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from the editor

JANA MARAIS

I've spent the past week hiking through the Portuguese countryside, where there has been little evidence of the country's economic recovery.

Portugal, like a number of its fellow southern European countries, was hit hard by the global financial crisis, prompting a protracted recession, massive debt hangover and €78bn bailout from the EU and International Monetary Fund in 2011.

At that time, the country was downgraded to junk – six years and many painful reforms later, it is yet to regain an investment grade credit rating from Moody's, Standard & Poor's and Fitch. (The little-known Canadian rating agency DBRS has maintained its investment grade rating on Portuguese debt, which has allowed the country to benefit from the European Central Bank's bond-buying programme.) Growth is expected to remain a very lacklustre 1.25% over the next two years, according to the Organisation for Economic Co-operation and Development (OECD).

While Portugal has seen significant improvements in a number of areas – unemployment, for example, has been cut from over 15% to around 10%, and the budget deficit hit a 40-year low of 2.1% in 2016, less than half of 2015's 4.4% and back within EU limits – it has been a long, hard slog. GDP remains below pre-crisis levels; government debt is a massive 130% of GDP (2008: 70%); and concerns remain about the health of its banking sector, which has required government bailouts and continues to weigh on investor confidence. Corporate debt levels (excluding the financial sector) are at about 145% of GDP, among the highest levels in Europe.

As part of its recovery plans, a programme called Portugal 2020 was launched in 2014, with €25bn earmarked from the European Commission for projects to improve competitiveness, create jobs and develop skills. During our hike we passed numerous construction and agricultural projects that benefit from this programme, though it is clear that much more investment will be needed to reach higher and sustainable levels of growth.

In general, observing the dilapidated mansions in Portugal's small towns and villages left me with the feeling that the country's glory days are behind it. In South Africa, despite our many challenges, there are many signs of progress – and I continue to believe that our best days are yet to come. But, as Portugal's recovery shows, it is much easier to wreck an economy than to build it – we, too, are in for a long, hard slog. ■

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By Johan Fourie

AUTOMATION

The future of work: Don't fear robots, rather embrace them

Automation has become a threat to traditional jobs in almost every industry. But learning how to tap the benefits of robots could be to your advantage.

Being an economist at a university means parents inevitably think you have a lot of insight into the future of the job market. What is the "safest" programme, parents typically ask, that will guarantee Ryan or Simphiwe a well-paying job at the end of their degree? Translated: How do I maximise the return on my investment?

As with any investment, there are risks. Not all university students graduate; a recent study on higher education pass-through rates – by Stellenbosch University's Research in Social and Economic Policy (ReSEP) unit – shows that less than 40% of South African students attain their degree within four years of starting (most degrees are three-year programmes).

Only 58% of students complete their degree within six years. (The numbers are particularly low at Unisa, a distance-learning university, where only 28% of students complete within six years.) There is a good chance Ryan never completes his degree, leaving only debt, psychological scars and forgone income in the labour market behind. The researchers also find that, while matric marks are strongly correlated with access to university, they matter less for university success. Simphiwe may have been a bright spark in school, but that is no guarantee that she will be successful at university.

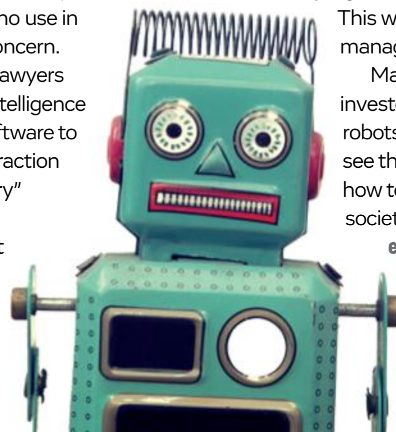
Only **58%** of students complete their degree within six years.

But parents are not so much worried about the internal factors that lead to the success of their investment (like Ryan attending class, one of the most important determinants of success), than about external threats that may affect his chances of finding a job. The biggest culprit nowadays: robots.

The threat of robots is everywhere, it seems. Autonomous vehicles will soon substitute the most ubiquitous job of the 20th century – taxi and truck drivers. Blue-collar jobs are first in the firing line, from farm labourers replaced by GPS-coordinated harvesters to postal workers replaced by, well, e-mail. But white-collar work – often the domain of university graduates – will soon follow: lawyers, accountants, and middle management, to name a few. Basically any job with repetitive tasks run the risk of robotification.

Parents want to know which job types are most likely to succumb to the robot overlords. If lawyers are of no use in the future, why study law? This is a reasonable concern. Several of the standard activities undertaken by lawyers are repetitive, easily automatable. And artificial intelligence challenges even non-repetitive work: it allows software to search through large volumes of legal texts at a fraction of the time a paralegal would during the "discovery" phase of a case.

Not so fast, says Tim Bessen, an economist at the Boston University School of Law. He shows that, in the period that this software has spread through the US, the number of paralegals has increased by 1.1% per year. Because the costs of undertaking these "discovery" services have fallen dramatically as a result of the new technology, the frequency of such services has increased, requiring more paralegals, not fewer.



Not only can robots substitute existing repetitive work; they can do it so much better! Although robots and their algorithms are not entirely objective – algorithms adjust to human behaviour, often reinforcing our prejudices – their biases tend to be more transparent and corrigible. A new NBER study shows just how robots could transform one of the oldest human professions – the judge – and in so doing realise huge societal benefits. The five authors, three computer scientists and two economists, want to know the following: can US judges' decisions be improved by using a machine learning algorithm?

Every year, more than 10m Americans are arrested. Soon after someone is arrested, a judge must decide where the defendant will await trail – at home or in jail. By law, judges should base their decision on the probability of the defendant fleeing or committing another crime. Whether the defendant is guilty or not should not influence this decision.

To investigate whether judges make fair decisions, the authors train a face recognition algorithm on a dataset of 758 027 defendants in New York City. They have detailed information about these defendants: whether they were released, whether they committed new crimes, etc. They then construct an algorithm to process the same information a judge would have at their disposal, and the algorithm then provides a prediction of the crime risk associated with each defendant.

Comparing their results to those of the judges, they find that an algorithm can have large welfare gains: a "policy simulation shows crime can be reduced by up to 24.8% with no change in jailing rates, or jail populations can be reduced by 42.0% with no increase in crime rates". All categories of crime, including violent crimes, decline. The percentage of African-Americans and Hispanics in jail also falls significantly.

Will robots replace judges? Probably not. But the quality of judges' decisions can be improved significantly by using robots. This will be true in most other skilled professions too, from law to management to academic economists like me.

Matriculants on the cusp of their careers (and their anxious investor parents) have no reason to fear the coming of the robots. If Ryan and Simphiwe, regardless of their field of study, see them as complements – by learning their language and how to collaborate with them – the benefits, for themselves and society at large, will be greater than the costs. ■

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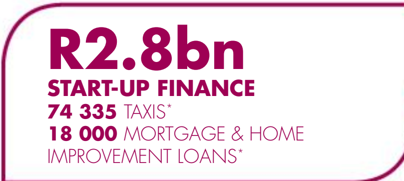

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By Tumisho Grater

MONETARY POLICY

The SA Reserve Bank: Not necessarily the next domino to fall

Since the recent Cabinet reshuffle, concerns around the Reserve Bank's future independence have been raised. However, these may be misdirected.

The strength of South Africa's institutions has historically been an important source of support in its creditworthiness. It has helped nurture a policy framework that has generally been viewed by credit rating agencies as effective in containing fiscal and macroeconomic imbalances. Following the most recent Cabinet reshuffle, National Treasury vowed that the institution would stay the course of its fiscal policy trajectory outlined in the 2017 Budget and continue to implement reforms to improve governance in state-owned enterprises.

Implementing radical economic transformation, according to finance minister Malusi Gigaba, includes programmes that are focused on creating jobs, addressing poverty and inequality (all of which will require a substantial amount of funding) and this may put pressure on the finance ministry's target of fiscal consolidation, especially given that the credit rating downgrades have essentially increased the government's cost of borrowing. In its recent credit review of South Africa, global rating agency Fitch expressed the view that the Cabinet reshuffle may have weakened Treasury's ability to resist departmental demands for increased spending. The recent political moves have raised a few question marks around the issue of independence and policy continuity of key institutions.

Malusi Gigaba
Minister of finance

In terms of section 224 of the Constitution, the central bank must perform its mandate independently, even if this may result in a disregard of the minister's requests.

The Constitution proclaims the need for the independence of the South African Reserve Bank (SARB) and shields it from biased interference, however, the monetary authority in the country consists of the SARB and the finance ministry-controlled National Treasury. It has, therefore, come as no surprise that the debate regarding the independence of the SARB has been reawakened. There are concerns that the pursuit of the radical economic transformation agenda may lead to the finance department making demands on the SARB to relook its monetary policy framework. This fear, although valid, may be challenged based on the current structure and legislation that governs the SARB.

The relationship between the SARB and the finance department is of such a nature that the governor holds regular discussions with the minister of finance and meets periodically with members of the parliamentary portfolio and select committees on finance, meaning the SARB is ultimately accountable to Parliament. However, in terms of section 224 of the Constitution, the central bank must perform its mandate independently, even if this may result in a disregard of the minister's requests. The governor has stated in several speeches and public addresses that the SARB will execute its primary objective independently without fear, favour or prejudice.

In recent years, the SARB has been the subject of increasingly forceful and public demands from various institutions leading to perceptions that the SARB's authority and independence may be under threat. For instance, in 2010, Cosatu called for a reduction in real interest rates as, in its view, this would make South Africa more competitive. More recently, in 2016, the founder of the Centre for Economic Development and Transformation, Duma Gqubule, advocated for the SARB's mandate to be changed to include growth and unemployment and that the composition of the Monetary Policy Committee (MPC) should include members of civil society. The rationale behind this stance being that effective economic policy requires close coordination of monetary, fiscal and industrial policies.

Duma Gqubule
Centre for Economic Development and Transformation

Perhaps to understand the adoption of this practice by the SARB a look at its merits may be warranted. The Reserve Bank of New Zealand was the earliest adopter of an inflation-targeting regime. Many other central banks have since followed suit, such as the US. New Zealand's inflation rate, which peaked at nearly 19% in May 1987, is now 2.2%. The US has achieved similar success, driving inflation from a 14.5% peak in May 1980 to a current rate of 2.4% year-on-year (YOY) in March 2017. Even many developing economies now target inflation successfully. For example, Indonesia's inflation rate was over 82% in late 1998 but is now around 3.6% (YOY in March). However, in today's world one simply cannot ignore the reality that inflation targeting does have its limitations and, as the SARB also acknowledged, monetary policy cannot contribute directly to economic growth and employment creation in the long run.

Given the heightened political tensions and government pushing for inclusive economic growth through radical economic transformation, it may be tempting to equate any future changes in the SARB's monetary regime (whether probable or not) to a potential weakening of the institution's independence. It is important to remind ourselves that over the years, monetary policy regimes have come and gone. Before inflation targeting, there was the gold standard, pegged exchange rates, and then monetary aggregate targets. So, in essence, a policy regime change will be nothing new. ■

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Tumisho Grater is an economic strategist at Novare Actuaries and Consultants.

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the week

in brief

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"I FOUND THE ARGUMENT PRESENTED BY THE BOARD ON WHY THE PENSION ARRANGEMENT WAS CONCEIVED LACKING IN LEGAL RATIONALE, AND IT CANNOT BE SUBSTANTIATED AS A PERFORMANCE REWARD."

– **Minister of public enterprises Lynne Brown** in a statement on 23 April turned down an Eskom board proposal to give former CEO Brian Molefe a R30m pension payout. She instructed the board to revert with an "appropriate" pension proposal within seven days.

Lynne Brown
Minister of public enterprises

"We will carefully observe the US trade probe against imported steel."

– **Japan Iron and Steel Federation chairman Kosei Shindo** told a news conference on 24 April after US President Donald Trump launched a trade probe against China and other exporters of cheap steel into the US market the week before. Reuters reported at the time that the probe raised the possibility of new tariffs and ignited fears of greater trade protectionism by the US.

"THE ALLEGATIONS THAT THERE ARE PRIVATE INDIVIDUALS WHO EXERCISE UNDUE INFLUENCE OVER STATE APPOINTMENTS AND PROCUREMENT DECISIONS SHOULD BE A MATTER OF GREAT CONCERN TO OUR MOVEMENT. THESE PRACTICES [...] THREATEN THE INTEGRITY OF THE STATE, UNDERMINE OUR ECONOMIC PROGRESS, AND DIMINISH OUR ABILITY TO CHANGE THE LIVES OF OUR PEOPLE."

Cyril Ramaphosa
Deputy president

– Speaking at the South African Communist Party's Chris Hani Memorial Lecture in KwaNobuhle in the Eastern Cape on 23 April, **deputy president Cyril Ramaphosa** launched a thinly veiled attack on President Jacob Zuma and the Gupta family amid continuing allegations of state capture. His comments are seen as the unofficial launch of his campaign for the presidency of the ANC.

Images: Gallo Getty Images
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FRENCH VOTE BOOSTS EURO

$0.02

The euro leapt two full cents against the US dollar in early trading on 24 April as investors predicted that their preferred French presidential candidate, Emmanuel Macron, was likely to beat far right-wing adversary Marine Le Pen in the country's upcoming second-round vote. This pushed the euro above $1.09 for the first time in five months, ft.com reported. Macron, who supports the open-market system and has lobbied for France to remain a member of the EU, took the bulk of the 23 April first-round vote. Following the voting results, the euro also made gains against other major currencies, including the Japanese yen and the British pound.

DOUBLE TAKE BY RICO

THE GOOD

South African mining major Anglo American increased its production of rough diamonds by 8% to 7.4m carats in the quarter ended 31 March, reflecting the contribution of Gahcho Kué in Canada, as well as increases in response to improved trading conditions, it said in its quarterly report on 24 April. The company also reported production gains in iron ore production, with output from subsidiary Kumba increasing by 17% to 10.5m tonnes over the three months owing to improved mining productivity at the Sishen mine, and higher throughput at the Kolomela operation. "The operating improvements at Sishen and ongoing portfolio refinements are further strengthening Anglo American's resilience and competitive position," commented CEO Mark Cutifani.

THE BAD

The value of recorded building plans passed (at current prices) decreased by 6.7%, or R1.12bn, between January and February 2017 compared with January to February 2016, Statistics South Africa reported on 20 April. Non-residential buildings fell by 28.2%, or R1.54bn, depressed by large year-on-year decreases in plans passed for shopping space in KwaZulu-Natal and Gauteng. The largest positive contribution was made by the Western Cape, which saw an uptick of 5.5 percentage points, or R916.1m. The bulk of passed building plans comprised those for apartments and townhouses – demonstrating appetite for rental space and a demand for smaller residences.

THE UGLY

After only two months in the position, Central Energy Fund (CEF) chairperson Luvo Makasi has given the board of embattled state-owned oil company PetroSA their marching orders. The CEF subsidiary has posted significant financial losses in recent years and has battled several leadership and management challenges, BDLive reported. Makasi's instruction to the board to resign was issued in a letter sent at the end of March, and lists the company's strategic direction, financial standing and management as issues of primary concern, the report reads.

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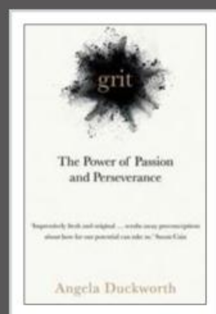

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By Natalie Greve

Virtual yet real estate

Using virtual and augmented reality, PHNX Digital is set to change property marketing in South Africa.

It is a great irony of the property market that the purchase of a property or building, likely the largest capital outlay one will make in a lifetime, is frequently undertaken sight unseen.

Be it for reasons of geography, expediency or that the property is sold off-plan – that is before it is built and with only the plans available for inspection – to commit such a substantial sum to a plot of earth that one has yet to lay eyes on carries with it substantial risk.

It is this inherent risk that digital agency PHNX Digital hopes to avert with the development of a virtual reality (VR) and augmented reality (AR) property app for niche property company Harcourts Platinum.

PHNX Digital founder and MD Greg Jooste describes the app, which is the first of its kind to be developed in Africa for the property market, as a disruptive digital benchmark that is set to change property marketing in South Africa and elsewhere on the continent.

Bringing printed adverts to life using AR, the app allows users to take a virtual walk through a property using their smartphones. It also makes use of location mapping, which shows the building's exact location, while drone photography is used to capture a clear image of the area from a high vantage point.

The app allows users to take a virtual walk through a property using their smartphones.

Hovering over the interactive hotspots on the map provides immediate street views, addresses and contact details. These hotspots are marked and categorised using Google Maps technology.

"VR is a powerful tool in property, especially when selling off-plan. It depicts a photo-realistic vision of a furnished property and allows prospective buyers to envisage their ideal lifestyle in a home that is still to be built, as well as creating a completely immersive experience for foreign investors," comments Jooste.

"Whether it's viewing an AR 3D building through interactive print or virtually standing inside a future home, the app will transform the way real estate professionals build and sell properties."

The app also allows users to receive push notifications on new listings and allows them to make an enquiry from their phones, directly to the agent.

After a potential customer has downloaded the app, an additional channel of communication between themselves and the company is thus created.

"In addition to the current use of email and SMS communication, marketers can now send push notifications straight to the consumer's mobile. The added bonus is the analytics dashboard – which provides in-depth detail of exactly what the consumer is looking at, how long they have spent on the app and where they are situated in the world," he adds.

Greg Jooste
PHNX Digital founder and MD

Steve Caradoc-Davies (L), Harcourts Platinum principal, and **Greg Jooste,** founder and MD of PHNX Digital

Upon completion of the app, PHNX Digital approached Harcourts, for which it had previously provided marketing services for their residential and new developments.

"When we presented it, they were blown away," Jooste tells *finweek*.

Harcourts Platinum principal Steve Caradoc-Davies believes the app will change the way customers view and buy real estate.

"Real estate marketing has changed little in the last decade. In some cases a purchaser can find out more information about a R1 000 camera than a R5m property. By enhancing the viewing experience buyers will be able to engage with a property even without viewing it – thus reducing time wasted on unsuitable properties and sparing both themselves and other sellers the wasted time and inconvenience," he notes.

Since the official launch of the app, several property companies have expressed interest, Jooste says, adding that the immersive technology could also find application in other markets, such as hospitality.

Planned extensions for the app, which is adaptable and customisable, include VR video, AR floorplans and interactive video.

"There will always be a need for print, but in today's digitally focused world, there needs to be a way to combine the two. And that is what AR does; it takes a motionless print advert and digitally brings it to life with a simple scan. AR has an exciting roadmap ahead, with the advancing technology and ongoing push for more interactivity from the consumer," he says.

PHNX Digital was founded by Jooste in 2009 after the 3D animation-trained designer realised that he wanted to pursue a career with a more customer-centric approach.

"I realised that sitting in a dark room making a character's hand wave on a screen isn't what I wanted to do; I wanted more customer interaction. I basically taught myself [how to design apps]," he says of his motivation to establish the agency.

Now with 20 employees, PHNX Digital has offices in Cape Town, Johannesburg and Brisbane, and will soon establish bases in Durban, Sydney and Melbourne. ■

editorial@finweek.co.za

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By David McKay

Growth plans for Pan African?

While the miner is currently working on a new surface tailings plant, what other opportunities exist for expansion?

Pan African Resources said it was unlikely to hedge gold as part of its plans to fund the Elikhulu surface tailings retreatment plant – a R1.65bn project for which it recently raised R705m through an issue of shares, with the balance to be funded through a R1bn debt package with Rand Merchant Bank (RMB).

"We are still working through the legals with RMB, but I don't think hedging makes sense," said Pan African CEO Cobus Loots.

"Elikhulu is in the lowest-cost quartile and it would be easily out of the money if we were to hedge it," he said.

Once Elikhulu is completed, Pan African will produce 250 000 ounces of gold of which 40% will be from the surface.

As the seven-year loan with RMB is not repayable for the first two years, Pan African will also be able to zero its R565m in net debt (as of 31 December), which will give it some much-needed breathing space in these volatile times. The strengthening of the rand last year knocked R50 000 per kilogram off gold company revenues, only for that amount to be reversed following the now infamous Cabinet reshuffle by President Jacob Zuma on 30 March.

The question now for Pan African is how the company intends to grow after Elikhulu, if at all.

Pan African Resources was founded with strong institutional support on the basis of establishing a no-frills focus on profitable gold mining. Its Barberton gold mines achieve this, but a wander into the merger and acquisition realm saw it buy up Evander Gold Mines from Harmony Gold. Evander is a deep operation and beset with technical challenges that have worried the company.

Loots believes a recent R40m re-engineering of two shafts at Evander Gold have resolved its problems with mining enough ore, but he's not in the mood for more new investment in underground mining.

"I think we're done with underground mining. We've been through a tough time, but the refurbishment at Evander is on schedule," he said in an interview. "We will look at other opportunities."

The question is where these opportunities will occur, especially as South Africa is not blessed with many open-cast gold mining opportunities. Loots also believes further opportunities for tailings retreatment in the country are far and few.

The answer is that Pan African is looking into the rest of Africa as an option. "If we can find a decent open-cast orebody at the right value, it might make more sense," he said.

That might be easier said than done.

It's now about a year since Harmony Gold announced plans to add about 400 000 to 500 000 ounces of gold production to its 1.1m ounce base by buying up a number of profitable or near-production gold mines in the rest of Africa… without much success so far. ■

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Cobus Loots
CEO of Pan African

Gallo Images/Getty Images

Modest drop in 2016 output

According to the Thomson Reuters GFMS Gold Survey 2016, an estimated 187 200 tonnes or 5.8bn ounces of gold has been mined through recorded history. That's worth $7.7tr at an average cost of $1 320 per ounce.

Of that amount, it's fairly common knowledge that a large proportion was mined in South Africa. From a standing start in 1885, production quickly increased to 126 tonnes by 1898 and 436 tonnes a year by the mid-1950s. A decade later, South Africa reached its production zenith of around 1 000 tonnes a year, which then accounted for about 77% of total world production.

Mines being a wasting asset, however, means that record-breaking performance could not be maintained. In 2016, South African gold production comprised about 5% of total world production, according to GFMS.

The decline in production is as non-linear as the growth was in the previous century. There's no greater demonstration of this than to see where SA's gold industry ranks in terms of last year's production costs. Not surprisingly, at an all-in sustaining cost (AISC) of $1 035 per ounce (2015: $1 080 per ounce), South African gold is the most expensively mined. The next most expensive gold is mined in the US, which at an AISC of $784 per ounce is nearly a quarter less per ounce than in South Africa.

This makes the efforts of the country's gold producers to effectively mine the remnants of their orebodies almost valiant, coping as they do with labour and regulatory challenges.

Said GFMS: "South Africa had a relatively good year [in 2016], with output only slightly lower at just over 150 tonnes, a one tonne or 0.7% fall year-on-year. To put this modest drop into context, production in South Africa, formerly the world's largest gold producer, regularly posts declines of around 10 tonnes per year." ■

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Mariam Isa

Cleaning up SA's political mess

As long as the poor people living in the rural parts of the country are dependent on social grants for their survival, they will continue to support the ruling party.

The key to wresting control of the economy away from President Jacob Zuma and averting a spiral of crippling credit rating downgrades lies in winning over rural voters who are the main support base of the ANC, a panel of high-profile analysts concluded last week.

But that would be difficult as this group of people – who are generally poor and unemployed – relies for their survival on social grants dished out by the government every year, the four participants warned at an event hosted by the Gordon Institute of Business Science on 19 April.

Channelling private investment into impoverished rural areas was the only way in which alliances could be built with the country's poor majority, loosening the ANC's grip on power, alleviating unemployment, and ensuring business sustainability, they said.

"What is missing in our society today is – how do we wrest this massive underclass from the control of voting for the ANC? You can't do that without the capitalists investing and creating employment for this group," said political economist Moeletsi Mbeki.

"They are so incredibly locked into state dependency. You need investment, you need private sector investment to break that dependency and that is where the business community comes in."

Mbeki maintained that the biggest hurdle that South Africa faces now was lack of investment, which according to figures from the Reserve Bank contracted sharply last year.

He said that the main reason for reluctance by the private sector to invest was the lack of security of ownership – the main component of the political uncertainty that ratcheted up after Zuma's shock Cabinet reshuffle late on 30 March.

In a move described by the other panellists as the "Night of the Long Knives", Zuma axed finance minister Pravin Gordhan and eight other Cabinet members, leading to South Africa's credit rating being quickly downgraded to junk for the first time in 17 years.

The term was used to refer to Adolf Hitler's violent purge of political opponents in 1934 and the abrupt dismissal of seven cabinet ministers by British Prime Minister Harold Macmillan in 1962.

Iraj Abedian, CEO of Pan-African Advisory Services, said that stunned investors were reassessing their strategies and that R8bn to R9bn worth of planned investment had been put on hold.

Colin Coleman, Goldman Sachs managing director for South Africa, said that the reaction in domestic financial markets had been muted so far because at this point in time emerging markets generally were more attractive to global investors than developed markets.

Moeletsi Mbeki
Political economist

Stunned investors are reassessing their strategies and **R8bn** to **R9bn** worth of planned investment has been put on hold.

Cas Coovadia
Managing director of the Banking Association

Cyril Ramaphosa
Deputy president

But South Africa had done itself no favours and all of that would change if there were further credit rating downgrades, which would also nudge the country's rating for local currency debt into junk territory, leading to a massive sell-off in government bonds, he said.

Prior to the reshuffle, unprecedented collaboration between government, business and labour had made enough progress towards the structural reforms needed to foster economic growth to keep South Africa's investment grade status, he said.

"That is all now in question – broken by one night of madness," he said. The patronage network within the ANC and the constitutional, modernising faction were now contesting each other for the future of the country and it was not yet clear which would win, he said.

"We are going to find in the next year that we know where we land. I think it's too close to call – it's very evenly balanced and I think international investors know this," he added.

Banking Association managing director Cas Coovadia said the tragedy was that prior to the Cabinet reshuffle business was actually beginning to understand the imperative for structural change to make the economy more inclusive. "All of that is gone – to rebuild it is going to be a herculean task," he stated.

Mbeki said that SA needed a new type of political party as the main opposition – the DA and the EFF – were "middle class" and middle-class consumers, who were too comfortable to start a revolution.

He also believes that, contrary to some opinion, the ANC was unlikely to split – the fracture had already happened with the collapse of its alliance with Cosatu, he said.

Deputy president Cyril Ramaphosa was among the "crony capitalists" created by BEE, who had zero constituency in the ANC and in the black population. "They are not going to split – they are going to enjoy their money," he added.

Standard Bank chief economist Goolam Ballim warned in a radio interview on 20 April that if what he described as the policy cycle in the country "locks", economic growth could fall short of 1% for the next four to five years. ■

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

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COMBINED MOTOR HOLDINGS

BUY SELL HOLD

By Simon Brown

Ready to manage tricky market conditions

I get it, this company sells cars, which is a tough space to operate in. But even with new vehicle sales falling locally, Combined Motor Holdings (CMH) manages to do it better than almost anybody else. The operating margin has increased from 2.6% to a very strong 3.9% in the last five years, while HEPS has grown at a compounded 19% and the dividend at 27% over the same period. During this time the share price has almost doubled by growing at just under 15%. So, price has lagged growth in both profits and dividends.

Currently the dividend yield and price-to-earnings ratio (P/E) are sitting at around 7 and this suggests the market is expecting the future growth in profits to be negative.

New vehicle sales are expected to start creeping higher this year, but even if they're just flat we can expect increased demand for quality second-hand vehicles, which are becoming harder to find due to lower new vehicle sales.

With a very strong balance sheet, CMH will be able to manage tricky market conditions and should continue to grow profits and dividends, adding to the already attractive yield. ■

Last trade ideas

- HOLD Capitec *20 April issue*
- HOLD Capitec *13 April issue*
- HOLD Anchor Capital *6 April issue*
- BUY NFEMOM *30 March issue*

ANHEUSER-BUSCH INBEV SA

BUY SELL HOLD

By Moxima Gama

Beer moves towards the end of the production line at SABMiller's Newlands brewery in Cape Town.

Gallo Images/Getty Images

Ambitious expansion plans

South Africa's economic downgrade to junk status triggered a tailspin, with some risk-averse investors running for the hills. It also appeared as if international companies invested in South Africa were beginning to doubt the Africa growth story – particularly Anheuser-Busch InBev (AB InBev) SA, which launched a takeover bid for the second-largest brewer, SABMiller, in October 2015. Yet Ricardo Tadeu, the Africa zone president of AB InBev, believes in 30 years' time the African continent will be more relevant to the global beer market than North America.

A recently released annual report showed a 5% drop in South African beer volumes due to macroeconomic weakness. Dismissing any investor concern, AB InBev SA announced that it's looking to bring its Budweiser, Stella Artois and Corona beer brands to the local market and the rest of Africa at an estimated cost of between $100m and $140m. It also wants to introduce low- or no-alcohol products to the local market.

Ricardo Tadeu
Africa zone president of AB InBev

AB InBev SA has operations in 14 African countries, has a presence in a total of 40 African countries and is planning a new plant in Nigeria. Tadeu also announced that he would like to see the exports of AB InBev beer brands from Africa to other markets reach the 1m hectolitre mark within 10 years by exporting eight AB InBev African beers – including Castle Lite, Kilimanjaro of Tanzania and Nigeria's Hero beer – to the US, China, the UK and Australia.

How to trade it: Upside above 147 010c/share would end a near-term bear trend – potentially triggering gains back to the 154 750c/share recent high. A move above that level would place AB InBev in short-term bullish territory, presenting another good reloading opportunity above 160 000c/share. Upside could then persist to the 171 305c/share levels. Maintain a fair trailing stop-loss. ■

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Last trade ideas

- BUY Pick n Pay *20 April issue*
- SELL Imperial Holdings *13 April issue*
- BUY British American Tobacco *6 April issue*
- BUY Lonmin *30 March issue*

AB InBev SA has operations in **14** African countries, has a presence in a total of 40 African countries and is planning a new plant in Nigeria.

By Moxima Gama

OCEANA GROUP LTD

Sinking or swimming?

One of the biggest fisheries in the world, Oceana's share price recently took a dip. It has also lost a portion of its horse mackerel allocation. Will this diversified player recover?

Three-hundred-and-twelve million kilograms of seafood is consumed in South Africa each year, with half of that being locally caught. Oceana Group, Premier Fishing and Sea Harvest are the big players in a sector worth about R14bn.

Oceana Group Ltd, incorporated in 1918, is the largest fishing company in South Africa. Listed on both the JSE and the Namibian Stock Exchange (NSX), the group consists of various operating subsidiaries in the fishing and commercial cold storage industries.

In the third week of April, the group's share price fell 3.3% to R98.86 after announcing that its results for the six months to end March, scheduled for release on 18 May, were expected to show a drop of between 15% and 18% in headline earnings per share (HEPS). Oceana owns the best-selling brand Lucky Star (canned pilchards). A drop in canned fish sales and wrong bets on the rand accounted for 14% of the fall in HEPS. Its Commercial Cold Storage Logistics division also experienced a drop in its Gauteng business, driven by losses on foreign-exchange contracts held to cover the import of frozen fish.

A drop in canned fish sales and wrong bets on the rand accounted for **14%** of the fall in HEPS.

Oceana's dominant position in the South African market and the significant industry barriers to entry for smaller players gives it some pricing power. However, the recent entry of a minnow called Premier Fishing – which is spun out of African Empowerment Equity Investments – may have rocked the boat a little.

The company's most profitable segment is horse mackerel and hake, and Oceana has lost a chunk of its horse mackerel allocation, with PremFish being one of the beneficiaries. Talks that Oceana may lose portions of its fishing rights allocations were rapidly countered by management. The company reassured investors that it was well-diversified with one third of its business coming from Lucky Star and its cold storage business and another third from the US-based Daybrook, where long-term fishing rights are well in order. Therefore, only 20% of the remaining third of this segment was affected by fishing rights in SA.

52-week range:	R96 - R130
Price/earnings ratio:	14.16
1-year total return:	-14.85%
Market capitalisation:	R13.50bn
Earnings per share:	R7.03
Dividend yield:	4.71%
Average volume over 30 days:	115 306

OCEANA GROUP LTD

SOURCE: MetaStock Pro (Reuters)

oceana.co.za

Technical analysis:

Oceana, which ranks as one of the top five biggest fishing enterprises in the world, is trading in a downward channel, which commenced in March 2016, after testing an all-time high at 13 475c/share. Currently testing the lower slope of its long-term channel and with both the three-week and three-month relative strength index (RSI) in oversold territory, a recovery within its major correction seems under way.

Movements in the rand against the dollar, government decisions on fishing rights and levels of consumer spending all affect Oceana's overall performance. Therefore, keep a close eye on rand movement, as a weakening of the local currency usually gives the competitiveness of Oceana's export products a boost, and although the rand weakened drastically over the past few weeks, it has regained considerable strength.

How to trade it:

Go long: A move above 10 355c/share could lead to either the 12 360c/share prior high or the upper blue bold slope. Increase positions above 11 545c/share.

Go short: Breaching the lower slope of the channel could kick-start a steeper bear trend. Downside through 8 700c/share could extend losses to 6 450c/share. Increase shorts or go short below 8 700c/share. ■

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

By Simon Brown

Simon's stock tips

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

OCEANA GROUP

Time to stock up?

Oceana is a stock I have been watching for a long time. I have been looking for a potential cheap entry point, and its latest trading update may be offering such an opportunity. The company reports that headline earnings per share (HEPS) is down between 15% and 18%. About half of this decrease is due to "losses on foreign exchange contracts held to cover the import of frozen fish". This number went from a positive R69.9m in the previous year to a loss of R44.7m. The balance of the decline is from lower volumes in canned fish. Currency moves will be a feature going forward, but these should be offset by dollar earnings from its recent US acquisition to a degree. For now, I am waiting for results due on 18 May to get a clearer picture of the company.

PICK N PAY

In a bad place

The Pick n Pay results show its trading profit margin increasing to 2.3% versus 2.1% in the previous year. This is on the back of sales up by a very modest 7% and diluted HEPS up by 17.2%. However, the like-for-like sales figure was up only 3.4% while the company's inflation was 6.1%, making for a negative 2.7% growth. Seemingly the retailer is still losing market share, and I wonder if changes to the Smart Shopper discount programme will cause this trend to continue. The share price is off by more than 25% since the high of 8 424c in August 2016, and for the first time in years the stock is only modestly expensive on a forward price-to-earnings ratio (P/E) of around 21. Shoprite*, on a forward P/E of some 19.5, boasting better margins and solid exposure in the rest of Africa, remains my preferred pick in the low-LSM food retail space.

Gallo Getty Images/iStockphoto

CLICKS

Pricey but attractive

The recent Clicks results show modest like-for-like growth in retail on the back of sales up by 8.5%, diluted HEPS up by 13.5% and a dividend increase of 15.8%. Great operational efficiency is evident, but even with these results and with the share trading just off all-time highs, it remains an expensive stock, although one that has continually delivered on expectations. Recently listed Dis-Chem Pharmacies has more growth potential in terms of new stores, but Clicks has proved its ability to grow as it continues to expand, and it would be my preferred pick of the two.

ASPEN PHARMACARE

Court drama plays out

Aspen has responded to European press reports on price gouging for its generic cancer treatments. I do not pretend to know who is right or wrong in this debate as the process is moving through the European regulators and Italian courts. For me, this plays into my concerns around healthcare, which I have mentioned often in the past. Even with generic drugs there are risks of government interference. With generics the issue is that as the company did not spend the research and development costs for the drugs, governments can claim pricing of the drugs should be on a manufacturing-cost-plus-margin basis as no development costs need to be recouped.

VALUE LOGISTICS

Be wary of small players

Value released a strong trading update, with HEPS expected to be between 55% and 75% higher. This is on the back of tough trading conditions in the sector, and achieved thanks to restructuring within the group. On a share price of 320c and earnings in the mid-range at around 60c, this gives a P/E of 5.3 and a historic dividend yield of 5.6%. On the surface, this represents massive value, but since it is a very small stock with a market cap of only some R600m, liquidity could be a concern as markets grapple with South Africa's junk status. Even with great results coming in early May, local GDP growth of around 1% at best for 2017 means Value will have a rough time going forward. For now, the market is taking the sceptical approach. ■

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Since it is a very small stock with a market cap of only some **R600m,** liquidity could be a concern as markets grapple with South Africa's junk status.

**The writer owns shares in Shoprite.*

By Simon Brown

BANKS

How to value different sectors

There are very specific things to consider when determining the value and investment potential of specific sectors. This week, Simon Brown looks at the banking sector.

Different industries have nuances on how to determine value and if they're worth investing in.

This week I want to focus on banks. At the core they're simple: they take deposits from clients, lend that money out to other clients at a higher rate and provide banking accounts and services.

But banks have several different metrics we need to consider when evaluating them. For me, the most important of these is the cost-to-income ratio. In a way, this is like an operating margin as it's the percentage profit they make from any income. Generally, the large banks locally are on a ratio of around 55%, and while they all talk of achieving a lower cost-to-income ratio, it is unlikely to get much better than maybe 52% due to higher costs in the industry these days. Capitec* is an exception with a cost-to-income ratio of around 35%, but even this will rise in time as they roll out more traditional banking products. It is likely to settle around 45%, thus still giving it a solid profit edge on the competition.

All banks will have bad debts, but the levels and trends will help us understand the success of their lending criteria.

Another important number we need to focus on is impairments – banker speak for bad debts. Because it focuses mostly on smaller unsecured loans, Capitec stands out here with the higher ratio, but one needs to dig into all the banks. Compare the different divisions (personal versus corporate) and consider the trends. All banks will have bad debts, but the levels and trends will help us understand the success of their lending criteria. Previous commentary could also give us an indication if they've been becoming stricter on their lending criteria.

Another very useful tool that works very well for banking stocks is price-to-book. This is the current share price versus the net asset value (NAV) of the bank. Banks seldom have a price-to-book of more than 2 times, and a price-to-book at below 1,5 times is well worth having a closer look at. This is an excellent and quick valuation tool if we compare them over the previous few years.

Banks seldom have a price-to-book of more than 2 times, and a price-to-book at below

1,5

times is well worth having a closer look at.

I also watch the growth in non-interest revenue. Traditionally banks made money mostly from charging interest on lending at higher rates than the rates they borrowed at, and profiting from the difference. But these days other non-interest income is the real growth area for them. This includes simple costs such as account fees and penalties, but it also includes other services and products they can profit from. This would include insurance, winding up of estates, stockbroking and the like. While they must be careful with the fees and penalties part of non-interest income, the other products and services certainly offer great potential for profit growth. Here we need to see what the growth looks like, but also try and get an understanding of what they are succeeding at so that we can make an informed decision on whether or not it's likely to continue to grow.

Capital adequacy and Basel III are extremely important, and while many large international banks are struggling with this, our local banks are all very capitalised and are not expected to have any issue with Basel III when it is fully introduced in 2019.

Lastly, we still use all the old investment metrics such as return on equity (RoE), dividend yield (DY) and price-to-earnings ratios (P/Es). Banks as a sector typically trade at much lower P/E ratios than the general market, with a high P/E being around 13 and a low P/E being a high single-digit value. They also offer better DY than other sectors, so when we're comparing we need to compare within the sector rather than across sectors. ■

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**The writer owns shares in Capitec.*

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By Schalk Louw

PORTFOLIO MANAGEMENT

How Treynor can help to get your portfolio into shape

The Treynor ratio is used to evaluate the performance of different actively managed funds by measuring the returns on these investments versus the risk.

Investments and risk have been compared to many things, but the one thing that will surely get enthusiasts' blood flowing, is comparing investment risk to cricket. Why? On one side, you find players like Chris Gayle who can score 200 runs from only a few balls, only to be taken out the next day after one or two overs with fewer than 10 runs. Then there's the typical five-day batsman, who can spend an entire day dilly-dallying in front of the wickets to score a measly 50 runs.

In my opinion, Hashim Amla represents the perfect balance. While giving us the impression that he is a slow batsman, he is actually the batsman who scored the fastest 20 centuries. He has a hit rate of 89%, and 45% of his ODI runs were scored through boundaries.

It's easy to compare his regular high scores to what we call standard deviation in an investment. The higher the standard deviation, the riskier the investment. A lower standard deviation not only lowers investment risk, but also means that the batsman isn't always bowled out early in the game.

Apart from standard deviation, one of the many risk ratios one can use to show what returns should be for the risk that must be taken is the Treynor ratio.

Apart from standard deviation, one of the many risk ratios one can use to show what returns should be for the risk that must be taken is the Treynor ratio.

The Treynor ratio is used to evaluate the performance of different actively managed funds by measuring the returns on these investments versus the risk. The higher this ratio, the better the fund's performance relative to the amount of investment risk involved. Put differently, a higher ratio means that investors received a higher return on their investments than they "should have", for the risk they took on.

Before we look at the Treynor ratio, it is important to understand the concepts of market and company-specific risk, as well as the Beta of a fund.

Market risk is the risk associated with certain economic factors in the market. Investors usually have very little control over this. When looking at the great correction of 2008, it didn't matter how well diversified investors were – the moment the market started to react to bad news, companies (shares) started to suffer. Company-specific risk is the risk associated with a specific company or share. This risk can usually be lowered by means of diversification. The Beta of an investment measures the market risk of the investment, and to which extent investment returns move with the market.

The Treynor ratio is calculated by subtracting risk-free returns (such as those from the money market) from investment returns, and then considering this in terms of the investment's Beta. The result is returns per unit of market risk, as opposed to total risk.

This ratio can be used to compare different "batsmen". When applying the Treynor to local General Shares unit trusts (excluding Funds of Funds) over the past five years, you will see that the five funds below stand out as the 'in shape' players over this period. They are:

1. **PSG Equity**
2. **36ONE BCI Equity**
3. **Aylett Equity Prescient**
4. **Nedgroup Investments Private Wealth Core Equity Fund**
5. **27Four Shariah Active Equity Prescient**

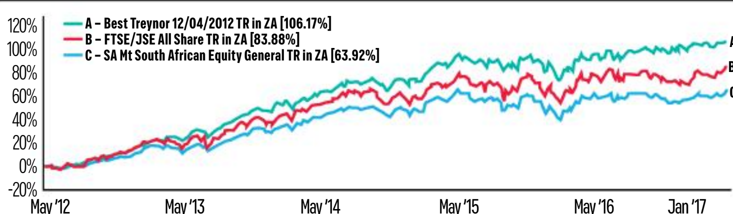
Of course, you cannot use historical data to predict future returns any more than you can predict who will be scoring a century in the next Proteas match. However, if you had invested 20% in each of these funds for these five years your returns would have been noticeably higher than the FTSE/JSE All Share Index at a lower average standard deviation.

By combining the five highest Treynor funds, their top-10 shareholding (sorted by weight) as at the end of March 2017 would have looked like this (please note that these 10 shares make up more than a third of their total funds):

1. **Naspers**
2. **Sasol**
3. **ADvTECH**
4. **Anglo American**
5. **Standard Bank**
6. **Discovery Health**
7. **Steinhoff**
8. **British American Tobacco Company**
9. **AECI**
10. **Old Mutual**

Although no one may know what the markets will bring tomorrow, I know that when compiling my investment portfolio, I would definitely choose the "in shape" players. ■

HIGH TREYNOR FUNDS VERSUS FTSE/JSE ALL SHARE INDEX AND SA GENERAL EQUITY SECTOR



SOURCE: Financial Express

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Schalk Louw is a portfolio manager at PSG Wealth.

By Devin Shutte

TAXES

Reducing the burden of the new wealth tax

An RA remains one of the best ways to save on tax, with the added benefit of simultaneously saving for retirement.

Former finance minister Pravin Gordhan announced in his Budget Speech in February the introduction of a new top personal income tax bracket where South Africa's highest earners would pay a marginal tax rate of 45%. This new tax bracket is applicable to all those whose taxable income is R1.5m or more per year. This was one of the many initiatives to generate the R28bn shortfall the fiscus faced.

The effect of this new bracket on a section of taxpayers is to significantly increase their average or effective tax paid. However, while these changes mean less money in taxpayers' pockets, there are legislated investment products that can reduce this increased tax burden. In fact, the higher taxes move, the greater the tax saving these products offer.

What is an annuity?

The retirement annuity or RA is an often misunderstood and underutilised retirement vehicle. Retirement annuities (RAs) have evolved in their structure over time, with the ones we have today a vastly improved version of what was previously available.

The CFA Institute Research Foundation describes an RA thus: "A company promises to make a series of periodic payments – usually defined as a sequence lasting for life – in exchange for either a large single premium collected at the beginning of the contract's term or a series of smaller premiums collected before the start of the annuity's initial payment date."

Retirement annuity features

RAs offer distinct advantages. The most compelling of these is the aforementioned reduction of your taxable income (up to certain limits). Part of your contributions to the RA comes from tax savings, meaning that Sars is in effect contributing to your retirement savings. An additional benefit is that the growth on your investment is tax-free. A further feature of RAs is that they are in effect "mini trusts". This means your retirement savings will be protected from your creditors, and can be left as inheritances to beneficiaries, which has estate duty and executor fee savings.

However, RAs also have certain limitations. Your access to your capital is fully restricted until age 55. Regulation 28 also limits your exposure to growth assets (equities and property).

An example

The best way to illustrate the tax benefits of an RA is by means of an example. Thuli Mbete is a political analyst for a major bank and her annual taxable income is R1.85m per annum.

Without any deductions, her tax liability on this income would be R677 490 for the current tax year. This would leave her with take-home pay of R1 172 510. The tax paid means that her effective tax rate is 37%.

However, if Thuli were to utilise her maximum available allowance for an RA of R350 000, this would have a significant impact on her taxable income. The full investment amount of R350 000 could be deducted from her taxable income of R1.85m. In effect, this would lower her taxable income to R1.5m. Thuli's tax would then be calculated on this lower amount, and would total R519 990, a saving of R157 500 on tax paid for the year. This would translate into a lower average tax rate of 28% for the year. It must however be noted that her take-home pay has decreased by R194 285 to R978 225, but she owns an investment worth R350 000.

What does this mean? In essence, Thuli paid R194 285 for an investment worth R350 000.

One can view this in two ways:

1. Thuli invested R194 285 of her money, and it was boosted by 80.15% to be worth R350 000.
2. Thuli invested R350 000 but received a 44.5% discount on the initial price and only paid R194 285.

By investing in an RA, Thuli Mbete has used her tax saving provided by it to enhance her investment for retirement. This initial boost to her investment can have a significant effect on the future value of the investment. If Thuli had utilised the same investment amount of R194 285 and invested it in another instrument that did not have the pre-tax benefits of an RA, the lack of investment "boost" is significant.

On day one, the RA investment is worth R350 000 compared to the other investment's R194 285. Assuming a 10% nominal annual growth on both, after 10 years the RA would be worth R993 797 compared to the R503 925 of the non-RA investment. Moving the lens further out, assuming the investor held this single investment for 30 years, the RA investment would be worth R8 012 304 versus R3 390 157 – a 136% gain.

While no investment should be taken without due consideration of your individual requirements, risk tolerance and risk capacity, it is important to understand the options available. In the current environment of heightened market volatility and increased tax burden, an RA could offer a significant positive contribution to many retirement plans. ■

editorial@finweek.co.za

Devin Shutte is the head of investments at The Robert Group, a private wealth management company.

2018 TAX YEAR (1 March 2017-28 February 2018)

Taxable income	Rates of tax (R)
0 – 189 880	18% of taxable income
189 881 – 296 540	34 178 + 26% of taxable income above
296 541 – 410 460	61 910 + 31% of taxable income above
410 461 – 555 600	97 225 + 36% of taxable income above
555 601 – 708 310	149 475 + 39% of taxable income above
708 311 – 1 500 000	209 032 + 41% of taxable income above
1 500 001 and above	533 625 + 45% of taxable income above

SOURCE: SARS

	No RA	RA
Income	R1 850 000	
RA contribution	–	R350 000
Taxable income	R1 850 000	R1 500 000
Tax liability	R677 490	R519 990
Tax home pay	R1 172 510	R978 225
Tax saving	–	R157 500
Effective RA cost	–	R194 285
Average tax rate	37%	28%
Investment value	–	R350 000
Net effect	–	80.15%

SOURCE: TRG

By Samantha Steyn

MASTER DRILLING

Sinking more than one strategy

Master Drilling is a globally diversified business at the forefront of ground-breaking drilling and is the leader in its field – a rare find indeed.

Listed since 2012, Master Drilling is arguably the number one raise bore-drilling company in the world. Despite going public just as the world's mining giants wrestled a drop-off in commodity prices, Master Drilling persevered and demonstrated its incredible resilience and agility. Growing profits at a compounded annual rate of 16%, in dollar terms since listing, the group has certainly proven success in its niche, and a world-class value offering to both clients and shareholders.

The key to the organisation's success is an invaluable service offering that is not only developed and owned in-house, but also mobile across continents and industries. Impressively, the company is able to drill holes up to 8 metres in diameter and 1km deep! With state-of-the-art technology, Master Drilling reduces the time and cost of drilling holes, while improving safety standards using bespoke high-tech machinery. This changes the game significantly. Previously dormant ventures – due to extended project lives – become viable, profitable and increasingly feasible.

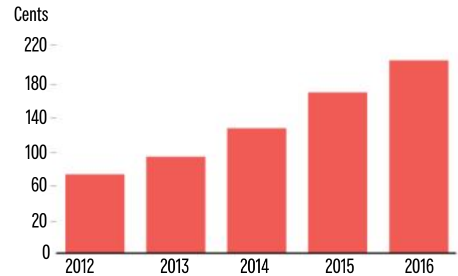
Highly inventive, the group has recently revealed that its Horizontal Raise Boring (HRB) technology is ready for international roll-out after a successful pilot test. HRB provides mechanical excavation of a tunnel between two existing access points. The steady progress of the reamer can excavate an average 6 metres a day, compared with 2 metres in conventional drill-and-blast cycles. This technology is possibly a game-changer for the group and, even better, it's still priced in as free optionality.

While the company has offered its services predominantly in the mining industry, it is clear that its visions are far broader. Under the guidance of founder and CEO Danie Pretorius, who owns 53% of the company, the group has managed to grow an impressive fleet that will continue to enhance earnings. However, the most undervalued and overlooked asset is the company's internally generated intellectual property – arguably a mispriced technology business.

> In its most recent results, the group increased headline earnings per share by 19.4% to 210c.

The group earns more than 75% of its revenue outside of South Africa, with a clear strategy to diversify across regions, commodities, currencies and industries. In its most recent results, the group increased headline earnings per share by 19.4% to 210c. Most remarkably, this conservative management team runs a very neat operation with costs notably managed alongside a solid balance sheet. With operating margins at roughly 22% and the gearing at 21%, it's justifiable to say that Master Drilling is a rare find.

MASTER DRILLING HEPS



At the forefront of ground-breaking drilling, the company undoubtedly has exciting prospects. Being a globally diversified business, with predominantly hard currency-based revenue and a local currency cost base, it certainly has an attractive mix. Currently on a price-to-earnings ratio (P/E) of eight times, a solid and growing order book and recently a dividend payer, Master Drilling is certainly a share worth a dig. ■

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Samantha Steyn is a portfolio manager at Cannon Asset Managers.

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By Paul Leonard

STRATEGY

What to do with your money in an uncertain market

First off, stay calm. Then, reduce your exposure to bonds, and put your money into companies earning in foreign currency.

South Africa's politics and markets are in turmoil. This is uncertainty; this is risk. Predictably, many investors are jittery and are now asking: "What must I do? How should I be investing in this type of environment?"

The first – and most important – piece of advice that I can give is: don't panic. There is no evidence that suggests that panic helps anyone, ever. The types of events that we have witnessed recently only serve to reinforce the importance of a sensible investment philosophy and process.

A well-diversified portfolio is particularly useful in times like these. But portfolios do need to be rebalanced from time to time.

The first – and most important – piece of advice that I can give is: don't panic.

If you have bonds in your portfolio, then this building block will be under pressure. It is, of course, South African government bonds that were downgraded to junk status so, hopefully, your asset managers have reduced your exposure to bonds.

The rand has already come under significant pressure and this is likely to continue, so the high-conviction view for the balance of this year is to reduce exposure to rand-denominated investments while raising exposure to rand-hedge investments.

The shares of local companies that earn a large proportion of their revenue or profit in South Africa – such as local banks and local retail stores – are also probably not going to perform particularly well, so you want to reduce exposure to these types of companies in your portfolio as well.

Interestingly, and importantly, the good news is that some of the equity building blocks of your portfolio are likely to give you good returns. Our high-conviction view is that overseas equities are likely to provide better investment returns than local companies in the coming year. So you will want to have greater exposure to international companies or those local businesses that are exposed to the global economy.

About two-thirds of the income that is generated by companies listed on the JSE is generated outside of the country. Those businesses are likely to perform well if the rand devalues, so you want to have an increased exposure to those types of companies in your portfolio. For example, a business which exports goods from South Africa and earns in foreign currency, or a foreign-based retailer would be options to consider.

Hedge funds are often used to reduce the downside volatility of a portfolio and thus reduce the risk. It's like an insurance policy. It may be expensive, but if you have a hedge fund strategy in your portfolio, you probably want a higher percentage of hedge funds now.

Protected equity is a type of investment building-block strategy where you do not share in the downside of the market so that if the market drops by, say, 5% your portfolio might only drop by 2%. That means that when the market starts going up again, your portfolio starts at a higher point. In uncertain times such as this you want more of this in your portfolio today.

As always, though, do not get drawn into this blizzard of news and opinion. This is uncertainty and this represents a risk but if you have a well-diversified portfolio that considers uncertainty it remains an appropriate strategy. In that case, stick to it; avoid any knee-jerk reaction to market nervousness. And, as always, seek advice from a qualified person. ■

editorial@finweek.co.za

Paul Leonard, a certified financial planner, is regional head at Citadel in the Eastern Cape.

Protected equity is a type of investment building-block strategy where you do not share in the downside of the market so that if the market drops by, say, 5% your portfolio might only drop by 2%.

Gallo Images/iStock

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ANCHOR	M Teke	21 April	Purchase	200,000	704	1,408,000	25 April
BAUBA	J Knowlden	19 April	Purchase	35,550	70	24,885	24 April
BAUBA	J Knowlden	18 April	Purchase	155,735	69	107,457	19 April
BIDCORP	AK Biggs	19 April	Exercise Options	4,142	27481	1,138,263	20 April
CAPITEC	GM Fourie	12 April	Exercise Options	2,500	16009	400,225	20 April
CAPITEC	GM Fourie	12 April	Exercise Options	5,000	19852	992,600	20 April
CAPITEC	GM Fourie	12 April	Exercise Options	4,375	20140	881,125	20 April
CAPITEC	GM Fourie	12 April	Exercise Options	4,582	19643	900,042	20 April
CAPITEC	GM Fourie	12 April	Exercise Options	22,872	37188	8,505,639	20 April
CONDUIT	S Riskowitz	12 April	Purchase	340,203	249	847,105	19 April
CONDUIT	S Riskowitz	20 April	Purchase	2,279,870	250	5,699,675	24 April
DISCOVERY	J Broomberg	13 April	Sell	25,000	13078	3,269,500	18 April
DISCOVERY	SEN De Bruyn Sebotsa	13 April	Exercise Options	64,000	13080	8,371,200	21 April
DISCOVERY	K Rabson	13 April	Sell	4,000	13100	524,000	20 April
ELBGROUP	Pinto	13 April	Sell	16,000	2102	336,320	18 April
ELBGROUP	Pinto	13 April	Sell	44,000	2100	924,000	18 April
EOH	JW King	13 April	Purchase	8,500	12716	1,080,860	18 April
EOH	RMM Sporen	11 April	Sell	85,000	13238	11,252,300	18 April
FAIRVEST	BJ Kriel	20 April	Purchase	1,115,539	181	2,019,125	21 April
FAIRVEST	DM Wilder	20 April	Purchase	241,477	181	437,073	21 April
FAIRVEST	DM Wilder	20 April	Purchase	9,265	181	16,769	21 April
FAIRVEST	DM Wilder	20 April	Purchase	9,265	181	16,769	21 April
GROWPNT	G Muchanya	12 April	Sell	14,326	2507	359,152	18 April
GROWPNT	G Muchanya	13 April	Sell	15,000	2530	379,500	18 April
INTERWASTE	McNeil	19 April	Sell	120,000	86	103,200	19 April
KAP	SH M¸ller	13 April	Sell	15,803	891	140,804	20 April
KAP	R Stassen	20 April	Purchase	50,000	785	392,500	21 April
MUSTEK	DC Kan	13 April	Purchase	132,887	426	566,098	18 April
PEMBURY	A McLachlan	4 April	Sell	100,000	91	91,000	18 April
TREMATON	A Groll	24 April	Purchase	50,000	275	137,500	25 April
TREMATON	SA Litten	24 April	Sell	25,000	275	68,750	25 April
VUKILE	MH Serebro	29 March	Sell	25,524	1940	495,165	18 April
WOOLIES	SN Susman	13 April	Sell	100,000	7049	7,049,000	19 April

All data as at ??:00 on 25 April 2017. Supplied by IRESS.

Ian Moir
CEO of Woolworths

Pedestrians sit on street benches outside the headquarters of Woolworths Holdings in Cape Town.

Images: Gallo Getty Images

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Orion	70	133.33
Hwange	46	53.33
Workforce	225	28.57
Moneywb	17	21.43
Silverb	315	18.87
WORST		
Wearne	6	-25.00
Afdawn	55	-17.91
Sibanye	2782	-16.48
Transcend	610	-16.44
Kibo	110	-14.73

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 921.40	0.47
JSE FINANCIAL 15	14 900.41	2.17
JSE INDUSTRIAL 25	70 646.90	1.05
JSE SA LISTED PROPERTY	625.98	-0.72
JSE SA RESOURCES	18 216.17	-1.89
JSE TOP 40	46 187.92	0.69
CAC 40	526 885	5.58
DAXX	1 245 498	3.79
FTSE 100	726 468	1.64
HANG SENG	2 413 948	0.90
NASDAQ COMPOSITE	598 381	2.30
NIKKEI 225	1 887 588	2.48

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
TEXTON	101	12.2
KUMBA	2103	11.9
REBOSIS	129	10.5
EMIRA	143	10.3
RI PLC	55	8.8
ACCPROP	58	8.6
REDEFINE	93	8.5
SA CORP	46	8.4
ASSORE	1940	8.4
CORONAT	504	8.1

THE BUSINE RUG

The state of rugby in the country is dire. Spectator numbers are dwindling and sponsors are tightening their belts. But could a new ruling by SA Rugby mean a revival for one of the nation's most loved sports?

SS OF BY

By Lloyd Gedye

Mark Alexander of SA Rugby presents the Springbok jersey to minister Thulas Nxesi during the Launch of SuperSport Rugby Challenge at Bill Jardine Stadium in Johannesburg on 10 April.

Gallo Images/Getty Images

South African rugby is in the doldrums. Last year the Springboks looked like the whipping boys of international rugby. At a provincial union level, stadium ticket sales are down. Sponsorship money is drying up and television viewership is shrinking. Further, there is a player exodus for more lucrative foreign rugby fields and many of the provincial unions are struggling financially.

There is also increased pressure, both from government and from an impatient rugby-viewing public, for the sport to transform.

At the moment it seems there is nowhere to hide for rugby administrators.

But the sport may soon undergo some drastic changes. In December SA Rugby announced that its general council had taken a number of decisions which its president, Mark Alexander, said would have far-reaching effects on rugby in the country.

The headline-grabbing decision was the one allowing 74% shareholdings in commercial arms of rugby unions by private equity partners. Previously equity partners had been restricted to a 50% ownership. Could this mean that money is going to flood into the sport, with a host of new equity partners jumping on board?

THE SA RUGBY PRIVATE EQUITY LANDSCAPE

As world rugby turned professional in the wake of the Springboks' 1995 Rugby World Cup victory, new private equity investment flowed into the sport.

The Free State Cheetahs was the first South African rugby union to sign a deal with a private equity partner, says managing director Harold Verster. In the late 1990s SuperSport bought a 24.5% stake in the union. SuperSport has also invested in the Sharks, with an initial stake of 24.9%, which was upped to 50% in 2016.

In 1998 SAIL, a subsidiary of Remgro, purchased a 24% stake in the Border, Valke, Eagles, Griffons and Eastern Province rugby unions. In 2006 it would go on to sell its shares in Border and the Eagles to SA Rugby.

According to the Valke website, another stake was sold to Unitrade back in the late

> "Rugby in South Africa offers unique experiences and business opportunities."

1990s, but that the combined Unitrade and SAIL 50% shareholding is now owned by a global sports marketing company based in Hong Kong called Action House International.

Remgro is also a shareholder in the Blue Bulls (50%) and Western Province (24.9%). There has been speculation that Remgro could up its share in Western Province to between 50% and 74%, after the union's liquidation. Remgro has already made "bridging loans" to Western Province to pay the salaries of players and staff. This puts it in a powerful position to secure a bigger shareholding.

Over at the Lions, Foxbell Investments, a company in the Glasfit Group, became a 49.9% shareholder in 2011.

WHY NOW?

The membership of SA Rugby decided to open the door for greater private equity investment in the sport to provide greater business involvement and expertise and to help recapitalise the game, says Alexander.

"A number of our members have existing equity partners with strong business credentials and we shared our thinking with those entities before any decisions were made," he states.

"They had an appetite to take a greater stake in rugby and there was a clear business need for a cash injection into our sport."

Alexander adds that the relationship between rugby unions and equity partners will be governed by the constitution and new licensing, which will govern the unions' participation in SA Rugby's competitions.

"Work is not complete on those licences quite yet," he explains. "But it is well advanced."

He adds that locally rugby is a tough market at the moment.

"[This is] partly brought on by macro-economic conditions and partly by our own offering and perceptions around the game," he explains.

"But we have recognised those failings and are making changes – such as the introduction of equity shareholding, changes in our governance procedures, increasing independent representation on what is effectively our board and changes to our competition structures.

"We've been at the bottom of the market and are on our way – but we're definitely still a very good buy," he argues.

Harold Verster
Managing director of the Cheetahs

INVESTOR APPETITE

Alexander is confident that there is investor interest in the sport. "Rugby is a global business; one English club has a South African company holding a 50% shareholding and we could not close the door on foreign investment," he says. "Rugby in South Africa offers unique experiences and business opportunities."

After SA Rugby's decision was announced, potential investors who had approached the body indicated their renewed interest. Alexander also adds that there are new players who are also keen to enter the local rugby market.

Glasfit's Altman Allers tells *finweek* that, following the decision by SA Rugby, the GLRU and Foxbell have been in discussions. These negotiations should have been concluded by the end of April.

When contacted by *finweek*, SuperSport said it had no plans for further investment in any South African rugby unions. Attempts to get comment from Remgro were unsuccessful.

> "Is a 74% private equity shareholder going to let government tell them whom they must pick in their team?"

The Cheetahs' Verster says the decision to allow greater private equity investment in the sport signalled the next phase in the development of "professional rugby".

"There will be more capital to be used to retain and develop top players," he states. "It will also bring expertise to the table in terms of marketing the franchises."

Others are less optimistic. One rugby insider who did not want to be named says the rugby space is "very ugly" at the moment and has problems that SA Rugby needs to address. He observes that stadiums are emptying out and sponsorship money is drying up. "Who would want to invest in this?"

Gallo Images/Getty Images

What about transformation?

Dawid Kamfer, a coordinator of Sarra, an organisation opposed to racism in rugby associations, is wary about the new private equity deals in South African rugby. He says he is "very concerned" about the effect that private equity transactions will have on transformation.

"If someone buys into a business, they are going to want the best asset, so they can make money," he comments. "So they will pick players without concern for transformation. Saru needs to make sure that these deals are put together in a way that transformation is not left on the ground."

Some provincial rugby union administrators whom *finweek* spoke to on condition of anonymity say that the effect on transformation of the sport was indeed something to consider. One insinuated that with the current quota system, the government was telling unions whom they can and can't select.

"Is a 74% private equity shareholder going to let government tell them whom they must pick in their team?" one administrator wanted to know.

President of SA Rugby Mark Alexander says it has already discussed transformation with potential equity partners and they see no difficulty in meeting the requirement that members comply with SA Rugby's Strategic Transformation Plan and broad-based black economic empowerment objectives.

WHY NOT 100%?

Despite the negative outlook prevalent in many rugby circles, it appears there definitely is interest in investing in the sport. *finweek* has been told by numerous rugby stakeholders that the Blue Bulls have in fact made a proposal to SA Rugby lobbying for 100% sale of commercial arms to private equity partners.

A decision on this proposal was scheduled to be taken in April.

Rugby great François Pienaar questions the limit of 74%. "Yes, there are interested investors but they will question the limit," he says. "I think investors should be able to own a franchise outright and also have a minority share in Saru [South African Rugby Union], the Springbok brand," he adds. "Interests will be aligned and the cycle virtuous."

Pienaar is the CEO of Asem, the company that runs the very popular Varsity Cup rugby tournament. He states that he would not be surprised to see interest from US companies.

"Sport in the US is run as a business and we have much to learn from them," he says. "We will be exposed to sports business acumen, stronger competition and marketing nous."

One source intimately involved in the business of rugby claims that South Africa's rugby unions were bloated with staff count. According to this source, a New Zealand rugby union employs about 20 people, while a local rugby union could employ over 200 people. Private equity partners are likely to "trim the fat" and look for efficiencies, he says, adding that this could make South African rugby unions more viable.

DEAL ON THE TABLE

It seems the US is not the only region interested in South African rugby. Last month news broke that Carinat Sports Marketing, a Hong Kong-based company, which recently appointed former Springbok coach Heyneke Meyer as a managing director, has put a bid on the table to buy 74% of the South Western Districts rugby union.

The president of the SWD Eagles franchise, Hennie Baartman, has reportedly confirmed the transaction. "We have bounced the idea off the representatives of our senior clubs and they support the proposed buy-in by Heyneke 100%," he told local media.

Meyer was SWD Eagles coach between 1997 and 2000, coaching the Eagles to the Currie Cup semi-finals in 1999.

Baartman has stressed that any deal has to be approved by Saru. This decision was also expected in April and the deal is being

> "Sport in the US is run as a business and we have much to learn from them. We will be exposed to sports business acumen, stronger competition and marketing nous."

François Pienaar
CEO of Asem

There is a general consensus that SA Rugby

needs to en

Gone are the days of sold-out
42 000
-seater stadiums. Stadiums of 15 000 to 20 000 seats are the future.

billed as a test case for SA Rugby.

But not everyone in the South Western rugby region is happy about the proposed equity deal with Carinat, the company behind the World Club 10s tournament and the Asia Pacific Dragons team.

Leader of the Independent Civic Organisation of South Africa in the Western Cape, Dawid Kamfer, who is also the coordinator of Supporters Against Racist Rugby Associations (Sarra), is wary.

"We haven't got a problem with business people investing in rugby," he says. "These days it's all about money; with money you can buy the best players, your team can do well.

"What we want is to ensure that any deal sees an investment on the ground in club rugby," he explains. "If there are no clubs, there is no union."

He adds that rugby clubs in the region are far away from each other and struggle with transport costs to matches. "SA Rugby needs to do the right thing and make sure the people on the ground benefit."

ARE SOUTH AFRICAN UNIONS LOOKING TO EUROPE AND ASIA?

Meanwhile, SA Rugby has announced that it will be culling two South African teams from the Super Rugby competition next year, and speculation is rife that the Cheetahs and Kings will be axed. These decisions are, however, still pending.

Rugby in crisis

Last year it was reported that the Super Rugby tournament had lost 3.8m South African television viewers over four years.

Stadium attendance in 2016 was also massively down, with only the Stormers able to draw crowds to fill more than half a stadium, with an average of 26 000 fans per game. Most teams had stadiums that were hosting between 6 000 and 19 000 fans per game.

One rugby insider tells *finweek* the local game is a mess. "The quality of play is bad, the competitions are bad. We need to fix these problems if we are going to regain the sport's popularity.

"Super Rugby is not very popular anymore, because it's not strength versus strength," he adds. "We are seeing blow-out wins, 60-, 70-point victory margins."

SA Rugby president Mark Alexander says the body has recently made a decision regarding strength vs strength in relation to the Currie Cup. Sanzaar was also reviewing the format of Vodacom Super Rugby.

He says there is a general consensus that SA Rugby needs to ensure that it puts a compelling, innovative game in front of the live and broadcast audience.

"We have not done that of late," he admits. "We need to get back to our brand promise of the best players in the best competitions playing in tightly fought contests."

Pumas CEO Pieter Burger argues that the strength vs strength argument is a cop-out from lazy administrators. He believes there is a much larger systemic problem in South African rugby. Gone are the days of sold-out 42 000-seater stadiums. Stadiums of 15 000 to 20 000 seats are the future.

Burger says research has shown that there are three types of fans: the trophy hunter, the die-hard and the spectator. The trophy hunter will attend a Currie Cup semi-final or final, a Springbok test match or one Super Rugby game at their nearest ground.

The die-hard is the traditional rugby fan, who played rugby, has kids who play rugby, and supports the team regularly. It is these fans who are dying out, according to Burger.

The new-generation fan is the spectator, who consumes what you offer when they want, not when you want, he explains, adding that the emergence of the spectator has put paid to conventional thinking around stadium attendance. "If you build the stadium, it doesn't really mean they'll come," he comments. ■

Gallo Images/Getty Images

sure that it puts a compelling, innovative game in front of the live and broadcast audience.

SA Rugby CEO Jurie Roux has suggested that there was a good chance that South African rugby unions could compete in competitions in Asia and America. He said an ideal world would see eight unions competing globally, four in Super Rugby and four elsewhere.

Roux told the media that he hoped the players at the two axed Super Rugby unions would be distributed across the remaining four unions in the tournament to make sure that these teams are strengthened.

"We need to keep all our best players in the country," he told *The Star.*

Roux has also stated that the unions' current funding model is being debated. There is a push towards a system where money generated from a tournament goes to the teams that are competing in it and divvied up among all the South African unions. However, a final decision regarding this has not yet been made.

Griquas president Jannie Louw says the possibility of South African unions playing in foreign competitions in Europe and Asia in the coming year is very strong and that his team is gearing itself for such a development.

"Griquas will never have enough money to compete in Sanzaar [South Africa, New Zealand, Australia and Argentina Rugby] Super Rugby," he comments. "But that doesn't mean we can't compete in a first league in Europe."

Louw says key to these developments is the agreement on a common calendar for world rugby at the International Rugby Board. This move, he maintains, could pave the way for South African teams to compete in new international leagues.

The Cheetahs' Verster explains that while South African teams could compete in a few tournaments overseas, he has doubts about this kind of approach: "I don't think that is the future."

Louw adds that with the rugby unions able to sell up to 74% of their commercial arms, it makes sense that they take their sponsorship deals with international brands to the next level as equity partners.

Jurie Roux
CEO of SA Rugby

Most investors do not see their investment as a business transaction: "It's a feel-good thing in their lives – knowing they are supporting rugby in the country."

Pieter Burger
CEO of the Pumas

The Griquas' recently announced a sponsorship deal with Namibian Breweries' Tafel Lager, which was as much about the much-needed revenue, explains Louw, as it was forging a partnership with an international company: "Their brand is a vehicle to ride on internationally."

THE PLAYER EXODUS

Pumas CEO Pieter Burger says that all the roads in rugby have converged to this point. Provincial rugby unions facing "big challenges" and the increased commercialisation of rugby will mean different things for different provincial unions.

"Our biggest assets are our players, so retention of your players is key. But a lot of our unions can't compete against foreign clubs," he comments. "We will never be able to compete."

According to him, if a Super Rugby franchise were to pay a squad of 42 players the kind of salaries they could earn overseas, the bill would be over R250m.

"Is this sustainable? I highly doubt it." He adds that he doesn't blame the players as they have a short time in which to build their careers and capitalise as best they can. "It's their business," he says. "Their bodies are on the line."

Speaking about potential new equity partners in the sport, Burger says that one potential pitfall for unions could be that companies use this as an opportunity to buy the players that make up the team.

"Unions should be careful of selling off their biggest asset," he cautions.

Another source with close ties to the business of rugby says that while there has been some talk of US interest in South African rugby, these deals may be set up to create a feeder system into US rugby. The rand-dollar exchange rate may make the decision more attractive to some US investors, the source points out.

BOARDROOM EGOS

The Cheetahs' Verster says the team's late 1990s equity deal with SuperSport wasn't as much about the capital injection as it was about taking a fresh look at the business, through an investor's eyes.

He explains that this was a "great benefit", adding that the Free State union has a veto on rugby issues and SuperSport has a veto on financial issues. While the deal has been good for the Cheetahs, he says the union has no plans to sell off any further stakes.

"Rugby belongs to the people, to the supporters," he states. "I would prefer that the largest stake of the Free State union remains in the hands of rugby people."

Verster explains that there is not a lot of "financial gain" in rugby, insisting that often investors put their money into the sport for other reasons.

One provincial rugby union administrator who agreed to speak on condition of anonymity maintains that investment in South African rugby unions has been very concentrated until now.

According to him, most investors do not see their investment as a business transaction: "It's a feel-good thing in their lives – knowing they are supporting rugby in the country."

Another union official termed these investments as "emotional old money" transactions.

Burger says international experience has shown what happens when investors with big pockets and huge egos decide to invest in a team. He describes them as people who, when asked why they own a sports team, would respond: "Because I can."

He mentions examples in the European rugby leagues where teams suffered slumps in form during periods where equity investors interfered in the running of the team.

"You need to ask how a majority shareholder with no background in rugby will behave in the boardroom," says Burger. "Will they attempt to interfere in team selections?" ■

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The Varsity Cup and Interschools tournament

The Varsity Cup concept, which sees South Africa's biggest rugby universities pitted against one another, was conceived in 2007 by François Pienaar, Duitser Bosman and Derek Carstens.

"The idea was to create an intervarsity rugby tournament for South Africa's leading rugby-playing universities, but also to offer an experience to spectators that is about far more than just the match played on the field," says Pienaar, the CEO of Asem. "We looked at the model of American college football in the United States and decided that we would implement similar innovative ideas in the Varsity Cup competition."

He refers to the concept as "sportainment". The tournament kicked off in 2008, featuring eight universities and a headline sponsor in FNB. Since then it has expanded into four tournaments.

Impressively, 25 Springboks, 27 Springbok Sevens players and 85 junior Springboks have come through the Varsity Cup system in the past nine seasons, including the likes of current Springboks Oupa Mohojé, Lood de Jager and Eben Etzebeth.

Pienaar says the tournament has evolved into a competition that not only provides an alternate stream for professional rugby players to be scouted and given a second opportunity, but one that draws mass crowds and TV viewership because of how attractive the competition is both on and off the field.

He explains that universities such as Maties have an attendance of between 14 000 and 17 000 on Monday nights: "On an average Monday night we have in excess of 35 000 in attendance across the seven various host venues."

Another rugby property in South Africa is the Interschools tournament, which has been running since 2013. It is a tournament of 12 games between top rugby schools in South Africa. These games feature match-ups such as Paarl Boys vs Paarl Gymnasium, Grey College vs Grey High School and Grey College vs Paul Roos. The tournament has a large following and attracts big audiences. ■

Springbok Teboho Stephen 'Oupa' Mohojé plays Super Rugby with the Cheetahs and Currie Cup rugby with the Free State Cheetahs.

Gallo Images/Getty Images

"On an average Monday night we have in excess of 35 000 in attendance across the seven various host venues."

RETAILERS LOOKING TO EASTERN EUROPE

By Natalie Greve

While expansion into Africa remains the plan for many of South Africa's biggest retailers, the timelines for these strategies have slowed and some are now rather looking to Europe in order to earn in foreign currency.

Around 65% of overall retail sales in SA, or **R600bn,** is attributed to the 12 biggest consumer retailers, while the remaining slice of the market comprises independent and informal operators.

South African retailers are slowing their much-hyped expansion plans into Africa after the continent's growth slowed down to its lowest point yet of 1.4% in 2016, a study by professional services firm EY has revealed.

Unpacking the trends across the 2016 financial results of the country's 12 biggest retailers – Massmart, Woolworths, Pick n Pay, Clicks, Spar, Shoprite, Dis-Chem, Holdsport, Mr Price, Truworths, Edcon and TFG – EY lead consumer products & retail partner Derek Engelbrecht said that while continental expansion plans remained in place, the timelines of these strategies had been decelerated.

Around 65% of overall retail sales in SA, or R600bn, is attributed to the 12 biggest consumer retailers, while the remaining slice of the market comprises independent and informal operators.

"The big players are now looking more at Eastern Europe rather, as what the local retailers know about emerging markets can be applied in these markets. It also allows companies to earn a portion of their profit in euros," he told the media during a recent briefing.

Major retailer Steinhoff was excluded from the analysis as it was unclear what proportion of its revenue could be attributed to SA.

According to Engelbrecht, SA retailers remain primarily home-market dependent. While around 82% of overall turnover comes from SA, turnover growth in SA of 6.3% underperforms that of international markets (23.5%).

Retailers such as Truworths, TFG and Spar are increasingly expanding into the UK and Europe, while African markets such as Kenya and Angola remain remarkably absent of SA retailers. Grocer group Shoprite is the only local retailer currently active in Angola.

Derek Engelbrecht
EY lead consumer products & retail partner

"It's difficult to do business in these countries as there are few retailers of size in these countries. The market comprises primarily of independent, informal retailers and it is also challenging to secure the appropriate retail space," he explains.

Retailers experienced marginal store growth of 2.4% in 2016, demonstrating how most had abandoned the pursuit of aggressive store expansion plans. According to several real estate investment trusts – which act as landlords for many of the major retailers – trading density is stagnant and retailers are attempting to boost sales from the existing store footprint.

EY's analysis further revealed that grocery retailers generate the majority of the industry's profit, at 66%, followed by the speciality sector (18%) and the clothing sector (16%).

Overall, turnover merchandise in the industry increased 6.1% to R3.14bn year-on-year in 2016, while sales increased 10.2% to R286bn, headline earnings (HE) grew 0.4% to R10.6bn and capital expenditure (capex) inched up a marginal 6.4% to R8.7bn. The modest capex spend reflects the retailers' reticence to forge ahead with long-planned expansion strategies in volatile economic conditions.

Unsurprisingly, grocers enjoyed the biggest improvement in HE of 25.7%, possibly as a result of improved logistics and distributions networks, followed by the speciality sector, which pushed earnings up by 8.7%. The clothing industry, in contrast, experienced a dramatic 47.6% HE slump, which Engelbrecht advances could be the result of its increased exposure to European markets and the resultant effects of a weaker rand on offshore earnings.

Grocers' outperformance of the other retailers is to be expected in a weak economic environment as people cut back on non-essential purchases but maintain spend on essentials, such as food.

In terms of return on equity (RoE) – a measure often used to determine the company's level of investment attractiveness – the speciality retailers surprised, posting average RoE of 51.6% in 2016. Engelbrecht suspects, however, that

Image supplied

this may be the result of an accounting principle that includes property assets as equity.

The RoE of grocery retailers was 22.3% and that of clothing retailers 41.4%.

"Lower grocery RoEs reflect lower trading margins of grocers (4.95%) compared with that of speciality stores (6.85%) and clothing retailers (15.7%)," he outlines, adding that product inflation across the industry of 8.3% created some margin space for retailers over the year.

Rising inflation, coupled with slow volume and like-for-like sales, along with marginal store sales is evidently pinching margins and returns for the big retailers.

"Product inflation is thus managed through prices. It also creates a sense of urgency, as consumers become concerned that prices may rise tomorrow, so they purchase today," Engelbrecht suggests.

Crippled consumer

Meanwhile, the strained consumer is evident across a broad range of metrics.

Low credit growth of 5% in 2016 has had a direct impact on the retail sector, driving lower appetite for lending by banks. There has, however, been some consumer relief, particularly in the grocery sector, following the end of the protracted drought towards the end of 2016.

This resulted in a modest recovery in retail spend in the fourth quarter of 2016.

Food and general dealers comprised 51% of all retail sales in the last three months of the year, followed by clothing (20%), pharmacy and beauty (7.5%), furniture and appliances (5%), and other (16.5%).

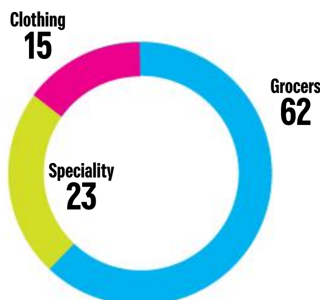
"Black Friday was also likely to have increased retail spend at the end of November, as retailers wanted to galvanise consumers' purchasing power earlier," says EY Africa analyst Graham Thompson.

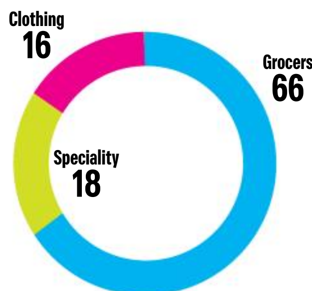
He adds that retailers are increasingly responding to the weak economic environment by focusing on the consumer and technology. This sees companies channelling capital spend towards enhancing the customer experience, building customer relationships and improving customer responsiveness.

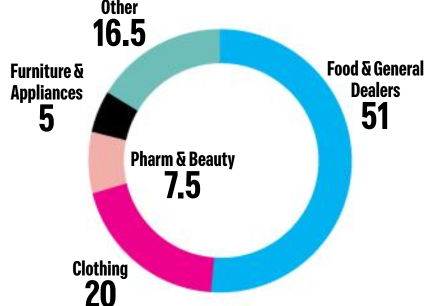
Increased investments in technology are particularly evident through an increase in online capacity, enhanced efficiencies, particularly across supply chains, and the initiation of reward programmes.

Grocers' outperformance of the other retailers is to be expected in a weak economic environment as people cut back on non-essential purchases but maintain spend on essentials, such as food.

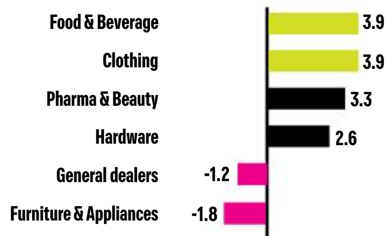
GROCER DOMINANCE







GROWTH BY PRODUCT CATEGORY



SOURCE: EY

Primary risks

Despite performing robustly in 2016, the outlook for SA's retail sector remains sombre, as the retailers try to recover from weak and declining GDP growth, low credit growth, low investment levels and the drought.

Primary risks include supply-chain concerns, a lack of operational talent, regulatory compliance, technology outlay and a weakened consumer.

The recent sovereign debt downgrade by rating agencies is, meanwhile, expected to further impact retail growth, as rising interest rates will further strain disposable income.

Retailers with more diversified geographic earnings will be better positioned to withstand the pressures, while grocers will face margin squeeze, but are better positioned to report sustained profits growth.

Clothing retailers, on the other hand, face a multitude of challenges including increasing foreign presence and scale, renewed price pressures as the currency depreciates, and changing consumer expenditure as consumers scale down to more affordable but still fashionable brands.

Meanwhile, a market enquiry into the retail sector by the Competition Commission is expected to conclude at the end of July.

The commission initiated the enquiry in November 2015, stating that it had "reason to believe that there are features present within this sector that may prevent, distort or restrict competition".

Public hearings into the matter are currently under way. These hearings will focus on the negative and positive effects of the entry of national supermarket chains into townships, peri-urban areas, rural areas and the informal economy.

Also on the agenda is the impact of long-term exclusive lease agreements and the role of financiers on competition in the grocery retail sector; the impact of regulations and by-laws on competition in the grocery retail sector; and the impact of buyer groups of fast-moving consumer goods on competition in the grocery retail sector. ■

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A roadside vendor sells fresh produce in the township of Alexandra in Johannesburg.

Vital part of SA economy still being ignored

Although informal trade contributes almost 10% of the country's GDP, the government does little to support the thousands of South Africans who make a living in this sector, even acting against them in some cases.

By Natalie Greve

It is a sight familiar to the South African commuter. A woman sits behind a salvaged plastic table on the pavement, selling neatly presented single cigarettes, loose sweets and small packets of corn chips to passers-by on foot. Or a lively inner-city market, where traders of fruit and vegetables tout their produce alongside a neighbouring cobbler repairing the worn heels of workers' shoes who spend hours on their feet.

This is South Africa's often-overlooked informal sector. And, despite it contributing 8% of SA's GDP, supporting 27% of all working people and providing goods and services to millions of people on a daily basis, the informal sector consistently fails to receive the same degree of local government protection enjoyed by formal businesses.

As a result, an assumption is frequently made that the informal sector is not legally protected, and that informal traders do not have any rights to trade.

"This is simply not true," states the Socio-Economic Rights Institute of South Africa (Seri). "Informal workers enjoy the same constitutional rights as everybody living in South Africa. They have a right to a local government that works, which provides basic services and which promotes social and economic development."

Informal importance

Seri researcher Dennis Webster tells *finweek* that definitions of informal work and the informal sector in SA remain vague and contested.

"Generally speaking, however, an informal street trader is a business person who relies on public space to make their living, and employs very few, if any, people at their business. These businesses, which provide a broad spectrum of goods and services, generally to poor and working-class pedestrians, are characteristically not as regulated or protected by the state as 'formal' businesses," he explains.

Semantics aside, the informal economy's contribution to the country's overall employment figure and top line remains substantial.

Dennis Webster
Researcher at the Socio-Economic Rights Institute of South Africa

It is argued that without the informal economy, the unemployment rate would rise to around **47.5%**.

Estimates by the South African Local Economic Development (LED) Network – an online government platform for LED policymakers – value the informal economy at around 28% of SA's GDP. In 2015, this translated to around $88bn.

Additionally, the relative share of the informal economy by province indicates some correlation with the overall unemployment rate, supporting the notion that the informal economy offers an alternative to unemployment.

"It is argued that without the informal economy, the unemployment rate would rise to around 47.5%. This implies that its significance in pro-poor economic development policy is more important than even its relative size suggests," the network notes.

Following two successive declines in overall employment in the first and second quarter of 2016, the informal sectors

Gallo Getty Images/Monirul Bhuiyan/AFP

recorded employment gains in the third and fourth quarter of the year, adding 53 000 jobs in the last three months of the year, according to Statistics SA.

City vendors

While accurate percentages of the contribution of informal traders in Johannesburg are difficult to come by, as no survey has been conducted, Webster says its contribution cannot be discounted.

The proper management of informal trading is set out in the city's Informal Trading Policy, which aims to provide opportunities for informal traders and create a "stable and properly functioning" informal trade management system.

Encouragingly, several years ago the City of Joburg set up an Informal Trading Forum, which would see traders have an equal place at the bargaining table regarding decisions that would directly affect their businesses and development in the inner city.

However, the forum was "riddled with problems", says Webster.

"The platform often acted to divide traders, lacked accountability, and left traders excluded from strategic decision-making.

"Traders were certainly not meaningfully included in the lead-up to Operation Clean Sweep, which proved to be the undoing of the forum," he says, referencing an unpopular 2013 initiative by the city during which 8 000 informal traders were evicted from the inner city.

A want to formalise

Despite the sometimes haphazard or illegal appearance of informal trade areas, Johannesburg's Informal Trading Policy is surprisingly prescriptive.

Traders wishing to make use of designated trading areas are required to register with the Johannesburg Property Company (JPC) as informal traders, after which they sign a lease agreement and are issued with a smart card.

This way a trader's right to do business is recognised and they are afforded the rights and access to demarcated trading space, infrastructural facilities and services, and ensures that informal trading is in compliance with the municipal by-law. Traders who do not apply for a trading stand are in contravention of the by-law and are liable to prosecution.

"Seri's research suggests that the majority of traders are paying for licenses and trading space. What is crucial to note here is that those traders who are not paying, usually want to pay.

"They are aware of the greater infrastructure and services guaranteed to licensed traders, as well as the greater security of tenure. It is not a question of traders avoiding payments. Instead, the City of Johannesburg has arbitrarily limited the amount of designated trading spaces available, thereby contributing to the challenge of unregistered informal trade," Webster tells *finweek*.

Trading space rentals range between R100 and R300 per month, depending on the level of infrastructure made available by the city.

Rentals in linear markets, for instance, where the city has installed roofing for traders on pedestrian streets, is higher than the rental paid for designated trading space on the sidewalk, where yellow painted lines indicate the boundaries of the trading space.

Webster laments, however, that despite these rights and policies, the city has largely failed in its duties to traders in terms of infrastructure.

"Despite traders' organised efforts to keep the streets clean, the inadequate provision of waste disposal infrastructure and services, water and sanitation, and storage facilities, all guaranteed to informal traders in policy, has contributed to what the city usually refers to as 'grime' on the city streets," he says.

Johannesburg Metro Police Department officials regularly confiscate the property of traders arbitrarily, and in many instances their goods are not returned to them.

A study by Stats SA into the contribution of the informal sector in SA between 2008 and 2014 found that 28.3% of those running informal businesses had no access to electricity at their business, while only 10.1% had an off-site flush toilet, 33.2% only had a pit latrine and as many as 8% had no toilet facilities available for their business.

Webster adds that Johannesburg Metro Police Department officials regularly confiscate the property of traders arbitrarily, and in many instances their goods are not returned to them.

"Often these confiscations are done in order to extract bribes from traders, which happens so often that traders have referred to it as 'informal rent'. This is a daily reality for informal traders," he claims.

Jannie Rossouw
Head of the School of Economic and Business Sciences at Wits University

The SAITF confirms this practice, telling *finweek* that its members are threatened on a daily basis.

"We have learnt that street trading is not supported in SA, and our government is doing everything to make sure that street trading is done away with, especially in the big cities. This is the only sector that has been ignored since the dawn of democracy in our country, as there are no specific programmes meant to upskill informal traders," it notes.

Formal sector intervention

Jannie Rossouw, head of the School of Economic and Business Sciences at Wits University, says formal businesses are often willing to support the informal economy, but they are largely hamstrung in this regard.

"Indeed formal businesses should trade with informal businesses where possible, but a limitation is the fact that formal businesses need registration and other financial documentation from the businesses they use. In a sense, we suffer 'bureaucratic oversupply' in regulation and requirements," he says.

The SAITF is, however, less complementary of the intentions of the formal sector.

"The private sector sees us as a threat to them, so they do not want us to exist at all, let alone to support us. We are on our own," it asserts.

According to Rossouw, primary responsibility lies with government to improve the regulation and registration of the informal sector to enable it to legally trade with the private sector and the state.

"We need to rethink the role of informal businesses [...] in our economy, owing to the beneficial impact these businesses have on employment. If we really need a ministry of small business, and I do not agree that we need one, the ministry should focus on an enabling environment for informal trade. And I do not see this happening." ■

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on the money

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CEO INTERVIEW

By Marcia Klein

Building businesses from the bottom up

Financial services group PSG, which was started with a capital base of only R7m, has grown into a formidable JSE-listed company by investing in winners like Capitec and Curro.

An almost exclusively South African company has become a rarity on the JSE following the chase for offshore exposure by local companies and inward listings of foreign companies over the past few years.

But among the star performers of the JSE over those years is the very much local PSG Group, whose contrary performance reflects its contrary strategy.

The investment group's success has hinged on it finding and exploiting the gaps in the South African economy. It reflects its opportunism particularly in areas like banking, financial services and education, where there is either dominance and complacency, or lack of affordable options or new initiatives; and it has developed fast-growing, disruptive companies in both sectors.

This was again made clear in its results for the year to February, which show that its "sum-of-the-parts" value a share, at R240.87 on 28 February, was 29% higher than end-February 2016, underpinned by the continued strong growth of upstarts Capitec Bank, private education group Curro and PSG Konsult.

The group increased headline earnings by 50% in an environment where there was no economic growth.

PSG's exceptional success has been accompanied by an 18% increase in the share price over the past year (and almost 350% over the last five), against the All Share's pedestrian performance.

Piet Mouton
CEO of PSG, pictured outside the group's head office in Stellenbosch

Images supplied

Growth strategy

"We like to hold on to great assets and if they are potentially better than competitors, we will hold them forever," says CEO Piet Mouton. "What differentiates us is that we like building businesses from the early stage. There aren't really companies that do that and the returns when you do get it right are significantly better than buying into mature businesses."

Capitec, which increased earnings by 18%, continues to expand and added a record 1.3m new clients in the past financial year to bring its client base to 8.6m, 46% of which bank their salaries at Capitec.

It has recently made its first offshore acquisition – paying R300m for 40% of Cyprus-based Cream Finance, a global online lending group providing loan products to people in Poland, Latvia, Georgia, the Czech Republic, Mexico and Denmark.

This does not reflect a divergence from its locally-focused strategy. "This is a R300m investment – it is just a baby step, which is, in my mind, the right way

PSG's exceptional success has been accompanied by an 18% increase in the share price over the past year (and almost 350% over the last five), against the All Share's pedestrian performance.

to approach it. We are bringing capital and know-how to the business and we will watch what happens over time," Mouton says. He quotes Capitec founder Michiel le Roux, who once said that Capitec "is either going to be a small failure or a big success".

This, says Mouton, "is our exact approach to new businesses".

"It is not big, so we can do this in a sensible, controlled environment trying to build a bigger technological business. In SA we have invested in and gained expertise in our branches and network and online offering. We have a sensible approach to new business and new ideas, and if it does grow and the model proves successful, we can continue to grow it."

Michiel le Roux
Capitec founder

Education

This is exactly what has happened with Curro, which started off in a church in Durbanville, Cape Town in 1998 with 28 children. It now has close to 50 000 learners across 54 campuses.

At its December year-end, Curro's headline earnings grew 69% and it is "not nearly reaching a growth plateau", Mouton says. There are about 12m school-going children in SA. Given the price points where Curro is wanting to play, about 2.5m of these should be able to afford to go to Curro schools, he says. "The total private school number is 600 000 learners and we have just 50 000. Even if we double in size to 100 000, we have not even scratched the potential market."

Curro Holdings
The private education giant is an example of PSG's formidable performance.

Curro does have competition – from companies like ADvTECH or Reddam schools – but it would take competitors a fairly big jump to get where Curro is today. "The barriers to entry are important in any business sector, and in schooling it is so much more prevalent – you have to build a school, kids join and the school fills over a 10-year period, so for the first 10 years you make quite big losses.

"If you want to compete with us, your losses will be bigger because we have skills in construction and development, so it is going to take you longer and cost you more. There are also high operational expenses, and a lot of those costs we drag to head office at Curro and spread over our schools. All of these things make it difficult for competitors."

The growth projection also includes tertiary education, but Mouton says it is "a more complicated space between physical on-site and distance education and incumbents which include state universities, which are quality institutions. At the moment, Curro is mainly involved in teacher training, and its ultimate goal is a private university."

We can deliver in SA and we continue to give an above-average return – we have a

21

-year history of massive JSE outperformance.

PSG'S FINANCIAL RESULTS

Strong performances from Capitec, Curro and PSG Konsult continued to buoy results of the PSG Group, which lifted headline earnings by 50% in the year to end February.

Results, released on 19 April, included the declaration of a 25% higher dividend of R3.75 a share for the year.

PSG itself measures performance by "sum-of-the-parts" value – which was R240.53 a share on 11 April, and R240.87 at the February year-end, up 29% on the same time last year – and by recurring headline earnings, which were up 18% at R9.27 a share.

The major elements of the sum-of-the-parts are 30%-held Capitec (49%), 56%-held Curro (18%), 61%-held PSG Konsult (11%) and 42%-held Zeder (10%).

The difference between recurring and headline earnings largely reflects marked-to-market profits on BEE investment holding company Dipeo's portfolio, which compare to marked-to-market losses incurred in the prior year. Dipeo's major investments are in Curro, Pioneer Foods, Quantum Foods and Kaap Agri.

For the group, highlights of the year included a R669m cash injection in the Curro rights offer to fund further expansion, the acquisition of 19.2m PSG Konsult shares – or 1.5% of the equity, for R137m – and a R134m investment in PSG Alpha's portfolio of early-stage investments.

Among the acquisitions made by some of its subsidiaries, Curro bought the schools Windhoek Gymnasium, De Jager Kids and Building Blocks Prep School and St Conrads College.

PSG Alpha increased its holding in education solutions provider ITSI Holdings and invested in combustion products and services group Dryden Combustion and refrigeration products company Refsols.

Zeder bought the farming operations of Groot Patrysvlei citrus farm and Port Stevedores, which provides logistical port services.

Collectively, the new acquisitions would have added revenue of R512m and profit of R56m had they been included for the past financial year.

According to PSG's directors, they believe PSG's investment portfolio should continue yielding above-average returns.

They also mentioned that PSG currently has R1.3bn cash available for further investments, indicating investors can expect another year of more acquisitions and investments in potentially fast-growing companies. Whether these match the growth of Capitec and Curro, however, remains to be seen. ■

While investments like Curro and Capitec have flown, the path of others has been slower.

Agribusiness investor Zeder, for example, only marginally increased headline earnings and is at the mercy of economic and weather conditions. The company, whose largest investment is Pioneer Foods, should recover this year with recent rains and a good maize crop.

Top of PSG investors' minds is whether it is sitting on another gem like Capitec or Curro. These could come in the form of its investments in energy company Energy Partners or FutureLearn, which provides educational products and services to tutors, which Mouton says have growth prospects and the potential for listing. However, it is difficult, at least from an outside perspective, to see them reaching the scale of Capitec or Curro.

Local focus

While it is taking small steps offshore, it will remain largely South African in the near future. "The core skills of the PSG management team are South African-based and we have significant advantages in South Africa – we understand how the market moves, we have good access to banks and other corporates and we know the lay of the land. We can deliver in SA and we continue to give an above-average return – we have a 21-year history of massive JSE outperformance. We believe you shouldn't diversify out of ignorance. If you do buy a business abroad simply because you want to diversify, you haven't done anyone any favours, I cannot buy into that philosophy."

Yet, PSG's predominant exposure to SA comes with its own risks, especially considering the downgrade of the country and its banks.

"I think everything will be tougher in SA, everything has a ripple effect – debt becomes expensive, the currency goes and there will be uncertainty in the investor community, who will play wait-and-see rather than invest. But there is a flip side to everything, and as the country becomes more uncompetitive, there will be opportunities."

Mouton is reluctant to speak out, however, saying he is part of the CEO Initiative, which is largely driven by the big companies, and he would back anything

GETTING TO KNOW PIET

AT WORK

Mouton says he gets his hands dirty and believes in leading by example.

He has financial prowess and doesn't mind doing some of the hard things himself.

He has a big capacity for a high level of detail, which he believes helps him to make positive contributions to the companies in which PSG invests.

AWAY FROM WORK

Mouton is married to Stephanie, who runs a charitable crèche called Akkerdoppies, and has three energetic boys – age 11, nine and six.

He loves playing golf, which he claims he is getting worse at, and he tries to maintain a level of fitness, but is not a big fan of exercise. He enjoys living in Stellenbosch and socialising, adding that the people he works with are his friends.

But he still supports the Lions (he was brought up in Johannesburg) and does not believe fans should jump ship if they move towns. He is also a big Liverpool supporter, a legacy of attending an English primary school, where he played soccer. ■

> "But there is a flip side to everything, and as the country becomes more uncompetitive, there will be opportunities."

positive they would do.

He does say, however, that PSG did not start with the luxury of significant wealth accumulated in the old South Africa. It is well-documented that it was started with a R7m capital base by his father, Jannie Mouton.

It cannot be easy for Mouton to carry on his father's legacy of street-smart opportunism to exploit opportunities in potentially big business sectors where there is mispricing, deregulation and the potential for disruption.

His father still comes into the office each day and continues to grab headlines. Recently, the older Mouton, dubbed the "Boere Buffett", entered the elite dollar billionaire club, according to Forbes.

"Jannie still comes into the office every day – he doesn't have any other hobbies – but he does take life a little easier. He is more involved in the bigger picture," says Mouton.

There are certainly visible elements of PSG being a family business. Mouton's brother was part of the asset management business but recently left, while his sister's husband works for the group and it has invested in the business of his half-sister's husband. This may or may not sit well with investors.

Another visible challenge is PSG's slowness to transform, with its predominantly white male board and top management. Mouton agrees and says while there is improvement, "we are not where we should be", adding that it is a priority on the group's agenda.

Mouton is aware of his challenges. His overriding challenge is to keep up the growth momentum, given the rapid growth achieved to date and SA's increasingly poor growth prospects.

"All I can tell you is that I want to continue making PSG into the same successful business as what my father has done. But the company has grown rapidly in the past 21 years – we will be hard-pressed to achieve that level." ■

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By Jessica Hubbard

Bringing flair and freshness back into fast food

New kid on the fast-food block, RocoMamas, can boast the distinction of having 'the most Instagrammed burger in SA'. And that is exactly the market the fast-food joint is aiming for.

Since the official launch of the fast food brand in 2014, RocoMamas has seduced millions of South African taste buds with its smash burgers and sassy brand personality. The first RocoMamas opened in Randburg, Gauteng, and the bold restaurant chain already boasts an impressive footprint with 48 national stores and an additional four stores across Africa and the Middle East. Harnessing the power of social media and digital marketing to appeal to a young and tech-savvy audience, the brand has tellingly scooped the title of "the most Instagrammed burger in South Africa". We caught up with founder Brian Altriche to find out more about the business and creative strategies behind the burger-inspired buzz.

What did you do prior to starting RocoMamas?

I have always been in business, predominantly within the food and beverage industries. I have started various businesses and also developed numerous brands from scratch.

Where did the idea come from?

I noted how receptive millennials and Generation Z were to mass-produced fast food and how they, almost by second nature, consumed it without an actual notion of what this food was like when it was first invented during the early 20th century.

Obesity, diabetes and other diseases are a massive concern worldwide, and yet these only increased exponentially three decades-plus after the introduction of fast foods. I decided to study the difference of food storage and production during the early stage of fast food, and compared it to procedures used today. I was gob-smacked at the complexity of food manufacture and distribution in the modern age, as well as the additives and thickeners being used.

Photos supplied

However, the simplicity of actually preparing it from scratch using proper fresh ingredients enticed me and I assumed customers would wait a little longer for better quality food. I suppose, in simple terms, the idea sprung from my desire to provide freshly prepared fast food for my daughters' generation.

I wanted to bring mastery back into fast food. I felt all the major brands had lost their way and were providing a sub-standard product to the general population. I feel that great advertising allows mediocre products to flourish and these big brands wallow unknowingly in this comfort. I wanted to provide honesty by building stores with open kitchens for transparency and never photoshopping images of the food; in fact, we still do all food photography in-store and consume those products directly after the photo has been taken. What the customer sees the customer gets – I love seeing beauty in imperfection.

My target market was, and still is, millennials and Generation Z.

How quickly did it turn into a nationwide franchise?

Slightly over three years.

How did you get funding to get started?

To start RocoMamas I used my own savings accrued from my other businesses' profits.

What has been the one thing that has helped propel RocoMamas so rapidly?

Word of mouth... especially via social media!

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

Landlord negotiations whilst being an unknown brand during the early days; finding suitable franchisees that have

Q&A:

I wanted to bring mastery back into fast food. I felt all the major brands had lost their way and were providing a sub-standard product to the general population.

the same passion and vision as I do; and sourcing honourable suppliers.

Biggest lesson learnt?
Failure and risk are part of the equation of success. I have failed often.

How tough is competition in your sector, and what differentiates your offering from others?
This is a tough, saturated market so differentiation is key.

I think my many failures in the past really assisted me in fine-tuning the vision I had. I actively visualise every aspect of the business and my life. Obviously, though, there are many people who form part of the recipe and I can't take credit for it all. I think that we have an amazing team of associates and stakeholders who contribute on a continuous basis whilst navigating the blueprint I've communicated.

I am a dreamer and a creative. There's no way I could achieve this alone and I have to be humble in accepting it's been a collective effort. I think luck also plays a part, and the "10 000 hour rule", made famous by Malcolm Gladwell, is the looking glass that allowed me to tweak the vision.

How many people do you currently employ?
Approximately 1 780 individuals are employed directly by the brand and the franchisees.

Is online food delivery becoming a bigger portion of the business? How do you see online playing out in the coming years?
RocoMamas is unique because it's a takeout joint with a restaurant sit-down culture. In the initial business plan, I outlined that we must do 55% eat-in and 45% takeout – and we're achieving this within our established market; and nationally we achieve 29% takeout versus 71% eat-in with takeout percentage growing monthly.

I see online adoption continuing to increase in line with how we have seen aggressive engagement and growth from our online communities via social media.

Approximately
1780
individuals are employed directly by the brand and the franchisees.

As our customers are an integral part of our business approach, we are constantly looking at digital ways to enhance their experience. We will be launching an online ordering platform linked with our loyalty app soon. We also use third-party delivery systems whereby customers order online.

What is the best business advice you've ever received?
Remain humble and hungry always. And without risk, failure and honest hard work success will elude you!

What was unexpected?
The genuine love that people have for the brand blows me away.

How do you stay motivated?
By chatting to customers who were early adopters during month one and still visit today – and being inspired by youngsters doing brilliant and creative work with their unencumbered minds.

Brian Altriche
Founder of RocoMamas

What are your non-work habits that help you with your work/life balance?
Family time; art and design; and playing guitar.

What is your three-year goal for RocoMamas?
To remain relevant on a global scale, whilst still appealing to the early adopters of the brand. I still go to the original store in Randburg on a daily basis and run into customers who started supporting us from month one. That makes me happy. I listen to them because they're as much a part of this journey as the rest of the team and myself are. ■

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By Glenda Williams

The perils of using fake car parts

Cash-strapped motorists risk falling prey to sellers of counterfeit and sub-standard car parts which, in the long run, could cost them dearly. So how do they trust that the part they are sold is the real deal? Having a broad understanding of the auto component industry is a starting point.

Aside from the dangers that counterfeit replacement car parts pose through accidents caused by part failure, inferior quality parts are likely to require frequent replacement. Then there is the thorny issue of impact on car warranty.

It all adds up to the likelihood that a cheap fix could, in the long run, cost motorists more than genuine parts.

"It is important that motorists understand the level of standards and quality checks that go into OEM [original equipment manufacturers] parts. Original parts ensure optimum safety. Counterfeit parts may be cheap, but motorists run the risk of safety issues as well as long-term maintenance costs and unnecessary and costly repairs," says Renai Moothilal, executive director of the National Association of Automotive Component and Allied Manufacturers of South Africa (NAACAM).

Many motorists are unaware of the consequences of using counterfeit parts, and often unsuspecting vehicle owners are duped into purchasing fake parts thinking they are genuine.

SA's car parts industry

The majority of NAACAM members in SA supply parts and sub-assemblies used for vehicle assembly by OEMs and for distribution as Original Equipment Service (OES) parts. The latter are approved parts supplied via the OEM to its domestic dealer networks and independent repair shops in the OEM branded box.

"In this context there is very little probability of counterfeit parts infiltrating the supply chain given the strict and stringent purchasing relationship between OEMs and their suppliers," says Moothilal.

Then there is a different category of parts production, self-branded spare parts. This category, explains Moothilal, can be broken down into two; "reputable" branded spare parts and "other" branded parts.

"Alternate parts (reputable parts) are sometimes from the same suppliers we use or other reputable manufacturers. They may not have the same stringent sign-off process and be of a lesser quality, but are still safe to use and SABS approved," Matt Gennrich, general manager of Group Communications, Volkswagen Group South Africa, explains.

Effectively 30% of total business would be what original equipment manufacturers (OEMs) supply and

70%

would be alternate and/or counterfeit parts.

"The 'other' branded parts category comprises a whole range of branded or unbranded parts which may or may not be fit for purpose or meet the required specifications where they exist. This category is not necessarily bad or counterfeit product, but is typically associated with very cheap, imported parts. The problem here is that it is often left to the buyer to determine whether these parts are suitable," says Moothilal.

According to Gennrich, effectively 30% of total business would be what OEMs supply and 70% would be alternate and/or counterfeit parts.

"The biggest indicator on suitability will be price. Often if there is a big difference in the price between the reputable branded part and the unknown brand then one can assume that there may be longer-term quality, reliability and safety issues with the part concerned as the costs of producing for such a high-standard product are probably not being incurred," he explains.

WHAT IS A COUNTERFEIT CAR PART?

Broadly speaking, it's a cheap, sub-standard fake of the original. "Counterfeit parts are parts packaged and sold as being something they are not in an effort to deceive the end user into thinking that a high-quality, reputable branded product is being purchased," says Renai Moothilal, executive director of the National Association of Automotive Component and Allied Manufacturers of South Africa.

WHEN ARE GENUINE PARTS LESS LIKELY TO BE USED?

While vehicles are under warranty they would normally be fitted with genuine parts. But the older the car gets, the less likely it is that customers will insist on genuine parts.

HOW TO ENSURE YOU ARE RECEIVING QUALITY BRANDED CAR PARTS

It's difficult for the layperson to visually distinguish between genuine and counterfeit parts, but there is one important indicator – price.

"If there is a major price difference between the part in question at a retail outlet versus the commonly expected retail price, then it's possibly a counterfeit product," cautions Moothilal. "Ideally parts should be sourced from established retailers and serviced at trusted workshops."

Accredited members of the Retail Motor Industry Organisation (RMI) and Motor Parts & Equipment Association (MPEA) sell original and replacement parts into the automotive aftermarket. When dealing with any business in the retail motor aftermarket, motorists could look out for an RMI stamp of approval.

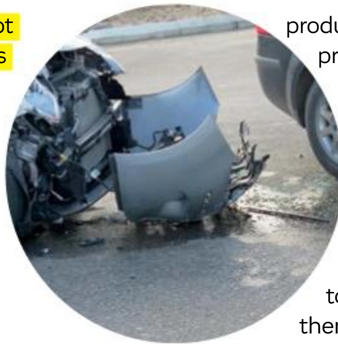
The dangers of sub-standard parts

"One can expect that counterfeit parts have not stood up to the rigorous testing and production standards set by reputable branded manufacturers. Similarly, there is no guarantee that minimum quality tests such as SABS testing have been done.

"Especially on safety-critical parts [among them brake pads, brake master cylinders, automotive glass, airbags, shocks and tyres] there is a likelihood of counterfeit parts playing a role in both causing accidents as well as not providing the protective safety aspects that can be associated with the branded part," explains Moothilal.

"There are plenty of cheap knockoffs, and these parts can be outright dangerous if fitted to a vehicle. It is highly likely that the use of counterfeit and sub-standard components will affect safety-critical parts and could definitely lead to road accidents or motorists being stranded on the side of the road," says Retail Motor Industry Organisation (RTI) regional manager and Motor Parts & Equipment Association (MPEA) director Erwin Stroebel.

"There are plenty of cheap knockoffs, and these parts can be outright dangerous if fitted to a vehicle."



"For safety-critical parts these sub-standard parts pose a substantial risk. For non-safety critical parts the risk is less and often financial due to the poor quality of these parts as they have to be replaced more often," says Gennrich.

The advice is to purchase safety-critical parts from reputable aftermarket dealers, known franchisees and quality branded parts. All will back up their products and have product liability cover if problems arise.

The effect of counterfeit and sub-standard parts on warranties and motor plans varies from manufacturer to manufacturer.

"In the case of Volkswagen/Audi, the warranty remains in place but if a subsequent fault can be traced back to the fitment of a non-genuine part, then the warranty for that repair or section of the vehicle that is affected will fall away," says Gennrich. ■

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Renai Moothilal
Executive director of the National Association of Automotive Component and Allied Manufacturers of South Africa (NAACAM)

Matt Gennrich
General manager of Group Communications, Volkswagen Group South Africa

COUNTERFEIT PARTS AND SA'S AUTO COMPONENT INDUSTRY

According to market research firm MarketsandMarkets, the global anti-counterfeit packaging market, estimated at $107.26bn in 2016, is projected to reach $206.57bn by 2021 at a CAGR of 14%.

Certain countries in the East, like China – referred to as the global hub of counterfeiting in International Anti-Counterfeiting Coalition's 2016 Special 301 Review – are more prolific in the manufacture and distribution of illicit car parts.

"Counterfeit car parts seized or stopped from entering the SA market are only the tip of the iceberg. Most of it is entering SA undetected, under incorrect tariff codes, or in some cases due to a lack of diligent enforcement of the rules and regulations," the MPEA says.

The illicit components industry is negatively affecting the whole motor industry and is having a severe impact on jobs, investment and sustainability of a number of the supply chain operations, adds the MPEA.

"There are reports of NAACAM-aligned manufacturers being affected by counterfeit products being passed off as their brands, more so in export markets on the African continent," NAACAM executive director Renai Moothilal tells *finweek*.

"Obviously if this continues unabated, there will be a decrease in demand for the reputable branded product and this will result in domestic plant closures, job losses, and loss of export revenue for SA."

According to trade and industry minister Rob Davies, the vehicle assembly and component supply industry employs 113 000 people. The auto component industry supports 82 000 of these jobs.

COMBATING THE COUNTERFEIT INDUSTRY

Trademarks registered with the South African Revenue Service (Sars) in terms of Section 15 of the Counterfeit Goods Act helps prevent and combat counterfeiting and creates heightened focus, especially through border control processes.

The National Regulator for Compulsory Specifications (NRCS) also conducts regular checks on retailers/wholesalers to ensure quality branded products are controlled and goods that do not conform to standards are confiscated.

Some suppliers play an active role in training border control on how to identify counterfeit goods.

"This can be stepped up dramatically by aftermarket and OEMs creating an identification database that would help border control," says the MPEA, adding that more government intervention is required to ensure the safety of citizens on our roads, possibly by partnering with both OEMs and aftermarket bodies.

Customers should also be encouraged to report cases where they suspect counterfeit parts were sold, at least to the brand manufacturer, and allow them to follow the necessary investigative and recourse measures, adds Moothilal.

"In the instance where we at VWSA can prove that it is a counterfeit part we will take the necessary legal steps to try and prevent the importation of these parts. However, in practical terms this is complex and not always possible," explains Volkswagen SA's Matt Gennrich. ■

Images: Getty Images/iStock Images www.angelplay.co.uk Volkswagen Group South Africa

By Marcia Klein

Should you be holding gold?

Traditionally, South Africans are big on investing in gold. But are there smarter alternatives?

At around R18 000, the price of a Krugerrand is pretty much where it was in 2010. In other words, it has been a poor investment over the past few years. But investors have traditionally invested in Krugerrands and gold coins as an "insurance policy", and many financial advisers encourage investors to keep coins as a small portion of their portfolios.

The launch of gold ETFs and other investment products, which essentially replace coins, should have made investment in physical coins or Krugerrands obsolete. Yet, many investors are still keen to hold onto their coins despite the fact that the newer products offer an excellent – and in many cases cheaper – alternative.

The cost of gold

The cost of storing and insuring coins is one of the concerns associated with choosing them as an investment, says Nerina Visser, eftSA strategist: "You can take a coin out of the box and look at it and feel it, but that comfort comes at a cost. If you have one or two you can keep them in a safe at home, but for a larger collection, this won't work anymore."

It is also increasingly difficult and expensive to store coins in safety deposit boxes – and banks are becoming reluctant to have safety deposit boxes, especially following the FNB robbery in December last year, when 360 safety deposit boxes were stolen from the bank's Ferndale branch.

Gold ETFs, like those offered by Absa (New Gold) and Standard Bank (Africa Gold) are excellent alternatives for most investors. There are also gold exchange-traded notes (ETNs), which are not necessarily backed by physical gold. (Also see sidebar.)

Craig Gradidge, executive director of private wealth manager Gradidge Mahura Investments, says ETFs offer investors the same profile without the risk of losing the coin or insuring it. A gold coin is also "bulky" as you can't sell half a coin. With NewGold ETFs, for example, say you buy R100 000 worth, you could sell off R15 000, so there is divisibility and liquidity is better, he explains.

While the cost of insurance and storage of gold coins is increasing, there are also costs associated with ETFs, from initial buying stockbroking charges, which can be a small cost component, to ongoing costs. In the case of Absa's NewGold ETF, these are 0.4%. If, however, you have millions of rand in a gold ETF, the charges may become higher than the storage and insurance of gold coins.

Investment in gold ETFs, like coins, is not for everyone and interest in investing in them fluctuates in line with the attractiveness of gold, says Nerina Visser.

Whether it is coins or gold ETFs, one of the biggest problems with gold investment is timing, adds Gradidge: "There are two volatile price drivers – currency and gold price – and the return has been negative over the past few years, with only some recovery lately. "When things fall apart gold is your one saviour, but the long-term investment case for gold is difficult to nail down."

Craig Gradidge
Executive director of private wealth manager Gradidge Mahura Investments

So, which option should you go for?

Gradidge says that from an investment performance point of view, holding gold should be seen as nothing more than being part of a well-structured portfolio. "We see gold as insurance and believe that in a portfolio it should have a 3% to 5% allocation at all times."

Similarly, Visser agrees that for investors that are looking for the insurance element that gold offers, an ETF does the job ."If you see an end to the global financial system as we know it", gold coins remain an option. ■

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INNOVATIVE OPTIONS

The FirstRand Group has come up with some interesting options for gold-coin investors. Etienne van Wyk, who heads the commodities trading desk at RMB, says gold lessens the impact of severe financial distress on your portfolio, and that 5% to 20% of a portfolio could be invested in precious metals.

Gold is also a source of catastrophe protection and liquidity, he says. "The value is intrinsic – in this day and age there is still a place for having physical Krugerrands."

Holding Krugerrands yourself does have safety risks, and if you put them in a safety deposit box, the contents are not insured. Now there are options to buy them online, with the possibility of physical delivery in the future.

FirstRand's Krugerrand Custodial Certificate, for example, is essentially an ETF where each unit represents a listed safety deposit box containing a single one-ounce Krugerrand. There is a 4% premium per coin and fees are 0.22% a year.

There is also the FirstRand Krugerrand bond – a corporate bond denominated in Krugerrands at a current yield of 1.05% annually, which offers gold investors investment income, which gold coins don't. Gold Quanto Futures on Safex are traded in rand, but track the dollar price of gold.

The group also offers investors the opportunity to own physical precious metal in a Zurich vault. Buying coins via the FNB online platform costs 80 basis points annually – roughly R140 at the current price – to store and insure, whereas the cost of a gold ETF is considerably lower.

Van Wyk says that for investors who are simply looking for diversification and want exposure to the gold price, the best product is the FNB Krugerrand bond, as investors earn a yield. ■

Gallo Images/iStock

By Lloyd Gedye

EDUCATION

The battle for free knowledge

The issue regarding free access to academic journals and content is growing increasingly contentious, with founders of sites that enable this facing the might of the law. But should knowledge be exclusive?

In his *Guerilla Open Access Manifesto* published in 2008, political organiser and internet activist Aaron Swartz wrote that the world's entire scientific heritage is increasingly being digitised and locked up by a handful of private corporations.

As a developer Swartz had been involved in the development of the web feed format RSS, the organisation Creative Commons and the social news site Reddit.

"The Open Access Movement has fought valiantly to ensure that scientists do not sign their copyrights away, but instead ensure their work is published on the internet, under terms that allow anyone to access it," wrote Swartz.

Aaron Swartz
Political organiser and internet activist

Swartz advocated for securing copies of all academic articles and publishing them online for open access.

In late 2010 and early 2011 Swartz rigged a laptop up to academic journal article retailer JSTOR, via the MIT network and set it to continue downloading.

On the night of January 6, 2011, he was arrested.

By July he had been indicted by a federal grand jury on charges of wire fraud, computer fraud, unlawfully obtaining information from a protected computer, and recklessly damaging a protected computer.

By September the next year, Swartz was facing an additional nine charges, increasing his potential sentence to 50 years in jail.

By January 2013 Swartz was dead. He had committed suicide.

Four years later access to academic journal articles is still an issue and the latest attempt to address it is a new app called Unpaywall, which scours the web looking for free versions of scientific papers.

Unpaywall is a plug-in for your browser that works with Firefox and Chrome. When you find a reference to, or part of, an academic journal article, the plug-in will send a notification to tell you if a free version is available elsewhere on the internet – allowing you to save on paying for access to journal articles.

Often academics and researchers will submit their journal articles to a preprint repository, or host it on their own university's website, to make sure their peers have access. Unpaywall finds all these hostings for you. It is the brainchild of Impactstory, a non-profit interested in the space where open access and science meet. Unpaywall collects and collates databases of open access journals and articles using a technology called oaDOI.

Another, less legal, solution to the problem of open access is Sci-Hub, which has millions of users spread out all over the globe. Sci-Hub, which has been described as "The Pirate Bay for research", hosts more than 50m academic papers, with between 4m and 6m downloaded every month.

Alexandra Elbakyan, a then 22-year old graduate student from Kazakhstan, founded it in 2011. Because of Sci-Hub students can get just about any paper they want at no cost, which has significantly disrupted the publishing industry.

Elbakyan has reportedly said that many academics have donated their articles voluntarily, but confirmed that Sci-Hub also uses user IDs and passwords of people or institutions with legitimate access to journal content to download content.

In 2015 Elsevier, a major publisher in the information and analytics industry, filed a lawsuit against Sci-Hub, with reports since emerging that Sci-Hub was providing access to half a million Elsevier papers every week.

In October 2015, a New York judge ruled that Sci-Hub infringes on Elsevier's legal rights as the copyright holder of its journal content, and ordered that the website be taken down. However, the servers that power the site are located in Russia, making them difficult to target within the US legal system, and the site just popped up with a different domain.

Several copycat sites are said to exist, so that the academic journal articles can never be placed behind a paywall again.

In the meantime Elbakyan, who is now a neuroscientist, remains in hiding. She is facing charges of illegal hacking under the US Computer Fraud and Abuse Act.

Alexandra Elbakyan
Creator of Sci-Hub

The consensus seems to be that a lawsuit isn't going to stop Sci-Hub, it's more than likely here to stay. Some in the publishing industry have even suggested that the sector needs to be introspective and acknowledge that it has failed to provide fair access to researchers.

What is clear is how much power the publishing industry that services the academic world appears to have.

Two activists who have challenged that power have met with the full force of the law. One forced into suicide and the other into hiding, fearing being kidnapped for extradition.

In a time of #FeesMustFall perhaps we as South Africans should be paying more attention to this global battle.

Advice from educator Paulo Freire comes to mind: "Washing one's hands of the conflict between the powerful and the powerless means to side with the powerful, not to be neutral." ■

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Gallo Images/Getty Images/sciencemag.org

By Johan Myburg

Ensuring artists are compensated fairly

Currently, artists in South Africa are only paid once – when their works are sold for the first time. Aspire Art Auctions is trying to address this issue.

When Mary-Jane Darroll and Ruarc Peffers announced their Aspire Art Auctions in June last year, they were adamant that the art-auctioning industry had to be revived: as far as the auctions' format was concerned and also in respect of the role played by the secondary market in the art world.

If you talk about things that you still want to do, you are usually extremely generous. Just like paper, the future is patient and talk is cheap, as the saying goes.

Ensuring artists are paid their dues

In the case of Aspire Art Auctions, its first auction in Johannesburg in October gave expression to both prospects as Darroll and Peffers put it. With regard to the auction format, they came up with refreshing insights in terms of presentation – as far as the catalogue is concerned as well as the space within which and the way the works are exhibited – and in respect of the auction as an arena for secondary sales, they made the expression *droit de suite* part of the vocabulary used in art auctions in South Africa.

Not officially, as there is no legislation in South Africa at the moment governing artists' rights to a share of the resale of works of art – the so-called Artist Resale Right (ARR), also known as *droit de suite* (right to follow). This provision, which forms part of the Berne Convention and protects the copyright on literary and art works, offers artists and their heirs the right to a share of the amount paid when an original work of art is subsequently resold, including on auction. This right is recognised in more than 70 countries, including the UK, the EU and Australia.

"We did it without legislation, without any existing guidelines for South African conditions and without any obligation," says Peffers about this pioneering step, "because we are concerned about the growth and development of the South African art market."

The amounts Aspire started paying to living South African artists are not only an investment in the industry, but also an admission of the value of artistry and support for artists.

> "We are concerned about the growth and development of the South African art market."

At the moment in SA, only the artists themselves gain from the immediate (primary) sale of their works (such as through a gallery). Should the value of the piece increase over time as the artist's career develops and the piece is sold on auction, the artist does not share in this financial gain at all.

"It's only right that artists should share in this success," says Peffers. "And this is to ensure that artists continue doing what they do, so that they, for example, do not have to seek a livelihood at the age of 40 in advertising or in the movie industry. It has to do with the sustainability of the arts."

How are artists compensated elsewhere?

It was for this reason that the *droit de suite* concept was introduced in France in 1893 and later in Europe to accommodate "struggling artists". In France, laws were passed in this regard in 1920, and in 2001 the EU legally adopted these provisions and extended them to the eurozone.

The EU's acceptance of this legislation elicited wide reaction, with opposition from especially the British auction houses and galleries who believed this would damage Britain's reputation as a

Andrew Verster (1837), *Three Views* from the *Manet, Monet Remembered* range, 1982, oil on canvas on wooden doors (203 x 75 cm each)

Diane Victor (1964), *Lunatic* from the *Theatrical Character* range, 1997, charcoal and pastel on paper (255 x 154 cm)

Athi-Patra Ruga (1984), *Castrato as [the] Revolution*, 2010, wool and tapestry yarn on tapestry canvas (133 x 96 cm)

William Kentridge (1955), *Room Service*, 1986, charcoal, pastel and gold paint on paper (90 x 63 cm)

Gerard Benghu, *Veld Fire*, water paint (21 x 33 cm) was sold for R181 888.

Moshekwa Langa (1975), *She Thought of Him Often*, mixed media on paper (140 x 100 cm)

JH Pierneef, *Vrystaatreën*, 1943, oil on canvas (43.5 x 59 cm) fetched R2 046 240.

Louis Maqhubela's *Exiled King*, crayon on paper (130.5 x 95 cm) was sold for R341 040.

As there is no legislation governing resale rights in South Africa, Aspire made these payments to artists out of its own pocket without burdening buyers.

Edoardo Villa's, *Vertical Composition*, painted steel on steel pedestal (133.5 x 50 x 45 cm and pedestal 43 x 45.5 x 45.5 cm), was sold for R1 818 880.

major centre in the art world.

According to the Design & Artists Copyright Society (DACS), one of the British organisations administering the resale rights, more than £46.9m was paid out to over 3 900 artists and their heirs in the 10 years after these rights came into effect in 2006. In 2015, DACS paid out more than £10m to over 1 500 artists – an increase of 4.3% compared to the £9.6m paid out in 2014.

The effect of Brexit on the British interpretation of the ARR must still be quantified.

In its calculation of payouts in terms of resale rights, Aspire followed the European model using a sliding scale of between 4% and 0.25%. Works of up to R50 000 in value qualify for 4% and those above R500 000 for 0.25%.

Peffers and Darroll admit that these aren't enormous amounts, but a start had to be made somewhere.

As there is no legislation governing resale rights in South Africa, Aspire made these payments to artists out of its own pocket without burdening buyers. And because there is no official administrator to collect or pay over this money, Aspire also does this itself.

BETTER THAN EXPECTED

Aspire Art Auctions' first Cape Town auction yielded R24 611 261.

In addition to Pierneef's *Vrystaatreën*, oil on canvas, which fetched more than R2m – four times the lowest estimated sale price of R500 000 – it is exceptional examples of other artists' work that fetched excellent prices. Gerard Bhengu's *Veld Fire*, water paint, was sold for R181 888 (estimated sale price was between R30 000 and R50 000), while Louis Maqhubela's *Exiled King*, crayon on paper, sold for R341 040 (estimated sale price was between R60 000 and R80 000). Edoardo Villa's *Vertical Composition*, painted steel on steel pedestal, was sold for R1.8m (estimated sale price was between R500 000 and R800 000). ■

A diverse array of works

Aspire's foot is in the door regarding the resale rights and it's in line with its strong focus on the works of established, living artists, as well as its emphasis on contemporary art. This approach is reflected in the 182 lots put together for the first Cape Town auction held at the V&A Waterfront in Cape Town on 27 March (see box).

In addition to works by masters such as JH Pierneef, Hugo Naudé, Gregoire Boonzaier, Walter Battiss and Johannes Meintjes, it is the works of a younger generation of artists that requires attention; artists such as Wim Botha, Moshekwa Langa, Athi-Patra Ruga, Diane Victor and Kemang Wa Lehulere. And then there are the exceptional pieces by especially Robert Hodgins and Christo Coetzee, which have been included in the Cape Town auction.

Duly aware of the Damien Hirst debacle, which led to friction between auction houses and galleries when this British artist sold new pieces directly on a Sotheby's auction in London in 2008, Aspire does not handle works of art younger than five years.

"We do not accept work directly from artists," says Darroll. "It's the galleries' prerogative. We focus on the secondary market."

Nevertheless, organic interaction within the system is of cardinal importance: the artist's studio; the gallery as primary market and the auction house as the secondary market. "It's important for us to join forces with other interested parties in the system," says Peffers, "and to undermine no one." ■

editorial@finweek.co.za

By Amanda Visser

How to deal with a pushy

This type of co-worker is called the Tank, and you have two options: retreat or stand your ground.

One thing about the workplace that very few people can escape – except for perhaps the guy who mans the remote light tower – is co-workers you cannot stand.

The problem with difficult characters is that they also bring out the worst in you, if you are not prepared or trained to recognise them. Once you have the power to deal with them, you will be able to change their behaviour in a manner that will make your working place peaceful and not a place where you are at constant war.

"Communication with problem people is similar to making a phone call. You have to dial all the numbers in the correct order if you want to get through. It is possible to learn the number, dial it correctly and completely transform your interactions with the people you cannot stand."

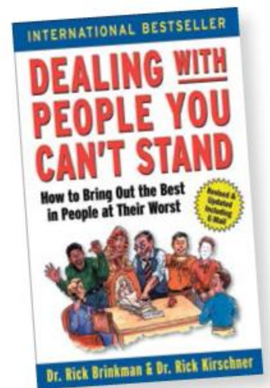
In their popular book – *Dealing with People You Can't Stand* – Rick Brinkman and Rick Kirschner offer ways to learn the correct number to dial for a number of "problem people" you may encounter in the workplace. In a competitive world one character that makes his appearance regularly is Mr Tank.

This colleague – or lo and behold, boss – is pushy and ruthless. They are loud and forceful, or act with the quiet intensity and surgical precision of a laser. The Tank assumes that the end justifies the means.

"While the Tank can rip you apart personally, the irony is that it is nothing personal. The attack is simply a means to an end result. And to the Tank, the end justifies the means," says Brinkman and Kirschner.

The problem with difficult characters is that they also bring out the worst in you, if you are not prepared or trained to recognise them.

Their advice to people when confronted by the Tank is to watch their own emotions. There are three typical emotional responses to an attacking Tank. And as the authors point out so sagely – they are quite instinctive, and quite futile.



1. In a burst of anger, you may be tempted to counterattack.

If you are a bit Tank-ish yourself, the urge will be to engage in war. And while you could win the battle, the war might be lost because the Tank might choose to escalate the fight by building an alliance against you.

2. You might attempt to defend, explain, or justify yourself.

For the Tank it is too little, too late. According to Brinkman and Kirschner, this might even further

Gallo Getty Images/iStockphoto

Action plan:

1. Stand your ground.

Brinkman and Kirschner mean this literally. "Do not change your position, whether you happen to be standing, sitting, leaning, or making up your mind."

Do not do anything. "Instead, silently look the Tank in the eyes, and shift your attention to your breathing. Intentional breathing is a terrific way to regain your self-control."

In some circumstances drawing the line at this point might be sufficient or even the appropriate thing to do. Just agree with the attacker and walk away. However, there may be times to cross the line, and take the next step.

2. Interrupt the attack.

It may sound scary to do, but according to the authors the best way to interrupt people, whether they are yelling or not, is to evenly say their name until they stop attacking.

"Five or six repetitions should be enough to bring the most determined Tank to a halt." The sense of shattering nerves is overwhelming.

Hence the warning from the authors: Once you have embarked on this course of action, backing off may be worse than never having done anything at all. The message should be that you want to engage calmly and not aggressively.

3. Quickly backtrack their main point.

The key is speed. Once there is a gap in the attack, simply go back to the main accusation. It might be challenging to remember what it was – especially if you forgot step one (hold your ground) and were instead preparing for a counterattack.

colleague

antagonise the Tank. "If the Tank says you are a genetic mistake, it is futile to offer your mother's prenatal records," the authors explain.

3. You could shut down.

The urge might be overwhelming to simply crawl into a corner and lick your wounds or conjure up images of how to take revenge. "You must avoid wimpy, weak, and fearful reactions at all costs."

This will work against you. The answer is to find the courage to stand your ground. Nobody is suggesting that this will be easy, but an image that is used by the authors to visualise dealing with the person is that of a wound-up toy that has to unwind.

"Make it a mental habit to rehearse dealing with your Tank at least a few times, until you feel comfortable with the prospect of using it."

It also never hurts – although it is mighty difficult – to put yourself in the Tank's shoes and see the situation through their eyes. Your goal must be to command respect when under attack. "Tanks simply do not attack people they respect. Aggressive people require assertive responses."

According to Brinkman and Kirschner it is vital to show strength without becoming a Tank yourself. "The strength of character that you reveal will ultimately determine the Tank's perception of you and future behaviour toward you," they reckon. ■

4. Aim for the bottom line and fire.

The bottom line has to be short and to the point – no defending or making excuses. Your response has to be delivered fast. Another tip the authors offer on Tanks is that their attention span is "extremely" short.

5. Peace with honour.

If the attack is unwarranted, and the demands unfair, the challenge is to redirect the attacker to a peaceful solution by offering them the last word – but on your terms.

What if the attack was warranted and the accusations levelled at you were in fact true? In that case, admit your mistakes, briefly state what you have learned and offer a solution to prevent it from happening again. And if none of this works, maybe it's time to look for another job. ■

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SOURCE: *Dealing with People You Can't Stand* by doctors Rick Brinkman and Rick Kirschner, published by McGraw-Hill Education

Can you get all the answers right in this week's quiz? Let's find out! The answers will be published on fin24.com/finweek on 8 May. Good luck!

1. Which UK party does Prime Minister Theresa May belong to?
2. **True or false?** The Singaporean flag features the colours green and white.
3. Name the pharmaceutical company that has garnered harsh criticism after allegations surfaced that it had planned to destroy cancer drugs?
4. Public enterprises minister Lynne Brown recently blocked a R30m pension payout to the former CEO of a parastatal. Who is he?
   - Johan Wessels
   - Siyabonga Gama
   - Brian Molefe
5. **True or false?** One ANC branch has endorsed Lindiwe Sisulu to be the next president of the party.
6. Which country recently held a constitutional referendum?
   - USA
   - Turkey
   - Swaziland
7. **True or false?** Verashni Pillay resigned from her position as editor of The Huffington Post SA.
8. What is the name of former President Thabo Mbeki's brother?
9. Which country does not border the Atlantic Ocean?
   - Angola
   - Paraguy
   - Norway
10. Marine Le Pen and which other candidate made it to the final round of the French election?

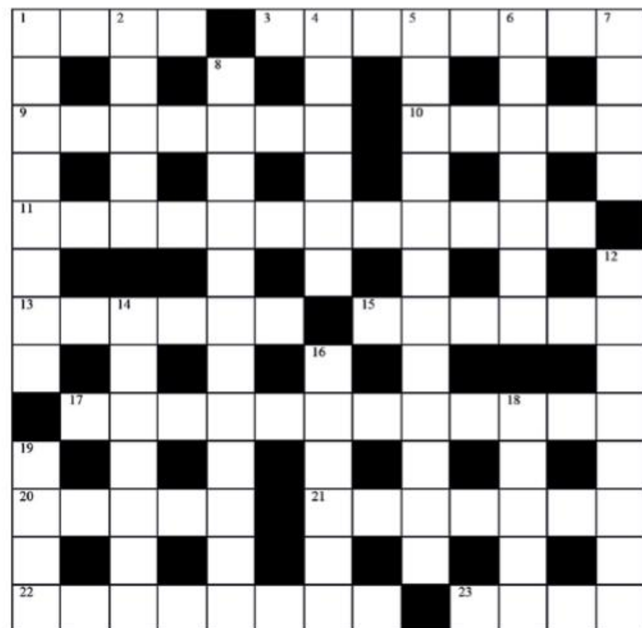
CRYPTIC CROSSWORD — NO 677JD

ACROSS

1 Book to go to the Middle East (4)
3 A strike in the metropolis is a catastrophe (8)
9 Look for strange man of learning (7)
10 Criminal leader starts to mastermind risky business in gold (2,3)
11 Fruit given as soiled present, by the sound of it (12)
13 Partners need to get out of the wrong crowd (6)
15 Man making a name for himself in Ulster? (6)
17 Breath-taking experience (12)
20 Improvised performance according to pleasure (2,3)
21 Neat innovation to back female broadcaster (7)
22 Ester's sort of blonde (4)
23 Need help to run in desert (4)

DOWN

1 Battery failed to save right data (8)
2 Dance is missing appeal – needs a snake! (5)
4 Approach a meeting place (6)
5 Uneasy sat my Spartan as one affecting to be wise (1,6-5)
6 Bar inside Coin Exchange with full judicial authority (2,5)
7 You go back inside for meditation (4)
8 Give up on TV toy (4-2-3-3)
12 Rural area runs into a marsh (8)
14 Go-getter disinvesting from stock? (7)
16 Develop former shipping line with nothing to lose (6)
18 Batsman an overall success but no opener (5)
19 No hesitation to alter compact (4)



Solution to Crossword NO 676JD

ACROSS: 4 Actress; 8 Ocular; 9 Emended; 10 Ninety; 11 Exempt; 12 Deserter; 18 Cheerios; 20 Depart; 21 Factor; 22 Earring; 23 Leaned; 24 Replica

DOWN: 1 Tornado; 2 Burnish; 3 Yatter; 5 Commerce; 6 Ranger; 7 Steppe; 13 Tectonic; 14 Listing; 15 Astride; 16 Berate; 17 Carrol; 19 Erased

Stay out of this

The blame game

A man wakes up in the morning deeply repentant after a bitter fight with his wife the previous night. He notices with dismay the crate of beer bottles that had caused the fight. He takes it outside and starts smashing the empty bottles, one by one, onto the wall.

He smashes the first bottle: "You are the reason I fight with my wife!"

He smashes the second bottle: "You are the reason I don't love my children!"

He smashes the third bottle: "You are the reason I don't have a decent job!"

When he takes up the fourth bottle, he realises that it's still sealed and full.

He hesitates for only a moment, then says: "*You* stand aside, I know you weren't involved."

Miscommunication

An ancient Chinese emperor had a beautiful young daughter. One day he realised he was growing quite old, and there would be no man to take care of her when he died. So he set up a task for anyone in his empire. The person who brought him the most ping pong balls within 365 days would get to marry his daughter, and become his successor.

Three-hundred-and-sixty-four days went by, and not a single person showed up.

But on the 365th day, three men appeared in front of the emperor. The first man had 1 556 ping pong balls, and everybody was certain he was going to win the challenge. The second man emptied a backpack and showed he had 2 032 ping pong balls. Everyone was excited to see how many the third man had. The third man walked up, bleeding all over, cuts and scars across his face, missing an arm, and breathing heavily. He puts two giant balls on a table in front of the emperor.

The emperor asked: "Where are your ping pong balls?"

To which the man responded: "PING PONG BALLS? I THOUGHT YOU SAID *KING KONG'S* BALLS!"

"There's no algorithm for Monday mornings..."

Michael Jordaan @MichaelJordaan
In April, May announces a snap election in June. At least her timing is good.

Laugh it Off @Dlaziphi
Perhaps Naspers should be renamed Ownalot.

VeryBritishProblems @SoVeryBritish
Ways to describe the worst possible situation:
- Unfortunate
- Hardly ideal
- Quite a mess
- Not the best outcome
- Bothersome
- Bit of a pain

Tom Eaton @TomEatonSA
Minister Mokonyane says downgrade will help lure back investors "on our own terms". Like when you burn down your hotel to lure back tourists.

God @TheGoodGodAbove
PEPSI: We're the best at PR mistakes.
UNITED: No way, we are.
SEAN SPICER: Ha! I'm worse than Hitler!
AMERICAN AIRLINES: Hold my bath salts.

MerrieD @D_Merries
Pays for a R10 item with R100 note.
Cashier: Don't you have R10?
Me: I have. It's in the R100.

TDPattillo @TSPatillo
Someone should remind Trump that without science we wouldn't have hair plugs and spray tan. #marchforscience

"People use the word 'guru' because charlatan is so hard to spell."

– Peter Drucker, management consultant, educator and author (1909-2005)

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