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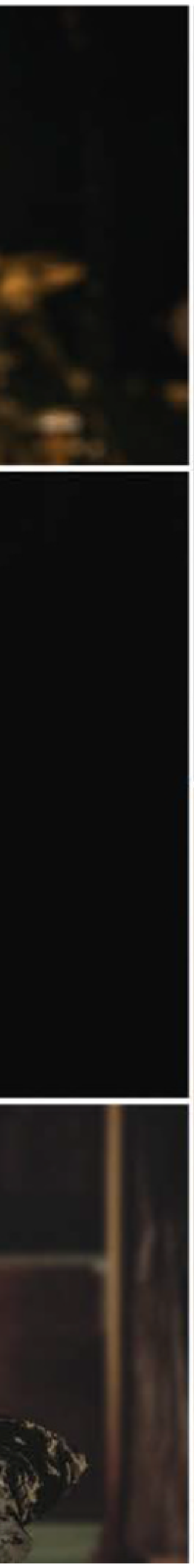

OYSTER PERPETUAL DAY-DATE 40
IN 18 CT WHITE GOLD

ROLEX

from the editor

JANA JACOBS

As the rest of the world gingerly reopens, South Africans are knee-deep in the lockdown lull. It's been nearly three months and we've had to accept this bizarre new reality. And with Covid-19 cases increasing, it's likely that we are going to have to live in this state of uncertainty a while yet.

However, the government has changed its tune from the ominous tone at the start of the lockdown to one of measured caution. In his 8 June letter to South Africans, President Cyril Ramaphosa signs off by urging us not to be alarmed, but prepared.

Considering our current recovery rate, this isn't an unfair request. Of course, fatalities remain devastating – no matter the figure. Furthermore, South Africa faces this inevitable increase in infections as we battle winter.

But, let's say this lockdown has prepared us for the actual virus. How prepared are we for what comes when we finally do reopen? The World Bank's *Global Economic Prospects* for June 2020 paints a very alarming picture of the economic outlook after the lockdowns.

Global GDP is expected to contract by 5.2% in 2020, while "advanced economies are projected to shrink by 7%... Assuming that the outbreak remains under control and activity recovers later this year, China is projected to slow to 1% in 2020 – by far the lowest growth it has registered in more than four decades," according to the report.

SA's GDP, the report says, will contract by 7.1% – "the deepest contraction in a century and 8% weaker than previously forecast", in line with the SA Reserve Bank's (SARB's) projected contraction of 7%.

Of course – and to be fair – we're not completely unprepared. The government's R500bn stimulus package and the SARB's easing of banks' capital requirements have been implemented to mitigate the economic consequences of the lockdown. But the World Bank also warns that inflation in sub-Saharan Africa "is expected to edge up this year, on average, reflecting sharp currency depreciations and disruptions to supply chains. Despite this, several central banks have eased their monetary stances in response to the Covid-19-related slowdown in activity." As has been the case with the SARB's unprecedented cuts in the repo rate.

This threat of inflation will be disastrous for South Africans who are barely making ends meet – many of whom will be without jobs. The latest projections from National Treasury suggest that in the event of a quick recovery, 690 000 jobs will be lost. In the worst-case scenario this figure will be 1.79m. The implications are dire for a country already crippled by a nearly 30% unemployment rate even before the virus hit.

The World Bank does explain that SA's growth is expected to rebound in 2021, in part due to our R500bn stimulus package, adding that this "recovery could gain further traction if planned structural reforms are implemented". But it also notes, among other things, the threat posed to this recovery by power supply disruptions and a national grid that needs repairing.

And while the president has stated that Covid-19 provides an opportunity to create a more inclusive, equitable economy – a restructuring and transformation that is decades overdue – one has to wonder how prepared we will be to achieve this once we do reopen. ■

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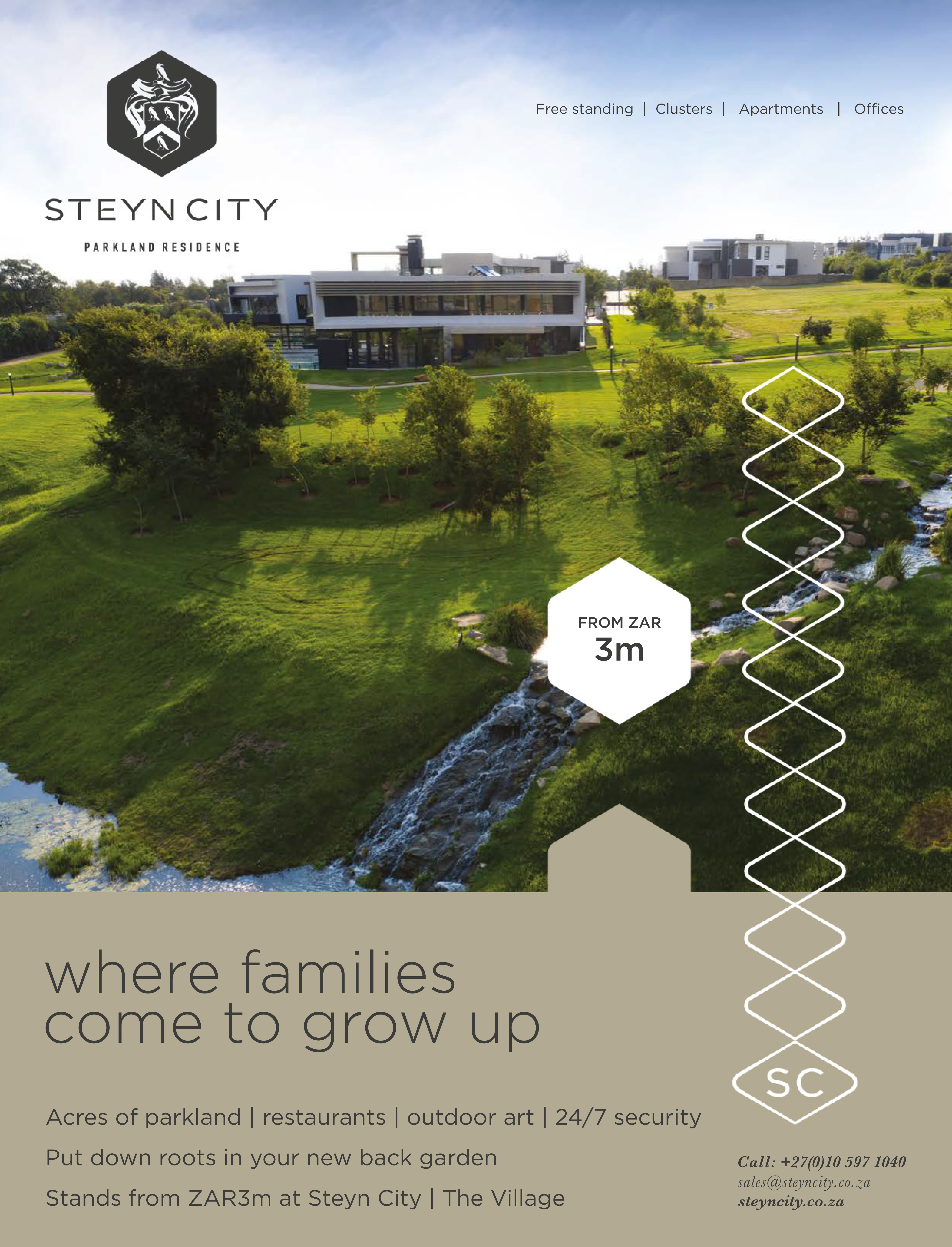
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By Johan Fourie

ECONOMY

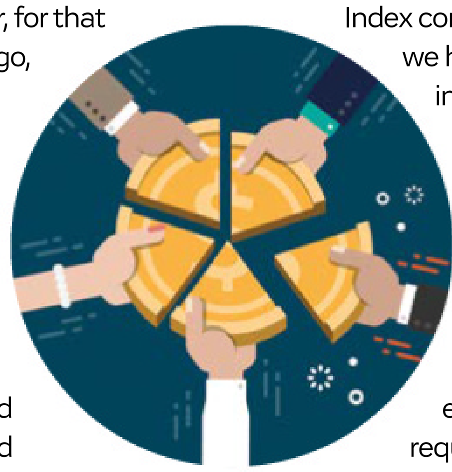
The investment we need to make capitalism work for all

What is capitalism? If defined as access to rapid and reliable information, Johan Fourie sees three reasons to be optimistic and three areas of concern for South Africa.

'Capitalism' has been misunderstood since it was coined in the 19th century. The term was first used as a criticism of the rising income gap between factory workers and factory owners. But until the early 20th century, it was rarely used; Karl Marx only mentioned the word a few times in his later writings. In 1908, economist Thorsten Veblen explained it as a socialist term for a "large-scale industrial regime", not exactly the description we would use today.

The term evolved during the 20th century to mean many things to many people. If I were to ask my undergraduate economic history class for a proper definition, I'd get as many answers as there are students. Some would define it as French socialist Louis Blanc did in 1850: Capitalism, he said, "is the mortal enemy". But most would, hopefully, define it as Wikipedia does: an economic system based on private ownership and the profit motive.

But is that really what it is? We don't think of 14th century Mali, 11th century China, 9th century France, the 6th century Mayan Empire or the Romans in the first century of the Gregorian calendar, or, for that matter, the ancient Sumerians who lived 6 000 years ago, as being particularly capitalist.



Yet, there is substantial new evidence to show that private property and the profit motive existed in almost all of these civilisations. Just consider two stories familiar to many of us: In Genesis (around 1500 BCE), Joseph, the son of Jacob, is sold by his brothers to Medianite traders. 1 500 years later, Jesus expelled the merchants and money chargers from the Temple. I can imagine that these traders, merchants and money chargers had ownership rights to their goods and the intention to make a profit. So was ancient Israel capitalist? Few would subscribe to that interpretation.

What, then, is capitalism? In *The Information Nexus*, historian Steven Marks suggests that capitalism is about access to information. Merchants from ancient times to the present have been in search of one thing: more information to help them make better decisions. He explains: "It is precisely because the information available is imperfect that they strive to gather as much as they can: the more of it they have and the faster they get it, the better able they are to make decisions that help them earn a profit and best their competitors. For a company, information acquisition entails a reduction of transaction costs, uncertainties, and risks, and with that an enhancement of opportunities."

Capitalism as we think of it today emerged in north-western Europe around the 17th century. New scientific inventions like the printing press and, later, the telegraph made the collection and speedy transfer of information possible. But it wasn't enough to just invent these things; the Chinese had invented the printing press much earlier. European societies also established political regimes, perhaps because of competition with stronger neighbours, that fostered a culture of openness and transparency, allowing entrepreneurs to benefit from the available information.

Innovations in the speed of information collection and transfer continued into the 20th century. Henry Ford's assembly line was the culmination of a long series of development related to information gathering in manufacturing. The study of management, marketing and distribution became scientific endeavours in the 20th century. The emergence of the corporate giant was not because of greater desire for profit – that had always been there. It was a consequence of these businesses' success in acquiring and analysing vast amounts of information. The computer and ICT revolution has further amplified this.

What does that mean for the 21st century – and South Africa in particular? If capitalism is defined as access to rapid and reliable information, I see three reasons to be optimistic and three areas of concern. Firstly, we have a free press, on par, according to the World Press Freedom Index, with countries like Canada, the UK and Australia. Secondly, we have a relatively transparent (if bloated) public service – SA Treasury came joint first (with New Zealand) in the 2019 Open Budget Index conducted by the International Budget Partnership. Thirdly, we have excellent scientists and universities relative to our income level. They are the key source of innovation in an era where data science and its applications will have profound effects on the way we do business.

But we can do better. SA remains an incredibly unequal society. While those of us who live and work in urban areas with access to fibre have the world at our fingertips, ordering our meals and masks online, many don't. Access to medical advice, job opportunities, quality education, cheap finance and the many other things that require access to information are poor or non-existent in the former homelands. Fixing this will require substantial investments in fibre or equivalent technologies and regulatory progress in auctioning additional spectrum to operators that can service these markets.

Secondly, the commercial model of the press is under strain. In one respect, that's good – what we traditionally had to pay for is now free at the click of a button. But a press not only provides information – it also exposes corruption, voices dissent and contributes to public debates that are essential to any democracy. There's no simple solution here. Just as with any good or service, journalists should be tested against market forces – but a free press also provides substantial positive externalities that may justify alternative funding sources.

Thirdly, we can't afford to miss the artificial intelligence (AI) revolution that has already begun. In May, China announced a $2tr infrastructure investment plan focusing on 5G infrastructure, AI trial zones, big data centres, industrial internet platforms, high-speed rail and electric vehicle charging infrastructure. If we want a thriving economy, one in which information processing, analysis and prediction give our entrepreneurs an edge over their competitors elsewhere, we'd better invest in these technologies sooner rather than later. ■

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Johan Fourie is associate professor in economics at Stellenbosch University.

Photo: Shutterstock

By Andile Ntingi

BLACK ECONOMIC EMPOWERMENT

Tender set-asides rather than B-BBEE

Government should overhaul its empowerment policy to reserve a set value of procurement for black-owned businesses.

Promises are the sweetest lies, reads a five-word inscription on my daughter's WhatsApp profile picture. She is only 14, but this message struck a chord with me when I first saw it, something that caught me by surprise from the introverted teenager.

The message forced me to reflect on a string of broken promises made by our elected politicians under the guise of broad-based black economic empowerment (B-BBEE) policy, which has throughout its various iterations over the past 26 years only benefitted a tiny politically-connected black elite, while widening inequality among the people it was supposed to uplift.

I recommended that **50%** of procurement spend in the public and private sectors be set aside for black suppliers that are at least 51% black-owned, controlled, and managed.

The policy's failure to deliver on its promise of radically increasing black economic participation is becoming a source of frustration and disenchantment among its intended black beneficiaries. As a result, an opposing view is beginning to emerge that B-BBEE will have to be completely overhauled or scrapped if black participation is to be deepened after the Covid-19 lockdown is lifted and the economy re-opened.

This alternative, anti-B-BBEE view emerged at a recent live Facebook panel discussion, known as Lockdown Convo, which I participated in alongside Thabo Masombuka, a lawyer and former policymaker at the department of trade and industry, and entrepreneur Mxolisi Goodman Buthelezi.

Panellists in the discussion, moderated by Miso Tini, agreed that B-BBEE was utterly ineffective and stuck in the mud. Simply put: The policy is encouraging conspicuous consumption by the black elite instead of aiding black people to be producers and distributors of goods and services.

Therefore, B-BBEE is not contributing to employment creation and industrial development, hence South Africa continues to struggle in eradicating high unemployment and inequality, currently sitting with a Gini coefficient of 0.63, the world's highest.

First on the attack was Buthelezi, who argued that B-BBEE was anti-black and benefitted mainly white businesses. His argument was premised on the logic that B-BBEE scorecards – used in the evaluation of tenders – heavily favoured large white-owned companies during bidding for contracts in both public and private sectors.

This is because B-BBEE laws are structured in a way that make it easy for white companies to comply, thereby attaining higher ratings on their B-BBEE scorecards to the disadvantage of small black-owned, black-run companies. In other words, white companies end up becoming blacker than black firms. To drive his point home, Buthelezi pointed out that white firms – many of which have been in business longer than black companies – have the advantage of accumulating B-BBEE points on requirements that have nothing to do with their capabilities to execute jobs when bids are evaluated.

For example, a white company with 25% black ownership will attain a higher B-BBEE rating for employing more black people in senior management, training more black staff, and renovating a school in a poor black township.

On the other hand, a 100% black-owned company that does not train more people and renovate schools or clinics is outcompeted by white companies because tender adjudicators feel that it is doing less to empower communities than the white firm.

Buthelezi is advocating for the unbundling of the policy whereby elements of B-BBEE such as equity ownership, skills development, management control, enterprise and supplier development (ESD), and socioeconomic development are implemented separately and not combined into a single overarching policy.

All three panellists agreed that ESD, which is premised on giving black businesses preferential market access, must be tweaked to introduce tender set-asides, whereby a portion of procurement spend is ring-fenced for black-controlled suppliers.

I recommended that 50% of procurement spend in the public and private sectors be set aside for black suppliers that are at least 51% black-owned, controlled, and managed. In addition, about 80% of procurement spend must be placed in the hands of suppliers that directly produce the goods and services – not middlemen, who inflate costs of goods and services that are supplied mainly to municipalities and government departments. Taxpayers bear the brunt of this pillaging, with little or no jobs created by these transactions.

Tender set-asides must be strategically implemented to help black entrepreneurs own the means of production, thereby enabling them to own factories, banks, mines, retail supermarkets, telecoms, farms, and many other businesses that are primary producers of goods and services.

Masombuka, who is also the former CEO of the Construction Sector Charter Council, recommended that corruption in government procurement be dealt with by law enforcement and prosecutorial arms of the state. He agreed with the idea of the implementation of tender set-asides and conceded that B-BBEE must be overhauled to uplift the majority of South Africans, not a few people.

But he emphasised that the policy must remain a condition for doing business in our country, just like in Malaysia, where SA policymakers borrowed B-BBEE from. In Malaysia, it was used to increase economic participation of ethnic Malays in a Chinese-dominated economy.

As a start, the state must deploy its R800bn annual procurement spend to circumvent gatekeeping and fronting to reduce barriers to market entry for many skilled black entrepreneurs, who want to be involved in the production of goods and services. Gatekeepers are not only an impediment to economic participation; they are also a drag on employment generation and economic growth.

If our recommendations could be adopted by government, B-BBEE could go a long way towards forcing gatekeepers to be job-creating producers instead of big-spending consumers who instantly buy Range Rovers from merely levying exorbitant mark-ups on goods supplied to the state. ■

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

Photo: Shutterstock

in brief

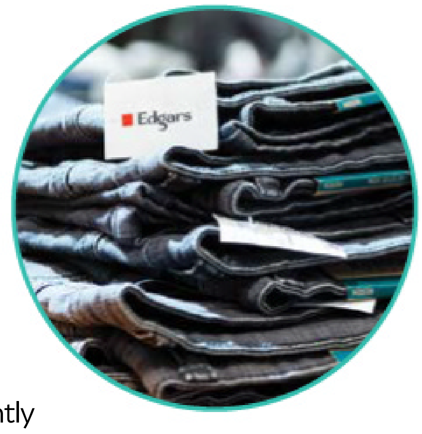
>> **Covid-19:** The impact on employment and income in SA *p.10*
>> **Mining:** How corona will change commodity markets *p.12*

"THE RECENT GAINS IN SASOL'S SHARE PRICE CAN LARGELY BE ATTRIBUTED TO THE INCREASE IN THE PRICE OF OIL..."

Sasol's headquarters in Sandton, Johannesburg

— **Mohamed Mitha, equity analyst at Mergence Investment Managers,** noted that supply and demand dynamics in the oil market improved to some extent with news in early June that OPEC+ was considering an extension of their production cuts to beyond June 2020, leading to gains in Sasol's shares. The share price traded at a high of about R180 at some point in June, after reaching lows of R21.88 in March, exacerbated by falling oil prices, problems at its US-based Lake Charles Chemicals Project (LCCP) and a $10bn debt burden, according to Fin24. Apart from the company's announcement of a cash conservation package, which included a disposal of assets and a potential rights issue of up to $2bn, the news site reported that Sasol has received offers from firms including Ineos Group, Chevron Phillips Chemical and LyondellBasell Industries for a large stake in the LCCP it is selling to shore up its finances.

"IT WOULD MAKE A GOOD CASE STUDY OF HOW A DARLING CAN FALL FROM GRACE."



— **Rella Suskin, head of research at Benguela Global Fund Managers,** told Bloomberg that the lockdown was the last straw for Edgars' owner. Edcon's administrators placed the 91-year-old clothing chain up for sale alongside sister companies Jet and Thank U after measures to contain the coronavirus cut off sources of revenue. Cash flows have been used to service the retailer's interest burden, consequently leaving little to be invested in maintaining the strength of the brand and keeping up with retail trends, according to Suskin. By 29 April, Edcon had lost about R2bn in sales due to the lockdown.

"IT APPEARS THAT BUSINESSES BEGAN REHIRING WORKERS EARLIER AND IN GREATER NUMBERS THAN EXPECTED."

— **Eric Winograd, senior economist at AllianceBernstein,** explained to the *Financial Times* that "to be clear: things are very far from normal in the labour market. But the pace of improvement, if sustained, suggests more reason for hope in the second half of the year than we have seen from any previous data release." Winograd's comment followed a surprise fall in the US unemployment rate to 13.3%. US employers unexpectedly added 2.5m jobs in May, easing worries over the damage inflicted by the coronavirus on the world's largest economy. After 20.7m layoffs during the month of April and 1.4m job cuts in March, some industries began hiring workers again, including leisure and hospitality, construction, retail, education and healthcare.

"It is unfortunately not an isolated event."

— **Burkina Faso's ambassador to the UN in Geneva, Dieudonné W. Désiré Sougouri,** sent a letter on behalf of Africa's 54 countries to the UN Human Rights Council president Elisabeth Tichy-Fisslberger calling for an urgent debate on "racially-inspired human rights violations, police brutality against people of African descent and the violence against the peaceful protests that call for these injustices to stop", reported Al Jazeera. The call for debate came after the late George Floyd's family, along with the families of other victims of police violence and over 600 NGOs, pleaded with the council to urgently address systemic racism and police impunity in the US.

Photos: Shutterstock | Gallo/Getty Images

THE GOOD

The Constitutional Court ruled that the country's Electoral Act is unconstitutional in that it limits the political rights of individuals, while casting in iron the rights of political parties. The judgment comes after the case by the New Nation Movement, a non-partisan movement founded in 2017, was dismissed in the Western Cape High Court in 2019, a month before SA went to the polls, leading to an appeal to the apex court. The judgement acknowledges "choosing to associate is an exercise of the right to freedom of association. Choosing to dissociate from that which you earlier associated with is also an exercise of that right. Choosing not to associate at all too is an exercise of the right. A restraint on any of these choices is a negation of the right". The judgment is suspended for 24 months for Parliament to amend the legislation.

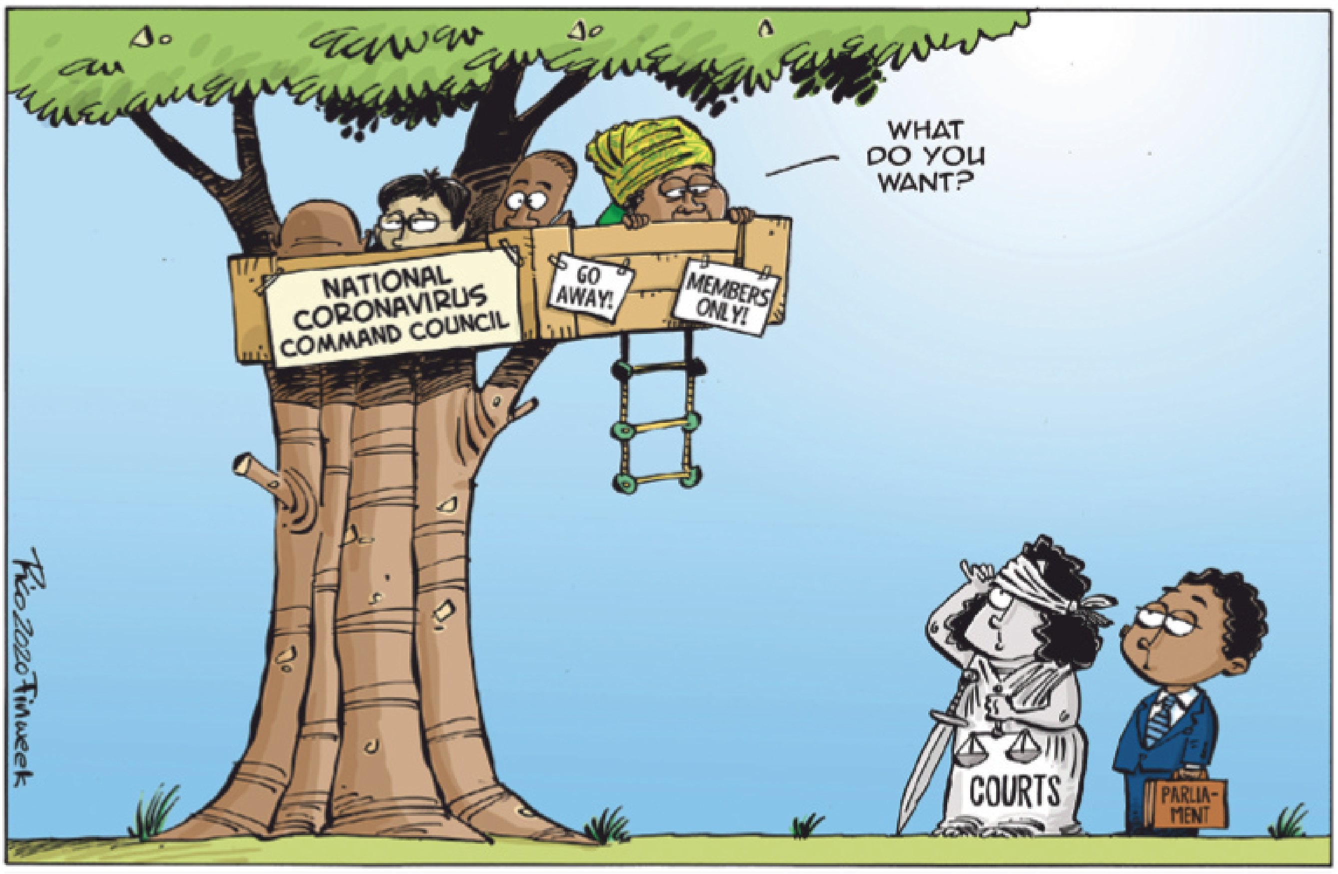
THE BAD

Last month, almost 700 000 applications from companies for special Covid-19 pay-outs from the Unemployment Insurance Fund (UIF) failed – because their employees were not registered with the fund, reported Business Insider. More than 113 000 businesses submitted Covid-19 Temporary Employer/Employee Relief Scheme (TERS) claims for 697 418 employees who are not on the UIF data base. The companies need to register the employees with the UIF before they can claim. The employees would have received R3bn if they were registered. On 1 June, the department of employment and labour said in a statement a total of R1bn had already been processed for payment for 252 378 workers represented by 26 648 employers.

THE UGLY

BP announced that it is writing down as much as $17.5bn of its assets and might leave some of its oil and gas in the ground because of lower energy prices and weakened demand amid the global crisis caused by the coronavirus. BP revised its assumptions for benchmark Brent crude oil prices to an average of about $55 a barrel between 2021 and 2050 (down around 30% from previous assumptions). The *Financial Times* reported that BP CEO Bernard Looney said in an email to staff that around 15% of its workforce, which represents about 10 000 people, will lose their jobs.

DOUBLE TAKE BY RICO



JUSTIFIED SPENDING

Zero-based

Finance minister Tito Mboweni said he is strongly recommending to President Cyril Ramaphosa and the Cabinet that the government adopt a form of budgeting that does not operate on the basis of the previous year's budget as a baseline, during a National Assembly debate on the 2020 Budget Appropriation Bill. Called zero-based budgeting, it is a method of budgeting in which all expenses must be justified for each new period. It starts from a zero base and every function within an organisation is analysed for its needs and costs. Adoption of this form of budgeting would represent a significant change from the existing system of using the previous year's budget as the baseline for the next.

ADDITIONAL PANDEMIC PURCHASING

R11.6tr

The European Central Bank (ECB) announced it will increase its Pandemic Emergency Purchase Programme by €600bn (R11.6tr) as it attempts to bolster the economy following the coronavirus pandemic. In a media conference following the move, ECB President Christine Lagarde said this was deemed to be "the appropriate size" to bring inflation "significantly closer" to its pre-coronavirus path. Reuters reported the announcement contributed to a further reduction in borrowing costs, with the yield on Italy's 10-year government paper dropping from intraday highs above 1.56% to 1.4% shortly after the decision. Similar moves were seen on Greek, Portuguese and Spanish debt.

CONTESTED CONSULTING

R95m

Eskom wrote to financial services firm PwC in early June, demanding that it return R95m plus interest for a contract that Eskom now allegedly calls "unlawful, irregular, unconstitutional, and thus, null and void", reported *Daily Maverick*. The letter of demand to PwC, in which Eskom says it is preparing to go to court, is allegedly for a 2017 consulting deal. A confidential forensic report allegedly claims PwC took credit for Eskom's work and senior Eskom managers were pressed to sign off on proposals of questionable value. The report allegedly describes PwC's original "at-risk" payment structure as "patently unlawful and stupendously egregious".

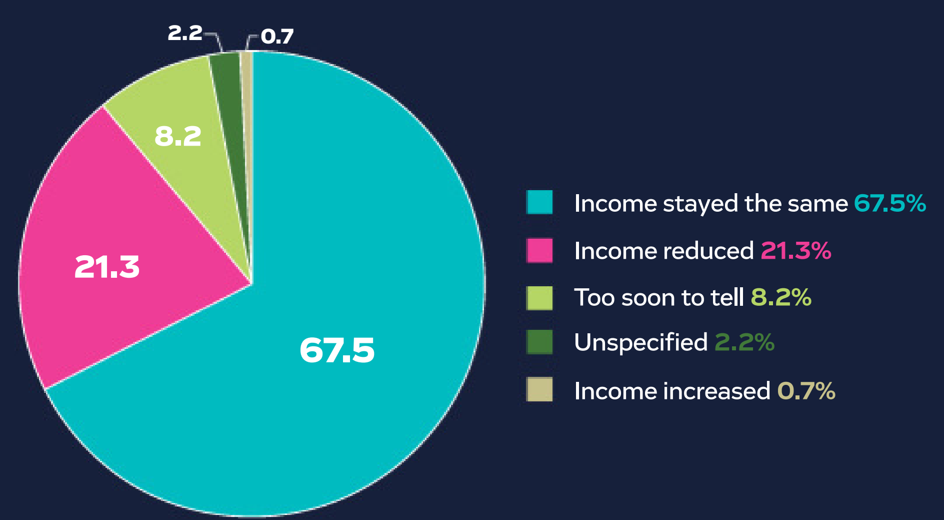
COST OF TOURISM LOST

$2.7tr

The World Travel and Tourism Council, a private forum for the industry, calculates that the blow to the sector could cost the world economy $2.7tr in 2020, wiping out 100m jobs. The outlook in SA is no less bleak, with the country's Tourism Business Council warning that R171.4bn of tourism spending could be lost this year, and 1m jobs shed. The council is urging the government to lift restrictions on international travel earlier than anticipated and to present clear plans as to when the tourism sector will be up and running, to help salvage the September to March summer season, which normally accounts for 60% of annual business. (Also see p.32.)

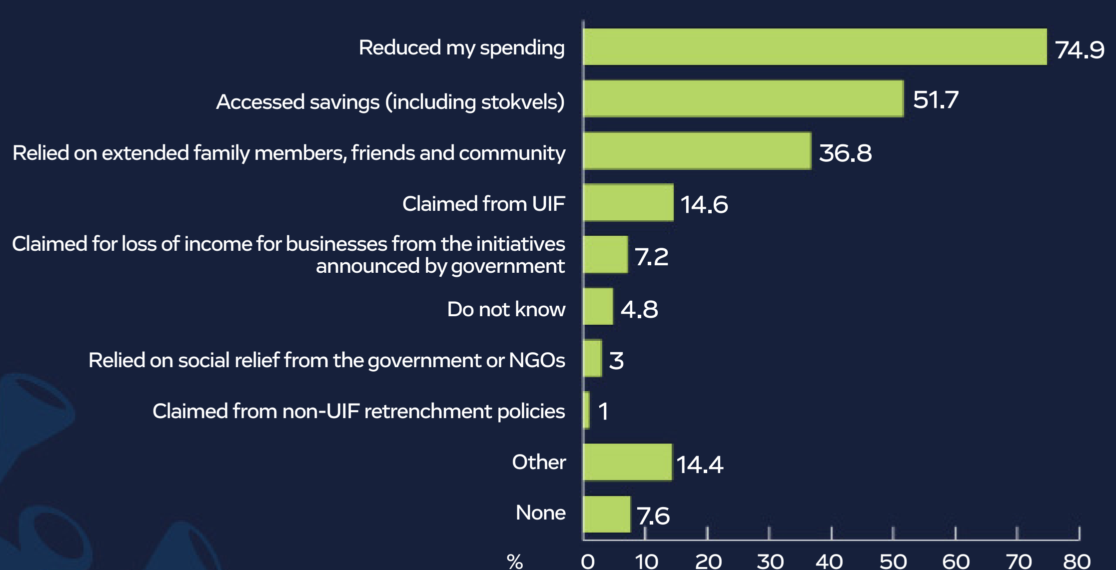
Covid-19 impact on employment and income in South Africa

PROPORTION OF EMPLOYED RESPONDENTS BY CHANGE IN INCOME OF THE RESPONDENTS



MAIN REASON FOR JOB LOSS OR BUSINESS CLOSURE DURING NATIONAL LOCKDOWN

PROPORTION OF RESPONDENTS WHOSE INCOME WAS REDUCED BY THE COPING STRATEGIES USED TO FILL THE INCOME GAP



SOURCE: Stats SA Wave 2 survey on the impact of the Covid-19 pandemic on employment and income in South Africa, released 20 May 2020.

COVID-19 IMPACT SURVEYS

Statistics South Africa (Stats SA) has conducted two of three "waves" of online surveys since President Cyril Ramaphosa announced the national state of disaster on 23 March. These surveys measure the impact that the national lockdown, which began on 26 March, has had on SA society.

One of the first-round (Wave 1) surveys "focused on health-related issues, specifically on behaviour, knowledge and perceptions around Covid-19". Data collection for Wave 2 focused on **employment, income and hunger-related issues** and occurred during the sixth week of the national lockdown between 29 April and 6 May 2020. Some of the results of this survey can be seen in the graphs on the left.

The second wave of Stats SA's Covid-19 **business impact survey** "provides an update on how SA businesses are currently faring under lockdown".

The first impact survey covered the period 30 March to 13 April 2020, and the results were published on 21 April. The survey asked firms in the formal sector how the Covid-19 crisis was affecting their operations in terms of turnover, trading, workforce, imports and exports, purchases, prices, and business survival.

Some of the results from the second business impact survey, covering the period 14 April to 30 April 2020, can be seen in the graphs to the right.

According to Stats SA, Wave 3 of the surveys is currently in development.

36%
of businesses have laid off staff in the short term

BUSINESS IMPACT OF COVID-19 IN SOUTH AFRICA

Key results from Stats SA's second Covid-19 business impact survey:

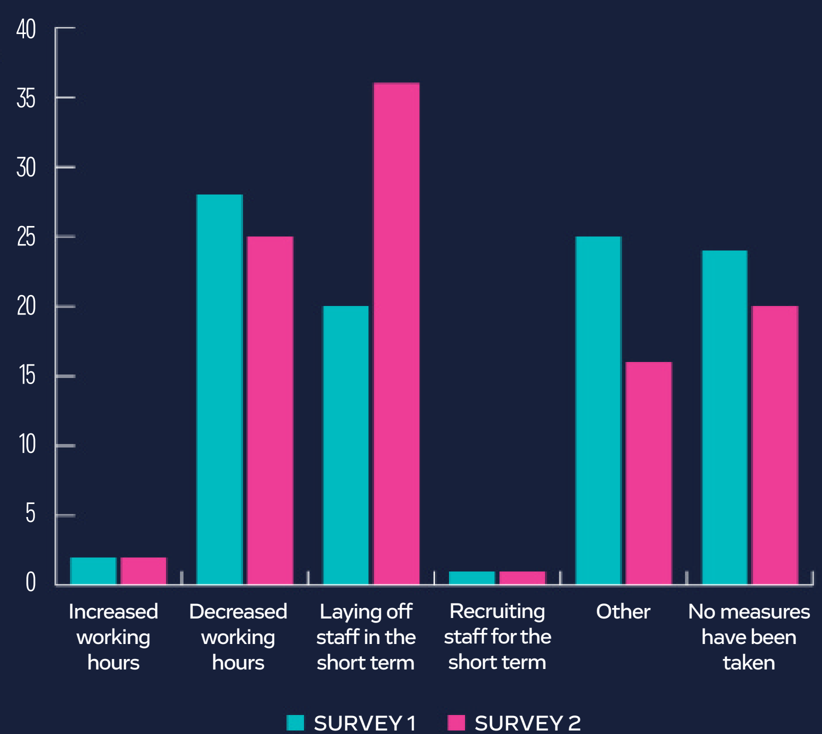
• **Turnover:** Nine in ten (89.6%) responding businesses' turnover was lower than their normal expected range, up from 85.4% in the first survey. The following industries experienced a rise in the percentage of firms reporting lower turnover: electricity, gas and water supply; mining; community, social and personal services; trade; transport, storage and communication; and manufacturing.

• **Workforce:** Just over one-third (36%) of firms indicated that they were laying off staff in the short term as a measure to cope with the Covid-19 pandemic. This is higher than the 20% reported in the first survey. One in four firms (25%) indicated that they were decreasing working hours, down from 28% in the first survey.

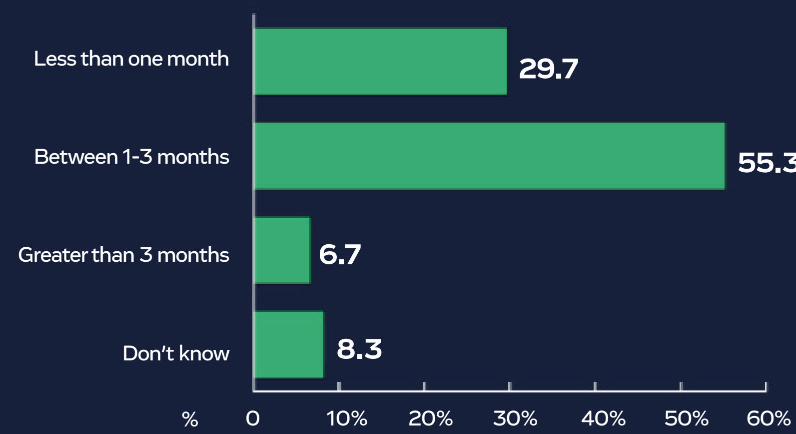
• **Trading activity:** Almost half (48%) of businesses reported a pause in trading in the period 14 April to 30 April 2020, nearly unchanged from the 46% recorded in the first survey. Almost one in ten (9%) businesses indicated that they had ceased operations permanently. The industries with the highest percentage of firms permanently closing their doors include construction (14%); community, social and personal services (12%); and agriculture, hunting, forestry and fishing (12%).

• **Business survival without turnover:** 30% of respondents indicated they can survive less than a month without any turnover, while over half (55%) indicated that they can survive between 1 and 3 months. Only 7% can survive for a period longer than 3 months.

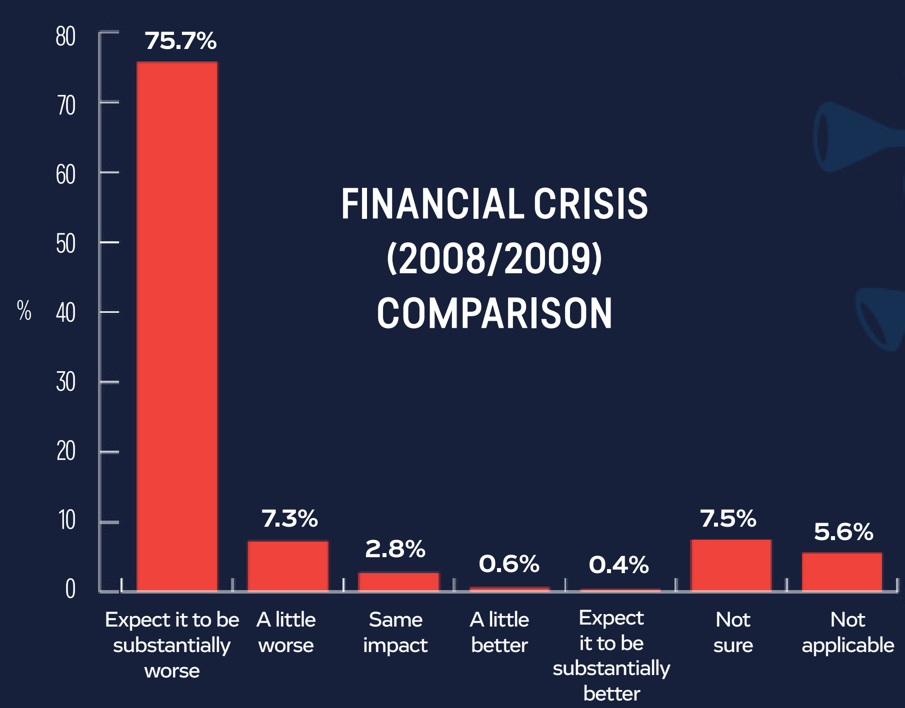
WORKFORCE MEASURES IMPLEMENTED DURING THE COVID-19 PANDEMIC



BUSINESS SURVIVAL WITHOUT ANY TURNOVER



ADEQUACY OF FINANCIAL RESOURCES TO CONTINUE OPERATING THROUGHOUT THE PANDEMIC



SOURCE: Stats SA Business Impact Survey of the COVID-19 pandemic in South Africa, released 14 May 2020.

By David McKay

MINING

Covid-19: Complex consequences for commodity markets

A global drive to de-risk supply chains away from China, combined with the re-emergence of trade tariffs, could favour the local manufacturing businesses. But it could hurt SA's mining exports.

Localisation in South Africa's mining sector is a controversial subject. The government has increasingly asked for it, making procurement from local firms a feature of legislation, most notably in Mining Charter III.

As the Mining Charter currently stands, about 70% of all procurement by SA firms must be local in three years' time to comply with mining licence regulations. The government goes so far as to prescribe the level of empowerment required of suppliers.

The mining sector said it recognises the benefits of localisation, but says the targets are too onerous.

That's where the matter stands while the government and the Minerals Council await the outcome of a High Court process which is primarily focused on deciding whether past empowerment efforts should be recognised.

But could global economic trends fall increasingly in the government's favour? In a global economy after the Covid-19 pandemic that might be possible, according to PwC, the consultancy.

Commenting in *Mine 2020*, an annual publication that spots trends in the mining sector by monitoring the activities of the world's top 40 firms, PwC said the sector may have to rethink long-held assumptions about the unassailable wisdom of ultra-lean principles and global supply chains.

"Miners may need to think about de-risking critical supply chains and investing more in local communities. A shift towards localisation in supply chains and in deals, as well as different forms of community engagement, may turn out to be enduring consequences of the pandemic," it said.

PwC's observation is partly to do with how Covid-19 might accelerate an already existing swing towards bilateralism as demonstrated in trade politics. The re-emergence of trade tariffs is the direct result of heightened political tensions between China and the US over the last two years.

Bilateralism is also demonstrated in the US government's withdrawal from the World Health Organization and extends to practices such as nations relocating data within national borders. In other cases, manufacturers are being forced to consider moving manufacturing facilities from tariffed countries to regional bases, also called 'onshore'.

According to the World Bank in its April edition of the bi-annual *World Commodities Report,* the unravelling of global value chains (GVCs) would be exacerbated by national security concerns regarding the reliability of supply of critical equipment, such as personal protective equipment which would favour local production.

"For commodity markets, such a development could potentially lower transport demand if it reduces [the] average distance of imports," said the report's authors.

"All else equal, this would result in permanently lower oil demand as GVCs are more transport-intensive than other forms of trade," the bank said. "It could also lead to shifts in the source of commodity demand as manufacturing hubs shift."

In one interesting interpretation of the potential impact of tariff changes, the French economist Thomas Piketty observed that while tariffs are generally feared (because where do they stop?), they might be the only way the world economy pays for the common threat of greenhouse gas emissions.

In any event, even a degree of de-globalisation may start to change the game for the mining sector, which relies on international trade flows to sell products, and to procure goods and services.

"There is a visible impact for mines where there's a just-in-time approach to securing stock," says Andries Rossouw, resources team leader for PwC. "The industry is used to buying cheap goods from China, and in not having to buy back-up supplies," he said in an interview with *finweek*.

He thinks mining firms will have to diversify their supply risks. They have already had a taste of what might be coming with the most recent Covid-19-related lockdowns, especially if trade flows are interrupted by tariffs, international tensions and flaring virus threats in the future.

Andries Rossouw
PwC resources team leader

As the Mining Charter currently stands, about **70%** of all procurement by SA firms must be local in three years' time to comply with mining licence regulations.

Henk Langenhoven
Chief economist of the Minerals Council

Photos: www.pwc.co.za | Archive | miningmx.com

Even a degree of de-globalisation may start to change the game for the mining sector, which relies on international trade flows to sell products.

"It's got a similar role to play in SA. SA is geographically advantaged and there is potential to manufacture equipment here as we've got a mature mining sector," he says.

"At least for their most critical supply chains, the Top 40 may need to consider an alternative approach; improved inventory management combined with globally diversified or locally sourced and financially viable resources," said PwC in its *Mine 2020* report.

"This would not only de-risk mining companies against a similarly disruptive event but also help develop and build resilience in local communities," it said.

Henk Langenhoven, chief economist of the Minerals Council, comments that governments would be well-advised not to make "knee-jerk" decisions around tariffs and localisation without considering existing dynamics such as demand and cost structures. This is especially true currently while commodities are engulfed by chaos.

There's obviously a significant amount of guesswork at play, if only because the economic signs are contradictory. Kostas Bintas, head of copper for Trafigura, a commodity trading firm, told Bloomberg News that copper was coming out of Covid-19 relatively well, while a report by Morgan Stanley this month forecast a V-shaped recovery for global markets, reasoning that Covid-19 is a crisis without endogenous factors (no pre-existing economic crisis), and government-led stimulus efforts have been comprehensive and effective.

As many, if not more, analysts think the opposite is true, including the World Bank. It thinks Covid-19 may even change consumer appetites. Increased work-from-home activity will lower transport usage and oil demand as would a possible decline in international business travel. A reduction in long-haul travel routes will undoubtedly continue the shake-down in travel but may also provide impetus to continue reducing emissions and therefore result in greater pressure to implement fuel standards and the transition to electric vehicles, which is helpful to platinum group metals as well as lithium and a host of other minerals.

Finally, transport cost increases and a retraction of supply chains could see substitution between domestic and imported commodities, said the World Bank in its commodity report. It said the higher cost of imported commodities due to increased transport costs could promote the use of domestic resources.

"If exact replacements are costly or unavailable domestically, the use of substitutes may occur, such as the use of domestically-produced glass in drinks packaging instead of imported aluminium," the bank said. "This would benefit commodity importers at the expense of commodity exporters," it reasoned.

Thus, the Covid-19 pandemic introduces a complexity of positive and negative economic effects for the commodity markets. While localisation would favour the manufacturing business in SA, similar trends elsewhere in the world lowering the demand for exports would deal a major blow to the mining sector and the SA fiscus at large. ■

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Manganese price swings 'not corona-related'

A recent report suggests that pinning manganese price fluctuations on Covid-19 fails to recognise the inherent volatility of the commodity.

The ebb and flow in the price of manganese, which is important in the manufacture of steel to which it gives hardening properties, has been blamed on Covid-19. But this may be a mistake, according to analysts at Morgan Stanley in a recent report.

"The recent squeeze in manganese prices is wrongly blamed on the SA lockdown," said Christopher Nicholson, Jared Hoover and Brian Morgan, analysts for the bank. "In fact, today's high prices are a function of last year's low prices, paving the way for prices to fall again," they said.

It was this pulse in the cycle that has proved to be the undoing of Kalagadi Manganese, the company owned by award-winning entrepreneur Daphne Mashile-Nkosi. The Industrial Development Corporation is also a significant shareholder in Kalagadi Manganese. The two entities are currently fighting in court on whether the company's management ought to be restructured ahead of putting the firm into liquidation.

While Covid-19 may look like the final nail in the coffin of **Kalagadi Manganese** as it currently exists, it's the nature of the market against which a future company ought to be configured. As the Morgan Stanley analysts argue, manganese is inherently volatile.

Kalagadi Mine in the Northern Cape

"The trouble with bulk commodity markets is that imbalances between supply and demand can't be corrected by inventory swing," the bank says. "Inventories are simply too bulky and storage space too constrained. So, when there is an oversupply situation, mine supply has to respond."

South32, one of SA's largest manganese producers, has often complained of opportunistic production of the mineral, especially ore exports. According to Morgan Stanley, manganese prices at spot (the report was written on 4 June) was equal to 40% of South32's earnings before interest, tax, depreciation and amortisation (ebitda) and 22% of African Rainbow Minerals' ebitda for its 2021 financial year, so its fluctuations are worth following. These are both multi-commodity 'mining houses', so one can only imagine the impact the price has on the likes of a pure-play like the beleaguered Kalagadi Manganese. ■

market place

FUND IN FOCUS: CRATOS BCI EQUITY FUND

By Timothy Rangongo

Quality stocks boost fund amid turmoil

Fund returns to positive territory after stormy March.

FUND INFORMATION:

Benchmark:	FTSE JSE SWIX Index
Fund manager:	Dave Smyth
Fund classification:	SA – Equity – General
Total investment charge:	1.56%
Fund size:	R29.7m
Minimum lump sum/ fixed administration fee:	None/R15 excluding VAT on investor accounts with balances of less than R100 000
Contact details:	011 778 1160/clientservices@bcis.co.za

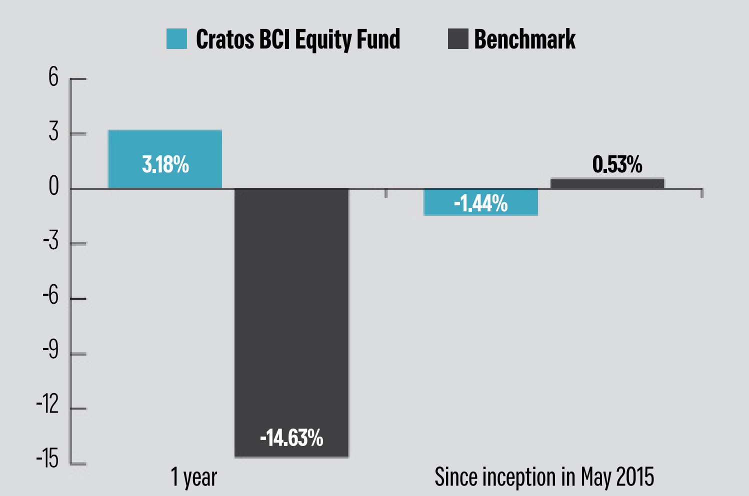
TOP 10 EQUITY HOLDINGS AS AT 31 MAY 2020:

1	Fundsmith Equity Fund	10.9%
2	Naspers*	9.5%
3	Ninety One Global Strategy Fund	7%
4	Northam Platinum	6.2%
5	Prosus	4.8%
6	Remgro	4.3%
7	Anglo American	4.1%
8	Facebook	4%
9	Reinet	3.9%
10	BHP Group	3.4%
	TOTAL	**58.1%**

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

PERFORMANCE (ANNUALISED AFTER FEES)

As at 30 April 2020:



Fund manager insights:

The panic selling of financial assets emanating from the spread of the coronavirus continues to eviscerate both local and global markets, with share and bond prices falling dramatically.

South African general equity funds have been hit more so in comparison with counterparts. Nevertheless, "we believe that over the long term, no asset class can compete with equities when it comes to returns", says Dave Smyth, manager of the Cratos BCI Equity Fund.

March marked the worst month since the fund's inception, with a -8.5% return. It managed to recoup 5.1 percentage points in the month of April, swinging it back to positive territory amid the market shakedown, with most local peer funds still lagging.

"It is our view that high-quality businesses tend to hold up better in sharp market downturns," Smyth tells *finweek*. To use the old Warren Buffett cliché, he says "only when the tide goes out do you discover who has been swimming naked".

Over the last year, the fund aimed to maximise its offshore allowance and therefore predominantly added non-JSE-listed shares. The fund looked to high-quality businesses with sound growth prospects.

"We don't like companies that acquire at the expense of returns on capital, and we have also looked to avoid companies that have achieved growth by taking on vast amounts of debt," he says.

Earnings quality (free cash flow as a percentage of earnings) is also an important consideration, says Smyth. As such, the fund added companies such as Facebook, PayPal and Illinois Tool Works over the last year. "These companies have delivered acceptable returns since we purchased them, however the true test will be how these companies perform over the next five to ten years."

The fund also counts local resources among blue chip stocks the likes of Anglo American and BHP. Smyth explains that Northam Platinum, for instance, fits the fund's profile of being a business with high-quality assets, a strong balance sheet and management that has a good capital allocation track record.

"Although the outlook for the platinum group metals (PGMs) market is currently cloudy, we feel that the longer term fundamentals for PGMs are sound, especially on the supply side."

Smyth says the fund does not own a lot of shares, relative to its peers, and has managed to rely on the companies it's invested in to generate good returns without excessive risk over the long run.

Why *finweek* would consider adding it:

Seeing that a lot of value is derived from offshore, especially during the current investment climate, the fund has started the process to change its mandate to a worldwide flexible equity fund to unlock more offshore value and expects this to be finalised later this year. ■

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BANKS

BUY SELL CAU-TION

Bad debt calls for caution

Our local banks are very well-capitalised, with higher capital adequacy than required by Basel III, and the SA Reserve Bank (SARB) has also relaxed some of these requirements. The central bank is also lending R200bn to commercial banks, as underwritten by government's Covid-19 economic response package. Local commercial banks have significant challenges ahead of them, with bad debts already on the rise and certainly continuing to increase as businesses struggle or go bust.

Consumers are under extreme financial pressure, with many losing jobs or making ends meet with reduced salaries, which will see banks' impairment ratios spiking, likely surging above levels of the global financial crisis of 2008/09. This even as legislation since then has improved the quality of their loan books. Banks will also struggle to secure new business as they get less loan applications, and will likely refuse more loan requests due to the reduced quality of those credit applications. A final concern: The SARB's request for banks to forgo dividends, while good for their balance sheets, means a number of years of no dividends for investors while we wait for normalcy to return. ■

By Simon Brown

Last trade ideas

- CAU-TION — Hospital Groups, *4 June issue*
- CAU-TION — Mining, *21 May issue*
- CAU-TION — Food Retail, *7 May issue*
- BUY — Diverse ETF, *2 April issue*

TELKOM

BUY SELL HOLD

Expected results key to breakout

Telkom is expecting to report a significant drop in earnings for the year to end-March due to Covid-19-related losses and the costs of its restructuring programme. The group expects its headline earnings per share to decrease by between 65% and 70% and basic earnings per share to fall by 80% compared with the previous year, mainly due to one-off costs of about R1.2bn relating to its restructuring programme. But, even with the current economic challenges, Telkom's debtors' book performance didn't deteriorate between March and May.

Telkom's results are due on 22 June and it's warned investors that its biggest challenge for the year was the decline in fixed-voice revenue, down 22% from last year. However, growth of over 50% in mobile service revenue for the year off-set these losses.

How to trade it:

Telkom has come off lows at 1 325c/share and is steadily recovering within its bear trend. In fact, its share price is a few points away from its resistance trendline and breaching that would mark a change in sentiment to bullishness. A positive breakout would be confirmed above 3 185c. If Telkom manages to hold above 1 720c/share, even after reporting its results in June, then a recovery in the share price should be anticipated.

A buying opportunity would be presented above 3 185c/share, with potential gains to 5 225c/share. Revise long positions at 5 825c/share, otherwise stay long as upside could continue towards 6 685c/share. Alternatively, refrain from going long if Telkom encounters major resistance at 3 185c/share, as it may consolidate between 1 325c/share and 3 185c/share for an extended period. ■

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Telkom is expecting to report a significant drop in earnings for the year to end-March due to Covid-19-related losses and the costs of its restructuring programme.

By Moxima Gama

Last trade ideas

- BUY — Distell, *4 June issue*
- BUY — Sasol, *21 May issue*
- BUY — Pan African Resources, *7 May issue*
- BUY — Datatec, *2 April issue*

Photos: Shutterstock | Gallo/Getty Images

By Moxima Gama

FAMOUS BRANDS

Eyeing a comeback?

52-week range:	R19.50 - R96.96
Price/earnings ratio:	10.92
1-year total return:	-41.88%
Market capitalisation:	R4.56bn
Earnings per share:	R4.17
Dividend yield:	3.88%
Average volume over 30 days:	434 575

SOURCE: IRESS

FAMOUS BRANDS

SOURCE: MetaStock Pro (Reuters)

Famous Brands, which owns local franchises such as Steers and Wimpy, in late May reported improved profits for the year ending February. But, the impact of the Covid-19 pandemic and lockdowns has diminished the group's revenue since. The company took action to right-size the business, reduce costs and preserve cash.

"These include a freeze on operational and capital expenditure; providing franchisee relief in the form of temporarily deferred payments (for pre-lockdown debt) and reduced royalties and fees post the lockdown; negotiations with banks and landlords; strategic temporary hibernation of parts of the business which are not permitted to operate under current lockdown restrictions; and a limited retrenchment programme where all other options have been exhausted," the company said in its annual financial statements.

Outlook: The share price breached the support trendline of its long-term bull trend in August 2017 and traded in a bear trend in the form of a falling wedge pattern. Its share price plummeted after trading through the lower slope of the wedge and tested a low at 1 950c/share. It has since held above that level and is now recovering.

On the charts: Having formed a higher bottom at 3 195c/share and with the three-week relative strength index (3W RSI) breaching the resistance trendline of its medium-term bear trend, Famous Brands could commence a new uptrend if another rising bottom is established above 3 195c/share.

Go long: Continued upside above 4 500c/share would offer a good buying opportunity with potential upside towards 6 750c/share. If buying should persist through 7 500c/share, increase long positions as the next resistance at 9 050c/share could then be tested. Above that level the long-term upper slope of the wedge would be breached and a gradual recovery towards 14 025c/share could follow.

Go short: Refrain from going long if Famous Brands gives in at 3 195c/share, as its share price could fall back to its prior low at 1 950c/share. ■

BIDCORP

Hit hard by Covid-19

52-week range:	R171.03 - R357.99
Price/earnings ratio:	17.97
1-year total return:	-9.27%
Market capitalisation:	R87.7bn
Earnings per share:	R14.56
Dividend yield:	2.42%
Average volume over 30 days:	1 010 131

SOURCE: IRESS

BIDCORP

SOURCE: MetaStock Pro (Reuters)

Bidcorp, one of the largest food distribution businesses outside of the US, showed the extent of the impact of Covid-19-related lockdowns on its revenue during April and May. The company said sales dropped to 37% for the week ending 5 April compared with the same week a year earlier. By the week ending 31 May, sales recovered to 65%, and by 14 June to 67% compared with the same week a year ago. It warned shareholders that its earnings per share would be more than 20% lower for the financial year ending 30 June compared with the previous fiscal year.

Outlook: Bidcorp breached the support trendline of its primary bull trend in March alongside the global Covid-19 sell-off. It tested an all-time low at 17 100c/share and has since recovered most of its Covid-19 losses.

On the charts: It's teetering on the resistance trendline (previously support trendline) of its primary bull trend. The recovery could be a return move, a common reversal after a breakout to the breakout area. If so, Bidcorp could pull back again. If not, it would resume its previous bull trend.

Go long: Bidcorp would resume its previous bull trend above 28 240c/share – thus triggering a buy signal, but ensure the 3W RSI trades through its downward slope. Such a move could see Bidcorp reclaim its losses towards 32 400c/share. Above that level another buying opportunity would be presented as Bidcorp could retest its all-time high at 35 800c/share.

Go short: Downside through 24 265c/share would commence the third phase of the return move, which could attract selling back to support at 21 485c/share. The 17 100c/share all-time low could be retested on continued downside. ■

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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 Schalk Louw

OFFSHORE

Tips for moving assets abroad

There are several factors you need to consider when deciding to invest in foreign instruments.

The coronavirus pandemic spooked many investors – both locally and globally – as the erratic swings in world equity indices, and even South Africa's bond market, can attest. Local fears were enhanced by SA's sluggish economic performance and rightly prompted investors to question whether or not they should shift their money offshore.

In this follow-up to my previous column on offshore investment (4 June issue), I continue to look at reasons why an investor would opt to move their investments out of the country, and the important considerations that need to be kept in mind before doing so.

Foreign against rand-denominated funds

You can invest offshore either by buying and using foreign currency, or by using rand.

If you opt for foreign currency, you will be limited to your annual offshore investment allowance (which includes monetary gifts, travel, maintenance, study and donations to missionaries), and minimum investments may be of considerable size. Your money, however, will be truly offshore, enabling you to invest in whatever you like in any country you want. Your dividends are also paid in the currency of your choice, which you can leave offshore for as long as you choose.

When opting for a rand-denominated foreign investment, you can invest rand in products offered by a local financial services company, which, in turn, invests the money on your behalf in foreign investment opportunities. Your capital and your returns are paid in rand in SA. You can invest any amount you like and any amount the product provider is prepared to accept. Minimum investment amounts tend to be much less than investing directly offshore in foreign currency, therefore making it more accessible to investors, and you are not bound by an annual offshore allowance.

Which product should I choose?

You have an abundance of choices, from offshore unit trust funds, to exchange-traded funds (ETFs), to direct shares. Although general equity funds will suffice for most investors, I will always recommend that you seek expert advice before choosing your offshore products. You should also keep in mind the estate planning considerations before you start – since the way you choose to invest could impact your estate. Experts employ dedicated research teams that thoroughly analyse offshore companies and funds and base their choices on fundamental factors such as historical performance, balance sheets, current economic influences and prospects.

Photo: Shutterstock

It is advisable to consult your financial adviser or tax specialist prior to investing offshore, especially in terms of the tax implications of such an investment.

Tax implications

When investing in a rand-denominated investment, tax is relatively uncomplicated as you are taxed in the same way as you would be taxed on a local investment. That means that you will pay capital gains tax on the difference between the value of your initial investment and the end value of your investment. The gain will therefore also include any depreciation in the currency. The tax on this will be payable in SA.

When investing in offshore funds or shares, the capital gains will be determined in the foreign currency. The gains are then converted into rand, which means you are not taxed on the devaluation of the currency. Estate duty with direct offshore investments may be more complicated, due to things like situs taxes (inheritance tax in specific offshore jurisdictions) that has the potential to considerably increase the estate duty payable. Again, it is advisable to consult your adviser or tax specialist prior to investing offshore, especially in terms of the tax implications of such an investment.

Be safe

The world is filled with fraudsters just waiting to take advantage of uninformed investors, and countless South Africans have fallen victim to foreign scams in the past. Investors should pay attention to several issues. Firstly, always make sure that you seek advice from a qualified financial adviser, preferably one with a solid background in offshore investing. Second, refrain from investing in unlisted investment companies. Thirdly, avoid products and providers that are not registered with the Financial Sector Conduct Authority (FSCA).

Know who you are dealing with. Never conduct business solely over the phone or through email unless absolutely necessary. And, don't fall for promises of exceptional returns. If it sounds too good to be true, it most likely is. Lastly, make sure that you know exactly what you are investing in, and avoid complex products.

A compelling case for including offshore investments in your investment portfolio can certainly be made. The benefits, although not discussed in too much detail, are undeniable, if you do your homework properly and remember that an offshore investment should form part of a well-diversified investment portfolio. ■

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Schalk Louw is a portfolio manager at PSG Wealth.

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SUMMARY CONSOLIDATED FINANCIAL RESULTS AND MAIDEN CASH DIVIDEND DECLARATION
FOR THE YEAR ENDED 31 MARCH 2020

EXECUTIVE REVIEW OF OUR PERFORMANCE

MULTICHOICE GROUP (MCG OR THE GROUP) DELIVERED SOLID RESULTS FOR THE YEAR ENDED 31 MARCH 2020.

Despite global and country-specific macroeconomic challenges, the group added 0.9m 90-day active subscribers to reach 19.5m households as at 31 March 2020 (FY20). This represents growth of 5% year on year (YoY), which is somewhat lower compared to the prior year due to rising consumer pressure in many markets, drought-related electricity shortages in southern Africa, and the fact that last year's growth benefited from specific one-off events such as the FIFA World Cup which did not recur this year.

Revenue increased 3% (2% organic) to ZAR51.4bn and included subscription revenue of ZAR42.8bn, which increased 4% (3% organic) YoY. Top line momentum was affected by modest subscriber growth due to macro-headwinds in certain markets, the group's strategic decision not to increase Premium prices in South Africa and a reduction in sub-licence revenues from the South African public broadcaster. This was offset by an increased contribution of 12% (4% organic) by the technology business, Irdeto.

Group trading profit rose 14% to ZAR8.0bn (29% organic), benefiting from a ZAR0.8bn (ZAR1.8bn organic) reduction in losses in the Rest of Africa. A strong focus on cost containment allowed for a further ZAR1.4bn in costs to be eliminated from the base during the year. Overall costs were contained to a 1% increase compared to the prior year (-3% organic) and resulted in positive operating leverage, with the group achieving its target of keeping the growth rate in costs below that of revenue growth.

Core headline earnings, the board's measure of sustainable business performance, was up 38% on the prior year at ZAR2.5bn, despite the impact of the additional 5% share in SA being allocated to Phuthuma Nathi (PN) in March 2019. Excluding this once-off change in the South African non-controlling interest, core headline earnings would have grown 57% YoY.

Consolidated free cash flow of ZAR5.2bn was up 59% compared to the prior year, driven mainly by an improvement in the trading result from the Rest of Africa and a reduction in working capital.

The board recommends that a maiden annual gross dividend be declared at 565 SA cents per listed ordinary share (ZAR2.5bn).

The group remains fully committed to broad-based black economic empowerment and transformation. In line with prior commitments, an offer was made to PN shareholders on 25 September 2019, to exchange up to 20% of their PN shares for shares in the MultiChoice Group. The offer closed on 28 October 2019 and resulted in 3.7m shares being issued to PN shareholders, while the group acquired 3.8m shares in PN in return. Following the conclusion of this share swap, the group's overall interest in MultiChoice South Africa increased from 75.0% to 76.4%.

The group continued its strategic focus of investing in local content, increasing the library of hours available by 8%. As a result, the total local content library now exceeds 56 800 hours.

Capital expenditure of ZAR0.8bn was slightly down on the prior year and included a ZAR0.2bn investment as part of a multi-year programme to futureproof the group's customer service, billing and data capabilities.

As one of the largest taxpayers in Africa, the group paid direct cash taxes of ZAR4.0bn, slightly higher than the prior year driven by higher profitability.

The strength of the balance sheet is critically important given the uncertain economic impact of COVID-19 and the lower oil price. Some ZAR9.8bn in net assets, including ZAR9.1bn of cash and cash equivalents, combined with ZAR5bn in undrawn facilities, provides ZAR14.1bn in financial flexibility to fund the business. This strong financial position is after spending ZAR1.7bn on share buy-backs (including ZAR0.7bn to fund the MCG restricted share plan) and ZAR1.5bn to settle the FY19 PN dividend during the year.

We operate in 50 countries, resulting in significant exposure to foreign exchange volatility. This can have a notable impact on reported revenue and trading profit metrics, particularly in the RoA where revenues are earned in local currencies while the cost base is largely US dollar denominated. Where relevant in this short-form announcement, amounts and percentages have been adjusted for the effects of foreign currency, as well as acquisitions and disposals to better reflect underlying trends. These adjustments (non-IFRS performance measures) are quoted in brackets as organic, after the equivalent metrics reported under International Financial Reporting Standards (IFRS). These non-IFRS performance measures constitute pro forma financial information in terms of the JSE Listings Requirements.

The company's external auditor has not reviewed or reported on forecasts included in this short-form announcement.

Dividend declaration

The board recommends that a maiden annual gross dividend be declared at 565 SA cents per listed ordinary share (ZAR2.5bn). This dividend declaration is subject to approval of the MultiChoice South Africa Holdings Proprietary Limited (MCSAH) dividend at their annual general meeting on Wednesday, 26 August 2020. The finalisation date for the dividend declaration by the company will be Thursday, 27 August 2020. Subject to the aforementioned MCSAH approval, dividends will be payable to the company's shareholders recorded in the register on the record date, being Friday, 11 September 2020. The last date to trade cum dividend will be on Tuesday, 8 September 2020 (shares trade ex-dividend from Wednesday, 9 September 2020). Share certificates may not be dematerialised or rematerialised between Wednesday, 9 September 2020 and Friday, 11 September 2020, both dates inclusive. The dividend payment date will be Monday, 14 September 2020. The dividend will be declared from income. It will be subject to the dividend tax rate of 20%, yielding a net dividend of 452 SA cents per listed ordinary share to those shareholders not exempt from paying dividend tax. Dividend tax will be 113 SA cents per listed ordinary share. The issued ordinary share capital as at 10 June 2020 was 442.5m ordinary shares (including 15.6m shares held in treasury). The company's income tax reference number is 9485006192.

Directorate

On 5 July 2019, Mr J A Mabuza and Dr F A Sanusi were appointed to the board as independent non-executive directors.

Mr S J Z Pacak, the lead independent director, will be stepping down as the lead independent director of the group, with effect from 3 April 2020, and will be retiring as an independent non-executive director with effect from April 2021.

Mr J A Mabuza, an independent non-executive director, will take over from Mr S J Z Pacak as the lead independent director, with effect from 3 April 2020.

Mr D G Eriksson will retire as an independent non-executive director with effect from 11 June 2020.

Ms D M Dickson resigned as group company secretary on 30 September 2019.
Mrs R J Gabriels was appointed as interim company secretary on 12 December 2019 until such time as a permanent appointment is made.

No other changes have been made to the directorate of the group.

Preparation of the short-form announcement

The preparation of the short-form announcement was supervised by the group's chief financial officer, Tim Jacobs CA(SA). These results were made public on 10 June 2020.

ADR programme

Bank of New York Mellon maintains a Global BuyDIRECT℠ plan for MultiChoice Group Limited. For additional information, visit Bank of New York Mellon's website at www.globalbuydirect.com or call Shareholder Relations at 1-888-BNY-ADRS or 1-800-345-1612 or write to: Bank of New York Mellon, Shareholder Relations Department – Global BuyDIRECT, 462 South 4th Street, Suite 1600, Louisville, KY 40202, United States of America, (PO Box 505000, Louisville, KY 40233-5000)

Important information

This report contains forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995. Words such as "believe", anticipate", "intend", "seek", "will", "plan", "could", "may", "endeavour" and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and should be considered in light of various important factors. While these forward-looking statements represent our judgements and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. The key factors that could cause our actual results performance, or achievements to differ materially from those in the forward-looking statements include, among others, changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; ongoing and future acquisitions, changes to domestic and international business and market conditions such as exchange rate and interest rate movements; changes in the domestic and international regulatory and legislative environments; changes to domestic and international operational, social, economic and political conditions; the occurrence of labour disruptions and industrial action and the effects of both current and future litigation. We are not under any obligation to (and expressly disclaim any such obligation to) revise or update any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise. We cannot give any assurance that forward-looking statements will prove to be correct and investors are cautioned not to place undue reliance on any forward-looking statements contained herein.

Further information

This short-form announcement is the responsibility of the directors and is only a summary of the information contained in the full summary consolidated annual financial statements. The full summary consolidated annual financial statements were released on SENS on 10 June 2020 and can be viewed on the company's website **https://www.multichoice.com/investors/reporting/**. Copies of the full summary consolidated annual financial statements may also be inspected at the company's registered office and at the offices of the company's sponsor, at no charge, during office hours. Copies of the full summary consolidated annual financial statements may be requested by contacting the company secretary at cosec@multichoice.co.za. Any investment decision should be based on the full summary consolidated annual financial statements available at **https://senspdf.jse.co.za/documents/2020/JSE/ISSE/MCGE/10Jun20FY.pdf**, published on SENS and on the company's website. The information in this short-form announcement has been extracted from the audited consolidated annual financial statements on our website, but the announcement itself has not been audited. The full audited consolidated annual financial statements, including the audit opinion of the external auditor, PricewaterhouseCoopers Inc., which sets out key audit matters and the basis for its unmodified opinion is available at: **https://www.multichoice.com/investors/reporting/**.

On behalf of the board

Imtiaz Patel
Chair

Calvo Mawela
Chief executive

Johannesburg
10 June 2020

SALIENT FEATURES

Year ended 31 March 2020	2020 ZAR'm	2019 ZAR'm	2020 versus 2019 %
Revenue	51 387	50 095	3
Operating profit	8 267	7 363	12
Trading profit	8 028	7 014	14
Free cash flow	5 184	3 267	59
Core headline earnings per ordinary share (SA cents)	569	410	39
Earnings per ordinary share (SA cents)	117	(374)	>100
Headline earnings per ordinary share (SA cents)	128	(353)	>100
Net asset value per ordinary share (SA cents)	2 213	2 231	(1)
Dividend per ordinary share (SA cents)	565	–	>100

KEY PERFORMANCE INDICATORS

Year ended 31 March 2020	2019 Reported	2020 Currency impact	2020 Organic growth	2020 Reported	2020 versus 2019 Reported %	2020 versus 2019 Organic %
90-day-active subscribers ('000)	18 579	n/a	920	19 499	5	5
South Africa	7 949	n/a	467	8 416	6	6
Rest of Africa	10 630	n/a	453	11 083	4	4
90-day-active ARPU (ZAR)						
Blended	197	–	(10)	187	(5)	(5)
South Africa	302	–	(12)	290	(4)	(4)
Rest of Africa	114	–	(4)	110	(4)	(4)
Subscribers ('000)	15 097	n/a	646	15 743	4	4
South Africa	7 447	n/a	441	7 888	6	6
Rest of Africa	7 650	n/a	205	7 855	3	3
ARPU (ZAR)						
Blended	241	–	(10)	231	(4)	(4)
South Africa	322	–	(13)	309	(4)	(4)
Rest of Africa	159	(1)	(4)	154	(3)	(3)

GROUP FINANCIALS

Year ended 31 March 2020	2019 IFRS ZAR'm	2020 Currency impact ZAR'm	2020 Organic growth ZAR'm	2020 IFRS ZAR'm	2020 versus 2019 IFRS %	2020 versus 2019 Organic %
Revenue	50 095	362	930	51 387	3	2
South Africa	33 696	–	458	34 154	1	1
Rest of Africa	14 836	228	412	15 476	4	3
Technology	1 563	134	60	1 757	12	4
Trading profit	7 014	(1 037)	2 051	8 028	14	29
South Africa	10 199	–	60	10 259	1	1
Rest of Africa	(3 735)	(955)	1 769	(2 921)	22	47
Technology	550	(82)	222	690	25	40
Revenue	50 095	362	930	51 387	3	2
Subscription fees	41 248	232	1 272	42 752	4	3
Advertising	3 180	35	(2)	3 213	1	–
Set-top boxes	2 042	(41)	(572)	1 429	(30)	(28)
Technology contracts and licensing	1 564	134	59	1 757	12	4
Other revenue	2 061	2	173	2 236	8	8
Operating expenses	43 081	1 399	(1 121)	43 359	1	(3)
Content	17 715	610	439	18 764	6	2
Set-top box purchases	6 056	137	(1 338)	4 855	(20)	(22)
Staff costs	5 352	146	414	5 912	10	8
Sales and marketing	2 467	43	(100)	2 410	(2)	(4)
Transponder costs	2 607	85	(43)	2 649	2	(2)
Other	8 884	378	(493)	8 769	(1)	(6)

Registered office: MultiChoice City, 144 Bram Fischer Drive, Randburg 2194, South Africa. PO Box 1502, Randburg, 2125

Transfer secretaries: Singular Systems Proprietary Limited, (Registration number: 2002/001492/07), PO Box 785261, Sandton 2146, South Africa

Sponsor: Rand Merchant Bank (a division of FirstRand Bank Limited)

www.multichoice.com

Bastion

By Simon Brown

INVESTMENT STRATEGY

Crisis stimulus finds nest in shares

The effects of massive monetary easing happening across the globe is coming home to roost in stock markets, including our own. Be cautious.

After collapsing in March, markets locally and globally have rallied. The Nasdaq has led the way to near all-time highs while the S&P 500 is back above 3 100, close to its record high of 3 386. Both indices reached record highs in February.

Locally, the FTSE/JSE Top 40 Index is trading just below 49 000, at the time of writing, after kicking the year off at 51 500. The all-time high for the Top 40 was just under 54 000 in November 2017.

Looking at these indices' levels, it's fair to ask: what pandemic? Valuations are stretched to record levels.

The forward price-to-earnings ratio (P/E) of the S&P 500 is the most expensive it has ever been, with two exceptions: the 2001 dotcom boom and the 2008 crisis. The former ended in years of gloom, while the latter led to the longest and strongest bull market in the history of US markets on the back of US Federal Reserve (Fed) stimulus.

A P/E is historic. It takes the current share or index price and divides the latest annual earnings into that level to determine the value. A forward P/E uses the expected earnings for the year ahead, dividing that into the current price. The forward P/E is a better gauge of value, but also harder as we need to try and work out what the next year's earnings will be.

For the S&P 500 the current historic P/E is 22.4 times – that's already an all-time high aside from 2008 and 2001. But what will earnings be for the year ahead? Will it be 20% lower at a minimum? Then we can adjust that historic P/E upwards by 20%, getting us to a forward P/E of at least 26.9 times. Locally, the current Top 40 P/E is 16.1 times and a 20% reduction in earnings pushes it to 19.3 times. Not as bad as the S&P 500, but still expensive. But 20% lower earnings are probably a best-case scenario and things could be worse.

There is, however, a simple explanation for this: the stimulus packages announced and implemented by governments across the world, most notably by the Fed. In much the same way as after the 2008/09 global financial crisis, central banks are pumping money into the system to create liquidity and keep markets afloat. This puts massive amounts of cash into the system and with low interest rates that cash finds itself a home in the stock market. This initially started in the US, but we're now seeing it move into emerging markets such as our own.

A market watcher may think this is crazy and that all-time highs and stretched valuations during a pandemic are insane. But an old lesson is "don't fight the Fed". When they come to the rescue with guns blazing, nobody can stand in the way and markets will rally. But we also need to consider that the market is implying the worst is behind us and the purchasing managers index data for May certainly shows a strong bounce from the record low April levels – albeit the index is still below the level of 50, thus indicating a contraction.

We can shake our heads in disbelief, but we can't win this fight and so I continue with my monthly purchases of ETFs as I always do. But I remain very cautious of individual shares, rather waiting to see some results that include pandemic trading conditions so as to get a clearer picture. It does mean I am missing some upside action, but I am also sleeping better at night by not just jumping into the fray.

There will be post-pandemic winners (tech stocks) and losers (leisure counters) and some of those are easy to spot, but many will surprise us, so caution remains the name of the game. ■

editorial@finweek.co.za

Photo: Shutterstock

I remain very cautious of individual shares, rather waiting to see some results that include pandemic trading conditions so as to get a clearer picture.

finweek FUND FOCUS

YOUR QUARTERLY REVIEW OF SA FUNDS

JUNE 2020

FUND MANAGEMENT IN TIMES OF CRISIS

By Leon Kok

OVERVIEW

The importance of financial mindfulness

This edition of *Fund Focus* concentrates on the different approaches fund managers are taking to achieve future returns in a challenging environment.

It goes without saying that currently we're going through trying times economically and otherwise. And many millions may consider themselves blessed that they're invested in mutual funds.

The average person simply doesn't have the time or expertise to manage their personal investments every day, or to efficiently reinvest interest or dividend income, or to investigate the thousands of securities available in the financial markets. Mutual and hedge funds are managed by professionals who are experienced in investing money and who have the education, skills and resources to search diverse investment opportunities.

No less important, many manage several different funds and allow you to switch between them at little or no charge. That enables you to change your portfolio as and when your personal needs, financial goals or market conditions change.

Several of these features are implicit in this edition, and I'm delighted that all our participating principals have provided inspired, if not ingenious, solutions to many pedestrian investors' current needs.

The new boy on the *Fund Focus* block is Protea Capital Management's Jean Pierre Verster, who tells us, among other things, about his firm's Worldwide Flexible SNN Qualified Investor Hedge Fund that's generated an annualised 10.49% return (after fees) in the three years to March 2020 and found its way into the prestigious Top 10 BarclayHedge Global Equity Long/Short rankings.

Interestingly, he dispels the view that primary objectives of responsible hedge funds are to feed on the misfortunes and carcasses of others. On the contrary, he points out, steps are being taken across the globe to broaden the exposure of them to mainstream investors.

Prudential's Pieter Hugo puts forward a formidable case for investing in well-diversified balanced funds offering excellent risk-adjusted returns. He says that even though investors may be reluctant to invest in them due to their recent historical underperformance, they offer splendid opportunities for longer-term investors looking for solid inflation-beating returns over time.

If you prefer offshore exposure, Coronation's Christo Lineveldt argues the case for worldwide flexible funds, particularly his firm's Optimum Growth Fund with its unconstrained worldwide flexible mandate. It has proven its pedigree by ranking first in its industry category over 10, 15 and 20 years, and, since its inception, has been a true long-term compounder.

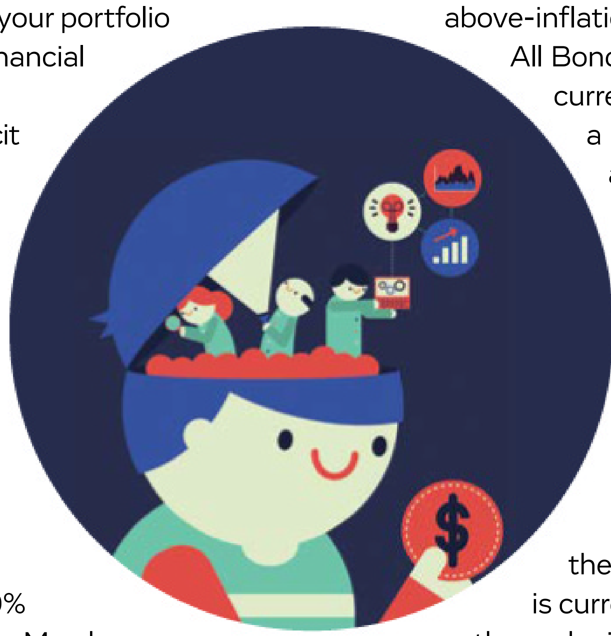


Photo: Shutterstock

Allan Gray's Londa Nxumalo and Sasfin's Philip Bradford point to compelling opportunities that bonds offer in a world after Covid-19. South African bonds are pricing in enough bad news to be attractive, offering interest rates more than double the rate of inflation, says Nxumalo. In fact, the bad news that has been priced in may even have been overdone.

Says Nxumalo: "You should look to achieve a decent absolute return in the current environment. Funds with an approach that is uncomplicated and simple, and that seek to generate above-inflation returns without taking on too much risk, can be used to create diversity in your portfolio."

The Allan Gray Bond Fund has consistently delivered above-inflation returns, as well as beating the All Bond Index over the long term. Its current positioning attempts to strike a balance between attractive yields and prevailing macroeconomic and fiscal risks.

We have regularly highlighted Bradford's Sasfin BCI Flexible Fund, which has generated a cumulative 58% return during the past five years and more than four times the FTSE/JSE All Share Index's paltry 14%.

According to his house's analysis, the SA 10-year government bond is currently yielding more than double the cash yield, while longer-dated bonds are providing a further two percentage points interest. Bradford says that with the expectation of inflation falling close to 3%, investors who buy these bonds today could lock in returns of inflation plus 8%.

Of course, there are those investors who intrinsically need to be in cash, but Ninety One's Paul Hutchinson impresses on us that cash is currently 'trending towards trash'. He suggests, as such, that you are unlikely to get more than 3.75% interest from the average money market fund, and presents the case for his house's Ninety One Diversified Income Fund, which aims to earn far better returns in a potentially accelerating inflationary environment, is well-diversified, and is an astute manager of downside risk.

Lest recent marketing changes missed your attention, Ninety One is the new brand name for the former Investec Asset Management. Long-term investment excellence remains the group's primary focus, providing its clients with its traditional investment offerings.

We wish you happy and safe investing. ■

Leon Kok is an independent writer on public policy and investment markets.

CONTENTS

By Leon Kok

FINANCIAL STOCKS

A once-in-a-decade investment opportunity

Some quality international financial shares may have sold down too steeply recently. Denker Capital's Global Financial Fund is eyeing some quality bargains.

Much has been said and reported lately about emergent golden opportunities for investors while the herd stampedes away from markets. Kokkie Kooyman, a director at Denker Capital and the portfolio manager of the Denker Global Financial Fund and its rand-denominated feeder fund, is particularly confident that his investment glass is full and deserving of serious consideration by investors.

Leon Kok spoke to him.

Is there a case to invest in global financials at present?

Very much so. True, there are strong fears in the market, for instance that banks' net asset values (NAVs) will be considerably written down via bad debts. Our experience and research point to the market being wrong. Bad debts will be high, but we are confident that banks will remain profitable in 2020. Further, we believe that the banking sector will surprise and come through this current crisis fairly well and be ready for business next year.

You're on record as having said that in your 30 years of financial analysis, you've never seen equivalent opportunities to those being offered now. Correct?

Yes. Due to the fears that abound globally, investors have pushed well-capitalised and well-managed European banks to 60% to 70% discounts to tangible book value. I've seen Turkish (2002) and other emerging-market banks trade at 0.3 NAV, but never developed-market banks. US banks are at their lowest price-to-NAVs relative to the shareholder value they are forecast to report in 2021 and thereafter.

Why then the enormous negative sentiment to global financials?

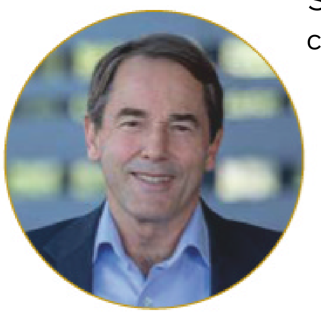
A host of reasons, ranging from the uncertainty of the current virus and how it will affect life and business activity, to investors basing their fears on the 2008 banking crisis. The reality is that banks and insurers are well-positioned to come through this crisis and indeed fare better than most industries.

Unlike 2008, banks and insurers are not as excessively geared as they were then; they now have more diverse portfolios; and they aren't using shareholder funds to bet on markets. Further, regulations introduced since then have largely de-geared the banks, while new rules and regulations have placed a major dampener on irresponsible market behaviour.

You've hinted that the media has played a role in downplaying global financials. Your comment?

Without any doubt. By its very nature it tends to be short-term focused, and when there is good news it doesn't necessarily present longer-term perspectives. Social media enhances this phenomenon and public mood swings are exacerbated. As famous American investor and economist Benjamin Graham said, "the market hints to mood swings in the short term but in the long term it is efficient and will reflect the true value of growth potential and the true value of businesses, giving the intelligent investor excellent investment opportunities".

As the world starts moving to the right direction of the Covid-19 infection curve and lockdowns are reversed, the good news will be extrapolated positively to the banking sector again.



Kokkie Kooyman
Director at Denker Capital and the portfolio manager of the Denker Global Financial Fund

Your strategy in identifying attractive global financial stocks?

An essential part of our process is back-testing past decisions, and we do this every year, particularly after 2008. Considerable emphasis is placed on businesses (in our case, on banks and insurers) that are both entrepreneurial yet conservative. Coupled with that, we look to businesses that have excess capital; that have used good times to build reserves; have low cost-to-income ratios; have good track records; that allocate capital generated rationally; and are technologically advanced and have an advantage relative to peers.

Any favourites?

At present these would include the likes of TCS Group, ING Group, Essent Group and Arch Capital. The South African equivalents would be Capitec, FirstRand, Santam and Sanlam. The problem in SA is that the runway isn't long enough compared with those of the aforementioned international companies.

Why should any smart investor want to invest specifically in your global fund?

The sector currently presents a once-in-a-decade investment opportunity. From this point on, it's reasonable to anticipate annual growth of 8% to 10% in NAV per share plus a 50% rerating. Secondly, the fund is diversified across the financial spectrum and geographically, especially benefitting from the best investment opportunities in different countries. But, most important, our experience of previous cycles is key to generating good returns in the next few years.

Small- or mid-sized, high-growth companies get sold down the most in a negative environment.

Our most important learning has been to always question the assumptions, but then to believe in our research and back our views, especially when the market panics. Historical data supports our view that the price-to-NAV of the fund (and especially the growth opportunities) should re-rate sharply over the next 18 months.

What could be the worst scenario for SA banks or financials during the next five years?

Government policies that cause capital flight or make investors withdraw capital from the banking sector due to potential poor returns. A rand flight scenario could trigger inflation and negative interest rates after sustained currency weakness. Bad scenarios could include the Reserve Bank losing its independence, foreign exchange controls, introduction of a banking tax, and forced government-directed lending or quasi-nationalisation. ■

Photo: Supplied

By Pieter Hugo

BALANCED FUNDS

Offshore equities, local bonds and shares set scene for strong returns

South African equities and bonds have been trading at such low valuations that many balanced funds are set for solid future performances.

Following the sharp sell-off across global financial markets induced by the coronavirus pandemic, South African investors are understandably worried about the values of their portfolios.

Yet, despite the ongoing market volatility and uncertainty about future economic growth, at Prudential we believe now is a good time to invest in well-diversified balanced funds, especially for longer-term investors looking for inflation-beating returns over time. Even though investors may be reluctant to invest in these funds due to their recent historical underperformance, they should consider embracing them even more.

Our analysis shows that a great deal of bad news has already been priced into our markets, presenting a rare opportunity to invest across different asset classes at very attractive levels simultaneously. SA equities, bonds and inflation-linked bonds have been trading very cheaply – as has SA listed property (although with much more associated risk). This means that balanced funds have a very good chance of delivering much higher returns than their historic averages, and investors are likely to get the strong returns they need from several different asset classes, lowering total portfolio risk.

First, SA equities have given investors some excellent buying opportunities: the FTSE/JSE All Share Index ended March at a price-to-book value ratio of around 1.1 times, a 40-year low and below the levels reached during the global financial crisis (GFC). And by the end of April it was trading at only around 1.3 times, in line with the GFC. Prudential has taken advantage of the very low valuations on offer, while being mindful of the higher risk that has emerged for many companies. We have been careful to select high-quality companies that should help our client portfolios weather the difficult conditions ahead.

For example, we have added Bidcorp exposure in the Prudential Balanced Fund. Bidcorp is a high-quality business, as demonstrated by its history of delivering steady compound growth in profits over time, as well as having a strong balance sheet. We have also increased our holdings in Remgro and MTN after their shares reached substantial discounts. Remgro had the additional attraction of the unbundling of its stake in RMH, while for MTN we saw nearly 40% upside potential in its share price, even after incorporating further discounts for future currency depreciation and other potential negative developments.

Meanwhile, the fund's top holdings include global giants like Naspers*, British American Tobacco (BAT) and Anglo American, whose share prices all held up relatively well in the past few months – and should continue to do so. Naspers' online gaming and other services benefitted from the global lockdowns, especially in China, while BAT has solid, defensive-quality earnings and Anglo American's operations are highly diversified across commodities and geographies. These equity holdings, among others, give the Prudential Balanced Fund potential to deliver above-market returns going forward.

Photo: Shutterstock

Now, more than ever, balanced funds should be the core of a long-term investment portfolio.

Turning to the fund's bond exposure, it has been overweight SA government bonds for some time now, and within this has been holding mostly long-dated bonds with maturities of more than 20 years. We added to this long-dated positioning as yields rose to exceptionally attractive levels of over 13% in March and were still trading over 11% in April, which we believe will more than compensate investors for the risk involved. Assuming inflation averages 4.5% (the mid-point of the Reserve Bank's targeted inflation range), they offer investors a prospective real return of around 6.5% per year over time – a level equivalent to that of equities, and with less risk.

Looking at offshore assets, we do believe it's important to continue to hold foreign equities for their exposure to faster-growing economies and as an excellent diversifier. However, the valuation of the MSCI All Country World Index fell to a price-to-book value ratio of only around two times at its March low, near its longer-term average and not offering a discount compared with SA equities. With the rand's sharp depreciation in the past weeks, we opted to trim our overweight position in foreign equities and add to SA equity and SA bond exposure. Still, foreign equities are priced to deliver around 5.5% per year over the next five years, we believe; a very solid real return.

Lastly, cash is the one SA asset class where prospective returns are now much lower due to the large interest rate cuts from the Reserve Bank. Investors should consider reducing their exposure where appropriate, given that cash is no longer even beating inflation – the Prudential Balanced Fund has little cash exposure.

Given this positioning and asset valuations, we are confident investors in the Prudential Balanced Fund will benefit from equity-like returns, but with much lower risk, over the next five years or so. Patient investors should be rewarded. Now, more than ever, balanced funds should be the core of a long-term investment portfolio. ■

Pieter Hugo is the chief client and distribution officer at Prudential Investment Managers.

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

By Leon Kok

ASSET CLASSES

Bonds a solid choice amid uncertainty

Investors can now lock in bond yields at double the rate of cash returns.

It goes without saying that the objective of any intelligent investor is to maximise their capital by earning the highest returns that they can get over the longest period possible.

The general view is that equities are preferable to bonds or cash equivalents because of their riskier nature and that they offer the highest possible returns.

And as bonds are traditionally considered safer investments than equities, the rate of return offered by them is typically lower. But some bonds (high-yield bonds) may offer exceedingly high rates of return. In the case of junk bonds, for instance, they could yield returns as high as 50% per year, the catch being that they carry extremely high risks of default.

Appropriate allocation of portfolios to these classes is currently being debated both globally and in South Africa. The contrasts between our markets and many elsewhere are considerable. Indeed, it's not all a straight line.

The dilemma of choice in SA has been brilliantly explicated by Philip Bradford, manager of the Sasfin BCI Flexible Income Fund. He drew from Aesop's fable, *The Tortoise and the Hare's,* seemingly moralistic propaganda.

Slow and steady is a good approach, he says, but in real life, few would bet their money on the tortoise against the hare. On the other hand, the fable comes into its own where 'getting to the finish line' is far more important than 'getting there as fast as possible'.

The last five years in SA have been a case in point, Bradford explains. Equity returns have been extremely disappointing, yet his fund – with its strong bias towards fixed-interest investments (typically SA government bonds) – has since July 2015 returned 58% cumulatively, more than four times the JSE All Share Index's paltry 14%. The average SA equity fund manager did even worse and gave investors negative returns over the period.

Anxiety has been further accentuated by the impact of the Covid-19 pandemic, he says, in which equities, property stocks and bonds fell suddenly two months ago, though subsequently recovered a large part of their losses.

"Investors, nevertheless, remain exceedingly rattled, having wanted to minimise damage while being assured a measure of security in an uncertain future. People just want a decent return without having to take the extra risk. They want the tortoise, not the hare.

"Everybody wants high investment returns. But many investors don't want to, or can't afford to, take risks. And that's one good reason why bonds at current rates are a solid choice in this uncertain environment."

A bond's income and capital are guaranteed by the issuer, like a bank or government, which provides a lot of certainty in an uncertain world. And for once, these bonds are cheap and are offering high yields just at the right time. This makes them a robust choice for investors looking to minimise risk and still receive decent and stable returns.

"This is the right time to buy fixed-rate bonds at high yields, locking in rates of up to **11%** for our investors."

Philip Bradford
Manager of the Sasfin BCI Flexible Income Fund

Photo: Supplied

To mitigate the anticipated risk and volatility originally expected at the start of 2020 with the then upcoming downgrade and existing market conditions, Bradford significantly increased the cash holdings of his fund so that it was well-placed to navigate volatility.

This meant that when the pandemic hit and its impact rippled across economies globally and locally, it had already derisked and was conservatively positioned to avoid most of the fallout. It is now placed to take advantage of the recent sell-off in markets and invest in high-yielding bonds that are likely to deliver consistent returns for many years to come.

"Many stock market investors are asking me – should I sell or hang on and wait for further recovery?" says Bradford. "This is textbook investor behavioural error called 'anchoring' where investors hang on to their current investments hoping to get back where they were before the sell-off.

"It's causing investors to ignore other good, lower-risk opportunities. With cash yields at record lows the answer lies in SA bonds. They are cheaper compared with other emerging markets and they provide low-risk investors with the opportunity to lock into high returns."

According to Sasfin's analysis, the SA 10-year government bond is currently yielding more than double the cash yield, while the longer-dated bonds are providing a further two percentage points in interest.

With expectations of inflation falling close to 3%, investors who buy these bonds today will be locking in returns of over-inflation plus 8%, says Bradford. These are the type of returns normally possible only from equities.

"We expect to experience further volatility of returns as we've seen over the past few months, but because we are still conservatively positioned and holding a lot of cash, we are well-positioned to navigate the turbulent times that lie ahead.

"We also know that the income from the bonds we hold is consistent and that it gets paid regardless of what happens to the underlying capital. Interest rates are likely to fall even further, and cash rates could easily be closer to 3% by the end of the year if the economy doesn't recover. This is the right time to buy fixed-rate bonds at high yields, locking in rates of up to 11% for our investors."

Bradford says that over the next five years equities may recover, but the outlook now is very uncertain.

It's possible, he concludes, that not only can the tortoise beat the hare again, but it seems that the tortoise – being SA bonds – is poised to run a splendidly good race again. ■

By Paul Hutchinson

MONEY MARKET FUNDS

Cash trending towards trash

Investors and advisers will need to look beyond the perceived safety of money market funds for attractive real returns.

During the mid- to late-2000s and then more recently from January 2015 to date, South African investors could invest in the money market and earn an attractive real return with little risk to their capital. The more recent period of positive real money market returns coincided with a period of disappointing returns from growth assets (equities and property), with the result that more and more investors switched their growth asset exposure to cash. This action has only accelerated after the recent equity market collapse.

Some observations

The SA repurchase (repo) rate is the key monetary policy tool used by the SA Reserve Bank (SARB) to control inflation. As inflation rises (or is predicted to), so the SARB responds by raising the repo rate, and as inflation falls (or is predicted to) the bank responds by cutting the rate.

As the repo rate rises, so returns from money market investments also rise, and vice versa. Note that the average money market fund return lags that of the repo rate. Importantly, the 250-basis point cut in the repo rate made during the Covid-19 lockdown is yet to reflect in the performance of the average money market fund. This means that money market returns will fall from here.

The average money market fund return peaks where the repo rate peaks and bottoms where the repo rate bottoms. We can therefore expect annualised money market fund returns to trend down towards the current repo rate of 3.75%. Over the full period for which the SARB has implemented inflation targeting, the money market has delivered an average real return of 1.9%.

It is instructive to consider what happened in the period after the global financial crisis (GFC), which introduced a lengthy period (approximately five years) of negative real returns for money market fund investors (see graph 1). Could it serve as a warning for the likely path of real money market fund returns? We think so.

To restimulate economies after the GFC, central banks around the world, including the SARB, anchored interest rates at record low levels. In the subsequent years, money market returns fell to levels where investors were guaranteed negative real returns, encompassing the first half of the last decade. This was because policymakers were more concerned with stimulating economic growth at the expense of wanting to contain inflation, which, interestingly, never materialised.

And now history is repeating itself. In response to the devastating consequences of Covid-19, central banks around the world are once again responding by cutting interest rates to record lows (in some countries interest rates are at zero or negative).

The SARB's Monetary Policy Committee (MPC) has acted similarly by announcing two 100-basis points cuts and a 50-basis points cut in the repo rate during the Covid-19 pandemic. These actions have reduced the repo rate to 3.75%. They were also the first moves of more than 25 basis points by the MPC in many years, illustrating the seriousness with which they view the current crisis.

Given what we have observed above, we can expect the average money market fund return to trend towards 3.75%.

Deciding what matters most

This will mean that financial advisers and investors will need to look beyond the perceived safety of money market funds to deliver attractive real returns. I say "perceived safety" because cash will increasingly prove to be a poor investment in preserving the purchasing power of your money over the longer term.

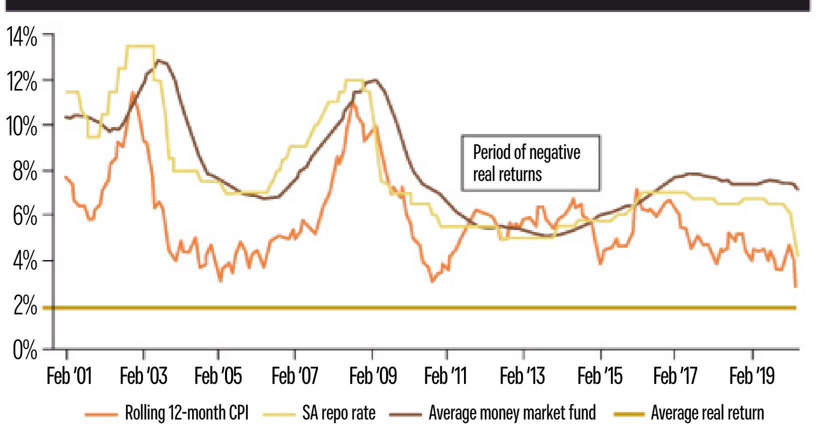
Over the last ten years many components of inflation (electricity, health costs, education and petrol) have increased by more than the return achieved by the average money market fund (see graph 2). So, anyone invested in the average money market fund would have been spending a greater portion of their income on these necessities, which they would have had to subsidise from other sources (if possible) as their money market fund investment has not kept pace with these increases.

However, conservative investors will face a dilemma, as higher real returns will come at a price, including capital security and recommended investment term. Investors must therefore satisfy themselves that the trade-off is worthwhile.

Conservative investors with an investment time horizon of greater than a year could consider a fund where the portfolio managers have a far broader investment universe from which to choose, such as the Ninety One Diversified Income Fund. It means they can diversify risk while potentially earning returns in excess of money market rates – in essence, seek to generate real returns (participate) while managing downside risk (protect). ■

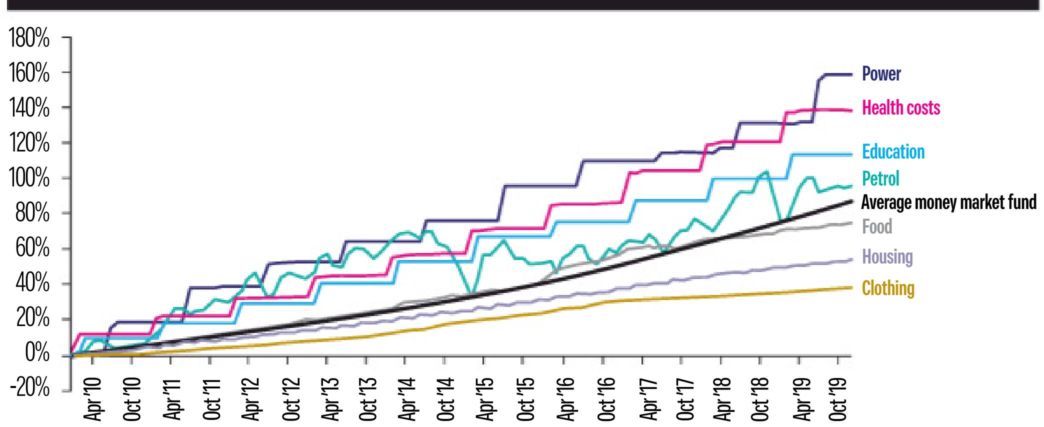
Paul Hutchinson is the sales manager at Ninety One.

GRAPH 1: SOUTH AFRICAN INFLATION, INTEREST RATES AND MONEY MARKET RETURNS



SOURCE: Ninety One benchmark database

GRAPH 2: HIDING IN CASH DOES NOT PROTECT YOU FROM INFLATION OVER THE LONGER TERM



SOURCE: Bloomberg, Morningstar to 31 December 2019

OUTLOOK

Do bonds offer opportunity in a post-Covid-19 world?

Investors must think about what the world will look like when the pandemic has passed, and which asset classes offer opportunity. How do bonds fit into the mix?

The Covid-19 pandemic has seen monumental swings in investor sentiment. While it cannot be denied that there are many investment risks that may persist after the pandemic, there is also great value to be found. Are bonds attractive enough to offer investors a haven from coronavirus fears, and if so, where are the opportunities?

"South African bonds are pricing in enough bad news to be attractive, offering interest rates more than double the rate of inflation," says Londa Nxumalo, portfolio manager at Allan Gray.

Before jumping in and investing, Nxumalo says that it is useful to understand the context in which bonds have performed over the last year.

"Most of bonds' poor performance over the last year can be traced to March 2020: Bonds sold off massively, with yields on the long end touching 13.7% at one point. This was off the back of intense foreigner selling due to coronavirus-related risk aversion and leading up to the Moody's downgrade."

She adds that the sell-off was further exacerbated by local fund managers being forced to sell bonds to meet margin calls on bond futures. Yields subsequently stabilised when the South African Reserve Bank stepped in and started purchasing bonds to restore order in the bond market. "Nonetheless, bond yields have remained between 100 basis points (bps) to 200 bps wider than in February."

But investors have reason to be concerned, as SA's fundamentals have continued to deteriorate.

"The government deficit, already projected to be the highest in decades, is likely to balloon even more due to Covid-19. Government debt has grown faster than nominal GDP since 2010 – implying that debt was used to fund consumption, rather than investment."

But has the bad news that bonds have priced in been overdone?

"SA's credit spread relative to the US is a full standard deviation above its long-term mean. The spread between the ten-year and three-year government bonds is as high as it was in the 1980s – when the country was an isolated pariah state. SA's real yields are the highest among emerging markets."

"Most of bonds' poor performance over the last year can be traced to March 2020: Bonds sold off massively, with yields on the long end touching 13.7% at one point."

Londa Nxumalo
Portfolio manager at Allan Gray

Photo: Archive

Balancing risk and seeing above-inflation returns

Nxumalo says that as a bond investor, you should look to achieve a decent absolute return in the current environment. Funds with an approach that is uncomplicated and simple, and that seek to generate above-inflation returns without taking on too much risk, can be used to create diversity in your portfolio.

"There are three key risks that need to be balanced: liquidity, credit and duration, the latter of which refers to the interest rate risk inherent in a fixed-rate instrument. Bond prices have an inverse relationship with interest rates or yields; if yields go up, prices go down and vice versa."

She adds that at Allan Gray, bond fund managers try to anticipate major trends in the investing environment, with an emphasis on economic health and GDP growth.

"This is important because it has implications for the ability of debt issuers to service their debt. Although not experts in macroeconomic forecasting, we assess the likely direction of inflation as this helps us to determine, for example, if nominal bonds or inflation-linked bonds offer better value."

Also important are bond market dynamics, in terms of supply from issuers (the government and corporates) and demand from buyers, such as institutional and retail investors, and foreigners. Increased supply in the absence of commensurate demand results in higher yields and lower prices.

"We also consider relative opportunities – such as credit spreads (the margin or relative return above the risk-free rate that investors demand from different issuers) and the yield curve (which is essentially the plotting of the interest rates the government pays at different points in time)."

The Allan Gray Bond Fund has delivered returns above inflation, as well as the All Bond Index (ALBI), over the long term. Its current positioning attempts to strike a balance between attractive real yields and prevailing macroeconomic and fiscal risks.

"We have been cautiously increasing duration to take advantage of the high yields. We have been reducing credit exposure due to unattractive credit spreads given elevated risks. Most of the fund is invested in government bonds, with conservative credit exposures."

But, why the exposure to government bonds given the burgeoning fiscal risks?

She explains that the anticipated deluge of supply will put upward pressure on bond yields; more debt also results in higher credit risk and higher bond yields due to a larger risk premium. However, the sovereign is still the best credit in the country because the government can print money.

"Furthermore, SA bonds' attractiveness relative to emerging market peers, together with local multi-asset investors' interest at these levels, act as a counterforce to an unchecked spiral in yields," says Nxumalo.

The fund currently has a running yield similar to the ALBI, but with a lower duration – partially in recognition of the fiscal risks abounding, especially considering the current market uncertainty. ■

By Christo Lineveldt

WORLDWIDE FLEXIBLE FUNDS

A popular choice among local investors

Investors' needs differ. By mandating fund managers to allocate between domestic and international assets, worldwide flexible funds can help meet these varied needs.

Maslow's hierarchy of needs describes how human motivation manifests through five categories of needs. The idea being that one first must meet the most basic of human needs (such as food, water and shelter) before progressing to more complex (and abstract) ones involving certain psychological and self-actualisation desires.

Similarly, the needs of South African investors can be arranged from the most basic, such as simply avoiding losses, through to the most complex (and desirable), involving the long-term growth of global purchasing power.

This is an important concept for long-term discretionary savers. In times of crisis, such as the current Covid-19 pandemic and the accompanying economic fallout, we are typically driven by the most basic of investor needs: don't lose money. However, one must maintain focus on your actual goals which, for many of us with long-term investment horizons, is to ensure that our hard-earned savings compound in real terms over multiple decades. And it is also becoming increasingly important that it does so in hard currencies – not only in rand.

Achieving this complex goal

Given the high hurdle involved, you are most likely best served by allowing as much flexibility as possible – enter worldwide flexible funds. These funds are not bound by regulatory limits, are geographically unconstrained and can allocate to non-equity assets. In short, they have full flexibility to allocate across all listed asset classes in pursuit of outperforming a benchmark. It is therefore no surprise that these mandates have become more popular among local investors over the past several years (see graph 1).

Worldwide flexible funds have the benefit of mandating the fund manager to allocate between domestic and international assets, which is particularly attractive to those investors who prefer not to make any calls with respect to the level of offshore exposure that they should have, the currency or choosing between developed or emerging market assets.

At Coronation, we offer an unconstrained worldwide flexible mandate called the Coronation Optimum Growth Fund. The fund will typically invest between 50% and 90% of its portfolio in international assets, will be equity-centric given its long-term focus, and is benchmarked against a combination of shares and bonds (70% shares and 30% bonds) as well as local and global assets (50% domestic assets and 50% global assets). However, as a clean-slate portfolio, it has little regard for the benchmark.

Requiring a breadth and depth in skills

Worldwide flexible mandates are, however, complicated and require a unique set of skills with which to maintain a successful long-term track record. This is evident in the low survival rate of the category, with only 18% of the funds launched since 1999 and less than half of the funds launched since 2009 in the category still in existence today.

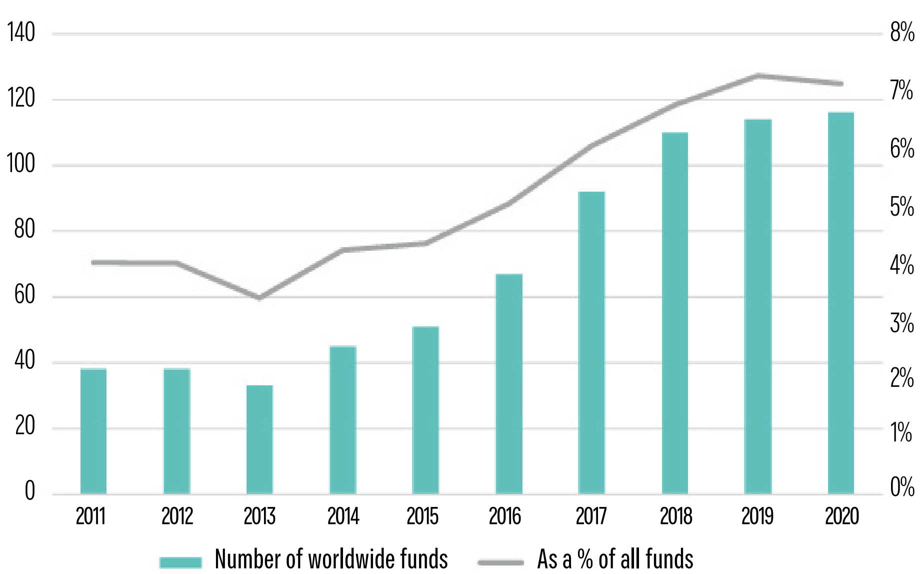
Coronation Optimum Growth Fund has proven its pedigree by ranking first in the category over 10, 15 and 20 years, and since its inception it has been a true long-term compounder, delivering a real return of 8.7% per annum (net of fees, as at end-May). In the process, it has not only outperformed its benchmark, but also local and global equities (represented in graph 2 by the FTSE/JSE All Share Index and the MSCI All Country World Index) and it has done so with roughly three-quarters of the volatility.

It is this track record that provides further evidence of the fund's ability to take advantage of our large, integrated investment team's wide research coverage across local, developed and emerging markets and deep knowledge of all listed asset classes.

We therefore believe that Optimum Growth is a sound solution for long-term investors who are not subject to retirement fund investment restrictions, and who are looking for a set-and-forget solution where their fund manager decides on the optimal geographical and asset allocation with which to achieve the toughest of investor needs. ■

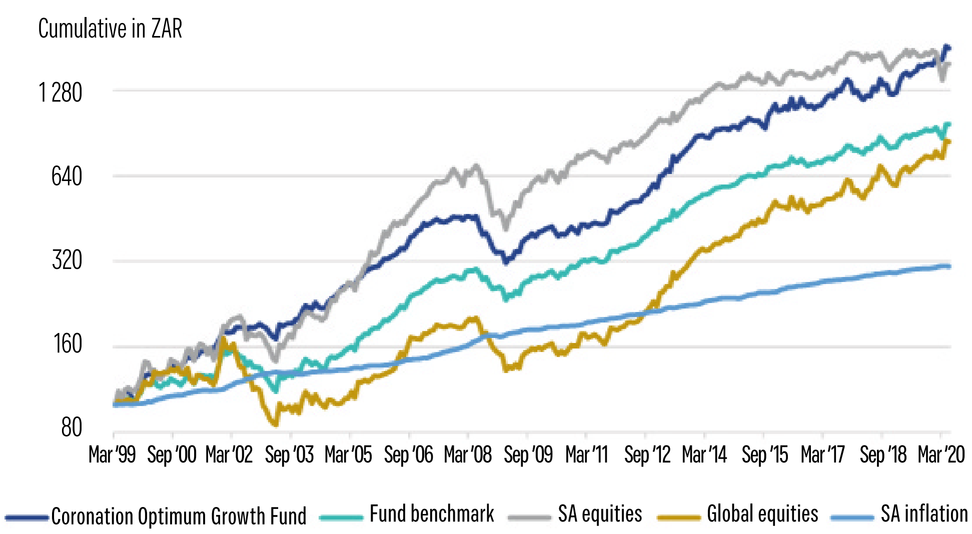
Christo Lineveldt is an investment specialist at Coronation Fund Managers.

WORLDWIDE FLEXIBLE MANDATES BECOMING MORE POPULAR



SOURCE: ASISA, as at end-March 2020

CORONATION OPTIMUM GROWTH FUND PERFORMANCE VS VARIOUS INDICES



SOURCE: Morningstar, as at end-March 2020.

By Leon Kok

HEDGE FUNDS

Capital protection trumps perception

Top-performing hedge fund uses proprietary analysis to preserve investor capital.

Many investors are apprehensive about investing in hedge funds, but in a time of crisis there is arguably a compelling case to reconsider this option.

This is according to Jean Pierre Verster, CEO of Protea Capital Management. A case in point is the firm's Protea Worldwide Flexible SNN Qualified Investor Hedge Fund, which hit a new all-time high at the end of May 2020. The fund also won a BarclayHedge Global Top 10 Equity Long/Short award recently, for its 10.49% annualised return (after fees) over the three years to March 2020.

Verster points out that hedge funds in South Africa have benefitted from a world-class regulatory regime for several years. They are obliged to appoint independent administrators, custodians and auditors, and therefore have the same checks and balances in place that traditional long-only unit trusts have. Hedge funds were previously only available to institutions and the ultra-wealthy, but the man in the street can now access hedge funds too.

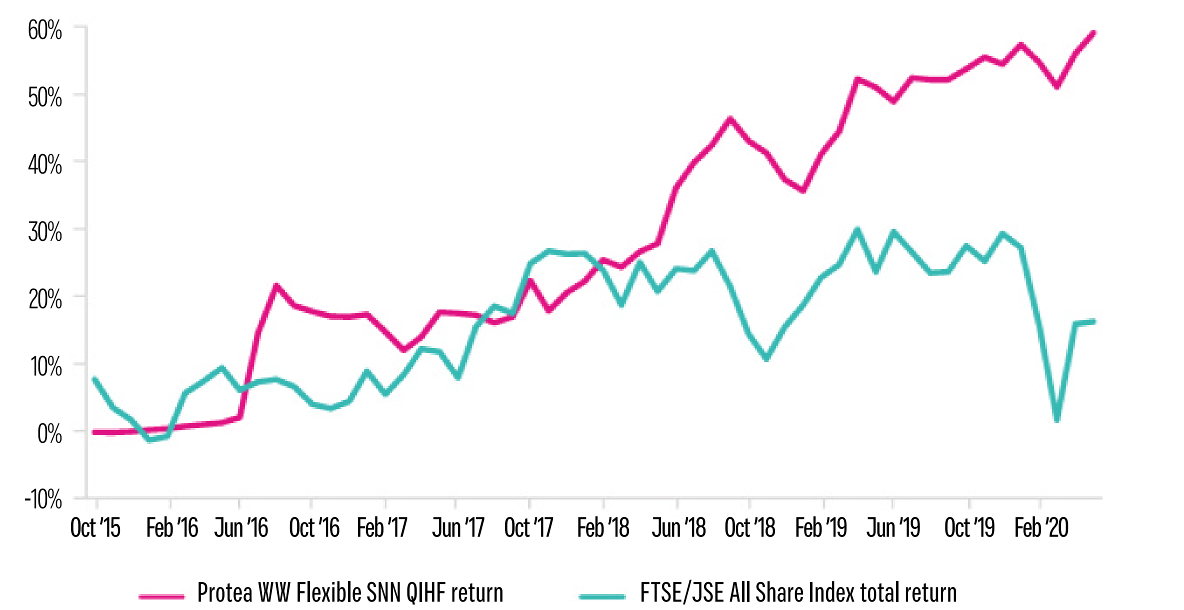
Verster dispels claims that the primary driver of a hedge fund is to make money out of the misfortune of others by shorting shares. This is because not all hedge funds follow an activist short-selling approach, where internal research is shared publicly. Rather, he argues that the most important imperative of short-selling is to protect a portfolio's value over time.

This has been particularly apparent during the current crisis, he says, in which numerous long-running hedge funds have succeeded in protecting investors against the fall in markets.

The Protea Worldwide Flexible SNN QIHF has a R1m minimum investment requirement. Protea Capital Management also manages two retail hedge funds, namely the Protea South Africa SNN Retail Hedge Fund, and the Protea Global SNN Retail Hedge Fund. These funds have a minimum investment amount of R50 000 once-off or R2 000 monthly. All three these funds are domiciled and regulated in SA.

The Protea South Africa SNN RHF focuses on JSE-listed securities, while the Protea Global SNN RHF focuses on developed-market equities. Both have net equity exposure of 35% to 75% at most times, with a maximum gross exposure limit of 200% (i.e. a maximum leverage of two times). Typically, the funds would have around 120% long exposure and 70% short exposure.

PROTEA WORLDWIDE FLEXIBLE SNN QUALIFIED INVESTOR HEDGE FUND PERFORMANCE



SOURCE: SANNE & Bloomberg

The objective, says Verster, is to generate above-average returns. This involves buying shares that are expected to rise in price, and by shorting shares that are expected to fall in price.

Marked features of the firm's investment philosophy are intellectual honesty, flexibility, and data-driven decision-making. "We believe that one can learn important lessons from various successful investors who have applied quite different investment philosophies," Verster explains. "We are not dogmatic in our approach and seek to continually improve our decision-making."

Jean Pierre Verster
CEO of Protea Capital Management

Protea Capital Management follows a 'quantamental' investment approach, involving a combination of traditional fundamental analysis with quantitative investment techniques. The approach ensures sufficient diversification to guard against risk concentration, and the avoidance of behavioural bias. It can also be described as a 'man-plus-machine' approach towards investing.

An important assumption imbedded in the firm's investment philosophy is that, over time, a company's share price will converge with its value. Value is defined as the net present value of the future cash flows that a company is expected to generate. Proprietary algorithms are used extensively to forecast these cash flows.

The origin of Protea Capital Management dates to early 2009, when Verster invited a small group of friends and family members to pool their investments and form the Verster Investment Partnership. As general partner, he managed their wealth alongside his own. The core strategy rapidly developed into a diversified share portfolio, investing both long and short in listed equities on the JSE. The partnership's mandate was later expanded to include investing in global equities.

The Protea range of hedge funds was launched in partnership with an established asset manager in 2016, and Protea Capital Management was awarded its own Financial Services Provider licence last year.

The Protea South Africa SNN RHF and Protea Global SNN RHF are available on the Momentum Wealth platform while the Protea Worldwide Flexible SNN QIHF is offered on the 27four Life and Hollard platforms for investment via endowment policies. All three funds are also available on the Ashburton Equity-Linked Note and Absa LISP platforms. ■

Photo: Supplied

By Leon Kok

PORTFOLIO MANAGEMENT

Shelter your wealth

The risk of investing in South Africa is rising. Considering offshore investments has never been more important.

We have seldom been in a bigger mess economically than we are now. The financial system, in fact, is more fragile than we have been told and could still unwind at frightening speed.

The only other time that I can recall something similar in South Africa was when the Hertzog government of the early 1930s stubbornly refused to abandon the gold standard and pushed the country deeper and deeper into the Great Depression.

We seem to be in a matching boat now, precipitated by an obtuse ANC-led government whose huge R500bn economic stimulus could equate to something between a 7% and 12% shrinking of our economy. Not least of the upfront difficulties is that Sars has hinted that tax collection could fall by as much as R250bn this year alone because of the shutdown.

The R50bn interest bill on this additional debt burden, further, means R50bn less to spend on health, education or other services.

Further down the track you can probably consider it inevitable rather than probable that the government will raid pensions with the re-introduction of prescribed assets aimed at funding the public sector's large and rapidly-growing debt burden. Stanlib economist Kevin Lings suggests that this would probably include forced funding of fragile state-owned enterprises such as Eskom.

There can be no doubt that it would undermine business and consumer confidence, leading to increased capital outflows, while also weakening SA's credit rating.

As economist Dawie Roodt and others have constantly reminded us, we were in deep trouble long before the woes from Wuhan hit our shores. It doesn't help now, for instance, that influential elements of the government remain determined to restore an outrageously bankrupt SA Airways.

The implications of this, clearly, are a period of prolonged economic hardship, continued gross mismanagement, an increasingly weakened currency, higher taxes and more senseless state intervention.

Indeed, I concur with Allan Gray CEO Andrew Lapping's view that the government's recent draconian lockdown approach threatened more lives than it could save. And, no less, National Treasury has hinted that up to 7m people could lose their jobs, translating perhaps to tens of thousands of additional deaths.

Nor has it helped that the workings and decisions of the National Coronavirus Command Council (NCCC) have been a vital constitutional concern, having apparently rampantly abused its powers under the Disaster Management Act.

So, where to from here for investors?

You may argue that the JSE looks cheap relative to history and that the local economy is on a par with what other countries are experiencing. But as Old Mutual strategists Dave Mohr and Izak Odendaal have rightly pointed out, the difference is that we came into this latest crisis on a much weaker footing, already in recession. Our ability to respond from a policy point of view is also much more limited with the occurrence of excessive government borrowing prior to the crisis.

I still maintain as such that maximum exposure to a relatively conservative balanced offshore fund should be the way to go in preference to, say, an exclusively SA equity fund.

The earnings prospects of most JSE-listed companies are likely to be shocking for at least the next year or two, potentially shaving off another 20% to 50% off their current market valuations. And we're probably looking to a minimum R20 to the US dollar in this period.

I might also add that for those investors preferring to be singularly invested in local stocks, many of these could become illiquid.

Likewise, tread lightly with excessive bond and money market exposure. While local bonds may currently offer high yields, a high degree of risk is associated with lending money to the SA public sector. The government will have to borrow hundreds of billions of rand more than expected over the next few years. And lest it be forgotten, SA defaulted on international loans in 1986 when multinational banks refused to roll over then government dollar loans.

The R50bn interest bill on this additional debt burden, further, means
R50bn
less to spend on health, education or other services.

Old Mutual Wealth's view nevertheless is that with yields of 10% on the 10-year government bond, the low-inflation environment and another cut in interest rates expected, this represents a healthy real return for moderate risk.

What funds, then, to access?

First prize, in my view, remains a credible big-ship global balanced fund with modest exposure to equities. Its inherent qualities aside, it should also enable you to benefit handsomely from a global equity rebound when one does arise.

Locally, I favour the likes of the Orbis Global Balanced Fund, Ninety One Global Strategic Managed Fund, Prudential Global Balanced Feeder Fund and the Coronation Global Managed and Optimum Growth Funds. These allocate all or most of their assets to international investments, while remaining easy to access.

However, as Coronation's Pieter Koekemoer notes, while they provide full economic diversification, they still operate under SA law and therefore do not necessarily diversify jurisdictional risk (such as exchange control).

But those who do wish to diversify their jurisdictional risk can externalise their rands and invest in a fund incorporated in another country, most often in the EU. In this case, the laws of the country of incorporation govern your investment. ■

By Mariam Isa

TOURISM

Covid-19 to curb wanderlust

The coronavirus pandemic's severe impact on tourism will linger, altering the way we travel and vacation.

Global travel and tourism have been decimated by restrictions imposed to halt the spread of the coronavirus, but attention is starting to turn to how and when a recovery might take place in a sector estimated to account for 200m jobs and a tenth of the world's economy.

Uncertainty prevails amid concern over whether there will be a "second wave", or resurgence of infections in countries that have begun easing their lockdowns – a scenario the World Health Organization says is inevitable, based on the behaviour of previous pandemics.

This raises the prospect of recurring restrictions until an effective vaccine is found, and travel is the most vulnerable of any activity, especially given that it was responsible for the initial spread of the virus from its place of origin in Wuhan, China.

Opinion is divided as to whether there will be a burst of pent-up demand from people tired of being shackled to one place, or whether the practices of social distancing and risk avoidance will lead to permanent behaviour changes. For the next couple of years at least, the latter appears most likely to prevail.

Apart from being wary of getting the virus in crowded places or on airplanes, many people will be reluctant to venture far away from their homes and become separated from their loved ones, as many did when lockdowns were imposed with little warning earlier this year.

As a result, domestic tourism worldwide is likely to bounce back first, with travellers opting for quiet destinations reachable by car, and stays at private rental properties instead of crowded hotels and resorts.

"Cities reliant on long-haul traffic will suffer – those destinations will be the most vulnerable over the coming months and years," said David Goodger, managing director of tourism economics for Europe, the Middle East and Africa at the UK-based Oxford Economics.

"More regional, smaller and rural destinations will benefit – people will want to be away from the large numbers you see in major cities," he added.

The International Air Transport Association (IATA) has been quick to calculate and regularly update its forecasts for the beleaguered industry, which it says will recover more slowly than other parts of the global economy.

It predicted in May that air travel may only recover to last year's levels in 2023. Passenger demand is expected to fall by nearly 50% in 2020, while airline passenger revenues will plummet by $314bn. Domestic markets would open first, with an initial preference for short-haul trips, it said.

From a business travel perspective, IATA's recovery outlook may be optimistic, as many companies will stick to remote video conferencing to save time and money, even after the pandemic is contained. The industry body estimates that SA's share of forgone flight sales could be more than R40bn.

The World Travel and Tourism Council, a private forum for

The World Travel and Tourism Council, a private forum for the industry, calculates that the blow to the sector could cost the world economy

$2.7tr

in 2020, wiping out 100m jobs.

David Goodger
Managing director of tourism economics for Europe, the Middle East and Africa at the UK-based Oxford Economics

the industry, calculates that the blow to the sector could cost the world economy $2.7tr in 2020, wiping out 100m jobs. The outlook in SA is no less bleak, with the country's Tourism Business Council warning that R171.4bn of tourism spending could be lost this year, and a million jobs shed.

It is urging the government to lift restrictions on international travel earlier than anticipated and to present clear plans as to when the tourism sector will be up and running, to help salvage the September to March summer season, which normally accounts for 60% of annual business.

When domestic leisure travel is permitted, there could be new opportunities for tourism in SA, as people who would have normally travelled overseas will spend their holidays in the country, said Mia Slabbert, economist at the Bureau for Economic Research, in a recent research note.

"It could also increase demand for tourism in rural areas as travellers try to avoid congested metros where social distancing is harder," she said.

While the weaker rand would discourage South Africans from travelling overseas, it would also increase the country's appeal as a tourist destination for overseas travellers, she added.

For those who do venture abroad, travel will become more complicated. Queues at immigration will lengthen as people are subjected to intensive pre-flight health checks, which could even include instant tests for Covid-19 – which the airline Emirates has already introduced at its hub in Dubai.

Some form of immunity certificate may become a requirement for both outward and inward travel, which would have to be linked to an invasive 'track and trace' system in digital format. The WHO has cautioned against immunity passports, saying on 24 April that there was currently no evidence that people who have recovered from Covid-19 and have antibodies were protected from a second infection.

Bioethicists warn that they could create two classes of citizen as tests were both limited and expensive, and pointed out that they could also provide a perverse incentive to contract the virus deliberately. Nevertheless, the idea is being floated in the US, Germany, the UK, and other countries.

Travel insurance will become a must, and policies would have to include clearly defined coverage for pandemics and travel advisories. ■

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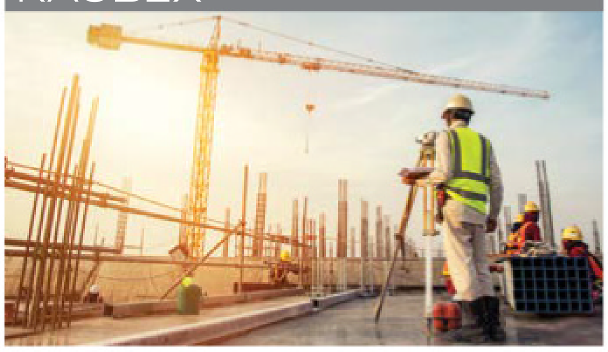
Mariam Isa is a freelance journalist who came to SA in 2000 as chief financial correspondent for Reuters news agency after working in the Middle East, the UK and Sweden, covering topics ranging from war to oil, as well as politics and economics. She joined *Business Day* as economics editor in 2007 and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

By Simon Brown

Simon's stock tips

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

RAUBEX



Beware the risk

Raubex is one of the few remaining construction stocks left on the JSE. It published decent results for the year ended 29 February at the end of May and commented that it has seen an increase in tender activity in the last few months. Raubex is also well-positioned to benefit from the Integrated Resource Plan programme approved by Cabinet in October 2019, but which is not yet out on tender. Another opportunity is the likely infrastructure spending planned by the government to help mitigate the economic impact of the Covid-19 pandemic and lockdown. So, the sector could start seeing some work returning. However, the problem is that after years of little activity in the construction space there is certainly an oversupply of potential bidders for any work and that means highly competitive bidding that ends up revolving around price – and this is a risk. We've seen local construction companies with projects that are loss-making in the past. While this can be intentional in a bid to keep equipment and skills, it goes without saying that profitable projects are preferred.

INDICES

Index changes drop Redefine

Changes to the JSE's indices were confirmed to have taken place on 19 June. Redefine is exiting both the FTSE/JSE Top 40 Index and the FTSE/JSE Financials 15 Index (Fini) to be replaced by Exxaro and Quilter, respectively. This always reminds me that the Fini has a lot of listed property and not just banking stocks. No changes were announced to the FTSE/JSE Resources 10 Index.

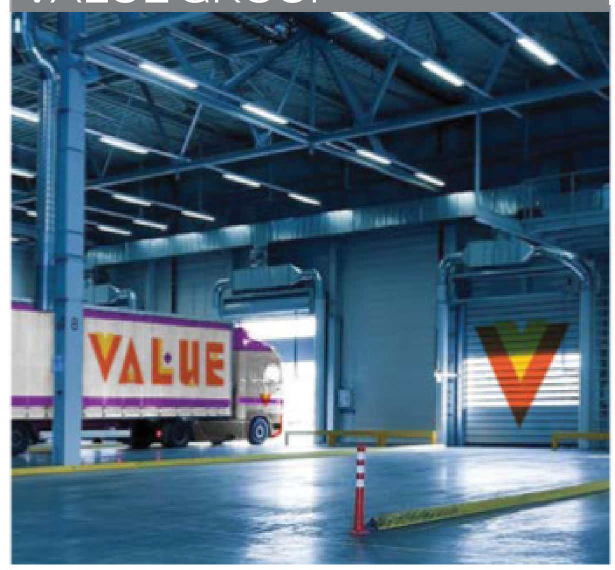
HYPROP

Little light for malls

An update from Hyprop Investments in the second week of June confirmed the trend we saw in the Liberty Two Degrees update of a few weeks ago. Currently, on average 80% of mall stores are open; malls that house more sit-down restaurants are sitting on lower rates due to the fact that the restaurant sector remains largely closed. Foot traffic is also picking up and the first week of June (just after SA shifted to lockdown at level three) saw it improve to 76%. Rental collections are also improving, but anecdotal evidence is that several stores have simply not survived the initial stages of the lockdown and filling that empty space is going to be a significant challenge. The JSE's listed property index gained 25% in early June but has retreated as conditions remain tough and valuations impossible to determine.

With Lougot holding over 50%, certainly any delisting would have to be approved by them and this may restrict a third-party offer, unless it comes at a really juicy premium.

VALUE GROUP



For the long haul

Value Group's results really knocked it out of the park, even though it's for the year ended February. The industrial logistics company's headline earnings per share (HEPS) jumped 22% to 92.2c, putting it on a price-to-earnings ratio (P/E) of under five times. It declared a final dividend of 24c/share, taking the full-year's dividend to 40c – meaning a dividend yield of just over 9%. The net asset value is 564.6c/share of which some 150c/share is held in cash. Sure, logistics is a very tough spot during the lockdown and in an economy that has been struggling for years. But that speaks to the group's solid operational ability in that these results happened during the recession that hit SA before the pandemic did. The trick here is that Value Group has long traded at seriously attractive valuations and hence I always ask what will change that situation? Maybe here the change will be a delisting? Either in the form of a management buyout or maybe majority shareholder Lougot Property Investments will take the company private? With Lougot holding over 50%, certainly any delisting would have to be approved by them and this may restrict a third-party offer, unless it comes at a really juicy premium. The real challenge, however, is that with the pandemic and an economy under continued pressure, trading conditions will remain tough. But brave investors should certainly consider this as a long-term play as well as a potential delisting target.

Photos: Shutterstock | Archive | www.value.co.za

OCEANA

Bigger fish to fry

Global fishing company Oceana is a stock that I have long been watching, but the share price has been falling for most of the last five years. Even after this prolonged period of decline it trades on a P/E of around 13 times, which is around fair value. Results for the six months to the end of March, released at the beginning of June, reported flat revenue and HEPS. Canned fish (Lucky Star, among others) is one of its main operations and a source of protein for many South Africans. As consumers struggle under the economic effects of the coronavirus pandemic, demand for this product could increase. However, the problem is that the company is having to buy in fish for canning because the "pilchard Total Allowable Catch (TAC) remains at a cyclical low". This hurt margins for the six months. Add to this that US operations also reported catches of historical lows, and the investment case for the stock remains weak. I still like the industry as an investment idea, but government quotas and low catch rates complicate the valuation process within the sector. As such, I just stay away.

CAPITAL APPRECIATION

Stock to watch

Fintech company Capital Appreciation has largely gone unnoticed by investors, but great full-year results published at the beginning of June has seen renewed interest in the stock. The company operates in cloud services to financial services companies and this is in demand right now due to the sector working from home. It also provides payment network infrastructure to the industry and terminals to retailers. SA has a world-class financial services infrastructure, but it is ageing, and Capital Appreciation has new technology that is gaining a foothold with the large financial services players. This is certainly a stock to watch, especially since its management's confidence saw them increase the dividend payment by 17.6%.

TSOGO SUN GAMING

Debt-locked industry

Tsogo Sun Gaming results for the year ending March reveal little more than a debt pile sitting at R11.2bn. This is almost double its market cap, even after the stock rallied by over 300% in the weeks before the release of the results. The problem the gaming industry has is that it remains in 100% lockdown and is a long way off from reopening. It has applied for an earlier reopening than the current level-1 prospects, but even if permission is granted (which I think is unlikely), the problem remains social distancing and limited pay-out machines situated in the casino bars, which means casinos will be operating at a reduced capacity. Sure, any revenue is better than none, but this industry (and broadly the entire leisure industry) remains under severe pressure and debt burdens are a real risk. Lenders are waiving debt covenants and restructuring debt, but the debt is not going away and will have to be repaid eventually. So, even with the help of lenders when they do start operating again, those debt burdens are going to be a significant drain on earnings for many years.

> The problem the gaming industry has is that it remains in 100% lockdown and is a long way off from reopening.

MEDICLINIC

State deal may be too little

Mediclinic International's full-year results to the end of March again tell us little amid the coronavirus pandemic. The commentary released with the results for the lockdown period does show that while hospitals may seem like a great space for investors during a pandemic, the reality is that this is not the case. Ahead of the expected surge in Covid-19 hospital cases, they're seeing low bed nights as elective surgery is delayed and trauma cases are greatly reduced due to the government-imposed lockdown (and the alcohol sales ban to the end of May). Recent reports state that the government has agreed to a deal with the hospital groups on a price for public sector patients being admitted to private hospitals. But this extra demand for bed nights is likely to occur as the demand generally peaks so it won't add any additional bed nights as the hospitals would have been getting the extra demand from private sector patients. Two stocks in the medical space that do continue to perform well remain Aspen Pharmacare and Adcock Ingram – and both have decent forward valuations even after their share prices increased in recent months. ■

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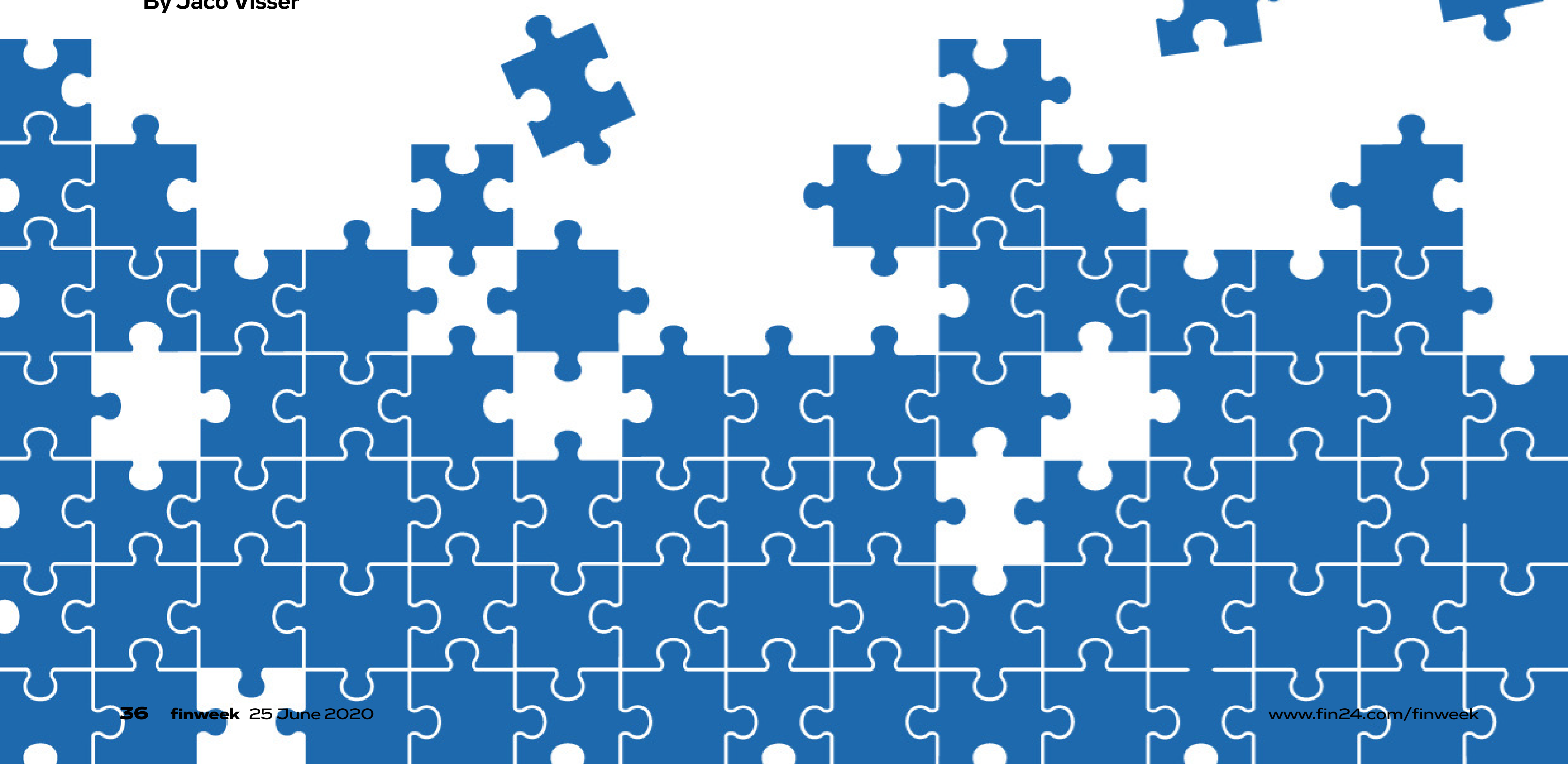
IS THE DISCOUNT STILL VALID?

Do diversified investment houses such as Remgro still offer value in the midst of the discount to their share prices compared to their intrinsic net asset value?

By Jaco Visser



"Remgro's aim is to render outstanding returns through ensuring sustainable dividend and capital growth to shareholders over the long term."

A series of unbundlings from investment companies over the past couple of years has raised the question among many investors as to whether these companies, together with the discounts on their net asset value, or even their intrinsic net asset value, are at all worth investing in.

One of the largest investment holding companies in South Africa is undoubtedly Remgro, with its interests in private healthcare, food processing, optical fibre infrastructure and banking – to name but a few.

Despite the group's apparently sound underlying companies, its share price is trading at a firm discount to its intrinsic net asset value. The latter is a measure used by Remgro to determine its underlying value.

Over the past number of years, the unbundling of investment houses and large companies listed on the JSE was the order of the day. In 2016, Bidvest unbundled its food services division, Bidcorp, to shareholders. Two years later, Old Mutual distributed its British interests to shareholders. It also reduced its interest in Nedbank from 52.2% to 19.9% by splitting its Nedbank shares among its Old Mutual shareholders. Last year, Naspers* unbundled most of its internet businesses as Prosus (which houses its key 34% interest in the Chinese Tencent) in what some analysts describe as an attempt to get rid of the discount on its underlying asset value and to retain a controlling stake. Its subscriber television division has been fully distributed to shareholders as the MultiChoice Group. These are but some of the examples.

This year saw two unbundlings worth mentioning: Investec, which listed its asset management division (Investec Asset Management) as Ninety One; and RMB Holdings (sometimes also called RMH), one of the founder shareholders of FirstRand, which announced the unbundling of its interest in the banking group. And Remgro owns 28% of RMB.

After the distribution of its 34% interest in FirstRand in the ratio of 1.31189 FirstRand shares for every RMB share held, RMB will consist solely of property investments. It is telling that Remgro does not take its chances in this sector. Remgro has distributed all its RMB shares directly to shareholders, who in turn (after receiving their FirstRand shares) can decide whether they feel up to tackling property. This brings us to RMB's decision to unbundle.

"In light of the widening discount to intrinsic value at which RMH has traded over the past number of years, the RMH Board dynamically evaluated its corporate structure, taking into account the important long-term benefits the investment holding structure has provided to FirstRand," according to the circular to shareholders, which set out the details of the unbundling. It's plenty of jargon, but still significant. The board therefore no longer justifies the discount at which RMB's shares are trading after its interest in FirstRand has been considered.

And this is particularly important: at what stage can a board of directors no longer justify the discount on its intrinsic value? Should shareholders in investment companies then not simply be allowed to invest directly in the underlying companies in which they are listed?

Jannie Durand
CEO of Remgro and non-executive chairman of RMB

Renier Holtzhausen
Wealth manager at Anchor Capital

More than a fund manager?

A person can then also ask, what's the purpose of being an investment company and accordingly exert influence on the underlying companies?

"Remgro's aim is to render outstanding returns through ensuring sustainable dividend and capital growth to shareholders over the long term," Jannie Durand, Remgro CEO and non-executive chairman of RMB, tells *finweek*. "Therefore, the effectiveness of Remgro as an allocator of capital (both financial and human capital in terms of good management) is extremely important."

According to him, this entails the acquisition of significant stakes in companies to have a meaningful influence focused mainly on "giving support" rather than meddling in the day-to-day management of the companies. This support includes strategic, financial and management services, says Durand. And then also: "the creation of an environment for corporate deals".

This aligns with what Renier Holtzhausen, wealth manager at Anchor Capital, calls the diminishing attraction of investment holding companies. These companies were popular from the 1960s to the 1990s, mainly because they were characterised by lower cost of capital owing to their size and because

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

"The investor is forced to have the portfolio weights as they reflect in the investment holding company."

they had diversified income streams, he explains. The investment company could raise capital on the stock market or from banks, which they could in turn allocate to the underlying companies.

As the retail banks' models for credit risk improved over the ensuing decades, the underlying companies started getting better access to bank finance, explains Holtzhausen. In this way, one of the reasons for the existence of the traditional investment company was increasingly eroded. A more important factor, according to him, is the need for investors to draw up their own investment portfolios.

"If an investor buys, for example, Remgro, they don't have the option to rather have 10% in Mediclinic and 40% in RMI Holdings," he explains to *finweek*. "The investor is forced to have the portfolio weights as they reflect in the investment holding company."

The portfolio

So, what does Remgro's portfolio look like?

Remgro's biggest underlying asset is its 44.6% stake in the private hospital group Mediclinic International. At the time of writing, and given Mediclinic's share price of R58.70, Remgro's holding was worth R19.05bn. Its second-biggest underlying shareholding is in RMI Holdings, unbundled from RMB in 2011, which is a portfolio of stakes in insurance companies and asset managers. Remgro owns 30.6% of RMI. The value of this investment was R14.22bn at the time of writing. See the table on p.42 for a breakdown of Remgro's listed portfolio and the infograph on p.41 for its most important listed and unlisted investments.

At a market value of R56.69bn (with a share price of R110) an investor has therefore acquired all of Remgro's listed investments at their trading prices on the stock exchange and paid less than R800m for *all* the unlisted investments, which includes stakes in Vumatel, Siqalo Foods, Total, SEACOM, Kagiso Tiso and others (see infographic on p.41).

But what are these unlisted investments worth?

Remgro's latest report was released at the end of December, and if one should remove RMB, FirstRand, Mediclinic, RCL Foods, Distell, RMI, Caxton and the two Grindrods (as well as other company assets, cash and debt), the calculated intrinsic value of the rest of Remgro's portfolio would have stood at R32.6bn at the end of last year. Suppose the coronavirus pandemic reduced the net asset value of its unlisted investments by 40% – which is rather conservative and most probably unlikely – then this portion of the portfolio can be valued at R19.56bn. If you then add back the already mentioned listed investments (excluding the unbundled RMB) at R55.9bn and the net cash of R1.2bn (post-dividend), you get to a value of R76.66bn. With Remgro's market value of R56.69bn, this means a pre-tax discount of 26%. Please note that other "net corporate assets" of R2.4bn declared by Remgro are not included in this rough calculation.

This compares with Anchor Capital's calculation of a pre-tax discount of 31.4% on 1 June, according to Holtzhausen.

The biggest contributor of intrinsic asset value to Remgro's unlisted portfolio is Siqalo Foods, which is 100% owned by Remgro and was valued at

R6.3bn

at the end of December.

Food giants

The biggest contributor of intrinsic asset value to Remgro's unlisted portfolio is Siqalo Foods, which is 100% owned by Remgro and was valued at R6.3bn at the end of December. This company came into existence when Remgro sold its 25.75% stake in Unilever in July 2018 in exchange for the latter's spread business (Flora, Rama and Stork) and R4.9bn in cash.

Siqalo grew its headline earnings for the six months to end-December 2019 to R297m from the R231m of the previous corresponding period, according to the half-year results. This performance can be compared with another food producer in which Remgro has a controlling stake, namely the listed RCL Foods. It is one of the biggest poultry and sugar producers in SA and owns the distribution agency Vector Logistics. RCL's headline earnings for the six months to end-December 2019 declined to R359m from R366m as structural problems in SA's poultry and sugar industry put pressure on its profit margins.

Would it, however, not make sense to delist RCL and merge it with Siqalo? This is what Remgro did with Rainbow Chicken and TSB Sugar to establish RCL Foods. The unlisted Premier Foods was also purchased at the time and absorbed into RCL Foods. RCL is already delivering "shared services" to Siqalo and distributes its products through Vector.

"Remgro already has a controlling stake in RCL Foods, and minority shareholders would prefer to be bought out at a premium," says Durand. "So, there is the risk of overpayment, which could result in the necessary investment return not being attained."

This sounds right, if one considers that RCL is currently trading at a historic price-to-earnings ratio (P/E) of just over 25 times, which makes the share on the expensive side. The historic P/E of its competitor, Tiger Brands, is 16.2.

"It would be a positive signal to the market about the intent of management to add value to its current portfolio if RCL minorities are bought out," says Theo Botha, a portfolio manager in STANLIB's equities team. "Either that or the share should be unbundled so that new shareholders can decide what to do with a company involved in chickens and sugar."

According to Durand, the Remgro management and board are "constantly considering all options to create shareholder value".

In the meantime, RCL warned the market early in June that its headline earnings per share for the year to 30 June 2020 will decline by at least 30%. Its chicken division and Vector Logistics have been hardest hit by the closure of quick-service restaurants during the government's lockdown to combat the coronavirus. In addition, it's expecting to write down some of its underlying assets, according to a trading update on 8 June. This announcement did not have much of an impact on RCL's share price as it dropped by 1c between 5 and 8 June. On 9 June it increased by 20c to R9.50. Should its ordinary earnings follow its headline earnings and drop by 30%, it will mean that the company's P/E could increase to more than 36 times – which is very expensive in a struggling consumer market.

"We are currently concerned about the prospects for the fast-moving consumer goods industry," says Holtzhausen. "We believe that the immense financial pressure that the SA consumer is facing will accelerate the trend of the acceptance of private-label brands and the consequent price wars in various food categories." These price wars, which flow from the poor consumer climate in SA even before the coronavirus pandemic struck, are putting enormous pressure on food producers' margins.

Add to that that Remgro's 77.5% stake (according to its website, but 70.3% according to an RCL statement in April) will as a matter of course inhibit the liquidity of RCL shares.

"We believe that the lack of liquidity in RCL Foods [shares] is a further drawback for any investor that wishes to invest in the company and for the company itself," says Holtzhausen. This liquidity problem was recently brought to a head when executive directors of RCL, in whom shares vested in terms of a 2017 incentive scheme, were to be bought back by RCL.

"The Company's extremely limited free float, low trading volumes and lack of tradability severely restrict the ability of the participants [of the scheme] to trade in these shares," according to a statement made by RCL at the end of March. The whole transaction would have involved 14.48m shares (or 1.5% of the company's total shares in issue) for a value of R149m. After rumblings in the media and direct complaints to RCL, Remgro decided to abstain from voting when shareholders voted on the repurchasing of shares at the end of May. Those shareholders who did in fact vote, voted against the repurchase.

On the other side of the debate, Roy Mutooni, a share analyst at Absa Asset Management, believes that being part of the Remgro stable was of great benefit to RCL during its restructuring and repositioning – the merging of Rainbow, Premier and TSB. "We have always felt there was a home for RCL Foods amongst Remgro's other food interests, and believe that with the unbundling of the financial services businesses, it will gain greater attention from the group over the short to medium term," Mutooni tells *finweek*.

Theo Botha
Portfolio manager in STANLIB's equities team

Recovery after the pandemic

With its apparent defensive underlying portfolio of companies – such as food producers and private healthcare – the question is which of Remgro's companies will recover strongest and fastest after the coronavirus pandemic.

"We believe that RMI Holdings will be a strong performer in this environment," says Holtzhausen. "The lockdown will likely cause a significant reduction in the claims ratio of OUTsurance and Discovery, while the threat of a pandemic may increase the demand for life and health insurance. But RMI Holdings has been a strong performer already this year."

Roy Mutooni
Share analyst at Absa Asset Management

RMI's share price decreased by 2% since the beginning of the year and decreased by 8.1% over the past 12 months.

"The insurance sector in SA is world class, but the fund management industry is overtraded," says Durand. RMI, which owns 89.1% of OUTsurance, 25% of Discovery, 27.3% of Momentum Metropolitan, 29.9% of the British insurer Hastings plc, and 100% of RMI Investment Managers (RMIIM), has a large exposure to both insurance and asset management.

So, for example, RMIIM has minority stakes in nine smaller, or so-called boutique, asset managers.

Photos: Supplied

Remgro Holdings

RMI Holdings (30.6%)
(effective 30.6%)

Mediclinic **(44.6%)** (effective 44.6%)
RCL Foods **(77.5%)** (effective 77.5%)
Distell **(31.8%)** (effective 31.8%)
Siqalo Foods **(100%)** (effective 100%)
FirstRand **(3.9%)** (effective 3.9%)

RMI Investment Managers (100%)
(effective 30.6%)

OUTsurance **(89.1%)** (effective 27.3%)
Discovery **(25%)** (effective 7.7%)
Momentum Metropolitan **(27.3%)** (effective 8.4%)
Hastings plc **(29.9%)** (effective 9.1%)

Royal Investment Managers (46.5%)
(effective 14.2%)

CoreShares **(25%)** (effective 7.7%)
Granate Asset Management **(30%)** (effective 9.2%)
Ethos **(15%)** (effective 4.6%)
Northstar Asset Mangement **(30%)** (effective 9.2%)
Perpetua Investment Management **(15%)** (effective 4.6%)
Polar Star Management **(27%)** (effective 8.26%)
Sentio Capital **(30%)** (effective 9.2%)
Tantalum Capital **(30%)** (effective 9.2%)
Truffle **(25%)** (effective 7.7%)

Sesfikile Capital **(25%)** (effective 3.6%)
Visio Capital Management **(31%)** (effective 4.4%)
Balondolozi **(30%)** (effective 4.3%)
Ethos **(15%)** (effective 2.1%)

Air Products **(50%)** (effective 50%)
Total South Africa **(24.9%)** (effective 24.9%)
Wispeco Aluminium **(100%)** (effective 100%)

PGSI (37.7%)
(effective 37.7%)

PG Group **(90%)**
(effective 33.9%)

Community Investment Venture Holdings (54.4%)
(effective 54.4%)

Vumatel **(100%)**
(effective 54.4%)

Dark Fibre Africa (50.5%)
(effective 27.5%)

MCT Telecommunications **(86.5%)** (effective 23.8%)
Conduct **(100%)** (effective 27.5%)
Market Demand Trading 191 **(100%)** (effective 27.5%)
SqwidNET **(100%)** (effective 27.5%)
SA Digital Villages **(100%)** (effective 27.5%)

Kagiso Tiso Holdings (36.3%)
(effective 36.3%)

Kagiso Media
Servest
Momentum Metropolitan
Infrastructure Finance Corporation
Kagiso Asset Management
Fidelity Bank (Ghana)
Me Cure Healthcare
Lupo Bakery
Actom

Tamela

Emira Property Fund
FLSmidth Roymec
Roytec
Cincinnati Mine Machinery
PPC Cement
Global Wheel
George Stott & Company
Cure Day Clinics
AON
Daimler Fleet Management

Nozala Investments

Tekpro Projects
LSL Tekpro Projects
Amasondo Fleet Services
Lanseria International Airport
Digital Vision Technologies
EnviroServ Waste Management
Kelvion Thermal Solutions
Eqstra Holdings
Woodlands Dairy
Constantia Afripack

Grindrod **(23.3%)** (effective 23.3%)
Grindrod Shipping **(22.7%)**
(effective 22.7%)
SEACOM **(30%)** (effective 30%)

Pembani Remgro

Pembani Remgro Infrastructure Managers **(25%)**
(effective 25%)
Pembani Remgro Infrastructure Fund **(16.2%)**
(effective 16.2%)

eMedia Investments **(32.3%)** (effective 32.3%)
The Blue Bulls Company **(50%)** (effective 50%)
Stellenbosch Academy of Sport **(100%)** (effective 100%)
Business Partners **(42.8%)** (effective 42.8%)
Caxton & CTP **(5.8%)** (effective 5.8%)

Invenfin (100%) (effective 100%)

AdDynamo
ArcAqua
BOS Brands
De Villiers Chocolate
Dynamic Commodities
Joya Brands
LifeQ
Wyzetalk

Milestone Capital II **(8.1%)**
(effective 8.1%)
Milestone Capital III **(28.1%)**
(effective 28.1%)
Milestone Capital Investment Holdings **(7.5%)**
(effective 7.5%)

The value trap for investment companies is created when too many of their underlying assets are listed and the market believes that it will be difficult to create incremental value.

Together with Royal Bafokeng Holdings, through the company Royal Investment Managers, RMIIM has shareholdings in four asset managers.

"There are certainly other aspects, or so-called extraordinary businesses (fintech and insuretech) in the financial services sector that are attractive and opportunities are constantly being investigated," says Durand, and adds that this is the reason for the creation of Alphacode, which is 100% owned by RMI. It aims to "find the next generation of extraordinary entrepreneurs with disruptive ideas who have the potential to transform the financial services sector".

Some of Alphacode's capital has already found its way to businesses such as Entersekt (involved in cellphone apps technology and payment security) and Prodigy Finance (which finances postgraduate students at top universities worldwide).

Hihher up the ICT supply chain, Remgro owns 54.4% of the unlisted Community Investment Venture Holdings (CIVH), which in turn owns 100% of Vumatel and 50.5% of Dark Fibre Africa. Both are involved in the rolling out of fibre networks for fast internet access across SA. The well-known entrepreneur Dr Anna Mokgokong's women's empowerment company, Community Investment Holdings, is also a shareholder in CIVH.

"Clearly Vumatel and CIVH have benefitted significantly from the growth in fibre traffic during the lockdown and should continue to see this benefit even as the economy opens up," says Mutooni.

Distell, the producer of alcoholic and non-alcoholic beverages, should fare better after the pandemic and especially after the government lifted the ban on the sale of alcohol on 1 June.

"We also believe that the Distell Group will recover swiftly from the economic fallout due to the pandemic," says Holtzhausen. "We like the portfolio of brands that Distell owns and we believe that they will perform well over the long term." These brands, among others, include Amarula, Savanna, Klipdrift and Hunter's Dry.

On 15 May, Distell told shareholders it expected that its headline earnings per share for the year to 30 June would decline by between 60% and 80% compared with the previous financial year. It looks as if the market has already priced in this drop as Distell's

VALUE OF REMGRO'S LISTED PORTFOLIO

Company	Market value***	Effective Remgro shareholding	Value of shareholding***
Mediclinic International	R42 708m	44.6%*	R19 048m
RMI Holdings	R46 475m	30.6%*	R14 221m
FirstRand	R237 000m	3.9%*	R9 243m
RCL Foods	R8 717m	77.5%*	R6 755m
Distell	R18 013m	31.8%*	R5 728m
Momentum Metropolitan Holdings (through Kagiso Tiso)	R27 404m	2.76%**	R756m
Grindrod	R2 668m	23.3%**	R621m
Grindrod Shipping	R972m	22.7%**	R221m
Caxton & CTP Publishers and Printers	R1 537m	5.8%**	R89m
MARKET VALUE OF LISTED PORTFOLIO:			**R56 682m**
MARKET VALUE OF REMGRO:			**R56 695m**

SOURCE: Remgro's financial statements as at 30 June 2019 and 31 December 2019.
* 31 December 2019 ** 30 June 2019 *** SOURCE: IRESS – closing prices on 15 June 2020.

share price weakened by 5c to R78 on the day of the announcement. It has since climbed to R81.

Mediclinic, which announced its financial results for the year to 31 March, surprised the market despite the £481m write-down in goodwill of its Middle East operations. This value relates to the acquisition of private hospitals in the United Arab Emirates since 2007. Nevertheless, the market expected worse, and on the day of the announcement of the results, its share price climbed by 8.4% to R63.98.

A general view of the entrance to Distell in Stellenbosch.

Photo: Gallo/Getty Images

Is there still room?

With such a disparate variety of underlying investments, is there still room for investment companies such as Remgro?

"Investors and portfolio managers are questioning the relevance of investment holding companies, especially those investment holding companies that have the majority of their portfolio in listed entities," says Holtzhausen. "The inability to construct your own portfolio when investing in investment holding companies does make investment in the underlying share more attractive."

In Remgro's case, the discount to its intrinsic asset value has varied between 12% and 40% as investors changed their minds regarding management's ability to allocate capital taking into consideration their estimate of capital gains tax, says Mutooni. "In addition to this, we believe it's normal that investors' estimation of the valuation of the unlisted investments will vary from management's estimation over time," he says.

As far as Remgro is concerned, the company's management has gained the reputation of having an eye for a deal and to capitalise on the substantial network and unique access that the Rupert family has historically had in SA, explains Mutooni. "So much so that minority investors have benefitted from this ability to co-invest with them through Remgro," he says.

"They have generally aligned their interests as management with that of shareholders, despite the presence of voting and management control structures, which typically would be a negative in similar companies elsewhere," explains Mutooni.

Remgro's focus is "on factors under our control", says Durand, such as allowing Remgro's intrinsic net asset value "through a good balance of young growth companies and older cash-generating investments in our portfolio to grow and also by ensuring that our investments have robust financial positions," he says.

Furthermore, according to Durand, Remgro attempts to "ensure our investments' business continuity".

With R2.4bn in cash on hand at the end of December, from which an interim dividend of R1.2bn can be deducted, it is evident that Remgro is in a position to allocate cash to some of its underlying investments should it be necessary.

With its approach of including more established, cash-generating companies as well as newer, more risky companies in its portfolio, Remgro is balancing its ability to pay sound dividends while at the same time make good capital available to these risky companies. Otherwise these companies would have had to approach banks for far more expensive funding.

"There is always room for investment holding companies," says STANLIB's Botha. "We can view them as capital incubators."

The value trap for investment companies is created when too many of their underlying assets are listed and the market believes that it will be difficult to create incremental value, he says.

"Then management needs to recalibrate and look for new opportunities," says Botha. ■

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

By Shaun Murison

Grocers face increased costs

Are food retailers a good investment right now?

Major food retailers Pick n Pay, Spar and Shoprite would have seen a pre-lockdown boost in food and essential sales in March. However, lockdown restrictions have negatively impacted sales of higher-margin merchandise, apparel and liquor for these companies. Operating costs will also come under some added pressure due to increased safety measures that need to be put in place in the day-to-day running of their respective businesses.

The clouded economic outlook amid the continuing pandemic and uncertainty around the various phases of lockdown measures have seen Pick n Pay withholding its year-end dividend, while the Spar Group has paid out a more conservative offering than usual for its interim dividend.

JSE-listed food retailers – broker ratings and client views

The below table highlights how Pick n Pay, Shoprite and Spar are currently viewed on both an institutional (analyst) and retail (trader) level. It highlights current analyst ratings (as polled by Thomson Reuters), as well as how IG clients who are trading these counters were placed at the time of writing on 8 June 2020.

The Thomson Reuters analyst ratings and IG client sentiment are features available on IG's trading platform.

While Pick n Pay and Shoprite carry an average long-term analyst rating of 'hold', Spar has an average long-term rating of 'buy'.

	THOMSON REUTERS ANALYST RATINGS						IG CLIENT SENTIMENT	
	Strong buy	Buy	Hold	Sell	Strong sell	Average rating	Long	Short
Pick n Pay Stores	2	1	5	1	1	Hold	91%	9%
Shoprite Holdings	1	1	5	4	0	Hold	92%	8%
Spar Group	2	2	6	0	0	Buy	64%	36%

In terms of IG client sentiment data, Shoprite, closely followed by Pick n Pay, has the most long open interest and the least short open interest (as of 8 June 2020). Contrary to the institutional view, Spar is the least-favoured of the three food retailers, with substantially less long open interest held by IG clients.

'Long' means that traders with open positions on the company expect the price to rise in the near term, while 'short' means that traders with open positions on the company expect the price to fall in the near term. ■

Shaun Murison is a senior market analyst at IG Markets.

on the money

>> **Entrepreneur:** Ghost kitchens catching on in SA *p.46*
>> **Personal Finance:** Why short-term insurance is a must *p.48*

CEO INTERVIEW

By David McKay

Rethinking retirement and socioeconomic investment

Covid-19 has the potential to unseat a lot of assumptions South Africans make about society, according to STANLIB's CEO, Derrick Msibi – particularly around saving for retirement and where (and how) those funds should be invested.

Most people with retirement plans will have received that e-mail from their investment manager; the one that chimed jauntily in your inbox, but ought to have landed to the sound of an anguished cry.

That's because there's a crater where your retirement savings used to be, courtesy of Covid-19. There were fault lines in the world economy even before the virus, but for now, with recessions expected in all but India and China, the prognosis for the global economy is on a spectrum of poor to dire.

"First of all, I think Covid-19 is going to leave all of us with a scar," says Derrick Msibi, CEO of STANLIB, in an interview with *finweek*. "I would be very surprised if it's not seen as an important or defining fact in the history of mankind."

That's how most people are viewing the impact of the virus. For Msibi, he thinks it has the potential to unseat a lot of assumptions South Africans make about society, including the notion – albeit among a slender cohort of the country – that timely, prudent squirreling away of retirement chips will one day materialise into a holiday home with an uninterrupted view of the Indian Ocean. It introduces a complexity of moving parts to the things Msibi has been trying to achieve at STANLIB since his appointment as CEO.

Msibi joined STANLIB after eight years at Alexander Forbes in March 2017. Before that, he was at Old Mutual for 12 years. He calls himself "a stayer", which has proven crucial in helping to attract new skills to the group. People wanted to know if new management would, in a sense, become 'old' management, which is to say, hang around, he says.

Derrick Msibi
CEO of STANLIB

Initial scepticism aside, Msibi has steered STANLIB from a dwindling presence to – in 2019 – a year-on-year

7%

increase in assets under management. At some R568bn, that's only R10bn behind Coronation, a rival asset manager.

Initial scepticism aside, Msibi has steered STANLIB from a dwindling presence to – in 2019 – a year-on-year 7% increase in assets under management. At some R568bn, that's only R10bn behind Coronation, a rival asset manager, while simultaneously 'refreshing' management and decluttering the firm's products, including its dabbling in unlisted property.

Covid-19 won't change STANLIB's current trajectory, Msibi says; not even – entirely – the need to work from an office. The literature on working from home has been extensive, especially in the wake of the Covid-19 pandemic, but Msibi thinks blending the way things worked before the virus with how life is working now may eventually be the most effective in a Covid-19 world.

Take meetings, for instance: can you ever dispense with being in the room? You sometimes don't get the "energy in the room" via Zoom, and it will be hard to keep people connected to a common purpose, says Msibi.

The purpose at STANLIB is proving a return on clients' money, but there is change afoot here as well.

"I personally think that the concept of retirement is something that needs to be completely relooked," says Msibi.

"First and foremost, the vast majority of people will never be able to retire comfortably and so this obsession of us all telling them that they must put a lot of money aside and give them these pictures of how way off they are from their retirement goal [creates] unnecessary anxiety."

Msibi thinks the investment industry should be drawing up a different type of picture; one in which reaching 60 is probably the perfect excuse for thinking about the next career. It's not a new thought – for sure – but it's more apposite now than ever.

Financial Times columnist Lucy Kellaway tells the story of how taking up teaching maths to inner city secondary school pupils sure beats another decade in journalism, especially as she makes the astonishing apprehension that she be as good as she's going to get; and might possibly have become worse.

Says Msibi: "We have these debates in investment which is: is this a cumulative skill which is 'the more you do, the better you become?' A surgeon who has conducted 50 heart by-passes is probably a better surgeon for it (one hopes). But do all professions work in this way?" he asks.

"I just see it as a fantastic opportunity for those who have got an attitude to learn new things. Those who are able to do that will obviously have an enjoyable second career – and those who can't, in my view, will find themselves actually obsolete."

Away from personal, existential questions about career, money and retirement South Africans also exist in a fluid social and political world. In some ways, the reshuffling in developed economy priorities towards poverty alleviation and a more equitable society that Covid-19 is supposed to be bringing about is a movement in which SA has been involved for a quarter of a century.

Although superficially motivated by the Covid-19 pandemic, the government's plan to 'guide' private pension funds into state infrastructural development projects adds a political and ideological dimension to future uncertainty.

This is the 38-page document from the ANC's economic transformation committee, headed by Enoch Godongwana, that talks about economic reform but proposes a conjoinment of privately-managed pension money, as well as funds in the Public Investment Corporation, with public sector ends that looks like continued state control. It's prescribed assets, but not as we've known it.

According to the report as cited by Bloomberg News, measures taken must include "among others, impact investments, interchangeably developmental and productive-asset investment

Kuben Naidoo
Deputy governor of the SA Reserve Bank

Msibi thinks the government is missing a beat by effectively circumventing the asset management industry in its efforts to kickstart the economy.

STANLIB's head office in Melrose Arch

Photos: stanlib.com | Gallo/Getty Images | TC RPv Architects

requirements". Said **Kuben Naidoo, deputy governor of the SA Reserve Bank:** "If you force someone to buy something, then they won't buy it. They will find every way of not buying it."

Msibi thinks the government is missing a beat by effectively circumventing the asset management industry in its efforts to kickstart the economy. It's a noble idea, but "... tragic and short-sighted", says Msibi.

"When you read some of the documents that come out ... that you want to cut out the asset managers, you just realise that it is so fundamentally flawed in terms of understanding who the role players should be in addressing some of these things."

The asset management sector already has the capability to allocate funds to, say, infrastructural spend. Ninety One, the Investec spin-out, recently launched the R10bn SA Recovery Fund with Ethos Private Equity, the aim of which is to help companies affected by the looming economic recession into which SA is stepping.

In April, STANLIB's credit alternatives team launched its Khanyisa Impact Investment Fund which has targeted capital for certain investment themes that address SA's socioeconomic challenges. Msibi says investments of this sort offer clients a quite different type of asset class, but one quite within the grasp of the company to manage.

"If I'm going on 60 and I'm trying to do something in a living annuity, quite clearly infrastructure investment will not be suitable," he says. In these cases, such a fund won't have the yield investors want, nor the liquidity. But there are investors who will take to it, says Msibi. "If you're a large company and you've got 40 years of liabilities, you might want to have exposure to infrastructure."

Matching investors with products are, when all's said and done, the work of the asset manager, in Msibi's view. When the match is made in pursuit of a social outcome, so much the better, which is why the government's insistence that it be the cipher in capital allocation is troublesome.

It's a conversation the asset management industry has repeatedly had with government and that keeps resurfacing, either prior to elections or, in this case, a crisis. "I can't believe that these are the same people that we had engagement with a year ago when we agreed what the game plan would be.

"There are still issues of trust between all of our role players and that we're all aligned, and all have the best of intentions." ■

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By Jana Jacobs

Giving up the (traditional) restaurant ghost

The concept of 'ghost' kitchens, which are restaurants that operate purely on a delivery basis, has gained traction abroad and South Africa is catching on.

Jake Axelrod (L) and Anthony Theodosiou (R) run a ghost kitchen in Sandton, Johannesburg.

Axelrod and Theodosiou run three brands from their kitchen: ONO (pictured), Metalab Meals and Pap 'n Chuck.

Ghost, dark or cloud kitchens – also known as virtual restaurants – are commercial facilities purpose-built to run restaurant kitchens on a delivery-only basis. Although still a relatively novel concept in South Africa, there are a few in operation locally and their low-cost business model is providing a unique advantage amid the Covid-19 lockdown.

Anthony Theodosiou, who runs a ghost kitchen in Johannesburg with his business partner, Jake Axelrod, talks to *finweek* about why he did away with his traditional dine-in eatery in Melrose Arch in favour of this model.

Can you tell us how your business works?
Myself and my business partner, Jake, run three brands (ONO, Metalab Meals and Pap 'n Chuck) out of one kitchen space located in the industrial side of Sandton. We use UberEats as a platform to deliver our meals. This platform only works for the immediate 5km around our site. So, to target a larger market and reduce the commission structure that UberEats charges us, we are launching our own web platform that we will run, which will facilitate the delivery of our brands across Johannesburg.

What made you decide to forgo your sit-down eatery?
I spent three years in retail spaces only to come away with a lot of effort expelled for very little return. The rentals were just too high for the level of foot traffic these retail spaces were 'promising'. Without a license to sell alcohol, a restaurant needs to sell high-volume; low feet = low volume.

Do you think switching to this model put you in a better position going into lockdown than if you'd still been operating on the dine-in model?
Absolutely. There would be no way of coming out of this for the small brands that we currently run. The economy was already depressed throughout 2019 and 2020, the lockdown has exasperated this. As it stands, our brands are 50% down on sales, and in a retail space it would be worse as foot traffic would be at its absolute minimum. Not only that, there are no sit-downs allowed and that cancels out all alcohol sales. These stores are now doing a fraction of the turnover they once did by trying to reach online customers through apps, with the staff and overheads they've always had.

Explain how your kitchen works in terms of sharing costs, labour, supply etc.

Imagine a shared working space like WeWork. Brands come in and get incubated until they can go off on their own steam. In a way, it works the same here. We have three young food brands under one roof, we share all the equipment, staff and raw ingredient costs. We split the overheads, irrespective of sales for the month (mostly because they are more or less the same).

Other than reducing overheads, what are the other financial and strategic wins?

Split overheads and running costs, and your brand suddenly seems a lot more viable. In a mall you would be paying a lot more on rent based on the premise of high foot traffic; online deliveries would simply be an added benefit. Our location is pretty central, so we have the benefit of reaching the (pre-Covid-19) Sandton corporates without the Sandton City rental. Our staff end up being super-efficient and productive as they know the menu and prep of all brands, and don't often sit around with nothing to do. Our equipment is communal, so we share extractors, stoves and walk-in fridges with specific sections to store and cook different proteins and produce. We have a great working routine with pre-service prep and service times so that everything runs smoothly.

With having no 'store front', what are some of the unique marketing challenges?

The only negative to this business model is visibility, which is easy enough to circumvent with enough targeted advertising and, even better: word-of-mouth. I think it is especially prevalent now, but brands need to be top-of-mind all the time. People are also spending more time at home, less time driving around and in stores. So targeted ads and a good selling platform are key here.

Visibility and reach are why we decided to build our own web platform to offer meal packages around the whole of Gauteng.

Was the decision to launch the website based purely on the need to increase revenue streams due to the lockdown?

Initially, yes, it was largely based on making sure we targeted every route to market we saw available, as well as keeping the margins up (i.e. reducing the commission costs of third parties). Even when things go back to (the new) normal, why would restaurants not consider an online platform? It's really just another avenue for revenue generation and a convenient method of getting food into a home that is not generally within the immediate neighbourhood of the restaurant.

What will be available on your website?

It will be a one-stop shop for health and nutrition. We are creating fresh food packs that are goal-orientated – lose weight, gain weight, build your own etc. Jake and I are all about fresh food, and we are trying to steer away from frozen food as much as possible like other brands are accustomed to doing. Having said that, we recognise the convenience of this and will incorporate it with a creative spin. Admittedly, there are others that have created such offerings, but our food offering is fresh and new. We're incorporating shakes and fresh juices as well as a pantry section. With the pantry section our aim is to include smaller niche health brands of grains, coffees, chocolates as well as the Metalab supplements. Everything South African and locally produced.

Ghost kitchens aren't for everyone, but Covid-19 has exposed the need for flexible rental agreements. What needs to change going forward?

I think landlords need to realise that retail is not what it was, and the structures of their leases need to reflect that. It is to their benefit that they encourage entrepreneurship and make sure that the brands they sign on as tenants survive, as it is these brands that drive traffic to their malls. Leases should be turnover-based, and 12- to 24-month contracts with 6-month break clauses. Then it is in the interest of the landlord to drive traffic as much as it is in the interest of the brand to offer a great product. I hope to see the restaurant retail space change for the better between brands and landlords as this will benefit everyone, including the consumer.

Now is a strange time to make any predictions, but what is the outlook for your industry?

It is a difficult time for the entire industry – barmen, waiters, chefs, cleaners – it's these people who I really feel for. Places that were once institutions are closing all over the place. I think it is going to take some creativity and balls to think outside the box and make sure brands weather the storm. People are going to be eating out less from now till who knows when, so it's about bringing them the product, and essentially the experience. ■

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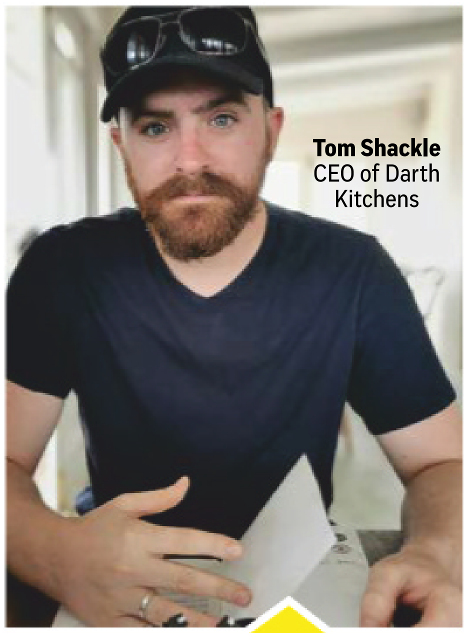

Tom Shackle
CEO of Darth Kitchens

A force awakens

Darth Kitchens, a dark (or ghost) kitchen in Cape Town's CBD, has developed and launched eight brands over the past year. And while the lockdown has affected food delivery numbers in South Africa, **Darth Kitchens CEO, Tom Shackle**, believes the delivery-only model as premised on the virtual kitchen concept will become more popular in SA.

"The market for food delivery in this country is growing fast. The lockdown in this country has affected those numbers, but with delivery being one of our only options these days, the customer is provided with a quick, simple option to get food, while staying in the comfort of their own home. Given the rise of the need for convenience in the market, food delivery in this country is following a similar trajectory to the trends we've seen internationally. With that, I foresee the dark kitchen model becoming exponentially more popular."

And while the lockdown has put Darth Kitchens' expansion plans on hold, there are still "scaling plans on the horizon for when the current circumstances calm down, and we're looking forward to expanding our footprint into other areas". ■

Photos: Supplied

By Timothy Rangongo

Short-term insurance 101

Insuring your house, car and electronics might be a grudge purchase, but not having at least the basics covered can result in unnecessary financial pain.

It takes hard work, time and effort to amass valuable possessions, so it makes financial sense to protect them against loss or damage by insuring them.

"The purpose of insurance is to place you in the financial position you were in at the time directly prior to the loss. You cannot predict the future, and that is why you need insurance," says Ricardo Coetzee, head of Auto & General Insurance.

By paying a monthly premium to an insurance company, you can be reimbursed for losses of insured items. The majority of clients that contribute to the premium pool don't lodge claims during the year, which enables the insurance company to reimburse those clients that do incur losses, explains Marius Neethling, personal lines underwriting manager at Santam.

Short-term insurance, according to Neethling, will protect your possessions against losses that you may suffer due to unforeseen events such as burglary/theft, storm, wind, water, snow, hail, floods, fires, subsidence, landslip or accident and earthquakes, among others.

Household and contents insurance

As a rule of thumb, one should imagine taking the roof off of your house and turning it upside down – everything that falls out will be covered under your household and contents insurance policy; that which doesn't, is covered under buildings, explains Christelle Colman, insurance expert at Old Mutual Insure.

Household contents insurance covers you against theft, loss, damage and other perils such as a fire or flood, explains Auto & General's Coetzee. Buildings insurance covers the loss or damage to the actual building structure as a result of fire or explosion; storm, flood, lightning strike and resultant damage; and ground movement including subsidence and landslip.

Ricardo Coetzee
Head of Auto & General Insurance

Marius Neethling
Personal lines underwriting manager at Santam

Christelle Colman
Insurance expert at Old Mutual Insure

In terms of how much cover one should contemplate for the household, a starting point is insuring possessions at their replacement value, according to Coetzee. "The replacement value of goods is what it would cost you, at the time of a claim, to replace all your belongings with similar brand-new ones," he says.

In instances where an insured item such as a DVD player gets damaged or stolen, but the item is no longer manufactured or sold, Neethling says compensation will be based on the latest available sales price of a similar item. For example, a flat screen TV as a replacement for a conventional TV. Colman adds that it is also likely that the insurer will settle such a claim in cash.

While a home contents policy specifies a list of what you are covered for, an all-risk or portable possessions policy covers you for all risks except for those risks that are specifically excluded, says Coetzee. "In other words, it offers wider cover."

Portable possessions or all-risk cover allows policyholders to claim for items they usually carry around with them, which have been stolen, lost or damaged. Items include, for example, jewellery, sunglasses, cellphones, laptops, clothing and iPads.

Often, service providers such as Vodacom and MTN offer insurance on devices procured from them. In such instances, the best option, according to Coetzee, would be to compare the different insurance products and prices with each other when deciding whether to take

Niche insurance: cover for pets

As with owning a house or car, pet care can become quite an expense. "The obvious concern that always comes to mind is the situation where a pet parent has to compromise on the care, or even has to euthanise their pet, because they can't afford the vet bill that would follow a surgery or treatment," says Ansu Clarke, marketing manager at Dotsure.

Clarke tells *finweek* the insurer is fast closing in on 150 000 pet insurance policies taken out and has already paid out more than R80m in claims to South African pet owners.

"Veterinary expenses are not decreasing since the medicines and machinery that they use often need to be even more complex or sophisticated than those used by human doctors. We just want to allow vets and pet owners to be unconstrained by the cost factor," says Clarke.

Clarke says most SA pet insurers choose the accidental policies to give their pets cover against accidental injury or ingesting something poisonous. "A significant proportion of those customers upgrade their policies thereafter as they become more comfortable with the concept of pet insurance," as it is still a relatively new concept locally.

Dotsure takes into consideration routine care such as grooming or vaccinations, hereditary conditions, how old the pet is and whether the breed is traditionally more prone to accidents or illness, when determining pet insurance premiums. ■

Photos: Supplied

out insurance with the service provider or specifying them in a portable possessions cover.

It may be to your benefit to add your cellphone to your current cover as price discounts may be applicable when adding additional cover to standing policies, says Coetzee, while Neethling notes that you would have already built up a relationship and track record with the insurer. "Their [insurer] core business is insuring property. The service providers' core business is the sales of the cellphones," he says.

Vehicle insurance

Automotive insurance is not compulsory in SA unless you've taken out a finance policy to cover the cost of the car.

When taking out car insurance, policyholders will have the option of deciding the excess amount they would like to set. An excess is the amount payable by a client in the event of a claim. Policyholders can choose to opt for a higher excess, which, in most cases, should lower your insurance premium, says Coetzee.

He cautions that although this might seem to be a viable option, the reality is that at the time of a claim, the excess amount needs to be paid. "This is the precise reason that many people do not take up this option, because they fear they may not have the necessary cash available when they need to make a claim."

If you are high risk – perhaps vulnerable to car theft or house break-ins due to the area you live in – a low premium can be a bad financial decision, urges Coetzee. "It is advisable to rather pay a bit more on your premium each month so that you don't get hit with a hefty excess to pay after repairing or replacing your car or belongings."

Factors to consider when taking out insurance and add-ons

It's important to update your household inventory list on a regular basis to ensure that any new items are included and to remove items that you no longer have, advises Coetzee. "It doesn't make sense to be paying to insure your old washing machine when you have just replaced it with a new one with a higher value."

Add-ons such as cover for tyres and the sound system or including a car rental service in the event that you are without your insured vehicle (for example if it is undergoing repairs) are "worth it" but only if they are affordable, says Neethling.

It's important for consumers to know the ins and outs of their short-term insurance policies and understand the implications, says Coetzee. "All insurance companies have their own rules and conditions with which policyholders must comply in order to be covered and have their claims paid." ■

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Test your general knowledge with our first quiz for June, which will be available online via fin24.com/finweek from 22 June.

1. By how much did the UK economy contract in April?
   - 25.9%
   - 23.4%
   - 20.4%
2. What is the name of the first private company to put humans into orbit in 2020?
3. **True or False?** The Constitutional Court ruled that the Electoral Act was unconstitutional because it prohibited independent candidates from being able to stand for national and provincial elections without any affiliation to a political party.
4. Which Indian city is considered the country's financial and entertainment capital, and is also home to Bollywood?
   - New Delhi
   - Kolkata
   - Mumbai
5. **True or False?** TymeBank is a digital subsidiary of Absa.
6. Pierre Nkurunziza is the former president of which country?
7. Queen Elizabeth's husband, Prince Philip, turned how old on 10 June?
8. **True or False?** The chairman of Implats, Mandla Gantsho, is retiring from the role.
9. Retail company Edcon filed for a form of bankruptcy protection in April. Which department store is not part of the Edcon Group stable?
   - Jet
   - Boardmans
   - Legit
10. **True or False?** MultiChoice signed deals with Netflix and Amazon to offer their streaming services through its new decoder.

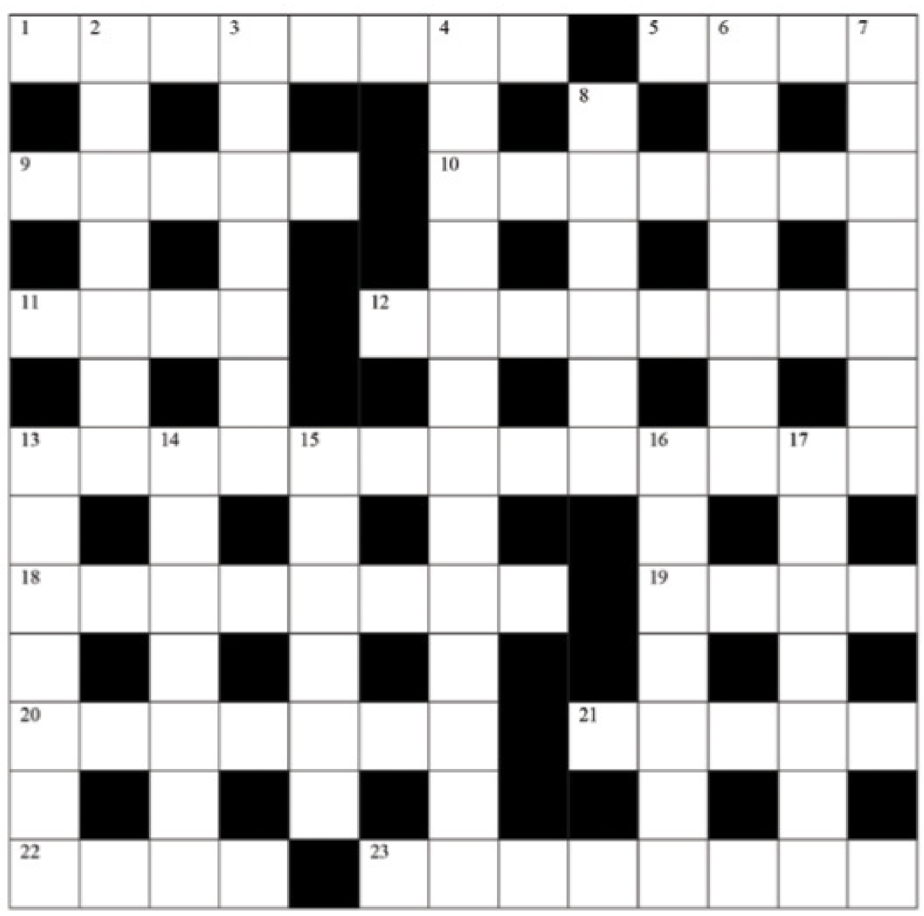
CRYPTIC CROSSWORD NO 755JD

ACROSS

1 Cars turn into the church (8)
5 Most emotional Oscar winner starts to cry (4)
9 Lots of numbers (5)
10 Exact summary to a point (7)
11 Colour in the cruise liner (4)
12 Objection about turncoat Congressman (8)
13 Fast driver – a drug dealer? (5,8)
18 Unselfish admission by first person to overdo the marriage vows (8)
19 Orderly put to rights (4)
20 Young female entangled in a male web (3,4)
21 Leaf man left out to copy (5)
22 Likelihood of handicaps of one stroke at each hole (4)
23 Flogs motorcyclist's clothes (8)

DOWN

2 Picky about mixing in an edible fungus (4,3)
3 Entrench IT underground (7)
4 He's into Pilsner beer brewing – that's very bad (13)
6 Reiterate Lawrence is out of developing country (7)
7 "Small bird" written out (4-3)
8 Descriptive of Leander's nightly swims, or of the lady-in-waiting? (6)
13 Arctic U-boat cipher (3-4)
14 Bald academic? (7)
15 Claim to be Indian boy (6)
16 Wash facility where one is seated, by the sound of it? (3,4)
17 Bumpy agreement done with the French Right (7)



Solution to Crossword NO 754JD

ACROSS: 1 Predictable; 9 Nuptial; 10 Drown; 11 Redan; 12 Messier; 13 Decide; 15 Slogan; 18 Customs; 20 Title; 22 Noose; 23 Real ale; 24 Stonewalled

DOWN: 2 Rapid; 3 Deigned; 4 Column; 5 Andes; 6 Looking; 7 Introducing; 8 Entrance fee; 14 Cast out; 16 Let fall; 17 Escrow; 19 Ocean; 21 Tease

On margin

Method in the madness?

This issue's isiZulu word is *uhulumeni*. *Uhulumeni* is the government.

Uhulumeni gets a lot of bad PR – justifiably so. However, *uhulumeni* also does some great things, and does not get credit for them. In this issue's *Melusi's Everyday Zulu*, we fix that.

Here goes:

Uhulumeni understands that Zoom meetings and home schooling are taxing, hence the sale of alcohol from Monday to Thursday. Then they want you to nurse your hangover over the weekend, before starting up again on Monday. *Uhulumeni* is wise. *Uhulumeni* cares.

Uhulumeni refuses to reopen the sale of cigarettes. This is because your breath and fingertips stink, and your teeth are gross. *Uhulumeni* wants you to be less gross. *Uhulumeni* is on your side. *Uhulumeni* cares.

Uhulumeni promised unemployed people R350 a month, but the payments have not come through. This is because *uhulumeni* knows that kind of money will definitely go to people's heads and change them. *Uhulumeni* does not want South Africa to be overrun with smug, nouveau-riche brats. *Uhulumeni* knows all about how money corrupts. *Uhulumeni* cares.

Uhulumeni does not want you to buy open-toe shoes. Come on – you've obviously seen your toes. We definitely have, as has *uhulumeni*. *Uhulumeni* knows what's good for us. *Uhulumeni* cares.

Uhulumeni does not want barbershops to open because *uhulumeni* remembers what happened to Samson when Delilah cut off his hair. If you aren't familiar with the bible, just know it wasn't good. *Uhulumeni* does not want the same thing happening to you. *Uhulumeni* has got your back. *Uhulumeni* cares.

Uhulumeni has not reopened Parliament. This makes sense because working from home means parliamentarians are able to carry out their favourite duty – sleeping. *Uhulumeni* cares about the beauty sleep of its employees as much as it cares about you.

This list of awesome *uhulumeni* things is far from exhaustive, but it's a great start. Love your *uhulumeni* because your *uhulumeni* loves you.

– *Melusi's #everydayzulu* by Melusi Tshabalala

LEVEL 3: BACK TO WORK

Verbatim

Cathy Mohlahlana @CathyMohlahlana
Can someone please explain, why Tupperware thieves always leave the lids?

Acab @leonardcowalski
Golf courses are like dog parks where you can take your dad to let him run and play and have a good time with all the other dads.

John Fritchey @johnfritchey
Canada must feel like they live in an apartment above a meth lab.

Lucie Steiner @TheSteinbag
Every bartender I've ever met is better at de-escalating conflict than the police.

Tim Siedell @badbanana
On the bright side, I'm saving a lot of money by only having to dry clean the front half of my work shirts.

David Burr Gerrard @DBGerrard
Future historians will be asked which quarter of 2020 they specialise in.

> **Dan Skinner** @danielrskinner
> "I'm an early Covid-19 era specialist, with particular expertise in February 2020."

Iain S. Thomas @ReallainSThomas
Today I turn 40 and tomorrow my daughter turns 4, which, as she points out, means that next year she will turn 5 and I will turn 50.

Jenny Nicholson @JennyENicholson
We're gonna have to retire the expression "avoid it like the plague" because it turns out humans do not do that.

"There's no shortage of remarkable ideas, what's missing is the will to execute them."

– Seth Godin, American author (1960-)