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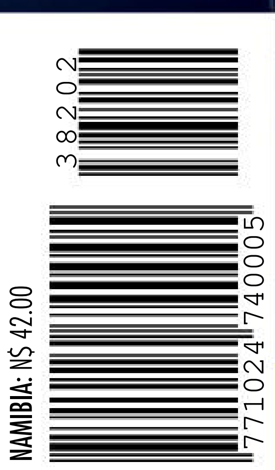

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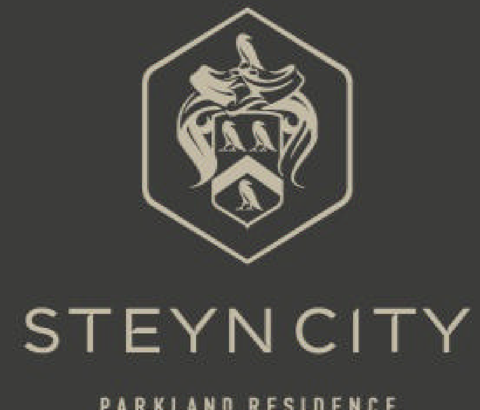
STEYN CITY
PARKLAND RESIDENCE

from the editor

JACO VISSER

finweek contributor Andile Ntingi writes convincingly on the development of South Africa's townships in his opinion piece this week. I wish to add that the development of townships is an imperative neglected by government ever since 1994 – through the Mandela, Mbeki, Zuma and current Ramaphosa administrations.

Ntingi aims to provide a link between the riots and looting we saw in parts of KwaZulu-Natal and Gauteng during July and the scourge of income inequality in SA. I wish to take this link further. In criminology the concept of "deprivation" is used to explain behaviour among youngsters where they, among others, observe the rampant wealth of one part of society while they themselves do not own the same stuff. It has been an issue among the peoples of the world ever since societies formed many thousands of years ago.

But how do you address deprivation? How do you give a youngster, a parent or grandparent the opportunity to acquire stuff to meet their own basic needs – and most of the higher needs in Maslow's hierarchy – as well as those of their loved ones? And we need to be honest about where the needs are the greatest: in SA's townships, both in rural and urban areas.

The immense underdeveloped potential in terms of human capital, business innovation (and South Africans are an innovative bunch), fixed capital formation and trade and services that are lying latent in our townships should be a cause for shame on our society. Townships should have attracted billions of rand (some of that R500bn captured through corruption, maybe?) over the last 27 years. It should be one of the top three focuses of national government.

However, the development of "local economies" was placed in the hands of our nation's faltering municipalities. I hold to this: a municipality's role should be very limited to only supplying electricity, water, refuse removal and sanitation together with maintaining streets, parks, community centres and libraries. Clinics and the rest should be run by provincial governments. The bulk of municipalities aren't up for the task. Hence, the development of our townships is stuck.

The best ignition the national government can give townships, is letting the private sector bloom. Formalised micro businesses such as spaza shops, hairdressers, beauty salons, plumbers, electricians, motor vehicle repairers, crèches, gardening services, butchers, IT shops, spaza-sized liquor shops, clothing boutiques and accountants should form the core of business districts in our townships. It shouldn't be necessary for locals to pay transport fees to get hold of these services in the richer areas. But to start, for instance, a small grocer entails getting hold of stock. Or to start an electrician business means certain tools must be bought. A hairdresser needs equipment. And this is where the crux lies: Where will start-up capital come from? Who is willing to take on the risk of lending to a new business entrant? SA's commercial banks won't – which is correct as they shouldn't take on too high risks.

The national government's Small Enterprise Finance Agency is tasked with the disbursement of loans to various micro businesses in SA's townships and rural towns. However, with a balance sheet of R3.1bn (of which R1.53bn was held in cash) at the end of March 2020, it begs the question how efficiently this critically important agency is being run. With a balance sheet of only R3.1bn after operating since 2012, it also points to the national government's priorities in this regard. Far more money should have been channelled to this agency to support micro businesses over the past nine years. Imagine, for instance, if the agency had R50bn (about 10% of the value of state capture funds according to President Cyril Ramaphosa's estimation) on its balance sheet. Taking the maximum disbursement amount of R350 000 for most of the qualifying businesses applying to the agency into account, it would have meant more than 142 000 micro businesses in townships and rural towns could have been started. Not all will succeed, but business management skills could have been transferred to give the new entrant a shot at a second enterprise. Imagine the number of jobs that could have been created where it is needed most?

We need to stop imagining and push government to do more. ■

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The 'golden' power of collaboration and why businesses are better together

The SA Gold Coin Exchange and The Scoin Shop has signed an exciting agreement for a technology-led solution with Troygold.

The South African Gold Coin Exchange (SAGCE) and The Scoin Shop are known as the leaders in gold coin trading. With over 45 years of experience in the gold coin market, the business is constantly evolving to enhance the customer experience. Rael Demby, CEO of The SAGCE and The Scoin Shop, believes that change is inevitable in life and business. If technology is progressing, so must businesses. The SAGCE and The Scoin Shop were the first to bring retail shops, e-commerce and cryptocurrency payment systems to the industry. They are once again pioneering new technologies by signing a distribution agreement with Troygold, a Stellenbosch-based fintech start-up.

Demby says: "To thrive in a rapidly changing world, we are committed to flexibility and adaptability. Our customers are looking for a competitive edge and we believe that is Troygold and their fractional ownership technology. Troygold's home-grown technology digitises physical gold, physical bullion and Krugerrands via Troygold's technology."

Troygold was founded in 2018 by brothers Bastiat and Dane Viljoen. The pair have international experience in the investment banking and gold mining industries. Dane explains: "Being exposed to gold in both the banking and mining sectors provided us with a view of the gold value chain and the hassles a gold owner faces. We saw a gap for a technology-led solution that would extend financial services to physical gold owners. In short, storing your wealth in a stable, non-inflationary money like gold, whilst enjoying the same financial products that those with paper currency have access to."

Rael Demby, CEO of SAGCE and The Scoin Shop, and **Dane Viljoen**, co-founder and chief sales officer of Troygold

The SAGCE and The Scoin Shop are self-confessed "traditional gold bugs" and believe that gold is for everyone. While looking for a future that redefines gold ownership, they encountered Troygold's technology-led solution that makes gold ownership easy, simple and safe and allows gold owners to do more with their gold – accessing payments and other financial services on their gold holdings.

Progress can't happen in silos. Working collaboratively – within your ecosystem to solve problems – generates the kind of energy that fuels growth, innovation and creativity. Developing value-aligned agreements that focus on common goals and complementary strengths is key to ensuring successful outcomes for all.

The SAGCE, The Scoin Shop and Troygold's common goal is to make gold ownership more accessible. There is no better approach to solving challenges than the famous saying of two heads are better than one. Harnessing the strengths and abilities of others from different corners of your ecosystem is one way for businesses to scale their innovation and solve complex challenges.

Via an App Store- and Play Store-supported Troygold mobile app, a customer opens a Troygold account which offers a gold savings wallet that digitises the customer's gold – bought or uploaded onto the platform – and linked to a Mastercard debit card (issued by sponsoring bank Access Bank) that enables spending of the gold's rand value at any Mastercard-accepting store. In SA, the gold savings wallet is linked to specific, numbered gold Krugerrands in a vault. Each owner receives an ownership certificate that indicates which bar or coin (with indicated serial number) the customer owns, the percentage ownership, along with details as to where it is stored.

Troygold currently has storage facilities in Singapore and Johannesburg, where the physical bullion bars or gold coins are securely stored and fully insured in the world's safest vaults.

The Scoin Shop has 11 retail stores in all major centres in South Africa and an e-commerce platform. Troygold products will be marketed via this strong foothold, allowing Troygold to scale its solution and reach more South African gold owners through the safe and trusted environment of a Scoin store. This collaboration creates a store network of physical on-ramps into the digital Troygold platform. South African customers can upload or withdraw gold Krugerrands into and from the Troygold platform, directly from The Scoin Shop's physical retail outlets.

Enabling a broader market to save and transact in fractions of gold is particularly appealing, especially since gold is a finite resource that has stood the test of time and is free from the uncertainty and volatility of fiat currency and cryptocurrency. Bastiat Viljoen, CEO of Troygold, explains that the ongoing volatility of the global financial system and the deteriorating value of fiat currency make a strong argument for a return to gold-backed stores of value. "Gold has a 6 000-year track record as a safe store of value and is the only money that carries no counterparty risk. Troygold 'lights up' that gold with utility and turns it into something gold owners can use for day-to-day transactions and finance." ■

By Johan Fourie

TECHNOLOGY

The future of fast food

SA's competitive fast-food industry was mostly spared from the Covid-19 lockdowns, but times are changing and there may be more upheavals on the way.

South Africa's fast-food industry is a textbook example of a competitive industry. No franchise dominates the market: while KFC is the biggest, there are at least 20 other brands with at least 30 stores. Think of Steers, Debonairs, Wimpy, Nando's, McDonalds, Fishaways, and King Pie, to name just a few.

And there are always new entrants. In 2018, the celebrated owner and chef of Overture, Bertus Basson, opened De Vrije Burger, a burger and chips fast-food joint, in Stellenbosch. I asked him what he learned about fast food that he did not know before. "Firstly, fast food in many respects is an easier business model to manage than serious sit-down restaurants. Because our fast-food model is more linear, it was easier to equip our team to be specialists in their field. The self-service model can be very successful. Focusing on only one thing adds speed and quality in delivery."

With the focus on speed in an already competitive environment, one would imagine that there is little room for further efficiency gains. But that would be wrong, as a recent Predictive Insights report reveals. Predictive Insights combines economic theory and machine learning to make better predictions. I asked founder and CEO, Rulof Burger, to explain how it is that their machine-learning tools helped Hungry Lion to reduce wasteful spending by 14%.

"Having accurate predictions of how busy a restaurant will be in the future when making operational decisions – like scheduling workers, stock replenishment or food preparation – can empower managers to make better decisions. Managers in restaurants, much like managers in other industries, have hundreds of little decisions to make, all of which impact the profitability of the company. They simply don't have the time to consider all the necessary information carefully when making these decisions. Having access to a tool that recommends the number of workers that will be needed on different days and at different times of the day can help avoid having too few workers in a restaurant during busy times, or having too many workers at quiet times."

How receptive was Hungry Lion's staff to the better predictions of the model?

"Most managers welcome having one less thing to worry about during their busy day. While we have encountered scepticism, I suspect this is partly driven by a general distrust of artificial intelligence and concerns that robots will replace human workforces. Our experience of working with companies is that AI can free up humans to focus on the less tedious tasks that they do better than machines, like motivating staff, interacting with clients, and dealing with unexpected events.

"In the case of Hungry Lion, their CEO suggested that we run a 'man versus machine' forecasting competition to demonstrate to some of the more reluctant managers that the 'machine' can outperform human forecasting. Not surprisingly, the machine outperformed the managers consistently and by quite a large margin on average."

> "Fast food in many respects is an easier business model to manage than serious sit-down restaurants."

I try to challenge the idea that machines perform consistently better than managers. Prediction is, inevitably, based on historical data. Yet when Covid-19 hit, and with lockdown restrictions, the data on which the model's predictions were based would have been outdated, as consumer behaviour had fundamentally changed. How do you marry the precision of your predictions that comes from reliable and consistent data with a black swan event that the model won't be able to predict?

"That is exactly right. Covid-19 caused a sudden change in consumer behaviour which the historical data could not have predicted. But our models demonstrated that this is exactly the kind of behavioural shock that machine-learning methods can more quickly understand than either human intuition or conventional models. The change in consumer behaviour was very similar across similar types of restaurants, so a single model which integrates the information about consumer behaviour across all restaurants can more quickly learn about new consumer behaviours than a single manager who only observes what happens in their store. We found that the pre-lockdown data was still useful for predicting things like weekday patterns or behaviour during holidays or common payment dates."

One thing Covid-19 did do – a topic that has not received much attention yet – was to emphasise the importance of healthy living.

"Healthier fast food is still few and far between, but I think this trend is changing. Instead of driving the quality of our burger down to achieve our margins, we would rather charge more and use better ingredients and communicate this to our guests," says Basson.

Are healthier menus the future of fast food, I wonder? "I think the future is more choice. Although De Vrije Burger is just a simple burger, we believe that our guests would like to know what they consume comes from a better place. Products like Beyond Meat show that there is a high demand for meat and meat-like products that is more environmentally-friendly and kinder to animals."

Greater efficiency and greater choice seem to be the future of fast food. Says Burger: "I think most SA companies are already using model-based decision-making in one way or another, and the ones that don't will find it increasingly difficult to compete in a highly competitive market like fast food. Ultimately, I think the winners will be the customers, who will experience lower prices, shorter waiting times and services or products that better fit their preferences." ■

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Photo: Shutterstock

By Andile Ntingi

POLITICS

The winter of our discontent

What is being done to develop opportunities in townships?

In the aftermath of the widespread looting of shops and businesses that took place across many parts of Gauteng and KwaZulu-Natal in July, there has been a flurry of insightful debates about the importance of developing low-income and unemployment-afflicted townships.

For over a week in July, South Africans were glued to their TV screens, watching thousands of people ransacking and pillaging shopping malls and small businesses in an orgy of violent unrest the country has not seen since the early 1990s.

After the dust had settled, more than 300 people had lost their lives while R50bn worth of damage had been unleashed on property and infrastructure in what President Cyril Ramaphosa described as a "failed insurrection".

During the pandemonium, thousands of township-based shops and businesses took a huge financial knock, compelling the government to whip out R38.9bn to help affected businesses to reopen and rebuild their operations.

The riots will forever be etched in our memories. The riots reminded us of the re-enacted scenes on the History Channel of Barbarians pillaging Rome after defeating Roman legions on the battlefield. Who can forget the video that went viral of a looter who triumphantly ate a stolen cake inside a Shoprite store, with no care in the world of being arrested by the police for his crime?

The unrest sent shockwaves reverberating across the country, prompting several influential organisations and institutions to consider ongoing neglect of townships, home to about 60% of the South African population.

The townships, our own version of Brazilian favellas, are underdeveloped compared with middle-class and upmarket suburbs, a legacy of apartheid's social engineering. What we are faced with is rising discontent in the townships over income inequality and high unemployment burdening these settlements. If nothing is done, townships could potentially become a breeding ground for political instability.

In the deliberations about effecting economic development in the townships, the National Treasury and Association of Black Securities and Investment Professionals (Absip) have been leading at the forefront. Absip has hosted two township imbizos and Treasury a symposium, where key speakers spoke about the need to unlock the potential that is inherent in townships, transforming them into vibrant and thriving economic hubs.

At these gatherings, attended mainly virtually due to Covid-19 restrictions, there has been resounding acknowledgement that townships have been left behind since 1994. Absip is trying to nudge large corporates, particularly JSE-listed companies, to extend their enterprise and supplier development (ESD) initiatives to townships while Treasury has called for the economic revitalisation of townships.

Perhaps the real leader in doing something about developing townships, and not just talking about it, is the Gauteng provincial government. The province has developed the Gauteng Township Economic Development Bill, which it has placed before its legislature for promulgation into an act. The proposed legislation is intended to regulate economic activity in Gauteng's townships while at the same time facilitating economic development and attracting investment.

The legislation proposes the introduction of incentives to encourage entrepreneurship and job creation in townships across the province, from Soweto to Tembisa and from Kagiso to Mamelodi. From the day the legislation commences, township-based businesses will be required to have licences that permit them to operate. The introduction of a licensing system is a victory for local activists, who have been calling for businesses owned by foreign immigrants to be licensed and taxed.

The bill also implores the Gauteng government to leverage its procurement spend to benefit township businesses. Furthermore, the proposed legislation makes allowance for municipalities to develop taxi ranks into micro-CBDs and for leasing or the sale of state-owned vacant land and buildings for commercial use. The Gauteng government believes that the vacant land and properties could be turned into office parks or industrial parks for light manufacturing.

The legislation also aims to support the growing township backyard real estate market, whereby landlords will be supported to upgrade their homes to provide affordable accommodation to low-income residents. However, building regulations will not be relaxed, but the legislation will make it easier for backyard landlords to access funding in a market largely shunned by the banks.

However, the Gauteng government realises that the interventions outlined in the proposed legislation will come to naught if there is no funding to support township entrepreneurs who are willing to exploit opportunities emanating from the policy.

As a result, the province has established an SMME fund that will provide wholesale and blended finance in which it fulfils the role of first-loss guarantor, helping to derisk lending to township businesses. The Gauteng government and the Industrial Development Corporation have each committed R250m to the fund, which is expected to total R1bn after more financiers inject their own portion of funding.

With regards to manufacturing, there is an opportunity for township entrepreneurs to tap into the localisation programme, whereby they can produce products earmarked in the list of 1 000 products compiled by government and major retailers.

The list covers six product categories spanning food and beverages; beauty, skin care, and cosmetics; cleaning and hygiene; hair care products; pharmaceuticals; and clothing, leather, and textiles. Companies that participate in this programme will receive financial support and will also be assisted to find markets for their products.

Most of the major retailers are already profiting from the township economy, alongside banks and telecoms companies. It makes sense that these players support efforts to develop townships. ■

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Andile Ntingi is the chief executive and co-founder of GetBiz, an e-procurement and tender notification service.

Photo: Gallo/Getty Images

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"THE BALL IS IN JUSTICE MINISTER RONALD LAMOLA'S COURT."

– **Mbhazima Shilowa, former premier of Gauteng,** wrote that the onus to release the record of decisions about former president Jacob Zuma's medical parole without delay and the extent to which processes were followed, lies with justice minister Ronald Lamola, in a News24 column. The department announced that national correctional services commissioner Arthur Fraser had granted Zuma medical parole. Fraser openly admitted to overruling the parole board, which did not recommend the release on medical grounds. DA leader John Steenhuisen has since filed an application to review and set aside Fraser's "patently unlawful" decision.

"If something were to steal my sleep ... it would be foreign flows."

– **Dr Leila Fourie, CEO of the JSE,** said the rate at which capital is leaving South Africa is the one thing that keeps her awake at night, in a *Business Day* podcast. Fourie said the country needs to do more to make its investment case. According to the JSE, foreign investors have bought a net R45bn of local bonds year-to-date, having offloaded R62bn in the same period in 2020. They have sold R87.13bn of shares in 2021 (see cover story on p.30).

"SASRIA WOULD BE BANKRUPT. NATIONAL TREASURY WOULD ALSO BE BANKRUPT."

– **Moss Ngoasheng, chairperson of the SA Special Risks Insurance Association (Sasria),** said in response to a question whether SA, and his organisation, could afford another round of riots and looting like those in July. He told Parliament's select committee on finance that the existing R3.9bn funding is inadequate to cover unrest pay-outs. Ngoasheng said Sasria had a balance sheet of R9bn and was facing R20bn to R25bn in claims. The shortfall needs to be covered by National Treasury. To deal with the impact of social unrest on property and businesses, Sasria needs to be recapitalised. Without the recapitalisation, there will be no insurance covering the next potential events of social unrest in the country.

EDITORIAL & SALES

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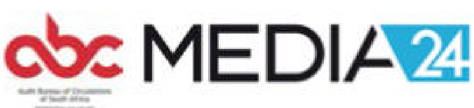


The Competition Commission said it has prevented widespread price gouging since the outbreak of Covid-19 and has settled 36 cases thus far. In a webinar, advocacy divisional manager at the commission, Khanyisa Qobo, said they responded urgently and changed operations after receiving a lot of complaints. The commission requested an extension on all cases reported prior to the lockdown which are not related to Covid-19 or price gouging. An impact study found, among others, that 54% of market players avoided increasing prices, 35% kept gross margins in check and 15% refused to buy from suppliers who raised prices, as a result of the commission's efforts.

The inaugural party funding report from the Independent Electoral Commission of SA (IEC) revealed that the majority of political parties neglected to disclose their financial backers. Only three out of 504 parties met the legal requirements of disclosing direct donations and offers of goods and services of more than R100 000. The report follows legal reform on party funding which came into effect in April this year. Only the ANC, DA and Herman Mashaba's ActionSA have complied with the new regulations, while 393 other parties have ignored the directive completely and 108 have said they had not received funds from single donors which met the bar for disclosure.

More than 1m South African policyholders has died between 1 April 2020 and 31 March 2021, statistics on new death claims released by the Association for Savings and Investment SA (Asisa) have shown. The statistics reflected claims made against individual life, group life (offered by employers), credit life and funeral cover policies. The number of deaths increased by almost 310 000 compared with the previous year. The large number of death claims adds to mounting evidence that SA's official Covid-19 death toll of around 84 000, at the time of publication, might be hugely understated.

Photo: Gallo/Getty Images

DOUBLE TAKE BY RICO

MANUFACTURING DOWN

-4.1%

SA's manufacturing output fell 4.1% year-on-year in July after rising by a revised 11.9% in June, reported Stats SA. Factory production contracted 8% month-on-month in July and fell 5.5% in the three months to end-July compared to the previous three months. Thanda Sithole, senior economist at FNB, said while the manufacturing purchasing managers' index (PMI) showed a solid recovery in manufacturing activity in August, the impact of the July unrest, the global shortage of raw materials (and semiconductors) and higher input costs could delay the recovery of manufacturing activity.

INVESTMENT EXPECTATIONS

15.2%

According to findings of the Schroders Global Investor Study (GIS) 2021, South Africans are more optimistic now than at any point in the past five years, expecting their future investment returns to average 15.2% per year for the next five years, an increase of 2.5% since last year. The annual survey highlights savings and investment trends based on the answers and opinions of more than 23 000 savers around the world. South Africans' expectations are substantially higher than global investors' expectations of 11.3% over the same investment period, according to the survey.

RECORD SURPLUS

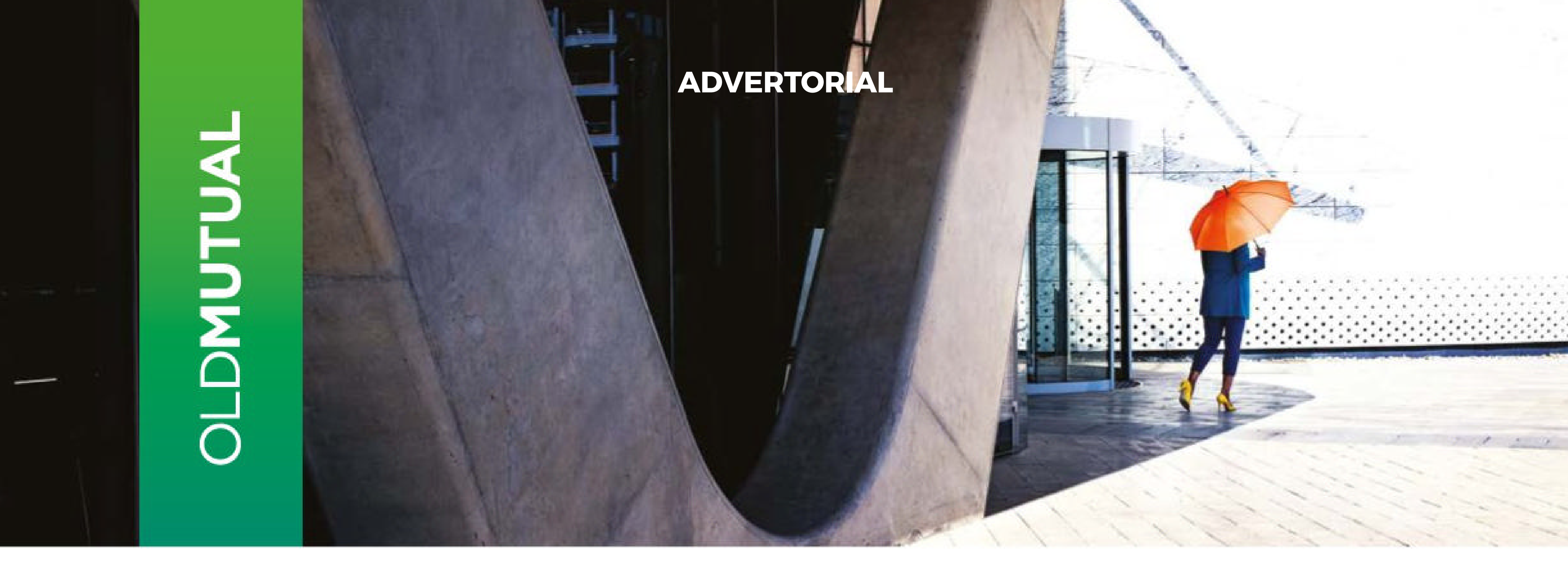
R342.8bn

SA's current account recorded its largest surplus ever in the second quarter of this year, reaching R342.8bn or 5.6% of gross domestic product (GDP), according to Reserve Bank data. "South Africa's terms of trade improved further in the second quarter of 2021 as the rand price of exports of goods and services increased more than the price of imports," the central bank said in a statement. It said metals and precious metals, including iron ore and platinum group metals, were some of the items that drove the value of exports higher.

SA ECONOMIC GROWTH

1.2%

The SA economy grew 1.2% in the second quarter compared to the previous three months, reported Stats SA. The agriculture, trade and mining sectors performed well, while manufacturing and construction fared poorly. Looking ahead, PwC economists Lullu Krugel and Dr Christie Viljoen said it is likely that the third quarter will see some pressure on the rate of recovery due to adverse effects from the unrest in KwaZulu-Natal and Gauteng in early July. While some forecasts suggest that the economy will grow by more than 4% this year, PwC's modelling points to a figure closer to 2.5%.



CHOOSING THE RIGHT RETIREMENT FUND FOR YOUR BUSINESS

IF YOU'RE DEBATING THE PROS AND CONS OF STANDALONE AND UMBRELLA FUNDS, THIS WILL HELP TO CHOOSE THE RIGHT ONE.

Every employer should review their retirement fund offering from time to time, and if you are in a standalone fund, this could be time to consider changing to an umbrella fund.

With National Treasury continuing its push towards consolidating the industry, many businesses are, in fact, making the move to an umbrella fund. "If you are a financial director or HR director, you want the reassurance that your fund is indeed the best option for you and your employees, whether it's a standalone fund or an umbrella fund," says Malusi Ndlovu, Director: Large Enterprises at Old Mutual Corporate.

In the same vein, retirement fund trustees have a regulatory responsibility to act in the best interests of the fund's members. It's therefore important that trustees at least consider the move.

He therefore recommends taking a careful, considered look at all the options. To be able to do that, he has a checklist of what to do and consider to make sure that the fund you choose really is the right one for your business and your employees.

1. MAXIMISE THE ADVANTAGES

"There are pros and cons to umbrella funds and standalones, and you have to ensure that you are enjoying as many of the benefits as possible," Ndlovu says. That said, he cautions against trying to replicate your standalone fund set-up in an umbrella fund. Understand the unique advantages of an umbrella or a standalone, and maximise them.

2. MIND THE COSTS

The cost of administering a fund affects the members as much as the business. Standalone funds, for instance, need an auditor, an actuary, an investment consultant and a host of communication and specialist service providers, which all add up. "It's easy to forget that these costs are largely passed on to those who can least afford it, namely the members," says Ndlovu. With an umbrella fund, they are spread over a larger pool of contributors. The Old Mutual SuperFund, he points out, has about 6 000 participating employers, who benefit from its efficiencies, reduced complexities and economies of scale.

3. CONTINUOUSLY CHANGING REGULATIONS

The same level of governance requirements apply to both types of funds and both sets of trustees have the

CORPORATE

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same level of legal liability. However, a standalone fund usually does not have professional trustees, as they tend to be company employees. They are not experts on retirement regulation, investing or governance, yet they are expected to accept full responsibility for the retirement savings of their colleagues.

4. THE BEST USE OF EMPLOYEES' TIME

A board made up of company trustees carries an often overlooked opportunity cost. It is harder to quantify, but significant. This includes the cost of time, skill, and other resources needed to run a standalone fun, which could instead be used to perform business critical functions.

5. TEST THE MARKET

Administrators of standalone retirement funds will often try to convince clients to move to their own internal umbrella solution. While that may seem like the easy option, it's not necessarily the right one. "Even within the same administrator, such a move is fairly comprehensive," Ndlovu warns. "You want to make sure that you're really moving to the best umbrella fund for your employees' needs – so be sure to test the market."

6. CHOOSE YOUR INVESTMENTS CAREFULLY

Retirement savings need to be well-managed and appropriately invested in portfolios that will ensure long-term growth. In an umbrella fund, the fund's flagship portfolios usually get the most attention, but that doesn't necessarily mean they're the right choice for your members. While they typically are the best-performing portfolios, you still have to be satisfied that that really is the case. If you're in a standalone fund, look at your investment portfolio and find the best match in the umbrella fund you're considering. It's one of the best ways to do a like-for-like comparison.

7. TAKE THE OPPORTUNITY TO RESTRATEGISE

Moving from a standalone to an umbrella fund is an opportunity to step back and consider your current set-up. There might be historical reasons for it. Use the opportunity to question what you need to do to put your members first. "In our retirement fund webinar, The Great Debate, a lot of the conversation was around flexibility and member choice," says Ndlovu. "But the bottom line remains whether a fund offers the optimal retirement solution for your employees."

8. SPEAKING OF CONTROL...

To that point, Ndlovu offers this analogy. "Twenty years ago every business had security guards on the payroll. Over time we saw the rise of specialist companies that provide security services, and businesses were very happy to outsource that responsibility. Do they still have the same level of control? No. Are the guards on their payroll. No. Is the building secure? Yes."

Whether in a standalone or an umbrella fund, the objective is the same: to ensure fund members get the right benefits when they retire and or exit, and to know that the fund is appropriately governed. With that in mind, Ndlovu asks: "In securing that objective, what do you want to have control or influence over, and what are you comfortable with handing over to a specialist organisation that does this for a living?"

9. CONSIDER YOUR FUNDING ARRANGEMENTS

"There are more than 4 000 standalone funds in South Africa, so a typical large employer could have anywhere from three to eight different retirement funding arrangements," says Ndlovu. "If, or when, you move to an umbrella, you'll enjoy the benefits of economies of scale – and get maximum bang for your buck – by consolidating as many of those funding arrangements as possible into one umbrella."

10. CHECK OUT THE SPONSOR

When you move to an umbrella fund, you choose both the solution and the sponsor, so it's important to check up on the sponsor's credibility and trustworthiness.

"Business is all about partnerships," Ndlovu says. "One of the points we discussed in The Great Debate was companies that fear getting 'stuck' in an umbrella fund. The truth is, you can change whenever you like, but if you work on finding the right sponsor to partner with upfront, you won't need to."

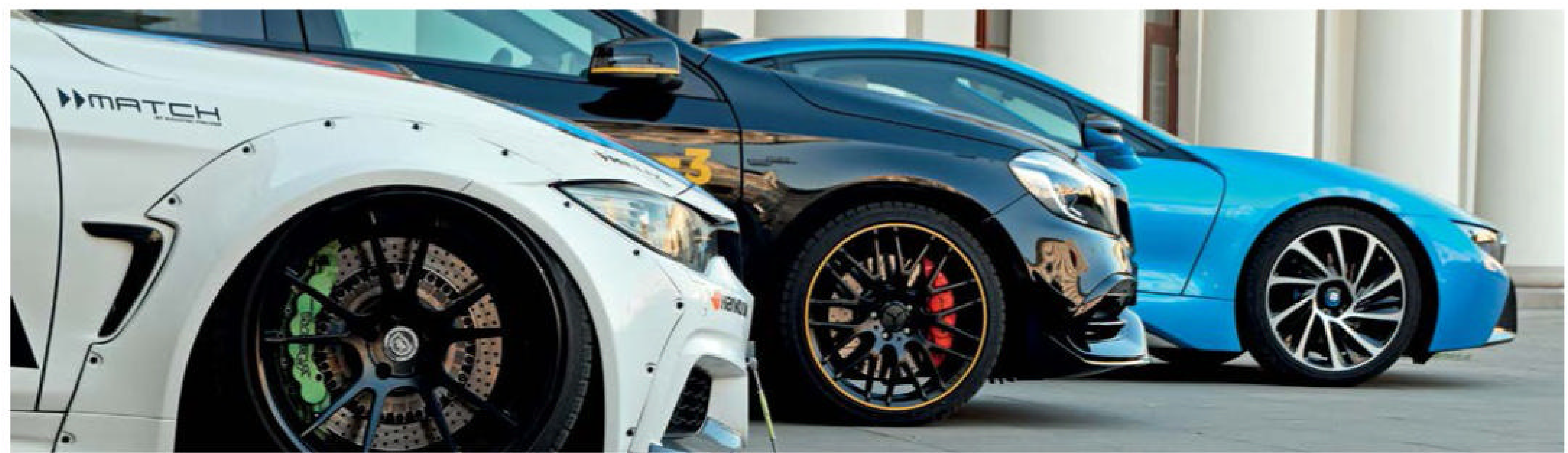
MALUSI NDLOVU
Director: Large Enterprises
Old Mutual Corporate

READ MORE oldmutual.co.za/thegreatdebate | CONTACT mindspace@oldmutual.com

By Timothy Rangongo

Accepting Ferraris as collateral

Funding entrepreneurs by taking their accumulated assets into account is challenging vested ways of financing.



Most entrepreneurs operate in capital-intensive industries where cash flow could get very tight, prompting a need for pressure releases in the working capital cycle. That is how Lamna Financial, a speciality finance company, got into the business of short-term, asset-backed transactions about eight years ago.

"To give that release of cash flow pressure for a short period of time in this little niche space where you need quick access to cash and the banks won't give it to you; or if they do, it will either take too much time or red tape," says Charles Meyerowitz, co-founder of Lamna Financial.

Lamna's alternative services are usually used by entrepreneurs for fast bridging finance as opposed to the laborious loan and business plan process of trying to go through banks.

Client profile

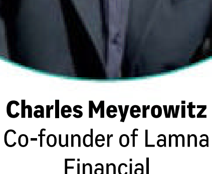
The profile of Lamna's clients is typically entrepreneurial, savvy, commercial, positive and optimistic, according to Meyerowitz.

"We play in a niche market, for our clients to find us means that they have done their research as we are not all over; we do limited marketing. Them finding us already shows that they are determined and not prepared to just throw in the towel, if they do not have finance. They are prepared to look for alternatives."

He says that gives an insight into the person, to start off with. They know exactly what is going on in their business, they are entrepreneurial and need this little cash boost to either open an opportunity or to close an opportunity.

For instance, Lamna is very active in the construction industry, which has varied payments and a very fixed cost structure. Meyerowitz says two things generally need to happen in construction; the first is they must establish a site which then opens the construction opportunity, or come month-end they must pay wages and hire fees, for example. All the while their progress payment only comes in a week, two or three later because they have not yet completed sufficient work and they need that little cash boost.

"That is the who. The 'what' is that our loans are always backed by some asset of some sort. That is what opens up the opportunity for our clients."



Charles Meyerowitz
Co-founder of Lamna Financial

Types of assets

The amount of money available to an entrepreneur will depend on the assets. Meyerowitz says that the assets will range from a Toyota Corolla to a collection of Ferraris.

"I always have this saying that running out of cash is not the privilege of the poor, the rich also run out of cash because their money is tied up either in some form of asset or the timing is wrong."

He says some of the interesting assets that they have dealt with comprise a whiskey collection, a hearse (which he says was an interesting one), a collection of Ferraris, artwork (from Pierneef to Tretchikoff), jewellery, yachts and planes.

"This is the type of stuff that banks will not accept as collateral. Why should your hard-earned and valuable Rolex that you bought not serve as collateral for a stage in your life when you need the money? You do not want to sell it because this is short term; why should it not enable opportunity?"

Meyerowitz tells *finweek* that Lamna bears the responsibility of asset valuations, which are generally based on interactions with clients and a reliable network of experts that they work with to guide them in terms of valuation.

A recent move to offer loan advances against non-fungible tokens (NFTs) catapulted Lamna into a small, select group of global financial companies that are embracing and recognising the value of digital assets backed by blockchain technology.

Meyerowitz says that it is more than merely "moving with the times".

"With the rapid growth of cryptocurrencies, we understand that our clients' buying power has increased, and this includes investing in digital asset classes. That is something that we would do because we know that there is a ready market, it has value, it is in demand and therefore we can attach a value to it."

Thus far, Lamna has disbursed more than R1bn to over 7 500 customers with their financing solutions. ■

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Photo's: Shutterstock | Supplied

By David McKay

MINING

Major changes to come at Motsepe's ARM?

Speculation is rife after the public discussion of the future of African Rainbow Minerals.

Important changes may be afoot at African Rainbow Minerals (ARM), which appears to be weighing up existential questions over structure and strategy.

Typically, investment companies tend to attract a discount to net asset value because they have only partial exposure to cash flows or no management control. Pallinghurst Resources suffered this problem along with Mvelaphanda Resources before it.

The specific issue with ARM is whether its platinum group metals (PGMs) business, ARMPlatinum, could be separately listed – a discussion the company has had for the past seven years, according to the group's executive chairman Patrice Motsepe, who spoke on the topic at the firm's year-end results announcement in early September. What's different this time, however, is that the debate occupied airtime during the group's full-year results announcement.

According to RMB Morgan Stanley analysts Brian Morgan, Christopher Nicholson and Jared Hoover, the public nature of the discussion "... could increase shareholder pressure to address the discount".

Tim Clark, an analyst for Standard Bank Group Securities, also believed that the public nature of the discussion appears to signal intent. Normally, it's Motsepe who ventilates a "quo vadis" speech – quite often a protracted treatise – at the beginning of each annual results announcement. Now, however, several of the executives were talking about how ARM might evolve, observed Clark. It was a noticeable change.

If ARM is to restructure its platinum business, it would have to be satisfied the assets it own could be self-standing. Its investments consist of a 55% stake in Two Rivers (with Impala Platinum as the 45% joint venture partner) and a 41.5% stake in Modikwa, a mine 51% controlled by Anglo American Platinum (Amplats).

Two Rivers has generated an estimated R15bn in free cash flow over time and is, therefore, a success. But it is undergoing extension and expansion which won't be completed until 2024. Modikwa has been a marginal operation over the past ten years, says RMB Morgan Stanley. It has printed three losses before interest, tax, depreciation and amortisation between 2015 and 2017. It, too, is being expanded, which should help lower unit costs.

The outcome is a mixed bag of profitable and marginal mines that may require supplementation with merger and acquisition activity. The question is whether ARM has the will and nous to build its PGM portfolio?

Executives were quizzed about mergers and acquisitions, especially as some R15bn in cash has been set aside. The responses are non-committal but it's thought Motsepe might be taking some serious advice from long-term banking partner JP Morgan on the matter.

In the end, Motsepe decides where ARM goes as he controls just over 50% of ARM's shares, along with the BEE partners. That may pose a problem. "Psychologically, it's a different role for Motsepe to be the acquirer," a market source told *finweek*.

ARM was created in 2003 following the merger of its gold assets with Anglovaal, the Menell/Hersov diversified mining group. It has, since then, operated somewhat conservatively as an investment group. Its board is cautious, although it could be due to a shake up as a replacement is being sought for Mike Schmidt, ARM's CEO.

When ARM has embarked on corporate activity, it hasn't tended to be a success. In 2017, it sold its $200m investment in Lubambe, a copper mine held in joint venture with Brazilian mining group Vale, for $97m. It also sold its 50% stake in Dwarsrivier, an iron ore mine, in 2015 for R450m to Assore. Given the upwards trajectory of the world's iron ore market, the selling price seems highly favourable to Assore.

Interestingly, the question regarding ARM's future began not as one of expansion but rather whether it would take the lead of its bulk minerals joint venture partner, Assore, by delisting from the JSE. The point being that analysts first questioned the role of ARM as a public company rather than whether it could expand its public offering. ■

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Patrice Motsepe
Executive chairman of ARM

What's different this time, however, is that the debate occupied airtime during the group's full-year results announcement.

Photo: Gallo/Getty Images

By David McKay

MINING

Implats to tap into battery metals?

The platinum group miner is considering investment options to benefit from future metals.

Nico Muller
Implats CEO

It's fair to say Impala Platinum (Implats) CEO Nico Muller is managing expectations regarding the platinum group metals (PGMs) mining firm's growth plans when he says it is "developing a radar screen" for "future-facing" metals.

To be clear, future-facing metals is a term intended to include battery metals such as nickel, copper and cobalt, but which also extends beyond them.

"It's not part of our immediate plans," Muller said at the firm's year-end results announcement earlier this month before adding: "We don't have a rich pipeline of projects, but we do recognise the global demand patterns are shifting over the next decade to 15 years.

"We do recognise it, and to that extent we are developing a radar screen to educate ourselves in terms of how these commodity demand patterns are going to shift. We want to be in a position to tap into that. We will be evaluating that as part of our growth plans going forward," he said.

Mining executives are cautious about promising growth given the overspend of previous commodity cycles. They want to demonstrate their discipline by rewarding shareholders as fulsomely as they can.

Muller's Implats is no different in this respect but his comments are categoric: Implats is exploring diversification even as PGM prices promise to shoot the lights out over the next three to four years. Now, however, is not the time to splash out on merger and acquisition activity.

Adrian Hammond, an analyst for Standard Bank Group Securities, thinks that while Implats has passed its earnings peak it is nonetheless positioned to continue strong returns. "Looking ahead to fiscal year 2022, we expect to see continued earnings and dividend growth under our price assumptions," he said in a note titled "Dividends to Rain".

"At spot prices, we also forecast dividends to increase now that all debt has been repaid, although peak earnings has likely passed," he said. Hammond also suggested that given the medium-term shift by automakers to substitute palladium with platinum in autocatalysis manufacture, now was the time to capitalise on strong pricing for palladium by harvesting its palladium-rich Canadian mine Lac de Lilles rather than reinvesting in the mine's resources.

The company ended the 12 months with net cash of R23.5bn even after announcing a final dividend of R12 per share – taking the total dividend to R22 per share, about 50% of free cash flow. Including the redemption of a convertible loan, the company paid out 70% of free cash in its 2021 financial year.

As for the "future-facing" metals diversification strategy, Implats still has a job of work to do aligning the board and its shareholders with management's view.

The company knows, however, there's a clear fit between complementary battery metals – a broad church including nickel and copper which Implats already mines as a PGM by-product – and its current suite of metals. But it's also looking well beyond extending by-metal output. This is one to watch. ■

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THE PRICE OF PLATINUM

Redemptions of platinum-backed exchange-traded funds (ETFs) in SA totalled 173 000 ounces in the second quarter, according to a report by the World Platinum Investment Council released early September.

An undisclosed portion of the funds were shifted into JSE platinum group metals shares, said head of research at the council, Trevor Raymond, in an interview. "I wouldn't call it a flight exactly, but earnings for the companies have been exceptional," he said.

Implats has announced resource extension projects but they will be slow to implement, said Raymond. "So, you've got to think that dividends will be paid out," he added.

The price of platinum gained a third – about $300 per ounce – between January and February and then lost $100 per ounce to bob just over $1 200 per ounce until May whereafter it has steadily weakened. At $975 per ounce the metal is worth less than its January start.

Raymond said there was rapid destocking of metal inventories, mainly by Anglo American Platinum in the second quarter that affected all PGMs, with platinum least affected. "There's a disconnect between the platinum and palladium price (the latter now trading at $2 198 per ounce) that needs to be addressed and I'm not sure why platinum is worth less than gold.

"There's no reason why platinum shouldn't move back into a premium to gold (trading at $1 802 per ounce at the time of writing)." One expectation is that expensive palladium autocatalysts will be made from platinum in the future. It's widely forecast – Sibanye-Stillwater CEO Neal Froneman feels it is inevitable, but it's yet to manifest in the metal's price. ■

Photos: Gallo/Getty Images | Shutterstock

By Glenda Williams

AUTO INDUSTRY

Micro part, major impact

The global semiconductor shortage, expected to reach into 2022, is having a major impact on the production of new cars.

Sometimes it's the smallest things that have the biggest impact. Semiconductors, also referred to as microchips, are tiny parts, but for the automotive industry the worldwide chip shortage is having a major impact on the production of new cars.

Semiconductors, of which there are many in today's modern vehicles, manage a plethora of functions, among them computer engine management and driver assistance systems.

Demand for microchips surged as computer equipment requirements increased with the shift to remote working and e-commerce. But few factories produce microchips, the bulk of them in the Asia-Pacific region. Covid-19 shutdowns, which have impacted microchip production, have served to compound the shortage problem.

Malaysia, which supplies semiconductors for the global motor industry, has been hard hit by the third wave of Covid-19.

Neale Hill, managing director of Ford South Africa, believes that semiconductor availability challenges will continue into 2022.

It is not just about one type of chip. There are a multitude of different chips, each for different functionalities.

The microchip shortage is already affecting current Ranger production, Hill tells *finweek*.

"There are constraints on some systems and not on others," he says. "But we would rather take a vehicle out of production than compromise on features. We are not going to build cripples. And it is nigh impossible to build a vehicle and then retrofit those chips because of where the chips are located.

"At any point in time we could be managing constraints on over 25 chips that go into different systems in our vehicles," Hill says.

"All the manufacturers are affected. I think we are looking at a fourth quarter with supply disruptions. Dealers are desperate for stock."

Recently, Toyota announced it would cut global production for September by 40%. The Ford F-150 plant in the US has been shut down and General Motors has also shut down some of its plants.

With the microchip shortage hampering the supply of new vehicles, many carmakers have already warned of a significant impact to sales volumes and revenue.

Another potential knock-on effect is that the continued stock shortages of new vehicles will drive demand for used vehicles.

Consensus is that the semiconductor shortage scenario will reach into 2022. It has highlighted manufacturers' practice of just-in-time delivery that reduces the number of materials held in stock, and the need for additional supply chains, specifically regionally. But even developing new regional sources is no quick solution. "The set-up time for these factories is too long, because it's a clean, high-tech manufacturing environment," explains Hill. ■

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Neale Hill
Managing director of Ford South Africa

"All the manufacturers are affected. I think we are looking at a fourth quarter with supply disruptions."

Ford SA's manufacturing operation boosts jobs

Ford's vision for its Silverton assembly plant and the Tshwane Automotive Special Economic Zone (TASEZ) is rapidly being transformed into reality.

The first phase of Ford's $1.05bn investment to modernise and grow the Silverton plant to increase production of the next-generation Ford Ranger bakkie has already been completed. A seven-week shutdown facilitated the installation of upgrades to the Ranger assembly line and introduced advanced technologies and systems, bringing manufacturing operations in line with Ford's plants in the rest of the world.

The plant can now produce 200 000 vehicles annually, making the plant one of the biggest Ranger-producing plants globally. The addition of a third shift enables Ford SA to produce up to 720 vehicles daily, thus one Ranger every two minutes. Around 1 200 new jobs have been created because of the third shift, and an additional 10 000 jobs have been added to the supply chain.

Ford is currently constructing a new body shop and stamping plant on the Silverton site along with a new 100 000m^2 in-house frame line in the adjacent TASEZ. About 8 700 first-phase construction jobs and an estimated 3 000 new jobs for operations can already be attributed to the TASEZ.

Ford's goal to link the Silverton plant and the TASEZ with Port Elizabeth is still on the cards. It's a long, slow process given dealings with government and Transnet but one which Neale Hill, managing director of Ford South Africa, believes will come about. "To us it makes complete sense because of the overreliance on Durban," he says.

The Ranger has been produced at Silverton since 2000. The current generation Ford Ranger, celebrating its 10th year of production, remains SA's top LCV export year-to-date and Europe's top-selling pickup.

Production of the new Ranger pickup commences in 2022. And it won't only be Rangers rolling off Ford's upgraded assembly line. As part of the Ford-VW strategic alliance, the new-generation VW Amarok will also be built at Ford's Silverton plant. ■

Photos: Supplied

18+

WHAT IS AVAXHOME?

AVAXHOME -

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By Jacques Claassen

AGRICULTURE

Poultry industry on new growth and transformation path

The poultry industry is already well-advanced in expanding inclusively and creating more jobs.

Transformation, the resolution of inefficiencies and the stimulation of growth and expansion now form the broad narrative and focus of agricultural policy. It has already found traction in the new master plans of several agricultural industries, among others the poultry industry, which has for years been trying to free itself from the stranglehold of trade disruptions and international dumping.

Before the minister of trade, industry and competition, Ebrahim Patel, signed off on the poultry industry's recovery plan in November 2019, South Africa was struggling to meet the growing demand for poultry owing to the above-mentioned problems.

The expansion of the poultry industry led to the whole grain value chain being further stimulated, according to Izaak Breitenbach, general manager of the SA Poultry Association's (Sapa's) Broiler Producers Organisation. The number of hectares under maize and soybean was expanded by 144 600 and 122 200 respectively.

In addition, two decisive steps were recently announced. Measures taken to prevent the dumping of poultry meat by Germany, the Netherlands and the UK, which were introduced in 2015 and which would have expired last year, have been renewed, while the industry hopes to introduce similar measures against Brazil, Ireland, Poland, Spain and Denmark in 2022. Furthermore, the minister of agriculture, land reform and rural development, Thoko Didiza, has appointed a task team to form a partnership between the state and the private sector to tackle avian influenza, foot-and-mouth disease as well as African swine flu.

According to Breitenbach, this enables the poultry industry to address inspection problems at harbours; to get help from private vets in controlling avian flu – and to expand the industry's exports (currently to other African countries and Asia) to include Europe.

Izaak Breitenbach
General manager of the SA Poultry Association's (Sapa's) Broiler Producers Organisation.

Just as the ostrich industry succeeded by exporting cooked meat to Europe, the poultry industry wishes to follow the same strategy. Breitenbach says the industry's capacity to cook meat was expanded this year to 140 tonnes a week compared to 65 tonnes a week in 2020.

"Higher export figures will increase the broiler industry's ability to transform further. However, exports will only create truly meaningful benefits once the local industry is protected against dumping and illegal, unethical international trade practices."

According to Breitenbach, the government has realised that unfair trade has restricted South Africa's growth and job creation – not only in the poultry industry, but also in the textile and other industries.

At the annual general meeting of the Animal Feed Manufacturers Association (Afma), Dr John Purchase, Agbiz's CEO, said the desired outcome of the master plans that have been accepted by government for the various agricultural industries as follows: "There is a far greater inclusive approach in the creation of market-driven value chains that are competitive internationally."

Wouter de Wet, Afma chairman and operational manager at RCL Foods, says: "One of the great plus points in the agricultural value chain is that all role players have shown a better understanding of the interdependence of all the different links and how cooperation can lead to inclusive growth and the unlocking of value. As an intermediary, the feed industry must play an important role in the support and implementation of the master plans."

Afma recently asked Agbiz to help facilitate this process – especially as far as the feed industry's support for emerging and small-scale farmers is concerned. De Wet reckons the feed industry is also focused on supporting cost-effective soybean production and to make it more affordable for the poultry industry. ■

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Developments in the SA poultry industry

According to Izaak Breitenbach, general manager of the SA Poultry Association's (Sapa's) Broiler Producers Organisation, the acceptance of the master plan has led to the following positive developments:

- Commitments of investments to the value of R1.14bn have already been made and by 2023 this should grow to R1.5bn.
- The annual production capacity increased from 117m broilers in 2019 to 123m in 2020 and 135m this year.
- The weekly slaughtering capacity was increased from 19.5m broilers in 2019 to 20.5m and 22.5m in 2020 and this year respectively.
- Currently, there are 98 black-owned broiler businesses compared to 70 in 2019.
- Black farmers are now farming with 26m chickens.
- In 2020, the industry created 980 new jobs and 1 298 have been created thus far this year.
- It's estimated that the industry's contribution to the gross domestic product (GDP) increased by 5.2% from R48bn in 2019 to R50.5bn in 2020.
- Its contribution to GDP is expected to increase to R52.7bn this year and to R54bn next year, but this is subject to the possible impact of avian flu. ■

Photos: Archive | Shutterstock

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FUND IN FOCUS: COLOURFIELD BCI EQUITY FUND

By Timothy Rangongo

A multi-factor investment approach

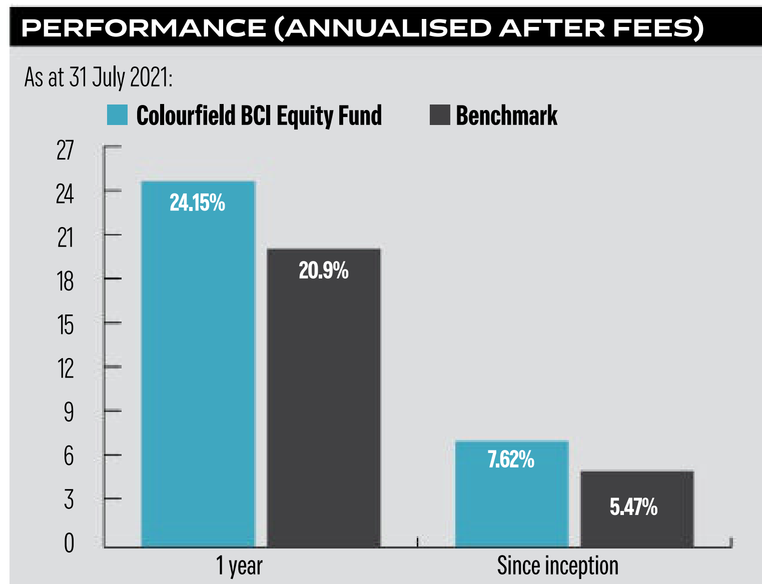
This fund seeks to maximise long-term capital appreciation by investing primarily in JSE-listed companies.

FUND INFORMATION	
Benchmark:	FTSE/JSE SWIX (J403T)
Fund manager:	Nick Sennett
Fund classification:	South African – Equity – General
Total investment charge:	0.85%
Fund size:	R335m
Minimum lump sum/ subsequent investment:	None/R15 excl. VAT on all direct investor accounts with balances of less than R100 000
Contact details:	086 100 7656/cls@colourfield.co.za

TOP-10 HOLDINGS AS AT 30 JUNE 2021		
1	Naspers*	18.8%
2	MTN	5.9%
3	FirstRand	5.1%
4	Impala Platinum	5.1%
5	Anglo American	4.9%
6	Sanlam	4.1%
7	Absa	3.9%
8	Sibanye-Stillwater	3.5%
9	Discovery	3.3%
10	Standard Bank	2.9%
	TOTAL	**57.5%**

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

PERFORMANCE (ANNUALISED AFTER FEES)



Fund manager insights:

The Colourfield BCI Equity Fund seeks to generate high capital growth by primarily investing in shares listed on the JSE. At present, domestic equity accounts for 97.94% of portfolio holdings.

The fund is managed using a multi-factor investment approach, by Dimensional Fund Advisors (a private investment firm headquartered in Austin, who acts as investment advisers), according to Shaun Levitan, chief operating officer at Colourfield. The multi-factor approach is deeply rooted in academic literature and endorsed by the fathers of factor-based investing, Nobel Laureate Eugene Fama and researcher Kenneth French.

"We focus on capturing the value, size and profitability premia in the market. The same investment philosophy is used across more than $600bn in assets. More importantly, Dimensional's almost 40-year track record ensures that investors benefit from real life experience at turning the theory into practice," explains Levitan.

He says the diversified, systematic approach has proved to be robust to all market conditions and as a result, 2021 presented no particular challenge to the fund. An example of the systematic manner in which the fund is managed is in the allocation of resources stocks.

"The commodities cycle is complex and influenced by many global forces. It is therefore very difficult to predict how it might behave and what effect it might have on resource stocks," says Levitan.

Because of this, the fund does not base investment decisions on predictions of future market movements and instead, believe that in liquid capital markets, current security prices reflect all available information about fundamental values and the aggregate expectations of market participants.

"We think that the most effective way to add value over the long term is to focus on reliable sources of higher expected returns."

Levitan underscores focusing on capturing recognised market premiums and using observable characteristics as being among the best opportunities for investors to meet their financial goals.

The fund's priority, for now and the foreseeable future, is to keep a link to natural market weights, to maintain diversification and to emphasise exposure to companies with higher expected returns, as determined by their market capitalisation, relative price and profitability.

Why *finweek* would consider adding it:

Apart from having low investment charges and remaining true to its investment objective of delivering returns, which is not indicative of future performance, the fund is suitable as an equity building block in a diversified multi-asset class portfolio and offers investors cost-effective access to a globally recognised and thought-leading investment approach. ■

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BIDVEST

By Simon Brown

Profits are the focus now

Bidvest is a large conglomerate and recent results for the year ending June saw headline earnings per share (HEPS) at 1 183c and a dividend of 600c. This put the share on a price-to-earnings ratio (P/E) of 15 times and a dividend yield of 3.2% as the company experienced a strong second-half recovery from Covid-19 restrictions. Bidvest's balance sheet is strong with capacity to fund some deals if they find attractive opportunities, most likely bolt-on ones that strengthen existing operations.

Bidvest's business is predominantly focused on SA, with 83% of revenue and earnings before interest, tax, depreciation, and amortisation generated locally. The latter seems to scare off many investors, who see Bidvest as reflecting the SA economy. But there is money to be made locally and Bidvest can use its scale and pricing power to gain market share. New management has also been firm that profits, not revenue growth, is the focus. While the current share price reflects fair value, improving supply chains next year and improved margins place the stock on a forward P/E of some 12 times, which offers value and dividend yield. ■

Last trade ideas

BUY Merafe Resources
10 September issue

BUY Murray & Roberts
20 August issue

BUY Cashbuild
6 August issue

HOLD Satrix China ETF
23 July issue

NASPERS

STAY SHORT

By Moxima Gama

Tech woes continue

In 2001, Naspers* made a good investment in Chinese internet giant Tencent for $32m – becoming the largest shareholder with a 31% stake. This was Naspers' most successful investment and appears to be the main driver of its share price.

But this investment is again suffering the wrath of China's tech regulator, who warned firms against blocking links to rival services, reiterating Beijing's order for online giants to pull down walls around their platforms. Prior to that, Beijing prosecutors initiated a lawsuit against a Tencent subsidiary, saying the "youth code" on the popular WeChat app does not comply with laws on protecting minors. Though Tencent announced new curbs on minors' access to its video game *Honor of Kings*, it seems China is nevertheless preparing a substantial fine as part of its antitrust clampdown.

Naspers is catching the raw end of the stick and because its stake in Tencent is now worth $100bn more than its own market value, Naspers executives must also deal with the enigma of how to unlock value for its shareholders without cashing out on one of the world's most successful tech companies. The discount continues to widen to new levels.

How to trade it:

In July I called Naspers a short below 278 825c/share because it had abandoned its primary bull trend and confirmed a negative breakout. Now the share is hovering on recently formed support at 229 085c/share, and if its three-week relative strength index (3W RSI) maintains its bear trend, further downside through that support level could trigger another sell-off towards its 2020 low at 184 380c/share. Alternatively, a recovery is possible if support is retained firmly at 229 085c and if the 3W RSI escapes its bear trend. Upside towards 312 795c/share would then be possible. ■

editorial@finweek.co.za

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

Last trade ideas

SELL Sibanye-Stillwater
10 September issue

BUY MTN
20 August issue

BUY Truworths
6 August issue

SELL Transaction Capital
23 July issue

Photos: bidvestil.com | Gallo/Getty Images

By Moxima Gama

VODACOM

End to two-year consolidation?

Vodacom provides a range of services, including mobile voice, messaging, data and converged services. Vodacom currently dominates the mobile market in SA. It also has operations in Tanzania, the DRC, Mozambique and Lesotho. Through Vodacom Business Africa (VBA), the company offers business-managed services to enterprises in over 40 countries. Their mobile financial services, M-Pesa and M-Pawa, provide money transfer, savings and credit services.

Share price history

Vodacom's share price reached an all-time high at 18 700c/share in 2017 after winning the fight against MTN on being the "first and best 4G network", ruled by the Advertising Standards Authority. When voice and SMS revenues started to decline, Vodacom expanded into financial services and saw an opportunity in Kenya where it acquired 34.94% of Safaricom for R34.6m. Today Safaricom is East Africa's biggest company by valuation and dominates the mobile money transaction business, with a strong climb in market capitalisation to $13.3bn.

Vodacom's share price started to lose upside momentum in 2018 as the sluggish SA economy hurt consumer spending, which increased bad debt that Vodacom had to incur for the very first time. It broke out of its long-term bull trend in June 2018, after reporting a slower revenue growth in its domestic market.

Current outlook

Vodacom's share price crashed "better" than most during the Covid-19 sell-off in February 2020. In fact, after touching at 9 070c/share in March 2020, the share rapidly recovered its losses. Vodacom reported a 40% rise in data traffic at the start of lockdown as users were cut off from work internet connections – the share subsequently abandoned its bear trend in May 2020. However, its ongoing court battle over the rights of its "Please Call Me" functionality has been a dark cloud hovering as settlement negotiations continue.

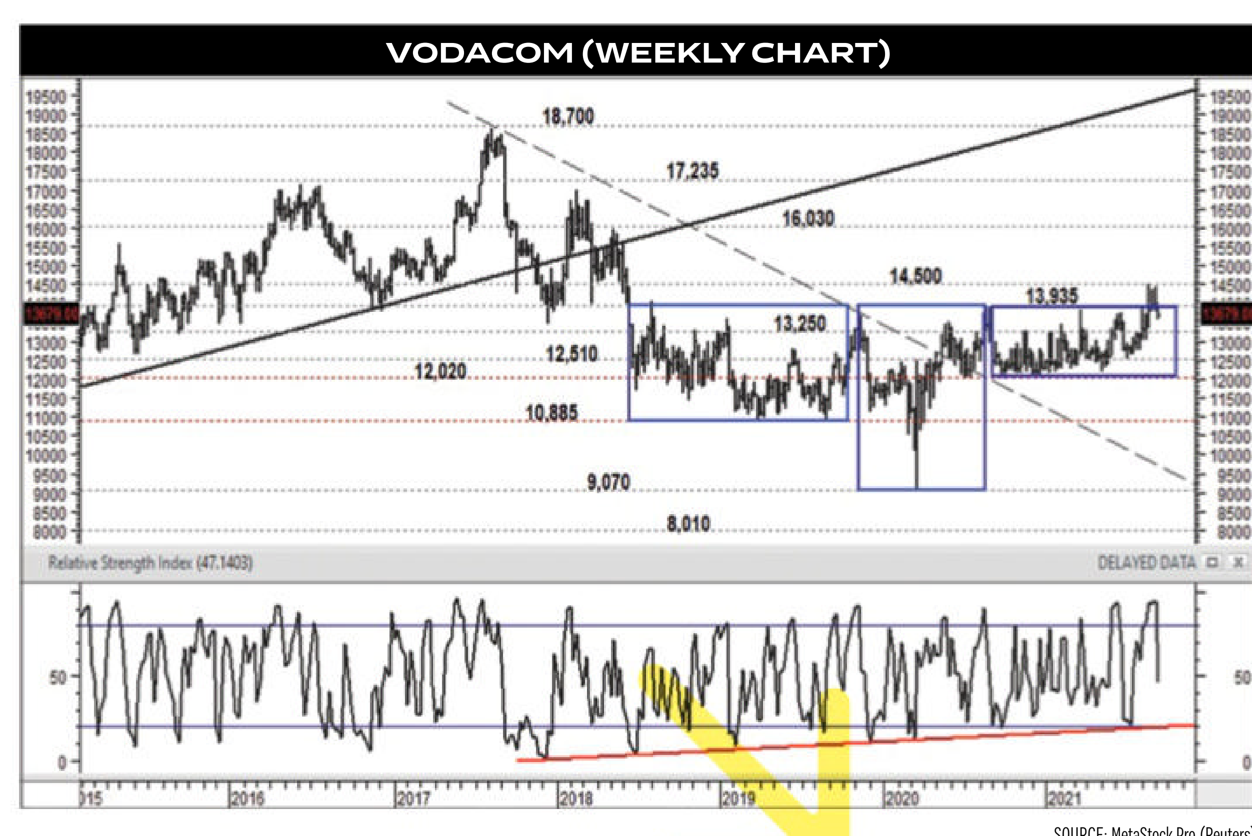
On the charts

Vodacom's share price has been encountering major resistance at 13 935c/share for a few months. Not even news that the company is expanding further in financial and e-commerce could push the share price through that ceiling level – Vodacom has developed a so-called super-app with Alibaba Group which will allow customers to take out loans and shop online through AliPay. It wants to expand its financial technology offering in SA while waiting for a long-promised auction of spectrum. The delays with the wireless spectrum auction process have now become Vodacom's conundrum.

The high-demand spectrum, which telecom providers had hoped to use to speed up the rollout of new technologies such as 5G, has been put on ice – the process has already been delayed by over a decade. Vodacom and MTN, who are currently the market leaders, have long called for more spectrum to expand their data services and boost revenues, but Icasa wants to prioritise smaller operators, which means the larger carriers may be shut out of bidding for the new 5G spectrum. Though Vodacom hasn't formally objected to the terms of the auction, it has stressed the urgency of a speedy agreement – and so has President Cyril Ramaphosa, who has stated that the delays are not in the population's interest.

What to anticipate

After breaking out of its bear trend, Vodacom has been trading in a sideways band between 13 935c/share and 12 020c/share. However, the recent intra-week break through the 13 935c/share pivotal level is a sign that buyers are willing to trade the share up. If so, a two-year inverted head-and-shoulders pattern would end and upside to prior resistance levels would commence.



SOURCE: MetaStock Pro (Reuters)

52-week range:	R120.20 - R145.00
Price/earnings ratio:	13.8
1-year total return:	15.5%
Market capitalisation:	R247.8bn
Earnings per share:	R9.80
Dividend yield:	6.11%
Average volume over 30 days:	1 350 436

SOURCE: BLOOMBERG

How to trade it

Go long: A positive breakout of the bullish reversal pattern will be confirmed above 13 935c/share. The level was breached, but its three-week relative strength index (3W RSI) was overbought, hence the pullback. Still, support retained at 13 250c/share would be a bullish sign – prepare to go long above 13 935c/share when the 3W RSI is not overbought. Upside to next resistance at 16 030c/share could ensue. Increase long positions above that level as momentum will likely persist towards the all-time high at 18 700c/share.

Go short: Downside through 13 250c/share could see the price drop further to 12 510c/share. Key support at 12 020c/share could be retested upon further selling, thereby extending the sideways pattern. In this instance, refrain from going long. ■

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By Simon Brown

PORTFOLIO MANAGEMENT

Keep it simple

Choose simplicity over complexity when considering stocks.

As humans we tend to believe in complexity although we like simplicity. We want a simple life, dropping all the kids off in one school run rather than multiple trips to collect and deliver them. Yet, many of us have this inherent belief in complexity; we think a multi-layered portfolio with lots of moving parts must be better than a simple, single exchange-traded fund (ETF). We're drawn to companies that we don't really understand because that complexity fascinates and impresses us and we're certain that it must therefore be valuable.

Yet, while complexity is indeed important and a large part of our everyday lives, truthfully, we tend to opt for the simple. Think of an iPhone. One of its key attractions is that it is extremely easy and intuitive to use. Sure, the insides of the device are deeply complex and well beyond any deep understanding for many of us, but our experience of it is about that simplicity and ease to use.

In investing I have often talked about the idea of a single large-cap global ETF as an excellent way of creating wealth over time. This is the core of my investment approach. I then do add complexity by adding individual stocks in a core or satellite approach. But as I get older (and smarter?) I am moving more and more to ETFs and that single global ETF becomes an increasingly larger percentage of my overall portfolio.

Recently I was shown a complex ETF portfolio that held some 20 different ETFs managed by a large asset manager. Yet, when checking the longer-term returns of the portfolio, it had been beaten by that large-cap global ETF which I hold and that was even before the asset manager's fees. The simple approach was winning hands down while the complex one had hundreds of millions of rands invested in it by tens of thousands of clients.

We see the same in stocks. Yes, the high-flying tech stocks are doing great, but think of Facebook. It is really a very simple model, namely it helps to connect people. Microsoft at its core helps us work more efficiently while Amazon is about buying anything with a click of a button and getting it delivered super quick.

Locally, Cashbuild is a top-quality business that simply sells hardware and home DIY supplies. It is stressful to tile your bathroom and Cashbuild tries to make at least a part of that process simple. The actual process of tiling is far from easy, trust me, I tried it once. But the experience of getting the tiles and other bits required was simple and seamless.

Shoprite's* simple attraction is that it sells us what we need for our daily lives in terms of eating and cleaning. Within the business is a hugely complex logistical supply chain but all we know is that when we visit our local Shoprite store, they'll have the product we need, and it'll be well-priced.

One stock where I have broken my rule of keeping it simple is Discovery*. The products are complex and the results even more so. But again, the core rationale for Discovery is changing customer behaviour so that we're healthier and richer.

So, look for those stocks that make our lives easier even if the internals of the business may be complex. Find stocks that solve problems for us. A complex product that requires the reading of pages of instructions is never going to be a long-term winner and even if the internals of a business is complex, we need to understand the problem they're trying to solve. ■

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

Photos: Shutterstock

By Schalk Louw

OFFSHORE

Is the US market close to a crash?

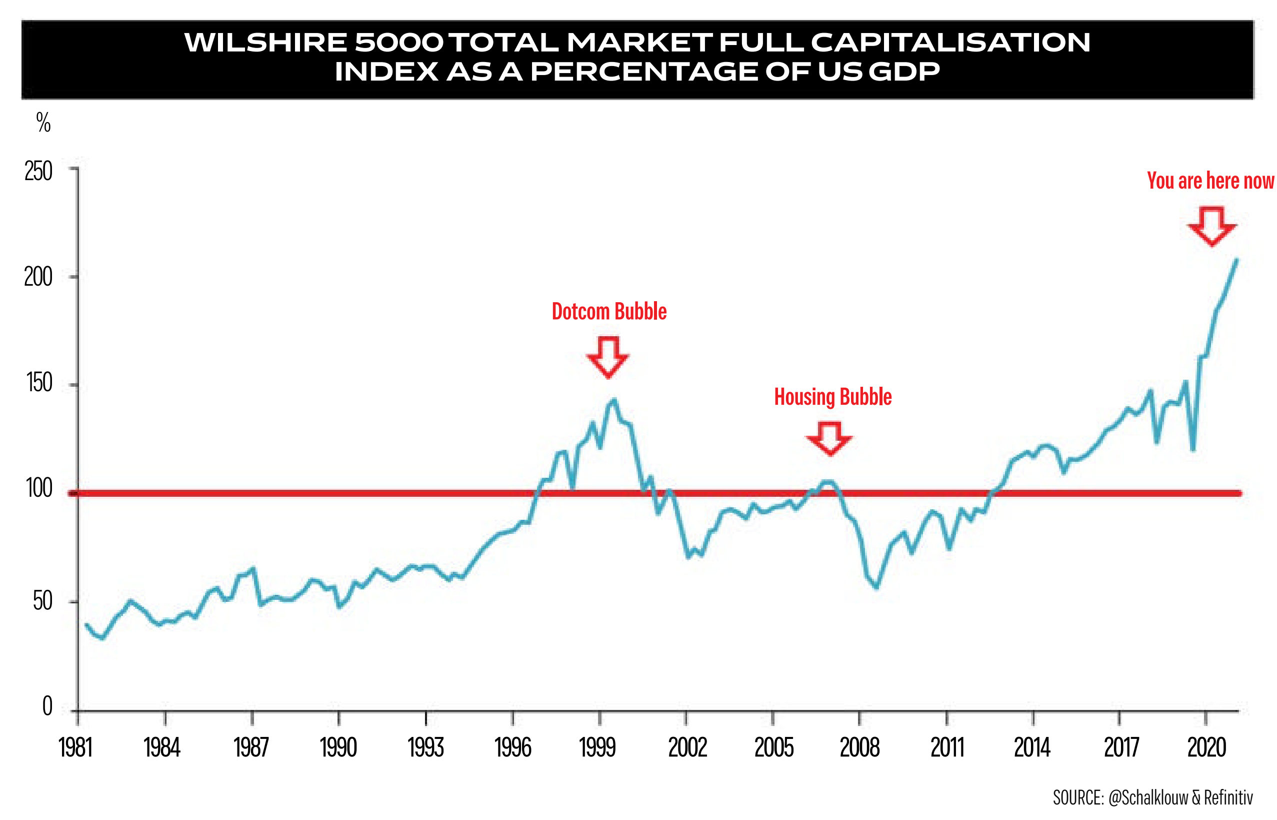
Schalk Louw looks at three indicators which address the probability of a US market correction.

On several occasions in the past I have referred to the fact that no one can determine what will happen tomorrow with absolute certainty. Some readers may disagree with me. If it's Friday today, then I can tell you with absolute certainty that I will braai tomorrow. That's a sure thing. But the truth is that I'm *planning* to braai tomorrow and based on what I do most Saturdays, there is a high probability that I will in fact braai.

If I should ever be so lucky, one person that I would love to invite over for a braai would be well-known investor Warren Buffett.

On more than one occasion Buffett has mentioned that one of the most important pillars his investment decisions rest on is probability. In his own words: "We make investment decisions based on our evaluation of the most profitable combination of probabilities."

This week I would like to apply the concept of probability – not to look for investment opportunities, but rather to answer the question of what the probability is of a market crash, or more specifically, a crash in the US stock market, the largest one in the world. To answer this question, I will discuss three indicators which address the probability of a US market correction.



Market capitalisation as a percentage of GDP

I mentioned Buffett earlier, but this ratio is also known as the Buffett indicator. This ratio simply measures the total US market capitalisation (Wilshire 5000) as a percentage of the US GDP, and it shows us when the US stock market is trading in inflated territory. Every time that the market capitalisation (size of the market) traded at higher levels than GDP over the last 30 years (higher than 100% of GDP levels), the US stock market was not only trading at levels close to boiling point, but it also experienced a massive correction shortly thereafter.

Not only are current levels more than 100% the size of GDP, but it's trading at more than double the size of GDP, which is much higher than during both the dotcom and US housing bubbles. This indicator, therefore, shows us that the probability of a market correction is quite high.

Price-to-earnings ratio levels

The price-to-earnings ratio (P/E) must be one of the most used ratios when it comes to the valuation of shares, and it is calculated by simply dividing the price of a share (or index) by its earnings. The higher the P/E, the more expensive the share. However, the problem with the standard P/E is that it only considers the past 12 months' earnings, which doesn't give us a good cyclical image. That is why experts prefer to use the Shiller P/E, or the CAPE ratio. The CAPE ratio uses the same formula as the standard P/E, but it considers the share's earnings over a 10-year period to consider and smooth out any fluctuations in corporate profits that occur at different intervals during a business cycle.

Even when we consider the CAPE of the US stock market (S&P500) over the last 150 years, it's important to note that every time this ratio skyrocketed, a sharp market correction followed soon thereafter. Now, while the US market is not yet trading at the dotcom bubble levels seen in 2000, we have surpassed 1929 levels and I think it's safe to say that the probability of a market correction, according to this indicator, is getting higher by the day.

US 10-year Treasury constant maturity minus 2-year Treasury constant maturity

When we consider the difference between the US 10-year Treasury constant maturity rate and the 2-year Treasury constant maturity rate, the US experienced a recession within the 2-year period that followed every time the short rates traded higher than long rates over the past 45 years (i.e., where the difference was negative). Although we found this difference in negative territory at the end of 2019 for a short while and saw the US in a recession for a short while thereafter, at current levels things are still relatively normal. That means that according to this indicator, the probability of a market correction is not as high as with the two other indicators. Be warned, however: The US Federal Reserve already indicated that the next interest rate move will most probably be upwards, which may push the 2-year rate higher and could lead to a negative difference. ■

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Photo: Shutterstock

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown, is *finweek*'s resident expert on the stock markets. In this column he provides insight into recent market developments.

SHOPRITE

Stellar results

Shoprite published its financial results for the 53 weeks ending 4 July on 7 September and they were outstanding. Revenue increased 8.1%, headline earnings per share (HEPS) came in 20.3% higher and the dividend was up 42%. This as the rest of Africa returned to a profit, adding R307m after only generating R2m in 2020 and a loss for the 2019 financial year. Their trading margin was 6.1%, which is the best I can find for any large food retailer in the world, with most very happy to hit a 3% trading margin. A note here: I usually use operating margin, which includes exchange rate gains or losses and profit on lease changes or cancellations. It excludes "items of a capital nature", which are impairments, and hyperinflation losses in Angola, but retailers are all moving to trading margin as a key measure. Shoprite's loyalty programme is now at 20m users and the Sixty60 delivery app has been downloaded 1.5m times. The group's LiquorShop was closed for 144 of the trading days but still added 4.4% revenue growth. This stock is a cornerstone of my portfolio and on a current price-to-earnings ratio (P/E) of around 20 times it is not cheap, albeit the dividend yield is at a decent 3%. Shoprite is never cheap and the results indicate why.

CHINA'S EVERGRANDE GROUP

One to watch

In decades gone past one of the big concerns was a large default by a Chinese company that could trigger a ripple effect of more defaults. This fear has receded in recent years, but the likely default of China's Evergrande Group is worth watching. They have debts of $300bn and their debt yields are now above 100% as the market assumes a default. I don't think this will end as a worst-case scenario; the Chinese financial system is much stronger and the debt market more advanced than even just a decade ago. But keep an eye on how this plays out. China's Evergrande Group going bust and defaulting without much collateral damage would be a good sign as it will confirm a much-improved Chinese financial debt market.

City Lodge's results for the year ending 30 June, released on 10 September, saw occupancy of

19%

compared with 55% in 2019.

INFLATION

Higher rates to come

Reserve Bank governor Lesetja Kganyago delivered a great speech recently detailing South Africa's inflation targeting. His key point was suggesting we work towards a 3% inflation target, with a 2% to 4% tolerance range. Currently the range is 3% to 6% but the governor always refers to the 4.5% mid-point. He also said the initial plan set when SA introduced inflation targeting back in 2000 was to reduce it over time and over the last few years inflation has average around 3.5%, so within the proposed range. Ultimately, if we want structurally lower inflation in future, we need the range to be lower, and the governor's points are likely to find traction. In the short term it likely means no rate increases this year, but it does mean a higher interest rate sooner rather than later, if approved.

CITY LODGE

Can they turn the tide?

City Lodge's results for the year ending 30 June, released on 10 September, saw occupancy of 19% compared with 55% in 2019, and even the latter was on the low side for the group. The rights issue helped even though much of that money went to bail out the BEE scheme; and the sale of their East African unit will reduce debt further. The big question is how quickly they can get the occupancy to around 40%, which is where they start to make money and the leverage effect will kick in. With business travel being a large part of their pre-pandemic occupancy, they will find it harder going than the more direct leisure hotel groups. The fiscal year ending 2022 should see City Lodge back in profit but it's going to be slow going and I think we have better reopening trades in this sector.

SUN INTERNATIONAL

On the road to recovery

Sun International's results for the six months ending June, released on 31 August, improved markedly compared with the comparable period a year earlier, albeit the company still recorded a loss of 32c a share. That was nevertheless a 96% improvement from a year earlier. At a headline level they lost R885m to June 2020, R1.1bn for the full year to December 2020 and in this latest period that loss was an adjusted R4m from continuing operations. They were helped by Covid-19 business interruption claims worth R235m, with another R260m expected in future by the company. Locally, a more relaxed curfew will help Sun International as it can keep casino doors open an extra hour per day and this will improve further under Level 1 lockdowns. The company should be able to record a profit in the second half of the current fiscal year and this is my preferred reopening stock locally.

MURRAY & ROBERTS

Is it the end of losses?

The Murray & Roberts* results for the year ended 30 June, released on 1 September, spooked the market as the discontinued operations lost another R256m at the operating level while continuing operations made a profit of R540m. The company says this will be the last of the large losses from discontinued operations and expect the rest of the business to double profits over the next year or two. That will translate into some R1bn in profits and puts the stock on a forward P/E of around 4.5 times. This may be slow going but I still like the stock and think there is decent value at current price levels, albeit large contracts always come with risk on pricing and delays.

DISCOVERY

Waives dividend

The Discovery* results for the year through 30 June, released on 2 September, were deeply disliked by market participants as the company skipped the dividend and announced a possible R1.5bn rights offer for their Chinese Ping An investment. Ping An continues to grow at an accelerated pace, generating an operating profit of R411m. That's an increase of 126% and some 6.3% of total group operating profit. Discovery's embedded value increased by 5% to R113.65 per share, which is a little under 700c below the company's current share price. So, assuming embedded value is fair, you get Vitality, short-term insurance, Ping An and the bank for 700c. Now sure, the bank may not succeed, but Vitality is a great operation. Trading on the Hong Kong Stock Exchange, Discovery's 25% stake in Ping An is worth some R550m which equates to a little under 100c a Discovery share and this all while Ping An's shares are some 40% off the highs of earlier this year. So maybe the market is being cautious as it waits for values to show themselves, especially in Discovery's banking division.

> Discovery skipped the dividend and announced a possible R1.5bn rights offer for their Chinese Ping An investment.

ASPEN

Healthy balance sheet

Aspen Pharmacare's results for the year through 30 June, released on 1 September, were solid as HEPS jumped 21% to 1 204c and net borrowing more than halved to R16.3bn. It was their debt that got the company into trouble back in 2018 and they are now well within levels they can manage and within their debt covenants. Aspen is now also a very different company. The old strategy of buying assets with debt and using that cash flow to pay off the debt worked well until it didn't (as is usually the case with debt, it's all fine until it's not) and it's not likely to be a strategy they're going back to. That leaves the company as a contract manufacturer and generic drug business which is well-positioned but it does mean more modest growth in future. But with debt lower we should start seeing higher dividends. Aspen has traditionally been a low dividend payer as they had to service their debt. That all said, the current price of almost 22 000c per share puts them on a P/E of about 18 times and that is not cheap. ■

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**The writer owns shares in Shoprite, Murray & Roberts and Discovery.*

Photos: Gallo/Getty Images | aspenpharma.com

By Maarten Mittner

VALUATIONS

Short-sellers are again at the short end

Short-sellers have hoped that a tighter US monetary policy would pull back equity shares, but to no avail. Why is a long view the better option for now?

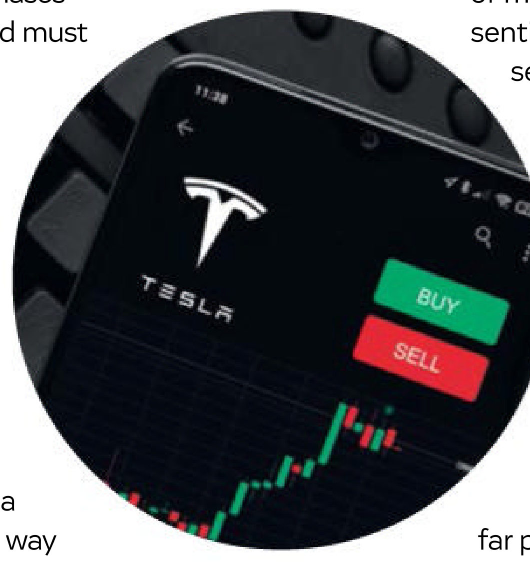
The latest signals from the US Federal Reserve have reassured equity markets that the central bank will not act rashly with its tapering objectives.

Disappointing US job creation numbers has resulted in further caution, while the Delta variant of the coronavirus could cause further disruption over the Northern winter.

The Fed's message was that monthly bond purchases may be reduced at year-end, but it will be gradual and must not be seen as indicative of any imminent hiking of interest rates. Large tech companies' stocks surged on the development, presenting another blow to short-sellers, who hoped that a tighter monetary policy would pull back equity shares, mostly Big Tech, from their present highs.

Apple reached new heights, increasing its market cap to $2.6tr, while Microsoft, Amazon and Tesla all gained ground on the pronouncements from Fed chair Jerome Powell.

Short-selling is a way of making money when stocks appear to be overvalued and could be due for a downward correction. Some analysts regard Tesla as way too expensive, as its intrinsic value is calculated at about $150 per share. But it is now trading at upwards of $700. Should it dip and fall to a value more closely correlated with its intrinsic value, short-sellers are set to make big money by buying shares at cheaper levels, like buying a house at R1m that previously cost R5m.



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Should it dip and fall to a value more closely correlated with its intrinsic value, short-sellers are set to make big money.

Hereby an overvalued share is borrowed at say $700 and then immediately sold, usually partially, to drive the price lower. When the share hits a lower level, say $200, the shares are bought back at the lower price and returned to the shares' owner, resulting in a $500 per share profit made, minus any margin payments that had to be settled.

But if Tesla was bought at $500 per share, hoping it would go down to $200, and it spiked to the present $700, an investor would be out of pocket, as $200 per share more is now payable on the position that was initially bought, together with margin costs.

This is precisely what has been happening with short-sellers having positions on Tesla. The share stubbornly resists to rerate lower because demand is still high, despite a strong case for an obvious overvaluation. Tesla until recently traded at a price-to-earnings ratio of 1 000 times.

It is not only Tesla. Many investors have large short-selling positions against Big Tech stocks because of last year's strong run. But the envisaged correction remains elusive, and high valuations may remain the reality if the Fed is wedded to an easy monetary policy stance.

Short positions against well-known investor guru Cathie Wood's tech-heavy Ark Investment Funds have more than doubled in anticipation of some correction. The Ark Tech Innovation Fund was a star performer in 2020, rocketing over 150%.

Recently there has been some sharp outflows from Ark funds. But it is probably more related to the squaring of margin positions by short-sellers than any real negative sentiment as it has become very expensive for short-sellers to hold onto these shares.

Short-selling is not a one-way bet. In fact, short-selling successes are very rare. Capitec on the local market is a good example.

In 2018 it came under severe selling pressure following a negative analyst report, falling below R1 000 per share. Since then, short-sellers have been burnt as the share gained to R1 800 apiece, with compound returns of over 200% over the past five years. Its market cap is now on par with that of Standard Bank, Africa's largest lender by assets.

With hindsight since last year, it would have been far preferable for market players to take long positions on tech stocks. That is, betting that a share will go up and not down. The exception being Chinese tech stocks, which have all suffered due to regulatory steps from the Chinese authorities. It might just be a blip.

Short-selling is controversial. It may even be illegal in some respects, as shares are meant to represent capital growth. But the proponents say it is positive for any market as it increases liquidity.

Few sectors at present appear to offer clear opportunities for short-sellers. Mining stocks remain undervalued, with heavyweights Sibanye-Stillwater and Anglo American Platinum still rated as buys. Long positions may be more profitable, taking cognisance of expected growth in the Chinese economy and continued easy monetary policies.

Tech stocks have moderately rerated from recent highs, also mitigating against extreme short positions. Value stocks may also still have a way to go before becoming overvalued, thereby offering clearer long-buying opportunities.

Those that are prepared to take the risks can win handsomely with short positions. The key is to take the general overall market direction and macroeconomic factors into account. It remains very risky. Short of a general market catastrophe, a long view is the winner for now. ■

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Photo: Shutterstock

By Andrew Duvenage and Paul Marais

ECONOMY

Outlook on SA inflation

A look at the forces determining price increases in South Africa for the rest of the year.

Consumer price inflation fell to 4.6% in July from 4.9% in June after a high of 5.2% in May, according to Stats SA. This is well within the Monetary Policy Committee's inflation target range of between 3% and 6% per year, and only fractionally above its preference of a midpoint of the range at 4.5% per year.

The Reserve Bank tries to control South Africa's inflation rate by setting interest rates to achieve its target range. The idea behind this is that interest rates are the price of money and the more expensive money is (based on higher interest rates), the less money will be chasing goods and services. When demand – expressed as the amount of money available – falls relative to supply, prices will rise slower or decline. The opposite is also deemed to be true: lower interest rates make money cheaper which increases demand relative to supply, pushing prices up.

Amidst high levels of uncertainty, low business confidence and sky high unemployment, it appears that inflation is the one thing we don't need to be concerned about – for now. But for how long will this remain the case?

The three largest items in the CPI are housing and utilities, which has a weighting of 25%; food and non-alcoholic beverages at a weighting of 17%; and transport, which comes in at 17%. Combined, these three items account for almost 60% of the CPI basket.

According to the July CPI figures, housing and utilities inflation is at a reasonable 3.8%. However, electricity – a sub-component of housing and utilities – has seen a 6.2% year-on-year change which is at the upper limit of the target range. The year-on-year change for June was 13%.

Unfortunately, electricity prices are unlikely to see any moderation. Regulations to allow entities to self-generate up to 100MW is likely to see the removal of "good payers" from Eskom's accounts, which will put further pressure on the utility provider. It is only once the excess supply from these sources is fed into the grid that this will have a deflationary effect – and this is still some way off.

There are other factors impacting the cost of electricity. Eskom CEO André de Ruyter anticipates that the recent explosion at Medupi could add an additional R2bn in costs to the beleaguered power utility.

Inflation from food and non-alcoholic beverages has moderated slightly to 6.7% after a high of 7% in June, the highest rate since June 2017. Food inflation has been rising steadily since the last quarter of 2020 with food inflation the primary driver of higher inflation figures in April, coming in at 5.2%. The rising cost of agricultural inputs such as energy, fertiliser and feed all have an impact on food inflation. The global maize price plays a significant role in driving higher food inflation. Rising fuel prices also impact food inflation given that, in SA, much of our food is transported by road.

The good news is that global agricultural commodity prices are expected to moderate slightly in the second half of 2021 with SA agricultural commodity prices expected to follow suit. This augurs well for local food price inflation.

Transport inflation in July was 8%, again above the upper limit of the Reserve Bank's inflation target range. A rise in fuel prices results in an increase in transport costs and impacts the cost of any goods and services that rely on transport, so it has far-reaching consequences.

A source with the potential to provide an inflationary surprise is the public sector wage bill. The 1.5% 2021 increase may appear to be a negotiated limited increase but once the monthly gratuity has been factored in, the real increase is more like 4.9%. This is likely to have an impact in terms of increased spending.

SA inflation dynamics, however, do not exist in a vacuum. The global context remains relevant, even if imports are currently lower than normal. The reason for this is that global inflation will find its way into SA inflation through the price of imported goods and services.

Inflation in the G7 countries – Canada, France, Germany, Italy, Japan, the UK and US – and the EU is currently running at 3.9%, against a historical average of 3.7%, so there are no alarm bells on this front.

A more useful metric to consider is the countries that make up SA's trade-weighted rand. A measure calculated by the Reserve Bank, it has the euro at a 31% weight, the Chinese yuan at a 25% weight and the US dollar at a 10% weight. Any imported inflation is likely to come from these three currencies. German inflation – as a proxy for the wider EU – is currently at 3.8% per year, inflation in China is at -1.7% while the US is at 5.3%. Again, no major alarm bells.

The good news for SA is that inflation has been contained and does not require any traditional policy interventions. A big risk to SA inflation would be if the SARB's mandate was adjusted to include some form of "full employment" element which would force interest rates lower, inflation higher and would mean the target range would need to be adjusted. Encouragingly, this does not seem to be a likely scenario given recent comments from the SARB that the inflation target may need to be adjusted downwards. ■

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Andrew Duvenage is the managing director of NFB Private Wealth Management and **Paul Marais** is the managing director of NFB Asset Management.

Regulations to allow entities to self-generate up to 100MW is likely to see the removal of "good payers" from Eskom's accounts, which will put further pressure on the utility provider.

Photo: Gallo/Getty Images

By Petri Redelinghuys

OFFSHORE

The dynamics driving US inflation

US-driven global price increases may not be transitory thanks to the dynamics of oil supply.

I guess one of the bigger questions in the marketplace at this stage is around inflation and whether it is in fact transitory. We can expand on this by including the questions of what the impact is going to be if the US Federal Reserve eventually starts tapering or stops the monetary stimulus that they've been doing since the onset of the Covid-19 pandemic.

I believe that if we can answer these two questions, at least within some reasonable measure of accuracy, we should be able to position our portfolios to benefit from the coming change.

The first thing to look at is the inflation debate. Particularly US inflation, as the US economy is in large part a driver of international markets. One of the first things we are looking at is US employment numbers. At this stage there's about 8.6m people who are unemployed (and are eligible for employment), while there is about 10.7m available jobs. Great problem to have, but still a problem. One that was created by complacency. Unemployed people are not incentivised to look for work because they've been receiving enormous amounts of direct monetary stimulus, or cheques in the mail, directly from government because of the economic fallout of the global lockdown caused by the pandemic.

At this stage there's about **8.6m** people who are unemployed (and are eligible for employment), while there is about **10.7m** available jobs. Great problem to have, but still a problem.

Obviously, that's not going to last forever, but it has been the status quo for the last year or so. This has created a situation where people are not desperate for jobs or income because they have government benefits ranging from direct cash deposits to anti-eviction moratoriums that ensure the comfort and safety of those without employment.

The knock-on effect here is that it creates a situation where companies are looking for people to employ, and in turn, those very people are not necessarily looking for entry-level jobs or low-wage positions. This creates wage inflation because now people demand higher salaries to take jobs.

So how does this lead to inflation? Firstly, companies' expenses increase, which means their margins are squeezed, which means they need to increase prices of goods and services and pass through the additional cost to the end consumer to recoup their now higher labour costs.

Another driver of inflation comes in the form of food prices. Some items are at record high prices, particularly beef, chicken, and pork, as well as eggs and other by-products made from these animals. Beef prices in the US, for example, are at the highest it has been possibly ever. The argument can be made that this was brought on by the Covid-19 pandemic because of supply chain issues and all sorts of bottlenecks. The downstream effect of this is that food prices are at or near all-time highs.

Another issue is energy. Energy is a trumpet we've been blowing for some time now, but the narrative is unchanged, and the outlook is similarly unchanged. In an interesting move, China has now released some strategic oil reserves to cool down prices somewhat, but the long and short of it (no puns) is that there is simply not enough oil supply to meet demand.

During the hard lockdowns, demand dropped off a cliff and sent oil prices into negative territory for the first time ever. This did a lot of damage to oil producers, thus removing some oil production capacity from the market as smaller oil and natural gas or shale gas producers essentially went out of business. Once demand starts coming back, which it now is, suddenly the already unbalanced market is now even less balanced as there's less supply to meet ever-increasing demand.

In the very short term, you're looking at a potentially very cold winter in the Northern Hemisphere. Which will obviously create a lot of heating demand, so natural gas and oil will be very hot commodities. In the bigger picture, there's also this shift to green energy. Everybody wants the romantic idea of using green energy to power most of the world, but green energy output capacity at this stage is not near what is required to sustain the base load of global energy demand. Whether that be in the US or in Europe or in Asia, there simply is not enough. The stuff that powers the base load at this stage is still good old dirty coal and oil.

It's a very long way of saying it, but energy prices are likely to continue rising for some time, which will feed through to things like fuel prices and transportation, which further down the supply chain increases the price of basically everything.

So alright, inflation might not be transitory, which in turn forces the Fed's hand to start tapering, and in the slightly longer term, start raising interest rates. The question now is, how do we position ourselves to benefit from a tightening monetary policy environment? From where we stand, that would be to start looking for more opportunities in the energy sector and opportunities in the commodities sector and precious metals. You could even look at inflation-linked bonds, or perhaps even bet against US Treasuries. Another idea is to look at the commodities that are used as inputs into energy storage technologies (like lithium and cobalt).

Perhaps the easiest way to prepare is simply just to lighten the load a little and hold a bit more cash in the account, ready to deploy when the market finally does give us a dip worth buying. ■

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Petri Redelinghuys is a trader and the founder of Herenya Capital Advisors.

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By Simon Brown

INVESTMENT

To buy or not to buy

With so many exchange-traded products listed this year, how do you decide which are worth your time and money?

We've seen a bunch of new exchange-traded products (ETPs) listed over the past year and we now have 85 exchange-traded funds (ETFs) and about as many exchange-traded notes (ETNs) on the JSE.

In this issue, what I want to touch on is the process of how to decide whether that new shiny ETP is worth adding to a portfolio.

The first question is whether it is a carbon copy of an existing ETP which you own? If it is, then it's worth checking some details such as the total expense ratio (TER) and whether the ETP is maybe a total return product. A cheaper TER is always attractive and buying the newer and cheaper one is a simple decision – do it.

Total return means that the ETP will reinvest the dividends or interest income rather than pay it out to the holders of the product. If you prefer a total return asset, then go for that one. I usually prefer dividends being paid out as I can then invest that income as I see fit.

The big issue is when the new ETP is completely new, such as the recent global healthcare ETF from Sygnia or the global infrastructure fund from Satrix. The first thing to do here is to check how much healthcare you already have through your existing ETPs. An S&P 500 ETF has around 13% invested in healthcare stocks and it's the second-largest sector in the index. Now, that's a chunky percentage already, so if you have an S&P 500 ETF, then buying the healthcare ETF will upweight a sector you already have a fair weighting in. Now sure, maybe you want a lot more healthcare, in which case the new ETF is a perfect way to add weight to that sector.

Staying with the above example, the sector breakdown does not directly mention infrastructure so it's harder to determine the exact weighting in this example.

Industrials and real estate investment trusts (Reits) will both include some infrastructure while utilities and energy will largely be exclusively infrastructure. By my estimate we end up with around 10% to 11% of the S&P 500 invested into infrastructure. Further, infrastructure generally has a lower volatility and a higher dividend payout. So, if you like the idea of a smoother investment with higher income, this new ETF would certainly do the trick.

Also consider if it can be invested into a tax-free account. ETNs are not eligible for tax-free investments, and neither are commodity ETFs. If you focus on investing through your tax-free investment and an ETP is not eligible, then it's not worth worrying about it as you can't buy it as you want to.

The key is that just because it's new does not mean you need to own it. Way back when we had far fewer ETFs on our market, I pretty much bought every new one that listed and in no time I had close to 20 ETFs in my portfolio and a lot of duplication and overlap. For example, I had a Japan-focused ETF, and I also had exposure to Japan in my world ETF. It wasn't that I was extra bullish on the Japanese economy. It was rather that I liked new ETPs.

The last point is that if you decide to switch into a new ETP, do you sell the existing one you hold? That raises a cost issue. Firstly, will it incur tax? Secondly, how much will the buying and selling cost as well as the spread (difference between buy and sell) be? Often this can be as much as 2% and then you'll need to consider how much you'll save every year. If it is a full percentage point, then great. If it is only 0.1%, it'll take two decades to recover the costs and thus not worth the switch. ■

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The key is that just because it's new does not mean you need to own it. Way back when we had far fewer ETFs on our market, I pretty much bought every new one that listed and in no time I had close to 20 ETFs in my portfolio.

By Andriette Theron

A well-diversified, all-weather portfolio

PPS Global Equity Fund with more than 300 stocks remains balanced and diversified and delivers strong returns.

2020 was a powerful year for select consumer discretionary, technology and digital-related companies, where the Covid-19 pandemic provided an acceleration in take-up of their products and services. Against this backdrop, returns from the PPS Global Equity Fund were particularly strong as investments in companies such as Tesla and Amazon generated strong returns over the year.

From early November 2020, following the announcement of several effective vaccines, markets turned their attention to companies that had been previously neglected during the relatively narrow market rally of 2020. The PPS Global Equity Fund managed to participate in both periods, delivering 28.89%* since its inception in January 2020, relative to its benchmark, the MSCI All Country World Index (ACWI), which produced a total return of 20.88% over the same period.

As inflation expectations normalise and economic activity is forecast to rebound following the pandemic shock, the economic backdrop is likely to be supportive of a broader range of companies.

For portfolio managers in the PPS Global Equity Fund, current investment opportunities are not considered a binary choice; cyclical and secular growth opportunities co-exist in the portfolio, which is underpinned by a broad base of core investments.

The portfolio is built on a company-by-company basis by a team of portfolio managers who are given the freedom to make individual high-conviction, long-term investment decisions. The portfolio construction has been deliberately designed to achieve cognitive diversity and ensure a well-diversified portfolio. The result is a portfolio with more than 300 stocks which remains balanced and diversified across regions, sectors, industries and, very importantly, investment styles.

Long-term resilience

The strategy employed has outperformed the global equity market during every major growth- and value-driven market cycle over the last 46 years except for a short period in the mid- to late-1980s, which was largely a consequence of being underexposed to Japanese companies at the height of the Japan equity market bubble.

During its lifetime, the strategy has navigated energy crises, runaway inflation, swings in exchange rates, multiple recessions (and recoveries), financial market bubbles, central bank monetary policy experiments, changing patterns of global trade and a global health pandemic. Its consistent results have not been achieved by correctly timing inflection points in markets or having a distinct (and in favour) investment style. Instead, the consistency of the strategy's excess returns lay in its long-term investment horizon and a well-diversified core portfolio. ■

Andriette Theron is head of research at PPS Investments.

The PPS Global Equity Fund is managed by partnership manager Capital Group. For more information, visit www.pps.co.za/invest.

**Annualised performance in US dollars for the period since inception 31 January 2020 until 31 July 2021, net of fees.*

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JSE

Photo: Gallo/Getty Images

THE INSIDE VIEW ON JSE OUTFLOWS

SA's stock market has been bleeding foreign capital lately. What lies behind the outflow and what can be expected from the bourse going forward?

By Brendan Peacock

When the CEO of South Africa's major stock exchange, the JSE's Leila Fourie, hit the headlines recently for saying outflows of foreign capital from the exchange kept her awake at night, many investors would have been left wondering how alarmed they should be and what action they should take. While the country's structural issues are well-known and have been publicised for years, epitomised by our sovereign credit rating downgrade, Fourie's comment was not contextualised. Immediate questions for retail investors would have included the timing of what was a seemingly worrying view. What implications do these outflows have for asset prices, liquidity and investor returns on the JSE?

Though the answers appear to be simple on the surface, the trends are nuanced and it pays to get inside the heads of industry professionals to find out how they view the JSE currently.

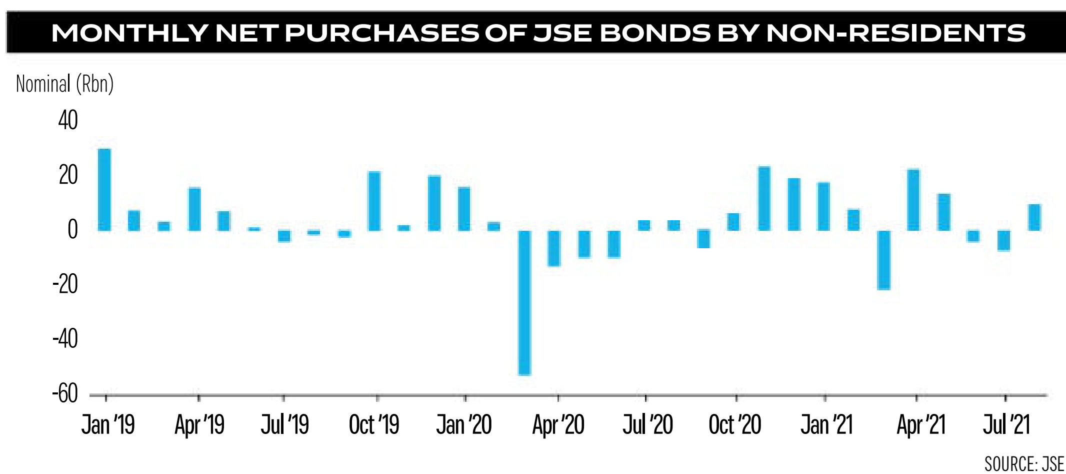
Galileo Capital executive director Warren Ingram says the long-term structural macro trend of foreign investors withdrawing from SA in all spheres will continue. "From the real estate market to bonds and equities, foreign investors continue to move money out of the country. Inside that is a cyclical pattern. In assets where things are currently going well, the withdrawal may slow down or even temporarily reverse, but the overwhelming trend remains the exit of capital."

Ingram cites Jacob Zuma's ascendancy to leading the ANC as the point where the tide turned. "You can pinpoint it, and it didn't slow down or reverse when Cyril Ramaphosa took over. In 2007, many good JSE-listed businesses were expensive. We've gone from fair value to being ridiculously cheap. At that time, SA fund managers rode the maximum of their offshore allocations and that continued until last year, when asset managers moved their money into domestic assets. The main reason is purely valuations – what some fund managers uncharitably call bottom feeding. They're finding opportunities based on valuations, but this does not signify a positive structural shift or economic turnaround."

Protea Capital Management CEO Jean Pierre Verster adds that when SA's sovereign debt was downgraded, a large amount of money was technically restricted from buying our bonds – exacerbated by perceptions of risk related to the SA economy and political landscape.

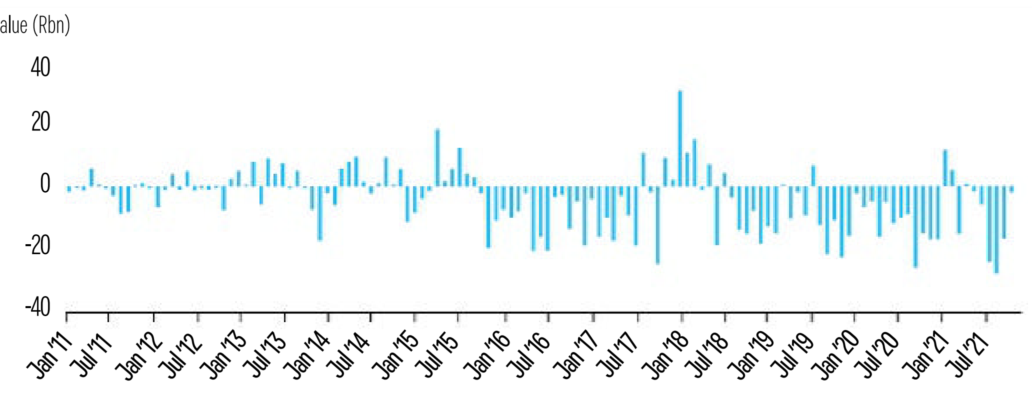
"While that is well-known, on the equity side, SA was also included in a number of emerging market indices where our relative weighting has decreased over the last decade because of the strength of

MONTHLY NET PURCHASES OF JSE BONDS BY NON-RESIDENTS



SOURCE: JSE

MONTHLY NET PURCHASES OF JSE EQUITIES BY NON-RESIDENTS



SOURCE: JSE

China's growth. Chinese companies have now crowded out most other emerging market counters from FTSE, MSCI and S&P indices, to name a few. Even active managers referencing the same benchmarks would have sold SA equities," he says.

To make matters worse, the recent Naspers*-Prosus transaction resulted in a significant decrease in the weight of Naspers in emerging market indices and an outflow of rands from the JSE to Amsterdam. "We also saw a greater outflow from JSE-listed retail stocks, because the big run-up in that sector until 2017 was driven by foreign capital. They have now experienced the withdrawal more harshly than other sectors," Verster adds.

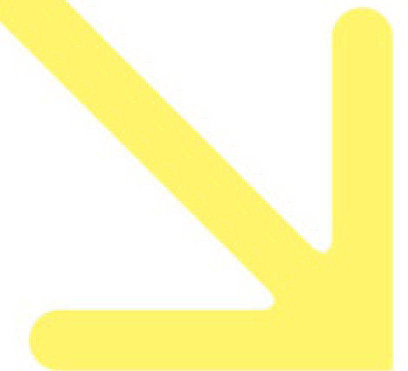
The micro trends can appear confusing. "Money wants to be invested at the highest yields possible, either in debt or for a return on equities. In the last few years, interest rates in developed markets have been slashed, which means there has been a lot of money seeking the highest relative returns and that has tended to be in emerging markets. On a relative basis our bond yields are still very attractive, and cheap valuations are now attracting foreign equity investors again," Verster says.

So, is money flowing into the JSE again? "There are trillions of dollars washing around – even from the US Federal Reserve, which is a buyer of bonds for quantitative easing. There are two enormous forces

Warren Ingram
Executive director at Galileo Capital

Jean Pierre Verster
CEO of Protea Capital Management

Photos: www.galileocapital.co.za | Archive



working against each other. We have SA's country-specific situation, and a global force to push money into assets with the highest relative yields. On the equity side it is similar. We are seeing indications that net foreign selling of SA equities is turning and that foreign investors are increasingly engaging in merger and acquisition (M&A) activity too," Verster says.

He says bids for Imperial, Adapt IT and the majority of Distell are just three examples of growing foreign appetite for SA assets. "Historically, most M&A activity is dubious because the deals are not value-accretive, and that is a result of overpaying. But foreign buyers right now are astute because valuations are very cheap relative to historical levels and the expectation is that things will normalise. This takes many cynical South Africans by surprise."

Fourie says it is important to note that many SA companies have a global footprint. "Almost 30% of

Investor strategies to take advantage of

JSE CEO Leila Fourie says recent Bloomberg analysis shows SA equities are trading at a 27% discount to emerging market peers and a 50% discount to global peers. "This suggests a great opportunity to invest in quality stocks in the SA market."

She adds that though certain sectors were hit hard by lockdown restrictions and uncertainty caused by Covid-19, some of the worst-affected counters have staged impressive recoveries. "The FINI15, our headline financial sector index, is up 22% in the year-to-date, well ahead of the Resources 10 (up 9.47% year-to-date) and Industrials 25 (6.46% higher year-to-date)."

Galileo Capital's Warren Ingram says anecdotal evidence of economic reform show positive changes are under way. "A lot of what business has been saying for the last 15 years is now being heard. Infrastructure spend seems imminent – perhaps not at 2010 scale, but an indicator of growing confidence. A turnaround is extremely realistic because though SA's problems are well-documented and not easy to solve, they are actually simple. If we start to deregulate and decentralise the economy, that can create a fundamental shift in how investors view our economy."

Ingram says for years SA investors have naturally been tempted by both rand hedges and offshore funds in the face of domestic risks. He says market commentators touting the "get everything out of SA" strategy are being irresponsible. "It's wrong in both principle and timing. You need a balance and the global conversation should be about timing. If you plan to live in SA, aim for a 50/50 split. If you are very wealthy and there is a high chance of you or your children living elsewhere, send 75% offshore. Below R15.50 to the dollar, build up your offshore allocation. At R17/$, don't."

Having said that, Ingram believes the valuations on the JSE currently should encourage investors to be greedy now, rather than phasing in investments over the next 12 months. "When valuations become more expensive, then you can take your time and be more discriminating about the timing of taking positions."

Jean Pierre Verster of Protea Capital Management says investors need a one-word mantra: patience. "Don't be a trader. Extend your investment horizon and take advantage of the valuation phenomenon, which is accentuated by institutional investors. Buy shares in good-quality companies and be in it for the long term. A retail investor has the luxury of not running a fund where a period of underperformance can see a scramble for redemptions and withdrawals. If you're not under pressure to sell and don't need the money now, buy cheap shares in good-quality companies and be patient."

Verster says retail investors stand to do very well by picking good companies in the small to mid-cap section of the JSE, because they are not restricted in the same way as institutional investors. "We do see it turning and a lot of money can be made. As an institutional investor, we have to limit our exposure to more illiquid investments because of the risk of redemptions in an open fund, though with roughly R1bn under management we can go quite deep into the JSE – we look at the top 150 listed stocks."

On the utility of rand hedges in portfolios currently, Verster says these can be divided into two categories – those with costs in foreign currency and those with costs in rands – effectively dividing JSE-listed rand hedges into local mining companies and the rest. "Rand weakness is good for both, but better for those with costs in rands, through the leverage effect. Buying companies with rand-based costs is generally a better rand hedge, but we appear to be approaching the top end of the commodity cycle, especially in platinum group metals, coal, gold and iron ore."

He says after driving most returns on the JSE for the last five years, commodity prices coming under pressure recently signify that these companies are probably not the place you'd want to be invested for the next five years.

"On the other side, the likes of BAT, Richemont, MTN and even Naspers seem like a good way to diversify political, currency and economic risk. They're typically large and liquid, but the fact is that SA investors tend to still be conservative in their thinking about rand hedges. Instead of BAT, why not buy Altria listed in New York, or Imperial Brands listed in London, or Japan Tobacco listed in Tokyo?"

To illustrate, Verster says AB InBev is broadly the worst-performing major beer-brewing stock over the last five years. "But it's the one listed on the JSE, while investors would have done much better in Carlsberg or Heineken. The perception is that investing directly into foreign-listed companies requires more homework or is riskier, but I'd hope as a retail investor one would take the time to read the annual report of whichever companies seem attractive, wherever it is listed. It takes just as much time to go to the website of a foreign company as it does a local one," he says. ■

our market is in dual-listed counters. This increases liquidity and trade activity in these counters, due to seamless trading between markets. Often when a local investor buys these stocks, they may source liquidity in the offshore line, which is then converted to the SA register, which is recorded as foreign selling, when in fact it is originated through local buying.

"Cumulative foreign outflows therefore do not simply represent net selling or disinvestment by foreigners, but also captures the conversion of local buying. If we broaden our analysis and look at factors such as index growth, market capitalisation and traded values, we can see the hallmarks of an active, deep and liquid capital market. This year equity market volumes traded are up 9% against the prior year and our headline All Share index is up 11.5% (compared with 19.87% in the S&P 500 and 10.13% in the FTSE 100 as at 7 September 2021). In the last 12 months, the total value of our equity market has grown by 11%, which outpaces the growth of the real economy," she says.

Integral Asset Management investment officer Keith McLachlan says if either SA's growth or risk profile improve or the rest of the world's deteriorates relative to ours, logically we should be rewarded accordingly. "Simply put, SA is competing with everyone globally as a place to invest capital, and most directly with Brazil, Russia, India and China, as well as indirectly with other hard commodity markets such as Australia."

Though it is tempting to hope for normalisation based on growing foreign interest in SA assets, McLachlan says the further into the future we look, the more difficult it becomes to forecast, given the number of variables at play.

The benefit for investors from all of this, says Ingram, is that the remaining JSE-listed companies are, by definition, the fittest because they have survived. "The remaining listed counters are, in general, well-managed and probably too lean. When the economy improves even slightly, these companies stand to make a lot of money."

Verster says the place most investors will want to be is in small to mid-cap companies facing the end of the depressed part of their business cycle. "The outflow of capital from SA could have been much worse if our mining companies had not contributed so significantly to the country's tax receipts, lowering perceived risk of our sovereign debt. It's also been cushioned by developed market interest rates staying low. I don't know how the movie ends, but the plot twist could be how the rand behaves." ■

Photo: Gallo/Getty Images

How does the J

While the JSE can hardly be blamed for South Africa's structural problems, it is not powerless in improving its prospects.

Warren Ingram of Galileo Capital believes some of the JSE's woes are of its own making. "The chickens are coming home to roost from many years ago. When we moved from physical share certificates to electronic share certificates, as investors we were promised that Strate as the exchange's principal central securities depository and central collateral platform would make it cheaper to buy, hold and sell shares. In fact, the opposite happened and the exchange is not more efficient."

He says legacy operating systems create one significant problem, but there are further structural issues. "It seems ridiculous but JSE-listed companies don't know who all their shareholders are. At most exchanges, if you want to buy or sell, the exchange acts as the custodian of transactional information and it holds the shareholder register. It is different on the JSE, where nominees from various financial institutions, including banks, are the custodians of the information."

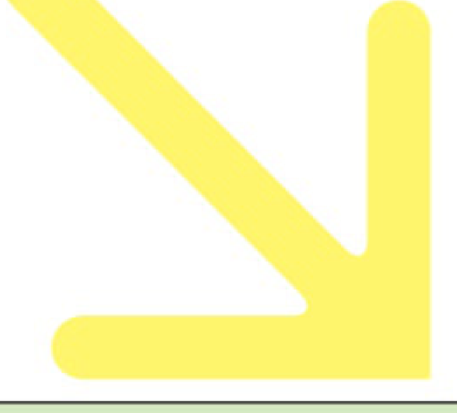
The nominees were the original owners of the JSE. "They make money from the process. When the JSE was demutualised and listed, that structure was retained and to this day it's a problem."

Ingram says **JSE CEO Leila Fourie** is forward-thinking and the exchange is making moves to sort out its custodial relationships, but fledgling alternative exchanges in SA already operate in the modern paradigm. "You don't wait for days to get your money – it's instant because buyer and seller are matched, the exchange is the custodian of record and trading costs are consequently much lower. By comparison, the JSE remains a very costly place to do business as a private investor."

From the company executive's perspective, rather than that of an investor, Ingram says there are similar deterrents. "It's hard to see the logic of listing. We investigated it and decided against it because the cost of compliance is so high. It would cost millions of rands per year to pay sponsors, the exchange and a whole food chain of regulators, lawyers and corporate financiers when there is no value added to the business. In fact, corporate governance is no better for it, if we look at the number of recent corporate scandals. For many companies, it is simply not worth their while to be listed as a means of raising capital."

To be fair, he says, these challenges are not unique to the JSE. "Globally, the number of listed companies is shrinking and the corporate governance machine has palpably gone wrong. As alternatives, companies seek to raise money from private shareholders. If there are impediments to raising cash, they just don't grow as quickly. It is unfortunate that on the JSE there are impediments at both ends – as shareholder and business owner."

Fourie says the exchange aims for a healthy mix of investors – local and foreign, active and passive, institutional and retail. The JSE hosts roadshows and does its best to showcase SA as an investment destination.



SE solve this problem?

"SA has shown significant uptick in retail investor interest, but we have a long way to go in this growth trajectory. The investable universe of assets has become more diverse and expansive, such as ETFs and offshore stocks. While foreign activity in a market is a consideration of a change in market dynamics, there are many factors at play which influence investors – some positively and some not."

Fourie says the JSE is focusing on the factors it can influence, such as promoting SA as an attractive capital-raising destination, underpinned by a deep and liquid market. "We respond to changes around us, introducing new mechanisms for raising capital, particularly in the areas of ESG, infrastructure development and SMEs. We will soon add transition bonds to the suite of green bonds and social bonds, mobilising capital for the transition to sustainable energy sources. We are also developing a private markets platform which will match investments with investors in the unlisted space, as SMEs are an important growth node for the future."

Jean Pierre Verster of Protea Capital Management says outflows from SA and depressed capital market activity would not be good for any local exchange. "Every exchange wants high levels of participation, new listings activity and euphoria. In the recent past the conditions have been the opposite, and you can see it in the profitability of the JSE, which is the one listed exchange we have here. Because of changes in legislation and perceived opportunity, competitors have been set up, but it's been a tough time for these competitors and the JSE itself."

Leila Fourie
CEO of the JSE

In fact, given the size of SA's capital market – especially if you remove Naspers* from the equation – the competitors may not survive, Verster says. "A2X would be the JSE's largest competitor but looking at volumes traded, it is not significant competition yet and the going is tough. Other exchanges are making interesting moves, such as rebranding and changing focus, but I doubt all of them will make it through this sustained period of pressure."

Part of this pressure comes from delistings, of which there have been many well-publicised examples in recent years. "While the common narrative is that red tape and listings requirements are responsible, it appears that most delistings have actually been put in motion by a controlling shareholder. It could mean that these companies should not have been listed in the first place because they were effectively still controlled by a private shareholder.

"The trend seems to be similar to that of M&A activity and foreign capital inflows because it's based on valuations. The controlling shareholders are seeing value and an opportunity to buy out minorities at a low point in the cycle. On the flipside, we have actually seen some new listings activity in recent months, such as mining company DRA Global and Thungela being spun out of Anglo American," Verster says.

He believes listings requirements on the JSE are not particularly onerous and regulation is intended to protect minority shareholders. "I think they've struck a good balance. The requirements are not necessarily an inhibitor to raising capital, but candidates who might usually consider going public are finding the environment much more difficult recently. They may not have a positive story to tell to raise capital at a valuation they feel is attractive. Some companies may also find higher valuations and more capital to tap by circumventing the JSE and going straight to foreign exchanges, such as riding apparel manufacturer Leatt from Cape Town."

Integral Asset Management's Keith McLachlan agrees that particularly capital-intensive industries may currently decide against using the JSE to raise capital, given the quantum on offer. "There is a risk that they'd choose foreign exchanges instead. The JSE CEO's concerns and listings environment are a complex, multi-stakeholder problem to solve. The JSE can only try to ensure it is the best-quality exchange at the lowest possible cost for all stakeholders – businesses and investors. For their part, businesses can only ensure that each is the best possible version of itself and make logical decisions fitting their individual circumstances to sustainably improve the prospects of their stakeholders.

"Government can only provide the best, most balanced, transparent and most stable economic, legal and socio-political platform that allows the JSE and businesses to operate, plan and make long-term investment decisions that will create growing profits, most listings and capital inflows. Only in this positive feedback loop will all stakeholders benefit while pursuing their own incentives," he says.

Fourie agrees: "Growing our relevance relative to global peers requires a multi-faceted approach to change things at macro and micro level, in deliberate collaboration of the private and public sectors. While the trend is concerning and risks to investment flows remain, it's important to highlight that all vested market participants across the ecosystem are in conscientious efforts to change the opportunity profile of SA and regain investment interest." ■

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TRADING IN AFRICA

The African Continental Free Trade Area agreement will create the largest free trade area in the world. What are the challenges and how can South Africa benefit from it?

By Marcia Klein

We have all seen the remarkable statistics: The African Continental Free Trade Area (AfCFTA), which is now in force, will create the largest free trade area in the world, connecting 1.3bn people in 54 countries with a combined GDP of $3.4tr and open trade opportunities worth trillions of dollars.

But the aim of establishing a single African market and stimulating trade is beset with challenges from the outset, some of the most pressing being the lack of infrastructure to facilitate trade, countries' protectionist policies and the fact that many countries have done more to establish trade links with Asia and Europe than they have with each other and have no immediate plans to change that.

With the right moves and intentions, however, the AfCFTA can provide the basis to ramp-up intercontinental trade and improve the economies of African countries.

The AfCFTA can shift the goal posts for trade in Africa by removing trade barriers, although studies suggest these gains may likely be skewed to larger economies such as South Africa, Egypt, Nigeria and Kenya, says economist Yash Ramkolowan, who heads up DNA Economics' trade and integration practice. "Importantly, most studies also suggest that the biggest gains from the AfCFTA would arise from the reduction of non-tariff barriers", he says. These include everything from corruption at borders to animal and product health and safety standards. "The reduction and removal of these barriers will be a much more complex and difficult task."

Additionally, "addressing transport, logistic and ICT infrastructure bottlenecks, not only at key cross-border points but also within countries, will be a significant facilitating factor for the success of the AfCFTA".

▶ South African advantages

With SA standing to be among the major beneficiaries, industries that could benefit the most are those that leverage the country's relatively developed manufacturing base and sophisticated capital markets, says Jacques Nel, head of Africa macro at NKC African Economics. Most African countries still export raw materials and import manufactured goods, he says, so some SA companies will be able "to feed this larger African market", if electricity supply-side constraints are addressed. As increased trade will require increased trade financing, "SA companies can fill that gap due to the country's sophisticated financial sector", he says.

Ramkolowan says that as many other African countries have high customs duty rates on agricultural, agri-processing and higher value-added manufactured goods, the removal of tariff barriers would likely benefit SA companies in these sectors. SA also has a comparative advantage in sectors such as chemicals and plastics, he says. Negotiations are also taking place to support the liberalisation of the services sectors, and SA services companies "may benefit from increased transparency around the rules and requirements for the export of services to other African countries".

SA's trade with the rest of Africa, which accounted for around 23% of exports last year, will increase over time, says Nel, although our imports primarily come from Asia and Europe, and SA needs to start producing what the rest of Africa imports from Asia and Europe.

SA's trade with the rest of Africa, which accounted for around **23%** of exports last year, will increase over time.

▶ Sticking points

Dysfunctional trade-related infrastructure and services remain the biggest sticking points in most countries, says Martyn Davies, managing director of emerging markets and Africa at Deloitte. It can take weeks for goods to get through border posts, for example, while there is little development of enabling infrastructure to increase manufacturing. And while governments need to provide enabling environments for trade policy and enabling infrastructure, there are "frictions between trade and industrial policy".

Photos: Shutterstock | Supplied

Countries such as Kenya and Tanzania are positioning themselves as major transport hubs with significant investments in port and transport infrastructure, which SA companies will be able to make use of.

Chief among these is protectionism. As Morgenie Pillay, a lead AfCFTA negotiator in the department of trade, industry and competition said in an opinion piece, SA's localisation strategy, which includes a plan to reduce imports by at least 20% to promote local content, "is out of key in the AfCFTA era".

Ramkolowan says the major issues hampering effective implementation are the technical capacity of countries to negotiate on and implement various protocols of the agreement, the will and ability to enforce compliance with the agreement and the increasingly inward-looking policy stance being taken by Africa's larger economies. Infrastructure investment would also need to be addressed.

He says SA has expressed a strong commitment to the AfCFTA, while at the same time developing and implementing policies that may run contrary to its spirit and ambitions. "An increasingly inward-looking trade and industrial policy is likely to limit the ability to develop meaningful regional value chains, which forms part of the AfCFTA's broader objective," he says. Other African countries may implement similar policies, resulting in SA companies being locked out of other African markets. This may also limit SA companies to potentially higher-cost local inputs, over imports from other African countries, according to Ramkolowan.

"All countries will undoubtedly want access to large export markets but most countries will want to at least to some extent protect some domestic industries," says Nel. Many of SA's localisation efforts "are against the spirit of the Southern African Customs Union, let alone AfCFTA.

"As the AfCFTA progresses, the amount of potential external competition will just increase. There's nothing wrong with promoting the development of domestic industries, but when this promotion unfairly disadvantages external competition, it starts to fly in the face of trade integration."

While the agreement does make provisions for the least-developed countries to delay the dropping of tariffs for some time, Nel says most countries will do what they can to protect certain industries that they perceive to be strategically important or that generate jobs but are vulnerable to external competition.

Some governments are finding it difficult to reconcile protectionist policies with the rhetoric of free trade, says Davies, and there is a lot of nervousness. He believes a pan-African trade pact is ambitious and its countries diverse, and that "the focus should be on key bilateral initiatives where we can move the needle". This will likely be between the larger economies.

Jacques Nel
Head of Africa macro at NKC African Economics

Martyn Davies
Managing director of emerging markets and Africa at Deloitte

Infrastructure

It is all well and good trying to drive down tariffs, says Davies, but countries must simultaneously be improving infrastructure and systems to facilitate trade. SA has comparatively stronger trade-related infrastructure, including hard infrastructure such as roads, ports and rail as well as soft infrastructure (customs operations, trade facilitation and logistics), says Ramkolowan.

Transport infrastructure compares favourably to many other African countries, so it is relatively cheap to produce something and get it on a boat or to a border, says Nel. Other countries such as Kenya and Tanzania are positioning themselves as major transport hubs with significant investments in port and transport infrastructure, he says, which SA companies will be able to make use of. However, "some international companies might decide to send their products through those trade arteries as opposed to through SA".

Countries with better business environments, better infrastructure and more developed private sectors will initially benefit the most, "and the difficulty will be to get those countries that could be perceived to be losers in the deal, at least initially, to buy in", says Nel. "We are likely to see pockets of progress where bilateral negotiations or talks within or between trade blocs set the stage for deeper integration."

Outlook

Trading in Africa remains complex. Davies points to the withdrawal of SA retail players from other African countries. "They were major conduits of trade up north," he says. "If they are pulling back, surely that will have more impact than an agreement."

Nel believes the benefits of the AfCFTA could be massive, "but I think the timing of those benefits is often overoptimistic. An agreement like this is very complex and the agreement itself provides for the loosening of restrictions over a ten-year period."

Ramkolowan says the dismantling of trade barriers will be slow. But a high degree of momentum has been generated, "and while the timelines have typically been ambitious (and often unrealistic), significant progress has still been made over the last five years." ■

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>> **Workplace:** Burnout on the rise among remote workers *p.40*
>> **Management:** What can be done with employees who partake in looting? *p.44*

CEO INTERVIEW

By Timothy Rangongo

Heading investments during volatility

Adriaan Pask, the chief investment officer at PSG Wealth, talks about his tactics to weather storms.

The role of a chief investment officer primarily involves understanding, managing, and monitoring a firm's portfolio of assets and setting the investment strategies for growth, among others.

During the global pandemic, the biggest such event since the Great Depression, which hit the global economy and public markets hard, Adriaan Pask, PSG Wealth's CIO, stuck to diversification as one of the key investment strategies to weather the storms and continued to recommend the use of multi-asset portfolios to withstand the volatile market climate.

"People talk about diversification so often that it is almost taken as a cliché of a topic," says Pask, but in the current environment, "it is super important, because what we expect to see is a lot more volatility."

Regulatory crackdowns standing out

Apart from some of the huge knock-on effects emanating from the global pandemic, Pask has regulatory quarrels on his radar as one of the key drivers behind volatility, most especially at present.

There are multiple regulators out there keeping an eye on what is happening regarding anti-trust litigation in the US among some of the biggest companies. The other key driver of volatility has been Chinese regulators, from a similar perspective, looking at these mega-cap and very powerful firms that have access to personal information and things that typically make the regulators quite uncomfortable, he says.

The question is, at what point do the companies become too powerful?

"We know that China is not a capitalistic state by nature. Though it has adopted some capitalistic policies over recent years, it is still squarely focused on socialism and the greater good of the people.

"I think anything that would come at the expense of the greater good of the people is what they would take on. They will take capitalism on if they think it will compromise any of the social benefits that they aim to achieve."

Multinational asset manager BlackRock recently took a neutral stance on Chinese equities, citing the ongoing regulatory crackdowns on dominant companies as important aspects of China's efforts to improve the quality of growth, which is starting to slow.

Trees don't grow forever

In the South African context, people often talk about the economy and how that translates into companies' ability to generate earnings. When they take a look at the SA economy, especially the high unemployment, they ask themselves how it will be possible for businesses to generate earnings in such an environment and are then quick to think of taking their money offshore.

"We have seen in recent years a lot of capital flow either going into fixed-income or money market types of investments to reduce risk or just taking money offshore," recounts Pask.

He says we must also remember that there are other drivers of returns when we look at equities. It is not so much the economic growth and earnings backdrop, but also the valuation component of that.

"If you consider that our market is essentially trading at single-digit multiples on a price-to-earnings (P/E) basis, by the time that you remove Naspers* and some of the bigger counters in there with higher multiples, it does look like there is significant opportunity for rerating."

Conversely, in the US, what has been seen is that the economic backdrop is so positive, especially in light of all the monetary and fiscal stimulus, that people are assuming that earnings will

Pask says investors have moved into this space where they look at things in a very binary fashion, where you must either have your money in SA or offshore.

just continue to increase. "Trees don't grow forever, that is the way we look at it," says Pask. "We have got to think of how sustainable is that growth rate."

He says if one looks at the multiples, they currently reflect growth into perpetuity, with no hiccups whatsoever. And that is because the sentiment is so much better than what it is in comparison to SA and other emerging markets, for example.

"If you consider the S&P500 and the way it is structured at the moment, there is a significant probability that we will see deratings there and the negative impact of the derating could well set off any earnings gains that you might see. So, if you consider that, we are quite optimistic around the outlook for SA investments, which may be a bit controversial given the economic backdrop.

"It is more of a valuation argument, and we are concerned about US valuations. We think that investors are expecting way too much out of the US. Things won't be rosy forever and multiples will need to come back to more realistic levels, and that could be quite painful."

Binary approaches to diversification

The other side of things is that the diversification component is critical for running an effective portfolio. Pask says investors have moved into this space where they look at things in a very binary fashion, where you must either have your money in SA or offshore.

What Pask advocates is diversification given the discrepancy in views in relation to local and offshore investments. "What we have seen is investors take this binary view and we think that is very dangerous because what they have ultimately done is that they have given up on diversification and taken a one-sided bet on US markets only."

Approaching risk

Pask's example of finding a more prudent approach to diversification is to always introduce risk to investment decisions.

For example, yields on SA bonds are quite attractive, given the risks. They offer great value if you also compare yields on SA bonds not only to developed markets, which are at very low levels, but even against emerging markets, he says.

So, what is the risk that you take?

"SA's fiscal situation is not great, there is still a lot of talk around corruption and all those things that weigh on people but the right way to offset some of that risk is with some offshore exposure. If we do see a massive catastrophe in SA and the bonds take a hit, then the currency should depreciate, allowing you to benefit on the offshore side of things.

"If things go well and improve in SA, your bond yields will generate a great yield and you should find some capital appreciation there that will probably coincide with some strengthening of the rand as well. The local component in your bonds will start to offset some of the losses on the offshore side."

It is, therefore, about thinking carefully in terms of how you should structure your portfolio and how it will behave in various market conditions.

Good research and diversity

The ideal portfolio should not be structured for one season only but should be able to withstand a multitude of market conditions. Investors that typically do well are individuals who appreciate the natural cyclicality of the investment environment, according to Pask.

Though, he says, there is no asset class or geography that always performs well, you must understand that typically "when things are under pressure, it makes for better investment outcomes".

Looking at industry flows, for example, he says last year was in many senses a bit of a disaster for many investors because 90% of the flows went to cash, money market and fixed-income investments in the unit trust space. "Investors were fearful."

If you had invested in the March-April period last year and held on during the difficult period when things looked uncertain, Pask says you would have essentially generated an 80% to 200% return on your investment.

Adriaan Pask
CIO of PSG Wealth

"You have got to push yourself a little bit to assess the risks properly but also never fall into a trap where you are not seeking opportunities anymore. This also accentuates the value of good research."

He says you have to have a team there that is doing the research which could provide some peace of mind that this is going to blow over, the world needs to go on and eventually lockdowns will be lifted, and economies will start growing.

"What we have seen, as teams that do well, is that there is strength in diversity. There is something to be said for diversity in an investment team, when you have individuals bringing different things to the party."

There must be individuals who are more opportunity-seeking and maybe a little bit more risk-tolerant, and the devil's advocates or cynics that always spot the risks. Pask says that somewhere between these two contributions in a team, you typically get to a more level-headed answer, because you have a considered approach in which you took risks and opportunities into account. ■

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By Zerelda Esterhuizen

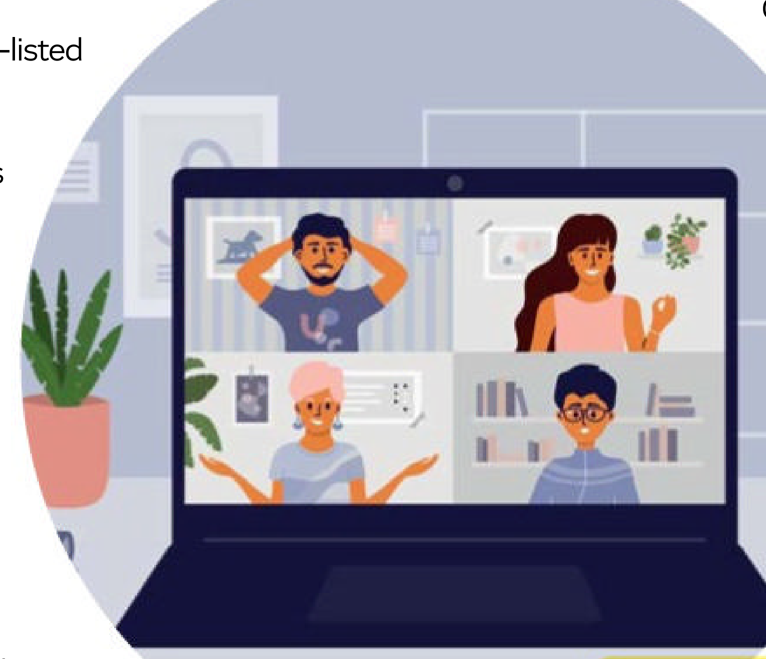
Exhausted and burnt out … at home

Remote work could lead to more cases of burnout among staff. What can businesses do to help their people?

If someone had told Beth* a few years ago that she would be admitted to a psychiatric clinic for stress and burnout while she was working from home, she would have laughed. It should, of course, be far less stressful to work from home – you do not see your colleagues, there is no boss constantly looking over your shoulder and your hours are your own, right?

Beth is an accountant at a JSE-listed company that rendered essential services during the first series of lockdowns. Most of the company's employees then started working from home and today some employees work at home while others go to the office.

"Initially, it was convenient and even fun to hold online meetings, but with the passing of time the meetings became noticeably quieter, and people started acting aggressively towards one another. It was evident that the stress caused by the pandemic and the fact that many colleagues lost loved ones during this period began taking its toll. My manager also started phoning me at ungodly hours, even at 22:30 at night," says Beth.



During this time, the company was also restructured and many of her colleagues lost their jobs.

"Their positions were never filled, and the work was simply divided among the rest of us. One morning I sat in front of my computer and felt so tired that I could not raise my arms. And I wasn't the only one, as several of my colleagues had already been treated for burnout. There were three women in my ward at the clinic who had been admitted for burnout."

Although many surveys have shown that people wish to work from home after the pandemic, research has proven that working remotely could lead to burnout among workers. Several factors contribute to this, such as the blurring of home and work and that people are now working longer hours from home, and of course, the pandemic itself and the concomitant lockdowns have also put pressure on people.

The US Bureau for Economic Research has found the average workday increased by 48.5 minutes during lockdown, which equates to two extra workdays a month. Other factors are Zoom exhaustion, feelings of isolation, a lack of creativity at home, and relationship pressure because longer hours cause discord.

A study undertaken by the World Health Organization in 2020 on how to manage work-related psychosocial risks during the pandemic mentions that many workers not only have challenges at work, but that they also had to reorganise their lives at home and care for their, often ill, dependants. All these elements contribute to an imbalance between work and home life, which can affect people's mental health.

Recent research undertaken by Microsoft – the 2021 Work Trend Index – shows that 41% of the labour force is considering leaving their employers at the end of the year.

Although most businesses put emphasis on their workers' mental and physical wellbeing during the Covid-19 crisis, many of the special steps taken and support given have disappeared. In many cases, employees must now negotiate their own way through these health and economic crises, says Jeff Ryan, CEO of AWCape, a business that offers systems integration services.

Recent research undertaken by Microsoft – the 2021 Work Trend Index – shows that **41%** of the labour force is considering leaving their employers at the end of the year.

Dr Elmari Mulder-Craig, a psychotherapist, sexologist and relationship counsellor from Pretoria, mentions that according to studies, two-thirds of employees are currently suffering from burnout.

"Burnout affects productivity and the employee's emotional, psychological and physical wellbeing. I see in my practice that people are suffering from burnout for far longer periods than they realise. From the time that Covid-19 struck, people have been living with direct and indirect stress and fear. There's stress about your and your loved ones' health, job security, finances and also about adapting to remote working conditions. This puts pressure on relationships and the family dynamics."

Dr ST Potgieter, psychologist from Bellville, says that remote work affects different people differently.

> "Burnout is a psychological syndrome resulting from exposure to prolonged chronic stressful situations and interpersonal stressful circumstances at work."

"To a large extent, your personality will determine how you handle this. The introvert will probably be more at ease at home, while the extrovert, who gets his energy through interaction with other people, could handle more stress at home. People who work from home do, however, complain about longer hours, no limitations on their time, a bigger workload and too much communication through emails, calls and meetings. Burnout is a psychological syndrome resulting from exposure to prolonged chronic stressful situations and interpersonal stressful circumstances at work."

What can businesses do?

According to the Achievers Workforce Institute's 2021 Engagement and Retention Report, 46% of employees now feel less connected to their employer, while 42% believe that the company structure deteriorated during the crisis.

Burnout and exhaustion of employees are often symptoms of the lack or a poor account of leadership's capability to put aside the rule books, to wear their creative hats and reevaluate and engage employees in recrafting the new balance between productivity and performance, believes Ntombizone Feni, executive director of the company 21st Century.

She believes that businesses should implement holistic wellness programmes as part of organisational culture to deal with the challenges of working from home.

"Employers who are serious about not only growing their businesses but also making a positive impact in society, should view employees as wholesome human beings who are the drivers and foot soldiers to achieve business success and meaningful social impact. Leaders at work should create an enabling environment to facilitate open, honest and respectful engagement as a culture," she says.

The biggest challenge as far as burnout is concerned, is not the fact that it is going to make employees unproductive, on the contrary, says Mulder-Craig.

"Employees can overperform and overcompensate, but this could have a long-term effect on their health."

She says that employers should support their people to put healthy routines in place. They should also have realistic expectations of staff and should also communicate these expectations to them.

Potgieter adds that businesses should make support programmes and counselling available to staff and should also encourage their employees to live a healthy and balanced lifestyle.

Jeff Ryan
CEO of AWCape

Dr Elmari Mulder-Craig
Psychotherapist, sexologist and relationship counsellor

Dr ST Potgieter
Psychologist

Ntombizone Feni
Executive director at 21st Century

Ryan has the following tips for employers:

- Lead by example. While you're passionate about what you do, show that you value your own mental and physical wellbeing and maintain a work-life balance. Check your own stress levels, make time for family and exercise and take sick leave if it's necessary.
- Track leave. Many employees might not take leave because they are banking it for a time when they will be able to travel again or they do not take sick leave because, after all, they are already at home doing the work. An automated system can track leave and if not, you can encourage people to take leave.
- Offer flexibility. Recognise the pressures on working parents, the financial stress of the pandemic and the reality of the health crisis. Empathic managers know when to cut a team member some slack. It should be okay to take time off for family responsibilities or to postpone a meeting owing to a personal crisis. Remote workers should rather be measured according to their outcomes than the time spent behind their computers.
- Get feedback from your team. Many businesses have found regular reviews helpful to find out how workers are doing. Get their feedback on team leaders and find out how satisfied they are at work. The "stay" interview is another good idea. Chat with employees about why they stay on at the business, how they are coping and how to create a more engaging working environment.
- Provide resources for mental health such as apps, a recommended psychologist or courses of webinars on stress management.
- Equip managers with the right tools. Many managers struggle to understand and manage mental wellness. Training in this subject can help them to better understand their team's problems and to spot when someone is struggling.

The signs of burnout

According to Mulder-Craig, burnout has nothing to do with whether you are fulfilled or unhappy in your job. "It involves a variety of symptoms that have an impact on a physical, emotional and intellectual level. This could lead to fear and increasing feelings of depression, panic attacks and even obsessive-compulsive behaviour. Because you feel that you do not have control, you can try to control your environment in this way."

She adds that it could physically lead to high blood pressure, heart disease, sexual dysfunction, obesity and

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"People often keep quiet because they feel they must perform, but they should realise that everyone is in the same boat. Talk to someone if you feel overwhelmed."

a suppressed or weakened immune system.

"Cognitive problems can also occur; you may struggle to concentrate; your short-term memory could be affected, and even more serious conditions could manifest. It could have a very negative impact on your physical health."

One of the red lights is when you realise that you are not performing as well as you did in the past. "Other danger signs are that you could become apathetic, you wake up tired, you feel exhausted, and you do not have the same drive as before, you struggle to switch off and you get obsessive thoughts about your work."

How can you prevent burnout?

Mulder-Craig says people should implement a healthy daily routine and then keep to it in respect of working hours.

"It has to do with healthy boundaries. If you are already feeling fearful about job security and finances, you may want to try and prove yourself and perform, and you may also try to do more than what's realistic."

She mentions that a well-appointed work area is also important. "A person should be able to close the door when your daily grind is done and guard against reading emails at night or in the morning," she says.

Another tip is to live mindfully. "Select one activity every morning that you can do consciously. For example, drink a cup of coffee mindfully. Involve all your senses regarding how it smells, tastes and feels.

"Get into nature regularly. Even if you have to get off your chair every hour for a quick stroll in the garden. Also try out breathing techniques; there are many apps that can help you to focus on deep breathing from your stomach for five minutes a day. Eat healthily, exercise and switch off notifications on your phone or computer so that you are not constantly aware of them."

Mulder-Craig says people who have healthy relationships and healthy family lives are more productive, healthier and happier, so people should focus on keeping their relationships healthy.

"It is also important that employees should be able to inform their employers of their problems. People often keep quiet because they feel they must perform, but they should realise that everyone is in the same boat. Talk to someone if you feel overwhelmed."

Potgieter's tips are to sleep enough, to complete tasks in good time and to prioritise tasks. Make time for relaxation, reward yourself for a job well done, take leave, and schedule regular breaks and specific times for household duties and responsibilities.

DO YOU SUFFER FROM **BURNOUT?**

Answer Dr ST Potgieter's questionnaire:

- ☐ Is your sleeping pattern disrupted by worries?
- ☐ Do you feel less effective at work?
- ☐ Are you fearful of starting your job?
- ☐ Do you feel overwhelmed by life?
- ☐ Do you see your friends and family less often?
- ☐ Do you experience more headaches and muscle cramps and are you sicklier?
- ☐ Do you check your watch more often?
- ☐ Are you resorting increasingly to bad habits such as drinking alcohol?
- ☐ Have you lost your sense of humour and does negativity rule your life?
- ☐ Do your work and your life feel empty and meaningless?
- ☐ Do you feel overwhelmed by your work?
- ☐ Do you feel fragmented with all your different tasks?
- ☐ Are you busy isolating yourself from your colleagues and friends?
- ☐ Do you feel that your situation is hopeless and without a solution?
- ☐ Are you angry, irritated or disappointed in the people around you?

Tired of virtual meetings?

Our days are spent in front of screens, and most communications happen through video calls. Our brains are exhausted as a result of this overstimulation and this gave rise to the concept of "Zoom fatigue".

It does not even help to switch off the video during the meeting, as this gives people the opportunity to look at their emails or to do other work, according to the experts.

Feni says that human beings are wired for relationship building and technology is now overused to overcompensate for human interaction.

"Employees no longer feel that they are part of a team, and employers can address the disconnect by creating opportunities to balance virtual and personal interactions."

She adds that increased daily meetings could possibly lead to management believing that employees are being productive, but this does not necessarily result in individual or business performance.

"Employers should have discussions with employees to set relevant boundaries that do not compromise agility, business development and employee wellness." ■

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*Pseudonym

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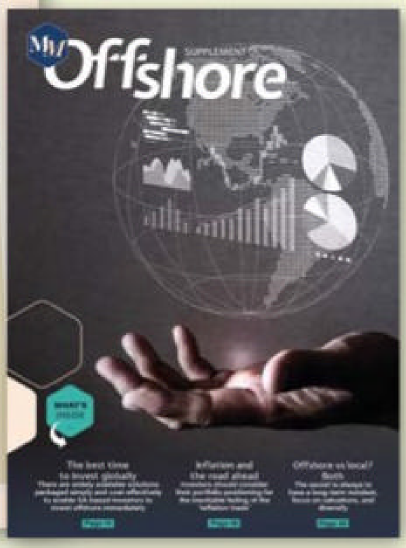

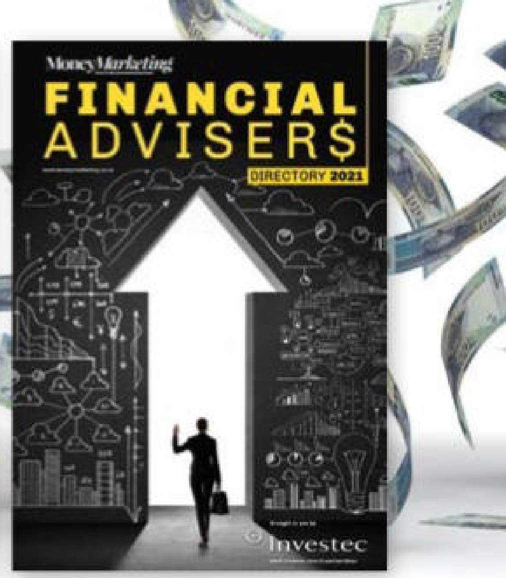

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By Amanda Visser

Can employers dismiss workers involved in looting?

The July looting and public violence resulted in huge losses. What can you do if your own workers partook in it?

Business owners who witnessed their life's work being trashed and burnt before their eyes by their own employees have suffered massive damage, and also a complete break in trust between them and many of their employees.

The question is whether they are entitled to dismiss their off-duty employees for their participation in the looting and violence during the mayhem in KwaZulu-Natal and parts of Gauteng in July.

According to Clyde Curran, candidate attorney at Miller Bosman Le Roux Attorneys, an employee's conduct outside the workplace and after hours in most instances falls outside the scope of the employer's authority.

"However, where such conduct has an adverse impact on the business, the employer is entitled to follow fair disciplinary procedures, which may possibly lead to the dismissal of an employee," he writes in an article published on the firm's web page.

"Dismissal for off-duty misconduct is more pertinent in cases where the employee's conduct involves gross dishonesty or corruption and where, as a result, the relationship of trust between the employer and employee is irreparable."

Establish a link

Curran says South African law provides a test to determine what constitutes conduct that is relevant to the workplace. The first is to establish a link between the conduct, the employee's duties, and the employer's business.

Second, the employer must have a legitimate interest in the conduct of the employee outside of working hours. If such a link can be established, then the employer is entitled to subject the employee to disciplinary action for his misconduct.

"Furthermore, our courts have ruled that a nexus (link) between an employee's misconduct while off duty and an employer's business exists where the employee's conduct has an adverse or intolerable effect on the efficiency, profitability, continuity, or reputation of the employer's business."

Curran warns that if the employer dismisses the employee without establishing a nexus, he may be faced with an unfair dismissal claim at the Commission for Conciliation, Mediation and Arbitration.

Breakdown in trust

Patrick Deale, labour and employment lawyer and acting Labour Court judge from Deale Attorneys, says the employer will need similar evidence necessary to lay a charge for any other form of misconduct such as assault or theft. "The general principles will also apply to looting where the employees were identified."

This evidence may be in the form of video footage, photographs, security cameras or reliable witnesses placing employees on the scene.

Indirect evidence or evidence of a circumstantial nature is a bit more tenuous. Employers need to be cautious when they rely only on circumstantial evidence as it is easier to make a mistake.

"The best would be to have hard

Workers held accountable for damages

Although South Africa has not seen looting and damage to property on the scale of the July insurrection, it is known for its violent strikes, says Patrick Deale, labour lawyer at Deale Attorneys.

"We have all experienced a strike by municipal workers who trash the city with rubbish, or workers marching in the streets, going on a rampage and looting from vendors on the streets."

In 2013, union members embarked on an unprotected strike that lasted for two weeks. The company, In2Food, secured an urgent interdict from the Labour Court against the Food and Allied Workers Union (FAWU) and certain employees. However, the strike continued with numerous acts of violence. The company suffered damages of R16m. The union was fined R500 000.

The Labour Court has been taking a stronger stance on public violence during strikes. In the KPMM Road and Earthworks (Pty) Ltd v Association of Mineworkers & Construction Union (Amcu) case the union was subjected to a fine of R1m, suspended for three years. The employees were subjected to a fine of R1 000, which the employer could immediately deduct from their salaries. ■

"Read them the riot act, so to speak. People must be under no illusion that there will be consequences if they are involved in looting and violent conduct."

forensic evidence such as footage or even fingerprints, bits of clothing left behind, or even audio where you can recognise people's voices to place them at the scene and to identify them."

The employer will also have to establish whether they participated in the looting and public violence. Did they enter the premises unlawfully, did they smash the windows or break down the doors and did they leave with something like a flat-screen television?

"This conduct covers a range of charges, from trespassing, breaking and entry to theft. If they were involved in trashing the business or burning of the buildings it could include damage to property and arson."

Disciplinary action

Deale says if the employer witnessed or recognised his workers looting and trashing another business or retailer, it is evidence of a criminal nature.

This is similar to an employee being accused of and charged with theft from another business. The employer may embark on disciplinary action and dismissal if the employee's conduct causes a break in the employer-employee relationship. The employer does not need to wait for the criminal trial, which may only start years later.

Curran says in the context of an employee caught looting, the employer can establish the link if, for example, the employee was caught looting in his work uniform and can therefore easily be identified as an employee of the employer.

Even if the employee was not in work uniform but is still identifiable as being associated with the company, the employer is entitled to take disciplinary action against the employee for their off-duty misconduct.

Deale says employers need to present all the facts to the employee to offer them an opportunity to respond. "If the person does not give a reasonable explanation, the employer should inform him of the seriousness of the matter and that it justifies suspension pending a disciplinary hearing." Depending on the outcome, the worker may be dismissed.

Communication to employees

Deale advises employers to clearly communicate to their employees that conduct witnessed during the July looting and public violence is utterly unacceptable from a societal and business perspective. "Read them the riot act, so to speak. People must be under no illusion that there will be consequences if they are involved in looting and violent conduct."

He also advises employers to set up a hotline where people may report acts of violence or any future threats of violence or disruption.

Deale says the workplace can be a good conductor to establish the link between conduct and consequences by advancing different acceptable standards of conduct.

Clyde Curran
Candidate attorney at Miller Bosman Le Roux Attorneys

Patrick Deale
Labour and employment lawyer and acting Labour Court judge from Deale Attorneys

"This is not necessarily possible in the broader society where the criminal justice system does not function all that well. In the workplace there are four walls with systems, codes of conduct and procedures to deal with unacceptable behaviour and laws to back it up."

There is little space to hide from or escape the consequences.

Dismissals

Deale remarks that dismissal in SA is an extremely serious consequence. "People may recover from having to pay a fine but it is more difficult to recover from being dismissed because of violent conduct." It can be a life sentence in a country with the worst unemployment figure of more than 44%.

Curran cautions that employers do not enjoy an automatic right to dismiss employees who have been caught in the act of looting, or for any general off-duty misconduct. It remains critical to assess and evaluate each occurrence before acting. ■

editorial@finweek.co.za

Photos: Supplied I Shutterstock

On margin

Sick and tired

This issue's isiZulu word is *uyagula*. *Uyagula* is he/she/it is sick. With a slightly different inflection on "u", it is "you are sick". The word is made up of two words – *uya* (you/he/she/it - are/is) and *gula* (sick). *Uya* can also be you/he/she/it – is/are going to a destination.

Let's just focus on *uyagula* as "he is sick". And yes, this column is about Zuma. No, the one you are thinking of. No, not that one either. This treatise is about my man, Edward.

His dear father has been released on medical parole because we are told *uyagula;* then Edward tells an interviewer his father is well and fit. *Uyagula* uEdward. How are you going to just throw your father under the bus like that?

I think I know what is going on – Edward has despised his father for a long time because he favours the Dudus. He even gave them isiZulu names, while he is just Edward*. *Uyagula* and tired of the favouritism.

While he pretended *uyagula* with anger when his daddy was arrested, he rejoiced. He rubbed it in the Dudus' faces behind the scenes, as he had had enough of their doodoo. But now daddy is back and Edward will not have it – *uyagula* with anger for real, and wants the old man sent back to prison.

I am sure after hearing Edward's interview the former president is *uyagula,* even if he wasn't before. His medical parole is now definitely warranted. Someone should keep an eye on him.

*I don't know if Edward really doesn't have an isiZulu name. He probably does have one.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"Good news. If you're prepared to do **three** times the work for **two-thirds** the salary, the position is yours!"

Test your general knowledge with our latest quiz. You can complete it online via fin24.com/finweek from 20 September.

1. Steinhoff has said that its 50.1%-owned Mattress Firm is evaluating strategic options. In which country does the store chain operate?
   - Australia
   - South Africa
   - United States
2. **True or False?** The Electoral Commission of SA has reopened the process to register candidates for the upcoming local government elections, after a Supreme Court of Appeal ruling.
3. South African Reserve Bank governor Lesetja Kganyago has called for a shift in SA's inflation targeting to a specific percentage near the bottom of the current range. What is the current range?
   - 3% to 4%
   - 3% to 5%
   - 3% to 6%
4. Roughly how many people did the US help evacuate from Afghanistan during the two weeks between the fall of Kabul and their withdrawal?
   - 150 000
   - 100 000
   - 50 000
5. The CEO and trustees of the Johannesburg farm where Nelson Mandela once hid and which served as the underground headquarters of the liberation movement are reported to be squaring off over a funding dispute involving millions of rand. What is the name of the farm?
6. **True or False?** Africell has said it is ending operations in Uganda, where it has faced tough competition from Vodacom.
7. South Africans who lost out in the collapse of Mirror Trading International (MTI), the bitcoin-trading platform that was placed into final liquidation, will have to wait until what month next year to hear whether it will be declared an illegal business operation?
8. **True or False?** The Chinese government has banned children from playing video games on school nights, claiming it is unhealthy.
9. Which pharmaceutical company is in talks to make Johnson & Johnson's coronavirus vaccine under license in South Africa?
   - Adcock Ingram
   - Novartis
   - Aspen
10. How many medals did Team South Africa win at the Tokyo 2020 Paralympic Games?

CRYPTIC CROSSWORD — NO 783JD

ACROSS

1 It's unreal - chef cooked no such thing! (1,4,5)
7&12 A right to take last month in style (3,4)
8 Look sickly, need to go off chicken (4,6)
11 Rock me on dust storm (8)
12 See 7
14 Cossack sailors (6)
15 Press activity (6)
17 Steady business up to last August (4)
18 Roughly back when star became an adventurer (8)
21 Experienced emigrants? (5,5)
22 Exercise ring in the grass (3)
23 Lose one's investment and feel sick about it? (5,1,4)

DOWN

1 "Elementary particles:" A talk about the speaking clock (10)
2 Privy to deter error correction (10)
3 Wandering in, get pay applying to Gypsies (8)
4 Smooth until Edward left, initially keen to separate (6)
5 Top vintage (4)
6&20 A fungus to keep you sober – nonsense! (3,3)
9 Brave not to cast it as characteristic if not true (3,7)
10 Given notice of upcoming ball? (10)
13 Hesitate to borrow further this year (3,3,2)
16 Lunatic thing to contemplate in the first place (6)
19 A pair re-entered for the walk (4)
20 See 6

Solution to Crossword NO 782JD

ACROSS: 1 Cut the melon; 9 Ice; 10 Funicular; 11 Knows; 13 Stopgap; 14 No joke; 16 Berths; 18 Seclude; 19 First; 20 Flickered; 21 Fro; 22 Be tempted to

DOWN: 2 Use; 3 Tufts; 4 Ernest; 5 Enclose; 6 Obligator; 7 Tickings-off; 8 Proposition; 12 Objective; 15 Knuckle; 17 Bear up; 19 Fudge; 21 Fit

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