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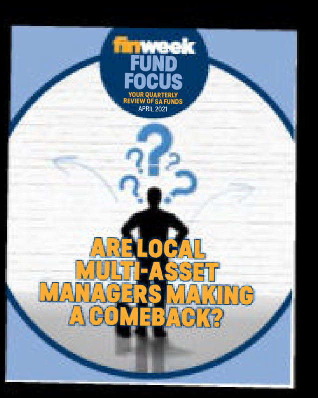

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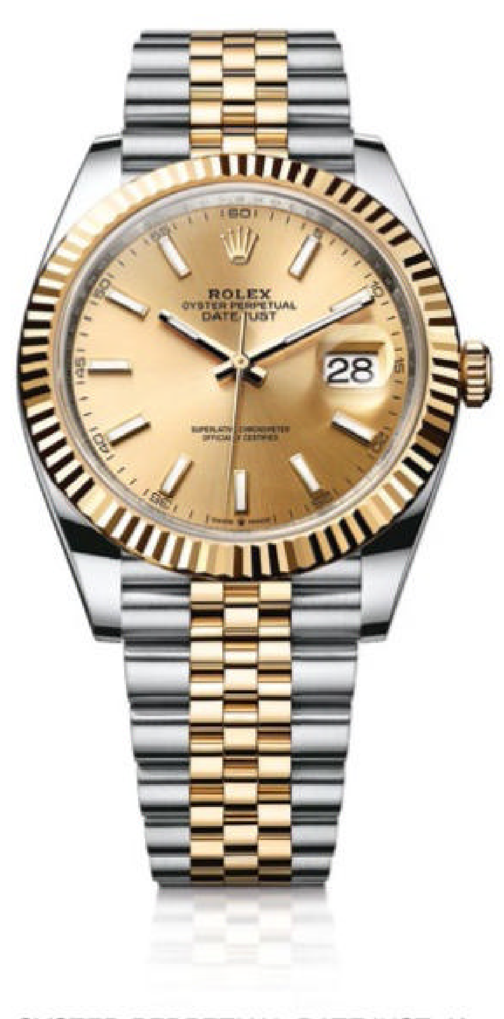

from the editor

JACO VISSER

In this edition of *finweek*, the dichotomy of South Africa's economy is strongly brought to the fore. On the one hand we have ambitious business people (such as Sibanye-Stillwater's CEO Neal Froneman and Thakadu's Ruli Diseko) with an international view of business; and on the other hand, this ambition is hindered by insufficient electricity from Eskom and political uncertainty. Let alone the poor implementation of the government's vaccination programme.

Yet, despite all this, South Africans are a hopeful bunch. As a former editor of this publication once put it most succinctly, and I take the liberty to rewrite her words somewhat: "South Africans have the superhuman ability to step away from the edge of chaos when things are looking at their worst." This was the case with the birth of our democracy in 1994. This was again the case in 2017 when the governing party got rid of Jacob Zuma. And now we once again appear to be walking on the edge of an abyss: the abyss of socio-economic chaos. Not only are millions of South Africans sitting without jobs, but the endemic corruption (and the lack of consequences for corrupt political leaders from municipal level to the level of national government) is smeared daily on the faces of law-abiding people. It stands to reason that South Africans are fed-up. And longing for an alternative to what we have experienced over the past 27 years and even much, much longer before that in our country.

The solution is simple: The economic cake should increase in size and more people, especially mostly black South Africans who are still not tasting the benefits of economic freedom, should be able to partake of the meal. But how is it done? At the moment the icing on the cake is being eaten by well-connected politicians in the name of the majority of black South Africans under the guise of economic empowerment. And it does not look as if this group is going to surrender easily.

In the week prior to publication, the so-called radical economic transformation faction of the governing party launched a two-pronged attack on President Cyril Ramaphosa's clean-up project in the civil service. From Nkandla, Zuma described the Constitutional Court as a judicial dictatorship. And from Luthuli House, Ace Magashule's lieutenant, Carl Niehaus, unveiled a Soviet-style economic transformation document (thanks to Ferial Haffajee of *Daily Maverick* for this very fitting description). Both these attacks were tenuously supported by hard facts and appeared to be the last pangs of death of a wounded animal. Nevertheless, these documents hit the headlines and foreigners are taking note. Especially investors and prospective immigrants with scarce skills are going to ask themselves whether it's worth the trouble to consider a Venezuela-style economy.

But what should be done to increase the size of the economic cake? I am bold in saying that a generation after the democratic change, thousands of small and medium-sized businesses – on their way to becoming large undertakings – could have been established had it not been for the dysfunctional local and provincial governments. Had the billions of rands that landed in the pockets of a handful of well-connected businesspeople and their political conspirators been correctly and honestly channelled to especially black start-ups, things would be looking vastly different today. And it's these connections between well-connected businesspeople and their political conspirators that are now being jeopardised by Ramaphosa's clean-up process. Therefore the Magashule/Zuma faction (which is facing charges of corruption) is doing everything in its power to stay out of jail and to continue eating the icing off the cake.

And in the midst of this power struggle, ordinary South Africans are suffering financially and under a crime wave (possibly as a result of unfulfilled socio-economic progress) which is not adequately being addressed by government. With municipal elections taking place later this year, SA's governing party could possibly follow in the footsteps of the governing party in Namibia last year. So the ANC could be SWAPO-ed (as *Beeld's* editor put it so beautifully last year). In the local elections of November 2020, SWAPO's support nosedived to 56.8% against 2015's 83%. The party, among others, lost control of Windhoek and Swakopmund. Of the 57 municipalities in Namibia, the governing party could only retain 27 – a minority. The reason for this performance was, according to Prof Henning Melber of Unisa in an article for *The Conversation*, threefold: corruption, a failed government, and the abuse of political office. Sounds familiar, doesn't it? ■

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By Johan Fourie

AGTECH

The future of the farm

Agricultural technology innovation is evolving at an unprecedented pace with SA farmers embracing the change.

Agriculture is not what it used to be. My grandfather was an ostrich farmer in the Klein-Karoo, with a small dairy on the side to make ends meet. He raised seven children and supported a handful of farm workers on a small plot of land that was more likely to deliver soil erosion than bumper crops. From what I remember he had a tractor and a combine harvester and a lot of grit. And that is still largely my mental picture of agriculture today: the lonely farmer toiling away on his tractor, praying for rain.

That view, though, is utterly outdated. Agriculture, as *Forbes* magazine noted in February, is one of the most innovative industries at present. Investment in artificial intelligence (AI) agricultural technology is skyrocketing. PwC predicts that Internet-of-Things-enabled agriculture (or IoTAg) will be a $4.5bn industry by 2025. And this is not a rich country phenomenon only. Thabi Nkosi is managing partner at African Green Alpha, a food and agriculture private equity fund manager. She explains most farming in SA has already made the switch. "To increase competitiveness, the use of advanced irrigation methods, remote sensing and drone technology is commonplace. I'm excited about technologies focusing on water efficiency and crop protection."

Louis de Kock, co-founder of Nile, sees this technological adoption speeding up. "While farmers are already capturing data through many different devices and using semi-autonomous vehicles to work their fields, the key change in the next few decades will be how these data sources will be integrated, which will enable AI and more sophisticated solutions to play an increasingly important role in the managing of farm systems such as irrigation, fertiliser and pesticide application, and harvesting. Ultimately, the impact will extend beyond the farm. For example, if you are able to estimate your crop yield better through image recognition and track the provenance of produce through traceability tech, the same data could be provided live to potential buyers through online platforms such as Nile.ag, who can start to adapt their growing programmes."

Nile is an agtech firm that provides an online transactions platform to connect fresh produce buyers and sellers which De Kock started after a career at Amazon and Jumia. His co-founders, Eugene Rood and Rick Kleinhans, traded successful careers at JP Morgan and Luno to join him.

"We see a massive opportunity to fundamentally change the way food is traded across Africa; in doing so we hope to make nutritious food more accessible and affordable to people across the continent. Our view is that rapid urbanisation across the continent will result in greater reliance on food systems, as opposed to subsistence economies in rural areas. Tech innovations have already leapfrogged traditional industries in Africa given limited legacy infrastructure. Well-known examples are unbanked consumers adopting mobile money instead of banks; and shoppers moving from informal retail to e-commerce instead of brick-and-mortar retail. In a similar way, we believe food systems will leapfrog traditional market concepts where localised markets function in relative isolation."

Thabi Nkosi
Managing partner at African Green Alpha

"We see a massive opportunity to fundamentally change the way food is traded across Africa."

Louis de Kock
Co-founder of Nile

Skudu is another SA online marketplace that allows farmers to buy their inputs and sell their produce. Gerhard Visagie, CEO of Agventures, a food and agritech venture capital firm which recently invested in Skudu, explains: "We are very excited about the impact that online marketplaces can have on the agricultural industry in Africa. Through the utilisation of technology, value chains are being reimagined, which will ultimately lead to improved efficiencies for farmers and benefit consumers. Developments in various foundational technologies have enabled the rise of online marketplaces. This includes lower software hosting fees due to cloud computing services offered by the likes of AWS, Azure and Google Cloud, which transformed customers' fixed cost into a variable cost – thereby lowering barriers to entry for online marketplaces."

Nile and Skudu are two exciting SA agtech start-ups disrupting the industry. But where are the others? Says Nkosi: "SA's venture capital industry is still in its infancy, so access to funding is still a massive challenge for agtech start-ups. The road to commercialisation is often a long one and start-ups often struggle to find funding partners, particularly in the seed stage, that understand this and are willing to take the risk. Another challenge, particularly for on-farm agtech start-ups, is the scale of farming enterprises. Unlike in the US or South America, most African farming enterprises lack the scale or financial muscle to adopt technologies like robotics or drones in a meaningful way. This leaves a relatively small market for start-ups focusing on technologies that have been successful in other markets."

But technology can help overcome these challenges. And in the long run, artificial intelligence and IoT will do things we cannot even imagine. "In 2050," imagines De Kock, "an autonomous farm is not inconceivable."

The next generation might share my mental picture of the lonely tractor toiling the land, with a small difference: there will be no farmer driving it, and no need to pray for rain. ■

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Johan Fourie is professor of economics at Stellenbosch University.

Photos: Supplied

in brief

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Amplats' Viljoen looking forward to a better year *p.11*

EDITORIAL & SALES

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"THE DISAPPOINTMENT ... HAS BEEN IN HOW OUR FINANCIAL SECTOR HAS MANAGED THE COVID GUARANTEE FUND."

— **President Cyril Ramaphosa** criticised SA banks for failing to manage and administer the R200bn loan guarantee scheme that was supposed to rescue small businesses affected by Covid-19 from collapse and job losses, during an address at a masterclass arranged by the National School of Government. Ramaphosa said the country's financial sector is highly monopolised and highly profitable, but has failed to address challenges faced by struggling entrepreneurs during the pandemic. The big four banks previously said there hasn't been much demand for additional financing after the government-backed plan was announced.

"Rates have responded to news about vaccination and ultimately about growth."

— **Federal Reserve chairman Jerome Powell** indicated that he is not concerned about a recent rise in long-term bond yields, saying that they appear to reflect growing optimism about the economy's prospects, during a televised hearing before the US Senate Banking Committee. Some economists and market participants have worried that a rapid or sustained climb in bonds yields could weigh on the economy by making it more expensive for consumers and businesses to borrow.

"WE ARE VERY EXCITED ABOUT WELCOMING THE YUPPIECHEF TEAM INTO OUR FAMILY."

— **Mr Price CEO Mark Blair** announced that the retailer has entered into an agreement to purchase Yuppiechef, a privately-owned SA omni-channel retail business primarily focused on kitchenware. Mr Price said the purchase consideration, which represents approximately 1% of market capitalisation, will be settled in cash. The group had a market capitalisation of about R47bn at the time of the announcement, which translates to a purchase price of approximately R470m.

The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% in a unanimous decision, saying overall risks to the inflation outlook appeared to be balanced in the near and medium term. In an article written exclusively for the *finweek* newsletter by Mariam Isa and published after the announcement, SARB governor Lesetja Kganyago indicated that SA should be able to contain its own inflation even if US price pressures mounted, which would mean the country would gain in competitiveness. Updated forecasts from the Monetary Policy Committee showed SARB expects inflation to rise to 4.4% by the end of 2021 and hover at around 4.5% for the next two years.

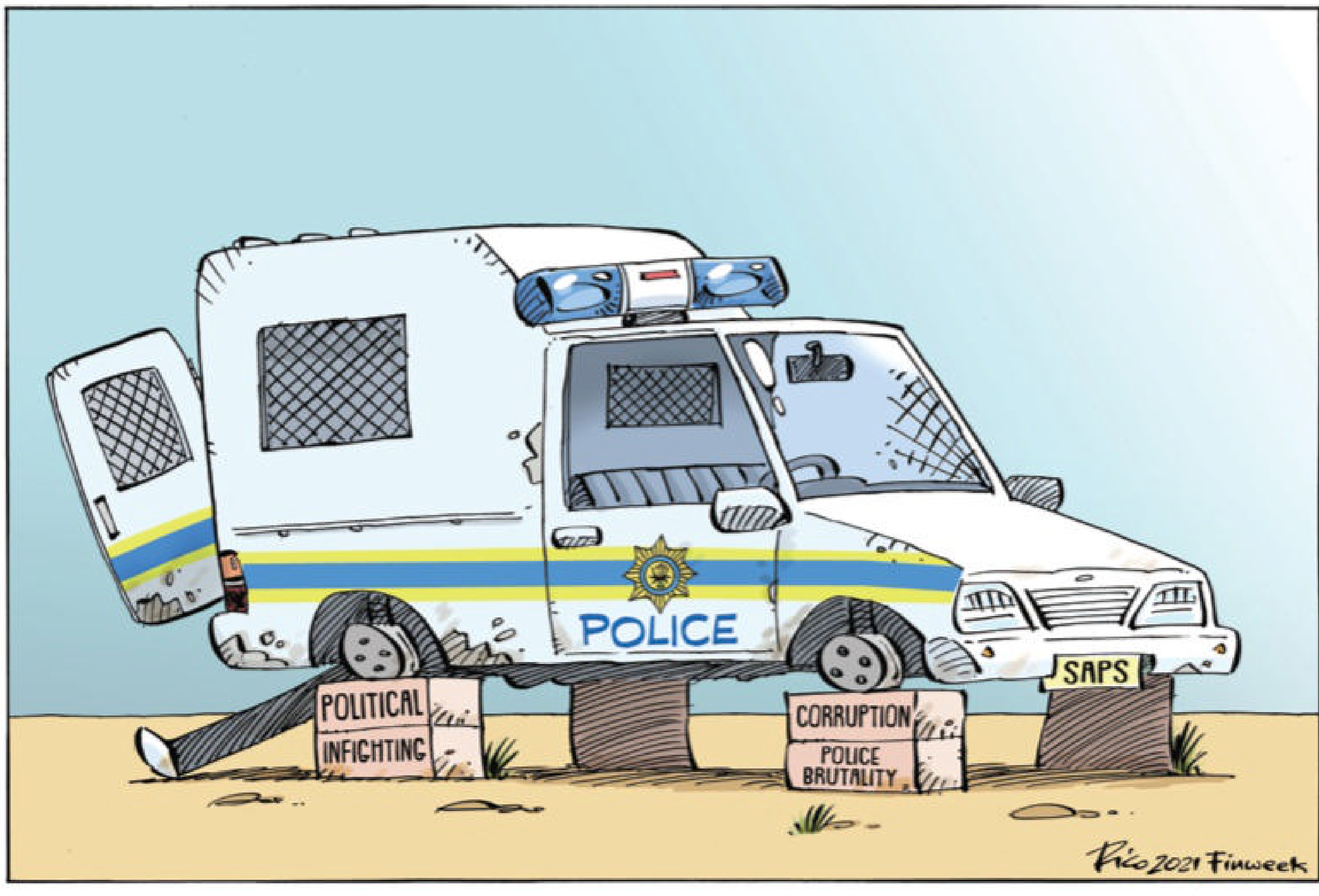
While SARB may have found favour for holding the repo rate steady, the same cannot be said for Steinhoff's BEE partner Lancaster 101, which is 50% owned by the Government Employees Pension Fund. Fin24 reported Lancaster 101 is suing SARB for allegedly enabling Steinhoff to move assets worth €19bn abroad while the group was technically insolvent; and allowing its local entities to settle claims by foreigners "to the detriment of the SA economy". Both SARB and Steinhoff have said they will oppose the litigation by Lancaster 101, which wants the North Gauteng High Court to review and set aside the bank's decisions relating to the Steinhoff restructuring and its current global settlement efforts.

A giant cargo ship called the Ever Given got stuck in the Suez Canal for a week, blocking all traffic on one of the world's busiest shipping arteries at the end of March, further compounding global supply chain woes. CNN reported that the container ship, which is almost as long as the Empire State Building is tall, ran aground in the Egyptian waterway after being caught in 40-knot winds and a sandstorm that caused low visibility and poor navigation. Oil prices rose and shipping stocks fell as authorities in Egypt tried to dislodge the vessel. More than 18 800 ships passed through the canal during 2020 – an average of just over 51 per day, according to the Suez Canal Authority.

Photo: Gallo/Getty Images

DOUBLE TAKE

BY RICO



CONSISTENT EFFICACY

76%

AstraZeneca released more trial data for its Covid-19 vaccine, saying the shot was 76% effective in preventing Covid-19 with symptoms, in a fuller analysis of study results than the company had earlier provided. AstraZeneca said its latest figures were based on an analysis of 190 cases of symptomatic Covid-19 in the trial, 49 more cases than the company had analysed earlier. Despite the additional cases, the vaccine's performance was in line with what AstraZeneca had first reported. More than a dozen European countries have halted the use of the vaccine after blood-clotting reports. Most have resumed giving shots after an investigation found no link between the vaccine and the clotting.

JUST ANOTHER HOLIDAY

39%

The results of a South African Social Attitudes survey by the Human Sciences Research Council which asked 2 844 citizens older than 15 years how familiar they are with the historical events of the 1960 Sharpeville Massacre, commemorated yearly on 21 March, indicated that two-fifths (39%) had not heard of this event before. A further 58% said they had heard of it, of which 39% knew little or nothing about it. A mere 19% knew enough about it to describe it to a friend. The results suggest that basic public awareness of key historical events in the country is low. In the survey, awareness of the Freedom Charter was similar to that of the Sharpeville massacre, with 57% having heard of it and 40% not.

ROYALLY CURIOUS

17.1m

An average of 17.1m viewers tuned into the two-hour CBS telecast of Oprah Winfrey's highly anticipated interview with royal couple Prince Harry and Meghan Markle, the Duke and Duchess of Sussex, according to information, data and market measurement firm Nielsen. The *LA Times* reported that CBS won a bidding war for the broadcast rights against several broadcasters, including ABC and NBC. The network agreed to pay Winfrey's production company Harpo around $8m (R120m) for the American broadcast run. CBS received a distribution fee for distributing it around the world. Locally, M-Net announced its acquisition of the rights to broadcast the interview in SA.

FASTEST SALES EVER

€500bn

On 23 March, Europe's bond market cemented its status as a global funding force with €500bn ($595bn) of sales in the fastest time ever. A two-part €13bn social bond from the EU helped push issuance past the landmark, putting sales so far this year at least 17% ahead of the same period in 2020, according to data compiled by Bloomberg. The milestone wasn't reached until 31 March last year. Bloomberg reported that borrowers seized on European Central Bank assurances that rates will stay low and stimulus will remain in place to sell debt, even as concerns swirl that inflation could stir in economies recovering from the pandemic and push yields higher.

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By David McKay

MINING

Thakadu banks on battery-driven surge in nickel demand

Commodities entrepreneur Ruli Diseko's company has announced the commissioning of a nickel sulphate refinery, but they are not the only ones interested in this market.

Having taken a leap of faith in 2015, commodities entrepreneur Ruli Diseko is not going to be rushed into hasty decisions today.

His Thakadu Group recently announced the commissioning of a $20m (R298m) nickel sulphate refinery, which is located on the premises of Sibanye-Stillwater's Marikana platinum group metals (PGM) facilities, near Rustenburg in the North West province.

Nickel sulphate is a refined form of the nickel metal that is of interest to manufacturers of electric car batteries. In fact, one of Diseko's first calls after deciding to make the investment in 2016 was to Tesla, the US carmaker. The company liked what Thakadu was hoping to offer, and it provided an early signal to Diseko that he was on the right track.

Soweto-born Diseko, a UCT commerce graduate, began working life as a commodities trader before joining Lonmin, the former PGM miner. By the time Sibanye-Stillwater concluded its all-share takeover of Lonmin in 2019, Diseko had already decided to strike out on his own, leaving Lonmin and betting all he had to finance R6m of research work by Mintek, the government-owned research institute, into what became Thakadu's proprietary process technology.

It is handy, though, that Sibanye-Stillwater is Thakadu's new neighbour given the mining firm's interest in acquiring battery metals as part of its diversification plan. It makes Thakadu, via its subsidiary Thakadu Battery Materials, an obvious target for the miner.

Ruli Diseko
Founder and CEO of Thakadu Group

Both Thakadu and Sibanye-Stillwater know that the market for nickel sulphate is – potentially-speaking – enormous. According to Roskill, a specialist metals and market research company, nickel sulphate consumption has grown 20% a year since 2014 owing to electric vehicle battery growth. Contained nickel demand is expected to total 2.6m tonnes annually by 2040 compared with 90 000t to 100 000t a year today.

Sibanye-Stillwater has already acted on its interest in battery metals, announcing in February a R700m toe-in-the-water acquisition of shares in a Finnish lithium developer which is, in turn, developing a R6bn lithium mine over which Sibanye-Stillwater has a control option.

Diseko, however, says it is not a given his company is a natural fit with Sibanye-Stillwater, or any other mining firm for that matter. "What we have is proprietary technology. We are a process and technology business rather than an earth-mover," he said in an interview with *finweek* following news that the nickel sulphate refinery will this year produce 16 000t a year of nickel sulphate on the way to 25 000t annually at full pelt.

He is also not overly eager to jump into bed with a particular buyer of nickel sulphate, though they abound in number. Notwithstanding OEM's interest in Thakadu's product, the main markets are in South Korea, Japan and China. The North American and the European market will come into the frame in time, but for now there is enough interest in the Asian market to tempt Diseko to think bigger.

The plan, whilst building up production from the refinery, is to build both geographic and product diversity. Cobalt, another of those battery metals, is produced by Thakadu Battery Materials as a by-product of nickel sulphate, but there is an ambition to move into larger scale production of that metal, as well as other battery materials.

Diseko also wants to expand his company's operational footprint into Southern Africa and North America. His ambition begs the question of how this may be financed. Currently, the company is financed by the IDC and a group of high-net-worth investors, whose loyalty he hopes to reward with dividends, in time.

"We're at an exciting place where we have many options. An offshore listing would be in keeping with our plans to internationalise," he says. Sadly, a Johannesburg debut is not in the offing should Thakadu opt to go public. "The capital pools are different here."

And instead of considering his company prey for Sibanye-Stillwater's battery minerals strategy, Diseko has merger and acquisition plans of his own. "We want to leverage our first mover advantage. We want to have a suite of prospects in Southern Africa and North America. We see the company doing this in short order," he says.

Diseko says the market should expect more action in the next 12 months. It might, though, come sooner.

Speaking to *finweek*, Neal Froneman, CEO of Sibanye-Stillwater, had this to say of Thakadu: "You can produce nickel metal you can sell; however, if you get to produce high-quality nickel sulphate … that's what the battery manufacturers want, and it gives you a competitive edge."

Froneman wants to develop "exposure" to these companies by first taking investment-sized stakes in the businesses and bringing its balance sheet into play by financing expansions the companies could not ordinarily provide alone.

"By associating ourselves with those kinds of companies [such as Thakadu] is exactly the type of association I'm talking about. That is exactly the type of partner you want to work with and develop those relationships," said Froneman, who declined to say whether Thakadu was specifically in the company's sights. ■

editorial@finweek.co.za

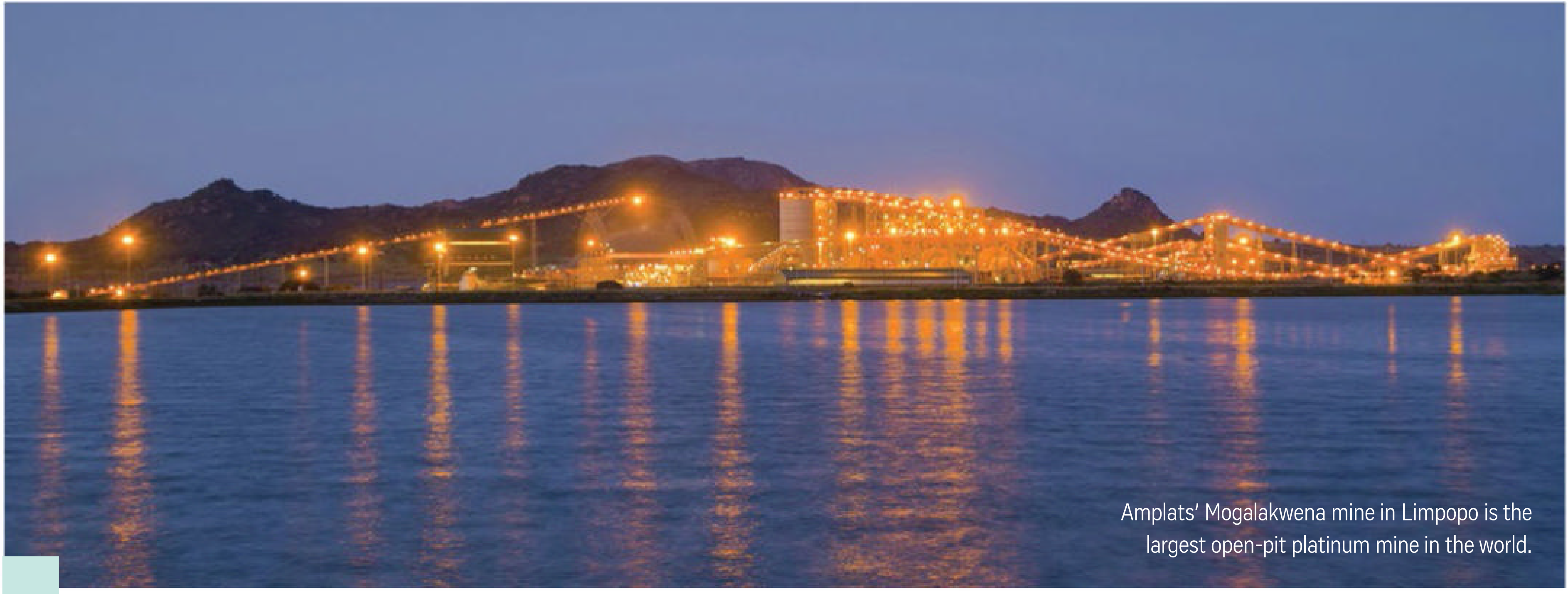
Photo: Supplied

By David McKay

MINING

Annus horribilis for Viljoen

The first year as the CEO of Amplats was challenging for Natascha Viljoen, but things are looking up with the PGM market evolving.



Amplats' Mogalakwena mine in Limpopo is the largest open-pit platinum mine in the world.

It has been a year since Natascha Viljoen walked through the doors at Anglo American Platinum (Amplats) as its new CEO – a period described by industry colleague Bernard Swanepoel, a non-executive director of Amplats' rival Impala Platinum, as one that "has been truly horrible" for her.

Swanepoel was speaking at his Joburg Indaba PGM industry day, an online conference, where he wanted to know from Viljoen how difficult it was to compete for capital in the Anglo American group, which is an 80% shareholder of Amplats, as the group had so many high-quality assets spread across the world.

Owing to the ever improving "optics" of the PGM basket price – which includes not just platinum and palladium, but high-riding metals such as rhodium and now iridium – Amplats can offer up an impressive business case in having its projects approved. In any case, as the former head of processing at Anglo since 2014, Viljoen understands how the group works.

It was owing to those six years at Anglo that she was somewhat prepared for the role at Amplats, although not entirely. "I had a perception. I didn't come in entirely cold, but I can't say I've got a complete understanding of the group as yet," she said in an interview with *finweek*.

The explosion of one of Amplats' processing facilities in February, followed by the discovery of similarly threatening issues at the facility's back-up unit predated Viljoen but it became her first major problem and contributed to "the horrible year", along with the challenges of Covid-19. The processing facility blow-out resulted in several months' downtime of refining capacity and a major lockup in the metal. According to Amplats' most recent statements, the inventory will take 24 months to clear from January.

Natascha Viljoen
CEO of Anglo American Platinum

"Developing a nickel sulphate product is perhaps the most exciting of the things we've been looking at."

"It seems strange, but I have encountered this in many places where I have worked and that's that we don't know, in SA mining, how to look after our facilities properly. But rather than point the finger, I think it's created an opportunity to look at the entire pipeline," she says.

In practical terms this means Amplats has been able to look at how it fully exploits what is happening in the PGM market today. Iridium, one of the 13 different metals that is contained in the PGM suite, recently hit an all-time price high of $6 000 per ounce, mirroring similar price improvements for rhodium and nickel.

"Developing a nickel sulphate product is perhaps the most exciting of the things we've been looking at," said Viljoen of evaluating the entire mine-to-metal pipeline. Nickel, in its pure sulphate form, is in high demand among automotive manufacturers (see story on p.10) as it's a critical metal in the manufacture of electric car batteries.

In fact, the decarbonisation of the drive-train, as it is termed in the sector, and the onset of the green hydrogen economy, is triggering incentive pricing for a whole range of the PGMs. Viljoen thinks it will contribute towards a faster-moving market for at least the next ten years.

"Previously, the PGM market was slow-moving. What's interesting is that future markets might evolve more quickly," she says. A factor heightening the price surge of some of the PGMs is that they are produced as by-products of platinum and palladium so there is little flexibility for miners in responding to market deficits such as rhodium. Despite scaling new price heights, the metal is set for a market deficit over the next four years, according to data produced by Sibanye-Stillwater, an Amplats rival. ■

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Photos: angloamericanplatinum.com

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>> **Killer Trade:** Dis-Chem *p.14*
>> **Invest DIY:** A look at not-so-obvious assets *p.16*
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FUND IN FOCUS: PLATINUM BCI WORLDWIDE FLEXIBLE FUND

By Timothy Rangongo

Finding solace amid expensive equities

This fund gives investors exposure to offshore opportunities without having to convert their rands to foreign currency.

FUND INFORMATION:

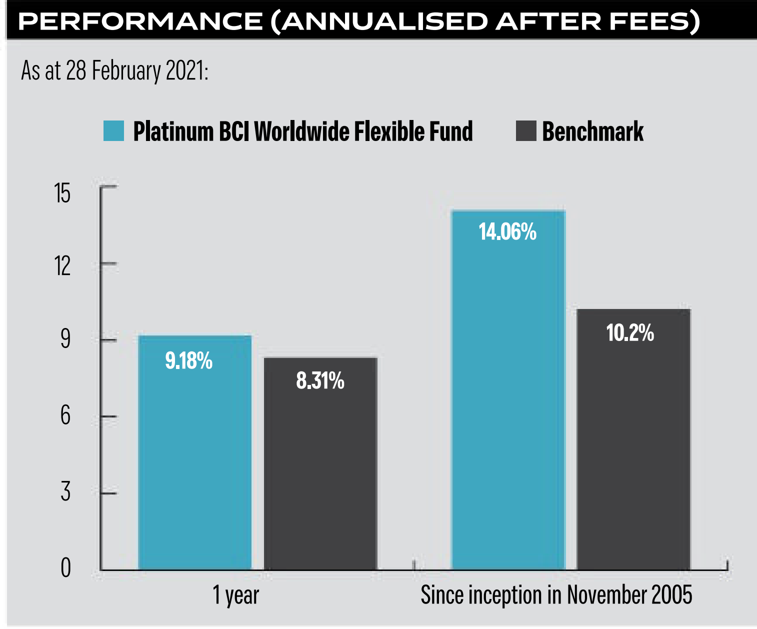
Benchmark:	CPI + 5%
Fund managers:	Mel Meltzer and Charolyn Pedlar
Fund classification:	Worldwide – Multi-asset – Flexible
Total investment charge:	2.01%
Fund size:	R844m
Minimum lump sum/ subsequent investment:	None/ R15 excl. VAT on all direct investor accounts with balances of less than R100 000
Contact details:	021 007 1500/clientservices@bcis.co.za

TOP 10 HOLDINGS AS AT 28 FEBRUARY 2021:

1	SIM Active Income Fund	7.38%
2	Prescient Income Provider Fund	7.28%
3	Coronation Strategic Income Fund	6.82%
4	Dodge & Cox Worldwide Global Stock Fund	4.4%
5	Microsoft	4.19%
6	Abbott	3.12%
7	Intel	2.92%
8	Apple	2.82%
9	AmerisourceBergen	2.78%
10	AbbVie	2.7%
	TOTAL	**44.41%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 28 February 2021:



Fund manager insights:

The Platinum BCI Worldwide Flexible Fund aims to maximise long-term investment growth with a worldwide flexible portfolio, meaning it has greater latitude to explore investment opportunities in South Africa and abroad. The fund aims to achieve competitive after-inflation returns measured in rand.

In July 2016, when *finweek* first profiled the fund, it held an overweight position in Warren Buffett's Berkshire Hathaway that constituted the largest holding (7.88%). It has since been diluted to under 2%. Capital allocation decisions that Platinum's investment team were not completely happy with played a part in the decision and additionally, they felt that many of the underlying businesses in Berkshire would be negatively affected by the effects of Covid-19, says co-fund manager, Charolyn Pedlar.

"We felt it would be prudent to reduce our position to its current level."

In his recent annual letter to shareholders, Buffett disclosed that although Berkshire managed to earn $42.5bn in 2020, it also incurred an $11bn loss from a write-down in the value of a few subsidiary and affiliate businesses it owns.

"That ugly $11bn write-down is almost entirely the quantification of a mistake I made in 2016. That year, Berkshire purchased Precision Castparts, and I paid too much for the company," said Buffett.

Core to Platinum's philosophy is to buy quality companies at or below intrinsic value, according to Pedlar. "When the stock market is in the mature stages of a bull market, we become more conservative in what we are prepared to pay for companies. We prefer to have a margin of safety in the price, and we will look to enter a position below our fair value price."

The fund's biggest challenge has been watching markets "race up" and seeing the companies they would like to buy become expensive. Pedlar says "in many cases stock prices have become completely disconnected to the intrinsic value of the company".

The fund has held income funds for some time, and according to Pedlar, it's because "we have felt that the returns we are getting on these funds were far more attractive on a risk-adjusted basis than investing in SA equities."

At present, the largest holding, Sanlam Investment Management's Income Fund, is an actively-managed, R8.6bn multi-asset fund that aims to provide a high level of income whilst maximising returns and diversification across bond and market instruments with equities being limited to 10%. She says the current holding reflects the fact that they have become more conservative and additionally are unable to find opportunities to buy stocks at prices they are comfortable with.

Why *finweek* would consider adding it:

Having a flexible mandate allows the manager of a worldwide multi-asset fund to seek out the best investment opportunities, with maximum flexibility regardless of asset class or geography. This fund would be attractive to investors seeking exposure to offshore opportunities without having to convert their rands to foreign currency. ■

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18+

WHAT IS
AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

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Cheap constant access to piping hot media
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Brand new content
One site

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ADVTECH

HOLD

By Simon Brown

A dividend boost

The private education provider ADvTECH* posted impressive lockdown results for the year ending 31 December 2020. Revenue grew by 8%; school revenue rose 4% and tertiary education by 9%. I was impressed with the revenue growth in schools as this is the area that has been struggling a bit while tertiary continued to perform well.

ADvTECH managed bad debts well by targeting those in need rather than a general fee reduction. This boosted cash flows as indicated by a 20c full-year dividend, up from 15c in 2019 as they skipped dividends during 2020.

Education is always a high-demand sector and usually resilient as families believe, correctly so, in the benefits thereof.

One issue that was not repeated in 2020, was the loss of students due to emigration, mostly in the school division. But a global lockdown last year may have slowed the process, and this may start again to a degree once travel restrictions are lifted completely.

The other listed education stocks also offer promise, but with all three having reported results my preference is most definitely ADvTECH. ■

The writer owns shares in ADvTECH.

Last trade ideas

Renergen
18 March issue

MTN
4 March issue

Satrix Resi 10 ETF
18 February issue

Exxaro
4 February issue

SAPPI

By Moxima Gama

Sappi surging ahead

Sappi is a global diversified wood fibre company that focuses on providing dissolving wood pulp, specialities and packaging paper, printing and writing paper, including biomaterials and biochemicals, to a direct and indirect customer base across more than 150 countries.

Having abandoned its bear trend, Sappi's share price has been rising and could be looking to resume its previous long-term bull trend, dated September 2019. Drowning in debt, Sappi has had to make an urgent shift from its former paper trail into the cellulose market, which has a significant number of Chinese producers.

Sappi's focus since the lockdown has been on liquidity and cash flow. It also halted its R2.7bn expansion project at its Saiccor mill in KwaZulu-Natal, which is currently 75% complete. To increase liquidity, Sappi was able to negotiate with banks in Europe to suspend financial covenants for four quarters from June 2020 to March 2021.

Further negotiations were made for an extension of their credit waiver suspension period until September 2021. The first measurement of these covenants will take place at the end of December 2021. In response to lower demand, commercial downtime of around 1.4m tonnes in all were taken across all segments to match supply to demand and prevent build-up of inventory.

How to trade it:

Sappi's overbought three-week relative strength index (3W RSI) has triggered a near-term pullback within its current uptrend. Support held above 4 020c/share would be a bullish sign, and increase the chances of Sappi's share price trading through key resistance at 5 295c/share. Above that level Sappi would resume its previous long-term bull trend, which should open the doors for further upside towards 7 180c/share. Continued gains through that level could see Sappi's share price retest its all-time high at 10 580c/share in the medium term. ■

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Sappi also halted its **R2.7bn** expansion project at its Saiccor mill in KwaZulu-Natal, which is currently 75% complete.

Last trade ideas

African Rainbow Minerals
18 March issue

Blue Label Telecoms
4 March issue

MTN
18 February issue

Naspers
4 February issue

Photos: sappi.com | Shutterstock

By Moxima Gama

DIS-CHEM

A pending positive breakout

Dis-Chem, founded by husband-and-wife duo Ivan and Lynette Saltzman, is South Africa's second-biggest retail chain of pharmacies that specialises in beauty, health food, sport supplements and wellbeing. A year after listing on the JSE, the company reported an impressive R17.4bn turnover in its full financial year results for the year ending February 2017, giving it a R30.43bn market capitalisation. With a product range of more than 60 000, Dis-Chem has 165 stores in SA, four partner stores in Namibia and one in Botswana. The chain had a total revenue of R23.9bn in 2020.

Share price history

Dis-Chem's share price started sliding shortly after testing a new high at 3 995c/share in December 2017. Not even a 13.7% growth in group turnover to R20.3bn reported in May 2018, boosted by the opening of 21 stores, could prompt a recovery. Instead, investors were disappointed that earnings were low – earnings rose 14% against higher expectations of 25% growth. In addition to that, the share price fell more than 5% before the earnings were released, which infuriated traders who cited insider trading. Dis-Chem's share price plummeted by 9.95% the following day. The share price declined further after the pharmacy reported a 38.7% decrease in headline earnings per share in November 2019 due to accounting changes which affected its bonus policy and a strike by employees.

Current outlook

After testing a new low at 1 650c/share in July 2020 and holding firmly above that level, Dis-Chem's share price has been gradually recovering within its major bear trend. In fact, it is testing the resistance trendline of this trend, which means investor sentiment has turned bullish. What drove this recovery in the share price? Well, it seems Dis-Chem's online sales, which surged 344% in the 24 weeks to August 2020, thoroughly impressed investors. The group's revenue grew 8.8% to R11.7bn, proving that the happenings of the Covid-19 pandemic was in fact a purple patch for the company, whose share price was once struggling to bounce back. Despite locking horns with the Competition Commission over claims that it raised the price of masks and receiving immense criticism for refusing to pay full rent to mall owners, the share price continued to rise.

DIS-CHEM (WEEKLY CHART)

SOURCE: Metastock Pro (Reuters)

52-week range:	R16.50 - R27.06
Price/earnings ratio:	30.2
1-year total return:	-11.7%
Market capitalisation:	R19.5bn
Earnings per share:	R0.75
Dividend yield:	-
Average volume over 30 days:	779 582

SOURCE: Bloomberg

On the charts

Though Dis-Chem's share price has recovered, it is still not out of the woods. A positive breakout above 2 420c/share must still be confirmed to indicate that the long-term bear trend has ended, and a new bull phase is commencing. In a recent trading statement, the group said its revenue rose to R11.6bn in the 22 weeks from 1 September 2020 to 2 February 2021 – up 12.1% on the corresponding period a year earlier. Online sales jumped by 218.7% in the same period compared with a year earlier. Dis-Chem has seen a significant recovery in many of its older stores located in regional malls, that once saw a decline in footfall. Retail revenue rose by 10.3% to R10.4bn for the 22 weeks and baby products from its 33 newly acquired Baby City stores contributed R73.4m to retail revenue since 1 January. Dis-Chem bought the 33 Baby City stores from the Aronoff family for R430m in May 2020.

What to anticipate

Currently teetering on the resistance trendline of its long-term bear trend, Dis-Chem's share price is correcting within its recovery bull channel. If it bounces on the lower slope (lower blue dashed line) – thereby maintaining the uptrend – gains through 2 420c/share would be possible. Otherwise, Dis-Chem would resume its long-term bear trend.

How to trade it:

Go long: A good buying opportunity would be presented above 2 420c/share and again above 2 930c/share. A new bull phase would be in the making, with upside potential towards 3 500c/share. Breaching that level should trigger further gains to the 3 995c/share all-time high in the medium term. Note that the upper slope of the current recovery bull channel may curb gains and the share price would be confined within the channel. But breaching that slope would accelerate the upward momentum.

Go short: The recovery bull channel would end on continued downside towards 1 980c/share. In which case, refrain from going long. The 1 650c/share all-time low would be retested on continued selling. ■

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Moxima Gama is an independent stock market analyst at The Money Hub.

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By Simon Brown

INVESTMENT

A novel idea for when the bubble bursts

A digital picture recently obliterated records when it sold for millions. But are these assets worth our time and money?

Recently a digital picture was sold on auction at Christie's for $69m, making the artist, Beeple, one of the most successful living artists in terms of prices paid while alive.

Interesting is that the transaction was concluded through a non-fungible token (NFT) and the art is digital. Yes, digital. I have already downloaded a perfect copy and have it as my wallpaper on my laptop. So, what the heck is going on here?

NFTs are certainly the new rage. They are back-ending into the blockchain, thus essentially proving ownership of something. Currently that something is mostly digital art or gifs, but it has wider potential. The real benefit of the blockchain is that there is no third party required to verify the transaction.

Think, for instance, about when you buy a house. The deeds office needs to step into the transaction and verify the new ownership. With an NFT there is no need for the third party. In theory this makes transactions quicker, cheaper and easier.

But I know what is bothering you: who paid $69m for a digital image that has already been copied millions of times and why did they throw good money at something they could copy for free (even before the auction ended)?

The story here is that a user by the name of "Metakovan" bought the image using his own crypto called B20, that is essentially aiming to be a bundle of Beeple art that one can now invest in by way of buying B20 coins. Basically, a fund of sorts, or maybe just a dodgy attempt to profit off a craze, especially as Metakovan holds 59% of the B20 coins and the artist, Beeple, holds another 2%.

But I am more interested in NFTs themselves. They are without a doubt the hot asset class right now. The National Basketball Association (NBA) in the US kicked off the craze by issuing gifs of various NBA players that one could buy and then trade. Surprisingly to all involved, this netted the NBA over $200m in sales, for gifs that anybody can copy.

NFTs are really about the story of ownership. The Louvre owns the *Mona Lisa,* but a large part of its value surely sits in the fact that millions of us have copies of the painting. It is famous and we all want to see it. Now, if the Louvre ever decided to sell the *Mona Lisa,* the fact that there are millions of copies is surely not going to detract from the price.

The other key point of NFTs is the ability to write terms and conditions into the contract. For example, Beeple could write into the NFT that any future sale of his art would automatically see a set percentage of the sale price being paid over to him (using crypto, of course).

The current hype around them and the trading thereof, especially paying $69m for a largely unknown artist's digital work, is without a doubt an indication of bubble territory.

Sounds crazy? Yes, but is there something here with NFTs? I think there is. The current hype around them and the trading thereof, especially paying $69m for a largely unknown artist's digital work, is without a doubt an indication of bubble territory.

I am not buying any digital NFTs and do not plan on trading any. But what if somebody puts a JSE-listed share into an NFT? Then I can sell them without needing the exchange and without having to pay the various brokerage fees and taxes. Further, proof of ownership is absolute, so I still get dividends and can attend the issuer's annual general meeting.

So NFTs are an idea that I think has a future, but first we need the crazy bubble to pass. ■

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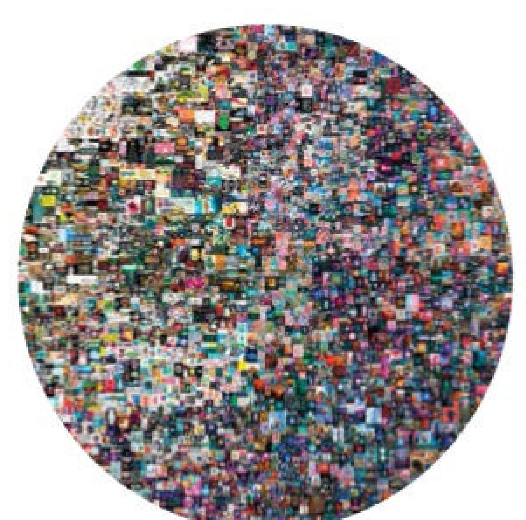


The First 5 000 Days by the artist Beeple

Who paid $69m for a digital image that has already been copied millions of times and why did they throw good money at something they could copy for free?

Photo: Supplied

By Schalk Louw

PERFORMANCE

Active fund management shines quietly in difficult times

It is often said that active unit trust managers struggle to outperform their more passive counterparts, but there are more aspects that should be considered.

Just more than a year ago, South Africa moved into the Covid-19 lockdown. But it's not just one year since the commencement of lockdown, it also marks the low point (reached on 19 March 2020) when the FTSE/JSE All Share Index (JSE) had declined by 39% from its previous peak in January 2018. This was also the lowest point at which the JSE had traded since April 2013. And little did we know at the time what a rollercoaster ride the next year would bring.

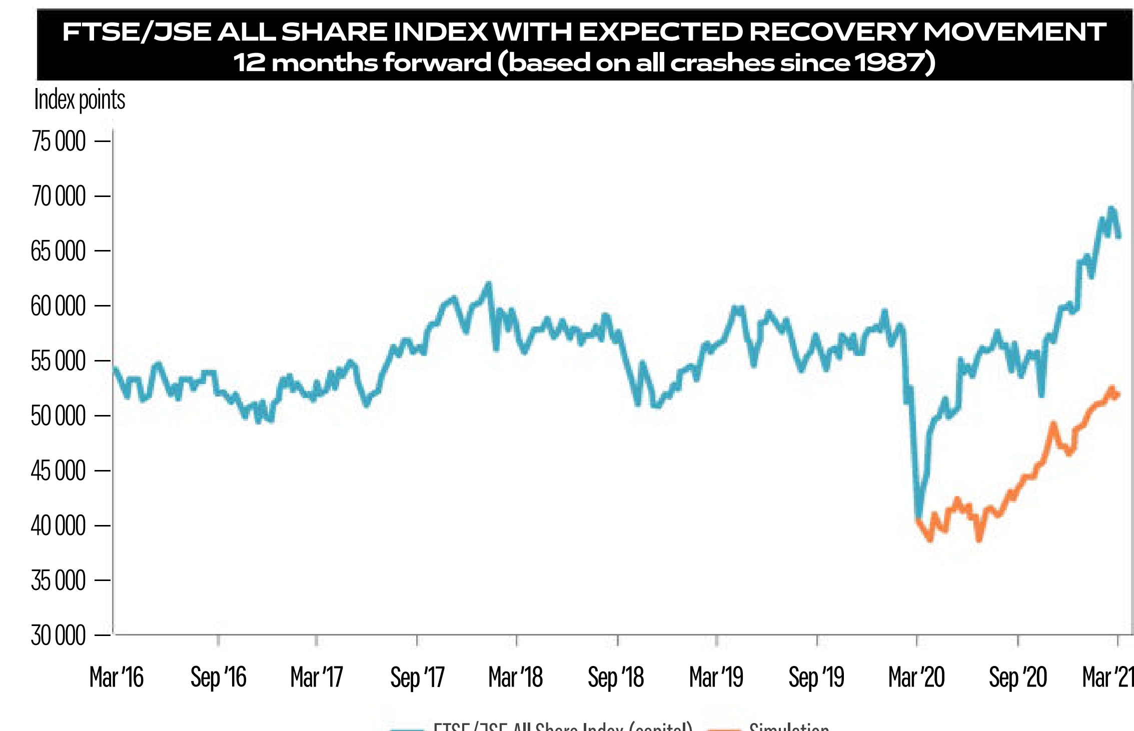
When you look at the JSE from a historical perspective, you will see that it only contracted by 30% or more from its peak on five occasions since 1987. When you compare the returns for the 12 months that followed the four previous contractions (excluding the 2020 correction) to the return we have seen over the last 12 months, you will understand why experts are astonished. Yes, on all four prior occasions the 30% contraction point was the worst time to withdraw your investments, but the last 12 months' recovery has been just phenomenal by historical standards.

All of this may still be fresh in our minds, but we are still not out of the woods and the last 12 months were not easy. What we have learnt from these difficult times, however, is that active fund managers will not be unemployed any time soon. But why?

Over the last year several experts in the investment industry, along with several media platforms, were quick to point out how active unit trust managers struggled to outperform their more passive counterparts, and this criticism is not necessarily unfounded. Let us use all SA general equity unit trust funds with a current fund size of R1bn or more: Until 19 March 2020, only 35% of these funds were able to outperform the JSE's average return for the six preceding 12-month rolling periods since 19 March 2014. This was such a difficult time for these funds that for the 12-month period ending 19 March 2018, no SA general equity unit trust fund could outperform the JSE at all.

And it is during these times that the spotlight often falls on active managers' normally higher cost structures compared with those of the more passively-managed exchange-traded funds (ETFs).

A well-diversified portfolio should include both active and passive investment strategies, and this is especially so during difficult times like we experienced over the past 12 months. Of all SA general equity unit trust funds that currently have a fund value of R1bn or more, 54% managed to outperform the JSE, whose recovery totalled a whopping 54% over the last 12 months (until 19 March 2021). More than half of all SA general equity unit trust funds with a fund value of R1bn or more did not just manage to outperform the JSE's 54% recovery, but they notched up an average return of 81% over this period, according to data from Refinitiv Eikon.



SOURCE: Refinitiv Eikon & PSG Wealth Old Oak

Of all SA general equity unit trust funds that currently have a fund value of R1bn or more, **54%** managed to outperform the JSE over the last 12 months.

I have no doubt that several passive fund supporters will regard my data as biased, but I assure you that this is not the case. As I mentioned before, there certainly is a place for good passive funds in most investment portfolios. But what I would like to point out, is that contrary to ETFs, which aim to deliver a lower cost and lower tracking ratio option, most active managers aim to manage not only investors' investment growth, but also their risk.

Make sure that when you do your investment homework, you don't just look at the price of the investment you are interested in, but also at the risk-adjusted historical returns. The last thing you want is for the saying, "buy cheap, buy twice" to apply to you. ■

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Schalk Louw is a wealth manager at PSG Wealth Old Oak.

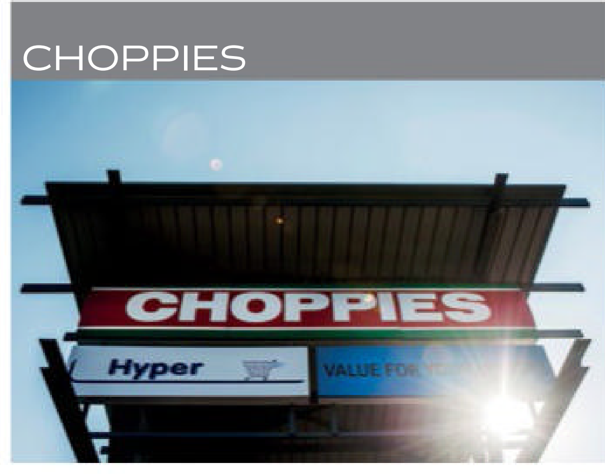
Photo: Shutterstock

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.

CHOPPIES



Choppy shares

Choppies' financial results for the six months ending December was released on 17 March. In contrast to Shoprite's performance, they were very disappointing. Choppies' revenue was down 9% while headline earnings per share (HEPS) dropped 11%. The company reported that the decline in volumes sold was due to lockdowns; but Shoprite grew its earnings during lockdowns. Choppies has lots of issues and I have always suggested staying away and I still hold that view.

MASTER DRILLING

A longer-term play

Master Drilling's financial results for the year ending December, released on 23 March, saw dollar revenue down 17% to $123.1m and HEPS in rand slumping by 71.4% to 42.6c as the government lockdown prevented them from easily moving their equipment between markets as demand shifted. They operate in over 20 countries and some, such as India, performed well, while Master Drilling is also gaining traction in North America. As commodity prices remain at elevated levels, we're already seeing some signs of new production, albeit small for now. This should accelerate in time and the company should benefit, but this could be another three to five years off. The biggest issue here is that the market has never taken a shine to the stock, so even improving fortunes may not flow into a markedly improved share price.

LENDERS

Bank on FirstRand

The four large banks have now all reported results. FirstRand for the six months ending December while Standard Bank, Absa and Nedbank all reported full-year financial results through the end of December. Nedbank and Absa both passed over their dividend and the other two made smaller payouts to shareholders. Bad debts came in bad, but not as bad as one would expect and the clear winner for me was FirstRand, followed by Standard Bank. However, if our economy has a decent 2021, then Absa may be the better option as it will come off a lower base. However, Absa has disappointed investors for ages. So, staying with the leader, FirstRand, is probably the safer bet here.

SHOPRITE

Back on top

Shoprite's* financial results for the half-year through December, released on 16 March, were excellent. Their SA shops grew sales by 8%, half through increased volumes and half from price increases. The operating margin picked up again to 5.6% for the whole group, well ahead of its peers. Shoprite's businesses in the rest of Africa again contributed to profits after swinging into a loss previously. I expected the profit from the rest of the continent, and it should pick up some more during 2021. Overall, Shoprite is clearly the best food retailer on our stock exchange. At current levels of around R155 it is, however, not cheap. Then again, Shoprite's shares are seldom cheap and as a quality defensive investment I still think it is worth adding to a portfolio.

AVENG

To wait or not to wait?

In the previous edition of *finweek*, I wrote that Aveng was perhaps a decent-looking and speculative trade for those liking the company's risk profile, but that I would wait for a share consolidation. On 23 March, Aveng announced a potential second rights issue after raising R392m in the one earlier this year. They're looking for another R100m with new shares pitched at the same 1.5c as the previous rights issue. Assuming the issue happens, and they get the full R100m, it will further improve the share's potential. However, I still like the idea of waiting for that consolidation, which is typically negative for a share price as price discovery sends it lower as it can trade in smaller increments than the current 3c to 4c jump. However, the issue here is that waiting longer may see the stock move a few cents higher before the consolidation drop brings it back to around current levels. In other words, maybe waiting is not the right idea.

They're looking for another **R100m** with new shares pitched at the same 1.5c as the previous rights issue.

SASFIN

More delistings await

Sasfin announced on 18 March that they are repurchasing their preference shares at R71 a share. This is a chunky discount to the issue price of R100 in 2004 and R110.50 in 2006. But with regulatory changes it means that we'll likely see more of this. Capitec* has also been buying back their preference shares in past years but in the open market as sellers offer them volume. I think that we'll see more delistings and buy backs of local preference shares, which is a shame. They're a great asset class for those looking for yield in a tax-efficient way as holders only pay a dividend withholding tax of 20% as opposed to income tax on interest (after the personal interest income exception). There are still, luckily, a fair number of listed preference shares, and the CoreShares PrefTrax ETF with an after-tax dividend yield of almost 8%.

INTEREST RATE

Increases may be postponed

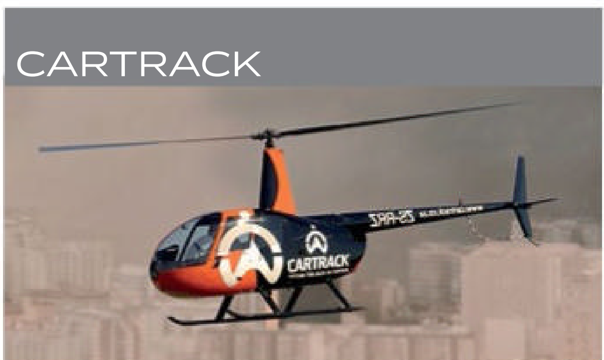
The South African Reserve Bank kept interest rates unchanged on 25 March after local consumer price inflation clocked in at 2.9% for February. Two points caught my attention. Firstly, the Monetary Policy Committee's (MPC) vote was unanimous whereas votes at the last couple of meetings had been close with a 3-2 split, and the minority having been voting for an increase. This suggests that an increase in interest rates is further away than the MPC's earlier proposed hikes by late 2021. This is likely due to their GDP forecast for the first quarter sinking to a contraction of 0.1%; down from the 1% growth expected at the January MPC meeting. Considering that our lockdown started on 27 March last year, the first-quarter economic growth this year is off a pre-pandemic base. Nevertheless, it still shows that we're a long way from getting the pandemic behind us as an economy.

TENCENT

Tech giant's revenue rises

Tencent's full-year financial results through 31 December, released on 24 March, were strong even as the share price continues to slide in Hong Kong. The company grew across all their businesses, including the lesser-known online advertising, software-as-a-service (SaaS) and cloud offerings to corporates. The regulatory environment remains unsettled as Tencent founder Pony Ma was reported to have recently met with Chinese government officials. However, Tencent is seemingly taking a less hostile approach than Alibaba founder Jack Ma. Increased regulation will ultimately be good for both large tech giants as it generally benefits the incumbents who have the resources to manage regulatory processes.

CARTRACK



Nasdaq move on track

Cartrack has, on 15 March, published details of its move to the Nasdaq. Those shareholders staying in the scheme will see their JSE shares delisted on 14 April and then relisted as an inward listing on 22 April. Not much will change for shareholders except that the company will now have a primary listing in the US. As I have written before, I think the share price jump on the news of a US listing has ushered valuations ahead of what's fair, with 5 000c being my fair value.

METAIR

Late on the green energy bandwagon

Metair released its financial results for the year through 31 December on 18 March and they were decent enough considering the challenges in the automotive market they operate in. New vehicle production in SA over the next three years will cost them at first as they ramp up production, but it will assist down the line when new production starts making profits. The company will also start producing lithium-ion batteries later this year in Turkey, but this is something they should have been doing for some time already. Energy storage for green energy and electric vehicles are both growing and important markets, but equally require a fair bit of technical skills.

SYGNIA

No surprise

News that Sygnia's co-CEO, Magda Wierzycka, will be stepping down as an executive shouldn't have surprised anybody. The company has had two CEOs for a while now and this is usually a clear indication that there will be a change in time as one takes over as the only CEO. For the company she will be a loss although she will continue to help in a more hands-off manner. But overall, it should not dent the company's strategy and profitability. ■

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**The writer owns shares in Shoprite and Capitec.*

Photos: Gallo/Getty Images | Shutterstock | www.cartrack.sg

By Peet Serfontein

STOCK PICK

Economic recovery: What to buy

Reflation trades can give some insight into the price movements of global stock markets and subsector prices.

The buzzwords in the investment community over the past few months have been reflation and reflation trade. Reflation is the upswing of the economic cycle where growth and inflation accelerate, usually (but not always) after a deflationary period or recession.

The Covid-19 pandemic is a classic case of deflation. Economic growth took a tumble over the cliff last year when economies worldwide closed (and of course, at the same time, stock markets fell).

However, policymakers came to the rescue with lower interest rate policies, large liquidity injections and major fiscal stimulus packages. The scale of this is the largest we have experienced in our history.

The road to economic recovery began late last year. The removal of the uncertainty surrounding the US presidential election was an important turning point and contributed to a turnaround in investor confidence. The Covid-19 vaccines allowed the stock markets to look forward to a more "normalised" world.

When economies are in a reflation period, they are generally favourable for commodities and stock markets. There is also a tendency to prefer small-cap over large-cap companies. Cyclical sectors such as energy, resources, finances, consumer discretionary and technological stocks are also usually boosted.

Reflation is also accompanied by rising yields in bond markets, as we have already seen with the US ten-year government bonds.

Of course, there is also concern about gold and interest rate-sensitive equities, utilities and infrastructure. And naturally, gold will struggle somewhat to keep its head above the $1 800 per ounce level. Thus, the signs of a reflation period are clear.

How do you get exposure to reflation trades?

Certain shares get a boost within this classification. To these I would add shares that have exposure to cruise-line operators, airlines and other travel and leisure companies that could benefit when the world hopefully returns to "normal".

You also have to keep in mind that the reflation trade may not happen as expected. It is already apparent that the signs of a third wave of coronavirus infections is starting up, while Italy is again imposing a national lockdown over the Easter weekend. The biggest risk, of course, is that optimistic forecasts for economic growth will not materialise.

SOURCE: Peet Serfontein/TradingView

52-week range:	$137.91 - $304.93
Year-to-date return:	1.92%
1-year total return:	79.24%
3-month return:	0.33%
Expense ratio:	0.07%
Indicated dividend yield:	0.28%
Assets under management:	$15bn

SOURCE: Bloomberg

This is where an exchange-traded fund (ETF) with a growth objective caught my eye. The Vanguard Small-Cap Growth Index Fund ETF (code VBK) is listed on the Chicago Stock Exchange. The reflation trade prefers small-cap over large-cap companies.

What makes an ETF attractive?

Growth-targeted ETFs are one of two broad categories of ETFs, the other being value ETFs. Growth ETFs are designed to invest in a basket of shares whose underlying companies have the potential for rapid growth, as opposed to shares whose prices are relatively undervalued.

While these ETFs can deliver above-average returns, they also carry more risk, as rapid growth is usually accompanied by higher volatility, especially in times of economic weakness. These ETFs may not be the best tool for investors looking for regular investment income.

Keep in mind that the US authorities have used reflation policies for a long time to restart failed business expansions. Although almost every government has tried to prevent the collapse of their economy in one way or another, no one has ever succeeded in avoiding the contraction of the business cycle. Many academics believe governments' intervention only slows down the recovery and worsens the consequences.

Well, should you buy this ETF now?

This ETF recently experienced a price correction, and I feel current levels are a good buy. This ETF is remaining above its 200-day moving average. As long as it stays above this level of around $235, a bullish trend is important.

Furthermore, as long as the ETF remains above a price of $265, there is also a bullish trend. This level serves as a pivot, which is calculated by a combination of psychological levels over the short, medium and long term that represent the different market participants (traders and investors). A pivot is therefore a technical indicator for analysis that is used to determine the overall trend of the market over different time frames.

If the price starts breaking through below this level, I would get worried. This level should also serve as a stop-loss.

Possible profit-taking occurs at $320, which is based on the overall resistance trendline calculated by previous highs (black resistance line on chart). Note that the expected price action is not related to time and could take a long time or very short time to reach the profit target price.

The chart is the medium-term (weekly) chart of the ETF's price. Note that the scale is logarithmic. ■

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finweek FUND FOCUS

YOUR QUARTERLY REVIEW OF SA FUNDS

APRIL 2021

ARE LOCAL MULTI-ASSET MANAGERS MAKING A COMEBACK?

By Leon Kok

OVERVIEW

Manage your funds like a pro

With the myriad of information available and the muddled state of economies, it can be tricky to make sound investment decisions.

Some would have you believe that investing in mutual funds has become more complex than ever, being currently compounded by the confused state of the domestic and world economies and related issues.

For instance, if your intention is to diversify offshore, should you be investing into the current bull markets? In fact, they have been defined in some quarters by the fact that nothing can defy them.

Also, the adage is let your winners ride and cut the losers short, but the losers could bounce back quicker than you think and hold up better should we have a correction from overvalued levels.

Perhaps the most daunting challenge investors face, according to prominent US investment analyst David Beattie, is the sheer speed and volume of information. In the past, solid information about publicly traded companies was hard to come by outside of the annual and quarterly reports. This is no longer the case. Even if you have a good handle on quality information, you can still get burned when inaccurate information or basic uncertainty hits the market.

Further, the marriage of investments and advertising has been both a boon and a bane to investors. On the one hand, advertising has helped familiarise investors with a wider range of investment vehicles available today. On the other, it can sometimes push an investor towards an edge by hyping an investment that is not necessarily the best fit.

The trick, according to Beattie, is finding the right balance when taking in information and turning it into action. In fact, most investors can survive the modern information barrage with some very traditional advice – measure twice, cut once. In other words, take the time to evaluate the information in front of you before making buy or sell decisions.

Also important is avoiding the dangers of not questioning the numerous assumptions, sayings and pseudo-statistics that, over time, have achieved almost mythical status. While conventional wisdom is not always wrong, it is seldom as wise as it may seem. Put another way, there is a world of difference between good advice and advice that sounds good.

Also guard against financial planners telling you that the more funds you have in your portfolio, the better. You simply do not need duplicate funds with the same objective, such as long-term growth.

True, some growth managers like getting into classic earnings-driven shares while others go for out-of-favour plays. But many of their holdings will be remarkably similar.

We would argue that *Fund Focus* has played an admirable role through the years in guiding individual investors and underpinning their wealth. Most contributors have vividly shown that they understand that managing other people's money is a precious responsibility requiring high standards of commercial and financial conduct, and even higher standards of trusteeship and fiduciary duty.

In fact, I would venture to say they have made hundreds of thousands of South African investors significant beneficiaries of main street expertise instead of having to resort to proverbial stooges on the losing end of smart money.

This edition is no exception in reflecting the same. It is well-highlighted by Duane Cable's piece on how low-equity multi-asset funds have lost their mojo. Unfortunately, he points out, only a few specialist managers have been able to deliver on their objectives over the past five years and the market is now losing faith in the sector.

"In fact," Cable adds, "the large drawdowns experienced across the multi-asset sector during the Covid-19 crisis has led many to question the ability of these funds to deliver on their objectives to preserve capital following the market collapse in March last year."

Allan Gray portfolio manager Kamal Govan questions whether holding companies are worthwhile investments. He points to them being key drivers where appropriate, but also details the risks.

"Pinpointing the exact reasons for holding company discounts is difficult," he admits. "Complicating matters is that holding companies come in various forms and sizes. Nevertheless, there are several drivers of their discounts that may apply in various situations."

At the other end, we feature Coronation Fund Managers' leading offshore funds and interview its head of global markets, Neil Padoa, on a host of issues. These funds merit appropriate attention. The house's prestigious Global Equity Select Fund, for instance, has boasted an impressive 54.8% cumulative return since 2015, with annualised returns at 37.5% in 2019 and 14.1% last year.

Finally, we give attention to the appointment of well-known investing figure Arno Lawrenz as Sasfin's chief investment officer (CIO), his general outlook and how he hopes to enhance the business.

An astute operator, he was previously global investment strategist and fixed income head at Ashburton Investments and CIO at Atlantic Asset Management. ■

Leon Kok is an independent writer on public policy and investment markets.

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By Leon Kok

OFFSHORE

Are stock markets realistically priced?

Global stock market performance has been quite unexpected, but are they moving ahead of economic recovery?

It goes without saying that global stock market performance has been extraordinary during the past year. The S&P 500, for instance, is up 65% since its low last March and nearly 16% for the year. The Nasdaq, laden with technology stocks, is 44% higher for the year. Valuations are now trading at enormous premiums.

The wider stock market is clearly being powered by expectations of strong growth after vaccines have been extensively distributed and the economy fully opens. One thing, arguably, the pandemic has underscored is that it is a forward-looking medium. But now it is probably more about future expectations than current conditions.

We spoke to Coronation Fund Managers' Neil Padoa about current trends. Head of global developed markets and portfolio manager there, he graduated with a Bachelor of Economic Science at Wits University and is a fellow of the Faculty of Actuaries. With 13 years' investment experience under his belt, he worked as a management consultant at Bain & Co, an equity analyst in London; and joined Coronation in May 2012.

Neil Padoa
Fund manager
at Coronation

Although the US equity market has grown to represent 61% of the FTSE World Index, does it still offer good value?

We evaluate each stock on its own merits, and yes, even in the US, we are still finding a mix of competitively entrenched businesses, and highly innovative companies with strong growth prospects.

Despite China being the pandemic's epicentre, it was the first major economy to recover and enter 2021 with a relatively optimistic outlook. Do you endorse economic growth projections this year of 5% or 6%, and what impact will this have on global markets?

Our economist expects GDP growth in China of about 8%. What is happening beneath the hood, however, is perhaps more interesting, with consumption in China expected to grow approximately 10%, continuing the steady shift to a consumption-driven rather than an investment-led economy. From a macro perspective, this should be a tailwind for Chinese companies that are geared to the Chinese consumer.

Forecasts for economic growth in the eurozone seem to be around 5.2% this year, pointing to a solid recovery. Will the bounce-back in European markets continue?

As economic conditions start to normalise after Covid-19, GDP growth should rebound strongly almost everywhere. But this has no bearing on our investment approach and has little to no predictive power with respect to markets. One only must look to 2020 as the most recent example: aggregate GDP for all advanced economies is expected to shrink by an estimated 5%, while stock markets advanced by some 16%.

What about value in the UK, especially businesses that have been heavily discounted following years of Brexit-driven uncertainty?

The UK market has performed poorly. While Brexit is one reason, the underlying composition of the index is also instructive. The largest UK stocks are slow-growing consumer staples, big pharmaceuticals, large incumbent banks, and big oil and commodity producers. There is a notable absence (with a few rare exceptions) of high-growth technology businesses, which could be at least as important as political uncertainty in explaining recent underperformance.

We are finding selected value in the UK. Prudential plc is a stranded asset, listed in the UK but with their future tied to the Asian consumer. This inappropriate structure will be remedied by an imminent listing in Hong Kong, which should highlight the strength of, and value within, their leading Asian insurance franchise.

Quilter is an integrated financial advice and wealth platform. It has largely been flying under the radar, but we think it is well-positioned to address the huge advice gap and growing long-term savings pool in the UK.

> A bank's economics are largely at the mercy of interest rates, they remain squarely in the crosshairs of regulators, and are struggling to grow much above 2% to 3%.

Your view on US and European financials, especially businesses that are well-capitalised, with strong banking franchises and trading on single-digit price-to-earnings ratios?

We do not currently hold any developed market banks. While some banks trade on low multiples (of earnings or book value), this does not necessarily make them cheap. Furthermore, we do not look at them in isolation, but rather assess the relative risk-reward profiles of these companies against much higher-quality businesses where we still see attractive returns. A bank's economics are largely at the mercy of interest rates, they remain squarely in the crosshairs of regulators, and are struggling to grow much above 2% to 3%. Over the long term, they are vulnerable to a horde of digital disruptors attacking various profit pools with lower-cost, consumer-friendly business models.

Likewise US health insurers?

To radically oversimplify, Anthem and UnitedHealth sit between a network of healthcare providers and payers. They have leading scale and brands, are forecast to grow steadily but rapidly (12% to 15% per year) and are priced cheaply (Anthem trades on 12 times earnings, for example). The US healthcare system has many costly inefficiencies, and we believe these companies can use their position in the industry to be part of the solution, driving down costs and improving the standard of care. ■

Photo: Supplied

By Duane Cable

INVESTMENT

Have low-equity multi-asset funds lost their mojo?

With investors losing faith in the sector, which pitfalls should specialists avoid when they make asset allocation decisions?

Low-equity multi-asset portfolios aim to provide investors with capital growth by delivering inflation-beating returns, while balancing the need for capital preservation. Unfortunately, only a few specialist managers have been able to deliver on these objectives over the last five years and investors are now losing faith in the sector.

In addition to relative underperformance, the large drawdowns experienced across the multi-asset sector during the Covid-19 crisis has led many to question the ability of these funds to deliver on their objectives to preserve capital following the market collapse in March 2020.

It is understandable that investors have been losing faith as the average fund in the low-equity category has underperformed cash over the last one, three and five years. This has not been the case for a limited number of multi-asset low-equity funds, including the Ninety One Cautious Managed Fund, which has managed to outperform the peer group and inflation over all the above performance periods; and cash over one, three and ten years, net of fees.

While security selection is important, asset allocation is one of the most important decisions in investments and getting it wrong has contributed to poor returns for the average fund in the sector. There are some pitfalls which asset managers could avoid when making allocation decisions.

Do not make investment decisions looking at the rear-view mirror

It is dangerous to chase recent performance. There is no guarantee that what worked the last five years will work for the next five years. If investors were to look back to 2015, local equity and local property had been two of the best-performing asset classes for several years and were the cornerstone of most multi-asset portfolios. An assumption that the trend would continue has certainly cost investors dearly over the last five years.

It is too simplistic to conclude given the poor performance of local equity and local property over the last five years that they will be the winning asset classes over the next five years. Investors need to be sceptical of overly simplistic mean reversion arguments.

Overconfidence in forecasts resulting in risky bet sizes

As the future is never certain, it is important to understand probability distributions around forward return expectations, especially when the distribution around the forecasts is quite wide. Research suggests that people are too confident in their own abilities and predictions. As a result, they tend to predict outcome ranges that are too narrow. If they are wrong and forecasts are too optimistic, the downside risks can be significant, especially when positions were not sized appropriately.

Taking too much risk in the pursuit of returns

It is tempting to add too much risk in the pursuit of returns. However, the cost of being wrong can have a devastating impact on portfolio returns. In an era of unprecedented stimulus and "free money" it is always tempting to overstay your welcome.

At the height of market euphoria in 2007, Chuck Prince, the CEO of Citigroup, famously responded when asked if he was concerned about the risk-taking behaviour in the market: "[W]hen the music stops, in terms of liquidity, things will be complicated, but as long as the music is playing, you've got to get up and dance." Prince lost his job a few months later when the party ended, for failing to manage risk appropriately. Given the swiftness of the equity market recovery since March (less than six months for the S&P 500 to recuperate losses and return to levels before the Covid-19 pandemic), it is tempting to assume that there are no consequences for taking risk as long as we have the central bank 'put' in place.

While the Covid-19 recovery for the S&P 500 has been swift, it took more than five years to recover losses from the Global Financial Crisis and more than seven from the dotcom bubble. We should never underestimate that the benefits of compounding on long-term wealth creation and avoiding large drawdowns are among the key principles of successful asset allocation decisions.

Guard against home bias and unintended consequences if managing local and offshore assets independently

Offshore assets now make up a sizeable portion of multi-asset portfolios. Yet, these assets are often managed independently by third-party managers or independent teams as stand-alone portfolios. When separating the local and offshore asset allocation and asset selection decisions, the combined portfolio may generate a suboptimal risk-return outcome.

By not explicitly recognising and managing the interdependence of various parts of the portfolio, investors are exposed to increased volatility of the overall portfolio because of unintended risks. The risk is highest where exposures or investment themes are replicated across different parts of the portfolio, independently. For example, adding more emerging market risk to a multi-asset portfolio may be an attractive investment and a good diversifier for a global investor, but not necessarily for a South African fund. When offshore and onshore assets are too closely correlated, the overall portfolio could have too much exposure to an asset class, equity sector or specific macro-economic factor. Increasing the overall volatility in a portfolio could result in significant potential downside risk.

We believe low-equity multi-asset portfolios play an important role in financial planning. A multi-asset portfolio provides an investor with a simple, cost-effective solution for meeting the dual objective of capital growth and preservation. As always, fund selection remains key. ■

Duane Cable is the head of SA Quality at Ninety One.

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Contact your PPS Investments accredited financial adviser or us on 0860 468 777 (0860 INV PPS) or at clientservices@ppsinvestments.co.za.

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By Kamal Govan

SHARES

To have and to hold?

Are holding companies worthwhile investments? Kamal Govan looks at the drivers of holding company discounts, reflecting on the risk and the opportunity.

Investment-related debates these days are incomplete without a discussion of holding company discounts. Locally, the poster child for this topic is Naspers*, with the discount to its underlying investments and the various opinions that investors have about how best to narrow this discount.

Key drivers of holding company discounts

Pinpointing the exact reasons for holding company discounts is difficult. Complicating matters is the fact that holding companies come in various forms and sizes. Nevertheless, there are several drivers of holding company discounts that may apply in each situation.

Costs

Costs incurred by an investment holding company detract from its value and should be considered by investors. No two holding companies are the same, and the costs of sustaining each therefore vary. There are different types of costs, including:

Operating costs: Sometimes these costs are offset by income earned by the holding company from things like the provision of central services or from passive income sources.

Management and performance fees: In some instances, shareholders incur management and performance fees for investing in the company. Management fees are generally a function of the net asset value of the company, recur annually and can be estimated reliably. Performance fees are based on shareholder returns over a period of time and are therefore complex to estimate.

Taxes: The sale or unbundling of investments by holding companies may trigger capital gains tax (CGT) and/or dividend withholding tax (DWT) in South Africa. Tax considerations are unique to each holding company's circumstances and depend on various factors. Tax regulations can be amended, which can change the discount applicable to a holding company.

Other: Sometimes it is important to consider costs that might be incurred in the future. Investors form a view on how holding companies can best unlock value for shareholders and estimate the costs associated with this. Examples include the transaction costs of selling investments or winding up a holding company structure. By their very nature, these costs can be difficult to estimate.

Valuation complications and differences

The starting point for most holding company valuations is a sum-of-the-parts schedule. However, this is probably where the homogeneity ends. Investors need to form an opinion on and assign an intrinsic value to each investment on the schedule.

Valuing listed investments within holding companies is often easier than valuing unlisted investments. Listed companies publish vast amounts of financial and other information that informs investors' valuations. Investors can compare their intrinsic value to the market price or the book value and adjust as required.

For unlisted investments, disclosure is usually limited and comparable data may not be available. Investors often find it difficult to assign an accurate value to these investments. It is therefore not uncommon for investors to discount management's disclosed values for unlisted investments, especially smaller ones. This is not to say that this is always correct, as sometimes these investments turn out to be multibaggers. Naspers' investment in Tencent in the early 2000s is an example of this.

Capital allocation

A holding company discount can reflect the market's perception of a steward's capital allocation ability or track record. By investing in a holding company, investors are outsourcing the responsibility to invest capital among businesses and sectors. If done poorly, or if investors are doubtful, they will demand a wider discount. Conversely, certain holding companies have traded at a premium to the book value per share as investors had a positive view on their ability to allocate capital or looked favourably on their track record.

It is not uncommon for the free cash flow generated by valuable investments to be deployed to subsidise inefficient businesses by an investment holding company. Such inefficiencies may arise as management teams fund budding new ventures or attempt to turn around poorly performing businesses. Shareholders sometimes penalise holding companies for this type of capital allocation as they signal their belief that they can allocate that capital more effectively.

Investors wanting pure-play investments will often demand a discount to invest via a holding company structure.

Illiquidity of underlying investments

Unlisted investments especially are usually illiquid, and investors often apply an illiquidity discount. Selling these investments often requires a discounted price, and the process can be complicated, costly and time-consuming.

Governance

Some structures of holding company investments are flawed to the detriment of minority shareholders. High voting right share classes or the extraction of value by related parties may be red flags worth considering.

Another consideration is the natural limits on one management team or board of directors adding value to a large and diverse set of holdings. It can be that managers are too thinly stretched, and this can be detrimental for shareholders. ■

Why own investment holding companies?

Some of the characteristics of a good holding company investment are:

- A portfolio of sound businesses, the majority of which are good investments in their own right;
- Capital allocators who are sound stewards of capital and have a long track record of compounding intrinsic value;
- Controlling shareholders or managers who are aligned with minority interests;
- Abnormally wide discounts, especially when management is taking actions that may narrow the discount or increase the intrinsic value per share (e.g. through share buybacks);
- The ability to access unique investment opportunities or networks that are otherwise unavailable to investors. We continually assess the risk and return profile of each holding company investment in our portfolio.

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

Kamal Govan is a portfolio manager at Allan Gray.

By Leon Kok

ASSET ALLOCATION

Developing a diversified offshore portfolio

Coronation has three global funds that are suited to investors who are overexposed to SA.

Coronation Fund Managers' global funds have persistently been leaders in the South African investing space and certainly deserve consideration by all those wishing to allocate a portion of their portfolio offshore.

Three funds that we strongly recommend are the Global Equity Select Fund, Global Managed Fund and Global Capital Plus Fund. Though serving different needs and constituencies and being uniquely managed as such, they are all suited to investors who are overexposed to SA; seeking a broader opportunity set; and looking to diversify into well-constructed offshore portfolios. Each fund has different features, which we will discuss.

Global Equity Select Fund

Launched in 2015 and domiciled in Ireland, it aims to give investors access to the best opportunities in global equity markets.

Managed by Neil Padoa and Humaira Surve with $335m under management, its cumulative return since launch has been an impressive 54.8%, with annualised returns at 37.5% in 2019 and 14.1% last year.

"The fund invests in shares that we expect to deliver superior long-term investment growth," Padoa explains.

"Its share selection is the product of rigorous international research conducted by Coronation's investment team and managed to deliver the best possible risk-adjusted returns over an investment horizon of five years or more."

Padoa says that he and his colleagues are still finding attractive opportunities. "Nothing is guaranteed in equity markets and returns will likely be lumpy, but over the long term we think the portfolio has the potential to deliver attractive returns in US dollar."

The bias, says Padoa, is towards developed markets, typically holding at least 70% in them with emerging markets exposure capped at 30%.

The fund strikes a balance between high conviction and fundamental diversification. Holdings include certain mega-capitalisation stocks that have performed well for a long time and still have strong growth prospects such as Alphabet; high-quality consumer franchises like Heineken and Diageo, which are geared to economies opening; and more cyclical but dominant businesses like Airbus, which will benefit over the long term as air travel demand returns.

Global Managed Fund

As a balanced-type fund, this is more conservative than the Global Equity Select Fund, and is benchmarked against a traditional 60% equities, 40% bonds index. While such portfolio construction may have been appropriate in the past, the overarching situation has changed significantly in recent years, says Padoa.

Bonds historically fulfilled a valuable role in these balanced funds, offering a starting yield ahead of inflation, and a return profile negatively correlated to equities. So, while equities were the growth engine, bonds acted as a shock-absorber during periodic but inevitable market sell-offs. With developed market bond yields now so low, however, they can no longer fulfil this promise: bonds are priced to return less than inflation and offer little in the way of a safety net.

Padoa thinks investors should look elsewhere. The Global Managed Fund, for example, has "found much greater value in inflation-linked securities, property companies, and infrastructure assets", says Padoa.

"Listed infrastructure businesses have concessions, giving them the right to operate toll roads, tunnels, and airports. These multi-decade franchises, with inflation-linked income streams and normalised free cash flow yields of more than 10% are far superior to nominal bonds and even some equities."

The Global Managed Fund's current asset allocation is equities 56%, property and infrastructure 10%, commodities 7%, inflation-linked and high-yield fixed income 8%, and investment-grade fixed income and cash of 19%. Top equity holdings are like the Global Equity Select Fund.

The changing composition has clearly been to the fund's advantage. Launched in October 2009 and with R8.8bn under management, the accumulated return since then has been 314%. The latest annualised five-year return is 8.3%, and one-year return 13.2%.

Primary contributors during the past year were equities 17%, gold 24.5%, and fixed interest 6.2%. The fixed interest figure is healthy in absolute terms, compared to inflation and considering the very low duration of the portfolio.

Managed by Louis Stassen, Neil Padoa and Humaira Surve, the fund should be considered a long-term investment.

Global Capital Plus Fund

This is a multi-asset low-equity fund with its benchmark the 100% US dollar LIBOR rate plus 1.5 percentage points. The cumulative return since launch has been 182.2% compared with a benchmark 94.7%.

On an annualised basis, it has returned 8.8% since launch, 11.1% over the last ten years, 4.2% over five years, 11.4% over three years, and 3.8% over one year.

The current portfolio breakdown is 30.2% bonds, 27.1% equities, 25.5% cash, 8.3% commodities, 5.2% property, and 3.8% infrastructure. The top equity holdings include British American Tobacco, Philip Morris International, Charter Communications, Heineken, Facebook, Naspers* and Visa.

"We think that this fund is an alternative to cash, although investors should expect some volatility from time to time. The reality is that you have to go up the risk spectrum to secure higher returns," says Padoa.

"Significantly, the portfolio has been helped by a strong market more recently, generating returns well ahead of cash and inflation. So, it has done the job.

"The overall approach to the portfolio is similar to that of the Global Managed Fund. The primary difference is that we would have a lower allocation to risky assets. Global Managed, for instance, currently has 55% to 60% in equities whereas in this fund the exposure is 25% to 30%." ■

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

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By Leon Kok

PORTFOLIO MANAGEMENT

Local bonds, offshore stocks attractive

Arno Lawrenz, Sasfin's CIO, shares his views on SA's economy and which funds are worth considering.

Arno Lawrenz, who recently succeeded Philip Bradford as Sasfin's chief investment officer (CIO), is impressed with his new fund house's investment processes and does not consider his role to be a reinventor of the wheel.

"Under my watch things will not necessarily be different," he told *Fund Focus*. "My brief has not been to enter a struggling concern and fix it up. That is not the case. Quite the opposite. My role is to enhance ownership, ensure a continuation of the robust risk style, grow wealth-generation capacity, and establish sustainability. Sasfin's leadership, in turn, has committed to providing the necessary resources to accomplish these goals."

Lawrenz (55) was appointed to his new post at end-November, was engaged in a cross-over period during December and took over the reins at Sasfin in January. He was previously global investment strategist and fixed income head at Ashburton Investments, CIO at Atlantic Asset Management, and head of fixed income at Old Mutual Investments.

Born in Durban, he matriculated at New Forest High, graduated with a B.Sc. honours degree at UCT, and commenced his career as a trainee actuary at Sanlam, but in due course became more enhanced with and switched to investments.

Lawrenz expresses disquiet about the present state of the SA economy and fiscal situation but doesn't consider the country to be immediately set for significant downward slippage. On the contrary, he believes investors are currently being afforded a "window period" to appropriately structure their portfolios and act on these.

"But SA has a long way to go if it wants to get out on top again. The Treasury recognises that. In rugby terms, no good being elated with the scoring of a few isolated points here or there whilst being continually mauled down by the opposition. The reality is that government needs to ruthlessly engage with a sound austerity approach, adequately manage the public sector wage bill, and vigorously foster private sector investment and promote growth."

Addressing himself to rank-and-file and modest to high-net-worth investors, Lawrenz says it goes without saying that for the most part, they require a significant element of global allocation. "You also need currency diversification, but it shouldn't be the primary motive.

"At the other end, whilst performances of SA equities have generally been poor during the past decade, the resources sector has shot the lights out recently and shouldn't be overlooked over time."

Lawrenz points out that whilst companies with a focus on SA, so-called SA Inc, has traditionally been a good performer through the decades, performance generally (excluding resources and other exceptions) in recent years has been relatively modest to poor. Nor has it helped that listings have almost halved during the same period.

Arno Lawrenz
CIO at Sasfin

Most investors in the 40 to 65 years age bracket have tended to be most exposed to balanced funds, he says, and it has not helped that many of these have been too overweight equities and sometimes listed property as well.

"I feel sorry for most who would have hoped ten years ago that their portfolios would have grown at about 10% a year, and that hasn't happened. Generally, balanced funds have turned in about an average 5% to 8% annualised return, far short of expectations. The retort of their financial advisers would have been that they needed to take on more risk.

"But the reality is that given SA's restrained growth, what you'd generally get out of the SA equity market will not match the kinds of returns typically on offer internationally. You'd need to have a good allocation of growth assets, and more heavily weighted globally than domestically."

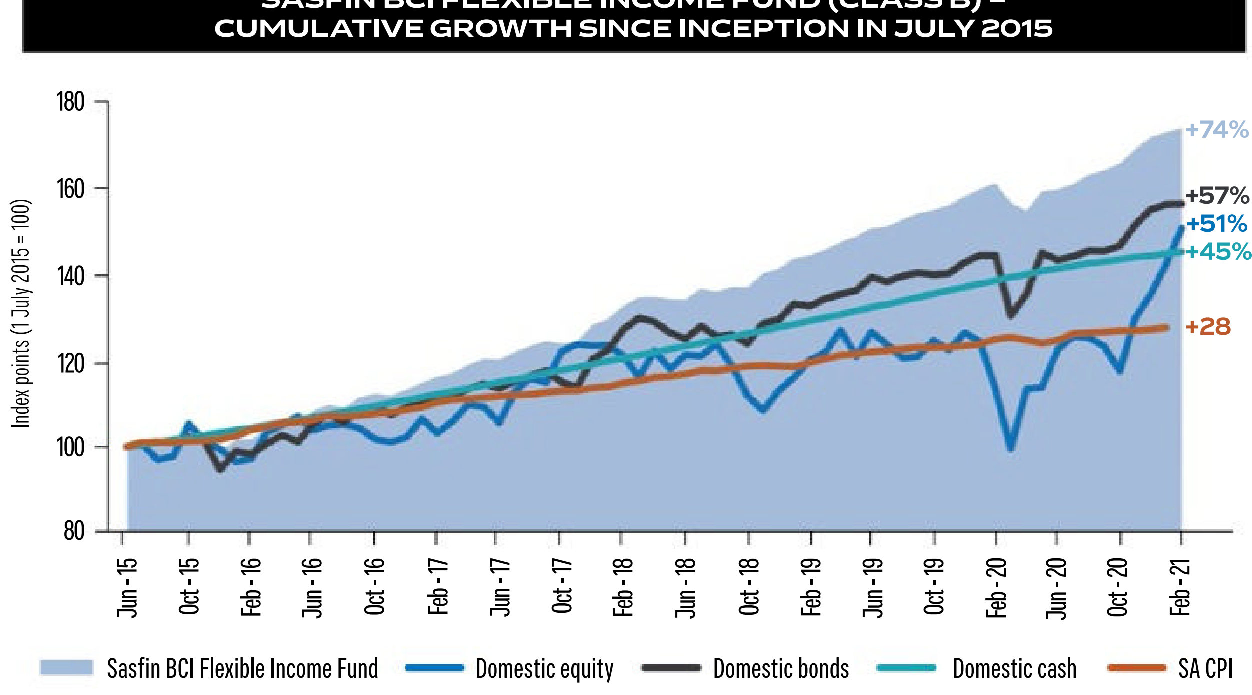
Lawrenz endorses the view that many investors need to look closely at multi-asset fixed-income funds. According to Sasfin's analysis, the SA 10-year government bond is currently yielding more than double the cash yield, whilst the longer-dated bonds are providing a further 2% interest.

With expectations of inflation falling close to 3%, investors who buy these bonds today will lock in returns of over-inflation plus 8 percentage points. These are the kinds of returns normally only possible from equities.

A fund arguably worth considering by conservative investors in the wider mix is the Sasfin BCI Flexible Income Fund, which has returned a cumulative 31.1% over three years and 71.2% over five years.

It effectively makes asset allocation decisions across high-yielding asset classes such as preference shares, non-equity securities, fixed-interest instruments (including, but not limited to, bonds, corporate bonds, linked bonds, convertible bonds, cash deposit and money market instruments). The manager may also include unlisted forward currency. ■

SASFIN BCI FLEXIBLE INCOME FUND (CLASS B) – CUMULATIVE GROWTH SINCE INCEPTION IN JULY 2015



** Note: SA CPI ending January 2021*

SOURCE: Morningstar

Photo: Supplied

By Leon Kok

INVESTMENT

Guarding against stock market vertigo

Flexible income funds may calm the nerves of those investors wary of the stock market surge.

Many individual investors I have chatted to lately and sitting on cash have expressed considerable apprehension for well-known reasons about getting into, say, property and general equity funds at present.

Property unit trusts, for instance, have been the worst-performing funds over the past one, three and five years. Several of them are down more than 50% on two years ago. Nor is the immediate outlook good with the weak domestic economy and an enormous oversupply of office and retail space. The Durban CBD, Rosebank in Johannesburg and Hatfield in Pretoria come immediately to mind.

At the other extreme, gold funds have dominated the winning space with the Old Mutual Gold Fund having generated 29% over the past year and an annualised 33% over three years. Gold is arguably a good place to be in the long term, but a prerequisite is to have a particular view on it and other precious metals. It also demands the ability to stomach extreme stock market and sector volatility.

On equities generally, pockets of opportunity are in the offing, but much will depend on how government manages the current fiscal crisis, especially dealing with major structural issues, cutting spending, and promoting growth. Also consider that major rating agencies still regard SA's sovereign debt as junk.

I have regularly recommended leading global unit trusts and continue to do so. Several have generated between 15% and 25% during the past year and may well maintain that momentum. Likewise, the Stanlib USD Currency Fund of Funds turned in 19.6%.

SELECTION OF MULTI-ASSET INCOME FUNDS

Fund name	One-month return %	Three-month return %	One-year return %
Momentum Flexible Income Fund	1.03	3.15	12.34
PSG Diversified Income Fund	1.64	2.98	12.13
Argon Flexible Income Fund	1.80	3.89	9.65
Marriott High Income Fund of Funds	0.73	1.65	9.63
Sasfin Flexible Income Fund	1.65	3.29	8.84
Absa Tactical Fund	0.63	3.65	8.06
Absa Flexible Income Fund	0.68	1.52	7.31
Nedgroup Investments Flexible Income Fund	1.03	2.65	6.30
Old Mutual Enhanced Income Fund of Funds	0.92	2.63	6.57
Discovery Diversified Income Fund	0.84	2.04	6.21
Ashburton Diversified Income Fund	0.59	2.99	5.69
Investec Wealth & Investment BCI Active Income Fund of Funds	0.61	3.15	5.28
Sasfin BCI Optimal Income Fund	0.32	1.57	4.77
Coronation Strategic Income Fund	0.75	2.01	4.60
Sanlam Diversified Income Fund	0.37	1.1	4.11

SOURCE: Stanlib

On equities generally, pockets of opportunity are in the offing, but much will depend on how government manages the current fiscal crisis, especially dealing with major structural issues, cutting spending, and promoting growth.

Multi-asset income funds

When in doubt, I believe that there is a strong case for considering a single or a combination of multi-asset income funds. They are a good option for conservative investors averse to high risk in volatile investments and seeking diverse income-oriented exposure in their portfolios. They comprise a combination of asset classes such as cash, preference shares, derivatives, bonds and may even include equities.

Furthermore, many deliver returns consistently higher than bank deposits over several years and may also offer access to your money within days.

Important, however, is that whilst they all may be in the same category, not all do the same thing. You need to be aware of the nuances and know what you are getting. A fund, for instance, may be deemed to have a conservative mandate, yet a look at its portfolio might indicate a high exposure to Eskom bonds, for example. This may be okay for some, but others may consider it too risky for their liking.

On the contrary, a fund may be 60% exposed to local bonds, but also be diversified into offshore assets and have relatively high exposure to the money market.

A snapshot of the strongly performing Momentum Flexible Income Fund (see table) shows that it is 38% invested in fixed-rate bonds, 11% in floating-rate bonds, 11% in inflation-linked bonds and 41% in cash. Down the line and with a modest return, the Absa Flexible Income Fund is 92% invested in SA bonds and 6% in cash.

If the local scene does not appeal, you might consider an offshore multi-asset income fund such as the American-based Fidelity Global Income Fund or the German-based Franklin Templeton Fund. Both are world-class, generating highly attractive returns more than their benchmarks of about 4% a year. You are also afforded the currency advantage.

The top ones are naturally actively managed, boast excellent qualitative and quantitative research, and benefit from long-term market experience. "Alternative funds" in the same league deliberately invest in strategies and asset classes with risk-return profiles distinct from traditional classes. ■

By Lucas de Lange

JSE

Platinum shares still the winners

But problems could arise if governments accommodate car manufacturers.

The strong position of the JSE as measured by the percentage of the 100 shares with the biggest market caps of which the prices lie above their 200-day exponential moving averages, is still valid. Just like last month, it is an exceptionally high 87%. What is different, though, is that a platinum counter, Royal Bafokeng Platinum (RBPlat), has emerged as the strongest share on the JSE.

As in the case of Impala Platinum, which also appears under the ten strongest stocks, it can be ascribed to RBPlat's exceptionally high profits. It's the golden rule in equity investing: Earnings growth pulls the price higher like a magnet. There is a general notion that a share market always tries to pre-empt the future. It is largely owing to the fact that analysts at large institutions, which determine the price of major shares, use advanced models to calculate the future expectations regarding companies' earnings. Owing to record prices for platinum group metals, especially rhodium and palladium, further large profits are being predicted.

But there could be a fly in the ointment. Peter Major, one of the most experienced local analysts on commodity markets, seems nervous about the huge escalation in these metals' prices. This is as a result of shortages and he warns that vehicle manufacturers' ability to convince governments in key markets such as China, the eurozone and the US to extend the deadlines for lowering pollution caused by exhaust gasses, should not be underestimated. Should these concessions be made, the price of rhodium and palladium could tumble.

It has happened before that a cheerful bull market has been ruined by government action. He is referring to the action taken by then president George W Bush 15 years ago when he forced California to relax its strict requirements because car manufacturers complained that they could not meet them in time. The point is: There is simply not enough rhodium and palladium available.

At the same time, the demand for vehicles could increase dramatically this year owing to the recovery of the world economy. The Organisation for Economic Cooperation and Development (OECD) has already adjusted its prediction for growth in 2021 upwards to 5.6%. And world output is expected to reach pre-pandemic levels by mid-2021. For the US, the world's largest economy, Goldman Sachs is now predicting growth of 8%, which was last seen in 1950.

However, the international French banking group BNP Paribas states that SA's economic prospects are "dire". In addition, rating agencies such as S&P warn that SA's creditworthiness could be downgraded further.

Predictions about world growth are now going hand in hand with references to inflationary expectations, which are starting to emerge. In particular the $1.9tr that the Biden administration is pumping into the US economy is being watched. This means that workers who earned less than $75 000 in 2019 will each receive a gift of $1 400. According to Andrew Slimmon, a senior portfolio manager at Morgan Stanley Investment Management, some of this money is already being invested in the markets.

Among the weakest shares, it is still Hammerson plc – the British property group – that stands out. Investors remain cautious when it comes to property stocks, despite their low prices and the value they offer due to the large gaps between their stock exchange prices and their net asset values.

There is widespread commentary that there is just too much uncertainty about the adjustments that will be required because of the new dispensation caused by the pandemic. This applies especially to office blocks and retail centres.

As one commentator puts it: The rules for property companies have changed. ■

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

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
RBPLAT	67.0
MOTUS	56.8
NAMPAK	55.1
MASSMART	54.7
MPACT	53.9
THARISA	48.6
SASOL	46.4
CARTRACK	45.8
TEXTAINER	45.3
IMPLATS	42.5
SAPPI	39.6
MERAFE	38.0
NORTHAM	37.6
MTN	35.5
TELKOM	34.8
SUPER GROUP	31.6
KAP	31.0
WOOLIES	27.5
TRUWORTHS	26.2
GLENCORE	26.2
EXXARO	24.3
ANGLO	23.9
SIBANYE	23.0
DISTELL	22.4
TFG	22.1
CAPCO	21.1
SHOPRITE	20.4
TRANSCAP	20.1
MR PRICE	18.7
PEPKOR	18.3
ITALTILE	18.3
ARM	18.2
CORONATION	15.9
ABSA	15.0
INVESTEC PLC	14.6
RICHEMONT	14.0
MOMMET	13.7
BARLOWORLD	13.4
REDEFINE	13.4
DIS-CHEM	13.1
FIRSTRAND	12.2
ASPEN	12.2
SOUTH32	12.0
BHP	11.2
INVESTEC LTD	11.2
ZIMPLAT PREF SHARES	10.6
SIRIUS	10.4
VIVO	10.0
LIFE HEALTHCARE	9.9
VUKILE	9.8
IMPERIAL	9.7
NETCARE	9.4
RESILIENT	9.2
MULTICHOICE	9.0
HYPROP	8.9
FORTRESS B	8.7

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
BIDVEST	8.7
BIDCORP	8.6
MONDI PLC	8.3
NEDBANK	7.9
PSG KONSULT	7.8
PICK N PAY	7.7
CAPITEC	7.3
EQUITES	7.3
VODACOM	7.1
KUMBA	7.0
NINETY ONE PLC	7.0
DISCOVERY	6.4
SPAR	6.2
NASPERS	5.9
FORTRESS A	5.9
NEPI ROCKCASTLE	5.6
QUILTER	5.6
SANLAM	4.4
MEDICLINIC	4.1
STANDARD BANK	3.7
RCL	3.7
IAPF	3.3
OLD MUTUAL	2.7
TIGER BRANDS	2.6
AVI	1.1
JSE	1.1
PROSUS	1.0
OCEANA	1.0
GROWTHPOINT	0.8
RMIH	0.7
REMGRO	0.1

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
HAMMERSON	-76.3
ALTRON	-37.7
DRDGOLD	-15.7
PAN AFRICAN RESOURCES	-12.7
ANGLOGOLD	-12.6
RHODES	-10.1
HARMONY	-8.7
GOLD FIELDS	-6.9
LIBERTY	-6.7
ASTRAL	-3.1
SANTAM	-3.0
REINET	-2.3
AB-INBEV	-1.2
BAT	-0.9
CLICKS	-0.7

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
TIGER BRANDS	2.6
OCEANA	1.0
GROWTHPOINT	0.8
RMIH	0.7

*Based on the 100 largest market caps.

By Simon Brown

INVESTMENT TOOLS

My stocks' true earnings

Another metric to gauge a share portfolio.

I have for some time been trying to figure out how to measure my portfolio's success (or failure) using a metric other than just the price. Sure, price is what we can sell for and as such a useful metric, and higher prices are what we strive for and it makes me feel smart when it realises. I also measure my portfolio's return against the overall market. But price is manic and more a reflection of the market's mood and not actually any reflection of value of my portfolio.

Reading the latest annual letter to shareholders from Warren Buffett in which he refers to real earnings got me thinking about using real earnings. In South Africa's case, earnings would be the headline earnings per share (HEPS). This is an IFRS definition so it will be standardised across the different stocks I own even if some are banks while others are miners or retailers. These different sectors do have different metrics, such as head grade for miners, cost-to-income for banks and the operating margin for retailers. At the end of the day, though, HEPS tells us how much profit each share made for each shareholder.

So, I am taking my portfolio and as financial results are released, I am calculating what the HEPS for each stock was over the last year. For full-year results, I just use the full-year number. When it is interim results, I use the interim figure and then go back and calculate the second-half HEPS for the previous financial year by taking the full-year HEPS and subtracting the previous interim figure.

This gives me the actual profit per share that I hold. I then multiply that by the number of shares and having done the same for all the different shares I hold, I add them together. Now I have a real view of what profit my portfolio made in 2020 rather than just the manic price movement.

The idea here is that while share prices are manic, profits are steady, notwithstanding the earnings and price collapses from the 2020 pandemic, and a key reflection of the quality of the investment.

Early data covering the last three years is volatile due to the 2020 pandemic, but 2018 and 2019 were going along nicely, seeing an increase in overall earnings. In short, what I am seeing already is a much more steady and less volatile graph that is showing increasing earnings growth ahead of inflation and this is what we want from an investment portfolio.

I am going to do the same work on the dividends I received. Earnings are real but dividends are cash which I can spend or invest. ■

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TO MERGE *OR* NOT TO THAT'S ***SIBANY*** QUESTION

Are we going to see the combination of gold industry heavyweights? *finweek* looks at the situation at Sibanye-Stillwater.

By David McKay

Photo: Shutterstock

On the subject of his firm's speculated merger with Gold Fields and AngloGold Ashanti, Neal Froneman said: "We have at various points in time made suggestions to all the companies that are relevant in size here in SA and in North America."

He added: "We remain active."

That may be as detailed as Froneman, the burly, plain-speaking CEO of Sibanye-Stillwater, is prepared to get about this year's most talked about SA mining sector scuttlebutt: the consolidation of its three largest listed gold firms. Despite all the talk, there's no actual deal as yet.

Asked whether he would consider a hostile bid for either of Gold Fields or AngloGold Ashanti, Froneman responded: "We think that hostile bids are value destructive. Our board has made it very clear to me that that's not what we're going to do."

Froneman's comments aside, *finweek* industry sources say Gold Fields and AngloGold Ashanti have had proposals to combine with Sibanye-Stillwater on their desks since the beginning of the year. Were consolidation of both companies by Sibanye-Stillwater to occur, it would create a 5m-ounce-a-year gold producer with a combined market value of R463bn.

Whilst this valuation is less than Anglo American, which is capitalised in Johannesburg at R781bn, it is nonetheless a number that bears comparison with North American gold peers Newmont Mining and Barrick Gold.

Analysts think such a combination of gold industry heavyweights could happen, but they also believe Froneman's mere suggestion of the matter publicly, in response to a question at his firm's annual results announcement in February, was a piece of tree-shaking knavery that could have unintended consequences.

"A takeover of AngloGold or Gold Fields will leave a large gap in the SA-listed gold space," said Arnold van Graan, an analyst for Nedbank Securities, in a recent note. "We believe there is another alternative that makes plenty of sense from a strategic and valuation perspective: a merger between AngloGold and Gold Fields."

The idea that AngloGold and Gold Fields could one day combine is old fare in the mining sector. Speculation linking the two has come and fizzled away – an out of reach "holy grail" given the position the two hold in the history of Johannesburg's founding metal. This time, however, might be different.

Dennis Tucker, the former investment analyst and a corporate financier who is now strategic advisor to Froneman at Sibanye-Stillwater, says the direction of any deal will ultimately be decided by shareholders. "They will decide whatever is the most accretive," he says.

In the absence of a pre-emptive tie-up between AngloGold and Gold Fields, which would be hard to do given both companies have recently welcomed new top management, time is on Froneman's side. By going public on possible gold consolidation, he's been able to compare relative share price performances between his company and AngloGold and Gold Fields.

> "A takeover of AngloGold or Gold Fields will leave a large gap in the SA-listed gold space."

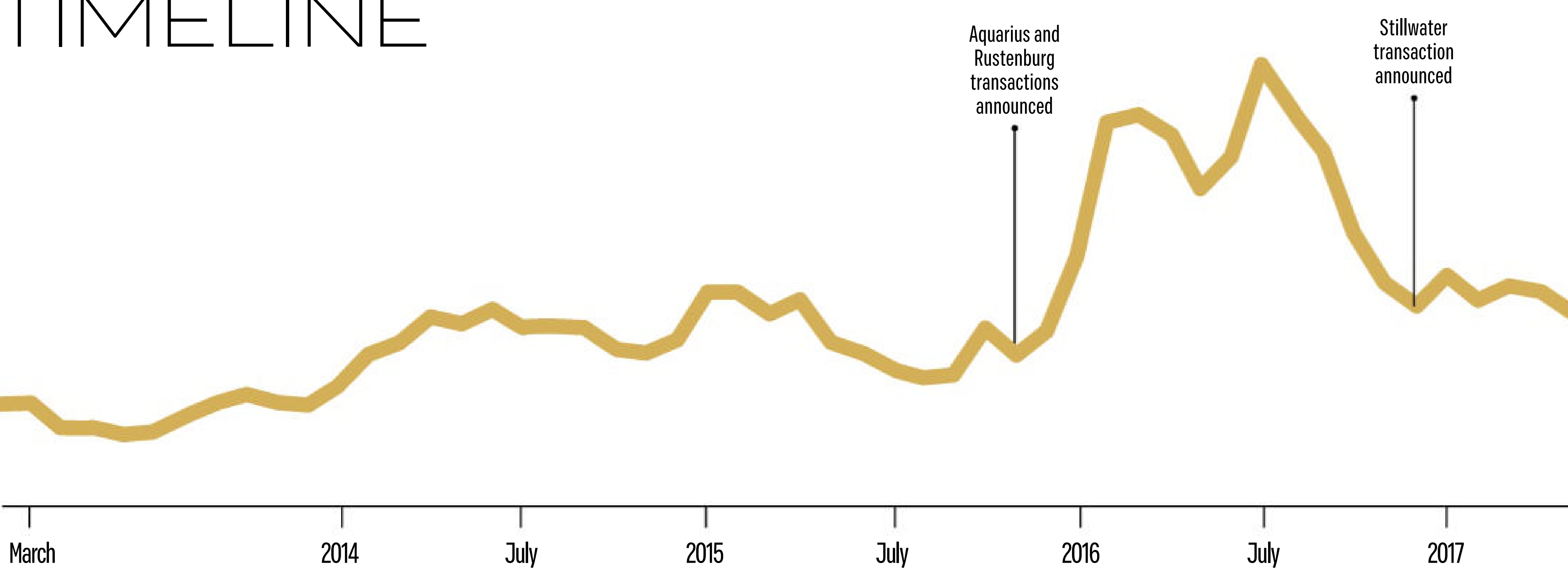
Valuations

The fact is gold-only companies have performed poorly against Sibanye-Stillwater, which has the benefit of its platinum group metals (PGM) production. The gold price has steadily weakened this year; PGMs – especially its minor metals such as rhodium and iridium – have soared to new heights.

The valuation gap between gold firms and PGMs looks set to widen, if only because macroeconomics has improved, which is generally negative for gold. RBC Capital Markets, for instance, has downgraded its forecast for the gold price. "We now forecast average gold prices of $1 732/oz in 2021, a decrease of 5%, and prices of $1 696/oz in 2022, a decrease of 5%," said Josh Wolfson, an analyst for the Canadian bank. "The macroeconomic backdrop remains challenging for gold," said Sophie Spartalis, an analyst for Bank of America (Merrill Lynch, Australia).

Set against this, PGM company ratings are improving. Speaking at the Joburg Indaba's PGM Industry day, an online conference, Evy Hambro, MD of the giant

SIBANYE-STILLWATER TIMELINE



US investment company BlackRock Inc., said the PGM sector had made such a good fist of debt reduction that the current discount rate applied to its shares was unjustified.

"In our view, PGM producers continue to be underowned," said Tyler Broda, an analyst for RBC Capital Markets.

Said Citi, an investment bank, in a recent report: "Sibanye-Stillwater has the highest leverage in our coverage with a 10% change in PGM prices resulting in a 19% change in earnings before interest, tax, depreciation and amortisation (ebitda) in our estimates."

Given the upwards trajectory of PGMs, the premium to gold shares is only likely to widen, making a Sibanye-Stillwater all-share bid for gold consolidation cheaper over time.

"We could sit on our hands and we'll be a $20bn company in six or nine months' time (it is currently valued at $13.7bn). We are rerating almost every day and you can see it in the potential of what we're going to earn this year," said Froneman.

The company produced record full-year earnings of R29.3bn in the year ended December, and paid R9.4bn in final dividends after reinstating the interim pay-out in August. It has all but wiped out debt, unveiled gold and PGM projects worth R6.8bn, and taken a tentative first step into the battery minerals sector with a R714m investment in the developer of a R6bn lithium project in Finland. All this has been achieved at an average PGM basket price significantly below current levels.

"PGMs are entering a period people are calling a supercycle," said Froneman. "The green hydrogen economy is coming, it's coming fast, and we are the number one producer of platinum, iridium and ruthenium and those are the key metals that go into that so there is real upside in having exposure to Sibanye-Stillwater if you hold their (AngloGold, Gold Fields) shares," Froneman said.

Although sketchy on naming actual targets, Froneman thinks it likely a gold bid is coming. He will make "a very compelling offer to shareholders" when he finds the right target. It's a question of timing; not an if, but a when.

History reversing itself

An irony of speculation linking Sibanye-Stillwater with Gold Fields is that – were it to occur – it would reverse the demerger of only eight years earlier.

Nick Holland, who was CEO of Gold Fields from 2008 to March 2021, had embarked on a strategy of internationalisation. A spate of acrimonious strikes at the Driefontein and Kloof mines, west of Johannesburg, and underground fatalities – nine on Holland's first day as CEO at South Deep – effectively sealed the fate of the group's SA gold mines.

In 2013, Driefontein and Kloof, along with Beatrix mine in the Free State, were demerged to create Sibanye Gold, led by

Cents

7 200
6 800
6 400
6 000
5 600
5 200
4 800
4 400
4 000
3 600
3 200
2 800
2 400
2 000
1 600
1 200
800
400
0

DRDGOLD transaction announced

Lonmin transaction announced

Sibanye-Stillwater share price jumped 500% since the beginning of 2019

July 2018 July 2019 July 2020 July 2021 July

Froneman – a gold executive recovering his reputation after the rise and fall of Uranium One, his exuberant but failed energy play. Gold Fields retained South Deep.

Even at that early stage, Froneman said plans were laid to turn Sibanye Gold into a diversified precious metal firm. First, though, the company had to get its hands around the existing assets.

"Fixing up the non-core assets of Gold Fields and building an industry-leading dividend payer was the first and primary focus," said Froneman of his first four years at Sibanye Gold. "We have to do that because you can't embark on mergers and acquisitions (M&A) if you don't have a credible operating base," he added. However, when Sibanye Gold set about M&A activity, it was with vigour not quite seen in SA's mining sector **(see graphic)**.

In two years from 2016, it conducted deals totalling $3bn (about R45bn) with the $2.2bn acquisition of Stillwater Mining – Sibanye Gold's first offshore foray – the standout moment. It also "bought" Lonmin in an all-share deal for $290m and before that acquired the Rustenburg PGM assets of Anglo American Platinum as well as bought and exercised a control option over DRDGOLD, the gold retreatment company.

The cost of that buying spree – Stillwater Mining especially – was the suspension of the dividend. This came as a shock to investors who'd earlier heard Froneman declare the pay-out was a "sacrosanct" aspect of Sibanye Gold's investment offering. The upside, which could only be seen over time, was an improvement in Sibanye-Stillwater's market value up from R10bn in 2013 to R195bn at the beginning of this year.

A precious metals company

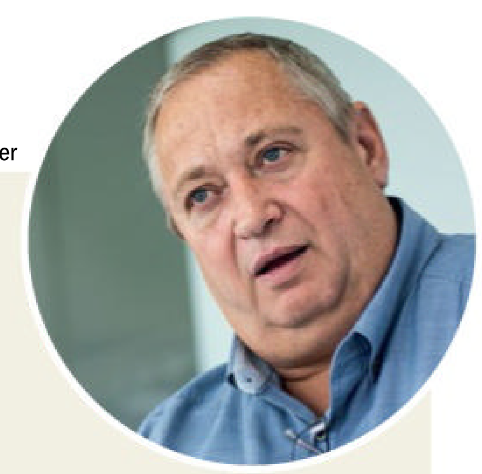
Froneman acknowledges it took time to convince shareholders that diversifying from gold was the right path. "It was always conceived that we would not just be a gold company. We were going to be a precious metals company, and more recently we've added the battery metals because they are complementary ... You can only do that when you prepare shareholders for it because they will resist that.

"They want you to either be a gold company or a PGM company. So, it takes a while to get your shareholders on board and put forward the benefits of the combination of gold and PGMs," said Froneman. "That's not well-understood."

Gold tends to lose its lustre as per the current macro-environment where economic growth is back on the agenda that, not coincidentally, combines with the development and roll-out – not without hiccups – of the Covid-19 vaccine.

Economic growth, however, is exactly supportive of wider economic activity, including vehicle sales, which in turn inspires PGM production, both in terms of the internal combustion engine and new-generation vehicles that operate either as petrol-battery hybrids or fuel cells. ■

Neal Froneman
CEO of Sibanye Stillwater



Froneman: 'Hungry' for 30 years

He's not going anywhere before Sibanye-Stillwater's market value has doubled.

Froneman's 31 years in SA mining began to take shape as director of Harmony Gold during the late 1990s. It was a period of fundamental change for the SA gold sector, which had been previously dominated by the major mining houses General Mining and Anglo American. The industry was highly centralised in such a way that the houses had investments in separately listed gold firms to which they offered technical services.

The model was burst apart by the restructuring led by Randgold. It formed self-standing companies that were leaner and self-sufficient, such as Harmony Gold. The restructuring created a rare crop of high-achieving executives including Froneman; Mark Bristow, now CEO of Barrick Gold; Bernard Swanepoel, long-time CEO of Harmony; and Brett Kebble. Each, in their own way, was a maverick with a hungry appetite for iconoclasm.

"I didn't come with the right school tie," said Froneman, who actually attended Northcliff High in Johannesburg before qualifying as a mechanical engineer at the University of the Witwatersrand. "I was considered just an engineer and I was desperate to be something different," he says of his ambition to be a mine manager.

He failed his blasting exam – unfairly, Froneman claims – but eventually made his way into Harmony. "He was integral in formulating what we did at Harmony into the so-called 'Harmony Way'," says Swanepoel. "He left to do his own thing at Gold One. I am in awe of guys who can stay hungry for 30 years."

Between Harmony and Gold One, there were stops at JCI with Kebble; and Gold Fields which provided the background knowledge he needed for the 2013 Gold Fields demerger; and Uranium One. Gold One represented Froneman's climb back up the mining ladder.

No conversation of those early days can pass without mentioning Brett Kebble, who passed away in 2005 in mysterious circumstances. Found shot in his car – widely believed to have been as a result of an arranged killing – Kebble had committed billions of rands in fraud shifting shares and cash in JCI.

"Brett was super smart in utilising corporate structures and shares which eventually got him into big trouble," says Froneman. He doesn't believe Kebble masterminded his own death. "My personal view is that there is still a story to be told, knowing Brett. I don't believe for one minute that he tried to commit suicide. I believe he was assassinated."

Fast-forward to today and the natural question is how long Froneman can maintain the "hunger" for corporate life, even in the entrepreneurial airs of Sibanye-Stillwater? He has turned 60 and was quoted in January as saying he would probably retire in two years, but only after doubling the market value of Sibanye-Stillwater first.

He now rows back a bit on that forecast. "I must tell you I don't find my job boring. I'm still growing. I've probably got three to five good years still to put into the business."

But he's serious about doubling the size of Sibanye-Stillwater. Mining CEOs are often quoted as being wary about "growing for the sake of growth". Yet, in international investment stakes, size counts for something.

The multiples applied to Barrick Gold and Newmont Mining are double those applied to Sibanye-Stillwater, says Froneman. Having market heft would also enable Sibanye-Stillwater to influence the markets. As the biggest platinum producer, Froneman claims his company influenced end-users towards the substitution of palladium with platinum. He wants to do the same with rhodium.

Then there's the strategy to acquire investment holdings in battery metal producers. According to Dennis Tucker, Froneman's strategic advisor, the lithium mine investment in Finland has gone largely unappreciated by the market. "It's actually with the Finnish government (via a 30% stake in Keliber Oy). The Finnish government has billions of dollars to spend, and where is the top notch mining technology being developed in the world? In Scandinavia."

> "I was considered just an engineer and I was desperate to be something different," he says of his ambition to be a mine manager.

The strategy regarding battery metals is still in its formative stages. According to Tucker, Sibanye-Stillwater staked out investible platinum assets for two years before establishing its toe-in-the water investment in Aquarius Platinum, a R4bn deal in 2016.

Accordingly, the Keliber transaction was described as "prudent" by BMO Capital Markets in a report in March. The lithium market surged several years ago before a sharp correction. But Froneman provides a broad strategic take on what's planned.

"We don't want to be contract miners to anybody, not in PGMs and not in battery metals. We have learned that having influence on the supply chain and being party to being able to influence the end-user is one where we've derived a lot of benefit," he said.

"We're not going to buy an autocatalyst plant and build autocatalysts – we're clear on that. But we've got to have exposure to the supply chain to realise all the benefits of being a miner as well."

It's hard to know when and where exactly Sibanye-Stillwater will pounce next. Another battery metals investment is being promised but Tucker – who once worked with Swanepoel in Harmony's famously vituperative takeover attempt of Gold Fields, thinks Sibanye-Stillwater is pointed towards growth that fits the theme of the new supercycle.

"People think supercycles in the mining sector is all about demand. It's actually about the lack of development in the previous ten years. Sibanye-Stillwater has huge potential which I think investors will like." ■

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Photo: Gallo Getty Images

By Mariam Isa

ESKOM'S CODE RED CONTINUES

The SA economy is struggling to recover and the power utility's failure to provide enough electricity is not helping its case.

Eskom's inability to provide enough power to drive the economy as demand picks up, coupled with the government's sluggish pace of procuring new generation capacity, looks set to thwart South Africa's fragile recovery after the coronavirus pandemic in the months ahead.

Despite the best efforts of its new leadership, the state-owned entity's stepped-up maintenance programme has failed to restore Eskom's ageing fleet of coal-fired plants to the point where they can provide a stable supply of electricity, and several of them are due to be decommissioned by 2030.

At the same time, design flaws at the two new plants which were to have provided power to a growing economy – Medupi and Kusile – are proving difficult to correct, and they are not performing as expected, adding to the maintenance burden as old units elsewhere unexpectedly break down.

"Eskom doesn't know what's going to break down next – it's sailing close to the wind," says Henk Langenhoven, chief economist at the Minerals Council SA. "It's about the midlife crisis of its power stations – they have to be taken offline for maintenance. But how can you talk about growth when it has become certain there will be more uncertainty?"

Eskom's performance has deteriorated rapidly over the past few years – its energy availability factor has dropped from 71.9% in 2018, to 66.9% in 2019 and 65% in 2020. On 31 December, it was just 51.7%, according to a recent report from the Council for Scientific and Industrial Research (CSIR).

Last year was the worst on record, with SA enduring 859 hours of loadshedding – amounting to almost 10% of the total hours in a year – despite the severe lockdown which was imposed by government at the end of March, and modified restrictions over the rest of 2020.

Only 28 000MW of the utility's installed capacity is reliably available for use out of an installed 40 000MW, while demand hovers at 34 000MW, leaving a gap of at least 4 000MW which President Cyril Ramaphosa has warned will persist over the next five years.

"That shortfall may be larger if the economy grows – that's why it is important to accelerate bringing new generation capacity onto the grid," Eskom CEO André de Ruyter said at a briefing at the utility's "state of the system" quarterly update on 15 March.

Unfortunately, that task is in the hands of the department of mineral resources and energy (DMRE), which has often shown that it is incapable of procuring enough new capacity to cover existing and projected supply shortfalls. Stubbornly sticking to outdated technology and complex, time-consuming procedures, is seen as the main problem.

"We are not buying new generation capacity fast enough to compensate for the decline in the old plants, which will start to be taken off the grid because they are clapped-out; finished," says Chris Yelland, MD at EE Business Intelligence. "As demand increases,

Henk Langenhoven
Chief economist at the Minerals Council SA

Chris Yelland
MD at EE Business Intelligence

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Unfortunately, that task is in the hands of the department of mineral resources and energy (DMRE), which has often shown that it is incapable of procuring enough new capacity to cover existing and projected supply shortfalls.

we immediately run into loadshedding – the economy can't pick up because we're being constrained by electricity supply."

Yelland believes that in the absence of a change in mindset within the DMRE, loadshedding will persist for the next few years – a scenario which has not been factored into many of the more upbeat economic forecasts that followed news that output grew faster than anticipated in the final quarter of 2020.

Minister of minerals and energy, Gwede Mantashe's, announcement on 18 March of the preferred bidders for the government's 2 000MW emergency procurement programme, and the launch of the long-delayed bid window five for the procurement of another 2 600MW of wind and solar power, was "too little, too late," Yelland says.

Mantashe has ignored pleas from businesses to raise the license exemption threshold for new embedded generation projects at mines, smelters, factories, and farms from 1MW to 50MW, saying that the cap would only be raised to 10MW.

Analysis has shown that lifting the limit to 50MW would be the quickest and cheapest way to provide 5 000MW of new capacity, as it will be paid for and installed by companies themselves. Ramaphosa cited that conclusion in his 11 February State of the Nation address and promised that there would be consultation among key stakeholders on the level at which the new threshold would be set.

De Ruyter has backed calls for the embedded power threshold to be raised to 50MW, but when this was raised at the media briefing which accompanied the announcement, Mantashe replied that Eskom should "stay in its lane".

Eyebrows were raised at news that two-thirds of the 1 845MW of emergency power which will be provided by selected bidders so far will come from three floating powerships, which will generate electricity for SA over the next 20 years using imported liquefied natural gas (LNG).

The programme is slated to bring

R45bn

of new investment into the country and will be connected to the grid in August 2022.

These massive ships, built by Turkish company Karpowership, have been successfully deployed to countries in distress over the past few years, often after emergencies like wars or earthquakes knocked out large chunks of their power. They have been used in Lebanon, Iraq, Cuba, Sierra Leone, Senegal, Sudan, Gambia, Ghana, Guinea-Bissau, Indonesia and Mozambique.

But the governments of those countries have all signed much shorter-term contracts, with the longest extending to five years. SA will be locking itself into a costly agreement to purchase imported LNG, with rising prices, for two decades. This is likely to have a significant negative impact on consumers as well as government finances.

The deal will also lock SA into a carbon-intensive solution which is likely to deter international investment in the coming years as the rest of the world rapidly shifts to cleaner energy. The country's heavy reliance on coal is already problematic in the work to reduce Eskom's R480bn debt burden, which is by far the biggest threat to the government's finances.

Langenhoven has described the Karpowership solution, which will not meet the 50% local content requirement stipulated for the emergency procurement, as an "indictment" of SA's energy policy. The programme is slated to bring R45bn of new investment into the country and will be connected to the grid in August 2022.

Nonetheless, investment into SA is being stymied, with inadequate and unreliable electricity supply and a credible plan to address the problem identified as the main structural impediment.

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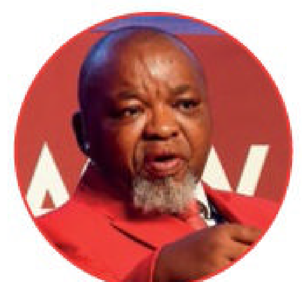
Gwede Mantashe
Minister of minerals and energy

Nazmeera Moola
Head of SA investments at asset manager Ninety One

Langenhoven says SA's mining sector, one of the first to recover from last year's lockdown and the country's main foreign exchange earner, is being buoyed by a 24% increase in commodity prices over 2020.

"The moment the price benefit falls away, we are in trouble. The fundamental issue around production is logistics – electricity, rail, and ports. They have to be fixed, otherwise we will just bob along the bottom."

Nazmeera Moola, head of SA investments at asset manager Ninety One, says the country looks set to miss the boat of stronger commodity prices, as it did just over a decade ago, for the same reasons.

"Our growth number this year will look pretty good as we had such a weak base last year, but are we going to see a spike in investment? No. The most logical place to see investment this year is mining because of the strength of commodity prices, but until you resolve the electricity issue, that's not going to happen," she says.

During 2020, gross fixed capital formation (GFCF), the main barometer of investment, plunged by 17.5%. According to the United Nations Conference on Trade and Development, foreign direct investment flows into SA nearly halved to $2.5bn.

FDI flows faltered everywhere because of lockdowns to curb the spread of Covid-19, but SA's performance compares poorly with its peer group in developing countries, which experienced an average fall of 12%. Sub-Saharan Africa recorded a decline of just 11%. ■

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

...and vaccine rollout languishes

For once, international credit rating agencies are predicting stronger growth for SA than the country itself. News that the economy expanded faster than expected in the final quarter of last year, in line with the global trend, prompted Fitch Ratings to lift its forecast for SA in 2021 to 4.3%, up from a prior 3.65% estimate made after the national budget was announced on 24 February.

Moody's has predicted the economy will grow by 4.55% this year, while S&P has a forecast of 3.65%. By comparison, National Treasury has predicted that output will expand by just 3.35% – a view which many economists share.

PwC economist Lullu Krugel points out that the range of forecasts for the economy this year is broad. Her baseline view is an expansion of 3.5%, with a downside scenario of 0.9% and an upside scenario of 6.1%. Eskom's performance is the main variable, but the pace of the country's vaccine rollout is also key.

Absa economist Peter Worthington is relatively upbeat on SA's vaccination programme, saying that fixed investment should start to pick up in 2022 as the rollout gives rise to a "post-pandemic mindset".

But at this stage the prognosis for SA's vaccination programme is far from promising. As of 19 March – a month after it began – about 177 000 people had been vaccinated, amounting to less than 0.5% of the population. Rwanda, a country of 12m people, managed to vaccinate 140 000 people in just two days.

Health minister Zweli Mkhize has warned that the country may miss its target of vaccinating 40m people, or 67% of its population, by the end of this year.

This creates two risks – South Africans will be more vulnerable to an anticipated third wave of Covid-19, which will trigger further economic restrictions; and the country may become isolated. Already, SA faces more travel restrictions than most other countries in the world – travel to 120 countries is either prohibited or limited to emergency exemptions. This is mainly because of the emergence of a Covid-19 variant in SA which is resistant to existing vaccines. ■

By Marcia Klein

SANLAM EXPANDS AFRICAN FOOTPRINT

The insurer remains committed to strengthening and growing their portfolio on the continent.

Africa is a continent rich with expansion opportunities that are often accompanied by poor returns.

Expansion on the continent does, however, remain at the core of the strategies of some major South African companies, possibly because they have an established presence there and need to try to make it work; or possibly because they believe in Africa's well-documented growth potential, despite the significant hurdles.

Looking at the experience of companies such as MTN and Shoprite, this strategy is not without its risks, but it remains core to Sanlam's strategy, which was reiterated when it reported results for the year to end-December 2020 in mid-March.

Reflecting the full effect of the pandemic and lockdown, its net result from financial services declined by 13%, but would have been up 17% excluding the impact of Covid-19. Net operational earnings decreased by 23%, although headline earnings increased 24%.

Earnings were affected by the extent of business continuity claims at short-term insurance subsidiary Santam, offset by lower motor claims, as well as increased mortality claims, doubtful debt provisions, and the provision of relief to clients and intermediaries.

Remarkably, new business volumes were up by 25% to R311bn with a strong growth at Sanlam Investment Group and Sanlam Emerging Markets, which operates predominantly in Africa and has investments in India and Malaysia too.

Paul Hanratty
CEO of Sanlam

Sim Tshabalala
CEO of Standard Bank

Emerging markets

Sanlam has a significant presence in Africa, largely through the acquisition, in tranches in 2016 and 2018, of Moroccan-based financial services group Saham. Notwithstanding the experience of other companies, Sanlam's management continues to believe in its strategy to become an African champion, build a fortress in SA and to strengthen and expand its position elsewhere, enabled by data and digital transformation, development of its culture, innovation and partnerships.

What makes Sanlam different, says CEO Paul Hanratty, is that there is "some confidence in our ability to succeed". Sanlam has not set up greenfields operations but bought existing businesses that are already successful. There is "a richness of skills in our industry in SA", he says, which enables Sanlam to bring technical skills into businesses populated by people who know the local market. Additionally, there are advantages to scale, and if Sanlam can improve capital allocation and diversification, synergies emerge.

"We are also focused on having partners in everything we do. In every case we have partners, entirely local. Countries want to keep savings in the country, and local ownership and local partners are very important to us, and this takes out some of the risk." Digital innovation may provide more advantages.

Sanlam is not the first to double down on its Africa strategy. Standard Bank is the most recent example with CEO Sim Tshabalala emphasising it in mid-March. But generally, Sanlam sees its competitors "going in the other direction, saying it's a tough place".

"We tend to start small in an area, and we build up and develop our partnerships over a very long period of time, and we are seeing competitors moving in the opposite direction. It's about where you have a legitimate advantage – we were born in and are rooted in Africa," and more likely to succeed there, Hanratty says.

In the immediate future, this strategy is unlikely to include acquisitions. In Africa, where Sanlam already has a large footprint, it is gradually strengthening and improving, is not itching to do acquisitions, and expects its expansion to be measured and orderly, Hanratty says. India, where Sanlam has a stake in Shriram Capital, appears to offer opportunities given changes in regulation there which include increased allocation for foreign investment and non-bank credit providers. This leaves Sanlam with a decision on whether to increase its investment.

He says a survey of brokers indicated they and the public had "ignored social media and media and focused on their own experience when making a judgement".

Local opportunities

Sanlam also confirmed its aspirations in health and employee benefits, which Hanratty says will take place through its existing investments in Alexander Forbes and AfroCentric. "They are well-positioned, and for us it is a matter of increasing exposure to those businesses. AfroCentric can grow, but is already a bigger business than you think", is credible and has a unique proposition, as it is innovating to bring down the cost of healthcare and make it affordable. Alexander Forbes is a great administrator and consultant in the employee benefits space, Hanratty says.

Commenting on Santam, which has been involved in high-profile cases relating to business interruption claims, Hanratty argues that "we have a million policy holders at Santam, and this involved 4 000 policyholders who are businesses paying a miniscule premium, the highest was R12 a month, claiming a number running to almost R200m".

He says a survey of brokers indicated they and the public had "ignored social media and media and focused on their own experience when making a judgement", which was that Santam does everything it can to pay claims. He says the R1bn relief payment by Santam to smaller businesses probably covered most of the liability to smaller businesses.

Having said that, he says, the issue could have been handled differently. Santam is "a fabulous business, by far the best short-term insurer and one of our best franchises. This has been a painful episode, but it will go from strength to strength."

Pandemic

The pandemic will, however, fundamentally affect the insurance sector. "People have really begun to understand that life is precious. People who don't have life and disability cover are now thinking about these things. They are also thinking about the future and providing for the future, as life is uncertain." A lot of people's savings have been drained trying to keep their businesses afloat.

Sanlam's offices in Sandton, Johannesburg

In the first two months of 2021, mortality claims levels were **50% to 60%** higher than at the peak of the first wave.

Speaking earlier in March at the results presentation, Hanratty said there is a heightened awareness amongst customers and the population of having proper financial plans and having adequately provided for risks and for the future. People also want to operate digitally, and because of economic impacts, Sanlam was going to have to execute at lower price points. "There will be appetite for new ways of interacting and new channels and ways of getting value for money from financial services providers," he said.

It is also unclear how long the industry will be faced with higher claims. In the first two months of 2021, mortality claims levels were 50% to 60% higher than at the peak of the first wave, and Hanratty said at the time of the results announcement that "we estimate our excess claims in 2021 will be two to three times the level of excess claims in 2020". Given this, uncertainty on the finalisation of business continuity claims at Santam and events over the past year, and the huge increase in January and February during the second wave, makes predictions difficult.

Sanlam does have a strong competitive position in every market and every product line in which it competes and has a strong balance sheet, Hanratty said. Operationally, it is focused on how quickly the group can recover the key financial metrics – new business volumes, operating profits, value of new business and dividends, to levels before the coronavirus pandemic struck.

On the face of it, this strong competitive position was evident in the recent results of rival Old Mutual, which reported a 74% decline in adjusted headline earnings per share. Results from operations declined by 81%, or by 14% excluding coronavirus effects.

This relative advantage may be propitious for Sanlam which plans, strategically, to continue to strengthen and grow the Sanlam Emerging Markets portfolio in Africa, improve the scale and effectiveness of South African operations and use partnerships where it cannot do this itself – a plan which evidently proved advantageous, looking at its recent results. ■

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>> **Personal finance:** What to keep in mind when deciding on an investment property *p.44*

CEO INTERVIEW

By Timothy Rangongo

Innovation spurs Blue Label forth during pandemic

Brett Levy, the younger of the two brothers leading the company, talks about the business' growth and new opportunities lurking around.

When brothers Brett and Mark Levy, the joint CEOs of Blue Label Telecoms, started a technology company that provides telecommunications, technical support, data and analytics services, prepaid products, and transactional services to markets in South Africa and abroad in 2007, after years of dabbling in other successful entrepreneurial endeavours, people thought that they were mad.

"When we started out, we said that every single person on earth deserves to have all the products that everyone in the urban areas have," says Brett Levy. The company provided secure electronic tokens of value to the unbanked and poorly-banked people of the world at the time, and still does.

Since the 2000s, the Levys had rightly predicted that all business in the predominantly rural market will eventually go the prepaid route and have been offering affordable, convenient and secure payment for services such as water, electricity, cell phones, bus tickets, funerals, insurance and money transfers.

Two decades later, everyone can now understand what we were trying to achieve, says Brett. "It is about giving products to all people; in whatever format they need to buy it in – it may be R1 or R100. It may be daily or monthly, cash or EFT, insurance, banking, or electricity. It is really about giving everyone in the world the opportunity of being banked and having every product that is available out there."

Listing highlight

Listing the company on the JSE still remains one of the Levys' highlights since the start of the brothers' entrepreneurial journey with R35 000 in 1997 and growing it into a R280m-a-year business by 1999, importing electronics from Singapore.

"You grow up seeing all these listed companies and believing that one day you can build a business that can go on the market," Brett tells *finweek*.

The company was listed on the JSE on 14 November 2007 with an offer price of between R5.75 and R6.75 apiece, and reported a capital raising of R1.3bn. In its first financial year as a listed entity, the company posted R12.9bn revenue, R371m in core net profit, 48.4c in core earnings per share and continued to show growth for the next couple of years.

The ability to travel the world and set up companies across Africa, India and Mexico, experiencing the world's cultures and different ways of doing business is another highlight for the Levys, though Brett admits that some turned out good, and some not so good.

Mexico, for instance, was a relatively new frontier for Blue Label, and in 2011

Mark Levy
Joint CEO of Blue Label

Brett Levy
Joint CEO of Blue Label

the Levys were optimistic about the country, saying that there were some very interesting things on the horizon in Mexico, that boiled down to products and partnerships; and that "there were exciting things happening there, which if they come off would lead to ramped-up growth".

Financial results for the company's six months ended 30 November 2020 show an increase in basic earnings per share from 39.98c to 40.96c, which was primarily attributable to the disposal of the group's 47.56% interest in Blue Label Mexico, the proceeds of which were R191m.

New normal and opportunities

The performance of Blue Label in the past year managed to remain resilient amid an adverse economic environment brought about by the coronavirus pandemic.

"We were offsite about ten days before the hard lockdown started. We had been preparing for the changes. We were lucky in being prepared," says Brett.

"People are resilient. We are a crazy bunch, but we keep surprising ourselves. We can all be proud in how we have surprised each other throughout the tough times."

Inasmuch as one of the hardest parts of the pandemic for Brett was working out how the staff would work from home and what would become of productivity, the latter took him completely by surprise.

"Productivity at Blue Label over the last year has been extraordinary. So many people I have spoken to are also saying the exact same for their business. How they were so impressed by the productivity in their own businesses."

One of the biggest things he has taken out of the pandemic, on the positive side, is people.

"People are resilient. We are a crazy bunch, but we keep surprising ourselves. We can all be proud in how we have surprised each other throughout the tough times."

And it is the people he misses most. Specifically, human interaction. As Brett puts it, Blue Label is built on a culture of interaction with each other inside the company, inside the four walls. Outside interaction with suppliers and customers is also equally important, which he misses and requires as a matter of conducting business.

Event and game ticketing, which is a big part of Blue Label's business, came to a halt during this time.

"Ticketing is nought," says Brett, and adds that when you have a look at event ticketing, there has not been an event for a year and it is not quite clear when the next one will be — and if there is an event, how big it will be.

Although it seems normal now, he says "who would have ever thought that you are not going to go to a soccer game or cricket match, or would not go to see concerts?"

In Blue Label's six months to end-November 2020, ticketing revenue declined 56% to R143m. Overall revenue generated by the continuing operations within Blue Label declined by 15% to R9.6bn.

But the innovation that came from their ticketing side has been amazing, says Brett, pointing to the various streaming events being held online during the lockdown period, which have been extraordinary for him to witness, including three of Blue Label's programmes on DStv.

So many times, one gets stuck in your ways that you forget to innovate, says Brett, adding that times like these also give one the opportunity to innovate quicker.

To increase consumer convenience and flexibility, Blue Label launched two products amid the pandemic. One is called a Blu voucher, which is a single voucher in the Blue Label world that covers all their online products. "So, instead of having to buy multiple products from our online products, you can now buy a single generic blue voucher."

The second product is called Ringas. According to Brett, it is a multiple product for all the networks. Instead of having to buy a Vodacom, MTN, Cell C or Telkom voucher, one can buy a Ringas voucher, and it covers all the networks in one voucher. It was designed and came out during the pandemic.

The problem at Blue Label is not innovation but choosing which product to bring to the market, Brett says.

"We have got quite a lot in the pipeline and it is about choosing which to go with."

He says Blue Label has another four or five brand new products coming to the market in the next 12 months.

Working with family and leading from the front

Brett says that his and Mark's duties as joint CEOs rarely cross over on a day-to-day basis, adhering to their split. Brett looks after the recapitalisation of Cell C, which he says consumes a lot of his time; and the wholesale distribution business including Blue Label's post-paid side.

Mark, on the other hand, looks after the technical side of the company, their whole call centre and data divisions. "People ask, how do you have joint CEOs? I ask, how do we only have two CEOs? You need about six of us," says Brett.

While they may not always share the same perspectives on the business and issues, Brett says "the experience has been amazing. If you saw us in a board meeting, you would swear that we would never talk to each other again. We do like to go at each other, but then we step out and it is as good as it ever was."

He says he used to think that him and Mark, who is four years older, were the same – until they went into business together. That is how they realised how different to each other they are.

Nonetheless, they would not have it any other way, he says.

On the leadership front, Brett regards himself as a leader who does it the best from the front. He explains that he doesn't expect anyone to do anything that he would not do himself.

"If I am asking you to put in 20-hour days, I can assure you that I am also putting in 20-hour days."

He also believes that every person deserves a chance to fail.

"This is the biggest part of it all. I am not a hands-on person, watching you every second of the day (some people like that). I am more of a 'give it a bash and then either fall on your own sword or reap the benefits' type of leader."

You will never, ever get into trouble at Blue Label for trying hard and failing, he says. What you will get into trouble for, is for not having tried at all, he says.

The new decade for Blue Label

Cell C's recapitalisation is being finalised, which Brett says he is looking forward to as well as what it will bring the company.

"The company is also going back to basics, doing what it does well, which we have for many years. So, creating more products and more distribution; making it more efficient and convenient for everyone to live in this world."

Though nobody knows what lies around the corner for any of us, Brett says Blue Label is excited about what the future might hold. ■

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Photos: Supplied | Shutterstock

By Timothy Rangongo

Buying your first investment property

It seems like a good time to establish or expand your property portfolio. But beware, this is not a get-rich-quick scheme.

With interest rates at historic lows, a perennial oversupply of properties on the market, attractive pricing and more room for negotiation, the current housing landscape makes for an opportune time to consider either establishing or expanding one's property portfolio.

Inasmuch as global economic growth took a hard knock in the past year because of the coronavirus pandemic, Siphamandla Mkhwanazi, senior economist at FNB, says housing markets remained relatively unimpacted. The bank saw robust growth in buying activity and house prices continued climbing.

Lower transfer duties and changing housing needs due to the pandemic also propelled the activity. However, it is worth noting that the strong levels of activity are driven mostly by first-time buyers with second-home buying activity remaining relatively unchanged in the past year.

Mkhwanazi says the impact of the pandemic is more visible on the rental market than on the home-buying market. There are rising vacancy rates and subdued rental escalations, as landlords struggle to hold on to their good-quality tenants.

The estimated national average vacancy rate rose sharply from 7.47% in the first quarter of 2020 to 12.91% by the final quarter of 2020, according to vacancy survey results from TPN Credit Bureau.

Financial pressure led to certain renting households proactively ending their stays in rental properties in certain instances, and seeking alternatives, according to the survey results.

Low economic growth rates, rising inflation, high unemployment, volatility in financial markets, and dwindling consumer confidence are equally important factors to consider in terms of the prospects of finding tenants.

Interest rates are also incentivising tenants to move into homeownership, which means that qualified tenants are hard to come by within the current market, says Adrian Goslett, regional director and CEO of RE/MAX Southern Africa.

"Purchasing investment properties now is a calculated risk that real estate investors will need to decide upon for themselves," he says.

For those that are certain about taking the plunge, Goslett emphasises that purchasing a rental property is not a get-rich-quick scheme. He says property investment of any kind should be viewed as a medium- to long-term investment.

Siphamandla Mkhwanazi
Senior economist at FNB

Hayden Giger
Head of growth for FNB private bank lending

Adrian Goslett
Regional director and CEO of RE/MAX Southern Africa

Can you afford to buy an investment property?

Although each financial institution has their own methodology of calculating affordability or the acceptable cash flow for debt repayments, you need to also do your own calculations and make sure that you are confident that you can afford the property before approaching the bank, says Hayden Giger, head of growth for FNB private bank lending.

Giger cautions that potential investors also need to firstly understand the market or area they are buying in to understand the rental and capital growth potential. This includes the market value of the area, rental demand, the duration of property listings, the proximity to schools, central business districts and the income bracket that is dominant in the area (a determinant of the type of tenant you intend to have, for example, young professionals, small families or students).

However, as far as your affordability to buy is concerned, Giger says you still need to determine the rental you will receive and then deduct the following from the gross rental amount: levies and property taxes; an amount per month for maintenance; homeowners' insurance, if a freehold property and an amount for potential vacancy or missed payments by tenants (which, judging by the current economic climate, has become a crucial emergency saving).

Giger explains that what you have left over is what you have available for a bond repayment, and that it is useful to add a further buffer in your calculations for interest rate hikes if the prime rate increases.

Fixed rate vs floating rate

With the potential of interest rate increases on the cards, should one then fix the current low rate or opt for a variable one?

For a floating rate, the rate you received will increase or decrease with the prime rate. With a fixed rate, the rate you fix at will remain the same for the period with which you have fixed it regardless of prime rate movements, explains Giger.

The decision to fix or not fix is not a simple one to answer. He says that it depends on many things from your personal outlook on what you believe the prime rate will do to try and remove any potential influences on your cash flow by fixing the rate and creating certainty.

Photos: Supplied

"Fixing your interest rate does come at a premium to the floating rate that you would be quoted for, so this cost must also be factored into the monthly cash flow or interest cost associated with a home loan."

Becoming a landlord

An investment property is great for augmenting income and growing wealth but with this type of asset, work is required by you to realise returns. This ranges from advertising for new tenants and completing legal agreements, to collecting deposits and taking care of utilities.

It is equally important to realise that you are now assuming a new job of a landlord or, alternatively, you could pass it on to an appointed property manager.

"In order for the rental property to be a truly passive form of income, a rental agent should be hired to manage the property on behalf of the owner. Not only will this save the owner time, but it will also lower the risks involved in leasing a property to a tenant," says Grant Rea, residential sales and letting specialist at RE/MAX Living.

One of the benefits of working through a rental agent is that they have the expertise to screen tenants accurately and to set up a lease agreement that will protect the interests of a landlord.

Agents can guide a landlord through the various legal obligations that exist even after the lease agreement has been signed, thereby helping owners to avoid any possible disputes and conflicts by managing the expectations of both parties, says Rea.

Rental agents also undertake other administrative tasks that landlords often do not know about. For example, a rental agent will email the tenant any updates on body corporate laws that directly affect them.

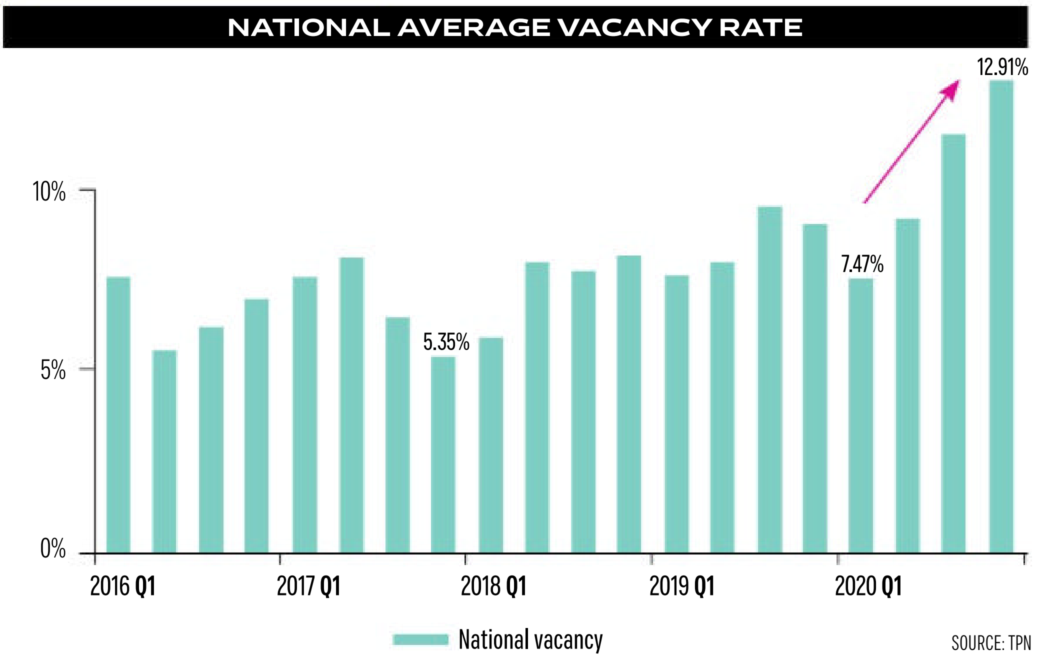
While the major benefit is primarily that an agent or property manager will be happy to undertake all these tasks which by the looks of it is a job in itself, the pitfall is, of course, the fees payable to managers. The benefit of foregoing external management is fully assuming the active role of a landlord, meaning this diminishes the idea of undertaking rental property as a passive investment.

Paperwork

By law, an agreement called an offer to purchase (OTP) is required to transfer property, be it a house or flat. It must be agreed to in writing and must be signed by the seller and purchaser.

The conveyancer (the attorney who specialises in the transfer of properties into the name of the purchaser) will oversee the financial logistics and assist with preparation of the documents and deeds for registration of the property in accordance with the law and the OTP, explains Elmarie Neilson and Vanessa Thomas of Neilsons Attorneys.

Crucial disclosures that an OTP may include comprise the seller's declaration that the house is structurally sound and fit for occupation and a copy



of the electrical compliance certificate. Compliance in respect of electricity, gas and electric fencing must be adhered to.

By law, a change of ownership cannot take place unless valid electrical and gas compliance certificates and electrical fence certificates are issued, according to Neilson and Thomas.

"The OTP usually sets out the seller's responsibility to arrange these certificates and deliver the original documents to you."

Neilson and Thomas advise that you read the certificates carefully and ensure that all the relevant sections have been completed, to ask the inspection companies for information on the scope of the inspections, because not every aspect of every stove or water pipe is necessarily inspected.

If you require any further assurances, you should speak to your estate agent or attorney about addressing these concerns in the OTP. "You are entitled to send in your own experts to check for any flaws in the property."

SA law also states that "huur gaat voor koop", meaning that a tenant is entitled to remain renting and you cannot get rid of the tenant when a property is bought, according to Neilson and Thomas, who point out the potential perils of a tenant that already lives on the property.

They advise making sure that any arrangements and agreements regarding tenancy and occupation are clearly recorded in the OTP, including finding out if there are tenants in the property and if they are staying. If so, look at the lease agreement and find out how long the lease will still run.

"Obviously, if it is a good tenant and you are buying to rent, the work has already been done for you, but make sure that you have a new, well-drafted lease agreement in place." ■

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Elmarie Neilson
Partner at Neilsons Attorneys

Neilson and Thomas advise that you read the certificates carefully and ensure that all the relevant sections have been completed.

Piker

On margin

I give up!

This issue's isiZulu phrase is *angisazi ngeni*. Directly translated, it is "I am no longer involving myself"; or simply put: "I quit/give up".

Have you ever had a day that had you thinking *angisazi ngeni*? I recently did.

My car's licence disc recently expired so I had to renew it, but before doing that I decided to replace the cracked windscreen. The guys that replaced the windscreen took the cracked one, and with it, the expired disc. Not great.

I drove to the Post Office, filled in the form and gave it to the cashier but was told I needed to bring my company registration documents because the car is registered under a company. I was rather confused because the car is definitely mine, so I asked to see the documents that say this and she handed them over to me. It turned out I had handed her my food truck's disc.

Thwarted, I decided to leave, but as I got to my car, I went back to ask the cashier if there was another way I could get a disc, and she asked me which details I had. I said I could get the VIN number, and went to write it down, returned and gave it to her.

She punched it in but the car did not appear on the system. So back I went to the car, took a pic of the VIN, went back to the cashier, who punched it in again and then printed out a document that had all my car's details, and told me to fill in the form.

I filled in the form again and handed it over, with my driver's licence. Then BAM – LOADSHEDDING!

Defeated, I screamed *angisazi ingeni*, stormed out and headed to the bar. I do not wish such a day on anyone.

– Melusi's #everydayzulu by Melusi Tshabalala

"You certainly haven't let lockdown go to waste, sir."

Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 5 April.

1. The European Commission president warned AstraZeneca to catch up on deliveries to the EU before exporting doses elsewhere. Who is the current president?
   - Christine Lagarde
   - Jean-Claude Juncker
   - Ursula von der Leyen
2. **True or false?** Eastern Platinum is a JSE-listed mining company.
3. At what age did Zulu King Goodwill Zwelithini die?
4. Sygnia Asset Management announced that Magda Wierzycka will step down as joint CEO from 31 May 2021. Who will be the new sole CEO?
   - David Shapiro
   - David Mordant
   - David Hufton
5. Distell has launched a range of Vawter seltzers to take on which rival company's Flying Fish range?
6. On 25 March, Bafana Bafana drew 1-1 against Ghana in a bid to qualify for the Africa Cup of Nations next year. In which country will the tournament be held?
   - Nigeria
   - Rwanda
   - Cameroon
7. **True or false?** Professor Salim Abdool Karim stepped down as the co-chair of the ministerial advisory committee on Covid-19 to become SA's new deputy minister of health.
8. Which former Glencore oil trader pleaded guilty to conspiring to manipulate an oil price benchmark to influence global oil prices?
9. **True or false?** British Prime Minister Boris Johnson invited SA President Cyril Ramaphosa to attend the G7 leaders' summit later this year in Switzerland.
10. **True or false?** Electric carmaker Tesla will now take Bitcoin as payment for its cars.

CRYPTIC CROSSWORD NO 772JD

ACROSS

4 Give up wearing a ring (7)
8 Boy takes whip to bay lynx (6)
9 Followers of Francis sound hesitant to replace Scottish man's pig (7)
10 English fortune-teller stops at five for cake (6)
11 The Spanish settle the score with cardinal (6)
12 Fellow consumer? (8)
18 Best alternatives abroad (8)
20 Anticipate losing all the trees (6)
21 Graduate officer in charge at sea (6)
22 If you're away with them you're not all there (7)
23 Agency catches dog – what a noisy creature! (6)
24 Transport provided by European Commission to remain in Sweden (7)

DOWN

1 US bachelor expressed feeling of privation (7)
2 Shellfish sailor kept to himself (7)
3 Island volunteers hit it off to a T (6)
5 Support rental chain (8)
6 Lunchtime drink refusal something extraordinary (6)
7 First man in the door (6)
13 No end to counterfeit by ship, albeit unprofitable (8)
14 Assistant has space inside for punter (7)
15 Inconsiderate of others at a party (7)
16 Short time back, when put in charge of parquetry (6)
17 Investigate dogs in luxury vehicle (6)
19 Dazzle with short sketch (4,2)

Solution to Crossword NO 771JD

ACROSS: 1 Elephant; 5 Said; 9 Agora; 10 Outacts; 11 Tail; 12 Clambake; 13 Head of a falcon; 18 Sergeant; 19 Daft; 20 Acanthi; 21 Decay; 22 Yeti; 23 Aglisten

DOWN: 2 Luggage; 3 Paroled; 4 No oil painting; 6 Archaic; 7 Discern; 8 Stemma; 13 Hushaby; 14 Abreast; 15 Omerta; 16 Ladders; 17 Offtake

INVEST IN YOUR LIFESTYLE

What does your fresh start look like? For many, it's a mature lifestyle village in a glorious location, surrounded by state-of-the-art security, lush indigenous gardens and completed by forest or ocean views. It could also be freedom of choice when it comes to activities, home types and purchase options that suit every need. Then, there's the convenience factor of a single monthly levy that ensures everything is taken care of. Because when it comes to a new adventure, why should you settle for anything less than all of the above and then some?

To see how you can live the holiday from as little as R1.6 million, book a private tour of Renishaw Hills, Scottburgh today. Email sales@renishawhills.co.za to get started or take our virtual tours on www.renishawhills.co.za

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