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from the editor

JANA JACOBS

A[...]f the World Economic Forum at Davos, the IMF revised its global [...] rate from 3.4% to 3.3% for 2020, while earlier in January the World Ba[...]t its growth rate forecast at 2.5%.

[...]n this sluggish global environment, it's hardly surprising that PwC's *23rd Annual Global CEO Survey* showed that CEOs the world over have moved from record optimism regarding economic growth two years ago, to record pessimism this year.

While the economic environment was already unfavourable in 2019, those in the top jobs were confident about their organisations' abilities to grow revenue. This isn't the case today, explained PwC Africa CEO Dion Shango at a media briefing where the latest survey results were presented.

So how does a business look for growth in such a challenging environment?

One of the key themes that emerged in the survey is the upskilling of employees. But, explained Shango, this comes with risks, because the more skilled employees become, the more difficult they are to retain. In fact, this is the greatest challenge South African CEOs listed as facing with their organisation's upskilling efforts. Lack of resources was another top challenge.

This reminded me of a recent conversation I had with someone in leadership about this fear of spending resources on employees, only to run the risk of losing them. They asked (and I paraphrase): "Wouldn't you rather have someone skilled working for you for a period of time than someone who isn't contributing to the organisation indefinitely?"

Indeed.

As for the lack of resources, you don't have to be a CEO, or a member of top-level management, to have been confronted with the reality of having to do more with less. I'm sure there are many employees that have felt the pressure to continually take on more, operate in ever-smaller teams and figure out how to do things that your original job description didn't necessarily include.

But it's the CEOs and top management that ultimately make the decisions that move the needle. And, based on PwC's survey, "a real correlation exists between progress in upskilling and CEO optimism and confidence".

I'd proffer that while things may be dire out there, there's something to be said for focusing on the people in your organisation – especially in tough times. ■

contents

By Johan Fourie

Economic growth: what we know and don't know

It's unclear exactly what causes economies to take off, which makes it difficult to implement policies that create more prosperous societies.

The idea of economic growth is under attack. As the planet heats up, Australia burns and drought in many parts of South Africa continues, many are wondering whether the economic model of the twentieth century is the right one for the twenty-first.

Some suggest we pivot our expectations to a zero-growth scenario: Stop producing more and more goods and instead focus on living sustainably. Others are even more extreme: They want de-growth, a world where we all become progressively poorer.

Apart from its paternalistic attitude – you should stay poor because the world cannot afford that everyone be as rich as us – the view that economic growth is the scapegoat rather than the solution is just, well, wrong.

Economic growth, measured by growth in the gross domestic product (GDP), calculates the value of all goods and services produced within the borders of a country within a year. If we produce more than last year, there is economic growth. SA, on a per capita basis, has basically produced the same amount of goods and services for the last decade. That cannot be good, right? If we want people to move out of poverty, we must produce more so that incomes can increase and South Africans, especially the poorest, can purchase the things they now lack.

> While we do not yet have all the answers, we keep learning by testing new theories against historical and experimental evidence.

That doesn't mean economic growth should be our only priority. In rich countries, the economic growth of the last four decades has largely benefitted those at the extreme ends of the income distribution, meaning a hollowing-out of the middle-income group. This has raised income inequality, which has had political ramifications, as Thomas Piketty explains in his new book, *Capitalism and Ideology*. (Currently only available in French, the English-language translation appears in March.)

A far more nuanced debate about economic growth is found in the challenging but excellent new book, *Good Economics for Hard Times*, written by the 2019 Nobel prize winners Abhijit Banerjee and Esther Duflo. Instead of economists' unrelenting focus on growth, they propose a focus on wellbeing – measuring whether kids go to school, or how frequently they are hungry, or whether they live fulfilling lives.

Apart from the usual concerns with GDP – that it doesn't include leisure, measures quality improvements poorly, says nothing about the distribution of income or the environmental impact – Banerjee and Duflo make an additional (and important) point: We actually don't know what causes economic growth. Why should we target something without a recipe for success, they ask, when we can instead focus on various aspects of wellbeing that development economists have been able to target pretty accurately?

This is true. Economists have not identified the elixir of growth – that one policy, if implemented, that causes economic growth to skyrocket. Instead, theory and evidence point to many things that we like to call 'necessary but not sufficient': an openness to trade, protection of property rights, an educated workforce, and so forth.

But that doesn't mean growth theory is meaningless. No, economists have learned a great deal from real-world examples about what we should not do. This is what Banerjee and Duflo fail to mention, probably because they assume most readers know this already.

We've learned, for example, that when a country closes its borders to international trade, it stops growing. When a government decides to set prices of goods and wages for labour, the market system collapses, and poverty escalates. We've learned that competition among firms leads to less rent seeking; oligopolies and monopolies are more likely to lobby government to protect their privileges. And that independent central banks are more likely to stabilise prices and fight inflation. Any time a government has tried to go against these lessons, they've destroyed wealth and exacerbated poverty.

The reasons we don't know what exactly causes economies to take off is because human societies are incredibly complex things. As behavioural economists show us, humans constantly make rational and irrational decisions, and often don't make any – even if it would be in their interest to do so.

Politicians, torn between their own goals of re-election and the public interest, must make sense of this complex web of behaviours and social interactions to design policies that improve wellbeing. Viewed from this perspective, the fact that there is any progress at all is a miracle.

Yet that doesn't suggest economists have learned nothing about how to design policies that work within this complexity. While we do not yet have all the answers, we keep learning by testing new theories against historical and experimental evidence.

As Banerjee and Duflo summarise: "The only recourse we have against bad ideas is to be vigilant, resist the seduction of the 'obvious', be sceptical of promised miracles, question the evidence, be patient with complexity and honest about what we know and what we can know. Without that vigilance, conversations about multifaceted problems turn into slogans and caricatures and policy analysis gets replaced by quack remedies."

What economists have learned is that there are things we unequivocally should not do. It's a bad idea to close our borders to international trade, or remove property rights, or give too much power to monopolists and oligopolists. What we should do instead, both to raise growth and improve wellbeing, is less clear. This is where we should follow the advice of Banerjee and Duflo, and through context-specific, evidence-based analysis implement policies that build a more prosperous society. ■

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Johan Fourie is associate professor in economics at Stellenbosch University.


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LONG-TERM INVESTING

By Thobelani Maphumulo

ECONOMY

Clean energy should fill the Eskom void

As Eskom struggles financially, independent power producers should be allowed to step up and fill the electricity-generation gap.

The domestic electricity supply has experienced unendurable volatility in recent years, adversely affecting economic performance. This has stimulated the discourse about energy security and electricity-generation technologies.

On the whole, the energy policy framework should be underpinned by these five considerations: electricity demand outlook, low carbon emissions, sufficient reserve margin, investments and job creation. The department of energy's integrated resource plan provides guidelines on the character of the energy sector in the years ahead. To a great degree, government subscribes to the fidelities of clean energy.

South Africa is one of the top emitters of carbon dioxide in the world due to Eskom's coal-fired power stations and Sasol's coal-to-liquid plants, located in Mpumalanga. These two companies account for more than 50% of the country's carbon emissions.

The 2015 Paris Agreement's central effort is to keep global average temperature increases below 2°C above the pre-industrialisation level. Average global temperatures are rising at a disquieting rate, expected to reach 4°C at the end of this century. It is imperative to reduce the role of fossil fuels – coal-fired power stations and gas (methane releases carbon when it burns) – in the global electricity-generation mix. Currently, solar and wind technologies contribute a third to global electricity generation; the target contribution is 50% by 2050.

Since 2010, there has been a discernible decrease in all-in costs of electricity from wind and solar. Wind, solar and battery technologies are at the centre of emission reductions; the collapse in costs bodes well for clean energy.

The cost of building new solar and wind plants is now cheaper than the cost of new coal-fired power stations. The installed capacity costs of solar photovoltaic and onshore wind plants are between $1 200/kW and $2 500/kW, in most countries. The significant decrease in costs has been a function of falling prices of photovoltaic modules, wind turbines and balance of systems. Bigger wind farms use higher hub heights and sweep large areas, resulting in a higher electricity harvest. Subsequently, bid tariffs have fallen significantly in the past few years. Wind and solar tariffs are around $0.045/kWh and $0.10/kWh in Europe and Africa, respectively.

The SA government has procured 6 422MW, of which 3 876MW is operational and available to feed the grid. Currently, renewable energy accounts for 4.8% of electricity generation and 25% of Eskom's production costs. The renewable energy production costs have generated an ideological cleavage among stakeholders; the debate is centred around the financial impact of independent power producers (IPPs) on Eskom.

> The cost of building new solar and wind plants is now cheaper than the cost of new coal-fired power stations.

Photo: Shutterstock

On the one hand, opponents argue that the IPPs' primary energy costs have worsened Eskom's precarious financial position. Eskom pays a tariff of R2.21/kWh to IPPs. This is much higher than 26c/kWh and 6c/kWh for coal and nuclear, respectively. It is noteworthy that Eskom's liquidity problems are largely due to high leverage – R450bn in total debt and high debt servicing costs – due to the Medupi, Kusile and Ingula new build projects.

On the other hand, proponents of renewable energy argue that although Eskom pays high tariffs to IPPs, the company recovers the costs from customers. Eskom's 2019 financial results confirmed this assertion.

The opponents' tariff lament is not entirely misguided, especially for the earlier bid windows. Tariffs are an integral part of a purchasing power agreement as they largely determine the cash flow stream, funding mix and internal rate of return for the project companies. Fortunately, recent bid windows have seen a drastic decrease in tariffs, in line with global trends.

Solar photovoltaic plants have declined from R4/kWh in the first bid window to 96c in the fourth round. Similarly, wind technology tariffs have fallen from R1.67/kWh to 76c in the fourth bid window.

Without renewable energy, the country would have experienced severe blackouts. Eskom has struggled to maintain its coal-fired power stations, leading to unplanned breakdowns and an erosion of its reserve margin. Eskom needs approximately 5 000MW of reserve margin to ensure security of supply.

On the nuclear front, Koeberg contributes about 1 800MW to electricity production, and the plant's life will be extended for another 20 years. Nuclear is a clean technology, which is cheap to operate and maintain. It should continue to be part of the energy-generation complex. Unfortunately, new nuclear plants are very expensive to build at $10 000/kW. IPPs can explore building small nuclear units provided the returns justify their investments.

The decommissioning of Eskom's old power stations, together with the utility's financial problems, present an opportunity for clean technologies to contribute significantly to the generation mix. Clean energy – solar, wind, hydro and nuclear – should contribute more than 50% to the power mix by 2050, in line with global projections.

Major stakeholders should construct a social contract that comprehensively speaks to low carbon emissions, job creation, and the localisation of the energy equipment and systems industry. ■

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Thobelani Maphumulo is an investment analyst and author of *Invest Your Way to Wealth*.


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in brief

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"WE HAVE PUT OUR BEST FOOT FORWARD."

– **Finance minister Tito Mboweni,** who led South Africa's delegation to the World Economic Forum meeting in Davos, Switzerland, said most attendees questioned them about SA's electricity issues and government's fiscal sustainability.

"We will be destroyed by climate change, not the planet."

– **António Guterres, secretary general of the United Nations,** speaking at the recent World Economic Forum meeting in Davos. Climate change and the impact it has on humans was clearly at the centre of discussions. Greta Thunberg, the Swedish youth activist mobilising young people across the planet to take their governments to task about the issue, also attended the meeting.

Public Protector
Busisiwe Mkhwebane

"I HAVE NOT CONSIDERED RESIGNING AND I WON'T RESIGN."

– **Public Protector Busisiwe Mkhwebane** hit back after Parliament indicated in late January that it had approved a motion submitted by the DA requesting that the National Assembly initiate proceedings to remove her from office, reported news outlet IOL. She once again invoked the power of God in her defence, saying: "If the parliamentary process leads to my removal, it will be God's way of doing that. His will will be done." Until then, it is up to the governing ANC to decide whether it will back the opposition's motion or not.

THE GOOD

SA maize farmers are expected to plant 9% more of the staple crop in the 2019-2020 season compared with the previous season after favourable rains and weather conditions, according to a survey by Reuters. The survey pegged the planted area at 1.39m hectares of white maize, used mainly for human consumption, and 1.1m hectares of yellow maize, used mainly in animal feed. SA's Crop Estimates Committee is expected to forecast the planted area at 2.5m hectares for the crop to be harvested in 2020, up from the 2.3m hectares planted last season, according to an average estimate of the five traders and analysts surveyed by Reuters.

THE BAD

Claims for medical negligence against the government of SA have more than trebled over the past four years, rising to R104.5bn in 2019, as patients seek redress for harm allegedly wrought by the country's overstretched public health system, reported *Business Day*. In 2018-2019, provincial health departments paid out R1.9bn to successful claimants, which is the equivalent of 1% of SA's consolidated health budget of R208.8bn. The hardest-hit province was the Eastern Cape, which faced claims totalling R29.1bn.

THE UGLY

An outbreak of the coronavirus, a deadly virus that attacks people's respiratory system – much like the Sars virus that swept the globe at the turn of the century – has killed more than 100 people and infected more than 4 500 in over a dozen countries. The coronavirus has led to the Chinese government severely restricting travel in the centre of the outbreak, namely Wuhan, a city of 11m people, reported the BBC. Hong Kong's chief executive, Carrie Lam, has cut most land and ferry connections with mainland China in a bid to prevent the spread of the virus, the BBC reported.

Photos: Gallo/Getty Images

DOUBLE TAKE — BY RICO

CELL C DEFAULTS

R2.74bn

Cell C defaulted on a $184m loan to a slew of local and Chinese banks, including Nedbank and the China Development Bank, according to a Sens announcement. This led to a selloff of shares in Cell C's parent company, Blue Label Telecoms. The stock fell more than 13% on 28 January as investors panicked. "Currently, none of the bilateral loan facilities have been accelerated as noteholders are aware and support that Cell C is committed to resolving the situation by agreeing to restructuring terms with its lenders," a Blue Label Sens announcement read.

HISTORIC FINE FOR AIRBUS

$3.6bn

Airbus, the European plane maker, has settled a years-long corruption and bribery case with prosecuting authorities in France, Britain and the US. This follows accusations that centred on the company's use of middlemen to sell airplanes, the BBC reported. According to ft.com, the group is expected to take a charge in its annual results in February to cover the cost of the fines. "The settlement is set to surpass the £671m plea bargain struck by Rolls-Royce in 2017 with regulators in the UK, US and Brazil to settle similar allegations," reported the outlet.

ANOTHER LIFELINE FOR SAA

R3.5bn

The government bailout given to South African Airways – in the form of a Development Bank of Southern Africa loan – to keep the carrier in the skies, according to a statement from the lender. This follows weeks of uncertainty as National Treasury tried to find a legal way – outside of budget appropriations – to match commercial banks' R2bn loan lifeline in December. The airline is in business rescue.

By David McKay

MINING

Tax boost to government as mineral prices soar

The mining industry's contribution to South Africa's tax take is significant. And as long as platinum group metal prices stay elevated, this income will provide welcome relief to an overburdened fiscus.

Rocketing platinum group metal (PGM) prices, especially palladium, is good news for the government as well as for shareholders of the companies that produce them.

The government is not often mentioned in the same breath in a discussion about shareholder returns, but it benefits significantly from a strong financial performance by the sector – if only government officials would recognise it more when it came to policy.

Rand-based prices for several South African-mined metals and minerals were significantly higher in 2019: up 38% year-on-year for the PGM basket, which includes platinum, palladium and rhodium; 20% higher for gold; and iron ore was 46% higher. The only downside was for thermal coal, where export coal prices fell 22% but have started to record an interesting bounce this year.

This has been reflected in the anticipated tax take. According to RMB Morgan Stanley, corporate tax paid by Anglo American Platinum (Amplats) will be about R5bn for 2019, while Kumba Iron Ore will pay close to R10bn. There are also important contributions from Sibanye-Stillwater, Impala Platinum and Assore, an investment holding company that has access to the manganese deposits of the Northern Cape province.

The total tax take for the sector is about R27bn in 2019, up from about R18bn in the previous year. The numbers could have been better, if not for certain capital allowances provided for previous years of losses incurred by mining firms – such is the commodity cycle.

"The single largest boost to the tax take arises from the PGM industry," said RMB Morgan Stanley analysts in a report. "We estimate that the increase in 2019 taxes will possibly be less than would otherwise have been expected due to the dampening impact of carried forward capital allowances and assessed losses from prior years," it said.

Nonetheless, 2019 was a very good year for the mining sector and stakeholders, including unions which extracted wage increases in the PGM sector well in excess of inflation. And these numbers look like chicken feed compared to the likely contribution in 2020, provided gains made by certain minerals are sustained.

Spot prices surged in January with PGMs up 43% and gold 11% stronger, while iron ore has been flat. As a result, Amplats' tax take alone this year could increase to a figure of around R10bn. And that's just one company and it excludes royalties.

Including royalties, Amplats is set to pay about R12bn to the fiscus. Other companies exposed to the PGM complex are similarly positioned to contribute, such as Sibanye-Stillwater, which could pay R5bn in royalties and just under that in corporate tax this year, assuming prices remain at spot.

All in all, the anticipated tax paid by the mining sector this year, assuming all things equal, will be about R40bn, more than double that achieved two years ago.

For a country with a fiscal deficit equal to about 6% of GDP for the foreseeable future, this income from metals is a welcome relief. All in all, mining taxes make up about 10% of total corporate taxes paid in SA.

The question, though, is how long the minerals cycle can continue, especially as economists who gathered at the World Economic Forum in Davos pondered over the likelihood of the world economy slowing.

There is a risk to bulk minerals such as iron ore. Last year, a supply deficit developed after a slimes dam disaster at Vale's Brumadinho facility in Brazil, in which hundreds of people were killed, resulted in a shutdown of a portion of the company's production. However, some of that production – if not all – will come back into the market over time.

Palladium and rhodium price increases, which have been driving the increased tax take for government, seem to have little holding them back, according to analysts.

Firstly, increased production from SA is deemed to be unlikely, especially in an era of continual power interruptions. Data released by Stats SA showed that SA's output of

Minas Gerais firefighters conduct a search operation at Corrego do Feijao in Brazil, after a dam collapsed at an iron ore mine belonging to mining company Vale near the town of Brumadinho in Brazil in January 2019.

All in all, the anticipated tax paid by the mining sector this year, assuming all things equal, will be about **R40bn,** more than double that achieved two years ago.

Photos: Gallo/Getty Images

According to TD Securities, a Canadian stock brokerage, the increase in palladium, which has gained 25% in two weeks during January, is not a bubble.

PGMs fell 13.5% in November compared with the same period a year earlier.

Secondly, a rebound in automotive production, and increasing legislation on emissions – PGMs are used to make auto catalysts fitted to car engines – are likely to continue to stoke demand.

According to TD Securities, a Canadian stock brokerage, the increase in palladium, which has gained 25% in two weeks during January, is not a bubble.

"We see little evidence of excess in speculative activity, which suggests the rally is fundamentally driven, despite the parabolic move," said TD Securities in a recent note. "In fact, our dry powder analysis suggests that traders hold a below-average total position, and positions per trader are also below average, thereby reducing the risk of a sharp reversal," it said.

"We think the rally has room to run as periods of extreme scarcity send prices sharply higher. No substitutes imply that near-term demand will not be destroyed."

Said RMB Morgan Stanley: "We see a reasonable likelihood that prices and sector profitability will remain elevated and move higher in 2020."

It judged the fundamental PGM market deficit at about 500 000 to 1m ounces while tightening emission standards would drive "... an uplift in PGM loadings that is somewhat delinked from the macro backdrop (and slowing world economic growth)". ■

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LOOKING BEYOND PLATINUM GROUP METALS

African Rainbow Minerals seems to have largely missed the platinum group metals (PGM) rally, due, in part, to its exposure to other metals. However, this could change as the market potentially looks for other ways to gain PGM exposure.

The share prices of companies producing platinum group metals (PGMs) have clearly been on the rise. Impala Platinum (Implats) is one of the best examples, having recorded the lowest-ever levels in mid-2018 at a time when Sibanye-Stillwater considered a takeover of the firm, only for the company's shares to hit their best levels in over six years in January on the back of PGM price improvements.

One share that seems to have missed the PGM rise – with investors just starting to clock on to its potential – is African Rainbow Minerals (ARM), the company chaired by Patrice Motsepe and which is also exposed to the iron ore, manganese, and gold markets.

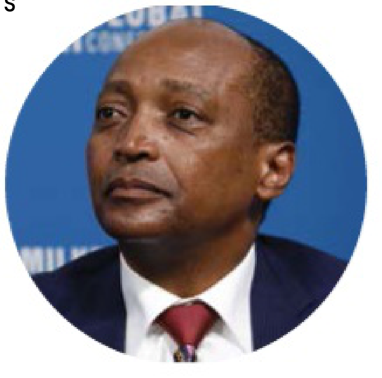
At the time of writing, shares in the company had begun to respond to this year's improvement in palladium by gaining R1 since the middle of January, but analysts reckon there's upside to R18.50/share compared with its current level of R15.46/share.

"The stock is unloved and largely ignored by the market," said RMB Morgan Stanley. This is largely based on the performance of other metals to which it is exposed such as manganese, and iron ore, where a price contraction is considered a major possibility, especially as China's steel intensity begins to decline and if production starts to return to the market.

There are also concerns about asset quality in ARM, particularly its Two Rivers PGM mine, which has underperformed. A plan to expand the concentrator at Two Rivers is what is required to stabilise that operation and keep costs in the second or third quartile.

As a result, the share has to some extent missed the PGM rally, even though 50% of its earnings is now derived from the metal.

"Pure-play PGM shares have performed strongly and we think that the market will start to look for other ways to get PGM exposure," said RMB Morgan Stanley in a report. ■



Patrice Motsepe
Chairman of African Rainbow Minerals

By Mariam Isa

ECONOMY

Politics and blackouts weigh on SA's growth prospects

South Africa's economy won't accelerate soon, even as government relaxes energy regulations.

South Africa's foreign minister, Naledi Pandor (third from left), takes part in a panel session on day two of the World Economic Forum in Davos, Switzerland, in January. Other panellists include (from left to right) Lee Hsien Loong, Singapore's prime minister, Sunil Bharti Mittal, CEO of Bharti Enterprises, and Hikmet Ersek, CEO of Western Union Co.

South Africa's worsening power crisis has hobbled the economy, slashing growth last year to almost zero and quashing any prospect of a significant pick-up in 2020 given the time required to both fix the faults at Eskom's aging coal-fired plants and to build new generation capacity.

Load-shedding was the worst on record for SA in 2019, costing the economy between R60bn and R120bn, and will mount over the next three years unless immediate action is taken to close the gap between supply and demand, the Council for Scientific and Industrial Research (CSIR) warned in a presentation on 21 January.

Businesses, economists and rating agencies say the operational difficulties at Eskom are now the biggest threat to the economy, eclipsing even the importance of resolving the embattled utility's financial difficulties, which are the main reason for SA's unsustainable debt burden.

"Eskom is going to cap growth going forward. If it can't power a struggling economy or a stationary economy, it's not going to be able to power a growing economy," says Jacques Nel, chief economist for Southern and East Africa at NKC African Economics.

In January the International Monetary Fund, the World Bank, the Reserve Bank and independent forecasters all revised their growth forecasts for SA this year to below 1% – below the pace of population growth – and many have warned that power shortages could further reduce the outcome.

Economists point out that the future impact of this is hard to calculate because it is impossible to predict the frequency, timing, intensity, and duration of load-shedding, which Eskom implements to prevent a national blackout.

Nonetheless, the utility has repeatedly been forced to resort to the emergency use of its open-cycle gas turbine generators, which burned R6bn of diesel in the year to mid-March 2019. The utility has already exceeded its diesel budget by nearly 50% in the current financial year.

"The one thing we can't quantify is the business investment which hasn't taken place because no business which depends on electricity wants to invest in a market where it is not certain about supply or the price trajectory," Absa economist Peter Worthington said at a media briefing on 21 January.

Electricity tariffs have soared by around 450% over the past decade, hitting manufacturing and mining industries hard, and will climb by another 53% over the coming three years if the utility wins a court battle with the National Energy Regulator of SA.

Reforming the energy sector has become the most urgent on a list of pressing structural reforms needed to reboot the economy, which will almost certainly lose its last investment-grade credit rating from Moody's Investors Service when its next assessment is published on 27 March.

Although the anticipated downgrade has been largely "priced in" to financial markets, passive investors in the FTSE World Government Bond Index, which SA will drop out of as a result, have been unable to sell pre-emptively – so there is likely to be an outflow of $6bn from the local bond market.

Electricity tariffs have soared by around **450%** over the past decade, hitting manufacturing and mining industries hard, and will climb by another **53%** over the coming three years.

Jacques Nel
Chief economist for Southern and East Africa at NKC African Economics

Moving off this alarming debt trajectory will be impossible without a significant increase in economic growth, which will take years even with the most effective reforms.

This is likely to be offset in part by demand from foreign investors who buy "junk" bonds for the higher yield which they offer, which will mute the negative impact that large capital outflows have on the rand.

But Absa strategist Mike Keenan says that JP Morgan is starting to include Chinese bonds in its benchmark emerging market index, which means that the weights of South African, Brazilian and Turkish bonds will be reduced. He predicts the cumulative outflows will make the currency depreciate to R16 a dollar by the end of 2020, from about R14.50 now.

Keenan also says that the upward pressure that rand weakness will put on inflation is likely to persuade the Reserve Bank not to lower interest rates again this year after its unexpected cut in January – a view shared by several other economists.

The other top global rating agencies – S&P and Fitch – are also likely to downgrade SA later this year, unless convincing steps are taken to implement structural reforms to unlock economic growth and to address the country's unsustainable debt burden.

Finance minister Tito Mboweni's budget on 26 February will be key, but a volley of his tweets over the past few weeks suggest that he is increasingly frustrated with opposition to his proposals, which have been welcomed by the private sector.

One of the main problems for SA is that the most contentious reforms – such as curbing the growth in the bloated public sector wage bill, halting bailouts to struggling state-owned enterprises, and selling off state assets – have been used by opposing factions within the ANC to fight proxy battles as they try to undermine President Cyril Ramaphosa and his allies.

Although he appears to have the upper hand at present, a mid-year meeting of the ANC's National General Council will be a test of his ability to fend off his opponents and secure a second term in office.

"It's looking increasingly difficult for the executive and his team to push through reforms, and the policy clashes we have seen so far don't give me the confidence that their implementation and growth-enhancing steps will be accelerated," says Nedbank economist Isaac Matshego.

But there are chinks of light in the tunnel ahead. At a two-day lekgotla in late January, the ANC endorsed a market-friendly approach to the country's energy shortfall, saying municipalities could procure their own energy, the independent power producer programme would be expanded, and regulations

Tito Mboweni
Minister of finance

President Cyril Ramaphosa

Isaac Matshego
Economist at Nedbank

eased around the self-generation of power by businesses.

Businesses have been clamouring for more leeway to generate their own power for months, and the CSIR says that easing restraints on commercial and household power generation could allow as much as 1 200MW of power supply to be introduced this year, rising to 4 900MW by 2024.

This would quickly help ease the demand pressure on Eskom, without requiring the utility to spend any money. The lekgotla also endorsed Ramaphosa's view that some of the country's 740 state-owned enterprises (SOEs) would be rationalised or consolidated. But the ANC also indicated that the party was still determined to keep control of the economy in the hands of government, with a suggestion to establish a new public entity to compete alongside private power producers. If the reform is delayed until such an entity is established, the process will not begin fast enough to address power shortages timeously.

To be taken seriously, Mboweni's budget must show that the government will halt continuous bailouts to struggling SOEs, which have been the main drain on its ability to spend productively and to extricate itself from a dangerous debt trap. The country's ratio of debt-to-GDP has nearly trebled to 60% from 24% in 2008 – one of the biggest increases seen in any emerging market. The ratio does not include contingent liabilities, which is mainly the debt issued by the near-insolvent SOEs.

Debt service costs are growing at more than double the speed of any other area of government spending and the budget deficit has swollen to 6.5% of GDP. Moving off this alarming trajectory will be impossible without a significant increase in economic growth, which will take years even with the most effective reforms.

"The scale of South Africa's debt means that arresting its rise would require a significant reduction of the scale and the scope of the state. We doubt that this is politically feasible given the composition of the ruling party and the country's pressing social needs," Capital Economics analyst John Ashbourne said in a research note. ■

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

Photos: www.africaneconomics.com | www.twitter.com | Gallo/Getty Images

By Glenda Williams

LISTED PROPERTY

Offshore funding and debt strategies

South Africa's real estate investment trusts are adopting unconventional funding mechanisms to forge ahead with offshore expansion and to reduce debt.

Offshore markets are expected to deliver stronger growth than South Africa's challenged economy. Unsurprisingly, SA's real estate investment trusts (Reits) are forging ahead with offshore expansion goals, employing innovative funding and debt-curtailing mechanisms to realise those aims.

Typically, Reits create liquidity through disposals. But Redefine Properties, SA's second-largest primary-listed Reit, has deployed additional sources of funding to drive down debt and fulfill Polish expansion aspirations. Its loan-to-value (LTV) sits at 43.9%. Remedies to de-gear and reduce that to between 35% and 40% include the sale of assets totalling R8bn, of which R4bn by disposing of its student accommodation in Australia.

Redefine's dividend policy presents another source of capital, with retained earnings funding local operational capital expenditure.

Introducing an equity investor allows Redefine to expand its Polish logistics platform and strengthen its balance sheet. International firm Madison International Realty is acquiring a 46.5% equity stake in Redefine's Polish logistics platform. Of the €150m deal, €66.3m will be used to expand the portfolio over the next three years, with Redefine matching Madison's €66.3m commitment.

Meanwhile, Emira Property Fund already has a co-investor in the US. The Reit was the first to forge into the US market, partnering with Texas-based private commercial real estate investor and operator The Rainier Companies.

Emira has steadily grown its US portfolio in which it has a 49.5% equity interest, last year more than doubling grocery-anchored open-air convenience shopping centre assets from four to nine.

Vukile Property Fund meanwhile is in "early discussions with international players" for a €100m strategic shareholder in Spanish subsidiary Castellana Properties SOCIMI S.A. That will also aid aims to reduce LTV from the current 40.8% to around 35%.

Some 45% of Vukile's property assets are in Spain, with Castellana generating 47% of Vukile's profits. Vukile relied on seven Spanish funders to supply R8.1bn of euro-denominated debt – out of the company's total R15.5bn debt – which are secured only by Castellana's balance sheet and with no recourse to Vukile. This allows the company to repay the debt in euros and not in the volatile rand.

Kelly Ward
Investment analyst at Metope Group

The cost of debt is cheaper abroad, with interest rates at about

2%

in Europe against SA's approximately

9%.

Emira Property Fund's Stony Creek Marketplace in Noblesville, Indiana, in the US

"Even in SA, the euro debt is matched to the euro income received from Castellana so we are not running any currency risks in debt repayment," CEO Laurence Rapp tells *finweek*.

The cost of debt is cheaper abroad, with interest rates at about 2% in Europe against SA's approximately 9%. This is perhaps why debt is disproportionately weighted to offshore for many stocks with offshore exposure.

"By using offshore debt to fund offshore assets (or using a cross-currency interest rate swap) Reits can hedge against currency fluctuations. Rand volatility is neutralised as offshore earnings can pay the offshore debt service," explains Kelly Ward, investment analyst at Metope Group.

"Overall, the SA Reit sector is not over-geared. Many SA Reits prefer to utilise a higher proportion of offshore gearing due to the lower costs, but will reduce local debt as they gear up offshore, thus keeping their total LTV at around 35%," says Ward.

"But 100% gearing introduces the risk of capital write-downs offshore impacting on total LTV, and possible breaches of bank debt covenants," she says.

Rebosis Property Fund, which invested in New Frontier Properties – a UK retail landlord – shortly before the UK's exit from the EU was debated, is a case in point.

"Post-Brexit the pound crashed and there were substantial valuation write-downs on the offshore assets. And they had taken on close to 100% debt at the original high valuations," says Ward. "It's been the major cause of Rebosis' woes the past 18 months and reason for the massive drop in its share price."

Everything is about access to capital, and capital from foreign partners is another valid source.

"There's a limit to how much equity SA investors can allocate to property, and when there is low appetite in the market, introducing an equity partner can assist companies with growth aspirations to take advantage of opportunities offshore," says Ward. ■

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Photos: Supplied

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market place

FUND IN FOCUS: DENKER SCI EQUITY FUND

By Timothy Rangongo

A balance of SA Inc and global equity

Denker Capital's SCI Equity Fund aims for current income and wealth creation over the long term.

FUND INFORMATION:

Benchmark:	FTSE/JSE Capped SWIX (87.5%) and MSCI World Index (12.5%)
Fund managers:	Claude van Cuyck and Ricco Friedrich
Fund classification:	South African – Equity – General
Total investment charge:	2.08%
Fund size:	R1.63bn
Minimum lump sum/ subsequent investment:	R10 000/R500
Contact details:	021 950 2603/service@denkercapital.com

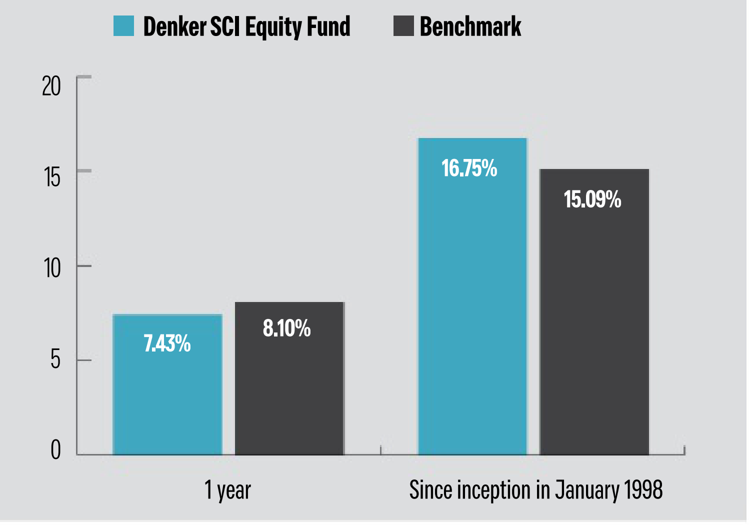
TOP 10 HOLDINGS AS AT 30 NOVEMBER 2019:

1	Denker Global Financial Fund	9.13%
2	Denker Global Equity Fund	5.54%
3	Naspers*	5.52%
4	Anglo American	4.77%
5	Oracle Corporation	3.76%
6	MTN	3.53%
7	Standard Bank	3.21%
8	Italtile	3.06%
9	British American Tobacco	3.01%
10	Samsung	2.77%
	TOTAL	**44.3%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 November 2019



Fund manager insights:

Denker Capital's actively managed SCI Equity Fund offers investors a choice of local and global stocks. It aims to provide a reasonable level of current income and long-term wealth creation.

The fund diversifies across all sectors of the JSE and may invest a maximum of 30% in offshore assets. At the end of November 2019, the fund held 25.56% in global blue-chip stocks, such as Samsung and Oracle, an American multinational computer technology corporation whose shares are listed on the New York Stock Exchange.

Locally, it counts MTN, Standard Bank and Anglo American among its largest holdings, which the fund manager says have not been an easy assortment to be invested in, given the poor state of the domestic economy during 2019.

The fund has had to focus its capital allocation decisions towards companies that have lower levels of gearing, with generally stronger underlying business economics, strong and focused management teams and that are trading below Denker's assessment of their intrinsic value and providing a sufficient margin of safety, according to Claude van Cuyck and Ricco Friedrich, the fund's managers.

For instance, the R1.6bn fund has held onto MTN, its top local telecoms stock pick, for several reasons. Firstly, relative to its peers and in a maturing local market, MTN has a higher exposure to better growth markets. Secondly, the asset disposal programme will improve returns and release unproductive capital, which could be used to pay down debt. Lastly, the fund managers tell *finweek* that, from a valuation perspective, the company is trading at a substantial discount to their assessment of intrinsic value and at current prices offers an attractive dividend yield of over 6%.

Since the start of 2020, the fund has not undertaken major changes to its stock positions. Friedrich and Van Cuyck continue to see great value emerging in some locally-domiciled businesses.

Consumer-facing stocks have been under significant pressure from a revenue growth perspective, they say. There are some great opportunities in selected medium- and small-cap stocks which can continue to grow despite these challenges, according to them.

The potential Moody's Investors Service downgrade of South Africa's sovereign debt, government's action regarding weak public enterprises, the UK's exit from the EU, and the US-China trade dispute are among the macroeconomic uncertainties the fund's managers will be watching in the first quarter of 2020.

Why *finweek* would consider adding it:

The fund gives access to a broad range of local and offshore stocks. It shows strong risk management, including avoiding investments in a slew of recent corporate governance disasters, as occurred at Tongaat Hulett and EOH. ■

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TELKOM

BUY SELL HOLD

By Simon Brown

For the patient

The Telkom share price has been on a crazy ride – hitting R100 in mid-2019 before collapsing to a current price just above R30. Sure, R100 was a crazy level, but equally so is R30.

The company is a completely different beast than back in the day when it was a monopoly, and it has since split itself into different divisions such as network, property and data that compete on the open market.

Their mobile offering has over 10m subscribers and while it is profitable, it is still a way off from reaching critical mass – which is probably at least 20m customers. Telkom is spending a large amount on capital expenditure, with about half of its mobile revenue going towards capital. This won't slow down anytime soon.

But the valuation is simply too attractive to ignore, even with government pressuring Telkom not to proceed with its planned retrenchments. Telkom is worth building a position in for somebody with a lot of patience, and who is looking for some risk with a potential great upside. But don't rush, as we may still see some more price weakness. ■

Their mobile offering has over

10m

subscribers and while it is profitable, it is still a way off from reaching critical mass.

Last trade ideas

- BUY — Metrofile, *16 January issue*
- BUY — Rolfes, *21 November issue*
- HOLD — Pick n Pay, *7 November issue*
- BUY — Grindrod Shipping, *24 October issue*

INVESTEC PROPERTY FUND

BUY SELL HOLD

By Moxima Gama

Eyeing Europe

Property funds have been trading at huge discounts to their net asset values over the past few years. Investec Property Fund is a South African Reit, which listed on the JSE in 2011. The investment portfolio consists of direct and indirect real estate investment in SA, Australia, the UK and Europe.

In an announcement at the end of January, Investec Property Fund said it planned to sell stakes in two of its SA malls for R727m in a bid to free up cash to seek higher-performing European assets. The Musina Mall in Limpopo and Boitekong Mall in Rustenburg, North West, will be sold at a 3% discount to book value. The transaction, however, is subject to approval from the authorities and is expected to be concluded in March.

How to trade it:

The fund is trading on the support trendline of its nine-year bull trend, which would be breached through 1 420c/share (reduce long positions). A negative breakout of the bull trend would be confirmed below 1 200c/share (go short) and support levels at 1 055c/share and 915c/share could be retested on continued selling.

A good buying level on this share would only be triggered above 1 670c/share – thereby ending a 14-month sideways pattern between 1 670c/share and 1 420c/share. Once resistance at 1 670c/share has been breached, gains towards the all-time high at 2 020c/share would be possible. ■

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Investec Property Fund said it planned to sell stakes in two of its SA malls for R727m in a bid to free up cash for higher-performing European assets.

Last trade ideas

- BUY — British American Tobacco, *16 January issue*
- SELL — Mr Price, *21 November issue*
- BUY — Sasol, *7 November issue*
- SELL — Mondi, *24 October issue*

Photo: Shutterstock

By Moxima Gama

CAPITEC

Has it reached a ceiling yet?

52-week range:	R1 065.21 - R1 497.56
Price/earnings ratio:	27.47
1-year total return:	18.97%
Market capitalisation:	R158.41bn
Earnings per share:	R49.88
Dividend yield:	1.37%
Average volume over 30 days:	151 079

SOURCE: IRESS

CAPITEC BANK

SOURCE: MetaStock Pro (Reuters)

Capitec's share price has surged more than 270% over the past five years. After reporting an 18% increase in operating profit before tax to R3.83bn for the half-year ended August 2019 and a 20% increase in headline earnings per share from R21.22 to R25.45, its share price tested an all-time high at 149 500c/share.

Outlook: Despite launching a new contactless card and banking app, and extending its trading hours in more than 300 of its Sunday banking branches, Capitec seems to be encountering resistance at its all-time high at 149 500c/share – it failed in December to breach the level. In addition to that, directors of the company have been selling their shares. This raises questions and could prompt a topping-out formation in the share price.

On the charts: Capitec is forming falling highs and is approaching key support at 132 500c/share. A consolidation area between 149 500c/share and 132 500c/share could develop, and a distinct move would be triggered once either level has been breached. With the three-week relative strength index (RSI) in oversold territory, a near-term recovery is in the offing. If resistance is encountered at 143 295c/share, support at 132 500c/share could be defied.

Go short: Downside through support at 132 500c/share could prompt a correction towards 117 885c/share. This momentum could extend below 109 800c/share to either the lower slope of its long-term bull channel or the 100 000c/share support level.

Go long: Upside through 149 500c/share could see Capitec retest the upper slope of its channel, which may curb further gains. If not, a new, steeper bull trend could form to new all-time highs. ■

RICHEMONT

Bullish pattern could soon break out

52-week range:	R90.54 - R125.45
Price/earnings ratio:	27.93
1-year total return:	21.96%
Market capitalisation:	R634.2bn
Earnings per share:	-
Dividend yield:	2.66%
Average volume over 30 days:	3 703 338

SOURCE: IRESS

RICHEMONT

SOURCE: MetaStock Pro (Reuters)

Though Richemont has maintained its long-term bull trend, it has been volatile for the past three years, resulting in minimal returns. Richemont formed a lower top at 12 545c/share after reporting a net profit of €869m for the six-month period through end-September.

Outlook: Focusing on the online retail space kept Richemont afloat; in fact, it saved the company from imploding. Richemont is now targeting online Chinese customers, in partnership with e-commerce retailer Alibaba – the platform was launched in October last year.

On the charts: In its three-year sideways band, Richemont has formed a potential inverted head-and-shoulders formation, which is a bullish pattern. It recently tested the neckline of the pattern (red dashed trendline) but failed to breach it because its three-week RSI was overbought – which triggered a pullback. The final shoulder is currently ranging between 12 545c/share and 10 360c/share. A higher bottom formed above 10 360c/share would be a bullish sign.

Go long: A positive breakout – that would end the three-year sideways movement and confirm the bullish pattern – would be indicated above 12 545c/share (go long). Thereafter, expect Richemont to retest its all-time high at 13 500c/share. The short- to medium-term target of the pattern is situated at 17 180c/share and could be tested once the all-time high has been breached.

Go short: The bullish pattern would fail below 8 865c/share and the long-term bull trend would end too. A new bear trend would commence towards 6 880c/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.

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.

WOOLWORTHS

Photo: Gallo/Getty Images

What's the plan with David Jones?

Woolworths* has announced that CEO Ian Moir will be stepping down mid-February. His departure is not a surprise, after it was announced he'd be based in Australia trying to fix the company's David Jones subsidiary. But this is sooner than I expected. The new CEO, Roy Bagattini, is an outsider and comes from a fashion retail background, suggesting he really is in place to fix David Jones. This raises the question: Is he fixing it for sale or to keep it? I suppose that will depend on how well he manages getting David Jones to start making real profits. However, as somebody with no prior involvement in the acquisition, it's likely he will be able to take an unbiased view of the business and make the right decision. Woolworths also issued a trading update for the 26 weeks to end-December that showed its Australian business continues to struggle, even if a little less. Locally, food is the winner while fashion muddles along. The group expects another decrease in headline earnings per share (HEPS) of between 15% and 20% for the interim period – I'd hoped they'd stop the bleeding.

NASPERS

Solving the discount issue

Naspers** sold about 22m Prosus shares in a book build, which raised R24bn. Naspers will now use this money to undertake a buy-back of JSE-listed shares, with the intention being to try and reduce the discounts that exist between Tencent, and Prosus, and Naspers. This is all good and well, but as Piet Viljoen from RE:CM said on Twitter, there is one very effective way to solve the discount issue – unbundle the Tencent shares to shareholders. This would immediately close any discount gap, but it would also leave Prosus without the Tencent cash cow and in charge of a much smaller entity.

Shoprite's local supermarkets saw sales

9.8%

higher, which is a great number and suggests that they have gained market share.

DEUTSCHE BANK ETN

ETN offering shrinks in SA

Deutsche Bank said in early January that it will redeem its locally-listed exchange-traded notes (ETNs) earlier than their expiry dates. These notes – tracking China, emerging markets and Africa – have been delisted. This follows on the bank's sale of its five locally-listed exchange-traded funds (ETFs) in mid-2017 to Sygnia – a move that left the bank with its recently delisted ETNs. Holders would have been paid the net asset value (NAV) of the notes and Deutsche Bank is now not offering any locally-listed passive instruments. For those holding these ETNs, there are some alternatives. Cloud Atlas offers an African ETF that tracks the 50 largest listed companies on the continent and excludes South Africa – a good fit for those looking for Africa excluding SA. Investors opting for exposure to China don't have a direct option. Satrix, however, has an emerging market ETF that not only covers emerging markets, but also has a lot of Chinese exposure, which is a good fit.

SHOPRITE

Pessimism about SA Inc

Trading updates are coming thick and fast, with Shoprite* announcing an overall 7% increase in revenue – ahead of expectations. Shoprite's local supermarkets saw sales 9.8% higher, which is a great number and suggests that they have gained market share. The rest of the continent, however, slipped another 3.1% as currency volatility and weakness hurt the business. But, overall, it is a good update and while the market liked it, the price struggled to really get going. This price struggle is indicative of the deep pessimism of local investors in any shares which are considered as SA Inc. This is the case even on the back of good retail sales data for November that, while including Black Friday, had the same sale event in the previous year.

RICHEMONT

Struggling with online sales

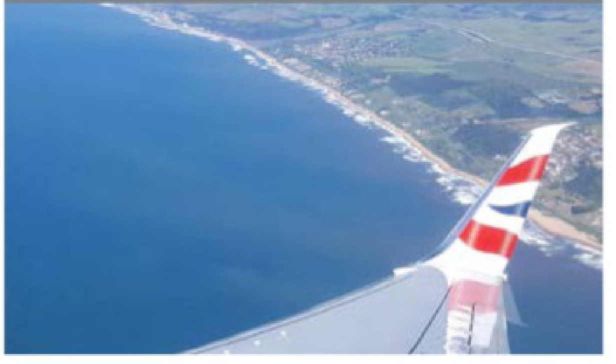
Richemont's* third quarter trading update excited the market and the share price jumped by almost 6% on the day of the release in January. Overall, the update was positive, with sales in China rebounding while Hong Kong remains troubled. But one area of concern is the online business, which recorded a very modest 8% growth using actual exchange rates. This was in part blamed on a warehouse robbery that occurred in Johannesburg in August last year. In the online world, however, 8% is not an exciting number, especially where the online venture is relatively new. As such, Richemont is clearly struggling with online sales. If they can get it right, and there is no certainty that they could, online sales will start seeing double-digit growth – maybe even more than 20%. If not, they've sunk a large amount of capital expenditure into a failed venture. But, I believe, they should be able to get it right over time.

CLICKS

Still defying reality

Clicks is SA's Tesla in the sense that the share price continues to defy reality. The latest trading update – for the 20 weeks through 12 January – states that the group's turnover rose 9.9% with internal inflation coming in at 2.4%. A strong performance in a struggling market, but on a historic price-to-earnings ratio (P/E) of almost 38 times, the valuation is extremely stretched, even for a quality company such as Clicks. The stock did pull back from its all-time high of just over R271 on the day of the trading update and many traders were clamouring to short the stock. But the rule is simple: Never short on fundamentals, only short on price action. And, so far, the one day pullback is not an indication of a change in the trend. Investors love Clicks and any trader standing in the way is likely to be flattened.

COMAIR



Investors aren't convinced

With SAA in business rescue since late last year, and the cancellation of several flights from mid-January onwards, the price action of Comair has been baffling. Sure, they're now unlikely to get the balance of the monies owed to them by SAA after the court order. However, with less local flights and a real likelihood that SAA, if it survives, will be a much slimmer local operation, this offers Comair more potential seat sales and maybe even at higher prices. Yet Comair's share price is ignoring this. I would have assumed that Comair, which owns the local British Airways and kulula.com brands, was a perfect trade to take on amid an SAA failure or slimming down. But the market disagrees and, as always, the market is right. Don't fight it. Most probably investors are not convinced by the struggling local economy creating enough demand for flights, even if there is one less competitor in the space.

The valuation is extremely stretched, even for a quality company such as Clicks.

ABSA ETF

Another delisting

Absa also cancelled its Givi ETFs and paid the NAV to holders. A reduction in choice is always disappointing, but these delistings are expected as issuers clean up their offering – and in the case of Deutsche Bank even exiting the local passive management market. During last year, CoreShares merged its two property ETFs into CSPROP* with a new yield-focused mandate. They also converted this equal-weight ETF into a smart-beta ETF. This is in line with the other trend, which sees a spate of listings of either smart-beta or offshore ETFs as emerging and local market ETFs are not getting any love. But this will change over time when emerging markets become the flavour of the month again.

AVI

Long-term view will pay off

The AVI trading update for the six months through end-December highlighted their strategy compared with competitor Tiger Brands. AVI always seeks to protect margins, even at the expense of sales volumes, which increased a modest 1%; this is likely negative after accounting for internal inflation. Tiger Brands, on the other hand, protects its brands and will compete on price, which subsequently hurts margins. They rather aim to increase revenue. I prefer AVI's approach, albeit that in these very difficult times both will struggle to maintain and increase their profits. The bounce-back for AVI, however, will be much better as they won't have to get consumers used to higher price points as they had never dropped those prices. It's a long-term view from management that I fully support. ■

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**The writer owns shares in Richemont, Woolworths, CSPROP and Shoprite.*

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

Photo: Shutterstock

By Simon Brown

INVESTMENT STRATEGY

It's all about process

While there is no failsafe when it comes to selecting winning stocks for your portfolio, having a defined selection process will help you become a better investor.

When buying property, the often repeated phrase is: location, location, location. For investors and traders, the critical phrase needs to be: process, process, process.

I have often written about the importance of process, as it removes the randomness of our stock selection. Think about it: If you're simply using a random methodology to try and select winners for your portfolio, you may as well be throwing darts at a list of shares.

Now, sure, this random methodology may result in a series of winners (not likely, but possible). But what if it does provide you with winners? Replicating this by throwing another round of darts isn't likely. Unless they're magic darts.

So, without magic darts, you need to establish a process that will help you select winners; a process that can be replicated in order to find more winners. In other words, process enables you to repeat your selection – and while it's impossible to remove all risk of losing positions, a solid process over time will help you find more winners than losers.

Yet, when it comes to formulating a process, it's easy to get stuck before you even start. That blank screen or piece of paper seems absolutely daunting, with endless possibilities and the risk that you might design a process that misses the winners.

But here's the thing: No process will be perfect. All processes will miss out on some winners. The point of having a process is to reduce your future workload and to clearly define your investment strategy. It is also important to remember that this process will evolve over time as you gain more experience and, frankly, as you get better at investing.

You just have to start.

You could start by looking at stocks that have grown profits and dividends consistently over a period of time and use that as an initial filter to narrow down the list of possible shares to a more manageable number. Thereafter, you can add more filters until you arrive at a shortlist of stocks.

Alternatively, you could start by looking at stocks within sectors you like and believe to have sustainable growth, before turning to fundamentals. But I would add another step to the process. I'd throw out all the sectors I don't like at this point. Deciding which sectors these would be, depends on my portfolio management strategy.

For my long-term, 'til death do us part, stocks I want no cyclical sectors; none with regulatory risk; and no sunset industries. But, for my second-tier portfolio, I will gladly include stocks from cyclical sectors, as my holding period is not forever; I am happy to have to exit in a few years when the tide turns. (Bear in mind that exiting is also part of a defined process.)

Knowing what your investment strategy is, is very much part of the stock selection process. While you can have multiple strategies, you need to be very clear on what strategy you're building a process for, as each will differ – as I've illustrated above.

What's also very important is that you document the way in which you have designed your process, so that you are always clear on what it is you've done in the past.

You also need to check your process to ensure it actually works. Just because you have a process in place, doesn't mean it's actually resulting in selecting winning stocks.

I know I said you must just start, but don't worry about hitting dead ends; you'll still be smarter for knowing what doesn't work. I do spend time every year-end going over my processes to see if they need any changes. When I first started building my processes, changes were frequent and at times fairly large. But, over the years, my processes have been refined to a point where changes are seldom and small.

Don't fear the process. Embrace the learning curve. It's one that will make you a better trader or investor over time – one with a much better understanding of your strategies and making profits. ■

editorial@finweek.co.za

Photo: Shutterstock

The point of having a process is to reduce your future workload and to clearly define your investment strategy.

ADVERTORIAL

Global growth, locally.

With attractive growth prospects, a sound investment strategy and enticing tax benefits, there's never been a better time to invest in 12Cape.

For the discerning investor, 12Cape offers benefits that are difficult to ignore. As with other Section 12J investments, investors can offset their investments against their taxable income for the year, and invested capital is directed towards sectors in the economy that have been earmarked to boost jobs and economic growth.

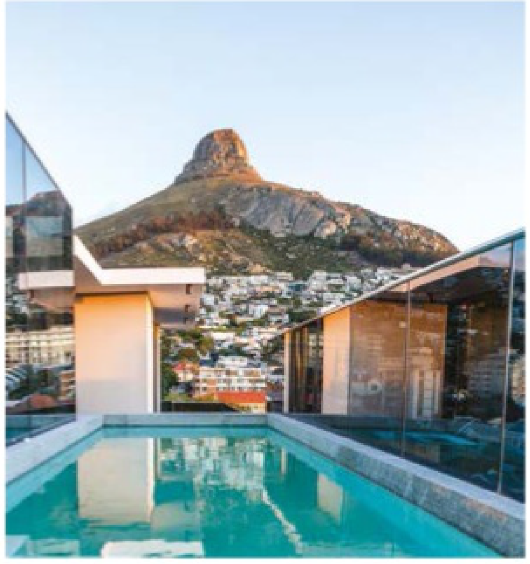
12Cape deploys capital in the international tourism sector in Cape Town, a sector that has shown resilient foreign-funded growth in line with global trends: The 25 million international tourist arrivals in 1950 (UNWTO estimate) has increased to 1.4 billion in 2017 (a current increment of over 50million travellers per annum), with a further expected expansion of 50% over the next decade (WTTC). There are many reasons to believe that Cape Town - a global favourite - will remain part of this growth.

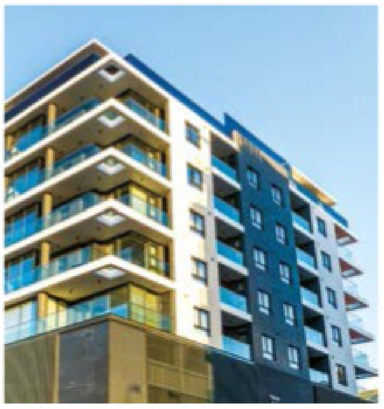
12Cape combines this growth sector with the global rise of the Aparthotel - a subsector in hospitality which is fast becoming a preferred form of accommodation among business tourists and travellers alike. According to Bloomberg "Thanks to a new, hybrid concept that's taking the hospitality world by storm, it's possible to get the best of both worlds. Meet the boutique apart-hotel. It's half-apartment, half-hotel, but 100 percent ready for your Instagram feed". Numbers from the UK & Ireland - where Aparthotels are increasing by 4x (as measured by existing stock as a proportion of total prospective pipeline, Lambert Smith Hampton, 2019) - confirm this.

It is therefore no surprise that 12Cape's flagship property - the Latitude Aparthotel in Sea Point, Cape Town - has experienced high occupancy rates (85% in January 2020) since opening in November 2019. Latitude Aparthotels, owned by 12Cape investors, is a proudly local brand complete with local themes, furnishing and art.

12Cape offers other advantages, too - 70% of its prospective dividend is attributable to international visitors who generate hard currency income for 12Cape investors. Furthermore, the knowledge that capital is invested in a store of value - hence secure because of the property's underlying value.

Investors in 12Cape can expect long-term capital growth from prime real estate without the large sums of money usually needed for individual properties. Investors can also expect to participate in yield distribution growth underpinned by global structural trends and currencies, and benefit from a tax deduction while creating jobs and attracting foreign capital to our South African shores.





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latitude°
Aparthotel

By Shaun Murison

EQUITIES

An offshore tech index of all the market leaders

The NYSE FANG+ boasts ten equally-weighted dominant media and tech companies.

The New York Stock Exchange gives investors exposure to 10 global industry-leading technology and media stocks in one instrument. From 19 September 2014 to 31 December 2019, the NYSE FANG+ Index delivered an annualised total return of 24.27% per year, roughly 45% more than that of the Nasdaq-100 Index and more than double that of the S&P 500 Index over the same period.

The index is equally-weighted – that is 10 companies with a 10% weighting each – and rebalanced quarterly. Constituents comprise Facebook, Apple, Amazon, Netflix, Alphabet, Tesla, Nvidia, Alibaba, Baidu and Twitter.

The Big Four

Facebook, Amazon, Apple and Alphabet, parent of Google, are known as the "Big Four" technology companies. They cover some of the biggest names in social media, online retail, artificial intelligence and consumer electronics. Apple and Alphabet are two of the five global companies with a market capitalisation of over $1tr.

China

Alibaba and Baidu, while both multinational companies, give investors market-leading exposure into the populous Asian region.

Baidu, a China-based company, specialises in internet-related products and services and artificial intelligence. The company has the second-largest search engine in the world and holds more than 75% of China's search engine market.

Alibaba remains one of the largest e-commerce, retail and AI companies in the world with the biggest consumer-to-consumer, business-to-consumer and business-to-business marketplaces in the world.

On-demand entertainment

Netflix is at the forefront of innovation in the on-demand subscription-based entertainment space. The company now has over 167m paying subscribers globally with earnings – assuming constant exchange rates – evenly derived from the US and the rest of the world. Netflix's own-produced content has been the most nominated at both the Golden Globe and Academy awards ceremonies in 2020. While the landscape of on-demand television is becoming more competitive, Netflix continues to grow, having added 8.8m paying subscribers in the same quarter – the final one of 2019 – that Disney+ and Apple TV, two competitors, were launched.

Photo: Gallo/Getty Images

Nvidia

Nvidia Corporation, based in the US, is a technology company specialising in graphic processing units, semiconductors and artificial intelligence. The company caters to the ever-growing e-gaming market and has moved into the mobile phone market and produces high-end processors for smartphones and tablets.

INSTITUTIONAL VIEW ON NYSE FANG+ INDEX CONSTITUENTS

	Strong buy	Buy	Hold	Sell	Strong sell	Average rating
Alphabet	16	20	4	0	0	Buy
Alibaba	30	22	1	0	0	Strong buy
Amazon	24	23	3	0	0	Buy
Apple	12	13	12	3	2	Buy
Baidu	12	12	10	0	0	Buy
Facebook	23	24	2	2	0	Buy
Netflix	15	11	11	4	2	Buy
Nvidia	9	20	9	1	1	Buy
Tesla	8	1	10	10	4	Hold
Twitter	6	4	27	8	0	Hold

SOURCE: IG Markets and Thomson Reuters

Tesla

The Tesla portion of the NYSE FANG+ Index provides investors with exposure to the sustainable energy sector predominantly through the automotive space. Earnings from the group have been volatile over the years, although the company did return to profitability in the third quarter of 2019. Operating expenses have been decreasing to help strengthen gross margins for the business. Tesla now looks ready to ramp up production with the completion of its Gigafactory in China which should also equate to lower production costs. Tesla predicts that it will be self-funding going forward with a greatly improved free cash flow.

Twitter

Twitter, the microblogging social networking service, is perhaps the least-favoured of the NYSE FANG+ Index's constituents. A daily active usage of 145m subscribers to the service will need to be better monetised by the company in order to meaningfully grow earnings; like its much larger peer Facebook has been able to do.

Institutional view on NYSE FANG+ Index constituents

The table above highlights that 8 of the 10 shares are popular with analysts as they all carry at least a "buy" long-term average rating. Tesla and Twitter carry an average long-term broker rating of "hold".

The NYSE FANG+ Index allows investors a diversified opportunity to gain exposure to industry-leading media and technology companies. These companies provide a continued opportunity for growth despite their large capitalisations. They continue to innovate in directions where markets may not even exist yet. ■

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Shaun Murison is a senior market analyst at IG Markets.

By Peet Serfontein

OFFSHORE

Starbucks bull run – no end in sight

It would seem that Starbucks aims to continue building on the successful plans that have boosted its share price.

Starbucks Corporation's major industry is the manufacturing, marketing and retailing of special coffees, and it operates mainly in the US, China, the Middle East and Africa. The company sells coffee and other drinks, foods and packaged coffee and is also a focused trademark thanks to its entrepreneurially-centred and licensed shops.

The company's channel development segment sells packaged coffee, tea and ready-to-drink beverages.

The company recently said that it plans to open a further 85 shops by 2025 globally. This is an expansion of its existing shops, which are currently only in main centres.

The Starbucks share price increased by more than 36% in 2019, which can mainly be attributed to accelerated growth in the second half of 2019. This growth was a direct result of the company's efforts to further train its labour force, to overhaul its loyalty programme and to launch new drinks like Pumpkin Cream Cold Brew. The sales in China have also increased after three successive sluggish quarters.

It seems as if Starbucks is aiming to continue building on the successful plans that have boosted its share price. The company has also announced that its range of drinks will be extended to include popular milk alternatives.

52-week range:	$66.20 - $99.72
Price/earnings ratio:	30.48
1-year total return:	34.63%
Market capitalisation:	$103.99bn
Earnings per share:	$2.91
Dividend yield:	1.85%
Average volume over 30 days:	6 632 716

SOURCE: IRESS

GRAPH 1: STARBUCKS SHARE PRICE (ABOVE) AND MACD INDICATOR (BELOW)

GRAPH 2: STARBUCKS SHARE PRICE IN THE SHORT TERM (ABOVE) AND MACD INDICATOR (BELOW)

SOURCE: Peet Serfontein, tradingview.com

What is the upward price potential of Starbucks shares?

Starbucks currently trades at a price-to-earnings multiple (P/E) of 33. However, the one-year pre-estimated P/E is 27. As the pre-estimated P/E is lower than the current P/E, it implies that analysts are expecting an increase in earnings – provided the share price remains unchanged.

The current average earnings per share (EPS), which is indicative of the company's profitability for 2020, is $3.05. The EPS for 2019 was $2.83.

The share price reached a high of $99.11 on 26 July 2019.

If one looks at the share price from a technical point of view, it remains above its 200-day simple moving average. This indicator serves as a most important psychological level and is an indication of the long-term trend. A price movement above $85.95 serves as such a psychological level.

Furthermore, a stable support level, which is in the region of $74, has remained in place since 2009 – please refer to the black line on graph 1. As long as the price remains above the 200-day indicator – as well as this level – the trend will be upwards. Please note that the scale is a logarithmic scale.

But should you buy?

Graph 1 indicates the medium-term graph of the Starbucks share price.

The panel below is the moving average convergence divergence (MACD) technical indicator. The MACD mainly confirms the share's trend. The MACD consists of lines, namely the blue MACD line and the orange MACD line; the last mentioned is the MACD signal line.

A change in the trend is confirmed when the MACD moves to above the MACD signal line. It's what typically happened recently (see graph 2).

One must remember that the MACD is a universal indicator, which means that most investors will see exactly the same "signal". Investors therefore ride on the same wave of market psychology.

A further, positive view of the share price is when one looks at the remaining volume indicator. This technical indicator determines whether investors are investing money in the share. The upward trajectory of the indicator thus confirms such a trend. It supports a bull trend for the share.

The expectation is that the share price could therefore once again test its previous high of $99.11 and could easily increase to $100. Take profits only at these levels and once again buy should the share price pull back.

A price movement below the 200-day indicator's $85.95 and $74 will be worrying and could see the share price pull back to $57.

Upward price momentum is currently still in place. Rising prices serve as the energy behind a share's price to continue moving in an upward trend. ■

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Peet Serfontein is a director of Phoenix Investment Analytics.

Photo: Shutterstock

By Simon Brown

DIVIDENDS

Why you need to understand a company's payout policy

Often, investors don't pay enough attention to the future benefits of potential dividends when buying a share.

Dividends are great. I call them free money, albeit you're receiving it because you bought a dividend-paying share. The real beauty is that you'll continue to receive that dividend for as long as you hold the stock and the company continues to pay dividends.

After a decade or two, the dividends you earn on a particular share could potentially exceed the amount you actually paid for it; and those dividends will keep on coming every six months or annually, depending on the company's dividend policy.

That dividend policy is what I want to focus on in this column.

When buying a share, many investors tend to largely ignore the dividend, as the dividend yield (yield is the size of the dividend relative to the share price expressed as a percentage) is most often fairly modest.

For example, a 2.5% dividend yield means that an investment of R10 000 will get you a modest R250 in the first year. But assuming the company is strong, and is growing profits ahead of inflation, that annual R250 will rise every year – potentially doubling every five years if, say, an annual 15% increase is sustained.

So, even if they are small to begin with, dividends offer two important things to investors. Firstly, they add to the total return for an investment. Sure, price movement is usually greater than the dividend payment, but even an extra 2.5% a year in dividends is not insignificant. Secondly, dividends provide cash flow. The only other way an investor can realise cash from an investment is through selling some, or all, of their holdings.

That's why investors need to focus more on dividends, as well as the potential growth of a dividend, as well as any threat of it being reduced or cancelled.

Most listed stocks will have a dividend policy whereby they pay out a certain percentage of profits or headline earnings per share (HEPS) as a dividend. So, if the payout ratio is 50%, then half the HEPS will be paid as a dividend while the other half will be retained by the company. A 75% payout ratio will mean three-quarters of profits are paid out as dividends and a quarter is retained.

I like a consistent dividend policy as it gives me a level of certainty about the dividend, subject of course to what's happening to the profits. Some boards will also adjust this policy over time, increasing the payout ratio as profits grow and the company matures.

One red flag to watch out for is a company using debt to pay dividends. This is never, under any circumstances, a good idea. Rather cut the payout ratio, or even just cut the dividend entirely. Never borrow to fund dividends.

Another policy some boards implement is a progressive dividend, which means that the dividend will be increased by a certain percentage every year, regardless of profits. I hate this idea because at some point profits could slow and suddenly the company finds itself in a bind, and then the policy needs to be revoked. Or, if profits soar, the dividend lags due to the set increase every year.

A last point on dividends is tax.

Dividend withholding tax (DWT) is a flat 20% in South Africa, and that's high. Capital gains tax (CGT), for which you are liable when you sell an investment, is a maximum of 18% – if you're earning over R1.5m a year and paying personal income tax at a rate of 45%. Furthermore, the first R40 000 you receive when selling your investment is exempt from CGT, which again emphasises how steep that 20% DWT is.

But, as writing this column reminds me, tax is a by-product of success. If I want to pay less tax, then I should simply make less money. So, I grit my teeth and pay the tax. ■

editorial@finweek.co.za

I like a consistent dividend policy as it gives me a level of certainty about the dividend, subject of course to what's happening to the profits.

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WHICH PENNY STOCKS ARE WORTH A THOUGHT?

By Jaco Visser

There are four penny stocks worth looking at on the JSE. Investors should, however, analyse their choices of these types of shares carefully.

There are numerous penny stocks – small-cap companies with a share price under R1 – on the JSE's main board and they may seem attractive to retail investors, especially first-timers who want to enter the world of investment.

A few former mid-cap names – in particular construction companies such as Aveng, Basil Read and Group Five – have fallen to the penny-stock category as South Africa's economy tanks under poor government policy decisions, and a dearth of fixed capital investment by companies.

Nevertheless, there are several penny stocks that shimmer and may prompt a closer look, but investors shouldn't necessarily be adding them to their portfolios. *finweek* has identified four stocks that are geared towards a changed future economy, or pose value in terms of their share price.

The returns story on the FTSE/JSE Small Cap Index is a mixed one at best. The index – which includes those stocks not selected for the FTSE/JSE Top 40 Index or the FTSE/JSE Mid Cap Index – declined 4.1% last year, slumped 14.6% in 2018, rose 3% in 2017 and jumped 20.9% in 2016 (see the table below for comparison).

Considerations with penny stocks

The decision to invest in penny stocks should be premised on a solid analysis of a company.

"With penny stocks, much of the value lies in their prospective growth in income and as a result, historical valuations are of lesser significance," says Ricus Reeders, portfolio manager at PSG Securities. He recommends two factors to look at when considering penny stocks due to margins in these companies typically being slim.

HOW DID THE SMALL-CAP STOCKS FARE IN COMPARISON WITH OTHER SHARES?

YEAR	SMALL CAP INDEX	MID CAP INDEX	TOP 40 INDEX
2019	-4.1%	15.6%	12.4%
2018	-14.6%	-9.7%	-8.3%
2017	3%	7.4%	23.1%
2016	20.9%	26.9%	-1.6%
2015	-3.9%	-7.5%	7.5%

** Total return measured year-on-year*

SOURCE: FTSE Russell

Firstly, the potential investor should look at a company's earnings momentum. "Are the company's earnings not only growing but is the rate of growth also increasing?" he asks. The momentum in earnings could either be the result of revenue or margin increases or the effective management of cash flow, according to Reeders.

Secondly, the investor should determine whether growth in the company's assets, expenses and debt is covered by cash flow, says Reeders. "Are these two items sustainable and cogent?" he asks.

Benefits and pitfalls

After deciding on a penny stock to invest in, the investor should weigh the benefits and pitfalls of investing in these instruments. There are two benefits that stand out.

"If the investor is fortunate enough to have invested in a company that grows revenue, market share and acceptance from a growing client base, returns can be well above normal," says Reeders.

As the focus is on future potential rather than current valuation, shorter-term economic conditions might have less of an effect on the company's business and as a result provide a measure of "non-symmetric risk", according to him.

On the other hand, pitfalls – as is the case with any small-cap stock – should be carefully considered.

Market liquidity, in the first instance, may affect the ease of buying or, more importantly, selling a stock.

"If the stock is tightly held, the investor might not be able to buy in sufficient numbers at the right price or sell easily," says Reeders.

The pricing mechanism may not be working properly with penny stocks.

"As penny stocks in general, because of their size and market value, do not attract institutional investment, the price might remain undervalued and neglected for a very long time," he says. "Patience might be a virtue but an acceptable rate of return over time is what counts."

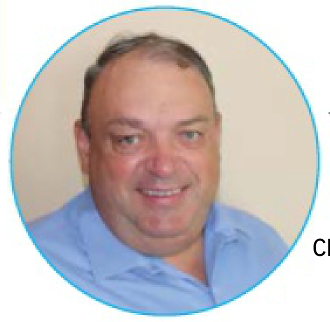
Finally, Reeders says that the headline-grabbing narrative of "rags to riches" is the exception in the market rather than the norm. "Most small companies either fail or get bought by competitors – hopefully at a decent price. Be aware of and prepared for that risk."

Ricus Reeders
Portfolio manager
at PSG Securities

"If the investor is fortunate enough to have invested in a company that grows revenue, market share and acceptance from a growing client base, returns can be well above normal."

Photos: Gallo/Getty Images | Supplied

1



Tertius Zitzke
CEO of 4Sight Holdings

A new board, a new strategy

4Sight Holdings

The information technology company – which is domiciled in Mauritius and operates in Southern Africa – may have turned a corner on a two-year long governance disaster. 4Sight, which organised its subsidiaries into three clusters – telecoms; mining, manufacturing, energy and chemicals; and platform (or data services) – sacked its board and top executives in October last year. This followed the suspension of trading in the company's stocks on the JSE as it failed to publish its half-year results for June by the bourse-required deadline of end-September.

The company released its interim results by late December and the new CEO, Tertius Zitzke, announced a new plan for the multi-subsidiary company to grow revenue and tackle the fourth industrial revolution (4IR).

"Our new strategy and foundation will be embedded into the organisation by mid-2020," says Zitzke. "Our immediate focus is to ensure a full understanding of the new strategy inside 4Sight as well as with our partners – customers and vendors."

As part of their strategy implementation there will be a dual branding approach with 4Sight as the lead brand along with its established business units, according to him. "Many of our business units have long and successful track records with strong brand equity within the market," he says.

4Sight disclosed potential fraudulent transactions between a director of its Visualitics business and the subsidiary, together with the lack of financial reports and maintenance of records in accordance with South Africa's Companies Act. This disclosure attempts to put a lid on the dramatic resignation of 4Sight's chairperson of its audit and risk committee, Geoffrey Carter, at the beginning of October. His resignation was accompanied by a stark accusation against executives at a subsidiary, equating their behaviour to "Trumpism".

Meanwhile, the interim financial statements paint a mixed picture. On the one hand, revenue jumped 17.7% to $22m compared with the same period a year earlier. Suffice to say that the 2018 interims were restated. 4Sight, however, turned a loss of $10.7m for the six months through June 2019 as it wrote off goodwill worth $10.5m pertaining to loss-making subsidiaries and impaired debtors worth $2.2m. Cash reserves stood at $3.5m at the end of June. These bold actions – which weighed heavily on the company's financials – show that the new board and executive are serious about turning this company around. And the boldness extends to Zitzke's plan of attracting the best IT professionals in SA.

"The big news now is all the information and communication technology retrenchments in the news," he says. "We don't see that in 4IR; in fact, we need skilled people today to deliver on enterprise resource planning and related 4IR projects."

Company metrics: 31 December 2018 (12-month period)
Revenue: $44.5m (+1.9%)
Headline earnings: $5.4m (+80%)
Share price movement 12 months: +6.9%

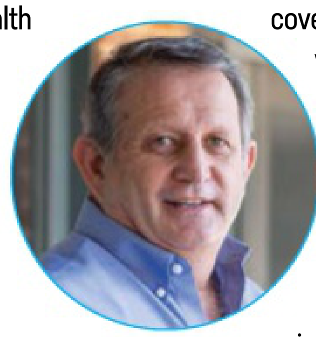
2

Banking on day-hospital patients

Advanced Healthcare

Medical aid schemes in South Africa are struggling to keep premium increases low and affordable for new entrants and existing members amid a surge in the cost of private healthcare. The lamentable state of public health facilities is the engine that keeps private healthcare alive in a relatively poor country. Even as the government is dead set on derailing this efficient, albeit expensive, industry.

A dedicated push by medical aid schemes to lower their costs has seen an uptick in the number of day-hospital patients. Advanced Healthcare boasted a 32% jump in the number of cases at its 11 health facilities in SA during its fiscal year ending June 2019. Gerhard van Emmenis, who took over as CEO of Advanced Healthcare in August last year, says there were three main drivers for the increase in the group's day-hospital visitors.



Gerhard van Emmenis
CEO of Advanced Healthcare

"Medical schemes are forced to find more cost-effective healthcare services as more and more beneficiaries leave the industry due to unaffordability," he says. "Secondly, new dynamics have evolved regarding hospital networks where the emphasis is on appropriate care at the point of delivery rather than pure selection of hospital groups as a solution for tertiary healthcare." Lastly, day hospitals have proven that easy access, same quality and more cost-effectiveness are possible and affordable, according to him.

Going forward, government's plan to implement universal healthcare coverage for all residents may benefit Advanced. "We can become a vital provider in National Health Insurance (NHI) and benefit from the volumes as our model is small margins but high volume while the economies of scale can be beneficial to NHI and the taxpayer," says Van Emmenis.

The group, which is based in Pretoria, owns 4 day hospitals in Australia (through its Presmed subsidiary) and 11 day hospitals in SA (through its subsidiary Advanced Health SA). Group revenue jumped 18.4% to R481.6m for the book year through the end of June 2019 while its loss for the year widened to R37.9m from R36.2m a year earlier as the company sold its loss-making Australian subsidiary Coffs. It took the R13.4m loss through its income statement.

Company metrics: 30 June 2019 (12-month period)
Revenue: R481.6m (+18.5%)
Headline loss: R31.2m (-21%)
Share price movement 12 months: -57.14%

3

Looking to insurance for growth

Nictus Limited

Nictus Limited, the local furniture retailer and short-term business insurer, is banking on its niche insurance product to boost growth in South Africa. The company, which unbundled its Namibian namesake in 2012 and celebrated 50 years listed on the JSE in 2019, reported 17.6% revenue growth for the six months through the end of September last year, compared with the same period a year earlier. For the full year through March 2019, the group posted sales of R50.7m – a 7.2% rise from 2018.

Nictus Furnishers – the group's furniture retail unit consisting of three stores – generated a net profit of R811 000 on sales of R18.9m for the six months ending September 2019.

"The furniture retail business has been the backbone of the Nictus Group for most of its existence," says Gerard Tromp, CEO of Nictus.

"Nictus has no intention to sell the furniture business and believes that there are great opportunities to unwrap, even in a strained SA climate."

The company's insurance business – Corporate Guarantee which sells contingency policies – contributed R1.07m to half-year profit – down almost half compared with the same period a year earlier. This unit's sales rose almost 60% to R7.9m during the first six months of its 2020 fiscal year.

Gerard Tromp
CEO of Nictus Group

"Corporate Guarantee has shown growth in the Nictus Group and our strategy is to sustainably build on the niche insurance and, more importantly, to enhance sustainability and independence for our policyholders," says Tromp.

"We are exploring opportunities in the agriculture, retail, construction, transport and professional industries," he concludes.

Company metrics: 31 March 2019 (12-month period)
Revenue: R50.7m (+7.1%)
Headline earnings: R6.4m (+32.7%)
Share price movement 12 months: -14.2%

4

Targeting the value trap

Stellar Capital Partners

The investment holding company Stellar Capital Partners – based in Cape Town and consisting of former shareholdings of Christo Wiese – is trading at a steep discount to its so-called sum-of-the-parts valuation. Shares sold for 75c apiece at the time of writing, whereas the company's underlying investments – many of which are unlisted – were calculated at R1.21 a share at the end of June 2019.

This so-called value trap is a common phenomenon among investment holding companies, including Brait SA and Naspers*, among others.

"Deep discounts are unfortunately the status quo at present with respect to investment holding companies, regardless of their size or investment focus," says Peter van Zyl, CEO of Stellar Capital. "In certain cases, corporate activity assists with some unlock of value but even those don't always achieve what is intended."

He says that two factors should be attractive for potential investors in these investment holding companies. Firstly, a reasonable growth in the net asset value (NAV) on an annual basis should serve as bait.

"Management is obviously focused on delivering the growth and so far we hope to have shown that firstly, we value our assets conservatively and secondly, in most cases when we unlock value, we do so at or above our valuation, which I think reflects that our valuations are reasonable," Van Zyl says. "We target 15% NAV growth per annum over a rolling three-year period and so far we are on target."

Secondly, a narrowing of the difference between the share price and the sum-of-the-parts valuation – also called the discount – should lure investors.

"A number of factors impact this, and often corporate action is a suggested resolution in investment holding companies," says Van Zyl. "It, however, does not always have the desired effect."

Peter van Zyl
CEO of Stellar Capital

The large unbundling of underlying investments – investment talk for either returning the underlying businesses' shares to investors or selling them for cash – often unlock trapped value, he says.

"But we are a small cap – with a management company structure which is not always liked by the market – and this adds another level of complexity as scale is always an issue," says Van Zyl.

"We are focused on reviewing any items that may be adding to the discount and reviewing appropriate measures to remove those obstacles if it would assist."

Company metrics: 30 June 2019 (12-month period)
Gross profit from investment: R296.5m (+307%)**
Headline earnings: R162.4m (+162%)
Share price movement 12 months: +4.2% ■

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

*** Stellar's 2018 financial results were impacted by a large decline in a single underlying stock's valuation.*

Photos: Supplied

THE VENTURE CAPITAL ... TINKERED TO DEATH OR A...

A government incentive to boost funding for small and medium businesses is set

The survival and longevity of small and medium enterprises (SMEs) in South Africa have always been top of mind when economic growth and job creation surface in discussions.

A plethora of incentives, programmes and financing plans have come and gone over the years. One incentive that held much promise has been the section 12J venture capital company (VCC) tax incentive. The incentive was created when section 12J – which legislates the tax treatment of investments in VCCs – was inserted into the Income Tax Act.

This beneficial tax regime was introduced in 2009, offering investors a 100% tax deduction on the amount invested in the VCC, which in turn invests in qualifying SMEs.

The objective was to raise equity funding for small businesses that would otherwise not have had access to funding, either because of their size or the inherent risk associated with the company.

However, it was not long before the first of a range of policy changes were implemented to address perceived abuse, and more recently to protect the fiscus from the increased popularity of VCC investments.

According to industry players, the incentive only really took off in 2015 – halfway through its lifespan – when National Treasury lifted the investment limitation of R750 000 per tax year and a lifetime limit of R2.25m. It took off from a R1bn asset class at inception to R8.5bn of assets currently under management.

Just as it started to take off, a new investment limitation was introduced. The sun will set on the section 12J VCC tax incentive in June 2021 if there is no compelling reason to extend it – something industry players are hard-set to fight for.

THE CAPS

Last year, Treasury introduced new investment limits of R2.5m per year for individuals and trusts, and R5m for companies in a VCC structure. Only 25% of investors in VCCs were companies.

A tax deduction of R5m per year will barely move the needle on some of the larger listed entities' tax bills, says Dino Zuccollo, fund manager at Westbrooke Alternative Asset Management and chair of the 12J Association of South Africa.

Westbrooke manages around R2.5bn of the total investments, has more than 1 000 investors and has made investments in 50 underlying assets. It has deployed capital of more than R1bn since 2016.

According to the association, the targeted returns on investments in VCCs across the board ranged between 15% and 40% per year.

INVESTORS

There has been an evolution in the type of investors into VCCs. Initially it was mostly ultra-high net-worth individuals investing significant amounts – often individuals with large once-off capital gains tax bills who needed to mitigate their tax liability.

"However, we are increasingly starting to see the likes of doctors, lawyers, bankers, accountants and people who run their own businesses who have a decent enough tax bill starting to look at section 12J to mitigate some of their tax liability and to get exposure in an alternative investment vehicle," says Zuccollo.

The 100% upfront tax deduction also acts as a supplement to retirement fund contributions. These deductions

Dino Zuccollo
Fund manager at Westbrooke Alternative Asset Management and chair of the 12J Association of South Africa

> "The focus was to channel funds from the super wealthy into small and entrepreneurial ventures that were perceived to generate more growth for the economy."

Photos: Supplied | www.bwm.co.za

COMPANY TAX REGIME – SUCCESSFUL INCENTIVE?

to come to an end. How has this industry fared and what is its outlook?

By Amanda Visser

(in retirement funds), says Keith Engel, CEO of the South African Institute of Tax Professionals, have been capped for quite some time.

"The upper and very wealthy are subject to the contribution limitations for their pension contributions, so section 12J acts as a top-up. The deduction is recouped on disposal of the investment (in the form of capital gains tax)."

He notes that retirement fund contributions are limited to ensure that affluent taxpayers do not use their contributions to undermine paying their fair share of tax.

Engel adds that section 12J was never investor-focused. "The focus was to channel funds from the super wealthy into small and entrepreneurial ventures that were perceived to generate more growth for the economy."

INVESTEES

Jonty Sacks, a partner at Jaltech Fund Managers – a boutique financial consulting firm specialising in section 12J fund management and administration – says if one considers the wording of the legislation, it is clear that Treasury intentionally prevented VCCs from investing in businesses which do not have a significant impact on job creation.

This includes residential and commercial property investments, professional services businesses and businesses trading in alcohol, gambling or tobacco.

"The legislation also prevents venture capital companies from acquiring more than 69.9% of the share capital of the company in which it invests, thereby preventing the entrepreneur from being completely diluted," he says.

To increase the speed at which investment and growth in the economy occurs, Treasury initially introduced a rule requiring venture capital companies to invest 80% of the capital raised within three years. This has now been extended to four years.

This does, however, have certain consequences for both the investors and the qualifying companies. In February 2019 only R3.6bn of the R8.5bn in investments had been deployed.

Jonty Sacks
Partner at Jaltech Fund Managers

To increase the speed at which investment and growth in the economy occurs, Treasury initially introduced a rule requiring venture capital companies to invest

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of the capital raised within three years. This has now been extended to four years.

Brian Butchart
Managing director at Brenthurst Wealth

THE CONCERNS

There has been an explosion in the number of companies raising funds in section 12J structures, however, there is real concern about the availability of suitable investment opportunities to deploy the funds.

Brian Butchart, managing director at Brenthurst Wealth, says this can cause a potential drag on the return on investments. And as it is, they are not optimistic about the local market – not because they are negative or unpatriotic – but because of the major issues facing the country.

"Eskom comes to the top of the pile (of issues). No matter what industry you are in, and no matter what section 12J investment you are in, it will be impacted at some point," he says.

The impact is already visible in the returns on the local stock market, he says. "Earnings are simply not coming through, and I think Eskom is a major issue across all industries. SA is also such a tiny market, and there are so many other opportunities offshore which have offered much better returns at substantially less risk than the SA market in many respects," says Butchart.

Engel says the goal with the section 12J incentive has been to create a funding vehicle for SMEs that generate employment. "The problem is that good investments may not lie in employment-creating businesses. Good investments are often high-tech, low-employment," he points out.

The 12J Association of SA commissioned some research on the job creation potential of the incentive. A high-level assessment by PwC found that the association's member base – which administers R5.7bn of the total assets under management – can potentially create or sustain 27 000 jobs. However, the introduction of the investment caps will impact the amount of funds raised and the number of potential jobs that can be created.

Despite the obvious drawbacks, in a market where equities and property have been struggling, the incentive is one of very few mechanisms available to convince investors to invest their money for at least five years onshore, says Westbrooke's Zuccollo.

Investors need to understand what they are investing in. They also need to make sure their fund manager has a realistic exit strategy and charges reasonable fees. Some fund managers have charged net investment performance fees of up to 40%.

"You need to do your due diligence on the underlying investments, and you must have conviction that it will be liquid at the end of your five-year period. You need to have confidence in the fund manager to find the liquidity," says Zuccollo.

Butchart expresses serious concerns about the "second-hand market" for VCC shares. "Qualifying companies are often illiquid, private equity-styled investments and, unlike with listed equity investments, there is no ready-made secondary market for VCC shares. There are also no tax breaks for second-hand buyers of shares."

Engel points out that section 12J funds are built on a small set of large contributors and not a widespread set of investors as with a collective investment scheme.

There are not many super wealthy people (and their money) left in the country and the new cap of R2.5m will impact the viability of many funds going forward.

S12J compared with a retirement annuity

DESCRIPTION	S12J	RETIREMENT ANNUITY
Lock-in	5 years from date shares are issued	Inaccessible until investor is 55
Limit	R2.5m for individuals and trusts/ R5m for companies p.a.	27.5% of the taxable income limited to R350 000 p.a.
Return correlation	Uncorrelated to traditional equity markets	Correlated to traditional equity markets
Dividend during the period	Depending on the fund mandate, yes (subject to dividends tax)	No
Tax on exit	Capital gains tax with a base cost of nil	Taxable on a sliding scale
Withdrawal restrictions	No	1/3 cash, 2/3 compulsory annuity

SOURCE: 12J Association of South Africa

"Treasury may also believe it is not able to afford the section 12J relief due to overall revenue constraints."

Zuccollo says many fund managers set their investment minimums at R1m, probably because they did not want to administer too many investors.

"The investment cap potentially opens section 12J to a wider base of investors, because it forces (fund) managers to accept smaller minimums. The cap is the natural evolution of an asset class that has grown in popularity," he says.

THE SUNSET CLAUSE

If the cap makes the incentive more "palatable" for Treasury and opens the door for discussions on the extension of the regime past 2021, it will be a "win" for the industry and small businesses, explains Zuccollo.

However, Sacks warns that the inability of VCCs to deploy investor capital timeously will lead to poor returns and a longer time to realise these returns.

"This is simply because the investor's capital will sit idle in cash and not generate investment growth from higher yielding investments. In addition, an investor will be exposed to fees for an extended period, which further erode returns."

Those who look to take advantage of "loopholes" will also deter investors. "In our view these companies fall foul of the intention of the legislation."

It may even play a part in preventing Treasury from extending the sunset clause, or it may lead to further amendments which could erode the sustainability of VCCs, says Sacks.

The 12J Association of SA is of the view that the 2018 anti-avoidance measures were enough to limit abuse, and that there should be time allowed for the amendments to yield results. These amendments – aimed at preventing investors from investing in their own projects – are seen to have been largely successful.

The association says because of the "late start" of the incentive it should be given until June 2027 to allow the industry to adapt business models for the changes that were made in 2018 and to adjust to the new investment caps introduced last year. ■


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Tax sweeteners for savings and investments in SA

Although there are a number of products that allow South Africans to enjoy tax deductions, this should not be the primary aim when investing.

The introduction of section 12J of the Income Tax Act has offered mainly high-net-worth individuals, trusts and companies with a significant opportunity to reduce their tax liability.

National Treasury's main aim with the incentive was to offer a mechanism through which qualifying small and medium-sized enterprises (SMEs) could gain access to funding.

Taxpayers have been allowed to invest vast amounts of money into section 12J venture capital companies (VCCs) until last year. However, the investments have now been capped at R2.5m per year (individuals and trusts) and R5m (companies), which will be invested through the VCC into deserving and qualifying SMEs.

The sweetener for section 12J has been a 100% upfront tax deduction for the taxpayer on the amount invested in the VCC. The tax benefit will, however, be recouped if the taxpayer does not remain invested in the VCC for a five-year lock-in period.

Many punters for the section 12J regime have argued that the incentive has indeed ensured that desperately needed capital remained in the South African economy.

South Africans have also enjoyed tax deductions in the form of contributions to pension, provident and retirement annuity funds, tax-free savings products and endowment policies.

According to Keith Engel, CEO of the South African Institute of Tax Professionals, saving incentives are needed for the middle class to promote retirement. The super-rich does not need these incentives.

Dino Zuccollo, chair of the 12J Association of SA, says Treasury was obviously not going to allow unlimited investments to continue forever (into section 12J VCCs).

The initial investment limit was lifted around 2015. "It was a measure to stimulate the uptake...The cap highlights the understanding that the regime has grown and has become an asset class in itself."

Keith Engel
CEO of the South African Institute of Tax Professionals

Tax deductions on contributions to pension, provident funds and retirement annuities are capped at R350 000 or 27.5% of an individual taxpayer's annual taxable income.

However, if withdrawals are made from retirement products before retirement, the penalties for doing so can be debilitating. This is mainly to prevent people from dipping into their retirement savings to pay for a lavish lifestyle that landed them in debt.

Tax-free savings allow taxpayers to contribute R33 000 annually and R500 000 over a lifetime to tax-free products. The interest, dividends and capital gains are not taxed with these products, and there is no tax payment when the investment is withdrawn.

Endowment policies also offer attractive tax benefits, provided the policy is held for five years. This savings vehicle is especially attractive to taxpayers whose income attracts tax of more than 30%. Income from endowments are taxed at a flat rate of 30% for individuals and trusts.

Capital gains tax of only 12% is applicable on the gains when the policy matures, compared with the effective rate of 18% for individuals.

Each of these products have advantages and disadvantages. Many tax and investment experts keep reminding investors that the tax benefit should be the secondary and not the primary consideration when investment and saving choices are made. ■

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Photo: Archive

Considerations when investing in section 12J venture capital companies

Investors need to take responsibility for themselves in terms of investing into venture capital companies (VCCs). Many cannot make use of this tax break because some of the VCCs require rather large minimum investments, says Brian Butchart, managing director of Brenthurst Wealth.

The lure of a large tax benefit may also encourage an investor to invest in enterprises which they may not have previously considered, or fully understood.

Realising these concerns and constraints, Dino Zuccollo, a section 12J fund manager at Westbrooke Alternative Asset Management, offers some guidance:

- Invest with fund managers who have established track records in managing third party capital, preferably through a number of financial products.
- Understand the underlying investment and do not simply become fixated on the tax benefit. Ask yourself if you can relate to the industry or company the VCC structure is investing in.
- Ensure the return promised by the fund manager correlates with the risk you are taking after stripping out the tax benefit.
- Ensure the fund manager has a realistic exit plan when the five-year lock-in period ends.
- Understand the fee structure of the VCC.
- Request fact sheets from fund managers and interrogate the deployment rate of capital. ■

on the money

BUSINESS PROFILE

By Jana Jacobs

When David decides to challenge Goliath

Heineken SA has experienced tremendous growth in a market dominated by SAB. *finweek* spoke to the company's managing director about this success and plans to continue driving competition in the sector.

Gerrit van Loo
Managing director
of Heineken SA

To keep pace, Heineken SA announced in 2019 that it would be investing

€60m

towards increasing the production capacity at its Sedibeng Brewery.

Before Heineken opened its Sedibeng Brewery in Johannesburg in a joint venture with British multinational alcoholic beverages company Diageo in 2010, all Heineken products were imported to South Africa.

As of 2016, Heineken SA has been operating as a standalone beer and cider business in the country and over and above its 75% stake in Sedibeng, Heineken SA has a 30% stake in Namibia Breweries; 100% of both the Soweto Gold Brewery and Stellenbrau Brewery; as well as a 49% stake in the Jack Black Brewing Company.

It has been over the last three years that the company has experienced immense growth in SA, according to Gerrit van Loo, managing director of Heineken SA. Currently, the company has an 18% market share and is the second-biggest player in the local industry.

To keep pace, Heineken SA announced in 2019 that it would be investing €60m towards increasing the production capacity at its Sedibeng Brewery, with construction expected to be completed within the first six months of this year.

The expansion will increase production capacity from 6m to 7m hectolitres annually, but Van Loo points out that because they are reaching masterplan capacity at Sedibeng, they are still looking at how they could stretch that final figure.

Currently, Heineken SA still receives some of its imports from the Netherlands and Namibia, but one of the company's goals is to see that no Heineken products need be imported into SA in the future. In addition to the expansion underway, there are also ambitions to build a maltery in the country.

A brewing success

Van Loo has only been at the helm of Heineken SA for around 16 months. Asked what he thinks has driven the organisation's growth here, he is quick to point out that the company, especially under the leadership of his predecessor, "has done a fantastic job in actually getting the machine going".

"I think the strategy was right for a growing organisation. We really came out of sort of a start-up [in the SA context], and now we sort of have to say, 'guys, the start-up days are over. We are somebody'."

He explains that there are still processes and systems to be improved, and that has primarily informed his role of stabilising the organisation, and focusing on collaboration within it, over the past year.

Furthermore, he believes the momentum has been good for Heineken because "there hadn't been a lot of competition in this market, so I think people were waiting for international brands to come in. All our brands have done well, but Heineken [the beer] has done exceptionally well. The focus of the sales force; the right marketing plans; increasing the availability of our products in the market, all contributed."

Although Van Loo believes there will still be growth for Heineken SA, it won't necessarily continue at levels seen in recent years. It's been more about the company claiming market share in SA, since the beer market itself has not seen much growth between 2016 and 2019, he explains.

However, it picked up slightly again in 2019, which he also believes will push for more competitiveness.

"Yes, we want to continue to grow. We want to continue growing for the very simple reason that I think that the competitiveness in the marketplace can still be increased. I mean, it's still very much David against Goliath. So, we think David should grow a little bit in order to bring competitiveness to the market.

"From a business perspective this also creates economies of scale from our side, so that will also make our business potentially more profitable than it currently is. So yes, we do still see a lot of opportunities here."

Finding opportunities in SA

Given SA's current economic woes, are there concerns around consumer confidence?

"Even if the going is a bit tough, people will always drink beer. Apparently [Heineken] is that affordable premium beer that people want to give to themselves. It's questionable how logical that is, but it happens, it's what I see. So even in the tough economic circumstances we're in at the moment, beer business is still good."

However, this is not the case everywhere, he points out. Referring to "modern food" retailers, Van Loo explains they are "seriously under pressure", with the exception of the liquor branches of these retailers.

"So yes, there is definitely pressure. And will that affect us? I think it will affect us in terms of growth levels."

Furthermore, there is an increased variety in the market to compete against. It's one of the reasons the company is balancing its total portfolio with ciders, explains Van Loo, adding that SA is Heineken's second-biggest cider market, after the UK. Given that SA's cider market is "only 25 years old, it's very encouraging for what we want to do with cider globally. You can actually build a tremendous cider business in a country from scratch. I find it very encouraging."

Van Loo is also making considerable plans to expand Heineken's non-alcoholic offering in SA, saying that they have already been enjoying good business with products like Amstel Radler and Heineken 0.0.

He admits it's early days, but he believes the worldwide trend towards well-being and health consciousness is picking up in SA and will influence consumer behaviour.

"Maybe not tomorrow, but that is definitely going to happen, and we want to be well-positioned for that." In some of Heineken's European markets, non-alcoholic beers already contribute 10% to total business, he says.

And despite not being quite near that global figure in the domestic market – Van Loo says it's less than 1% of total business currently – the question he asks is whether this can grow.

"And I think the answer is yes," says Van Loo.

When asked to elaborate on how he plans to position Heineken SA appropriately in this space, Van Loo plays his cards close to his chest, only revealing that there are big plans for this part of the business in 2020.

It looks like David's slingshot is ready. ■

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"Even if the going is a bit tough, people will always drink beer."

Q&A with
Gerrit van Loo

Gerrit van Loo has been with Heineken for 31 years, starting out as a general management trainee and then moving to marketing. He has served as commercial director in Spain, managing director in Ireland and subsequently in the Netherlands for a soft drink plant. Before coming to South Africa as managing director of Heineken SA, he was managing director in Ethiopia.

What is your focus at Heineken SA?
My number one would be that people love this place. It's a good place to work. Naturally people like winning, and a winning organisation attracts people in the marketplace. It's that whole virtuous circle that moves things. I think being a long-term sustainable business is a lot more interesting than whether we grow 5% or 6% next year. But the main signal for me would be that I work for a successful organisation. Then there's growth, which leads to more jobs, more careers, training and development. That is what I would like.

What do you look for in an employee?
I think it's very important that people are self-propelling. I want people to be engaged and enthusiastic about this organisation; people that want to make a difference and want to pull the car instead of pushing it. They must be ambitious, have learning agility and develop themselves with Heineken.

Advice worth remembering?
I think you should be as authentic as possible. And I think you should also learn that with certain things you will not match the knowledge of others in the organisation, and you should be fine with that. You have specialists; you have to let go. Your role becomes more of a connection point between people and a connection point that is responsible for things. ■

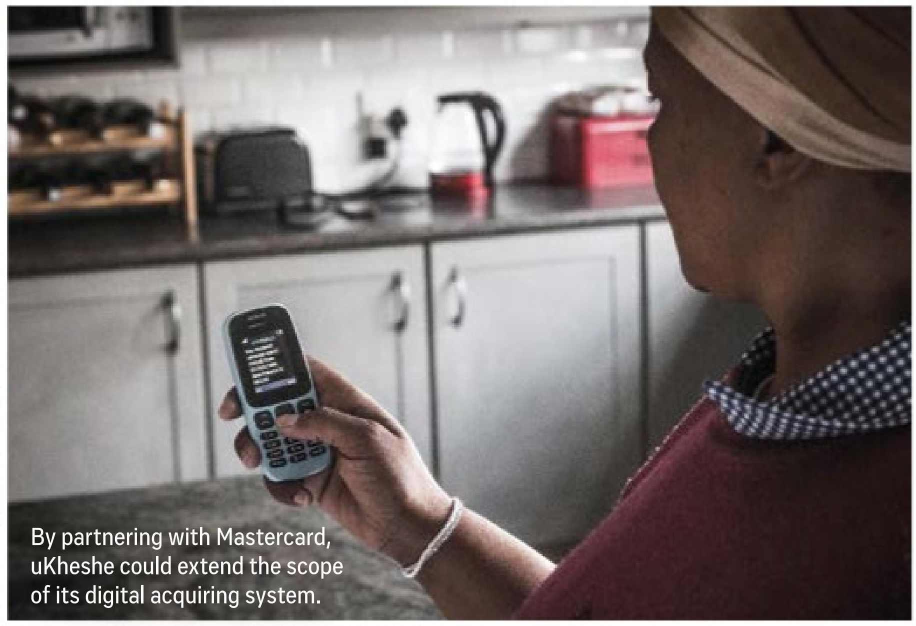
Photos: Supplied

By Timothy Rangongo

Simplifying digital payments for small businesses

uKheshe is a digital acquirer created for small, subsistence and survivalist entrepreneurs who are looking for a platform to enable transactions to grow their businesses.

uKheshe sells about 20 000 cards a month, mainly targeting small and survivalist businesspeople.



By partnering with Mastercard, uKheshe could extend the scope of its digital acquiring system.

Entrepreneurs Clayton Hayward, Paul Carter Brown, Jason Penton and Mike Smits jointly run software development firm Gini Guru, which provides solutions to problems relating to transacting, payments and telecommunications.

About 14 months ago, they took stock of their technical skills and realised that they had excess know-how which they could put towards corporate social investment, says Hayward. This culminated in them co-founding uKheshe (meaning cash in isiZulu), a micro transaction platform that allows its cardholders to pay and get paid by scanning a QR code.

Much like a barcode on a physical product, a QR code is a machine-scanable image, only it can instantly be read by a smartphone. Through this functionality, uKheshe cardholders can send and receive money, anywhere at any time.

uKheshe cards are sold for R20 at the platform's retail partner, Pick n Pay, where users can also draw cash by presenting a reference number, which can be requested via the uKheshe app.

Having recently partnered with Mastercard, uKheshe can also accept payments from most mobile money payment and banking apps.

Hayward spoke to *finweek* about the new fintech.

What gap in the banking market is uKheshe's digital payments solution closing?

When we built uKheshe, we really wanted to make a difference in people's lives at the bottom-end of the pyramid. A lot of banks, payment and insurance companies talk about making a difference to the people at the bottom-end, but they come up with propositions that do not really speak to the challenge.

The question was, how can we make it easy for that person to give money to somebody who does not have a bank account but will benefit from receiving a digital payment?

How has the concept been received by the unbanked population you are targeting?

We are receiving a lot of viral traction with our existing users referring new users to the platform. So, we are not in a situation where we have to engage in a big brand-building exercise, because the street network is talking. We have stories of street vendors who have doubled their income since they have been able to accept faster digital payments.

How beneficial has uKheshe's partnership with Mastercard been?

It gave us inter-operability across all the players in the market. One of the best breaks was that – at the time that we launched – all the players in the market had decided to standardise by adopting Mastercard and their technology.

What that meant for us is that anybody who had our QR cards could receive payment(s) from anybody. They could use the FNB, Zapper, SnapScan or VodaPay apps because Mastercard has created the inter-operability.

How many QR cards have been taken up by the market thus far?

About 300 000 QR cards, and we are adding about 20 000 new users a month.

How does uKheshe generate its income?

Our whole model is not to make revenue out of the payments. In terms of our pricing models, we are the cheapest acquiring platform in the market. Our business model

Q&A:

is centred around value-added services that are offered to the user once they are an uKheshe member. Our interchange fee now is a flat rate of 2%. We charge R5 a month for the account fee.

What are some of the biggest business challenges you have had to overcome thus far?

Firstly, it's time. Things just don't happen overnight. This market is not for the faint-hearted. The big challenges are in launching any fintech propositions in the SA market. Because of our regulatory environment, we have to partner with existing incumbents. We, for instance, have partnered with Nedbank. If you, for instance, look at our retail partnership… integrating with a retailer, the likes of Pick n Pay, and getting your product on their shelves, could be a 12- to 18-month process.

Secondly, partnerships with existing incumbents are difficult. One has to bear in mind that incumbents are protecting their domain and generally do not want to partner with start-up companies.

Thirdly, there are regulations. The regulatory environment is very firm. We have strict Financial Sector Conduct Authority and central bank policies. Innovation is not something that you could quickly go to the market with because SA is a highly regulated environment. It is not like Kenya, Rwanda or Nigeria where you can launch a fintech start-up, go to the market and get millions of users overnight.

What has been the biggest business lesson that you have learned from this journey?

Patience and tenacity.

You have to understand that the financial services industry is a very conservative sector. The incumbents tend to want to make sure that you are going to stay the course. They sit on the fence and watch you for a year, just to make sure that you have the tenacity to stick it through and that you are not in a get-rich-quickly scheme. And then, once they see that you are serious, they start taking you more seriously.

Would you consider fintech like FNB's eWallet and Absa's CashSend digital payment solutions as your direct competition?

We have many competitors. FNB's eWallet is a competitor, so are SnapScan, Zapper and Yoco. But none of these propositions offer what we are offering to our clients. We are focused on the small entrepreneur, giving them the help, support and platform – that is what makes us different.

What differentiates uKheshe from its competitors?

We focus solely on that subsistence and survivalist entrepreneur who is looking for a platform to enable digital payments to take them to the next level of commerce. And, as their business grows, he or she may then turn to one of our competitor's products, like expanding to a R799 Yoco card terminal.

How many people does uKheshe employ?

Currently about 12 people.

Between writing code and running uKheshe, how do you stay motivated as the co-founder?

It might sound like a cliché but the smiles that I get from the merchants, especially after onboarding them, is priceless.

uKheshe is not a job for us. It is a calling. We are doing it because we want to do good — and it is another business that pays our bills. But, ultimately, we started the business to make a difference in our country.

What is the medium- to long-term vision for uKheshe?

In the medium to long term, we want to expand worldwide. ■

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uKheshe cards' low transaction fees and ease of use have boosted its take-up by customers.

Clayton Hayward
Co-founder of uKheshe

> We are focused on the small entrepreneur, giving them the help, support and platform – that is what makes us different.

Photos: Supplied

By Glenda Williams

VW adds the T-Cross to its line-up

A compact family SUV has been noticeably missing from VW's local line-up... until now.

Volkswagen's Polo-based SUV, the T-Cross, has filled a gap in its local line-up. The German carmaker had not competed in the compact family SUV/crossover segment, but that changed with the introduction of its small SUV in late September 2019.

Sales of the T-Cross have been solid, proving that the gap needed to be filled. By the end of last year 3 516 units had been sold. This was somewhat of a feat since it operates in a challenging segment with a lengthy list of rivals, including the Ford EcoSport, Honda BR-V, Mazda CX-3 and Renault Duster.

The Comfortline and Highline, both powered by a 1-litre turbopetrol engine, are on offer. A Trendline entry-level manual, that will sell for less than R300 000, and a more powerful (110kW) 1.5-litre will follow later this year. *finweek* took to the road in the T-Cross Highline.

Smart styling

The resemblance to the Tiguan and Touareg is marked with it being longer, wider and higher than the Polo with a mix of refined and sporty styling. It's pretty much a scaled-down version of its larger SUV siblings.

An expressive front spoiler; wide grille; long, flat LED headlights and low recessed fog lights dominate the T-Cross' face. Horizontal front to rear character lines and aluminium roof rails form a dynamic silhouette.

The muscular-looking shoulders and spoiler characterise the rear, which is topped off with a black trim panel framing a bold reflective band at the tail end. The test car's R-Line exterior trim with 18-inch Nevada alloy wheels enhanced the sporty look.

Thomas Schaefer
Chair and managing director of Volkswagen Group South Africa

Practical, spacious cabin

The practical, family-sized cabin comprises a mix of hard and soft plastics and durable cloth and faux-leather seats. Leather, too, makes an appearance on the multifunction sports steering wheel.

Electric windows and height-adjustable driver and passenger sports seats come standard. Connectivity is covered with four USB ports (two in the front and two in the rear), Bluetooth and app-connect (Android Auto, Apple CarPlay and MirrorLink) and inductive charging.

Radio, six speakers, cruise control, front and rear park distance control and 18-inch alloy wheels are also standard features on the Highline. If a buyer adds the Discover Media Infotainment Package, it will bring a 3D map, voice control and active info display.

The 5-door crossover can be requested in retro colours that aid in framing the nicely sized 8-inch multi-function touchscreen, digital dials and centre console.

The cabin space is generous with plenty of leg and headroom. The sporty, ergonomic seating is nicely elevated (around 10cm higher than the Polo) and all-round visibility is good.

A distinctive reflective band spans the rear, emphasising the compact SUV's width.

TESTED:

Volkswagen T-Cross 1.0 TSI Highline DSG

Engine: 1-litre, 3-cylinder turbopetrol
Power/torque: 85kW/200Nm
Transmission: 7-speed DSG (automatic)
0-100km/h: 10.2 secs
Top speed: 193km/h
Fuel (claimed combined): 4.9 litres/100km
CO_2 emissions: 126g/km
Fuel tank: 40 litres
Ground clearance: 190mm
Boot capacity: 377 litres expandable to 1 281
Safety: 6 airbags
Warranty/service plan: 3 year/120 000km warranty; 3 year/45 000km service plan
Price: R374 500
(VAT and emissions tax included)

Photos: Supplied

Safety features also get the nod with the T-Cross' five-star Euro NCAP rating, ABS braking, traction control and six airbags providing safety.

The test car came with several fitted options, including keyless entry and starting, power-fold mirrors, a Beats sound system and the park package with park assist and rearview camera.

Behind the wheel

Despite a small engine, acceleration is responsive, especially when using the shifters in combination with sport mode.

The engine – a one-litre turbocharged mill – is highly efficient. The T-Cross is accomplished on the road as it is paired with an equally efficient and easy-changing automatic gearbox.

I was prepared for a lethargic uphill performance, but the T-Cross was not out of its element on inclines, even without unleashing the sport mode's extra power.

It's comfortable and sturdy on the tar even when it was faced with the Cape's gusting South Easter, and adept through swooping curves. Steering is nicely weighted for easy cruising without compromising directness and it's manoeuvrable too; a boon when tackling tight parking spots.

The ride quality, albeit comfortable, verges on the sporty, producing a nice balance of comfort and road feel. But the front-wheel drive T-Cross does not feel as accomplished over road blemishes as the Polo, perhaps in part due to the larger 18-inch wheels.

But fuel efficiency is a forte. After six days of whizzing around Cape Town's city streets, coastal roads and highways utilising a mix of eco, normal and sport modes, the T-Cross posted an impressively economical 5.9 litres per 100km.

The T-Cross has everything going for it with a hard-to-match combination of comfort, performance, practicality and safety. And it's spacious, fuel-efficient and ultra-connected, all features discerning motorists require from a compact family SUV. It gets my thumbs-up. ■

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The T-Cross has everything going for it with a hard-to-match combination of comfort, performance, practicality and safety.

The Volkswagen plant situated in Uitenhage in the Eastern Cape.

VOLKSWAGEN MARKET SHARE INCREASES

Despite the challenges facing a declining new motor vehicle market, Volkswagen Group South Africa (VWSA) continues to increase its market share and up its sales. Key VW (T-Cross and Amarok Special Editions) and Audi model introductions have helped VWSA grow its market share to 23.4% in 2019, up from 22.8% in 2018, while its share of the passenger vehicle market climbed to 20.4% in 2019 from 19.8% the previous year.

Audi's market share has grown to 18.2% of the premium market, an increase of 1.2% over 2018, due to the introduction of models like the Audi A1, Audi Q3 and E-Tron.

VWSA beat its previous production record of 137 758 units set in 2011. Its Uitenhage plant manufactured 161 954 vehicles in 2019, comprising 131 365 Polos and 30 589 Polo Vivos, SA's best-selling passenger car. Of the 161 954 vehicles, 108 422 were manufactured for export and 53 532 were produced for the domestic market.

VWSA's performance comes despite Transnet and Eskom inefficiencies impacting the manufacturing process.

"Delayed parts supply as a result of Transnet problems affected the number of cars able to be produced and resulted in a volume loss of around 680 cars," VWSA chairman and managing director Thomas Schaefer said.

Eskom inefficiencies, especially electricity spikes, have led to "double-digit millions of rands" lost, he told *finweek*. "The robots particularly are affected and lose their way during spikes or outages. It leads to body part damages and/or having to restart the entire process right from the beginning."

VWSA is aiming to get its plant entirely off the power grid with electricity generation from bio-waste - similar to the cow dung facility that currently supplies 35% of BMW SA's electricity needs at its Rosslyn plant. ■

By Jaco Visser

How to make skills development work for your business

Organisations with a payroll of more than R500 000 per year, and who are paying the skills development levy, should consider the benefits of training their employees.

A dearth of skilled staff in South Africa prompted the government to implement the skills development levy (SDL) at the turn of the century. The administration of this bid to prompt businesses to upskill employees may seem daunting to business owners – especially micro and small businesses. It is, however, beneficial to have skilled staff.

One of the main benefits of participating in the sectoral education and training authority (SETA-) led levy system, is that the SETAs pay for the training, says Naren Vassan, head of quality assurance at the SA Board for People Practices – an umbrella organisation for human resources professionals.

"There is a clear recording and monitoring process for verifying the quality of training provided," says Vassan.

6 Ways to utilise the skills development levy

1. Register with your sectoral education and training authority

All the different economic sectors in South Africa have their own sectoral education and training authorities (SETAs). It is imperative to identify the correct one and ensure that your business is registered with them. You will need your Sars-issued skills development levy (SDL) number to register.

2. Appoint a skills development facilitator

Each business needs to designate a skills development facilitator to handle all the SETA-related administration. It could be the person responsible for the payroll or, if the organisation is large enough, the human resources officer. These facilitators could opt to go for a short training course at accredited training service providers on how the skills development process works.

3. Set up a skills development forum

This workplace forum should consist of the facilitator, a senior manager and at least two non-managers. This forum's sole aim is to identify training needs in the business. Two or three meetings a year should be held and minutes must be taken and kept for submission with the workplace skills plan.

4. Identify potential training service providers

After identifying the training needs, and to ensure a smooth compilation of the workplace skills plan, it would be a good practice to source quotations from potential service providers. This would enable the business to budget for training.

5. Compile the workplace skills plan

The workplace skills plan can be completed on the SETA's website. It will require the facilitator to register once.

The plan should also set out what training the organisation plans to undertake, given the money budgeted for it. The training will be listed according to occupational level and the national qualifications framework level at which it will be provided (i.e. NQF-2 or NQF-3). The number of employees to be trained at each occupational and NQF level will be broken down in the plan. The deadline for submitting these plans is 30 April. It may be extended by some SETAs.

6. The actual training report in subsequent years

From the second year, the business will need to file an actual training report covering the previous year. This report is a summary of what training actually took place and is compared with the previous year's workplace skills plan. It is filed along with the current year's workplace skills plan. ■

Naren Vassan
Head of quality assurance at the SA Board for People Practices

All the different economic sectors in SA have their own sectoral education and training authorities. It is imperative to identify the correct one and ensure that your business is registered with them.

How does the grants system work?

Businesses pay a 1% payroll levy on the remuneration (excluding some benefits) of all their employees when they remit their monthly EMP201 return to Sars.

Of the total money paid over to Sars, 80% is remitted to the sectoral training and education authorities (SETAs), while 20% is paid over to the National Skills Fund.

The SETAs must disburse their allotment through mandatory and discretionary grants.

As an employer, by submitting the annual workplace skills plan and an annual training report, 20% of the levies that the business has paid will be refunded as a mandatory grant, says Naren Vassan, head of quality assurance at the South African Board for People Practices.

Discretionary grants are paid according to each SETA's financial model.

The business that wants to claim a discretionary grant must identify critical or scarce skills required for the development of employees, says Vassan. Subsequently, they must submit a formal application to the respective SETA it is associated with, he says. If the SETA is satisfied with the request, it will pay the discretionary grant based on its financial model, he says. ■

How do learnership tax allowances work?

The Income Tax Act makes provision for an allowance to businesses who train existing, new or disabled employees. This allowance can be deducted from a business' taxable income when its income tax return is filed.

A distinction needs to be drawn between existing and new employees, and whether a learnership is completed or not, according to a guide on learnership allowances issued by Sars.

For an existing employee, the business can claim an amount equal to 150% of the total remuneration of the learner up to a maximum of R20 000. Where such a learner is a new employee, the business can claim an amount equal to 175% of the total remuneration up to a maximum of R30 000. Where the learner is disabled and an existing employee the maximum amount to be claimed is R40 000 and where the disabled person is a new employee, the maximum rises to R50 000.

On completion of the learnership, the company can claim a completion allowance. Where the learnership was shorter than 12 months, the allowance is equal to the total remuneration of the learner and increases to 175% of this remuneration in the case of a disabled person. For a learnership exceeding 12 months, the allowance is equal to the annual equivalent remuneration of the learner and increases to 175% of this annual equivalent for a disabled person. The cap on the completion allowance is R30 000 for a learnership and R50 000 in the case of a disabled person. ■

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Photo: Supplied

Fancy yourself a general knowledge whizz? Then give our quiz a go! Enter by completing the online version of this quiz on fin24.com/finweek, accessible from 3 February.

1. At the 2020 gathering of the Annual World Economic Forum in Davos, which of the following issues took centre stage?
   - Economic growth
   - Terrorism
   - Climate change
2. Name the new chief financial officer of Sasol.
3. Parliament backed a request from the DA to begin proceedings that could lead to the removal of the country's Public Protector, Busisiwe Mkhwebane. When was she appointed as the Public Protector?
4. **True or false?** The Reserve Bank cut the repo rate by 25 basis points to 6.25% in January.
5. Which Middle Eastern monarchy plans to open an embassy in Zimbabwe for the first time?
6. **True or false?** Slovenia's Prime Minister, Marjan Šarec, resigned from his position.
7. Retired sports star Kobe Bryant, his daughter and seven other people recently died in a helicopter crash in California. Which Los Angeles-based basketball team was Bryant signed to?
8. Net1, the company behind Cash Paymaster Services (CPS), announced that it has agreed to sell 100% of a South Korean payment processor to Stonebridge Capital and Payletter. What is the name of the South Korean company?
   - Zendai Technologies
   - Oracle Solutions
   - KSNET
9. **True or false?** Pharmaceutical company Aspen plans to retrench up to 219 jobs at its Port Elizabeth and East London plants.
10. Which American artist reigned supreme at the 2020 Grammys, winning five awards including best new artist, album of the year and song of the year?

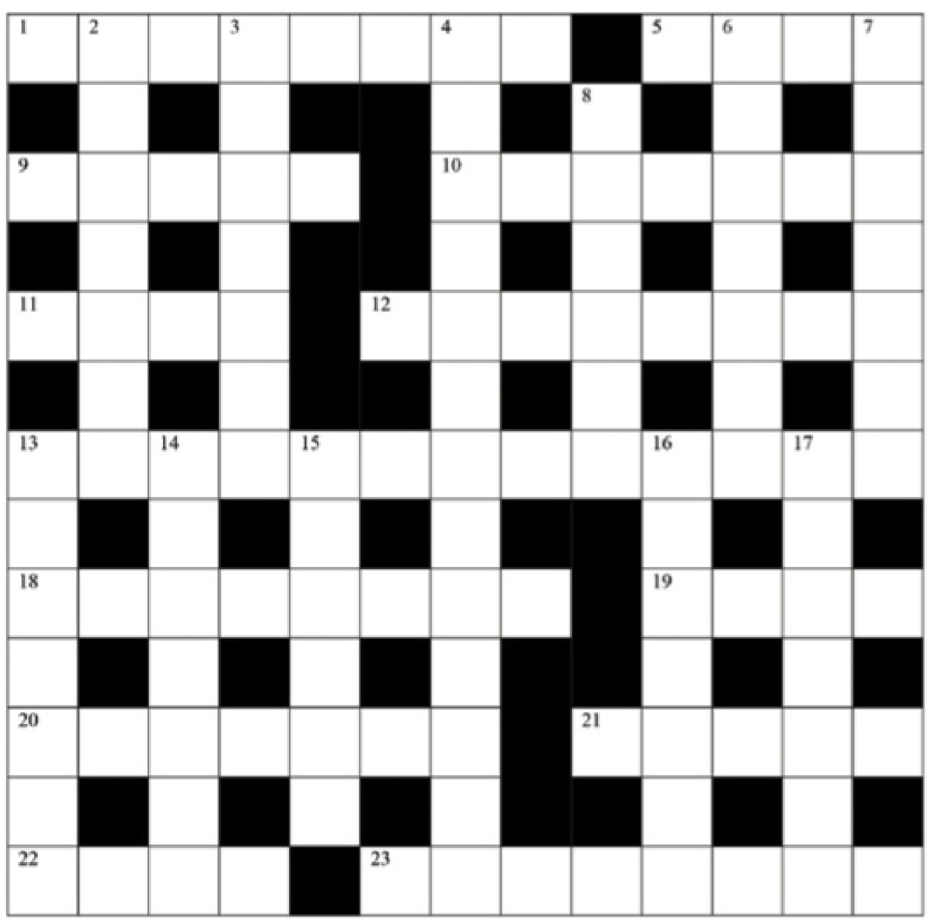
CRYPTIC CROSSWORD NO 747JD

ACROSS

1 Steady step forward to the right (8)
5 Prison issue with no supplement (4)
9 Fur is poor imitation you hear later (5)
10 Moving in a steady course in business (7)
11 Love Fanny Adams (4)
12 Calm liar knocked off the vase (8)
13 Cancel threat coming from stock dealer (6,7)
18 General's story is about the same (8)
19 Reluctant seducer only going halfway (4)
20 Respond verbally to accountant's facsimile (8)
21 Sounds like an exhortation to purchase in shopping mecca (5)
22 Bowl for dog that is not wanted (4)
23 Some precious one would give for a good deal (8)

DOWN

2 Rhetorical question about a meteor (7)
3 Jack playing around at university (7)
4 Specially convened by auxiliary bishop (13)
6 Good result three times with acceptable rate of progress (7)
7 Scheduled according to convention (7)
8 Unable to bear announced cut (5)
13 About fifty-first seemingly (7)
14 Holiday-maker hype (7)
15 German chemist to tell a whopper? (6)
16 School report of your intellectual development (7)
17 Novice's transport to leave church on time (7)



Solution to Crossword NO 746JD

ACROSS: 1 Babysitting; 9 Narwals; 10 Blame; 11 Incan; 12 Dialect; 13 Impede; 15 Cattle; 18 Tabloid; 20 Opera; 22 Chime; 23 I'm a fool; 24 Refashioned

DOWN: 2 Auric; 3 Yearned; 4 Inside; 5 Tibia; 6 Neatest; 7 Antibiotics; 8 Gentlemanly; 14 Pub-time; 16 Avocado; 17 Oddish; 19 Omega; 21 Epode

On margin

Crime and punishment

This issue's isiZulu word is *mpama*. *Mpama* is klap/slap.

Growing up, *mpama* was very much part of our lives. We would get it from our parents, teachers and older boys, who would make you blow out your cheeks to then slap them back down.

We even played a *mpama* game in which we would klap each other just to see who would give up or cry first. Ah, good times. I don't know if that would count as toxic masculinity now. Probably.

However, the hottest *mpama* I have ever gotten was from a housemaster in boarding school after I had refused to take part in dishwashing duty because it honestly was not my turn and there was a clerical error.

He klapped me so hard my s-curl became dreads. That *mpama* knocked the Hairman Mashaba chemicals out of my hair, then twisted it. I ended up taking part in dishwashing duty and, to this day, I wash dishes voluntarily because I fear he might materialise out of thin air and give me a hot one again.

My old housemaster needs to be hired to visit Eskom and start dishing out megawatt *mpama*s. What has been happening, and continues to happen, within that organisation is *mpama*-worthy.

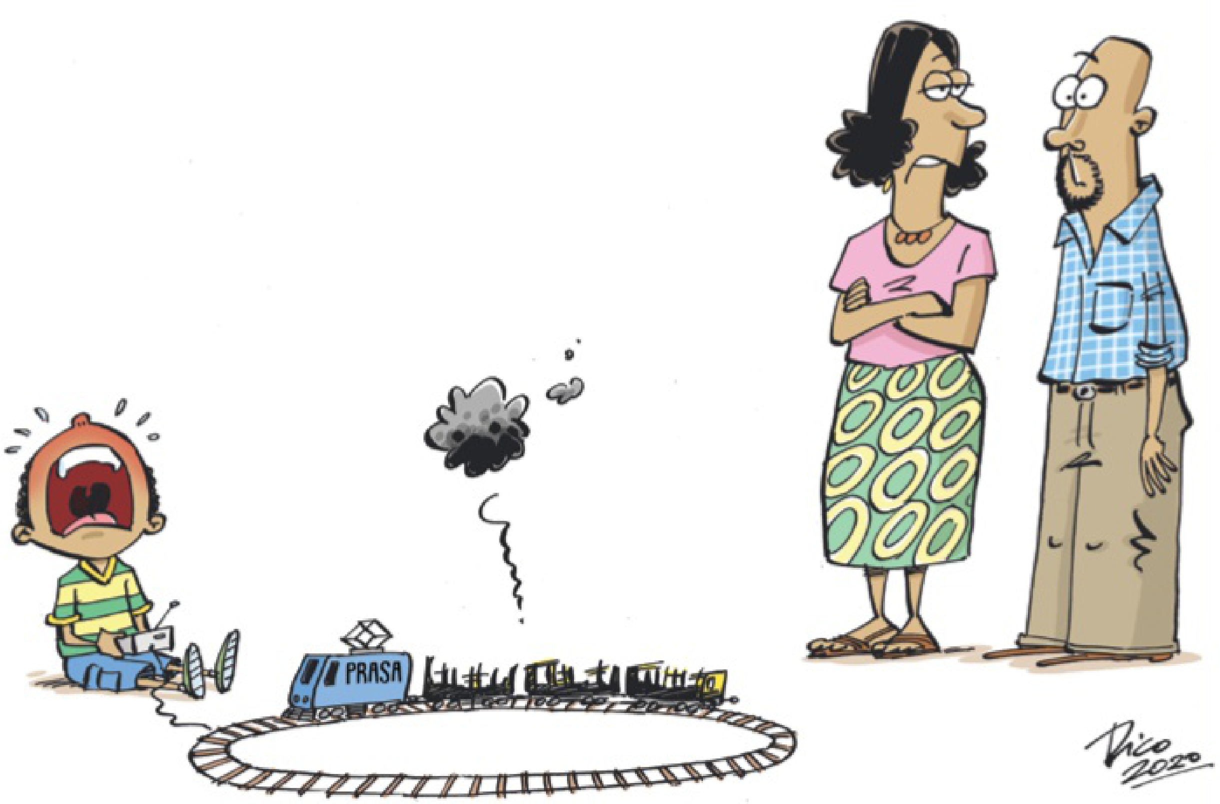
No executive should be spared. They should all be called into a boardroom, under the guise of discussing bonuses and salary increases (their favourite things) — then lock the doors and start klapping grown-ups.

This would have to be filmed, of course, so it can be broadcast live on TV to give us, the public, some sort of satisfaction during these dark times. Whoever would be running this *mpama*-thon would have to ensure we do not get power cuts while the programme is live.

I would even pay my TV licence just to watch that programme. Kidding, I already do pay my TV licence.

– Melusi's #everydayzulu by Melusi Tshabalala

*This is Melusi's column from the 21 February 2019 edition of *finweek*. Unfortunately it's still perfectly relevant a year later.



"Told you the PRASA train set was a bad idea."

Verbatim

Megan Moodley @Moodzmm
I wonder what schools do with the excess stationery that they now ransom from parents? 7 Pritts in one year, are they sticking the South African economy back together?

BlacB @BlacB
Your phone doesn't auto correct when you're typing in all caps because it thinks you are extremely angry and doesn't want to get involved.

LMAO @laughingmaonow
Girlfriend sneezes GF: 'Can someone get me a tissue?' Me: 'Oh honey no need, you have some in your bra.'
I ended up single

Jon Jones @jonjones
It's strangely fascinating that Google seems to know basically everything about me EXCEPT how many times I've told them NO, I DON'T WANT TO TRY OUT YOUTUBE PREMIUM, FOR THE 7000TH GODDAMN TIME.

Randall Otis @RandallOtisTV
You know boomers had it good because their go-to midlife crisis move was buying an expensive car.

Gennette Cordova @GNCordova
It's interesting growing up and learning that most adults are not smart. I had my suspicions as a kid but I didn't think the situation was this dire.

"I'll do whatever it takes to win games, whether it's sitting on a bench waving a towel, handing a cup of water to a teammate, or hitting the game-winning shot."

– Kobe Bryant, American basketball player (1978-2020)