamond	15	15.38
WORST		
Oando	26	-35.00
Accent	72	-19.10
DRDGold	554	-17.93
Verimark	37	-15.91
Lewis	3120	-14.50

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	49 430.20	-3.04
JSE FINANCIAL 15	14 301.69	-2.55
JSE INDUSTRIAL 25	62 965.11	-3.69
JSE SA LISTED PROPERTY	607.46	-2.91
JSE SA RESOURCES	18 219.08	-2.41
JSE TOP 40	43 088.08	-3.16
CAC 40	453 653	-0.15
DAXX	1 073 514	0.84
FTSE 100	679 274	-1.72
HANG SENG	2 232 391	-0.41
NASDAQ COMPOSITE	527 562	0.47
NIKKEI 225	1 766 815	8.72

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	13.1
REBOSIS	127	11.7
EMIRA	143	10.2
ACCPROP	58	9.3
LEWIS	274	8.8
REDEFINE	93	8.5
FORTRESS-A	136	8.5
RI PLC	58	8.4
MMI HOLDINGS	175	8.1
SA CORPORATE	43	8.0

CAN SA STAVE O
JUNK STATU

OFF
…S?

By Mariam Isa

Getty Images/J. Countess

South Africa faces a likely credit ratings downgrade to junk in December, with Standard & Poor's warning that it has seen "little progress" on the fixes government said it wanted to implement. Deputy finance minister Mcebisi Jonas, however, believes "we have no choice but to remain optimistic". Can SA again buy more time?

South Africa's sovereign credit rating is likely to be downgraded by rating agency Standard & Poor's (S&P) next month, taking its sovereign debt to sub-investment grade – or junk status – for the first time in 16 years, although an alliance between government, business and labour is fighting hard for another chance to facilitate what is being described as a "stay of execution".

Some people are still hoping that S&P and Fitch – which have both given the country their lowest investment grade ratings – will postpone that decision for a few more months to give the country one more chance to show that it can implement reforms that will boost its meagre pace of economic growth over the coming three years.

Achieving this goal would allow Treasury to secure the revenues needed to meet tough debt targets; generate the confidence needed for business to prosper and investment to grow; and spur job creation enough to defuse rising social unrest and encourage consumers to spend.

There is a chance that downgrades by both agencies could be averted, given the determination of the alliance led by finance minister Pravin Gordhan to convince them that enough is happening to overcome the effects of legal and political wrangling which has dominated news headlines nearly every day over the past few months.

But given that the impasse between the "tenderpreneurs" and other factions within the dominant ANC has so far failed to wrest SA from the quagmire which even the Treasury describes as a "low-growth trap", the battle is very likely going to be lost – at least in the case of S&P, which slapped a negative outlook on its BBB- rating for the country a year ago.

Fitch might just change the outlook on its BBB- rating to negative from stable. Both rating agencies, which Treasury said had teams visiting SA in the week of 14 November, will announce their reviews on 2 December.

Although discussing an imminent downgrade to junk status is taboo, both Treasury and the Reserve Bank are trying to prepare business and the public for the possibility of the outcome, which will raise the cost of borrowing for both government and the private sector, discourage foreign investment and trigger more depreciation in the volatile rand.

"That will be a sad day. The fiscal and monetary authorities are trying to warn us, even though the political side says business and labour are hard at work to avoid downgrades and are doing everything possible to avoid them," said KPMG economist Christie Viljoen.

"We've just had too much bad news this year. I don't think that enough has been done to encourage more enthusiasm among the rating agencies about what the country will look like over the next few years. They feel that the political situation is causing reforms to grind to a halt and economic growth will not be enough to balance the budget."

The big risk is that if SA is downgraded to junk status, President Jacob Zuma will have an excuse to remove Gordhan from his position.

ECONOMIC REFORMS NEEDED

Credit rating agencies are looking for changes in the labour environment to ease conflict between unions and business, cut red tape, and alter some of the structures of the struggling state-owned enterprises, which are putting huge pressures on official budgets – a step that has been largely blocked by those in the upper echelons of the ANC.

The big risk is that if SA is downgraded to junk status, President Jacob Zuma will have an excuse to remove Gordhan from his position, which the minister has consistently

▲ The **Fitch Ratings** office building in Canary Wharf, London.

Gardner Rusike
Standard & Poor's associate director for global ratings

Christie Viljoen
Economist at KPMG

Sizwe Nxedlana
Chief economist at FNB

used since his appointment last year to block every effort by corrupt factions in business and government to tap the country's financial resources for personal gain.

His removal would be even more damaging for the country than a junk credit rating, which both analysts and the Reserve Bank say is already "priced in" by domestic debt markets. Given that Zuma would likely appoint a more pliable replacement, the step would probably thwart efforts by ANC stalwarts trying to lessen the influence of pervasive corruption among policymakers and business executives.

Nonetheless, some analysts believe that the ability of many of SA's most respected institutions – including the Treasury, the Reserve Bank and the judiciary – to uphold the country's constitution will be enough to bring about a "stay of execution" until the next rating assessments from S&P and Fitch are due in June next year.

"I don't think we will be downgraded now – there is room for more time as there is evidence that the Treasury and government are trying to control spending and raise new revenues," said FNB chief economist Sizwe Nxedlana. It would be "prudent" for the two agencies to wait until after the national budget in February, he added.

However, there has been little sign so far that S&P and Fitch are convinced that there is enough justification to postpone another downgrade. Gardner Rusike, S&P's associate director for global ratings, said at the start of this month that its decision to affirm SA's rating at BBB- in June was supported by the impetus from government to implement reforms to stimulate growth.

"Since then we have seen little progress on the things the government said they would like to do. For us to continue affirming the ratings it is important that we see government doing what they should be doing on economic reforms, which would give us comfort that the risks can change," he said.

The countries which had lost their investment grade status over the past 30 years took an average of seven years to do so.

It would be helpful if government would issue a progress report to show how the growth outlook had improved in the medium term, that business confidence had increased, and that there was political will to implement reforms, he added. That is exactly what Treasury and many of the country's top CEOs were trying to do behind the scenes in the week of the visits to SA by teams from S&P and Fitch.

If the reforms did not happen, it was possible that the negative outlook which S&P has placed on SA's credit rating could be resolved earlier than the 24-month period usually given for investment-grade ratings, Rusike warned.

Konrad Reuss, managing director of S&P in sub-Saharan Africa, offered some comfort. "It is tough to come back but it is possible. There's life after a downgrade," he said. But out of the 20-odd countries that had lost their investment grade status from S&P since the 1970s, only eight had managed to

South African banks have been subjected to a stress test in the event of such a downgrade and the results showed they were adequately capitalised to deal with it.

regain that rating, he added.

Viljoen said an analysis he had carried out showed that the countries which had lost their investment grade status over the past 30 years took an average of seven years to do so.

Fitch has said nothing since the mid-term budget on 26 October, which showed that budget deficit and debt targets had slipped only slightly given the Treasury's plans to cut spending and raise R43bn in tax over the next two years.

The strategy is needed to achieve those aims but will also restrain economic growth, which the Treasury expects to slow to 0.5% this year from 1.3% last year, before accelerating back to 1.3% next year and 2.0% in 2018.

"Poor economic performance remains the main impediment to debt stabilisation, but government measures to boost trend growth performance constitute fine-tuning rather than meaningful reform," Fitch said in a statement. It pointed out that the next national budget in February would come at a "sensitive time" ahead of the ANC electoral conference at the end of 2017, making unpopular tax measures politically difficult.

HOPE OF DELAY FROM MOODY'S

Moody's rating agency – which still has SA's credit rating two notches above junk status though with a negative outlook – made encouraging comments on 7 November in a published review on the credit outlooks of various large corporations around the world.

It pointed out that a three-year wage pact agreed early in November between SA's three largest platinum producers

SA TAXPAYERS SHOULD BRACE FOR TOUGH TIMES AHEAD

If you are thinking of spending your tax refund or year-end bonus, think again. South African consumers face a potential R43bn of tax increases over the coming two years, with R28bn set to be introduced in the financial year starting on 1 March 2017.

High-income earners will probably be hit the hardest, although a proposed tax on sugar-sweetened beverages will weigh the most heavily on people who spend the bulk of their income on food, and particularly unhealthy food. Details are far from final, but this controversial measure could generate between R8bn and R11bn for Treasury's depleted coffers.

A long-awaited carbon tax is likely to be introduced at the start of 2018, after years of stiff resistance from business and industry. The tax could initially raise about R10bn, but the net effect will be small because it will be offset by a reduction of electricity levies, minimising the impact on industry and on the economy's slow pace of growth. South Africa wants to play its part in cutting global carbon emissions, but the whole effort will be turned on its head if US president-elect Donald Trump follows through on his pledges to ditch international climate change agreements and renege on funds for adapting to climate change.

Nazrien Kader
Managing partner of Africa Taxation Services at Deloitte

South African consumers face a potential **R43bn** of tax increases over the coming two years.

The easiest way for the Treasury to generate new tax revenue would be through increasing value-added tax, which is the second-biggest contributor to the fiscus after personal income tax and at 14% is low by international standards. A one percentage point increase would generate at least R15bn, but the tax is politically unpalatable as it would affect all South Africans, unless it was accompanied by more exemptions on basic foodstuffs.

So the Treasury is likely to settle for a mixture of measures, which could include a one-off wealth tax, according to Nazrien Kader, a managing partner of Africa Taxation Services at Deloitte. This could take the form of a hefty increase in taxes on capital gains, or a three-year levy on people in the two top tax brackets, as was the case during the country's transition to democracy. Alternatively, the top marginal tax rate could be raised to 45% from 41% at present, which would generate nearly R3.5bn if applied to individuals earning more than R1.2m a year.

There is likely to be a windfall for the Treasury from a voluntary disclosure programme, or tax amnesty, for offshore investments, which took effect in October and will last to 30 June 2017. It is impossible to predict how much money will be raised, but in 2003 a similar amnesty brought in R48bn. ■

and the Association of Mineworkers and Construction Union (Amcu) was credit-positive for both SA and the companies involved because it avoided a punitive strike and the loss of platinum production, which would have eroded mining companies' profits and government tax revenues.

The agreement, which included a moderate pay increase for workers of either 7% or R1 000 over each of the coming three years, marked the first time since 2009 that negotiations went smoothly in the sector, it noted. Nonetheless, the remarks must be seen in context as Moody's has been the most upbeat rating agency for SA since the country first got sovereign credit ratings in 1994.

At that time it was the only agency to give SA an investment grade rating – S&P and Fitch only raised the country above junk level in 2000.

MOVES TO EASE DOWNGRADE CONCERNS

The Reserve Bank moved to alleviate concerns about the likely effect of a sovereign credit rating downgrade in its recently published biannual *Financial Stability Review*. "In the unlikely event of a downgrade, SA might experience initial short-term losses in the domestic currency and bond markets as well as an outflow of capital, but these developments are not expected to have a destabilising effect on the functioning of domestic financial markets," it said.

The Reserve Bank pointed out that, based on the criteria of various global bond indices, which include SA's domestic debt – more than a third of which is held by foreigners – a downgrade of its sovereign, or foreign currency, debt did not pose a risk to the country being excluded. The indices are key to the investment appeal of rand-denominated government bonds.

South African banks have been subjected to a stress test in the event of such a downgrade and the results showed they were adequately capitalised to deal with it, the Reserve Bank added. Its comments were the latest in a spate of blunt official assessments on the vulnerability and shortcomings of SA's economy.

Amcu members attend a rally near Lonmin's platinum mine in Marikana in 2014.

The rand depreciated by about 7% against the dollar in that week, in line with other emerging-market currencies.

Mcebisi Jonas
Deputy minister of finance

FRAGILE ECONOMY A CONCERN

Deputy finance minister Mcebisi Jonas pointed out to a financial services conference earlier this month that, like Brazil and Turkey, SA had a "fragile" economy because it had become too reliant on unreliable sources of foreign investment – meaning foreign purchases of bonds and equities – to finance its growth ambitions.

SA's gross domestic savings as a ratio of GDP amounted to 16% compared to 34% for South Korea and 35% for Malaysia, he said. At the same time, fixed capital investment – which has contracted this year – stood at just 19% of GDP compared to China at 47% and South Korea at 30%.

Welfare spending had halved the number of South Africans living in extreme poverty to 21.5% from 41.1% in 1994, but this was "on a dangerous path of becoming unviable and is unravelling due to low rates of economic growth, particularly since 2008, and limits to fiscal income that can be redistributed", he warned.

The creation of a black middle class was an important transformation over that period, but it had been achieved mainly through state employment rather than fostering entrepreneurship among the black middle class, he noted.

The "first and most important task" of collective leadership within government, labour and civil society was to unite to preserve SA's credit rating, Jonas said. "We have no choice but to remain optimistic," he concluded.

TRUMP A THREAT TO SA

The shock election of US presidential candidate Donald Trump on 9 November has thrown an unexpected spanner in the works for SA's economy. The rand depreciated by about 7% against the dollar in that week, in line with other emerging-market currencies, on the view that despite concern over the inward-looking policies he has espoused, Trump's plans to slash taxes and spend R1tr on infrastructure would spur faster US economic growth.

US Treasury bond yields jumped on expectations of further borrowing to fund those policies, making them more attractive investments and drawing money out of emerging markets – a trend which is expected

Images: Getty Images/iStock Images Gallo/Getty Images Supplied

Lesetja Kganyago
Governor of the South African Reserve Bank

to prevail unless those perceptions are proved wrong. Hence, the rand could weaken further.

At the same time, Trump's protectionist plans and threats to withdraw from bodies like the World Trade Organization, the North American Trade Agreement, and the TransPacific Partnership could disrupt global trade, which would hurt SA despite any increases in commodity prices triggered by more US infrastructure spending.

The US is SA's third-biggest trading partner with two-way trade of more than R155bn last year and more than 600 US companies operating in SA. The country also receives $269m in direct US foreign aid each year – which Trump's administration is likely to be far less generous with globally.

An even bigger concern, however, is the continuity of SA's benefits within the African Growth and Opportunity Act (Agoa), an agreement giving preferential trade concessions to African countries which dates back to 2000. SA's department of trade and industry has been quick to point out that the pact was renewed for a decade last year, and has bipartisan support in the US.

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last year and more than 600 US companies operating in SA.

But Meganomics independent economist Colen Garrow is not so sure the arrangement is secure, pointing out that there is an "open-cycle review clause" in the latest Agoa pact and that in the latest round of negotiations with President Barack Obama's administration last year, some of SA's positions had already sparked controversy.

"I think Agoa is under threat of a review by the US – if they feel angry about anything South Africa is doing they can change terms and conditions sooner than 2025," he said. "Trump is focused on America first and there is likely to be less sympathy for African countries. We could be in for a rough time."

In his trademark bombastic style, Trump recently described SA as "a crime-ridden mess waiting to explode".

CONFIDENCE BOOST A CHALLENGE

Apart from structural reforms, the biggest issue that government must tackle is extremely poor business confidence. A key index compiled by the Bureau for Economic Research and sponsored by Rand Merchant Bank, showed that business confidence improved in the second quarter of this year, after falling for seven consecutive quarters.

But the survey still shows that only four out of 10 respondents are satisfied with business conditions in the country – and it was taken before Gordhan was threatened with fraud charges in August and ahead of the state capture report released last month by former Public Protector Thuli Madonsela, which implicated Zuma and other top officials in questionable connections with the influential Gupta family.

The report also prompted Eskom CEO Brian Molefe to resign, fanning concern that the power utility will not maintain its improved track record on delivery, maintenance and new power generation.

A dearth of consumer confidence is also a big problem – according to a similar index, it plunged to an even lower level than during the global financial crisis in 2008, which was followed by a recession in SA in 2009.

Consumer spending is likely to remain in the doldrums in the face of high inflation and the effects of interest rate hikes over the past two years, which have pushed up debt service costs and curbed credit extension. The good news is that the Reserve Bank is very unlikely to raise interest rates any further, unless there is an unexpected and severe shock that would send the rand into a tailspin, fanning "second-round" price increases.

The Bank's governor, Lesetja Kganyago, has said the monetary policy committee may be "close to the end" of its tightening cycle and the general consensus is there will be no more interest rate hikes for the foreseeable future. Some analysts are even predicting interest rate cuts next year, although this is unlikely if inflation stays close to the upper end of its 3% to 6% target range. ■

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Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and left in 2014 to write on a wider range of subjects for several publications in SA and in the UK.

The monetary policy committee may be "close to the end" of its tightening cycle and the general consensus is there will be no more interest rate hikes for the foreseeable future.

Colen Garrow
Economist at Meganomics

The winners' trophy for the Call of Duty: Advanced Warfare Electronic Sports World Cup (ESWC) final on 3 May 2015 in Paris.

Commentators discuss a qualifying match at the 2015 Call of Duty European Championships at The Royal Opera House on 1 March 2015 in London.

Gallo Images/Getty Images

The video gaming stereotype: A teenager holed up behind a screen for (unproductive) hours on end, addicted to a virtual world.

The reality: People (many under the age of 20) playing intensely complicated games of strategy and making more money than some of the world's top tennis players and golfers.

Competitive video gaming tournaments are redefining sport as we know it.

Competitive video gaming tournaments are redefining sport as we know it.

In Asia, top eSports players are major celebrities and gaming is a full-time job. In China, eSports is recognised by the General Administration of Sport, and players reside in gaming houses that are dedicated to training them. They have the best coaches, hand-eye co-ordination specialists, psychologists and agents at their disposal – not unlike other top

WELCOME TO eSPORTS: *MORE THAN JUST A GAME*

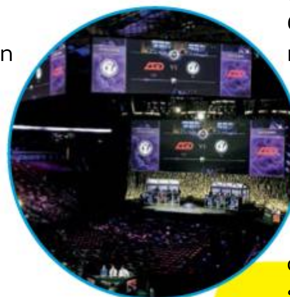
ESPORTS PLAYERS MAY COMPETE FOR GLORY IN VIRTUAL WORLDS, BUT THE GAMING WORLD THAT THESE PLAYERS, THEIR FANS AND AUDIENCES OPERATE IN IS VERY REAL. AND LUCRATIVE.

By Jana Jacobs

professional athletes.

South Korea has its own dedicated eSports stadiums, and in this country, like China, eSports players are akin to the Usain Bolts and Cristiano Ronaldos of the world. They attract audiences of millions and swim in massive prize pools.

But, is eSports a *real* sport? After all, how much skill does it require playing a game like Dota 2 (*Defense of the Ancients*) or *Counter-Strike: Global Offensive* (CS: GO), for example? No physicality is involved, and anyone can play a computer game. True. But physicality is not the only criterion for being a sportsperson. And not anyone can win $1m for playing a computer game.



A crowd fills the seats at the sold-out International Dota 2 Championships at Key Arena on 19 July 2014 in Seattle, Washington, USA.

Players describe Dota 2 as a combination of football and chess. Gaming skill is rooted in logic, mathematical skills, strategising and intense focus and concentration (games run for hours at a time).

In 2011, the eSports world was abuzz when Dota developer Valve Corporation said it would host The International – a Dota 2 competition. The announcement of a prize pool of $1.6m took the eSports scene by storm. The winning team would walk away with $1m.

The International has been held annually since then.

The latest International, which took place in August, had a prize pool of more

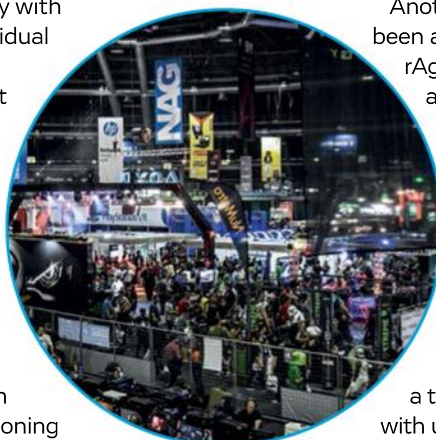
"We realise that gaming is a R2bn industry in South Africa, with more than 4m gamers competing across all major platforms."

than $20m, according to Valve's site. The winning team from China, Wings Gaming, walked away with $9.1m, while the runner-up, the US's DC, left with $3.4m.

As a comparison, this year's prize money for Wimbledon was £2m (or about $2.5m) for the men and ladies' singles winners and £1m each for the runners-up. Even if the International winnings were spread across a team of five, each player would walk away with more prize money than the individual winners of Wimbledon.

"These prize pools I believe not only help increase the legitimacy of eSports and fuel the aspirations of players across the world, but just the size of these prize pools helps bring them into the mainstream media conversation. I might not be able to interest the man on the street with a conversation on Dota or Counter-Strike, but I'm sure I can get his attention mentioning a $20m prize pool," says Gareth Woods, eSports ambassador and director of eSports marketing specialists Good Game Well Played.

In 2013, *Forbes* reported the US recognised gamers as professional athletes, allowing them to enjoy the same visa and travelling privileges that other competitive athletes do when competing internationally.



The 2016 rAge Expo in Johannesburg.

The rise of eSports in SA

Telkom has been involved with gaming in South Africa for more than a decade and was the first to host online gaming servers locally, explains Jon Parsons, editorial manager at Telkom gaming. The company also started the Digital Gaming League (DGL), South Africa's largest online computer and console gaming competition, which currently hosts more than 10 000 players.

"We realise that gaming is a R2bn industry in South Africa, with more than 4m gamers competing across all major platforms. More specifically, eSports is a worldwide phenomenon that could one day overshadow traditional sports (if it hasn't already), which is why we established the DGL: to develop the local eSports scene and bring in new gamers through casual gaming competitions, improved spectator access and increased awareness – much like traditional sporting systems," says Parsons.

At the beginning of 2016 the Telkom DGL announced its 2016 DGL Masters tournament, which boasted a R1m cash prize pool – the largest prize pool in the history of South African eSports.

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cash prize pool – the largest prize pool in the history of South African eSports.

Another eSports heavyweight that has been around since 2002 is the annual rAge expo, which is owned, managed and run by NAG, a gaming and tech platform. rAge has seen between 8% and 12% yearly growth in terms of exhibitor and visitor numbers and sponsorships since it launched, says Michael James, publisher for NAG, IGN Africa and senior project manager for rAge.

James describes rAge as a traditional expo exploding with unique content. "It's sort of a combination of 'geek culture', which includes the latest releases in video games and tech; comic books, science-fiction, an Artists' Alley and cosplay stage area, as well as local coders introducing their own games for the first time."

The latest expo, with 124 exhibitors, was held in October in Johannesburg and saw 34 693 visitors over the three days. This year over R2.2m in cash and prizes was also given away at the four eSports events.

"eSports was massive at this year's expo with major tournaments being played, international shoutcasters [eSports commentators] and hosts in attendance, and the introduction of Africa's first-ever eSports Branding Summit. This is the start of something big in South Africa," says Lauren Das Neves, marketing manager of rAge.

The eSports community in SA is very real, and growing. Is this the right time to take eSports to a wider audience?

Sam Wright, founder and editor of Tech Girl, says while there is definitely a wide audience for eSports in SA, the problem has been reaching the audience outside the eSports scene. In SA, supportive marketing, public relations and promoting

Gareth Woods
eSports ambassador and director of Good Game Well Played

Michael James
Publisher for NAG, IGN Africa and senior project manager for rAge

Jon Parsons
Editorial manager at Telkom Gaming

Theuns Louw
CEO of Aperture Gaming

Images supplied | Gallo Images/Getty Images | rageexpo.co.za

eSports players compete at the Tokyo Game Show on 17 September 2016 in Chiba, Japan.

players professionally is still a problem. Many players have full-time jobs, which does not allow much time to build up their gaming profile. Sponsorships, should teams be lucky enough to have them, do not necessarily cover (neither are they aimed at) boosting public relations. This means that, in SA, the profile of professional gaming is not as high outside the eSports community as it could be.

This is beginning to change. Wright says that the Telkom DGL had a lot to do with this when it launched and opened up the eSports world to a wider public.

"2016 has been a good year, and foundations have been laid. There is room for expansion going forward," she says.

James agrees and says Telkom has worked to put eSports in the spotlight and that any reputable, sustainable investment in eSports should be supported.

It's this passion to grow eSports and provide local players with opportunities that led Evetech – one of the leading gaming tech suppliers – to invest close to R1m in building a professional facility dedicated to all things eSports at the Evetech head office in Centurion. Evetech hosted its first event, the Evetech Champions League (ECL), here in September. Teams competed in CS: GO. The prize pool was R150 000 – the highest CS: GO payout in SA to date.

"eSports is the future [of sport]," says Imran Sorathia, managing director of Evetech. In this vein, "like any other sports you're watching on TV, we want to bring eSports to local TV". In order to achieve this, Sorathia explains that what is being broadcast must measure up to international standards.

"We are going to host a lot of competitions here. We're planning at least four per year – the ECL being the first we have hosted." The Evetech venue is ready, and available to the eSports community to host media events, game launches and all other eSports events. Sorathia believes that SA is ready to embrace the expansion of eSports, and is confident that broader-based coverage and commitment to the scene will rapidly grow it.

NAVIGATING THE GAME

Here is a quick rundown of two video games popularly played among eSports teams in SA. Dota and CS: GO teams consist of five players that work together to win.

***Defense of the Ancients* (Dota):** The objective is for teams to destroy one another's Ancients – heavily guarded structures on opposing ends of the map, or battlefield. Each member of the team assumes the role of a hero, an avatar who has unique abilities, and they work together in an attempt to defeat the opposing team over several rounds.

***Counter-Strike: Global Offensive* (CS: GO):** Teams play as Terrorists or Counter Terrorists. The objective is to eliminate the enemy team over several rounds of play. The game consists of objectives such as planting the bomb (Terrorists) or defusing the bomb (Counter Terrorists) within a given amount of time. ■

Getting in on the game

Theuns Louw, CEO of Aperture Gaming, believes that events brought to the gaming world by the likes of Telkom and Evetech will only grow bigger. "I believe we are in the grafting stage and nearing the point where serious investors are paying attention to an undeniable business opportunity."

But Telkom and Evetech's investments into growing eSports in SA make sense – both companies stand to gain directly because of their product offerings: Telkom's fibre, and Evetech's equipment.

Does it make sense for companies that are not tech, or entertainment based to get involved?

"In a world where the average number of hours watched in TV has declined dramatically, where circulation of print is in decline, the next best place to advertise your products to a highly connected early adopting community is to advertise into the eSports community either via teams or hosting events, " says Louw.

Perhaps the most appetising for potential sponsors is the reach and consumption levels of eSports fans, believes Woods. "The majority of eSports viewers are in the 16- to 26-year-old age group – typically referred to as millennials and, as advertisers will attest to, this group does *not* consume traditional media – they don't watch your TV commercials, they don't listen to radio and they certainly don't see your print ads – their average TV consumption is 15 minutes per day, but their average online media consumption is over an hour." eSports provides companies whose products may not be directly linked with eSports with a channel to connect directly with millions of these millennials.

Parsons reiterates the unlimited marketing potential offered by the massive online viewership for eSports: "The 2015 League of Legends World Championships, for example, recorded 334m unique viewers over the duration of the tournament. This is an average of 4.2m concurrent viewers at any time."

Wright points out that the expense that comes with gaming – especially if a team

Members of G2 Esports warms up prior to the match against Ninjas in Pyjamas at the ELeague Arena at Turner Studios on 3 June in Atlanta, Georgia, USA.

is not sponsored – is immense. For this reason, and based on SA's demographics, eSports tends to be more prevalent among higher LSMs. "The market is niche, but loyal," Wright says. She believes companies and corporates that get involved to promote the eSports scene will be able to tap into this well-off market.

But it is important that any potential sponsor looking to get involved does so in the right way, and does not simply "throw money at it", emphasises James – they need to be educated about the industry. This means conducting proper research, talking to people in the industry who have experience with and an understanding of the eSports world. "There are lots of fly-by-nights that come and go from tournament to tournament, but they don't really get the culture."

Over and above the emphasis on education, which James believes is essential to the future growth of eSports, he feels that potential sponsors really need to get involved with players. One way that this can be done is by getting in on the ground level and investing in an eSports team – right now the buy-in would be quite cheap.

Parsons agrees and believes that although certain corporate companies may not see the direct link they could have with eSports, there are many avenues to get involved – for example through Telkom or the DGL, or by throwing their weight behind one of the local teams. "South Africa is fortunate enough to have a pool of incredibly talented and dedicated players to pick from. They just need a little help to climb up onto the international stage and compete." (See sidebar below.)

I think the outlook for eSports in SA is very promising and I believe we are only just at the tip of the iceberg – the *real* growth is about to come.

South Africa still has a lot to get done in order to elevate eSports to the masses, as it were, but judging by the passion and commitment of the industry, this could very well soon become a reality. Says Woods: "I've been in the gaming scene for a few years and the growth we've seen over just the past year has been meteoric. I think the outlook for eSports in SA is very promising and I believe we are only just at the tip of the iceberg – the *real* growth is about to come."

It seems that it will pay off to get behind SA's scene now. After all, nobody likes to lose. ■

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SA'S eSPORTS PLAYERS

Aperture Gaming is one of the top South African gaming teams. Speaking to *finweek*, Aperture team manager Riccardo "Export" Rizzo is positive about initiatives such as the Telkom Digital Gaming League and Evetech's Champions League in terms of growing players in SA. "It's the start of something that you can see will grow and mature into something much bigger."

One of the biggest challenges for them as gamers is competing internationally. Bob "Bob Euls" Yuill believes that the opportunity for local gamers to go overseas to compete is there, should investment in local players focus on raising them to the skill level of international players. This investment will require teams or individual players going overseas for several months in order to train and compete. "At this point I would say that the only RSA team that can compete at this level in the Dota scene is BVD [Bravado]."

Michael James, publisher for NAG, IGN Africa and senior project manager for rAge, points out that this is where potential sponsors can get involved. Like any sport, being able to compete against the best of the best is how experience is built. He is confident that as the country grows and the player base expands, we could see more SA players on the international stage.

Gareth Woods, eSports ambassador and director of eSports marketing specialists, Good Game Well Played, also echoes the importance of investing in teams, especially those that may not be at the top level, in order to develop more players. "If we use the analogy of rugby in South Africa it's similar to what alternate leagues such as Varsity rugby, school boy rugby, the Currie Cup and others do to develop the game at various levels. If the only league we had was international (Springbok level) rugby – while this might be aspirational for many – it wouldn't grow the sport as much as having various leagues and levels of competition." ■

Gallo Images/Getty Images | reddit.com

One of the Pivotal Property Fund's projects in Alice Lane in the heart of Sandton.

LISTED PROPERTY: A TIME OF ALIGNMENT AND REFINEMENT

Size, quality and diversity are key elements to a defensive stance in challenging times and despite weak fundamentals, the property sector still provides attractive yields.

By Glenda Williams

It's been a tough year for the country with even the resilient property sector beginning to show the effects of trying economic conditions.

Brexit and volatile bond yield movements have exacerbated local headwinds, the sector now underperforming bonds and relinquishing its top spot as the best-performing asset class, a position it held in the first two quarters.

But the property sector still managed to outperform both equities and cash year-to-date, producing between 8% and 9% dividend-per-share growth.

The SA listed property sector may be facing weak economic fundamentals, but it does provide an attractive, growing yield in a global low-yield environment, according to Absa's 3rd *Quarter Asset Management Investment* report.

There's another reason why pundits are more upbeat about the sector and it has to do with the close, positive correlation between listed property and bonds, the asset class expected to hold up in concert with bonds.

Declining economic growth has in particular seen softening in the office space, with vacancies rising and rental prices coming under pressure.

Reduced office space requirements as well as new developments coming on stream means competition between landlords is fierce.

For property funds looking to dispose of non-core B-grade office space, this could present a particular challenge.

"Office space is challenging because B-grade space is being displaced by new A-grade and P-grade space with cheaper cost of occupation, building efficiencies and in some instances better location where employees can work, play and live," says Keillen Ndlovu, head of listed property funds at Stanlib.

"Consolidation of space by big corporates will also drive vacancies in the office space. At the moment we have a negative view on office [space] and prefer retail to all other asset classes." In pursuit of a retail bias, the R15.6bn Vukile Property Fund recently exchanged 29 of its retail, office and industrial properties valued at R2.43bn for Synergy's entire retail portfolio of 14 properties valued at R2.47bn.

"Retail specialist funds tend to trade at a premium on the JSE and hopefully the quality coming through from new Vukile [properties] will attract such premium," says Ndlovu.

Keillen Ndlovu
Head of listed property funds at Stanlib

Size matters

In spite of size, well-managed small caps can be very resilient. But in challenging conditions casualties in the sector are typically greater among these smaller funds.

Size and diversity, like that of the country's two largest real estate investment trusts (REITs), Growthpoint and Redefine, can make a fund strongly defensive, boding well for challenging times.

Growthpoint Properties Limited, the country's largest REIT with assets valued at R112.5bn, can boast of a portfolio of 526 properties, 467 local properties valued at R73.8bn, 58 in Australia through the company's investment in GOZ valued at R30.9bn, as well as a 50% interest in the V&A Waterfront valued at R7.8bn.

The company delivered 6% full-year distribution growth to 30 June 2016, kept gearing conservative at 30.5%, debt fixed at 86.6% and decreased cost of debt from 9.3% to 8.5% through cross-currency interest rate swaps.

Income from the SA portfolio contributed 75.9%, V&A 8.5% and GOZ 15.2%.

During the year Growthpoint invested an additional R398m into GOZ by electing to reinvest its distributions. It also invested R2.4bn in developments and improvement to its local portfolio. The company acquired R840m of assets and disposed of assets worth R1.1bn and has committed R1.7bn to future developments.

Market shifts and influences on investment criteria will see Growthpoint also disposing of 13 non-core office

properties, the company's office portfolio of R33bn reducing by over R1bn after disposal.

Despite a weak macroeconomic environment, Growthpoint expects stable property fundamentals and anticipates achieving dividend growth for the coming year at a similar level to the 2016 financial year also on the back of opportunity to grow international distributable income.

But economic headwinds are putting smaller development-focused funds under pressure. Access to capital, currency flip-flops and six-month swaps are added headwinds that restrict growth in the development arena.

Capital is essential

With no capital to execute, the development pipeline suffers. It's a position Pivotal Property Fund, a development-income focused fund with a R12.9bn portfolio, found itself in. Pivotal's income-producing assets comprise eight retail properties, 10 offices and three industrial sites, a number of development properties with four active developments, and assets in Africa.

Even while the fund saw a 17.3% increase in net asset value (NAV) for the 12 months to 31 August 2016, interest rate swaps, strengthening of the rand and the fund's exposure in Nigeria constrained growth, the fund trading at a 25% discount to NAV.

Despite quality assets, financial instruments pulled it back, putting significant pressure on Pivotal's ability to generate satisfactory development profits and investment returns. Management found itself caught between a rock and a hard place.

Pivotal could have plodded on, reducing its already diminishing development pipeline. It could have even converted to a REIT. But both options would have compromised value to shareholders and the latter would have put the small fund at risk of a hostile takeover.

Pivotal CEO Jackie van Niekerk took the brave but painful decision to do what was best for shareholders – a merger with Redefine Properties. "Redefine is the best fit. They are big enough to weather the storm and have the same values and ethos as Pivotal," she tells *finweek.*

Says Ndlovu: "Pivotal has been a tightly held stock with low liquidity and has been trading at below NAV while owning iconic assets such as the Alice Lane precinct in Sandton. The proposed swap ratio seems more attractive for Redefine. However, Pivotal shareholders will have to decide on giving up NAV upside potential on future development profits for Redefine's strong liquidity, scale and diversification, REIT status and potentially a better NAV rating inside Redefine while maintaining access to Pivotal assets."

Subject to the Competition Commission and shareholder vote end November, the deal will go ahead with Pivotal delisting end January 2017.

Redefine Properties – even during a period marked by unknowns outweighing the known (see graph) – expanded its property base by R8.9bn (the bulk of that a €1.2bn investment in Poland), maintained loan to value below 40% and increased distribution per share by 7.5% for the full year to end August 2016.

A savvy hedging policy ahead of Brexit affords the company added protection in 2017, nor does its retail portfolio have any exposure to Stuttafords, the fashion retailer applying for voluntary business rescue. Significantly, the company is also

Jackie van Niekerk
CEO of the Pivotal Property Fund

protected against interest rate spikes with 82% of its debt fixed.

Even given challenging conditions, the company anticipates growth in distributable income per share of between 7.5% and 8.5% for 2017. As the second-largest REIT in the country with assets valued at R72.7bn, Redefine's acquisition of Pivotal's portfolio will advance the fund's reach in Sandton and consolidate its position in Rosebank. It will also advance the company's strategy of acquiring A-grade office space in the country's sought-after and better-performing urban nodes. Once finalised, Redefine will operate approximately 350 properties totalling nearly 5.7m square metres across the country and it will add R11bn to the company's local property portfolio.

The company's focus however does not extend to Pivotal's African interests, which are to be disposed of, Redefine Properties CEO Andrew Konig tells *finweek.*

Redefine has not ventured outside of SA into the rest of Africa, its local exposure forming 77.4% of its portfolio while it has a 22.6% exposure to a blend of hard currency markets like Australia, Germany, Poland and the UK. Income from these international assets contributed 25.9%, up from 16.7% in the previous year.

There is no plan to expand that offshore geographical footprint, although the company's international strategy does include continued expansion in euro-denominated growth markets like Poland and expanding exposure to student accommodation in Australia.

Despite the #FeesMustFall campaign, Konig expects the demand for quality student accommodation space locally to intensify, the company intending to supply around 10 000 student beds in the country by end 2017 through its 51% holding in student-focused company Respublica.

Also on the agenda is the harnessing of industrial land in KwaZulu-Natal, Cape Town and Johannesburg with specific expansion into the industrial logistics sector. ■

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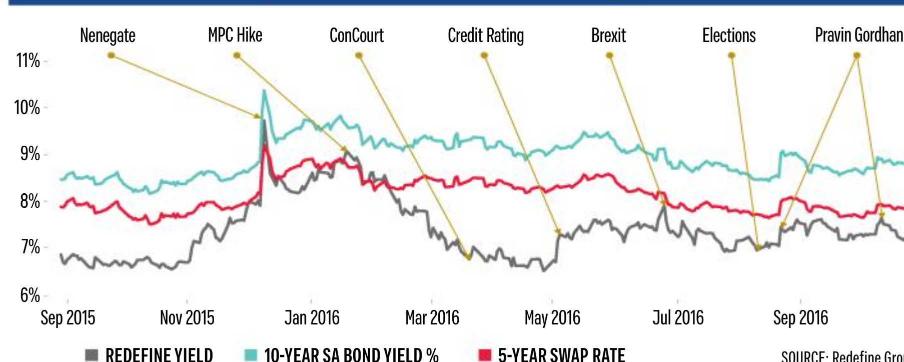
MACRO ENVIRONMENT - KNOWNS OUTWEIGHED BY UNKNOWNS



SOURCE: Redefine Group

Images: Supplied

on the money

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>> **Management:** How to hang on to key staff members *p.44*

CEO PROFILE

By Lloyd Gedye

Sitting on a transformation time bomb

Rising from the ranks to become president of the Black Management Forum, Mncane Mthunzi wants to drive transformation in business – an area he believes has been neglected by both government and the private sector.

Leaders in business need to take transformation as seriously as they took the charges against the minister of finance, says Mncane Mthunzi, the 12th president of the Black Management Forum (BMF) in its 40 years of existence.

"They need to stand up and say this is wrong," he says.

Mthunzi is the first BMF president to rise all the way from the bottom – from a student chapter of the BMF to head of the organisation – and he says the credit must go to the BMF forum for grooming black business leaders like himself.

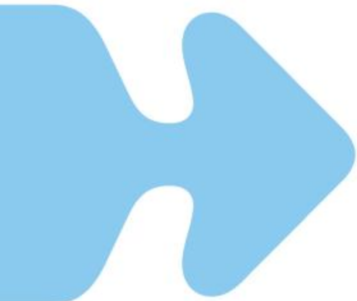
Now, under his leadership, the BMF is gearing up to tackle transformation in the business sector. "We are disappointed with the slow pace of transformation," he says. "Captains of industry don't realise that we are sitting on a time bomb."

Some of the key decisions taken by the BMF in its draft resolutions on transformation document include a call for an employment equity tribunal, broader department of trade and industry support for black industrialists, stricter procurement thresholds for black economic empowerment (BEE) and a call for the JSE to force companies to include race when they report on their employment equity plans. (The JSE announced on 1 November that

Mncane Mthunzi
President of the Black Management Forum

The theme at the BMF's 40-year anniversary conference this year was making transformation a business imperative.

Images: Supplied



The BMFI's continued focus is on seeking private investment opportunities in the small and medium enterprise space, targeting companies with equity valuations in the range of R50m to R400m with a view of growing its portfolio.

companies will have to disclose racial diversity at board level.)

Mthunzi says there is a desperate need to hold companies accountable for meeting their employment equity obligations. "Government has abdicated its responsibility by not being vocal and not going after non-compliant companies."

Mthunzi feels that if the carrot is not working, you are forced into a position where you have to pick up a stick.

"More than one hundred companies didn't submit employment equity reports [in 2014]," he says. "Two years later nothing has happened."

The *Jack Hammer Executive Report*, released late last year, revealed that the proportion of CEOs who are black South Africans has fallen from 15% in 2012 to 10% in 2015.

In April 2016 the *Commission of Employment Equity Report* revealed that the top management representation within corporate South Africa sits at 14.3% black and 68.9% white, compared to an economically active population of 77.4% black and only 9.9% white.

In its annual report the BMF noted with "deep concern" the reversal of transformation gains where black CEOs of major companies were replaced by white candidates in cases where qualifying black candidates were available.

"It is for this reason that we have been critical of appointments made by MTN Group; Tiger Brands; ArcelorMittal SA; Nestlé SA and Sasol, to name but a few," stated the BMF. "We have on the other hand applauded the progressive appointments made by Nedbank; Telkom Business Connexion; Edward Nathan Sonnenberg [law firm] and the Transnet Group, to name a few."

The BMF is not afraid to take on big players in corporate SA, even ones who are major sponsors of it, like Sasol. "People think that when you take money from companies, you can't criticise them," says Mthunzi. "We maintain our independence."

Mthunzi says the Employment Equity Commission is a "toothless bulldog".

"There is no bite." This is why the BMF feels SA needs an Employment Equity Tribunal, which can be a court where companies are prosecuted for non-compliance and fined.

Mthunzi says he sees this working in much the same way as the competition authorities, where the commission is the prosecutorial arm and the tribunal acts as a court.

Financial challenges

One thing that will be troubling Mthunzi is the financial performance of the BMF.

Its annual report states that the last several years were some of the most "financially challenging" that the BMF has ever experienced.

The report says the financial position of the entity has declined by R5.7m, or 20%. Overall, the surplus for the year has decreased by 389% from R2 570 266 to a deficit of R7 431 037.

This is attributed to higher operating costs and a decline in revenue from the BMF's investment vehicle, Black Management Forum Investments (BMFI). The BMFI was set up in 1993 with the intention of ensuring the sustainability of the organisation.

The BMFI's continued focus is on seeking private investment opportunities in the small and medium enterprise space, targeting companies with equity valuations in the range of R50m to R400m with a view of growing its portfolio.

The current gross value of the BMFI portfolio is R348m.

"The deficit for the year was attributed to the decrease in investment income as dividends received from the BMFI.

"Income from the BFMI declined from R12.8m in 2015 to R5.6m in 2016," reads the annual report.

"Our financial performance has been less than impressive in this financial year," admits Mthunzi. "However, we are confident that we have made a correct diagnosis of our challenges and corrective

Outside the boardroom

It's difficult to get Mthunzi to talk about himself. "I am here for the BMF, it's not about me as a person," he says. He has been in the job for just over a year and says it was an honour to be elected and a pleasure to serve.

However, he admits that when he's not trying to spur government into action or hold corporate South Africa accountable, he likes to sleep and read.

He says having a relaxed social life helps him recover from the stress and pressures of the job.

Sundays are his favourite day, the day he gets to do absolutely nothing.

"I read a lot," he says. "I also write. I am passionate about writing, I love words."

His rule is no business or political books on the weekend. "I like reading novels, getting my head in someone's story," he says.

He also enjoys cycling to keep fit and often spends the weekends spinning 1970s and 1980s soul and R&B on his turntable. ■

Gallo Images/Getty Images/Cornel van Heerden/Foto24

INSPIRATION FROM PAST LEADERS

At its core the BMF is an organisation of intellectuals and thought leaders, says Mthunzi. The BMF decided to draw on the expertise of its past leaders, and conceived a national tour of lectures given by past BMF presidents, which includes minister of international relations and cooperation Maite Nkoana-Mashabane, who gave a lecture in Johannesburg on how economic transformation requires patriotic business leadership.

Bonang Mohale lectured in Kimberley in April on the role transformational leadership plays in economic sustainability, and Bheki Sibiya lectured in Klerksdorp in May on the blueprint for industrialisation. ■

▲ Wits University students block and barricade entrances to the institution during a #FeesMustFall protest.

measures are being implemented.

"The year under review had experienced tough economic headwinds and our performance is in context of the economic environment that we operate in."

The BMF at 40

The theme at the BMF's 40-year anniversary conference this year was making transformation a business imperative.

It has been a year with a lot of reflection for the BMF, a lot of thinking about how to position the BMF in 2016 and how to strengthen the organisation internally, Mthunzi points out.

The BMF was founded in 1976 by a group of black managers who felt they could support each other in what was a very hostile environment in corporate SA.

The ultimate objective was to assist in transforming the South African economy by helping blacks to rise in the companies they worked for.

The BMF conceptualised and lobbied for both employment equity and black economic empowerment legislation, and it continues to be vocal on these fronts, calling out companies that don't comply and lobbying government to monitor and penalise non-compliance.

Mthunzi is proud of this legacy and points to the resolution taken in the late 1990s by the BMF in Stellenbosch for an empowerment commission, which evolved into the Empowerment Act and is an important part of the organisation's history.

Mthunzi says the BMF's affirmative action blueprint resulted in the Employment Equity Act we have today.

The BMF currently boasts 35 branches and over 11 000 members, with Gauteng (46%), the Eastern Cape (16%), the Western Cape (11%) and KwaZulu-Natal (8%) making up most of the membership. Some 89% of its members are black, 6% coloured and 3% Indian.

Currently, 63% of members are male and only 37% are women. The BMF says it is ready to tackle the patriarchy and is looking to facilitate better networking opportunities for professional women and to add its voice to condemning the harassment of female professionals in the workplace.

Currently, 63% of members are male and only 37% are women. The BMF says it is ready to tackle the patriarchy and is looking to facilitate better networking opportunities for professional women and to add its voice to condemning the harassment of female professionals in the workplace.

Busi Mavuso was appointed as the BMF's managing director and Mthunzi feels she has made an impressive start. Mavuso has been with the BMF since 2009, previously holding the positions of chief financial officer and operations director. ■

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Yes, fees must fall

With Mthunzi's rise from student to president of the BMF over the last 22 years, it's no wonder he has opinions on the #FeesMustFall protests.

"The BMF is for free education," he declares. "We believe that South Africa can afford it."

Mthunzi says there must be free education for all, but those who can't afford it, must benefit first.

One way the BMF is proposing funding free education is through a wealth tax.

The call for a wealth tax is part of a document titled *Draft resolutions on Transformation* that came out of the BMF's recent AGM.

"We call on the Davies Tax Commission to investigate modalities on wealth tax," reads the document. "Such a tax must be ring-fenced for critical and urgent social needs such as higher-education funding and capitalisation of development finance institutions."

Mthunzi says the members of the BMF put their heads together and asked, "How would we finance it?" He says leaders in the BMF's student chapters are currently working with some of the BMF board members to draw up a BMF position document on this issue. ■

By Jessica Hubbard

Bringing high-performance telecoms to SA's remote locations

Kliq, which has been running for five years, provides high-speed internet connections to customers in far-flung regions through its wireless network, which is 1 000km long. We spoke to one of the company's founders, Erik Oosthuizen, to find out more.

Kliq Holdings, the brainchild of entrepreneurs Erik Oosthuizen and Gareth Farrow, is geared towards providing world-class infrastructure to companies located in remote areas, out of reach of 'traditional' telecommunications services. The company, a finalist in the 2016 FNB Business Innovation Awards, constructs remote networks for clients in a high-performance package, thereby connecting major listed companies as well as small, medium and micro enterprises (SMMEs) in far-off locations. Oosthuizen talks about Kliq, sharing his vision for the increasingly Africa-focused tech company...

What did you do prior to starting your own business?

I was born in Windhoek, Namibia. After school and military service in Namibia, I came to South Africa to study a BA and B Divinitatis (theology) degree at the University of Pretoria. I decided to start with my own business as early as possible in order to become financially independent. My business ventures ranged from owning a grocery store to owning Autopage and @lantic franchises. By the time I completed my BCompt. degree through Unisa, I had grown my chain stores and sold them to fund the new wireless venture.

Gareth Farrow started working at a local IT shop doing basic computer repairs and construction. After that, he held various positions that mainly involved government networks and infrastructure, until he discovered that he had a passion for networks. Farrow then joined a company that was attempting to provide long-range wireless to the most remote areas in South Africa. That venture, too, ultimately failed, but he had seen what was possible within budget limitations. Farrow had figured out how to build and manage a network and associated infrastructure in a way that had not yet been done, and it worked well beyond his initial expectations. After 11 years of learning networking, sales and business in a very non-traditional way, he was able to pursue a business he had grown very passionate about.

What was the need/gap you identified?

Connecting our customers' remote offices to their head office – from areas where no proper telecommunication services are available – with reliable, cost-effective, high-speed services. We wanted to deliver in remote areas with no fibre infrastructure – and to compete one-on-one with fibre.

When did you officially start operating?

In August 2011, the first customers were connected on our link from Johannesburg to Lephalale in Limpopo. Today, Kliq dominates the remote areas around Lephalale, including the Medupi power station, Resgen Boikarabelo mine, Exxaro Grootgeluk mine and the Anglo American mine.

How did you get funding to get started?

After selling the Autopage and @lantic franchises, the majority could be financed with our own capital, but we also made use of venture capital provided by business partners.

Erik Oosthuizen and Gareth Farrow
Founders of Kliq Holdings

> We wanted to deliver in remote areas with no fibre infrastructure – and to compete one-on-one with fibre.

Be inspired by **FNB Business INNOVATION Awards 2016**

Melvyn Lubega and Andrew Barnes, co-founders of innovative, global online learning portal GO1, were announced as one of the celebrated finalists of the **FNB Business INNOVATION Awards 2016**.

These remarkable young innovators have developed a cloud-based platform that organisations can use to deliver training easier and faster, while leveraging their

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training providers worldwide.

Launched only two years ago, the
in five countries and clients in mo

You too could scale your busines

Q&A:

What have been the three biggest difficulties you've had to overcome?

1. To build the right team and Kliq tradition
2. Capital strain in the first two years
3. International expansions

The biggest lesson learnt?

If you really have to compromise, you can compromise on everything... except customer service.

How tough is competition in your sector, and what differentiates your product/service from others?

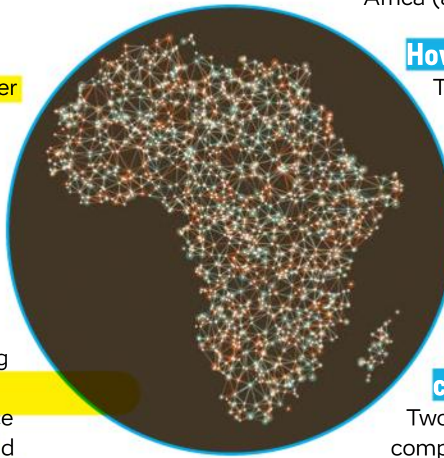
The development in wireless technology is so rapid that if a service provider knows what it's doing, it can compete 100% with fibre on reliability and speed – even over long distances (over 300km) at a fraction of the cost. This then makes more and more service providers start using wireless technology, and increase overall competitiveness. Also, the unique way that we build our network makes it so reliable that we offer the same – if not better – service level agreements (SLAs) than the standard fibre contracts.

How many people do you currently employ?

Twenty-two in South Africa.

What is the best business advice you've ever received?

Treat your employees as an investment, not a liability – because your growth and return on investment depends on them.



That if a service provider knows what it's doing, it can compete **100%** with fibre on reliability and speed – even over long distances (over 300km) at a fraction of the cost.

What was unexpected?

In spite of a difficult economic and political environment, we could still keep our growth above 60% average compound growth over the past five years and expand our network countrywide in South Africa (and now also into Botswana).

How do you stay motivated?

To see satisfied customers, the growth in the company, in every employee and within myself.

What are your non-work habits that help you with your work-life balance?

Maintaining a positive attitude and lookout towards life, my family and country...

What is your three-year goal for your company?

Two international expansions, above 55% compound growth in every country, with a 40% compound growth in employees.

What makes the South African technology environment uniquely excitingand/or challenging?

Due to endless opportunity, it is a brilliant place to build our intellectual property and to build a multi-national company...

Do you have any advice for fellow technology entrepreneurs?

Don't fight for customers – rather focus on developing better technology and help create a bigger market! ■

editorial@finweek.co.za

Images: Supplied

Getty Images/iStock Images

finalist - GO1.

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If you have founded and run a business that you believe has the potential to **compete on a global level**, and you want to gain both **local and international exposure**, enter the **FNB Business INNOVATION Awards 2017**.

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By Glenda Williams

Stylish and well-behaved

The refreshed and bolder looking Toyota Auris Xi hatch continues the tradition of even-tempered and refined road manners.

Images: Supplied

The Toyota Auris Xi is not quite an eyebrow-raiser, being neither a flashy hot hatch nor endowed with any particularly quirky characteristics.

But what the Auris Xi might lack in the dynamic personality department, it makes up for in heaps with traits that are perhaps even more important; qualities that have put the Toyota brand in the driving seat in terms of brand loyalty (see box).

Loyalty aside, there is plenty to consider when buying a new car – price, purpose, and even residual value. As economic conditions have soured, these have become yet more central to the buying proposition.

Then there is the look.

Toyota design, while crisp, has mostly leaned towards the conservative. Understated perhaps describes it best. But the Toyota Auris Xi is proof that the Japanese carmaker is beginning to break out of that conventional design style mould.

Styling of this sleek hatch reflects a leaning towards something a tad more adventurous. It's not as ordinary looking as its predecessor and even less so if it happens to be in citrus, the colour of *finweek*'s test car.

A facelift earlier this year has produced a hatch that, while still crisp in design, is significantly more streamlined and handsome. The sleek face now includes more chrome and an ample grille that runs the full width of the front end, mirrored by the sweeping, lusty black air dam, while the rear end is now broader and deeper. Together with the shark fin antennae and 16-inch alloy wheels, it adds up to an altogether bolder and sportier look.

Inside the cockpit is just as impressive. The roomy cabin, which accommodates five, is polished and comfortable, sporting a combination of leather (such as the leather stitched gear knob and steering wheel), chrome and cloth while infotainment offerings come in the shape of a large centrally-mounted screen, radio with CD player, USB and Bluetooth.

This is a hop-in-and-drive car; formidably quick to familiarise oneself with and just as easy to drive.

The front-wheel-drive Auris Xi also boasts remote entry, electric windows, air conditioning, an adjustable steering column and comes fully decked out with driver, passenger and side airbags. And there is no lack of cargo space so this stylish, reliable and fuel-efficient hatch certainly speaks to the needs and wants of its customers.

This is a hop-in-and-drive car; formidably quick to familiarise oneself with and just as easy to drive. There is something to be said for refined simplicity and intuitive, well-positioned switchgear, all of which this car offers.

Those who expect a quality ride will not be disappointed. Cabin noise is negligible, the seats comfy and supportive and nary a squeak or rattle is to be heard in this solidly-built vehicle.

It's a quiet and comfortable ride, the driving experience a tranquil one. As one that is always in a frenetic rush, I found

myself calming down substantially behind the wheel of the Auris Xi. What the reason for this is I am yet to quite fathom out. But whatever the reason, it's a positive one.

Well-behaved comes to mind when describing this car. The power steering is true, braking sharp from the ABS brakes and on-road stability impressive, all of which equates to a hatch that sits solidly on the tar.

Aside from the quality built offering, perhaps the Auris's biggest drawcard is its on-road demeanour. The ride is refined and well-damped, allowing for smooth transition over an assortment of surfaces, the suspension and superbly fluid 6-speed manual gearbox aiding much to a pleasurable driving experience.

Whether trundling the streets of the city or cruising the highway, the car is even-tempered and polished. The more you drive this car, the more you enjoy it and appreciate the qualities it offers.

The Auris Xi delivers most of what it promises except in the power department. Toyota has eschewed a forced induction engine in favour of a naturally aspirated mill. But the 1.6 litre four-pot lacks punch, requiring a fair bit of upper rev range use. Though a comparison to a zestier forced induction engine is akin to comparing apples and oranges, the car still feels underpowered, power delivery not quite linear.

That said, having to shift down a mite more to get more vigour from the petrol engine becomes less bothersome because of the car's top-notch gearbox, the latter getting an A+ on my report card. Then too there is the argument that naturally aspirated engines are more reliable than their turbo-charged counterparts. That, though, is another story for another day.

Driving with more zeal plus more urban than highway use meant fuel efficiency didn't quite match combined figures, nearer to 8 litres/100km. This is still not bad considering a heavy foot on the accelerator and the fact that the car was put through a multitude of incline-heavy routes.

Less peppiness in the Auris Xi is not likely to "turn" a Toyota owner. Brand loyalty runs deep for all of the car's other qualities. Potential buyers of the Auris Xi would also perhaps be less likely to have performance high on their list of must-haves anyway so this drawback may, for all intents and purposes, be moot.

The car is positioned in the highly competitive C-segment, a subdivision of the car market that has an over-abundance of offerings. Yet, together with its Corolla and Quest siblings, the Auris Xi is one of Toyota's models that help keep the Japanese carmaker at the top of the sales pile in the country.

There's good reason for that as the car demonstrated over the week of the test that it is solid, reliable and comfortable. It's a well-built car inside and out with stylish looks thrown in for good measure. And you don't have to pay through the nose for it, all of which add up to traits that South Africans, given the plethora of uncertainties that surround us, may find very appealing.

So, it's not a hot hatch. And it's not supposed to be. But what this rock-steady, smart-looking hatch with its refined demeanour offers jittery consumers is a level of certainty. That, folks, is in short supply these days. ■

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Brand loyalty aids the Toyota proposition

Whether the latest offering is a snappy model or not, Toyota owners are normally resolute in their decision to remain within the brand's fold. There is good reason for that, much of which has to do with trust.

Toyota holds the title as the world's most valuable car brand, according to a study by market researcher Millward Brown, boasting a brand value of $29.5bn, pipping BMW into second spot with $26.8bn. The study also shows that more trusted brands grew 80% in brand value between 2006 and 2016 against less trusted brands that only grew 25%.

Brand loyalty is consistent with a reputation for producing high-quality cars. Those that are also to be got without too much of a cost premium add to the purchasing probability.

Japanese brands enjoyed a rise in brand loyalty as far back as the 1980s as a result of this happy meeting of quality and price. In the case of Toyota, this has not wavered much and has also transferred to the used car market where the perception of a high residual value further enhances the purchase decision.

That investment in reputation has helped Toyota stave off erosion in market share and has kept it at the top of South Africa's new car sales leader board.

TESTED:

TOYOTA AURIS XI, 1.6-LITRE 6-SPEED MANUAL

0-100 km/h: 10.0 secs

Top speed: 200km/h

Power/torque: 97kW/160Nm

Transmission: 6-speed manual

Fuel consumption (claimed combined): 6.2 litres/100km

CO_2 emissions: 145g/km

Luggage volume: 360 litres

Safety: Driver, passenger and side airbags

Warranty: 3yr/100 000km warranty

Service plan: 5yr/90 000km service plan

Price: R297 300

By *finweek* team

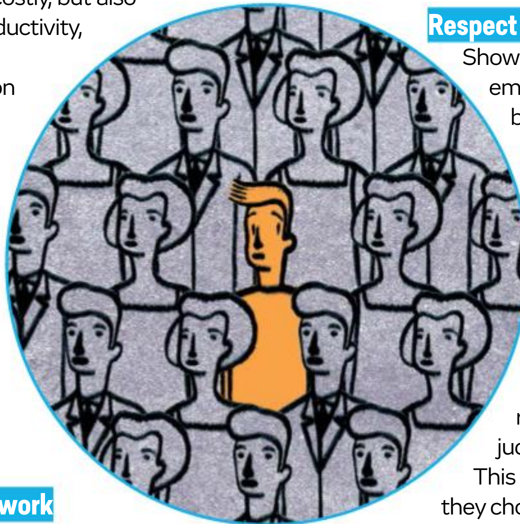
How to retain stars

Losing a key member can have a devastating impact on your team. A couple of small and cost-effective interventions can help you prevent a resignation.

You have one bright spark on your team. *One*. He's the guy who you can always rely on to deliver great work, on time. He always has an innovative solution for any problem, and can understand Stuart, who only communicates through grunts and eye-rolling.

And then, a resignation letter. Replacing the star member of your team will not only be costly, but also will mean a loss of know-how and productivity, and it will divert your energy for many months to come. Instead of focusing on the very real challenges of your job, you will now have to spend your time searching for a replacement and learning to speak "Stuart".

While you may have been assured by the departee that "it's not you, it's me", you have a sinking feeling that her resignation could have been prevented.



Here are some cost-effective ways to retain key staff:

Express gratitude and reward good work

Even small gestures for a job well done – a day off, a voucher for dinner or tickets to a soccer game – can make a huge difference in helping an employee feel valued. Call out great work in meetings or in the internal newsletter, and recognise those that are living the company values.

Be transparent

Keep employees informed about the real state of the business and be clear about how their work can make a direct contribution to achieve the company's goals. Communicate well and often, and keep it positive. Give employees a clear and inspiring vision of the future for the company. Make them feel secure and safe.

Create opportunities for growth

This may be the most important intervention to ensure retention, says Heidi Duvenage, head of Sage Talent Solutions, the recruitment division of the global payroll and integrated accounting group Sage. Make sure that your employees are not stagnating by giving them challenging tasks and the opportunity to learn new skills. "In today's ever-changing world of work, it is very important for top talent to be allowed to grow their competences at all times. Companies that don't create these opportunities run the risk that their best employees will move on to companies that do offer them the chance to learn new things."

Heidi Duvenage
Head of Sage Talent Solutions

Make sure that employees have access to training, and are encouraged to do online courses, for example. Also, hook up all your stars with in-house mentors.

Respect their lives outside of work

Show that you are serious about helping employees maintain a good work-life balance by banning email outside of office hours, or by being flexible with working hours and offering telecommuting on days that they have to stay home. Consider adopting a "result-only work environment": Instead of focusing on how many hours employees work, only evaluate *what* they have achieved. Employees then take total responsibility for their work, and are judged only on the outcomes they deliver. This gives them control of where and when they choose to work on their projects, allowing them to structure their working lives to what suit them best.

Also, help your employees to manage their domestic responsibilities by introducing support measures. In the US, many companies now offer employees laundry, delivery, handyman and even emergency childcare services at cut-rate prices.

See all personal emergencies as opportunities to demonstrate your willingness to support team members. When they ask for time off, be more than generous and assist them where you can. Apart from demonstrating basic human decency, this will also help you earn loyalty.

Encourage dialogue

Create opportunities for employees to talk about what they are busy with, and an environment (like a fun break room) to help facilitate contact.

Create a clear career pathway and promote from within whenever possible

Often employees will jump ship because it may actually be easier to find an open position elsewhere. Make sure your team knows exactly where they could be heading in the company if they deliver the goods. Show your confidence in star performers by awarding them key projects above their pay grade.

bizmisafrica.co.za | Gallo Images/Getty Images

In today's ever-changing world of work, it is very important for top talent to be allowed to grow their competences at all times.

Offer innovative benefits

Think of new ways to reward employees, preferably benefits that are tailored to their individual needs. This could include gym membership and on-site health services.

Cut back on nuisances

Talk to your employees about their most challenging frustrations in the office. Address these annoyances, for example, by cutting down on meetings. Following feedback from their staff, some companies, like Intel, have also introduced email-free days.

Ask for input, then implement their ideas

Engaged employees feel that their contributions are valued, and that they have the ability to shape their work environment. Create opportunities (even a good old suggestion box) to allow for feedback.

Start well

Studies show that how new employees are treated at the start of a new job can make a huge difference in how long they stay with a company.

Provide unexpected treats

From free boerie rolls to "bring your pet to work" days, there are many initiatives that can make your office a fun place. Create new traditions that are not centred on traditional holidays. Celebrate employees' personal milestones, for example by sponsoring dinner on a wedding anniversary or cards (or time off) on their kids' birthdays.

Structure long-term awards

Make sure that your remuneration and bonus structure reward goals that are achieved over longer periods. This could help keep employees for longer.

Avoid boredom

Mix up the day-to-day drudgery by regularly switching around tasks or seconding team members to other departments. Make sure your team is involved in an inspiring social project and allow for time outside the office to work on these projects. ■

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Congratulations to Shane Classen, who won a prize in a recent book giveaway. Well done! For a chance to win this week's prize – a *Freakonomics* DVD – complete the online version of this quiz, which will be available on fin24.com/finweek from 21 November.

1 **True or false?** The chairperson of Prasa is Popo Molefe.

2 Marius Fransman, ANC chairman in the Western Cape, has been suspended by the party. How long will his suspension last?

3 **True or false?** Brian Molefe has announced that he is going to step down as CEO of Eskom.

4 Who is the incumbent US vice-president?
- Ted Cruz
- Joe Biden
- Mike Pence

5 A South African minister, David Mahlobo, has allegedly been linked to a rhino-horn trafficker. What is his portfolio?

6 **True or false?** President Jacob Zuma visited Soweto on 15 November after the township was affected by heavy flooding.

7 Which astronomical phenomenon could be seen on the night of 14 November?
- The Lyrid meteor shower
- A supermoon
- A lunar eclipse

8 What sport does Kagiso Rabada play?

9 **True or false?** As part of his final overseas state visits US president Barack Obama is visiting Greece.

10 In which country was a giant sinkhole that formed in an urban area repaired in just a few days?
- Australia
- Japan
- Russia

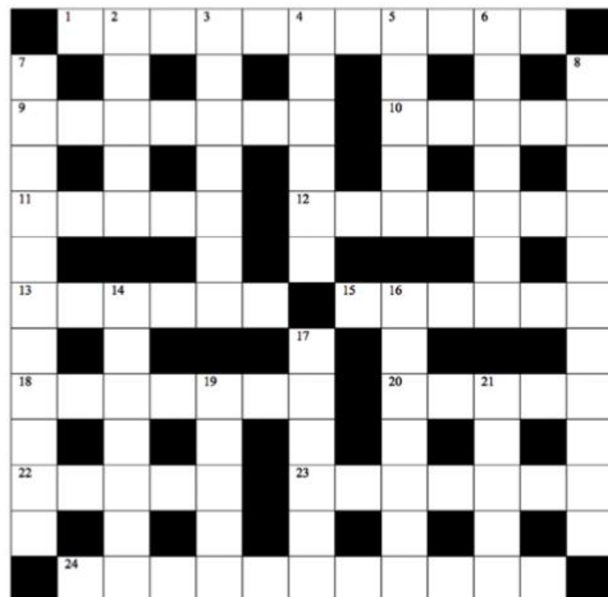
CRYPTIC CROSSWORD 658JD

ACROSS

1 Must get up, if on the move, time passes quickly (6,5)
9 Remarkably good specimen for an old crock (7)
10 Silent on new departure for American foreign helper (5)
11 Unable to bear announced cut (5)
12 Once soft, vein will burst (7)
13 Orders bridge opponents' book (6)
15 Tough competing with a foreign country (6)
18 Sort of bat near nocturnal animal (3,4)
20 Needed to make four dresses, by all accounts (5)
22 Welshman distributing papers about religious instruction (5)
23 Wet blanket for each wet person? (7)
24 Advocates assertive doctor for reassignment (11)

DOWN

2 Record undertaking to annul purchase (5)
3 Conceal teachers fruit (4,3)
4 Rolling Stones new broadcast (6)
5 You surprise me, it's hardly appropriate to be seen here (5)
6 Darwin had nothing to contribute sketchily (2,1,4)
7 Difficult for a top climber to achieve (11)
8 Extra chandelier pendant provided more dazzle (5,6)
14 About time dealer got changed (7)
16 Scores at reserves inside the first half (7)
17 Take nothing away from belief, it will get you Brownie points (6)
19 Effect run out to get result (5)
21 Measure railway slope (5)



Solution to Crossword NO 657JD

ACROSS: 1 Asia Minor; 8 Rue; 9 Quarter past; 11 Diocese; 12 H-gear; 13 Tribal; 15 Odds-on; 17 Ochre; 18 Ndebele; 20 Enterprises; 22 Awn; 23 Deportees

DOWN: 2 Sou; 3 Metre; 4 Nerves; 5 Reached; 6 Artlessness; 7 Rearrange; 10 Abolishment; 11 Dittohead; 14 Abetted; 16 Entrap; 19 Error; 21 Eve

On margin

Solving the mystery

Two Trump supporters go to heaven. St Peter greets them at the Pearly Gates and asks if there is anything in the universe they'd like to know before meeting God.

The first man asks: "What was really in Hillary's emails?"

"Nothing incriminating really," replies St Peter.

The other guy turns to the first man and mutters: "Wow, this cover-up goes higher than we thought."

First job

A young man who'd been hired by a supermarket reported for his first day of work. The manager greeted him with a warm handshake and a smile, gave him a broom and said: "Your first job will be to sweep out the store."

"But I'm a university graduate," the young man replied indignantly.

"Oh, I'm sorry. I didn't know that," said the manager. "Here, give me the broom – I'll show you how."

Sage advice

An elderly, but hardy farmer from the Karoo once told a young neighbour that if she wanted to live a long life, the secret was to sprinkle a pinch of gunpowder on her pap each morning.

She did this religiously and lived to the age of 103.

She left behind 14 children, 30 grandchildren, 21 great-grandchildren, five great-great-grandchildren and a 12-metre hole where the crematorium used to be.

Job application

Two young men with equal qualifications apply for the same job. In order to determine which individual to hire, the manager gives them a written test.

Both men score nine out of 10 on the test; however, the manager decides to go with the first applicant.

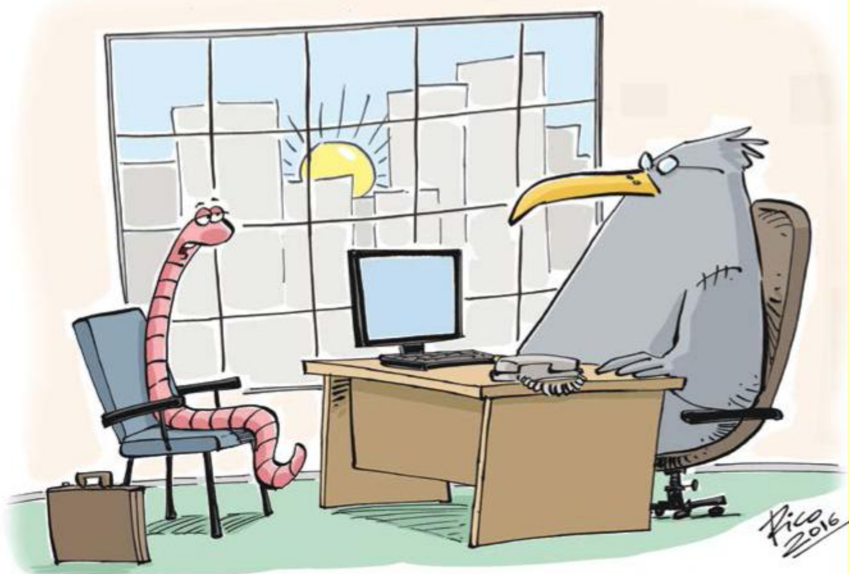
"Why would you do that?" asks the rejected second applicant. "We both got nine questions correct."

"Your fellow applicant wrote 'I don't know' for question five. You put down, 'Neither do I.'"

In Brief

If you ever feel like your job is meaningless, remember there is someone who is currently installing indicators at a BMW plant.

If you ever feel like a fool, remember somewhere in the world someone is pushing a door with a pull sign on it.



"Any particular reason for scheduling this meeting for so **early** in the morning?"

Sure Kamhunga @SureKamhunga
Anyone captured the supermoon?
SaxonwoldShebeen @StateShebeen
Working on it!

Mary Metcalfe @metcalfemary11
Kakistocracy: Government by least qualified/worst persons. From Greek kakistos (worst), superlative of kakos (bad) + -cracy (rule)

Tom Eaton @TomEatonSA
"And where are you flying to today, sir?"
"Dubai. One way. First flight out."
"OK, Mr Molef–"
"Smith. My name is Bob Smith. No! Mary Smith."

EFF Official Account @EFFSouthAfrica
#Malema: media hates EFF! They lied about my arrest on my way here. They say I was speeding. Which car? I came with a lift! #HandsOffCIC

Adam Liaw @adamliaw
America: LET'S SHAKE UP POLITICS!
Black President: OK, how about healthcare and stopping gun massacres?
America: Let's not go crazy now...

Mr Hook @Phook75
So apparently RSVPing back to a wedding invite 'maybe next time' isn't the correct response.

One Funny Mummy @OneFunnyMummy
Raising children takes a village, preferably one with many vineyards.

"By forty, everyone has the face they deserve."

– George Orwell, English novelist, essayist, journalist and critic (1903-1950)

Col'Cacchio pizzeria

FRANCHISE OPPORTUNITIES

VOTED BEST AVO PIZZA
PEOPLE'S CHOICE - BEST OF JOBURG AWARDS 2016

VOTED BEST PIZZA
PEOPLE'S CHOICE - BEST OF JOBURG AWARDS 2013 & 2014

VOTED BEST ITALIAN FRANCHISE
PEOPLE'S CHOICE - BEST OF JOBURG AWARDS 2011 & 2012

VOTED RUNNER UP BEST ITALIAN RESTAURANT
PRETORIA NEWS - READER'S CHOICE AWARDS 2014/2015

Established in 1992, Col'Cacchio pizzeria is a much-loved South African brand that has kept innovation and passion at heart with a special focus on gourmet thin-based pizzas made from the freshest and finest ingredients.
Join the Col'Cacchio pizzeria vibrant restaurant group and reap the rewards of owning and managing your own business with the support of an experienced head office.

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MPUMALANGA	NELSPRUIT
LIMPOPO	POLOKWANE
FREESTATE	BLOEMFONTEIN
KWA-ZULU NATAL	HILLCREST, BALLITO, DURBAN NORTH, UMHLANGA VILLAGE, PIETERMARITZBURG
WESTERN CAPE	SOMERSET WEST, GARDENS, PINELANDS

If you have your own site in mind for either the locations above or any other areas, give us a call and we'll look into it!
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