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# from the editor

JACO VISSER

The birthplace of capitalism – if one were to see this as the place where the first shares were issued – has used the coronavirus to start testing a new type of economy. I read that Amsterdam – and other places in the Netherlands too – has started implementing the so-called "doughnut" economic model. This idea, which is the brainchild of the British economist Kate Raworth, purports that humankind should fulfil its basic needs within the limitations set by the planet. These basic needs of people include a roof over your head, food on your table, access to healthcare and education, a political voice and a few more. These needs should therefore be met in, among others, a stable climate, fertile soil and a protective ozone layer (the planet's limitations). She also rejects the trend that economic growth, as measured by steady gross domestic production, should be the measure used to determine prosperity.

A recent trip through large parts of the western regions of our country brought me face to face with one of the most crippling droughts (planetary limitation) that I have ever seen, with families suffering as a result of extreme hardship. It has since rained and many places have been struck by floods; two extreme climatic conditions that have played out in a single month. The trip through these areas has made us aware of the humanitarian crisis of stifling poverty, no livelihood for the youth of today who idly stand on street corners, and the glaring difference between the poor and rich (basic human needs).

When you return to Johannesburg – which can probably be regarded as the birthplace of capitalism in South Africa – you read how the markets fared in 2020. Not bad for a year blighted by a pandemic. You read how millions have lost their jobs and their means of livelihood. Furthermore, you read of individuals who got richer by the billions within the span of a single year. And then the question arises: How did humanity develop for 300 000 years – through much hardship, bloodshed and also wonderful innovation – only for millions of people to live in dire poverty while a handful of individuals have the ability to lift these masses out of their circumstances? How did it happen in the first place that the distribution of the means of living became so skewed? On the other hand, is it really fair and beneficial for renewal and the protection of property to clamp down on the assets of these super rich as the socialists want to do?

Crass capitalism does not work for most people on the planet. Crass socialism did not either. Maybe we can learn something from Raworth about how communities – rather than a nation state – can, within the limitations of the planet, meet the most important needs of the people. ■

# contents




By Johan Fourie

FUTURE

# Quants and the future of finance

Why it's time to start taking the real-world applications of machine learning seriously.

Finance is not the same as it was a few years ago. Whereas *The Wolf of Wall Street* epitomised the traits of the successful trader in the 20th century, today things look very different. Computer scientists in sweatpants – quants – design and implement complex mathematical and statistical models that more efficiently price securities, reduce risk and generate profits.

One of these relatively new statistical applications is machine learning. A 2020 paper in the *Review of Financial Studies* by Shihao Gu, Bryan Kelly and Dacheng Xiu uses the Sharpe ratio, a measure of the risk-adjusted return of a financial portfolio, to show the benefits of machine learning: "A portfolio strategy that times the S&P 500 with neural network forecasts enjoys an annualized out-of-sample Sharpe ratio of 0.77 versus the 0.51 Sharpe ratio of a buy-and-hold investor." Machine learning, they find, more than doubles the performance of a leading regression-based strategy from the literature. That's huge!

But is this just an academic artefact – or does it actually have real-world applications? Hudson & Thames is a London-based engineering company that builds machine learning algorithms for financial investors. I asked its South African founder and CEO Jacques Joubert about the benefits of machine learning: "Machine learning's main use is its ability to model non-linear processes. Linear regression remains the primary workhorse for financial modelling. As one of the leading financial machine learning experts, Marcos Lopez de Prado, notes, we live in a strange world where one half of finance believes that markets are efficient and passive investing is the key. The other half are active managers, most of whom believe that a model as simple as linear regressions is capable of harvesting billions worth of dollars of alpha. But it is unrealistic to assume that something as complex as financial markets follows a linear process. This is where machine learning can add value."

Is that where Hudson & Thames comes in?

"We are mainly focused on implementing the research of others. We often comb through the academic literature looking for breakthroughs or applications of important algorithms and then reach out to the original authors and build out the tools with their guidance and support. Since we have such a large collection of algorithms, we are often able to combine them in new ways to unlock additional capability."

I ask Joubert about a nagging critique against quants: While it is much easier to predict the future in a period of relative stability, what happens during a crisis? Are there not greater risks when low-probability events occur if the models are fine-tuned on historical data which doesn't include such events?

Photo: Gallo/Getty Images

Says Joubert: "It is important to remember that every trader and active fund manager uses historical data to forecast the future. Quants fit models to the data – and sometimes, because of the non-stationary nature of financial markets, there will be a structural break. But its usefulness really depends on the question being asked. As humans, we always look for heuristics. There are quant funds that have done very well in the crisis. It is perhaps too sweeping a statement to say that Covid-19 has changed the market forever: for which strategies, which anomalies, which asset classes and sectors? It is not true for all."

The more I talk with Joubert, the more I realise that his work is firmly rooted in the scientific method, a departure from the 'finance as an artform'-approach that the old-school investors often propagate. I ask him about the synergies between academe and industry. "Some people believe that academia lags industry and I can tell you from first-hand experience that this is only true for the world's best funds like Citadel, D.E. Shaw, 2 Sigma, and Renaissance. However, the vast majority of the industry has failed to adopt algorithms and can benefit greatly by reading more of the academic literature. Information is slow to disseminate and I believe that a large advantage can be gained by tracking the literature."

> "Machine learning's main use is its ability to model non-linear processes. Linear regression remains the primary workhorse for financial modelling."

I cannot help but conclude with a question about the future. What can his machine learning tools tell us about what to expect in 2021?

"I wish I had the answers. The tools that we work with do not require us to make forecasts so far out. My personal recommendation is that enthusiasts steer away from using machine learning to forecast the next day's returns. I have yet to see or know anyone to get that right; asset pricing is an unsolved problem. Where I have seen machine learning add value is in portfolio management, lowering market impact, transaction costs, forecasting the limit order book, identifying viable trading pairs, and building long-short portfolios."

In fact, this is exactly the conclusion Gu, Kelly and Xiu also reach: "The overall success of machine learning algorithms for return prediction brings promise for both economic modelling and for practical aspects of portfolio choice." Machine learning in finance is here to stay. But as ever, it will only be useful if we ask it the right questions. ■

editorial@finweek.co.za

**Johan Fourie** is a professor in economics at Stellenbosch University.

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# in brief



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## "I will fire you on the spot."


– **US President Joe Biden's** tenure as head of state began with a stern warning to 1 000 presidential appointees who will help him steer the federal bureaucracy. In an video conference Biden said he will fire them "on the spot" if he hears that they have shown "disrespect" to people in their professional conduct. He kicked off his administration with sweeping orders on immigration (reversing several hard-line immigration policies put in place by former president Donald Trump), Covid-19 (a requirement to wear masks and social distance in federal buildings), racial justice and climate change (rejoining the Paris Agreement).

## "WE BELIEVE THERE IS ROOM FOR FURTHER EASING."

– **Mamello Matikinca-Ngwenya, chief economist at FNB**, said while the South African Reserve Bank may have decided to keep the repo rate unchanged at 3.5%, there is room for further easing because the current economic shock has kept demand in the economy very low, and as a result, inflation has remained firmly anchored below the midpoint of the target band. In addition to the benign inflation outlook, the renewed loss of income because of reduced trading hours or ban on operations in some sectors of the economy, with no additional income support measures from government, could push the Monetary Policy Committee to cut rates by another 25 basis points, according to the Bureau of Economic Research. The SARB projected two 25bps increases in the second and third quarter of 2021.

## "I HAVE BEEN A SWISS TAXPAYER SINCE THE START OF RICHEMONT 31 YEARS AGO."

– **Richemont chairman Johann Rupert** sparked controversy in Switzerland after he secured a Covid-19 vaccine and flew to the European country to get inoculated, according to *Tages-Anzeiger*. The vaccine was administered by the Hirslanden Group, which Rupert has links to through Remgro. As a 70-year-old with comorbidities, Rupert told Bloomberg that there is an urgent need for herd immunity for the world to avert massive unemployment and chaos. The Richemont executive committee decided in December that the entire leadership would get vaccinated as soon as possible to set an example to those who were worried or scared or doubtful about the vaccine.

THE GOOD

Santam announced in a statement it will start processing business interruption claims for all commercial policies that were affected by Covid-19 lockdowns in April 2020 beyond those of its hospitality and leisure division. It will cover a total base of Santam's 4 000 commercial clients who've claimed interruption to their business due to lockdown. SA insurers have refused to honour claims by companies shuttered due to the national lockdown, arguing these claims are not covered under their business interruption policies. A court ruling in December overturned an appeal by insurer Guardrisk, forcing other insurers to start processing some claims.

THE BAD

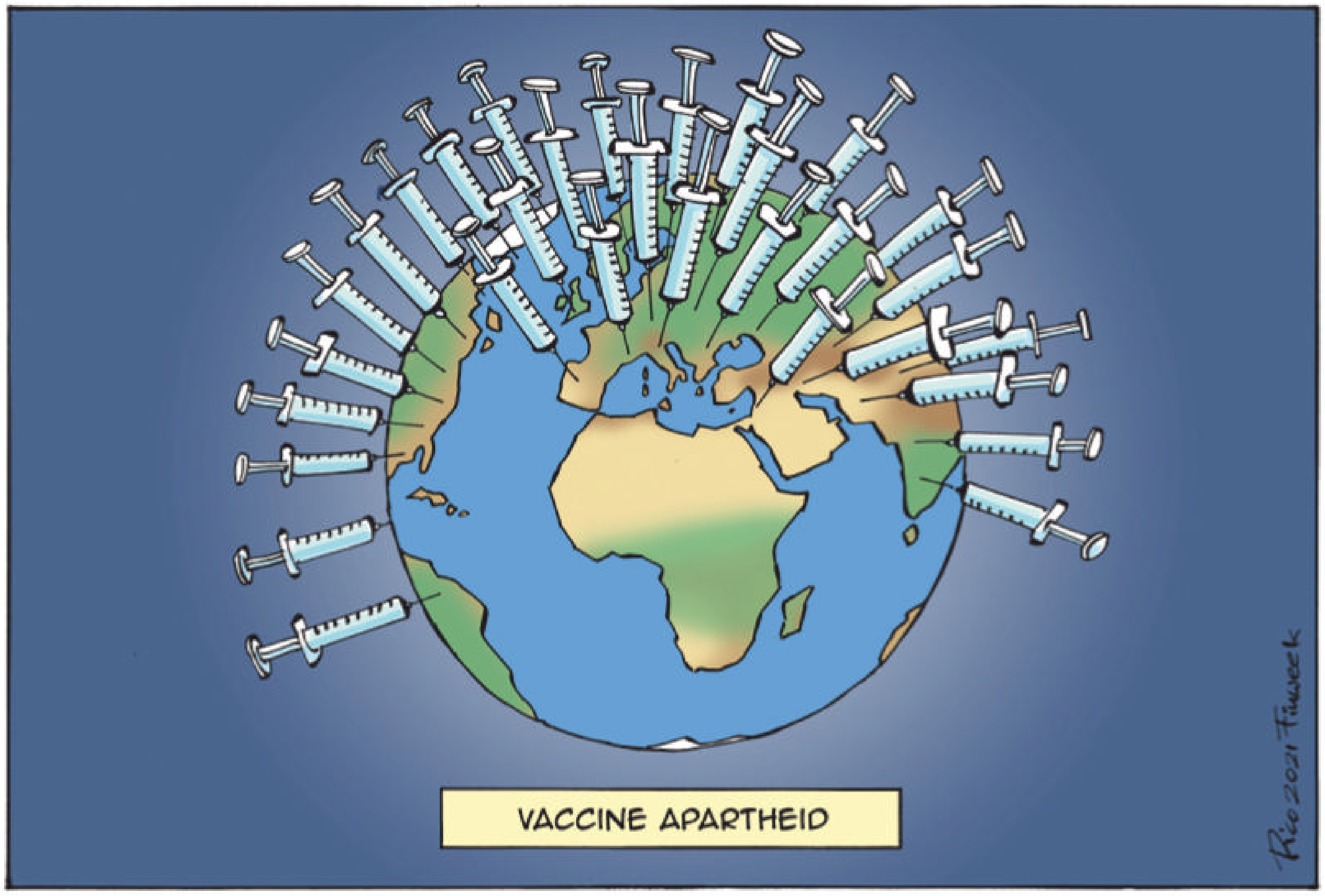
South African Breweries (SAB), a division of Anheuser-Busch InBev (AB InBev), has suspended indefinitely and with immediate effect the contracts of 550 temporary workers due to the latest ban on alcohol sales, reported *Business Times*, reducing SAB's workforce to 5 357. The affected workers are mostly in the supply and logistics division and include packers and delivery personnel. The SA arm of Heineken also said it will cut jobs (70) due to the ban. SAB is still in court challenging government's decision to reimpose the ban and has suspended commitments to retain workers and investments, agreed to as part of its merger with AB InBev.

THE UGLY

A team from Netcare Milpark Hospital consisting of a specialist theatre nurse, a cardiothoracic surgeon, an anaesthetist, paramedic, and a pilot all lost their lives when the helicopter they were travelling in crashed. They were on their way to a hospital in Hillcrest, west of Durban, to transfer a critically ill Covid-19 patient to Milpark hospital for specialised care. One of the doctors who died in the crash had been called to assist in trying to resuscitate the late minister in the presidency, Jackson Mthembu, earlier in the day. Netcare group CEO Richard Friedland said this was not just a loss for Netcare, the medics' families and colleagues, but the entire country.

Photo: Gallo/Getty Images

## DOUBLE TAKE BY RICO




### LOWEST CPI IN 16 YEARS

# 3.1%

Annual consumer price inflation (CPI) eased to 3.1% in December from 3.2% in November. On a monthly basis, it ticked up by 0.2%, after no change in November. The underlying data, according to the BER, showed a quickening of food price pressure, while transport costs (including fuel) continued to subtract from headline CPI. Stats SA reported average inflation for the full year of 3.3%, the lowest since the 1.4% recorded in 2004 and firmly below the Reserve Bank's midpoint target of 4.5%. Going forward, inflation is expected to remain contained as higher fuel and (near-term) elevated food prices are somewhat countered by subdued increases for services such as rentals and medical insurance.

### RETAIL TRADE SALES KEEP SLIPPING

# 8 months

South Africa's retail trade sales decreased by 4% year-on-year in November 2020, falling for the eighth consecutive month, reported Stats SA. The largest negative contributors to the 4% decrease were: all 'other' retailers (contributing -3.2 percentage points); retailers in textiles, clothing, footwear and leather goods (contributing -1.1 percentage points); and general dealers (contributing -1.1 percentage points). FNB senior economist Siphamandla Mkhwanazi pointed to the pandemic-induced loss of buying power and changes in consumer behaviour (as people spend more time at home and limit their spending to essential goods), as some of the reasons.

### COVID-19 SECOND WAVE DECLINING

# 11 000

It appears the second Covid-19 wave in South Africa has peaked. This is reflected in statistical data from the national health department which shows a steady decline in Covid-19 positive cases since the first week of January. South Africa's seven-day rolling average of new coronavirus cases has come down to less than 11 000, from close to 19 000 on 11 January, according the BER. The number of active cases (about 182 500, at the time of publication) is also on the decline. The rate of new hospital admissions is also falling, in addition to the reduction in new cases.

### FDI COLLAPSES EVERYWHERE

# -42%

Global foreign direct investment (FDI) collapsed in 2020, falling by 42% to an estimated $859bn, from $1.5tr in 2019, according to an investment trends monitor from the United Nations Conference on Trade and Development (UNCTAD). It said the decline was concentrated in developed countries, where FDI inflows fell by 69% to an estimated $229bn. A sharp decrease of 49% was recorded in the US to $134bn. The decline in developing economies was 12% to an estimated $616bn, with China topping the ranking as the largest FDI recipient and toppling the US. Africa saw an 18% fall in FDI flows. The FDI trend is expected to remain weak in 2021.

By David McKay

MINING

# A welcome boost for Zim's economy?

There are big plans for two mining interests in Zimbabwe; GDI and Kuvimba.

David Brown's association with Zimbabwe's mining sector dates to his six years as CEO of Impala Platinum (Implats), which ended in 2012. During that time, he met with then president Robert Mugabe to end a dispute between the government and Implats regarding certain mineral rights.

Brown is now back in the country as non-executive chairman of Great Dyke Investments (GDI), a company backed by private Russian interests that is hoping to raise $550m for a platinum group metals (PGM) mine, Darwendale.

His day job, however, is with another entity, an emergent gold miner, Kuvimba Mining House, a rather grandiloquent-sounding company that has the support of Zimbabwean President Emmerson Mnangagwa.

Mnangagwa's hope is that companies like Kuvimba can breathe life back into the country's crisis-hit economy. Mnangagwa hasn't many economic levers to pull, but mining is one of them. "I could have sat at home, but I like the opportunity of Zimbabwe," says Brown in an interview. "I like the people and I'm still young enough to do this," he says. Brown is 58 years old.

In about three years, Brown thinks Kuvimba could be spun off and listed separately, possibly on the Victoria Falls Stock Exchange.

Last year he announced his resignation from MC Mining, a JSE-listed thermal and metallurgical coal miner after seven years at the company. During his time at MC Mining, Brown restructured the company ahead of a capital raising programme, some of which was achieved. But it's extremely tough going for coal companies given the way attitudes have changed towards old-world fuel.

That isn't the case for either gold or platinum, the prices of which are riding the crest of a wave.

Kuvimba has several streams of investment. The first is gold production from mines previously owned by Metallon Corporation, a company that went bust under its owner, Mzi Khumalo, a former Robben Islander. These mines, and a second stream of investment – Bindura Nickel Corporation (BNC) – were bought by the Zimbabwean government from Russian firm Sotic Investments.

Sotic, which operates through the Cayman Islands firm Almas Global Opportunity Fund, exited the gold and nickel assets to focus on Darwendale. There is, then, no Russian presence in Kuvimba, which was created in joint venture with Brown's Mauritius-registered firm Quorus Management Services. But Kuvimba does have a stake in GDI, which is its third stream of investment.

The outcome is that the Zimbabwean government owns 65% of Kuvimba whilst Quorus owns the balance. Zimbabwean businessman Simba Chinyemba is a 50% co-investor with Brown in Quorus. Kudakwashe Tagwirei, an advisor to Mnangagwa, is also not invested in Kuvimba as previously speculated. "He is absolutely not connected with us," says Brown.

Brown is looking for other partners to join him in Quorus to help resuscitate the Zimbabwean gold mines, the best-known of which is Freda Rebecca, as well as Shamva and Jenna. The plan is to take production to about 150 000 ounces a year from the current 90 000 oz today. But that will require some $150m worth of new investment, says Brown.

As for BNC, it's producing about 6 000 tonnes of nickel a year, a mineral that has found new life as an element used in the manufacture of electric car batteries.

In about three years, Brown thinks Kuvimba could be spun off and listed separately, possibly on the Victoria Falls Stock Exchange. But the big ticket is going to be Darwendale, the PGM mine.

"That's quite chunky money," says Brown of the capital required to build a forecast 300 000 ounces in PGM concentrate annually in its first phase. This doesn't include construction of a refinery which requires significant additional capital. The likelihood is that GDI will reach out to an existing PGM producer, such as Brown's old employer Implats, which already has refining capacity in Zimbabwe.

The hope was to have raised the debt for Darwendale by the end of last year, but Brown says Covid-19 has played havoc with time-tabling. "Lenders like to get out to site visits, but Covid-19 has made it incredibly difficult ... But we've got sufficient funding at present," he says. ■

editorial@finweek.co.za

**David Brown**
non-executive chairman of Great Dyke Investments (GDI)

The plan is to take production to about 150 000 ounces a year from the current 90 000 oz today. But that will require some

$150m

worth of new investment.

Photo: miningmx.com

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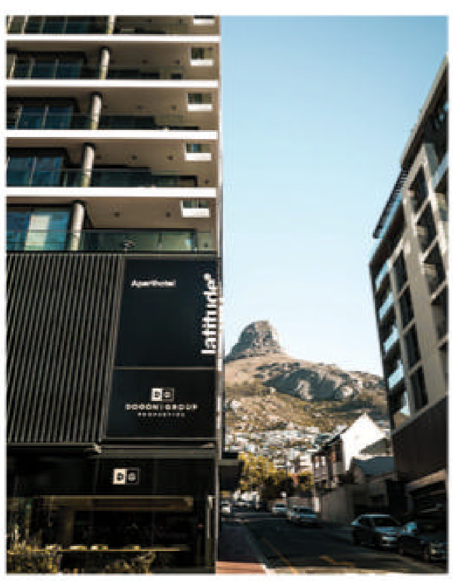
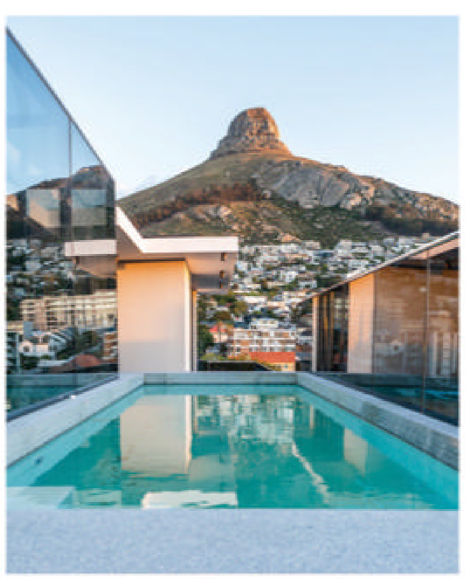
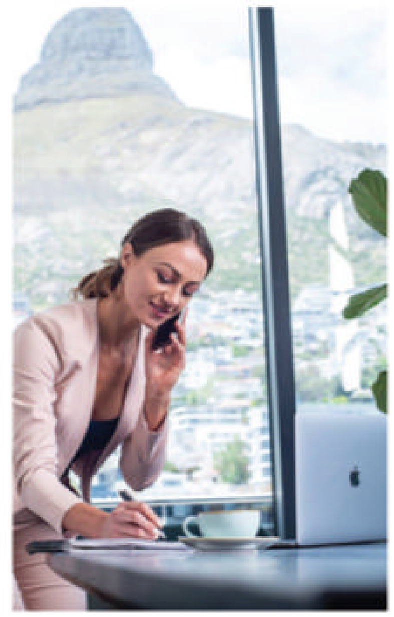
Aparthotels are becoming a preferred form of accommodation among business tourists and travellers alike. According to Bloomberg: "Thanks to a new, hybrid concept that's taking the hospitality world by storm, it's possible to get the best of both worlds. Meet the boutique apart-hotel. It's half-apartment, half-hotel, but 100 percent ready for your Instagram feed". Numbers from the UK and Ireland - where Aparthotels are increasing four times (as measured by existing stock as a proportion of total prospective pipeline, Lambert Smith Hampton, 2019) - confirm this.

As Covid-19 expedited the rise of the "work from home" trend, Cape Town was named as "One of the Best Cities for Remote Working" by Big 7 Travels. Much is written about the topic and increasing numbers of companies are embracing it. We believe this trend is here to stay which is why our Latitude Aparthotels are geared toward remote working with fast unlimited wifi, co-working spaces and boardrooms. We have experienced increasing numbers of local and foreign guests choosing the Latitude Aparthotel as their base from which to work remotely.







It is therefore no surprise that 12Cape's flagship property - the Latitude Aparthotel in Sea Point, Cape Town - has experienced high occupancy rates (a median monthly occupancy of 86% for the first 12 months of trade) since opening in November 2019, despite the challenges of Covid-19.

12Cape offers other advantages, too. Much of its prospective dividend is attributable to international visitors who generate hard currency income for 12Cape investors. Furthermore, investor capital is invested in a store of value and is secured by the property's underlying value. Investors in 12Cape can expect long-term capital growth associated with prime real estate without the large sums of money usually needed to acquire individual properties. Investors can also expect to participate in yield distribution growth underpinned by global structural trends and currencies, and benefit from a tax deduction while creating jobs and attracting foreign capital to South Africa's shores.

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By David McKay

MINING

# Hard decisions ahead for Gold Fields' new CEO

Chris Griffith is silent on the future of South Deep as his taking the reins at Gold Fields draws near.

It is characteristic of Chris Griffith, the incoming CEO of Gold Fields, that he takes up duties at the gold company the day after his 12-month "gardening leave" expires, which is end-March. When Gold Fields last year announced the impending departure of Nick Holland, on the basis the CEO of 13 years would turn the mandatory age of retirement in 2021 of 63, the plan was for "a handover" period, possibly of up to six months.

Now, however, Holland has agreed to leave earlier than planned. There doesn't appear to be any objection to this, it's just typical of Griffith that he would immediately want to imprint his own ideas on Gold Fields – even though Holland has had executive duties there for nearly two decades.

Griffith was previously CEO of Anglo American Platinum (Amplats) for eight years until 2020, and before that CEO of Kumba Iron Ore for four years – both companies in the Anglo American stable. In both cases, he stepped into companies experiencing cyclical lows in the pricing of platinum and iron ore respectively. As a result, a degree of swashbuckling attitude was a job requirement: both companies in need of lifting and, in the case of Amplats, significant restructuring. That, however, is not the case at Gold Fields, which is benefitting from sky-high gold prices.

Holland also leaves Gold Fields having transformed the group from a South African-focused company to one largely internationalised; his much derided venture into Australia fully vindicated. At about 2.2m ounces a year in gold production, and with an $860m Chile project, Salares Norte, awaiting implementation, Gold Fields is a premier gold company of the highest order.

Quite how this marries with Griffith's natural ambitiousness will be an interesting watch this year. For all his time at Amplats and Kumba Iron Ore, Griffith was under the sway of the large parent group. Decisions regarding significant strategic matters were rarely his to make alone.

The irony is that much of the heavy lifting at Gold Fields in terms of mergers and acquisitions has already been done by Holland. The question, then, is whether Griffith will be entirely content with just implementing the groundwork of his predecessor?

"We view this to be a high-calibre appointment and complementary to our Gold Fields investment thesis, which is execution and stability of the current corporate strategy, rather than a major strategic change," said JP Morgan Cazenove in a report, mirroring this view.

There is, though, as analysts at Bank of America point out, the question of: "What to do at South Deep?" This is Gold Fields' only SA mine, located on the West Rand, that has until lately failed to make money, notwithstanding the massive premium paid for it. South Deep cost Gold Fields R22bn when it bought the mine from Barrick Gold in 2006 – even in today's money, that's a stack.

> "We view this to be a high-calibre appointment and complementary to our Gold Fields investment thesis."

As the CFO who signed off on the transaction, it's thought Holland has deep-seated loyalty to the mine that Griffith might feel less sentimental about.

"The biggest question is what he will do with South Deep," says Nedbank Securities analyst Arnold van Graan. "That remains to be seen, but what we have said previously is that he would be in a position to take some hard decisions that may not have seemed possible under current management," he adds.

Griffith's view is that he will keep "an open mind" on South Deep. Regardless of its loss-making past, South Deep is a sizeable asset that Holland said last year could be profitably ramped up to as much as 400 000 oz per year in production. That's nearly as much as the 450 000 oz per year at Salares Norte.

For his part, Griffith turned up at a conference call following the announcement of his appointment in non-committal mode, as you would expect of someone who hasn't yet formally started work.

"There are always opportunities," he said when asked if he thought Gold Fields could be a vehicle for, say, industry consolidation. "But there are opportunities for consolidation that have not turned out well at all," he said. One hopes he wasn't referring to anything at Anglo American. ■

editorial@finweek.co.za

**Chris Griffith**
Incoming CEO of Gold Fields

**Nick Holland**
Outgoing CEO of Gold Fields

Photo: Gallo/Getty Images

By Glenneis Kriel

# Job creation with impact

Uconomy provides business management and development support, access to opportunities and funding, labour at subsidised rates and advisory services to leverage the potential of SMMEs to create jobs.

To do something about South Africa's huge youth unemployment problem, Scha van Niekerk and Ben Naude, directors at Uconomy, in 2015 decided to employ jobless school-leavers in their auditing firm's back office.

"We decided to target unskilled labour, reasoning that people with no experience were more eager and desperate to learn than graduates," Van Niekerk says.

Other major companies, of which Investec was the first, soon saw the success of the initiative and asked Uconomy to also source, train and employ jobless young people for them.

Since then, the number of people going through Uconomy's employment programme grew from its initial four to more than 4 500 people, while the types of jobs on offer expanded from basic clerical and customer services to include more than 120 other fields.

The types of jobs on offer expanded from basic clerical and customer services to include more than 120 other fields.

## The key to job creation

Van Niekerk soon realised that more was needed to achieve meaningful job creation. "The futurologist, Clem Sunter, says that to create decent jobs, you need decent businesses. So instead of trying to create millions of jobs, the aim should rather be to create a million decent businesses that are able to grow the job market."

He adds that big corporates are expected to be the main job creators in the country. However, when times get tough, they are also the first to downsize.

"Instead, we need more small enterprises. They take fewer employees, but these jobs are generally more sustainable. The impact of Covid-19 would have probably been far less disastrous if we sourced more resources locally and had more SMMEs, instead of relying on large corporates and imports."

To this end, Uconomy in 2018 expanded its services to also target small business development. The process starts with an interview of the client, with the acquired information being used to develop a needs analysis as well as a business and development plan.

New business owners, like new job entrants, must often learn on the go, according to Van Niekerk. For most, their biggest priority is just to survive, and they do not have all the necessary skills, time or resources to, for example, train new staff, develop markets, apply for tenders, pitch for funding, become tax compliant and so forth.

Uconomy aims to solve this by training business owners to be good employers and managers and linking businesses up with service providers in their extensive network to address obstacles and gaps that are preventing them from thriving.

For example, wage subsidies are available to incentivise companies to employ young people, but most companies find it too much of a bother to source and develop suitable candidates, never mind applying for the subsidies. Uconomy therefore started using their network to take care of that for them.

Young people participate in Uconomy's New Venture Creation (SMME) course aimed at teaching people to start and develop their own businesses.

Photo: Supplied

For 12 months, each SMME in the programme is also supplied with one or two interns from Uconomy's youth employment programme, at a minimum cost. The SMME, thereafter, has the option to hire the entry-level employee, who has since familiarised themselves with the specific business processes of the business owner.

With their holistic approach, Uconomy also unlocks business growth opportunities for SMME clients. By helping them improve their B-BBEE scores or quantifying and improving their social impact, these businesses may gain access to new markets, qualify for certain grants, social impact investment or become more attractive to seed and angel funders.

More recently, Uconomy has added another layer to their services by looking at innovative ways to enhance the business environment through working with communities and other networks. By working with community leaders, for example, they have been able to appoint and train certain community members as sales agents for some of the products of their SMME clients.

In one project, community members have been trained to refurbish printers, which are then supplied to schools. The printers are paid for via donations from social investors, at roughly 30% of the normal market value.

## Bang for buck

Uconomy has also developed an IT system through which they collect the data of each project. The system helps them to keep record of and monitor project progress and identify areas that can be improved on and contribute to success.

"When approaching new clients, we talk about what we have achieved with other companies to give them an idea of possibilities," Van Niekerk says.

Uconomy has so far raised and used more than R250m in funding for business development and helped over 100 small businesses.

Accessing long-term government and corporate funding is one of their biggest challenges.

"It is difficult to plan and drive meaningful change when most of the funding commitments are scheduled for only a year. We need commitments of at least three years and preferably longer for meaningful change and to pass on market growth to corporates and other funds."

He adds that many investors and other business development agencies are chasing numbers instead of meaningful impact.

"Others may only be looking at the number of people they can employ or the SMMEs they can assist per year, whereas we evaluate the success of our projects against various other paradigms, such as the cost per unit and its overall impact on a community. We can truly say that we are one of the companies that can give you of the best results for every R1 invested in development." ■

editorial@finweek.co.za

# market place



**FUND IN FOCUS:** METHODICAL BCI EQUITY FUND **By Timothy Rangongo**

# A dynamically-managed equities fund

The Methodical fund aims to maximise long-term capital appreciation by primarily investing in a broad range of equities listed on the JSE.

**FUND INFORMATION:**

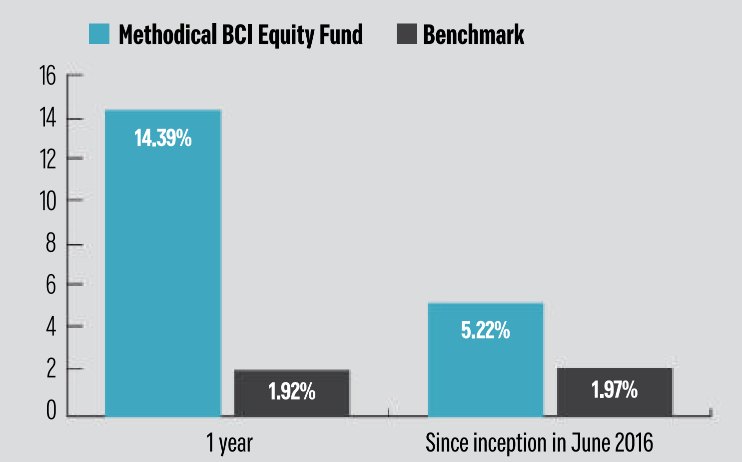
| | |
|---|---|
| Benchmark: | SA Equity General |
| Fund managers: | Edo Brasecke and Charl Keet |
| Fund classification: | South Africa – Equity – General |
| Total investment charge: | 1.38% |
| Fund size: | R606m |
| Monthly fixed admin fee: | R15 excl. VAT on balances of less than R100 000 at month end, unless an investor transacts online, in which case no such fee will be levied. |
| Contact details: | 021 200 5920/alpha@methodical.co.za |

**TOP 10 HOLDINGS (SA ONLY) AS AT 31 DECEMBER 2020:**

| | | |
|---|---|---|
| 1 | Northam Platinum | 3.18% |
| 2 | Sibanye-Stillwater | 3.01% |
| 3 | African Rainbow Minerals | 2.83% |
| 4 | Impala Platinum | 2.79% |
| 5 | MultiChoice | 2.76% |
| 6 | Discovery | 2.57% |
| 7 | Anglo American | 2.49% |
| 8 | Capitec | 2.10% |
| 9 | Kumba Iron Ore | 2.08% |
| 10 | TFG | 1.90% |
| | **TOTAL** | **25.71%** |

**PERFORMANCE (ANNUALISED AFTER FEES)**

as at 31 December 2020:




## Fund manager insights:

The fund primarily invests in South African equities and has a standard 30% offshore allocation. The portfolio comprises of large and mid-cap equities from across different sectors (for example, mining, healthcare and technology companies).

Though the fund does not employ a smart beta strategy, the underlying investment philosophy is based on the momentum factor. "We believe that prices follow the path of least resistance and that a trend reversal or regime change requires an event that has sufficient impact to alter that prevailing bias," explains Edo Brasecke, fund manager.

One of the main challenges of the momentum factor though, is mean reversion, according to Brasecke. For example, when news of the potential vaccine for Covid-19 became known, there was rotation from growth shares into value shares.

"Our process is challenged at these severe inflection points but despite this we managed to deliver absolute returns for our clients through this regime change. Momentum is the dominant factor or market anomaly and we believe this style offers the best opportunity to deliver long-term outperformance."

Brasecke describes Methodical's investment process as systematic, on which he says it removes all emotional and behavioural biases from the process allowing for a dynamic investment style. It is this approach which led to the fund being overweight on the best performers such as gold and PGM shares.

The fund has undergone a few tweaks to the process since inception to improve overall outcomes, such as decreasing the maximum allocation to any share (irrespective of benchmark) to 4% in the portfolio, says Brasecke, who asserts that, despite that, "the underlying core philosophy remains the same".

The fund is probably one of the first equity funds in SA that invests solely on data as opposed to fundamental analysis, according to Brasecke. He alludes to the fund's large weighting in resources, which dominate its top 10 equity holdings, being a component of the output of the process – as opposed to the team's view or fundamental research.

The fund might be overweight resources in its top 10 holdings but the top 10 makes up less than 26% from a total portfolio point of view. The team views managing risk as a key component of generating alpha and that by mitigating risks as much as possible alpha can be generated through the cycle.

## Why *finweek* would consider adding it:

The fund maintained its obligation to long-term investment throughout recent and ongoing volatility. Last year, the variance between the best- and worst-performing equity funds was more than 40%, according to Brasecke. Inasmuch as past performance is not indicative of future performance, the fund was among the top 10 best performers in both 2020 and 2019 and managed to have the eighth-smallest drawdown of all 196 equity funds during the March "Covid-19 crash", which places it in the top decile on a three-year risk-adjusted basis. ■

**editorial@finweek.co.za**

EXXARO

BUY SELL HOLD

By Simon Brown

# Demand for coal remains high

I last wrote about Exxaro in August 2019 suggesting it as a buy. The stock has risen by about 25% since then while dividends have added almost 20% in additional returns.

In a world of exciting new energy stocks such as Tesla and a longer-term move towards green renewable energy, Exxaro does not look like a worthy investment considering its business is mostly coal. But demand remains in place and it'll be decades before coal is in serious decline from a demand perspective.

The stock trades on a historic price-to-earnings (P/E) multiple of around six times and a dividend yield of almost 8%. This is the case even after earnings declined and dividends were cut in the last results to end-June 2020. The P/E and dividend yield both suggest the market expects Exxaro to really struggle with earnings falling even further, perhaps even off a cliff. But frankly, this is not likely. They have long-term contracts in place and the world, especially South Africa, is powered by coal. In time, Exxaro will not be investible, but right now it looks attractive. ■

## Last trade ideas

- BUY — Kaap Agri — *21 January issue*
- BUY — Ashburton Midcap ETF — *26 November 2020 issue*
- BUY — Reunert — *5 November 2020 issue*
- BUY — Metrofile — *22 October 2020 issue*

NASPERS

BUY SELL HOLD

By Moxima Gama

# Stake gives stock a boost

Naspers, together with its spin-off Prosus, has an 11.14% weighting on the JSE. Naspers has a 31.2% stake in Tencent through Prosus. It seems Tencent shares remain a hot pick in Hong Kong, as equity trades loaded up on more stock during the final week of January.

The $926bn Tencent was set for its biggest monthly gain yet – thanks to January call options that expired in the final week of the month. Tencent shares now trade at almost 39 times analysts' estimated earnings for the next 12 months. Though the figure is high, it has dropped drastically from the 65 times multiple that was once reached at the height of China's equity bubble in 2007.

In addition to this, Tencent is also getting an extra boost from participating in Hong Kong's fast-growing initial public offering (IPO) market through Kuaishou Technology, which is backed by Tencent. The technology company is seeking to raise as much as $5.4bn in Hong Kong – making it the biggest internet IPO after Uber Technologies.

**How to trade it:** In November last year I had recommended a buy on Naspers above 364 000c/share as such a move would end its 21-month inverted head-and-shoulders pattern and Naspers' share price would return to its previous long-term bull trend, which it had abandoned after its share split. Gains through 379 000c/share should motivate further upside to the all-time high at 414 300c/share. Stay long above that level as Naspers could fulfil its bullish pattern objective in the medium to long term situated at 516 430c/share. ■

**editorial@finweek.co.za**

Tencent is also getting an extra boost from participating in Hong Kong's fast-growing initial public offering (IPO) market through Kuaishou Technology, which is backed by Tencent.

## Last trade ideas

- BUY — BHP — *21 January issue*
- BUY — Naspers — *26 November 2020 issue*
- BUY — EOH — *5 November 2020 issue*
- BUY — Reunert — *22 October 2020 issue*

Photos: Archive | tencent.com

By Moxima Gama

PROSUS

# Is a new bull phase on the cards?

Prosus' share price tested an all-time high at 185 095c/share in November 2020 after investing $1.3bn in new areas of growth in education to beef up its portfolio. It also announced a share buyback programme to help close the valuation gap between its underlying assets and its shares.

| | |
|---|---|
| 52-week range: | R866.66 - R1 969.82 |
| Price/earnings ratio: | 45.6 |
| 1-year total return: | 71% |
| Market capitalisation: | R2.9tr |
| Earnings per share: | R36.49 |
| Dividend yield: | 0.1% |
| Average volume over 30 days: | 642 845 |

SOURCE: IRESS

PROSUS


SOURCE: MetaStock Pro (Reuters)

**Outlook:** Prosus had been trading in a bull channel since May 2020. In the last week of January it traded through its all-time high at 185 095c/share and is teetering on the upper slope of its channel where it formed a new high at 196 985c/share.

**On the charts:** With the three-week relative strength index (3W RSI) in overbought territory, expect a near-term pullback soon. If support should hold firmly at 179 055c/share, then the bulls would remain in charge. Otherwise, sellers may resurface and drag the share price down.

**Go long:** Wait for Prosus to correct from its overbought position on the weekly chart. Go long when it recovers its losses and increase positions once it trades above the upper slope of the channel or through 196 985c/share, if support is retained at 179 055c/share. The upside target of the channel breakout – which should prompt an even steeper uptrend – would be at 239 055c/share.

**Go short:** Downside through 179 055c/share would mean Prosus has failed to breach the upper slope and the share price could capitulate to the lower slope of the channel. A negative breakout of the bull channel would be confirmed below 148 740c/share and a bear trend could commence towards 117 405c/share. ■

MULTICHOICE

# Upside consolidation could attract sellers

In December, MultiChoice announced changes to its executive team with the intent of strengthening its position across the continent. Nyiko Shiburi has been appointed as the new CEO of MultiChoice SA, replacing Mark Rayner, who resigned in September 2020 after 14 years at the company.

| | |
|---|---|
| 52-week range: | R72.28 - R145.59 |
| Price/earnings ratio: | 37.1 |
| 1-year total return: | 29.6% |
| Market capitalisation: | R58.9bn |
| Earnings per share: | R3.59 |
| Dividend yield: | 4.2% |
| Average volume over 30 days: | 1 139 543 |

SOURCE: IRESS

MULTICHOICE


SOURCE: MetaStock Pro (Reuters)

But notwithstanding this announcement, the share price remains range-bound between 14 560c/share and 12 705c/share. The group will soon celebrate two full years on the JSE and in that time it has signed deals with streaming giants Netflix and Amazon Prime Video. It has also brought back ESPN to DStv and has launched a new streaming service called Showmax Pro.

However, the broadcasting and telecoms regulator, the Independent Communications Authority of SA, is not too happy with MultiChoice's nature of vertical integration. Hearings are still in progress.

**On the charts:** Because MultiChoice has bounced on key support at 12 705c/share, the share price could recover its losses towards 14 560c/share. Failing which, it could top out – a bearish reversal pattern.

**Go short:** A sell signal would be triggered below 12 705c/share and downside to either 11 725c/share or 11 100c/share could follow. If the share price fails to hold at 11 100c/share, the upward gap formed in October last year could be closed towards 10 425c/share. Note: gaps are always closed at some point.

**Go long:** Buy or increase long positions above 14 560c/share as a bullish breakout from the current consolidation would be confirmed above that level. The first target would be at 16 415c/share, with the second target situated at 17 395c/share. ■

**editorial@finweek.co.za**

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

By Simon Brown

INVESTMENT

# Buy the rumour and sell the fact

Simon Brown discusses market prediction and the implications for short-term price movements.

I wrote an article late last year about buying ahead of the news to catch the move when it happens; essentially buying the rumour and then selling the fact. This is a phrase often repeated on the market, and I want to dig more into the concept and also when to actually sell.

I first encountered this concept in the late 1990s with a stock called Mouldmed. There was lots of talk that they had an exciting new product coming to market and the stock was flying higher. I did not buy, but rather waited for the announcement and I only bought when the news was officially announced. Then I watched as the share gave back about 50% of its value after the news. I was distraught, but I did learn the lesson – be early, buy the rumour (or expectation) and sell the fact (the actual breaking news).

The point is that markets are about trying to price into the future. Usually that refers to the next couple of financial results releases, but also potentially a merger, acquisition or a delisting. Thus, some price-moving event that the market tries to predict ahead of time.

We often see this with a great set of financial results which then sees the share move lower, leaving many scratching their heads. The trick here is that much of the market was expecting the great results and had been buying in anticipation. When the results subsequently arrived, they exited, taking their profit and started looking for the next event.

This has some implications for short-term price movements. Firstly, if a stock is running on no news, then we have to try and figure out what the market is expecting. For example, I wrote about Trellidor* last year and I was a buyer at 200c per share. The share is now at around 250c, a 25% gain – but on no news.

The thing is, their results to end-December are due in March with a possible trading update in February. Many are expecting a strong improvement in earnings and are buying ahead of that announcement.

Another important point is understanding that you have to work from the assumption that once news is released, it is already known by everybody and no longer has any special effect. Sure, some people may only read about it a day or two later, but most of the market will get the news at the same time as it is released on the JSE's Stock Exchange News Services (SENS). Before we had SENS, it was pretty much a Wild West out there in terms of news being released; most often an announcement in a print publication. But SENS levelled the playing field for all investors.

An exception here is if that news is unexpected, then the price may jump on the news before settling at the higher levels. If the news really is game-changing, then there may be a protracted run higher (or lower if it's bad news) but not much is truly that game-changing.

So, back to the beginning. Try to get ahead of the news flow and then when the news does break, be ready to exit the position, locking in profits. Likely the share will have a final push higher as the news breaks, but you want to be selling into the strength.

A current example is Aspen. It's running, likely on the expected news of a successful J&J vaccine. When that is announced, expect a final, quick push higher before the share starts dropping lower, and you should sell into the immediate strength on the breaking news.

A very last point: the style referred to in this article is trading rather than a long-term investment strategy, but can be very profitable when applied correctly. ■

**editorial@finweek.co.za**

** The writer owns shares in Trellidor.*


Try to get ahead of the news flow and then when the news does break, be ready to exit the position, locking in profits.

Photo: Shutterstock

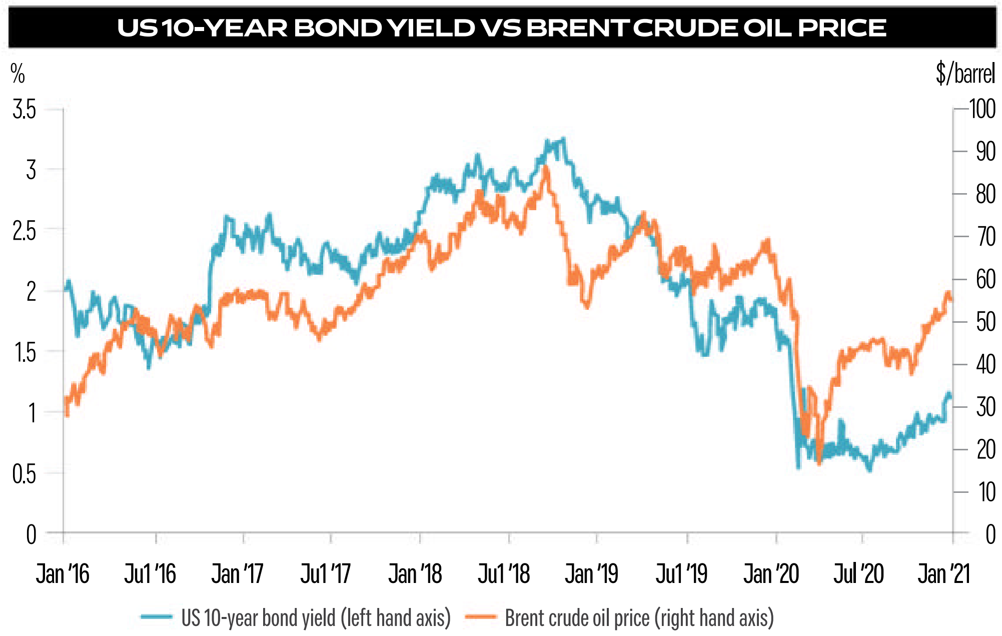
By Schalk Louw

PORTFOLIO MANAGEMENT

# It's money, money all around

The impact of huge economic bailout packages, especially in the US, will steer the important investment themes of 2021.

During this past holiday season, I read through the financial reports of most of the largest investment companies regarding forecasts for the new year. I had to suppress the urge to call this column "Forecasts for 2020 – part 2", as by the look of things, we seem to be in for more of the same. The sobering fact is that Covid-19 is still very much a part of our lives and will most likely continue to dominate headlines in 2021, and for this reason you should adjust your investment expectations accordingly. Most of the large investment companies agree on a number of opinions and forecasts, and I'd like to discuss a few of them.




SOURCE: Refinitiv Eikon & PSG Wealth Old Oak

## Weaker dollar

The prevailing theme across all of the reports, is the opinion that the US dollar may weaken even further in 2021.

Most of them agree that they don't expect a massive decline from current levels, but the question remains: If we do see further weakening in the value of the dollar, what should we do? One possible solution could be to add gold or gold mining companies to your investment portfolio. Historically (and please note that past performance does not guarantee future performance), the gold price has had a strong inverse correlation with the US Dollar Index. Local gold shares may be considered, while offshore investors could consider investing in a global gold miner exchange-traded fund (ETF).

## Higher inflation

Another core theme is their concern that with the amount of stimulus planned for 2021, it may lead to a rapid rise in inflation. The reason for this is obvious. An economic recovery may lead to an accelerated rise in something like energy prices (such as fuel), which in turn could cause a rise in inflation.

When we take a closer look at the US 10-year bond yield (see graph), a few things become clear. Although rates may have literally doubled from 0.55% earlier in 2020 to its current 1.11%, it remains quite a bit lower than the 2% to 3% levels seen between 2016 to 2018.

One can also see a big correlation between the rates themselves and energy (Brent crude) prices.

So how do I protect my portfolio if rates were to increase, as these investment companies expect? Well, firstly make sure that you don't hold any overweight positions in offshore bonds in your portfolio. In most cases offshore balanced funds' mandates state that a certain portion of the fund composition must be allocated to bonds (always including US bonds).

Secondly, investors could consider adding energy exposure to their portfolios. Personally, I'm still very wary of Sasol, but local investors could consider investing in BHP to hedge against rising rates. Roughly 10% of BHP's earnings before interest, taxes, depreciation and amortisation (ebitda) is made up of their petroleum operations. With the Covid-19 pandemic that's still not under control, however, I wouldn't be in too much of a hurry to invest in the oil sector over the short term, but it can be considered in the case of further weakening. Other resources that I'm much more positive about include precious and industrial metals, which may be a better option at this stage.

Although rates may have literally doubled from

0.55%

earlier in 2020 to its current

1.11%

it remains quite a bit lower than the 2% to 3% levels seen between 2016 to 2018.

## Should I remain invested in shares then?

Historically, shares and a rising inflationary environment don't get along too well. The reason is because higher inflation in most cases leads to higher interest rates, which have a negative impact on share price performance. The US Federal Reserve, however, recently announced that right now, they are less concerned about interest rates and that they expect interest rates to remain low for the next two years. Add to this the fact that most countries are currently announcing stimulus packages (the US recently announced a $1.9tr stimulus package, and indicated that another one is being discussed), and you can't really afford not to have risk assets (such as shares) in your portfolio. Most investment companies remain cautiously optimistic about shares globally, with a general view that emerging markets (EM) may outperform developed markets.

As the sixth-largest and one of the most liquid EMs, South Africa is positioned well enough to benefit from this. We are also one of the largest resource-driven EMs, which means that if the resources cycle improves even further, SA investors also stand to benefit.

To conclude, I need to mention that there were several other themes linked to the forecasts for 2021, and that you need to do your homework properly. Consult the experts when managing or restructuring your portfolio because if these large investment companies' forecasts are correct, a good balance between opportunities and risk management will have to be maintained this year. ■

editorial@finweek.co.za

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

By Peet Serfontein

WORKHORSE

# The Democrats and markets

Workhorse Group is a share that could probably benefit from a Biden administration.

Joe Biden became the 46th president of the United States on 20 January, and he took the reins during a time of national discomfort in the face of four crises: the Covid-19 pandemic, the economic downturn, climate change and racial inequality. He promised immediate action, and signed a number of executive orders on his first day in office.

But what does this "blue (Democratic) wave" mean for the stock market?

President Biden has promised to govern as a centrist, which is a political policy that strikes a balance between social equality and a degree of social hierarchy while opposing political change that will lead to society shifting to either the left or right. To me it sounds like six of one versus half a dozen of the other. Biden wants to "build better" with an emphasis on renewable energy and modern infrastructure. These priorities will probably be welcomed by a Democrat-controlled Congress without inviting a filibuster from the Republican senators.

This brings the American presidential election to mind. Regarding the cycle of four years, there is a theory that stock markets are at their weakest in the year following the election of a new president. That means it should be this year.

This points to the presidential election having a predictable impact on economic policy and market sentiment in the US, regardless of the specific presidential policy.

According to the theory, the stock markets will start to improve in the second year after the election, 2022. In the third and fourth year, the president starts with his re-election campaign. A strong economy is an excellent way of garnering votes. So the president will probably prioritise efforts aimed at heating up the economy. Should these efforts succeed, it would logically have a positive impact on stock markets.

Some investors use the presidential cycle to time the market. The cycle has, however, lost its predictive power. In the 21st century the stock market increased in the initial year of a presidency. The S&P 500 rose in the first year of the Trump, Bush and Obama administrations. But there is some method in this madness, as history repeats itself.

But do not use this theory as the only instrument to analyse the market. Also consider factors that could affect the economic and market conditions. The timing of the term of office relative to the stock market is just one of the factors that influence market risk. Other factors could include investor psychology, interest rates and the performance of the world economy.

WORKHORSE GROUP


SOURCE: Peet Serfontein/TradingView

| | |
|---|---|
| 52-week range: | $1.32 - $33.32 |
| Price/earnings ratio: | N/A |
| 1-year total return: | 944% |
| Market capitalisation: | $3.8bn |
| Earnings per share: | -$2.47 |
| Dividend yield: | N/A |
| Average volume over 30 days: | 14 527 830 |

SOURCE: IRESS

There are, however, shares that could benefit from Biden's presidency. This is where Workhorse Group caught my eye. The code for the share is WKHS and it's listed on the Nasdaq.

Workhorse manufactures electric vehicles and delivery drones. Biden could be really good for various electric vehicles, such as Tesla too.

Workhorse was established in 1998 and initially started by converting pick-ups manufactured by other manufacturers, but after a merger in 2015, it began manufacturing its own vehicles.

## What makes this share an attractive investment opportunity?

The logistics industry is flourishing during the pandemic and this will probably not change. Workhorse already has several big names among its clients.

Subsidies from the Biden administration will probably encourage companies to upgrade their fleets to electric models.

## But should you buy?

The share has increased considerably in value since June 2020.

The panel at the bottom of the diagram is the volume of the share. Volume is the total number of shares that are traded during a trading day or a fixed period. It's a measure of the total turnover of shares. Every bar represents a week's transactions and is added to the total trading volume.

An increase in volume indicates more investor interest. As the price increases, the price movement is supported by energy (volume), which backs the bull trend.

The black trendlines are indicative of a symmetrical triangular pattern. As the price movement starts trending upwards from the beginning of the pattern, it's assumed that the price movement will eventually break upwards after the consolidation period (the price movement is the symmetrical triangular pattern).

As the share shows strong upward momentum, the price action continues to move upwards.

When the price breaks below the level of **$20** I would start getting worried.

Downward momentum is slowing down. When upward momentum starts developing, it could help to push the price action upwards. (Momentum is the energy behind the price action that helps to maintain the price movement.)

For the bull trend I would prefer that the share should break out of the triangular pattern, which is in the region of $25. Upward potential could then possibly be $30 and maybe even higher. Take profits there.

When the price breaks below the level of $20, I would start getting worried. Use this level as a stop-loss.

The graph is a medium-term (weekly) graph of WKHS's share price. Note that the scale is a logarithmic scale. Remember that WKHS is in a volatile sector and that exposure to the share is speculative. ■

editorial@finweek.co.za

**Peet Serfontein** is an independent market analyst.

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.

PICK N PAY


## Turnarounds take time

Pick n Pay has announced Richard Brasher will be leaving as CEO in April after eight years. I have to admit that I got this turnaround wrong and was overly critical in the initial years when I was seeing little evidence of anything improving. I was watching for the operating margin to start moving higher and it eventually did as he slowly got their central distribution working, launched a loyalty programme and improved stores' look and feel. The lesson for me here is simple: a turnaround, especially from a real mess, takes time. A lot of time. Another important lesson is that the share price increase over the eight years was only 12.5% in total (excluding dividends). That said, only Spar returned more over the period. That shows just how expensive the retail sector was back in 2013.

THARISA

## Rhodium price of interest

Tharisa recently issued a fourth quarter update and what really interested me was the rhodium price which now trades above $20 000 an ounce. Rhodium constitutes 10% of Tharisa's platinum group metals (PGMs) basket and I asked CEO Phoevos Pouroulis if it was possible to increase this percentage by maybe mining a different, higher rhodium part of the reef. The answer was no, your ratios between the various PGMs are pretty much set for a particular reef and in this case 10% will more or less be what they get.

TFG

## This is why Jet was a great buy

TFG's update for the quarter ending December was much stronger with turnover growth flat. However, adding in the recently acquired Jet, sales were up by 14.7%. Jet is a great acquisition for the group and this trading update shows why. Jet should continue to be earnings-enhancing over the year. TFG also saw flat sales growth in Australia during the quarter, but TFG London was under serious pressure with turnover down by over 40%.

The key twist was the market response that pushed Truworths up over

25%

in two days (before giving some back) after announcing headline earnings per share (HEPS) would be down by between 4% and 9%.

CURRO

## Heading East

Curro has announced the acquisition of St George's Preparatory School in Port Elizabeth in what is a very small deal. No price is mentioned and from what I can find the number of students is around 420. The plan is to keep the school largely as it is. The deal adds numbers, but I'd worry about focus with the Eastern Cape not a major area for the group.

TRUWORTHS


## Clothing retail twists

Trading updates from clothing retailers have been arriving and overall they're showing negative numbers, but with some twists. The key twist was the market response that pushed Truworths up over 25% in two days (before giving some back) after announcing headline earnings per share (HEPS) would be down by between 4% and 9%. This was likely due to both a lot of short positions on the stock exiting in a hurry (and having to buy to exit) and the drop being smaller than expected. I am not so convinced – we're still in a lockdown and Evan Walker of 36ONE Asset Management says that extra state grants and retrenchment packages added as much as R100bn one-off into consumers' pockets that was spent, boosting sales. But that extra money will fade by the third quarter, leaving just stretched consumers.

Photos: Archive | waterfront.co.za

FINBOND

## Keep an eye on the US

Way back before Donald Trump was elected as US president, I wrote about Finbond and their potential troubles in the US under the heightened Consumer Financial Protection Bureau rules that wanted to stamp out pay-day loans. Under Trump the enforcement was pretty much non-existent, but Finbond expects them to be enforced under President Joe Biden. Finbond states this will create opportunity for their US operation as it'll squeeze fly-by-night operators out of the market. But it will largely depend on how tough the Biden administration plans to be on the small and short-term loan sector. I suspect Biden has other priorities, but shareholders should keep a close eye on Finbond's US business to see how this plays out.

WBHO

## Trade wars reach the JSE

Wilson Bayly Holmes-Ovcon (WBHO) announced last year an unsolicited bid for their 88% stake in Australia's Probuild. But this deal has now been "rejected by the Federal Government on the grounds of national security". The issue is that the buyer is Chinese and so the trade war between Australia and China has reached the local stock market. Having started with former president Donald Trump, India has gotten into a conflict with China and late last year Australia joined these trade disputes. President Joe Biden's administration will likely help to cool the trade disputes, but they're not going away anytime soon as China flexes its economic, political and military muscle and the world pushes back.

REDEFINE

## Reit status in the balance?

Redefine issued a trading update that saw them cancel their distribution and I think this will put them on course for a clash with the JSE. A real estate investment trust (Reit) is required to pay at least 75% of its distributable earnings to shareholders in order to retain its Reit status. The key benefit of being a Reit is that they pay no tax with shareholders paying income tax on the distribution. However, before paying any distribution, the company has to do a solvency and liquidity test to ensure paying the distribution won't hinder the financial well-being of the company. Redefine says that with extended debt covenants they meet the solvency and liquidity test but with the future being uncertain they've elected not to pay the distribution. This makes no sense. The future is always uncertain (sure, a pandemic makes it more so) and taking this logic to the extreme would mean distributions are always elective rather than prescriptive. I note Redefine does not say that the JSE has approved their reading of the process and I expect the JSE to reject their proposal. Things may get messy with Redefine either having to pay the distributions or risk losing their Reit status with serious implications for the company. There is precedent here with Hyprop which over December in a series of stock exchange announcements tried various ways to not have to pay the distribution in cash. They ultimately wanted to pay a scrip dividend with a cash election. After a back and forth, the proposal was rejected by the JSE, which insisted cash had to be the default and scrip the elective. I see no reason why the same will not apply to Redefine.

A Mediclinic trading update saw group revenue up 2.5% for the last quarter of 2020 with South Africa growing by 3.5%.

CORONATION

## More assets

Coronation Fund Managers'* assets under management (AUM) increased to R594.7bn by the end of December, up from R569bn at the end of September. This is a 4.5% increase. The FTSE/JSE Top40 Index, however, added over 8% over the same period. This is admittedly not a clean comparison as Coronation also has offshore and other asset class investment mandates. Nevertheless, Coronation still benefits from increasing AUM as they earn a percentage of those assets. Thus, straight-line earnings increase by about 4.5% but ideally you'd want to see the fund manager outperforming its benchmarks, which will generate performance fees.

MEDICLINIC

## Opportunity in healthcare

A Mediclinic trading update saw group revenue up 2.5% for the last quarter of 2020 with South Africa growing by 3.5%. This is thanks to their ability to do elective surgeries again even as the second wave of the pandemic put pressure on hospital beds across the country. That said, the market sold off the stock as the pandemic and a possible third wave locally still spook investors. But if markets are forward-looking, then 2022 will surely see a return to a level of normalcy and hence normal earnings? I am not a fan of the healthcare industry, as I have often written, but there may be some opportunity here for those not worried, as I am, by longer-term legislative issues in the sector. ■

editorial@finweek.co.za

*The writer owns shares in Coronation Fund Managers.*

By Simon Brown

INVESTMENT

# Mining stocks may see new highs

The sector may be set for a decent rally on supply constraints over the next few years.

The global financial crisis of 2008/2009 is mostly remembered for the collapse of banks and their share prices. But often forgotten is that it also brought an end to the surge in commodity prices and mining company shares. The first decade of the century saw commodity prices across the board rallying with platinum peaking at around $2 000 per ounce and oil hitting $150 a barrel.

Locally, the FTSE/JSE Resources 10 (Resi 10) Index's all-time high was in May 2008 at just under 78 000 index points while it is now hovering at around 64 000. In the 12 years since that high the mining companies have got themselves into great shape. They've paid down debt, been cautious on new projects, shut loss-making or marginal operations and avoided large deals.

Couple that to one of the responses to the pandemic, namely infrastructure build, and we may have a perfect storm for mining stocks that will take the Resi 10 to new highs and well beyond.

US President Joe Biden is likely to allocate large amounts of money to upgrade America's ageing infrastructure. With China already spending on infrastructure, adding the world's largest economy (the US) to that demand should see commodity prices shoot still higher.

Commodity prices are inherently cyclical. As demand grows, prices rise and that increase in prices sees more supply come onto the market which offsets demand and pushes prices down. With soft commodities, such as maize or sugar, the cycles are short as adding new capacity is easy and so any price increase is quickly met with increased supply.

Increasing the supply of hard commodities such as platinum group metals (PGMs), copper, iron ore and the like are much slower as the lead times are much longer. Getting a new mine up to production can potentially take a decade and even just increasing the capacity of an existing mine is a project that will take many years to get up to speed. So, the cycles are now much longer and as such the price increases we've seen in commodities will potentially continue for a couple more years before either demand starts to wane or new production starts coming online to push prices down.

The mining companies themselves are also in particularly good shape with some mining experts suggesting to me that mining stocks, with their robust balance sheets and low debt levels, are looking better than perhaps they ever have.

Put altogether we could well be positioned for a decent rally in this sector that will last for at least two or three years and maybe even longer. The low debt also means that we'll see decent dividend payments, albeit that low debt may also see some miners decide to embark on major projects that could put their balance sheets at risk.

We may also see some major mergers and acquisitions as mine bosses decide the easiest way to increase supply is to buy a competitor. This always worries me, so I'll watch this closely.

The easiest way to invest in the mining space is with the Satrix RESI ETF but one can also buy the actual miners themselves. However, I would stay away from gold miners. Gold is driven by fear more than anything and in a world that is rolling out vaccines, even if slowly and with some geographies lagging, gold's run may start to stall. I'd rather look to focus on PGMs and industrial metals.

One side effect of higher commodity prices is that we can also expect a stronger currency as we saw in the initial years of this century. Commodities trade in US dollars and local miners then convert that into rand, creating demand for the currency and hence price strength. ■

editorial@finweek.co.za

Photo: Gallo/Getty Images

The mining companies themselves are also in particularly good shape with some mining experts suggesting that mining stocks are looking better than perhaps they ever have.

By Maarten Mittner

MARKETS

# Big tech continues to surge

Amid a global coronavirus second wave, investors keep piling into big tech, making further gains entirely possible.

Investors could not have hoped for a better start to 2021 amid the grim reality of a surging global second wave of the coronavirus pandemic.

Rocketing equity markets are discounting a future in which economies will eventually return to some form of normalcy, brought on by greater fiscal stimulus and a successful vaccines rollout to curb the further spread of the virus.

These options are yet to happen, begging the question whether the benchmark Dow Jones is not overly optimistic as it continues to consolidate at the 30 000 level, hitting levels above 31 000 in the first week of trading after climbing 7% in 2020. Or the S&P 500 rising by 16% last year – and both overshadowed by the 43% rise in the tech-heavy Nasdaq.

The FTSE/JSE All Share Index had a reasonable, if disjointed year, gaining 4% in 2020. It hit a high of 63 519.18 points in the first week of 2021, shrugging off a record number of new Covid-19 infections reported. This was in stark contrast to the London FTSE 100 Index completing its worst annual performance since 2008, falling 14%, as Brexit casts a shadow over a UK economy also under pressure from renewed stringent lockdown measures.

China's CSI 300 Index also joined the party, ending 2020 up by 27% as the Chinese economy staged a much stronger recovery than the US, where the coronavirus pandemic continues to spread at an alarming rate.

Present economic realities do not justify the high levels on face value. Some say it is a classic bubble. However, it is clear investors are punting for a "Brave New World" to replace the pre-pandemic realities. And this future clearly has a digital tech character, as big tech companies continue to surge. They have now been joined by Bitcoin, which reached an all-time high of more than $40 000 and a market value of $700bn, before dropping again. Together, the total cryptocurrency market has crossed the $1tr level with big tech companies adding more than $1tr in value over 2020.

There has long been a disconnect between the real economy and the big tech companies.

Profitability remains the least popular way to fathom the intrinsic values of companies such as Apple and Amazon. Not to mention Elon Musk's Tesla, which added another $300bn or so in market value over the concluding months of 2020 despite reporting paltry earnings, to say the least. Its market cap is now $800bn and it has cash resources of around $15bn.

Here the market is clearly anticipating a world dominated by electric vehicles. Even Apple has said it would enter this market. If big tech companies continue to roll out new ideas and products, and reflect healthy cash flow levels, they will remain attractive to the market, with profitability a lesser concern.

Home rental outfit Airbnb is a good example, attracting $85bn in investments at its listing at the end of 2020. This is comparable to the full market cap of Goldman Sachs at the time. Airbnb reflected cash of $3.5bn in a year that global travel was severely curtailed. Think how it may benefit in a normalised global economy with its cash levels the same as that of General Electric.

Further fiscal stimulus measures from the authorities will surely be welcome, with smaller and value companies set to join the trend. The Russell 2000 Index rose 18% in 2020 in anticipation.

Big tech companies may remain market darlings, even if at a modest level. Zoom, for example, had a cash flow of $250m last year as its growth surged, starting the year with only $15m in cash. Its share price has doubled to nearly $600 per share in 2020 but has since levelled off significantly. And the consensus forecast for Apple, at present trading at $130, is to reach a share price of $175 at year-end.

Who can beat that expected growth?

As always, capital markets are the surest indication of how things can pan out. The benchmark US 10-year treasury bond yield rose above 1% in the first week of 2021, the highest level since March 2020 when it was at 0.6%. In a way it reflects surging equity markets, which are now regarded as safer bets than safe-haven investing.

But then again, it may just be a normal adjustment from the reality of negative yields as compared with inflation. Only when yields jump to 3% could inflation fears be taken seriously. For now, inflation remains subdued.

All of this still creates a perfect environment for big tech to thrive. Only when markets become saturated in their respective fields of activity could some pullback realistically be expected to happen. That may be some way ahead as economic sectors globally continue to accommodate competitors in an overall growing market. Ocado in the UK is a good example as it continues to thrive in a market where Amazon could be regarded as the dominant player.

Further gains among big tech this year is entirely possible and may not be too good to be true. ■

editorial@finweek.co.za

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

Big tech companies may remain market darlings, even if at a modest level. Zoom, for example, had a cash flow of

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Photo: Shutterstock

# TRUCKING

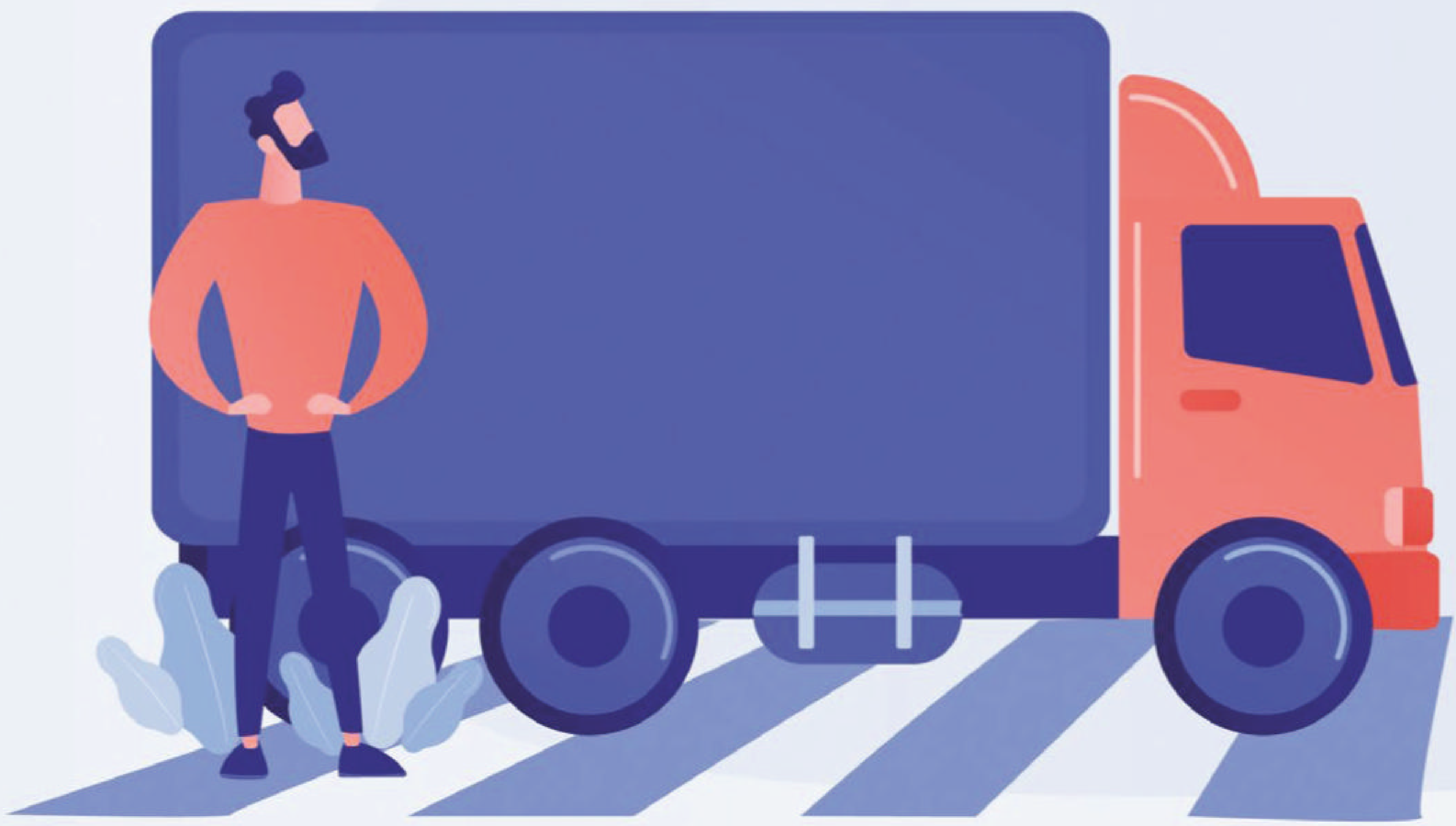

Photo: Freepik

# AMID A STALLING ECONOMY

By Brendan Peacock

It is relatively easy to enter South Africa's road logistics industry. That's not good news for the large, listed players. In this feature we look at the winners, losers and main issues pertaining to this sector.

> "Listed companies are measured on return on invested capital and buying and maintaining trucks requires lots of capital."

South Africa's logistics sector is currently beset by cut-price competition as the economy languishes in low growth. With margins under pressure and relatively few barriers to entry in the sector, the country's listed operators have found it difficult to carve out a defendable business model, reflected in some depressed valuations. Although their fortunes could change quickly against the backdrop of economic improvement, this remains a corner of the JSE that will scare many retail investors.

A drive between Johannesburg and Durban very quickly lays bare much of what plagues logistics in SA: underfunded, uncoordinated, untrusted and largely underused rail infrastructure has pushed the movement of goods to our roads, clogging up major arteries with a seemingly endless traffic jam of brand names. The result is road infrastructure degradation, higher prices for logistics customers – whether importing, exporting or delivering for retail – and something of a free-for-all when it comes to choices of service providers.

## Barriers to entry

At the basic end of the supply chain, owning or renting a truck and winning a contract to move goods presents almost no barriers to entry, except for mobilising enough capital to pitch for business. This has created an oversupply of capacity in the industry, especially during economic downturns. Consequently, the country's listed players have been pushed further into niches and further up the value chain in attempts to preserve market share and eke out a profit.

Some years ago, the approach was different, says Rowan Goeller, analyst at Chronux Research. "In the early 2000s, many listed players grew massively by acquisition, but that is unwinding now. Being larger brought no added benefits to speak of, and no barriers to entry. This is a very service- and people-oriented industry which is actually well-suited to smaller players, and the listed logistics players control only about 40% of the sector. Many players in the market are not good for the listed companies, so it has presented difficulty for them."

The unwinding is evident in moves by, for example, Barloworld and Imperial to offload or even shut down related business units. Preserving a coherent business model and investment case has been a challenge for many players.

Then, after years of poor macroeconomic operating conditions, Covid-19 hit. "2020 was a tough year. There were still essential goods and foods that had to be moved around, but obviously the ban on alcohol had a big impact. By the end of the year most companies had bounced back to around 90% of pre-Covid volume levels, but now other disruptions are taking their toll, such as the greater number of infections that all businesses are contending with," says Goeller.

While listed logistics companies tend to stay on top of their governance and fleet maintenance, Goeller says a lack of regulation enforcement in the industry – to combat overloading, pay practices and driver behaviour – has meant listed players find themselves spending large amounts of capital on safety and good governance only to see large multinationals allocate business to competitors who do not meet these standards.

"They're losing out to competitors who should technically not be competition. These are big, global multinationals buying down – even in more sophisticated and regulated types of transport. There are not many areas big players can operate where good governance or capital will ensure they

**Lazarus Shigwedha**
Portfolio manager at Ninety One

**Rowan Goeller**
Analyst at Chronux Research

Photos: Supplied | Gallo/Getty Images

“From speaking to management I’ve heard 80% of historic contracts have been renewed, but at significantly reduced rates.”

**Stephán Engelbrecht**
Fund manager at Anchor Capital

win contracts. There’s no benefit to it – it can even work against them because of the costs of corporate governance overhead structures,” Goeller says.

Lazarus Shigwedha, portfolio manager at Ninety One, says logistics customers have looked to cut their costs by renegotiating shorter-term contracts and at lower prices – much like their property rental contracts.

“From speaking to management I’ve heard 80% of historic contracts have been renewed, but at significantly reduced rates. Some clients want annual renewals. This reduces revenue and profitability visibility,” he says.

Violence and vandalism aimed at trucks passing along routes like the N3 made matters worse. With all factors considered, most listed logistics companies have suffered from pitiful valuations and thin trading volumes. “The big players are slimming, and the smaller players are probably wondering what benefits they get from being listed. Smaller-cap companies can often get a bad deal because it is not cheap to be listed,” says Goeller.

## Off the exchange?

Delistings in the sector may happen as soon as there are signs of an economic turnaround, agrees Stephán Engelbrecht, fund manager at Anchor Capital. “A well-run company like OneLogix could either be delisted or bought out if we start to get slightly more certainty on recovery in SA. I think the smaller logistics companies are trading at ridiculous multiples and I can feel the disappointment of management teams at being listed and the associated costs when I speak to them. It doesn’t really benefit them to be listed.”

With a contrarian view, although he also believes delistings are a likely outcome in the future, Shigwedha feels a certain amount of consolidation may still occur when larger players who are able to raise debt cheaply spot smaller players in trouble.

Engelbrecht says listed logistics players have been loath to deploy capital in such a challenging market, preferring to divest non-core divisions or adapt business models to reduce capital intensity. “Listed companies are measured on return on invested capital and buying and maintaining trucks requires lots of capital. B-BBEE credentials have also presented compliance difficulty, which has led to moves like Barloworld selling 50% of its logistics business to a black-owned company. This has alleviated capital requirements but has also slimmed down profits.”

Referring to Imperial’s business model adaptation, which in highly simplified terms means being the third party between customer and service provider, Engelbrecht says the company has elected to become something of an Uber in the logistics industry – a high-level organiser and aggregator of services which technically owns little in the way of assets.

On that score, however, real Uber-like disruption is waiting in the wings and it could prove potentially disastrous for listed logistics companies. “There is scope for technological disruption. Globally, particularly in the US, there is a precedent of successful Uber-like

The simplest disintermediation of all would be for SA's rail infrastructure to pick up again.

platforms which operate by putting up loads for auction. This would take away a lot of logistics management and supply chain organisation to an app, allocating tasks to the lowest bidder. It would create an intensely competitive market against some of the bigger players," says Goeller.

One way of creating barriers to entry and perhaps carving out a niche that cannot easily be destroyed by tech disruption is to specialise in certain goods that not every player can handle, such as a cold chain. KAP Industrial, for example, has developed a speciality in moving chemicals, says Engelbrecht.

"To move petrol, as an example, you need to obtain licences from every single municipality your truck passes through. That creates a barrier to entry. Imperial, as another example, transports pharmaceuticals along with consumer goods to emerging markets like Nigeria, Ghana and Kenya, while also servicing the chemical and automotive industries in Europe.

"They pitch the entire supply chain to customers, organising it so well that required parts reach assembly lines just in time. It helps customers reduce their inventory overheads and that's a service not easily disintermediated," he says.

## Rail

The simplest disintermediation of all would be for SA's rail infrastructure to pick up again. It would be to the benefit of business, the consumer and the economy, says Engelbrecht, but it would prove disastrous for the road-focused logistics industry.

"Rail will grow because it is coming off an extremely low base. Where pre-1994 rail enjoyed 30% of the logistics market share because it was legislated that way,

Photos: Gallo/Getty Images

# Picking the best lo

Betting on the right horse is complicated by practicalities.

While some of the logistics companies listed on the JSE may be well-run and profitable, their relatively small market capitalisations and low trading volumes render them uninvestible for many fund managers who track the sector. With many retail investors both intimidated by the sector's direct links to economic growth and occasionally complex business models, most players simply languish at uninspiring valuations. Cheap, almost certainly, but with few chances to undergo a rerating.

The best-case scenario, says Lazarus Shigwedha from Ninety One, is that South Africa's economy regains buoyancy, commodity prices lift, volumes increase, and capacity is taken up. This concoction would lay the groundwork for logistics players to pass inflationary increases on to clients. "We're a long way from that, however."

Running the rule over some of the sector's participants, Shigwedha says the outlook for **Grindrod** and **Grindrod Shipping** is strongly dependent on bulk commodity prices. "Coal stands out as the commodity which price has remained fairly weak. We have also seen soft commodities like grains pick up in terms of inflation. The risk is a sudden slowdown in stimulus, but they remain fairly well-positioned."

**Barloworld**, despite reducing its focus on logistics over time and far from being a pure logistics play, has maintained pockets of profitability. "Their challenge is their ability to win contracts from governments and municipalities. There are many smaller players with better credentials who stand in the way. On the upside, if we do see capital expenditure on infrastructure, Barloworld could benefit from procurement on the heavy equipment side. I think it's really up to management – they would have to drop the ball for the company to do badly."

Shigwedha says Barloworld's diversity of business and the beginnings of mining companies' investment in infrastructure have created a tailwind for earnings, though the company cannot be considered a logistics play.

"Barloworld has moved into Mongolia, alongside a strong Russian operation which has not disappointed. The Mongolian business looks strong, historically, and the country is well-endowed with commodities. Management continues to rationalise the automotive business, and this will leave an attractive remainder. Margins have remained fairly good and historical underperformance relative to peers has been due to strategic question marks about what is core and what is not. With consistency of management strategy, share price growth will follow."

**Imperial** could be sitting in the sweet spot from a commodity logistics perspective. "Any improvement in the oil price could mean Nigeria produces more revenue, which would be beneficial for Imperial. The challenge for the company is that, historically, the pharma distribution business has transported original manufactured medicines. However, there is increasing distribution of generics, so maintaining margins has been challenging at these price points," Shigwedha says.

"In South Africa, I'd say Imperial's challenge is to deal with its excess capacity and to keep its client roster for the next 12 to 18 months in order to negotiate better prices and reduce margin compression," he adds.

Shigwedha believes **Super Group** has performed well on the back of a persistently

# gistics stocks

buoyant Australian economy and its commodity exports to China. "On the SA side, they don't offer a truly differentiated solution versus their peers, so much hinges on the offshore opportunity."

Stephán Engelbrecht from Anchor Capital says there are no pure-play logistics companies for the space where the asset manager operates. "For this reason, I can say there are several listed logistics companies that look interesting, like **OneLogix** and **Santova Logistics**, and I could make a case for all these companies, but the ones we tend to focus on are more industrials with a logistics component.

"I like Imperial. I think they have a good story, and the valuation remains attractive. The healthcare business they're building in Africa does have an economic moat. However, Imperial probably also harbours the most execution risk in the midst of building up its African division.

"The other business I like, though they're reducing their logistics exposure, is **KAP Industrial**. The only question mark hanging over KAP is how well the chemical division will perform. The South African divisions continue to perform well. I rate the leadership team at KAP highly and I think chemical pricing is at the bottom of the cycle – when prices normalise the rest of the business will look better," he adds.

"Super Group is always so cheap, and I struggle to understand why they don't rerate. The company's management has elected to buy more shares of its SG Fleet division, while I would prefer them to buy their own shares, but they see it differently," says Engelbrecht.

Rowan Goeller from Chronux Research says Imperial's business is divided about equally across SA, Africa and Europe, which brings into play the dynamics of three distinct geographies. "In SA, the company has continued with a divestment drive to shrink the business, while pinning its hopes on Africa. The new growth management is targeting, bringing goods to the continent, is uncharted territory and creates execution risk. If there is reason for nervousness among Imperial's shareholders, it is that the business is reinventing itself and is not in a steady state. It may be successful, but the element of risk remains."

Goeller's sector pick is Super Group. "In SA, the company has exposure to many sectors including industrial and commodities, and anecdotally my impression is that Super Group is still growing its business and is in acquisition mode – by comparison with Imperial, which is trying to maintain market share by lowering prices and margins. Super Group's level of exposure to coal transport may concern some, but the volumes are flowing. The management team is focused on the logistics business and winning market share relative to peers," he says.

If logistics is the focus, Barloworld's division suffered from a lack of capital investment and has remained sub-scale, Goeller says. "They were always a bit-part player; I expect its logistics business will be sold or broken up in the next few years."

Without investment restrictions, so thinking as a retail investor, Goeller says OneLogix would be his bet in the sector. "I think this is the best-managed business with a relatively secure business because its customers are largely agricultural, and their level of loyalty is higher. If I weren't considering tradeability and thinking purely about logistics plays, this would be it. I also like KAP, whose Unitrans division is well-run. I'd say KAP is the second-best in terms of fundamentals, although management has a lot on their plate and exposure to chemicals has created volatility in earnings the market is trying to understand."

In general, Goeller says, SA logistics players continue to divest, and no players are throwing much capital at their businesses. "Most are holding on to what they have. If the stars align and GDP growth accelerates, the counters will start moving, after looking dismal for the last three to five years because of the GDP linkage." ■

post-democracy Transnet's investment in rolling stock and infrastructure, and the government's coordination of policy to improve linkages, have happened in spurts. There could be a steady, slow recovery of rail if Transnet offers the right services to regain customer confidence. There is no reason it couldn't work, but logistics players have heard this many times before and it hasn't happened yet," says Goeller.

## African trade

Rail could also make the most of the new African Continental Free Trade Area, though logistics players would also benefit. "The backups at borders are sometimes days long. That's a key reason so many South African retailers have pulled out of the continent. If it meant a reduction of border delays, listed logistics companies would benefit," Goeller adds.

Shigwedha is sceptical of a fully-functioning free trade zone being realised anytime soon. "Most countries are still very inward-focused, and they would want their players to be protected before they open up. It could ease paperwork, but it will be a long time before the full benefits are achieved. There is also the problem that logistics into traditionally difficult jurisdictions would be a business model that's easy to replicate." ■

editorial@finweek.co.za

# THE VIRUS, VAC
# DEARTH O

The rollout of Covid-19 vaccines in SA holds the key for accel

Optimism that the global economy would quickly rebound in 2021 as mass vaccination programmes quash Covid-19, has begun to fade in the face of resurgences of the virus around the world and concern that the vaccines intended to protect against illness will be less effective against rapidly spreading mutations of the virus.

Economists have begun to warn of significant downside risk to projections made just weeks ago, as countries hit by more severe second waves of infections reimpose restrictions on activity and evidence emerges that the coronavirus will remain a global threat for years to come.

"The biggest risks to our more upbeat forecasts for this year relate to the evolution of the pandemic and our efforts to fight it," said Neil Shearing, group chief economist at Capital Economics, a research consultancy based in London.

"The history of the pandemic so far has been one of hope trumping experience, with governments anticipating that lockdowns will be short-lived, but then retreating as the virus spreads in ways which we failed to envisage."

## Vaccines

The most immediate risks are that the initial rollout of vaccines is slower than anticipated – a problem which the US, UK and Europe are already grappling with – and that the virus mutates in a way that makes the current vaccines less effective, requiring a second round of mass vaccinations and the reimposition of restrictions.

The prognosis is not promising as research by scientists in South Africa has shown that the Covid-19 mutation first identified in the country evades the immune responses triggered by previous infections, on which the vaccines are based. A similar variant sweeping through Brazil may do the same, although the Pfizer/BioNTech shot has been shown likely to protect against the UK variant.

**Prof Salim Abdool Karim**
Epidemiologist who co-chairs SA's Ministerial Advisory Committee on Covid-19

The World Bank has forecast that the global economy will grow by
4%
this year after a contraction of 4.3% in 2020.

Professor Salim Abdool Karim, the epidemiologist who co-chairs SA's Ministerial Advisory Committee on Covid-19, warns that new variants are likely to continue popping up everywhere in the world as the virus mutates to escape immune responses. These variants, or mutations, are created more easily when the virus spreads rapidly.

"It's a bit like a cat-and-mouse game. We'll vaccinate people and the virus will try to escape. It will do so successfully every now and then, and every time it escapes, we will have to adjust our vaccines. That's pretty much how it's going to work," he said in an interview with *finweek*.

But this is not a reason to halt planned vaccination campaigns as existing vaccines are likely to work, though less effectively, he says. "We'll just carry on immunising until we get a vaccine that works better."

The success of mass vaccination campaigns around the world are essential to economic recovery, particularly in emerging markets, which with the exception of China, were hit harder by the pandemic last year than advanced economies.

The World Bank has forecast that the global economy will grow by 4% this year after a contraction of 4.3% in 2020.

But the variables in the near-term remain "highly uncertain" and a continuing rise in infections coupled with a delayed vaccine rollout could limit expansion this year to just 1.6%, it said in a statement released in early January.

In SA's case, the urgency is acute as scientists are increasingly predicting another resurgence of infections in the country as winter sets in and people begin to gather indoors – as has been the case in Europe. "It is quite likely that we will see a third wave and probably even a fourth in the course of the year," says Abdool Karim.

"These waves will occur whether or not we have a new variant, but if we have a new variant – which I think will be likely – then the third wave will be much more severe."

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# CINES AND THE F GROWTH

By Mariam Isa

erated economic expansion. Will the government get it right?

SA's second wave of infections, which began in December, was bigger than the first because it was driven mainly by the new SA variant, which is 50% more infectious than the original one. Mass gatherings by celebrating matriculants were identified as the main "superspreader" events, and the country had 41 117 recorded Covid-19 deaths by 25 January – up from 28 469 at the end of December.

## Expensive blunt instruments

Professor Alex van den Heever, chair of social security systems administration and management studies at the University of the Witwatersrand, says until enough people are vaccinated, SA will need a permanent form of level 1-restrictions. But these have to be carefully thought through so as to limit economic harm.

"So far government has used blunt instruments instead of targeted ones to maintain control of superspreader events," he says. These include blanket bans on tobacco and alcohol, which freed up hospital beds by reducing trauma cases, but according to Van den Heever, cost the economy R35bn of lost tax revenue in 2020.

The alcohol industry is now in distress, with SA Breweries withdrawing R5bn of planned investment over the past 12 months and estimating that the bans in 2020 cost 165 000 jobs.

Heineken cancelled investment in a new R6bn brewery last year while Consol Glass withdrew plans to invest R1.5bn in infrastructure.

The tourism and restaurant industries are literally on their knees. Both took a global hit, but in SA, many of the restrictions placed on them to prevent widespread infections are seen as excessive.

SA lost an estimated net 1.5m jobs in 2020. Coupled with what is now an ingrained fear of the virus by much of the public, unemployment in these two labour-intensive sectors will continue to climb.

"We are in full support of adhering to protocols – but government needs to work with us to save jobs,"

**Prof Alex van den Heever**
Chair of social security systems administration and management studies at the University of the Witwatersrand

"So far government has used blunt instruments instead of targeted ones to maintain control of superspreader events."

Wendy Alberts, head of the Restaurant Association of SA said in a recent interview with the SABC. In the face of a curfew and an alcohol ban it is "virtually impossible" for any restaurant to survive, she added.

Tshifhiwa Tshivhengwa, CEO of the Tourism Business Council, said that it was vital that SA is viewed as a safe destination for international visitors, as domestic tourism will continue to suffer from the halt to corporate and government travel within the country.

"The world is going to be ready to travel and the last thing we want is that we are not going to be ready to receive them simply because our front-line staff are not vaccinated," he said.

## Growth?

Economists say the reimposition of adjusted level 3-restrictions at the end of 2020, together with the anticipated withdrawal of money for social support, is going to curb expected growth in the first quarter of this year. NKC senior economist Pieter du Preez predicts a contraction and forecasts growth of just 2% in 2021 – well below consensus of 3.5%.

The SA Reserve Bank raised eyebrows by increasing its GDP growth forecast to 3.6% from 3.5% at its monetary policy meeting on 21 January. But it added: "New waves of the Covid-19 virus are likely to periodically weigh on economic activity both globally and locally. In addition, constraints to the domestic supply of energy, weak investment and



uncertainty about vaccine rollout remain serious downside risks to domestic growth."

Power shortages are expected to persist and even deteriorate in the months ahead, after the worst year of load-shedding on record in 2020. Energy analyst Chris Yelland says that government procurement of new generation capacity is unlikely to alleviate power shortages for the next two to three years.

At the same time, regulatory hurdles and red tape are preventing many private customers from generating their own power, even though this has been given the green light by government.

## Herd immunity

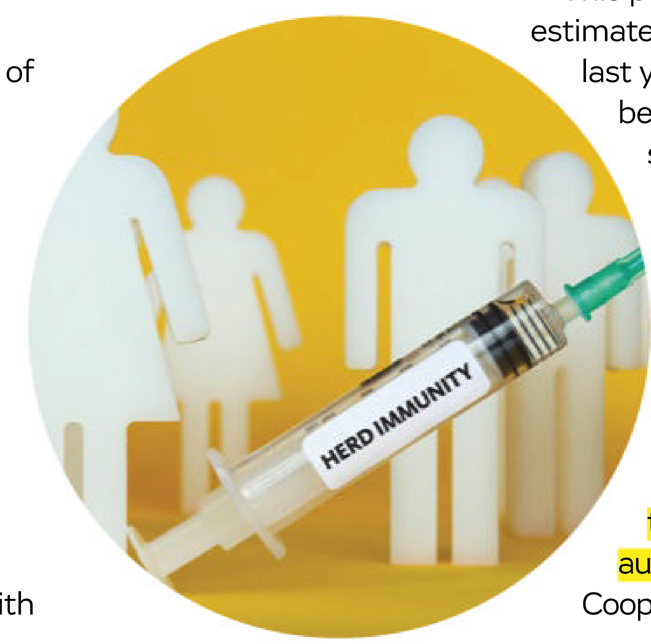
The government plans to achieve the level of "herd immunity" against Covid-19 – which it believes will bring the virus under control – by vaccinating 40m people, or 67% of the population, by the end of this year. But the goal is seen as unrealistic by Professor Shabir Madhi, director of the Medical Research Council's research unit for vaccines and infectious diseases analytics.

Abdool Karim believes that even only achieving the first two phases of the government's plan – vaccinating frontline workers, the elderly, and people with comorbidities – would be enough to make a difference. Madhi and other medical experts say that this will not be enough to stop widespread transmission.

The government has been sharply criticised for not arranging to procure vaccines more quickly, but some analysts see credibility in its argument that forking out more than R2bn to pay for development of vaccines which may not work was too risky for its precarious finances.

Nonetheless, that would have given the country secure and cheaper access to some of the leading vaccines. At present, SA has been promised more than 30m doses either through direct deals with manufacturers or agreements with multilateral agencies, like the Covax facility organised by the World Health Organization and global vaccine alliance Gavi. The first shipment of the AstraZeneca vaccine, seen as the most suitable for South Africa, was due to arrive in the country on 29 January and was set to be distributed by vaccine company Biovac, a public-private partnership.

But critics say details of how the vaccines will be administered are sketchy and will fail without the help of the private sector, which is being roped in to fund the rollout.




The price tag of the vaccines, together with money for the nurses involved, has been estimated at between R8.6bn and R16.4bn.

## Mechanics

If a centralised procurement approach is pursued 'behind a cloak of secrecy' it will be vulnerable to corruption in a similar manner as tenders for personal protection equipment early in the pandemic, Van den Heever warns.

The price tag of the vaccines, together with money for the nurses involved, has been estimated at between R8.6bn and R16.4bn, Van den Heever says.

This pales into insignificance against the estimated R389bn in output lost to the economy last year and is seen by all as money which would be well-spent. President Cyril Ramaphosa has said the government will have to borrow more to fund the purchase of vaccines, which will worsen its already unsustainable financial burden. Tax increases are being considered, but economists warn that this would further erode SA's shrinking tax base.

A redeployment of scarce budget resources is seen as the best way to fund the immunisation drive. But as finances tighten, SA could move further toward austerity, which the Organisation for Economic Cooperation and Development has warned governments to avoid. The group has also argued against the termination of state aid programmes to counter the impact of the pandemic, saying that this would worsen income equality, fuel social division, and spur a populist backlash.

Ramaphosa said on 24 January that the ANC has agreed the government should consider basic income relief to unemployed people who do not receive any state assistance, but that this would depend on the state of public finances and there should be a clear exit strategy on these grants.

In its October Medium-term Budget Policy Statement, Treasury said it aimed to stabilise government debt at 95% of GDP – seen as far too high for a developing economy – within five years. But even this will be hard to achieve after the crippling blow to public finances from the Covid-19 pandemic. ■

editorial@finweek.co.za

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

# SARS TAKES A RELOOK FRUIT FOR TAX COLLEC

The voluntary disclosure programme (VDP) has led to much frustration in the past. Combined dealing with this sector.

Two important revenue collection opportunities for the South African Revenue Service (Sars) lie with its voluntary disclosure programme (VDP) and an enabling environment for critical small businesses.

However, in both cases prohibitive legislation, the subjective interpretation of provisions and a lack of proper skills and resources are jeopardising collections.

In a welcome move Sars last year embarked on an extensive overhaul of the VDP. This year it will be conducting a study to determine the effectiveness of the current tax legislations, policies and incentives affecting small, micro and medium enterprises (SMMEs).

Sars has established a new SMME unit for taxpayers, traders and travellers that aims to make it easier for them to comply with their tax obligations.

Many will argue that the Covid-19 pandemic has highlighted the completely inadequate and inept support for and understanding of small businesses and their needs by government departments.

Duane Newman, director of Cova Advisory and head of the South African Institute of Tax Professionals' (SAIT's) business incentive and grants work group, says the biggest problem small businesses experienced during lockdown was a lack of cash flow as their operations were stopped by government regulations.

## Little relief

"The government-backed loan guarantee was ineffective as banks still applied their own credit criteria to requests for loan extensions or relaxation of loan obligations," Newman says.

He adds that it was concerning that non-Covid-19-related incentive- and grant-based schemes slowed down during the peak Covid-19 lockdown months.

"Most of these grants are offered by the department of trade, industry and competition. Our view is that government should have focused on ensuring existing programmes disbursed their funds much quicker," says Newman.

**Christo Engelbrecht**
Director of Catalyst Solutions

**Elle-Sarah Rossato**
Lead of tax controversy and dispute resolution at PwC

Photos: Gallo/Getty Images | Supplied

> There are notable shortcomings in terms of Covid-19 support measures for SMMEs in SA.

"Sadly, this was not the case as the administrative IT systems struggled to cope with offsite working by government employees."

While government implemented some cash deferral tax incentives, these just "kicked the can down the road" for six months. There was temporary relief, but the actual tax burden did not change.

"In short, tax deferrals were not as helpful as expected." After the deferral period the economy remained weak with little room for spectacular earnings, exacerbating the plight of SMMEs.

A major issue that is still the downfall of many small businesses is the callous non-payment of SMMEs on time by both government and large business with access to cash.

In addition, large businesses and government need to ensure they prioritise awarding work to SMMEs that focus on using locally-manufactured products.

"I still see supply chains of large corporates that are not transformed enough. There is not enough pressure on either government or large business to buy local. We can create much more resilient local supply chains if government and business work together," says Newman.

## Future of incentives

In its study, the Sars SMME unit wants to understand the level of awareness of the current tax incentives and is asking for recommendations as to how policies and incentive measures can be tailored to meet the needs of SMMEs.

Newman notes in the December issue of the SAIT's magazine, *Tax Talk*, that the cumulative value of three business tax incentives (sections 12I, 12L and 11D of the Income Tax Act) over a four-year period amounted to only R5.7bn. "My contention is that it has attracted much more investment than it has cost the fiscus."

In contrast, the customs duties foregone in terms of the automotive incentive programmes, called the Motor Industry Development Programme and the Automotive Production and Development Programme,

# AT LOW-HANGING TIONS

with a lack of efficient incentives for small businesses, Sars should reconsider how it's

**By Amanda Visser**

over the same period amounted to R107bn.

"This demonstrates that some industries are much more successful in securing incentives from government," writes Newman.

Christo Engelbrecht, director of Catalyst Solutions, says there are notable shortcomings in terms of Covid-19 support measures for SMMEs in SA compared to what some member countries of the Organisation for Economic Cooperation and Development (OECD) implemented.

He refers to Denmark, where small businesses whose revenue fell by more than 30% because of Covid-19 got up to 75% of their lost revenue covered by the state. The state even helped to cover some of their fixed expenses. In France, small companies and self-employed people could qualify for monthly compensation if their turnover was less than €1m and they experienced a drop in turnover of 70% or more.

"In SA, SMMEs in industries such as hospitality have been significantly affected since lockdown was announced in March 2020 without any significant ongoing subsidy support being provided by the government," says Engelbrecht.

He notes that many of the support programmes for SMMEs were open to start-ups (and self-employed people), however, they "struggled or completely failed" to meet the relevant support programme criteria.

According to an article in Sifted, a new-media site for Europe's innovators and entrepreneurs, France was the first major European nation to declare specific support for its start-ups, outlining a €4bn liquidity plan in March that has subsequently been updated and refined with new measures and funds, generally managed by public investment bank Bpifrance.

Engelbrecht notes that in SA, temporary tax relief provided and other support offered was not sufficient for most smaller businesses from a business sustainability point of view.

## Making it right

Government has been quite vocal about voluntary compliance by taxpayers. However, when they try to

In Denmark, small businesses whose revenue fell by more than **30%** because of Covid-19, got up to **75%** of their lost revenue covered by the state.

## KEY VDP CONCERNS

- Significant and persistent delays in processing of VDP applications. The current average turnaround time is 201 working days1
- The need for further clarity from Sars in the form of an interpretation note and a comprehensive update of the existing guide to the VDP process.
- The VDP unit's inflexibility on questions of interpretation.
- A heavy-handed approach to processing VDP applications, e.g. the threat to impose penalties on a taxpayer if that taxpayer proposes to withdraw from the VDP process before signing the VDP agreement.
- Unreasonable deadlines to respond, for example within five business days, regardless of the months of silence before a VDP.
- Assessor responds, if at all, to queries, comments or the provision of additional supporting information. This is compounded by the unsympathetic stance taken towards requests for extensions.
- Difficulties securing payment arrangements.
- A dwindling appetite for taxpayers to enter into the VDP process. ■

SOURCE: Joon Chong, partner at Webber Wentzel and Wesley Grimm, associate at Webber Wentzel

## VDP APPLICATIONS MUST:

- be voluntary;
- involve a default which has not occurred within five years of the disclosure of a similar default by the taxpayer;
- be full and complete in all material aspects;
- not result in a refund due by Sars. ■

SOURCE: PwC Synopsis September 2020

A major issue that is still the downfall of many small businesses is the callous non-payment of SMMEs on time by both government and large business with access to cash.

mend their wrongful ways, they must jump through hoop after hoop.

The VDP is a legislated means for taxpayers to voluntarily approach Sars to regularise their tax affairs and pay additional tax where there has been a default. Unfortunately, the process has been plagued by several problems in recent years. The subjective rejections of several applications have been undermining the "spirit of the VDP" and has impacted tax morale negatively.

According to the 2019 Sars annual report, an amount of R3.2bn was collected for the period 1 April 2018 to 31 March 2019 through this programme.

A survey done by PwC in 2020 shows that 54% of participants felt that the VDP regime did not assist their company in declaring its defaults – this compared with 20% in the prior two years (2019 and 2018).

Following its participation in a VDP feedback survey mid-2020, law firm Webber Wentzel highlighted key concerns (see pg 35), notably the "significant and persistent delays" in the processing of VDP applications. The average turnaround time is currently 201 working days.


According to the PwC survey, 37% of the participants reported that their applications took more than a year to be finalised – eight percentage points ahead of 2019.

Elle-Sarah Rossato, lead of tax controversy and dispute resolution at PwC, says Sars needs to refocus on the VDP regime to make it more accommodating to taxpayers and to fulfil the objective that it was envisioned to achieve.

As chair of the SAIT tax administration work group, Rossato presented a lengthy submission to National Treasury in November last year highlighting some of the problems and offering solutions.

There has to date been no feedback on the proposals.

### Technical issues

In the submission she notes that there are various technical issues with the VDP tax provisions. "This is highly problematic within the current context, since uncertainty or perceived inequity has the result that taxpayers are disinclined to apply for VDP."

Taxpayers frequently rather adopt a "catch me if

## SMME INCENTIVES THAT WORK

| NAME OF INCENTIVE | WHAT IT COVERS | WHY WORKING | AREAS OF IMPROVEMENT |
|---|---|---|---|
| **Temporary Employment Relief Scheme (TERS)** | Lost income by employees from 27 March to 15 October with a benefit ranging from R3 500 to R6 730 limited to income lost | Paid out over R50bn. Employers apply via online system on behalf of employees so high volumes could be processed by UIF | Many changes to IT system since implementation which created confusion with many applications. Process for handling problem cases where payments not made needs improvement |
| **Energy Efficiency Incentive (S12L)** | Tax incentive on energy savings at 95c/kWh | Applications are online and assessed by competent authority with sign off by accredited measurement and verification professionals | Incentive for SMMEs based on cost of energy efficiency intervention should be implemented |
| **Automotive Investment Scheme** | 20% to 35% grant on capital investment in automotive value chain | Well-established grant system where industry works well with government | Faster payment processes during Covid-19 pandemic |
| **Black Industrialist Scheme** | 30% to 50% grant on capital investment in major black-owned manufacturers | Application process and rules are clear | Minimum capital investment of R30m needs to be lowered, especially in tough economic times |
| **Critical Infrastructure Programme** | 10% to 50% grant on infrastructure costs | Well-established and functioning programme | BEE level rules are unclear and need to be tightened |

SOURCE: Cova Advisory

By Jeff Miller

# The Pepperclub Hotel offers guaranteed returns

Grovest's Jeff Miller explains how the Section 12J fund ensures that investors' capital is maintained and guaranteed a return even during the Covid-19 pandemic.

The government's tax savings dispensation to boost economic growth through investing in venture capital companies (VCC) has attracted billions of rand since it came into existence. Jeff Miller, CEO of Grovest, answers some questions about one of the company's funds.

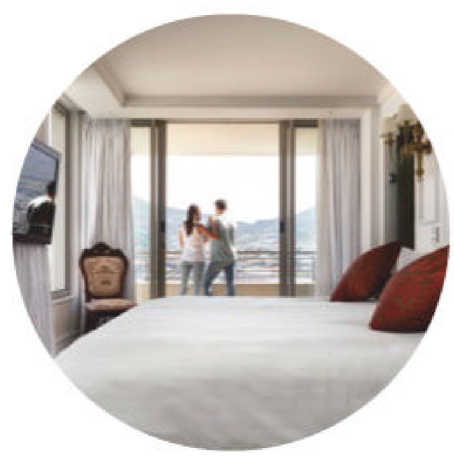
**Grovest is the most established player in the Section 12J (of the Income Tax Act) investment sector. With the upcoming renewal of this tax savings dispensation, what is your view on the benefits of Section 12J to the South African economy? Can Section 12J funds play a role in SA's dearth of infrastructure investment?**

Grovest is one of the pioneers of Section 12J in SA. To date, about R10bn has been invested into Section 12J funds, making it one of the fastest-growing alternative asset classes for local investors. Because Section 12J VCCs are governed by the Financial Sector Conduct Authority and through SA Revenue Service regulations, it is highly transparent and legislated, giving investors lots of comfort that their investment is highly regulated. Subscriptions for shares into Section 12J VCCs are mainly from retail investors and high net-worth individuals paying income tax at the top marginal rate of 45%. The investments made by the Section 12J VCCs would not likely have received funding through traditional channels and have now been given the opportunity to thrive as a result of Section 12J capital. A large proportion of these investments have been made into infrastructure, specifically in the hospitality industry, as one example. The latter has taken a heavy beating due to the Covid-19 pandemic last year. Remember, tourism represents around 10% of SA's GDP, which equates to 1.5m jobs and requires these types of investments. The Section 12J tax benefit has also been able to keep funds in SA. I'm quite sure that a material amount would otherwise have been taken abroad. The Section 12J dispensation has also created significant employment and retained a lot of jobs, which has resulted in an average job creation 'cost' of R35 000. This is, to my knowledge, the lowest-cost programme for job creation to date. The economic benefits of Section 12J (and its extension by government) are far-reaching, which in the long term will create more sustainable and compliant tax-paying entities.

Jeff Miller
CEO of Grovest and also a director of Pepperclub Investment VCC

**How has the Grovest-administered Pepperclub Investment VCC performed since it launched and how has it benefitted economic growth in SA? And what was the average annual return on Grovest's Pepperclub Investment VCC to investors? How is this fund positioned to overcome the current lacklustre economic growth in SA?**

We launched the Pepperclub Investment VCC in the 2019-2020 financial year, and we had a hugely successful capital raise. That was due to it being such an innovative product with a guaranteed return on investment, free bed nights and gearing option as well as a put of the shares back to the promoters. The latter mitigates investment risk for investors. Little did we know then what lay ahead! Even though the Pepperclub Hotel has been affected by the Covid-19 pandemic, investors' returns have been unaffected due to the performance guarantee. This guarantee ensures a return equal to 6.5% of operating profit and escalates at 8% per year for five years. Pepperclub is a five-star hotel in the heart of Cape Town, and we look forward to international guests returning as vaccines are rolled out across the world.



**With regards to the nature of Section 12J VCCs (private-equity-like investments), what are the additional benefits for investors to consider these investments?**

It is important that investors do their homework before investing into a Section 12J VCC. They should consider the fund and team credentials and track record, how quickly they can deploy the capital, whether it's a lifestyle or purely financial investment, the assets underpin, and the exit opportunities. The Pepperclub Investment fund ticks all these boxes, and we've seen a lot of repeat investments. The gearing option has allowed investors with the taxable income but not necessarily the available cash flow, to invest into this high-performing Section 12J fund. ■

For further information, please feel free to contact Jeff Miller, CEO of Grovest, administrators of the **Pepperclub Investment VCC,** at jeffm@grovest.co.za, Jeff Solomon jeffrey@solomonholdings.com or Amaresh Chetty amaresh@pepperclub.co.za. You can also visit the website **pepperclubinvest.co.za.**

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GROVEST

you can" approach.

Despite promises in January 2018 of an operational guide or standing operating procedures, nothing has transpired.

A major concern has been the inability of a taxpayer to object or appeal the rejection of their applications. Rossato says the only remedy for taxpayers is to take the matter on judicial review to a high court. "Because of the cost and delay involved in such a process, few taxpayers are willing or able to do so."

In practice, certain aspects of the VDP legislation are unclear and open to different interpretations by taxpayers and Sars. The fact that some of the essential components of the Tax Administration Act, such as "default, voluntary and disclosure", are not defined, make it wide open for interpretation.

**Wesley Grimm**
Associate at Webber Wentzel

## Interpretation issues

Rossato explains that if a compliant taxpayer identifies an error which they want to regularise with the VDP unit but their interpretation of "full and complete" disclosure differs from Sars' interpretation, it may result in a rejection. The only remedy for the taxpayer is a costly review in the high court. "This is unduly harsh", she says. In her submission to Treasury, Rossato suggests that there should be room for objections and appeals and that it should apply retrospectively. This way, applications that were incorrectly rejected in recent times can be reconsidered.

A rather alarming problem that has been persisting for many years is what is considered as "voluntary". Sars has been known to consider a VDP application as not being voluntary if the taxpayer has received a request for relevant information – even where there has been no audit notification.

Sars has also considered an application as not being voluntary if it involves a period where a tax return is outstanding. Lately, it even applies when an IT14SD (a supplementary tax declaration) has been issued and the taxpayer has been notified that the tax return is outstanding, or when a taxpayer approached a Sars official to clarify a tax position.

"Instead of encouraging taxpayers to regulate their tax affairs, they are deterred from doing so and eventually Sars would not have the full picture of taxpayers' affairs."

Rossato suggests that the term "voluntary" be defined in the act.

## Welcome changes

Efforts by Sars and the new head of the VDP unit, Nicholas Nemalili, are not going unnoticed, says Webber Wentzel's Joon Chong and Wesley Grimm.

Sars and Nemalili's candour in acknowledging and engaging with tax practitioners and taxpayers on issues regarding the VDP process is a "decisive departure from the status quo" and a step in the right direction to a taxpayer-friendly process, says Grimm.

"Given Sars' constrained collections, the great strides made in overhauling the VDP process were overdue and necessary." He says although the VDP ship has been "steadied", they will continue to engage with Sars and the VDP unit to keep enhancing the process. ■

editorial@finweek.co.za

## SMME INCENTIVES THAT ARE NOT WORKING

| NAME OF INCENTIVE | WHAT IT COVERS | WHY NOT WORKING |
|---|---|---|
| Agro Processing Support Scheme | 20% to 30% grant on capital costs in agricultural processing value chain | Requirement to acquire 30% of farm input from black farmers is not realistic and needs modification |
| Support Programme for Industrial Innovation | 50% to 75% of research and development costs | Turnaround times on applications are too long |
| Export Marketing and Investment Assistance | Export marketing-related costs including patent costs | Covid-19 and border closures |
| Green Tourism Incentive Programme | Grant for energy efficiency-related costs – capital and audit limited to R1m | New guidelines are not available |
| Tourism Transformation Fund | Financial support for black investors and communities investing in capital projects in the tourism sector limited to R5m | Fund is still closed |
| Strategic Partnership Programme | 50% of costs to support SMMEs by large corporate companies | Rules and compliance are too restrictive and need to be loosened to encourage more to apply |

SOURCE: Cova Advisory

# on the money

>> **Motoring:** The Toyota Hilux Legend: Tough but trendy *p.42*
>> **Personal finance:** An overview of private banking accounts *p.44*

CEO INTERVIEW

By Timothy Rangongo

# Forging ahead in the passive investing space

Sygnia's co-CEO, David Hufton, is making his mark on a company and a sector as asset managers steer through uncertain times.

When *finweek* spoke to David Hufton, joint CEO of Sygnia Asset Management, he was at home "on one of the very rare occasions". South Africa had just marked 300 days under national lockdown to help curb the spread of the coronavirus and Hufton had been in the office for virtually every single one of those days.

He formed part of the firm's skeleton crew that manned the ship after Sygnia was classified as an essential financial services provider when the lockdown was instituted. Also, during this time, Sygnia's board appointed Hufton to the joint CEO role with immediate effect, conveying a message of confidence in him and his co-CEO, Magda Wierzycka, that "the joint CEOs will steer Sygnia through these turbulent times and beyond".

He was previously the deputy CEO of Sygnia and prior to joining the firm in February 2016 was a member of the executive committee of Alexander Forbes for many years and held various leadership roles there.

## Managing by serving

Hufton's approach to leadership has been no different at Sygnia than it was at Alexander Forbes. He swears by surrounding oneself with people who are more expert than you, which he believes is key to not only his success but the company's too.

"I am only as strong as my team can be and that is key to delivering on our goals," he explains the reasoning behind his servant-leadership approach, as opposed to top-down leadership that is critiqued as outdated and counterproductive.

Hufton views his key role as serving his team as they explore and grow, providing tangible and emotional support as they do so. He says it is a role that involves making their lives easier, ensuring that they have the right tools, helping them overcome obstacles and eliminating the bottlenecks they face, empowering them to be more accountable.

## Keeping calm through a crisis

Having to come up with ways to minimise the impact of the pandemic on the business, its performance results and, most importantly, on employees, were some of the main issues of concern for Hufton last year.

"There is no doubt the world over that nobody has had the experience to manage a business through a pandemic. There is no doubt that we were absolutely tested last year," says Hufton.

Management maintained calm and were level-headed in their approach to addressing all the challenges. "It was important that we accepted that our decision-making had to be fluid throughout the pandemic and even now."

Inasmuch as the firm began to witness a spike in productivity going into the first lockdown, Hufton says the workforce working from home was not spared from adverse impacts in terms of their mental and physical

**David Hufton**
Joint CEO of Sygnia Asset Management

"What we are seeing is that there is a rise in passive investing in the asset management space."

wellbeing, and balancing their work and domestic lives. Over the last 10 months, Sygnia had to face some challenges with people working from home.

"We settled at a two-thirds ratio of people working from home, and one-third working in the office. This has helped with managing some of the challenges of the new work environment."

Hufton mentions integrating new hires into the business as another challenge posed by working from home. Trying to continue cultivating the Sygnia culture has been a challenge too, with so many people at home and certainly for new people joining the business not having a strong sense of the culture, he says.

### Triumph amid a pandemic

"Well, the last year has been a very interesting year."

The business weathering the storm of the pandemic and the role he played in that has certainly been one of Hufton's most important accomplishments.

"The significant increase in bottom line profit and revenue was a tremendous success last year," he says.

For the financial period ended 30 September 2020, Sygnia reported total revenues of R661m, which climbed by 30.1% from R508.1m in 2019; while total expenses, at R381.9m, increased by 12.5% from R339.4m in the previous year.

The firm reported that it increased assets under management and administration by 5.6% to R251.8bn. Headline earnings per share rose 66.6% from 87.9c to 146.4c and the total dividend mushroomed by 83.3% from 60c to 110c per share.

### Investor relations in a time of Covid

Consumer behaviour has been top of mind for Sygnia's management throughout the last year. For the individual investor, the early stages of the pandemic were a very unnerving time when they saw the value of their savings plummet overnight, says Hufton.

"We were fortunate that the markets rebounded fairly quickly, so we didn't see any panic switching among our individual investors."

Talking to clients across retail and institutional, he says there is no doubt that the coronavirus has led to economic hardship for many customers (from individual retail customers through to employers sponsoring retirement funds and through to the large institutional investors).

Some of the individual investors have been retrenched and needed to cash in their investments simply to survive. In the institutional or group retirement space, small businesses are suspending their retirement fund contributions because of the uncertain futures that they face. Sygnia has seen an increase in retrenchments among small employers.

"In any situation like that, discipline among your investors is key," says Hufton.

"They need to focus on what the long term holds and take a measured approach to it. History has shown that long-term investing is disconnected from things that are happening at the moment."

### Active vs passive

"What we are also seeing is that there is a rise in passive investing in the asset management space."

Hufton says they have started to see a change in strategy among investors away from the traditional one-size-fits-all balanced and actively-managed approach. They are diversifying away from traditional strategies.

On the one end investors are looking at capturing beta with passive strategies which are low cost and on the other end, they are looking for alpha in new places such as private equity, venture capital, infrastructure, ESG and commercial real estate.

"The alternative space is a space that we are starting to play in. We have already started to offer products in that space such as the Oxford Sciences Innovation Fund, inasmuch as we are predominantly a passive player."

He says the firm has a lot of innovation ahead in the alternative investments space. ■

editorial@finweek.co.za

## THREE FUN FACTS ABOUT David Hufton, co-CEO of Sygnia

**1**

Hufton recently hung up his Muay Thai boxing gloves after decades of participating in the combat sport, but still spends time on the heavy bag.

**2**

He enjoys reading about the wonders of science, maths and the history of the world.

**3**

Like a true Capetonian, he indulges in hikes up the mountain with his family.

Photos: Supplied

By Glenda Williams

# Still tough but trendy

The Toyota Hilux Legend advances an already winning product. It is still one tough bakkie, just an improved, premium version.


The Hilux Legend RS: rugged yet advanced new flagship model.

Photos: Supplied

How things have changed. When I was growing up, bakkies were consigned to plots, farms and manufacturing facilities. The idea of a utilitarian bakkie as a conventional passenger vehicle would have been sniffed at back then. Unsurprisingly, the sight of one on the streets of suburbia was rare.

Now they are a dime a dozen. And a lot swankier. The degree of comfort, technological prowess and convenience that these sophisticated workhorses afford their drivers and passengers is now on a par with most passenger vehicles.

But toughness has not been lost in the pursuit of sophistication. Remember that *Top Gear* episode featuring a bakkie that kept going despite being clobbered with a wrecking ball, crashed into a tree, having a caravan dropped on it, submerged in water and even set on fire? That was a Toyota Hilux.

While I was not about to resort to that type of torture in my testing of the Toyota Hilux Legend 2.8 GD-6 4×4 RS double-cab, I was keen to ascertain whether toughness endured in the new flagship. So, I made my way to true bakkie country and got my answer on the banks of the Vaal River.

## Modern, bold expression

Aimed specifically at the leisure user, the Hilux Legend, Toyota's new flagship grade, comes with more presence. The design language still retains that Hilux ruggedness, albeit with a more modern appearance.

An imposing front façade features LED headlights and fog lamps, and a black outlined trapezoidal grille integrated with the front bumper, bonnet protector and skid plate.

Style improvements have produced a sportier profile too, courtesy of 18-inch alloy wheels, bold wheel arches and chunky footplate, while rear treatment includes a graphite rear bumper and Legend-specific tailgate garnish.

## Improved comfort and functionality

Legend variants receive a bespoke interior, with unique accents applied to the instrument cluster, interior trim panels, switchgear and gear lever. The 2.8-litre Legend GD-6 4×4 automatic comes standard with perforated leather seating and front power seats, keyless entry and push-button start, auto dim rearview mirror, folding side mirrors and Toyota's safety package – Toyota Safety Sense.

It's a roomy cabin with decent leg space for three rear occupants. Creating a premium grade means it is packed with tech; 8-inch touchscreen infotainment system, JBL 9-speaker audio system, satnav, as well as Apple CarPlay and Android Auto functionality. The Toyota Connect telematics system includes an in-car wi-fi hotspot and complimentary 15GB data.

But swanky double-cabs are now firm favourites with families, so its single USB port could trigger a family feud.

Safety boxes, though, are ticked. Side and curtain airbags have been added and the Legend comes standard with a pre-crash system, lane departure alert, adaptive cruise control and park assist. The reverse camera and park assist makes parking this meaty vehicle a cinch.

It is not all about aesthetics and nice-to-haves. Real power and torque have been added.

The sophisticated ambience of the Legend RS's cabin.

ISOFIX, trailer sway control, hill and downhill assist are also included in the safety suite.

This premium grade Hilux Legend RS comes equipped with a motorised roller shutter, graphite-coloured sportsbar, rubberised loadbox with 12V power outlet and an easy to open central-locking tailgate. The motorised roller shutter is a doddle to operate; just the press of a well-concealed button.

But it is not all about aesthetics and nice-to-haves. Real power and torque have been added.

### Venturing off the pavement

The upgraded 2.8-litre engine now has a revised heavy-duty turbocharger, cooling system and strengthened internal components. A new common rail injection system helps boost output and fuel efficiency.

Power in the upgraded turbo-diesel engine has been boosted by 20kW to 150kW, while torque is also up from 450Nm to 500Nm in the flagship 6-speed auto. That 500Nm is available over a wide rpm range, contributing to lower fuel consumption.

This 4×4 double-cab is no small vehicle. But the substantial bakkie is an easy drive, and refinements like the variable power steering system to optimise steering response have given it a lighter, more refined feel.

Handling, too, has improved with suspension enhancements bringing greater ride comfort, increased stability and better off-road performance.

While reasonably comfortable, ride quality on the tar in an unladen Legend does not quite match that of rival Ford Ranger Thunder. Loading though improves the choppy ride over lumps and bumps.

It has more than enough grunt, with power mode and sport manual shifting adding to performance.

I've always been a fan of Toyota gearboxes and this 6-speed automatic gearbox with its silky smooth gearing is no exception.

Putting the adaptive cruise control to good use on the way to the Vaal, I was met by a level of flooding not seen in decades. Roads were under water and some folk required airlifting out of flooded areas. I was even witness to an army helicopter landing on what was left of the country road on which I was travelling, to carry out a rescue.

It was in these conditions and off-road that the Legend really came into its own. As I replotted my course that took me through thick mud, murky water, slippery dongas and hidden boulders, I was immensely grateful to be in this resilient Hilux.

The area's sand roads had been turned into muddy rivers and I admit to experiencing some doubt as to the Legend's ability to forge through the muck. Visions of a tractor hauling me out came to mind. Turns out I needn't have worried, the Legend's 4×4 low-range ability saved the day.

It ably tackled a steep muddy incline, a donga that triggered one wheel to leave the ground requiring the use of the diff lock to add traction, and waded easily through some pretty deep water. This is one tough and capable bakkie.

H4 range proved perfect for the dry sand roads I eventually found, the Legend's enhanced suspension smoothing out what would otherwise have been bone-jarring corrugations.

When I was done sloshing about in mud and water, I returned to the potholed tar "roads" of the area. Some roads here offer rare bits of tar, overtaken as they are by potholes. But unlike a passenger car that requires maximum bobbing and weaving at snail pace to avoid them, the Legend steamrollered its way over these nasties, only requiring intervention to avoid larger craters.

Fuel efficiency was impacted by a majority off-road test, and further reduced by the occasional use of power mode and consistent use of the aircon to ward off the heat and assault from bloodthirsty mosquitoes. Still, I averaged 9.8 litres. Commendable. ■

editorial@finweek.co.za


## TESTED:

### Toyota Hilux Legend 2.8 GD-6 double-cab 4x4 RS automatic

**Engine:** 2.8 litre turbo-diesel
**Transmission:** 6-speed automatic
**Power/Torque:** 150kW/500Nm
**Top speed:** 175km/h
**Fuel tank:** 80 litres
**Fuel consumption** (claimed combined): 8 litres/100km
**$CO_2$ emissions:** 209g/km
**Payload:** 775kg
**Towing capacity:** Unbraked 750kg, braked 3 500kg
**Safety:** Side, curtain, driver, passenger and driver kneebag
**Warranty/Service Plan:** 3 year/100 000km warranty. 9 services/90 000km service plan.
**Price:** R868 100 (incl VAT) Price without RS (roller shutter) package: R780 900

Double-cab 4x4 Legend models have a 9-speaker JBL audio system with dash-mounted speakers.

By Timothy Rangongo

# An overview of private banking accounts

Private banking clients' needs tend to be of a complex nature and normal bank accounts simply won't do. We give a rundown of some of SA's flagship private banking accounts.

Private banking is about more than just wielding a glossy black card. While retail banking is a one-size-fits-all solution, private banking clients' needs tend to be of a complex nature. A case in point is access to a broader range of foreign exchange services to either invest internationally, make payments overseas, receive money from abroad or accessing foreign currency to travel.

Above all, at the core of private banking lies wealth management. If you are in the process of accumulating a substantial amount of wealth or are already in possession thereof, private banking is centred towards protecting, consolidating and in some instances transferring that wealth, either via bequeathal or philanthropy. Most banks now even have an in-house philanthropy office dedicated to helping clients give in a sustainable way.

And, of course, what would personalised banking be without the occasional concierge-esque services such as your dedicated banker personally delivering a new debit or credit card to your home or office; or in some outlandish instances, have the banker "rush over to your office and help you out if you forgot your internet banking password" (a true anecdote from *finweek*'s 22 March 2012 cover story on South Africa's elite). Common perks tend to be highly-coveted hospitality suite tickets to some of the country's exhilarating sporting fixtures (well, before Covid-19, that is) and VIP passes to notable art, wine, whisky and other cultural events.

We give a rundown of some of SA's flagship private banking accounts, which all come with dedicated private bankers (whom are also tasked with negotiating preferential rates for clients, including access to a myriad of specialists across various fields) and how they pit against each other in terms of fees, services, benefits and more.

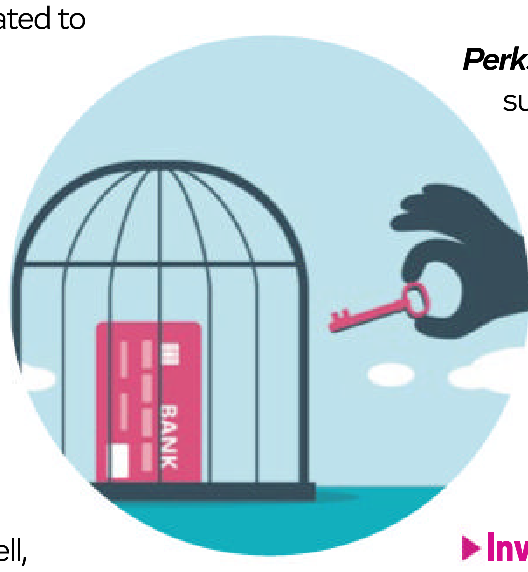



Photo: Gallo/Getty Images

## ▸ Nedbank

### Nedbank Private Wealth Bundle Account

Nedbank Private Wealth vows to understand your family, business and personal financial needs and aims to provide its clients with advice and solutions that focus on making a difference to their daily banking, wealth preservation and wealth accumulation needs. It lists transactional banking, specialised lending, investment management, fiduciary and philanthropy services among its full suite of wealth management solutions.

To become a Nedbank Private Wealth client, one must earn a personal income of more than R1.5m per annum or have investable assets with a value of at least R5m (excluding the property you live in).

| Transaction | Cost |
|---|---|
| Local ATM cash withdrawal | Free |
| Cash withdrawal at branch | R70 + R1.80 per R100 |
| Cash deposit at branch | R10 + R1.80 per R100 |
| International ATM cash withdrawal | R55 + R2.10 per R100 |
| Currency conversion fee charged on international card transactions (ATM, point of sale and online) | 2% |
| Debit orders | Free |
| Petrol card | R185 (annual maintenance fee) |
| Prepaid airtime and electricity | Free and R1.50 |
| **Monthly fee: R452** | |

Source: Nedbank Private Wealth

***Perks:*** Clients can enjoy travel and lifestyle benefits such as unlimited local (Bidvest) and international (LoungeKey) airport lounge access, including free travel insurance. The bundle comes with both an American Express cheque and credit card which can be delivered to branches or couriered to clients free of charge. Cardholders also have free access to Nedbank's Greenbacks rewards programme. Nedbank Private Wealth's app allows clients to top-up investments, buy or sell shares and purchase foreign currency, among others.

## ▸ Investec

### Investec Private Bank Account

The Investec Private Bank account is targeted at "distinguished individuals" that the bank intends on building a life-long partnership with, granted that they consistently earn R800 000 and more per year. Investec has been rated the best private bank and wealth manager in the country for the past eight consecutive years (PWM/The Banker Global Private Banking Awards).

| Transaction | Cost |
|---|---|
| Local ATM cash withdrawal | Free |
| Cash withdrawal at local and international branches | R55 |
| Cash deposit at Absa branches | 1.20% of the deposit value (subject to a minimum fee of R40) |
| International ATM cash withdrawal | Free (excluding international conversion fee and fees levied by international ATMs) |
| Currency conversion fee charged on international card transactions (ATM, point of sale and online) | 2.5% |
| Debit orders | Free |
| Petrol card | R30 monthly fee (R5.50 per transaction) |
| Prepaid airtime and electricity | Free |
| **Monthly fee: R535** | |

Source: Investec

***Perks:*** In addition to day-to-day transactional banking, the bank offers a complimentary rewards programme (Investec Rewards), travel benefits such as unlimited local (Bidvest) and international (LoungeKey) airport lounge access including travel insurance, and a digital investment platform. The principal client can get an extra card linked to their account at no extra cost or a stand-alone Private Bank Account at a reduced monthly fee for their spouse or life partner. Clients can also open an Investec Youth Account for their children (25 years and younger) for free.

## ▶ Absa

**Absa Private Banking Account**

Absa's Private Banking Account is described as a personal financial management tool designed to maximise your financial opportunities and meet your everyday banking needs with ease. "Our Private Banking offering for salaried individuals and self-employed professionals is available to clients with an income of R62 500 per month (gross) or R750 000 per year (gross). The offer is also available to business owners who will automatically qualify should their business turnover be in excess of R10m and the business banks with Absa," says Bongiwe Gangeni, deputy chief executive of retail and business banking at Absa.

| Transaction | Cost |
|---|---|
| Local ATM cash withdrawal | Free |
| Cash withdrawal at branch | R75 + R2.10 per R100 |
| Cash deposit at branch | R60 + R2 per R100 |
| International ATM cash withdrawal | R75 |
| Currency conversion fee charged on international card transactions (ATM, point of sale and online) | R4 + 2.75% |
| Debit orders | Free |
| Petrol card | No longer available |
| Prepaid airtime and electricity | R1.50 |
| **Monthly fee: R460** | |

Source: Absa Private Banking

***Perks:*** Gangeni tells *finweek* that the offering includes access to a Visa Signature credit card and automatic Absa Rewards membership. "Clients also have access to a dedicated travel and lifestyle concierge desk, domestic (Bidvest) and international (LoungeKey) airport lounges and a spousal account at a 50% reduced fee off the account (with access to the same benefits as the primary account holder).

"Other benefits include home loans of up to 100% of the value of the property. Dedicated financial advisers and fiduciary specialists are also available."

## ▶ Standard Bank

**Standard Bank Signature Banking Account**

The bank says it has a host of wealth management products and services through which you can manage and grow your wealth. It says you can call, email or even instant message your personal banker anytime for whatever you need. A monthly income of R92 000 or more is the minimum requirement for the Signature account.

| Transaction | Cost |
|---|---|
| Local ATM cash withdrawal | Free up to R10 000 |
| Cash withdrawal at branch | R20 per R1 000 |
| Cash deposit at branch | R18 per R1 000 |
| International ATM cash withdrawal | R520 per R1 000 + international transaction fee (minimum R70) |
| Currency conversion fee charged on international card transactions (ATM, point of sale and online) | 2.75% |
| Debit orders | Free |
| Petrol card | R45 per month (R7 per transaction) |
| Prepaid airtime and electricity | 50c and R1.50 |
| **Monthly fee: R469** | |

Source: Standard Bank Private Banking

***Perks:*** Bespoke portfolio management is available on request from Melville Douglas, including diverse short- and long-term savings and investment options. Discounted rates are available through the online share-trading platform. You can share the benefits of Signature Banking with up to five family members for R75 per month. Account holders have access to two Standard Bank domestic lounges at OR Tambo International Airport and 900 international airport lounges. Free direct forex delivery is available in Gauteng, the Western Cape and KwaZulu-Natal.

## ▶ Rand Merchant Bank

**RMB Private Bank Fusion Account**

RMB's private offering and pricing is virtually identical to FNB's Private Wealth account. One must earn a gross income of R750 000 and above per year to qualify for RMB's; or earn more than R1.5m a year or have a net asset value of R15m or more for FNB's.

| Transaction | Cost |
|---|---|
| Local FNB ATM cash withdrawal | Free |
| Cash withdrawal at branch | R80 + R2.50 per R100 |
| Cash deposit at branch | R80 + R2.50 per R100 |
| International ATM cash withdrawal | R80 |
| Currency conversion fee charged on international card transactions (ATM, point of sale and online) | 2.75% |
| Debit orders | Free |
| Petrol card | R20 per month (R5.75 per transaction) |
| Prepaid airtime and electricity | Free |
| **Monthly fee: R470** | |

Source: RMB Private Bank

***Perks:*** The account offers your spouse or partner a discounted monthly fee of R269 for the same banking experience and benefits that you have, regardless of their income. There is no monthly account fee for an FNB Global Account to save and transact in foreign currency. Clients can earn additional FNB eBucks when using their cards for payments. There is some complimentary access to SLOW and Bidvest lounges, depending on reward levels. ■

editorial@finweek.co.za

# Piker

# On margin

## Ant war

This issue's isiZulu word is *intuthwane*. It means "ant".

The plural is *izintuthwane*. The plural is key because you never see just one *intuthwane*. It's always a whole horde of them. Relax, I know the proper collective noun for a group of *izintuthwane* is a colony. I call them a horde because they behave like one – a menacing horde, with weapons on their faces.

The root word in *inthuthwane* is *thutha* – move something from one place to another, including moving house. This makes sense because *izinthuthwane* are always moving stuff, always lifting, carrying away, dropping off, returning then repeating the process, over and over. No wonder they are so skinny.

Anyway, I feel bad when I kill *izintuthwane* (I still do it) because they are simply annoying and unsightly, but they aren't bad people, unlike flies and mosquitoes. If I had to kill human beings for the same reasons, I would become the world's most prolific killer – colonialist-level killer. I mean kill humans for being annoying, not unsightly. Anyway, I would never kill people for any reason.

Why am I writing about *izintuthwane*? Because they are my current nemesis ... no, nemesi ... no, enemies ... whatever. We are at war. THIS IS MORTEIN! If I am not careful, the *izintuthwane* in my house will *thutha* me in my sleep, take me to their lair and eat me bit by bit. Oh, what a horrific thought. I must *thutha* from this house before *izintuthwane* turn me into a snack.

*– Melusi's #everydayzulu* by Melusi Tshabalala

"I'm confused... am I working from home, or living at work?"



## Fancy yourself a general knowledge whizz? Then give our quiz a go! You can complete it online via fin24.com/finweek from 1 February.

1. On 21 January, the South African Reserve Bank left the repo rate unchanged at 3.5%. What is the current prime rate?
   - 7%
   - 7.5%
   - 8%
2. Who did US President Joe Biden select as the secretary of commerce in his new administration?
3. As of 1 February 2021, which South African city registered the highest number of Covid-19 positive infections?
4. **True or False?** The late minister in the Presidency Jackson Mthembu also served as the Whip of Parliament for the Inkatha Freedom Party.
5. Zimbabwean telecommunications tycoon Strive Masiyiwa joined the board of which tech company?
   - Alphabet
   - Facebook
   - Netflix
6. **True or False?** Pan African Resources is a producer of platinum group metals.
7. Mr Price reported a 5.8% rise in third quarter retail sales. In what year was the retailer founded?
8. **True or False?** SA's newly-passed Political Party Funding Act will come into operation during the 2024 national elections.
9. South African billionaire and Richemont chairperson Johann Rupert received a Covid-19 vaccination in Switzerland from which Mediclinic-owned hospital group?
   - Welltower
   - HCA Healthcare
   - Hirslanden
10. **True or False?** American actress and comedian Betty White turned 99 years old in January 2021.

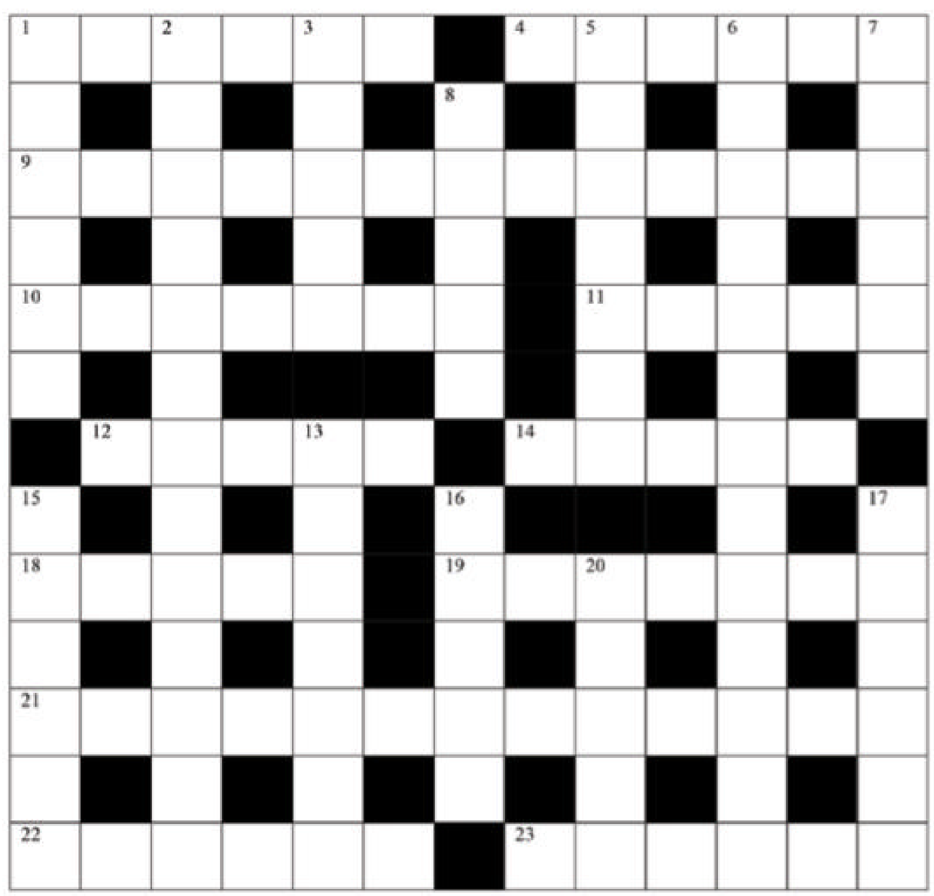
## CRYPTIC CROSSWORD NO. 768 JD

### ACROSS

1 Took advantage of every form of transport education (6)
4 Replace character in first feature (3,3)
9 Screaming at Arsenal, for one, collapsing (4-9)
10 Listen to Cockney promote soundproofing (7)
11 An Irish accent from the start indicates a rascal! (6)
12 Before getting right to introduce nitrogen gas (5)
14 Accident left rib exposed and some evidence of blood (5)
18 Of course carry a box for tea (5)
19 Elf fond of housework and about to have cheese (7)
21 Nod for promotion? (6,2,5)
22 Exchange of set is the most advanced in years (6)
23 Sucker set to play doubles (6)

### DOWN

1 Swan off and return with explanation (6)
2 Made in Australia, but not enough of it? (13)
3 One supports amended rental agreement (5)
5 Queens first marmalade purveyor (7)
6 Financial aid from the hairstylist? (6,7)
7 Was mad about string being broken (6)
8 Bring order after a row, we hear (5)
13 High point of lousy MP's career (7)
15 Book from month fruit becomes available (6)
16 Wartime electronic craft? (1,4)
17 Enacted non-democratic constitution (6)
20 They're travellers not starting musicians (5)



**Solution to Crossword NO 767JD**

**ACROSS:** 1 Adrian Mole; 7 See 6 Down; 8 Delectable; 11 Diner-out; 12 Pimp; 14 Au lait; 15 Briefs; 17 USSR; 18 Secateur; 21 Ocean tramp; 22 See 6 Down; 23 Adam's apple

**DOWN:** 1 Added value; 2 Relentless; 3 & 19 Ascorbic acid; 4 Meatus; 5 Lilt; 6,7 & 22 Across Not too bad; 9 Aide-de-camp; 10 Apostrophe; 13 Cream tea; 16 Becalm; 19 See 3; 20 Rag