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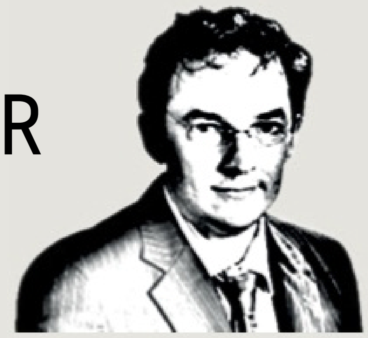

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from the editor

JANA JACOBS

g[illegible] news is hard to come by these days. Even as we finally enter lockdown level 2, [illegible]brating is premature. While it of course provides a lifeline to many businesses [illegible]t were hanging by a thread, it's too late for scores of others. And then there is [illegible] fact that Covid-19 isn't going anywhere soon, which means we will remain [illegible]ssibility of reinstated restrictions. Not to mention the reality that lives will continue to be lost.

Over and above the uncertainty of how long the world will remain exposed to this virus – for South Africans, the past five months of the unsynchronous approach by government in combatting the pandemic has left us despondent. Furthermore, once we do finally emerge on the "other side", the economic hardship our country will face is, frankly, immeasurable.

Given all of this, it's no surprise that the general mood remains sombre and it is difficult to seek out positivity – much less hope.

But as we compiled this edition of *finweek*, I was reminded of some of the incredible talent and gumption of South Africans. Their resourcefulness offering that much-needed positivity.

Zande Africa, featured on p.8, is the product of two bankers who decided to start a financial services company in order to provide credit solutions to spaza shop owners, who have to battle the issue of cash constraints. But they realised the bigger challenge for these businesses was the logistics of sourcing merchandise. Using their own funds to start up, Siya Ntutela and Mdu Thabethe have grown their platform to currently serve 1 200 spaza shop owners. In so doing, they are providing a way of improving the efficiencies in the informal market – which boasts an annual revenue of R40bn, according to Ntutela.

It goes without saying how important innovations and initiatives like this will be as we attempt to restart our economy.

Veldskoen, a local footwear brand that has re-imagined the traditional "velskoen", has built a business that is internationally recognised. A goal co-founder and CEO Nic Dreyer says has been in place since starting the venture. (You can read their story on p.42.)

Granted, Zande Africa serves as an example of how private citizens are creating solutions for a part of the economy that is not being properly served by current policy. In the quest to rebuild our broken and battered economy, initiatives like this could become increasingly difficult to get off the ground. Especially if many government policies continue to remain uncertain across sectors and industries. (Also see p.10 and 38.)

And while Veldskoen's success should be celebrated, there are many entrepreneurs who will not have survived South Africa's lockdown. Entrepreneurs who would have been critical in providing jobs and services.

But, for today, a little good news is worth enjoying. ■

contents

Opinion

In brief

Marketplace

Cover

In depth

On the money

By Johan Fourie

SOCIO-ECONOMICS

For some, a little faith goes a long way

Can religion make people more resilient during times of hardship? Recent research suggests so.

No industry has been left untouched by Covid-19. Religious and spiritual services are no exception. Churches across South Africa closed during hard lockdown; many remain closed, with services moving online. The Hajj pilgrimage that began on 28 July had only 1 000 pilgrims, down from 2.5m in 2019. Public celebrations of Jewish Passover have been cancelled. Buddhists around the world observed Vesak Day virtually.

The financial implications of such a supply shock are becoming all too clear. Donations have fallen and many churches have been forced to delay or scrap their outreach programmes. Some ministries have had to let go of staff. Places that depend on pilgrimages have been particularly badly hurt. The Santiago de Compostela Cathedral has been renovated at great expense in anticipation of the surge of Camino pilgrims expected to make the journey during next year's Holy Year; many may choose to suspend their plans. The Hajj and Umrah usually add $12bn, or 7%, to Saudi Arabia's GDP; the collapse of pilgrim numbers would have seriously hurt Mecca's economy.

29% of Americans said that the pandemic has strengthened their faith or spirituality; only 3% said their faith had deteriorated.

But in contrast to other industries, where supply shocks have been exacerbated by a decline in demand, the pandemic has forced people to reflect on their own mortality and the meaning of life. Many have turned to religion for answers. In the US, more than half of all respondents to a Pew Research survey in March said that they "prayed for an end to the spread of coronavirus". In the same survey, 29% of Americans said that the pandemic has strengthened their faith or spirituality; only 3% said their faith had deteriorated. While the supply of religious and spiritual services may have declined, demand is certainly on the increase.

The turn to religion is likely to have economic consequences. Social scientists have long debated the economic benefits of religiosity. German sociologist Max Weber famously argued that one reason for North-Western Europe's industrial revolution was the Protestant values of hard work, discipline and frugality. Although the theory has received some empirical support, its causal argument remains contentious: Was it Calvinism that caused Protestant values to emerge, or was it people with those values that adopted Calvinism?

One way to find out, of course, is to run an experiment. This is exactly what economists Gharad Bryan, James Choi and Dean Karlan did. They approached International Care Ministries, a Christian, anti-poverty organisation in the Philippines, to roll out a large training programme. Almost 8 000 Filipino households were randomly selected from 320 communities to undertake the Transform curriculum, which consists of 90-minute interactions over 15 weeks.

Transform consists of three components: the teaching of Protestant Christian theology and values (V), the teaching of health behaviours (H) and the teaching of livelihood skills (L). The authors randomly assigned certain households to receive the full training package, other households received only the health behaviours package and others received no training. They measured outcomes six months and again 30 months after the intervention, publishing the results in the latest issue of the *Quarterly Journal of Economics*.

The first, and perhaps most obvious, result is that those following the V curriculum turned out to be more religious than the control group, i.e. those not enrolled in the programme, six months after the experiment. More exposure to religious teachings makes people, well, more religious. A more surprising finding is that those following the V curriculum also have 9.2% higher household income compared to the control group. This is only true for income; the authors find no differences between the two groups in terms of labour supply, assets, consumption, food security or life satisfaction.

Why would Christian theology and values boost incomes? The authors explain "that the religiosity treatment effect operates by increasing grit – specifically, the portion of grit associated with perseverance of effort (and in particular, agreement with the statements 'I am a very hard worker,' 'I finish whatever I begin,' and 'Setbacks don't discourage me.')." This mechanism, the authors conclude, accords with Weber's conception of the Protestant work ethic. In addition, they find no consistent movement in the other potential mechanisms measured: social capital, locus of control (other than the belief that God is in control, which increases), optimism, and self-control.

Two-and-a-half years after the experiment the authors returned to the Philippines. They again measured the incomes, assets, beliefs and values of the almost 8 000 households. But this time they found that the large difference in incomes between those exposed to the Christian curriculum and those not, had disappeared, and so too had the differences in grit. The two groups were almost indistinguishable on all outcome variables, except that those formerly enrolled in the programme seemed to be more optimistic than those not enrolled.

In a different experiment, the results of which were published in the same journal, five economists randomised members of a Pentecostal church in Ghana into an insurance scheme. The authors tracked whether those who were enrolled in the insurance scheme were more or less likely to continue giving money to the church. They find that church donations dropped significantly for those that also (randomly) received insurance. The authors conclude that "adherents perceive the church as a source of insurance and that this insurance is derived from beliefs in an interventionist God".

What do we learn from these experiments? One hypothesis is that religion is a placeholder. When we are sick, religion brings comfort. When we lack understanding, religion helps to explain. When we lack motivation, religion gives purpose. When we lack social networks, religion builds trust. Replace these things with private and public services – good health, education, insurance – and the need for religious services falls.

Covid-19 has brought hurt and hardship. The challenges going forward might be even greater. We need grit – to knuckle down and get through this. We need optimism – to believe that things will get better, even if the evidence doesn't back it up. Perhaps a placeholder is exactly what we now need. ■

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Johan Fourie is professor in economics at Stellenbosch University.

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in brief

Lesetja Kganyago

"OF COURSE, THERE COULD ALWAYS BE CENTRAL BANKERS WHO…COULD OVERLOOK THEIR RESPONSIBILITIES IN TERMS OF THE CONSTITUTION, BUT THIS ONE IS NOT ABOUT TO."

— **Lesetja Kganyago, governor of the South African Reserve Bank,** defended the central bank's response to the coronavirus-led economic downturn in SA in the face of growing calls from politicians and trade unionists to deepen its rate cuts and buy up more government bonds. He told the *Financial Times* that the policy rate, now at its lowest in nearly half a century, was also now negative in real terms against where inflation is expected to be in the next year, showing the bank's "substantial" response.

"People are giving me too much credit that I do not deserve. I do not run government."

—**Minister of cooperative governance and traditional affairs and chair of the National Command Council, Dr Nkosazana Dlamini-Zuma,** chided critics who pinned her as the sole force behind government's decision to ban tobacco sales for five months, during a media conference on the move to level 2 of the national lockdown. Dlamini-Zuma said she was being used as a "scapegoat" for decisions taken by a collective. The sale of alcohol and tobacco has been permitted under level 2, as well as concerts, weddings and smaller events (restricted to no more than 50 people), and inter-provincial travel for leisure.

"This is a dramatic breakthrough that will make the Middle East safer."

— **US President Donald Trump's chief adviser, Jared Kushner,** said the US-brokered Israel-United Arab Emirates (UAE) peace treaty represents a "massive change" for the Middle East. Speaking to CBS News, Kushner commented that the deal, which was unexpectedly announced at the beginning of August, would make the region safer. It marks the third Israeli-Arab peace treaty in the Middle East, and the first one involving a Gulf state. Though the international community has welcomed the deal, Palestine, Iran and Turkey have denounced it. The signing of the deal is expected to normalise relations between the two countries, including opening embassies in each other's territory.

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THE GOOD

Biotechnology and Nasdaq-listed company Novavax announced the beginning of a Phase 2b clinical trial in South Africa to evaluate the efficacy of the company's Covid-19 vaccine candidate. Dr Shabir Madhi, professor of vaccinology at Wits University, will lead the clinical trial. Madhi said in a statement that the major motivation for the vaccines being evaluated at an early stage in SA is to gather evidence in the African context on how well these vaccines work in settings such as our own.

THE BAD

JSE-listed insurer Momentum Metropolitan told customers that a third party 'unlawfully accessed' a limited portion of data of a subsidiary of the group. The insurer said it became aware of the data breach on its network on 13 August and immediately activated its IT security incident plan, which included the implementation of additional systems monitoring and the reinforcement of its IT security.

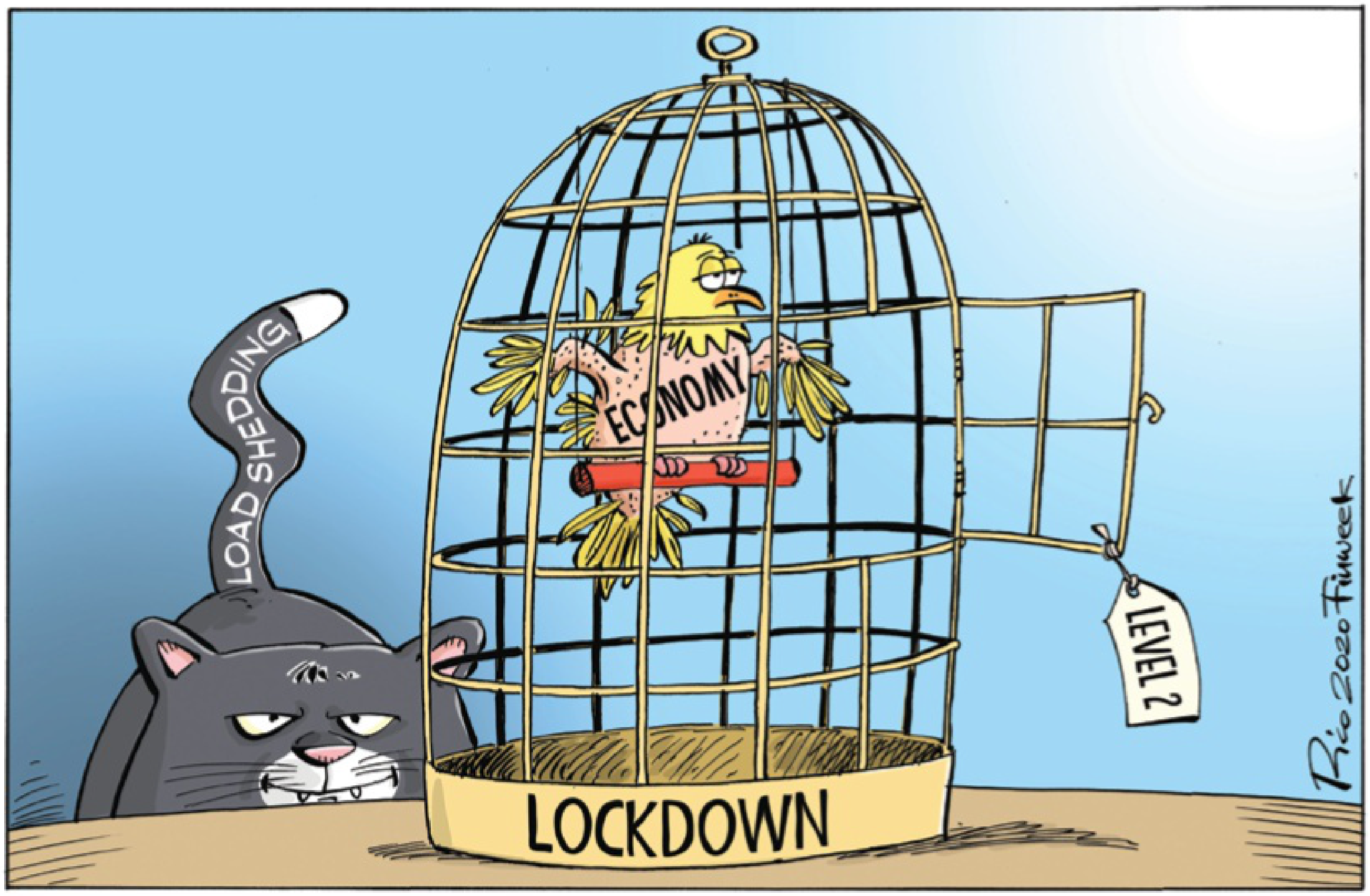
THE UGLY

Sasol reported an annual loss of R91.3bn for the full year ended 30 June compared with earnings of R6.1bn in the previous year. The company wrote off assets worth $6.5bn (R111.6bn) and said the start-up of the last unit at its Lake Charles Chemicals Project has been delayed again. It said earnings were severely impacted by a collapse in oil prices and the economic impact of Covid-19 in the second half of the year despite good production and higher oil prices in the first half of the year. Sasol will issue up to $2bn (R34.8bn) of shares in the second half of 2021 to pay down almost R200bn in debt (also see p.18).

Photo: Gallo/Getty Images

DOUBLE TAKE

BY RICO



TOO LITTLE, TOO LATE

21 000

Non-profit organisation VinPro, which represents over 3 000 SA wine producers, cellars and industry stakeholders, said in a statement that although the SA wine industry is grateful for and acknowledges the recent lifting of the alcohol ban, it "might be a little too late". The organisation estimates that more than 80 wineries and 350 wine grape producers would go out of business over the next 18 months, with a potential loss of more than 21 000 jobs across the value chain – as a result of the temporary ban. The industry is believed to have lost more than R7bn since the introduction of sales restrictions in March 2020.

TOTAL INVESTMENT

R6.95bn

Total's oil and gas rig arrived in Cape Town in preparation for expanding on the petroleum giant's discovery off the coast of Mossel Bay. The rig, known as the DeepSea Stavanger, was built in Norway and commissioned by Total and its partners to drill the Luiperd prospect, which is in the same block in the Outeniqua basin where Total's Brulpadda discovery was made. The department of mineral resources and energy said the DeepSea Stavanger rig is part of a $400m (R6.95bn) oil and gas exploration drilling campaign by Total. Offshore Energy reported that Total is expected to pay between $145m and $190m for the 180 to 300 days the drilling campaign is expected to take.

SHIFTING FOCUS

15 years

MTN announced that it is leaving the Middle East after 15 years and focusing on Africa. The company said it will exit the Middle East in the medium term, starting with the sale of its 75% stake in MTN Syria. Advanced talks have been entered into to sell the stake in MTN Syria to TeleInvest, which holds the other 25% of the business. Among reasons for divesting from the region, MTN cited losing money on falling regional currencies, the Middle East's volatile geopolitics, and problems with Western sanctions. In the 15 years that MTN operated in the region, there had been no shortage of headlines, including allegations of bribery, contravening sanctions and funding terrorism – all of which the company denied.

MINING OUTPUT DOWN

-28.2%

SA's total mining output fell 28.2% year-on-year in June compared with a revised contraction of 27.6% in May, reported Stats SA. The largest negative contributors were platinum group metals (PGMs), with output down 42.5% and contributing -10.6 percentage points; and iron ore, with output down 54.2% and contributing -6.7 percentage points. FNB economist Geoff Nolting said headwinds are likely to continue, particularly in attracting investment in new projects. He said factors like declining global competitiveness; electricity supply and cost constraints; regulatory uncertainty; and logistical bottlenecks such as inadequate railway networks and port infrastructure increase the risk premium for investors on the back of a highly uncertain operating environment.

By Glenneis Kriel

Growing SA's informal market

Zande Africa's innovative informal market solutions bring efficiencies to spaza shops.

In 2015, the absence of credit solutions for spaza shop owners led to bankers Siya Ntutela and Mdu Thabethe deciding to fill this gap by starting their own financial services company, Zande Africa.

"The name of the company was derived from a Nguni word that means 'to multiply', in reference to our objective to unlock the spaza shop economy, which boasts an annual revenue of over R40bn," says Ntutela.

Their subsequent analysis uncovered that supply issues were an even greater challenge than cash constraints. "Spaza shop owners, at least once a week, have to either close shop or employ someone to run the shop while they are away buying merchandise. To address this challenge, we added supply and logistics solutions to our product offering," says Ntutela.

Our objective was to unlock the spaza shop economy, which boasts an annual revenue of over

R40bn

Unlocking a market

Getting the initiative off the ground was easier said than done and had to be self-financed by Thabethe and Ntutela. In 2016, Zande Africa received a R1m injection from Merrill Lynch South Africa and AlphaCode, and won R750 000 when it took third place in the SAB Innovations Awards programme in 2018.

"There is a lot of great innovation competing for funding out there, so winning in some of these rounds proved to us that our business idea was on the right track," Ntutela says.

As newcomers to the fast-moving consumer goods (FMCG) industry, Ntutela and Thabethe had to work hard to build the trust of suppliers and spaza shop owners. FMCG companies also have highly formalised distribution networks, so it took a lot of effort to persuade them to change their business practices and supply spaza shops more directly.

Zande Africa's first big break came in 2017 when Pioneer Foods appointed it as a distributor. From there, the start-up established partnerships with various companies, allowing it to buy food in bulk on credit. Spaza shops have the option of buying this stock from Zande, in cash or on credit.

Since most of its clients are unbanked, business is limited to cash transactions for up to six months, during which time Zande Africa compiles a portfolio of the profitability and creditworthiness of the shop. Thereafter owners could qualify for an interest-free credit line that is valid for up to 14 days. The cost of the credit line is calculated into the price of the products, which is still 10% cheaper than spaza owners would pay at wholesalers or supermarkets, according to Ntutela.

Siya Ntutela (left) is the chief commercial officer and **Mdu Thabethe** is the CEO of Zande Africa.

The company initially used unstructured supplementary service data (USSD) technology, which allows clients to apply for credit and check their balances by entering a specific number on their phone – in the same way mobile operators allow customers to check their balances and buy airtime. While this technology is still offered, most of Zande's clients have since switched to WhatsApp to access these services.

"Engaging shop owners via WhatsApp creates a heavy administrative burden for us, but it is their preferred channel of communication," Ntutela says.

To add additional value to their service, Zande Africa has created business opportunities for independent owner drivers and sales agents. The drivers are responsible for product deliveries, while the sales agents act as merchandisers by checking shop supplies during deliveries.

"The sales agents keep record of stock movements and place orders for new stock on behalf of the shop owners. Stock is usually delivered the next day," says Ntutela.

Covid-19 and plans for the future

Competition in the spaza shop market is quite fierce, with Zande Africa having to compete with hypermarkets and discount stores for their clients' attention. However, Zande Africa has a significant edge due to their ability to timeously supply shop owners with the right products on their doorsteps. "The start-up has turned into something like a Takealot of the spaza shops," says Ntutela.

Zande Africa has grown to employ 42 people, with warehouses in Ermelo and Mbombela in Mpumalanga. They were in the process of opening another warehouse near Orange Farm, south of Johannesburg, but had to postpone its opening until August because of business disruptions caused by the Covid-19 lockdown.

The company had 1 500 spaza shop owners on their books at the start of this year, which had declined to 1 200 due to Covid-19 regulations. Trading volumes have nevertheless remained the same.

"There had been a lot of confusion during lockdown level 5 as to whether spaza shops were still permitted to operate or not. We tried to help by keeping clients up to date with developments via WhatsApp, and supplying them with face masks and sanitiser to ensure their businesses complied with government regulations," Ntutela says.

He adds that Covid-19 once again unveiled the big gap between the haves and the have-nots in South Africa: "People living in townships had to travel up to 20km and more to buy their food because of the closure of spaza shops. This not only added to the financial burden on these people, who are already struggling to make ends meet, but also posed a great health risk as they had to make use of public transport."

The company's plan for the future is to become more digitised. "At the moment more than 80% of our clients are foreigners and they are extremely vulnerable, as more than 90% of their business is conducted in cash. We are looking into solutions to migrate them to other payment systems without adding any significant costs to transactions. The solution will probably be launched within the next year or two," Ntutela says.

Zande Africa recently also acquired a customer management system tool, which will further enhance its ability to analyse the opportunities presented within this informal market. "We are gathering a lot of valuable market information that will allow better product and service linkages with this economy." ■

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SCAN ME

By David McKay

MINING

An adverse amendment

A feature of the Draft Taxation Laws Amendment Bill may hamper junior miners. Minerals Council SA is requesting reconsideration from National Treasury to avert a negative impact on the industry.

South African mining has recently suggested there are grounds for hope that the government will respond positively to reform proposals placed before it by Business Leadership SA's B4SA.

Roger Baxter, CEO of Minerals Council SA, which contributed the mining sector slides to B4SA's presentation to government, said visible signs of policy improvement could be seen within six months. A proposal, for instance, to incentivise exploration investment via tax benefits attached to so-called flow-through shares, could be met with a favourable response before October, he said.

Unfortunately, the government 'policy' doesn't appear to be either homogenous or synchronous. While National Treasury may view flow-through shares positively, it tabled the Draft Taxation Laws Amendment Bill in July that may frustrate junior mining.

> Unfortunately, the government 'policy' doesn't appear to be either homogenous or synchronous.

Addressing the tax treatment of allowable mining capital expenditure where mining services are provided through contractors, the draft amendments say only mineral right holders can benefit from accelerated depreciation; in other words, not the contractor miners. "It is anti-junior mining as it is junior miners who are most capital-constrained and are most likely to need contractors," said Paul Miller, a former mining company CEO.

"I hope the amendments are more a case of being poorly drafted (than policy)," said Errol Smart, CEO of Orion Minerals, which is building the R4.5bn copper-zinc project near Prieska in SA's Northern Cape province (see sidebar). "I don't know whether our project would have got going with these laws," he said.

Said the Minerals Council when asked about the draft amendments: "The Minerals Council will be making a submission to National Treasury on this feature of the Draft Taxation Laws Amendment Bill, pointing out that it will have an adverse impact on the industry and requesting a reconsideration."

There's also some confusion about whether the department of mineral resources and energy's (DMRE's) decision to withdraw an appeal regarding the 'once empowered, always empowered' clause in the 2010 Mining Charter is a benign move or not.

Styled by the Minerals Council as evidence that reform was being supported by the DMRE, the decision to drop the appeal over the High Court's decision relating to the 2010 Mining Charter is so it can contest an industry interpretation of once empowered, always empowered as contained in the 2018 Mining Charter, according to a note by Fasken, a law firm. ■

editorial@finweek.co.za

Roger Baxter
CEO of Minerals Council SA

Errol Smart
CEO of Orion Minerals

Orion's touching the skies

Shares in the JSE's Orion Minerals have nearly doubled in value since the start of August, which is timeous as the firm is thought to be in the final stages of equity financing the Prieska copper-zinc project.

This followed the grant of a mining permit over the remainder of Orion's Northern Cape property which Errol Smart, CEO of the company, says has been delivered in double-quick time and is a reminder that when minded, South Africa's mining regulatory environment can be a force for good, not frustration.

"My biggest fear, the one thing that kept me awake at night, was that it would take six to nine months to get the permit," he told *finweek* in an interview. Now is the time to be financing and building mines in SA with infrastructure development fresh in the collective mind of President Cyril Ramaphosa's economic cluster.

Smart says the Northern Cape licensing office of the DMRE has been responsive and efficient, and quite unlike some offices in Australia where Orion Minerals also has exploration properties.

"We criticise SA all the time, but you can go months on end without hearing from any (official) one in Australia," says Smart.

Expect, then, more upward momentum to Orion shares when the financing is in place and assuming economic recovery after Covid-19 remains supportive of base metal prices which feed industrial growth. Smart wants the mine, proposed to do 22 000t of copper and 70 000t of zinc annually over 12 years, to start construction in the first quarter of next year. ■

Photos: Gallo/Getty Images | www.orionminerals.com

By David McKay

MINING

Exports show SA production slump may be smaller

As more and more miners return to full production, fears of metal price contraction are being allayed. For now.

Sibanye-Stillwater, the gold and platinum producer, said in a trading statement earlier this month that it didn't expect a high risk of further operational disruption because of Covid-19.

The statement confirms a growing expectation that SA's mining sector might be over the worst of the Covid-19 pandemic, the extent of which was retrospectively demonstrated in recent Stats SA data that showed mining production for June had fallen about 28% year-on-year.

According to Henk Langenhoven, chief economist at Minerals Council South Africa, the sector is "bouncing back" as measured by the volume and value of exports. Export volumes were, in fact, 28% higher in June than at the same time last year, while the value of export sales, which had fallen to a four-year low in the five weeks following the government's hard lockdown, had recovered to about R40bn for the month in April – and were rising.

"We expect the average real production decline between 2019 and 2020 to be 11%," said Langenhoven, an outlook that compares with expectations of a 15% decline previously. He thinks the weighted average nominal (unadjusted) decline in mining production will be at 7% compared with 12% previously.

The worst-case scenario is that average real (adjusted) production could be 15% lower compared with a decline of 21% previously, Langenhoven said. The nominal weighted average for 2020 is forecast to be an 11% decline (compared with a 17% decline previously).

We expect the average real production decline between 2019 and 2020 to be

11%.

The upshot of the forecasts is mining production and sales will not be as bad as previously expected, as another trading statement – this one from Harmony Gold – also illustrates. Harmony said this month it expects to be at full production from August; Sibanye-Stillwater and Northam will be at full capacity in the fourth quarter.

Set against impressive dollar-based pricing for gold and platinum group metals (PGMs) in particular, assisted by renewed rand weakness, raises the question as to whether the recovery in mining stocks has now run its course. PGM shares have rerated in the past three months; even in absolute terms, the likes of Anglo American Platinum and Impala Platinum were nearing their February highs at the time of writing.

But it also needs to be remembered that SA PGM stocks held up well even though Nornickel, the Russian producer, and North American production continued largely unabated through the worst of the pandemic.

"The delta in the South African supply ramp from here could then be smaller than previously expected, which bodes well for the sustainability of prices off current levels given an expected demand recovery into the 2H20 (second half of this year)," said Morgan Stanley in a note last month.

In other words, a significant kick-up in SA PGM supply is not expected to heavily disturb the pricing of the underlying metals.

The outlook for gold is potentially even rosier. Although labour intensive and therefore more crowded and logistically challenging, the dollar and rand gold price improvement has more than offset production shortfalls. According to Mark Bristow, the SA-born CEO of Canadian gold miner Barrick Gold, we should expect significant volatility in the gold price, but no correction to previous levels.

"We won't get a return to $1 100 to $1 200 per ounce," he said in an interview with *finweek* following the company's second-quarter financials. "The gold price is going to settle at a new (higher) base as all the major economies are printing money." The well-established theory is that when money becomes cheaper, investors turn to gold, which is viewed as a store of wealth and hedge against inflation.

Bristow also thinks that although stimulus efforts have put some vim into equities, the real damage perpetrated by restructuring and staff furloughs is yet to make its presence felt at a consumer level. "That's still a hidden part of the crisis. People don't generally want to see the gold price go high as it has because it's recognition of a high-speed collision." ■

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Henk Langenhoven
Chief economist at Minerals Council South Africa

A significant kick-up in SA PGM supply is not expected to heavily disturb the pricing of the underlying metals.

Photo: Gallo/Getty Images

By Glenda Williams

LISTED PROPERTY

Capitalising on e-commerce

Industrial property is benefitting from declining in-store retailing and the huge growth in data consumption.

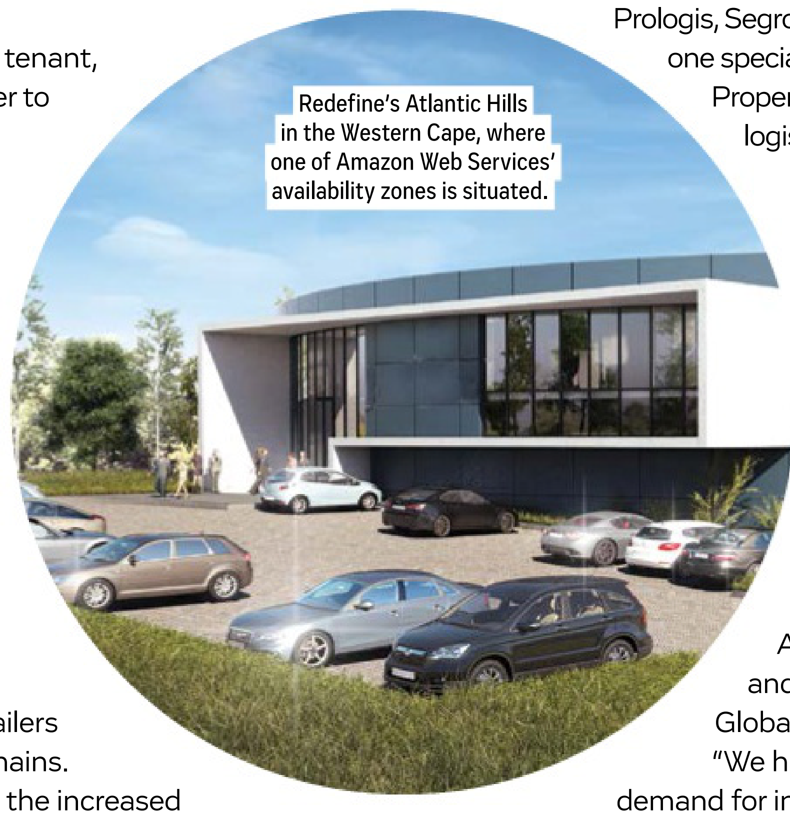
For the most part, industrial property (factories, logistics warehouses and distribution centres) has been the poor relation in the local property investment landscape. Even South Africa's listed property and real estate investment trusts (Reit) sector has largely fixed its attention on retail and office assets.

According to Bridge Fund Managers, on 31 July 2020 only 18.3% of the FTSE/JSE Listed Property Index (SAPY) comprised exposure to the industrial sector. Of that, 6.6% being traditional industrial (primarily manufacturing) and 11.7% logistics (warehouse storage and movement of goods). The FTSE/JSE REIT SA Index figure is somewhat higher at 23.5%, split between 5.7% traditional and 17.8% logistics.

Steven Brown
CEO of Fortress REIT

Ironically, given lower exposure to the asset class, industrial property is cheaper to own and operate compared to other asset classes.

"A lot of the costs are pushed to the tenant, and per square metre it is much cheaper to build," Steven Brown, CEO of Fortress REIT, tells *finweek*.



Redefine's Atlantic Hills in the Western Cape, where one of Amazon Web Services' availability zones is situated.

But the approach to the asset class has been upended by the Covid-19 pandemic, which has brought with it strong e-commerce and e-tailing tailwinds on the back of declining in-store retailing – advancing the gains the industrial sector has made in recent years due to retailers requiring more efficient supply chains and e-commerce.

The pace of change is especially driving growth in logistics real estate, the backbone of e-commerce, with online retailers and even traditional retailers ramping up their logistics and supply chains.

Many businesses are capitalising on the increased reliance on e-commerce. But e-commerce requires more than three times the logistics space of traditional brick-and-mortar retail sales, according to Prologis research.

"Retailers are now spending a lot more on online infrastructure, in order to give them the backbone to roll out an omni-channel experience for the customer," says Brown. "Even smaller businesses are getting scale and rapidly building trust with the end consumer and that's been an opportunity for our logistics real estate business."

Fortress is the largest logistics developer in SA, logistics accounting for one-third of its R30bn direct property portfolio. By investing R1bn annually in new logistics assets over the next five years, by 2025 Brown expects logistics to account for two-thirds of the portfolio.

Industrial sector exposure constitutes 20% of Redefine Properties' local portfolio, R13.7bn by value. And the Reit's European logistics platform (in partnership with Panattoni, the biggest logistics developer in Europe), is expanding. For the six months ended 29 February, the value of these income-producing assets totalled €270.3m, with new developments in progress comprising €62.3m.

Location, including proximity to ports, rail and urban metropoles, and high-end technology are key to logistics success.

Robert Dobrzycki, CEO of Panattoni Europe, which is multiplying its logistics development roll-out, says that the next five years will be reshaped in terms of location and what is built. "E-commerce will continue to grow and become a much larger part of what logistics is offering its clients," he says.

Many international counters trading at, or at a premium to, net asset value (NAV) are logistic-focused Reits like Prologis, Segro and Warehouses De Pauw. SA only has one specialist logistics Reit listed on the JSE; Equites Property Fund. Its R15bn assets are situated in key logistics nodes in SA (58%) and the UK (42%).

Industrial property also stands to benefit from the huge growth in data consumption. Redefine houses Amazon Web Services' three availability zones in Cape Town; while SA's largest Reit, Growthpoint Properties, is developing data centres for two large international operators in Midrand.

Growthpoint's local industrial portfolio (excluding V&A Waterfront) comprises 17.5% by value. It also has 31% exposure to industrial properties in Growthpoint Australia and some exposure in Poland and Romania through its 29.4% stake in Globalworth Real Estate Investments.

"We have seen an encouraging increase in demand for industrial properties from various sectors," Galetti Corporate Real Estate Western Cape regional head, Clint Marais, tells *finweek*, attributing this to the changing nature of retail and businesses focusing on manufacturing personal protection equipment.

Clint Marais
Western Cape regional head of Galetti Corporate Real Estate

"Adding to the demand is the fluctuation of exports and the depreciation of the rand. Manufacturers are scaling up local production to mitigate the possibility of disrupted supply chains in future," he says.

Marais predicts a major uptake in recently-developed industrial nodes such as Midrand and Pomona in Gauteng; Riverhorse Valley in KwaZulu-Natal; and Bellville South, West Coast, Airport Industria and Epping in the Western Cape.

"These areas are on the rise, and we predict a significant increase in industrial real estate development once stakeholders realise their profitability." ■

editorial@finweek.co.za

Photos: Supplied

By Jaco Visser

BUSINESS

South Africa losing out on international M&A front

As the world grows wary of China's ability to remain the factory of the world, South Africa – and the rest of the continent – has a limited time to enjoy the spoils.

South Africa's attractiveness as a foreign investment destination is declining even as the country, as part of the Africa Continental Free Trade Agreement (AfCFTA), offers physical access to markets in the rest of Africa. Not to mention supplying manufactured goods into the European and US markets.

As the most industrialised nation on the continent, even as manufacturing is buckling under poor government decisions and amid a global health pandemic, SA should be a lucrative market for mergers and acquisitions from abroad. That is, however, not the case.

The value of mergers and acquisitions more than halved in the first six months of 2020 compared with the same period a year ago – from $8.2bn to $3.3bn, according to Statista data supplied by **Andrew Bahlmann, managing director of Deal Leaders Africa**. The number of transactions slid from 160 to 132 between the comparable periods.

The value of mergers and acquisitions more than halved in the first six months of 2020 compared with the same period a year ago – from

$8.2bn

to

$3.3bn.

SA's GDP, the 38th-largest in the world in current US dollars, was recorded as $351.4bn in 2019, according to World Bank data. Hong Kong, with almost eight times fewer people than SA, had a GDP of $366bn. The whole of sub-Saharan Africa had a GDP of $1.75tr – bringing SA's contribution to this region to a fifth of all goods and services produced. Manufacturing contributed about 12% of SA's GDP in 2020 and has been on a net decline trajectory since the first quarter of last year, according to Stats SA data. This is the sector where steady jobs are created, and exports could be realised on a large scale.

Why are these figures important in a discussion around mergers and acquisitions (M&A)? A billion-dollar M&A target in SA will be equal to about 0.3% of GDP. In the US, with its $21.4tr economy, the same transaction will be equal to 0.004% of GDP.

"One obstacle to mergers and acquisitions in SA is the size of potential targets," explains Bahlmann, adding that a number of potential acquirers have set minimum (many in excess of R1bn) values for transactions in order to realise an acceptable return on assets. It often takes the same time and effort to undertake a R1bn transaction as it would a R100m one, he says.

"There are several acquirers and investors who are still looking into Africa, especially fintech and software companies," says Bahlmann. In addition, China's competitiveness as a manufacturing base and reliable supply chain partner is on the decline, he explains. "We still have a robust skills base in several industries in SA."

The problem, however, with fintech is that it relies on customers' discretionary disposable income. Taking current-dollar GDP per capita as a measure, sub-Saharan Africa compares unfavourably with other emerging markets. Manufacturing remains an opportunity for a region with a young population moving up the income ladder.

Outside of strong growth opportunities in SA itself, international acquirers are attracted to companies with established markets in the rest of Africa that would enable diversification in revenue and currency streams, according to Bahlmann.

It stands to reason then, as one of the big drivers behind the AfCFTA, for SA to ensure that local companies' access to the rest of the continent is smooth once the agreement kicks in on 1 January 2021 (it was delayed from 1 July this year due to the Covid-19 pandemic).

The window of opportunity to cash in on the slide in China's competitiveness, and global supply chains' wariness of the country's dependability following the pandemic, is but a short one.

Africa is physically closer to the markets of Europe and the US. Lest Africa's leaders – judging by their actions over the past six decades – act in cohort and get the free trade agreement implemented as soon as possible, with minimal red tape at border posts, countries such as Vietnam, Indonesia and Cambodia may gather and divide the spoils of manufacturing. ■

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Andrew Bahlmann
Managing director of Deal Leaders Africa

Photo: Supplied

"One obstacle to mergers and acquisitions in SA is the size of potential targets."

CAPITAL LEGACY SHAKES UP THE SOUTH AFRICAN FINANCIAL SERVICES INDUSTRY

"We have spent the last eight years building on two primary missions: firstly, helping more South Africans get valid wills in place and secondly, protecting our clients from the unexpected costs associated with dying,"

says **Alex Simeonides**, co-founder and CEO of Capital Legacy.

Capital Legacy, South Africa's leading provider of Wills, has been operating in the fiduciary and financial industries since 2012. Over the last eight years they have provided more than 300 000 clients with Wills and indemnified over R 70 billion in fees that arise during the estate administration process, which has aided them in gaining invaluable experience and insight into consumer needs and trends.

Capital Legacy drafts more than 6 500 Wills for new clients every month and is trusted by more than 4 500 financial advisors countrywide, firmly entrenching their position as the single largest provider of Wills in the country and affirming their tagline of "Leave a Legacy".

SHAKING THINGS UP

This month, Capital Legacy shook up the South African Financial Services Industry by launching not one, but four new innovative offerings, continuing to reaffirm themselves as a serious contender in a traditionally monopolised industry.

"Because we work so closely with advisors and clients during the Will-drafting and estate administration process, we've been directly exposed to areas in the market where we feel clients could benefit from improved solutions," says Simeonides. "Rather than sitting back during lockdown, we've been very busy building what we feel are ground-breaking solutions that address some very real gaps in the market," says Alex Simeonides, co-founder & CEO.

SOLUTIONS THAT MATTER

"Everything we do is about securing our clients' legacies," says Simeonides. "It all starts with getting their Will right, understanding the implications and complications of dying, and of course trying to make sure that their dependants can continue to live the life that they planned for them," says Simeonides.

Managing Director, Brandon Garbutt says: "We have always been a solution driven business. Solutions for clients and solutions for our supporting advisor network. With our new offerings, we are approaching it in the same way - how do we help clients and how do we help our advisors?" The announcement included solutions for the life insurance and homeowners' markets plus industry firsts for the Islamic community and a full-service succession planning solution on scale.

Your Will and your legacy for your family go hand in hand. That's why it just makes sense to us that you should do your life cover with the company that drafts your Will," states Simeonides.

"It's crazy to think that clients entrust their financial advisors to facilitate and advise on their investments and plan their legacies, yet when it comes to the purchase of one of their biggest assets, their home, the financial advisor is excluded," highlights Brandon Garbutt. These and other pressing questions formed the basis of the creation of the new products.

All four of these solutions will be available through your financial advisor from the 1st of October 2020.

For more information, please speak to your financial advisor or contact Capital Legacy at www.capitallegacy.co.za

Alex Simeonides
Co-founder & CEO

Brandon Garbutt
Managing Director

www.capitallegacy.co.za
lifeinfo@capitallegacy.co.za

CAPITAL LEGACY™ leave a legacy

PROBLEM: SOUTH AFRICANS ARE BY AND LARGE GROSSLY UNDER-INSURED LEAVING THEIR DEPENDANTS AT FINANCIAL RISK WHEN THEY PASS AWAY.

SOLUTION	BENEFACTOR™ BENEFIT OPTIONS	MYABILITY™ OPTIONAL BENEFIT
MYCOVER™ Up to R 10 million in life cover, with the option to include cover for critical illness and impairment. To us it just makes sense that you do your life cover with the company that drafts your Will.	**MORE BENEFIT** Choose to receive more cover at cost. **LESS PREMIUM** Opt to get a monthly premium discount. **CASH BACK** Boost your cover as well as receive cash back every 5 years.	**PROTECTION AGAINST CRITICAL ILLNESS AND IMPAIRMENT** Up to R5million in cover.

AN INDUSTRY FIRST - NO EXECUTOR AND TRUSTEE FEES ON THE PROCEEDS, SAVING YOU HUNDREDS OF THOUSANDS IN LIFE COVER FOR YOUR BENEFICIARIES.

PROBLEM: UP UNTIL NOW, YOUR FINANCIAL ADVISOR HAS NOT BEEN A PART OF YOUR BIGGEST FINANCIAL DECISION - YOUR HOME PURCHASE!

SOLUTION	HOMEVANTAGE™ PRODUCT STACK	VALUE ADDED BENEFITS
HOMEVANTAGE™ A complete home-buyers solution that includes your financial advisor in the process and provides all the necessary services, products and value-added benefits through one point of contact.	WILL & LEGACY PROTECTION PLAN™ HOME COVER LIFE COVER BOND	**HOME STARTER BENEFIT** Immediate cash payout to assist with the costs of setting up your home. **BOND ACCELERATOR BENEFIT** Pays out approximately 10% of the property value after 15 years to help settle your bond sooner.

PROBLEM: RESEARCH SHOWS THAT LESS THAN 11% OF PEOPLE OF ISLAMIC FAITH IN SOUTH AFRICA HAVE ADEQUATE LIFE COVER IN PLACE AS FEW SOLUTIONS ADHERE TO QUR'ANIC PRINCIPLES.

SOLUTION	BENEFITS
TAZKIYA™ LEGACY PROTECTION PLAN™ تزكية Sharī'ah-compliant Will-drafting, Estate Administration and Insurance Cover.	Sharī'ah-compliant Will, Insurance Plan and Estate Administration offering, and the first-of-its-kind in South Africa. - Harnesses our power of indemnification through which we cover all legal fees at death, such as Executor, Trustee and Conveyance Attorney fees. - Competitive life cover which adheres to Islam law, to cover debts, loss of income and other financial obligations that may arise after death. - A Sharī'ah-compliant Will that adheres to the principles of Islamic Law. - Covers the cost of dying and other expenses that arise when you pass away.

PROBLEM: AN INCREASING NUMBER OF PEOPLE HAVE COMPLEX ESTATES INCLUDING OFFSHORE ASSETS, INVESTMENTS, BUSINESSES AND MULTIPLE BENEFICIARIES - BUT FEW IMPLEMENT ADEQUATE ESTATE PLANNING TO SECURE THEIR LEGACY.

SOLUTION	BENEFITS	SUCCESSION PLANNING™ SERVICES
LEGACY SUCCESSION PLANNING™ Gain certainty by structuring your estate correctly with a full suite of professionals under one roof helping secure your legacy.	- Dedicated Succession Planner – Single point of contact - End-to-end service to create a unique Succession Plan™ - Client and Financial Advisor-centric services - Comprehensive advice, services and planning - Qualified Succession Planning team	WILLS COMPANIES TAX LEGAL INTER VIVOS TRUSTS ESTATE ADMINISTRATION OFFSHORE ACCOUNTING

NO COSTLY SETUP FEES

Capital Legacy (Pty) Ltd is an Authorised Financial Services Provider. The Legacy Protection Plan™ is underwritten by Guardrisk Life Ltd.

market place

FUND IN FOCUS: LUNAR BCI WORLDWIDE FLEXIBLE FUND

By Timothy Rangongo

Exposure to cutting-edge global businesses

Investing in companies with innovative technologies and business practices.

FUND INFORMATION:

Benchmark:	CPI + 5% p.a.
Fund manager:	Sabir Munshi and Carl Isernhinke
Fund classification:	Worldwide – Multi-asset – Flexible
Total investment charge:	1.95%
Fund size:	R69.2m
Minimum lump sum/fixed administration fee:	None/R15 excl. VAT on all direct investor accounts with balances of less than R100 000
Contact details:	083 305 7860/sabir@lunarcapital.co.za

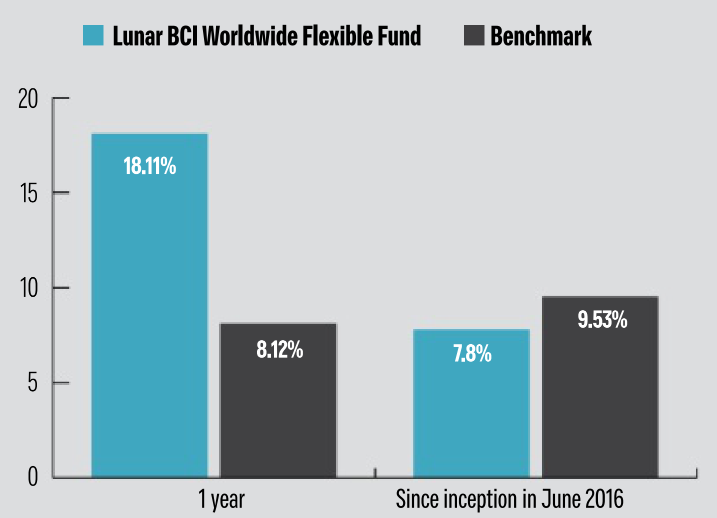
TOP 10 HOLDINGS AS AT 30 JUNE 2020:

1	iShares Nasdaq Biotechnology ETF	10.4%
2	BCI Money Market	8.3%
3	Amazon.com	7.8%
4	Berkshire Hathaway – Class B	6.3%
5	Okta – Class A	4.8%
6	Microsoft	4.7%
7	Naspers*	4.6%
8	Aspen Pharmacare	4.6%
9	Mediclinic	4.1%
10	Remgro	3.2%
	TOTAL	**58.8%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 June 2020:



Fund manager insights:

Lunar Capital's BCI Worldwide Flexible Fund comprises a portfolio that is invested in listed local and global companies that meet the investment managers' investment criteria of wielding some competitive advantage through the adoption of innovative technologies and business practices.

Added in June 2018, and currently the fund's largest holding, the iShares Nasdaq Biotechnology ETF shows how the investment criteria is employed. The ETF provides exposure to biotechnology and pharmaceutical shares listed on the Nasdaq.

"Some of our investment themes are that people are living longer and that technology innovation will continue to solve some of the world's biggest problems. As people get older, they require more healthcare and medication," says fund manager Sabir Munshi.

The ETF was trading at an attractive valuation when Lunar invested, and has returned approximately 10% a year in dollars for investors, Munshi says. He explains that the high weighting in the ETF reflects Lunar's view that the sector will perform well during and after the pandemic – and that it is trading at a reasonable valuation.

"By investing in an ETF, we also reduce company-specific risk, but have exposure to a large number of biotechnology companies providing a wide range of cures and research."

Another holding, Microsoft, is poised to become a global social media giant overnight, should it successfully acquire the US operations of the Chinese-owned video app TikTok. TikTok's global business is reportedly worth about $50bn, with its US operations valued at less than that. Analysts and bankers have estimated the US operations at $15bn to $50bn, according to Bloomberg.

Lunar's view is that TikTok could supplement Microsoft's product and service offering and Munshi says they are closely watching how the deal pans out.

The fund returned 11.67% for the quarter ending 30 June 2020, well above inflation amid a volatile investment climate that the fund views as both a risk and an opportunity. By maintaining a higher cash allocation, the fund has been able to take advantage of opportunities that present themselves on targeted investments when prices come down to more reasonable levels.

Munshi says when the rand recently strengthened against the dollar, they took the opportunity to increase offshore exposure. Approximately 60% is now offshore, providing a rand hedge and providing investors ownership in some of the world's top businesses and markets together with South Africa's.

Why *finweek* would consider adding it:

Lunar Capital's shareholders and directors have invested a significant portion of their own wealth in the fund and have committed to be invested for the long term. The fund provides exposure to businesses with potential to grow over the long term as part of a diversified investment portfolio. ■

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DISTELL

BUY SELL HOLD

By Simon Brown

Bottoms up, carefully

The government has announced level 2 of lockdown to curtail the spread of the coronavirus. Among other things, alcohol sales and its onsite consumption are once again allowed. It should be a huge benefit to Distell. Its trading update for the year ending June showed headline earnings per share (HEPS) will be between 45% and 65% lower as it lost over two months of trading income with a relatively fixed-cost base.

Sales will bounce back quickly, although those sales which were lost will remain so. Consumption should return to normal levels after an initial surge of buying as restrictions are lifted. The weaker rand will also help profits from export sales into Europe.

In the financial year ending June 2021 Distell should be able to easily repeat the HEPS of 656c of the 2019 financial year, after reporting 548c for the half-year through December 2019. Actually, they could aim for HEPS of 1 100c for 2021 placing them on a price-to-earnings multiple of around seven times. There are still two real risks. Firstly, the alcohol ban could be reinstated. Secondly, consumers remain under financial pressure. I think a price below 9 000c would be ideal for a buyer. ■

Last trade ideas

BUY Shoprite
13 August issue

BUY Pan African Resources
30 July issue

BUY Purple Group
16 July issue

CAUTION Banks
25 June issue

SASOL LTD

BUY SELL HOLD

By Moxima Gama

Recovery, despite results?

Sasol's financial results for the year ended 30 June saw the company writing off assets worth R111.6bn, resulting in a loss of R91.3bn compared with a profit of R6.1bn a year earlier. The much-awaited performance of the company's $12.8bn Lake Charles Chemicals Project came through in the second half of the financial year. Lake Charles delivered a R100m contribution to earnings before interest, tax, depreciation and amortisation (ebitda) in the second half of the book year, compared with a loss of R1.1bn in the first six months, according to a statement announcing Sasol's financial statements.

"The virus spurred a sudden drop in commodity prices, while also suppressing product demand and causing general economic decline. Additionally, we suffered credit rating downgrades as a result of the volatile macro environment," Sasol CEO Fleetwood Grobler, who took over the reins last year, said in the statement.

How to trade it:
Despite the results, Sasol's share price has been recovering some of its previous losses – thus forming an uptrend within its two-year bear trend. However, it's currently encountering major resistance at 15 715c/share. If this recovery trend remains intact in the coming days – as the market assesses Sasol's sustainability – a good buying opportunity would be presented above 15 715c/share, with potential upside to its next resistance level at 24 865c/share.

Alternatively, if Sasol reaches a ceiling at 15 715c/share, it could fall back towards 10 300c/share. The current uptrend would end below that level and further downside to 6 960c/share could ensue. In which case, refrain from going long. ■

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Sasol's financial results for the year ended 30 June saw the company writing off assets worth R111.6bn, resulting in a loss of R91.3bn.

Last trade ideas

BUY MTN
13 August issue

BUY South32
30 July issue

BUY Woolworths
16 July issue

BUY Telkom
25 June issue

Photos: distell.co.za | sasol.com

By Moxima Gama

EXXARO RESOURCES

Waiting for the breakout

Exxaro, which is one of the largest coal suppliers to Eskom's power stations, reported an 18% jump in revenue on 13 August as coal volumes reached a record high in the six months through 30 June. Coal volumes sold increased 3% locally and 39% internationally, the miner reported. Exxaro's headline earnings per share (HEPS) declined by 24%, mainly driven by R470m less equity-accounted earnings from its stake in Sishen Iron Ore Company. Exxaro declared an interim dividend of R6.43 per share, down R2.21 from the comparable period a year ago.

52-week range:	R75.07 - R146.26
Price/earnings ratio:	5.41
1-year total return:	25.77%
Market capitalisation:	R50.8bn
Earnings per share:	R26.18
Dividend yield:	8.53%
Average volume over 30 days:	851 408

SOURCE: IRESS

EXXARO RESOURCES

SOURCE: MetaStock Pro (Reuters)

Outlook: Exxaro has abandoned its bear trend by trading through the resistance trendline (grey bold trendline). It's also forming an inverted head-and-shoulders formation, which is a bullish reversal pattern.

On the charts: Exxaro is forming the final shoulder of the bullish reversal pattern, with the horizontal neckline situated at 14 380c/share. Breaching that level would confirm a positive breakout of both the bear trend and bullish pattern – potentially triggering a healthy recovery in the share price.

Go long: Upside above 14 380c/share or above 15 320c/share would present a good buying opportunity. Such a move should prompt further gains back to the 18 345c/share prior high. Continued buying through that level could see Exxaro retest its all-time high at 21 495c/share.

Go short: Refrain from going long if Exxaro reverses through 11 510c/share. It could then fall to next support at 9 580c/share. The 7 090c/share level would be retested on continued selling. ■

NEDBANK

A bearish continuation pattern?

Nedbank warned shareholders in May that it expects its profit to fall more than 20% for the six months to end-June in anticipation of a 7% contraction in the South African economy in 2020. By the end of April, the group had restructured loans worth R81bn to assist clients to better manage their cash flow amid a country-wide lockdown to contain the spread of Covid-19. Nedbank is expected to release its first-half financial statements on 26 August – after *finweek* went to print.

52-week range:	R67.30 - R251.24
Price/earnings ratio:	4.03
1-year total return:	-47.27%
Market capitalisation:	R52.7bn
Earnings per share:	R26.05
Dividend yield:	13.47%
Average volume over 30 days:	2 428 634

SOURCE: IRESS

NEDBANK

SOURCE: MetaStock Pro (Reuters)

Outlook: Nedbank confirmed a negative breakout of its bull channel when it traded through the 19 800c/share support level.

On the charts: The share has regained upside in the form of a bull channel. It's currently teetering on the lower slope of the channel and bouncing there could prompt upside to either the 12 865c/share level or the upper slope. Either slope would have to be breached to trigger forceful impetus.

Go short/stay short: The current bull channel could also be a bearish flag, which is a bearish continuation pattern. Breaching the lower slope and trading below 10 020c/share would confirm the pattern and downside to 6 490c/share could follow. The 5 010c/share prior low would be tested on continued selling.

Go long: Upside through the upper slope or above 12 865c/share would negate the bearish pattern. Nedbank could then recover more of its losses towards 15 500c/share, or even retest the 19 800c/share resistance level. ■

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Moxima Gama has been rated as one of the top five technical analysts in South Africa. She has been a technical analyst for 12 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the research team in the Treasury division of CIB.

By Simon Brown

TRADING

Changing the game

A surge in traders that don't operate 'traditionally' has unsettled many 'old-school' investors. Simon Brown explains why this disdain is misplaced.

The phrase "Robinhooders" or "Robbing Traders" has become the latest swear word in financial markets as the traders this term refers to get accused of pushing any stock, even bankrupt Hertz, up hundreds of percent as they all jump into the stock. The slur implies that no skill is involved, and everybody is losing their money. But this is neither fair nor accurate.

The name comes from the hugely popular US trading app that came to market in March 2015, offering zero-commission trading. These days zero-commission trading is more widespread, with the large Charles Schwab, E*Trade and Fidelity Investments all offering it since late last year. But back in 2015, the idea was radical, and traders and investors flocked to the Robinhood* app, which reported 13m accounts at the end of 2019, ahead of Charles Schwab and E*Trade, with 12.7m and 5.5m respectively.

Since the lockdown took effect, user growth in the industry has been massive and it's very possible that Robinhood now has 20m accounts.

Since the lockdown took effect, user growth in the industry has been massive and it's very possible that Robinhood now has **20m** accounts.

The issue old-timers have with these 20m Robinhood traders is that they buy almost anything. One can track their buying habits on the website Robintrack.net, which shows not only the share price of a stock, but also the number of Robinhood accounts that hold it.

In early March, less than 2 000 Robinhood accounts held Hertz, with the price above $8. Yet, by end-May, the company had gone into Chapter 11 (a form of bankruptcy) and the price collapsed to $0.55. Over 44 000 accounts then held the stock and the following weeks saw the share spike to $5.50, with the number of Robinhood accounts holding the stock jumping to over 170 000. Hertz is now back at around $1.50 a share and there are still 139 000 Robinhood accounts holding the stock. The share spike after the bankruptcy filing has been blamed on Robinhood traders – and that may be true – while the collapse that followed was seemingly driven by other holders who used the run to exit a bankrupt stock.

In this example, and many others, these Robinhood accounts certainly pumped the share price higher and many lost money. But this is not the story of all the stocks Robinhood traders have jumped into. Over the same time frame, Amazon's share price has gone from $1 900 to $3 200 and the number of Robinhood accounts holding the stock has increased from 107 000 to almost 420 000, making a lot of money for the holders. With VOO, the S&P500 tracker, the number of holders doubled since the highs of February, again showing profits for the holders.

Locally, Charles Savage, CEO of Purple Group**, which owns 70% of EasyEquities, commented that its clients had put around R1bn into Sasol at an average price of some 5 500c, with the majority exiting at an average of over 9 000c – netting serious profits.

Charles Savage
CEO of Purple Group

Now sure, many may be treating the stock market like a casino and just as many may not really know what they're doing. But this has always been true, and everybody has to start somewhere – usually with little or no knowledge. If we all invested the same way with the same expertise, long-term thinking and risk-avoidance, the market would be boring and would see little activity.

And just because these Robinhood (and EasyEquities) traders may have more appetite for risk (both platforms report that the average age of their users is around 32 years) doesn't make them wrong or stupid – especially as in the case with Amazon and Sasol, where they're actually making money.

Rather than dismissing and ostracising these new market entrants, we should embrace them. Yes, they may make us feel old and grey as they push bankrupt stocks higher but, if they're making money, we should also applaud them as we do anybody else making money in the market. ■

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If we all invested the same way with the same expertise, long-term thinking and risk-avoidance, the market would be boring and would see little activity.

**Robinhood has announced it will be restricting access to its APIs (software tool that allows third parties to pull data from websites) and will no longer display the number of customers who hold a particular stock via its site. This move will lead to robintrack.net shutting down.*

***The writer owns shares in Purple Group.*

Photo: Supplied

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.

CONSOLIDATED INFRASTRUCTURE GROUP

It can go as low as zero

Consolidated Infrastructure Group's share price is down to 24c. This stock traded above 3 500c in October 2015 and serves as a reminder that the answer to the question "how low can it go?" is always zero.

NASPERS

Tech war drags on JSE

US President Donald Trump issued an executive order banning monetary transactions with TikTok and WeChat, but stayed the order until 20 September. Investors were initially confused whether the order related to Tencent or WeChat, but it was later clarified that it was just related to the mobile app. There are a couple of million WeChat users in the US, mostly consisting of Chinese nationals. So, it's not directly a big deal for WeChat, which has over 1bn active monthly users in China. But the Trump announcement did send Naspers* and Prosus down by about 5% on the day, opening a new drama on the global stage of trade wars. Essentially Trump is expanding his attack into the technology sector, even as neither app poses a provable security issue relating to the Chinese government.

The next question is if the ban will happen in September and how that will work. The bigger question is if and how China will respond. Could China go after a company such as Apple and ban the latter's products or services? I suspect China will hold off on the bet that there will be a new US president sworn in by January 2021. In addition, China has enough fires burning, with Japan and India both also pushing back against what they see as Chinese aggression in Asia.

JSE LTD

Regulatory overhang

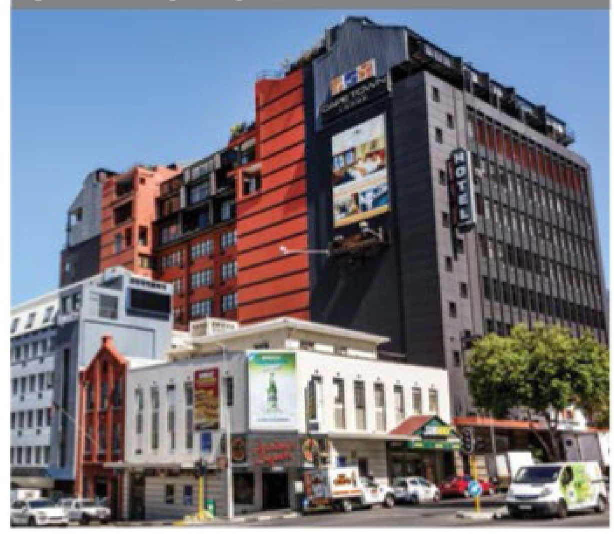
The JSE Ltd. (owner of the stock exchange) published solid results, especially if one removes several one-off costs. However, one must also ask how much of the boost to revenue from increased trading activity during the market collapse in March will continue into the new financial year. I think trading volumes will decline back to normal levels and then the concern remains around how the JSE can continue growing them. This is the case, especially if you consider regulatory pressure in the form of the 'best-execution rule' that I wrote about in July, which is expected to be implemented in the first half of next year. I don't like industries that have regulatory concerns working against them and hence I continue to avoid the JSE Ltd. as an investment.

It's not directly a big deal for WeChat, which has over

1bn

active monthly users in China.

CITY LODGE



The right(s) maths

The City Lodge rights issue will have been concluded by the time this issue of *finweek* has gone to print, and I am being asked if it is time to buy the stock. It is not my strategy to buy beaten down stocks and then hope for the recovery. I like to wait for evidence of the recovery first. Sure, I will pay more but it reduces my risk. Thus, I thought to pull apart the numbers to try and see when City Lodge will get back to breakeven, using its year-end results to June 2019. The company had revenue of R1.5bn and an occupancy of 55%. Keeping this quite simple: I divided occupancy into revenue and got about R28m of revenue per one percentage point of occupancy. I am assuming that the company's costs are fixed. Naturally, they're not totally fixed, but they are almost. I then used full-year costs of R1bn for the company. Dividing the R28m into the R1bn gave me a 35.7% occupancy level for breakeven. This excludes interest, depreciation and amortisation, BEE costs, tax and the like. But it does give us an idea that an occupancy level of more than a third is needed before the company starts to make money. The question is then: When will City Lodge hit this breakeven occupancy? For the year ending June 2021 I think they can, even if not by much. We, however, need to remember that there are now 13 times more shares in issue following the rights offer, so headline earnings per share (HEPS) will be tiny. I also expect a share consolidation in due time. If City Lodge doesn't attain those breakeven occupancy levels, I expect a subsequent rights issue.

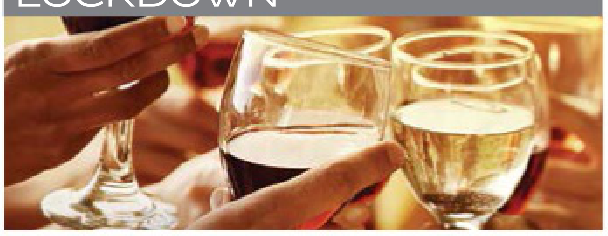
Photos: Gallo/Getty Images

ANCHOR GROUP

Money flowing in

Investment group Anchor released a solid trading statement for the six months to the end of June on 13 August. The company expects its adjusted HEPS to be between 2% lower and 14% higher, coupled with a 13% jump in assets under management (AUM). Now, I don't like adjusted HEPS as a lot can be hidden in that figure, but Anchor did have an extra R70.4m income during the comparable period from the termination of a management agreement with Astoria. Brokers and asset managers (and the JSE) have seen increased trading activity, client sign-ups and AUM inflows. I hold Coronation** and Purple Group**, with the latter up 16% since I suggested it as a buy back in June; and it remains my preferred pick in this sector, even as the price has moved. Coronation should also do well, with the 4 100c level an attractive buying zone.

LOCKDOWN



Better outlook for leisure

Several stocks have reacted positively to the government's announcement that lockdown regulations will be eased further. The leisure sector still has a way to go, but alcohol stocks should be a quick winner, with Distell the locally-listed option. (Also see p.17.) Gaming and leisure will benefit, albeit Distell is still a long way from normal trading. The more relaxed level 2 lockdown restrictions will certainly see improved fortunes for these sectors, while quick-service and casual sit-down restaurants should also start experiencing improved trading conditions. These leisure stocks will, however, continue to find it hard going as the SA consumer remains under financial pressure.

SIBANYE-STILLWATER

Rubbing hands for dividend

Sibanye-Stillwater** issued a trading update in August that sent the stock up over 10% to trade at four-year highs. This is exactly what you'd expect as the company reduces debt and benefits from improved metal prices and a weaker rand. The lockdown has taken some shine off its revenue, but the miner still expects HEPS for the first half to be around 351c. If it can do the same for the second half and earn HEPS of 700c, it will put the stock on a forward price-to-earnings multiple (P/E) of under eight times. If Sibanye-Stillwater pays half its HEPS as a dividend, its forward dividend yield is calculated at 4%. Both forward P/E and dividend yield are cheap for a miner when commodity prices are rising.

While negotiations are under way with lenders and potential capital providers, PPC will likely end up owning a reduced stake in PPC International.

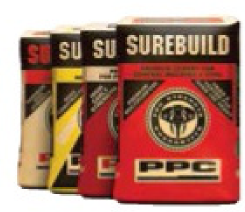
RICHEMONT

Why not skip the dividend?

Richemont is proceeding with issuing warrants instead of a dividend in what it calls a "shareholder loyalty scheme". The pricing is still to be announced and the expiry of the warrants (and thus the right to buy Richemont shares) is scheduled for September 2023. I understand what they're doing: protecting capital during a pandemic that adds significant uncertainty to the luxury goods market. But the company is quite flush with cash, sitting on €2.3bn at the end of March. Subsequently, Richemont issued a series of bonds worth €2bn in May, with maturity dates of 2028, 2032 and 2040. So, the outlook is very gloomy, and the group is being extra cautious. But then why not just skip the dividend entirely? Surely shareholders would understand that? Certainly, if the next three years are very tough, the warrants will expire worthless, leaving no dividend being paid after all.

PPC

Troubles on the continent



Cementmaker PPC's woes continue as its African expansion hits trouble and the Democratic Republic of Congo division needs a capital injection. This expansion into the rest of the continent was supposed to protect the group against tough market conditions in SA. But PPC International (in which the rest of the African operations are held) looks likely in need of fresh capital – capital which PPC itself doesn't look able to provide without a rights issue. So, while negotiations are under way with lenders and potential capital providers, PPC will likely end up owning a reduced stake in PPC International. And, even with the share trading below 100c, I don't see any value in this stock. ■

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

***The writer owns shares in Sibanye-Stillwater, Coronation and Purple Group.*

Photos: Archive

By Schalk Louw

FUNDAMENTALS

Compiling your own portfolio

Schalk Louw sets out some steps individual investors could follow to build a portfolio suited to them.

There is no doubt that people are different, and a perfect example of this is when it comes to using a road map or assembling a piece of furniture. Where there's more than one person involved, there will usually be at least one looking at the map or the set of instructions, and at least one who chooses to figure it out for themselves without help or input from others.

Many investors use this latter approach when it comes to their personal investments – they choose not to follow any guidelines, often simply because it appears to be too complicated. But there are in fact simple guidelines that investors can follow, especially when compiling their own investment portfolios.

STEP 1: Speculators are not investors

According to historical data (which is no promise for future performance), equity investments still deliver the best returns over the long term. An investor that decided to invest in the JSE in May 2008, for example – when the market reached an all-time high but was also on the verge of one of the biggest-ever corrections – and held on to their investment until the end of July 2020, would have earned 141% growth on their investment. And this despite two of the greatest corrections of all time, the Great Recession and the recent Covid-19 pandemic. Would that have been phenomenal growth? Not necessarily, but it shows us that despite some of the worst times that the SA market has endured until now, that investor still would have been able to beat local inflation by two percentage points per year with their earnings.

STEP 2: Diversify

It remains a simple concept, and yet I see so many investors struggling with diversification, mainly due to personal preferences and emotional involvement. The fact is that capital loss hurts. One investor may have lost capital value in shares over the short term and may have decided to only focus on the money market going forward, while another investor may have had so much luck with their property investments that they now refuse to ever consider another type of investment. Historical figures show that diversification, or the spread of capital across different types of investments, not only reduces risk, but it can also provide better returns.

STEP 3: Focus on time, not timing

Because share prices fluctuate constantly, many speculators would have become incredibly rich if they had bought when share prices were at their lowest and sold when share prices were at their highest. But if that were as easy as it sounds, I probably would have written this article somewhere on a powdery white beach on a tropical island and definitely not in my office. The fact is that even the biggest and most successful investment experts cannot get it right 100% of the time, and this can be seen quite clearly in historical returns. As an example, only 15% of general equity unit trusts managed to outperform the FTSE/JSE All Share Index's total returns over the past three years, and this includes returns from passive funds such as exchange-traded funds.

As an example, only

15%

of general equity unit trusts managed to outperform the FTSE/JSE All Share Index's total returns over the past three years.

STEP 4: The power of compounding

This concept requires roughly the same amount of self-control as not using the brand-new credit card you just got in the mail. The investor that managed to exercise self-control over the last 25 years, for example, by investing R1 000 in shares in 1995, would have had an investment worth R23 256 today. If the same investor had withdrawn from their investment on a regular basis, let's say 10% every year, things would look drastically different as they would be left with only R2 545 today. It's easy to understand why Albert Einstein claimed that compound growth or interest (growth earned on growth) is one of the most powerful forces in the universe.

STEP 5: Invest in what you know

Don't look at your investments as just figures on a page. If you want to invest in shares, make sure that you invest in good, reputable companies – and make sure that you know these companies well. You should know where your money is going, and you should know your investments. If you're unsure, rather consult a professional to guide you. As I have said to my clients so many times before: No one cares more about your capital than you do. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

Photo: Shutterstock

By Peet Serfontein

OFFSHORE

Computing in the long term

An investment in the technology giant IBM could teach investors a lesson in patience.

I have always been a champion of technology and I remember clearly when a former divisional head, years ago, once said to me that I am too "automated". With a background in programming, what else could he expect? I can understand his fear of technology and his great aversion to such an 'evil' concept back then. He has since retired, luckily, because during the lockdown, we didn't revert to carrier pigeons to communicate with one another – we used Zoom to hold meetings.

Technology can be used to improve critical thinking and literacy skills. Currently, virtually everything that forms part of the 21st century is online and the benefits resulting from technology are multiplicative.

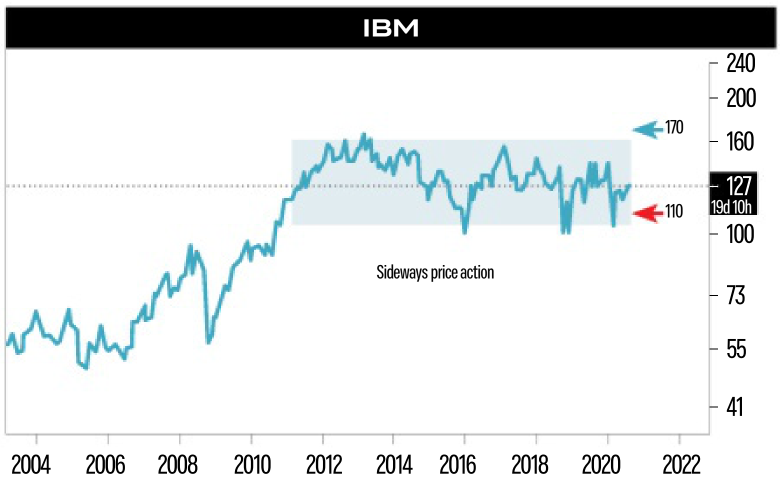
A consequence of technology is of course computers, which form an integral part of our lives. But, unfortunately, these devices consume a certain amount of energy per bit to do calculations. If we look at the current curve for energy consumption, a shortage is predicted by 2040. We are already seeing growing interest in green energy, which of course demands a fundamental reduction in energy consumption. This is where quantum computers come in.

Briefly, quantum computers can do calculations at exponentially greater speeds than conventional computers, while using far less energy.

Technology company IBM caught my eye as one of the major players in the quantum computing space. IBM offers information technology and integrated solutions used in business processes. Although involved in a range of segments, most people will be familiar with IBM because of its development of the personal computer in the early 1980s.

IBM's share price of about $127 makes it somewhat expensive for local investors, taking into account the weak rand, but I regard it as a long-term investment.

IBM had 18 quantum computers in its arsenal in May this year. It might not sound like many, but given the fact that its competitors have fewer, IBM stands out.



SOURCE: Peet Serfontein/Trading View

52-week range:	$90.56 - $158.75
Price/earnings ratio:	10.07
1-year total return:	-2.06%
Market capitalisation:	$110.82bn
Earnings per share:	$12.36
Dividend yield:	5.24%
Average volume over 30 days:	4 714 794
	SOURCE: IRESS

What makes the share attractive as an investment option?

A sideways price action has been in place since 2010. This stability increases the share's attractiveness. As the playing field of technology shows progress every day, the price could experience a strong run at any moment. And, of course, market psychology remains an interesting aspect, which can make investors decide to buy or sell a share.

My solution for such a situation is simply to become involved and to increase exposure to such a share over time. Patience is one of the best characteristics of a long-term investor.

The share's trading volume remains uniform, together with the price. This uniform trading volume, which supports the price movement, is conducive to peace of mind as co-investors do in fact see value in the share; if there hadn't been value, the price trend would have been more downward.

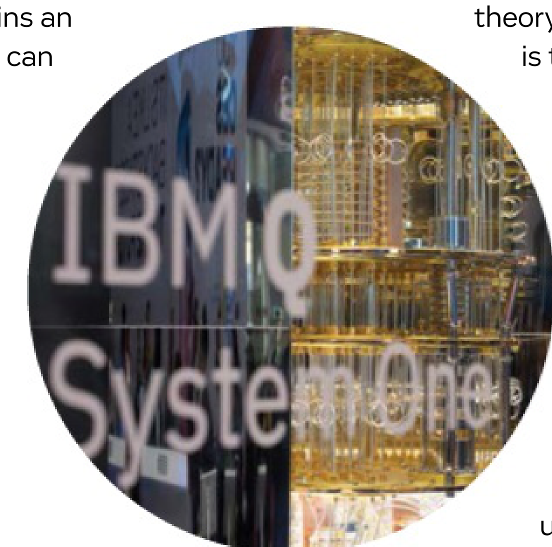


Photo: Shutterstock

IBM caught my eye as one of the major players in the quantum computing space.

But should you buy?

The prospects of quantum computers and IBM being one of the major players in the space make the share an interesting choice.

The recent sideways trajectory of the on-balance volume (OBV) of the share indicates that capital does in fact remain in the share. The OBV is used in technical analyses to measure buying and selling pressure. If the volume on upward days is higher than the volume on downward days, then the OBV will increase. The basic theory behind the OBV indicator is that volume is the leading indicator of the price.

I will classify buying of the share as long term, with an eye on the value that quantum computers can offer.

The graph is the long-term monthly (logarithmic) depiction of IBM's share price. The upward potential of the share is currently $170. Leave this option open, should the share in fact reach this price and there is still room for further gains to adjust the price. Should the price break out below $110, we can expect the share to decline further. Regard this level as a stop-loss to protect capital.

It is always advisable to predetermine a profit target price as well as a stop-loss. You can always adjust your target price – but it's better to start out with a target rather than having no target whatsoever. ■

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By Petri Redelinghuys

ANALYSIS

A shot at Las Vegas

One of the world's largest casino operators may benefit from a post-Covid-19 boom in Asian gambling demand.

Interesting times lead to interesting stock picks, and the one we have gone for in this issue is a casino stock – Las Vegas Sands (LVS). It trades on the New York Stock Exchange and owns some of the most iconic gambling properties in the world. These properties are in Las Vegas (which, ironically, only accounts for a small percentage of the company's total earnings), Singapore and Macau.

LVS is a play on the Chinese demand for gambling, which is generally high. With Las Vegas accounting for less than 10% of LVS's earnings, it means that the bulk of the generated profit originates in Asia. LVS is considered the "Ferrari" of the casino businesses because it not only has the best-looking hotels in the industry (who hasn't noticed the Marina Bay Sands hotel in Singapore during the Grand Prix?), its properties are also found in the world's most profitable gambling destinations – Macau and Singapore.

LVS also is not only the company with the best gambling destinations, it is also the company in the industry with the most robust balance sheet. Net debt is 2.2 times earnings before interest, tax, depreciation and amortisation (ebitda), compared with its peers whose debt is closer to 5 times ebitda (based on pre-Covid-19 numbers).

So why would you buy casinos in a Covid-19 world?

We don't believe the Covid-19 restrictions and fear will last forever. Leaning on history as our guide, the fear and restrictions on movement, as happened with previous outbreaks of infectious diseases, eventually abate and the world goes back to its old ways. Furthermore, Asian countries are more used to dealing with these types of diseases and we believe that business will rebound there a lot sooner than in Western nations.

Another important benefit that LVS locations has is that Macau and Singapore cater for the real "high rollers", as the saying goes. These two destinations account for 90% of the earnings and are a boon for investors. Gambling revenue per visitor in Macau is a few multiples of what is earned per player in Las Vegas. Another extraordinarily strong positive for LVS is that there are only two casinos in Singapore, so

GRAPH 1: LAS VEGAS SANDS SHARE PRICE

SOURCE: Metastock and Herenya Capital Advisors

competition is not really an issue.

Currently LVS is embarking on expansion projects worth $5.5bn in Macau and Singapore and will also more than likely benefit from any new increases in Chinese middle-class wealth. Bloomberg estimates that LVS should earn $3.12 per share in 2022, putting this business on a price-to-earnings multiple of around 16 times – which is not cheap. But over the longer term, entry into this sector will become a lot more difficult for competitors, and quality businesses never trade at cheap multiples. **(Also see graph 1.)**

As stated before, we believe that this is a stock that should benefit from the growth in Chinese middle-class wealth and a relaxation of travel restrictions in a post-Covid-19 recovery environment that will likely see a rush of tourists who are looking for their gambling fix.

Also, LVS provides an investment entry into a China-based operation via an American-run business, which some might see as a pro. What we like, though, is that the company's founder, chairman and CEO, Sheldon Adelson, owns 52% of the shares in the company. His interests are very much aligned with the future of LVS, which we think is a strong positive for the long-term outlook of the company. ■

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Photo: Shutterstock

Founder, chairman and CEO, Sheldon Adelson, owns 52% of the shares in the company. His interests are very much aligned with the future of Las Vegas Sands.

Taking a hammer to tech analysis

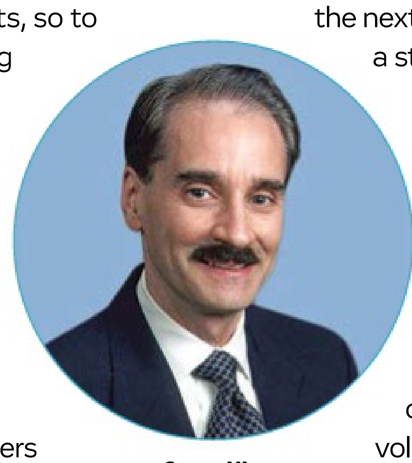
This short-term pattern has a 65% success rate.

In *finweek* editions gone by, we've looked at some key concepts with regard to technical analysis and how those concepts can be useful in making short-term trading decisions.

Topics we've covered include trends and moving averages, risk management, longer-term price patterns and a few more. It has been a while since we last shared some educational insights, so to get us back on track, we're going to look at something quite simple in this issue.

Basically, we are going to be looking at just one easy short-term pattern that can be extremely helpful when spotted and traded correctly.

It is part of a family of Japanese candlestick patterns, which is a method of plotting price data in an easily legible graphic format using four price points: open, high, low and close. No doubt you've seen Japanese candlestick charts before, as they are popular technical analysis tools widely used to help traders find higher-probability trading signals.



Steve Nison
Author of *Japanese Candlestick Charting Techniques*

Photo: www.twitter.com/stevenison

The candlestick pattern we are looking at in this column is the 'hammer' and is usually found at the bottom of a downtrend. The hammer candlestick pattern is a reversal pattern, which means when the price action that forms the hammer candlestick pattern is present, there is a high probability that the previously prevailing downtrend is going to reverse.

In general, hammer candlesticks have 'tails' that are three or more times longer than the 'real body' of the candlestick pattern. Hammers with long tails have a success rate of around 65% in predicting short-term bounces and trend reversals.

The best way to use these hammer candlestick formations is to enter the trade at the close of trading when a hammer is spotted, or if entering the next day, placing the entry on a trade above the hammer close with a stop-loss below the lower tail of the candlestick **(see graph 2).**

In general, hammer formations become more reliable and offer higher success rates when they are on or above key horizontal long-term support levels. They are also more reliable when the daily volume traded on the day that the hammer candlestick formation was formed is more than double the average daily traded volume. In other words, the hammer is formed in conjunction with a spike in volume.

The ultimate form of this signal would be a hammer formed on a long-term horizontal support level with a significant volume spike on the day of the formation.

For more information on this and other candlestick formations and patterns, a good book to read is *Japanese Candlestick Charting Techniques* by Steve Nison.

In **graph 3,** we have a perfect hammer formation in Kumba Iron Ore that gave us the low on this stock in mid-March and a good entry point for a long trade. ■

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GRAPH 2: EXAMPLE OF HAMMER CANDLESTICK FORMATION (BUY AND STOP-LOSS SIGNAL)

SOURCE: Metastock and Herenya Capital Advisors

GRAPH 3: KUMBA IRON ORE (HAMMER CANDLESTICK FORMATION)

SOURCE: Metastock and Herenya Capital Advisors

By Simon Brown

INVESTMENT

The danger of price bias

Rather than just looking at a company's historical share price, also consider the fundamental factors that will potentially drive its future profits.

Anchoring bias is when we fixate on a single piece of information to make an assessment. That is why, during a price negotiation, you should always be the first to suggest a number, because all further negotiations will anchor around the number you proposed, which you would have skewed in your favour. The price should be low if you're buying and high if you're selling.

For investors, anchoring bias can negatively influence their judgement. In this column, I want to focus on share prices and something I call 'price bias'.

We have more than 100 shares on the JSE trading more than 30% below their 12-month highs, with several of them down by 80% from these highs. An investor may look at this and decide that it means a share is cheap and worth investing in. But that investor is suffering from price bias as they are fixating on the share price while missing the real story.

So, what is the real story then? It is the expected earnings of a stock over the next few years because, ultimately, this is what matters most.

Take property stock Capital & Counties as an example. The share price peaked at over R100 in late 2015 and then started this year at around R50. It is now below R30. Focusing on just the share price, one can make an argument that the current price looks attractive; we can dream of the days when the stock returns to R50 and ultimately R100, ensuring the investor great riches.

But this ignores the reason for the price collapse and the future of the company.

The first collapse was the result of the Brexit vote in mid-2016 that saw the stock down a third in one month, and down by almost half by the end of that year. Then this year bought the pandemic and lockdown that saw the share lose another third of its value to its current levels.

Basically, the price collapse over the last five years has been driven by a collapse in the fundamentals of the stock. Thus, rather than focusing on the price, we need to focus on the fundamentals over the next couple of years. It's these fundamentals that will drive the price higher, not the fact that the price has been higher in the past.

Capital & Counties' latest half-year results to the end of June show a loan-to-value (LTV) ratio of 32% and property values down by about 17% (this is around the mid-range of expectations for property value declines). On the surface the company looks alright, considering the pandemic and resultant lockdown that occurred during half of the reporting period.

Take property stock Capital & Counties as an example. The share price peaked at over R100 in late 2015 and then started this year at around

R50.

It is now below

R30.

However, the real concern should be that the two issues that drove the share price lower, Brexit and lockdown, are far from over and could continue to hurt the business. We also have no idea how long any recovery will be. Furthermore, when will the recovery get us back to the pre-Brexit and pre-lockdown business activity of the company?

In other words, the focus is on the future earnings and my sense is that while we will get back to some sort of 'normal' in due time (albeit I think the new normal will rather be a very different new reality), it is going to take some time and more pain. And worse results will likely be experienced before we hit a bottom. Adding to the risk, especially with UK property, is that maybe even more capital will be required by the company.

So, as an investor, ignore previous price levels and certainly keep in tune with current results. Rather focus on what will drive profits in the years ahead and ask yourself how the profits will grow. Those profits will be what determines any future share price. ■

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Capital & Counties' Covent Garden, located in London's West End.

Photo: capitalandcounties.com

We have more than 100 shares on the JSE trading more than 30% below their 12-month highs, with several of them down by 80% from these highs.

By Andrew Duvenage

STRATEGY

The carry trade loses its lustre

The fundamentals that supported South Africa's benign status as a carry trade destination have weakened.

Given the low interest rate environment in South Africa, are there benefits to utilising a carry trade strategy? Although such a strategy is less applicable than in the past, it continues to exist and cannot be discounted.

Essentially, a carry trade is a trading strategy whereby an investor borrows money at a low interest rate to buy an investment that provides a higher rate of return, in order to generate a larger risk-adjusted profit. It is typically based on borrowing in a low interest rate currency and converting and investing the borrowed amount into another currency.

The reason that carry trades occur is due to the fact that over time global capital flows seek out higher interest rates, providing support in the form of foreign capital flows into markets with systemically higher interest rates.

Carry trades were a popular trading strategy after the global financial crisis of 2008 and 2009 as capital from the developed world desperately sought out higher yields.

Carry trades were a popular trading strategy after the global financial crisis of 2008 and 2009 as capital from the developed world desperately sought out higher yields.

In theory, currencies are supposed to weaken at the rate of the inflation differential between them – the theory of purchasing power parity. Interest rates include the inflation rate within them, which usually more than compensates for the inflation differential, making the carry trade worth doing.

Let's use the US dollar (USD) and the South African rand (ZAR) to illustrate this practically. If the SA inflation rate is 2.2%, while the US inflation rate is 0.6%, in theory the ZAR weakens by 1.6% per year against the USD. Currently, the SA repo rate is 3.5% while the US Federal funds rate is 0.25%. Investors who swap USD for ZAR therefore earn 3.25 percentage points more. This is typically achieved through borrowing the USD, so the borrower pays more than 0.25% (for argument's sake, let's assume 1%) which means they are earning 2.5 percentage points more by investing in ZAR. However, given that the currency weakens by 1.6%, they are 0.9 percentage points better off. In the context of ultra-low interest rates globally, this pick-up is not immaterial. The carry trade strategy assumes that interest rates hold. It is worth noting, however, that in recent months the pick-up has narrowed significantly. While both the US and SA have seen large interest rate cuts this year – three percentage points for SA and 1.5 percentage points for the US – the larger absolute cuts in SA have eroded the carry trade pick-up from approximately 2.5 percentage points in January to the current level of 0.9 percentage points.

Photo: Shutterstock

There are two primary forms of risk to carry trade as a trading strategy and these risks form the crux of the argument in terms of whether the carry trade in the local context is as relevant today as it once was.

The first risk is that any one or a combination of the five variables (SA inflation, US inflation, SA interest rates, US interest rates and US credit spreads, assuming a USD-ZAR carry trade) change or that the relationship between them changes. In the short term, it is unlikely that local or US inflation will change materially. Furthermore, the interest rates in both countries are likely to remain at their respective low levels for some time.

US credit spreads, on the other hand, are a little more difficult to call, given that they have narrowed significantly over the last few months as markets bet that the Federal Reserve (Fed) is able to reduce the risk of corporate defaults. JP Morgan estimates that 18% of US junk bonds now trade at distressed levels, down from 41% in March this year. However, broadly speaking, the fundamental variables appear to be stable enough to support the carry trade for the time being.

It is the second risk that is arguably the bigger concern and which potentially negates the carry trade, and that is that as volatility and uncertainty rise, it makes it more likely that the relationship between the rates breaks down, making it more likely that investors end up with a different result to the one they had originally planned.

The current environment exhibits unprecedented conditions. Not only is the global economy attempting to navigate the aftermath of the Covid-19 pandemic, but US-China relations are on a knife-edge – with the upcoming US election creating additional uncertainty.

The environment in SA is even more unpredictable. The state of the local economy combined with the fallout of Covid-19 threatens to wreak havoc on the country's finances. This has political implications as the population feels increasing levels of economic pain.

Essentially, the carry trade pick-up has been eroded to the extent that while it is still positive for the time being, it may not provide a significant enough margin of safety to investors, which makes it a less attractive trading strategy.

The reality is that the tough state of the local economy; recent credit rating downgrades (and the risk of more); concerns around the political ramifications of Covid-19; and a decade of economic mismanagement and decline, ensure that the carry trade is anything but a safe bet.

International investors will be assessing the risk-reward payoff profile and, given the current circumstances, it will be difficult to justify a carry trade investment, particularly as they will be recalling recent events in Argentina where an IMF bailout and political changes resulted in a significant disconnect in that country's currency compared to its emerging market peers. ■

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Andrew Duvenage is managing director of NFB Private Wealth Management. This column was written in collaboration with Paul Marais, managing director of NFB Asset Management.

METALS FOR A GREENER WORLD ECONOMY

With the worldwide shift to greener energy, David McKay analyses the impact this will have on mineral production. Which metals will be the winners and who will lose out as global economies strive to be more sustainable?

By David McKay

In July, Elon Musk, the founder of Tesla, issued an unusual public challenge to the world's mining industry. Commenting during an investor presentation, he dangled the prospect of a "giant contract for a long period of time" to the firm that could supply responsibly-mined nickel.

Nickel is not particularly in short supply. According to a June report by Australia's Macquarie Bank, previously forecast deficits in nickel for this year until 2025 are now expected to turn into narrow surpluses. This is partly owing to the impact of the Covid-19 disease, which has dented consumption more than supply, the bank says.

Availability, however, was not behind Tesla's request. In a world of improving environmental, social and governance (ESG) standards, it's peace of mind that's harder to source than minerals.

The mining industry has been boosted by increased demand for metals – such as nickel, which is used by industrialists like Musk for the batteries that go into electric vehicles (EVs). In the case of Tesla, its Shanghai-based Gigajoule factory is expected to increase capacity by 570% over the next decade to 248 gigawatt hours, according to data company Benchmark Mineral Intelligence. One GWh of battery capacity is enough for 18 000 cars, on average.

According to a report by Bloomberg NEF, global passenger EV sales will be just shy of 26m vehicles by 2030. Total all-segment user demand for lithium-ion batteries, the most popular type of battery technology currently in use for EVs, will still be over 2 000GWh by 2030, the report said.

While growth in EVs is an enormous opportunity for mining firms – which also supply manganese, cobalt and a raft of other minerals into the battery manufacturing process – there are difficulties. Mining firms are faced with having to reduce their own carbon footprints, even in the process of supplying the minerals that may help resolve the world's environmental risks. They are also facing increased levels of scrutiny from investors switched on to the ESG risks, as well as faith-backed organisations and civil society groups that keep tight checks on the human and environmental impacts involved in mining.

According to a report by Bloomberg NEF, global passenger EV sales will be just shy of

26m

vehicles by 2030.

In June, it emerged that Tesla had agreed to buy 6 000 tonnes of cobalt from Glencore, the Swiss-headquartered mining and marketing group. Cobalt gives batteries their ability to recharge and is therefore considered critical to the fabrication process. The trouble is that about 60% of the world's cobalt is sourced from the Democratic Republic of Congo, the central African nation from which Glencore mines a significant portion of its copper, and all of its cobalt.

A thorny issue

Child labour in the Congo's burgeoning artisanal sector has long been flagged by civil and watchdog groups. While there's no suggestion of wrongdoing in that regard involving Glencore, the onus is clearly on the mining sector to get its act right. Welcome, then, to the often subfusc world of battery-mineral production where mining firms are tasked with trying to find enough economic resources to satisfy the growing demand and meet ever-increasing standards of extraction ... all of which are complicated by a third factor.

Owing to the problems associated with cobalt supply – forecast by Benchmark Minerals to grow into 300 000t of demand by 2029 from 70 000t last year – scientists are finding ways to engineer out the ESG risk. Thus, this month, Tesla announced its first cobalt-free EV battery, the Tesla Model 3, that uses a lithium-ion phosphate battery.

The pace of the engineering is a real headache for mining firms as they plan multi-year resource development and capital allocation. On hearing the news of Tesla's latest breakthrough, BMO Capital Market analysts Colin Hamilton and Kimberly Berman lowered their medium-term forecast of nickel and cobalt consumption in EVs.

Said BMO Capital Markets in a separate note on battery minerals: "The bottom line is that we are seeing more zero-cobalt, nickel-rich cathodes being evaluated and a number of top scientists in the field are investigating possible cobalt substitutions ... In short, there is a big push to remove cobalt (and all its supply chain woes) from the equation."

While Tesla's new cobalt-free battery wouldn't replace existing models, the job of having to understand future demand is a challenge for miners. So much so that Sibanye-Stillwater bought the UK-based research house SFA Oxford to help understand how the fast-moving battery minerals market might evolve ahead of potential merger and acquisition (M&A).

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> "Where I am positioning the business is to be ready to play in either. We certainly are going to push our role in the green economy."

Neal Froneman, CEO of Sibanye-Stillwater, wants a piece of the EV battery minerals action. "We're not sitting on our hands," he said in an interview with *finweek* in July. "We bought SFA Oxford to do that work. It doesn't require any specific due diligence at this stage, but it's a lot of strategic work," he said.

There is a multiplicity of battery models in the market into which several Johannesburg-listed mining firms can supply – the cobalt-free version is just the latest of specific battery electric vehicles (BEVs). According to SFA Oxford, a different type of battery, powered through the manipulation of hydrogen, will co-exist, not compete, with lithium-styled BEVs.

Hydrogen electrolysing technology (see sidebar on p.31) will also have applications not just in the automotive manufacturing sector, but broadly, across other industries.

Platinum's role

While nickel and cobalt, as well as lithium, manganese and copper are the constituents of BEVs, hydrogen-powered fuel-cell electric vehicles (FCEVs) make use of platinum group metals (PGMs), the class of precious metals Sibanye-Stillwater produces, as well as its competitors Impala Platinum, Anglo American Platinum (Amplats) and Northam Platinum. PGMs are critical in the automotive industry, owing to their chemical properties that, when fitted to autocatalysts, absorb noxious gases. In hydrogen technology, PGMs are used in the engine manufacturing process for their cooling properties.

So, while Froneman wants to potentially buy a battery metals company, he also wants to anticipate how PGMs – and platinum specifically for hydrogen energy – will feed into growing demand for FCEVs.

According to SFA Oxford, new platinum demand from hydrogen power will total more than 400 000 ounces by 2030 from demand of less than 50 000oz of platinum production today. That's according to forecasts in April, but no one really knows where demand will settle, or even how to position themselves for the future. It's a problem acknowledged by Amplats CEO Natascha Viljoen, who told *finweek* her company would try to keep its options open.

"We are having exactly this conversation on how we see the recovery of the PGM market and whether we'll see a fast-track of the electric vehicle or would people continue with the conventional drive trains (internal combustion engine or ICE)," said Viljoen. Vehicles powered by old-fashioned ICE provide Amplats with a known margin for the PGMs supplied; there's less certainty of the economic return of PGMs from FCEVs.

Neal Froneman
CEO of Sibanye-Stillwater

Natascha Viljoen
CEO of Amplats

Paul Atherley
Chairman of mining firm Pensana Rare Earths

Photos: www.sibanyestillwater.com | www.angloamericanplatinum.com | www.twitter.com/paulatherley2

"Where I am positioning the business is to be ready to play in either. We certainly are going to push our role in the green economy," says Viljoen.

The potential of EVs to support future platinum production is considered significant by RMB Morgan Stanley analysts Christopher Nicholson, Brian Morgan and Jared Hoover. "The platinum market currently sits in a large surplus and over the near to medium term, palladium for platinum substitution in conventional internal combustion engine autocatalysis applications likely holds the key to a market rebalancing," they said in a report earlier this year.

Political will

As hydrogen-powered batteries can only be carbon-neutral when supplied by green energy, there's obviously a need to accelerate the move of primary power sources from fossil fuel to renewable power. Paul Atherley, chairman of mining firm Pensana Rare Earths, is hoping his company can successfully mine rare earths in Angola to supply the renewable energy battery market.

Arcane though they sound, neodymium and prasoedymium, to be mined from Pensana's proposed $200m Longonjo mine, about 300km from Lobito, are used in the manufacturing of large permanent batteries used in wind farms.

Atherley told *finweek* that in addition to popular demand for carbon-neutral energy solutions, his company's efforts had been boosted by the shape of Covid-19 stimulus. "There is some $16tr in stimulus efforts around the world, but particularly in Europe it has to be a green deal." In addition to global recession, the impact of Covid-19 lockdowns was to very quickly demonstrate how a less carbon-intensive world might look to people like you and me.

In fact, it took weeks, not years, for the skies of the world's most populated cities to clear, observed Bloomberg Green in a report in May. The International Energy Association estimated that some 2.6bn tonnes of carbon dioxide was not emitted during lockdown.

When a similar, but much smaller phenomenon,

18+

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HOT AIR

Are hydrogen-powered batteries viable?

According to SFA Oxford, hydrogen-powered batteries benefit from a chemical process called electrolysis, which uses electricity to split water into hydrogen and oxygen. The hydrogen can then be stored and used to power a fuel cell, a stationary fuel-cell system, or for power-to-other applications such as power-to-heat or power-to-liquid fuels.

The only by-products of the chemical reaction are electricity, heat and water so hydrogen electrolysis can play an important part in improving local air quality and helping to avert global warming.

Importantly, electrolysis is the enabling technology that will ultimately supply power to fuel-cell electric vehicles (FCEVs), but will probably first serve as an energy source before finding an end-use in heavy-duty vehicles, and before it's popular among passenger vehicles.

Said SFA Oxford: "For FCEVs to become credible, they must achieve the same fast-fuelling and long range as fossil-fuelled vehicles and the same low emissions at the point of use as BEVs, all at a competitive cost. Automakers need a viable hydrogen fuelling infrastructure before they can fully resource the development of such competitive fuel-cell vehicles."

That's not stopping the innovators. Angelo Kafantaris, CEO of Los Angeles-based firm Hyperion Companies, told Bloomberg News his company can build a supercar that, using hydrogen technology, will speed to 60km/h in 2.2 seconds and travel 1 000 miles before running out of fuel. "We're proposing what the penultimate hydrogen car should be," said Kafantaris. "This car is meant to showcase the beauty of hydrogen."

Tesla's view? "Mind-bogglingly stupid," said CEO Elon Musk in a recent interview, commenting on the difficulty of storing hydrogen. There are only 44 hydrogen filling stations in the US, mostly in California, while consumers only have three hydrogen models to choose from currently, produced by Honda, Hyundai and Toyota. To date, US consumers have bought about 8 000 hydrogen-powered cars and sales declined last year. ■

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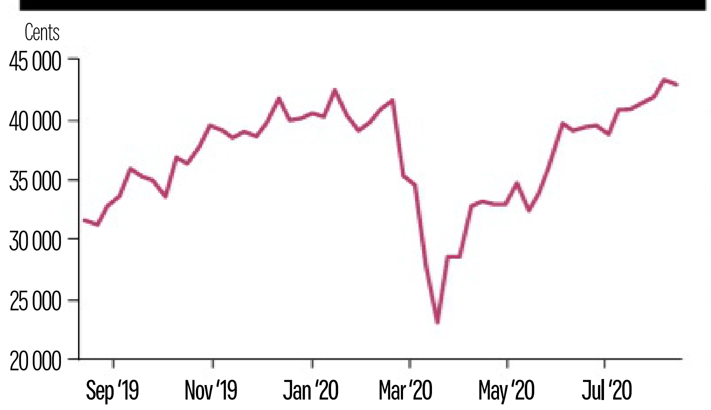
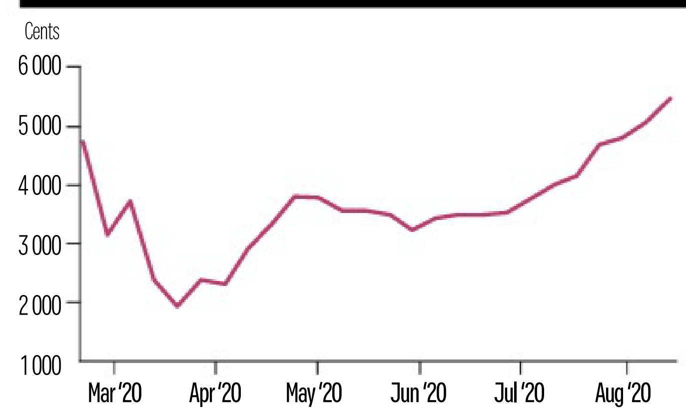
ANGLO AMERICAN



52-week range:	R204.13 - R452.67
Price/earnings ratio:	14.76
1-year total return:	39.64%
Market capitalisation:	R456bn
Earnings per share:	$1.71
Dividend yield:	2.87%
Average volume over 30 days:	1 715 797

SOURCE: IRESS

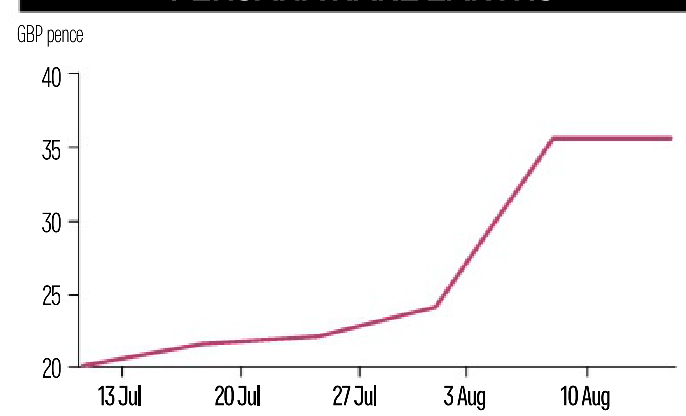
SIBANYE-STILLWATER



52-week range:	R15.37 - R58.42
Price/earnings ratio:	-138.97
1-year total return:	177.3%
Market capitalisation:	R145.4bn
Earnings per share:	-R0.40
Dividend yield:	0%
Average volume over 30 days:	20 805 630

SOURCE: IRESS

PENSANA RARE EARTHS



52-week range:	17.5p - 41p
Price/earnings ratio:	N/A
1-year total return:	N/A
Market capitalisation:	£72.2m
Earnings per share:	N/A
Dividend yield:	N/A
Average volume over 30 days:	767 950

SOURCE: IRESS

"Copper isn't like other metals: it is relatively concentrated, easy to process like gold and it's a metal central to the new world vision. But we've got a long way to go."

occurred during the 2009 financial crisis, it was followed by a recovery that resulted in a sharp increase in pollutive emissions. The aim in a post-Covid-19 world is to avoid another onset of higher emissions. That's why public sector stimulus is trying hard to incentivise a green, renewable recovery.

Months after the US government exceeded $700bn in bank bailouts, it came back with an additional $800bn stimulus package that included more than $80bn for emission cuts, energy efficiency and technological innovation. This carrot approach to developing sustainable economic growth has its stick, too, in the form of ever-tightening emissions legislation.

A major beneficiary of stimulus and legislation is copper. According to BMO Capital Markets, EV adoption necessary to meet regulatory targets helps copper owing to its higher loading in EVs relative to ICE.

In fact, BEVs require about 3.6 times the copper of their petrol-powered vehicle counterparts which, in turn, would have to double their energy efficiency were they to match the emission standards of BEVs. Assuming 11% global EV penetration by 2025, this is equal to an extra 3.2m tonnes a year of additional copper supply.

All the major diversified mining firms are switched on to the potential of copper, including Anglo American and Glencore. But copper's importance also brings in gold producers not generally considered much part of EV mineral supply chain. At least, this is the view of Mark Bristow, CEO of Barrick Gold, the world's largest gold producer.

"Fundamentally, copper is the strategic metal of the future," he said in an interview. "It's not like other metals: it is relatively concentrated, easy to process like gold and it's a metal central to the new world vision. But we've got a long way to go," he added, citing reservations in current battery technology's ability to store energy.

Major gold producers are going to be involved in copper production like it or not, according to Bristow. The remaining 10 or 11 major known gold resources occur with significant copper reserves in mineralisations known as porphyries, he said. Barrick has already sounded out Canadian firm Freeport McMoRan about the prospect of it buying its Indonesian Grasberg deposit. ■

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Mark Bristow
CEO of Barrick Gold

The remaining **10** or **11** major known gold resources occur with significant copper reserves in mineralisations known as porphyries.

And the losers are ...

If nickel, copper, manganese, and even vanadium and cobalt are the winners in the new world order of carbon-neutrality, then there must be some losers, too. Those minerals representing the industrial smokestack age.

Certainly, thermal coal fits in this category, but then so may its sister element, metallurgical coal, according to Anglo American CEO, Mark Cutifani. "The switching from thermal coal will continue at pace in my view," he said in an interview with *finweek*.

"We still think metallurgical coal has got a good future, but by 2035 it will be getting tougher there as well because the hydrogen technologies will be taking over in steelmaking," he said. The recycling of steel instead of producing new material may also have an impact on iron ore production over the longer term, which must be a concern for Kumba Iron Ore, the JSE-listed firm in which Anglo has a 70% stake.

However, Themba Mkhwanazi, CEO of Kumba Iron Ore, thinks the company is well-positioned by dint of the quality of its resources. He told *finweek* that the transition to a low-emission economy will see steel producers, especially in China, seek out higher-quality iron ore, a key ingredient in steel manufacturing.

Kumba produces a lumpy iron ore, with a 64% iron content that melts efficiently in furnaces and has a lower carbon footprint. The other grade of iron ore – fines – requires sintering so it melts efficiently.

"Structural factors support a flight to quality," he said, following the firm's interim results presentation in July. "Firstly, blast furnaces are getting bigger and that is good for lump (ore). Secondly, China – to which Kumba exports about two-thirds of its product – needs to meet air pollution targets which supports premium ore." Kumba can currently fetch a $10 per tonne premium for its product. ■

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ETFs STEER STEADY

Although the economic fallout of the coronavirus pandemic hasn't left investors in exchange-tra

The allure of exchange-traded products (ETPs) rose as world equity markets swung ferociously between deep losses and record increases in the aftermath of the coronavirus-induced panic at the end of March.

The total assets under management rose by almost 16% between the end of March and the end of June – to R106.6bn from R91.7bn, according to data collected by etfSA.co.za (etfSA). A decade ago, at the end of 2010, total assets under management totalled R32.2bn.

According to Mike Brown, managing director of etfSA, this second-quarter surge was mainly due to market price movements. "The growth in the size of the local ETP industry has been due to the recovery in prices of many of the markets and assets tracked, rather than because of new capital raised by the listing of new ETPs, or the issue of new shares or ETP securities already listed on the JSE," he said with the release of the data in July.

The economic fallout of the coronavirus pandemic has, however, not left investors in ETPs or the underlying funds unscathed. Coupled with the delisting of three large exchange-traded notes (ETNs) by Deutsche Bank, total capital issued and redeemed showed a net decline of R6.2bn in the three months through June.

Taking a longer-term view, though, it seems that the demand for ETPs remains solid.

"We are seeing ongoing, consistently increasing demand for exchange-traded funds (ETFs)," Vicki Tagg, head of indexation at Ashburton Investments, tells *finweek*. "This has been driven by regulatory pressures, demand for lower cost-efficient products with greater transparency, and the global trends towards growth in ETFs."

The total assets under management rose by almost

16%

between the end of March and the end of June – to R106.6bn from R91.7bn.

In and out

ETPs issue new shares when the demand for a certain ETF or ETN justifies this action. Due to the ETP managers acting as market makers, and thus guaranteeing the tradability of ETP shares on the stock exchange, it also necessitates them to sometimes redeem these shares. Especially when sales pressure is experienced for a specific ETP.

The largest redemptions that occurred in the first half of this year came with the delisting of Deutsche Bank's ETNs that tracked indices in China, emerging markets and African equity markets. These ETNs were redeemed at a value of R5.67bn. According to data from etfSA, ETFs tracking platinum and palladium also experienced large redemptions: Absa's NewGold Platinum ETF redeemed R4.3bn and 1nvest's palladium ETF bought back R4.3bn.

On the other side, Union Bank of Switzerland (UBS) saw a steady increase of R902.1m in the ETPs it backs (including the actively-managed ETPs run by, among others, Absa, Momentum, Efficient Group, FNB, Strategiq Capital, Excelsia Capital, Reitway ad Anbro Capital), data from etfSA shows.

This is a rather novel approach to ETPs, which usually track an index or physical underlying asset such as a metal or even a currency.

Ready, set . . .

With 74 ETFs and 27 ETNs listed by 11 providers in South Africa, the ETP market is deepening, and not only in terms of provider choice. Underlying products offer a larger and increasingly specific range of underlying assets. Despite the delisting of Deutsche Bank's ETNs, which focused on emerging markets for investors with an appetite for higher-risk assets, those looking for currencies, Krugerrands (see sidebar on p.36), fixed-income

AS MARKETS ROIL

ded products or the underlying funds unscathed, the market continues its upward trajectory.

By Jaco Visser

and industry-specific assets can now turn to ETPs.

So why, then, are retail investors, as opposed to institutional money, still to some extent hesitant to pour funds into ETPs?

"The appetite for ETPs has been growing nicely in SA but not to the levels we have seen in the developed markets like the US and Europe," says Michael Mgwaba, head of ETP business at Absa Corporate and Investment Banking.

"The issuers in SA experience good inflows but have more work to do around investor education, especially to retail investors. This is because in markets where we see high trading activities they're markets where the products are equally embraced and supported by both retail and institutional investors."

SA's institutional investors prefer ETPs holding commodities like gold, platinum and palladium, he explains. Retail investors are generally big on non-commodity ETPs, he says.

"Again, in the developed markets, large money managers have found creative ways to use the ETPs in their portfolios," Mgwaba says. "They see ETPs as investment vehicles that can complement their investment strategies. Large investors that employ core satellite strategies prefer ETPs as the passive element of their strategy or use them as their core strategy."

Not only costs

Traditionally, the allure of ETPs has been their low management costs. However, two other important factors are now considered by investors.

The first consideration is the tradability or liquidity of listed ETPs, Nerina Visser, a long-time consultant to the ETP industry and director at etfSA, explains to *finweek*. This ensures that investors, when they place a buy or sell order for an ETP, are confident that they will get their position at the closest possible price to the ETP's net asset value, she says. The market makers fulfil this guarantee, which results in investor confidence.

Michael Mgwaba
Head of ETP business at Absa Corporate and Investment Banking

Yusuf Wadee
Head of exchange-traded products at Satrix

Nerina Visser
A long-time consultant to the ETP industry and director at etfSA

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Secondly, there has been a growing recognition of the value of transparency in ETPs, Visser says. This is apparent in that investors can ascertain an ETP's underlying holdings daily.

"That compares to a traditional unit trust where holdings are made public once a quarter and also delayed," she says. For example, the day after Steinhoff crashed, many retail investors scrambled to find out whether their unit trusts held stocks in this company, Visser explains.

"It took me a couple of minutes to see whether an ETP held the company, with the longest delay being the computer starting up."

All that glimmers ... is gold

So where did the money go recently? Volumes of ETFs traded on the JSE have traditionally been dominated by ETFs that focus on local shares, Yusuf Wadee, head of exchange-traded products at Satrix, tells *finweek*.

"However, 2019 saw a tipping point where volumes of ETFs of foreign-referenced markets traded just as much as locally-focused ETFs," he says. "This strong trend towards offshore ETFs has continued with offshore-referenced ETFs on the JSE now edging just ahead of local ETFs."

Wadee explains that this is because of the diversity available when considering global ETFs.

"With the South African economy facing headwinds, these strong-performing global ETF alternatives have continued to fuel interest," he says.

As the gold price rallied to new heights, albeit retracting a little lately, commodity ETPs have seen enormous growth as investors look for safe-haven assets amid immense uncertainty globally, says Wadee.

"Commodity ETPs do act as an efficient portfolio diversifier and this is clearly seen in the outsized demand for precious metal ETFs, especially the gold and platinum ETFs. These precious metal ETFs continue to attract the largest ETF volumes currently."

The ETP market has changed the investment industry by making it accessible for retail investors, and institutional ones looking for a core holding, to invest in “the market”.

Off and off they go

Looking at the most recent monthly performance survey of index-tracking ETFs, ETNs and unit trusts (for July), those geared towards the rest of the world lead the returns tables for longer-term investments. Commodity-tracking ETPs take the lead in the shorter term. The survey is conducted by etfSA.

Over a 10-year period, the Sygnia Itrix MSCI USA ETF returned 22.89% annually, followed by the Sygnia Itrix MSCI World ETF on 19.06%, the Sygnia Itrix MSCI Japan ETF on 14.1% and the NewGold ETF on 14.06%.

Over a three-year period, 1nvest Rhodium ETF returned 126.06% annually (although a large part of these gains happened over the past year), the Standard Bank Palladium Linker ETN 48.68%, the 1nvest Palladium ETF 44.3% and the NewGold Palladium ETF 43.16%.

The winners over the 12-month period through the end of July were 1nvest Rhodium ETF with a return of 193.6%, NewWave Silver ETN on 75%, NewGold ETF on 64.84% and 1nvest Gold ETF on 64.79%.

Interestingly, the performance survey shows that the returns leaders in the very short term, over a three-month period annualised, differs from their longer-term peers. The NewWave Silver ETN returned 46.82% annualised, Standard Bank Oil ETN 46.81% and the Standard Bank Silver-Linker ETN 39.96%. An actively-managed ETN, offered by UK-based AnBro Capital Investments and called the International Unicorn Portfolio (with code UBS UABCPA) returned 33.6% annualised. This fund targets disruptors in the technology, healthcare and consumer sectors that are led by good management. Although the fund is dollar-denominated, SA investors buy shares in rand.

The ETP market, with more than R100bn under management, has changed the investment industry by making it accessible for retail investors, and institutional ones looking for a core holding, to invest in “the market”. With actively-managed ETPs coming to market, the market is deepening even further. ■

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By Timothy Rangongo

“Not the traditional ETF”

FirstRand’s Krugerrand Custodial Certificate can be likened to a safety deposit box containing a Krugerrand listed on the JSE.

The traditional exchange-traded fund (ETF) serves as an investment vehicle that provides investors with direct access to a basket of securities, such as shares and bonds, that are traded on the stock exchange – with the convenience of trading them in a single security, namely the ETF that tracks an index.

In 2014, FirstRand created, listed and issued a Krugerrand instrument called the Krugerrand Custodial Certificate (KCC), which reportedly became the first gold coin-backed and physically-redeemable instrument in South Africa.

Investing in Krugerrands appeals to investors who wish to make a direct investment in gold, hedge their portfolios against the US dollar or to further diversify their portfolio. However, this type of investment in gold is physical in nature and as a result, comes with the hassle to store, secure and insure the bullion.

The Krugerrand Custodial Certificate has become a way of continuing to invest in gold by owning Krugerrands, albeit without having to worry about the risk of security, insurance and storage. The KCC is listed on the JSE and traded as a commodity ETF.

According to the fund’s prospectus, each certificate represents one full ounce Krugerrand, held by a custodian. The ETF can be likened to a safety deposit box containing a Krugerrand listed on the JSE. The custodial certificate provides direct ownership, meaning the coin belongs to the investor. The fund’s performance is tied to the market price of Krugerrands, which is correlated to the spot price of gold.

The benefit of having a coin on the exchange is that the responsibility of storage and insurance is transferred to FirstRand, on the investor’s behalf. Secondly, the bank provides full liquidity against the coin should the investor decide to pull out. While other ETFs usually carry management fees, FirstRand incurs the storage fee, which it pays upfront to the custodian, according to the Rand Merchant Bank (RMB) commodities desk. They say the aim is to make the holding of Krugerrands as cost-effective as possible for investors.

The RMB commodities desk tells *finweek* that investors prefer the custodial certificate to physically investing in the underlying asset mainly due to safe storage, price transparency and tight bid-offer spreads, convenience of acquisition and disposal, competitive pricing on storage and premium, and their liquidity. The KCC’s net asset value was R37 100 per unit at the time of publication, representing a 138% annualised year-to-date return and 20.45% annualised return since inception. ■

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MILLIONS OF JOBS

As the world turns to advanced technology – accelerated by the coronavirus pandemic – South Africa

The dramatic acceleration in digitisation triggered by Covid-19 lockdowns and social distancing will make millions of job losses across the world permanent, unless the global workforce rapidly acquires the skills needed to tackle new technologies.

Technology giant Microsoft has warned that the transition is essential to drive recovery from the worst global recession in at least eight decades, which may leave a quarter of a billion people unemployed this year. The pandemic has shone a "harsh light" on what was already a widening global skills gap, it says.

"Crises have a way of accelerating trends already in motion, and the Covid-19 pandemic has proven no exception. Our data shows that two years' worth of digital transformation have been concentrated into the past two months," it said on 30 June. The final weeks of March alone saw as much broadband traffic as could be expected in a full year, it added.

Technologies powered by artificial intelligence (AI) are ushering in an era of automation and disruption, which is now widely described as the fourth industrial revolution (4IR), incorporating cloud computing, robotics, advanced wireless technologies and the Internet of Things.

But even in developed countries, skills to address the transition are in short supply, partly because of a drop-off in corporate training investments over the past two decades.

In South Africa the problem is acute, given the lack of emphasis placed on technology in both public and private higher learning institutions.

Last year, the country was 49th out of 63 in the World Digital Competitiveness ranking, a benchmark introduced by the International Institute of Management Development. In a Global Skills Index compiled by software management company Consera, its overall data science proficiency is lagging well behind, with a ranking of 44 out of 60 countries.

This is alarming, given a domestic jobs bloodbath that economists fear could push SA's official unemployment rate as high as 50%. There has been much talk by politicians of preparation for the 4IR, but a digital strategy has been slow to emerge and is likely to take even longer to implement, given the government's poor track record of structural reform.

"It is now, more than ever, imperative for the SA government, private sector, non-governmental sector and citizens to work together to upskill people for a disruptive, digital future," says Barry Vorster, lead for HR technology, transformation and culture at PwC.

"The old approach to a nation's prosperity was to implement economic interventions in the hope that these stimulate job creation and growth. Today, our approach should be to equip people with the skills they need to innovate and thereby create jobs and prosperity, measured in both financial and human capital."

One of the big obstacles to the introduction of new technology in SA has been concern over the inevitable job losses as manual skills and occupations become obsolete and labour intensity declines. But the fallout of Covid-19 has made the transition impossible to postpone any further, and failure to do so will make more businesses uncompetitive, worsening unemployment and making future job creation even more difficult.

Dobek Pater
Director of business development at ICT consultancy Africa Analysis

"Digitisation and technology are a double-edged sword for a country like SA," says Dobek Pater, director of business development at ICT consultancy Africa Analysis.

"We're going to see greater automation in business on the one hand, which is going to lead to job losses. On the other hand, digitisation creates a lot of new job opportunities; both in the country and working globally from the country. But if you don't have the technology and skills in place, they are just not accessible."

Microsoft predicts that over the next five years, the global workforce can absorb 149m new technology-oriented jobs, in industries ranging from food production to healthcare and manufacturing. There will be an explosion of work in software development, data analysis, machine learning, cloud and data roles, and cyber security.

> Microsoft predicts that over the next five years, the global workforce can absorb **149m** new technology-oriented jobs.

SA has not been a complete outlier in digital transformation. John Purchase, CEO of Agbiz, says that farmers have been using satellites and drones to monitor crops and orchards for years, while precision farming is increasingly being used to drive efficiency and sustainability of production.

Many supply chains are becoming digitised as traceability becomes imperative for biosecurity, food safety, and consumer choices – SA's wool industry is fully digitised and all lots traded are now traceable using blockchain technology, he says. The industry was invited by the EU last year to share the technology and concepts it has developed.

None of this has hampered job creation within the sector. In the past eight years, employment in both primary agriculture and agro-processing has increased

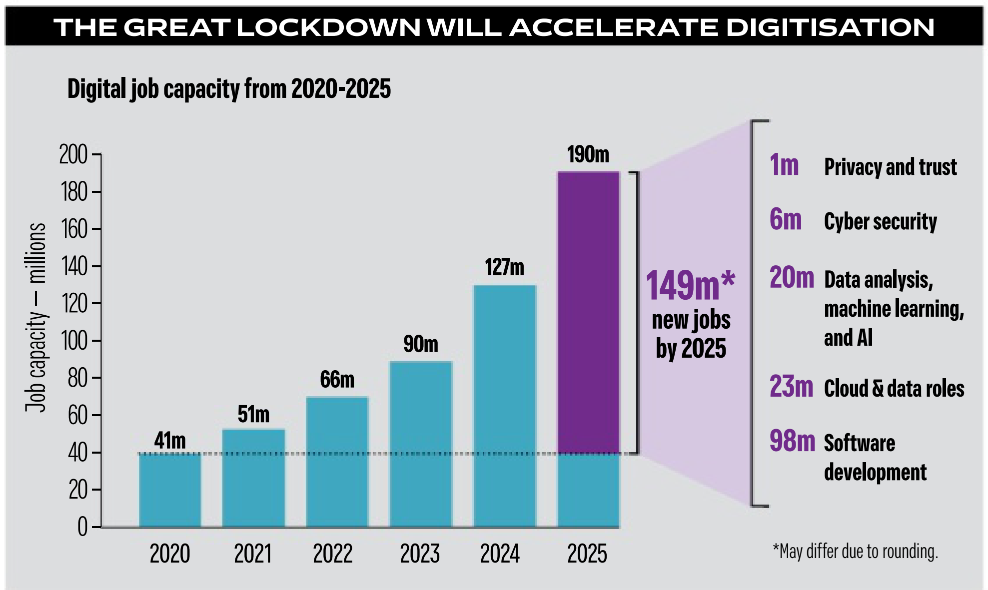
Photos: Gallo/Getty Images | consultancy.co.za

TO BE GAINED

needs to sort out its digital policy issues or risk being left outside a new world order.

By Mariam Isa

With the right policy and business environment, another 100 000 GBS export jobs could be generated by the end of 2023 and half a million by 2030, the report said.



SOURCE: Microsoft Data Science utilising LinkedIn Data

by about 20% – despite severe droughts and prolonged uncertainty over land expropriation.

"Since we are a net exporter of nearly half of what we produce, we need digitalised and efficient value chains to stay ahead of the curve and remain globally competitive," Purchase says.

Financial services and insurance companies are among those that have embraced new technology. But within the government, only the South African Revenue Service (Sars) is digitised, with home affairs receiving some support through domestic banks.

Even with minimal skills, there are ways in which South Africans can join the digital economy, according to a report called *South Africa in the Digital Age* (*SADA*), which was compiled by Genesis Analytics and the Gordon Institute of Business Science and released in January.

It identified global business services (GBS), which already employs 250 000 South Africans, more than double those employed in the automotive sector. Of those, 50 000 already serviced offshore demand and the jobs were growing at 24% a year, it said.

With the right policy and business environment, another 100 000 GBS export jobs could be generated by the end of 2023 and half a million by 2030, the report said. An SA matric qualification was enough to qualify if backed by smart and effective training at scale.

Growth in digital platforms for consumer-facing industries was another promising avenue for job creation as so far they were catering for middle- and upper-income consumers, and could be developed for relevance to low-income consumers, which would in turn boost demand for low-skilled services, the report said.

It pointed out that affordable access to both mobile and fixed data was crucial – an issue which has festered for a decade as policy paralysis and mismanagement blocked the allocation of new spectrum for cheaper and broader connectivity.

In response to a government directive, the Independent Communications Authority of SA issued new spectrum temporarily – and for free – in April to meet a surge in demand for data generated by remote work during lockdown.

Demand is unlikely to return to pre-Covid levels when SA's lockdown is completely lifted, but withdrawing the spectrum would hurt business activity and, so far, there is no plan in place to resolve the dilemma.

Another broad question is whether layering advanced technologies over the existing structural inequality in SA will exacerbate existing social, economic and political inequalities, warned a draft paper released by the National Planning Commission in July. While preparing for "inevitable technological developments" was an important aspect of developing a forward-looking digital policy, the conflation of that policy with social and economic transformation was "problematic", it said. ■

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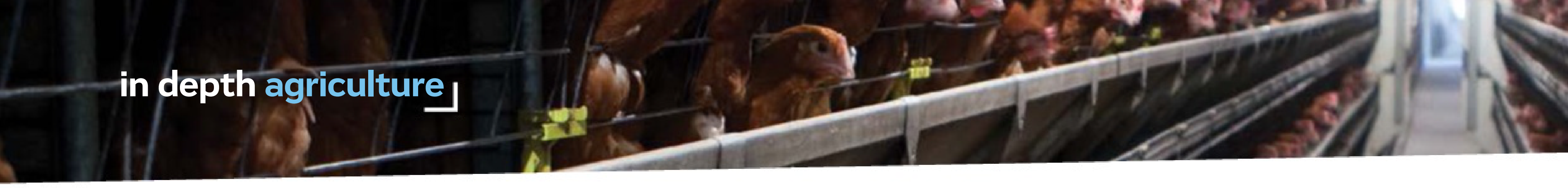
Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and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



SA POULTR
DETERMINED TO PR

Apart from continued international predatory trade, the local poultry

In the interest of South Africa, local poultry producers are making a major contribution to food security, early childhood development and the creation of sorely needed job opportunities. The local poultry industry slaughters just under 20m broilers a week. But even before the outbreak of Covid-19, the figures showed that the growth in local production cannot keep pace with the growing consumer demand.

According to analyses, this lag in growth can be attributed to the dumping of surplus production on the local market by the US, Brazil and certain EU countries.

World production

The US currently exports 40% of its production, says Izaak Breitenbach, general manager of the SA Poultry Association's (Sapa's) broiler organisation. Before the advent of the trade war between the US and China, the latter imported a lot of poultry portions from the US, owing to a protein shortage in China caused by swine and avian flu. "As a result of this trade war, Brazil currently meets many of China's poultry needs, while the US is exporting more poultry portions to South Africa, among others."

The US produces **18%** of the world's poultry, followed by China, Brazil, and the Russian Federation. In 2017, poultry represented about 37% of the world's meat production.

It suits the US, which – in the case of South Africa – made the benefits of the last extension of its Africa Growth and Opportunities Act (AGOA) subject to its poultry exports to the country. An agreed-upon tariff rate quota (TRQ) stipulates that the US may export poultry portions to SA from 2016 to 2025. It kicked off at 65 000 tonnes per year, but escalates according to a formula and is currently at 69 000t per year.

According to the latest available statistics of the UN's Food and Agricultural Organisation (FAO), the US produces 18% of the world's poultry, followed by China, Brazil, and the Russian Federation. In 2017, poultry represented about 37% of the world's meat production.

SA choked by dumping for years

From 2010 to 2018, SA's consumption of poultry increased by 2% per year, while the local production on average only grew by 1%. In addition to this, the rate of poultry imports was eight times higher than the growth of local production for the corresponding period.

"These figures indicate the extent of the dumping," says Breitenbach. "According to Genesis Analytics, imports met 75% of the increase in demand, because the profits made by the local industry were too small to reinvest. This is directly attributable to the unfair trade practices of other countries with more bargaining power."

Breitenbach says these practices consist of dumping, underdeclaration of imported products to limit import duties, and false declaration of products subject to tariffs under product names that are duty-free.

He reckons Brazil last year exported chicken portions to SA that were not deboned – known as "bone-in portions" – as mechanically-deboned meat (MDM). MDM is duty-free, but this is not the case with non-deboned portions. "Brazil indicated in 2019 that it exported only 10 000t of MDM to SA, but government data shows that 350 000t entered the country. For this reason, Sapa and the Association of Meat Importers and Exporters (AMIE) asked for a formal investigation to be made in this regard."

Izaak Breitenbach
General manager of the SA Poultry Association's broiler organisation

Ebrahim Patel
Minister of trade, industry and competition

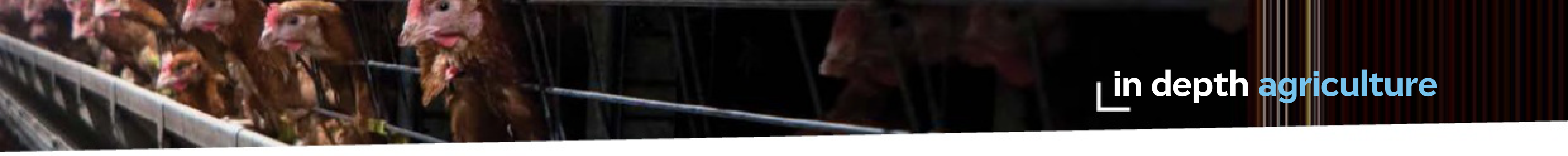
According to Francois Baird of the FairPlay Movement the problem with dumping is twofold. It disrupts local and international supply chains, and includes SA's lesser import and protective measures compared to other regions' measures.

Together, this has thus far prevented a reversal in the too slow growth rate of local production. Nevertheless, Sapa had drawn up a recovery plan for the industry, even before the outbreak of Covid-19, in conjunction with the government and other role players. In fact, the industry and the minister of trade, industry and competition, Ebrahim Patel, had already signed the plan in November last year.

The impact of Covid-19

According to Breitenbach, the lessons SA learnt from the US, EU and Brazil were that we had to try and prevent too many people from contracting Covid-19 simultaneously so that the country's labour-intensive poultry and other food factories could remain open. The poultry industry succeeded in keeping production volumes at normal levels and to maintain the value chain.

Despite fluctuations, the rand/dollar exchange rate is generally weaker;



By Jacques Claassen

Y INDUSTRY REEN ITS FEATHERS

industry is ready to combat Covid-19's additional trade disruptions.

therefore inputs, especially imported feed vaccines, are more expensive. The consumption of poultry dropped markedly in the second quarter. Under lockdown level 5 it was 18% lower than the normal consumption of around 200 000t a month, followed by a drop of 13% during level 4 of lockdown and a decrease of 7% since then.

Covid-19's aftermath

Concern about Covid-19's disruption of international supply chains was expressed during the recent webinar "Poultry Road to Recovery".

Breitenbach confirmed the veracity of these fears. "Owing to the disruption, poultry exports to SA dropped to 41 000t in May (compared with 51 000t in May last year). At the same time, consumption decreased globally – by 40% in Pakistan, for instance – and stocks began to accumulate in cold storage. In the meantime, Covid-19 cases have reached their highs in several overseas countries. As world trade is starting to normalise, and as soon as the major export countries start running out of storage space, a new wave of poultry exports are expected to reach SA."

Size of the problem

According to government data, whole chicken was recently exported to SA for as little as R9.99. "How is that possible? In order to justify dumping, a misperception was created that it was limited to only so-called brown poultry meat. This is an unfair strategy to gain access to the market. Now it seems that even whole chickens are being dumped here," says Breitenbach.

Consultancy firm FC Dubbelman and Associates found that more than 90%

The local industry in figures

- The poultry industry provides **50 000** direct jobs and **130 000** in the whole value chain.
- Its annual turnover amounts to **R48bn**.
- Even before the outbreak of Covid-19, imports amounted to about **50 000 tonnes** a month against Astral Foods' (SA's largest poultry producer) production of some **33 000t** a month.
- Astral produces **5m** broilers a week, compared with the US' largest producer's **45m** tonnes a week.
- SA's monthly production amounts to **135 000** tonnes compared with the US' **300 000** tonnes a month.
- SA is the **fifth-largest** importer of US poultry and the third-largest importer of poultry from Brazil (a country with low feed costs that has been benefitting for many years from agricultural production).
- About **47%** of SA's small-scale poultry producers stopped farming in 2019 owing to the devastating impact of dumped poultry. ■

of all poultry imports to SA, even in the midst of Covid-19, are sold here at less than the production costs and the sales price in the country of origin.

How does SA protect itself?

Baird points out that so-called "safeguard" tariffs against all EU countries, starting at 35.3%, were agreed to in 2018, but these are reduced annually and they will fall away completely in 2023.

However, Sapa has found that the dumping margins on poultry from Germany, the Netherlands and the UK amount to 307%. Sapa therefore approached the International Trade Administration Commission (ITAC) in February to renew SA's anti-dumping tariffs in respect of these countries. "ITAC published the findings of our studies and a year has been set aside for comments," says Breitenbach.

According to Baird, new most favoured nations (MFN) tariffs – among others, Brazil and the US – were increased in March this year on cuts that have not been deboned, increasing from 37% to 62%, and from 12% to 42% for deboned portions.

According to the findings of a further anti-dumping investigation undertaken by Sapa, and confirmed in a sunset review, margins on the dumping of poultry from Brazil and four new EU countries vary from between 57% and 176%. Sapa therefore approached ITAC to also impose anti-dumping measures against those countries that are subject to the same process as mentioned above.

"It is, however, a slow process. In the meantime it is important to quickly start implementing the industry's new recovery plan," according to Baird. ■

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>> Personal finance: The importance of debt management p.44

ENTREPRENEUR

By Timothy Rangongo

Making an iconic South African shoe globally recognisable

From A-listers and royalty to ordinary folk, here at home and abroad, people are enamoured with the redesign and return of the iconic South African velskoen shoe.

The year was 2016 and the Summer Olympic Games had just drawn to a close in Rio de Janeiro. Veldskoen co-founders Nic Dreyer and Ross Zondagh were disappointed by the South African team's apparel and thought that it "really should have been more representative of how amazing South Africa is", explains Dreyer.

Velskoen shoes – an ankle-length subset of the chukka boot made of soft but strong rawhide – came up, but the duo felt the traditional footwear could do with some colour. So, Dreyer had a friend photoshop colourful soles and laces onto a pair and they "immediately knew we were on to something".

Dreyer and Zondagh registered Veldskoen Shoes (Pty) Ltd, crammed into a 3×3m office in Woodstock, Cape Town, and ran with the fresh redesign. Another co-founder, Nic Latouf, also came on board, helping to set up Veldskoen's e-commerce platform.

Three years later, the company has successfully entered global markets (US, UK, Europe, Zimbabwe and Zambia), and counts Brian Joffe (Bidvest founder), Ashton Kutcher (US actor and entrepreneur) and Marc Cuban (US entrepreneur and investor) among its shareholders. Veldskoen is also eyeing Israel, Portugal, Germany and the Netherlands for expansion, after the Covid-19 pandemic.

Dreyer, the company's chief executive, spoke to *finweek*.

"In the last financial year, we made around 80 000 pairs of shoes and that is growing monthly. Of those, around **10 000** pairs were exported."

Let's start with the name...
It simply could not be called anything else. Ask any South African what a velskoen is and they will tell you. It's part of the South African lexicon and our mission is to make that known globally.

What inspires new designs of the shoe?
Velskoen shoes have been around for about a century and they have two key characteristics. Firstly, they are well-made and should last a long time. Secondly, they need to be seriously comfortable. So, whenever we tackle a new shoe design, it must pass these two tests. Then, we look at what sort of shoes we would love to wear and take it from there.

On average, how long does it take to make a shoe and what goes into the process?
Our shoes are handmade by unbelievably skilled artisans, specialists in each part of the production line. If you had to walk one pair through the entire production line, it would take around seven hours. That said, we make lots and lots of shoes, so a sizeable order takes a few weeks. Our manufacturing partners, Hopewell Shoes in Durban, are the best in the business and are fully committed to delivering exceptional manufacturing standards for Veldskoen.

How did Veldskoen make its very first sale?
We have always been a digital storytelling brand and for the first 18 months all our sales

"Our shoes are handmade by unbelievably skilled artisans, specialists in each part of the production line. If you had to walk one pair through the entire production line, it would take around seven hours."

were made at www.veldskoen.shoes, our e-commerce platform. I must tell you, getting that first "stranger validation" (when someone other than your mates and family buys a shoe) was an incredible feeling!

How tough is the competition?

Footwear is a competitive space and since we launched three-and-a-half years ago, around eight new velskoen brands have popped up. I think we may have started something. We are totally comfortable with the competition and wish them all well. We know what our mission is and won't be distracted: Veldskoen strives to be SA's most recognised global brand. The motivation behind Veldskoen since we started has been to shine a positive light on SA. We wanted to create a piece of apparel that connects us as a nation and is a visual representation of all the incredible characteristics of our great country.

How has Veldskoen's expansion into international markets been?

Having a global brand was the mission, so we have focused on building an international business from day one. We started in the UK with an online store and that has been growing nicely over the last three years. (It really helped that Prince Harry wore our shoes!) After the UK we launched in the US. Ashton Kutcher and Marc Cuban invested in Veldskoen US and that has grown aggressively for the last two years. We have seven more territories where we have passionate South African distribution partners.

How many shoes are made annually, and how many are exported?

In the last financial year, we made around 80 000 pairs of shoes and that is growing monthly. Of those, around 10 000 pairs were exported. Our biggest international market is the US. We are excited, though, that all the territories are growing nicely, and we should be able to fundamentally increase our manufacturing year-on-year.

How many employees does Veldskoen have?

We now have a team of 14 working directly for Veldskoen; in our factory we have around 120 people.

Q&A:

Nic Dreyer
CEO and co-founder of Veldskoen

Photos: Supplied

What are some of the biggest difficulties Veldskoen has had to overcome?

Being an online footwear brand is tough and that has come with many challenges and mistakes. Our team culture, however, allows for mistakes and improvements – so, we manage to get through them. The biggest singular challenge has been Covid-19, unsurprisingly. Like everyone, our business lost a potentially fatal amount of revenue with the lockdown. It took a massive team effort, sacrifice and creativity to survive it and I am immensely proud to say that Veldskoen is in a good position to get through this period, and well-placed to grow coming out of it.

The biggest lesson(s) learnt?

The biggest asset in any business is its customers. We are deeply grateful for our customers, value their loyalty and strive to deliver them world-class products and service.

In addition to our customers, it's our team. We have an amazing team, including Iridium Business, who is an integrated part of our business. When we started out, we required an inventory management system that could work in the e-commerce world and began a search for one that met all our needs.

Iridium helped us implement effective and efficient systems, an IMS that plugged into our online store and accounting system. Inventory is key to retail success. By providing the systems and training, they literally changed our business.

What keeps you motivated?

We are passionate advocates for local brands and local manufacturing. We feel a responsibility to share our experience and learnings with other local brands and start-ups that want to grow. We know that in SA we make incredible products because our people are so talented. We stay motivated to make sure we all grow and hopefully employ more and more people.

What is the long-term vision for Veldskoen?

To be SA's most globally-recognised brand. We are committed to building this business to be something that SA can be proud of. ■

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By Timothy Rangongo

Tackling debt

South African households faced high levels of debt even before the economic impact of Covid-19. Carefully considering debt management is now more important than ever.

before Covid-19, the South African consumer credit market was already struggling with challenging economic conditions. The total value of credit granted to consumers was up 1.66% to R145.38bn for the quarter ended December 2019, according to the National Credit Regulator's quarterly consumer credit market report.

Credit bureau TransUnion said the demand for credit continued well into the first quarter of 2020 and began to accelerate as both consumers and lenders started to experience the impacts of Covid-19 (towards the end of the first quarter). Figures from the bureau's first-quarter consumer insights report showed flat or negative growth across all product categories, except for bank personal loans, which grew by 10.6% year-on-year. Outstanding balances continued to grow across all major consumer lending categories, with non-bank personal loans growing by 17.2% year-on-year.

Though delinquency deterioration was most pronounced for secured products, vehicle loan delinquencies continued to soar – a consistent pattern observed over the last three years. The delinquencies more than doubled, and stood at 7.5% in the first quarter of 2020, resulting in some lenders having to introduce repayment terms of up to 96 months to accommodate challenges with consumer affordability.

The impact of a constrained economy, amplified by the pandemic, has placed strain on the SA consumer, says Dawid Spangenberg, head of retail credit at FNB. He says previously financially sound segments of the consumer population are also finding themselves in distressed positions due to the impact of the pandemic.

"Consumers working in industries that were more severely impacted by the lockdown have seen a material decline in their income, especially during the initial hard lockdown," he says.

Cowyk Fox, managing executive at Absa retail and business banking, warns that consumer debt levels are expected to worsen even further due to the expected surge in retrenchments and low economic growth over the next year due to the macroeconomic impacts of the pandemic.

Unsteady incomes and debt

TransUnion's financial hardship study into the pandemic showed that 83% of consumers had reported that their household incomes were negatively affected by the pandemic; 37% reported that their work hours had been reduced; and 14% reported that they had lost their jobs.

Steven Barker
Head of lending for personal and business banking at Standard Bank

Non-bank personal loans grew by

17.2%

year-on-year.

Mariné van Brakel
Chief financial officer of local consumer finance business RCS

"Lenders can be sure that consumers will buckle under the pressure – utilisation rates will increase and so will defaults," the credit bureau said.

The central bank was quick to act by introducing four consecutive repo rate cuts, which lowered the prime lending rate to 7%. While the cuts reduced lender margin profitability, Spangenberg says they provided relief to borrowers trying to manage reduced cash flow and revenue for purposes of servicing their debt obligations.

Tighter lending criteria

Lenders were already responding to the pre-pandemic economic conditions and had started to adjust their risk appetites accordingly and scale back on growth, according to TransUnion – which forecasts SA's overall credit demand to drop in the second quarter of 2020 due to the Covid-19-induced economic downturn.

"Given the impact of Covid-19, and the resultant impact on the financial position of customers, loan applications (both secured and unsecured) have significantly declined since the commencement of the national lockdown," says Fox.

Spangenberg attributes FNB's drop to stricter underwriting criteria, among others. "The reason for the more conservative supply-side recovery, both from a volume and balance perspective, is due to a more restrained lending approach by most credit providers across the market," he says.

Are the repayment holidays paying off?

SA's major banks and financial institutions introduced various measures to assist customers financially impacted by the pandemic and subsequent lockdown. Absa gave qualifying customers the option to defer payments on credit products for a period of three months, with no turnover limits or income thresholds. Some 740 000 accountholders have benefitted from the relief, across retail and business banking, says Fox.

Nearly 300 000 individual customers were offered payment breaks by FNB through a separate credit agreement worth approximately R5bn, at prime interest rates, with 60 months repayment terms and no penalty fees on early settlements.

Steven Barker, head of lending for personal and business banking at Standard Bank, tells *finweek* that the bank had provided R92bn in relief to individuals, SMMEs and commercial clients in SA across 285 000 accounts.

It's worth noting that taking a payment holiday is not always the best solution, argues Mariné van Brakel, chief financial officer of local consumer finance business RCS.

Insuring debt against loss of income

Credit life insurance assists customers to reduce their debt burden when unexpected health- or income-related events occur. Examples of typical events that may be covered through credit life insurance policies include death, disability, critical illness and retrenchment.

Such insurance provides relief, provided that the right policy is in place, says Steven Barker, head of lending for personal and business banking at Standard Bank. "It is important that customers understand their policies and terms, and the protection provided on their policy, to help them make the right decisions in these difficult times."

In the event of death, permanent disability or contracting a critical illness, the outstanding debt is usually fully settled by the policy. In the event of temporary disability, retrenchment or loss of income, the policy can pay up to 12 months' instalments, says Cowyk Fox, managing executive at Absa retail and business banking. ■

"A payment holiday is simply an extension of when the debt payment is due – it is not a debt waiver – and usually comes at a higher cost of credit when the time comes to settle the debt."

Considering credit during tough economic times

For better credit management during a financial crisis, Van Brakel says, as a starting point, it's always important to know your credit score. This shows you the strength (or weakness) of your credit report by rating your management of existing credit.

The best advice, according to Fox, would be for people in financial distress to speak to their bank immediately. Spangenberg shares the same view and says, "the important thing is communication with credit providers. Consumers should identify the various repayment plans offered by their credit providers, find a plan that works for them and stick to it. If a consumer is unable to reach an agreement with their credit providers, they may need to seek the assistance of a professional debt counsellor."

Tackling debt burdens

Maintaining existing debt repayments during a financial crisis is important to ensure that one's credit rating is not negatively affected, as this will determine what credit you qualify for in the future, says Van Brakel.

Making debt more affordable can be achieved through debt consolidation, selling assets to pay off debt or reverting to options like debt counselling. Debt consolidation means taking out a new loan to pay off several smaller debts. Multiple debts are combined into a single, larger debt, usually with more favourable pay-off terms, such as a lower interest rate or lower monthly payment or both. The individual should consider the negative consequences of each option, says Barker. ■

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Photos: Supplied

Test your general knowledge by completing this quiz, which will be available via fin24.com/finweek from 24 August.

1. Trade union Nehawu said it plans to strike against the government's refusal to increase public servants' salaries. What does Nehawu stand for?
2. Who did democratic presidential candidate Joe Biden name as his running mate in the upcoming US elections?
   - Bernie Sanders
   - Hillary Clinton
   - Kamala Harris
3. **True or False?** South Africa's total mining output fell 28.2% year-on-year in June.
4. Which region did MTN announce it will exit in the medium term?
   - Middle East
   - West Africa
   - Europe
5. **True or False?** Building materials retailer Cashbuild has agreed to sell The Building Company to Pepkor.
6. South African Breweries (SAB) is cancelling R5bn of planned investments as a result of revenue losses sustained during the ban on alcohol sales in SA. Which company owns SAB?
7. **True or False?** Insolvent payments company Wirecard is being ejected from Germany's benchmark DAX index.
8. Who is the CEO of Uber?
9. Twitter's share price jumped after the social media group revealed a record increase in users in the second quarter. How many users did the company add in this period?
   - 20 000
   - 200 000
   - 20 000 000
10. **True or False?** *The Shining Girls* novel by South African author Lauren Beukes is to be adapted into a TV series after being ordered by Apple TV.

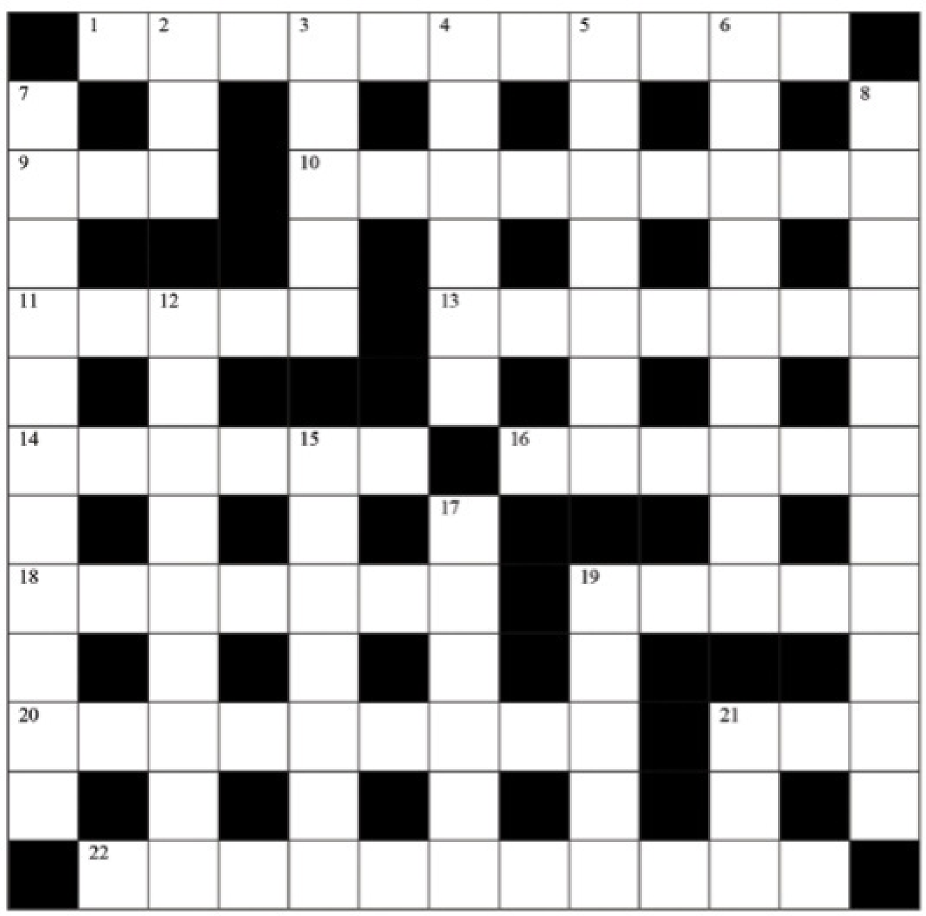
CRYPTIC CROSSWORD NO 759JD

ACROSS

1 Exclusive owner of business, selling shoe parts? (4,6)
7 & 22 Ancient mariner has aged so badly (3,3)
8 Having a drink without hesitation is sheer freedom (10)
11 Limiting stretch in a pound (8)
12 Main course (4)
14 Arch is completely covered in paintings, we hear (7)
15 Short girl in the money once (6)
17 Unusual to get poison from copper (4)
18 Baffle first lady with discouraging remark (8)
21 Criminal is scared to be left out (10)
22 See 7
23 Wish granter to clean up her mess (10)

DOWN

1 Leave musical society to argue about the small details (5,5)
2 Choice of two politicians in opposition to research centre (10)
3 Three times deprived of a boundary (8)
4 Verified correct after the start (6)
5 Set tone for hairstyle (4)
6 & 20 Cheers, we hear, for copper (3,3)
9 Airs income discrepancy in the islands (10)
10 Tristram includes registered judo expert in rickety old vehicle (10)
13 Alabama oil conglomerate: 99 suffering from hair loss (8)
16 Better footballers in Ireland, right? (6)
19 Essential nature shows from the outset (4)
20 See 6



Solution to Crossword NO 758JD

ACROSS: 1 Destination; 9 Oar; 10 Barrister; 11 Socle; 13 Almonds; 14 Larder; 16 Aslosh; 18 Deep-end; 19 Get up; 20 Tailpiece; 21 Hoe; 22 Great danger

DOWN: 2 Err; 3 Imbue; 4 Normal; 5 Trismus; 6 Out-and-out; 7 Consolidate; 8 Grasshopper; 12 Corsetier; 15 Exempla; 17 Addend; 19 Glean; 21 Hie

On margin

Safety first

This issue's isiZulu word is *phepha*. *Phepha* is "be safe". Safety is *ukuphepha*.

Iphepha is paper. That word obviously comes from the English word "paper", as we did not have paper before being colonised. We used iPads.

Back to *phepha*; I think Peppa Pig would be a great safety mascot – *Phepha* with Peppa Pig. We should co-opt her to become the face of Covid-19 safety. Maybe the government can give me tonnes of *iphepha* money to run the programme. They are giving away money to just about anyone, aren't they? Anyway, I wrote a song to go with Peppa Pig the *Phepha* mascot. But, first, I need to take you through some words that feature in the song.

Phupha – dream
Iphupho – a/the dream
Phapha – to be tjatjarag
Iphaphu – a/the lung
Impepho – sage
Phephuka – blow away (by the wind)

Here goes:

Phepha with Peppa Pig.
Phepha with Peppa pig.
She uses *impepho* – that's *Phepha* Pig.
She *phupha-ed iphupho* – did Peppa Pig.
She's pink like *iphaphu* – that's Peppa Pig.
She won't let you *phephuka*.
She won't let you *phapha*.
She'll make sure you *phepha*.
That's Peppa Pig.
Peppa with *Phepha* Pig.

If you do not know who Peppa Pig is, you obviously do not have little kids, and I am happy for you. As the name says, Peppa Pig is a pig. I am not sure why her name is Peppa. Maybe it's purely because it works with pig. Little kids the world over love Peppa Pig, and she has definitely helped me with my kids while I work from home. I just plonk them in front of the TV, play Peppa Pig and they stay glued. Do not judge my parenting, because working from home and looking after children is no child's play.

- Melusi's #everydayzulu by Melusi Tshabalala

Verbatim

Michael Jordaan @MichaelJordaan
I have a banking joke but it's not attracting any interest.

Monica Scott @chantelmakuwa
The Gautrain bus will take you around the whole world before you reach your destination.

Flick @Frediculous
The amount of money they're saying some colleges will lose if they don't have a football season is showing that they're not even really colleges. They're just football programmes that teach classes as a side hustle.

Mind of a Dad @TheMindOfADad
If ever you're wondering if you and your spouse are on the same page, fold a large blanket together. You'll find out quickly.

Yaaseen Barnes @Ya_a_seen_Him
We're all going through a very tough time, but no one speaks about the real struggle of putting in a password with a TV remote.

Jade Jackson @IAMJADEJACKSON
"Once Covid is over" is starting to sound about as confident as "When I win the lotto."

Swedish Canary @SwedishCanary
If you think things are bad now fast forward 20 years when our country will be run by people that were home-schooled by day drinkers.

Leah Spigelman @leahspig
The most memorable part of this pandemic has been washing 80 000 dishes

Mike Royce @MikeRoyce
A reporter should ask Trump if he's ever cried. The answer will be amazing, whatever he says.

"We should reward people, not ridicule them, for thinking the impossible."

– Nassim Taleb, Lebanese-American essayist and former option trader and risk analyst (1960 -)

EAT OUT

RESTAURANT RELIEF FUND

IN PARTNERSHIP WITH

COMMUNITY CHEST

CITIZENS COMMITTED TO INSPIRING A NATION OF ACTIVE CITIZENS

WE HAVE EMPTY RESTAURANT KITCHENS ... BUT MORE AND MORE HUNGRY SOUTH AFRICANS

WE'RE RAISING FUNDS FOR RESTAURANTS TO FEED THOSE IN NEED

PLEASE HELP OUT

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