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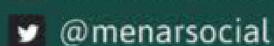

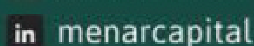

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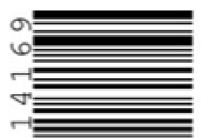

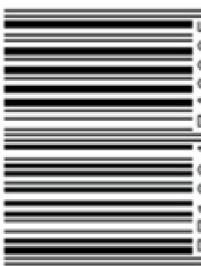

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from the editor

JANA JACOBS

By the time you read this note, South Africa will be in lockdown.

While President Cyril Ramaphosa's address on the evening of 23 March was anticipated, waking up to that reality was surreal. Having watched over a 100 countries battle this pandemic, becoming one of them is a humbling equaliser.

While I was writing this, Al Jazeera reported that more than 18 000 people globally had died from Covid-19; more than 420 000 infections had been confirmed in at least 170 countries and territories. Nearly 109 000 people had recovered.

This virus doesn't discriminate. Dismissing it and stigmatising it is at the peril of nations – despite what some world leaders will tell their citizens.

The only way to combat it is by working together. Luckily we have a president that understands this and his decisive action showed many how it should be done. The subsequent collaboration between the public and private sector and across party lines is heartening in the face of what seems to be insurmountable challenges.

Yes, the effects of this national shutdown will be immense. Quantifying the impact on the South African economy is a futile exercise at this stage because there is simply so much we don't know. What is certain is that the end of this lockdown – whether it will be in 21 days or more – will only mark the start of a very hard road for us.

This decision was certainly not taken lightly, but it was made with the interest of South Africa's most vulnerable at its core. If this virus is not contained, the economic consequences will pale in comparison to the human impact and SA will surely be one of the countries hardest hit. In a country where nearly 8m of our citizens are living with HIV, it is non-negotiable that every measure should be taken to ensure their safety.

And I think the majority of South Africans understand this, as has been proven by the overwhelming support the government's mitigating measures have received across the board.

This lockdown will end. Life will resume. Things will return to (a new) normal. But my hope is that what does remain from this crisis is the unprecedented solidarity South Africa has shown. ■

There is still a lot of uncertainty surrounding the logistics around print media at this stage. This issue of finweek *should be on shelves during the lockdown and should be delivered to our print subscribers. However, our 16 April edition – scheduled to go to print on 7 April – might only be available in digital format. We ask for your understanding as we try and navigate this. We will send updates as and when we can via our newsletter. If you are not subscribed, you can subscribe to our newsletter via this link:* ***bit.ly/finweeknews***

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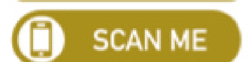

By Johan Fourie

COVID-19

Economics in the time of corona

The impact of a global outbreak of disease has been discussed by academics as far back as 2016. But how do we minimise the economic fallout of a global pandemic?

There is little doubt that the world is headed towards a corona-induced recession. We are rich because we live interdependent lives, specialising in the things we do best and trading away our surpluses. When that trade is prohibited – when we cannot buy the things we do not produce ourselves – we return to the independent but impoverished worlds our ancestors inhabited.

Just how much poorer we will be after the crisis is difficult to estimate. There are many factors at play. Premature deaths reduce the size of the labour force, and illness lowers productivity. Resources that could have been used productively will now flow to treatment and control measures. Attempts to reduce the spread of the disease, like travel bans and self-isolation, can further disrupt economic activity. Some industries will feel the effects immediately, like logistics and tourism, but all will eventually suffer, from mining to manufacturing to insurance.

It is not only the costs of lost income that matters, though. The intrinsic value of lives prematurely lost – as economists unemotionally label the human suffering attached to losing loved ones – may be far greater than a mere decline in GDP. Put differently: People care much more about the psychological pain and anxiety of pandemics than they care about a fall in their standard of living.

That is the argument of three American economists – Victoria Fan, Dean Jamison and Lawrence Summers – in a 2016 NBER Working Paper. They first review previous estimates of the economic costs of pandemics, all of them focusing only on its lost income. One estimate comes from the World Bank. Using the 1918 Spanish flu as a baseline, the bank estimates that in the case of such a severe pandemic, global GDP could fall by 5%. More than half of that would be because of the disruptive effects of avoiding infection. Other scholars have estimated a similar 'ultra'-bad scenario that would cut gross national income by 12% worldwide, and for some developing countries by up to 50%.

But Covid-19 is not the Spanish flu. Pandemics can range from the mild to the extreme. *The Global Health Report 2035* introduced the term 'standard mortality unit' (SMU) to convey a mortality rate of 10^{-4}: if the world population is 8bn, then an SMU of 1 would imply 800 000 pandemic-related deaths. A mild pandemic would be between 1 and 10 SMU, with severe pandemics registering 10 or more SMU. The 1957 pandemic – with 1m pandemic-related deaths in a world population of 2.8bn – had an SMU of 3. The 1918 Spanish flu, which killed an estimated 40m people in a global population of 1.8bn – had a shockingly high SMU of 220.

Over the last 300 years, the world has experienced around 15 pandemics, all of them, bar 1918, with SMUs of less than 10. The authors calculate that one could reasonably expect a pandemic to cause about 720 000 excess deaths – although there is much uncertainty around this number. This might not seem like such a high cost – given the number of annual deaths from cancers (8m) or strokes (6m). But the authors argue that once intrinsic value is added to the loss of income that a pandemic, even a 'mild' one of only 720 000 excess deaths, would cause, it is significant: "The expected annual inclusive cost that results for the world is $570bn or 0.7% of global income (in 2015 figures). In comparison, the Intergovernmental Panel on Climate Change estimates the likely cost of global warming to fall in the range 0.2% to 2% of global income annually."

The point is that, when the authors wrote the paper in 2016, they already warned us that the cost of a pandemic could be equivalent to that of climate change. They also proposed ways to mitigate the risks of severe pandemics. This included from spending on research and development towards a universal flu vaccine to implementing global programmes to immunise humans, swine and birds against seasonal flu. And while some of this was done, the authors note that "it is our sense that given this paper's cost estimates for pandemic risk, the economic benefits of further investments are likely to substantially exceed their costs".

But we can do little about the past; the best we can do is to think about the most appropriate remedial action now. It's clear that the priority is to prevent the virus from spreading rapidly. That is the reason for the various quarantines and lockdowns and flight bans. But what can governments do to mitigate against the recession that will inevitably follow from the blockade?

> At the remarkably low interest rates that are now the norm in many countries, it is perhaps time to borrow and build new infrastructure... In South Africa, though, there is little room to borrow more.

Expansionary monetary and fiscal policy is, of course, the first course of action that comes to mind. At the remarkably low interest rates that are now the norm in many countries, it is perhaps time to borrow and build new infrastructure. Italy has already announced several aid programmes to support struggling households.

In South Africa, though, there is little room to borrow more. Even if we were lucky and the disease were not to affect us severely, in a world where the US, Europe and China sneezes (to use a bad pun), SA is bound to suffer as a result. Our only recourse is to convince local enterprises to borrow and invest in the country. And the only way to do that is to show a credible commitment to sound macro- and microeconomic policies that, once the global economy recovers, will return SA to the growth path it has avoided for the last decade. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Gallo / Getty Images

By Andile Ntingi

PUBLIC SECTOR MANAGEMENT

Restructuring government procurement

The proposed Public Procurement Bill aims to simplify tendering while making it difficult to loot state coffers.

After getting caught up in bureaucratic delays since the departure of South Africa's inaugural chief procurement officer (CPO), Kenneth Brown, from National Treasury in December 2016, the eagerly awaited Public Procurement Bill finally kicked on.

The first draft of the 75-page bill was released by Treasury for public comment on 19 February and the deadline for input submissions has been set for 31 May.

The legislation has been in the works since Brown was appointed in 2013 by former finance minister Pravin Gordhan to establish the Office of the Chief Procurement Officer (OCPO) to reform and modernise government's procurement and supply chain management (SCM) systems and policies to eliminate tender-related corruption and simplify tendering processes.

But efforts to close loopholes and clean up state procurement got stuck when Brown, his boss and former Treasury director-general Lungisa Fuzile, Gordhan, and Mcebisi Jonas, former deputy finance minister, were hounded out of Treasury for attempting to block or investigate lucrative tenders linked to the Gupta family – business partners of former president Jacob Zuma's son, Duduzane.

Zuma fired Gordhan and Jonas in March 2017, using a questionable intelligence report which claimed Gordhan and his Treasury team were conspiring with foreign interests to undermine his administration.

The ousting of Zuma from power in February 2018 by his comrades in the ruling ANC and the appointment of Tito Mboweni as finance minister in October 2018 by Zuma's successor, Cyril Ramaphosa, appear to have aided bringing back on track the development of the proposed legislation. Mboweni has shown that he is prepared to curb wasteful expenditure across the state and extract value for money on the government's estimated R800bn annual procurement budget, which it spends to buy goods and services from suppliers. An avalanche of evidence of tender-rigging, fraud, and corruption – whereby the state lost billions of rand – has been laid bare at the Commission of Inquiry into State Capture, chaired by Deputy Chief Justice Raymond Zondo.

In part, the draft bill attempts to address weaknesses in procurement legislation that make it easy for corrupt government officials, politicians, and service providers to loot the state when tenders are issued, while at the same time opening up procurement opportunities to black-owned and women-controlled suppliers. The bill prohibits government employees from trading with the state.

Drafters of the bill aim to close loopholes that are created by the fragmentation in laws governing public sector procurement. The bill aims to develop a single legislation that eliminates fragmentation.

Currently, procurement is legislated through the Public Finance Management Act (PFMA), which is applicable to national and provincial governments, while municipalities are regulated through the Municipal Finance Management Act (MFMA).

Deputy Chief Justice Raymond Zondo
Chair of the state capture commission of inquiry

On top of the PFMA and MFMA, there are 29 other pieces of legislation dealing indirectly with or regulating certain aspects of public procurement. Then there is the Preferential Procurement Policy Framework Act (PPPFA), applied to all organs of state to address racial economic inequality caused by apartheid.

Apart from consolidating procurement laws into one regulatory framework, the bill sets out several key policy proposals.

Firstly, it aims to remodel Treasury's OCPO into a Public Procurement Regulator (PPR) that will regulate public procurement. The finance minister will be responsible for appointing a chief executive officer (head) of the PPR on recommendation from an appointment panel.

The PPR will have wide-ranging powers that entail initiating criminal proceedings, overturning decisions of procuring entities, and suspending or terminating procurement processes. Ministers will be prohibited from interfering with procurement processes and will be confined to a policy-setting and oversight role.

Secondly, it introduces the debarment of suppliers that submit false information in their bid documents to secure contracts. The bill allows the regulator to debar suppliers if they are found to have been involved in corrupt activities and price-fixing.

Thirdly, it aims to reform the preferential procurement policy to advance SA's industrial development and broad-based black economic empowerment (B-BBEE). This will be done through implementing tender set-asides, whereby a portion of public procurement spend will be allocated to people previously disadvantaged by unfair discrimination during apartheid.

Finally, it intends to establish a Public Procurement Supplier Ombudsman to manage a system of complaint and dispute resolution. The ombudsman will resolve complaints and disputes between suppliers and procuring entities.

I expect the section that deals with preferential procurement policy reforms to receive the greatest attention from lobbyists because it will set out the criteria that determine who wins tenders and who doesn't.

Mboweni has shown that he is prepared to curb wasteful expenditure across the state and extract value for money on the government's estimated

R800bn

annual procurement budget.

Currently, tenders are awarded based on a preference points system. Tenders valued at less than R50m are awarded on the 80/20 preference points system, whereby 80 points are allocated for price competitiveness and 20 points for a bidder's strength according to the B-BBEE scorecard. Tenders valued at more than R50m are awarded on the 90/10 system, whereby 90 points are allocated for price and 10 points for the B-BBEE scorecard.

I expect the preference points system to be altered to increase the B-BBEE points allocation to give black suppliers a bigger chance of winning tenders than is currently the case, where price decides who wins tenders. ■

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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

in brief

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>> **Mining:** How will miners fare in the face of Covid-19? *p.14*

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"OUR FUNDAMENTAL TASK AT THIS MOMENT IS TO CONTAIN THE SPREAD OF THE DISEASE."

President Cyril Ramaphosa

– **President Cyril Ramaphosa** announced the South African government's imposition of a nationwide lockdown for 21 days from midnight on 26 March to try to contain the Covid-19 outbreak in the country. The lockdown forces most businesses to close, aside from essential services in safety and security, food and distribution, telecommunications and electricity. At the time of his address on 23 March, the country's health ministry had reported 402 confirmed cases. Ramaphosa said the aim of the lockdown was to slow the spread of Covid-19 in SA and ease the pressure on the healthcare system and he urged South Africans to stay at home during this time.

"This, we hope, will relieve cash flow constraints currently caused by the Covid-19 outbreak."

– **Lungisa Fuzile, Standard Bank South Africa's chief executive,** announced interim debt repayment measures to help segments of its customer base navigate their financial commitments as the government stepped up efforts to contain the spread of Covid-19. The bank offers small business customers with an annual turnover of less than R20m a payment holiday from 1 April to 30 June if they are in good standing with the bank. Those customers with a student loan will also be exempted from repaying debt over the three-month period and in addition, they will not be charged any fees or interest. Nedbank said in a statement it will support clients, including deferring payments (or part thereof) for a suitable period, extending existing loan periods or extending additional credit to manage short-term cash flow shortfalls. FNB said it remains open for business to assist SMEs that qualify for credit to stabilise their cash flow and consumers who may want to cover unexpected expenses.

"It's not all about the titles, how much money you would have made or what you would have gotten from it. It's about having some fun, being able to create things."

– **Sol Kerzner, SA hospitality magnate,** died on 21 March aged 84 at his home in the Kerzner Estate at Leeukoppie near Cape Town, surrounded by his family, said the Southern Sun Group. Kerzner founded Southern Sun and Sun International. Some of his projects included The Beverly Hills Hotel in Umhlanga Rocks (the first five-star hotel in SA), the creation of Sun City, The Atlantis resorts across the world and launches of the One&Only Resorts, which operate various hotels in the Bahamas, Mexico, Mauritius, Maldives and Dubai.

Photo: Gallo/Getty Images

THE GOOD

MTN agreed to cut the cost of data bundles by up to 50% after SA's competition watchdog warned in December that telecoms operators faced prosecution if they did not do so. Godfrey Motsa, CEO of MTN SA, said a 1GB monthly data bundle will fall from R149 to R99, while Vodacom CEO Shameel Joosub said the network will reduce its mobile data prices across the board by as much as 40%. Meanwhile, hotel operator Tsogo Sun Hotels said it closed 36 hotels after travel bans imposed by various countries to contain Covid-19 had caused a "total collapse of demand", in a statement on the JSE. Tsogo added it is "endeavouring to assist" the public and private healthcare sectors with the provision of quarantine facilities to try and contain the spread of the virus using its deactivated hotels.

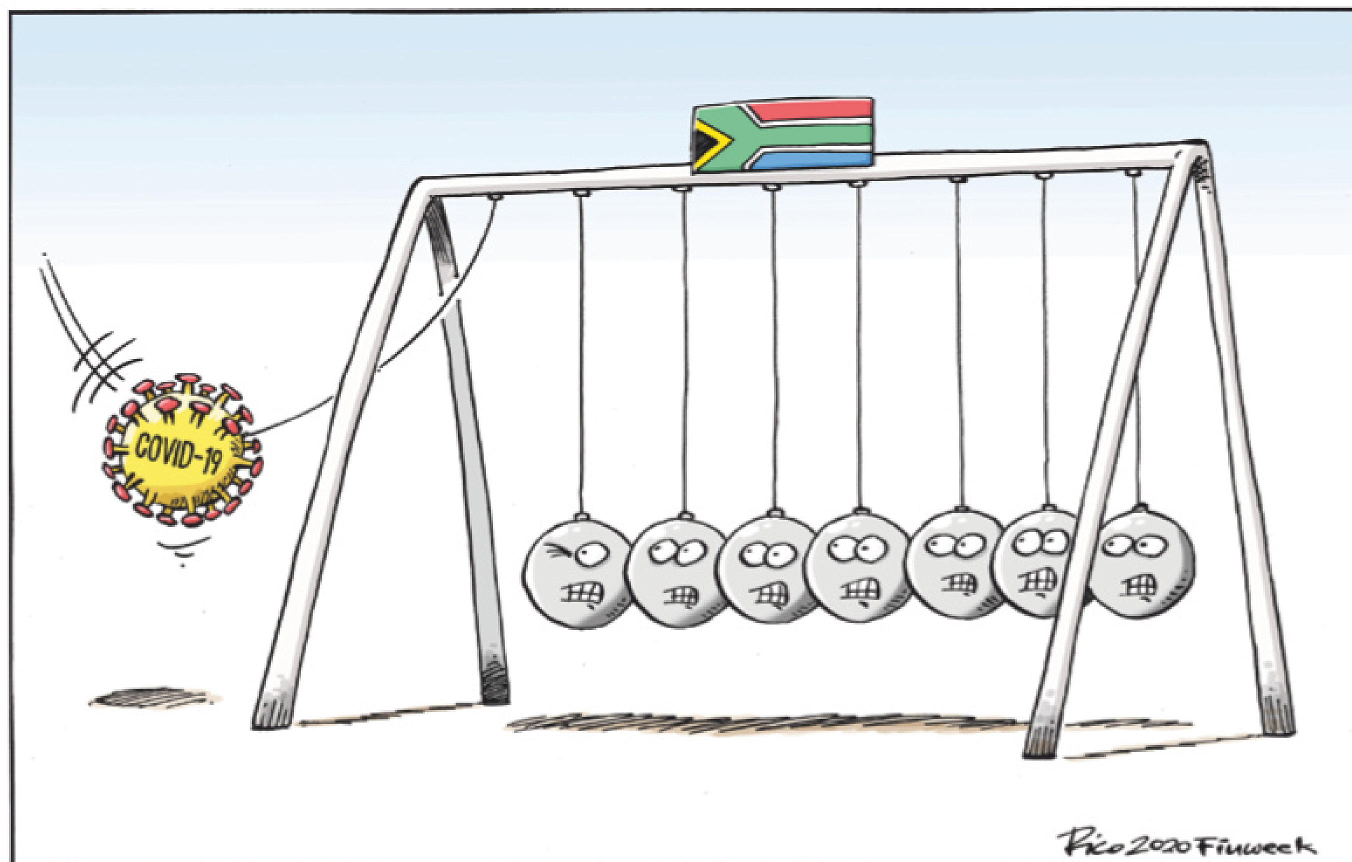
THE BAD

Stock markets continued their slump as measures to curb the Covid-19 outbreak, and alleviate its economic consequences, were ramped up. Share trading came to a halt at one point on the New York Stock Exchange after steep plunges triggered an automatic circuit breaker. Wall Street stocks had their worst day since 1987 on 16 March. The Dow Jones Industrial Average plunged 12.9%, or nearly 3 000 points, to 20 188.52. The S&P 500 shed 12%, while the tech-rich Nasdaq Composite Index slid 12.3% to 6 904.59, reported AFP. The S&P 500 effectively shed all the gains it made in 2019 and is down 32% from its February peak, according to *The Wall Street Journal (WSJ)*.

THE UGLY

Carbon emissions from energy and chemical company Sasol's Secunda plant exceed the individual totals of more than 100 countries, reported Bloomberg. Sasol's Secunda plant is the world's biggest single-site emitter at 56.5m tonnes of greenhouse gases a year, exceeding the individual totals of more than 100 countries, including Norway and Portugal. A 2019 study by Palo Alto-based Gray Sky Solutions estimates that the plant may account for as many as 72 deaths a year. As oil prices fell due to the impact of Covid-19, Sasol became one of the JSE's biggest decliners, tanking to a low of R29 on 11 March, compared to closing at R420 on the same day a year ago.

DOUBLE TAKE — BY RICO



HAPPY SPENDING

5.25%

The SA Reserve Bank (SARB) followed other central banks across the world and cut its main lending rate by 100 basis points to 5.25% in mid-March. The Monetary Policy Committee's (MPC's), decision was unanimous, citing a dire local and global economic outlook due to the deepening impact of the global Covid-19 outbreak. The bank's governor, Lesetja Kganyago, said "with the downward revision to the forecast, the overall risks to the inflation outlook at this time appear to be balanced", at the rates announcement. "The bank now expects the economy to contract by 0.2% in 2020. GDP growth is expected to rise to 1.0% in 2021 and to 1.6% in 2022," he said.

START OF THE RESCUE PLANS

$2tr

The US Senate plans to pass a $2tr stimulus package as the Covid-19 pandemic all but shuts down the US economy. The Trump administration wants to issue $1 000 (R17 590) cheques to all Americans, reported *The Wall Street Journal.* However, Senate Democrats blocked it after a dispute with Republicans over some provisions of the package. Confirmed US cases of Covid-19 had surpassed 33 000 at the time of negotiations (a 10-fold increase from a week earlier). UK Prime Minister Boris Johnson said a temporary roll-out of universal basic income was under consideration, reported *WSJ,* while Japan was reportedly weighing handouts of at least ¥12 000 (R1 905) per person.

LESS ROSY IN THE US

24%

Goldman Sachs cut its US economic growth forecast, saying in a note that it now expects GDP to decline by 24% in the second quarter of 2020 due to the Covid-19 pandemic. In addition to a larger hit to services consumption, the bank gave two other reasons for downgrading the growth forecast. Firstly, manufacturing activity now appears likely to contract more sharply than had previously been expected and secondly, weakness in high-frequency housing data in Asian countries, which were hit earlier by the virus, reports of nationwide cancellations of open houses, and the shutdown of construction projects in some parts of the US suggest a large hit to the real estate and construction sector.

COVID-19 INFECTIONS IN SA

700+

Zweli Mkhize, SA's health minister, said the number of confirmed Covid-19 cases had risen to 709 at the time of going to print. Gauteng recorded the highest number of confirmed cases at 302, followed by the Western Cape with 113, KwaZulu-Natal with 80 and the Free State at 18. SA headed into a nationwide lockdown the day after this issue of *finweek* went to print in an effort to curtail the spread of the virus – or "flatten the curve". The shutdown is scheduled to come to an end on 16 April. Read our cover story on p.28 for more on the economic impact of this lockdown and government's plans to try and mitigate the enormous fallout that will inevitably further cripple SA's economy.

By Glenneis Kriel

Payrolls of the future

Local online payroll system heads for the rest of the world.

Dave Ungerer, the founder of SimplePay, got the idea of starting an online payroll solution after seeing the system which the company he used to work for had to grapple with. "I felt terribly sorry for the payroll officer and realised I could make a meaningful difference to especially small businesses by developing a smarter, more efficient system," he says.

To think things through, he went on a three-month break to Buenos Aires, but, after only two weeks, started working full-time on the envisioned payroll system, which he launched in November 2007.

The project was completely self-funded. "Where most of my colleagues bought fancy cars and enjoyed the high life, I saved the money I made as a software developer to start my own business," Ungerer says.

Early days

He did not put much effort into promoting the solution, with people basically stumbling onto it by chance on the internet. Despite the solution still being very rudimentary at the time, quite a few users decided to stick with the programme and started giving valuable feedback on ways it could be improved.

"These early adopters offered much-needed encouragement amid comments from others that it would never work," Ungerer says.

Over time his hard work started paying off and five years ago, the business had gained so much traction that he could no longer manage it on his own. He has since employed 22 people, most working in either software development or client services, as the focus up until now has been on the development of a highly-affordable, efficient solution.

He has since employed **22** people, most working in either software development or client services, as the focus up until now had been on the development of a highly-affordable, efficient solution.

"We don't have a sales team. Most of our sales are generated via word of mouth. We have launched a Google Ads campaign in Ireland, but do not need to advertise in South Africa," he says.

The software is now used by over 11 000 businesses across the world, with revenue growing at 60% per year. Most of these clients are in SA, with strong expansions being made into Ireland, Hong Kong and Singapore.

Dave Ungerer Founder of SimplePay

The solution

SimplePay offers all the functions of traditional payroll packages by allowing users to calculate salaries, add commission and bonuses, deduct tax and UIF, and keep track of leave days.

Employees can access their payslips, make changes to their banking details and request leave on the system, which can then be approved electronically.

Ungerer says that more and more companies are moving to an online system because it is much more efficient than the traditional programmes as it can be accessed from anywhere and in real time.

As with any migration, clients are advised to do comprehensive exports of data from their old system for prior tax years for historic purposes.

While set-up can feel like it takes a while, it is a once-off exercise and the monthly processing is quick. Records are saved in the cloud and can be transferred to other solutions, for example bookkeeping programmes, or integrated with third-party solutions. For example, programmes that seek to reward employees for reaching certain targets or that keep track of working hours through a clocking system.

The records can be exported to an electronic file, which is then imported into Sars platforms. "Many of our users have requested for the system to communicate directly with Sars, but Sars does not allow third-party software communications," Ungerer says.

The future

The SimplePay team continuously works on improving and expanding their offering, with plans to launch a SimplePay mobile app by the start of April. "Having a dedicated app makes the software more accessible and convenient to use. Functions will be expanded over time in line with the changing demand of our users," Ungerer says.

The company is also working on a function that would allow employees to submit expense claims by taking a photograph of cash slips. This will allow employees to submit claims in real time, reducing their administrative burden and the turnaround payment time, and allow employers or bookkeepers to identify mistakes as they occur.

Besides this, the company is working on a comprehensive online training programme to complement the existing online help and support.

"SimplePay is user-friendly, but people often look for some kind of induction to build their self-confidence with the solution," says Ungerer. "The programme will not only teach business owners or payroll managers how to use the solution, but supply business advice that needs to be considered legally when employing staff or starting a venture."

The SA market has long been dominated by established payroll companies. While most of these companies used to promote desktop solutions as the be-all and end-all of payroll systems, most of them have since launched their own online products.

The emergence of these solutions has not been particularly damaging to SimplePay. As a matter of fact, Ungerer feels it has helped the company to grow on the back of these companies' promotions: "The other companies have actually created greater awareness of the benefits of online payroll solutions." ■

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Photo: Supplied

By Glenda Williams

LISTED PROPERTY

Shrinking rentals impact domestic earnings

Defensive markets are key to combatting the earnings ease in the listed property sector.

Rental growth is shrinking on the domestic front. Lease renewals and new lettings are under pressure, vacancies remain a challenge, the disposal of local assets is reducing income and local acquisitions that would add to rental income have become a rarity. For South Africa's real estate investment trusts (Reits), defensive markets are proving key to combatting the earnings ease.

Fairvest Property Holdings, which concentrates on non-metropolitan and rural shopping centres and the lower LSM market, has consistently outperformed the average Reit.

For the six months ended 31 December 2019, Fairvest increased its distribution to unitholders by 5.1%, reduced vacancies to 3.2% and grew the portfolio by 10.4% to R3.49bn. Its interest cover ratio (ICR) is 3.2 times and it maintains a loan-to-value (LTV) of 34%.

On the back of the larger asset base, net rental income increased by 12% while like-for-like annualised income grew 2.2%. Three large lease renewals after the reporting period improved rental reversions (rental rates secured on new lettings and renewals) to 0.8%.

Fairvest forecasts 4% to 6% distribution growth for 2020.

Fairvest remains a good investment, Keillen Ndlovu, head of listed property funds at Stanlib, tells *finweek*. "It's focused on the market where the population and growth are. Social grants help support its centres, as does the recent consumer-friendly (government) budget that will provide more tax relief to the lower income brackets."

Meanwhile, Emira Property Fund announced a 1.7% rise in distributions for its half-year to 31 December 2019 and forecasts comparable growth for the next reporting period. The Reit reduced its LTV to 35.1% and improved its interest cover ratio to 3.2 times.

Following the sale of 25 office buildings, property income dropped by 15%. But on a like-for-like basis, income rose 2.9% despite the SA portfolio's 3.4% negative reversions.

Sale money was deployed into Transcend Residential Property Fund and the US where it is invested in nine grocery-anchored convenience shopping centres. Income from both rose over 100% and exposure to lower LSM rural shopping centres through Enyuka Property Fund also delivered an uptick.

RESULTS COMPARISON — SIX MONTHS TO 31 DECEMBER 2019

	Emira	Fairvest	Hyprop
Distribution growth	1.7%	5.1%	-13%
Total assets	R14.37bn	R3.92bn	R48.2bn
SA portfolio (by value)	75.8%	100%	73.6%*
Offshore % (excludes rest of Africa)	10%	0%	20.3%
Loan-to-value (LTV)	35.1%	34%	34.2%
Interest cover ratio (ICR)	3.2x	3.2x	3.8x
Vacancies	3%	3.2%	1.6%**
Tenant retention	82%	66.2%	88%
Rental reversions	-3.2%	0.8%	-12.9%
Contractual escalations	7.5%	7.2%	7.2%
Dividend growth outlook 2020 fiscal year	±1.7%	4% to 6%	-10% to -13%

*** share of R37.5bn effective interest; ** excludes rest of Africa**
Source: Companies' interim financial statements

"Emira has done well to improve the quality of its portfolio, more so the office portfolio, and in a challenging environment," says Ndlovu. "While there's still scepticism about its US strategy (given retail sentiment change in developed markets), it has helped boost distributions."

Keillen Ndlovu
Head of listed property funds at Stanlib

Things are not as rosy for retail-focused Hyprop Investments, which concentrates on the higher LSM market. Its dividend per share is down 20%, partly due to the payout ratio being reduced to 92%. "Had it stayed at 100%, the dividend would have been down 13%, in line with guidance," says Ndlovu.

Hyprop reported -12.9% reversions on its SA portfolio for its half-year to 31 December 2019, impacting income which only grew 0.1% year-on-year. Still, its Eastern European portfolio delivered positive reversions of 4.9%.

Its Africa (excluding SA) assets and Edcon exposure were the big drivers of poor performance. Interest on dollar debt from the R1.5bn impairment on its Africa portfolio created a negative drag on distributions while its exposure to Edcon was the main culprit for the 1.9% reduction in distributable income from SA assets, CEO Morné Wilken tells *finweek*.

On the bright side, vacancies are 1.6% and trading density improved from -0.5% to 1.4%. Debt reduced by R1.3bn, lowering LTV to 34.2%, while the interest cover ratio is 3.8 times. Still to filter through is the refinancing of in-country debt. That will increase net operating income by €1m annually.

"Hyprop's rest-of-Africa exit is on track but may take longer," says Ndlovu. "Edcon has been sorted. The offshore debt structure has been simplified. However, there's still work to be done on cleaning up the Central and Eastern European structure and debt levels still need to come down. We believe most of the negative news is in the price now as the share is trading at 50% below net asset value." ■

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Photo: Archive

By David McKay

MINING

Powering through Covid-19

As South Africa prepares for the inevitable economic fallout of a 21-day lockdown, David McKay takes a look at how the mining industry will cope with this drastic measure.

Sibanye-Stillwater's Khuseleka platinum mine in Rustenburg, North West province

It is tempting to fear the worst following President Cyril Ramaphosa's dramatic 21-day lockdown announcement on 24 March, aimed at stemming the spread of Covid-19, especially for the mining sector, which has long been at loggerheads with government over fiscal and economic policy.

The Minerals Council South Africa's response was to call for creative measures, in association with government and business generally, to make sure all mines can reopen on 16 April when the lockdown is scheduled to end. It fears some might not.

However, there's ground for optimism in the face of the unprecedented events around Covid-19. One is the most obvious: In terms of political capital, the Ramaphosa administration has never been more 'on point', moving with decisive pace in order to save the lives of South Africans.

Secondly, the interaction between government and business in tackling the Covid-19 crisis might be catalytic for public-private enterprise in the future. "The cooperation between government and the private sector has been excellent in the last few weeks," says Charmane Russell, spokesperson for the Minerals Council. "There's a great deal going on behind the scenes in terms of the private sector coming to the table."

Thirdly, the last two weeks of stock market volatility, largely dominated by massive liquidations, represents an opportunity for investors, especially in the mining space, although caution is the by-word.

These are precedent-setting times, however. The Oppenheimer and Rupert families have contributed

R1bn

each to alleviate stress on small businesses through the crisis.

Thanks to the hardships of 2015, when the mining sector was found to have over-extended itself in search of market share, today's diversified mining companies are well-stocked to survive the crisis.

"Even under a very long government-imposed shutdown, SA diversified miners' balance sheets should be able to cope, a testament to lessons learnt in 2015," said analysts at RMB Morgan Stanley in a note to clients.

Even assuming an extended shutdown of the mining sector of up to six months – which would be catastrophic to SA society in general – diversified SA mining companies will survive, with African Rainbow Minerals (ARM) burning 73% of its available cash, and Kumba Iron Ore, the Anglo American subsidiary, using only 36% of its cash.

All sectors of the investment market have probably been oversold but certain shares look especially attractive, such as Exxaro Resources, which has fixed-cost contracts with Eskom in a commodity that is likely to escape the lockdown owing to the essential role it plays in energy generation.

As for Kumba, it will benefit from rand hedge, and the fact that oil is at historic lows, lowering its cost of production. The firm is also exceedingly well-padded with cash reserves in a sector that is well-disposed to the slow but sure economic recovery analysts expect of China.

Where there is stress, however, is in the mining sector supply chain where even a 21-day lockdown might see equipment and supplies companies unable to prevail.

"Local suppliers of goods and services will struggle to last a 21-day shutdown, in our view," said RMB Morgan Stanley. "In the event of failures within the mining sector supply

chain, we're concerned about a delayed ramp-up once the shutdown is lifted and elevated cost inflation as the supply chain will need to be rebuilt," it said.

Even in this scenario, there's upside to be had, according to the bank, which believes the mining sector ought to shoulder the cost of poverty alleviation in the regions where they operate. "It shouldn't be a major drag on cash flows, but it would be precedent-setting," the bank said.

These are precedent-setting times, however. The Oppenheimer and Rupert families have contributed R1bn each to alleviate stress on small businesses through the crisis – a response that perfectly brings the curtain down on the previous administration's vilification of so-called 'white monopoly capital' and potentially raises another curtain on improved relations between the private and public spheres.

As for the short-term future of the mining sector post the lockdown, there's the question still of how it intends to tackle potential outbreaks of the virus on the mines. Might this lead to a renewed bout of shutdowns?

Says James Wellsted, spokesperson for Sibanye-Stillwater: "There is no one answer to the question of what happens if an employee is infected: is it in the change room; is it somewhere else?"

The perception is that a mine is a relatively discrete entity; in fact, they are like "little cities", he says. It takes about 60km worth of travel to move from Sibanye-Stillwater's Libanon on the West Rand to the end of its other mine at Driefontein.

"The approach with infection is that we try to limit where it may have occurred and, if necessary, we may have to shut a section or even a mine. But I don't think it's true that we would have to shut an entire business," he says.

In other respects, the SA mining sector is positioned to tackle Covid-19 better than most in the SA economy owing to its expertise managing mining communities. The sector has been at the forefront of HIV/Aids treatment as well as tuberculosis (TB) and other occupational hazards such as silicosis.

Between 2008 and 2018, TB cases have fallen from just over 1 700 to about 500 while under the Mineral Council's Masoyise Health Programme, counselling for HIV rose from 79.1% in 2015 to 84% in 2018. Over the same period, TB screening rose from 84% in 2015 to 90.3% in 2018, and TB incidence decreased from 1 068 cases per 100 000 population to 435 cases per 100 000 population.

"Mines are part of communities and we should expect employees to be infected," a mining industry source said on condition of anonymity. "What we need to be able to do is very quickly isolate individuals and prevent further and rapid spread.

"It is only when it is evident that there is extensive and continuing transmission that consideration could be given to closing a part or all of a mine. Closing a mine doesn't stop the problem. We need to take a holistic approach that recognises this." ■

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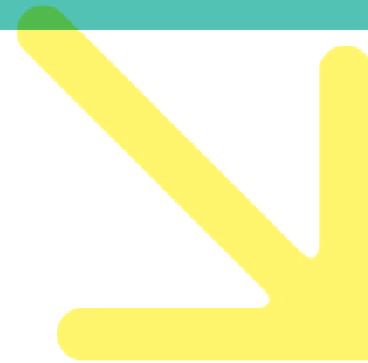

Neal Froneman
CEO of Sibanye-Stillwater

> The SA mining sector is positioned to tackle Covid-19 better than most in the SA economy owing to its expertise in managing mining communities.

Drilling down to the facts

Master Drilling has done well in SA, but the company is slowly looking elsewhere for opportunities, its CEO says.

Even without the onset of the Covid-19 lockdown, Master Drilling CEO, Danie Pretorius, says the sun is slowly going down on the firm's SA business in favour of new opportunities in developed economies, as well as in other parts of Africa and in South America.

Master Drilling, listed on the JSE, provides specialised drilling and logistics management to mining and exploration companies. Its headquarters are in Fochville, just down the road from Potchefstroom. It is a uniquely South African company with few prospects here.

"We have had a run in the SA space owing to platinum group metals and if not for Covid-19, we might have had another couple of years of good runs. A capital commitment from Northam Platinum gave us a lot of runway in this space," said Pretorius in an interview with *finweek* in March.

"But it's very clear to us from what people such as Neal Froneman [CEO of Sibanye-Stillwater] said that the future is away from SA. Coal is not in our game plan and the diamond industry we don't think offers a lot, but beyond Northam there's not too much we can offer, actually."

In any event, Master Drilling is facing something of a strategic overhaul. "There are two things we can be sure of: volatility and uncertainty. It is part of our lives today. The way we set up the company and the way we manage the company will be critical in the future," says Pretorius.

"We need to look at the amount of people in the business and we are getting to the point where we need to consider the layers of management that we have. Call them overheads. And then there's the capex being spent in the group. We need to rethink and look again." ■

Photos: Gallo / Getty Images

market place

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FUND IN FOCUS: ANCHOR BCI FLEXIBLE INCOME FUND

By Timothy Rangongo

Braving the shake-up with fixed income

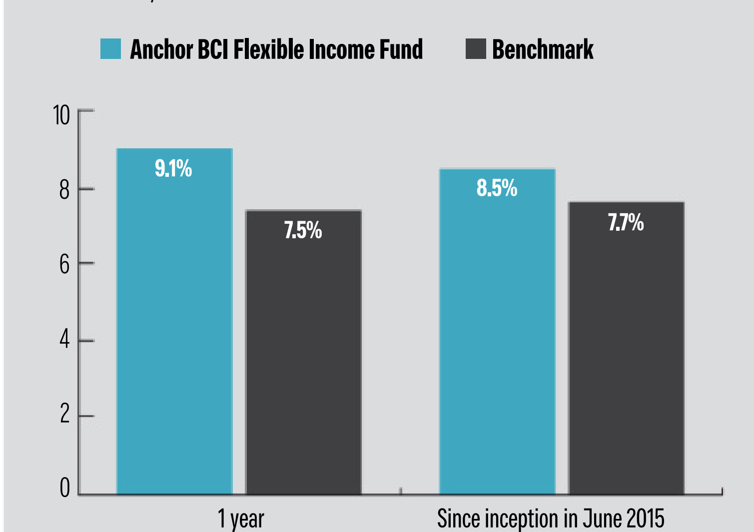
The fund has low equity exposure, resulting in relatively low volatility compared with higher-risk portfolios.

FUND INFORMATION:	
Benchmark:	STeFI Call Deposit Rate +1%
Fund manager:	Nolan Wapenaar
Fund classification:	South African Multi Asset – Income
Total investment charge:	1.24%
Fund size:	R2.5bn
Minimum lump sum/subsequent investment:	No minimum investment amount, but R15 (ex. VAT) administration charge for balances less than R100 000 at month-end
Contact details:	011 591 0677/info@anchorcapital.co.za

TOP 10 HOLDINGS AS AT 29 FEBRUARY 2020		
1	Anchor BCI Africa Flexible Income Fund	5.7%
2	Investec Cash	5%
3	Absa – 2025 Bond	3.1%
4	Standard Bank – 2029 Bond	3%
5	Octodec – 2021 Bond	2.4%
6	FirstRand – 2024 Bond	2.3%
7	Old Mutual – 2024 Bond	2.2%
8	SA Government – 2025	2.1%
9	FirstRand – NCD	2.1%
10	FirstRand – 2022 Bond	2.1%
	TOTAL	**30%**

PERFORMANCE (ANNUALISED AFTER FEES)

As at 29 February 2020:



Fund manager insights:

The Anchor BCI Flexible Income Fund is primarily a fixed-income fund that invests in a variety of bonds (corporate and sovereign). Other investments that may be acquired by the fund include equity, property and interest-bearing securities, money-market instruments and preference shares (though the portfolio's equity exposure may not be higher than 10% of its net asset value, while its property exposure may not exceed 25%).

Floating-rate notes account for half the fund's asset allocation at 52.5%, which fund manager Nolan Wapenaar says enables the fund to assemble a portfolio of assets that are of high quality and, for the most part, are unlikely to see material fluctuations in their market value. "They [floating-rate notes] are the ideal instrument that yields more than a bank deposit but comes with a similar stability in market value over time."

As the rapidly escalating Covid-19 outbreak continues to afflict both local and global markets, Wapenaar says it is highly plausible that things might get worse before they get better. The fund has been taking key action, considering the pandemic, by increasing the cash holdings of the portfolio through selectively selling down the floating-rate notes.

"We have also been gradually and systematically locking into the attractive yields that are on offer from government bonds at the moment," he says. In essence, "we are selling corporate bonds that yield 8% and replacing them with government bonds at 11%". If Moody's Investors Service downgrades SA's sovereign debt, the fund is of the view that bonds have room to rally, though it will be "a smaller rally", says Wapenaar.

S&P and Fitch both have negative outlooks on SA's debt. This, among other things, exposes the portfolio to default and interest rate risks. The combination of rating agency concerns and growing global investment risks have, on the other hand, made bonds cheap.

Local cash in the portfolio stands at 13.7% of the fund in order to manage the liquidity requirements that investors may have. "We are also constantly seeking higher-quality investments and like to have access to cash, should such opportunities arise," explains Wapenaar.

The portfolio is regarded by him as being suitable for medium-term investment horizons. The portfolio may, from time to time, invest in listed and unlisted financial instruments. The fund manager may only include the following unlisted financial instruments for efficient portfolio management purposes: forward currency, interest rate and exchange-rate swap transactions.

Why *finweek* would consider adding it:

Fixed income is more defensive during market crashes. The fund is increasing portfolio yields and positioning itself for a recovery, as more central banks roll out stimulus packages to blunt the adverse impact of the coronavirus on global markets. ■

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DIVERSE ETF

BUY SELL HOLD

By Simon Brown

Boost ETFs in cheap market

I am being asked dozens of times a day if this or that stock is a buy. Most often it is about Sasol, but it is pretty much across the board as investors (new and old) fear missing out on the bargain of a lifetime. Truthfully, there are a lot of quality stocks at great prices (Sasol is NOT one of them). But, equally truthfully, prices could still go markedly lower and some will not survive or, at least, won't survive without a discounted capital raise.

So, personally, I am not buying any stocks at this point. The bargains will be around for a while still and I'm happy to maybe pay a little more while decreasing the risk.

What I am buying is broad-based diverse exchange-traded funds (ETFs). I have more than doubled my normal monthly buying amount. My go-to offshore ETF is the Ashburton Global 1 200 Equity ETF (ASHGEQ*) and locally it's the Satrix 40 (STX40*). There are other diverse local and offshore options, all equally good. Just buy diverse ETFs and stay away from sector-specific and niche ETFs. ■

** The writer owns ASHGEQ and STX40.*

My go-to offshore ETF is the Ashburton Global 1 200 Equity ETF (ASHGEQ*) and locally it's the SATRIX 40 (STX40*).

Last trade ideas

- BUY — Grindrod Preference Shares — *19 March issue*
- BUY — Sibanye-Stillwater — *5 March issue*
- SELL — Sasol — *20 February issue*
- BUY — Telkom — *6 February issue*

DATATEC

BUY SELL HOLD

By Moxima Gama

The work-from-home perk

Technology shares that have very little exposure to China are potentially good stock picks in the current "stay-at-home" era. Datatec has said that demand for its remote access computing, security and collaboration networking solutions has increased over the past few weeks.

In a business update on 20 March, the company CEO, Jens Montanana, said that there was "solid" financial performance in all its divisions for the year through February. Datatec's South African operations account for just 2% of its total business. The group's main divisions are Westcon International, Logicalis and Analysys Mason. The turnaround in its problem child Westcon unit has substantially improved profitability over the financial year.

Datatec's balance sheet remains strong and is expected to report a reduction in net debt at the end of the financial year, compared with the end of the first six months. The company is expected to release its full-year results by mid-May.

Datatec's balance sheet remains strong and is expected to report a reduction in net debt at the end of the financial year, compared with the end of the first six months.

How to trade it:

Alongside the global sell-off, Datatec's share price dropped through key support at 2 800c/share to test its lowest level since 2018 at 1 715c/share. But after the 20 March business update, the share price regained most of its losses. Continued upside through 3 115c/share would present a good buying opportunity with potential gains to 3 800c/share. Increase positions above that level as Datatec's share price could rise further in the medium term to the next resistance at 5 000c/share. Alternatively, refrain from going long if Datatec should fail to trade above 3 115c/share. ■

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Last trade ideas

- BUY — Aspen Pharmacare — *19 March issue*
- CAUTION — Nepi Rockcastle — *5 March issue*
- BUY — Mediclinic — *20 February issue*
- SELL — Investec Property Fund — *6 February issue*

Photo: datatec.com

By Moxima Gama

CLICKS

Bullish amid carnage

Health and pharmacy retail chain Clicks is weathering the market turmoil as its products fly off the shelves. The stock gained more than 32% over the past 12 months and is down by only 3.8% since the start of the year. The company is expected to release its interim results on or around 23 April.

Current outlook: Clicks consolidated in the form of a triangle for one year after testing a high at 22 220c/share. It then breached the upper slope of the triangle in May last year and exceeded the target of the pattern breakout at 26 250c/share – the share price peaked at 27 115c/share before plateauing.

Outlook: As most analysts attest, Clicks is a good defensive stock – proving it particularly now with the Covid-19 global market sell-off.

52-week range:	R171.62 - R271.11
Price/earnings ratio:	35.82
1-year total return:	35.2%
Market capitalisation:	R61.06bn
Earnings per share:	R6.84
Dividend yield:	1.82%
Average volume over 30 days:	1 790 809

SOURCE: IRESS

SOURCE: MetaStock Pro (Reuters)

Clicks' share price continues to trade in its primary bull trend. It previously encountered major resistance at 27 115c/share and intra-week end-March it breached key support at 22 220c/share before recovering most of those gains, which means Clicks effectively outperformed the FTSE/JSE All Share Index.

On the charts: Currently trading between 27 115c/share and 22 220c/share, and with the three-week relative strength index (3W RSI) still in a bull trend, Clicks is likely to remain range-bound within its current uptrend until either level gives in.

Go long: Upside through the 27 115c/share major resistance level could see Clicks commence a new bull phase towards the sideways pattern target at 32 010c/share in the near to short term.

Go short: If Clicks continues to find resistance at 27 115c/share, downside through 22 220c/share could ensue again. The black dashed trendline should curb further selling as it has done before. Failing which, the trendline would be breached below 18 550c/share. A negative breakout of the uptrend would be confirmed through 16 915c/share, and support at 13 050c/share could be targeted. ■

TIGER BRANDS

Sort of bucking sell-off

Africa's largest listed food producer is bucking the market sell-off to an extent. Tiger Brands' share price may have slumped by 35% over the past year but gained just under 2% during the past 30 days – during the global market panic. The company plans to release its interim results on or around 25 May.

Outlook: After warning that its headline earnings per share were expected to be between 30% and 37% lower in the first half of its 2020 financial year compared with the same period in 2019, Tiger Brands' share price traded through key support at 19 890c/share in February and dropped to 14 565c/share.

52-week range:	R143.81 - R263.21
Price/earnings ratio:	13.21
1-year total return:	-24.89%
Market capitalisation:	R33.15bn
Earnings per share:	R13.22
Dividend yield:	4.32%
Average volume over 30 days:	1 569 933

SOURCE: IRESS

SOURCE: MetaStock Pro (Reuters)

On the charts: Tiger Brands' share price held firmly at 14 565c/share and even regained upside – somewhat ignoring the global market fears to the Covid-19 spread. Though it's still trading in a bear trend, a move through 19 890c/share would mark a bullish change in investor sentiment.

Go long: A positive breakout of the current bear trend would be confirmed above 23 335c/share. However, breaching resistance at 19 890c/share would present a good opportunity to take a small position, and to then increase that position above 23 335c/share. Upside to either the previous support trendline (black bold trendline on graph) or the 33 160c/share level could then ensue.

Go short: Refrain from going long if Tiger Brands fails to trade above 19 890c/share and falls through the 14 565c/share key level instead. Support at 9 025c/share could then be targeted. ■

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

By Simon Brown

FUNDAMENTALS

The advantage of permanent capital

As the global investor panic routed markets, those not beholden to investor flows should refocus on the long term.

Warren Buffett often talks about the immense benefit of Berkshire Hathaway having permanent capital. He also mentioned it in his February letter to shareholders and he's right that it makes a real difference to an investor if they have permanent capital.

Let's start with the inverse – what is non-permanent capital? It is money that investors give to managers to invest on their behalf. This will mainly consist of unit trust and hedge fund managers. The manager has the right to allocate that money within the fund's mandate, but that right lasts as long as the investor agrees to leave the money with them, and the investor can, with as little as a day's notice, get their money back.

The net result for the manager is twofold. Firstly, they become beholden to their quarterly updates to investors and they are updating their minimum disclosure documents (MDDs, or formerly called fund fact sheets) on a monthly basis in which they report on the fund's returns. This means that any slip in returns will probably prompt investors to ask for their money back. In the current market collapse, a worried investor may, for example, decide it is too much to bear and request a withdrawal of their investment.

So, the second and bigger problem is that the long-term investment manager is always looking over their shoulder, worried about a slip against the fund's benchmark and investors wanting their money back in the short term. Suddenly that long-term manager is focusing a mere month or three ahead rather than on the true long term, which lasts for decades.

What is even worse is if investors want their money back amid panic like we saw during the second week of March as world markets collapsed.

Now the investment manager is required to exit positions at the worst possible time as markets tumble. They do not have the luxury of holding on because their capital is not permanent. They need to return cash to investors and subsequently need to sell the fund's holdings down.

As private investors, our capital is largely permanent. I say 'largely' because we may have cash requirements in the short term, especially if you are nearing or already in retirement. But for most of us, the money we 'manage' is our own money and as such it is permanent capital.

This affords us the luxury of not having investors withdrawing funds, so we're never forced to sell because of redemptions by investors.

The real benefit is that we can then truly take that very long-term view stretching over decades, whereas the investment manager is constantly having to perform or lose access to investors' cash.

I am writing this column on Friday the 13th of March, the day after the worst local market collapse since October 1987. Yet, I have not even looked at my portfolio the entire week. I know it has fallen, likely fallen by a lot and it will look ugly. But the exact metrics of how much I have 'lost' is not important. I know I hold quality stocks that will recover in time. I also know I have time on my side, and I have permanent capital, so I can ride out this collapse without being a forced seller at any point.

Of course, this does not mean we can be complacent. We still need to be holding quality assets – and just because our capital is permanent does not mean we can hold "dogs" that have very little hope of ever performing.

In the 19 March edition of *finweek* I wrote about having a hard look at second-tier stocks in one's portfolio and consider exiting them. So, having done that, a portfolio should consist of quality assets and while portfolios are under pressure right now, they will recover. And that's the point: We truly have time because we have permanent capital. Yes, the second week of March wasn't fun. But our portfolios will grow again. ■

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Photo: Shutterstock

> Of course, this does not mean we can be complacent. We still need to be holding quality assets – and just because our capital is permanent, does not mean we can hold "dogs"...

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.

DISCOVERY

Price hit by health concerns, CEO's put options

The Discovery* share price has been under severe pressure, falling by almost twice the extent of the overall market collapse. The one reason is investor concerns about their exposure to medical aid and Vitality. Worries about the medical aid unit are to be expected amid the coronavirus pandemic. Concerns about Vitality relate to expectations that people will stay at home, exercising less and maybe cancelling their subscriptions. But there is another important issue at play here. Discovery CEO Adrian Gore entered a zero-cost collar back in October 2016. This involved a two-legged transaction with the one leg being a series of put options on the Discovery share price. The strike price on these put options is 8 316c and 9 396c per share with 4.3m shares at each price. The expiry is every Tuesday and Thursday from 20 January to 16 April 2020. So, basically, the counter party has started selling some 337 908 shares every week and this will continue until mid-April. That's about R800m of sales, which under current trading volumes are modest, but certainly adds selling pressure and it'll continue for the next few weeks.

Photo: Gallo/Getty Images

INTU PROPERTIES

Buckling under debt

Intu Properties' annual results through the end of December showed just how bad it can get for an over-indebted company. Revenue was down a little under 10% while the company's loss accelerated further. Debt was reduced by just under £400m and they were left with about £4.5bn of debt at year-end and a debt-to-asset ratio of 67.8%, compared with 53.1% a year earlier. Intu's market cap sits at around £55m. I don't know how they'll get back from the brink. Sure, they're selling assets to try and pay down debt, but what they need is to do a rights issue. However, the company had to cancel an issue after shareholders seemingly refused to support such a measure.

Vodacom announced a **30%** to **40%** cut in South African data fees on 10 March.

SASOL

Selling assets may hit snags

Sasol released another update to the market stating on 17 March that at the current rand oil price of R580 per barrel they remain cash-flow positive. They also stated that they have no "significant debt maturities" before May 2021, which, while more than a year away, is frankly just around the corner for a large corporate. They also said they'll accelerate "the asset disposal programme to realise proceeds in excess of the current $2bn target". The market loved the news and the stock bounced by about 50% before closing 36% higher at just above 5 000c/share on the day. The price, however, has fallen since then. For me, the issue is that selling those assets won't be easy and, as such, a possible $2bn rights issue becomes very likely. This value is above the current market cap of just under $1bn, making a rights issue deeply dilutive and which will result in further price weakness.

VODACOM

Becoming a utility

Vodacom announced a 30% to 40% cut in South African data fees on 10 March. The company said that this will save customers R2.7bn or, put differently, will see Vodacom lose R2.7bn in revenue. In the six months ending September, Vodacom said its revenue amounted to R44bn, resulting in the announced price cut totalling 3% of annualised revenue and about 16% of net profit. The company hopes that cheaper data will result in increased usage and that ideally the spending amounts per customer will remain constant as they use more of the cheaper data. Vodacom will likely be right in part: This is a big shift towards accepting, for themselves, that they're becoming a utility that sells data at low cost and low margin. Hopefully they sell so much data that they make up for it in bulk. MTN also announced lower data prices in late March, but without details of the impact.

MARKETS

Abrupt end to 11-year bull

The aggressive sell-off in the US ended the bull market that started in March 2009 after the S&P 500 Index dropped by about 25%. Sell-offs are always extremely volatile, and this one has exceeded anything I have ever seen before due to the complete uncertainty about how bad Covid-19 is going to end up being. The good news is that every market collapse I have ever seen has been followed by a recovery. So, it is a horror show right now but it is also nothing new for markets and there will be a recovery in time.

TSOGO SUN HOTELS

Photo: tsogosun.com

Commendable, but no earnings

Tsogo Sun Hotels and Hospitality Property Fund in a joint statement on 20 March about their response to the coronavirus said the following: "The Group has been approached by both the public and private healthcare sectors to assist in the provision of quarantine facilities through the use of hotels that would otherwise have been deactivated and we are endeavouring to assist in this regard." This is commendable and just what our healthcare system needs. But it also indicates how badly earnings are going to be hit in many sectors, especially in the hospitality sector with Tsogo saying it closed 36 hotels. With travel restricted and a national lockdown in place until 16 April, the company's revenue is going to collapse. Even if they can sell rooms as per the above statement, it won't be anywhere near the normal rate and with high fixed costs their earnings will disappear.

STOCK EXCHANGES

To close or not to close

I am getting a lot of people asking me why the JSE and other global stock exchanges don't close, or if they're considering closing. The JSE issued a statement in mid-March saying they are not closing or curtailing trading hours. The reason is simple: Closing an exchange only creates more panic and when it reopens, the selling will be even more relentless due to both the actual crisis as well as concerns about another closure. Exchanges are simply places that enable the regulated trading of underlying securities and their job is to remain open and perform that function. Further short selling (profiting from a price fall) is also an important part of an exchange and should not be banned. Locally, you must have covered any short sale by borrowing the shares and thus preventing naked short selling that could overwhelm a stock (also see p.38). The JSE is a functioning exchange and it is critical that it continues to operate during any crisis, even if it means prices are collapsing. Frankly, there is no way to stop prices from falling. They will fall until buyers start to return en masse.

Closing an exchange only creates more panic and when it reopens, the selling will be even more relentless due to both the actual crisis as well as concerns about another closure.

DE-LISTINGS

Exiting the JSE fast

Delistings are coming thick and fast with two announced in a single week in March. Mining company Assore attracted an offer of R320 per share and investment company Peregrine's shareholders were offered R21 a share. In both cases the shares immediately moved to just below the offer prices and buying at that point didn't provide real returns. I will be keeping an eye on these shares and if we see the share price move to about 15% below the current offer prices, I will be interested in buying for some easy, fairly low-risk profit. Importantly, in both instances, the conditions are not severe but there is always a risk that a proposed deal may collapse, and the risk right now is heightened with the coronavirus outbreak. For Assore this is probably a moot point as the insiders who made the offer to minorities have the cash to do so.

TRADING

It will wipe you out, newbie

A final thought for this issue. I am getting inundated with people new to the market wanting to start buying shares, and this is great. The market is on sale and we should be buyers. But some words of caution. Don't jump into trading as a newbie – you will be wiped out and potentially lose more than you started out with. Secondly, as a newbie in these times, I would not even be buying individual shares unless you really know what you're doing. Keep it simple and stick to exchange-traded funds (ETFs) as I write in this week's *House View* (see p.17). Lastly, while stocks are very cheap, don't panic about missing out. They'll be cheap for some time to come and we'll have lots of time to buy. ■

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**The writer owns shares in Discovery.*

By Schalk Louw

ECONOMY

Stronger tomorrow than today

Schalk Louw points out those fiscal and monetary measures that will likely soften the blow to South African consumers as the country navigates the current crisis.

Some of the greatest success stories all have one thing in common, and that is that hardship isn't used as an excuse, but as motivation – the motivation to focus not so much on current circumstances, but rather on the opportunities that tomorrow may bring.

Famous sports stars like Muhammad Ali (boxing), Niki Lauda (Formula 1) and Tiger Woods (golf) would not be as famous as they are if they didn't rather focus on a brand-new day during times of hardship.

Woods is a shining example. Since winning the US Open in 2008, he regularly featured in news stories, and not for good reasons. By 2014, his back was so badly injured that his chances of playing golf again became smaller by the day. But Woods said, "The greatest thing about tomorrow is I will be better than I am today." And boy, was this true. Eleven years after winning the US Open, Woods made one of the best comebacks in sporting history by winning the US Open again in 2019.

This somewhat longer introduction fits in quite well with our current state of misfortune. To say that Covid-19 has plunged humans into a state of fear is a complete understatement. And I'm not going to downplay this virus, because I have no doubt that the impact it is going to have on the human race will be greater than initially anticipated, not necessarily in terms of deaths, but in terms of its disruptiveness, especially to the global economy.

After South Africa, and more specifically its stock exchange, experienced a very rough five-year period between 2014 and 2019, we have now seen the JSE, along with the rest of the world markets, declining even further.

This is also an understatement, because up to and including 13 March 2020, the FTSE/JSE All Share Index was trading 23.5% lower than the last trading day of 2019. In early March, I referred to high market volatility. Since then, we have seen the VIX (volatility index) exceed levels last seen in 2008 and reach some of the highest levels since its inception in 1990. The current level of fear must be the worst our global economy has seen to date.

As things stand, we now find ourselves *in* this situation, and just like any hardship we have endured in the past, we will get through this too. Without a doubt. Using Tiger Woods's saying as inspiration, I don't just believe that we will get through this, I believe that we will emerge from this stronger as a nation. With that in mind, why then aren't more investors greedy to invest, like Warren Buffett is doing right now, while the rest of humanity lives in fear?

The oil price is 30% lower in rand terms, which means that the price of petrol is most likely to see one of its biggest drops ever.

Photo: Gallo/Getty Images

Let's have a look at our local market and the facts at hand. During the last three weeks, aside from Covid-19, three other noteworthy events took place.

Firstly, at the end of February, finance minister Tito Mboweni announced a corporate and personal tax saving for the 2020/2021 financial year. According to National Treasury, personal tax savings should put around R2bn back into the pockets of taxpayers.

Secondly, since the beginning of this year, the price of Brent crude oil has dropped by 41% in rand terms. Since the end of February alone, the oil price is 30% lower in rand terms, which means that the price of petrol is most likely to see one of its biggest drops ever. As transport makes up roughly 15% of SA's inflation basket, it doesn't take a rocket scientist to figure out that there will be savings in that department too. But petrol won't be the only product to benefit from a lower oil price.

Food prices should also decline as transport costs become cheaper. Even paraffin should become cheaper. According to Stats SA's *General Household Survey* in 2016, most South Africans use electricity for cooking and heating, but there are still many people who rely on paraffin as a power source. All those people should also benefit from a drop in the oil price.

Thirdly, the SA Reserve Bank, in line with the global trend, announced an interest rate cut of one percentage point on 19 March. It doesn't matter what your opinion of the SA economy is, if you think that this won't have a positive effect, you're missing the plot. As with the two abovementioned points, this is money being put back into our crippled economy and it can potentially have a significant local effect.

Many of you may wonder where I see all this money flowing to, and my answer will be subjective. When I look at Stats SA's most recent figures on personal savings as a percentage of personal income, I can tell you where it won't be flowing into, and that is savings. Currently only 0.66% of all personal incomes are saved.

So where will it go then? I reckon it will most likely flow into the retail, healthcare and mobile phone services (data and talk time) sectors. These are all sectors that have taken quite a knock over the past few years.

To conclude, I would like to wish all of you the best of health and tranquillity during these very difficult times. I do believe, however, that we will be stronger tomorrow than we all are today. ■

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By Simon Brown

PORTFOLIO MANAGEMENT

Beware debt-laden stocks

Simon Brown explains why investors should scour their shareholdings and have a hard look at consumer-facing companies with large debt burdens.

The Covid-19 global crisis is worsening and will continue to get worse for a while as countries scramble. As I have written before, the impact is going to be significant as consumers are not out there spending, either out of caution or, in many parts of the world, because governments have banned people from going out.

This is going to be felt across pretty much every aspect of the economy and South Africa is in no way going to be spared. At the time of writing this column, markets were down between 25% and 35% in 2020 while Brent crude oil is off over 60%. I have seen several collapses of this scale before. But never this fast.

Company earnings will be under pressure across the board and those with strong balance sheets and little or no debt will be able to trade through this crisis. But those that have a lot of debt are going to find themselves under serious pressure.

Investors need to take a hard look at the stocks they still own and especially the debt those stocks are carrying. As a starting point, look at annual reports in order to dig into debt maturity details and debt covenants.

Interest is always being paid, but usually not the principal loan amount and the maturity is when that debt is due. Debt due many years out is not such an issue. But debt due this year or next year could become a real problem as it is hard to pay off or roll over into new debt and, if rolled over, the terms may be more onerous, further straining the company and its balance sheet.

Covenants are the terms imposed by the lenders and if breached, the debt can be recalled. Typically, a covenant will be something like the net debt-to-equity ratio or net debt-to-ebitda (earnings before interest, tax, depreciation and amortisation). Investors need to have a clear understanding of these covenants and whether they are at risk of being breached, because a breach could mean the company has to sell assets or raise capital to cover debt.

The option of selling assets right now is the worst possible idea; buyers will likely get spooked and those interested in buying will want to pay bottom-drawer prices. This leaves a rights issue as an option, which entails having to issue new shares at these low share price levels.

But neither of these options is good for a company and, while it may not go bankrupt, either option will make getting back to normal a long and hard road.

You also need to look at the cash-flow statement to see what the free cash looks like and the company's ability to service the debt interest. Here you'll look for the total interest amount payable every year and compare that with free cash, but remember that free cash will be under pressure as revenue and earnings drop. Ideally, assume free cash will drop by at least 50%.

If you find that stocks you hold have serious debt concerns, then you need to have a hard think.

Do you consider exiting the position? I know you'll then be selling at greatly depressed prices, but things are still getting worse and the economic impact has yet to be quantified. If you decide to hold rather than exit, expect a rough time, a lower share price and a rights issue at horrific levels.

I am going through my portfolio and the one that stands out is Famous Brands*. It is a consumer-facing company, which puts earnings under extreme pressure, and it has high levels of debt. I will likely exit but will see if I can get a better price. But, even as the share trades at decade-lows, more downside is likely. ■

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The writer owns shares in Famous Brands.

Photo: Gallo/Getty Images

Company earnings will be under pressure across the board and those with strong balance sheets and little or no debt will be able to trade through this crisis.

By Peet Serfontein

OFFSHORE

Is Gilead a counter for Covid-19?

Gilead is a leader in the development of antiviral drugs and is currently well-placed in its market segment.

The question is always: Which shares should you buy if the market dips sharply, as every share looks like a bargain?

My suggestion is to look at shares that remained reasonably stable during the price action, despite the implosion of the markets. Further, with Covid-19 on everybody's mind – it's been declared a worldwide pandemic – I would look for a share that's a specialist in this area and which could possibly offer a solution for this pandemic: a share in the biotech sector.

This is where Gilead Sciences caught my eye. This company manufactures medicines to treat the human immunodeficiency virus (HIV), hepatic disease, respiratory diseases as well as other conditions and is therefore a leader in the area of antiviral drugs.

Gilead is one of the shares with the highest year-to-year earnings for the past quarter. Rising earnings show that the company's business is growing and it's generating more cash that it could invest or distribute to shareholders.

The company has had positive results in clinical tests for two different HIV treatments, namely Descovy and TLR-7. Its medicine, Remdesivir, has been developed for the treatment of the Ebola virus, but has thus far not distinguished itself. That said; it's possible that this drug could conceivably at least have a positive effect on the coronavirus, and in China they are currently doing clinical trials with it.

What's the solution that the company could possibly come up with? We always look in terms of a treatment, but not a cure; and not a vaccine, but a treatment.

A treatment that is effective in at least delaying the spread of the disease to the rest of the world will not only heal financial markets, but also the world's economies.

The fact that Remdesivir has already reached its mid-phase trials has made the medicine ready to be shipped to China before other possible treatments, which biotech companies have to develop from scratch. The results of these trials are only expected in April.

Will Remdesivir be efficacious enough in serious cases to justify it being deployed worldwide as part of the effort to end the outbreak or at least to buy some time as we wait until something more specific has been developed to treat this disease? Gilead is listed on the Nasdaq in the US with the code GILD.

What can you expect from this share?

The results of these trials, or even an announcement, will probably push the share price up. It's already trading above its 50- and 200-day exponential moving averages.

Furthermore, the 50-day average has broken through above the 200-day average, and a situation has arisen that we refer to in a technical analysis as a 'golden cross'. This makes this share special. The golden cross is a technical pattern that indicates that a bull market could be in the offing, and a situation such as this is usually strengthened by high volumes of share trades. So keep an eye on those volumes that have recently already increased (see graph A).

But should you buy?

I will classify the buy as speculative by nature as we assume that there could possibly be a positive outcome. The insertion graph shows the long-term graph (monthly) of Gilead's share price. Please note that the scale is logarithmic.

The share remains above a very strong support level in the region of $65 (see black line that affects the price action in February 2013, November 2011 and again in February 2020).

Any price movement below the level of $65 would be a reason for concern and would serve as a stop-loss. This level is also close to the 200-day moving average, which serves as a strong psychological level. A price action above the 200-day moving average is regarded as being indicative of classifying the long-term trend as a bull market.

Should the price start breaking through the resistance level of $87, one would expect that the share could continue to move upwards. This level would serve as a good level to increase exposure. If the price could remain above $87, and should upward momentum support the price, then the share could easily reach its previous high close to $120. I would then suggest that investors should take profits to lessen exposure. Upward price movement serves as the energy behind a share price to continue moving in an upward trend.

The reason why there is upward potential stems from the moving average convergence divergence (MACD) indicator. When the MACD (blue line) crosses over the MACD signal line (orange line), it serves as a sign that a bull trend is starting to develop.

Another positive sign of the share is evident when one looks at the on-balance volume. This technical indicator determines whether investors are investing money in the share (inflow). The recent sideways trajectory of this indicator confirms that money is in fact remaining in the share. It supports a bull trend for the share.

Also take note how stable the price action of the share has remained, despite the recent strong sell-off. ■

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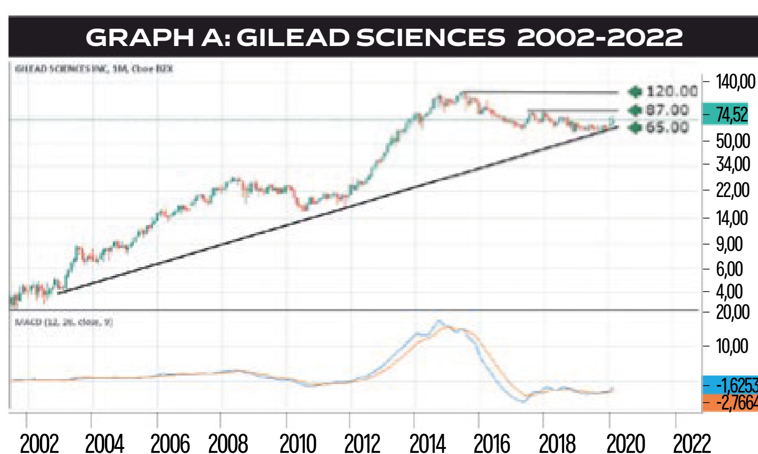
GRAPH A: GILEAD SCIENCES 2002-2022



52-week range:	$60.89 - $85.97
Price/earnings ratio:	13.57
1-year total return:	20.09%
Market capitalisation:	$93.42bn
Earnings per share:	$5.35
Dividend yield:	3.58%
Average volume over 30 days:	26 487 672

SOURCE: IRESS

GILEAD SCIENCES: INSETSTEL-GRAPH

SOURCE: Peet Serfontein, TradingView.com

By Lucas de Lange

JSE

It's a full-blooded bear market

...and there are bargains aplenty.

Bad news is an investor's best friend. – Warren Buffett

Amid a deluge of bad news hitting the JSE and other markets almost daily, there is one important aspect that should not be overlooked: Experienced value investors are currently buying shares they regard as bargains.

According to the well-known Dow Theory, there are three long-term phases in a stock exchange's cycle between the bull and the bear. The first phase of a bull market starts when prices begin to increase gradually after the bear has restored value. Uncertainty is the watchword.

After a period of sideways or gradual upward movement during which the so-called informed capital acquires bargains, the second phase is ushered in: optimism increases and prices firm. Good value is to be had, but real bargains – as those encountered during the first phase – are becoming scarce. Then there's the third phase, when prices are driven up to new heights, which have little to do with underlying value.

No one knows when a bear market will end. Is it going to be a gradual recovery, the so-called U-shape, where the market moves sideways for a considerable time and then starts climbing; or maybe a V-shape, when prices increase rapidly? Or a W-formation, where prices recover and then cause alarm by pulling back rather rapidly to the previous low – as we saw briefly in 2008 – to then increase by close on 250% before the current bear market struck at the end of February?

Given the uncertainty that goes hand in hand with the first phase, we may well ask what the ordinary (nervous) investor can do to share in the hefty increases, at relatively low risk, that usually follow on a bear market. Buffett's advice is: Buy the market and be patient, which means that one should invest in a general index.

There are quite a number of exchange-traded funds (ETFs) available in SA that track either the All Share Index or the Top 40. There are also products available that track foreign indices such as New York's popular S&P 500, which has risen by some 409% since the low of the last full-blooded bear market in March 2009, before declining by almost one-third since last month.

Given the serious local problems the SA economy has been battling for so long, it's probably preferable to invest in foreign funds. Because no one knows when the markets are going to start recovering, it would be wise to use the rand-cost averaging method. It entails investing a fixed amount regularly. As the index drops, you acquire more units, and this means that your real cost is lower than the average price over the investment period. It ensures that the effective price you eventually pay will be fairly close to the market low.

For those who wish to invest directly in the market, there are a number of useful guidelines available:

- A bear market comes to an end when market sentiment is at its bleakest.
- Good-quality shares survive and recover first.
- Avoid companies with high debt levels. They suffer, especially if the bear market lasts long.
- Well-managed companies with healthy balance sheets and good cash flow could emerge stronger from a bear market because they could take over competitors at low prices and gain if some of their competitors go under.
- The real winners during bear markets are companies that are cash flush. Richemont, for example, still has a mountain of cash, despite its latest takeover.
- Companies that increase dividends during bear markets deserve to be considered. It's an indication of healthy cash flow and that management feel confident about the future.

Technical analysts can consider shares whose medium-term moving averages (65 days) remain above their long-term (200-day) averages. Examples are Clicks, Reinet, Spar, Dis-Chem and Astral. ■

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

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY EMA
SASOL	-90
TSOGO SUN	-73.7
REDEFINE	-70.6
PPC	-68.5
BRAIT	-68.1
TELKOM	-66
INVESTEC PLC	-64.7
KAP	-62.7
MTN GROUP	-59.1
EPP	-58.8
NEDBANK	-58.7
VUKILE	-57.3
HAMMERSON	-55.6
MAS	-54.5
HYPROP	-53.2
SAPPI	-51
AMPLATS	-49.9
TFG	-49.6
MOTUS	-48
MASSMART	-47.1
INVESTEC PROPERTY	-45.6
IMPLATS	-45.2
TRUWORTHS	-44
TRANSACTION CAPITAL	-44
DISCOVERY	-43.8
OLD MUTUAL	-43.2
ABSA GROUP	-43
GLENCORE	-42.9
NEPI ROCKCASTLE	-41.8
PSG	-41.6
WOOLWORTHS	-40.8
RESILIENT	-40.6
ROYAL BAFOKENG PLATINUM	-40.4
NORTHAM PLATINUM	-40.3
STANDARD BANK	-40.1
RMB HOLDINGS	-39.3
FIRSTRAND	-39.2
GROWTHPOINT	-39
DISTELL	-38.4
LIBERTY HOLDINGS	-38.4
EXXARO	-38.1
EMIRA	-37.3
ANGLO AMERICAN	-36.9
MR PRICE	-36.7
ARM	-36.4
BIDCORP	-35.7
PSG KONSULT	-34.9
AB-INBEV	-34.4
CAPITAL & COUNTIES	-34.4
VIVO	-33.9
FORTRESS A	-33.8
BARLOWORLD	-33.6
CORONATION	-33.3
REMGRO	-33.2
PEPKOR HOLDINGS	-32.5

WEAKEST SHARES*

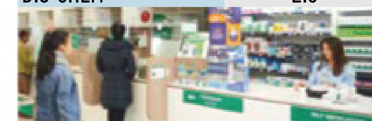
COMPANY	% BELOW 200-DAY EMA
SUPER GROUP	-31.2
SOUTH32	-30.3
SANLAM	-28.7
RMI HOLDINGS	-28.3
EQUITES	-27.3
REUNERT	-26.3
CAPITEC	-25.9
BHP	-25.8
MOMENTUM METROP	-23.2
LIFE HEALTHCARE	-22.6
ADCOCK INGRAM	-22.5
KUMBA IRON ORE	-21.2
QUILTER	-21.1
NETCARE	-19.6
BIDVEST	-19.5
TIGER BRANDS	-19.2
JSE	-18.7
SHOPRITE	-18.5
SIRIUS	-18.5
HARMONY GOLD	-17.7
NASPERS N	-17.4
AECI	-16.6
MC GROUP	-15.7
SANTAM	-15.1
ITALTILE	-14.9
MONDI	-14.5
LIBSTAR	-14
AVI	-14
MEDICLINIC	-12.1
RICHEMONT	-11.2
RCL	-9.6
BAT	-8.8
ZEDER	-8.5
GOLD FIELDS	-7.3
ASPEN	-6.4
ANGLOGOLD ASHANTI	-5.3
REINET	-4.6
SPAR	-4.4
PICK N PAY	-3.7
VODACOM	0

STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY EMA
ASSORE	5.6
CLICKS	4.1
ASTRAL	3.2
DIS-CHEM	2.9

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY EMA
CLICKS	4.1
ASTRAL	3.2
DIS-CHEM	2.9



Based on the 100 largest market caps.

Photo: Archive

By Mariam Isa

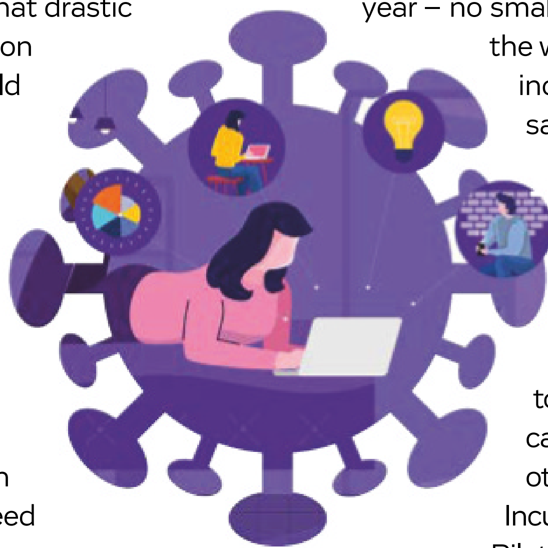
WORKFORCE

How will the world adapt after corona?

Working from home, online courses, declining business travel and legal discrimination. The world after the pandemic may look different.

The Covid-19 pandemic has granted climate activist Greta Thunberg one of her biggest wishes – the global airline industry has nosedived and is unlikely to ever fully recover. Travel bans have brought many airlines to the brink of bankruptcy, and even when the crisis subsides, both business and leisure travellers will think twice about flying, particularly overseas.

This is only one example of the disruption that drastic measures to fight the disease have unleashed on the economic and social framework of the world as we know it. It will take at least 18 months before an effective vaccine against the virus is rolled out, and during that period many of the behaviour changes foisted on businesses and individuals will stick.



The most pervasive shift will be the result of social distancing – there will be less face-to-face interactions at work, and in every recreational and social activity. Working from home will become far more common than it is already, and employers will reassess the need for business travel. Many conferences will become webinars and much training will take place online.

"People are going to find that they don't need to be in the building to be able to accomplish certain things. Organisations will probably also learn that not everybody needs to be in the meeting room for something to be decided or a piece of work to be done," says Barry Vorster, head of technology and culture practices for human resources at PwC.

Research shows that employees are more productive when they are able to work from home, but Nicholas Bloom, an economics professor at Stanford University in the US, warns that doing it full-time dampens innovation and could lead to an explosion of mental health issues. "Most creativity is done in face-to-face environments – it encourages you to be ambitious and motivated. Full-time at home can be pretty miserable," he says.

> "People are going to find that they don't need to be in the building to be able to accomplish certain things."

Team collaboration will become challenging without direct human contact and companies will have to come up with ways to help people interact online on a personal level, as if they had bumped into each other in the corridor or at the canteen, he says.

The explosion in internet demand has highlighted the need for adequate broadband services, with signs of strain emerging in the US, Europe and India, as download and streaming speeds slow. South Africa is facing similar challenges and needs to speed up the allocation of spectrum resources.

Another anticipated shift in human behaviour is that large gatherings in any context will become smaller and less frequent – a large wedding in South Korea was identified as the "superspreading" event that gave the coronavirus a foothold in the country. Businesses that rely on people coming together will either adapt or collapse – particularly restaurants, nightclubs, gyms, theatres, cinemas, shops and art galleries.

Innovation and digitalisation will be essential to survival, and many entrepreneurs in SA have risen to the occasion. Monica Newton, CEO of the National Arts Festival, has decided to take the event online this year – no small feat for one of the largest performing arts festivals in the world. "The response has been positive. What's been incredible is that people from around the world have been saying it is going to be amazing to continue to see SA's work in a new way," she says.

Software training institute Incus Data put together an online course in less than a week at the request of a large client that didn't want to send its employees for classroom training. "It's one thing to have a camera and microphone and even the software – it's another thing to create an environment where the lighting and the sound can work. But we're ready to roll and can start marketing to other clients," says Jacqui Coosner, director operations at Incus Data.

Pilates 4 You studio put their sessions online and their clients are taking classes safely at home. "I see that this could take off going forward, for people who are away on holiday or are isolated in rural areas – we will have to look at that," instructor Belinda Phillips says.

Globalisation may go into reverse, as corporations hit by the disruption to links with China weigh the benefits of a globalised supply chain and consider relying on domestic suppliers. While this might better ensure that people get the goods they need, the shift would likely also increase costs to corporations and consumers.

One of the worrying trends that has surfaced is an invasion of privacy by governments seeking to halt the spread of the virus through mobile phone surveillance. A new live index from digital rights group Top10VPN is documenting which countries have introduced measures to track mobile phones and they include China, South Korea, Iran, Israel, Singapore, Austria, Germany, Belgium and Italy. Both the US and the UK will take similar steps.

"I predict that we'll restore the ability to socialise safely by developing more sophisticated ways to identify who is a disease risk and who isn't and discriminating – legally – against those who are," says Gideon Lichfield, editor-in-chief of the *Technology Review* at the Massachusetts Institute of Technology. ■

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

Photo: Shutterstock

THE CARNAGE OF CORONA

As South Africa enters a three-week lockdown to curb the spread of Covid-19, government and the private sector are braced for the crippling consequences it will have on our already weak economy. But the measures being put in place can only do so much.

By Mariam Isa

Job losses could amount to 500 000, with small- and medium-sized companies hardest hit.

South Africa's economy will contract severely this year as the impact of drastic global measures to contain the spread of Covid-19 tips the entire world into a recession and raises the risk of a depression, which is a severe economic downturn that lasts for several years.

The decision to put the entire country into a three-week lockdown from 26 March was taken to prevent a humanitarian disaster well beyond the scope of SA's health sector, which is ill-equipped to cope if the disease spreads into poor, densely populated areas where people are the most vulnerable.

Lockdowns had already been imposed in all of SA's main trade partners – the US, Europe, and the UK – following China's success in containing the pandemic with restrictions that other countries initially viewed as too draconian in Wuhan province, the epicentre of the outbreak.

India shut down its economy the day after President Cyril Ramaphosa's announcement, taking the number of countries in lockdowns to 20.

What this means is that the engines of most of the countries that drive the global economy have ground to a halt, and governments have resorted to costly measures to keep their economies afloat. SA was forced into the same predicament, and with an economy already in recession and limited fiscal resources, the impact will be severe.

"The timing of this is very unfortunate," said Sipho Pityana, the chair of Business Unity SA and miner AngloGold Ashanti. "The mitigation steps we have agreed with government are the best we can do under the circumstances – they are just about softening the blow.

"My view is that we don't have a full handle yet of the real impact and the real consequences of this virus on the economy," he added. "There is no doubt that there are going to be some business failures, there are going to be jobs shed, and the recovery process is going to be much tougher than many of us are ready to accept."

A growing number of analysts predict that SA's economy will contract by up to 5% this year, far more sharply than it did during the global financial crisis more than a decade ago. Its budget deficit will explode as tax revenues fall well short of expectations and the government steps up borrowing to alleviate the impact of the crisis and to cover rising debt costs.

Sipho Pityana
Chair of Business Unity SA and AngloGold Ashanti

James Bullard
President of the Federal Reserve for St. Louis

A growing number of analysts predict that SA's economy will contract by up to 5% this year, far more sharply than it did during the global financial crisis more than a decade ago.

The outcome will be even more severe if the lockdown has to be extended or imposed again, which is likely given the behaviour of the virus so far. China's lockdown was imposed in late January and its restrictions will only be completely lifted in early April.

"This year is going to be carnage," said Intellidex economist Peter Attard Montalto. "With the three-week lockdown we think there'll be a contraction of between 5% and 6%." His forecast for SA is one of the most pessimistic, but Standard Bank predicts that economic output will drop by 5%, while UK-based Capital Economics forecasts a contraction of 4%.

Given the anticipated plunge in revenues, SA's budget deficit is now likely to swell to more than 10% of GDP, from a February Budget estimate of 6.8%, several analysts believe. The debt-to-GDP ratio is likely to soar well above 70%, from an official forecast of 65.6%.

Job losses could amount to 500 000, with small- and medium-sized companies hardest hit.

But the rest of the world is in the same position. Goldman Sachs chief economist Jan Hatzius said on 20 March that the global economy was not just experiencing a recession, but a sudden stop without precedent in post-war history.

He warned that US GDP would plummet by an unprecedented 24% in the second quarter of this year, in spite of a $2tr stimulus package from the government and the Federal Reserve's decision to slash interest rates to nearly zero.

James Bullard, president of the Federal Reserve for St. Louis, sees a contraction of a similar magnitude and predicted on 22 March that the US jobless rate could leap to 30%, from 3.5% in February.

The problem is that the crisis is unfolding so rapidly that forecasts are being revised every day, S&P pointed out in a research note on 24 March. The Institute for International Finance slashed its estimates three times in March, and now predicts the global economy will shrink by 1.5% this year.

Kristalina Georgieva, managing director of the International Monetary Fund (IMF), said on 20 March that the economic hit from the Covid-19 pandemic would be worse than during the global financial crisis. "The economic impact will be severe, but the faster the virus stops, the quicker and

Photos: Shutterstock | Gallo/Getty Images

The SARB announced it would start buying government bonds across a range of maturities, a monetary policy known as quantitative easing.

stronger the recovery will be," she said.

The IMF has said it is working closely with other international financial institutions to provide a strong coordinated response and is ready to deploy all of its $1tr lending capacity. World Bank Group president David Malpass said on 23 March that the lender was ready to spend $150bn in resources over the next 15 months to help developing countries fight and recover from the pandemic.

He also called on creditors from the G20 group of developed nations to allow the poorest countries to suspend all payments on bilateral debt while they battle the crisis. Emerging economies have been particularly hard hit by huge outflows from their debt and equity markets, and the theory that they are facing a "sudden stop" in capital inflows has begun to gain traction.

SA is no exception – the exodus of capital (outflows) has knocked the rand to record lows, taking its depreciation this year to about 20%. Plunging oil prices and declining economic activity mean this is unlikely to ignite inflation, giving the SA Reserve Bank (SARB) ample room to cut interest rates further after slashing its key repo rate by a full percentage point to 5.25% on 19 March.

The bank also stepped in on 24 March to avert a potential funding crisis for National Treasury after a sharp sell-off in government bonds pushed yields up by more than 300 basis points, dramatically increasing the government's cost of borrowing.

It announced that it would start buying government bonds across a range of maturities, a monetary policy known as quantitative easing, which has been used by central banks in developed markets to inject money directly into the economy.

In SA's case the step was aimed at injecting liquidity into the market, and generating the demand required for more bond issuance to cover the country's rising budget deficit.

Bond yields fell dramatically in response to the bank's carefully worded statement, giving up most of the increases seen in the previous two weeks.

"They acted boldly and quickly – it was a big step but it offered welcome relief," said ETM Analytics managing director George Glynos.

"Treasury needed all the help it could get to create sufficient demand to issue much higher quantities of bonds into the market. Short of that, it would have had a funding crisis – and the way we were trading in the days around 24 March, we were heading for a default," he added.

David Malpass
President of the World Bank Group

George Glynos
Managing director of ETM Analytics

These steps are similar to those taken by the US Fed, which announced on 23 March it would buy an unlimited amount of government debt, securities tied to commercial and residential real estate, and launch facilities to buy both corporate bonds and securities backed by student, car and credit card loans.

Analysts say Treasury could still resort to other measures to help cover the budget deficit, including the introduction of prescribed assets requiring pension funds and other institutional investors to buy more government bonds.

Before the crisis, such a step would have been seen as market-unfriendly, but at this stage it would be acceptable, said Glynos.

"I think we're in the beginning stages of assessing what can be done," said BNP Paribas economist Jeffrey Schultz. "Undoubtedly there are going to have to be additional measures, particularly if the virus spreads at a faster pace and there is a more protracted shutdown in the economy."

Attard Montalto believes that further three-week lockdowns are possible this year and his modelling suggests that there is likely to be some permanent loss of output in the economy, amounting to R250bn.

This does not seem far-fetched, given the extent of business closures which are anticipated. "We are not even looking at what recovery looks like, we are looking at what interventions we need to put in place to reduce as much as possible the severity of the impact," Pityana said.

"The approach we are taking is that big companies must try to minimise job losses to absorb as much of the impact as possible. On a sustained basis over the next 90 days, we could see a serious decimation of small business and the accompanying impact on jobs," he said.

The government has unveiled a package of measures to ease the pressure on small- and medium-sized enterprises, help companies to retain staff and to support the people who will be most vulnerable to losing their income. Money is also being directed to the tourism and hospitality industries, which will be hardest hit by a period of complete shutdown. ■

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

By Jaco Visser

A guide to government's support for SMMEs

The government introduced a number of measures to mitigate the effect of the national lockdown on small businesses.

In a bid to contain the economic and employment fallout of the government's 21-day lockdown of South Africa, President Cyril Ramaphosa offered several interventions to try to cushion the blow, especially for small businesses.

After announcing the lockdown on 23 March, Ramaphosa said the government had set up a solidarity fund to support measures to fight the pandemic and support small businesses. Johann Rupert and Nicky Oppenheimer had both donated R1bn apiece to support all small businesses in SA.

"Small businesses were reassured to hear that they are receiving special attention in discussions about protecting our economy," Bernard Swanepoel, director of the Small Business Institute (SBI), said in a statement. "Since 98.5% of all firms in SA are small or medium, we face an unprecedented emergency with their very livelihoods, and those of all they employ, on the line. But the devil – or saving grace – will be in the detail."

Banks' payment holidays

Even before Ramaphosa's announcement, Standard Bank SA's chief executive, Lungisa Fuzile, had extended debt relief to small business customers. The bank, Africa's largest lender by assets, granted a blanket debt repayment holiday to business customers with an annual turnover of less than R20m between April and June this year. Those receiving the holiday will, however, need to be in good standing with the bank and have all their loan repayments up to date, the bank told customers.

Nedbank chose an individual approach to supporting customers. "This support could include deferring payments (or part thereof) for a suitable period, extending existing loan periods or extending additional credit to manage short-term cash flow shortfalls," it said in a statement.

Absa also chose an individual approach, saying: "While it is too soon to speculate about the impact on defaults, we are looking at various possible scenarios and related actions that may become necessary should customers find themselves in financial difficulty. We would like to heighten our call to our customers to approach us directly in the event of any form of uncertainty, including financial distress, during these unprecedented times."

Temporary employee relief scheme

Ramaphosa introduced a temporary employee relief scheme which will see a money transfer to businesses that are financially distressed for them to pay their employees. No details as to the funding and processes had been given by the time of going to print.

Tax subsidy

Businesses employing about 4m people earning less than R6 500 a month under the government's youth employment scheme, the Employment Tax Incentive, will receive R500 in tax subsidies for the next four months, according to Ramaphosa. This amounts to R8bn in tax relief to corporates.

In addition, Sars will increase the reimbursement frequency of this incentive from twice a year to monthly, the president said. This will be an attempt to boost liquidity in companies.

PAYE deferment

Those businesses whose tax affairs are in order, and have an annual turnover of less than R50m, will be allowed to defer 20% of their monthly Pay-As-You-Earn (PAYE) liabilities to Sars for the next four months, Ramaphosa said. They will also be able to delay a portion, which was not quantified, of their provisional income tax payments over the next six months, he said. This intervention is expected to assist over 75 000 small and medium enterprises, according to him.

> "Small businesses were reassured to hear that they are receiving special attention in discussions about protecting our economy."

Temporary reductions

The government is also looking at the possible reduction in businesses' contributions to the Unemployment Insurance Fund and the Skills Development Fund. Employers must contribute 1% of their total employee remuneration to the skills authorities and 1% to the UIF (bar certain deductions or exclusions from remuneration).

Department of small business development

In a bid to support the production or supply of healthcare products and those goods that may be required by South Africans "emanating from a shortage" due to the coronavirus pandemic, the department of small business development said it will make R500m in funding available. Funding will be disbursed as low-interest loans.

The SBI said in a statement that it noted this department's launch of an online portal for businesses to apply for government assistance, but it is unclear if the assistance is available to all businesses, regardless of race, gender, ownership and citizenship, or whether it will be targeted only to majority SA black-owned businesses.

Industrial Development Corporation

The government-owned Industrial Development Corporation (IDC) has allocated an additional R700m – to its already planned R3bn – in investments for its first quarter starting on 1 April. It will prioritise critical supplies to combat the pandemic, it said in a statement. This includes R500m for trade finance to import medical products, according to the IDC. It also, according to them, extends to, among others, working capital for companies supplying coal to Eskom and those that need funding to access offshore markets for seasonal agricultural products.

Department of tourism

The tourism department will provide R200m in relief to – mostly black-owned – corporates in the hospitality, accommodation and travel industries, it said in a statement. Requirements to access funds will include, among others, proof of corporate registration, annual turnover of less than R2.5m, valid tax clearance, proof of minimum wage compliance and proof that the relief is required due to the impact of the coronavirus pandemic. ■

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By Jaco Visser

WINNERS IN THE ROUT

As market volatility continues, certain local and global defensive stocks are starting to pose attractive valuations.

Asking investment managers which stocks may pose value as the coronavirus rips through world markets and forces economies around the globe to their knees, may sound premature. But specks of light are starting to emerge amid the darkness of one of the world's largest sell-offs in generations.

"There is a caveat," warns Stephán Engelbrecht, fund manager at Anchor Capital. "If this virus continues after Easter weekend, there will be a real impact through job losses, insolvencies and economic contraction."

The best outcome for the economy and markets in general is for the spread of the virus to be flattened out over a longer term – or, in other words, to slow the spread of contamination and avoid a large, once-off hit, he told *finweek.*

Amid this gloom, and global markets having lost trillions of dollars in investment value, there are a few stocks that may survive the slump a little less damaged than others.

"Cash is king in situations like these," Kathy Davey, fund manager at Ashburton Investments, told *finweek*. "We have gone more defensive."

Engelbrecht shares the sentiment that in testing times like these, those companies with the strongest balance sheets – or those with the most cash on hand – will be better equipped to weather the storm.

Global stocks

An example of a company with a healthy cash balance is Warren Buffett's Berkshire Hathaway. It sat on a cash pile – which includes investments in short-term US Treasury bills – of almost $128bn at the end of December, according to its annual report for 2019.

This places Berkshire in a prime position to buy large stakes in prime companies such as Microsoft, which it viewed as too dearly valued in the past, says Davey. Microsoft slid from a 52-week closing high of $188.70 on 10 February to $135.42 on 17 March – a decline of 28.2% in five weeks.

In a note to clients, Davey highlighted four international stocks that may navigate the turbulence better than others. And most of them are consumer defensive stocks.

The 135-year-old Johnson & Johnson "has grown to become the largest, most diversified healthcare giant globally with operations in virtually all countries in the world", she wrote.

Kathy Davey
Fund manager at Ashburton Investments

Pharmaceutical products contribute 51% to its revenue and 58% to its profit, medical devices comprise 32% of revenue and 32% of profit, and consumer healthcare (including sanitary products, which are in high demand during the crisis) delivers 17% of revenue and 10% of profit, according to Davey's calculations.

"Johnson & Johnson is ideally placed to benefit from medical demands of an ageing demographic as people tend to live longer," she wrote.

Davey told *finweek* that Reckitt Benckiser – the maker of Dettol and Nurofen; and Procter & Gamble – which produces Vicks, may also benefit as the coronavirus pandemic continues.

Where people are stuck in their homes, companies such as Netflix – the streaming television network – may benefit, says Engelbrecht.

He also mentions that online retailer Amazon stands to benefit as people steer clear of bricks-and-mortar shops and rather buy their goods online.

"This might be the event that forces people to join or adapt to the new (digital) economy," says Engelbrecht. "It might change the way in which enterprises do business." The demand for Amazon's products led to the company saying on 16 March that it plans to hire an additional 100 000 part- and full-time staff in the US.

Local stocks

Even in the local environment, those listed companies facing consumers directly and selling essential goods and services would probably be more resilient than others.

"Naspers* is well-positioned with its stake in Tencent," says Engelbrecht. "It is also noteworthy that activity on Tencent – including games – was tracked as a proxy in China to determine when productivity would start to increase after the coronavirus outbreak."

Clicks and Dis-Chem are two other stocks that may ride the wave less scathed than others. "They are in a good position given that their stock levels hold up," says Engelbrecht.

With regard to grocers such as Shoprite, Pick n Pay, Spar and Massmart, Engelbrecht says he's on the sidelines for now. "We don't know whether people who are stockpiling now are expediting their eventual purchases or whether these are additional to future purchases."

And the losers?

Not all companies are equal as the pandemic straddles the planet.

"We are very selective on which financial companies we have exposure to and have constructed our portfolio to be underweight financial companies in a low-growth and low-interest-rate environment," says Davey.

Interest rates have been lowered in the rest of the world in response to anticipated lower economic growth (see cover story on p.28). Locally, a lower interest rate environment will shrink the banks' margins as the monetary policy committee pulls out the stops to kickstart the economy – on 19 March the monetary policy committee cut interest rates by 100 basis points.

In addition, Engelbrecht says that those companies that rely on foot traffic will likely suffer the most. "Those companies selling durable products such as televisions, and car dealerships will likely be impacted," he says. He mentions that at the height of the coronavirus outbreak in China, there was one week in which almost not a single car was sold. ■

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Photo: Supplied

By Jaco Visser

A COSTLY ANOMALY IN TROUBLED MARKETS

With the large losses experienced by traditional fund managers over the past couple of weeks, the question is whether a regulatory oddity contributed to investors losing billions of rand.

Hedge funds have historically weathered storms – such as the current coronavirus-induced one ripping through the sails of financial markets across the planet – better than traditional unit trusts.

An anomaly in South Africa's financial regulatory system, however, is hampering traditional unit trusts from protecting their positions against serious losses amid downswings in asset prices through buying into hedge funds.

What makes the situation ever more odd, is that retirement funds are allowed to invest into hedge funds – up to a maximum of 5% in a single fund or a maximum aggregate allocation of 10% into the asset class – and retail investors can put their money into these funds directly. This doesn't make sense.

"A traditional, long-only unit trust is not allowed to invest in a hedge fund," says Jean Pierre Verster, founder and hedge fund manager at Protea Capital Management. This doesn't make sense because the general public can invest in a hedge fund directly, but a unit trust fund managed by a professional fund manager – which invests in multiple asset classes – is not allowed to allocate to a hedge fund, he explains.

"Especially in markets like these it is not good to exclude hedge funds," says Jacques Conradie, hedge fund manager at Peregrine Capital, who terms the regulatory anomaly a "headwind".

It's a big mistake to keep unit trusts away from hedge funds as it limits those funds' diversification of asset classes, reduction of risk and their performance, he says.

Jean Pierre Verster
Founder and hedge fund manager at Protea Capital Management

The newest of them all

This regulatory anomaly goes hand in hand with the relatively recent changes that this industry experienced.

Five years ago, rules pertaining to the financial markets industry were changed to allow for hedge funds to be regulated in the same way as collective investment schemes – traditionally known as unit trust funds.

"There is a very strong and robust regulatory environment pertaining to hedge funds," says Verster.

These include the administration of hedge funds by third-party administrators, the setting of risk limits, and enhanced transparency. In addition, the Association for Savings and Investment SA (Asisa) last year published formal classification guidelines so that investors can compare different hedge funds on a like-for-like basis (see sidebar on p.34). Risk limits were also set for different types of hedge funds.

Even before the 2015 changes, which saw hedge funds being regulated in the same vein as collective investment schemes, hedge fund managers were regulated by the then Financial Services Board since 2007, explains Steven Liptz, co-founder of 36ONE Asset Management.

"Regulation in SA has been happening for a while," he says.

Where are the inflows?

Over the past two years, hedge funds have seen a net outflow of money. This situation isn't likely to change as global equity markets take a beating from panicked investors.

"I don't think that many investors anywhere in the world will be investing," says Liptz. In the current environment, with the coronavirus, Liptz sees very little net inflows. "But we are not seeing substantial inflows into hedge funds. It is not yet an environment for investing," says Liptz.

People sit on the sidelines and wait for better opportunities, for the market to get better and feel confident, he says. "They don't like uncertainty. Bear markets are always full of uncertainty. When you have a bear market together with a disease like coronavirus, uncertainty is heightened and there will likely be little investment into global equity markets for the foreseeable future."

Hedge funds' attractiveness

One of the main attractions to hedge funds – as the name entails – is that it aims to preserve capital for investors. This is done through investment strategies of which short selling is one of the best-known. Typically, a long-short equity fund will buy shares in a company (go long) the manager has analysed and deems to have the ability to appreciate over time. At the same time, the manager will short those stocks that he or she forecasts will experience a large drop in price (see sidebar for explanation). The hedge fund regulations prohibit so-called naked short selling in SA.

"Why wouldn't they invest in hedge funds?" asks Liptz. "The first advantage is that the hedge fund provides equity-like returns after fees, but with lower risk. A very important thing in wealth creation, which is ultimately what investors are trying to do. If you're building wealth, the key to that is solid, consistent returns and capital preservation. That is what the top hedge funds can do and have done

Photos: www.proteacapitalmanagement.com

– consistent returns with lower risk."

They can do that because of the tools at their disposal, which is the second reason for investing in hedge funds. They have more tools to protect capital than a unit trust, says Liptz. "That's what we've done: This past month we're virtually not down in our hedge fund and with unit trusts it's impossible not to be down substantially."

He refers to the longstanding debate on active and passive portfolio management and how hedge fund managers (who fall in the active management category) navigate troubled markets. "People have said for years: 'Look what I'm getting in passive.' That's all good until markets crash. And markets crash and there are no protections in those funds. They get decimated."

Furthermore, across the world the greatest minds with the greatest skillsets are with hedge funds, says Liptz. "In America, which we follow, you had the best long-only managers, in general, becoming hedge fund managers. You have exceptional-quality managers managing the hedge funds."

Another benefit of hedge funds is that they are usually run by fund managers that are small and nimble enough to navigate SA's relatively concentrated and illiquid market, says Liptz. He explains that it's very important for a fund manager to build a position in a certain company's shares at the right price.

"In times of strong bull and bear markets, you want to buy at the correct price," he says. It could take large players – for whom a position could mean billions of rand – months to get their desired position as the purchase of a lot of shares may put upward pressure on the purchase price, distorting it away from what the fund manager views to be the correct price. The inverse is also true when the cutting of a position – and subsequent selling of a company's shares – may put downward pressure on the stock away from the correct selling price. "Being small gives the fund manager the ability to do what you want to do at the right price," says Liptz.

Finally, Liptz sees the fact that many smaller hedge funds are privately-owned and owner-managed as positive for clients.

The lack of outside shareholders gives the fund manager the focus on clients that they deserve, he says. ■

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Short selling

Short selling is the practice where an investor borrows shares from a shareholder with the promise to return them at a future date. After borrowing the shares, the investor immediately sells them on and banks the proceeds. The shareholder who loaned out the shares gets paid a cash interest rate for the duration of the share loan. The investor then waits out the market in the hope that the share's price will drop. If it happens, the investor buys the shares, which are now cheaper, and returns them to the shareholder. The difference in price, minus the cash interest paid, is the investor's profit.

Naked short selling is the selling of a security without being in possession of the security or ensuring that it can be borrowed, according to a definition by the Financial Services Conduct Authority. ■

4 Classification of hedge funds

The Association of Savings and Investment SA (Asisa) introduced a set of classifications for hedge funds in September last year, aiming to make the classification of hedge funds as comprehensible as those of traditional collective investment schemes, or unit trusts.

To this end, the association used the following classification of hedge funds:

Tier 1

Retail hedge funds:
Any investor may invest in this fund.

Qualified investor hedge funds:
Only those investors who can invest R1m or more in a fund, and they themselves or their financial service providers have demonstrable knowledge of "financial and business matters".

Tier 2

South African portfolios:
At least 60% of assets invested in SA.

Worldwide portfolios:
No investment limits are set, and assets can be held in SA and/or the rest of the world.

Global portfolios:
At least 80% of assets are held outside of SA with no limits on regional exposure.

Regional portfolios:
Invests assets in a specific country (for example the UK) or region (for example East Asia).

Tier 3

Long-short equity hedge funds:
Most of their returns are generated from (long or short) positions in the equity market.

Fixed-income hedge funds:
Generate their returns from interest rate sensitivities, thus invest in assets whose "characteristics" are determined by the interest rate market.

Multi-strategy hedge funds:
No single asset class dominates the funds' strategies and these funds consist of a blend of strategies and assets.

Other hedge funds:
Those funds that don't fit into the other three strategy descriptions.

Tier 4

(This tier is only applicable to long-short equity hedge funds.)

Long-bias equity hedge funds:
Portfolios with a net exposure to equities of more than 25% over time.

Market-neutral hedge funds:
Portfolios that have had or expect to have very little "directional exposure" to the equity market; on average over time the net equity exposure should be less than 25% but greater than -25% of the total assets.

Other equity hedge funds:
Portfolios that follow a very specific strategy within the equity market, such as listed property or sector-specific strategies. ■

SOURCE: Association of Savings and Investment SA

18+

WHAT IS

AVAXHOME?

AVAXHOME -

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

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
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Mark Cutifani
CEO of Anglo American

RISING FROM THE ASHES

Why Anglo American is ready to tackle a changing investment climate.

By David McKay

This April, straight-talking Aussie Mark Cutifani will have been at the helm of Anglo American for seven years, a year longer than at AngloGold Ashanti, which he joined in 2007, and outlasting the 'generation' of CEOs who in 2013 joined but have since left Anglo's most commonly-cited competitors – BHP and Rio Tinto.

Cutifani may even see off Ivan Glasenberg, provided the Glencore boss backs up recent hints that 2020 will be his last year in charge at the Swiss minerals trading and mining firm.

"I'm young and feeling energetic," says Cutifani when asked by *finweek* if retirement had crossed his mind lately. "I have a good relationship with the board. We continue to think about the future, but there are no plans for me to go in the immediate term."

Cutifani's longevity is a remarkable achievement for a CEO at a major mining company, especially one that's been on Anglo's kind of rollercoaster. The company's shares slumped to R55 apiece in 2016 as commodity prices bottomed out, following a decade of unsaddled, head-over-heels supply growth that burdened balance sheets and earned the world's mining sector a reputation for wasteful capital spending.

Until the coronavirus (Covid-19) crisis struck, however, Anglo's stock was at R415 a share, challenging its latest five-year high achieved in January.

Analysts like the fact Anglo has delivered on its promises. Despite an 18-month stutter during 2015-2016 in which Cutifani toyed with the sale of the firm's South African iron ore- and thermal coal-producing companies – Kumba Iron Ore and Anglo Coal – before changing his mind, the company has done what it said it would.

Return on capital employed (ROCE), a metric favoured by Cutifani because it shows what shareholders are getting for their money, was 19% in the group's most recent financial year. This is better than the 15% ROCE Cutifani promised in 2013 which, at the time, seemed like a stretch target of note.

"Anglo remains one of our top picks on valuation, growth and medium-term re-rating potential," said Deutsche Bank analysts Liam Fitzpatrick, Bastian Synagowitz and Nick Snowdon in a report authored on 20 February, just as the coronavirus was extending its tentacles into the European mainland.

"Despite delivering a substantial improvement over the past three years, market-implied returns are conservative and we believe Anglo has the most compelling and undervalued growth profile from the majors," it said, anticipating a 30% uplift in structural earnings before interest, tax, depreciation and amortisation (ebitda) by 2022-2023.

In an interview with Miningmx last year, Cutifani acknowledged that had he not acted, Anglo would barely have seen out its 100-year anniversary in 2017. Yet, having survived the 2011 to 2015 turndown in the commodity market, the challenge was to take Anglo from survival to prosperity, and after that, establishing, if it could, industry-defining pre-eminence.

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in the group's most recent financial year. This is better than the 15% ROCE Cutifani promised in 2013 which, at the time, seemed like a stretch target of note.

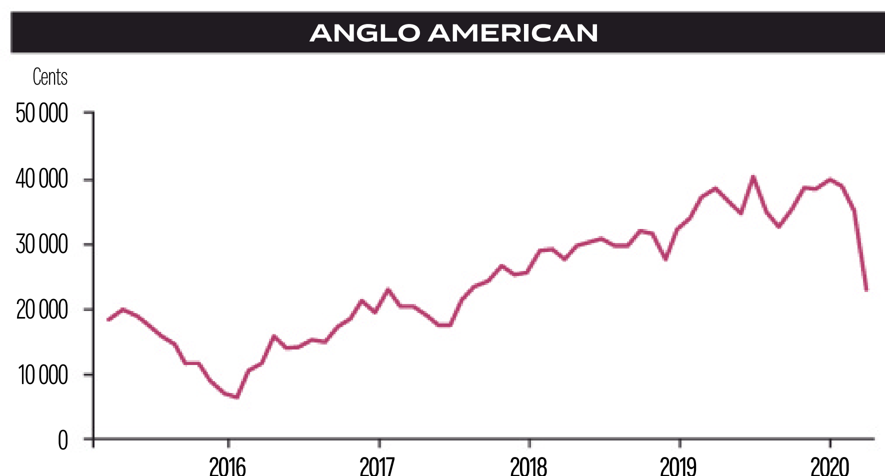
"We came to the end of the first phase in 2018 and we redefined our ambition; we reset our drive towards quality," he told *finweek* in a recent interview. "In this second phase, in terms of what I want to do as a leader: I hope to have made significant ground on Quellaveco and have improved group margins. That will give the next person [his successor] a running start."

Quellaveco, a $5bn to $5.3bn copper project in Peru, has a kind of totemic relevance for Anglo American. Firstly, it's a large, high-quality copper resource, and those are becoming increasingly rare globally. Secondly, however, it has a scale that is exactly the kind of asset Anglo in its pomp used to develop. As such, the project looks back as much as it looks forward: a cultural affirmation for Anglo as well as a signpost of future direction.

Bank of America Merrill Lynch analysts Jason Fairclough and Patrick Mann think Quellaveco is Anglo's best ticket to future earnings. It also helps overcome a common problem for the largest mining houses, which is finding ventures that are large enough to make a difference to the bottom line.

"We've written extensively about the difficulties of growing a big miner," the analysts said. "A key challenge for big miners is deploying enough organic capital, fast enough, to make an appreciable difference to production volumes. On this front, Anglo's relative smallness means that, for example, a $5bn copper project does make a difference."

Not all projects have worked out well, especially in Anglo's recent past. The Minas Rio iron ore mine in Brazil cost the group hundreds of millions of dollars in write-downs. It was bought at the top of the previous commodity cycle and headed a pipeline of other growth-oriented enterprises that was so clogged and disordered Cutifani described it as "constipated".



52-week range:	R204.13 - R426.65
Price/earnings ratio:	5.15
1-year total return:	-27.44%
Market capitalisation:	R317.87bn
Earnings per share:	R2.81
Dividend yield:	6.75%
Average volume over 30 days:	3 377 057

SOURCE: IRESS

Smart for the future

How then, was Anglo able to get from an over-burdened, capital-inefficient behemoth on the verge of extinction to the favoured mining stock it is today? The answer is quite simply (not merely) attracting the right people able to fit into a strategy Anglo dubs 'FutureSmart'. The name does smack of a highly-paid consultant on too much coffee, but the idea behind it is ingenious. Visit any good mine and you tend to see just how cleverly integrated the process is. FutureSmart is that, but on speed. And realising it, it must have people at the heart of it.

Cutifani has a way with people. At AngloGold Ashanti, he did away with reserved parking for senior management. Managers do this kind of thing all the time now, but its impact can't be underestimated in 2007; that's how far SA's corporate culture has changed in 13 brief years.

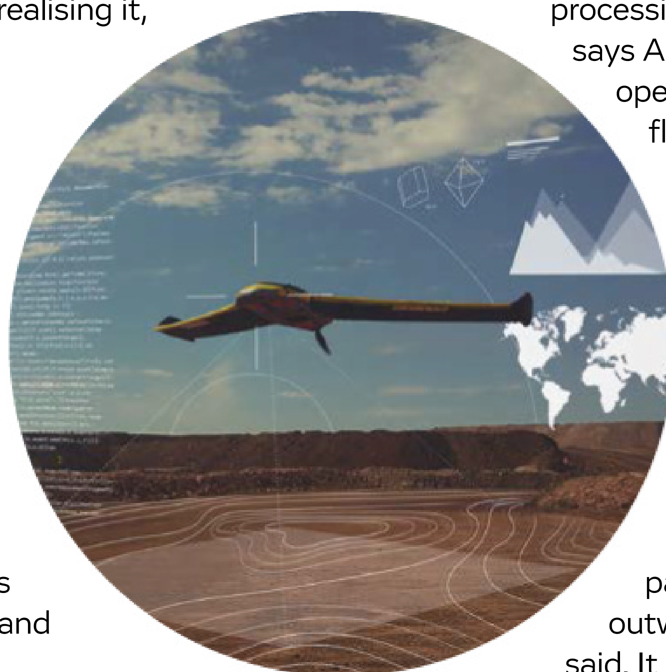
He's also a dab hand at handling the media. He told an SA Chamber of Mines (now Minerals Council) annual general meeting once, when he was its president, that the industry got the press it deserved. Handle the media correctly, and you might get better coverage.

No respectable journalist will agree to that kind of mollycoddling, but the point is Cutifani has a winning type of personality. In Johannesburg, he waxed lyrical about the city's polyglot vibrancy rather than its crime risk; now in Anglo's London HQ, he quips about the fortunes of his adopted football team – Chelsea – and lightly mocks Watford FC, the team adopted by compatriot and chief financial officer, Stephen Pearce. UK analysts probably find the sporting banter passé, but it makes Cutifani's presentations an event for the mind and heart.

And it was the issue of people that he considered a key risk when first joining Anglo; or to put it more clinically, the lack of people with the right skills. What followed was a 250-person-strong rehiring strategy filling key technical positions that had steadily exited the group under previous management. The re-skilling process was led by Cutifani's long-time collaborator and ally (and his best man), Tony O'Neill, who is also Anglo's technical director.

In addition to know-how, Cutifani and his board set about installing the right methodology, hence the development of its FutureSmart strategy.

To hopelessly simplify, what's going on in FutureSmart Mining is to change operating practices in such a way that there's real cost improvement, about $1bn has been conservatively pencilled in for the 2022 financial year. The next element of the strategy is innovation, or to "change the way the molecules flow through the process", as Cutifani describes it. The third part is project and de-bottlenecking implementation. It's like a complete retooling of the organisation.



Drone technology is an expanding part of Anglo American's FutureSmart Mining™ programme, which aims to keep them at the forefront of mining innovation.

For instance, FutureSmart works on reducing energy and water consumption and improving capital intensity. There's also more focus on optimising processing and orebodies than automation. Cutifani says Anglo likes to keep its intellectual property open, but bespoke technology in coarse particle flotation and novel leaching technologies are playing their part. A new take on bulk sorting is also being piloted at El Soldado, a copper mine in Chile, which could be implemented in the platinum assets if successful, according to Myles Allsop, a UBS analyst.

"In our opinion, Anglo is a technology leader in mining, and this positions it well medium term," said Allsop in a report last year. "However, we expect the market to be sceptical with the financial targets as in the past these are often lost to cost inflation or outweighed by moves in commodity prices," he said. It could take competitors three to four years to catch up, he added.

In order to make the strategy stick, O'Neill chairs an operating committee every two months.

"Every one of the people that runs a business looks at every chart and all the big gear and the productivities ... So, it's sharing: De Beers sharing its good and bad with copper [division] and Kumba [Iron Ore, the JSE-listed iron ore company] and sharing the global information and helping each other ratchet up performance," says Cutifani.

Environmental sustainability

One of the other reasons to mark out April in Anglo American's calendar, other than to register its CEO's work anniversary, is that it's the month in which its much-anticipated sustainability report is issued – one of society's and the mining sector's pressing issues, until the advance of the coronavirus.

It hasn't perhaps been a report to raise headlines in the past, but this year all eyes will be trained on Cutifani's response in making swifter changes to the group's net zero carbon plans. Cutifani isn't convinced by some long-range commitments undertaken by his resources peer group.

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

"We are working through Scope 3 and we know this is very complex," says Cutifani. This is the new layer of corporate responsibility that asks mining companies to monitor and control emissions by its customers. Scope 1 and Scope 2 measures have focused on mine emissions and those of suppliers.

"We won't throw a date or target until we understand the consequences or the unintended consequences," says Cutifani. "There are too many companies throwing targets out there that don't seem to understand them or aren't that serious about meeting them."

Quite apart from the environmental responsibility companies such as Anglo has towards society, there's also the question of how Anglo intends to deal with its extant SA thermal coal mines. It sold its domestic and Eskom mines in 2018 to Seriti Resources for about R3bn, including the New Largo coal project that will eventually supply Eskom's Kusile power station.

Selling the export mines, however, seems more of a challenge. Cutifani is talking about "a just transition" insofar as protecting jobs and transferring assets to a buyer that will manage the mines responsibly.

There's also the question of getting value. Prospective buyers are likely new entrants or smaller players with limited budgets who may not have the opportunity to publicly list the assets given the way investment markets shun big carbon-emitters.

This, in turn, raises the question of whether the 'balance sheet' is leaving the SA thermal coal sector at a time when Eskom needs fresh investment in the fuel to safeguard the country's electricity supply. Bear in mind that other companies with suitably large balance sheets such as Glencore and South32 are exiting the thermal coal market in SA over the short to long term.

Says Cutifani: "The investment proposition won't disappear [for thermal coal], but it will certainly change. I think there'll always be thermal coal production from SA especially when you look at India and China which need to buy it for power generation. There's also the need for poverty alleviation: that is the biggest issue for Africa, not climate control.

"Anglo streamlined itself many times before," he says of selling the thermal coal mines. And it continues to do so. The £400m cash purchase of Sirius Minerals, a UK business developing a mine aiming to produce specialist fertiliser, is a clear example that Cutifani isn't entirely satisfied with the commodity mix of the company.

THE CORONAVIRUS CONUNDRUM

It seems hard to absorb what only four weeks ago looked like a passing phenomenon is now threatening to derail whole economies and put the world into recession. Thus, the coronavirus makes most Western societies nostalgic for the careless, halcyon airs of February.

For Anglo American, a society in lockdown is a consumer base not buying luxury goods in either platinum or diamond jewellery. It's a hammer blow for De Beers, the 85%-owned Anglo miner and marketer which has just come off a 50% decline in 2019 of $558m.

UK bank Barclays, however, offers words of hope. It says China has convincingly "beaten" the virus while its economy is recovering – a process that will be boosted by a stimulus package and aided by the low oil price.

China represents 70% of global seaborne iron ore demand and up to 55% of demand for copper, aluminium, nickel and zinc. A China in recovery is a crucial underpin to commodity price recovery. It's also a net importer of oil, having only 15% of the world market's supply. That's also good news.

"We expect an extended, relatively slow pace of recovery, particularly given ongoing travel restrictions, but the trend is positive," said Barclays in its note. ■

The way he describes it, Woodside, the polyhalite product Sirius is developing, can benefit from the technical skills Anglo has at its centre, and certainly from its balance sheet (the Sirius chairman said in January the company was facing bankruptcy). But it's also an asset that has potential.

Speaking to *finweek* in February, Cutifani said his group's new investment approach was to make decisions around the asset first, rather than have a view that these are the commodities to which it's stuck hard and fast. Time will tell with Sirius: Polyhalite fertilisers are relatively untested in the market and there's a range of competitors developing potash and phosphates that could fill the market demand as well, or better.

One consequence of having added Sirius Minerals to the mix is that the special dividend paid this year is unlikely to be repeated, even in the absence of the coronavirus. Cutifani, however, says the acquisition of Sirius Minerals doesn't represent a new period of growth for Anglo.

"In previous periods, all our resources were committed to a single project. That's not a mistake we will make again," he said in clear reference to Minas Rio in Brazil. "Now, we prefer incremental capital projects across a number of platforms."

Pandemic

The world doesn't stop turning and Cutifani is facing a new raft of challenges. Until this year, it was climate change, and while those pressures continue to be age-defining, the proliferation of Covid-19 is a new, barely-understood problem for Cutifani, as it is for the rest of society.

Already it has hit hard where Anglo would least like it. At the time of writing, Anglo had embarked on the first day of a 15-day national quarantine by the Peruvian government which has seen construction on Quellaveco all but shut. Anglo's view is it was tracking ahead of the project's budget anyway, and that it thinks the closure as currently planned can be accommodated in its 2020 budget.

Anglo won't be drawn on where markets will land amid the coronavirus contagion, especially on how long society will be in lockdown. Officially, Anglo's preference is to focus instead on measures intended to protect employees. But with its exposure to consumers through diamond and platinum jewellery, it has obvious risks, like any other mining company (see box).

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

"The next CEO has to anticipate the world and where it's going in terms of climate change, the circular economy, material sciences and digitalisation."

Cutifani certainly wasn't alone in underestimating the coronavirus outbreak. "We think it's a more short-term issue," he said in February at the firm's annual results presentation. "We have a broader customer base than most of our competitors, so the virus is not as significant for us."

Then again: Less than a month ago, about 20 000 delegates gathered in downtown Toronto for the Prospectors & Developers Association Conference where handshaking was much in evidence. Few could have anticipated the impact of the virus.

For Cutifani, it's clear Quellaveco is a project he wants to see bedded down before thinking of moving on.

Potential heirs

Several potential successors to Cutifani have been identified: Bruce Cleaver is one, the CEO of De Beers, the diamond producer in which Anglo has an 85% stake. The other is Duncan Wanblad, head of Anglo's base metals division, which has direct control over Quellaveco. The recent resignation of Chris Griffith, CEO of Anglo American Platinum (Amplats), removes his name from the hat, albeit unfancied, according to some.

Bruce Cleaver
CEO of De Beers

Duncan Wanblad
Head of Anglo's base metals division

So, who will be the new 'mini-me'?

"I think the last thing is to have a clone of the last person," says Cutifani. "All organisations have to evolve in different ways and the board is prudent enough to choose a person with a strategic mindset but who might also be a bit different.

"In terms of background, I'm less worried about their certificate; it's their ability to connect resources, develop industrial processes, reach financial outcomes. The next CEO has to anticipate the world and where it's going in terms of climate change, the circular economy, material sciences and digitalisation. They have to be part of that, have that understanding and see that trajectory." ■

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>> **Management:** The tax implications of being independent *p.44*

ENTREPRENEUR

By Timothy Rangongo

Sustainability at the core of Mungo's business strategy

This homeware retail business shapes and upholds the standards of sustainable production in a non-industrial environment.

Throughout the world, textile manufacturing has become driven by the bottom line, most especially in South Africa. This means inferior yarn quality, less pay for workers and compromised working conditions have been the norm.

Mungo, an eco-friendly maker of high-quality cotton and linen homeware, has been defying the status quo and endeavouring to help shape and uphold the standards of sustainable production in a non-industrial environment.

Dax Holding, the managing director (MD) of Mungo, spoke to *finweek* about how the company goes about achieving ethical trading and having sustainability practices at the core of its business strategy.

How did you become the MD of Mungo?

My father started the business around 2000. You could say that my experience comes from working in the business over the years. I have been part of the working culture until I turned 20 and travelled to the UK, doing some odd jobs there. I was involved in the furniture making and restoration process of a business before moving back around 2011 to head up Mungo as MD.

It was a gradual process learning the business. I didn't return to SA with the intention of taking over Mungo. My father had built up this business over the years, but he was now in his mid-60s and didn't have the energy to deal with the day-to-day operations — he had become more interested in the design aspect of the business.

The Mungo Mill is located at Old Nick Village in Plettenberg Bay in the Western Cape.

What are some of the changes you helped introduce since assuming the role of MD?

We opened a retail store and put the whole range up in the store. Before then, all merchandise was sold wholesale, for example to Woolworths. When we consolidated the whole range into a Mungo retail outlet, we saw more potential of what we could create.

So, this is essentially a family business?

Yes, my father, sister and I are shareholders — the three of us are directors.

What have been some of the challenges of working in a family-owned business from a management perspective?

It is very difficult. You can't really manage your sister or your wife — and even if you did, there are some competitive elements, like taking over from your father. He has had a certain way of running the business and I have my own, most especially incorporating the fact that we are doing business in different times and environments. So, we have had to adopt my philosophy to run the business.

How many people does Mungo employ?

We have some sub-contractors but, overall, it is round about 85 employees.

Who are your direct competitors?

Fast-moving consumer goods (FMCG) retail and wholesale brands like @Home and Woolworths homeware. We are sort of in the middle between crafters and the business-to-business companies. The angle that we take in the business is that we are quality-driven, we are about visibility and transparency

Mungo towels

Mungo weaver

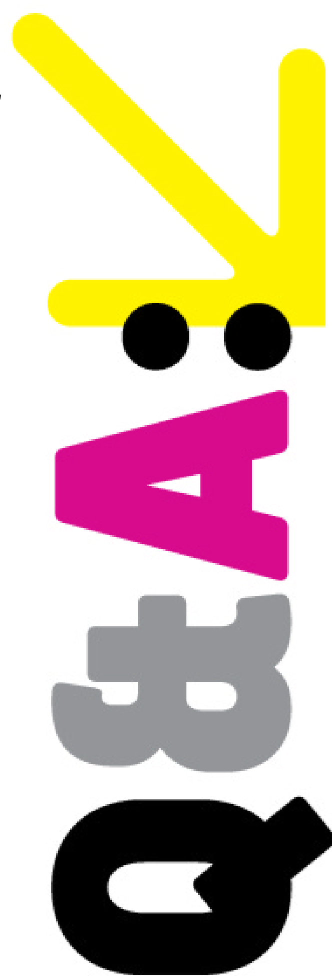
in our products and services.

Our brand allows patrons to come and look at the production process. Our customers feel good about purchasing something of which the origin is known. Although the FMCG homeware retail brands are our competitors in that we sell similar merchandise, our production processes are completely different.

They, for instance, use linen from China, which is a different quality to the linen that we use. As an example, the company that we buy our yarn from has been selling long, continuous lengths of interlocked fibres — suitable for use in the production of textiles, sewing, crocheting, knitting, weaving, embroidery – for over a hundred years and they have direct relationships with farmers in Normandy (France) and Belgium.

As a result of the relationships, they are always in constant communication with producers of the raw material we make use of, the farmers can make strategic decisions about, for example, the size of yarn to spin.

That relationship translates into a better-quality product, which we purchase in turn.



How are you optimistic amid falling business confidence due to the unfavourable current economic environment in SA?

It has not always been easy with the economy falling apart around us. We have always had to be flexible to make alternative plans. A few years ago, for instance, a supplier from which we used to purchase our linen closed and we were suddenly without linen, which could have been a disaster.

We ended up turning that into an opportunity to source even better-quality linen from elsewhere. It did cost us a lot of money, though. But, ultimately, we are not in this business to make money. We make decisions based on our values (of putting people, their visions and livelihoods at the heart of what we do and creating heirloom-quality woven goods).

If you put money first, you end up getting to a point where you take shortcuts in your production process and resort to low-quality output. We are, however, putting a lot more energy into exports, making money elsewhere as local economic conditions remain unimproved.

We have also diversified our revenue streams by, for example, selling to varied retailers, wholesale, hotels, small guest lodges, online (including an e-commerce site that we have in the US) and our own retail outlets (in Plettenberg Bay, Johannesburg and Cape Town). We are essentially selling to about six different areas. When retail sales are down, we sell more to a different area to hold us up.

Dax Holding
Managing director of Mungo

What have been some of the biggest challenges you have had to overcome in the business?

I'd say the family dynamics — in terms of working together. That would have to be the single biggest challenge.

There has also been a transitional phase, taking over from my father who had his own vision for the company. When I took over the reins, I ran with that vision and it became a project that I worked on.

Second to the relationships, when I came into the business, we [Mungo] were turning over about R3.5m and this year, that figure is more than ten times higher, which took a lot of pressure to achieve.

With such milestones achieved, constantly defining and refining the business vision is also a challenge, including translating that vision to employees, managers and other stakeholders in the company to become even more sustainable. It is a long process.

Right now, the challenge is operating in a slow economic growth environment with less cash flow. We have to tighten the belt and become clever with how we spend our money. However, the challenge has become a benefit in how we are streamlining the business to become more efficient.

What is the number one business lesson you have learnt so far?

I have learnt that it is important to find a balance between planning and implementation. You can sit, plan, be organised and work out the trajectory that you want to find the business on, but never get there. There is a middle road somewhere between planning and instinctively going for something.

What is the best business advice your father has shared with you since taking over from him?

Most of the business advice is anecdotal. The single most important piece of advice I have received from him is to stay independent in thoughts and actions – such as not doing business with people we do not like or do not share the same brand ethos as Mungo. And not being price-takers by being at the mercy of big corporates who tend to dictate prices. ■

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Photos: Supplied

By Amanda Visser

Paying the tax man in a changing employment landscape

Increasingly, people are foregoing the traditional route of being a permanent employee at a single company. But being 'independent' comes with complex tax implications.

More people are finding themselves outside the permanent labour force and are conducting their work removed from the traditional employer-employee relationship.

The employment landscape increasingly includes freelancers, independent contractors, personal service providers and part-timers, bringing with it a whole range of complex tax rules that can make life quite difficult if not applied correctly.

Essentially, employers should deduct employees' tax (PAYE) when remuneration is paid to employees. However, where a person trades 'independently', their earnings are not regarded as remuneration and should not be subject to PAYE.

Elle-Sarah Rossato, head of dispute resolution and tax controversy at PwC, says the concept of independent trade is complex and can easily be misunderstood.

"The basic principle is that in order to qualify as being independent, the person must be independent of both the person paying them and the person to whom the services are provided."

The employer is not absolved from the potential labour and tax laws that may be applicable simply because someone calls themselves an independent contractor, says Beatrie Gouws, head of stakeholder management and strategic development at the South African Institute of Tax Professionals.

When dealing with either an entity or a natural person in a non-permanent labour environment, the employer should apply the available tests to determine the exact status of the individual or entity to ensure the labour and tax obligations are clear, Gouws advises.

Negotiating this new landscape is made more complicated by the fact that the rules are not contained in one single section of the Income Tax Act, says Anthea Scholtz, tax director at Deloitte.

Personal service providers

The water has been muddied even more with the introduction of personal service provider (PSP) companies in the legislation. This was done to put a stop to a so-called popular tax-saving method.

Employees used to establish companies, closed corporations (no longer available under the Companies Act) or trusts and offer their services through this entity back to the employer. In this way they used the tax arbitrage opportunity to pay 28% tax as a company instead of anything between 30% and 45% as an employee. If an entity is regarded as a PSP it will be subjected to tax of 28% on its income and the deduction of business expenses is limited.

There is a carve-out in the legislation. When a company employs three or more people on a full-time basis, who are directly involved in the business activities and not connected to the company or the owner, it will not be classified as a PSP.

There are broad categories under which workers can be classified, namely unincorporated entities and incorporated entities.

Unincorporated entities

This is usually individuals who trade in their own name as sole traders. Unless the individual is classified as independent, they will be subject to employees' tax at a flat rate of 25%.

The premises test (that determines whether work is done mainly at the premises of the client) and the control or supervision test (the client determines how and when the work is done) generally determine independence. Both tests must be satisfied before one can state that the person is not independent.

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

Anthea Scholtz
Tax director at Deloitte

"The onus to make the correct classification is on the person who is making the payment. We have found in practice that employers err on the side of conservatism and many simply withhold employees' tax at 25%," says Scholtz.

Nicci Courtney-Clarke, financial manager and head of tax at TaxTim, says when employment tax has been deducted, it is mandatory to issue a tax certificate to the contractor. If it is disclosed under the basic salary code, the contractor or freelancer may not be able to claim normal business expenses.

Scholtz advises contractors to request in writing that all their clients voluntarily deduct employees' tax.

If all profits are distributed to shareholders, the effective tax rate can be as high as

44%.

Incorporated entities

The most common incorporated entity has been PSPs, but there has been a sharp decline since the change in the legislation.

The decision to incorporate as a company rests on business principles, but there are some tax considerations to keep in mind. Rossato says although the corporate tax rate is 28%, dividends paid by the company is subject to a 20% dividend withholding tax rate. If all profits are distributed to shareholders, the effective tax rate can be as high as 44%. ■

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Photos: Supplied

Pros and cons

▶ **SOLE PROPRIETOR**

As a sole trader you can claim all business expenses. However, when working from home there are some specific requirements that must be met when deducting expenses, warns TaxTim's Nicci Courtney-Clarke. This includes having a portion of the house set aside for the exclusive and regular use of the trading activities.

The structure of a sole proprietor is generally simple to set up and to administer and, depending on the earnings, there may be a lower tax burden, she says.

The downside is that the owner carries the full risk of failure and if they die, the business dies with them.

▶ **PRIVATE COMPANY**

The life of the business is perpetual, and shareholders only have limited liability. They are generally not responsible for the liabilities of the company. However, they are personally liable for certain taxes such as employees' tax, VAT or penalties when taxes have not been paid on time, Courtney-Clarke warns. Companies are more expensive to establish and operate, and the legal and administrative requirements are certainly more onerous.

Beatrie Gouws of the SA Institute of Tax Professionals says whether operating a business as an individual or through a company, the biggest pitfall is that individuals blur the line between private and business expenditure and income.

"They are buying inventory and groceries in one go, paying for the painting of the business and the private dwelling at the same time. Unless one can distinguish clearly, and keep that line firmly fixed, applying the tax rules to one's private and business finances becomes a nightmare."■

More nightmares

Wikus Swart, tax consultant at Unicus Tax, says tax should be as high a priority as making money.

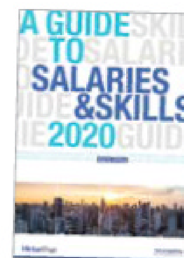
"Too often we see businesses neglect their tax obligations, mainly as a result of ignorance regarding the requirements. This adversely impacts the business."

Most independent contractors or freelancers are provisional taxpayers. This means compliance with strict timelines and getting the estimates for the second provisional payment right. Getting it wrong will result in penalties and interest.

VAT registration is compulsory when the R1m turnover threshold is exceeded. Claudia Gravenorst, senior tax manager at Deloitte, says it may be beneficial for companies and individuals who are acquiring goods and services from other VAT vendors in order to claim their input tax back.

"However, there is an onerous administrative burden of filing VAT returns, issuing invoices and ensuring claims are made in the correct VAT period."■

on the money quiz & crossword



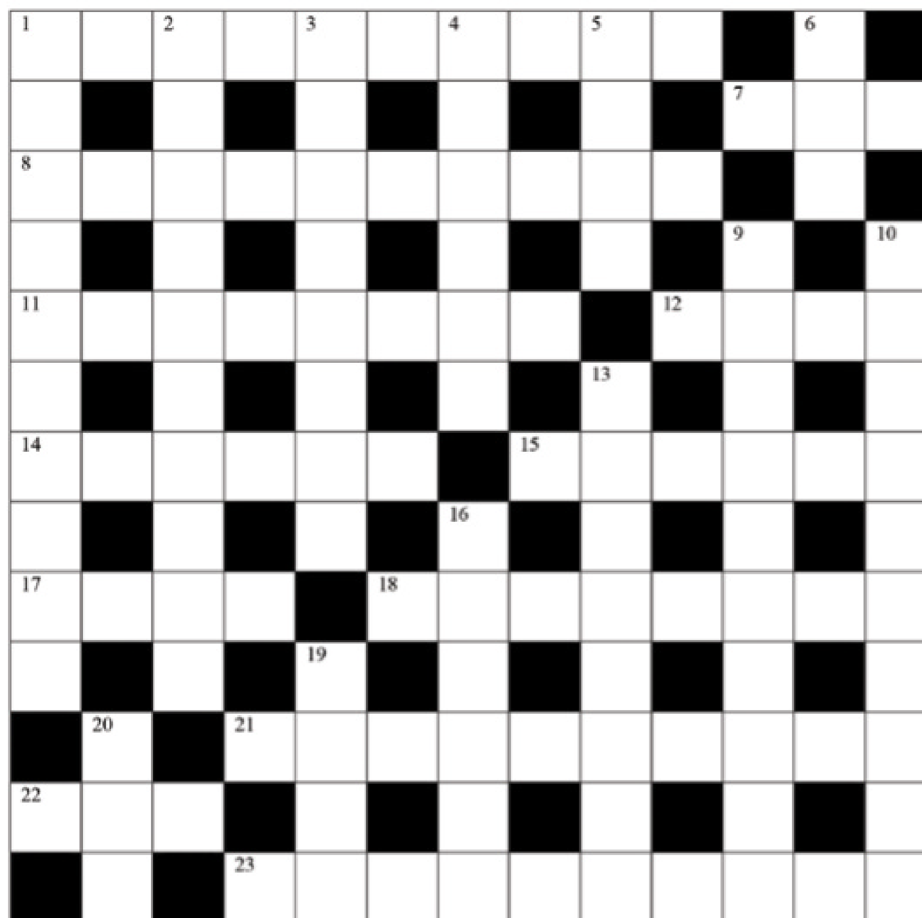
We are giving away a copy of *A Guide to Salaries & Skills 2020*. Enter by completing our latest quiz online via fin24.com/finweek from 30 March.

1. **True or false?** Pharmaceutical manufacturer Adcock Ingram reached a deal to buy Plush Professional Leather Care.
2. On 16 March, Ninety One began trading on the Johannesburg and London bourses. What was the newly-listed company previously known as?
3. In mid-March, the minister of sport, arts and culture criticised the organisers of the Comrades Marathon for not cancelling the event amid the coronavirus pandemic. The said minister is:
   - Fikile Mbalula
   - Dr Aaron Motsoaledi
   - Nathi Mthethwa
4. **True or false?** The South African Reserve Bank Act prohibits foreigners from owning shares in the central bank.
5. Name the CEO of Anglo American.
6. **True or false?** The Airports Company SA appointed Siphamandla Mthethwa as the new chief executive officer with effect from 1 May 2020.
7. SA food producer Libstar recently reported a 10.9% rise in normalised headline earnings for the year ended 31 December. Which of the following products is made by Libstar?
   - Lancewood cheese
   - Weet-Bix cereal
   - Marmite spread
8. **True or false?** Zimbabwe's government suspended the transfer of local dual-listed shares to foreign stock exchanges.
9. Rob Shuter announced that he is stepping down from his role as CEO of which company in March 2021?
10. **True or false?** SA is a net exporter of rice.

CRYPTIC CROSSWORD NO 751JD

ACROSS
1 Weird men wandering about the lake (10)
7 & 22 Cool it with presents (3,3)
8 Rosie Lee - dolly server? (3,7)
11 Happens again when army commander's sheltering the coward (8)
12 Nearly fifty per cent have no headlight (4)
14 Royal help for privateer (6)
15 Tea-party's over, no time to cry! (6)
17 Said advice coming from the accountant (4)
18 Shame I'm oddly busy working for European woman in India (8)
21 Mysteriously drop a pagan promotion (10)
22 See (7)
23 Courage and audacity needed in tight situation (10)

DOWN
1 Mac's strength of spirit well to the fore (10)
2 Applies to an Alpine Italian (10)
3 Audience discomfort caused by loud music? (8)
4 Look between the two roads for the respectful address (6)
5 Lamented tactless announcement (4)
6 & 20 For the amusement of an older lady? That's rich! (3,3)
9 Keep on time to arrive at saloon (4,6)
10 Unlikely to miss Cape Clear (5-5)
13 Military password for officer confined to quarters (8)
16 Domineering person sent sprawling (6)
19 Roll out revolutionary zeal (4)
20 See (6)



Solution to Crossword NO 750JD

ACROSS: 1 Tous-les-mois; 9 Ebb; 10 Establish; 11 Yeats; 13 Extreme; 14 Unused; 16 Arrant; 18 Andiron; 19 Doyen; 20 Einsteins; 21 Eon; 22 Teacher's pet

DOWN: 2 Orb; 3 Seems; 4 Esteem; 5 Mobster; 6 Itinerary; 7 See you later; 8 Threatening; 12 Abundance; 15 Erratic; 17 Engine; 19 Discs; 21 Eke

On margin

Stay home!

This issue's isiZulu word is *ngiyeke*. *Ngiyeke* is "leave me alone".

A very long time ago, I had mumps (*uZagiga*) and my grandmother boiled the leaves of *Idlebelendlovu* – I don't know what it is in English but I bet someone reading this does – and poured the liquid down my ear. She did this once the liquid had cooled down enough to be safe, of course.

Anyway, I think that's what happened. It was a long time ago and that treatment could have been for something else. This is not the point of my column. The point is that some people believe to cure *uZagiga,* you have to walk to the top of a hill and scream, "*Zagiga, Zagiga, ngiyeke*! *Zagiga, Zagiga, ngiyeke*!" Wow. What madness is that? How can screaming, "Mumps, mumps, leave me alone!" cure you? Even as a seven-year-old, I would have known my grandma had lost it if she had said I should do that.

Well, it turns out some people really did fall for this, as a few friends confirmed that they had to scream, "*Zagiga, Zagiga, ngiyeke*" when struck by a bout of *uZagiga*. I am judging them. Judging them so hard.

Should these hapless souls catch Covid-19 – God forbid – I would not be shocked if they went to their local Chinatown and screamed, "Covid-19, corona, *ngiyeke*! Covid-19, Covid-19, *ngiyeke*!"

Then you have the ones that say you have to hit your affected cheek against the bark of *Umganu* (marula tree) three times, while doing the "*Zagiga, Zagiga, ngiyeke*" chant. These ones are going to hit themselves with Mike or Phuma sneakers while saying "Covid-19, Covid-19, *ngiyeke*".

Anyway, Covid-19 is not a Chinese problem. It's everybody's problem. Stay safe out there. Actually, no, don't be out there. Stay home.

– *Melusi's #everydayzulu* by Melusi Tshabalala

"I hate these new-fangled powerpoint presentations."

Sara Wallace Goodman @ThatSaraGoodman
I guess we're about to find out which meetings could've been emails after all…

Aisha Baker @bakedonline
A woman older than me just called me aunty at the Woolies queue. I nearly took my crocs off and jumped her.

Tom Dante @Trader_Dante
If your kids ask you one day: "Where were you during the great crash of 2020", just make sure you don't have to say: "I was demo trading it".

Colleen Doran @ColleenDoran
I have been washing my hands so much my skin is like paper. And yet they still smell like smoked salmon from that bagel I ate. There is a science here I do not understand.

Charlotte Clymer @cmclymer
2020 TIME Person of the Year: Grocery Store Employee.

Lize Hartley @lizetheunicorn
Are we ready for the fact that if Afrikaans people fall pregnant during voluntary isolation, they are going to name their children Coroné and Covidna?

Brigid Delaney @BrigidWD
In an unsettling reversal of my teenage years, I am now yelling at my parents for going out.

Jazmine Duke @jazminepduke
A generation that brags about cancelling plans shouldn't struggle this hard with social distancing.

"Panic implies that there is no rational thought taking place. That we are frozen and incapable of adjusting. Powerless to logic, and subject to seemingly unthinkable behaviour."

– Anthony Scaramucci, former White House communications director (1964 -)

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