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SIMON BROWN

'STEER CLEAR OF PIPCOIN'

ENGLISH EDITION

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18 August 2016



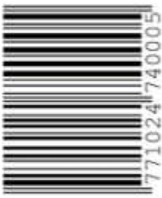
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from the editor

JANA MARAIS



The performance of the rand in recent weeks has been a great example to demonstrate how expensive it can be for investors who follow the herd.

The currency's 35% depreciation against the US dollar in 2015, which made it one of the worst-performing currencies in the world, contributed to major capital outflows as investors headed to "safer" shores, mainly in developed markets. And those of us who were caught napping certainly phoned our financial advisers after President Jacob Zuma fired finance minister Nhlanelahle Nene in December, contributing to a historic low of more than R19 against the greenback in January.

What difference eight months can make. Zuma's position looks slightly more fragile than it was before Nene got that call on the eve of 9 December 2015. But the local elections, in my view, had very little at all to do with the rand's rally (see page 32 for counter-arguments). If anything, markets like stability, and the outcome of these elections raises all sorts of questions about the policies the ANC may consider to gain back voters from the EFF, the Cabinet reshuffles Zuma may have in mind, and the fragility of ruling coalitions in key economic centres like Johannesburg.

Ultimately we're small fry in the big scheme of things, and it's really because of the open purse of major central banks around the world that riskier markets are back in vogue. At the time of writing, the rand was the second-best-performing currency to date this year. For those readers who took their money offshore at R17 or R18 against the dollar, I'm afraid it could get worse before it gets better.

Pascal Blanqué, chief investment officer for Amundi, Europe's largest asset manager with \$1tr under management, said in a recent interview with the *Financial Times* that interest rates will remain "extremely low", and that investors should return to emerging markets. Where it was considered prudent to invest in "safe" assets such as government bonds in anticipation of interest rates rising, Blanqué's view is that the prudent strategy is, in fact, to move to riskier assets.

Simon Derrick, chief currency strategist at the Bank of New York Mellon Corp., told Bloomberg he has a buy rating on the rand, and believes there is still some room for emerging markets to run. This is good news for South Africa, even if our own growth outlook remains gloomy. ■

The currency's  
**35%**  
depreciation against the US dollar in 2015, which made it one of the worst performing currencies in the world, contributed to major capital outflows as investors headed to "safer" shores.



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EMPOWERMENT

# Massive change afoot for black businesses in construction

It is hoped that the revised construction empowerment code will, among other things, put an end to fronting and offer more opportunities to women in the sector.

After being bogged down in drawn-out negotiations and suffering a regulatory setback in February, the revised construction sector empowerment code has made a stunning comeback to see the light of day.

While various industry stakeholders appeared jubilant at the official unveiling of the draft code on 28 July, the sector is faced with a mountain of work in implementing the code, which its supporters say will bring racial transformation to the construction sector.

The unveiling of the code follows months of negotiations between black business lobbyists, established industry players, trade unions and government representatives, who were deadlocked over aligning the old sector code with the revised generic broad-based black economic empowerment (B-BBEE) codes of good practice that the department of trade and industry (dti) brought into effect in May last year.

As a result of the haggling between stakeholders, the industry missed the deadline in November last year to align the old code with revised generic empowerment codes, forcing the dti to repeal the old construction code that had been in effect since 2009 in February.

Operators in the construction industry have committed themselves to transferring

**35%**  
of equity ownership to black investors.

The dti's decision caused panic and policy uncertainty in the industry. It is envisaged that the revised construction code will come into force on 1 November, which industry players will have to abide by immediately.

The construction industry, which generated a turnover of R144.6bn last year, has set itself a black

ownership target that is higher than the target contained in the revised generic codes. Operators in the construction industry have committed themselves to transferring 35% of equity ownership to black investors, significantly sweetening the 25.1% maximum ownership target stipulated in the generic empowerment codes.

In the past, where BEE was concerned, women were always an afterthought and thrown the small crumbs of empowerment deals. But the construction sector code is seeking to rectify this. From now on, construction-related BEE deals are required to ring-fence 10% of the stipulated 35% equity ownership for women to broaden their participation in the sector. Black ownership will count 31 out of a possible 123 points, while supplier and contractor development will count for 38 points.

The code is applicable to the three segments of the construction industry value chain, which includes the built environment professionals (BEPs); contractors (general built); and manufacturers and suppliers of building materials, plant hire and equipment.

The drafters of the code are also looking to close loopholes in BEE legislation that encourage fronting in the sector, particularly the use of

subcontracting as a Trojan horse to hide fronting practices whereby a black-owned company with limited or no expertise wins a tender, but passes it on to a white-owned company with a poor BEE rating.

To counter this practice, the code stipulates that no more than 25% of a project value of a government-sponsored project awarded to a company with a high empowerment rating can be outsourced to an entity with a worse rating than the entity awarded the contract.

Another bugbear in the industry is the use of specialised joint ventures (JVs) to perpetuate fronting, especially through JVs set up for specific projects with a limited duration. These JVs are meant to transfer skills to small black-owned companies from established white-owned companies, but instead are used as fronting vehicles.

Going forward, the consolidation of B-BBEE certificates by JV partners for purposes of measuring the B-BBEE status of a JV will be closely monitored to stamp out fronting and to ensure skills transfer.

Skills development (SD) has also been prioritised to develop a solid pipeline of skills in the industry and to improve the intake of young black women into various professional streams.

The construction sector code has set a target of 2% of payroll spend for the first two years of implementation of the code, 2.5% for the third and fourth years, and 3% after year five and beyond. Trade unions agreed with this deviation from the generic codes, which requires 6% of payroll to be spent.

The construction industry will drive its supplier and contractor development through procurement to ensure that emerging contractors access the construction sector and are given complex work that enables them to improve their Construction Industry Development Board (CIDB) grading. Emerging contractors that improve their grading with the Construction Industry Development Board will be in a position to move up the value chain of the industry instead of being stuck at the bottom.

There is a lot at stake as companies that fail to comply with the BEE codes in construction could see themselves missing out on infrastructure projects in the public sector. According to the National Treasury, the government will spend an estimated R865.4bn on infrastructure over the next three years.

State-owned companies will account for the bulk of the capital investment, spending a projected R337bn, while provincial governments are expected to spend R206.3bn on public infrastructure and municipalities R175.6bn.

The department of public works will be tasked with ensuring that all spheres of government and parastatals enforce the code once it has been approved and gazetted by the dti. ■

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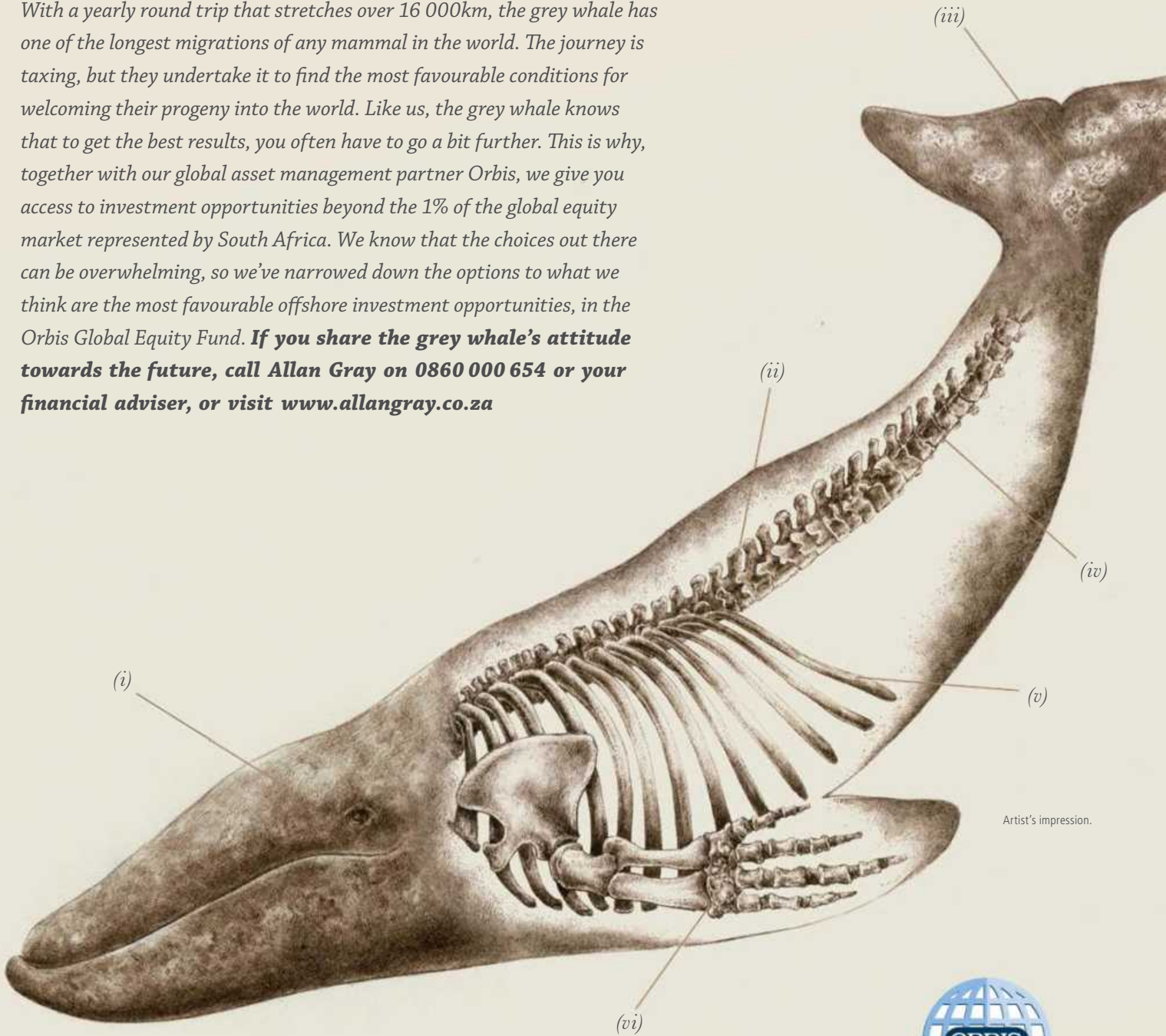
Andile Ntingi is CEO and co-founder of GetBiz, an e-procurement and tender notification service.



Companies failing to comply with BEE codes will miss out on infrastructure projects in the public sector.

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# in brief

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"THESE ELECTIONS ARE A SIGN THAT BLACK VOTERS ARE BEING LIBERATED FROM THE POLITICS OF GUILT ON THEIR PART AND ENTITLEMENT ON THAT OF THE ANC. THEY ARE FINALLY HEEDING MANDELA'S COUNSEL TO BE TOUGH ON THEIR RULERS. THAT CAN ONLY BODE WELL FOR THE FUTURE OF DEMOCRACY."



Photo by Getty Images/Alat Pretorius

– **Barney Mthombothi**, former editor of the *Financial Mail*, in a column published by the *Financial Times* on the surprise outcome of South Africa's local elections. (Also see page 32.)

"It's a vastly easier problem – flying than driving. If we had regulatory permission, we'd be delivering to your house right now."

– **Keller Rinaudo**, a co-founder of Zipline, a drone-delivery start-up that will begin testing a system to deliver medical goods in Rwanda later this year, in an interview with *nytimes.com*. Rinaudo, who was referring to the San Francisco Bay Area, was commenting on an article on online retailer Amazon's goal to do all its deliveries via drones in future. Deutsche Bank analysts estimated that Amazon could cut the unit cost of each delivery by about half in a decade's time by using drones, *nytimes.com* reported. This would have a huge impact on Amazon's competitors and could mean the end of retail stores, the analysts predict.



Photo: Zipline

"DON'T TELL ME WHAT'S WRONG WITH THE OLYMPICS. LET ME TELL YOU WHAT'S RIGHT WITH THEM. IN A WORLD RIFE WITH FAILURE AND BITTER COMPROMISE, THEY'RE DEDICATED TO DREAMING AND TO THE PROPOSITION THAT LIMITS ARE ENTIRELY NEGOTIABLE, BECAUSE THEY REFLECT ONLY WHAT HAS BEEN DONE TO DATE AND NOT WHAT'S DOABLE IN TIME."

– **Frank Bruni**, *New York Times* columnist, in an op-ed on the Rio Olympics.

DOUBLE TAKE

BY RICO



**THE GOOD**

The rand was trading R13.24 against the dollar at the time of writing on 10 August, its strongest level in nine months – good news for importers as well as the inflation and interest rate outlook. This reflects a recovery of nearly 16% since 24 June, when the rand plummeted following Brexit. With some of the world's major central banks, including the Bank of England, having since announced further quantitative easing measures, and a US rate hike seemingly unlikely before December, emerging markets are back in favour.

**THE BAD**

The South Gauteng High Court has ordered South African Airways (SAA) to pay R104.6m plus interest to Nationwide Airlines for anti-competitive behaviour. The case was brought in 2010 following a finding by the Competition Tribunal that SAA had abused its dominant market position to divert customers from competitors, and is the first case to be based on a finding of anti-competitive conduct by the Tribunal, *Business Day* reported. A similar case by Comair, which is claiming damages of R1bn, is still pending.

**THE UGLY**

The telecommunications and postal services department has filed an application in the North Gauteng High Court to block telecoms regulator Icasa from the long-awaited auction of five blocks of spectrum at a reserve price of R3bn, Bloomberg reported. The sale of the spectrum will enable the expansion of wireless broadband access in SA, but the department said it would prevent new players from entering the market. The department wants the sale to be delayed until after it has finalised its policy white paper on the sector.

**STEINHOFF'S AMERICAN DREAM**

**\$2.4bn**

Furniture manufacturer and retailer Steinhoff offered a 115% premium to acquire Mattress Firm Holding Corp. for about \$2.4bn in cash. The deal is Steinhoff's first in the US, and will give it about 25% of the country's retail market for specialty mattresses, Bloomberg reported. Mattress Firm operates 3 500 stores in the country, and is the only US mattress manufacturer with a nationwide supply chain, it said. The combined group will be the world's largest bed retailer and will include chains such as France's Conforama and the UK's Bensons for Beds. Steinhoff said in July that it will buy UK discount chain Poundland Group for £597m.

**ASCENDIS OFFER OVERSUBSCRIBED**

**300%**

Ascendis Health said its R1.2bn rights issue, which closed in the first week of August, was more than three times oversubscribed, meaning the company has secured the funding to conclude its recent R7.3bn acquisitions of specialist generics pharmaceutical company Remedica and European sports nutrition group Scitec. Remedica has a presence in more than 100 countries and is a major supplier to non-governmental organisations active in medical relief. Scitec sells in nearly 90 countries globally, Ascendis said. The deals are expected to boost Ascendis's market cap from the current R7.5bn to more than R10bn, according to the company's own estimates. That would give it a bigger market valuation than Adcock Ingram, *Business Day* reported.



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Aston White, Professional Accountant (SA) and SAIPA member.

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SAIPA articles really moulded me as an accountant. I quickly realised that being an accountant isn't just about number crunching. I found myself learning people skills, as well as getting a clear picture of what it means to work in a South African finance context. I've attended many of the Continuous Professional Development courses and they are always helpful and well-grounded in the South African accounting landscape. I think if you're young and in search of your ideal career path, you should look no further than SAIPA.

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By Shaun Harris

# CMH well-positioned to cash in on used cars

As consumers are feeling the economic crunch, many are opting for second-hand vehicles instead of new ones. Combined Motor Holdings, which is a powerful cash generator, should be able to take advantage of this situation.

Combined Motor Holdings (CMH) is a share priced to perfection. The question is whether the Durban-headquartered motor retailer can emerge from the current decline in new vehicle sales, and where it will go from there. The group stands out as a strong generator of cash and a generous dividend payer. A further question is whether the share rating can be justified for investors seeking pure exposure to motor retailing, unlike the many other vehicle retailers who only offer defused exposure through a holding company.

"Deep value investing is alive and well," says Adrian Saville, chief strategist at Citadel & Cannon Asset Managers. "A good example is retail company Combined Motor Holdings. In a market where consumers are depressed it would seem to be a company to avoid. Yet the dividend yield is 7.97% and the price-to-earnings ratio [P/E] 6.67, and the company is a powerful cash generator."

This is borne out by financial results for the year ended 29 February. Cash generated from operations is R596m, compared to 2015's R439m. Leading sales figures is car hire fleet vehicles at R643m (2015: R609m). Cash holdings are R498m (2015: R450m) leading to fair growth in total headline earnings of R202m (2015: R182m).

To quote **CEO Jebb McIntosh** from commentary with the financial results: "The group learnt harsh lessons during the global and local recession of 2009; most importantly, the need to manage costs and cash flow in a shrinking market. Applying these principles has enabled modest growth in both the new and used car sectors."

Used car sales are important for CMH, helping offset the drop in new-car sales. McIntosh explains further: "Experience has taught us that new-vehicle sales are not the only source of revenue in a motor dealership. As the pricing gap between new and used vehicles grows, so does the demand for quality used vehicles."

This is where CMH scores. Its nation-wide network of quality used cars must be in demand now as debt-heavy consumers shy away from escalating new-car prices.

The sagging economy and steep new-car price increases are eating into South Africa's vehicle sales like never before, with the overall market plummeting 17% year-on-year to 44 833 units.

## COMBINED MOTOR HOLDINGS



52-week range:	<b>R12.25 - R18</b>
Price/earnings ratio:	<b>6.75</b>
1-year total return:	<b>4.95%</b>
Market capitalisation:	<b>R1.25bn</b>
Earnings per share:	<b>R2.48</b>
Dividend yield:	<b>7.87%</b>
Average volume over 30 days:	<b>7773</b>
SOURCE: INET BFA	



**Jebb McIntosh**  
CEO of CMH

The sagging economy and steep new-car price increases are eating into South Africa's vehicle sales like never before, with the overall market plummeting

**17%**  
year-on-year to 44 833 units.

That's according to Naamsa, which adds that the passenger-car market took the biggest knock, contracting 20.6% compared to July 2015, and this in spite of a particularly strong buying spree from the rental industry, which accounted for 18.5% of new-car sales in July (13.1% of the overall market).

This is clear from CMH's accounts shown above, where rental car sales shows one of the largest increases. And like used-car sales, this is where CMH again fares very well.

Naamsa says vehicle sales are unlikely to turn the corner in the near future "given that we are essentially in a state of stagflation, with economic growth being flat at best while, on most fronts, prices continue to rise. New-vehicle buyers have had to contend with double-digit vehicle price increases this year due to a rand that was particularly weak earlier in the year."

This again works in CMH's favour, with reluctant new-car buyers seeking refuge in used cars.

"On the upside, the petrol price has gone down by almost R1 [a litre] and at the moment the rand is stronger than it's been since November last year – should it continue on this path, we could eventually see some price relief in new-car showrooms.

Another upside, for the general economy at least, is that new-vehicle exports are sailing along, with July having seen a 2.4% year-on-year increase," Naamsa says.

Top-selling vehicle sales for July show the dominance of Volkswagen and Ford, with the Volkswagen Polo Vivo in second place and the Volkswagen Polo fifth. The Ford Ranger is third and Ford Fiesta fourth. The top seller is the Toyota Hilux.

Justin Barnes, the chairman of B&M Analysts, says "we are going through very interesting times in respect of the South African industry". Included in his list of what he calls key challenges are "second-hand vehicles are still the top consumer choice in Africa. What is quite striking is the difference in the demand profile between the developed and developing economies."

Once again this shows the importance of second-hand car sales for CMH. And that demand is likely to continue for some time.

CMH looks like an enticing buy. The share price, down 9.9% over the past year, adds to the attraction. For investors looking for exposure to the retail motor industry this is the place to be. ■

editorial@finweek.co.za



# ***Financing businesses across South Africa's industrial landscape***



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By James-Brent Styan

# Eskom and the dilemma with independent power producers

Despite the dangers of relying on a single power utility for energy, the programmes that were intended to increase the number of independent power suppliers in the country have been brought to a grinding halt.

The state created Eskom (at the time known as Escom) in 1923. At the time electricity in South Africa was produced by 58 different entities, of which 40 were municipalities and 18 private companies. What followed was a process of assimilation and takeovers by Escom. This process ended in 1948 when Escom took over the Victoria Falls and Transvaal Power Company for £14.5m. With that agreement, electricity generation in the country was effectively nationalised.

In the decades that followed, **Escom changed its name to Eskom and grew into one of the largest electricity companies in the world, generating around 95% of all electricity in the country.** It also became the owner/operator of SA's entire transmission grid and around half the distribution networks.

Eskom became a giant monopoly and for decades provided electricity at rock-bottom prices due to a variety of reasons including the fact that it got coal for next to nothing. From 1994 Eskom also stopped investing in new power generation despite huge increases in demand for electricity.

By 2007, the entire country was practically still completely dependent on the parastatal for its electricity needs.

In the period between 1994 and 2007, despite the government's indications to the contrary, the private sector could not enter the South African energy sector because that would have meant going up against the gigantic state-owned elephant in the room that owned everything from the generation networks to the distribution networks.

Further, new independent power producers (IPPs) would have had to sell their electricity to Eskom, as there was no other way to get their product to the consumers, given that the transmission grids belonged to the parastatal too. Additionally any potential investor would have had to rely on the hope of selling electricity to a company that sold the same product at below cost price.

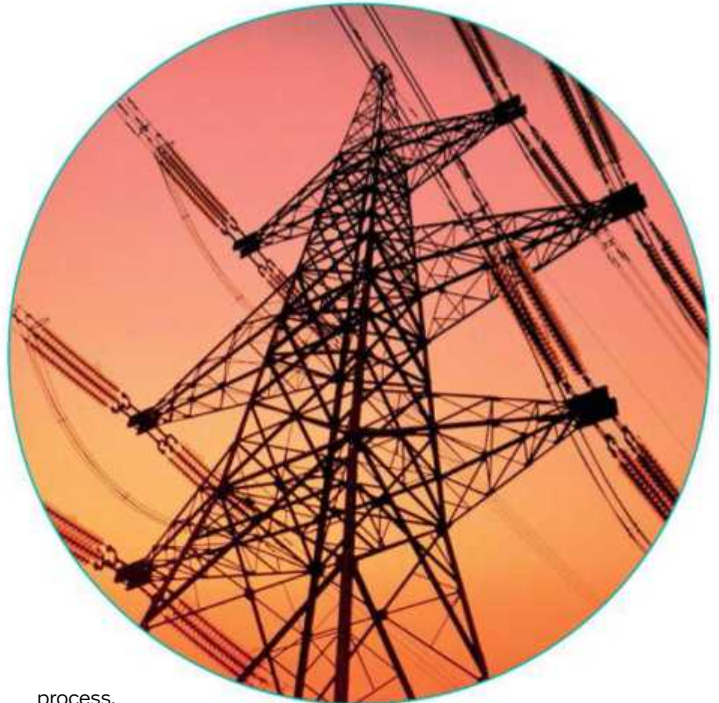
In short, no private investors were going to risk billions to build a power station in SA given these factors. This was the picture up until 2007 when Eskom still enjoyed excess generating capacity thanks to its inherited apartheid-era power station fleet.

When the parastatal finally ran out of spare capacity in 2007, there was no-one there to help it out. The result was load-shedding, which dealt a sharp blow to the economy and became a daily occurrence. The load-shedding Eskom implemented between November 2007 and January 2008 cost the economy approximately R50bn, a figure calculated by the National Energy Regulator (Nersa) from a determined cost of not supplying electricity in South Africa of R75/kWh.

## Fast-forward to 2016

Between 2007 and 2016 a massive capital expansion programme has been on the go with the purpose of adding new power stations to the country's grid. The bulk of the new build consists of three Eskom power stations, Medupi, Kusile and Ingula.

Additionally the government launched an IPP procurement



process, hoping to start adding IPPs to the grid. This became a successful initiative with many independent projects coming online over the past five years and many more in the pipeline.

At the same time demand for electricity has plummeted due to the sluggish economy. As a result, Eskom has been able to do more maintenance on its ancient power fleet and today the parastatal has more electricity available than 10 years ago.

The sum of all the parts has led to a stabilised grid and the result has been that the country has seen no load-shedding in 12 months.

## Eskom says no more

The government's model for IPPs determines that Eskom must buy electricity from the IPPs from its own budget and then distribute it across the grid along with its own electricity. The company is

**The sum of all the parts has led to a stabilised grid and the result has been that the country has seen no load-shedding in 12 months.**

allowed to ask for relief via its annual electricity tariff increases but to date the regulator has been quite strict on the increases it is allowing the parastatal – with the consumers in mind and remembering that the company is a monopoly.

So now a big brouhaha has broken out, with Eskom saying it doesn't want to be forced into any more IPP contracts. This is because its current financial plan cannot support further purchases and also because the parastatal has more than enough capacity to meet demand by itself.

In 2014 Eskom bought 3 671 gigawatt hours (GWh) of electricity from IPPs at an average cost of 88c/kWh. This increased to 9 033 GWh bought at an average cost of 171c/kWh in the 2016 financial year. Meanwhile Eskom's total average cost per kilowatt hour for electricity it generated from its own sources for the year 2016 was 73c/kWh, nearly R1 cheaper than the price

Eskom's total average cost per kilowatt hour for electricity it generated from its own sources for the year 2016 was

73c/  
kWh

nearly R1 cheaper than the price Eskom must pay IPPs.



Eskom must pay IPPs.

Clearly Eskom's concerns are not made up.

However, the country can also not afford to stifle the growth in the independent power sector. This because the sector is vital in order to ensure the sustainability of the country's energy future. After all, the government must ensure, if it comes to it, that a similar meltdown to that experienced in 2007 can be prevented.

### So what to do?

For a start, **better planning and policymaking are urgently needed. SA's policies guiding the industry and Eskom around energy are hopelessly outdated.**

They must be updated as soon as possible.

Additionally it would be a great idea to reconsider a piece of legislation that was cut by the Zuma cabinet before the 2014 election, the Independent System Market Operator (ISMO) Bill.

The Bill was meant to

restructure the existing market by dismantling Eskom's monopoly as the sole purchaser of electricity.

The ISMO Bill – or something similar – would allow for an independent buyer of electricity to buy from all generators including Eskom and the IPPs with the purpose of then feeding the electricity into the national grid. It has never been clear why the Bill was never pushed through. It should be worthy of some further consideration given the current situation.

In the short term, government could always try to get Nersa to allow higher tariff increases for Eskom, or else comply with the parastatal's demand and scrap additional IPPs. However, these last two options are quite undesirable. ■

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**James-Brent Styan** authored a book on the energy crisis called *Blackout: The Eskom Crisis*, published in 2015. He writes in his personal capacity.

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By Terry L. McCoy

# Why Brazil's post-Olympic hangover will hit so hard

In 2009, when it was awarded the Olympic Games, Brazil's star was on the rise and many thought that the country had turned the corner after many difficult years. But it's now clear that this conclusion was very much premature.



A man lying on a bed mocks the "sleepiness" of Brazilian congressmen. About 1.4m demonstrators took to São Paulo's Paulista Avenue in March, calling for an end to corruption in Brazilian politics and for the politicians and business people involved in the misuse of public money to be punished.

Olympic Games host Brazil is struggling through one of the deepest crises in its history. It wasn't supposed to be this way. In 2009, when the 2016 Games were awarded to Rio de Janeiro, Brazil was on a roll. President **Luiz Inácio "Lula" da Silva** proclaimed: "Now we are going to show the world we can be a great country." And for a time, that almost seemed true for Brazil as its economy bounded ahead and social benefits reached much of the population. Long derided as "the country of the future ... and always will be", Brazil seemed to be finally living up to its potential and global aspirations.

The contrast between 2009 and 2016 is stunning, especially given how rapidly Brazil reversed course. While the Olympics may provide a respite from the unremitting flow of bad news, any relief will be short-lived.

Unfortunately, there is no easy or quick exit from the trifecta of interrelated problems that constitute Brazil's perfect storm: a deep recession, a massive corruption scandal and dysfunctional politics.

As a Latin American specialist, I am well-schooled in Brazil's history of boom and bust and have witnessed several cycles up close as a regular visitor. In 2009, I joined many in thinking Brazil had finally turned the corner, but it's now painfully evident that this conclusion was premature.

What went wrong?

## Glory days

An impressive economic performance was key to Brazil gaining credibility on the world stage.

After years of stagnation and high inflation, the economy began a period of sustained growth with low inflation in the early 2000s. The high prices for Brazilian exports fuelled by a global commodity boom were crucial to this growth. So too were the policies adopted by three successive governments to stabilise and open the economy.

Sustained growth produced significant social gains. It generated good jobs. And the government took measures

to share the prosperity: increasing the minimum wage, expanding consumer credit and implementing a conditional cash transfer program (Bolsa Familia) for poor women and children.

These and others lifted millions of Brazilians out of poverty and into the middle class.

For its accomplishments, Brazil – along with China, India and Russia – was anointed a leading emerging market, or one of the "BRICs". The credit rating agencies conferred their coveted investment grade ranking on Brazil, making it a favoured destination for foreign investment.

In his two terms (2003-2011), President Lula actively pushed his country into leadership positions in international organisations. Being selected host for both the 2014 Soccer World Cup and 2016 Olympics seemed to confirm Brazil's arrival as a "great country".

Inflation (currently 9.23%) persistently exceeds the targeted rate, which forces the Central Bank to maintain one of the highest benchmark interest rates (14.25%) in the world.



**President Luiz Inácio "Lula" da Silva**  
President of Brazil from 2003-2011



**Dilma Rousseff**  
President of Brazil

## Dilma Rousseff easily won the 2010 election. But her popularity declined as the economy deteriorated and corruption became an issue.

### All downhill

Since 2010, however, Brazil's economic trajectory has been downhill.

Today it is in the second year of a deep recession, with only a painfully slow recovery on the horizon. Falling commodity prices are an important cause of the downturn, but so are government missteps.

Inflation (currently 9.23%) persistently exceeds the targeted rate, which forces the Central Bank to maintain one of the highest benchmark interest rates (14.25%) in the world. In 2015, based on negative growth, high inflation and growing debt and deficits, the rating agencies downgraded Brazilian debt to junk status.

The economic downturn is beginning to erode the social advances of the previous decade. Unemployment, which reached a historic low in 2013, now stands at 10.9%. Consumer credit is drying up; household debt is skyrocketing.

The economic downturn and its social costs alone would be catastrophic, but there is more: the corruption scandal.

### Massive corruption

Corruption is embedded in Brazilian culture as in most emerging economies. But the current scandal, which centres on the national oil company, Petrobras, is above and beyond.

Estimates are that the bribes to public officials in return for sweetheart deals for private contractors total over \$5bn. The resulting loss to Petrobras is a drag on the economy and contributes to a growing fiscal deficit.

The scandal has reached the top echelons of business and government. The good news is that in contrast to the past, the perpetrators are going to jail. Thanks to an independent, activist judiciary, the heretofore untouchables are doing the "perp walk" on the nightly news. The bad news is that there is still no light at the end of the corruption tunnel.

One of the reasons Brazilians turned to Lula – who ran for the fourth time in 2002 – was the belief that he and his blue-collar Workers Party (PT) would break with the corrupt politics of the traditional political class. Instead, the PT administrations of Lula and his handpicked successor, **Dilma Rousseff**, have turned out just as bad, if not worse.

It now falls on a discredited political class and government to revive the economy and prosecute those involved in the scandal, bringing the matter to a satisfactory conclusion. As if these challenges were not enough, they must first pull off a successful Olympics under increasing security concerns and the Zika threat.

### A dysfunctional political class

The political crisis is the final dimension of Brazil's perfect storm.

Lula delivered economic prosperity for all Brazilians and gave them pride in their country. His popularity initially carried over to Dilma Rousseff. Although she had never held elected



Workers fired by companies working on the construction of the Comperj Petrochemical Complex protest in front of the Petrobras headquarters in Rio de Janeiro in August 2015. The demonstrators are demanding that the construction of refinery and processing plants in the region be continued.



Michel Temer  
Acting president of Brazil

office, she was a trusted member of his inner circle.

Rousseff easily won the 2010 election. But her popularity declined as the economy deteriorated and corruption became an issue. She squeaked through for a second term in 2014, but her public support plummeted in the first year. By the end of 2015, her approval ratings dropped into the low teens. There were street demonstrations demanding her impeachment. The parties allied with the PT in Congress abandoned her.

On April 17, the chamber of deputies voted to impeach President Rousseff. As specified in the constitution,

her vice president and one-time ally, **Michel Temer**, became the acting president. The markets

responded favourably to the change with both the stock market and currency making big gains, but the new government does not inspire confidence in its ability to roll back the perfect storm.

### The uncertain path ahead

To begin with, Temer may not hold office for long. Should the senate fail to convict Rousseff next month, she would immediately resume the presidency. She and her PT supporters insist that the case against her – budgetary mismanagement, not corruption – is not an impeachable offense, that she was the victim of a conservative coup.

Should Rousseff be convicted, Temer would serve out the remaining two years of her term. Despite the positive market reaction, his would be a weak, lame duck administration.

His centrist PMDB party is deeply implicated in the Petrobras scandal. Three members of his cabinet resigned because of allegations of corruption. The PMDB president of the lower house, who led the drive against Dilma, was forced to step down because of bribery allegations.

A recent poll found that only 13% of the public rated the Temer government good or excellent, not significantly higher than Rousseff. Most Brazilians would like to see national elections now, but they will have to wait until the next scheduled election in October 2018 since the constitution does not provide for a special election.

### The post-Olympic Games hangover

The Rio Olympics were supposed to showcase Brazil's accomplishments. Instead of a breakthrough, they come amid another boom-bust cycle with no end in sight for the bust.

As for the Olympics themselves, most Brazilians now expect the impact to be negative. That being said, Brazilians will use any excuse to throw a party, which they will surely do for themselves and their visitors.

Their post-Games hangover, however, will be formidable. ■  
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## THE CONVERSATION

Terry L. McCoy is professor emeritus of Latin American Studies and Political Science at the University of Florida. This article was first published by The Conversation Africa and can be accessed at <https://theconversation.com/africa>.

By David McKay

# Does Amplats have reason to smile in Zim?

An easing of the Zimbabwean government's indigenisation policy appears to be on the cards, meaning that Anglo American Platinum might be able to retain its Unki mine in its entirety.

Complying with Zimbabwe's ever-changing empowerment regulations – known as indigenisation – has been a major headache for platinum miners such as Impala Platinum and Anglo American Platinum (Amplats) for more than a decade.

There are signs, however, that the demands are becoming more palatable, although nobody is getting ahead of themselves given the number of times the black economic empowerment laws have changed in Zimbabwe over the years.

The latest iteration for indigenisation is that companies such as Amplats commit to spending and retaining about 75% of gross platinum sales in Zimbabwe; in other words, beneficiation. This requirement trumps the 2012 heads of agreement signed between Amplats and the Zimbabwean government in which Amplats was to sell 51% of its local business, the Unki platinum mine.

Said Mpumi Sithole, a spokesperson for Amplats: "Should the proposed legislation be promulgated into law, then Amplats will legally be able to retain 100% on condition it spends more than 75% of gross sales in Zimbabwe."

Owning 100% of Unki could be a real boon for Amplats. Interestingly, the asset has been counted as a core mine in Amplats' books in terms of its restructuring plans in which much larger mines, such as Rustenburg Platinum Mines, are to be sold.

In the six months ended 30 June, Unki contributed R73m to Amplats' operating free cash flow of R3.2bn



– a fraction of the overall amount – but Unki is blessed with extensive mineral resources, a relatively trouble-free workforce with an ethos for relatively high productivity, and potential to debottleneck and expand.

However, Amplats reckons it may still stick with some indigenisation. "In reality, however, given global pressure associated with resource nationalism, we suspect there would be a moral justification for concluding empowerment transactions with employees and the community," said Sithole. "The quantum of this empowerment is unknown at this stage, but it would be substantially less than the 51% level."

Opt-in indigenisation – as this would effectively become – would be easier to time and structure, and easier for shareholders to understand. After the 2012 heads of agreement, there was confusion as to whether Amplats was required to "sell" the 51% stake or simply "hand it away", with President Robert Mugabe instructing his then head of empowerment, Saviour Kasukuwere, to demand the latter.

Asked about the new dispensation in Zimbabwe, Chris Griffith, CEO of Amplats, told *finweek* in an interview that he was fairly sanguine about conditions. "The numbers are not too difficult for us to achieve," he said of Zimbabwe's proposed gross sales target.

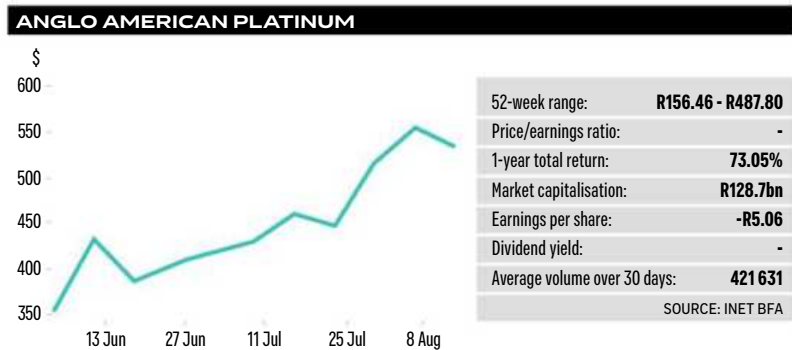
"We have already achieved substantial amounts of indigenisation, but our main focus now is on beneficiation and avoiding a 15% royalty tax hence the investment we are making," he added. This is the regulation imposed in 2014 which would affect current unbeneficiated ore. Based on production from Unki in 2015, the levy would have added \$10m to Amplats' costs.

A feasibility study for the construction of a smelter has been completed by Amplats with the third quarter of this year pencilled in as start of the construction phase. Smelter commissioning is thereafter planned for the second half of Amplats' 2018 financial year.

Between now and then, however, Zimbabwe has other problems, Griffith suggests. "We think the more immediate challenge for them is having sufficient dollars to run the country rather than issues relating to indigenisation," he said.

This raises the question as to whether the amended requirements on beneficiation will ever see light of day or whether the constant limbo in which SA's platinum firms operate in Zimbabwe is set to continue for years to come. ■

**"Should the proposed legislation be promulgated into law, then Amplats will legally be able to retain 100% on condition it spends more than 75% of gross sales in Zimbabwe."**



# Are gold miners about to pay dividends again?

Things are looking up for the gold sector, and some mining companies may even resume dividend payments.

hopes are high that AngloGold Ashanti will kick off the June quarter gold industry reporting season on 15 August with an operating performance that clears the decks for dividends – a sea-change that could be echoed later in the week by Harmony Gold.

AngloGold last paid a dividend just over three years ago. When it stopped the dividend it also set about cutting jobs and production in a desperate effort to save the balance sheet. As for Harmony Gold, it hasn't paid a dividend since February 2013.

Now, however, amid a strongly performing

gold price, the outlook for South African gold shares is looking decidedly strong.

The other three major companies – Gold Fields, Sibanye Gold and DRDGold – are already established dividend payers. Yet equally important questions will be asked about what they intend to do with the extra free cash flow.

In terms of investor choice, the preference seems to be for AngloGold as it's not too exposed to South Africa with its restive labour issues, above-inflation power cost increases, and regulatory uncertainty.

**"All SA producers are highly free cash flow generative at \$1 300/oz with yields of**

**between 10% and 18%,** but we highlight our preference for AngloGold Ashanti among the larger producers because of its geographical diversification and continued de-gearing trend," said Leroy Mnguni, an analyst for RMB Morgan Stanley.

He believes that AngloGold will only resume paying dividends next year.

Said Bank of America Merrill Lynch: "AngloGold is our top pick in SA gold thanks to its high-quality operations, geographical diversity (only about 30% of production in SA) and robust margins." ■

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## 4 CEOs

### THE KEY QUESTIONS THAT NEED ANSWERING OF EACH OF THE SA GOLD STOCKS:



#### AngloGold Ashanti:

Inevitably, attention will fall on reinstalling the dividend, but there will be concern regarding unrest at the firm's Obuasi mine in Ghana where artisanal miners have invaded the premises while the Ghanaian government looks helplessly on.

Management's best quote about the dividend lately comes from its CEO, Srinivasan Venkatakrisnan, who said in May: "The dividend is a key component of our investment case. Every quarter of positive cash flow takes us closer to that."



#### Harmony Gold:

The key issue for Harmony is the balance sheet: specifically, the question of how quickly it can zero in on debt and build a kitty for its expensive-looking Golpu copper/gold project in Papua New Guinea. Investors will be hoping for more grade improvements, especially at Kusasaletu – one of its larger mines – and if the dividend can be reinstated despite the need to build cash reserves.

Said CEO Peter Steenkamp regarding the likelihood that at current gold price expectations Harmony will be highly cash generative until 2018: "We're obviously not against dividends. We have this two-year window now which we wouldn't have had originally, which makes it more amicable for dividends."



#### Gold Fields:

CEO Nick Holland has told shareholders to hang on until February for an update on new production targets out of South Deep, its only mine in SA. But the focus will still be on the asset, especially its ability to ramp up output while the group finds reserves replacement at its Australian and other African assets.

Holland's quotable quote: "For the first time that I can ever remember, we're ahead of plan at South Deep."

**"For the first time that I can ever remember, we're ahead of plan at South Deep."**



#### Sibanye Gold:

It's not possible now to think of Sibanye as a purely gold counter because of the addition of Aquarius Platinum to its stable and the likelihood that it will add the production of Rustenburg Platinum Mines – which it is buying from Anglo American Platinum – to output.

But CEO Neal Froneman makes the point that the firm's strategy is to be a high-yielding dividend play rather than a company fixed on any particular metal or mineral. He will, nonetheless, face questions about sustaining the operating numbers at the firm's South African mines, which Froneman's critics say is the real reason the firm has embarked on an energetic commodity diversification plan.

Froneman insists, however, that discipline remains at the heart of the company's approach. Asked if the company would consider issuing shares to fund its growth ambitions, Froneman said: "We can't be an industry-leading dividend player and then willy-nilly issue shares."



Unrest at AngloGold Ashanti's Obuasi mine in Ghana remains a concern.

By Glenda Williams

# Property: Unlocking value with upgrades and expansions

The listed property sector is efficiently redeploying capital by upgrading or redeveloping existing properties.

Despite a challenging local economy, as well as global market uncertainty following the Brexit vote, the listed property sector is not sitting on its hands.

While acquiring new assets may not be top of the agenda, delivering a robust performance is. One of the routes used by the sector to achieve this is through the efficient recycling of capital domestically.

For many, that means extracting value from assets already within their portfolios by redeploying capital into those assets that might otherwise have been used to acquire new properties.

Mid-cap real estate investment trust (REIT) Emira Property Fund, for example, is recycling much of its capital through tactical refurbishments to unlock value in its local assets, an asset base comprising 146 properties valued at R13bn of its total R14bn portfolio.

The company is focused on filling vacancies that include improving the quality and let-ability of its portfolio by reinvesting in its local office, retail and industrial portfolio, managing to successfully improve the quality of its portfolio in recent years.

At the end of its half-year to December 2015, Emira had R515.1m of property redevelopments and extensions underway. That number for the full-year will probably be higher by about 25%, and will include around R250m for the company's Summit Place development in Pretoria, chief financial officer Greg Booyens tells *finweek*.

That R515.1m also includes R340m of the R795m phased redevelopment of Knightsbridge in Bryanston and the forecast R65m to upgrade the company's five previously 80s-built B-grade offices in the design and décor quarter of Kramerville, Sandton.

To cater to tenants' requirements they spent R85.4m to upgrade the five properties, says Booyens. While these properties previously struggled to find tenants, Emira CEO Geoff Jennett said the "rentals achieved have doubled, the average lease expiry has improved fourfold and the value of the property has increased beyond our investment in the project".

Menlyn Corporate Park is Emira's second largest asset, situated in one of the best performing commercial nodes nationally. And it has grown in value and size, now 26 709m<sup>2</sup> after a 1 163m<sup>2</sup> extension.

Heavyweight Redefine Properties, boasting total assets

of R74.5bn, is also spending a chunk of change each year reinvesting into its local properties. During the half-year to end February 2016 the company completed projects totalling R1.8bn, representing investment of R700m for the period, outgunning acquisitions of about R400m.

Expansion and improvement initiatives totalling R1.1bn are underway on a number of Redefine's malls, including Centurion Mall.

Aiming to increase footfall from nearly 970 000 to 1.2m per month, Redefine is also looking at plans to improve Maponya Mall in Soweto. That could include a potential 10 000m<sup>2</sup> extension. Dischem, dipping its toes into the former township when it opens in Maponya Mall later this year, is likely to be a footfall game changer. Even Woolworths is keen to expand but whether or not that comes about hinges on the deal structure, Redefine chief operating officer David Rice tells *finweek*.



Redefine's Maponya Mall in Klipspruit, Soweto

East Rand Mall in Boksburg, which Redefine owns jointly with Vukile Property Fund, recently underwent a R460m expansion and redevelopment (R230m of that Redefine's portion), increasing its size by around 7 000m<sup>2</sup> to 69 510m<sup>2</sup> and upping its footfall to 1m per month.

Well-priced quality assets are hard to find in a sluggish local market. Funding acquisitions, too, is around 1.5% higher than it was 12 to 18 months ago. "There are very few domestic investment prospects as pricing does not match the cost of capital," says Vukile Property Fund CEO Laurence Rapp.



Emira's A-grade office building in Francis Baard Street in Hatfield, Pretoria

Vukile, whose portfolio totals R15.6bn, is also sweating its assets to extract maximum value. In the year ending 31 March 2016 Vukile undertook R654m in upgrades and redevelopments, one a R135m expansion and upgrade of Meadowdale Mall, in which Vukile has a 67% stake.

Investing in the fast-growing Fourways area is Accelerate Property Fund, whose expansion and upgrading of Fourways Mall commenced end 2015. With 170 000m<sup>2</sup> of lettable retail space this super-regional shopping centre, which will connect surrounding centres like Fourways View and the existing Game building under one roof, will be one of the largest on the continent when completed in 2018. The company, whose assets are valued at R7.65bn, estimates an investment of R270m for the expansion and upgrading of adjacent road infrastructure. ■

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David Rice  
COO of Redefine  
Properties

Well-priced quality assets are hard to find in a sluggish local market. Funding acquisitions, too, is around

1.5% higher than it was 12 to 18 months ago.



Laurence Rapp  
CEO of Vukile Property  
Fund



# market place



**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.

HOUSE VIEW: MIX TELEMATICS

BUY

SELL

DIG MORE

By Simon Brown

## Can its offerings keep up?

MiX Telematics is a stock I have suggested many buys on, starting way back when it was trading at around a rand. We watched it shoot up to almost 700c but it has fallen back now, trading at some 300c.

The recent results were good with all the main figures moving in the right direction although nothing shot the lights out. My concern, however, is how much of an intellectual property (IP) advantage this company really has. I am not suggesting it doesn't have great IP, but the tech world moves fast.

In short, I worry that MiX Telematics is being slowly disrupted and for example smartphones all have GPS and accelerometers in them. These two chips mean we can track not only where the phone is, but also its speed and – if the owner is in a car – even when the breaks are applied. So a simple smartphone can replace the fancy tech used for tracking vehicles.

Now sure, companies such as MiX Telematics offer a lot more than just vehicle tracking, but we can see a future with simple cheap alternatives and that is going to hurt MiX Telematics. ■

DIG MORE

DIVTRX

WAIT...

Ethos Capital

SELL

Ellies

BUY

MSCI World Index ETF – db X-tracker (DBXWD)

Last trade ideas

BHP BILLITON

BUY

SELL

HOLD

By Moxima Gama

## Improvement programmes to give boost

BHP Billiton, which has made provision for costs of between \$1.1bn and \$1.3bn to deal with the fatal **Samarco disaster in Brazil** in November last year, has been lagging its diversified miner peers. Two towns were flattened and 19 people killed when a Samarco tailings dam collapsed, causing a deluge of waste water. Uncertainty around the nature and timing of potential restart of the operations of Samarco, a joint venture with Brazilian iron ore miner Vale, continues to weigh on the stock.

Anglo American, on the other hand, has been making headway with its drastic restructuring plans, and has seen its iron ore operations in Brazil continue to ramp up production. The company has also been cutting its net debt and unit costs while improving free cash flow, even though lower commodity prices weighed on earnings. **As a result Anglo has recovered rapidly within its long-term bear trend, while BHP consolidates and encounters major resistance.**



The Bento Rodrigues district in Brazil was destroyed after the collapse of Samarco's Fundao mining dam.

Lower commodity prices, which had a negative impact on earnings to the tune of \$7.8bn in the six months to end December, have also forced BHP to change its dividend policy. It reported a loss of nearly \$5.7bn for the period, or 106.5 US cents a share.

Net operating cash flow declined by 45% year-on-year to \$5.26bn. The group said in July that it expects volumes and costs across its minerals businesses to continue benefitting from its productivity improvement programmes over the next 12 months. It expects to grow production in copper (5%), iron ore (up to 4%) and metallurgical coal (3%) in the next financial year.

**How to trade it:** BHP Billiton is range-bound in the form of a triangle – signalling investor indecision – and breakout in either direction is pending. Currently edging on the upper end of the range, a positive end to the short-term consolidation would be signalled above 19 300c/share, meaning investors are overlooking the fundamentals, instead finding BHP

BUY

Woolworths Holdings

SELL

Sasol

BUY

Exxaro Resources

SELL

SABMiller

Last trade ideas

attractive at those levels.

An aggressive increment could be initiated above 20 085c/share, targeting the 21 730c/share resistance level. Alternatively, go short below 17 000c/share, as downside to 15 365c/share could ensue. This scenario would indicate a continued lack in investors' confidence in BHP. Next support would be at 13 630c/share. ■ [editorial@finweek.co.za](mailto:editorial@finweek.co.za)



GROUP FIVE

# European projects the star

Group Five's order book has been shrinking in recent months, but its business in Eastern Europe, which is involved in toll motorway development, investment and operation, is doing well.

It's been a tough few years for the local construction industry, due in part to low economic growth, limited infrastructure spending and overcapacity in the construction sector, leading to a highly competitive market and low margins. Analysts are forecasting further weakness in construction activity, despite finance minister Pravin Gordhan's February Budget allocating R870bn to be invested by the public sector in transport, energy, housing, health and water infrastructure over the next three years.

Group Five, one of the country's biggest listed construction firms, offers project development, investment, design, construction, operations and maintenance, as well as the manufacturing and supply of materials. It also operates in the infrastructure, energy, resources and real estate sectors. While focused on South Africa

and the rest of the continent, it has had much success with its Eastern European toll motorway development, investment and operating business.

At the release of its half-year results in February, the group had a contracting order book of nearly R11.8bn (compared with R14.1bn at the end of the 2015 financial year), with the bulk of the orders from the power (44%) and real estate (35%) sectors. Geographically, South Africa (59%) and West Africa (39%)

made up the bulk of its orders. Its order book for operations and maintenance totalled R5.8bn (2015 financial year: R4.7bn).

In addition to the tough economic climate, Group Five has also been in a long-running dispute with the Competition Commission, which accuses it of colluding with WBHO and Concor, a Murray & Roberts subsidiary, on a tender for the Senekal roads project. Group Five has so far refused to respond to the allegations, saying it first wants access to the Competition Commission's investigative report, *Business Day* reported in July. The commission has since taken the matter to the Constitutional Court.

Despite the challenging environment, Group Five said earlier this month that it expects fully diluted headline earnings per share (HEPS) to be between 60% and 70% higher in the year to end June (2015 financial year:

204c a share), partly thanks to a better-than-expected performance from its Eastern European project investment portfolio. "Operating profit performance was also strong with excellent delivery across all secured contracts," it said.

The engineering and construction cluster continued to operate below expectations, and its manufacturing cluster reported a lower result than the previous year due to "extremely difficult South African trading conditions", it said in the trading statement.

Group Five is expected to release its full results for the financial year on 15 August.

52-week range:	R13 - R26.70
Price/earnings ratio:	10.22
1-year total return:	9.99%
Market capitalisation:	R2.6bn
Earnings per share:	R2.27
Dividend yield:	2.89%
Average volume over 30 days:	159 552

SOURCE: INET BFA

### What next?

**Possible scenario:** Group Five held support at a level last tested in 2005 at 1 300c/share, plummeting from a high at 7 380c/share in 2007. The final shoulder of an inverted head-and-shoulders pattern is currently in the making. Upside above 2 845c/share would not only confirm the bullish reversal pattern, but also end a long-term bear trend – a very bullish move. The 3 625c/share prior high could be targeted in the short to medium term. Note that the overbought three-week relative strength index (RSI) will trigger a pullback, extending the final shoulder. The pattern would still be under construction above 1 800c/share. Go long above 2 845c/share.

**Alternative scenario:** A reversal below 1 800c/share would compromise the bullish implication of the pattern. The 1 300c/share prior low could then be retested. ■

**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.

### GROUP FIVE



SOURCE: MetaStock Pro (Reuters)



**Moxima Gama on finweek: Money Matters on CNBC Africa every Friday at 1pm.**



# 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.

## NEDBANK

### Great results, but for Ecobank

Nedbank results were really very good, if you remove the Ecobank numbers, but you can't just wish them away. The question is how long Ecobank will continue to hurt to this degree – HEPS growth was 2% but without Ecobank it would have been 20.1%, so a large hit. Nedbank needs to get its minority 21.8% holding working. I'm never a fan of minority holdings as the companies involved lack the obvious control that may be required to really make the operation work well and be profitable. One very positive figure from Nedbank was bad debts at a very low 0.67%, below both the group's expectations and its local competitors.

One very positive figure from Nedbank was bad debts at a very low

0.67%.



### Still tough for telcos

The MTN results had some truly gobsmacking figures with over R1bn being spent "on a range of professional services relating to the negotiations" of the Nigerian fine. It's a huge amount of money but in truth surely it was well spent as the fine was ultimately reduced by over \$3bn. However, payment of the fine is hurting (over R10bn paid this reporting period) and its two key markets, South Africa and Nigeria, are having a very tough time of it. I have written before that I like the fact that MTN is getting new management, although the new CEO will only arrive next year. But it remains very tough for mobile telcos generally (as we consume more low margin data and less high margin voice and SMS) and for MTN in particular. This is a sector I am staying away from for now and likely for a while to come. I'm waiting for these companies to transform into data utilities or to find a new way of generating profits.



### Good to be ignored

The local government elections are now behind us and the next election will be the general one in 2019. The big issue is that as a country we do elections with plenty of fighting between the parties, but we do them fairly and cleanly. This is what matters. These elections were our country's 10th since 1994 and the markets totally ignore them. This is exactly what a democracy wants – regular elections that markets are able to ignore. ■  
[editorial@finweek.co.za](mailto:editorial@finweek.co.za)



### Trouble far from over

Ellies has finally put its Megatron unit into business rescue but this does not solve all its problems. The consumer goods part of the Ellies business is doing all right while Megatron has been written down to zero ahead of the business rescue. However, Ellies is exposed to the R100m loan Megatron has from Standard Bank as it stood surety, so Standard Bank can claim it back directly from Ellies. That said, Ellies does not have the R100m and Standard Bank is pretty much keeping it in business by providing various loans to the group. Business rescue for Megatron is the right decision but the pain and troubles are far from over for Ellies. Even while trading at around 20c (a quarter of stated net asset value) real risks remain and I would not be buying.



### Mind the gap

SABMiller and AB InBev have confirmed that the merger is moving smoothly ahead, with shareholder approval all that remains. With all things being equal (and no reason to think not), SABMiller will delist from the JSE on 11 October after having listed on the JSE way back in 1897. The exit of SABMiller is going to leave a giant hole in the JSE generally but also in the Indi25 index as it was a big part of that index and was an equally large part of the index's move higher over the last few years as SABMiller share price added 478% over the last decade.

Image: elliesholding.com

Images: iStock | Getty Images

FUNDAMENTALS

# The basics of shares

Companies can use shares to create wealth, pay off debts or even to pay director bonuses. But using shares to complete transactions has a direct impact on the value of the shareholder's investment.

**W**hat's the difference between authorised and issued shares? What about share buy-backs and treasury shares?

Let's start right at the beginning. When a company is formed (whether private or listed) the founders decide on an initial number of shares and these are the authorised shares, in other words those that have been authorised by the owners. However, the owners may elect not to issue all the authorised shares, keeping some in reserve for later use. So let's take as an example a new company that starts life with 100 authorised shares but only issues 60 of them. These 60 shares are the ones that are tradable on the exchange and will be used to determine the market cap of the business (market cap is number of issued shares times share price, representing the total value of the company).

The remaining 40 shares can only be used (issued) with shareholder approval and could be used to raise cash (this is when shares are sold into the market and the company receives the money, such as via a rights issue). Alternatively, they could be used (again only with shareholder approval) in lieu of money when buying assets or paying off debts or even paying director bonuses.

For example, the company wants to buy out a competitor and instead of using cash it uses 10 of the un-issued shares. It means the people who sold their company now own 10 of the now 70 issued shares, or 14.3% of the company. In one sense using shares to do deals means you get the assets for free, but the concern here is that you are essentially giving away a part of the company.

However, if you pay cash for the competitor you just bought it through a one-off payment whereas the shares are an everlasting payment and have a permanent claim

on future profits alongside existing shareholders.

Typically, what happens is that at the annual general meeting (AGM) the directors will request that the shareholders give them the authority to use a specific amount of the un-issued shares for transactions. This means that they will be allowed to use the shares and don't have to get shareholder approval every time they want to transact. Authority is generally given for a limited number of shares so that directors can do medium-size deals but would require additional approval for larger deals. Then we have share buy-backs. A board of directors can decide to buy back the company shares. They would once again need shareholder approval and if this is granted, they would buy back the shares in the open market. These purchased shares become treasury shares until such time as they are "destroyed", effectively meaning they no longer exist.

Here the aim is to increase the value of the remaining shares in the market. Going back to our example of the above company that now has 70 issued shares and let's say they're trading at R100 each. That would give the company a value (market cap) of R7 000. If the company now buys back 20 shares, there would be 50 issued shares left and – assuming all else is equal – the company is still worth R7 000 but each share would have a value of R140 as there are 20 fewer shares with rights to the company's value of R7 000. Of course it doesn't always work as smoothly as that and the company has spent money to buy back the shares, meaning it has less cash and as such the value of the company would have decreased, but longer term it can add value to the remaining shares.

As a rule I prefer debt to using shares for acquisitions and I am not a fan of share buy-backs as often they happen at high prices when directors have no other ideas of how to grow the company. ■

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**They could be used (again only with shareholder approval) in lieu of money when buying assets or paying off debts or even paying director bonuses.**

## ASPEN HOLDINGS



# Making appealing acquisitions

The pharmaceutical giant has been labouring under a massive debt burden of late, but a new deal with AstraZeneca has breathed new life into its prospects.

**W**ith profit growth increasing 60-fold over the last 17 years, Aspen Holdings has built an impressive track record in transforming itself from a South African-focused pharmaceuticals business to a multinational healthcare giant, ranked within the largest top 40 listed global pharmaceutical companies.

It employs more than 10 000 people globally and distributes its product to more than 150 countries across the world. **Almost 75% of the company's earnings are now generated in Europe, Latin America, Russia and the Asia-Pacific region, with only 20% coming from its native South Africa.**

Over the past three years, Aspen has aggressively continued its opportunistic acquisition spree, investing heavily in anticoagulants and its infant milk formula offering, simultaneously divesting from some of its non-performing assets.

The company has proven particularly successful in acquiring deteriorating "tail-end" product sets from its large multinational competitors, which in most cases would have been considered immaterial to these companies. Aspen's strategy is then to reinvigorate them by manufacturing the active ingredients (particularly in the case of the anticoagulants) and devoting the right care and attention to pricing structures and effective sales and marketing, among others.

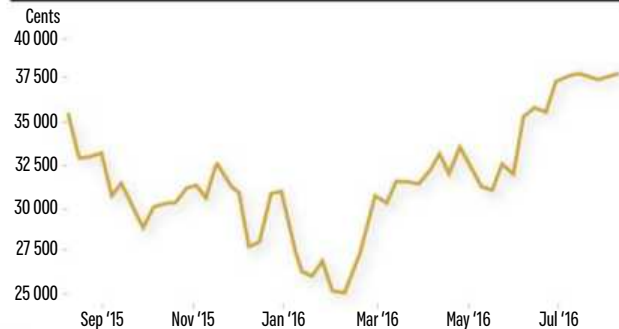
However, the timing of these recent acquisitions has hurt the company. In the first half of this financial year Aspen recorded its slowest profit growth since 2008, as it struggled to come to grips with its significant debt burden and battled with unfavourable currency swings. The market questioned when higher growth would resume and whether **Stephen Saad, founder and CEO**, had lost his touch.

However, a new deal with AstraZeneca in June has seen the company transform yet again, and it proved to be a catalyst for the share price too. Aspen purchased the rights to AstraZeneca's global anaesthetics portfolio outside the US, a deal which would immediately add 14% to company earnings and increase its geographic reach. The foray into anaesthetics has also enabled economies of scale across its global sales force as it would allow for cross-selling of its anticoagulants.

At the same time, the company restructured its debt away from US dollars to euros, in line with operational cash flows, while additional bond facilities have been made available to be used for future acquisitions.

For investors, the impact was threefold: first, the

## ASPEN PHARMACARE HOLDINGS



**Stephen Saad**  
Founder and CEO

52-week range:	<b>R233.64 - R388.49</b>
Price/earnings ratio:	<b>37.11</b>
1-year total return:	<b>6.31%</b>
Market capitalisation:	<b>R173.9bn</b>
Earnings per share:	<b>R10.27</b>
Dividend yield:	<b>0.57%</b>
Average volume over 30 days:	<b>905 548</b>

SOURCE: INET BFA

market acknowledged that the group's strategy was now firmly back on track; second, given the 14% kicker to earnings it was now clear that Aspen's size was not an impediment to growth; and finally, it highlighted that the company had more depth to its balance sheet than the market perceived.

We invested in Aspen in our general equity strategies

on the news of the AstraZeneca deal and the share has since appreciated by a further 5%. It is not yet a consensus buy but investors like the direction in which the company is moving and we believe it is still at the lower end of the growth cycle. In our view there is further upside in the share price on the grounds that Aspen has a proven ability to integrate acquisitions and the beneficial impact of the cost programme it has under way.

Over the next two years we think Aspen's current profit growth rate has the potential to double with earnings per share moving to almost R24/share. On a mid- to high-teens price-to-earnings ratio, we think the share has scope to move into a trading range of R450 to R500 per share. Aspen's risk-reward equation appears to be very attractive to us. ■

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**John Thompson** is an equity analyst at Investec Asset Management.

**Over the next two years we think Aspen's current profit growth rate has the potential to double with earnings per share moving to almost R24/share.**



RETIREMENT SAVINGS

# How much is enough?

Saving for retirement does not only boil down to how much you are able to put away. Equally important is how your savings capital is managed once you have retired.



Gallo Getty Images/Stockphoto

One can get very philosophical about the question of how much is enough – it encompasses happiness, well-being, financial independence and the relationship between time and money. This article will only focus on the financial aspect of this question. In other words, will your retirement savings generate an income that is greater than your expenses when you retire and, importantly, will your savings last until you pass on?

For people using pension, provident or retirement annuity (RA) structures to save for retirement, an investment-linked living annuity (ILLA) with underlying unit trusts is a popular investment vehicle to use in the retirement process. Data from the Association for Saving and Investment South Africa (Asisa) suggests the preference for ILLAs as opposed to more traditional life annuities to be as high as 90%. When using this type of vehicle, it is however important the retiree understands the following important concepts:

**1. INCOME DRAWDOWN RATE:** In terms of legislation, an ILLA holder may withdraw an annual income of between 2.5% and 17.5% of the residual retirement savings capital. Research however indicates that a retiree should not

withdraw more than 5% of their retirement savings capital per year. It is important that retirees (together with their financial advisers) select income levels that would be sustainable for the rest of their lives. These income levels need to be maintained relative to the investment return of the savings capital. The table below is a guideline from Asisa that indicates the number of years it will take the retirement savings capital to start reducing, taking into account annual income growth and drawdown rate. Once the number of years in the table is reached, the retirement savings capital will diminish rapidly in subsequent years. The annual investment growth rate (before inflation but after fees) is across the horizontal axis and the annual income drawdown rate is along the vertical axis.

A retiree should not withdraw more than **5%** of their retirement saving capital per year.

**EXPECTED YEARS OF A REAL LEVEL OF INCOME**

INCOME DRAWDOWN	INVESTMENT GROWTH				
	2.5%	5.0%	7.5%	10.0%	12.5%
2.5%	21	30	50+	50+	50+
5%	11	14	19	33	50+
7.5%	6	8	10	13	22
10%	4	5	6	7	9
12.5%	2	3	3	4	5

## This shows how quickly the retirement savings capital erodes if your investment is not growing at the required rate.

For example, a retiree whose investment growth is 7.5% and draws an income of 5% per year can expect to maintain a real level of income for 19 years, after which the retirement savings will erode rapidly.

**2. INVESTMENT GROWTH RATE:** Even though past performance is not a guarantee of future performance, using stable funds from the bigger asset managers in South Africa, retirees can expect an annual growth rate of 10% (after the fund manager's fee). The cost associated with ILLA has a massive impact on the actual returns of the investment. At Vista Wealth Management, we feel the following annual fees associated with an ILLA is acceptable: Administrator platform fees of not more than 0.5%; unit trust manager fees of not more than 2%; and financial adviser fees of not more than 1%.

**3. INCOME GROWTH RATE:** Often retirees do not take inflation and the impact it has on the power of their money into account. In their planning with their financial adviser, retirees should increase their income annually with at least inflation as this will ensure they will maintain a real level of income. At Vista Wealth Management we use an inflation rate of 6% in our retirement planning as that is the higher end of the Reserve Bank's inflation target rate.

### Putting it all together

The graph below illustrates the concepts explained above by visually showing the retirement savings capital and monthly income for a retiree with R10m retirement savings from age 60 to 95. The retiree's drawdown (income) in the first year is 4%, which then grows by 6% per year. It makes use of two investment growth scenarios to illustrate how the retirement savings capital erodes if the investment growth (after fees) is 8% as opposed to 10%.

With the 8% growth scenario (red bars), the retirement savings grew for 23 years (between the ages of 60 and 83) while the retiree was drawing an income. At age 84, the retirement capital stopped growing as the retiree started using portions of the capital as income. From that point, it only took 11 years (between the ages of 84 and 95) to erode the retirement savings capital in total.

In the 10% growth scenario (green bars), the retirement savings kept on growing while the retiree was drawing an income.

This example illustrates the importance of selecting the correct underlying investments. It shows how quickly the retirement savings capital erodes if your investment is not growing at the required rate. It also shows the danger of using your retirement savings capital as income and how quickly you can run out of capital once you start doing this.

A 60-year-old retiree with **R10m** of retirement savings can expect a monthly income of about R33 000 (before tax) with a 4% drawdown in the first year of retirement.

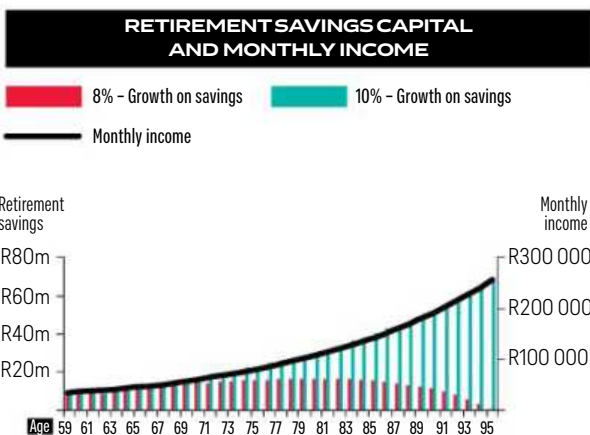
### So how much is enough?

It is important to note that in both scenarios the retiree was drawing the same amount of income monthly. It is represented by the black line with the monthly drawdown values (monthly income) on the right hand axis of the graph. Reading the graph, a 60-year-old retiree with R10m of retirement savings can expect a monthly income of about R33 000 (before tax) with a 4% drawdown in the first year of retirement. This income will grow with inflation (6% per year in this example) until the age of 95. If the retiree only had R5m retirement savings, they can halve this expected income, or if the retiree had R20m retirement savings he can double this income amount to get to the applicable monthly income (before tax).

An easy way for younger readers to associate with the above amounts is to think about their current monthly expenses and then select the capital amount that would be required to provide that level of income if they had to retire today. Quite scary, but that is a good indication of how much is enough. ■

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**Magnus de Wet** is a director at Vista Wealth Management, a representative under supervision of Accredinet Financial Solutions.



SOURCE: Vista Wealth Management

Retirement savings at 60	R5m	R10m	R20m
Monthly income at 60 (before tax)	≈ R17 000	≈ R33 000	≈ R67 000



MARKETS

# Is the US providing us with a sneak peek into tomorrow?

The JSE/FTSE All Share Index generally follows the movements of the S&P500 closely. It may therefore be prudent to keep an eye on “Reporting Season” in the US.

Although it may take us 24 hours or more to reach a relative or friend located on the other side of the world by plane, the world remains a small place. Continents may be separated by vast oceans, but they are so well connected by the media, among other things.

Let’s take fashion trends as an example. A few years ago, we paid a visit to my sister in Amsterdam during the European summer where ladies’ fashion was dominated by bold colours while South African fashion was still leaning towards lighter colours. I remember being amazed that men had started wearing denim shirts again, which was something I hadn’t seen in South Africa at the time. A mere four months later, however, just as the season started to turn, South African fashion exploded with bold summer colours for the ladies, while every other man could be seen in a denim shirt.

Whether we like it or not, SA has always been led by the trends set in Europe and the USA.

When we take a look at the local stock market, you’ll find the same phenomenon at work. Over the past 20 years, the FTSE/JSE All Share Index has followed in the footsteps of the S&P500’s (largest companies in the USA) movements 66% of the time in dollar terms.

That means that two-thirds of the movements in US stocks were followed by our local stock market. For that reason, it is extremely important that we determine the “season” in which US stocks currently find itself, because it may not only determine their “fashion trends”, but also the South African market’s next move.

The US currently finds itself in what they call “Reporting Season”. At the time of writing (1 August), the S&P500 closed at 2 173.60, which is the highest month-end close of all times. Over the last three weeks, 320 S&P500 companies (64% of the index) have already released their second-quarter earnings, and the results were quite intriguing. Of these 320 companies, 72% managed to outperform analysts’ consensus expectations, while 56% of them managed to outperform expected revenue growth.

If we look at this exclusively, does this mean that attractive prospects await South African investors?

The answer is that we shouldn’t look at

**If we look at this exclusively, does this mean that attractive prospects await South African investors? The answer is that we shouldn’t look at this exclusively at all.**



Over the past 20 years, the FTSE/JSE All Share Index has followed in the footsteps of the S&P500’s (largest companies in the USA) movements

**66%**  
of the time in dollar terms.

S&P500 HISTORICAL PRICE-TO-EARNINGS RATIO



SOURCE: Factset

this exclusively at all. Although consensus expectations were outperformed, actual returns are down by 2.9% compared to last year. **Even more worrying is that if these companies’ earnings remain negative after all of them have released their results**, it will be the first time since 2008/9 that the S&P500 Index has delivered negative year-on-year earnings growth five quarters in a row.

When we take a look at the past five years’ average price-to-earnings ratio (P/E) of 15.8 times (see graph), we see that at its current P/E of 19.4 times the S&P500 is no longer cheaply priced. The 10-year average doesn’t exactly paint a brighter picture either.

On the contrary, when we consider the 15-year average P/E of 17.6 times, we become aware of the high levels at which the US market is currently trading. Taking us back to where I started this article, and by looking at the decline in earnings, these market levels are making me very uncomfortable. Up to 1 August, the S&P500 was still trading 6.2% higher for 2016, while year-on-year earnings have declined by 2.9%.

Let us hope that this drop in earnings won’t become another trend that the rest of the world, including SA, chooses to follow, as that will make it extremely difficult to justify current market levels. ■  
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Schalk Louw is a portfolio manager at PSG Wealth.



DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ARGENT	TR Hendry	5 August	Purchase	6,264	400	25,056	10 August
ASCENDIS	J Bester	5 August	Purchase	2,025	2200	44,550	10 August
ASCENDIS	CD Dillon	5 August	Purchase	157,253	2200	3,459,566	10 August
ASCENDIS	CD Dillon	5 August	Purchase	1,363,636	2200	29,999,992	10 August
ASCENDIS	K Futter	5 August	Purchase	41,715	2200	917,730	10 August
ASCENDIS	B Harie	5 August	Purchase	730	2200	16,060	10 August
ASCENDIS	B Harie	5 August	Purchase	14,600	2200	321,200	10 August
ASCENDIS	B Harie	5 August	Purchase	1,935	2200	42,570	10 August
ASCENDIS	C Sampson	5 August	Purchase	71,175	2200	1,565,850	10 August
ASCENDIS	GJ Shayne	5 August	Purchase	39,147	2200	861,234	10 August
ASCENDIS	GJ Shayne	5 August	Purchase	7,727,273	2200	170,000,006	10 August
ASCENDIS	A Sims	5 August	Purchase	39,421	2200	867,262	10 August
ASCENDIS	KUHH Wellner	5 August	Purchase	431,527	2200	9,493,594	10 August
ASCENDIS	KUHH Wellner	29 July	Sell	45,455	173	78,637	5 August
DIPULA A	NS Gumede	4 August	Sell	34,500	1000	345,000	10 August
DIPULA A	NS Gumede	5 August	Sell	189,272	1000	1,892,720	10 August
DIPULA A	NS Gumede	8 August	Sell	50,000	1000	500,000	10 August
ELLIES	RH Berkman	5 August	Purchase	8,000	21	1,680	10 August
ELLIES	RH Berkman	5 August	Purchase	81,712	22	17,976	10 August
EPE Capital	Y Stillhart	5 August	Purchase	610,000	1000	6,100,000	5 August
EQUITES	A Gouws	5 August	Purchase	2,000	1360	27,200	10 August
EQUITES	G Lanfranchi	5 August	Sell	232,000	1400	3,248,000	10 August
GAIA INFRAST	PB Schabort	29 July	Purchase	3,000	885	26,550	8 August
KAP	A Ahern	5 August	Purchase	20,000	705	141,000	8 August
KAP	FJ Gouws	29 July	Purchase	15,000	691	103,650	2 August
KUMBA	V Tyobeka	2 August	Sell	1,313	14836	194,796	4 August
KUMBA	V Tyobeka	2 August	Sell	1,130	14840	167,692	4 August
KUMBA	V Tyobeka	2 August	Sell	1,557	14841	231,074	4 August
PSG	JF, JJ & PJ Mouton	1 August	Purchase	102,212	19863	20,302,369	8 August
PSG	JF, JJ & PJ Mouton	2 August	Purchase	234,452	19160	44,921,003	8 August
RAUBEX	LA Maxwell	5 August	Sell	16,000	2034	325,440	10 August
RAUBEX	TG Wiese	8 August	Sell	200,000	2000	4,000,000	10 August
RBPLAT	MJL Prinsloo	2 August	Exercise Options	80,350	3630	2,916,705	5 August
RBPLAT	MJL Prinsloo	2 August	Sell	80,350	5261	4,227,213	8 August
RBPLAT	MJL Prinsloo	2 August	Sell	50,000	5303	2,651,500	8 August
REDEFINE	DH Rice	27 July	Sell	471,367	1197	5,642,262	4 August
REDEFINE	DH Rice	29 July	Sell	180,000	1196	2,152,800	4 August
REDEFINE	DH Rice	1 August	Sell	120,000	1195	1,434,000	4 August
TFG	M Lewis	1 August	Sell	112,501	15009	16,885,275	8 August
TFG	M Lewis	2 August	Sell	228,142	14722	33,587,065	8 August
TFG	M Lewis	4 August	Sell	1,228,018	14886	182,802,759	8 August

All data as at 15:00 on 10 August 2016. Supplied by INET BFA.



Ergo Mining was established in order to recover and treat surface tailings contained in the Elsburg tailings complex



Niël Pretorius  
CEO of DRDGold

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (C)	CHANGE (%)
<b>BEST</b>		
Stratcorp	2	100.00
Chrometco	12	33.33
Labat	29	26.09
Trustco	390	13.04
Wearne	9	12.50
<b>WORST</b>		
Nutrition	1	-50.00
Delrand Resources	41	-40.58
Central Rand Gold	38	-24.00
Atlatsa	116	-20.00
Bauba Platinum	30	-16.67

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 486.64	-0.09
JSE FINANCIAL 15	15 485.13	2.12
JSE INDUSTRIAL 25	68 439.07	-1.15
JSE SA LISTED PROPERTY	657.26	-0.69
JSE SA RESOURCES	18 357.73	0.91
JSE TOP 40	45 510.65	-0.11
CAC 40	441 546	2.02
DAXX	1 043 236	2.84
FTSE 100	680 913	2.46
HANG SENG	2 249 476	1.65
NASDAQ COMPOSITE	521 314	1.47
NIKKEI 225	1 665 057	1.58

\*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DV (%)
PPC	94	11.5
REBOSIS	119	11.3
EMIRA	146	9.8
ACCPROP	58	9.1
SA CORPORATE	43	7.8
LEWIS	347	7.8
FORTRESS A	129	7.7
REDEFINE	86	7.5
DRDGOLD	80	7.0
GROWTHPOINT	184	7.0



*Pokémon Go* is a free-to-play location-based augmented reality mobile game developed by Niantic and published by The Pokémon Company as part of the Pokémon franchise.



# THE FUTURE IS NOW

*Pokémon Go* leapt onto the scene last month, garnering millions of eager players from across the globe in mere weeks. The popularity of the game has highlighted the potential for virtual and augmented reality technology. We take a look at other developments in the sector and at other uses for this technology beyond gaming.

By Larry Claasen

**P**eering into a mobile phone is no longer an asocial experience. The *Pokémon Go* craze has seen millennials using their phones to scurry after virtual creatures in parks, museums and other public spaces.

What *Pokémon Go* has achieved in a very short period is somewhat remarkable. Not only has it become a global phenomenon

– although it has yet to be officially launched in SA – boasting well over 100m downloads since its launch on 6 July, it has also changed the way young people behave.

Millennials have often been criticised for falling short when it comes to social skills because their heads are constantly buried in their phones. But not only is the game encouraging them to interact with others in

the real world, it also gets them to exercise by walking relatively long distances.

*Pokémon Go* does something clever. It merges the real and virtual world. Where before gamers could play against one another online and were not required to leave their rooms, never mind the house, they now have to go out into the real world to be competitive.

It might just be a fun game for youngsters, but it has opened up a new business model as it means players can be "lured" to specific locations, Sameer Singh, senior industry analysis manager at app intelligence firm App Annie, notes in a blog post.

Singh says it is conceivable that a company would "sponsor" a location, which would effectively increase foot traffic to these businesses.

The notion of such a change in behaviour being brought about by a computer game may seem revolutionary, but those who have been following technological trends have been expecting this kind of development for a while.

Strategy Worx CEO Steven Ambrose says where many other attempts to merge a real life with a virtual world have had limited traction – *Pokémon Go* itself is based on the game *Ingress* – it has succeeded because the franchise already has a large following.

*Pokémon Go* is based on Japan's Pokémon franchise, which has spawned console games, 20 animated TV series and 19 films, which has been going for 20 years.

Though much has been made of *Pokémon Go*'s augmented reality features, Ambrose says a big part of its success comes from its existing audience's love for the franchise.

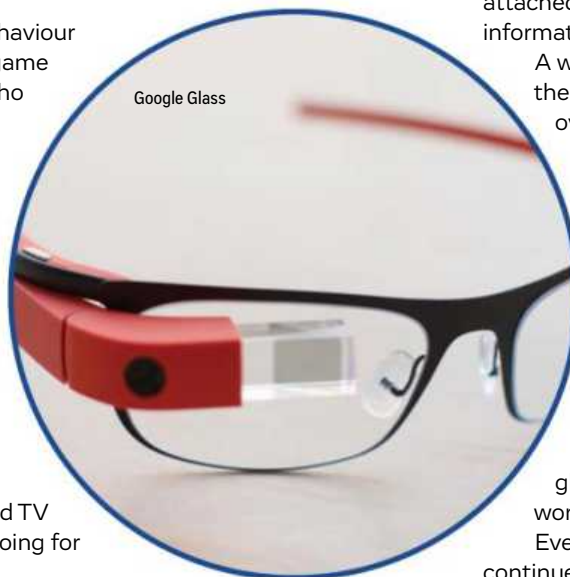
"*Pokémon Go* is essentially a game. But it's a game with a huge history behind it.

The current generation and generations before grew up with Pokémon across multiple platforms."

The difference now is that in its latest incarnation, it was launched on the most ubiquitous platform in the world – the mobile phone. "It grabbed people's imagination, and though the augmented reality adds to it, it was essentially a game people wanted to play," Ambrose points out.



**Sameer Singh**  
Senior industry analysis manager at App Annie



## A platform whose time has come

Even so, many see *Pokémon Go*'s success as a sign that augmented and virtual reality – technology that replicates an environment and simulates a user's physical presence in this environment – is becoming increasingly prevalent.

Facebook CEO and founder Mark Zuckerberg is a big proponent of this kind of technology, and virtual reality in particular. Facebook bought Oculus VR, a leading virtual reality technology firm that built the Oculus Rift headset in March 2014 in a \$2bn deal.

Google is also working hard at developing this technology. The search engine developed Google Glass a few years ago. The idea was to use sensors, GPS, a camera and a small screen attached to a spectacle frame to overlay information onto the real world.

A wearer could for instance learn to play the piano as the real chords would be overlaid by virtual ones shown on the screen.

Google Glass struggled to get buy-in from the public and regulators because of privacy concerns. It also had difficulty getting the technology to work properly.

Ambrose says the development of Google Glass was never really thought through: "It was extremely clunky to use and it forced people who did not wear glasses to wear glasses. I don't think it would have worked on scale in any event."

Even so, where Google failed, some have continued to slog away at it. US-based start-up Magic Leap is rumoured to be working on a system similar to Google Glass, but instead of mounting the hardware on a spectacle frame, it will be inserted into a contact lens.

It has just raised \$1.4bn in its latest round of funding, hired 600 people and partnered with Disney's Lucasfilm to develop this technology.

Magic Leap is expected to be the next big thing. With *Pokémon Go*, a user still has to look at their phone screen to find a creature, whereas Magic Leap's device allows users to see and interact with the creature as if it were in the real world. At any rate, this is what the handful of people outside the company who have received permission to use it have said.

*Pokémon Go* is based on Japan's Pokémon franchise, which has spawned console games,

20

animated TV series and 19 films, which has been going for 20 years.

**The global augmented reality market is expected to reach \$117.4bn and the virtual reality market is expected to reach \$33.9bn by 2022, according to research firm MarketsandMarkets' Augmented Reality and Virtual Reality Market report.**

The growing interest in augmented and virtual reality is understandable given that they are expected to become "the next big computing platform", according to the recent *Virtual & Augmented Reality* report published by Goldman Sachs.

This means that these technologies may end up having as big an impact on humanity as personal computers and smartphones. "We expect new markets to be created and existing ones to be disrupted," it said.

The projected numbers are staggering. The global augmented reality market is expected to reach \$117.4bn and the virtual reality market is expected to reach \$33.9bn by 2022, according to research firm MarketsandMarkets' *Augmented Reality and Virtual Reality Market* report. *Pokémon Go* has already turned into a money-spinner, generating \$10m per day, according to App Annie.

Investors are also getting excited. Goldman Sachs says apart from the \$2bn Facebook spent on buying Oculus VR in 2014, **venture capital firms have invested \$3.5bn in 225 augmented and virtual reality companies over the past two years.**

Large media and tech groups have also been moving into this area, as over the past year Disney, Microsoft, Apple, Comcast and Time Warner have all invested in this technology.

### **But why now? Wasn't VR going to be big in the 1990s?**

Ambrose says a confluence of factors is fostering the development of this technology. For one, the hardware is getting cheaper. VR headsets have been around since the 1980s but they were too pricy to become a household item.

The commoditisation of the components has reduced the price to more affordable levels. The top-of-the-range Oculus Rift for example sells for about \$600 (R8 550) off the shelf while **Samsung's headset**, which is compatible with the Galaxy S6 and S7, among others, costs around R1 500.

There are even headsets that sell for as little



An early prototype (circa 1985) of a virtual reality game captures the imagination of a student at the University of California, Berkeley.



**Augmented and virtual reality technology** is poised to revolutionise entertainment, among others things.

as R270. Google has released Google 3D VR glasses, which is made out of cardboard that converts 2D images from a smartphone.

Another factor that has supported the development of virtual and augmented reality is the increase in broadband speed and improved availability, along with the reduction of prices.

Ambrose says virtual and augmented platforms need a lot of data to "enhance interaction with the real world". An example of this is a car's heads-up display, which allows traffic information and road conditions to be projected onto the windscreen.

The notion of combining different sources of information at a reasonable cost to the user was unthinkable only a few years ago. However, the immense storage capacity of the cloud and the processing capacity of pattern-recognition big-data platforms have made this technology more affordable.

Ambrose says the elements that are giving rise to the virtual and augmented platforms are similar to the ones that supported the development of companies like ride-sharing group Uber and accommodation marketplace Airbnb.

Uber would not exist were it not for the smartphone's ability to track the location of drivers and clients at the same time, while Airbnb would never have been able to scale up as rapidly as it did if it had not been for cloud computing.

### Markets - real and/or virtual

Although the technology is only just starting to gain traction, a market is starting to emerge.

**Samsung's Gear VR** was sold out within 48 hours after it launched and 5m Google Cardboard viewers have been sold since its launch two years ago.

While augmented and virtual reality devices are primarily used for entertainment, especially gaming, the thinking is that this technology can be used in various ways.

For example, via its subsidiary YouTube, Google is offering live streaming of events in 360°. This means that fans can watch an event over the internet but can experience it as if they were really there through a VR device.

Real estate agents will also no longer have to set up appointments with prospective buyers, as they will simply be able to take a virtual tour of a property.

The same goes for training. Previously simulation training was limited to the likes of commercial pilots, but the reduction in the cost of hardware is allowing players in other industries to use this technology.

Goldman Sachs expects live events and real estate markets to generate \$4.1bn and \$2.6bn respectively for companies in the augmented and virtual reality sector by 2025.

### Hype 2.0?

Augmented and virtual reality represent a tech trend that is creating a lot of hype. But is there a danger that it is a fad and not a trend?

The tech sector buys into its own hype a lot. In the case of this technology, the sector has been doing just that for years.

Goldman Sachs also points out that there is a chicken-and-egg dilemma where this technology is concerned. Consumers are afraid



**Steven Ambrose**  
CEO of Strategy Worx



**Mark Zuckerberg**  
CEO and founder of Facebook

**Samsung's Gear VR** was sold out within 48 hours after it launched and

**5m**

Google Cardboard viewers have been sold since its launch two years ago.

**Samsung Gear VR** virtual reality goggles with a Samsung Galaxy S7 inserted.



## THERE BE (VIRTUAL) MONSTERS

there will not be enough content out there if they buy a device and content makers are hesitant to invest in products that might not have a market.

The tech giants – Google, Facebook, Sony and Microsoft – are trying to create a market by producing content like 360° videos and building cheap devices like Google Cardboard to get consumers and content makers to take this technology more seriously.

Ambrose does not believe it is a fad, as all the factors that prevented it from going mainstream are now no longer a concern.

### It might not be a fad. But it does not mean it is a trend (yet)...

Though there are promising signs that virtual and augmented technologies will take off, there are also challenges to widespread adoption, according to a recent blog post by PwC's Vinod Baya and Erik Sherman.

They point to fragmentation in the ecosystem as a possible problem. Rival hardware, software and interactive methods could hinder the development of the market.

A lack of universal standards could also make it difficult to describe information, share data, support interaction, integrate systems and swap components.

The technology has advanced but there are still many technical barriers that have to be fully overcome.

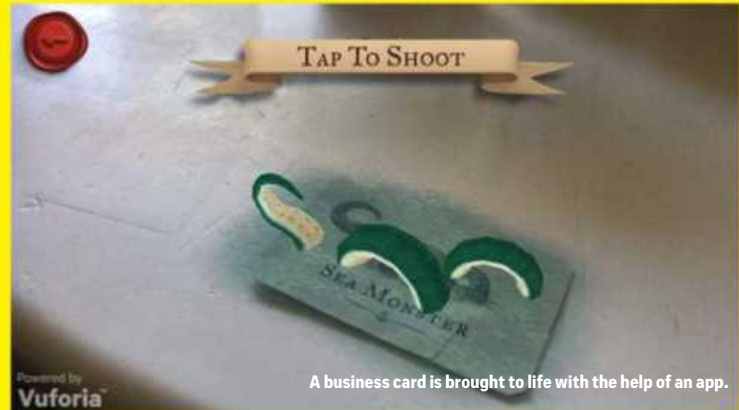
As was the case with Google Glass, this technology challenges cultural norms and its proponents have to address issues like privacy concerns if they want to gain widespread acceptance from the public.

The economic feasibility of producing hardware at a price point that can sustain a business as well as deal with operational risk that comes with running such a complex system could also be a hindrance to widespread adoption.

Even though there are hurdles to overcome, Baya and Sherman note that for the technology to take off, its proponents have to start promoting its uses beyond its existing niches. "These are early days and the market is still fragmented. The devices are good, but they must get better to attract more enterprises and more use cases." ■

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Larry Claasen is an award-winning journalist who specialises in business and technology stories.



Cape Town-based Sea Monster is an animation, gaming and augmented reality company. One of managing director Glenn Gillis' favourite tricks is to give every new person he meets his business card. He then tells that person to download the Sea Monster app and hold the phone over the card.

And then, magic! The illustrated octopus tentacle on it comes alive. The appendage turns green and starts moving through an animated ocean. An alternative illustration that can also be seen on some of the business cards is a cannon firing cannon balls.

Gillis and the other employees at Sea Monster are no novices where this technology is concerned. The group has made about 80 apps for some of SA's largest corporations over the past five years.

One of these is an app for TFG's home deco chain, @home, that allows customers to virtually pick out furniture with their smartphone and use the phone's camera to "place" it somewhere in their home.

The app is so sophisticated it not only sizes the furniture to the dimensions of the room, but also allows a customer to change its colour.

Without even going into a store, people can see if the couch they are in love with matches the room in

terms of style, colour and size.

Gillis says South Africans can increasingly expect to see augmented and virtual technology enter their lives over the next few years.

Though this technology can lend itself to gimmickry, Gillis says businesses that treat it as such will miss an opportunity. This is because it will give them chance to build a connection with their customers.

He says businesses are essentially a collection of stories that the people working there tell – they relate why the company was formed and what issue in society it is trying to address. Augmented and virtual reality relays these stories to the customer in a way

companies would find hard to do by another means, allowing customers to form a bond with the company.

In a sense *Pokémon Go* already does this. The youngsters trying to chase down Pikachu in a parking lot might not care that it is a franchise run by gaming giant Nintendo, or that it made about \$300m in revenue in its first month.

They do, however, care deeply about the franchise, and this bond has been deeper with the use of augmented reality because it changed their behaviour in the way no loyalty programme or marketing campaign ever could. ■



Glenn Gillis  
Managing director at  
Sea Monster



President Jacob Zuma

Photo by Carlo Images / Sovetan / Antonio Mucare

# MUNICIPAL ELECTIONS: ROAD TO ZEXIT?

One analyst called recent municipal elections a “business-friendly” one after markets responded positively to the severe blows dealt to the ANC.

By Shaun Harris

**t**he municipal elections on 3 August demonstrated two facts: First, the ruling ANC was soundly trounced. It retains overall control, but at vastly reduced support from the voting populace and with the loss of some key constituencies. Second, the results point towards a tough contest in the 2019 national general elections.

This, it is no secret, is because of the increasingly unpopular leadership of President Jacob Zuma. He is the loss swing-factor, and it seems likely that the ANC will ask him to step down to save the party. Of course he will resist this, so an interesting intraparty tussle will ensue.

The political outcome of the local elections is well summed up by Xolela Mangcu, professor of sociology at the University of Cape Town and a head of research at the Hutchins Centre for African and African-American Research at Harvard University, in a letter published online by *Sunday Independent*: “The chances of the party learning from its dismal performance are slim, if its secretary general Gwede Mantashe’s Orwellian speak is anything to go by. Mantashe maintained

**“What [Mantashe] omitted to tell us is that the 20% they did not win is where the country’s resources are concentrated – the major metropolitan areas.”**

that the party had done very well because it still controlled over 80% of the municipalities. For Mantashe to tell us that the ANC has done well is an exercise in denial. What he omitted to tell us is that the 20% they did not win is where the country’s resources are concentrated – the major metropolitan areas.

“Oh, he also forgot to mention the party lost in the president’s own home town.”

## ANC’s election losses

The latter loss, at Nkandla, is where Zuma built his multimillion-rand mansion amidst the poverty of people living around it. They have paid Zuma back by rejecting him in the election, Nkandla going to Mangosuthu Buthelezi’s Inkatha Freedom Party. Economically, it might be an insignificant loss, but psychologically it is a major blow for Zuma to lose in his home town.

Mangcu goes on to say that, looking at what the ANC has done, “some things are just *dof*.” The party is dominated by *amandla* functionaries whose sole purpose is to steal as much from the people as possible for themselves, their friends



and their families. All they are interested in are what US philosopher Cornel West calls the felicities of bourgeois existence: blue light motorcades, expensive paraphernalia and a flaunting of ill-gotten riches to the poor people whose votes they seek."

He says there are probably three things that have turned the elections against the ANC. "Nkandla, the treasonous act of handing over our country to the Gupta and the tomfoolery that is the SABC under Hlaudi Motsoeneng. How in the hell did we get into a position that a nonentity without even a matric would come to bully the whole nation and defy court orders?"

His conclusion: "Now the party is run by minions."

That's the political impact of the elections. The key constituencies lost by the ANC are the party's heartland of Nelson Mandela Bay, and the political capital Tshwane. Even in the economic powerhouse of Johannesburg the ANC can only run through a coalition government. The DA has already indicated that it will not form an alliance with the ANC. That leaves Julius Malema's EFF. Should an alliance be struck between the two, they would be very unhappy bedfellows.

Zuma can justly be called homeless. He has lost his home town of Nkandla, his political home in Tshwane, and his parliamentary home in Cape Town, where the DA has further consolidated its leadership. And, if unnamed members of the influential ANC National Executive Committee quoted by Reuters are to be believed, he may lose his party as well before the 2019 national elections.

### Where to for the rand?

It comes as little surprise then that financial markets are upbeat following the elections. At the time of writing on 8 August, the rand was at a nine-month high, trading below R13.60 against the dollar. "More money is now flowing to the rand and more proposed stimulus in Europe is likely to strengthen the rand further," says Laura Campbell, senior economist at Econometrix.

A stronger rand, it seems, is Zuma's financial gift to investors. But there's no consensus about the future direction of the rand.

Rian le Roux, chief economist at Old Mutual, says the immediate outcome of the elections is unlikely to prove a decisive factor in the potential downgrade of the country later this year. "Given foreigners' large holdings of South African assets, the country

simply cannot afford to create a perception that either monetary or fiscal policy will steer away from conservatism. This will weaken the rand considerably and cause more macro-economic pain."

Yet according to Kevin Lings, Stanlib chief economist, the Bank of England's recent decision to cut rates to record lows could weaken the British pound further. "It would also encourage further capital flows into emerging economies, such as South Africa, thereby strengthening the rand further."

And Graham Tucker, Old Mutual Balanced

Fund manager, agrees that global developments benefit emerging markets as investors search for yield. "We are seeing this in recent strength in the rand and the local bond market."

## Zuma has lost his home town of Nkandla, his political home in Tshwane, and his parliamentary home in Cape Town.

### The risk of populist economic policies

Rating agencies and economists are reported to be closely watching economic policy after the ANC suffered its worst results in local elections since 1994. Fitch has warned that the risk of more populist government policies has increased, with support for the ANC dropping below 60% for the first time in an election. "We need to watch policy very carefully. Indeed,

it will be extraordinary to suggest that there will be no change in policy. It would be the only ruling party anywhere that would not attempt to secure future election victory through policy," says Peter Attard Montalto, emerging markets economist at Nomura.

"In a set of results that has delivered a very strong message to the ruling party, the local government elections has seen the ANC's worst showing ever in both national and municipal elections," says Maarten Ackerman, Citadel advisory partner and investment strategist. "This business-friendly election result has been welcomed by the investment community."

Journalist Andrew Donaldson asks on Politicsweb whether South Africans will vote for Zexit, commenting: "It certainly hasn't felt like a local election, but rather a national referendum on President Jacob Zuma. Zexit, you could say."

Joining other catchphrases like Brexit, Zexit, the exit of Zuma, is what the electorate seem to be hoping for. And financial markets and the investment community love it. ■

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**Shaun Harris**, currently a freelance journalist, has been writing about finance and investment for more than 20 years.



**Xolela Mangcu**  
Professor of sociology at the University of Cape Town and a head of research at the Hutchins Centre for African and African-American Research at Harvard University



**Gwede Mantashe**  
ANC secretary general

Photo by Gallo Images / Financial Mail / Russell Roberts

Photo by Getty Images/AFP/Mujid Safdien



# BEWARE PIPCOIN'S PROMISES

By Simon Brown

New kid on the block Pipcoin is claiming to be a cryptocurrency and is making wild promises of untold riches. Don't be fooled, because it's going to end in tears for the majority of people who do decide to invest in it.

At its heart, what is a currency? In truth, not much. Governments print money as they need – not as they can afford. Fiat currency is the term; it's all fake and it always has been. Heck, we used to exchange seashells as currency and more recently money was backed by gold held in reserve, but that backing by gold was abandoned in the middle of the last century. Money works because enough people trust the system and hence use it. That's all it is, money is just trust.

With this in mind, the creators of cryptocurrency said, "Why can't we create our own digital currency?" The short answer is absolutely you can, hence we got Bitcoin in 2009. Created by Satoshi Nakamoto, it is equal parts complicated concepts and coding but also another part that says that if we all agree it works – it works. **If I agree your cryptocurrency has value, then for us**

**as two people transacting it does have value and it's real.**

At this point many different characters come into the spotlight but I am going to focus on Refilwe Nkele, or Ref Wayne as he's known. In 2015 he is teaching foreign currency (FX) trading via his African FX Institute, making YouTube videos about his secret that he reveals during free FX trading workshops and ultimately making great money referring people to specific brokers who pay him commission. It's a good business and he's making good money. But no doubt he also wonders if it could be more; who wouldn't?

At about this time, South Africa's self-proclaimed youngest millionaire, Sandile Shezi, runs into some issues, including his FX broker going bust. This leaves Shezi earning no legacy commissions and nowhere to send new people. He also runs an FX trading institute (Global Forex Institute) that offers free training



▲ Pipcoin promises returns of 35% a month.

and funnels people to a FX broker who pays commission. But the broker is gone and now it's time to start again.

Ref Wayne surely saw this happening and realised the risks. You have to imagine that he wondered how he could make more money with less risk – the impossible dream.

But Ref Wayne is exactly that, a dreamer – he truly believes that he can create a currency and that if he can get enough people to agree his currency has value, well, then it does have value.

I agree with him 100%.

## CRYPTOCURRENCIES

Anybody can create a currency, crypto or real world. A search of coinmarketcap.com shows 727 cryptocurrencies with a combined value of just over \$12.8bn. Bitcoin makes up \$10.3bn of that total value, with Ethereum (at \$1.3bn) the only other with a value of over \$1bn. Astonishingly, 75 cryptocurrencies have a value of over \$1m and 210 are worth more than \$100 000. You can see the attraction of starting your own, even if most disappear into the night without any value.

This is the truth – far more cryptocurrencies than the current 727 in existence have failed, with only a few succeeding and they still have challenges. Dogecoin had great dreams, even sponsoring a Nascar once to raise awareness. At the currency's peak, one Dogecoin was worth \$1.25 each, but is now worth \$0.000248. Heck, a couple of years ago I created my own cryptocurrency and I mined 1bn for myself. The problem is that nobody else sees any value in them and so I have not been able to spend a single one. For the record, I also mined a few Bitcoins way back when it was easy and I still have two of them in my wallet.

But Pipcoin's creators had bigger dreams and in February they registered pipcoin.co.za and mypipcoins.com. They launched Pipcoin, selling them at R100 each, promising that in time the price will boom when it is no longer locked at the R100 limit. To really juice the price and create mass interest (and sales), we saw Ref Wayne posing in front of numerous different luxury cars, even saying that he'd bought a private jet and was buying his mother a R50m house for Mother's Day.

None of this is verifiable but it generated a great deal of interest. I kept on meeting people who were buying the Pipcoins at R100 and introducing new affiliates. **The affiliates are a red flag: people you introduce (up to four levels below you) earn you commission on their purchases, pretty much like any two-bit pyramid scheme.**

Ref Wayne also posted on Facebook that he



▲ According to Pipcoin, it has made a deal with MasterCard, something the company denies.



▲ Pipcoin creator Ref Wayne seems to be living the high life.

For me it all started to unravel in a massive way when Pipcoin promised

35%

growth per month. This crosses a line. The safest investment in the world is considered to be USA debt and there maybe you can get a 2% return – 2% a year.



▲ Ref Wayne never shared a stage with Facebook CEO Mark Zuckerberg in June.

## Pipcoin is not a cryptocurrency. It is merely something created by Ref Wayne that he is selling hand over fist, making himself a massive amount of money in the process.

will be on stage with Mark Zuckerberg in June, a statement he is still repeating although the month is no longer being mentioned as June has passed with no such meeting. He also posted that Zara will start accepting Pipcoin and that he has signed a deal with MasterCard to enable withdrawals at its ATMs. **I contacted both Zara and MasterCard and they both denied any deal with Pipcoin.** Yet as recently as 18 July a video posted on YouTube repeats the claim that they have signed a deal with MasterCard (<http://bit.ly/2b7Hghp>).

## IS PIPCOIN A CRYPTOCURRENCY?

But it is working; people believe the story about creating massive wealth and are being sucked into the lifestyle Ref Wayne claims to lead. Soon Pipcoin was all over the media, promising to create one new millionaire a day and no less than 35% a month growth. Ref Wayne is now claiming that, at age 21, he is Africa's youngest billionaire.

For me it all started to unravel in a massive way when Pipcoin promised 35% growth a month. This crosses a line. The safest investment in the world is considered to be USA debt and there maybe you can get a 2% return – 2% a year. A promise of 35% a month is a lie in the same vein as MMM and others that have come before and will come after.

It was actually this promise of 35% a month that first alerted me that Pipcoin is a scam. Nobody can promise returns even close to this level and so this is when I started digging into Ref Wayne and Pipcoin as a cryptocurrency.

The short answer is that Pipcoin is not a cryptocurrency. It is merely something created by Ref Wayne that he is selling hand over fist, making himself a massive amount of money in the process.

A cryptocurrency requires two very important components. Firstly, the code base and detailed notes on how to mine new coins. Cryptocurrencies are created by using one's computer to solve increasingly complex mathematical equations. For every completed equation a coin is created and the coin that follows takes a little more processing power in

order to slow the creation of new coins. This code base needs to be published so that it can be verified but also so that anybody can mine.

The entire point of a cryptocurrency is that it is decentralised and hence anybody can mine new coins. Yet with Pipcoin they have not released the details on how to mine, so the only mining is being done by Pipcoin itself.

The other major concern is that every cryptocurrency must have a blockchain. This is a ledger of sorts that stores every single transaction so that each one can be verified by the broader community and so that we can see who owns what and how many exist. Importantly, while I can see who owns what coins, no one is identified by name – it is a long hash string that keeps each individual anonymous.

Pipcoin claims to have a pipchain, but it is totally fake and not verifiable and there are no notes on mining. In fact, the section on mining is merely a cut-and-paste job from standard Bitcoin websites, explaining the process at a high level but with the “bit” part of each page replaced with “pip”.

In other words, the only entity creating (and hence selling) Pipcoin is Pipcoin.

By late June I have caught Ref Wayne for multiple lies (Zuckerberg, Zara and MasterCard) and his promise of 35% a month is absolutely not realistic. But even more importantly, Pipcoin is not decentralised nor is the blockchain public. **In other words, this is not a cryptocurrency, this is a scam.**

### PIPCOIN'S “BLOCKCHAIN”

In late July another part of the scam fell into place when they launched pipchain.com.

This sets out to be the heart of the cryptocurrency as a verifiable blockchain and is pretty much a copy of blockchain.info, the blockchain for Bitcoin. The key difference is that the Bitcoin one works while the Pipcoin one does not. Clicking on the height (an indication of difficulty) I should get all the details, the same goes for clicking on last transaction. This is the crux, a cryptocurrency is transparent.

This new website also includes some stats and charts. Interestingly, on the markets page it says the market cap of Pipcoin is \$10.5bn. Yup, billion. That Pipcoin managed to become the world's largest cryptocurrency (Bitcoin's market is verified at \$10.3bn) in less than six months and with nobody in the



This new website also offers some stats and charts and most interestingly, on the markets page it says the market cap of Pipcoin is

# \$10.5bn.

cryptocommunity ever having heard of it is beyond believable.

This new website even shows a Pipcoin block being created for the value of \$12m, while I have seen transactions going through that claim values of over \$1m. For a new cryptocurrency this is not even remotely possible.

Yet there is hope since, as I stated upfront, anybody can create a currency and if you can get others to trust it, we can use it for transacting. **If Pipcoin wants to move beyond a scam and become a real cryptocurrency, they must release notes on how to mine and publish a real and verifiable blockchain for the currency.**

So far, all they have is notes on how to accept Pipcoin via websites.

Further, Pipcoin must stop promising 35% a month. In fact, no profit at all can be promised if it is a true cryptocurrency. Bitcoin has surged to sell over \$1 000 and crashed to just above \$200 before again moving higher in recent months.

### TRADING PIPCOIN

This brings in the last part of the Pipcoin scam. Remember Ref Wayne started life teaching people how to trade FX via his African FX Institute. Well, he is still teaching people how to trade FX except now the FX he is teaching to trade is Pipcoin and he owns the entire process – I told you he dreams big.

The newly launched website promises the ability to trade and looks real, unless you dig under the hood and it's all made up. So Ref Wayne is no longer sending people he has trained to an FX broker who earns all the money and only sends a commission back to him.

So now the big push starts. Ref Wayne will no doubt be promising massive riches and all via his own currency and trading platform. He owns it all – you buy Pipcoin from him and trade on his platform and he charges a transaction fee. He makes all the money and while a few people will make money trading Pipcoin, the vast majority will be fleeced into buying Pipcoins that are not a real, verifiable

cryptocurrency and losing them trying to trade them FX style.

Pipcoin is a scam and will end badly for the vast majority of people involved. ■ [editorial@finweek.co.za](mailto:editorial@finweek.co.za)

## Right of reply

Despite various attempts (detailed below), Simon Brown failed to get a reaction from Pipcoin or Ref Wayne.

### SIMON WRITES:

Pipcoin support seems non-existent. They have a local mobile number one can call but after literally a hundred attempts it is only ever turned off. I emailed the two email addresses offered: one bounced back as not existing, while the other was never answered. Lastly there is an online chat support option that does respond initially. But whenever I asked questions, it stopped answering.

I have seen a number of people asking on Facebook for help on a range of issues from signing up, to receiving funds from sales and transferring coins to the new website. I reached out to a few asking if they'd been helped but with no responses.

I sent a series of questions to Pipcoin and Ref Wayne via email, support chat and Facebook with no response at all.

### THE QUESTIONS

#### WERE AS BELOW:

I am writing an article on Pipcoin for *finweek* and would like clarification on some issues:

- Eight Facebook posts said a Pipcoin card would be issued that works with Zara and MasterCard. I have spoken with both companies and they both denied this fact.
- Ref Wayne said on Facebook he would be on stage with Mark Zuckerberg in June. Can details please be provided as Facebook denies this?
- Who has been selling the initial Pipcoins as one is unable to “mine” one's own Pipcoins?
- You claim Pipcoin is decentralised but all mining is being done on your computers, not client computers?
- How do you promise 35% a month when Pipcoins trade freely? Surely this would be determined by supply and demand and supply will overwhelm demand as right now nobody is mining?
- Why is Ref Wayne doing FX trading courses? This is surely in no way linked to Pipcoin as a cryptocurrency?

# AABLA

ALL AFRICA BUSINESS LEADERS AWARDS

IN PARTNERSHIP WITH



CNBC Africa pioneered the annual All Africa Business Leaders Awards (AABLA) in 2011 to salute and recognise remarkable business leaders who through strength, innovation and foresight induce positive changes in an evolving corporate Africa.

Now in its 6th year, the AABLA is Africa's premier business leadership awards presentation, that brings together some of the best-known personalities in corporate Africa today.

These business leaders are recognised at regional award ceremonies across the African continent.

**East Africa:** Kigali, 8 September 2016

**Southern Africa:** Johannesburg, 29 September 2016

**West Africa:** Lagos, 20 October 2016

**All Africa Finale:** Johannesburg, 11 November 2016



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## THIS WEEK:

- >> **Personal finance:** Escaping the debt trap p.40
- >> **Entrepreneur:** Meet a dozen of South African real estate p.41
- >> **Management:** Stop wasting your time with 'busyness' p.44

CEO INTERVIEW

By Anneli Groenewald

# The man who put Sage on a cloud

Watching his parents run their tea shop in Folkestone, a small town in southeast England, and sweeping the shop floor after school taught Stephen Kelly that entrepreneurship was a noble cause. Since then, he has been chief operating officer for the UK government, and is currently CEO of Sage where he is tasked with leading the company into the era of cloud.

**W**earing Hawaiian-style shirts with his suit, playing drums on stage, and interviewing rock n roll-style entrepreneur Richard Branson during the Sage Summit held in Chicago in July, Sage CEO Stephen Kelly's message was clear: He wants to make accounting software sexy.

And it's not all show. During the summit the company announced, among other things, a messaging bot that will allow entrepreneurs to manage financial admin through a simple text conversation as if the user is messaging a friend. Called Pegg, the bot operates on various messaging platforms such as Facebook Messenger and WhatsApp – and has a sense of humour.

Then there is the company's move to cloud. During

the summit, the company announced the launch of two pure cloud solutions in the US and Canada, namely Sage One, for small companies, and Sage Live, aimed at medium-sized businesses. The South African roll-out of Sage Live is planned for March 2017, says Kelly.

"Our mission is to have awesome technology for our customers and to do it with integrity. It's disingenuous to force customers to move to other technology when they're not ready," Kelly told South African journalists during the summit.

The former chief operating officer to the UK government was appointed CEO of the Sage Group in 2014 at a reported annual salary of £790 000 at the time, as well as a once-off share allocation of just short of £1m. (It's worth noting that, since Kelly joined Sage in November 2014, the share price

of the London-listed company has just about doubled, from around £3.56 at the time to £7.16 on 8 August, according to INET BFA-data.)

South Africa is of course not only strategically important to Sage, but also historically.

In 2003 Sage acquired South African company Softline, including VIP Payroll and Pastel. Softline was co-founded by Ivan Epstein and Steven Cohen. Epstein remains an integral part of the company, and is currently the president of Sage

**Currently Sage owns more than 50% of the South African market.**

International.

Kelly says he sees Africa, and specifically South Africa, as "massively strategic to us".

Currently, Sage owns more than 50% of the South African market, Kelly told conference goers.

In a trading statement for the nine months to June 2016, the London-listed company announced year-to-date growth in organic recurring revenue of 10.1%. While the company does not provide a regional breakdown of its growth, Kelly said Africa was one of Sage's major growth regions.



Image: Getty Images/Stock Images

During the summit, it was clear that the company is pushing for growth in North America.

"The scale of this week's summit should indicate that Sage has bigger ambitions," Kelly said. (Sage claimed that, with around 15 000 attendees, it was the world's largest summit for entrepreneurs.)

According to analyst Frank Niemann, vice-president of Software & SaaS Markets at Pierre Audoin Consultants (PAC) in Munich, Germany, Sage could "certainly" expect double digit growth in the USA and North America over the medium term.

But at the same time, says Niemann, Africa "comprises a number of emerging markets which means growth rates much larger than those we know from matured markets in, for example, Western Europe".

The exciting thing about Africa, according to Kelly, is that entrepreneurs can run businesses from their cellphones.

**With the use of technology, the time for "Africa to roar" is now, says Kelly.**

"And it's going to come from small and medium business. Not from banks. Not from governments. But from small and medium business."

A large part of its success has been ascribed to its business partner model, whereby partner

businesses sell its software solutions to entrepreneurs and business owners.

Sage already operates a business partner model in South Africa, and will be replicating the partner model in the rest of Africa (it currently has offices in Kenya and Nigeria), with executive vice-president and managing director of Sage South and Southern Africa, Anton van Heerden, to lead the roll-out.

"It will allow us to grow quicker and deeper into Africa," says Kelly.

### Still an African growth story?

In SA specifically, Kelly believes that Big Business won't spend more money before it sees a serious commitment from government.

"I think there's been, and not only in South Africa, a bit of a vacuum in political leadership. Leaders need to step up," says Kelly.

"[T]he only way for growth is if government changes its approach to small and medium businesses." He adds that, if given the opportunity, small and medium businesses can use a weaker rand to their advantage.

The former UK government official says: "I love politicians, but it's about time they served the people that vote for them."

He says he is "very, very critical if governments don't

support small business".

Kelly, who was appointed Business Ambassador to the then British Prime Minister, David Cameron, in 2015, says where he sees a lack of leadership or support for small businesses, he will speak up and engage with government on the matter. He says he has personally done so in the UK, and there have also been attempts from Sage South Africa to reach out to government to address local concerns.

"I think people have been let down. Who's going to fill the gap? The wealth creators. Business," he says.

He remembers that during the 90s South Africa was poised to "take centre stage". "It was a brave new world for South Africa."

But on visiting Kliptown in Soweto in January this year for the Sage Foundation launch in Africa, he was faced with the opposite.

**"I thought, 'Wow, what a lost opportunity'. I had tears in my eyes,"** he said, adding that the situation in Kliptown was "poor". "[T]here is no running water... And this is 2016!"

Now, he believes, it will be up to commerce to "step in". ■ [editorial@finweek.co.za](mailto:editorial@finweek.co.za)

**Anneli Groenewald** travelled to the Sage Summit as a guest of Sage.



**Stephen Kelly**  
CEO of Sage Group

## GETTING TO KNOW STEPHEN KELLY

**Sage Group CEO Stephen Kelly's father used to run a tea shop in the town of Folkestone in the UK.**

**As a child, Kelly used to sweep floors in the shop.**

**"I saw how noble the cause of entrepreneurship could be," says Kelly.**

**Now running a company that employs 13 000 people, and that supports 3m businesses in 23 countries, Kelly says his personal goal is simply to "change the lives of entrepreneurs".**

### HOW LONG IS YOUR DAY?

Normally 5am to 11pm, but some nights to 1am. "But that's because I love it. I love my job."

### FAVOURITE GADGET

iPhone

### FAVOURITE BOOKS

*Work Rules! Insights from Inside Google*, by Laszlo Bock, and *From Good to Great - Why Some Companies Make the Leap... and Others Don't*, by Jim Collins. [Kelly's tongue-in-cheek comment: "And yet to come: *From Good to Great to Sage*".]

### MANAGEMENT STYLE

"I've got a very open management style. My job is to create an environment where people can do their jobs well."

Photo by Cicklugh Kiboye/Getty Images



**WHILE** Sage's partner model is not unique, analyst Frank Niemann, vice-president of Software & SaaS Markets at PAC, believes that it will, "besides the cloud strategy [be the] key factor to survive as a relevant player in the long run. And, Sage has, like other vendors, the challenge to encourage its partners to follow them into the cloud era."

According to Niemann, who also attended the summit, Sage's move to cloud

is not only about "winning or maintaining market share, [but] it is simply necessary to stay in business".

"As many other software vendors, Sage is in a transformation from being a vendor of on-premise software to becoming a cloud provider," says Niemann.

"Bottom line: **If you don't have a cloud story to tell as a software vendor, you will become less relevant very soon** and you will suffer heavily in the future."

By Paul Nixon

# How to get out of debt

Many South Africans find themselves trapped in an endless cycle of indebtedness. As buying on credit is often more expensive than paying cash, the best way to start growing your wealth is by paying off your debts.

There is a clear disconnect between what people can afford to do, and what they do anyway. As a result, we're an over-indebted society.

The statistics bear this out. Of

South Africa's about 23m credit-active consumers, almost half – 10.5m – have impaired records, according to statistics from the National Credit Regulator.

A robust and sustainable household financial budget follows the well-known 50:30:20 rule: 50% of income for living costs (accommodation, food, insurance, etc.), 30% for discretionary spending (phones, subscription TV, clothing, holidays etc.), and 20% for savings, which includes investments and pension savings. But many South Africans live close to the wire, and the 20% which should go into savings is swallowed up in needs. Saving just doesn't happen on the scale it should.

One of the big obstacles to achieving the 50:30:20 ideal is our debt habit. Debt is often called a "trap" because it is exactly that: items bought on credit can cost up to 40% more over the period; unpaid balances on credit cards and store cards attract high interest costs. Most of us have high-interest accounts of one sort or another; and over 50% of us know the experience of being two to three months in arrears on these high-interest accounts. Not paying cash, or not paying off cards in full by the due date, means we pay more for everything. Once an individual falls into that cycle, it's hard to get out of it.

It stands to reason, then, that the first



step to building wealth is to get out of debt.

Getting out of debt takes discipline; and it's an endurance activity.

Here's the plan:

## Do a sober assessment of your debts, and rank them.

Let's say you have debts *a*, *b*, *c*, and *d*; and they respectively attract interest rates of 27%, 21%, 17.9% and prime + 1%. Together, they add up to repayments of R17 800 a month, with the biggest amount being the mortgage bond on your home.

## Prepare a strict and honest budget,

which accommodates not what you *want*, but what you *need* to live: the "50%" of the 50:30:20 rule. Let's say that you manage to "save", on paper, R1 000 a month.

## Start your plan:

**Step 1:** Honour all your debt instalments each month, obviously. But now, starting with debt *a*, the highest-interest one at 27%, also put that extra R1 000 in each month. Let's say that previously you were paying R1 200 into that debt. Now, you'll pay in R2 200.

**Step 2:** Debt *a* will be paid off much faster now that you're both paying extra and paying less interest over the life of the loan. Let's say it's a store card. Store cards are useful if you use them properly, so you don't necessarily want to cut them up. But right now, you're not in the

business of adding any fresh debt to the picture, so put that card

away and pretend it doesn't exist.

**Step 3:** That R2 200 you've been putting into the now paid-off debt *a* is now added to debt *b*, which attracts the next-highest interest rate of 21%. Previously, let's say you were paying R800 into this loan. Now, you'll be paying R3 000. Very soon, it too will be paid off; and the associated card will, like the previous one, go on ice.

**Step 4:** And now you move on to debt *c*. The same principle applies: you'll pay R3 000 extra each month. Let's say you were paying R1 800 on this one: now you'll pay R4 800. And soon debt *c* will be paid off.

You're now left with only debt *d*, your mortgage bond. Low-interest secured debt like a mortgage bond can be treated differently, and it is valuable at this point to consult a financial adviser.

Having had a good look at your overall financial health, they might advise you to continue diverting this money into your mortgage bond. Equally, they may advise you on ways to use this R4 800 to set up a slush fund, to build a cushion for future emergencies. Or, if you've not been taking advantage of the tax breaks that come with retirement savings, they might point out the multiple benefits of using the money that way. It's a very personal matter: professional advice at this point could lay the groundwork for a future that is very different to the indebted past you've just escaped.

And the store cards that have been on ice? You might find, by the end of the period, that you don't really need them after all. But if you do revive them, make the following commitment to yourself: you will pay them off in full, every month, by the due date. And if it ever happens that a month comes in which you can't do that, you'll put those cards away again. Or even, who knows, cut them up. ■

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Paul Nixon is head of investment product enablement: global investments & solutions at Absa.

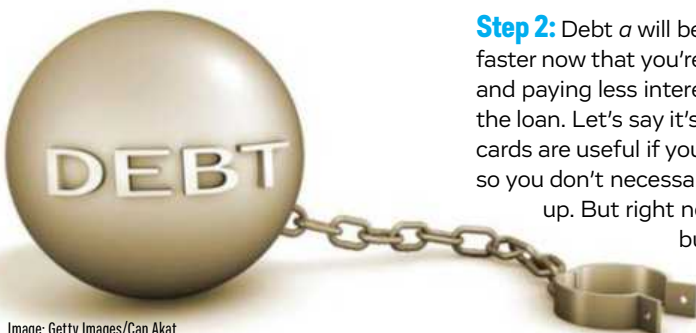


Image: Getty Images/Can Akat



# The house that Dogon built

Denise Dogon's real estate company, Dogon Group Properties, recently sold the most expensive house ever in South Africa. We chat to her to find out how she rose to success in this industry.

**d**ogon Group Properties recently sold a fully furnished three-storey Bantry Bay home for a whopping R290m to a German couple, the highest price ever achieved for a residence in the country. The property, which offers 360° views, was designed by architects SAOTA and built in 2014.

Dogon Properties' founder and CEO Denise Dogon has been a successful property agent for more than 40 years, and founded her own real estate business in 2002.



**Denise Dogon**  
CEO of Dogon Group Properties

could simply start and sell and get your commission virtually immediately when the deposit came in. You didn't have to wait for the transfer to go through.

## HOW DID YOU MAKE YOUR FIRST SALE?

I sourced what was for sale at the time, advertised the property, and a buyer responded. I arranged a viewing for the prospective buyer and he purchased it! For me, it was like a duck to water and I immediately realised that a career in real estate was meant for me.

## WHAT INSPIRED YOU TO GO INTO REAL ESTATE?

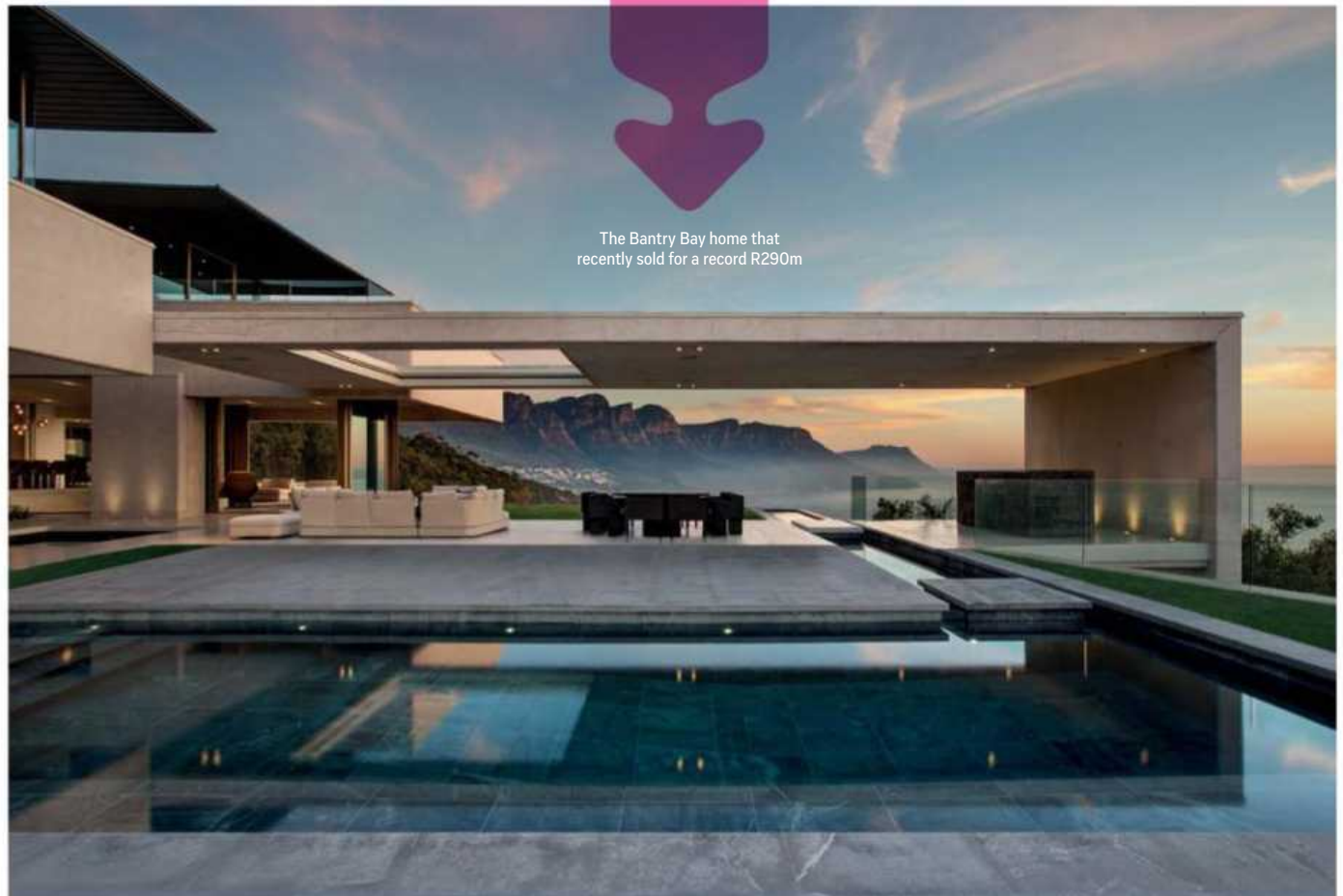
In my early 20s, I was visiting a friend who had started practising as an estate agent. She suggested I try it out. It was an unregulated industry in those days; you

This included the Bantry Bay home that sold for

**R290m,**  
the highest price ever achieved for a residence in Africa.

## WHAT DID YOU DO PRIOR TO STARTING YOUR OWN BUSINESS?

I started working in 1975 with one of the leading real estate companies at the time.



The Bantry Bay home that recently sold for a record R290m

# Q&A:

The company had a footprint in most of Cape Town and its environs, but minimal representation on the Atlantic Seaboard. I was thrown into the deep end, received no training, and began by working for them from my home. The company had two offices at the time – one in Newlands and the other in Pinelands. I visited each office once a week to catch up with the rest of the people in the company and connect with what was happening in those areas.

Shortly afterwards, I was made a director and stayed with the company for 23 years, at which time I was seriously considering going on my own when Pam Golding personally head-hunted me. I was appointed a director at Pam Golding Properties and tasked with focusing on the international division as a result of an increased demand from the high-end market. I remained in this position for many years.



Dogon Group Properties' head office in Sea Point

## WHAT MOTIVATED YOU TO START YOUR OWN BUSINESS?

With South Africa emerging as a young and dynamic new democracy, the timing was right for me to take the proverbial plunge and head out on my own. I have been fortunate to travel abroad, which gave me the advantage to see the bigger picture. Seeing how exciting the property market was, particularly in the United States, gave me fresh ideas that I could easily adapt to the South African market. It was therefore time to move on.

## WHEN DID YOU OFFICIALLY START OPERATING?

Dogon Group Properties launched in October 2002 with a huge bash attended by over 500 high-profile guests. I was back to working from my home and between the launch date and January 2003, sales in excess of R100m were achieved before Dogon Group moved into its new official state-of-the-art home, designed by Stefan Antoni & Associates, in Camps Bay in January 2003. The construction of the new offices was scheduled to take six months, so during this time I had low overheads and

## WHAT HAVE BEEN THE THREE BIGGEST DIFFICULTIES YOU'VE HAD TO OVERCOME?

1. Coping with the normal facets of a business, such as controlling overheads and keeping admin staff and agents motivated, productive, and happy.
2. Training our team to strategise and think beyond the local domestic market. SA's economic borders had been closed for so many years that we all needed to think more globally as the Cape Town real estate market was attracting international buyers.
3. Keeping standards high on every level.

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

We were revolutionary when we opened in 2002. We tried to upgrade the look and feel of the real estate industry in SA. We opened with a state-of-the-art office on the beachfront in Camps Bay. At the time, there were many potential international buyers coming to SA for the first time.

We focused on new technology, setting new standards in the industry, boasting a designer office with a lounge advertising properties on a plasma screen (and the luxury of a cappuccino in hand) together with a fleet of branded Mini Coopers. Our concept was adopted by many other agencies soon after we launched with avant-garde marketing.

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

The best advice I have ever received was given to me by a captain of industry and is that you can never do everything yourself. Success is a team effort. The other bit of advice that I can give is that there is no-one else to blame except yourself when things go wrong – if it is to be, it is up to me!

I was back to working from my home and between the launch date and January 2003, sales in excess of

# R100m

were achieved before Dogon Group moved into its new official state-of-the-art home, designed by Stefan Antoni & Associates, in Camps Bay in January 2003.

We focused on new technology, setting new standards in the industry, boasting a designer office with a lounge advertising properties on a plasma screen (and the luxury of a cappuccino in hand) together with a fleet of branded Mini Coopers.



A Clifton property that was sold by Denise Dogon and her partners Adrien Epstein and Vicky Atlas

**WHAT IS THE BIGGEST LESSON YOU'VE LEARNT?**

You are powerful when you operate ethically and with integrity. In my game it's about finding that happy medium where both parties of the property transaction are content with the sale. Not an easy achievement, I may add!

**HOW DO YOU STAY MOTIVATED?**

Success is about attitude, especially in real estate. When you are selling real estate in one of the most desirable cities like Cape Town, it is easy to stay motivated, as it is a privilege to be selling property in such a beautiful city. I'm always reminding myself and the Dogon Group team that, at the end of the day, we're selling a lifestyle dream in one of the globe's most desirable cities. Cape Town has it all, and more, and it's a pleasure and a privilege to work here.

**At the end of the day, we're selling a lifestyle dream in one of the globe's most desirable cities.**

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

At heart I am a family person and my time is balanced between my work and my family. I married early and both my children are now grown up – one's a medical doctor and the other recently obtained his PhD in chemical engineering. We enjoy one another's company, weekends in nature and travelling.

**WHAT IS YOUR THREE-YEAR GOAL FOR YOUR COMPANY?**

We currently employ around 60 people. We're in the process of expanding and plan to open an office in Gauteng in the near future. Going forward, I would like to develop a training programme and assist the real estate industry in becoming more representative of SA's demographics and embrace transformation. ■ [editorial@finweek.co.za](mailto:editorial@finweek.co.za)

By *finweek* team

# How to avoid low-value work

Overwhelmed and overworked? Here's how to avoid busyness, and focus on doing business instead.

Recent research studies show that managers and knowledge workers at large US companies typically spend between 20% and 40% of their time on low-value tasks. These are activities that contribute little or nothing to their customers, nor do they further any business priorities or goals.

Typically, low-value work deals with business "hygiene" – activities that may be necessary (like submitting invoices, making travel arrangements or attending meetings about internal issues) but do not add value to your client. High-value work, in contrast, helps clients gain a competitive advantage or makes their lives easier. This kind of work may require strategic thinking, devising interventions or new products or services that will help you become even more indispensable to your clients. High-value work is anything that will help your company grow, and strengthen your own competitive position.

Increasingly, however, managers are getting stuck with low-value work. This is a function of the harsher economic times, with many companies scaling down their workforce and allocating additional administrative responsibilities to their remaining employees.



Also, it has to be said, low-value work can be pleasurable and quite addictive. Doing brainless administrative tasks make you look very busy, and is much less demanding than tackling the tough work of devising a challenging new strategy, really connecting with your clients, making the hard calls, perfecting a new product or service, or working on a new proposal that may be rejected. These are the activities that will truly add value to your company and career over the long run, but demand much more of you than churning out mind-numbing reports that no-one will read.

Importantly, however, menial tasks add to your workload, keep you at the office, skew your work-life balance, and contribute to stress and burnout – without adding value to your own career, or the competitiveness of your clients.

**HERE'S HOW TO MAKE THE BEST OF YOUR WORKING HOURS:**

## Step 1: Identify low-value work

Take stock of all your daily activities and confirm which do not require your expertise. Which routine administrative tasks do not have to be done by you? Also identify things you do that don't directly add value to your clients' lives, or those that do not strengthen your own company. These can include

## PRACTICAL TIPS TO DO BETTER WORK

- Promote "deep work" in the office. Deep work is the ability to focus without distraction on a cognitively demanding task, popularised by the author and academic Cal Newport. In his recent book, *Deep Work: Rules for Focused Success in A Distracted World*, he describes this skill as a new "super power" in a working environment where many people spend their days in a frantic blur of email and social media. Deep work allows you to focus and quickly master complicated information and produce better results in less time. It requires a zero-tolerance approach to distractions. Some offices, for example, now ban email on a specific day to promote deep work.
- It will be helpful to meet as a team

and getting each member to identify their low-value tasks. As a team, you can decide how these tasks can be better allocated, or even outsourced or delegated outside the team. Create an environment where employees are rewarded for cutting down on low-value work, and not for working long hours on meaningless admin.

- Put a strict time limit on all meetings in your office to encourage more productive work.
- Eliminate "low-value decisions". According to the Canadian bestselling author and popular TED speaker Neil Pasricha, the average person makes 295

decisions a day. Each decision you make depletes your "decision-making power" leaving you less able to make better, more effective decisions about important work-related matters later in the day. He believes in automating decisions – much like President Barack Obama who only wears grey or blue shirts. Obama told *Vanity Fair* in 2012: "I don't want to make decisions about what I'm eating or wearing. Because I have too many other decisions to make. You need to focus your decision-making energy. You need to routinize yourself. You can't be going through the day distracted by trivia." Obama has also instituted a



**Neil Pasricha**  
Author and  
TED speaker



We're giving away a *Freakonomics* DVD to one lucky winner who gets all the answers right in this week's quiz. For a chance to win, enter the online version of this quiz, which will be available via [fin24.com/finweek](http://fin24.com/finweek) from 15 August.

## Low-value work can be pleasurable and quite addictive.

unnecessary meetings, getting involved in detailed project planning, filing and low-level administration.

### Step 2: Kill, outsource or delegate

Some meaningless activities (like weekly meetings to report back on progress in a specific project) are easy to scrap or replace (for example, with a single email). Others can be outsourced effectively, or delegated to junior colleagues. Delegation itself is a powerful tool to empower team members and help to transfer skills.

Adopt new rules for yourself to avoid or limit low-value tasks. For example, commit yourself to only deal with certain hygiene issues (like supplier contracts) at certain times.

### Step 3: Redirect your resources to high-value work

Make sure you use the freed time constructively.

Commit blocks of time to strategic, long-term planning. Draw up a list of the things you should be doing, and dedicate time to these important tasks. ■ [editorial@finweek.co.za](mailto:editorial@finweek.co.za)

system where all memos he has to read include a tick box with only three options available to him: 'agree', 'disagree' or 'let's discuss'.

■ Be strict about what you can do and realistic about the consequences of additional work and responsibilities. Offer choices to your manager: "Should I focus on the execution of Project X, which will take up 40% of my time in the coming weeks? Or rather focus on Projects Y and Z?" This will force your manager to prioritise and give a clear signal about what he or she sees as the highest-value work.

■ If you can't avoid doing some low-value work, make sure you don't waste any time on these tasks. Work in a focused way that avoids distraction and mistakes: make sure you get it right the first time around. ■

- 1 True or false?** MTN paid advisers who assisted in negotiating its Nigeria fine over \$2bn.
- 2** Which South African swimmer won the first medal for the country at the Olympics?
- 3 True or false?** During the recent municipal elections, the ANC got the majority of the vote in Tshwane.
- 4** In which country is the city of Aleppo situated?
- 5** Who is Japan's ruling monarch, who recently expressed a wish to abdicate?
  - Emperor Akihito
  - Queen Hin Yee
  - Prince Takahashi
- 6 True or false?** There has been no load-shedding for one year.
- 7** How many years ago did the historic Women's March against pass laws occur?
- 8 True or false?** Aspen Pharmacare recently bought the rights for Supreme Pharmaceutical's anaesthetics.
- 9** Which phenomenon could be seen in the sky in many parts of the world during the first two weeks of August?
  - The alignment of the planets
  - Halley's Comet
  - The Perseid meteor shower
- 10 True or false?** At the Olympics, American Michael Phelps beat local Chad le Clos in the 200m butterfly, winning gold.

### CRYPTIC CROSSWORD

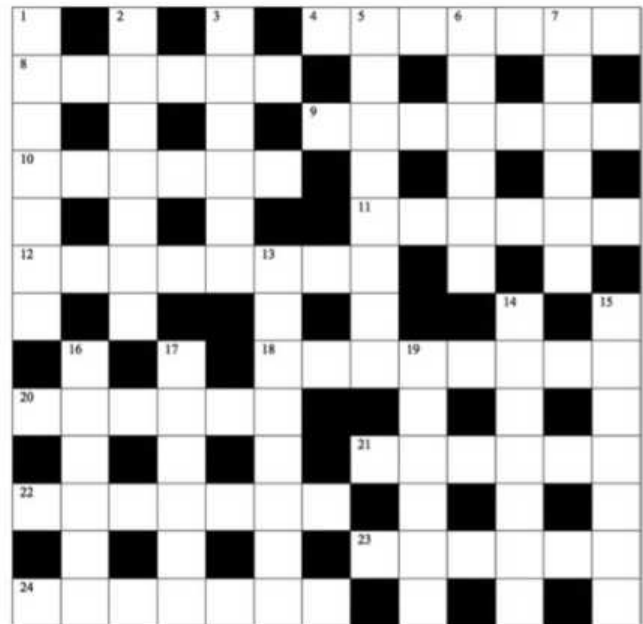
644JD

#### ACROSS

- Welcome a court petition thereon (7)
- Numerical fact is constant when first extracted (6)
- Standing firm (7)
- Plays about or hams (6)
- Unwilling to have a passage for solo voice (6)
- Novels go for composition romantically and musically (4,4)
- Not a difficult step to take (4,4)
- Continuation of story is what follows after (6)
- Sponsor one of the fairer sex (6)
- Cloth covering horse's quarters (7)
- Bequeather's short direction (6)
- You want a garland? By all means, it will be fun (7)

#### DOWN

- Very 50s – makes a resolute start (7)
- Rush to beat the first girl (7)
- Fruitsome tonic I trust you'll enjoy (6)
- Knocks off some vegetables (8)
- Steps taken by the German Youth's leader (6)
- Organise workers to drop one charge (6)
- A ship that's funny (3-5)
- Guard to detain agent (7)
- Curse an attempt to lessen final figure (7)
- Live quartet on the radio earlier (6)
- Roman racecourse and what one heard when the favourite lost? (6)
- Doyen performing right over there (6)



#### Solution to Crossword NO 643JD

**ACROSS:** 1 Gladsome; 5 Idea; 9 Embar; 10 Drops in; 11 Code; 12 Essayist; 13 Contemplative; 18 Rotor arm; 19 Epee; 20 Umbrian; 21 Otter; 22 Tree; 23 Dispense  
**DOWN:** 2 Limpopo; 3 Dearest; 4 Modus operandi; 6 Dashiki; 7 Annette; 8 Sonata; 13 Corrupt; 14 Notable; 15 Earwig; 16 Trestle; 17 Viewers

# On margin

## Impressing the future boss

I was in a job interview today when the manager handed me his laptop and said: "I want you to try and sell this to me."

So I put it under my arm, walked out of the building and went home.

Eventually the interviewer called my cellphone and said: "Bring it back here right now!"

I replied: "It's yours for R5 000."

## An American walks into a Swiss bank...

The bank is very full so he waits a long time for it to be his turn.

After an hour's wait he can finally go up to the counter. The clerk asks him how she could assist him.

He looks around, making sure he can't be heard, and whispers into her ear: "I would like to deposit \$1m into a bank account."

The woman looks a bit startled and says out loud: "Oh, don't worry, sir! You don't have to whisper; here in Switzerland it's no shame to be poor."

## The Brits

A HANDY COLLECTION OF AWKWARDNESS, SHARED BY VERY BRITISH PROBLEMS ON TWITTER:

- Worrying you've accidentally packed 3kg of cocaine and a dead goat as you stroll through "Nothing to declare".
- Being unable to stand and leave without first saying "right".
- Not hearing someone for the third time, so just laughing and hoping for the best.
- Saying, "Anywhere here's fine," when the taxi's directly outside your front door.
- Being sure to start touching your bag 15 minutes before your station, so the person in the aisle seat is fully prepared for your exit.
- Having someone sit next to you on the train, meaning you'll have to eat your crisps at home.
- The huge sense of relief after your perfectly valid train ticket is accepted by the inspector.



**David Schneider** @davidschneider

Absolutely in awe of the cyclists in the road race. How the hell do they go so long without checking their phones? #RioOlympics2016

**Rachael** @RachaelvsWorld

I just shaved 2 seconds off my personal best time in getting skinny jeans on after a shower. #RioOlympics2016

**Elizabeth Windsor\*** @Queen\_UK

Camilla on the phone. She's so inspired by #RioOlympics2016 that she's treating herself to a Brazilian. One didn't enquire further.

**Darrel Bristow-Bovey** @dbbovey

Find someone who looks at you the way the Women's League looks at Jacob Zuma.

**Karin Richards** @Richards\_Karin

Taking a cue from our corporates, the ANC blames the weather for poor results.

**Tom Eaton** @TomEatonSA

Baleka Mbete says the ANC didn't drop the ball. 100% agree. Pity the game was football.

**Tom Robbins** @BarangwanathBiz

South Africa has gone to sleep. Used to have the biggest mining company in the world, now has the biggest bed retailer in the world.

**Cutty** @McCutty1

Man discovers fire  
Man invents wheel  
Man builds pyramids  
Man lands on moon  
Man wastes life on the Internet

*\*Parody account*

**No matter who you vote for, a politician gets elected.**

- Anon



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