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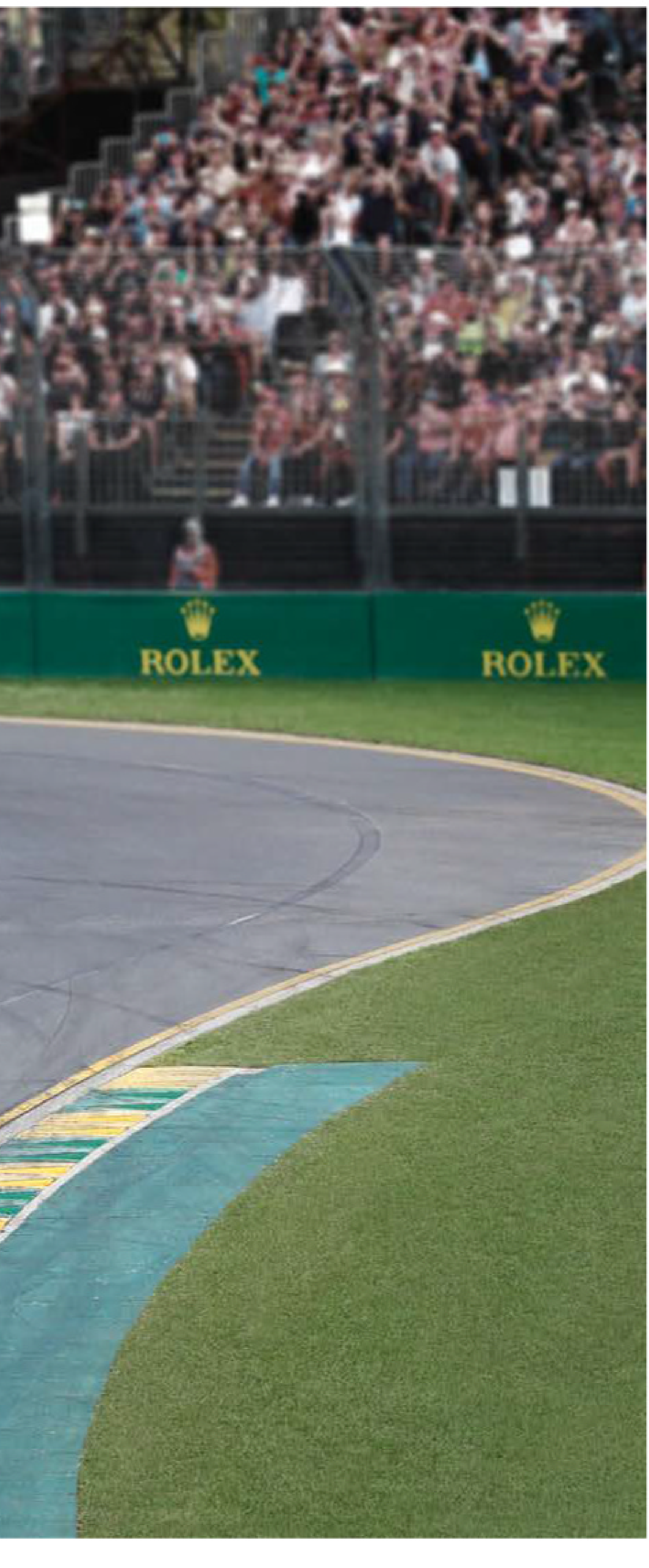

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OYSTER PERPETUAL COSMOGRAPH DAYTONA

from the editor

ANNELI GROENEWALD

When the lights stay on for a couple of weeks, it's quite easy to forget that we are a country with a power utility in dire straits. Then, suddenly one morning, Eskom announces stage 2 or stage 4 load shedding, and reality literally hits home. At work, generators keep most of the computers and some of the lights on. Newspapers place Eskom squarely back on their front pages, and columnists remind us of exactly how bad the crisis is. And how prolonged it is expected to be.

Let me share an ironic moment with you. It's one I often think about in the seconds after the office lights go out (and before the generator kicks in).

Quite a few years back, I worked for an agricultural publication. The editor and I had an interview with the then minister of agriculture, forestry and fisheries, Tina Joemat-Pettersson. She would, of course, later go on to become minister of energy – a bit of a controversial one, I might add. It was during her time in the latter role that 10m barrels of oil reserves were sold by the Strategic Fuel Fund.

Back to the interview. We were seated in a seminar room at a hotel and conference centre in Gauteng. The room had clearly not been prepared for a ministerial visit; tables and chairs stood around haphazardly, but it was the only venue the hotel had available.

So there we were, seated around one of the disorderly positioned tables. The editor and I on one side with our notebooks, Joemat-Pettersson on the other, and my voice recorder in the middle of the table.

The interview commenced – obviously focusing on issues within the agricultural sector. Then the most unlikely thing happened: the power tripped. We knew it wasn't load shedding, because the power came back on a few minutes later, only to trip again. And to go back on again. And then off one more time.

Only when the power went out did I realise that the room had no windows as, during those minutes, the three of us were sitting in complete darkness.

And here is the strangest thing about that interview: During those minutes of complete darkness when the lights were out, the future minister of energy (of course unbeknownst to us at the time) simply kept on talking as if nothing had happened.

A truly Kafkaesque moment. ■

contents

Opinion

6 Rebel with a cause
8 Why Eskom is unfixable

In brief

10 News in numbers
12 Finding a spot in the local music streaming market
14 Carbon's taxing affair
15 What is Amcu's end game?

Marketplace

16 **Fund in Focus:** Different from the herd
18 **Killer Trade:** Clicks Group, Pick n Pay
19 **House View:** ADvTECH, EOH
20 **Invest DIY:** Should I buy or should I wait?
21 **Global Game-changers:** Regulations needed after cryptocurrency CEO takes passwords to his grave
22 **Simon Says:** African Rainbow Capital, Ascendis Health, Grand Parade Investments, Metair, Metrofile, Steinhoff, Sun International, Wilderness Holdings
24 **Investment:** 5 ways to avoid fraudsters
25 **Invest DIY:** A pick of global ETFs
26 **Technical Study:** Platinum groups shine on JSE
27 **Trading 101:** Understanding price patterns
28 **Markets:** How a fresh financial crisis can affect markets
29 **Directors & Dividends:** Dealings and payouts

Cover

30 **Small- and mid-cap stocks:** How to bet on the smaller guy

On the money

38 **Spotlight:** A future explained
41 **Tech:** We all have something to hide
42 **Entrepreneur:** Building a home-bred skincare range
44 **Management:** Is your company losing its edge?
45 Crossword and quiz
46 Piker

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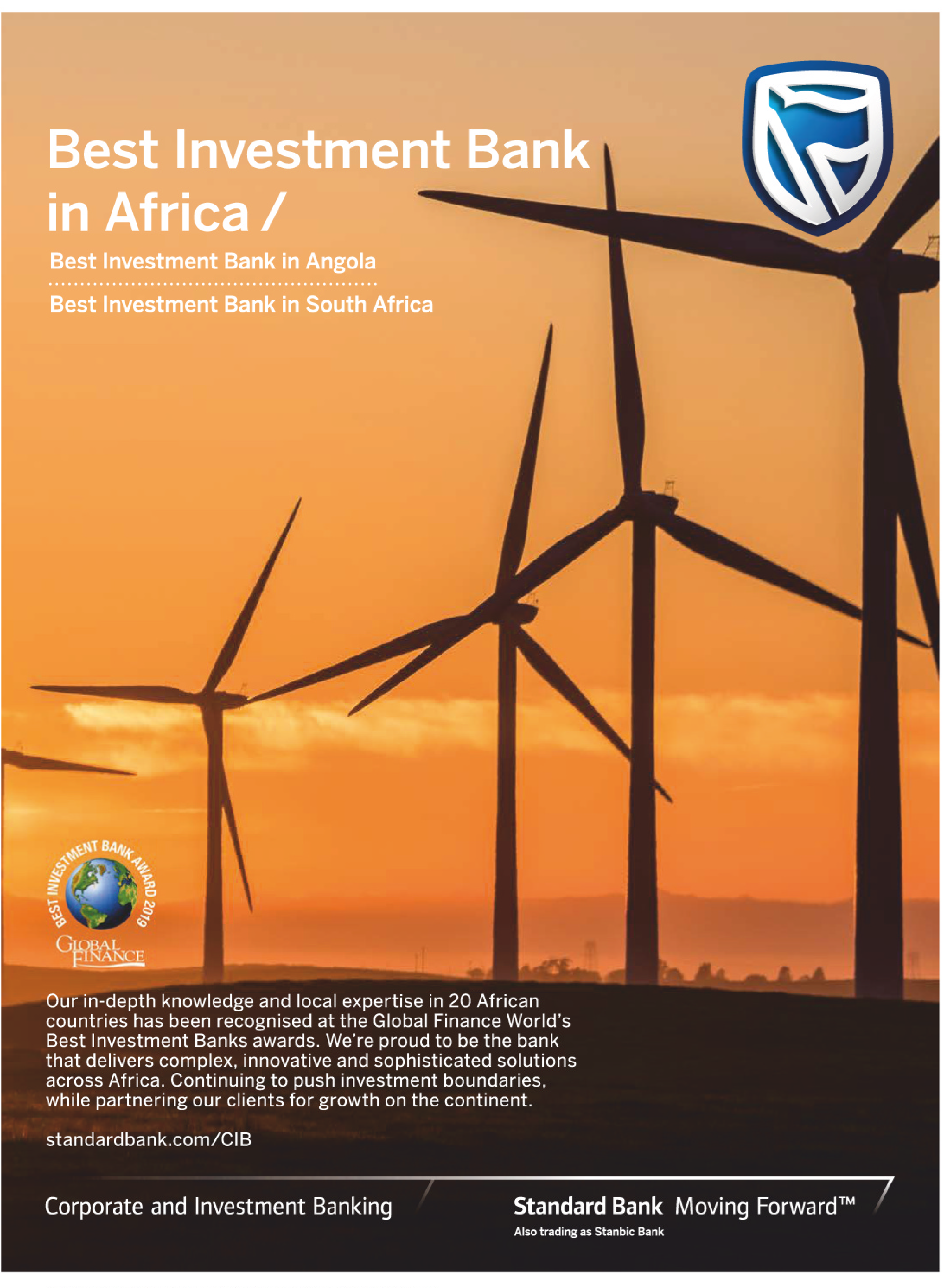

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By Johan Fourie

MINIMUM WAGE

Rebel with a cause

Anyone who questions the implementation of a minimum wage in South Africa will be met with fierce opposition. But the merits (and demerits) of such legislation require broader debate. Even if this is an unpopular notion.

In the 1990s, Paul Krugman, who later won the Nobel prize for his work on trade, wrote: "There is nothing that plays worse in our culture than seeming to be the stodgy defender of old ideas, no matter how true those ideas may be. Luckily, at this point the orthodoxy of the academic economists is very much a minority position among intellectuals in general; one can seem to be a courageous maverick, boldly challenging the powers that be, by reciting the contents of a standard textbook."

Krugman wrote to explain comparative advantage: the idea that trade between two countries raises the incomes of both. It's a simple and powerful idea, first proposed by David Ricardo, and was responsible for the massive expansion in global trade in the second half of the 19th century. Yet, it's surprisingly unpopular. Why? Because it is intellectually unfashionable. Says Krugman: "Free trade … has some sort of iconic status among economists; so, in a culture that always prizes the avant-garde, attacking that icon is seen as a way to seem daring and unconventional."

How valid this statement is about the SA labour market.

Every economics student is taught supply and demand. Equilibrium price and quantity is where the supply and demand curves intersect. Workers demand jobs while firms supply jobs. The equilibrium price is the wage. A government-sanctioned regulation that fixes the wage – like a minimum wage – above the market equilibrium means that demand will exceed supply, creating a job shortage – in other words: unemployment.

This is standard first-year economics. Yet the belief that a minimum wage will have no effect on SA's already record-high unemployment rate is deeply entrenched by both Krugman's avant-garde intellectuals and opportunistic politicians and labour union leaders. Any attempt at debate is dead-batted. Proponents happily circulate articles that show a weak or even zero correlation between minimum wages and unemployment, disregarding the fact that these are often about workers in Seattle rather than Soweto.

They argue that higher wages will result in higher levels of spending in the economy, boosting growth, but ignore the fact that higher wages must be paid by someone else, reducing spending by the same amount. When they run out of credible arguments, they play the man, not the ball, labelling those hoping to debate the merits and demerits of minimum wages "apartheid apologists".

This is a tragic state of affairs, for two reasons. First, there *are* credible reasons to have minimum wage legislation, and good research to back up the claim that not all minimum wages inevitably result in higher unemployment. But this requires the details of each case.

Workers participate in a strike called by the South African Federation of Trade Unions (Saftu), in April 2018, after it said workers were not consulted in the setting of what was then still a proposed minimum wage.

Photo: Gallo/Getty Images

As economist Tim Gindling writes on minimum wage legislation in developing countries: Minimum wages can either increase or decrease unemployment depending on the characteristics of the labour market. Minimum wages target formal sector workers, but in most developing countries formal sector workers are the minority and, importantly, not the poorest. How minimum wages affect the poorest depends on things like the size of the informal labour market, distribution of income and available social safety nets.

Secondly, the impact of the new National Minimum Wage (NMW) Act, implemented from 1 January, has almost entirely escaped discussion in the run-up to national elections. The Act set a NMW across sectors at R20/hour per worker with two exceptions: agricultural workers had a lower rate of R18/hour and domestic workers and gardeners R15/hour.

It's clearly too early to know whether the Act did increase unemployment, but let's turn to research about the impact of earlier such legislation. In some sectors, like agriculture and textiles, higher minimum wages seem to have had large negative effects on employment. This may be because these sectors had limited labour productivity growth in the past two decades. Higher minimum wages simply pushed the equilibrium wage above what employers could afford.

This comes as no surprise: Treasury officials and most academic economists predicted that minimum wages will cause job losses – the same prediction they have made for the most recent legislation as well. But minimum wages did not lead to higher unemployment in all sectors, largely because employers assumed that the legislation wouldn't be enforced. They have therefore continued to pay their workers below minimum wage, which meant they could retain most jobs. Even the SA government shirks the minimum wage: Workers employed on one of its expanded public works programmes are entitled to a minimum wage of R11/hour.

Minimum wages can only do so much to lift the incomes of the poorest. If it rises too quickly, without keeping track of labour productivity, employers will find alternatives – either by substituting capital for labour or by shifting production to countries with cheaper wages or higher labour productivity. Both will deepen the unemployment crisis.

Instead of minimum wage legislation, which ultimately has limited power to affect radical economic transformation of society, we desperately need innovative economic policies that boost labour productivity. Perhaps it's time for a courageous maverick to boldly challenge the powers that be. Weapon of choice? A standard economics textbook. ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.

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By James-Brent Styan

ESKOM

Why Eskom is unfixable

In March, South Africa experienced the worst period of stage 4 load shedding yet. Eskom's debt is out of control and President Cyril Ramaphosa's proposed break-up of the state-owned enterprise won't help.

Eskom is unfixable. Every big decision taken around Eskom over the past three months has probably made matters worse.

Let's start with the biggest of the (multitude of) problems. Money. Eskom has none, and the hole is getting deeper. Later this year – for the financial year to 31 March 2019 – Eskom will report its biggest loss ever, in all likelihood between R20bn and R30bn (2018: R4.6bn loss). The company already sits with escalating debt of R420bn.

In February this year Eskom got a bailout from the state amounting to R150bn over the next ten years. The shorter-term portion, a rescue plan for the first three years from 1 April 2019, amounts to R23bn per year over the three years. It is not nearly enough.

By March 2019 Eskom had burnt through R6bn just to buy diesel to try and avoid load shedding. It hardly helped. The money was spent, the diesel still ran out and the country experienced the worst period of sustained stage 4 load shedding it has ever seen.

Exacerbating things for Eskom, the energy regulator, Nersa, did not give Eskom the tariff increases it had applied for. Last year Eskom had asked for an increase of 15% per year for the next three years. In February this year, Eskom amended its application and asked for 17.1%, 15.4% and 17.5% over the next three years. Nersa approved increases of 9.41%, 8.1% and 5.22%. Again, not nearly enough.

Herman Mashaba
Mayor of the City of Johannesburg

Politics

Election year is making Eskom's problems worse. The national government – led by an under-pressure ANC – won't cut off areas like Soweto for non-payment, despite owing R17bn (as much as the rest of the country combined).

Government will also not support Eskom in making the necessary decisions required for urgent restructuring needed to reduce cost. The ANC cannot afford the state to sign off on retrenchments of over 10 000 people that could result in billions in cashflow savings per month. This is true for all state-owned entities that require deep cuts to return to solvency. It won't happen.

The only new plan the Ramaphosa-led government has come up with amounts to politics of distraction. In February, Ramaphosa (who also led the Eskom war room from December 2014) proposed a plan to break Eskom up into three parts. This won't make a hoot of a difference in the short to medium term. Talk of breaking up at this critical juncture only adds to the uncertainty and confusion enveloping Eskom, something the utility and the country can ill-afford right now.

The debt and money problems won't go away – even if you break Eskom into 100 pieces. While it could be considered in future, the priority should be to ensure electricity supply.

Blackouts and collapsing grids

A growing concern relates to the possibility of a national blackout which would see the country's entire power grid go down, as has been the case recently in Venezuela. That would be catastrophic and could leave the country without electricity for weeks, if not months.

I don't see this happening in SA. We may instead see increased load shedding – up to stage 8 – to prevent a grid collapse and blackout.

Another major issue is the impact of continued load shedding on aged municipal electricity infrastructure, which is under immense pressure from sustained load shedding. It wasn't designed to be shut off and on so often.

Many municipal areas have simply not adequately maintained its infrastructure. This includes most metros, and the City of Johannesburg, which saw a change in government following the 2016 local government elections.

Recently the city has admitted the continued rebooting of power grids is to the "detriment of already aged infrastructure and will lead to a failure risk of said infrastructure". Current mayor Herman Mashaba states in the city's 2016/17 annual report that "the city's infrastructure requires an investment of R170bn to address the backlog created by decades of underinvestment and neglect".

There have been many reports of transformers and substations bursting into flames during the past few weeks and this can be expected to continue.

Pension money given to Eskom

Before Eskom can be turned around, a lot more money will be needed over the short term, before the end of this calendar year.

This may not necessarily mean billions in new money going to Eskom from the state, instead it may in all likelihood come down to a massive reduction in its debt. How will this be achieved?

It could be done by using the pensions of state employees.

This option – and this has been mooted already by the minister of finance Tito Mboweni – means that the Public Investment Corporation (PIC), who manages state employees' pensions, will be encouraged to buy up Eskom debt in exchange for equity. This means that the pensions of government employees like teachers, police officers and nurses will be used to buy up Eskom stock.

In this manner Eskom technically does not get privatised, yet the PIC will end up owning large parts of it.

Does this sound like a good investment idea? ■

editorial@finweek.co.za

James-Brent Styan is the author of *Blackout, The Eskom Crisis.*

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in brief

>> **Trend:** Spotify's streaming success in South Africa *p.12*
>> **Mining:** The problem with government's carbon tax *p.14*
>> Amcu's battle against Lonmin takeover rages on *p.15*

"WE'LL LOOK AS RIDICULOUS AS THE REPUBLICANS DID DURING THE OBAMA ADMINISTRATION IF WE CONTINUE DOWN SOME PATH OF CALLING FOR AN IMPEACHMENT WHEN THERE IS NO CAUSE."

– **Democratic political consultant Colin Strother** after special counsel Robert Mueller released a report that found no evidence of US President Donald Trump's campaign colluding with Russia in the 2016 election, as quoted in *Business Day.* US Attorney General William Barr said the report did not present enough evidence to warrant charging Trump with obstruction of justice. Though the report does not conclude that the president committed a crime, it also does not exonerate him on an obstruction of justice issue. *The New York Times* reported that Trump mischaracterised it as "a complete and total exoneration" in a comment to journalists.

"THE NINE WASTED YEARS ARE A MYTH."

– **ANC chairperson and minister of mineral resources Gwede Mantashe,** defending former President Jacob Zuma's nine-year long administration in a recent tweet. Current President Cyril Ramaphosa referred to the Zuma administration as "nine lost years" at the 2019 World Economic Forum. Finance minister Tito Mboweni also previously said the Zuma years were "wasted". During a campaign speech in the Northern Cape, Mantashe said "in the past nine years, there was a stronger focus on education, war against HIV/AIDS, agriculture and rural development. The last four years were difficult. We must be honest in our analyses."

"One should be careful not to elevate state ownership to a religion."

– **Tito Mboweni, SA's finance minister,** as quoted on TimesLive following a Power FM interview with the minister. Mboweni said a discussion must begin on whether the government needs to retain control of all the assets it owns given the poor state of national finances. Among other points, Mboweni suggested the sale of Denel's explosives unit and merging of state-owned airlines to remove the need for duplicate boards and executives.

Photo: Gallo/Getty Images

EDITORIAL & SALES

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NASPERS' TENCENT STAKE

R1.9tr

The $133bn (R1.9tr) stake Naspers* has in Tencent, as well as all international internet businesses will be carved out into a new company (in which it will hold a 75% majority stake) to be listed on the Euronext Amsterdam. Naspers CEO Bob van Dijk told Moneyweb it would be the largest consumer internet business in Europe and the third-largest company on the Amsterdam exchange. At the last annual general meeting in August 2018, Naspers chairperson Koos Bekker expressed dismay at how the company had gotten "too large for the JSE", reported fin24. Naspers has since also unbundled MultiChoice as a separate listing on the JSE. The planned listing in Amsterdam could, however, negatively impact the JSE's trading volumes and liquidity, according to deputy chair of Sasfin, David Shapiro in a comment to *Business Day.* Naspers accounts for about a fifth of the local bourse's daily stock turnover.

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

DOUBLE TAKE BY RICO

Employment in SA's non-agriculture sector rose 0.9% in Q4 of 2018 to 10.1m people compared with the previous three months, Stats SA said in a publication. This was largely due to increases in business services (+2.3%), trade (+2.2%), community services (+0.3%) and transport industry (+1%). Although SA tends to have a seasonal surge in temporary jobs in Q4 (which again rose by 37 000), some 50 000 full-time jobs were also added. Job cuts were seen in manufacturing (-0.2%), mining and quarrying (-1.5%) and electricity (-1.6%). Construction shed 18 000 jobs, making it the worst hit.

SA ranked second-last (out of 115 countries – the last being Haiti) for readiness to transition towards a stable, sustainable and affordable energy system, according to the 2019 WEF Energy Transition Index. SA committed to the Paris Agreement to limit global warming by, among other things, transitioning from fossil fuels to more sustainable energy sources but continues to "consume a disproportionate amount of coal" to meet rising demand for energy, said the report. The lag is also attributed to poor energy system performance, weak regulatory frameworks and lack of policy stability.

About 1.85m people have now been affected by Cyclone Idai and its aftermath in Mozambique alone, according to an update by the UN Office for the Coordination of Humanitarian Affairs (OCHA). OCHA says the full impact of the cyclone is yet to be established, however, initial reports indicate that as of 24 March, the official death toll had risen to 446 while more than 1 500 people were injured in Mozambique. At least 154 deaths have been reported and 187 people are registered as missing in Zimbabwe, with some 56 deaths and 577 injuries recorded in Malawi.

Allan Gray is an authorised financial services provider.

KINGJAMESII 2201

The best time money can buy.

By Timothy Rangongo

Finding a spot in the local music streaming market

As the world's largest global music streaming service, it was surprising that Spotify entered the South African market quite late in the game compared to competitors. However, a year on, it looks like the entry was a massive success.

Two weeks before making its grand entrance onto the public markets with its IPO on the NYSE, music streaming giant Spotify went live in South Africa (in March 2018). Some critics saw this as a little too late to the party as Apple music, Deezer and Google Play Music had already claimed their stakes.

But Spotify was instantly popular.

Spotify is the world's largest global music streaming service, giving users access to over 40m songs, podcasts and other content from artists all over the world. Launched in 2008, the service boasts 207m monthly active users, 96m of which are paying subscribers.

Non-paying users can use the service for free albeit with adverts in-between shuffled songs, while users who foot the R59.99/month subscription get no adverts, offline listening, unlimited skips, high-quality audio and shuffle play.

SA was the 64th country in which Spotify launched. It has since grown to 79 markets globally.

Early days

SA was the 64th country in which Spotify launched. It has since grown to 79 markets globally. "SA has a relatively well-structured market, and that's why we decided on it as the number-one market to rollout in a year ago," says Claudius Boller, Spotify's managing director for the Middle East and Africa.

Spotify was not too worried about the players already in the local music streaming space but more about South Africans' concerns about data consumption and data charges, says Boller, who cites piracy as the service's only competitor.

The introduction of a low data-saver feature that automatically kicks in when a user switches to mobile data by limiting consumption to roughly 11MB per hour of data helped gain favour with data-conscious locals, according to Boller.

"Other music streaming services are at about four times higher than that [11MB]. Video streaming services are 25 times higher than that, roughly.

"Our first year in South Africa has been extremely exciting and we have been thrilled by the response from music fans. Our launch in SA – our first African market – gave us the opportunity to offer local music fans access to a world of new music and genres, as well as giving local artists the opportunity to connect with a global audience of music fans on Spotify," says Boller.

He joined Spotify two years ago from a heavy music label background and says one of the reasons he was drawn to working for Spotify was how it "has really invented streaming. It's changed the music industry and landscape but very much so for artists."

Spotify makes most of the data available to artists directly with a free app called Spotify for artists, explains Boller. The data is also accessible via a website where artists can see where their music is being played, locally or across the world, and in real-time. Artists can make use of their data for promotions, marketing campaigns and compiling their touring schedules, for instance – essentially a tool to learn more about, and grow, audiences.

Although Boller is not allowed to disclose figures owing to company policy, he says Spotify's done "very, very well" since opening shop in SA. He says listening and engagement in SA is already above the world average compared to the other 78 markets they're active in. "To have achieved this in one year's time is absolutely stunning," says Boller.

The music streaming service has paid out more than €10bn in royalties to the creative community globally – including artists, producers and composers – since starting up in 2008.

What next

"We really believe in large scale," says Boller, adding that growth plans "are very big".

For its second year in SA, Spotify is looking at podcasts which it says are growing globally. Spotify for podcasters, similar to Spotify for artists, is in beta testing in the US and will enable storytellers to also view daily stats and learn how their episodes are performing.

Spotify's recently announced global partnership with Samsung will see the latter's flagship phones like the Galaxy S10+, S10, or S10e coming with the app already preloaded onto the devices, including a six-month free trial of Spotify's paid premium service.

With Samsung smartphones (android devices) already coming with Google Play Music preloaded onto them, asked on whether Google will be chuffed about this, Boller says it's all up to consumer choice. Literally a day before Spotify's one-year celebration in the country, Google launched a new music streaming service in South Africa, YouTube Music, also at R59.99/month.

Although it's still early days, YouTube Music is coming in with the same pricing, and allows users to search for descriptions, lyrics and even use emojis to find songs. Smart Search will also allow the use of indigenous South African languages such as isiZulu and isiXhosa to look for songs.

Every day over 29 000 songs are released on Spotify globally.

The year ahead

With over 29 000 songs released on Spotify per day across the world, the music streaming service is training South African artists on how to get the most out of Spotify by, for instance, pitching their songs to be included in popular global playlists, to get the push and support.

"When we have internal meetings and presentations of what our development teams are working on, for me personally its really mind-blowing. They're really creating the future of music," says Boller on developments in machine learning technology, like the platform's current daily mixes (automatically generated playlists of various genres curated from user data).

Spotify is gunning to increase its total monthly active users by between 18% and 28% year-on-year, from 207m to between 245m and 265m users during 2019. ■

editorial@finweek.co.za

Photo: www.newsroom.spotify.com

100 ISSUES AND COUNTING...

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By David McKay

Carbon's taxing affair

Government's proposed carbon tax seems to be ill-conceived. Combating climate change certainly needs to be on South Africa's agenda, but more thought and time is required to create and implement effective policies.

Photo: Shutterstock

What's planned by government is a delicate eggs en cocotte, but it's more likely the country's mining sector will be served a regular scrambled.

That's the gastronomic equivalent of the proposed carbon tax which is due for adoption by the National Council of Provinces during the week this edition of *finweek* went to print, and effective 1 June. The premise is a tax of R120 per tonne of carbon dioxide (CO_2) in its first phase.

Some offsets are allowed by up to 70% of the total tax, but even considering this, the Minerals Council of South Africa considers the tax onerous and is not lending its support to the legislation, officially known as the Carbon Tax Act.

"Carbon taxes are part of the toolbox in dealing with climate change, so we accept it," said Roger Baxter, CEO of the council. "But it needs to be part of a toolbox that works. SA shouldn't be thinking about this yet. Yes, it should be getting its policies in line, but there needs to be breathing room. We just seem to be jumping into something that will detract from industry competitiveness."

The council's objections are legion. But for mining sector investors, what do they need to know about the legislation's effects?

Is it actually needed?

Certainly. But based on the mining sector's current efforts, and those of others in society and industry, SA is already on course for a reduction in greenhouse gas emissions (GHG) of up to 14% by 2025 and between 26% to 33% by 2035. This is above the benchmark trajectory set by none other than government.

Alignment with companion legislation?

This is a well-worn path for government. There has been a long-standing lack of coherence in policy before.

One thinks of the Mining Charter's empowerment targets which didn't match those set down by the department of industry. Similarly, the carbon tax doesn't appear to marry with the carbon budget system being developed by the department of environmental affairs via its draft Climate Change Bill.

SA is already on course for a reduction in greenhouse gas emissions of up to

14%

by 2025 and between 26% to 33% by 2035.

What about Stage 2?

The blueprint makes for a second phase of taxation for carbon excess but there has been no agreement on where this will settle. As an industry that needs to assure the long-lead nature of mining capital, this is obviously bad news. It's like saying new empowerment regulations are coming in five years but not saying how or what.

The list goes on, but the bottom line is that the country's mining sector could do with less straight-jacketing and more encouragement, according to the council. With the carbon tax, however, the gold sector – two-thirds of which was loss-making in 2017 – will be hastened to its already inevitable end.

According to Baxter, the impact of poorly conceived tax will be felt on jobs. Had the carbon tax been applied in 2017, gross job losses in the mining sector would have been about 10 441, less the 3 605 jobs that would have been saved in terms of the diesel fuel refund. Nonetheless, the impact on a net basis would be 6 836 jobs lost.

The Minerals Council knows how to lobby. The way it conducts its campaigns is lightyears better than in previous years. Still, the carbon tax comes at a time when the National Energy Regulator of South Africa (Nersa) approved a 13.5% electricity tariff hike this year for Eskom, including recoveries allowed for previous above-budget expenditure known as its Regulatory Clearing Account.

"This is a disaster," said Baxter of the Eskom tariffs. The industry has spoken of the risk of losing a quarter of its total employment numbers equal to about 90 000.

"We're not in denial. We know we need to respond to climate change," says Baxter. But even considering just the Eskom tariff increase, SA will have only two mines producing a mere 20 tonnes a year of gold profitably. ■

editorial@finweek.co.za

By David McKay

What is Amcu's end game?

What the labour union intends by blocking Sibanye-Stillwater's takeover of Lonmin is uncertain, given that it represents over 70% of Lonmin's employees, and would only lose in the event of the miner's demise.

It will be a miserable first day back in the office for Lonmin should the Association of Mineworkers & Construction Union (Amcu) succeed on 2 April (after this issue of *finweek* had gone to print) in its bid to have the takeover of the platinum firm by Sibanye-Stillwater blocked.

Towards the end of March, Lonmin promised to undertake a "holistic review of pay arrangements" in the event the takeover does not proceed. This was after nearly 74% of Lonmin's shareholders voted against the 2018 remuneration report at the firm's annual general meeting (AMG) on 25 March.

In that scenario, executive pay will be restructured to "... ensure alignment with the group's evolving strategic priorities". It also promised to meet with shareholders on how this might be done.

How might it be done?

That's hard to say, especially on the evidence of the AGM address by chairman Brian Beamish, who said that the firm's recently organised $200m debt facility notwithstanding, Lonmin wouldn't be in a position to invest in its future without the deal with Sibanye-Stillwater.

The matter comes to a head on 2 April when the Competition Appeal Court hears Amcu's appeal.

Quite what Amcu intends by blocking the transaction is also pretty hard to tell given that it represents over 70% of Lonmin's employees and would only lose in the event of Lonmin's demise. Then again, the challenge of understanding Amcu is becoming an increasingly difficult business – at least seen through the eyes of SA's courts, the Labour Court particularly, which has found against the union repeatedly since the beginning of the year.

In fact, Amcu has lost in court four times this year alone, in every instance in an effort to frustrate the activities of Sibanye-Stillwater, suggesting that Amcu president Joseph Mathunjwa – whose dispute with Neal Froneman, CEO of Sibanye-Stillwater, now seems personal – is either making bad decisions or listening to very poor legal advice on the matter.

The most damning indictment was in a ruling delivered by the Labour Court judge Connie Prinsloo. In finding Amcu's proposed secondary strike at mines throughout SA to be unreasonable (the strike was aimed at forcing Sibanye-Stillwater to accept its gold wage demands), Judge Prinsloo also made some observations that cut to the heart of Amcu as a labour organisation.

"The conduct of Amcu members certainly tainted its reputation as a trade union that supports peaceful industrial action," said Judge Prinsloo. "In my view, Amcu's position that it distances itself from unlawful conduct offers nothing but cold comfort as that position is not visible in Amcu strikes."

The court couldn't condone the secondary strike because based on the evidence of Amcu's most recent industrial action, the societal consequences were hazardous. It might be that Amcu's reputation is preceding itself into the courtroom. ■

editorial@finweek.co.za

ISSUES AROUND EXEC PAY

Objections to remuneration is obviously a governance issue that companies have to take seriously. However, there are instances when shareholders can push the patience of even the most observant of company officer.

Take Gemfields, a Johannesburg-listed company that has twice suffered significant votes against its remuneration policies, once when it was Pallinghurst Resources, the investment company that owned the Gemfields business.

Commenting on the company's year-end results in March, Gemfields chairman Brian Gilbertson did express veiled exasperation after convening a conference call to discuss the concerns about executive pay. It seems as if some shareholders – 29.6% of whom voted against Gemfields' last remuneration report – prefer to be counted only, rather than be heard (or seen).

Said Gilbertson: "In August 2018, the company hosted a telephone conference inviting views on the company's remuneration policy. The turnout at this meeting was disappointing with only one shareholder – who had in fact voted in favour of the policy – dialing in.

"Gemfields has therefore furthered efforts to seek shareholder feedback on an individual basis," he concluded. ■

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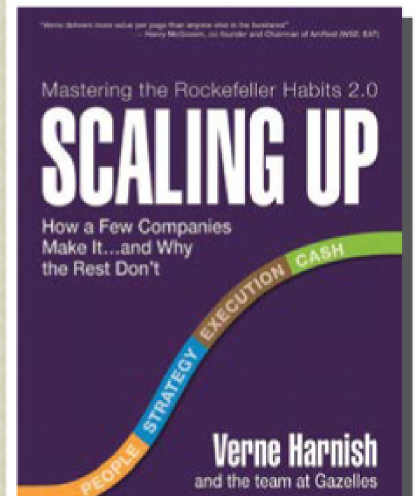

SCALING UP:
How a Few Companies Make It... and Why the Rest Don't

By Verne Harnish and the team at Gazelles

Join this session of **We Read For You**, where Fredeline Elie will present the essence of the book.

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>> **Killer Trade:** Clicks Group, Pick n Pay Stores *p.18*
>> **House View:** ADvTECH, EOH Holdings *p.19*
>> **Invest DIY:** Should you wait for results before investing in a company? *p.20*
>> **Global Game-changers:** Every investor's nightmare just happened in Canada! *p.21*
>> **Simon Says:** African Rainbow Capital, Ascendis Health, Grand Parade, Metair, Metrofile, Steinhoff, Sun International, Wilderness Holdings *p.22*
>> **Investment:** How to spot a scam *p.24*
>> **Invest DIY:** The pick of global ETFs on the JSE *p.25*
>> **Technical Study:** Platinum groups make a comeback *p.26*
>> **Trading 101:** Price patterns explained *p.27*
>> **Markets:** Fresh financial crisis on the horizon? *p.28*

FUND IN FOCUS: FOORD BALANCED FUND

By Timothy Rangongo

Different from the herd

The Foord Balanced Fund aims to grow retirement savings by meaningful, inflation-beating returns over the long term by investing in good, quality businesses.

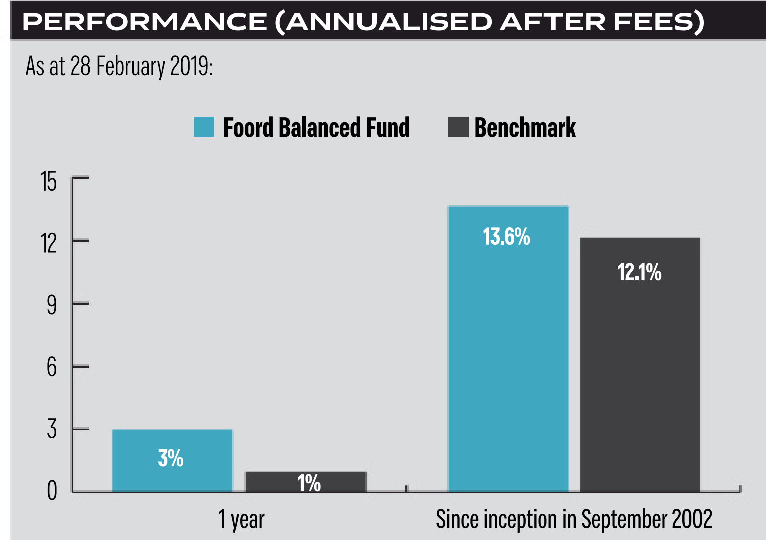
FUND INFORMATION:	
Benchmark:	South African - Multi-Asset - High Equity
Fund managers:	Nick Balkin, Dave Foord, William Fraser and Daryll Owen
Fund classification:	South African - Multi-Asset - High Equity
Total investment charge:	1.15%
Fund size:	R32.5bn
Minimum lump sum / subsequent investment:	R50 000/R1 000
Contact details:	021 532 6969/info@foord.co.za

TOP 10 HOLDINGS AS AT 28 FEBRUARY 2019:		
1	Foord Global Equity Fund	18.1%
2	RSA 10.5% (R186) Government bond	17.7%
3	Foord International Fund	14.5%
4	BHP	4.6%
5	Naspers*	3.8%
6	Sasol	3.6%
7	RMB	3.6%
8	Capital & Counties	3.5%
9	CF Richemont	3.4%
10	Newgold	3.3%
	TOTAL	**76.1%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 28 February 2019:



Fund manager insights:

In an investment environment hit by falling local share prices that saw the JSE closing 11.4% down for 2018 (the lowest year performance since 2008), a multi-asset fund like the Foord Balanced Fund is one possible way of traversing low returns that gripped many SA-only equity funds.

The fund achieved a 3% annualised return in the past year, 200 basis points above the peer group, but lower than inflation. Being behind the inflation bogey over shorter time periods is not unusual for a long-term investment vehicle with a five-plus year investment horizon.

Asked about the winning investment philosophy to beating inflation over the long term, the balanced fund's management team says that they are often 100% top-down and 100% bottom-up. "The real art is blending our big picture long-term global views with our detailed bottom-up security analysis and research. Importantly, we focus on getting the big calls right because meaningful investment returns are not earned by making incremental decisions," explains the team.

The firm's philosophy of identifying and taking advantage of economic cycles has been complimentary to stock selection in realising superior long-term returns. As long-term investors, Foord's portfolios typically have relatively low turnover with holding periods in excess of 5 to 10 years. Foord likes to invest in good-quality businesses for the long term. Although size of position has fluctuated through the typical business cycles, some of the longer-term holdings include quality businesses such as BHP, CFR Richemont and RMB Holdings locally and the likes of Nestlé, Roche and Vodafone internationally.

They are not benchmark cognisant – "portfolios should be constructed by applying objective, independent perspectives to their composition. To outperform the herd, you have to be different from the herd."

Although investment psychology is counted among one of the biggest challenges, Foord says its forward-looking approach means that it tends to strategically shift the portfolios well in advance when anticipating market inflection points. "This has usually followed a period of strong relative and absolute performance."

Why *finweek* would consider adding it:

Foord has been managing balanced portfolios since 1984. A multi-decade track record of successful investing evidences its capacity to consistently deliver superior investment returns.

The fund aims to grow retirement savings by meaningful, inflation-beating returns over the long term. The fund is managed to comply with the prudent investment limits set for South African retirement funds (Regulation 28 to the Pension Funds Act). ■

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By Moxima Gama

PICK N PAY STORES

Confined to a huge range

Pick n Pay, the second-largest supermarket chain store in South Africa, operates in various formats under the Pick n Pay and Boxer brands, and focuses on food, non-edible groceries, clothing, pharmaceuticals, liquor and tobacco, health and beauty products, building and hardware and general merchandise. Its current market capitalisation is at R32bn, with a dividend yield of around 3%.

52-week range:	R62.88 - R82.09
Price/earnings ratio:	21.11
1-year total return:	-1.84%
Market capitalisation:	R32.64bn
Earnings per share:	R3.13
Dividend yield:	2.92%
Average volume over 30 days:	1 324 445

SOURCE: IRESS

Outlook: CEO Richard Brasher instituted two stages of his turnaround strategy after taking over in February 2013. Firstly, he introduced a voluntary severance programme, reducing the headcount by 3 500. The second stage – to change the trajectory of its performance and restore a sustainable profit margin – is paying off. In its interim results in October last year, Pick n Pay delivered its strongest six-month trade performance in five years.

On the charts: Pick n Pay tested an all-time high at 8 425c/share in August 2016, from 2002 lows at 890c/share.

Go short: Pick n Pay currently points away from the second support trendline of its primary bull trend – which would be breached below 6 085c/share (go short) – potentially extending the correction to next support at 5 285c/share. Failure to hold there could see Pick n Pay fall further to either the 5 000c/share level or its major support trendline (black bold trendline dated back to 2002).

Go long: A recovery through 7 120c/share would negate the falling-tops and possibly attract more buying towards 8 075c/share. A new bull phase would commence above 8 425c/share with potential gains to the 10 410c/share medium-term targeted mark. ■

SOURCE: ShareNet

CLICKS GROUP

Still correcting

Clicks Group provides health and beauty merchandise through a network of over 600 stores in southern Africa. Its subsidiaries cover the pharmaceutical supply chain, including wholesale and distribution.

52-week range:	R152.50 - R222.20
Price/earnings ratio:	29.19
1-year total return:	-1.22%
Market capitalisation:	R47.02bn
Earnings per share:	R6.12
Dividend yield:	2.13%
Average volume over 30 days:	1 035 046

SOURCE: IRESS

Outlook: Despite impressive results for the year to August 2018, Clicks pulled back from its all-time highs to correct from an extremely overbought position in its primary bull trend. Investor sentiment plummeted after CEO David Kneale mentioned his retirement at the end of 2018. Clicks is now headed by Vikesh Ransunder.

On the charts: Clicks' steady bull trend commenced in 2008 from lows at 1 200c/share and then steepened in 2016. In December 2016, Clicks Group also took control of all Medicross pharmacies, and in February 2017 of 45 retail front shops of the Netcare hospital division. Its share price appreciated further to an all-time high at 22 220c/share.

Go short: Clicks is consolidating between 20 250c/share and 16 915c/share in the form of a symmetrical triangle within its primary bull trend. Resistance encountered at 18 870c/share could trigger downside to the second support trendline – which would be breached below 16 915c/share. A negative breakout would be confirmed through 15 250c/share (go short) – and downside to either the 10 825c/share support level or the major support trendline (black bold trendline dated back to 2011) could ensue.

Go long: Clicks would only end its corrective bear trend above 20 250c/share (go long) – thus triggering a recovery to the 22 220c/share all-time high. The medium-term upside target of the symmetrical triangle is situated at 27 220c/share. ■

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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.

SOURCE: ShareNet

ADvTECH

BUY SELL HOLD

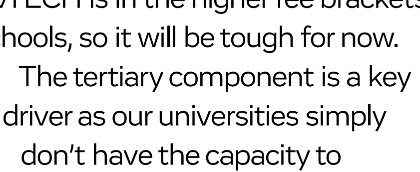
By Simon Brown

A great sector to be in

ADvTECH's* share price has been under pressure, losing over 20% in the last year. It now trades on a price-to-earnings ratio (P/E) of around 16 times.

The company has increased debt for acquisitions, but interest cover remains over five times, which is comfortable, and they are very cash generative. Student growth was 11% with schools at 12% and tertiary at 10%.

Locally, South Africa has a much lower percentage of students attending private schools than the global averages and this number will only increase over time.



ADvTECH now trades on a price-to-earnings ratio (P/E) of around

16

times.

But ADvTECH is in the higher fee brackets for schools, so it will be tough for now.

The tertiary component is a key driver as our universities simply don't have the capacity to absorb the demand. To this end, ADvTECH's recent Monash acquisition will add significantly to its tertiary offering. I am concerned it paid a top price for Monash, but it is a great asset.

The recovery here will likely be slow and ultimately driven by an improving consumer, but education is an excellent sector for investors and ADvTECH is half as cheap as Curro, with the latter on a P/E of some 38 times. ■

**The writer owns shares in ADvTECH.*

Last trade ideas

BUY Barloworld
21 March issue

BUY Anglo American
7 March issue

BUY RSA retail savings bonds
21 February issue

SELL Massmart
7 February issue

EOH

BUY SELL WAIT

By Moxima Gama

Waiting for a buy signal

EOH Holdings is a South Africa-based information and communications technology (ICT) service provider, operating across Africa.

EOH's share price took a huge knock on the charts after failing, for the second time, to breach its all-time high at 18 000c/share. A double-top was confirmed below 11 745c/share in July 2017. EOH has since completed a 100% retracement and has fulfilled the long-term target of its bearish reversal pattern at 1 250c/share.

At the end of March, EOH announced that it is no longer a reseller of Microsoft software licences, following a complaint with the US Securities & Exchange Commission about alleged corruption. It was reported that Microsoft would not enter into any discussions regarding re-instatement of the partnership until its investigations are concluded.

Earlier in 2019, long-time CEO and founder of EOH, Asher Bohbot, shocked the market when he suddenly stepped down.

New CEO Stephen van Coller (in the top job since September 2018) has since had to deal with a lot of company adversities, including addressing issues relating to any alleged impropriety.

Despite the challenges EOH is currently facing, it remains a solid company with strong underlying assets.

Therefore, at current levels, EOH is potentially a good share to nibble on.

EOH's interim results were due to be released by 26 March, but have since been postponed to 16 April.

Stephen van Coller
CEO of EOH

How to trade it:

If support holds firmly at 1 250c/share, EOH could trade through resistance at 1 480c/share – thus triggering a neutral buy signal with a potential recovery within its primary bear trend to 2 000c/share. A positive breakout of the bear trend would be confirmed above 2 335c/share – increase long positions.

Refrain from going long if support gives in at 1 250c/share. Prior lows at 700c/share and 525c/share could then be retested. ■

editorial@finweek.co.za

Last trade ideas

BUY Woolworths
21 March issue

BUY Northam Platinum
7 March issue

CAUTION South32
21 February issue

HOLD Vodacom Group
7 February issue

Photos: Gallo/Getty Images

By Simon Brown

COMPANY RESULTS

Should I buy or should I wait?

Results announcements can have a material impact on a company's share price. Therefore, the question many investors often have is whether to make investment decisions before or after results are released.

I often write about either waiting for a company's results to be released before making a decision, or buying ahead of the results announcement. Readers frequently ask me about the difference. It's a fair question and not easy to answer. But mostly it is about weighing up possible known or unknown risks.

Take, for example, the recent Aspen results. With the stock trading at around R130 to R140 per share ahead of the results and on a price-to-earnings ratio (P/E) of around 11 times, it certainly seemed cheap – even with management only offering guidance on revenue growth of some 1% to 4%. This could be seen as very modest revenue growth. Also notable was the lack of guidance on growth in headline earnings per share (HEPS).

There was a lot that was unknown. Added to this uncertainty was the debt situation at the company. Aspen was in breach of debt covenants, which the sale of its milk formula business was supposed to correct. But the company has been surprising markets to the downside for a number of results recently. The risks, therefore, were high.

Now, if the results had come out and been amazing the stock would have rallied and buyers would have had to pay a higher price. But, in this case, the results were worse, and the stock collapsed. So, had you waited, it would have been worth it.

Waiting may mean paying a higher price, but that higher price comes at a lower level of risk. And that's ultimately what investors want to do – manage risk.

Often investors will have a fair idea of what to expect ahead of a results announcement. If this is the case, you will be more comfortable with what is expected and, as such, the risk. Sasol* is a good example. Its results were largely as expected. Operations at its Lake Charles plant will be starting, which means the spending at the plant will now come to an end. It will be generating cash flow, which will likely end up as dividends. The surprise here was the slight delay of the Lake Charles project. There had been some talk of it, but it was unlikely that a delay would be material. Sure, it would push profits from the venture further into the future, but profits would still be coming in time.

The decision to wait (or not) for results to be released before making an investment move really centres on the level of certainty you have about those upcoming results. Higher certainty doesn't mean you'll necessarily be right, but you will in all likelihood be right more often than not. If you lack certainty about upcoming results, it is usually prudent to wait and see how they play out.

The decision to wait (or not) for results to be released before making an investment move really centres on the level of certainty you have about those upcoming results.

This does mean that I often sit with a list of stocks that I am interested in in one way or another, but I am waiting for a higher level of certainty before making a decision. It is also worth noting that the longer one has to wait, the more the potential risk increases.

Here Vivo Energy is perhaps a good example. I wrote about its results in the 7 March issue. While I like the business thesis, I am concerned about its activities in Morocco, where the king is expected to introduce fuel regulations. So far, we've been waiting for some 18 months and my sense is that the longer the wait, the more the concern becomes that the decision will be bad. But bad for who? Bad for consumers if the king does away with regulated prices, as retailers can then set any price they choose. It would be bad for retailers if a low regulated price is implemented, as their profits would diminish. At this stage investors have no way of knowing which way it will go for Vivo's largest market – so, we wait.

We won't always get it right, but by waiting you avoid the scenario where you are holding shares that might experience a massive price plummet post-results. And, overall, your portfolio will be better off. ■

editorial@finweek.co.za

The writer owns shares in Sasol.

Photos: www.vivoenergy.com | Shutterstock

By Lisa Kramer

CRYPTOCURRENCIES

Regulations needed after cryptocurrency CEO takes passwords to his grave

As loath as many crypto enthusiasts may be to having the virtual currency sector regulated, a recent incident in Canada illustrates why this may be necessary.

A high-stakes legal drama featuring cryptocurrencies has been unfolding in a Canadian court recently.

The antics that led to the litigation almost defy credulity, and they highlight the need for new regulations to better suit a financial marketplace that includes virtual currencies.

News broke in early February that Canadian cryptocurrency exchange QuadrigaCX was seeking creditor protection, leaving in financial limbo about 115 000 people who had entrusted the firm to maintain their deposits of cash, bitcoins and other digital tokens worth an estimated C$250m.

The company's need for bankruptcy protection arose when its founder and chief operator, Gerald Cotten, died suddenly in December while vacationing in India. Normally, if a financial institution's executive officer meets an untimely demise, he or she doesn't bring to the afterworld the only keys to the vault. And thus clients maintain continued access to their deposited funds all the while.

In the case of Quadriga, unfortunately, Cotten was the only living soul who knew the password to an encrypted offline repository, known as cold storage, where the firm had enshrined the vast majority of clients' cryptocurrency deposits. Without the password, no one can access those holdings.

Murky or absent regulations

While the Nova Scotia Supreme Court wades its way through some very novel and complex issues, the question that comes to my mind is: How has one bad decision about password custodianship caused more than 100 000 people to lose access to their deposits?

The answer lies in the murky and mostly lacking regulations that govern the cryptocurrency world. Nothing stops entrepreneurs like Cotten from running companies like Quadriga with no independent oversight.

Nothing stops entrepreneurs like Cotten from running companies like Quadriga with no independent oversight.

Had he ever raised equity capital from investors in return for tokens or coins, that process would have been governed by Canadian securities regulations. But because Quadriga is an exchange — maintaining deposits and facilitating conversions between regular cash and cryptocurrencies, but not issuing cryptocurrencies in exchange for ownership shares — it operates in a regulatory vacuum.

In Canada, the Office of Superintendent of Financial Institutions (OFSI) oversees banks that take regular dollar deposits. One might argue that the OFSI umbrella ought to be adapted to include oversight of virtual exchanges like Quadriga, even though such institutions are not technically banks and their deposits are non-traditional in nature.

That oversight would impose accounting standards and reporting requirements that would help prevent the sorts of irresponsible missteps that put Quadriga depositors in such a precarious position.

A likely side benefit of regulatory supervision would be the eventual development of standardised safeguards against hackers and other cybercriminal activity that plagues the cryptocurrency world.

Lack of regulations attractive to some

A feature that draws many crypto enthusiasts to the virtual currency sector is the very fact that it lacks government oversight, and those individuals will bristle at any hint of new regulations.

Members of the general public might also be leery of new laws lest they grant an undeserved sheen of legitimacy to cryptocurrencies, which are not suitable investments for anyone except the most risk-loving of speculators.

But in Canada, many industries that are risky or distasteful to some are regulated, including gambling, alcohol, tobacco and marijuana. The underlying calculus is that providing standards for certain illicit activities is preferable to driving those activities to the black market, where the risks would be amplified.

For instance, a benefit of buying my beloved guilty pleasure of choice, craft gins, from a regulated marketplace is that I can imbibe confident in the knowledge that my cocktails are free from wood alcohol. Three cheers for avoiding blindness!

We cannot protect Canadians from all possible risks, especially when it comes to financial markets. And to be clear, I am not suggesting that we indemnify cryptocurrency speculators against losses that may arise from taking calculated risks, such as the beating that some fortune-seekers have taken since bitcoin valuations plummeted from stratospheric heights.

Rather, I propose that depositors ought not to be penalised for the indiscretions of the custodians to whom they entrust their financial holdings. ■

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Lisa Kramer is professor of finance at the University of Toronto.

THE CONVERSATION

This article was originally published by The Conversation Africa and can be accessed at https://theconversation.com/africa.

Photo: Shutterstock

By Simon Brown

Simon's stock tips

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

GRAND PARADE

Burger King still costing money

Grand Parade's results for the six months to December 2018 show that gaming continues to be its only profitable element, while Burger King continues to lose money. This is despite improvement in a number of metrics. Average revenue per store, number of tickets per store and average ticket price all increased and boosted revenue by 35%. Yet, at a headline earnings level, the loss increased by 66% to just under R9.5m for the six months while gaming and leisure increased 15% to almost R75m. It also announced plans to roll out 15 new Burger King stores per year for the next three years. With cash sitting at only R110m Grand Parade will have to continue using gaming profits to fund these new stores, so in all likelihood there will be no dividends for the next three years at least. Management, and shareholders, must be ruing the day the company decided to move into quick service restaurants. The strategy still has to prove its worth. Even with the share at a deep discount to net asset value (NAV) I am not tempted to buy.

WILDERNESS HOLDINGS

Following the delisting trend

The spate of small cap delistings continues, with Wilderness Holdings the latest to announce an offer. This trend is likely to continue as many of these stocks have seriously cheap valuations. For now, the small-cap sector is shrinking. But it will return. We'll have another listing boom in time. This is the nature of markets. When values are depressed, investors get depressed. They stop buying, volumes drop, and this leads to even lower prices. Valuations get cheap and stocks delist. Eventually things pick up, the economy does better and markets start rising. Then companies want to list at the high valuations, as these higher valuations mean better prices for the listing. Nobody wants to list in a depressed market. But for now, we mourn the lost listings and wait for the next boom.

ASCENDIS HEALTH

A company in serious trouble

Ascendis Health's interim results (for the period to end-December) were bleak, albeit revenue was up, and margins improved. But the problem is a massive debt burden of some R5.3bn, more than double the R2.2bn market cap. In order to get that debt down, Ascendis is in talks to sell the Remedica business, which generates about a third of revenue. It may also have to sell some other assets as well and the majority shareholder (Coast2Coast) is likely to have more forced share sales. This is a company in deep trouble and successfully extracting themselves from this is not a certainty.

METROFILE

Photo: Company report

Disappointing results

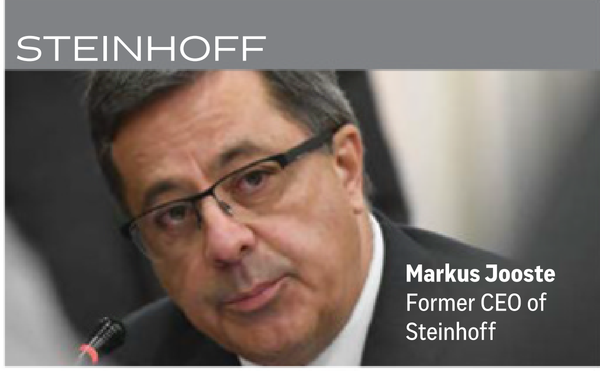
Metrofile's* chief financial officer (CFO) stepped down with immediate effect just ahead of the interim results to end-December 2018. The results help us understand why. Revenue was up 7.5% thanks to the Kenyan operations kicking in and the CSX group doing well, but headline earnings per share (HEPS) was off 34.6% at 10.2c. This is less than the 13c dividend paid for the December 2017 interim period. There are a few issues here, including higher debt payments for the Kenyan business, but also a tax rate that spiked to 40%. Speaking to an analyst who covers Metrofile, it seems that it was "likely due to the interest on the loan to buy into Kenya being non-deductible for tax purposes". That would explain why a new CFO was rushed in. As a shareholder, these are very disappointing results. But I'm assuming they can restructure the tax issue and get back to a realistic tax rate (a normal tax rate would have added 25% to HEPS). The company remains cash generative and can likely pay off the debt in five years. I do, however, wonder if we won't see a cheeky offer to minorities here for a delisting?

METAIR

Turkey move pays off

Metair's results for the year to end-December are a lesson in watching our own biases. After a move into Turkey, many (myself included) decided that the political and economic issues in that country made Metair a horrid investment. But as much as outsiders mostly don't understand the nuances of business in South Africa, I fell into the same trap regarding Turkey. The results showed strong gains, good profitability and some R579m cash on hand (over 12% of market cap). On a price-to-earnings ratio (P/E) of around seven times and a dividend yield of over 4% the stock is cheap. But there are two risks here. Firstly, will investors remove their Turkey blinkers? If not, we won't see buyers driving the price higher. Secondly, being an original equipment manufacturer is a great business but remains risky as those contracts can end at any point.

STEINHOFF



Markus Jooste Former CEO of Steinhoff

Fraud runs deep

The summary report from PwC on the Steinhoff fraud has been released and while it lacks depth (the summary is 11 pages to the report's 3 000) it does detail fraud of some €6.5bn for the period 2009 to 2017. At current exchange rates that is over R100bn. Digging into Steinhoff results for the period from 2009 to 2017 reveals profits of some R70bn, suggesting that the entire company was just one giant fraud with no real profits. Steinhoff certainly does have some real assets (such as the 71% in Pepkor worth some R46bn). But by the time the lawsuits are done over the next decade or so there won't be much left for current shareholders.

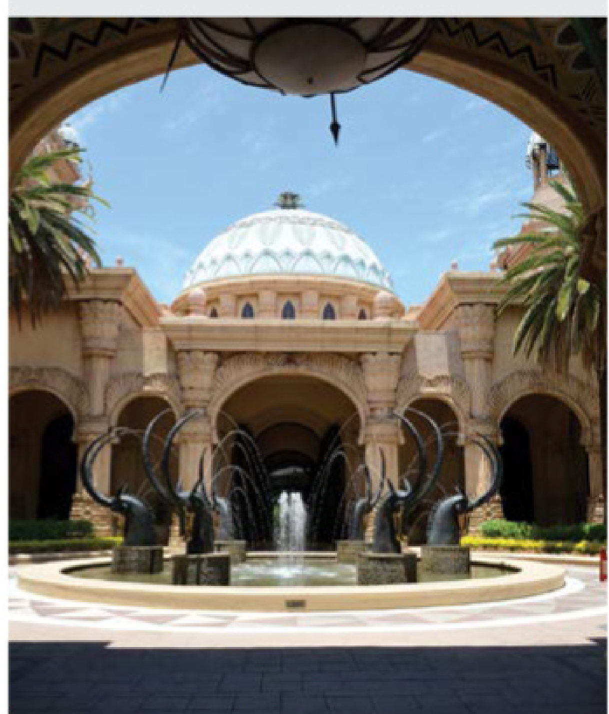
AFRICAN RAINBOW CAPITAL

A slow, long-term investment

When African Rainbow Capital listed, I criticised its fee structure and also said one would want to buy at a discount to net asset value (NAV), not the premium it was trading on at listing. Results now show intrinsic NAV at some 921c, while the share trades at around 470c, therefore offering a great discount. However, the largest chunk of NAV is in Rain, which is worth around 250c a share, with the business valued at around R11.7bn (African Rainbow Capital owns 20% of Rain). I think that valuation is very rich for a company that, as I have written before, is essentially a utility that sells data. While we're using more data, the price of data keeps dropping. At the same time capex expenses are significant. But if you think the Rain value is fair, then African Rainbow Capital looks very attractive. But don't expect any fireworks in the short or even medium term. This investment is going to play out slowly over the very long term.

Currently, gaming revenue is around 45% of total revenue and they could lose up to 20% of that revenue when the new smoking law is passed.

SUN INTERNATIONAL



A potential threat to revenue

Sun International's results for the year to end-December make mention of the Draft Control of Tobacco Products and Electronic Delivery Systems Bill 2018 that has been published for comment, but they make no mention of the possible impact of the bill if it is passed. My sense is that the bill is very likely to be passed, albeit not any time soon as Parliament has dissolved to go electioneering, but it does ban anybody from "smoking in an enclosed public place". I have written before that this is expected to have a serious impact on gaming revenue locally – as happened in Australia when they introduced a law against smoking indoors. Coupled with tough economic conditions and a large debt burden (albeit smaller after a rights issue for R1.6bn) of R9.2bn, a hit to gaming revenue is going to hurt. Currently, gaming revenue is around 45% of total revenue and they could lose up to a 20% of that revenue when the new smoking law is passed, so overall a potential hit of 10%. Again, referring to the Australian example: The lost revenue did return after about three years. ■

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**The writer owns shares in Metrofile.*

Photos: Gallo/Getty Images

By Schalk Louw

REGULATION

5 easy ways to avoid fraudsters

Fraud is real. Therefore, before you enter into any investment agreement, there are precautionary measures you need to take to ensure you aren't misled.

Nature never ceases to amaze me. A few years ago, during winter, our border collie passed a little too close to our heater at home and, out of sheer curiosity about this heat-emitting wonder, walked away with a burnt snout. To this day she avoids the heater by a few meters, even when it's switched off, because she has learnt from her mistake.

In the last decade names like Fidentia, Herman Pretorius, Leaderguard, King Group and Sharemax haven't only been synonymous with fraud, but have also been responsible for the loss of millions in hard-earned money. Students were forced to give up their studies, peace of mind was destroyed, and retirements were postponed (in some cases indefinitely), to name only a few of the horrid consequences for the victims of these fraudsters.

Unfortunately, it seems as though many South Africans tend to forget these types of events too quickly and they often walk into the exact same trap again when promised "quick and easy returns over the short term" by deceiving individuals.

Even when investors know that something sounds too good to be true, the promise of a 'brighter' future seems too good to resist and, unlike our border collie who learnt her lesson, they run the risk of getting burnt again.

My aim this week isn't to turn back time or to determine who should be blamed for what. Rather it would be to provide tips on how you as an investor can avoid these traps by learning from your own mistakes, as well as from those of others.

I offer you five questions you should ask yourself before entering into any type of investment agreement in future.

1. Is this company approved by the Financial Services Conduct Authority (FSCA)?

Before you invest, contact the FSCA either telephonically or by visiting their website at www.fsca.co.za to make absolutely sure that the investment company and its advisers are approved by the FSCA to manage the products related to your investment. Avoid the company if it is not an FSCA-approved provider, or if approval has been suspended.

2. What do I know about this company's history?

Do proper research on the company and familiarise yourself with its management and the way they function. Contact references or make use of the internet to determine if anyone has ever been misled by the company or any of its advisers. If the proposed scheme or investment seems similar to a previous fraudulent scam, walk away. It's simply not worth the risk.

If you don't understand the process and your adviser cannot explain it to you in a clear and concise manner, be careful.

Photo: Shutterstock

3. How much am I investing and how much will I earn?

Be wary of promises of high returns over a short period of time. Chances are it's either a scam or involves something illegal. Always remember the old saying: If it sounds too good to be true, it most probably is.

4. When will I get my earnings?

The moment you are told that you will be made rich within a few months or even within days, be extremely careful. Unless you win the Lotto, I have yet to find a legal investment that can guarantee you any form of immediate fortune. Come to think of it, be wary of the word 'guaranteed' when it comes to investments in general.

5. How will I earn it?

Ensure that you know exactly how your money will be invested. If you don't understand the process and your adviser cannot explain it to you in a clear and concise manner, be careful. Remember, it is your money and you need to understand how it will be invested. Do not hesitate to reject a proposal or to request an alternative investment proposal if you feel uncomfortable with any aspect involved in it.

Always use good judgement when making choices that can affect your future. Don't let a testimonial by some 'important' or a famous person be the deciding factor in why you choose a particular investment company.

I recommend that investors always seek the advice of a recognised, FSCA-approved financial adviser before making any big investment decision. I know that "extra" adviser fee may seem like a waste of money, but these advisers are experts in their respective fields and they possess the ability to identify and prevent mistakes. Learn from the mistakes people have made in the past and remember: The choice is always yours. ■

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By Simon Brown

PASSIVE INVESTING

A pick of global ETFs

When it comes to selecting an exchange-traded fund to invest in, it makes sense to go for those that track global growth while also providing you with wide diversification. There are four such options on the JSE.

Exchange-traded funds (ETFs) are passive investment tools. We buy them and let them do their thing, creating wealth over time. Yet, we then get smart and hope to pick the best ETF. We try to figure out what sectors or geographies will perform best so that we can get increased returns.

The issue here is that, firstly, we may be wrong in our figuring and end up with poorer returns because we invested in wrong sectors or geographies. The issue is that this picking of 'better' ETFs is an active decision. This means that, in many ways, we mess with the whole concept of passive investing.

So, should we not then just buy a single global ETF? One that broadly tracks global growth and at the same time gives us wide diversification?

People are moving from the rural countryside into cities, and people continue to earn more and spend more. All this makes for a global growth story without having to decide which areas or sectors will do best.

If you believe in such a world view, there are four really different JSE-listed ETFs that offer global exposure.

The STXWDM tracks the MSCI Global Developed Market Index with a total expense ratio (TER) of 0.35%*. This ETF excludes emerging markets and has financials as the top sector at around 25% with technology second at around 18%.

We also have the GLODIV from CoreShares with a TER of 0.6%. Here dividends are used to filter the stocks and, for example, US stocks that are included have to have had 25 years of uninterrupted dividend payments. Technology is very light in this ETF as many of today's large tech stocks are not as yet even 25 years old, but it does include some 7% of emerging markets, excluding Africa. Here consumer staples are your largest sector, at almost 20%, with tech stocks at 4%. Consumer staples are typically fairly resilient, offering some level of stability. Important here is that while 'dividend' is included in the full name of the ETF, the focus is not on higher dividend payments. Rather it is merely the metric for inclusion.

ASHGEQ**, with a TER of 0.56%, tracks the S&P Global 1200 Index from across the world, and includes 7% emerging markets (again also excluding Africa). This is what makes it attractive to me. It has about 15% in technology and 14% in banks. So, a little lighter on tech, albeit the top three holdings are Apple, Microsoft and Amazon and make up almost 6%.

SYG500** tracks the S&P 500, with a TER of 0.16%. While it is a US index, the stocks within the index are mostly global companies operating across the world. For example, Apple is the largest holding and sells its products in almost every country in the world. So, while it's a US index, it is in some sense actually a global index. Here we have technology at around 25% with financials the second-largest sector at some 18% (the inverse of the MSCI World Developed index).

Importantly, all these ETFs will trade in rand on the JSE, but the underlying indices are US-dollar priced and many of the stocks will be in yet other currencies. As the rand strengthens (and for purposes of this example, assuming the index value does not change) the ETF price will fall.

As the rand weakens against the dollar, the ETF will rise. This will not necessarily be linear, of course. Broadly, during periods of a stronger rand, returns may not be so great compared to, say, a local Top40 ETF. But over the long-term we can expect that rand weakness against the dollar will add some profits to the ETF. ■

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*All TER rates are correct at time of writing on 22 March.
**The writer owns SYG500 & ASHGEQ.

People are moving from the rural countryside into cities, and people continue to earn more and spend more. All this makes for a global growth story without having to decide which areas or sectors will do best.

Photo: Shutterstock

By Lucas de Lange

JSE

Platinum groups shine on JSE

...but the market as a whole is performing poorly.

The fact that six out of the top ten strongest shares among the 100 largest companies on the JSE – as measured by market cap – are currently platinum group metals (PGM) miners is a historical first on the bourse, as far as can be ascertained. It is as a direct consequence of especially record prices for palladium and expectations that the other PGMs, particularly platinum, could in future experience a major bull trend.

This is happening at a time when the JSE is still performing poorly. Among the 100 largest companies, a mere 38% are currently lying above their 200-day exponential moving averages (EMAs).

Even Lonmin, which for many years was one of the weakest and often the weakest share on the list, is beginning to shine. Since its low in July, it has climbed by about 132% and is now number three on the list of strongest shares. This, of course, also goes hand in hand with its proposed incorporation into Sibanye-Stillwater, which is in fourth place.

There is currently great interest in Sibanye owing to the power struggle between its CEO, Neal Froneman, and Joseph Mathunjwa, leader of the Association of Mining and Construction Union (Amcu). In mining circles it is believed that the outcome of this power struggle could have a major effect on the role trade unions will play in future. It is believed that one of President Cyril Ramaphosa's most important tasks after the election would be to curtail the large role played by trade unions in SA politics. There are just too many instances of the tail (the unions) wagging the dog (government). This is what Amcu is currently trying to do. It wants to escalate a strike occurring at certain gold mines to a national level.

The power struggle stems from an Amcu-led strike at Sibanye's gold mines, which has been ongoing since November. In order to put pressure on Froneman, Mathunjwa is trying to organise sympathy strikes at other gold mining groups, as well as at certain platinum mines. Sibanye turned to the courts in order to prevent this and won its case, which has had a positive effect on Sibanye's share price.

Sibanye's ace is the strong cash flow generated by its Stillwater subsidiary in the US, which, as one analyst put it, is currently printing dollars owing to the record prices it's getting from its large production of palladium. Froneman could therefore keep going for quite some time, while Amcu's members are suffering.

Should Amcu's attempts end in failure, it would undermine the union's power play. The country simply cannot afford the production of the platinum industry to be paralysed by strikes, as was the case in 2014.

There is currently much interest in investing in platinum as is evidenced by research notes that recommend the shares. An analyst at Coronation, Nicholas Hops, has stated in an excellent analysis that the demand for vehicle catalysts is being underestimated. (Vehicles represent about 70% of the demand for these metals.) He points out that legislation to prevent the emission of poisonous gasses will be the strictest in China, the world's biggest vehicle market. He concludes that there will be an increase in the long-term demand for these metals. He regards Amplats and Northam as the top-quality shares in this sector.

Among the weakest shares, Shoprite, Massmart and Mr Price are probably getting the most attention. Reports do, however, indicate that shares such as these have good recovery potential, provided the economy can start growing again. The weakest share on the JSE – Tongaat Hulett – is, however, totally depressed.

Among the shares that have broken through, AB InBev, Barloworld, British American Tobacco (BAT) and MTN all find themselves in a buy zone around their 200-day EMAs. Sasol also looks interesting and is supported by a rising price/volume trend which points to accumulation. ■

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

WEAKEST SHARES*

COMPANY	% BELOW 200-DAY
TONGAAT	-69.95
ASPEN	-48.22
FORTRESS B	-27.14
MASSMART	-23.81
WBHO	-23.52
ASTRAL	-21.81
MR PRICE	-19.93
MEDICLINIC	-19.53
SHOPRITE	-19.28
HYPROP	-18.9
TRUWORTHS	-18.74
SAPPI	-16.97
PPC	-16.41
PIONEER FOODS	-16.36
DIS-CHEM	-15.2
NAMPAK	-15
WOOLWORTHS	-14.74
DISCOVERY	-13.32
RESILIENT	-12.87
SA CORPORATE	-12.79
RMI HOLDINGS	-12.77
JSE	-12.7
AVI	-10.51
TIGER BRANDS	-10.27
CORONATION	-10.15
LIBERTY HOLDINGS	-9.87
EMIRA	-9.36
VODACOM	-8.57
REMGRO	-8.27
ABSA GROUP	-8
SUPER GROUP	-7.7
INVESTEC PLC	-6.94
NEDBANK	-6.7
PICK N PAY	-6.32
TFG	-6.3
SANLAM	-6.14
FIRSTRAND	-6.12
RMB HOLDINGS	-6.04
MMI HOLDINGS	-5.79
PEPKOR HOLDINGS	-5.64
REDEFINE	-5.48
NETCARE	-5.14
RHODES	-4.3
KAP	-4.24
MONDI LTD	-3.42
MERAFE	-3.38
MONDI PLC	-3.11
SPAR	-3.04
NEPI ROCKCASTLE	-2.9
SUN INTERNATIONAL	-2.7
GROWTHPOINT	-2.5
TSOGO SUN	-2.43
ADCOCK INGRAM	-2.14
BIDVEST	-1.87
EQUITES	-1.55
VUKILE	-1.25
RICHEMONT	-1.2
STANDARD BANK	-0.7
OCEANA	-0.61
SANTAM	-0.34

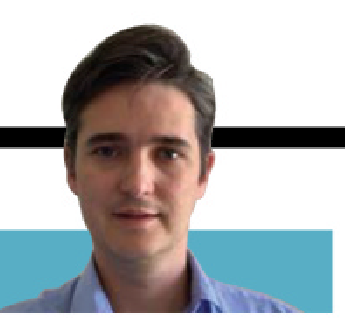
STRONGEST SHARES*

COMPANY	% ABOVE 200-DAY
IMPLATS	83.25
AMPLATS	55.39
LONMIN	47.46
SIBANYE-STILLWATER	46.9
NORTHAM	46.81
ANGLOGOLD ASHANTI	31.15
TELKOM	27.16
KUMBA IRON ORE	26.8
ROYAL BAFOKENG PLAT	26.37
GOLD FIELDS	23.36
ARM	23.26
CAPITEC	22.32
ANGLO AMERICAN	17
ASSORE	16.95
EXXARO	15.78
HARMONY	13.46
BHP	12.96
THARISA	11.52
SOUTH32	9.45
FORTRESS A	8.39
MPACT	7.65
NASPERS N	7.65
PSG	6.48
BIDCORP	6.38
PAN AFRICAN	6
GLENCORE	4.72
RAUBEX	3.78
LIFE HEALTHCARE	3
AB INBEV	1.94
TRANSACTION CAPITAL	1.93
BARLOWORLD	0.95
BAT	0.82
SASOL	0.56
VIVO	0.16
MTN GROUP	0.13
CLICKS	0.08

BREAKING THROUGH*

COMPANY	% ABOVE 200-DAY
AB INBEV	1.94
TRANSACTION CAPITAL	1.93
BARLOWORLD	0.95
BAT	0.82
SASOL	0.56

**Based on the 100 largest market caps.*



By Petri Redelinghuys

FUNDAMENTALS

Understanding price patterns

Ultimately, at the centre of a trade is price. The trade won't take place unless both buyer and seller agree on the price. And this interaction in turn drives the price of securities.

An important component of technical analysis is price patterns. The easiest way to understand price patterns is probably to start with an explanation of trade action.

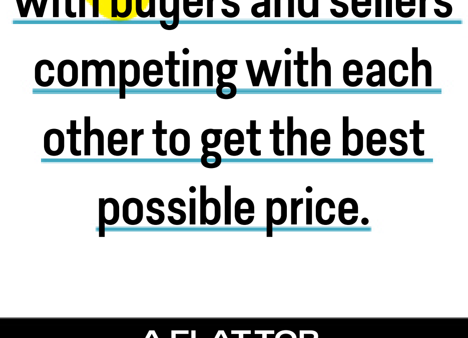
Every day investors, traders, professional and institutional as well as private individuals all buy and sell securities on the exchange. The numerous types of market participants are buying or selling for their own unique reasons, with their own unique views, ideas and beliefs around what the securities they are trading are worth.

The meeting point of buyers and sellers, for whatever reason they are acting, is price. No trades can take place unless both the buyer and the seller agree on a price. This drives the price of securities... buyers bring with them demand for a security while sellers bring supply. The market runs like a continuous auction throughout the day, with buyers and sellers competing with each other to get the best possible price.

From time to time a larger market participant like an investment bank, or a unit trust or hedge fund (or even a really wealthy individual) will take a view and execute a trade. When these really large participants want to buy, for example, the number of shares that they want, it could represent days' worth of the average daily volume traded in a particular stock.

In a totally hypothetical scenario, for the purposes of example, let's say that Balanced Fund A wants to take a portion in FirstRand and because of the fund's sheer size, needs to buy 15m shares in order to fill its order. Now, FirstRand only really trades an average of 5m shares a day, so the fund will have to buy three days' worth of trading volume in order to fill its order. If they had to try and buy that number of shares in just one day, it would represent a huge amount of demand and undoubtedly drive the price significantly higher.

The same would happen if they tried to do it over three days, as they would have to be the buyer to every seller and therefore compete for the best price. In doing so, they'll drive the price significantly higher. Their objective is to get the best price possible for the purchase of the shares, but also to complete the purchase of the shares in ten trading days. As much as they don't want to 'show their hand' to the market, they still need to be aggressive buyers in order to buy 15m shares in ten trading sessions. They decide to step in and buy whenever the share price comes down from a dip. They'll then continue buying until they find a large seller, at which point they stop buying and allow the stock price to dip again.



The market runs like a continuous auction throughout the day, with buyers and sellers competing with each other to get the best possible price.

This process is to be repeated until they have all the shares they need. Buying will become more aggressive as they move closer to their ten-trading day deadline.

Simultaneous to this buying process, let's suppose that Balanced Fund B is looking to sell 7m FirstRand shares over the same period. They too want the best possible price for their stock but have decided to be more patient and not accept a cent less than the price they want. They wait until the price comes up to the level they are willing to sell at and then only sell at that price. The more people are willing to buy at their price, the more they are willing to sell.

Now we have a situation where on the buy side of the market a participant is aggressively buying up stock when the price dips, facing off against a participant who is standing their ground and selling only at a specific level. Over time, say a week-and-a-half, a price pattern has emerged. Consecutive higher lows, with consecutive highs at the same level. Also known as a flat top triangle.

Eventually, Balanced Fund B has sold all they have to sell, but Balanced Fund A still needs stock and they need it fast because their deadline is looming. So, when the overhead supply dries up, there are no sellers left to keep price down. But Balanced Fund A still needs to aggressively buy stock. The formation breaks and price moves rapidly higher, with the large buyer being forced to pay up for stock.

Scenarios like the fictional one above play out in the market almost constantly. That is the very nature of the market and the driving force behind longer-term price trends.

Large institutional investors take views and drive prices for days, weeks, or months at a time, employing all sorts of tactics to attract buyers or sellers to a specific level so that they can transact and take positions. This, coupled with herd mentality and the interaction of millions of different participants for as many reasons, forms price movement patterns that stretch over extended periods of time and can be used to make probabilistic forecasts on where price might move in future. ■

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

A FLAT TOP TRIANGLE FORMATION

Photo: Shutterstock

By Maarten Mittner

GLOBAL MARKETS

How a fresh financial crisis can affect markets

Many factors that have led to previous financial crises are currently in place and it may prove impossible to avert another market setback.

Crisis talk is in the air again.

Markets had a generally positive start to 2019, but further gains have been hard to come by as markets increasingly price in weaker global growth and a negative outcome to the ongoing trade talks between the US and China. The fact that Brexit is going down to the wire, following three years of negotiations to effectively prevent a hard Brexit, has done little to increase confidence.

Locally, markets remain under pressure from disappointing company results, the ongoing power crisis and uncertainty about President Cyril Ramaphosa's grip on the ANC and government.

Eminent *Financial Times* commentator Martin Wolf recently warned that further financial crises are inevitable. It may be impossible to avert another market setback, he contended.

Many factors that caused crises in the past are seemingly in place now, including falling bond yields as investors flee to safe-haven investments.

The world has not experienced a crisis since 2009 with the Great Recession, which was preceded by the Dot-com bubble in 2001 and the East-Asian crisis in 1997.

Financial crises are usually preceded by massive imbalances in the financial system. The Great Recession of 2009 followed on a booming US housing market, characterised by sub-prime mortgage lending by banks. When interest rates rose, customers defaulted, causing a spiralling-out effect as banks went bust under the large debt yoke.

The 2001 crisis occurred due to the over-inflated valuations of tech companies, much like the present reality with Facebook, Apple and Amazon. Today the wealth gap is even more pronounced than then, leading to gains by populist politicians globally.

Central banks usually react to crises by making money cheaper again. Interest rates are lowered and market liquidity is increased by printing more money. And so, economies are artificially stimulated. That has been the tried and tested strategy over the past few decades. The US Federal Reserve (Fed), and other central banks, have been quite successful with this as inflation remains subdued. But the challenge remains to address the unsustainable build-up of rising asset bubbles, usually the result of cheaper money.

When the Fed talks about "normalising" monetary policy by hiking interest rates, the bank is actually building in future safeguards against another financial crisis. That means they can then lower rates in the event of a crisis, and so put the economy on a revival path again.

Corrective actions by the Fed should boost markets again in the event of a crisis. That is the theory, but such steps may not have the same positive effect as in the past.

Up to now, the European Central Bank (ECB) and the Bank of England (BoE) have failed to emulate the Fed. Plans to hike rates, and wind down any asset-purchasing programme, are in place, but are constantly stymied by weak economic data and ongoing uncertainty about Brexit. In these circumstances any rate-hiking strategy will be premature as it would damage the EU economy in the tighter monetary environment before it has recovered under the looser conditions.

With the US leading the "normalisation" process, European economies are particularly vulnerable in handling any new crisis, made worse by recent weak economic data from Germany.

Growth in China is also levelling down. President Donald Trump's administration is particularly worried about this as a stronger dollar is widely seen as one of the main precursors of the 2009 Great Recession.

Asian money inflows into the US at the time kept the dollar strong, affecting US exports negatively. Chinese and Japanese investors snapped up US assets, thereby increasing valuations to risky levels. Against this backdrop the Trump administration remains worried about the growing US trade deficit and as the dollar trades at annual highs against the euro.

Looser monetary policies benefit equity markets, but could exacerbate the gap between the wealthy and others even more. Sharp falls in equity markets will be the result of any future crisis. In 2008 the Dow retreated 33.8%, and the JSE All Share fell 25.7%. But now the Fed has some ammunition to address any crisis by reducing rates, which have risen to between 2.25% and 2.5% after years of near-flat levels. This is a luxury the ECB does not have as rates remain close to zero.

Corrective actions by the Fed should boost markets again in the event of a crisis. That is the theory, but such steps may not have the same positive effect as in the past. At least initially. The fear factor has grown measurably, with the rush to safe-haven investments indicative of the lack of trust in central banks at present.

On the positive side, the digital economy has lowered business costs. The dominating tech companies sit on huge piles of cash, despite the monopolistic nature of Facebook, Amazon and Google. This is a major difference with the 2001 crisis, where profit growth was lacking in a fragmented environment. But this ostensible positive environment has yet to benefit the average worker's pocket.

For the moment the Fed holds the balance. But forces may be building up that could be out of its control. ■

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Photo: Shutterstock

DIRECTORS' DEALINGS

COMPANY	DIRECTOR	DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
ACCELERATE	D Kyriakides	15 March	Sell	163,888	338	553,941	20 March
AFROCENTRIC	WH Britz	19 March	Purchase	145,000	470	681,500	20 March
AFROCENTRIC	WH Britz	20 March	Purchase	50,000	470	235,000	22 March
AFROCENTRIC	WH Britz	25 March	Purchase	26,612	450	119,754	26 March
AFROCENTRIC	WH Britz	26 March	Purchase	62,500	470	293,750	27 March
AFROCENTRIC	AV van Buuren	26 March	Purchase	62,500	470	293,750	27 March
AFROCENTRIC	AV van Buuren	25 March	Purchase	26,612	450	119,754	26 March
AFROCENTRIC	AV van Buuren	19 March	Purchase	145,000	470	681,500	20 March
AFROCENTRIC	AV van Buuren	20 March	Purchase	50,000	470	235,000	22 March
ALEX FORBES	D de Villiers	13 December	Exercise Options	1,950,810	515	10,046,671	27 March
ASCENDIS	GJ Shayne	18 March	Sell	86,213	451	388,820	26 March
ASCENDIS	GJ Shayne	19 March	Sell	176,776	445	786,653	26 March
ASCENDIS	GJ Shayne	20 March	Sell	123,235	381	469,525	26 March
ASCENDIS	GJ Shayne	22 March	Sell	153,760	397	610,427	26 March
BAUBA	J Knowlden	15 March	Exercise Options	2,747,760	0	0	20 March
BAUBA	NM Phosa	18 March	Sell	10,100	61	6,161	21 March
BAUBA	NM Phosa	20 March	Sell	30,000	59	17,700	25 March
BAUBA	NW van Der Hoven	15 March	Exercise Options	2,747,760	0	0	20 March
BIDVEST	AW Dawe	22 March	Sell	1,300	20011	260,143	25 March
DISCOVERY	FN Khanyile	19 March	Purchase	800	14500	116,000	21 March
DRDGOLD	DJ Pretorius	20 March	Purchase	1,772	275	4,873	22 March
DRDGOLD	DJ Pretorius	19 March	Purchase	2,728	275	7,502	25 March
EXEMPLAR	J McCormick	20 March	Purchase	11,255,374	1000	112,553,740	23 March
EXXARO	MDM Mgojo	20 March	Sell	2,803	16590	465,017	25 March
EXXARO	MDM Mgojo	20 March	Exercise Options	5,799	6995	405,640	25 March
FAMOUS BRANDS	JL Halamandres	5 June	Sell	80	11366	9,092	22 March
FAMOUS BRANDS	JL Halamandres	6 June	Sell	800	11541	92,328	22 March
INVESTEC LTD	H Blumenthal	18 March	Sell	46,875	9150	4,289,062	21 March
INVESTEC LTD	N Samujh	22 March	Sell	13,584	8700	1,181,808	26 March
INVESTEC LTD	N Samujh	22 March	Purchase	16,416	8700	1,428,192	26 March
INVESTEC LTD	N van Wyk	18 March	Sell	2,547	9133	232,617	21 March
INVESTEC LTD	N van Wyk	18 March	Exercise Options	3,078	9133	281,113	21 March
INVESTEC LTD	R Wainwright	18 March	Sell	22,638	9130	2,066,849	21 March
INVESTEC LTD	R Wainwright	18 March	Exercise Options	27,362	9130	2,498,150	21 March
INVESTEC LTD	R Wainwright	18 March	Sell	42,446	9130	3,875,319	21 March
INVESTEC LTD	R Wainwright	18 March	Exercise Options	51,304	9130	4,684,055	21 March
INVESTEC PLC	D Miller	19 March	Sell	5,625	£4.76	£26 775	21 March
ITALTILE	LA Foxcroft	19 March	Sell	349,609	1350	4,719,721	25 March
LIBERTY	Y Maharaj	22 March	Exercise Options	10,600	9914	1,050,884	25 March
LIBERTY	DC Munro	22 March	Exercise Options	21,542	9914	2,135,673	25 March
LIBERTY	JM Parratt	22 March	Exercise Options	9,676	9914	959,278	25 March
MTN GROUP	SB Mtshali	20 March	Purchase	2,525	9351	236,112	26 March
NEDBANK	MWT Brown	18 March	Exercise Options	68,088	26185	17,828,842	21 March
NEDBANK	J Katzin	18 March	Exercise Options	1,541	26185	403,510	21 March
NEDBANK	J Katzin	19 March	Exercise Options	1,049	26129	274,093	21 March
NEDBANK	RK Morathi	18 March	Exercise Options	37,826	26185	9,904,738	21 March
NEDBANK	MC Nkuhlu	18 March	Exercise Options	44,132	26185	11,555,964	21 March
NEPI ROCKCASTLE	D de Beer	25 March	Purchase	150,000	11940	17,910,000	27 March
OLD MUTUAL	EM Kirsten	22 March	Exercise Options	15,931	2175	346,499	27 March
OLD MUTUAL	EM Kirsten	19 March	Sell	3,290	2208	72,643	26 March
OLD MUTUAL	MP Moyo	22 March	Exercise Options	219,027	2175	4,763,837	27 March
OLD MUTUAL	MP Moyo	22 March	Exercise Options	579,311	2175	12,600,014	27 March
OLD MUTUAL	CG Troskie	22 March	Exercise Options	119,371	2175	2,596,319	27 March
OLD MUTUAL	CG Troskie	22 March	Exercise Options	238,966	2175	5,197,510	27 March
PBT GROUP	V Strauss	20 March	Purchase	750	145	1,087	26 March

All data as at 12:00 on 27 March 2019. Supplied by IRESS.

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST		
Kibo	20	150.00
Kaydav	80	29.03
Sabvest	5995	25.42
Marshall	1900	21.64
4Sight	30	20.00
WORST		
Aveng	2	-33.33
Taste	9	-25.00
Ecsponent	22	-21.43
CSG	60	-21.05
MC Mining	796	-16.21

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	55 638.42	-0.90
JSE FINANCIAL 15	15 916.30	-1.86
JSE INDUSTRIAL 25	67 480.65	-0.94
JSE SA LISTED PROPERTY	476.17	-0.55
JSE SA RESOURCES	26 538.30	-0.01
JSE TOP 40	49 372.20	-0.91
CAC 40	530 738	-1.40
DAXX	1 141 948	-1.59
FTSE 100	719 629	-1.30
HANG SENG	2 856 691	-2.57
NASDAQ COMPOSITE	769 152	-0.48
NIKKEI 225	2 142 839	-0.84

*Percentage reflects the week-on-week change.

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
REBOSIS	51	27.7
ARROW	74	21.0
ACCPROP	55	18.3
FORTRESS B	197	16.9
MERAFE	22	15.5
LIGHTHCAP	93	14.1
GEMPROP B	79	13.2
SA CORP	44	13.0
INTU PLC	243	12.3
GEMPROP A	112	11.8

By Marcia Klein

HOW TO BET ON THE SMALLER GUY

Small- and mid-cap stocks offer value, but investing in them at present carries risk. If you are looking to invest here, you need to do your homework. Analysts provide tips on how to identify the high-quality stocks in the sector, and also offer their top stock picks.

It has been a long-held truth that mid- and small-cap stocks traditionally outperform their larger, more cumbersome rivals.

However, this has not rung true over the past few years. Over the last year, for example, the mid-cap index lost 7% while the Top40 index lost 1.4%.

This is partly due to the poor performance of the South African economy and partly to the precipitous fall of the share prices of companies like Steinhoff, Aspen, EOH, Tongaat Hulett and Resilient, to name a few, which has made investors all the more wary of investing in companies other than the Top40.

Steinhoff, Aspen and Resilient all slumped spectacularly out of the Top40, although investors may consider them specific cases in point.

"The market is completely out of love with small caps," says Anthony Clark, independent analyst with Small Talk Daily. "There have been massive redemptions and outflows from small-cap funds and significant derating of companies.

"There is currently zero interest by the wider market," he says. "But I have been covering this sector for 25 years and I have seen this story many times. When price-to-earnings ratios (P/Es) are down to three, four or five, nobody wants to buy and when a catalyst comes, it will turn, and it will turn fast."

Small-cap funds to keep an eye on:

SANLAM INVESTMENT MANAGEMENT SMALL CAP

Top 10 holdings: Implats, Homechoice, Renergen, Dis-Chem, Cartrack, BowCalf, Italtile, Trellidor, Grand Parade, ADvTECH

One-year performance: -14.83% (against benchmark -11.25%)

Three-year performance: 5.9% (against benchmark 7.67%)

OLD MUTUAL MID & SMALL-CAP FUND

Top 10 holdings: Consolidated Infrastructure Group, Tsogo Sun, Italtile, Invicta, Reinet, Rand Merchant Investments, Trencor, AngloGold Ashanti, PSG, ADvTECH

One year: -13.9% (-11.2%)

Three year: -2.1% (-1.1%)

ALPHAWEALTH PRIME SMALL & MID CAP FUND

Adcock Ingram, Hosken Consolidated Investments, Datatec, ADvTECH, Coronation, CSG, Santova, Sabvest, Wescoal, Stor-age

One year: -11.1% (-9%)

Three year: -20.8% (24%)

CORONATION SMALLER COMPANIES FUND

Top 10 holdings: Spar, Distell, PSG, ADvTECH, Famous Brands, RMI Holdings, Metair, Northam, Cartrack, Pepkor

One year: -11.1% (-7.2%)

Three year: 6% (5.8%)

ASHBURTON MID-CAP ETF

Top 10 holdings: AngloGold Ashanti, Gold Fields, Clicks, Impala Platinum, The Foschini Group, Spar, Exxaro, Life Healthcare, Netcare, Truworths

One year: -5.86% (-5.3%)

Three year: 4.76% (5.53%)

NEDGROUP INVESTMENTS PRIVATE WEALTH SMALL AND MID CAP EQUITY FUND

Top 10 holdings: Adapt IT, ADvTECH, Ethos, Adcorp, Hudaco, Curro, African Rainbow Capital, Howden, Sea Harvest, PSG

One year: -12.4% (-10.9%)

Three year: -3.9% (6%) ■

Photo: Shutterstock

There is little to suggest this turn will come soon, as the looming May election keeps investors on the fence and as economic growth, on which small caps rely, remains stubbornly elusive.

"There is significant value currently, but nobody gives a damn," Clark says. "This market is completely out of favour."

Clark says he would use the current market weakness to make selective investments.

The JSE considers companies in the Top40 index as large caps. It classifies mid caps as stocks ranked 41 to 100 on the market, while small caps are the companies with values smaller than the top 100 listed companies.

Alternatively, according to the JSE, large caps are companies with a market cap of over R10bn, while small caps have a market cap below R1bn. Companies between R1bn and R10bn are seen as mid-cap shares.

Small and mid caps offer value and, according to a number of metrics, are trading at attractive levels currently, says Jean Pierre Verster, portfolio manager at Fairtree Capital.

"At the same time, most are exposed to the domestic economy and things are tough at the moment. Shares may be cheap, but the operating environment that most of the mid- and small-cap companies operate in is very tough and the outlook is tough, compounded by uncertainty over the election in May and continuing load shedding, which has a detrimental impact on the local economy and operating environment."

Small and mid caps are trading at cheap P/Es which acknowledges that things look tough for these companies at the moment and that investment in these companies carries above-average risk, seeing as they are smaller and operating in a tough economic environment, and, should this continue for an extended time, may get into financial trouble, Verster says.

Jean Pierre Verster
Portfolio manager at
Fairtree Capital

The key is to know the difference between those companies that are good and those that are more stressed and focus on the more high-quality stocks if you are interested in the sector, he says.

At current valuations, there are numerous buying opportunities among small- and mid-cap companies. Here are some portfolio manager and analyst picks:

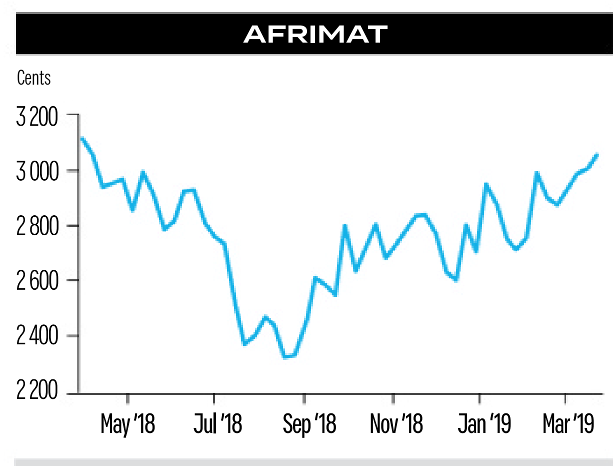
Afrimat

One-year share price performance: -3%
Three-year share price performance: 40%

This share is attractive at current levels, Verster says. It is run by a capable management team under CEO Andries van Heerden, a 2017 winner of the EY Southern Africa World Entrepreneur Award, who have been opportunistic in changing the exposure of the company.

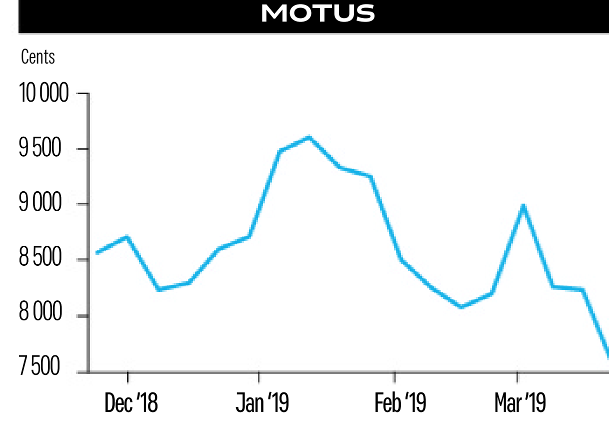
After focusing on construction through exposure to aggregates in the run-up to 2010, the company has since diversified into industrial minerals, and, more recently, to iron ore, which it is exporting, and which is generating attractive profits.

With a February year-end, Afrimat's 2019 results are imminent and as there has been no trading statement, it implies results are within 20% of 2018



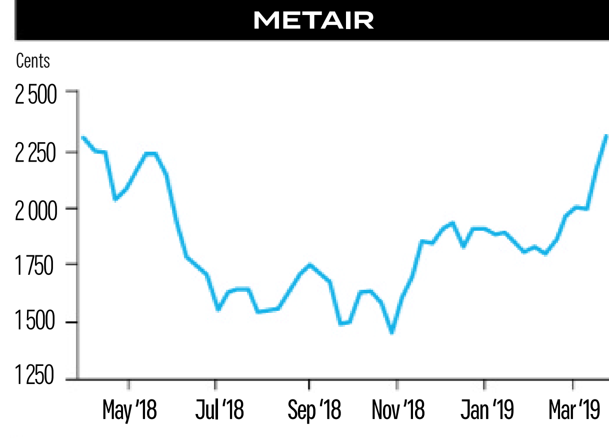
52-week range:	R22.27 - R31.80
Price/earnings ratio:	17.43
1-year total return:	-2.42%
Market capitalisation:	R4.3bn
Earnings per share:	R1.72
Dividend yield:	2.03%
Average volume over 30 days:	57 535

SOURCE: IRESS



52-week range:	R73 - R102.38
Price/earnings ratio:	-
1-year total return:	-
Market capitalisation:	R5.98bn
Earnings per share:	-
Dividend yield:	3%
Average volume over 30 days:	478 557

SOURCE: IRESS



52-week range:	R13.50 - R24.60
Price/earnings ratio:	6.88
1-year total return:	2.98%
Market capitalisation:	R4.48bn
Earnings per share:	R3.27
Dividend yield:	4.44%
Average volume over 30 days:	341 006

SOURCE: IRESS

What to look out for when investing in small and mid caps

Investment in small- and mid-cap stocks offers investors significant choice as there are over 330 companies to choose from, compared to the limited options in the Top40 which most fund managers focus on.

The 100th-largest company on the JSE has a market cap of over R10bn and there are over 150 companies with a market cap over R2bn, so there are many substantial and growing companies in these sectors to choose from.

These shares do, however, often have less liquidity and more volatility than the larger listed companies, which means that picking the right stocks is very important. Investors with limited in-depth knowledge of the companies on offer should look at investing in the sector through unit trusts and ETFs (see sidebar on p.31).

Over the long term, small and mid caps have outperformed their larger peers, although this has not held true for the last few years.

Investors have shied away from these counters as a result, but fund managers and analysts indicate that when market sentiment turns, these shares move swiftly, and investors should take advantage of the downswing to invest in high-quality companies.

Mid- and small-cap shares are generally deemed to represent "SA Inc" as they are more focused on the local economy than their Top40 counterparts. But in recent years the economy, policy uncertainty and water and electricity shortages have dampened confidence in the economy's growth prospects.

However, many of these companies have diversified geographically over several decades and are not overly reliant on local economic conditions.

Small caps struggle to get both institutional and individual investment interest as they are too small for institutional investors and many private investors consider them risky.

Small caps are rarely recommended, as few analysts cover them. Doing thorough research into smaller companies can give investors a competitive advantage if they are able to identify investments with good management and strong balance sheets, as these shares are largely ignored and under the radar of fund managers and analysts.

Many mid- and small-cap companies are cheap. Some companies will stay small and cheap, but some are rising stars and the large, successful companies of the future. Identifying those companies is difficult, but investing in smaller companies that grow exponentially can significantly increase one's wealth. ■

profits. First-half headline earnings declined 8.4%, and full-year results will likely not differ more than 20%, which in this environment is creditable, even if slightly down relative to the previous year.

Motus

Share performance since listing in November: -10%

Motus, the automotive business which unbundled from Imperial in November, is on the radar of a number of investors. Motus is now free to leverage its high cash generation and low gearing to fund new growth opportunities or return more cash to shareholders, Mergence Investment Managers portfolio manager Peter Takaendesa says.

"Motus operates a profitable integrated business model of automotive distribution, rental, spare parts and related financial services. We find Motus shares attractive based on the quality of the business model, attractive valuation of only seven times P/E to June 2019 and a sustainable dividend yield of over 6%."

Takaendesa says that despite a tough economic environment in South Africa and the impact of a weaker rand on its vehicle imports division, Motus managed to grow earnings and dividends by 15% in the half year to December.

Growth is likely to slow in the second half due to persisting weaker economic conditions as reflected in new vehicle sales, "but the business has a strong management team and is well-positioned to capitalise on any recovery in the South African economy over the midterm. The attractive dividend yield, at least, means you get paid to wait for now."

Peter Takaendesa
Portfolio manager at Mergence Investment Managers

Verster says while Motus is exposed to the local economy it also has significant exposure offshore which investors may underestimate. According to Verster, while Motus might not show strong full-year growth, the share looks attractive relative to earnings with a P/E well under 10 times.

"Its non-South African exposure accounts for a third of revenue and this is expected to increase as it makes further acquisitions offshore. Lower new car sales are supplemented by growing offshore earnings and revenue-increasing activities other than new car sales such as parts, spares, and servicing. It also has good management under Osman Arbee, the longstanding CEO of this division."

Metair

One year: 0.5%
Three year: 17%

Metair results for the year to December were above expectation, with revenue up 8% and earnings up 16%. Verster says Metair trades at a P/E of around seven, and the share price has risen quite a lot in the last month on the result, which was driven by offshore operations.

Photos: Archives

It has done well in Turkey where, notwithstanding a difficult environment and depreciation of the lira, it grew profits in rand terms. In its energy storage division, its lithium ion battery is benefitting from the trend where more and more cars are following start-stop technology.

Metair has growth opportunities in South Africa, Turkey and Romania and has agreements with manufacturers in Germany and China. It has a good management team under longstanding CEO Theo Loock and its results set it up well to continue the momentum. At its current price, there is still significant upside.

Verster points out that well-regarded activist investor Value Capital Partners has taken a significant stake in Metair, and it has, with companies like Altech and Adcorp, had a positive impact on companies in which it invests.

Quantum Foods

One year: -26%
Three year: 30%

Quantum Foods, which is involved in animal feeds and agriculture, has a net asset value (NAV) of R9 and sits on a cash hoard, says Clark. Its share price is R3.50 with a P/E going forward of five. Clark points out that the market "simply does not understand the agricultural cycle or the business".

He is expecting a rerating "because a P/E of two, three or four is simply too cheap, though it is coming off a high, unsustainable base. They have managed the expected weak egg cycle which accounts for a third of the business. Its weakness will be balanced by the more stable poultry and animal feeds business. The company has bought back 18% of its shares in the past year, which will assist headline earnings per share (HEPS) and it still pays generous dividends."

Keith McLachlan
Fund manager at AlphaWealth

Adcock Ingram

One year: -10%
Three year: 40%

Adcock Ingram has a rich portfolio of well-branded medicines and healthcare products in South Africa and African export markets, according to AlphaWealth fund manager Keith McLachlan.

About two-thirds of its products are exposed to single-exit pricing regulation in South Africa and the recent increase should filter through over the course of the next year, boosting revenues and profits.

Adcock has an ungeared balance sheet, is highly cash-generative and has a great return on capital, McLachlan says. Management wants to buy synergistic businesses and in the absence of acquisitions, he expects management to return excess capital to shareholders through dividends or share buy-backs.

"Any outcome would generate shareholder upside and, to be honest, we are agnostic as to how we receive that upside."

McLachlan says Bidvest's 38% holding in Adcock constricts its free float and creates an unnecessary overhang. However, Bidvest plans to sell its holding

QUANTUM FOODS

52-week range:	R3 - R5.40
Price/earnings ratio:	2.12
1-year total return:	-5.13%
Market capitalisation:	R724.22m
Earnings per share:	R1.62
Dividend yield:	20.35%
Average volume over 30 days:	98 408

SOURCE: IRESS

ADCOCK INGRAM

52-week range:	R56 - R72
Price/earnings ratio:	14.86
1-year total return:	-8.86%
Market capitalisation:	R10.55bn
Earnings per share:	R4.10
Dividend yield:	3.05%
Average volume over 30 days:	192 668

SOURCE: IRESS

EXXARO

52-week range:	R102.52 - R174.54
Price/earnings ratio:	6.14
1-year total return:	61.49%
Market capitalisation:	R58.89bn
Earnings per share:	R26.45
Dividend yield:	6.63%
Average volume over 30 days:	1 108 294

SOURCE: IRESS

"to create a catalyst for South Africa's first major black-owned healthcare company".

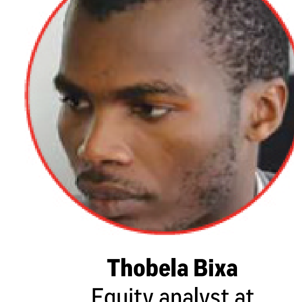
"Adcock Ingram is a superb, high-quality group with a range of upside options available to drive forward returns in the stock," he says, adding that it is cheaper than its rivals.

Exxaro

One year: 53%
Three year: 127%

Exxaro is trading at significant discounts to its peers and its own long-term valuation levels, according to Thobela Bixa, equity analyst at Mergence Investment Managers. "There are market concerns that the company may overpay for growth coal assets in South Africa, but we believe the current management team is fully aware of these concerns," he says.

In addition, there is potential for R5bn to R7bn of cash coming from the divestment of its Tronox-related stakes. This amounts to R20 to R28 per share of cash that could be paid to shareholders in the next 12 months as special dividends, Bixa says.



Thobela Bixa
Equity analyst at Mergence Investment Managers

Photo: www.mergence.co.za

Metrofile

One year: -62%
Three year: -68%

Metrofile, trading at R1.48, was a one-time darling of investors, with a stable annuity income-based business from document management and related services and a strong focus on digital, says Clark. Over the last 12 months the share price has collapsed, but the stock is majority owned by well-known investor Christopher Seabrooke, "whose track record is unparalleled in growing and managing companies", Clark says. "The recent weakness in the share price and results will spur management to reconfigure the company and reduce debt, leading to earnings growth. At R1.48 this looks like a bargain."

KAP Industrial

One year: -11%
Three year: 26%

KAP is mainly a manufacturing group with significant exposure to chemicals, integrated timber products, automotive components and bedding, but it is also exposed to logistics in South Africa and the rest of Africa, according to Takaendesa.

This means the group is not immune to the challenging economic conditions in South Africa, he says, but KAP "has invested significantly over the past few years to improve its competitive position and is gaining market share as evidenced by continuing earnings growth despite a shrinking overall manufacturing sector in South Africa".

"The legacy relationship with Steinhoff has likely overshadowed some of the attractive aspects of KAP's investment case. However, we believe strong cash generation, attractive valuation and improvements to profitability as they leverage the new investments will reward investors with above-average returns over the next few years," says Takaendesa.

METROFILE

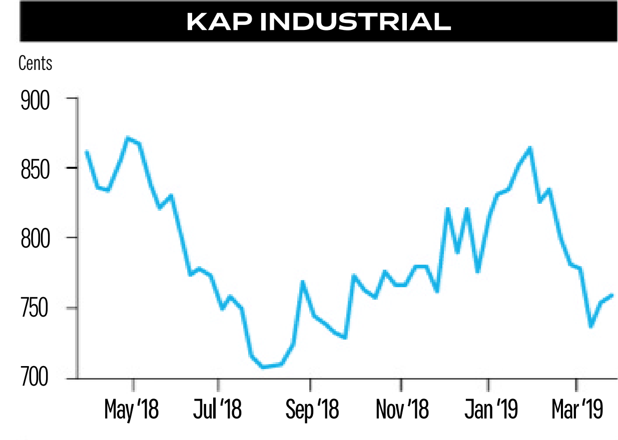
Cents
400 350 300 250 200 150 100
May '18 Jul '18 Sep '18 Nov '18 Jan '19 Mar '19

52-week range:	R1.30 - R4.20
Price/earnings ratio:	5.84
1-year total return:	-60.03%
Market capitalisation:	R587.44m
Earnings per share:	R0.24
Dividend yield:	9.35%
Average volume over 30 days:	235 164

SOURCE: IRESS

"KAP has invested significantly over the past few years to improve its competitive position and is gaining market share."

KAP INDUSTRIAL



52-week range:	R6.90 - R9
Price/earnings ratio:	13.92
1-year total return:	-16.27%
Market capitalisation:	R19.01bn
Earnings per share:	R0.54
Dividend yield:	3.19%
Average volume over 30 days:	2 155 788

SOURCE: IRESS

Stadio

One year: -27%

Recent results from the tertiary education business, founded by founder and former CEO of Curro Chris van der Merwe, showed it is performing significantly better than expected, Clark says. "The tertiary segment of the economy remains buoyant and it has excellent growth prospects. The company will need significantly less capital to grow than the market expects, leading to less rights issues and lower levels of debt compared with what it took to grow Curro," he says, referring to PSG's other education investment.

"The share price is well off its listing high and is now trading at around R3.47. The stock has significant long-term growth prospects and the J-curve effect may kick in sooner than anticipated."

Clientèle

One year: -0.3%

Three year: 15%

According to McLachlan, Clientèle has been one of the few insurance businesses that has focused exclusively on the under-penetrated, low-LSM market and, driven out of economic necessity, the group has cultivated a unique route-to-market that has become quite a robust competitive advantage: independent field advisers. He says Clientèle is materially higher margin, better and more profitable than the other life insurers and its share is trading at an all-time low valuation.

"The share price is well off its listing high and is now trading at around R3.47 and the stock has significant long-term growth prospects, and the J-curve effect may kick in sooner than anticipated."

Sabvest

One year: 58%

Three year: 82%

Sabvest is an investment holding company that has been listed on the JSE for many years. The majority of Sabvest is a good-quality business, according to McLachlan. The group's long-term track record certainly shows that its management are superb capital allocators, he says.

"It is both a high-quality investment vehicle and one with predominantly good-quality underlying assets." He says both Rolfes and Metrofile, in which Sabvest is invested, have good growth potential, while another of its investments, Transaction Capital, has long runway growth, at a relatively pricey premium.

McLachlan is, however, less certain about Net1 UEPS Technologies and Brait, in which it also has holdings. These two are, however, less significant in its portfolio.

"In the unlisted portfolio, the core labeling and trimmings businesses (SA Bias & Mandarin Holdings) are great businesses with long track records and little risk of this changing," he says, while the niche food businesses also hold growth potential.

"Sabvest's Ordinary and N shares have barely traded over the last couple of decades being listed on the JSE. This is not because no one wants them but because they were tightly held by insiders and anchor investors. This historical lack of liquidity is a large reason for the major discount in the share price against the NAV underpin." ■

editorial@finweek.co.za

STADIO

52-week range:	R3.20 - R5.85
Price/earnings ratio:	42.33
1-year total return:	-23.53%
Market capitalisation:	R2.98bn
Earnings per share:	R0.09
Dividend yield:	-
Average volume over 30 days:	332 592

SOURCE: IRESS

CLIENTÈLE

52-week range:	R13 - R22.99
Price/earnings ratio:	12.34
1-year total return:	-5.83%
Market capitalisation:	R5.2bn
Earnings per share:	R1.26
Dividend yield:	8.06%
Average volume over 30 days:	13 463

SOURCE: IRESS

SABVEST

52-week range:	R30.25 - R67.50
Price/earnings ratio:	11.29
1-year total return:	20.22%
Market capitalisation:	R2.01bn
Earnings per share:	R5.31
Dividend yield:	1.13%
Average volume over 30 days:	527

SOURCE: IRESS

DON'T FALL FOUL OF THE LAW!

The Occupational Health and Safety Act aims to provide for the health and safety of persons at work and for the health and safety of persons in connection with the activities of persons at work and to establish an advisory council for occupational health and safety.

The Occupational Health and Safety Act applies to all employers and workers, but not to:

- Mines, mining areas or mining works (as defined in the Minerals Act);
- Load line ships, fishing boats, sealing boats, whaling boats (as defined in the Merchant Shipping Act) and floating cranes – whether in or out of water – and people in or on these areas or vessels.

By law companies are expected to adhere to South African standards and regulations. The framework for these standards is set in the Occupational Health and Safety Act of 1993. Having an effective and accurate Occupational Health and Safety System in place allows you to be on top of safety within your working environment and have control of your contractors.

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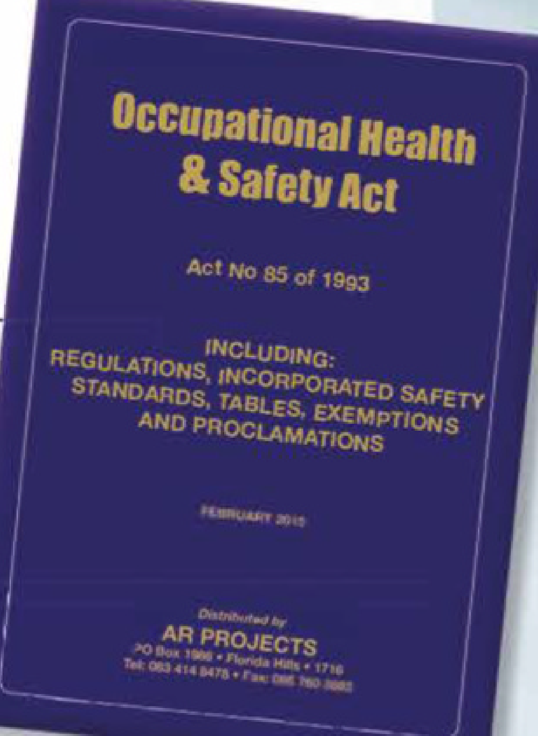

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>> **Tech:** On the issue of surveillance *p.41*
>> **Entrepreneur:** A world-class, South African skincare range *p.42*
>> **Management:** Why you need to ensure your company remains relevant *p.44*

CEO INTERVIEW

By David McKay

A future explained

Shareholders of South African-listed alternative energy company, Renergen, recently approved a listing on the Sydney Stock Exchange. Management believes it will flourish in Australia, where there is more knowledge about the type of business Renergen is. CEO Stefano Marani talks about the company's future.

"We're expanding so we need more office space," says Nick Mitchell, Renergen's chief financial officer. He indicates the white wall to his right.

One wonders if in the new configuration he'll continue to share an office with his CEO, Stefano Marani: the two occupy facing desks, a few metres apart. For now, the floorplan aids the free flow of ideas, says Mitchell.

It's easy to underestimate how entrepreneurs feel about the space they choose to work in. Where you work can have as much bearing on how you work. But it's not the only 'location addition' coming Renergen's way. Earlier in March, shareholders approved by a majority of 99.4% a listing of the company's shares on the Sydney Stock Exchange where it may raise as much as R100m.

Marani is clearly animated on the subject of the firm's Australia debut. As quoted in media previously, he considers the JSE to have been a disappointing setting for Renergen, on balance. In Australia, there are more companies of a similar market capitalisation, and a pool of capital and knowledge about the type of business Renergen is, and wants to be.

And then there's Johannesburg: a pulsing beacon to some weighty multi-national capital in the industrial, mining and financial services sectors, but profoundly unsympathetic to the rhythm of the mid-cap heart.

According to Marani, investors prefer a share price "on the move" rather than the relative stasis of Renergen since its 2015 listing. Even if the fundraiser planned for Australia were carried out in Johannesburg – which is expected to increase the firm's free-float to 10% (from its current 5%) – Marani wouldn't expect the share to respond significantly; not even if the company were profit-making.

Renergen is hoping to tap gas from a field in Virginia, which it hopes to beneficiate into two fuels: compressed natural gas (CNG) and liquified natural gas (LNG), and a third product in helium.

"Fund managers don't like to see your share trade sideways. When you go out and you're trying to access additional capital, what's the value proposition? You're going to put more money in and the share is going to trade sideways for longer," he says.

"I'm actually of the firm opinion that even if we do go into positive profit-making territory, I don't think that the share price will move anyway because people still don't understand what we do."

At this juncture, it's necessary to state what Renergen is trying to do.

As a mission statement, it describes itself as an alternative and renewable power company. In practice, it is hoping to tap gas from a field in Virginia – the one close to Welkom in the Free State – which it hopes to beneficiate into two fuels: compressed natural gas (CNG) and liquified natural gas (LNG), and a third product in helium.

Renergen wants to sell the alternative fuels to SA's transport industry whereas helium has both local and international reach in some of the world's more specialised markets such as deep-water diving bottles, high-tech medical equipment, mobile phone manufacturing and, yes, party balloons.

Photos: Supplied

Renergen's production plant in Virginia in the Free State.

THE "ELECTRON GAME" FAILS TO SPARK MARANI

Stefano Marani
CEO of Renergen

Stefano Marani is a proper maths boffin.

Actually, he's an actuarial scientist with a further degree in advanced mathematics of finance, and while some actuarial scientists go on to form insurance companies such as Discovery Holdings' Adrian Gore, applying the science of risk to human behaviour, Marani went into the bond market, which is to say, fixed income funds. He led Morgan Stanley's fixed income capital business in sub-Saharan Africa.

Bit of an odd pursuit for a rare academic talent perhaps?

"At the end of the day, all businesses are just about cash flow," he says. Having done actuarial science, it's just really about "the probability weighted series of cash flows over time" – an explanation that doesn't necessarily make the endeavor easier to contemplate.

Nonetheless, it was the absence of risk associated with the Virginia gasfields that caught Marani's eye while working on other transactions at the time. "It's not the world's most complex oil and gas play, but we surrounded ourselves with the right number of professionals, got the right external consultants, got a deep fundamental understanding of the business and that's allowed us to take the business to where it's gotten us today," he says.

There are no plans to move into some of the other energy fields where SA is in major deficit; which is to say, as an independent power producer supplying the national grid, described by Marani as "the electron game".

"Not in this country. We've got lots of sunshine, we've got great infrastructure blah, blah, blah ... It's time to turn something on. But the approvals you need, the red tape, the bureaucracy, political challenges ... All these things are risks, and all these risks mean that money becomes more expensive and the more expensive the money, the less the IRR [internal rate of return] on a project.

"So, I don't see us ever being at a point where we're at least an industrial scale supplying electrons to either the grid or to any state-owned enterprises to anything like that," says Marani. The company might look at smaller power projects, such as off-grid solutions to industrial customers "... but there's no red tape in that", he says. ■

CNG is already being produced from a pilot plant Renergen built. The other two products are more technically demanding and have been the focus of a busy fundraising period in which the company has raised about R780m, excluding a R218m loan from the Industrial Development Corporation it now won't draw down. Assuming it gets R100m out of its Aussie listing, it'll have raised in excess of its market capitalisation.

The process plant for the LNG is off-the-shelf technology. The helium extracting process, however, takes a shade more specialisation, although Marani hastens to add it's not impossible to do – unlike re-imagining Coca-Cola's recipe for syrup. It is complicated, though; at least to the layman's ears. (See box.)

Once the manufacturer has been supplied with the plant specifications, especially the kind of volumes of helium required, you wait 20 months and the technology arrives in about 23 boxes of pre-assembled kit. "You've just got to connect them up with the right piping and the right cables," says Marani. A bit like meccano then? There's a patient chortle from Marani (this journalist really has no clue), but he adds: "Yes. We've got a very strong and competent team of engineers with cryogenic experience.

"Where we can, our contracting philosophy is to go out with EPC [engineering, procurement and construction] turnkey with delay penalties and delay damages etc. So, the only risk we're taking on board as a company is risk we see as being manageable which doesn't actually relate to the plant and the technology. Certainly, as a

Shareholders approved by a majority of 99.4% a listing of the company's shares on the Sydney Stock Exchange where it may raise as much as

R100m.

company, we're not taking any engineering risk on the liquefiers."

In terms of business, the upshot of Renergen's technical efforts is to supply SA's transport market with an alternative to petroleum as well as diesel, access to which was in question in the final weeks of March owing to Eskom's over-reliance on the fuel. But that's another story.

CNG already provides this alternative, but LNG is so much better.

"The obvious benefit of LNG over CNG is that depending on the configuration of the truck, CNG will take a truck about 400km whereas LNG will take a truck up to 2 000km, if you wanted to take it 2 000km. It's very energy dense."

The pilot plant will produce 2 700 gigajoules of LNG daily – about 45 000 litres in diesel equivalent, but the fully-fledged operation is about 10 000 gigajoules a day or up to 280 000 diesel equivalent litres daily. Annually this is about 70m litres. Its small beer set against the 12tr litres consumed nationally annually, but it'll help take Renergen into cash generating territory from about 2021.

The pearl in the oyster, however, is the helium.

Marani says there's so little of it globally that whatever Renergen produces from Virginia will be enough to tip SA into a net exporter of the element. Based on current reserves, production will be 3% of global consumption. But there may be more to come by virtue of a so-called 'sandstone trap' discovered in the Virginia fields.

"The indications are, from what we've seen and from the logs and the lithography, we've seen approximately 120km of sandstone, 100m thick which in oil and gas terms would not be insignificant," says Marani.

What this may mean is extended high helium prevalence. The richest gas pockets contain 11% helium against a world standard of 0.5%. It adds up to efficiency and, ultimately, the kind of wealth the Australian market may be prepared to recognise.

"Helium is an exceedingly difficult commodity to get out of the ground ... unless you can find a profit or purpose for the rest of it (other gasses), it's not worth taking out of the ground."

There's also the question of – once the company has landed in Australia's investment market – how it's going to talk about its medium- to long-term future. One of the reasons for vibrant venture or small-cap markets is that investors like to think they'll stumble upon the next big thing.

"Blue sky-wise there are some interesting helium assets out there. The key is what do you do with the associated gas. That's the complex part because gas is very much a local theme. In other words, gas in SA trades at different prices to gas in Australia which trades at a different price to gas in the US.

"Helium is an exceedingly difficult commodity to get out of the ground because it's such a small concentration of gas that unless you can find a profit or purpose for the rest of it (other gasses), it's not worth taking out of the ground," he says.

Bearing this in mind, Renergen sees itself specialising in the smaller end of the natural gas market. "Our business model is relatively unique by global standards in terms of a complete vertical integration on the natural gas side, and where that differentiates us from other companies is that most other people will go out, find the gas, prove it up, and then try and sell it to a major.

"The way that we've approached it is to vertically integrate the entire business – wellhead right into the tank. We put the filling stations down, extract the gas, beneficiate the gas, process the gas, dispense the gas ... the entire value chain, and that changes the economics sufficiently that you can take a stranded gas asset and you can make it viable," he says. ■

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THREE DEGREES OF SEPARATION

How exactly does Renergen's proposed technology work?

As gas comes out of the ground, you need to start treating it in order to get it into a liquid state. That's because trading helium means having to transport it and that's best done as a liquid.

In order to reduce it to a liquid, you need to 'cool' it to about -269° centigrade, which is equal to three degrees above absolute zero. In normal deposits of helium, the gas is extracted as an impurity but in the case of Renergen's Virginia resource, the presence of helium is so high that the entire gas can be cryogenically cooled.

In so doing it's possible during the process to extract the LNG at -162° as a by-product.

At -195° nitrogen is dropped out, leaving behind the gold, or as Marani describes it: "pure laboratory grade that then becomes liquid helium".

Easy, then.

What this means for the process Renergen is conducting is that the LNG is the by-product of a helium liquefier rather than an LNG factory from which the mad scientist in the room is trying to extract helium. It's just a very different technical – and business – approach. ■

Photo: Shutterstock

By Lloyd Gedye

CORPORATE SURVEILLANCE

We all have something to hide

Not bothered by the information that big corporates can collect through personal tracking devices? Lloyd Gedye explains why he feels uncomfortable with companies knowing his whereabouts.

"I have nothing to hide!"

How many times have you heard that statement uttered by friends, family or colleagues whenever the subject of corporate surveillance rears its head?

It is a cynical position to take, because it epitomises the colloquial, "I'm alright, Jack".

But it is also false.

The refusal to take a position effectively endorses the actions of surveillance capitalists, letting them off the hook for privacy violations.

Effectively, what your friend, family member or colleague is in fact saying, is that corporate surveillance can carry on.

Through surveillance, corporates manage to access behavioural data, which they can then use to drive future profit through targeted advertising.

Surely every person on this planet has the right not to have their lives rendered as behavioural data? Or is this just the future we have accepted for ourselves?

In her book, *The Age of Surveillance Capitalism: The Fight for a Human Future at the New Frontier of Power* published at the beginning of this year, academic Shoshana Zuboff argues that "I have nothing to hide" is a symptom of the "psychic numbing" we experience in a world where we are constantly preyed upon by surveillance capitalists.

We use it to mask our own helplessness in this situation that we find ourselves in.

"I have nothing to hide" is our defense mechanism, our making peace with a situation we feel we have no control over.

Maybe that is why *The Age of Surveillance Capitalism* is such a terrifying read, because it allows you to get a full picture of the beast that is surveillance.

Zuboff argues that surveillance capitalism is "unprecedented", which necessarily makes it "unrecognisable". It's "mechanisms and economic imperatives" have become the "default model" for most internet-based businesses, writes Zuboff.

She argues that many believe erroneously that they are the customers of surveillance capitalism when, in fact, they are nothing more than the raw material.

"We are objects from which raw material is extracted and expropriated," she writes. "The essence of exploitation here is the rendering of our lives as behavioural data for the sake of others' improved control over us."

Photo: Shutterstock

"The essence of exploitation here is the rendering of our lives as behavioural data for the sake of others' improved control over us."

"Decision rights vanish before one even knows that there is a decision." Zuboff argues that "surveillance capitalism is not a technology", but that it is "a logic that imbues technology and commands it into action".

"Surveillance capitalism was invented by a specific group of human beings in a specific time and place. It is not an inherent result of digital technology, nor is it a necessary expression of information capitalism."

The Age of Surveillance Capitalism queries why we accept mass surveillance and mass behavioural modification techniques when they are a threat to our individual autonomy.

Zuboff argues that because we have just accepted being mined by these companies for behaviour surplus, we try to rationalise the situation with cynicism, creating excuses that act as defence mechanisms.

Do people really have nothing to hide?

Consider the case of the man who had purchased an engagement ring, only to have a company broadcasting the news on Facebook (to his friends, family and girlfriend) without his permission.

Let's turn to a more personal example. A friend of mine, who says he has nothing to hide, is a runner; that's how he stays fit. But he also has a phone running Google's Android operating system, with its geo location functionality.

So, we can assume that by now his behavioural surplus includes information about what days of the week and what times in that day he chooses to go running.

Why is this important?

Well, it's easy to see that this potentially valuable information would allow a running shoe retailer to better target my friend.

If, perhaps, a message advertising a new model of running shoe were to pop up on his phone at around the exact time he normally gets home from his run, pumped up on endorphins, would he still technically have nothing to hide?

What could surveillance capitalists tell about you from having access to the geographic location data on your phone? They could tell where you work, where you live, where your friends and family live, where you shop, where you party and most likely what restaurants you like, just for a start.

All of these pieces of information will help advertisers to better target specific products to you when they want to sell you stuff.

Do you really have nothing to hide? ■

editorial@finweek.co.za

By Glenneis Kriel

Building a home-bred skincare range

African Dermal Science is disrupting the cosmetics market with a skincare range specifically developed for Africans.

A sudden awareness of the huge range of foreign skincare brands used by African women led to Dr Theo Mothoa-Frendo identifying a gap in the local market for a skincare range specifically tailored to their unique requirements. To fill this gap she established a cosmetics company, African Dermal Science, which in November 2017 launched its first skincare range, named Uso.

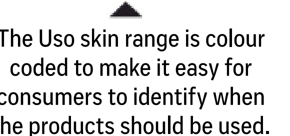
What did you do before you started African Dermal Science?

I qualified as a medical practitioner at Medunsa (now Sefako Makgatho Health Sciences University) in Pretoria, after which I practiced medicine at various hospitals in the province, including one in Soshanguve, where I grew up. Thereafter, I joined Roche Pharmaceuticals, where I worked my way up and became the medical director for sub-Saharan Africa, focusing on clinical research, product development and medical marketing. Having grown up in an entrepreneurial family, I always dreamt of starting my own business and developing products that addressed our specific needs as Africans.

What gave you the idea to start a skincare company?

Looking at my bathroom shelf one morning, I was struck by the many skincare brands I owned, the fact that all of them were foreign and that none of them quite satisfied my needs.

I pitched the idea of starting a range for Africans to family and friends, who thought it was great considering my pharmaceutical background and lifetime love for skincare products. I then launched African Dermal Science, which focuses on the research, development, manufacturing and marketing of science-driven skincare solutions addressing the unmet needs of Africans.



The Uso skin range is colour coded to make it easy for consumers to identify when the products should be used.

Looking at my bathroom shelf one morning, I was struck by the many skincare brands I owned, the fact that all of them were foreign and that none of them quite satisfied my needs.

What did you do to prepare yourself for this journey?

I studied an MBA to empower myself with business skills. For my thesis, I investigated what African women would expect from such a product. The research revealed a huge demand for products to better address uneven skin tones, particularly around the forehead and mouth; hyperpigmentation, mostly around the cheeks; oiliness, which is a result of melanin-rich skin; and seasonal dryness as well as sunscreen that did not leave the black skin grey.

I knew from my experience in the pharmaceutical industry that I would have to create a world-class product if I wanted to compete with international skincare brands. Therefore, we teamed up with renowned cosmetic scientists to develop a product that was continuously reformulated until a panel of South African women were satisfied with it. We worked with a team of marketing and brand experts to position, market, label and package the product for the best possible outcomes.

Why do you call the range Uso?

Our marketing expert suggested we use a name that was easy to remember and had an African root. Uso means face in Swahili and is a derivative of the Nguni word "ub-uso" with the same meaning.

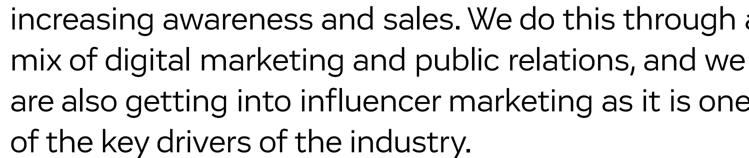
Where did you get start-up funding?

Finding seed capital, never mind growth capital, was much harder than I anticipated. We thought we had a great product with good research validating its demand, but until we had confirmed access to market, we couldn't raise funding, which was ironic, considering we needed capital to manufacture enough volumes to get to the retailers.

In the end, we as a family self-funded most of the development and growth. While it was tough on us financially, our vested interest in the business inspired me to work even harder to make a success of it.

Tell us more about the range

It consists of six advanced skincare facial care



products, including a cleanser, essence, serums and day and night creams, essential for a glowing healthy skin. We combined the best of what nature and science has to offer to formulate the range.

The research we conducted revealed that users wanted a simple-to-use yet effective skincare range, so we numbered the products from one to six to guide people in the order they should be used. Packaging is also either white or black, to indicate whether the product should be used during the day or at night.

In a market that also has unregulated imported products that are harmful, Uso products are clinically tested and dermatologist-approved.

Tell us about your first sales

We launched the product in November 2017 at a pop-up shop in Sandton, where women could come in for skin consultations with qualified skin therapists. From there, we started supplying our product via our online store, pop-up stores and independent stockists, including aesthetic practices.

What was your first real break?

When Edcon in December 2018 agreed to stock our products. We started negotiations with Edcon while still in the product development phase, realising from the start that we would have to be on the same shelves as our competitors if we wanted to make it.

Edcon allowed us to expand our reach by giving us access to 25 of its stores across SA, and also to break into Namibia and Botswana. We have since also broken into Mozambique via an independent stockist.

How important are online sales?

Online sales are still a small but very important aspect of the SA skincare industry. Research has found that the majority of cosmetic companies generate less than 10% of their sales via this channel, most probably because people want to touch, feel and smell a cosmetic product before they buy it for the first time. The marketing channel gets more important as people become more familiar with the product.

What is your business agreement with stockists?

Each stockist is assessed individually to identify its suitability, after which a sales agreement that suits both parties is negotiated. Some stockists buy on consignment whereas others are supplied wholesale.

How do you keep logistic costs low?

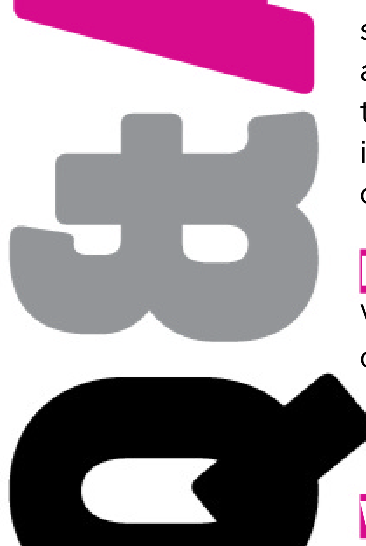
We try to simplify and streamline everything we do. With logistics this means that we plan distribution and delivery to be on the same day where possible to minimise costs.

What is your marketing strategy?

Our focus is still on developing the brand and increasing awareness and sales. We do this through a mix of digital marketing and public relations, and we are also getting into influencer marketing as it is one of the key drivers of the industry.

Quite a few internet influencers have so far picked up on and reviewed our product, which shows we are on the right track. Customers these days are more prone to listen and associate with influencers, because they can relate to them on a personal level.

Dr Theo Mothoa-Frendo
Founder of African Dermal Science



Besides access to capital, what has been one of your biggest challenges so far?

We were left in dire straits when at one point we ran out of stock, due to delivery delays from overseas suppliers. Some may say this is a good problem, but it led to customer disappointments, which had to be managed to maintain loyalty. We have put various measures in place to minimise the risk of running into the same situation as we grow.

Finding the sweet spot between supply and demand can be one of the biggest makers or breakers for a new business, especially for a company like ours that sources most of its raw material from abroad.

Tell us more about the market

Competition is tight, with over 90% of the market belonging to foreign international companies with deep pockets. Our advantage is that our product is specifically developed for Africans, many of whom are suffering product fatigue because they have tried so many brands that did not work for them. It is also relatively affordable in comparison with some of the other high-value products.

How many people do you currently employ?

We are a team of eight with some of the functions outsourced for expertise and efficiency. The team is made up of in-store consultants, logistics, marketing and admin managers.

What are your plans for the future?

We are already working on a men's range that we hope to launch later this year. Besides this, we want to expand our footprint locally and in the rest of Africa, which would require the building of relationships with stockists in these countries and a significant increase in production.

Any advice for other aspiring entrepreneurs?

The one tip I was given at the beginning was: You need to decide whether you are building a big business or a hobby, since this will determine the amount of effort you will invest in the business and, in effect, its success. If you are running a business, you will take care to manage administration and finances properly, whereas this will be at the back of your mind if the business is a mere hobby. ■

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Photos: Supplied

By Amanda Visser

Is your company losing its ed

In a fast-changing and competitive environment, businesses – and the workforce – need to be on top

Companies sometimes have to "scoop" themselves to survive. Kodak decided to hold back its scoop. It was the first company to develop a digital camera. Instead of marketing it, it held back to save its film business.

We all know how that ended.

But you have to have the right vision when you want to reinvent your business.

With the onset of online news websites, newspaper editors kept the scoops for the newspaper – the next day. They inevitably got scooped by their competitors. Many newspapers are still struggling to find the right business model to continue making money from their news.

Many more companies are struggling to predict and assess the rate of change happening around them and how to recognise the signs that they are falling behind.

One may have an existing business model that still has some life in it, but maybe for only another decade or so.

"The reality is to have the courage to see things for what they are, and not for the way you want them to be," says Gidon Novick, founder of Lucid Ventures, and co-founder of Colectiv.

Today's business owners need courage, commitment and resilience to drive change and innovation. It is human nature to avoid things that are new because the outcome is uncertain and scary or threatens to disrupt your current model. People tend to clutch onto things that are predictable and clear.

"That is where the rubber hits the road in terms of organisations that are willing and able to adapt and change, compared to organisations that stay stuck in their current model or mindset," says Novick.

Jeff Bullas, digital entrepreneur and founder of the jeffbullas.com website, lists ten "alarming signs" that a business is in trouble. One is being inflexible and not being willing to listen to and to watch what is happening around you and your business.

Another is thinking that your university

Gidon Novick
Founder of Lucid Ventures, and co-founder of Colectiv

Jeff Bullas
Digital entrepreneur and founder of the jeffbullas.com website

education is going to carry you right through the tsunami of change. "Read blogs in your industry, attend conferences and read till your eyes bleed. A fast-changing world means yesterday's degree is just a piece of paper."

In a time where access and experience are more important than ownership, you have to make it easy for people to get your product.

Younger people are the future, and they know what works on social media and the internet, says Bullas. If you ignore their insight, it will be at your own peril.

Bullas says relevance today means global thinking. Your competitor is no longer necessarily the store down the road, it can be in Hong Kong, New York or London.

The simple things, like being found in a web-search, are also important. Not being found in a search can be a death sentence, he says. "Not investing the time and effort in making sure you rank high in search engines is not an option unless you think Google is going away soon."

Novick says business owners must be open to information that is contrary to their current business model and their current thinking. Organisations will come and go as a natural cause of things – as an entrepreneur one must see the opportunity in that.

"There is no formula that says if you do this and that you will save your business from ultimate destruction," says Novick. But, having a "change mindset" and allowing it to permeate throughout the organisation certainly helps.

Often technology is the key difference between continuing to be relevant and business extinction, says Bullas.

"I don't mean upgrading your photocopier but taking a long hard look at trends in the industry that are promising disruption. E-commerce is not just about buying on the web, it is commerce driven by technology that offers better service, speed to market and global reach."

Most organisations exist because they are solving problems for their customers or they are fulfilling a need. Organisations should be asking questions like: What is the problem I am

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ge?

o of their game to remain relevant.

Andrew Bahlmann
Managing director of
Deal Leaders Africa

solving? How have the needs of my customers changed over the years? Have I been able to fulfil their needs as they have changed?

One of the most valuable lessons for any business is to stay close to its customers, says Andrew Bahlmann, managing director of Deal Leaders Africa.

It is not a matter of reinventing yourself all the time, says Bahlmann, but you need to know what it is that your customer wants without getting sucked in by trends. "Sometimes I think it is just about following the recipe and getting the basics right."

Novick says one thing that South African consumers are yearning for is organisations they can trust. "They have lost faith in government, in companies because they have been misled by them, and they are losing faith in consumer-orientated companies who make promises and do not deliver," he says.

And while there is a crisis of trust in the system, it is presenting opportunities to organisations, brands and companies to position themselves purely based on building trust.

Bahlmann says when investors look at companies, they want to see solid governance structures to ensure that there is trust in the business. "You do not have to have the same structures as a listed company, but you have got to have good controls. You must give yourself or a third party comfort that your business can run without you or that it can deal with the risks facing it out there." ■

editorial@finweek.co.za

In the next edition of *finweek:* What to do when you have indeed lost the edge?

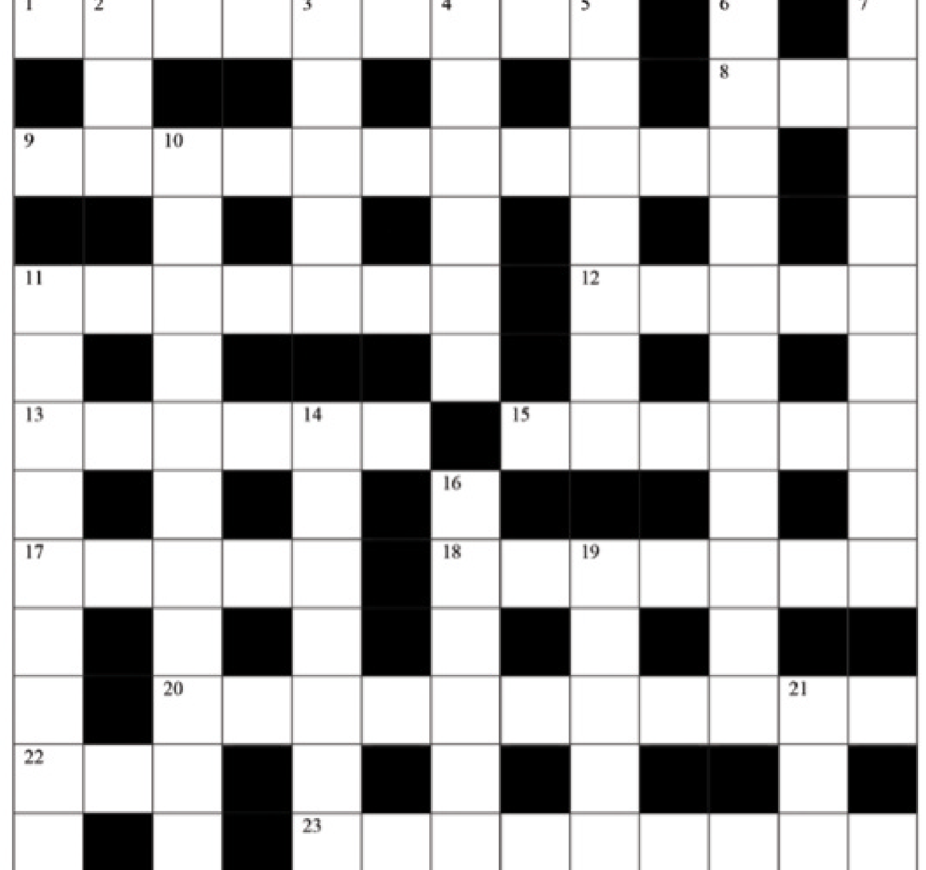
Congratulations to Kobus Jansen van Vuuren on winning the previous book prize. To complete this edition's quiz, head to fin24.com/finweek where the online version will be available from 1 April.

1. Which pharmaceutical company is due to have a secondary listing on SA's alternative stock exchange, A2X Markets, from April?
2. Autopax is a subsidiary of which state-owned enterprise?
3. What's the name of the tropical cyclone that recently hit Mozambique, Malawi, Madagascar and Zimbabwe?
4. On 13 March, South African Professor Mashudu Tshifularo performed a ground-breaking surgical procedure by transplanting 3D-printed:
   - Eardrum grafts
   - Central retinal arteries
   - Middle ear bones
5. **True or false?** Investec is dual listed on the London and Johannesburg stock exchanges.
6. Name the acting Commissioner of Sars.
7. Which English popstar, known for hits like "Perfect", "Castle on the Hill" and "Shape of You", recently visited SA for a series of concerts in Johannesburg and Cape Town?
8. Supply the missing term: ________________ is the deliberate shutdown of electric power in parts of a power-distribution system, generally to prevent failure of the entire system when demand for electricity strains the capacity of the system.
9. **True or false?** Bafana Bafana qualified for the 2019 CAF Africa Cup of Nations after beating Libya 2-1.
10. Which construction company was placed in business rescue and had its stock suspended from trading on the JSE?
    - Aveng
    - Murray & Roberts
    - Group Five

CRYPTIC CROSSWORD NO 729JD

ACROSS
1 Accomplished benefactor, Michael, for one (9)
8 Find fault with Jade (3)
9 Watering-place held in high esteem? (4-7)
11 Duck mister, I seem to be in trouble! (7)
12 Fire Express reporter (5)
13 Indian pastry extremely sugary (6)
15 Let it stand in the military way (6)
17 Good response, we hear, to lizard (5)
18 Graduates sure to fathom out manipulator (7)
20 Atonement is making an accommodation (11)
22 Record short English extract (3)
23 In good faith, comrade, put first lady in charge (9)

DOWN
2 You can tell crooked gentleman among Gypsies (3)
3 Bank not opening as a result of warning (5)
4 Georgia to shout about proof (6)
5 Young animal with little control? (7)
6 Northern Ireland of no importance? (11)
7 Urge Victor to be a good mixer (9)
10 Quarters supplied with disused articles of furniture? (6,5)
11 Not knowing for the most part to be on the q.t. (9)
14 Agreement in favour of the road bridge opponents (7)
16 Diplomatic press (6)
19 Something of a boom in coins exchange (5)
21 It's up to the drawer, we're told (3)



Solution to Crossword NO 728JD
ACROSS: 1 Amanda; 4 Armada; 9 A garden roller; 10 Hothead; 11 Dig up; 12 Arear; 14 Green; 18 Gaffe; 19 Apaches; 21 In a tight place; 22 Tutors; 23 Catsup
DOWN: 1 Apathy; 2 A matter of fact; 3 Dodge; 5 Reorder; 6 At loggerheads; 7 Abrupt; 8 Snide; 13 Atelier; 15 Egoist; 16 Bathe; 17 Asleep; 20 Alpha

On margin

Alightenment on a moving bus

This issue's Zulu word is *yehla*. *Yehla* is "Lower yourself/Go lower/Come down/Descend/Get off/Alight from a vehicle".

Back in the 80s, my mother would take me to work with her. I enjoyed those trips because I got to see the big city and the leafy suburbs. This was one of the benefits of having a domestic worker mom. The other was that I got to learn to sort of speak, read and understand English quite early because I dealt with my mom's white employers and not just the police that harassed township folk.

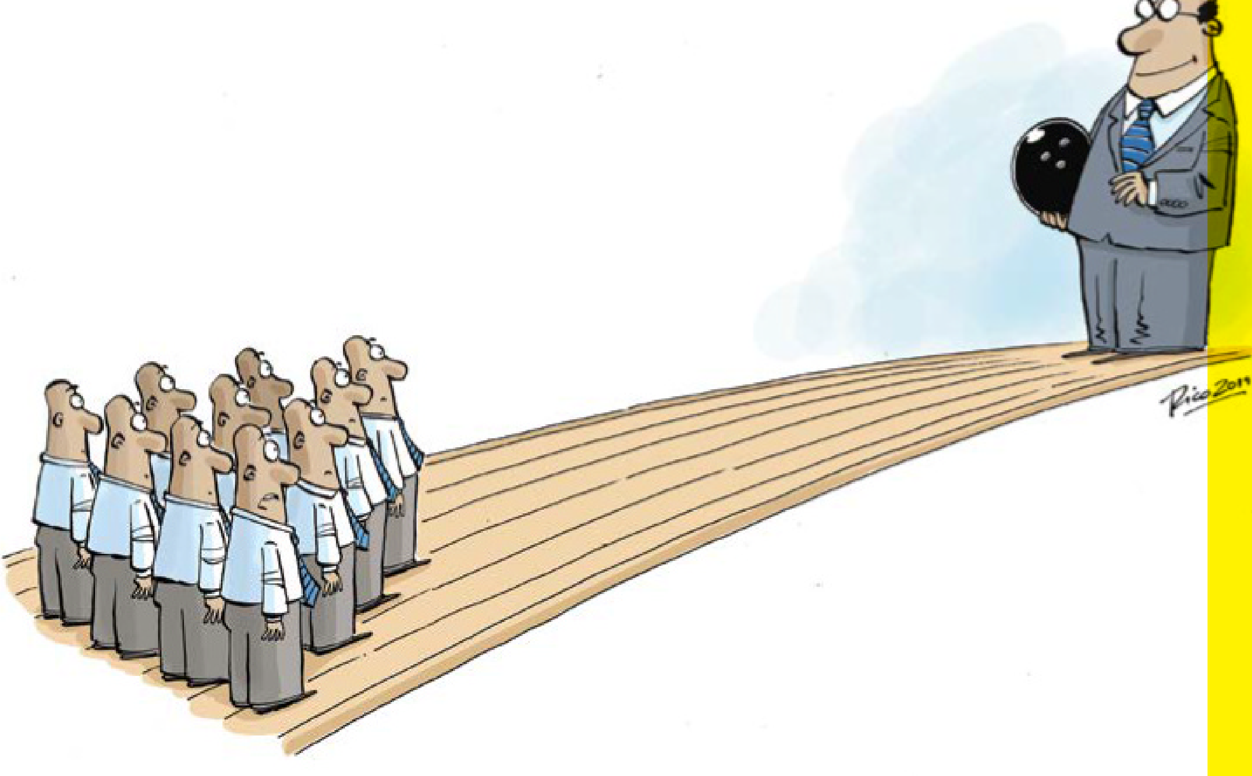
With my newly-acquired English, I would try read everything. One day, I noticed a sign on the bus that read, "Do not alight from a moving bus". Now remember, this was the 80s and everything was being set alight, so this sign both fascinated and horrified me. WTF?

I didn't think WTF then. There was no WTF, even though there were many WTF-worthy things. I thought: "Yoh, they are saying don't burn the bus while it is moving."

I was fascinated that the authorities and the comrades had reached such an arrangement. But the sign said nothing about letting the passengers *yehla* before setting the bus alight. But surely ensuring the bus stops before it is set alight was so the passengers could *yehla*. Also, the sign was inside the bus so did this mean the bus burners would be in the bus, with us?

Anyway, to my relief, I would learn what alight from a moving bus meant. I did not share this new knowledge with my friends at home. I just let them continue thinking that every time a bus stopped, comrades were allowed to set it on fire. You see, in our neighbourhood, there were very few kids that went to fancy schools so most would only learn English later in their lives.

– Melusi's #everydayzulu by Melusi Tshabalala



"I have a bad feeling about this."

I Am Devloper @iamdevloper
We're looking for a junior developer with the experience of a senior developer for the salary of an intern.

Tom Eaton @TomEatonSA
Hemingway wrote that you go bankrupt in two ways: gradually, and then suddenly. Having taken 12 years to get to Stage 4 blackouts, the state is now planning for Stage 5 and 6. Is this how the "suddenly" part starts?

Kyle @KylePlantEmoji
Every group chat births a second smaller group chat without the annoying people, and if you think yours doesn't, I have some bad news.

Prof Thuli Madonsela @ThuliMadonsela3
I truly feel sorry for the Haters who keep me as a permanent squatter in their heads.

Deon Gouws @DeonGouws_Credo
As we used to say back in the day: fail the CA exam and you're miserable for a year; pass the thing and you're miserable for the rest of your life...

Tshwannavaro @TshwaniM_3
The Clifton Sheep sacrifice was not in vain, Bafana qualified for AFCON.

Adam Liaw @adamliaw
Prison for people who sit on non-cardio machines at the gym looking at their phones. And cancel the citizenship of anyone who says hello to a stranger there.

"In other words, government is a broker in pillage, and every election is a sort of advanced auction on stolen goods."

-H.L. Mencken, American journalist (1880 – 1956)

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