COMMODITIES

WILL MINERS SURVIVE ESKOM?

MARKETS

EQUITIES PARTY AS WORLD DEBT MOUNTS

SHARE VIEWS ON:

MTN

METROFILE

TONGAAT HULETT

ENGLISH EDITION

finweek

FIND US AT: fin24.com/finweek

16 January - 5 February 2020

EVERY TWO WEEKS

TAMING THE DR龙GON

CAN SA CASH IN ON CHINA'S NEW-LOOK ECONOMY?

SA: R30.20 (incl. VAT)
NAMIBIA: N$30.20

LOCAL ALCOHOL-FREE GIN AND TONIC WOOS THE WORLD

from the editor

JANA JACOBS

b … k into 2020 and it's very difficult to feel optimistic about the new year – … one the next decade ahead. And it's not just South Africa that … a great start.

… es rage in Australia (let's not forget the devastation in the Amazon forest last year) and we witness ongoing conflicts in various parts of the world – many of which make way for the gross violation of human rights – it forces us to assess how we got here. It doesn't paint humanity in a very flattering light.

Over December, I travelled to Europe, with one of the main reasons for the trip being to travel to Kraków in Poland to visit Auschwitz concentration camp. No matter the knowledge one has of World War II and the atrocities it beset on the world, nothing can quite prepare you for walking where true evil operated.

Just to set your eyes upon the vastness of Auschwitz-Birkenau II, which stretches across 171ha, is harrowing. It is truly an indescribable experience that forces you to confront one of the darkest periods in human history, but at the same time it serves as a reminder of the resilience that also lived there.

In Kraków, and the other Eastern European cities we visited, this echoed. While the scars of this unfathomable part of human history remain, there is also a celebration of what couldn't be destroyed.

In cities like Kraków, Prague and Budapest, the Jewish quarters still exist and are some of the most vibrant parts of these cities. As you walk the streets, you will walk past memorials commemorating the lives lost and those saved by the likes of Oskar Schindler and Carl Lutz.

But there are many more that helped Jews survive the Holocaust. Some more well-known than others. Still, because of this, and the resilience of those that they were helping, today you can dine in the heart of Budapest at a restaurant called Mazel Tov.

As a South African, I couldn't experience this without acknowledging our country's own history and remembering that while some people can get it very wrong, how important it is that there are those that get it right.

We can do better. We owe it to those that have shown us how – as the recent passing of Richard Maponya reminded us. ■

contents

Opinion

In brief

Marketplace

Cover

In depth

On the money

By Johan Fourie

ECONOMY

Beyond 2020: A vision of a prosperous South Africa

Graduates and immigrants have built some of the largest tech companies in the US. South Africa should catch up quickly.

Every new year allows us to dust off our crystal balls and look to the future. The arrival of 2020 feels like a particularly opportune time to do so.

Predictions, though, are always based on the present, and the South African economy finds itself in dire straits. Growth remains lacklustre, if not negative. Load-shedding continues unabated, hurting investment that is crucial for job creation, tax revenue and improved living standards. Debt is spiralling. And on the more fundamental things, like education, health and crime, there seems to be little progress.

The reasonable person would predict, bar a miracle, that a difficult decade lies ahead for South Africa.

In times of crisis, however, it is often useful to go back to the basics. Economic historians study why some countries are rich and others are poor. Although consensus is not common in our discipline, almost all of us would agree that the most fundamental thing to higher living standards is, as Joel Mokyr writes in *A Culture of Growth,* innovation: Our knowledge to understand nature and our environment, and our ability to direct this knowledge toward productive ends.

> Let's make it easier for innovators to move here. A diversity of ideas is the bedrock of innovation.

It is two things, Mokyr argues, that make us innovative: The belief that knowledge and our understanding of nature can and should be used to advance the material conditions of humanity, and the belief that power and government are there not to serve the rich and powerful, but society at large.

The latter is important. For millennia, humans have innovated. But elites either expropriated these innovations for their own vanity, or, most often, crushed it, as it threatened their privileged position. Consider the many inventions of the Sumerians, or Romans, or Chinese. It would only be in the centuries after 1500 that Western Europe, of all places, would take a different route.

Mokyr explains in his book how this happened. Much of this was due to a "transformation of elite cultural beliefs", an "intellectual change" that created a new market – the market for ideas. Letter writers across Western Europe started sharing their theories and experiments. The printing press gave a much wider audience access to knowledge about the world and how it worked. Rulers realised the benefits of these new innovations and encouraged scientists to settle in their cities. Those rulers that did not, lost prestige and wars to those that did.

None of the other factors typically cited as reasons for the Industrial Revolution are enough to understand its emergence: Coal, cotton, and colonialism had existed in many places before, with little improvements in general living standards. Even the printing press was not a new invention. But in China, where it had been invented at least 600 years earlier, books were limited to the government elite; in Europe, it circulated widely.

How do we apply these lessons to SA in the next decade? For one thing, we need to start investing in science and technology. SA has nine of the top ten African universities. Although most undergraduate students now study for free, it is at the graduate levels that new research is undertaken. Expanding the National Research Foundation would be a good start. But several universities now produce start-ups with products that can compete internationally; a facewash product from the Stellenbosch Nanofiber Company, a spinoff from Stellenbosch University, was listed, for example, on *Time Magazine's* list of 100 best inventions of 2019.

Sadly, science is low on the priority list of the current government. According to the 2019 medium-term budget policy statement, innovation, science and technology spending will only grow by 3.9% over the next three years, compared with 6.3% of overall spending. In 2019, we spent six times more on the police force than on innovation.

But even if the government cannot afford to spend more given its fiscal constraints, it can do two things: Support private sector investment in research and make it easier for innovators to settle in SA. Releasing spectrum is a no-brainer, for example: 5G will revolutionise the way we transact, exposing millions of (unemployed) South Africans to new goods, services and, importantly, labour markets.

Second, let's make it easier for innovators to move here. A diversity of ideas is the bedrock of innovation. Just look at recent US history: Almost all of the world's most exciting companies – Google, Tesla, Apple, Amazon – were started by immigrants or the children of immigrants.

Whizz-kids are happy to experiment in the basements of dilapidated buildings, if they have a fast Wi-Fi connection and a steady supply of expensive coffee. We need more of these kids. Lots more. Where can we find them?

There are many African students, many who already study at South African universities, with fantastic ideas and abilities. Give them residency and make it easy to appoint them. SA should become the gateway for African innovators.

The power of ideas has transformed humanity from surviving just above subsistence to living prosperous and meaningful lives. Not all in SA are there yet and, if history is any guide, we will only get there if we cultivate a culture of science and technological innovation that allows us to do more with less. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

By Thobelani Maphumulo

ECONOMY

Policy synchronisation required to boost SA's re-industrialisation

The manufacturing sector was one of the largest negative contributors to South Africa's gross domestic product in the third quarter of 2019. The economy will continue to suffer if trade and industrial policies remain uncoordinated.

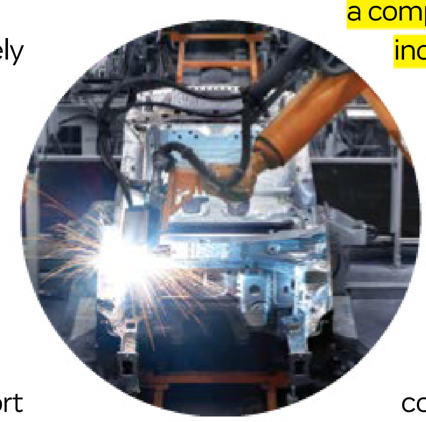
Since the Great Recession of 2008, South Africa has experienced slow economic growth and a surge in unemployment. The lacklustre revitalisation of the manufacturing sector, combined with restrictive fiscal and monetary policies, has not augured well for the economy's upward trajectory. Consequently, the synchronisation of macroeconomic policies and microeconomic reforms – industrial and trade programmes – should, undoubtedly, reignite strong economic performance.

Over the past 25 years, the country has undergone a process of de-industrialisation largely due to aggressive, and premature, trade liberalisation – the tariff book is dominated by tariff-free merchandise items. Additionally, uncoordinated industrial and trade policies, rising administrative costs, infrastructure bottlenecks, innovation deficiencies, and import dumping have contributed to hardships in the manufacturing sector. The sector contributes 13% to GDP, down from about 20% in the 1990s, and accounts for 57% of total exports. Non-beneficiated mining and mineral products make up 36% of total exports.

The Automotive Masterplan 2020 has aims for the local content in manufactured vehicles to increase from 38% to **60%** in the long run.

The beneficiation programme has not gained traction and is one of the impediments to re-industrialisation. Beneficiation is the process of turning minerals into higher-value products, which can be sold to either foreign or domestic markets. Beneficiation has multiple spin-offs that could accelerate the industrialisation programme. These, among others, include the development of capital-intensive industries such as refining and smelting.

The industrial development curve calls for the establishment of both capital and labour-intensive industries going forward. It is premature, albeit unavoidable, to intensely promote the Fourth Industrial Revolution (4IR) before developing labour-absorptive industries. In fact, there's a high probability that 4IR will fail to accommodate the large pool of job seekers.



The government has made impressive strides in the automotive sector's industrial and trade strategy, demonstrating that well-crafted policies could augment an industry's development, increase export earnings, attract foreign direct investments, and support technology and skills transfer.

The Automotive Production and Development Programme (APDP) – preceded by the Motor Industry Development Programme – has strongly supported exports of domestically produced vehicles which account for 11.4% of total exports.

That said, there's discontent in some quarters with respect to the corresponding increase in imports as a result of import credits that are granted to original equipment manufacturers (OEMs). The apt response is that the auto industry requires years of engineering experience and access to global supplier networks. It is important to note that foreign inputs, such as capital, machinery and equipment, have contributed immensely to the export-led auto sector.

That said, the Automotive Masterplan 2020 has aims for the local content in manufactured vehicles to increase from 38% to 60% in the long run.

The global vehicle production market is fiercely competitive and government should continue to offer OEMs production incentives. The collaboration between OEMs and the department of trade and industry has, unsurprisingly, led to local automotive production zones and increased vehicle exports to Europe, in particular.

The government should support the role of public procurement in the localisation and industrialisation programme. The government and state-owned entities' (SOEs) massive procurement budget – north of R850bn a year – should be used to develop local industries and, eventually, shipments to world markets.

Unfortunately, the culture of corruption and rent seeking has limited the localisation drive in SOEs, specifically. Rent seekers are evidently not passionate about building the local industrial capacity.

The improvement in tender processes, accentuated by the demand for local content, is a low-hanging fruit.

This, to a large degree, could also be used as the policy tool to ease market concentration – big corporates dominate markets across the supply value chain; vertical integration is ubiquitous. This certainly results in high barriers to entry for small and medium enterprises. The competitive landscape is tough for emerging industrialists and a comprehensive legislative framework is required to deepen industrialisation and open domestic markets.

Notably, the government has done well in promoting industrial development zones. There's been a discernible increase in foreign direct investment, vertical integration, supply chain industry development, and job creation.

On the imports side, domestic producers – cement, poultry and steel – have called for hikes in tariffs due to import dumping. Protectionist measures are generally a drag on economic growth because tariffs are paid by consumers and businesses.

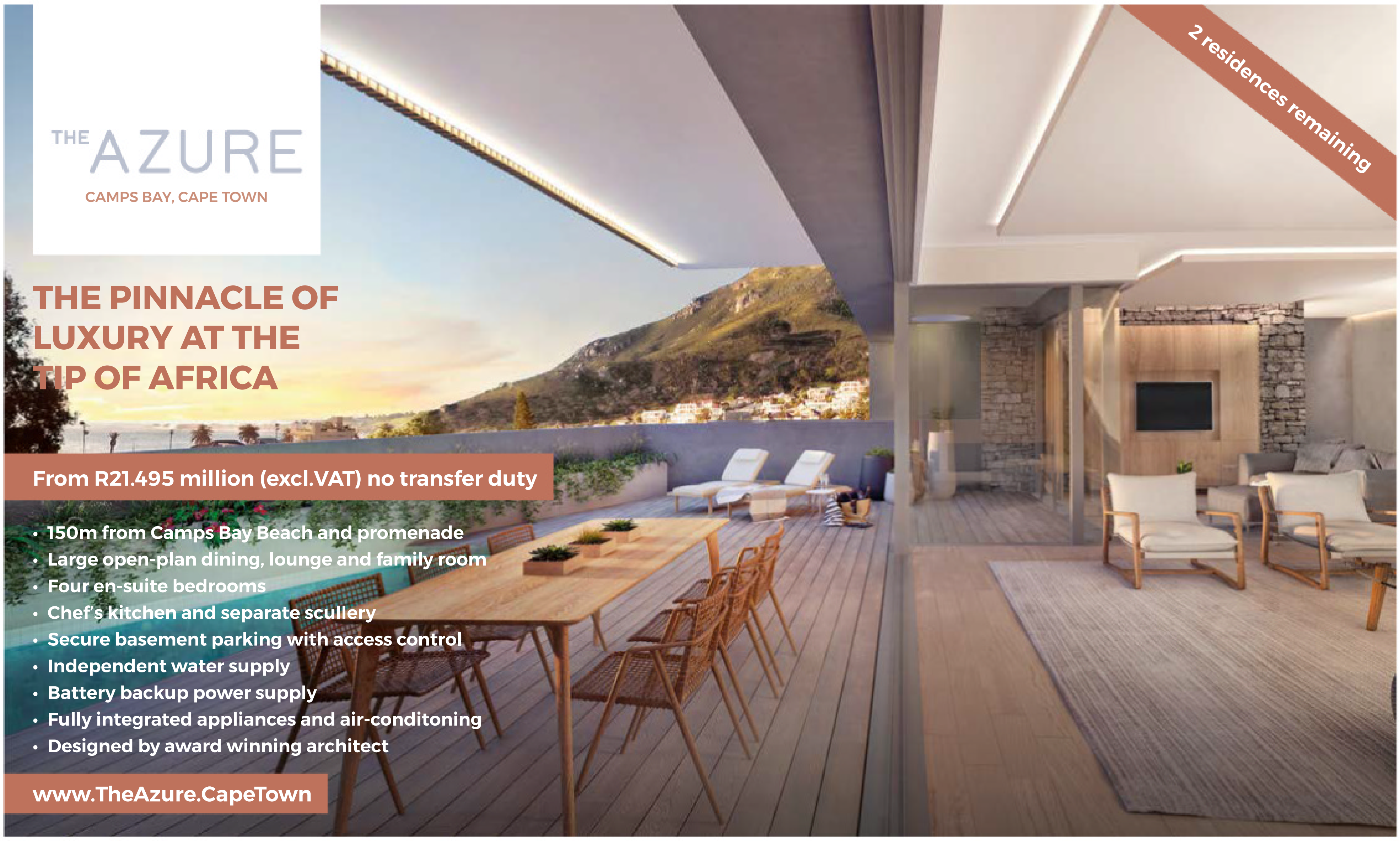
The supply glut in foreign markets has resulted in low worldwide prices, causing domestic companies to suffer. Economic policies should always be dynamic and respond to the needs of local industries. The probable decimation of domestic companies, adverse supply chain effects, and subsequent increase in unemployment should be avoided.

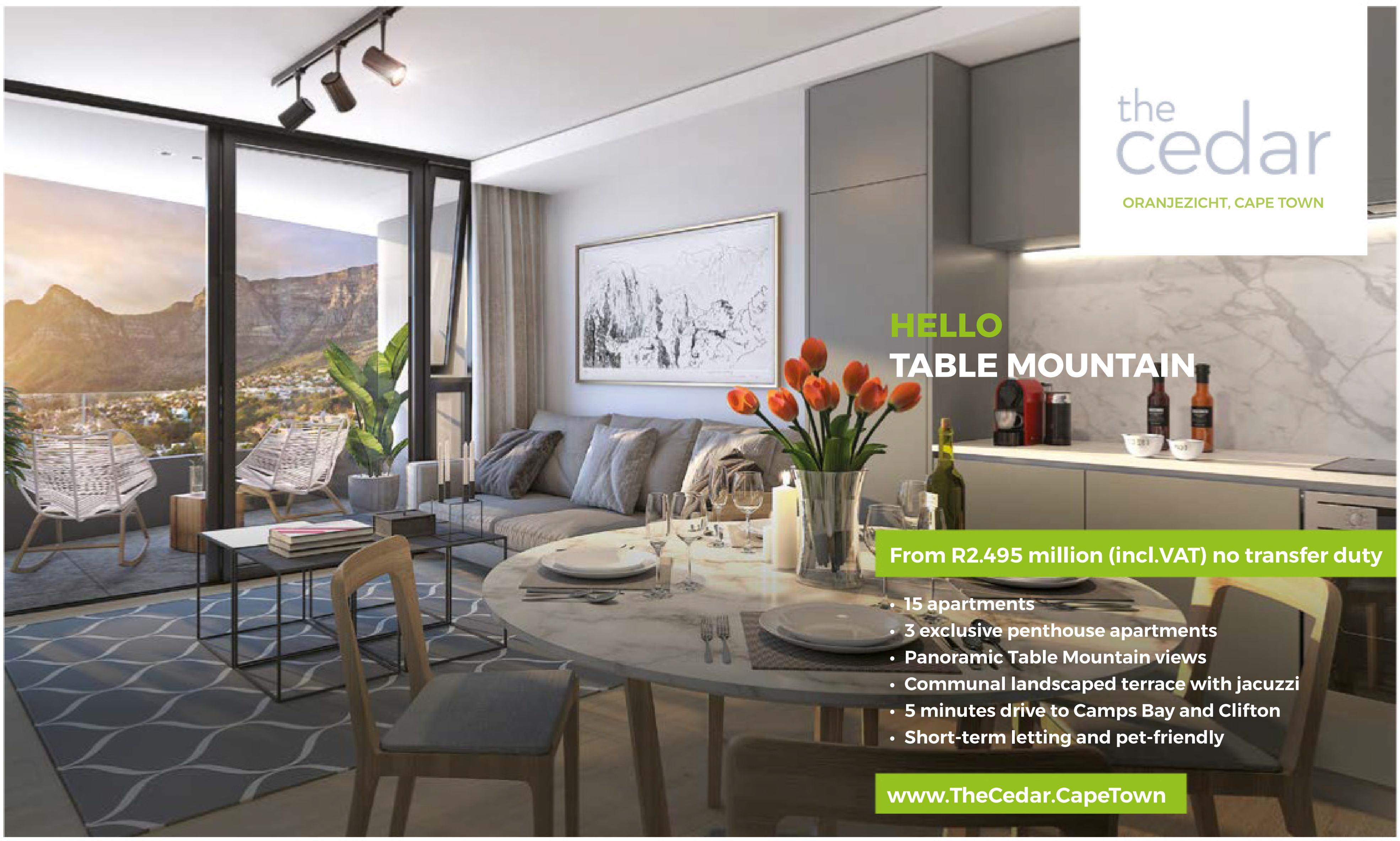
It is encouraging to witness the recently released Poultry Industry Masterplan, the primary objective of which is to ease the import dumping pressure on local producers. ■

editorial@finweek.co.za

Thobelani Maphumulo is an investment analyst and author of *Invest Your Way to Wealth*.

Photo: Shutterstock


THE AZURE
CAMPS BAY, CAPE TOWN
2 residences remaining
THE PINNACLE OF LUXURY AT THE TIP OF AFRICA
From R21.495 million (excl.VAT) no transfer duty
• 150m from Camps Bay Beach and promenade
• Large open-plan dining, lounge and family room
• Four en-suite bedrooms
• Chef's kitchen and separate scullery
• Secure basement parking with access control
• Independent water supply
• Battery backup power supply
• Fully integrated appliances and air-conditoning
• Designed by award winning architect
www.TheAzure.CapeTown


the cedar
ORANJEZICHT, CAPE TOWN
HELLO
TABLE MOUNTAIN
From R2.495 million (incl.VAT) no transfer duty
• 15 apartments
• 3 exclusive penthouse apartments
• Panoramic Table Mountain views
• Communal landscaped terrace with jacuzzi
• 5 minutes drive to Camps Bay and Clifton
• Short-term letting and pet-friendly
www.TheCedar.CapeTown

in brief

EDITORIAL & SALES

Acting Editor Jana Jacobs **Deputy Editor** Jaco Visser **Journalists and Contributors** Simon Brown, Sean Christie, Lucas de Lange, Johan Fourie, Moxima Gama, Glenneis Kriel, Schalk Louw, David McKay, Maarten Mittner, Thobelani Maphumulo, Brendan Peacock, Timothy Rangongo, Melusi Tshabalala, Glenda Williams **Sub-Editor** Katrien Smit **Editorial Assistant** Thato Marolen **Layout Artists** David Kyslinger, Beku Mbotoli, Nadine Smith, Annelie Laubscher **Advertising** Paul Goddard 082 650 9231/paul@fivetwelve.co.za Clive Kotze 082 335 4957/clive@mediamatic.co.za 082 882 7375 **Sales Executive** Tanya Finch 082 961 9429/tanya@fivetwelve.co.za **Publisher** Sandra Ladas sandra.ladas@newmedia.co.za **General Manager** Dev Naidoo **Production** Angela Silver angela.silver@newmedia.co.za

Front page image by Thomas Despeyroux on Unsplash

Published by New Media, a division of Media24 (Pty) Ltd
Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmedia.co.za

Printed by **Novus Print Solutions** and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek**
Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS	Fax	SHOPS
087-353-1305	0864-575-918	0861-888-989
subs@finweek.co.za		assistance@onthedot.co.za

Share your thoughts with us on:

@finweek finweek finweekmagazine

"I FOUGHT FOR 27 YEARS FOR THAT MALL AND WAS MANY TIMES DENIED; THEY ACTUALLY THOUGHT I WAS DREAMING."

Richard Maponya at the grand opening of Maponya Mall's Virgin Active in 2011.

- **Entrepreneur Richard Maponya,** informally called the doyen of black business in South Africa, passed away on 6 January aged 99. In an archived interview with CNBC Africa, Maponya recounted past obstacles and defying the apartheid system that barred him from developing a mall in Soweto. As the first black man to secure a 100-year lease for land in Soweto, he developed and finally opened the R650m Maponya Mall after 27 years of trying, of which he told the broadcaster, "when Nelson Mandela cut the ribbon to open the mall, that was the highlight of my life".

"...BRINGS A SAFE PAIR OF HANDS TO THE SOUTH AFRICAN LENDER, BUT NOT A LOT ELSE."

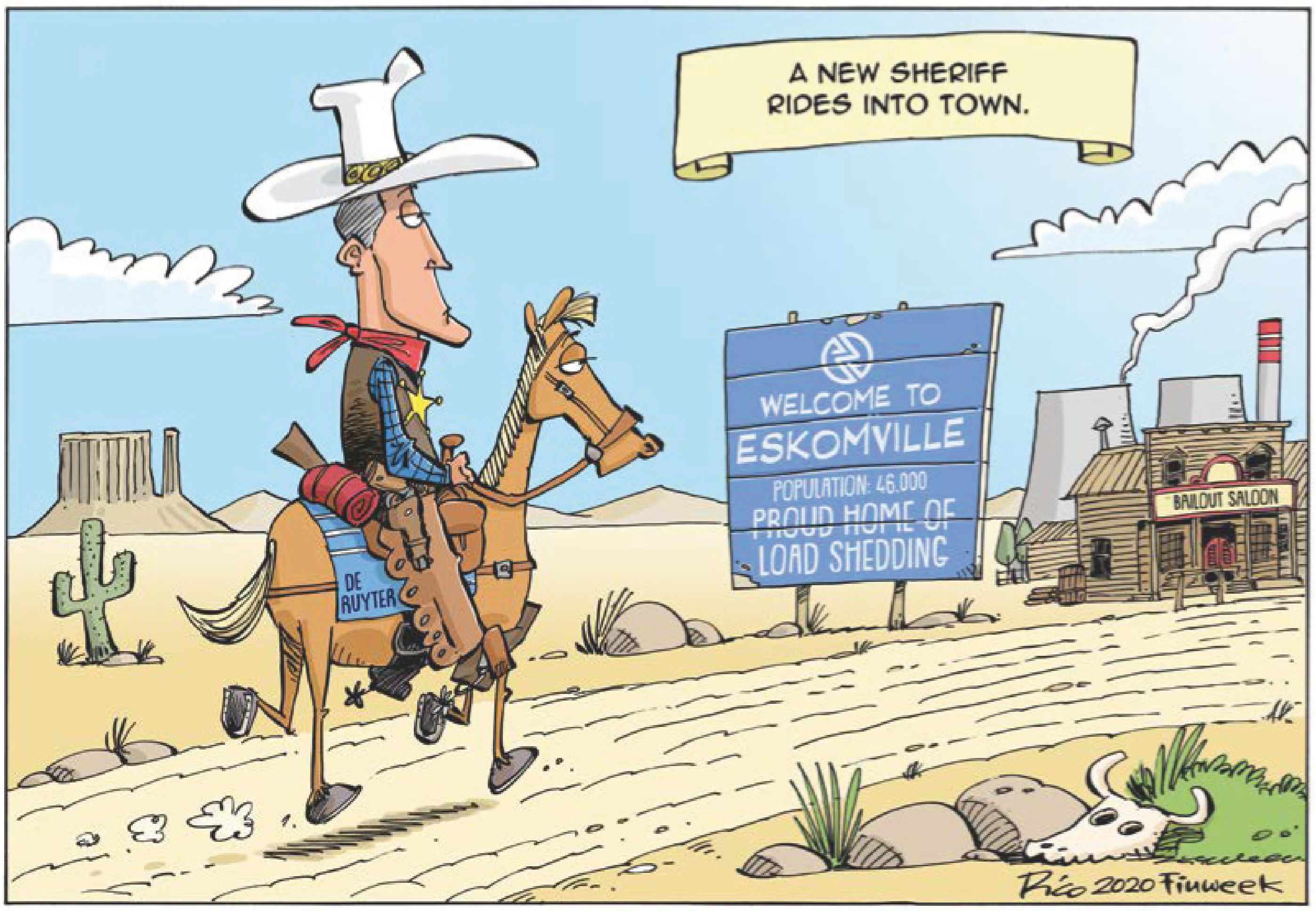
- **Ed Cropley, a Reuters reporter,** wrote in an opinion piece that Absa's new CEO, former deputy governor of the South African Reserve Bank, David Mminele's "establishment heft" could come in handy in manoeuvring turbulent local politics. Nonetheless, Cropley noted that "a career regulator is hardly the obvious person to take on digital domestic competitors or chase high-risk rewards on the rest of the continent".

THANK YOU, TRUMP!

$1 605.89

In January the spot price of gold rose to $1 605.89 – a seven-year high at the time *finweek* went to print. This was on the back of a US airstrike ordered by President Donald Trump that killed Iran's major general Qasem Soleimani. As warnings of new strikes and retaliation by both the US and Iran intensified, investors favoured the safe-haven metal to protect them against a market downturn, reported the *Wall Street Journal*. In the early hours of 8 January, Iran did retaliate by firing a series of ballistic missiles at two military bases in Iraq housing US troops, reported *The Washington Post*. It was Iran's most direct assault on America since the 1979 seizing of the US embassy in Tehran, according to the publication.

DOUBLE TAKE BY RICO



THE GOOD

Eskom hasn't paid any performance bonuses in the past two years, nor has it applied to the National Energy Regulator of SA (Nersa) to allow for R1.8bn in performance bonus pay, reported Fin24. A report saying Eskom wanted taxpayers to cough up R1.8bn for performance bonuses, despite the power utility's well-documented inability to keep the lights on, surfaced in January and caused an uproar. Eskom, however, hit back, saying it "has not applied to Nersa for R1.8bn to pay performance bonuses", reported *City Press*.

THE BAD

IHS Markit's Purchasing Managers' Index (PMI) fell to 47.6 in December from 48.6 the previous month, its lowest level since October 2018 and further below the 50 mark that separates expansion from contraction, reported *Business Day*. "With the country's electricity supplier Eskom implementing stage six load-shedding in December, many South African businesses saw activity and trade brought to a standstill," said David Owen, an economist at IHS Markit.

THE UGLY

The bushfires ravaging the southeast of Australia have claimed the lives of 24 people and destroyed more than 6.3m hectares of grazing and plantations, reported Time.com. "The smoke from the blazes in the southeast of the country is visible from space, and it is spreading so far that it is causing haze in New Zealand more than 1 000 miles (1 609km) away," it said. The BBC reported that in 2019 Australia twice set a new temperature record: an average maximum of 41.9 °C was recorded on 18 December.

Photo: Gallo /Getty Images

By Glenneis Kriel

Using tech to reduce tenant risks

Proptech start-up, Jamii Cities, uses statistical modelling and incentives to reduce tenant risks in long-term residential leases.

Adrian Taylor, Marc Maasdorp and Bartek Dutkowski started Jamii Cities in November 2018 after realising how difficult it was for landlords to get credible tenants in Johannesburg's city bowl.

"Jamii Cities fulfils all the functions of a traditional letting agent, but when it comes to the vetting of a client, we not only do a credit check but use statistical analysis to better understand the needs and life circumstances of tenants. The idea behind this is to better match tenants and properties," Taylor says.

Various factors that influence stay are considered during the analysis, including income potential, age, relationship status, family size, place of work and availability of nearby amenities, such as schools, shops and hospitals. "It is similar to the checks being done when people apply for insurance or home loans," Taylor says.

Besides this, the company has a voluntary rewards programme that rewards participating tenants for looking after their properties well and paying their rent on time. Participants do not have to pay a deposit when they enter a lease agreement and can use their rewards, called Jamii Bucks, to buy electricity and data.

All the accumulated client data is pooled, including new information such as a tenant's likelihood to pay on time and look after a property, to strengthen the accuracy of the models used to get better insights into tenant preferences and behaviour.

"Our aim is to create long-term tenants who will continue to use our service when they need to move on to other accommodation," Taylor says.

The business model

Taylor, Maasdorp and Dutkowski met through work over the years. They make a good team, as all three have backgrounds in the financial services industry, with Maasdorp and Dutkowski specialising in private equity and Taylor in home insurance. All three had been looking for a business opportunity and Taylor is the founder of The Black Box, which is an advisory accounting business.

"With Jamii Cities we saw a gap in the market after which we tested the market by first finding a landlord and our first few tenants. So instead of going all out, we had a small experimental start and bottom-up approach, which we scaled as we got more tenants and reached new bottlenecks," Taylor says.

Their first website was launched in March 2019 and upgraded a few times after that. Taylor explains that the website is not that important, as it's merely an interface that connects people with the service. People can look for apartments on the website, but all the apartments are also advertised on big third-party websites, such as Property24.

The name Jamii Cities was chosen because it is the Swahili word for community. "Our long-term vision is to create sustainable cities by matching the right tenants with affordable properties in prime locations in cities," says Taylor.

The company was started with R2.45m in angel funding through participation in the AlphaCode Incubate programme. "To keep costs low, Marc, Bartek and I are not drawing any income from the company. All the funds and proceeds are reinvested into the scaling of the business," Taylor says.

Initially, Maasdorp and Taylor were working full-time on the development of the business, but Dutkowski has since also come on board and they have appointed two full-time letting agents to work on the sales side. The company now has one landlord on its books with 2 500 apartments and 200 tenants, with sales still being focused on Johannesburg's city bowl.

"We take a certain percentage of the monthly rental income as payment for our services, with the percentage varying depending on tenant risk. The fees are slightly higher than with your traditional letting agents because of the lower associated risks," Taylor says.

The company was started with

R2.45m

in angel funding through participation in the AlphaCode Incubate programme.

Adrian Taylor and **Marc Maasdorp** of Jamii Cities are trying to make cities a better place by better matching tenants with properties.

Photo: Supplied

What about rogue tenants?

Taylor sees their use of technology as their main advantage: "Real estate is the biggest asset class in the world, but still one of the least disrupted. Many letting agents provide some of our services, but hardly any are using new technologies to improve sale outcomes and reduce tenant risks."

Besides making better informed matches, the use of technology allows the company to conclude a lease agreement in a matter of minutes via the internet. While the company manages monthly payments, it does not provide any aftersale services such as callouts for maintenance or repairs.

Their biggest challenge now is to grow the company sustainably. Taylor explains that they need to appoint good staff to grow the company at discounted rates. New staff therefore need to buy into the vision of the company and the idea of their portfolios growing with the company. Besides this, it is difficult to create a company culture when there are only a few employees.

"Our main aim for now is to scale the business by appointing new staff to help us grow the rental portfolio and to gather more data to improve tenant apartment matching. Once we have a secure market, we will start to replicate what we are doing in Johannesburg in other cities such as Cape Town and Durban," Taylor says. ■

editorial@finweek.co.za

By David McKay

MINING

Trends that will shape SA mining in 2020

Precious metal miners are set to continue cashing in as coal's flame is dampened by climate change concerns.

Consensus among economists is that South Africa is due for more of the same in 2020, unless the government can bring about urgent reform.

While the narrative in SA's mining sector takes its cue from the broad economic and political strokes, there are some specific investment themes worth acknowledging.

Admittedly not quite the Delphic oracle, *finweek* has attempted to capture a few likely stories, themes and even outcomes worth watching in the mining sector this year.

JSE flight

Up to three mining companies, with a combined market capitalisation of R320bn, could either leave the JSE or make the bourse their secondary investment market.

AngloGold Ashanti has said it would seek an offshore listing, provided it sold Mponeng and Mine Waste Solutions – the SA operations it has put on the block. Sibanye-Stillwater has identified an offshore listing as part of its long-term strategy, while Gold Fields' continued primary presence in Johannesburg would attract questions were it to finally cut its losses and sell its remaining SA mine, South Deep.

The determinant in the latter two companies may well be the strength of the gold price. Gold Fields has said the future ownership of South Deep would be considered once it had established a track record of profits.

For Sibanye-Stillwater, removing debt is its primary focus, which turns on generating wad-loads of free cash flow, and brings us to our second theme.

Precious metal bonanza

"Gold's long-term prospect is up, up and up," said Mark Mobius of Mobius Capital Partners in an interview with Bloomberg News in September. The year-long bull run in gold that supported these claims was given further support during the holiday period. This followed the escalation of political tension in the Middle East on 2 January, after the US assassination of Qasem Soleimani, head of Iran's elite Islamic Revolutionary Guard Corps' Quds Force.

"The combination of central bank stimulus and rising food and energy prices will only add to our view that inflation or the risk of rising inflation will become a theme in 2020," said Ole Hansen, head of commodity strategy at Saxo Bank. "Gold's behaviour during the past few months supports this view."

Continued rand weakness is also likely, which will assist those companies earning dollar revenue and expending their costs in rand – such as SA miners – although there may be some inflation catch-up.

Legal wrangles

Set against a promising outlook for companies exposed to precious metals is the prospect of proposed amendments to the cornerstone mining legislation that is the Minerals and Petroleum Resources Development Act (MPRDA).

The department of minerals and energy has given the mining sector until around mid-February to lodge comments on the proposed amendments, which Peter Leon, an attorney at Herbert Smith Freehills, describes as "... either unduly burdensome on the holder of or applicant for a prospecting or mining right, or [in] conflict with the existing provisions of the MPRDA".

Climate change ...

... or more specifically, coal. According to a report by JP Morgan, the extractive industries are "right in the crosshairs" of the climate change movement, which was well and truly absorbed into the popular consciousness in 2018 and 2019.

The mining sector represented 12% of global greenhouse gas emissions, it said in a report last year. Including total coal burn, the sector comprises 40% of global emissions – one of the figures that is giving Anglo American heartburn in respect of what it intends to do with its SA coal export mines. All eyes then on the group's sustainability report in April in which it will detail its plans for SA coal. ■

editorial@finweek.co.za

Mark Mobius
Founder of Mobius Capital Partners

Continued rand weakness is also likely, which will assist those companies earning dollar revenue and expending their costs in rand – such as SA miners – although there may be some inflation catch-up.

Photo: Gallo/Getty Images

By David McKay

MINING

Resilience against Eskom's power cuts tested

Miners have coped with rolling blackouts since 2008. Will they be able to keep this up as Eskom cuts ever-more power from the grid?

A report by RMB Morgan Stanley in the final weeks of 2019 suggested that, contrary to popular thought, Eskom's rolling blackouts since about 2008 have had a limited impact on South Africa's mineral production.

This, it said, was down to the fact that SA's mining sector had showed some extraordinary resilience and has been able to adapt.

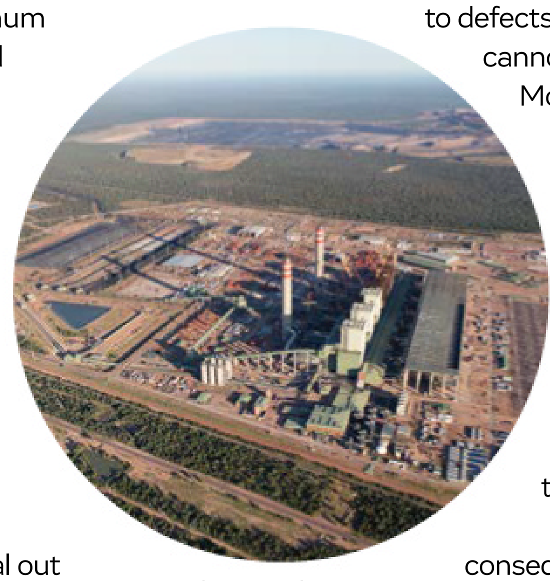
In the lower stages of load-shedding, open-cast mining can continue, which is the basis on which a fair portion of the country's iron ore, platinum group metal (PGM) and coal mine production is performed. Stage six load-shedding, however, means not even open-cast mines can escape the restriction.

There's also the impact of repeated electricity interruptions on the integrity of smelters and refineries that make finished metal out of PGM concentrate. Increased load-shedding also means higher maintenance on smelters – as permanent damage can often materialise – resulting in increased downtime.

However, severe blackouts as in the closing weeks of 2019, in which 6 000MW was rationed across the national grid, would be harder to manage, said RMB Morgan Stanley's SA analysts, Brian Morgan, Christopher Nicholson and Jared Hoover.

Eskom announced stage six load-shedding in early December in which up to 6 000MW was cut from the system: The country had never seen this extent of power rationing and suggested to both industry and citizenry alike that Eskom's problems were worsening.

"The duration and intensity of the blackouts worries us," said the RMB Morgan Stanley analysts. Unfortunately, 2020 hasn't started particularly well.



Eskom's Medupi power station in Limpopo

On 4 January, before the majority of SA's population returned to work from the summer holidays, Eskom announced a resumption of stage two load-shedding owing to the breakdown of the conveyor supplying coal to Medupi power station, near Lephalale in Limpopo – the same malfunction that helped put SA into stage six load-shedding last year.

Worryingly, Medupi is one of SA's new power stations: Its final unit was commissioned in 2019, but there are serious doubts that the station will ever hit its 4 800MW design capacity, owing to defects in its boiler architecture that cannot be repaired, according to RMB Morgan Stanley.

And while Medupi continues to be unreliable, the expected decommissioning of the Grootvlei and Komati power stations, which provide a total of 2 100MW of power to the national grid, in 2021 and 2022 respectively, is likely to add further pressure to the system.

There are, of course, long-term consequences to ponder for the SA mining sector. Ultimately, unreliable power supply impacts on the investment lure of the sector. New investment is already a paucity, but re-investment would also be threatened, according to the bank.

"Over the longer term, the Eskom risk provides a disincentive for producers to invest in replacement supply in SA," said RMB Morgan Stanley. It also results in a structural cost inflation push equal to 10% to 15% of SA mining cash costs.

Finally, unreliable power supply provides an incentive for fabricators and original equipment manufacturers to thrift or substitute away from the metals where possible.

There may be a material uptick in the prices of metals as a result of supply interruption where SA is a dominant supplier – such as PGMs for instance – but the impact on the country's mining sector is to add another negative in an increasingly bleak-looking investment scenario. ■

editorial@finweek.co.za

It also results in a structural cost inflation push equal to

10%

to

15%

of SA mining cash costs.

Photo: iStockphoto

market place

FUND IN FOCUS: 27FOUR BALANCED PRESCIENT FUND OF FUNDS

By Timothy Rangongo

Finding the right balance

The 27four Balanced Prescient Fund of Funds' portfolio provides diversification by investing in a combination of funds.

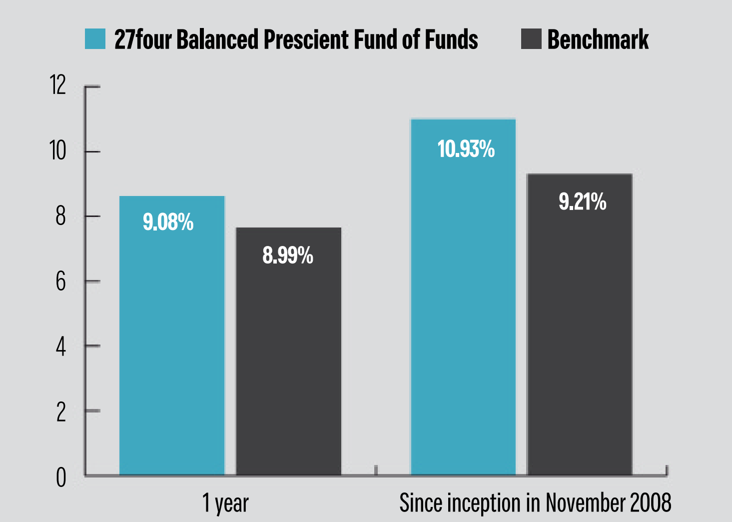
FUND INFORMATION:	
Benchmark:	South African – Multi-Asset – Medium Equity Category Average
Fund manager:	Nadir Thokan
Fund classification:	South African – Multi-Asset – Medium Equity
Total investment charge:	1.53%
Fund size:	R826m
Minimum lump sum/ subsequent investment:	R5 000 lump sum or R500 per month
Contact details:	www.27four.com

TOP TEN HOLDINGS AS AT 31 OCTOBER 2019:		
1	Naspers*	4.02%
2	British American Tobacco	1.94%
3	Anglo American	1.62%
4	Absa	1.51%
5	BHP	1.42%
6	Prosus	1.35%
7	Standard Bank	1.32%
8	Sasol	1.1%
9	FirstRand	1%
10	Mondi	0.77%
	TOTAL	**16.05%**

*finweek *is a publication of Media24, a subsidiary of Naspers.*

PERFORMANCE (ANNUALISED AFTER FEES):

As at 30 November 2019:



Fund manager insights:

The 27four Balanced Prescient Fund of Funds is a multi-asset fund with medium risk. As a fund of funds, the balanced fund invests in other types of funds. Its portfolio contains different underlying portfolios of other funds.

The fund's three largest asset allocations, as at end-October 2019, comprise local equity and nominal bonds at 35.3% and 23.46% respectively, followed by offshore equity at 22.09%. The Visio BCI Equity, Coronation SA Equity and Prescient Equity Top 40 Fund form part of the balanced fund's local equity allocation.

Ongoing data releases reinforce just how dire conditions are within the South African economy. This has been a grave challenge for the fund to overcome for the past three years, says fund manager Nadir Thokan.

For SA, 2019 was a year characterised by low real economic expansion and subdued inflation. He says that inasmuch as there has been a lot of market volatility, especially in the equity market, the wheels of the bus really came off in the second half of the year. Real GDP contracted by 0.6% in the third quarter of 2019, data from Stats SA showed.

Despite the tough economic environment, both the Coronation and Prescient Equity Funds, which form part of the balanced fund of funds, delivered one-year annualised returns of 9.2% and 13.08% respectively, as at end-October. This is against an average benchmark return of 5.99% for the Capped SWIX Index, thereby boosting the fund's overall return too.

Thokan tells *finweek* that they will be keeping a closer eye on global economic developments such as the ongoing trade tension between the US and China, watching out for escalations because "they will put a drag on both economic and earnings growth".

What the US Fed does with interest rates will also be on the fund's radar. Nevertheless, the fund will remain well-positioned to incorporate multiple differentiated sources, providing the optimal vehicle for weathering any unanticipated macroeconomic shocks, he says.

Why *finweek* would consider adding it:

The 27four brand is synonymous with investment preeminence, achieved through innovative and modern investment approaches. The constructed portfolio not only delivers on its return expectations but has the highest likelihood of doing so.

The fund takes advantage of tactical asset allocation opportunities and at the time of writing had only delivered negative returns twice in 2019. It has scooped three Raging Bull awards (best SA multi-asset medium equity fund in 2014, 2015 and 2016) and three Morningstar awards (best moderate allocation fund in 2014, 2015 and 2016). ■

editorial@finweek.co.za

METROFILE

BUY SELL HOLD

By Simon Brown

Cash in on buyout

Metrofile said it supports a conditional offer for its shares at 330c/share from Housatonic Partners, a private equity firm. This offers an easy return with modest risk. The price is within the range where I would accept the offer.

Shareholders will receive the mid-year December 2019 dividend (which will be paid in April) of between 5c/share and 10c/share as the company has resolved the Kenyan tax issue, which will support profit.

If one can pick up some shares at 285c each – which is the offer price at the time of writing – and assume a dividend of 5c/share – equal to last year's payment – you will realise a 50c/share profit or 17.5% return. Assuming that the deal will be concluded by the middle of the year, that's an annualised return of 35%.

The risk is that the deal does not conclude, as we saw with Murray & Roberts and Aton. The conditions for this deal do not look like a steep hurdle as they revolve around raising the debt and finding a BEE partner; both should be easy for this highly cash-generative business. ■

**The writer owns shares in Metrofile.*

Assuming that the deal will be concluded by the middle of the year, that's an annualised return of

35%

Last trade ideas

- BUY — Rolfes — *21 November issue*
- HOLD — Pick n Pay — *7 November issue*
- BUY — Grindrod Shipping — *24 October issue*
- HOLD — Capitec — *10 October issue*

BRITISH AMERICAN TOBACCO

BUY SELL HOLD

By Moxima Gama

The bear is broken

In recent months, a couple of thousand people have ended up in hospital due to severe lung illnesses and other health problems caused by vaping. Over the years tobacco companies have doubled down on vaping products to combat the falling demand for cigarettes. However, deaths related to an uptick in vaping by teenagers have forced the US health authorities to ban the sale of popular e-cigarette flavours, particularly fruit and mint. This leaves only menthol and tobacco flavours on the market.

British American Tobacco (BAT), which is the world's second-largest tobacco company, has welcomed the US decision, which will go into effect in February. This would then increase the sales of menthol and tobacco flavours. The guidance is unambiguous that other flavours can return to the market once they have been cleared by the authorities.

How to trade it:

BAT has broken out of its two-year bear trend – it confirmed a positive breakout above 58 160c/share last month. Such a move should prompt a 100% recovery to its all-time high at 98 740c/share in the medium term.

With the three-week relative strength index in overbought territory, a near-term pullback may be in the offing. However, if support is retained at 58 160c/share, it would be a bullish sign, as another buying opportunity would be presented – with potential gains to 68 890c/share. The next resistance level at 80 000c/share could be revisited.

However, a reversal through 58 160c/share may trigger a sell-off towards 51 780c/share. ■

editorial@finweek.co.za

With the three-week relative strength index in overbought territory, a near-term pullback may be in the offing.

Last trade ideas

- SELL — Mr Price — *21 November issue*
- BUY — Sasol — *7 November issue*
- SELL — Mondi — *24 October issue*
- STAY SHORT — Truworths — *10 October issue*

Photos: Shutterstock

By Moxima Gama

MTN

Still worth buying?

MTN GROUP

MTN had a rocky past 12 months, culminating in allegations that the company, the world's eighth-largest mobile phone operator, paid Afghanistan's Taliban terrorist group to protect its mobile network towers in the country.

MTN denies this claim brought forward in a civil lawsuit in the US in December. The share price has dropped by 61% over the past five years.

52-week range:	R75.05 - R114.45
Price/earnings ratio:	25.42
1-year total return:	-2.59%
Market capitalisation:	R149.89bn
Earnings per share:	R3.13
Dividend yield:	6.54%
Average volume over 30 days:	4 368 148
	SOURCE: IRESS

Outlook: MTN breached the resistance trendline of its five-year bear trend, but its recent pullback has developed a consolidation area. Key support is at 6 905c/share and if MTN holds firmly above that level, then investors should still invest. However, brace yourself for potential sideways momentum between 11 445c/share and 6 905c/share until a breakout in either direction occurs. The bigger consolidation area would be abandoned above 15 650c/share.

With the three-week relative strength index (3W RSI) in oversold territory, a short- to near-term recovery is pending.

On the charts: On the daily chart MTN had gapped in March last year – it closed at 7 726c/share and opened at 8 100c/share the following day. Gaps are eventually closed, and MTN would close that gap at any level above 7 505c/share.

Go long: Stay long above 6 905c/share and increase positions (or go long) above 11 445c/share. Resistance at 14 000c/share could then be targeted. Increase long positions further above that level as upside to 15 650c/share could then follow. Such a move should kickstart an impetus towards 19 295c/share.

Go short: MTN would extend its losses to the next support level at 4 830c/share on continued downside through 6 905c/share. When that occurs, close long positions below that level. ■

BIDVEST

Breakout is possible

BIDVEST GROUP

Bidvest recently announced the acquisition of UK-based hygiene company PHS for just over R9bn (also see p.18). The company's share price rose 144% over the past five years and gained 17% over the past three years. The company is also executing on a plan to reduce some of its debt by selling non-core assets.

52-week range:	R169.86 - R225.00
Price/earnings ratio:	15.09
1-year total return:	5.18%
Market capitalisation:	R69.44bn
Earnings per share:	R13.52
Dividend yield:	2.94%
Average volume over 30 days:	1 077 159
	SOURCE: IRESS

Outlook: In the short term, expect volatility in share price between 22 500c/share and 17 200c/share to persist. But as the upper and lower slope of the triangle converges, the trading range should narrow. Directional movement in the share price could only be triggered when either slope has been breached. Note that the 3M RSI is only falling because the price chart is trading sideways.

On the charts: Bidvest is trading in a triangle and extended its consolidation after failing to overcome a ceiling at 22 505c/share in November last year. Bidvest is a well-oiled company with good cash flow, hence a bullish tone presides.

Go long: A positive breakout through the upper slope would be confirmed above 22 500c/share – thus ending the long-term corrective pattern and potentially prompting gradual upside towards 25 550c/share in the short to medium term. Stay long or go long (increase long positions) above 22 500c/share. The triangle target of breakout is situated at 33 400c/share.

Go short: A negative breakout through the lower slope of the triangle would be confirmed below 17 200c/share. Support at 14 650c/share and possibly to 12 640c/share could be tested. Sell below 17 200c/share. ■

editorial@finweek.co.za

Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 12 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 recent market developments.

TONGAAT HULETT

A rather sticky mess

In December Tongaat Hulett, the sugar and starch producer, finally released the forensic report into its prior years' financial statements and the financial results for the year ending March 2019. It was a horror show. The initial company estimate of write-downs ranging between R3.5bn and R4.5bn ended up being R12bn. This includes R4bn on Zimbabwean land that was confiscated back in 2005, but never written off. Tongaat had to restate previous profits and equity after the massive write-downs and the company says it likely needs to do a R4bn rights issue. The stock remains suspended as its September 2019 half-year results are still outstanding. A trading update is expected in late January, followed by the company's financial results and the lifting of the suspension of trading on the JSE soon thereafter. The half-year results will give a clearer picture of the company's financial position and profitability and details of the proposed rights issue. Importantly, also, it will tell us who will underwrite the offer. But don't expect the results to be pretty. The fraud at Tongaat is locally only rivalled by Steinhoff and it is going to be a long journey for the sugar producer to get back on track.

GRAND PARADE

A potential cash pile in waiting

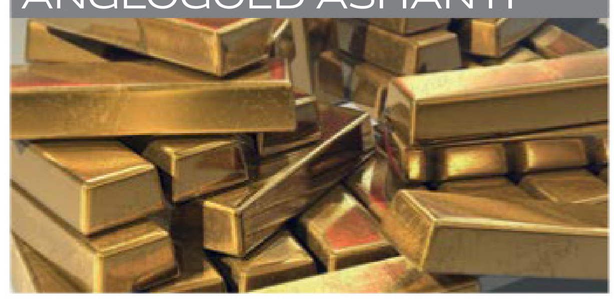
In early December Grand Parade Investments released an unexpected cautionary announcement, stating that it is in negotiations about the "disposal of a material interest in Burger King SA". Two questions immediately jump out. First, what is material? More than 50%? Close to 100% or maybe just 20%? This is important as it raises the second question. What is next for Grand Parade? It's offloaded half of its Spur holding, sold its doughnut and ice cream business, and exited some of its gambling holdings. This leaves the group with some minority gambling stakes, Burger King and some very small food manufacturing and catering equipment businesses. Depending on the size of the Burger King sale and monies received, Grand Parade could end up sitting on a fair pile of cash. That could well be returned to shareholders as the group trades below its net asset value and there have been shareholder moves to unlock value.

BIDVEST

How will the new deal play out?

Bidvest is buying PHS, a UK and Spanish hygiene business, for just over R9bn – a fairly-sized deal for the R70bn market cap of Bidvest. Hygiene is one of those classic defensive businesses, but also has growth prospects as demand continues to grow due to urbanisation and an ageing population. PHS has been loss-making due to a large debt burden that will be paid down and, as such, it should be making profits when Bidvest acquires it. I call it a fairly-sized deal as it's not breaking the bank. Bidvest is, however, buying on an earnings before interest, tax, depreciation and amortisation (ebitda) multiple of some 13 times, which is a steep price. Sure, the company talks of synergies following the acquisition, as companies always do, but time will tell whether this will realise.

ANGLOGOLD ASHANTI



Streamlining operations

Another company that is offloading its assets is AngloGold Ashanti, which is selling the Sadiola mine in Mali for R1.5bn. It is a fairly small deal for the company, but it is the start of the stated process to exit a number of African and South American mines. Sadiola was producing a small amount of gold, albeit at an all-in cost of under $1 000 per ounce. AngloGold, however, wants to streamline its operations by focusing on the ease of mining – both regulatory and practical – and have a more focused capital allocation process.

Photos: Unsplash | Shutterstock

COMMODITIES

Enjoy the ride

On the platinum group metals (PGMs) front, palladium hit $2 000 per ounce in December before retreating to $1 950. Platinum is showing some life at around $980 an ounce and rhodium continues to amaze traders at around $6 000 per ounce. Even with the exchange rate of the rand ending 2019 under R14 per dollar, these levels are turning the PGM miners into cash printing presses. If the precious metal prices remain elevated, so will the profits. Sibanye-Stillwater and Impala Platinum (Implats) have both had a great past year, but more is potentially on the cards. In the case of Sibanye, they have a lot of debt after the Stillwater deal. This debt, however, will be quickly paid off and we should start seeing dividends this year or in 2021 at the least. Those holding PGM shares: Hang on and enjoy the ride, but keep an eye on PGM prices. If they start to crash, then the party is over. For now, there is no sign that PGM prices will be heading markedly lower and, from these elevated levels and even a correction of up to 20%, will still leave the miners printing cash.

Even with the exchange rate of the rand ending 2019 under R14 per dollar, these levels are turning the PGM miners into cash printing presses.

Photos: Pexels

ASCENDIS

Collapsed deal will hurt

The Ascendis deal to sell its Remedica business in Cyprus has collapsed, leaving the group in a tough spot. Remedica generates profits and cash flow, but the debt burden – from the Remedica acquisition and others – leaves Ascendis with a distressed balance sheet and they needed the cash from the sale to repay debt. Now they're left trying to sell the business while lenders have agreed to extend the "Interim Stability Agreement" that is in place until the sale. The company also took a R4.2bn write-down in its June 2019 financial results and it is a long way back to solvency for the company.

MTN

Tower sales provide R7bn boost

At the start of January, MTN said it has sold its mobile phone towers in Ghana and Uganda. Not only does this raise over R7bn for the group, but it also removes a large slice of its capital expenditure costs in those markets. Telecommunication companies are ultimately utilities, but they have constant, and large, capital expenditure as they move from 3G to 4G and now 5G technology – something that happens about every decade. By outsourcing the towers, their use remains an expenditure, but it will be on the pay-as-you-use principle rather than very large upfront payments as they roll out the new technology. This boosts MTN's cash flow and balance sheet. That all said, in a recent claim filed in the US, MTN has been accused of violating the US anti-terrorism act through its operations in Afghanistan. MTN denies everything, but they do operate in risky parts of the world.

INTU PROPERTIES

Spain didn't pan out

Intu has announced the sale of one of its Spanish shopping centres for R7.4bn. This goes a long way to repaying debt and fixing both the balance sheet and the loan-to-asset-value ratio. They have other Spanish assets they're still looking to sell, but this deal alone improves things markedly for the group. The Spanish endeavour has not worked well for the group and eventually they will again be a pure UK property player. However, on the JSE, Capital & Counties and Hammerson would remain the better picks for those looking for UK property exposure. The risk in this sector is of course Brexit. Regardless of one's feelings about the UK leaving the EU, the final exit is what matters now.

CHOPPIES

South African ambitions dashed

Choppies – whose share trading remains suspended on the JSE – has announced the sale of its South African operations for 100c. When the Botswana company listed back in 2015 there was much excitement about how it could become a serious competitor for Pick n Pay, Spar and Shoprite* and, as such, be a great investment. But as I wrote at the time, this enthusiasm was sorely misplaced. You don't just compete against three dominant retailing giants with immense distribution capabilities and a wide footprint. Choppies struggled with internal issues and has only just published its June 2018 financial results with those for December 2018 and June 2019 still outstanding – hence the suspension. But their dreams of becoming a fourth player in food retailing in SA was always going to be a non-starter. ■

editorial@finweek.co.za

**The writer owns shares in Shoprite.*

By Simon Brown

ACQUISITIONS

Beware the takeover talk

There's often a lot of fanfare when a listed company proposes a merger or acquisition. However, Simon Brown advises investors to scrutinise the rarely-attainable promises that tend to come with a proposed deal.

In my "Simon Says" column in this issue (see p.18 and 19) I write about companies – such as Choppies, AngloGold Ashanti, Intu and Ascendis – divesting from assets they'd bought and which they claimed as great additions to their business model at the time of purchase. Then, suddenly, they reverse track and start selling them. This raises a number of issues that investors need to be careful of.

The first has, perhaps, been the biggest lesson of the last part of the last decade: management promises.

Every deal ever announced has always come with great fanfare, promises of synergies and, ultimately, more profits. However, it typically takes several years before the deal delivers those profits. In addition, company management seems totally ignorant of any potential risks but, as hindsight shows us, the risks are not only significant but almost always end up being the reality – as opposed to the wonderful profits.

Frankly, the first thing investors need to worry about is the reason why a company has chosen to pursue the deal.

I have written before that a solid business with defendable margins and improving profits is a great investment. Sure, at some point all businesses become ex-growth and profit growth starts to sit around the single digits. But the dividends will be solid and growing and what is wrong with a solid ex-growth dividend payer? According to management, apparently everything. So, off they rush to find new growth – at a serious cost to shareholders.

The problems with this approach generally boil down to two issues. Overpaying and subsequently taking on too much debt that strains the balance sheet and, secondly, the magical synergies are never as great as promised.

The problem is seemingly exacerbated when the great deals are offshore acquisitions. The reality is that if local buyers in the targeted geography of the business didn't want to buy the business, why do our managers want them? Make no mistake: Sellers start easy by talking to other companies in their own geography. But when that doesn't work, they look further afield, and they find plenty of buyers in South Africa.

The other issue is that while a CEO may be king of the hill locally, that does not ensure they will be the king in a new market. They know the local market better than most as they've most likely spent an entire career working here and know the market inside out.

A new market, however, is an unknown for them and they have no competitive edge that will enable them to repeat their local successes. This is not an SA-specific issue; we've seen many UK and US companies try, only to fail, at global expansion.

Then as the deals start to fail, we start seeing the attempts to fix things. Often this starts with delays in profit flows, then write-downs on the price paid for the business. Eventually some give up and attempt to sell the newly-acquired business – again almost always at prices below what was paid originally.

As shareholders, we need to be far more sceptical of these deals when management proposes them.

As I have stated before, having been badly burnt by Famous Brands* and Woolworths*: In future I will not only interrogate the deal more vigorously, but I will most likely rather exit a share I own where the company is proposing a large deal. Sure, some deals may work – in which case I can re-evaluate and re-enter if required.

But often we see the price run higher on the news of the deal, but then six to 12 months later reality starts to set in, and the trouble starts. I will look to rather exit on the hype-run higher.

editorial@finweek.co.za

The writer owns shares in Woolworths and Famous Brands.

Photo: Shutterstock

It typically takes several years before the deal delivers those profits. In addition, company management seems totally ignorant of any potential risks.

Driving the future of networking in South Africa

Liquid Telecom is providing an increased choice in networking solutions in today's cloud-first world.

Digital transformation is changing businesses in every industry. Network performance and agility are critical to the success of digital transformation initiatives. Modern businesses are demanding more bandwidth than ever to connect their data, applications and services in the cloud. These trends are causing a fundamental shift in how we think about networking. As businesses grow and become more distributed and connected – network technologies must be equally agile to keep apace.

Liquid Telecom is enabling organisations to become more agile; they no longer need to endure cumbersome or drawn-out installation processes to get connected. All they need is a cost-effective server at the business premises, which any member of their team can plug in and turn on. It's really that simple!

Liquid Telecom's unmatched telecommunication infrastructure, cloud- and network solutions help to resolve the challenges South African businesses face at every touch point. Irrespective of the type of business, simple and rapid delivery of applications, services, and data over the wide area network (WAN) is integral to business performance.

Liquid Telecom's software-defined networking solution allows organisations to utilise bandwidth more efficiently and improve application performance over a WAN. Irrespective of the type of organisation, or a national or provincial or local public sector provider, a business partner or reseller or even a small business just starting up, Liquid Telecom's software-defined networking (SD-WAN) will empower businesses with scalable, customised and affordable solutions that drive growth.

Software-defined WAN is rapidly evolving as a transformative connectivity technology that is empowering companies of all sizes with multiple branch offices or locations to create a more intelligent way of connecting.

The software-defined networking solution provides customers with the highest level of security and data privacy. Liquid Telecom's software-defined networking solution expands to support a secure Wi-Fi solution, which provides the security that businesses need within their existing internet environment.

This includes a secure office solution, where customers who just need to securely connect to the internet can do so and still benefit from a secure, reliable and easily managed solution. This allows for an efficient and cost-effective way to connect your business, while still experiencing great WAN performance. Simply put, customers can provide their employees and their customers with a seamless, secure and uninterrupted experience.

As a leading network service provider, Liquid Telecom knows a company's network can be its most valuable asset. Having a network that is smart, flexible, scalable, cost-effective and ultra-reliable leads to faster decisions, increased productivity and improved collaboration to ensure business continuity. This will ultimately create a better experience for your customers and will give you a strong competitive advantage.

Liquid Telecom has one of the most technologically advanced core networks on the African continent that delivers 99.999% uptime. This network can scale to meet the demands of growing SA businesses.

"The replacement of our core network has not only catered to legacy performance issues, but has made Liquid Telecom's network one of the most technologically advanced, modern and reliable networks in SA and across the African continent," says Reshaad Sha, CEO of Liquid Telecom SA.

"It has also addressed one of the core needs of local enterprises around network capacity."

We look forward to building your future-ready business now. ■

For more information on how Liquid Telecom can help your business connect and grow, please contact us.

Call: 080 1111 636
Email: Leadsdesk@liquidtelecom.co.za
Visit: www.liquidtelecom.co.za

Reshaad Sha
CEO of Liquid Telecom SA

"The replacement of our core network has not only catered to legacy performance issues, but has made Liquid Telecom's network one of the most technologically advanced, modern and reliable networks in SA and across the African continent."

By Schalk Louw

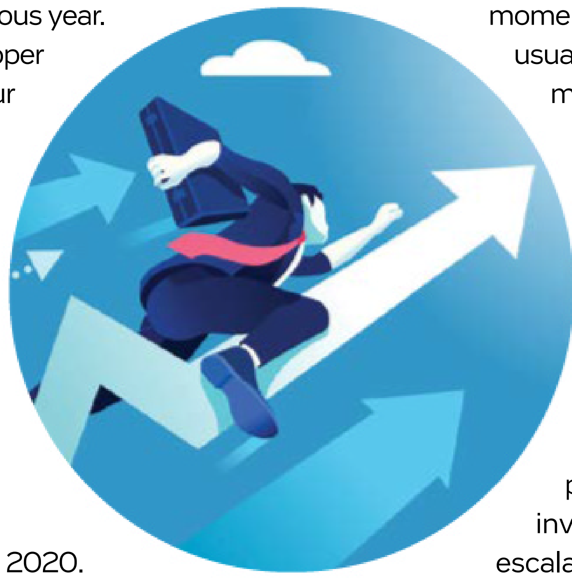
PERSONAL FINANCE

Realise your investment goals step by step

How should people – and would-be investors – approach their financial goals for the new year?

Just like that, the new year is upon us and I believe so too are the new year's resolutions that most of us have set for 2020. While we are usually quite excited about and dedicated to these resolutions at the beginning of the year, it tends to become more difficult to stick to them as we move deeper into the year.

Things become busier once the year has kicked off, and before we know it, we get stuck in the same rhythm that made it difficult to stick to our resolutions the previous year. The sobering reality is that if you don't invest in proper planning and apply strict discipline to achieving your resolutions, you will fail to do so.



The same focus and dedication you apply to your new year's resolutions should be applied to your investment strategy and savings plans. For some this may mean a dream holiday at the end of the year after spending the holidays at home in 2019, and for others it may mean something more long term, such as planning for an all-important retirement.

Whatever they are, the same steps you follow to achieve your new year's resolutions can also be applied to achieving your investment resolutions in 2020.

1. Do it for the right reasons

The purpose of this step is usually to shock you into submission. "If you don't start paying attention to your weight immediately, you may soon face high blood pressure or high cholesterol, which can lead to heart attacks and more", or "if you don't stop smoking today, the probability of you contracting an array of lung diseases, including lung cancer, increases drastically".

South Africans in general do not believe in setting aside capital over the longer term. South African personal savings as a percentage of personal income currently stands at -1.11%. That means that for every R100 earned monthly, average South African earners are left with a negative amount of R1.11 in their pockets.

For every **R100** earned monthly, average South African earners are left with a negative amount of **R1.11** in their pockets.

According to 2018 data from National Treasury, only 6% of all South Africans will be able to retire comfortably, while a massive portion of working South Africans do not have access to an employee retirement fund.

If you can openly admit that you will not be able to make ends meet with the current maximum elderly persons' government grant of R1 780 per month allocated to citizens above the age of 60, it will serve you well to follow the steps outlined below.

2. Set goals

Know what you need to achieve and identify specific reasons why reaching those goals will benefit you – whether it's an estimate of costs for your next December holiday or how much you will need to retire comfortably. In most cases, it is advisable to consult a financial expert in this regard.

3. Planning to reach your goals

This is where most resolutions fly out of the window. The moment you realise that you will need to cut back on your usual Wednesday or Friday evening socials in order to save money, those resolutions quickly become something you'd rather set aside for 2021.

The key to success lies in the fact that your plans should be realistic and your goals achievable. For some it may be impossible to start off by saving R1 000 per month in order to reach the goals they set in step 2, so start with R500 instead, with the goal in mind to increase that amount every year. Investing R1 000 per month at a growth rate of 10% per year over a period of 20 years, will give you the same total as investing R500 per month, with an annual investment escalation of 10%, at the same growth rate.

4. Gain some support

Don't tackle your new year's resolutions alone. Involve your family and friends and make sure that they are aware of your resolutions. Of course, it would have been much more fun to dine out or to spend money on something new and fun, but those extra savings can make a huge difference to your investment's future value.

By sticking to your resolutions, you may also inspire your friends and family to follow in your footsteps.

5. Monitor your progress

This doesn't mean that you're done with your savings strategy. Check your investment statements regularly in order to determine whether your investments are showing enough comparative growth, and more importantly, to keep track of your investment costs.

A small saving in investment costs can lead to a huge boost in your investment performance over the long term. Also ensure that you get into contact with your financial adviser at least once a year to discuss your investment strategy and any possible changes to your financial situation.

I wish all readers a prosperous 2020. May all your new year's resolutions turn out to be extremely successful. ■

editorial@finweek.co.za

Schalk Louw is a portfolio manager at PSG Wealth.

Photo: Shutterstock

By Simon Brown

METRICS

How to use ratios for different sectors on the bourse

Not all shares are the same. And not all financial metrics will apply equally to all.

When investing there are several ratios you can use as part of analysing a company's current performance or to compare it with another company. These ratios would include return on equity (RoE), price-to-earnings (P/E), debt-to-equity (D/E), cash conversion and many others. They're all useful, but you can also get more niche with industry-specific ratios, and I want to look at some of those.

In mining the indicators used are head grade and reserves. Head grade is the amount of mineral that is extracted and measured as grams per tonne. The issue here is that the lower the head grade is, the higher the cost of extraction becomes as one has to mine more tonnes to get an ounce of the mineral.

I have written about reserves before and here you would use the Samrec codes, or the South African code for the reporting of exploration results, mineral resources and mineral reserves. The codes are extremely detailed and very important for those investing in mining stocks. They help you understand the real value of any minerals still underground. For example: How certain are the engineers that they're there? Is extraction economically viable?

Banking has two key ratios, namely cost-to-income and impairments. Impairments is a polite way of saying bad debts and is expressed as a percentage of debts that have been written off.

Locally, for the large banks, this number has been below 1% and, in some cases, even below 0.5%, which is a great number and indicates that banks are being cautious in their lending.

Cost-to-income is a percentage that tells us how much of every 100c a bank receives as income goes into the cost of running the bank. This number used to be in the very low 50s but since increased regulation was introduced after the 2008 and 2009 global financial crisis, it has got stuck in the mid- to high 50s. It will likely never get back to the low 50s for the traditional banks due to their higher cost structures.

Construction companies have order books, which indicate the value of contracts confirmed, but not yet started. However, I find this a fairly useless number as I see very little correlation between the order book and future revenue. Nevermind profit.

Contracts can be cancelled or changed, and margins are never certain, as has been evidenced by several loss-making contracts that local construction companies have been engaged in.

Retail companies don't have industry-specific ratios, but I do focus on the operating margin. This indicates profit at group level before head office costs, such as debt servicing, are subtracted. I also like to look at the revenue per employee. Often, you'll have to work this number out for yourself but that is easy enough – you may find the number of employees in the financial results presentation or in the annual report. This gives you an idea of the efficiency of the retailer. However, remember that a clothing retailer will have a very different number compared with a grocer.

Life insurance companies use embedded value instead of a straight net asset value (NAV) as a measure of value. Embedded value is the present value of future profits from existing policies added to the NAV of the capital and any surplus. This gives you an idea of the "fair value" of a stock and, in theory, a life insurance company will trade around this embedded value.

With hotel stocks the focus is on occupancy levels, which makes sense as that is their core business. Investors want to know how many beds are filled every night. Another important metric is the revenue generated per room.

Property companies focus on vacancies, which indicate how much space is not tenanted and thus not earning revenue for them.

None of these ratios are perfect or a stand-alone solution, but they all help us understand a company's profitability and enable us to compare one company with its peers. ■

editorial@finweek.co.za

Photo: Shutterstock

None of these ratios are perfect or a stand-alone solution, but they all help us understand a company's profitability.

By Lucas de Lange

JSE

US will be key in 2020

Local investors in miners of platinum group metals can smile, even as expensive American stocks continue rising.

A particular theme, when conisdering the international markets in 2020, comes to the fore: Look at the US, which historically should have experienced a recession some time ago. Nevertheless, Wall Street is still reaching new highs in the midst of a market that continues to be expensive, so the risk of a serious setback is increasing. And as American shares rise, a local sector is bringing joy to investors.

That half of the top ten shares on the JSE – as measured by the percentage difference between their price and their own 200-day exponential moving averages (EMAs) – are companies that produce platinum group metals should come as no surprise. For example, the palladium price rose by 52% over the past year, which is providing Sibanye-Stillwater – the strongest share on the JSE going into 2020 – with an exceptionally solid cash flow. Sibanye, among others, owns the Stillwater Group, which is the US's only and the world's largest palladium producer. Its rising earnings are – as one commentator put it – rapidly melting away its mountain of debt.

How strong the buying pressure is at especially Sibanye, Impala Platinum and Northam, is apparent from the particularly large gaps between the share price and their 200-day EMAs. These percentages are seldom experienced by larger shares. In all three cases, the price increases are supported by the price/volume trend (PVT)*, which has really taken off.

In fact, in the case of Implats, the PVT is almost vertical – something that seldom happens. This is not the first time that Implats has excited investors to this extent. From May 2005 to March 2008 it shot up by about 490% to a high of R368 and then (amazingly) tumbled by 76% from March to October. Painful losses such as these indicate how erratic commodities can be.

The big question is still how sustainable the current strong market for PGM products can be. Some researchers, such as the extremely optimistic René Hochreiter of Noah Capital Markets, believe that the shortage of rhodium and palladium could continue up to 2026. Neal Froneman, chief executive of Sibanye-Stillwater, is also not only positive, but he adds a fact that could really benefit SA commodity exports. The rand, he says, is on its way to R18 per dollar given the Ramaphosa government's weak attempts at introducing essential economic reforms.

But there are also warnings that palladium will increasingly be replaced by cheaper platinum. However, this is questioned by the international Johnson Matthey Group, a leading researcher in the area of PGMs. The group says in a report that a lot of research still has to be done before platinum can play the same role as palladium.

Whereas the JSE's resources index has risen by about 28% over the past year, things remain difficult for the rest of the market. As is apparent from the accompanying tables, most of the 100 largest shares are still faring poorly as their prices are lying below their 200-day EMAs. Telkom and PPC especially are experiencing strong selling pressure. It seems there are important shareholders who want to get rid of them.

Among the shares that have broken through, Hammerson, the large British property group, looks interesting. It has risen by about 60% since its low in August after many analysts had commented how cheap it was. It appears that it's building a base for further increases. This is supported by a rising PVT, which is usually an indication of accumulation by smart money.

Pepkor's price is also supported by a firm PVT. The pressure currently experienced by consumers in SA is regarded as favourable for the group, given its lower clothing prices. Its branches in affluent areas appear to be well-supported. ■

editorial@finweek.co.za

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

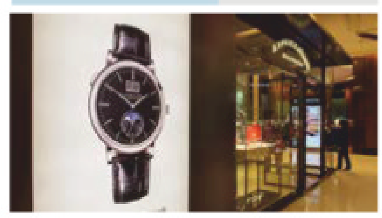
**PVT is calculated by multiplying the percentage change in the price – daily or weekly – by the volume and to then depict the result graphically.*

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
TELKOM	-48.56
PPC	-35.8
BRAIT	-26.81
TRUWORTHS	-20.45
KAP	-19.31
TSOGO SUN	-17.32
MASSMART	-16.84
RCL	-15.68
HYPROP	-15.5
MTN GROUP	-15.43
SHOPRITE	-15.06
NASPERS	-13.61
SAPPI	-13.43
JSE	-11.97
REDEFINE	-11.93
TFG	-10.4
OCEANA	-9.9
NEDBANK	-9.63
SOUTH32	-8.97
LIBSTAR	-8.88
TIGER BRANDS	-8.48
CORONATION	-8.39
SUPER GROUP	-8.33
ASSORE	-8.29
STANDARD BANK	-6.6
MC-GROUP	-6.39
GLENCORE	-6.22
WOOLWORTHS	-6.15
OLD MUTUAL	-5.99
BARLOWORLD	-5.91
DISCOVERY	-5.81
ABSA GROUP	-5.78
AB-INBEV	-5.74
EXXARO	-5.5
ITALTILE	-5.48
EPP	-5.48
VODACOM	-4.89
SASOL	-4.58
GROWTHPOINT	-4.51
INVESTEC PROPERTY	-4.07
PICK N PAY	-3.85
FORTRESS A	-3.57
FIRSTRAND	-3.21
SANTAM	-2.97
MAS REAL ESTATE	-2.79
RMI HOLDINGS	-2.69
EQUITES	-2.53
TRANSACTION CAPITAL	-1.83
VUKILE	-1.75
NEPI ROCKCASTLE	-1.33
VIVO	-1.21
INVESTEC PLC	-1.19
MR PRICE	-0.98
EMIRA	-0.75
NETCARE	-0.59
AVI	-0.27

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
SIBANYE-STILLWATER	66.29
IMPLATS	64.97
NORTHAM	52.98
AMPLATS	39.39
HARMONY	36.22
ROYAL BAFOKENG PLAT	30.31
GOLD FIELDS	28.25
ANGLOGOLD ASHANTI	27.74
SIRIUS	24.69
ASTRAL	20.78
QUILTER	16.55
MOMENTUM METROP	14.78
CLICKS	14.43
MEDICLINIC	12.22
BAT	11.91
CAPITEC	11.28
ANGLO AMERICAN	10.76
PIONEER FOODS	10.15
ASPEN	10
REINET	9.95
AECI	9.47
CAPCO	9.1
DIS-CHEM	7.34
MOTUS	6.46
ARM	5.48
BIDCORP	5.42
KUMBA IRON ORE	5.09
MONDI	4.8
REMGRO	4.7
RESILIENT	4.32
SANLAM	2.76
BIDVEST	2.74
BHP	2.63
HAMMERSON	2.46
PEPKOR HOLDINGS	2.03
RMB HOLDINGS	1.99
PSG KONSULT	1.83
DISTELL	1.1
REUNERT	1.07
SPAR	0.53
LIBERTY HOLDINGS	0.31
PSG	0.21
RICHEMONT	0.19



BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
HAMMERSON	2.46
PEPKOR HOLDINGS	2.03
PSG KONSULT	1.83
SPAR	0.53

**Based on the 100 largest market caps.*

Photo: Shutterstock

By Maarten Mittner

OUTLOOK

Global debt levels raise red flags

Although debt levels are surging worldwide, we shouldn't let this spoil the equity party, for now...

Champagne corks popped towards the end of 2019 as US equity markets notched up another sterling year, with the S&P 500 gaining 28%. The MSCI World Index ended the year 24% higher, with local investors also benefitting from the weaker rand. In contrast, the JSE All Share Index rose only 10% for the year.

The US Federal Reserve was seemingly vindicated with its stance to halt further interest rate cuts, supported by a strong US economy. Jobs data in the form of nonfarm payrolls surprised to the upside in November and, together with unemployment at a record 3.5%, reflected a vibrant US economy not in need of further upliftment through lower rates – as the Fed indicated earlier.

The surge in equity markets coincided with renewed merger and acquisition activity, reaching its highest level in two decades. But things look somewhat different this time. The high equity valuations provided the opportunity for companies to finance mergers with share issues, and not external bank debt. This is a much more prudent approach, which could mitigate any fallout in the event of a financial crisis or market pullback.

However, before popping more corks, it would be circumspect to be reminded of what Fed chair Jerome Powell said only a few months ago. Appearing somewhat perturbed, Powell noted that US debt was now growing faster than GDP, "which was clearly unsustainable".

Indeed. Global debt levels have risen to a staggering \$250tr, the highest peacetime level in human history. In the US, total public debt of \$22tr has now surpassed GDP of \$21.3tr. In Japan, the debt-to-GDP ratio stands at 243%.

This raises the question: Have countries reached a new economic level where they can live indefinitely with high debt levels by tweaking rates to lows and stimulate the economy by continued asset-buying exercises, no matter what? Or is a crash imminent?

At the start of 2020 the US economy entered its 12th year of continued expansion, without any major financial crisis. This unheard of development has certainly bolstered sentiment that a new era has arrived. Powell himself said that the record low levels of unemployment without any concomitant rise in inflation has surprised the Fed.

However, in a rational discourse, it seems unlikely that the explosion in world debt can continue in a linear fashion forever. That would mean that debt can be added on to existing levels indefinitely, which flies against reason. Total global debt in 2008, before the crisis, was around \$180tr. A decade later, debt has grown by a further \$70tr, and if present trends continue, would entail global debt surpassing \$300tr in a few years.

Photo: Shutterstock

At present, the growing debt juggernaut seems unstoppable, and among the big economies, it is Germany that is feeling the heat the most. On face value, the German economy is run very efficiently, with a budget surplus, a positive current account and an actual reduction in its debt-to-GDP ratio of 65% in 2008 to 62% in 2018. In the eurozone as a whole, comparable levels climbed to 85% from 70% and in the US from 70% to 101%.

But why is Germany then facing major headwinds now? It barely escaped a recession in the third quarter of 2019, its motor industry is facing major layoffs and exports are plummeting. Contracting global trade is certainly a factor. But maybe saving, and following prudent economic policies, are not what they are cut out to be in the modern era of debt accumulation.

Because the German stance has come at a price. Infrastructure has deteriorated markedly. Innovation has suffered, while the country could be falling behind on global digital developments through the lack of investment spending.

Those countries running stimulatory policies have been able to boost economic growth much better. At positive levels. Although there seems to be a level at which much higher growth is impacted when debt growth is excessive. However, even Japan has combined its high debt level with economic growth, albeit marginal, by embarking on stimulatory steps while bond rates are negative.

> The growing debt juggernaut seems unstoppable, and among the big economies, it is Germany that is feeling the heat the most.

At present, nobody is really suggesting that global debt needs to be paid back. Apart from habitual bond settlements. The conventional view, including one held by the Fed, is that higher economic growth will impact debt-to-GDP measurement positively. A little higher inflation might also come to the rescue. Debt levels will contract in a natural way without embarking on any drastic measures.

Global household debt has in fact dropped over the past few years. Debt from financial corporations has also decreased. It is only government debt that is in an upward trajectory. From 60% to 100% of global GDP.

Maybe everyone is living in a fool's paradise.

But at this moment there is little alternative but to continue with a dovish stance from central banks, to support asset growth in equity markets. And for debt levels to accumulate further, to save the world from Armageddon. Those who see it as a scary trajectory will just have to go with the flow. For the time being. ■

editorial@finweek.co.za

Maarten Mittner is a freelance financial journalist and a markets expert.

HOW SA SHOULD MILK THE DRAGON

China is forging ahead with its move towards a consumption-driven economy and its consumers are getting wealthier. South Africa – amid a lacklustre economic situation – can benefit from this shift in our largest trade partner's economy.

By Jaco Visser

As China continues its ambitious shift towards a services- and consumption-led economy, and remains engaged in a trade dispute with the US – the world's largest producer of goods and services – there will inevitably be an impact on South African exports.

SA exporters shipped goods worth R1.247tr, or 25.5% of nominal GDP, during 2018. That is equal to a quarter of all produced goods and services. In the same vein, the country imported goods worth R1.231tr, or 25.2% of nominal GDP, during the same year, according to data from Sars and Stats SA.

This data also shows that during the first three quarters of 2019, goods worth R956.26bn, or 25.4% of nominal GDP, were exported and merchandise worth R953.75bn, or 25.3% of nominal GDP, was imported. For a breakdown of SA's top export destinations and the origins of imports, see the accompanying tables in this article.

For such an open economy, or an economy reliant on trade, the happenings in the world's two largest economies are important as this will have a direct impact on local economic output and, subsequently, job creation and tax receipts for the government. And when two of SA's top three trade partners are in a tussle, or at "war" as some commentators refer to the US and China tariff dispute, local policymakers should take note.

China shipped R198.9bn worth of goods to SA during the first ten months of 2019. Exports to China from SA totalled R116.6bn, trade data from Sars shows. The second-largest economy in the world accounted for 18.5% of all SA imports and 10.8% off all exports during the first ten months of 2019, trade statistics show. The bulk of exports to China comprise mineral

Photo: Shutterstock

products, iron and steel, which totalled R103.1bn, or 88.4% of all exports to this country, in the first ten months of 2019.

Maarten Ackerman, chief economist at Citadel, doesn't think the skew towards minerals will soon change. If anything, the composition of the mineral basket that SA exports will change along with the shift in China's economy from being the factory of the world to having a larger reliance on consumption.

Maarten Ackerman
Chief economist at Citadel

The dragon is changing its scales

The magnitude of Chinese consumption, as the economy continues to transform, was captured in a 2019 report by international management consultancy McKinsey & Company.

Chinese consumers spent $8bn on coffee in 2017, double the 2018 GDP of West African nation Sierra Leone, according to the report and World Bank data. Consumers spent $29bn on computers and their peripherals, more than double the 2018 GDP of Namibia. The Chinese bought $162bn worth of fresh meat in 2017, almost half the value of SA's GDP in 2018.

China's move towards a more consumption-driven economy was preceded by a heavy reliance on the production and export of consumer goods for developed markets across the globe. The World Bank notes that since the Chinese government opened its economy for more trade in 1978, the country's GDP growth averaged 10% a year. More than 850m people – the equivalent of 78% of sub-Saharan Africa's 1.078bn population – have been lifted out of poverty in China since, the bank says.

Over the last decade, a marked shift towards consumerism has taken hold in China. Services, which is a function of a more developed economy, have ballooned as is evident in the rise of internet-based companies such as sales platform Alibaba, communications and gaming provider Tencent and competitor NetEase.

With this shift to consumption, China's composition of imports will inevitably also change.

It's a new basket

In the past, SA exported a lot of coal and steel to China as these are used in the manufacturing of swathes of products, explains Citadel's Ackerman.

Regarding palladium, the McKinsey report noted that 40% of worldwide electric vehicle sales in 2017 were accounted for by Chinese consumers. Palladium is used, as is platinum, to manufacture catalytic converters – equipment that hydrogenises unsaturated hydrocarbons.

In order to change the composition of exports away from the 88.4% of minerals, steel and iron to more goods produced in domestic factories, government would need to come to the party.

Richard Downing
Independent economist
and trade expert

Put simply: it is used, among others, to reduce carbon emissions in motor vehicles. China accounted for 30% of global passenger vehicle sales, worth $590bn, in 2017, McKinsey says.

The price of palladium breached $2 000 an ounce in December 2019, closing on $1 936 an ounce on 18 December, according to the London Metal Exchange.

"In the past SA was advantaged by the old Chinese economy," says Ackerman. "But will we be able to provide, given their new demand?"

What about manufactured goods?

As Chinese consumers demand new products, would SA manufacturers be able to supply this market?

Given the rigidities of SA's economy, this is unlikely. In order to change the composition of exports away from the 88.4% of minerals, steel and iron to more goods produced in domestic factories, government would need to come to the party.

SA's manufacturing sector hasn't really grown over the past six years. If you strip out the effect of inflation and annualise the third quarter of 2019's manufacturing output, it is a meagre 0.5% larger than in 2013. This sector of the economy, which produces the goods that people consume, is heavily reliant on electricity. With uncertainty about power supply, it is no surprise that factories aren't investing in or expanding output. Not to mention creating jobs and generating tax revenue for SA's beleaguered fiscus.

Competitiveness non-existent

In order to increase non-mineral exports to China, SA needs to find its competitive advantage in the world and increase its ability to compete in all economic sectors.

"SA's competitive advantage in manufactured goods remains a problem," says independent economist and trade expert, Richard Downing. "When you look at the World Economic Forum's ease of doing business, SA is struggling. When it comes to manufactured goods, we look bad in terms of prices, quality and consistency of supply."

One of the biggest issues relating to SA's competitiveness in manufacturing is labour. Where China strictly controls the cost of labour, SA has set a minimum wage which, in industries such as retail, hiked the cost of labour by almost 25% at the beginning of 2019.

"China is a hardworking nation," says Downing.

WHERE DO SA'S EXPORTS GO?
(COUNTRIES WHERE GOODS WORTH MORE THAN R20BN ARE SHIPPED TO)

Country	Rand value (billions)	Percentage value
China	R116.6	12.1%
Germany	R90.56	9.4%
United States	R73.1	7.6%
United Kingdom	R54.4	5.7%
Japan	R51.95	5.4%
India	R47.06	4.9%
Mozambique	R43.09	4.5%
Netherlands	R35.97	3.7%
Belgium	R33.79	3.5%
Zambia	R25.59	2.7%
Zimbabwe	R23.3	2.4%
Unclassified	R58.4	6.1%

* SOURCE: Sars trade statistics, excl. trade with Botswana, Eswatini, Lesotho and Namibia
** Trade statistics for the period January 2019 to October 2019

WHERE DOES SA IMPORT FROM?
(COUNTRIES FROM WHERE GOODS WORTH MORE THAN R20BN ARE SHIPPED FROM)

Country	Rand value (billions)	Percentage value
China	R198.9	19.2%
Germany	R110.88	10.7%
United States	R70.65	6.8%
India	R51.95	5%
Saudi Arabia	R42.1	4.1%
Nigeria	R41.32	4%
United Kingdom	R34.89	3.4%
Japan	R34.7	3.3%
Thailand	R33.47	3.2%
Italy	R27.56	2.7%
France	R24.05	2.3%
United Arab Emirates	R20.4	2%

* Source: Sars trade statistics, excl. trade with Botswana, Eswatini, Lesotho and Namibia
** Trade statistics for the period January 2019 to October 2019

Labour legislation is one of the key impediments in SA's lack of competitiveness with the rest of the world, explains Ackerman. Red tape and the inflexibility of labour laws impede investment in manufacturing and the prices at which manufacturers can sell their goods around the world, according to him.

"SA's labour is expensive compared with similar developing nations," Ackerman says. "Productivity-adjusted labour is even more expensive."

Productivity of SA's manufacturing sector is hampered by expensive low-skilled workers and a lack of technology to improve production. And this may lead to SA missing out on the shift where low-value production is no longer China's economic model.

Where is the opportunity?

"Chinese consumers are looking for more choice and for higher-quality goods and services," says the McKinsey report. In this regard, SA's agricultural, automotive (see p.32) and tourism industries could benefit from a dedicated push into the world's largest consumer market by people.

"Regular McKinsey surveys in China – and indeed the spending patterns of Chinese tourists overseas – consistently indicate a desire among Chinese shoppers for higher-quality products and services, which Chinese companies do not always provide," continues the McKinsey report.

Firstly, the agricultural and food processing industries could take the gap created by the current viral African swine flu that is ripping through China. It is estimated that the country has lost half its pig population since the second half of 2018, according to Reuters. Pork imports into China are forecast to jump 35% in 2020, according to the US department of agriculture. Chicken imports are estimated to rise by 20% and beef by 21%, a report by the department shows.

Secondly, Chinese consumers accounted for 24% of global wine consumption – worth $73bn – in 2017, according to McKinsey. VinPro, an organisation representing 2 500 wine grape producers, cellars and other industry participants, said in November 2019 that about half of SA's wine production is shipped to other countries. Through the Wine Industry Strategic Exercise, the wine industry set multiple targets for the sector in 2015 to be achieved by 2025. One includes increasing the share of wine exports to China from 2% to 7% over the ten-year period.

Compared with the UK, which constitutes about 20% of local wine exports, there is enormous scope left to penetrate the Chinese wine market, which currently views France, Australia and Chile as prime wine producers.

Thirdly, Chinese consumers accounted for 45%, or $132bn in value, of worldwide fish and seafood consumption in 2017, McKinsey's report states. With a coastline stretching more than 2 800km, SA is endowed with a large marine resource. The biggest impediment to sustainably extract it, and create long-term wealth, is petty politics. The allocation of fishing rights has been contentious ever since the advent of democracy in 1994.

Compared with the UK, which constitutes about

20%

of local wine exports, there is enormous scope left to penetrate the Chinese wine market, which currently views France, Australia and Chile as prime wine producers.

Photos: www.citadel.co.za | Supplied | Shutterstock

In order to supply an enormous market such as China, the full production chain – from catching, processing and rapidly exporting fish products – should be a well-oiled machine. If done properly, such as through community-owned cooperatives, SA could unleash this natural resource by supplying the Chinese market.

Finally, SA could become a prime destination for Chinese tourists. With its efficient transport, accommodation and airport infrastructure compared with the rest of sub-Saharan Africa, SA should position itself as the go-to African destination for Chinese tourists. Aggressively marketing the country as a tourist destination among increasingly affluent Chinese consumers should be a top priority for the national tourism department.

During the first six months of 2019, some 46 281 Chinese tourists visited SA – 1.4% more than the corresponding period a year earlier, data from the national tourism department shows. Last year's figures compare with 149 531 tourists arriving from Germany, 183 184 from the US and 220 830 from the UK, according to government statistics. It's clear that a huge gap exists.

When two behemoths face off

The rise of Chinese consumers – and their increasing affluence – is, however, threatened by the trade dispute between the US and China.

In July 2018, the two nations slapped a 25% tariff on imports worth $34bn from each country, according to the Petersen Institute for International Economics. The two nations subjected another $16bn of goods imported from each other to a 25% tariff in August 2018, data from the institute shows. In September of the same year, the US said an additional $200bn of imported Chinese goods will be subject to a 10% import tariff. China retaliated by imposing tariffs of between 5% and 10% on $60bn of US imports. The two nations negotiated during the whole of 2019 and in December, US President Donald Trump announced that a trade deal between the two nations will be signed in January.

"Trade between South Africa and China accounted for approximately $10bn during the second quarter of 2019 – highlighting the risks a deceleration of economic growth in China can have on the South African economy," says Jameel Ahmad, global head for currency strategy and market research at FXTM. "Decelerating growth in the second-largest economy in the world risks also reducing demand for commodities that SA produces."

Without an end in sight to the trade dispute that started in mid-2018 between China and the US, it threatens to have a detrimental impact on the SA economy that can only get worse as time passes, he told *finweek*.

"From a monetary perspective, we have already seen the drastic change of wind globally in central banks reducing interest rates to cope with economic headwinds and from an economic standpoint, weaker global growth projections are being highlighted across all the major institutions and thought leaders," says Ahmad. "Concerns over a world economic slowdown are serious and not to be overlooked." ■

editorial@finweek.co.za

TOP IMPORTS FROM THE REST OF THE WORLD
(JANUARY 2019 TO OCTOBER 2019)

Product	Rand value (billions)	Percentage of total
Crude oil, coal, petroleum and electricity	R174	16.2%
Computers, mechanical appliances and catalytic converters	R136	12.7%
Cellphones, electrical equipment and machinery	R105	9.8%
Vehicle components	R97.9	9.1%
Vehicles and accessories	R85.4	7.9%
Plastic and articles thereof	R30.4	2.8%
Pharmaceutical products	R29.3	2.7%
Medical and photographic equipment	R26.9	2.5%
Chemical products	R19	1.8%
Organic chemical compounds	R17.6	1.6%
Rubber and articles thereof	R15.1	1.4%

* SOURCE: Sars trade statistics

TOP EXPORTS TO THE REST OF THE WORLD
(JANUARY 2019 TO OCTOBER 2019)

Product	Rand value (billions)	Percentage of total
Gold, platinum, diamonds, jewellery and precious metals	R174	16%
Ores	R161	14.8%
Vehicles and accessories	R142	13.1%
Coal, crude oil, petroleum and electricity	R109	10%
Catalytic converters, computers and mechanical appliances	R66.3	6.1%
Iron and steel	R66.2	6.1%
Fruit and nuts	R44.5	4.1%
Cellphones, electrical equipment and machinery	R21	1.9%
Aluminium and articles thereof	R20.8	1.9%
Plastic and articles thereof	R17.6	1.6%
Articles of iron or steel	R15.1	1.4%
Beverage, spirits and vinegar	R15	1.4%

*SOURCE: Sars trade statistics

Jameel Ahmad
Global head for currency strategy and market research at FXTM

Photo: Supplied

China and SA's metals trade

There has been a noticeable increase in Chinese imports of palladium and rhodium.

By David McKay

There is a startling synchronicity between China's economy and SA, and indeed that of the sub-Saharan economy.

According to World Bank and SA Reserve Bank data, the decline in China's GDP growth in 2008 – down to 9% from 13% – was mirrored in SA's economic growth rate contraction to 3% over the same period. Similarly, a short rebound in China's GDP from 2010 was mirrored in SA. Generally, however, world growth rates have been falling: China grew at 7% in 2018 while SA grew at 1%.

It's within this context of China's GDP that the SA minerals sector takes its cue.

SA comprised about 4% of the world's mine production in 2018, says the Minerals Council South Africa.

Of this portion, platinum group metals (PGMs), produced by the likes of Sibanye-Stillwater, Impala Platinum and Anglo American's Amplats, is the largest component at nearly 50%.

Notwithstanding efforts to boost platinum as an investment product in China and elsewhere, the country is largely a consumer of SA-mined platinum in jewellery as well as PGMs in autocatalysts, the mechanism attached to car exhausts that helps absorb noxious fumes, principally carbon monoxide.

According to a recent report by Morgan Stanley, there's a noticeable increase in China's imports of palladium and rhodium ahead of new China VI emission standards which impose tighter thresholds on car exhausts. Chinese imports of palladium, for instance, is up 2% year-on-year, and 20% higher for sister metal rhodium.

Demand for platinum in jewellery, however, has fallen 31% in 2019, according to the Platinum Guild International, an SA-backed organisation that promotes the metal. Here, consumer tastes have changed, with Chinese buyers preferring smaller jewellery pieces as well as gold and diamonds.

Minerals Council data captures minerals exports to 'South Asia', a category that includes China and Japan. Of some R411.7bn in total exports last year, about 34% were to this region. In addition to PGMs, China buys so-called 'steel-feed' minerals such as manganese, produced by South32, and iron ore.

SA has about 80% of world manganese reserves, a hardening substance used in the manufacture of steel, but only 33% of market production – a function of poor infrastructure, lack of capital and unfriendly investment policies.

SA's iron ore exports are mostly produced by Kumba Iron Ore, the 70%-owned listed subsidiary of Anglo American, as well as Patrice Motsepe's African Rainbow Minerals in joint venture with Associated Manganese (Assore), also listed on the JSE.

SA iron ore exports – Kumba was working on about 42m tonnes (Mt) in 2019 – normally attracts a high margin owing to its niche quality. Coal, however, is a different story.

Most of SA's coal exports, about 81.6% of the 73.47Mt in 2018 (2017: 76.47Mt), was sold to Asia but of that, almost nothing in China, which sources its coal from local mines as well as the more competitive Indonesian and Australian markets. ■

Driving SA's automotive exports to China

Can South Africa capitalise on automotive exports to China going forward?

By Glenda Williams

South Africa's automotive industry is a heavy hitter, playing a vital part in the country's prosperity.

It is SA's largest manufacturing sector, comprising 29.9% of manufacturing output; accounts for 14.3% of SA's total exports; contributes 6.8% to GDP and provides some 457 000 jobs, according to the National Association of Automobile Manufacturers of SA (Naamsa). In 2018, total automotive revenue amounted to R503bn, estimated to rise to around R554bn in 2019.

Export earnings are significant. In 2018, total revenue from the export of locally manufactured vehicles and automotive components exported to 155 destinations around the world totalled R178.8bn, of that R127.5bn from vehicle exports.

About 58% of vehicles produced by the country's seven original equipment manufacturers (OEMs) – BMW, Ford, Isuzu, Mercedes-Benz, Nissan, Toyota and Volkswagen – are exported, 60% of them to the EU. By November 2019, new vehicle exports of 374 215 units had already surpassed the 351 139 vehicles exported in the whole of 2018.

Comprising 0.06% of vehicle exports (104 VW Polos and 93 Ford Rangers) and 0.5% of component exports, China is only ranked 50th by automotive export value, generating R263m against imports of R17.7bn in 2018, according to Automotive Industry Export Council and Sars data.

Last year reflected a similar trend with the automotive trade balance heavily skewed in favour of China. "For the nine months to September, exports amount to R600m against imports of R14.4bn," Naamsa CEO Michael Mabasa tells *finweek*.

In 2018, 292 511 vehicles were imported into SA, 1.2% of them from China (BAIC, Foton and Haval brands).

Chinese state-owned Beijing Automotive International Corporation (BAIC) will boost domestic OEM numbers to eight once vehicle production – now expected in late 2020 – commences. The project, in which SA's Industrial Development Corporation has a 35% stake, has been dogged by delays.

In 2016 the Chinese manufacturer committed R11bn of investment for the production of vehicles in Coega, Eastern Cape.

"China is SA's top trading partner in general and with the BAIC investment China would increasingly become a more important market for the SA automotive industry to focus on, especially in view of the country's major focus on electric vehicles and electric vehicle batteries," says Mabasa.

"As the biggest vehicle production and consumption market in the world, the hope is for automotive exports to China to increase in future, but tariff barriers, technical barriers to trade and cost competitiveness would need to be addressed." ■

By Sean Christie and Leila Stein

SPINNING AND CHURNING IN A SEA OF OPPORTUNITY – THE STATE OF MOBILE MONEY IN AFRICA TODAY

The mobile money lending market saw several curtailments over the past year. As the market matures, local lenders are seeing opportunities.

The last two quarters of 2019 saw galvanic activity in the mobile financial services on the African continent, particularly among the lenders. Google shook things up by banning a certain class of personal loan app from Play Store; California-based microlender Tala pulled out of Tanzania; JUMO, with offices in Cape Town and Nairobi, retrenched a number of employees, and MTN announced its intent to relaunch a mobile money platform before the end of 2019.

SMMEs versus consumers

"The mobile financial services space is very active at the moment, with a number of consumer and SME lenders emerging across the continent," says Johan Bosini of venture firm Quona Capital, which has focused on supporting small, micro and medium (SMME) lending start-ups around the world, as well as a variety of other financial technology companies.

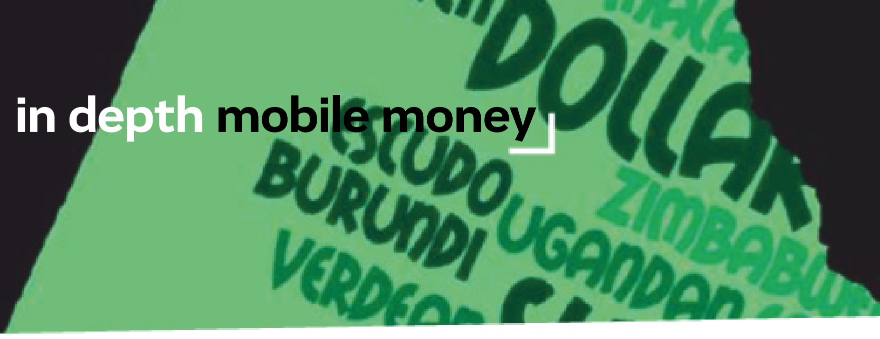
With such a high prevalence of digital lenders in East Africa, particularly, Bosini believes that regulatory change around consumer lending could be coming.

Undeniably, players on the consumer credit side, like California-based Branch.co and Tala face, increasing stigmatisation on the continent, a situation that has not been helped by Google's August 2019 ban on any apps that offer personal loans with an annual percentage rate of 36% or higher.

In September, Tala was accused of economic crimes in Dar es Salaam, and promptly stopped offering loans in Tanzania. Marcello Schermer, head of expansion at South African-born mobile point-of-sales start-up Yoco, notes that "concern around the uses to which consumers

In 2018 there were a total of
395.7m
mobile money accounts in Africa, transacting
$28.6bn,
and both numbers are growing by
15%
annually.

SOURCE: GSMA Intelligence



put micro loans has noticeably intensified," mentioning Financial Sector Deepening Kenya's, an organisation boosting financial market access to the poor, recent finding that digital borrowers are twice as likely to engage in mobile betting.

Some are turning away from consumer credit offerings towards SMME lending.

"We have shifted focus to SMMEs because of their potential for positive, scalable economic impact on their communities," says Steve Etherton, JUMO's chief operating officer. JUMO is active in multiple African markets and started out offering loans to both consumers and entrepreneurs. (**Also see sidebar**.)

Bosini says one of the challenges with digital financial services is that, "in emerging markets, a consumer and a micro business can be one and the same thing, and it can be really hard to tell the difference without a face-to-face interaction".

Much energy in the lending space is currently focused on addressing the challenge of building meaningful credit profiles for SMMEs, according to Schermer.

To partner-up, or not

The microlenders fall into three broad categories – those that partner with mobile network operators; those that have built over-the-top (OTT) offerings to access customers directly, via an app; and then what Bosini calls "adjacencies with financial services embedded – companies that meet other business needs and then layer lending off the back of that".

Schermer says that companies integrated into mobile network operators enjoy the benefit of access to reams of user data but have to manage potentially complicated relationships, whereas OTT players have complete control of their business and do not need to remunerate a partner, "yet might struggle with the high cost of building a brand and marketing products to customers".

"JUMO," says Etherton, "builds accurate credit profiles by having its data engine run algorithms on mobile wallet, cellphone and transaction data," and indeed the company's technology is widely praised and awarded.

In Schermer's view, an OTT company with an innovative approach to the problem of limited client information is Numida, a Uganda-based company that designed a book-keeping app, and

JUMO at a glance

Founded in 2015, JUMO punted its recipe for bringing financial services to those underserved by the formal financial services sector. A few good funding rounds and JUMO was off on a serious hiring spree, pulling talent out of banks, fund managers, universities and other fintech start-ups, and putting teams to work in multiple markets simultaneously. By the end of 2016, JUMO products were live in Kenya, Uganda, Zambia, Tanzania and Ghana, with Pakistan following in 2018. To date, JUMO has disbursed around $1.6bn in loans to over 15m customers.

now offers loans to users based on the revenue and costs data they run through the app.

Yoco has also started offering credit products to its 60 000 merchants, evaluating applicants based on their business transaction data, which Yoco holds. An additional percentage is deducted from each transaction, enabling automatic, incremental repayment of the loan at a pace corresponding with the health and cash flow of the business. "It is an obvious value addition for us because Yoco already has access to the data needed to form a revenue profile for clients, and merchants love it because it doesn't feel like a traditional cash advance," says Schermer.

Mobile network operators in East Africa have successfully launched financial services but have repeatedly failed in SA's hyper-competitive, highly-regulated and over-indebted market, although the intent appears to have been reinvigorated, with MTN having pledged to launch a mobile money service before the end of 2019, having shut down its initial mobile money platform in 2016.

Spin and churn

The risk-averse formal banking sector has historically steered clear of microlending, and non-repayment certainly remains a challenge in this space.

"Churn in the telecoms area broadly refers to the percentage of subscribers moving from a specific service or service provider to another, in a given period of time, and the consequence of this in our environment is that a customer's mobile number, if inactive, could be allocated to another individual," says Etherton, with the obvious consequence being that outstanding loans amounts are unlikely to be repaid.

Fraud is a major challenge. When JUMO went live in Pakistan in 2018, it wasn't long before the company was hit by a practice known as "spinning".

Criminal syndicates effectively played the company's algorithms by paying back loans on time in order to access the highest possible loan amount, at which point the SIM cards – often thousands at a time – were removed from the phones and the users disappeared.

"[Today] JUMO analyses customer behavioural data to determine typical behavioural patterns and to help identify possible

> "A company with a presence in Nigeria looking to expand on the continent is effectively moving from a market the size of Boston into markets the size of apartment blocks in Boston, yet each block still has its own rules, regulations and infrastructural challenges."

cases of fraud and in some cases, uncover fraudulent networks," says Etherton, adding that, "responsible financial technology companies and technology providers should aid in the upskilling of the end users of their technology or products. They can help by developing and implementing controls and processes that guard against fraud, misuse and money laundering".

A fragmented landscape

A major insight from the last handful of years, which almost all fintech companies acknowledge, is that geographical expansion on the African continent is not easy.

After becoming established in Zambia, the remittance start-up Zoona found new markets like Malawi much harder going into, and in November 2018 posted this message on Facebook: "In order to repeat, we had to learn, and in order to learn, we had to fail."

Bosini agrees that running a scale business across multiple countries is tough.

"This is the reason primary markets like SA, Kenya and Nigeria have attracted most of the venture funding, as the TAM (total addressable market) is big enough in isolation," he says.

Schermer describes this variegation of markets on the African continent vividly:

"On the basis of GDP the whole economy of Nigeria is the size of the economy of Boston, and Nigeria's economy is the biggest on the continent. A company with a presence in Nigeria looking to expand on the continent is effectively moving from a market the size of Boston into markets the size of apartment blocks in Boston, yet each block still has its own rules, regulations and infrastructural challenges. This means that to access the vast opportunities across different markets, your operational complexity increases exponentially."

Yoco is among those that have chosen to mine the opportunity in a single primary market, before expanding.

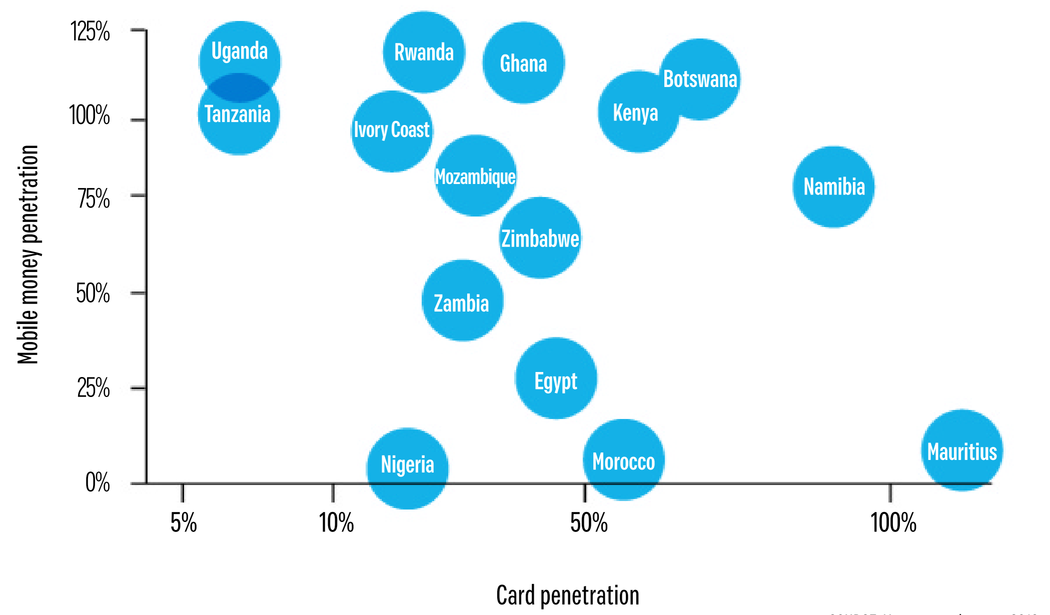
"We estimate there are a million SMMEs in SA that could need digital payments and we are sitting on 60 000 merchants, so SA is undoubtedly our biggest lever for growth – we want to go deep here first, before expanding to other markets," Schermer says.

JUMO has chosen a path that is both highly ambitious and challenging, constantly seeking ways to broaden access to financial services to a greater number of people, which means not restricting themselves to partnerships with risk-averse banks, and appealing to a less risk-averse capital class, including applying for grants and partnering with philanthropic foundations.

"We expect these models to evolve to incorporate more non-traditional players so we can reach niche customer segments such as farmers or seasonal wage workers," says Etherton. ■

editorial@finweek.co.za

CARD VERSUS MOBILE MONEY PENETRATION



SOURCE: Yoco research report 2019

50+

Is the number of **app-based lenders** in East Africa alone in 2019.

SOURCE: Quona Capital

THE NEXT DECADE OF INVESTING

Technological advances and concerns around environmental, social and governance issues will inform how people invest over the next ten years.

By Brendan Peacock

Just as every industry has been disrupted and transformed by the adoption of technology, investment and asset management have come a long way from the days of the open-outcry stock exchange perception many of us still associate with trading.

Self-service brokerage and advice platforms driven by technology have revolutionised individuals' ability to invest in a variety of asset classes, indices and funds, especially in the last decade. But what do the next ten years hold for investors and asset managers?

How will we invest?

Pieter Koekemoer, head of personal investments at Coronation Fund Managers, says technology has made it easier to implement an investment decision once you have decided what to invest in and who to use as a provider, but pure-play robo-advisers have so far failed to make significant inroads.

"Most of the successful online advice models globally depend on a hybrid of traditional human-to-human interaction and online tools and calculators," Koekemoer says.

"That said, when the investment value is relatively low and for a single need, investors tend to go direct, such as investing R33 000 in a tax-free savings account."

Most of the technological developments are taking place out of sight of the customer, such as the deployment of distributed ledger technology (the blockchain) to increase efficiency for service providers.

"This removes the need for reconciliations and simplifies the trade and settlement process. Increasingly sophisticated approaches to digitally establishing your identity as an investor may mean you soon won't have to send a copy of your ID and proof of address to service providers," Koekemoer says. "This means less cost and hassle."

> "However, human insight and judgement remains key, with quantitative analysis being used as an initial screening tool to filter a large investment universe, after which fundamental analysts do a deep dive on these stock ideas."

Hannes van den Berg, co-head of equity and multi-asset at Investec Asset Management, says 90% of the world's data has been produced in the last two years alone, according to IBM. Businesses have recognised the benefits of harnessing big data.

"Data screening tools for quantitative analysis have gained a strong foothold in the investment management industry, because finding a good company to invest in requires processing huge volumes of information from multiple sources quickly," says Van den Berg.

A quantitative approach using mathematical and statistical modelling can collect millions of discrete pieces of data and process them at lightning speed to identify good investment ideas and assess portfolio risks.

"However, human insight and judgement remains key, with quantitative analysis being used as an initial screening tool to filter a large investment universe, after which fundamental analysts do a deep dive on these stock ideas," he says.

Earl van Zyl, head of product development at Allan Gray, says the pace of technological change is so fast that we're likely to underestimate how different the investment technology landscape might look a decade from now.

"That said, investors' key investment goals are unlikely to change much," he says. "They will still want to protect and grow their wealth to provide for themselves and their families and will continue to seek advice for their most critical investment decisions."

Van Zyl agrees he doesn't expect to see robo-advisers replacing significantly more human advisers in the next ten years, but he does think advisers will be able to utilise more technology to engage with their clients in more convenient ways.

"This can encompass the investor's full financial life, not only their investment portfolio," he says. "Advisers are increasingly coaching their clients on many facets of their lives that impact their long-term wealth. I think we will see technologies emerge that facilitate that new form of adviser-client relationship, rather than the simplified transactional relationship that is still quite prevalent today."

Hannes van den Berg
Co-head of equity and multi-asset at Investec Asset Management

Earl van Zyl
Head of product development at Allan Gray

Pieter Koekemoer
Head of personal investments at Coronation Fund Managers

By extension, he expects investors to be able to access any facet of their financial life from almost any platform in the next decade, given the advancement of cloud technologies and platforms, including text apps, social media and retail aggregators.

"An investor will then be able to choose, for example, to access their retirement accounts from their banking app, or to link their savings and fitness goals to a single platform where their spending rewards are invested into their favourite unit trust," Van Zyl says.

On the active versus passive management debate, Van Zyl says both have merit and technology itself will not change anything.

"Many active managers use data science to uncover new insights about markets and companies, and technology is likely to help both approaches adapt and evolve rather than driving markets in any particular direction," he says.

Despite technology making it easier to engage in self-directed investing, Van Zyl says there are limits to the number of people who are comfortable making important, long-term investment decisions on their own.

"Long-term financial decisions, like how much to save for retirement, and where to invest retirement savings, can be overwhelming for even sophisticated investors," he says. "We should be helping people to access a form of advice and guidance that suits their needs in a way that is convenient and delivers value for money relative to the outcomes that they deliver."

What will we invest in and through whom?

Over the last 20 years the number of shares listed on the JSE has effectively halved.

Coronation portfolio manager Neville Chester says we should not expect new listings to arrive on the JSE soon. "With no economic growth, which is key to helping small businesses grow, there is very little chance that we will see new companies coming to the market to raise capital," he says. "The other source of new

Photos: Archive | www.allangray.co.za

companies on the JSE is the listing of private companies from private equity firms. Given the very low rating of firms on the JSE currently this is also unlikely to happen. Obviously, the less choice one has as an investor, the less ability you have to build diversified portfolios and to identify new growth and investment opportunities."

Van den Berg believes, however, that a reduced universe in domestic equities has allowed local fund managers and analysts to become highly specialised in the shares they follow, enabling them to make informed decisions quickly to extract alpha, or above-benchmark returns.

Allan Gray's Van Zyl says the equity market has had five or six years of poor returns when one excludes the four largest shares on the JSE.

"Our listed market is more concentrated now than it was ten years ago," he says. "The number of skilled active managers and passive options has also increased over the last decade. Taken together, I think this means that it will be harder over the next decade to grow a sustainable asset management business in South Africa. The competition is already intense, and investors have more choice than they need."

He thinks we would have a healthier industry for investors if there were fewer funds and managers consolidated somewhat to benefit from economies of scale. "Over the long run this should lower the overall costs of investing for the average investor," says Van Zyl.

Koekemoer says with nearly 2 000 local unit trust funds offered by close to 200 different investment managers, the local funds industry is mature.

"Over the past five years returns have been disappointing as the domestic economy struggled to grow," he says. "This also means consumers are under pressure, with less assets available for investment. This combination of a weaker value proposition, increased supply and decreased demand means that over the next decade it is more likely that the industry will consolidate rather than expand."

Van Zyl does not see hedge funds growing in popularity either. "There is a place for hedge funds in terms of diversification benefits, but for most long-term investors a simple balanced unit trust fund will meet most of their needs," he says.

Mark Dunley-Owen, portfolio manager at Allan Gray, says given cyclical and structural factors it is possible to make reasonable guesses on asset class performance in the next decade, based on recent history.

Mark Dunley-Owen
Portfolio manager at Allan Gray

Neville Chester
Portfolio manager at Coronation

Nazmeera Moola
Head of SA investments at Investec Asset Management

Photos: Archive | www.bcisconference.com

"The most concerning asset class is fixed income investments such as bonds," he says. "These have experienced many years of attractive returns due to falling yields (higher prices), low inflation, and rising investor interest in fixed income products. It is unlikely this Goldilocks period of recent years will be repeated."

Negative yields on developed market bonds are unlikely to provide investors with attractive long-term returns unless inflation is sustainably negative (deflation) in these countries, which they view as unlikely, according to Dunley-Owen.

He says the domestic listed property sector has also experienced a multi-decade bull market, caused by a combination of a low starting point given limited supply of properties and cheap valuations in the late 1990s, and steadily falling interest rates driving up valuations over much of the early 2000s.

"The correction of excesses during this period has hurt recent performance, but we believe this cyclical correction is nearing completion. Going forward, structural trends, such as online shopping and mobile workforces, will impact property demand, although SA's geographic and income challenges are likely to limit the impact of such risks over the foreseeable future," says Dunley-Owen.

Our role as investors and shareholders

Coronation's Chester says as requirements for sustainable growth become more prevalent on shareholders' agendas, environmental and sustainability trends will intensify.

"The biggest shake-up will be for passive managers which have, through their very nature, failed to meaningfully integrate these goals into their management processes," he says. "As more money has shifted to passive, we are seeing less accountability to the actual owners and investors in companies. These changes will have a major impact on environmental and sustainability goals going forward.

"As shareholders' decision-making becomes more impactful on the operating of companies and the line between the executive management of the company and shareholders becomes blurred, there will also be more accountability flowing upwards and shareholders will become accountable for their decision-making effects on the companies they are invested in," says Chester.

Nazmeera Moola, head of SA investments at Investec Asset Management, says environmental, social and governance (ESG) criteria has moved from nothing more than a good marketing angle to being front and centre as investor concerns in a decade.

"The first phase of integration involved screening out prohibited stocks or sectors," she says. "In recent years, asset owners globally have progressed in this area. Most recently, we have seen the rise of a number of large asset owners excluding coal from their mandates. The result is that companies like Anglo American are looking to divest from their coal assets."

She says the second phase has resulted in the integration of ESG considerations into the investment process. Now analysts and portfolio managers include even so-called "soft" areas like labour practices, environmental practices and governance in their analysis.

"Soft issues can have a hard financial impact and can tangibly affect company valuations," Moola says.

The third phase of evolution has been the increasing sophistication of shareholder engagements with executive leadership, she says.

"The narrow SA market means that we cannot opt to sell or ignore every problem company," Moola says. "Importantly, engagement does not only focus on ESG issues, but on the strategic business issues that a company faces."

Vuyo Mroxiso, an investment analyst at Allan Gray, says pressure is also mounting on companies to address earning disparity between executives and workers.

"In August 2015, the US Securities and Exchange Commission adopted a rule that requires public companies to disclose their CEO-to-median employee pay ratios," he says.

"In January 2019, the UK government also introduced pay ratio regulations which make it mandatory for UK-incorporated companies with more than 250 employees to annually disclose the ratio of their CEOs' pay to the median, lower quartile and upper quartile pay of their UK employees."

Mroxiso says this is done in the belief that governments may begin to impose consequences on companies which fail to heed the global call to reduce inequality.

"Despite there being no regulatory requirement in SA for companies to publicly disclose pay gaps, a few companies have taken it upon themselves to adopt this global trend," he says. "It is highly likely that pay ratio disclosure will soon become a norm for JSE-listed companies." ■

editorial@finweek.co.za

By Shaun Murison

How telecoms shares rate after 2019 Competition Commission ruling

What is the outlook for SA's major telecoms players after it was ruled that their data prices need to be slashed in 2020?

Locally-listed telecommunication providers Telkom, MTN and the Vodacom Group came under renewed pressure into the tail-end of 2019, affected significantly by the Competition Commision's results of its data market inquiry, which were released in December last year.

The commision's report found that South African prepaid data prices are too high, particularly from the Vodacom and MTN duopoly which has formed in the local marketplace. Among the commission's proposed remedial actions, Vodacom and MTN must lower prepaid data pricing by up to 50% by February; reduce the wholesale pricing on their respective networks to smaller competitors; and agree to offer all prepaid subscribers free data daily – referred to as a "lifeline package" – by March of this year. Failure to remediate these issues could see these companies face legal action.

Telkom's major subsidiary, Openserve, has also been flagged by the Competition Commission and is required to reduce the pricing of its IP connect service by February.

JSE-listed telecoms shares: broker ratings and client views

Following the news from the competition authority, we look at how the major players – MTN, Vodacom and Telkom – are faring from the viewpoint of both institutional and retail market participants.

The table below highlights current analyst ratings, as polled by Thomson Reuters, and looks at how IG clients who are trading locally listed telecoms shares were placed at the time of writing.

The Thomson Reuters analyst ratings and IG client sentiment are features available on IG's trading platform. The ratings and sentiment indicators are snapshots of these views on the respective shares on 9 December 2019.

	Thomson Reuters analyst ratings					IG client sentiment	
	Strong buy	Buy	Hold	Sell	Strong sell	Long	Short
Telkom SA SOC	0	1	4	4	0	81%	19%
MTN Group	1	2	5	1	0	93%	7%
Vodacom Group	3	2	2	4	0	95%	5%

The telecoms sector carries an average long-term analyst rating of hold. The Vodacom Group has the strongest buy recommendations (3), although along with Telkom also has the most sell ratings (4). The MTN Group has the least sell recommendations (1).

In terms of IG client sentiment data, Vodacom, closely followed by MTN, has the most long open interest and the least short open interest. Telkom is also favoured by IG clients with 81% of traders having a long open interest in the share. "Long" means that traders with open positions on the company expect the price to rise in the near term, while "short" means that traders with open positions on the company expect the price to fall in the near term. ■

Shaun Murison is a senior market analyst at IG Markets.

By Glenneis Kriel

Rise of the virgin drinks

Since launching the world's first non-alcoholic gin and tonic, South African brand The Duchess has been cashing in on the growing demand for non-alcoholic and low-calorie drinks.

The Duchess launched the world's first alcohol-free gin and tonic in Cape Town in September 2016. Since then, the company has sold over 3m units across 1 500 restaurants and retail stores in South Africa and expanded its footprint into Europe, where it is available on the shelves of 600 Albert Heijn stores in the Netherlands and 400 Delhaize stores in Belgium. It is also available in 230 Dan Murphy's stores in Australia.

The brand received international recognition when it took home the Best Adult Drink as well as Best New Drink Concept prizes at Zenith Global's annual InnoBev Awards in 2018. In October 2019, ZX Ventures, the innovation arm of AB InBev, bought a minority stake in the company to support global market expansion. Johannes le Roux, co-founder of the company, spoke to *finweek* about the business.

The Duchess currently has three drinks in their range: Duchess Floral, Duchess Greenery and Duchess Botanical.

What did you do before you started The Duchess?

I studied property development at UCT, but left my studies at the start of the recession in 2008 after realising that the poor economy would result in me ending up in property marketing rather than developing funky new properties.

A friend invited me to start an advertising agency with him, called The Suits, which thrived at the time because we outsourced most of the work.

How did your journey into the beverage market start?

In 2013, at the age of 23, I started experimenting with the carbonation of brandy, which led to the creation of SA's first-ever brandy and Coke on tap, called Brannas Draught – efforts that left my apartment in Mouille Point cluttered with kegs full of brandy.

The product's popularity resulted in KWV buying a 25% stake in the company only a few months after its launch. The time leading up to the finalisation of the deal with KWV was one of the most nerve-racking I have ever endured. We ordered 500 kegs from China to keep up with the growing demand, but the kegs arrived before the deal was closed. I faced harbour charges of R36 000 a day, so I quickly had to secure a bridging loan to pay for the kegs.

Brannas not only taught me the importance of balancing cash flow with production, but also helped to establish a strong network in the beverages industry, and helped to prepare me for all the fundraising I would do to get The Duchess going.

KWV became increasingly involved in Brannas, so two-and-a-half years after starting the company I employed a managing director to take over my workload and I started looking for the next big drink disrupter. The market for Brannas is limited because people do not really drink brandy and Coke in other parts of the world. We roughly sell about 50 000 units of Brannas a month, and we focus on Gauteng.

Why did you start The Duchess?

I got the idea to start a non-alcoholic gin and tonic during a visit to the Netherlands. I noticed the start of the gin and tonic trend, and the large number of people who were looking for non-alcoholic, low-sugar alternatives, especially mothers and athletes.

Tell us more about the development of The Duchess.

As with Brannas, I started working with a flavouring house to develop the drink. British company Seedlip developed a non-alcoholic gin around the same time, but I wanted to develop a premixed drink that was volume driven and could be taken out of the fridge with no need to mix.

The initial samples where quite basic, but my aunt, Febe Wessels, supplied me with some botanicals that enhanced the complexity of the drinks, making it difficult to distinguish between the non-alcoholic and real thing.

Why did you call the brand The Duchess?

We played with the ideas of Dutch and royalty and ended up with The Duchess. Dutch, because gin originally comes from the Netherlands.

Where did you get start-up funding for The Duchess?

I asked some of my family and friends to invest in the company, and this money was used to produce the first product. To keep costs low, I co-founded the company with Inus Smuts, a graphic designer, who

Q&A:

helped developed the logo of Brannas. We did all the initial product development and marketing ourselves.

What was the market reception like for the drink?

We sold our first batch of 10 000 litres within a month after it was launched in September 2016 and sold another 20 000 litres by December. We knew the product would be in high demand, but the reception was a hundred times better than we had imagined it would be. It was perfect timing, as sales later turned out to be seasonal – peaking in the spring and summer.

How did you get into Europe?

Many of the tourists who bought The Duchess at farmer markets asked us to expand the market into their countries. At one point we had enquiries from 25 different countries. We therefore asked Kevin Anderson, one of our early investors, to help build the international market because he had strong international connections due to his background in renewable energy.

What were your biggest challenges when you started out?

Breaking into the beverage market is expensive since you need a lot of working capital, keep stock and it takes up to six months to receive payments. Start-ups seem to never have enough money.

We also had to educate people about the product, since it was a totally new concept. We did this by hosting tastings at shops across the country. Another challenge was the seasonality of sales, which we addressed by breaking into the European market.

What are your biggest challenges now?

After ZX Ventures bought a minority stake in us – the size of which I am not allowed to disclose – we expanded our staff component from eight to 18 people. Growing this fast presents various management challenges, so we employed a human resources company to sit with each employee once a month to help smooth out the transition and identify weaknesses and opportunities for growth.

Johannes le Roux
Co-founder of The Duchess

In October 2019, ZX Ventures, the innovation arm of AB InBev, bought a minority stake in the company.

Inus Smuts
Co-founder of The Duchess

Doing business internationally is also tricky since you need to be sensitive to cultural and other differences. We therefore had to adapt the way in which we do business in different countries.

How do you market The Duchess?

We realised that women were generally side-lined in the alcohol-free drinks market, so we decided to specifically target them. Since we have a small budget, most of our advertising and marketing is done via social media. We have also had great PR success, resulting in us getting published across many platforms because the brand was the first non-alcoholic gin and tonic.

How has the market changed since you started out?

We don't really compete with soft drinks since this market is on the decline due to the high levels of sugar. However, competition with other non-alcoholic drinks increased significantly. Many of these companies also have huge pockets, allowing them to spend lots of money on marketing and promotions.

ZX Ventures' investment in the brand will allow us to significantly expand the operation and our global reach. AB InBev has committed to grow its non-alcoholic division so that 20% of its sales come from the non-alcoholic division by 2025.

What has been the best advice you have received so far?

To carefully choose investors and to not lose your identity once a company invests in you. While investors want you to make money, remember that they invested in you for a reason. It is not just about the product, but also about your way of thinking and doing business.

What advice do you have for other entrepreneurs?

People tend to overthink things and want everything to be perfect before they venture into the market. I, however, feel that you need to launch once you are 65% ready. You can then tweak and refine the product on the go. ■

editorial@finweek.co.za

Photos: Supplied

By Glenda Williams

Peugeot's double bill: Try these two for size

Peugeot's small entry-level city car and its large SUV aim to support the brand's market share gains.

Locally, Peugeot has been reinventing itself. Spearheaded by turnaround specialist Xavier Gobille, Peugeot Citroën SA's new CEO, its focus has been on brand value, product enhancement and customer satisfaction. The latter was achieved by closing 30% of Peugeot's dealerships and appointing new ones in the drive to improve after-sales efficiency.

Peugeot aims to get "back in the race" through tough tactics and a product value offering. The brand's market share at its relaunch in September 2019 was 0.6%. This is higher than 0.2% in 2018. According to Gobille, the company aims to have 2.5% of the market by 2021.

Emotion must always be at the core of the automobile experience for Peugeot. It plays with the senses, evident in both its small entry-level Peugeot 108 and its largest SUV, the 7-seater 5008.

Perky little city slicker

Peugeot's 108 takes on the city vehicle market segment with its extroverted entry-level model

French flair and Japanese engineering (via a Toyota alliance) merged to produce a compelling and cost-effective city slicker.

Peugeot's entry-level city car is an urban run-around. The car has some quirky styling and the compact 108 model features a chunky bonnet, fog lights and LED daytime running lights, reduced front and rear overhangs as well as flip-opening back windows. The rear end showcases Peugeot's signature three claw-mark taillights.

The cabin space, comfortable for the average person, could be tight for the burly. The interior features electric front windows, comfy cloth seats, a height-adjustable

TESTED:

Peugeot 108 1.0L Active

Engine: 1-litre VTi petrol
Power/Torque: 53kW/93Nm
Transmission: 5-speed manual
Top speed: 160km/h
Fuel (claimed combined): 5.2 litres/100km
CO_2 emissions: 99g/km (no emissions tax)
Fuel tank: 35 litres
Boot capacity: 196 litres to 780 litres
Safety: 6 airbags
Warranty & Service Plan: 5 year/100 000 km
Price: R179 900

Peugeot's largest SUV, the 5008, is an accomplished and stylish 7-seater.

steering wheel, a large infotainment touchscreen and smartphone connectivity with MirrorLink technology. The boot, with its spare wheel, is decently sized.

The safety features in Peugeot's little 5-door hatch are leading in this segment. The model comes standard with six airbags, electronic stability control, ABS braking, brake assist, hill start assist and baby seat Isofix mountings.

One derivative, a 1-litre, 5-speed manual, is currently available. The robust 998cc engine is a naturally aspirated one, so with that comes somewhat less bolt power than some of its turbocharged peers. Still, it provides a lively drive with slick manual gearing and direct steering. But why the steering wheel is larger than the smaller, sporty steering wheel offered in its larger siblings is uncertain.

Aside from a shortage of power on inclines, (a hindrance that can mostly be addressed with timely gear changing), the quality-built 108 model has a lot to offer.

It's an urban hatch, with a 9.8m turning circle, that is great fun to drive and offers a ride that is comfortable and planted. And you don't need to spend a lot of money to own this pint-sized hatch.

For the package and price, the Peugeot 108 is a good value offering, with Japanese engineering adding reliability. Just a few kilowatts more power would have given this little car top marks.

Photos: Supplied

The smartphone-enabled infotainment touchscreen takes centre stage in the 108, Peugeot's lively entry-level city car.

Big SUV, big offerings

The flexible and spacious 7-seater Peugeot 5008 bodes luxury, comfort, tech and utility.

The Peugeot 5008's long dynamic profile is completed by a strong rump and LED 'claw effect' rear lights.

Stepping inside the 7-seater SUV's roomy, well-appointed cabin reveals leather and chrome materials, a compact leather steering wheel, 8-inch infotainment touchscreen, digital heads-up display, and chrome switches.

The Peugeot 5008 2.0 HDI GT's cabin features high-end offerings including 3D navigation, connectivity via MirrorLink, Android Auto and Apple CarPlay and a smartphone charging plate. The multipoint massage system on the lumbar-supporting driver seat was put to good use.

The progressive driving assistance systems like lane keeping, adaptive cruise control with front collision warning, park assist, and blind spot detection provide a safety arsenal that also includes six airbags.

The seating is unexpectedly flexible. Three rows of seats are offered, the second row of equally sized seats offering folding and tilting as well as sliding for adjustable length, while seats in the third row are removable, which is made easy via the hands-free electric tailgate.

The spacious 5008 is 165mm longer than the 3008 with performance and a ride similar to that of its smaller sibling. Plenty of torque, even power from the efficient 2-litre diesel engine together with a seamlessly changing 6-speed automatic gearbox and great suspension setup, creates a quality ride on 19-inch alloy wheels.

The 5008, with its great road handling and agility, impressed with its performance on gravel, delivering a ride that was exceedingly comfortable on a road that was rocky and corrugated. ■

editorial@finweek.co.za

TESTED:

Peugeot 5008 2.0 HDI GT

Engine: 2-litre turbocharged diesel
Power/Torque: 110kW/370Nm
Transmission: 6-speed automatic
0-100km/h: 10.9secs
Top speed: 207km/h
Fuel (claimed): 4.4 to 5.5-litres/100km
CO_2 emissions: 136g/km
Fuel tank: 62 litres
Ground clearance: 236mm
Boot: 780 litres to 1 940 litres
Safety: 6 airbags
Warranty & Service Plan: 5 year/100 000 km
Price: R599 900

MOTORING MOVES

2019's last quarter was eventful...

- President Cyril Ramaphosa launched the R6bn Automotive Industry Transformation Fund (with investments from BMW, Ford, Isuzu, Nissan, Toyota, Mercedes-Benz and VW) which aims to support black participation in the automotive industry supply chain.
- Ford SA announced its partnership with government to launch the Tshwane Automotive Special Economic Zone in Pretoria. Once complete, it will span 162ha and contribute an estimated 70 000 jobs.
- Isuzu, meanwhile, confirmed a R1.2bn investment in SA, planning to grow annual bakkie production to 29 000 units.
- Citroën returned to SA after an absence of three years.
- After a much longer absence, international racing returned to Kyalami.
- Electric vehicles (EVs) made headlines in 2019. The Festival of Motoring at Kyalami saw a number of reveals, among them Audi's e-Tron and VW's all-electric racing prototype ID.R.
- VW launched an electric mobility pilot project in Rwanda with its e-Golf and confirmed its all-electric golf-like ID.3 will make its way to SA. Ford unveiled the Mustang Mach-E, its all-electric Mustang SUV at the LA Auto Show, while Volvo showed the Volvo XC40 Recharge, its small SUV in electric form and announced a year's free electricity for buyers of its new hybrid plug-ins. Locally, the offer applies to the Volvo XC90 T8.
- BMW launched EV charging stations at the OR Tambo, Cape Town and King Shaka international airports. ■

By Timothy Rangongo

Recruitment and job-hunting tre

Worldwide, there have been rapid shifts in workforces, with employee expectations varying markedly across generations. effectively with these employees in order to recruit top talent and manage teams productively.

Across the world, there is no denying that the workforce is changing. Not only have workers' demographics shifted over the years, but so too did the social contract between employers and employees.

"Different generations have different values from their lifetimes' experiences. They all have different ways in which they would either like to manage or be managed," explains Nadine Mather, senior associate in Bowmans' employment law practice.

New entrants to the labour market: Millennials and Generation Z

Millennials, a demographic cohort born between the early 1980s and late 1990s, are, for instance, causing businesses to reconsider employment practices and policies, according to Bowmans. They note that millennials will make up over 40% of the workforce this year.

"Are you familiar with them? Do you have a few at home?" asks Steven Hatfield, global future of work leader at Deloitte, who also sits on the company's human capital executive committee. Hatfield was asking about generation Z, the post-millennials born between the late 1990s and now.

It is the latter that human resource practitioners should be focusing on, in order to prepare the organisation for a changing future workplace. Generation Z has begun to enter the workforce.

"They are the most digital and mobile generation ever, spending an average of ten hours online per day," says Hatfield, "It is how they work. It is how they function. It is how they understand the world.

"What will it feel like when that generation enters the workplace and they cannot do their work on their phone? Is your business ready for them?" he asks.

The boomer workforce and gig economy

Boomers, born between 1946 and 1964, are living healthier and longer lives, due to technology that improved their quality of life, says Hatfield. Joanne Macris, managing director of recruitment agency Abantu Resources, adds that it's essential that companies retain this particular talent by further developing skills and offering benefits for long-term retention.

Organisations also have a broad continuum of options for finding workers now, from hiring traditional full-time employees to using managed services and outsourcing, independent contractors, crowdsourcing and gig workers, according to Hatfield.

As labour-sourcing options increase, Deloitte notes that it opens the possibility for more efficiency and creativity in composing an organisation's workforce. But also taking into consideration that with more options, often comes more complexity.

According to Deloitte, employers should not only consider how roles are crafted when pairing humans with machines, but also the arrangement of their human workforce and what type of employment is best suited to obtain the creativity, passion, and skillsets needed for the work at hand.

In order to succeed, Deloitte says organisations should zoom out and imagine the possibilities so that they can compose work, the workforce, and the workplace in such a way that it increases both value and meaning. This all the while taking advantage of the opportunities for efficiency at hand. Deloitte gave examples of actions that employers could consider in directing forces of change in recruitment.

First, setting goals for the future of work that reach beyond cost and efficiency to include value and meaning. Secondly, they can analyse and redesign work, workforce, and workplace options that take advantage of the value of automation, alternative talent sources, and collaborative workplaces. Finally, employers could align the organisation, leadership, and workforce development programmes to access skills, curate next-generation experiences, and engage the workforce of the future in long-term relationships and business leaders in new ways of working.

"Organisations such as Absa have their team building across different generations, where they, for example, pair the younger

ONLINE REMAINS KING FOR JOB HUNTING

According to Joanne Macris, managing director of recruitment agency Abantu Resources, going online remains the best way to hunt for a job:

- Online visibility through professional groups is a good platform to spearhead your career.
- Online searches are ideal for lower- to middle management and matching your CV to available jobs.
- The best way though, is to network with reputable agencies and build relationships in your designated career sectors.

THE CREATION OF ENTIRELY NEW JOBS GENERATING NEW VALUE

"We at Deloitte are very active in advising our clients on how they need to become more competitive by accommodating new technologies and trends impacting the world of work," says Dr Martyn Davies, managing director at Deloitte and dean of the company's management school, which has a strong focus on the future of work and digitisation of the workplace.

"New jobs are coming online every day. We are rethinking and recrafting jobs," says Steven Hatfield, global future of work leader at Deloitte.

5 jobs that didn't exist 15 years ago

- Podcast producer
- Community manager
- Mobile app developer
- Cloud architect
- Social media manager

nds in 2020

Companies need to understand how to engage

workforce with the older, to learn from each other," says Mather.

Most employers have found that one of the positive traits about hiring millennials is that they are the first generation to grow up using technology, or the internet to be more specific, which has created a big benefit to the organisation's technological tools and increased the efficiency, she says.

The rise of the social enterprise

What we are seeing, thanks to the rise of social media, is that more and more workers have greater power to begin to influence how businesses step in to deal with certain societal issues.

"We have seen workers at Google, for instance, leaving the shop because they were protesting against Google allowing the censorship of information in places like China or working with the US Pentagon on drones," says Hatfield.

They are forcing businesses to take a very hard look at how to deal with some of these problems. In human capital trends, they call it the rise of the social enterprise, he says, adding that 88% of the millennials in Deloitte's future of work 2018 study expect businesses to be measured on more than just financial performance. About 90% believe that climate change is the number one issue to address.

The mega theme going forward is caring capitalism, says Dr MartynDavies, managing director at Deloitte.

Employers should be mindful of whether something like a team-building exercise or outings they plan will do what they're supposed to do, which is to build a team. They ought to ensure that it is an activity that everybody likes, instead of getting rugby or ballet tickets for all employees, with the assumption that they are doing everyone a favour, says Luway Mongie, partner at Bowmans.

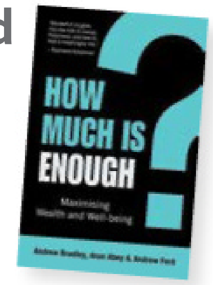
"You need to come up with team-building initiatives that are accommodating both to your old and younger workforce. You sort of have to find a middle ground," says Yonela Sicam, an associate at Bowmans.

On mental health, she says that from a survey Bowmans conducted on how to create awareness and be more supportive, some of the suggestions included mindfulness, independent in-house counselling, wellness lunches, wellness days and even a crying room.

Parent jobseekers are nowadays looking out for whether the employer has a crèche, which may be an attractive solution to juggling career and family. ■

editorial@finweek.co.za

on the money quiz & crossword



For the first quiz of 2020, we are giving away a copy of *How Much is Enough? Maximising Wealth and Well-being*, by Andrew Bradley, Arun Abey and Andrew Ford. Enter by completing the online version of this quiz on fin24.com/finweek, accessible from 13 January.

1. Name the new CEO of Absa.

2. **True or false?** In January 2020, Shiraaz Mohamed, a South African photojournalist kidnapped in Syria by the Islamic State three years ago, returned home.

3. The late former Zimbabwean president Robert Mugabe granted value added tax (VAT) exemptions of about $200 000 to his wife. What is her name?

4. The MTN Group sold its stake in its tower assets in Ghana and which other African country?

5. On 3 January 2020, the US launched an airstrike on a convoy travelling near Baghdad International Airport, killing an Iranian major general. What was his name?
   - Major general Qasem Soleimani
   - Major general Mohammad Ali Jafari
   - Major general Yahya Rahim Safavi

6. **True or false?** State-owned South African Airways (SAA) has been placed into business rescue.

7. How many public holidays will South Africa have in 2020, as determined by the Public Holidays Act?
   - 13 days
   - 10 days
   - 12 days

8. On 6 January 2020, business icon and the man known as the father of black retail in South Africa, Richard Maponya, passed away. What is the name of the mall he co-developed in Soweto?

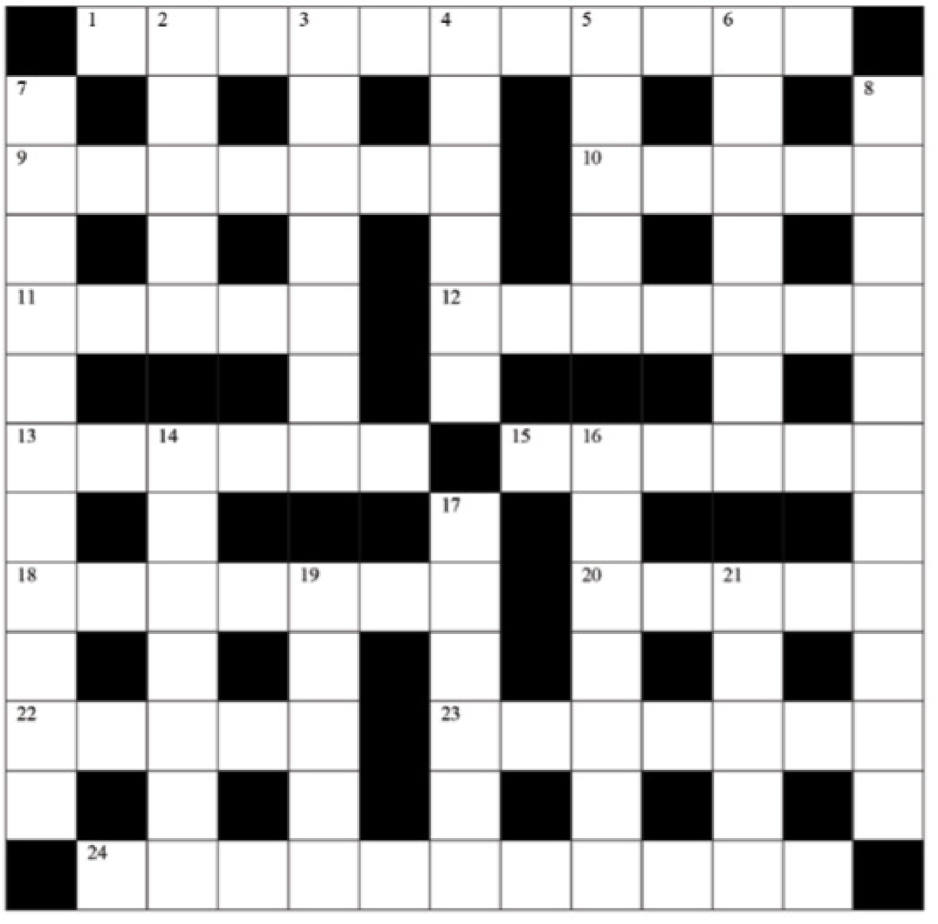
9. **True or false?** Eskom's new CEO, André de Ruyter, started his career at Sasol, straight out of university.

10. Which film won the Best Motion Picture (drama) award at the 2020 Golden Globes?

CRYPTIC CROSSWORD NO 746JD

ACROSS
1 Minding someone else's business? (11)
9 Laws ran out for Arctic sea-animals (7)
10 Blacken the name of black material (5)
11 Incorporated a new member of the tribe (5)
12 Restricted, fellow comes out with some poor language (7)
13 Put paid to one MP almost making prime minister (6)
15 Neat sort of burglar let off (6)
18 Strip about idol syndicated to newspaper (7)
20 Theatrical jerk out of work (5)
22 Fancy artillery are going to strike (5)
23 Bottom's comic confession? (2,1,4)
24 Changed official deposit to one I'd set out (11)

DOWN
2 An acid of gold (5)
3 Wanted to make a period end adjustment (7)
4 In the middle of playing (6)
5 Bone up on capital trivia (5)
6 Best organised point-to-point a trial run (7)
7 Convert it into basic treatment (11)
8 Bait chauvinistic noble (11)
14 Period served at the bar? (3-4)
16 A very old dog is given no fruit (7)
17 Rather unusual or kinky, even kitsch (6)
19 No game plan for last of the series (5)
21 Passage is missing from lyric poem (5)



Solution to Crossword NO 745JD

ACROSS: 1 Hold court; 8 LAN; 9 Reverberate; 11 Thistle; 12 Nerve; 13 Stingy; 15 Groggy; 17 Ingle; 18 Refines; 20 Anniversary; 22 Ely; 23 Rancheros

DOWN: 2 One; 3 Carat; 4 Uneven; 5 Trainer; 6 Clear agenda; 7 Snake eyes; 10 Viewing days; 11 Testified; 14 Greener; 16 Graven; 19 Forth; 21 Rio

On margin

Crying over spilled milk

This issue's isiZulu word is *isiko. Isiko* is a custom or tradition or practice. *Amisiko* (plural) are often specific to particular cultures, and in a country like ours can be contested and be divisive. Take the case of those that honour *isiko* of slaughtering a beast versus the SPCA and vegans – big trouble there!

However, January is different. It is the only time South Africans – across cultures, races, religions, creeds and political leanings – honour the same *isiko: isiko loku zisola* (the ritual of regret).

Jô, people are sorry. It is a collective thing. We are in it together. Even sworn enemies, such as the DA, FF+ and EFF members are united in *isiko loku zisola*. They set their differences aside and take part in the national lamenting of festive season decisions and actions. It's akin to the blues.

It is a harvesting of sorts, where we all reap what we have sown. The fruit of this harvest is bitter. *Mara*.

People take part in *isiko loku zisola* for a myriad of reasons. Some said things they shouldn't have said at company Christmas parties last year, so meeting requests are flying in from HR and management.

Others have looked at their bank balances for the first time since 16 December. And, oh, man, it's a disaster because they went a little too far with the festivities.

Let us not forget those who are taking part in *isiko loku zisola* because they have court dates coming up due to speeding or driving under the influence. And the young legends that have only just returned home from buying bread on 31 December.

But listen to me, fellow South Africans, don't feel bad. It is *isiko* – our thing. It even has a hashtag #sorrytogether.

Melusi's #everydayzulu by Melusi Tshabalala

Verbatim

Richard Osman @richardosman
My New Year's resolution is to annoy less grammar pedants.

Siv Ngesi @iamSivN
Jozi humans complain about Cape Town non-stop ... but they keep coming back to pop their bottles!

Bonang B* Matheba @bonang_m
Drink water. Mind your own business. Make guap. Travel the world. Repeat.

Aaron Paul Sullivan @apsullivan
Actually, it's only existentialism if it comes from the existentialism region of France. Otherwise, it's just sparkling anxiety.

Jonathan Witt @Jonathan_Witt
Only Donald Trump can make the entire Democrat Party take the side of a terrorist.

Michael Novogratz @novogratz
The more I analyse this Iranian situation, the more bullish gold and $btc I become.

NKABINDE @sya_nkabinde
The pain of walking with someone who greets the whole world.

The Stoic Emperor @TheStoicEmperor
The real art of communication is not in making yourself impressive, but in making yourself understood. It is a rarer skill than you might think.

"And now we welcome the new year. Full of things that have never been."

– Rainer Maria Rilke, Poet (1875-1926)