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## from the editor

ANNELI GROENEWALD

If you happen to know a reliable, trustworthy and affordable electrician in Johannesburg, please let me know. I am willing to negotiate on affordability; I'll pay a premium for someone that matches the aforementioned criteria.

Here's why: Over the past ten years, I've tried out plenty an electrician (and even paid one to redo the wiring of a section of my house), but the light in the living room keeps tripping. Why didn't I check up on the work of said electrician, you ask? Sure, I can overcome my fear of heights and climb into the attic to inspect the work done, but I honestly wouldn't know whether he's done a good job or not. Hence me needing someone reliable and trustworthy.

The same goes for gate motor technicians – I have probably tried and paid for five different ones over the last decade. But, a few months later, the same problem always resurfaces: My gate motor only works when it feels like it.

I have, however, found a plumber that's worth his weight in gold. (I'm willing to trade his details for those of the elusive electrician or gate motor technician). I'll pay a premium for the services of this plumber, but I don't have to because he is very reasonable. I've also found a builder/painter who is booked three months in advance. Why? Simply because of the quality of his work.

What am I trying to get at? Service delivery, of course.

Let's forget about service delivery on a national, provincial or even municipal level for a moment. (Let's face it: Apart from voting, there is, in fact, little we can do to really change this unless you have the time to go and queue until you find someone willing to listen and assist with your complaint.)

My simple theory (based purely on anecdotal evidence) is that businesses that happen to deliver excellent, reliable service will have a better chance of succeeding and growing. Regardless of the economic climate.

I'm not saying the quality of service is the only determining factor in the success (or failure) of a business venture. When the economy is tight, the lead time of even a brilliant builder might shorten to two months. But the quality of service makes a hell of a difference.

Basic, right? *That* is what South African business owners and entrepreneurs should focus on if they're hoping to beat the odds. ■

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## ECONOMY

# Why you'd want to be the neighbour of an African president

A recent study shows that Chinese investment in African countries is often used to create infrastructure in a selective manner. This can prove detrimental for many of a country's citizens.

**d**rive an hour southeast from Blantyre, Malawi, almost halfway to the awe-inspiring Mulanje mountain, and you'll come across something quite extraordinary: MIT's campus.

The Malawi Institute of Technology, part of the larger Malawi University of Science and Technology (MUST), opened in 2014. It offers, according to its website, a range of undergraduate courses to around 1 800 students, including metallurgy and materials engineering, chemical engineering and biomedical engineering. It has 200 staff members and its vision is to be a "world-class centre of science and technology education, research and entrepreneurship".

Fantastic, one might think: innovation and technology is the best way to lift one of the poorest countries on earth out of poverty.

But things may not be that promising. The university is built far from the city (or even the main local village) and is in the opposite direction to the airport. The campus is ultra-modern, but quite desolate; it's running at 36% capacity. The library has several empty shelves. Many signs are in Chinese.

This is because MIT was built when then-president of Malawi, Bingu wa Mutharika, secured an \$80m loan from the Export-Import Bank of China. Mutharika, an economist by training who died in office in 2012 (and the brother of current president, Peter Mutharika), probably saw the university as a way to equip the next generation of Malawians with the skills necessary for today's economy.

Yet the remoteness of the university seems strange. Until you realise that MUST was built on the former president's personal farm, not far from the village where he was born. MUST may have been a way to lift Malawians out of poverty, but he had a very specific segment of Malawians in mind: those in the region he hailed from.

Such patronage isn't new, and may not even be entirely wrong. It is, however, happening on a large scale. And much of this is the result of Chinese influence.

In a new paper in the *Journal of Development Economics*, six economists examine whether Chinese aid to African countries is more likely to be allocated to birth regions of their leaders. They collected data on 117 African leaders' birthplaces and geocoded 1 650 Chinese development projects across 2 969 physical locations in Africa from 2000 to 2012. Their econometric results show that political leaders' birth regions "receive substantially larger financial flows from China in the years when they hold power compared to what the same region receives at other times". MUST is no exception.

They also analyse the timing of Chinese aid and "recover evidence that this birth-region effect is significantly larger in the years immediately preceding executive elections and when competitiveness of executive elections is high. This empirical pattern is consistent with the notion that

African leaders who face electoral competition are particularly keen on using Chinese aid to deliver clientelistic rewards to their core constituents."

Could this be true of all development aid? The authors test this by looking at World Bank projects. "We do not find any evidence that World Bank projects favour the home regions of political leaders. Nor do we find evidence that World Bank projects favour the home regions of political leaders in the run-up to (competitive) executive elections."

Chinese aid, often financed through low-interest rate loans, seem to give leaders a blank cheque in contrast to World Bank projects (vetted for potential impact).

Such patronage, or clientelism, may not be bad: many of these leaders come from poor regions where such investment is much needed. Indeed, in a separate paper, the authors show that those birthplaces that receive disproportional investment also see greater education and other positive outcomes.

The question, of course, is at what cost? Had MUST been built in urban Blantyre (or Lilongwe) rather than in rural Thyolo, it would probably have attracted more students and a more talented faculty, with a much larger impact for the country.

Why are the Chinese providing so much aid? Apart from MUST, the Chinese government has built a new road linking Malawi with neighbouring Zambia, constructed the five-star President Walmont Hotel, the Bingu International

Convention Centre, a new parliament building and Bingu National Stadium in Lilongwe.

The reasons for their 'investment' remain less obvious. The optimists would argue that their influence is a net positive; by building new highways and rail links (even out of self-interest, to connect natural resources with the coast) they help African countries overcome the infrastructure bottlenecks that have hampered development.

Pessimists would argue that China is not very different from former colonial regimes. They are only in Africa to extract resources and willing to provide 'development aid' to local politicians to get what they want. Future historians will probably decide on the most accurate interpretation.

**What's clear is that African leaders find it difficult not to use the blank cheques they receive from China to win elections and reward their supporters.**

Sometimes their intentions are good. But the opportunity costs of such funding are large. And those projects that are completed may not have the expected returns without the necessary operational expertise and budget. Building a university is expensive; maintaining it is often much more so.

This study suggests that development aid is no panacea. It may do more harm than good, even for those few lucky enough to be born in the same village as their president. ■

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**Johan Fourie** is associate professor in economics at Stellenbosch University.



**Bingu wa Mutharika**  
Former president  
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# in brief

- >> **Listed property: Local Reits capitalise on flexible workspace trend** p.8
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## EDITORIAL & SALES

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Published by New Media, a division of Media24 (Pty) Ltd  
**Johannesburg Office:** Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001 **Postal Address:** PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 **Fax:** +27 (0)21 417 1112 **Email:** newmedia@newmedia.co.za

Printed by Novus Print Solutions and Distributed by On The Dot **Website:** <http://www.fin24.com/finweek>  
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“NOBODY WANTS TO SEE TERRIBLE THINGS HAPPEN, ESPECIALLY ME.”

— **US President Donald Trump** remarking on whether he welcomes the Prime Minister of Japan, Shinzo Abe, negotiating between the US and Iran, following Trump's meeting with Abe in Japan. “I know for a fact that the Prime Minister [Abe] is very close with the leadership of Iran...” he was quoted as saying. Trump is further quoted by the White House as saying that Iran has a chance to be a great country, with the same leadership. He said the US is not looking for a regime change, but for “no nuclear weapons”. Iran's president, Hassan Rouhani, said in October the US was seeking “regime change” in the Islamic republic, adding that the current US administration was the most hostile the country had faced in its four decades, reported Reuters. In May last year, the US imposed oil sanctions on Iran, and in April this year threatened other buyers of Iranian oil with sanctions, reported Al Jazeera.

“I FEEL AS CERTAIN TODAY AS I DID THREE YEARS AGO THAT IN A DEMOCRACY, IF YOU GIVE PEOPLE A CHOICE, YOU HAVE A DUTY TO IMPLEMENT WHAT THEY DECIDE. I HAVE DONE MY BEST TO DO THAT.”

— **UK Prime Minister Theresa May** in a tearful resignation speech in front of 10 Downing Street as she stepped down as leader of the Conservative Party, effective 7 June. She was specifically referring to the British referendum in which the majority of citizens voted to leave the European Union. She will remain prime minister until a successor is chosen, which, as reported by the *Wall Street Journal*, could take a while as about 120 000 Conservative Party members will have to vote in the process. A succession race has reportedly been going on for months behind the scenes, with former foreign secretary of the UK Boris Johnson identified as the frontrunner.

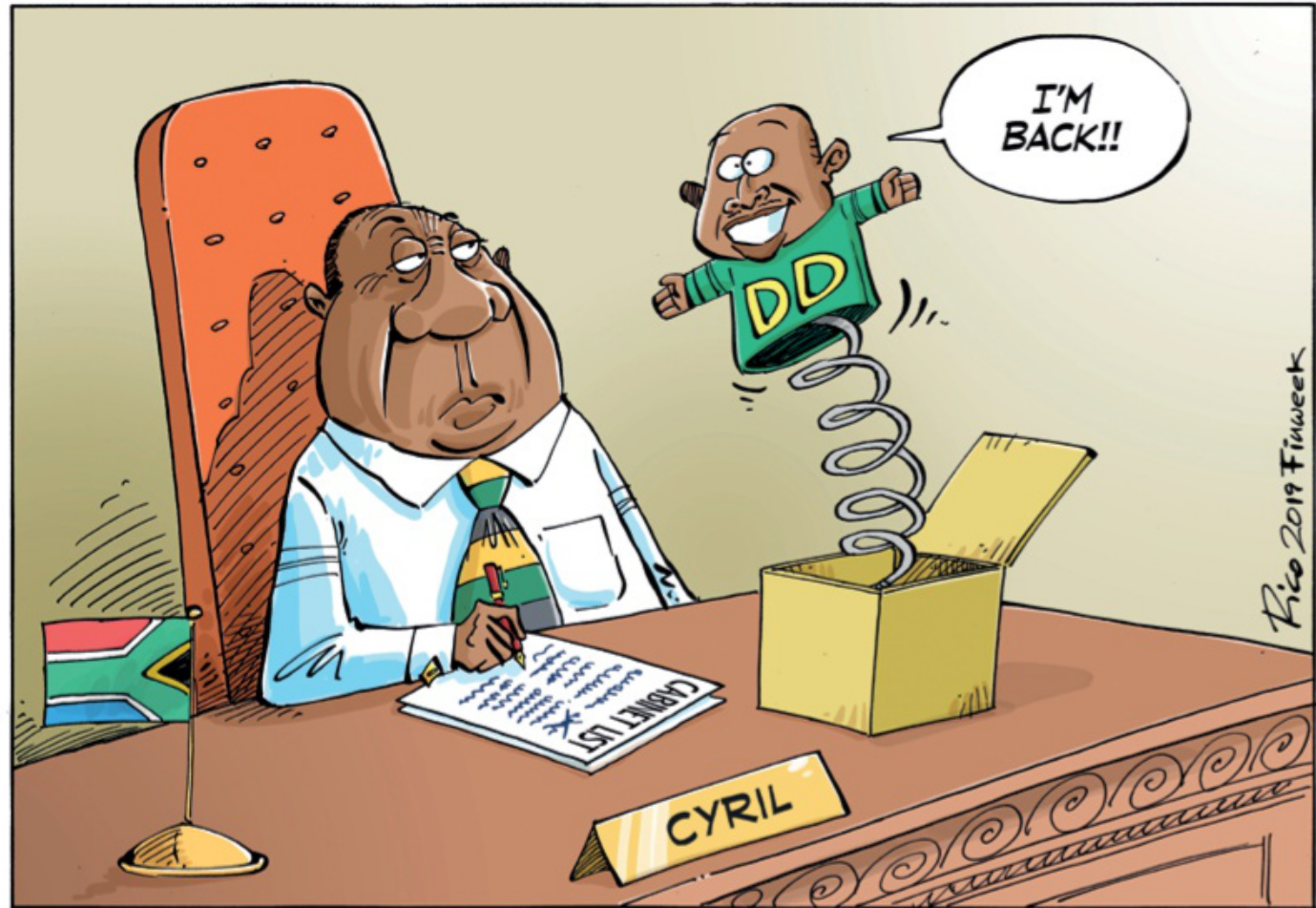
“THE BEST RAMAPHOSA CAN DO WITH THE CABINET IS HAVE A MAJORITY OF PEOPLE LOOKING IN THE SAME DIRECTION AS HE IS LOOKING, BUT HE WILL HAVE NO CHOICE BUT TO ACCOMMODATE OTHERS.”

— **North West University political and policy analyst Theo Venter** quoted in *Business Day* on the swearing-in of deputy president David Mabuza as a member of Parliament after Mabuza initially asked to have his swearing-in postponed pending the clearing of his name by the ANC's integrity commission, which flagged him for potentially bringing the party into disrepute. This comes in the wake of the president's efforts to try and clean up corruption within the ANC's ranks.

SA'S SOCIAL GRANTS

59%

StatsSA says 59% of households in the Eastern Cape are receiving at least one social grant, in a report on SA households, meaning that social grants remain a vital safety net, particularly in the poorest provinces. Households that received at least one type of grant were also most common in the Northern Cape (57.4%), Limpopo (56.7%) and Free State (50.7%); the least common being Gauteng (30.1%) and the Western Cape (36.7%). StatsSA says social grants are the main source of income for almost one-fifth (19.9%) of households nationally.



THE GOOD

SA's government has signed into law a carbon tax with the objective to reduce harmful greenhouse gas emissions, with the first phase coming into effect on 1 June. Emissions can occur from various sources, the most common being from fuel combustion in transportation and electricity generation. While many industry players have been opposed to the tax, National Treasury said in a statement the tax was part of SA's efforts to meet the global climate change agreement negotiated in Paris in 2015. (See article on p. 37)

THE BAD

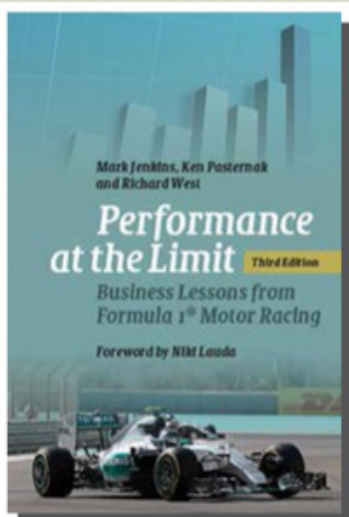
The commission of inquiry into the PIC heard evidence that the asset manager is unable to supply documents relating to a \$270m (almost R4bn) investment into oil company Camac, with links to the ANC and former president Jacob Zuma, and its listing on the JSE in 2014, reported *Business Day*. The JSE's head of issuer regulation, André Visser, said it had received two letters from the PIC ahead of Camac's listing confirming their support for the listing. Visser said the letters were signed by Leon Smit, head of fixed income at the PIC, and Dr Dan Matjila, then chief investment officer.

THE UGLY

Poultry producer Astral Foods said in an update to shareholders that water supply interruptions in the Lekwa municipality in Standerton are costing the company at least R85m in profits. Despite active engagement with a number of stakeholders, cooperation from the municipality has not been forthcoming. Due to the unpredictability of the outcome of ongoing discussions with the authorities, Astral said it can't provide an estimate of the impact on profits beyond what is stated (R85m). It's seeking alternative solutions and is pursuing legal action.



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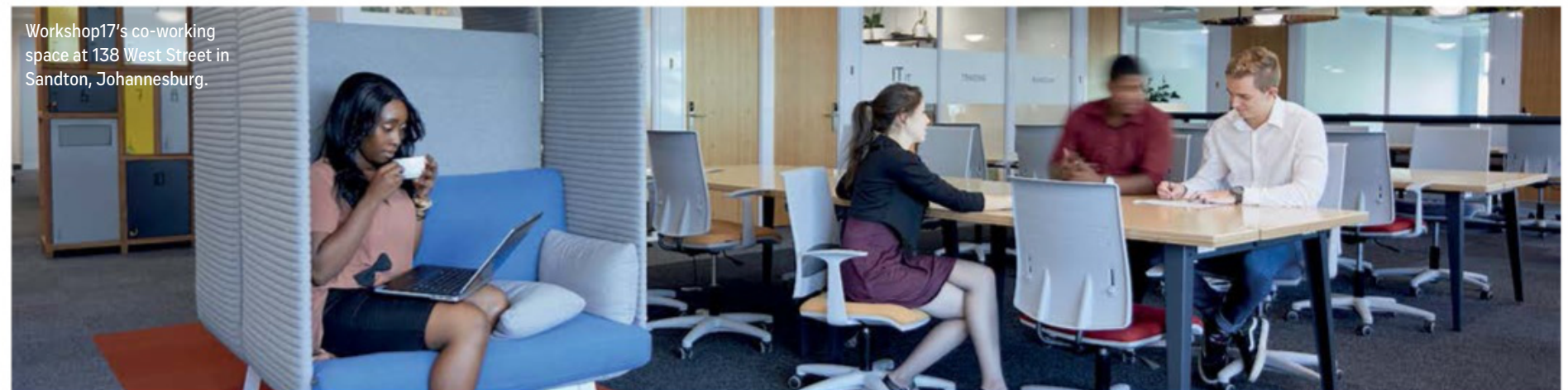
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By Glenda Williams

# SA Reits capitalising on the flexible workspace trend

The flexible office environment is increasingly popular internationally. Although it's still early days in South Africa, the trend is likely to pick up – and local Reits are taking note.



Workshop17's co-working space at 138 West Street in Sandton, Johannesburg.

**E**n alternative to traditional office space, the flexible office market – made up of both serviced offices and co-working spaces – is expanding rapidly across the world with 23% average annual growth since 2013, according to Stanlib research.

According to a 2018 report by PwC, flexible workspace accounts for around 8% of global office space and is expected to rise to 30% by 2030.

These fully equipped and furnished serviced offices and co-working spaces, complete with quality amenities, are especially attractive to occupants for their flexibility in costs, short-term contracts and even multiple-location use.

In South Africa, there's also a rising number of players, with large global operators Regus and WeWork having a local presence.

The market is largely driven by entrepreneurs and small businesses looking for flexible and cost-efficient working spaces.

Although not yet a trend in South Africa, large corporates too have been embracing the flexible office environment, especially in cities like New York and London. In fact, according to Cushman & Wakefield, central London is the global leader in flexible workspace, representing 4% of the area's stock. In the UK capital, WeWork is the major tenant.

"Of the leases signed in London over the last year, 20% has gone to flexible office space," says Keillen Ndlovu, head of listed property funds at Stanlib.

During the Bank of America Merrill Lynch conference in March, WeWork – worth an estimated \$47bn – was cited as the most valuable office landlord globally and the biggest office landlord in New York, London and Washington DC.

## Listed property follows suit

In the listed property sector, flexible workspace is a small but growing part of portfolios.

"The flexible workspace model is one that many listed companies around the world, including in Europe, the US and Australia, are including in their strategies," Ndlovu tells *finweek*.

JSE-listed RDI REIT reports that London serviced offices continue to trade ahead of expectations. The real estate investment trust's (Reit's) four serviced offices in London comprise 10% of its total portfolio.

The flexible office sector, estimated to be worth between £16bn and £19bn in the UK, is estimated to rise to £62bn by 2025, according to Cushman & Wakefield research.

Although there is no official data at present in South Africa, Ndlovu estimates that flexible office space is at around a minimum of 1% of the local office sector. However, he is convinced it is going to pick up.

"It's a sector that cannot be ignored. Especially given that it is an environment that houses many small businesses," he says.

SA's listed property sector continues to expand its flexible workspace footprint, primarily through partnerships with flexible workspace operators. The country's two largest Reits already have a presence in this lucrative and growing market.

Workshop17, which is 50% co-owned by SA's largest Reit, Growthpoint Properties, added two new co-working spaces in Paarl and Rosebank, taking its locations to four, including 138 West in Sandton and the V&A Waterfront. Three more are planned with one, at Growthpoint's 32 on Kloof development in Gardens, Cape Town, soon to open.

Andrew König, CEO of Redefine Properties, the country's second-largest Reit, says the company is focused on positioning the portfolio to capitalise on the shared workspace trend.

Redefine Properties already has exposure to four of the larger co-working businesses: Flexible Workspace, The Business Exchange, Regus and, more recently, WeWork with whom it has concluded two 15-year leases in Rosebank and Sandton.

WeWork is now the primary tenant at Redefine's iconic Rosebank Link, and in September its lease commences for 10 000m<sup>2</sup> of 155 West Street in Sandton. ■

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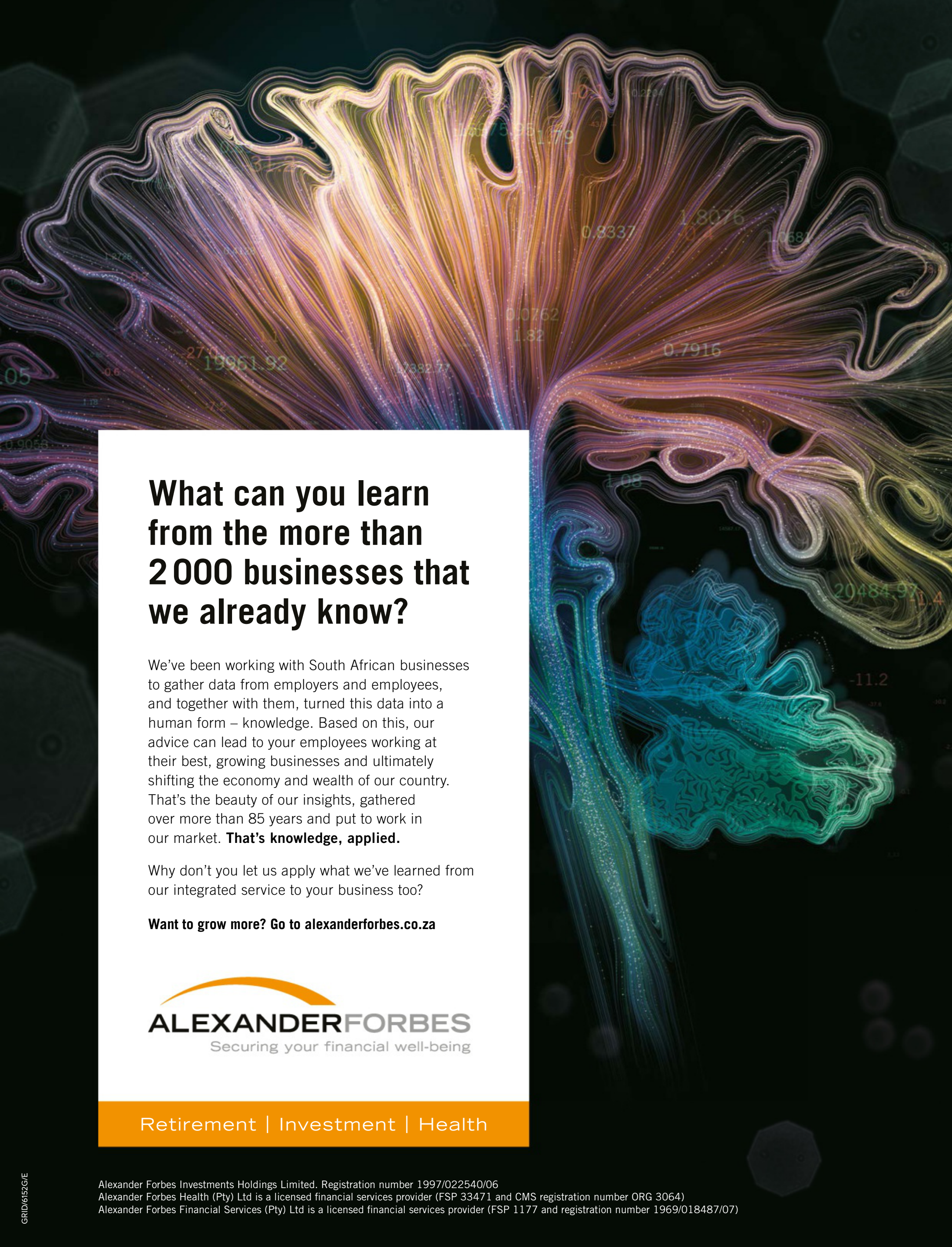
According to a 2018 report by PwC, flexible workspace accounts for around

8%

of global office space and is expected to rise to

30%

by 2030.



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By David McKay

# Political waiting game for Harmony

There may be an opportunity for Harmony Gold to buy AngloGold Ashanti's SA assets. But the mine's list of immediate priorities are clear: repaying debt and securing permits in Papua New Guinea, where it is planning a copper-gold mine.

The confusion that is Papua New Guinea (PNG) politics may not mean much to the average SA investor, but it is making for interesting viewing at Harmony Gold Mining Company – which is hoping to build a multibillion-dollar copper-gold mine in the Pacific Ocean country.

At the time of writing it appears as if PNG's prime minister, Peter O'Neill, was in the process of performing a 180 degree turn by deciding not to step down in favour of his nominated successor, Sir Julius Chan, as he stated he would mid-May. In any event, Sir Chan has distanced himself from the premiership.

As any mining firm knows, domestic discontent is not conducive to good business, especially the type Harmony is contemplating: the Wafi-Golpu copper-gold mine could cost \$2.82bn in initial capital expenditure to commercial levels of production as per a 2018 feasibility study. Of this, Harmony will shoulder about 50% with Newcrest Mining, an Australian firm, carrying the balance.

It's a massive undertaking which will strain the company's balance sheet and has already seen investors in African Rainbow Minerals, a 14% shareholder in Harmony, question – with concern – whether it intends to support Harmony with funds.

"At this stage we are waiting to see what happens," said Lauren Fourie, investor relations manager for Harmony on the matter of PNG politics. "The potential election of a new prime minister could potentially impact the memorandum of understanding we signed with the government in December 2018."

One of the factors that has made the PNG's O'Neill unpopular with the opposition is the terms of an agreement he made with Total and Chevron regarding an oil project off the PNG peninsula. The concern is that Guineans will not get their fair share of benefits.

Granting of a special mining permit for Wafi-Golpu has been a long-standing feature of the project. Fourie says up until recent events various joint venture workstreams were tackling requirements of the permit, which range from environmental authorisations through to the stake the PNG state will eventually hold. Political upheaval would be unhelpful to the

passage of the permit, however.

Meanwhile, back at the ranch, Harmony is faced with another proposition following the decision of AngloGold Ashanti to sell the remainder of its SA assets, including the Mponeng mine – an underground 265 000 ounces per year operation situated in the West Wits area.

According to a note by JP Morgan Cazenove's Dominic O'Kane, Harmony could, in buying AngloGold Ashanti's SA assets for a 100% debt-funded bid, improve its ability to finance Wafi-Golpu.

"If Harmony were to hypothetically acquire ANG SA [AngloGold's SA operations which include underground and surface mining], ANG SA's incremental \$200m ebitda [earnings before interest, tax, depreciation and amortisation] in 2020/21 could reduce financing risk for Wafi-Golpu by unlocking higher leverage potential and by extending Harmony's reserve life," he said.

"Higher debt capacity could in turn reduce future shareholder equity dilution associated with Harmony's \$1.4bn share of Wafi-Golpu's development capex," he said. O'Kane accords a book value of \$530m to AngloGold's SA assets, and a value of \$265m for Mponeng alone, which is set to take production to 363 000oz by 2023.

It's worth pointing out, however, that the reason AngloGold is selling out of Mponeng is that the mine requires an estimated \$1bn in fresh capital over a ten-year period in order to access new reserves from 2027 to 2028.

The acquisition alone would affect Harmony's plans to take net debt-to-ebitda to 0.8 times, having already bought Moab Khotsong from AngloGold for \$300m in cash in 2018, but the counter-argument is that about 55% of Harmony's reserves will be all but depleted over the next five to seven years.

Fourie says the company has not made a pronouncement on the opportunity presented by AngloGold Ashanti, but added that the firm had made its priorities clear, starting with debt repayment, securing the Wafi-Golpu special mining permit in PNG and then "evaluate other opportunities provided it fits our acquisition criteria". ■

editorial@finweek.co.za



Peter O'Neill  
Prime Minister of  
Papua New Guinea

The acquisition alone would affect Harmony's plans to take net debt-to-ebitda to

0.8

times, having already bought Moab Khotsong from AngloGold for \$300m in cash.

# What price will South32's coal assets fetch?

Details around the bidding process for South32's SA coal assets have been kept under wraps. And although there is a presumed shortlist of bidders, the key question remains what the assets will sell for.

Exxaro Resources is one of the companies thought to have been shortlisted for South32's SA coal assets – known as South African Energy Coal (SAEC) – which have been on the block for the past two years after South32 said it wanted to end its exposure to thermal coal.

Other shortlisted bidders, from an initial list of over 50, includes **Seriti Resources led by former Optimum Coal Holdings CEO, Mike Teke**; and a newly formed consortium known as Sibambene Coal which consists of a broad church of black business interests, and bankrolled by Mercuria, the Swiss commodities trader.

In line with the strict bidding rules set down by South32, almost no-one will comment on the sale process or even confirm if they're in the running. Some details are getting into the market, however.

One is that binding offers had to be in by 31 May – two days after this edition of *finweek* went to print. The second is with a credible shortlist of worthies now installed, the sale of SAEC all comes down to the evergreen issue of price. But what price?

"There are a few variables to consider in this: one is the coal price. When this process started, the coal price went to \$100/t; now it's \$70/t," says **Tim Clark, an analyst with Standard Bank Group Equities**.

The other is that South32 has changed its initial view that SAEC would be sold for zero with the buyer assuming the cost of mine rehabilitation. "The company [South32] has a net present value of \$1.1bn on SAEC. That means a value of \$400m net the rehabilitation costs," Clark says.

Another analyst believed a bid of between \$300m and \$500m may win the day, net of rehabilitation costs which South32 last estimated totalled \$739m. Some balked at this: One of SA's most prominent black businessmen told *finweek*, on condition of anonymity, that a \$300m to \$400m value on SAEC was enough

to see him walk away.

SAEC reported \$353m in underlying pre-tax earnings for the group's 2018 financial year, equal to about 14% of its total.

The assets in question are South32's 92% stake in SAEC consisting of the Khutala, Klipspruit and Wolvekrans Middelburg Complex mines, supplying Eskom as well as export, roughly on a 50:50 basis. The balance of the shares is owned by Phembani Group, a black-controlled company, which is not expected to join the final bidding.

Crucially, the mines include export entitlement through Richards Bay Coal

Terminal (RBCT), perhaps the most nebulous of the SAEC suite to value. Export entitlement is an economic right rather than a fixed asset such as a depleting mine. The entitlement can be leased to other coal industry participants if not used directly and provides direct exposure to the internationally traded coal market.

But it's not the treasure chest it was once thought to be owing to a deterioration in SA coal production and the potential debottlenecking of the coal line provided Transnet builds a second tunnel at Overvaal, which it is expected to do later this year.

Were that to happen, capacity on the coal line supplying RBCT increases to 91 million tonnes annually from 81 million tonnes today.

Having overpaid heavily for the coal assets of Total SA, caution around the pricing of RBCT entitlement was conveyed by Exxaro CEO Mxolisi Mgojo earlier this year. Commenting at the firm's year-end results presentation, Mgojo said access to the export markets was not difficult, partly as Optimum Coal mines were failing to deliver its 8 million tonnes in coal.

He also questioned whether it was better for Exxaro to develop its own mines rather than buy those of another. "It would actually make sense to first look at your own projects and from a value point of view," said Mgojo. "Whenever you're looking externally, you've got to compare it with what you've got ... [C]an I spend that rand better internally?" ■

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**"There are a few variables to consider in this: one is the coal price. When this process started, the coal price went to \$100/t; now it's \$70/t."**



**Mike Teke**  
CEO of Seriti  
Resources



**Tim Clark**  
Analyst at Standard  
Bank Group Equities

# market place

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**FUND IN FOCUS:** MI-PLAN IP GLOBAL MACRO FUND

By Timothy Rangongo

## A forward-looking R1bn fund

The Mi-Plan IP Global Macro Fund is a flexible multi-asset fund that primarily invests in foreign markets.

### FUND INFORMATION:

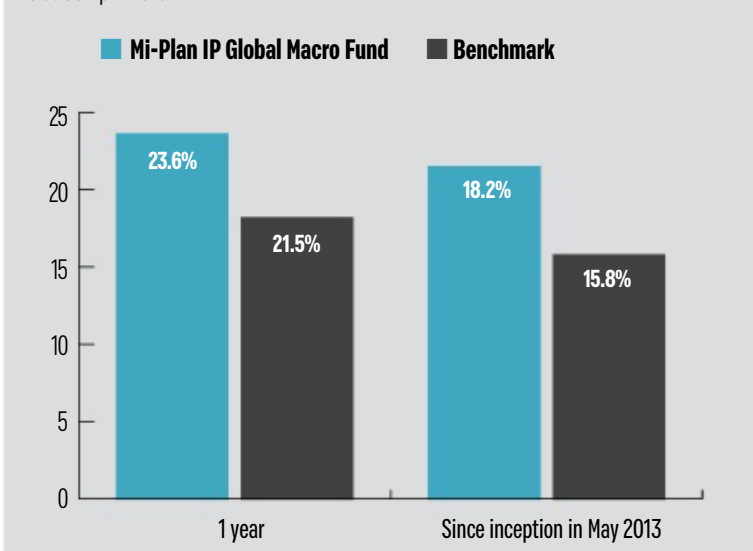
Benchmark:	MSCI (80%), US-dollar cash (15%), STeFI (5%)
Fund managers:	Tony Bell
Fund classification:	Global - Multi-Asset - Flexible
Total investment charge:	1.16%
Fund size:	R1.4bn
Minimum lump sum / subsequent investment:	R10 000/R500
Contact details:	021 657 5960/info@miplan.co.za

### TOP 10 HOLDINGS AS AT 22 MAY 2019:

1	Procter & Gamble	3.19%
2	Amazon	2.96%
3	Mastercard	2.95%
4	Microsoft	2.93%
5	Visa	2.75%
6	Waste Management	2.61%
7	Adobe	2.60%
8	Nestlé	2.59%
9	PayPal	2.43%
10	JP Morgan Chase	2.38%
	<b>TOTAL</b>	<b>27.39%</b>

### PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 April 2019:



### Fund manager insights:

The Mi-Plan IP Global Macro Fund's objective is to achieve capital appreciation over the medium to long term by investing in blue chip global stocks like Procter & Gamble, Visa, Amazon, Apple, Microsoft, Nike, Coca-Cola and Mastercard — all of which have been held since inception.

The fund's primary focus when researching stocks and, by extension, overall stock selection for the portfolio, is the degree to which the rate of change in earnings growth has the potential to be greater than the overall rate of change in earnings for the market. It follows a philosophy that alpha is generated from being able to assess the degree to which the rate of change in earnings growth differs from current consensus earnings estimates and is progressively discounted into each company's share price.

To assess this, the manager uses seven key inputs, namely: industry, X factor, brand, 4Ps (product, position, price, people), distribution, economic leverage and free cash flow impact on return on invested capital (RoIC).

In reviewing each of these factors for each company, an understanding is arrived at that provides both a qualitative and quantitative assessment of how earnings growth rates may evolve. This approach, combined with some inference as to the market's assessment of earnings growth prospects, completes the picture. Portfolio construction and drawdown risk management play a key role in the ultimate portfolio composition.

Focus and "proof of concept" are among some of the biggest difficulties the now R1.4bn fund has had to overcome since inception. Temptation often directs that many small exposures be obtained from many markets. **The focus of this portfolio is to find the very best opportunities and ensure that client funds are managed to the highest level of fiduciary responsibility in the process.**

It's choice in stocks such as Nvidia is forward-looking, on which the fund manager says its chipset design offers a competitive advantage in the rapidly developing world of cloud computing and gaming. "We look to pair stocks in a way that provides multiple entry points into an industry. In this context Microsoft, Amazon and Nvidia pair well. Another example would be the pairing of Visa, Mastercard and PayPal, which all operate in roughly the same industry but with different revenue models."

### Why finweek would consider adding it:

At the moment, the fund is concentrated on stocks that enjoy some form of annuity flow in their income generation or have an identifiable competitive advantage that supports growth. For instance, Procter & Gamble has about 21 products that deliver more than \$1bn in revenue each year; Microsoft and Adobe have captive client bases with annuity income and Waste Management has an unmatched dominance in landfill ownership.

The fund scooped the Best (South African-domiciled) global multi-asset flexible fund Raging Bull Award for three consecutive years (2016, 2017 and 2018). ■

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AFRIMAT

BUY SELL HOLD

By Simon Brown

## Keep an eye on this deal

A strong set of results from Afrimat for the year to 28 February. Headline earnings per share (HEPS) is up by 29.6% on the back of revenue, which is up by 24.6%.

The dividend was unchanged at 62c, putting the stock on an undemanding price-to-earnings ratio (P/E) of 13 and a dividend yield of some 2.5%.

Management has continually proved not only adept at running the business, but also undertaking well-priced strategic deals, most recently the Demaneng iron ore mine that is now

contributing almost half of the group's profits.

However, the concern is the potential purchase of Universal Coal for some R2bn.

Debt-to-equity is sitting at a modest 23.8%, but the deal is likely to require a rights issue.

Further, with a market cap of some R4.4bn, this deal will by a long way be the largest they've ever undertaken, and the price proposed for Universal Coal is at a chunky premium (and double where the stock was trading in 2017).

Smart and profitable deals are part of the group's DNA, but the size of this deal raises concerns (also see my article on p. 18) and I

would not be a buyer at this point. If the deal is cancelled, then any weakness could be a buy. ■

The concern is the potential purchase of Universal Coal for some R2bn. Debt-to-equity is sitting at a modest 23.8%, but the deal is likely to require a rights issue.



### Last trade ideas

- SELL** Steinhoff  
23 May issue
- HOLD** Coronation  
9 May issue
- BUY** Platinum  
18 April issue
- BUY** ADvTech  
4 April issue

TELKOM

BUY SELL STAY LONG

By Moxima Gama

## Results provide healthy boost

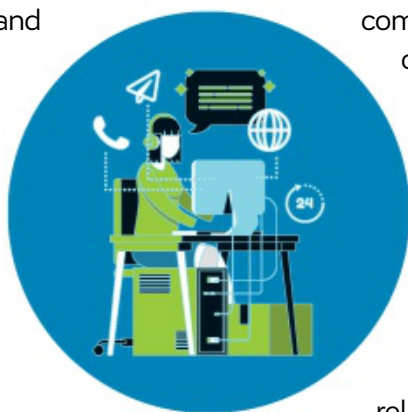
Telkom, which provides fixed-line access and usage, data communication services, mobile voice and data services and customer premises equipment sales, reported better-than-expected financials for the year to 31 March.

On the day of the announcement, at the end of May, Telkom's share price soared as much as 13.6%, as it said that operating revenue for the period rose by 5.3% to R41.8bn and earnings before interest, tax, depreciation and amortisation (ebitda) grew 8.5% to R11.3bn.

Its mobile service revenue surged 58.3% due to an 85.9% increase in active subscribers to 9.7m customers. A final ordinary dividend of 249c/share will be paid, taking full-year dividend to 362c/share – a 2% increase.

Telkom expects to build 2 000 new towers over the next three years – it already has 6 500

towers in SA. Its mobile business helped offset declines in its traditional operations. The company is also looking at spinning off its property portfolio as a real estate investment trust (Reit) to unlock value for shareholders.



**Telkom expects to build 2 000 new towers over the next three years – it already has 6 500 towers in SA.**

### How to trade it:

Telkom traded through a key resistance level at 9 510c/share on the day that results were released. With the three-day relative-strength index overbought, a minor correction may be underway. However, a reversal above 8 045c/share would present a good buying opportunity. Reload your position above 9 510c/share, with the short- to medium-term target situated at 12 300c/share.

Alternatively, Telkom would abandon its current uptrend below 7 460c/share, and downside to 6 610c/share

could follow. Below 6 240c/share another sell-off to 5 245c/share could ensue. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)



### Last trade ideas

- CAUTION** AB InBev  
23 May issue
- CAUTION** Redefine Properties  
9 May issue
- CAUTION** Remgro  
18 April issue
- WAIT** EOH  
4 April issue



FAMOUS BRANDS

# Is further downside possible?

Famous Brands is Africa's leading quick-service and casual dining restaurant franchisor. Its portfolio includes Wimpy, Mugg & Bean, Europa, tashas, Vovo Telo, Steers, Debonairs Pizza and Fishways, among others. It is also involved in manufacturing and logistics, with a focus on owning and managing the back-end supply chain of its restaurants.

Famous Brands tested an all-time high at 18 655c/share in October 2016 from lows established in 2009 at 1 200c/share.

Investor sentiment dipped after the company acquired Burger Kitchen's (GBK) restaurants in the UK and Ireland for R2.2bn, adding 75 company-owned restaurants to Famous Brands.

With mounting losses at GBK, shareholders now feel the acquisition was simply overpriced.

52-week range:	<b>R75.01 - R119.95</b>
Price/earnings ratio:	-
1-year total return:	<b>-26.44%</b>
Market capitalisation:	<b>R8.01bn</b>
Loss per share:	<b>R7.21</b>
Dividend yield:	-
Average volume over 30 days:	<b>75 233</b>

SOURCE: IRESS

The company has already written down the value of its GBK division by more than R1bn, as the rise of online food delivery and rife premium burger competition continues.

Results for the year to end-February, released on 29 May, as this issue of *finweek* was going to print, indicated a decline of 5% in operating profit, to R850m.

**Outlook:** Famous Brands breached the support trendline of its long-term bull trend in August



SOURCE: MetaStock Pro (Reuters)

2017 and is currently trading in a bear trend in the form of a wedge pattern.

The share price tumbled further, breaching key support at 9 050c/share, after reporting a grim set of results in March.

**On the charts:** Famous Brands is teetering on the lower slope of its wedge pattern, but is also retaining support at 7 500c/share.

**Go long:** If support is firmly retained at 7 500c/share, the current wedge formation would

end positively above 9 050c/share – presenting a good buying opportunity. Such a move could see Famous Brands recover towards 10 670c/share in the medium term.

Above that level, expect further gains to 12 725c/share.

**Go short:** Breaching the lower slope of the wedge, below 7 500c/share, could trigger another sell-off – potentially extending losses rapidly through 6 750c/share – towards 4 600c/share. ■

NAMPAK

# Recovery could be pending

Nampak, which celebrated 50 years on the JSE this year, is Africa's largest diversified packaging manufacturer.

**Outlook:** Nampak is experiencing continued downside momentum. Spooked by challenges faced in the rest of Africa, Nampak announced that it has sold its Nigerian paper packaging unit as part of a plan to shrink its portfolio and boost returns. It has, however, retained its aluminium and tin canning products and services in Nigeria. Nampak results were due the last week of May, as this edition of *finweek* was going to print.

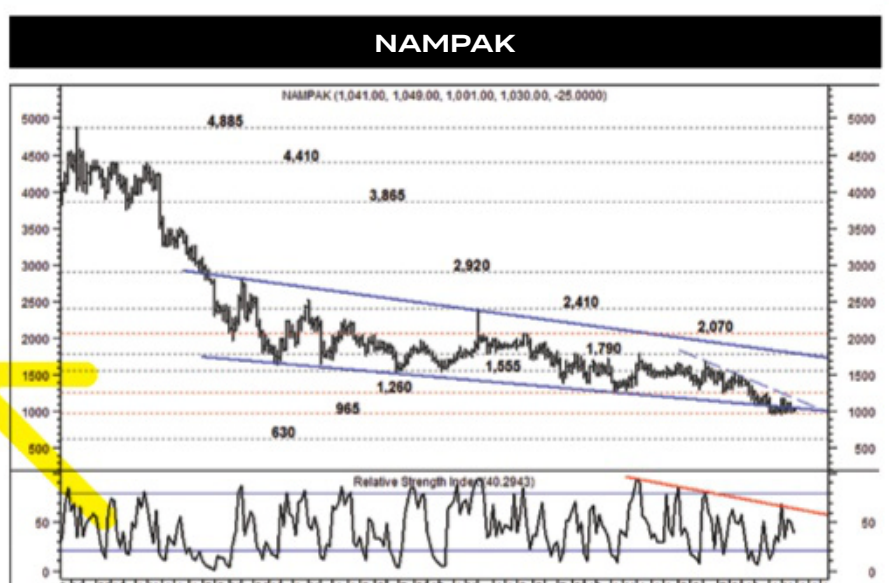
**On the charts:** Nampak is currently testing 1999-lows and

52-week range:	<b>R9.65 - R17.88</b>
Price/earnings ratio:	<b>6.99</b>
1-year total return:	<b>-27.03%</b>
Market capitalisation:	<b>R7.26bn</b>
Earnings per share:	<b>R1.51</b>
Dividend yield:	-
Average volume over 30 days:	<b>784 519</b>

SOURCE: IRESS

may tick upwards if support is firmly retained at 965c/share and the three-week relative-strength index (3W RSI) breaks out of its own bear trend.

**Go long:** A move above 1 260c/share could attract new buyers, and upside towards 1 790c/share could follow. Because this would be a recovery within its bear



SOURCE: MetaStock Pro (Reuters)

trend, a neutral position should be initiated. A positive breakout of the bear trend would only be confirmed above 2 070c/share – with potential gains to 2 920c/share. The rising bottoms on the RSI chart (positive divergence) may be signalling a pending recovery.

**Go short:** Stay out of Nampak if

downside should continue below 965c/share. Next support is at 630c/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

PORTFOLIO MANAGEMENT

# Uber or Lyft? Or another sector altogether?

When you are considering an investment in a particular sector, you often have to choose between companies that are very similar. How do you pick one? And how do you know that the sector is a solid investment?

One of the key points of investing is to focus on specific sectors, such as mining, banking, food retail and so on.

A broad investment psychology would guide one towards the sectors that are more likely to return great profits. Then you would find the best company within that sector. This is called a top-down approach.

Bottom-up investing starts with the theory that a great investment can offer great returns – even if it is within a less-than-ideal sector.

Personally, I always use the top-down approach, rather than the bottom-up approach. There are two key reasons for this.

The first reason is that my ideal holding period is forever. Therefore, I need to be in great growing sectors so that I can stay invested.

If you're buying bottom-up, **the sector may be sub-par and eventually the company you've invested in will weaken with the sector. This weakening will mean you'll need to exit** and will leave you having to make the decision about when to sell. Furthermore, you'll then need to find another investment for the freed-up money.

My second reason for initially focusing on the sector, before drilling down to the individual stock, is that a strong growing sector adds further momentum to potential earnings for the company.

Now, the easy way (or perhaps the lazy way) of following the top-down approach is to broadly buy the sector. In other words, rather than deciding between Pick n Pay or Shoprite\* you buy both, essentially hedging your bets.

As a rule, I do not go this route unless there really is a stark difference between the two. I also always limit it to two stocks within any sector. If I can't decide which two, I take the approach that I simply don't know the space well enough.

What is also very important is to truly understand not only the strengths of the

various investment options within the sector, but also to fully understand the differences between the two companies.

As an example, let's use the recently listed Lyft and Uber. Both operate in the digital ride-hailing space, but they have some stark differences that determine which would make a better investment – at the right price.

Lyft really only operates in the US market while Uber is very much a global business, operating in some 65 countries (although the US market is its key one). The issue here is that in US cities there usually are already well-established metered taxi operators.

Furthermore, not only is there a pushback against these two companies, but also capped prices. Both businesses have been operating as convivence, but also on price and the existence of metered taxis caps in terms of what they can charge.

In other markets, such as South Africa, the existing metered taxis were never really used to that extent, especially not by locals. That means there is less direct competition and Uber therefore also has more pricing power outside the major US market.

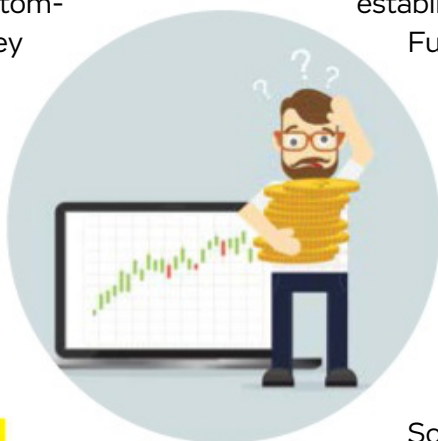
My household is now a single-car one. I therefore use Uber a lot, especially when traveling, as Uber is often easier than renting a car. If Uber upped its fares, I would continue to use the service. Now sure, there is a level at which too high a fare will see the number of rides falling – but they certainly do have some pricing power.

The second major difference is Uber Eats. Lyft is really just a one-trick pony: digital ride-hailing in the US. Food delivery is a far easier and more profitable business, and gives Uber an extra leg of profit that Lyft lacks.

So, two very similar businesses – but when we dig deeper there are key differences that make Uber a much more attractive investment proposition than Lyft. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

\*The writer owns shares in Shoprite.



**What is also very important is to truly understand not only the strengths of the various investment options within the sector, but also to fully understand the differences between the two companies.**



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**DAWIE DE JONGH** was Professor at the Centre for Business Mathematics & Informatics at North-West University until 2015.

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**S-Software Design**  
Research & Development

By Simon Brown

COMPANY DEALINGS

# Stop paying for these mistakes

When companies that are thriving take on large, capital-intensive projects, they often fail to deliver. And shareholders pay the price for this. Sasol's Lake Charles project is a case in point.

**W**oe is Sasol\*. Its Lake Charles jaunt was initially supposed to cost some \$8.9bn, but it kept on creeping higher and earlier this year Sasol said the costs could be as much as \$11.8bn. That was absolutely and finally the maximum it would cost, the company said.

But then came the latest announcement, in which Sasol now admits it'll be costing somewhere between \$12.6bn and \$12.9bn. That's a cost overrun of almost 50% and is completely insane.

Now sure, when building something cost overruns are part of the deal. If you've ever built a house (or even just done an extension or some remodeling) you'll know all about cost overruns. In fact, when costing a build, the person pricing it generally adds between 10% and 15% extra for this exact reason, and it always seems to get used.

But 50%?

The problem is that when the project was being conceived, the long-term profits would have been based on the \$8.9bn figure. With an extra \$4bn being spent, the profitability (return on capital) is significantly less. Taking it a step further, we can surely assume that if the initial costing had projected the \$12.9bn amount, the project would never have been undertaken?

So now Sasol sits with an asset that it massively overpaid for and that will deliver returns well below what was expected.

The question of course is who gets fired? Does it even matter? Shareholders carry the cost – and the markedly reduced returns – while the executives take their salaries home (perhaps with reduced bonuses) and they are free to ride off into the sunset.

There is also a bigger issue here that I have written about before. The desire to always be growing.

What was wrong with Sasol that it needed to pivot towards a chemical company, as opposed to just an oil and

gas company? Sure, changing dynamics in its core markets may have reduced long-term profitability. But notice that the attempt to solve that problem has now led the company straight towards reduced long-term profitability.

Aside from Sasol, the JSE (and, in fact, all global markets) is littered with large projects, and merger and acquisition (M&E) activity. These are meant to boost profits, but instead they often severely dent them. Most research on large projects and M&E activity shows that large deals fail to deliver on promises about two-thirds of the time.

So why do companies keep trying? Is this because shareholders demand continued go-go growth? Or are the executives blinded by the idea of being bigger, better, faster and richer? What is wrong with being a stable company offering decent enough growth (single digits that beat inflation) and solid, chunky dividends?

Personally, I have a number of stocks in my portfolio that have undertaken these kinds of large deals and every single one has failed. **So now I have a new rule that I am adding to my investment strategy. Any large project, merger or acquisition will trigger me to put the stock on the sale table.** I won't sell immediately because the market usually gets excited about these deals and drives the share price higher. I will take that extra profit.

But then when the hard, and seemingly certain, reality of failure starts to weaken the share price, I will take my money and run.

Sure, Sasol will survive and offer profits again one day and executives won't be taking on any large projects anytime soon. But the damage is being caused in the long term, and it's the shareholders that are paying for it.

I, for one, will no longer be paying for these blunders. I may re-enter a share again, but they'll have to convince me of the merits – as does any other stock I buy. ■

**editorial@finweek.co.za**

*\*The writer owns shares in Sasol.*



Photo: Archive



52-week range:	<b>R349.61 - R585.80</b>
Price/earnings ratio:	<b>11.18</b>
1-year total return:	<b>-16.77%</b>
Market capitalisation:	<b>R230.14bn</b>
Earnings per share:	<b>R33.02</b>
Dividend yield:	<b>3.68%</b>
Average volume over 30 days:	<b>1 804 399</b>
SOURCE: IRESS	

# DON'T FALL FOUL OF THE LAW!

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

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

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

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

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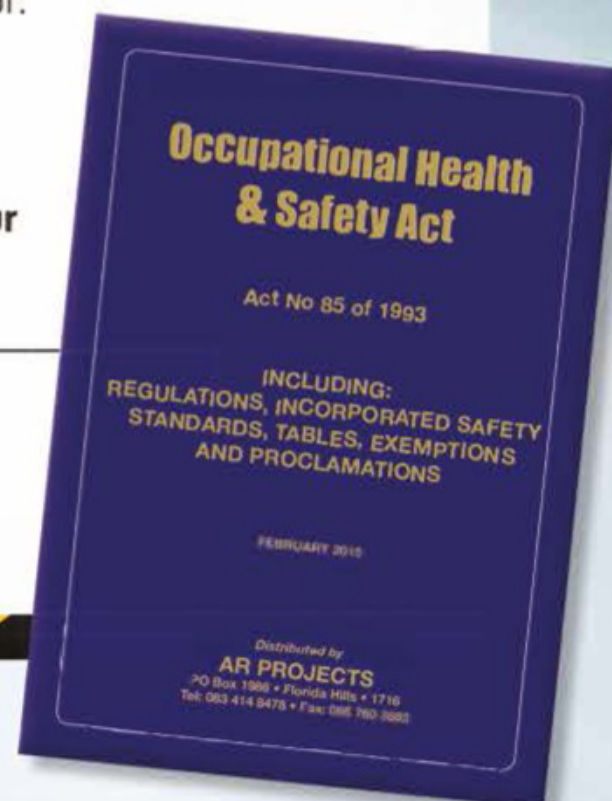
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By Simon Brown



## Simon's stock tips

### CORPORATE GOVERNANCE

Thomas Thomsen  
Former CEO of  
Ascendis Health



## Letting go of a CEO

CEOs are falling left, right and centre. Ascendis Health CEO Thomas Thomsen is gone after only 14 months in the job. That's harsh. **It's not really enough time to do much, so we must assume he was just the wrong person for the job. As such, it becomes the board's fault for hiring him.** But I suppose they deserve credit for acting decisively rather than waiting. Peter Moyo's suspension (he hasn't yet been fired) at Old Mutual is because of a conflict of interest. But this conflict was known when he was appointed. So, really, here both Peter Moyo and the board have failed to manage the situation. At the end of the day, it's all just messy.

### NETCARE

## Why allow leveraging against shares?

Netcare CEO Richard Friedland was a forced seller of almost 10.5m Netcare shares – nearly his entire holding. The story is the same old. He'd used them as security against a loan (either for other purposes or to gear his holdings) and when the Netcare share fell far enough, it triggered selling by the lenders to protect themselves. On the two days of selling the stock lost over 8%, hitting levels last seen in 2012. I've written before about CEOs using leverage and the serious negative impact it has on ordinary shareholders. It's legal, but if it was my company, I would ban this practice. I also don't understand why they do it. How rich does one really need to be? Especially considering that, in this case, the CEO earned over R50m last year.

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.

### TIGER BRANDS

## Questions about class action remain

Tiger Brands results saw headline earnings per share (HEPS) for the six months to end-March down 12%. Yet a special dividend of 306c per share, coupled with an ordinary dividend of 321c, was declared. It's nice for shareholders, but I wonder about the current ongoing class action lawsuit surrounding the fatal listeriosis that originated from its facilities. Insurance will not pay for the exemplary or punitive damages. (The recent Life Esidimeni case saw R1m of punitive damages awarded per death, so Tiger Brands could potentially be looking at over R200m.) That said, the group is very cash-generative and has a number of assets worth over R2bn on the balance sheet currently held for sale, so they'll be able to cover any punitive damages.

How rich does one really need to be?  
Especially considering that, in this case, the CEO earned over

R50m  
last year.

### PIONEER FOODS

## Price won't remain king

Pioneer Food Group saw HEPS for the six months to end-March off 14%, as revenue grew 11.5%, and the adjusted operating margin was down from 9.6% to 6.6%. This squeeze is because consumers are under pressure and are being much more careful about what they pay for products. The Tiger Brands presentation talked about 60% of consumers actively comparing prices across brands. We can assume that these consumers then buy on price and not on brand. Furthermore, 25% stock up on premium brands when on promotion. This indicates that many are still brand loyal, but they need lower pricing to retain them. As I wrote recently, Warren Buffett says the tension between branded producers and retailers has swung towards the retailer, but it will swing back to the producers in time. This data supports that theory.

### HUAWEI



## Trumped

Global trade wars are heating up and getting confusing. At the time of writing, US President Donald Trump had also banned Chinese tech company Huawei from doing any business with US companies. The reason provided was that Huawei is a threat to national security as it produces 5G equipment, which could be used to spy on nation states. Importantly, there is no evidence that Huawei has ever done so. The ban cripples not only Huawei, but also global 5G rollout. But then things got messy when Trump said Huawei could be part of the trade deal. So, which is it? A negotiating tactic or a threat to global security? They're vastly different things and, frankly, nobody knows. The uncertainty is a worry.

## SANTOVA

## Happy to hold

Santova\* results for the year to 28 February show a quality company that is struggling in tough economic conditions. A key point was the increase in the dividend from 7c per share to 7.5c. This indicates that the board is confident the company is generating enough cash to run the business and they can pay more back to shareholders. That confidence may in time prove misplaced. But this, as always, has been a very well-run small-cap stock. While the share price has not been rewarding, I am happy to trust the board and continue holding. Also noteworthy from the results presentation was that the top ten clients make up only 11.39% of net revenue and only four are exclusively South African, indicating a diverse client base.

While the share price has not been rewarding, I am happy to trust the board and continue holding.

## DIS-CHEM

## Price is lagging valuation

Dis-Chem results for the year to end-February were disappointing. Even if we remove the one-off costs around strike action between November and April, this stock is on a price-to-earnings ratio (P/E) of over 30 times. It is simply not growing fast enough to justify that valuation. I have cautioned about this before. The steep valuation is just not unwinding with strong HEPS growth or a lower share price (the former being the desired way to unwind high valuations). Right now, I do not see great growth, so I would expect price weakness instead.

## VODACOM

## This squeeze is going nowhere

Vodacom results for the year to end-March show a continuation of my theme around this sector. Consumer prices are being squeezed; the company claims a R2bn drop in pricing to local customers with more to come. With costs and capital expenditure not declining and growth in the number of consumers using data not offsetting the declines, expect this squeeze to continue.

## LONG4LIFE

## Great potential, decent value

Long4Life\* results for the year to end-February show that the company still holds some R1.1bn in cash. The interest earned on cash equates to about 15% of their profits. But even if we remove that interest, profits for the latest year were good. The Sorbet beauty chain did especially well, considering Long4Life only paid some R120m for the business and it now generates profit of almost R40m. This is the sort of deal one expects from the company. With a good base of cash-generating assets (especially Hold Sport) more deals will in time further expand profits. That said, the company is cautioning that good, quality deals at fair prices are hard to find. But this stock certainly has great potential and I continue to hold. On a P/E of ten times – excluding the cash, which is a quarter of market cap – it still offers decent value.

The Sorbet beauty chain did especially well, considering Long4Life only paid some **R120m** for the business and it now generates profit of almost R40m.

## PHUMELELA



## Future profits likely under pressure

Horsereading bookmakers have been paying a 6% tax on punters winnings since the early 1990s. The Gauteng Gambling Board receives the tax and pays half of it over to Phumelela Gaming and Leisure for them to “ensure the sustainability of the industry”. Now the relevant Gauteng MEC wants to overturn this agreement and the Public Protector has issued a report that concurs with the MEC. The impact to Phumelela is a loss of some R75m a year that, while only some 5% of revenue, is around half of their annual profits. Phumelela is contesting the order, claiming that the money is required to keep the racing industry operating. They may be correct, but **the industry would surely be better served by having an independent not-for-profit concern managing the tax receipts in the interest of the industry.** As such I think ultimately Phumelela will lose. Then the question is how much of the tax was actually spent for the benefit of the industry and how much was used for general operating expenses for Phumelela? Reading previous results, I am unable to work out the details. This adds risk to the future profits of Phumelela. ■

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\*The writer owns shares in Santova & Long4Life.



# How to trade trend reversal patterns

Trader Petri continues with his analysis of price patterns, offering tips on how to best understand them when eyeing a trade.

In the 18 April edition, I started looking at long-term price patterns, particularly trend continuation patterns, and how we can trade them.

In this edition we're going to look at trend reversal patterns.

## TREND REVERSAL PATTERNS

### 1 Wedge formations

Wedge formations are rather versatile. The difference between trend continuation wedges and trend reversal wedges is the direction of the trend leading into the wedge formation relative to the slant of the formation itself.

If, for example, the trend is moving up over a period of a few weeks and the range in which the price is trading begins to compress while still edging slightly higher, it could be forming a rising wedge. It means that the buying power that is driving the share higher is tapering out slowly and will eventually run out.

Usually, during the formation of a rising wedge pattern, we would also see a gradual tapering of volume being traded.

**How to trade it:** A break-out is traded with a stop-loss above the highest high (or lowest low) in the formation.

Conservatively, the target price is calculated by measuring the price range of the first full move between the sloping support and resistance lines (the first move that touches both sides of the consolidation – on the fat end of the wedge) and projecting that in the direction of the breakout.

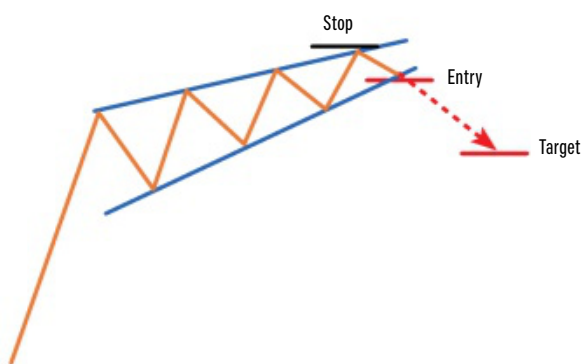
### 2 Head and shoulders

The head and shoulders pattern is probably the most popular and well-known reversal pattern of them all. Often though, traders 'see' a head and shoulders formation where there is none.

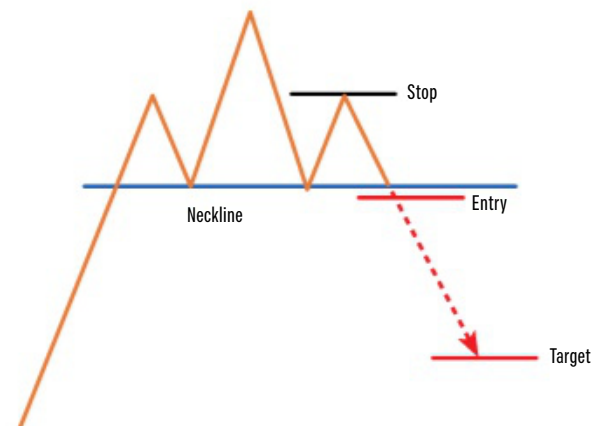
The basic premise of a head and shoulders pattern is that a Dow Theory trend reversal is happening. In other words – in the case of a bullish trend, the instrument being analysed – the continuous higher highs and higher lows that the instrument makes comes to an end and a lower high is made.

Based on the trend analysis rules stipulated by Dow Theory, this signals that

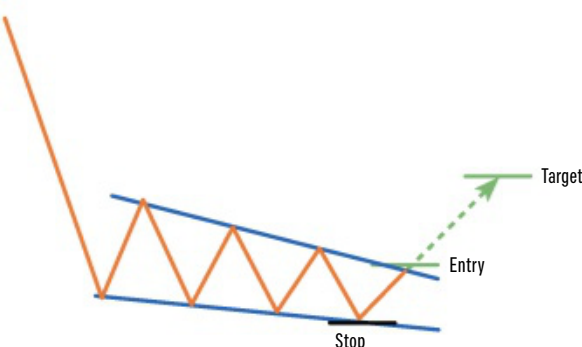
1A RISING WEDGE:



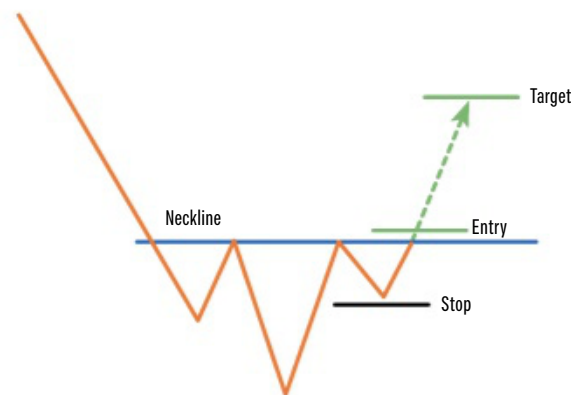
2A HEAD AND SHOULDERS:



1B FALLING WEDGE:



2B INVERSE HEAD AND SHOULDERS:



the bullish trend is in danger of reversing.

Visually it looks like two similar sized peaks on either side of a larger peak, thus looking like two shoulders and a head above them.

**A head and shoulders formation is only valid if all three these properties are present:**

- 1) A tapering down of volume throughout its formation;
- 2) A clearly defined neckline (the lows bottom out at roughly the same level);
- 3) It does not form in the middle of a consolidation area or in a longer-term sideways market.

Conversely, an inverse head and shoulders can only be validly formed at the bottom of a down trend and must see an increase in volume traded throughout the formation.

**How to trade it:** Once the neckline has broken, enter the trade in the opposite direction to the trend leading into the formation. As with all longer-term formations, a break of the formation on higher-than-usual or average volume traded would be an entry signal.

**Note:** Often the price will come back and

retest the neckline before continuing in the direction of the break and establishing a new trend. The stop-loss would be placed at just above the tip of the right (most recent) shoulder.

### 3 Double tops and bottoms

A double-top or double-bottom formation forms when price bounces off of (or is rejected at) roughly the same price level twice in a row. Very simply put: if price moves in a bullish trend and hits an overhead resistance level, pairs back some before attempting another bullish move through the resistance level, and then is once again stopped in its tracks, the potential for a double-top pattern exists.

The pattern would be confirmed if price trades below the low that formed between the two tests of the resistance level. Once that low between the two resistance points is breached, it is expected that the trend will reverse.

**How to trade it:** When trading a double-top formation, a trader would enter into a short position when price breaches the

neckline. Again, a high-volume break is preferred and often the neckline level will be retested before the new trend settles in. To manage risk, the stop-loss should be placed at the midpoint between the resistance level (double-top level) and the neckline. The inverse applies for a double bottom.

#### 4 Broadening patterns

Broadening patterns, or megaphone patterns, start off with a small consolidation that widens as time passes. Thus, the narrow end of the formation is at the beginning and the broader end is at the end of the formation. These formations are somewhat rarer but are rather reliable indications that a trend change might be taking place.

**How to trade it:** A trader would enter into a position in the opposite direction of the trend that came into the formation. In the case of a bullish trend reversing after a broadening pattern has formed, a trader would enter into a short position once the

lower extreme of the pattern is breached.

The stop-loss should be placed halfway between the two extremes of the broadest part of the pattern where price has touched both the top and bottom. A target can be projected by measuring that same move and projecting it lower out of the pattern. In the case of a broadening pattern forming after a bearish trend, the opposite would apply.

#### 5 Bilateral patterns

Bilateral patterns are longer-term patterns that represent an even probability of price moving in either direction post the pattern's formation. In this sense they are not very useful at 'forecasting potential market moves'. They are, however, useful to measure moves, or forecast the size of a new move once there is confirmation with respect to the direction in which it has broken.

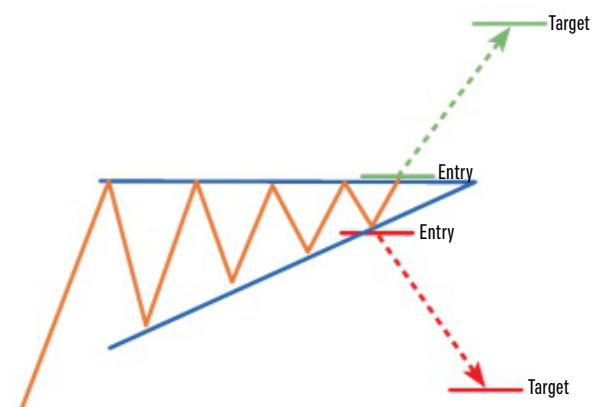
Ascending and descending triangles can under some circumstances be classed as bilateral patterns, as well as pennants (or

symmetrical triangles).

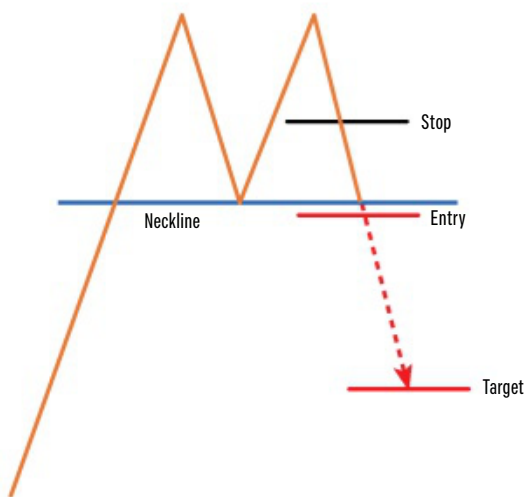
**How to trade it:** The moral here is really just that when it comes to any of these types of patterns, traders need to be a little more careful and be sure to only back the directional breakout that is confirmed by higher than usual volume being traded at the time of the breakout. ■

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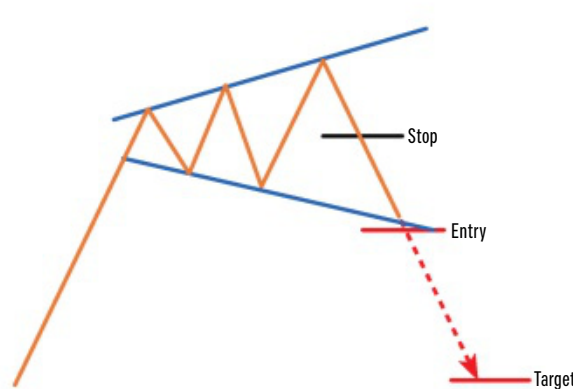
#### 5A ASCENDING TRIANGLE:



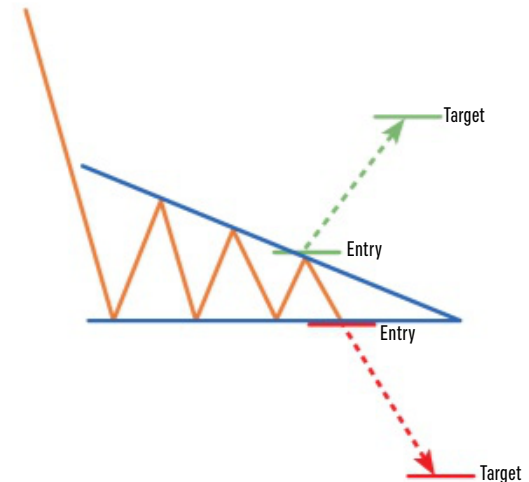
#### 3A DOUBLE TOP:



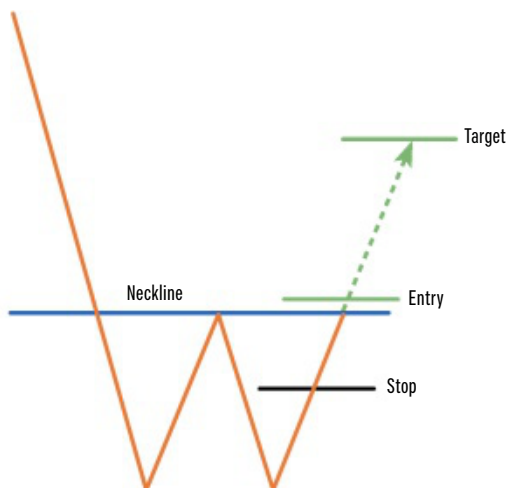
#### 4A BEARISH BROADENING PATTERN:



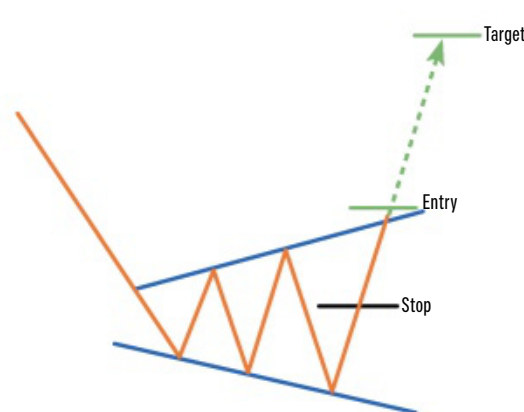
#### 5B DESCENDING TRIANGLE:



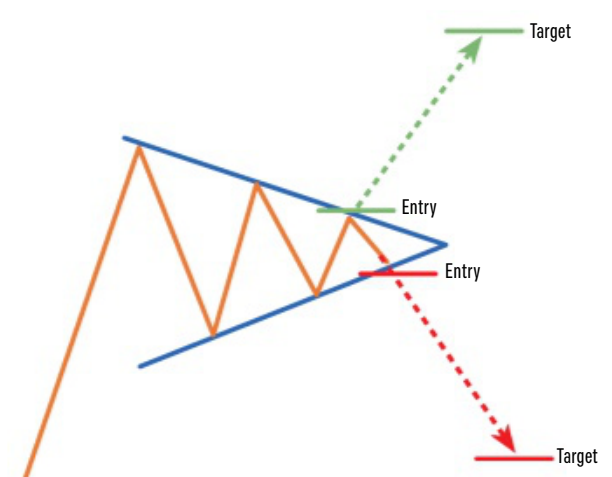
#### 3B DOUBLE BOTTOM:



#### 4B BULLISH BROADENING PATTERN:



#### 5C PENNANT (SYMMETRICAL TRIANGLE):







# Choose equity unit trust funds for their strengths

Some investors prefer to invest for value, while others opt for momentum or quality shares. But choosing an investment theme to compile your portfolio most certainly does not have to be an either-or scenario.

To identify the best of the best, I love to compare and analyse stocks according to different ratios globally. Of course, there isn't necessarily only one right answer when it comes to investment ratios. To illustrate this, let's use two fund managers who practiced at roughly the same time, John Neff and Peter Lynch, as examples. Both were very successful in the active management of their clients' capital and both invested strictly according to specific criteria. The main difference between them boiled down to the valuation methods chosen by each.

Neff was a value investor who focused especially on companies which traded at low price-to-earnings ratios (P/E) and high dividend yields. He sold when the fundamental value of the share declined and/or when price targets were reached.

Lynch was a growth investor who preferred to buy during cyclical recoveries. He would start by making a small investment and then invest more and more as conditions improved and prices increased.

The point is that different ratios outperform benchmarks at different times.

Those invested in the funds of both Neff and Lynch would be the happiest of investors today. Both funds performed amazingly well. But, during times where Lynch's fund would have struggled somewhat, Neff's fund performed better, which would have resulted in stabilised growth of investors' returns.

Local investors often don't realise that we have similar tools at our disposal. **Some may want to stop reading at this point, thinking that active management has delivered such a poor performance of late that one really shouldn't look much further than passively managed funds. Sure, but that's only partly true.** We have brilliant local fund managers who manage to outperform their benchmarks on a regular basis.

I analysed the data of all SA general equity unit trust funds by looking at the usual risk versus reward ratios, but also at how regularly these funds managed to outperform the FTSE/JSE All Share Index (JSE), for example.

Keep in mind: Although fund A might have managed to marginally outperform fund B over the last five years, fund B could still earn a higher rating than fund A. If fund B outperforms the JSE 80% of the months in question, while fund A only managed to do so 30% of the time, investors could potentially earn better returns by remaining invested in fund B over time.

After analysing these funds, I selected the top 15 funds with a total value of R1bn or more. With factor investments (investing according to certain themes) in mind, Neff (value) and Lynch's (growth) methods can also be seen as two different investment themes. My personal preferences are value, quality

and momentum shares.

Value investing focuses on shares with a higher earnings yield, lower price-to-book ratio and lower enterprise value-to-earnings before interest, tax, depreciation and amortisation (EV/ebitda) ratio.

Quality shares are valued based on strong returns on equity (ROE) and the lowest possible EV-to-free cashflow ratio, while low-volatility investing focuses more on shares with the lowest possible volatility ratios.

Momentum investing focuses on shares with a strong increase in price, while avoiding the purchase of shares with declining value.

Over the last five years, several passive investment companies have established exchange-traded funds (ETFs) which only contain shares with either value, quality or momentum characteristics.

I took the 15 abovementioned funds and individually identified each according to the greatest correlation with either value shares, quality shares or momentum shares. Three remained:

- Fairtree Equity Prescient (value)
- Investec Equity (momentum)
- Marriott Dividend Growth Fund (quality)

Please note: I am not saying that Fairtree Capital, for example, should be labelled as value investors. Out of the 15 funds I analysed, they simply had the highest correlation with value.

Finally, I tested my findings by analysing the performance of a hypothetical investment in all three funds five years ago to date.

The JSE would have delivered returns of 33% (5.84%/annum) over five years (up to 17 May 2019). An investment in these three funds, however, would have delivered a return of 41% (7.06%/annum) over the same period.

It gets more interesting. At a volatility ratio of 12.77%, these three funds combined were 10% less volatile than the JSE. The JSE's worst-performing week resulted in a 15% decline during this five-year period, while the combination of these three funds would have declined by only 13% during the same week.

Therefore, you would have earned higher returns at lower risk. This can probably be attributed to the fact that none of these funds necessarily performed extremely well or poor at the same time, but rather that their respective performances complemented each other over time.

You would never compile a cricket team consisting of only bowlers. Why would you want to approach the compilation of your investment portfolio any differently? ■

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Schalk Louw is a portfolio manager at PSG Wealth.

**You would never compile a cricket team consisting of only bowlers. Why would you want to approach the compilation of your investment portfolio any differently?**

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By Lucas de Lange

JSE

# Bear has JSE in its grip

More than two-thirds of the top 100 companies are now lying below their long-term averages.

There has recently been a marked weakening of the JSE. The share prices of only 29% of the 100 largest companies, measured by market cap, are lying above their 200-day exponential moving averages (EMAs), which means that more than two-thirds of the market is dominated by the bear. The Top 40 and the All Share indexes have also weakened to below their long-term EMAs, reflecting the pessimism currently evident among investors.

However, declines in the market also offer opportunities as quality shares tend to become available at lower prices. The problem is always which shares to choose, especially if a share's decline can be ascribed to things going awry in a company – which could prove detrimental. Mediclinic, Aspen and Tongaat are good examples of this. One simply has to look at the list of the weakest shares to see what pain this could cause for investors.

A number of years ago, the Foundation for the Study of Cycles in the US researched which technical indicator could give investors a meaningful guideline in times like these. It became apparent that during a major downswing, quality shares whose mid-term averages (say 75 days) remained above their long-term averages (200 days) could prove to be winners in the next upswing.

This demonstrates that the so-called informed capital was prepared to support those shares despite the general pessimism. The Achilles heel of this technique is of course that the decline could become a full-scale bear market. It would therefore be safer to use it in tandem with good fundamental research. The group of shares that have come to the fore through this method is currently dominated by commodity groups such as Implats, Amplats, Kumba, Northam, ARM and Anglo.

Others that look interesting include Telkom, Capitec, Naspers\* and PSG.

Few would have believed that Telkom, which has been a group fraught with problems for so long, would pop up as the strongest share on the JSE – measured

in terms of the percentage difference between its price and its long-term average. The group, which has been privatised (the state's shareholding is nevertheless 40.5%), has come a long way and is not only profitable, but also distributing dividends regularly. It has increased by 45% since the beginning of the year and, following its results, broke through the high of 8 578c reached in March 2015. During 2007, it reached an all-time high around 19 500c. From its results it's evident that it is making major investments in various areas that are beginning to deliver additional income streams. This not only includes mobile phone and internet services, but also its large property portfolio, which will possibly be unbundled and listed.

Its wholly-owned subsidiary Giro owns more than 1 300 properties and has earmarked 40 new development projects, including large-scale housing projects. Its CEO, Siphon Maseko, says Telkom wants to unlock value for its shareholders. Then we have the ongoing speculation that Telkom is possibly going to merge with Cell C because both of them are currently finding it difficult to compete with the two giants in the industry, MTN and Vodacom.

Among the weakest shares is Sasol\*\*, which is being punished by the market for unexpectedly announcing that it would have to spend an additional \$1bn to complete its giant chemical plant at Lake Charles in the US. The total costs have escalated to between \$12.6bn and \$12.9bn, equal to more than two-thirds of its current market cap. The only consolation is that the project is close to being completed and units are beginning to come on stream, which will start generating cash flow in the near future.

Among the shares that have broken through, Bidcorp and Richemont look the most interesting. ■

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

\*finweek is a publication of Media24, a Naspers subsidiary.  
\*\*The writer owns Sasol shares.

WEAKEST SHARES*	
COMPANY	% BELOW 200-DAY EMA
STEINHOFF	-62.59
TONGAAT	-59.54
BRAIT	-38.3
ASPEN	-35.26
MASSMART	-31.99
SAPPI	-29.62
INTU PROPERTIES PLC	-29.45
FORTRESS B	-29.04
HAMMERSON	-28.39
NETCARE	-25.19
TIGER BRANDS	-22.3
SASOL	-20.62
PIONEER FOODS	-19.69
NAMPAK	-19.17
HYPROP	-17.85
SA CORPORATE	-17.75
VIVO	-16.56
GLENCORE	-15.52
MEDICLINIC	-15.1
WBHO	-14.12
MR PRICE	-14.05
ASTRAL	-13.19
REDEFINE	-13.16
OLD MUTUAL	-12.89
TRUWORTHS	-11.99
WOOLWORTHS	-11.25
RMI HOLDINGS	-11.03
LIFE HEALTHCARE	-10.99
DIS-CHEM	-10.6
SHOPRITE	-10.49
AVI	-10.43
HARMONY	-10.37
DISCOVERY	-10.26
REMGRO	-10.21
SUN INTERNATIONAL	-9.11
MONDI LTD	-8.25
JSE	-7.76
CORONATION	-7.62
MONDI PLC	-7.51
SIBANYE-STILLWATER	-7.5
KAP	-6.68
PEPKOR HOLDINGS	-6.38
SUPERGROUP	-6.13
NEDBANK	-5.98
SANLAM	-5.59
BAT	-5.32
NEPI ROCKCASTLE	-5.29
VODACOM	-5.19
ROYAL BAFOKENG	-4.84
INVESTEC PLC	-4.59
BIDVEST	-4.41
RESILIENT	-4.37
PICK N PAY	-3.94
TSOGO SUN	-3.88
LIBERTY HOLDINGS	-3.6
SOUTH32	-3.56
GROWTHPOINT	-3.45
PSG	-2.8
QUILTER PLC	-2.66
RHODES	-2.64

SPAR	-2.35
LONMIN	-2.25
ABSA GROUP	-2.18
FIRSTRAND	-1.74
NASPERS N	-1.64
RCL	-1.43
VUKILE	-1.23
SANTAM	-0.73
MPACT	-0.4
REINET	-0.24

STRONGEST SHARES*	
COMPANY	% ABOVE 200-DAY EMA
TELKOM	33.3
KUMBA IRON ORE	28
IMPLATS	20.63
ASSORE	14.9
ARM	11.63
GOLD FIELDS	10.33
DISTELL	10.21
CAPITEC	10.07
AMPLATS	8.53
EXXARO	7.45
FORTRESS A	7.13
MTN GROUP	5.57
BHP	5.53
LIBSTAR	4.88
ANGLO AMERICAN	4.36
SIRIUS	3.79
NORTHAM	3.28
STANDARD BANK	3.05
MMI HOLDINGS	2.69
BARLOWORLD	2.68
TFG	2.49
BIDCORP	2.47
RICHEMONT	2.45
ANGLO GOLD ASHANTI	1.22
AB INBEV	0.78
THARISA	0.72
RMB HOLDINGS	0.41
EQUITES	0.39
CLICKS	0.09

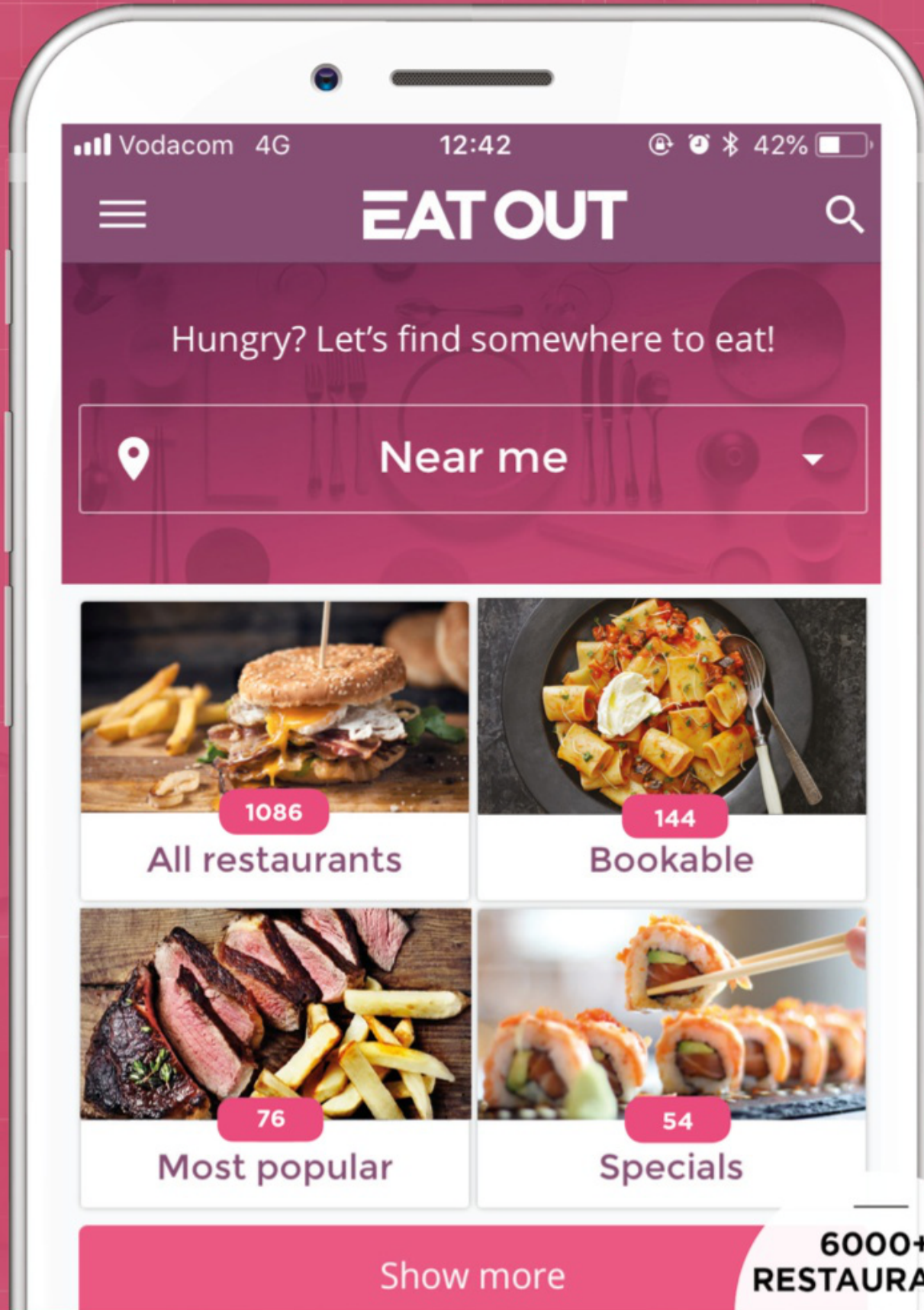


BREAKING THROUGH*	
COMPANY	% ABOVE 200-DAY EMA
BIDCORP	2.47
RICHEMONT	2.45
ANGLO GOLD ASHANTI	1.22
RMB HOLDINGS	0.41

\*Based on the 100 largest market caps.



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# SA'S TOP ONLINE TRADING

Online trading platforms have become more easily accessible than ever, and freely so in some instances. *finweek* takes a look at fees, ease of use and market information offered by each to help readers find the best platform for their needs.

By Timothy Rangongo



# TOP-RATED ONLINE TRADING PLATFORMS



all self-respecting active traders take the tools of their trade seriously. They arm themselves with trading platforms that enable them to execute trades in a wide range of securities (from options, swaps and equities to digital and virtual currency) at razor-sharp speeds.

We take a look at the online platforms EasyEquities, IG Markets, DWT Securities, Rand Swiss, Sharenet, GT247, Khwezi Trade, Old Mutual Wealth Trader and Standard Bank Online Share Trading and how they compare when it comes to fees, financial securities on offer, market information and most importantly, which platforms are best-suited for investors versus traders.

## 1 EASYEQUITIES

Intellidex conducted market research across financial and capital markets in SA in 2018. It designed two comprehensive questionnaires – one for stockbrokers and another for their clients. The survey report lauded EasyEquities' ease of use, saying "the firm's efforts to make trading and investing fun and less daunting to novice traders is paying off, and it is one of the lowest-cost brokers around".

"EasyEquities enables anyone to invest in the stock market. We do that by making the experience of investing easy and educational – no jargon, no complex tech and lots of content to help you get clued-up about what investing means and how it can make a real difference in your life," says the platform's

**head of client engagement, Justin Pearse.**

"We're also really affordable – it's part of our drive to lower barriers and create access to wealth creation. Because of our fractionalised investing model, anyone is able to invest with as little as R10."

The broker (rated 9.07 out of 10 by Intellidex) prides itself on providing a simple trading process and platform for investing not only in equities but exchange-traded funds (ETFs) and notes (ETNs) as well.

> Securities

Investors can invest within any of four accounts automatically offered on registration: a normal investment account, a tax-free savings account, a retirement annuity account and a US account.

To invest in international stocks and ETFs, EasyEquities makes use of EasyFX – which allows investors to send rands offshore from their EasyEquities rand-denominated account, and buy stocks denominated in another currency. With special permission to collect and transfer funds in bulk, EasyEquities converts funds three times a week and then releases the funds into investors' offshore EasyEquities accounts.

> Usability

EasyEquities' trading platform is straightforward and is accessible via the web with apps for Android or iOS devices available for download. It does not include advanced features like watchlists, live prices and charting tools.

Although the trading platform has a 15-minute delay in share prices shown on the platform, **EasyEquities' brand manager, Carly Barnes**, says share prices are less relevant for EasyEquities investors "as we allow you to invest a rand value with any amount you have available. This is made possible by our unique fractional share investing, which essentially means you can invest in a piece of a share (or ETF or managed portfolio), instead of having to invest in a whole share and therefore pay its full price at any particular time."

Pearse says the platform is suited for "absolutely anyone".

"We have kids investing for themselves on our platform, families who invest together and discuss their share picks at the dinner table and users who are well into their 90s. The range of experience is completely spread too – there's something for everyone that make EasyEquities their investment platform of choice."

> Cost

"It costs nothing to sign up and use our platform," says Barnes. "We also don't require you to start with any minimum or set amount of money. Our brokerage is

0.25% on the value of the investment you make, and then there are some other levies and taxes on your transactions which we are legally required to charge. On a straightforward investment of R100 into a particular share, this works out to about 64c in fees and only 32c/R100 when you buy an ETF."

A minimum charge of 1c per transaction applies and the charge will be rounded to the nearest cent.

> Market information

Each company share page offers users access to basic information relating to that stock, including a chart on share performance over various selectable periods of time, together with information about the company, a link to more detailed technical share information housed on Moneyweb and analysis which EasyEquities regularly posts and updates on their research portal.

EasyEquities does not have a live market information feed, but has a research portal with blog posts authored by market participants. It also puts up analyst reports and technical analysis via GT247. The platform has chat forums and an education portal.



**Justin Pearse**  
Head of client engagement  
at EasyEquities



**Carly Barnes**  
Brand manager at  
EasyEquities

**2 IG MARKETS**

IG is a household name when it comes to trading platforms. Founded back in 1974 in the UK, where the group is listed on the London Stock Exchange, IG began with facilitating trading in financial derivatives such as contracts for difference (CFDs) and financial spread betting and, as of 2014, added stockbroking to retail traders.

> Securities

IG is one of a few brokers that offer trades in CFDs, a derivative product that enables investors to speculate in, for example, shares, foreign exchange, indices and commodities without having to take ownership of the underlying assets.

The platform features over 12 000 local and global stocks to pick from, not excluding options, bonds, commodities, foreign currencies, global indices, ETFs and cryptocurrencies.

IG offers two accounts depending on whether an investor wants to trade in domestic products, international or both. There is a domestic account held with IG Markets SA and an international account held with IG Markets UK (both can be taken for a spin, for free, using a demo account).

"From the local platform traders will have access to trade the Top40 Index, JSE-listed shares and ETFs as well as CFD derivatives. From the international platform traders will have access to many different asset classes (such as CFDs and options) including indices, hard and soft commodities, energy, bonds/gilts/treasuries as well as major equity exchanges

from around the world," explains [senior market analyst at IG, Shaun Murison](#).

### > Usability

The web platform is comprehensive, with a plethora of tools, yet simple to navigate. It will require some tutorials (available for free online via the IG Academy) to make the most of the many extra features.

Users can open, close and edit individual and aggregate positions; apply a range of indicators and drawings without sacrificing speed or stability; split charts to view the same market across multiple time frames simultaneously; trade faster with smart settings that remember your deal sizes and stop values, and choose between a dark or light platform theme.

The free mobile apps are no different to the web platform save for the exclusion of advanced features — users on mobile still get to analyse markets using charts and a wide range of technical indicators, and annotation tools. Users can quickly react to trading opportunities on mobile devices by trading directly from price alerts.

Traders with IG have access to live real-time pricing on securities, and market depth on request.

Murison says what sets IG apart, is that it has developed its own bespoke trading platform over the last few decades and roughly 40% of its global staff contingent is focused on IT development.

**"Trade execution is extremely fast. The latest intervention on the platform is regulator-approved card payment functionality to trade offshore using your single discretionary allowance."**

"The platform is best-suited to all types of traders. CFDs carry no time to expiry so traders can hold onto their trades indefinitely if they choose to," says Murison.

[Trader and investor Garth Mackenzie](#), best known for his TradersCorner TV show on BusinessDayTV, tells *finweek* that he's found using IG Markets "very good", especially for CFDs, and recommends it for advanced traders. Mackenzie trades CFDs, shares, futures and options online.

### > Cost

There are no admin costs when opening an account with IG. There are commission charges on opening and closing equity positions, 0.2% for JSE-listed shares, 0.1% for European-listed equities and 2c (USD) for US-listed companies. Traders who are "short" in the market will receive interest on a SABOR-linked rate (South African Benchmark Overnight Rate), traders who are "long" will pay interest on a SABOR-linked basis, while cash in the account will receive interests linked to the repo rate.

### > Market information

The platform features live feeds of fresh market

information from various financial news outlets, social media accounts with links to business and investments, analyst reports, technical analysis and chat forums, among others.

"Through the platform/s we have access to a live Thomson Reuters news service, a global team of analysts, fundamental data, state-of-the-art charting systems, instant execution, market depth as well as third-party research. Advanced technical traders also have the facility through the IG platform to run scans, test strategies and automated/algorithmic trading," says Murison.

The platform's educational portal, known as IG Academy, runs a series of short video courses relating to financial markets catering to both beginner and advanced traders, with short competency tests after each module.

### 3 **DWT SECURITIES**

DWT Securities offers cost-effective, high-quality, direct online trading access to derivatives markets both locally and internationally.

### > Securities

Investors can trade the Alsi Index future, single-stock futures and agricultural commodities futures on the JSE, as well as local and international CFDs on instruments from most of the major exchanges across the world.

All these instruments are traded online using a Direct Market Access (DMA) model. There are JSE shares and ETFs, international shares, currencies and ETFs to choose from as well.

### > Usability

DWT says its servers are physically located in the same building as Safex (Equity Derivatives Market) and the JSE, and are connected to Safex and JSE computers via high-speed optical fibre cables, thus ensuring that users always have very low latency in their trade execution.

The trading platform makes use of Swordfish, a real-time online trading software to execute single-stock trades. Swordfish contains chart drawing tools, allows for indicators on charts and window docking, tabbed documents and panels to optimise the workspace, among others.

A separate online trading software is available for download (web, iOS and Android) for financial and agricultural derivatives trading.

### > Cost

There is no monthly subscription fee. There is a 0.30% charge on JSE share trades (minimum trade charge: R150). The commission charged on US stock trades



**Shaun Murison**  
Senior market analyst at IG



**Garth Mackenzie**  
Trader and investor



with a minimum of \$20 is 0.03c (US) per share.

For financial index futures like the Alsi future, a contract would be around R11.50 per future contract traded, plus JSE and clearing fees. For the Almi future it is R1.95 (VAT included) plus JSE and clearing fees.

For clients regularly trading more than 1 000 contracts per month it is R9.20 per Alsi contract traded and R1.56 per Almi contract, VAT inclusive, plus JSE and clearing fees. Trading single-stock futures costs 0.2% of the underlying value or minimum R50 plus VAT per trade plus JSE and clearing fees. Only the aggressor (taker of the price) will be charged JSE and clearing fees.

A 30-day trial is offered for free.

### > Market information

Live market data is available at a fee for professional and non-professional traders. Professional traders are charged R292 per month for domestic market data and R960 for international market data. Non-professional end users are charged R12 for JSE market data and R87.84 for market data on international stocks.



**Gary Booyesen**  
Portfolio manager  
at Rand Swiss

## 4 RAND SWISS

Rand Swiss provides access to multiple markets across the globe with low-latency, real-time DMA technology allowing investors to place orders on several cutting-edge, online trading platforms.

Rand Swiss offers two separate systems tailored to the needs of clients. The first is the ProTrader platform, ideal for online clients and active traders. The second, Direct Market Access, is recommended for advisory clients who are primarily investors.

### > Securities

There are over 100 000 products to trade in, with access to about 36 exchanges in 26 countries. Financial instruments range from local to international shares, ETFs, CFDs, foreign exchange, commodities, bonds and options.

The ProTrader platform offers clients the ability to trade the full suite of JSE equities and ETFs; commodities (both hard and soft) such as gold, silver, Brent and corn; Safex: Alsi and Almi contracts; local CFDs, including the more or less top 100 equity CFDs (with the counterparty being Nedbank), as well as intraday Top40 CFDs and a variety of ETF CFDs and foreign exchange (including mini and maxi contracts on all major and minor pairs).

Offshore CFDs and offshore equities via a rand-based local account are also available for trade via the ProTrader platform. "The equities are held via an asset swap, meaning clients can buy/sell shares like

Google and Apple without needing to use their R1m single discretionary allowance or their R10m foreign investment allowance," according to **Gary Booyesen, portfolio manager at Rand Swiss.**

The drawback, he says, is that clients will need to repatriate the funds on the sale, unlike direct offshore products. "This is another reason the account suits active traders of offshore equity. **Traders also generally sweep money into and out of their trading accounts regularly depending on activity level, and having access to offshore products without having to perform crossborder transfers each time is a significant benefit.**"

The Direct Market Access platform offers clients the ability to trade the full suite of JSE equities and ETFs, the full suite of local CFDs (with the counterparty being RMB), a wider offshore suite of 100 000+ instruments offering everything from Concentrated Orange Juice futures in Miami to graphene companies in Toronto, forex, commodities, indices, options, bonds and much more.

### > Usability

Rand Swiss' online trading comes with access to real-time market data across multiple markets.

Users can place one-click chart orders or use algorithm tools. There is also automated zero-balance protection, stop-losses and take profits as with most online trading platforms.

There is no time delay in the ProTrader platform, while there is optional time delay (depending on market traded) for the Direct Market Access platform. "With regard to the JSE, for example, the client can have a 15-minute delayed feed with no cost associated with the platform or can pay the JSE royalty and activate live pricing. This is the same on most of the 36+ international exchanges we offer," explains Booyesen.

ProTrader is a platform for more active, experienced traders who are looking to access a wide range of tools and cutting-edge technology without having to pay exorbitant fees. The Direct Market Access platform is for the less active trader or investor who wants to be able to trade a wide variety of instruments, both locally and offshore, without having to navigate a complicated system.

### > Cost

Rand Swiss offers an online account and an advisory account.

Online account: The minimum deposit to open an online account is R5 000. This allows access to the ProTrader platform. Because all fees are paid when you trade, there are no additional monthly fees other than live data royalty to the JSE, which Rand Swiss bills at R87.84 per month. The price of each trade is

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## Why Khwezi Trade?

- FSCA regulated Cat. 1 and Cat. 2 licences
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- Deposits and withdrawals processed daily
- Exceptional customer service and client account manager
- Award winning MetaTrader 4 trading platform
- Trade anywhere anytime via mobile or PC



[www.khwezitrade.co.za](http://www.khwezitrade.co.za)

Khwezi Trade is a division of Khwezi Financial Services, an authorised financial service provider (FSP Licence Number 44816)



**KhweziTrade**

dependent on the market, instruments, product and level of service required. "However, this is an online-only account. If the client would like the guidance and advice of a broker, they are required to open an advisory account," recommends Booysen.

**Advisory account:** The minimum deposit to open an advisory account is R250 000. This gives you access to either the ProTrader or the Direct Market Access platform, and a dedicated broker to assist with all your trading requirements. The advisory fee is charged at 1% per annum and the price of each trade is dependent on the market, instruments, product and level of service required. This advisory fee can be waived at Rand Swiss' discretion should the trader only require platform access and yet still meet the minimum deposit level.

You can try out the live price platform free of charge for 30 days. Rand Swiss can extend the live price demo indefinitely.

#### > Market information

Live domestic market data is R82.69 per month, \$7 per month for the US, UK, Euro, Asian, and Australian market data.

ProTrader gives access to Sens feeds and full fundamental data on local stocks (supplied by profile media). This includes: Fundamental metrics, earnings forecasts, corporate fact sheets, charting, dividend histories, and more. DMA gives clients access to live international and local news feeds, company data, screeners and corporate action analysers. Sens feeds are included.

In addition, "an in-depth bespoke research offering is available to private clients", adds Booysen.

### 5 SHARENET

Sharenet has been in the local online trading scene for 24 years. It has two online trading platforms, one for securities and one for CFDs. The Sharenet Securities trading platform enables investors to manage and trade JSE portfolios, giving them access to all JSE-listed products at competitive rates.

#### > Securities

Investors can trade in a wide range of JSE-listed products including shares and ETFs. Sharenet Securities offers South Africans the opportunity to invest in more than 20 global financial markets, as well as in various instruments including forex spots, CFDs, shares, ETFs and ETCs across 36 exchanges across the globe.

#### > Usability

The trading platform's interface is basic, which

makes for easier navigation and use. There are comprehensive charting systems and tools for multiple financial instruments. The platform allows for the customisation of the interface with prices and data. There are analysis tools to track and predict price movements. Trading takes place in real time without time delays.

The Regression Trend Analyzer (RTA), for instance, uses linear regressions to find JSE shares and indices that are trading two or more standard deviations above (shorting opportunity) or below (long opportunity) their linear means. Sharenet says the tool is useful for short-term traders wishing to acquire shares at extremely low prices as this offers a safety net against the prices going against you for extended periods.

Trading on the Sharenet Securities platform is fast and efficient via a PC browser, or via the mobile app. In addition, "we offer a wide range of products and services that are designed to improve your market insight and investment timing. These include sophisticated and powerful trading tools such as Sharenet Analytics; leading-edge market research; up-to-date company information; access to live prices and market depth," says **Sharenet sales manager Jerome Wyngaard**.

"For clients who would prefer a more personalised, interactive trading service, we can provide one-on-one access to our experienced stockbroking team. Sharenet Securities also offers fully managed portfolios and expertise to help structure your portfolio more tax-efficiently."

Clients can choose between a live and a 15-minute time delay in the prices of securities.

#### > Cost

Sharenet has a quarterly administration fee of R250 that applies to all accounts. The minimum account size for its basic online trader account is R50 000 with a brokerage rate of 0.3% on trades (minimum trade of R100). Cash balances earn a rate determined by the SABOR. For instance, a R100 buy order of a JSE-listed share will cost a total of R115.25, after taking into account 0.3% commission, 15% VAT and a 0.25% securities transfer tax.

Live price streaming is R196 per month for the non-professional package. Research, which includes broker consensus recommendations and forecasts of earnings per share (EPS), dividend per share (DPS), dividend yield percentage (DY%), earnings yield percentage (EY%) and price-to-earnings ratio (P/E) is R393 per month for the same package. Advanced online charts are R252.



**Jerome Wyngaard**  
Sales manager at  
Sharenet

Sharenet Securities offers South Africans the opportunity to invest in more than

20

global financial markets, as well as in various instruments including forex spots, CFDs, shares, ETFs and ETCs across 36 exchanges across the globe.

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### > Market information

Sharenet provides a fresh constant flow of market information and data. There is a daily portfolio update via email, live Sens feed, constantly updated news wires, share price or Sens alerts via email, historical news and a market scanner.

The market scanner is a unique graphical scanner that allows users to browse watchlists, JSE shares, JSE indices, ETFs, ETNs and unit trusts by sectors and providers as well as filter and sort the results by various technical, algorithmic and fundamental factors.

Others include detailed company fundamentals; spot prices; major moves; JSE index summary; stock screener; advanced charts; Sharenet analytics; relative trend analysis; trade ideas; JSE calendar; results; dividends; projected dividends; company forecasts; analyst ratings; AGM dates; trading statistics; market breadth; JSE heatmap and Reuters news service, among others.

Wyngaard says the platform is suited for all types of traders and investors, from the novice to the professional.

### 6 **GT247**

GT247 is one of the cheapest trading platforms in South Africa with tighter spreads, no platform or monthly fees.

### > Securities

Forex, commodities, indices, JSE equity CFDs and cryptocurrencies.

### > Usability

GT247 shows live JSE prices, says Lesedi Mofolo, brand manager at GT247.

According to Mofolo, "GT247.com is one of the most cost-effective trading platforms in South Africa. One of our key priorities is your trading education and training. Our tools are designed to improve your knowledge, so you can become an informed and successful trader. We aim to make your trading simple, focused, cost-effective and efficient across a wide spectrum of instruments."

### > Cost

GT247 has no sign-up fee, and no minimum first deposit. It also does not charge a monthly platform fee or a reporting fee. A JSE live pricing fee of R72 per month is in place. A brokerage fee of 0.10% is charged.

### > Market information

The platform provides clients with daily market updates, technical and fundamental research, podcasts, webinars and weekly trade and educational research notes.

### 7 **KHWEZI TRADE**

Khwezi Trade is a new market entrant that gives clients the latitude to trade financial instruments from different global markets.

### > Securities

Traders can buy, sell or hedge currency pairs, commodities, metals, energy and indices via the MetaTrader 4 platform.

### > Usability

The platform Khwezi uses, MetaTrader 4, is the world's most stable and secure platform, according to Khwezi Trade's head of sales, Monty Barnard.

"A large percentage of the world's CFD currency traders/brokers use MetaTrader 4 over other trading platforms. The platform is exceptionally stable and very user-friendly so it is easy to use and can be used across all devices (PC, Mac, Android, iOS). Our platform also supports expert advisers and algorithm plug-ins."

All prices on Khwezi Trade are live.

Barnard says the platform is ideal for all types of traders, day traders, scalpers, swing traders, hedgers and investors.

"We were voted SA's Best Broker 2019 by Global Brands Magazine because traders' funds are safe and easily accessible, our transaction fees are low, and our customer service is excellent."

### > Cost

There are no costs involved when signing up, traders receive the live trading platform with live pricing, all the trading tools as well as a segregated Standard Bank account, all free of charge. The brokerage costs are built into the spread (difference between bid and offer).

### > Market information

Traders receive a free live charting package with all the indicators and tools, live prices with spreads and their exposure are all available. Clients have access to an in-depth account administration portal giving the trader a live breakdown of their profit/loss, account balances and daily trade summaries. Clients also have access to daily technical analysis emails, platform training and education.

### 8 **STANDARD BANK ONLINE SHARE TRADING**

Standard Bank's Online Share Trading platform features a wide product range and competitive pricing, including access to powerful trading and investing tools with a variety of free educational resources.

Trader, investor and founder of financial and investment education platform JustOneLap, Simon Brown, is a user of the platform which he describes



**Simon Brown**  
Trader, investor and founder of financial and investment education platform JustOneLap

as “great, but not as cheap as it was when I worked there a decade ago”. Brown trades in Alsi futures, mid-cap equities, ETFs and tax-free ETFs, among other financial instruments.

### > Securities

JSE-listed and global shares, warrants, covered calls, share instalments, futures, CFDs, exchange-traded products and tax-free investing.

### > Usability

Standard Bank Online Share Trading gives you the ability to trade via desktop or mobile. The charting tool allows access to share price data from as far back as 1994 and enables you to perform detailed technical analysis on shares, local and international indices, commodity prices and currency prices.

Trader Garth Mackenzie says the platform is ideal for beginner share traders, who should start with a demo account.

### > Costs

Account maintenance is R105 per month, which includes one free calendar month upon registration, and no administration fee after three trades within a calendar month. Two of the trades must be done on a non-TFIA account.

Shares carry a headline brokerage rate of 0.5%; CFDs have a fixed brokerage fee of R50 (market-makers commission of 0.35% will be incurred per transaction); index futures are R12.50 per contract plus VAT; commodity futures 0.1% of the value of the underlying contract; currency futures R15 per contract plus VAT; while warrants and share instalments have a flat brokerage fee of R50 per deal (if traded in a warrants account), covered calls have a flat brokerage fee of R50 and single-stock futures 0.4%.

Brokerage is negotiable for clients trading volumes of R500 000 or more per month while a reduced brokerage of 0.4% applies to Standard Bank Private Banking Suite clients.

### > Market information

The platform charges rates for info on shares prices, indices quotes and portfolio updates. Live share prices cost 19c per quote. This includes live share prices where market depth is shown (i.e. the five best bids and offers on the Trade and Quote pages). Live share prices (no depth) cost 13c per quote.

Users can review essential information on several important market indicators and events, including: indices with EY, DY, P/E and historic highs and lows; most active shares; gainers and losers; new 52-week highs and lows; dividends payable and paid; corporate

actions diary; and an events calendar. There is also access to the Sens and Reuters news service.

Online Share Trading clients can attend free 1.5 hour-long JSE investment outlook sessions.

## 9 OLD MUTUAL MY WEALTH TRADER

My Wealth Trader, by Old Mutual Wealth, is an online trading platform aimed at the savvy investor who wants to enjoy seamless trading, whenever, wherever.

### > Securities

It gives clients access to more than 15 000 local and global shares across 35 stock exchanges. Old Mutual Wealth says the platform is suitable for investors who want to build a share portfolio, diversify offshore, or get exposure to specific companies or sectors.

### > Usability

The platform is fully compatible with most smart devices. It's user-friendly, with a customisable dashboard that lets you trade instantly and manage your portfolio easily. According to Old Mutual Wealth, “it's 100% safe thanks to state-of-the-art security protocols”.

Users get direct market access, and live prices.

### > Cost

Local account: the minimum account balance to trade is R10 000. Brokerage per trade is 0.35% (minimum of R100). The platform fee is 0.15% of portfolio value (this fee will be capped at R125 per month). The cash management fee goes up to 0.5% on all cash balances.

Global account: a minimum account balance of \$2 000 is required. Brokerage per trade is 0.35%. The global platform fee is 0.15% of portfolio value when using your own funds (this fee will be capped at \$12.50 per month). The global platform fee is 0.40% of portfolio value when using Old Mutual Wealth's asset swap (the facility allows you to invest offshore without using your offshore allowance). A cash management fee of up to 0.5% on all cash balances is charged.

### > Market information

Sens data is free while a level-one live price data feed comes at R68 per month and R96.50 per month for a level-two data feed. Company research costs €1.99 per month. All are optional. ■

[editorial@finweek.co.za](mailto:editorial@finweek.co.za)

*All online brokers are required by SA law to verify the identity of clients in line with the guidelines outlined in the Financial Intelligence Centre Act (Fica) to complete account registrations. The Fica documentation required comprises copy of valid South African ID, passport or drivers' license; proof of residential address (less than 3 months) or confirmation of bank account or tax number from Sars in some instances.*

**The charting tool allows access to share price data from as far back as 1994.**

By Mariam Isa

# WILL SA'S CARBON TAX LIGHTEN THE LOAD?

South Africa's carbon tax bill comes into effect on 1 June. And while a commitment to reducing our carbon footprint is commendable, this law might not have the desired effect.

South Africa's carbon tax bill has been nearly a decade in the making but still caught many South Africans by surprise when it was signed into law by President Cyril Ramaphosa on 26 May, in a clear indication that he is willing to forge ahead with unpopular economic reforms.

Critics have argued that the country cannot afford a tax on carbon emissions at a time when the economy is stuttering, unemployment is at a 15-year peak and business is already burdened by electricity prices that have nearly tripled in real terms in the past decade.

The tax, effective 1 June, is intended to compel companies and individuals to change their behaviour in order to support a transition to a less carbon-intensive economy, as evidence of climate change – and the threat which it poses to humanity as well as the global environment – mounts.

Supporters argue that the case is particularly compelling for South Africa as the country is the 14th-largest emitter of greenhouse gases in the world, and heavily reliant on fossil fuels. This makes it vulnerable to a global shift into investments that mitigate climate change risk and support low-carbon economies, industries and companies.

"The winners in the future will be the countries which decouple economic growth from carbon intensity," says Jon Duncan, head of responsible investment at Old Mutual Investment Group.

"The risk for our economy is that we continue to invest in fossil fuel infrastructure which ultimately becomes stranded – we are not isolated, and we are dependent on

what happens in the global economy. The carbon tax is an important and symbolic step in the right direction."

As of November last year, 46 countries and 24 cities, states and provinces worldwide were using carbon pricing mechanisms. SA's carbon tax was first mooted in 2010 and an initial draft bill was published in November 2015, in line with the country's global commitment to help fight climate change.

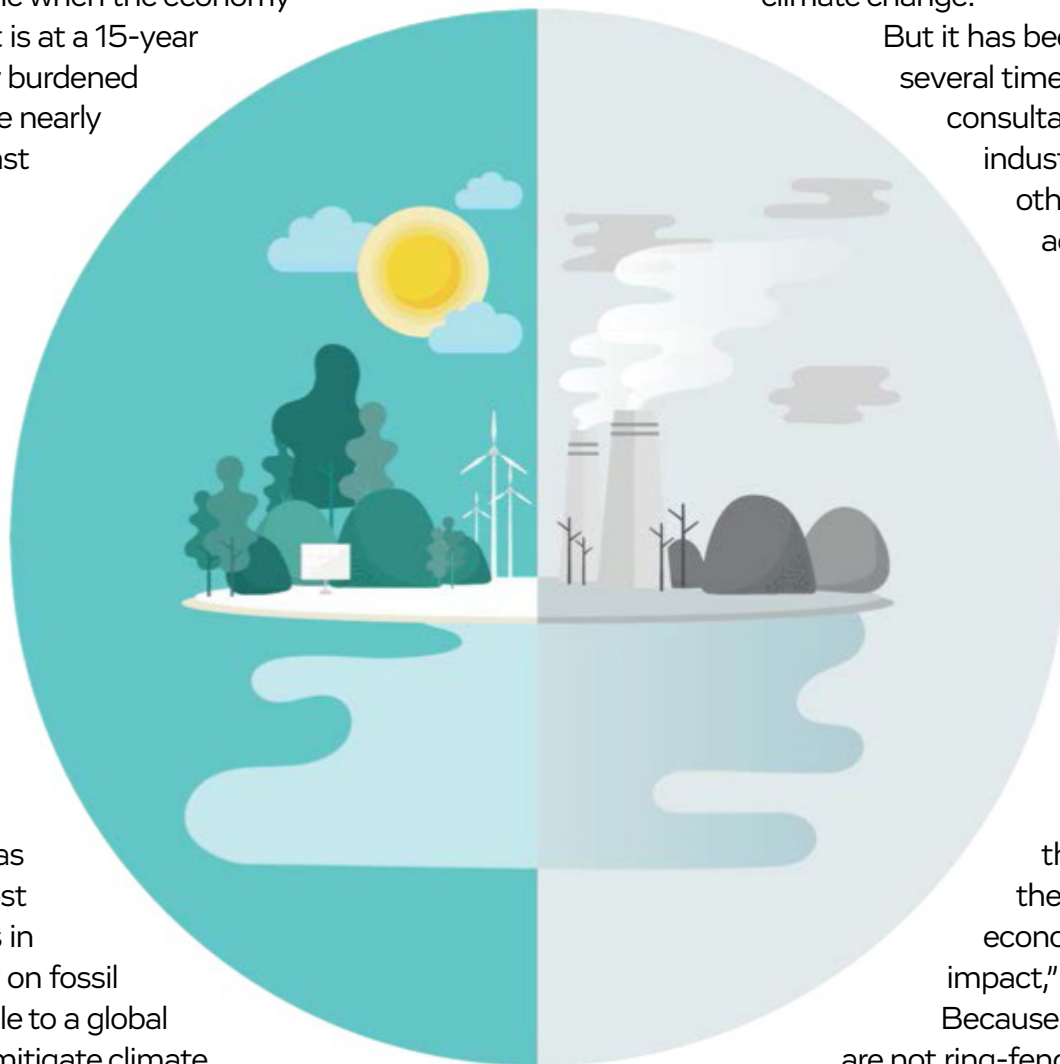
But it has been revised and postponed several times since then, after extensive consultations with business and industry and the formulation of other climate change policies to accompany the legislation.

The delays created false perceptions that the tax would not happen, and as a result, many companies are inadequately prepared to deal with the implications, says Kyle Mandy, head of National Tax Technical at PwC SA.

"Business needs to get to grips with the carbon tax quickly and understand the impact on their business. But government has to ensure that the revenues it receives from the tax are recycled back into the economy, to moderate the negative impact," he says.

Because the proceeds of the carbon tax are not ring-fenced for specific climate change initiatives, there are widespread perceptions it has merely become another money-spinning initiative which will inflict pain and generate income for National Treasury's depleted coffers.

But in its first phase running from 1 June 2019 to 31 December 2022, the tax will only be levied on what is being described as "scope 1" or direct emitters, meaning companies that own the assets burning fuel. The headline tax rate is R120 per tonne of carbon dioxide equivalent





but, after a number of tax breaks, allowances and performance incentives, this can be reduced by up to 95% and will amount to an effective rate of between R6 and R48.

The carbon tax will initially be neutral for electricity prices due to the fact that emissions from Eskom are being offset by its electricity levy and the cost of the renewable energy which it purchases from independent power producers at prices above the current market rate.

These measures will significantly cushion the impact of the tax on so-called intensive energy users, which are the only companies that have both been actively preparing for the legislation and lobbying to influence it.

**But what has been largely overlooked is the fuel component of the tax – petrol prices will rise by an additional 9c/litre and diesel by 10c/litre from its date of implementation.** That cost will be borne by the entire economy, and both companies and consumers need to factor that into their finances.

Teresa Legg, director of carbon consulting firm Carbon Report, says companies also need to look at the implications that the carbon tax will have for their entire supply chain, which could include direct emitters.

"I think that a lot of people believed that the tax wouldn't directly affect them, so they weren't concerned about it," she says. "What we're trying to say is to look at it with a wider view in terms of your entire supply chain because there might be a lot of emissions there with a knock-on effect coming down to you in terms of prices."

Initially companies that would be most affected by the carbon tax would be manufacturing, mining and industrial companies, but heavy fuel consumers in the transport and logistics sectors would also see a spike in costs. Share prices are likely to respond, though not significantly.

The impact of the carbon tax is likely to increase in phase 2 of its implementation, although much will depend on the outcome of a review, which Treasury has said will begin after at least three years of its implementation.

In the South African context this does not leave much time for refining decisions – phase 2 is scheduled to begin at the start of 2023 – but business leaders say it is feasible.

The main sticking point at present is that SA also plans to introduce a mandatory carbon budget which will cap the amount of emissions that a company can make without stiff penalties.

**"If we're really serious about carbon – which we should be – there are much simpler ways of doing it."**

What this means is that business will be paying a tax on carbon emissions both below and above the budget limit, which is not the global norm, says Jarredine Morris, environment and energy policy manager for Business Unity SA (BUSA).

"Part of the review process will be to see how all of the instruments intended to reduce our greenhouse gas emissions are working and to ensure that there is alignment so that there is no double penalty. We have argued that carbon budgets are a carbon price on the economy in and of themselves," she says.

BUSA is also taking the position that the carbon budget becomes the tax-free threshold and that any emissions exceeding it could be taxed at a higher rate than the current tax rate, making it a proper deterrent, she adds.

Calculating the revenue which will be raised by the fuel component of the existing carbon tax is relatively simple – Treasury has estimated it at R1.8bn. But at present it is difficult to know what the scope 1 emitters will have to pay, as details of the allowances and regulations which will reduce their costs have yet to be published.

In an emailed response to questions from *finweek*, Treasury said on 28 May that carbon offset regulations would be gazetted in July, while trade exposure allowance and sector benchmarking regulations would be published in June. Meanwhile, industry sources say that estimates for the revenues likely to be raised through the emissions component of the carbon tax during phase 1 range from between R6bn to R15bn.

Nedbank chief economist Dennis Dykes says that, in his opinion, the carbon tax in its current form is illogical as government is not doing enough to encourage the use of renewable energy, which would be a far more effective way of reducing the country's greenhouse gas emissions.

"If we're really serious about carbon – as we should be – there are much simpler ways of doing it."

He says government could change the mix of energy in favour of low-carbon intensity in its new Integrated Resources Plan (IRP), which is expected over the next few months.

**"There could be severe international penalties for not moving towards a much lower carbon footprint in the form of export taxes.** The whole global environment is going to become very much more aggressive against countries which are exceeding their carbon requirement," he says. ■

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## How homegrown **USN** became an international giant

Albé Geldenhuys started USN in his kitchen and grew it into a multimillion-dollar business. He takes *finweek* on the company's growth journey.

In 1999, ex-policeman **Albé Geldenhuys** started selling his own mixtures of nutritional supplements to generate extra income while working as a sales rep at a gym. This side job became so lucrative that he registered it as a business, which has since become one of the world's leading supplement brands. *finweek* spoke to Geldenhuys about his journey in setting up the business.

### What did you do before you started USN?

Coming from a family of civil servants, I never dreamt of starting my own business. I pictured myself climbing the ladder at the police force as my dad and granddad did before me. After spending six years in the police service, mostly as a forensic artist, I hit a rut and decided to go into sales at what was then known as the Health & Racquet club in Hatfield.

### What triggered your interest in the supplement market?

I have always been passionate about health and fitness, so was interested in the way in which nutritional supplements could enhance people's health and performance; especially after the hype

around ex-Springbok rugby player Percy Montgomery's transformation when he started using creatine in the late 1990s.

### How did USN develop out of this?

The market was already quite saturated at the time, but local products were generally of poor quality while imported products were exorbitantly expensive. I started reading everything I could about health supplements – from scientific research to popular articles and product reviews – and then started experimenting with my own formulations. I mixed them in my kitchen in an old hand-cranked Sputnik washing machine.

The initial idea was to make some money on the side, but word of mouth led to sales doubling each month. That's when I realised there was a real business opportunity. I registered USN towards the end of 1999 and contracted a pharmaceutical company to mass produce the formulas. The business was making around R20 000 in just a few months, which was a fortune for somebody like me who used to earn R1 800 a month in the police force.

### Where did you get start-up capital?

There are over **200** people directly employed by us in SA alone – so failure has never really been an option.



I sold my bakkie for R30 000 and then bought a cheap little Uno for making deliveries. After seeing how well the business was doing, my dad also signed surety for a R100 000 credit facility. I have never been comfortable with debt, so initially only bought raw materials as and when I had the cash. All our energy was spent on growing sales and having enough product to meet demand.

### Why did you call the brand USN?

USN is the abbreviation of Ultimate Sports Nutrition. I chose the abbreviation because the "US" subconsciously made people

associate the product with the USA, which at the time was perceived as being the best at everything.

I was also fortunate to rent office space at the Council for Scientific and Industrial Research (CSIR), which allowed me to put their address on our labels. This made people think the company was linked to the CSIR and added "credibility" to the brand.

### How did you differentiate yourself from the rest of the market?

Our products were of the same quality as the high-quality imported products, but slightly cheaper because we manufactured locally. I built a 60% mark-up into prices to make some room for error and to grow, improve and experiment with new formulations. Where the majority of the imported products targeted the bodybuilding market, we differentiated ourselves by being less intimidating to break into the health and fitness market.

### How did you break into retail?

I managed to sell my products at the Health & Racquet shops thanks to the valuable network I had grown while working on their sales team. By 2002, the product made its way into pharmacies and other health shops across the country, with a monthly turnover in the millions.

### How did you market USN and how has this sales strategy changed over the years?

Initially we had a very small marketing budget. The product was basically selling itself through word of mouth. When we later hit ceilings, we started using brand ambassadors to promote the product. One of the first was Jaco van der Westhuizen, who had been injured and then worked his way into the Springbok team after using our products.

Today, we also make use of print and digital advertising to create brand awareness and invest in in-store training at retail outlets to ensure sales staff are aware of the benefits of our products. It is important to have a well-educated person at point of sale, to ensure consumers get the right product for their needs when they are confronted by shelf upon shelf of nutritional supplements at retailers.

### How did you juggle your new role as business owner?

The business was thriving, but I had no



Albé Geldenhuys  
CEO and founder of USN



business experience except for the sales skills developed while working at Health & Racquet. I also have this horrible trait of rather figuring things out for myself than following a manual. So I intuitively bulldozed through administration, staff and stock management and finances without always knowing whether I was on the right track.

### What mistakes did you make when you started the company?

I gave one of my previous CEOs too much leeway while I was building the brand overseas. The company was projected to make a profit of R28m that year but ended up making a loss and losing R12m in stock due to this person's poor management decisions.

### How did you get the company back on track?

PSG director Jurie Bezuidenhout led a team to conduct due diligence for a stake in USN. I decided not to sell a stake, but Jurie joined USN mid-2010. He took us into a new growth phase, improving efficiencies by stripping the company of dead weight and outsourcing things like manufacturing, transportation and research and development. This allowed us to once again focus on our core business.

### Were there times that you felt like selling or giving it all up?

I won't sell the company because I know how much blood and sweat it takes to build something from scratch, and I thoroughly enjoy and believe in what I am doing. I am highly competitive, and the business gives me a creative outlet.

Besides that, it is satisfying to meet consumers and hear how our products have changed their lives. Many people have also become dependent on USN for their livelihoods – there are over 200 people directly employed by us in SA alone – so failure has never really been an option.

### What was the best advice you have received?

Nick Dennis, the previous CEO of Tiger Brands, advised me to employ a full-time chartered accountant to look at the financial side of the business.

### Where do you sell your supplements?

The SA market is quite small, so to maintain momentum we have branched out into England and France from where we export



to various European countries, as well as Russia and the US, which also supplies Mexico and China.

### Was it easy to break into foreign markets?

No, it is like starting a business from scratch each time. While establishing the brand in the UK, I drove tens of thousands of kilometres per month to visit distributors, retailers, manufacturers and printers. Securing good relationships was fundamental to USN's success in the UK, which created valuable support and eagerness to help me and USN succeed.

### Did you make any mistakes when you entered these markets?

We had a turnover of about R50m during our first year in Australia, but things went haywire after the company with which we partnered there decided to sell nutritional products, using our formulations, under their own label.

### Do you have any advice for entrepreneurs who want to expand their businesses overseas?

It helps to start small, gradually growing the market as you become more familiar with it. Strategies that worked in the existing market will not necessarily work in the new market, so it makes sense to team up with a local company that understands the market, language and culture.

### What are your plans for the future?

We will continue expanding our international footprint. As a business owner, you cannot become complacent: A business is either growing or losing market. There is nothing in-between.

Where the previous efforts were on growing the product range, the next efforts will be focused on bringing depth to products. So, instead of selling smaller volumes of many products, we want to focus on less products per brand but significantly grow sales. ■

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By Timothy Rangongo



## Investing in local talent

JP Morgan has recently added 92 art pieces, created by local artists, to its global art collection.

Contemporary, far from decorative and intrinsically challenging. JP Morgan's latest addition to its extensive global art collection (which numbers over 30 000 artworks installed in 450 offices globally) is that of 92 South African pieces.

The local pieces tie in with what the man who established the corporate collection in 1959, David Rockefeller, set out to do when he started acquiring contemporary art that reflected the present.

Mark Roe, head curator of the JPMorgan Chase Art Collection, and his team carefully handpicked 20 local artists for the bank's Abadali Art Development Programme. This culminated in 92 art pieces created over the course of the programme, now installed in the Johannesburg and Cape Town offices.

The bank intended the new local collection to assist local artists with professional development and achieving financial sustainability. And for it to be part of the employee and visitor experience as something to be embraced – not merely decorative.

Strong SA themes continue to reverberate across the bank's vast halls and intimate spaces. The reception area features a bookcase decked with meticulously placed books, covered with diverse African prints that match the parallel portraits of African women by Chepape Makgatho. The seamless flow of the patterns is well-synchronised to conjure images of the traditional *domba* dance in the Venda culture

where young maidens lock arms and dance in formation. "I try and push the cultural currency of black women that history decided to neglect or not talk about in my works and this is how I achieved that in this work," Makgatho tells *finweek*.

A series of photographs of African women donning traditional indigo-coloured garments, emanating from the traditional West African indigo dyeing practice that is becoming extinct, pulls one right in. Mbali Dhlamini sourced the photographs from a museum in Senegal during her academic research in the country and rendered them to showcase indigenous practices that have outlived colonialism and other political movements over the years.

After turning a corner, ultra-contemporary pieces of women's faces that have been perfectly and painstakingly shaped out of Lego, raise brows – again, effortlessly leading to engagement. "It's a juxtaposition of hard and soft," says the creator, Faatimah Mohamed-Luke. It's a playful tension of fine art and toys that dares to redefine what being strong means to a woman.

The collection tells unique, rich and diverse everyday stories of South Africans. Roe adds it's a demonstration of the bank's commitment to communities in SA, showcasing art's real power to change people's lives – and how financial services firms can make an impact in terms of mentorship, investment and collaboration. ■

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By Glenda Williams

# Pioneering Prius gets a facelift

More flamboyant, yet still eco-friendly and frugal on fuel, the refreshed Toyota Prius is also unexpectedly agile.



The Toyota Prius has gone under the knife. It is more flamboyant and somewhat unusual-looking, but its styling is now sharper and its futuristic interior has been toned down.

To fully appreciate the pioneering Toyota Prius, one has to understand its history. In 1997 the Japanese carmaker adopted a petrol and electric hybrid system, adding the 'green' four-door sedan Prius to its offerings. It was a time when the eco movement was beginning to find favour with consumers. And the Prius was a natural fit.

With its alternative drivetrain – a combination of electric motor that emits zero pollutants, and combustion engine to alleviate range anxiety and pep up performance – this hybrid was a pioneer of green motoring technology.

In 2005 the second-generation five-door version made its way to SA, followed some years later by the third edition, with the halo self-charging vehicle comprising 21% of all alternative drivetrain vehicles ever sold in the country.

Now the facelifted fourth generation is here. The refreshed Prius comes with updates

**Notwithstanding its eco credentials, on-road capabilities and fuel frugality, the Prius does have another ace up its sleeve – its price point. It's the only hybrid vehicle offering under R500 000.**

to both exterior and interior. The five-door hatchback is bigger, roomier and more refined. And, as *finweek* discovered, still as eco-friendly.

## Sharper styling

Styling was less significant when the Prius had few eco-conscious rivals. Now that it has, it's become a weightier issue.

Previous styling was a tad bland, but its new chiselled and unconventional form means that's no longer the case. Now longer by 35mm, its restyled front and rear give this latest Prius a wider-looking stance. The face features sleeker new Bi-LED headlamps and LED foglamps and a revised lower intake, all of which accentuate a sharper aesthetic.

At the rear, the look is more horizontal, emphasising the car's width. New LED tail lights mirror the shape of the headlights. And a quirky looking rear 'spoiler' forms the ceiling of the glass strip above the boot. It's a feature that results in a split rear window and an unconventional-looking rump.

## Space-age interior

Sporting a black console and black leather steering wheel, the single unifying colour is in contrast to the previous generation that offered an impractical white console. But the central positioning of instrumentation maintains a futuristic air.

Central positioning means a shifting of eyes to the left of the dashboard as opposed to the conventional instrumentation position in front of the driver. Still, with the heads-up display (a standard offering) displaying data on the windscreen and thus keeping eyes looking ahead, there is somewhat less of that eye shifting needed.

Also mounted centrally in the centre console below the instrumentation panel is the multimedia and reverse camera display. Cup holders, seat heating switches and a wireless phone charger have also found their way into the centre console.

An impressive array of standard offerings also includes smart entry, climate control, dual-zone cruise control, reverse camera, rain sensing wipers, six-speaker touchscreen audio, and auto-dimming interior mirror. Bluetooth and USB bring a straightforward affair to phone pairing. Seat adjustment, however, is a manual effort rather than an electric one.

The Prius competes in the C-segment or small, family car segment. But it is not that small a car. There's no compromise on cabin space in this five-door hatch. A true five-family car, the latest Prius offers a spacious interior while loading space is comfortably able to accommodate the needs of a small family.

## Rocksteady on the road

When it ain't broke there's little reason to fix, so the petrol-electric hybrid powerplant remains unchanged.

The pairing of a 1.8-litre Atkinson cycle petrol engine with two motor generators gives this car a very respectable power output of around 100kW, together with impressive fuel efficiency. Gearing is from a continuously variable transmission (CVT), an automatic gearbox that changes seamlessly.

Release the footbrake and it's a silent getaway as the electric motor kicks in, the discreet cough of the combustion engine only triggered by a speed of around 35km/h.

Ergonomic black leather seats add to ride comfort that is bang on. The current generation Prius rides on Toyota's New Generation Architecture platform. The platform not only delivers notable ride comfort, but also agile and responsive driving dynamics.

This front-wheel drive hybrid surprised with



## Tested: Toyota Prius

**Engine:** 1.8-litre petrol engine  
**Power/torque:** 72kW/142Nm  
**Electric motor power/torque:** 53kW/163Nm  
**Top speed:** 180km/h  
**Transmission:** CVT automatic  
**Fuel tank:** 43 litres  
**Fuel consumption (combined cycle):** 3.7 litres/100km  
**CO<sub>2</sub> emissions:** 87g/km (complies with Euro 6 emissions specification)  
**Safety:** Seven airbags  
**Luggage capacity:** 502 litres  
**Warranty/service:** 3yr/100 000km; 6 services/90 000km service plan. 8yr/195 000km hybrid battery warranty.  
**Price:** R490 200

its direct steering and sharp cornering. Riding on new 15-inch alloy wheels, it is unexpectedly planted; rocksteady on the straight and impressively grippy in the bends.

The Prius offers three drive modes: eco, normal or power, the latter offering a somewhat livelier performance than anticipated.

It's got the kind of torque needed for a reasonably fast getaway and comfortable overtaking. For someone who likes to step on the gas, that was a welcome surprise.

Speaking of gas, fuel frugality is impressive.

Fuel consumption for the combined cycle is specified as 3.7 litres per 100km. But fuel efficiency depends on driving behaviour and road conditions.

A spirited driving style in a combination of normal and eco mode brought an average of 4.7 litres/100km. However, in the course of a more sedately driven sortie in eco mode, a low 3.3 litres/100km was posted. Impressive stuff, even more so if you take exuberant driving in power mode into account, where consumption only rose into the mid- to late fives.

This snappy hybrid keeps you updated on electric or combustion engine use and when electric power is being generated. It even lets you know whether your air conditioner setting is optimal.

The car fared well in all aspects of comfort, on-road performance and fuel frugality. Safety, too, is covered with seven airbags and a suite of active electronic safety systems that includes ABS braking, brake assist and traction control.

All told, there is little to gripe about. The exception is that horizontally split rear window that, in my opinion, impairs rear vision. I found it distracting and was continually second-guessing my rear visuals.

Once the car of choice for eco-conscious motorists, the Toyota Prius now has a host of eco rivals as the global rollout of hybrid models continues at pace.

Notwithstanding its eco credentials, on-road capabilities and fuel frugality, the Prius does have another ace up its sleeve – its price point. It's the only hybrid vehicle offering under R500 000.

The result is a car that truly delivers most of what consumers say they need.

Its looks may not take your breath away, but Prius fans are likely to be suitably impressed with the refinements to the latest generation.

The question, however, is whether Toyota can expand its base to entice more conventional family car buyers with its latest generation Prius. Its unconventional rear styling and increasing number of hybrid rivals may prove to be a sticky point in moving that needle. ■

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By Amanda Visser

# Are KPAs still relevant?

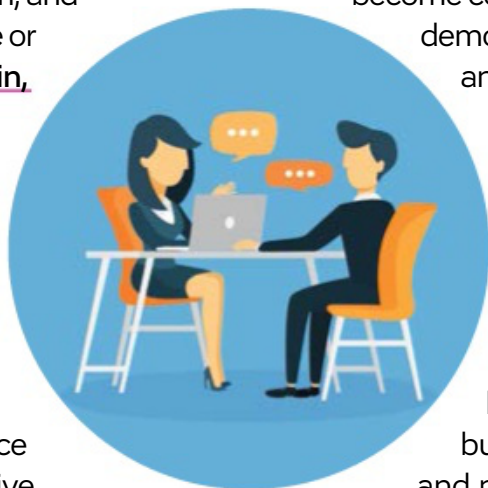
Frustrated by the box-ticking exercise of completing KPAs? Then it's time to relook your company's use of this tool.

Imagine a golf course with no holes in it, and players aimlessly hitting the ball anywhere and everywhere. That is what a business without key performance areas (KPAs) or key performance indicators (KPIs) would be like.

KPIs are performance metrics to ascertain how effectively the firm is performing.

KPAs indicate the main responsibility areas of an employee. It guides them to do what is expected of them in return for earning a salary, or to be in line for bonuses or shares.

The 'holes' on the golf course are important as you "have to aim for them, and you have to hit it after three or four putts", says **Mark Bussin**, chair of 21st Century, a specialist reward consultancy, on the need for KPAs. "The feedback is hearing the ball drop."



## The purpose

The traditional thinking was that the human resource (HR) department had to drive the performance management process. But the modern trend is that the CEO has to drive it as part of their business strategy. HR teams are merely the advisers and the custodians of the process.

KPAs and a well-developed performance management process also help companies to comply with the Labour Relations Act, says Bussin.

"If you want to fire someone for not doing his job, you must have proof that he did not perform to expectation."

That is achieved by having a clear job description and KPAs and measuring whether the employee is meeting their targets.

Without this documentation it becomes almost impossible to manage the employment relationship. When all is well, and the employee is a star performer, you do not need it as much.

"However, if the employee is having a bad day, or bad month or even a bad year, then you need to have some documentation to show where the employee is not hitting the spot," says Bussin.

Without managing and measuring performance, the employee will have the

Commission for Conciliation, Mediation and Arbitration (CCMA) or the labour court to protect them against unfair labour practices.

## Getting it wrong

Companies get it wrong by setting unrealistic and unreasonable targets, by not clearly communicating the company's objectives, and by not negotiating reasonable and realistic goals with employees, says Bussin.

It becomes a top-down approach where the targets are set without having a conversation. When those targets are unreasonable, people become completely demotivated and demoralised and they start looking for another job. Managers have to sit down with employees and have a conversation.

"If I had a magic wand, I would change the word performance management to performance conversation. That is what is supposed to be happening, but everybody is busy. The approach is top-down, and people just have to get on with the job," he says.

Best practice is to allow employees to take the time to connect and engage with their KPAs. Employees should have time to assess their performance areas, how they may have changed and whether the targets are realistic. Managers, on the other hand, must have regular conversations with employees on how they are measuring their output.

Bussin says it is important to simplify performance contracts. All the KPAs can be covered in one page. "It must be as simple as saying I want you to stop doing this, start doing that and continue doing that."

With companies becoming increasingly agile and flexible, performance management systems also help to determine whether remote workers, or workers with flexible hours, are actually working.

"This agile workplace increases the need for good performance management systems in order to achieve the organisation's objectives. It is necessary to set targets for the employees." ■

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**Mark Bussin**  
Chair of 21st Century

## The process

KPAs help to communicate each employee's contribution to the organisation's mission, vision and strategy, says Mark Bussin, chair of 21st Century, a specialist reward consultancy.

They also describe the essential areas of a business that require excellent performance in order for that business to obtain favourable results.

"The sum total of everybody's KPAs must ensure that you hit the business KPAs (business strategy)," says Bussin.

## An effective performance management policy is key

- There has to be a clear performance policy that sets out the rules of the game. Without that you will have endless complex conversations that repeat themselves.
- Documentation used to track performance has to be simple and quick.
- Managers have to be well-trained on how to have performance conversations.

“If I had a magic wand, I would change the word performance management to performance conversation. That is what is supposed to be happening, but everybody is busy.”

## Measuring differently for teams who work differently

Innovation is key to an agile company. But with innovation comes the need to adapt how success is measured.

Where teams are working on innovation and keeping themselves busy with the right kinds of activities, it is important for management teams to trust that the results will follow. This is according to Art Markman, professor of psychology and marketing from the University of Texas in an article published in American weekly magazine *Inc.*

### THREE KEY PERFORMANCE INDICATORS FOR INNOVATION TEAMS COULD INCLUDE:

#### ■ What is the group learning?

If a team is working on something that has not been done before, the team will be acquiring new knowledge. Such teams should be assessed on the basis of the new knowledge they are acquiring. How many articles from scientific journals have they read? How many books have they explored?

#### ■ How many ideas are being considered?

Groups that come up with the best ideas tend to come up with the most ideas. When evaluating the ideas a team has developed, the diversity of these ideas should be considered when measuring success.

#### ■ Evaluating the market

Human memory tends to gravitate back towards tried-and-tested solutions to problems. A key source of the most important constraints that impact innovation comes from the market. What is the maximum price that people or firms are willing to pay for a particular solution? Are there types of solutions that people will not be comfortable with? What is the time frame for launching an innovation? ■

How up to date are you with current affairs and facts in general? Find out by completing our quiz, which will be available online via [fin24.com/finweek](http://fin24.com/finweek) from 3 June.

1. If the time is 17h20 in South Africa, what time would it be in Vanuatu?
2. The bestselling South African book *Country of My Skull*, which was later adapted into a screenplay, was based on which of the following events?
  - The South African Truth and Reconciliation Commission (TRC)
  - The Convention for a Democratic South Africa (Codesa) negotiations
  - South Africa's first democratic elections in 1994
3. True or False? The Competition Appeal Court approved Sibanye-Stillwater's takeover of Lonmin.
4. Which two African countries feature spears and shields on their flags?
5. The South African folk song *Qongqothwane*, better known as 'The Click Song', makes reference to which insect?
6. In golf, a hole played in two strokes less than par is called a:
  - Bogey
  - Birdie
  - Eagle
7. Supply the missing date: The capital city of the North West province was established in the year \_\_\_\_\_.
8. True or False? The top speed of the Ford Model T produced between 1908 and 1927 was 100km/h.
9. Which Asian country is bordered by China to the north, Laos and Cambodia to the west, part of Thailand to the southwest, and the Philippines, Malaysia and Indonesia across the South China Sea to the east and southeast?
10. Who was the most nominated artist at the 2019 South African Music Awards?

### CRYPTIC CROSSWORD

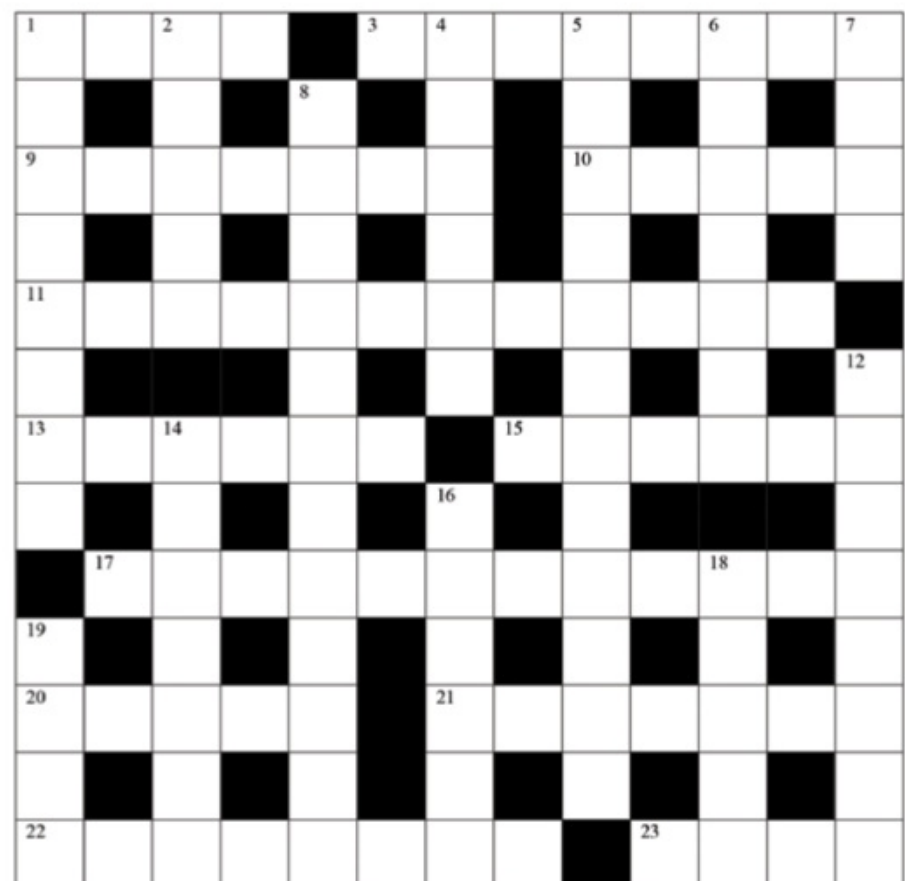
NO 733JD

#### ACROSS

- 1 Second home (4)
- 3 Looked up, we're told, an associate editor (8)
- 9 Talk pointlessly at a rate of knots (7)
- 10 Given discretion about one (5)
- 11 Fret at manner adopted to crofter (6,6)
- 13 Open one box (6)
- 15 Handed back to the audience (6)
- 17 No bother, gym's organised to follow customary behaviour (2,2,3,5)
- 20 Reportedly bearing good luck (5)
- 21 Pounds I have lost (7)
- 22 Fed up with exam from the start, most unimaginative (8)
- 23 Without making changes indicated by a relative (2,2)

#### DOWN

- 1 All in, but in the navy, at liberty (5-3)
- 2 Cock with a headpiece? (5)
- 4 Dismiss the outcome (6)
- 5 Thinking about giving a party (12)
- 6 Gangsters ever out to create jobs (7)
- 7 Drug addict volunteers to give evidence (4)
- 8 Add city interchange of papers (8,4)
- 12 Yes, Syd has no backing specifically left for voyages (8)
- 14 Bing, for example, would rather get credit for Bob (7)
- 16 Makes quiet copies (6)
- 18 Comes down sporting new sari (5)
- 19 It's a time-warp issue (4)



#### Solution to Crossword NO 732JD

ACROSS: 4 Head out; 8 Adored; 9 Adapted; 10 Lapsed; 11 Reside; 12 Rashness; 18 Tarragon; 20 Health; 21 Adding; 22 Laggard; 23 Ransom; 24 Upstart

DOWN: 1 Mallard; 2 Compose; 3 Demean; 5 Endorser; 6 Depose; 7 Upends; 13 Either-or; 14 Against; 15 End-game; 16 Revamp; 17 Slight; 19 Redcap



# On margin

## When words fail you

This issue's isiZulu word is *umhlola*. *Umhlola* means ridiculousness.

One time, I was dropping my daughter off at school before heading off to work when her teacher politely asked to speak with me.

It seemed serious. What had Azande done? She is never in trouble.

But it turned out it wasn't she who was in trouble ...

**TEACHER:** Mr Tshabalala, we got a distressing message from one of the other kids' parents.

**ME:** What did Aza do?

**TEACHER:** It's not really Azande.

It's you.

**ME:** Me? What did I do?

**TEACHER:** It's your views, sir.

**ME:** My views? My views on what?

**TEACHER:** You're an anti-Semite, sir.

**ME:** What?

**TEACHER:** Your daughter, Azande, told one of the other kids that you said Nazis are your favourite. That they are awesome.

**ME:** What?

**TEACHER:** That is what your daughter told her friend and the friend told her parents. The parents then

contacted us.

**ME:** I said I like Nazis?

(Seriously, what makes this woman believe I would be into Nazis? Why would Nazis and I be on the same side?)

**ME:** Can I talk to Azande? Aza!

**TEACHER:** No, sir. Leave Azande out of this. She is just a baby.

(Azande arrives, smiling.)

**AZANDE:** Yes, Daddy?

**ME:** Nana, the teacher says I told you I like Nazis. When was this?

**AZANDE:** Yes, you did, Daddy.

**ME:** When? When did I say that?

**AZANDE:** When you came home with a box of oranges and said the oranges are not oranges. You said they are Nazis and you love them.

**ME** (doing a dance): Lady, she meant naartjies. I love naartjies. They are awesome.

**TEACHER:** Compose yourself, Mr Tshabalala.

**ME:** Whatever, teacher lady. I love naartjies!

**AZANDE:** Bye, Daddy.

**ME:** Bye, nana. Have a great day. I'll give you a naartjie later.

That was *umhlola*.

– *Melusi's #everydayzulu* by Melusi Tshabalala



“I’m sorry, ‘falling off the corporate ladder’ isn’t covered by your medical aid.”



### Yiddish Proverbs @YiddishProverbs

When a wise man talks to a fool, two fools are talking.

### Jules @Julian\_Epp

When I was younger, I thought cops were legally allowed to commit crimes and get away with it and then I got older and found out that wasn't true, and then I got even older and found out it was.

### Karin Richards @Richards\_Karin

Seems there is a direct but inverse correlation between a fund manager's performance and his propensity to lecture me.

### Pamela Power @pamelapower

It is a tragic fact of life that when you have a deadline, your computer will decide to do 98 768 updates.

### Mbhazima Shilowa @Enghumbhini

Imagine saying you're not available to serve in a cabinet you've not been asked to serve.

### Not another Pinterest Mom

@snarkymomtobe

Well, the toddler throws the restaurant's food on the floor too, so at least I know it's not my cooking.

### Sam Reece @SamanthaaaReece

Some of you fought harder to save 'Brooklyn 99' than women's rights and it shows.

### Kevin Ryan @KevinRyanComedy

My girlfriend claims to be ready to have kids, but she also has over 11 000 unread emails.

**“I don't need a friend who changes when I change and who nods when I nod; my shadow does that much better.”**

– Plutarch, Greek-Roman biographer (c. AD 46–120)



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