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ENGLISH EDITION

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MEDICAL AID SCHEMES: RIDING ON RESERVES AS PANDEMIC EBBS

from the editor

JANA JACOBS

My husband and I are currently in the process of moving to a new house. Like many people who've been lucky enough to work from home during this pandemic, we have spent most of our time tucked away and have also had many hours to assess our finances and needs.

Being able to own one's own property is a privilege that I don't want to diminish. But there are a lot of factors that – with the gift of hindsight – one really needs to consider before taking the leap. And, I will admit, there are frustrations that we have experienced that have, at times, made us regret taking on the responsibility of homeowners.

In any event, we are downscaling considerably. And so, I have spent nights and weekends packing. As is inevitable in the decluttering process, I was confronted with what seems to be an embarrassing amount of nostalgic keepsakes. One of which was a clipping of a piece I wrote for our local campus newspaper while I was a wide-eyed and very opinionated student. It centred around the absurdity of Donald Trump – back in 2011/2012 – saying that he would consider running for US president. The irony of re-reading that clipping in the week that America went to the polls after a four-year Trump presidency...

Despite my then dismay at the possibility of Trump living in the White House, here we are, witnessing him doing everything in his power to remain there. Regardless of my opinion of Trump, his actions are extremely damaging at a time when the country he was elected to safeguard is being crippled by Covid-19. Not to mention the immense social unrest that his refusal to concede is creating.

The twenty-something student I was would likely not be surprised. But as I write this I couldn't have (perhaps naïvely) imagined that Trump would remain this obstinate.

The power play by the Trump administration simply refusing to hand over to Joe Biden and vice president-elect Kamala Harris is almost too unbelievable to fathom. In 2016, when Hillary Clinton won the popular vote but didn't win the election in the electoral college – a bitter pill to swallow – she conceded to Trump the day after the election. President Barack Obama and first lady Michelle Obama also received then president-elect Trump and his wife at the White House, as is custom.

While the world watches and waits, it remains bizarrely unclear whether he will scale down and move out of his house on the hill. Seems 2020 is not quite over yet. ■

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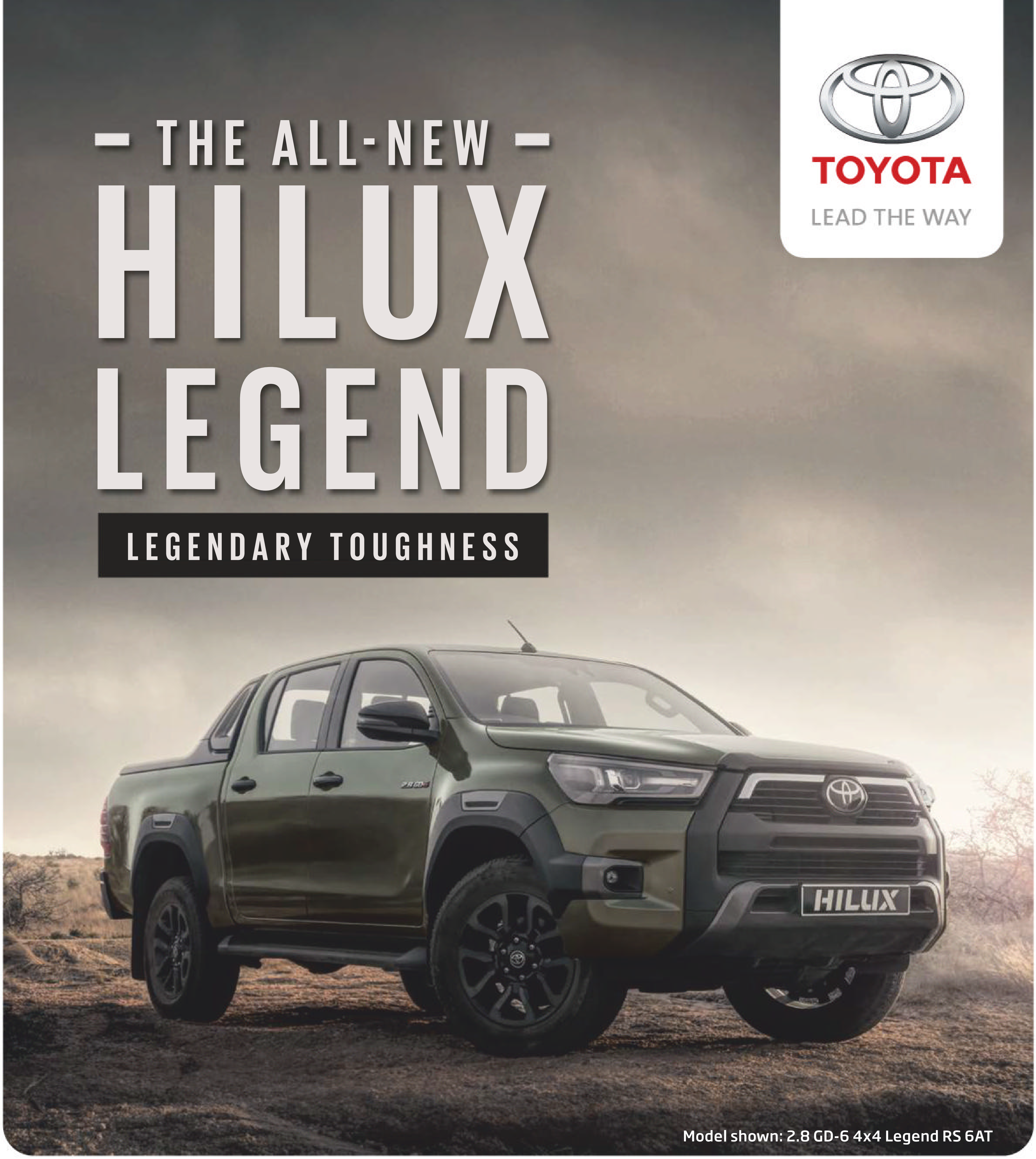

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By Johan Fourie

BEHAVIOURAL ECONOMICS

Risk and our consumption choices

A new study on pandemic buying yields interesting results.

By the end of October, South Africa's Covid-19 case fatality rate – confirmed deaths divided by the number of confirmed cases – was 2.7%. This rate, of course, masks large differences by age. Globally, the case fatality rate of those younger than 10 is 0%; for those above 80, it is above 10%. Put differently: compared to someone in their 20s, babies are 9 times less likely to die; a 75- to 84-year old is, however, 8 times more likely to end up in hospital and 220 times more likely to die.

These large differences in mortality risk allow economists to investigate a central question to discipline: to what extent does risk affect our behaviour? The homo economicus of first-year textbooks, in which consumers rationally maximise utility, has over the last three decades come under attack (and often ridicule) for the naïve way it interprets human behaviour. Behavioural economists have pointed to the many biases and prejudices that afflict humans, questioning our ability to behave in a way that accords with our rational self-interest.

Making such rational decisions is especially difficult in low-probability settings, like natural disasters or terrorism. But given that rare events are by construction, well, rare, how do we study their effect on consumer behaviour systematically?

A team of economists has found a way to do so with Covid-19. They argue that although Covid-19 is a rare event for everyone, it affects some more than others. Because of the large variation in the widely publicised mortality risks, if we were indeed rational utility maximising agents, we should expect older individuals to behave very differently to younger individuals. This should be especially true during the peak of infection – compared, for example, to just before the pandemic.

Photo: Shutterstock

How would we measure this behaviour? One pretty universal and quantifiable human behaviour is shopping. And this is exactly the type of information economists, in a new NBER working paper, used. They followed more than 400 000 individuals between January 2018 and May 2020 in Portugal. These individuals made more than 97m purchases in the period. Their dataset includes information on each individual's age, income bracket, gender, education level and occupation. With this, they studied how younger and older individuals changed the level and composition of their consumption expenditure in response to changes over time in the risk of infection. They even compared the expenditure behaviour of people with and without comorbidities.

The first obvious point is that people might want to reduce their consumption for two reasons. Firstly, they either lost their job or fear they might. Secondly, they want to reduce the risk of infections. To avoid the first reason, the economists focus exclusively on public servants' consumption behaviour, whose income (in Portugal as in SA) was unaffected by the crisis.

They found five main results. 1) Older consumers reduced their spending by more than younger consumers in a way that mirrors the age dependency in Covid-19 case fatality rates. **2)** This additional spending reduction is much larger for high-contact goods than for low-contact goods. **3)** Spending reduction is more pronounced in periods with a high risk of infection. **4)** People with higher income, conditional on their age, were more likely to cut their expenditure. **5)** People with comorbidities cut their expenditure by more than those with none. To confirm these results, the economists did a host of different robustness checks. These included allowing for age-cohort-specific seasonal effects and income trends, and focusing the analysis on retirees (in contrast to public servants), because retiree incomes are also more likely to have remained stable during the pandemic. The results stayed largely the same.

It helps to put numbers on these results. In March, when the number of cases in Portugal was still low, people in their 50s reduced consumption by 11%, while an individual in their 70s cut expenditure by 21%. "In April, when the number of cases peaked, people in their 50s cut their expenditure by 31%, while people in their 70s cut expenditure by 51%."

Why did older people cut their expenditure more? There are two likely explanations. Firstly, if the containment measures by the Portuguese government affected the consumption of goods predominantly consumed by older people, then that could explain the large age differential. Secondly, it could be, as the economists hope to show, that older people's consumption is primarily driven by the risk of infection. How would one differentiate between the two? They look at low- and high-contact goods. An example of the latter would be sports events and restaurant meals. They find that older people were far more likely to cut their expenses on high-contact goods. "Consumers in their 70s cut their expenditure by 61.8% and 28.4% on high- and low-contact goods, respectively. The corresponding cut in expenditure for people younger than 49 is 26% and 19.2%, respectively."

The economists found a creative way to arrive at the evidence on comorbidities. Because they didn't have the health history of people in the sample, they had to find an alternative. They used the individual's health expenditure in 2018 as proxy: those individuals in the top decile of health expenses before the pandemic are classified as having comorbidities. They found that those with comorbidities were more likely to cut their expenditure: For example, in April, at the peak of the infection, people younger than 49 with no comorbidities cut their consumption by 30%. In contrast, people younger than 49 with comorbidities dropped their consumption expenditures by 37.4%.

Is homo economicus a good approximation of human behaviour? It has become somewhat unfashionable to suggest that it is, but this preliminary evidence from consumption during a global pandemic would suggest that people tend to respond in a way that is commensurate with the risks they face. That should be some comfort to the many economists and business analysts who still rely heavily on the canonical model of risk-taking. ■

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Johan Fourie is professor in economics at Stellenbosch University.


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in brief

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"I WILL ONLY STEP ASIDE IF I AM ASKED BY THE BRANCHES WHO VOTED [FOR] ME."

Ace Magashule

– Following his first court appearance for 21 charges of alleged corruption and fraud, **ANC secretary-general Ace Magashule** addressed a crowd of supporters, saying he will not be stepping down from the position because he was elected by the party's branches at a conference. Magashule launched a defence, citing a political witch hunt against him. He also made threats to his detractors that he knew people's corrupt secrets and would not reveal them until the opportune moment. Magashule was released on bail of R200 000.

"We respect the choice of the American people."

– **Chinese foreign ministry spokesman Wang Wenbin** congratulated US president-elect Joe Biden and vice president-elect Kamala Harris, making the country one of the last major superpowers to join an international chorus of well wishes for their election victory. Chinese academics have suggested that Beijing was being cautious, given that President Donald Trump has not conceded defeat, while his campaign has filed legal challenges to vote counts in several states, reported *The Wall Street Journal.* US-China relations have slumped to their lowest level in decades as the Trump administration jousted with Beijing over trade, technological competition and other issues.

"A LOT OF WHAT HAS HAPPENED IN B-BBEE HAS ACTUALLY GIVEN ENTREPRENEURSHIP A BAD NAME."

– **Former finance minister and chairman of Old Mutual Trevor Manuel,** said SA's broad-based economic empowerment (B-BBEE) policy received a bad reputation due to corruption, the evidence of which is unfolding at the commission of inquiry into state capture, during a webinar on entrepreneurship and ethics, reported Fin24. He explained that there needs to be a rigorous evaluation of the policy to better understand what it has produced and where it has failed. He recently implored current finance minister Tito Mboweni to rely on the Financial Intelligence Centre Act to clamp down on the rot in government, particularly when it comes to politically exposed people doing business with government.

Photo: Gallo/Getty Images

STEINHOFF SAGA

R240m

South Africa's Financial Sector Conduct Authority (FSCA) imposed fines amounting to about R240m on Markus Jooste and three associates, relating to share transactions in Steinhoff during November and December 2017, the regulator said. An investigation found that Jooste had sent text messages to four friends and associates on 30 November 2017, warning them before a steep fall in the Steinhoff share price over a scandal involving billions of rand. Jooste was fined about R161m for the disclosure of inside information and encouraging four persons to sell Steinhoff shares.

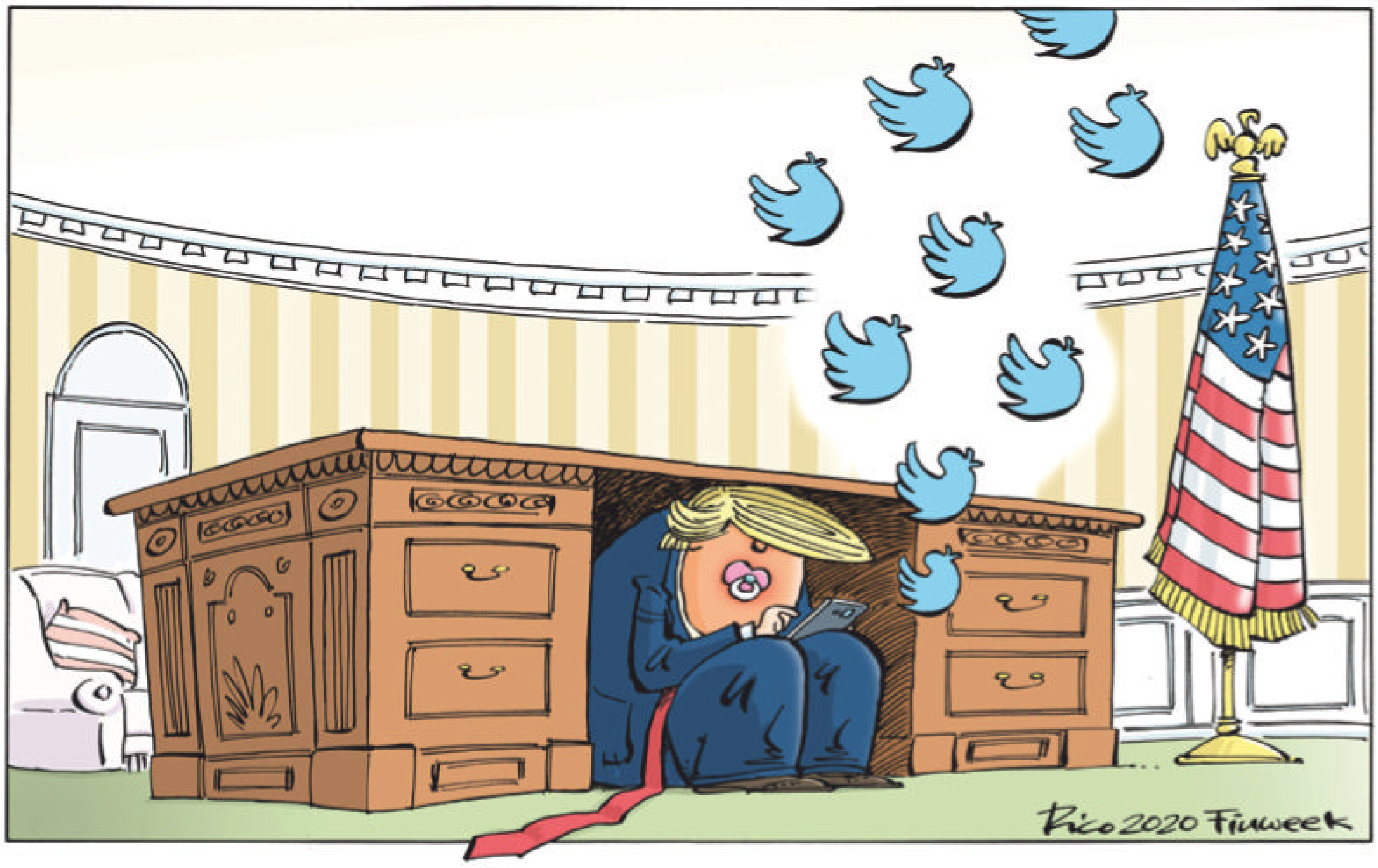
CHOPPIES ON THE BLOCK

2 years

Shares in supermarket chain Choppies resumed trading on the JSE after a 24-month suspension for failing to publish financial results. The results were delayed after the company's then newly appointed external auditors, PwC, raised concerns with the board in respect of accounting practices for the year ended June 30, 2018 and prior years. Two Choppies directors sued PwC for 450m pula ($40.14m), saying that their former auditor's failure to sign off the 2018 financial statement caused a share price crash. PwC confirmed to Reuters that it was involved in legal proceedings with two Choppies' directors and was defending the action.

DOUBLE TAKE

BY RICO



THE GOOD

The Covid-19 vaccine being developed by Pfizer and BioNTech prevented more than 90% of infections in a study of tens of thousands of volunteers, sparking new hope that vaccinations will provide a way out of the coronavirus pandemic. "The good message for mankind is that we now understand that Covid-19 can be prevented by a vaccine," Uğur Şahin, BioNTech's CEO, said after the announcement. The companies are the first drug makers to show successful data from a large-scale clinical trial of a coronavirus vaccine. The companies said they have so far found no serious safety concerns. Pfizer said it expects to produce up to 1.3bn doses of the vaccine in 2021 (also see p.22).

THE BAD

After a surprise decrease in the second quarter, the official unemployment rate rose in the third quarter as people returned to the labour market amid the relaxation of Covid-19 restrictions. Data from the Quarterly Labour Force Survey (QLFS) showed that the unemployment rate rose to a record high of 30.8% in the third quarter, from 23.3% in the second. The increase was mainly due to large movements of people out of the non-economically active category (because they were unable to work or even look for work due to the lockdown in the second quarter) to the employed and unemployed categories in the third quarter.

THE UGLY

Zambia is heading toward Africa's first pandemic-era sovereign default. The country said that it would not honour an overdue interest payment (a $42.5m coupon on one of its $3bn dollar-denominated sovereign bonds) before a 30-day grace period expired. The country's creditors rejected its request to defer interest payments until April. Zambia's failure to address bondholders' concerns over debt sustainability and transparency led them to reject the request for a payment deferral, a source told Reuters. The IMF said it was in talks with Zambian authorities about how best to support the country.

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In fact, the launch of BMW Anywhere coincides with changing global trends caused by technology-driven behaviour. In all sectors, companies and individuals are quickly exploring the possibilities permitted by technology and the convenience of these digital interfaces. Applying digital signalling processing in this way works well for business travellers.

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By Glenneis Kriel

App unlocks investments for everyone

Fintech start-up, Franc, uses digital technology to demystify and ease financial investments.

After landing his first corporate job in the research and development team of Discovery in 2015, Dr Thomas Brennan became increasingly aware of the barriers preventing South Africans from investing their money to build wealth, rather than leaving it in the bank where it doesn't grow as quickly, due to inflation.

He saw numerous financial advisers, but none lived up to his expectations. "Being a programmer specialising in machine learning, I would use the data they gave me to develop simulations of how their suggested investments would perform, including the ongoing fees. Most did not even bother to respond when I sent these simulations to them via email," Brennan says.

He was also disillusioned by the high fee structures, minimum investment requirements and the cumbersome application process, requiring the signing and filling in of "endless forms".

Dr Thomas Brennan
Co-founder of Franc

On further investigation, he found that he was not the only one feeling at a loss when it came to financial investments.

"SA, at the time, counted among the top five countries in the world, along with Nigeria, Kenya, Ghana and Singapore, with the most Google searches on how to invest money. These countries, in contrast, have some of the lowest investment rates in the world, with SA's being a measly 5% of the population having discretionary investments," Brennan says.

Brennan talked to Sebastian Patel, an actuary and friend from university, about his findings after which the two started working on a solution that would be more investor friendly. "Seb and I make a great team, as he has a strong banking background and is highly meticulous, whereas I hate the detail and just want to focus on the innovation side of a business," Brennan says.

The product was first tested among family and friends and officially launched towards the end of 2018 as Franc. They choose the name Franc in reference to one of Europe's former currencies, but also the word 'frank', which denotes transparency, straightforwardness and openness.

Funding

Brennan identifies fundraising as one of their biggest challenges: "We opened for external funding at the end of last year and are only closing the round now."

He and Patel bootstrapped the start-up and used a combination of cash and equity to incentivise early employees, with the equity being calculated based on contributions made each month in terms of anything from sweat labour, capital investments to finders' fees for sourcing talent.

"The shareholding model has been a first for SA, resulting in a real headache for our lawyer as it has to be transparent, fair and regularly updated to prevent conflict," Brennan says.

The platform runs on a mobile app, which gives users access to the Allan Gray Money Market fund – which has returned 6.7% over the past 12 months but is now lower due to the impact of Covid-19 – and the Satrix 40 ETF, with an annual average return of 13% since inception.

"The investment model is quite straightforward, based on Warren Buffett's recommendations for retail investors, such as investing in low-cost index tracking equity products that you understand and sticking with long-term value."

"We believe that most people need a simple combination of cash and equity to achieve their personal financial goals. We're not trying to reinvent investing, but rather make it more accessible to people," Brennan says.

As part of the sign-up process, users complete a thorough personal risk assessment to understand how much investment risk they will tolerate. The app then helps users to understand how much they should invest to achieve their goals.

The app is free of charge, but investments are charged at one percent per year, which includes the management fees of Allan Gray and Satrix, but not brokerage and transaction costs.

High digital payment fees were identified as one of the biggest barriers to entry, as a R50 investment, for instance, triggers a flat debit order fee of R8, according to Brennan.

The market

The company has recently seen a big jump in customers. "Investments increased significantly during the first few months of the Covid-19 lockdown, coinciding with the crash in the stock market, but that dramatic growth has tapered since then in line with the poor economic outlook and discretionary income coming under pressure," Brennan says.

The investment market is competitive, with various companies now incorporating digitech in their services. Franc's competitive edge is that it targets millennials and generation Z, with most of its users between the ages of 20 and 30.

"Millennials and Generation Z'ers don't want to sit with a broker." Brennan says.

Franc's competitive edge is that it targets millennials and generation Z, with most of its users between the ages of

20

and

30

This is also why most of their marketing has focused on building the brand and raising awareness via social media and pay-per-click advertising. The marketing strategy has since moved on to focusing on client acquisition.

"We don't have a big marketing budget, so most of these efforts are aimed at building trust to generate more word-of-mouth referrals. Trust is a really big issue, because of all the fly-by-nights and financial scams out there, which is why people will rather trust recommendations from friends than strangers," Brennan says.

Franc was the first registered robo financial adviser in SA. The company has participated in Google's Africa Accelerator and won Stuff's Best Financial App award in 2020. It also won the Best SA Solution in MTN's App of the Year award in 2019 and the Best SA Start-up award in Seedstars' World competition in 2018.

Franc is not yet available to investors from other countries. "The platform is a plug-and-play solution, so it would be easy to use it for other regions, but we need investment products that are available in these countries. We were recently selected to be a part of Ecobank's Fintech sandbox, a Pan-African bank, which could unlock access to various West and East African countries within the next year or two," Brennan says. ■

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Photo: Supplied

By David McKay

MINING

Sibanye-Stillwater's masterstroke

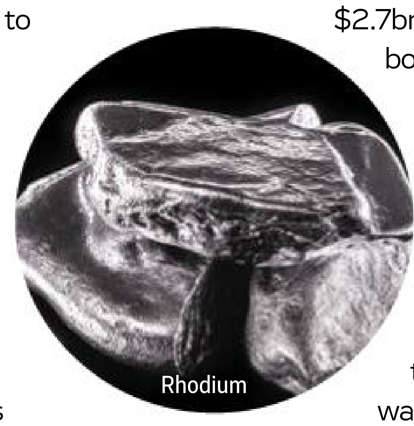
The mining sector has undergone a remarkable recovery, especially gold miners. But it's Sibanye-Stillwater's PGM strategy that has really paid off.

The rehabilitation of the mining sector since the dark days of 2017 – when the industry had racked up a fifteenth straight year of underperformance – has been remarkable.

It's a recovery from overspend and subsequent chronic indebtedness no more clearly demonstrated than in gold.

Gold mining firms falling under the radar of Canadian bank Scotiabank posted dividend increases averaging 70% since September. The average dividend yield for multi-asset senior and intermediate gold producers is now 2%, exceeding the S&P 500's yield of 1.6%. The bank thinks that, at that yield, the gold producers would start to attract more generalist and income-focused investors.

"In our view, the significant increases demonstrate to investors that gold producers have learned from mistakes of the past and are resolved to maintain capital discipline," said Scotiabank. "They also signal producers' confidence in their ability to continue to successfully operate through the ongoing pandemic," it said.


Rhodium

This has been borne out in the South African gold sector. Harmony Gold is among the latest of mining firms to confirm it's pretty much at 100% capacity, having recovered from the second-quarter Covid-19 lockdowns. A highlight of its first quarter ended September was a tripling in operating free cash flow of R1.8bn. Gold Fields said South Deep, a mine that has consistently lost it money for more than a decade, is generating "meaningful" cash flow.

But the posterchild for the mining industry's recovery must be Sibanye-Stillwater, which produces platinum group metals (PGMs), as well as gold. Its ability to first emerge from billions of rand of indebtedness, is a test case of note. The company claims it called the market correctly; but it also got lucky.

The following demonstrates how price alone is changing the fortunes of mining firms, especially in the precious metals space.

In the third quarter, Sibanye-Stillwater registered R15.6bn in adjusted group earnings before interest, tax, depreciation and amortisation (ebitda). That's more than for the whole of last year (about R15bn), representing a 182% year-on-year improvement.

According to a report by Bank of America, Sibanye-Stillwater will be in a net cash position by year-end. This will pave the way for increased dividends, having already reinstated the pay-out at the interim stage.

Of third-quarter ebitda, 80% was driven by PGMs, but there was a time quite recently when earnings were driven 80% by gold – a parlous, position given the ageing nature of the gold mines Sibanye-Stillwater inherited from Gold Fields in 2013; the unpredictability of the gold price; and the debt it shouldered from its diversification into PGMs via the Stillwater Mining deal.

To call the PGM diversification a strategic victory is an understatement. It was a masterstroke that exceeded the expectations of its authors.

In the third quarter, Sibanye-Stillwater registered R15.6bn in adjusted group earnings, more than for the whole of last year (about R15bn), representing a

182%

year-on-year improvement.

Prior to 2016, Sibanye Gold, as it was then known, had just under R2bn gross debt. This increased to R8.9bn after paying R4bn in cash for Aquarius Platinum in April 2016, and R1.5bn in cash for Rustenburg Platinum Mines from Anglo American Platinum (Amplats) in November 2016. These deals – the Amplats deal being the most significant – represented the start of Sibanye's PGM strategy.

Then came the somewhat breathless two-year spree, starting with the $2.2bn tilt at Stillwater Mining in December 2016 for a 23% market premium some analysts considered rich. It was initially financed with a $2.7bn bridging facility, and then refinanced with a rights issue and bond of $1bn each and a $500m convertible bond.

Sibanye reckoned on net-debt-to-ebitda, which increased to a ratio of 2.2 times and fell back to 1.5 times a year later. It also reckoned on a PGM basket price of $1 000/oz compared with the then average of $750/oz.

Then came a 12-month period in which Sibanye-Stillwater's strategy veered towards catastrophe, starting with the chilling series of underground fatalities – 21 in total – at the firm's Kloof and Driefontein mines. Production was seriously interrupted and didn't recover properly until last year. A five-month strike by the Association of Mineworkers and Construction Union (AMCU) started in November 2018, delaying the recovery in production and exacerbating the cash flow problems.

The impact was to take net-debt-to-ebitda up to three times, close to breaching its covenants. This made the doubling down on PGM strategy in 2017, in which Sibanye-Stillwater submitted a R4.3bn all-share offer for Lonmin, seem especially reckless.

An analyst said Sibanye-Stillwater's CEO, Neal Froneman, had flown too close to the sun (again); the firm would never deleverage sufficiently; certainly, the resumption of dividends seemed unlikely any day soon.

Caught in the moment, this was not an unreasonable assumption to make. But by the close of 2019, net-debt-to-ebitda was at 1.7 times. How? Rustenburg and Lonmin, both loss-making at the time of acquisition, realised synergies of over R1bn at Rustenburg and close to R2bn at Lonmin, bringing these perennially loss-making assets back to profit. But it was the metal price that made the difference.

Instead of averaging $1 000/oz, the PGM basket had improved to double that. Palladium had performed strongly, and there was the 2018 downgrade to SA's credit rating, which weakened the rand. But it was the stunning appreciation in rhodium that proved especially transformative for the South African PGM assets.

There was a brief hiatus in PGM prices, with the initial onset of Covid-19 (rhodium pulsed between $4 000/oz in 2018 to $11 000/oz in 2019, back to $4 000/oz before returning to $12 000/oz), but by June, Sibanye-Stillwater's net-debt-to-ebitda moved to 0.75, and 0.33 times by the end of September 2020 – thus returning the balance sheet to the net debt position before the PGM strategy began. ■

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Photos: Shutterstock | Impala Platinum

Miners take a shine to Zimbabwe

Despite myriad woes, our neighbour is alluring for industry players.

Implats' Zimplats mine in Zimbabwe.

Zimbabwe is proving an interesting place in the world of mining. Economically, it's a 'basket-case', but miner optimism tends to be driven more by mineral prospectivity.

Announcements by two aspirant companies in the PGM sector – a mineral in which Zimbabwe is the second-most prospective globally – is proving the case.

Russian-backed firm, Great Dyke Investments, is planning a $500m mine in Zimbabwe and was in October rumoured to have approached Impala Platinum (Implats) for investment in return for offtake of concentrate for Implats' smelter, which it wants to expand in Zimbabwe.

Then last month, Nigerian billionaire, Benedict Peters, said he was planning to build a $1bn PGM mine in Zimbabwe, starting in about 18 months. A third firm, Johannesburg-listed Tharisa, has an option over a PGM deposit in Zimbabwe, but has so far not advanced its plans.

Zimbabwe has failing infrastructure; it has to import electricity from SA; and inflation and currency woes, suffice to mention the political deterioration of Emmerson Mnangagwa's administration, don't make for secure investment.

But companies, such as Caledonia Mining Corporation, a Toronto-listed gold producer, say it wouldn't mine anywhere else. It has increased the dividend for the third time this year, amid a thriving price for the metal, and says the level of employee productivity is unmatched anywhere on the continent – a characteristic recently acknowledged by Anglo American Platinum (Amplats) CEO, Natascha Viljoen.

Provided PGM prices are incentivising new production, Zimbabwe can work. That raises the issue of the PGM market. Rhodium and palladium prices skyrocketed over the past 18 months and the recent closure of Amplats' refining facility in Rustenburg – amid continued safety and technical concerns – has only added tightness to the market.

"The good times seem to be back," said Arnold van Graan, an analyst for Nedbank Securities in a report. "We expect supply to remain constrained over the next five years, given the undercapitalisation of the supply base over the past decade," he said.

"There is no such thing as easy ounces, and we believe the quicker 'early ounces' could take at least two years to come online and will not be enough to materially change the PGM supply-demand fundamentals." ■

By Peter Fabricius

INTERNATIONAL RELATIONS

How will Biden work for Africa?

When US president-elect Joe Biden takes office in 2021, he will have to repair the foreign policy damage his predecessor caused. Where South Africa and Africa will feature on that list of priorities is not clear.

Photos: Gallo/Getty Images

"Day one, if I win, I'm going to be on the phone with our Nato allies saying, 'We're back,'" US president-elect Joe Biden told Arizona TV in July.

That really ought to be a group call that the whole world joins. For, with a few notable exceptions – like his fellow-populist, Jair Bolsanaro, president of Brazil, and no doubt his chum, Russian president Vladimir Putin – the globe is immeasurably relieved at what it hopes is the impending departure from the White House of Donald Trump – the aggressive and offensive unilateralist who turned his back on the world.

That departure, however, is not quite assured yet, as Trump refuses to concede defeat, even as Biden has racked up 306 votes (at the time of writing) in the electoral college – 36 more than he needs. Trump's challenge to the results in five battleground states will, at the very least, ensure a difficult transition and distract Biden from his difficult task of repairing damaged relations at home and abroad.

And even some sober analysts still fear that Trump may yet pull off some legal or political trick to stay in office. But if Trump fails, as seems likely, Biden's foreign policy priority will be to restore America's relations with its allies. Its European Nato allies feared the organisation would not survive a second Trump term. "We need a leader who will be ready on day one to pick up the pieces of Donald Trump's broken foreign policy and repair the damage he has caused around the world," Biden tweeted earlier this year.

> Biden could be sympathetic to Pretoria's entreaties, for the US to lift steep increases of duties on steel and aluminium imports.

Globally, there are other calls Biden can make on day one. Like one to Geneva, to tell the World Health Organization that the US is back. And another one to reinstate the US in the Paris Agreement on climate change. He could, and might very well, also return the US to the Iran de-nuclearisation deal, rejoining European allies. And so on.

Where does this all leave South Africa and Africa, though? Neither ever features very high on Washington's agenda, and Trump aggravated the neglect and added gratuitous insult. Assuming Biden is sworn in on 20 January, he will have many other priorities, domestic and foreign.

The Covid-19 pandemic is resurging, for one thing. The Republicans will likely retain control of the senate, able and ready to block Biden's nominees as he tries to set up an administration and to repair the institutions gutted by Trump. Trump's supporters, who still represent just under half of the US population, will be roaring resistance.

Africa and SA are likely to be bumped further down the priority list, acknowledges Millard Arnold, a SA-based US lawyer who served as the first minister counsellor to Africa for commercial affairs for the US department of commerce during the Clinton administration.

But he believes Biden could send a strong positive message to Pretoria immediately by nominating a

Biden could send a strong positive message to Pretoria immediately by nominating a prominent person – very likely an African American – as his ambassador to the country.

prominent person – very likely an African American – as his ambassador to the country. Arnold recalls how Trump instead signalled contempt by taking over two years to nominate an ambassador.

And Biden could send a positive message to wider Africa by appointing someone to the same position he held, as Minister Counsellor to Africa for Commercial Affairs. This person should have the primary responsibility of managing US relations with the African Continental Free Trade Agreement, which is set to start operating on 1 January next year.

Arnold notes that Biden's daughter-in-law, Melissa, married to his son Hunter, is South African. This, along with the prominent role Biden played as a senator who pushed for US sanctions against the apartheid government in the 1980s, has given him a strong interest in SA.

Biden could be sympathetic to Pretoria's entreaties, for the US to lift steep increases of duties on steel and aluminium imports, which the Trump administration imposed on SA and many other nations.

And he is likely to be more sympathetic to SA's position in the current review that the US is undertaking on SA's continued preferential trade access to the US – which has been jeopardised by claims from US producers of music and other creative material that their copyrights are being violated here. The review threatens both SA's enjoyment of US market access under the General System of Preferences (GSP) and the Africa Growth and Opportunity Act (Agoa).

Having said that, it must be recalled that the US government largely responds to the demands of its private sector on commercial issues. It was the Obama administration that provisionally suspended some of SA's Agoa benefits in 2015 because of the high import tariffs Pretoria had slapped on imports of US chicken and other meat products.

Ironically, Chris Coons, the Democrat senator for the chicken-producing state of Delaware, who put the squeeze on SA back in 2015, is now a strong contender to become Biden's secretary of state. He is a firm advocate of closer US ties with Africa – and with SA – even if his constituents put him under pressure back then to force Pretoria to open its chicken market.

Susan Rice, former Africa director in President Bill Clinton's National Security Council and President Barack Obama's UN ambassador, has also been punted as a possible secretary of state. But she is a controversial figure, and Washington insiders believe that Biden would have difficulty getting her confirmed by a hostile Republican-controlled senate – and so might opt for Coons, who is of course on good terms with the senate.

Trump never visited sub-Saharan Africa and notoriously labelled some of its nations as "shithole countries". Those Washington insiders believe Biden will try to visit the continent soon and will certainly step up the schedule of cabinet secretary visits.

And they say he will likely convene a summit of African leaders as Obama did in 2014, as well as improve communication with the continent, including, perhaps, by establishing a formal mechanism for consulting the African diaspora in Washington.

In other words, he will show much greater respect for Africa.

When it comes to more concrete policy, the picture is less clear. Agoa, which grants non-reciprocal access to the US market for most African exports, comes up for review in 2025.

Arnold believes a second Trump administration would have let it lapse and focused instead on reciprocal bilateral free trade agreements, such as the one with Kenya that is being negotiated. He believes Biden would instead be sympathetic to extending Agoa once again.

However, some Washington Africa experts caution that even a Biden administration would start pushing for a more conventional post-Agoa trade relationship between the US and Africa via reciprocal trade deals, possibly with regions.

SA could also benefit from Biden's likely enhancement of existing US economic programmes, such as Obama's Power Africa – to increase electricity production on the continent – and the BUILD (Better Utilization of Investments Leading to Development) Act which doubled – to $60bn – the ceiling of private sector infrastructure projects the US government could guarantee in developing countries.

And America's massive support for African healthcare, including the fight against Aids, will likely increase.

But critics of US Africa policy are demanding more. They say Biden should not simply hit the reset button to restore relations with Africa to what they were under Obama. That was not enough, many say, and the US needs to do more to help build the continent's economies – as China has.

Instead of just strategic competition with China in Africa, the US should cooperate with it to boost the continent, they say.

And a Biden administration should reverse the Trump administration's blockage of UN financial support to the African Union's peacekeeping efforts on the continent. ■

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Peter Fabricius is a consultant to the Institute for Security Studies (ISS) and a freelance foreign affairs journalist.

Chris Coons
Democrat senator for the state of Delaware

Susan Rice
Former Africa director in President Bill Clinton's National Security Council and President Barack Obama's UN ambassador

market place

FUND IN FOCUS: SESFIKILE BCI GLOBAL PROPERTY FUND

By Timothy Rangongo

Seeking returns in offshore property

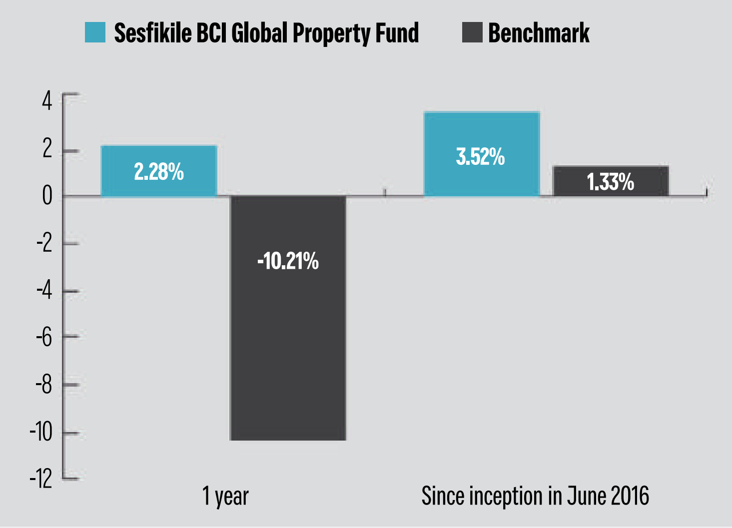
A global property portfolio focused predominantly on property markets in developed countries.

FUND INFORMATION	
Benchmark	FTSE EPRA/NAREIT Developed Rental Index
Fund managers	Evan Jankelowitz, Mohamed Kalla & Kundayi Munzara
Fund classification	Global – Real Estate – General
Total investment charge	1.62%
Fund size	R679.3m
Minimum lump sum/ subsequent investment	None/R15 excluding VAT on investor accounts with balances of less than R100 000 at month-end
Contact details	011 684 1200/info@sesfikilecapital.com

TOP 10 HOLDINGS AS AT 30 SEPTEMBER 2020		
1	Prologis (US)	5.9%
2	Vonovia (Germany)	4.4%
3	Alexandria Real Estate Equities (US)	4.1%
4	Deutsche Wohnen (Germany)	4%
5	Invitation Homes (US)	3.8%
6	Realty Income (US)	3.6%
7	Digital Realty (US)	3.2%
8	Duke Realty (US)	3.1%
9	Sun Communities (US)	2.9%
10	Healthpeak Properties (US)	2.8%
	TOTAL	**37.8%**

PERFORMANCE (ANNUALISED AFTER FEES)

as at 30 September 2020



Fund manager insights:

Sesfikile Capital's global property fund provides investors with access to 'hard currency' returns by investing in listed property companies or real estate investment trusts (Reits) in developed markets, such as the US, UK and Germany.

Global listed property gives you a liquid, low-cost option to access real estate in developed markets. Furthermore, the global space offers choice and a high degree of specialisation, says Anil Ramjee, investment analyst at Sesfikile Capital.

To provide perspective, he explains that in the local market you have the choice of the three major sectors, namely office, retail and industrial with a little bit of self-storage and residential exposure.

"In the global space you have more than 16 different sectors to choose from and the ability to invest in a certain sector in a certain location. For example, if you want exposure to apartments in Berlin or offices in Manhattan you can find a Reit that focuses specifically on that property type, giving you a high degree of specialisation."

Deutsche Wohnen, a constituent of the DAX, a blue-chip stock market index consisting of 30 major German companies trading on the Frankfurt Stock Exchange, is one such example.

Some 71.5% of Deutsche Wohnen's portfolio is in the Greater Berlin area. Berlin continues to see strong demand and limited supply (due to rent regulations), which has led to a shortfall of almost 125 000 units per year, according to Ramjee.

"The company has a vacancy rate of 1.8%, low leverage and a strong management team with strong corporate governance at board level. Furthermore, measures taken by the government to assist tenants who have been affected by the pandemic has helped to keep rental collections at 99.8%."

Overall, Sesfikile believes the stock shows great value despite 2020 outperformance.

The investment team also expects global Reits to achieve low double-digit returns in dollar terms over the next 12 months. They also say that certain sectors that have been significantly impacted by the pandemic could potentially outperform over the short term, given recent news of vaccines.

Due to lockdowns, mall closures and retailer bankruptcies driven by an increase in online shopping, mall Reits have, unsurprisingly, underperformed significantly. One mall Reit held by the fund, Simon Property Group, which focuses on class-A malls in the US, proved to be one of the most challenging to manage this year, according to Ramjee.

Why *finweek* would consider adding it:

Global property (one of the best-performing asset classes in 2019), as measured by the benchmark, has proven to be a dependable performer, delivering solid annualised returns in dollars. There is also a growing need for digital connectivity, at present, and the fund has exposure to property that houses digital infrastructure through holdings in Digital Realty, CyrusOne and Keppel DC. ■

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ASHBURTON MIDCAP ETF

BUY SELL HOLD

By Simon Brown

Rallying potential

I have been writing about how some small- and mid-cap stocks have been coming out with solid results and trading updates that heavily surprise to the upside. In some cases, this has seen share prices double on the news.

The Ashburton MidCap ETF (JSE code ASHMID) is often referred to as an SA Inc ETF, as most of its constituents generate the bulk of their income, if not all, from the local economy. Now, make no mistake, things remain tough in South Africa, but that doesn't mean there isn't opportunity. This ETF lost half of its value during hard lockdown and has now regained 50% of those losses.

On an historic price-to-earnings ratio of 16.5 times, it is fairly priced but, as improved earnings come through, there is plenty of space for this ETF to rally.

The ETF's top holdings include Clicks, Remgro, Northam Platinum, Bidvest, Old Mutual, Aspen, Spar and MultiChoice. So, a decent selection of stocks with a strong bent to SA Inc, and an easy way to get exposure to some undervalued stocks. ■

This ETF lost half of its value during hard lockdown and has now regained

50%

of those losses.

Last trade ideas

BUY Reunert
5 November issue

BUY Metrofile
22 October issue

BUY Sea Harvest
8 October issue

BUY Aspen Pharmacare
24 September issue

NASPERS

BUY SELL HOLD

By Moxima Gama

Tencent strong

China's internet sector lost about $290bn in value during the second week of November. This followed Beijing's clampdown on internet giants, when it laid out antitrust rules for the first time to root out monopolistic practises among local tech lenders – marking the end of an era.

This move comes as the EU and US are also seeking to curb the power of internet giants. The Chinese government wants to ban online platforms from colluding and sharing sensitive consumer data, the squeezing out of smaller rivals and subsidising services at below cost to eliminate competitors. According to analysts, Tencent will be better off, because its core business, from social advertising to video games, has truly little to do with the real economy and people's livelihood, compared to e-commerce and financial platforms.

With Tencent being Naspers'* biggest investment, and with Tencent potentially off the hook, Naspers' share price eventually regained substantial upside, which could end its 20-month inverted head-and-shoulders pattern. Upside through R3 640/share could see Naspers snap back into bullish territory in the medium to long term.

How to trade it:
Upside through R3 640/share would confirm a positive breakout of the bullish reversal pattern – thus triggering a buy signal. Gains through R3 790/share should motivate further upside to the all-time high at R4 143. Stay long above that level, as Naspers could fulfil its bullish pattern objective in the medium to long term situated at R5 164.30/share. ■

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

Tencent's global headquarters in Shenzhen, China

Photo: Shutterstock

Last trade ideas

BUY EOH
5 November issue

BUY Reunert
22 October issue

BUY Transaction Capital
8 October issue

BUY Tiger Brands
24 September issue

By Moxima Gama

DISTELL

Investors regaining confidence

South Africa's largest distiller, Distell, has seen its share price gain 39% over the past 30 days as investors adjusted their sentiment towards alcohol-related producers. Distell had been trading sideways between 6 640c/share and 8 900c/share since March. It formed rising bottoms within the sideways pattern, after Distell announced in August that its full-year results showed resilient performance in Africa, despite the impact of Covid-19.

52-week range:	R60.00 - R141.63
Price/earnings ratio:	42.11
1-year total return:	-26.35%
Market capitalisation:	R21.84bn
Earnings per share:	R2.70
Dividend yield:	1.76%
Average volume over 30 days:	4 22 652
	SOURCE: IRESS

DISTELL

SOURCE: MetaStock Pro (Reuters)

Outlook: Although the group lost approximately 100m litres in sales volumes and R4.3bn in revenue due to the lockdown, and dividends were temporarily suspended, the group positioned itself well for a recovery during the lockdown period. Rather than cutting jobs, salaries were reduced. The easing in agricultural export regulations under level 4 allowed Distell to process about R440m worth of open orders. The group is confident in the way it's managing the business, and aims to remain flexible and recession-proof by focusing on the price points of its diversified portfolio of brands.

On the charts: Distell has breached the resistance level of its sideways pattern at 8 900c/share – rapidly testing prior resistance levels. Continued upside could see Distell retest its all-time high at 14 980c/share in the short term.

Go long: With the three-week relative strength index (3W RSI) currently overbought, expect a near-term pullback. If it reverses above 8 900c/share – thus providing another buying opportunity – upside to 11 710c/share should follow. Further gains could see Distell return to its all-time high at 14 980c/share. ■

TELKOM

Could be ending a nine-month consolidation

Telkom's share price leaped during the first week of November after the fixed-line operator announced that it was expecting to report an increase in headline earnings of 15% to 25% for the half-year ended 30 September. A week later, the company reported a 25.4% jump in headline earnings per share – driven by its mobile offering.

52-week range:	R13.29 - R55.28
Price/earnings ratio:	13.38
1-year total return:	-37.90%
Market capitalisation:	R17.27bn
Earnings per share:	R2.34
Dividend yield:	1.48%
Average volume over 30 days:	2 152 194
	SOURCE: IRESS

TELKOM

SOURCE: MetaStock Pro (Reuters)

Outlook: Telkom lost all its previous gains and tested a low at 1 325c/share in March this year. It then traded sideways between 2 210c/share and 1 770c/share for two months, before regaining upside through the resistance trendline of its bear trend (blue bold trendline). Currently trading out of its bear trend, Telkom is attracting investors again. It had confirmed a positive breakout above 3 185c/share in June, but pulled back from an overbought position on the weekly chart.

On the charts: After holding firmly at 2 210c/share, Telkom regained upside momentum and has traded through the 3 185c/share key resistance level again. Expect further gains through 4 605c/share towards 5 825c/share if current bullish sentiment should persist.

Go long: A buy signal has been triggered above 3 185c/share. However, with the 3W RSI currently overbought, a near-term correction is on the cards. If another rising bottom forms above 2 855c/share – thus retaining the current uptrend – go long. Increase long positions on continued upside through 4 605c/share, as further gains towards 5 825c/share would be possible in the short to medium term.

Go short: A reversal below 2 855c/share would mark a false break through 3 185c/share – the current uptrend would end – potentially attracting selling towards support at 2 210c/share. In this instance, refrain from going long. ■

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

By Simon Brown

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.

GROWTHPOINT

The V&A Waterfront in Cape Town, 50% owned by Growthpoint.

Book build success

Growthpoint came late to the capital raising party, but the accelerated book build saw significant support, as R4.3bn was raised against the planned R4bn, according to an announcement on 12 November. The accompanying update was not pretty, but Growthpoint is now well capitalised and, even with distributions cut from 100% to 75%, it's the best in the listed property sector.

DIS-CHEM

Expanding into primary healthcare

Dis-Chem Group's results for the six months through 31 August saw headline earnings per share (HEPS) rise 16.2%, compared with the same period a year earlier. What really stood out was the announcement that the dividend was cancelled due to "a number of potential strategic acquisitions". Aside from the already announced purchase of Baby City, Dis-Chem has two other acquisition targets on the radar: a community-based pharmacy group and a healthcare insurance asset. In other words, Dis-Chem is making a serious move into primary healthcare, which fits neatly into its existing telemedicine offering – and, according to reports, is being very well received by customers. We'll wait for details, as deals always carry risk. However, I like the concept and strategic direction.

AFRIMAT

Holding up as benchmark

Afrimat again showed why it's the benchmark for construction companies in South Africa, even if it's not directly involved in building, but rather providing concrete aggregate to the industry. The company announced a 1.1% increase in HEPS for the half-year through 31 August, although it was off a high base from the previous year. In addition, it covered the hard lockdown of April and May.

A significant save for Afrimat was its iron ore mining division, which delivered R325.8m of the R353.1m operating profit, even as the company operated at a reduced capacity during hard lockdown. On a price-to-earnings ratio (P/E) of just under 11 times, and with a second half likely to see growth closer to 20%, the valuation is not stretched – even as the share trades at around all-time highs.

Dis-Chem Groups results for the six months through 31 August saw headline earnings per share (HEPS) rise

16.2%,

compared with the same period a year earlier.

LEISURE INDUSTRY

Casinos back as hotels suffer

Sun International's 10 November business update gave investors some great insight into the leisure industry. Casino revenue was doing well, with September gaming income back at 68% compared with the same month a year earlier. However, room revenue is only at 23% of September 2019 and food and beverages at 31%. Alternative gaming, which includes Sun Bet, online sports betting and Sun Slots' limited pay-out machines, saw revenue of 89% compared with the same month a year ago. This tells us that hotels remain under serious pressure. Tsogo Sun Hotels' results for the six month ending 30 September saw the company reporting a 40.5c headline earnings loss per share against a 10c HEPS the same period a year earlier. The purer casino-play business, Tsogo Sun Gaming, is likely pretty close to previous years and offering good upside potential.

ANCHOR GROUP

Offer to shareholders

Anchor Group listed on the JSE in 2014 at an initial price of 100c (only insiders got that price) and it rallied to almost 1 900c by December 2015; it was a stock I liked very much. But then some deals took the shine off earnings and over the last three years the stock traded between 300c and 500c. On 13 November, Anchor announced a delisting at 425c per share, which I think is very opportunistically priced and, even though it's not my preferred financial stock, it has good prospects over the next few years. The delisting is being done so that holders can elect to sell, or they can continue to remain invested in the unlisted Anchor. I never invest in unlisted stocks, but Anchor is more likely to keep things honest. The lack of price discovery in a listed environment, would, however, still see me staying away.

Photos: Archive | Shutterstock

RICHEMONT

Online sales boost

Richemont's interim results through 30 September surprised me, with solid online sales, despite declining margins. I would have thought that online is not how the wealthy want to buy their luxury goods, and maybe in time I will be proved right. But, in a pandemic with no other real options, they did. It is worth noting that the online sales did suffer from a "competitive pricing environment", which is likely to be the future of online retail as comparing prices requires only a few clicks. The company also sits on €2.1bn of cash and lots of debt not yet drawn down. That said, the stock is looking expensive and continues to trade in the R95 to R125 range, which it has been stuck in since 2013.

BANKS

A shot in the arm

Joe Biden's victory in the US presidential election and a good news update on a Covid-19 vaccine from Pfizer and BioNTech have sent bank shares flying higher. The vaccine still has hoops to jump through. We need many other vaccine candidates to have similar successful trials if people require two shots. I have written before that banks have been cheap – cheaper than during the 2008/2009 financial crisis – even as I have concerns about bad debts remaining elevated. However, a vaccine reminds us that we will get past this pandemic, leading to bank stocks running hard. Nedbank added almost 45% in eight trading days and, while we're seeing some selling, it may well be time to start building a position here. My preference among the large banks is Standard Bank and FirstRand. Capitec* is another preferred one for me, although it's up by some 75% off the pandemic lows and, once again, expensive.

ASPEN PHARMACARE

Benefits from vaccine production

Aspen Pharmcare announced a joint venture to produce 300m vaccine shots of the Johnson & Johnson investigational candidate on 2 November – if it passes stage-three trials. This boosted Aspen's share price. It also reaffirms Aspen's world-class facilities in the Eastern Cape, and the vaccine production will generate utilisation for the factory. The vaccines will, however, not be a massive profit generator, as nobody can be seen to be making excessive profits off a vaccine for the pandemic. But it will help to pay down capital expenditure costs. Another important point is that if Aspen does produce the vaccine, it means SA will get the vaccine early, as all 300m units won't be shipped out of the country. Aspen will have to keep 60m behind for us. So, potentially, South Africans will start getting vaccinated by mid-2021, whereas many other emerging markets will only get a vaccine in 2022 due to supply constraints. This will boost the economy, and our SA Inc stocks.

> If Aspen does produce the vaccine, it means SA will get the vaccine early, as all 300m units won't be shipped out of the country.

TELKOM

Value unlock over time

Telkom published decent first-half results through 30 September, with HEPS up 25.4%. Telkom is now firmly the number-three mobile operator in SA, ahead of beleaguered Cell C. The big story here is the unlocking of value by bringing in a third party to invest into the masts and towers business. Unfortunately, this is not likely to be a listed investment; towers are a great opportunity for those looking for dividend yield. That said, it will help the Telkom share price, should the deal go ahead. The data centres could also be another division ripe for a joint venture, and all bodes well for the share price. Timelines of 12 to 18 months, however, mean we're looking at 2022, so no rush needed to try and profit off the attempts to unlock value.

RAUBEX

Confident in future construction

Raubex announced tough results for the six months ending 31 August, which saw HEPS down 145.4%, resulting in the construction company swinging into a loss. But it's well positioned for infrastructure spending and commented that "[we] are encouraged by recent contract awards", and its order book increased by over 20% to R11.7bn. The confidence was further indicated as the company declared a dividend, albeit after skipping the year-end dividend to February. With a share price a little over 2 000c at the time of writing, the company's stock is cheap and a good bet in the infrastructure spending space. There are, however, two risks: The spending may not happen and, worse, they may win contracts that don't deliver on the margins promised. Nevertheless, I back this team to get its tendering numbers right. ■

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**The writer owns shares in Capitec.*

By Petri Redelinghuys

ANALYSIS

Why now is the time to start buying Shell

As the energy giant looks to the future, it's positioning itself to remain powerful for the long run.

Photo: Shutterstock

It is once again time to start thinking about what some of the major market themes are going to be in the year ahead. In previous articles, we've highlighted some of the ETFs that we have been buying in the energy sector, which have mostly been centred around exposure to oil services, energy production and uranium. We believe that given the supply dynamic in the oil market, oil, natural gas and energy in general are going to be big themes in 2021. Therefore, in this article, we are going to take a closer look at the energy market, and one individual company that we think is going to benefit from a return in energy demand as the world comes out of the global Covid-19 slowdown.

Let's start with oil. As always, prices are driven by supply and demand. This is no real surprise as this is how the price, or value of just about anything, is determined. At present, demand for oil is very subdued due to the impact that the Covid-19 pandemic has had on the global economy. Countries locked down and traditional economic activity ground to a halt. This created an abrupt and drastic reduction in the demand for oil, with some spectacular consequences. We saw oil futures contracts trade at negative prices. Traders were forced to pay others to take oil off their hands in a bid to avoid the storage costs associated with keeping millions upon millions of barrels of oil in container ships, floating around the world because there was just simply nowhere to store it.

We think, though, that as we humans start to develop herd immunity against Covid-19 and the progress being made towards an effective vaccine and the global distribution thereof, demand for energy – and specifically oil and natural gas – will rebound in the coming year.

On the supply side of the equation, we're seeing that some severe constraints have manifested over the last year. US shale gas production could be a thorn in the side here, but overall, shale gas is only a small portion of the total energy market. What's more important to focus on in our view is the drop off in traditional oil rigs. We note that the rig count is currently at historically extreme lows, both in the US and elsewhere. There is also a lagging effect between rig counts and production. Thus, we believe that oil production will continue to decline in the coming months before new supply eventually starts to come online in the form of oil rigs starting to produce again (an increase in the rig count). Usually though, it takes about 12 months for oil rigs to restart production if they have been shut down, so we expect there will be a sustained period of extremely limited oil supply (**see graph 1**).

At present, the oil market is somewhat balanced as is evidenced by a relatively stable oil price. This is mostly on account of the Organization for Petroleum Export Countries' (Opec) production cuts, which is not likely to change in the very near future. Interestingly, US oil production is also forecast to drop to 9m barrels a day by year-end, down from 13m barrels a day. If the world goes back to 'normal' and oil consumption goes back to 95m barrels a day, this is going to create a huge deficit and is likely to lead to a sharp increase in the oil price.

This leads us to our stock pick: Royal Dutch Shell. Shell is one of oldest names in

Shell also has over 40m tonnes of regasification capacity and is one of the largest LNG shippers, with almost 100 carriers in operation.

the oil business and, obviously, if oil prices rise, Shell benefits. So, with all those other oil companies, why is Shell different? For starters, Shell is the undisputed leader in the liquified natural gas (LNG) space.

When you include sales from third parties, spot market and term (future delivery) purchases, the company sold a total of 75m tonnes of LNG in 2019, representing about 20% of annual global demand. Shell also has over 40m tonnes of regasification capacity and is one of the largest LNG shippers, with almost 100 carriers in operation.

Thus, while we expect demand for oil to rebound and Shell to benefit greatly, we acknowledge that the world is moving to more green energy supply solutions, which include natural gas, and Shell is well positioned in this market.

Currently LNG is still in exceptionally large oversupply, but is expected to stabilise in the mid-2020s. If the oversupply is worked out of the market and the market stabilises over the course of the next five years or so, this will be a nice kicker to Shell's earnings. Thus, we have a short-term, almost immediate benefit on the horizon on the back of 'the return of oil demand' and a solid medium-term investment case due to a more balanced LNG market over the next three to eight years.

A decade is not a long time though, what about the real future? This is another reason why we like Shell – because it's not just an oil company. Shell has been doing a rather aggressive push into the green energy sector and intends to be the world's largest power producer by 2030.

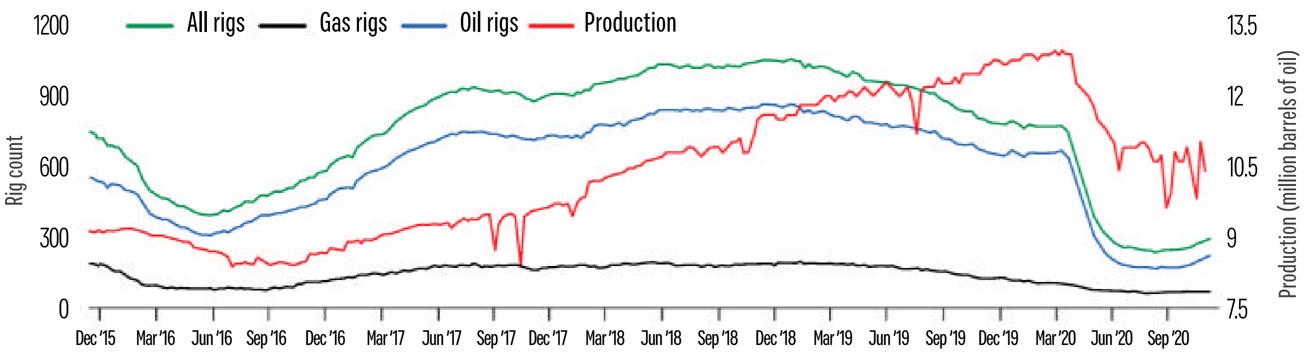
This is evidenced by them 'putting their money where their mouth is'. Shell has been spending around $1.5bn a year on renewable energy production and is increasing that spend to $3bn a year. Further, Shell already owns a portfolio of wind and solar power generation assets. In the solar space, Shell has installed capacity of (or the ability to produce) 1 gigawatt of power.

Shell has been spending around

$1.5bn

a year on renewable energy production and is increasing that spend to $3bn a year.

GRAPH 1: US OIL RIG COUNT



SOURCE: oilprice.com

GRAPH 2: ROYAL DUTCH SHELL SHARE PRICE (IN EURO)

SOURCE: Herenya Capital Advisors

The wind-powered generation plant is also impressive and is currently sitting at 600 megawatts of installed capacity, and Shell has made proposals to add another 2 500 megawatts by 2030.

Moreover, Shell has been on a bit of an acquisition spree. It bought Greenlots, an electric vehicle charging station network with 900 charging stations across the US, Canada, Singapore and Thailand, last year. Shell also bought Limejump Energy, a UK-based trader and aggregator of energy, in 2019. A few years back (in 2017) Shell bought NewMotion, gaining access to 30 000 charging stations throughout Western Europe and last year it led a $31m investment in Ample, a secretive electric vehicle charging start-up that is involved in robotics.

It seems to us that Shell is looking to the future and is already starting to build distribution networks to complement its power generation ambitions. On a long enough timescale, oil companies will die out. Shell, however, is not going to stay an oil company.

When considering the current share price, we see that it is trading at a price to earnings ratio of 7.4 times with a dividend yield of 5.3% (**see graph 2**). To us, that seems cheap. Any upside surprise in the oil price in the short term is going to translate into making these ratios even more attractive by boosting earnings. Thus, we think now is the time to start buying Shell. ■

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By Simon Brown

ANALYSIS

Inventory levels can be an early warning signal

The amount of stock a company holds on its balance sheet at reporting time can give investors an indication of a company's cash flow status, as well as flag other issues on the horizon.

Management of inventories – the stock a business holds to sell in future – is a crucial art for most businesses. The exception being pure tech businesses that don't sell hardware and financial services companies that generally have cash and use capital adequacy ratios as a sort of inventory measure.

But traditional retailers, manufacturers and miners will have inventory on hand. In these days of global supply chains and just-in-time inventory holdings, it can be a competitive edge if they manage their inventory effectively.

Tim Cook's rise at Apple under Steve Jobs was in part due to his mastery of supply chains, producing tens of millions of iPhones in China from multiple parts suppliers scattered across Europe and Asia and then ensuring that each iPhone was at the right store when a customer walked in to buy that model.

Now, the Apple supply chain is one of the most complex in the world; while ensuring baked beans are on the shelves at your local retailer is a vastly different and far simpler matter. But management of inventory remains especially important, even if seemingly simple, and large retailers invest vast large sums into technology to get it exactly right.

As is generally the case when investing, we can use a company's annual report to compare inventory levels to previous years, as well as against peers in the industry.

The first point I'd like to highlight is stock turnover. If inventory is R1 000 and annual revenue is R12 000, then the company turns all its inventory every month. But if the same revenue has inventory levels of R3 000, then the stock turns every four months and is briefly four times less efficient.

Now, there could be several reasons for this. Maybe there are exceedingly long lead times on production. But when a company has a longer turnover period, this always leads me to wonder why. Even if production is lengthy, good management will have a just-in-time production schedule, ensuring lower inventory levels and faster turnover rates.

The problem with high inventory levels and slow turnover is that it means cash is sitting idle and there is a risk that the inventory stock becomes outdated. Now sure, if it is canned beans, becoming outdated is less of an issue. But if it is this year's must-have Christmas gift for kids, tech gadget or summer fashion item, it could be worth far less as time goes by. We see this in fashion retailers all the time, with end-of-season sales in a bid to clear stock at almost any price.

The other risk is not having sufficient stock, running inventory levels too tightly and ending up with bare shelves and lost sales. So, it is important to check a company's inventory level in previous years and the levels of their peers. Reducing inventory levels could be an early warning of cash flow issues that are preventing a build-up in inventories.

Inversely, inventories suddenly increasing could be an early warning of a dud product that is not selling and will need to be marked down, or a case of a company losing customers to a competitor. So, while boring in many senses, keeping an eye on inventories can give an early warning of problems approaching down the road.

One last oddity is mining companies that generally have inventories. This relates to metals mined but not yet sold. This served the platinum miners very well in 2015 when the long strike was partly offset by selling down inventories. However, in an ideal mining world, mining inventories should just be about commodities that have been mined and are en route to the market rather than the miner stockpiling – either in the hope of improved future prices, or to weather a strike that may halt mining activity. ■

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Photo: Shutterstock

The problem with high inventory levels and slow turnover is that it means cash is sitting idle and there is a risk that the inventory stock becomes outdated.

By Schalk Louw

JSE

Are SA shares still attractive?

While 2020 certainly was the bearer of bad news for markets globally and here at home, there are a number of local stocks that are poised for a positive outlook.

What a year 2020 has been so far. Most news this year was understandably negative, with words like Covid-19, pandemic, lockdown, market correction and economic recession everywhere. Locally, we also had a few bonus words thrown around, like junk status and foreigners as net sellers of local shares and bonds. The question I'd like to address in this issue, considering the fact that foreigners have been net sellers of South African shares for 16 months in a row as at the end of October 2020, is whether or not there are still any buyers of SA shares out there. The short answer is: definitely. In fact, recent news about local companies has been very positive, and that may very well lead to more good news. Let's look at a few.

Adcock Ingram

In total, 99% of Adcock Ingram's turnover is generated in Southern Africa. Earlier this year, it bought back 1.5% of its shares. Its largest shareholder, Bidvest, announced on 23 October, however, that it has increased its shareholding in the company to 56.1%.

Afrox

American-German Linde, which owns 50.47% of Afrox, recently announced that it would like to buy the rest of the outstanding shareholding at R21.18 per share, resulting in its delisting.

Barloworld

Zahid Tractor & Heavy Machinery increased its shareholding in Barloworld by a further 5% at the end of September, and now owns 15% of the company. This makes us wonder if we could expect a possible further increase in shareholding.

Bell Equipment

With John Deer discontinuing the distribution of Bell products, it was looking for a buyer for its Bell Equipment shareholding. IA Bell and Co., owned by the founding family, is so positive about Bell Equipment that they offered to buy John Deere's stake, which will increase IA Bell's shareholding to over 68%.

Impala Platinum

This may not be one of the most significant ones but, in September, Implats announced that it would be making an offer to buy back all shares from shareholders holding less than 100 shares. With the miner's most recent results, it was revealed that the group has R13.33bn in cash available, and with debt valued at R8.85bn, further buy-back offers are a real possibility.

Long4Life

Long4Life, which owns popular chains like Sportsmans Warehouse, Outdoor Warehouse and Sorbet, recently announced that it bought back 40m shares (or 4.66% of the company). With the release of the company's end-August 2020 results, it still had R821m in cash on the balance sheet, making further buy-backs or other takeovers a real possibility.

MultiChoice

This share definitely made big headlines during October. French media company, Groupe Canal+, first featured in the news on 5 October when it announced the purchase of a 6.5% shareholding in MultiChoice. Immediately, questions arose as to whether it might increase this shareholding in the future, and it didn't take long to get an answer. Three weeks later (28 October), Groupe Canal+ announced that it now owns a 12% shareholding in MultiChoice. Should we anticipate more news in the near future? Only time will tell.

Naspers*/Prosus

There is no way we can talk about the JSE and 2020, without mentioning our very own giant. One of the topics that enjoyed quite a bit of airtime during the year, was the widespread discount at which all of SA's holding companies are currently trading. Should we consider this an opportunity or a warning? Well, on 30 October, Prosus attempted to answer this question with an announcement that it plans to buy back \$1.37bn (R22.2bn) in Prosus shares, as well as \$3.63bn (R58.8bn) in Naspers shares. Prosus plans to move forward with these buy-backs after the release of its half-year results, which are expected to be available later in November.

Remgro

Speaking of a widespread discount, as at 4 November, one of my favourite shares at the moment, Remgro, was trading at a discount of 45% to its intrinsic net asset value, and this after trading at an average discount of 15% over the past ten years. With the release of its 30 June 2020 results, it became clear that Remgro has several options at its disposal due to the R9.2bn in cash on their balance sheet. CEO, Jannie Durand, mentioned in a recent interview that the group is well aware of the widespread discount, but that it definitely creates some opportunities. He also said that they "can reinvest into our underlying companies at a huge discount if [they] buy back our shares".

I would like to prompt investors to act cautiously. The bad news so far in 2020, is without a doubt still part of our lives. Don't be reckless, and don't base 100% of your decisions on the bad news in 2020, because it definitely wasn't all bad news. To completely withdraw from the market based on bad news alone, carries its own risks. ■

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

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By Simon Brown

EXCHANGE-TRADED FUNDS

'Long-term investing is meant to be boring'

As the Satrix 40 reaches two decades since listing on the JSE, Simon Brown takes a look at the history of exchange-traded funds and why they are a solid investment.

The 27th of November marks the 20th anniversary of the listing of the first exchange-traded fund (ETF) in South Africa – the Satrix 40 (STX40*). It listed at 774c and at the time of writing, it was trading at 5 267c. Dividends received over the 20 years amount to another 1 517c, giving a total return of some 776% over the two decades. Not yet a ten-bagger, but a great return for doing nothing (aside from buying at listing).

When ETFs arrived in SA, they weren't new globally, but they had not experienced widespread adoption. In fact, when Jack Bogle launched his first index mutual fund in 1975, the industry responded by calling it un-American as it threatened their profits from active funds. The first listed ETF was in New York in 1993, tracking the S&P 500. The key difference with the Bogle index funds was that it was exchange traded, a feature that Bogle never liked as he thought this led to people trading their ETFs, rather than holding them passively for the long term.

In 1996, global ETFs launched in the US, and in 1998, sector-specific ETFs arrived. So, when our first ETF arrived in 2000, we were not that far off the trend. And we now have 78 ETFs on the JSE, with a further 48 exchange-traded notes (ETNs). ETNs are very similar to ETFs, except that they do not necessarily hold the underlying asset(s). Instead, they use derivative instruments to mimic the return and, as such, carry counter-party risk if the issuer defaults.

The introduction in 2015 of tax-free accounts saw a renewed boom in ETFs, and research by etfSA shows that the total ETF and ETN market cap stood at just under R113bn at the end of September. Still very small compared to the active unit trust industry locally, but up almost 400% in the last decade.

For many newer investors, a world without ETFs is unimaginable, and I know a lot of investors who only hold ETFs in their personally managed accounts. This has in large part been enabled by the growth in the industry, but other drivers have been online platforms and reduced fees. I have written before that the idea of a few clicks online to confirm a purchase order on the JSE, with fees under 1% – often markedly lower – was a crazy idea back in 1999, even as the internet became mainstream. ETFs themselves are also very cheap, with total expense ratios (TERs) starting as low as 0.1%, and the most expensive under 0.9%. This compares very well against unit trusts, which typically average at around 1.5%. As an aside, the only unit trust I ever owned, in the late 1990s, charged some 5% before performance fees; it never performed, so I never paid the performance fee. But somebody made money, and it wasn't me.

The last five years has also seen an explosion of locally listed ETFs tracking offshore markets, which is perhaps the biggest impact on the sector. Back in the day, buying a share or ETF listed in New York was an avalanche of paperwork, red tape and fees. Now it is also a case of just a few clicks and your order is processed on the JSE.

When the STX40 listed, a friend convinced me to buy some. I remember chatting to them about it two years later, and I mentioned that this ETF was boring. Their response has stayed with me ever since: "Long-term investing is meant to be boring." ■

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** The writer still holds some STX40 he bought in 2000, and many more bought in the decades since.*

For many investors, a world without ETFs is unimaginable, and I know a lot of investors who only hold ETFs in their personally managed accounts.

Photo: Shutterstock

By Peet Serfontein

TECHNICAL ANALYSIS

Which US sectors will benefit from the Biden presidency?

With Kamala Harris as deputy president, tech shares could possibly experience a revival.

Can we trust the opinion polls of the US elections? In October 2016, Hillary Clinton was given a 91% chance of beating Donald Trump. Five days later, a news agency published a poll, which put her just a few points ahead of him. Excited about the polls, the Democrats approached the elections with a joyful feeling of inevitability. The collective incredulity when Clinton lost was confusing: how could the polls have been so wrong?

With the recent elections, Joe Biden was leading Trump by double digits until the day of the elections. At the moment, it looks as if Biden won the US elections by some 4% to 5% (that is if Trump capitulates). This means that the polls were out by about 5% to 6%.

After the 2016 ballot box mistake, one wonders where the compilers of the polls went wrong, and maybe the popular support for Trump was once again underestimated. The compilers would obviously have changed certain methodologies to avoid the mistake of 2016.

I have mentioned exchange-traded funds (ETFs) in previous articles that people can buy to help them protect their portfolios. They usually track an index or sector.

And just a bit more on the subject of sectors: Sectors, and more specifically, stock exchange sectors, refer to a specific 'section' of the market with certain price characteristics and exposure.

Therefore, if you are uncertain about how markets will react to news, such as the elections or company results – and to adopt a more conservative approach – it would be advisable to invest in an ETF. A win by Biden could possibly boost sectors such as consumer discretionary stocks and communication services in the S&P 500.

This is where the Communication Services Select Sector SPDR ETF caught my eye. Its code is XLC.

This is also where Kamala Harris makes an entry. She made history by being the first black, Asian-American female elected as deputy president.

Harris cultivated a relationship with the technology industry during her previous tenure as a district attorney in San Francisco and attorney general in California. The deputy president also sided with tech companies on issues, such as internet neutrality, and took a far less aggressive view regarding the breaking up of the large tech companies in terms of the country's competition laws.

This ETF therefore attempts to provide exposure to companies in telecommunication services, media, entertainment and interactive media and services. The ETF enables investors to take strategic or tactical exposure on a more direct level than a traditional absolute investment strategy, where a person only has exposure to a specific share.

On 6 November, the ETF's five biggest exposures were to Facebook, Alphabet (Google), T-Mobile US, Charter Communications and Netflix.

What makes this share attractive as an investment option?

If you believe that Harris is going to be beneficial for this sector, then there is the possibility that this ETF will trend upwards. This is also provided you believe in Harris's influence. Any negative news about the anticompetition issues could affect this ETF negatively.

But must you buy?

The price action is in the process of forming a pole-and-flag technical pattern.

Usually, the price action breaks upwards and this is the reason for a target level of about $68. Such a pattern presents the possibility of the continuation of the original trend (bull) before the sideways price pattern started.

When the price breaks through below the level of $58, I will become worried. This level serves as a stop-loss.

Give it time to about mid-December 2020. A timed exit is part of an investment strategy when an investment does not deliver a return. Such a timed exit is calculated on how long the ETF on average remains in a bull trend. Also note that this is not a precise science and that one should keep market conditions in mind and make your decisions accordingly.

The graph is the medium-term (weekly) graph of XLC's share price. Note that it's a logarithmic scale.

It is always advisable to determine a profit target price beforehand as well as a stop-loss and a timed exit. You can always adjust your profit target price – but at least then you do have a goal rather than simply having no goal at all. ■

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Photo: Shutterstock

COMMUNICATION SERVICES SELECT SECTOR SPDR ETF

SOURCE: TradingView

52-week range:	$38.68 - $65.34
Price/earnings ratio:	-
1-year total return:	24.90%
Market capitalisation:	-
Earnings per share:	-
Dividend yield:	0,77%
Average volume over 30 days:	3 553 121

SOURCE: IRESS


Safe travels
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Cape Town
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EMERGING MARKETS… AND TRENDS

As developing nations navigate their way through the worldwide pandemic, there just might be some investment opportunities starting to emerge, writes **Jaco Visser.**

emerging markets are drawing the attention of investors again, albeit in a muted sense. The result of the US presidential election, together with low- or negative-yielding interest rates in predominantly developed markets, may just be the boon that emerging-market assets need.

In late September, the World Economic Forum reckoned that there was $13.7tr parked in assets yielding negative returns. That is roughly the size of China's GDP. But we will be comparing income statement with balance sheet items. For investors, and the growing ranks of pensioners in developed markets, this doesn't bode well for the near future. As returns diminished in markets, such as the EU, Britain, Japan and the US, money managers have reached to riskier markets in a bid to gain some positive returns. These money flows to emerging markets, however, have been historically volatile. Nevertheless, $13.7tr in negative-yielding assets is an immense amount. The world is awash with cheap cash, and emerging markets – with or without each nation's idiosyncrasies – could benefit from this vast mountain of capital.

First, though, we need to contextualise the conundrum that developed markets, and some emerging markets, find themselves in. Global government debt has ballooned over the past two decades, with a rapid increase since the failure of Lehman Brothers in 2008 and the subsequent global financial crisis. In the EU, austerity – driven by fiscally prudent nations, such as Germany, the Netherlands and Denmark, among others – took states, such as Portugal, Ireland, Italy, Greece and Spain to the fiscal brink. There was even talk that Greece may drop the euro as currency and return to the drachma. Today, among the members of the Organisation for Economic Cooperation and Development (OECD), government debt as a percentage of GDP ranges from 13% in Estonia to 237% in Japan, according to data from the OECD. Of the 33 members, 12 have seen this measure above 100%. And as government debt burgeons while politicians try to soften the monetary blow of the worldwide coronavirus pandemic, much of the easy cash has found its way into assets – listed or real – rather than into spending on consumer goods.

What does this hold for emerging markets? A look at the S&P 500, which tracks the largest US-listed stocks, and the MSCI Emerging Markets Index (MSCI EM), may show the very beginning of a rotation out of bonds (or rather when investors and pensioners are so hard up that they will risk some of their capital for at least a bit of yield) into stocks. Over the past 11 years, since November 2009, the S&P 500 rose with a cumulative 224.6%, whereas the MSCI EM – focusing on more than 1 300 large- and mid-cap companies in 26 countries – rose 23.4% cumulatively over the same period. A sign that investors may be looking at emerging markets again, is that the MSCI EM gained 30.2% cumulatively over the last six months compared with the S&P 500's 21.1% cumulative increase. Thus, before May this year, the MSCI EM declined in dollar terms with most of non-debt investing finding its way into developed markets.

Also interesting to note, when looking at subindices of the MSCI, is where investments have found their way into developed markets. For instance, the MSCI World Index gained 7.11% annualised over the past decade compared with the MSCI North America Index's 10.65% annualised jump. The MSCI World ex USA Index increased by a meagre 1.46% annualised over the last ten years. Since the beginning of this year, the MSCI World rose 6.09% annualised, the MSCI North America by 10.81% annualised and the MSCI World ex USA declined by 3.49% annualised, data from MSCI's database shows (all figures in dollar terms). Thus, apart from the US, other developed markets, as measured by indices, have been struggling over the past decade and even more so since the beginning of this tough year.

Turning to emerging markets now, the past decade has looked far less attractive than for developed stock indices. On an annualised basis, the MSCI EM returned a gross 2.42% (including dividends) over the past ten years, whereas the MSCI Asia Apex 50 Index returned 9.73%. The constituents of the Apex 50, which includes the 50 largest stocks in Asia excluding Japan, has undoubtedly been a big beneficiary of emerging-market flows over the past decades. The index is heavily skewed in favour of Chinese- and Hong Kong-listed stocks, which make up eight of the top ten holdings. Alibaba and Tencent together comprise more than a third of the Apex 50.

Technology trends

As technology stocks in the Far East dominate the emerging-market sector, some future trends are beginning to materialise, according to large asset managers in the rest of the world.

Franklin Templeton, with $1.4tr of assets under management (including $432bn in equities), in a recent note highlighted two new trends in emerging markets, mainly in China. The first concerns early detection of disease through wearable devices.

"This trend lies at the intersection of wearable technology and early Covid-19 detection," Franklin Templeton said in a November note to clients. "The pandemic has spurred people to become more aware of their overall health, driving the demand for wearable monitors that measure respiratory rates or even heart-rate function via electrocardiogram."

Franklin Templeton estimates sales of e-bikes to climb by 130m units between 2020 and 2023.

Scientists are conducting experiments with wearable devices (such as smartwatches) to deduct whether they could pre-emptively detect symptoms for Covid-19. Recent research articles in this regard appeared in *Nature (Medicine)*, *The International Journal of Pervasive Computing and Communications* and *Frontiers in Digital Health*.

Franklin Templeton said in its note that "China, a world leader in smart, wearable technology has conducted one of the largest Covid-19 wearables studies to date, using a historical database of 1.3m wearable users across China and Europe".

Another trend that is rearing its head is that of electronic bicycles (e-bikes) gaining commuters' favour as the contagion risk of public transport remains elevated. "Covid-19 has disrupted the ways millions of us work and travel," said Franklin Templeton. This has seen a huge increase in the demand for e-bikes. Referring to research from Deloitte, Franklin Templeton estimates sales of e-bikes to climb by 130m units between 2020 and 2023. "To put this number into perspective relative to electric cars, just 7.2m electric automobiles were in circulation globally in 2019 – 47% of which were in China," according to the asset manager.

And China stands to benefit from this rise in e-bike sales. Franklin Templeton said that a mid-range commuter e-bike in Europe would start at a selling price of around €1 300, whereas one produced in China would go for €337. China produces around 30m e-bikes annually, said Franklin Templeton.

Photos: Shutterstock

Emerging-market debt

Apart from trends in company innovation, emerging-market debt came under the spotlight as developing nations scrambled to deal with the economic fallout of the coronavirus pandemic. Debt from sovereign emerging-market issuers was sold off badly during the March market tumble, but rebounded, albeit slower than developed-market debt. Several factors have contributed to the resurgence of this asset class, both investment grade and junk.

"The strong rally over the past several months has been fueled by a confluence of factors, including vastly improved investor sentiment, easing global financial conditions, and ongoing evidence of a swift global economic recovery," Lazard Asset Management, which oversees €172.6bn in funds, said in a recent note to clients. "Perhaps one of the best indicators of economic growth is manufacturing PMI (purchasing managers' index) data, which tends to lead GDP by one or two quarters."

According to Lazar, PMIs are painting a "positive picture, showing a world vaulting out of the Covid-19-induced economic slump and into a sharp V-shaped recovery". PMIs in the US, Europe, China and emerging markets are all above the crucial level of 50, which indicates expansion.

Despite the recovery in emerging-market debt, especially those of investment grade, Lazard is seeing "pockets of dislocation" within the asset class. Stone Harbor Investment Partners,

With the policy rates in some developed markets as low as 0.05%, the average policy rate in emerging markets has declined from 5.3% to

2.4%

in August this year – still more than two percentage points higher than their developed peers.

which manages about $20bn in funds, said in a note to clients that the reason why it increased allocations to emerging-market debt in March, is still relevant at present. These factors include the consistent pattern of emerging-market debt recoveries, following the sharp sell-offs, better-than-perceived fundamentals in selected countries, large support from multilateral and bilateral lenders and current valuations.

With the policy rates in some developed markets as low as 0.05%, the average policy rate in emerging markets has declined from 5.3% to 2.4% in August this year – still more than two percentage points higher than their developed peers. When one considers the yield on government debt in local currencies, Stone Harbor mentions that external current accounts have started to improve, despite lower commodity prices and weak advanced economy growth. "However, unlike external debt that matures at par in hard currency if there is no default, eventual returns in local bonds depend on future foreign exchange movements, which are highly dependent on market sentiment, emerging- market growth relative to developed markets and the strength, or lack thereof, of the US dollar and other major currencies," Stone Harbor said.

Against this backdrop, we will now look at some macroeconomic factors and stocks in a couple of emerging economies. For this overview, we'll exclude China.

BRAZIL:

Currency: Brazilian real (weakened 24.2% against the dollar since 31 December)
Stock market: Ibovespa Index (declined 10.9 % since 31 December)

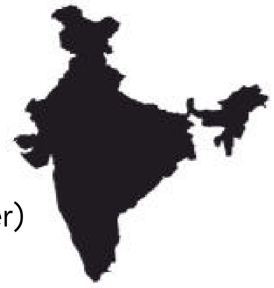
If there is one market to a large extent akin to South Africa, then look across the Atlantic Ocean. Endowed with mineral and agricultural riches, the Brazilian economy has been suffering this year. An economic bailout worth 12% of the country's GDP has ballooned the budget shortfall from 6.2% to an anticipated 27.5% of GDP this year. Gross government debt reached 85% of GDP in July compared with January's 75.9%.

"This rise in debt and deficit levels amid economic uncertainty is expected to make a return to fiscal prudence more challenging for the government," Deloitte said in a research note in October. "Over the next year,

as investors' focus likely returns to fiscal health, any movement in bond yields will depend on how the government handles its finances and its ability to drive more reforms."

A solid performer over the past year has been Grupo NotreDame Intermédica (GNDI), a private healthcare operator servicing 6.2m members in 26 hospitals, 81 clinics and 23 outpatient emergency rooms, among others. To put it into context, GNDI's membership is 50% more than SA's total medical aid scheme members of 4m. The company increased its second-quarter net income by 149% compared with the previous year. The share price plummeted to R$29.37 during the March sell-off, but has recovered to its current level of around R$70.

INDIA:



Currency: Indian rupee (weakened 3.5% against the dollar since 31 December)
Stock market: S&P BSE Sensex Index (gained 4.8% since 31 December)

The world's fifth-largest economy (just ahead of the UK,) with the second-biggest population, is expected to experience a 3.2% contraction in its GDP this year with a 3.1% rebound in 2021, according to the World Bank's latest forecasts. The country enforced a hard lockdown to curb the spread of the coronavirus, which impacted consumer spending. As a big exporter of manufactured goods and a large importer of commodities, India's economic recovery next year is all but certain.

"Spillovers from contracting global growth and balance sheet stress in the financial sector will also adversely impact activity, despite some support from fiscal stimulus and continued monetary policy easing," the World Bank said. One way of boosting the economy, is addressing the country's ailing infrastructure which, according to the ministry of finance's economic survey, will need $1.4tr by 2025 – or 1.6 times its current GDP – to get its GDP over the $5tr mark.

The Indian government said in October that it plans to spend Rs 250bn (R52bn) on road, defence and water infrastructure in the coming months.

Enter Shree Cement. The cement maker saw its second-quarter revenue through 30 June slump by a quarter compared with the same three-month period a year ago. At the same time its after-tax profit declined by 13.5% for a profit of Rs 330m. The share is trading at Rs 22 762 (R4 788) with an historic price-to-earnings ratio of 54 times. Shree's share price has gained 12% since the beginning of the year.

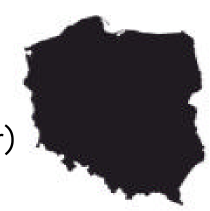
MEXICO:

Currency: Mexican peso (weakened 7% against the dollar since 31 December)
Stock market: IPC Mexico Index (declined 9.5% since 31 December)

The Mexican economy was hard hit by the curtailment of economic activity due to the coronavirus pandemic. It contracted by 17.1% quarter-on-quarter annualised (similar to SA's figure for the period). The Banco de México, the nation's central bank, lowered its policy rate from 7% to 4.5% by September. The IMF predicts that the country's GDP will contract by 9% this year and grow by 3.5% in 2021. Last year, it contracted by 0.3%, IMF data shows. Some commentators reckon that the Mexican economic rebound will be lacklustre at best due to the government's muted fiscal response to the pandemic.

Therefore, a defensive stock comes to mind and, at that, one of the largest in Latin America: America Movil. The company, headquartered in Mexico, operates in 25 countries in Latin America, North America and Central Europe and claims to have the largest subscriber base outside of China and India. The company's share price is trading at an historic P/E of 30 times – more than double Vodacom in SA's 14 times. The share price has declined 6.6% since the beginning of the year. America Movil's total revenue for the quarter through 30 September reached $260.1bn compared with $248.4bn a year earlier – a 4.7% increase. Earnings before interest, tax, depreciation and amortisation jumped 10.1% from a year earlier as the company managed to keep expense growth at 2.2%. The stock trades at $14.33 on the Bolsa Mexicana de Valores (Mexican stock exchange). The sign for the peso is also '$'.

POLAND:



Currency: Polish zloty (strengthened 0.4% against the dollar since 31 December)
Stock market: WIG 20 Index (declined 19.1% since 31 December)

A second wave of coronavirus infections in Poland may derail the country's economic recovery in 2021, Reuters recently quoted a central banker as saying. The European Commission expects the Polish economy to contract by 3.6% this year after expanding by 4.5% in 2019. In 2021, given how the coronavirus pandemic affects economic activity, the commission forecasts a GDP growth of 3.3%.

A standout stock is Selena Group, a worldwide supplier of construction chemicals listed on the Warsaw Stock Exchange. The company's share price is trading at an historic P/E of 6.8 and the stock lost 7.7% since the beginning of the year. Selena reported an increased profit for its second quarter ending 30 June, even as revenue declined marginally.

"Polish companies have the ability of fast response embedded in their DNA," Krzysztof Domarecki, CEO of Selena Group, said in a statement after the release of the company's first-half results. "And one of the main effects of the pandemic today is the acceleration of processes. In the coming months, the biggest threat to business will come from the decline in demand in the European market, but Polish companies – accustomed to operating in crisis conditions – should be able to cope with it." ■

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Photos: Shutterstock

By Jaco Visser

MEDICAL SCHEMES' HEALTHY RESERVES UNDERPIN LOWER PREMIUM INCREASES

The medical aid scheme industry is faced by stagnant membership as South Africans suffer from economic headwinds. Nevertheless, schemes are well positioned to buffer the effect of Covid-19.

Medical aid schemes have experienced a drop in the number and value of members' claims due to the coronavirus pandemic, resulting in higher reserve levels, even as healthcare inflation continues to bite privately insured South Africans.

In a response to questions, Fedhealth's principal officer, Jeremy Yatt, said that between 1 January and 31 August, the medical aid scheme's claims experience was 24% below budget. As claims were higher than budgeted in the first three months of the year, the total claims experience from 1 January to the end of August was 14% below their budget.

Bonitas experienced a similar drop in claims. "The current Covid-19 pandemic led to significantly lower claims than expected in 2020 to date (and) on a per-member basis," Lee Callakoppen, Bonitas' principal officer, said in a response to questions. "Including Covid-19 outgo, overall projected claim levels for April to July were on average 22% lower than the expected pre-Covid levels respectively, with notable variations between claims categories."

Jeremy Yatt
Principal officer at Fedhealth

Lee Callakoppen
Principal officer at Bonitas

Elective surgeries

One of the results of the government's initial hard lockdown of the economy in March and April, was that patients postponed or cancelled their elective surgeries. This happened as people tried to avoid hospitals and possible contamination with the coronavirus, and private hospitals braced themselves for an influx of Covid-19 patients. The influx didn't happen uniformly, and private hospitals couldn't charge patients for surgeries. The lockdown and alcohol ban led to a dramatic drop in trauma cases – usually a money spinner for private hospitals. The result was also an improved claims experience for medical aid schemes.

Photos: Supplied | Gallo/Getty Images

Bonitas has seen a 60% drop in hospital authorisation requests, compared with 2019, says Callakoppen. "Providers are best placed to make these clinical decisions in the interest of their patients and elective surgeries are now almost back to normal," he says. "The backlog of surgeries, not considered emergency during lockdown, is being addressed. These include slow-growing cancers, orthopaedic and spine surgeries, airway surgeries, as well as heart surgeries for stable cardiac issues."

Fedhealth's Yatt says they have also seen a "rebound in claims" of late.

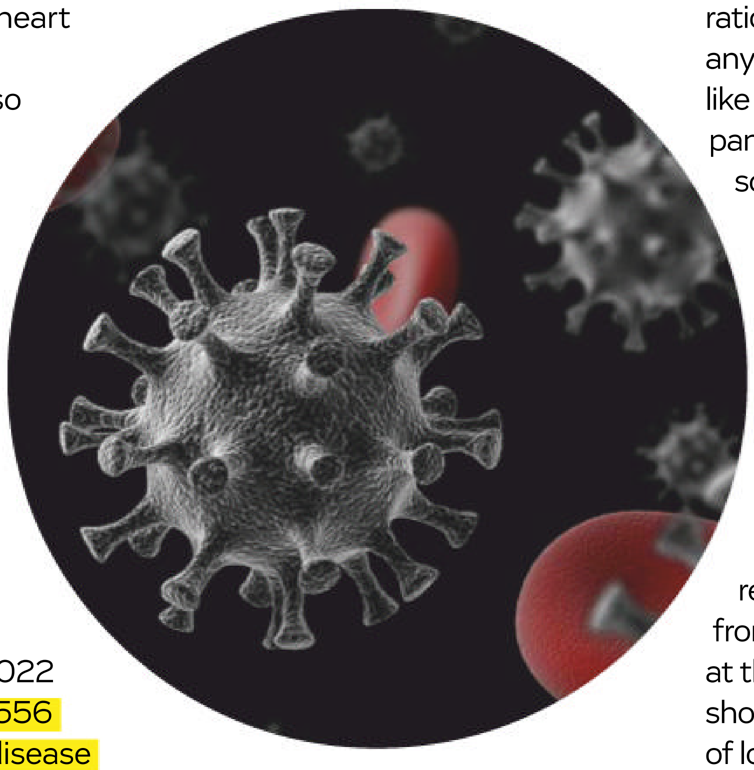
Cost of Covid-19

Being treated for Covid-19, however, doesn't come cheap. The cost of this writer's mother for a 16-day stay in private hospital to treat the disease with attendant doctors and physios ramped up to just over R123 000. Fedhealth saw 594 unique Covid-19-related hospital claimants between April and August, with a total cost of R42.2m and an average hospital claim of R71 022 per patient, says Yatt. Bonitas saw 5 556 beneficiaries hospitalised due to the disease by 9 November, at an average cost of R89 542 per admission.

"Current costs, based on a 2.78% prevalence, are R638.42m," Callakoppen says. "The projected cost, at a maximum prevalence of 5%, is R959.66m. However, based on current Bonitas members' Covid-19 trend, the scenario suggests that a prevalence rate of between 3.75% and 4% would be reasonable."

Reserves

With the seemingly low prevalence of hospitalisation for coronavirus-related disease, medical aid schemes' reserves received a healthy boost. In terms of the government regulations relating to medical schemes, they must hold reserves equal to 25% of their annual gross premiums received. This has been a point of contention as medical aid schemes consolidated and became bigger in terms of beneficiary numbers. The reserves are required as a safeguard against unforeseen large claims or when actuarial assumptions used to determine premiums do not realise in a specific year. Remember that premiums are fixed in advance based on these assumptions. The reality, as proven in 2020, can turn out otherwise.



"A higher solvency ratio gives the scheme a cushion to absorb any future unforeseen increases in claims like a potential second wave of the Covid-19 pandemic."

Some schemes take a cautious approach to the utilisation of their reserves, also referred to as their solvency ratio. "A higher solvency ratio gives the scheme a cushion to absorb any future unforeseen increases in claims like a potential second wave of the Covid-19 pandemic," says Yatt. "It also provides the scheme with the opportunity to maintain or even improve benefit levels."

In general, medical schemes have held healthy levels of reserves over the past decade, ranging between 31.6% in 2016 and 35.6% at the end of the first quarter last year, data from the Council for Medical Schemes (CMS) shows.

For open medical schemes – where any person can apply without employer-related restrictions – the solvency ratio deteriorated from 29.4% at the end of March 2019 to 26% at the end of March this year, the council's data shows. That was before the lockdown's effect of lower claims experience kicked in.

Premiums and benefits

This brings us to the question whether medical schemes should perhaps provide more relief to their members given SA's dire economic reality.

"The reduction in trauma cases, elective procedures, visits to specialists and general practitioners due to Covid-19 and the country's lockdown response resulted in a lower claims experience," Leo Dlamini, principal officer of Bestmed, said in a reply to questions. "This resulted in an increase in the scheme's reserves. The increased reserves stand the scheme in strong position to be able to offer single-digit increases for future years. This will of course depend on the future cost of Covid-19."

Bonitas announced the lowest premium increase (for 2021) in years. "Due to the projected 2020 financial performance, the scheme announced its lowest contribution increase in over 15 years for the 2021 benefit year," says Callakoppen. "It is important to note that although the scheme is projecting higher surpluses in 2020 due to the lower claims outgo, the scheme does not expect claims outgo to remain suppressed in the later parts of 2020 and into 2021."

Fedhealth's Yatt says that dipping into reserves to ensure lower premium increases is not sustainable, as it will have a knock-on effect every year going forward. "The current increase in reserve ratios is short term due to Covid-19. Once claims revert back to the long-term average, the long-term reserve ratios are expected to average 33% over the next three years."

An important determinant in future premium increases is the expected medical or healthcare inflation. These need to be factored in when determining future premiums.

"Due to our demographic and risk profile, Fedhealth's medical claims inflation has averaged 11% over the last five to six years and slightly higher in recent years," says Yatt. "For 2021, a 2020 claims base, based on long-term medical inflation, was modelled. A medical claims inflation of 9.6% was assumed for 2021."

Bonitas' assumption for medical inflation came in a little lower than that of Fedhealth's. "The scheme considered factors, such as tariff inflation, ageing, increases in utilisation, allowances for Covid-19 outgo in 2021 and benefit changes," says Callakoppen. "Based on the above, the scheme allowed for medical inflation in the region of CPI plus 3.5 percentage points, which is lower than the CPI plus 4.2 percentage points, which was the average contribution increase in the industry over the period 2009 to 2019 as stated by the CMS."

Future growth

As SA's economy tanked this year, with one of the severest contractions in economic output in the second quarter of the year, and millions losing their jobs and thus rotating into the state's welfare net, the market for medical scheme members are stagnant at best (see accompanying table). This places a cap on growth and the diversification of morbidity risk – where healthier and younger

GROWTH IN MEMBERS AND BENEFICIARIES OF MEDICAL AID SCHEMES

	March 2016	March 2017	March 2018	March 2019	March 2020
Members	3 958 721	4 000 606	4 016 708	4 047 804	4 056 860
Total beneficiaries	8 800 852	8 867 197	8 864 453	8 918 339	8 935 846

SOURCE: Council for Medical Schemes

"Once claims revert back to the long-term average, the long-term reserve ratios are expected to average

33%

over the next three years."

members cross-subsidise less healthy and older members.

In March 2015, there were a total of 3.9m members of all medical schemes (open and restricted) in SA compared with this past March's 4.05m members – an annualised growth rate of 0.65%. At the same time, the average age of members has remained constant at 32 years, whereas the percentage of pensioners rose from 7.1% to 8.9%. The biggest jump in pensioners (those older than 65 years) was seen in open medical schemes where they made up 8.2% of all members in 2015 and 10.6% in 2020. For medical schemes, though, the average age of members should remain at its current level or decrease.

Economic hardship has also seen trends where younger people enter the market.

"Most of the growth is from cheaper (basic) options due to the prevailing tough economic conditions in the country," says Dlamini. "We have also seen existing members changing to cheaper options because of economic hardship. This trend is expected to change once the country's economic climate improves."

Callakoppen says that "the vast majority" of growth achieved by open medical schemes over the past couple of years has been in options priced between R1 500 and R3 000 for a principal member per month. He also expects "current members experiencing financial strain" to buy down to lower options in the segment of R1 500 to R3 000. This trend is affirmed by Yatt.

"There is a general industry trend of people buying down to more affordable, but less comprehensive plans," says Yatt. "Members on most schemes who are looking for more affordable cover are forced to sacrifice their level of cover by buying down to a plan that better fits their budget, but may not provide the appropriate level of cover. ■

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Photos: Shutterstock

SOUTH AFRIC
ON THE EDGE OF

... but we can avoid going over, provided govern

South Africa's deteriorating finances have brought it to the brink of what economists describe as a fiscal cliff – the point at which a country is unable to borrow enough to cover its spending requirements and service its debt, either because it can't find lenders or because credit has become unaffordable.

Plunging over the edge looks increasingly likely, as SA's plans to stabilise borrowing over the next three years depend almost entirely on freezing the bloated public sector wage bill, which will absorb half of the country's tax revenues this year.

So far there is no indication that labour unions, which were not consulted, will agree to the strategy outlined in October's medium-term budget and break with their long-standing history of demanding wage increases well above inflation.

Treasury's plans to narrow budget deficits and put debt on a sustainable trajectory also rest heavily on expectations of the speed with which the domestic and global economy will recover from the Covid-19 pandemic, which has tipped SA into its worst recession in nearly a century.

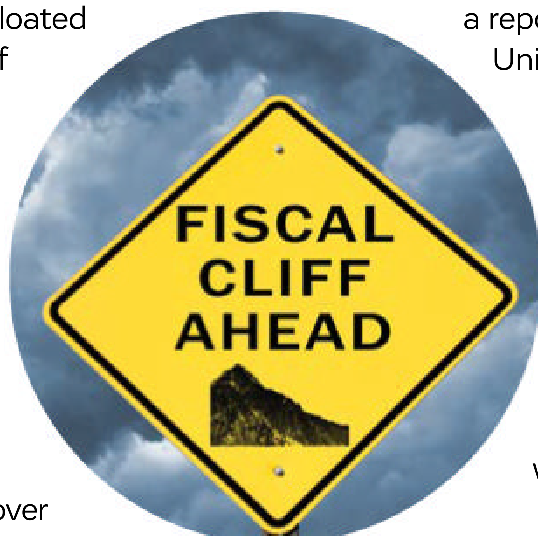
"As things stand now, there are far too many assumptions on which this budget is built and there is an overwhelming risk that revenues will disappoint," says George Glynos, co-founder and head of research for ETM Analytics

"We have not gone over yet, but at this stage we are rapidly sleepwalking towards the fiscal cliff. It's salvageable, but we still have an inherent apathy towards taking really tough decisions."

SA is now borrowing R2.1bn each day and debt service costs are increasing at an annual rate of 16.1% – faster than any other budget line item. Gross debt amounts to R4tr and will soar to R5.5tr in three years.

Treasury hopes to stabilise the crucial ratio of debt-to-GDP at 95.3% within five years, from about 82% this year – which is already alarming. The ratio was just 31.5% a decade ago.

"For a number of years, we have been on what I have termed a fiscal waterslide, which is going to dump us right in the middle of a shark-infested ocean with no life raft," says Nedbank economist Isaac Matshego.



SA is now borrowing

R2.1bn

each day and debt service costs are increasing at an annual rate of 16.1% – faster than any other budget line item.

"The measures we need to implement for government to achieve its targets are quite daunting. Without union buy-in, the government won't be able to contain the public sector wage bill."

Continuous capitulation to pressure from its labour allies over the years has pushed government payroll costs well above the global norm for ratios of public spending, tax revenues and GDP, according to a report commissioned from Intellidex by Business Unity SA (Busa).

At the same time, the average remuneration of public servants in SA is high both by international standards and compared to private sector employees.

The Busa report, released on 9 November, showed that public service wage costs adjusted for inflation soared by 78% to R518bn between 2006 and 2018 – well above the pace of economic growth – while headcount rose by 22%.

Busa is calling for government, trade unions and business to work together and agree on sustainable payroll ratios, the timeframes for adjustment, and productivity reviews to help the public sector meet the requirements of its service delivery and reform agenda.

Adjustments could be made by either cutting wages, reducing headcount or both – tough but necessary decisions, Busa said. "We all know what is at stake – we are talking about a fiscal debt crisis in three years, and we know we are at risk of further downgrades by credit rating agencies," says Busisiwe Mavuso, a non-executive director of the business group.

"In a nutshell, if we don't adjust, we are well on our way towards being another failed African state. And I think we can take that to the bank."

According to the calculations of the independent Fiscal Cliff Study Group (FCSG), SA has reached the precipice of the fiscal cliff, which they calculate as the point at which civil servants' salaries, social grant payments, and debt-service costs soak up all government revenue.

By Mariam Isa

A IS TEETERING A FISCAL CLIFF...

ment starts making hard decisions.

But this year is a bit of an outlier, as spending to counter the economic impact of the pandemic and a dramatic drop in revenue will push the budget deficit up to 15.7%, according to treasury's estimates.

Nonetheless, without rapid economic growth – a distant possibility – and a halt to bailouts for failing state-owned enterprises (SOEs), the measure will bounce back from a technical recovery in 2021 back towards 85% to 95% of revenue, warns FCSG member Fanie Joubert.

Last year, bailouts for SOEs amounted to R59.8bn and accounted for 18% of the main budget deficit.

'Red flags' were already going up as treasury was being pressured to borrow more through short-term instruments than in the traditional long-term government bond market, Joubert says. Foreign investors have also begun to withdraw, with their participation amounting to 29% of the market in mid-October from 37% in January.

There are also worrying signs that the government is not making fiscal sustainability a priority, with a budget decision to keep South African Airways afloat with a R10bn bailout, which was raised to R14bn less than two weeks later.

Finance minister Tito Mboweni had repeatedly vowed not to dish out any more money to SAA, but his wishes were ignored, as was his attempt to stabilise the country's rising debt trajectory in an emergency budget in June.

The medium-term budget was delayed by a week this year and there is mounting speculation that Mboweni will be replaced in the coming months.

The question is: What will happen after SA reaches the fiscal cliff? A crippling crisis is likely to be averted as most government debt is issued in rand – treasury has kept foreign borrowing in check, at around 12% of the total. This protects it from exposure to depreciation in our volatile local currency.

This year, the government said it would raise $7bn for budget support in the wake of the pandemic, to help cover both the collapse in its revenue and money spent on unemployment relief and additional grants for the poor.

It immediately received a $1bn loan from the New Development Bank set up by Brazil, Russia, India, China and SA, and Mboweni said it has applied for another $1bn. Money was extended from the African Development Bank and the International Monetary Fund (IMF) extended $4.2bn in Covid-related emergency funding on favourable terms and with minimal conditions.

But talks over a requested loan from the World Bank have stalled, most likely over conditions which the multilateral institution wanted to impose.

The question is, will SA eventually be pushed to go to the IMF for a traditional standby arrangement, which would force the country to implement the painful reforms it is now avoiding?

A growing number of analysts see this as inevitable. "The timing we can debate, but in an emerging market you always have to reform – either you do it yourself or it is forced on you," says Intellidex economist Peter Attard Montalto. He predicts that an IMF programme may be needed as soon as 2023.

Peter Attard Montalto
Economist at Intellidex

Tito Mboweni
Minister of finance

Glynos believes that going to the IMF is not the only avenue that SA can take when it reaches the fiscal cliff edge, which he also sees happening in the next couple of years.

The country could continue to get funding from multilateral institutions, tap into a pool of domestic savings, or attach the Reserve Bank's foreign exchange reserves, he says

"The thing is that a fiscal crisis initially happens very slowly, as a country becomes more vulnerable, then suddenly all at once. The trigger is not necessarily a domestic event," he explains.

"The problem is that asset prices globally and in SA are distorted by a tidal wave of central bank money that's been created out of thin air. That money has to go somewhere, and it seeps into emerging markets, including the risky ones. An offshore crisis could cause investors to be more judicious about where they place their money." ■

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

By Glenda Williams

Introducing refined ruggedness

The Ford Ranger Thunder exhibits double-duty dexterity off- and on-road.

Viewed only as hard-working utilitarian machines in bygone days, double-cab bakkies have become family-friendly leisure vehicles, now as commonly used for the daily school run or family road trip as they are for towing or tackling harsh, unforgiving terrain.

These tough hi-riders are top-sellers in South Africa, especially those built on home turf. The locally assembled Ranger is a firm favourite and the Ranger Thunder, a limited-edition Ranger Wildtrak with added features, is Ford's latest addition to its Ranger line-up. Offered in 4×2 and 4×4 variants with two powertrains, the Thunder brings added sportiness and style to the popular Ranger range.

finweek put the Ford Ranger Thunder 2.0-litre BiT 4×4 10-speed automatic through its off-road and on-road paces.

An imposing look with interior comfort

The Thunder's face, with its prominent grille featuring red-ringed 'nostrils', exudes a menacing presence. The chunky ebony body is punctuated by red accents, with thunder badging on the doors and tailgate; the 18-inch alloy wheels, mudflaps, footplate and load box roller shutter are dressed in black. Thunder detailing is carried through to the interior, where styling, fit and finish has been jazzed up. It lends the Thunder's cabin a polished, yet sporty feel.

The driver's seat is power adjustable, and the driver and front passenger get to keep their derrières warm with heated seats. There are premium bits aplenty. Standard kit includes power windows, rain-sensing wipers, 8-inch touchscreen infotainment system with navigation, Bluetooth, and multiple USB ports – one of which is a very handy port located in the rear view mirror for dashcam hook up. And connecting a smartphone and accessing Apple CarPlay is a seamless affair.

Also standard is a range of driver aids, such as adaptive cruise control, lane keeping and autonomous emergency braking. It's a far cry from the unpretentious bakkies of yesteryear.

Space-wise it's family-friendly, able to accommodate five passengers more than comfortably. There's serious rear legroom and the roomy rear also features a 12V power point and Isofix for securing child seats.

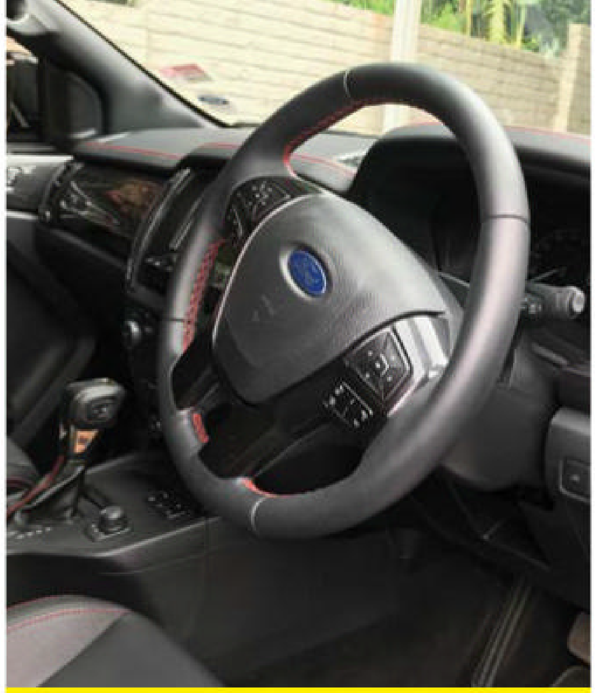
The load box is fitted with a hardy black roller shutter, bed divider, drop-in-bedliner, power socket and tie downs. Opening the lockable load cover, however, proved a challenge.

All-terrain prowess

This is no small vehicle. And it sits mightily high off the ground. Just getting in would pose a challenge if not for the side step and A-pillar assist handle that allows those of smaller stature, like myself, to hoist themselves in with some semblance of decorum.

Getting underway is easy with keyless entry and push button start. Parking this hefty brute is also effortless with front and rear parking sensors and a rear camera.

The Thunder's air intake, alternator and electrical components are positioned high in the engine bay, giving it serious water-wading capability.



TESTED:

Ford Ranger Thunder 2.0-litre BiT 4x4 10-speed Automatic

Engine: 2.0-litre bi-turbo diesel
Transmission: 10-speed automatic
Power/Torque: 157kW/500Nm
Fuel tank: 80-litres
Fuel consumption (claimed): 7.8 litres/100km
CO_2 emissions: 207g/km
Ground clearance (fully loaded): 237mm
Wading depth: 800mm
Payload: 860kg
Towing mass (braked) 3 500kg
Safety: Seven airbags
Warranty/Service Plan: Four-year/ 120 000km; Six-year/90 000km
Price: R811 800 (incl. VAT)

Photos: Supplied

Navigating a narrow, elevated ledge before the drop down to the water.

The seating position is even more elevated than an SUV and for a vehicle that does double duty as a workhorse and family vehicle, the ride is surprisingly polished. That, perhaps has much to do with its upgraded suspension.

But the first order of the day was to put this tough bakkie through its off-road paces, so I pointed the Thunder north and headed off to the ADA off-road track in Hartbeespoort, where it proved immensely capable.

Selecting 4×4 low range activates four-wheel-drive and the low-range gearbox provides power to all four wheels and keeps a lower speed, while still maintaining an optimum power band. This allows it to navigate steep inclines and declines with ease, wade effortlessly through water crossings, as well as tackle rocky or steep muddy inclines with little effort. The latter, though, depends on the driver getting things right.

Stuck on not being able to see what lay beyond the near vertical muddy bank, and hence being somewhat feeble of foot on the gas, my first attempt at tackling this muddy bank hit the skids. It was a lack-of-power mistake I did not repeat, and the bakkie thundered up the muddy rise in the next attempt.

> This rugged, hard-working machine has everything you need for the off-road playground.

It's got great wading capability and crossing fairly deep water proved a doddle. On uneven rocky terrain, the electronic diff-lock was employed to gain back traction, while the hill descent control kept the vehicle at optimum creeping-forward speed, while navigating a very steep downhill. The 4×4 high range, meanwhile, proved ideal for dirt road fun. Impressive stuff.

This rugged, hard-working machine has everything you need for the off-road playground; hill launch assist, and rollover mitigation included, as well as plenty of helpful on-road features like trailer sway control.

Speaking of trailers, the Thunder is capable of towing 3.5 tonnes. And, according to motoring peers, the 2-litre, bi-turbo's towing capabilities are superior to that of its 3.2-litre, 5-cylinder diesel engine sibling.

On the tar, it was back to 4×2 mode for regular on-road driving. The new-generation bi-turbo, 4-cylinder diesel engine doesn't run out of steam. It outperforms the bigger displacement 3.2-litre, single-turbo engine, the additional 25kW and 80Nm that the bi-turbo provides adding greater power and pull. Combine that with the 10-speed automatic gearbox, and you also get improved fuel efficiency.

Apart from 4×4 ability, payload and towing capacity, fuel consumption is important to the average bakkie owner. Vehicles with four-wheel drivetrains are heavier and generally fitted with all-terrain tyres, and that boils down to these fancy workhorses being somewhat less fuel efficient than passenger cars. Still, I managed a commendable 8.4-litres/100km in the first part of the test, even while a good portion of that was off-road.

A greater degree of urban trawling than highway driving (where adaptive cruise control was also employed), together with sport mode use, delivered a less frugal 9.5-litres/100km.

Selecting sport mode brings added dynamism to the vehicle and lengthened gear changes. That brings me to the Thunder's 10-speed automatic gearbox, which I was pretty sceptical about. But, although the gear ratios are closer, gear changing through this vast number is fluid. That delivers a responsive driving experience, with smooth power and well-distributed torque. The efficient transmission also assists in smoother more controlled towing, says Ford.

This robust, versatile and practical hi-rider is a vehicle than can truly do double duty; it's as home on-road as it is off-road. The on-road ride is quite firm, but comfortable; steering is nicely weighted, allowing good road feedback; handling and braking is up to scratch and it offers tech employed in passenger cars.

As the most luxurious model in the Ranger line-up, the Thunder offers a notable level of refinement. But it is also a vehicle that you can take to the off-road playground and have immense fun in, as I did. That's difficult to put a price on. ■

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By Timothy Rangongo

Choosing the right personal bank account

In this first part of a two-part series, we compare the various account offerings of South Africa's leading banks.

deciding at which bank to open a checking account is not a light task. It could even be likened to purchasing an asset because, once acquired, the process of forfeiting it is not as easy as initially obtaining it.

There are multiple debit orders to consider. Bank cards could be linked to various online payment platforms for swift EFTs. If you have several streams of income, that could also prove to be an added administration headache to provide payers – one by one – with new banking details, and that includes Sars for both tax payments and refunds.

Just like an asset, there are also other key considerations to keep in mind, such as the upkeep of the bank account in the form of bank fees, the frequency of usage in the form of transaction flows and asset appreciation in the form of rebates or interest incurred on favourable balances.

We took a look at accounts marketed by South Africa's big four banks (with branches, own ATMs and wide-ranging products) to SA's middle-income earners, who recurrently have sophisticated banking requirements and perform a considerable number of transactions on a monthly basis, including the costs for common transactions.

Standard Bank

Elite and Prestige Banking Account

There are fixed monthly service fees for a bundle of transactions on both options. Should the bundle be exceeded, additional transactions are paid for individually, via Pay As You Transact.

Transaction	Cost
Cash withdrawal (Own ATM)	R1.90 per R100
Cash withdrawal (Other ATM)	R9 + R1.90 per R100
Cash deposit (ATM)	R1.90 per R100
Debit order (External)	R18
Prepaid Airtime and Electricity	R1.20 and R1.50
Monthly fee: R107 (Elite) and R209 (Prestige)	

Source: Standard Bank

Rewards programme: For an additional R25, UCount Rewards can be earned when bank cards are used for purchases anywhere. Points earned can be used at partner stores, such as Dis-Chem, Makro and KFC. Members can also earn up to R5 per litre back on petrol when refuelling at Caltex.

Benefits (Prestige): While the Elite option is the equivalent to FNB's gold cheque account, Prestige is the latter's Premier counterpart. It comes with 24/7 support, where you can call or message a dedicated banking team for help. There is a minimum income requirement of R25 000 per month

It comes with access to CaféBlue and Connection Hub at OR Tambo International Airport, free automatic travel insurance when

you pay for flights by card, secondary credit and debit card sharing the same limit, among other benefits.

Absa

Gold Value Bundle and Premium Banking

Absa's gold cheque account competes with Standard Bank's Elite option, while the Premium Banking option takes on the Prestige. There is a recommended monthly income of between R4 000 for the gold cheque account and R25 000 for the Premium option.

Transaction	Cost
Cash withdrawal (Own ATM)	R2 per R100
Cash withdrawal (Other ATM)	R11.50 + R2 per R100
Cash deposit (ATM)	R2 per R100
Debit order (External)	R19
Prepaid Airtime and Electricity	R1.20 and R1.50
Monthly fee: R107 (Gold) and R190 (Premium)	

Source: Absa

Rewards programme: For an additional R23.20, Absa Rewards members earn up to 1.15% cash back from Absa when paying with cards, up to 30% cash back on groceries and fuel at participating partners, such as Pick n Pay, Sasol and Woolworths. Members can earn up to 15% cash back when paying by card and rewards partners.

Benefits (Premium): Clients can get a 50% discount on their bank charges, provided they maintain a minimum balance of R50 000. They can access the DragonPass airport lounge for R60 per month. There is a 24/7 dedicated support line, a chat service and priority at selected branches. Debit, credit or savings accounts can all be accessed with one card.

FNB

Gold and Premier Cheque Account

The gold account is the only one in its category that has been offering reduced bank charges from last year, according to Solidarity's 2019 bank charges report. It says the reduction in charges was also the reason why the account has only just surpassed Standard Bank's Elite Bundle, 2018's cheapest option

Photo: Shutterstock

with benefits.

An average of 25 Gold account transactions cost R111, while the Elite Bundles are R134.65, R135.50 for Nedbank's Savvy Plus and Absa's Gold, R136.25, according to findings. Withdrawals and cash deposits are free for up to R3 000 per month on the Gold option and R4 000 on the Premier option.

Transaction	Cost
Cash withdrawal (Own ATM)	R2 per R100
Cash withdrawal (Other ATM)	R10 + R2 per R100
Cash deposit (ATM)	R1.10 per R100
Debit order (External)	Free
Prepaid Airtime and Electricity	Free
Monthly fee: R109 (Gold) and R219 (Premier)	

Source: FNB

Rewards programme: There is free membership to the eBucks Rewards programme. eBucks are earned whenever cards are used at rewards partners, such as Clicks, Takealot and Checkers. Members can get up to R4 per litre back in eBucks when refuelling at Engen.
Benefits (Premier): The Premier offering is available to clients with an annual gross income of R240 000 to R750 000 or minimum monthly deposit of R13 500. There is a team of bankers available 24/7 via Secure Chat on the FNB App and a free telephonic financial advice session. Access to the domestic SLOW airport lounges is R250 per entry and R400 at international lounges.

Nedbank

Savvy Plus and Savvy Bundle

The Savvy Plus is Nedbank's gold cheque account with four free withdrawals, unlimited free cash deposits, all at Nedbank ATMs. The Savvy Bundle features unlimited free cash withdrawals, deposits and debit orders.

Transaction	Cost
Cash withdrawal (Own ATM)	R2 per R100
Cash withdrawal (Other ATM)	R10 + R2 per R100
Cash deposit (ATM)	Free
Debit order (External)	Free
Prepaid Airtime and Electricity	R1 and R2
Monthly fee: R115 (Savvy) and R210 (Savvy Bundle)	

Source: Nedbank

Rewards programme: Nedbank's Greenbacks rewards programme costs an additional R23 per month. Members can earn points (Greenbacks) when using their cards for purchases and redeem for a variety of rewards in the form of products from brands, such as Samsung, Smeg and HP, among others.
Benefits (Savvy Bundle): The Savvy Bundle, the competitor of the Prestige, Premium and Premier accounts has the Greenbacks Rewards membership included for free and domestic airport lounge access. Nedbank's Platinum credit card monthly service fee is also included should the client opt to take one out. ■

editorial@finweek.co.za

The next part of this series will appear in the 21 January issue of finweek *in 2021.*

How up to date are you with current affairs? Find out by completing our latest quiz online via fin24.com/finweek from 23 November.

1. Where is Petra Diamonds' primary listing?
2. **True or False?** Tupperware entered into an agreement to sell local beauty business, Avroy Shlain.
3. Where in South Africa is Aspen Pharmacare headquartered?
4. Fill in the missing figure. SA's unemployment rate rose to ______in the third quarter of 2020.
   - 29.7%
   - 30.8%
   - 32%
5. **True or False**? The DA elected Anton Bredell as its new federal leader.
6. Name the capital of Bosnia.
7. Who did US President-elect Joe Biden appoint as his chief of staff?
   - Mick Mulvaney
   - Richard McDonough
   - Ron Klain
8. What does the bank's name HSBC stand for?
9. **True or false?** Professor Puleng Lenkabula is the University of South Africa's first female vice-chancellor.
10. Which local TV channel has commissioned a local version of the popular British reality TV show 'Love Island', expected to launch in early 2021?

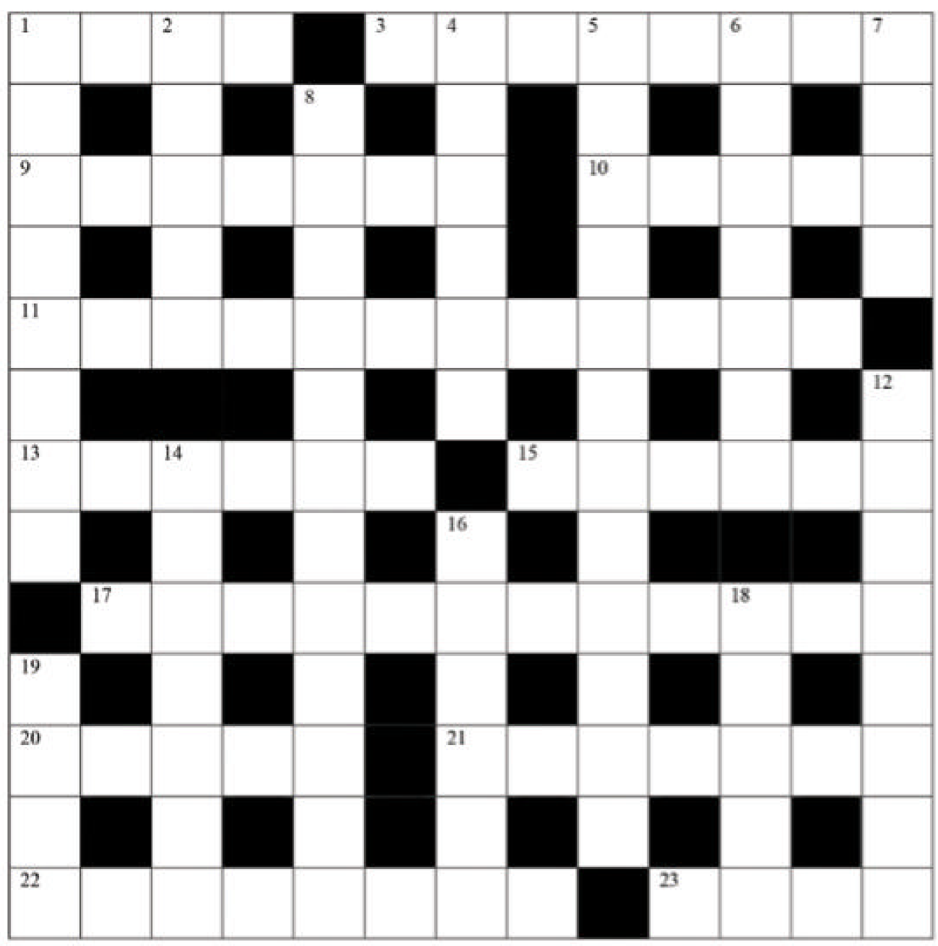
CRYPTIC CROSSWORD — NO 765JD

ACROSS

1 Wise man cancelling Monday's unaccompanied flight (4)
3 Trained to work? (8)
9 Experience the Metro? (7)
10 New at first I have to be open (5)
11 A move towards the stern? (8,4)
13 How this flight affects one? (3-3)
15 Nobleman held in cellar is torture victim (6)
17 VIP Commons festivities (12)
20 Not paid an honorarium, leading educator goes away hungry (5)
21 One confused about glasses holding redhead's drink (7)
22 Where dressing may be unfortunately spilt over wretched fellow (5,3)
23 Charge made by bank from all accounts (4)

DOWN

1 Bob turns out to be pig-headed (8)
2 Playful rewrite easy to understand (5)
4 Love affair with old city's aromas (6)
5 Service car runs into St Pancras, for one (12)
6 Heard mushroom grower's exhortation to build up muscle (7)
7 Does put off time to depart (4)
8 Going to sleep? Certainly that way disposed (6-6)
12 Sniffs at Conservative's sad explanation (3,5)
14 It's active indeed, full of stirring exploits (7)
16 At sign of mass in Spain (6)
18 It's gradually disappearing off the compass (5)
19 Objections to quarries, we hear (4)



Solution to Crossword NO 764JD
ACROSS: 4 Impalas; 8 Action; 9 Insight; 10 Nereid; 11 Secure; 12 What of it; 18 Unrepair; 20 Cave in; 21 Pathos; 22 Deposit; 23 Bear on; 24& 5 Down Foreign minister
DOWN: 1 Bad news; 2 Eternal; 3 Domino; 5 See 24 Across; 6 Apiece; 7 Adhere; 13 & 14 Founding fathers; 15 Present; 16 Gazebo; 17 Before; 19 Eraser

On margin

The curious case of the US elections

This issue's isiZulu word is *ukhetho*. *Ukhetho* is elections. The root word is *khetha* – choose. As such, *ukhetho* is literarily 'the great choosing'.

I am glad I was able to take part in *ukhetho* in America, even though I am not in any way, shape or form an American. Even the fact that at some point, I attended school in Orlando still doesn't make me an American because it was Orlando in Soweto.

So how did I get to vote in America's *ukhetho*?

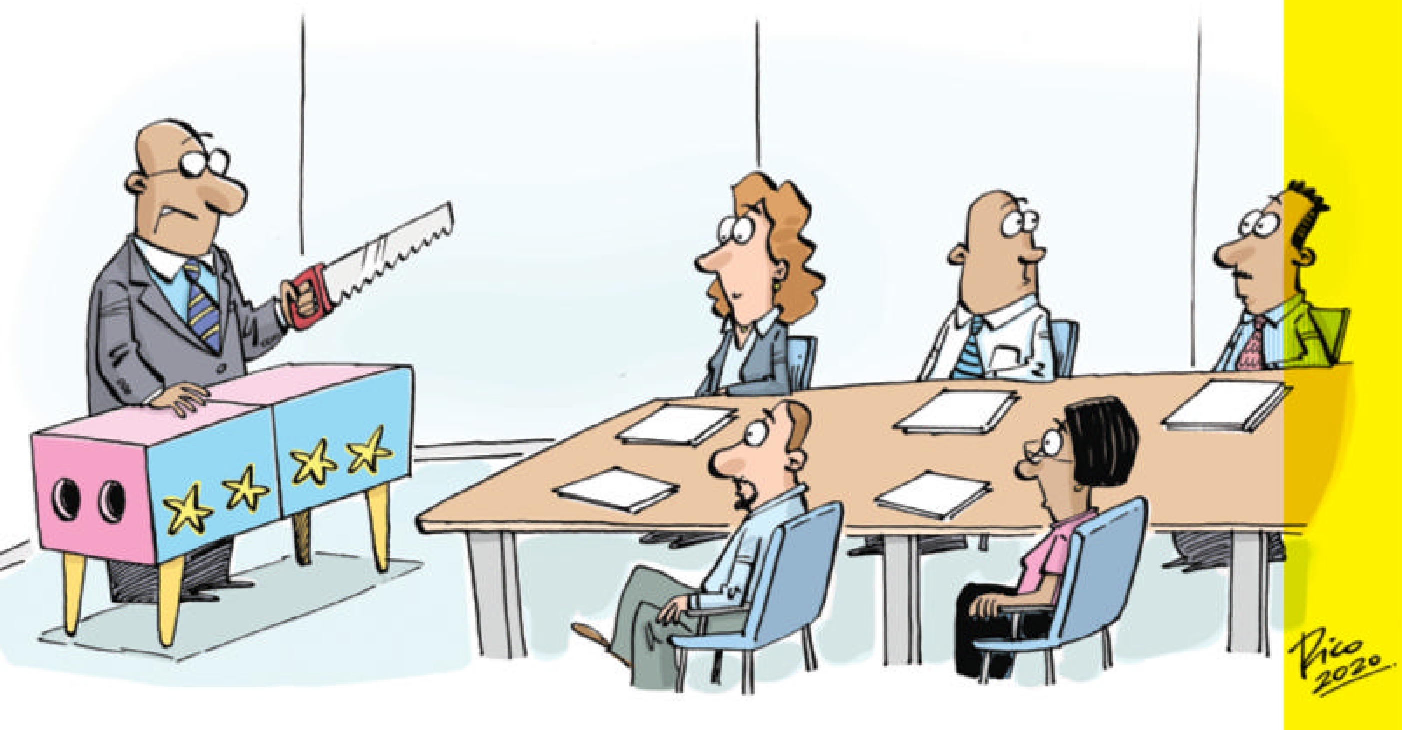
Two words – mail-in ballot and connections. Okay, that's three words. Semantics will be the end of you, my friend.

Anyway, I have a connection that first reached out to me, by sending me a friend request on Facebook. After I accepted, he sent me a message on Messenger, saying he is from Pretoria but now lives in Miami, adding that I too can move from South Africa and live in Miami, if I had the right amount of Bitcoin. Incidentally, he was willing to help me acquire the much-needed Bitcoin. Sensing my scepticism about the Bitcoin, he then offered to help me vote in *ukhetho* in America because once you vote in *ukhetho* in America, you automatically become an American citizen. This excited me so much, I swiftly sent him R10 000 and he sent me the ballot and address to mail it to.

I am proud to say I voted for Biden/Harris, and will soon receive my Green Card, after which I will pack my bags and head to the US of A. Yay. If Trump had won, I still would have gone, but I am not sure they would have let me in because I once said something good about the Muslim faith.

Now we wait to vote in South Africa's local *ukhetho* next year. Of course, I will mail in my ballot from the US.

– *Melusi's #everydayzulu* by Melusi Tshabalala



"I'll need a volunteer for the first part of my staff presentation. Anyone...?"

Verbatim

Chester Missing @chestermissing
SABC says they'll be calling their streaming service Netniks.

James Breakwell @XplodingUnicorn
In case you were on the fence about having kids, my three-year-old threw a tantrum because her tongue is pink.

Elizabeth Windsor @Queen_UK
President Trump on the phone. Bit frustrated as he's doing a manual recount, but has run out of fingers and can't see his toes.

Max du Preez @MaxduPreez
My wife: Did you take out the rubbish as I asked?
Me: May I not answer that question lest I incriminate myself? #InTheDudu

Jimmy Kimmel @jimmykimmel
If Trump refuses to leave the White House, they should rename it "Vietnam". He'll get out of it immediately.

Mommy Laura @lmegordon
You can't hurt me. You're not a picture of me that my husband took.

Forrest B @ForrestBrung
There's more cases of Covid in the White House than in all of New Zealand.

Ally @TragicAllyHere
Being an adult means you have a total of 3 friends and they all live in different parts of the country and periodically you just send each other videos of weird dogs and say "this made me think of you".

"A year from now you will wish you had started today."

– Karen Lamb, British author (1956-)


momentum
medical scheme
Why pay for benefits that you don't need?
#MoveToMomentum momentummedicalscheme.co.za