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from the editor

JANA MAIRAIS

"How dare anyone in government even BREATHE the word 'tax' when they're 'irregularly spending' R5m every hour of every day?" This reaction on Twitter by author Tom Eaton to finance minister Pravin Gordhan's latest Budget Speech summed up how I imagine most South Africans feel after being hit by yet another round of tax increases. Eaton's maths is based on the R46bn the auditor-general found national and provincial departments "irregularly" spent last year – which was a whopping 79% increase on the year before.

The country's 103 353 high-income earners who earn more than R1.5m a year have seen the biggest increase in their tax burden, and will contribute a massive R126.9bn to the fiscus in the 2016/17 financial year. (See page 34.)

We already carry the 14th-highest individual tax burden in the world, while our company tax income-to-GDP, at 4.7% in 2015, is higher than in all Organisation for Economic Co-operation and Development (OECD) countries.

Gordhan tried his best to put some positive spin on the ever-increasing tax burden, highlighting the huge challenges we face in terms of addressing poverty, unemployment and inequality in SA. I believe most South Africans share Gordhan's concerns, and would gladly contribute their fair share of taxes to help achieve this nation's ideals as set out in the Freedom Charter.

Yet, in the same week as the Budget Speech we had to read how Mosebenzi Zwane, minister of mineral resources, and his deputy Godfrey Oliphant, bought themselves a new Mercedes-Benz and Porsche Cayenne respectively, both costing north of R1m. We are eagerly awaiting their punishment, given that Treasury has imposed a R750 000 limit on new ministerial vehicles.

Given how much we spend on education, it is unthinkable that over half of all children in grade 5 cannot read adequately in any language, as you pointed out in your speech, minister Gordhan. Healthcare is another major expenditure – but more than 100 mental health patients died on your government's watch due to cost-cutting and incompetence.

I'm afraid, minister, that we're fed up of being bled dry without seeing the results. You said it yourself: "There is enough money in the system to do all the things we want to do, if spent properly."

We, the people of South Africa – the taxpayers, the grant recipients, the students, the unemployed, the sick, the poor, the wealthy – we've all had enough of your government's wastage and your empty promises. Waste our money with impunity while you still can. We will see you at the ballot box in 2019. ■

The cover image was designed by **Ricardo Pocci** for Google. For more of Pocci's work, visit http://www.ricardopocci.com/?work=google-free-wifi-2

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By Michael Cardo

COLLUSION

Test of independence for Competition Tribunal

Politicians are turning up the heat on the banks accused of collusion, but the competition regulator must do all it can to ensure that political pressure does not influence its decisions.

Economic development minister Ebrahim Patel gifted President Jacob Zuma with plum bragging rights ahead of his reply to the debate on the State of the Nation Address (Sona) on 16 February.

During Sona, Zuma told the country that "collusion and cartels" were squeezing smaller players out of the economy. "High levels of economic concentration" (a dog-whistle descriptor for so-called white monopoly capital) had to be broken up, he said. To this end, legislation was in the pipeline to amend the Competition Act and realise the ANC's "vision of radical economic transformation".

A few days later, replying to a Parliamentary debate that plumbed new depths of insult and low-mindedness, Zuma was able to trumpet some rapid progress in the government's war on collusion.

The Competition Commission had, the previous day, referred for prosecution to the Competition Tribunal a case against 18 banks. They stand accused of colluding on prices for bids, offers and bid-offer spreads for spot trades involving the US dollar/rand currency pair.

The Competition Commission had, the previous day, referred for prosecution to the Competition Tribunal a case against

18

banks. They stand accused of colluding on prices for bids, offers and bid-offer spreads for spot trades involving the US dollar/rand currency pair.

Although the Competition Commission's investigation had been two years in the making, the timing of its referral and the announcement thereof bore a whiff of political motivation.

They seemed to tap into a populist well of discontent with "extortionate" banks (at least if social media was anything to go by) and offer a well-timed salvo in the ANC's battle for radical economic transformation. The latter is a Hugo Chávez-style gambit aimed at stealing the EFF's policy thunder while shoring up Zuma's ailing political fortunes.

For a fleeting moment, the commander-in-chief (Zuma, not Julius Malema) managed to sound authoritative. Perhaps Patel, his lieutenant in the economic development ministry, might yet keep his Cabinet posting in the night of the long knives that is bound to follow Brian Molefe's sudden deployment to the ANC's benches in Parliament.

Ebrahim Patel
Minister of economic development

Gallo Getty Images / Nasief Manie

Amidst the gathering storm clouds, the Competition Tribunal will have to withstand tremendous political pressure. There are many interest groups who would like it to stage a show trial and mete out kangaroo-court justice to the banks. The ANC, for its part, is clearly gearing up for a showdown.

However, neither the Competition Commission's case against the banks, nor its proposed administrative penalty (equal to 10% of the banks' annual turnover), is cut and dried. For one thing, the financial institutions have not yet had the benefit of the *audi alteram partem* rule (the opportunity to respond) at the Tribunal's hearings.

Of course, if the banks are shown to have contravened the Competition Act – and, indeed, if they inflicted losses on the public by manipulating the exchange rate in such a way as to undervalue the rand – then they must face serious consequences. (Also see page 14.)

Justice must be seen to be done. That doesn't always happen in collusion cases. Each year, the Competition Tribunal slaps hundreds of millions of rands' worth of administrative penalties on companies for uncompetitive behaviour. In 2013, a record penalty of R1.46bn was imposed collectively on 15 firms in a construction cartel. In 2014/15, administrative penalties amounted to R725m. These payments make their way into the National Revenue Fund. However, consumers who are hurt by cartels and collusion seldom get to reap the benefits of compensation directly.

Section 65(6) of the Competition Act allows individuals who have suffered harm as a result of anti-competitive conduct to claim damages in a civil court. Yet, apart from the class action suit that was brought against Premier Foods in the bread cartel case, this recourse has rarely been used.

The City of Cape Town is still fighting for the R430m it feels ratepayers were shortchanged of by companies that engaged in collusive tendering for the construction of stadiums for the 2010 World Cup. Seven listed construction companies reached a settlement with the government that, in exchange for the dropping of legal action, will see them pay R1.5bn over 12 years into a fund aimed at promoting "development" in the sector. Patel lauded the fund as a "momentous milestone" of "radical economic transformation".

Often, as with the public interest conditions attached to large mergers, these settlements are the product of backroom deals brokered by politicians. The deals may well serve the rhetoric of an ill-defined political agenda like radical economic transformation, but they don't necessarily make the economy more competitive – or even more just. Moreover, when politicians intervene, they tend to undermine the regulators' integrity and effectiveness.

With the political heat turned up on the banks, the Competition Tribunal now faces a tough test of its independence and impartiality. ■

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Dr Michael Cardo MP is the DA's shadow minister of economic development.

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By Alicestine October

POLITICS

Damascus moment needed at branches

A few struggle stalwarts have expressed their disgust at the ruling party's moral bankruptcy, but it is time for disgruntled party leaders in the various provinces to speak out en masse.

How many "Damascus moments" are needed to change the country's leadership? Mid-February many South Africans again stopped short of throwing their hands in the air and shouting hallelujah when yet another ANC stalwart drew a line in the sand in response to the actions of the current ANC leadership.

But this is no Leonard Cohen song. This is South Africa and the country is on its knees. Most of us, especially those praying to see President Jacob Zuma ousted from power, again thought: "This is it, now something will *have* to happen."

But that moment hasn't come yet, I'm afraid.

In a strongly worded opinion piece published in weekend newspapers, former ANC treasurer-general Dr Mathews Phosa shared his "Damascus moment" with the world.

Dr Mathews Phosa
Former ANC treasurer-general

The ANC veteran wrote that the moment(s) Parliament's presiding officers refused a request for MPs to bow their heads in a moment of silence for the 94 victims of the Esidimeni tragedy during the State of the Nation Address, marked the turning point for him. (The death toll has since risen to more than 100.)

He refuses "to be part of the intellectual funeral of the ANC" and "as a disciplined cadre of this movement [ANC], to have my coffin buried in the same graveyard as such leaders who have made the choice to place their own corrupt interests above that of those that we swore, yes swore, to serve". Strong words indeed. Much-needed words.

There were many before him who arguably experienced similar Damascus moments. Many of those who spoke up have now joined together to form a concerted campaign to "Save South Africa". Struggle stalwarts like Ahmed Kathrada, Frank Chikane, Cheryl Carolus and even opposition IFP leader Mangosuthu Buthelezi have all pleaded for the soul of the ANC.

Within the current ANC leadership, backbones have also started to sprout. This includes minister of tourism Derek Hanekom, who tabled a motion to have Zuma step down during a meeting of the ANC's National Executive Committee (NEC) a few months ago. Nothing happened. The NEC is still intact despite calls (even from some of the party's leaders) to dissolve it. The president is still the president and, well, still chuckling.

Other ANC leaders willingly hide in the straitjacket of party discipline – their grunts and objections hushed and barely audible to ordinary South Africans.

But there may be a glimmer of hope.

The power of the ANC's branches

In the latest "coup" within the governing party, branches were reportedly circumvented in the North West to parachute former Eskom boss Brian Molefe into Parliament as an MP.

Molefe has occupied powerful positions in entities like the PIC, Transnet and Eskom. As CEO of Eskom he reportedly earned almost R800 000 a month – a little less than an MP's annual salary. Being an ordinary MP thus fails to compare to what Molefe is used to, and as for an honorary MP... well.

Molefe resigned from Eskom following the Public Protector's controversial report on alleged state capture in which his name was frequently mentioned, but he has denied any wrongdoing. Now he has resurfaced in the ensuing battle for the keys to the state coffers.

Parliament's announcement that he will be sworn in as MP sparked renewed speculation of an imminent Cabinet reshuffle which may see Molefe replacing deputy minister of finance, Mcebisi Jonas. Some speculate that, should this happen, minister of finance Pravin Gordhan might resign. Whether this will indeed happen, only time – and the president – will tell. But Molefe certainly is closer to a possible Cabinet post and the keys to the Treasury than he was a few weeks ago. And legally the president will be within his right to appoint Molefe.

This time, however – with this move of parachuting Molefe into Parliament – it is not just ordinary citizens who are again proverbially being spat in the face, but the very foundation of the governing party: its branch structures. Some ANC party leaders in the North West have already objected as Molefe does not live in that province, and members at branch level were reportedly not consulted. Albeit not a wave but a ripple at this stage, many other branches in various provinces have also spoken up and called for the president's head.

> Ordinary South Africans cannot simply live on a prayer for Damascus moments in the hope that conscience will conquer greed. As a nation we are way past that.

Enough with 'Damascus moments'

Any possible leadership change within the ANC is driven from its branches. Yes, some are compromised as they have to choose between money and their conscience. Some are not. That is where Damascus moments are really needed. That is where the dissenting stalwarts must go and mobilise support with the real soul of the ANC as their guide – and not necessarily just on opinion pages and Twitter.

Outside the ANC, ordinary South Africans cannot simply live on a prayer for Damascus moments in the hope that conscience will conquer greed. As a nation we are way past that. Living on a prayer is not enough. Feeding off of the "Damascus moments" of ANC stalwarts is not enough.

Fellow South African, you are on your own. The battle for the soul of our nation will be won on two fronts – bottom-up from within the ANC and with each and every one of us who, at the ballot box in 2019, will make a cross to say: "Not in my name." ■

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Gallo Images/Getty Images

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in brief

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>> Scrutinising the social development department's social grant bungle *p.16*

Mark Cutifani
CEO of Anglo American

"WE DO NOT NEED TO SELL ASSETS TO ADDRESS BALANCE SHEET ISSUES. IT'S DONE."

– **Anglo American CEO Mark Cutifani** said on 21 February that the group no longer needs to sell off assets after it swung back to a profit in 2016 and reduced its debt. The miner's finances were buoyed by cost-cutting at its operations and an unexpected increase in commodity prices, ft.com reported. Anglo could now hold assets it previously deemed non-core and had earmarked for disposal, including its thermal coal mines in SA and its stake in Kumba Iron Ore. As part of the restructuring, it planned to cut its operating mines to 16, from 68 in 2013, and mine only diamonds, copper and platinum.

"For the first time in 100 years, investors can buy a listed company via a different stock exchange to the JSE."

– **Warren Ingram, director at Galileo Capital,** comments on Twitter after agribusiness Senwes listed on ZAR X on 20 February. The first trade – a purchase of 100 Senwes shares at R10.50/share – was settled in 10 seconds, a process that would normally take the JSE four days, ZAR X said. The new exchange uses a settlement cycle called T+0, which settles trades in real time, while the JSE implemented T+3 (trade plus three days) in 2016, settling trades in four days, Techcentral.com reported. ZAR X said it is in talks with five more companies about possible listings.

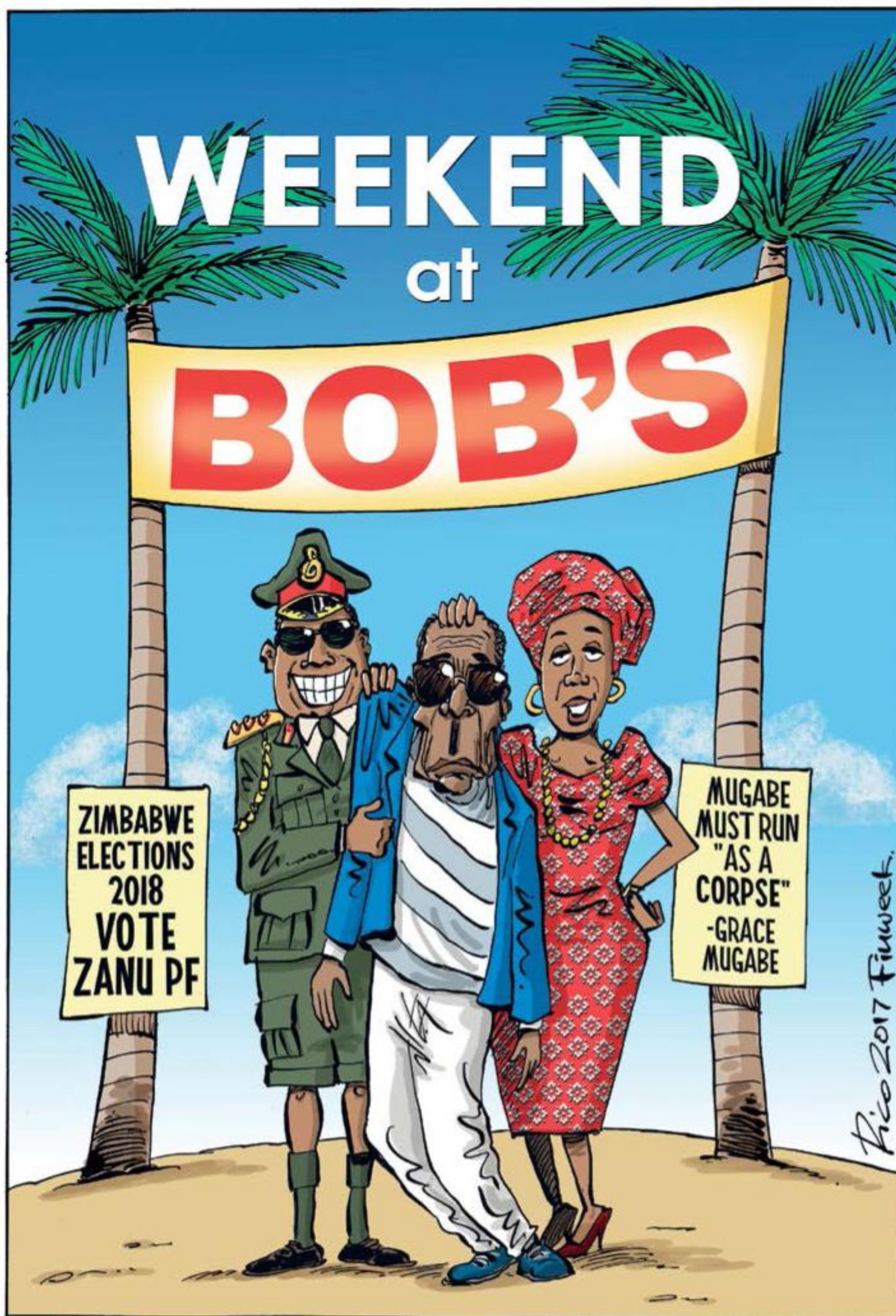
"Wiese is not a man to give up easily."

Billionaire businessman **Christo Wiese**

Business Day comments in an editorial on the temporary relief felt by shareholders after the termination of talks to combine the African retail assets of Shoprite and Steinhoff. Billionaire businessman **Christo Wiese,** a major shareholder in both companies, was seen as the major architect of the deal, which analysts believed made little sense beyond "tidying up Wiese's retail investments", the newspaper said. Minority shareholders in Shoprite were also not keen to be saddled with Steinhoff's underperforming African assets in a badly priced transaction. Nobody will be surprised if the deal is resuscitated in a different format.

Gallo Getty Images/Bloomberg

DOUBLE TAKE BY RICO



THE GOOD

More than 10m international tourists arrived in SA in 2016, reflecting a year-on-year increase of 13%, well above the global growth rate of 3.9%. The number of arrivals from China and India increased by 38% and 22% respectively, thanks to improvements in the visa application processes in those countries, tourism minister Derek Hanekom said in a statement. The UK remains the leading source market for overseas arrivals to SA (447 840 arrivals), followed by the US (345 013) and Germany (311 832). The highest number of tourists from Africa came from Zimbabwe (2 028 881), followed by Lesotho (1 757 058) and Mozambique (1 268 258).

THE BAD

Despite the mining industry losing 62 000 jobs last year, Mosebenzi Zwane, minister of mineral resources, splurged more than R1.3m on a new Mercedes-Benz S400 – in breach of National Treasury's cap of R750 000 for new ministerial vehicles. Not to be outdone, his deputy minister, Godfrey Oliphant, opted for a Porsche Cayenne, which also costs north of R1m. "The DA believes both ministers should explain to the people of SA why they deserve such luxury and suggests they spend more time fixing the failing industry rather than cruising car showrooms to find the ostentatious vehicles that they prefer," DA shadow minister James Lorimer said.

THE UGLY

Nearly 1.4m children are facing death in famines in Nigeria, Somalia, South Sudan and Yemen, the UN children's agency Unicef warned on 21 February. People are already starving to death in all four countries and the World Food Programme says more than 20m lives are at risk in the next six months, Reuters reported. Unicef said while time is running out, lives can be saved if prompt action is taken, as the severe malnutrition and looming famine are largely man-made. South Sudan, where 270 000 children are severely malnourished, has been mired in a civil war since 2013, with the UN warning of a potential genocide in the country.

LIFE EXPECTANCY RISES

91

Women in South Korea will by 2030 be the first to claim an average lifespan of more than 90 years, according to a new study published in *The Lancet*. South Korean women are projected to live to nearly 91 by 2030, with its men also set to lead other nations with life expectancy of 84. This increase is mainly thanks to investment in universal healthcare, developments in education, childhood nutrition and the "rapid scale-up of new medical technologies", ft.com reported.

TELKOM TO BUY CELL C?

$1bn

Telkom is mulling a bid of as much as $1bn for Cell C, which has missed debt payments and is trying to complete a recapitalisation, Bloomberg reported. Previous talks failed in 2015 after the parties couldn't agree on a price. Blue Label Telecoms agreed to buy a 45% stake in Cell C last year, but the deal, with a deadline of 28 February, is yet to be completed. "This will be a good deal for Telkom and its mobile business, but it has to be at the right price," Mergence Investment Managers' Peter Takaendesa said.

CAPCO BLEEDS IN LONDON

20%

Capital & Counties Properties (Capco) wrote down the value of its land holdings in west London by 20% as higher taxes and political uncertainty weighed on the city's housing market, Bloomberg reported. Capco, which plans to build 10 000 homes at Earls Court with venture partners, cut the value of its sites in the district to £1.1bn, from £1.4bn a year earlier. JP Morgan Chase & Co. had estimated a write-down of 30%, Bloomberg reported. Capco's net asset value fell by 5.9% to 340 pence a share.

By Larry Claasen

Apps for entrepreneurs

Here are 13 apps to make your life easier, whether you are travelling, talking to clients or dealing with admin.

It's not an easy job keeping a business going. Fortunately for those carrying this burden, there are several useful apps out there that can ease the load.

COMMUNICATION

Slack
https://slack.com/
Price: Free and premium subscription services

Slack has emerged as one of the most revolutionary communication tools in recent years.

Modern business communication tends to be a royal mess of email, WhatsApp groups, and Skype chats. Slack gets around this by merging all the functionality of these services into a single system.

This means communication can be structured around topics so that only the people dealing with them receive messages.

In effect, it ends email slavery. Where before communication was centred on the last mail received regardless of its importance, communication now hinges on what issues the business prioritises.

MailChimp
https://mailchimp.com/
Price: Free and premium subscription services

What is the use of getting the email addresses of prospective customers if you have no way to manage your marketing efforts?

MailChimp allows businesses to design ads and to automate some tasks like sending out a welcome message to new subscribers.

In addition, it connects e-commerce platforms to the emails, and also integrates e-commerce into Facebook Ad campaigns.

MailChimp also provides detailed analytics reports, keeps track of the top spenders and can even monitor who has yet to open the mail you sent.

FINANCE

FreshBooks
https://www.freshbooks.com/
Price: From $15/month to $50/month

Small businesses that do not have a budget to employ a full-time bookkeeper should seriously consider cloud-based platforms like FreshBooks.

Besides generating professional-looking invoices, it can also track billable hours and generate accounting reports.

By taking pictures of invoices and receipts with a cellphone, which are forwarded to the app, FreshBooks also allows businesses to track who they have paid.

Rainfin
https://rainfin.com/
Price: Interest fee charged depending on creditworthiness of the borrower

Cape-based Rainfin is a peer-to-peer lending service that connects people who have money with people looking to borrow it.

How does it work? Rainfin does background checks on borrowers and then gives them a credit rating. The borrower sets the amount, the interest rate they are willing to pay and puts it on Rainfin's marketplace. Rainfin itself does not make the loan but administers the monthly collection and distributes it to the lenders.

MoneyMail
http://www.moneymailapp.co.za/
Price: Free

If you want to keep track of the latest investment trends and economic developments, then MoneyMail is for you.

It provides a host of monthly and quarterly reports from asset managers like Allan Gray, Coronation and Old Mutual Investment Group.

The reports are very useful in that they not only look at how macro events like the election of Donald Trump as US president will impact SA, but also looks at the performance of specific stocks on the JSE.

This app is only available through Apple's App Store.

TRAVEL

Uber
https://www.uber.com/en-ZA/
Fee: As low as R20/trip

In many ways, Uber has become more than a successful tech company. The way it splits opinions on whether its model of matching drivers to ride seekers is either exploitative, given how much the drivers are compensated; or whether it is an example of an innovative tech business model disrupting an industry reluctant to change has stirred debate.

What is clear is that there is no going back, and that the convenience of paying a nominal fee to get to a meeting without having to worry about parking, is something that business cannot easily dismiss.

Taxify
http://taxify.eu/
Fee: As low as R20/trip

Though Uber has grabbed all the headlines, Estonian rival Taxify is starting to make inroads.

It currently operates in Cape Town, Durban and Johannesburg and, like Uber, it is also keen to get into the corporate market by opening up accounts for businesses.

Trip It
https://www.tripit.com/
Fee: Free and premium subscription service at $49/year

Trip It does way more than keep an itinerary on your phone. It can synchronise travel plans with your calendar and share it with selected people. The premium version receives real-time flight alerts, locates alternate flights and even informs users of gate changes.

It can also be used to organise group travel by putting everyone's itinerary on the same calendar and in a specially created dashboard.

PRODUCTIVITY

Pocket
https://getpocket.com/
Fee: Free and premium subscription for $44.99/year

So you found something on the internet that you don't have time to read. You could bookmark it, but you might want to read it on your PC or another device. This is where Pocket comes in. It allows users to save an

article or web page to the site via an internet browser.

Though it is available as browser extensions for Firefox, Safari, Chrome and Microsoft Edge, Facebook does not allow links to be saved directly.

My Minutes

http://myminutesapp.com/

Fee: R49.99 once off

It is easy to lose sight of some task when you have a full day. My Minute gets users to set aside a specific amount of time to complete projects.

The app is not complex and basically keeps you motivated by tracking the time set aside for the goal.

Grammarly

https://www.grammarly.com/

Fee: Free or $29.95/month, $59.95/quarter, $139.95/year

For those shooting off multiple mails and texts a day, coming across as professional can be challenging when there is hardly any time to make sure there are no mistakes in the messages being written.

This is why a grammar and spelling checker like Grammarly is so useful. It quickly points out mistakes like when a user writes "their" instead of "there" and ensures that the tenses are consistent.

Hellosign

https://www.hellosign.com/

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Genius Scan turns a phone into a document scanner.

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editorial@finweek.co.za

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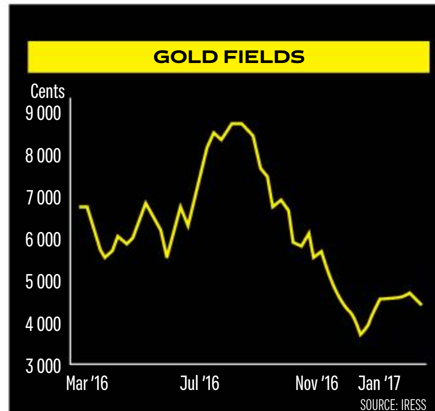
By David McKay

‘We’re trying to put down something realistic’ – Gold Fields’ Holland

The gold miner will be focusing on three mines in three different countries simultaneously, but this will not come without development risk.

GOLD FIELDS



52-week range:	R36.80 - R91.30
Price/earnings ratio:	12.3
1-year total return:	-27.15%
Market capitalisation:	R34.48bn
Earnings per share:	$0.26
Dividend yield:	2.62%
Average volume over 30 days:	3 482 543

Nick Holland
CEO of Gold Fields

Gallo Images/Getty Images

A feature of Gold Fields’ year-end results presentation in February is the degree of development risk the group is taking on in an effort to replenish gold reserves and keep production steady at no less than 2m ounces for the next eight years.

Included in these mines is South Deep, a mine that is around 20 years old, which Gold Fields has owned since 2006 when the miner bought it from Barrick Gold for $1.53bn. Some R29bn was spent developing the mine in that time, according to research by Noah Capital’s René Hochreiter.

The other assets are the Salares Norte gold project in Chile; and Gruyere, a project in Western Australia in which Gold Fields bought a 50% stake last year for about R3.5bn. That makes three new mines in three different countries that will be simultaneously managed and funded.

While South Deep is familiar to Gold Fields in a way a normal development asset would not be, the re-base of the firm’s production targets – the fruit of more than 12 months’ reassessing the orebody – is still a leap into the unknown.

Analysts are split on the task at hand. Johann Steyn, an analyst for Citi, said he’d “seen this movie before” in respect of South Deep, which was once slated to produce as much as 800 000 ounces per annum compared to the target of about 490 000 ounces Gold Fields has now adopted.

Other analysts think the annual 490 000-ounce target is conservative. “On the face of it, this seems to be a conservative target given the recent annual run rates the mine has achieved,” said Macquarie – referencing the 47% year-on-year increase at South Deep already, to some 290 000 ounces.

As for Gruyere and Salares Norte, analysts asked whether the projects could be phased in at different times rather than being undertaken simultaneously. The view of Gold Fields CEO, Nick Holland, however, is that the company doesn’t have options in terms of the previously stated strategy of acquiring mines in operation, producing cash flow.

“Everything we have in production now has been bought by Gold Fields,” said Holland. “But it is getting harder because all the majors

Some **100m** ounces in gold production were mined last year so it is getting harder to replace this production given the paucity of exploration during the last three to five years.

[large gold companies] see the decay in their medium-term reserves,” he said.

Some 100m ounces in gold production were mined last year so it is getting harder to replace this production given the paucity of exploration during the last three to five years when the gold price was under pressure.

“We will have a dynamic view of the portfolio,” said Holland. “And we have to look at the pace at which we develop projects. I wouldn’t rule out slowing down our developments if the price of gold went to $1 000/ounce,” he added.

The difficulty of buying development assets rather than an operating mine is the harder task of understanding what value lies in the developing asset. Gold Fields has said, for instance, that Gruyere will have an internal rate of return of about 6% compared to the 28% return of the expansion of Damang, a mine in Ghana that Gold Fields is also expanding.

Again, Holland thinks this is the cost of preparing for the future. Gruyere’s valuation is based on a fairly narrow 13-year life of mine and that the virtue of having bought into the project is future optionality; that is, the real prospect of discovering bolt-on production in future years.

There’s a similar view of South Deep. Asked by Nedbank analyst Leon Esterhuizen whether Gold Fields was crimping the larger potential of South Deep in focusing near-term, mineable resources, Holland replied: “This is not the end-game for South Deep.

“The first task at South Deep is to get something sustainably making money; we are trying to put down something that is realistic instead of all the arm-waving. This is a mine plan; not the mine,” he said. ■

editorial@finweek.co.za

By David McKay

Lower risk, lower margins for Amplats

The current market is not about to reward platinum miners for marginal ounces, but Anglo American Platinum believes it has the growth options to supply into the demand when the market does recover.

One of the interesting elements of Anglo American Platinum's (Amplats') divestments of non-core assets is how it has been able to dispense with the mining risk but retain a processing margin.

Its latest transaction, in which it sold its 85% stake in Union Mine near Rustenburg to Siyanda Resources for R400m, is a case in point. In addition to the cash payment, and participation in 35% of free cash flow for 10 years, there's also an agreement in which Amplats will buy the concentrate produced from Union Mine for seven years on a market-related basis.

This means Amplats is able to keep its refining operations turning over, which often command a higher margin than producing concentrate. When Amplats sold its Rustenburg Platinum Mines a concentrate purchasing deal was also agreed with Sibanye Gold to 2018. In that arrangement, Amplats has to take a share of any losses produced by Rustenburg, but it also gets free cash flow when it's generated.

Elsewhere, such as the R400m to R1bn sale of its 42.5% stake in the Pandora Joint Venture to Lonmin, Amplats will have use of Pandora's Baobab smelter which will allow it to process material from its Mogalakwena mine, especially if it expands it. Again, Amplats has a free cash flow participation.

The impact of these agreements has been to transform the structure of Amplats' business. In its 2016 financial year, roughly 71% of production was mine-to-market while the remainder was purchased concentrate from which it earned a processing margin.

Mogalakwena mine is located near Mokopane in Limpopo.

According to RMB Morgan Stanley platinum analyst Christopher Nicholson, this will shift so that less than half (48%) of Amplats' refined concentrate will have been mined from its operations; in other words, 52% of all concentrate will have been bought from other miners.

"Amplats remains our defensive pick of the major producers (over Impala Platinum and Lonmin) due to both a greater share of higher margin assets in the portfolio, and inclusion of greater annuity-type processing income," said Nicholson.

"However, the flip side is that Anglo Platinum has now lost sizeable upside gearing to higher metal prices with a greater percentage of production merely earning a processing margin," he added.

Chris Griffith, CEO of Amplats, said that the current market, however, isn't about to reward platinum miners for marginal ounces as yet, especially while macro-economic factors continue to dominate the price over the small supply deficit that has developed.

ANGLO AMERICAN PLATINUM

52-week range:	R250.01 - R487.80
Price/earnings ratio:	44.93
1-year total return:	8%
Market capitalisation:	R86.38bn
Earnings per share:	R7.13
Dividend yield:	-
Average volume over 30 days:	318 322

SOURCE: IRESS

But when the market does recover, he believes Amplats has the growth options to supply into the demand. "One of our benefits is that we have a number of projects that are competing with each other. We have great expansion opportunities at Unki, Mogalakwena and Amandelbult," he said.

"You can imagine in slightly different environments that some projects would get the go-ahead if the market wanted the metal, such as Der Brochen or Unki, but our decisions on capital allocation will turn on whether the market wants the metal. We won't automatically push projects."

Chris Griffith
CEO of Anglo American Platinum

Griffith said Amplats expected more market clarity by the end of 2017 or in early 2018. "We'll then get a sense of the projects that we want to push ahead with," he said.

One of those projects is Unki, a small mine in Zimbabwe with potential to be expanded, government diktats and business conditions pending. Asked if there was any clarity in respect of operating in the country, Griffith said Zimbabwe's indigenisation strategy continued to be "a bit of a black box".

"There's not huge pressure on things. We have got some work going on in the background, but it's a case of not waking sleeping dogs," he said of the potential for policy change. Zimbabwe has asked miners in the country to sell 51% of their assets to locals but later replaced that with a requirement that 75% of all purchasing and spending power stay in the country. "If we do get policy certainty, investing further in Zimbabwe would make sense," he said. ■

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In its 2016 financial year, roughly **71%** of production was mine-to-market while the remainder was purchased concentrate from which it earned a processing margin.

Images: Supplied
www.angloamericanplatinum.com

By Lloyd Gedye

Inside the banks' forex trading scandal

Traders in the employ of 18 banks have been accused of colluding in order to manipulate the rand/dollar exchange rate. What has the impact of these revelations been and what are the possible ramifications for the banks involved?

The evidence appears to be stacking up against the 18 local and international banks that stand accused in the South African foreign exchange (forex) trading scandal.

On 20 February the Competition Commission, which referred a case to the Competition Tribunal for prosecution alleging that a number of banks colluded to manipulate the rand/dollar exchange rate, announced that Citibank would pay a fine of R69.5m as part of a settlement agreement for its part in the scandal.

But more crucially for the commission, Citibank has agreed to cooperate with investigators and make available witnesses to assist in the prosecution of the other banks that colluded in this matter. Competition Commissioner Tembinkosi Bonakele said the "full disclosure" that Citibank has agreed to will "strengthen the evidence for prosecution of the other banks".

That evidence is already predicated on full disclosure from Absa and its parent company, Barclays, which are understood to have approached the commission with evidence of collusion in 2015.

Bonakele said the alleged collusion investigated by the commission would have had the effect of distorting the prices of forex trades and inflating the costs of trading. This would have particularly hurt importers and exporters in SA. If the currency were artificially weaker, it would negatively impact importers, while if it were artificially stronger, it would negatively impact exporters in the country.

The commission's investigation followed hot on the heels of similar investigations and prosecutions in Europe and the US in 2014/15 (see sidebar).

The fines are mounting for some of the world's largest banks and National Treasury officials have even suggested that the commission's investigation may result in further penalties for South African banks with operations in the US.

When the commission launched its investigation in 2015, Bonakele insisted that the competition authorities were sending a clear message that it will pursue cartels wherever they operate, if their actions affect South Africa.

The 18 accused

The commission argues that between 2007 and 2013, the accused banks had a general agreement to collude on prices for bids, offers and bid-offer spreads for the spot trades relating to currency trades between the US dollar and the rand. (See box.)

A spot transaction is a trade that is typically settled within two days from the transaction date or at a standard settlement date. A forward transaction occurs where the exchange rate is agreed in advance and the transaction is settled at a future date.

The commission also alleges that the banks and its competitors manipulated the price of bids and offers through agreements to refrain from trading and creating fictitious bids and offers at particular times.

The accused banks are Bank of America Merrill Lynch International Ltd, BNP Paribas, JPMorgan Chase & Co, JPMorgan Chase Bank N.A., Investec Ltd, Standard New York Securities

National Treasury officials have even suggested that the commission's investigation may result in further penalties for South African banks with operations in the US.

International forex scandals

Collusion among traders to manipulate foreign exchange rates has not been limited to South Africa.

In January, Jason Katz, a former forex trader at Barclays, BNP Paribas and Standard Bank, pleaded guilty in a Manhattan court to conspiring to fix prices of emerging-market currencies in the forex market between 2007 and 2013, while working at the three different banks.

Katz was the first of three traders to plead guilty in the case, and he agreed to cooperate with the investigation. He faces a maximum 10 years in prison and a $1m fine, which may be increased based on the proceeds gained or the loss to investors, Bloomberg reported.

Shortly afterwards, US trader Christopher Cummins of Citibank also pleaded guilty to fixing forex trades.

Their case is nothing new. In November 2014 regulators from the US, UK and Switzerland imposed fines of $4.25bn on five international banks involved in fixing currency prices. In 2015, the US Justice Department reached a combined $6bn settlement with Citigroup, JPMorgan Chase, Barclays and Royal Bank of Scotland for their involvement in the scandal.

In 2016, the European antitrust regulator fined HSBC, Credit Agricole and JPMorgan Chase a combined €485m for colluding to fix the benchmark interest rates tied to the euro. ■

Images: Supplied Getty Images/iStock Images

Inc., HSBC Bank plc, Standard Chartered Bank, Credit Suisse Group, Standard Bank of South Africa Ltd, Commerzbank AG, Australia and New Zealand Banking Group Limited, Nomura International plc, Macquarie Bank Limited, Citibank N.A., Absa Bank Ltd, Barclays Capital Inc, and Barclays Bank plc.

"The referral of this matter to the Tribunal marks a key milestone in this case as it now affords the banks an opportunity to answer for themselves," Bonakele said.

Many of the banks said they are cooperating with the commission's investigation, although some have declined to comment.

According to the South African Reserve Bank (SARB), only 30% of daily trading in the rand takes place in SA, while trade involving non-residents accounts for 57.5% of that domestic turnover.

According to the South African Reserve Bank (SARB), only **30%** of daily trading in the rand takes place in SA, while trade involving non-residents accounts for 57.5% of that domestic turnover.

Figures published by the Bank for International Settlements indicate that for the month of April 2016, the daily average worldwide turnover in the foreign exchange market involving the rand was approximately $49bn. This represented 1% of total turnover in the international foreign exchange markets.

The fallout

The ripple effect from the forex scandal continues to grow. Trade unions, political parties, government ministers, Treasury and SARB have all weighed in.

Politicians have called for harsh penalties, with some going as far as calling for a judicial commission of inquiry. ANC spokesperson Zizi Kodwa described the scandal as a "heist against poor people" and called for "corruption in the private sector" to be dealt with. President Jacob Zuma said the banks cannot be a law unto themselves as their conduct had implications for the South African economy.

Treasury has also commented on the forex scandal, with some officials raising the point that local banks could now be subject to penalties from US authorities if they have US operations.

The Reserve Bank said that it sees the allegations made by the commission in a serious light. "SARB will allow the legal processes now initiated to run their course, and will continue to monitor developments closely to inform any action that we may need to embark upon in accordance with our mandate and jurisdiction," it said. ■

editorial@finweek.co.za

Tembinkosi Bonakele
Competition Commissioner

ANC spokesperson Zizi Kodwa described the scandal as a "heist against poor people" and called for "corruption in the private sector" to be dealt with.

Zizi Kodwa
Spokesperson for the ANC

HOW DID THEY DO IT?

Chat rooms with names like The Cartel, The Mafia and The Bandit's Club – these were the tools used by international and local forex traders to allegedly manipulate currencies.

The Competition Commission alleges that the forex traders primarily used Reuters' currency trading platform in conjunction with Bloomberg's instant messaging system chatrooms to carry out their collusive activities. Sometimes the traders involved even called one another or had meetings in person to plan their next moves.

The commission alleges the traders assisted one another to reach the desired prices by coordinating trading times, agreeing to refrain from trading at specific times, taking turns in transacting, and by either pulling or holding trading activities on the Reuters platform. They are also alleged to have created fictitious bids and offers, distorting demand and supply in order to achieve their profit motives.

Absa, Investec and Standard Bank are the South African banks implicated in the investigation.

The commission has named Absa's Duncan Howes as a trader that is alleged to have fixed bids and offered prices on the trading platform as well as the prices of bids and offers quoted to customers, and to coordinate trading. The bank's John Daly, Elaine Naidoo, Premal Bhana and Thulani Kunene were alleged by the commission's investigation to have entered into agreements to fix bid-offer spreads.

Investec's Clinton Fenton is alleged to have entered into agreements to fix bids and offers on the trading platform, bids and offers prices quoted to customers and to coordinate trading. Bryan Brownrigg from Standard Bank is alleged to have agreed to fix bid-offer spreads.

The commission has insisted that all traders named in its investigation face "damning evidence" collected against them. The named traders, some of whom have been suspended, have either refused to comment or denied guilt. ■

By Andries du Toit

SOCIAL GRANTS

Sassa handed keys to the kingdom to CPS

The South African Social Security Agency, responsible for the payment and administration of social grants, effectively tied grant recipients up in a web of dependency on a private service provider.

The dispute hovering over South Africa's social grant system and threatening millions of vulnerable beneficiaries with non-payment, create risks far beyond interrupting poor people's access to desperately needed grants. The failure of the South African Social Security Agency (Sassa) – responsible for the payment and administration of social grants – to act timeously has created a crisis that threatens to deliver grant recipients on a silver platter into the hands of unscrupulous financial services companies.

Sassa officials announced in February that they would file papers with the Constitutional Court proposing that their invalid contract with Cash Paymaster Services (CPS), which holds the contract for grant distribution, should be extended for another year.

This contract was awarded to CPS in a controversial tender in 2012. It was declared invalid two years ago by the Constitutional Court, which instructed Sassa to reissue the tender. Deadline after deadline passed. By the end of 2016 it was clear that Sassa had failed to act on the court's instructions. On 17 February Sassa missed another deadline, failing to make its planned 11th-hour submission for an extension.

There is no credible arrangement in place to ensure that social grants will be paid after 31 March. The social grant system supports about 17m individuals. Disrupting the payments will cause huge suffering to the country's poorest and most vulnerable people and is likely to lead to social unrest.

It seems that Sassa officials intended to present the court and National Treasury with an impossible situation: condone an illegal contract, or face the possibility of social and political chaos.

There's even more at stake. If the court allows another extension (or approves a new contract with CPS), Sassa will have perpetuated a situation in which the accounts of grant recipients have in effect become mere conduits between the SA fiscus and the private financial empire that has taken shape around grant disbursement.

At the centre of the storm is CPS, a subsidiary of Net1 UEPS Technologies. Net1 owns the fingerprint-based biometric identification and payment system central to CPS's operations. Its proprietary Universal Electronic Payments System technology forms the "back end" of the Sassa smartcard CPS uses in the electronic payment of grants.

Scholar Keith Breckenridge says this creates an unprecedented situation – grant beneficiaries are captured within a private technological and financial network owned and controlled not by Sassa, but by its service provider.

CPS is only part of a bigger corporate strategy. Also part of Net1's global empire are financial services companies like MoneyLine and EasyPay, which act in concert to make use of the opportunities afforded by CPS's control of the payment network.

Millions of grants beneficiaries, for example, have not only been provided with a Sassa account, their accounts have also been linked to EasyPay Everywhere, a bank account operated by MoneyLine and CPS's banking partner, Grindrod Bank. All of this is part of an explicit two-stage strategy by Net1: first it rolls out its technological infrastructure, and then it uses this infrastructure to market a wide array of products and services to an essentially captive customer base.

The net effect? Social grant recipients are tied up in a web of dependency on financial services companies controlled by Net1.

Minister of social development, **Bathabile Dlamini's** department, through Sassa, has a constitutional mandate to administer and pay social grants.

The social grant system supports about **17m** individuals. Disrupting the payments will cause huge suffering to the country's poorest and most vulnerable people and is likely to lead to social unrest.

What this means for financial inclusion

Two problems arise. First, this arrangement may be in violation of competition law. It looks as if Net1 is using CPS's privileged position as social grant paymaster to give its sister companies first bite and privileged access to a vast potential client base.

Second, it raises an often forgotten issue in sweeping generalisations about the need to cover the "unbanked" with financial services. Yes, poor people need access to banking services, but these services should be designed with their interests in mind.

Deborah James and Dinah Rajak have shown how in SA the history of "credit apartheid" and paternalistic control over poor people's finance has created a situation where creditors wield disproportionate power. Unbridled financial inclusion of the poor may amount to adverse incorporation into a financial sector geared towards preying on them. Already, Black Sash has collected evidence of instances of unauthorised and unlawful deductions from accounts set up for grant recipients, often with little recourse.

Sassa has missed a major opportunity to ensure that financial inclusion happens in a beneficial, "pro-poor" way. It failed to follow the Constitutional Court's order that the payment of social grants should be done in a way that protects the rights, interests, and confidential data of grant beneficiaries. CPS and Net1 hold all the cards. At present, the Constitutional Court and Treasury have almost no leverage to prevent their service provider from simply walking away on 1 April.

Already, Net1 CEO Serge Belamant has made it clear that he is not interested in extending the contract on its present terms. He is in a position to ask for whatever he wants – including provisions that lock claimants even more tightly into his empire.

Sassa's inactivity has created the worst possible outcome in the short and in the long term. A crisis over grant distribution looms, and the opportunity to provide meaningful financial inclusion has been missed. ■

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THE CONVERSATION

Andries du Toit is director: Institute for Poverty, Land and Agrarian Studies at the University of the Western Cape. This is a shortened version of the original article that was first published by The Conversation Africa and can be accessed at https://theconversation.com/africa.

Gallo Images/Getty Images

market place

THIS WEEK:

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FUND IN FOCUS: SANLAM INVESTMENT MANAGEMENT SMALL CAP FUND

By Niel Joubert

Betting on smaller stocks

This specialist equity fund seeks to achieve maximum capital appreciation by investing in companies with small- to mid-sized market capitalisations and who display the potential to deliver above-average earnings growth.

FUND INFORMATION:

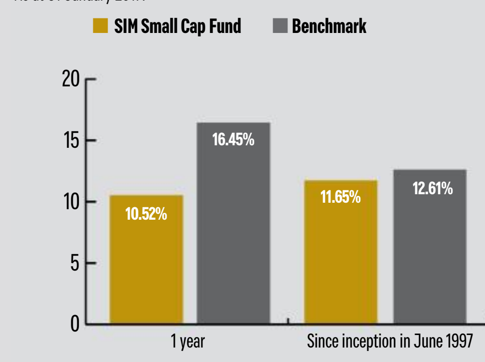
Benchmark:	Market Cap Weighted Index using FTSE/JSE Mid Cap and Small Cap Indices
Fund manager:	Vanessa van Vuuren
Total expense ratio:	1.76%
Fund size:	R552.6m
Minimum lump sum / subsequent investment:	R5 000 lump sum / R200 monthly
Contact details:	021 916 1800 / service@sanlaminvestments.com

TOP 10 EQUITY HOLDINGS

as at 31 January 2017:

1	Curro Holdings	5.28%
2	Bowler Metcalf	4.41%
3	Adapt IT	4.17%
4	Rhodes Food Group	3.63%
5	Astrapak	3.46%
6	ADvTECH	3.34%
7	Ascendis Health	3.22%
8	EOH	3.04%
9	Raubex	3.03%
10	Italtile	3.02%
	TOTAL	**36.6%**

PERFORMANCE (ANNUALISED AFTER FEES)



Fund manager insights:

The ideal investor for the Sanlam Investment Management Small Cap Fund is one with a longer term investment horizon and a slightly higher risk appetite, i.e. tolerance for some volatility in returns, says Vanessa van Vuuren, portfolio manager.

The fund focuses on selecting investments with a long-term outlook and will seek to grow in conjunction with the individual companies selected, such as early-stage companies that are slowly evolving into medium- to larger-sized businesses over time, according to Van Vuuren. "This investment process requires patience and tolerance for some periods of underperformance or losses, but is ideally rewarded over the medium to long term with an attractive return profile."

The fund can effectively select and invest in any share outside of the JSE Top40 Index. Currently there is an opportunity set of approximately 262 shares outside of the Top40, broken down as follows (the index composition changes quarterly): the JSE Mid Cap Index (57 shares), JSE Small Cap Index (58 shares), JSE Fledgling Index (119 shares) and the JSE Alt-X Index (28 shares).

Van Vuuren says the fund is predominantly skewed towards higher quality small- and mid-cap shares that they believe are undervalued by the market relative to their assessment of the long-term intrinsic value of these selected investments.

The investment philosophy, according to Van Vuuren, "does not simply involve looking at quantitative valuation metrics", but is rather focused on "holistically understanding each investment and its potential evolution as a business and what we estimate this could be worth in the medium to long run".

"A strong focus on understanding risk and the potential for capital loss is core to our investment philosophy," she adds. Van Vuuren says the general investment environment for small- and mid-cap shares remains constrained by a weak macroeconomic backdrop and a consumer who is under considerable pressure. She says the fund tries to "insulate" the portfolio from the weak macroeconomic dynamics by selecting investments that they believe offer some resilience or are somewhat insulated by these broad dynamics due to company-specific nuances and the selected industries in which they operate.

"We are essentially looking to invest in businesses that we can understand – that have a definitive competitive advantage, generate high returns on capital and good cash flows, have robust growth potential and are well managed by owners and or management who are good capital allocators."

Why *finweek* would consider adding it:

The fund recently won the Raging Bull Award for the Best South African Equity Mid and Small Cap Fund. This is awarded to the fund that generates the highest return in the domestic collective investment scheme sub-category of "South African Equity Smaller Companies" over a rolling three-year period to the end of December every year.

The SIM Small Cap Fund has won this certificate for the last two rolling three-year periods ending 31 December 2015 and 31 December 2016. ■

editorial@finweek.co.za

CITY LODGE*

BUY SELL HOLD

By Simon Brown

Occupancy down, but price is attractive

I have been a long-time holder of this stock and while it never sets the world alight, it is a nice, steady investment, although to a degree its growth is tied to the local economy as most of its guests are business people. With the economy under pressure, the company saw occupancy levels drop to 66%. This hit headline earnings per share (HEPS) growth, which was at only 2% and leverage worked against the company.

With the economy under pressure, the company saw occupancy levels drop to **66%.**

Leverage is the largely fixed cost with variable revenue. A drop in occupancy hence sees a larger drop in profit with the inverse being true; occupancy back at 70% will push profits much higher.

The move into the rest of Africa is starting to pay off well, while the oversupply of hotel rooms in the wake of the 2010 World Cup has worked its way out of the system.

I like the stock, and the price at under R150 is attractive, even though it will likely only be in 2018 that occupancy rates start to rise again strongly.

**The writer owns shares in City Lodge.*

Last trade ideas

- BUY Famous Brands — *23 February issue*
- BUY Tax-Free Portfolio — *16 February issue*
- BUY Kumba Iron Ore — *9 February issue*
- BUY CSEW40 — *2 February issue*

SHOPRITE, STEINHOFF

BUY SELL HOLD

By Moxima Gama

Collapsed deal benefits Shoprite

The share prices of both Shoprite and Steinhoff rallied on 20 February after the companies announced that they have cancelled talks to create a new African retail giant after key parties – the Public Investment Corporation (PIC), Christo Wiese's Titan Premier Investments and Steinhoff – couldn't agree on a price.

The proposed deal, announced in December 2016, would have seen Steinhoff selling its African assets to Shoprite in return for a controlling stake in the grocery retailer. In turn, Steinhoff would have exchanged its shares for those of Shoprite's two biggest shareholders, the PIC and Titan. The deal would have allowed Steinhoff to spin off its underperforming African retail assets, which operate mainly in the clothing, shoe and furniture space and include Pepkor and JD Group, into a separately listed group called Retail Africa. However, the parties couldn't agree on the exchange ratio that would apply to the share exchange.

Christo Wiese
Chairman of Steinhoff

The transaction faced some opposition from minority shareholders in Shoprite, who feared that it would short-change them and benefit Steinhoff investors and Wiese, a major shareholder in both companies, Reuters reported a few days before talks were abandoned. They believed that there is a lack of obvious cost savings from overlaps between Steinhoff's African businesses and that of Shoprite, and that Shoprite had much more potential than Steinhoff's "inferior businesses", Reuters said.

On the charts:

BUY Shoprite above 19 095c/share: Shoprite retraced after breaking out of its long-term bear channel in August last year – an occasional correction after a breakout. But upside through 19 295c/share would end this short-term pull-back and Shoprite would resume its previous uptrend towards 21 180c/share. The target of the bear channel breakout is situated at 25 500c/share.

SELL Steinhoff below 7 750c/share: Steinhoff is currently in the descending phase of a topping out pattern; the consolidation phase ended below 7 750c/share in October last year. Currently the price is ranging between 7 750c/share and 6 065c/share and with the three-week relative strength index (RSI) in bearish mode, I recommend investors stay short below 7 750c/share. ■

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Last trade ideas

- BUY PPC — *23 February issue*
- BUY DRDGold — *16 February issue*
- BUY Kumba Iron Ore — *9 February issue*
- BUY MTN Group — *2 February issue*

By Moxima Gama

MASSMART

Room for improvement

The group has been battling to grow its operations on the continent, while a tough economic climate in South Africa has also weighed on performance.

Wal-Mart bought a 51% stake in South Africa's Massmart for $2.4bn in 2011 as part of its strategy to gain a foothold in high-growth markets in sub-Saharan Africa. The idea was to aggressively expand the group's portfolio of brands, which includes Game, Makro, Dion Wired, Jumbo Cash & Carry and Builders Warehouse, on the continent.

However, it has been struggling to grow its footprint of just more than 400 stores on the continent (it had 38 stores in 13 countries outside SA at the end of the interim period in June 2016, representing about 9.3% of total sales). Massmart's attempts to expand through acquisitions have not borne much fruit either, with possible deals with Botswana retail group Choppies and Kenya's Naivas failing. In contrast, rival Shoprite operates more than 2 600 stores on the continent. Its 23 stores in Nigeria make Massmart's entire footprint outside SA look small.

Massmart said last year that it anticipates opening five new stores across Ghana, Mozambique, Nigeria and Zambia in the next two years. Establishing legal title to land and land pricing remain challenging, the group said.

Massmart hasn't only been struggling to grow its operations, but also sales elsewhere on the continent. The group warned in its latest trading update for the 52 weeks to 25 December 2016 that growth in non-South African sales continued to decline. It said total sales for the period grew 7.7% year-on-year to R91.2bn, driven by a "slight pick-up in South African sales growth". Comparable store sales increased by 5.4%. Product inflation was estimated at 6.7%, it said. The group's results were set for release on 23 February, after this issue of *finweek* went to print.

Though the South African economic environment is likely to continue limiting consumer spending across key group categories, including general merchandise and home improvement/DIY, Massmart believes its substantial food and liquor categories will continue to outperform. It also believes that trading may be relatively better in 2017 than it was in 2016.

52-week range:	R93.49 - R156.53
Price/earnings ratio:	24.38
1-year total return:	31.95%
Market capitalisation:	R28.6bn
Earnings per share:	R5.40
Dividend yield:	1.35%
Average volume over 30 days:	352 262

For a long-term investor, Massmart will eventually find its feet as shopping malls in countries like Nigeria build critical mass. I believe the share is currently trading at attractive levels, and Massmart has room for massive upside when market sentiment finally reverts.

A Makro store in Alberton.

Technical view:

Massmart's share price has been falling since May 2013. Though it did regain some upside at the beginning of 2016, bias remains predominantly bearish. Massmart would have to trade above 15 655c/share to escape its long-term downtrend and reclaim its previous losses. Until then, investors should hold. I foresee range-bound trading between 10 500c/share and 15 000c/share in the short term or for the remainder of the year until a breakout in either direction occurs.

Go short: Massmart would breach its current support trendline and extend its bear trend below 9 920c/share. Such a move could see it retest its previous 2008 lows at 5 650c/share.

Go long: Massmart would end its long-term bearish confinement above 15 655c/share, potentially promoting a gradual 100% retracement to its all-time high at 20 800c/share. ■

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MASSMART

SOURCE: MetaStock Pro (Reuters)

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.

Gallo Images/Getty Images

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.

KUMBA IRON ORE

Sitting pretty

As expected, Kumba Iron Ore's results were very good, but with one exception: everybody was expecting a dividend and we didn't get one. Management says it's strengthening the balance sheet and considering the tough period the company just went through, one can't blame the team. The market will get over its disappointment. Cost per tonne for the company is now below $30, down from above $40. But this will rise as it's focused on mining the most profitable ore right now. However, even below $30 this still makes the company one of the more expensive iron ore miners with the majors producing at around $20 per tonne. For now, with the iron ore price above $90, it's making great profits, but prices are expected to slide back into the $60s – which will still be profitable for Kumba, but less so. That all said, unless iron ore heads below $40, which I don't expect, profits will flow and we should see a dividend in the next financial year.

For now, with iron ore above **$90,** it's making great profits, but the iron ore price is expected to slide back into the $60s – which will still be profitable for Kumba, but less so.

ADAPT IT

Education takes a beating

Adapt IT had to pull out "normalised HEPS" (headline earnings per share) in an attempt to make its results look decent. But I ignore those figures and focus on HEPS, which is up only 2%. Its education business was struggling as universities across the country face budget pressure amid fee protests. It remains to be seen how quickly education bounces back; management is optimistic but I would be a lot more cautious, the protests will likely happen again this year. On the results the stock was sold off, trading well below 1 400c at points. At those levels this stock looks attractive for those who have missed it in the past.

WOOLWORTHS

Struggling – for now

The Woolies* results were very disappointing, as indicated by its trading update from January. HEPS was down 4.3% while the dividend was kept at 133c. Country Road continues to struggle and locally the retailer is also being hurt by the new entrants into our market. Fortunately, unlike other clothing retailers, it has a strong food division. Woolworths also has Australia, with that division making up almost 40% of sales. Several people have asked me whether the great days are over for the retailer – and if we should sell. My answer is no. I have held the stock for over a decade and was buying late last year as the price fell. More importantly, while business is currently very tough for Woolworths, this will pass and boom times will return. This retailer has great brands and management – part of being a long-term investor is staying the course even when things are tough. However, there is one proviso: you must believe the tough times will pass, and I do.

HEPS was down **4.3%** while the dividend was kept at 133c. Country Road continues to struggle and locally the retailer is also being hurt by the new entrants into our market.

INVESTMENT PRODUCTS

More investment schemes

The Association for Savings and Investment South Africa (Asisa) released stats showing that 2016 saw an increase of 193 collective investment schemes to a total of 1 520. This is far too many for a modest market. Sure, this includes offshore and asset classes aside from just listed shares. The good news for investors, aside from trying to determine which – if any – to buy, is that this level of funds means costs must be under pressure.

WBHO

Collusion by any other name...

Wilson Bayly Holmes's trading update had one of the craziest PR lines I have ever seen. Warning of a fall in HEPS of between 37.5% and 42.5%, the construction company commented that this was because of its "socio-economic contribution arising from the Settlement Agreement signed with the Government of South Africa". In simple English, this is a reference to the large fine it is paying as a result of colluding on construction contracts that the Competition Commission busted it for. Nobody is buying the spin WBHO is trying to put on it and management should rather focus on running the company instead of spending time coming up with the above nonsense. ■

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**The writer owns shares in Woolworths.*

Images: Getty Images/Peter Parks/AFP Getty Images/iStock Images

By Simon Brown

PEG RATIO

How to determine if a stock with a high P/E is offering value

So is that share with the high price-to-earnings ratio actually going to be worth all the money you shell out? Simon Brown discusses another benchmark that would help to measure a stock's price.

I wrote last week about finding the next Capitec*. But when we do, we run into another challenge – the stock will likely be very expensive by pretty much every valuation metric, especially the price-to-earnings ratio (P/E).

We can, however use the P/E growth (PEG) ratio to check if a fast-growing, high P/E stock is offering value. PEG takes the current P/E and uses next year's earnings (headline earnings per share, or HEPS) percentage growth, giving a different but important slant on a P/E, be it forward or historic.

The issue is where do we get next year's earnings and hence earnings growth? We can use the consensus forecasts that many brokers offer – here various stock analysts are polled and asked to give their expected future earnings for a stock. The average or consensus view is then published.

There are two potential problems here. First, there may be no consensus forecasts for smaller stocks, which would leave us in the dark. Second, the analysts making forecasts may well be wrong. If we're going to use consensus forecasts, we must accept the potential for being wrong.

Another way to get earnings growth is through trading updates. This is late in the process but better than nothing.

The link between P/E and PEG

If the stock is not being covered by analysts, you can work out your own earnings growth.

Start by looking at the recent trend – are earnings increasing or decreasing? What was the outlook from the previous set of results? This will give you a starting point and a rough idea of what the growth will be.

So, with your rough expected growth in earnings, what the PEG does is divide the historic P/E into the growth. A number below 1 indicates value in a high-growth stock while a figure higher than 1 indicates an expensive high-growth stock.

A number below 1 indicates value in a high-growth stock while a figure higher than 1 indicates an expensive high-growth stock.

Put more simply: is the earnings growth expected to be higher than the current P/E? A P/E of 50 times is fine if expected growth is 75%, as that's a PEG of 0.66.

Using an example

Digging deeper, let's look at private education group Curro*, which is trading at a P/E of over 130 times. The latest trading statement says growth in earnings will be between 52% and 67%. This is great growth, but with that P/E the stock remains expensive on a PEG of just over 2 (P/E of 130 divided by growth of 60%).

But as we know, Curro is very much in ramp-up mode as it opens and fills new schools and, of course, spends money. Occupancy levels are not yet optimal so as spending slows (as new builds slow down), income will grow and the company's base costs (e.g. teacher salaries) will be largely static. This will boost growth and the stock will "grow" into its high P/E.

That said, I think Curro is very expensive at around 5 000c, even with all the future potential, and here's my maths: First, let's assume HEPS growth of 60%, making for 46c HEPS for the full year to end February. At the current 5 000c, that makes a P/E of just over 100 times, and with HEPS growth of 60% it remains expensive. But at 4 000c, using the same HEPS, we get a P/E of 87 times, while at 3 000c the P/E is 65 times and in line with growth.

Using the above assumptions, you'd want to buy Curro on price weakness. This may not happen, but at 5 000c your margin of safety is nothing. Any slip by the company and the price will be under severe pressure. However, at 3 000c you'd be able to buy at a much better valuation (the stock was at 3 500c in mid-2016).

This is far from an exact science but you can see how to pull apart numbers, look into the future and get an idea if earnings growth justifies the high valuations on a stock. ■

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The writer owns Capitec and Curro Holdings.

CURRO HOLDINGS

Image supplied

52-week range:	R35.00 - R51.00
Price/earnings ratio:	134.78
1-year total return:	13.53%
Market capitalisation:	R19.5bn
Earnings per share:	R0.36
Dividend yield:	-
Average volume over 30 days:	186 422

SOURCE: IRESS

By Rupert Giessing

RETIREMENT ANNUITIES VS TAX-FREE INVESTMENTS

Does the taxman help you save for retirement?

Tax-free savings products were introduced two years ago while retirement annuities – in some form or another – have been around for decades. How do they measure up in terms of helping you to save for your golden years?

With the end of the tax year on 28 February, now is a good time to remind ourselves again of the numerous advantages of saving for retirement through certain investment products. These investment vehicles have considerable tax advantages over discretionary products, where these benefits do not apply.

Specifically, we'll be looking at the good old retirement annuity and then also tax-free investments, which were introduced in 2015 as an additional savings vehicle to encourage South Africans to save more.

Retirement annuities (RAs)

RAs have been around for as long as most of us can remember. They are basically private pension plans, specifically designed to help you save for retirement. They have evolved significantly over time into much more flexible and affordable investment vehicles from the more traditional life insurance products of old.

Investors can now make use of so-called "new-generation" RAs on linked investments platforms (LISPs). These are more flexible and far less expensive to administer, contributions can be made as and when the investor chooses (in the form of a lump sum or a regular debit order) without possibly paying any penalties for missing contributions, and there are also a wealth of underlying unit trusts available to choose from.

Benefits of saving through an RA

The first and most significant benefit is the tax deductibility of RA contributions. As from 1 March 2016 all contributions to pension, provident and RA funds are consolidated and are deductible up to 27.5% of the greater of remuneration or taxable income, capped to R350 000 annually.

Graph 1 on page 23 gives an indication of the amount an investor can expect to receive as an annual refund, based on a specific annual income. (Assuming an annual contribution rate of 15% of remuneration.)

But don't go and spend that RA rebate, it can considerably boost your retirement benefit. If we look at a practical example using an individual who earns an annual salary of R600 000, increasing at 6% per annum, who starts contributing to an RA at age 40, for a period of 25 years, the annual refund will be R33 897.

The monthly RA contribution at a rate of 15% per annum amounts to R7 500. Assuming no change in tax brackets for purposes of slightly simplifying the calculation, an annual investment growth rate of 10%, inflation rate of 6% and if the individual then also reinvests the annual refund from year 1 for a period of 24 years, the individual would have saved an additional R 2 864 031 (total proceeds of R11 549 735) at retirement.

To put the numbers in perspective, it's an increase in retirement savings of 33% at age 65!

RAs also offer other tax advantages

The benefits of saving through an RA don't end there. With any discretionary investment, capital gains tax is payable; not so with an RA. Interest and dividends are also not taxed in an RA, which means basically *all* investment growth is tax free, and this also adds up exponentially over the long term. We will have a closer look at an example of the impact of tax-free investment growth when we discuss tax-free investments further down in this article.

But, what the taxman giveth, the taxman will eventually taketh away. When you put up your feet one day when you retire, you will have to pay tax on the proceeds taken in cash (you are allowed to take up to one third in cash at retirement, any time after age 55). However, lump-sum benefits are taxed on a favourable sliding scale with a portion of the benefit tax free. Because you are deferring paying tax on the proceeds of your RA, there's also a larger investment amount that can grow and compound over time, all tax free.

The other two thirds of the proceeds from your RA will be used to purchase an annuity, which will then be used to provide you with an income during retirement. You will have to pay tax on your monthly "income" but once again, it will most probably be at a lower

Gallo Getty Images/iStockphoto

With any discretionary investment, capital gains tax is payable; not so with an RA. Dividends and interest is also not taxed in an RA, meaning basically *all* investment growth is tax free.

rate as many individuals' personal tax rates decrease when they retire.

But wait, there's even more!

RAs are also advantageous for estate planning purposes. They fall outside of your estate, and when you pass away, the proceeds from your RA will pay out directly to your nominated beneficiaries and there is no estate duty or executor's fees applicable.

Your money is also mostly protected from the claims of creditors, though there are a few exceptions to the rule, taking into account the Income Tax Act, and any amounts possibly payable under e.g. the Divorce Act and the Maintenance Act.

Investments in RAs are however restricted in terms of Regulation 28 of the Pension Funds Act, which determines the amounts that can be invested in certain asset classes like equities and listed property, and also how much of the investment can be invested offshore, which is currently 25% of the total investment amount.

Tax-free investments

These innovative new savings vehicles that were launched in 2015 as an incentive by government to encourage savings, offer some of the advantages of RAs, but without the restrictions. They do have some other restrictions though that don't apply to RAs. Let's look at these in a bit more detail.

In a nutshell, you are allowed to save up to R30 000 p.a. in a tax-free investment (increasing to R33 000 p.a. in the 2017/18 tax year), up to a lifetime savings limit of R500 000 per individual. Very importantly, any contributions made in excess of these limits will be taxed at a rate of 40% of the total amount exceeding the limits.

This applies to *all* of the individual tax-free savings investments lumped together that an individual might have, and not individually. Contributions also can't be replaced, meaning if you make a withdrawal during a year, you can't put it back. You are only allowed your R30 000 p.a. contribution.

Compared to RAs, tax-free investments offer more flexibility in that the funds are available at any time, you do not have to wait until age 55 before you can access them.

The major benefit of tax-free savings investments is illustrated by the name, all investment growth is tax free, exactly as it applies to the investment growth in an RA. There is no tax on capital gains, interest or dividends. However, the big difference between these products is that the contributions to a tax-free investment are not tax deductible. But one day when you access the funds, no tax will be payable on any of the proceeds either.

Let's have a look at an example of the impact of tax-free investment growth over different time periods. The following assumptions are made: Lump-sum contribution of R30 000 p.a., invested equally between equity and interest-bearing instruments, with a dividend yield of 3% and an interest rate of 8%. The investment grows at 12% annually.

As seen in Graph 2 below, the advantages of tax-free investments are only really illustrated over an investment term of longer than 10 years, when the power of compounding can start working its magic. This is an important element of these products that should be considered when deciding to invest in them.

> The advantages of tax-free investments are only really illustrated over an investment term of longer than 10 years.

Over a 20-year period, the additional saving is 27% more than the saving for an individual in the 41% tax bracket on a discretionary investment, and 13% more for someone in the 18% tax bracket. However, over a period of 10 years the additional saving is only 12% and 6% respectively.

If you are saving for the short term, rather consider other alternatives and don't use the R30 000 annual contribution that can't be replaced for tax-free investments.

So which is best?

If the objective is specifically saving for retirement, an RA is still the best vehicle to use because of the numerous tax advantages it has over a discretionary investment.

Tax-free investments are great for supplementing retirement savings, or other long-term savings objectives like children's tertiary education (if you start early enough). They also provide flexibility in case of emergency if the funds are needed.

However, each individual's unique circumstances and time horizon need to be taken into account when deciding how to invest and save for retirement, and this is where good advice is indispensable. Speak to a financial adviser if you are not sure. ■

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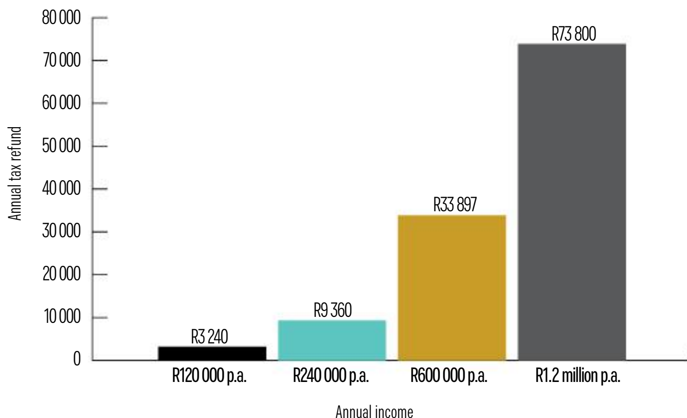
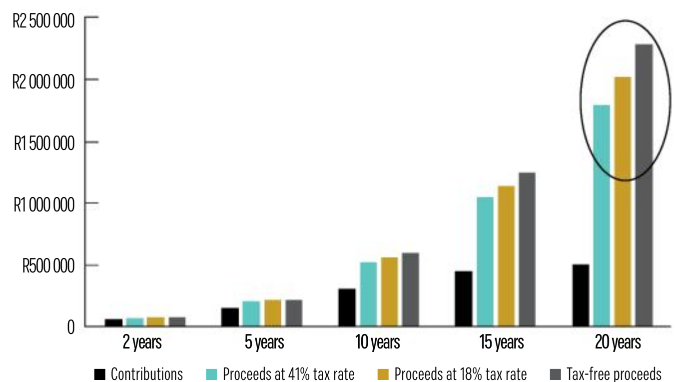
GRAPH 1: ANNUAL RA TAX REFUND PER INCOME EARNED



SOURCE: Vista Wealth Management

GRAPH 2: TAX-FREE INVESTMENT GROWTH VS A REGULAR DISCRETIONARY INVESTMENT



SOURCE: Vista Wealth Management

By Adam Bulkin

VALUE-STYLE INVESTING

The outlook for value investors

After a tough few years, value stocks have been outperforming the market since early 2016. How long can it last?

The past nine years have been tough for those managers employing the "value" style of investing. Investors following the value style will try to identify those companies where they think the market is *too* pessimistic about its future prospects – i.e. value investors buy stocks they believe the market has undervalued and whose future will be better than is currently priced in.

For more than five years – from the inception of the global financial crisis in early 2007, until halfway through 2014 – the value cycle underperformed the market by a cumulative 107%, one of the longest and deepest periods of underperformance of the value style. This is according to analysis carried out by Sanford C. Bernstein & Co. and Pzena Investment Management, a New-York based firm that has been managing assets since 1996.

Since early 2016 the value style began once more to outperform the market, producing returns in excess of the general market of about 20%. This was driven by companies shunned by the market up to that point, as investors were concerned about their ability to generate earnings growth. These companies included those in the energy sector, which had experienced an extreme fall in the price of oil, and the materials sector, where mining companies and commodity producers suffered from falling commodity prices in a slowing global growth environment.

When global growth began to recover slightly, the oil price stabilised, China began to stimulate its economy by infrastructure development and commodity prices were driven upwards. The market began to improve its expectations for such companies, resulting in their share prices rising rapidly.

Since early 2016 the value style began once more to outperform the market, producing returns in excess of the general market of about

20%.

The start of a new value cycle?

After such a long and severe period of underperformance, investors are asking if this is the beginning of a period of outperformance for value, or if the cycle will be short-lived and the opportunity to invest in the value style already past.

The past 50 years show that pro-value cycles are typically longer in duration and greater in cumulative outperformance than the current cycle, which commenced early in 2016, as can be seen in Graph 1. Value cycles in the US have lasted 72 months on average and generated 162% excess returns cumulatively on average, versus the 11 months and 20% respectively of the current value cycle.

Analysis carried out by Pzena shows the potential difference in returns from the cheapest quintile of shares compared to the broader market (termed the "valuation spread") remains wide throughout the world, especially in financials and generally cyclical businesses.

One way of showing this is by looking at the price divided by the earnings (P/E) of the shares in the S&P 500 US equity index. The P/E is simply the price market participants are willing to pay for the expected earnings one year out. If the P/E is low, it means the market will not pay a high price for the earnings – the shares are inexpensive and this is where a value investor might look for opportunities.

Analysis by ACPI Investment Mangers, which can be seen in Graph 2, shows how wide the dispersion is between the P/E ratios of the various quintiles of this market. This valuation spread means that there are many opportunities for positive surprises in the cheaper part of the market, which provides much potential for value as a style to outperform.

Growth investing

Seen from another perspective, extremely low interest rates in the US and elsewhere favoured equity strategies that focused on growth as opposed to value stocks. Growth investing is an investment style concentrated on companies whose earnings are expected to grow at an above-average rate relative to its industry or the overall market.

Market participants are prepared to pay high prices for such companies, because they think that the companies will, over a long period of time, grow at a faster rate than others. They are therefore prepared to sacrifice paying a relatively large amount of cash now, because they hope to benefit from the effects of compound growth in the future. When interest rates are low, as they have been since the global financial crisis, investors are even more prepared to part with cash than at other times, since the benefit of holding cash or other "risk-free" assets, such as US government bonds, is less than normal.

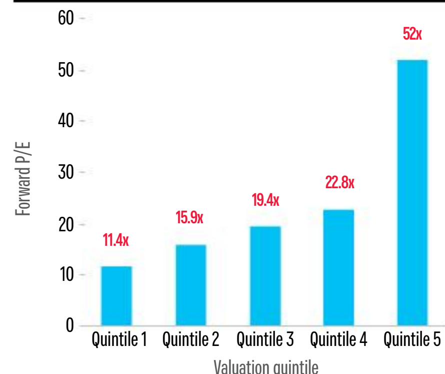
This is why growth stocks vastly outperformed value stocks over the past years, which is relatively unusual. Graph 3 highlights this relationship since the 1930s and it shows that value typically outperforms growth by a wide margin.

GRAPH 1

Cycle	Dates	RELATIVE RETURNS First 11 months	RELATIVE RETURNS Full value cycle	LENGTH OF CYCLE Number of months
1.	Jul '73 - Mar '78	12.7%	127.2%	57
2.	Dec '80 - Aug '88	23.0%	264.4%	93
3.	Nov '90 - Aug '95	29.4%	131.1%	58
4.	Mar '00 - Feb '07	55.1%	176.9%	84
5.	Dec '08 - Jun '14	35.4%	107.5%	67
Average		**31.1%**	**161.5%**	**72**
Current	Feb '16 - Dec '16	19.9%	-	11

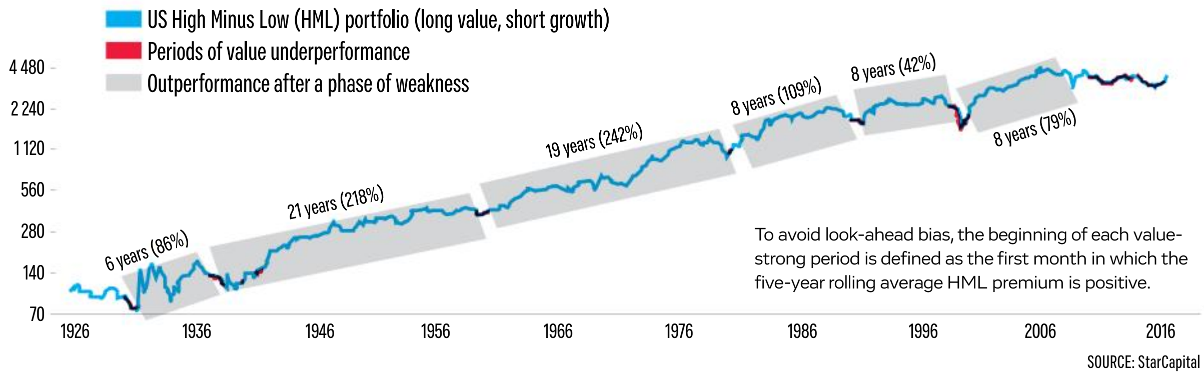
SOURCE: Pzena Investment Management

GRAPH 2



Getty Images/iStock Images

GRAPH 3



SOURCE: StarCapital

The current phase of economic expansion in the US is way past its sell-by date.

Interest rates and value stocks

At the end of 2016, the US Federal Reserve raised interest rates and US 10-year government bond yields also rose. As we have noted above, when interest rates and bond yields increase, the market finds growth stocks less attractive relative to value stocks than before.

This is another reason why value as a style outperformed growth in 2016 and is inextricably linked to the expectation of stronger growth globally, but particularly in the US. This growth leads to inflation and prompted the US Federal Reserve to raise rates, even if the move was small.

Considering the length of the current value cycle relative to history, the signs of improved growth in many regions of the world, the wide valuation spreads and the trajectory of interest rates and bond yields, particularly in the US, there is certainly strong reason to believe the value cycle will continue to outperform, at least in the short to medium term.

Exercise caution

However, it is important to acknowledge this value cycle is in an environment where the interest rate and bond yield rise may be constrained. Global growth and inflation have been severely constrained owing to a massive increase in government debt and corporate and household debt; demographic trends that have seen a decrease in the younger, consumer-orientated working-age world population and an increase in the older, savings-orientated population; globalisation; and diminishing productivity.

In addition, the economic cycle has been a long, shallow, extended one and we are more likely at the end of that cycle than its beginning. Although this is balanced against the attempts of many governments to increase fiscal stimulus and the loose monetary policy of many central banks around the world, the current phase of economic expansion in the US is way past its sell-by date. It has outlasted all but three expansionary periods since 1854 and lasted nearly three times as long as the average expansion in the past. Graph 4 illustrates this.

The drivers of the value cycle – improving global growth and rising interest rates and yields – are vulnerable to a downturn. Any number of exogenous shocks could lead to this – from a spike in the oil price owing to war in the Middle East, to a decrease in global trade and growth as protectionist policies are enacted by the Trump administration and other governments. Should such an event occur during 2017, the factors that have led to an outperformance of the value cycle could rapidly reverse.

One should exercise caution in extrapolating the past performance of value cycles to the present one. However, it does look like this cycle is set to continue this year. ■

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GRAPH 4

THE LENGTH OF US ECONOMIC EXPANSIONS SINCE 1854, IN MONTHS

Period	Months
Dec 1854 - June 1857	30
Dec 1858 - Oct 1860	22
June 1861 - April 1865	46
Dec 1867 - June 1869	18
Dec 1870 - Oct 1873	34
Mar 1879 - Mar 1882	36
May 1885 - Mar 1887	22
Apr 1888 - July 1890	27
May 1891 - Jan 1893	20
June 1894 - Dec 1895	18
June 1897 - June 1899	24
Dec 1900 - Sep 1902	21
Aug 1904 - May 1907	33
June 1908 - Jan 1910	19
Jan 1912 - Jan 1913	12
Dec 1914 - Aug 1918	44
Mar 1919 - Jan 1920	10
July 1921 - May 1923	22
July 1924 - Oct 1926	27
Nov 1927 - Aug 1929	21
Mar 1933 - May 1937	50
June 1938 - Feb 1945	80
Oct 1945 - Nov 1948	37
Oct 1949 - July 1953	45
May 1954 - Aug 1957	39
Apr 1958 - Apr 1960	24
Feb 1961 - Dec 1969	106
Nov 1970 - Nov 1973	36
Mar 1975 - Jan 1980	58
July 1980 - July 1981	12
Nov 1982 - July 1990	92
Mar 1991 - Mar 2001	120
Nov 2001 - Dec 2007	73
June '09 - Current (Jan '17)	**91**
Median	**32**

SOURCES: ACPI, NBER

By Schalk Louw

THE RAND

Investment lessons from the Oroville Dam disaster

Investors, like government officials, are advised not to ignore warnings from experts, be they about cracks in dam walls or cracks in a currency's valuation.

A very interesting story was unfolding in California in the US as I was writing this article. Among the many interesting sights in the US, you will find the Oroville Dam, which, at a height of 235m, is officially the highest dam in that country. In 2013, however, a crack in one of the dam's main slipways was concerning enough to experts that they warned of the possibility of a total dam collapse, which could potentially risk the lives of thousands of people.

Government officials saw the signs, but they were adamant that everything was under control. What a great shock it was when it was announced on 12 February that the dam may collapse at any moment, forcing nearly 200 000 residents in surrounding areas to evacuate immediately. While residents have been able to return, by 20 February, everyone was still waiting with bated breath to see what would happen next, and this brings me to my message this week: don't look for possible solutions to position yourself when the dam breaks, but rather learn a valuable lesson from this story.

In an article titled *Nobody can pin down the rand* (28 April 2016 edition), after the rand weakened to nearly R17 against the dollar, I pointed out at least three cracks in the valuation of the rand and used these cracks to show why the rand was strongly undervalued at the time. Some of the points I made included that the rand's fair value was calculated mainly on its purchasing power parity (PPP), the benefits that a possible recovery in the resources sector might hold for the rand and a few technical aspects as well.

Like with the Oroville Dam, these cracks were clearly visible to all. In September 2016, after the rand strengthened to around R14/$, I was asked to perform a follow-up analysis on these valuations and still these cracks showed us that the rand's fair value remained between R11.50 and R12/$. I also named three shares that could be considered by investors who wanted to benefit from a possible further strengthening in the rand at that stage (*There goes the rand, again*, 16 September edition) and they were Capitec Bank, PSG Group and Tiger Brands.

Don't look for possible solutions to position yourself when the dam breaks, but rather learn a valuable lesson from this story.

Water moving down the damaged spillway at the Oroville Dam on 17 February in Oroville, California.

Since then, the local currency has strengthened to below R13/$, and the abovementioned shares have grown by 18%, 28% and 11% respectively, compared to the FTSE/JSE All Share Index's (Alsi's) growth of 1% over the same period. The reason for their performance can be attributed to the fact that huge locally-based companies have restructured their earnings in such a way that less than 40% of the Alsi is dependent on the rand. These three companies, however, still earn the largest component of their income in rand, which made them stand out as a possible solution for a cracked dam at the time.

Unfortunately, this is now history, which means that investors have to decide on the way forward and how to position their personal portfolios following recent happenings. I'm aware that there has already been a rally in both the rand and shares that are strongly linked to the rand, but the fact remains that the rand still seems to be priced fairly cheaply, which means that if you are still invested in a strongly rand-hedged portfolio, you run the risk of underperforming if the countless analysts and economists are correct in their expectations of further strengthening of the rand.

When we take a look at all of the Alsi shares' price correlation to the rand over the last 10 years, we will see that local banks and retailers in particular held a strong correlation with the strengthening of the rand.

When we take an even closer look at these shares, we will see that three shares stood out as shares with the highest correlation with the strengthening of the rand over the past 10 years. According to analysts and consensus forecasts compiled by Bloomberg, these three shares will offer the most growth potential over the next 12 months and could offer a valuable addition to personal share portfolios, namely FirstRand, Remgro and Woolworths. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

Gallo Images/Getty Images

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
AEEI	K Abdulla	17 February	Purchase	5,000,000	350	17,500,000	22 February
BARWORLD	OI Shongwe	15 February	Purchase	6,486	11599	752,311	16 February
KAP	SP Lunga	16 February	Sell	40,000	916	366,400	22 February
KAP	SH Muller	20 February	Sell	59,197	906	536,324	22 February
KAP	RH Singh	13 February	Sell	161,446	823	1,328,700	17 February
NAMPAK	FV Tshiqi	13 February	Sell	50,000	1791	895,500	16 February
NETCARE	L Bagwandeen	15 February	Sell	15,741	3250	511,582	20 February
NETCARE	L Bagwandeen	15 February	Purchase	38,062	3250	1,237,015	20 February
NETCARE	M da Costa	15 February	Sell	21,370	3250	694,525	20 February
NETCARE	M da Costa	15 February	Purchase	51,728	3250	1,681,160	20 February
NETCARE	J du Plessis	15 February	Sell	28,294	3250	919,555	20 February
NETCARE	J du Plessis	15 February	Purchase	68,498	3250	2,226,185	20 February
NETCARE	RH Friedland	15 February	Sell	90,230	3250	2,932,475	20 February
NETCARE	RH Friedland	15 February	Purchase	218,528	3250	7,102,160	20 February
NETCARE	KN Gibson	15 February	Sell	35,231	3250	1,145,007	20 February
NETCARE	KN Gibson	15 February	Purchase	85,300	3250	2,772,250	20 February
NETCARE	C Grindell	15 February	Purchase	13,886	3250	451,295	20 February
NETCARE	C Grindell	15 February	Purchase	13,886	3250	451,295	20 February
NETCARE	N Phillipson	15 February	Sell	15,727	3250	511,127	20 February
NETCARE	N Phillipson	15 February	Purchase	38,062	3250	1,237,015	20 February
NETCARE	P Warrener	15 February	Sell	54,757	3250	1,779,602	20 February
NETCARE	P Warrener	15 February	Purchase	54,757	3250	1,779,602	20 February
OMNIA	RB Humphris	15 February	Sell	11,139	17754	1,977,618	20 February
OMNIA	RB Humphris	16 February	Sell	8,861	17706	1,568,928	20 February
OMNIA	HP Marais	20 February	Purchase	6,000	17571	1,054,260	21 February
SAPPI	GT Pearce	16 February	Sell	15,750	8156	1,284,570	21 February
SAPPI	AV Thiel	20 February	Purchase	804	8290	66,651	21 February
SAPPI	AV Thiel	16 February	Sell	10,309	8294	855,028	22 February
SAPPI	AV Thiel	16 February	Sell	9,960	8291	825,783	22 February
SAPPI	AV Thiel	16 February	Sell	3,459	8290	286,751	22 February
SAPPI	BJ Wiersum	20 February	Sell	20,000	8211	1,642,200	21 February
STEFSTOCK	JWLM Fizelle	15 February	Sell	94,700	440	416,680	16 February
TFG	SE Morley	14 February	Sell	1,277	16490	210,577	16 February
TFG	GS Naidoo	13 February	Sell	5,000	16528	826,400	16 February
TOWER	MG Edwards	20 February	Purchase	1,733	845	14,643	21 February
TOWER	MG Edwards	20 February	Purchase	2,250	847	19,057	21 February
TOWER	MG Edwards	20 February	Purchase	7,617	850	64,744	21 February
TRADEH	FH Esterhuyse	17 February	Purchase	4,819	2075	99,994	20 February
WOOLIES	I Moir	16 February	Sell	29,652	7085	2,100,844	20 February
WOOLIES	SAR Rose	16 February	Purchase	4,020	7244	291,208	20 February

All data as at 16:00 on 22 February 2017. Supplied by IRESS.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
M&R Holdings	1501	33.78
Adrenna	65	30.00
Ecsponent	13	18.18
Montauk	1800	16.13
Phoenix	62	14.81
WORST		
Workforce	190	-17.39
Transhex	455	-17.27
Brimstone	1330	-16.88
Conduit	220	-12.70
Sasfin	6640	-12.05

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 586.60	0.19
JSE FINANCIAL 15	15 089.39	-1.18
JSE INDUSTRIAL 25	67 213.34	1.27
JSE SA LISTED PROPERTY	654.00	0.13
JSE SA RESOURCES	19 266.88	-0.63
JSE TOP 40	45 555.97	0.32
CAC 40	488 876	-0.73
DAXX	1 196 749	1.47
FTSE 100	727 483	-0.38
HANG SENG	2 396 363	-0.13
NASDAQ COMPOSITE	586 594	0.80
NIKKEI 225	1 938 144	-0.29

*Percentage reflects the week-on-week change.

P/E RANKING

SHARE	FORECAST
ARM	4.96
PAN AFRICAN	5.09
ASSORE	5.53
SOUTH32	6.94
TEXTON	7.71
LIBERTY HOLDINGS	8.35
EXXARO	8.45
NAMPAK	8.68
SIBANYE	8.95
RAUBEX	8.98

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	13.0
EMIRA	143	9.7
REBOSIS	125	9.4
ACCPROP	58	8.5
REDEFINE	93	8.2
FORTRESS-A	136	7.6
CORONATION	504	7.6
SA CORPORATE	43	7.4
GROWTHPOINT	195	7.2
PAN AFRICAN	19	6.8

EPS RANKING

SHARE	F'CAST (C)	F'CAST AS %*
NASPERS-N	6114	2.78
ASSORE	4843	18.5
BAT	4619	5.7
SASOL	3812	10.1
CAPITEC	3320	4.6
KUMBA IRON ORE	2373	10.8
TIGER BRANDS	2355	5.7
NEDBANK	2321	9.7
MONDI LTD	2300	7.7
ARM	2192	20.03

*Forecast EPS as a percentage of current share price

Rudolf Fourie
CEO of Raubex

www.raubex.co.za/

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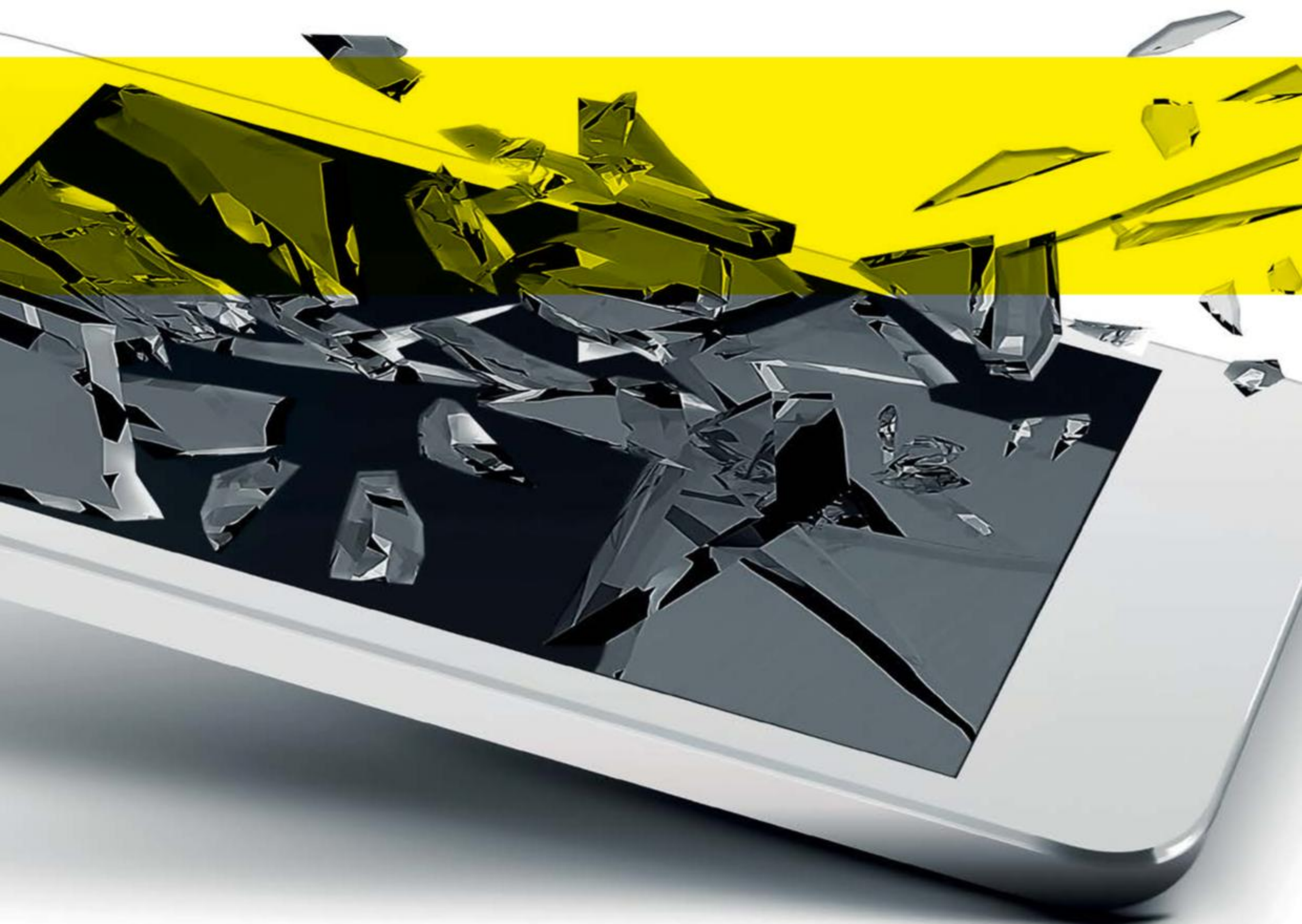


NT ENGULFED ERSIES

After a series of missteps, MTN, which operates in 22 countries, has left a bitter taste in the mouths of shareholders, customers and business leaders alike. What will incoming CEO Rob Shuter, who starts work in March, have to do to restore the company's reputation?

By Lloyd Gedye

An expected loss for this financial year due to a whopping fine in Nigeria. An ongoing investigation in that country into the alleged illegal repatriation of money as well as a planned listing in Lagos. A brewing freedom of expression scandal in Cameroon and an ongoing investigation by the Cameroonian government into unpaid taxes.

The purchase of a major stake in an Iranian internet service provider. Angry black shareholders whose payouts have been delayed. A South African market where it has been shedding subscribers and has faced heavy criticism for its decision to appoint a white CEO to take over from acting CEO and current MTN chairperson, Phuthuma Nhleko.

It seems Rob Shuter, who takes the reins as the MTN Group CEO in mid-March, already has a very full inbox.

Nigerian fine hits hard

In October 2015, MTN's world was turned upside down with the announcement by the Nigerian Communication Commission (NCC) that it was slapping the mobile giant with a 1.04tr naira fine ($5.2bn at official exchange rates at the time), for failing to meet a deadline to disconnect 5.1m unregistered SIM cards in Nigeria.

This was equivalent to more than two years of MTN's Nigerian profits, while MTN Nigeria accounts for almost a third of MTN Group's total revenue.

Gallo Getty Images/iStockphoto

> "MTN may put forward reasons it argues to be valid for the appointment of its new CEO, however, the company would undoubtedly agree that it has squandered a good opportunity to reaffirm its commitment to transformation."

HUMAN RIGHTS IN CAMEROON

It's been over a month since the internet was cut off on 17 January in English-speaking regions of Cameroon, allegedly on instruction from the government. MTN is the largest network in Cameroon with a market share of 51%, followed by French mobile player Orange with 35% of the market.

Protests emerging within the Anglophone regions of Cameroon against marginalisation by the Francophone government allegedly triggered the order to cut off the internet. It has been reported that the aim of the cut-off was to prevent the use of apps like WhatsApp, Facebook and Twitter, which were being used to organise protests.

MTN faced similar allegations in Swaziland in 2011, when protesters rose up against King Mswati III. At the time, the telecoms operator denied that it was colluding with Mswati.

United Nations experts have condemned the move as an "appalling violation" of the right to freedom of expression and argue it is a contravention of international law. MTN insists it is not in a position to comment on the situation in Cameroon. However, it did state that it respects the laws of the Republic of Cameroon as a licensed provider of telecommunication services.

World Wide Worx's Arthur Goldstuck said that MTN is as much a victim in Cameroon as its customers are. "When you win licences at all costs, there exists the potential for totalitarian regimes to make you complicit in human rights abuses," says Goldstuck. "It's a daily risk you run."

Meanwhile, the company is also facing an investigation in Cameroon into unpaid taxes. It has been reported that MTN faces a potential bill for R1.46bn from the Cameroon National Anti-corruption Commission. This bill is for alleged unpaid taxes and royalties, uncovered by an investigation by the commission. MTN insists that it is a compliant taxpayer in Cameroon and the largest contributor to public revenues.

Gallo Getty Images

The magnitude of the fine was "astonishing" and it was clear to see the "hand of political interest" at play, said founder of World Wide Worx, Arthur Goldstuck. In the wake of the fine, MTN CEO Sifiso Dabengwa resigned and Nhleko was appointed to act.

Months of intense engagement with the NCC led to a good-faith payment of $250m to the Nigerian government in February 2016, on the basis that this would be applied towards a settlement. The fine was reduced to 330bn naira ($1.1bn) in June 2016.

But even the reduced fine is having a significant impact on MTN's profitability. Early in February MTN warned the market that it would report a loss for the 2016 financial year as a result of the regulatory fine imposed in Nigeria.

Speaking to *finweek*, the telecoms giant says it has learnt profound lessons from the events of the past 18 months, most notably the events around the MTN Nigeria regulatory fine.

"We have since taken an in-depth review of our operations and processes to strengthen our governance structures and embed a robust ethics culture."

Sifiso Dabengwa
Former CEO of MTN

Who is Rob Shuter?

Shuter comes to MTN from one of its rivals, the Vodafone Group, which owns the majority stake in Vodacom. Shuter's most recent position was CEO of Vodafone Group's European cluster.

After studying commerce at both the University of Cape Town and what is now known as the University of KwaZulu-Natal, Shuter joined Deloitte SA, where he served his articles between 1989 and 1992. In 1994 he was appointed head of investment banking at Standard Bank – it was here that he met Phuthuma Nhleko for the first time.

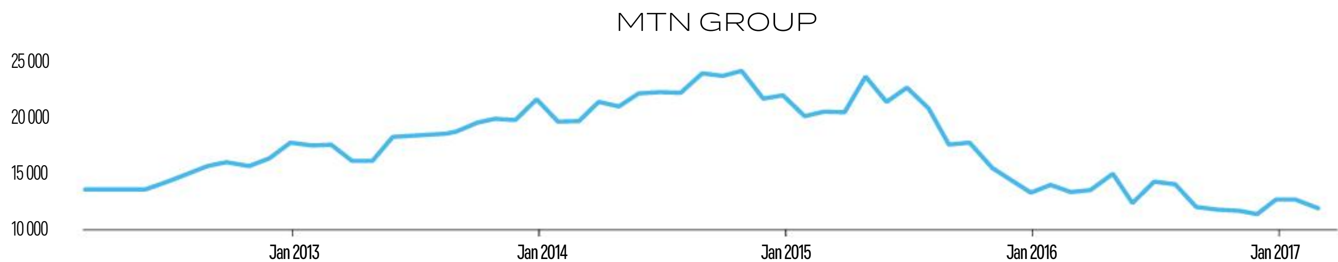
Rob Shuter
New group CEO of MTN

Goldstuck says the fact that the two have worked together previously would have played a role in Shuter's appointment: "Nhleko at least knows that they are compatible, that they can have a healthy working relationship."

In 2000, Shuter was appointed as managing director (MD) for Nedbank Retail and stayed at the bank for almost a decade. But in 2009 he made the jump from banking into telecoms when he was appointed as chief financial officer of Vodacom.

Arthur Goldstuck
Founder of World Wide Worx

Next came a jump to Europe when Shuter was



appointed as the Vodafone Netherlands CEO in 2012 before being promoted to run the European cluster.

Shuter's banking experience is an indication that MTN intends to do increased business in the financial sector going forward, says Goldstuck. When MTN announced Shuter's appointment, it flagged his banking experience as important in developing MTN's new business strategy.

Goldstuck adds that both MTN and Vodacom failed "dismally" when they attempted to play in the South African mobile banking sector in the past, so they will have to learn from those mistakes.

Transformation criticism

Shuter's appointment was announced in June last year and was immediately met with fierce criticism from the Black Management Forum (BMF).

"The BMF's position is informed by the clear reversal of black representation in top JSE-listed companies," Mncane Mthunzi, BMF president, said at the time. "There is a general unwillingness for transformation at top management levels which has resulted in the decline in the number of black South African CEOs.

"MTN may put forward reasons it argues to be valid for the appointment of its new CEO, however, the company would undoubtedly agree that it has squandered a good opportunity to reaffirm its commitment to transformation," said Mthunzi. "Prior to this appointment, MTN had demonstrated exemplary leadership by successively having black CEOs."

MTN hit back at the criticism, insisting that transformation is a broad process and went on to detail its commitment to black economic empowerment and transformation over the last two decades.

Founder and MD of Lehumo Capital Maudi Lentsoane says he agrees with MTN that empowerment needs to be measured broadly and not with just one position in the company.

MTN argued that Shuter was appointed after an extensive global and local search and is an "internationally-seasoned" CEO. It insisted that empowerment and transformation would remain one of its key deliverables going forward.

New regional vice presidents

Shuter is taking the helm at a company that currently operates across 22 countries in Africa and the Middle East and has a staff complement of 21 000 and a total subscriber base of 230m.

52-week range:	R104.76 - R152.74
Price/earnings ratio:	-
1-year total return:	1.24%
Market capitalisation:	R223.42bn
Earnings per share:	-R1.79
Dividend yield:	9.11%
Average volume over 30 days:	4 997 073

SOURCE: IRESS

Mergence Investment Managers' Peter Takaendesa reckons Shuter is joining MTN at a good time. "Fortunately for Rob, most things that could go wrong have gone wrong," says Takaendesa. "Most of the disasters are behind them now."

However, he maintains that developments at the mobile giant over the last few years suggest it needs to address its corporate culture.

Given the size of MTN's footprint, it really needs to step up its corporate governance so it can't be used as ammunition against the company by governments that are currently hard-pressed to prevent capital outflows, says Takaendesa.

Nhleko essentially built MTN during his term as CEO and was responsible for initially setting up the regional vice presidents, adds Takaendesa. But, according to him, it was the next CEO, Dabengwa, who again removed the regional vice presidents, opting for a governance structure that was run on a country-by-country basis.

Takaendesa suggests that if the regional vice president structure was still in place, MTN perhaps would have acted sooner in dealing with the crisis in West and Central Africa. It is notable then that with Nhleko back at the helm, even in an acting capacity, MTN has taken the decision to again implement a regional structure headed by three vice presidents.

The three regions are Middle East and North Africa, West and Central, as well as South and East Africa. MTN told *finweek* that it would provide an additional layer of governance across the 22 countries it operates in.

Mncane Mthunzi
President of the BMF

Peter Takaendesa
Portfolio manager at Mergence Investment Managers

Image: www.businesstech.co.za

Fixing corporate culture

Shuter has a big task ahead of him to steady the ship as MTN is still in a "precarious" position following the Nigerian fine, says Goldstuck. According to him, the company is in need of strong leadership and what Shuter needs to do is establish a new corporate culture at MTN.

"Shuter needs to make sure that good governance and ethics become core to the DNA of the company," Goldstuck explains. "This seems to have been taken too lightly over the last few years.

"MTN needs to become as transparent as possible, it needs to stick to the regulatory and governance frameworks like a religion," he adds. "It can't appear to be a bad corporate citizen."

Lentsoane says the time for introspection from MTN is now. "MTN is facing a lot of challenges, both reputational and governance," he states. "Phuthuma Nhleko has been acting for over a year to get them through this difficult period.

"There has been a lot of reputational damage and the share price has reacted negatively."

Lentsoane also points out that Nhleko recently sold a significant stake of his shareholding in MTN. "He is just realising gains on those shares, but it's not a vote of confidence. It's a bit disturbing to see and as a potential investor I would be cautious."

The company is in need of strong leadership and what Shuter needs to do is establish a new corporate culture at MTN.

MTN says it has strengthened its corporate governance by appointing Felleng Sekha as its new executive for regulatory affairs and public policy at group level and by setting up a compliance committee, a sub-committee of the MTN Group board, chaired by MTN chief legal counsel Michael Fleischer.

"We have conducted an independent audit of our compliance and risk functions across all our operating companies," says MTN. "We have enhanced our reporting mechanisms to ensure improved information flow to senior executives and appropriate board members on a timeous basis."

More trouble in Nigeria

In September 2016 a Nigerian senator made further allegations that MTN illegally moved $13.9bn out of the country between 2006 and 2016.

The allegation was that the telecoms giant had not obtained certificates declaring it had invested foreign currency in Nigeria and so the repatriation of the return on those investments was illegal.

MTN has denied contravening Nigeria's currency transfer rules, but the new scandal has created further uncertainty for the mobile player in that country. "These allegations are without merit," said MTN.

When MTN settled with the NCC it announced that it would list the company in Nigeria in 2017, one of the conditions of the settlement. However, MTN maintained that it had always planned to list the company in Nigeria. It

INVESTING IN IRAN

In February, news broke that MTN was very close to reaching an agreement to purchase a 49% stake in an Iranian state-owned internet provider.

It has been reported that the mobile operator would be meeting Iranian minister of communications and information technology, Mahmoud Vaezi, this month to finalise the purchase of shares in Iranian Net and the deal should be completed within the first quarter of this year.

MTN has not confirmed the negotiations, merely stating that it continues to see growth potential in Iran and it will continue to look at opportunities on an ongoing basis.

It has been suggested that the deal may smooth the way for the repatriation of funds from Iran. MTN is a 49% shareholder in Irancell, which has a 40% market share.

Due to sanctions from the West, MTN has had $1bn trapped in Iran for many years. The sanctions were lifted in 2016, which led to MTN announcing it would repatriate R15bn from the oil-rich Middle Eastern country.

However, it's become clear that the Iranian government expects MTN to invest some of the money in Iran. In October 2016, MTN invested R287m in Iran cab-hailing application Snapp.ir, which had been operational for two years at the time. It was reported that the taxi-hailing service had over 500 000 subscribers and a workforce of 10 000 drivers.

The deal has been widely viewed as part of MTN's attempts to firm up its relationship with the Iranian government with a view to repatriating the money. Mergence Investment Managers' Peter Takaendesa says that Iran is a "very good" market for MTN as the country's almost 80m citizens are highly educated and have a high income per capita.

MTN's operations in Iran have been a political hot potato for a number of years. In May 2013, MTN's chief financial officer Nazir Patel suddenly resigned amid allegations that he had diverted money out of the operator's Iran business via Dubai, flouting MTN procedures. And in 2011, MTN was accused by rival Turkcell of a number of underhanded dealings to get its mobile licence in Iran in the first place.

Turkcell accused MTN of bribing officials in Iran, setting up meetings with South African government officials for the Iranian government and promising the country weapons and United Nations votes to win the mobile licence. The telecoms operator denied these allegations. ■

appointed Citigroup and Standard Bank in July last year to advise it on the Nigeria listing.

Delayed Lagos listing

It does appear, however, as if the new Nigerian investigation is one of the issues causing delays to the proposed Lagos listing. In January this year MTN announced that its Lagos listing may only go ahead in 2018.

Acting CEO Nhleko has stated that the process could take 12 to 18 months. Goldstuck says that the Lagos listing is a sign from MTN that it wants to be a "good corporate citizen" in Nigeria. "MTN is clearly willing to prove its credentials to the Nigerian government."

Takaendesa believes the listing will ultimately be good for MTN. "It's a good idea, they need to do that," he says. "It's the right thing to do."

He adds that having a firmer footing in Nigeria may help silence some of the criticism coming from Nigerian politicians who may see MTN as an arrogant South African company.

"If you are just seen as a foreign business, it's easy to be penalised," says Takaendesa.

MTN insists that it is committed to list on the Nigerian Stock Exchange as communicated to the market previously. It also said, however, that this is subject to suitable market circumstances and conditions.

"The listing process remains one of our key priorities and, as previously committed, we continue to take comprehensive steps to ensure that the process is completed as soon as commercially and legally possible," the mobile operator says.

Phuthuma Nhleko
Chairperson and current acting CEO of MTN

Mteto Nyati
CEO of MTN South Africa

Gallo Getty Images

Increased pressure in SA

In its home market, MTN has come under increased pressure.

It has been seen as largely unresponsive to increased competition in the market and has as a result haemorrhaged subscribers, with smaller rival Cell C being the main beneficiary.

Goldstuck says MTN South Africa needs to become a much more market-driven and consumer-focused business, but says of late there have been promising signs under the new CEO, Mteto Nyati.

Takaendesa points out that MTN South Africa has made many mistakes over the last few years. One misstep was the outsourcing of its supply of handsets, which resulted in a huge handset shortage in 2016. It was a move that was eventually reversed.

Goldstuck flags data as the biggest issue for MTN going forward in the South African market. Local telecoms companies are under massive political and public pressure to bring data prices down. "The data issue is the elephant in the room," says Goldstuck, adding that by 2020 South Africa is expected to have an almost exclusive smart phone market, which will cause an explosion in data usage.

"By 2020 the mobile players will be making more revenue from data than voice," he explains. "This is going to result in pressure to bring data costs down."

Goldstuck says South African mobile companies are still offering voice products with data added on, when in fact they need to be thinking in reverse. ■

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MTN ZAKHELE FALLOUT

In January, MTN made the headlines once again as angry black shareholders spoke to the media about delays in payouts from the six-year MTN Zakhele BEE scheme.

The scheme, which had expired two months before, had 124 000 shareholders who were entitled to a cash payout or a further investment in the new MTN Zakhele Futhi scheme, or a combination of the two. Shareholders had expected cash payouts to occur by 13 December.

MTN maintains that the scheme was a success and that it is committed to paying all shareholders who elected to receive cash.

"Payments to MTN Zakhele shareholders commenced in December 2016 and the majority were done as planned at the time," says MTN. "The primary reason for people not receiving their payments to date remains unverified or dormant bank accounts.

"Understandably MTN Zakhele cannot make a payment when the bank account details are incorrect or unverified as this would exacerbate the issue," explains the telecoms operator. "Zakhele has and continues to actively contact these shareholders via SMS, email, outbound calls via the call centre as well as the media."

MTN Zakhele shareholders who have still not received payments are requested to call MTN Zakhele on 083 123 6869. ■

THE WEALTHY WILL PAY MORE

By Mariam Isa

A new tax bracket for high-income earners and higher dividends tax were some of the answers finance minister Pravin Gordhan had to finding a R28bn shortfall in tax revenue.

Wealthy taxpayers will bear the brunt of a hefty R28bn package of tax hikes this year, aimed at covering the biggest undershoot in revenue since the 2009 recession and speeding up the pace of transformation in the economy, finance minister Pravin Gordhan said in the National Budget unveiled on 22 February.

National Treasury left its modest economic growth forecasts for the coming three fiscal years unchanged and said that disciplined targets for budget deficits, debt and spending cuts remained on track. It is forecasting growth of 1.3% this year, 2% in 2018 and 2.2% in 2019.

But the Budget for the financial year 2017/18, which starts on 1 March, also focused heavily on new steps to address the inequality which has persisted in the country since the demise of apartheid.

"Growth in itself as we all know doesn't generate equality or social justice – more needs to be done to make all South Africans benefit from economic growth," Gordhan told reporters in a media conference before the Budget was tabled in Parliament.

A "strong conversation" was needed between government, business, labour and civil society on how to foster inclusive growth, as the country's current levels of inequality and poverty were "unacceptable and immoral," as well as out of line with its constitution, he added.

Gordhan's rhetoric echoed President Jacob Zuma's call for "radical economic transformation" in his State of the Nation Address earlier in February, but it does not mean that top Treasury officials will remain in place after an imminent Cabinet reshuffle likely to favour the president's closest allies.

Treasury shake-up?

Concerns over the event's possible impact on the Treasury dominated the media briefing, with journalists repeatedly asking Gordhan, deputy finance minister Mcebisi Jonas, and director-general Lungisa Fuzile whether they thought their jobs – and Treasury's policies – were safe.

The responses from all three were blunt, and ominous for prospects that SA will keep its investment-grade credit rating this year. "It can take many years to build a solid institution – it takes a short time to mess it up," Gordhan said.

The impact of patronage – perceived as pervasive in Zuma's administration – was also discussed. "Patronage has a direct impact on growth, inequality and development generally," Jonas said. Both Gordhan and Jonas are embroiled in court battles with the influential Gupta family, close friends of the president, who were implicated in the controversial *State of Capture* report released by former Public Protector Thuli Madonsela last year.

Former Eskom CEO Brian Molefe – who resigned due to the report's allegations of his involvement with the Guptas – is expected to be sworn in as a member of Parliament, and speculation is rife that he will replace either Gordhan or Jonas.

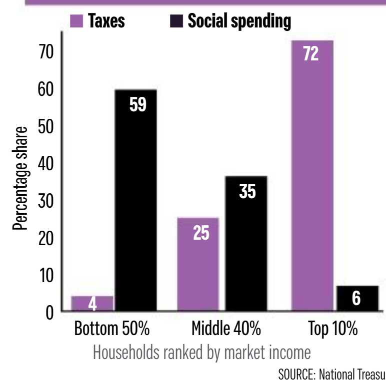
Credit rating agencies would then be likely to downgrade SA's sovereign rating to junk status – an event which Gordhan is credited with averting last year by spearheading a drive to unite business, labour and government.

Tax hikes

Treasury emphasised that government's objective was not to transfer ownership of assets or opportunities to contract the state, but to change the economy's structure.

"Government is committed to mass-based transformation that generates meaningful black participation in the economy and raises per capita incomes across the board, rather than a narrow change that merely transfers ownership, benefits an elite and perpetuates inequality,"

DISTRIBUTION OF TAXES AND SPENDING BY HOUSEHOLD INCOME



SOURCE: National Treasury

CONSOLIDATED GOVERNMENT FISCAL FRAMEWORK

	2016/17	2017/18	2018/19	2019/20
R billion/ percentage of GDP	Revised estimate	Medium-term estimates		
Revenue	1 297.3	1414.1	1535.2	1668.5
	29.4%	29.8%	29.9%	30.1%
Expenditure	1 445.2	1563.1	1677.1	1 814.3
	32.8%	33%	32.7%	32.7%
Budget balance	-147.9	-149	-141.9	-145.8
	-3.4%	-3.1%	-2.8%	-2.6%
Net loan debt	2 006.1	2 226.3	2 442.4	2 670.1
	45.4%	47%	47.6%	48.1%
Debt-service costs	146.3	162.4	180.7	197.3
	3.3%	3.4%	3.5%	3.6%

SOURCE: National Treasury

Pravin Gordhan
Minister of finance

More money was allocated to fund universities, with R6.6bn earmarked for this year and R7bn in 2018/19.

the Budget document said.

Nonetheless, high-income earners were clobbered by new taxes. Treasury introduced a new tax bracket for people earning over R1.5m a year with a top marginal rate of 45%, compared with 41% for those earning more than R701 301 at present. That is expected to generate an additional R4.4bn. (See table.)

At the same time dividends tax – which also mainly affects the wealthy – was raised to 20% from 15% and is expected to generate R6.8bn. Many other South Africans were also hit as tax tables were not fully adjusted for inflation, releasing another R12.1bn. A further R15bn in tax hikes are in the pipeline for next year.

The higher income tax bracket will be controversial as only 103 353 South Africans earn R1.5m or more a year – and yet they provide more than a quarter of personal income tax, which generates more revenue than VAT or corporate income tax.

Gordhan defended the move, saying Treasury believes in a progressive tax system, and without the transfer of resources from the well-off to the rest of society, SA would not have the social stability it requires.

In a worrying move for the private sector, Treasury said that in addition to closing corporate tax loopholes, it was considering removing some tax incentives and deductions for "excessive" debt financing in order to widen the tax base.

SA's corporate tax rate is already one of the highest in the world, at 28%.

As expected, Treasury increased the general fuel levy by 30c/litre and the Road Accident Fund levy by 9c/litre, together with above-inflation tax hikes for the prices of alcohol and tobacco. These measures will contribute an additional R5.1bn to government coffers.

A controversial tax on sugar-sweetened beverages remains on the cards, and will be introduced as soon as the necessary legislation is in place. Treasury maintained that its preliminary assessment showed that the tax – which will be 2.1c/gram for sugar content of more than four grams/litre – showed a "relatively small" effect on job losses, which could be avoided.

Some of the revenue would be used to support health-promotion interventions for communicable diseases, it pointed out. A long-awaited carbon tax remained in the pipeline, and a draft bill would be published for public consultation in mid-2017.

Spending

More money was allocated to fund universities, with R6.6bn earmarked for this year and R7bn in 2018/19, giving the higher education budget an annual average growth rate of 9.2% over the next three years – the second-fastest after debt-service costs, which are rising by 10.5%.

The Budget made no mention of new allocations for a massive nuclear build programme, which the government says will go ahead despite widespread concern over cost, estimated at up to R1tr, and the potential for corruption. "Right now the whole process is in very early stages," Gordhan said.

But Treasury did say it would forge ahead with plans to establish a National Health Insurance Fund during the fiscal year that begins in March. Government was exploring the idea of a small reduction in tax credit on medical scheme contributions to provide initial resources for the fund and a final NHI White Paper, with revised cost estimates, would be published during the year, it said.

Gordhan renewed his call for more efficient spending of public money, saying "there is enough money in the system to do all the things we want to do, if spent properly".

Treasury highlighted risks to both the fiscal and the economic outlook. Persistent weak growth over the next decade would result in a rising ratio of debt-to-GDP – which is still edging up and expected to stabilise at 48.2% in 2020/21.

Policy risks could also arise from unanticipated spending pressures, such as the need to subsidise university fees, it added.

But probably the biggest threat to public finances over the medium term stems from the poor financial condition of many state-owned companies and public entities. Treasury said that guarantees to public institutions were expected to increase by R7.8bn from R469.9bn in fiscal 2015/16 to R477.7bn in 2016/17. Over this period, exposure through money borrowed against the guarantees was expected to climb by R52.5bn. ■

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ESTIMATES OF INDIVIDUAL TAXPAYERS AND TAXABLE INCOMES, 2017/18

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief		Income tax from the new top rate		Income tax payable after proposals	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R70 000*	6 582 884	-	159.8	0	–	0	0	0	-	0	-	-0
R70 001 - R150 000	2 602 653	35.1	274.4	11.9	12.5	2.6	-0.3	13.5	0	0	12.1	2.5
R150 001 - R250 000	1 813 517	24.5	355.6	15.4	35.6	7.4	-0.4	16.6	0	0	35.2	7.3
R250 001 - R350 000	1 077 915	14.5	315.1	13.7	46.9	9.8	-0.4	15.9	0	0	46.5	9.6
R350 001 - R500 000	906 151	12.2	365.1	15.8	70.6	14.7	-0.5	19.5	0	0	70.1	14.5
R500 001 - R750 000	527 288	7.1	310.4	13.5	77.3	16.1	-0.4	16.1	0	0	76.9	16
R750 001 - R1 000 000	227 561	3.1	189.6	8.2	56	11.7	-0.2	8.7	0	0	55.8	11.6
R1 000 001 - R1 500 000	152 604	2.1	178.4	7.7	58.9	12.3	-0.1	5.8	0	0	58.7	12.2
R1 500 001 +	103 353	1.4	319	13.8	122.6	25.5	-0.1	3.9	4.4	100	126.9	26.3
Total	**7 411 042**	**100**	**2 308**	**100**	**480.2**	**100**	**-2.5**	**100**	**4.4**	**100**	**482.1**	**100**
Grand total	**13 993 926**		**2 467**		**480.2**		**-2.5**		**4.4**		**482.1**	

*Registered individuals with taxable income below the income-tax threshold.

SOURCE: National Treasury

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.

Gallo Images/Getty Images

on the money

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CEO INTERVIEW

By Glenda Williams

A pioneer of the REIT sector

He was part of the golden age of listed property and instrumental in kick-starting the REIT sector. Meet Mike Watters, CEO of Redefine International.

Mike Watters is, at first glance, the embodiment of a corporate CEO. But there's a sense of underlying shyness that is at odds with that image.

He's not that comfortable talking about himself. Even so, friendships formed in his youth that endure to this day tell you quite a bit about the man who heads up Redefine International.

There is no reserve when it comes to talking about the property sector and the company that he has grown from £5m into what is today a UK real estate investment trust (REIT) with a market cap of around £700m (about R11bn) and a £1.53bn (about R24.5bn) property portfolio.

Watters describes himself as fortunate. Perhaps because the fact that he ended up in the REIT sector was not initially of his own making. The irony is that the property and trust sector that Watters found himself in was one that was totally out of favour when he first started working in corporate finance at Standard Merchant Bank.

"It was a bit of a joke in the late 1980s," quips Watters.

But the team at Standard Merchant was very innovative and helped create the loan stock sector, building on the work that had been done by Gavan Ryan who, at the time, was head of UAL Merchant Bank Ltd.

"Gavan came up with the idea of a variable rate loan stock that paid out all the interest deducted against tax, that way recreating the unit trust without the extreme laws."

Mike Watters
CEO of Redefine International

It started the ball rolling for what is today the REIT sector.

"I was very fortunate. I didn't realise it was my lucky break because that was the start of the golden age of listed property."

Pioneering moves

Watters spent years "having fun listing a whole lot of property companies" before setting out on his own, something he was able to do with the backing of the Coronation Group.

While building Corovest into a large SA business, he met Marc Wainer (executive chairman of Redefine Properties, a local REIT that has a major shareholding in Redefine International). It was not long before the two decided to expand offshore.

But in the early 2000s companies were not permitted to take money offshore and it took some convincing the Reserve Bank.

"We had a business plan and they eventually allowed us to externalise £5m in

▲ Redefine International's property portfolio includes Banbury Cross Retail Park in Oxfordshire, UK.

ABOUT MIKE WATTERS

Education:
"I'm a Joburg boy with a BSc Eng (MIT) degree, financial post-grad diploma and an MBA from UCT."

If not property, what career would you have chosen?
"Probably investment banking. But it's a tough, all-consuming business; there's not much time for anything else."

Leadership style:
Watters has a collegial leadership style preferring to have his team around him. "You have to have a team around you. You can't run things on your own." But, by his own admission, he is firm with what he wants. Some may see that as dictatorial, but it comes from a determination to be clear on what is required.

Non-work activities:
"I'm a runner. I've probably done about 100 marathons." Those marathons include five Comrades, 13 Two Oceans, 10 ultras and about 65 other marathons that include international marathons like London, New York, Berlin and Athens.

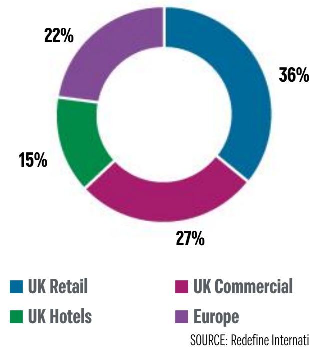
He shares the passion with his wife, but it's an extreme sport that he has now stopped competing in. Nowadays Watters plays squash, tennis and golf and goes for a cycle around the park at the weekend. "It's easier than running," he says.

What are you reading?
Alex Ferguson's book *Leading*. "It's not a soccer book, it's a 'lessons on management' book, the principles of management in a very different industry like sport."

Have you achieved your goals?
"So far yes, I think I have, but I've been lucky. There are more; you can't stand still. If you have a family, you always want to make sure your kids do better than you. You pass your goals and dreams on to your kids." ■

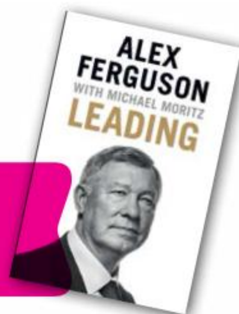
Gallo Images/Getty Images/Redefine International

REDEFINE INTERNATIONAL'S MAIN MARKET SECTORS BY PERCENTAGE



SOURCE: Redefine International

▲ Mike Watters competing in the Annual JLL Property Triathlon in July 2016 at Dorney Lake in the UK.



capital. I took that £5m (about R50m in those days) to London," reflects Watters.

It was no easy task. Watters was around 40 at the time, had a young family, knew no-one in London and his wife was less than thrilled about the move. Fifteen years on, Redefine International is a FTSE 250 premium listed stock on the London Stock Exchange with a secondary listing on the JSE.

How different is a UK REIT to an SA REIT?

A UK REIT and an SA REIT are not that dissimilar, says Watters.

"They are both tax-efficient structures, fairly similar from a structure point of view but different in what investors are looking for. Investors in the UK are more inclined to look at total return (NAV [net asset value] growth and distributions) and are loathe to pay premiums to NAV. South African REIT investors only look at income and growth and are quite happy to pay a premium to the underlying net asset value."

But given the global REIT capital flowing around the world now, it's merging, he says.

"There is a convergence of REITs around the world coming to resemble each other to meet the boxes that need to be ticked for global investors.

"There are major REIT investors that pretty much set the rules of what they need to invest in a REIT. So you need scale, liquidity, good corporate governance and the right debt levels. If you meet those requirements, they will invest in you."

Post-Brexit perceptions

Asked whether stock markets are less bullish about REITs following Brexit and Trump, Watters says perception in the short term has changed not only around REITs but also around all stock market investments.

Everyone, asserts Watters, is concerned about Brexit. But for him the issue is less about the underlying business than it is about dealing with what people worry about.

"It is going to be five years or even longer before Brexit pans out. We are going to have to get used to it." And the effects of Brexit, he

> "People need income and that is why REITs are so highly rated. If you have an investment that gives you solid, stable and growing income, that will be what people want to invest in."

says, will be as great on the EU as it will be on the UK.

But the fundamental reason for the existence of REITs – to produce income – is there and will be there forever, he maintains.

"People need income and that is why REITs are so highly rated. If you have an investment that gives you solid, stable and growing income, that will be what people want to invest in. REITs, I believe, will just get stronger, no matter all these fundamental issues around the world."

Watters says he meets "all sorts of people, all with different skills sets" in the REIT sector. "It's certainly not a mundane industry."

What he likes least about it is that it is a long lead-time business.

"It's not like placing your bets, the wheel spins and you find out if you have won or lost straight away. It takes a long time before you see the fruits of your labour, whether positive or negative."

That Watters misses South Africa is a given. The weather in the UK gets to him; the commuting is tough – three hours on the train each day just to live in the country "because it's more like a South African house with a garden", and the incessant bundling up and shedding of clothing in winter drives him barmy.

But London, says Watters, is the "centre of the world. It's stimulating. You are dealing with, and surrounded by, some of the smartest people in the world." ■

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A CHANGING GEOPOLITICAL ENVIRONMENT

Redefine International's (RDI) assets are held in Europe's two largest real estate markets; 77% in the UK and 23% in Germany. The £1.53bn portfolio is split between retail (55%), offices (19%), distribution (11%) and hotels (15%). The income-focused UK REIT concentrates on acquiring and on owning assets underpinned by occupier demand and is targeting sectors like distribution and industrial, retail parks and areas undergoing structural change.

"We have just completed a strategic review of our business and have decided to become a little more conservative [fiscally]. That means we are going to pay out a lower ratio of our dividend distribution," says Watters.

The company's earnings haven't fallen, but the REIT will now retain up to 10% of its earnings to strengthen and derisk the balance sheet. Reinvesting that cash – likely north of £5m – back into the portfolio into existing and new assets will also help reduce debt and lower the loan-to-value ratio, already down from 53% to 49%.

Retaining earnings will also cover uncertainties.

"There are very real risks aside from Brexit and Trump, like the French elections and the Dutch wanting to pull out of the EU," says Watters.

> In the last 11 months, disposals amounted to **£100m,** the company achieving between 5% and 10% above NAV on these sales.

"We are reducing our risk and focusing on the fundamentals of our property portfolio, selling the weaker properties." In the last 11 months, disposals amounted to £100m, the company achieving between 5% and 10% above NAV on these sales.

Watters says the company is also reducing exposure to the wrong type of retail where the "internet is killing retailers" and focusing on the right type of retail like food and beverage, discount and convenience.

Vacancies and rents

While the company has exposure to London, it is not exposed to what is perceived to be the risky (post-Brexit) banking area.

Ironically, following Brexit, vacancies have been substantially reduced. The retail portfolio is negligible, the office portfolio – at one stage close to 20% – has been reduced to 3%, industrial is low and hotels zero.

"Brexit hasn't seen any fundamental breakdown in demand for space with rents stable in the majority of the portfolio, and rising [by 14%] in the distribution and logistics space," Watters tells *finweek*.

"Retailers need to be able to distribute for their internet sales. And with the drop in the pound post Brexit, our hotels have seen a big boost in occupancy and rates."

What will drive rental growth and earnings for RDI?

"Retaining more of our earnings will in its own right drive distribution growth. And we have a big asset management plan, which is the recycling and upgrading of all our assets."

Add to this inflation that has been close to 0% in the UK for some time. Now it's up to 1.8%. That will come through, bringing growth at rental level that feeds through to underlying distribution, says Watters.

Internet shopping's impact on retail

RDI's strategy includes reducing its retail exposure and increasing industrial exposure.

Apart from Brexit and Trump, the impact on retail space from online shopping is a concern, says Watters.

"The internet is reducing costs globally because everyone is sourcing from the cheapest location. Inflation and interest rates around the world are much lower because the internet has just driven down any fat margins and inefficiencies in the system. We need to watch those patterns very closely and go into the areas that are going to benefit from these changing patterns."

That means logistics and given that more people are travelling, also hotels.

"Notwithstanding the fact that you have Airbnb, if you offer a product at reasonable rates, in the right city and in the right location, I think hotels are a good place to be as well."

Will the UK remain on the investors map?

"The UK has been around for 1000 years, and going by the way people think and act, it will be around for another 1000," says Watters.

"You have the English language, rule of law, great legal system, strong financial sector, very well educated people and good access to highly trained human resources. So from an investment point of view, it's a great location."

And while it may not have the growth rate that Eastern Europe currently has, the risk is much lower, he adds. ■

By Glenneis Kriel

Vintage lights outshine competition

At a time when most lighting companies were chasing light-emitting diode (LED) light sources, Hoi P'loy started a new trend by introducing 'old-fashioned' incandescent lights into the South African market.

Hoi P'loy initially imported vintage incandescent lights but now also design and manufacture locally.

Hoi P'loy was co-founded by wife and husband team, **Ploy Phiromnam** and **Guy van der Walt**.

Photos by Glenneis Kriel

Five years ago, Ploy Phiromnam woke up with the realisation that she dreaded working as a fashion trader at a company with a grim company culture. She quit her job without giving much thought to what she was going to do, simply knowing that she had to break free from the toxic environment. Then she and her husband, Guy van der Walt, started talking about alternatives.

The couple realised that they shared a passion for certain old-fashioned values, especially when it came to the way in which people were treated. They decided that these values would be the foundation of any new business they started. They also explored ideas of "beautiful things" that were difficult to source in South Africa. The result was the birth of the vintage lighting company Hoi P'loy.

You are originally from Thailand. How did you end up in South Africa?

Guy finished a three-month contract as a 3D animator and decided to surprise his dad, who was travelling around Thailand at the time. The plan was to return after two weeks, but Guy kept changing his return dates and finally ended up staying for nine months.

When travelling overseas we both enjoy connecting with people and cultures from the country, as it creates a much richer travel experience. And that is how our paths crossed.

After nine months spent between Bangkok and islands around Thailand, Guy started feeling homesick and went back to Cape Town. I went to visit him, but ended up staying permanently.

What did you do after settling in Cape Town?

In Thailand, I imported and exported leading fashion brands, travelling primarily between Bangkok and Hong Kong. After settling in South Africa, I got a job at a trading company, but found it extremely frustrating due to the cultural work differences. Where I come from, people are very driven and place a high premium on service. In SA, people seemed much more lackadaisical. I could not cope with this.

Why did you decide to start a lighting company?

Having lived in cities like London, Bangkok, Chicago, New York, Tokyo and Ghent exposed Guy and me to a global revival of vintage products. We made a list of beautiful things we struggled to or could not source locally. A few products were identified, but incandescent lights really got our hearts racing. We also thought of products that could complement the lights and decided on fabric cable cords and light fittings.

Why Hoi P'loy?

The name is a play on my name and the ancient Greek expression *hoi polloi* meaning the many or the masses. Our idea was to create a vintage lighting product that would be classy but still accessible to many young people. Later, we discovered that most of our friends thought it suggested the elite of society.

Was it smooth sailing from the start?

After two weeks of research on lighting equipment and incandescent lights, I felt so overwhelmed that I didn't know whether I was coming or going. I located overseas factories that could supply us with the products I was looking for, but was totally unprepared for the red tape surrounding the import of these products.

Hoi P'loy also sells a wide variety of different coloured fabric cables.

Apart from the jargon, there were the strict regulations that the lights had to conform to. Most factories complied with European or American standards, but South African standards were totally different, so products had to be adapted to comply with our regulations. The bulbs also had to be safety-tested. I never anticipated that it would be so difficult to import light bulbs. It took a year to get everything in place before officially launching Hoi P'loy in 2013.

Where did you get start-up capital?

Guy had this fascination with property from a young age, so he had a good property portfolio by the time we got started. He also had a 3D-animation business, which he changed from being client-driven to producing stock animation, which boosted cash flow. Capital from these ventures was used to cross-finance Hoi P'loy's start-up. We managed to pay the money back within a year of starting the business.

It was a great advantage not to be dependent on another investor or banks for start-up capital. We did not have to pull salaries from Hoi P'loy during the first year, which also helped tremendously.

How did you save cost during that first year?

Guy was supposed to be a silent partner, but did most of the photography, logos and packaging designs while working full-time at his animation studio. I created the e-commerce website – I learnt everything from scratch – that was to serve as my shop front.

I also shared office space in Guy's animation studio. I put the office number and address on the website reasoning it was an e-commerce site and everything would happen via email. Was I in for a surprise! After the website was launched the phone started ringing all the time with queries or orders, much to the annoyance of the designers in the office.

How has the company grown since then?

During that first year I was working full-time, taking and getting orders ready to be couriered to clients. "Visits" were by appointment only, but I still ended up skipping lunches and seeing people from early in the morning until late at night. One evening I got in a terrible state – I had seen people all day and had only two hours to package 20 orders before they would be collected by the couriers. Guy helped me out and we realised it was time to get more staff. Today the company has nine full-time employees in addition to Guy and myself.

The product offering has also progressed a lot over time. We now design and manufacture a significant portion locally. We have much greater control and flexibility when working with local suppliers. We like buying things locally as we see it as a way to stimulate the economy.

How do you market your products?

When we started out, we showed our lights to a few local interior designers, who included the lights as part of their exhibitions at Design Indaba. This generated a lot of interest.

We issued one press release, which we sent to designer and interior magazines, and to our friends. We then had to rein in the marketing, since we were struggling to keep up with demand. It takes a lot of care and preparation to produce our products and I would rather supply a good service than rush things off.

A remarkable product will cause people to remark about it – in other words, they'll talk about it. The product will sell itself.

South Africans are often used to poor service. But we promise to deliver the product a day after it was ordered (if ordered before midday the previous day).

Guy always says that you do not need a formal marketing campaign if your product is remarkable. A remarkable product will cause people to remark about it – in other words, they'll talk about it. The product will sell itself.

Biggest lessons learnt?

The whole process has been one big learning curve. It has reinforced that old Afrikaans saying that "*goedkoop is duurkoop*" – it is better to invest a little more for something of good quality than to lose money on something that breaks easily or is not up to scratch.

When you start a business, you don't always have the resources to buy the equipment or materials that are right for the job. Nevertheless, it is better to stretch yourself and buy the best quality you need from the start, rather than to replace dodgy equipment later.

What is competition like in the industry?

Most of our competitors are big companies that order almost all their stock from overseas, while we try to differentiate ourselves by sourcing most of our parts locally and designing our own products.

Our business is driven by passion. We were looking for something we would enjoy. It was important that the business should be profitable, but making money has never been the main driving force. Profit-driven companies will do all kinds of things to save costs, like cutting corners with materials; locating premises in cheap, depressing industrial areas; skimping on the workspace and so on. We have decided to rather position our team in a space that overlooks Table Mountain and tried to create an environment that is inspiring and rewarding to work in.

Do you have any advice to other aspiring entrepreneurs?

We continuously see new business opportunities we are unable to chase because we are too engrossed with what we are already doing. Many big companies overlook these because they are out of touch with their consumers or they feel it may not make financial sense. The financial viability of these opportunities might, however, be different for smaller companies with lower overheads who are better positioned to service these niche markets effectively.

Don't focus only on the earning potential of a business, but rather on building something that will contribute towards the kind of society that you would like to live in. ■

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By Lloyd Gedye

PLEASE CALL ME

Vodacom, the corporate bully

Various courts have ruled in favour of the inventor of Please Call Me and Vodacom has been ordered to compensate him for his idea, but Nkosana Makate has yet to see a single cent.

Nearly a year after the Constitutional Court ordered Vodacom to compensate Nkosana Makate, the inventor of the Please Call Me SMS service which allows a user to send a free message requesting a callback from the recipient, the telecommunications giant is yet to cough up.

Instead, the Vodacom Please Call Me legal challenge was back in the Constitutional Court in February, after negotiations around compensation between the parties came to a grinding halt in September 2016. Following a costly eight-year legal battle, the court ruled in favour of Makate in April 2016, ordering the parties to negotiate "reasonable compensation" in good faith.

The April judgment was seen as a massive David vs Goliath victory for Makate, who had been locked in battle with Vodacom over Please Call Me for 15 years. After all, both the South Gauteng High Court and the Constitutional Court found that former Vodacom CEO Alan Knott-Craig had created a "false narrative" about the origin of the idea. Knott-Craig claimed that he developed the Please Call Me service after observing two security guards trying to communicate in Vodacom's executive office block by sending missed calls to each other.

"This untrue story appears to have been part of a stratagem to deny the applicant compensation for the idea," reads the Constitutional Court judgment from April 2016.

In 2014, the South Gauteng High Court found that Knott-Craig was not "frank and honest" about his knowledge of Makate and his idea and its link to the Please Call Me service.

Makate took the Please Call Me concept to his employer in November 2000. At the time, Vodacom's head of product development, Philip Geissler, reached an oral agreement with Makate that Vodacom would try to implement the idea.

"If it proved commercially viable, Mr Makate would be paid a share of proceeds from the product subject to terms to be negotiated between him and Mr Geissler," last year's Constitutional Court judgment reads.

Vodacom implemented the idea in March 2001, but Makate was never compensated. The Constitutional Court said that "it is common cause that this product has generated revenue amounting to billions of rands".

The April judgment was seen as a massive David vs Goliath victory for Makate, who had been locked in battle with Vodacom over Please Call Me for 15 years.

Nkosana Makate
Inventor of the Please Call Me service

Alan Knott-Craig
Former CEO of Vodacom

However, Vodacom is still disputing the amount of revenue that Please Call Me generated. Makate maintains that he wants 15% of this revenue and has dismissed Vodacom's assertion that it faces difficulties in determining the revenue since its inception.

Makate had requested Vodacom to give his own appointed experts access to its records but Vodacom maintains that Please Call Me "was never treated in its income statement as a revenue-generating product".

A former Vodacom employee who worked on the financial side, Andrew Hendricks, has disputed Vodacom's claim that it can't easily calculate the revenue amount.

In an affidavit supporting Makate's recent court papers, Hendricks claims that Vodacom does have the ability to calculate the total revenue from Please Call Me. "In addition, they know exactly how much advertising revenue is generated off the tagged-on advertisement to the 'Please Call Me' messages."

Vodacom insisted that it is engaging in good faith and has made a number of attempts to resolve the deadlock.

However, Vodacom is adamant that Makate's demands for a share of the Please Call Me revenue will not fly and it is open to other methodologies to arrive at a reasonable compensation. It also argued that Makate's interpretation of the Constitutional Court order is incorrect, as it doesn't suggest that the company is obliged to pay him a share of revenue.

In February, the Constitutional Court dismissed Makate's application in which he sought clarification on the court's order for "reasonable compensation", leaving the parties with no choice but to get back to the negotiating table.

While Vodacom continues to play hardball with Makate, it risks showing South African consumers exactly what kind of corporate bully it can be. It has shown it is prepared to go to abnormal lengths to rebuff what has been found to be a legitimate claim from its own former employee.

Vodacom's strong-arm tactics may result in a lower settlement amount than Makate demands, but every month this case drags on unresolved, more and more reputational damage is being done to the telecoms company's corporate image. ■

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Gallo Images/Getty Images

By Neesa Moodley

SEND YOUR FINANCIAL QUESTIONS TO
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IDENTITY THEFT

Protecting your identity

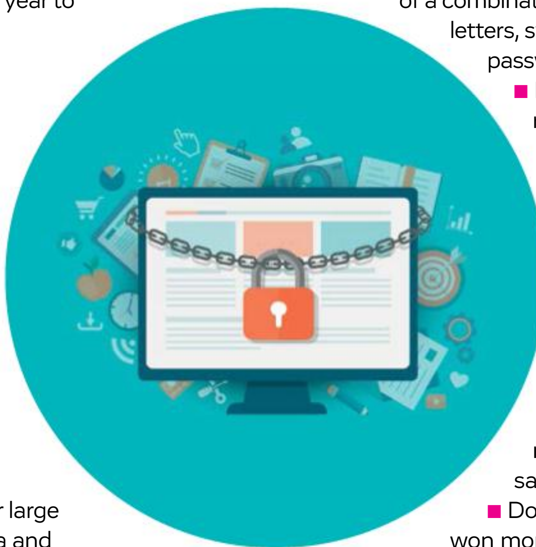
You protect your home and car with an alarm system. Your bank account has a pin number and your email account has a password for protection, but what precautions do you take when it comes to protecting your identity?

Identity theft is an unfortunate reality in the digital age we live in. It is no longer simply about tearing up confidential documents before you throw them in the bin. Criminals can now access your private details online and "steal" your identity within minutes, using this information to fraudulently obtain credit and run up bills in your name.

Executive director of the South African Fraud Prevention Service (SAFPS), and former credit ombudsman, Manie van Schalkwyk, says there is currently a total database of 103 000 records at his office, of which 62 000 are confirmed cases of fraud. "This has grown 8.3% year-on-year and the number of consumers who have registered with us to protect their identity documents grew 11% in the last year to 21 000," he says.

The SAFPS has a membership base that includes banks, retailers, cellphone companies, microlenders, insurers, and medical aid schemes – who all share information around confirmed fraud cases. The SAFPS is also able to register details of anyone who has lost their identity document or believe their personal details have been compromised. These details are then added to a shared database, which means that if anyone tries to open a new credit account with those details, the creditor immediately sees a red flag or a cautionary notice.

"In terms of financial impact, the four large banks alone (Standard Bank, FNB, Absa and Nedbank) have saved R1.7bn (up 18.2% from the previous year) as a result of declining applications that were flagged as fraudulent," he says. Van Schalkwyk says the ROI on this is 574 times, meaning that for every R1 the banks spend, they save R574 due to industry efforts to fight fraud.



In terms of legislation, the Cybercrimes and Cybersecurity Bill is currently in its second draft and may be passed into legislation later this year. The objectives of the bill include:

- The protection of the confidentiality, integrity and availability of computer data and systems. The bill makes unlawful access, interception of protected data, malware-related offences, interference with data and computer systems and password-related offences all legal offences.
- The criminalisation of cyber-facilitated offences including fraud, forgery, uttering and extortion, which were adapted specifically for the cyber environment.

However, before the bill comes into legislation, you can take the following steps to ensure that your identity and personal details are protected:

- Shred all documents that contain your personal information and don't throw away any documents that could be used to impersonate you.
- Make sure all your accounts have strong passwords that are not easy to guess. Passwords should consist of a combination of upper case letters, lower case letters, symbols and numbers. Don't use the same password for all your different accounts.
- Never respond to emails or SMSs that request your personal details, whether it is via a reply or by clicking on a link. You should rather contact the service provider directly to verify your information if required.
- Be selective about the information you share on social media sites and check that your privacy settings are always in place.
- Only carry your identity document and passport when absolutely necessary and keep these documents safely locked away the rest of the time.
- Don't fall for scams that claim you have won money or a prize, particularly if you don't remember entering any competitions.
- Regularly check your credit profile to ensure that it is up to date and that your details have not been fraudulently used. You are entitled to one free credit report each year. If there is a negative listing on your credit profile and it is not an account you opened, you need to complain to the credit bureau so that it can be investigated. ■

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Neesa Moodley has been a personal finance journalist for 12 years. You can find more of her articles on www.moneyissues.co.za.

Important contact details
If you have been a victim of fraud or your personal details have been compromised, you can contact the SA Fraud Prevention Service for assistance:
Telephone: 086 010 1248
Email: safps@safps.org.za
SMS: Send your full name and the keywords "protect ID" to 43366.

Getty Images/iStock Images

By Ciaran Ryan

DEBT

It's still too easy to access credit

While the number of credit-active consumers in distress has decreased from 2013, unsecured lending is still a massive concern and many consumers' creditworthiness is still not being assessed thoroughly before they are given loans.

The number of South African credit-active consumers in distress has grown 61% since 2007, when the final phase of the National Credit Act (NCA) was implemented. Part of this growth is due to the increase in the number of credit-active consumers – up 44% to just over 24m over the same period, according to figures from the National Credit Regulator's (NCR's) Credit Bureau Monitor. At the end of September 2016, the latest available data, 9.85m credit-active consumers were in bad standing.

The ratio of credit-active consumers in some form of distress, which would include those in arrears on their accounts or some other form of impairment such as a court judgment, has increased from 36% in 2007 to 40% in 2016. That means four in 10 credit-active South Africans are in some form of distress. This is an improvement on 2013, when nearly one out of every two South Africans with credit was in some sort of trouble.

One of the big areas of concern is unsecured lending, which now accounts for nearly 20% of all credit extended, up from 15.9% in 2014.

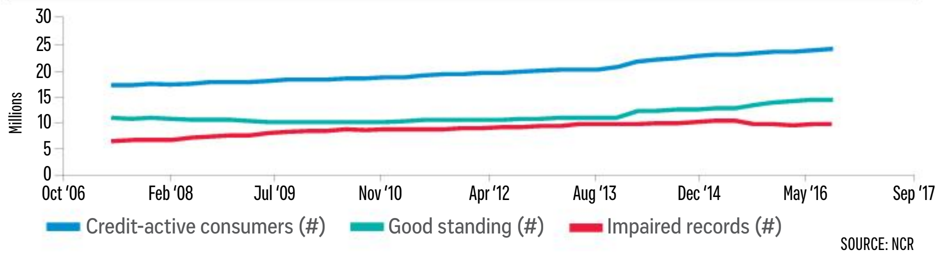
One of the big areas of concern is unsecured lending, which now accounts for nearly 20% of all credit extended, up from 15.9% in 2014, according to NCR figures.

For some, this is cause for alarm. "The increase in the size of the credit market means that there are millions of consumers in South Africa that are very vulnerable in the current low-growth environment," wrote trade and industry minister Rob Davies in the NCR 2016 annual report.

There are more than 2 000 debt counsellors countrywide registered with the NCR catering to those in distress. January and February are known to be particularly difficult months for creditors recovering from the Christmas holiday binge.

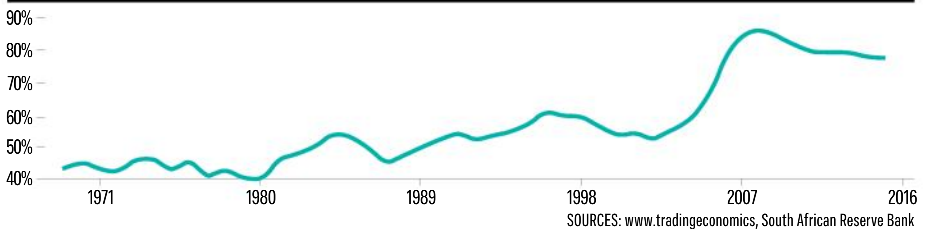
"This is the time of year when we tend to see a spike in the number of summonses issued against creditors," said Tony Webbstock, a debt consultant with Debt Admin, which helps those with debt problems to restructure their affairs and defend against legal attacks.

NUMBER OF CREDIT-ACTIVE CONSUMERS IN DISTRESS IN SA



SOURCE: NCR

DEBT-TO-INCOME OF SOUTH AFRICAN HOUSEHOLDS



SOURCES: www.tradingeconomics, South African Reserve Bank

Webbstock advises those drowning in debt to divide their debts into two categories: A-Class and B-Class. A-Class debt would cover the most important debt, such as your mortgage bond and vehicle debt – both of which are essential to live and work. B-Class debt would be "less important" debt, such as clothing accounts, credit cards and overdrafts. In some cases, he said, consumers have no option but to stop paying less affordable debt, and that they have the backing of Section 65(D) of the Magistrates Court Act, which makes provision for those in debt to live according to their order of priorities.

"The fact that we have such high rates of consumer distress in SA is a symptom of the reckless lending that has been going on in this country for the last decade. When someone runs into financial trouble and can't pay their accounts, it's the consumer who gets blamed, not the lender. I would argue that a huge percentage of the debt being issued in SA today is improperly assessed as required under the NCA, and is therefore reckless. I would also suggest that collecting debt without doing a proper credit assessment is itself reckless."

Examples of reckless lending could include extending a customer's limit on a credit card without doing a fresh credit assessment, as required by law; capitalising interest arrears on a loan without a fresh credit assessment; and claiming unauthorised insurance and administration charges that have the effect of increasing the loan size.

Government, too, is concerned about the high levels of over-indebtedness, and in 2015 amended the NCA to provide greater consumer protection by making it compulsory for credit providers to follow standardised Affordability Assessment Regulations to determine whether consumers can afford a loan. This includes rigorously verifying an applicant's income and expenses.

Regulations approved in November 2015 allowed for small increases in credit initiation and monthly service fees, while lowering the maximum interest rate caps, especially for unsecured and short-term loans. "This is welcome in the current economic environment and should go some way towards helping cash-strapped consumers repay their debt," said Davies. ■

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By Helena Wasserman

Managing millennials

Millennials, those born between the early 1980s and the late 1990s, are much maligned. In truth, they can contribute a lot to your business, if managed well.

"The world is passing through troublous times. The young people of today think of nothing but themselves. They have no reverence. They are impatient of all restraint. They talk as if they knew everything."

Add in a reference to selfie sticks, and the quote above could be the general accusation of millennials today. In fact, it comes from a sermon preached in 1274AD and is part of the circle of life: every new generation irks the one that came before.

To the Greatest Generation, who lived through two wars, everything came too easy for the "entitled" Baby Boomers. The Baby Boomers themselves had no patience for the angsty, "entitled" Generation X. Cue the millennials, who are accused of being self-obsessed and, wouldn't you know, entitled.

Stereotyping a whole generation is dangerous. For every immature millennial narcissist, there's a mini Mother Teresa in the same age group. Across generations, individuals are all unique, driven by unique motivations. Still, there are a number of new forces – like the digital revolution and helicopter parenting – that have shaped millennials. Managing your younger team members effectively will require new skills and a different outlook.

As millennials started entering the workplace in recent years, they brought a lot of good – they are technologically savvy, tolerant, innovative and they don't fear change. They can see disruption from a mile off, and can help you strengthen your business. They communicate and express themselves well, and if they believe in your company's mission, they can be powerful brand ambassadors. On the downside, they are accused of being impatient, obsessed with their own personal "branding", in need of constant reassurance and always on the look-out for better opportunities elsewhere.

"Retaining and managing millennials are all about creating a strong company culture that they can relate to, giving them meaning, and allowing them to thrive," says Nokubonga Mbanga, founder and principal consultant at Self Insights. As an HR specialist, she has done a lot of work with younger employees, especially as part of graduate programmes, at companies like Nike SA, TFG, M-Net and Tiger Brands.

Gallo Getty Images/iStockphoto

Allow them to put their own stamp on reward packages and work contracts by including things that are important to them, for example a month-long sabbatical after a fixed period, or flexible hours.

Nokubonga Mbanga
Founder and principal consultant at Self Insights

Here are some ideas on how to manage and retain younger staff:

- Provide purpose to their work. They may be very self-aware and ambitious, but millennials also have a desire to make the world a better place. They grew up knowing that the planet is under threat and life is short, and they want their work to have meaning beyond money. Your job as a manager is to add meaning to their job, says Mbanga. You need to constantly paint the bigger picture: how your company is adding to the greater good, and how their activities can contribute. Connect them to customers and help them understand how they fit into the business. "For a millennial, it's not only about contributing to the company's legacy – it's also about building their personal legacy," she adds.
- Let them customise their benefits. Allow them to put their own stamp on reward packages and work contracts by including things that are important to them, for example a month-long sabbatical after a fixed period, or flexible hours. In addition, consider allowing them to work on their own projects on a Friday afternoon, for instance, says Mbanga.
- Add variety to their work. Many millennials combine short attention spans and an eagerness for new experiences with a raging ambition to advance. As a manager, it is critical that you help make their job interesting, says Mbanga. In multinational companies, millennials should be moved around to different countries.

A recent report by PwC also suggests that managers give millennials special rotational assignments to give them a sense that they are moving toward something and gaining a variety of experiences. "Challenge them to come up with new ways to streamline processes and to exercise creativity," the report states.

Also, consider adding more rungs to the corporate ladder: creating and awarding them new job titles will help satisfy their ambitions.

- Be very clear about what is expected.

Concrete targets and short-term goals work best with millennials. Because of their shorter attention spans, work should be broken up into chunks, advises Mbanga. "And then explain why the work is important. Millennials do not respond well to doing something just because the boss said so."

■ Scrap the bi-annual performance reviews. The Facebook generation is addicted to feedback in real time; once every six months just won't do. And they also won't be satisfied with getting feedback from their immediate supervisors: your typical millennial wants access to the upper echelons. They are used to complete transparency and don't have much deference to traditional hierarchies.

> Scrap the bi-annual performance reviews. The Facebook generation is addicted to feedback in real time; once every SIX months just won't do.

■ Give them a chance to shine. From their dinner to their new hairstyles, millennials love displaying their achievements on social media. Tap into this by creating specific slots at status meetings that allow them to share what they have done, says Mbanga.

■ Set them free. Millennials want flexibility, and man, do they love their coffee shops. Set strict deadlines, but allow them to work wherever they want to.

■ Technology is extremely important to them. Millennials are the first true digital natives. Make sure you invest in the latest technology, and involve them in decisions about IT acquisitions.

■ Mentor them. The traditional managerial relationship does not work well with a millennial. Instead, you should be more like a coach. Mbanga encourages managers to engage with their younger workers on their long-term goals and helping them to see how their current activities can line up with these aims. "Also, encourage a more senior millennial to mentor new entrants."

■ Don't quash their entrepreneurial spirit. Millennials are intrepid and companies will do well by encouraging them to think entrepreneurially, says Mbanga.

■ Expect them to go. It is unrealistic to imagine that you will retain young workers for traditional stints of five to 10 years, says Mbanga. Make sure you have the right structures in place to retain institutional knowledge and to maintain warm relations with departees. After all, you may end up working for them soon. ■

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on the money quiz & crossword

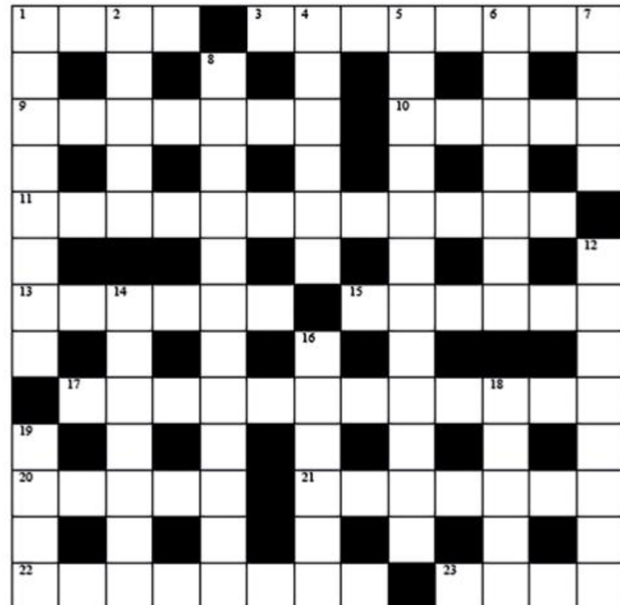
Congratulations to John McDonald, who won a book prize in our recent giveaway. Well done! This week a copy of Ian Mann's *The Executive Update* is up for grabs. To enter, complete the online version of this quiz, which can be accessed on fin24.com/finweek from 27 February.

1. **True or false?** The SA minister of social development is Bathabile Dlamini.
2. Which Indian Premier League team drafted local fast bowler Kagiso Rabada for just under R10m recently?
   - Royal Rajas
   - Mumbai Kings
   - Delhi Daredevils
3. In which US state is the Oroville Dam situated?
4. Recently US President Donald Trump referred to events that happened "last night" (17 February) in a European country, causing confusion because he implied that a terrorist attack had taken place. Which country was he talking about?
   - Ukraine
   - The UK
   - Sweden
5. Who is the incoming CEO of MTN?
6. Supply the missing word: LISP stands for ____________ investment service provider.
7. **True or false?** Zandile Gumede is the CEO of the Chamber of Mines.
8. On 20 February, Shoprite and another company announced that they would no longer be pursuing a merger. Name the other party involved.
9. Nokia recently announced that it is relaunching an iconic phone. Which is it?
   - 3310
   - Razr
   - 1100
10. **True or false?** The Greek flag is blue and yellow.

CRYPTIC CROSSWORD NO 669JD

ACROSS
1 Accommodating German children without hesitation (4)
3 See great changes in overseas accommodation (8)
9 One African country, inter alia, leads to another one (7)
10 Test is in a dire state (5)
11 What you have that makes you a winner! (3,4,5)
13 Deceptive trick question, by the sound of it (6)
15 Easily achieved, daring the Italian to enter (6)
17 Benevolent sort of theatre grade (5-7)
20 Key claim to be out and about island (5)
21 A right smart one in old hat (7)
22 Inconsistency involved writer in study (8)
23 Hounds companion in paper-chase (4)

DOWN
1 Dynamics of cows and their parasites – to be broadcast (8)
2 Futile to exchange conservative for English trifles (5)
4 Compliments attractive women (6)
5 Texan gave car away, something on which he'd overspent (12)
6 Charlie, for one, with capital could make a weapon (7)
7 Too right, first lady's first (4)
8 What the tortoise can do after outrageously beating a hare? (7,5)
12 Morning after problem? (8)
14 Still time to make charges (7)
16 Short article on wartime cross (6)
18 Pontificate over a castle in Scotland (5)
19 Is surrounded by domestic violence (4)



Solution to Crossword NO 668JD
ACROSS: 4 Buffalo; 8 Oarman; 9 Descend; 10 Lambda; 11 Ngonis; 12 Casanova; 18 Omelette; 20 Asylum; 21 Afield; 22 Migrate; 23 Berlin; 24 Feelers
DOWN: 1 Rollock; 2 Promise; 3 Warden; 5 Username; 6 Factor; 7 Lentil; 13 Odometer; 14 Othello; 15 Dead-end; 16 Aspire; 17 Floral; 19 Lofter

On margin

Running late

A Highland piper was asked by a funeral director to play at a graveside service for a homeless man who had no family or friends. The funeral was to be held at a cemetery away in a remote glen and the man would be the first to be laid to rest there.

As the piper wasn't familiar with the rugged area, he got lost and, being a typical man, didn't stop to ask for directions. He finally arrived an hour late and saw the backhoe and the crew who were eating lunch but a hearse was nowhere in sight.

He apologised to the workers for his tardiness and stepped to the side of the open grave where he saw the vault lid already in place. He assured the gravediggers he wouldn't hold them up for long but it was the proper thing to do.

The workers gathered around, still eating their lunch, as the piper played his heart and soul out. As he played the workers began to weep. He played and played as he'd never piped before, from "Going Home" and "The Lord is My Shepherd" to "Flowers of the Forest". He closed his lengthy session with "Amazing Grace" and walked to his car.

As the piper was opening the door and taking off his jacket, he overheard one of the workers saying to another: "Sweet Mary and Joseph, I've never seen anything like that before and I've been putting in septic tanks for 20 years!"

Drinking games

There were two friends drinking and one says to the other: "I have a trumpet that tells the hour."

"The hour? Really?" the friend asks sceptically.

"Yes, yes, look!" He grabs the trumpet, opens the window and starts to play the instrument like crazy.

All of a sudden they hear: "You $#%^}@, it's three in the morning!"

"You're not on the list."

Third Eye View @BrainandMoney
"There are two times when people forget their principles: at the top of the market and at the bottom."

Dirk de Vos @DirkdeVos
"It's this thing called nuclear weapons. And other things. Like lots of things are done with uranium. Including some bad things." – Prez Trump

Rachael @Rachael_Swindon
An unelected prime minister, sat by the Queen's throne, looking at a house full of unelected Lords. British democracy in action.

Misha Filippov @misha_filippov
I asked the librarian for a book about Pavlov's dogs and Schrödinger's cats. She said it rang a bell but she didn't know if it was there or not.

Michael Jordaan @MichaelJordaan
There is a high probability of a negative variance between reality and spreadsheets.

Anja van der Spuy @AnjaWintour
I once had a lettuce leaf with salt on it for lunch and it was still a more satisfying experience than going to Mugg & Bean.

Piano Man @KMalatji
"William Nicol is backed up." – A South African proverb

Tony @tsm560
Relax. It's going to get much worse.

"A politician complaining about the press is like a sailor complaining about the sea."

– Enoch Powell, British politician, classical scholar, philologist and poet (1912-1998)

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