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WILL TECHNOLOGY RENDER LAWYERS OBSOLETE?

from the editor

JANA MARAIS

"When will the economy take a turn for the better?" a worried friend who recently started his own business asked over the weekend. All the latest numbers continue to head in the wrong direction: the Reserve Bank cut its growth forecast for 2016 to 0%; applications for vehicle financing showed the steepest monthly drop in seven years in June; Barclays Africa recently reported a 77% increase in first-half home-loan impairments.

While the Reserve Bank expects growth in SA to be back in positive territory next year, its forecast of 1.1% will be insufficient to create jobs, restore the confidence of business or consumers or attract investment on any meaningful scale.

But it is increasingly the state of the world economy that is making me worry. The World Bank cut its global growth forecast to 2.4% this year, compared with 4.4% in 2006. Initial second-quarter data shows the US economy grew 1.2% quarter-on-quarter, substantially below market expectations of growth of 2.6%. In the eurozone, GDP increased by only 0.3% in the second quarter, down from 0.6% in the first quarter.

> The World Bank cut its global growth forecast to
> **2.4%**
> this year, compared with 4.4% in 2006.

In Japan, where the central bank has already cut the benchmark interest rate to below zero in an attempt to stimulate the economy, Prime Minister Abe Shinzo on 2 August announced financial measures to the tune of $274bn (more than 5% of Japan's GDP), nytimes.com reported.

Like Japan, other major countries may also soon find that monetary policy will not be sufficient to kick-start their economies. But due to massive debt burdens, fuelled by cheap post-financial crisis credit, there may be too little fiscal space to make much of a difference either.

Since 2008, total public and private debt in major economies has increased by over $61tr to more than $200tr, or about 300% of global GDP – an increase of more than 20 percentage points, according to the *Financial Times.* Say the average interest rate is 2% – then a 300% debt-to-GDP ratio means the economy needs to grow at a nominal rate of 6% just to cover interest, the paper said.

It quoted the late economist Ludwig von Mises: "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

Suddenly that 1.1% growth forecast for SA next year looks optimistic, doesn't it? ■

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By Johan Fourie

LEADERSHIP

How 'movers and shakers' move and shake

New research shows that a large network of social relationships has a huge impact on an individual's opportunity to make a difference in the world.

We know them well, those people who make things happen. Leaders, entrepreneurs, creators, builders, movers and shakers. Those who see opportunities where others might not, or take risks when others won't. Some have built – or are building – global empires. Think Elon Musk or Jeff Bezos. Others make things happen on a smaller scale, perhaps in less glamorous industries or with a preference to avoid the limelight. But they are active: building a business, a political movement or fighting for a social cause.

Economists have been slow to understand what makes successful movers and shakers. Our theories generally assume that where profitable opportunities exist, a competitive market will allow entrepreneurs to fill the void. We care little about explaining the characteristics of those entrepreneurs who are the first to see the gap in the market, and then manage to beat the competition. That is, until now.

Robert Akerlof
Economics professor at the University of Warwick (UK)

A forthcoming paper in the *Quarterly Journal of Economics* attempts to do just that. The authors, Robert Akerlof (son of Federal Reserve Chair Janet Yellen and Nobel Prize winner George Akerlof) and Richard Holden, constructed a mathematical model that has two types of agents: managers (or entrepreneurs – the "movers and shakers") and investors. The managers form social connections with investors and then bid to buy control of an investment project. The winning bidder then has to make other investors aware of the project, and these investors then have to decide whether to invest in the project or not.

Using network analysis in their crime fighting strategy, they suggest, the police can reduce crime by **37%.**

The model shows that of the many managers who start, there is only one "mover and shaker" who emerges victorious, and that this manager earns a high payoff for doing so. The noteworthy contribution is that the success of this "mover and shaker" depends on their network: "the most connected manager ends up controlling the projects".

Richard Holden
Professor of Economics at UNSW Australia Business School

Other qualities, like a manager's skill at running a project, their talent in communicating with investors, and the amount of capital they have personally, will also influence the outcome. But, most importantly, a larger network of connections may often compensate for a deficiency in one of these other dimensions.

The authors use William Zeckendorf, a well-known US property developer in the 1950s and 1960s, as a case in point. Zeckendorf was responsible for many ambitious building projects in the US and Canada, and his autobiography attributes his success to his social connections: "the greater the number of ... groups ... one could interconnect ... the greater the profit".

Akerlof and Holden's model provides theoretical support for the increasing body of empirical evidence that shows that social networks matter. What is clear, though, is that it is not necessarily the number of connections that matter, but the quality of those connections. In a recent summary of the literature on social networks, Matthew Jackson, Brian Rodgers and Yves Zenou argue that the network structure of a society can have large implications for how innovation and new ideas spread. "Not only does the average number of relationships per capita in a society matter, but also higher variance in connectivity matters since highly connected individuals can serve as hubs that facilitate diffusion and contagion."

Understanding the network structure of a society is therefore essential for businesses and policymakers. At the most basic level, marketers may find that a customer's decision to buy is heavily influenced not only by the price or quality of the product, but who their customers are shopping with. (My grocery basket looks remarkably different depending on whether I go shopping with or without my wife.) At a more macro level, policymakers should realise that networks can have a significant impact on the success of policies ranging from education, public health, segregation, finance and even policing.

It is not necessarily the number of connections that matter, but the quality of those connections.

Let's take the last-mentioned as an example. Movers and shakers operate, of course, not only within the bounds of the legal economy. The mafia is a classic example of the success of an interlinked network. Using Swedish criminal records, two researchers at Stockholm University have shown that if the police target "key players" – i.e. the mafia bosses – in the criminal network, they can reduce crime much more than if they just focus on tracking the most active criminals or, worse, just track any criminal without considering their position in the network. Using network analysis in their crime fighting strategy, they suggest, the police can reduce crime by 37%.

From criminal networks to political networks to business networks, identifying movers and shakers, and the reasons for their success, can be a very useful strategy in fighting crime, securing votes or boosting profits. But networks vary across many dimensions, and so too its applications; size, clearly, isn't everything. Understanding network structures in a diversity of social settings will be a fruitful avenue for future interdisciplinary research; fertile ground for the next academic "mover and shaker". ■

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Images: www2.warwick.ac.uk/fac/soc/economics/staff/rakerlof/ www.research.economics.unsw.edu.au/richardholden/


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By Alicestine October

POLITICS

Show us (the source of) the money

With parties spending up to R1bn (in the case of the ANC) on their recent election campaigns, it is vital that the public be informed where this money originates.

A slogan of "R1, one vote" is probably just as dangerous as the contentious "One bullet, one settler" – at least for our democracy.

Until political parties lift the veil on who funds them, voters may as well have a ballot paper stuffed in their hand and vote in pitch darkness and make their crosses willy-nilly. It really does not matter, because it's probably not even voters to whom politicians are accountable.

According to reports, the ANC has spent about R1bn on its election campaign – a figure that the party's treasurer-general, Zweli Mkhize, is now denying after the party's election head made this amount public. EFF leader, Julius Malema, has in turn boasted that his party has conducted its campaign with a mere R10m. According to the IFP, its campaign has cost the party between R10m and R20m.

Julius Malema
Leader of the EFF

But political parties are not always this generous with their financial information, especially when it comes to private donations. This is why the organisation MyVoteCounts has approached the Western Cape High Court to declare sections of the Promotion of Access to Information Act invalid and unconstitutional because it does not make provision for political parties to record and divulge their donations.

Money and politics are like a toffee pudding that often firmly sticks to the long fingers of politicians. From the country's most recent history, the Gupta saga clearly showed how politicians can get bogged down in the mud when they apparently show loyalty to donors and not the voters who elected them.

Democracy is most effective when it's open and transparent.

The rules of democracy are clear – rule by the people for the people. When voters cannot see what's happening in a party's coffers, they should ask themselves who is pulling the strings of their representatives behind the scenes, and to whose tune they are dancing when important decisions are made and tenders awarded. About 26.3m South Africans were registered to vote on 3 August and we may rightly ask: "With how much information will voters make their crosses?"

When MyVoteCounts officially asked political parties by email who their private donors were, most of them refused to answer and clearly stated that they were not legally obliged to divulge donors' identities. This included the opposition parties who make a big noise in Parliament about an open and transparent government on a daily basis. Some parties did not react at all and some asked for a postponement.

About
26.3m
South Africans were registered to vote on 3 August.

Although political parties are obliged to report annually on state monies received from the Independent Electoral Commission and Parliament, there is no law that forces them to do so with private donations.

The separation of private and public monies is artificial. Political parties' visibility during election campaigns and the impact they make still largely depend on how full their coffers are. Smaller political parties always complain, election after election, about the uneven playing field in terms of money and also media coverage.

So how political parties perform at the elections largely depends on how successful their election campaigns have been, which naturally require money. The amount of money that political parties eventually receive from Treasury (taxes) depends on the number of seats they win. Political parties' "feeding tube" therefore becomes an expensive cycle where they must have money to win seats and to get more money (taxes).

And even the process involving the taxes that parties must report on annually is flawed. Political parties receive money from Parliament based on the number of seats they've won, and this money is largely appropriated for constituency work.

Yet Parliament has constantly admitted upon enquiry that it does not have a comprehensive list of addresses of constituency offices that must be run with this money. Some political parties do not even have physical offices in their constituencies, and this begs the question whether the money is in fact being used for its intended purpose. This while there is a legal framework (with loopholes) within which they must report on these taxes.

The point is – also with private donations – there shouldn't be a "yes, but" reaction from political parties who have nothing to hide. Democracy is most effective when it's open and transparent. Another reason put forward by political parties about why they keep their finances largely secret is that they do not wish to alienate and scare off their donors. They say donors want to keep their identities secret.

But why do this in a country where alarm bells ring daily over creeping corruption and tender fraud with tax money; is a certain set of values valid for one sector, but not for another? Political parties and those (individuals, organisations, businesses, foreign investors) who want to "donate" money under the table are hypocritical in their reasoning.

MyVoteCounts says in its requests for information about who the donors are, and when the donations are made, that these private donations are usually made in an election year.

This year is an election year and, once again, voters voted without having this important information without which they cannot hold their representatives accountable. Should MyVoteCounts' latest court application be successful, this will hopefully be the end of it. ■

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Alicestine October is a parliamentary reporter at Netwerk24.

in brief

"SOUTH AFRICAN INVESTORS WOULD DO WELL TO STOP AND WONDER WHY SO MANY UK AND EUROPEAN LISTED PROPERTY COMPANIES WANT TO LIST IN SA. FEED THE QUACKING DUCKS."

– **Shaun le Roux, portfolio manager at PSG**, comments on Twitter. British retail property group Hammerson, with a £9bn portfolio of retail and leisure assets predominantly in the UK, France and Ireland, as well as Echo Polska Properties (EPP), in which Redefine Properties holds a 49.9% stake, are planning inward listings on the JSE in September, according to *Business Day.*

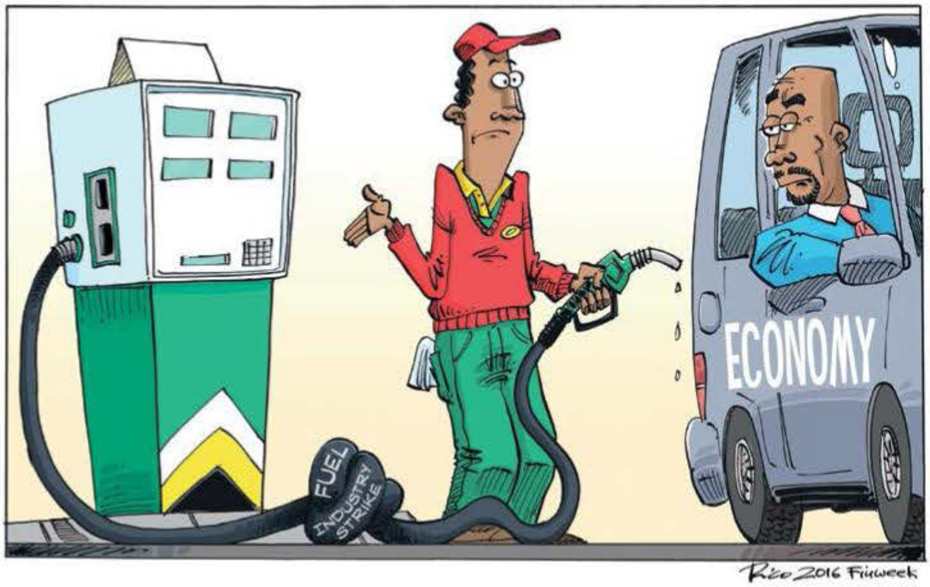
"TIMES ARE PRETTY GOOD RIGHT NOW, BUT IT'S QUESTIONABLE HOW LONG IT'S GOING TO LAST."

– **Bob Hammer, veteran credit card consultant**, comments in an interview with the *Financial Times* on ballooning credit card debt in the US. Banks have increased card loans and other types of revolving credit by about $18bn in the past three months to $685bn, the fastest pace since 2007, triggering concerns that they are taking on too much risk in a slowing economy, ft.com reported. The increase reflects a seasonally adjusted annual rate of 7.6% in the second quarter, it said.

"Is it a pleasant task to be given the responsibility to negotiate the sale of a company as iconic as SABMiller? No, the honest answer is that it's really hard. It's not something I enjoy."

– **SABMiller chairman Jan du Plessis** in an interview with the *Financial Times*, after the SAB board got rival AB InBev to raise its cash offer to shareholders once more – this time to £45 a share in cash. AB InBev originally offered £38 a share in October last year.

DOUBLE TAKE — BY RICO



THE GOOD

Petrol prices were set to decrease by 99c a litre from 3 August, bringing the total decline in the petrol price since the peak in April 2014 to R2/l. The price decrease will reduce the monthly consumer inflation rate by "a very significant 0.4 percentage points, which will help to ease inflationary pressure and allow the Reserve Bank to leave interest rates unchanged for an extended period", said Stanlib chief economist Kevin Lings. However, other cost pressures are likely to still push consumer inflation over 7% in late 2016, he warned.

THE BAD

US GDP grew by 1.2% quarter-on-quarter in the three months to end June, well below market expectations of 2.6%. Although consumer spending increased by 4.2% year-on-year, business investment fell by 9.7% in the second quarter, bbc.co.uk reported. The US Federal Reserve said on 27 July that it was still on course to raise interest rates this year, but the weaker-than-expected GDP numbers mean this is unlikely to happen before December. Despite positive ramifications for SA, a slowing US economy is always cause for concern.

THE UGLY

SAA suffered a net loss of R1.38bn in the first quarter of the current financial year, despite cutting routes and jobs to save costs, *Business Day* reported. However, its cash flow position remains strong enough that it is unlikely that it would need to raise further funding for at least the next six months, the paper said. The airline's cash position is likely to make it more difficult to remove chairwoman Dudu Myeni in the short term. The last publicly available financial information from the airline is its 2013/14 annual report.

SA RECORDS TRADE SURPLUS

R12.5bn

SA's trade balance recorded a surplus of R12.5bn in June 2016, well ahead of market expectations of R8.8bn, but below May's surplus of R18.36bn. The value of imports increased by 7.6% month-on-month, or R6.6bn, driven largely by increases in oil, machinery and vehicle component imports. Exports were up by a mere 0.7%, or R0.72bn, driven in part by a 20% month-on-month jump in vegetable exports. The slowdown in import growth largely reflects the slowdown of the local economy, rather than an improvement in import substitution, Stanlib said. While the weaker rand appears to be slowly helping SA's exports, this is partly due to a rise in commodity prices.

CAR LOAN APPLICATIONS DROP

11.5%

Vehicle finance provider WesBank reported an 11.5% year-on-year drop in applications for financing in June, the biggest year-on-year drop since April 2009, *Business Day* reported. Finance applications for new cars fell 22% last month, while used-car applications declined by a more muted 6.4%, WesBank said. One of the big challenges is rising prices, partly due to earlier rand weakness, the paper reported. The average new-car value financed by WesBank in June was R293 000, reflecting an increase of about 15% on the R256 000 of July 2015. Over the same period, salaries increased at most by about 5% to 6%, it reported. The new-vehicle market is expected to decline by 12% this year, according to WesBank.

By Jana Jacobs

Changing the real estate business

Property Fox is an online platform that facilitates the listing and sale of properties anywhere in the country, charging commission of only 1.5%.

Ashley James and Crispin Inglis – the Cape Town duo that founded Property Fox – had both come from entrepreneurial backgrounds when they started to conceptualise the online property platform at the end of last year.

Similar business models had found success abroad, such as Real Simple Property in Australia and Redfin in the US. In the UK property market, traditional agency commission was around 3%. It's 7% in SA – so the environment for a similar business model (Property Fox commission is 1.5%) was even more favourable here, explains Inglis.

The appetite was there, the idea was feasible and at the time there was nothing like it in SA. So, says Inglis, the question really became, "Why aren't we doing this?"

Having identified the opportunity, they started building the website last December and launched the platform on 1 April.

In the three and a half months that Property Fox has been operating, its team has grown to nine employees, made five sales and has closed around 100 listings.

"This is a huge milestone," says Inglis. At the outset, they were not certain how quickly things would pick up and grow, but the pace has been overwhelming and the trust and belief in the service is evident in the number of listings they have secured in such a short time, according to Inglis.

Listing your property

Inglis explains that their approach is customer-centric, aimed at offering excellent service and saving sellers money. Property Fox is a national company, so you can list from anywhere. As an example, the turnaround time on a listing in Mbombela (Nelspruit) is about two days, says Inglis.

The Property Fox website is extremely user friendly and the process of listing properties is simple: Potential sellers list their basic property and contact details on the site, after which a Property Fox consultant gets in touch to begin coordinating the marketing process. Freelance photographers based across the country take professional photos of the property, which is then valued by the Property Fox experts to ensure sellers set the right price. Once the seller has approved the listing, the property goes live on the various Property Fox and other independent portals.

Crispin Inglis
Co-founder of
Property Fox

Property Fox listed this R35m home in Camps Bay at the end of June.

Their approach is customer-centric, aimed at offering excellent service and saving sellers money.

Ashley James
Co-founder of
Property Fox

All of this is executed during the one-week free trial – at no charge to the seller.

What it will cost you

If the seller is happy with the service provided during the free trial (all clients so far have continued past this point, says Inglis), the seller then chooses the payment option they prefer: 1.5% commission on the sale or R25 000 upfront.

The rationale behind being able to charge such a low commission rate is that, unlike traditional agencies, Property Fox's costs are less.

Says Inglis: "In a traditional agency, fees are generally split across several tiers: the agent, their boss, and then the franchise head. Not so with Property Fox – our model is centralised and specialised."

And the flat rate?

"No matter the price of your house, you are afforded the same level of expertise," says Inglis. However, should the house not be sold, that cash is non-refundable.

When asked which payment option the sellers generally favour, Inglis explains that South Africans are used to the commission model, so sellers currently prefer this. But Property Fox has seen the trust in its service grow already and "a year from now things might be different", according to Inglis.

Once the payment process has been agreed upon, services such as additional marketing, buyer screening, and the scheduling of viewings commence. Sellers also receive weekly analytic reports on their listings, adding to that interactive, customer-focused experience.

When the sale goes through, Property Fox wraps up the deal.

Building on the foundation

A contentious issue in the market is the one around sole mandate. Traditionally, you are locked into an agreement with one agency, says Inglis.

"We are introducing a single-agency model, whereby we ask you to only sell with us, but if you are not happy with the level of service, you can walk away – you are not legally bound," he explains.

Having experienced such overwhelming success so early on, Inglis says much of the focus is on managing current growth. However, there are many plans in the pipeline, according to him, including "exciting tech coming out in the next two months that will be a first for the market in terms of scheduling viewings", says Inglis. ■

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Let the Games begin

It's the first time the Olympics will be held in South America, amid fears around the Zika virus and a shrinking Brazilian economy. *finweek* gives a summary of some interesting Games numbers.

The Olympics will take place in South America for the first time in history, with Rio de Janeiro set to play host to more than 11 000 athletes from about 200 countries.

Hosting the 2016 Summer Olympics is estimated to cost $11.5bn, and is likely to add only 0.05 percentage points in real growth to Brazil's GDP, according to trade credit insurer Euler Hermes. Brazil's economy is expected to contract by 3.5% this year. ■

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Brazil's economy is expected to contract by 3.5% this year.

Hosting the 2016 Summer Olympics is estimated to cost **$11.5bn** and is likely to add only **0.05** percentage points in real growth to Brazil's GDP.

Divers practise at the Olympic diving venue in Rio de Janeiro on 1 August.

Picture: Damir Sagolj, Reuters

11 040

The number of athletes from around the world who will participate in Rio, according to Maps of the World. The US has the biggest team with 550 athletes. Countries with more than 400 entrants are Brazil (465), Germany (425), China (413), Australia (410) and France (404).

14

The number of countries who are represented by just one athlete. These include Afghanistan, Burkina Faso, Malawi and Togo. Up for grabs are 4 924 medals across 42 disciplines in 28 sports, including golf and rugby sevens. The Olympics will be hosted in 37 venues – 32 in Rio and five in co-host cities.

22

The number of Olympic medals won by US swimmer Michael Phelps, making him the most decorated Olympic athlete of all time. He is also the first male swimmer in history to qualify for five Olympic Games – first qualifying for the Games in Sydney in 2000. The 31-year-old swimmer, who retired after the London Olympics in 2012 before getting back into competitive swimming about two years later, will participate in two butterfly distances and the individual medley at the Rio Games.

3.6bn

The number of global viewers expected for the 2016 Olympics. In the US, NBC Universal spent $1.2bn to secure the broadcasting rights for the Games. An estimated 500 000 international travellers are expected to visit Rio for the Games, for which 7.5m tickets were made available for purchase. Official ticket prices for the opening ceremony ranged from $60 to $1 400.

8

The number of top golfers, including SA's Louis Oosthuizen, who have withdrawn from the Olympics due to concerns over the Zika virus, which is linked to severe birth defects in babies. About 26 000 cases of Zika were reported in Rio in the first three months of 2016, and at least 17 athletes have pulled out of the Olympics due to Zika concerns.

$895m

The amount given to the state of Rio de Janeiro by Brazil's government to spend on Olympic security measures. 85 000 security personnel will work the Rio Games, more than twice as many as at the 2012 London Olympics.

SOURCES: Wallethub.com, BleacherReport.com

By Shaun Harris

Should you buy Pick n Pay and Massmart?

Massmart has accused rivals of hindering its expansion while Pick n Pay has abandoned its pyramid control structure. What does the future hold for these shares?

Retailers are in the spotlight as consumers battle to afford products, especially foodstuffs, and food price inflation hovers above the official consumer price index (CPI) inflation rate. Two consumer shares, Massmart and Pick n Pay, are in the news as a result of events that both highlight what is going wrong, and sometimes right, for predominantly food retailers.

Massmart is subject to a Competition Tribunal hearing where other retailers, including Pick n Pay, are opposing its complaint that it is not being allowed to develop its expansion plans as it is being prevented from competing equally in certain markets.

At the same time investment analysts are marking Massmart's future profits and share price performance negatively due to declining sales momentum. Meanwhile Pick n Pay, at a vote carried by a strong majority of minority shareholders at the recent AGM, has decided to unbundle its contentious artificial Ackerman-family control pyramid structure, only to introduce another artificial control device, so that nothing really changes.

The Competition Tribunal has reserved its decision on opposition from Spar, Shoprite Checkers and Pick n Pay to Massmart's complaint that it is not being allowed to compete with the other retailers on an equal footing. But that's only delaying the inevitable. A decision will have to be made on Massmart's complaint, among other things, that lease exclusivity at malls and shopping centres is preventing its expansion plans. These measures, it claims, are mainly against it selling foodstuffs through subsidiary companies. The second-largest retailer in Africa, Massmart owns Game, Makro, Dion Wired and Builders Warehouse.

A decision will have to be made on Massmart's complaint, among other things, that lease exclusivity at malls and shopping centres is preventing its expansion plans.

"We would not be buyers of Massmart at this stage, particularly at the current price levels (R145.01)," reads an equity research report by Sasfin Wealth. The recommendation is based on a sales update from Massmart for the 26 weeks to 26 June. "Total sales beat our expected 8.4% sales growth for the full year by recording an 8.7% advance. However, in the absence of any expected positive catalysts in the near future, we anticipate that sales will continue to lose momentum," says Sasfin Wealth.

Independent analyst Ian Cruickshanks also says he will not buy Massmart at a price-to-earnings ratio (P/E) of 25 times at what was then the current share price of R136. As the price has now risen to R145.01, Cruickshanks is even more unlikely to buy the share.

Decisions not to buy Massmart are largely based on the recent strong performance of its share price. In the roughly 30 days since the sales update, Massmart's share price has advanced by 15.7%. So far this year the share price is up a galloping 47.4%. That can be compared to the price increase over the past year of only 6.7%. The consensus analysts forecast on INET BFA for Massmart is sell.

Sasfin Wealth says that Massmart's headline earnings per share (HEPS) expectation of 21.4% for the current financial year put the counter on a 12-month forward P/E of 18.8 times. That puts it ahead of Shoprite's 12-month forward P/E of 18.1, but below that of Pick n Pay of 25 times.

"Furthermore, the Massmart share price has run 36.2% year-to-date (more now), suggesting that this result will most certainly place a cap on further upside

Ian Cruickshanks
Independent analyst

Nic Norman-Smith
Analyst at Lentus Asset Management

share price movement in the near term." And that, alone, is a sound reason for investors not to buy the share now.

Massmart's sales growth indicates consumers prioritising food items over discretionary items such as entertainment and apparel, says Sasfin Securities senior retail analyst Alec Abraham. "As things get tough, consumers are buying more food. People might be buying down by opting for house brands, but they are still buying. This is seen in the like-for-like sales of these retailers (Shoprite and Massmart), which are still positive. Food is a defensive category, as there will always be a demand for it."

With higher and sustained food inflation, retailers have absorbed higher costs from producers to maintain market share. But this puts profit margins under pressure. Together with lower margins earned on defensive stocks like food as opposed to higher margin discretionary items, the profit outlook for retailers is not positive. These are shares that, in general, should be avoided by investors for the time being.

At the recent Pick n Pay AGM 82.5% of minority shareholders voted in favour of changing the unpopular pyramid control structure, through which the Ackerman family has maintained artificial control of the company since 1981. This may seem an enlightened development by Pick n Pay's owners. But the truth is the Ackerman family has simply abandoned one form of artificial control to institute another.

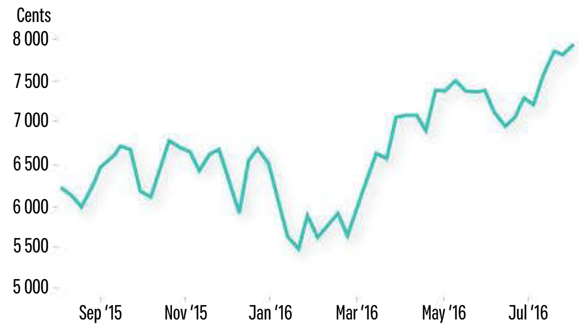
"On paper the pyramid structure is being unbundled but in reality, the Ackerman family will still retain control," says Nic Norman-Smith, an analyst at Lentus Asset Management.

MASSMART

52-week range:	R82.03 - R150
Price/earnings ratio:	28.46
1-year total return:	12.14%
Market capitalisation:	R31.9bn
Earnings per share:	R5.16
Dividend yield:	1.67%
Average volume over 30 days:	345 179

SOURCE: INET BFA

PICK N PAY STORES



52-week range:	R52.87 - R80.75
Price/earnings ratio:	35.6
1-year total return:	+36.4%
Market capitalisation:	R38.9bn
Earnings per share:	R2.24
Dividend yield:	1.88%
Average volume over 30 days:	1 413 127

SOURCE: INET BFA

At the recent Pick n Pay AGM

82.5%

of minority shareholders voted in favour of changing the unpopular pyramid control structure, through which the Ackerman family has maintained artificial control of the company since 1981.

This is being done through the introduction of a new class of unlisted, or B shares, in the remaining listed company, Pick n Pay Stores. These will be issued to the Ackerman family, ensuring the family retains its controlling interest through an artificial structure. In theory a hostile bid for control of Pick n Pay is possible, but unlikely to get through Ackerman control.

So once again the family finds a means of control, unlikely to appeal to investors. ■

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By David McKay

Anglo ‘under no pressure to sell’

Government seems to have taken an interest in the assets Anglo American wants to sell, but Anglo CEO Mark Cutifani says the company will only sell if it gets full value.

It’s now become clear that government wants Anglo American to “sell” its thermal coal mines and 70% stake in Kumba Iron Ore as a package, preferably to a consortium of interests that will involve the Public Investment Corporation (PIC) in some capacity.

The assets are for sale because Anglo has deemed them non-core in terms of its restructuring programme in which it intends to take net debt to below $10bn – a process that has seen it shed tens of thousands of jobs and cut back its assets by two-thirds.

The way government views it, however, is that instead of allowing the SA mines to be bought by “foreigners”, they should be “brought back” to SA. Expect firms such as Royal Bafokeng Holdings, Pembani Group and even Sibanye Gold to be possible consortium members, all of them SA-headquartered.

Mark Cutifani, CEO of Anglo American, told *finweek* in an interview that he was partial to good ideas, and had been approached with a proposal, but that he was under no pressure to sell.

“We could get a more favourable consideration in the way we structure things from the government, but nothing can stop us from selling the businesses,” he said. “We are very open to different ideas so we’re taking all the input and giving it serious consideration.”

Ultimately, however, Cutifani said he wanted “… something that works for shareholders”.

Asked if he would sell at all, given that commodity prices had improved in the first half of this year, he said: “We are generating cash from the assets and while we are generating value they can remain part of the portfolio. If we can’t get full value in terms of the sales process, we will continue to operate them.

“The good news is the SA assets, including Kumba, are making cash and generating value and we’re not pressed to make a sale in a short period. And if we are unable to sell the asset, we are quite happy to hold the asset,” he said.

This would be particularly true of Anglo’s stake in Kumba. The company generated enough cash in the six months ended 30 June to have wiped out net debt of R4.6bn and build a net cash position of R548m.

On the negative side, Kumba operates in an industry heavily oversupplied with Australian producers effectively using their corporate heft to elbow out smaller competitors. There’s also the question of the change in the mine plan of Kumba’s flagship mine, Sishen, and whether Anglo was effectively “picking the eyes out” of the orebody at the expense of its life of mine.

As for the coal mines, selling them in a standard trade deal could prove a complicated process given that Eskom is laying claim over ownership of some of the assets because it helped finance them, and has influence in dictating to whom Anglo could sell as it is the sole end-user of the coal.

Cutifani is philosophical; relations with Eskom have always been complex. “Our conversations with Eskom have been changing for the last four to five years,” he said, adding that talks around selling the mines were “navigable”.

It had been suggested by one or two participants in the banking sector that Eskom’s desire to leave the cost-plus model in procuring coal – in which it makes upfront capital payments for mine development where the coal is exclusively delivered to it – is making future Eskom deals hard to fund.

“It’s a bit hard to judge if you are outside the conversation, but you can see it on the inside,” he said of the banks. “We are less worried on the front line as we understand the conversation,” said Cutifani of the business relationship with Eskom. ■

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The way government views it, however, is that instead of allowing the SA mines to be bought by “foreigners”, they should be “brought back” to SA.

KUMBA IRON ORE

52-week range:	R24.15 - R154.97
Price/earnings ratio:	11.07
1-year total return:	36.3%
Market capitalisation:	R47.7bn
Earnings per share:	R13.38
Dividend yield:	-
Average volume over 30 days:	2 033 882

SOURCE: INET BFA

Mark Cutifani
CEO of Anglo American

This would be particularly true of Anglo’s stake in Kumba. The company generated enough cash in the six months ended June 30 to have wiped out net debt of

R4.6bn

and build a net cash position of

R548m.

By David McKay

Lonmin warns shareholders to expect less

The struggling mining company has referred to "marked" and "complex" hindrances to its third-quarter production performance. Its plight is not much different from that of other platinum producers operating in the North West.

Lonmin warned shareholders that while the second half of its financial year was seasonally better than the first – with normally less disruptions – this year might be different. Wage negotiations, local elections and public holidays might interrupt production although it kept its production guidance at 700 000 ounces of platinum group metals (PGMs).

It also referred to hindrances in its third-quarter production performance, which it described as "marked" and "complex and competing themes" without going into specifics. The picture from other platinum producers is that operating in the North West, especially near Rustenburg, is currently more difficult than usual.

"The mine is a convenient outlet for grievances," says Jean Nel, CEO of Sibanye Gold's PGM division. "As management, we are going through a tough period," he says, adding that unions would have to be careful in calling members out on strike in the current environment.

Nel was referring to a short strike at Kroondal, which he ran as CEO of Aquarius Platinum before the company was bought by Sibanye for R4bn earlier this year, following a dispute over providing employees working the night shift with transport. The view in the market was that the strike was a toe in the water for Joseph Mathunjwa's Association of Mineworkers and Construction Union (Amcu), a way of testing member support for renewed strike action.

> "We are the only platinum producing jurisdiction in the world that has to deal with labour issues and regulatory uncertainty and yet we still have to sell our platinum for the same price as in Russia or Zimbabwe."

Wage negotiating time began with platinum companies Lonmin, Impala Platinum and Anglo American Platinum (Amplats) and their unions – the National Union of Mineworkers and Amcu – last month. But there are other factors.

One is the increase in mine related deaths this year. As of July 25, there have been 53 fatalities, excluding the Lily mine where three people remain trapped following a seismic event in February, which compares to 45 deaths at the same point last year. This represents a regression of 18%, said Chamber of Mines of South Africa spokeswoman Charmane Russell.

While this increase in mine deaths is industry-wide rather than specific to platinum, it has resulted in the increased issuance of Section 54 notices by the department of mineral resources (DMR). These are notices that shut down the mine whilst an investigation into the accident events is conducted.

Mining executives have long complained about the trigger-happy approach of the DMR in respect of Section 54s; they have asked whether DMR officials could, in fact, show more judgment by issuing Section 55 notices, which apply only a partial shutdown of operations, normally the area affected by the accident. "We have lost R135m in revenue at Kroondal to Section 54 stoppages, which is staggering," says Sibanye's Nel.

> "We have lost **R135m** in revenue at Kroondal to Section 54 stoppages, which is staggering."

Lonmin said it had lost 243 000 tons of ore during the third quarter after two employees died; an employee was also killed at Royal Bafokeng Platinum's (RBPlat's) Bafokeng Rasimone Platinum Mine earlier this year.

According to Steve Phiri, CEO of RBPlat, the extensive issue of Section 54 notices is partly owing to a lack of experience among junior mine inspectors at the DMR. "You can't fault them for picking up mistakes in the area once there is an accident," he says.

"But it is the sanction that matters. I see it as a skills issue among inspectors who don't have the necessary experience. We quite often make a representation to a Principal Inspector who changes the Section 54 to a Section 55 notice," he says.

Says Nel: "We are the only platinum producing jurisdiction in the world that has to deal with labour issues and regulatory uncertainty and yet we still have to sell our platinum for the same price as in Russia or Zimbabwe. There's not a single mine in South Africa that has not been affected," he says.

The irony, he says, is that government and labour take the most out of shareholder equity and yet they disturb the business the most. "This has to stop or there is an end to the mines; no more," he states. ■

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'It's burning cash'

Analysts fear a hefty wage increase will heap further pressure on Lonmin which, try as it might, can't seem to stop the cash burn notwithstanding its restructuring in which 6 000 positions were cut from the business.

Lonmin has described wage negotiations with Amcu as positive but then the talks, which have been underway for about two weeks, are still in their infancy. In the meantime, the company's cash balance has fallen again.

Based on the UK firm's third-quarter production results, the company saw net cash fall to $91m from $114m quarter-on-quarter. "Lonmin appears to have been free cash flow negative by $21m over the quarter before allowing for inventory movements and other changes to working capital," said BMO Capital Markets in a report to clients. "Although Lonmin continues to have access to significant liquidity in undrawn credit facilities, the longer term outlook for the company remains challenging," it added.

"It's burning cash, it's not delivering yield and it's shrinking," said another analyst who declined to be named. "Plus, wage negotiations need to be set," he added – a view reflected by analysts at JPMorgan Cazenove: "Operational risks remain a challenge with ongoing wage negotiations, the upcoming municipal elections, Mining Charter discussions and safety related stoppages, in our view," they said. ■

By Glenda Williams

Arrowhead strikes again

In the recent past, the property group had its eyes on Dipula. Now it's gunning for Emira in a bid to bulk up its portfolio.

Last year it was Dipula fending off a hostile bid by Arrowhead Properties. Now Emira Property Fund finds itself in the same position, having received an expression of interest from Arrowhead to acquire all or the majority of its issued share capital.

Likely to have piqued the interest of Arrowhead was Emira's drop in share price after the company forecast a negative growth in distributions per share of approximately 2% for its financial year ending 30 June 2017 when compared to expected distributions for the 2016 financial year.

Geoff Jennett
CEO of Emira Property Fund

Prior to this announcement, Emira's share price was R16-odd and also delivering a better yield than that of Arrowhead, so it's doubtful that Arrowhead would have been in a position to afford to buy Emira at that time.

It's an opportunistic move by Arrowhead during what Emira CEO Geoff Jennett terms a "temporary weakness". "Our share price is under pressure because of our forward warning and that's why Arrowhead has made the move."

Arrowhead's offering is on an all-share basis of 1.67 Arrowhead shares for each Emira share. That essentially values Emira below R14, a discount of around 20% to the underlying value. "We know our NAV is in excess of or near R17," Jennett tells *finweek*.

"We have gone back very firmly to say we do not see there being any merit for Emira shareholders to enter into a merger," he says.

"Will they come back at us? I am quite sure they are going to."

What could stall Arrowhead's bid is lack of shareholder support.

Arrowhead has 22% shareholder support for the bid. One of three shareholders, purported to be Redefine Properties, already holds an 11.5% interest in Emira. But the bulk of Emira's shareholders are likely to view the "merger" with a jaundiced eye.

Even though Arrowhead has a slightly higher market cap than Emira, it only has R10bn worth of assets in comparison to Emira's R14bn.

Even though Arrowhead has a slightly higher market cap than Emira, it only has R10bn worth of assets in comparison to Emira's R14bn.

Then there's the nitty-gritty of Arrowhead's portfolio. Of its 155 properties, 101 of them have a value of less than R20m. Compare that to Emira's 146 properties, with only 30 assets having an average value of R20m. It's a clear indication of why Arrowhead has set its sights on Emira.

Emira's setback essentially revolves around eight of its office properties. The office sector is the one most under pressure, which Jennett has been working in past months to lighten, telling *finweek* he "wants to materially lower" Emira's exposure to this sector.

Emira's shareholders are unlikely to be willing to take on any further office assets, especially if they are substantial (in Arrowhead's case 42% of its portfolio) or are of a lower grade to that of Emira's office portfolio. Nor, one assumes, would they be willing to take a 20% knock on Emira's asset values.

In essence, though, it boils down to the difference between a

146c

distribution and a

143c

distribution for that period.

Emira was bold to be first out of the gates to share what it expected in the 2017 financial year. In essence, though, it boils down to the difference between a 146c distribution and a 143c distribution for that period.

Neither Arrowhead nor other listed companies have yet hinted at any reduction in earnings, especially as it pertains to the under-pressure office market.

"An economy growing at 0% spells meaningful reversion on the office side. And there is more supply of offices coming onto the market. Retail is much more defensive, but consumers are under pressure. You are not going to have 7% or 8% growth, you are going to have 4% or 5%. Industrial is growing at around 3% to 4%, no more," says Jennett.

JSE-listed mid-cap real estate investment trust (REIT) Emira may have been the first to give an industry heads-up, but it's doubtful it will be the last.

"If it is happening in our office portfolio, it must be happening to some degree in other portfolios as well," concludes Jennett. ■

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By Shaun Harris

SA gas suppliers can't keep up

Afrox, the country's largest gas company, has been importing expensive liquefied petroleum gas because it can't source enough from local suppliers. But this puts the focus on another problem – SA's import storage facilities.

Since May South Africa's largest gas and welding company, Afrox, has been importing liquefied petroleum gas (LPG). Imported LPG is considerably more expensive than locally supplied gas. The main reason for the increased LPG imports is that Afrox cannot source enough gas from South African suppliers, certainly not enough to meet growing winter demand from households and business, and more gas is needed than can be supplied for the winter months.

"With erratic supply from the country's oil refineries, the increased usage often leads to LPG shortages," says Mark Radford, Afrox's head of LPG, quoted in a statement issued by Afrox on the increased imports. "We are already battling with shortages in the Western Cape where we have to rely on more expensive imported LPG."

"The Sunrise Energy LPG terminal in the Western Cape will see a capacity to import increasing up to 210 000 tons annually in the first phase in 2017," says Tilden Hellyer, energy analyst at Frost & Sullivan. "Locally, South Africa produces up to 300 000 tons of LPG along with 50 000 tons being imported. With these numbers, we are locally still 40 000 tons above importation."

However, adds Hellyer, the project is designed in a modular way that can expand according to demand, reaching a final throughput capacity of 624 000 kilotons a year. "How this may affect prices is uncertain at this stage, but if the already costly price of LPG increases through importation, South Africa may see companies switch to the potential natural gas in the Cape provinces, which may take shape after the gas-to-power independent power producer (IPP) programme gains traction."

Radford says the increase in the use of imported LPG puts the focus on SA's import storage facilities. "Afrox has no choice but to use the available port facilities. The commissioning of Sunrise Energy's LPG import and storage facility, due for commissioning in the second quarter of next year, at Saldanha Bay in the Western Cape, will facilitate the importation of large quantities of LPG and alleviate shortages, especially in the Western Cape."

At R20.84 the Afrox share price is pushing its high for the year of R21. The consensus recommendation on INET BFA is a buy. Since LPG imports started in May the share price has advanced 21.2%, and for the year is up 53.9%.

Since LPG imports started in May the share price has advanced 21.2%, and for the year is up 53.9%.

It comes as little surprise that the share is rated a buy. It sits on an attractive price-to-earnings ratio (P/E) of 13.4 times, and the forward P/E is an even more compelling 11.3. A dividend yield of 3.7% is not bad, and the net asset value (NAV) of R11.10 is nearly half the share price, indicating value for money.

Sasol, on the other hand, one of the expected local suppliers of gas to Afrox, is a sell. Its share price, at R370.74, has declined by 13.3% over the past year and all other share price movements are negative up to and including three years. This would not be a share investors would want look at, at least for a while.

Sasol does not really have an answer to why it is not supplying LPG to Afrox. Its refinery has been plagued by strike action, but this does not provide an answer. The share price, negative for so long, must be hurting investors who often have Sasol as a key holding in portfolios covering energy stocks.

The Sasol share price, at R370.74, has declined by 13.3% over the past year.

Afrox has also not escaped controversy, being one of five major LPG suppliers subjected to raids by regulators on suspicion of price fixing last October, according to a Reuters report quoting the Competition Commission. But Afrox was able to walk away, the allegations not being proved.

One of Hellyer's colleagues at Frost & Sullivan, Peter Marais, says SA could build import facilities such as the Richards Bay Coal Terminal, whereby a number of companies invest in the terminal. "Although it is an export-dominated terminal, a similar structure for an import facility by all major LPG players could be set up in provinces with the biggest shortfalls."

Afrox should warm to an idea like this, offering the company some control over the importation of LPG. Ultimately, though, it would surely rather not have to import the more expensive LPG.

The danger is that as this increases the price it has to charge for gas to customers, they could turn away and seek other, less costly suppliers of gas, or pursue other forms of energy. If only Afrox could find sufficient local suppliers. ■

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Images: www.afrox.co.za Getty Images/Gallo Images

By Jana Jacobs

A look at tourism on the continent

According to PwC's latest *Hotels Outlook*, the tourism industry continues to be one of the fastest-growing and most vibrant sectors of Africa's economy.

The tourism industry in a number of key sub-Saharan countries holds significant potential to create jobs and drive inclusive economic growth on the continent, despite challenges such as the state of the local and global economy, according to PwC.

The professional services group's most recent *Hotels Outlook 2016-2020*, released in July, predicts positive compound annual growth for the sector in South Africa, Nigeria, Mauritius, Kenya and Tanzania over the next five years (see table). Hotel room revenue in SA, for example, is forecast to grow by a compound annual growth rate of 7.8% to R20.6bn by 2020, the report stated.

South Africa experienced a 6.8% decline in foreign visitors in 2015.

However, 2015 was a tougher year for the local hospitality industry. Pietro Calicchico, industry leader of hospitality & gambling, PwC Southern Africa, explained that South Africa experienced a 6.8% decline in foreign visitors in 2015, citing the visa regulations and state of the global economy as reasons for this decline.

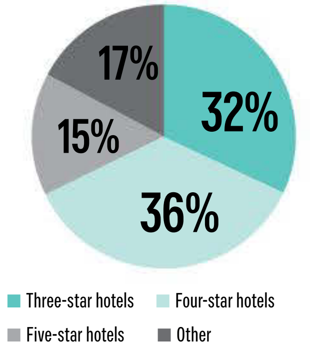
The visa regulations required that foreign travellers appear in person at South African embassies in order to have their biometric information recorded. "However, some countries such as India, Russia and China have very few South African visa processing centres." The regulations were eased in October of last year, but not before hurting foreign tourist numbers. The only increase in foreign visitors to SA in 2015 was from North Africa and the Middle East, according to Calicchico.

UK visitors still account for the largest number of non-African tourists travelling to SA. Whether or not Brexit will affect British tourism to South Africa is difficult to quantify or estimate, said Calicchico. If their economy contracts, there will obviously be a decline in British foreign travel, "but at R18.50 to the pound, South Africa is still pretty attractive", he pointed out.

Despite the decline in 2015, "it's not all doom and gloom", assured Calicchico. The trend improved towards the end of 2015 and in January 2016, foreign visitors in SA exceeded 1m for the month, and PwC thinks that SA's hotel and tourism sector is set for steady growth.

PwC forecasts that, given the continued upturn, the number of foreign visitors entering the country will increase by 12.4% for 2016 and numbers will reach 11.8m for the year in 2020.

TOTAL ROOM REVENUE IN SA BY CATEGORY, 2015



SOURCES: PwC LLP, Wilkofsky Gruen Associates

Mauritius

Mauritius had a good year – tourist arrivals increased by 10.9% to 1.2m in 2015, the largest increase during the past five years, according to the report.

Interesting to note is that arrivals from China increased by 41.4% – something that SA's ill-conceived visa regulations may have helped along. Furthermore, Mauritius conducted an aggressive marketing campaign in China to attract tourists, which paid off, according to Calicchico.

Europe accounted for 55% of arrivals, followed by 25% from Africa. 102 000 South Africans visited Mauritius in 2015, 9.5% up on the prior year.

PwC expects tourist arrivals in Mauritius to be at or slightly above 10% for 2016.

Tanzania and Kenya

Tourism has become one of the largest industries in Tanzania, accounting for 14% of GDP in 2015, with more than 1.1m tourists visiting the country last year. According to the PwC report, six hotels are scheduled to open in Tanzania over the next five years, adding a total of 600 rooms.

In Nigeria, tourism has been hurt by terrorism and the 2014 Ebola outbreak, with stay units falling a cumulative 12% in the past two years.

The government is promoting Tanzania as Africa's leading tourist destination and looking to double the number of foreign visitors. Over and above government investment to develop awareness of the country's attractions, it has also implemented an 18% VAT on tourism services as of 1 July this year. The reaction to the tax was not positive and tourist operators fear that it may in fact hurt the tourism industry, sending tourists to neighbouring Kenya instead.

Kenya has also performed well, with tourist arrivals up in the first quarter of 2016, versus 2015. Sixteen hotels are expected to be built, adding 2 900 rooms and expanding hotel capacity over the next five years.

Nigeria

Tourism is not a major industry in Nigeria as compared to other African countries, accounting for only 1.7% of GDP – the country is primarily frequented by business travellers.

Tourism has been hurt by terrorism and the 2014 Ebola outbreak, with stay units falling a cumulative 12% in the past two years and room revenue declining by 3.6% over the same period.

Although planned builds have been put on hold, according to Basheena Bhoola, senior manager in the TICE and Media Assurance Group at PwC, construction hasn't stopped altogether. She believes the long-term outlook for Nigeria is still positive, with lots of activity in the market over the next five years. ■

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TOTAL EXPECTED ROOM REVENUE:

COUNTRY	GROWTH COMPOUNDED ANNUALLY	REVENUE IN 2020*
South Africa	7.8%	R20.6bn
Mauritius	10.6%	€920m (about R14.28bn)
Tanzania	10.8%	$371m (about R5.16bn)
Nigeria	9.6%	$507m (about R7bn)
Kenya	6.1%	$677m (about R9.4bn)

All currency conversions at the time of writing on 1 August.

House view

Don't miss: The *finweek: Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about this issue's top stories.

DIVTRX

BUY SELL **DIG MORE**

By Simon Brown

Worrying inconsistencies

On page 21 of this issue, I write about the Satrix Divi (STXDIV*) exchange-traded fund (ETF) that I am selling as the methodology is busted.

But I still want a high dividend yield ETF in my portfolio that is not property as that's a different asset class. The CoreShares DivTrax holds "companies that have increased or maintained stable dividends for the last five consecutive years".

On the surface this looks attractive but then I started digging. Firstly, on the SP Dow Jones website it says seven years of consistent dividends is required for inclusion, CoreShares says five, which is it? Further it allows "maintained" dividends, which actually means a dividend growth of between -3% and 0%. So they will include stocks with falling dividends; that is of concern. A slip in dividend this year could be a sign of nasty things coming.

They also only change the holdings every year so you could have a nasty stock for some time before it is booted out. I need to do more digging before committing to this ETF.

**The writer owns STXDIV.*

Last trade ideas

- WAIT... Ethos Capital
- SELL Ellies
- BUY MSCI World Index ETF – db X-tracker (DBXWD)
- BUY Tongaat Hulett

WOOLWORTHS HOLDINGS

BUY SELL HOLD

By Moxima Gama

Buyout is paying off

Current economic conditions have challenged the business environment in South Africa. With households' disposable income under pressure due to higher inflation and rising interest rates, consumers are becoming more selective as they compare products and prices across different retailers.

In addition, more and more consumers, particularly at the top end of the market, are becoming more discerning about the provenance of the products they buy. They're increasingly asking questions such as: Is it produced in a sustainable and environmentally friendly manner? Was it locally sourced? Is it organic or not?

Woolworths is renowned for meeting the demands of consumers in search of environmentally friendly and healthy products. In addition, its R23.3bn buyout in 2014 of David Jones, the grand dame of Australian department stores, is paying off, and about 40% of the group's operating profit now comes from its Australian businesses.

Woolworths, which targets higher-end consumers, has the challenge of being perceived as expensive. Under Ian Moir, who joined as CEO in 2013, the group has cut prices of certain basic household items, for example washing powder, to bring it in line with what its competitors charge. However, Woolworths continues to earn premium margins on higher-end products that are not typically stocked by competitors, for example Woolworths ready-meals.

How to trade it: For the better part of last year, I've maintained a bearish view on Woolworths as it corrected from an overextended position. But with support retained at 7 695c/share Woolworths has reversed back into positive territory, signalled above 8 700c/share. If this upwards momentum holds above 8 360c/share, a long position should be initiated at any level above 8 700c/share and through 9 650c/share.

Continued buying momentum above 9 650c/share could see Woolworths return to 10 800c/share and commence a new bull phase to new highs. Maintain a tight stop-loss, as Woolworths has just entered bullish territory. Investors could loosen the stop-loss ropes as it trades towards 9 650c/share. Alternatively, refrain from going long if it capitulates below 8 120c/share. ■

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Last trade ideas

- SELL Sasol
- BUY Exxaro Resources
- SELL SABMiller
- HOLD MTN Group

About **40%** of the group's operating profit now comes from its Australian businesses.

By Moxima Gama

RETAIL

Massmart stumbles in Africa

The discount retailer, in which multinational giant Walmart acquired a 51% stake in 2012, has been lagging its rivals in building a footprint on the continent.

In September 2010 Massmart's share price jumped more than 10% in a day on news that multinational retail giant Walmart had made a R16.5bn offer to acquire 51% of the group for R148 per share. Andy Bond, Walmart's executive vice president responsible for Africa, stated at the time: "South Africa possesses attractive market dynamics, favourable demographic trends and a growing economy."

The acquisition was part of Walmart's strategy to move into Africa and Massmart – a distributor of consumer goods that owns local brands such as Makro, Game, Dion Wired, Builders Warehouse and Jumbo Cash & Carry – was its chosen vehicle.

Fast-forward to 2016, and Walmart's progress in navigating Africa's challenges has proven to be slow. Despite being backed by the powerful US-headquartered retailer, Massmart is lagging its rival Shoprite, which currently operates more than 300 corporate stores and 39 franchise stores in 14 African countries outside SA. At the end of 2015, Massmart operated only 38 stores in 12 African countries outside SA. Massmart operates 414 stores in total.

Its expansion plans have highlighted the challenges in doing business on the continent, with failed attempts to buy stakes in Choppies Enterprises, Botswana's biggest grocer, and Kenya's Naivas.

52-week range:	R82.03 - R150
Price/earnings ratio:	28.46
1-year total return:	12.14%
Market capitalisation:	R31.9bn
Earnings per share:	R5.16
Dividend yield:	1.67%
Average volume over 30 days:	345 179

SOURCE: INET BFA

The group said in a statement in July that it plans to open a net total of 13 new stores in 2016, and have already opened seven stores, "most reporting very strong sales".

In SA, retailers have been under immense pressure with interest rates and higher inflation squeezing consumers' disposal income. (Also see page 12.)

Massmart said in a trading statement in July that it expects total sales for the 26 weeks to 26 June to increase by a mere 8.7% year-on-year to R42.3bn, with annual product inflation estimated at 5.8%. Comparable store sales increased by 6.4%.

Its Masscash division, which comprises a network of Jumbo Cash & Carry outlets in SA, Namibia, Mozambique, Botswana, Swaziland and Lesotho, as well as Shield, an online trading system, showed the highest growth. It increased revenue by 10.3% in the period under review, with inflation of 7.9%, the group said.

For Walmart, retail in Africa seems not to be as romantic as it had hoped. While Massmart shares have rallied strongly this year – it was up 45% since January – the share still trades about 28% below its May 2013 peak. In January this year, the share was trading as low as R83.20 – 44% lower than the price Walmart paid per share for its stake. Massmart's results will be released on 25 August.

MASSMART

SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: Massmart is currently teetering on the resistance trendline of its long-term bear trend, which would be breached above 15 000c/share. Above 16 100c/share, Massmart would move further away from bearish territory, with a positive breakout – ending three years of downside – confirmed above 17 500c/share, warranting an aggressive buy. Investors could start nibbling at any price above 15 000c/share.

Alternative scenario: A reversal below 13 000c/share could see Massmart return to 11 450c/share, thereby extending its long-term bear trend. In this case, refrain from going long. Support at 9 550c/share could then be tested on continued selling. ■

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Moxima Gama has been rated as one of the top 5 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.

Images: www.massmart.co.za

Don't miss! Moxima Gama on *finweek: Money Matters* on CNBC Africa every Friday at 1pm.

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.

SABMILLER/AB INBEV

Watching the exchange rate

With the Chinese approval, the SABMiller/AB InBev merger has cleared the final regulatory hurdle. All that's left now is for SABMiller shareholders to vote. The deal requires 75% of shareholders to vote yes after the board recommended the improved offer. The final dividend will be paid to shareholders who held the stock at close on 1 August, so all that's left for the share price is to track the £45 offer relative to the exchange rate, making a position in SABMiller merely a currency play. A weaker pound will see the rand price move higher, while a stronger pound will see a lower price in rand.

HYPROP INVESTMENTS

Images: hyprop.co.za

What a book-build!

The local property sector has exploded over the last five years both in terms of the number of listings and also in valuations. One of my preferred stocks in the space, Hyprop, continued to ride the trend as it raised R700m via an accelerated book-build. The company initially said that it was looking for around R500m, but demand remains at such elevated levels that it overshot by 40%. With a market cap of over R32bn this is a relatively small raising and the company gave no indication of what it's for. But the whole exercise does prove that there is definitely demand for quality property companies.

KUMBA IRON ORE

Unbundling a worry

One of the highlights of this results season is Kumba. The main point is that the average cost per ton of iron ore is now at $34, well down from the almost $50 figure the miner used to produce at. This price still puts Kumba well above the Australian miners but does mean it's profitable at lower iron ore prices. Of course, production was well down as it moved to mining only cheaper areas of the mine. When (if) iron ore prices move higher, the company can go back to mining the more expensive areas. All that is left now is for the unbundling of the 69.7% stake held by Anglo American. I suggested a hold on this stock recently and am happy with this call, but the unbundling does pose some risk as a lot of shareholders receiving Kumba shares may elect rather to sell them, putting downward pressure on the stock. But for now we have no timelines on the unbundling so the right strategy is to hold this stock.

All that is left now is for the unbundling of the

69.7%

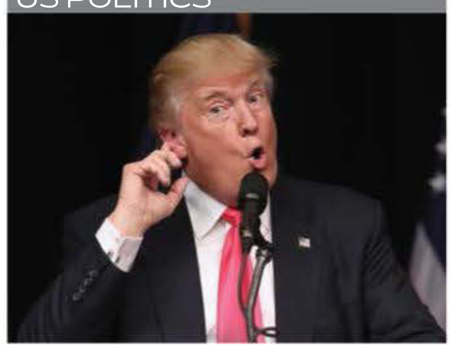
stake held by Anglo American.

BARCLAYS AFRICA

Surprising cost-to-income figure

The Barclays Africa results illustrated perfectly that the new normal is middling single-digit headline earnings per share (HEPS) growth as the company saw diluted HEPS up only 7%. Bad debts slipped to 1.29% from 0.97% and return on equity slipped to 16.1%. A highlight was the cost-to-income ratio, which improved to 53.4% from 55.9%, a huge move and a level that I never expected any of the big banks to achieve. Overall the results were decent and show a consumer under pressure and a bank being careful. But my concern is that there are still tough times ahead – I continue to steer clear of our large banks even though they're all at very low valuations.

US POLITICS



What if Trump wins?

Over in America, Donald Trump and Hillary Clinton are now the confirmed candidates for the two major political parties, and at this point either could win. Many fear that a Trump victory will send markets spiralling lower, and it may, but for how long? Brexit fears barely lasted a couple of weeks before we all moved on and the same is likely if Trump wins in November. US presidents aren't that powerful due to numerous checks and balances – while there may be an initial sell-off, it is unlikely to last very long. We should be more concerned about US GDP growth, which came in at a modest 1.2% for the second quarter. ■

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Images: iStock | Getty Images

By Simon Brown

PORTFOLIO MANAGEMENT

Why you should love ETFs

Buying exchange-traded funds is a really simple way to invest. However, it does also carry some risk and a flawed methodology could be difficult to spot before it's too late.

Everybody knows I am a huge fan of exchange-traded funds (ETFs), having bought my first one way back in December 2000, just a month after Satrix introduced the concept to South Africa. Since then I have bought more every month via debit order, also adding more on an ad hoc basis and using ETFs to max out my tax-free investment accounts each of the last two years.

But are they totally risk free? First, let's deal with market risk. If your ETF is heading south or sideways because the market is doing the same, well, then it is doing exactly as advertised and shouldn't worry you at all. Markets will go down, they will go sideways, but mostly they will move higher and an ETF portfolio will diligently follow the market.

However, we do have busted ETFs and risk of the ETF issuer perhaps going out of business. What happens then?

If the issuer goes bust

In the case of the issuer going bust, an ETF holds the underlying assets (shares or commodity) and we'll be just fine. The shares or commodity will be sitting in a separate vehicle and we'll still have our ownership. Concerns over Deutsche Bank (DB) for example going bust are to my mind overdone, but even if the worst does happen, your DB x-trackers will be fine. But if you hold an exchange-traded note (ETN), then the story is different. An ETN is essentially a credit note promising the return and if the issuer goes bust, that promise becomes worthless and you join the queue waiting for your money back. So an ETN does carry some extra risk; it may not be absolute but it is real.

An ETN is essentially a credit note promising the return and if the issuer goes bust, that promise becomes worthless and you join the queue waiting for your money back.

In the South African case Absa, Standard Bank and Deutsche Bank issue ETNs and while I hold no ETNs, this is not because I am concerned about the risks, but rather that none of them have been attractive to me. If you are worried that Deutsche Bank could collapse (as I said I am not), then exit their ETNs.

Ineffective methodology

The other issue is a busted methodology for an ETF and here the Satrix Divi (STXDIV*) comes into play. I have held this since listing in August 2007. The return has been miserable and the dividend yield has been all right – but just all right.

This was SA's first smart beta ETF and the methodology was to buy stocks that had a high forward dividend yield (DY). I liked the idea as it offered dividend yield, but also in a way it was a contrarian play as often the stocks included would be those dividend payers that had been beaten down, hence rising the dividend yield. So you got dividends for a while, then the stock price would rise and you'd get that increase as well, before the forward DY dropped and they were excluded from the ETF.

The problem was simple and highlighted in recent years and I'll use just two examples, African Bank and Kumba. Both had massive forward dividend yields as they'd paid chunky dividends and the price had fallen. The problem was that the dividends got cancelled and the price kept on falling. So we got a double hit within the ETF.

At the end of the day this is a busted methodology and I will be selling mine as soon as this issue hits the stands. The bigger question is whether smart beta is as smart as we are promised by the smart people designing them. It's an important consideration and I will delve into this another day. ■

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The writer owns STXDIV.

African Bank and Kumba Iron Ore are examples of local companies that negatively impacted on the performance of the Satrix Divi ETF.

Kumba Iron Ore's Sishen mine

Getty Images/iStock Images

Gallo Images/Getty Images

By Shaun Murison

GROUP FIVE

Standing ready to benefit

This group, which is a leader in the construction, concessions and manufacturing spaces, has emerged from the hard times with a strong cash position, lower level of debt and now an improving earnings trend. This might just be a sign that the industry is recovering.

Construction by nature remains a cyclical business and as of yet there is no certainty as to whether the downward cycle has started a sustainable turnaround. However, far-sighted investors might consider some value starting to be offered within the sector and perhaps those considered "best in class" could be offering longer term opportunity at current levels.

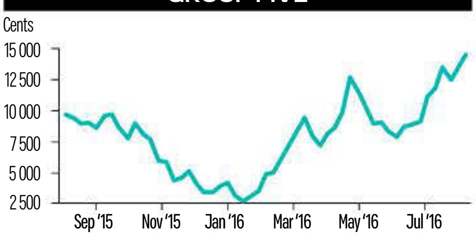
Group Five might be one such consideration as the company has shown a greater resilience than most of its peers through the downtrend in both the business and economic cycles, managing to emerge from these hard times with a strong cash position, lower level of debt and now an improving earnings trend.

The group is a leading African construction, concessions and manufacturing group operating across seven sectors including mining, industrial, power, oil and gas, water, real estate and transport.

Its offering includes project development, investment, design, construction, operations and maintenance as well as the manufacturing and supply of materials, allowing opportunity for involvement throughout the entire infrastructure cycle.

Group Five currently has active group contracts in 12 African countries including two of the largest economies therein, South Africa and Nigeria, as well as active contracts in three Eastern European countries, namely Poland, Hungary and Russia.

GROUP FIVE



52-week range:	R13 - R26.70
Price/earnings ratio:	10.57
1-year total return:	5.37%
Market capitalisation:	R2.7bn
Earnings per share:	R2.27
Dividend yield:	2.79%
Average volume over 30 days:	104 121

SOURCE: INET BFA

Headline earnings per share are expected to be between **60%** and **70%** higher than the comparative year's earnings figures.

Group Five currently has active group contracts in 12 African countries including two of the largest economies therein, South Africa and Nigeria, as well as active contracts in three Eastern European countries, namely Poland, Hungary and Russia.

Earnings guidance

A recent trading statement has given better-than-expected guidance for Group Five's financial year ending 30 June. Headline earnings per share are expected to be between 60% and 70% higher than the comparative year's earnings figures. The substantial increase in earnings has been largely attributable to the Investment & Concessions cluster (previously and currently the most significant contributor to the group's core operating profit). The Investment & Concessions division has benefitted from the increase in fair value profit realised from the group's Eastern European project investment portfolio's projected cash flows being significantly better than were originally forecast. Full year results are scheduled for release on 15 August.

The fundamentals

Group Five has a market capitalisation of R2.4bn, trades on a forward price-to-earnings ratio (P/E) of around 7 times and a price-to-book ratio (P/B) of 0.8. The lower ratios would imply that the share is undervalued at current levels, although it should be noted that the company has been trading at an apparent market discount for quite some time. However, the group is now set to post its second consecutive year of substantial growth in earnings and we do feel that at current levels it is starting to look cheap relative to the longer term outlook. In addition, the group trades on a historical dividend yield of around 3.1%.

Group Five looks to renewing earnings growth whilst offering a decent yield and trading at what appears to be a discount in the current market place. While earnings growth is currently being driven by the Investment & Concessions segment, the group looks well poised to benefit from growth in Africa should the economy start to expand significantly once again.

The diverse nature of operations should allow the further capitalisation thereof by the company's ability to get involved in most aspects of infrastructure development. While it may be too soon to flag a full-on recovery within the sector, those with a long-term investment objective might start to consider that some companies are starting to show significant signs of a turnaround and it may be worth taking a small interest in them once again. ■

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Shaun Murison is a market analyst at IG.

By Schalk Louw

INVESTMENT

You're ready to start your portfolio, now what?

Asset allocation is the single most important decision you have to make when compiling your investment portfolio. This daunting task becomes a lot easier if you break it down into steps.

So you've taken the first step towards starting your own investment portfolio, but what happens next? You've got your investment goals straight: maximum growth. But your goals need to be a lot more specific. Let's suggest that you have R900 000 available to invest and you're aware of the fact that this amount has to grow to roughly R5m over the next 15 years in order for you to retire in a manner in which your current lifestyle can be sustained. You grab the nearest unit trust guide and see that local South African multi-asset, high equity balanced funds have delivered an annual return of 13.2% after fees and before taxes and that seems good enough. Only 12% growth per year, how hard can it be?

While under the impression that you have done enough, you start searching for funds or asset classes that have delivered 12% return over the past 1-2 years. Unfortunately, however, you haven't done nearly enough. In fact, you're just about halfway through. You've set your investment goals and you have converted those goals into requirements that you need to follow in order to achieve your investment returns. But you haven't identified your level of risk tolerance. You haven't looked at the asset allocation that falls in line with your investment return goals and risk profile. To achieve 12% growth per year, you would have to be willing to include a standard deviation (annual volatility) of about 10% per year in your portfolio. That means that you must be willing to accept a 10% rise or decline in your portfolio at any given time over a 12-month period.

Asset allocation is the single most important decision you have to make when compiling your investment portfolio. Studies have shown that 80% of an investment portfolio's success can be attributed to asset allocation alone. Other considerations such as asset selection or market timing have a much smaller impact on long-term performance.

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That means that you must be willing to accept a

10%

rise or decline in your portfolio at any given time over a 12-month period.

Asset allocation becomes much easier once you break it down into several steps:

Step 1: The risk determination

The further away you are from retirement, the more you can allocate towards shares. Your weight in shares should be higher when you are in your twenties with a gradual decrease in weight as you grow older. But how do you know how much you should allocate to shares? This will depend on your specific goals and risk profile. Allocating around 75% to shares (local and offshore) is usually a good benchmark for a young investor with a moderate risk profile, looking to save for retirement via a retirement annuity, while someone who plans to retire within the next five years should act much more conservatively.

Step 2: Selecting the right asset classes

In asset class selection, as with most things in life, keeping it simple will serve you best. You want to be well diversified without any unnecessary overlaps or redundancies.

Step 3: Slicing the pie

Once you have determined which asset classes you would like to include in your investment portfolio, your next step is to decide how much weight you should allocate to each. Basically, you have to 'slice the pie' by dividing your portfolio into different percentages allocated to different types of investments.

This decision should be in line with your personal risk profile and the goals you set in terms of achieving your required growth. Most investors would probably choose to invest more in shares when considering this asset class's average returns of 15% per year before taxes over the past 20 years, compared to bonds' average annual return of 12.5% before taxes. With bonds consisting mostly of interest, this should make a considerable difference to your grand total. But with shares' standard deviation of 19% vs. 7.5% on bonds, it also means that you must be willing to take the risk of losing 11.5% of your portfolio over a 12-month period in order to achieve 2.5% more long-term growth (before taxes).

For most, the stakes are worth it, but by slicing your pie correctly, you can achieve higher growth than by investing in bonds, but at a lower risk than investing in shares alone. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

Getty Images/iStock Images

By Lucas de Lange

BREXIT

Watch out for short sellers' tales

Britain and the EU are likely to manage Brexit with as little disruption as possible.

A question that contrarian investors are currently asking themselves is where good opportunities can be found owing to the concerns and uncertainty created by Brexit.

Two locally listed UK shares that came heavily under the cosh are Capital & Counties Properties (Capco) and Intu Properties. Especially the former weakened dramatically – by 53% since reaching its high of R106.20 in December, and since then it has shown very little sign of recovery. At the moment it's the third-weakest share on the JSE. At the time of writing, it lay 27% below its 200-day exponential moving average (see table of the weakest shares) against 27% above the average a mere six months or so ago. Intu dropped by 34%, but value investors have since stepped in, which saw it recover by about 17%. Investec plc is currently also among the weaker shares.

Successful contrarian investors must always be brave as they buy shares when the news is negative, as has been the case since the Brexit referendum. They must be able to swim against the tide, and at the moment it helps that Britain as well as the EU obviously wishes the fallout to cause as little disruption as possible. So it's to be expected that Brexit will be managed very carefully by both parties. Speculation that other EU members will follow Britain's move are regarded as highly unlikely. In fact, it is argued that large short sellers, who can make a lot of money when financial markets are disrupted, are a key source of the negative speculations. This suits contrarian investors as it leads to price decreases, which offer better value. In fact, cynical market players suggest that the contrarians often help to drive a price down. The last thing that's expected is that major members of the EU, such as Italy and Spain, will do something ill-considered that could disrupt their own as well as global markets.

Other important factors that inspire hope for contrarian investors are the opportunities that the weakening of the British pound is creating for the country's exporters and its tourism industry. The British export industry is supported by an efficient infrastructure that enables it to react quickly. In this regard, cognisance must be taken of the fact that Britain has in the past hardly experienced recessions when its exports are doing well.

In the past, tourism has also benefitted when the currency weakened. It is interesting to note in this regard that Covent Garden in London, an extremely valuable property owned by Capco and one of the city's most popular tourist attractions, should benefit from this. About 40m people visit this complex a year, and with cheaper tours internationally on offer, this number will rather rise than drop.

Among the strongest shares there are, besides certain platinum shares, a number of retailers that catch the eye, especially Shoprite, which has experienced sharp buying pressure. The others are Clicks, Massmart and Pick n Pay. Shares which have broken through and appear interesting include Distell, Super Group, Barclays Africa and Nedbank. ■

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STRONGEST SHARES

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
DRDGOLD	77.9
ANGLOGOLD ASHANTI	49.6
HARMONY	47.5
SIBANYE	45.6
GOLD FIELDS	42.5
KUMBA IRON ORE	40.0
PAN AFRICAN RESOURCES	36.6
AMPLATS	30.2
IMPLATS	30.1
RBPLAT	28.2
NORTHAM	26.9
BLUE LABEL TELECOMS	26.4
ASSORE	26.1
SHOPRITE	24.0
CLICKS	19.7
ARM	17.5
MASSMART	17.2
EXXARO	16.5
ANGLO AMERICAN	16.4
TIGER BRANDS	15.8
PICK N PAY	15.7
SOUTH32	15.3
TSOGO SUN	15.1
SA-CORP	13.9
ASPEN	13.3
HYPROP	13.3
CAPITEC	11.9
IMPERIAL	11.4

STRONGEST SHARES

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
GLENCORE	10.8
PIONEER FOODS	9.6
BARLOWORLD	9.5
RESILIENT	9.2
REDEFINE	8.4
STANDARD BANK	8.3
RMI HOLDINGS	8.1
M&R HOLDINGS	8.0
AVI	7.4
TONGAAT	7.3
CORONATION	7.1
NASPERS-N	6.9
TFG	6.9
RMB HOLDINGS	6.4
ADCOCK	6.4
FORTRESS B	6.4
STEINHOFF	6.3
RAUBEX	6.1
SPAR	6.0
CITY LODGE	5.9
SANTAM	5.9
GROWTHPOINT	5.8
FIRST RAND	5.5
VUKILE	5.0
SANLAM	4.9
GROUP FIVE	4.8
KAP	4.8
TELKOM	4.7

WEAKEST SHARES

COMPANY	% BELOW 200-DAY EXPONENTIAL MA
PPC	-39.0
LONMIN	-32.0
CAPCO	-27.4
INVESTEC PLC	-18.8
MPACT	-16.7
LEWIS	-16.1
ITU PLC	-12.9
SASOL	-13.5
RICHEMONT	-12.2
AVENG	-10.6
ARCELORMITTAL SA	-8.6
BHP BILLITON	-8.3
SABMILLER	-6.5
NAMPAK	-6.1
GRINDROD	-5.7
NETCARE	-5.4
MTN GROUP	-5.2
EMIRA	-4.8
REUNERT	-4.8
CHOPPIES	-4.2
LIBERTY HOLDINGS	-4.1

BREAKING THROUGH

COMPANY	% ABOVE 200-DAY EXPONENTIAL MA
DISTELL	4.6
SUPER GROUP	4.6
REMGRO	3.7
HOLDSPORT	3.4
BARCLAYS AFRICA	2.4
NEDBANK	2.3

Covent Garden in London, an extremely valuable property owned by Capco and one of the city's most popular tourist attractions, should benefit from a weakened currency. About

40m

people visit this complex a year.

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ACCELERATE	A Costa	27 July	Purchase	3,766	586	22,068	1 August
ACCELERATE	D Kyriakides	27 July	Purchase	2,267	586	13,284	1 August
ACCELERATE	J Mattison	27 July	Purchase	458	586	2,683	1 August
ACSION	K Anastasiadis	25 July	Purchase	9,824	801	78,690	26 July
ADV HEALTH	M Moela	26 July	Sell	62,000	180	111,600	29 July
ARGENT	SJ Cox	2 August	Purchase	1,300	400	5,200	2 August
ARGENT	SJ Cox	2 August	Purchase	15,000	400	60,000	2 August
ARGENT	TR Hendry	2 August	Purchase	3,900	400	15,600	2 August
ARGENT	AF Litschka	2 August	Purchase	1,300	400	5,200	2 August
DIPULA A	NS Gumede	22 July	Sell	65,000	1000	650,000	27 July
KUMBA	B Mawasha	26 July	Sell	809	12501	101,133	27 July
KUMBA	B Mawasha	26 July	Sell	300	12532	37,596	27 July
KUMBA	B Mawasha	26 July	Sell	366	12600	46,116	27 July
KUMBA	B Mawasha	26 July	Sell	12,601	300	37,803	27 July
KUMBA	B Mawasha	26 July	Sell	266	12612	33,547	27 July
KUMBA	B Mawasha	26 July	Sell	390	12628	49,249	27 July
KUMBA	B Mawasha	26 July	Sell	110	12646	13,910	27 July
KUMBA	A van den Brink	1 August	Sell	4,064	14230	578,307	2 August
NETCARE	C Grindell	27 July	Sell	13,886	3300	458,238	1 August
NETCARE	C Grindell	27 July	Exercise Options	13,886	1773	246,198	1 August
NETCARE	N Phillipson	27 July	Sell	12,688	3263	414,009	1 August
NETCARE	N Phillipson	27 July	Exercise Options	12,688	1773	224,958	1 August
NEWPARK	BD van Wyk	28 July	Purchase	15,000	600	90,000	1 August
NEWPARK	BD van Wyk	27 July	Purchase	4,000	615	24,600	28 July
NEWPARK	BD van Wyk	25 July	Purchase	16,000	615	98,400	28 July
PRESCIENT	HC Steyn	22 July	Sell	272,394,774	98	266,946,878	27 July
PRESCIENT	G Toms	27 July	Sell	9,025,038	98	8,844,537	29 July
PRESCIENT	N Vallabh	25 July	Sell	644,682	100	644,682	27 July
PSG	JF Mouton	27 July	Purchase	80,162	19620	15,727,784	2 August
PSG	JJ Mouton	28 July	Purchase	84,821	19586	16,613,041	2 August
PSG	PJ Mouton	28 July	Purchase	54,676	19687	10,764,064	2 August
TFG	SA Baird	22 July	Purchase	555	13790	76,534	27 July
TFG	M Lewis	22 July	Purchase	20,512	13790	2,828,604	27 July
TFG	M Mendelsohn	22 July	Purchase	8,757	13790	1,207,590	27 July
TFG	M Mendelsohn	22 July	Purchase	1,516	13790	209,056	27 July
TFG	E Oblowitz	22 July	Purchase	61	13790	8,411	27 July
TFG	NV Simamane	22 July	Purchase	46	13790	6,343	27 July
TFG	R Stein	27 July	Sell	250,000	15036	37,590,000	1 August
TFG	R Stein	27 July	Sell	250,000	15036	37,590,000	1 August
TRADEHOLD	FH Esterhuyse	29 July	Purchase	8,163	2500	204,075	1 August
TRADEHOLD	FH Esterhuyse	29 July	Purchase	8,163	2500	204,075	1 August
TRANSCAP	L Cardoso	25 July	Sell	94,046	1088	1,023,220	27 July
TRANSCAP	C de Villiers	25 July	Sell	188,091	1088	2,046,430	27 July
TRANSCAP	R Goldstein	25 July	Sell	41,798	1088	454,762	27 July
TRANSCAP	M Herskovits	25 July	Sell	501,576	1088	5,457,146	27 July
TRANSCAP	T Kier	25 July	Sell	1,744,985	1088	18,985,436	27 July
TRANSCAP	B Makubalo	25 July	Sell	41,798	1088	454,762	27 July
TRANSCAP	D McAlpin	25 July	Sell	501,572	1088	5,457,103	27 July
TRANSCAP	M Naidoo	25 July	Sell	31,349	1088	341,077	27 July
TRANSCAP	R Olivier	25 July	Sell	41,798	1088	454,762	27 July
TRANSCAP	D Spangenberg	25 July	Sell	626,970	1088	6,821,433	27 July

All data as at 17:00 on 2 August 2016. Supplied by INET BFA.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Adrenna	100	92.31
Middle East Diamond	25	66.67
Afrimat	2285	20.39
Montauk	1600	18.43
Implats	6318	17.02
WORST		
Nutrition	1	-50.00
Stratcorp	1	-50.00
Ellies	30	-37.50
Beige	2	-33.33
Ferrum	5	-16.67

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	53 126.80	-0.95
JSE FINANCIAL 15	15 433.45	1.04
JSE INDUSTRIAL 25	70 308.03	-2.18
JSE SA LISTED PROPERTY	671.03	-0.74
JSE SA RESOURCES	18 074.18	0.40
JSE TOP 40	46 149.80	-1.36
CAC 40	440 917	0.33
DAXX	1 033 052	0.81
FTSE 100	669 395	-0.45
HANG SENG	2 212 914	0.00
NASDAQ COMPOSITE	518 419	1.45
NIKKEI 225	1 663 577	1.54

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	119	11.2
PPC	82	10.4
EMIRA	146	9.7
ACCPROP	58	9.4
LEWIS	347	7.9
FORTRESS A	129	7.7
SA CORPORATE	43	7.7
REDEFINE	86	7.2
GROWTHPOINT	184	6.9
MMI HOLDINGS	162	6.8

Gallo/Getty Images

HOW TO CHOOSE A TAX-FREE SAVINGS PRODUCT

Last March, government introduced tax-free savings accounts, which allows South Africans to invest R30 000 a year. These accounts are not just limited to bank accounts – we asked five financial experts which tax-free savings products they like the most.

By Marcia Klein

Many people are under the impression that bank accounts are the best – even the only – tax-free savings accounts, according to a recent survey by Sanlam.

But experts say the term tax-free savings "account" has given the wrong impression, leading many people to opt for cash deposits rather than other tax-free investments, which offer better growth opportunities and in some cases lower costs for investors.

These include exchange-traded funds (ETFs), money-market funds and unit trusts.

With tax-free bank accounts, there is no tax on interest, but with other tax-free investments, there is the opportunity for greater capital growth and no tax on any dividends or capital gains.

INVESTMENTS OVER THE TAX-FREE LIMIT

For those who have more than R30 000 a year to invest, there are other options, including retirement funds and annuities, which offer the best tax benefits.

Ascor Independent Wealth Managers' Wouter Fourie says retirement funds provide a tax-free savings benefit "and should be seen as your primary tax-free investment.

"The total contributions to retirement funds are deductible but limited to 27.5% of the greater of remuneration or taxable income (excluding lump sums), capped at an annual limit of R350 000."

With retirement annuities, the returns are tax free within the investment. "The fund value of these annuities is also excluded from your estate for tax duties and executor's fees and it is even protected from your creditors, making it an ideal investment for your future and that of your next of kin."

Jan Steenkamp of Sanlam Segment Solutions says unit trusts offer interest tax exemption of up to R23 800 (R34 500 if you're older than 65) on investment returns that accumulate from interest.

etfSA's Nerina Visser says the aim should be to contribute as much as you possibly can to a retirement annuity, to make maximum use of being allowed to contribute up to 27.5% of your taxable income, to retirement savings on a tax-free basis.

Craig Gradidge of Gradidge-Mahura Investments says retirement annuities are the obvious choice, with contributions being tax deductible and the returns tax free, but there are restrictions in terms of Regulation 28 (which limits retirement funds' investment in particular assets or asset classes) and the fact that you can only draw up to a third at retirement.

Another option is dividend-yielding equities, which would form part of a long-term strategy as dividends are taxed at 15%, making this attractive especially for taxpayers at the higher marginal rates.

These taxpayers would also benefit from endowment funds, where tax is paid by the fund.

Just One Lap founder Simon Brown favours an ETF-based retirement annuity. ■

Whichever investment option they choose, anyone with taxable income, no matter how little or how much money they have to invest, should utilise the R30 000 a year tax-free investment option.

Since March 2015, South Africans have been able to invest R30 000 a year, or R2 500 a month, in a tax-free investment to a lifetime maximum of R500 000. If they do this religiously, investors will, after some 17 years, have R500 000 plus capital growth, interests and dividends, as a tax-free investment.

Aimed at increasing savings in a country with an exceptionally poor savings rate, tax-free investments allow you to save without incurring any tax on the growth of your investment. This means you pay no tax on interest (normally charged at your marginal rate after a R23 800 exemption, or a R34 500 exemption if you are over 65), dividends (normally at 15%) or capital gains tax (normally at a maximum 16.4% after a R30 000 annual exemption). Tax-free savings products include cash deposits, unit trusts, insurance products and ETFs, and are offered by nearly all banks, unit trust managers, investment companies and stockbrokers.

There are also heavy penalties of **40%** tax for exceeding contribution limits.

The regulations and the process are transparent and simple in order to encourage people to use tax-free savings.

Tax is saved on the growth of the investment, but there are still costs in the form of fees and transaction costs, and this is why investment options need to be carefully scrutinised before investment.

While you can't get away from costs, you cannot be charged performance fees or penalties for early withdrawal from fixed-term investments as all tax-free investments must be accessible. Most are accessible within seven days, but longer term investments can take longer.

There are penalties in some cases on withdrawal of funds in an investment with guaranteed interest rates and set maturity dates.

There are also heavy penalties of 40% tax for exceeding contribution limits.

For those already invested in a tax-free account, you should be able to transfer some or all of your investment to another tax-free account from 1 November.

It is worth noting that investments cannot be transferred from currently held investments into tax-free ones. In other words, you need to withdraw the amounts and invest them in the tax-free account.

There has been some criticism of tax-free accounts, notably by Rhodes University professor Matthew Lester, who was quoted by biznews.com as saying many investors are not exposed to tax on interest or capital gains tax, and that tax-free accounts are really only a saving in dividend tax.

However, many other experts say that investors should take advantage of all tax benefits afforded them, and that tax-free accounts, while they have tax benefits, are really there to encourage people to save, and that the R2 500 a month represents a target that people can aim for.

We asked these experts about their favourite tax-free products, who should use them and how to decide which product suits you best. They also comment on potential problems and benefits and on costs and other important things to keep in mind when starting a tax-free savings account. ■

Tax-free savings products include cash deposits, unit trusts, insurance products and ETFs and are offered by nearly all banks, unit trust managers, investment companies and stockbrokers.

WOUTER FOURIE
MANAGING DIRECTOR OF ASCOR INDEPENDENT WEALTH MANAGERS

Fourie favours two tax-free accounts – a new generation, low-cost retirement annuity on a linked investment platform (LISP), as well as a tax-free savings account.

In both cases, you must check fees as "high fees could negate the tax-free growth of your investment and eat up your returns".

He says that to best grow your portfolio, you should use all the tax-free benefits you can. "The first and most important one is your retirement annuity, where you should use your full tax deductible contribution. After that, a tax-free savings account is the best way to save because you are not paying any income or capital gains tax on the returns."

Tax-free savings are suitable for anyone with a taxable income so it makes no sense, for example, to use a tax-free savings account in the name of a child to save for their education.

To really benefit from a tax-free savings account, Fourie says, investors need to reach the R500 000 cap as early as possible, after which "the power of compound interest will kick in" and you can sit back and see your money grow.

Fourie warns investors not to go above the annual R30 000 limit – as there are tax penalties – and that this limit applies to the combined annual payments to all your approved tax-free savings accounts.

If you are donating to a number of children or grandchildren for tax-free investments, be careful not to donate more than R100 000 a year, or you will be liable for donations tax.

Fourie also says investors should be careful of making withdrawals from tax-free accounts. Withdrawals can't be "topped up" in the same year. ■

To really benefit from a tax-free savings account, investors need to reach the R500 000 cap as early as possible, after which "the power of compound interest will kick in".

CRAIG GRADIDGE
INVESTMENT SPECIALIST AT GRADIDGE-MAHURA INVESTMENTS

Gradidge says for young investors a tax-free investment is a "no-brainer". "They have time on their side. They have a long-term investment horizon, and as their money grows and compounds, tax becomes an issue."

For people in their mid-30s to late 40s, who would be starting to look at retirement planning, this investment helps them create a pool of tax-free money that they can use to mitigate tax in retirement. "The value is back-end loaded – they won't see much value from the product in the first few years but 15 to 20 years later, the pool is more sizeable and they can take income out of that investment and their total tax bill will reduce."

Gradidge says he favours Stanlib's tax-free product – it has unit trust and linked investment platform accounts. "For one, it is quite cheap, charging a 0.2% admin fee and there is a selection of funds to create an underlying portfolio, which allows you to combine active and passive investment to put together an effective portfolio at a good price." ■

Gallo Getty Images/iStockphoto

NERINA VISSER
EXCHANGE-TRADED FUNDS (ETF) STRATEGIST AND ADVISER, DIRECTOR OF EFTSA

"My personal favourite product is the Balanced Fund option in the etfSA Tax Free Investment Account, as it gives a broadly diversified investment to SA equities, listed property, inflation-linked bonds and international equities, all in a single trade, and at a total cost of just

1%

per annum."

Visser says ETFs are the best investments to use in tax-free portfolios, as they offer low costs, transparency and tax savings from capital gains, dividends and interest.

"My personal favourite product is the Balanced Fund option in the etfSA Tax Free Investment Account, as it gives a broadly diversified investment to SA equities, listed property, inflation-linked bonds and international equities, all in a single trade, and at a total cost of just 1% per annum (this includes the portfolio management fee, administration costs, transaction costs and the expenses of the underlying ETFs)."

She says the upfront savings of interest tax and dividend withholding tax are useful, "but the ability to compound returns over the longer term (10 years plus), and then access that capital without having to pay capital gains tax, is the powerful differentiator. In retirement, a tax-free portfolio also gives you the ability to access lump sum withdrawals to supplement a fixed monthly annuity."

She advises that the tax-free allowance should be used in an investment account, not a savings account, "as the latter only gives you interest on a tax-free basis, whereas an investment offers you tax-free dividends and capital gains as well". While it is a great investment for everybody, regardless of age or net worth, "the added motivation for a young person to make this his first investment, rather than contributing to a retirement savings product, is that unless you earn a salary and pay tax, you are not getting any benefit from the tax deductibility of retirement contributions".

She says investors should avoid withdrawing money from a tax-free account prematurely, as this will reduce the potential tax-free benefit that can be achieved in the long run. "A tax-free account should not be used for emergency fund savings, because even though you are allowed to withdraw your money from it, you will not be allowed to ever replace these contributions." ■

SIMON BROWN
FINWEEK COLUMNIST AND FOUNDER OF INVESTMENT EDUCATION COMPANY JUST ONE LAP

Brown says he prefers the JSE DIY investment, where investors are able to choose from a list of pre-selected ETFs. "I want JSE so I can buy the ETFs and I want DIY so I can buy the ETFs I want." He says Absa, Easy Equities and Standard Bank offer this option.

Brown does not think cash savings accounts are the best tax-free option and unit trusts underperform the market.

Brown believes that at the core of every portfolio should be ETFs ("minimum 50% in my view") so this is a great vehicle in which to put tax-free savings.

While younger people have more time to benefit from tax-free savings accounts, Brown says older people shouldn't be throwing away the opportunity for tax-free savings.

People should look closely at costs – both transaction and admin fees – before making an investment decision. ■

People should look closely at costs – both transaction and admin fees – before making an investment decision.

JAN STEENKAMP
EXECUTIVE HEAD OF SANLAM SEGMENT SOLUTIONS

Steenkamp says a tax-free account is an excellent idea for people in their 20s because the longer they invest, the more benefit they will get since the tax relief means the effect of compound interest, or earning returns on your investment return, is increased.

"In our 30s and 40s, most of us generally have increased responsibilities and more specific savings plans, such as saving for children's education. Again, tax-free savings accounts offer great benefits for this purpose because they are flexible and they still allow us to earn tax-free investment returns."

Tax-free saving is not suited to those investing for short periods, as the investment needs enough time to earn investment returns.

He says research commissioned by Sanlam last month shows that people associate 'tax-free' with tax deductibility while others think it means saving for free.

But, depending on the product you buy, there may be administration, advice, platform and asset management fees.

Tax-free saving is not suited to those investing for short periods, as the investment needs enough time to earn investment returns to benefit from tax relief.

He also warns that, as with any other savings vehicle, you have to ensure your investment portfolio is appropriate for your investment horizon and will provide optimal returns at an acceptable level of risk. ■

IT'S NOT JUST ABOUT SAVING TAX

Tax-free investment options are limited. While they should be part of everyone's portfolio, investors should focus on growing capital and optimally managing after-tax returns.

"Our approach is rather to maximise after-tax return than minimise tax," says Craig Gradidge, investment specialist at Gradidge-Mahura Investments. "There are few options to minimise tax, it is after-tax income that is more important. For example, equities provide a good return over time but will potentially incur dividend and capital gains tax, but after all those taxes you may still be in a better position."

Wouter Fourie, MD of Ascor Independent Wealth Managers, says that paying tax is not always a bad thing. "I would rather invest in a high-return equity portfolio, earn high returns and pay capital gains tax than invest my money in an investment that provides me with low returns, attracts little tax and leaves me with a negative real return," he says.

Nerina Visser, director of etfSA, says beyond tax-free investments and contributions to retirement savings there are limited opportunities to reduce the tax implications of investments. Endowment structures have been popular, but they tend to be costly and you are locked into your investment for a fixed period.

She suggests two alternatives:

- **Inflation-linked bonds (Ashburton Government Inflation ETF or the NewFunds Inflation-linked bond ETF)** – where the inflation adjustment made every year is not considered a capital gain, and so does not attract capital gains tax. The coupon, or interest payable, also increases every year in line with inflation, as it is based on the higher nominal value of the bond.
- **Preference shares (CoreShares Preference Shares ETF)** – as the dividend yield on a preference share is linked to the prevailing level of short-term interest rates so in a rising interest rate environment, your dividends increase accordingly, Visser says. "Preference shares typically show very little capital gains, so the investment is mostly subject to 15% dividend withholding tax, which is less than the maximum capital gains tax level of more than 16%." ■

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THE TECH REVOLUTION STIRRING IN SOUTH AFRICA'S LEGAL SPACE

By Sean Christie

Image: Getty Images/iStock

Although traditional law firms have been told for some time that they will have to start doing things differently, change has been slow. But "virtual" legal services providers are on the rise globally and in SA, meaning BigLaw will have to watch their backs.

In April this year, the renowned legal futurist Richard Susskind issued a warning to the United Kingdom's major law firms: "You have five years to reinvent the legal profession", or risk perishing. The basis of Susskind's concerning prophecy is his contention that most of the world's major law firms continue to follow a set of business practices that have remained unchanged for centuries, in spite of the existence of technologies that could drastically improve operational efficiency, thereby bringing down business costs and enabling the reduction of fees.

Susskind first began calling for the reinvention of the legal profession during the global financial crisis of 2008, which focussed attention on the high asking fees of big law firms as well as the quality of the work being rendered by those firms. Traditional law firms, with their hefty partner bonuses and equity splits, prime real estate premises and glamorous art collections, did not bear up well under this scrutiny, and it wasn't long before a new model arose to undercut the old one. It was a model which used the internet to connect clients to freelance lawyers, thereby negating the need to pay salaries, or many other traditional costs. A catchy neologism was soon minted to describe this model: NewLaw (as opposed to BigLaw). In a short period, NewLaw companies such as US-headquartered Axiom Law, which today employs 1 500 personnel across three continents, and in the UK companies like Riverview Law and Rocket Law, were competing for clients with the biggest traditional law firms on the planet.

Yvonne Wakefield
Founder of Caveat Legal

NewLaw vs BigLaw

The waves of change were slower to reach South African shores. Many seasoned legal minds (in the boozy lawyer haunts this journalist once worked in on Cape Town's Long

Caveat's panel now stands at over

50

lawyers covering all the major areas of law, but the real heist is happening in the investment space.

Street) argued that, in the same way that South Africa's low levels of external debt and its flexible exchange rate had helped to buffer the economy against the full blast of the global financial meltdown, so SA's relatively slow rate of technological advancement would buffer local firms from tech-driven change.

In 2011, however, a former Bowman Gilfillan Inc lawyer called Yvonne Wakefield founded Caveat Legal, a "virtual" legal services company that was soon poaching both business and lawyers from SA's big firms.

Caveat's sales proposition is an enticing one. Using a freelance panel structure, Caveat is able to offer big law firm expertise at roughly half the price. For big firm lawyers the deal is just as sweet: the choice to work when, where and as much as they like, for fees higher than those attainable in the big firms.

Caveat's panel now stands at over 50 lawyers covering all the major areas of law, but the real heist is happening in the investment space.

"A very large portion of our work is done for private equity firms and venture capitalists. We will do everything for them from due diligence to the drafting of transaction documents, and what's really nice is that we've gained traction in this space mainly through word of mouth," Wakefield says.

Nerushka Bowan
Senior associate and business development manager at Norton Rose Fulbright

"We've experienced difficulties around the level of sophistication of our consumer – specifically relating to their level of understanding of what their legal needs are."

Caveat was followed into the alternative legal services space by companies such as LexNove, LawyerUp and Legal Legends, all "tech-enabled" platforms for legal services that offer clients the opportunity to have their legal needs scoped, bid for (by freelance lawyers with relevant expertise) and ultimately met, online.

But it's not a turkey shoot

Andrew Taylor and Kyle Torrington founded LexNove in 2015, and have come to feel that the company's value proposition, while "on par with global standards in the area of tech-enabled legal services", is nevertheless "a few years ahead of the South African legal consumer".

"We've experienced difficulties around the level of sophistication of our consumer – specifically relating to their level of understanding of what their legal needs are," says Taylor.

"For example, a client might approach us asking for a joint venture agreement, but after considering his or her needs we'll end up actually scoping out and providing a new company registration and customer shareholder agreement. This, coupled with the fact that South Africa has a lower level of internet penetration than some other jurisdictions, has convinced us there's a need for a kind of bridging model," he says.

The bridging solution Taylor and Torrington have hit upon is Legal Legends, which Torrington describes as, "an e-commerce approach to legal services".

"You visit the site and can immediately

Images supplied

Andrew Taylor and Kyle Torrington
Founders of LexNove

purchase services – such as shareholders agreement, licensing agreement, and so on – without having to go through the friction of a proposal period. What's nice is, from an SEO [Search Engine Optimisation] perspective, we have specific pages devoted to specific services, so it makes for a more searchable, findable legal service, which is consumable in a way familiar to South Africans at this point in time," he says.

Taylor and Torrington plan to merge their Legal Legends and LexNove entities in time, and to move on to the integration and indeed the development of technological tools that will enable lawyers and providers of legal services to work with greater efficiency.

Legal tech revolution

The development of new technological tools for the legal profession is the other major strand of the technological revolution in law, and it is becoming big business, as Wakefield found when she attended Legal Tech New York in February, a conference and trade show focused on technology for the legal profession.

"There was so much content to be shared that the 2 000 attendees could choose between six streams of talks, running concurrently for three days," she says.

In just a handful of years, technology has appeared that assists with jobs such as time capturing, workflow management, document reviewing, case law research, automatic document generation and more, and while early iterations of many of these technologies were incapable of handling the nuances particular to the legal profession, Wakefield points out that "more recent versions are showing signs of having overcome these shortfalls, and now even claim to be superior to traditional methods, because they eliminate human error".

She cites artificial intelligence technologies such as Ravel Law, "which uses big data analytics to produce interactive visualisation maps showing the big picture on any given search query", and also Ross, built on IBM's cognitive computer Watson, "which uses natural language processing to understand a legal question posed (as opposed to conducting a keyword search). It then uses machine learning to sift through thousands of content sources, provides an answer and lists its authorities ranked by relevancy."

It has been suggested by many legal pundits that the new generation of legal services providers, being flexible and already tuned-in to the power of technology, are better placed than big firms, with their big bureaucracies, to embrace new technologies.

Not necessarily.

Those large firms that have chosen to embrace technology have the money and the historical relationships required to drive the often costly development of new technological products.

"There was so much content to be shared that the

2000

attendees could choose between six streams of talks, running concurrently for three days."

Those large firms that have chosen to embrace technology have the money and the historical relationships required to drive the often costly development of new technological products. In South Africa, for example, in May this year law firm Webber Wentzel (one of South Africa's so-called 'Big 5') announced the launch of an app created in conjunction with business technology solutions company LexisNexis. Called TMT, the app was designed to assist Webber Wentzel clients to stay abreast of developments in the complex and fast-paced technology, media and telecommunications sector. It is highly unlikely that any alternative legal services provider could, at this point, exercise similar relationships towards comparable ends.

The local arm of global law firm Norton Rose Fulbright exercised its internal capacities to create POPI Counsel, an interactive app designed to assist businesses with implementation and compliance in respect of the Protection of Personal Information Act of 2013.

"We originally wanted to create an e-book," says senior associate and business development manager Nerushka Bowan, "and in considering how to secure the pdf we engaged with Ryan McClead, the technology innovation architect in our New York office. He looked at our content and made the observation that we could make our checklists much more interactive."

Preaching the tech gospel

Bowan's professional story is intertwined with the POPI Counsel story, and is fascinating for what it reveals about the likely future of big firm lawyering.

"I have no formal academic history in IT," she says.

"We rotate between various disciplines in law, and during my six month rotation in the technology law space I found I was endlessly stimulated. It was agreed that I would stay on permanently as an associate, and through being passionate, and also because I'm a naturally analytical person who enjoys things that require a lot of logic, I found myself becoming more involved in the technological side of the industry," she says.

Bowan learnt about software development on the job.

"When we approached McClead with our e-book idea he happened to be launching a technology called Neota Logic, which is a platform non-developers can use to develop logic-based technological products. Ultimately, four local Norton Rose Fulbright lawyers, including myself, were trained to become developers on this platform, and in the process my colleague, Kerri Crawford, took over development of POPI Counsel," she says.

"During this process I realised that lawyers need new skills and new opportunities in order to diversify what we're already doing. Clients aren't happy to continue to pay the rates firms charge anymore, and if firms don't find alternative ways of making money, or develop efficiencies that allow them to decrease costs and maintain business, they won't be able to keep up.

"Change is coming," she says, "and any lawyer who gains the ability to develop technological products is going to be very well set. Why? For starters, you can turn the current product development model on its head, by collapsing the roles of developer and subject matter expert into one person, thereby cutting out the need for a business analyst [being the person who traditionally translates between developers and subject matter experts in the process of developing new legal products]. You will be able to save your firm time and money, and in the process allow for a reduction in client fees," she says.

Developing more "legal technology engineering capacity" is one of Bowan's many new tasks, in addition to her traditional lawyering duties.

"The secret to entrenching a tech-savvy culture in a large firm, I've come to realise, is incremental change. At the moment I have more product ideas than I have capacity for, but the fact is I can't train 30 lawyers in this stuff at a time. We have another four in training, and if I'm lucky two will emerge with the right expertise," she says, adding that there's a culture of fear to overcome, too.

"I've done a lot of internal evangelising, telling lawyers that they should see technology as an opportunity instead of a threat. I've been trying to put out the message that, if you take a genuine interest in the opportunities in your particular area, you can become the expert, because tech is new to everybody," she says.

To make her point, Bowan pointed out that McClead, who assisted in identifying and bringing together the technology products used to create POPI Counsel, was "hired by one of the technology providers of POPI Counsel, and appointed business transformation and innovation architect to develop and sell products like POPI Counsel to other law firms."

"There's a lot happening, and South Africa is definitely in the mix, but the time for both individuals and firms to open up to the possibilities is now," she says. ■

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Sean Christie has been contributing his journalism to books, newspapers and magazines since 2007. He is a previous recipient of CNN African Journalist of the Year Award, as well as the Taco Kuiper Prize for investigative journalism.

ARE LAW SCHOOLS KEEPING UP WITH TECH?

WITH TECHNOLOGY CHANGING THE LEGAL PROFESSION IN UNPRECEDENTED WAYS, WHAT ARE SOUTH AFRICA'S LAW SCHOOLS DOING TO TEACH LAW GRADUATES ABOUT THE TECHNOLOGY OF LAW?

Not much, it seems. In fact, few of the law faculty managers *finweek* called understood the question at first.

Five managers of leading law schools were called, and all took "technology of law" (describing the uses of technology in law) to mean the "law of technology". They all proceeded to explain in detail what their departments offer (and plan to offer) in the areas of intellectual property law, privacy law, ICT law, cyberlaw, e-law, and so forth. They also talked about how their teaching methods have undergone a degree of electronic transformation, with teachers sharing lecture notes via online forums, logging attendance via fingerprints, offering e-books instead of text books, driving students to do case research via electronic databases, and more.

But as Nerushka Bowan of Norton Rose Fulbright says: "The law firms of the very near future will be looking for graduates who are not merely tech-savvy, but who know about document automation, cloud computing, AI systems, legal process engineering and more. We've been travelling the world talking to the big banks about blockchain, being the technology behind Bitcoin, and it seems increasingly likely that the financial world will soon be using smart contracts, which could mean that lawyers will be expected to compose contracts in code."

Local tech futurist Arthur Goldstuck has made a similar observation. "I've been giving a lot of talks about the technologies that will be going mainstream in the next 10 years, and the jobs that will be in jeopardy. One that I've flagged is legal interns, as most of their roles will be replaced by AI, algorithms and automation in the next decade. That means a smaller pool of trainee lawyers, which ultimately could spell a crisis for the legal profession."

He adds that any crisis for the legal profession is also a crisis for law schools.

Few law schools have even begun to think about teaching such skills, however. Shobhna Sugam, the administrative manager of the Wits Law School, wonders where the money would come from. "With recent budget cuts, it's becoming difficult to maintain the electronic programs we already have in place," she says.

Professor Dawie de Villiers from the University of Johannesburg explains that "the shortening of the five year LLB to four years" has imposed time constraints, "preventing the introduction of new modules, although where we can we have been introducing technological aspects into the old modules". ■

The panel: Rabbi Gideon Pogrund, Thandi Orleyn, Bonang Mohale, Suresh Kana and Bobby Godsell

SECURING A SUCCESSFUL FUTURE FOR SA

In the wake of Nenegate the private sector was very vocal about the increased influence of government. But participants in the second public event of GIBS' Ethics and Governance Think Tank think this had more to do with protecting profits and less with ethics.

By Jana Jacobs

There are many issues plaguing South Africa's political, economic and social landscapes. The increased levels of fraud, corruption and cronyism lead to the almost daily reporting of a new (or ongoing) scandal. Our society is one of the most unequal in the world, unemployment is on the rise and we are operating in a zero-growth environment.

The Fees Must Fall protests that took place across the country highlighted the increased discontent of the youth in South Africa and brought the issue of access to education to the fore.

When President Jacob Zuma played musical chairs with the finance minister position in December last year, the private sector became very vocal about the increased influence of government on the financial well-being of the country. This intervention sparked questions about the role and ability of the private sector in effecting change in our country.

It is these issues – and what the role of business can be in stimulating our economy, and how the private sector can set examples of ethical practices – that were up for discussion at GIBS' second public event driven by its Ethics and Governance Think Tank (see sidebar).

Rabbi Gideon Pogrund
Director of the Gibs Ethics and Governance Think Tank

In order to really begin bringing about social change, we need to look at the current challenges we are facing in our country through an ethical lens.

Time to start listening

What was clear from the outset was the importance of understanding that in order to really begin bringing about social change, we need to look at the current challenges we are facing in our country through an ethical lens – as Rabbi Gideon Pogrund, director of the Think Tank, put it: "How we talk about reality shapes how we view it. If we don't describe, classify and define issues as ethical ones, we can fail to appreciate all of their ethical dimensions – it is what is called 'ethical fading'. An example is corruption. It's a term that gets bandied around a lot, but do we see all of the ethical problems associated with it? Do we view it as only a public sector problem or do we recognise business' responsibility – that in every corrupt transaction, there is also a corruptor. Does business recognise its ethical responsibility to offer society's moral heroes, like Thuli Madonsela, all the public support that they need?"

And, no, corruption is not only a public sector problem.

Thandi Orleyn, co-founder of investment firm Peotona, urged business to assess where it's at: "Business enjoyed huge profits under apartheid laws. What has changed? The mining sector, which was the bedrock of the economy and apartheid, unashamedly used black labour to ensure SA's success. Has that industry collectively sat down and reconsidered brick by brick? Have they engaged with the stakeholders that were oppressed?"

Having been privileged enough to seize the opportunities offered by the new dispensation, Orleyn finds herself "on the other side of the fence" and has come to realise that issues debated in boardrooms are not framed ethically, but are all about business. "Business needs to take a step back and look at what we have/haven't done in the last 22 years. It's time to start listening."

Although Nenegate galvanised business to do things they normally wouldn't and managed to have a profound effect, Orleyn isn't convinced that the basis for this intervention was ethical – "it was because profits were at stake". Harsh perhaps, but ties in with her point about truly listening to the concerns that people are voicing in the country. She feels there is a fundamental disconnect and this needs to be addressed.

This disassociation is particularly prevalent when it comes to the concerns of our youth, she said.

"Because of how our society is structured – those who have moved up and are affluent are dissociated from the majority that did not have, or take advantage of, the same opportunities." Using herself as an example, she illustrates that although she was able to take advantage of new opportunities when South Africa became a democracy, this was not the case for everyone: "Children of miners, domestic workers and the uneducated are reeling."

In the case of the Fees Must Fall protests, "the youth came knocking at a door they can't get through. However, our response was clinical, suited to a financial environment. We didn't listen. Fees are a proxy for a whole host of issues."

Thandi Orleyn
Co-founder of investment firm Peotona and Chairwoman of BP Southern Africa

"Business needs to take a step back and look at what we have/haven't done in the last 22 years. It's time to start listening."

Perfect inequality

One of these issues is inequality, which has also become a regular item on the global agenda. Often (as with Occupy Wall Street), corporates and the salaries their top execs receive have been attacked for being unethical.

The question of executive remuneration has become increasingly debated, with the disparity of top executive pay in comparison to lower-level workers coming under increased scrutiny. Especially in a country like South Africa, which has one of the highest Gini coefficients (a measure of the gap between the rich and the poor) in the world, a high level of unemployment and a crisis in education, concerns about the justness and sustainability of such an economically skewed society (often mirrored in corporate salaries) are on the rise.

Bonang Mohale
Chairman and general manager of Shell South Africa

Suresh Kana, chairman of Imperial and former Africa CEO of PwC, pointed out that although SA ranks as one of the top in the world for corporate governance, he questions whether we are getting the ethics right.

"The pay gap is a *huge* social issue – it is an irrational and unhealthy situation that is growing," he said.

From a business perspective, the workings of the "whole system starts with the tone at the top". And he believes that it is the responsibility of the governing board to set an ethical tone as well as the strategy to implement it.

So then how do we define the ethical road for business (and government)?

For Bobby Godsell, chairman of Business Leadership South Africa (BLSA), values are key. Changing the modus operandi and approach of boardrooms and executive management should also lead to a shift in values.

Echoing Orleyn's urging of business to take a step back and reflect on where it is currently, Godsell thinks the questions that business need to be asking include, "What did we want to put in place of apartheid? Have we done this? How can we? Is business doing enough?" He doesn't think it has. ■

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"The pay gap is a *huge* social issue – it is an irrational and unhealthy situation that is growing."

ABOUT THE THINK TANK

The GIBS Ethics and Government Think Tank – the first of its kind in South Africa – is an initiative aimed at facilitating a national conversation about business ethics leading to practical measures and outcomes, according to Rabbi Gideon Pogrund, director of the initiative.

"At the heart of our initiative is the idea that the company can no longer be an amoral entity whose sole purpose is to maximise shareholder wealth within the parameters of the law. Increasingly in the world and especially in the current South African context, business is expected to accept wider responsibilities."

"The company can no longer be an amoral entity whose sole purpose is to maximise shareholder wealth within the parameters of the law."

The Think Tank was launched on 10 May at the business school's Illovo campus in Johannesburg. The second public event took place in July and focused on ethical challenges and opportunities for South African business. ■

The Think Tank events take place at GIBS in Illovo, Johannesburg.

Images supplied

LET'S TALK ABOUT HIGHER EDUCATION

At the end of 2015, student protests over the cost of university fees led to the establishment of a Commission of Inquiry by President Jacob Zuma. But the commission seems to be operating far from the public eye and this is worrying – the debate has to return to the public domain.

By Ahmed Essop

South Africa's university campuses are quiet – for now. There's been sporadic unrest, but nothing like the protests that brought institutions to a standstill in late 2015 and early 2016.

This period of quietude isn't surprising. Protesting students won their demand for a freeze on fee increases easily. Their demand for free university education has not yet been met.

The concession on fee increases for 2016 was an attempt to buy peace. There was no attempt to engage students on the implications for quality and sustainability. Instead, President Jacob Zuma established a Commission of Inquiry into the feasibility of free higher education in January 2016. The commission must complete its work by the end of August and submit its final report in November.

The commission's timeline will make it difficult for its findings to impact on fee decisions for 2017. Universities' budgeting processes, including fee increase negotiations with students, begin in earnest after the mid-year break and are finalised by November.

Worryingly, the commission seems to be operating far from the public eye. Now is the time to return the debate about free higher education and fee freezes to the public domain.

The concession on fee increases for 2016 was an attempt to buy peace. There was no attempt to engage students on the implications for quality and sustainability.

Financial distress

The state scraped together most of the funds necessary to compensate universities for the shortfall in revenue from the 2016 fee freeze – R1.9bn of the R2.2bn needed. Universities then funded the remaining R300m from reserves and by scaling down expenditure. The state has budgeted an equivalent amount for 2017 and 2018 but it is unlikely that universities will be able to do the same without compromising teaching and research. So what happens in the next few years?

The state and universities are apparently working on the assumption of a fee increase of between 6% and 7% in 2017, based on the Consumer Price Index (CPI). This would not make up for the gaping hole in university finances that will result from insourcing non-academic services, which was also a student demand and which has been agreed to in principle.

It is estimated by the representative body, Universities South Africa, that this will cost anywhere between R400m and R2bn. Baseline funding would have to be substantially increased to ensure the sustainability of the universities.

This is unlikely given the parlous state of SA's economy. But even if it were possible, universities would still be financially distressed: CPI is not an adequate measure of the costs of higher education. Academic books and laboratory equipment are mostly imported, which significantly increases costs as the rand keeps weakening. It is because of this and because state subsidies have been declining in real terms over the past 15 years – while student numbers have kept increasing – that fees have risen.


President Jacob Zuma


Sizwe Nxasana
Chairperson of the National Student Financial Aid Scheme (NSFAS) board

The extent of the need is indicated by estimates. These suggest that an additional

R10.7bn

would be required annually to cover all the students (just more than 250 000) who qualify for NSFAS support.

Hobson's choice

The state subsidy as a proportion of institutional income remained at 40% between 2008 and 2013. This has had a direct impact on teaching and learning. While student enrolments grew by 34% in this period, permanent academic staff only increased by 22%.

Universities are left with Hobson's choice. They can either increase student fees or do nothing, which would lead to the slow but sure decline in the quality of education that's on offer.

The assumption of a CPI-linked fee increase is likely to come to naught if it is imposed without any prior engagement and agreement with students. This should be an elementary lesson learnt from the attempt by the authorities to impose a unilateral fee increase in 2015 – which is what set off the protest movement.

The fact that a CPI-linked fee increase is being mooted suggests there is recognition that a further freeze on fees is unsustainable. It can't be assumed, though, that the demand for free higher education is off the agenda or that students would be willing to countenance fee increases either in 2017 or in the future.

Higher education globally is elitist

It's an incontrovertible fact that working- and lower-middle-class students can't access higher education without financial support.

It doesn't follow, however, that the solution is free higher education for all. Higher education worldwide, unlike schooling, is elitist. Access is restricted to a proportion of the eligible age cohort. This advantages middle- and upper-middle-class students because of their financial means and access to quality schooling. In effect, since fees constitute a fraction of the total cost of study, their access to higher education is subsidised by low-income families.

It doesn't follow, however, that the solution is free higher education for all.

So free higher education in the current context will further exacerbate South Africa's already high level of inequality.

Similarly, graduates have a greater advantage when it comes to employability and the potential of higher earnings. This suggests that a bursary and loan scheme like the existing National Student Financial Aid Scheme (NSFAS) is a fairer way to ensure affordable access to higher education. It enables recovered loans – R5.4bn since 1998 – to be re-injected into the scheme.

The key challenge confronting the NSFAS is insufficient funding to meet rising demand, including what's needed to cover the "missing middle" who fall outside the scheme's current income threshold of R120 000. NSFAS is developing a new funding model that would bring the "missing middle" into the net.

The problem is not the funding model but the quantum of funds available. Increasing the number of eligible students will – unless more funding is made available – exacerbate the current crisis. The extent of the need is indicated by estimates. These suggest that an additional R10.7bn would be required annually to cover all the students (just more than 250 000) who qualify for NSFAS support.

This may well be affordable if national priorities are shifted, including addressing the huge wastage in resources because of corruption and a bloated public service. It's easier said than done. Even if resources were freed up, there are other competing social priorities.

Wastage in higher education

Student numbers have doubled since 1994. The problem is that this hasn't been matched by a concomitant increase in student throughput rates. About 45% of an entering undergraduate cohort drops out without obtaining a qualification.

Of those who do graduate, just under half take five or more years to do so. That's an enormous waste of scarce financial resources and is higher education's real crisis.

Lack of money is one of the reasons for these high dropout rates. Another factor is school leavers' under-preparedness for higher education. This is not taken into account by the curriculum and qualification structure, which is not suited to the socioeconomic, cultural and educational background of students entering higher education.

So a key first step and priority in relieving funding pressures must be to improve the internal effectiveness and efficiency of the higher education system. This requires systemic intervention to address the knowledge and skills gap between school and university through restructuring the curriculum and qualification structure in higher education. This could be done, as a report commissioned by the country's Council on Higher Education indicated, by adding an extra year to the traditional three- and four-year qualifications.

The council advised the minister of higher education and training in December 2014 to consider piloting a new curriculum and qualification structure along these lines. There was widespread, if qualified, support from universities. But to date there's been no indication of a public response from the minister to the council's advice.

Avoiding more stand-offs

Free higher education may not be desirable or feasible in the short or medium term. To achieve it in the long term, a road map must be developed. This must include finding solutions to universities' funding challenges through an open, honest and transparent national engagement process and dialogue.

This is imperative to avoid a repeat of the stand-off between students and universities, and to secure the future of a quality public higher education system. ■

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THE CONVERSATION

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on the money

THIS WEEK:

>> **Entrepreneur:** Meet the man whose small drilling and mining services company is taking on the big guys *p.42*

>> **Careers:** Tips for a winning work wardrobe *p.44*

MANAGEMENT

By Jessica Hubbard

Why SA employers are rethinking perks

In the current economic climate, giving employees substantial salary increases is out of the question for many companies. Instead, many employers are now opting to reward employees in others ways – including giving them more leave days.

South African employers are facing a conundrum. On the one hand, they are tackling a stagnant economy and a pervading sense of uncertainty – which is permeating both business and social spheres. On the other, local employers are tasked with motivating and engaging what appears to be an increasingly unmotivated and disengaged workforce.

According to the PDT 2015 *State of Employee Engagement* survey, run in conjunction with Fin24, there is a fast-growing disconnect between organisational management and staff. The survey, in which 46% of respondents identified themselves as being in executive or middle management, revealed a worrying decline in the level of employee engagement in SA since the release of PDT's 2014 report. In the most recent report, at least 42 out of every 100 staff members indicated that they are "not motivated to affect real change within their companies".

This is a dangerous scenario for employers, who by now are acutely aware that disengaged employees ultimately hinder long-term growth and sustainability. But throwing money at the problem – with salary increases and annual bonus payments – is not an option for most. Budgets are being squeezed from all sides, and most employees are being forced to work harder for the same pay.

So how are SA's employers approaching the challenge, if at all? While we are by now accustomed to seeing pictures of ping pong tables and multi-coloured sandpits at Silicon Valley start-ups, there is surely more to successful employee engagement than meets the eye.

At least

42

out of every 100 staff members indicated that they are "not motivated to affect real change within their companies".

'Make people's impossible lives possible'

Martin Hopkins, PwC partner: people and organisation, cautions that in SA there is a crisis brewing among junior workers who are struggling to make ends meet.

"Things are going to be tough for a while, and we need to find solutions quickly," he warns. "People are not coming out on their money. Instead of focusing on the 'nice to haves', we must shift our focus to the bottom of the workplace – and to how we can make people's impossible lives possible."

According to Hopkins, this is an area that is starting to attract the attention of remuneration committees as well as social & ethics committees among South African board members.

Kevin Liebenberg
Managing director of Actuate

Debbie Goodman-Bhyat
CEO of Jack Hammer

"They are applying their thinking [to this segment], because there is a growing realisation that the current situation is unsustainable," he adds. "One emerging idea is for companies to help employees 'buy better'... in other words, to help the employee rand go further by the procurement of essential goods and services on an opt-in basis."

So, for example, companies will buy certain things more cheaply at source, and make them available to employees for purchase. These essentials, notes Hopkins, include food, transport, housing, education and connectivity.

"While SA has adopted the total cost to company approach [to remuneration], there is definitely a re-emergence of thinking around benefits," he adds. "In addition to the emerging thinking around how to better support junior workers, employers are looking at recognition programmes as a more cost-effective way to motivate and retain staff at all levels."

Intrinsic motivation

Kevin Liebenberg, managing director at Actuate, an employee marketing and communications firm, confirms this trend – asserting that while companies still value spending on employee engagement, many have opted for "intrinsic motivation rather than throwing cash around to keep employees happy".

"For the most part, intrinsic motivation such as acknowledgement and recognition by key members of the organisation – or added responsibility that helps shape the future of the company – are ways to overcome budget cuts while still making employees feel valued in the company," he explains.


Australian enterprise software company Atlassian was voted one of the best places to work in the world.

SABBATICALS AS A C-SUITE INCENTIVE?

While debates rage on about executive pay, golden handshakes and annual bonuses, companies are also having to find new ways of keeping their top brass happy. Debbie Goodman-Bhyat, CEO at executive search firm Jack Hammer, says that local companies are shadowing a global trend and offering top executives paid sabbaticals as part of their remuneration packages.

"Sabbaticals as an integrated workplace benefit are most frequently seen in 'partnership'-structured organisations – law firms, audit firms and similar," she explains. "On an anecdotal basis, we see sabbaticals as part of a talent management and retention plan in companies that hire large numbers of younger, high-IP, 'millennial' employees. It is recognised that these types of Gen Ys value lifestyle-related opportunities... and sabbaticals are offered to reward long service and retain scarce skills."

She points to notable international companies who are including sabbaticals as part of employee packages: Morgan Stanley recently announced that newly promoted vice presidents will receive paid sabbaticals; and Australian enterprise software company Atlassian (voted one of the best places to work in the world), has a programme called Vacay your way – a benefit that gives select employees the flexibility to choose the amount of paid time off they need.

"We see this happening in innovative 'new-age' companies that are focusing on attracting and retaining Gen Ys," she adds. "Often, the alternative for these people is to resign and travel or pursue personal ambitions rather than staying on. With sabbaticals, companies can now ensure that instead of losing a valuable member of the team, the person will return with renewed vigour to drive business forward." ■

Liebenberg cites the example of one large corporate in SA that has adopted an outcomes-based commission plan. The plan motivates staff members to be more productive, "because they essentially feel as though they are working for themselves", he explains.

At a broader level, Liebenberg posits that motivating employees has definitely evolved from incentivising with cash, to instead appealing to psychological well-being. He says that employers are now offering extra vacation days, implementing training programmes and giving employees the option of spending time on projects they value. Employees are now also being allotted time to spend on CSI and social enhancement projects during work hours.

"Companies have put the old mug and lanyard gifts on ice and are opting for more creative and heart-warming ways to reward staff," he adds.

"Frequent recognition that is tied to results is also being adopted in many large corporates. We have rolled out a highly disruptive recognition programme in a large bank called guerrilla acknowledgement, where employees are 'punked' at their workstations with industrial theatre-type interventions that have included opera singers, belly dancers, soap opera stars and jugglers making a scene of small, strategically aligned behaviours displayed by these employees."

The millennial factor

When looking at emerging strategies and trends in this space, one also cannot afford to ignore the question of what the millennials want. Soon to be the biggest (and arguably most valuable) chunk of the global workforce, employers have no choice but to pay attention to their demands.

Liebenberg cites a report that stated "44% of South African millennials have one foot out the door, with the desire to leave their current company within the next two years".

"This shows that they have a huge need to progress quickly in short periods of time," he explains. "Companies have to adjust their organograms and become more fluid in the way in which these are represented. In terms of employee engagement, millennials are forcing businesses to focus more on people and purpose rather than profits. They believe that a company will only thrive in the long term if they put employees first." ■

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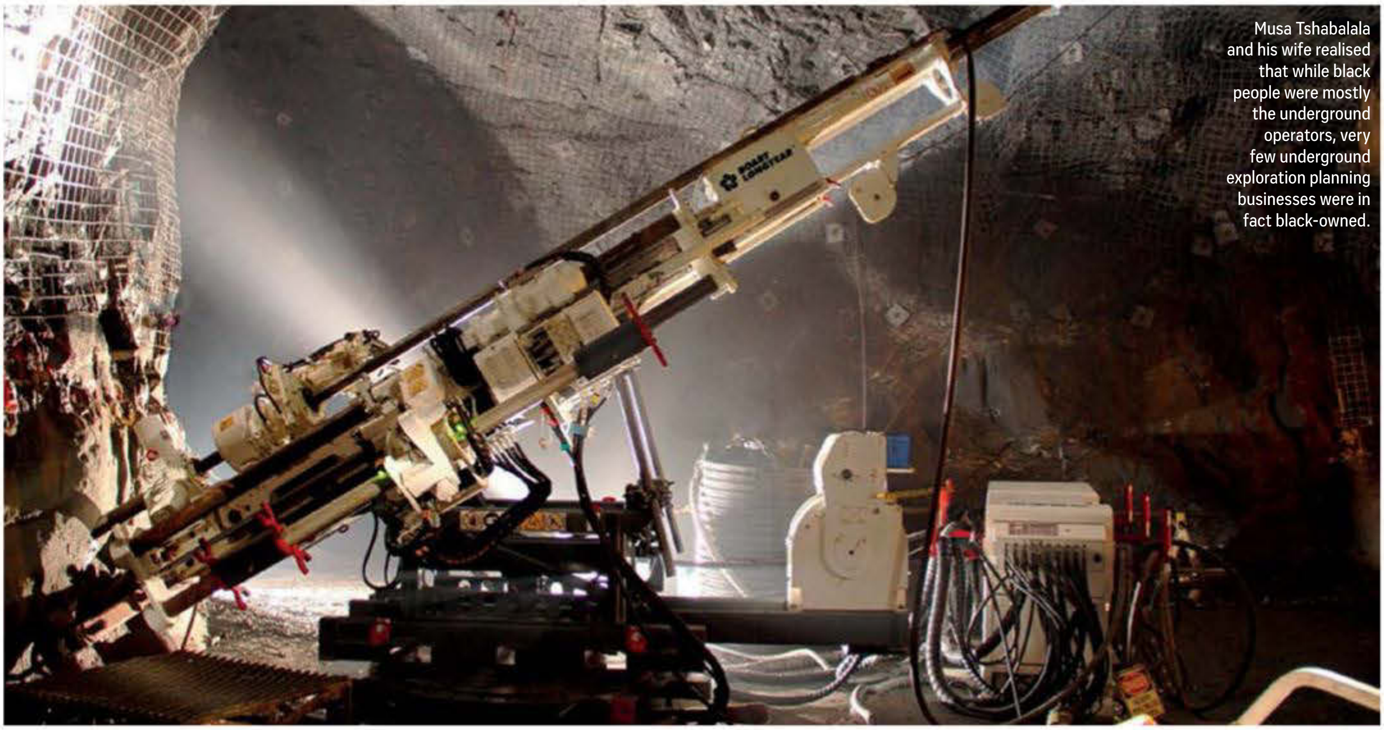
By Buhle Ndweni

Working for a change to come

Despite the global commodity slump that has hurt the local mining industry, founder and managing director of specialised drilling and mining services company Nedtex 217, Musa Tshabalala, has managed to keep his business afloat.



Musa Tshabalala and his wife realised that while black people were mostly the underground operators, very few underground exploration planning businesses were in fact black-owned.

Nedtex 217 is a black-owned and managed company that offers specialised drilling and mining services to big mining companies. Nedtex 217 has provided services to leading mining businesses including Gold Fields, Anglo American Platinum, Impala Platinum, Lonmin and Hernic Ferrochrome.

A mining engineer by profession, Musa Tshabalala, as a prerequisite to completing his diploma, spent three years at Gold Fields where he completed his in-service training in various departments. This experience would later prove invaluable to him starting his own business.

Realising that large corporates like Murray & Roberts were dominating the mining industry's field of underground exploration planning, Tshabalala identified a niche market that his company, as a small black-owned business, could penetrate.

Nedtex 217 has operations in Burgersfort and Lydenburg in Mpumalanga and Dundee, KwaZulu-Natal, and currently employs 27 people.

Nedtex 217 has two operations in Burgersfort and Lydenburg in Mpumalanga and another in Dundee, KwaZulu-Natal, and currently employs

27

people.

WHAT DID YOU DO PRIOR TO STARTING YOUR OWN BUSINESS?

In 1996 I studied towards the first year of my mining engineering diploma at the then Wits Technikon (merged into the University of Johannesburg in 2005). But then I could not continue the following year because the course required that I find a company where I could complete my in-service training. Being unable to find a company to train with led to me discontinuing my studies for two and half years. In 1999 I got a lucky break to complete my in-service training at Gold Fields. In 2002, while still employed at Gold Fields, I resumed my mining engineering studies at Wits Tech.

I remained employed at Gold Fields for five years and also obtained a blasting certificate. Then, in 2005 I joined Lonmin as a production supervisor where I got involved in mine design, support systems and rock engineering to determine the type of support or mine design that should be used underground. In 2008 I left Lonmin for Modikwa Platinum, where I gained experience in rock mechanics before leaving to join Dilokong Chrome Mine three years later. A year later, in March 2011, I left to start my company.

Musa Tshabalala
Founder and managing director of Nedtex 217

Q&A:

WHERE DID THE IDEA COME FROM?

My wife, Thenjiwe Tshabalala, a metallurgist by profession, encouraged me to start my business. We saw that there are not a lot of black-owned businesses in underground exploration planning. Black people are mostly the operators underground, but none of them own businesses to do this due to the lack of business skills to run such operations.

WHAT MOTIVATED YOU TO TURN IT INTO A BUSINESS?

I have always worked in the mining industry; it's only natural that my business would focus on the industry. I wanted to make a difference by transforming the industry and show my children that black people can turn drilling and mining services into a viable business.

HOW DID YOU MAKE YOUR FIRST BUSINESS TRANSACTION OR GET YOUR FIRST CONTRACT?

It took me a year to secure my first project. My track record was scrutinised and clients questioned my safety record. I eventually convinced a former classmate who was a mine manager to give me a six-month trial run. I performed better than everyone else and then went on to successfully tender for my first three-year contract.

WHEN DID YOU OFFICIALLY START OPERATING?

I registered the business in 2011, but only got the first contract on 1 April 2012.

HOW DID YOU GET FUNDING TO GET STARTED?

My wife and I initially funded the business ourselves from money we had saved. It wasn't until later that I got a loan for R162 000 from Anglo American's Zimele (an enterprise development fund that provides support to entrepreneurs). I paid back every cent.

BIGGEST LESSON LEARNT?

You need to be patient. There will be serious challenges, for instance I remember there was a time when there was no money coming in because I didn't have contracts and I had employees to pay. I had to ensure they got paid a salary when I was not paying myself. I was fortunate because when my wife and I started working we invested in residential properties as a stable investment, so when there was no money coming in I took a second bond on one of the properties and that was able to tide us over until we got the next contract.

HOW TOUGH IS COMPETITION IN YOUR SECTOR, AND WHAT DIFFERENTIATES YOU FROM YOUR COMPETITORS?

Competition is tough because my competitors are well-established players. The only advantage I have is my education and the skills I have acquired. Plus, it doesn't hurt that I am black and young (40 is young in this industry). The three-year-long in-service training I did at Gold Fields helped me a lot to gain soft business skills, because I rotated from department to department for about three months at a time, including human resources, accounting and processing operations. All that helped me to understand the daily operational side of the mining business. But I still lacked on the business side of things and when I went into business, I made sure that I employed a professional accountant on a consultancy basis to ensure I was in line with the South African Revenue Service (Sars) tax regulations.

> I look at my two children and into the eyes of any black man or woman, and know that I have to make a change.

HOW MANY PEOPLE DO YOU CURRENTLY EMPLOY?

Nedtex 217 employs 27 people across three operations in Burgersfort, Lydenburg and Dundee.

HOW HAS THE UNDERPERFORMANCE OF THE MINING INDUSTRY IMPACTED THE BUSINESS?

The business has been partly affected by the current state of the industry. For instance, two of our operations were halted when those mines were put under care and maintenance. Nedtex 217 would probably have about 80 employees if the mining industry was thriving.

WHAT IS THE BEST BUSINESS ADVICE YOU'VE EVER RECEIVED?

Be patient, your opportunity for success will come. You must know why you are in that business. I think people go into business just to make money, which in my opinion is not the right reason. A business cannot be successful if you are solely passionate about making money; it also needs to contribute towards making a difference.

WHAT WAS UNEXPECTED?

The less-than-cordial treatment by suppliers was unexpected. This industry is still white dominated and sometimes you get the feeling suppliers would rather not service you. They also insist that money must be cleared before they hand over the goods – it's a constant fight.

HOW DO YOU STAY MOTIVATED?

I look at my two children and into the eyes of any black man or woman, and know that I have to make a change.

WHAT ARE YOUR NON-WORK HABITS THAT HELP YOU WITH YOUR WORK-LIFE BALANCE?

I spend quality time with family.

WHAT IS YOUR THREE-YEAR GOAL FOR YOUR COMPANY?

I would like to grow the company to at least twice the size and obtain at least two more contracts and for the employee numbers to grow from 27 to 50. I would also like to diversify into unrelated industries like entertainment. I recently bought sound equipment and I am now exploring playing music at events. ■

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Images: nedtex217.co.za

By *finweek* team

What not to wear in the office

Power dressing doesn't necessarily have to involve expensive shoes and shoulder pads. You can make a strong impression by being authentic, and keeping it tidy.

Photo By Lyn Alweis/The Denver Post via Getty Images

Whether you like it or not, your clothes and appearance send a strong signal about who you are, and your attitude towards your job.

Dress codes vary across different companies and industries, but even if you can go to work in casual attire, you should always aim to look smart and tidy, says Phephile Simelane-Modiselle, business strategist and director at True North Consulting. "Remember that your personal 'brand' is reflected in your clothing."

"Remember that your personal 'brand' is reflected in your clothing."

STEER CLEAR OF THE FOLLOWING:

■ Untidy clothes and sloppy dressing. Make sure your clothing is ironed, that your buttons are fastened properly and that your clothes fit you well, says Simelane-Modiselle.

■ Too much skin. A recent US study shows that a third of all senior managers think their employees' clothing are too revealing. Belly buttons in particular should not be visible under any circumstances, she adds.

■ 'Peekaboo' underwear. Underwear on display is unprofessional, says Simelane-Modiselle.

■ Being bland. Even if you are wearing a suit, make sure you add details that reflect your personality, she says.

■ Going too casual. Studies show that wearing casual clothing in a traditionally formal workplace has a markedly negative impact on productivity, and even on higher-level abstract thinking. (But in workplaces where people usually wear casual clothing, like the creative industries, it doesn't have any impact.) As they say – dress for the job you want, not the one you have.

■ Wearing the same outfit two days in a row – often a problem among men. ■

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SUITS: THE 10 DEADLY SINS

OFFICE WEAR HAS CERTAINLY GROWN MORE INFORMAL IN RECENT YEARS, BUT FOR MANY MEN, A SUIT REMAINS A WARDROBE STAPLE.

"A suit is still the simplest way to look professional and make a good impression," says Walter Buchholz, a stylist, designer and fashion lecturer at the Cape Peninsula University of Technology. He worked as a tailor in London's Savile Row for many years.

There are, however, a number of ways to look stupid in a suit. Avoid the following:

1. A SUIT JACKET THAT IS TOO LARGE

A tailored jacket should be comfortable but not frumpy. It is not sportswear or leisure wear. Ensure your jacket is as fitted as possible without feeling uncomfortable, is Buchholz's advice. A well-fitted jacket creates a flattering silhouette. "It is like a corset in a sense. It keeps everything together." Still, be careful not to go too tight. Jackets straining to cover excess baggage are as unflattering as oversized ones.

2. WEARING YOUR TROUSERS TOO LONG

A classic way to avoid unnecessary crease lines on the front of your trouser hem is to create a slanted hem. The front of the hem is 1cm shorter than the back. So it slants down to the back leaving less fabric to gather at the front, while still leaving enough length at the back of the shoe.

3. FASTENING THE LOWEST BUTTON OF YOUR JACKET

Always only button up the top one. Also, the hallmark of a good quality suit is cuff buttons that you can unfasten, but always only unbutton the one closest to your hand – not all of the cuff buttons.

4. CUFFLINKS WITHOUT A TIE

Traditionally, this is bad etiquette.

5. USING A BELT TO KEEP YOUR TROUSERS UP

Your belt is only an accessory, says Buchholz. If you need a belt to keep your trousers from falling down, your trousers are too big and will look inelegant.

6. DRY CLEANING YOUR SUIT MORE THAN TWICE A YEAR

Every time you dry clean your suit, you are exposing the natural fibre to chemicals, which is especially a concern when it comes to wool. This will damage your suit in the long run. Instead, take it to be thoroughly steam pressed on a regular basis. This will remove all the creases from your suit, and give it a professional look.

7. WINTER SHIRT WITH A SUMMER JACKET – AND VICE VERSA

Avoid wearing a heavy-weight shirt with a lighter-weight suit, or a thinner, light summer shirt with a dark, heavy jacket.

8. WEARING YOUR SUIT JACKET WITH JEANS OR CHINOS

According to Buchholz, this is a big faux pas. Never break up a suit to wear the jacket with other trousers. In truth, only jackets with patched pockets (a pocket made of a separate piece of cloth sewn on to the outside of a jacket) – as opposed to so-called jetted pockets (which are slit pockets, typically on suit jackets) – can be worn with jeans or chinos.

9. KEEPING IT TOO NEUTRAL

Make some effort, for goodness' sake. Accessorise: wear interesting socks, an interesting belt or even pocket squares. Bow ties are back in fashion, and is the one accessory all age groups can pull off, says Buchholz. There are very interesting trends in suits, with the African influence manifesting in bolder colours and interesting prints in South African workplaces.

10. GOING TOO FUNKY

There's nothing worse than someone who looks self-conscious in a suit, he says. Often their partners convinced them to get something more fashionable than what they are comfortable with. Make sure you feel confident in what you wear. ■

We've got another *Freakonomics* DVD up for grabs. For a chance to win it, complete the online version of this quiz, accessible via fin24.com/finweek from 8 August. Good luck!

1 Who recently caused a stir on Twitter when he stated that he'd voted for Nelson Mandela in the 1990s?

2 **True or false?** Nerina Visser is the CEO of the JSE.

3 Supply the missing word: PMI stands for purchasing __________ index.

4 On which Johannesburg landmark was this year's CEO Sleepout held?

5 Which prominent figure did Julius Malema and other EFF members visit at his home on 1 August?
- Desmond Tutu
- Elon Musk
- Thabo Mbeki

6 In China, ride-sharing company Uber is to merge its operations with a local rival. What is this company's name?
- Lyft
- Ping An
- Didi Chuxing

7 **True or false?** The new editor of *City Press* is Mondli Makhanya.

8 **True or false?** As featured in last week's edition, James Carter is the CEO of OUTsurance.

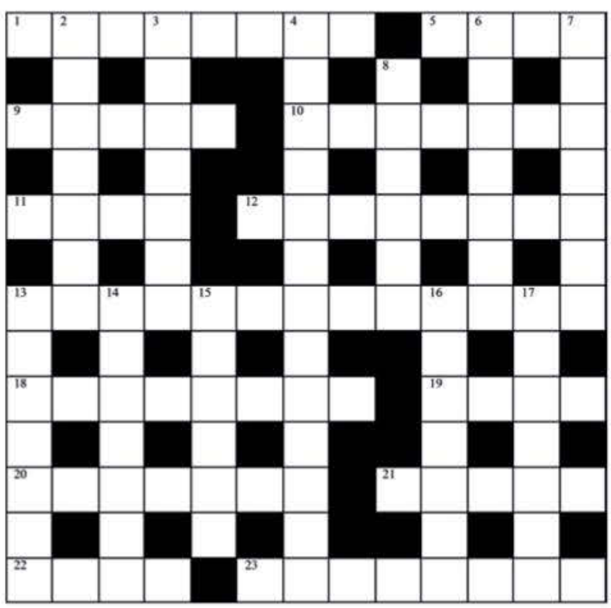
9 Which family founded Pick n Pay?

10 **True or false?** The price of petrol went down on Wednesday, 2 August.

CRYPTIC CROSSWORD 643JD

ACROSS
1 Happy flowers come with love to me (8)
5 Imagine there's no note, in theory (4)
9 Stop doctor cutting into organ (5)
10 Calls to repent (5,2)
11 Early copy of French constitution (4)
12 Assist the old author with rewrite (8)
13 Thoughtful quartette's input to survey (13)
18 Re-engineered a Rolls motor part (5,3)
19 Foil old record with ease, we hear (4)
20 Italian boy's hesitancy discernible initially (7)
21 Farmhand cut head off fish-eating mammal (5)
22 Put in a difficult position having retired without support (4)
23 Hand out lady's marker to opposing players (8)

DOWN
2 Works some water back into river (7)
3 Highest angel (7)
4 Changes imposed a round method of procedure (5,8)
6 Welshman and Sikh sporting African shirt (7)
7 One to take home note for lady (7)
8 Play back numbers at a musical composition (6)
13 Crooked minister in takeover backout (7)
14 Can't be a person of distinction (7)
15 Wager I can make attempt to influence by subterfuge (6)
16 Support for learner driver in street crash (7)
17 Compete with Irish mostly for audience (7)



Solution to Crossword NO 642JD

ACROSS: 1 Crying shame; 9 Nemesis; 10 Caste; 11 Intro; 12 Nostrum; 13 Aisles; 15 Canyon; 18 Incubus; 20 Reign; 22 Noose; 23 Asocial; 24 Premeditate

DOWN: 2 Remit; 3 Inshore; 4 Gisant; 5 Hocus; 6 Miserly; 7 Indications; 8 Permanently; 14 Succour; 16 Airport; 17 Island; 19 Bream; 21 Idiot

On margin

A family affair

A man gets home from work and hears his wife's screams coming from their bedroom upstairs.

He sprints up and opens the door to see his wife lying naked on their bed, sweating and panting.

"Honey! Help! I'm having a heart attack!"

He runs back downstairs and starts dialling an ambulance, when his son and daughter tell him: "Dad! Uncle Terry's upstairs! And he's naked!"

He slams down the phone, sprints back upstairs, runs past his wife and opens the wardrobe. Sure enough, there's his brother crouching in the corner, naked.

"WHAT THE HELL, TERRY?! My wife's having a heart attack and you're running around naked scaring the kids!"

All at sea

The headmistress of a girls' school asks the local vicar to give her pupils a talk on Christianity and sex.

The vicar is happy to do so but doesn't want to upset his prudish wife so he tells her that he'll be giving the girls a talk about sailing.

A week later the headmistress meets the vicar's wife in the street and tells her what a good talk her husband gave.

"I can't imagine it was that good," says the wife. "He's only ever done it twice. The first time he threw up, and the second time his hat blew off."

One too many

A cop pulls a man over for suspected drunk driving.

The policeman opens the door and the driver falls out onto the asphalt. The cop says: "My goodness, you're so drunk, you can't even walk!"

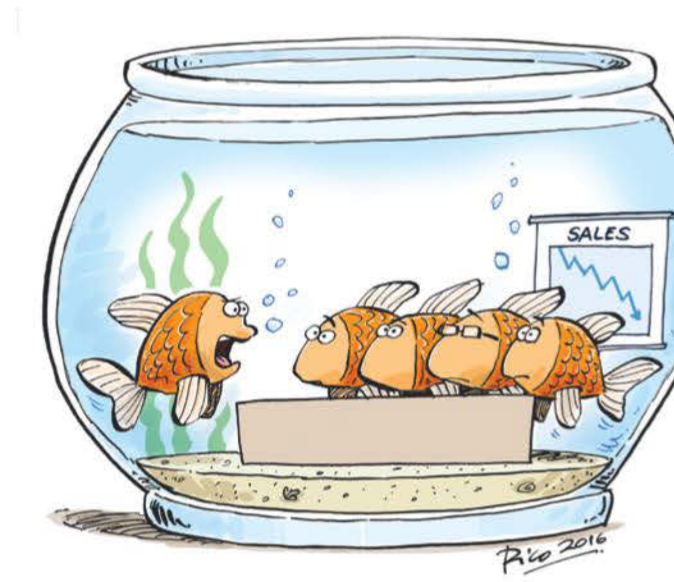
The drunk says: "Well exactly, that's why I took my car!"

A man is staggering home drunk late at night when he's stopped by a policeman. "What are you doing out at this time of night?" asks the officer.

"I'm going to a lecture," replies the man.

"And who's going to give a lecture at this hour?" asks the policeman.

"My wife," replies the man.



"People, we need some 'out of the bowl' thinking here!"

Verbatim

DA leader Mmusi Maimane came under fire after saying that he voted for Nelson Mandela in 1999, when Thabo Mbeki was president. His comment sparked a trending hashtag on Twitter, #ThingsMmusiDid:

... @Thulani_Dlamini
#ThingsMmusiDid Draft the Constitution

Khaya Dlanga @khayadlanga
Mmusi played for Pirates and Chiefs – at the same time in a derby.

ShowlovePicnicVibe @SHOWtibzLOVE
Mmusi created the extra thing that turned salt to Aromat.

Tshepo @TJNGOEPE
He made better tea than you and Five Roses.

#Siyanqoba Asinavalo @savethebay4
When David and Goliath started fighting, he called the police.

#Siyanqoba Asinavalo @savethebay4
He planted an apple tree in the Garden of Eden.

Anneli Groenewald @AniGroenewald
At 28 @richardbranson was told to change Virgin Atlantic's name, as no one would believe they'd "go all the way".

9GAG @9GAG
Donald Trump is a reminder that you should just apply for that job you want even if you don't have experience.

"Whenever you find yourself on the side of the majority, it is time to pause and reflect."

– Mark Twain, American writer (1835-1910)