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TECHNOLOGY

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20 April 2017

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from the editor

JANA MARAIS

It is not often that good news depresses me, but reading this week that the US has managed to create more than 15m jobs since the end of the financial crisis, cutting unemployment in half since late 2009, left a bitter taste in my mouth.

The latest jobs data shows an unemployment rate of 4.5% and slowing jobs growth, and concerns about lacklustre growth in wages – but those seem like nice problems to have. America's economic turnaround is largely attributable to fiscal and monetary policy decisions – government increasing spending, even though it meant running large deficits, and cutting interest rates to nearly zero and pumping billions into the economy through its quantitative easing programme.

In contrast, South Africa's story in recent years was one of job losses, negative GDP per capita growth, attempts to rein in government spending and an increase in interest rates. And that was before President Jacob Zuma made his midnight move to fire finance minister Pravin Gordhan and replace him with an inexperienced and compromised candidate.

The downgrades that followed from Standard & Poor's and Fitch will make it even harder to kickstart our economy using conventional fiscal and monetary policy levers – an increasing portion of tax revenue will be needed to service debt, and breaching our expenditure ceilings will only result in further downgrades, and even more expensive debt. Thanks to the increased political risk, which has negatively impacted on the currency, the risk of higher inflation increases, and this ties the Reserve Bank's hands on interest rates. Of course, this is assuming that we'll stick to our current fiscal and monetary policies. On page 14, former *finweek* editor Lucas de Lange provides a sobering reminder of what can happen when countries abandon financial prudence.

Dawie Klopper, chief economist of the Efficient Group, wrote in a recent note that it will "take a long time before we regain our investment grade – if we ever do – because we need first to understand what the route to recovery requires. Firstly, we need to recognise what is wrong, and secondly, we need to introduce policies to fix it. But for that, you need honest and competent leadership. And we lack both, hopelessly so!"

As a small, open economy, we should be thankful that the US and Chinese economies, the world's two powerhouses, are doing reasonably well. (See page 26 for more on the state of the Chinese economy.) All we can hope for at this stage is for a rising external tide to lift our hole-filled boat. ■

Note that due to the public holidays, our next issue will only be on shelves from 28 April, with a 4 May dateline.

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Published on behalf of Media24 by New Media Publishing (PTY) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmediapub.co.za
Executive Directors **Group Commercial Director:** John Psillos **Managing Director:** Bridget McCarney **Non Executive Director:** Irna van Zyl
Printed by Paarlmedia and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek** Overseas Subscribers: **+27 21 405 1905/7**

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By Johan Fourie

SOCIAL MEDIA

Can Twitter predict the markets?

Translating opinions into numbers is not an easy undertaking but it seems that Twitter does offer some useful, perhaps even lucrative, insights.

Ask anyone about the pitfalls of Twitter, and they might point to recent gaffs by a prominent South African politician as evidence that the dangers outweigh its benefits. But such warnings have not stopped many others, most notably the president of the United States, from tweeting on a regular basis: Twitter's user base creates more than 500m tweets a day, and it added about 2m new users in the last quarter of 2016.

Presumably this wealth of information must have some value. Twitter, sadly for its shareholders, struggles to turn such growth into profit: in the last quarter of 2016, revenue growth was only 1%. But because it captures public sentiment at a very granular level, it has attracted the interest of both scientists and entrepreneurs hoping to turn this information into public or private benefit.

The use of social media for prediction is, of course, not a recent phenomenon. Google Flu Trends, founded in 2008, used Google's search engine to track the spread of flu in 25 countries. But excitement about the project waned as it struggled to make accurate predictions. A 2014 *Nature* paper noted the value of social media "big data", but warned that "we are far from a place where they can supplant more traditional methods or theories".

Twitter, though, seems to attract increasing attention. Another 2014 paper uses Twitter to predict crime. A 2015 paper shows how psychological language on Twitter predicts heart disease mortality. Another 2015 paper shows how Twitter sentiment predicts enrolment of Obamacare. A 2016 paper shows how Twitter could be used to predict the 2015 UK general elections.

But it is, understandably, the financial markets that have attracted the most attention. A 2016 paper by Eli Bartov (NYU Stern School of Business), Lucile Faurel (Arizona State University) and Partha Mohanram (University of Toronto) shows how Twitter can predict firm-level earnings and stock returns. They used a dataset of nearly 1m corporate tweets by 3 662 firms between 2009 and 2012, all tweeted in the nine-trading-day period leading to firms' quarterly earnings announcements.

The authors find, unsurprisingly, that the tweets successfully predict the company's forthcoming quarterly earnings, but find, surprisingly, that the tweets predict the "immediate abnormal stock price reaction to the quarterly earnings announcement". These findings are more pronounced for firms in weaker information environments, such as "smaller firms with lower analyst following and lower institutional ownership", and are not driven by concurrent information from sources other than Twitter, such as press articles or web portals.

It makes sense that corporate communication provides information, but can public sentiment on Twitter also inform market activity? A 2017 NBER Working Paper by Vahid Gholampour (Bucknell University) and Eric van Wincop (University of Virginia) answers this question by looking at the euro/dollar exchange rate.

They start with all Twitter messages that mention EURUSD in their text and that were posted between 9 October 2013 and 11 March 2016. There were 268 770 of these messages, or an average of 578 per day. What they hope to do is identify whether informed opinions about future currency changes can actually predict actual currency changes, so they eliminate all tweets that do not express a sentiment about the future behaviour of the two currencies. This reduces the sample to 43 tweets per day, or 27 557 in total.

What they hope to do is identify whether informed opinions about future currency changes can actually predict actual currency changes.

They then classify each of these tweets as positive, neutral or negative using a detailed financial lexicon that they developed to translate verbal tweets into opinions, and create a Twitter Sentiment index for each day. They also split the sample in two: those opinions expressed by individuals with more than 500 followers, which they call the "informed opinion", and those with fewer than 500 followers, which they call the "uninformed opinion".

So what do they find? It turns out that the 633 days of data they have is too short to calculate the Sharpe ratio, a measure of the risk-adjusted return. The annualised Sharpe ratio based on daily returns is 1.09 for the informed group and -0.19 for the uninformed group. The Sharpe ratio of 1.09 for the informed group is impressive, but it has a large standard error of 0.6. The 95% confidence interval is therefore very wide, ranging from -0.09 to 2.27. They then construct a model with a precise information structure, estimate the parameters and then recalculate the Sharpe ratio to average at 1.68 with a 95% confidence interval between 1.59 and 1.78.

Success: "The large Sharpe ratios that we have reported," they conclude, "suggest that there are significant gains from trading strategies based on Twitter Sentiment."

If all this sounds terribly complicated, that is exactly the point. Translating opinions into numbers is not an easy undertaking, and discerning the "informed" opinions from the noise is even less so. But there is no doubt that Twitter does offer some useful, perhaps even lucrative, insights. Whoever can exploit that knowledge first, stands to benefit most. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Gallo Getty Images/iStockphoto

By Andile Ntingi

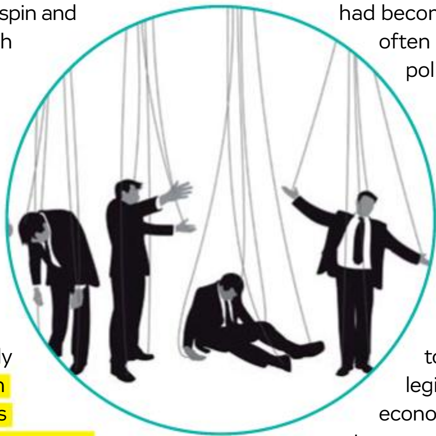
ECONOMY

Driving radical economic transformation

Over the past five years, the Black Business Council has successfully lobbied for significant changes to empowerment legislation and regulations as part of its agenda to transform the economy.

In the past few weeks, a three-word catchphrase has spooked investors. "Radical economic transformation" has become the catchphrase for supporters of the recent Cabinet reshuffle, which sent financial markets into a tailspin and led Standard & Poor's and Fitch to downgrade South Africa's debt to junk.

President Jacob Zuma said his restructured Cabinet, which affected 10 ministers and 10 deputy ministers in all, will drive radical economic transformation (RET). The rating agencies read this as a signal of a significant shift in South Africa's economic policies, a prospect that has made investors nervous and raised fears of capital flight, rising interest rates, and the spectre of a recession.



Since the Cabinet reshuffle, RET has been hotly debated. The sceptics say RET is a populist slogan designed to enrich a tiny ruling elite and its cronies through the looting of the state. In contrast, supporters see it as a credible attempt to decisively address the skewed ownership of the economy in favour of black people.

Radical economic transformation is not new as an ideology, but it has been on the periphery of public discourse over the last seven years, until after last month's Cabinet reshuffle, where it was mentioned in Zuma's statement that spelled out the axing of finance minister Pravin Gordhan. Zuma has referred to RET several times this year, but it has really been Gordhan's dismissal that has given it prominence.

If you want to understand the origins of the ideology, you have to cast your mind back to 2011, when a power struggle between Business Leadership SA (BLSA) and the Black Management Forum (BMF) over the control of Business Unity South Africa (Busa) led to the BMF walking out of Busa.

The BMF, at the time led by RET advocate Mzwanele "Jimmy" Manyi, walked out of Busa to re-establish the Black Business Council (BBC), which had merged with Business South Africa (BSA) in 2003 to form Busa as the pre-eminent business lobby group in SA. The BBC was originally founded in 1996, but it was disbanded when Busa was established.

It was around the re-establishment of the BBC in 2011 that I first heard of radical economic transformation from the new leadership of the lobby group, which felt that BLSA had hijacked Busa and was furthering the interests of large corporates at the expense of black business.

The BBC saw Busa as a stumbling block to meaningful economic transformation to empower black people. Manyi led the charge for other black lobby groups to follow the BMF out of Busa and lobbied them to rejoin the BBC, but there was no unified voice within the black business community, as some feared the move was catastrophic for black business interests.

By early 2012, the BBC had

22

affiliates under its wings and had become a powerful mouthpiece of black business, often overshadowing Busa in influencing economic policy formulation.

Despite the initial misgivings, 18 black affiliates of Busa jumped ship and threw in their lot with the BBC. By early 2012, the BBC had 22 affiliates under its wings and had become a powerful mouthpiece of black business, often overshadowing Busa in influencing economic policy formulation.

However, during this formative stage in its re-establishment, the lobby group still had not clarified what RET was and what it entailed.

In March 2012, the BBC embarked on a retreat, where it plotted its plan of action and crystalised RET.

When the BBC emerged from the retreat, RET as we know it today, was born. The lobby group immediately called for wholesale reforms to the black economic empowerment (BEE) legislation to drastically increase the ownership of the economy by black people.

It proposed the creation of black industrialists through giving black-owned and operated companies access to state contracts from the government's multibillion infrastructure-spending programme. The BBC also advocated for the criminalisation of fronting, where black partners are fraudulently exploited to win state tenders on behalf of white businesses.

The group also lobbied the government to not bow to pressure by big business to write into BEE legislation the "once empowered, always empowered" principle, the adoption of which would have meant that companies that had done BEE deals would be regarded as empowered even after black investors have exited and sold their shares. The corporates are resisting re-doing BEE deals and a stalemate in this regard has ensued.

The BBC also pushed for BEE to be revised to encourage large, white-owned companies in the private sector to include black suppliers in their supply chains.

All these recommendations, which the BBC packaged as RET, have been made policy under the presidency of Zuma, who clearly has an ear for the BBC compared with Busa, which had unsuccessfully tried to woo the BBC back to its fold.

Just at the beginning of this month, the government introduced new preferential procurement regulations that will increase the chances of black and female suppliers scoring high-value government tenders worth R50m and above. These reforms would not have been possible without the BBC's lobbying efforts.

While Zuma is currently seen as the face of RET, he is not its creator. ■

editorial@finweek.co.za

Andile Ntingi is CEO and co-founder of GetBiz, an e-procurement and tender notification service.

Gallo Images/iStock

in brief

"WE'RE NOT A JUNK COUNTRY, WE HAVE A JUNK PRESIDENT AND WE'LL REMOVE JUNK SO SOUTH AFRICA CAN PROSPER."

– **DA leader Mmusi Maimane** in a speech addressing crowds at the Union Buildings following an anti-Zuma march on 7 April. Maimane joined the protest in Pretoria, which was organised by civil society, after leading a DA march in Johannesburg.

Gallo/Getty Images

President Jacob Zuma

"The only reason he was sent there was to stop the investigations into fraud and corruption at Prasa."

Popo Molefe
Chairman of Prasa

– **Popo Molefe, reinstated chairman of the Passenger Rail Agency of SA (Prasa),** comments to The Huffington Post on the appointment of acting CEO Collins Letsoalo. Former transport minister Dipuo Peters axed the entire board after they fired Letsoalo following his decision in October to increase his salary from R1.7m a year to R5.9m without board approval. On 10 April, the North Gauteng High Court set aside Peters' decision to dissolve the board. Peters was fired as transport minister at the end of March, and has since resigned as a member of Parliament.

"IT IS CLEAR THAT SOME OF OUR WHITE COMPATRIOTS REGARD BLACK PEOPLE AS BEING LESSER HUMAN BEINGS OR SUB-HUMAN."

– **President Jacob Zuma** responds to the public protests of 7 April which demanded his removal, saying "many placards and posters" used in the protests depicted black people as baboons, Reuters reported. No evidence to substantiate Zuma's claim was provided.

MANUFACTURING OUTPUT DROPS

-3.6%

South Africa's manufacturing output declined by 3.6% year-on-year in February, and now sits well below the level prior to the global financial crisis, Stanlib says. The decline in February is largely attributable to a drop in clothing and footwear, as well as a slump in the production of chemicals and glass. Over the past year, nine out of SA's 10 major manufacturing sectors recorded a decline in output, it said. Stanlib chief economist Kevin Lings said the poor manufacturing data, combined with the implications of the recent Cabinet reshuffle, will probably lead to downward revisions of GDP growth estimates for 2017.

DOUBLE TAKE

BY RICO

THE GOOD

The JSE and the Financial Services Board are investigating trading in securities affected by the abrupt recall of former finance minister Pravin Gordhan from a London roadshow and his firing on 30 March. The currency and banking stocks in particular reacted strongly to the news. Data shows increased trading volume on dollar-rand currency futures on 27 March, before news of the recall broke. DA shadow finance minister David Maynier said there is widespread concern and some circumstantial evidence of possible insider trading, which may have "materially" benefitted someone with prior knowledge of Gordhan's axing.

THE BAD

Increased political risk in SA, following the axing of former finance minister Pravin Gordhan and resultant downgrade to junk by credit rating agencies, has limited the room for interest rate cuts. While the Reserve Bank believes inflation will slow to less than 6% in the second quarter of the year, the exchange rate "is the biggest risk" to the inflation-forecast trajectory, it said. "On balance the risk is that it will depreciate in the near term in response to increased political uncertainty, potentially accelerating inflation," Bloomberg reported the bank as saying.

THE UGLY

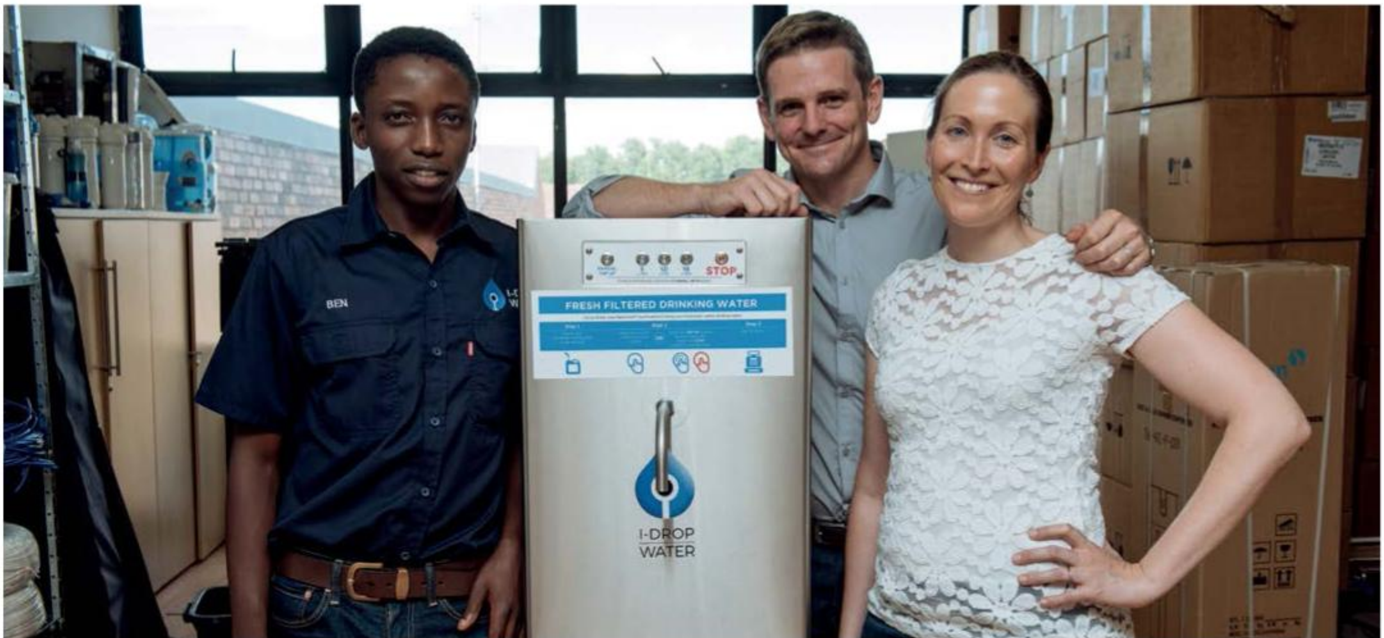
Eskom and the Gupta family's Tegeta Exploration & Resources have reached a secret agreement on the settlement of an outstanding R2bn fine, which was levied on Optimum Coal when it was still owned by Glencore. The fine, which was levied for sub-standard coal delivered, as well as the previous unprofitable contract, forced Glencore to put Optimum into business rescue. The secretive nature of the deal struck between Eskom and Tegeta has raised concerns that Eskom has again bent over backwards to accommodate the Guptas and President Jacob Zuma's son Duduzane, who is also a Tegeta shareholder.

trend

By Jana Jacobs

Purifying water for Africa

James Steere and his wife, Kate Thiers, launched I-Drop Water in South Africa in 2015. The objective? Getting safe, affordable drinking water to everyone who needs it.



I-Drop technician Ben Tshabalala (left) pictured with founders James Steere and his wife Kate Thiers. Between 50 and 60 I-Drop units are currently in operation.

Around 663m people worldwide still use unimproved drinking water sources. And the majority of these people live in sub-Saharan Africa. This is according to a 2016 update by the World Health Organization (WHO) and Unicef.

Before co-founding I-Drop Water (I-Drop), James Steere was working at a US company that develops water purification technology and was attempting to bring a certain type of this technology to market in Southern Africa. However, the challenge with the technology they were developing was that although it was "brilliant, efficient, quite low cost and ideally suited to Africa", it was very difficult to bring the cost down enough for the market that really needed it, explains Steere.

Meanwhile, the market in Africa is in desperate need of a solution to the problem of poor access to safe drinking water.

"Wherever I went, there was bottled water being sold. And this is odd because it's expensive, which means that it is no longer a lifestyle purchase – people are buying it for their day-to-day water needs. And people are finding a way to afford it," says Steere.

So Steere decided to find a way to bring the tech and the market – which had signalled that it was willing to pay for clean water – together.

"Drinking water is seen now as more of a food than a government commodity, so instead of trying to sell filter products, let's use the products to sell water. If you do that, you strip out all the costs of the bottled water industry," Steere tells *finweek*.

And so Steere took over the rights to the technology from the company and embarked on the I-Drop journey with his wife, Kate Thiers, who was the chief operating officer of a non-profit operating in the healthcare sector.

Around

663m

people worldwide still use unimproved drinking water sources. And the majority of these people live in sub-Saharan Africa.

Water for R1/litre

When it came to tapping into the market, the plan was to install I-Drop purifying units in grocery stores, because they provided I-Drop with what they needed: water supply and established distribution channels.

"There are roughly half a million grocery stores in sub-Saharan Africa, which is great because that means we don't have to invent a channel," says Steere. As for the water supply, grocery stores have water sources on site – they just need to purify this water.

The key to getting through to these established distribution channels was an incentive structure, so Steere came up with the idea that any units that were going to be installed in shops to purify water had to be free. And so, instead of paying exorbitant rentals or having to buy a capital-intensive unit for their stores, shop owners have the I-Drop purification units installed in their place of business for free.

Says Steere: "The capital asset model (whereby shops rent or finance a tech unit) is expensive. It may

THE STATS

- 663m people rely on unimproved water sources, including 159m dependent on surface water.
- Globally, at least 1.8bn people use a drinking water source contaminated with faeces.
- Contaminated water can transmit diseases such as diarrhoea, cholera, dysentery, typhoid and polio.
- Contaminated drinking water is estimated to cause 502 000 diarrhoeal deaths each year.
- By 2025, half of the world's population will be living in water-stressed areas.
- In low- and middle-income countries, 38% of healthcare facilities lack improved water sources, 19% do not have improved sanitation and 35% lack water and soap for handwashing.

SOURCE: World Health Organization – reviewed November 2016

James Steere pictured with staff at Bapedi Primary School in Soweto. I-Drop operates a water purification unit here for free.

Chivas Venture 2017 finalists pictured in the UK in March. I-Drop is one of 30 finalists in this international competition.

Images: Pernod Ricard South Africa/Supplied

work for bigger, wealthier stores, but we wanted to put them in low-income areas where it's needed most."

However, from the outset, Steere was adamant that I-Drop had to be commercially sustainable – they were not going to work with a non-profit model. "This can work because you can strip out so much cost by purifying water in a shop; there's margin for everyone and the price can come down massively," explains Steere.

As such, I-Drop operates on a share-revenue model, with revenue from water that is sold being split 50/50 between I-Drop and the shop owner.

And the price for consumers is just R1/litre of purified water. Compare that to what they were paying for bottled water. Steere illustrates: "The cheapest 5-litre bottle of water I have seen on sale was R14. Typically, it's around R20." Going on the cheaper price, that is R2.80/litre.

One of the key features of the I-Drop unit that Steere and his team have built in is the ability to switch off the unit remotely using GSM [Global System for Mobile communication] technology.

"This is important because if a shop owner for some reason doesn't pay us, we turn it off and the shoppers become our credit controllers in a way – because they start nagging. And once the account is settled, we just turn it on again," says Steere. Interestingly enough, he observes, nobody has defaulted. The GSM technology also allows the I-Drop team to make sure their capital is generating revenue without hiring an army of people.

"By integrating this tech we are able to remotely monitor and control every single one of our units. Nobody needs to go and physically check water meters; we know how much each unit is selling; the status of the machine; or whether there has been a power cut, for example. It provides us with a huge amount of data," explains Steere.

As for maintenance of the units, I-Drop's local technician, Ben Tshabalala, whom Steere has been working with for years, will attend to anything serious. "But typically we will just have contracts with technicians in the area."

I-Drop operates on a share-revenue model, with revenue from water that is sold being split 50/50 between I-Drop and the shop owner.

Africa, and beyond

I-Drop has recently been chosen as a finalist in The Chivas Venture – an annual international competition that recognises social entrepreneurs across the globe. Thirty start-ups from different countries compete for a share of $1m in funding.

Starting 8 May, public voting opens for five weekly competition rounds in the lead-up to the July finals. Each week, the finalist with the most votes wins $50 000. Winning just one of these rounds could be a game-changer for I-Drop, believes Steere. Although he certainly plans to scale operations, South Africa will remain the focus for now.

"We've piloted in Botswana and Ghana, because when we were designing the business and the product, we needed to be sure that it could work in multiple countries, particularly around the mobile phone element (the GSM controls). We have formally launched in Zimbabwe, where the demand is extraordinary. The tough thing is that it's a bit of a capital sink, so it limits our growth," explains Steere.

But given that about 663m people still don't have access to safe drinking water across the globe, and a huge portion of those in need residing in sub-Saharan Africa, Steere is confident that there are tremendous opportunities for I-Drop and the people that need them. ■

editorial@finweek.co.za

FREE WATER

I-Drop has placed a purifying unit in Bapedi Primary School in Diepkloof, Soweto. Because I-Drop's system can control the amount of water supplied, they have been able to calculate how much filtered water they can provide while controlling the marginal cost. Learners then receive this daily allocation for free. They are currently seeing a daily uptake at Bapedi, and aim to eventually give away between 400 and 500 litres of water per day at the school. "There are people that can't afford R1/litre. Even though our 5-litre bottles of water will cost less than a loaf of bread, for some people that is still an issue," says Steere.

This initiative is one of the ways I-Drop is exploring methods of reaching people who can literally afford nothing, explains Steere. So far the project has been a great success. ■

By David McKay

Building a new SA mining giant

Masimong Group has an appetite for expansion, recently having struck deals with Anglo American. But it won't stop there.

Mike Teke, chairman of Masimong Group Holdings, is not wanting for ambition.

Masimong Group's 25% stake in Seriti Resources, the company that last week successfully bid R2.3bn for Anglo American's Eskom-dedicated thermal coal mines, could be the beginning of something significant in SA mining. "We want to build something really big in the league of Anglo. We want to create a mining champion," he said in an interview with *finweek* at his Illovo offices.

Teke is joined in Seriti by Sandile Zungu, executive chairman of Zungu Investments, and Thebe Investment Corporation and Community Investment Holdings Project. Zungu has been invested in SA mining since 2003 when, as head of African Vanguard Resources, he bought a 26% stake in Harmony Gold's Doornkop South project for R1.3bn. Zungu later went on to establish Zungu Investments Company or Zico, which is the entity that has taken a 25% stake in Seriti. In addition to the Harmony Gold mine, it bought an interest in Rockwell Diamonds and was the lead investor in the Micawber consortium that took a share in Dominion, the failed uranium start-up in Neal Froneman's Uranium One.

As for Community Investment Holdings, it is a R20bn-a-year business invested in mining, logistics and infrastructure as well as power and energy, which is co-owned by Anna Mokgokong. Mokgokong, who will be chairwoman of Seriti, is married to Pius Mokgokong, whose company Liketh Investments has two coal supply agreements (CSAs) with Eskom.

For now, Seriti will set about taking over the CSAs that Anglo's New Denmark, New Vaal and Kriel coal mines have with Eskom. The deal is not yet approved by the state power utility, but the deal risk isn't large, according to Teke. It ticks boxes on transformation easily; in fact, some 79% of Seriti is black-owned although there is a high probability there will be some dilution when Seriti lists, described by Teke as an inevitable event if the company is to realise its ambitions.

The trigger event may well be a bid for Anglo's export coal mines, or New Largo, a thermal coal project in Mpumalanga that is essential to the development of Eskom's Kusile power station to which it will supply an estimated 15m tonnes per annum (mtpa). The last check on New Largo's capital cost was about R20bn, but Teke believes it will be more.

"We don't need to list to do the Eskom coal mines deal, but it will become necessary when we want to develop something, such as New Largo. When that happens, we might dilute down to 60% but we have headroom," he says.

Mike Teke
Chairman of Masimong Group Holdings

"We want to build something really big in the league of Anglo. We want to create a mining champion."

"The relationship with Anglo is strong," explains Teke. "And I need to go back to them for three reasons: first, for the possibility of buying export mines; second, for New Largo; and third, to look at opportunities beyond coal."

Immediately, one thinks of Anglo's 70% stake in Kumba Iron Ore that, until February, it seemed determined to sell. An improvement in iron ore and coal prices changed the group's thinking on its divestment programme, however, as the improvement in cash generation reduced the pressure to deal. But Anglo is still a seller at the right price and in Seriti it has a potential deal partner that is unlikely to involve any reputational risk. The last thing Anglo wants is a transaction that is not sustainable.

Teke confirms iron ore is one of the commodities into which he'd like Seriti to expand as well as manganese, which may well see Teke in talks with Anglo on its 50% stake in Samancor, the Northern Cape manganese miner (although its joint venture partner, South32, has a pre-emptive right over Anglo's shares). Says Teke: "Coal still appeals a lot to me. But there are opportunities in manganese; iron ore at the moment is the other. There are other opportunities in chrome that are exciting but we are not talking about platinum, gold or diamonds."

International transactions are also on the radar: "We are a mining company first that complies with black economic empowerment regulations, but we are not restricted to SA," says Teke. Nor is the relationship with Anglo: "We could do some fence-hopping by talking to Glencore," he adds. It was Glencore that bought Teke's stake in Optimum Coal Mines in 2012 and with whom he continues to have a close relationship.

In terms of relationships, however, it remains to be seen if Eskom and government expeditiously consummate the deal. Teke, as chairman of the Chamber of Mines, has been heavily outspoken in his criticism of government's handling of regulatory matters in the mining sector.

Sandile Zungu
Executive chairman of Zungu Investments Company

Teke says he met with minister of mineral resources Mosebenzi Zwane two weeks ago regarding the transaction, and that he doesn't expect any pushback from Eskom, if only because Seriti meets with its own transformation targets that new suppliers have a 50% plus one share black shareholding.

"I have not been a destructive critic of the government, I have never attacked individuals. My issue has been the lack of regulatory certainty in SA mining. But in Seriti, we will build something amazing with strong community involvement," he adds. ■

editorial@finweek.co.za

Gallo Images/Getty Images

Pan African turns its focus back to gold

The miner recently sold its coal asset and intends to invest in a tailings project in Mpumalanga.

Pan African Resources has ditched a proposal to tap the market for funds through a share issue, a decision that turned on market volatility albeit that much of this volatility – such as rand weakness – has been positive for companies that have dollar-denominated revenue.

Hence Pan African's decision to part with Uitkomst, a thermal coal colliery in the Utrecht area of KwaZulu-Natal, only 12 months after first buying it from Shanduka Group for R148m.

Pan African announced earlier this month it would sell Uitkomst to Coal of Africa for R275m in shares and cash. The shares are likely to be sold promptly as Pan African doesn't have a trading restraint on the stock; the cash will likely be pumped into Elikhulu, which represents Pan African's future.

Elikhulu is a surface gold deposit that Pan African plans to re-mine. It's low-risk in terms of safety and cost containment and will build on existing surface gold deposits from which Pan African will derive about 40% of its production when built, at a cost of R1.74bn. About R1bn was raised in debt finance with Rand Merchant Bank, but the company was considering a share issue to finance the balance.

Pan African was founded on a strategy of small but profitable gold mining, largely from high-quality assets in Barberton, which is still a flagship operation. It then moved further into Mpumalanga after buying Evander Gold Mines from Harmony Gold.

Elikhulu is a surface gold deposit that Pan African plans to re-mine. It's low-risk in terms of safety and cost containment and will build on existing surface gold deposits from which Pan African will derive about

40%

of its production when built.

Cobus Loots
CEO of Pan African

Although in gold, that transaction has proved to be burdensome. First, Pan African hit a low-grade section in Evander that depressed recoveries and sent the mine into loss-making; second, it became necessary to revamp the infrastructure on two of Evander's shafts, which interrupted production for about 55 days and cost the company R40m in capital expenditure.

In between these two events, Pan African CEO, Cobus Loots, baptised his recent appointment with the Uitkomst purchase, which worried shareholders who thought new management was introducing an entirely new strategy to the company. Loots has been on the back foot ever since, explaining that Uitkomst was a profitable addition to the Pan African stable. In the end, though, it didn't fit.

But at least, the purchase has produced a nice trading margin.

"The company's strategy to diversify into the coal space has now reversed with renewed focus in the gold space," said Macquarie in a recent report. "The Elikhulu tailings project is a key catalyst for growth within the gold division." ■

editorial@finweek.co.za

By Lucas de Lange

Capturing Treasury could have dire consequences

Once a mafia regime has become established, it takes on a life of its own and it becomes very difficult to get rid of it.

State capture, which has raised new fears in South Africa now that President Jacob Zuma has sacked Pravin Gordhan as minister of finance, is not something new to this world. There are many countries that are in some way or another governed and exploited by some or other mafia regime after certain interest groups had acquired control over specific instruments of power such as the defence force, police – and especially the secret police – Treasury and the legal system.

In fact, we are surrounded by countries that have been and are still being subjected to state capture. Zimbabwe, which had a flourishing economy with surplus food production, has been so impoverished through state capture that many of its citizens go hungry. When the moment of truth arrived for a bankrupt Treasury, it was unacceptable for President Robert Mugabe's government to cut expenses, and crazy financial decisions were made to create money, which led to rampant inflation, and this not only wiped out the buying power of the savings of the middle class, but eventually led to the demise of the Zimbabwean dollar. Today, Zimbabwe does not even have its own currency and uses the American dollar as legal tender. And there is an acute shortage of US dollars.

Years ago, Zambia was put on the path to impoverishment by none other than President Kenneth Kaunda, after he transferred his able minister of finance, Arthur Wina, to another portfolio, partly because he did not like Wina's attempts at applying some degree of financial discipline. The Kaunda government simply began spending money as if it was coming out of a bottomless pit. And then the government went ahead and nationalised the copper industry, the country's biggest source of income. Incompetent supporters and officials were put in charge of the mines and it was not long before the industry was in trouble – similar to SA's state-owned enterprises.

Whereas about 700 000 tonnes of copper were produced in the 1970s, it dropped to an all-time low of 255 000 tonnes by 1998.

Sound familiar?

Just like SA, Zambia missed the last wave of prosperity for commodities, which would have given it an enormous rise in income. The rulers

Jacob Zuma
President of South Africa

Gallo Getty Images/Reuters

eventually realised that the only solution was privatisation, which did in fact lead to a dramatic improvement, with production now once again more than 700 000 tonnes.

However, the copper industry is complaining that the government – just like in SA – acts irrationally, which causes too much uncertainty. The international miner Barrick Gold Corporation eventually decided that it would have to close down after the government increased royalties from 6% to 20%. The government then did an about-turn and reduced the royalties to 9%, which is still a problem in an industry hampered by high production costs and poor infrastructure.

Then we have Angola, which Portugal handed on a plate to the communist-minded MPLA. The MPLA started ruling the country with the aid of East German and Cuban "advisers" as if it was the party's personal property. The long-serving head of state, President José Eduardo dos Santos, took the shocking decision to milk the rich oil industry by paying himself a fee for every barrel produced. It made him one of the richest people, if not the richest, in Africa.

Dos Santos has announced that he wanted to retire, but typical of dictators, he is looking at a family member to succeed him so that his family could retain its hold. His oldest daughter, Isabel, is making her presence felt, and she is already regarded as the richest woman in Africa. Her fortune is estimated to be between R40bn and R50bn. Her father appointed her in June last year as the head of Sonangol, the rich state-controlled oil company. She has large shareholdings in major businesses, such as 42% in Banco BIC. In Portugal she also owns major assets, including a majority shareholding in the cable television company Nos SGPS.

> **The lesson here for South Africa is that a full capture of state entities – especially Treasury – by the Zuma mafia should be fought tooth and nail.**

It is possible that she, like her father, will eventually have the last say over the country's Treasury.

But definitely the worst case of state capture happened in Mozambique after the Portuguese left the country under extremely messy circumstances. Portugal was so eager to get rid of Mozambique that it literally handed the country over on a platter to Frelimo, a political and guerrilla movement, which had power only in the north. SA spent millions combatting Frelimo by aiding Renamo, the strongest opposition group.

Frelimo immediately descended upon all state assets and anyone with political power simply started filling their pockets. This, and poor management, led to the country's economy imploding in less than a year. Mozambique earned the dubious title of being the poorest country in the world. Its Treasury was one of the last targets after all the instruments of power were hijacked. Frelimo's hold was consolidated through the establishment of a powerful secret police unit, known as the SNASP. This was achieved with technical help from East German and Cuban secret police advisers with Russia's infamous KGB as model. The SNASP virtually had unlimited powers. For example, anyone – and especially opposition leaders – arrested by the secret police was prohibited by law from taking opposing legal action.

Nationalisation without compensation

The biggest intervention after state capture was completed, was the nationalisation – without compensation – of all privately owned buildings and land, as well as institutions such as schools, colleges and hospitals. Even legal practices and funeral services landed in the net as well as most private businesses. The state levied rent on these assets, which was collected by Frelimo, who naturally had no shortage of money.

To ensure that pressure could not come from the business community, Frelimo passed laws empowering the state to kick out any manager in a private company and to replace such person with a public servant or someone appointed by Frelimo. Thousands of unqualified political cadres were appointed with dire consequences for the businesses concerned, and the national economy.

About 200 000 white Portuguese – some of them descendants of generations of Mozambican citizens – fled with just the clothes on their backs to escape robbery and death. Thousands crossed the border into SA. This was a tremendous setback for Mozambique, because they largely represented the expertise. The government's reaction was to berate them as being racists and accuse them of ruining the country's economy.

The government even tried to control the movement of all citizens. You required a pass, which was issued by Frelimo, to move from one area to another. Visits lasting more than two days required Frelimo's approval and these visits had to be ratified by the minister of internal affairs.

A characteristic of countries subjected to state capture is that the ruling mafia is always short of cash, owing to a weakened economy, and they then try to scrounge it in all possible places. The Mozambican government is a case in point as it's currently in trouble internationally because it borrowed money using false information and then deliberately refrained from making the loans public.

The lesson here for SA is that a full capture of state entities – especially Treasury – by the Zuma mafia should be fought tooth and nail. The pattern in countries after state capture is that once a mafia regime becomes entrenched, it takes on a life of its own and it becomes very difficult to get rid of. In one word, the consequences that this could hold for this country and especially the economy, are frightening. ■

editorial@finweek.co.za

Lucas de Lange is a former editor of *finweek* and an author of two books on investment.

Robert Mugabe
President of Zimbabwe

Kenneth Kaunda
Former president of Zambia

José Eduardo dos Santos
President of Angola

By Natalie Greve

Global firms want to up investment in Africa

Companies doing business in Africa remain bullish on the continent's potential, seemingly adopting a long-term view that requires them to be agile and responsive, and increase investment in fit-for-purpose technology.

Economies in Southern, East and West Africa look set to benefit from increased international investment in the coming years, after 63% of companies polled as part of The Economist Corporate Network's (ECN's) 2017 African Business Outlook Survey (AfBOS) indicated their intention to boost investment spend in these regions.

The AfBOS, which in December 2016 surveyed over 150 senior executives responsible for their firms' Africa-based commercial operations, found that much of this investment would be channelled towards the digitalisation of their businesses over the next five-year period.

"The importance of modern and appropriate technology to increase operational efficiencies, grow sales and serve customers better is recognised by firms with operations in Africa. Fifty-two percent of executives indicate that their firms will spend significantly more on digitalisation over the next five-year period.

"A further 26% of executives indicate that their firms will invest somewhat more to increase digitalisation across their Africa-based operations. Only 2% of executives indicated their firms would spend less over the next five years on digitalisation," says Herman Warren, ECN Africa director and author of the report.

Executives further indicate that they expect the Africa-sourced share of their organisations' total revenue to increase markedly over the next five years.

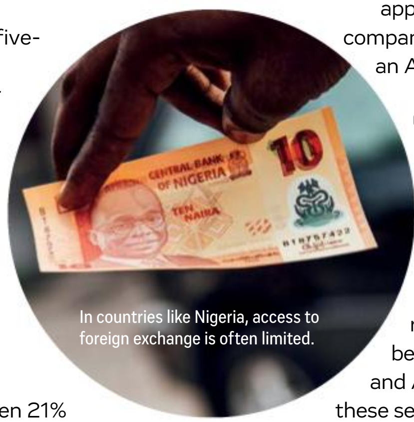
Four percent of executives indicate that between 21% and 40% of their firms' global revenue was sourced from Africa in 2016.

"However, by 2022, 10% of executives expect between 21% and 40% of their firms' revenue to come from the region," notes Warren.

Most expect that by

2022

the bulk of their revenues from the African continent will originate from Nigeria – a title currently held by South Africa.



In countries like Nigeria, access to foreign exchange is often limited.

With South Africa, Kenya and Nigeria remaining the continent's most appealing sub-Saharan investment destinations, the majority of executives see particular upside in Nigeria. Most expect that, by 2022, the bulk of their revenues from the African continent will originate from Nigeria – a title currently held by SA.

The bulk of this revenue growth is expected to come from increased revenue and profitability through an improvement in the businesses' core offering and the introduction of new products and services.

"For many of the businesses with headquarters outside of the region, the executives told ECN that products and services are not developed in Africa but adapted to cater to their Africa-based customers' needs," says Warren.

"While firms may find success with this approach in the short term, in the medium to long term this approach may leave open opportunities for those companies who design product and service offerings with an Africa-based customer in mind from the start."

Commodity recovery

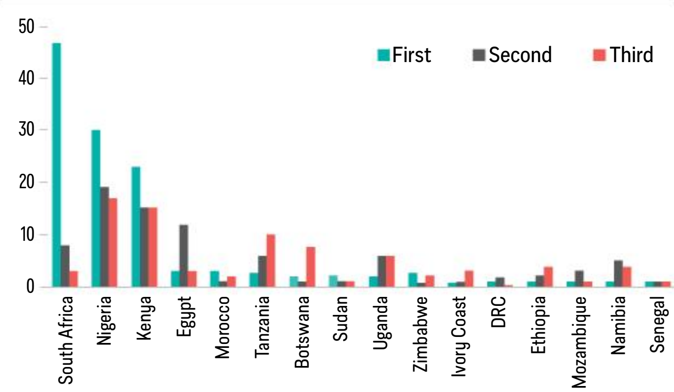
Meanwhile, Africa's resource-dependent economies are expected to continue to react to the prices of important export-earning commodities, many of which are expected to firm over the next five years.

Hydrocarbons, in particular, are expected to recover from their recent lows, to the potential benefit of oil-exporting countries such as Nigeria and Angola, offering upside potential for investment in these sectors.

That said, the report cautions that global oil prices are likely to remain well below the peak levels reached in 2012.

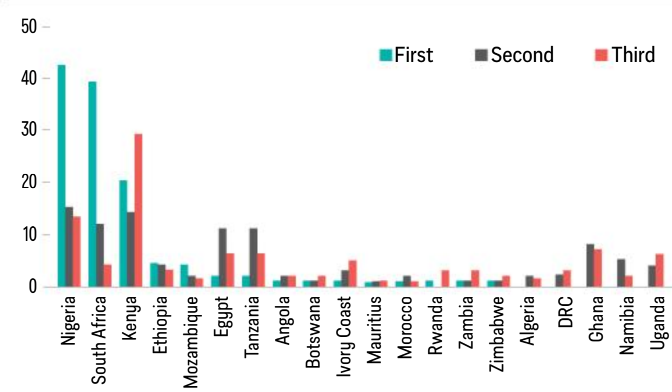
"The firming of the natural gas price will benefit countries such as Mozambique and Tanzania, while increasing coffee and tea prices

TOP AFRICAN MARKETS BY REVENUE, 2016 (NUMBER OF RESPONDENTS)



SOURCE: 2017 African Business Outlook Survey

TOP AFRICAN MARKETS BY REVENUE, 2022 (NUMBER OF RESPONDENTS)



SOURCE: 2017 African Business Outlook Survey will help boost the export earnings of countries such as Kenya.

"The upswing in gold prices will benefit a number of countries across the region (for example Ghana, South Africa, Senegal and Zimbabwe). The prices of coal and copper are expected to soften. This will serve to the disadvantage of South Africa (coal), Zambia (copper) and the Democratic Republic of Congo (copper)," it states.

Continental headwinds

Turning to continental challenges, Warren tells *finweek* that executives cite regulatory, currency-related and human capital availability as their greatest hinderances to growth on the continent.

Fifty-six percent cite the complexity and cost of complying with indigenisation and empowerment regulations, as well as equity-ownership structures, a major challenge.

"For many corporations, the latest set of broad-based black economic empowerment (B-BBEE) regulations, taken at face value, are unworkable," Warren explains.

As one executive anonymously commented, "My principals in North America are not going to approve of us essentially having to 'give away' equity to raise our B-BBEE rating. We would rather run the risk of losing business [to other companies with a higher rating] for now."

Respondents working for firms with headquarters outside of the Africa region suggest that their firms also face a range of "upward-management" challenges: that is, their senior managers may be based elsewhere and may not be fully in touch with market needs and requirements, the report reads.

In addition, currency-related challenges, such as depreciation, volatility and a lack of foreign exchange made planning and operating difficult.

Over the past year, all African currencies, with the exception of the South African rand and the Kenyan shilling, depreciated against the dollar, while access to foreign exchange in countries such as Nigeria and Ethiopia was "extremely limited".

This made paying for imports and repatriating profits difficult.

"In instances where a currency may have appreciated against the dollar, volatility serves to complicate pricing and margin management. For example, in 2016, the value of the South African rand vacillated between R16.80 to R13.40 to the US dollar, a 20% swing," he holds.

Macroeconomic factors, such as GDP growth, were cited in around 12% of the responses.

While respondents expected SA to remain a key market for their firms for at least the next five years, its importance as a primary market was expected to decline in the face of labour rigidity, legislative uncertainty and increasingly public and dramatic divisions within the ANC.

According to The Economist Intelligence Unit, in 2016 SA's real GDP is estimated to have registered growth of just 0.5%. The country's economy is expected to grow slightly faster in 2017 (1.4%), but the overall pace of expansion remains pedestrian and below potential.

"In short, the respondents are taking the long view: Africa is worth the effort and investment, because there are attractive commercial returns available. The long view should not be confused with a slow and steady approach.

"The former requires a sense of urgency, being agile and responsive, as well as proactively anticipating customer needs and market dynamics, and consistently investing in people and the right technology. In addition, the long view requires patience and persistence," says Warren. ■

editorial@finweek.co.za

Getty Images/iStock Images

market place

THIS WEEK:

FUND IN FOCUS: BRIDGE GLOBAL PROPERTY INCOME FEEDER FUND

By Niel Joubert

Cashing in on the REIT space

The Bridge Global Property Income Feeder Fund is a specialist global property portfolio with the objective of providing investors with high current income and long-term capital appreciation.

FUND INFORMATION:

Benchmark:	GPR 250 REIT Index Total Return in rand
Fund managers:	Ian Anderson and Andrew Dowser
Fund classification:	Global - Real Estate - General
Total expense ratio:	1.85% (Class A) / 1.6% (Class C)
Fund size:	R285m
Minimum lump sum / monthly payment:	R5 000 / R500
Contact details:	031 333 6600

*Bridge Fund Managers is an authorised financial services provider (FSP 29834).

TOP 5 HOLDINGS AS AT 28 FEBRUARY 2017:

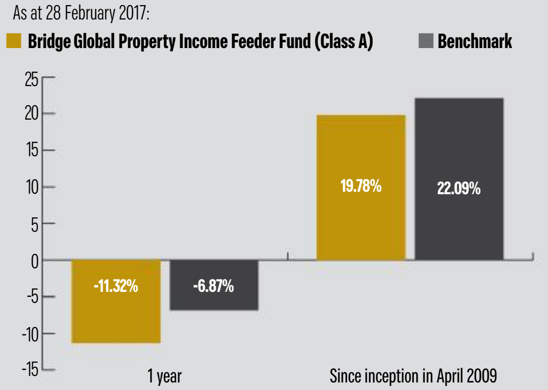
1	Mid-America Apartments	3.33%
2	Digital Realty	3.26%
3	General Property Group	3.20%
4	Tower Property Fund	3.16%
5	Sun Communities Incorporated	3.13%
	TOTAL	**16.08%**

TOP 5 SECTORS AS AT 28 FEBRUARY 2017:

1	Retail	39.10%
2	Office	21.20%
3	Industrial	11.24%
4	Multi	9.22%
5	Apartments	6.55%
	TOTAL	**87.31%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 28 February 2017:



Fund manager insights:

Property offers many benefits as an asset class – it has a low correlation with other financial assets, high and stable cash flows, and protection from inflation through long-term income and capital growth, says Ian Anderson, fund manager of the Bridge Global Property Income Feeder Fund.

The fund, which was previously named the Grindrod Global Property Income Feeder Fund, invests in global listed real estate companies and offers global diversification with holdings spread across the US, Europe, UK, Australia and South Africa. Anderson says the fund also offers SA investors a rand hedge as the underlying fund is priced in US dollars.

Bridge Fund Managers actively construct portfolios that they refer to as Payers and Growers. "By focusing on securities that both pay and grow dividends, and by being able to supplement those securities with exposure to quality listed property securities, Bridge is able to construct portfolios that are expected to produce total returns in excess of inflation in the long run," says Anderson.

According to him, this active income-management approach should be viewed as a core component of any investment plan as it combines an above-average income yield, inflation protection and long-term capital growth in one portfolio.

He says Payers and Growers portfolios have no benchmark constraints and securities are largely equally weighted across portfolios.

"Positions are actively managed to ensure that the current income yield and future income growth prospects are maximised within the risk parameters established by Bridge Fund Managers."

The fund is benchmarked against the GPR 250 REIT Index, which consists of the most liquid property stocks worldwide that have a REIT-like structure, according to Anderson.

"The index is weighted on a free-float market-cap basis, leading to the larger market-cap companies having a higher weight in the index. This increases concentration risk to the large-cap stocks. Our investment philosophy is to equal weight holdings in our portfolio, so that the portfolio is not overexposed to any single company or rental income stream."

He says the fund is domiciled in Ireland and is subject to withholding tax on REIT distributions, while the GPR 250 REIT Index represents returns based on gross distributions with no withholding tax.

"Due to this the fund will underperform its benchmark index over the long term. But if the index performance was adjusted for withholding taxes, the picture would look quite different."

Why *finweek* would consider adding it:

At the recent 21st annual Raging Bull Awards the fund was named the best (SA-domiciled) global real estate fund.

The Global Property Income Feeder Fund has a peer group ranking of 1/7, according to Morningstar, the data provider and investment research house to the global investment industry. ■

editorial@finweek.co.za

By Moxima Gama

DATATEC

Westcon deal could be turning point

The global technology group Datatec has been clawing back losses suffered when the tech bubble burst in the early 2000s and the share might even reach its all-time high again.

Global technology group Datatec has seen its share price jump following an announcement that it has received an offer for a major share of its Westcon-Comstor operation for more than $800m, nearly the value of the group's market capitalisation.

Datatec, with operations in more than 60 countries across North America, Latin America, Europe, Africa, the Middle East and Asia-Pacific, consists of three core business units: Westcon-Comstor, a technology distributor of security, collaboration, networking and data centre solutions; Logicalis, which provides global technology solutions and managed services; and consulting and financial services. In the interim period to end August 2016, its latest available results, Westcon accounted for 75% of group revenue. (Also see page 21.)

In a trading update published on 7 April, Datatec warned investors that headline earnings per share are expected to be more than 50% lower in the year to end February than in the previous year. The decline is attributable to a worse than expected result in Westcon-Comstor in the fourth quarter in the Europe, Middle East and Africa (EMEA) region. Westcon-Comstor experienced disruption to the business as a result of final stages of SAP implementation in EMEA, Datatec said, and the company is expecting a "rapid recovery" following adjustments to the operating model.

Datatec warned investors that headline earnings per share are expected to be more than

50%

lower in the year to end February than in the previous year.

52-week range:	R40.06 - R64.99
Price/earnings ratio:	26.61
1-year total return:	29.64%
Market capitalisation:	R11.97bn
Earnings per share:	$0.15
Dividend yield:	3.47%
Average volume over 30 days:	818 127

SOURCE: INET BFA

However, research group Forrester is forecasting modest growth in IT spending this year. In its *Global Tech Market Outlook* for 2017, it is forecasting growth of 4.9% in 2017 in constant currency terms, up from the previous year's growth rate of 4.5%.

While the possible Westcon-Comstor transaction has boosted Datatec's share price, the group warned that there can be "no certainty" that the deal will be completed, and said the proposed transaction is subject to contract and exclusivity provisions.

Technical analysis:

During the tech bubble in 2000, Datatec reached an all-time high of 14 600c/share. But following the bursting of the bubble, Datatec plummeted and tested an all-time low at 360c/share in 2003. It regained gradual upside in 2010, even peaking at 8 100c/share, and then traded out of its bull trend in 2015 when the rand weakened substantially against the dollar. After holding at 3 820c/share and reclaiming some of its losses, Datatec is now teetering on its key trendline. Overcoming that trendline will place Datatec in long-term bullish territory – potentially completing a 100% retracement to its all-time high at 14 600c/share.

How to trade it:

Go long: The current trendline would be breached on the upside above 7 000c/share – go long. Such a move should encourage further buying to the next prior high at 8 100c/share. Investors should increase positions on continued upside above that level, as the 10 840c/share resistance mark would come into play.

Go short: A reversal through 5 120c/share would mark defeat, and the current recovery dated back to February 2016 would end below 4 500c/share. Downside to 3 820c/share could then ensue, and breaching that level would see Datatec extend its bear trend towards 2 720c/share. ■

editorial@finweek.co.za

DATATEC

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.

CAPITEC* BUY SELL HOLD

By Simon Brown

Best to be cautious

Life comes at you fast when the rating agencies start downgrading the country and the banks. Last week I wrote about Capitec and how I was holding, but that I would be a buyer with my aggressive buy price being R720.

Then just as that edition (13 April issue) was hitting the shelves, Capitec's price was at R720. Yet, I did not buy the stock because this is not a market to be aggressive in. With a tough few years ahead for the economy, we can expect bad loans at Capitec to increase and this will hurt its earnings; this impacts the forward price-to-earnings ratio (P/E) and as such it lowers my buying price. But the bank has excellent risk management and has already started being more cautious on new lending – I expect this trend to continue.

But what I am not doing is selling Capitec. I sold some back in December 2015 but will continue to hold the rest as it remains my preferred local bank by far, with superior earnings and a lower cost base. I also foresee plenty of growth in its future. ■

The writer owns shares in Capitec.

Last trade ideas

- HOLD — Capitec, *13 April issue*
- HOLD — Anchor Capital, *6 April issue*
- BUY — NFEMOM, *30 March issue*
- BUY — South African Reserve Bank, *23 March issue*

PICK N PAY STORES BUY SELL HOLD

By Moxima Gama

Turnaround strategy well under way

Food and clothing retailer Pick n Pay said it is "well advanced" with its turnaround strategy, which aims to increase its profit margins to a sustainable level. In a recent trading statement, the group said it expects headline earnings per share (HEPS) for the 42 weeks to 26 February 2017 to increase by between 15% and 20% year-on-year, driven by greater cost control, improvements in its supply chain and higher productivity in stores.

The group is expecting to report turnover growth of 7%, which "reflects a difficult trading environment, alongside some internal disruption from refurbishments and store closures", it said. Growth plans include improving its customer offering across its Pick n Pay and Boxer formats and enhancing its clothing, online and services offerings.

The retail sector has been facing numerous challenges over the past two years, as consumer confidence and disposable income remain under pressure. Although the effects of being downgraded to junk status may not be felt immediately, it will inevitably impact consumer spending in the long run.

Gallo Getty Images

The group is expecting to report turnover growth of

7%,

which "reflects a difficult trading environment, alongside some internal disruption from refurbishments and store closures".

How to trade it: Pick n Pay has retraced sharply within its primary bull trend and is headed towards a major support trendline dated back to August 2013. It could retest key support at 6 200c/share, but with both the three-day and three-week relative strength index (RSI) charts in mega-oversold territory, a recovery is underway.

Another reason for my near-term bullish call is because Pick n Pay has bounced on its key support trendline a few times before and may reverse above that trendline again – thereby retaining its long-term bull trend. If so, a buy signal would be triggered through 6 600c/share, with potential gains back to 7 340c/share.

Above that level, resistance at 7 495c/share should be tested. Alternatively, if Pick n Pay fails to recover beyond 6 600c/share, it could breach its key support trendline – potentially triggering a short signal below 6 050c/share. Downside to 4 850c/share could then ensue. ■

editorial@finweek.co.za

Last trade ideas

- SELL — Imperial Holdings, *13 April issue*
- BUY — British American Tobacco, *6 April issue*
- BUY — Lonmin, *30 March issue*
- SELL — Remgro, *23 March issue*

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.

DATATEC

Money coming in

Datatec published a two-part announcement. First, there was a very weak update with headline earnings per share (HEPS) expected to be 50% lower; and second, news that it would be selling a "major" stake in its US Westcon-Comstor operation. Of note was that it values Westcon at $800m, pretty much the entire market cap of Datatec. This sent the share price higher, although it closed well off the intra-day highs. It'll be interesting to see what the company does with the money from the Westcon sale. The share price is clearly struggling, even if it is trading at a discount to potential value.

TONGAAT HULETT

Gallo Getty Images/iStockphoto

Feeling the squeeze

Tongaat Hulett* has been under serious pressure recently, heading below R120 and almost back to my initial buy price. One of the reasons could be a recent report that drought may be returning to South Africa. To my mind, there is a slim chance of that happening, and it's not likely to be nearly as severe as the one that just passed. Further, with the downgrades many investors are probably concerned about the property division within Tongaat. Not an unfair view, but the most recent results showed weaker property sales, which I expect to rebound higher as property is traditionally lumpy in terms of earnings. Further, property development tends to happen over the longer term and these decisions will not be taken in this or even the next financial year – we will not see the impact of such developments anytime soon. I have been buying after missing my full allocation when Tongaat first ran higher and I now have my ideal holding and am happy with the position.

DOWNGRADES

Small caps take a hit

Looking at my portfolio after the downgrades, I see that what has been hit hardest have been the small-cap stocks that in total make up just under 10% of my total investment portfolio. This is not surprising; whenever markets have uncertainty, people are going to want to exit some of the smaller and hence riskier investments. In addition, a lack of liquidity means that even modest selling will see prices becoming much weaker. Time will tell if the selling continues and I am not panicking just yet. But have a hard look at your small-cap stocks; if they are especially vulnerable to local economic conditions, consider exiting sooner rather than later.

Have a hard look at your small-cap stocks; if they are especially vulnerable to local economic conditions, consider exiting sooner rather than later.

TASTE HOLDINGS

Focusing on expensive roll-outs

Taste has announced the sale of its jewellery division and another rights issue for R120m to enable it to focus on its food brands. I was never a fan of the jewellery division, but it has been the profitable part of the business recently and I have long said another rights issue was going to be needed. So, with this need for more money and a large rights issue not an option, the jewellery sale makes sense. It will allow the company to focus on food and the sale should bring in maybe as much as R300m, wiping out debt and associated costs. This should now be enough for Taste to roll out its two new and expensive brands (Starbucks and Domino's Pizza) and while we wait for the results due late May, Taste is now starting to look interesting. If you are holding, I would take up my rights at 150c. However, with downgrades and a lot of unknowns ahead of results, those not holding should adopt a wait-and-see approach for now.

ASTORIA

A fair NAV price

Astoria has announced details of its share buyback. Starting on 5 May, the company will buy up to 6.327m shares (4.99% of the issued shares) for up to 1 166c. At the time of writing, the price was a few cents above that price and it should put a floor of sorts on the stock at the 1 166c level. The latest net asset value (NAV) is $1.06 (around 1 472c at the time of writing on 10 April), making for a fair price of around 1 250c, assuming a 15% discount to NAV. ■

editorial@finweek.co.za

**The writer owns shares in Tongaat Hulett.*

By Simon Brown

DOWNGRADE

We're junk. What now?

It's going to be a long and painful journey back to investment grade, but we've done it before. In the meantime, South Africans should protect their personal balance sheets.

So, we're junk. Standard & Poor's downgraded our foreign debt to junk (that's about 10% of our borrowing) leaving our local debt a notch above junk. Technically we needed two junk ratings to be considered junk as a country; and then Fitch downgraded both local and foreign debt, so junk status is official.

This leaves the country in a very tough space with new government debt going to cost more and a weaker rand threatening inflation. This, coupled with a GDP that is likely to decrease, and potentially higher interest rates, means it's going to get very ugly for the economy.

The local banks were also downgraded as they cannot hold a higher rating than their sovereign and as I write on 7 April the Fini15 Index is off some 10% since former finance minister Pravin Gordhan was recalled from London on 27 March.

The real pain for the economy will only start in 2018. We'll certainly see more tax increases next year as the cost of new debt increases and government revenue continues to be under pressure.

Personally, I have been positioned for this since December 2015 when then finance minister Nhlanhla Nene was fired, and I wrote about exiting banks (except Capitec*, which I reduced but continue to hold), being very careful of local stocks closely related to the state of the economy, and focusing on offshore earnings and very solid local earnings.

The next few years are important. Following the downgrade to junk, we can expect the economy to take at least seven years to get back to investment grade.

Thousands of South Africans marched from Church Square to the Union Buildings in Pretoria during a protest to demand the resignation of President Jacob Zuma on 7 April.

The flip side is the stock market and the Top40 is about 3% higher since the Gordhan recall, largely on the back of the rand hedge stocks moving higher. Back in November I wrote how the Brazilian stock market rallied after its downgrade to junk. That trend has continued with the Brazilian index, the IBOV, just off the all-time highs from 2008. That country has even seen its currency strengthen during that period, all while its economy has been struggling in a recession.

The flip side is the stock market and the Top40 is about **3%** higher since the Gordhan recall, largely on the back of the rand hedge stocks moving higher.

Will we follow Brazil with a move higher after the dust has settled? I have no idea, but for now my strategy is to be cautious. Our Treasury has seemingly been captured and our state-owned enterprises (SOEs) are a mess, but my prediction is that after the ANC elective conference in December, President Jacob Zuma will be much weaker and will likely be recalled (or resign) in early 2018. Then we can start rebuilding our SOEs and the economy. This is a slow process, but one we went through before, after the apartheid state was overthrown. The economy is nowhere near as bad as it was back in 1994.

I have been buying some Tongaat* in the mid-R120s to below R120, otherwise I am adopting a wait-and-see approach. If our market does start to rally higher, we'll have lots of time to enter positions, we don't need to take on the risk just yet.

If you have any debt, pay it off as rising rates will hurt. If you're considering buying a house or a car, downscale your plans and go for a cheaper option to reduce future debt. We need to protect our personal balance sheets and debt will add risk, especially if interest rates start moving higher.

If you're considering buying a house or a car, downscale your plans and go for a cheaper option to reduce future debt.

A last important point is that this is not the end of the world. We've been junk before, as have many other countries, and we'll survive, but this is going to be a long and painful journey. ■

editorial@finweek.co.za

*The writer owns shares in Capitec and Tongaat Hulett.

Gallo Images/Getty Images

By Simon Anderssen

MASTER DRILLING

Boring to depth

Master Drilling's innovative track record and project experience means it is well-positioned to contribute to, and benefit from, the mining industry's transition to automation and mechanisation.

Mining services companies are often tarred with the same attributes as their customers: significant commodity price risk and highly cyclical earnings. Yet there are a handful of service providers that are able to generate a stable earnings stream during the most challenging commodity cycles. We consider Master Drilling one of these few.

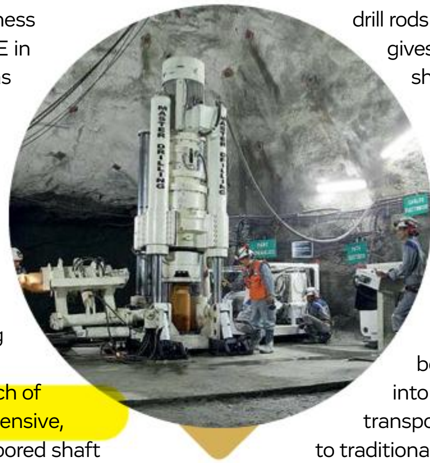
Master Drilling is a global drilling solutions business specialising in raise bore drilling. It listed on the JSE in December 2012 and raised R430m. The capital has been used to expand capacity by designing and building new raise-boring machines.

Since then, the company has delivered consistent earnings growth during one of the most severe commodity cycles, in which aggregate earnings of the JSE Resource Index declined 70%.

Master Drilling generates 80% of its revenue from raise boring, a method of mechanically boring a shaft between two levels. The method has a number of advantages over the alternative approach of blast sinking using explosives, being less labour intensive, safer and significantly faster and cheaper. A raise-bored shaft can be completed in approximately half the time and at 30% to 40% reduced cost versus conventional methods of sinking a comparable shaft.

It is used in mining for ventilation shafts, ore passes or access shafts; in civil construction for underground tunnelling, metros or infrastructure projects; and in hydroelectric plants for pressure shafts. Master Drilling is active in each sector but the majority of its exposure is to mining.

Mining is an extractive process that requires underground infrastructure to be continuously developed away from existing shafts for output levels to be sustained. Therefore, stay-in-business spending on infrastructure is a relatively stable element of total mining capital expenditure. This is a key reason for Master Drilling's defensive earnings performance.



Master Drilling specialises in raise bore drilling.

Master Drilling generates **80%** of its revenue from raise boring, a method of mechanically boring a shaft between two levels.

A global footprint

In 2016, South Africa accounted for just a quarter of group revenue and other African projects another 20%. The remainder is generated in Latin America, particularly Brazil, Chile, Colombia and Mexico. The company has expanded geographically on a project-by-project basis by shipping its raise-boring machines – which can weigh up to 110 tonnes – in containers and assembling on site. This mobility allows the business to redeploy assets in line with demand changes, and maintain high utilisation levels and operating margins.

Innovation drives automation

Safety and cost considerations will increasingly direct the global mining industry towards automation and mechanisation. Master Drilling's innovative track record and project experience means it is well-positioned to contribute to, and benefit from, this transition. The company's achievements include, respectively, the world's widest, deepest and most accurate raise-bored holes, highlighting its ability to extend the boundaries of raise boring.

It has developed the capabilities to design its own machines, drill rods and cutters for project-specific conditions. This gives Master Drilling structural advantages on costs and shorter lead times for equipment versus competitors.

Raise boring laid flat

In recent years Master Drilling has experimented with a horizontal application of raise boring – a considerable engineering feat – announcing the successful completion of a trial at an SA diamond mine. The trial bore a 180-metre-long tunnel, 4.5 metres in diameter, through challenging Kimberlite.

HRB's advantage over traditional tunnel boring machinery is that it can be disassembled into smaller components. This makes it easier to transport within existing mining infrastructure compared to traditional tunnel-boring machines. The opportunity for this technique could be immense, given the vast network of horizontal tunnel required at most underground mines.

Boring blind

Master Drilling's ambitions extend further: it has announced plans to develop a blind shaft-boring system that does not require bottom access. As with raise boring, the advantage would be significant time and cost savings in accessing the orebody – improving the value of new projects, perhaps making previously unviable projects profitable.

The company is patenting a system to sink an access shaft 1 200 metres deep and eight metres wide that would be capable of carrying personnel and equipment. This project is a number of years away from being proven, but could be a game-changer for the mining industry.

Nothing boring about the return to shareholders

The share price has more than doubled since listing as the company has steadily grown earnings. Looking forward, we expect the group's free cash flow to improve significantly as the expansion phase draws to an end. This will reveal the strong cash-generative qualities of the business model and provide management with the resources to pursue HRB or blind-boring projects that will sustain growth in the future. Early evidence of this emerging free cash flow was the declaration of a maiden dividend in March 2016. ■

editorial@finweek.co.za

Simon Anderssen is an associate portfolio manager at Kagiso Asset Management.

By Schalk Louw

INVESTMENT STYLES

Different strokes for different folks

Fund managers have different styles of investing. Combining these styles might just ensure above-average performance.

The 26th of March saw the first MotoGP race (motorcycle racing) for 2017. For those of you who aren't quite familiar with the sport, only one name needs to be remembered: Marc Márquez – five-time world champion. As dominating as he was on the race track these past few years, expectations were high that, as with the previous two races on the Qatar race track, he wouldn't perform well. As predicted, he didn't do well at all, but why? The reason is simply that the Qatar race track doesn't suit Márquez's or his motorcycle's (Honda) driving style.

In the same way that different MotoGP drivers have different styles, fund managers also have different styles. Roughly two weeks ago (6 April issue) I discussed how investors can invest in different themes, such as the rand, for example, or commodity classes. No different to these, different investment styles can also be seen as a theme in which you can invest.

Before we continue on how to apply these strategies, however, I briefly need to explain what different styles can be found in equity investments. When we analyse shares, they can be divided into different classes, such as momentum, value, quality and low-volatility stocks, to name a few.

Momentum, for example, focuses on shares that move strongly upwards, while avoiding or selling shares which decline in value. Value is more focused on shares that deliver higher earnings with lower price-to-book value and lower enterprise value (EV) to earnings before interest, taxes, depreciation, amortisation (ebitda) and earning multiple (EV/ebitda). Quality stocks are valued based on strong returns on equity (ROE) and the lowest possible EV-to-free cash flow ratio, with low-volatility stocks mainly focusing on shares with the lowest possible volatility ratios.

We decided to apply these different strategies over a period of 15 years and the results were staggering:

If you had invested in the 15 strongest characteristically style-based shares on a quarterly basis over the last 15 years, it clearly shows that if you had followed a momentum- or quality-driven approach, you wouldn't only have invested in the most successful strategy, you would have also outperformed the FTSE/JSE All Capped Index (JSE) quite comfortably. I have two problems with this, however. First, the data is based on historical performance which carries no guarantee of future performance; and second, that these strategies are narrowly correlated, which would have resulted in more volatility (risk) in your personal portfolio. A momentum- and value-based strategy, however, would have provided you with a much better inverse correlation, which, when applying the MotoGP analogy, would have meant that you wouldn't have finished first in one race only to finish last in the next one.

When we place these different styles relative to the JSE, the inverse correlation effect doesn't only become visibly clear, but it also shows us just how badly fund managers performed on "race tracks" that didn't suit their styles in 2015. It's only during these last 15 months that names like Investec Value and RECM managed to get back on track.

This combined portfolio didn't only manage to outperform the JSE over the last 15, five, three and one year(s), but it managed to do so with 13% less volatility.

I took all of this one step further, however, by running the South African General Equity unit trust sector correlations on all funds to find out which style suits which fund the best. I simply took the two largest funds which best correlated with the momentum style and combined them with the two largest funds that best correlated with the value style. Again, the results were staggering. By applying no further expertise, this combined portfolio didn't only manage to outperform the JSE over the last 15, five, three and one year(s), but it managed to do so with 13% less volatility. The JSE would have provided you with 47 negative months over the last 10 years, while this portfolio would have only provided you with 43.

My message this week is this: As is the case with MotoGP, don't simply choose funds based on the fact that they performed well over the past year or two. The next race track might just not suit their styles. Rather combine your styles in such a manner that you always achieve above-average performance. ■

editorial@finweek.co.za

Schalk Louw is a portfolio manager at PSG Wealth.

RETURNS ON DIFFERENT STYLES

SOURCE: PSG Old Oak & IRESS

RELATIVE RETURNS OF DIFFERENT STYLES VS FTSE/JSE ALL CAPPED INDEX

SOURCE: PSG Old Oak & IRESS

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
AFROCENTRIC	WH Britz	7 April	Purchase	245,000	640	1,568,000	7 April
AFROCENTRIC	L Callakoppen	7 April	Sell	490,000	640	3,136,000	7 April
AFROCENTRIC	AV van Buuren	7 April	Purchase	245,000	640	1,568,000	7 April
ANGLOPLAT	RMW Dunne	30 March	Sell	1,052	30225	317,967	4 April
ANGLOPLAT	RMW Dunne	30 March	Sell	1,052	30100	316,652	4 April
ATTACQ	MC Wilken	3 April	Purchase	6,500	1704	110,760	6 April
BAT	A Davy	31 March	Exercise Options	12,707	0	£0	6 April
BAT	A Gray	31 March	Exercise Options	17,472	0	£0	6 April
BAT	A Gray	31 March	Sell	8,397	5 289p	£444,117	6 April
BAUBA	J Knowlden	31 March	Purchase	65,000	65	42,250	4 April
BAUBA	J Knowlden	31 March	Purchase	80,000	69	55,200	4 April
CAPITEC	AP du Plessis	4 April	Exercise Options	5,936	19643	1,166,008	6 April
CAPITEC	AP du Plessis	4 April	Exercise Options	5,000	19852	992,600	6 April
CAPITEC	AP du Plessis	4 April	Sell	10,936	78252	8,557,638	6 April
CONDUIT	S Riskowitz	29 March	Purchase	15,000,000	250	37,500,000	4 April
CONDUIT	S Riskowitz	31 March	Purchase	10,916	249	27,180	5 April
DISCOVERY	R Farber	5 April	Sell	41,538	13015	5,406,170	10 April
DISCOVERY	R Farber	6 April	Sell	42,962	12822	5,508,587	10 April
EOH	JW King	31 March	Purchase	2,500	13768	344,200	4 April
EXXARO	CH Wessels	5 April	Exercise Options	735	14514	106,677	7 April
EXXARO	CH Wessels	5 April	Exercise Options	389	11842	46,065	7 April
EXXARO	CH Wessels	5 April	Sell	346	12430	43,007	7 April
HUGE	D Deetlefs	4 April	Sell	1,517,348	615	9,331,690	5 April
HUGE	AD Potgieter	5 April	Sell	2,689,547	615	16,540,714	5 April
HUGE	AD Potgieter	5 April	Sell	224,050	615	1,377,907	5 April
HYPROP	LR Cohen	3 April	Exercise Options	11,105	12346	1,371,023	6 April
HYPROP	PG Prinsloo	3 April	Exercise Options	20,153	12346	2,488,089	6 April
IMPERIAL	MV Moosa	31 March	Purchase	58,913	1811	1,066,914	5 April
IMPERIAL	Y Waja	6 April	Sell	2,000	15417	308,340	10 April
KUMBA	V Tyobeka	5 April	Sell	450	22526	101,367	6 April
KUMBA	V Tyobeka	5 April	Sell	950	22631	214,994	6 April
KUMBA	V Tyobeka	5 April	Sell	900	22526	202,734	6 April
LONMIN	V Shine	31 March	Purchase	16,104	87p	£14,010	7 April
LONMIN	V Shine	3 April	Purchase	933	84p	£783	7 April
MASTER DRILL	BJ Jordaan	4 April	Sell	500,000	1700	8,500,000	5 April
MASTER DRILL	BJ Jordaan	3 April	Exercise Options	500,000	892	4,460,000	5 April
MASTER DRILL	GR Sheppard	4 April	Sell	500,000	1700	8,500,000	5 April
MASTER DRILL	GR Sheppard	3 April	Exercise Options	500,000	892	4,460,000	5 April
MASTER DRILL	AJ Van Deventer	3 April	Exercise Options	500,000	892	4,460,000	5 April
MASTER DRILL	AJ Van Deventer	4 April	Sell	500,000	1700	8,500,000	5 April
MASTER DRILL	AJ Van Deventer	4 April	Sell	500,000	1700	8,500,000	5 April
ORION	F Gmeiner	5 April	Purchase	217,924	58	126,395	6 April
RBPLAT	N Carr	3 April	Sell	6,895	3407	234,912	7 April
RBPLAT	LC Jooste	3 April	Sell	4,726	3407	161,014	7 April
RBPLAT	SD Phiri	3 April	Exercise Options	26,106	3391	885,254	7 April
RBPLAT	MJL Prinsloo	3 April	Sell	8,853	3407	301,621	7 April
RBPLAT	V Tlhabanelo	3 April	Sell	6,372	3407	217,094	7 April
REMGRO	M Lubbe	5 April	Exercise Options	20,620	11286	2,327,173	7 April
REMGRO	M Lubbe	5 April	Sell	6,080	20273	1,232,598	7 April
SANLAM	TI Mvusi	31 March	Exercise Options	14,350	6737	966,759	5 April
SANLAM	Y Ramiah	31 March	Exercise Options	14,350	6890	988,715	5 April
SANLAM	HC Werth	31 March	Exercise Options	99,449	6737	6,699,879	5 April
TRANSPACO	SI Jacobson	3 April	Purchase	303	2825	8,559	4 April
WESCOAL	MR Ramaite	29 March	Purchase	2,000,000	229	4,580,000	4 April
WOOLIES	SAR Rose	6 April	Purchase	5,031	6807	342,460	10 April

All data as at 14:00 on 11 April 2017. Supplied by IRESS.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Oakbay	1800	96.72
Lonmin	1818	24.78
Kibo	129	16.22
Int Hotel	1800	16.13
Afdawn	68	13.33
WORST		
Nutrition	1	-50.00
Moneyweb	14	-30.00
Tawana	275	-22.10
Ferrum	4	-20.00
South Ocean	41	-16.33

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	53 139.96	0.91
JSE FINANCIAL 15	14 216.10	-2.46
JSE INDUSTRIAL 25	69 980.63	1.23
JSE SA LISTED PROPERTY	612.29	-2.12
JSE SA RESOURCES	19 775.14	4.28
JSE TOP 40	46 422.49	1.48
CAC 40	510 745	0.12
DAXX	1 220 052	-0.67
FTSE 100	734 894	0.37
HANG SENG	2 426 218	0.00
NASDAQ COMPOSITE	588 092	-0.30
NIKKEI 225	1 879 788	-0.07

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	105	12.7
EMIRA	143	10.3
REBOSIS	125	10.3
RI PLC	56	9.0
ACCPROP	58	8.7
REDEFINE	92	8.7
SA CORPORATE	46	8.5
FORTRESS-A	136	8.3
CORONATION	504	8.1
GROWTHPOINT	195	8.0

RED DRAGON
ON THE ROAD TO RECOVERY

By Petri Redelinghuys

LAST YEAR IT SEEMED AS IF CHINA WAS HEADING FOR ECONOMIC TROUBLE WITH SLOWING GDP GROWTH AND THE GOVERNMENT HAVING TO USE A BIG CHUNK OF ITS FOREIGN CURRENCY RESERVES TO STABILISE THE YUAN. HOWEVER, A YEAR ON, THE PICTURE LOOKS QUITE DIFFERENT.

Gallo Images/Getty Images

A year ago, economic trouble seemed to be brewing in the Land of the Red Dragon. The world has changed somewhat since then, with the UK voting to exit the EU, and the US choosing Donald Trump as its new president, leading to a boost in global markets. But have the economic risks in China subsided? We relook some of the issues discussed back then and see if, and how, some of those factors might have changed.

During the first quarter of 2016, Moody's downgraded China from moderate with a positive outlook to moderate with a negative outlook. One of the major issues at the time was that China's annual GDP growth rate was falling steadily and had dipped as low as 6.8%. Moody's had forecast at the time that China's GDP growth rate would slow to 6.3% in 2016 and 6.1% in 2017.

They, like me, got it wrong. The slowdown that the Chinese economy had been experiencing up to that point was mainly concentrated in the heavy construction, manufacturing and importing sectors. I had speculated that this could put pressure on economies such as our own – which it would, considering that we are heavily resource- and export-dependent – as it could lead to continued pressure on commodities prices.

This, however, did not quite play out like Moody's had expected. Since the first quarter of 2016, Chinese GDP growth rates have seemingly turned the corner. Indicated in the chart on the next page we see that Chinese GDP growth bottomed out at 6.7% and remained there for three consecutive quarters, after which it ticked higher to 6.8%. So this, cautiously optimistically, could signal that the worst is over for China and that we could see a return to growth rates back above the all-important 7% in the coming quarters.

Keeping in mind that "coming quarters" means that it could take another year or so before actually seeing GDP growth above 7%. Nonetheless, it does seem that the tide is starting to turn in this respect.

Moody's also downgraded 25 non-insurance financial institutions in order to bring their rating in line with China's now lower sovereign rating. The crux of the

The office of the financial rating agency Moody's Investors Service is located within One Canada Square in London.

So this, cautiously optimistically, could signal that the worst is over for China and that we could see a return to growth rates back above the all-important **7%** in the coming quarters.

worry back then was that many of these financial institutions had exposure to what was dubbed "zombie firms" – companies that are essentially running at losses and only managing to stay afloat thanks to very accommodative monetary policy that allows them access to cheap credit so that they can tap liquidity in order to remain solvent. The concern was around the stability of the banking sector in the event that GDP did not pick up.

Wang Zhaoxing
Vice chairman of China's bank regulator

Bad loans

Well, its GDP did pick up, but what happened to the total debt-to-GDP ratio of 250% and growing? That has now grown to 277%, with an increasing share of new credit being used to pay debt servicing costs, as indicated in a UBS research note published in January. So even though GDP is outpacing what was generally expected this time last year, debt is still growing faster than the overall economy. Thus, the "zombie firms" continue to stumble around from bank to bank moaning, "Loans…"

On the bright side, fixed asset investment has very strongly bounced off the lowest growth rate since 1999 of 8.1% year-on-year in December 2016 to 8.9% growth year-on-year in January 2017. This, combined with steadily higher GDP readings, could signal that the Chinese economy is stabilising. Although even that could be a premature assumption to make as we do not yet know how the new Trump administration and its protectionist stance might impact exports from China to the US, and thus the overall Chinese economy.

Fixed asset investment has very strongly bounced off the lowest growth rate since 1999 of 8.1% year-on-year in December 2016 to

8.9%

growth year-on-year in January 2017.

We know that much of China's decade-long boom was fuelled by property investment, and it has also come to light in recent months that property prices have still been soaring higher, and that the Chinese government is taking steps to cool off the rise in property prices. In fact, the reasoning behind the Chinese government's official GDP growth target being lowered to 6.5% is to give themselves room to manoeuvre in terms of potentially pushing policy reforms in order to contain debt risk. That could be considered a positive move from the Chinese government.

Although data is hard to come by, Wang Zhaoxing, vice chairman of China's bank regulator, commented last month that "banks have done a very good job in controlling new bad loan increase and using a number of tools to handle outstanding non-performing loans (NPLs)". We will have to wait until we can see some solid data around this, although this does put the mind at ease somewhat as this time last year new loans showing signs of future repayment risk was as high as RMY4.2tr (yuan) (or $645bn at the time of writing). Wang has commented that NPLs has stabilised after hitting all-time highs last year June. Again, we will have to wait and see if the data supports these statements, although one could say that this too is good news.

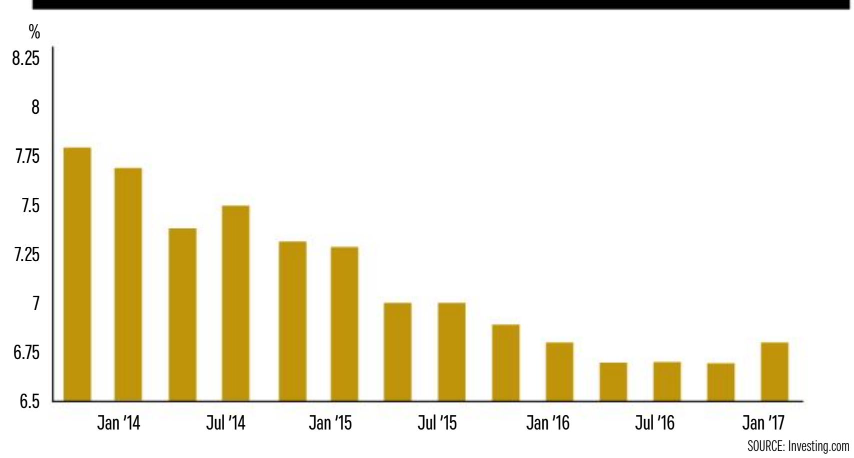
Interest rate outlook

China is also expected to gradually start tightening monetary policy by shifting the expected interest rate corridor 20 to 30 basis points higher during 2017, mainly to contain financial risks and asset bubbles. This translates into higher borrowing costs for Chinese corporates and possibly the start of a long-expected and much-needed corporate deleveraging. Perhaps an explanation of the interest rate corridor is needed to fully understand this.

Basically, China does not set interest rates in the same way that most Western central banks do; instead they allow free market forces to set base interest rates while the central bank (People's Bank of China) only requires banks to hold a capital reserve with the central bank

Gallo Images/Getty Images

CHINA'S GDP GROWTH



SOURCE: Investing.com

against which they can grant credit to their customers. The interest rate corridor is set by means of repos and reverse repos, giving money to banks in exchange for bonds from that bank and taking money from banks in exchange for bonds given to banks. A repo would thus add money (or liquidity) to the financial system and a reverse repo would remove money (or liquidity) from the financial system.

By tightening the interest rate corridor, they are changing the interest rates at which the central bank lends to and from commercial banks. The upper limit is set by the interest rate that the central bank charges on its repo loans, since commercial banks would never lend from other commercial banks for more than what they could lend from the central bank. The lower limit is set by the rate that the central bank pays commercial banks on their excess reserves (reverse repo), since commercial banks would never lend to other commercial banks for less than what they could earn by simply depositing their funds "risk-free" with the central bank.

This works effectively to set a band in which banks can charge interest to their customers to make economic profit. Therefore, the move to tighten that band by 20 to 30 basis points over the next year is not exactly but almost equivalent to a central bank interest rate hike like we are used to in the Western world. In other words, tighter monetary policy and an attempt to slow credit markets down a little.


The People's Bank of China (PBOC) headquarters in the country's capital, Beijing.

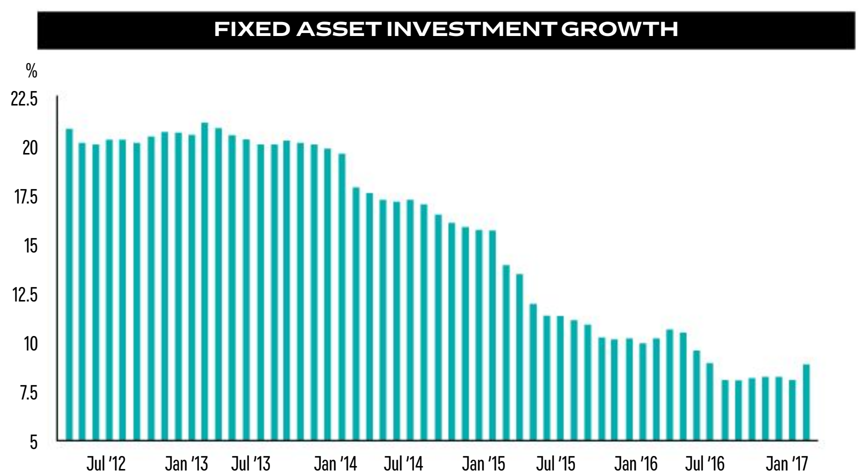
By tightening the interest rate corridor, they are changing the interest rates at which the central bank lends to and from commercial banks.

Forex reserves

Last year we also looked at the weakening yuan, the effect that could have on the overall economy in China and the state of their foreign currency reserves (see *What the future holds for China*, 7 April 2016 edition). During the tumultuous times of mid-2015 to early 2016, during which the Shanghai Composite fell by 40%, China had spent 20% ($800bn) of its $4tr foreign currency reserves in defense of its capital markets, bringing its foreign currency reserves down to $3.2tr by March 2016.

They had done open market operations (simply buying yuan with their dollar reserves to the tune of $707bn) in order to prevent their currency from devaluing; pumped money into two banks ($93bn) to prevent them from collapsing; placed various restrictions on dollar- and euro-denominated investment and insurance products; charged taxes on currency transactions and clamped down heavily on "underground banks" converting yuan into either dollars or euros.

It was clear that they did not want capital to flow out of the country faster than it already was. Since then, though, the yuan has devalued a further 5.33% (give or take) against the dollar and foreign currency reserves have diminished to just a touch over the $3tr mark, but not



SOURCE: Investing.com

before scaring markets in February when it dipped below $3tr for the first time in five years.

Clearly, then, this is a fight that they are still not exactly winning, with capital outflows totaling around 6% of GDP ($654bn) in 2016. The question then once again becomes: how long before they implement blatant capital controls? Well, some form of capital controls are already in place with the restrictions mentioned above, but how much more aggressive can such capital controls get?

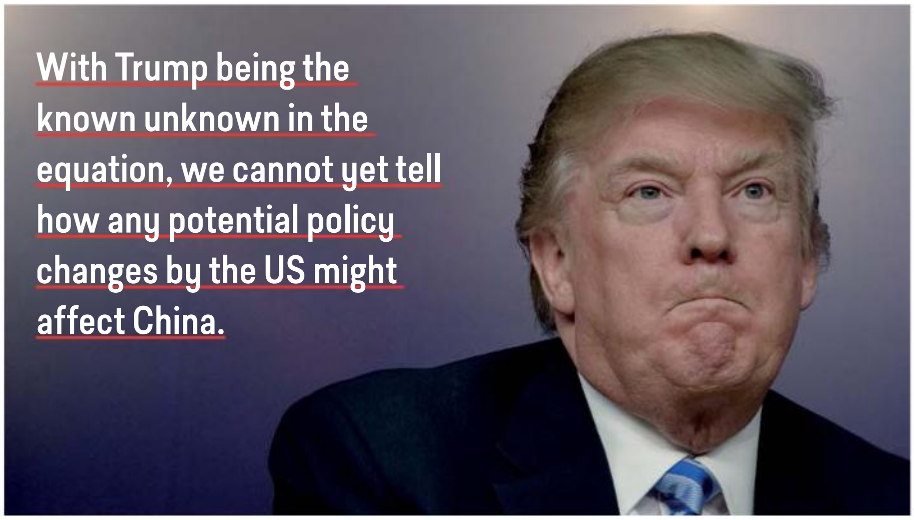
Currency valuation

Back to the speculations of last year – they could allow their foreign exchange reserves to fall as low as $1.5tr if they have strict capital controls in place and to $2.7tr if they do not. Once they breach those points, they could be helpless to defend the devaluation of their currency and the world will face a situation where countries that export to China will start to feel severe pressure.

That said, the currency is weaker than last year and by their own doing, so exporters to China are already feeling the heat (although it could get worse) and, rather importantly, we saw a pretty strong sense of fear come into the market (especially in commodities prices) when their reserves dipped below that seemingly magical $3tr mark in February. Also, with Trump being the known unknown in the equation, we cannot yet tell how any potential policy changes by the US might affect China. A bit of a wild card and a bit of a tense situation and it's impossible to predict how it is going to turn out.

In order to more thoroughly understand the full picture of capital outflows from China, let's look at the four factors that are driving it and what is being done about it. The first is China's slowing growth. As mentioned earlier, it appears that this might be turning the corner, although the fact remains that since 2010, when it averaged 10.6% for the year, it has fallen steadily to the 6.8% it printed last quarter.

Second, growing financial vulnerability has diminished investor confidence over the long-term potential of the economy. Every kind of debt-to-GDP ratio is



Donald Trump
US President

The Federal Reserve has increased interest rates by

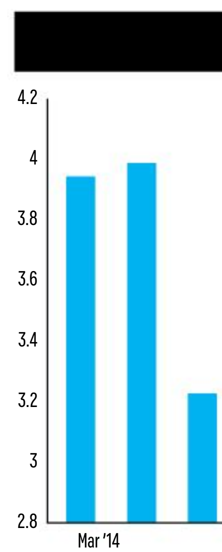
75

basis points since December 2015 and is expected to continue on its tightening path.

rapidly growing and overcapacity in key industrial sectors such as steel and coal are worrisome. The housing market is considered to be overheating and steps are being taken to slow down rapid increases in property prices. Furthermore, the government has begun to unwind stimulatory policies and started a tightening regime that is reducing the attractiveness of capital inflows and resulting in outward direct investment outpacing incoming direct investment. Net direct investments outflows were 0.6% of GDP in 2016 compared to inflows of 0.6% in 2015 and 1.4% in 2014.

Third, higher interest rates in the US are pulling money out of emerging markets (and China) and into the US. The Federal Reserve has increased interest rates by 75 basis points since December 2015 and is expected to continue on its tightening path. This is supportive of a dollar bull market and will likely lead to further yuan weakness, which is leading to Chinese investors moving money out of China and into the US. China posted a net portfolio outflow of 0.6% of GDP in both 2015 and 2016 compared to a net inflow of 0.8% in 2014.

Fourth, the devaluing yuan led to outflows as corporates and banks seek to repay foreign-denominated debts. After the financial crisis, China liberalised access to foreign debt markets and external debt jumped from less than 4% of GDP in 2010 to over 12% in 2015 as corporates and



banks took advantage of super low interest rates in the US and a relatively weak dollar. The tide is now changing after the Chinese government devalued the yuan in August 2015 and outflows to pay external debts is putting further pressure on an already devaluing yuan.

The Chinese government is responding to these four factors by the measures already mentioned above, namely capital controls and tightening monetary policy. It does seem to suggest that China is choosing currency stability over economic growth. This will come at a cost, though, as it may put further pressure on their foreign currency reserves and lead to equity market volatility and possibly slow the recovery in GDP growth that appears to have started.

It does seem to suggest that China is choosing currency stability over economic growth.

Outlook

So, all in all, China has some headwinds that it has to deal with in order to return to its breakneck rate of growth. That said, a 6.8% annual GDP growth rate is nothing to scoff at. Also, from my perspective at least, it appears as if the overall economy is a bit (a lot) more robust than what I thought it was a year ago.

Given the fact that the US economy appears to be well on its way to growing at a strong pace again and the assumption that the Trump administration will not be able to impact manufacturing in and exporting from China too much, I would say that the overall world economy is in relatively good shape. Perhaps a brave statement to make considering that we are in one of the longest bull markets in history and the sheer amount of people calling for its end.

Nonetheless, I believe that for the next 12 to 18 months at least we should see some growth on a global scale, including from China. People who go there regularly for business always tend to come back with stories about how it's just getting bigger and busier.

The data that we get from China is often not trusted, nor really understood. I think the fact is that the Chinese do things differently to us Westerners and the fact that we don't quite understand, or even see the whole picture, does not mean that they are on the brink of disaster.

Yes, there are some really worrying signs – the rate at which debt is growing in comparison to GDP and the "zombie firms" being at the forefront of those – but overall the recovery in commodities and uptick in Chinese GDP growth are comforting signs of a productive and growing world economy.

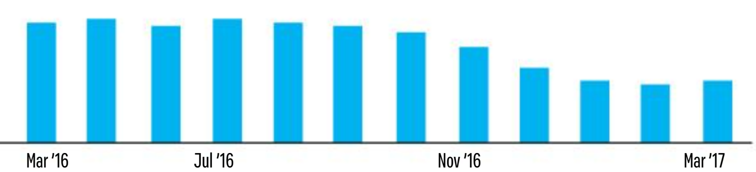
For now, I think that it is still relatively safe to remain bullish. Therefore, although I have recently reduced exposure to resources-based companies in the local model portfolio, I still believe that there is value in the likes of Anglo American and BHP Billiton on the basis of a continued recovery from China and growing US economy and thus higher demand for commodities.

I don't expect the short term to be without noise and volatility though, but six to 18 months out, when the freshly restructured resources companies start paying dividends and Chinese GDP growth is approaching 7% again, these companies could provide some decent returns. ■

editorial@finweek.co.za

Petri Redelinghuys is the founder of Herenya Capital Advisors.

CHINA'S FOREIGN EXCHANGE RESERVES
(US DOLLAR TRILLIONS)



Source: Investing.com

ADDING FUEL

Government's planned nuclear build programme has been contentious from the start. Add new ministers of finance

The ominous question of whether the government will forge ahead with an expensive nuclear build programme regardless of its affordability has become the focus of concern that South Africa's track record of sound financial management will be undermined by the policies decided by President Jacob Zuma's new Cabinet.

Fitch Ratings Agency highlighted the threat when it cut SA's credit rating to junk status on 7 April, warning that under the newly appointed finance and energy ministers the programme was likely to move ahead more quickly, requiring further financial guarantees which would weigh on the government's balance sheet.

In Fitch's view political differences over implementation of plans to expand nuclear power in the country preceded the abrupt dismissal of former finance minister Nhlanhla Nene in December 2015 and may also have contributed to the sweeping reshuffle which resulted in the removal of former finance minister Pravin Gordhan.

Fitch's comments tapped right into the mounting anger and helplessness felt by many South Africans over the way in which corruption and state capture appear to be gathering momentum, and the apparent inability of the ANC to rein in Zuma's reckless agenda for the country's fragile economy.

Nuclear deal speculation 'overdone'

Real though the threat may be, since the shock Cabinet reshuffle there has been a spate of misleading media reports presenting the existing schedule for the nuclear programme as completely new and suggesting that a shady deal over the estimated R1tr project is already done and dusted.

Energy experts believe that the speculation has been overdone and power utility Eskom, which was given control over nuclear procurement plans late last year, issued a statement on 10 April denying that a deal had already been signed.

"In my opinion, there are too many people involved in the deal for it to be done behind closed doors," said Chris Yelland, investigative editor at EE Publishers. "If things are done incorrectly, it's bound to get out. A lot of people are watching very closely – NGOs, the media and civil society. Government leaks like a sieve and it's just too big to be done secretly."

Almost immediately after the Cabinet reshuffle was announced on 31 March, a story surfaced that the new finance minister, Malusi Gigaba, had signed papers for the nuclear deal on his first day in office. On the weekend of 9 April, two leading newspapers carried reports detailing the timeline for the programme, citing internal Eskom documents dated just a few days before Gordhan and his deputy, Mcebisi Jonas, were axed.

In fact, the information was released by Eskom weeks ago, and reported by other publications. The utility issued a request for information from nuclear vendors in December, saying that a request for proposals would be issued by the middle of 2017 and that by early 2018 the preferred bidder should be selected, with a contract in place between the end of 2018 or early in 2019.

What was new in the weekend stories was that most of the nuclear contracts would be implemented through "turnkey procurement", which means that a single company would be appointed to manage and deliver an entire project. That means the management company would be responsible for appointing all contractors and service providers – a policy that makes corruption easy to conceal.

Another rumour that appeared just before Zuma recalled Gordhan from London was equally alarming – former ANC MP Vytjie Mentor was quoted as saying that a Russian participant in one of the minister's investor presentations left the room when Gordhan said the government would "never" develop nuclear energy, and then called another Russian who immediately called Zuma. This was the real reason for which Gordhan was fired, the reports alleged.

Apart from obvious question marks raised by the purported events, the main discrepancy is that Gordhan had never said the nuclear project would not go ahead – he repeatedly pointed out that it was part of the state's planned energy mix but would not be implemented at a pace or scale which the country could not afford. This is exactly what Gigaba said at his first press conference.

No faith fiscal policy will be retained

The problem is that few have any faith in Gigaba's insistence that SA's fiscal framework will be adhered to, least of all Standard & Poor's and Fitch, which both cited the policy uncertainty generated by the Cabinet reshuffle as one of the main reasons for their decision to downgrade SA's sovereign credit rating to junk status.

Pravin Gordhan
Former minister of finance

Malusi Gigaba
Finance minister

J.P. Morgan said on 7 April SA would depart from its investment grade government bond index starting in late April, and noted that about **$49bn** worth of South African bonds are benchmarked against its investment grade-only emerging-market bond indexes.

TO THE FIRE

By Mariam Isa

and energy as well as some sketchy media reports to the mix and things could just become unnecessarily explosive.

Gallo Getty Images / Reuters / iStockphoto

Comments by Enoch Godongwana, the ANC's head of economic transformation, were also taken with a large pinch of salt. He said that the government's expenditure plans – including for the nuclear programme – would have to be revised in light of the country's junk status, which raises the cost of its borrowing.

"The issue now is the separation between the ANC and government," said Nomura emerging market analyst Peter Attard Montalto.

"The whole point at the moment is that the ANC is far less important than Zuma's own policy agenda. Oversight will be reduced and if Treasury stops asking for information (on the nuclear deal) which can be shared, he will get away with whatever (sic)."

The fact that three top ANC officials – secretary general Gwede Mantashe, deputy president Cyril Ramaphosa, and treasurer general Zweli Mkhize – backed down from initial public objections that Zuma carried out his reshuffle without proper consultation, reinforces the view that he is increasingly wielding his power.

Track record of transparent budgets

For the past decade, Treasury's Budget has been recognised globally for its complete transparency and willingness to highlight the risks to its spending and revenue targets. In its Budget for the coming year in February, it said that guarantees on the debt of state-owned enterprises like Eskom remained a major risk to the fiscus.

These guarantees amounted to R477.7bn at the end of February while exposure totalled R308.3bn. Eskom accounts for three-quarters of the guarantees and about two-thirds of the exposure.

Yields on government bonds have climbed about 60 basis points since the Cabinet reshuffle and are likely to rise more as Fitch's downgrade of local currency means that they will fall out of some bond indexes used by passive investors.

Standard & Poor's (S&P) only downgraded the country's foreign debt, but has put a negative outlook on local currency debt.

J.P. Morgan said on 7 April SA would depart from its investment grade government bond index starting in late April, and noted that about $49bn worth of South African bonds are benchmarked against its investment grade-only emerging-market bond indexes, while $10bn is linked to its global bond index for emerging markets.

It will be even worse if both S&P and Moody's downgrade SA's domestic debt to junk status, as that means it will also fall out of Citigroup's World Government Bond index.

Downgrade impact contained so far

So far the impact of the two downgrades on the rand and government bonds has been relatively contained, partly because it was expected by markets and also because global factors are benign – US interest rates are rising at a modest pace and commodity prices have stabilised.

Enoch Godongwana
ANC head of economic transformation

The issues going forward will be net portfolio flows – which are foreign purchases of domestic bonds and equities – and how the current account deficit would be funded, said Colin Coleman, MD of Goldman Sachs International in South Africa.

Coleman said that the choice of a replacement for Treasury director-general Lungisa Fuzile, who resigned beginning of April, would be seen as an important indication of whether fiscal discipline will be maintained. The appointment of one of the current incumbents in Treasury would help to instil confidence.

Lungisa Fuzile
Outgoing director-general of the Treasury

Business is "extremely concerned" about the long-term direction the country is taking and would be watching closely to see whether "state capture" would spill over into the private sector through regulatory and other pressures, he added.

Gigaba's first medium term budget policy statement in October will have to give some indication of how government intends to fund its nuclear build programme and will be closely scrutinised for signs that fiscal discipline is slipping.

Investors are also waiting for more details on what the government means by "radical economic transformation", which is likely to be clarified at the ANC policy conference in June. ■

editorial@finweek.co.za

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.

on the money

THIS WEEK:

PROFILE

By Jana Jacobs

The SA leader in global cyber security

Thinkst is a South African-based cyber security company that has garnered international acclaim and is considered one of the leaders in the field. Founder Haroon Meer discusses his career in cyber security, as well as the urgent need for SA to get with the programme.

In simple terms, Thinkst, which was started by Haroon Meer and his team in 2010, is a software security company that builds software and sells hardware products that are deployed all over the world. But to truly understand what the team at Thinkst does, it may help to picture a world you would likely find in a high-tech spy thriller: hacking into company networks, developing high-tech devices and training "department of defence type-organisations".

Today, Thinkst's business operates all over the US and Europe. Says Meer: "If you are using the internet today, you are using a company that uses our software, including lots of the big guys in Silicon Valley [...] We are pretty lucky to have a great bunch of customers."

"If you are using the internet today, you are using a company that uses our software."

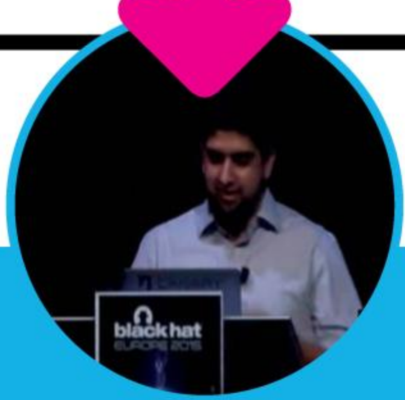
The start of Meer's career in cyber security basically coincided with the arrival of the internet in South Africa, at a time when cyber security started showing its teeth as a field.

Meer completed his BCom degree at the University of Natal, and his Computer Science degree through Unisa, before becoming technical director at SensePost, a company he ran with friends since 2001. After selling SensePost in 2007, Meer and some of his team members started Thinkst.

"With SensePost we were breaking into networks, and we spent a lot of time trying to creatively come up with a way to defeat things. What I wanted to do with the new company was see if we could spend that much effort and creativity coming up with ways to actually protect networks. And that is kind of what we do now – we build software to help defend networks," says Meer about Thinkst.

Despite their consultancy and advisory services being in high demand, Thinkst is tightly focused on selling two products. The one product (which was niche when they first built it, notes Meer) provides companies with the ability to test their phishing defences and to build phishing antibodies into their organisation. The other product, The Canary (which is what Thinkst mostly makes its money from), is an intrusion detection system that lets organisations know as soon as their systems have been breached. One of the biggest problems organisations face when they are hacked is the lag time to actual detection of the hack – giving the intruders plenty of time to make the most of the attack. "We hope to solve this problem with Canary," says Meer.

Meer believes that much of the success he and the SensePost team initially enjoyed



TECH TALK WITH HAROON

The most terrifying thing about the digital age:
Right now, you can go online and study just about any subject you want, from the best teachers on that subject in the world. You can read their works, watch their videos and take their classes. Every passing [tiny question] that you have can be answered. In an age where all this is available on tap, I worry that we are actually wasting it by focusing instead on what Bono had for dinner. There's a famous comparison of Aldous Huxley vs George Orwell and the two dystopias they predicted for us. While most people fear an Orwellian future where overt censorship dominates our lives, I worry desperately about the hedonistic alternative predicted by Huxley, where we "amuse ourselves to death".

On 'Big Brother':
I am conscious of the fact that governments both need spies and need to be able to conduct some measure of policing. I think with most of these things, as long as there is sufficient oversight I am willing to go with it. In terms of South Africa, we have a problem because we have become a consumer of the world's technology, so if our software is spying on us, even if we know it, we don't have alternatives to use. You can't truly be a sovereign nation if everything runs on software that you buy from potential enemies.

The most exciting thing about the digital age:
In some ways, it's pretty crazy how small the world has become through digital technology and the internet. We sell products to Fortune 500s based overseas while sitting in our offices in Cape Town. We have friendships and long-lasting relationships built up with people whom we've sometimes never met, continents away. While I worry a lot about SA getting abandoned on the dark side of the digital divide, I'm constantly amazed by how easily geographical divides can disappear thanks to technology.

Gadget(s) you cannot live without:
It will make me sound like a complete Apple fanboy, but I'm pretty dependent on the combination of my iPhone, iPad and MacBook Pro. ■

The Canary, Thinkst's network intrusion detection device, is one of its top-selling products.

came down to timing.

"None of this was planned. If you started doing internet stuff in 1994 – which was literally just when I got to university – there weren't many people who could say they had been doing it for longer (than us). So I just about started working when the industry kind of started. Even though we looked like we were 16 and nobody should have actually trusted us, there was nobody who could say they had 20 years more experience than us in the field. If you put in the hours, you were the expert at it, which ended up working out very well for us," explains Meer.

Of course, it helped that they were good at what they did, and as the business grew, so did the recognition as Meer and the work of SensePost became quite widely published. Meer has contributed to about six books on the subject of cyber security, has spoken at the industry's biggest international conferences – Black Hat and Def Con – dozens of times, and was invited to deliver the keynote address at Black Hat in 2015.

Is SA cyber savvy?

Given that a South African company is doing so well in the field, and is internationally renowned, how does the country measure up? Is SA business, for example, geared for cybercrime?

"Good questions, without great answers," says Meer. And this comes down to the fact that South African business is very split when it comes to being up-to-date with security technology.

"Our banks, for example, have always done surprisingly well. Most of the big banks can hold their heads up with just about any organisation in the world, which doesn't mean they are not going to get attacked or breached, it just means they are reasonably competent and are making good investments in cyber security," says Meer.

When it comes to other big business – like Eskom and Armscor – one will find that they do worse, and when it comes to government, cyber security competence dips sharply, according to Meer. He also points out that small- to medium-sized enterprises are pretty poor, but they are pretty poor all over the world.

"So, essentially [our overall competence

When it comes to other big business – like Eskom and Armscor – one will find that they do worse, and when it comes to government, cyber security competence dips sharply.

is] kind of all over the place."

But before this can be addressed, South Africa will need to address the lack of cyber experts and software engineers in the country to begin with – something Meer feels very strongly about.

"If I cast aside any humility, as SensePost or as Thinkst we achieved really good reputations internationally. People hear about us and know about our research. But at the same time, SA is certainly not creating enough of these sorts of skills," believes Meer.

Using his own career as illustration, he explains that although his background is cyber security, and is certainly Thinkst's area of expertise, a lot of what the company actually does is software development.

"I think it's there where SA is doing much worse than we should be, and it's sad because I think we have a lot of potential. And there are a lot of people that I would like to blame for it, but in particular I unapologetically blame our universities. I think our universities are doing particularly poorly at churning out guys who should be building the future, software wise," says Meer.

"In computer science in particular – and I will probably receive a fair amount of hate for saying this – we are dealing with a lot of really old professors whose teaching material was barely relevant 15 years ago." And he firmly believes there are increasingly fewer excuses for this to still be the case.

"Our universities are still teaching computer science almost as a purely academic pursuit. Nobody should leave university with a computer science degree not having built something for real."

For Meer this is particularly troubling, as he feels it robs the country of a rich possible source of income going forward.

"We should be coming out of university building stuff. We are becoming users of things that the rest of the world builds instead of becoming builders of things that the rest of the world uses."

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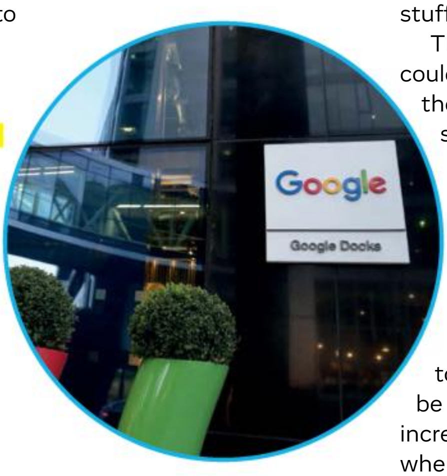

SA's lag could become permanent

To be fair, Meer believes that although our universities are in large part to blame for the current deficit, "we also have a cultural mindset that is putting us in huge danger right now".

And yes, things such as the high cost of data certainly plays a part, and speaks to SA's infrastructure limitation for innovation, but at the same time South Africans have access to the infrastructure that saw the likes of Snapchat and Netflix come into existence.

Says Meer: "If you look at a lot of [those] Silicon Valley mega companies, many of them started up and built completely on Amazon's or other infrastructure. This means they didn't have to start up by building data centres; they used a credit card and built this amazing platform."

South Africans can also access this infrastructure and Meer doesn't deem it prohibitively expensive, but this is something that doesn't form part of the way we think about developing tech, due to our historically poor infrastructure in this sector.

"If you look at how Google started, it was literally two guys that sat together and said: 'Let's download the internet.' And they literally downloaded the internet to their university computers and then played around with indexing stuff," enthuses Meer.

This isn't something someone in SA could have done at the time, even if they wanted to. At the time, it was a struggle to just download images from the internet. So building Google or starting an on-demand video service like YouTube was simply not conceptually possible.

And if SA's infrastructure in this regard continues to lag behind the rest of the world, "we are going to miss opportunities that we should be thinking of, and it will become increasingly likely that we hit a position where we will never catch up", laments Meer. ■

editorial@finweek.co.za

By Glenneis Kriel

King of the Caribbean

The story of Robertson and Caine's journey to success proves once again that a good reputation and strong networks are crucial when you start a new company.

In 1980, John Robertson started John Robertson Yachts in a garage in Zeekoevlei, about half an hour's drive from Cape Town. Ten years later, he and the late Jerry Caine left this company to start a new one, Robertson and Caine. Since then, Robertson and Caine has become one of the top-three catamaran builders in the world and the main supplier of catamarans in the North American and Caribbean markets.

It has launched more than 1 300 sailing catamarans and done over 8m blue water ocean miles of deliveries from South Africa. Its Leopard range has won numerous accolades, including the Cruising World Boat of the Year: Best Charter Boat in 2017, Best Full-Size Multihull Boat in 2013 and Best Cruising Multihull, Best Import Boat and Best Multihull Boat of the Year in 2012. But it has not always been smooth sailing.

The Moorings 4000 was branded as the Leopard 40 in private sales and won various awards in the *Sail* magazine's Best Boats Awards in 2005.

What did you do before you and Jerry started Robertson and Caine?

Sailing has been part of me for as long as I can remember. My dad was a sailor and I grew up in a house not far away from the yacht club at Zeekoevlei, which is a great playground for sailors, windsurfers and water sports enthusiasts. I learnt dinghy sailing there and as I grew older, progressed to keelboat racing. After school, in addition to racing, I built a couple of boats – dinghies and Dabchicks – on the side.

My biggest breakthrough was building the 30-foot racing yacht Impact, along with one of my sailing partners and mentor, Bobby Bongers. Impact was revolutionary, signalling a shift from heavy displacement to lighter boats. We kept the boat for a year or two and won all the top regattas and even a few inland races on the Vaal Dam with it.

Why did you start your own yacht-building company?

After a few gap years dominated by sailing, I decided to do a mechanical engineering diploma at the then Cape Technical College and did my practical year at De Beers in Kleinzee, south of Port Nolloth. At the time I just wanted to retire early and figured the only way to achieve this goal would be by starting my own business. So I started John Robertson Yachts in 1980, with the idea of building racing yachts.

At first the aim was to retire when I was 35, but when that came, it was 45 and then 55, until I got to a point where I could retire, retired for a day and realised it was not for me. My immature drive to make money shifted when I realised we could build nice boats and make money while doing it. The passion then shifted to building the best boats I could.

Robertson and Caine has launched more than 1 300 sailing catamarans and done over 8m blue water ocean miles of deliveries from South Africa.

How do engineering and boat-building link together?

Many people think that boat-building is all about carpentry and joinery, but it is primarily about engineering and systems. So the engineering qualification along with the experience I gained at Kleinzee came in very handy – Kleinzee was very isolated, so as an engineer it taught me to think for myself and work independently.

Where did you get the capital to start John Robertson Yachts?

I was in a motorcycling accident just after school and used the insurance compensation to finance the building of Impact with Bobby. Profit from the sale of Impact was used to help start John Robertson Yachts. The money made from that boat was used to finance the next boat and so on. At the time we were really struggling to make ends meet building yachts aimed at the racing industry. One of my friends then gave me the best advice ever. He told me to get off my high horse

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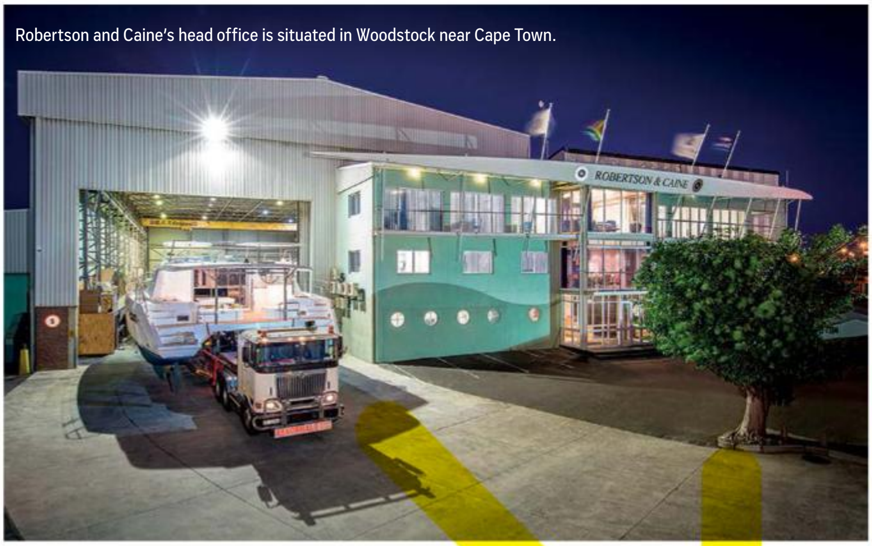


Robertson and Caine's head office is situated in Woodstock near Cape Town.

Their Leopard 48 won the *Cruising World* Best Full-Size Multihull Boat of the Year Award in 2013.

and rather build "mom-and-pop" boats – boats for the whole family to enjoy.

Jerry Caine joined John Robertson Yachts about five years after it was started. In 1990, however, we both decided to leave the company as our shares had become totally diluted as more and more people became shareholders.

Q&A:

So you used your share money to finance Robertson and Caine?

No, the cheque given as payout for our shares in John Robertson Yachts bounced. So we had nothing but our reputation, boat-building experience and knowledge when we started Robertson and Caine in 1991. Due to the shortage of cash, we started out making custom-built yachts, with progress instalments on the boat. It was pretty nerve-racking, as you never knew where the next order would come from. So we went back into production boats – where you build a beautiful boat at the right price and of the right quality so that it will be grabbed up by the market.

When did you have your first big break?

Around the mid-1990s an old friend of mine came to Cape Town to find a builder of catamarans for the yacht charter company The Moorings. The CEO of the company was at a boat show at the time where he saw one of our boats. He was impressed with our craftsmanship and the quality of the boat, so we ended up with an order for 10 cats. From there we received another order for 10 cats and that continued until we became the exclusive supplier of sailing catamarans for The Moorings.

What was competition like in South Africa and how has it changed over the years?

Because of extreme climatic conditions associated with our coasts, South Africa was associated with good sturdy boats when I entered the industry. We decided that we wanted to build on this reputation, but also add a little finesse to the product. Since then there has been a lot of change in the industry, with everybody raising their game and the country also becoming synonymous with luxury boats.

How has Robertson and Caine grown since you've started it?

We started Robertson and Caine in a rented workshop in Epping and moved to bigger spaces as our orders grew. Eventually we bought our own factory in Woodstock, which is still our headquarters, and today we also have another four production facilities around Cape Town.

We supply The Moorings and private clients with about 150 cats a year, which means we produce about four boats a week, and peaked at 180 cats one year. Where Jerry and I used to do all the work when we started out, the company now employs more than 1 350 people.

John Robertson
Co-founder of
Robertson and Caine

"We supply The Moorings and private clients with about

150

cats a year, which means we produce about 4 boats a week, and peaked at

180

cats one year."

Robertson and Caine's Leopard 45 won the *Cruising World* Boat of the Year Award: Best Charter Boat in 2017.

To what do you attribute your success?

I think our values – we place a very high premium on honesty and quality. Jerry was absolutely fanatical about quality and this rubbed off on me.

What was one of your biggest lessons or challenges?

In 2003 I most probably experienced the worst time of my life due to cash flow problems. The predicament was caused by the strengthening of the rand from above R10 against the dollar to between R6 and R6.50. Ironically, at this time when we really needed our overdraft, the bank decided to halve it, saying they were worried about our export business. On top of that, we were in the process of expanding our Woodstock factory, which gobbled up a lot of money, and one of our models was costing us more on each delivery than we were making from it. The situation proved once again that cash is king.

How did you get out of this predicament?

Good relationships with our buyers and suppliers were perhaps our saving grace. The Moorings paid us an advance for boats we had to build for them, which helped to cover our Christmas bonuses and salaries. And most of our creditors gave us extended terms.

How did the global financial crisis of 2008 affect your business?

Being an exclusive supplier to The Moorings is probably a strength and a weakness. It is risky, as it might result in us sitting without a market if The Moorings had issues of their own or changed their business model. But it is also an advantage. The Moorings has a fleet of 800 boats that consistently need to be replenished. Many small companies went bust during the recession and sales of big companies declined by up to 80%. Our sales, thanks to our contract with The Moorings, in contrast only declined by 20% during that time.

What is one of the biggest challenges in the industry at the moment?

Cape Town used to have a great reputation for building boats due to its huge pool of skilled craftsmen and old-style tradesmen. Over the past two to three years, however, it has become increasingly difficult to find skilled and experienced tradesmen, as if that pool has dried up.

I think the industry might have become stigmatised. Old hands are retiring while young people rather want to get into white-collar work, like become computer experts, lawyers or accountants, than work with their hands. It is a shame that tradesmen are not as revered here as they are in Europe.

What are you doing to salvage this situation?

We have initiated training programmes to address the situation. By doing so, we are investing in our industry and community.

What are your plans for the next two years?

Following a couple of years characterised by very rapid growth, the company is heading towards a consolidation phase. During this phase, we will aim to up-skill labour and further improve the quality of our boats. Being known for high quality, our Leopard brand has become associated with good value for money and our 45- and 50-footers have become top sellers in the US.

Even so, we are still bumping heads with the two French companies that dominate the market and have much older, more established brands than us. The only way to out-compete them would be by becoming the undisputable best. We would have to supply the best quality product at the lowest price.

You moved to Clearwater, Florida in 1999. Why?

First, we wanted to be closer to The Moorings to ensure our products stay in line with what they want. Since most of our boats were sold in the Caribbean and America, we also wanted to source more parts and equipment from the US, the idea being that it would result in better after-sales care. We used to import 80% of our product components from Europe. In spite of the move to the States, we still import more than 50% of our product components from there.

How has the move to America influenced the running of the business?

Jerry was killed in a motorcycle accident in 2000, just after I moved to America. It was a devastating time for me as he was one of my closest friends. Jerry was supposed to run the production side in SA, while I saw to the clientele in America. With him gone, I travelled between SA and the States, staying for two weeks in a country with each trip. We tried to headhunt new managers, but this did not work out. In the end, I started relying more on our senior management team and after a while realised we actually had a suitable person in the team to run the business from SA, Alet du Plessis. At the moment, the plan is that I only go to SA four times a year.

Do you ever think of moving the business out of South Africa?

No. We have considered building smaller boats some place else, since it costs between \$20 000 and \$25 000 to ship yachts to new owners from SA. Labour is too expensive in the US, so we have been thinking of Mexico or somewhere in the Caribbean. Up until now, however, South Africa always came out as the best option. ■

editorial@finweek.co.za

By Marcia Klein

Do you have assets in a trust? Listen up!

A new ruling by the South African Revenue Service now requires that donations to trusts be taxed if the lender does not charge interest.

Changes to the Income Tax Act have important consequences for anyone who has transferred assets into trusts. Trustees and creditors of trusts need to be aware that from 1 March, anyone who has transferred assets to a trust without being paid for it may have to start charging the trust interest, or be liable for donations tax.

When someone transfers assets to a trust without receiving fair payment, they can either donate the assets and pay donations tax of 20% of the market value of the assets, or sell the assets to the trust on loan account at an interest rate the trust would have to pay any other non-connected lender, like a bank.

It has become common practice for people to sell assets to a trust rather than donate them as this meant they were not liable for donations tax, which is 20% of the value donated above R100 000 a year. Generally, no interest was charged either because the trust may not have the liquidity to repay or because whoever transferred the asset did not want to pay tax on the interest.

"Typically, the scenario would have allowed you to 'write off' the loan and avoid donations tax through the annual tax-exemption on trust assets of up to R100 000," says David Thomson, Sanlam Fiduciary Services' legal adviser.

But Sars has deemed that the practice of not charging interest on such loans is akin to a donation, says Thomson, and lenders to trusts are now required to charge interest of at least the repo rate plus 1%, or else pay donations tax.

Thomson says the new regulation typically applies to family trusts (discretionary *inter vivos* trusts) – where trustees have the discretion whether or not to allocate benefits from the assets or capital to beneficiaries. This does not apply to a typical testamentary or vesting trusts, where trustees are obligated to transfer certain benefits to beneficiaries.

These trusts are generally set up during the lifetime of an estate planner and hold a wide variety of assets, which could include anything from a primary residence to listed shares or even shares in a private business or insurance.

According to Thomson, the income tax element has never been the major reason behind putting assets into trusts, but many people who set up trusts may have done so to limit estate duty.

Most people, he says, move assets into a trust to protect their assets from unanticipated events like insolvency or divorce. Most would have disposed of assets to the trust on a loan account, but never charged the trust interest. "The lender would write off the loan at R100 000 per annum, and on his demise he has got no asset and has saved estate duty."

The Cape Town headquarters of the South African Revenue Service

But now, for people who have a loan account where a discretionary trust owes them money, and where they are a connected person to that trust, they need to charge interest on the loan at prime plus 1%. If they don't do this, they will be deemed to have made a donation.

Thomson points out that you can use the R100 000 per annum to offset that deemed donation, which effectively means that for any loans under R1.25m, you effectively don't have to charge interest.

If the trust has the liquidity to pay back interest, then that interest needs to be declared on the lender's tax returns. The only other possible option available is to look at restructuring the trust if there is no need for it to be a discretionary trust.

Another thing to look out for, Thomson says, is that Sars has also indicated that the current interest rate of 8% will not always be the acceptable rate and that the lender must charge the rate the trust would have had to pay if the money was borrowed from a third party, like banks.

The new regulation makes setting up trusts less attractive from a tax point of view, but Thomson says tax is not the primary reason most people set up trusts. The most important reason, he says, is that it is an orderly way for people to manage their affairs and provides them with a level of comfort should they die or be incapable of managing their assets. Trusts provide peace of mind and protect assets from risk. The trust assets are not in your name, and therefore offers some protection from creditors, for example.

Trusts provide peace of mind and protect assets from risk. The trust is not in your name, and therefore offers some protection from creditors, for example.

"Trusts are generally a vehicle to distribute your assets in an orderly fashion and have responsible and skilled people looking after them for you," says Thomson, although there are many other reasons for setting up trusts, including charitable trusts for scientific research; bursaries for education and religious objectives, but those kind of special trusts would be exempt from the new regulations. ■

editorial@finweek.co.za

Gallo Images/Getty Images/Reuters

By Lloyd Gedye

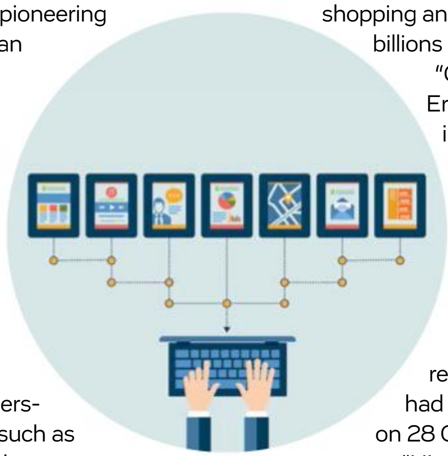
THE INTERNET

On Luddites and rational fear

The man who invented the World Wide Web was recently awarded the computing world's highest honour, but was highly criticial of the way the internet is used today.

The man credited with inventing the World Wide Web has received the 2016 Turing Award, often referred to as the Nobel Prize of the computing industry.

The Brit Sir Tim Berners-Lee was honoured by the Association for Computing Machinery (ACM) and receives a $1m prize courtesy of Google. He is recognised for pioneering the Web in 1989, while working at the European Organization for Nuclear Research (CERN).



Basic building blocks of the internet as we know it, such as the language for webpages HTML, the communications protocol HTTP and the naming scheme URLs were designed by Berners-Lee. He also coded the first internet browser using open source software.

"The first-ever World Wide Web site went online in 1991. Although this doesn't seem that long ago, it is hard to imagine the world before Sir Tim Berners-Lee's invention," said ACM president Vicki L. Hanson. "Sir Tim Berners-Lee not only developed the key components, such as URLs and web browsers that allow us to use the Web, but offered a coherent vision of how each of these elements would work together as part of an integrated whole."

In an interview with the BBC after the announcement, Berners-Lee criticised attempts to weaken encryption on devices, threats to net neutrality and raised concerns about online privacy, which he says is a "basic human right".

"Connect it to these cellphones, you've got a total web of surveillance, inescapable."

Reading the comments of the man credited with inventing the internet as he talked about the concerns he has for the way the internet is heading, was comforting.

It's something I have been thinking about a lot lately, particularly because I just finished reading Thomas Pynchon's *Bleeding Edge*, published in 2013. The novel is set in 2001 New York pre-9/11, and centres around Maxine Tarnow who runs a fraud investigation agency called Tail 'Em and Nail 'Em. Maxine is asked to look into an IT security firm called hashslingrz and soon finds problems with the company's books and relationships with potential terrorists.

While the narrative arc is great, the book very clearly deals with fears and anxieties about what it means for the virtual world to seep more and more into the material one.

As Maxine's father, Ernie, says about the internet: "This magical convenience that creeps now like a smell through the smallest details of our lives, the shopping, the housework, the homework, the taxes, absorbing our energy, eating up our precious time. And there's no innocence. Anywhere. Never was. It was conceived in sin, the worst possible. As it kept growing, it never stopped carrying in its heart a bitter-cold death wish for the planet, and don't think anything has changed, kid."

Maxine retorts that the internet is just chat rooms and online shopping and then adds something about it empowering billions of people with the "promise of freedom".

"Call it freedom, its based on control," retorts Ernie. "Everybody connected together, impossible anybody should get lost, ever again. Take the next step, connect it to these cellphones, you've got a total web of surveillance, inescapable."

Ernie's pessimistic view would have many label him a Luddite, but you have to admit it rings true in 2017, where spying exposés abound.

Curiously, I discovered through a book review of *Bleeding Edge* that Pynchon in fact had an article published in the *New York Times* on 28 October 1984, titled *Is It O.K. To Be A Luddite?*

"Historically, Luddites flourished in Britain from about 1811 to 1816," wrote Pynchon. "They were bands of men, organized, masked, anonymous, whose object was to destroy machinery used mostly in the textile industry."

Pynchon says it isn't clear if the Luddites actually used the term to describe themselves, but it was often used to polemically refer to them, implying an irrational fear and hatred of science and technology.

He argues that their more modern descendants have misunderstood these Luddites. "The knitting machines which provoked the first Luddite disturbances had been putting people out of work for well over two centuries. Everybody saw this happening – it became part of daily life. They also saw the machines coming more and more to be the property of men who did not work, only owned and hired," wrote Pynchon.

This was the first time I had ever come to grips with the origins of the word "Luddite". When I thought about these Luddites as revolutionaries in the context of a labour struggle, it gave me a whole new perspective on the word.

So the next time someone calls you a Luddite because you point out how the adoption of technology is causing worker exploitation, acts of violence or any other social ills, you don't have to feel like these points are irrational – in fact, the opposite is true. ■

editorial@finweek.co.za

Getty Images/iStock Images

By Glenda Williams

The biggest Mini ever

The not-so-mini second-generation MINI Countryman is longer, wider and higher. And more SUV-like.

It is clearly still a Mini, just a much bigger and more sophisticated version of its namesake, the dinky 1960s Austin Seven Countryman that was at best no higher than the wheels of a heavy-duty truck.

Albeit less cute and cheeky, this MINI Countryman is still playful, versatile and practical. And that appeals to singletons and families alike, even those outside the Mini fan club.

Maximising the Mini crossover

The first-generation Mini Countryman launched in 2010 was the first Mini with four doors, a large tailgate, five seats and optional all-wheel-drive. It might have been significantly larger than the 1960s model, but this second-generation MINI Countryman is even bigger. It's the biggest Mini ever.

It's 200mm longer, 30mm higher, 30mm wider and ground clearance has improved by 25mm. All this, together with a wheelbase that has been extended by 75mm, has allowed for a seriously spacious five-seater with improved luggage capacity.

This premium compact crossover now has genuine family appeal, essential to keep Mini lovers within the brand's fold as well as broaden its appeal as a first family car. Its crossover/SUV capabilities too are likely to charm the adventurous.

Two front-wheel-drive models, the 6-speed manual or automatic 3-cylinder 1.5-litre MINI Cooper Countryman and 6-speed manual or 8-speed auto 4-cylinder 2-litre MINI Cooper S Countryman, have made their way to local shores.

Both models are fun to drive but, unsurprisingly, it is the spirited Cooper S Countryman that elevates the excitement quotient.

Beefed-up Countryman

Once upon a time the small, cute, low-cost cult car was renowned for its perky, fun-loving personality rather than its offerings. Today there is no mistaking that this is a premium vehicle.

Almost everything on the second-generation MINI Cooper S Countryman has been beefed up. Even the car's facial message has more of an "I mean business" look about it.

The sporty, retro-inspired cockpit manages to capture the quaint charm of past models.

It's substantial and chunky-looking, the car's short overhangs and large wheel arches endowing it with an athletic stance, its aluminium roof rails further emphasising its height and amplifying its crossover characteristics.

The sporty, retro-inspired cockpit manages to capture the quaint charm of past models. There's some real interesting stuff on the inside, not least of which are the aviation-inspired console toggle switches, race-inspired gauges and pedals and the optional larger 8.8" colour touchscreen with its LED ring surround.

The user-friendly touchscreen dominates the dashboard of this versatile premium compact car.

The large, orb-like touchscreen is the dominant dashboard feature. And it works a treat. It is very sensitive to touch and very user-friendly.

Playfulness, so inherent to the Mini brand, has not been entirely lost, like the graphic of the MINI Countryman wearing sunglasses to display outside temperature.

All models come standard with a 3-spoke leather sport steering wheel and comfortable yet supportive leather and suede-like front sports seats. The seating position is a fairly low-slung sporty one, all switchgear within easy reach of the driver or a thumb away on the multifunction steering wheel.

Infotainment offerings and smart connectivity solutions are plentiful. The MINI Connected App acts as a personal assistant and allows you to listen to your favourite radio station in the world; the MINI Find Mate is used to track down frequently

COMING UP:
- A 4-cylinder, 110kW/330Nm, 2-litre TwinPower Turbo diesel engine variant arrives in Q3 of 2017.
- Come June, the all-wheel-drive MINI Countryman John Cooper Works model will be available locally.

COMPETITORS:
- Targeted at the compact segment, the sporty MINI Countryman will be going up against competitors like the Audi Q2, Mercedes GLA and VW Tiguan.

MINI BITS:
- One in four MINIs sold is a Countryman.
- 540 000 units of the first-generation Countryman were sold worldwide.
- SA's MINI Countryman models are built in the Netherlands.

used objects connected to the system; and the MINI Country Timer measures driving fun over demanding terrain.

Fun aside, the MINI Countryman also has a serious side, offering a host of driver assistance systems. Collision warning with city braking comes standard. This can be extended to include the Driving Assistant system with camera-based active cruise control, pedestrian warning with initial brake function, high beam assistant and road sign detection. Park Distance Control, rearview camera, Parking Assistant and head-up display are also available as options.

This beefy compact crossover is versatile and practical. Cabin space is now significantly more generous, even for those in the rear. So too is loading space. By folding the rear seats capacity can be increased to 1 390 litres, a 220-litre improvement over the first generation.

A nifty addition to the luggage compartment is the MINI Picnic Bench, a foldout loading sill cushion that provides seating for two people on the compartment lid.

Even the business of opening the tailgate is made easier through the optional "touchless" electric tailgate control, a foot-waving movement under the rear bumper.

Country cruising

The Cooper S's 2-litre turbo engine is really perky, the test model fitted with the 8-speed automatic gearbox and steering wheel-mounted shift paddles that allow for a significantly more dynamic and spirited driving experience than that offered by the less zesty 6-speed Cooper model. And of course, exhaust note from the dual exhausts on the Cooper S is throatier.

Power delivery is keen and smooth – important for cheeky overtaking – the gear changes slick, and while steering does not feel quite as true as its predecessor, it does tighten under braking.

The Servotronic function on the electrically assisted electronic power steering (EPS) adjusts the amount of steering assistance to suit the current speed. I, though, prefer driver input directness like that offered by the basic EPS system on the first generation.

This playful, not-so-little cult car loves to stretch its legs on the highway, feeling more planted at speed, and enjoys showing off its zippy capabilities in an urban environment.

Images: Supplied

TESTED: MINI COOPER S COUNTRYMAN

Engine: 2.0-litre 4-cylinder TwinPower Turbo
0-100 km/h: 7.4secs
Top speed: 224km/h
Power/Torque: 141kW/280Nm
Transmission: 8-speed Sport automatic
Fuel/tank: Petrol/51 litres
Fuel consumption (claimed combined): 6.5 litres/100km
CO_2 emissions: 149g/km
Luggage compartment: 450 litres
Ground clearance: 165mm
Turning circle: 11.4m
Safety: Six airbags
Warranty/Maintenance plan: 5yr/100 000km
Price: R509 500 (incl. VAT, excl. CO_2 tax)
Entry-level Countryman model – R422 000

The Countryman comes with the option of a **picnic bench** that provides seating for two on the compartment lid.

Fittingly for a crossover/SUV, it was mostly in the undulating and challenging terrain of the KwaZulu-Natal countryside that the car was put through its paces.

From twisty, pot-holed tar roads dotted with livestock and children, to the slippery sands of the gravel roads that wind their way through the sugar cane fields and forests, the MINI Cooper S Countryman proved its mettle as a compact crossover.

Sport mode was put to good use not only on the twisting and undulating tar surfaces, but also on the thicker, loose gravel on the route. Even with the chunkier alloy wheels fitted to the Cooper S Countryman, it was here that the vehicle tended to feel a tad wallowy in the normal mid- or green-configured mode. But sport mode gave the added bite, agility and tighter steering necessary to negotiate the unique challenges that come with gravel surfaces.

The suspension, too, is a tad more refined than its predecessor. Still firm, but ride quality has improved, comfortable even over the hard-packed corrugations that one of the gravel sections dished up. Handy too to aid visibility in dusty conditions are the Countryman's fog lamps.

This new Countryman has succeeded in preserving the essence of the Mini brand while still managing to combine a premium offering with versatility, practicality and space.

But a superb build quality, smart technology, premium refinements, SUV qualities, increased space and extended standard offerings come at a price that is not quite as mini as it was in bygone days.

Refinement also brings with it less emotional connectivity. But that perhaps is less important with a family car and to the generations currently on the road who have come to expect refinement over personality. ■

editorial@finweek.co.za

By Amanda Visser

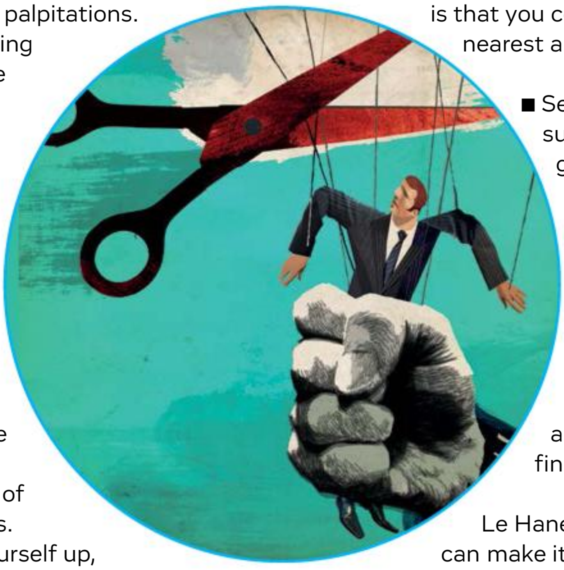
How to prepare for career disruptions

We live in volatile times, and uncertainty extends to all aspects of our lives. What steps do you need to follow to ensure that you are prepared for career upheaval?

People are increasingly finding themselves at a crossroads in their careers. This can be attributed to retrenchment, dismissal or being sidelined to accommodate younger and, of course, cheaper workers.

When it happens, it feels like the end of the world, especially when the person involved is in their 50s. "It obviously is not," says Simone le Hane, executive coach at Change Partners.

However, the immediate reaction is to panic. To feel lost. To feel out at sea, all alone, with the wind howling and the waves crashing down on you. It has a physical impact on people. They get palpitations. Panic overwhelms them. Their sleeping patterns are disturbed, and they lose their appetites.



Le Hane says that in this tumultuous time, it is critical to remember that you do have options and you do have choices. "Even if you are in your 50s, you still have another 20 years to work. We no longer retire in our 60s. We go well into our late 60s and even early 70s."

Remember the life story of KFC's Colonel Sanders. At the age of 66 he was left with $105 when he sold his first restaurant at a loss. By the age of 88 he was a billionaire, Le Hane says.

But how do you "roll over, pick yourself up, dust yourself off and move on"?

There are certain "no-go areas". One is not to panic or to brood, says Le Hane. "Nurture yourself by maintaining a healthy diet and by exercising. It costs money when you are ill."

She stresses the importance of staying healthy – in body, mind and soul – by exercising, eating healthily and developing good values and spiritual wellness.

"All this builds resilience to be able to bounce back. Resilience is about taking charge of your own life. It is about not blaming yourself or other people for what happened. You just take charge."

Also, do not exclude or try to protect the family or partners from the truth of the situation. There is also the dangerous temptation to resort to alcohol or drugs.

"If you are feeling down, it is okay, but reflect on how you are nurturing yourself and how you are taking care of the family to make sure they are also okay," she says.

The next step is to take stock of your options by reviewing your CV and sending it off, or you may even consider starting your own business. This can all be done at the same time. You don't have to pursue only one option, Le Hane says.

Her advice is to seek support:

- It may come in various forms, but what is vital is that you communicate. Start by talking to your nearest and dearest.

- Seek support outside the family, such as a therapist or a coach, but get psychological support. Often companies that are retrenching staff offer a wellness programme or additional support to assist with the transition out of the company or out of the sector.

- Seek support from your financial adviser. Review your financial situation and start looking at options from a financial viewpoint.

Le Hane says there are sure signs that can make it appear as if the bottom is about to fall out from under you. It may be that your company is restructuring and the "invitation" to take a voluntary retrenchment package or early retirement keeps surfacing. You may also sense that you are not adding the same value as what you did when you were a lot younger.

People also reach a comfort zone and are ready to slow down, or may simply not have reinvented themselves or acquired new skills.

"You no longer associate with the values or the culture of the organisation, where the organisation had to change and had to reinvent itself. There is no longer a feeling of belonging to the family," she says.

Many people actually see the storm coming, but are unprepared for the waves when they engulf them. Le Hane says there are ways to prepare for

Gallo Images/Getty Images

“Resilience is about taking charge of your own life. It is about not blaming yourself or other people for what happened. You just take charge.”

such upheavals.

“Even if you have been bowled over, you can put blocks in place to prevent yourself from being crushed, again. The chances of it happening again are quite good – no matter how good you are at your job or running your business. You need to be prepared for it.”

Some of the competencies that is worth developing – even in young children and young adults – include:

■ **Resilience**
The ability to survive hardship and difficulties. Adversity does not need to be your enemy. You got the lemons – make that lemonade.

■ **Agility**
Learn to be flexible and humble. It is fine to stumble and fall. Leave your ego in the dust and pick yourself up.

■ **Nurture yourself**
Always be kind to yourself. Accept the fact that “life happened”. It may feel as if you are the only person who is suffering, but if you talk to people, you will realise that many others have been where you are.

■ **Gratitude**
Despite all the difficulties, there are good things. It might be “little” things such as being healthy, having a supportive family and friends, or having no or little debt.

■ **Diversify**
Inculcate the habit of generating multiple income streams, whether it is passive income in the form of rental or dividend income, or baking cakes over the weekend and selling them. That is the future. The notion of one job for life can no longer be entertained.

■ **Plan**
Whether it is financial, career or life planning, it is important to have a plan. It helps to live life more intentionally, even if your plans don’t work out perfectly. ■

editorial@finweek.co.za

Have you been paying attention to the news recently? How’s your general knowledge? Let’s see how you do in this week’s quiz. The answers to this quiz will be published on fin24.com/finweek on 24 April.

1 Of which African country is Yoweri Museveni the president?

2 Who founded the internet?
- Ajay Bhatt
- Tim Berners-Lee
- Mary Price

3 **True or false?** Three South African teams are to be culled from the Super Rugby tournament.

4 During the anti-Zuma marches on 7 April, a group of people gathered in front of Luthuli House to defend the president. Which organisation did they belong to?

5 Which country’s flag does not feature a star?
- Mauritius
- Democratic Republic of Congo
- Morocco

6 **True or false?** Rating agency Fitch has also downgraded South Africa.

7 **True or false?** Tesla Motors’ market cap is now larger than that of General Motors.

8 What was the most recent edition of *Collective Insight* about?
- Investing in Africa
- Stocks for uncertain times
- How to invest offshore

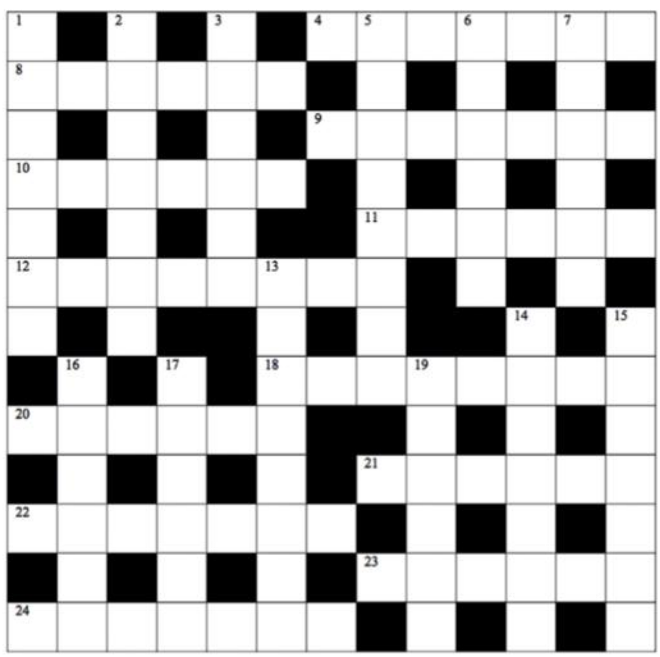
9 Which US airline made headlines recently after a passenger was forcefully removed from an overbooked flight?

10 **True or false?** President Jacob Zuma and former finance minister Pravin Gordhan share a birthday – 12 April.

CRYPTIC CROSSWORD NO 676JD

ACROSS
4 Recasts play to feature tragedienne (7)
8 Teasing from the opening of the eye (6)
9 Fellows indeed mistakenly corrected (7)
10 Very old, cross and conservative (6)
11 Favoured old writer being brought back temporarily (6)
12 Rat in ditch rolling around (8)
18 Farewell breakfast? (8)
20 End of French roll, we hear (6)
21 Detail soldiers to make component (6)
22 Making a mistake about a piece of jewellery (7)
23 Back the Spanish article the editor tipped (6)
24 Respond verbally to accountant’s facsimile (8)

DOWN
1 Ripped through a party like a whirlwind (7)
2 Polish off his cigarette first (7)
3 Talk at length to thrash out treaty (6)
5 Business dealings (8)
6 Warden managed to get time off to run (6)
7 Make strides exercising in open country (6)
13 Change of tent and commanding officer in charge of building (8)
14 Log enrolled nurse out of hearing (7)
15 Up a step (7)
16 Tear apart deliberately (6)
17 She caught a luxury ride, getting on penniless (6)
19 Removed recorded material from *Times* editor (6)



Solution to Crossword NO 675JD
ACROSS: 1 Equivoke; 5 Apse; 9 Fight; 10 Nest egg; 11 Foil; 12 Irrigate; 13 Learned friend; 18 Scallops; 19 Daft; 20 Thinner; 21 Namib; 22 Opts; 23 Star turn
DOWN: 2 Quixote; 3 Inhaler; 4 Kindred spirit; 6 Predate; 7 Egghead; 8 Ashier; 13 Lesotho; 14 Arabist; 15 Nylons; 16 Indraft; 17 Niftier

On margin

Understanding HR speak

Following the recent downgrades by international rating agencies, economists have cut their growth forecasts for South Africa for the next two years, which will make it even more difficult to find that perfect new job.

Here's what companies really mean with their job ads:

- **"Competitive salary":** We remain competitive by paying less than our competitors.
- **"Seeking candidates with a wide variety of experience":** You'll need it to replace three senior people who just left.
- **"Must be deadline-orientated":** You'll be six months behind schedule on your first day.
- **"Duties will vary":** Anyone on the board can boss you around.
- **"Must have an eye for detail":** We have no quality control.
- **"Career-minded":** Female applicants must be childless (and remain that way).
- **"Problem-solving skills a must":** You're walking into a company in perpetual chaos.
- **"Requires team leadership skills":** You'll have the responsibilities of a director without the pay or respect.

Wedded bliss

A woman accompanied her husband to his doctor's appointment. After his check-up, the doctor asked to see the wife alone. He said: "Your husband is suffering from a very severe stress disorder. If you don't do the following, he will surely die. Each morning, make him a healthy breakfast. Be pleasant at all times. For lunch make him a nutritious meal. For dinner prepare an especially nice meal for him. Don't burden him with chores. Don't discuss your problems with him – it will only make his stress worse. No nagging. And most importantly, make love with your husband several times a week. If you can do all that for the next 10 months to a year, I think your husband will regain his health completely."

On the way home, the husband asks his wife: "What did the doctor say?"

"He said you are going to die."

In short

Team work is important; it helps to put the blame on someone else.

The worst time to have a heart attack is during a game of charades. – Demetri Martin

"Hold all my calls..."

Verbatim

GibraltarZA @GibraltarZA
I really want to forget Astoria! Makes me feel like a high-class cocaine kingpin who was somehow sold a tonne of icing sugar.

Frank Underwood @FrankUnderwocd
It's one thing to go down with the ship. It is quite another to insist that the *Titanic* is actually a submarine & everything will be fine.

Swayam Maharaj @Swayam_Maharaj
Cyril Ramaphosa never misses an opportunity to miss an opportunity.

Haji Mohamed Dawjee @Sage_Of_Absurd
I would LOVE to know what Zuma has over the #ANCWC besides all their testicles in a jar that he keeps anchored in the firepool at Nkandla.

Tom Eaton @TomEatonSA
Motion of No Confidence scheduled for April 18 at 14h00. 500 000 despairing tweets scheduled for April 18 at 14h30.

Ferial Haffajee @ferialhaffajee
Why is a landless black people's movement protecting an Indian people's swish suburban compound? Scratches kop. Cat's out of Bel Pot bag.

Darrel Bristow-Bovey @dbbovey
Andile Mngxitama's only regret is that he had just one soul to sell.

> **"In youth we learn, in age we understand."**
> – Marie von Ebner-Eschenbach, Austrian writer (1830-1916)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